

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

PORTUGAL

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JULY 1980

BASIC STATISTICS OF PORTUGAL

THE LAND

Area (thousands sq. km)	92.1	Major cities, resident population in thousands (1.7.1975):	
		Lisbon	830
		Porto	336

THE PEOPLE

Population (1979, 2nd half-year, thousands)	9 338	Civilian employment (1979, 2nd half-year, thousands) ¹	3 906
Number of inhabitants per sq. km	101	as a percentage of total:	
Annual average rate of change in resident population (1974-1979)	1.6	Primary sector	30.2
Civilian labour force (1979, 2nd half-year, thousands) ¹	4 251	Secondary sector	35.0
		Tertiary sector	34.8

PRODUCTION

Gross domestic product in 1978 (millions of US dollars)	17 470	Gross domestic product at factor cost by origin in 1978 (%):	
Gross domestic product per head in 1978 (US dollars)	1 900	Primary sector	12.6
Gross fixed asset formation in 1978: % of GDP	20.4	Secondary sector	45.9
per head (US dollars)	388	Tertiary sector	41.5

THE GOVERNMENT

Public consumption in 1978 (% of GDP)	14.6	General Government current revenue in 1978 (% of GDP)	27.7
of which: Defence	2.8		
Public investment in 1978: % of GDP	4.0		
% of total investment	19.7		

FOREIGN TRADE²

Exports of goods and services as a % of GDP (1978)	20.3	Imports of goods and services as a % of GDP (1978)	32.1
Main exports as a % of total exports 1978, SITC:		Main imports as a % of total imports 1978, SITC:	
Food, beverages and tobacco (0, 1)	14.4	Food, beverages and tobacco	13.2
Basic and semi-finished materials (2, 3, 4)	12.2	Basic and semi-finished materials	27.2
Manufactured goods (5, 6, 7, 8)	71.4	Manufactured goods	59.5
of which: Textiles (65)	16.5	of which: Chemicals (5)	12.2
Cork and wood products (63)	6.3	Machinery and transport equipment (7)	27.7

THE CURRENCY

Monetary unit: Escudo		Currency units per US \$, average of daily figures:	
		Year 1979	48.90
		May 1980	49.21

1 Mainland Portugal.

2 Mainland Portugal and islands.

NOTE. An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS



PORTUGAL

JULY 1980

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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*The annual review of Portugal
by the OECD Economic and Development Review Committee
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INTRODUCTION

In 1979 the Portuguese economy showed a number of very positive features. The most notable was the continuing improvement in the current balance which had begun in the second half of 1978. For the year as a whole the foreign balance was slightly in surplus, whereas it had shown a deficit in 1978 (4½ per cent of GDP) and an even bigger one in 1977 (9 per cent of GDP). The improvement can be put down to the brisk advance of exports (because of increased competitiveness which was made possible by the slower growth of wage costs and the depreciation of the escudo) and the considerable pick-up in emigrants' remittances. Another favourable development was the recovery of output, which was particularly marked during the second half of the year. For 1979 as a whole GDP growth was probably of the order of 4 per cent, compared with 3½ per cent in 1978, which made possible a small fall in unemployment, which has been rising continuously since 1974. The recovery of activity is mainly due to the improvement in the foreign balance, while domestic demand all but stagnated. Prices and incomes also showed some positive features. Admittedly, inflation remained very strong in 1979, about 24 per cent for the year as a whole. But there has been a marked deceleration during the fourth quarter of 1979 and the first months of 1980, partly due to the policy of price controls, and especially food prices, and the slower depreciation of the escudo. Real wages declined again in 1979 and the share of wages in national income at factor cost continued to fall so that it is now close to the level of 1973.

The economic policy stance adopted at the end of 1977 was maintained in 1978 and 1979, though there were some deviations. Fiscal policy was more expansionary than originally planned, owing to the rapid growth of current expenditure which shows the lack of control on public expenditure. Revenue advanced more or less along the lines of the budget forecasts and, overall, the public sector borrowing requirement amounted to about 8 per cent of GDP. It is likely that 1980 will see a further increase in the weight of the public sector in the economy, with both revenue and expenditure expected to rise substantially. According to the budget figures, the public sector borrowing requirement will be slightly smaller than in 1979 as a proportion of GDP. Monetary policy in 1979 was also more expansionary than originally intended, and the money supply rose sharply during the year (by approximately 36 per cent, compared with 28 per cent in 1978). The policy of a progressive depreciation of the escudo was maintained in 1979 but the monthly rate of change was gradually reduced from 1.25 per cent to 0.75 per cent. In February 1980, the escudo was revalued by 6 per cent and the monthly effective depreciation rate maintained at 0.75 per cent, subsequently lowered to 0.5 per cent in June 1980.

The forecasts for 1980 are clouded by many uncertainties and are made difficult by the lack of information on recent economic trends. In particular, it is difficult to tell to what extent the Portuguese economy is likely to be affected by the higher oil prices and the slowdown in the world economy. The Secretariat's forecasts for 1980 indicate a GDP growth of about 3 per cent

due to a moderate upturn in domestic demand, whereas the contribution of the foreign balance to growth is likely to be minimal though still positive. The rise in consumer prices for the year should be in the region of 22 per cent. The official forecasts predict a slightly stronger rise in output (with notably a very substantial pick-up in investment), whereas the rise in prices might be slightly more moderate. The different risks which face the Portuguese economy at the beginning of the 1980s raise questions on some medium-term aspects of the Portuguese economy which have come to light since the change of political regime in 1974, but which in some cases have much earlier origins: accelerating inflation, mounting unemployment, the difficulty of keeping the public sector under control, external relations and sectoral imbalances.

Part I of this Survey analyses the recent trends of demand, output, employment, prices and incomes and the balance of payments. Part II deals with economic policy over the recent period. Part III analyses the medium-term aspects mentioned above. Finally, Part IV presents the forecasts for 1980 and some economic policy conclusions.

I RECENT TRENDS

Demand and output

The assessment of demand and output trends in recent years is made uncertain by the fact that the latest year for which there are detailed national accounts is 1976¹. The rapid growth of the economy in 1976 and 1977 entailed a widening current balance deficit (1.5 billion dollars in 1977). Towards the

Table 1 Demand and output

	1978		1977	1978	1979
	Current prices, billion escudos	As percentage of GDP	Percentage change over previous year		
Private consumption	576.9	73.8	0.8	0.0	0.8
Public consumption	114.7	14.7	9.4	8.3	5.2
Gross fixed investment	161.8	20.7	12.0	4.0	-2.0
Final domestic demand	853.4	109.1	3.8	1.8	0.9
Stockbuilding ¹	20.2	2.6	3.1	-2.0	-0.3
Total domestic demand	873.6	111.7	6.5	0.0	0.6
Exports of goods and services	157.0	20.1	6.1	15.5	26.2
Imports of goods and services	248.7	31.8	9.6	-1.2	5.7
Foreign balance ¹	-91.7	-11.7	-2.0	3.2	3.4
GDP at market prices	781.9	100.0	5.4	3.2	4.1
Industrial production			13.3	6.8	6.5
			Billion escudos		
<i>Memorandum item</i>					
Current balance			-57.3	-34.8	7.6

¹ Contribution to GDP growth.

Sources: Central Planning Department and Secretariat estimates.

1 The National Institute of Statistics (INE) has been preparing a revision of national accounts for the last few years and preliminary estimates for 1977 should become available soon. In the meantime, the Central Planning Department together with the Bank of Portugal provide their own estimates of main demand aggregates. As there are very few reliable direct indicators of demand components, these figures should be regarded as indicative of the direction of economic activity and not as precise quantitative estimates.

end of 1977 the authorities adopted a restrictive monetary stance which succeeded in cutting down the deficit by one half in the following year, at the cost however of a marked slowdown in domestic demand and GDP. Activity appears to have recovered in the course of 1979, as the continuing improvement in the balance of payments, which actually registered a small surplus last year, was associated with a relaxation of monetary policy. The recovery of domestic demand remained very hesitant, and growth was almost exclusively accounted for by a remarkably strong contribution of the foreign balance for the second consecutive year. GDP increased by 4 per cent in 1979, with activity accelerating in the course of the year, compared with 3.4 per cent in 1978.

Value added in agriculture rose by 6 per cent in 1979, mainly thanks to the contribution of wine, olive oil and dairy products, while other major crops and meat output had a bad year. Industrial production staged a recovery in the fourth quarter of 1978 and although moving erratically in 1979, it should have increased by about 6.5 per cent for the full year². The emergence of a recovery is also confirmed by a slight increase in capacity utilisation rates in manufacturing industry, especially in branches heavily involved in exports (textiles, clothing, wood and cork, etc.). On the other hand, value added in the construction sector fell by 2 per cent on average in 1979, possibly due to tight credit conditions in 1978. However, the yearly average might reflect to a large extent the negative carry-over from 1978. Data on construction inputs suggest in fact that activity in this sector began to pick-up as of the second quarter of 1979. Finally, the Central Planning Department has estimated the growth of the services sector at 4 per cent, though this estimate is admittedly based on very limited information.

The assessment of private consumption is complicated by the lack of a proper households' appropriation account. The appropriation account estimated by the Central Planning Department for 1979 aggregates all economic agents to the exclusion of general government³. According to this account, compensation of employees declined in real terms for the third consecutive year, but its negative effect on disposable income was more than offset by a swift increase in property

Table 2 Private sector appropriation account¹

	1979 billion escudos	Percentage change over previous year		
		1977	1978	1979
Compensation of employees	416.6	19.6	18.5	19.9
Property and other income	394.1	n.a.	41.0	40.6
Transfers	200.6	23.2	37.8	39.4
<i>of which:</i>				
From abroad, net	121.0	43.1	66.9	66.7
Total income	1 056.3	n.a.	28.8	30.4
Direct taxes	48.0	23.3	35.6	34.1
Social security contributions	64.6	34.7	24.0	12.7
Disposable income	943.7	n.a.	28.9	31.6
Consumption	722.0	28.5	22.2	25.2
Savings rate (per cent)		15.2	19.6	23.5
Consumption deflator		27.3	22.1	24.2
Real income		n.a.	5.6	6.0

¹ Households, unincorporated and corporate private and public enterprises.
Source: Central Planning Department.

² Index of industrial production. Value added in industry was estimated to have increased by 4 per cent in volume.

³ Households, non-corporate and corporate enterprises (private and public).

and enterprise income and especially in transfers from abroad and an exceptional slowdown in social security contributions. However, the Portuguese experts claim that the rather large increase in real disposable income resulted in a very moderate increase in real private consumption because of an extremely strong rise in the savings rate. Even allowing for the inclusion of the corporate sector, and though a large part of the increase in disposable income is due to emigrants' remittances, the likelihood of this savings behaviour does appear questionable in a low-income country like Portugal, especially as this appears to be the third consecutive year when a considerable increase in real disposable income is associated with an increase in savings and a decline in real per capita consumption. It should also be noted that business surveys show a marked increase in the demand for consumer goods in the first three quarters of 1979. Government consumption increased by more than 5 per cent in 1979, strongly decelerating in comparison with 1978, but this figure contrasts markedly with a nearly 12 per cent increase in general government employment⁴.

Gross fixed investment was estimated to have declined by 2 per cent in 1979. Business surveys suggest that investment in machinery and plant might have staged a recovery as of the second quarter. From evidence mentioned above, this pattern appears to have emerged also in construction, but the extent to which gross fixed investment has picked up remains uncertain. General government investment should have fallen by over 3 per cent, for the first time since 1975. Capital formation by public enterprises should have stagnated, following a 10 per cent fall in the previous year. Finally, private investment might have declined by 2.5 per cent after a very sharp increase in 1978⁵. Stockbuilding made a further negative contribution to growth in 1979 although to a lesser extent than in the previous year. With domestic demand increasing at a very sluggish rate, growth in 1979 was accounted for overwhelmingly by a 3.4 per cent contribution of the foreign balance, even stronger than in 1978.

Table 3 Gross fixed investment

	1979 Share in total investment at 1963 prices	Percentage change over previous year in volume			
		1976	1977	1978	1979
Gross fixed investment	100.0	1.1	11.8	4.5	-2.0
General government	21.5	16.2	24.3	5.4	-3.3
Public enterprises	30.1	-11.3	36.2	-9.8	0.1
Private sector	48.4	3.8	-5.8	15.0	-2.6

Source: Central Planning Department.

Labour market

Labour market conditions⁶ responded to some extent to the improvement in economic activity and the constant deterioration noticed since 1974 has

4 Estimate based on the INE employment survey.

5 These estimates must be assessed with caution. The sharp swings from one year to the other, especially for public enterprises and private firms, are difficult to explain.

6 In what follows, the analysis is based on data from the INE employment survey. The Ministry of Labour publishes a survey of dependent employment and unemployment estimates. The trends of dependent employment often differ considerably, such as in 1979: INE, 2 per cent; Ministry of Labour, 0.5 per cent. There are also considerable differences concerning unemployment rates which the Ministry of Labour estimates at about 12 per cent, but the trend of unemployment over the past few years is much the same in both surveys.

Table 4 Employment

	Thousands 1979 II	Percentage change over corresponding period of previous year				Percentage change in 1979 ¹
		1978 I	1978 II	1979 I	1979 II ¹	
Total population	9 338	0.5	0.4	1.3	1.4	1.4
Civilian labour force	4 251	-0.6	1.2	2.1	2.3	2.2
Participation rate (percentage)		44.1	45.2	44.5	45.5	
Total employment	3 906	-1.3	0.7	1.7	2.6	2.1
Agriculture	1 179	-6.0	-4.7	-1.1	0.8	-0.2
Industry	1 035	1.2	8.8	3.4	1.2	2.3
Construction	329	7.6	2.6	4.3	2.5	3.4
Services	1 358	-0.8	-0.4	2.5	5.3	3.9
Dependent employment	2 535	1.2	1.8	1.0	3.0	2.0
Agriculture	242	6.3	-8.3	-13.2	0.4	-6.8
Industry	911	0.9	8.8	3.4	1.3	2.3
Construction	299	8.3	3.4	2.2	0.7	1.4
Services	1 075	-1.4	-1.6	2.5	5.7	4.1
of which:						
General government	402	2.5	7.7	12.8	10.7	11.7

¹ Provisional estimates.
Source: INE.

apparently come to a stop for the time being⁷. Participation rates rose in 1979, but, by the end of the year, employment, which had begun to increase in the second half of 1978, was growing faster than the civilian labour force. For the full year both these aggregates increased at a very similar rate (just over 2 per cent), with no significant difference between the trend of total and dependent employment. The two most notable aspects of employment in 1979 were the unusual stabilisation of agricultural employment and the very rapid increase in general government employment. As a result of labour force and employment trends in 1979, the unemployment rate failed to increase for the first time since 1974 and has stabilised at 8.2 per cent. However, unemployment disparities

Table 5 Unemployment

	1977 II	1978 I	1978 II	1979 I	1979 II ¹
	Thousands				
Total unemployed	326	319	348	343	344
First-job seekers	166	178	198	192	198
Previously employed	160	141	150	151	146
	As a percentage of the civilian labour force				
Total unemployment rate	7.9	7.9	8.4	8.3	8.1
Male unemployment rate	5.8	5.0	5.4	5.0	4.6
Female unemployment rate	10.9	11.6	12.5	12.9	12.9
Unemployment rate of people under 30	15.6	15.4	16.9	16.0	15.7

¹ Provisional estimates.
Source: INE.

⁷ The responsiveness of labour market aggregates to short-term cyclical fluctuations is difficult to assess because of the impact of some special factors. For example, considerable labour hoarding in 1974-75 makes an assessment of the relationship between growth and employment in the following years rather difficult.

continued to widen during 1979. The length of unemployment of those previously employed⁸ and the male unemployment rate declined. On the other hand, the female unemployment rate and the share of women and first-job seekers in total unemployment all increased⁹.

Prices and incomes

Inflation remained very high in 1979 for the year as a whole (24 per cent for consumer prices) but decelerated considerably in the course of the year. This development became much more marked during the six months ending in June (12 per cent at an annual rate) so that the differential between inflation in Portugal and OECD as a whole disappeared, whereas it stood at about 10 percentage points during the previous six months. The consumer price index actually registered an absolute decrease in May. This was partly due to low increases in food prices¹⁰ which account for more than half of all consumer prices. This in turn can largely be explained by the authorities' policy of containing the rise in these prices (most of which are government-controlled)¹¹ by a considerable increase in subsidies¹². Non-food prices (exclusive of energy) also decelerated markedly, but their rate of increase is still above 18 per cent at an annual rate and in June 1980 they were about 24 per cent above their level one year earlier. In spite of this, the government decided in March to ease price controls by raising the minimum turnover above which products are subject to the declared-price system.

In 1979, nominal wage growth accelerated in the private sector, particularly in industry and agriculture. But in year-on-year terms it was substantially less than that of prices, and the purchasing power of wage-earners in the private sector fell for the fourth consecutive year. However, in intra-year terms, average wage in industry increased slightly faster than consumer prices during the first three quarters of the year, and the raising of minimum wages in November 1979¹³ might have helped to maintain this trend until the end of the year. Wage growth in the government sector continued to increase at a more sustained rate than in the private sector, so that the total wage bill for the economy as a whole

8 62 per cent of new-job seekers had been unemployed for more than a year in 1979 II compared with 71 per cent in 1978 II.

9 Share in total unemployment:

	1978 II	1979 II
Women	60.3	66.0
First-job seekers	56.9	57.6

It should be noted that while the absolute number of first-job seekers did not change between 1978 II and 1979 II, that of women increased.

10 Consumer prices, annual rates:

	June 1980	December 1979	June 1980
	June 1979	June 1979	December 1979
Total less rent	16.7	21.7	11.9
Food	8.6	11.2	6.0
Energy	43.2	57.5	30.6
Other	24.3	31.3	17.6

11 A brief description of the price-control mechanism is given in Part III, "Inflation".

12 This trend is also imputable to a strong decrease in the price of wine (— 33 per cent in June compared with June 1979).

13 The minimum wage was raised from 5 700 to 7 500 escudos a month. It had not been changed since April 1978, and its increase (31.6 per cent) does not cover the rise of consumer prices during the period (36.7 per cent).

Table 6 Recent trends in prices and wages
Percentage change over corresponding period

	1978	1979	1979				1980	June 80
			Q1	Q2	Q3	Q4	Q1	June 79
Average wage								
Manufacturing industry	12.0	18.0 ¹	15.6	17.3	22.4			
Construction	10.3	17.1 ¹	18.8	15.5	17.2			
Agriculture	16.2	22.1	24.0	19.9	20.2	24.2		
Consumer prices ²								
Total (less rent)	22.1	24.2	24.7	23.3	23.9	22.9	22.6	16.7
Food	22.4	28.0	27.6	29.2	30.0	23.6	19.9	8.6
Non-food	21.5	19.1	20.0	13.7	14.0	21.7	26.1	27.2
of which:								
Energy	26.7	22.1	32.0	16.2	12.7	22.9	37.0	43.2
Other goods and services	20.4	18.5	18.3	14.4	15.8	21.6	24.7	24.3
Wholesale prices, Lisbon								
Total	31.6	29.5	40.1	37.0	29.7	15.5	7.6	
Manufactures	21.1	27.8	20.8	41.0	20.5	28.1		
Combustibles and lubricants	31.6	29.7	41.5	29.1	32.6	20.0		

1 Provisional estimates by Bank of Portugal.

2 Yearly changes are based on the annual index and therefore differ from the average of quarterly changes.

Sources: INE, *Monthly Bulletin of Statistics* and Bank of Portugal, *Quarterly Bulletin*.

increased by 20 per cent¹⁴, distinctly slower than that of GDP in value at factor cost (29 per cent). Thus the share of wages in national income continued to decline, coming down to 51 per cent, whereas it had been as high as 66 per cent in 1975, though only 49 per cent in 1973. At the same time, income from property and entrepreneurship increased by nearly 40 per cent, i.e. nearly doubling in two years, the results being, it would seem, particularly positive in export sectors. This rebuilding of profits contributed a good deal to the price rises of 1979, as it did in the two previous years. According to Portuguese experts, the increase in the total demand price deflator (25.2 per cent), weighted by factors, breaks down as follows: import prices, 34 per cent; direct taxes net of subsidies, 2 per cent; wages, 24 per cent; and other incomes, 40 per cent.

Table 7 Wage bill
Percentage change

	1979 billion escudos	1977 1976	1978 1977	1979 1978
Total wage bill	461.6	20.1	18.5	19.9
Not including social security contributions				
Whole economy	416.2	18.8	17.8	20.8
Agriculture	43.1	14.8	14.1	17.4
Industry	120.7	15.1	14.0	20.0
Construction	27.1	24.0	12.4	12.5
Private services	120.3	14.9	16.0	19.6
General government	105.0	31.0	29.3	27.1
Memorandum item:				
GDP at factor cost and current prices	922.3	33.4	26.9	28.9

Sources: Central Planning Department and information transmitted by the Portuguese authorities.

14 Including social security contributions. Their small increase, reflecting a growth of tax evasion in this sector, has helped to check the rise in wage costs.

Balance of payments

The improvement in the current balance that had already begun in the second half of 1978 continued in 1979 and for the year as a whole there was a small surplus, as against a deficit of over 8 per cent of GDP in 1977. This recovery was much faster than had been forecast a year ago. It is partly due to the sharp increase in exports, but above all to the remarkable results for tourist receipts and emigrants' remittances, which had been strongly affected by disguised capital outflows between 1975 and 1977. Net inflows of non-monetary capital increased by about 23 per cent in dollars. On the other hand, banks considerably reduced their foreign indebtedness, so that the increase in official reserves was only very small. However, according to provisional data, the external payments situation deteriorated significantly in the first quarter of 1980, with the current balance showing a deficit of 250 million dollars, due to the worsening of the trade balance. There were also considerable outflows of short-term capital, so that the balance on non-monetary transactions showed a deficit of 500 million dollars, compared with equilibrium a year earlier.

The recovery of export market shares lost in 1976-1977¹⁵ gathered momentum and foreign sales of goods increased in volume by 27.3 per cent, a market gain of more than 15 points¹⁶. Expansion was particularly brisk at the end of 1978 and during the first half of 1979. It seems to have slackened in the second half, and business opinion surveys at the end of the year regarding export orders suggested a decline. As in 1978, the most buoyant sector was that of textiles, clothing and footwear; but virtually all sectors showed sustained growth, including agriculture, largely because of wine sales. Imports recovered markedly, but this seems to have been entirely due to a sharp increase in oil and food purchases; other

Table 8 *Balance of payments*

Million dollars, n.s.a.

	1977	1978	1979	1978 I	1978 II	1979 I	1979 II
Exports, fob	2 001	2 410	3 594	1 137	1 273	1 702	1 892
Imports, fob	4 533	4 791	6 016	2 443	2 348	2 847	3 169
Trade balance	-2 532	-2 381	-2 422	-1 306	-1 075	-1 145	-1 277
Services	-97	-54	100	-144	90	-88	188
<i>of which:</i>							
Tourism	268	431	695	125	306	230	465
Capital income	-179	-329	-430	-138	-191	-196	-234
Transfers	1 134	1 635	2 472	612	1 023	1 028	1 444
Current balance	-1 495	-800	150	-838	38	-205	355
Medium- and long-term capital	95	758	813	136	622	196	617
Private	19	249	462	111	138	187	275
Official	76	509	351	25	484	9	342
Basic balance	-1 400	-42	963	-702	660	-9	972
Short-term capital	-30	202	366	120	82	221	145
Banks' foreign position	567	-201	-969	125	-326	-341	-628
Balance on official settlements	-863	-41	360	-326	416	-129	489
Monetary movements	83	-53	-41	-16	-37	-9	-32
Drawings on IMF	—	—	23	—	—	23	—
Allocation of SDRs	421	197	-274	29	168	-111	-163
Credit to Bank of Portugal							
Change in reserves (decrease = +)	359	-103	-68	444	-547	226	-294

Source: Bank of Portugal.

15 Cf. part III, "External transactions".

16 For manufactures.

Table 9 Foreign trade by product group
Percentage change over corresponding period

	Billion escudos		Volume		Price	
	1978	1979	1978	1979	1978	1979
Total imports	230.1	322.1	-2.0	5.3	23.3	33.0
Capital goods ¹	60.4	76.9	3.1	-0.9	35.5	28.3
Consumption goods	22.9	29.7	-24.6	0.2	36.8	29.7
Intermediate goods	109.5	149.3	-2.9	5.3	20.6	29.6
Oil products	35.6	62.3	10.6	14.9	15.6	52.4
Total exports	106.5	175.4	13.5	27.3	22.3	29.5
Farm and food products	16.9	24.4	3.1	14.7	29.4	26.0
Wood and cork	16.8	28.4	4.6	26.8	15.3	32.9
Textile, clothing and footwear	35.0	59.4	21.6	29.0	24.7	31.6
Machinery and transport equipment	14.6	21.2	3.7	18.0	21.6	23.1
<i>Memorandum item:</i>						
Exchange rate of escudo against the dollar	43.92	48.90			-14.9	-11.3

¹ Exclusive of ships and planes.

Sources: Centre for Planning Studies, *Socio-economic Situation* and information transmitted by the Ministry of Foreign Trade.

imports¹⁷ were on average almost at a standstill. On the whole, the trade balance at constant prices improved considerably in 1979 and, in spite of a deterioration in the terms of trade, the export/import ratio for goods in value (cif-fob) rose from 46 per cent in 1978 to 54 per cent in 1979. However, because of the relative weight of exports and imports, the trade deficit at current prices increased slightly, to 2.4 billion dollars.

Although, as had been forecast, the trade deficit remained practically unchanged compared with the previous year, net invisible earnings in 1979 increased much faster than forecast by the Secretariat a year ago, exceeding the level reached a year earlier by about 63 per cent in dollar terms, in spite of increased capital income payments. After an excellent year in 1978, tourist receipts accelerated again in 1979¹⁸. On the other hand, emigrants' remittances—which constitute almost all private transfers—increased by nearly 50 per cent¹⁹, a rate which obviously cannot be explained merely by wage increases in host countries²⁰, but represents the transfer to Portugal of earlier savings. It should be noted here that various incentives were introduced in 1978. In particular, emigrants were allowed to hold accounts in foreign currency and savings accounts were instituted giving the right to obtain loans on favourable terms for residential

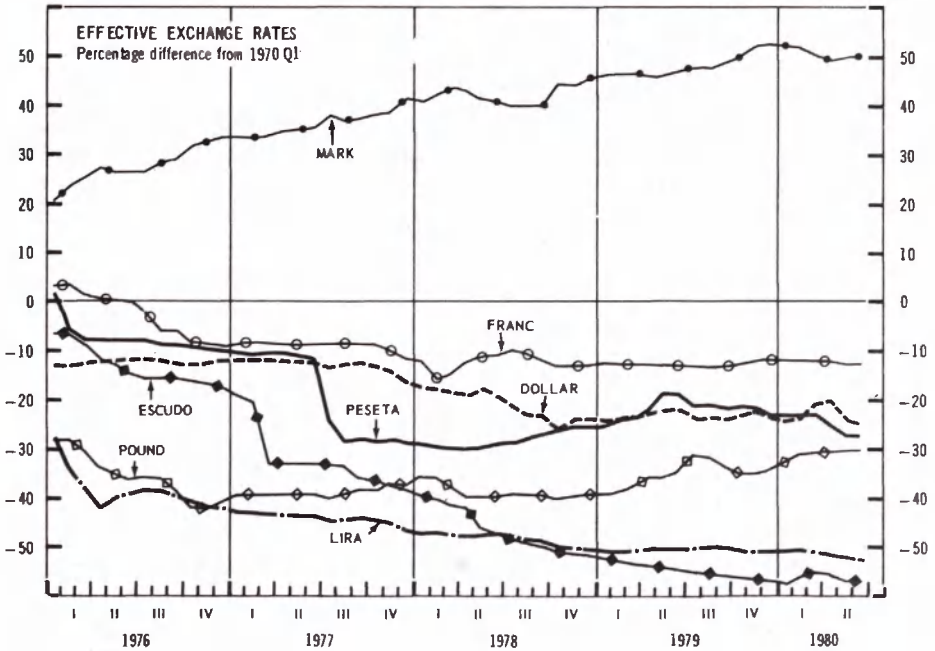
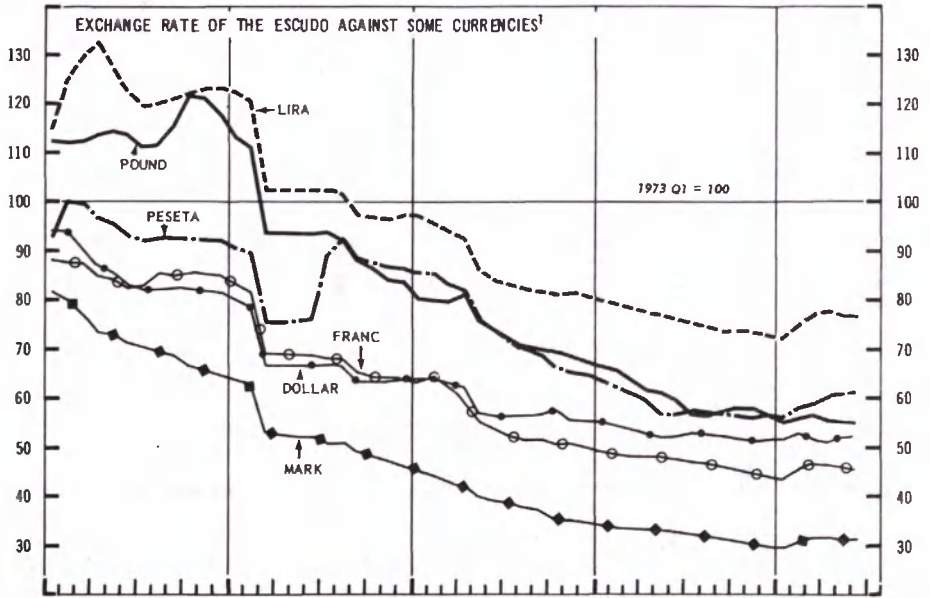
17 Imports of machinery and equipment showed a 5 per cent recovery in volume, whereas there was a further decline in purchases of transport equipment, for both consumption and investment.

18 It is difficult to make a price/volume breakdown of this increase because of the distortion in the 1979 tourist flow figures. There was a considerable increase in the number of Spanish day-trippers to Portugal, due perhaps to the fact a passport no longer has to be produced. The number of tourists entering Portugal increased by 56 per cent (104 per cent for Spaniards and 15 per cent for others) whereas the number of nights spent increased by only 14 per cent.

19 Broken down by geographical areas, the increase in emigrants' remittances was 44.5 per cent from European OECD Member countries, 54 per cent from the United States and Canada, and 56 per cent from the rest of the world.

20 Weighted wage growth in the main host countries in 1979 was some 17.5 per cent. For comparison, emigrant remittances increased, in dollar terms, by 18.5 per cent in Italy, 18 per cent in Greece and some 16 per cent in Spain.

Diagram 1 Exchange rates



1 Unit of foreign currency per escudo.

Source: OECD Secretariat.

construction and even for productive investment²¹. The effect of these measures continued to be felt in 1979.

The medium and long-term capital movements surplus has remained practically unchanged, but the split of the flow between public²² and private sectors has altered considerably to the advantage of the latter. Inflows of medium and long-term private capital mainly concern public enterprises, which the authorities prompted in 1979 to obtain funds from abroad. Furthermore, the surplus on short-term non-monetary capital movements increased. On the other hand, the large liquidity available and the narrower interest-rate differentials between Portugal and international financial markets led banks to reduce considerably their foreign liabilities, particularly in the second half of the year. In all, the balance on official settlements showed a surplus of only \$ 360 million. It was mainly used to repay loans to the Bank of Portugal from various central banks, and to reduce the debt to the IMF, only a very limited increase being made to official foreign exchange reserves, which amounted to \$ 2 billion at the end of 1979, gold being valued at 35 SDR per ounce. On 1st April it was decided to revalue the latter to \$ 255 per ounce, gold reserves on 31st December thus being valued at \$ 5.6 billion (against \$ 1 billion in the previous estimate)²³. Thus the official foreign exchanges reserves nearly equal the total foreign debt, which reached \$ 6.6 billion at the end of 1979²⁴. In conformity to objectives, the effective exchange rate of the escudo depreciated regularly in 1979, at first at 1.25 per cent per month in the first quarter, and the rate was subsequently lowered in two stages to 0.75 per cent. It was then decided in March 1980 to appreciate the exchange rate by 6 per cent in order to curb the increase in import prices. But the policy of depreciation should be maintained in 1980 with a rate of 0.5 per cent per month as of June. In May 1980 the effective depreciation over twelve months was 4 per cent and practically unchanged against the dollar for the same period.

II ECONOMIC POLICY

The authorities intended to continue in 1979 the adjustment policy introduced in 1978²⁵. In fact, however, the political situation had a considerable influence on fiscal policy, which proved to be much more expansionary than originally planned. At the same time, monetary policy, which had been distinctly restrictive in 1978, was relaxed and there ensued an acceleration of monetary aggregates

21 This measure was introduced in 1979. Inflows of capital unconnected with wage earnings are probably declared as "remittances" so as to benefit from these incentives.

22 The Treasury raised a loan of \$300 million in 1979, compared with \$450 million in 1978.

23 74 per cent of the resulting increase in value was written down as a repayment of the Treasury's debt to the Bank of Portugal.

24 Trend of foreign debt, billion dollars:

	1976	1977	1978	1979
Public sector	0.6	0.8	1.5	2.1
Bank of Portugal	1.2	1.7	1.9	1.6
Private sector	1.1	1.9	2.0	2.9
Total	2.9	4.4	5.4	6.6

25 It was on this basis that negotiations were first started with the IMF with a view to renewing the standby credit agreement signed in 1978, which was due to expire at the end of the first quarter of 1979; but since the balance-of-payments situation improved faster than expected, these negotiations were not continued.

brought about by the increased public-sector deficit and the balance-of-payments surplus. Finally, the policy of gradual depreciation of the escudo was maintained although the monthly rate was gradually reduced.

The authorities' priority objectives for 1980 are to reduce the year-on-year consumer price increase to 20 per cent and stimulate investment. The slowdown of inflation is to be achieved through a substantial increase in food subsidies and a further slowdown in the rate of depreciation of the escudo. The Portuguese currency was accordingly revalued by 6 per cent in February and, assuming a monthly rate of 0.5 per cent until the end of the year, the depreciation in real terms should decline from a year-on-year rate of over 15 per cent in 1979 to 3.5 per cent in 1980. The wage ceiling has not been renewed²⁶, but the government has set a 20 per cent limit beyond which wage increases cannot be passed on to prices subject to control. Investment policy is based on a steep increase in general government capital expenditure and on the introduction of a system of incentives based on interest subsidies and tax rebates for both public and private enterprise²⁷. According to budget forecasts, these measures should not prevent a reduction in the general government borrowing requirement as a percentage of GDP because of a pronounced slowdown in public consumption.

Fiscal policy

The first draft of the 1979 budget envisaged a marked slowdown in general government current expenditure²⁸, with, in particular, near stagnation of public consumption in volume terms, sustained growth of capital expenditure and a considerable decline in the borrowing requirement as a percentage of GDP (from 8.7 per cent in 1978 to 6.4 per cent). But following the debate on the budget²⁹ and the exceptional measures taken in August, current expenditure increased much faster than expected. Public consumption went up by nearly 29 per cent in value and 5 per cent in volume because of the very steep increase in government employment (11 per cent year-on-year according to the National Institute of Statistics employment survey) and also because of major changes in grade structure. Interest payments on government debt increased to nearly 10 per cent of current expenditure, absorbing 11 per cent of revenue. Finally, transfers and subsidies increased by nearly 25 per cent. On the other hand, capital expenditure³⁰ was a good deal lower than expected. This was largely due to local authorities, whose responsibility for investment was considerably increased but not yet precisely defined by the law reforming local government financing (being gradually phased in since 1979).

26 The 20 per cent ceiling set by the government on the year-on-year increase in per capita wages for 1979 was in fact never adopted by Parliament, despite several months' discussion.

27 This mechanism substitutes for the various tax and especially financial relief measures presently enforced and it is difficult to assess the effect of the change of system.

28 Various administrative changes make it difficult to break down this expenditure among the various government agencies during the period in question. In 1978 health expenditure paid until then by social security was transferred to a national service integrated in central government. In 1979 a law reforming local government finance resulted in a large-scale transfer of both expenditure and revenue from the central government to local authorities (See Survey on Portugal, July 1979, page 33, footnote 73). In fact the law provides for the transfer of revenue and new powers concerning expenditure have yet to be defined. The process of transfer is continuing to affect the budget in 1980. Finally, in the budget for 1980 the Unemployment Fund is included in the national budget.

29 A first draft of the budget was not approved in March 1979. A second draft was approved by Parliament in June.

30 Because of the Portuguese classification, the breakdown of capital expenditure between investment and transfers has little meaning.

Table 10 General government account
on a national accounts basis
Billion escudos

	General government				Central government			
	1977	1978	1979 ¹	1980 ²	1977	1978	1979 ¹	1980 ²
Current revenue	168	212	264	360	93	117	151	199
Direct taxes	35	46	59	85	27	35	48	65
Social security contributions	46	57	65	93				
Indirect taxes	79	98	122	161	61	72	89	114
Other	8	11	18	21	5	10	14	20
Current expenditure	181	239	302	401	112	156	196	247
Goods and services	91	115	148	180	60	74	95	116
Subsidies	21	31	47	60	8	11	11	11
Transfers	58	71	80	120	34	52	64	82
Interest	11	22	29	41	10	19	27	39
Current saving	-13	-26	-38	-41	-19	-40	-45	-48
Capital revenue	4	4	4	5	7	5	6	9
Capital expenditure	34	43	47	60	31	34	44	56
Transfers	9	12	11	19	14	18	26	38
Investment	25	31	36	40	17	16	18	18
Borrowing requirement (percentage of GDP)	-43 (6.9)	-65 (8.7)	-81 (8.3)	-95 (7.8)	-43 (6.9)	-68 (8.7)	-84 (8.4)	-95 (7.8)

1 Estimate.

2 Forecast.

Sources: Bank of Portugal, Ministry of Finance and information transmitted by the Portuguese authorities.

Tax revenue, on the other hand, came very close to the expected amount, but in a context of faster GDP growth than had been expected when the forecasts were made. Thus, instead of remaining unchanged as was intended, fiscal pressure (including social security contributions) slackened by more than half a point, to 25 per cent of GDP, whereas it had peaked at 26.2 per cent in 1976. This lower figure is mainly due to social security contributions, whose limited growth reflects an increase in tax evasion³¹. As in the three previous years, direct taxation rose faster than GDP, due to fiscal drag caused by inflation and, for 1979, to the introduction of a special tax on non-wage income. Current receipts, however, increased less than current expenditure, so the current deficit rose by nearly 50 per cent, representing 3.8 per cent of GDP (against 3.3 in 1978 and 1.2 per cent forecast in the budget). In spite of the small increase in capital expenditure, the general government borrowing requirement rose to 8.3 per cent of GDP. Moreover, financial operations, which mainly concern loans to firms, increased considerably and the central government deficit (excluding government debt servicing) increased to nearly 10 per cent of GDP. As in previous years, this deficit was mainly covered by the Central Bank, and to a lesser extent by borrowing abroad, public investment in Treasury bonds having remained at a very low level³².

31 Amounts owed to the Social Security by firms rose from esc. 22 billion in 1978 to nearly 29 billion in 1979.

32 It was proposed to raise esc. 15 billion (out of a total loan issue of 107.5 billion), but only 5 billion were actually subscribed.

According to the 1980 budget, the main aspect of fiscal policy in 1980 is to be a sharp increase in the weight of public sector transactions in GDP, with a brisk acceleration in both receipts and expenditure. However, its net effect on the economy should not be much more expansionary than it was in 1979, since the slight reduction expected in the general government borrowing requirement as a percentage of GDP is likely to be offset by an increase in financial operations. Capital expenditure should show a recovery, with in particular a sharp increase in transfers to public enterprises. The increase in public consumption, 80 per cent of which concerns civil service salaries, should on the contrary be less steep, i.e. only 22 per cent in value terms, or virtual stagnation in volume. Contrary to what was forecast in the previous budget, other current expenditure is expected to increase sharply. The growth in transfers, in particular that of social security transfers to households, should be faster than in 1979³³. Interest payments on government debt will probably continue to grow³⁴. On the other hand, there should be a slowdown in the growth of subsidies, since the steep rise in those granted by the Supply Fund is partly offset by the standstill, at current prices, of subsidies to enterprises.

On the revenue side, and for the first time in the last five years, the budget provides for a lowering³⁵ of taxes on wage income ("professional" tax and "complementary" tax) which, together with the raising of tax rates in 1976, the introduction of successive surtaxes, and, above all, the fiscal drag due to inflation, were the main source of increase in direct tax revenue in previous years. The lowering of the tax on wage income should be more than offset by the doubling of revenue of the profits tax and a considerable increase in the net tax on capital³⁶, so there should be a sharp rise in general government direct tax revenue³⁷. A rapid increase is expected especially from the multi-stage tax, due to a reduction in tax evasion which may result from firmer controls³⁸. Finally, the rate of social security contributions has been raised by two points; and here again the government hopes to speed up collection. Total fiscal pressure should therefore increase by three points to 27.7 per cent of GDP and, overall, the general government requirement should fall from 8.3 per cent of GDP in 1979 to 7.8 per cent. On the other hand, in view of the increase in financial transactions and particularly credit to public enterprises, the Treasury deficit is expected to increase slightly to 11.5 per cent of GDP (including the servicing of the national

33 It was decided at the end of last year to raise pensions (by 38 per cent for minimum-rate pensions) and family allowances, while unemployment benefits follow the minimum wage rate (which has increased by 32 per cent).

34 The acceleration of interest payments is due partly to the rise in interest rates abroad. Part of the revaluation of gold reserves was imputed as a repayment of the Treasury's debt to the Central Bank, reducing the outstanding debt by nearly a third. But this had a small effect on outstanding interest as extinguished debt was the earliest, bearing low interest rates.

35 The professional tax scales were raised by 50 per cent, whereas there was only a 14 per cent increase in taxable income. For the complementary tax, scales were raised by 20 per cent. In all, this should amount to esc. 2.5 billion less tax revenue (i.e. 10 per cent of those raised in 1979 and 0.2 per cent of households' income).

36 The rates of these two taxes were revised upwards so as to include the additional taxes and the "tax on commerce and industry" previously collected by local authorities, as well as the "special tax" collected in 1979. According to official estimates, there should be no change in the overall basic fiscal burden, but due to delays in 1979 actual revenue should increase markedly in 1980.

37 Because of the transfer of certain taxes to the local authorities, the increase in direct taxes levied by the central government should not be as great as that of general government as a whole.

38 According to official estimates, tax evasion amounted to esc. 50 billion in 1979, a third of total direct and indirect tax revenue in 1979.

debt). As in previous years, this deficit is due to be covered mainly by the Bank of Portugal, whose contribution would increase by nearly 50 per cent. This could raise problems with regard to the control of monetary aggregates.

Monetary policy

Towards the end of 1977 the serious balance-of-payments situation prompted the authorities to adopt restrictive monetary policies. Interest rates were substantially raised in two stages and ceilings were placed on the quarterly expansion of total domestic credit and eventually on the monthly increase in bank loans. Partly as a result of this set of measures, the balance of payments improved markedly in 1978, at the cost, however, of a considerable slowdown in activity. The balance-of-payments continued to improve in the course of 1979 and in view of the achievement of the main policy goal the authorities adopted an accommodating stance as of the second quarter of 1979. The announcement of total domestic credit targets was discontinued in March. Ceilings on bank loans were retained to counteract the very strong expansionary impact of net foreign assets and the financing of the expanding government deficit. Interest rates were not raised in 1979. Furthermore, because of the narrowness of the money market and the prevailing low interest rates³⁹, the Bank of Portugal cannot control directly a large injection of liquidity⁴⁰. The money supply (M2) thus began to accelerate as of the second quarter of 1979 and increased by 36.5 per cent in the course of the year, approximately ten percentage points faster than the rate of growth of GDP in value. This compares with an increase of M2 and GDP of 28 and 25 per cent respectively in 1978. In the first quarter of 1980 the money supply continued to increase at the same sustained rate of

Table 11 Money supply and counterparts

	Out-standing 31-12-79	Percentage change over corresponding period of previous year, at end of period					
		1978 Q4	1979 Q1	1979 Q2	1979 Q3	1979 Q4	1980 Q1
Money supply (M1)	396.5	14.6	11.9	18.4	20.7	25.9	28.3
Currency in circulation	145.3	7.1	8.9	9.8	11.2	17.1	20.4
Sight deposits	251.2	19.6	14.0	23.3	27.0	30.2	33.8
Time deposits	595.3	40.7	40.8	41.0	41.6	44.6	41.8
Money supply (M2)	991.8	28.0	28.1	31.4	32.8	36.5	36.7
Counterparts							
Net foreign assets	40.8	—	—	—	—	—	—
Total domestic credit	1 100.5	24.5	23.1	22.8	21.7	25.8	29.1
Credit to private sector	852.2	21.4	19.0	19.0	18.7	21.2	25.7
Credit to public sector	248.3	39.3	42.1	40.0	34.4	44.7	42.6
Miscellaneous	-149.5	—	—	—	—	—	—
Free reserves of banks as percentage of deposits		0.9	-0.1	0.1	0.5	2.2	0.3

Source: Bank of Portugal.

39 Money market rates followed a downward trend in 1979 in connection with the authorities' intervention in the bond market which kept interest rates low.

40 An injection of liquidity could, of course, be neutralised by using compulsory reserve requirements, but the Bank of Portugal has been reluctant to do so because of the burden this would set on banks as compulsory reserve requirements do not bear interest.

end-1979. Time deposits continued to increase faster than sight deposits, as in the previous two years, due to interest rate differentials and the large inflow of emigrants' remittances. Despite a rapid acceleration last year, the rate of growth of currency in circulation remained well below that of other money supply components as the public continued to shift towards a more balanced structure of liquid holdings⁴¹.

In 1979 net foreign assets and credit to the public sector accounted for 50 per cent of money supply growth, although their combined share of M2 does not exceed 30 per cent. Furthermore, it was the contribution of net foreign assets which allowed an acceleration of M2 in the second and third quarters, at a time when total domestic credit was decelerating. Credit to the private sector, which virtually coincides with bank loans subject to ceilings⁴², slowed down up to the end of the third quarter, accelerating at end-year and especially at the beginning of 1980 in connection with the pick-up in activity. Credit ceilings were exceeded, although not substantially, as of April 1979⁴³. At the same time, there are indications that bank liquidity remained rather comfortable. The use of discount facilities by banks remained well below the first tranche⁴⁴ as of the second quarter. The ratio of free bank reserves to deposits, which was negative in March at the height of monetary restriction, became positive in the following quarter and increased rapidly until the end of the year. Furthermore, banks reduced considerably their net foreign liabilities in the course of 1979. This trend of bank liquidity, in connection with the contained growth of credit to the private sector throughout most of 1979, might indicate a moderate demand for credit, probably due to the good liquidity conditions of firms, especially those involved in exports, and large scale borrowing by public enterprises. But it might reflect, in the opinion of the Bank of Portugal, the effectiveness of credit ceilings, so that large injections of liquidity cannot be utilised by the banking system to grant credit considerably beyond the quantitative targets. The authorities' objectives for 1980 have not yet been announced, but qualitative information suggests that up to present policy has remained accommodating, so as not to prejudice the targeted recovery in investment.

Interest rates were not modified in 1979, after having been considerably raised in the two previous years, when the authorities began to use interest rates as a balance-of-payments policy instrument. It should be recalled that all interest rates, apart from the inter-bank rate, are administratively fixed in Portugal and that their structure is extremely complex. For example, lending rates now spread between 11.5 and 22.5 per cent depending on the degree of preference accorded to different types of operations. Construction and exports appear to be the most preferred types of operations at present, while consumer credit is penalised by a surtax of 7.75 per cent. On the whole, real interest rates remained practically unchanged at a very low level in 1979, but might have increased somewhat in the first months of 1980. On the other hand, the differential between home and foreign rates narrowed considerably last year, but the escudo depreciation also slowed down.

41 The ratio of currency in circulation to M1, which has risen considerably during the period of political uncertainty that followed the events of 1974, has declined gradually from 48 per cent in December 1975 to 35 per cent in December 1979, but remains still above the 1961-73 average of about 30 per cent.

42 All bank credit both to the private and public sector is subject to the ceilings. In December 1979, bank loans to the private sector accounted for 98.8 per cent of the total.

43 Credit ceilings are available until December 1979. The Minister of Finance announced recently that credit ceilings were exceeded in the first quarter of 1980, but neither the ceiling nor the amount by which they were exceeded are known.

44 Discount facilities are granted to banks according to a three-tranche system with progressively rising rates. Discount rates range at present from 18 to 23 per cent.

III SOME MEDIUM-TERM ASPECTS

Since 1974 Portugal has experienced a major upheaval in the form of the first oil crisis, the ensuing world recession and a change of political regime which was accompanied by the loss of its colonies; in this context a number of problems have developed, of which the foremost would appear to be accelerating inflation, mounting unemployment, the difficulty of keeping the public sector under control and external relations. Admittedly, in 1978-1979 some of the worst of these problems seemed to be subsiding: for example, the foreign balance has moved into surplus and the political and institutional context has stabilized. However, it is important to appraise the position of the Portuguese economy at the beginning of the 1980s, at a time when the economic-policy makers are having to allow for an unfavourable international environment and, over and above short-term objectives, are having to decide on the desirable options for the medium term—this being essential in an industrialising economy.

Inflation

Whereas the rate of inflation during the 1960s was much the same as the average of other OECD countries, it speeded up at the beginning of the 1970s because Portugal was experiencing the effects of higher import prices, as well as the stockbuilding and speculation phenomena specific to the country and the serious disruptive effects produced by long years of colonial wars. After 1974 inflation became considerably worse, first of all because of an explosion of unit labour costs and then, during the past three years, because of rapid rebuilding of profits. The rise in import prices was also a major factor in the persistence of a high rate of inflation and, in spite of price freezes or control policies⁴⁵ introduced by the authorities, the rate of inflation remained between 20 and 25 per cent a year, or at a rate twice as high as the average for Portugal's main trading partners⁴⁶. With differences in timing from one year to another, the rise in prices was very much the same in the various sectors, whereas in the early part of the 1960s prices of manufactured products and services had exercised a moderating influence. By category of final use, on the other hand, the implicit price deflator behaved very differently as between sectors, with an average annual rate of increase close to 27 per cent for gross fixed investment, compared with 22 per cent for exports (in escudo terms) and private consumption. Finally, as for consumer prices (total excluding rent), the fastest advance was in food, with an average rise from 1973 to 1979 of 27 per cent, against 21 per cent for other goods and services.

45 The authorities tried to curb inflation at first, in 1974 and 1975, by freezing the prices for a large number of products (including the prices of public corporations) and by increasing food subsidies. Then, as from 1976, price control took the form of freezes (with annual adjustments) in respect of certain essential food products (accounting for about 12 per cent of households' consumption), setting of maximum prices (in respect of about 20 per cent of the goods represented in the consumer price index) and ex-post checks on price charged by enterprises with a specified minimum turnover (first esc. 50 million and then, from the beginning of 1980, esc. 150 million). However, this system of controls was applied very flexibly so as to enable enterprises to rebuild their profit margins.

46 Trend of consumer prices (year-on-year, percentage change):

	1960-1970	1970-1973	1973-1979
Lisbon, excluding rent	3.9	9.6	23.2
OECD Europe	3.7	7.1	11.7

Import prices have played a major role in the inflationary process, at first in 1974 after the first oil crisis—as in other OECD countries—and then as from 1977, owing to the escudo depreciation policy introduced to restore the competitiveness of exports. According to Bank of Portugal's estimates, the change in the effective exchange rate accounts for practically the whole of the impact of import prices on the implicit total demand deflator, with a direct effect on price increases of 8 per cent in 1977 and almost 5 per cent in 1978⁴⁷ (out of an overall increase in the price indices of demand of 28 and 22 per cent respectively). In 1979 import prices probably accounted for about one-third of the increase in demand prices, half of this being due to the depreciation of the escudo.

Table 12 Main components of price increases

	Implicit deflator of total demand		Wage costs		Other factor revenue		Indirect taxes		Imports	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
1970-1973	7.0	100	7.2	37.1	12.9	26.2	13.6	2.9	6.2	33.8
1973-1976	18.2	100	28.2	65.9	3.1	7.8	18.7	8.3	21.3	18.0
1977	28.1	100	13.9	18.6	48.7	45.2	29.8	6.6	32.1	29.6
1978	21.7	100	14.8	28.0	31.7	47.8	13.9	2.8	22.7	21.4
1979	25.2	100	15.2	23.4	34.2	40.6	13.5	2.3	33.0	33.7

(A) Average annual rate of growth.

(B) Relative contribution to the increase in total demand deflator.

Source: Central Planning Department.

However, domestic factors of inflation were predominant⁴⁸. From 1974 to 1976 it was the brisk advance of nominal wages⁴⁹ (up 60 per cent in two years) that was mainly responsible for the sharp rise in prices. From 1976 onwards, the authorities took various measures to curb wage growth, first of all by completely freezing wages for a few months in late 1975 and early 1976, and then by setting growth norms for total wages as from 1977. Though still rapid in nominal terms, wage growth slowed to a rate well below that of price increases from 1977 onwards. At the same time, firms rapidly built up their profit margins and the advance of income from property and entrepreneurship was responsible for almost one-half of the increase in prices of total demand from 1977 to 1979. Overall, the pattern of national income distribution shifted considerably, at first in favour of employees, but by 1979 was again very much the same as in 1973⁵⁰. However, given the slight decline in the relative weight

47 It is necessary to emphasize the mechanical nature of this type of calculation of the ex-post impact of the different inflation factors, which does not bring out the way in which they interact.

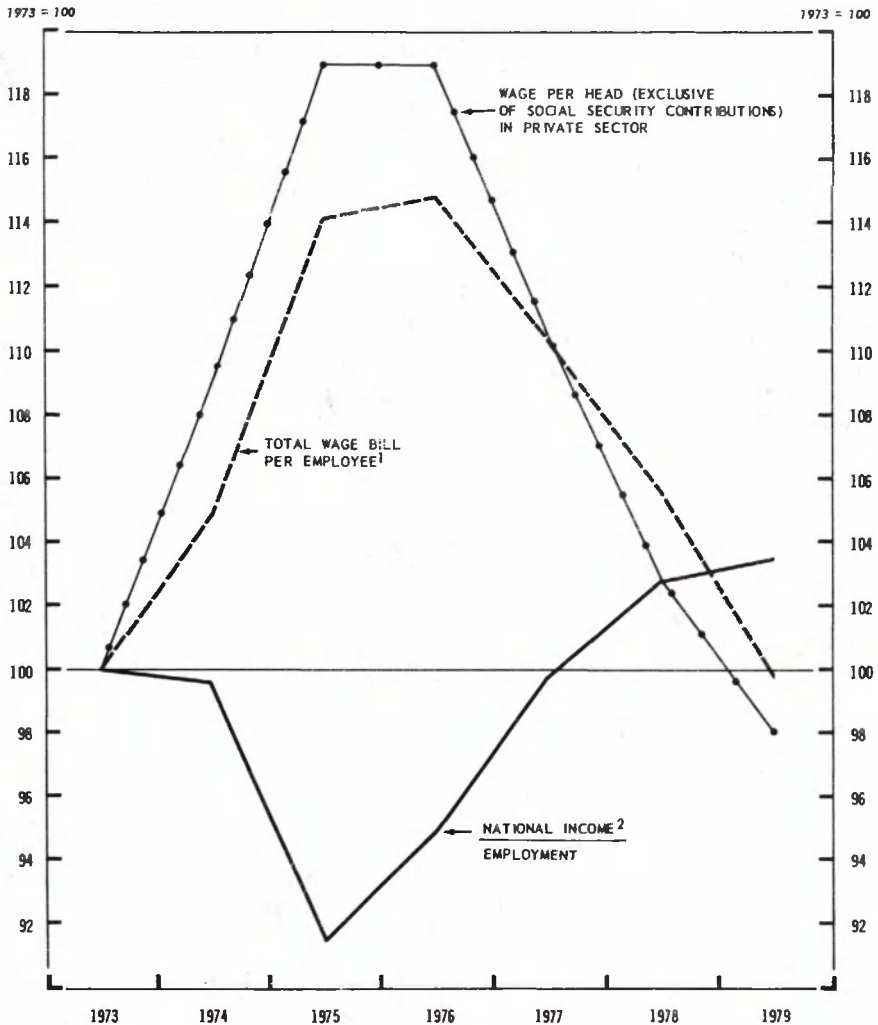
48 It should be noted that the statistics on income and income distribution are unreliable and that the estimates given here should be taken only as an indication of trends.

49 Mainly because of the introduction of a minimum wage in 1974 in industry and services, subsequently extended to construction and agriculture. Initially, it was set at Esc. 3 300 per month, or about US \$ 130 at 1974 exchange rates.

50 Share of GDP at market prices, as a percentage of the total:

	1973	1975	1979
Wages	44.5	59.6	46.4
Gross operating surplus	46.0	31.3	46.0
Indirect taxes, net	9.6	9.1	7.6

Diagram 2 Distribution of real national income



1 Index deflated by the consumer price index.

2 Index deflated by the index of total domestic demand.

Sources : Central Planning Department and Secretariat estimates.

of dependent employment in total employment during the period, the share of national income per employee in 1979 was still about four points more than in 1973. The shift in real terms is even more pronounced⁵¹. The real wage gap in relation to national income, which had been extremely wide in 1975, was closed by 1978 and in 1979 the purchasing power of per capita wages was 2 per cent lower than its 1973 level, whereas national income per employee over the same period had advanced by 3.5 per cent. The social cost of the

51 The rise of the total demand deflator was slightly less rapid than that of consumer prices.

downturn in the purchasing power of wages was nonetheless lessened between 1978 and 1979, at the level of households' total disposable income, by the large increase in transfers from abroad⁵².

The overall trend of wages incorporates major differences by sector⁵³ and by socio-occupational category. First of all, earnings per employee seem to have advanced faster in the civil service than in the private sector during 1975-1979. In addition, since employment in general government has risen sharply, the share of civil servants' salaries in the total wage bill has increased from less than 20 per cent in 1973 to 25 per cent in 1979. Within the private sector, the differences seem to have been fairly small, except perhaps in the farming sector where the increase may have been considerably more rapid⁵⁴. The trend of wages was probably more diversified by income category. For example, the minimum wage in non-farm sectors advanced less rapidly over the period as a whole than the average wage. Consequently, the proportion of wage-earners whose income was equal to, or less than⁵⁵, the minimum wage was approximately 19 per cent⁵⁶ at the beginning of 1979, compared with nearly 50 per cent when it was introduced in 1974. It should be noted that sectoral differences in this regard are very considerable. In manufacturing, about 30 per cent of wage-earners received an income lower than, or equal to, the minimum wage, whereas in textiles and clothing industries the proportion was over 70 per cent. On the other hand, it was under 5 per cent in steel and in machinery and transport equipment industries and almost nil in banking and insurance and transport services. At the other end of the income scale, the increase in the upper pay brackets was well below the average⁵⁷ and the 5 per cent of employees with the highest pay accounted for only 11.5 per cent of total wages in 1979, against almost 18 per cent in 1972. Overall, there seems to have been a rather considerable narrowing of wage differentials.

Thus, a retrospective analysis of inflation in Portugal since 1974 would seem to indicate that some factors followed one another or were juxtaposed, accounting for the persistence of a very high rate of inflation over the period. Among them, the shift in the pattern of national income distribution seems to have played a dominant role. Insofar as, at the beginning of the 1980s, the pattern is once again comparable with that prevailing in the 1960s and early 1970s, there is some reason to believe that inflation might slow down fairly significantly over the next few years. But for this to happen (in Portugal as in other OECD countries), there would have to be no repeated exogenous shocks with profoundly destabilising effects on the economy nor any sudden big catch-ups in wage incomes, whose purchasing power has been eroded over

52 Their share in disposable national income rose from 8.7 per cent in 1973 to 11 per cent in 1979 and their share in households' income from 10.6 to 11.5 per cent.

53 The trend of per capita wages was calculated by dividing the increase in the total wage bill (excluding social security contributions) estimated by the Central Department of Planning by the increase in dependent employment published in the INE employment survey.

54 The rise in per capita wages calculated on the basis of dependent employment strictly defined was very steep (a more than five-fold increase during the period). In fact, it would seem more reasonable, following the practice of the Central Department of Planning, to take into account also the trend of domestic workers, theoretically treated as unpaid in the survey.

55 Firms in a difficult situation are dispensed in certain circumstances from complying with the minimum wage. In addition, the minimum wage mentioned here is that applicable to workers aged over 20.

56 This percentage is based on the current level of the minimum wage (esc. 7 500 per month) laid down in November 1979 and therefore gives an overestimate of the real situation. According to the Portuguese experts' estimates, the proportion of workers paid the minimum wage in the non-farm sectors was of the order of 13 per cent at the end of 1979.

57 The absolute levels of the highest salaries were frozen in 1975 and 1976.

the past three years, though to exactly what degree it is difficult to tell. Furthermore, major gains in productivity must unquestionably be achieved if there is to be sustained moderation of costs. In this regard, it appears necessary to ensure a better control of the public sector which has contributed to curb the productivity of the economy as of 1974 by absorbing disposable means of finance through its large deficit.

The problems of employment and unemployment

Unemployment remained very low until 1974 (less than 2 per cent of the labour force). Subsequently it rose very steeply and by 1979 it had exceeded 8 per cent. The fact that unemployment remained at an extremely low level throughout the 1960s and early 1970s is mainly attributable to a massive outflow abroad of Portuguese workers, estimated at 1.5 million by the Portuguese experts between 1960 and 1974. In addition, the extension of the length of national service reduced the number of males available for work. As a result, the trend of the labour force was flat⁵⁸ in the 1960s and early 1970s and the big increase in output was achieved only by rapid gains in productivity (of the order of 7 per cent over the period). The situation has changed radically since 1974. Net emigration has declined to almost nil because of the employment situation in host countries. The end of the colonial wars caused 150 000 servicemen to be demobilised and about half a million people living in the colonies to return to Portugal. There was also a rise in participation rates, owing mainly to the considerable rise in female participation rates, from 32.8 per cent in 1974 to 35 per cent in 1979, whereas the rates for males stabilised around 56 per cent during the period. Overall, the rate of growth of the labour force was of the order of 2 per cent on average between 1974 and 1979.

The trend of employment since 1974 has not differed significantly from that of the previous ten years. Employment has continued to decline substantially in agriculture (by an average 1.8 per cent per year) but there have been a number of changes in this sector. Specifically, in spite of the land reform,

Table 13 Medium-term trends in employment

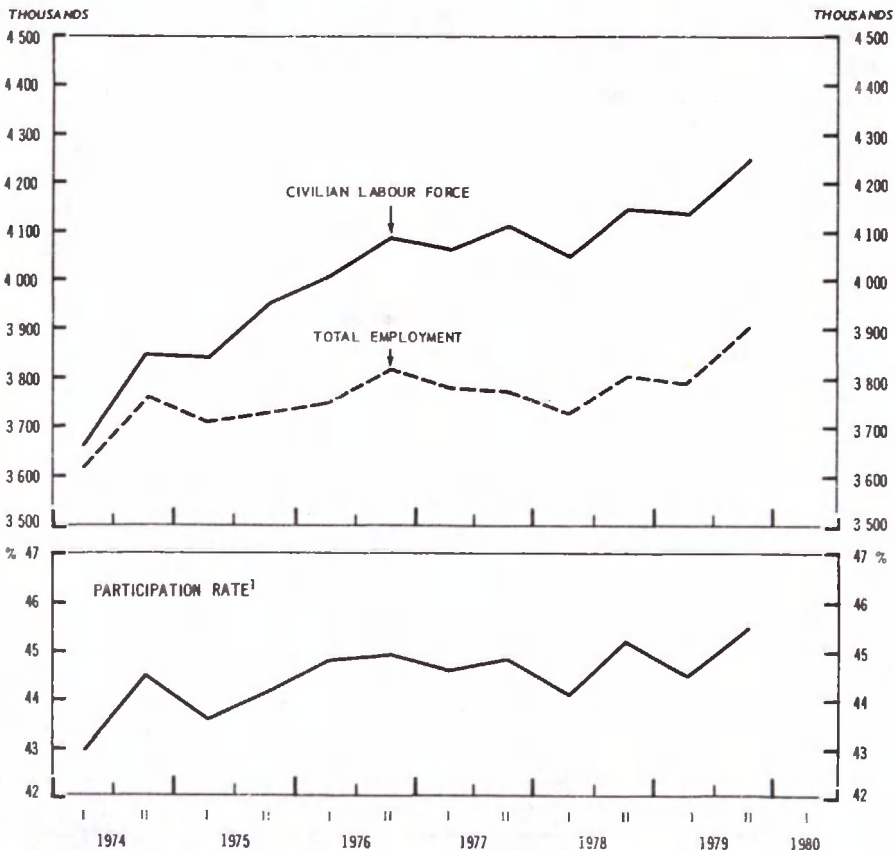
	Thousands	Average rate of change	As percentage of total employment	
	1979	1974-1979	1974	1979
Total employment	3 852	0.8	100.0	100.0
Agriculture	1 177	-1.8	34.9	30.6
<i>of which:</i>				
Self-employed	384	-1.3	11.1	10.0
Dependent	239	-7.9	9.8	6.2
Domestic	523	1.0	13.5	13.6
Private non-farm	2 289	1.2	58.3	59.4
General government	386	9.1	6.8	10.0
By region				
North	1 160	0.9	30.0	30.1
Centre	2 392	1.4	60.5	62.1
South	300	-2.9	9.5	7.8

Source: INE, permanent employment survey.

⁵⁸ This was probably associated with a decline in the civilian labour force owing to large-scale enlistment in the armed forces, but no detailed statistics on the subject are available.

which it was thought would keep workers on the land, employment in the south fell by 30 per cent between 1974 and 1979, compared with 8.5 per cent in the north and 3.5 per cent in the centre. The number of domestic workers in agriculture increased substantially in 1976 and 1977, probably as a result of repatriates returning to their families. The proportion of domestic workers in agricultural employment, which had been falling in the 1960s, has risen continuously since 1975 and by 1979 was 44.5 per cent. This large share reflects the significance of underemployment in agriculture. Private non-agricultural employment grew by 1.2 per cent per year during 1974-1979, but it was mainly in the general government sector that there was a sharp increase in the number of employed, which rose at an annual rate of 9 per cent, owing both to the expansion of employment in education and health services and the reinstatement of colonial civil servants in national government service. Lastly, the number of self-employed grew faster than the number of employees (by 1.2 per cent per year over the period, compared with 0.7 per cent). This is mainly due to the establishment of small family firms, especially in services and construction, by repatriates from the former colonies.

Diagram 3 Labour market



1 Civilian labour force as a percentage of total population.

Source: National Institute of Statistics, permanent employment survey.

As a result of the respective trends of the labour force and employment, the unemployment rate went up from 1.8 per cent in 1974 to 8.2 per cent in 1979⁵⁹. The number of first-job seekers rose steeply between 1974 and end-1979 (from 25 000 to 200 000). The number of jobless having previously worked showed a particularly rapid increase until the first half of 1976, when it reached 150 000, partly as a result of the return of repatriates. Subsequently, the number of this category of unemployed remained fairly stable in absolute terms and its weight in total unemployment decreased from 62 per cent at the beginning of 1976 to 42 per cent at the end of 1979. As in most OECD countries, young people were the hardest hit by unemployment; the specific unemployment rate for the under-25 age group rose from 4 per cent in 1974 to 19 per cent in 1979. Women were also harder hit than men: in 1979 they accounted for 65 per cent of the unemployed (compared with 44 per cent in 1975), whereas they accounted for only 40 per cent of the labour force. Finally, the available information suggests that repatriates were fairly successfully absorbed into the labour market⁶⁰.

The outlook for the labour market in the current decade is not very favourable. On the assumptions made by the Portuguese experts concerning the trend of the resident population and participation rates⁶¹, the labour force should expand on average by 1.4 per cent per year between now and 1990. If the average productivity growth rates over the period 1974-1979 were maintained, stabilisation of the unemployment rate would require employment and GDP growth rates of 1.4 and 3.5 per cent respectively. But productivity growth, which during the 1960s and early 1970s was close to 7 per cent, might be higher than in the recent period, the marked slowdown over the past few years being partly due to the effects of the 1975 recession and to other factors specific to Portugal (e.g. legislation limiting redundancies). Growth would therefore have to be rather sustained in order to allow a considerable improvement in labour market conditions. This is made more difficult by the mediocre prospects for the international environment. But a country like Portugal, which has a considerable growth potential, could experience a rate of growth significantly higher than the OECD average, if appropriate policies are implemented.

*The public sector*⁶²

The share of the public sector in the Portuguese economy has expanded considerably since 1974 owing to a combination of factors: the massive increase in social expenditure which was extremely low at the beginning of the 1970s,

59 This figure derives from the permanent employment survey of the National Statistics Institute. The Ministry of Labour also makes unemployment estimates, which are much higher than those of INE. It is impossible to reconcile the levels from these two sources but the trends are rather similar.

60 While they accounted for 30 per cent of the jobless in 1975, by March 1977 the figure was down to 24 per cent. As from June 1977, repatriate job-seekers were required to register with the employment exchange as other workers, whereas hitherto they had belonged to a special scheme. Separate statistics for this category are therefore no longer produced.

61 The official projections for 1990 (produced by the Ministry of Labour in 1979) are based on the assumption of a 0.8 per cent average annual rate of growth of the resident population and a 1.4 per cent rise in female participation rates. The rates for males should remain stable. The Secretariat has applied these assumptions to the 1979 levels of the INE employment survey.

62 A detailed analysis of the trends of public finance since 1974 was given in the Economic Survey on Portugal of 1979, pages 34 to 38. This section summarises and updates that analysis. All the assessments relate to the figures for general government accounts on a national accounts basis.

the nationalisation of certain key industries and services and the problems arising as a result of decolonisation. The share of public expenditure in GDP, which has remained stable until the early 1970s, increased from just under 23 per cent in 1973 to about 30 per cent in 1979. On the revenue side, the upward trend was less pronounced (tax pressure having risen from 22.7 per cent of GDP in 1973 to 26.5 per cent in 1979) and the general government account swung from a lending capacity of 1.4 per cent of GDP in 1973 to a borrowing requirement of 8.1 per cent of GDP in 1979. The public debt widened from 50 to 420 billion escudos over the same period, one-fifth being financed by borrowing abroad. The increasing share of the public sector in the recent period is mainly attributable to the rise in operating expenditure of general government (public consumption and interest on public debt) and in transfer payments to firms and households, whereas capital expenditure had only a limited impact on the economy.

Table 14 Major items of general government revenue and expenditure

	As a percentage of GDP			Average percentage change	
	1970	1973	1979	1967-1973	1973-1979
GDP at current prices	100.0	100.0	100.0	13.6	23.5
Current revenue	24.3	22.7	26.5	15.0	26.6
<i>of which:</i>					
Direct taxes	6.1	4.7	6.0	11.9	28.6
Social security contributions	4.6	5.6	6.5	21.5	26.5
Indirect taxes	11.9	10.8	12.2	14.2	26.1
Current expenditure	19.5	19.5	30.3	14.5	33.0
<i>of which:</i>					
Goods and services	14.2	13.2	14.8	13.2	25.4
Subsidies	1.5	1.0	4.7	11.7	59.0
Interest	0.5	0.4	2.9	5.6	70.0
Transfers	3.2	4.8	8.0	20.5	35.0
Capital expenditure	3.3	3.2	4.7	12.5	32.0
<i>of which:</i>					
Investment	2.5	2.3	3.6	10.9	35.5
Borrowing requirement	2.7	1.4	-8.1		

Sources: INE, national accounts; Central Planning Department, Ministry of Finance.

The share of public consumption in GDP increased from 13.2 per cent in 1973 to 14.8 per cent in 1979, but its share in total public expenditure declined. This was due to a substantial fall in defence spending, whereas there was a big advance in civil expenditure owing both to the rise in employment in health and education services and the integration of ex-colonial officials into the home civil service. In 1979 the general government sector accounted for about 10 per cent of total employment. Public debt interest payments (associated with the widening deficit) grew from 2 to 9.5 per cent of current expenditure between 1973 and 1979, thus showing the fastest advance of any category of public expenditure. Transfer payments to enterprises have risen steeply since the change of regime because many nationalised enterprises have found themselves in financial difficulties. Subsidies have risen in value by over 50 per cent per year on average, the main beneficiaries probably being nationalised enterprises (including those in the industrial sector). Furthermore, public enterprises have received a large proportion of general government capital transfers. The effects

on investment of the rapid increase in capital expenditure (up 32 per cent per year in current values) are difficult to measure, first because it is difficult to know whether capital transfers to public enterprises are in fact used for investment, and secondly because the distinction between capital transfers and public investment proper is rather doubtful. Central government financial assistance to public enterprises (loans and shareholdings) has also risen steeply⁶³ but the exact amounts involved are not known with certainty. Finally, Supply Fund subsidies for some essential goods doubled between 1976 and 1979 and are likely to be doubled again in 1980 when they will probably amount to nearly 2.5 per cent of households' consumption.

The social security system which at the end of the 1960s concerned only non-farm wage earners, or about 60 per cent of the population, was subsequently extended very substantially and today 95 per cent of the population is covered by one of the various social security schemes. Transfer payments to households have therefore grown rapidly (35 per cent per year on average between 1975 and 1979). The number of recipients of pensions and family allowances now stands at 1.6 million. The minimum contribution period giving entitlement to benefits was shortened and an unemployment insurance scheme was introduced in 1975. However, it still has a very limited application (for example, first-job seekers are usually excluded) and, in 1979, only 69 000 out of a total of 344 000 jobless were receiving unemployment benefit. A number of risks, such as industrial accidents and occupational diseases, are not, or only minimally, covered. Furthermore the social security system presents many inconsistencies because of the large number of different schemes. Finally, benefits are still often very small and an analysis of the main schemes in existence shows that the rapid growth of social security expenditure is due more to the rise in the number of recipients than to the raising of benefits. Thus, pensions and family allowances are still very low⁶⁴ and have increased less rapidly than prices over the recent period. No information is available on the net impact of transfer payments and compulsory deductions (direct taxes and social security contributions) on households' income, but it is likely that recent developments were accompanied by large-scale income redistribution effects.

The most characteristic features of the Portuguese taxation system are its low degree of progressivity, due in particular to the small weight of direct taxation in tax revenue, and the large number of taxes. These two features, and the scale of tax evasion, considerably limit the degree of flexibility of fiscal policy. Since 1974 the main taxes on income⁶⁵ were made considerably more progressive. The elasticity of direct taxation in relation to GDP rose from 0.88 during 1967-1973 to 1.24 during 1973-1979, but direct tax pressure on households has remained very low (6 per cent of income in 1979). In this connection it should be noted that the large share of emigrants' remittances (already taxed in host countries) in households' income explains partly the weakness of fiscal pressure. In spite of the introduction of an import surcharge in 1975⁶⁶ and the raising of the tax rate on transactions, the elasticity of indirect taxes in relation to GDP rose only very slightly from 1967-1973 (elasticity of 1) to 1973-1978 (elasticity of 1.1), reflecting the reduction in customs duties with

63 Capital grants were increased threefold between 1977 and 1979. They then stood at 12 billion escudos. In 1980 they should attain 14 billion escudos.

64 95 per cent of pensions still amount to less than 4 500 escudos per month, whereas the minimum wage is 7 500 escudos per month.

65 There are now various taxes on incomes, the main ones being the professional tax and the supplementary income tax.

66 Although this was admittedly reduced from 30 per cent in 1975 to 10 per cent in 1979.

the EEC, but also the scale of tax evasion. But the fact remains that indirect taxes are still the main source of general government revenue, accounting for 46 per cent in 1979. Until 1978 social security contributions grew faster than direct and indirect taxes. In the early 1970s the reason was the extension of the social security system but, in recent years, it was because contribution rates were raised. However, in recent years there has been an increasing delay in payments of social security charges. In 1979 firms' payment delays and even evasion accounted for the relatively small increase in social security contributions (up 12.7 per cent, compared with a 20 per cent increase in total wages). In view of the faster increase in expenditure than revenue, social security institutions have had to run down part of their large assets accumulated before 1974. It was then decided in 1978 to transfer expenditure on health to central government.

The weight of public sector expenditure has grown very considerably since 1974, in spite of the substantial reduction in defence spending⁶⁷, in association with the major institutional changes which resulted in a largely uncontrolled increase in transfer payments to households and enterprises and a big advance in civilian employment. The phenomenon was also "self-sustaining" in some respects, with the public deficit causing an increase in the debt, of which the burden in terms of interest payments is taking up an increasing share of current expenditure. At present, a considerable proportion of national income passes through the public sector, probably to the detriment of more efficient resource allocation. The government has announced its intention to exercise greater control in 1980 on both expenditure and revenue, but its efforts in this area will have to be sustained if they are to be effective. It is only by clearly establishing the priorities at the time when the budget aggregates are set that it will be possible to curb the growth of expenditure and to make it better adapted both to those community services which are the responsibility of the public sector and to the needs of the productive system. Thus, improved control should make it possible to prevent transfers to public enterprises from being used to provide for their cash requirements—as is the case today—and ensure that they are in fact used to finance investment projects, which means that such projects must be carefully defined, at both national and local authority level. This tightening of controls is particularly necessary at a time when the local authorities are to be assigned far greater responsibilities for both current and capital expenditure. A simplification of the taxation system and a fairer distribution of income taxes might also help towards curbing evasion.

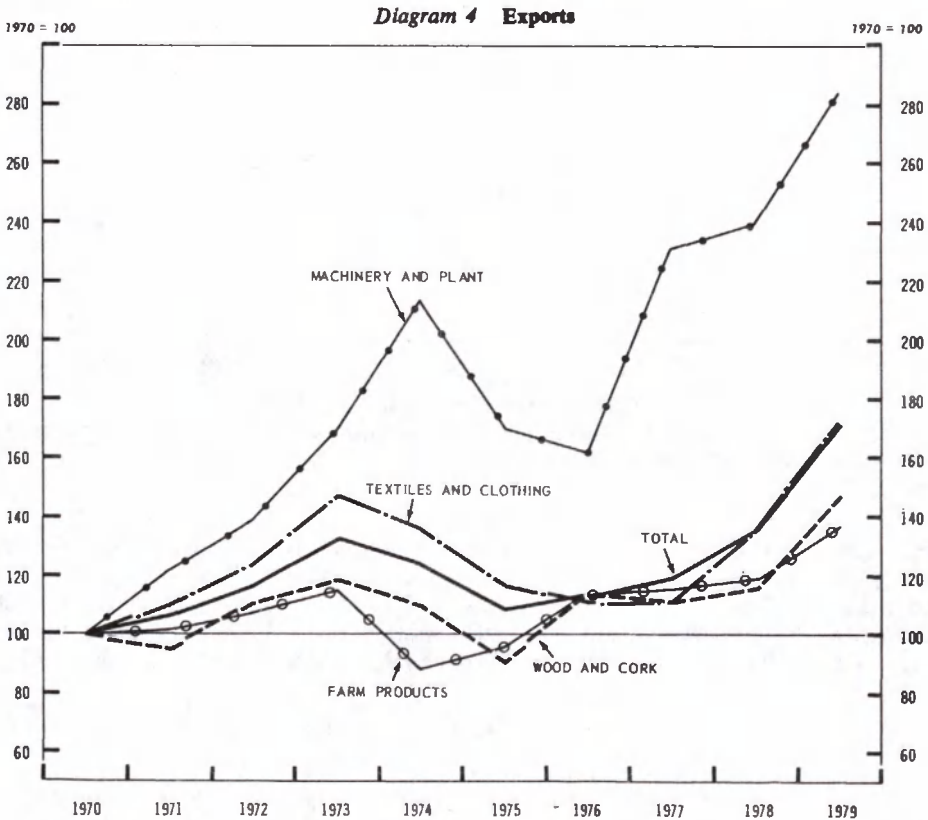
External transactions

The balance of payments was seriously affected in 1974-1976 by the loss of the colonies, the loss of confidence in the escudo and production stoppages, the effects of which were accentuated by the first oil crisis. The current account, which had produced an average surplus of \$ 250 million (3 per cent of GDP) from 1970 to 1973, worsened rapidly and showed a deficit of \$ 1.5 billion in 1977. Because of this trend, restoring balance-of-payments equilibrium became one of the priority objectives of economic policy. The first stage of action saw the introduction of various import controls. The escudo was depreciated at the beginning of 1977 and as of the end of that same year the authorities adopted a crawling-peg exchange-rate policy. At the same time, monetary policy was substantially revised in late 1977 and in 1978, and regulations were introduced to encourage emigrants to transfer their savings. These various

⁶⁷ It represented 7.2 per cent of GDP in 1970 and only 2.8 per cent in 1978 - a percentage which seems impossible to cut back any further.

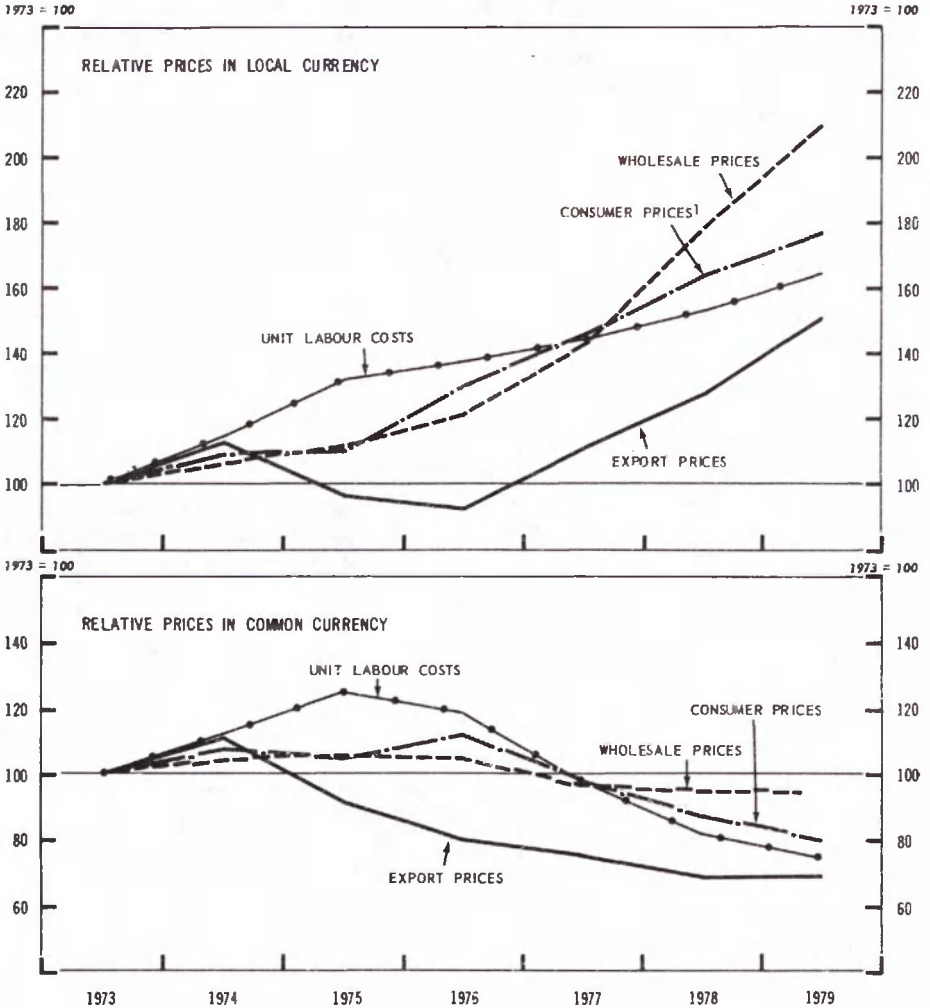
measures brought about a spectacular recovery in the foreign balance. The current account began to improve in 1978 and showed a small surplus in 1979. In addition, a very active policy of foreign borrowing by the State and public enterprises brought considerable inflows of medium and long-term capital. Despite this undeniable progress, however, the foreign balance remains vulnerable in certain respects.

The strong upswing in exports in 1978-1979 (+ 20 per cent on average in volume over the two years, i.e. a gain in market shares of the order of 13 points per year) was due largely to the depreciation of the escudo which made Portuguese exports more competitive and enabled exporters to rebuild their profit margins. However, in analysing these results it is important to take into account market-share losses between 1974 and 1977 (almost 35 per cent over the whole period) which have been only partially offset by the rapid growth of the last two years. Once this catch-up phase is over, the growth of exports can be expected to slow down, particularly since their composition by product category is not very favourable. Exports are concentrated to a very large extent in traditional sectors where there is competition from other OECD countries (wine or footwear), or from the newly industrialising countries (textiles). As regards the latter, Portugal enjoys comparative advantages with regard to quality, but the beneficial effects will continue to be felt only if production costs do not diverge permanently from those of its main competitors. Furthermore, textile exports can only grow within the limits of the import quotas introduced



Sources : National Institute of Statistics and Ministry of Foreign Trade.

Diagram 5 Indicators of competitiveness



1 Mainland, not including food products and rent.

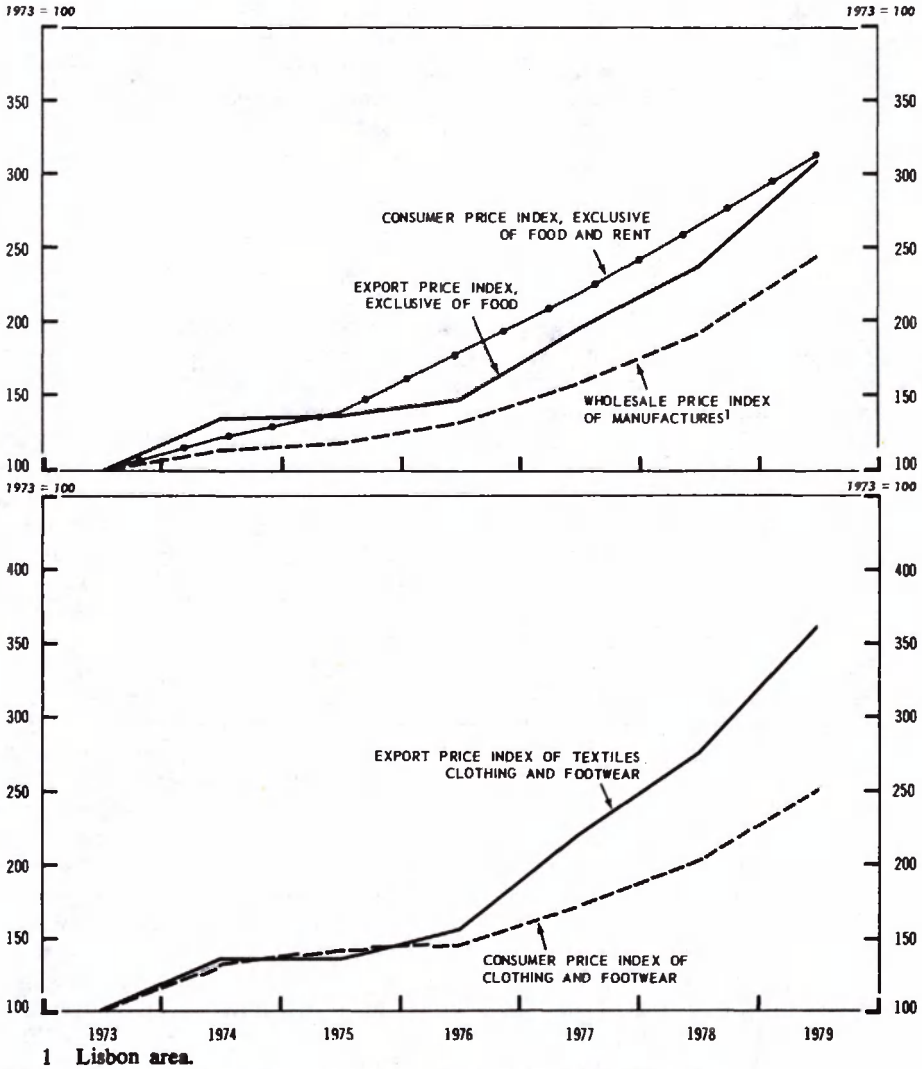
Sources : National Institute of Statistics, *Monthly Bulletin of Statistics*; information transmitted by the Portuguese authorities and Secretariat estimates.

by some Member countries⁶⁸. It is more difficult to assess the effects of the geographic pattern of exports, which are tending increasingly to go to the EEC countries⁶⁹. This is in some respects a favourable factor in view of these countries' income levels and Portugal's wage costs, which by comparison are very competitive. On the other hand, demand in these countries is hardly likely

68 However, these quotas did not prevent a steep increase in textile exports in 1978 and 1979 inasmuch as previous years' quotas had not been used up.

69 The Common Market countries' share in total exports rose from 47 per cent in 1973 to 56.3 per cent in 1979. However, the share of the United Kingdom, which is a traditional market for Portugal, declined appreciably, from 24 per cent in 1973 to 18 per cent in 1979.

Diagram 6 Comparative trends in export and domestic prices



Source : *Monthly Bulletin of Statistics*, National Institute of Statistics.

to increase very rapidly in the coming years. By contrast, the share of exports to OPEC countries remains very small.

Another feature of foreign trade during the 1973-1979 period was the slow growth of imports which increased by an average of only 2 per cent per year in volume, with wide fluctuations from year to year. Thus, the elasticity of imports in relation to GDP declined from 1.3 at the beginning of the 1970s to 0.8. If imports of oil and agricultural products are excluded, the change in trend is even more marked, with imports virtually stagnating. However, this is mainly attributable to the composition of demand during the period in question and restrictions on imports of some products, rather than to any large-scale substitution of domestic production for purchases from abroad, given that GDP elasticity of imports of intermediate goods remained the same (1.4). In the

case of consumer goods, on the other hand, the volume of non-food imports declined steeply despite increasing household demand, this drop being directly related to the restrictions⁷⁰ which hit in particular these product categories. By contrast, imports of capital goods continued to increase despite a substantial drop in investment in machinery and plant. Average propensity to import rose sharply, and this was probably connected with the launching of large-scale industrial projects. All in all, if investment were to pick-up appreciably in the coming years and import restrictions were to be lifted, GDP elasticity of imports might rise substantially.

Despite the improvement during the last two years, trade is still very much out of balance, the deficit on merchandise transactions representing almost 12 per cent of GDP in 1979. Oil imports are responsible for some 40 per cent of the overall deficit, but there were negative balances on nearly every account, with the exception of food-industry products, textiles and clothing, and wood and cork. The agricultural deficit, in particular, increased considerably during the recent period, accounting for 20 per cent of the total deficit. In order to ease the external constraint, several major private and public investment projects are now under study or already in progress⁷¹. The fact remains, however, that investment will have a high import content during the implementation phase, as regards both goods and technology, so that in the short term it will probably increase rather than reduce the external deficit. Generally speaking, stronger growth of domestic demand, which should increase import elasticity but might also weaken the incentive to develop foreign sales, is liable to be accompanied by a widening trade deficit.

External equilibrium, or at least a deficit that is kept within reasonable bounds, will therefore probably continue in the next few years to rest mainly on invisible transactions, even if these seem likely to show a more moderate trend after their remarkable performance in 1978-1979. After an appreciable downturn in 1975-1977 due to the political uncertainty and the problems of finding accommodation for repatriates⁷², and then expectations of an escudo depreciation, tourism receipts in 1979 were at a level well above the trend prior to the change of regime. Nevertheless, they could continue to rise steadily inasmuch as Portugal has not yet completely recovered its market share in tourism receipts of the OECD area as a whole. Furthermore, the utilisation rate of existing facilities is high, but there is still substantial scope for developing tourism infrastructures. Emigrants' remittances remain by far the largest source of foreign exchange inflows. They are exceptionally high in Portugal because of the particularly large number⁷³ of emigrant workers by comparison with the other OECD countries with surplus manpower. These remittances totalled the largest absolute amount in the OECD area in 1979, and as a proportion of GDP they were ten times higher than in Spain and three times higher than in Greece. Remittances declined in 1975-1976 because of political and economic uncertainty, but with

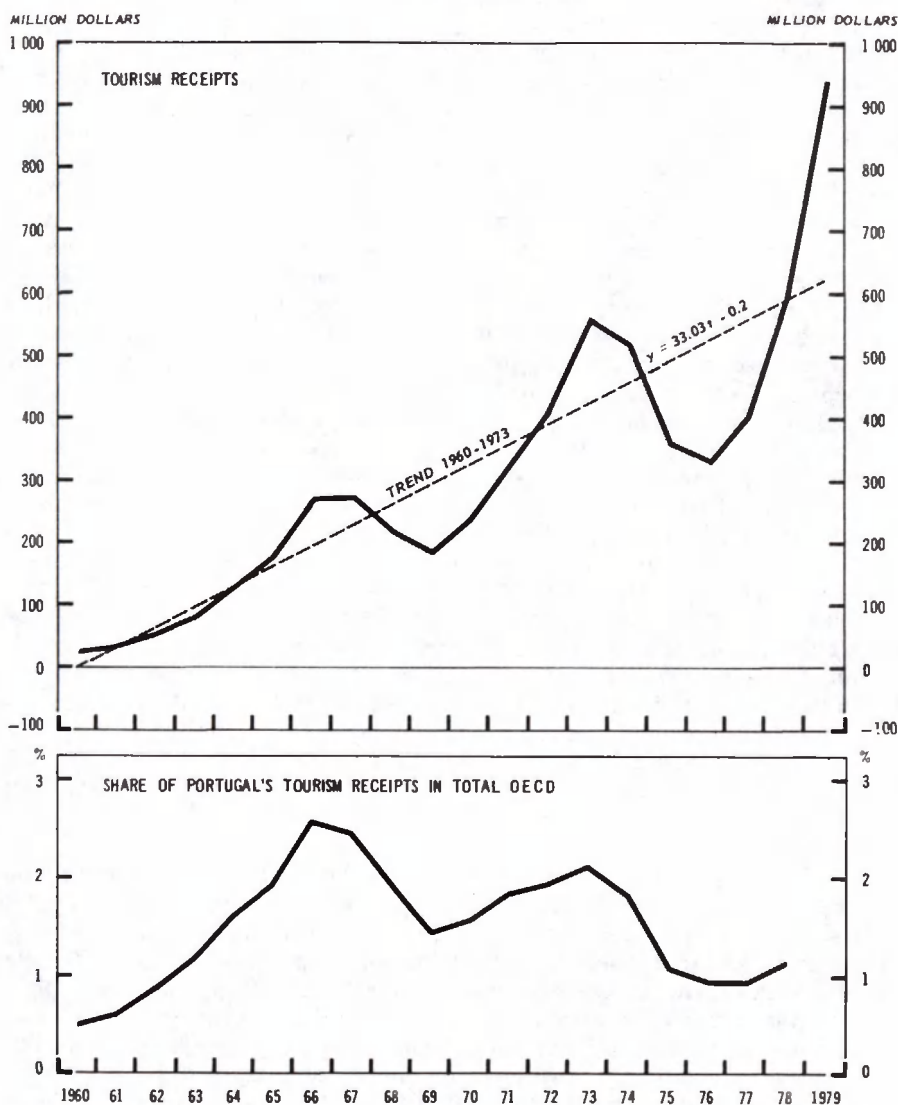
70 In 1975 an import surcharge was introduced at rates of 30 and 60 per cent which mainly affected consumer goods. The 30 per cent surcharge was gradually brought down to 10 per cent, but in the case of motor vehicles this reduction was offset by an increase in domestic taxation. Some products are also subject to quotas (including vehicle spare parts and household electrical appliances).

71 Cf. below "Some sectoral aspects".

72 Many hotels were requisitioned in 1975-1976 in order to house repatriates.

73 Statistics concerning the number of workers resident abroad are particularly uncertain for Portugal as for other countries with surplus manpower. However, the number of emigrant workers was estimated in 1974 at 600 000 for Portugal and Spain, 250 000 for Greece and 700 000 for Turkey (cf. SOPEMI, OECD). As a percentage of the labour force, however, Portugal's emigration is much higher than that of other countries (16.5 per cent, as against 8 per cent in Greece and 4 per cent in Spain and Turkey).

Diagram 7 Tourism receipts



Source: OECD Secretariat.

the general situation coming back to normal and the introduction of various incentives⁷⁴ they picked up sharply and in 1979 covered the entire trade deficit. However, their rate of growth can be expected to slow over the next few years; according to the estimates that can be made concerning trends in wage incomes of Portuguese workers abroad, remittances would seem to have returned to about

74 The most important measures concerned the possibility of having foreign-currency savings accounts, particularly high and tax-free returns on time deposits and the introduction of a saving-for-housing scheme (followed by a similar scheme for investment in machinery and plant) with preferential interest rates. In addition, the Bank of Portugal encouraged foreign branches of Portuguese banks to canvass emigrants more actively.

their normal level⁷⁵. Assuming optimistically that the number of working emigrants remains stable, remittances can at best only keep pace with growth of incomes in the host countries.

The role of medium and long-term private capital, on the other hand, has until now remained limited and mainly concerns financial borrowing by public enterprises. The authorities have announced their intention of introducing a more active policy to attract direct foreign investment. A "foreign investment code" was promulgated in 1977 which makes provision, subject to certain criteria⁷⁶, for freedom to transfer profits and for certain tax incentives. Foreign investment is subject to examination by the administration, but authorisation is granted automatically in case of capital increases of existing firms or investments of less than 5 million escudos or in priority sectors. This code seems to have had little effect so far, and gross capital inflows in respect of direct investment accounted for less than \$ 100 million in 1979. Future prospects do seem to be more favourable, however, particularly as a result of the signing of a major agreement in the motor vehicle industry.

The improvement in Portugal's external situation over the past two years is due to good export performances, stagnation of imports due to low domestic demand pressure and, above all, the normalisation of flows linked with tourism and remittances from Portuguese workers abroad. But the fact remains that there are still some very weak points: the export/import ratio is still very low (54 per cent cif-fob), reflecting both the domestic economy's inability to satisfy a number of essential requirements (food products, industrial plant) and difficulty in achieving export breakthroughs, given that in some export categories Portugal was able for a long time to sell to the preferential and highly protected markets constituted by its colonies. In the medium term, a lasting improvement in external transactions, in circumstances of keener international competition on slower-growing markets, would be facilitated by modernisation of the industrial sector and by an appreciable swing in the balance on agricultural products, which alone accounts for approximately 20 per cent of the country's trade deficit.

Some sectoral aspects

In the 1960s and early 1970s the Portuguese economy developed according to a well-defined growth strategy, notably as outlined in the 1965-1967 Plan⁷⁷. The broad lines of this strategy were to develop tourism and export earnings and encourage domestic production for purposes of import substitution, especially with regard to steel and the motor vehicle industry (assembly plants). The selection criteria as regards investment projects were that they should introduce plant which would increase labour productivity (because of emigration and the drain on manpower constituted by military service, Portugal was chronically short of labour) and that they should boost exports. In particular, the Portuguese authorities wanted the share of exports of industrial products to increase appreciably and they proposed, for the period 1963-1973, to increase textile exports by 10 per cent per year, machine tool exports by 35 per cent and exports of non-electrical equipment by 16 per cent. With regard to agriculture, there were various projects for the consolidation of plots of land too small for the use of modern farm equipment and also ambitious irrigation

75 Wage incomes, weighted by the structure of emigration, rose by 138 per cent in dollar terms between 1973 and 1979 in the main host countries (France, Germany, Belgium and Luxemburg). Emigrants' remittances increased by 116 per cent during the same period, but no estimates are available on recent trends in the number of emigrants working abroad.

76 In particular, investment must create jobs and be export-oriented.

77 Plano Intercalar do Fomento. Although in theory covering only three years, this Plan included a forecast to 1973.

programmes in the south of the country, but all these were hardly implemented. As a result of this failure, purchasing power stagnated and the living standards of the rural population remained extremely low—especially in the southern regions. The very wide difference in living standards⁷⁸ between the urban and rural populations inevitably caused a large-scale rural migration. The authorities wanted to remedy this state of affairs by creating industrial development zones in the countryside rather than by encouraging the modernisation of rural areas and of agricultural production. Accordingly, it was decided in 1971 to set up the Sines complex; this was a deliberate option in favour of investment in heavy plant which was highly capital-intensive and with a low labour input, priority being given to industries based on mineral resources (basic metals) and to the petrochemical industries which would, in particular, be able to process the oil produced in Angola.

The change of political regime, the loss of the former colonies and also the oil crisis and its impact on all OECD countries completely disrupted the sectoral lines of development planned in the 1960s. Between 1974 and 1976, the urgency of the problems posed by the day-to-day management of the economy made it difficult to devote much thought to medium-term sectoral strategy. The Plan for 1977-1980, which was neither approved nor even discussed by the legislative authorities, contained goals in terms of macro-economic aggregates rather than analysis of ways in which these goals might be achieved. The same was true in some respects of the 1979-1985 projections prepared in July 1978 by the Central Department of Planning. As the 1980s begin the Portuguese authorities again seem anxious to put their economic policy into a medium-term perspective, but not solely with a macro-economic approach: they also appear to be considering the most suitable sectoral guidelines for the coming years. Summarised below are the broad outlines of the sectoral policy which could be adopted, as indicated by reports currently being prepared in the administration and by information provided by the Portuguese experts⁷⁹.

A first guideline appears to be better use of a number of natural resources. It is in the iron and steel and petrochemical industries that major State-financed projects are envisaged⁸⁰. *In the iron and steel sector* it is intended to construct a complex between now and 1983 which should triple present capacity by 1985. It may be asked whether it is advisable to finance a steel project in a situation of worldwide under-utilisation of capacity and keen international competition. The chief arguments put forward by the Portuguese experts are, apart from good price competitiveness:

- the utilisation of national mineral resources (pyrites and hematite);
- the possibility of import substitution;

78 The following differences were found in 1966:

	Lisbon	5 poorest districts ¹
Number of inhabitants per doctor	478	2 900
Infant mortality	44 ‰	76 ‰
Percentage of children born without medical care	9	73
Percentage of homes with running water	89	13

Source: Portuguese Statistical Yearbooks; Demographic Yearbooks.

1 Guarda, Bragança, Viana do Castelo, Vila Real and Viseu. More recent information concerning these districts is not available.

79 Cf., in particular, Portugal's submission to the OECD Industry Committee (Ministerio da Industria e Tecnologia, Gabinete de Estudos e Planeamento): Positive Adjustment Policies - Reply to questionnaire DSTI/IND/79.44, November 1979.

80 During the period 1980-1983, these two projects could cost between 24 and 25 billion escudos per year at 1978 prices, i.e. 15 to 20 per cent of the country's gross fixed capital formation.

- the aging of present steel plant which is no longer profitable from the standpoint of international competition;
- the locomotive effects upstream and downstream and the large number of jobs created;
- the favourable effects in the medium term (after 1985) on the net external balance, taking account of capital goods imports occasioned by the project.

In the petrochemicals sector the Sines project, which was launched at a time when the Portuguese authorities were counting on exploiting Angola's oil resources, has been criticised many times since 1974. According to government statements, however, it was preferable to continue the programme rather than abandon it because of the considerable investment already made prior to the oil crisis. In fact, the initial thrust of the project was altered somewhat and the emphasis placed particularly on developing fertilizers. Despite new problems connected with supplies and prices of oil products, the arguments advanced by the Portuguese experts in support of continuing the project are essentially:

- the positive effects in terms of import substitution and jobs;
- the creation, during the phase of preparation of the complex, of a large number of jobs in the construction sector and the metalworking and electrical engineering industries;
- world demand prospects which remain favourable for the 1980s. In addition, the Portuguese experts also maintain that Portugal's competitive position in this field should be strong both inside the country and on foreign markets.

In all, the major projects now under study in ministerial departments and public enterprises for the period 1980-1984 could involve a total investment of 150 billion escudos for the manufacturing and mining sectors, i.e. more than 35 billion escudos per year (approximately 25 per cent of total gross fixed capital formation). This evaluation shows how important for the country it is that the development of these various projects should be clearly defined and properly controlled. In addition to the major public projects, the private sector is involved in restructuring schemes in the food industry, textiles and footwear, ship repairs, etc. Various public bodies have endeavoured since 1975 to re-organise and ensure co-operation between small production units, encourage the creation of new enterprises adapted to trends in domestic and international demand, and provide technological and financial assistance for the promotion of their investment.

Agriculture

One of the corollaries of the priority given to industry in the 1960s and early 1970s was that agricultural structures remained archaic, with the result that production was virtually stagnant. Whereas GDP increased at an annual rate of 6.7 per cent between 1960 and 1973, agricultural production grew by only 1.1 per cent per year. This trend was the result of massive emigration, the reduction in cultivated land and insufficient investment⁸¹. The poor use made of land (approximately one-fifth of farmland is left fallow every year and

⁸¹ Between 1960 and 1970, employment in agriculture declined by some 300 000 persons and the share of agricultural employment in total employment dropped from 41 to 30 per cent. Between 1963/1965 and 1973/1975, the land area under cultivation fell by 30 per cent. Between 1963 and 1973, the average annual rate of growth of investment in volume was 4 per cent in agriculture, compared with 9 per cent in the non-agricultural sectors.

little use is made of fertilizers) was one of the essential reasons for the poor performance of agriculture in Portugal. Another reason was the system of ownership; in the north, farms are very small and operated on a subsistence basis, while the south was characterised by large units and absentee landlords. To these factors must be added the massive emigration of young workers, which left an aging and largely illiterate farming population⁸². All these factors worked against the growth of investment and the introduction of technological change. In addition, institutional rigidity restricted farmers' access to credit and it is estimated that only some 10 per cent of farmers were in receipt of credit immediately prior to the change of regime. This explains why in 1973 the yield per hectare of main crops was well below that of a number of Mediterranean countries. The failure of agricultural production to meet growing domestic demand weighed heavily on the trade deficit.

In terms of results, the situation of agriculture has hardly changed since the change of regime in 1974. Whereas the GDP growth rate was of the order of 3.2 per cent per year between 1974 and 1979, value added in agriculture declined by 1.6 per cent during the same period. There was also a further worsening of the situation in terms of yields relative to the Mediterranean countries mentioned above. There has however, been one phenomenon of major importance since 1974—the land reform. This began with the expropriation of the latifundia in the south, and especially in the Alentejo region. The reform did not radically alter the size of farms in that large farms were not divided into small units, but were reorganised as co-operatives or collective farm units. Individual family farms began to be introduced in 1977 in regions affected by the land reform, but their size has proved in general to be economically viable. In 1975 and 1976, legal expropriations were accompanied by illegal occupation of land, thus giving rise to a climate of considerable uncertainty which resulted, in particular, in a large reduction in agricultural equipment and livestock. As Table 16 shows, however, the situation in terms of both the cultivated surfaces and yields of major crops was not systematically worse in that part of the country where the land reform was implemented than in the other regions. In 1977 legislation was introduced to regularise the land reform process. Its implementation came up against a number of difficulties due, in particular, to uncertainty in the interpretation of criteria for land allocation between collective units and private farms. Implementation of the legislation in fact means both further expropriations and also the return of some land to its former owners; approximately 15 per cent of land will probably be expropriated and a slightly larger proportion restored to previous owners.

Fisheries account for only 1 per cent of Portugal's GDP but they bring in almost 10 per cent of export earnings, supply almost half of the country's protein consumption and, directly or indirectly, provide jobs for some 60 000 workers. Fisheries production has been declining at an annual rate of some 2.5 per cent since the beginning of the 1960s, and the balance of trade in fisheries products moved from surplus into deficit as of 1971. The external balance again showed a surplus in 1978 and 1979 thanks both to the curbing of fish imports and a substantial increase in export prices; however, it is as yet too soon to say whether this recent development represents a lasting change in trend. The decline in fisheries is probably due to a few structural factors common to other countries (the extension of territorial waters and the increase in operating costs), but a factor specific to Portugal has been the aging of equipment; a large share of Portugal's fishing boats are not motorised and, what is more, there is a

82 According to the 1968 census, approximately 50 per cent of those employed in agriculture were over 55 and 40 per cent were illiterate.

Table 15 Yields of major agricultural crops
Index. EEC 1970-1973 average = 100

	Portugal		Greece		Spain		Italy		EEC	
	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78
Wheat	35.5	29.8	55.6	66.2	35.9	44.3	69.0	71.3	100.0	108.1
Rye	22.2	20.5	39.1	48.5	28.9	32.2	63.7	69.3	100.0	107.3
Barley	20.2	19.7	58.1	63.3	46.5	54.4	56.0	83.0	100.0	105.5
Oats	17.5	15.8	43.8	49.5	30.8	37.3	53.9	58.7	100.0	102.2
Maize	26.5	23.9	65.9	77.9	72.2	78.4	100.9	119.6	100.0	101.4
Rice	88.4	84.4	103.4	103.1	128.6	128.0	104.8	106.2	100.0	103.6
Potatoes	40.5	36.6	51.5	57.5	51.8	56.3	57.1	64.7	100.0	103.0

Sources: Ministry of Agriculture, OECD Secretariat.

Table 16 Regional breakdown of major agricultural crops

	Agrarian reform area				Other			
	Surface		Yield		Surface		Yield	
	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78	Average 1970-73	Average 1974-78
Beans ²	100	96.9	100	91.1	100	79.9	100	93.6
Oats	100	102.3	100	106.4	100	93.5	100	98.2
Barley	100	112.1	100	113.3	100	82.1	100	105.7
Broad beans	100	74.5	100	94.4	100	82.1	100	106.1
Wheat	100	85.2	100	96.6	100	54.8	100	100.3
Rice	100	65.4	100	96.1	100	80.1	100	94.6
Olive oil ¹			100	76.4			100	82.0
Wine ²							100	91.0

1 1974-1977.

2 Whole country.

Source: Ministry of Agriculture.

lack of harbour infrastructures and storage facilities. Because of the inadequate means of conservation, prices fall by half during the season by comparison with off-season levels, and massive imports are needed to satisfy domestic demand during the off-season.

Portugal's dependence on other countries for agricultural and food products will be reduced in the coming years only if some conditions are fulfilled. In the land reform area, modernisation will necessitate solving the problems of land property rights, and this the Government intends to do as rapidly as possible. Moreover, it should be possible to achieve rapid improvements by making better use of land (leaving less land fallow and replacing low-yield cereal crop land with pasture land) and more intensive use of fertilizers. The land reform has not affected farming conditions in the north of the country where the major problem is still to regroup very small farms into larger, economically viable units, and to improve the quality of the labour force. Finally, with regard to fisheries, the most obvious requirements are to modernise the fleet, particularly small coastal vessels so that Portuguese territorial waters can be fished more efficiently, and to increase conservation facilities. These improvements will demand substantial injections of capital, which would probably have to be financed largely by credit in view of the shortage of own funds in this area. Here it is worth noting the recent amalgamation of all agricultural credit funds in a single organisation (IFADAP), which became operational a few months ago.

Energy

The rapid process of industrialisation and economic growth which took place during the 1960s and early 1970s coincided, rather surprisingly, with a reduction in total energy requirements (TER) relative to GDP⁸³. Between 1961 and 1973, the elasticity of TER in relation to GDP was 0.93, compared with 1 for the seven major OECD countries. What is more, this elasticity showed signs of falling in the early 1970s. On the other hand, the elasticity of TER in relation to GDP rose in Portugal after the first oil crisis (1.12 from 1974 to 1978), whereas in the majority of Member countries it declined. Because so little relevant information is available, it is difficult to measure the effects that energy prices have had on this trend. Since 1973 petrol prices have risen sixfold (petrol prices are at present the highest in Europe) and fuel oil prices have followed a similar trend. Electricity prices, on the other hand, have been much slower to follow suit and have increased much more moderately. As in the majority of OECD countries, oil had gradually been replacing coal during the 1960s, and in 1973 it covered 70 per cent of energy requirements. Subsequently

Table 17 Breakdown of total energy requirements

	1961	1970	1973	1978
Total energy requirements (MTOE)	3.47	6.15	7.60	9.56
of which: %				
Solid fuels	21.6	12.8	7.8	5.2
Oil	49.0	64.4	70.5	68.7
Hydroelectric and geothermal	29.4	22.8	21.8	26.0

Source: International Energy Agency.

⁸³ Total energy requirements are defined as domestic production, plus imports, less exports, less marine bunkers, less the increase in stocks.

its relative weight decreased only very moderately⁸⁴, this being due partly to the existence of the refineries built at a time when cheap supplies were available from the colonies. Since 1973, however, there has been an increase in the share of hydro-electric energy produced in Portugal, this increase being most marked in 1977 and 1978. There are not at present any major investment projects in the energy sector; however, the Portuguese experts have made projections to 1990 according to which the GDP elasticity of energy utilisation could gradually come down to 1.

IV SHORT-TERM FORECASTS AND ECONOMIC POLICY CONCLUSIONS

Forecasts for 1980

The scarce available information makes extremely difficult an assessment of Portugal's cyclical position at the beginning of 1980. However, private investment in machinery and plant might have picked up in the second half of 1979 and there are also indications of a recovery in construction carrying on into the first quarter of this year. The rate of inflation continued to decelerate during recent months, mostly due to very contained increases in food prices which are by and large administered. The acceleration in activity has also entailed a deterioration in the current account⁸⁵. Official forecasts for 1980 call for a reduction of the average annual rate of inflation to 20 per cent from 24 per cent in 1979 and a strong increase in both private and public investment (6 per cent). Private consumption is expected to rise by 1.5 per cent, while government consumption should almost stagnate in real terms, implying a freeze of employment in the government sector. Domestic demand should therefore accelerate considerably over 1979, but the foreign balance is expected to make only a very small positive contribution to growth because of a considerable deceleration of exports and a recovery of imports associated with the strengthening of domestic demand and investment. Real GDP is thus forecast to increase between 3½ and 4 per cent, much the same as in 1979. Finally, the current account deficit should not exceed \$700 million, against a surplus of \$150 million in 1979.

The Secretariat forecasts for 1980 do not differ considerably from the official projections with regard to GDP. The main difference concerns the composition of domestic demand. Private consumption might increase by about 2 per cent because of the very strong increase in social security transfers and the high level of savings attained in 1979. Although a deceleration of government consumption might materialise as a result of the administration's efforts in this field, an absolute stagnation is not likely because of the strong 1979 carry-over of public employment and difficulty in controlling local authorities' expenditure. The growth of private fixed investment might well attain 6 per cent in view on the strong trend of recent months. On the other hand, investment by public enterprises should increase more slowly. A large number of these firms are in a difficult financial situation—and although capital transfers are budgeted to rise swiftly in 1980, production subsidies should remain at their 1979 level in

84 In 1979, however, oil imports accounted for only 19 per cent of total imports which is a relatively low level compared with the majority of other OECD countries.

85 According to provisional official estimates, the current balance registered a deficit of some 250 million dollars (n.s.a.) in the first quarter of this year, compared with 130 million a year earlier.

value. General government investment might increase only slightly in 1980 as a whole. A major obstacle to the growth of general government investment appears to be the difficulty of local authorities to carry out investment programmes, which already accounted for a fall in investment in 1979. Furthermore—a problem which is also common to public enterprises—some major projects have not yet been properly defined. Finally, actual government investment expenditure in 1980 has already been negatively affected by the delayed approval of the budget⁶. Total fixed investment should therefore increase by about 4 per cent for the full year. Stockbuilding should make a positive contribution to growth this year and domestic demand accelerate considerably (3 per cent compared with 0.6 per cent in 1979). On the other hand, the contribution of the foreign balance is expected to be very small and GDP should therefore increase by about 3½ per cent.

Table 18 Forecasts for 1980

	1978 current prices, billion escudos	1979	1980 ³
		Percentage change	
Demand and output (volume)			
Private consumption	576.9	0.8	2
Public consumption	114.7	5.2	3½
Gross fixed investment	161.8	-2.0	4
Final domestic demand	853.4	0.9	2½
Stocks ¹	20.2	-0.3	½
Total domestic demand	873.6	0.6	3
Exports of goods and services	157.0	26.2	8½
Imports of goods and services	248.7	5.7	5½
Foreign balance ¹	-91.7	3.4	½
GDP at market prices	781.9	4.1	3½
Prices			
GDP implicit price deflator		22.6	20½
Consumer prices		24.2	20
Export prices ²		29.8	18½
Import prices ²		33.0	26
		Billion dollars	
Balance of payments			
Trade balance	-2.38	-2.42	-3.30
Invisibles, net	1.58	2.57	2.70
Current balance	-0.80	0.15	-0.60

1 Contribution to GDP growth.

2 In escudos.

3 Secretariat forecasts.

Sources: Central Planning Department and Secretariat estimates.

As for inflation, the Secretariat expects an acceleration of production costs. On the Portuguese experts' assumption of no loss in the purchasing power of wages, and taking into account a 2 per cent increase in social security contributions, an increase of 20 per cent in the total wage bill per head—which itself implies a slowing down of the intra-yearly trend in 1980 compared with that of the previous year—would cause labour costs to rise by about 19½ per cent in 1980, compared with about 15 per cent in 1979. Furthermore, the Portuguese authorities expect a rapid growth of indirect tax revenue this year. Finally,

assuming a steady monthly depreciation of the escudo of 0.50 per cent from June onwards, import prices should rise by about 26 per cent in local currency terms. Assuming constant profit margins, this development of costs foreshadows a 22 per cent mechanical increase in consumer prices. However, in view of the outcome of the first half of the year, it appears very likely that the official target of a 20 per cent increase in consumer prices will be achieved, thanks to the price-control policy and the increase in subsidies. The slowdown of inflation also seems to imply some narrowing of profit margins.

In view of the Secretariat's technical assumption on oil prices and world-trade price forecasts, import prices should increase by about 22 per cent in dollar terms. Export prices should rise by 15.5 per cent. The rise in dollar prices should reduce export competitiveness to some extent, but Portugal's position remains quite favourable. Volume exports should continue to grow faster than markets, as in the past two years, but nevertheless slow down considerably because of the weakness of international trade. Given the country's cyclical position and the composition of demand, imports are forecast to grow by 5.5 per cent and the trade balance should register a \$3 ½ billion deficit. The number of nights spent by tourists in the country are expected to increase by 5 per cent and net receipts by 25 per cent in dollar terms. Emigrants' remittances should increase at the same rate as wage earnings in host countries after their exceptional rise in 1978 and 1979, partly due to the repatriation of accumulated savings. On the whole the current balance might register a deficit of about \$600 million. It should also be noted that forecasts concerning invisibles are extremely uncertain in a country like Portugal, where they have fluctuated sharply in the past mainly in connection with disguised capital movements.

Economic policy conclusions

The Portuguese economy has been in a difficult situation since 1974. The problems which arose in connection with the change of regime—end of colonial rule and return of colonial residents, explosion of wages and extension of the welfare system, uncertainty regarding the institutional framework—were aggravated by the deterioration of the international environment. The combination of these factors brought about, with sharp swings in activity, a rapid deterioration of labour market conditions, a strong acceleration of inflation and a very marked widening of the foreign deficit. Another serious problem has been the increasing weight of the public sector and the emergence of a large deficit. At first, when political uncertainty was high, the authorities were not able to come to grips with these rising disequilibria and it was only at the end of 1977, when the balance-of-payments deficit had risen substantially, that appropriate measures were taken. The stabilization programme rested mainly on a tightening of monetary policy, with strong increases in interest rates, in a marked departure from the practice of the previous regime. The policy of defending the exchange rate was abandoned and replaced by a crawling depreciation so as to restore competitiveness and measures were also taken to encourage emigrants' remittances. Finally, the authorities took steps to adjust the distribution of national income. Ceilings were imposed on wage increases and despite a widespread system of controls, prices were allowed to rise in order to restore profits.

Growth remained relatively strong due to the considerable contribution of the foreign sector, but the cost of policy was not negligible. Standards of living of households stagnated and investment continued to decline, particularly in the private sector, where the volume level in 1979 was about 20 per cent below that of 1973. The unemployment problem became more serious. Finally,

the authorities' policy stance has contributed to maintain a high rate of inflation in the short term. However, policy had a remarkable effect on the balance-of-payment deficit—the main objective. Exports recovered vigorously, while tourism receipts and emigrants' remittances largely made up for lost ground. The improvement was much faster than expected so that the authorities judged that it was possible to relax policies in 1979. Thus activity picked up in the course of last year, investment apparently recovered, employment increased and unemployment stabilized. The current account registered a small surplus and the foreign indebtedness of the Bank of Portugal was reduced. Finally, inflation has decelerated in recent months despite the increase in oil prices. On the other hand, no progress was made towards the control of the public sector, which continued to exert unfavourable effects on resource allocation and inflation.

Although the strategy adopted in recent years in order to reabsorb disequilibria has in some respects focused too much on the balance of payments, it has proved nevertheless to be relatively effective. The restoration of realistic exchange and interest rates were all the more effective as they influenced directly market behaviour. A second fundamental aspect has been the adjustment of the distribution of income in favour of profits after the serious distortions of 1974-1976. This adjustment was necessary if exports and investment were to pick up. But although some of the constraints on the Portuguese economy have been partly lifted, problems and risks loom high. It is for this reason that it appears necessary to pursue in the general effort of stabilization and, in any case, changes in demand management which might take place in the short term must be part of a longer-term framework.

The forecasts for 1980 made by the Secretariat do not differ considerably from those of the Portuguese authorities. They appear against a difficult international background, both for trade and inflation. However, the Portuguese authorities consider that progress achieved in restoring equilibrium is sufficient to allow a stimulation of domestic demand, particularly investment. The fight against inflation is to continue, notably through a deceleration of the rate of depreciation of the escudo and increases in subsidies to some basic food products. Finally, a major attempt should be made to alter the structure of public expenditure. The targets set down by the authorities are ambitious. The balance of risks leans towards an excessive reflation of domestic demand, should the recovery of investment go hand-in-hand with a change in the savings behaviour of households or an insufficient control of current public expenditure. Furthermore, it cannot be ruled out that, in a more favourable conjunctural climate, wage-earners will not try to regain the loss of purchasing power suffered since 1976. In Part III of this Survey, it was pointed out that the balance-of-payments situation is marked at present by some weak points which might become more serious in 1980 because of the impact of oil-price increases and the slackening of demand of major trading partners. Partial indications on the first months of 1980 already suggest that the current account might have again turned into deficit.

Demand management policy will thus have to remain cautious in order to avoid that progress achieved in 1978-1979 in the balance-of-payments situation be rapidly undermined. Monetary policy, has proved to be very effective during a stabilization phase, but it will be more difficult to ensure at the same time control of total demand and a recovery of investment. In fact, the room for action by the monetary authorities is particularly limited by problems posed by the persistence of a very large public sector deficit, which will continue to be financed mainly by money creation. It will therefore be necessary to maintain as a counterpart relatively strict ceilings on bank credit to the private sector,

especially as the liquidity of the banking sector was very large at the beginning of 1980. In this regard, the development of the money market and a diversification of securities traded in it could ease the management of liquidity by the monetary authorities. Within this framework of limited financing opportunities for the private sector, it is particularly important that available loans actually finance investment and not current expenditure. The authorities have announced their intention to reinforce the policy of preferred interest rates. However, there is the danger that the excessive complexity of the structure of interest rates might be detrimental to the flexibility and effectiveness of credit policy by increasing controls and limiting the role of market forces.

Budget policy cannot be used as a demand management tool as long as the authorities are not able to exert a better control on public expenditure. The experience of recent years, when outturns were considerably different from objectives, shows that there is considerable inertia in this matter. Public expenditure—with a strong increase in employment in the public sector, a rapid growth of the various types of financing of public enterprises and of transfers to households—has at best attenuated temporarily the basic problems of the Portuguese economy without helping to solve them and has in some cases contributed to aggravate them by delaying necessary adjustments. A better control of expenditure is even more necessary because, in view of considerable demands posed by the development of infrastructure and the improvement of the welfare system, it will be necessary to fix priorities and make choices compatible with the country's level of development. Progress is also necessary on the revenue side. The tax system is both complex and inefficient. According to the Portuguese authorities, evasion is a major problem, in addition to the lengthening of payment delays of social security contributions due from firms, inclusive of public enterprises. Some measures have been recently announced or taken in this area, but it should be possible to advance further. A general reform of the tax system might be envisaged in order to improve efficiency.

Inflation remains the main short and medium-term problem. The strong increase in prices since 1977 has facilitated the necessary adjustment of the national income distribution. This was also the inevitable counterpart of the policy of adjustment of the exchange rate—necessary in order to restore export competitiveness. But the problem now facing Portugal, as well as other OECD countries, is that of breaking the self-sustaining character of the inflationary process. Despite a slowdown in the rate of inflation of consumer prices in recent months, the underlying rate—exclusive of food prices—remains strong, although the increase in energy prices has not yet been completely felt in the domestic market, and a very strong domestic demand might reinforce inflationary pressure. However, it is clear that, after the external shock of the second oil crisis, the fight against inflation cannot depend only on demand management other than at an excessive cost and must also rely on action on costs and productivity. In this connection, the slowing down of the rate of depreciation of the escudo in 1980 appears justified, given the present level of competitiveness, and it is hoped that both domestic and external economic conditions will permit the continuation of this policy. However, it cannot continue indefinitely unless it is accompanied by a re-absorption of domestic inflationary factors. A priority objective in this field is the curbing of nominal wage growth. Changes in taxation in order to neutralise fiscal drag could be a counterpart to the moderation of wage demands. The introduction of mechanisms fixing the maximum increase in wages liable to be passed on to prices is another measure along these lines. It is necessary that targets be realistic but at the same time sufficiently ambitious, otherwise these measures would have the effect of perpetuating inflation at a high level. Furthermore, now that profits have been restored, it would not be

justified if prices were to rise faster than costs. Strengthening of competition and relaxation of protection, to the extent warranted by balance-of-payments results, could encourage entrepreneurs to adopt more moderate profit-margin behaviour.

The reduction of inflation must be considered a priority objective, but Portugal cannot afford to adjust permanently to a slow rate of growth, given the country's low level of development (GDP per capita is less than a quarter of OECD average) and widespread unemployment. But the achievement of more sustained growth, in connection with an unfavourable international situation, requires a considerable improvement in productive capacity in order not to attain rapidly the balance-of-payments constraint. It has been pointed out repeatedly in earlier surveys that agriculture, where productivity is extremely low and which accounts for 20 per cent of the trade balance deficit, is a sector where improvement in production techniques is extremely necessary. But an effective transformation of the farm sector cannot be realised until the problem of property rights is completely resolved. Large scale investment is also needed in other sectors in order to enhance productivity and diversify exports. Projects must be assessed, taking into account the relative scarcity of factors of production, which does not seem to suggest highly capital-intensive investment. However, the comparative advantage of Portugal in the international division of labour has also to be assessed realistically in face of competition from both low-labour-cost newly-industrialised countries for the country's traditional exports and that from more advanced competitors for sectors new to Portugal. Whatever the choices, the adjustment of productive capacity will require the mobilisation of large amounts of capital, both domestic and foreign. It appears that there is ample opportunity for developing direct foreign capital inflows. A reasonable control of inflation and a clear and stable institutional and economic framework allowing the interaction of market forces are among the prerequisite conditions for this potential to materialise.

The review of some of the problems experienced by the Portuguese economy at the beginning of the 1980's shows the gravity of subsisting difficulties—high inflation, precarious balance-of-payments equilibrium, cumbersome public sector, archaic structure of some key sectors like agriculture. However, it should be pointed out that in the last six years Portugal has had to deal with exceptional difficulties. The shock of the changement of regime and the end of colonial rule was compounded by the effect of the international recession which hit hard an economy with a large foreign sector. Furthermore, following the upheaval and uncertainty of 1974-1976, a restoration was carried out, the results of which were sometimes spectacular (recovery of the foreign balance). Finally, whatever the cost for public finance, the founding of a (still modest) welfare system was necessary in view of the very lagging situation in this area compared with other OECD countries. During the last two years substantial progress was made towards an adjustment. However, very important efforts will have to be made especially in connection with increased difficulties due to the renewed increases in oil prices and the deterioration of the international environment. In particular, these efforts should tend to improve control over the public sector. Public consumption and transfers ought not to absorb too large a share of national resources, thus hampering a sustained and lasting growth of investment. A second field of action concerns the large sector of public enterprises—which have been a burden for the economy in recent years, but which could in future become a leading factor of development if vigorous efforts are made to improve management methods and their financial situation.

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STATISTICAL ANNEX

Table A National product and expenditure
 Million escudos

	1974	1975	1976 ¹	1977 ¹	1978 ¹
<i>Current prices</i>					
Consumers' expenditure	257 407	303 768	367 179	470 223	579 884
Government current expenditure	49 136	57 983	66 122	88 200	111 767
Gross fixed asset formation	66 761	73 992	88 931	125 500	156 624
Change in stocks	17 526	-12 521	8 402	32 436	24 094
DOMESTIC EXPENDITURE	390 830	423 222	530 634	716 359	872 369
Exports of goods and services (excluding factor income)	87 745	74 067	78 679	110 984	156 113
Imports of goods and services (excluding factor income)	140 161	121 050	141 658	205 109	246 606
GROSS DOMESTIC PRODUCT AT MARKET PRICES	338 414	376 239	467 655	622 234	781 876
<i>plus:</i> Net income from the rest of the world	3 279	-369	-4 021	-6 872	-14 487
GROSS NATIONAL PRODUCT AT MARKET PRICES	341 693	375 870	463 634	615 362	767 389
<i>1963 prices</i>					
Consumers' expenditure	137 311	136 096	140 859	141 704	143 121
Government current expenditure	26 315	28 057	30 021	32 813	34 650
Gross fixed asset formation	32 026	28 406	28 639	32 076	33 359
Change in stocks	9 322	-5 791	682	7 411	3 635
DOMESTIC EXPENDITURE	204 974	186 768	200 201	214 004	214 765
Exports of goods and services (excluding factor income)	38 757	32 715	32 715	34 645	39 461
Imports of goods and services (excluding factor income)	65 404	48 909	50 572	56 641	56 074
GROSS DOMESTIC PRODUCT AT MARKET PRICES	178 327	170 574	182 344	192 008	198 152

1 Estimated by the Bank of Portugal and the Central Planning Department.

NOTE Private consumption and part of stockbuilding are obtained as residuals. Basic national accounts data refer to mainland Portugal only (exclusive of islands), whereas the balance of payments covers the whole of the country.

Source: National Statistics Institute.

Table B Origin of gross domestic product at factor cost
 Million escudos

	1974	1975	1976	1977	1978
<i>Current prices</i>					
Agriculture, forestry and fishing	47 726	53 187	61 494	71 948	90 539
Mining and quarrying	1 880	2 028	2 524	3 788	4 735
Manufacturing	112 653	114 817	142 754	200 084	256 292
Electricity, gas and water	6 254	6 976	10 508	15 114	21 408
Construction	21 488	22 619	27 194	36 222	45 640
Transport and communications	19 843	23 722	28 060	36 702	45 224
Wholesale and retail trade	37 576	41 978	53 054	70 190	86 506
Banking, insurance and real estate	12 190	13 833	17 478	37 083	46 598
Ownership of dwellings	6 953	7 914	9 531		
Public administration and defence	17 376	21 428	28 321	92 703	118 434
Other services	25 023	33 636	41 716		
GROSS DOMESTIC PRODUCT AT FACTOR COST	308 962	342 138	422 634	563 834	715 376
<i>1963 prices</i>					
Agriculture, forestry and fishing	19 414	18 160	17 889	16 100	16 744
Mining and quarrying	947	959	1 096	1 264	1 264
Manufacturing	65 943	59 534	62 209	68 055	70 281
Electricity, gas and water	5 714	5 706	5 721	6 865	7 311
Construction	9 575	8 074	8 478	9 410	9 881
Transport and communications	12 416	11 483	11 769	12 181	12 303
Wholesale and retail trade	17 775	16 955	18 012	18 623	18 623
Banking, insurance and real estate	5 883	5 364	6 517	12 739	13 121
Ownership of dwellings	4 740	4 911	5 064		
Public administration and defence	11 457	12 803	15 784	35 107	36 961
Other services	12 909	15 018	16 841		
GROSS DOMESTIC PRODUCT AT FACTOR COST	166 773	158 967	169 382	180 344	186 489

Source: National Statistics Institute.

Table C Agricultural production

	Unit	1974	1975	1976	1977	1978	1979
Cereal production							
Wheat	100 tons	5 336	6 012	6 857	2 243	2 500	2 327
Rye, barley and oats	—	3 164	3 525	4 083	2 016	2 310	2 151
Maize	—	4 855	4 513	3 785	4 419	4 490	4 560
Rice	—	1 295	1 327	972	1 017	1 350	1 350
Potatoes and vegetables							
Potatoes	—	11 145	10 129	9 181	12 006	11 280	10 118
Broad beans, French beans, chick-peas	—	809	802	726	637	761	667
Wine							
	1 000 hl	13 873	8 783	9 253	6 587	6 362	11 498
Olive oil							
	—	526	539	392	327	438	557
Cattle slaughtered							
	Tons	175 963	197 891	183 945	188 534	219 731	201 286
Horned cattle	—	84 772	92 069	79 821	77 170	89 819	91 499
Sheep and goats	—	13 446	13 337	12 049	10 253	12 708	11 675
Hogs	—	77 745	92 485	92 075	101 111	117 204	98 112
Fish landings							
	—	242 517	236 154	239 211	229 643	204 410	200 245

Sources: Annual Reports of the Bank of Portugal; National Statistics Institute, Food and Agricultural Statistics.

Table D Population by main age groups
Thousands

	1975	1976	1977	1978	1979
Total	8 879	9 075	9 156	9 196	9 324
Age groups 0-19	3 142	3 212	3 236	3 254	3 378
20-59	4 376	4 470	4 520	4 533	4 601
60 +	1 361	1 393	1 400	1 409	1 345

NOTE: These population estimates are not based on census figures but on the employment survey and are probably downward biased.

Sources: National Statistics Institute; information provided to the Secretariat.

Table E Employment indicators
1968 = 100

	1974	1975	1976	1977	1978	1979 ¹
Fishing	84.8	81.8	77.4	76.9	76.0	68.1
Mining	83.4	82.5	80.8	79.8	80.4	80.6
Manufacturing	103.4	102.6	103.3	103.2	102.8	103.1
Construction	101.1	93.7	93.5	97.2	102.0	99.6
Electricity, gas and water	96.6	97.9	101.7	104.2	115.5	121.3
Transport and communications	112.1	116.6	122.1	123.8	122.5	120.2
Trade	106.8	106.5	106.7	106.2	105.6	106.2
Banking, insurance, real estate	164.9	171.9	180.8	190.8	198.7	203.7
Services	139.2	135.0	136.7	139.1	141.2	142.6
Total	105.3	104.2	105.2	105.8	106.2	106.6

¹ Index calculated for the first three quarters.

Sources: Data communicated to the OECD by the Portuguese authorities. Statistical office of the Ministry of Labour and National Employment Office.

Table F Prices and wages

	1977	1978	1979	1979				1980 Q1
				Q1	Q2	Q3	Q4	
Total, mainland (less housing) Index 1976 = 100	127.3	156.0	192.8	176.4	189.2	197.2	208.5	216.4
Food and drink	131.6	162.8	207.5	187.8	207.0	215.3	220.3	225.1
Clothing and Footwear	118.7	139.6	173.4	155.9	166.0	174.9	196.7	209.7
Divers	119.9	145.5	172.5	161.1	163.5	172.4	193.1	202.2
Housing	126.6	156.3	175.6	168.0	170.1	174.4	189.8	205.4
Lisbon consumer price index (less housing) Index 1976 = 100	127.7	156.7	193.9	179.0	189.9	197.3	209.4	
Nominal average wages, mainland Index 1973 = 100								
Manufacturing industry ¹	260.6	291.9		323.2	339.1	359.0		
Construction	245.3	270.6		285.0	294.7	321.6		
Agriculture	229.3	266.4		299.7	316.5	332.3		
Wages in industry and transports, Lisbon Index 1968 = 100	335.7	372.5	423.7	407.1	414.8	418.4	454.6	

¹ Seasonally adjusted.

Sources: National Statistics Institute; Bank of Portugal, *Quarterly Bulletin*.

Table G **General government revenue and expenditure**
 National accounts basis standardized concepts
Billion escudos

	1972	1973	1974	1975	1976	1977 ¹	1978 ²	1979 ¹
CENTRAL GOVERNMENT								
Current revenue	37.41	43.11	53.02	61.76	91.71	115.5	189.8	245.3
Taxes and current transfers received	35.77	41.62	51.74	60.82	87.81	111.3	180.5	228.7
Income from property and entrepreneurship	1.64	1.49	1.28	0.94	3.90	4.2	9.3	16.6
Current expenditure	33.27	37.27	53.75	71.33	99.41	124.1	219.8	285.1
Goods and services	26.63	30.25	39.79	45.83	48.94	66.5	100.4	127.2
Current transfers paid	6.64	7.02	13.96	25.50	50.47	57.6	119.4	157.9
CURRENT SAVING	4.14	5.84	-0.73	-9.57	-7.70	-8.6	-30.0	-39.8
Net capital transfers paid (—)	-0.96	0.36	-0.29	-4.85	-9.76	-9.9	-17.4	-22.7
Gross fixed investment	3.43	3.50	5.07	6.48	9.30	18.7	18.4	21.8
NET BORROWING (—) OR LENDING	-0.24	2.70	-6.09	-20.90	-26.76	-37.2	-65.8	-84.3
Lending	7.69	1.50	2.32	1.34	8.10	7.6	} -50.2	-88.7
Borrowing at home	-6.12	-4.56	-9.37	-36.15	-46.46	-48.9		
Borrowing abroad	0.06	-0.07	0.02	0.38	0.96	-2.6		
Increase (+) or decrease (—) of cash reserves ²	-1.75	+5.83	+0.94	+13.53	+12.57	+6.7	-15.6	+4.4
CONSOLIDATED ACCOUNT OF GENERAL GOVERNMENT								
Current revenue	54.00	63.78	77.86	93.17	131.41	168.0	212.2	264.3
Taxes and current transfers received	51.46	61.19	75.56	91.42	126.73	162.9	201.1	246.0
Income from property and entrepreneurship	2.54	2.59	2.30	1.75	4.68	5.1	11.1	18.3
Current expenditure	46.13	54.81	76.65	102.46	144.45	180.6	238.5	302.2
Goods and services	31.84	37.11	49.14	57.98	66.12	88.2	114.7	147.6
Current transfers paid	14.29	17.70	27.51	44.48	78.33	92.4	123.8	154.6
CURRENT SAVING	7.87	8.98	1.20	-9.29	-13.04	-12.6	-26.3	-37.9
Net capital transfers paid	-0.44	1.31	1.08	-1.11	5.33	5.1	-8.2	-6.3
Gross fixed investment	5.91	6.43	7.87	10.28	14.57	25.1	30.9	36.4

NET BORROWING (—) OR LENDING	1.61	3.96	-5.49	-20.63	-32.85	-42.8	-65.4	-80.6
Lending	7.90	1.88	2.50	-0.94	1.76	2.7	} -51.4	-87.6
Borrowing at home	-5.63	-4.26	-9.91	-37.99	-50.61	-48.9		
Borrowing abroad	-0.06	-0.07	0.02	0.38	-0.96	-2.6		
Increase (+) or decrease (—) of cash reserves ²	-0.60	+6.41	+1.90	+17.92	+16.95	+6.0	-14.0	+7.0

1 Estimated by the Ministry of Finance on a national accounts basis.

2 Including adjustment.

Sources: National Statistics Institute and Ministry of Finance.

Table H The money supply and its counterparts
Billion escudos at end of period

	1975	1976*	1977	1978	1979
TOTAL MONEY SUPPLY	385.4	460.8	567.4	726.6	991.8
Money	227.2	246.3	274.8	314.9	396.5
Notes and coins in circulation	109.8	110.4	113.8	122.0	145.3
Sight deposits, households and enterprises	117.4	135.9	161.2	192.9	251.2
Quasi-money	158.2	214.5	292.6	411.7	595.3
COUNTERPARTS					
Net foreign assets	38.9	5.0	-33.5	-18.9	40.8
Net lending to the public sector	33.4	75.5	123.3	171.7	248.4
Lending to the private sector ¹	326.4	442.8	579.3	703.2	852.2
Miscellaneous, net	-13.2	-62.5	-101.7	-129.4	-149.6

* Break in the series in 1976.

¹ Including bad credits since 1976.

Sources: Annual Reports of the Bank of Portugal and information provided by the Portuguese authorities.

Table I Structure of interest rates
Percentages

	19/12/75	1/7/76	26/2/77	29/8/77	6/5/78
DISCOUNT RATE	6.5	6.5	8.0-12.0	13.0-18.0	18.0-23.0
LENDING RATES					
Up to 90 days	4.50-7.75	4.50-8.75	5.25-10.25	9.75-14.75	11.50-18.25
Between 90 days and one year	5.00-9.50	5.00-10.50	5.75-12.00	10.25-16.50	18.75-20.00
More than a year	10.75-12.75	11.25-13.25	7.75-15.75	17.00-18.75	20.50-22.25
BORROWING RATES					
Sight deposits	0-4	0-4	0-4	0-4	0-4
Time deposits up to 90 days	4.5	4.5	5.0	6.0	8.0
Time deposits between 90 days and one year	6.5-9.5	6.5-9.5	7.5-11.0	9.0-15.0	12.0-19.0
Time deposits of more than one year	10.5-11.5	10.5-11.5	12.0-13.0	16.0-17.0	20.0-21.0

Source: Bank of Portugal.

Table J Breakdown by nationality of foreign visitors
Thousands

	1970	1971	1972	1973	1974	1975	1976	1977	1978
TOTAL	3 342.9	3 867.0	3 925.3	4 079.7	2 621.8	1 966.4	2 175.4	3 055.4	3 389.3
Germany	133.1	170.3	186.8	209.7	167.2	143.8	150.1	204.2	259.3
Argentina	37.5	35.1	—	—	26.8	22.4	11.9	10.6	12.1
Belgium	32.8	39.6	39.3	46.3	30.4	27.2	32.1	50.7	46.9
Brazil	66.6	74.9	—	—	65.2	52.7	43.7	35.5	45.0
Canada	47.4	51.9	56.2	25.0	38.8	22.8	21.7	32.0	36.9
Spain	1 712.6	2 055.9	2 012.9	2 109.3	1 169.4	856.4	1 049.3	1 599.5	1 755.2
United States	354.7	366.1	386.5	345.7	217.6	96.1	82.1	141.5	161.5
France	203.8	215.4	233.2	248.6	152.9	119.1	134.4	172.4	179.6
Netherlands	41.6	47.7	51.8	54.1	37.4	39.5	51.6	92.3	111.1
Italy	79.4	83.3	80.7	80.0	83.7	69.8	66.6	65.4	72.4
United Kingdom	406.2	457.3	492.8	511.6	383.0	284.6	244.6	292.8	327.9
Sweden	26.8	35.4	41.6	42.8	31.6	27.3	49.2	61.0	56.3
Switzerland	32.5	39.0	43.3	50.0	38.5	23.0	23.2	32.8	31.7
Other countries	168.1	195.1	300.1	356.7	179.3	181.7	214.9	264.7	293.4

Source: National Statistics Institute, Tourism Statistics.

Table K Foreign trade by main commodity groups
 Million U.S. dollars

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
IMPORTS, TOTAL	1 296.1	1 582.4	1 823.0	2 227.2	2 908.3	4 581.5	3 839.6	4 315.9	4 963.6	5 142
Food and beverages	150.6	180.2	232.9	306.9	402.0	777.2	765.6	742.6	733.5	678
Basic materials	305.3	342.4	370.8	443.5	594.1	1 084.6	1 009.9	1 213.7	1 412.1	1 399
Manufactures										
Chemicals	134.3	158.9	177.8	216.2	312.2	458.8	348.8	507.2	560.5	627
Goods classified chiefly by material	266.5	353.8	374.8	392.5	511.4	861.2	583.6	598.7	789.3	829
Machinery and transport equipment	386.4	478.0	580.1	759.7	928.5	1 179.0	961.0	1 065.7	1 301.0	1 423
Miscellaneous	52.8	68.7	86.2	108.8	159.5	220.0	170.4	186.8	165.7	181
Unspecified	0.2	0.3	0.4	0.5	0.7	0.7	0.3	1.2	1.5	5
EXPORTS, TOTAL	853.0	949.5	1 052.2	1 293.8	1 765.9	2 276.3	1 939.2	1 820	2 013.4	2 426
Food and beverages	169.9	177.0	182.3	229.5	303.3	333.4	300.4	291	303.7	350
Basic materials	128.1	162.6	159.1	180.4	228.5	350.1	265.6	296	286.5	296
Manufactures										
Chemicals	51.9	69.5	75.0	84.2	103.1	188.4	125.5	95	102.7	129
Goods classified chiefly by material	337.8	335.1	381.8	458.2	632.3	780.7	664.5	594	666.9	836
Machinery and transport equipment	60.2	79.6	102.2	152.4	233.1	288.9	256.0	230	299.4	328
Miscellaneous	93.1	112.2	139.0	179.3	251.1	323.0	312.8	282	319.7	439
Unspecified	12.0	13.5	12.8	9.8	14.5	11.8	14.4	32	34.5	48

NOTE: Due to rounding, detail may not add to total.

SITC group:

Food and beverages: 0, 1

Basic materials: 2, 3, 4

Manufactures: 5, 6, 7, 8

Chemicals: 5

Source: OECD, Foreign Trade Statistics, Series B.

Goods classified chiefly by material: 6

Machinery and transport equipment: 7

Miscellaneous: 8

Unspecified: 9

Table L Geographical breakdown of foreign trade
Billion escudos

	1973	1974	1975	1976	1977	1978	1979
<i>Exports</i>							
TOTAL	45.4	58.0	49.3	55.1	77.7	106.4	170.5
OECD countries	35.8	45.8	39.3	44.2	61.4	86.2	140.2
OECD Europe	29.5	38.0	34.4	38.9	54.0	75.5	125.3
Germany	3.4	4.6	5.0	5.9	9.2	14.0	21.7
France	2.3	3.4	3.3	4.6	6.2	9.6	17.0
Italy	1.4	1.9	1.6	2.1	2.9	6.1	10.2
United Kingdom	10.8	13.2	10.5	10.2	14.2	19.4	30.8
Other OECD							
Europe countries	11.5	14.7	14.0	16.1	21.6	26.3	45.6
United States	4.4	5.8	3.6	3.7	5.2	7.5	10.2
Other OECD countries	1.8	2.0	1.4	1.6	2.1	3.1	4.7
Non OECD countries	9.6	12.2	10.0	10.9	16.3	20.3	30.3
including: OPEC	0.3	0.4	0.9	1.0	1.4	1.5	3.0
Previous Escudo area	6.7	6.4	4.2	2.7	5.0	5.9	8.0
<i>Imports</i>							
TOTAL	74.8	118.1	99.5	130.9	190.7	230.1	320.1
OECD countries	57.3	85.1	69.3	93.9	138.7	177.4	230.2
OECD Europe	47.2	69.0	53.0	75.5	109.9	140.3	178.3
Germany	10.8	15.9	11.0	15.2	23.7	31.9	39.8
France	5.2	9.2	7.5	10.9	15.4	20.7	26.5
Italy	3.9	6.3	4.9	6.1	10.2	12.6	16.3
United Kingdom	8.5	10.9	8.7	12.2	19.8	23.2	29.0
Other OECD							
Europe countries	18.8	26.8	20.8	31.0	40.7	51.9	66.7
United States	6.1	11.1	12.3	12.9	19.4	27.1	37.6
Other OECD countries	4.0	4.9	4.0	5.5	9.4	9.9	14.3
Non OECD countries	17.5	33.0	30.2	37.0	52.0	52.7	89.9
including: OPEC	2.7	7.7	11.6	15.2	20.6	27.1	48.4
Previous Escudo area	7.4	12.4	5.1	3.3	2.5	1.5	3.5

1 Including New Zealand since 1975.
Source: National Statistics Institute.

Table M Balance of payments
Million US dollars

	1972	1973	1974	1975	1976	1977	1978	1979
Exports, fob	1 296	1 867	2 303	1 940	1 829	2 001	2 410	3 594
Imports, fob	2 023	2 780	4 305	3 614	3 944	4 533	4 791	6 016
Trade balance	-727	-914	-2 002	-1 674	-2 115	-2 532	-2 381	-2 422
Services, net	205	154	55	-184	-106	-97	-54	100
Travel	263	324	259	101	187	268	431	695
Transport	-35	-72	-145	-128	-172	-104	-129	-129
Investment income	20	87	128	-15	-133	-179	-329	-430
Government transactions	-88	-180	-225	-172	49	-38	-31	-33
Other services	45	-5	37	30	-37	-44	4	-3
Transfers, net	872	1 111	1 118	1 039	975	1 134	1 635	2 472
Current balance	350	351	-829	-819	-1 246	-1 495	-800	150
Medium and long-term capital								
Private	-129	-143	274	-108	12	95	758	813
Official	62	-38	357	-21	28	19	249	462
Short-term and unrecorded	-191	-105	-83	-87	-16	76	509	351
Balance of non-monetary transactions	56	137	-83	-89	55	-30	202	366
Private monetary institutions	277	345	-638	-1 016	-1 179	-1 430	160	1 329
short-term capital								
Balance on official settlements	-4	-24	59	-26	228	567	-201	-969
Use of IMF credit	273	321	-579	-1 042	-951	-863	-41	360
Miscellaneous	—	—	—	—	176	83	-53	-41
official accounts	79	23	-15	290	629	421	197	-251
Change in reserves (increase = +)	353	344	-594	-752	-146	-359	103	68

Sources: Memorandum submitted to the OECD by the Portuguese authorities, Bank of Portugal and IMF, International Financial Statistics.

BASIC STATISTICS :
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia ¹
POPULATION	Mid-1978	Thousands	14 248	7 508	9 841	23 499	5 105	4 752	53 278	61 327	9 360	223	3 221	56 697 ²	114 920	358	13 937	3 129	4 060	9 820	36 778	8 278	6 337	42 738	55 902	218 717	21 968
	»	Number	2	89	323	2	119	16	97	247	71	2	46	188	309	138	412	12	13	107	73	18	153	55	229	23	86
	Mid-1968 to Mid-1978	%	1.7	0.2	0.2	1.3	0.5	0.3	0.7	0.3	0.7	1.0	1.0	0.7	1.3	0.6	0.9	1.3	0.6	0.7	1.1	0.5	0.4	2.4	0.1	0.9	0.9
EMPLOYMENT	1978	Thousands	5 975	3 015	3 711	9 972	2 473	2 074	20 921	24 679	(3 189)	(99)	1 033	19 932	54 080	150	4 569	(1 204)	1 854	3 772	12 091	4 115	2 839	14 907	24 610	94 373	9 276 ³
	»	% of total	6.4	10.9	3.2	5.7	8.7	12.3	9.1	6.5	(27.3)	(13.3)	22.2	15.5	11.7	5.7	6.2	(11.8)	8.7	31.3	20.2	6.1	8.4	60.9	2.7	3.7	36.8
	»	Industry ⁴	31.6	40.6	36.6	28.7	30.3	34.4	37.1	45.1	(30.7)	(37.9)	30.9	38.3	35.0	43.1	32.5	(34.1)	31.6	34.8	37.3	33.0	42.7	16.5	39.7	31.2	21.8
	»	Other	62.0	48.5	60.2	65.6	61.0	53.3	53.8	48.4	(42.0)	(48.8)	46.9	46.2	53.3	51.2	61.3	(54.1)	59.7	33.9	42.5	60.9	48.9	22.6	57.6	65.1	41.4
GROSS DOMESTIC PRODUCT at market prices	1978	US \$ billion ¹¹	109.1	58.1	96.9	205.3	55.9	33.9	471.6	638.9	31.6	2.2	12.2	260.1	973.9	3.5	130.8	18.4	40.0	17.8	147.1	87.3	84.6	52.5	309.2	2 112.4	47.1 ⁵
	1973 to 1978	%	2.5	2.8	2.3	3.3	1.9	2.2	3.0	1.9	3.6	3.8	3.5	4.0	3.7	0.6	2.6	1.1	4.6	2.3	3.2	1.3	-1.0	6.6	1.1	2.5	6.1
	1978	US \$ ¹¹	7 660	7 730	9 850	8 740	10 950	7 130	8 850	10 420	3 370	9 770	3 780	4 590	8 480	9 800	9 380	5 880	9 850	1 820	3 960	10 550	13 340	1 160	5 530	9 660	2 140
GROSS FIXED CAPITAL FORMATION	1978	% of GDP	22.7 ¹⁰	26.3	21.2	22.2	22.3	23.3	21.5	21.5	23.8 ⁸	25.5	26.7	18.8	30.2	25.8	21.2	20.5 ⁹	31.1	20.7	18.4	19.3	21.1	20.5	18.1	18.1	35.6
	»	»	10.0	9.7	6.5	7.6	7.4	7.8	9.1	8.9	8.1	6.8	(12.4)	7.8	10.9	9.2 ²²	8.2	..	11.0	7.0	..	7.2	7.0	..	9.2	7.3	..
	1973 to 1978	%	4.0	16.5	7.3	5.7	7.5	7.0	6.9	6.0	8.4	5.8	..	5.0	7.3	6.6 ²³	5.9	..	5.1	3.6	..	5.0	..	3.8	3.2	5.0	..
	1973 to 1978	%	0.4	1.7	2.1	2.2	-1.8	-3.1	0.4	-2.1	0.4	2.0	-1.7	1.2	-1.8	0.4	..	2.7	-2.9	-0.8	-1.5	-4.7	5.7	-0.7	0.5	9.8	
NATIONAL SAVINGS RATIO ¹²	1978	% of GNP	23.1 ¹⁰	26.7	20.3	20.6	19.0	23.9	23.7	25.1	21.1	26.6	17.7	22.2	32.6	36.2	22.5	24.3	25.1	11.5	20.8	17.4	26.8	19.8	21.1	18.5	17.3
GENERAL GOVERNMENT	1978	% of GDP	16.8 ¹⁰	17.8	17.9	20.5	23.7	19.0	15.1	20.0	16.0	11.6	18.3	16.4	9.6	15.5	18.3	16.3	18.5	14.7	10.5	28.9	12.9	12.7	20.3	18.2	25.1
	»	»	10.6 ¹⁰	19.1	22.5	12.6	16.3	16.1	25.6	19.6	12.3	..	..	17.0	11.1	29.3 ²²	31.7	..	25.9	9.1	12.7 ²²	29.2	15.4	10.5	15.5	11.2	..
	»	»	31.9 ¹⁰	44.5	42.7	35.8	49.0	40.2	42.3	43.3	30.2	..	..	37.0	24.3	37.9	54.4	..	52.1	27.1	26.6 ²²	60.3	34.0	25.9	38.8	32.6	44.0
NET OFFICIAL DEVELOPMENT ASSISTANCE	1978	% of GNP	0.5	0.3	0.6	0.5	0.7	0.2	0.6	0.4	..	..	..	0.1	0.2	..	0.8	0.3	0.9	..	..	0.9	0.2	..	0.5	0.3	..
INDICATORS OF LIVING STANDARDS	1978	US \$ ¹¹	4 600	4 230	6 120	4 980	6 080	3 970	5 440	5 750	2 200	5 860	2 430	2 810	4 900	5 770	5 550	3 490 ⁹	5 300	1 350	2 700	5 580	8 420	950	3 270	6 200	1 230
	1977	Number	392	248	292	389 ¹⁴	271	227	314	326	66	315	180	289	173	398	277	385	273	107 ¹⁴	161	350 ¹⁴	307	11 ¹⁴	255 ¹⁴	505 ¹⁴	88
	1977	»	404	325	315	618	493	429	329	374	250	429	161	285	424	523	418	533	386	120	261	717	657	28 ¹⁴	415	744	71
	1977	»	351 ¹⁴	247 ¹⁶	286	428 ¹⁴	338	363 ¹⁴	274 ¹⁴	308	127 ¹⁴	214 ¹⁴	193	224	239 ²⁰	279	293 ¹⁴	259 ¹⁴	270 ¹⁴	76 ¹⁴	185 ¹⁴	363 ¹⁴	285 ¹⁴	44 ¹⁴	324	571 ²⁰	161 ¹⁴
	1976	»	1.4 ¹³	2.3	2.0	1.7	1.9	1.5	1.5	2.0	2.1	1.7 ¹⁶	1.2	2.2	1.2	1.1	1.7	1.3 ¹⁴	1.8	1.2	1.8	1.7 ²⁰	1.9	0.6	1.3	1.6	1.4
	1977	% of age group	45.0	32.0	61.3 ²⁰	64.9	57.4	60.8 ²⁰	54.6	41.5	45.4 ²⁰	..	50.0 ¹⁴	43.9 ¹⁴	70.9	33.5 ²⁰	62.7	44.8	63.6	33.4 ¹⁴	35.5 ¹⁴	56.3 ¹⁴	70.1	12.7 ²⁰	44.6 ²⁰	73.7	..
	1978	Number	14.3	16.9	14.0	14.3	8.9	12.0	11.4	15.5	20.3	10.1	15.7	17.6	8.9	10.6	9.5	13.9	10.5	38.9 ¹⁴	15.6	8.0	10.7 ¹⁴	..	14.0	14.0	36.7 ¹⁴
WAGES AND PRICES	Average annual increase																										
	1974 to 1979	%	11.9	8.5	10.9	11.2	12.7	14.7 ²¹	14.0	6.5	23.6	36.7	17.7	22.0	9.1	..	7.8	14.8	11.4	20.1	26.5 ²¹	11.1	3.2	27.5 ²³	16.6	8.6	19.6
	»	%	11.5	5.7	7.5	8.9	9.8	11.9	10.1	14.1	40.0	14.5	15.8	7.3	6.9	6.7	14.3	8.5	20.0	18.9	9.7	2.9	36.6	15.5	8.1	16.7	
FOREIGN TRADE	1979	US \$ million ¹¹	18 636	15 432	55 428 ⁷	55 932	14 616	11 148	97 980	171 516	3 852	792	7 164	72 120	103 032	—	63 624	4 709	13 452	3 480	18 192	27 528	26 472	2 472	90 816	181 800	6 240
	»	%	15.5	22.4	49.7	25.1	22.3	26.8	17.3	22.7	10.3	33.0	48.1	22.6	10.1	—	41.9	22.3	29.7	17.2	9.2	26.6	28.1	3.7	23.2	7.7	..
	1974 to 1979	%	4.7	6.5	3.5	4.9	4.1	4.5	5.1	3.0	8.4	10.6	9.7	8.1	5.9	—	3.6	5.1	8.5	6.8	10.3 ²¹	0.0	4.2	-2.7	4.4	4.1	3.8
	1979	US \$ million ¹¹	16 536	20 184	60 348 ⁷	53 520	18 456	11 304	106 872	157 752	9 624	828	9 864	77 808	110 672	—	67 212	4 566	13 728	6 540	25 380	28 536	29 304	5 688	102 828	207 132	12 360
	1974 to 1979	%	13.7	29.3	54.1	24.0	28.1	27.2	18.9	20.9	25.7	34.5	66.2	24.4	10.8	—	44.3	21.6	30.3	32.4	12.9	27.6	31.1	8.6	26.3	8.8	..
	1974 to 1979	%	1.7	6.6	3.2	3.2	3.6	-0.2	5.8	7.0	4.9	0.7	8.4	4.7	—	4.4	-3.2	2.3	0.8	0.5 ²¹	0.2	4.4	-2.8	3.6	5.8	2.1	
TOTAL OFFICIAL RESERVES ²⁴	End-1979	US \$ million	1 790	5 048	6 991 ⁷	3 887	3 312	1 586	21 357	56 940	1 126	165	2 230	21 239	20 327	—	9 619	453	4 269	1 962	13 898	3 583	20 275	941	20 694	19 956	1 336
	In 1979	%	10.8	25.0	11.6	7.3	17.9	14.0	20.0	36.1	11.7	19.9	22.6	27.3	18.4	—	14.3	9.9	31.1	30.0	54.8	12.6	69.2	16.5	20.1	9.6	10.8

1 Partly from national sources.
 2 Total resident population.
 3 Private and socialised sector.
 4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
 5 Social product.
 6 At constant prices.
 7 Including Luxembourg.

8 Excluding ships operating overseas.
 9 Fiscal year beginning April 1st.
 10 Year ended 30th June.
 11 At current prices and exchange rates.
 12 $\left[\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$.
 13 1972.
 14 1976.

15 Children aged 15-19.
 16 1974.
 17 Deaths in first year per 1 000 live births.
 18 Figures are not strictly comparable due to differences in coverage.
 19 1973.
 20 1975.
 21 1973 to 1978.
 22 1977.
 23 1972 to 1977.

24 Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).

NOTE Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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