OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

PORTUGAL

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JULY 1981

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 (1980, 2nd half-year, thousands	9 423	Civilian employment (1980, 2nd half-year, thousands[1]	3 961
Number of inhabitants per sq. km	102	as a percentage of total:	
Annual average rate of change in resident population (1975-1980)	1.1	Primary sector	27.3
Civilian labour force (1980, 2nd half-year, thousands)	4 303	Secondary sector	36.6
		Tertiary sector	36.1

PRODUCTION

Gross domestic product in 1979 (million of US dollars)	20 336	Gross domestic product at factor cost by origin in 1979 (%):	
Gross domestic product per head in 1979 (US dollars)	2 160	Primary sector	13.7
Gross fixed asset formation in 1979 :		Secondary sector	46.3
% of GDP	19.1	Tertiary sector	40.0
per head (US dollars)	412		

THE GOVERNMENT

Public consumption in 1979 (% of GDP)	14.8	General Government current revenue in 1979 (% of GDP)	26.6
of which: Defence	2.8		
Public investment in 1979			
% of GDP	4.3		
% of total investment	22.5		

FOREIGN TRADE[2]

Exports of goods and services as a % of GDP (1979)	25.6	Imports of goods and services as a % of GDP (1979)	36.1
Main exports as a % of total exports 1979, SITC:		Main imports as a % of total imports 1979, SITC:	
Food, beverages and tobacco (0, 1)	12.8	Food, beverages and tobacco	13.7
Basic and semi-finished materials (2, 3, 4)	11.1	Basic and semi-finished materials	31.5
Manufactured goods (5, 6, 7, 8)	74.4	Manufactured goods	54.7
of which: Textiles (65)	16.5	*of which:* Chemicals (5)	12.2
Cork and wood products (63)	6.1	Machinery and transport equipment (7)	25.0

THE CURRENCY

Monetary unit: Escudo		Currency units per US $, average of daily figures:	
		Year 1980	49.994
		June 1981	62.823

1 Mainland Portugal.
2 Mainland Portugal and islands.
Note An international comparison of certain basic statistics is given in an annex table.

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PORTUGAL

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December 1960, which provides that the OECD shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The Members of OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

The annual review of Portugal by the OECD Economic and Development Review Committee took place on 8th July 1981.

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INTRODUCTION

The widening of Portugal's current account deficit after the period of rapid growth in 1976-1977 caused the authorities to introduce a restrictive economic policy at the end of that period. Growth slowed as a result and external equilibrium was restored in 1979, which encouraged the authorities to shift their policy stance and make inflation control and demand support their main objectives. Price controls were tightened in 1980 and stability of real wages was set as a target. In February 1980, the escudo's exchange rate was revalued though the crawling-peg depreciation policy was retained. Fiscal policy set out to reduce the general government borrowing requirement by stabilizing current expenditure in real terms. Monetary policy, which had been relaxed in 1979, was assigned a growth-accommodating role, though the objective of controlling the balance-of-payments deficit was maintened. Investment was stimulated by a steep rise in capital expenditure by general government and by fiscal and monetary incentives for the productive sector.

The firmer trend in activity as of late 1979 continued in 1980 and real GDP grew by 5.5 per cent, compared with 4.5 per cent the previous year. But whereas in 1979 the foreign balance had a very positive impact on GDP growth, in 1980 the reverse occurred. This unfavourable result was accompanied by a deterioration in the terms of trade, which caused the trade deficit to widen, and by a deterioration in the current account position, with a deficit of nearly $1 billion or 4.3 per cent of GDP. As a result of the policy of strict price control, inflation slowed appreciably in 1980 with the rate of increase in consumer prices being brought down to about 16½ per cent from 24 per cent a year earlier. Wage growth, on the other hand, was much more rapid.

Economic policy as defined for 1981 has much the same stance as it did last year; monetary policy continues to play an accommodating role, while the budget again provides for an unchanged level of real current spending and a slight reduction in the general government borrowing requirement. On the other hand, some relaxation of price controls has begun, though the target of no growth in real wages still holds. During the first half of 1981 growth seems to have flagged somewhat, notably because of a slowdown in exports and investment. However, given the considerable carry-over from 1980, GDP growth may amount to 3½ per cent this year. Inflation has accelerated appreciably since the beginning of the year and there are definite possibilities of flare-ups here. Finally, the current account deficit may widen again to more than $1½ billion for the year as a whole. Because of these unfavourable developments and prospects, the authorities are considering the possibility of a more restrictive economic policy stance which might imply a renewed tightening of price controls and restricting monetary policy.

Part I of this survey examines recent economic trends, both domestic and external. Part II describes and analyses short-term economic policy. Some medium-term problems in the Portuguese economy are discussed in Part III. Part IV presents the short-term forecasts and some economic policy conclusions.

I RECENT TRENDS

Demand and output

The rate of GDP growth has fluctuated considerably in recent years. The phase of relatively rapid recovery in 1976-1977 (6 per cent average growth of GDP), which had caused a sharp deterioration in the current account position, was followed by a period of adjustment in 1978, with GDP growth slowing to 3½ per cent. With the balance of payments back in equilibrium as a result, the authorities were able to stimulate demand, and from the partial estimates available[1] it would appear that activity accelerated again in 1979, this trend continuing in 1980 when GDP growth amounted to 5½ per cent. It would seem that activity began to slow in the second half of last year, principally because of a weaker trend in exports.

After three years of slow growth (less than 1 per cent on average), private consumption expanded rapidly in 1980 (by 4.5 per cent in real term). This was made possible by the substantial growth of nominal wages which, in conjunction with a slowdown in inflation, resulted in a rapid growth of wage purchasing power. On the other hand, income from property and enterpreneurship together with emigrants' remittances, which had hitherto supported household income, slowed down in 1980[2]. Owing to a slight increase in the tax burden by com-

Table 1 **Demand and output**

	1979		Percentage change over previous year in volume[1]			
	Current prices, billion escudos	As percentage of GDP	1977	1978	1979	1980
Private consumption	727.8	73.2	0.5	0.4	1.7	4.5
Public consumption	147.6	14.8	9.4	8.4	5.2	5.6
Gross fixed investment	189.9	19.1	12.0	2.7	−1.6	9.0
Final domestic demand	1 065.3	107.1	3.6	1.9	1.6	5.5
Stockbuilding[2]	31.4	3.2	2.8	2.9	−0.2	1.2
Total domestic demand	1 096.7	110.3	6.4	4.8	1.3	6.2
Foreign balance[2]	−102.3	−10.3	−2.0	−2.0	3.2	−1.4
Exports of goods and services	256.6	25.8	6.1	14.8	27.3	8.2
Imports of goods and services	358.9	36.1	9.6	−1.8	7.8	9.6
GDP at market prices	994.4	100.0	5.4	3.4	4.5	5.5
GDP deflator	—	—	26.2	21.4	22.0	14.9
Industrial production	—	—	12.8	6.5	7.5	5.7

1 At previous year's prices.
2 Change in stockbuilding and foreign balance as a per cent of GDP in previous year. Given the large difference between the weight of domestic demand and GDP, the rate of change of final domestic demand plus the change in stockbuilding and foreign balance expressed as a percentage of GDP may diverge considerably from the change in GDP.
Sources: Bank of Portugal and Central Planning Department estimates.

1 The last set of national accounts published by the National Institute of Statistics (INE) were for 1976. The INE is now completing its revision of the national accounts and preliminary estimates for the last four years should be available shortly. Meanwhile, the Central Planning Department and the Bank of Portugal have jointly produced estimates of the main aggregates of demand and value added by sector. The analysis that follows is based on those estimates, which, it must be emphasized, are provisional only.

2 This year the Central Planning Department has produced estimates of certain aggregates in the households appropriation account. In addition, a more detailed appropriation account for the private sector as a whole (households, private and nationalised enterprises) is available as in the past.

parison with the previous year, households' real disposable income probably rose less rapidly than private consumption, the savings ratio having fallen by something like 1 percentage point in 1980 after rising continuously for three years. Growth of general government consumption averaged 5½ per cent in 1980, continuing the marked upward trend of recent years. This reflects increased public sector recruitment at the end of 1979 and job upgrading.

Table 2 **Private sector appropriation account**[1]

	1979 billion escudos	Percentage change over previous year		
		1978	1979	1980
Compensation of employees	473.1	19.6	21.0	25.5
Property and other income	357.9	38.2	37.7	11.3
Transfers	200.6	37.8	39.4	36.1
of which: from abroad, net	121.0	65.4	66.6	24.7
Total income	1 049.6	28.5	29.9	22.4
less: Direct taxes	44.0	34.8	23.6	33.4
Social security contributions	65.1	24.0	13.6	42.9
Disposable income	940.5	28.5	31.5	20.5
Private consumption	727.8	22.1	26.3	22.2
Saving rate[2]	—	19.4	22.6	21.5
Memorandum items:				
Disposable income of households	895.9	26.1	30.5	20.1
Saving rate of households[2]	—	16.6	19.3	17.9

1 Households, unincorporated and corporate private and public enterprises.
2 As a per cent of disposable income.
Source: Central Planning Deartment.

Productive investment picked up significantly in the second half-year and continued to advance in 1980, showing a growth of about 9½ per cent for that year. The percentage of firms announcing their intention to invest within twelve months declined during the year, and it may be inferred that investment growth weakened in the first half of 1981. From the business surveys it would appear that more than half the investment was for purposes of capacity enlargement, relating to plant and equipment and to building. The main factor in the revival of productive investment was probably the growth of corporate profits in 1978 and 1979 reflecting in part significant gains in productivity[3] and a distribution of national income more favourable to enterprises[4]. Residential construction was also buoyant in 1980 (up 6 per cent compared with 5 per cent the previous year). Gross fixed asset formation by general government, which had turned down by more than 5 per cent in 1979, may have increased by about 3 per cent. All in all, the buoyancy observed in 1980 seems due both to investment by public

3 In 1979, productivity gains in manufacturing industry averaged about 4 per cent, broken down as follows: 6 per cent increase in value added, 2 per cent increase in numbers employed (according to the INE employment survey).

4 Distribution of national income at market prices, percentage of total:

	1976	1977	1978	1979	1980
Compensation of employees	58.3	53.1	51.1	48.6	50.7
Gross operating surplus	31.9	37.4	40.2	43.7	40.1
Net indirect taxes	9.7	9.5	8.7	7.7	9.2

enterprises, which rose by 14.7 per cent after falling slightly in 1979, and to investment by the private sector, which is estimated to have risen by 8.4 per cent after remaining flat in 1979.

Rebuilding of stocks probably had much to do with the economy's buoyancy. According to the business surveys, the results of which should be interpreted with caution, the restocking movement was particularly marked in the consumer and capital goods industries and mainly concerned stocks of raw materials. In all, stockbuilding's contribution to GDP growth was about 1 percentage point in 1980. However, because of the resulting upturn in imports[5] and the slowdown in exports due to less buoyant conditions abroad, the foreign balance had a negative impact on GDP growth.

Table 3 **Breakdown of gross fixed investment**

	Share in total investment at current prices	Percentage change over previous year in volume			
	1980	1977	1978	1979	1980
Breakdown by function					
Machinery and equipment	36.5	14.5	−2.1	3.0	8.0
Non-residential construction	44.4	11.3	4.2	−7.5	11.7
Residential construction	19.1	10.1	7.0	5.1	6.0
Breakdown by agent					
General government	21.3	24.3	6.8	−5.6	3.0
Public enterprises	29.7	36.2	1.3	−1.2	14.7
Private sector	49.0	−5.8	13.6	0.2	8.4

Source: Central Planning Department.

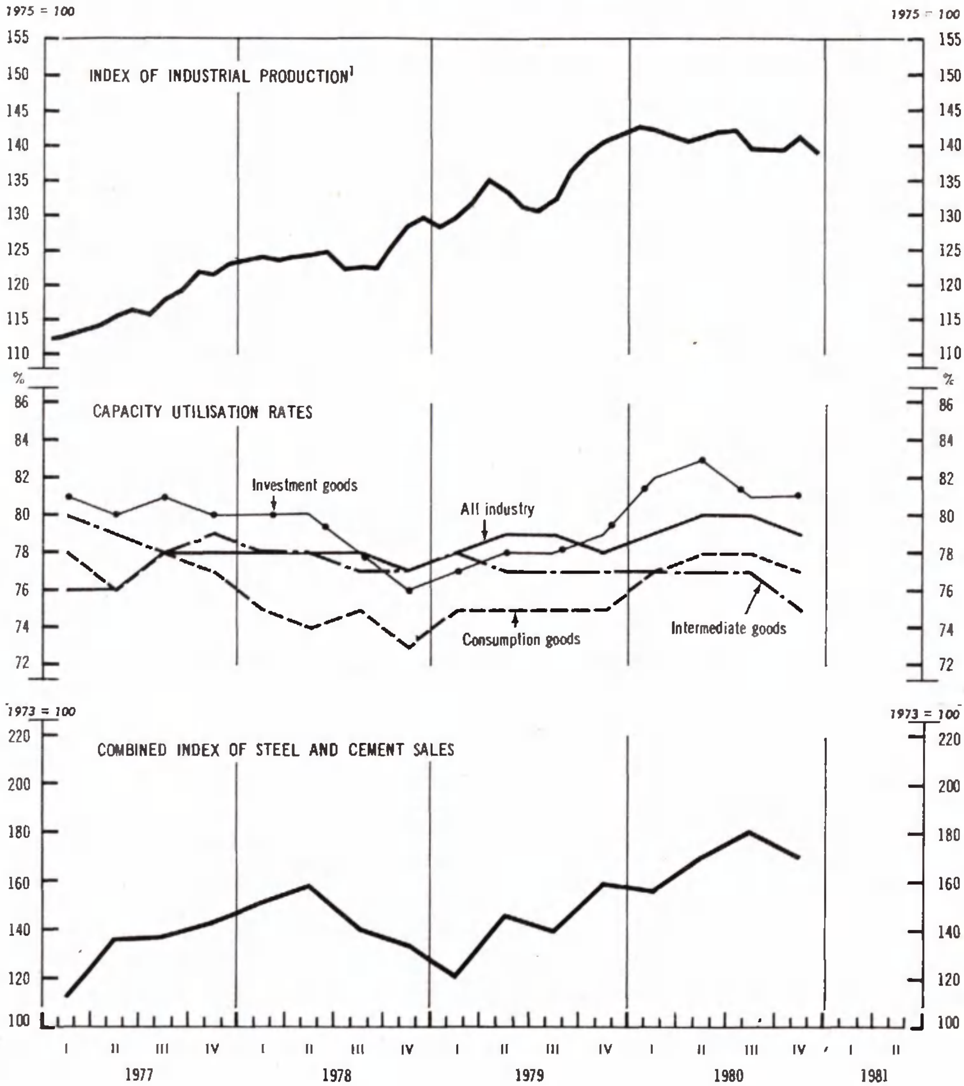
Growth of farm output slowed appreciably in 1980 (about 3 per cent compared with 9 per cent in 1979). This was due to a marked fall in wine production (following a bumper year) and output of edible oils, which was only partly offset by a good cereals harvest and a significant upturn in livestock products. The farm sector's excellent performance in 1979 would thus appear to be an exceptional phenomenon due, among other things, to very favourable weather but not to any lasting improvement in farming conditions which would provide a basis for steadier growth. Fisheries output, which had been falling for a number of years, increased by something like 2 per cent in volume in 1980. But this improvement is likely to have been short-lived, since in the second half of the year output was already down from twelve months earlier.

Industrial production, which had risen steeply in late 1979 and the first quarter of 1980, slowed down subsequently, and over the full year its growth averaged 6.7 per cent, which is comparable with the previous year's rate. This mainly reflects the turndown in demand from the EEC and EFTA countries, which represent 70 per cent of Portugal's export markets. The slowdown in output was very marked in the export sectors (textiles, clothing and chemicals), which had expanded very considerably in 1979. On the other hand, in the sectors linked to construction (non-metallic minerals)[6] and to productive investment or

5 It should be noted that the situation was made worse by weak production in the hydro-energy sector due to last winter's drought, which resulted in a steep rise in imports.

6 Value added in construction increased by an estimated 9 per cent in volume terms in 1980, after falling by 4 per cent in 1979. This improvement was reflected in greatly increased sales of cement and steel (up 13 and 27 per cent respectively).

Diagram 1 **Output indicators**



1 Seasonally adjusted, 3-month moving averages.

Sources: Bank of Portugal; *Quarterly Bulletin;* OECD, *Main Economic Indicators.*

consumption of durables (metal products, transport equipment), output turned up very sharply. The differences between sectors are confirmed by the trend of capacity utilisation rates in manufacturing industry. Production in the tertiary sector was more buoyant than in 1979 (up by an estimated 6 per cent as against 3.8 per cent), the upturn being especially marked in banking and insurance (up 9.5 per cent, as against down 3.2 per cent in 1979).

Table 4 **Output in some manufacturing industries**

	Weights 1970[1]	Percentage changes 1979/1978	1980/1979
Food, beverages and tobacco	22.0	1.4	2.7
Textiles, clothing and leather	17.7	16.6	8.5
Chemicals, and allied products	15.6	12.8	−0.5
Non-metallic mineral products	10.0	0.2	9.9
Basic metals	7.6	−2.0	12.1
Metal products	1.2	−5.8	13.3
Non-electrical machinery	2.1	7.5	4.4
Electrical machinery	4.0	11.8	15.2
Transport equipment	2.7	−7.7	30.7
Total industrial production	89.3	6.4	6.7

1 In per cent of total industrial production.
Source: INE.

Labour market

The improvement in the labour market situation which had begun in 1979 continued in 1980 owing to the buoyancy of activity. Growth of the civilian labour force may have slowed slightly, while total employment continued to rise at a rate of about 2 per cent[7]. In agriculture the decline in employment, after stabilizing temporarily because of the exceptional harvests in 1979, continued at a rate of nearly 5 per cent, this being much the same as in the periods 1964-1974 and 1976-1978[8]. On the other hand, non-farm employment rose by about 6 per

Table 5 **Labour force and employment**
Percentage change

	Thousands 1980 II	1978/1977	1979/1978	1980/1979	1979 I/1978 I	1979 II/1978 II	1980 I/1979 I	1980 II/1979 II
Total population	9 423	0.4	1.4	0.7	1.3	1.5	0.6	0.9
Civilian labour force	4 303	0.3	2.2	1.3	2.1	2.3	1.6	1.2
Participation rate (percentage)	—	44.7	45.0	45.3	44.5	45.5	44.9	45.7
Total employment	3 955	−0.3	2.1	1.9	1.7	2.5	2.3	1.4
Agriculture	1 082	−5.4	−0.2	−4.8	−1.1	0.8	−1.4	−8.2
Industry	1 071	5.0	2.3	2.1	3.5	1.2	0.7	3.5
Construction	372	4.9	3.4	13.8	4.4	2.5	14.5	13.1
Services	1 430	−0.6	3.9	4.6	2.5	5.4	3.9	5.3
Dependent employment	2 665	1.5	2.0	4.9	1.0	3.0	4.4	5.4
Agriculture	224	−1.2	−6.8	−2.5	−13.2	0.4	2.5	−7.4
Industry	961	4.8	2.4	3.4	3.4	1.3	1.4	5.5
Construction	333	5.8	1.4	13.7	2.2	0.7	15.8	11.4
Services	1 147	−1.6	4.2	5.5	2.5	5.7	4.3	6.7

Source: INE.

7 This analysis is based on the INE half-yearly survey. The Ministry of Labour estimates indicate no more than an 0.8 per cent rise in employment in 1980; but they relate to dependent employment, excluding agriculture and the public sector, and only concern business employing more than ten workers. The figures from these two sources are difficult to reconcile.

8 Rural migration had temporarily halted between these two periods by the reintegration of repatriates from the former colonies into the farm sector and the first effects of the land reform.

cent, which was double the rate recorded in 1979. Apart from a further rapid growth of tertiary sector employment[9], the steepest increase in numbers employed was in the construction sector (44 000 net job creations in 1980, or ten times more than in 1979).

Unemployment, which had levelled off in 1979, fell in the first six months of 1980; according to the INE survey, its average rate over the year was 7.8 per cent of the labour force, compared with 8.2 per cent a year earlier. This improvement particularly concerned first-job seekers (52.1 per cent of total unemployment in the second half of 1980, compared with 57.5 per cent a year earlier), and more specifically the under-30s, whose unemployment rate declined from 16.1 per cent to 14.5 per cent of the labour force between 1978 and 1980. Women, on the other hand, continued to experience very considerable difficulties on the labour force market and accounted for about 70 per cent of the jobless total in the second half of the year (compared with 60 per cent two years earlier). For unemployed persons who have previously worked, the number of whom has remained remarkably stable over the last few years, the duration of unemployment has shortened: in 1980, 60 per cent had been out of work for more than twelve months (compared with 70 per cent in 1978). Despite this slight improvement, however, the level of unemployment, both registered and disguised, remains high in Portugal[10].

Table 6 **Unemployment**[1]

	1977	1978	1979	1980
	As a percentage of the civilian labour force			
Unemployment rate				
Total	7.5	8.2	8.2	7.8
Male	5.9	5.5	4.9	4.1
Female	10.1	12.1	13.0	13.0
People under 30	15.0	16.2	15.9	14.6
	As a percentage of the number of unemployed			
First job seekers	49.8	56.3	56.7	52.7

1 Yearly data are average of results of half yearly survey by INE.
Source: INE.

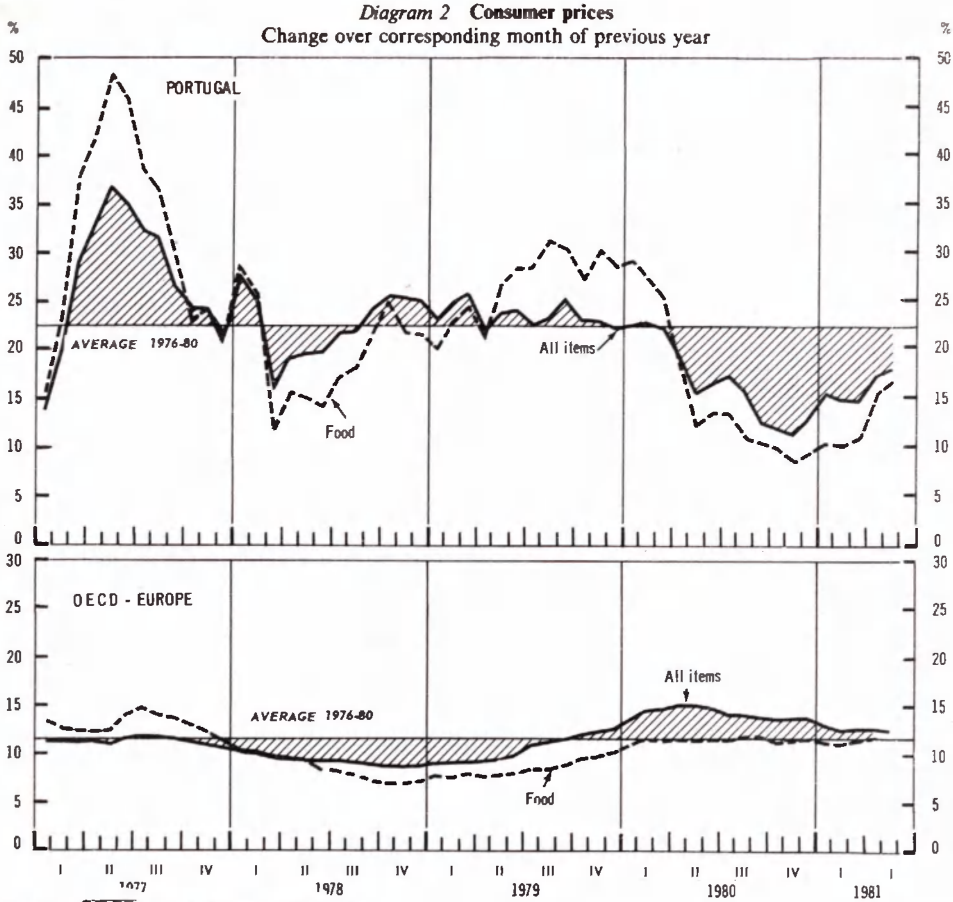
Prices and incomes

The rise in consumer prices, which averaged 23.6 per cent between 1978 and 1979, gradually slowed in 1980 to 16.6 per cent for the year as a whole. This was largely due to the more moderate trend in food prices (representing half of families' expenditure), attributable to tighter price control and also to the exceptionally favourable weather of 1979. Non-food prices, on the other hand, continued to rise very steeply in 1980 owing to pressure from import

9 General government employment continued to rise, though less rapidly (6.0 per cent compared with 11.2 per cent in 1979). Employment in other services showed an exceptionally large increase.

10 A detailed analysis of medium-term trends of employment and unemployment is presented in the OECD Economic Survey of Portugal, July 1980, pp. 25-27.

Diagram 2 **Consumer prices**
Change over corresponding month of previous year



Source: OECD, *Main Economic Indicators.*

prices, especially for petroleum products[11], and also from wage costs[12]. In the context of a progressive decontrol of prices, a number of rises were approved in December 1980 (energy products, transport, food) and then again in April 1981

11 Wholesale prices, percentage changes from previous year:

	1979	1980
Raw materials less fuels	18.4	29.6
Fuels	13.0	32.9

12 According to the estimates of the Central Planning Department—which, it must be emphasized, are purely mechanical—the percentage contributions of the different inflation factors to the rise in the total demand deflator is as follows:

	1979		1980	
	Change	Contribution	Change	Contribution
Import prices	9.0	36	8.9	47
Wage costs	5.6	22	6.2	33
Other factor incomes	9.9	40	1.9	10
Net indirect taxes	0.5	2	1.8	10
Total demand deflator	25.0	100	18.8	100

(food). In addition, some changes were introduced into the price control system. For example, the weight of food products in the "shopping basket", whose prices are frozen, was reduced from 12 to 6 per cent of families' expenditure. The price control system was also relaxed at the beginning of the year when the turnover threshold above which firms must declare their prices was raised and the interval between notification and official authorisation was shortened. These measures and last winter's drought had a definite impact on prices in the early part of 1981 (the May 1981/May 1980 rise in the overall index excluding rents was 18.2 per cent)[13].

Table 7 Wage bill
Percentage change from previous year

	1977	1978	1979	1980
Wage bill				
Including social security contributions	21.0	19.7	21.0	25.6
Excluding social security contributions	19.7	19.9	21.9	23.9
of which: Agriculture	14.5	13.9	20.1	19.4
Industry	15.3	16.3	20.5	23.9
Construction	23.9	15.0	16.2	25.0
Private services	17.5	17.2	20.1	23.6
General government	31.0	29.3	27.1	25.7
Memorandum items:				
Real wage per head[1]	−7.1	−2.9	−2.8	4.0
Unit labour cost	14.8	15.8	15.7	18.8

1 Compensation per employee excluding social security compensation, divided by the private consumption deflator.
Source: Central Planning Department.

The growth of the wage bill accelerated significantly in 1980 (25.6 per cent as against 21.0 per cent the previous year, including social security contributions). Because of the amnesty introduced in 1980 social security contributions grew more than proportionately, so that the wage bill exclusive of contributions increased at a slightly slower pace (23.9 per cent). Given the slower advance of consumer prices in 1980, wage purchasing power should have increased for the first time in four years. Despite appreciable productivity gains, unit labour costs rose by nearly 19 per cent, i.e. faster than the GDP price deflator (14.9 per cent), whereas in previous years they had risen a good deal more slowly. There was thus a shift in income distribution towards wages, halting the profit rebuilding movement that had lasted from 1977 to 1979. The share of wage payments in national income at current prices rose from 48.6 to 50.7 per cent between 1979 and 1980[14]. No information on employers' contributions by sector is available, but given the particularly marked gap between producer prices and wage costs in industry in 1980, profit deterioration was probably more pronounced there than in the economy as a whole.

Balance of payments

The current account, which fell back to a position of equilibrium in 1979 after improving steadily over 18 months, deteriorated markedly again in 1980. The effects of slower export volume growth and faster import volume growth were

13 For the food and drink item, the rise in prices from May 1980 to May 1981 was 17.3 per cent.
14 For the distribution of national income since 1976, see footnote 4 above.

Table 8 **Balance of payments**
Million dollars, n.s.a.

	1977	1978	1979	1980	1979 I	1979 II	1980 I	1980 II
Exports, fob	2 001	2 379	3 550	4 616	1 668	1 882	2 373	2 243
Imports, fob	4 533	4 787	6 182	8 667	2 850	3 332	4 261	4 406
Trade balance	−2 532	−2 408	−2 632	−4 051	−1 182	−1 450	−1 888	−2 163
Services	−97	−53	104	−12	−80	184	−164	152
of which:								
Tourism	268	431	695	853	230	465	292	561
Capital income	−179	−329	−437	−608	−196	−241	−300	−308
Transfers	1 134	1 635	2 476	3 015	1 029	1 447	1 285	1 730
Current balance	−1 495	−826	−52	−1 048	−233	181	−767	−281
Medium- and long-term capital	95	758	813	718	196	617	76	642
Private	19	249	462	293	187	275	43	250
Official	76	509	351	425	9	342	33	392
Basic balance	−1 400	−68	761	−330	−37	798	−691	361
Short-term capital	−30	228	594	1 236	249	345	353	883
Bank's foreign position	567	−201	−995	−484	−341	−654	60	−544
Balance on official settlements	−863	−41	360	422	−129	489	−278	700
Monetary movements								
Drawing on IMF	83	−53	−41	−102	−9	−32	−37	−65
Allocation of SDRs	—	—	23	24	23	—	24	—
Credit to Bank of Portugal	421	197	−274	−358	−111	−163	−177	−181
Change in reserves (decrease = +)	359	−103	−68	14	226	−294	468	−454

Source: Bank of Portugal.

heavily compounded by the deterioration in the terms of trade. Furthermore, whereas in 1979 the invisibles surplus had widened considerably and thus offset the trade deficit, in 1980 its increase slowed down, so that the current account moved into deficit by $1 billion, equivalent to about 4.3 per cent of GDP. Non-monetary capital inflows, essentially short-term, increased by nearly 50 per cent, whilst the banking sector continued to reduce its foreign liabilities, though by barely half as much as in 1979. The overall outcome was a decrease in the Bank of Portugal's indebtedness, a reduction in drawings on the IMF and a fall in the foreign exchange reserves. The few provisional estimates to hand indicate that the trade deficit widened again in the first quarter of 1981, notably because of a rapid rise in imports of energy (electricity) and a weaker trend in exports as a result of the slowdown in world trade, so that the current deficit might have increased by $150 million compared with the first quarter of 1980.

Growth of export volumes slowed very appreciably as from the second half of 1980 and for the whole year amounted to 7 per cent, as compared with 28.6 per cent in 1979. Excluding exports of refined oil products, which increased by 50 per cent between 1979 and 1980, volume export growth between the two years was about 5.7 per cent. This means that Portugal again increased its marked shares in 1980[15] owing to the trend in relative unit labour costs[16], which continued to improve in 1980, though less markedly than in the previous three years. The overall export performance incorporates fairly wide differences in

15 According to the Secretariat's estimates, growth of Portugal's markets for manufactures was of the order of 4 to 5 per cent in 1980, whilst exports of manufactures increased by about 8 per cent.

16 According to the estimates of the Bank of Portugal, Portugal's relative labour costs fell by 2.7 per cent in 1980, compared with 10.8 per cent in 1979.

trend as between product categories. According to provisional figures for the first eleven months of 1980, export volumes decreased by 8 per cent for textiles and by 1 per cent for farm goods. By contrast, exports of wood and cork products and machinery were very buoyant.

Volume import growth accelerated, from 6.7 per cent in 1979 to about 9 per cent in 1980. The acceleration was significant especially for machinery and intermediate goods which were stimulated by the growth of fixed investment and stocks. Crude oil imports increased by 3.9 per cent in tonnage terms in 1980, whilst the total volume of energy imports grew by an estimated 2.5 per cent. Largely as a result of the oil price rise, the terms of trade worsened distinctly in 1980. Unit values, on a customs basis, rose by an estimated 34.8 per cent for imports and 27 per cent for exports between the first half of 1979 and the first half of 1980[17]. The provisional national accounts estimates indicate a deterioration of about 5 per cent in the terms of trade for merchandise in 1980. The trade deficit (fob) widened to $4.1 billion in 1980, ending a three-year period of stability at around $2.5 billion. It can be reckoned that two-thirds of the increase in the trade deficit between 1979 and 1980 was due to the deterioration in the energy balance.

The steady improvement on the invisibles account between 1977 and 1979 faltered in 1980. Receipts from tourism continued to rise in 1980 but less rapidly than in previous years, mainly because of a reduction in the average length of stay of foreigners[18]. On the other hand, there was a marked deterioration in the investment income account, due both to the increase in foreign borrowing and to the rise in interest rates. In 1979 emigrants' remittances in dollar terms were 47 per cent up from the previous year, but in 1980 they grew by only 19 per cent. The big increase recorded in 1979 seems to have marked the end of a catch-up period after the phase of non-remittance from 1974 to 1976[19], and the results for 1980 partly reflect the slower growth of nominal wages in the emigrants' countries of residence. All in all, the invisibles account, services and transfers, grew significantly again in 1980, by about $400 million, though less rapidly than in the previous two years. The combination of this weaker trend in invisibles and the widening of the trade deficit caused a marked deterioration in the current account position, which moved from near-equilibrium in 1979 to a deficit of approximately $1 billion in 1980.

Net inflows of medium and long-term capital contracted in 1980, compared with the previous year. Despite a substantial increase in foreign direct investment[20]

17 The index of unit export values was very much influenced by the increase in prices of refined oil products.

18 This is probably due to the fact that the increase in the number of entries of foreigners is mainly accounted by Spaniards who stay for only very short periods. Between 1979 and 1980, total tourist receipts increased by 22 per cent, the average daily receipts by nearly 15 per cent, the number of entries by 30 per cent, but the average number of nights spent in the country per person declined by 19.2 per cent to an average of 1.2. On the other hand, the number of tourists remaining more than 24 hours increased by more than 20 per cent and their average stay was 10.4 nights per person.

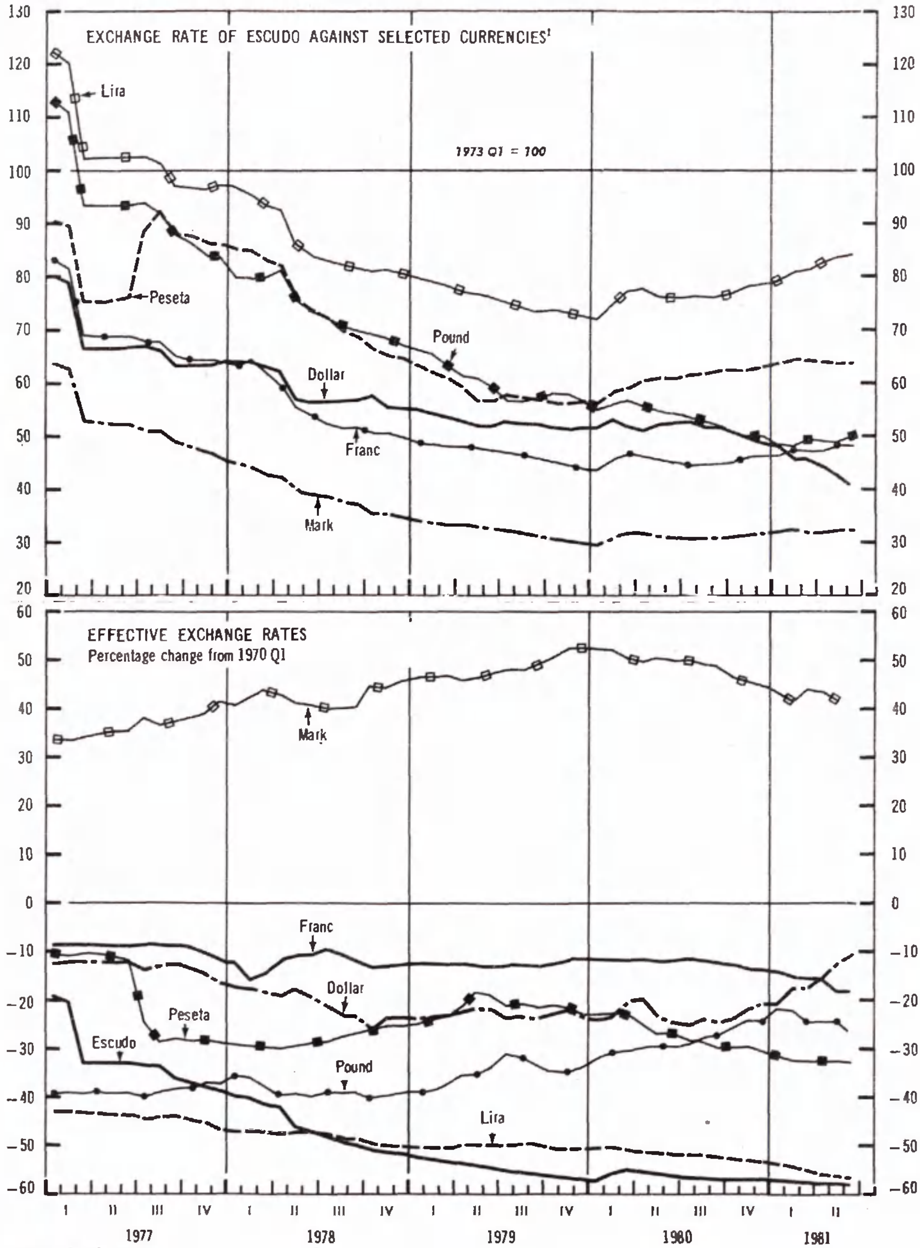
19 The catch-up was due both to an improved climate of confidence and to the incentives introduced in 1978 and 1979. The chief of these incentives were authorisation for emigrants to hold foreign exchange accounts and the creation of savings accounts giving entitlement to preferential credit for purposes of housebuilding or productive investment. It is possible that these measures encouraged the return of capital not representing earnings from work but nevertheless declared as remittances.

20 The trend of foreign direct investment in Portugal over the last four years has been as follows (in billion escudos):

1977	1978	1979	1980
2.2	2.8	4.5	6.3

net inflows to the private sector showed a marked reduction; this was due among other things to a fairly sharp decline in trade credits, largely because of the rise in long-term interest rates. On the other hand, private capital inflows to the public sector continued to increase because of continued foreign borrowing by nationalised enterprises. Short-term non-monetary inflows increased very appreciably, having

Diagram 3 **Exchange rates**



1 Units of foreign currency per escudo.
Source: OECD Secretariat.

doubled between 1979 and 1980; this was due firstly to the increased volume of credit to finance oil purchases and, secondly, to a shift towards short-term trade credits. Direct foreign borrowing by enterprises provided the banking system with very considerable liquidity during the year which enabled it to continue to discharge its foreign liabilities, though on a lesser scale than in 1979. In all, the balance on official settlements showed a surplus of $422 million. As in 1979, the Bank of Portugal repaid part of its foreign borrowing and the foreign exchange reserves fell slightly. These, after the revaluation of the gold stock[21], amounted to $6.3 billion at end-year; at that time Portugal's external debt, having risen by more than $1 billion during the year, stood at nearly $7.7 billion[22].

The escudo effective exchange rate depreciated by less than 1 per cent in 1980, as compared with 10.5 per cent the previous year[23]. In 1979 the average monthly rate of depreciation of the escudo had been progressively reduced as the current account deficit narrowed, coming down from 1.25 per cent in the first quarter to 0.75 per cent at the end of the year. In February 1980, while retaining the system of progressive depreciation (0.75 per cent per month until June and 0.50 per cent thereafter), the Portuguese authorities revalued the escudo by 6 per cent. This measure, which had been made possible by the restored equilibrium of the current account position, was designed essentially to keep import prices in check, whilst in preserving the crawling-peg depreciation system the authorities sought to control the development of the real effective exchange rate. The escudo depreciated by 5.9 per cent against the dollar in 1980, though with considerable fluctuations over the course of the year. Since the beginning of 1981 the depreciation of the escudo against the dollar has become more pronounced, reaching 13 per cent between December 1980 and May 1981; during this same period the effective exchange rate depreciated by 1.8 per cent, which is more or less in line with the official target of 0.5 per cent per month. Given the respective weights of the dollar and other currencies in the escudo effective exchange rate index[24], this trend means that the escudo has been stable or has even appreciated somewhat against currencies other than the dollar since the beginning of the year.

II ECONOMIC POLICY

With balance-of-payments problems receding temporarily following the marked improvement in 1978 and 1979, inflation and the promotion of investment became the main concerns of economic policy in 1980. The objective of slowing down the rise in consumer prices was to be achieved through a substantial increase in food subsidies, a slowdown in the rate of depreciation of the escudo and a

21 On 1st April, 1980, the gold stock was revalued retroactively to 1st January on the basis of $254.92 per ounce, as against 35 SDR previously.

22 Trend of the external debt ($ billion):

	1976	1977	1978	1979	1980
Public sector	0.6	0.8	1.5	2.1	2.5
Bank of Portugal	1.2	1.7	1.9	1.6	1.1
Private sector	1.1	1.9	2.0	2.9	4.1
Total	2.9	4.4	5.4	6.6	7.7

23 Calculated according to the definitions and weights of the OECD Secretariat.

24 In March 1981, the dollar had a weight of approximately 22 per cent in the effective rate index calculated by the Bank of Portugal.

20 per cent limit on wages increases. Investment policy was based on a strong increase in general government capital expenditure and a new system of investment incentives based on interest subsidies and tax rebates. Monetary policy which had already been relaxed in 1979, was to remain accommodating, in order not to jeopardise the recovery of investment, though aiming to keep the balance-of-payments deficit under control. Fiscal policy called for a slight reduction in the general government borrowing requirement as a percentage of GDP—7.8 per cent, down from 8.1 per cent in 1979—to be obtained mainly through a virtual stagnation of public consumption in volume. In the event, consumer prices decelerated faster than expected despite a stronger than foreseen increase in wages, partly due to the stricter enforcement of price controls, but also to the moderating effect of good crops on food prices. On the other hand, fiscal policy was more expansionary than foreseen due to a sharp increase of public expenditure, with the borrowing requirement attaining 9.1 per cent of GDP.

The main medium-term goal of the government returned by the elections at the end of 1980 is sustained investment-led growth, which is to take place within a more market-oriented economy (see Part III). This orientation has already influenced the stance of policy for 1981. The process of price deregulation, begun in late 1980, should result in an acceleration of inflation in the course of 1981 and, in order to keep costs under control, the authorities have set a 16 per cent limit on wage increases—the same as the official average inflation forecast for 1981. Budget policy should be somewhat less expansionary than in 1980, with a planned deceleration in public consumption and a fall in real terms of subsidies and transfers to enterprises in connection with the relaxation of price controls. Finally, the stance of monetary policy has not been tightened so far in 1981, nor has there been any change in the system of sliding depreciation of the exchange rate. However, at the time of writing the authorities were considering the adoption of a more restrictive policy stance in view of the widening balance of payments deficit.

Fiscal policy

The 1980 budget provided for a sharp increase in the weight of public sector transactions (both revenue and expenditure) in GDP, although the borrowing requirement as a percentage of GDP was to be slightly reduced compared with 1979. The intention of the authorities was to operate a switch of expenditure from current to capital account, to be achieved mainly by a freeze in public consumption in volume. Outturns for 1980 show that revenue and especially expenditure rose faster than expected so that the net impact of general government was considerably more expansionary than expected.

General government revenue increased by nearly 37 per cent in 1980, slightly faster than forecast in the budget, owing to a large extent to a reduction in tax evasion by firms. Direct taxes on wages and salaries yielded only a 14 per cent increase in revenue as rates were revised downwards for the first time in five years to offset substantial fiscal drag. On the other hand, the yield of the profits tax doubled and that on capital increased by 50 per cent[25]. Indirect tax revenue increased by nearly 42 per cent—ten points faster than expected, despite a slower nominal growth of GDP—with especially high gains for the transaction tax (55 per cent). Furthermore, social security contributions registered a 44 per cent increase.

25 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, part of the increase in revenue is attributable to delays in collection in 1979.

In all cases, with the exception of taxes on wage income which are collected at the source, there seems to have been a marked acceleration of payments of tax and social security arrears as a result of a moratorium on tax evasion declared in 1980 and the good liquidity situation of firms during most of last year.

The relative success on the revenue side in 1980 contrasts with the traditional difficulty of keeping expenditure under control. In particular, despite some success for central government, the freeze on civil service employment was not enforced, particularly at the level of local authorities, so that public consumption increased by 5.6 per cent in volume, instead of a forecast near stagnation. Capital expenditure also increased much faster than expected due in large part to a 74 per cent rise in value in that of local authorities[26]. Subsidies in 1980 increased by some 31 per cent compared with 52 per cent in 1979; subsidies by the autonomous funds, mainly for food and fuel, increased from 34 to 49 billion escudos, while those granted to enterprises stagnated at about 11 billion. But there has been a sharp, though expected, acceleration in the growth of transfers (51.5 per cent) due to increases in pensions and unemployment benefits[27]. The borrowing requirement of general government thus attained 9.1 per cent of GDP, which rises to nearly 11 per cent by including financial transactions—mainly credit

Table 9 **General government accounts**
On a national accounts basis

	Billion escudos			Percentage changes from previous year	
	1979	1980	1981	1980 Outturn	1981 Forecast[1]
Current revenue	264.3	361.6	431.3	36.8	19.3
Direct taxes	59.4	77.5	95.8	30.5	23.6
Social security contributions	64.6	93.0	110.5	44.0	18.8
Indirect taxes	122.0	173.0	204.6	41.8	18.3
Other	18.3	18.1	20.4	−1.1	12.7
Current expenditure	302.2	406.7	485.1	34.6	19.3
Goods and services	147.6	186.3	221.3	26.2	18.8
Subsidies	46.5	61.0	60.7	31.2	−0.5
Transfers	79.6	120.6	140.1	51.5	16.2
Interest	28.5	38.8	63.0	36.1	62.4
Current savings	−37.9	−45.1	−53.8	—	—
Capital revenue	4.2	5.8	11.8	38.1	103.4
Capital expenditure	46.9	70.8	82.7	51.0	16.8
Transfers	10.5	20.9	15.6	99.0	−25.4
Investment	36.4	49.9	67.1	37.1	34.4
Borrowing requirement	−80.6	−110.1	−124.7		
(as a percentage of GDP)	(−8.1)	(−9.4)	(−8.7)		

1 Forecast 1981/Outturn 1980.
Source: Ministry of Finance.

26 The 1979 law reforming local finance has provided for the transfer of revenue and expenditure from central government to local authorities, although the new powers concerning investment are not yet defined. In 1980, capital expenditure of local authorities amounted to 24 billion escudos, approximately a third of that of general government as a whole.

27 38 per cent for minimum-rate pensions and 32 per cent for unemployment benefits.

to public enterprises. As in previous years, the public sector deficit was financed mainly by the Bank of Portugal, but there was nevertheless an increase in the share covered directly by the public's savings—roughly from 5 per cent in 1979 to 10 per cent in 1980—not least because of the issue of Treasury bonds at attractive rates.

According to the latest estimates of the implementation of the 1981 budget, the authorities are committed to reducing slightly the general government borrowing requirement to 8.7 per cent of GDP this year. However, on the experience of the past few years, when similar targets were announced and regularly exceeded, it is doubtful whether any shift towards a less expensionary stance might be expected, especially since no significant change is envisaged in the instruments available to the authorities[28]. Following the exceptional increase in 1980 (37 per cent), the rate of growth of revenue should slow down considerably in 1981. The estimated increase of 19.3 per cent, based on a similar GDP growth assumption at current prices, apparently implies further success in the fight against tax evasion[29]. As for expenditure, the extremely rapid increase envisaged for interest payments (62 per cent) will require the compression of other current and capital expenditure items, if the borrowing requirement target is to be achieved. Thus, the authorities are calling for only a small real increase in public consumption. In view of price deregulation it is also deemed possible to contain food subsidies and those to public enterprises at roughly their 1980 level. And though pension rates are to be increased again this year, there should be no real rise in current transfers. Finally, contrary to the experience of recent years, the authorities are planning for a fall in capital expenditure in real terms, mainly because of a 25 per cent fall in capital transfers. As for the financing of the government deficit, the share of the public's savings should rise further to about 15 per cent and a larger role of commercial banks is also envisaged.

Monetary policy

In recent years, the short-term management of the economy has relied to a large extent on monetary policy. Ceilings on bank credit, introduced at the time of the 1978 stabilisation programme, are the main instrument of the monetary authorities[30] due to the difficulty of controlling the monetary base in face of large and unpredictable public sector deficits and their financing as well as of wide swings in the balance of payments. However, as the announcement of total

28 The government has submitted to Parliament a bill containing proposals for the definitive codification of the nature of investment to be carried out by local authorities, set down in principle by the 1979 reform. Another bill on the transfer of revenue to local authorities is to be submitted to Parliament in autumn. But, even if the government proposals are swiftly enacted, no important effects on local authorities transactions can be expected in the course of 1981.

29 In 1981, the elasticity of revenue to GDP would still be higher than its 1979 level, and, given the "hump" of 1980, this means that the underlying elasticity is higher. This could be accounted either by lesser tax evasion or higher tax rates, or both. A qualitative assessment suggests a roughly neutral effect of tax rates. The rates of the capital income and tobacco taxes will be raised in 1981, as well as stamp duties. On the other hand, deductable allowances for personal income taxes have been increased, a 10 per cent surtax introduced on the complementary tax in 1979 abolished, and several rates of the transactions tax revised downwards.

30 There was no change in the major policy instruments during 1980. In September, the first issue of short-term Treasury bills took place (30, 60, and 90 days maturities). These are sold by the Treasury to the banking system, inclusive of the Bank of Portugal, and are freely tradable among banks in the interbank bond market. They are repurchased by the Treasury at the end of the calendar year.

domestic credit targets and associated balance of payments assumptions was discontinued in March 1979 and ceilings on bank credit are not published in advance, it is difficult for the Secretariat at present to assess both the stance of policy and the degree of control exerted on the monetary system.

It is clear, however, that the accomodating stance adopted in 1979, when balance-of-payments problems were receding, was further relaxed in 1980, in order to sustain the recovery in activity. Credit ceilings on bank credit allowed for an increase in bank loans of 25 per cent in the course of 1980, compared with 20 per cent in 1979. Furthermore, during 1980 the monthly ceilings were exceeded by approximately 2 per cent on average without penalties being imposed on offending banks since the authorities considered that the balance of payments goals had been achieved. The growth of money supply (M2) which had begun to accelerate in the second quarter of 1979, to attain a rate of 36.5 per cent at end-year, steadied around this high trend in the course of 1980. Confirming the pattern of the last few years, time deposits, particularly those of emigrants (with a 72 per cent increase in 1980) showed a much more dynamic trend than sight deposits. M1 increased by 22 per cent in 1980, faster than currency in circulation, as the public still appears to be adjusting the structure of its liquid holdings after the events of the mid-1970s[31].

As for the counterparts of the money supply, the expanding government deficit has entailed a further acceleration of credit to the public sector. Credit to the private sector, which virtually coincides with bank loans subject to ceilings, also accelerated in 1980 in connection with buoyant activity. This was due mainly to the trend of bank loans to private enterprises, which rose constantly in the course of 1980 to attain a rate of growth of more than 30 per cent in

Table 10 **Money supply and counterparts**

	Outstanding 31.12.1980	Percentage change over corresponding period of previous year				
		1979 Q4	1980 Q1	Q2	Q3	Q4
Currency in circulation	165.2	17.1	19.7	20.0	20.9	16.2
Sight deposits	319.3	31.5	34.1	27.0	25.8	25.5
M1	484.5	25.9	28.5	24.3	24.0	22.2
Time deposits	854.8	44.6	41.8	41.9	43.7	43.6
M2	1 339.3	36.5	36.7	35.2	36.1	35.0
Counterparts						
Net foreign assets	109.3	—	—	—	—	—
Total domestic credit	1 243.1	25.8	29.2	28.2	27.7	28.3
Credit to public sector[1]	170.0	44.1	42.6	45.3	38.5	36.9
Credit to enterprises and households	1 073.1	21.4	25.7	23.7	24.8	25.7
of which:						
Public entreprises	253.8	16.3	21.2	14.2	10.4	11.8
Private enterprises and households	819.3	23.3	27.4	27.3	30.1	30.8
Miscellaneous	−13.1	—	—	—	—	—

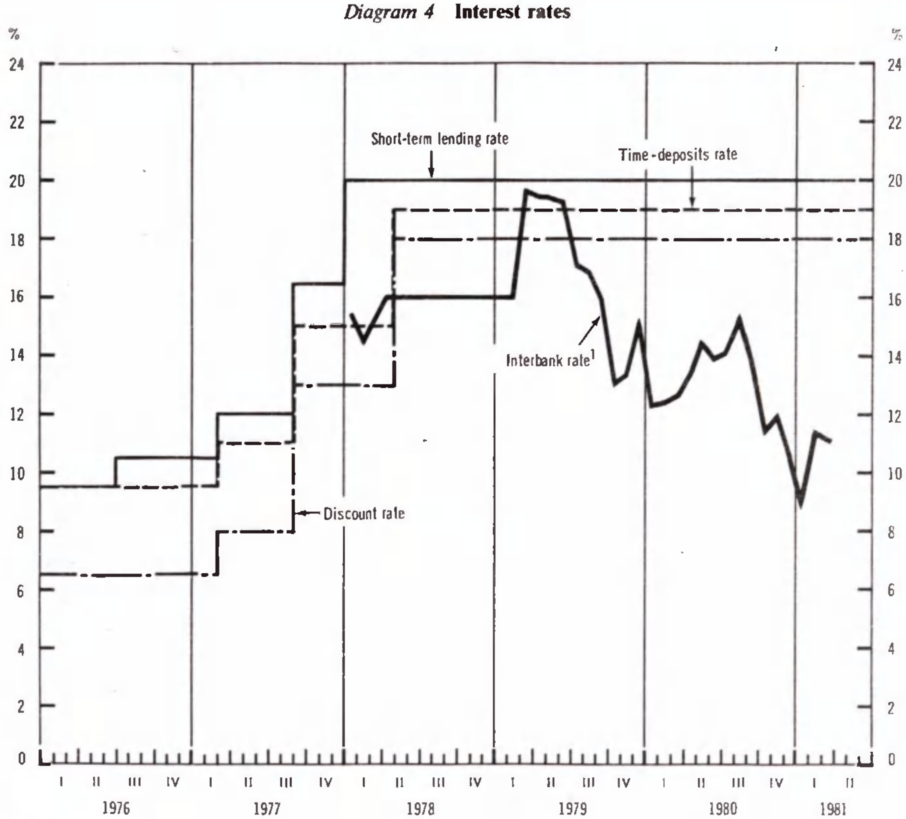
1 As of 1st of January 1980, credit to public sector was reduced by 168.7 billion escudos, which represent the reduction in public debt resulting from the revaluation of the stock of gold. However, this amount was included for calculating rates of growth through 1980.
Source: Bank of Portugal.

31 The ratio of currency in circulation to M1, which had risen considerably during the period of political uncertainty of 1974-1975, has declined from 49 per cent in December 1975 to 34 per cent in December 1980, but is still above the 1961-1975 average of about 30 per cent.

December. On the other hand, domestic credit to public enterprises (which in this classification appear in the private sector) increased at a slower rate. It should be recalled that whereas bank credit is the main source of finance of private firms, public enterprises have other sources, such as capital transfers from general government, which actually doubled last year. Furthermore, following the indications of the authorities and encouraged by the downward trend of foreign interest rates in the second and third quarter, public enterprises increased their short-term foreign liabilities so that net foreign assets accounted for nearly 20 per cent of money supply growth last year. The liquidity position of banks was rather comfortable during 1980, despite some overshooting of ceilings, as witnessed by a marked decline in the rate of the interbank money market rate, the reduction of net foreign liabilities and the increase in the ratio of net free reserves to total liabilities subject to reserve requirements[32]

It should be recalled that interest rates, with the exception of interbank rates, are completely administered in Portugal. The system is very complicated with a wide spread of preferred rates. The long-standing policy of maintaining extremely low interest rates was abandoned in the summer of 1977 and a further upward

Diagram 4 **Interest rates**



1 Average rate, 60 to 90 days.
Source: Bank of Portugal, *Quarterly Bulletin.*

32 Net free reserves are defined as excess reserves less use of central bank discount facilities.

adjustment took place in early 1978, but there has been no change since. At present lending rates range between 11.5 and 22.5 per cent depending on the degree of preference accorded to different types of transactions. Some real interest rates became positive with the slowing down of inflation in 1980, but for some transactions they are likely to have remained negative.

III SOME PROBLEMS IN THE ALLOCATION OF RESOURCES

Portugal in the early 1980s is, under many aspects, still a developing country characterised by the second lowest per capita GDP in OECD and a largely insufficient productive capacity relative to demand. This deficiency has been highlighted since the mid-1970s by sharp balance-of-payments disequilibria and has been one of the concurring factors of the country's high inflation rates. The first part of this section describes the basic trends of the Portuguese economy since 1960, with special reference to some of the underlying causes of the productive capacity problem. Although the relative importance of individual influences has changed over time, the common feature throughout the whole of the period under review has been the relatively minor role of market forces in the allocation of resources and the resulting distortions, either because of protectionism, administered interest rates and credit conditions, controlled prices, burgeoning public sector deficits, operating criteria of nationalised firms, etc. The need for an expansion of productive capacity based on a more efficient allocation of resources has been recognised by the authorities which intend to take a number of steps in order to increase reliance on market forces. The main lines of this new orientation, which has mostly been only announced in principle, are presented in the second part of the section.

Some major trends, 1960-1980

In the course of the 1960s and the beginning of the 1970s the Portuguese economy experienced very high rates of growth. Between 1968 and 1973 the annual rate of growth of output averaged 7 per cent. Growth was characterised by large overall productivity gains, associated with rural emigration. But since investment took place mainly in capital intensive sectors, a great share of rural labour could not be absorbed. This resulted in a stagnation of employment in industry and it was only thanks to a massive wave of emigration abroad—estimated by national sources at about 1.5 million between 1960 and 1974—that "open" unemployment was kept at a very low level. In the 1960s the rate of inflation was much the same as the OECD average but it speeded up in the early 1970s, partly due to higher import prices and the disruptive effect of protracted colonial wars[33]. The current balance, which had registered small deficits in the early 1960s swung into surplus thereafter—about 3 per cent of GDP on average for

33 Trend of consumer prices: average annual percentage change.

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

1970-1973—with emigrants remittances and, to a lesser extent, tourism receipts more than offsetting a large trade deficit. Finally, it should be noted that, in marked constrast with the trend of many OECD countries, the weight of general government transactions in the economy was roughly stable in the late 1960s and early 1970s, with a constant lending capacity that averaged about 3 per cent of GDP between 1970 and 1973.

Despite rapid economic growth the Portuguese economy was faced with some persistent problems which were to come to the forefront in the course of the 1970s. The rigid institutional framework and the protectionist environment appear to have seriously hampered the role of market forces and go far in explaining the choice of capital-intensive investment in a country with a potentially abundant labour force[34]. The concentration of resources in these sectors contrasts with the relative neglect of agriculture. During this period, a massive rural exodus was associated with reduction in cultivated land, lagging investment, poor land use and an archaic system of ownership, all of which resulted in a virtual stagnation of output and extremely low yields[35]. It is indicative of the under-employment and low productivity of this sector that in 1973 it accounted for over 35 per cent of employment but only 16 per cent of output. The insufficient productive capacity of agriculture was compounded by that of some manufactured goods so that the rise in income and demand during this period brought about large trade balance deficits, with approximately half of domestic food requirements being imported. At the same time a number of factors, which were to disappear or become negligible in the course of the 1970s, concurred to narrow the trade balance deficit. Cost-competitive Portuguese exports benefitted from the rapid growth of world trade and protected colonial markets; and colonies were also a source of raw materials on favourable terms.

As for economic policy, there was a constant political committment, by and large respected, of running a budget surplus. The stability of the public sector during this period conceals a large degree of rigidity of both public revenue and expenditure, due to a very complicated and rigid taxation system—largely based on a considerable number of indirect taxes—and the heavy weight of military spending in connection with colonial wars. In the absence of a well developed financial market, to be expected in a country like Portugal, the channelling of savings to investment was mainly the task of the banking system, which was dominated by a few large banks. This oligopolistic market structure, coupled with a monetary policy based on a complicated system of credit allocation and a set of rigidly fixed interest rates, is likely to have contributed to an inefficient allocation of resources.

Since 1974, the Portuguese economy has experienced a major upheaval resulting not only from the first oil crisis and the 1974-1975 international recession, but also the 1974 change of regime, the loss of colonies and a large inflow of former colonial residents. The most critical period was between 1974 and 1977 when the economy experienced a series of mounting disequilibria. The average annual inflation rate accelerated to some 25 per cent, triggered off by a wage explosion—nominal wages increased by 60 per cent in 1974-1975 despite the introduction of controls that kept prices artificially low. There was a marked slowdown in growth—between 1974 and 1977 real GDP growth averaged only 2 per cent per year—brought about by disruptions in activity connected with the change of regime and the world recession. With the virtual end to emigration

34 Such as the decision taken in 1971 to build the large SINES complex, including shipyards, steel and petrochemical plants.

35 For a description of the problems of agriculture, see OECD Economic Survey of Portugal, July 1980, pp. 38-41.

and the repatriation of former colonial residents, the unemployment rate rose from 1.8 per cent in 1974 to nearly 8 per cent at the end of 1977. But the most pressing problem during this period proved to be the balance of payments, with the current account swinging from an average surplus of $250 million for 1970-1973 to an unprecedented deficit of $1.5 billion in 1977, or 9 per cent of GDP. The causes are to be found in a collapse of exports due to disruptions in production, the loss of protected colonial markets, the international recession and, to some extent, protectionist barriers in foreign markets; the adverse trend of tourism receipts and the weakness of emigrants' remittances owing to the uncertain climate and expectations of a currency devaluation.

In face of these serious balance-of-payments problems, the authorities adopted a set of stabilization measures late in 1977 and in 1978, based in particular on restrictive monetary policies and a sliding devaluation. Partly as a result of these measures, the current balance recovered spectacularly in the course of 1978 and attained equilibrium in 1979. Because of the restoration of competitiveness, volume exports increased on average by 20 per cent in 1978-1979, but this result should be assessed in view of cumulated market-share losses of almost 35 per cent between 1974 and 1977. Imports also increased very moderately due to the slowdown in activity in 1978 and import restrictions. But the main factors of improvement were exceptionally large emigrants' remittances and tourism receipts, which made up for the ground lost during the first years of the new regime, the former partly in response to the creation of attractive savings schemes. The improvement in the balance of payments appeared, therefore, not very stable as it was due to large extent to catch-up phenomena. This was confirmed in 1980 when a strong upswing in activity—with GDP growing at 5½ per cent—entailed a renewed widening of the balance of payments deficit. As for inflation, its trend has been by and large determined by the degree of application of price controls. Up to 1979, inflation continued to rise well above 20 per cent, with a restoration of profit margins allowed by applying price controls very flexibly. And although real wages actually declined, their nominal rate of increase remained high (between 18 and 20 per cent). In 1980, inflation declined to about 16.5 per cent, due to a stricter enforcement of price controls, only to accelerate again at the beginning of 1981 as soon as controls were relaxed.

Developments since 1974 highlight the gravity of the productive capacity problem, which has become more pressing in the context of the emergence of a strong balance-of-payments constraint. But low productivity has also had a negative effect on costs and inflation, although the latter is mainly imputable to the interaction of nominal income trends and the more or less strict application of price controls (which until recently covered approximately 50 per cent of the consumer price index). A number of major impediments to an efficient allocation of resources has developed, in addition to those already existing before the events of 1974. In agriculture, the land reform of 1975 and its successive modifications has been associated with a large degree of uncertainty concerning land property rights[36]. The necessary drive towards modernisation has consequently not materialised and, under many aspects, the situation has deteriorated. Thus, while GDP rose at an average annual rate of 3.2 per cent between 1973 and 1980, value added in agriculture actually declined by 0.8 per cent on average with

36 The land reforms began with the expropriation of latifundia in the south. Land holdings were not split up, but rather reorganised as cooperatives or collective production units. It should be noted that, in 1975 and 1976, legal expropriations went hand in hand with illegal occupation of land. In 1977, legislation was introduced to regularise the process but its implementation, which calls for both further expropriation and the return of some land to former owners, has met with a number of difficulties, particularly because of problems of interpretation of the criteria of land allocation.

further falls in the cultivated area and yields of some major crops[37], which were already well below those of a number of Mediterranean countries[38].

But possibly one of the most serious factors of allocative distortion in the course of the 1970s has been the rapid, and often uncontrollable, expansion of the public sector—both general government and public enterprises. General government accounts swung from a small lending capacity at the beginning of the 1970s to a borrowing requirement of over 9 per cent of GDP in 1980 owing mainly to the trend of current expenditure which rose from less than 20 per cent of GDP in 1975 to 34 per cent in 1980. On the other hand, the share of revenue increased only from 23 to 30 per cent respectively. And revenue in 1980 was inflated by probably non-recurrent factors. There has been little change in the tax system which remains very inflexible and particularly open to tax evasion.

Table 11 **Medium-term trends in general government transactions**

	As a percentage of GDP			Average percentage change	
	1970	1973	1980	1967-1973	1974-1980
GDP at current prices	100.0	100.0	100.0	13.6	23.1
Current revenue	24.3	22.7	30.0	15.0	28.0
of which:					
Direct taxes	6.1	4.7	6.4	11.9	28.8
Social security contributions	4.6	5.6	7.7	21.5	28.9
Indirect taxes	11.9	10.8	14.4	14.2	28.2
Current expenditure	19.5	19.5	33.7	14.5	33.2
of which:					
Goods and services	14.2	13.2	15.5	13.2	25.5
Subsidies	1.5	1.0	5.1	11.7	54.3
Transfers	3.2	4.8	10.0	20.5	37.5
Interest	0.5	0.4	3.2	5.6	64.6
Capital expenditure	3.3	3.2	5.9	12.5	34.5
of which: Investment	2.5	2.3	4.1	10.9	35.7
Lending capacity (+) or borrowing requirement (−)	2.7	1.4	−9.1		

Sources: INE, national accounts; Ministry of Finance.

The increasing weight of general government expenditure since 1974 is largely attributable to the pervasive spread of the welfare system, the problems arising as a result of decolonisation and the end of emigration, and the nationalisation of some key industries and services. The financing of the widening government deficit has also entailed a rapid growth of interest payments which have been the fastest growing category of expenditure and account at p[illegible] for approxi-

37 Percentage change in yields: average 1974-1980/average 1970-1973.

Cereals	Rice	Tomatoes	Potatoes	Wine[a]	Olive oil[a]
−14.2	−2.5	−7.5	−9.6	−1	−17

a) Production.

38 See OECD Economic Survey of Portugal, July 1980, p. 40.

mately 11 per cent of general government revenue. The 1970s have witnessed the extension of the welfare system to practically the whole of the population, with a resulting rapid increase in transfers—about 38 per cent on average between 1974 and 1980. This development apparently reflects the increase in both the number of recipients and the level of benefits, although the latter remains relatively low[39]. Furthermore, a number of risks, such as industrial accidents and occupational diseases are not, or only minimally, covered. Civil service employment has also become an important and largely uncontrollable source of expenditure increasing on average by 8.5 per cent per year since 1975. The pressure on the labour market originating with all but the end of Portuguese emigration, the integration of colonial officials into the home civil service and the rise in employment in health and education concur in explaining this trend.

The financial situation of nationalised enterprises has greatly affected the steep rise in subsidies, capital transfers and capital endowments[40]. Subsidies increased on average by 54 per cent per year between 1974 and 1980. Capital transfers, virtually non-existent until 1974, have increased nearly twentyfold from 1975. And capital endowments rose from less than 2 billion escudos in 1976 to 21 billion in 1980. Price controls on basic foodstuffs have obviously gone hand-in-hand with subsidies to producers. However, public enterprises are the main beneficiaries of subsidies, they absorb a large share of capital transfers[41] and account for practically all capital endowments. Widespread nationalisation and state-participation in enterprises took place in the wake of the events of 1974. According to available information, in 1978, nationalised and state-controlled firms accounted for 18 per cent of value added, 34 per cent of gross fixed investment and 7 per cent of employment. There is also evidence that public and state controlled enterprises as a whole were making losses between 1976 and 1978 especially in the case of transportation companies, although their financial situation improved during that period[42]. The situation is likely to have further improved in the following two years, again with the exception of transportation. A number of contributing factors can be identified in this context. Some key sectors, such as steel and chemicals, were already experiencing world-wide sectoral difficulties before nationalisation and their situation does not seem to have improved since. It should be noted that state control has entailed considerable uncertainty as to the goals of public enterprises with negative implications for decision making, which has often been at odds with market criteria. Furthermore, in many cases the acquisition of control has been specifically used as an instrument to bail out ailing firms and support employment.

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39 Approximately 90 per cent of pensions are still more than 30 per cent below the minimum wage.

40 It should be noted that while subsidies and capital transfers are included in general government transactions on a national accounts basis, capital endowments which represent financial transactions, namely the purchase by the government of bonds and shares issued by public enterprises, are not. As a result of the rapid growth of capital endowments in recent years, the borrowing requirement underestimates the impact of general government on the economy. Thus, in 1980, the borrowing requirement and the total deficit, the latter obtained by adding capital endowments to the former, were respectively 9.1 and 10.9 per cent of GDP.

41 Some capital transfers are granted to autonomous regions (Azores and Madeira) which are not considered as part of general government, but the largest share goes to autonomous services and funds, which in many cases are in fact managing companies of public enterprises (such as the SINES investment fund).

42 According to a study carried out on behalf of the government, by PROJECTO-PLANO, a consultancy firm, nationalised and state-controlled firms as a whole reduced their losses during this period. However, this finding should be assessed with caution as it is not known to what extent subsidies and capital transfers were included in the profit and loss accounts.

Table 12 **Weight of public enterprises in the economy**[1]
Percentages

	1976	1977	1978
Whole economy			
Value added	13.7	17.3	18.4
Employment	6.3	6.6	6.8
Gross fixed investment	33.7	27.5	34.3
Manufacturing industry			
Value added	16.5	24.6	n.a.
Employment	8.6	9.0	n.a.
Gross fixed investment	57.9	75.9	n.a.

1 This table is based on statistical information contained in a report on public enterprises carried out by PROJECTOPLANO, economic consultants. Public enterprises are here defined to include those in which the state has equity holdings of 50 per cent or more.

These factors, combined with price controls, have meant increasing dependence on subsidies and the use of capital transfers and endowments to cover current expenses. The most striking example of this state of affairs is that of the transportation sector where fares have been kept frozen for long periods in face of rising costs. This has resulted in large deficits and the obsolescence of the sectors' capital stock, although it received on average over 50 per cent of all state subsidies and capital endowments between 1978 and 1980.

Thus the increasing weight of the public sector is mainly due to the combination of soaring, and largely uncontrolled, current spending and an inadequate fiscal system. Capital expenditure, on the other hand, has had only a limited impact on the economy: general government investment proper represents only 15 per cent of total outlays. It is clear that the budget cannot be used as a general economic policy tool as long as the authorities are not capable of exerting a better control on revenue and expenditure aggregates. But, more importantly, large general government deficits of the kind and composition of those experienced in Portugal in recent years are diverting resources away from much needed capital formation. Furthermore, a considerable proportion of national income passes through general government with large-scale redistributive effects—as in the case of subsidies to non-viable or badly-managed public enterprises—which themselves have a detrimental impact on efficient resource allocation and hence productivity, costs and inflation.

The years ahead

The foregoing analysis of the medium-term problems for the Portuguese economy and the analysis presented in earlier surveys[43] have stressed the risks of a resurgence of inflation and external disequilibrium whenever there is an upturn in domestic demand. Developments in 1980 and 198 would certainly confirm this reasoning. The Portuguese authorities are we.. aware of the problems and have drawn up some medium-term scenarios from which a number of targets and forecasts heve been adopted for the period 1981-1984[44] and are now being developed in greater detail. Emphasis has been placed on the

43 See, in particular, OECD Economic Survey of Portugal, July 1980, pp. 21 to 42.
44 The main options of the 1981-1984 Plan were drawn up by the Ministry of Finance and the Plan and approved by Parliament in March 1981.

need for growth of output (targeted at an average 5 per cent a year over the period) and investment. GDP growth, in conjunction with a progressive slowing of the rise in prices (averaging 13 per cent a year over the period, but only 10 per cent in 1984) should permit a reduction of unemployment (6 per cent of the labour force in 1984). The current payments deficit would remain large (about $ 1.5 billion a year) but would not grow any further.

These various projections—which are still very partial—cannot be discussed in detail at this point, especially since the Portuguese authorities might modify them in the coming months. However, it may be stated that they seem abitious, the experience of recent years having shown the sensitivity of the Portuguese economy to exogenous shocks and the rapid re-emergence of a current account deficit whenever domestic demand picks up. The Portuguese authorities are well aware of these difficulties and believe that the above targets can be achieved only if a number of fundamental changes are made in economic policy. In particular, these concern the opening of some sectors to private enterprise and, more generally, the improvement in market mechanisms which, according to the Portuguese authorities, is a necessary condition for entry in the EEC; and setting up a full-scale financial market and developing sectoral policy so as to make the Portuguese economy more dynamic and less dependent on external supplies.

The opening to private enterprise of some sectors of the economy (banking and insurance, cement and fertilizers) is under consideration[45]. In May, the Portuguese Parliament passed a law authorising the setting up of private enterprises in these sectors; however the Council of the Revolution rejected the legislation as not conforming with the Constitution. The Portuguese authorities have taken the view that the lack of competition induced by nationalising a large proportion of activities makes for rigidity. They reckon that development of independent businesses would have the twofold advantage of providing jobs for a large number of workers and, by improving market operation, of holding prices down. Furthermore the authorities consider that the financing of public enterprises is too heavy a burden for the budget.

The government also wants to improve financial markets. A "financial markets dynamisation committee" has just been set up for the purpose of promoting the development of the capital market. Since the beginning of 1981 there have been a number of bond issues, but the government wants subsequently to develop the share market and reactivate the stock exchange, which still handles only a very small volume of business. However, to judge from Portuguese experience prior to 1974, satisfactory functioning of finance channels would seem to call for more than just the opening of banking and insurance to private enterprise or the establishment of a capital market. A simpler and more flexible system of credit would seem just as important in this regard if savings are to be channelled into productive uses.

The government also wants to ensure that undertakings remaining in the public sector become more dynamic and operate more in tune with market mechanisms. To this end, it is aimed to introduce a policy of "realistic pricing" whereby public utility charges (electricity, urban transport, railways, air transport, etc.) would be progressively raised to enable the public corporations concerned to cover their costs without recourse to government subsidies. In addition, a number of changes in the internal organisation of public enterprises should result in higher productivity and greater discernment in investment decisions. Overall, the government's wish is that public corporations should align their behaviour on that of private firms, that they should try to put their finances

45 On the other hand, the legislation relevant to armaments, oil, petrochemicals and steel industries, is to remain unchanged.

on a sounder footing and that in this way they should have a locomotive effect on the economy as a whole. However, it will clearly not be easy to achieve all these aims given present constraints.

So far as sectoral policy is concerned, the authorities want to shift the emphasis towards the industries which are most dynamic and best placed on the export market (electrical and mechanical engineering, ceramics, etc.) whereas, hitherto, industrial policy has consisted more in helping ailing firms. A special problem concerns certain industrial complexes whose projects were drawn up before the first oil crisis and therefore no longer seem suited to present international market conditions. The Sinès industrial complex deserves particular attention here, in view of the large sums already invested. The complex was originally intended to comprise a deep-water harbour, shipbuilding and repair yards and a number of steel and petrochemical enterprises. One of the justifications was that Portugal could secure cheap supplies of raw materials and energy products from the colonies. Decolonisation and the successive oil price rises have naturally compromised the original project. The Portuguese authorities, who are being assisted by external consultants, expect to reach definitive conclusions about a year from now with regard to the "consolidation" of the original project and any changes to be made. Finally, another major option of sectoral policy is to develop agricultural production so as to halve the country's dependence on external supplies of agricultural and food products.

On the energy front, it should first of all be recalled that per capita consumption of energy products is not very high in Portugal, about one-quarter of the EEC average[46]. This is due, in particular, to the level of development of the economy and the climate. But low consumption of energy products goes hand in hand with heavy dependence on external supplies: about 80 per cent of total energy requirements were met by imports in 1979 and 97 per cent of net energy imports consisted of oil. The government, which is to prepare an overall energy plan by the end of 1981, wants to bring external oil dependence down to 90 per cent between now and 1984 by diversifying energy resources and, in particular, by importing coal and natural gas[47]. As regards domestic sources of supply, a decision of principle might be taken during the course of 1981 on the construction of nuclear power stations (Portugal has large uranium deposits). The government also wants to develop new sources, and particularly solar energy which is beginning to be widely used (solar water-heaters). Finally, as regards energy pricing policy, the Portuguese authorities intend progressively to replace the policy of price controls (especially restrictions on increase in charges for electricity, gas and fuels used in agriculture and fishing) with a "realistic pricing" policy aligning domestic prices on those prevailing on the international market.

46 See IEA, Annual Report for 1980.

47 Energy forecasts for 1985 and 1990 drawn up by the International Energy Agency[1].

	1979	1985	1990
		MTOE	
Energy demand	11.3	17.1	22.9
Energy production	3.3	3.9	4.2
of which:			
Hydro and geothermal	2.6	2.6	3.1
Imported coal	0.3	1.4	3.8
Imported oil	8.9	13.0	16.0

1 Annual Report for 1980. Portugal joined the Agency in May 1980, so these are the Agency's first forecast for Portugal.

Another major option of sectoral policy is to develop agricultural production so as to reduce the country's dependence on imports of agricultural and food products. In 1980, the farm goods export/import ratio was 43 per cent. The Portuguese authorities want to halve this import dependence by 1984 by means of a steady and strong expansion of agricultural production (by over 4 per cent a year in volume terms). This would certainly mean modernising the farms in the south of the country, where methods are still very antiquated. Development of modern fisheries installations and fish-canning plants is also necessary. But before any of the reforms needed in agriculture can be implemented, the conditions of land ownership and farming have to be clarified.

IV SHORT-TERM FORECASTS AND ECONOMIC POLICY CONCLUSIONS

Short-term forecasts

The influence of certain factors that had favourable effects on the Portuguese economy at the end of 1979 and during most of 1980 waned and in some cases disappeared altogether in the latter part of 1980 or during the first quarter of 1981. On the basis of the usual technical assumptions of no change in economic policy during the forecast period, which in Portugal's case means continuance of the progressive depreciation of the escudo effective exchange rate, a sharp slowdown in growth is predicted for 1981. However, given the big

Table 13 **Short-term forecasts**

	1979 Current prices billion of escudos	Percentage change from previous year (volume)[1]		
		1980	1981	1982
Private consumption	727.8	4.5	3	2
Public consumption	147.6	5.6	4	4
Gross fixed investment	189.9	9.0	7	4
Final domestic demand	1 065.3	5.5	4	2¾
Change in stockbuilding[2]	31.4	1.2	¼	¼
Total domestic demand	1 096.7	6.2	4	2¾
Change in foreign balance[2]	−102.3	−1.4	−1	−¼
Exports of goods and services	256.6	8.2	4½	6
Imports of goods and services	358.9	9.6	6	5
GDP at market prices	994.4	5.5	3½	3
GDP price deflator	—	4.9	18	20½
Consumer price index	—	16.6	18½	18½
Industrial production	—	5.7	4½	5
	Billion of dollars			
Current balance	−0.1	−1.0	−1.6	−1.4
of which: Trade balance	−2.6	−4.2	−4.6	−4.8
Invisibles, net	2.7	3.2	3.0	3.4

1 At 1979 prices.
2 Change in stockbuilding and foreign balance as a per cent of GDP in previous year. Given the large difference between the weight of domestic demand and GDP, the rate of change of final domestic demand plus the change in stockbuilding and foreign balance expressed as a percentage of GDP may diverge considerably from the change in GDP.
Sources: Bank of Portugal and Central Planning Department estimates; OECD forecasts.

carryover from the end of 1980, GDP growth might be in the region of $3\frac{1}{2}$ per cent this year. There might be an export-led recovery in growth in 1982 but in view of the expected profile of production during the two years, GDP will probably grow at about the same rate as in 1981. Given the easing of price controls, inflation could accelerate this year and the rate of increase in consumer prices might be over 18 per cent. It is expected that the current balance will deteriorate very sharply in 1981 through the combined effects of trade volume trends partly imputable to the effects of the drought, and a further worsening in the terms of trade. The expected improvement in world trade may leave room for a slight recovery in 1982, with the current deficit possibly amounting to the equivalent of $5\frac{1}{4}$ per cent of GDP, against $6\frac{3}{4}$ per cent this year.

Volume growth of private consumption could slow down in 1981 because of a smaller increase in household's real disposable income. The target of zero real wage growth may be approached more closely than last year as a result of the weaker trend in economic activity; even so, the purchasing power of wages can still be expected to increase by 2 to 3 per cent. Real growth of emigrants' remittances in 1981 should be less than in 1980, given the generally expected slowdown in wages in European countries. Finally, social security transfers should slow considerably after their brisk advance in 1980. On the assumption that the savings ratio will be fairly stable, private consumption could grow by about 3 per cent, compared with nearly 4.5 per cent in 1980. In 1982, if the policy of wage restraint is maintained, real income growth could be further reduced and, if the savings ratio continues to hold steady, private consumption could grow by about 2 per cent.

Growth of public consumption, which accelerated appreciably in 1980 as a result of upgradings of a number of civil service jobs and a rise in employment, should slow in 1981, possibly to 4 per cent in real terms (against 5.6 per cent in 1980). As indicated in the section on fiscal policy, a fall in real capital expenditure is expected in 1981, mainly because of a cut in capital transfers to public corporations. Moreover, since the steep rise in the wage bill in 1980 has cut deeply into firms' profits and the demand outlook has somewhat deteriorated, volume growth of gross fixed investment might slow very considerably this year. However, given the big carryover from the end of last year, investment growth in annual average terms is expected to continue high in 1981 (of the order of 7 per cent); by contrast, the prospects for 1982 seem less favourable (in terms of annual growth rate), even though productive investment may pick up gradually during the course of the year.

All told, the rate of growth of final domestic demand could fall by about two points in 1981 compared with 1980, which will cause a very sharp slowdown in the pace of stockbuilding, the contribution of which to GDP growth might be only about $\frac{1}{4}$ per cent. The impact of the foreign balance on growth, which was negative to the extent of about 1.5 per cent of GDP in 1980, could remain negative and almost as large in 1981, among other things because of the expected slowdown in world demand. In all, GDP growth will probably slowdown to $3\frac{1}{2}$ per cent and growth of industrial production to 5 per cent. According to the estimates that can be made for 1982 on the basis of the Secretariat's current assumptions with regard to international economic activity and the usual assumption of no change in economic policy, the rate of growth in 1982 should be roughly the same.

Several factors could cause an acceleration in inflation in 1981. First, the easing of price controls may generate a catch-up movement, a common phenomenon in times of price deregulation. Secondly, the rapid increase in wage payments in 1980 resulted in a steep rise in unit labour costs which may continue to feed through in 1981. A similar feedthrough can be expected from the rise in import prices. Lastly, public utility charges could increase significantly in sectors where the rise in the costs of inputs was steep (e.g. transport and electricity).

Following the slowdown in world demand, export growth may slacken considerably in 1981 and fall to $4\frac{1}{4}$ per cent in volume. Export prices expressed in escudos might rise at about the same rate as unit labour costs. On the other hand, export prices calculated in dollars, on the OECD Secretariat's current technical assumptions, might decline by about 5 per cent. In spite of the expected slowdown in activity, imports will continue to increase fairly steeply in 1981, by around 6 per cent in volume terms, among other things because of the heavy electric power purchases occasioned by last winter's drought. On the basis of the technical assumptions with regard to exchange rates and world trade prices, import prices expressed in escudos may rise by nearly 20 per cent in 1981. All told, the trade deficit may widen by some \$ 400 million compared with 1980. The balance on services will be affected by the expected widening in the deficit on investment income following the increase in foreign indebtedness and the persistence of high interest rates. In nominal terms, emigrants' remittances expressed in escudos may increase at about the same rate as in 1980. Overall, the current balance may show a deficit of the order of \$ 1.6 billion, or about $6\frac{3}{4}$ per cent of GDP. In 1982, the trade deficit may widen further, but on a smaller scale than this year, whereas the surplus on transfers expressed in dollars may increase substantially, so that there could be a slight reduction in the current deficit which might amount to about \$ 1.4 billion.

The forecasts for the next eighteen months are subject to a number of uncertainties. Firstly, they are based on the customary assumption of no change in announced policies' while, as mentioned above, the Portuguese authorities, faced with the widening external deficit, are considering a tightening of monetary policy which could entail a more marked slowdown in activity. On the other hand, given the acceleration in inflation, price controls may be enforced more strictly before the end of the year. All in all, the latest forecasts established by the Portuguese authorities for 1981 are not very different from those of the OECD Secretariat, with a slightly lower investment growth and a more moderate inflation rate, about 16 per cent for consumer prices. For 1982, national forecasts point to a stronger investment growth and again, more moderate inflation than that foreseen by the OECD Secretariat.

Economic policy conclusions

The stabilization policy introduced at the end of 1977 and the adoption of a crawling-peg system of exchange rate depreciation gave a large boost to external competitiveness and restored confidence, leading to a significant recovery in Portugal's current account. This moved back into balance in 1979, while the export-led acceleration of activity during the course of the year caused GDP growth to turn up and the unemployment rate to stabilize; at the same time, however, inflation accelerated again. In view of these developments the authorities decided to make certain economic policy adjustments. At the beginning of 1980, monetary policy was made less restrictive so as to stimulate investment, tax incentives also being introduced for this purpose. To combat inflation, price controls were maintained and supplemented with large food subsidies, and real wage growth was pegged at zero. The escudo was kept within a crawling-peg depreciation system but was revalued in early 1980, with the effect of limiting its average depreciation over the full year. Finally, it was planned to reduce the general government borrowing requirement through no growth in public consumption in real terms.

The outcome in 1980 was on the whole satisfactory. On the inflation front, the original 20 percent target for consumer price increases was very considerably bettered since in the event the index rose by only 16½ per cent, mainly because of a slowdown in food prices. There was a surge at the end of the year, however, and between May 1980 and May 1981 consumer prices rose by 18.2 per cent. Wages advanced rapidly, with a resultant increase in wage purchasing power. On the investment front, the results were unquestionably positive in 1980 in both the public and private sectors, which was a very considerable factor in the upturn in domestic demand and GDP growth, which amounted to 5.5 per cent in volume terms. This brought about an improvement in the employment situation. Public expenditure also provided a stimulus to growth but, on the other hand, the targeted reduction in the borrowing requirement was not achieved, the latter amounting to the equivalent of 9.1 per cent of GDP.

On the external front the situation has worsened considerably. Part of the improvement in the current account in 1978 and 1979 was certainly attributable to transitory factors which temporarily concealed the persistence of structural causes of disequilibrium. In 1980, the slowdown in growth of world trade, the rise in oil prices, the demand-led acceleration of imports and the fact that growth of emigrants' remittances reverted to a normal trend caused the re-emergence of a current account deficit. Its size, equivalent to about 4.3 per cent of GDP, shows the precariousness of the equilibrium regained a year earlier. Finally, the counterpart to the small depreciation in the escudo was a downturn in the trend of external competitiveness which had improved from 1977 to 1979.

The Portuguese authorities are once more faced with a delicate situation. Economic policy for 1981 was based on what was perhaps a too optimistic assessment of the results obtained during the first half of 1980. Price controls were eased, the accommodating monetary policy was continued and even though the fiscal policy targets were again to stabilize current expenditure and reduce the borrowing requirement, new measures to achieve these aims were not introduced. The short-term forecasts drawn up by the Secretariat suggest that the economic situation will deteriorate fairly sharply in 1981 and the greater part of 1982. Domestic demand will be affected both by the slowdown in private and public investment and by loss of momentum in private consumption, which is likely to be inhibited by the slower growth of purchasing power due in particular to higher inflation. Moreover, the slowdown in world demand will affect exports. This last factor, together with the effects of the drought, will contribute to a widening of the current deficit, which might be close to 7 per cent of GDP in 1981. The inflation factors observed in 1980 and early 1981 (higher labour costs, terms-of-trade deterioration linked with the higher oil prices and the trend in the escudo effective exchange rate) will continue to feed through, with even greater risks of acceleration in that price controls were eased at the end of 1980. Finally, the public sector deficit will probably again be large in 1981, given the difficulties encountered in the past in controlling expenditure.

In the short term, it would seem that priority must be given to stabilizing and then reducing the current account deficit, as stressed on several occasions by the Portuguese authorities, who are considering a readjustment of their economic policy stance. Any accentuation of the external disequilibrium, apart from the financing problems it would pose, could have cumulative negative effects. Some tightening of demand management policy might be considered. Monetary policy could be shifted towards stricter control of growth of the monetary aggregates and a tightening of liquidity by lowering the ceilings on bank lending. The present system might also be made more efficient by a more explicit announcement of the monetary policy stance, together with targets for the current balance or price changes. The efficiency of credit policy might also be enhanced if the interest rate structure were made simpler and more uniform. The scope for short-term fiscal policy action seems more limited. A rapid increase in revenue would seem rather unlikely in view of the results recorded in 1980 following the tax amnesty and, as has been the case in recent years, control of expenditure has proved relatively difficult in the present institutional framework. Nevertheless, the present contraints on the Portuguese economy should be taken into account when the budget for 1982 is drawn up.

The policy of domestic demand restraint, which seems essential in the short term in order to reduce the size of the current deficit, could be made more effective by improving the authorities' possibilities of control and intervention. It would also appear necessary to develop the statistical apparatus, so as in particular to speed up information flows, especially with regard to national accounts. The trend of the money supply, which grew by 35 per cent in 1980, should be better controlled. Finally, short-term control of public-sector expenditure and revenue should be improved. But over and above short-term tightening of demand management policies, in the longer term the constraints on Portugal's balance of payments can only be eased through a lasting slowdown in inflation. Although, in the short term, price controls and wage-growth ceilings may have proved effective, this is more doubtful in the medium term, because of the distortions they may cause in the pattern of national income distribution and the dangers of a catch-up movement once the controls are lifted.

Slowing down the increase of general government spending and lowering the borrowing requirement, on the other hand, would seem likely to reduce inflation durably because of lesser demand for resources or money creation. It would seem necessary to define precisely the scale of public expenditure foreseeable for the medium term and the priorities (particularly as between expenditure on infrastructure and transfer payments) that would be compatible with the lending capacity and the needs of the economy. A substantial increase in the economy's productivity through rapid investment growth and better resource allocation is also necessary in order to reduce inflation durably and enable the economy to grow at a rate close to the plan's target (5 per cent per annum). Better resource allocation probably implies more efficient management of the productive public sector and more scope for market forces. However, the opening of some sectors of the economy to private initiative is not in itself a guarantee of greater rationality in decision-making. The setting-up of a flexible and open system of credit and development of the financial market also seem to be essential conditions for a satisfactory channelling of domestic saving into productive investment.

An easing of the balance-of-payments constraints would also imply specific action in certain sectors under an overall industrial policy, which might involve revision of certain major projects. Modernisation of production methods and higher productivity and yields in agriculture would make it possible to reduce the food trade deficit, which constitutes a large part of the overall deficit. But such modernisation is still conditional on a final resolution of the problem of land property rights. Furthermore, it seems necessary to work towards greater diversification of exports, which at present are concentrated in traditional sectors where there is keen competition both from other OECD countries, but especially from newly industrialising ones. In doing so, due account should be taken of Portugal's comparative advantages. These policies would call for considerable investment over the next few years which would certainly necessitate, in addition to optimisation of resource allocation, a large inflow of foreign finance, especially direct investment. This can only be achieved in a climate of confidence which implies better control of conjunctural trends as well as structural reforms.

ADDENDUM

After this Survey was finalised, the authorities announced a package of measures in order to deal with widening domestic and external imbalances. Credit ceilings have been tightened, reserve requirements revised upwards and interest rates on bank loans increased by 0.5 to 2.5 percentage points. Also announced was the intended reduction of general government current and capital expenditure items by 7 billion escudos, to be achieved mainly by a slowdown in the rate of spending. Finally, prices of oil products have been increased (petrol 10 per cent, fuel-oil 20 per cent, diesel 11 per cent), electricity charges are to rise in September (8 per cent) and public transportation fares in October (16 to 25 per cent).

STATISTICAL ANNEX

Table A National product and expenditure

Million escudos

a) Current prices

	1975	1976	1977[1]	1978[1]	1979[1]
Consumers' expenditure	303 768	367 179	470 223	576 436	727 844
Government current expenditure	57 983	66 122	90 200	114 700	147 600
Gross fixed asset formation	73 992	88 931	125 500	156 500	189 900
Change in stocks	−12 521	8 402	32 436	25 500	31 400
Domestic expenditure	423 222	530 634	718 359	873 136	1 096 744
Exports of goods and services (excluding factor income)	74 067	78 679	110 984	155 611	256 579
Imports of goods and services (excluding factor income)	121 050	141 658	205 109	248 447	358 911
Gross domestic product at market prices	376 239	467 655	624 234	780 300	994 412
plus: Net income from the rest of the world	−369	−4 021	−6 872	−14 540	−21 361
Gross national product at market prices	375 870	463 634	617 362	765 760	973 051

b) 1963 prices

	1975	1976	1977[1]	1978[1]	1979[1]
Consumers' expenditure	136 096	140 859	141 704	142 270	144 690
Government current expenditure	28 057	30 021	33 563	35 575	37 425
Gross fixed asset formation	28 406	28 639	32 076	33 350	32 815
Change in stocks[2]	−5 791	682	7 213	3 820	2 550
Domestic expenditure	186 768	200 201	214 556	215 015	217 480
Exports of goods and services (excluding factor income)	32 715	32 715	34 645	39 705	50 540
Imports of goods and services (excluding factor income)	48 909	50 572	56 641	55 620	59 960
Gross domestic product at market prices	170 574	182 344	192 560	199 100	208 060

1 Estimated by the Bank of Portugal and the Central Planning Department.
2 Including adjustment.
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.
Sources: National Statistics Institute; Annual Reports of the Bank of Portugal; OECD Secretariat.

Table B **Origin of gross domestic product at factor cost**

Million escudos

	1975	1976	1977[1]	1978[1]	1979[1]
			Current prices		
Agriculture, forestry and fishing	53 187	61 494	71 948	90 539	126 300
Mining and quarrying	2 028	2 524	3 788	4 734	6 500
Manufacturing	114 817	142 754	200 084	256 292	339 200
Electricity, gas and water	6 976	10 508	15 114	21 451	27 300
Construction	22 619	27 194	36 222	45 640	52 500
Transport and communications	23 722	28 060	36 702	45 224	..
Wholesale and retail trade	41 978	53 054	70 190	86 506	..
Banking, insurance and real estate	13 833	17 478	37 083	46 712	53 000
Ownership of dwellings	7 914	9 531			
Public administration and defence	21 428	28 321	94 703	115 142	..
Other services	33 636	41 716			
GROSS DOMESTIC PRODUCT AT FACTOR COST	342 138	422 634	565 834	712 241	920 000
			1963 prices		
Agriculture, forestry and fishing	18 160	17 889	16 100	16 744	18 251
Mining and quarrying	959	1 096	1 264	1 275	1 410
Manufacturing	59 534	62 209	68 055	70 281	73 725
Electricity, gas and water	5 706	5 721	6 877	7 233	7 700
Construction	8 074	8 478	9 410	9 881	9 486
Transport and communications	11 483	11 769	12 181	12 303	82 139
Wholesale and retail trade	16 955	18 012	18 623	18 623	
Banking, insurance and real estate	5 364	6 517	12 739	13 121	
Ownership of dwellings	4 911	5 064			
Public administration and defence	12 803	15 784	33 618	34 951	
Other services	15 018	16 839			
GROSS DOMESTIC PRODUCT AT FACTOR COST	158 967	169 382	178 867	184 412	192 711

1 Estimated by the Bank of Portugal and the Central Planning Department. For 1979, the breakdown of services is not fully available.

Source: National Statistics Institute.

Table C **Population by main age groups**

Thousands

	1975	1976	1977	1978	1979	1980
Total	8 879	9 075	9 156	9 196	9 324	9 395
Age groups 0-19	3 142	3 212	3 236	3 254	3 378	3 352
20-59	4 376	4 470	4 520	4 533	4 601	4 679
60 +	1 361	1 393	1 400	1 409	1 345	1 364

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 by the Portuguese authorities.

Table D **Employment indicators**

1968 = 100

	1974	1975	1976	1977	1978	1979	1980[1]
Fishing	84.8	81.8	77.4	76.9	76.0	66.8	64.9
Mining	83.4	82.5	80.8	79.8	80.4	80.6	76.7
Manufacturing	103.4	102.6	103.3	103.2	102.8	103.3	104.1
Construction	101.1	93.7	93.5	97.2	102.0	99.0	96.8
Electricity, gas and water	96.6	97.9	101.7	104.2	115.5	124.1	134.2
Transport and communications	112.1	116.6	122.1	123.8	122.5	120.0	119.3
Trade	106.8	106.5	106.7	106.2	105.6	105.5	105.8
Banking, insurance, real estate	164.9	171.9	180.8	190.8	198.7	208.0	231.2
Services	139.2	135.0	136.7	139.1	141.2	142.9	146.8
Total	105.3	104.2	105.2	105.8	106.2	106.3	107.3

1 Index calculated for the first three quarters.
Note: Wage earners, excluding agriculture and civil service.
Sources: Statistical office of the Ministry of Labour and National Employment Office. Ministry of Labour and National Employment Office.

Table E Prices and wages

	1978	1979	1980	1980 Q1	1980 Q2	1980 Q3	1980 Q4	1981 Q1
Consumer prices, mainland (total less rent)								249.3
Index 1976 = 100	156.0	192.8	224.9	216.4	221.9	227.4	234.0	
Food and drink	162.8	207.5	229.8	225.1	227.2	231.7	235.3	248.1
Clothing and Footwear	139.6	173.4	231.3	209.7	224.6	234.6	256.5	270.1
Miscellaneous	145.5	172.5	209.9	202.2	207.6	212.4	217.5	239.4
Rent	156.3	175.6	221.9	205.4	219.3	227.0	235.8	253.3
Consumer prices, Lisbon (less rent)								
Index 1976 = 100	156.7	193.9	228.4	219.7	224.4	230.2	239.4	
Nominal average wages, mainland								
Index 1973 = 100								
Manufacturing industry[1]	304.9	362.8						
Construction	281.4	329.5						
Agriculture	266.4	327.3						
Wages in industry and transports, Lisbon								
Index 1976 = 100	124.3	141.4	172.8	164.6	168.1	173.6	185.0	

1 Seasonally adjusted.
Sources: National Statistics Institute, Bank of Portugal, *Quaterly Bulletin*.

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

	1973	1974	1975	1976	1977[1]	1978[1]	1979[1]	1980[1]
CENTRAL GOVERNMENT								
Current revenue	42.76	52.70	60.42	89.71	138.2	189.8	245.3	329.2
Taxes and current transfers received	40.15	50.30	58.50	84.37	109.8	137.1	175.0	241.0
Income from property and entrepreneurship	2.61	2.40	1.92	5.33	28.4	52.7	70.3	83.2
Current expenditure	36.93	52.52	67.46	94.40	146.8	219.8	285.1	375.0
Goods and services	30.25	39.79	45.83	48.94	66.5	100.4	127.2	162.9
Current transfers paid	6.70	12.73	21.63	45.47	80.3	119.4	157.9	212.1
CURRENT SAVING	5.83	0.18	−7.04	−4.69	− 8.6	−30.0	−39.8	−50.8
Net capital transfers paid	−1.71	−1.00	1.17	5.28	9.9	17.4	22.7	34.6
Gross fixed investment	3.50	5.07	6.48	9.30	18.7	18.4	21.8	24.6
NET BORROWING (—) OR LENDING	4.04	−3.89	−14.69	−19.27	−37.2	−65.8	−84.3	−110.0
CONSOLIDATED ACCOUNT OF GENERAL GOVERNMENT								
Current revenue	64.45	78.51	93.95	132.05	168.0	212.2	264.3	361.6
Taxes and current transfers received	59.18	73.13	88.89	122.36	160.2	201.1	246.0	343.5
Income from property and entrepreneurship	5.27	5.38	5.06	9.69	7.8	11.1	18.3	18.1
Current expenditure	55.47	77.31	103.24	145.10	180.6	238.5	302.2	406.7
Goods and services	37.10	49.14	57.98	66.12	88.2	114.7	147.6	186.3
Current transfers paid	18.37	28.17	45.26	78.97	92.4	123.8	154.6	220.4
CURRENT SAVING	8.98	1.20	−9.29	−13.04	−12.6	−26.3	−37.9	−45.1
Net capital transfers paid	−1.31	−1.08	1.11	5.33	5.1	8.2	−4.2	15.1
Gross fixed investment	6.33	7.78	10.22	14.48	25.1	30.9	46.9	49.9
NET BORROWING (—) OR LENDING	3.96	−5.49	−20.63	−32.86	−42.8	−65.4	−80.6	−110.1

1 Estimated by the Ministry of Finance on a national accounts basis.
Sources: National Statistics Institute and Ministry of Finance.

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

	1976*	1977	1978	1979	1980
TOTAL MONEY SUPPLY	460.8	567.4	726.6	991.9	1 339.3
Money	246.3	274.8	314.9	396.6	484.5
Notes and coins in circulation	110.4	113.8	122.0	145.3	166.5
Sight deposits, households and enterprises	135.9	161.2	192.9	251.3	318.0
Quasi-money	214.5	292.6	411.7	595.3	854.8
COUNTERPARTS					
Net foreign assets	5.0	−33.5	−18.9	42.1	339.4
Net lending to the public sector	75.5	123.3	171.7	247.4	170.0
Lending to the private sector[1]	442.8	579.3	703.2	853.4	1 073.1
Miscellaneous, net	−62.5	−101.7	−129.4	−151.0	−243.2

* 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 H **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 one 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 I Breakdown by nationality of foreign visitors
Thousands

	1971	1972	1973	1974	1975	1976	1977	1978	1979
TOTAL	3 867.0	3 925.3	4 079.7	2 621.8	1 966.4	2 175.4	3 055.4	3 389.3	5 287.4
Germany	170.3	186.8	209.7	167.2	143.8	150.1	204.2	259.3	286.7
Argentina	35.1	—	—	26.8	22.4	11.9	10.6	12.1	13.4
Belgium	39.6	39.3	46.3	30.4	27.2	32.1	50.7	46.9	48.2
Brazil	74.9	—	—	65.2	52.7	43.7	35.5	45.0	52.1
Canada	51.9	56.2	25.0	38.8	22.8	21.7	32.0	36.9	40.7
Spain	2 055.9	2 012.9	2 109.3	1 169.4	856.4	1 049.3	1 599.5	1 755.2	3 514.8
United States	366.1	386.5	345.7	217.6	96.1	82.1	141.5	161.5	153.8
France	215.4	233.2	248.6	152.9	119.1	134.4	172.4	179.6	183.2
Netherlands	47.7	51.8	54.1	37.4	39.5	51.6	92.3	111.1	129.8
Italy	83.3	80.7	80.0	83.7	69.8	66.6	65.4	72.4	70.1
United Kingdom	457.3	492.8	511.6	383.0	284.6	244.6	292.8	327.9	399.8
Sweden	35.4	41.6	42.8	31.6	27.3	49.2	61.0	56.3	51.4
Switzerland	39.0	43.3	50.0	38.5	23.0	23.2	32.8	31.7	36.0
Other countries	195.1	300.1	356.7	179.3	181.7	214.9	264.7	293.4	307.4

Source: National Statistics Institute, Tourism Statistics.

Table J Foreign trade by main commodity groups

Million U.S. dollars

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
IMPORTS, TOTAL	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	6 529
Food and beverages	180.2	232.9	306.9	402.0	777.2	765.6	742.6	733.5	678	895
Basic materials	342.4	370.8	443.5	594.1	1 084.6	1 009.9	1 213.7	1 412.1	1 399	2 054
Manufactures										
Chemicals	158.9	177.8	216.2	312.2	458.8	348.8	507.2	560.5	627	794
Goods classified chiefly by material	353.8	374.8	392.5	511.4	861.2	583.6	598.7	789.3	829	934
Machinery and transport equipment	478.0	580.1	759.7	928.5	1 179.0	961.0	1 065.7	1 301.0	1 423	1 634
Miscellaneous	68.7	86.2	108.8	159.5	220.0	170.4	186.8	165.7	181	212
Unspecified	0.3	0.4	0.5	0.7	0.7	0.3	1.2	1.5	5	6
EXPORTS, TOTAL	949.5	1 052.2	1 293.8	1 765.9	2 276.3	1 939.2	1 820	2 013.4	2 426	3 478
Food and beverages	177.0	182.3	229.5	303.3	333.4	300.4	291	303.7	350	444
Basic materials	162.6	159.1	180.4	228.5	350.1	265.6	296	286.5	296	387
Manufactures										
Chemicals	69.5	75.0	84.2	103.1	188.4	125.5	95	102.7	129	208
Goods classified chiefly by material	335.1	381.8	458.2	632.3	780.7	664.5	594	666.9	836	1 236
Machinery and transport equipment	79.6	102.2	152.4	233.1	288.9	256.0	230	299.4	328	429
Miscellaneous	112.2	139.0	179.3	251.1	323.0	312.8	282	319.7	439	713
Unspecified	13.5	12.8	9.8	14.5	11.8	14.4	32	34.5	48	61

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
Goods classified chiefly by material: 6
Machinery and transport equipment: 7
Miscellaneous: 8
Unspecified: 9

Source: OECD, Foreign Trade Statistics, Series B.

Table K **Geographical breakdown of foreign trade**
Billion escudos

	1974	1975	1976	1977	1978	1979
	Exports					
TOTAL	58.0	49.3	55.1	77.7	106.4	176.1
OECD countries[1]	45.8	39.3	44.2	61.4	86.2	142.6
OECD Europe	38.0	34.4	38.9	54.0	75.6	127.1
Germany	4.6	5.0	5.9	9.2	14.0	21.6
France	3.4	3.3	4.6	6.2	9.6	17.1
Italy	1.9	1.6	2.1	2.9	6.1	10.4
United Kingdom	13.2	10.5	10.2	14.2	19.4	31.4
Other OECD European countries	14.7	14.0	16.1	21.6	26.5	46.6
United States	5.8	3.6	3.7	5.2	7.5	10.8
Other OECD countries	2.0	1.4	1.6	2.1	3.1	4.2
Non OECD countries	12.2	10.0	10.9	16.3	20.3	33.5
including: OPEC	0.4	0.9	1.0	1.4	1.5	3.4
Previous Escudo area	6.4	4.2	2.7	5.0	5.9	..
	Imports					
TOTAL	118.1	99.5	130.9	190.7	230.1	331.9
OECD countries[1]	85.1	69.3	93.9	138.7	177.4	243.3
OECD Europe	69.0	53.0	75.5	109.9	138.7	188.6
Germany	15.9	11.0	15.2	23.7	31.9	41.8
France	9.2	7.5	10.9	15.4	20.7	28.4
Italy	6.3	4.9	6.1	10.2	12.6	17.1
United Kingdom	10.9	8.7	12.2	19.8	23.2	30.7
Other OECD European countries	26.8	20.8	31.0	40.7	50.2	70.6
United States	11.1	12.3	12.9	19.4	27.1	39.0
Other OECD countries	4.9	4.0	5.5	9.4	11.5	15.7
Non OECD countries	33.0	30.2	37.0	52.0	52.7	88.7
including: OPEC	7.7	11.6	15.2	20.6	27.1	47.9
Previous Escudo area	12.4	5.1	3.3	2.5	1.5	..

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

Table L **Balance of payments**
Million US dollars

	1973	1974	1975	1976	1977	1978	1979	1980
Exports, fob	1 867	2 303	1 940	1 790	2 001	2 379	3 550	4 616
Imports, fob	2 780	4 305	3 614	3 965	4 533	4 787	6 182	8 667
Trade balance	−914	−2 002	−1 674	−2 175	−2 532	−2 408	−2 632	−4 051
Services, net	154	55	−184	−78	−97	−53	104	−12
Travel	324	259	101	182	268	431	695	853
Transport	−72	−145	−128	−138	−104	−129	−114	−167
Investment income	87	128	−15	−132	−179	−329	−437	−608
Government transactions	−180	−225	−172	47	−38	−31	−40	−103
Other services	−5	37	30	−37	−44	4		
Transfers, net	1 111	1 118	1 039	964	1 134	1 635	2 476	3 015
Current balance	351	−829	−819	−1 289	−1 495	−826	−52	−1 048
Medium and long-term capital	−143	274	−108	26	95	758	813	718
Private	−38	357	−21	15	19	249	462	293
Official	−105	−83	−87	11	76	509	351	425
Short-term and unrecorded	137	−83	−89	105	−30	228	594	1 236
Balance of non-monetary transactions	345	−638	−1 016	−1 158	−1 430	160	1 355	906
Private monetary institutions short-term capital	−24	59	−26	186	567	−201	−995	−484
Balance on official settlements	321	−579	−1 042	−972	−863	−41	360	422
Use of IMF credit	—	—	—	176	83	−53	−41	−102
Miscellaneous official accounts	23	−15	290	650	421	197	−251	−334
Change in reserves (increase = +)	344	−594	−752	−146	−359	103	68	−14

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-1979	Thousands	14 422	7 503	9 849	23 690	5 117	4 765	53 478	61 359	9 450	226	3 368	56 888[2]	115 880	364	14 038	3 124	4 073	9 867	37 108	8 294	6 348	44 089	55 946	220 584	22 160
Inhabitants per sq. km of land area	»	Number	2	89	323	2	119	16	97	247	72	2	48	189	307	141	415	12	13	107	74	18	154	56	229	24	87
Net average annual increase	Mid-1969 to Mid-1979	%	1.6	0.1	0.2	1.2	0.4	0.3	0.6	0.2	0.7	1.1	1.4	0.7	1.3	0.7	0.9	1.2	0.6	0.8	1.1	0.4	0.2	2.5	0.1	0.9	0.9
EMPLOYMENT Total civilian	1979	Thousands	6 064	3 051	3 754	10 369	2 498	2 124	21 114	25 017	3 312	(101)	1 130	20 287	54 790	158	4 617	(1 261)	1 872	3 852	11 706	4 180	2 962	14 806	24 711	96 945	9 324[3]
of which: Agriculture, forestry, fishing	»	% of total	6.5	10.7	3.2	5.7	8.3	11.8	9.0	6.2	30.8	(13.3)	19.7	14.8	11.2	5.9	6.0	(10.2)	8.6	30.6	19.4	5.8	7.4	61.3	2.6	3.6	35.8
Industry[4]	»	»	31.3	40.5	35.5	28.9	30.0	34.4	36.3	44.9	30.0	(37.7)	32.3	37.7	34.9	39.0	32.1	(33.7)	30.1	35.0	36.4	32.5	39.3	16.2	39.0	31.4	22.5
Other	»	»	62.2	48.8	61.3	65.4	61.7	53.8	54.7	48.9	39.2	(49.0)	48.0	47.5	53.9	55.1	61.9	(56.1)	61.3	34.4	44.2	61.7	53.3	22.5	58.4	65.0	41.7
GROSS DOMESTIC PRODUCT at market prices	1979	US $ billion[11]	120.7	68.4	108.3	227.0	66.2	41.4	571.3	763.9	38.6	2.5	14.8	323.6	999.6	4.2	149.1	21.4[9]	46.7	20.4	197.0	106.4	95.0	68.9	400.9	2 349.9	61.2[5]
Average annual volume growth[6]	1974 to 1979	%	2.6	2.9	1.9	3.2	2.7	2.1	3.0	2.8	5.3	3.3	3.6	2.3	4.3	0.3	2.2	0.6	5.0	3.0	2.2	1.4	–0.8	5.0	1.8	3.3	5.8
Per capita	1979	US $[11]	8 370	9 120	11 000	9 580	12 940	8 690	10 680	12 450	4 080	10 980	4 390	5 690	8 620	11 640	10 620	6 840	11 470	2 070	5 310	12 820	14 970	1 560	7 170	10 650	2 760
GROSS FIXED CAPITAL FORMATION	1979	% of GDP	21.8	25.0	20.5	22.5	21.8	23.1	21.3	22.7	25.6[8]	24.5	32.6	18.9	32.0	25.8	21.7	17.8[9]	27.8	18.9	19.0	19.5	21.9	17.8	17.8	18.1	34.6
of which: Transport, machinery and equipment	»	»	..	9.8	6.0	8.1	7.6	8.6	9.2	9.1	8.6	6.6	9.8[19]	8.0	10.7	9.2[22]	8.7	7.8	9.9	7.1	6.9[19]	7.3	7.1	..	9.3	7.4	..
Residential construction	»	»	4.2[10]	14.2	6.5	5.3	6.9	6.5	6.4	6.5	9.2	5.7	6.4[19]	5.1	7.4	6.6[22]	5.8	3.3	5.3	3.7	..	5.0	..	3.8	3.0	4.8	..
Average annual volume growth[6]	1974 to 1979	%	0.6	0.6	0.5	2.1	0.0	–2.7	0.7	3.7	5.7	–1.8	8.9	–1.2	4.5	0.2	1.4	..	1.5	0.5	–1.9	–0.4	–2.6	5.0	–0.1	2.2	8.8
GROSS SAVING RATIO[12]	1979	% of GDP	21.2[10]	25.3	18.5	22.2	17.8	24.5	23.0	24.2	27.0	24.2	23.2	23.3	31.2	28.2[19]	20.7	22.9[9]	25.2	..	20.5	17.5	26.4	20.4	19.5	17.8	..
GENERAL GOVERNMENT Current expenditure on goods and services	1979	% of GDP	16.2	18.1	17.8	19.2	24.8	18.3	14.9	19.8	16.3	11.7	20.0	15.8	9.8	15.5	18.8	16.0[9]	19.7	15.0	10.9	28.7	12.9	12.9	20.3	18.0	17.6
Current disbursements[13]	»	»	29.8[10]	42.2	47.4	36.1	49.4	34.7	42.2	40.7	29.7	25.0[22]	41.7[19]	41.1	24.2	43.5	55.1	..	47.1	30.7	26.7	57.1	30.0	23.4	40.6	31.9	..
Current receipts	»	»	32.5[10]	44.2	44.2	36.0	50.3	38.3	43.6	42.7	30.6	34.0[22]	37.8[19]	35.9	26.6	52.2	55.8	..	52.2	26.9	27.5	57.7	33.3	23.8	39.5	32.9	..
NET OFFICIAL DEVELOPMENT ASSISTANCE	1979	% of GNP	0.5	0.2	0.6	0.5	0.8	0.2	0.6	0.4	..	..	..	0.1	0.3	..	0.9	0.3	0.9	..	..	0.9	0.2	..	0.5	0.2	..
INDICATORS OF LIVING STANDARDS Private consumption per capita	1979	US $[11]	5 050	5 090	6 920	5 360	7 280	4 810	6 620	6 810	2 610	6 700	2 760	3 480	5 100	6 510	6 330	4 060	5 560	1 500	3 650	6 770	9 560	1 120	4 320	6 860	1 590
Passenger cars, per 1 000 inhabitants	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
Telephones, per 1 000 inhabitants	1978	»	404[22]	325[22]	332	648	569	447	372	404	266	429[22]	172	301	442	539	453	533[22]	402	128	280	744	677	32[22]	447	770	79
Television sets, per 1 000 inhabitants	1977	»	351[14]	247[16]	286	428[14]	338	363[14]	372	308	127[14]	214[14]	193	224	239[20]	293[14]	279	259[14]	270[14]	76[14]	185[14]	363[14]	285[14]	44[14]	324	571[20]	170
Doctors, per 1 000 inhabitants	1977	»	1.4[21]	2.3	2.1	1.8	2.0	1.6	1.6[14]	2.0	2.2	1.7[16]	1.2	2.3	1.2	1.3	1.7	1.3[14]	1.8	1.4	1.8[14]	1.8[14]	2.0	0.6	1.5	1.7	1.4[14]
Full-time school enrolment[15]	1979	% of age group	45.0[22]	32.0[22]	61.3[20]	64.9[22]	57.4[22]	68.5	55.9	41.5[22]	45.4[20]	..	50.0[14]	43.9[14]	71.4	37.3[19]	65.0	44.8[22]	65.0	33.4[14]	41.3[19]	56.3[14]	70.1[22]	12.7[20]	44.6[20]	75.0	..
Infant mortality[17]	1979	Number	12.2[19]	14.8	11.7[19]	12.0[19]	9.1	7.6[19]	9.8	14.7[19]	18.7	11.3[19]	14.9[19]	15.3	8.0	13.0	8.5	13.8[19]	8.6[19]	38.9[14]	15.1[19]	7.3	8.6[19]	..	13.3[19]	13.0	36.7[14]
WAGES AND PRICES Hourly earnings in industry[18]	Average annual increase 1975 to 1980	%	10.3	7.4	8.8	10.1	11.2	11.1	13.6	6.1	24.2	43.4	16.6	21.2	8.4	..	6.1	15.4	9.4	14.5	25.7	9.9	2.8	33.5[23]	14.9	8.5	19.0
Consumer prices	»	%	10.6	5.3	6.4	8.7	10.4	10.7	10.5	4.1	16.3	41.5	14.1	16.6	6.5	6.1	6.0	14.4	8.4	21.8	18.6	10.5	2.3	50.1	14.4	8.9	17.9
FOREIGN TRADE Exports of goods, fob	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
As percentage of GDP	»	%	15.4	22.6	51.2	24.6	22.1	26.9	17.2	22.5	10.0	31.7	48.4	22.3	10.3	—	42.7	22.0	28.8	17.1	9.2	25.9	27.9	3.6	22.7	7.7	10.2
Average annual volume increase	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	12.0	0.0	4.2	–2.7	4.4	4.1	3.8
Imports of goods, cif	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
As percentage of GDP	»	%	13.7	29.5	55.7	23.6	27.9	27.3	18.7	20.7	24.9	33.1	66.6	24.0	11.1	—	45.1	21.4	29.4	32.1	12.9	26.8	30.8	8.3	25.6	8.8	20.2
Average annual volume increase	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	3.1	—	4.4	–3.2	2.3	0.8	2.6	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
As percentage of imports of goods	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 Fiscal year beginning July 1st.
11 At current prices and exchange rates.
12 Gross saving = Gross national disposable income minus private and government consumption.
13 Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
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 1978.
20 1975.
21 1972.
22 1977.
23 1974 to 1979.
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); Statistical Office of the European Communities, Basic Statistics of the Community; IMF, International Financial Statistics; UN, Statistical Yearbook.
National sources have also been used when data are not available according to standard international definitions.

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