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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

PORTUGAL

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

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PORTUGAL

OCTOBER 1982

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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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 (1981, 2nd half-year, thousands)	9 496	Civilian employment (1981, 2nd half-year, thousands) ¹	3 943
Number of inhabitants per sq. km	103	as a percentage of total:	
Annual average rate of change in resident population (1975-1980)	1.1	Primary sector	27.3
Civilian labour force (1981, 2nd half-year, thousands) ¹	4 269	Secondary sector	36.8
		Tertiary sector	35.9

PRODUCTION

Gross domestic product in 1980 (million of US dollars)	24 080	Gross domestic product at factor cost by origin in 1980 (%):	
Gross domestic product per head in 1980 (US dollars)	2 428	Primary sector	12.7
Gross fixed asset formation in 1980: % of GDP	20.9	Secondary sector	46.1
per head (US dollars)	508	Tertiary sector	41.2

THE GOVERNMENT

Public consumption in 1980 (% of GDP)	15.8	General Government current revenue in 1980 (% of GDP)	30.1
of which: Defence	3.0		
Public investment in 1980 % of GDP	3.0		
% of total investment	25.1		

FOREIGN TRADE²

Exports of goods and services as a % of GDP (1980)	28.1	Imports of goods and services as a % of GDP (1980)	42.4
Main exports as a % of total exports 1980, SITC:		Main imports as a % of total imports 1980, SITC:	
Food, beverages and tobacco (0, 1)	11.2	Food, beverages and tobacco	11.9
Basic and semi-finished materials (2, 3, 4)	16.7	Basic and semi-finished materials	33.9
Manufactured goods (5, 6, 7, 8)	70.9	Manufactured goods	54.1
of which: Chemicals (5)	6.2	of which: Chemicals (5)	10.8
Machinery and transport equipment (7)13.3		Machinery and transport equipment (7)	24.9

THE CURRENCY

Monetary unit: Escudo		Currency units per US \$, average of daily figures:	
		Year 1981	61.530
		August 1982	85.3925

1. Mainland Portugal.

2. Mainland Portugal and islands.

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

*The annual review of Portugal
by the OECD Economic and Development Review Committee
took place on 28th September 1982.*

INTRODUCTION

With the easing of the external constraint as a result of the 1977-78 stabilisation policies, the Portuguese authorities shifted their economic policy to a much more expansionary stance as of the end of 1979. Although this policy brought a very pronounced upturn in domestic demand, which grew by nearly 7 per cent in 1980, it also brought another surge of inflation at end-year and a deterioration in the external balance, the second oil crisis being a strong contributory factor. In 1981, growth continued fairly rapidly during the early part of the year. Then, the negative effects of weakening world demand, compounded by an appreciable loss of competitiveness due to higher inflation and reduced exchange-rate depreciation, caused a significant fall in exports. Imports continued to grow briskly because of continuing production capacity shortages and the effects of the drought on farm output and the production of hydro-electricity. All told, compared with 1980, 1981 was characterised by a fall in the rate of growth from 5.5 to 1.7 per cent, an increase in that of inflation from 16.6 to 20 per cent and a sharp widening of the current payments deficit from \$1.2 billion to \$2.7 billion, or the equivalent of 11 ¼ per cent of GDP.

In response to these developments the authorities have taken various measures to tighten economic policy. On the external front, the escudo's monthly rate of depreciation was raised from 0.50 to 0.75 per cent in December 1981 and, in the context of the EMS parity changes, its effective exchange rate was devalued by 9.4 per cent in June 1982. On the domestic front, monetary policy was gradually tightened as from the third quarter of 1981 through stricter quantitative credit controls and a two-stage raising of interest rates in July 1981 and April 1982. But most of these rates are still negative in real terms. Fiscal policy was also tightened judging from the 1982 budget, which provided for a fall in the nominal deficit at the 1981 level and, consequently, a sharp reduction of its ratio to GDP. Nevertheless, available outturns suggest that the deficit could be much higher than planned. Finally, after an appreciable relaxation in 1981, price policies have been aimed in different directions. Subsidies have been reduced for some products, but for others controls have been tightened. A temporary freeze was imposed after the devaluation of the escudo. However, the restrictiveness of economic policy as a whole is little in evidence as yet and, to judge from the very partial indicators available as to developments since the beginning of 1982, Portugal's economic situation does not seem to have shown signs of recovery. Industrial production has indeed increased by 1.5 per cent in the first four months of 1982 compared to the four preceding months. However, despite the temporary freeze, consumer prices rose by 19.5 per cent at an annual rate during the first eight months of the year and the current balance deficit amounted to \$2.3 billion in the first half, compared with \$1.7 billion in the first half of 1981.

GDP growth is likely to remain moderate in 1982, of the order of 2 per cent a year, and the current balance deficit might be larger than in 1981. Given the rise in unemployment and the deterioration in corporate finances, real wages are unlikely to grow much and private consumption might slow. Similarly, the poor outlook for demand might hold back investment. The escudo's devaluation will give a boost to exports but, in

view of the prospects for world demand, these may rise no more than moderately. The forecast for 1983 is quite difficult to assess given the uncertainties concerning the future trend in foreign demand and the effects of economic policy in Portugal. Growth of output might hold at the same rate as in 1982 and inflation could be slightly lower, though remaining close to 20 per cent. The current account deficit should stabilise at its 1982 level, given in particular the mounting burden of external debt service.

Part I and II of this survey examine recent trends in the economy on the domestic and external fronts. Part III analyses the short-term economic policy stance and briefly reviews certain aspects of structural policy. The short-term forecasts and economic policy conclusions are presented in the final part of the survey.

I. RECENT DOMESTIC TRENDS

Demand and output

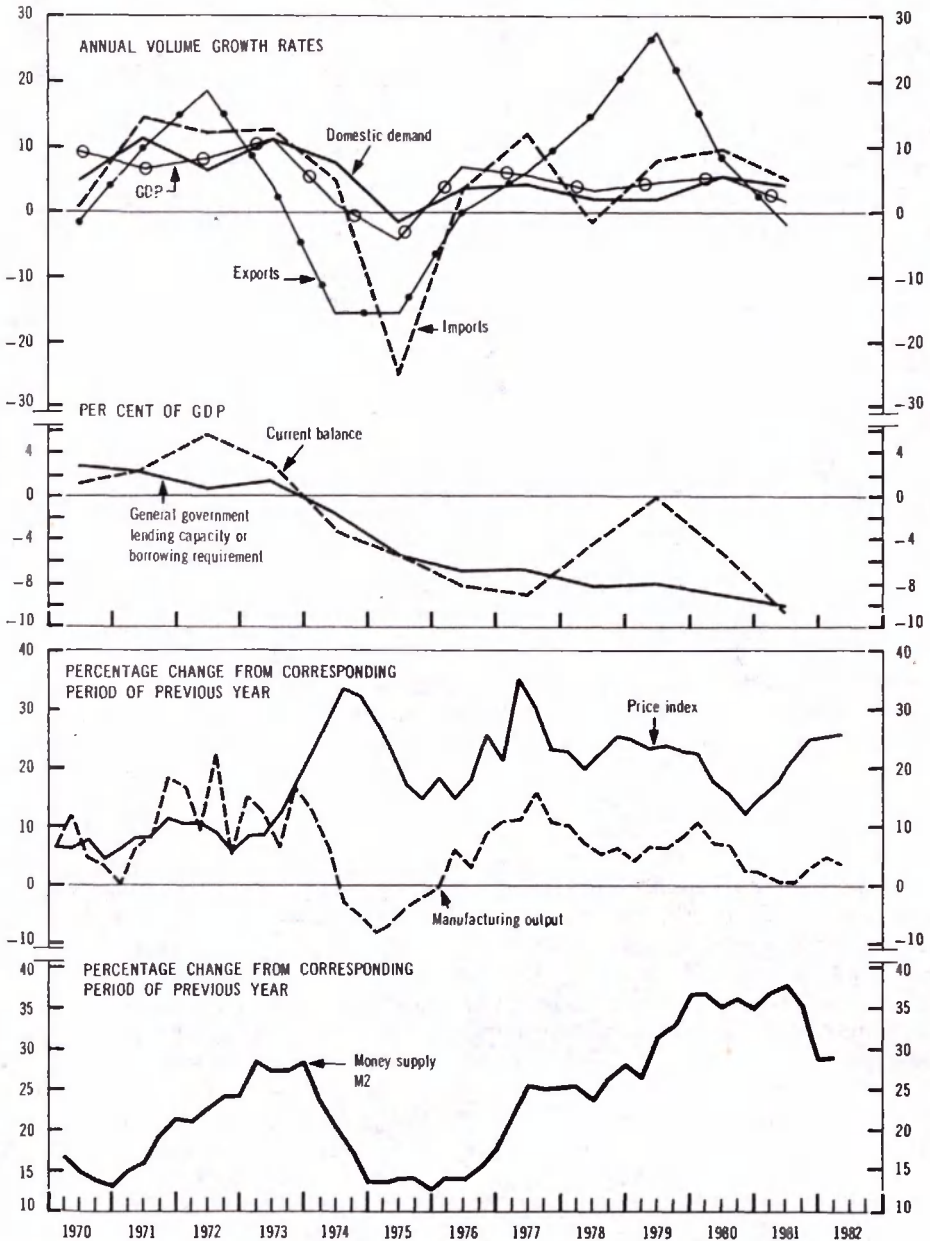
The strong recovery of 1979, triggered off by exceptional export performance and compounded by a sharp acceleration of domestic demand made possible by a relaxation of policy stance, apparently reached a peak towards mid-1980. Between then and the end of 1981 it gradually lost momentum, reflecting a deceleration in the growth of domestic demand and an actual fall in exports. Soaring inflation since end-1980 was responsible for a worsening of the country's competitive position, while a considerable deterioration of the terms of trade and continued strong nominal wage increases put a squeeze on enterprises' profit margins with a negative impact on investment. The gradual tightening of monetary policy since the summer of 1981 further added to the weakness of demand during the early months of 1982. Public consumption only continued to advance at the fast pace experienced in recent years. Furthermore, widespread disruption of production in agriculture and energy due to the drought had a negative effect on output. On the whole, GDP growth slowed from 5.5 per cent in 1980 to 1.7 per cent in 1981.

According to official estimates,¹ private consumption increased by 5 per cent in 1980 and 3.5 per cent in 1981. Buoyant consumer spending over the last two years, following a prolonged period of sluggish growth, can be ascribed to a large extent, and especially in 1981, to a marked fall in the households' saving rate.² Despite strong increases in wages and government transfers, real disposable income did not rise by more than 3 per cent in 1980, and it declined somewhat in 1981 owing to a slowdown in the nominal rate of increase of all its major components. The downward trend of the saving rate can be partly explained by three factors. Accelerating inflation since end-1980 appears to have prompted a wave of anticipatory purchases of consumer durables, mainly cars and newly introduced colour televisions. Inflation seems to have provided a further disincentive to savings, especially in 1981, by rising well above

1. The results shown in this study are based on estimates of the main aggregates of the national accounts which have been produced since 1976 by the Central Planning Department and the Bank of Portugal. They must be interpreted with caution due to their tentative nature. A new system of national accounts has been elaborated by the National Institute of Statistics, but the results which cover only the period 1977 to 1980 cannot be used for the analysis of most recent developments. See Annex on the new set of national accounts of Portugal.

2. It is difficult to quantify movements in the saving rate because of the lack of a proper households' appropriation account. According to some Portuguese estimates, the saving rate might have declined from 19 to 14 per cent between 1979 and 1981.

Diagram 1. Indicators of the Portuguese economy



Sources: Bank of Portugal; Central Planning Department; OECD, *Main Economic Indicators*.

Table 1. Demand and output

	1980		Percentage change from previous year in volume ¹		
	Current prices, billion escudos	As percentage of GDP	1979	1980	1981
Private consumption	893.5	74.2	1.7	5.0	3.5
Public consumption	185.6	15.4	5.2	5.2	6.2
Gross fixed investment	252.5	21.0	-1.6	9.0	4.6
Final domestic demand	1 331.6	110.5	1.6	5.7	4.1
Stockbuilding ²	55.5	4.6	-0.2	1.4	0.1
Total domestic demand	1 387.1	115.1	1.3	6.9	4.0
Foreign balance ²	-182.4	-15.1	3.2	-2.4	-2.9
Exports of goods and services	335.8	27.9	27.3	7.3	-2.0
Imports of goods and services	518.2	43.0	7.8	11.1	5.5
GDP at market prices	1 204.7	100.0	4.5	5.5	1.7
GDP deflator	..	..	22.0	14.9	17.9
Industrial production	..	..	7.5	5.7	2.1

1. At previous year's prices.

2. Change in stockbuilding and in foreign balance as a percentage 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 differ considerably from the change in GDP.

Source: Central Planning Department estimates.

interest rates on time and savings deposits. Finally, inflows of emigrants' remittances, which are normally characterized by a high saving rate, slowed down considerably over the last two years. Public consumption increased by nearly 6 per cent in 1981, slightly faster than in 1980, but on the whole in line with the trend established in recent years. Once again, the increase can be largely attributed to the growth of civil service employment, especially in local authorities.

The investment boom that got under way in the second half of 1979 gradually lost momentum from the middle of the following year so that the rate of growth of gross fixed investment declined from 9 per cent in 1980 to 4.6 per cent in 1981. The slowdown of private investment in 1981 reflects narrowing profit margins in association with rapidly rising labour cost and, especially in industry, weak exports. Furthermore, private residential construction is likely to have suffered from the tightening of monetary policy since mid-1981. General government investment continued to advance at a very sluggish rate last year, mainly owing to the usual difficulty in implementing investment programmes at the central government level, but also because of the decision taken in July 1981 to reduce the rate of expenditure to contain the government deficit. Although decelerating sharply from 1980, public enterprises' investment progressed by nearly 4 per cent last year, with quite marked sectoral differences: strong increases in manufacturing and electricity, gas and water more than offset falls in transport and communications, where chronic financial difficulties have yet to be solved.

Stockbuilding, which had made a 1.4 per cent contribution to GDP growth in 1980 in connection with the upward phase of the business cycle, was on the whole unchanged in 1981 from its level of the previous year. Business surveys in industry and commerce indicate that weakening demand led to a considerable accumulation of unwanted inventories of finished goods for the year as a whole, although tighter monetary policy is likely to have induced some downward adjustment in the second half of the year.

Table 2. Breakdown of gross fixed investment

	Per cent share of total investment at current prices 1980	Percentage change from previous year in volume			
		1978	1979	1980	1981
Breakdown by function					
Machinery and equipment	36.5	-2.1	3.0	8.0	..
Non-residential construction	44.4	4.2	-7.5	11.7	..
Residential construction	19.1	7.0	5.1	6.0	..
Breakdown by agent					
General government	21.3	0.6	-5.6	3.0	2.2
Public enterprises	29.7	2.0	-1.2	14.7	3.8
Private sector	49.0	2.5	0.2	8.4	6.0

Sources: Central Planning Department and Bank of Portugal.

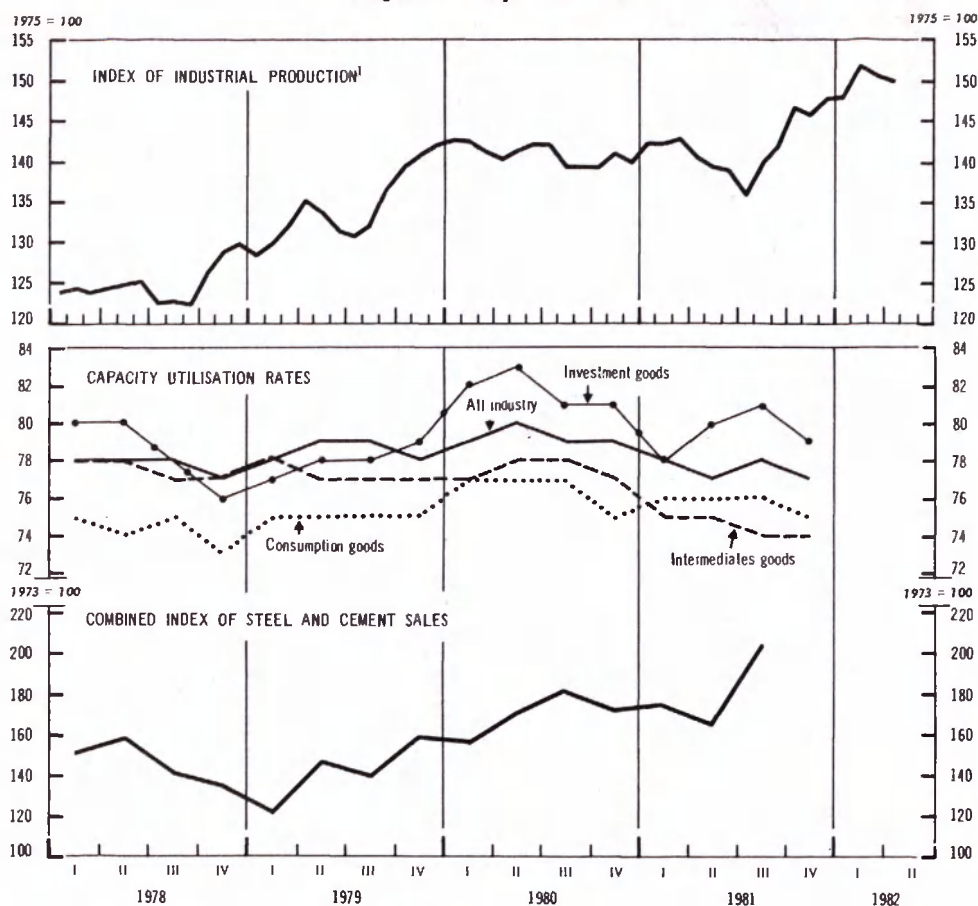
Inventories of industrial raw materials appear to have declined at end-1981 in connection with the strength of the dollar. The drought in 1981 was not only responsible for a reduction of agricultural inventories, but also contributed to the adjustment of those of crude oil, which had reached an exceptionally high level in 1980.

The most important factor of deceleration of activity in 1981 was the 2.9 per cent negative contribution of the change in the real foreign balance to GDP growth, following that of -2.4 per cent in 1980. Sluggish world demand and a considerable loss of competitiveness despite the continuing depreciation of the escudo were reflected in an actual fall of exports of goods last year. And the elasticity of imports to total demand in 1981 was considerably higher than in recent years because of stepped-up agricultural imports occasioned by the drought and a surge in those of consumer durables.

The impact of adverse weather conditions on agricultural output, which in 1980 had been limited mainly to wine, olives and vegetables, spread to virtually all sectors during the following year. Value added in agriculture thus increased by only 2 per cent in 1980, compared with 9 per cent in 1979, and actually fell by 6 per cent in 1981, with a particularly sharp decline in crop production (about 20 per cent). The vulnerability of agricultural output to weather conditions is aggravated by the backwardness of the farm sector in Portugal, described in earlier OECD surveys.

Despite the slackening of the rate of activity, the growth of output in the construction sector remained comparatively strong in 1981 (4 per cent, compared with 9 per cent in 1980) owing to the combined effect of a sustained emigrants' demand for housing and the introduction in recent years of various incentive schemes to encourage home ownership. Industrial production increased by 5.7 per cent on average in 1980 and 2.1 per cent in 1981. The bulk of the 1980 increase represents the carry-over of the strong recovery of 1979, with production growing at a rate of about 2 per cent between the second quarter of 1980 and the fourth quarter of 1981. This slowdown was due to a large extent to unfavourable results in heavily export-oriented consumer goods industries. On the other hand, production of investment goods was comparatively buoyant owing to the relative strength of investment in machinery and construction, also confirmed by the trend of rates of capacity utilisation. The index of industrial production on a seasonally adjusted basis rose by nearly 2 per cent in the first four months of 1982, compared to the four previous ones. This increase is attributable to the growth of output

Diagram 2. Output indicators



1. Seasonally adjusted, 3-month moving averages.

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

in manufacturing industries: 3 per cent during the same period and 4.2 per cent over the first four months of 1981. Finally, tertiary sector output increased faster than average in both 1980 and 1981 (6 and 4 per cent respectively). This was accounted by the growth of both public sector services, such as health and education, and private services, which benefited from still buoyant household consumption.

Labour market

Over and above fluctuations due to short-term changes of activity and some accidental factors, major labour market aggregates during the last two years have not shown any significant divergence from what appear to be well established trends.³ Thus

3. In what follows, reference is made to annual changes drawn from INE (National Institute of Statistics) half-yearly Labour Force Surveys. Half yearly changes have always been difficult to interpret because two different samples are used in the first and second calendar semester and this difficulty has been compounded in 1981 by the incorporation of census results in Survey figures.

Table 3. Labour market

	Thousands 1981 II	1978	1979	1980	1981	Average per cent change 1976-1981
		Percentage change from previous year				
Total population	9 496	0.4	1.4	0.7	1.0	0.9
Civilian labour force	4 269	0.3	2.2	1.3	1.6	1.3
Participation rate (%)	—	44.7	45.0	45.3	45.6	—
Total employment	3 943	-0.3	2.1	1.9	1.1	0.9
Agriculture	1 027	-5.4	-1.7	-4.8	-5.5	-3.8
Industry	1 056	5.0	2.3	2.1	2.1	1.3
Construction	394	4.9	3.4	13.8	6.6	7.1
Services	1 460	-0.6	3.9	4.6	5.1	3.5
As a percentage of the labour force						
Unemployment						
Total	325	8.2	8.2	7.8	8.2	—
Male	103	5.5	4.9	4.1	4.2	—
Female	222	12.1	12.9	13.0	13.6	—
As a percentage of total unemployment						
First job seekers	164	56.3	56.7	52.7	51.1	—

Source: National Institute of Statistics.

participation rates continued to rise in 1980 and 1981, mainly because of an increase in female rates, though the progressive weakening of economic activity might have had a discouraging effect on new entries. The temporary stabilisation of agricultural employment observed in 1979, at a time of exceptionally good harvests, gave way to strong falls in 1980 and 1981, as the effects of the drought led to resumed rural migration. Non-farm employment continued to increase in both years, though at a slackening pace, reflecting the slowdown in activity, with particularly strong gains in construction, general government and some private services.

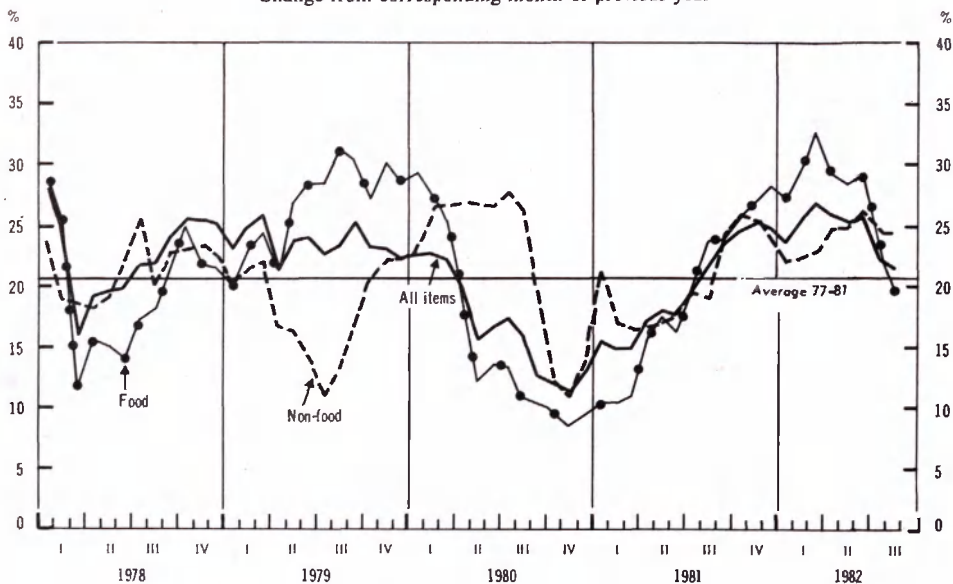
For the first time since 1974, employment increased faster than the labour force in 1980 in connection with buoyant activity during most of the year, with a consequent fall in the unemployment rate. But in 1981 the growth of employment was once again not sufficient to absorb new entries into the labour force and the unemployment rate reverted to 8.2 per cent for the year as a whole, regaining its level of 1979. As in many other OECD countries, women and young people have been the hardest hit by rising unemployment since the mid-1970s. However, while the female unemployment rate has continued to rise uninterrupted since 1974, that of people under 25, having reached a peak of 19 per cent in 1979 has subsequently declined gradually to 16.8 per cent in 1981.

Prices and incomes

One of the major characteristics of consumer price formation in Portugal is the existence of a widespread system of price controls. Prices of public utilities (gas, electricity, public transportation, etc.) and of energy products can be increased only by

an administrative decision. The prices of some staple foodstuffs (the "family basket") are also set administratively once a year and those of other food products are subject to a price ceiling.⁴ Price controls have been associated with substantial subsidies granted to public enterprises and food importers and producers. Direct price controls are supplemented by a system of "declared prices", whereas firms producing certain goods and with a turnover in excess of a specified level have to notify price increases and receive ex-post authorisation within a given interval. The sharp fluctuations in the inflation rate observed in recent years can be ascribed to a large extent to the more or less stringent application of the system.

Diagram 3. Consumer prices
Change from corresponding month of previous year



Source: National Institute of Statistics.

Thus the priority given to fighting inflation in 1980 was reflected in the postponement of increases in prices of public utilities and energy products and stricter enforcement of controls on food prices, which increased by only 10.4 per cent on average, compared with 28 per cent in 1979. The trend of food prices in 1980, however, was also favourably affected by the good harvests of the previous year. But non-food prices rose very steeply, reflecting strong increases in labour costs and import prices. As a result of these contrasting trends, the average rate of consumer price inflation declined from 24.2 per cent in 1979 to 16.6 per cent in 1980, and just over 12 per cent in the fourth quarter. In the course of 1981, stressing the need for greater price transparency, the authorities agreed to long-delayed increases in prices of public utilities and energy products and the application of other price controls was eased.⁵ As a result, owing to

4. These are, currently, bread, sugar, rice, potatoes, milk, apples and beef.

5. The weight of the goods with administratively fixed prices, called the "family basket" between 1977 and 1979, was reduced from 12 to 6 per cent of households' expenditure; the turnover threshold above which firms must declare their prices was raised; the interval between notification and official authorisation shortened, and the list of products subject to "declared" prices reduced.

continuing strong rises in costs and relatively buoyant domestic demand, the overall rate of consumer price inflation doubled between the fourth quarter of 1980 and the fourth quarter of 1981, reaching 25 per cent, and rose to 20 per cent for the year as a whole. Once again, it was the prices of food products, which account for some 50 per cent of consumer spending, that set the line for the overall rate of inflation, rising from a rate of less than 7 per cent in the fourth quarter of 1980 to nearly 28 per cent in the fourth quarter of 1981. Here, the effect of the relaxation of price controls was compounded by reduced domestic supply due to the drought and the increase in the cost of food imports in local currency terms owing to the strengthening of the dollar.⁶

On the basis of available indicators, there seems to have been little change in the underlying factors of inflation in the first half of 1982, and the overall rate of consumer price inflation accelerated slightly to 26 per cent in the second quarter compared with the corresponding period of 1981. The authorities have reverted to stricter enforcement of price controls for some goods, while allowing strong rises for others. In April, some additional foodstuffs were submitted to price ceilings and the delay of notification for "declared" prices lengthened from 60 to 90 days.⁷ Furthermore, in the wake of the

Table 4. Wages and prices

	Percentage change from previous year				
	1978	1979	1980	1981	1982 ¹
Compensation of employees, all sectors	19.0	20.7	25.2	22.0	
Nominal average wages, continental Portugal ²					
Manufacturing	14.7	19.0	22.0	20.0	
Construction	15.3	19.4	25.7	24.5 ³	
Agriculture	16.0	22.0	18.8	..	
Real wage per head ⁴	-3.2	-3.0	3.8	0.8	
Unit labour costs	15.8	15.7	19.0	20.0	
GDP deflator	21.4	22.0	14.9	17.9	
Consumer price index (excluding rents)	22.1	24.2	16.6	20.0	24.5
Wholesale price index for Lisbon	31.6	29.5	6.7	21.5	21.6

1. First eight months of 1982 over the same period of 1981 for consumer prices and 1st quarter 1982 over 1st quarter 1981 for wholesale prices.

2. Bank of Portugal estimates.

3. First three quarters of 1981 over the same period of the previous year.

4. Compensation per employee excluding employer's social security contribution, divided by the private consumption deflator.

Source: Central Planning Department; Bank of Portugal, *Quarterly Bulletin*.

6. According to the estimates of the Central Planning Department – which, it must be emphasised, are purely mechanical – the percentage contribution of the different inflation factors to the rise in the total demand deflator is as follows:

	1979		1980		1981	
	Change	Contribution	Change	Contribution	Change	Contribution
Import prices	9.0	36.1	8.9	48.9	7.6	39.4
Wage costs	5.6	22.5	6.2	29.5	6.2	33.1
Other factor incomes	9.9	39.4	1.9	10.0	3.5	19.7
Net indirect taxes	0.5	2.0	1.8	11.6	2.1	7.8
Total demand deflator	24.9	100	19.0	100	19.3	100

7. When a firm declares that it is raising the price of its products it cannot do so again until the expiry of the period of notification.

escudo depreciation of June 1982, a temporary price freeze was imposed. Prices of many goods and services were frozen for a period of 45 days, starting on 15th June. At the same time, the prices of oil products were raised on the 18th of June, by 7.7 per cent for petrol and 14 per cent for fuel oil; and the price of fertilizers was increased by 45 per cent on average at the end of August. The effect of the measures was a slight slowdown in the rate of inflation and in July and August 1982 the rate of increase of consumer prices was 22 per cent over the corresponding period a year earlier.

Compensation of employees accelerated from 21 per cent in 1979 to 25.6 per cent in 1980 in association with the rapid growth of the economy and improving labour market conditions, yielding a 4 per cent gain in the purchasing power of wages per head, the first since 1976.⁸ In 1981, compensation slowed down to 22 per cent and real wage gains per head for the economy as a whole were limited to less than 1 per cent. In view of accelerating inflation in the course of 1981, it is likely that the purchasing power of wages declined in the second half of last year. Selected indicators suggest that average wage gains were strongest in manufacturing in 1980 and in construction in 1981, while salaries of civil servants appear to have had a moderating effect in both years. A common feature of both 1980 and 1981 has been the growth of unit labour costs in excess of GDP prices, with a shift in the distribution of national income in favour of wages, in contrast with the opposite movement towards profits between 1977 and 1979.

Since 1977, the Portuguese authorities have attempted to slow down wages and encourage profits through the implementation of different wage and income policies. Firstly, a ceiling was put on annual wage increases. Faced with the difficulties of applying such a policy, Parliament having rejected the Government proposals repeatedly in 1979, the system has been eased and less direct control of wages has been decided. A wage norm is established every year, which represents the maximum increase that firms can carry into prices subject to control. At the same time, a ceiling was put on civil servants' salaries. This system, however, has not been very efficient, wage bargaining always proving difficult in the major public enterprises in particular, and the norm has systematically been overrun. For 1982, the Government has allowed a salary increase of 15 per cent for civil servants, applied on January 1st, and a wage increase norm of 17 per cent. According to the partial information available on wage bargaining of the beginning of the year, the application of the norm has proven particularly difficult given the acceleration of inflation, but this trend has eased in the course of the year.

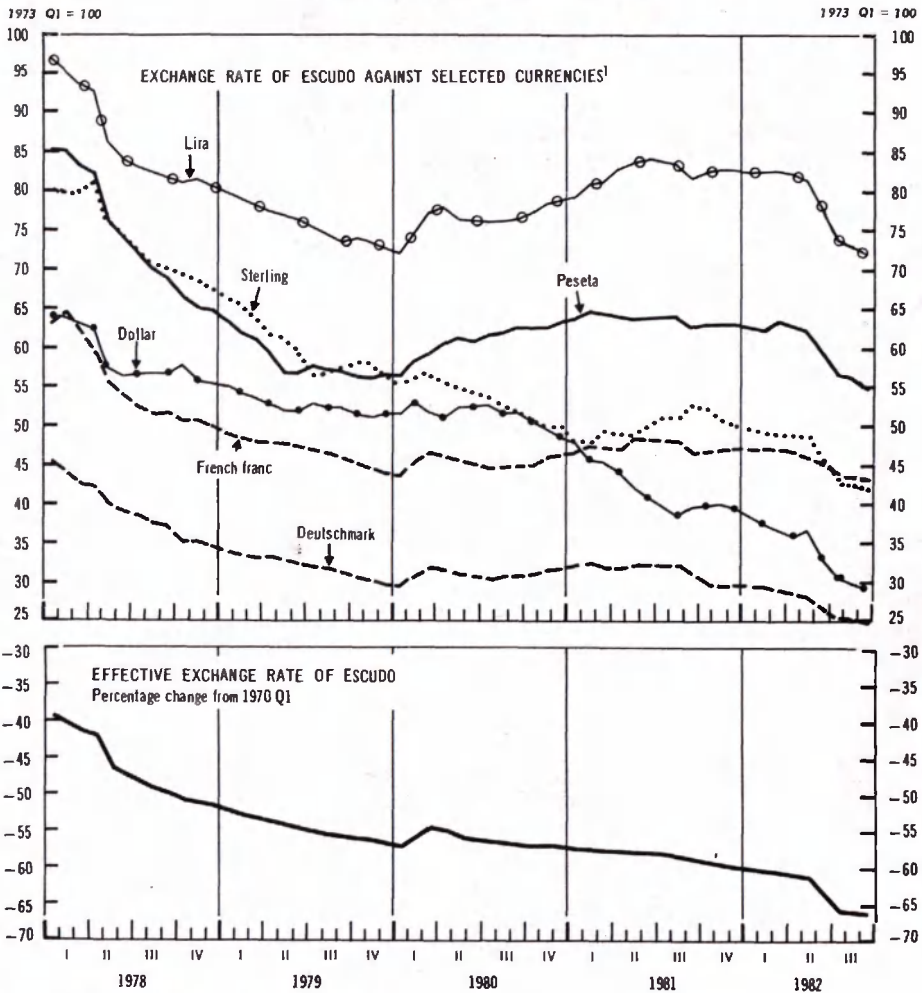
II. EXTERNAL RELATIONS

Exchange rates

Exchange rate policy was shifted in 1980 when the principle of crawling-peg devaluation was maintained for the escudo, but the rate of depreciation was reduced appreciably. The reason for this was that with the current account back to virtual equilibrium in 1979, largely as a result of improved external competitiveness, the Portuguese authorities considered that they had sufficient room for manoeuvre to use

8. Because of the amnesty introduced in 1980, social security contributions increased more than proportionately. The wage bill excluding social security contributions rose by 23.5 per cent in association with increases in employment and consumer prices of respectively 1.9 and 16.6 per cent.

Diagram 4. Exchange rates



1. Units of foreign currency per escudo.

Source: OECD, Secretariat.

the exchange rate as a counter-inflation tool by way of containing the rise in import prices. The escudo was accordingly revalued by 6 per cent in February 1980 and the rate of crawling-peg devaluation was lowered from 0.75 to 0.50 per cent a month in July 1980.⁹ In the course of 1980 the depreciation in the escudo's effective exchange rate was less than 1 per cent. Since the escudo depreciated by 6 per cent against the dollar, this average rate constituted an appreciation against the currencies of most of Portugal's competitors, with the exception of the United Kingdom.

9. This system was introduced in September 1977 with a monthly rate of 1 per cent, which was changed to 1.25 per cent from May 1978. In 1979, the rate was lowered to 1 per cent in April and 0.75 per cent in July.

This trend continued of 1981 as a result, principally, of the dollar's steep appreciation against all the currencies of OECD countries. In 1981 the escudo depreciated by 23 per cent against the dollar while its effective exchange rate depreciated by 7 per cent, resulting in a further appreciation against certain European currencies. This factor, coupled with the acceleration of domestic inflation in Portugal, caused a further loss of external competitiveness.¹⁰ The Portuguese authorities' response was to put the escudo's monthly rate of depreciation back to 0.75 per cent in December 1981. With the dollar continuing to appreciate in 1982, the weighting pattern of the basket of currencies on which the effective rate of depreciation is determined was adjusted in March 1982 so as to minimize the weight of the dollar and increase that of the European currencies;¹¹ furthermore, following the parity changes in the European Monetary System, the Portuguese authorities decided on a 9.4 per cent depreciation of the escudo's effective rate in June 1982. All told, in the first half of 1982 the escudo depreciated by 23.7 per cent against the dollar and its effective exchange rate fell by 15.2 per cent.

Balance of payments

After a brief return to equilibrium in 1979, the current balance deteriorated sharply again in the two following years and in the first half of 1982. This deterioration was partly due to exceptional factors (drought and the second oil shock), but in great part it reflects structural frailty of Portugal's external relations. This is apparent both in the trend of visible trade, which worsens as soon as domestic demand picks up, and in that of invisibles, which is very much affected by external debt service. All told, the current account, which had been virtually in balance in 1979, showed a deficit of \$2.7 billion in 1981, equivalent to approximately 11.2 per cent of GDP. As in 1980, inflows of non-monetary capital grew rapidly, especially those of medium- and long-term capital, but not enough to prevent a small deficit on non-monetary transactions, for the first time since 1977, which was financed mainly by a rundown of exchange reserves.

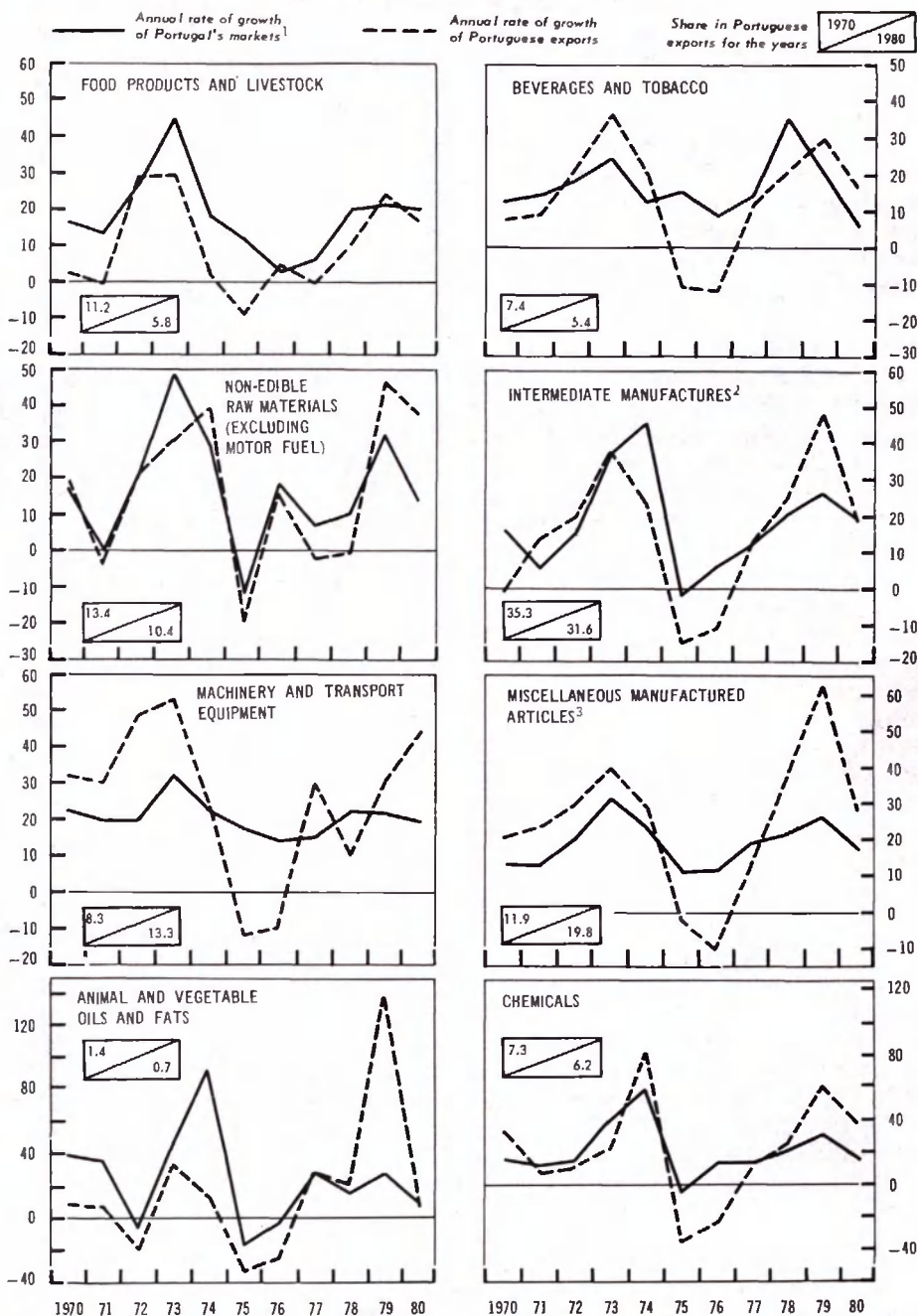
The further deterioration in the trade balance in 1981 was the result of an adverse trend in trade volumes and a marked worsening of the terms of trade. Export volumes were down 2.6 per cent from 1980 owing to the weakness of world demand but also to market share losses, which amounted to about 2-3 points for manufactured products¹² and were due in large part to the fall in competitiveness. Exports of farm goods and food were affected by the drought and fell by over 9 per cent in volume terms, but there were also very steep falls in export volumes of chemicals (down 15 per cent), wood, metal products (-7 per cent) and transport equipment (-13 per cent). Export prices in escudos rose by about 13 per cent in 1981, this being a much lower rate than that for domestic wage costs, which rose by about 20 per cent. This distortion undoubtedly had the effect of depressing exporters' profits considerably. Given the escudo's steep depreciation against the dollar, export prices in terms of the latter currency fell by about 8 per cent in 1981. The geographical pattern of Portuguese exports was partly influenced by relative trends in bilateral exchange rates. Thus exports in escudos to the EEC countries

10. According to estimates by the Bank of Portugal, relative labour costs calculated in a common currency, which had fallen by 20 per cent a year on average from 1976 to 1979, fell by only 1.1 per cent in 1980 and then rose by 6.6 per cent in 1981.

11. The dollar's weight was reduced from 22 to 13 per cent while that of the three main European currencies (DM, FF and sterling) rose from 34 to 44 per cent in this 18-currency basket.

12. This estimated average incorporates very wide differences as between markets, export performance with the United States and Italy being particularly unfavourable, while with the EFTA countries Portugal was able to maintain its market shares.

Diagram 5. Export performance for selected product categories



1. For each product, the growth of markets is calculated as the change in imports in Portugal's main trading partners countries weighted by their shares in Portugal's exports.

2. Section 6 of the SITC. Chiefly articles of leather, wood and cork (excluding furniture), yarn and fabrics, paper, non-metallic minerals, iron and steel, non-ferrous metals.

3. Section 8 of the SITC. Chiefly furniture, clothing, footwear, various instruments.

Source: OECD, *Foreign Trade Statistics, Series C*.

increased by only 7.3 per cent in value and those to the EFTA countries by 6.2 per cent, which probably represents volume falls of the order of 5 to 6 per cent. On the other hand, there was a steep increase in exports to OPEC and planned-economy countries and especially in sales to countries of the former escudo area (up by nearly 40 per cent), which in 1981 accounted for 7.6 per cent of total exports whereas their share had fallen to under 3 per cent in 1976.

Buoyed by strong domestic demand and occasional factors, import volumes rose steeply in 1980 and during much of 1981. In the second half of last year, however, there was a very pronounced slowdown and for the full year import volume growth was 4.2 per cent as against 12 per cent in 1980. The sharp acceleration in imports in 1980 was essentially attributable to manufactures (+17 per cent in volume), both in the case of intermediate and capital goods, stimulated by the upturn in activity, and in that of consumer goods, particularly motor vehicles and household electrical appliances. In 1981 the slowdown in final demand together with big inventory rundowns in some sectors of the economy, especially energy and raw material stocks, served partly to offset the effects of the drought on imports of farm goods (up 10.5 per cent in volume) and purchases of oil products.¹³ Nevertheless, imports of consumer goods (motor vehicles and household electrical appliances) continued to grow at over 20 per cent a year in volume terms. Furthermore, it seems that capacity expansion in some sectors (notably the motor industry) is causing a rapid growth of imports of intermediate goods like aluminium.

The rise in unit import values in escudo terms continued extremely rapidly in 1981 (21 per cent), mainly under the influence of energy and farm prices. So for the third year running the terms of trade deteriorated, by 6.6 per cent on 1980.¹⁴ The deterioration was partly attributable to the rise in oil prices and the impact of the dollar's appreciation on both the oil bill and imports of food products. On a non-oil trade basis the terms of trade probably improved by about 4 per cent in 1980 but worsened by the same margin in 1981. In all, the visible trade deficit (fob-fob) widened by nearly 45 per cent between 1980 and 1981, from 199.6 billion escudos to 289 billion or the equivalent of 22.6 per cent of GDP.

The invisibles surplus narrowed in 1981 as the result of a larger deficit on services and a smaller surplus on transfers. Earnings from tourism in 1981 were significantly down from 1980 owing to the flat trend in international economic activity and the escudo's appreciation against a number of European currencies. Furthermore, although the number of foreign tourists entering Portugal was more than 4 per cent up from 1980, their average length of stay was down by nearly 10 per cent and their daily spending by nearly 1 per cent. Finally, it looks as if the dollar's appreciation had an unfavourable effect on tourism competitiveness because a large proportion of tourist rates, which are dollar-priced, were not adjusted as that currency appreciated. The rise in interest rates and the increase in Portugal's external indebtedness caused a growth of nearly 57 per cent in the net shortfall on investment income between 1980 and 1981, when it amounted to \$960 million.

Emigrants' remittances, which had already slowed very sharply in 1980 (+19.4 per cent in dollar terms compared with +46.8 per cent in 1979), fell by more than 3 per cent

13. Although the drought necessitated additional imports of petroleum products for thermal power stations in order to make good the production shortfall of the hydroelectric power stations, total volume imports of mineral fuels in 1981 were about 7.5 per cent down from 1980.

14. From 1976 to 1981 the terms of trade moved as follows:

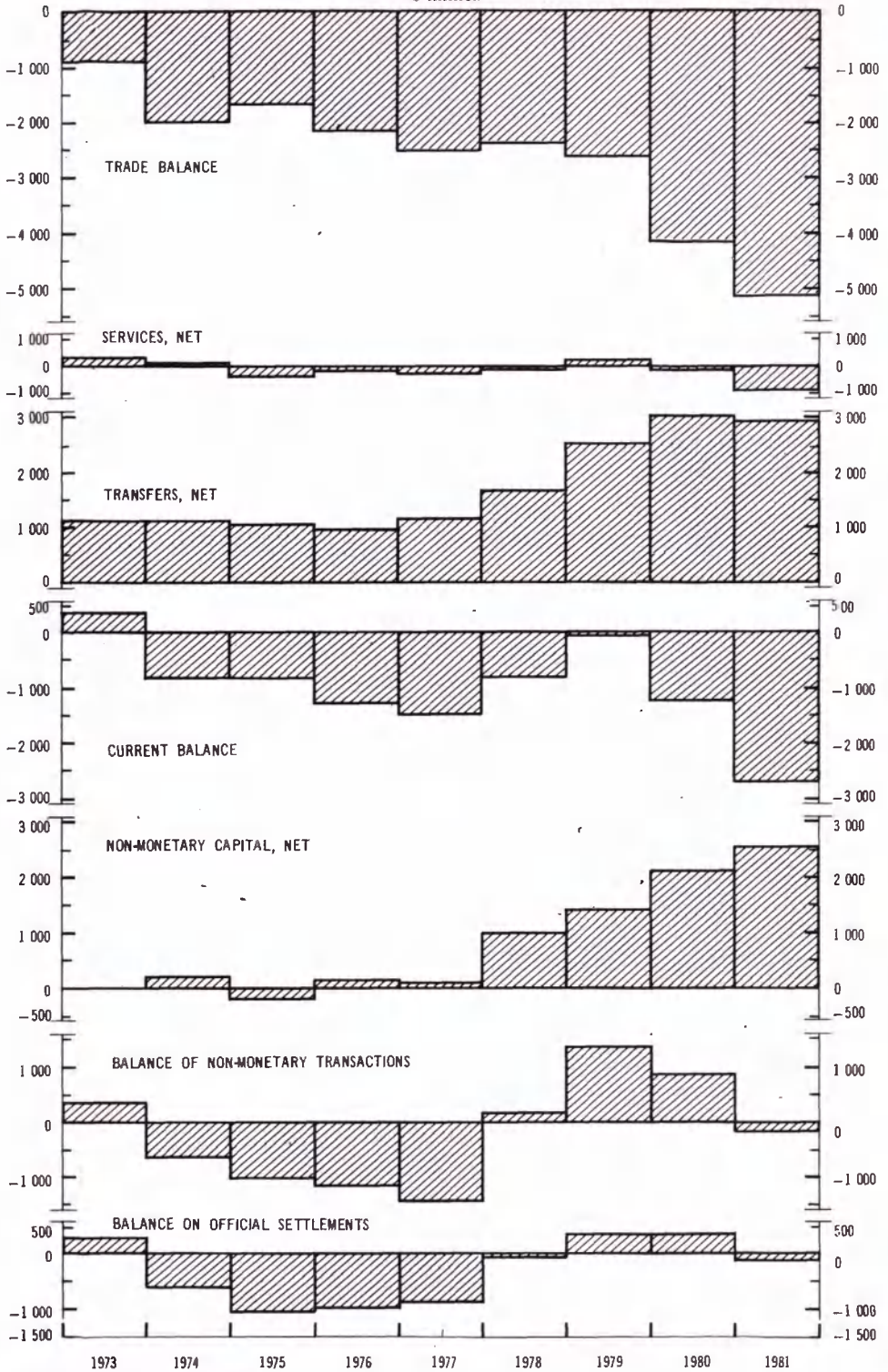
1976	1977	1978	1979	1980	1981
-3.7	4.8	0	-5.4	-4.9	-6.6

Table 5. Balance of payments
US\$ million, n.s.a.

	1979	1980	1981	1980		1981		1982
				I	II	I	II	I
Exports, fob	3 550	4 575	4 089	2 364	2 211	2 084	2 005	2 011
Imports, fob	6 182	8 781	9 251	4 276	4 505	4 917	4 334	4 847
Trade balance	-2 632	-4 206	-5 162	-1 912	-2 294	-2 833	-2 329	-2 836
Services, net	104	-45	-441	-159	114	-270	-171	-629
Travel	695	859	778	292	567	317	461	219
Transport	-114	-194	-131	-104	-90	-113	-18	-183
Investment income	-437	-612	-960	-300	312	-354	-606	-556
Other services	-40	-98	-128	-47	-51	-120	-8	-109
Transfers, net	2 476	3 000	2 893	1 287	1 713	1 331	1 562	1 210
Current balance	-52	-1 251	-2 710	-784	-467	-1 772	-938	-2 255
Medium- and long-term capital	813	718	1 282	75	643	584	698	1 044
Private	462	314	765	43	271	317	448	602
Official	351	404	517	32	372	267	250	442
Short-term capital and unrecorded	594	1 391	1 268	371	1 020	957	311	1 135
Balance of non-monetary transactions	1 355	858	-160	-338	1 196	-231	71	-76
Monetary institutions' short-term capital	-995	-498	48	60	-558	223	-175	43
Balance on official settlements	360	360	-112	-278	638	-8	-104	-33
Drawing on IMF	41	146	72	49	97	43	29	27
Miscellaneous official accounts	251	334	6	153	181	96	-90	109
Change in reserves (increase = +)	68	-120	-190	-480	360	-147	-43	-169

Source: Bank of Portugal.

Diagram 6. Structure of the balance of payments
\$ million



Source: Bank of Portugal.

in absolute value in 1981. This should be assessed keeping in mind the appreciation of the dollar against the currencies of European OECD countries, which account for two thirds of emigrants remittances. Calculated in ECUs, remittances increased by 17.5 per cent in 1980 and 21.4 per cent in 1981. The slowdown in economic activity in the OECD area and lower nominal wage growth may account for the deceleration since 1980, but other factors were responsible too. In 1978-79 certain incentives had been introduced in a climate of revived domestic confidence, resulting in large remittances by contrast with the retentiveness of earlier years. But in 1981, the worsening of Portugal's domestic economic situation, the acceleration of inflation, negative real interest rates on deposits at a time when they were rising abroad, certainly served as a deterrent to the repatriation of emigrant workers' savings.¹⁵

The decrease in net inflows of medium- and long-term capital in 1980, mainly as a result of the decline in long-term trade credits, was succeeded in 1981 by a very considerable growth of inflows, which amounted to nearly \$1.3 billion. This increase was essentially due to heavy demand for capital by the government sector and nationalised enterprises; foreign direct investment remaining at much the same level as in 1980. Although slightly down from 1980, net inflows of short-term capital (including errors and omissions) were again extremely large in 1981 (\$1.3 billion) owing to the magnitude of oil and raw material purchases financed mainly by short-term credit and the continuing substitution of some short-term for long-term credit, as the procedures for obtaining the latter are more complex. Finally, the tightening of domestic credit at the end of the year certainly contributed to the growth of short-term external indebtedness. The balance on non-monetary transactions swung from a surplus of \$860 million in 1980 to a deficit of \$160 million in 1981. Whereas in the three previous years the banking sector had reduced its external liabilities, in 1981 it recorded a small net borrowing figure and the balance on official settlements showed a deficit of \$112 million. With the Bank of Portugal continuing to repay its foreign borrowing, the exchange reserves fell again by about \$190 million in 1981. Foreign exchange reserves, inclusive of gold, amounted to 550 million dollars at end 1981, while total net foreign assets were \$6.4 billion¹⁶ (Es. 418 billion).

The adverse trend in the current account caused a steep rise in Portugal's external debt, which amounted to \$10 billion in 1981 or the equivalent of over 40 per cent of GDP, as compared with 7.7 billion in 1980.¹⁷ There was also a marked shift to short-term borrowing, which accounted for more than one-third of total indebtedness in 1981 as against approximately one-fourth in previous years. This growth in the share of short-term indebtedness is due to the transactions of public enterprises, which have become both the biggest borrowers abroad (at end-1981 their borrowing represented over 55 per cent of total external indebtedness) and, above all, short-term borrowers since they account for 84 per cent of the total short-term debt. This trend towards short-term borrowing is a result of both the instability of the medium- and long-term

15. Whereas in 1979 the improvement of the economic situation caused inflows of speculative capital declared as emigrants' remittances and tourism receipts, the reverse may have occurred in 1981 because of accelerating inflation.

16. Since 1st January 1980, gold assets are valued at \$254.92 the ounce.

17. Trend of external debt of Portugal since 1978 (US\$ billion):

	1978	1979	1980	1981	1982 Q1
General Government	0.9	1.3	1.7	2.2	2.2
Bank of Portugal	1.9	1.6	1.1	0.9	0.9
Public enterprises	2.0	2.9	3.7	5.3	5.9
Other	0.6	0.8	1.2	1.6	1.9
Total	5.4	6.6	7.7	10.0	10.9

capital market in 1981 and specific factors which have been mentioned earlier (financing of oil and raw materials purchases). External debt service grew considerably in 1981 and reached \$2.1 billion, with amortisation roughly equal to interest payments.¹⁸

In the first half of 1982, exports continued to be weak and fell by 1.5 per cent in escudos (seasonally adjusted) compared with the fourth quarter of 1981. During the first six months of 1982 exports in escudos increased by 17.9 cent (not seasonally adjusted) compared with the same period of 1981, equivalent to a 3.5 per cent fall in dollars. It should also be noted that at the beginning of 1981 the level of exports was extremely low. Imports (seasonally adjusted) increased rapidly in current prices at the beginning of 1982, 6.1 per cent in the first quarter over the previous quarter. In the first six months of 1982, imports in value increased by 20.9 per cent compared with the corresponding period of 1981, equivalent to a 1.4 per cent fall in dollars. In the first six months of 1982 the trade and current accounts registered deficits of respectively \$2.8 and 2.3 billion.

III. ECONOMIC POLICY

Over the last five years, economic policy has changed course rather frequently, responding mainly to sharp swings in the balance of payments position. The authorities have relied by and large on monetary and exchange rate policies, on widespread price controls and, to some extent, on wage norms.¹⁹ Fiscal policy measures have been taken for demand management purposes but their effect has been overshadowed by the strong rising trend of public expenditure, partly due to interest payments on public debt. In the context of recurrent short-term policy changes and because of institutional and political factors, the formulation of medium-term economic policies has lagged behind. In the crucial area of medium-term agricultural policy no significant measures have been taken. Plans for the reform of State-owned enterprises have been stalled by the revision of the Constitution, now in the final stage. And, as in other countries, the elaboration of medium-term economic Plans has been overtaken by events. However, in the field of industrial policy some important work is in process, described in the final section of this Part of the Survey.

The balance of payments crisis of 1977, when the current external deficit exceeded 9 per cent of GDP and the inflation rate was 27 per cent, reflected largely the effects of the economic disruptions associated with the institutional transformations of 1974-1976. The stabilisation programme of 1977-1978, implemented in a not too unfavourable international economic environment, produced rapid results, in particular a sharp improvement in the balance of payments. Demand management policy became then increasingly expansionary between mid-1979 and mid-1981 and the effective exchange rate was approximately stabilised during 1980 when the results of the second oil price

18. The debt service coefficient, which is the ratio between debt service (estimated by the Portuguese authorities) and total exports (goods and services and emigrants remittances) has evolved as follows in recent years:

1978	1979	1980	1981
0.17	0.17	0.15	0.23

19. Price and wage policies are described in Part I and exchange rate policies in Part II.

increase were being felt. The current external deficit deteriorated and exceeded 11 per cent of GDP in 1981. The inflation rate, partly disguised by price controls for a time, returned again to a range of 20-25 per cent until the summer of 1982. Unlike the comprehensive stabilisation measures of 1977-78, the shift to policies of restraint since the summer of 1981 has been gradual. Ceilings on bank credit have been tightened and interest rates have been raised, while in the last few months price controls have been reinforced and an effective depreciation of the escudo of 9.4 per cent took place. According to the 1982 Budget, fiscal policy should have been considerably less expansionary than in 1981, but the trend towards a much larger deficit than forecast has led to a reduction of budget appropriations.

Fiscal policy

The weight of general government transactions in the economy has greatly increased since the mid-1970s. The rise in expenditure as a percentage of GDP (from 22.7 per cent in 1973 to 42.1 per cent in 1981) has been much stronger than that of revenue – from 24.1 to 31.9 per cent), so that a small lending capacity at the beginning of the last decade has given way to an ever widening borrowing requirement, which has reached 10.2 per cent of GDP in 1981²⁰. This imbalance can be largely attributed to the strong rate of increase of current expenditure, 31.5 per cent per year on average between 1974 and 1981. The rapid expansion of current spending is partly due to structural trends, such as the extension of the welfare system to practically the whole of the population, but also to the lack of control on some major items, such as civil service employment and subsidies to public enterprises. The financing of the expanding government deficit has also entailed a rapid growth of interest payments, which were equivalent to 17.5 per cent of general government revenue in 1981. The low degree of flexibility of the Portuguese fiscal system, which relies on a large number of taxes, has limited the scope for increases in revenue similar to those of expenditure, despite strong fiscal drag and some success in recent years in the fight against widespread tax evasion.

Faced with these serious public finance problems, in recent years the authorities have repeatedly stated their intention to reduce the imbalance between revenue and expenditure and to restructure the composition of the latter in favour of capital spending, though little progress has actually been achieved. The 1981 budget, enacted in April, fitted in with this general pattern. Based on a normative forecast of a 20 per cent rate of growth of nominal GDP, it implied a reduction of the general government borrowing requirement as a percentage of GDP from 9.1 per cent in 1980 to 8.7 per cent. The growth of revenue was expected to slow down after the exceptional increase of 1980 (owing to the moratorium on tax evasion and better collection procedures introduced at the time), but to proceed at a faster rate than expenditure. An effort was to be made to compress some major expenditure items, taking into account the very rapid expansion envisaged for interest payments. A ban was imposed on civil service hirings in 1981, price deregulation was to allow food subsidies and those to public enterprises to remain at their 1980 level in nominal terms and transfers to households were to fall sharply in real terms. Finally, it was planned to reduce capital transfers to public enterprises in real terms, though a large increase in government investment proper was foreseen.

20. This figure does not take account of the borrowing requirement of public enterprises. According to some estimates, this is now just as large as that of general government and accounts for nearly 80 per cent of public external borrowing.

Table 6. General government account
National accounts basis

	Billion escudos				Percentage change from previous year		
	1980 Outturn	1981 Forecast	1981 Outturn	1982 Forecast	1981 ¹ Forecast	1981 Outturn	1982 ² Forecast
Current revenue	362.6	431.3	447.1	568.8	18.2	23.3	27.2
Direct taxes	77.4	95.8	107.9	127.6	23.8	39.4	18.3
Social security contributions	90.7	110.5	112.9	144.5	18.8	24.5	28.0
Indirect taxes	173.0	204.6	212.0	271.3	18.3	22.5	28.0
Other	21.5	20.4	14.3	25.4	10.9	-33.5	77.6
Current expenditure	404.6	478.9	527.3	608.3	17.7	30.3	15.4
Goods and services	185.6	216.2	230.8	275.1	16.1	24.4	19.2
Subsidies	59.8	60.7	69.4	50.8	1.5	16.1	-26.8
Transfers	120.4	133.3	147.4	173.4	9.0	22.4	17.6
Interest	38.8	68.7	79.7	109.0	77.1	105.4	36.8
Current savings	-42.0	-47.6	-80.2	-39.5			
Capital revenue	5.8	11.8	8.5	9.7	100.0	46.6	14.1
Capital expenditure	70.1	80.4	76.5	105.0	13.7	9.1	37.3
Transfers	20.7	13.3	14.0	18.3	-36.1	-32.4	30.7
Investment	49.4	67.1	62.5	86.7	34.5	26.5	38.7
Borrowing requirement (as a percentage of GDP)	-106.3 (8.8)	-116.2 (8.7)	-148.2 (10.3)	-134.8 (7.7)			
Lending capacity ²	21.1	16.8	18.0	19.7			
Net borrowing (-) or lending (as a percentage of GDP)	-127.4 (10.6)	-133.0 (10.0)	-166.2 (11.5)	-154.5 (8.8)			

Note: The forecasts are projections for the general government accounts figuring in the central government budget, the forecasts for 1982 are the latest available.

1. Forecast change from previous year's outturn.

2. Lending to public enterprises.

Source: Ministry of Finance.

In the event, the trends of general government transactions were much different than planned. Expenditure once again rose faster than expected, and although revenue also increased more than initially foreseen, the borrowing requirement of general government totalled 147 billion escudos, or 10.2 per cent of GDP, instead of the 116 billion associated with the budget²¹. This large overshooting can be attributed to some extent to the economy evolving very differently than forecast, with slower growth and higher inflation, (though nominal GDP increased roughly as forecast) and higher domestic and international interest rates, but, once again, the major factor seems to have been the lack of control on some major items of public expenditure. In August 1981, faced with a widening deficit, the authorities attempted to reduce budget appropriations for general government current expenditure by some 7 billion escudos. These measures, however, failed to produce the desired effect and the overshooting of the initial budget deficit led to a supplementary budget being enacted at end-year to ratify the existing situation.

General government current revenue increased faster than expected in 1981 for the second consecutive year – 24.7 per cent compared with a projected 19.2 per cent. This seems to be partly due to further progress achieved by the authorities in fighting tax evasion, following the exceptional success of the previous year. Direct taxes proved to be the fastest growing category of revenue, with a rate of increase of nearly 40 per cent. The negative impact on revenue of the lowering of rates and the rising of exemptions on the two major taxes on wage incomes – the complementary and professional taxes – seems to have been more than compensated by an anticipated collection of professional tax payments due at end-year and a 70 per cent increase in capital income tax collections owing the combination of higher tax rates and interest rates. Social security contributions also increased at a rate much faster than projected, mainly because of a stronger than forecast progression of wages. The weakest increases in revenue came from indirect taxes, though collection rose faster than projected in the budget mainly because of more rapid inflation. The unification of the turnover tax rates at a lower average level (adopted in view of the eventual introduction of the value added tax) and the less than expected revenue from new system of ad valorem custom duties seems to have had a negative impact on collection. On the other hand, revenue was boosted somewhat by upward adjustments in the rates of the tobacco excise and of stamp duties, and especially by a 40 per cent increase in receipts from the motor vehicle sales tax due to a sharp rise in car imports.

In 1981 general government current expenditure increased once again much faster than nominal GDP (29.6 and 19.6 per cent respectively) and the authorities' target (17.7 per cent), confirming long-standing rigidities. As in recent years, the ban on civil service hirings had little effect on employment in the health and education systems and in local authorities, so that public consumption greatly exceeded the budget projection, despite the enforcement of the 17 per cent limit on wage increases. Subsidies to enterprises also overshot initial budget provisions by a substantial margin, owing to stepped-up imports of subsidised food products at an increased cost because of the appreciation of the dollar and only moderate adjustments of public transport prices, decided by the authorities in order not to aggravate already accelerating inflation. Increases in retirement and health benefits caused an overrun in transfers to households. And high interest rates, the appreciation of the dollar-nominated debt service, a wider than expected deficit and the burden of compensation for nationalisation, all concurred to a doubling of interest payments. As for capital expenditure, transfers to public enterprises were as usual in excess of, and investment spending below, budget

21. The overall deficit of general government, which includes credit to public enterprises, reached 11.5 per cent of GDP in 1981 compared with 10.9 per cent in 1980.

projections. Investment in public works, agriculture and education was particularly hampered by administrative delays.

As in previous years, the general government overall deficit was financed mainly through the Bank of Portugal, domestic banks and external borrowing. The share of the deficit directly financed by the public's savings, which had gradually risen to reach 10 per cent in 1980, partly as a result of the issue of Treasury bonds at attractive rates, declined to 7 per cent in 1981, possibly because of the successful issue of bonds by public enterprises.

The primary goal of the 1982 budget was, once again, to reduce the size of the government deficit. In view of the current acute inflation and balance of payments problems, the authorities have fixed ambitious objectives. The budget, (enacted for the first time in five years at the beginning of the calendar year) is based on the assumption of a nominal GDP growth of 22 per cent. It calls for a stabilization of the overall central government deficit at its 1981 level and an absolute fall in the general government borrowing requirement, which should decline from 10.2 per cent of GDP in 1981 to 7.7 per cent this year. In order to obtain this objective, the authorities have taken steps towards rationalising the civil service, which are to obtain a *de facto* freeze of general government employment. Furthermore, a 15 per cent ceiling was set on civil servants' pay increases. Substantial upward adjustments in the prices of subsidised goods and services are to allow a reduction of subsidies of 9 billion escudos compared with 1981 and only a small increase in capital transfers to public enterprises. And expenditure on health is to be curbed by an increase in patient's participation to medical expenses. Curbs on current spending are to be offset to some extent by a large budgeted increase in investment expenditure (38 per cent), which should not entirely correspond, however, to capital formation²². Fiscal revenue is budgeted to rise faster than GDP, owing mainly to discretionary measures concerning indirect taxes, such as increases in some tax rates.

The difficulty encountered by the authorities so far in controlling fiscal policy aggregates casts some doubts on the likelihood of implementing successfully the ambitious 1982 budget objectives. In January, civil servants' pay was raised by an amount equivalent to 15 per cent on an annual basis, consistent with the budget guideline. Budget outturns for the first half year, which should be regarded with great caution due erratic swings in the course of the fiscal year, suggest, however, that the central government deficit was running at a level three times higher than that of the corresponding period of 1981. This seems to be due both to a slower than expected increase in revenue and a stronger increase in expenditure, despite delayed payment of subsidies. Accordingly, new measures were introduced in August in order to accelerate the collection of arrears of indirect taxes and social security charges and to fight against evasion. Measures were also taken to reduce central government expenditure.

Monetary policy

Since 1978, credit ceilings on bank credit have been adopted by the authorities as the main monetary policy tool, in view of the difficulty of controlling the monetary base in the presence of rapidly expanding financing requirements of the public sector and ample fluctuations in the balance of payments. On the other hand, interest rates, which are almost completely administered, have been used as a policy instrument only at very

22. Owing to accounting procedures, general government investment expenditures contain also some operating costs and their share, estimated at 14 per cent in 1981, is expected to rise to 20 per cent this year.

long intervals. The stance of credit policy and the degree of control of the authorities is difficult to assess because credit ceilings, as well as other intermediate objectives, are not published in advance. Furthermore, partly because of a change in the method of calculation of the ceilings introduced briefly in 1981, the ex post publication of ceilings and the banks' degree of compliance have ceased altogether for the time being.

To judge from the trend of major money and credit aggregates, the accommodating stance of policy in 1980 was relaxed even further during the first three quarters of 1981. The rate of growth of total domestic credit accelerated steadily from about 28-29 per cent in 1980 to nearly 33 per cent in the third quarter of 1981. Credit to the public sector fluctuated around its very high trend, with a considerable increase in the share of commercial banks, owing to the issue of government bonds to banks. Furthermore, bank credit to the private sector (public and private enterprises and households), which is the aggregate subject to the ceilings, registered a marked acceleration. Despite a slowdown in activity in 1981, demand for credit remained high because of rising inflation and a decrease in the cost of credit in real terms associated with unchanged interest rates. This demand was satisfied by a sharp expansion of subsidised credit and was also made possible by the introduction of a more flexible method of calculation of credit ceilings introduced at the beginning of 1981, which allowed banks to step up their lending in the first nine months of 1981²³, and a tolerant attitude of the authorities towards banks that exceeded the ceilings²⁴. As in 1980, bank credit to private firms grew faster than that granted to public enterprises, as the authorities continued to encourage the latter to resort to credit from abroad. This partly explains why net foreign assets continued to increase at a time when the current account deficit was deteriorating. The money supply

Table 7. Money supply and counterparts

	Outstanding 31.12.1980 Billion escudos	Percentage change from corresponding period of previous year					
		1981				1982	
		Q1	Q2	Q3	Q4	Q1	Q2
Currency in circulation	188.1	14.7	15.5	12.6	14.1	15.9	14.7
Sight deposits	336.9	25.5	26.8	21.5	5.5	12.4	8.0
M1	525.3	21.4	23.0	18.3	8.4	13.6	9.8
Time deposits	845.3	38.4	37.9	39.3	35.3	32.1	30.8
Emigrants' deposits	352.2	69.3	71.1	58.4	53.2	46.4	39.5
M2	1 722.9	36.9	37.8	35.2	28.6	28.9	25.9
Counterparts							
Net foreign assets	411.7	—	—	—	—	—	—
Total domestic credit	1 648.1	29.8	30.3	32.8	28.7	28.0	26.6
Credit to public sector	304.6	41.0	33.7	44.6	39.7	42.9	41.7
Credit to enterprises and households	1 343.5	26.4	29.3	29.3	25.2	23.0	21.8
Of which:							
Public non-financial enterprises	290.6	13.1	14.4	20.9	14.5	10.2	..
Private non-financial enterprises and households	893.9	36.6	42.1	37.6	34.2	30.6	..
Miscellaneous	-336.9	—	—	—	—	—	—

Source: Bank of Portugal.

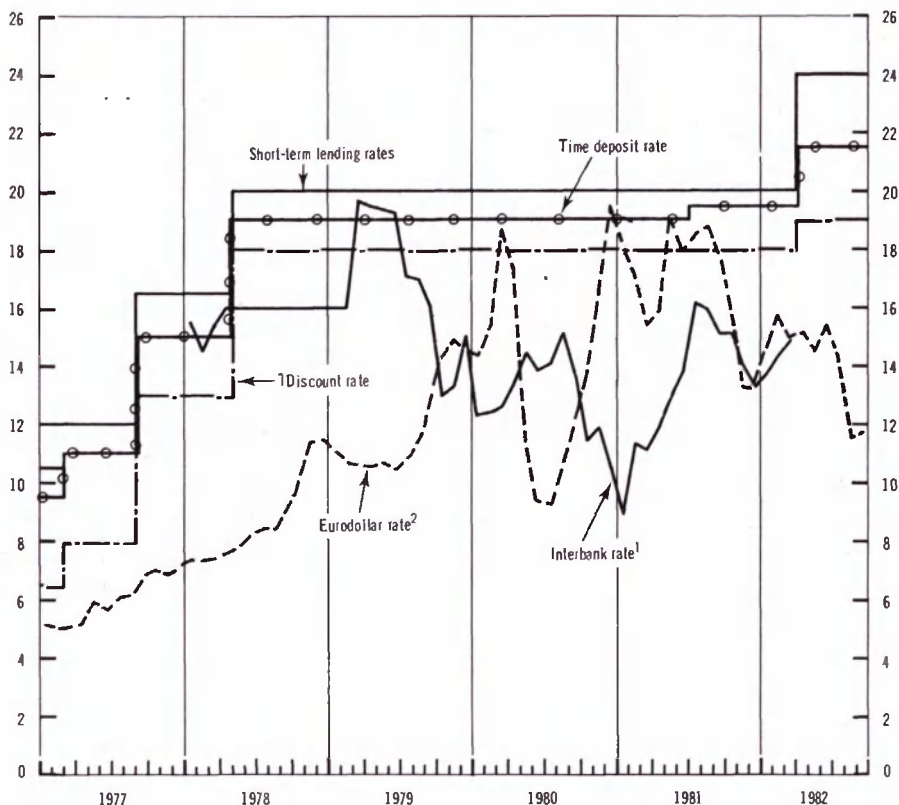
23. Credit ceilings were formerly calculated monthly for individual banks as a fixed increase of their existing assets. Under the new system introduced at the beginning of 1981, credit was allowed to increase automatically above the assigned ceiling provided that it was matched by a corresponding increase in time and emigrants' deposits, both of which accelerated considerably in the first half of 1981.

24. The penalty for exceeding ceilings is a reserve requirement equal to 30 per cent of excess credit, but this was rarely enforced until mid-1981.

(M2) thus continued to fluctuate around a trend of over 35 per cent, with a pronounced shift towards time deposits²⁵, reflecting the increased cost of holding more liquid assets at a time of high inflation and favourable conditions offered by banks to attract such deposits in connection with the new method of calculation of credit ceilings.

The stance of monetary policy has gradually become more restrictive since the third quarter of 1981, when the authorities began to respond to serious inflation and balance of payments problems, although, as is now common practice, no official intermediate objectives have been announced for 1982. Credit ceilings were tightened in the summer of 1981 and the former system of ceilings was restored in September. Their enforcement appears to have become more rigorous and penalties for non compliance have been gradually stiffened²⁶. This stricter quantitative control was apparently effective between September 1981 and March 1982, when the growth of total domestic

Diagram 7. Interest rates



1. Average rate, 60 to 90 days.

2. 3-month rate.

Source: Bank of Portugal, *Quarterly Bulletin*.

25. The share of time deposits, inclusive of emigrants' deposits, in M2 rose from 64 per cent in December 1980 to 70 per cent in December 1981.

26. At the time of writing the Bank of Portugal decided to increase the reserve requirement to up to 100 per cent of excess credit.

credit and the money supply slowed down, and was probably compounded by the negative effect on banks' resources of a slowdown in emigrants' remittances. This slowdown became more marked in the second quarter. As the banks' financing of general government is not subject to ceilings, the burden of the adjustment fell largely on firms. However, public enterprises continued to have recourse on a large scale to borrowing abroad.

Hand-in-hand with the tightening of credit controls, the authorities raised maximum interest rates by 1 to 2½ percentage points in July 1981 and again by 2 percentage points in April 1982, apart from the discount rate, which was raised by only one point. The primary goal of these increases, the first since May 1978, was to restore the attractiveness of escudo holdings in face of rising domestic inflation and international interest rates, and hence avoid negative effects on capital flows and the exchange rate. But the authorities also seem to be considering a more active use of interest rates as an instrument to curb excessive credit demand. Despite these increases, however, maximum interest rates remained slightly negative in real terms. More generally, the effective use of interest rates as an instrument to regulate domestic credit is hampered by a complex system of often substantial credit subsidies in a wide range of activities comprising agriculture, housing, exports and investment²⁷. The share of loans granted at preferential rates in total bank credit to private and public enterprises rose from 20 per cent at end-1979 to 37 per cent in December 1981. As a first step towards rationalising the system, a rearrangement of subsidised rates²⁸ and more restrictive conditions regulating entitlement to preferential credit were introduced in April 1982, but information for assessing the impact of these measures is not yet available.

Structural policy

It is naturally not easy to lay down a medium-term industrial policy in a country where the authorities are constantly faced with pressing short-term problems and in a particularly uncertain international environment. However, considerable effort is now being made in Portugal to modernise the country's industrial and financial structures. The main problems facing the Portuguese authorities are the inheritance of former decisions; the increased weight of the public sector in the economy; the need to improve industrial productivity and diversify production in order to reduce the external constraint; and the inadequacy of capital markets.

The industrial policy of the beginning of the 1960s was planned in a very different domestic and international context and revolved on some large projects, such as Sines. Following the 1974 revolution, the scrapping of this project was discussed, in view of the new conditions brought about by the oil crisis and the loss of the former colonies. In recent years, however, a number of arguments have been put forward by Portuguese experts in favour of completing the Sines project²⁹, but some modifications appear to be necessary, both for Sines and other large chemical and metallurgy projects. Originally the scheme centred around the construction of a deep-water port, Sines being regarded as one of the ports of entry into Europe for bulk carriers and tankers from the South and the United States (imports of raw materials and oil products). Also, the government wanted to make Sines and its environs Portugal's third industrial zone, after Lisbon and

27. The rate of subsidy ranges between 2 and 6½ percentage points for eligible projects in agriculture, housing and exports, and between 1½ and 16 percentage points in some extreme cases for investment projects.

28. The rate of subsidy for short-term agricultural credits was reduced while those for longer-term credits and exports were raised.

29. See OECD, *Economic Survey of Portugal*, July 1980, page 36 and seq.

Porto, in order to restore the balance between the country's north and south and hence to ensure a better development of the particularly poor regions of Alentejo and Algarve. A large "new town" near Sines was also planned. The initial project has undergone a reappraisal which has not yet been completed³⁰, but the state of the Sines project at end-1981 reveals a large number of divergences from the initial project, components of the scheme being to a greater or lesser degree behind schedule or else abandoned altogether³¹.

With regard to the deep-water port, the facility has not yet been completed, and some structures were destroyed by storms in 1979. Part of the port is operating, however, and present storage capacity is 1.5 million tonnes of crude and 1.25 million tonnes of refined oil, this being more or less in line with the initial project. On the other hand, construction of the terminals for large vessels has not been completed. As regards the industrial projects, the oil refinery capable of handling 10 million tonnes of crude per year has been in operation since the end of 1978. Its capacity is the same as specified in the initial project, but the quantities refined amount to only about 6 million tonnes a year. The petro-chemical complex has fallen a long way behind schedule and some projects have been abandoned altogether. The entire iron and steel project has been dropped, along with the plan for the caustic soda plant. On the other hand, a number of mechanical engineering and light industry workshops (with a workforce of about 300 persons) have been in operation since 1979. The automobile construction and shipbuilding and repairs projects have not been carried out. The original Sines project called for the construction of large-scale transport, industrial and urban infrastructures. A good deal of this work has been carried out (in particular, a trunk road linking the industrial zone with the port and a Lisbon-Sines rail link). Similarly, the clean-water pumping and treatment stations, the used-water treatment stations and the pollution treatment stations are in operation. Finally, the Portuguese government had planned to build a new town to house a population of 100 000 in the early 1980s near Sines but by end-1982 the conurbation should not exceed a population of 10 000. The authorities intend to reap a return from existing infrastructure by encouraging the establishment of small and medium-sized firms in the Sines area.

The increased weight of the public sector in the economy is the issue of the 1974 revolution and the wave of nationalisations of 1975-76. The nationalisation of some industrial enterprises was partly the result of that of banks, who held some of the former's stock, and was not, therefore, the result of an economic policy decision. The management of public non-financial enterprises is characterised frequently by important deficits financed by government subsidies and/or credits at preferred rates. The improvement of the overall competitiveness of the economy thus requires a better management of public enterprises. A year ago, the government had envisaged the opening up of some sectors to private enterprises³² – cement, fertilizers, breweries and also banking and insurance. This, however, was deemed unconstitutional at the time. But since the revision of the Constitution of 30th September 1982 such a process has become possible.

As for other aspects of industrial policy, many projects concerning private, often small, enterprises, are now being appraised³³. It should be remembered that of Portugal's 15 000 industrial enterprises, 12 000 have a workforce of less than

30. This is being carried out by the Portuguese experts with the aid of SEMA, a private consulting company.

31. The information that follows comes chiefly from Portugal's Ministry for Finance and Planning.

32. See OECD, *Economic Survey of Portugal*, July 1981.

33. With the aid of the World Bank.

50 employees. For some years now, the government has been trying to group small businesses and, above all, to give them the means of access to modern technology (including computers)³⁴. One example of outstanding success in this area has been the footwear industry where private enterprise, which is particularly active, has been substantially assisted by the government (direct financial aids to investment, manpower training programmes with the opening of two schools for footwear technicians, etc.). Between 1977 and 1980 the number of businesses employing more than 100 workers is estimated to have doubled. Output is also estimated to have doubled, rising from 14 million to 28 million pairs of shoes between 1973 and 1979. Compared with the period prior to the revolution, exports increased by an estimated 178 per cent in quantity and 292 per cent in dollar earnings (the quality and unit price of exported goods having risen steeply³⁵).

Another example is that of marble and granite, where remarkable export results have been achieved for some years now. Government assistance has made it possible to develop new technologies and, although the activities are highly capital-intensive, growth of employment was probably of the order of 20 to 25 per cent between 1977 and 1980. At present the sector exports 50 per cent of its output, export sales having risen from \$2.6 million in 1976 to \$48 million in 1980. In the ceramics and glass industries, too, substantial progress has been made. By contrast, other traditional or more recent sectors (fish canning in the first case, livestock feeds in the second) have been disappointing. Furthermore, in the major sector of textiles and clothing, production and export performance are relatively satisfactory, but there has not been a concentration of production, which remains dispersed among a host of small enterprises. In this connection, the recent agreement with the EEC on textile exports might contribute to accelerate the restructuring of this sector. Finally, the clarification of the institutional framework has encouraged the establishment of foreign firms, particularly in the car industry.

The efforts to diversify industrial production and to make it better suited to the new conditions of international competition will certainly have to be pursued further and intensified, in order to prepare the Portuguese economy for integration into the EEC. In particular, the Government should strive to combine policies that are likely to assure a better functioning of market forces, and continue the effort to improve the management of public enterprises. In this context, a recently issued Decree Law provides for the establishment of an institute for the financial management of public enterprises, whose task it is to assure a better functioning of these firms by periodical evaluation of executives' performance, stricter control of financial management, etc. Furthermore, as of 1983, public enterprises will be required to participate in the funding of some investment projects of private firms. But they will also have to abandon some unprofitable investments in order to improve their financial situation.

The authorities should also take measures with regard to energy. Portugal has one of the highest energy dependence ratios of all OECD countries – about 80 per cent, against an OECD average of about 30 per cent. While for OECD as a whole the elasticity of total energy requirements (TER) to GDP growth declined in the wake of the oil shocks, in Portugal it rose from 1 in the 1960s to 1.3 on average between 1974 and 1981. This trend is connected with the process of industrialisation of the Portuguese economy. Furthermore, TER per head is still five times less than the OECD average. But the energy dependence weighs heavily on the trade balance, with energy imports of about US \$2.5 billion, or a quarter of total imports of goods. In view of this problem, the

34. Cf. OECD, *Annual Economic Survey of Portugal*, July 1979, pp. 39 and seq.

35. World Bank estimates.

Table 8. Breakdown of total energy requirements

	1970	1973	1978	1981
Total energy requirements (MTOE)	6.15	7.60	9.56	11.34
Of which (%):				
Solid fuels	12.8	7.8	5.2	10.7
Oil	64.4	70.5	68.7	76.2
Hydroelectric and geothermal energy	22.8	21.8	26.0	10.7

Source: International Energy Agency.

authorities have encouraged the diversification of energy imports (coal and hydroelectric energy) and developed domestic energy production³⁶. The prices of different energy products (all administered) have followed diverging trends since 1974. Petrol prices and those of other oil products have generally reflected increases in import prices, while those of electricity progressed at a slower pace due to substantial subsidies. Thereafter, adopting a policy of greater price transparency, the authorities allowed strong increases in electricity charges in 1981 and 1982. Energy policy for the coming years is designed to encourage conservation efforts, by continuing to reflect costs in prices, and the development of the utilisation of coal. The building of a nuclear power station is also being considered at present.

Finally, the Portuguese government intends to improve financial circuits and establish a full-fledged capital market. In 1981, a "Committee for the Dynamisation of Financial Markets" was established³⁷. Efforts were pursued in 1982 in different directions. Thus, in September, two Decree Laws instituted a series of fiscal benefits for enterprises that list their shares on the stock exchange. As for savers, purchases of listed shares will be partly deductible from taxable income. The financial sector has been opened to private enterprises; a private merchant bank was created in October 1981 and the creation of three other ones should soon be approved. On the whole, the efforts to restructure industry and the management of public enterprises, and to develop capital markets appear to be substantial. However, sustained progress cannot be achieved unless appropriate macro-economic policies are implemented, and particularly, unless control of inflation assures better external competitiveness and the reduction of the general government deficit contributes to facilitate the overall financing of the productive sector.

IV. SHORT-TERM PROSPECTS AND ECONOMIC POLICY CONCLUSIONS

Short-term prospects

The short-term forecasts for the Portuguese economy, drawn up on the customary assumption of unchanged economic policy and of a continuation of the 0.75 per cent

36. The share of coal in TER doubled between 1974 and 1981. That of hydroelectric power increased at a slower pace, from 22 per cent in 1973 to 25 per cent in 1979. It then fell temporarily to about 10 per cent during the last two years because of exceptionally unfavourable weather conditions.

37. See OECD, Economic Survey of Portugal, July 1981, page 29.

monthly depreciation of the escudo, contain a large element of uncertainty since it is difficult to foresee the course of world economic developments between now and the end of 1983 and to gauge the impact of the shift in Portugal's economic policy, and also because there is insufficient information about the latest trends. Growth of OECD area demand will probably remain very moderate in the second half of 1982 and the Portuguese economy is unlikely to receive any significant external stimulus in 1983. In the fiscal field, it is difficult to quantify the effects of the recent measures to reduce expenditure and accelerate tax revenue inflows as the budget for 1983 was not yet known at the time of writing. Where monetary policy is concerned, the fact that no quantitative targets for domestic credit and money supply growth have been published likewise makes it difficult to interpret the degree of restriction. Finally, on the prices front it is difficult to assess the effects of the freeze from 15th June to 31st July or developments since the controls were lifted. The last major element of uncertainty is the recent course of developments in the Portuguese economy. On the basis of the partial figures available it has been assumed that output grew only very moderately in the first half of the year, with inflation running at about 23 per cent annually up to the end of that period and the current account showing a deterioration by comparison with 1981.

Table 9. Short-term forecasts

	1980 Current prices Billion escudos	Percentage change from previous year, in volume ¹		
		1981	1982	1983
Private consumption	893.5	3.5	1.7	1
Public consumption	185.6	6.2	5.0	5
Gross fixed investment	252.5	4.6	2.5	1½
Final domestic demand	1 331.6	4.1	2.3	1½
Change in stockbuilding ²	55.5	0.1	0.2	0
Total domestic demand	1 387.1	4.0	2.4	1½
Change in foreign balance ²	-182.4	-2.9	-0.7	0
Exports of goods and services	335.8	-2.0	3.5	5
Imports of goods and services	518.2	5.5	4.0	3
GDP at market prices	1 204.7	1.7	2.0	2
GDP deflator		17.9	21.4	20½
Consumer price index		20.0	22.5	20
Industrial production		2.1	2.5	3
		US\$ billion		
Current balance		-2.7	-2.9	-3.1

1. At 1980 prices.

2. Changes as a percentage of GDP in previous year.

Sources: Central Planning Department and OECD Secretariat forecasts.

In 1982, private consumption will have been affected by the slowdown in growth of real disposable income as a result of higher inflation and a more moderate trend in nominal wages, especially in the public service. In all, even on the assumption of normal growth of emigrants' remittances and public transfers, growth of private consumption in 1982 is likely to have been considerably less than in 1981 (1.7 per cent as against 3.5 per cent) and is projected to decline further in 1983. Investment growth may also slow in

1982 and 1983 owing to poor demand prospects and the deterioration in the financial position of enterprises. In addition, the curb on general government expenditure might tend to depress investment in that sector. Some slowdown in volume growth of public consumption may also be envisaged for 1982 and 1983, but it would not be very pronounced because of the strong inertia in that area, as past experience has shown. In all, growth of final domestic demand in 1982 might be appreciably less than in 1981 (2.3 per cent as against 4.1 per cent) with the slowdown continuing in 1983. In view of the weakness of demand, there are unlikely to be any major changes in stockbuilding over the forecast period.

Owing to the sluggishness of world demand, the impact of the external balance on growth might again be negative for 1982 as a whole, of the order of $\frac{1}{2}$ per cent of GDP, which would be an improvement on 1981 when the contribution was -2 per cent. In 1983, a nought contribution might be expected. In all, GDP growth might be of about 2 per cent in 1982 and 1983. This would permit only a very slight increase in employment and the unemployment rate might rise to 9 per cent in 1983.

The temporary price freeze might cause consumer prices to slow somewhat in the second half of this year. Even so, because of the large carry-over from the first half-year, the rise in consumer prices excluding rents might be about 22.5 per cent for the full year. In 1983 the rate of inflation might remain the same as in the second half of 1982, or 20 per cent. The envisaged reduction of subsidies, however, represents an upward risk. Growth of nominal per capita wages in the market sector of the economy in 1982 is likely to be slightly higher than the inflation rate, whereas in general government it should be much less pronounced. In 1983, the continuing rise in the unemployment rate and the persistence of difficult financial conditions for enterprises might again act as a curb on real wage growth.

Despite some improvement in Portugal's relative prices as a result of the escudo's depreciation, volume exports of goods and services should grow only moderately in 1982, largely because of the continuing sluggishness of world demand and some trade barriers facing Portuguese products. During 1983 exports might pick up slightly but their volume growth should not exceed 5 per cent in view of a possible deterioration of competitiveness if the trend of unit costs is not mastered. Given the trend of raw material and oil prices and the international slowdown in inflation, the terms of trade may improve in 1982-83 and the trade deficit could narrow slightly in 1983; however, in view of the results for the early part of the year, the deficit for 1982 might be larger than in 1981, amounting to about \$5.5 billion. On the basis of figures for the first half-year, the services account could deteriorate in 1982, mainly because of the growing burden of debt service and mediocre tourism performance. On the other hand, emigrants remittances may increase faster than in 1981 and the current account deficit for 1982 as a whole might be close on \$3 billion, the equivalent of about 12.8 per cent of GDP. In 1983, the deficit might widen slightly, with a small fall in its ratio to GDP.

Economic policy conclusions

Portugal's economic situation has deteriorated markedly since mid-1980. Currently available figures show inflation running at 20 per cent annually and the persistence of low growth, which had already fallen to under 2 per cent in 1981. At the same time disequilibria have become more pronounced with both the public sector deficit and the current external deficit standing at more than 11 per cent of GDP. The trend in 1982 looks to be basically much the same: low growth, high inflation, a large budget deficit and a further deterioration of the current external deficit compared with last year. These trends highlight the vulnerability of the Portuguese economy and indicate the persistence of fundamental disequilibria in spite of the efforts of the authorities to overcome them. Finally, it should be pointed out that any interpretation of

short-term conditions is made difficult by the lack of information: at the time of writing (October 1982) the figures available for 1982 were still very partial. The weaknesses in the Portuguese statistical system, which make it so difficult to interpret the situation, are also not likely to facilitate the definition of economic policy.

Economic policy has changed course several times in the last few years. In 1977-78 it was given a restrictive stance based on a progressive depreciation of the escudo, a steep rise in interest rates and control of bank credit growth. After the return to current account equilibrium in 1979, economic policy was made progressively more expansionary, with an easing of monetary policy, stimulation of investment and relaxation of price controls. The escudo's rate of depreciation was reduced. In 1981 and 1982, with the widening of the budget and external deficits, policy was tightened again, though more gradually than in 1977-78.

On the monetary policy side, the government has sought to slow domestic liquidity growth by raising interest rates and tightening quantitative credit control, which resulted in a marked slowdown in money supply growth since the fourth quarter of 1981. Monetary policy was tightened again in the spring of 1982. The brunt of this adjustment is being borne by private enterprises since there is no credit ceiling on the state's monetary financing and public enterprises can borrow extensively abroad. The 1982 budget similarly showed a shift to a more restrictive stance, with a target of stabilisation of the budget deficit in nominal terms. However, at the end of the first half, the budget deficit was much higher than in the corresponding period of 1981. The wage growth targets for both private and public sectors in 1982 seem fairly restrictive by comparison with past years, while there was a tightening of price controls in the spring of 1982 and a temporary price freeze in June. Furthermore, the policy of eliminating or reducing subsidies was pursued. The government has sought to improve export competitiveness by returning to an 0.75 per cent monthly depreciation of the escudo at the end of 1981 and devaluing the currency by 9 per cent in June 1982.

This change in policy stance appears to be appropriate, but there are some questions as to its chances of success between now and the end of 1982 and in 1983. First and foremost, the short-term world economic outlook is very uncertain and Portugal is liable to be particularly affected by adverse developments, owing to the fragility of its external position and the economy's reliance on remittances from Portuguese workers abroad. But on the domestic front, too, the readjustment process is liable to run into a number of obstacles. On recent trends, and despite tighter controls and the temporary freeze, an inflation rate below 22 per cent seems unlikely in 1982 and not until 1983 might the rate come down to under 20 per cent. There might be some fall in real wages on account of rising unemployment and the deterioration in the financial situation of enterprises. The norms set by the authorities and the tightening of price and wage controls might then cause the pace of inflation to slow somewhat. But recent experience has shown that any premature easing of anti-inflationary policy is liable to bring a new inflation flare-up, given the absence of any real competition. Furthermore, the practice of administered prices with considerable subsidies, apart from its high budgetary cost, causes large distortions in resource allocation. It therefore seems that greater price transparency – public utility charges included – and the progressive introduction of effective competition are essential in the medium term if inflation is to be brought under control. The efforts made in central government to moderate wage increases should certainly be extended to public enterprises, which in recent years have often acted as wage leaders. On the whole, it would certainly seem appropriate that the Portuguese authorities continue to pursue their anti-inflationary policy with a sense of urgency.

Control of public finance is one of the key factors in this policy and a precondition for the reestablishment of external equilibrium: rapid growth of expenditure, insufficient growth of revenue and the consequent increase in the general government

borrowing requirement have fuelled excessive money creation. In this field, Portugal's case cannot be likened to that of more advanced OECD countries. The definition of priorities for the medium term and stricter control of the use of expenditure commitments appears all the more necessary since important progress is required concerning welfare expenditure, as witnessed by some indicators (infant mortality rates, school enrolment ratios, infrastructure in housebuilding and transport). The efforts made to improve the management of public enterprises, which absorb too large a share of the economy's resources, should be continued. The measures announced very recently to accelerate tax payments and combat evasion should certainly be amplified and it would probably be desirable to widen the tax base.

It is essential that the efforts made to manage monetary policy more strictly be continued. Various steps have been taken to curb money supply growth and these should certainly be pursued with severity and pragmatism. But it is vital that the deficit of general government and that of public enterprises in the productive sector, whose financing entails excessive liquidity creation, should be controlled and substantially reduced. It should also be pointed out once again that Portugal's credit system is too complex and often too permissive. If preferential credit terms continue to be granted for priority projects (investment in plant modernisation so as to improve competitiveness), in other areas it would certainly be advisable to tighten quantitative credit control and continue to raise certain interest rates which are still negative in real terms: this applies also to subsidised rates, which at end-1981 applied to over 35 per cent of total credit extended.

The balance of payments is a major policy constraint for Portugal. Admittedly Portugal, like other OECD countries, has suffered the consequences of the second oil shock, the deterioration of the international environment and the appreciation of the dollar. But the structural situation of the balance of payments also seems to have worsened in recent years, making it more difficult for the economy to stage the sort of recovery it did in 1977-78. In 1979 the trade deficit stabilised at its year-earlier level (approximately \$2.5 billion) and the upturn in the current balance resulted mainly from an improvement in the invisibles account. At the end of 1981, however, the trade deficit was twice as large as in 1979, whilst the invisibles balance is now affected – and will be even more so in the future – by the interest burden due to increased external indebtedness: debt service alone accounts for \$1 billion in 1981, compared with a total current deficit of \$2.7 billion. Any significant easing of the external constraint therefore has to come about essentially by way of an improvement in the trade balance. But this will be more difficult to achieve in an unfavourable international climate. It implies both control of domestic inflation and thorough restructuring of the productive system. Earlier OECD annual surveys have frequently stressed the need to modernise the agricultural sector which, although it employs nearly 30 per cent of the labour force, continues to show a heavy trade shortfall with an export/import ratio to under 50 per cent. The removal of all ambiguity concerning farm ownership rights, more efficient organisation of co-operatives or state farms and financial aid and technical assistance to small farmers will certainly be essential in order to modernise the sector.

As for industrial policies, the authorities have made efforts to apply or redesign a number of major industrial projects so as to take more account of the new conditions of international competition and of the advancement of the negotiations on Portugal's entry into the EEC. The huge Sines complex, for example, has undergone various changes with some of the initial schemes being abandoned and others being maintained or expanded. New structural policy efforts are certainly required in order to reduce the country's dependence on foreign supplies of energy and mass consumption goods and also to diversify exports, both by product category and by region. The improvement of operating conditions of public enterprises and the reform of the financial system also constitute important tasks. On the whole, the structural policies envisaged by the

Portuguese government are ambitious. They require the use of substantial financial resources, implying large inflows from abroad. These will become easier to obtain because of the clarification of the institutional context, and will be all the more forthcoming if the Portuguese authorities succeed in ensuring a sustained balanced development of the domestic economy.

THE NATIONAL ACCOUNTS

Until 1976 the National Institute of Statistics (INE) drew up and published national accounts based on the former System of National Accounts. As of 1976 this publication was discontinued and the only data available until recently were the estimates of the main aggregates prepared jointly by the Central Planning Department and the Bank of Portugal. The earlier national accounts and the partial estimates for the years 1976-1980 are published by the OECD in the *National Accounts* series, Volumes I et II.

Because of the method of calculation used and the problems involved in compiling the statistics on which they were based, the national accounts presented certain imperfections; and although they sometimes indicated trends that were at variance with other economic indicators, they were nevertheless used as gauges of economic activity. This Survey's analysis of recent trends in the Portuguese economy is largely based on the partial national accounts estimates for the years 1980-1981, which were the only figures available at the time of writing.

Meanwhile, the National Institute of Statistics has been drawing up new national accounts for the years subsequent to 1976. These are based on the European System of Integrated Economic Accounts, which is similar to the new UN System of National Accounts¹. The figures now available but not yet published cover the years 1977-1980. They reveal wide divergences from the earlier estimates for the same years, particularly as regards the composition of GDP at current prices and national expenditure. Likewise there are differences as regards growth of domestic demand in volume.

The structure of output (Table 1) in the new accounts is calculated at market prices, rather than at factor cost as in the old system. The two series of estimates are not, therefore, strictly comparable. Nevertheless, the share of industry is now some 7 percentage points lower in 1980 and the same applies, to a lesser degree, for agriculture and energy to the benefit of services, the weight of which is 10 points higher. This difference is largely due to the fact that a number of services supplied to industrial branches and formerly entered in the value added of those industries, have been imputed to the service sector; also, intermediate consumption by the various industrial branches has been more accurately estimated.

The differences between the old and new estimates of the components of national expenditure (Table 2) chiefly concern private consumption and investment. The new estimate of the private consumption share is 5 percentage points lower than the old estimate, even though spending by foreign tourists is now included in private consumption. In fact, private consumption is still estimated as a residual, which means that its amount is influenced by the biases that may affect the other items of demand. The estimate of investment is very uncertain because of data recording difficulties for all investment categories, but especially investment of households (residential construction) and investment of unincorporated enterprises.

There are also fairly appreciable differences as regards growth rates for demand and output. These differences, which essentially concern the estimates of growth in real terms (Table 3), are particularly marked. Thus, for example, for 1978, although volume GDP growth is virtually the same in both estimates, the rates for the demand components diverge widely, especially that of private consumption, which is positive in the old estimate and negative in the new one. With the information currently at hand it is not possible to explain and analyse the reasons for these discrepancies. The differences in the rates of increase of demand and GDP deflators are much smaller than those concerning volumes, and relate chiefly to prices of stocks.

1. The main conceptual differences between the old and new national accounting systems are described in Volume I of *OECD National Accounts* (pages 2 to 13).

Annex: Table 1. Gross domestic product

O Old system¹
N New system²

	Billion escudos at current prices								As a percentage of GDP							
	1977		1978		1979		1980		1977		1978		1979		1980	
	O	N	O	N	O	N	O	N	O	N	O	N	O	N	O	N
Agriculture	71.9	74.6	90.5	94.0	126.2	115.8	137.8	126.9	12.7	11.9	12.7	11.9	13.7	11.7	12.6	10.3
Industry	203.9	166.4	261.1	214.3	345.4	290.2	402.9	372.5	36.2	26.6	36.5	27.2	37.6	29.3	36.9	30.2
Construction	36.2	47.9	45.5	60.7	52.5	63.2	68.6	85.7	6.4	7.7	6.4	7.7	5.7	6.4	6.3	6.9
Energy	15.9	12.0	21.4	16.5	27.4	20.9	29.0	23.4	2.7	1.9	3.0	2.1	3.0	2.1	2.7	1.9
Services	236.7	324.9	295.2	401.8	367.4	501.2	453.2	623.0	42.0	51.9	41.4	51.0	40.0	50.6	41.5	50.6
GDP	563.8	625.8	713.7	787.3	918.9	991.3	1 091.5	1 231.5	100	100	100	100	100	100	100	100

1. Estimates by the Central Planning Department and the Bank of Portugal, the structure of GDP is evaluated at factor cost.

2. In this system elaborated by the National Institute of Statistics (INE), on the basis of the EEC national accounts, the structure of GDP is evaluated at market prices.

Annex: Table 2. Gross domestic product by type of expenditure¹

O Old system²
N New system

	Billion escudos at current prices								As a percentage of GDP							
	1977		1978		1979		1980		1977		1978		1979		1980	
	O	N	O	N	O	N	O	N	O	N	O	N	O	N	O	N
Private consumption	470.2	452.3	576.4	543.1	727.8	682.6	889.4	843.9	75.6	72.3	73.9	69.0	73.2	68.9	73.8	68.5
Public consumption	88.2	89.7	114.7	111.9	147.6	143.9	186.2	185.5	14.2	14.3	14.7	14.2	14.8	14.5	15.4	15.1
Gross fixed capital formation	127.0	165.8	156.5	219.8	189.9	265.9	252.5	357.8	20.4	26.5	20.0	27.9	19.1	26.8	20.9	29.1
Stockbuilding	31.0	15.9	25.5	20.2	31.4	27.9	50.0	61.1	5.0	2.6	3.3	2.6	3.2	2.8	4.1	5.0
Total domestic demand	716.4	723.8	873.1	895.0	1 096.7	1 120.3	1 378.1	1 448.3	115.2	115.7	111.9	113.7	110.3	113.0	114.3	117.7
Exports	110.9	104.7	155.6	138.8	256.6	227.1	338.8	300.0	17.8	16.7	19.9	17.6	25.8	22.9	28.1	24.4
Imports	205.1	202.7	248.4	246.6	358.9	356.1	511.6	516.8	-33.0	-32.4	-31.8	-31.3	-36.1	-35.9	-42.4	-42.0
Gross domestic product	622.2	625.8	780.3	787.3	994.4	991.3	1 205.3	1 231.5	100	100	100	100	100	100	100	100

1. At market prices.
2. Estimates by the Central Planning Department and the Bank of Portugal.

Annex: Table 3. Volume growth of gross domestic product by type of expenditure¹

O Old system²

N New system

	1978		1979		1980	
	O	N	O	N	O	N
Private consumption	0.4	-1.0	1.7	1.3	5.0	3.4
Public consumption	8.4	4.2	5.2	8.8	5.6	3.7
Gross fixed capital formation	2.7	7.0	-1.6	-1.0	9.0	10.3
Stockbuilding ³	-2.1	0	-0.2	2.6	1.4	1.3
Total domestic demand	-0.2	1.6	1.4	4.3	6.9	6.1
Foreign balance ³	3.2	1.5	3.2	2.0	-2.1	-2.8
Exports of goods and services	14.8	6.8	27.3	28.7	7.3	7.1
Imports of goods and services	-1.8	-1.2	7.8	9.6	11.1	12.4
GDP at market prices	3.4	3.3	4.5	6.6	5.5	4.1

1. At previous year's prices.

2. Estimates by the Central Planning Department.

3. Changes as a percentage of previous year's GDP.

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STATISTICAL ANNEX

Table A. National product and expenditure

Million escudos

a) Current prices

	1976	1977 ¹	1978 ¹	1979 ¹	1980 ¹
Consumers' expenditure	367 179	470 223	576 436	727 844	889 400
Government current expenditure	66 122	90 200	114 700	147 600	186 200
Gross fixed asset formation	88 931	125 500	156 500	189 900	252 500
Change in stocks	8 402	32 436	25 500	31 400	50 000
Domestic expenditure	530 634	718 359	873 136	1 096 744	1 378 100
Exports of goods and services (excluding factor income)	78 679	110 984	155 611	256 579	338 800
Imports of goods and services (excluding factor income)	141 658	205 109	248 447	358 911	511 600
Gross domestic product at market prices	467 655	624 234	780 300	994 412	1 205 300
plus: Net income from the rest of the world	-4 021	-6 872	-14 540	-21 361	-30 400
Gross national product at market prices	463 634	617 362	765 760	973 051	1 174 900

b) 1963 prices

	1976	1977 ²	1978 ²	1979 ¹	1980 ¹
Consumers' expenditure	140 859	141 704	142 271	144 690	151 201
Government current expenditure	30 021	33 563	35 577	37 427	39 523
Gross fixed asset formation	28 639	32 076	33 359	32 825	35 780
Change in stocks ²	682	7 213	3 434	2 141	3 613
Domestic expenditure	200 201	214 556	214 641	217 083	230 117
Exports of goods and services (excluding factor income)	32 715	34 645	39 703	50 542	54 686
Imports of goods and services (excluding factor income)	50 572	56 641	55 622	59 961	65 717
Gross domestic product at market prices	182 344	192 560	198 722	207 664	219 086

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

	1976	1977 ¹	1978 ¹	1979 ¹	1980 ¹
	Current prices				
Agriculture, forestry and fishing	61 494	71 948	90 500	126 300	139 200
Mining and quarrying	2 524	3 788	4 700	6 500	7 600
Manufacturing	142 754	200 084	256 300	339 200	399 000
Electricity, gas and water	10 508	15 114	21 400	27 300	28 600
Construction	27 194	36 222	45 600	52 500	68 700
Transport and communications	28 060	36 702			
Wholesale and retail trade	53 054	70 190			
Banking, insurance and real estate	17 478	37 083	295 200	367 112	455 000
Ownership of dwellings	9 531				
Public administration and defence	28 321	94 703			
Other services	41 716				
Gross domestic product at factor cost	422 634	565 834	713 700	918 912	1 098 100
	1963 prices				
Agriculture, forestry and fishing	17 889	16 100	16 744	18 251	18 793
Mining and quarrying	1 096	1 264	1 279	1 407	1 483
Manufacturing	62 209	68 055	70 281	73 744	78 157
Electricity, gas and water	5 721	6 877	7 233	7 703	7 548
Construction	8 478	9 410	9 881	9 486	10 344
Transport and communications	11 769	12 181			
Wholesale and retail trade	18 012	18 623			
Banking, insurance and real estate	6 517	12 739	78 994	82 120	87 226
Ownership of dwellings	5 064				
Public administration and defence	15 784	33 618			
Other services	16 839				
Gross domestic product at factor cost	169 382	178 867	184 412	192 711	203 551

1. Estimated by the Bank of Portugal and the Central Planning Department. From 1978, the breakdown of services is not fully available.

Source: National Statistics Institute.

Table C. Population by main age groups
Thousands

	1976	1977	1978	1979	1980	1981 ¹
Total	9 075	9 156	9 196	9 324	9 395	9 479
Age groups 0-19	3 212	3 236	3 254	3 378	3 352	3 333
20-59	4 470	4 520	4 533	4 601	4 679	4 757
60 +	1 393	1 400	1 409	1 345	1 364	1 389

1. First half-year figures.

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
1974 = 100

	1976	1977	1978	1979	1980	1981
Fishing	89.3	88.8	87.7	77.1	75.9	75.0
Mining	96.4	95.1	95.7	96.0	93.1	92.8
Manufacturing	99.4	99.7	100.0	100.5	101.7	101.3
Construction	89.2	90.0	91.7	89.0	88.6	93.6
Electricity, gas and water	105.7	108.5	120.4	129.2	139.5	140.9
Transport and communications	109.3	110.9	109.6	107.4	106.7	106.2
Trade	98.8	98.6	98.0	98.0	99.1	100.0
Banking, insurance, real estate	112.8	118.9	123.9	129.6	146.1	152.7
Services	99.5	100.1	102.2	103.2	103.6	104.8
Total	99.3	99.8	100.2	100.3	101.7	102.4

Note: Wage earners, excluding agriculture and civil service.

Sources: Statistical office of the Ministry of Labour and National Employment Office.

Table E. Prices and wages

	1979	1980	1981	1981		1982	
				Q3	Q4	Q1	Q2
Consumer prices, mainland (total less rent) Index 1976 = 100	192.8	224.9	269.9	276.9	292.4	312.6	328.5
Food and drink	207.5	229.8	274.3	284.4	300.5	322.7	340.6
Clothing and Footwear	173.4	231.3	281.5	279.8	299.8	308.8	320.7
Miscellaneous	172.5	209.9	253.1	257.3	272.3	293.5	305.2
Rent	175.6	221.9	267.9	272.6	282.1	301.7	318.6
Consumer prices, Lisbon (less rent) Index 1976 = 100	193.9	228.4	274.3	280.8	296.1	316.7	
Nominal average wages, mainland Index 1973 = 100							
Manufacturing industry	361.3	453.9	548.2	669.6	627.6		
Construction	336.0	422.4	525.8	533.5	544.5		
Agriculture ¹	323.4	380.0	522.7	559.5	565.3		
Wages in industry and transports, Lisbon Index 1976 = 100	141.4	172.8	210.1	213.2	218.9		

1. Break in series.

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

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

	1974	1975	1976	1977 ¹	1978 ¹	1979 ¹	1980 ¹	1981 ¹
Central government								
Current revenue	52.70	60.42	89.71	138.2	189.8	245.3	324.2	414.2
Taxes and current transfers received	50.30	58.50	84.37	109.8	137.1	175.0	241.0	310.9
Income from property and entrepreneurship	2.40	1.92	5.33	28.4	52.7	70.3	83.2	103.3
Current expenditure	52.52	67.46	94.40	146.8	219.8	285.1	373.7	495.1
Goods and services	39.79	45.83	48.94	66.5	100.4	127.2	162.9	202.2
Current transfers paid	12.73	21.63	45.47	80.3	119.4	157.9	210.8	292.9
Current saving	0.18	-7.04	-4.69	-8.6	-30.0	-39.8	-49.3	-80.9
Net capital transfers paid	-1.00	1.17	5.28	9.9	17.4	22.7	34.6	27.2
Gross fixed investment	5.07	6.48	9.30	18.7	18.4	21.8	24.6	33.4
Net borrowing (-) or lending	-3.89	-14.69	-19.27	-37.2	-65.8	-84.3	-108.7	-141.5
Consolidated account of general government								
Current revenue	78.51	93.95	132.05	168.0	212.2	264.3	362.6	447.1
Taxes and current transfers received	73.13	88.89	122.36	160.2	201.1	246.0	341.1	432.8
Income from property and entrepreneurship	5.38	5.06	9.69	7.8	11.1	18.3	21.5	14.3
Current expenditure	77.31	103.24	145.10	180.6	238.5	302.2	404.6	527.3
Goods and services	49.14	57.98	66.12	88.2	114.7	147.6	185.6	230.8
Current transfers paid	28.17	45.26	78.97	92.4	123.8	154.6	219.0	296.5
Current saving	1.20	-9.29	-13.04	-12.6	-26.3	-37.9	-42.0	-80.2
Net capital transfers paid	-1.08	1.11	5.33	5.1	8.2	6.3	15.0	7.9
Gross fixed investment	7.78	10.22	14.48	25.1	30.9	36.4	49.4	62.5
Net borrowing (-) or lending	-5.49	-20.63	-32.86	-42.8	-65.4	-80.6	-106.3	-148.2

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

Table G. Money supply and its counterparts
Billion escudos at end of period

	1977	1978	1979	1980	1981
Total money supply	567.4	726.6	991.9	1 339.3	1 722.9
Money	274.8	314.9	396.6	484.5	525.3
Notes and coins in circulation	113.8	122.0	145.3	166.5	188.4
Sight deposits, households and enterprises	161.2	192.9	251.3	318.0	336.9
Quasi-money	292.6	411.7	595.3	854.8	1 197.6
Counterparts					
Net foreign assets	-33.5	-18.9	42.1	339.4	411.7
Net lending to the public sector	123.3	171.7	247.4	170.0	304.6
Lending to the private sector ¹	579.3	703.2	853.4	1 073.1	1 343.5
Miscellaneous, net	-101.7	-129.4	-151.0	-243.2	-336.9

1. Including bad credits since 1976.

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

Table H. Maximum interest rates
Percentages

	26/2/77	29/8/77	6/5/78	16/7/81	20/4/82
Discount rate	8.0-12.0	13.0-18.0	18.0-23.0	18.0-23.0	19.0-24.0
Lending rates					
Up to 90 days	10.25	14.75	18.25	21.0	23.0
Between 90 days and one year	12.00	16.50	20.00	22.0	24.0
More than one year	14.75	18.75	22.25	24.0	26.0
Borrowing rates					
Sight deposits	4.0	4.0	4.0	4.0	4.0
Time deposits up to 90 days	5.0	6.0	8.0	10.0	11.0
Time deposits between 90 days and one year	11.0	15.0	19.0	19.5	21.5
Time deposits of more than one year	13.0	17.0	21.0	22.0	24.0

Source: Bank of Portugal.

Table I. Breakdown by nationality of foreign visitors
Thousands

	1972	1973	1974	1975	1976	1977	1978	1979	1980
Total	3 925.3	4 079.7	2 621.8	1 966.4	2 175.4	3 055.4	3 389.3	5 287.4	6 977.0
Germany	186.8	209.7	167.2	143.8	150.1	204.2	259.3	286.7	300.1
Argentina	—	—	26.8	22.4	11.9	10.6	12.1	13.4	16.9
Belgium	39.3	46.3	30.4	27.2	32.1	50.7	46.9	48.2	45.6
Brazil	—	—	65.2	52.7	43.7	35.5	45.0	52.1	60.9
Canada	56.2	25.0	38.8	22.8	21.7	32.0	36.9	40.7	40.3
Spain	2 012.9	2 109.3	1 169.4	856.4	1 049.3	1 599.5	1 755.2	3 514.8	5 051.1
United States	386.5	345.7	217.6	96.1	82.1	141.5	161.5	153.8	135.5
France	233.2	248.6	152.9	119.1	134.4	172.4	179.6	183.2	237.4
Netherlands	51.8	54.1	37.4	39.5	51.6	92.3	111.1	129.8	127.7
Italy	80.7	80.0	83.7	69.8	66.6	65.4	72.4	70.1	72.7
United Kingdom	492.8	511.6	383.0	284.6	244.6	292.8	327.9	399.8	483.9
Sweden	41.6	42.8	31.6	27.3	49.2	61.0	56.3	51.4	62.7
Switzerland	43.3	50.0	38.5	23.0	23.2	32.8	31.7	36.0	40.0
Other countries	300.1	356.7	179.3	181.7	214.9	264.7	293.4	307.4	302.2

Source: National Statistics Institute, Tourism Statistics.

Table J. Foreign trade by main commodity groups
Million US dollars

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Imports, total	2 227.2	2 908.3	4 581.5	3 839.6	4 315.9	4 963.6	5 142	6 529	9 271	9 787
Food and beverages	306.9	402.0	777.2	765.6	742.6	733.5	678	895	1 104	1 360
Basic materials	443.5	594.1	1 084.6	1 009.9	1 213.7	1 412.1	1 399	2 054	3 146	3 264
Manufactures										
Chemicals	216.2	312.2	458.8	348.8	507.2	560.5	627	794	997	959
Goods classified chiefly by material	392.5	511.4	861.2	583.6	598.7	789.3	829	934	1 412	1 271
Machinery and transport equipment	759.7	928.5	1 179.0	961.0	1 065.7	1 301.0	1 423	1 634	2 305	2 589
Miscellaneous	108.8	159.5	220.0	170.4	186.8	165.7	181	212	301	333
Unspecified	0.5	0.7	0.7	0.3	1.2	1.5	5	6	6	11
Exports, total	1 293.8	1 765.9	2 276.3	1 939.2	1 820	2 013.4	2 426	3 478	4 633	4 147
Food and beverages	229.5	303.3	333.4	300.4	291	303.7	350	444	517	430
Basic materials	180.4	228.5	350.1	265.6	296	286.5	296	387	772	764
Manufactures										
Chemicals	84.2	103.1	188.4	125.5	95	102.7	129	208	286	247
Goods classified chiefly by material	458.2	632.3	780.7	664.5	594	666.9	836	1 236	1 464	1 306
Machinery and transport equipment	152.4	233.1	288.9	256.0	230	299.4	328	429	617	522
Miscellaneous	179.3	251.1	323.0	312.8	282	319.7	439	713	918	824
Unspecified	9.8	14.5	11.8	14.4	32	34.5	48	61	58	54

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

SITC group:

Food and beverages: 0, 1

Basic materials: 2, 3, 4

Manufactures: 5, 6, 7, 8

Chemicals: 5

Source: OECD, Foreign Trade Statistics, Series B.

Goods classified chiefly by material: 6

Machinery and transport equipment: 7

Miscellaneous: 8

Unspecified: 9

Table K. Geographical breakdown of foreign trade
Billion escudos

	1976	1977	1978	1979	1980	1981
	Exports					
Total	55.1	77.7	106.4	176.1	232.2	254.9
OECD countries	44.2	61.4	86.2	142.6	187.1	197.8
OECD Europe	38.9	54.0	75.6	127.1	168.7	179.3
Germany	5.9	9.2	14.0	21.6	31.4	31.8
France	4.6	6.2	9.6	17.1	24.3	32.1
Italy	2.1	2.9	6.1	10.4	13.6	10.8
United Kingdom	10.2	14.2	19.4	31.4	34.3	37.0
Other OECD						
European countries	16.1	21.6	26.5	46.6	65.1	67.6
United States	3.7	5.2	7.5	10.8	13.2	13.3
Other OECD countries	1.6	2.1	3.1	4.2	5.2	5.2
Non OECD countries	10.9	16.3	20.3	33.5	45.1	57.1
including: OPEC	1.0	1.4	1.5	3.4	..	..
Previous Escudo area	2.7	5.0	5.9	9.0	13.8	19.3
	Imports					
Total	130.9	190.7	230.1	331.9	465.8	599.7
OECD countries	93.9	138.7	177.4	243.3	318.5	413.5
OECD Europe	75.5	109.9	138.7	188.6	247.7	315.7
Germany	15.2	23.7	31.9	41.8	54.2	65.4
France	10.9	15.4	20.7	28.4	33.7	46.4
Italy	6.1	10.2	12.6	17.1	24.2	32.1
United Kingdom	12.2	19.8	23.2	30.7	40.8	47.8
Other OECD						
European countries	31.0	40.7	50.2	70.6	94.8	124.0
United States	12.9	19.4	27.1	39.0	50.9	71.9
Other OECD countries	5.5	9.4	11.5	15.7	19.9	25.9
Non OECD countries	37.0	52.0	52.7	88.7	147.3	186.2
including: OPEC	15.2	20.6	27.1	47.9	..	..
Previous Escudo area	3.3	2.5	1.5	3.2	2.1	2.5

Source: National Statistics Institute.

Table L. Balance of payments
Million US dollars

	1974	1975	1976	1977	1978	1979	1980	1981
Exports, fob	2 303	1 940	1 790	2 001	2 379	3 550	4 575	4 089
Imports, fob	4 305	3 614	3 965	4 533	4 787	6 182	8 781	9 251
Trade balance	-2 002	-1 674	-2 175	-2 532	-2 408	-2 632	-4 206	-5 162
Services, net	55	-184	-78	-97	-53	104	-45	-441
Travel	259	101	182	268	431	695	859	778
Transport	-145	-128	-138	-104	-129	-114	-194	-131
Investment income	128	-15	-132	-179	-329	-437	-612	-960
Government transactions	-225	-172	47	-38	-31			
Other services	37	30	-37	-44	4	-40	-98	-128
Transfers, net	1 118	1 039	964	1 134	1 635	2 476	+3 000	2 893
Current balance	-829	-819	-1 289	-1 495	-826	-52	-1 251	-2 710
Medium and long-term capital	274	-108	26	95	758	813	718	1 282
Private	357	-21	15	19	249	462	314	765
Official	-83	-87	11	76	509	351	404	517
Short-term and unrecorded Balance of non-monetary transactions	-83	-89	105	-30	228	594	1 391	1 268
Private monetary institutions short-term capital Balance	-638	-1 016	-1 158	-1 430	160	1 355	858	-160
on official settlements	59	-26	186	567	-201	-995	-498	+48
Use of IMF credit	-579	-1 042	-972	-863	-41	360	360	-112
Miscellaneous official accounts	—	—	-176	-83	53	41	146	72
Change in reserves (increase = +)	15	-290	-650	-421	-197	251	334	6
	-594	-752	-146	-359	103	68	-120	-190

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-1980	Thousands	14 616	7 509	9 857	23 959	5 125	4 780	53 713	61 566	9 599	229	3 401	57 042 ²	116 782	365	14 144	3 131	4 087	9 966	37 381	8 316	6 373	45 078	56 010	227 658	22 340
	Inhabitants per sq. km of land area	Number	2	89	323	2	119	16	97	248	73	2	48	189	309	141	418	12	13	108	74	18	154	58	230	24	87
	Net average annual increase	%	1.4	0.1	0.2	1.2	0.4	0.4	0.6	0.1	0.9	1.1	1.4	0.6	1.2	0.7	0.8	1.1	0.5	1.0	1.1	0.3	0.2	2.4	0.1	1.1	0.9
EMPLOYMENT	1980	Thousands	6 242	3 070	3 751	10 655	(2 470)	2 192	21 142	25 265	(3 347)	(101)	1 149	20 572	55 360	159	4 677	1 270	1 914	3 951	11 254	4 232	3 012	14 610	24 397	97 270	9 690 ³
	of which: Agriculture, forestry, fishing	% of total	6.5	10.5	3.0	5.5	(8.1)	11.6	8.8	6.0	(29.7)	(11.9)	19.1	14.2	10.4	5.7	6.0	11.0	8.5	28.3	11 254	5.6	7.2	60.4	2.6	3.6	6.0
	Industry ⁴	"	31.0	40.3	34.8	28.5	(28.6)	34.4	35.9	44.8	(30.0)	(37.6)	32.4	37.8	35.3	38.2	31.8	33.6	29.7	35.7	36.1	32.2	39.5	16.3	38.0	30.6	22.3
	Other	"	62.5	49.2	62.2	66.0	(63.3)	54.0	55.3	49.2	(40.3)	(50.5)	48.5	48.0	54.3	56.1	62.2	55.4	61.8	36.0	45.0	62.2	53.3	23.3	59.4	65.8	41.9
GROSS DOMESTIC PRODUCT at market prices	1980	US \$ billion ¹¹	140.0	77.0	116.5	253.3	66.4	49.9	651.9	819.1	40.4	2.8	17.8	394.0	1 040.0	4.6	167.6	23.3 ⁹	57.3	24.1	211.1	122.8	101.5	52.9	522.9	2 587.1	56.2 ⁵
	Average annual volume growth ⁶	%	2.5	3.5	2.9	3.0	2.6	3.1	3.3	3.6	4.4	3.7	3.9	3.8	5.1	2.3	2.5	0.7	4.6	5.2	2.2	1.2	1.6	2.8	1.6	3.9	5.6
	Per capita	US \$ ¹¹	9 580	10 250	11 820	10 580	12 950	10 440	12 140	13 310	4 210	12 410	5 190	6 910	8 910	12 570	11 850	7 442	14 020	2 430	5 650	14 760	15 920	1 170	9 340	11 360	2 516
GROSS FIXED CAPITAL FORMATION	1980	% of GDP	22.8	25.3	21.4	23.1	18.3	24.6	21.6	23.6	23.5 ⁸	26.5	27.9	20.0	31.7	25.3	21.0	17.8	25.0	20.9	19.6	20.3	23.8	18.0	17.8	18.2	35.5
	of which: Transport, machinery and equipment	"	4.2 ¹⁰	14.2	6.5	5.3	6.9	6.3	6.4	6.5	9.2	5.7	6.4 ¹⁰	5.1	7.4	6.6 ¹⁰	5.8	3.3	9.9	7.1	6.9 ¹⁰	7.3	7.1	3.8	9.3	7.4	7.2
	Residential construction	"	1.6	2.2	1.6	2.3	-0.3	-2.2	2.0	5.2	3.8	2.3	7.6	3.5	4.7	1.1	1.4	-7.7	-0.5	4.7	-0.9	-0.2	2.2	-0.2	0.3	3.3	5.7
	Average annual volume growth ⁶	%	1.6	2.2	1.6	2.3	-0.3	-2.2	2.0	5.2	3.8	2.3	7.6	3.5	4.7	1.1	1.4	-7.7	-0.5	4.7	-0.9	-0.2	2.2	-0.2	0.3	3.3	5.7
GROSS SAVING RATIO ¹²	1980	% of GDP	21.4 ¹⁰	26.2	16.3	21.5	14.4	24.8	21.7	23.1	25.6	24.5	19.8	22.3	30.7	50.1	20.1	19.3 ⁹	29.9	20.5	18.9	17.3	26.7	16.6	19.2	18.3	37.0
GENERAL GOVERNMENT	1979	% of GDP	16.2	18.0	17.7	19.4	25.2	18.4	14.9	20.0	16.3	11.7	20.0	16.1	9.8	15.9	18.1	16.0 ⁹	19.7	14.8	10.8	28.4	12.9	13.7	20.0	17.4	17.6
	Current expenditure on goods and services	"	29.6 ¹⁰	42.2	46.2	35.8	49.4	34.6	42.1	40.9	29.7	25.0 ¹⁰	41.7 ¹⁰	41.1	24.2	43.5	55.1	..	47.1	30.7	26.7	56.8	29.9	23.4	40.0	31.5	..
	Current disbursements ¹³	"	32.5 ¹⁰	44.2	43.2	35.8	50.3	38.2	43.4	42.9	30.6	34.0 ¹⁰	37.8 ¹⁰	35.7	26.6	52.2	55.8	..	52.2	26.9	27.5	57.4	33.2	23.8	39.0	32.5	..
NET OFFICIAL DEVELOPMENT ASSISTANCE	1980	% of GNP	0.5	0.2	0.5	0.4	0.7	0.2	0.6	0.4	..	..	..	0.2	0.3	..	1.0	0.3	0.8	..	..	0.8	0.2	..	0.3	0.3	..
INDICATORS OF LIVING STANDARDS	1980	US \$ ¹¹	5 800	5 650	7 540	5 950	7 270	5 720	7 690	7 340	2 750	7 560	3 310	4 270	5 220	7 430	7 200	4 550	6 600	1 790	3 950	7 630	10 128	851	5 581	7 370	1 343
	Private consumption per capita	Number	479	272	302	410 ¹⁴	219	235	327	346	80	339	194	300	185	423	288	395	282	118	178	345	324	11 ¹⁴	256	536	85
	Passenger cars, per 1 000 inhabitants	"	440 ¹⁰	375	352	666	609	470	415	434	281	444 ¹⁰	174	318	460	547	486	545 ¹⁰	423	132	294	772	700	39	480	793	79 ¹⁰
	Telephones, per 1 000 inhabitants	"	351 ¹⁴	247 ¹⁴	286	428 ¹⁴	338	363 ¹⁴	372	308	127 ¹⁴	214 ¹⁴	193	224	239 ¹⁰	293 ¹⁴	279	259 ¹⁴	270 ¹⁴	76 ¹⁴	185 ¹⁴	363 ¹⁴	285 ¹⁴	44 ¹⁴	324	571 ¹⁰	199
	Television sets, per 1 000 inhabitants	"	1.5 ¹⁴	2.3	2.1	1.8	2.0	1.6	1.6 ¹⁴	2.0	1.2	2.2	1.2	2.3	1.2	1.1	1.7	1.4	1.8	1.5	1.8	1.8 ¹⁴	2.0	0.6	1.5	1.7	1.3
	Doctors, per 1 000 inhabitants	"	44.4	32.0 ¹⁴	61.3 ¹⁴	64.9 ¹⁴	57.4 ¹⁴	68.5	55.9	45.4 ¹⁰	45.4 ¹⁰	..	..	50.5	43.9 ¹⁴	71.4	37.3 ¹⁰	65.0	44.8 ¹⁴	65.0	33.4 ¹⁴	41.3 ¹⁰	56.3 ¹⁴	70.1 ¹⁴	12.7 ¹⁰	46.2 ¹⁴	75.0
	Full-time school enrolment ¹⁵	% of age group	44.4	32.0 ¹⁴	61.3 ¹⁴	64.9 ¹⁴	57.4 ¹⁴	68.5	55.9	45.4 ¹⁰	45.4 ¹⁰	..	..	50.5	43.9 ¹⁴	71.4	37.3 ¹⁰	65.0	44.8 ¹⁴	65.0	33.4 ¹⁴	41.3 ¹⁰	56.3 ¹⁴	70.1 ¹⁴	12.7 ¹⁰	46.2 ¹⁴	75.0
	Infant mortality ¹⁷	Number	11.0	13.9	11.2 ¹⁴	10.9 ¹⁴	8.8 ¹⁴	7.7 ¹⁴	10.0	13.5 ¹⁴	18.7 ¹⁴	5.4 ¹⁴	12.4 ¹⁴	14.3	7.4	11.5	8.7 ¹⁴	12.6 ¹⁴	8.8 ¹⁴	26.0 ¹⁴	11.1	6.7	8.5 ¹⁴	..	11.8	12.6	33.4 ¹⁴
WAGES AND PRICES	Average annual increase	%	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	35.5	14.9	8.5	19.0
	Hourly earnings in industry ¹⁸	"	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	1980	US \$ million	22 068	17 364	64 500 ⁷	64 944	16 740	14 148	111 312	191 688	5 184	924	8 508	77 904	129 588	..	73 836	5 421	18 492	4 644	20 820	30 924	29 616	2 748	115 176	220 704	8 568
	Exports of goods, fob	%	15.8	22.8	55.7	25.8	25.2	28.2	17.2	23.3	12.3	33.0	47.8	19.8	12.5	..	46.0	23.3	32.2	19.3	9.8	25.3	29.9	5.2	22.4	8.6	15.2
	As percentage of GDP	"	3.7	9.3	5.9	6.3	6.2	10.5	9.3	6.8	6.3	12.7	9.6	5.9	9.2	..	4.6	8.1	9.2	..	9.9 ¹⁰	2.1	6.3	4.7	4.7	6.7	3.8
	Average annual volume increase	%	3.7	9.3	5.9	6.3	6.2	10.5	9.3	6.8	6.3	12.7	9.6	5.9	9.2	..	4.6	8.1	9.2	..	9.9 ¹⁰	2.1	6.3	4.7	4.7	6.7	3.8
	Imports of goods, cif	US \$ million	20 208	24 252	71 676 ⁷	58 992	19 320	15 612	134 856	185 856	10 632	996	11 148	99 708	141 108	..	76 872	5 468	16 956	9 300	34 176	33 420	36 336	6 252	120 156	241 200	14 436
As percentage of GDP	"	14.5	31.8	61.8	23.4	29.1	31.2	20.8	22.5	25.2	35.6	62.6	25.4	13.6	..	47.9	23.5	29.5	38.7	16.1	27.4	36.7	11.8	23.3	9.4	25.7	
Average annual volume increase	%	5.0	9.7	5.5	3.2	3.2	2.3	8.7	7.3	3.9	4.9	10.3	7.6	4.4	..	4.7	0.9	4.4	..	0.7 ¹⁰	0.8	9.0	-4.1	3.9	6.7	0.5	
TOTAL OFFICIAL RESERVES ²⁴	End-1980	US \$ million	2 044	6 223	9 349 ⁷	4 029	3 459	1 914	30 994	52 261	1 301	176	2 876	26 117	25 717	..	13 607	353	6 100	1 784	12 516	3 690	19 374	1 442	21 492	27 395	1 467
	As percentage of imports of goods	%	10.1	25.7	13.0	6.8	17.9	12.3	23.0	28.1	12.2	17.7	25.8	26.2	18.2	..	17.7	6.5	36.0	19.2	36.6	11.0	53.3	23.1	17.9	11.4	10.2

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. 1979.

24. Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).
 25. 1976 to 1980.
 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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