OECD
ECONOMIC SURVEYS
1983-1984

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

PORTUGAL

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JUNE 1984

OCDE OECD

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to article 1 of the Convention signed in Paris on 14th December, 1960, and which came into force on 30th September, 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

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

The Signatories of the Convention on the OECD are Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries acceded subsequently to this Convention (the dates are those on which the instruments of accession were deposited): Japan (28th April, 1964), Finland (28th January, 1969), Australia (7th June, 1971) and New Zealand (29th May, 1973).

The Socialist Federal Republic of Yugoslavia takes part in certain work of the OECD (agreement of 28th October, 1961).

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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 (1982, 2nd half-year, thousands)	9 555	Civilian employment (1982, 2nd half-year, thousands)[1]	3 949
Number of inhabitants per sq. km	104	as a percentage of total:	
Annual average rate of change in resident population (1975-1982)	1.0	Primary sector	25.3
Civilian labour force (1982, 2nd half-year, thousands)[1]	4 272	Secondary sector	37.3
		Tertiary sector	37.5

PRODUCTION

Gross domestic product in 1981 (million of US dollars)	23 810	Gross domestic product at factor cost by origin in 1981 (%):	
Gross domestic product per head in 1981 (US dollars)	2 492	Primary sector	8.6
Gross fixed asset formation in 1981 : % of GDP	31.3	Secondary sector	39.8
per head (US dollars)	781	Tertiary sector	51.6

THE GOVERNMENT

Public consumption in 1981 (% of GDP)	14.9	General Government current revenue in 1981 (% of GDP)	33.2
Public investment in 1981			
% of GDP	4.3		
% of total investment	13.8		

FOREIGN TRADE[2]

Exports of goods and services as a % of GDP (1982)	17.8	Imports of goods and services as a % of GDP (1982)	40.8
Main exports as a % of total exports 1982, SITC:		Main imports as a % of total imports 1982, SITC:	
Food, beverages and tobacco (0, 1)	9.7	Food, beverages and tobacco	11.3
Basic and semi-finished materials (2, 3, 4)	15.2	Basic and semi-finished materials	35.9
Manufactured goods (5, 6, 7, 8)	73.3	Manufactured goods	52.6
of which: Chemicals (5)	8.2	*of which:* Chemicals	9.2
Machinery and transport equipment (7)	14.0	Machinery and transport equipment	26.4

THE CURRENCY

Monetary unit: Escudo		Currency units per US $, average of daily figures:	
		Year 1983	110.785
		April 1984	134.198

1. Mainland Portugal.
2. Mainland Portugal and islands.

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

This Survey is based on the Secretariat's study prepared for the annual review of Portugal by the Economic and Development Review Committee on 17th April 1984.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 9th May 1984.

INTRODUCTION

At the beginning of 1983 the Portuguese economy was experiencing considerable difficulties. In particular the current deficit and external indebtedness had become very heavy and there was a marked widening of the general government borrowing requirement. Furthermore, inflation was running at over 20 per cent. The climate of pre-electoral uncertainty made it difficult to frame any new economic policy.

The government set up in June 1983 following the April election decided to introduce a short-term corrective plan built around a restrictive monetary and fiscal policy and accompanied by an escudo devaluation. This has already produced some positive results (marked improvement in the external balance, curbing of the public deficit) but the recession is deepening and at the end of 1983 inflation accelerated sharply. 1984 is likely to bring a decline in activity and a rise in unemployment. The improvement in the current balance ought to continue and thus slow the growth of external indebtedness. Even if on present policy inflation should decelerate during the year, it will probably average 27 per cent. The drop in activity is not going to make it easier to reduce the budget deficit and all in all the situation will remain difficult in 1984.

It is worth seeking out the reasons for the present disequilibria. Since the early 1970s the Portuguese economy, whose structures even then were not sufficiently modernised, has suffered a series of major exogenous shocks. The effects of the first oil crisis were felt both directly, and indirectly through the slowdown of migratory flows to the recession-hit industrial economies of Europe. The revolution brought with it a profound change in the country's political and economic structures. Decolonisation meant the return of vast numbers of Portuguese (some 700 000) resident in the former colonies, the end of the particularly advantageous source of raw material supplies and the loss of export markets. Lastly, there was the second oil shock, which again had direct and indirect consequences.

The period 1974-1976 was marked by abrupt changes in economic policy, while at the same time the productive system became thoroughly disorganised. Since 1977 there has been a return to normal, with the economy overtaking its pre-revolution level of activity. It has to be said, however, that despite the efforts of successive governments major disequilibria still remain or have grown worse and that, all in all, the Portuguese economy has adjusted to the difficulties stemming from the two oil shocks less well than those European countries with which it has certain points in common.

Part I of the survey analyses some of the causes of the present difficulties and looks at how the emergence of the problems can be linked with various structural features of the Portuguese economy. Part II examines recent trends, while Part III reviews economic policy responses to the problems that have gradually emerged. Part IV considers short-term prospects. Lastly a few economic policy conclusions are presented in Part V.

I. THE EMERGENCE OF THE PRESENT PROBLEMS: STRUCTURAL ASPECTS

In this part of the Survey, a number of overall results recorded over the period 1977-1982 will be compared with the results of other OECD countries. An analysis will follow of the emergence of the main problems now weighing on the Portuguese economy. These include rigidities in the productive system; rapid and persisting inflation; foreign trade problems and the major difficulties Portugal is having in improving its trade balance on a lasting basis; agricultural problems which are a major obstacle to balanced development; and, lastly, problems relating to the growth of the public sector, including the system of social welfare cover and the nationalised enterprises.

Comparing the results of the Portuguese economy with those of a number of OECD countries with similar economic structures reveals that, over the longer term, Portugal has achieved appreciably better results than the other countries in terms of growth and activity, but that the disequilibria have become more pronounced – particularly the public sector deficit and the deficit on external account. Inflation was never held below an annual rate of 20 per cent for any length of time, and it picked up again at the end of the period. Lastly the country's external debt has grown uninterruptedly.

Activity and the labour market

Portugal's performance in terms of growth and activity was relatively satisfactory until very recently, particularly in view of the serious disruption of the productive system following the revolutionary period (1974-1976). However the arrival in Portugal of residents of the former colonies led to both a surge in domestic demand which stimulated activity and an increase in the labour force. Admittedly average annual GDP growth over the period 1977-1982 was still well below that recorded before the first oil crisis (in the region of 3.5 per cent per year, compared with 7.5 per cent for the period 1967-73), but the same was true of all the countries in the area. Also it has to be said that, despite the stabilization policy introduced in 1978, activity grew without a break up until early 1982. What has been happening, essentially since 1977, is that the share of industry and services in value added has been increasing, whereas results in agriculture have been extremely disappointing.

Growth of output has for the past ten years been underpinned mainly by domestic demand, with the net external balance only making a positive contribution to activity in 1978-1979. It has proved very difficult over the longer term to achieve relatively strong domestic growth and at the same time maintain equilibrium on external account, any acceleration in domestic activity soon being baulked by an external deficit necessitating restrictive policy measures. A positive aspect of growth during the years 1977-1982, particularly compared with the immediately preceding period, was the shift in the structure of demand towards investment and away from consumption. In 1979-1982, the structure of domestic demand was more or less as it had been before 1974, whereas it had been very heavily biased towards consumption during the period 1974-1977.

Characteristic of the labour market since 1974 have been the emergence and development of major rigidities due to political emphasis on absorbing a large proportion of the increase in the labour force as promptly as possible and curbing the rise in unemployment. Furthermore, the introduction of labour legislation more akin to current practice in industrialised societies has led to overprotection of employment and much reduced flexibility

Table 1. **Portugal's performance compared with that of certain other countries**

	Real GDP average annual change per cent				Real per capita GDP average annual change per cent				Unemployment rate per cent of labour force			
	1973-82	1973-76	1977-79	1980-82	1973-82	1973-76	1977-79	1980-82	1973-82	1973-76	1977-79	1980-82
Portugal	3.9	3.7	5.2	2.7	2.8	1.9	4.5	2.2	6.3	4.1	7.8	7.7
Spain	2.6	4.4	1.8	1.1	1.7	3.4	0.7	0.3	8.2	3.7	7.6	14.8
Greece	3.1	4.1	4.6	0.3	2.1	3.2	3.2	−0.6	2.6	2.1	1.8	4.2
Ireland	3.3	3.2	5.1	1.7	1.9	1.6	3.6	0.6	7.2	6.4	6.9	8.6
Turkey	4.5	7.6	2.1	2.7	2.2	5.1	0	0.6	13.9	12.9	12.6	16.6
OECD Europe	2.3	3.0	2.9	0.7	1.6	2.3	2.4	0.1	6.0	4.4	5.9	8.3
OECD Total	2.1	2.9	3.6	−0.6	1.7	2.0	2.8	0.1	5.6	4.6	5.4	7.2

	Inflation average annual change (private consumption deflator)				Current balance per cent of GDP				General government borrowing requirement or lending capacity per cent of GDP				
	1973-82	1973-76	1977-79	1980-82	1973-82	1973-76	1977-79	1980-82	1978	1979	1980	1981	1982
Portugal	20.4	17.1	24.0	21.1	−6.6	−4.3	−5.7	−10.6	−8.3	−8.1	−8.6	−10.1	−8.7
Spain	16.5	15.3	19.8	14.9	−1.7	−2.4	−0.2	−2.4	1.2	0.2	−1.5	−2.8	−3.5
Greece	17.1	16.2	13.6	21.8	−5.1	−5.5	−3.9	−5.7	3.0	$2\frac{1}{4}$	$2\frac{1}{2}$	$8\frac{3}{4}$	$5\frac{3}{4}$
Ireland	15.8	17.1	11.6	18.1	−6.7	−4.5	−6.2	−10.0	−9.1	−10.6	−11.9	−12.5	−13.4
Turkey	41.0	20.5	46.3	62.8	−3.3	−2.4	−4.0	−3.6	−4.4	−4.7	−5.4	−4.2	−4.0
OECD Europe	12.2	11.3	10.9	14.7	−0.6	−0.7	−0.1	−0.9	−2.9	−2.8	−2.7	−3.7	
OECD Total	9.8	9.8	8.7	10.9	−0.3	−0.2	−0.2	−0.5	−2.1	−1.5	−2.0	−2.2	

Sources: OECD, *National Accounts; Economic Outlook; Main Economic Indicators;* Secretariat estimates.

in the way production factors are used. Several phenomena severely disrupted the labour market situation during the period 1974-76. The disorganisation of production following the events of 1974 coincided with the international recession and the reduction in possibilities of emigrating to other industrialised countries. Furthermore, almost 700 000 repatriates from the former colonies, of whom half were of working age, and the demobilisation of national service conscripts substantially increased the labour force. The unemployment rate, calculated on the basis of the INE survey, is thought to have risen from 2 per cent in 1974 to 7½ per cent in 1977; admittedly employment and unemployment statistics are not very homogeneous in Portugal, but while it may be difficult to determine the effective level of unemployment with much accuracy, the scale of the increase does seem plausible[1]. During the post-1977 period, the number of unemployed remained generally stable at around 330 000 on the basis of INE statistics – i.e. some 8 per cent of the labour force. The labour force grew by 0.8 per cent per year on average between 1977 and 1982, as a result of population growth, while opposite trends in male and female participation rates cancelled each other out.

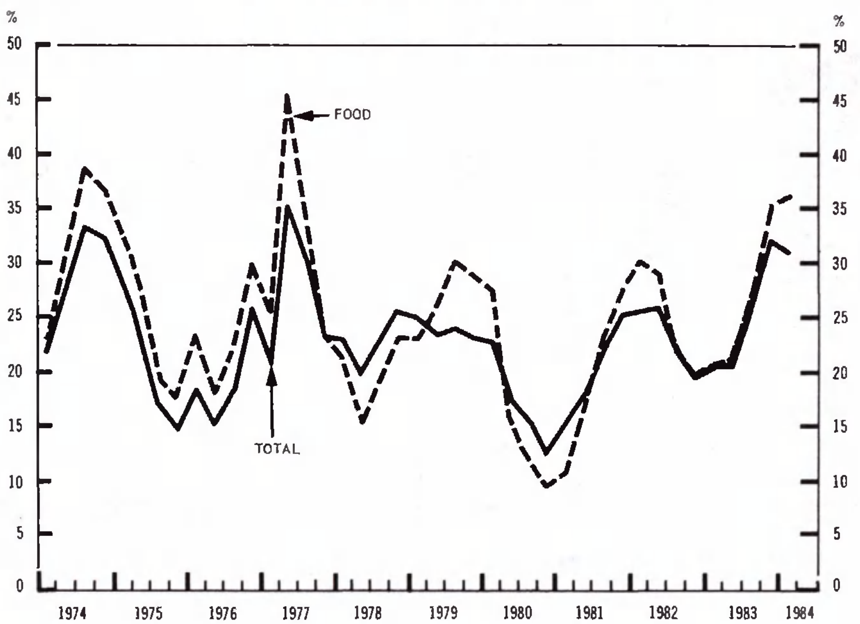
The average growth in total employment between 1977 and 1982 masked distinct differences across sectors. Although the statistics available are not very homogeneous, a number of characteristic features are apparent. Employment in agriculture continued to fall rapidly (at about 4 per cent per year), continuing the 1964-1974 trend, but still accounted for one-quarter of total employment in 1982. In manufacturing industry there was a slight increase in the labour force (1½ per cent per year according to the INE survey). There were big gains in employment in building due first to the construction of dwellings in which to house the repatriates and, secondly, the investments made with migrants' remittances. A feature of this sector is the very large proportion of short-term contracts (approximately 40 per cent of all jobs, compared with 11 per cent in the economy as a whole in early 1983). It would seem that the underground economy is particularly well-developed with respect to both new construction and maintenance. In 1982 it was estimated that 40 per cent of houses had been built by people "moonlighting". Activity in this sector has probably been underestimated for some time and, over the period in question, the rise in employment recorded by the INE is still appreciable. Moreover, the parallel economy also expanded in new areas such as the distributive trades, services and small industry. The main source of impetus during the period 1977-1982 remained the service sector, and particularly public services where employment rose by 5.6 per cent per year on average, despite a slowdown in 1981-1982 caused by budget spending cuts.

The virtual stability of the unemployment rate between 1977 and 1983 needs to be interpreted with considerable caution. There is probably appreciable disguised under-employment in a country with a large agricultural population, while public sector employment was inflated by the almost automatic incorporation of the repatriated civil servants and all enterprises, in particular public enterprises, were compelled by highly restrictive legislation to retain more labour than they needed. Until very recently, in fact, dismissals were not allowed – even in firms in difficulty. The provisions whereby work contracts could, in exceptional circumstances, be suspended were rarely applied because of the overloading of the courts where it took three or four years to obtain the right to dismiss staff. These regulations probably contributed to the poor functioning of the labour market, added to the growing wage-cost burden and checked investment. Under new legislation adopted last November, work contracts may be suspended temporarily for up to one year (or two years in exceptional cases), and working hours reduced in enterprises in difficulty. These provisions, which will probably affect the nationalised enterprises above all, should have the effect of reducing the number of employees – at least temporarily – and should greatly improve the conditions in which firms operate.

Inflation

While inflation has been a permanent feature in Portugal since the early 1970s, it did however gather pace from 1974 onwards. Consumer prices climbed by 25 per cent in 1974-75, compared with 8½ per cent over the previous five years and, in contrast with trends in many OECD countries, the rise in prices eased very little thereafter despite the slowdown in import prices, remaining close to 22 per cent on average between 1976 and 1983. This is a feature common to most of the countries in southern Europe or with similar economic structures. There are many reasons for Portugal's poor performance on inflation, and in particular the surge in wage costs during the period 1974-75, the impact of which was undoubtedly prolonged by labour market rigidities and the sharp increase in import prices intensified by the crawling-peg depreciation of the escudo. The moderating effects of the price control system were reduced because of periodic catch-ups.

Diagram 1. **Consumer prices, 1974-1983**
Change from corresponding quarter of previous year



Source: OECD, *Main Economic Indicators.*

1980 brought a period of relative calm with the slowdown of food price rises due to good weather conditions, increased subsidies and the smaller depreciation of the escudo. During the course of 1981, however, inflation picked up again following the easing of price controls, and the effects of this were magnified by the poor weather conditions (drought). In 1983, with the reduction of subsidies, the successive escudo devaluations and, at the end of the year, the decontrol of prices, underlying inflationary pressures resurfaced. This development clearly

Table 2. **Contribution to changes in the total demand deflator**

Percentages

	1976		1977		1978		1979		1980		1981		1982		1983	
	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution
Import prices	2.6	16.8	8.1	30.7	4.9	22.2	8.6	40.2	9.6	43.9	7.9	40.7	5.7	28.1	7.3	28.8
Wage costs	6.4	41.2	4.6	17.4	6.7	30.3	5.5	25.7	7.8	35.3	7.1	36.5	5.8	28.6	6.9	27.5
Other factor incomes	4.9	31.6	12.0	45.5	10.3	46.6	6.2	28.8	2.3	10.4	3.0	15.7	7.3	35.6	8.1	32.7
Indirect taxes, net	1.6	10.3	1.8	6.8	0.2	0.9	1.2	5.3	2.3	10.4	1.4	7.1	1.6	7.7	2.8	11.0
Total demand deflator	15.5	100	26.4	100	22.1	100	21.5	100	22.0	100	19.4	100	20.4	100	25.1	100

Sources: Central Planning Department calculations based on the INE's old national accounts system for 1976-1977 and the new system for 1978-1981. For 1982 and 1983, Central Planning Department estimates and forecasts.

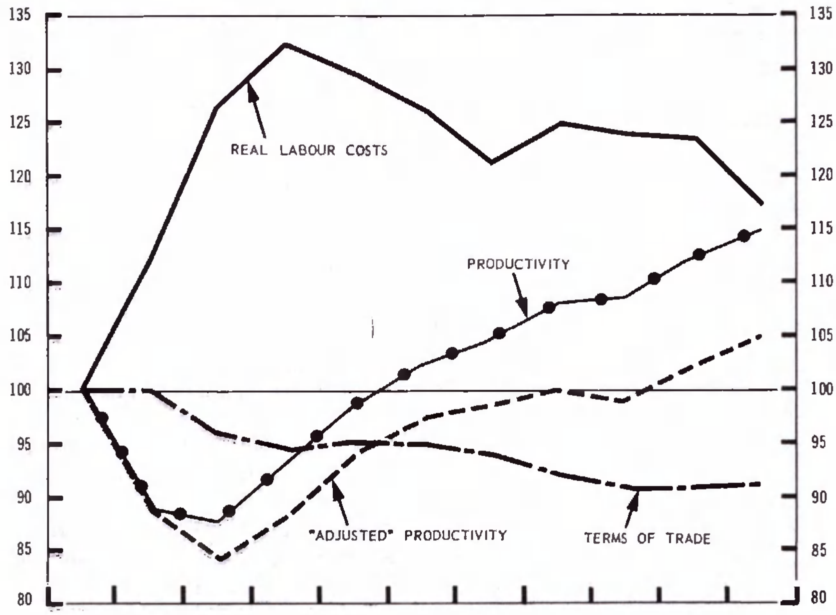
illustrates the fragility of the good results which were achieved on the price front during certain periods. There is constant upward pressure on food prices in particular, because of the underdeveloped nature of the agricultural production system and distribution channels, and it is only by artificial means (subsidies and controls) that increases in prices to the consumer have been temporarily limited.

The Portuguese economy's external dependence, particularly with regard to food and energy products, has made it very sensitive to imported inflation. With growing demand for food products – which in 1981-82 still accounted for 34 per cent of household consumption – coinciding with poor crops, there was inevitable pressure on domestic prices and an increase in imports of agricultural products. These accounted for almost 15 per cent of imports in 1981-82. Admittedly their average values have risen less rapidly than imports as a whole (18 per cent per year between 1977 and 1982, against 25 per cent for overall imports and 21 per cent for consumer prices), but prices of foodstuffs fluctuated considerably on world markets during the period. The highly inflationary impact of imports at certain times was clearly prolonged by the downward rigidity of domestic prices. Furthermore imported minerals, which consist almost entirely of oil, comprised nearly 28 per cent of total imports in 1981-82 and their average values increased by 39 ½ per cent per year between 1977 and 1982. Estimates by the Planning Department show that, over the period 1977 to 1983, almost one-third of the increase in aggregate demand prices could be attributed to trends in import prices.

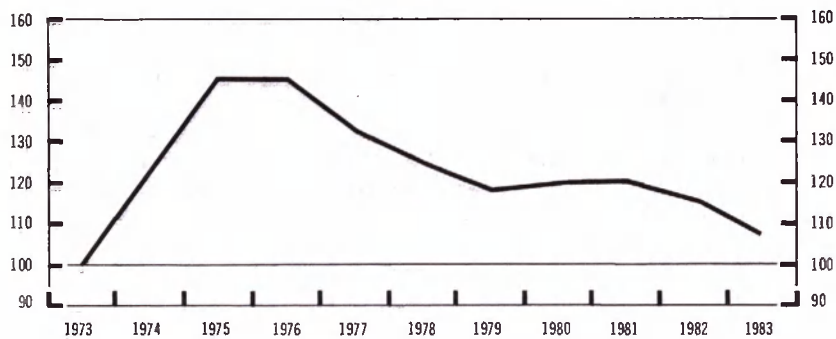
The increased significance of imported inflation is tied up with the policy of depreciating the escudo, which was introduced in 1976 with the object of maintaining the external competitiveness of industry despite the very rapid rise in labour costs. Having remained relatively stable up until 1975, the effective escudo exchange rate fell by an average of 15 per cent per year between end-1975 and end-1983. Depreciation against the dollar (the currency in which cereal and oil imports are invoiced) was even steeper – 12 per cent per year on average between end-1975 and end-1980 and 26 per cent[2] per year on average up until end-1983.

Wages have had a very uneven impact on prices over the last ten years. Because of the massive increases which followed the revolution (real wages in manufacturing industry rising by about 12 per cent per year between 1974 and 1975), they were the main explanation for inflation during this period; subsequently, however, real wages fell in all sectors (by some 6 per cent per year on average in manufacturing industry during the three-year period 1977-79) back to a level quite close to that of 1974. Wage cost growth then became less of a contributory factor in inflation, accounting for 25 per cent on average of the increase in the demand deflator, compared with more than 40 per cent in 1976. The increase in nominal wages accelerated in 1980 with the upturn in activity and the improving labour market situation so that, for the first time for four years, there was an appreciable gain in purchasing power (some 4 per cent) which did not recur in subsequent years. The impact of wage costs on inflation then increased again temporarily before settling at 28 per cent in 1982-83. The fairly restrictive wage adjustment mechanisms introduced in 1977 explain why purchasing power dropped when the pace of inflation quickened. Wage increases had to have prior authorisation from the Ministry of Labour, and wage agreements are binding on enterprises in each branch at national level. Furthermore regular dates were not set for discussions, and the intervening period could be more than a year; in most cases, too, there was provision until 1982 for retroactive payments. In 1977 and 1978 a wage norm system comprising annual ceilings was applied though its implementation almost always proved difficult and numerous strikes limited its effectiveness in the nationalised enterprises. Job upgrading in public administration, particularly in 1979-80, was a further factor which contributed to faster average wage

Diagram 2. **Real labour costs, 1972-1983**
Indices, 1973 = 100



Real wage gap
Index, 1973 = 100



Source: OECD Secretariat.

growth. The system was eased in 1979 when a wage norm was set by the authorities, which is the maximum rate that can be passed through by firms subject to the declared price system.

Social security contributions[3] paid by employers have risen faster than nominal wages since 1974, thus accentuating the costs borne by firms[4]. It would seem, however, that there was appreciable productivity growth over the whole of the post-1974-1976 period and, even after allowing for the trend in the terms of trade (in particular the deterioration due to the second oil shock) productivity grew faster than real wage costs so that, although real wages rose steeply in 1980, it was possible to make certain adjustments to the structure of national income which had been suddenly distorted after the revolution – the share of compensation of employees climbing from 45 per cent on average during the period 1970-73 to 58 per cent in 1976. Subsequently it declined, half the adjustment taking place in 1977 when the ratio fell to approximately 53 per cent according to the old system of national accounts. According to the new system, there was a further fall of similar magnitude between 1977 and 1982 (from 55 to about 51 per cent)[5].

Against this, the role of other factor incomes – mainly profits – gained in importance during the period 1977-78 when the wage norm policy was introduced in conjunction with a very flexible application of price controls, the object being to restore profit margins. At the time, this component contributed more than 10 points to the rise in the total expenditure deflator, i.e. almost half. Over the past two years, high interest rates again increased the impact of other factor incomes on inflation.

Prices have been very extensively regulated since 1974. The major changes which were made to the system of controls on a number of occasions, notably in 1977 and 1981, aimed at either relaxation or decontrol, very soon passed through to price trends. The general aim of prices policy since 1981 has been to ease the system and more recently to liberalise it. But it still remains very complex, comprising five general systems and a few special systems, whose application is adjustable in scope. First, a number of prices are directly and rigidly fixed or controlled by the government; these include the prices of certain staples (bread, milk, sugar, medicines, fertilisers, and animal feedstuffs), which are subject to a maximum price system, as well as the prices of public utilities and energy products. The products which are subject to these price control systems are extensively subsidised, in particular by the Supply Fund. The object of present policy is to restore real-cost pricing of these products and reduce subsidies. Secondly, there is a more flexible system comprising declared prices and, more recently (April 1983), agreed prices. The "declared" price system involves an ex-post control enterprise by enterprise and affects those that have big shares of the market. Enterprises are required to declare their price increases and the authorities may disallow these if they consider that they are not justified in terms of rises in costs. The system of agreed prices should enable groups of enterprises to negotiate price increases with the government; it concerns in particular certain services where controls may appear necessary but for which it is impossible to ascertain costs enterprise by enterprise. Lastly, some goods and services either come under the unrestricted price system and are exempt from controls or under the price "surveillance" system. The latter requires enterprises to notify the government of any price increases which it cannot oppose. The system is therefore more like an information system that is part of prices policy; its coverage is now fairly broad. Furthermore a policy of active competition has been framed, the rules for the domestic market being set out in a decree-law of 3rd December 1983. Individual practices (imposed prices, discriminatory practices and sales bans), agreements and firms' abuses of their dominant positions are henceforth prohibited.

Products coming under the maximum price system (i.e. under direct government control) accounted for 42 per cent of households' average expenditure in 1977-78, and only 31 per cent in 1981-82. The reduction mainly concerned food products, which represented 30 per cent of households' expenditure at the start of the period but only 12 per cent at the end. However, the subsidies paid by the Supply Fund, which concern the products subject to this system, increased during the period and accounted for 3 and 3.9 per cent of the total value of food consumption respectively in 1977 and 1981. Also subsidies are granted for the production of agricultural goods and for certain public utility charges (transport, fuel oil inputs for electricity generation). All in all, between 1977 and 1982 the average increase in prices subject to the maximum price system was not markedly less than the rise in the consumer price index or the overall food price index and, in 1982 for example, the effect of the upward adjustments was such that it was even substantially greater in the case of almost all products. Underlying inflationary pressures, which had been temporarily contained by the various price control systems, reappeared – particularly after 1981 – whereas real wages had more or less stabilized and the effects of the second oil shock were easing. The reduction of subsidies and, more recently, the gradual relaxation of price controls are very largely responsible for the extremely steep price rises at end-1983, and for those in the first quarter of 1984.

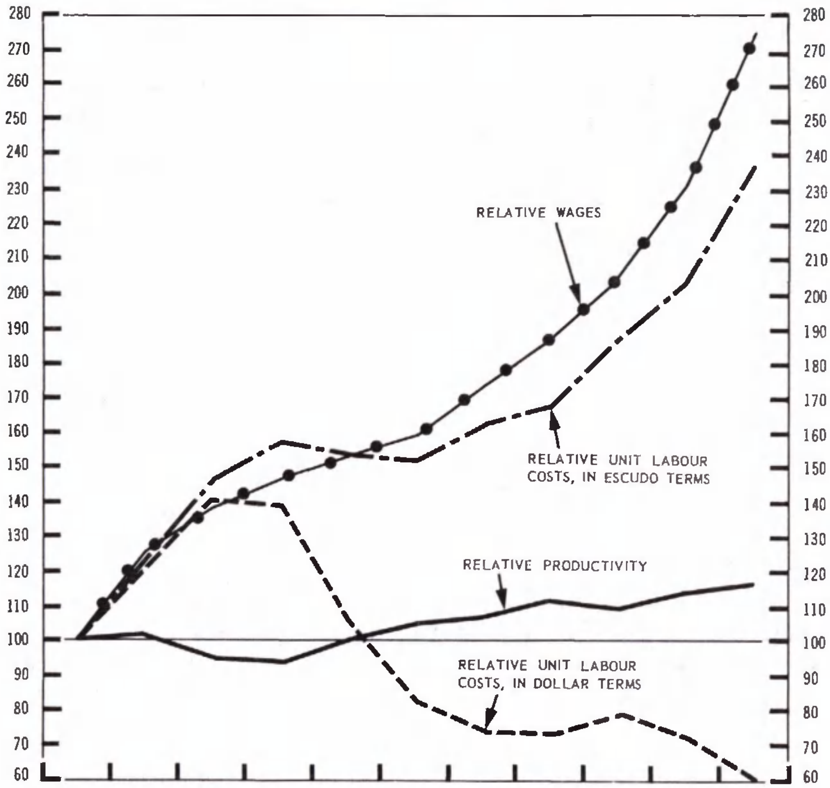
The Secretariat has produced estimates covering the period 1963-1982 which tally broadly with the calculations by the Planning Department. Changes in indirect taxation and subsidies had a direct effect on the movement of the private consumption deflator. Considering only the trend in prices (private consumption deflator), and not the change in indirect taxation and subsidies, these estimates show that changes in farm output prices and import prices had a major impact (approximately 41 and 34 per cent respectively), while changes in unit labour costs in the non-agricultural sector accounted for almost one-quarter of the increase in private consumption prices[6].

Competitiveness and external disequilibrium

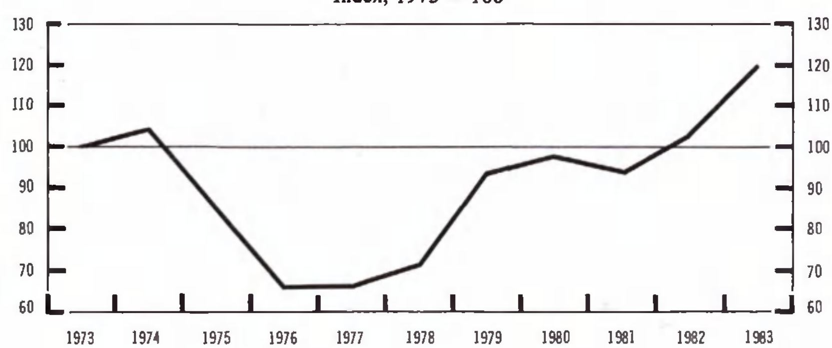
External disequilibrium has been a recurrent problem in Portugal for some ten years now. Whereas, prior to the revolution, the current account was customarily in balance or even slightly in surplus, from 1974 onwards there was an external deficit which reached $1.5 billion in 1977, 9.5 per cent of GDP. With the introduction of the government's stabilisation policy – which brought renewed confidence and an upturn in the invisibles balance though without reducing the trade deficit – the current balance improved in 1978 and was back in equilibrium in 1979. But in 1980 and more noticeably in 1981-82, with the pick-up in domestic activity, the country's external position deteriorated sharply and its debt increased significantly. The current account swung from equilibrium in 1979 to a deficit of 13½ per cent of GDP in 1982. At the same time Portugal's external debt virtually doubled, reaching $13.7 billion at end-1982 or about 65 per cent of GDP, a situation which will place a heavy burden on the economy in the years ahead. From the structure of external relations, it can be seen that the widening of the trade deficit has played a major part in the deterioration of the external balance. While in 1973 the export/import ratio stood at 0.67, it was down to only 0.485 in 1982, which shows that the productive system has responded inflexibly to changes in both domestic and international demand. Here agriculture undeniably constitutes a major factor of inertia, an issue that will be discussed in the next section. This section looks into some of the other factors which go to explain this recurrent external imbalance.

After the steep surge of 1974-75, unit labour costs in the economy as a whole rose by an average of 15 per cent a year over the period 1976-82 – a much faster rate than the average for the period 1968-73. In industry unit labour costs rose somewhat more slowly (running at 12½ per cent over the years 1976-82) as a result of the well-above-average growth of productivity in the economy as a whole. This is in sharp contrast, however, with the more or less stable trend of costs over the previous five years when wage increases were cushioned by very big gains in productivity (averaging 8½ per cent per year). Labour market rigidities have probably played a part in the growth of wage costs over the past ten years. Unit labour costs have risen more steeply in Portugal than in its principal partner countries, the differential with these last being nearly 5 per cent a year over the period 1976-82[7]. The competitiveness of Portuguese products could thus only be maintained by continuing with the policy of escudo depreciation.

Diagram 3. **The competitive position of portuguese industry**
Indices, 1973 = 100



Trend of market shares
Index, 1973 = 100



Sources: Bank of Portugal; OECD Secretariat.

Most of the decrease in relative costs expressed in common currency terms occurred in the years 1977-79 (falling by some 18 per cent a year) as productivity gains improved and wage growth moderated. These factors meant that the whole of the substantial depreciation of the escudo translated into gains in competitiveness. However, in the ensuing period the crawling-peg depreciation was not sufficient to offset the rise in relative costs. Only after mid-1982 with a steeper depreciation of the escudo, did relative costs in common currency terms improve again. It is probable that rising production costs could not be fully passed on to export prices so that they rose less steeply, with the result that profits were down over the period 1974-76, though they moved up again until 1980[8].

The widening of the trade deficit can only partly be ascribed to the adverse trend in industry's competitive position. Because of the highly specialised character of its foreign trade the economy is extremely vulnerable to changes in demand and prices. For one thing Portugal is almost entirely dependent on external supplies for its energy, and the deterioration of its total external deficit can in large measure be explained by its energy deficit which accounted for 37 per cent of the total deficit in 1981, against 14 per cent in 1972. Import penetration is high, too, in other sectors[9]. The agro-food industries are characterised by a chronic deficit which over the past ten years has accounted for a growing share of the total deficit, rising from 15 per cent in 1972 to 19 per cent in 1981, and reflecting, as will be seen below, the country's poor conditions of production. Import penetration is also high in metal-working, mechanical engineering and chemicals. Over the period 1977-81 these industries accounted for around 50 per cent of domestic demand for minerals, basic metal products and electrical machinery and almost 80 per cent for machinery other than electrical. While admittedly their share in the total deficit has fallen over the past ten years (from 47 per cent in 1972 to some 30 per cent in 1981), this decline is probably more indicative of the sluggishness of investment demand in recent years than of any real improvement in production structures. The trade deficit for the chemicals industry, at about 15 per cent of the total, has remained relatively stable over the past ten years. This sector has benefited latterly from the development of new products which has served to offset in part the increase in chemicals imports by the textiles industry and agriculture.

Table 3. **The trade deficit by main commodity groups**

Percentage of total deficit

	1972	1978	1981	1982[1]
Agro-food	−15.3	−17.9	−19.2	−16.5
Mineral products	−14.0	−29.5	−35.5	−56.6
Of which: Fuels	−14.2	−28.6	−36.5	−43.8
Chemicals	−15.4	−20.6	−15.8	−15.0
Wood, cork, paper pulp	15.6	10.2	7.3	7.6
Textiles and apparel	13.3	12.8	8.8	12.0
Leather and footwear	0.8	1.6	2.0	2.0
Metals and metal products	−9.7	−10.2	−8.7	−9.6
Machinery	−37.5	−28.4	−22.8	−23.5
Transport equipment	−26.8	−11.9	−12.9	−12.6
Other	−10.9	−6.1	−3.4	−3.7
Total deficit, $ million	−933	−2 716	−5 721	−5 312

1. Provisional figures.
Source: OECD, *Foreign Trade Statistics* for 1972 and 1978. Central Planning Department calculations based on data from the Commerce and Tourism Ministry for 1981 and 1982.

On the positive side, the principal strong points in Portugal's foreign trade are textiles and clothing, leather and footwear, and the wood, cork and paper pulp industries. In 1981-82 textiles and clothing, leather and footwear accounted for roughly a third of total exports; in both 1972 and 1982 the surplus they produced represented around 14 per cent of the trade balance. These industries, which are characterised by their high degree of product substitution, were thus able to maintain their performance over the past ten years despite growing penetration of OECD markets by the newly industrialising countries. Moreover, excellent results were achieved in new sectors such as electrical and electronic equipment, transport equipment and petrochemicals. On the other hand, the wood and cork industry saw its surplus fall by half over the same period (from over 15 per cent in 1972 to 7½ per cent in 1982), though this was probably due to temporary factors resulting from disruptions in production in the years 1974-76. Higher productivity in forestry and the creation of new paper pulp mills would seem to have stemmed the decline in 1981-82. Overall, export volumes have, since 1977, expanded faster than foreign markets, resulting in substantial market share gains and partially offsetting losses in the preceding three years[10]. This was facilitated by the fall in real wages over the period and by the government's policy of currency depreciation.

The commodity and geographical structure of Portugal's foreign trade has been a very adverse factor for the economy given the trend of prices and exchange rates. Though the country's import bill is largely constituted by dollar-invoiced goods (fuels and grain), its share in the United States export market has shrunk and, with a decline in trade with the ex-colonies, the main outlet for its products is Europe[11]. Even discounting the two oil shocks, the main reason for the widening of the trade deficit in the course of the last ten years has been the deterioration of the terms of trade. Over the period 1977-82, the volume of merchandise exports rose by an average of 13 per cent a year against 5.6 per cent for imports. This relatively favourable trend contrasts with performance in the years 1970-73 preceding the revolution, when export and import growth averaged 11 per cent and over 13 per cent respectively.

Table 4. **The trade balance (fob-fob): price/volume breakdown**

Change, Esc. billion

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Volume	1.4	−10.2	15.5	−13.1	−12.9	12.2	17.1	−11.7	−29.5	−4.9	112.8
Terms of trade	−4.0	−16.5	−7.3	−9.6	−18.8	−19.2	−39.8	−86.3	−66.5	−51.7	−79.6
Aggregate change	−2.6	−26.7	8.2	−22.7	−31.7	−7.0	−22.7	−74.6	−96.0	−56.6	33.2

Source: Ministry of Commerce and Tourism, estimates for 1983.

This outturn, as has been seen, was only made possible by the depreciation of the escudo which enabled Portuguese products to remain competitive on international markets though its adverse effects on the terms of trade served to exacerbate the trade deficit. Over the period 1977-82 the escudo's effective exchange rate depreciated by 45 per cent and this, coupled with the rise in oil prices, had the effect of pushing up average import values by 25 per cent, against 20½ per cent for average export values. However, if oil is excluded, the average values of merchandise imports rose by only 21 per cent, or more on a par with exports. All in all, the terms of trade have deteriorated by 25 per cent over the past ten years as a whole. Since 1975 the export figure has been roughly half that of imports. Thus, quite apart from any changes in the terms of trade, volume exports must grow by at least twice as much as imports for there to be any improvement in the trade balance. The way to achieve this is to modernise, over the longer term, those sectors whose deficits are a heavy burden on the overall balance, agriculture being an example.

Portuguese agriculture

Portuguese agriculture has traditionally been a poor performer, but its relative position seems to have deteriorated further in the past ten years or so. This is due in large part to unfavourable natural conditions, inefficient use of land and inputs (fertilizers and machinery), inadequate infrastructures (roads, electricity) and an ownership system consisting of very small production units engaged primarily in subsistence farming in the north and part of the centre of the country and large estates in the south where agrarian reforms have been radical. One way of gauging the poor performance of Portuguese agriculture is to compare the proportion of the labour force employed in agriculture in the early 1970s (32 per cent) with agriculture's share in GDP (17 per cent). Another significant indicator is that while, at the start of the 1970s, almost a third of the population was employed in agriculture the export/import ratio for agricultural products was only 0.85.

Table 5. **Comparative yields for the main agricultural products**

Total EEC and selected Southern European countries	Portugal		Greece		Spain		Italy		EEC	
	1970-73	1979-80	1970-73	1979-80	1970-73	1979-80	1970-73	1979-80	1970-73	1979-80
Wheat	35.5	23.0	55.6	60.5	35.9	41.8	69.0	69.4	100	100
Rye	22.2	17.2	39.1	45.1	28.9	31.9	63.7	65.5	100	100
Barley	20.2	15.2	58.1	59.9	46.5	51.6	56.0	67.2	100	100
Oats	17.5	14.0	43.8	42.4	30.8	35.8	53.9	55.5	100	100
Maize	26.5	21.9	65.9	108.9	72.2	84.9	100.9	116.3	100	100
Rice	88.4	77.4	103.4	87.9	128.6	112.3	104.8	103.0	100	100
Potatoes	40.5	34.5	51.5	55.3	51.8	57.4	57.1	63.7	100	100

Sources: Portuguese Ministry of Agriculture and OECD Secretariat.

The situation of agriculture has deteriorated still further over the past ten years, due in part to unpredictable factors such as drought. Though in 1980-81 27 per cent of the labour force was still employed in agriculture, the latter by then accounted for only 8.5 per cent of GDP[12]. On the foreign trade front, there would seem to have been an even greater deterioration. As a result of the appreciable increase in the total population with the repatriation of nationals from the former colonies (around 700 000) and the rapid growth in real wages in 1974 and 1975 – particularly among the lowest paid who have the highest propensity to consume food – demand has risen steeply but production has been unable to adjust. If Portuguese agricultural yields are compared with those of the other southern European countries and the EEC as a whole at the beginning of the 1970s and in 1979-80, it will be seen that Portugal's relative position has considerably deteriorated[13]. This explains why by the early 1980s the export/import ratio for agricultural products had fallen to 0.50 (from 0.85 ten years earlier). The agricultural deficit alone over the period 1980-82 averaged 15 to 20 per cent of the total trade deficit.

It is perhaps opportune to explore the factors explaining this poor peformance at a time when most other countries of similar structure have embarked on a process of agricultural modernisation. First, the upheavals in the land ownership system probably go some way to explaining the problems. One of the first moves under the agrarian reforms introduced in the wake of the 1974 revolution was to expropriate the vast estates in the south. These were reorganised into co-operatives or collective farms. But alongside such legal action, land was also seized illegally, creating a climate of uncertainty and causing farmers remaining in the private sector to be extremely cautious in terms of agricultural investment. In 1977 legislation was introduced on how land was to be split up between collective farms and private holdings and stipulating that a number of estates should be restored to their former owners (Act 77/77 on the "General principles of agrarian reform"). Even now, in the early 1980s, ownership status has still not been clearly defined and in the south of the country the "reserves" that were to have been assigned either to small farmers or returned to the previous owners have not yet been fully allocated. In the northern and central regions, where holdings have traditionally tended to be small, the 1970s did not bring any radical changes. The use of modern equipment is in any case virtually ruled out in these regions in view of this fragmentation of land, the marked ageing of the population and extremely low yield levels.

Since 1977 seven "plan" regions have been identified and regional services have been established to further technological innovation. The object of these is in particular to foster more efficient land use (e.g. by encouraging farmers in the north and centre to switch from low-yield grain to pasture) and more intensive use of fertilizers, pesticides and mechanised farming techniques. However, it would seem that these aims have so far not been achieved for a number of reasons: for one thing, the aid processes would appear to have failed to work because of excessive bureaucracy; for another, in recent years what is no doubt an overlarge agricultural population has remained on the land because of mounting unemployment and housing problems in urban areas as well as the virtual impossibility of emigration to the traditional European host countries. Given the continuing surplus of agricultural labour, there is clearly little inducement for farmers to speed up the modernisation of production.

Efforts to formulate an agricultural policy have also been hamstrung by political and social uncertainty and the lack of statistical information. Once the findings of the 1979 census become available, the data situation should improve. The census data so far processed for the districts of Guarda (in the interior), Aveiro (on the coast) and Beja (in the south), have already brought out the wide disparities within Portuguese agriculture, both between small and large holdings and between the regions. In particular, value added per capita and per year varies very considerably with the size and location of farms. The very high degree of fragmentation of most estates makes it technically unfeasible to introduce modern equipment. In the north and centre agricultural estates tend for the most part to be divided up into plots of just a few hundred square metres and even in the south, where holdings tend to be considerably larger, 45 per cent cover less than two hectares, generally broken down into several plots. There are also very considerable disparities – closely bound up with farm size – in agricultural incomes between regions: per capita value added for instance in the north ranges from 26 000 to 447 000 escudos.

The Portuguese authorities would seem at present to be deeply concerned with improving the situation of agriculture with a view to entry into the Common Market. Work has begun on a corrective plan aimed at achieving higher productivity through better use of factors of production. Specific measures have already been taken but the current austerity policy may further delay the progress that will have to be made. In particular the reduction in subsidies for a number of basic commodities such as fertilizers is liable to raise prices, and this will probably in the short term dissuade farmers from making more use of these inputs. Yet, on average,

Table 6. **Technical and economic characteristics and performance of the farming sector in the early 80s**

Districts	Farm-size categories (hectares)	Number of farms	Average size of farm (ha)	Average number of plots per farm	Average number of Agricultural Work Units[1] per farm	Gross value added per AWU (1 000 Esc.)
AVEIRO	0-1	36 919	0.5	3.9	1.5	30.4
	1-5	24 369	2.1	10.2	2.1	56.7
	5-10	2 836	6.7	18.4	2.5	106.6
	10-20	889	13.3	23.1	2.5	155.7
	20	408	85.6	24.9	2.8	447.1
GUARDA	0-1	12 950	0.6	3.9	0.9	26.1
	1-5	18 367	2.3	7.4	1.2	61.5
	5-10	4 482	6.9	12.0	1.7	114.8
	10-20	1 730	13.3	14.3	1.9	178.7
	20	789	54.6	16.4	3.0	441.1
BEJA	0-5	8 183	1.9	1.7	1.1	43.8
	5-20	5 331	10.0	3.1	1.3	119.3
	20-100	3 146	42.5	4.3	2.0	197.5
	100-500	1 196	219.5	4.1	4.5	381.9
	500-2 500	185	934.9	3.8	n.a.	n.a.
	2 500	24	5 215.3	12.4	n.a.	n.a.

1. AWU: This units corresponds to one person working in agriculture at least 280 days or 2 380 hours per year.
Source: Aspecto Estructurais de desenvolvimento da Agricultura Portuguesa (Working Document supplied by Portuguese Authorities).

fertilisers are used much less in Portugal than in the other southern European countries[14]. On the other hand, a positive factor is that today domestic demand would seem to be adjusting to the growing problems of production (replacing beef by pork, pork by chicken, chicken by fish etc.) and this could lead to a slight decline in dependence on imports.

However, it may be considered preferable for the adjustment to come from the supply side, in particular through a farm prices policy that allows market mechanisms to function more effectively. But it must be remembered that producer prices are already much higher in Portugal than in the other southern European countries. Furthermore, until very recently what were sometimes huge increases in agricultural producer prices were not sufficient to bring about an increase in supply because of the inadequacy of factor productivity and also because of the inadequacy of the transport and communications system (Portuguese agriculture is still largely given over to subsistence farming and the road network is rather rudimentary in the mountain regions of the north and centre). It would therefore seem that the decontrol, which is in itself desirable, of both consumer and producer prices will not be sufficient to enhance the performance of Portuguese agriculture significantly if it is not accompanied by modernisation of equipment and better marketing of products. On these points, it would be desirable to conduct programs of education and information among farmers both at the national and regional levels.

The public sector

Portugal's public sector consists of the administrative public sector (general government on the national accounts definitions), on the one hand, and the public enterprises, on the other.

The administrative public sector[15] comprises central government (the central authority plus the autonomous Funds and the autonomous departments), social security and the local authorities. Each of these entities has its own budget; however, there exists among them, and between the public enterprises and them, a network of financial relations, notably by way of transfers and subsidies, that has become increasingly complex with the enlargement of the public sector. In addition, institutional changes relating in particular to the division of responsibilities between central and local government have taken place in recent years, which make it difficult to analyse public sector developments over an extended period.

The public sector played a relatively small part in the Portuguese economy until the change of political regime in 1974; thus, at the beginning of the 1970s total general government expenditure represented the equivalent of 21.6 per cent of GDP, or about 12 percentage points less than the average for the smaller European OECD countries, and public enterprises were few in number (postal services, ports, defence industries). The government also had major shareholdings in transport, electricity and the telephone system. From 1974 the role of the public sector grew extremely rapidly with its involvement in expanding the social welfare and education systems, incomes policy and part of employment policy, notably the absorption of former residents of the colonies, all this in a context in which the prices of public services were in most cases regulated in order to contain inflation. The increase in the weight of general government transactions was especially marked until 1978, when it represented 36 per cent of GDP, the differential with the average for the smaller OECD countries having narrowed by 2.7 percentage points. At the same time the nationalised sector became substantially larger from 1974 on, following the decision to work towards institutional reforms but also under the pressure of political events. By 1978 18.1 per cent of GDP derived from the non-financial public enterprises or from enterprises in which the government had a financial holding.

Until the early 1970s general government finance was in surplus and in 1973 net lending still represented 1.4 per cent of GDP. From 1974 on general government revenue, although continuously on an upward trend, grew less rapidly than expenditure; the resulting borrowing requirement began to increase, amounting to 8.3 per cent of GDP in 1978. A similar development occurred in many other OECD countries but the trend was much more marked in Portugal because of special factors and in order to stem the movement the authorities introduced a restrictive fiscal policy in 1978. Expenditure proved difficult to control in the event and during the next few years (1979-1982) general government spending, especially current spending, continued to grow more rapidly than GDP, but at more or less the same pace as revenue, which made it possible to hold the borrowing requirement to between 8 and 9 per cent of GDP. But to this must be added the borrowing requirement of the public enterprises. In all, in 1982 the aggregate general government borrowing requirement, including equity funding, was equivalent to 10.1 per cent of GDP and that of the public enterprises may have reached about 11 per cent of GDP.

Several factors have contributed to the growth of public spending since 1973 and also to major changes in its composition. During the 1960s and until 1973 the shares of current and capital expenditure remained more or less constant but, as a result notably of the colonial wars, defence spending represented about 50 per cent of public consumption expenditure on goods and services. This figure declined significantly after 1974 and gradually fell to less than 10 per cent at the beginning of the 1980s. Since 1974 the consequences of decolonisation[16], the expansion of the welfare and education systems[17] and the financial difficulties of the nationalised enterprises have considerably speeded up growth of spending. From 1974 public sector employment tended to rise and pay to be uprated. Hence, from 1974 to 1982 employment in general government grew by 6.8 per cent per year, with a particularly steep

Table 7. **Changes in the structure of general government**

	Percentage equivalent of GDP[1]				Average per cent change			
	1970	1973	1978	1982	1967-73	1973-78	1967-78	1978-82
GDP at current prices	100	100	100	100	13.6	22.7	17.6	24.3
Current revenue	24.3	22.7	27.0	30.3	15.0	27.0	20.3	27.5
Of which: Direct taxes	6.1	4.7	5.9	7.5	11.9	28.6	19.2	32.0
Social Security contributions	4.6	5.6	7.3	7.5	21.5	29.4	25.0	25.2
Indirect taxes	11.9	10.8	12.3	14.0	14.2	26.3	19.5	27.1
Current expenditure	19.5	19.5	30.3	34.6	14.5	34.3	23.1	29.0
Of which: Goods and services	14.2	13.2	14.6	15.1	13.2	24.7	18.3	26.1
Subsidies	1.5	1.0	3.9	4.3	11.7	60.9	31.9	31.6
Interest	0.5	0.4	2.7	5.4	5.6	78.8	34.2	60.8
Transfers	3.2	4.8	9.1	9.8	20.5	40.3	29.2	25.2
Capital expenditure	3.3	3.2	5.4	5.2	12.5	37.0	23.1	24.5
Of which: Investment	2.5	2.3	4.3	3.7	10.9	39.4	23.0	23.1
Borrowing requirement			−8.3	−8.7	—	—	—	—
Net borrowing (−) or lending[2]	2.7	1.4	−11.3	−10.1				
Public debt at end of period	22.2	19.2	49.3	55.3	7.2	48.6	24.5	31.8

1. GDP at market prices, current prices.
2. Including equity funding for public enterprises and excluding cash credits.
Sources: INE, *National Accounts;* Ministry of Finance; Bank of Portugal.

rise between 1974 and 1979 (9 per cent per year), a period which saw simultaneously the expansion of the education and health services and the integration of ex-colonial officials in national government service. Part of this increase in numbers employed seems to have eluded the control of the central authorities. In 1980 they decided to freeze employment in the civil service, a measure which was probably applied partially in central government but was not applied in the local authorities and health and education departments.

Transfer spending, which was already growing more rapidly than public spending as a whole prior to 1974, has accelerated considerably since then. From 1974 to 1978 the rise was particularly high (40 per cent per year). It occurred at the time the social welfare system was being expanded, the consequences being an increase in the amount of benefits paid out and also in the risks covered. The share of social transfers in GDP virtually doubled between 1973 and 1982, from 4.8 to 9.7 per cent, which is still one of the lowest rates in the OECD countries. The enlargement of the productive public sector and the deterioration of the financial positions of most of the enterprises of which it is made up resulted in a very steep increase in central government subsidies, which grew at an extremely rapid annual rate from 1973 to 1978 and by 1982 represented 4.3 per cent of GDP and nearly 10 per cent of public expenditure. Equity funding and capital transfers to the nationalised sector in 1982 represented an amount almost equal to direct subsidies to enterprises, which brought the administrative public sector's assistance to the nationalised sector to about 20 per cent of public expenditure. To this must certainly be added disguised subsidies in the form of periodic delays in the payment of social insurance contributions or indirect taxes by the nationalised enterprises. The growth of the administrative sector's borrowing requirement and the growth of the public debt, which rose from the equivalent of 19.2 per cent of GDP to 55.3 per cent between 1973 and 1982, caused an increase in the interest burden which was amplified by the rise in interest rates. The share of public spending attributable to interest payments increased from 1.7 to 13.6 per cent between 1973 and 1982.

In order to meet the increased burden of expenditure tax rates have been raised on several occasions since 1974, but the elasticity of current revenue with respect to GDP has nonetheless not varied significantly; while it averaged 1.2 over the period 1973-1978, compared with 1.1 from 1967 to 1973, it subsequently fell back to the latter level. From 1973 to 1982 the weight of tax revenue in GDP rose by roughly 8 percentage points, to stand at 30.3 per cent, or a considerably lower figure than the average for both OECD and EEC countries[18].

Portugal's taxation system is characterised by its low degree of progressiveness due to the predominant share of indirect taxes which in 1982 accounted for 45.1 per cent of total revenue, as against about 30 per cent in the other European OECD countries. This share declined between 1973 and 1978, notably following the reduction in customs tariffs vis-à-vis the EEC, but rose again subsequently. The chief indirect tax is that on transactions which brings in about 40 per cent of indirect revenue and which is apparently subject to evasion on a large scale; the most important other indirect taxes are the tax on car sales and the tobacco excise (20 per cent of total indirect revenue), stamp duties (20 per cent) and import taxes and surcharges (10 per cent). Even though it still accounts for a small proportion of total revenue, the share of direct taxes has increased steeply since 1978. While the elasticity of direct taxes

Table 8. **Structure of tax revenue**

Percentage of total tax revenue

	1978	1982	1983
A. *Central government*			
Direct taxes	35.0	39.2	42.1
Industrial tax[1]	6.8	10.2	7.8
Professional tax	11.3	11.2	11.0
Tax on income from capital[1]	4.4	10.9	10.5
Complementary tax	5.2	4.0	3.3
Other direct taxes	7.3	2.9	9.5[2]
Indirect taxes	65.0	60.8	57.9
Customs taxes	13.1	7.0	6.0
Stamp duty	11.4	12.0	12.3
Transactions tax	26.9	25.4	24.0
Car sales tax	4.6	6.0	6.2
Tobacco excise	5.8	6.5	5.9
Other indirect taxes	3.2	3.9	3.5
B. *General government*			
Direct taxes	21.5	24.0	24.9
Social insurance contributions	26.6	24.3	21.2
Indirect taxes	45.2	45.1	45.8
Other receipts (including capital)	6.7	6.6	8.1

1. This tax rate includes the local tax rate after 1979.
2. Including exceptional taxes on profits, labour and property income.
Source: General Directorate of Government Accounting.

with respect to GDP was 0.88 from 1967 to 1973, it rose to 1.26 from 1973 to 1976 and then to 1.32 from 1978 to 1982. This was due to the combination of rises in scales, the introduction of a surtax and the effects of fiscal drag which resulted in a big increase in the tax on earned income during the period 1973-79. From 1980, on the other hand, there was a very steep increase in the profits tax and the capital tax. The structure of direct taxes thus changed significantly between 1978 and 1982, with the share of taxes on earned income, the professional tax (proportional) and the supplementary tax (progressive) having fallen from 47 per cent of direct taxes to 38.8 per cent, while the share of taxes on industry increased from 19.5 to 26.4 per cent and that of the capital tax from 12.6 to 28 per cent. Overall, the tax burden on households has been very moderate (5.5 per cent in 1982 and 7.8 per cent if social insurance contributions are included).

The growth of social insurance contributions, which was far more rapid than that of GDP from 1961 to 1973 (the elasticity of contributions with respect to GDP was 1.6), became somewhat slower thereafter. This was due to the fact that a social security system had been set up for industrial and government employees even before 1974 and that it was applied to a growing proportion of the population paying high contributions. Post 1974 it was expanded in favour of categories that paid small or reduced-rate contributions and the acceleration of resources was to a large extent ascribable to the increase in the number of wage earners and the raising of basic contributions. In 1981 social security was financed as to 97.6 per cent from contributions. The deficits of the reduced-rate contribution schemes (self-employed and farm workers in the main) were financed as to about one-third from contributions to the general scheme. The imbalance of the social security account since 1980 is due, on the one hand, to the size of unpaid contributions, from both the self-employed and enterprises, as a result of evasion (undercalculation of the number and/or wages of employees) or inability to meet payment deadlines and, on the other, to the broadening of cover. This had the consequence of increasing both the burden of contributions on wage earners and transfers from the central government budget. Between 1974 and 1983 the structure of social benefits paid out changed

Table 9. **Trend of social insurance benefits**

General Social Security Scheme

	Amounts				Number of beneficiaries			
	1982	1983[1]	Average annual increase 1973/1978	Average annual increase 1978/1983	1982	1983[1]	Average annual increase 1973/1978	Average annual increase 1978/1983
	Esc. billion				Thousand persons			
Total expenditure	139 860	170 957	37.5	27.8	—	—	—	—
Of which:								
Unemployment benefits	6 017	5 034	—	11.0	58	58	—	—
Benefits:								
Old-age and disability	94 297	116 181	50.3	32.2	1 547	1 579	21.1	4.7
Minimum old age	10 118	12 980	67.0	29.8	250	268	29.1	8.5
Death	1 327	1 662	41.6	21.2	55	58	18.9	5.5
Sickness and maternity	13 707	16 529	39.3	19.5	898	842	9.0	−2.3
Family allowances	14 127	18 313	10.5	21.6	1 693	1 775	9.5	1.1

1. Provisional figures.
Source: Ministry for Social Affairs.

significantly. Old-age and disability pensions increased very substantially and their share in the total climbed from 35 to around 70 per cent. On the other hand, maternity and sickness benefit and family allowances saw their shares fall to about 10 per cent, from 40 and 25 per cent respectively. The share of unemployment insurance, which was introduced in 1977, remained constant at some 5 per cent of the total until 1982, but in 1983 unemployment benefit probably represented only 3 per cent of the total. It should be noted that the unemployment insurance scheme, which is financed out of the Unemployment Fund, is still in surplus because of the small number of beneficiaries (24 per cent of the jobless). This is due first to the fact that entitlement to benefit is conditional on the payment of six months' contributions (which means that first job seekers are excluded) and secondly to the fact that beneficiaries must have been made redundant. Finally, there are some firms that do not pay unemployment insurance contributions and thus effectively exclude their employees from drawing benefit. New legislation is being worked out with a view to broadening unemployment benefit cover.

The enlargement of the nationalised productive sector and the deterioration of its financial position were major factors in the growth of general government spending. It is difficult to estimate the weight and development of public enterprises because of the heterogeneousness of the statistical data. In 1977 it was estimated[19] that the public enterprise sector broadly defined (i.e. including all enterprises in which the government has an equity holding of at least 50 per cent but not including financial enterprises) accounted for about 16 per cent of GDP, 31.5 per cent of investment, 17 per cent of earnings and 8 per cent of employment. On the narrow definition of public enterprises (excluding those in which the government has a holding) for which Central Planning Department studies are available, their share of total value added grew by 3.5 points between 1977 and 1982. However, while remaining highly capital-intensive, the nationalised sector saw its share in aggregate investment decline by 2.5 points over the period. From 1977 to 1982 the share of public enterprise employment in total dependent employment remained at between 7 and 8 per cent.

Analysis of the development of industrial sector public enterprises reveals some of the problems they are encountering. Having increased their share of value added in industry until 1979, these public enterprises saw their relative position stabilise in the early 1980s probably because of their structure, with the predominance of heavy industry and intermediates production (shipbuilding, steel, petrochemicals, etc.). Since 1979 in relative terms the investment of industrial sector public enterprises has declined steeply, but their share in total national investment is still large because of the high capital intensity of their activity. However, these public enterprises first of all suffered the repercussions of the investment effort of the period 1975-78 when a number of industrial programmes were set in motion, which severely strained their financial positions, and subsequently the effects of overall macroeconomic developments since the beginning of the 1980s, which caused investment to fall back in real terms by some 8 per cent in 1981. Although the share of industrial public enterprises' value added in total value added in industry stabilised, employment increased in both absolute and relative terms from 1977 to 1982 and was certainly responsible for major rigidities in that sector.

The most characteristic feature of the development of the industrial public sector is the deterioration of its financial position in recent years. In order in particular to meet the requirements of the investment effort of the period 1975-1977 public enterprises had to borrow heavily, partly encouraged by the authorities, and especially to borrow abroad since the beginning of the 1980s. The nationalised enterprises therefore suffered the consequences of the escudo's depreciation, notably against the dollar, and that of rising interest rates. Their

Table 10. **Weight of public enterprises in economic activity**

	1977	1978	1979	1980	1981	1982
All non-financial public enterprises						
Share of total value added	8.9	10.8	12.5	11.5	11.9	12.5
Share of total gross fixed investment	19.8	20.5	20.1	18.4	19.1	17.5
Share of total employment	4.5	5.2	5.2	5.1	5.2	5.3
Share of total dependent employment	7.0	8.0	7.9	7.6	7.7	7.6
Industrial public enterprises						
Share of industrial value added	11.6	12.4	16.7	15.8	15.7	16.1
Share of industrial employment	4.9	5.0	5.1	5.0	5.4	5.4
Components of value added (per cent)						
Gross wages and salaries	53.3	46.4	33.2	34.8	37.8	36.5
Financial expenses	27.4	38.2	35.9	41.7	52.4	57.8
Depreciation	15.5	15.7	18.5	16.4	17.1	23.2
Gross operating surplus	−3.5	−6.3	5.4	1.6	−17.4	−22.4

Source: Central Planning Department.

borrowing requirement widened substantially between 1978 and 1981, from 59 billion escudos to 132.9 billion. This caused financial costs to increase very steeply, to 52.4 per cent of industrial public enterprises' gross value added in 1981, compared with 27.4 per cent in 1977. Their position probably continued to deteriorate very significantly in 1982 and 1983.

The public enterprises in the non-industrial sectors in the strict sense (energy and transport) also saw their financial positions deteriorate between 1977 and 1981. Thus, the Portuguese electricity undertaking showed operating losses throughout the period, the amounts ranging from 8 to 12 per cent annually of value added since 1978. In addition, capital expenditure in 1978-80, when gross fixed investment grew by 17 per cent a year by volume, resulted in substantial financial indebtedness. From 1977 to 1981, the annual figure for the Portuguese electricity undertaking's financial costs rose from 1.8 to 2.3 billion escudos and represented 89 per cent of its value added. The public enterprises of the transport and communications sectors made a major investment effort (7.5 per cent per year on average between 1977 and 1981) which brought their investment up to about 10 per cent of total gross fixed investment in 1981. From 1977 to 1981 value added by the transport enterprises grew by an annual 1.8 per cent, or a rate about 2 points below that for GDP[20], while employment virtually marked time over the period. The combination of a policy of regulated and very low public utility charges and the very steep increase in intermediate costs, notably energy, created a major imbalance in the operating account. Between 1977 and 1981 only three-quarters of operating costs were covered by receipts; the proportion of operating costs covered by subsidies, which was 15.5 per cent in 1977, declined and by 1981 was only 8 per cent, or 12.5 per cent of the sector's receipts. In addition to the operating subsidies and compensatory allowances paid by the central government there was a large amount of equity funding which made it possible to finance a considerable part of investment and limit borrowing by the public enterprises in the transport sector relative to the other public enterprises and, following on from this, to keep down their financial costs; the overall financial position of the transport sector nonetheless displayed substantial imbalances between 1977 and 1981.

Although public enterprises are highly capital-intensive and value added per person employed is therefore higher than in the private sector, growth of employment in public enterprises was certainly poorly controlled and even encouraged at various times for economic reasons. In addition, labour legislation on job protection was certainly applied more rigidly than in the private sector, which caused an increase in numbers employed and tended to make management of those enterprises more unwieldy. All in all, in spite of the scale of central government transfers, public enterprises have had to contend with growing investment costs and a steep rise in labour and financial costs, and some of them have been required by the government to limit increases in their prices, so that their borrowing requirement and their indebtedness have increased continuously. The latter stood at 653.6 billion escudos ($10.1 billion), according to the Bank of Portugal's monetary and financial statistics, at end-1981, of which 62 per cent was short-term debt. About half of this borrowing was from abroad. The pattern of public enterprises' total indebtedness in 1982 and 1983 is not known, but their foreign debt continued to grow until the first quarter of 1983 when it reached $8 billion (of which $3.5 billion was short-term), which represented 56 per cent of Portugal's total external debt.

The growth of the weight of public sector transactions in the economy, and above all the fact that it was difficult to control, have certainly had an adverse effect on the efficiency of resource allocation in Portugal. The scale of the backlogs built up in the 1950s and 1960s in regard to infrastructure and the welfare and education systems resulted in a very steep rise in spending after the change of political regime, which was amplified by the cost of decolonisation. However, the rigidity of the taxation system and its vulnerability to evasion and avoidance very rapidly caused a growing gap to emerge between the rates of growth of revenue and expenditure. Furthermore, an increasing share of public spending has gone to interest payments, subsidies and transfers, while general government investment represented only about 10 per cent of expenditure. The growing borrowing requirement of the public sector as a whole has taken up an ever growing proportion of domestic saving and has also been a factor in the growth of foreign borrowing, thereby diverting a considerable proportion of resources from productive investment. Thus, at end-1982, 40 per cent of domestic credit went to the public sector, and this last was responsible for 80 per cent of Portugal's foreign borrowing.

II. RECENT TRENDS

The domestic economy

The relaxation of economic policy in 1979 made for rapid growth of domestic demand, but a number of imbalances, both internal and external, reappeared and the tightening of policy as from end-1981 was insufficient to redress the situation. Between January 1982 and June 1983 inflation as measured by the increase in consumer prices did not fall lastingly below 20 per cent; and the current account deficit reached $1.4 billion in the first half of 1983 (from $2.2 billion a year earlier). The emergency programme the new government introduced in June 1983 caused domestic demand to turn down in the second half of the year, which was reflected by a fall in corporate demand (investment and inventories) following the considerable tightening in monetary conditions and by a fall in public investment with the freeze on budget spending. In 1983 as a whole the real growth rate of the Portuguese economy may have been in the region of 0 per cent or very slightly negative. This reflects a change in trend compared with the two previous years, being due to a downturn in aggregate domestic demand of some 7 per cent, whereas during the previous two years the latter grew on average by 3.4 per cent, and to a positive contribution from the external balance of the order of 8 per cent of GDP, compared with a negative contribution averaging 2 per cent in 1981-82. This development was facilitated by the fact of Portugal's business cycle being out of phase with that of its main trading partners[21]. With the downturn in the trend of domestic demand, which occurred in a phase of reviving world trade, the current payments balance showed a rapid recovery and the deficit was halved between 1982 and 1983.

Table 11. **Demand and output**

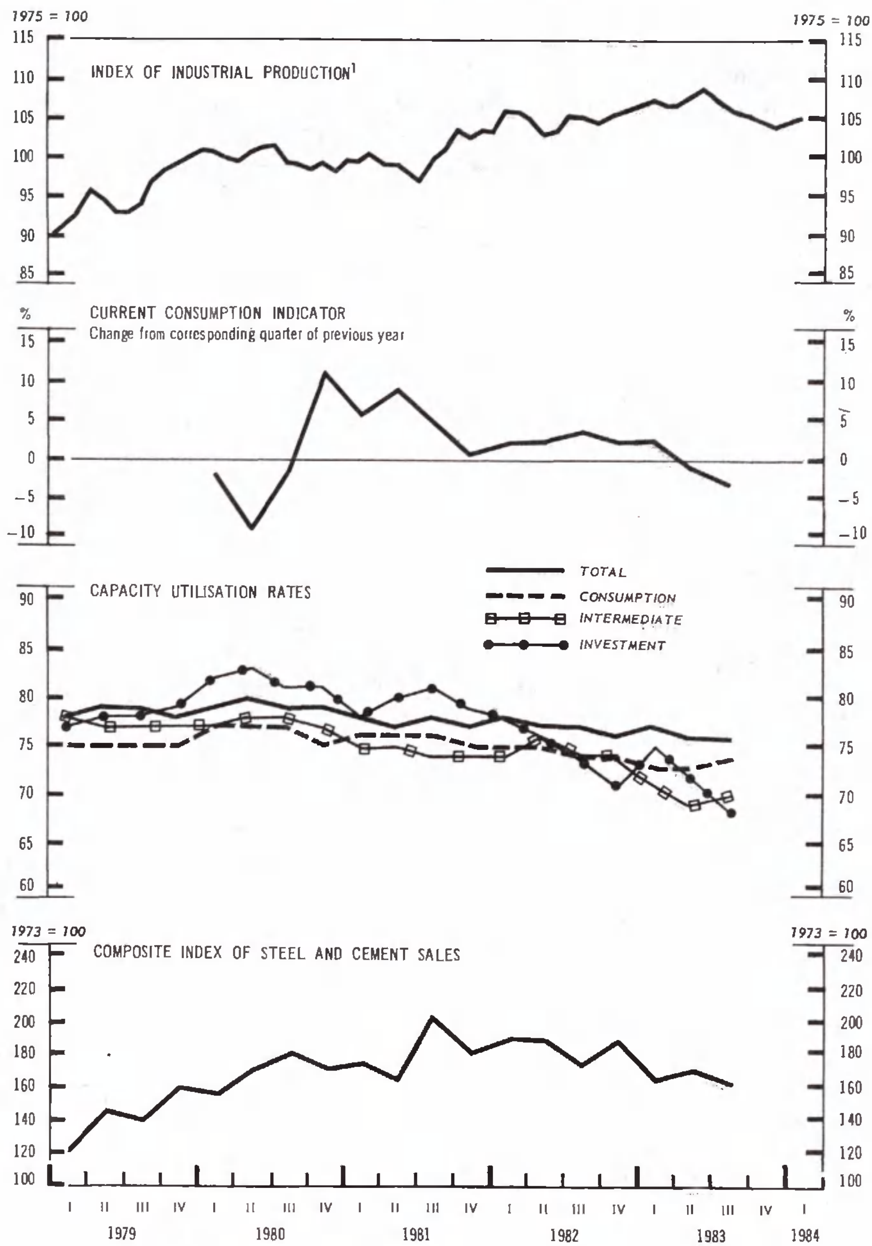
	1982		Percentage change from previous year in volume[1]		
	Current prices Esc. billion	As percentage of GDP	1981	1982	1983[3]
Private consumption	1 263.5	68.5	2.3	2.0	$-\frac{3}{4}$
Public consumption	267.3	14.5	0.2	3.5	5
Gross fixed investment	583.6	31.6	4.6	2.9	$-7\frac{1}{2}$
Final domestic demand	2 114.4	114.6		2.6	−1.9
Stockbuilding[2]	98.0	5.3	(0)	(1.3)	(−6)
Total domestic demand	2 212.4	119.8	3.3	3.5	−6.9
Foreign balance[2]	−366.8	−19.9	(−2.9)	(−1.2)	(7.7)
Exports of goods and services	492.3	26.7	−2.0	6.5	16
Imports of goods and services	859.1	46.5	5.5	5.0	$-7\frac{1}{2}$
GDP at market prices	1 845.6	100.0	0.8	3.5	$-\frac{1}{2}$
GDP deflator	..	..	18.1	21.4	23.9
Industrial production			0.2	4.9	1
Private consumption deflator			20.0	22.5	25.5

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.
3. Provisional figures.

Source: Central Planning Department estimates.

Falling employment at the end of 1982, slower growth of nominal wages and accelerating inflation in 1983 resulted in a steep decline in households' real disposable income, the effect of which on consumption was felt chiefly in the second half of 1983. Private consumption thus probably more or less marked time in 1983, while the downtrend in the savings ratio that began three years earlier continued. Public consumption was the only dynamic component of domestic demand: having already advanced strongly in 1982 following the increase in the number of civil service employees, particularly in local government, it probably increased further in 1983, by about 5 per cent. According to the revised general government accounts for 1983, consumption of goods and services grew by 20 per cent. Within this figure, growth of expenditure on wages and salaries was probably steeper (24 per cent) and the implicit price deflator is likely not to have increased by more than 19 per cent given the nominal growth of civil service pay.

Diagram 4. **Indicators of activity**



1. Seasonally adjusted data. 3-month moving average.

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

Aggregate investment, which was still buoyant in 1982, weakened markedly in 1983 – for the first time in four years. Construction investment, which accounts for close to one-half of the total and had already fallen off in 1982 owing to the effects of the more restrictive credit policy, declined in volume terms in 1983 with the further tightening of this policy. With the climate of uncertainty prevailing in the first half of 1983 pending the general election and the programme of the new government, private investors were inclined to be even more chary owing to the deterioration of domestic demand. Public investment was hit directly by the reduction in expenditure by general government and public enterprises. The small advance in investment by the public enterprises was the result of purchases of aircraft by the national airline. Excluding these operations the fall in public investment (general government and nationalised enterprises) was probably more marked (down some 15 per cent instead of 5 per cent). Although the weight of direct foreign investment is comparatively small (a little under 2 per cent of total investment in 1982), interestingly it began to fall by volume in mid-1982, for the first time since 1977[22]. The year as a whole saw a build-up of unintended inventories of finished products for the domestic market. On the other hand inventories of finished products for export declined in the second half-year. All in all, given the destocking of raw materials that occurred throughout the year, stockbuilding – which increased steeply in 1982 – on average probably fell back in 1983 to below its 1981 level.

Industrial production, which rose by close to 5 per cent in 1982, peaked in the first quarter of 1983, turning down subsequently, and over the year as a whole output may have been slightly up. (Allowance should, however be made for the poor coverage in the index of production lines for export in the industries that were the most dynamic in the course of the year.) The decline in industrial employment became more pronounced at the beginning of 1983 and, in spite of an increase in numbers employed in services (notably electricity, gas and water, and the banking sector), total employment may have fallen by nearly 2 per cent on average. Thus, although the underlying decline in participation rates continued, unemployment – which stabilised in 1982 – increased significantly during 1983, and may have reached about 9¼ per cent of the labour force by the end of 1983 against 7½ per cent a year earlier[23]. The deterioration of the labour market situation in 1983 is also reflected in the fact that a number of firms in difficulty postponed payment of wages or paid only a part of them. This is attributable to some extent to the fact that employers were unable to adjust their workforces in a period of slowing activity. In March 1984, according to Ministry of Labour estimates, about 92 000 persons had not been paid the wages owing to them in full. (However, the Ministry has drawn up a bill providing for compensation of workers to whom wages are due.) The majority were employed in textiles and metal-working, shipbuilding and transport; it is estimated that during the fourth quarter the figure increased by almost 30 000.

The rise in consumer prices accelerated at the beginning of 1982 as a result of the increase in regulated prices and subsequently, after a period of stable inflation, the rise became more marked again in 1983. On average, the increase in consumer prices thus went up to 22½ per cent in 1982 and 25½ per cent in 1983. In the first half of 1982 food prices rose by almost 30 per cent from the same period of 1981, particularly for fruit and vegetables (50 per cent), the reason being that the impact of the easing of price controls was amplified, as was seen above, by bad weather conditions. At the same time, the introduction of a policy of realistic pricing in the public enterprises resulted in an increase of close to 60 per cent in public transport charges. The rates of increase in the second half of 1983 compared with the same period of 1982 were of a similar magnitude: 30 per cent for food[24], 42 per cent for electricity and 50 per cent again for public transport. The 12-month rate of increase for the overall index thus accelerated from 28 per cent in the first half of 1983 to 40 per cent in the second. It nevertheless had come down to 30 per cent in February 1984.

Table 12. Labour market

	Thousands persons 1982 II	1979	1980	1981	1982[1] I	1982[1] II	Average per cent 1977-1982
		Percentage change from previous year					
Total population	9 555	1.4	0.7	1.0	0.5	0.6	0.8
Civilian labour force	4 272	2.2	1.4	1.6	−2.3	0.1	0.9
Participation rate (per cent)	—	45.0	45.3	45.6	45.0	44.7	—
Total employment	3 949	2.1	1.9	1.1	−0.7	0.2	0.9
Agriculture and fishing	998	−1.7	−4.8	−5.5	−3.6	−2.8	−3.8
Industry	1 063	2.3	2.1	2.1	6.3	0.7	2.1
Construction	409	3.4	13.8	6.6	−21.1	3.8	6.8
Services	1 479	3.9	4.6	5.1	−0.4	0.9	2.6
		As a percentage of the labour force					
Unemployment							
Total	323	8.2	7.8	8.2	7.2	7.6	—
Male		4.9	4.1	4.2	3.3	4.1	—
Female		12.9	13.0	13.6	12.6	12.1	—
		As a percentage of total unemployment					
First job seekers	151	56.7	52.7	51.1	45.5	46.7	—

1. There are no figures for 1983 comparable with those shown in this table. In the second quarter of 1983 the INE carried out a new employment survey using a different sample from the one used earlier; with those survey findings it is not possible to calculate changes on 1982. According to the Ministry of Labour, whose estimates often differ very considerably from the INE's, total employment fell by 1.7 per cent in the first nine months of 1983 compared with a year earlier, with the downturn becoming more pronounced in the third quarter (—2.2 per cent compared with a year earlier). According to the same source, the number of job applications fell sightly in the first six months (year-on-year) but rose by 11 per cent in the three months from September to November 1983 compared with a year earlier.

Source: National Statistics Institute.

Table 13. Wages and prices

	1979	1980	1981	1982	1983
	Percentage change from previous year				
Compensation of employees	22.7	28.4	22.0	20.8	18½[2]
Total wages, excluding social security contributions	22.4	28.5	21.4	20.5	18½[2]
Average wages[1]					
Manufacturing	16.1	23.3	20.9	19.7	17.3[3]
Construction	19.4	25.7	24.5	18.9	22.2[4]
Agriculture	22.0	17.5	37.5	25.3	18.2[5]
Unit labour costs in industry	13.4	16.3	20.1	13.3	15[2]
Consumer price index					
Total, excluding rents	24.2	16.6	20.0	22.4	25.5
Wholesale price index for Lisbon	29.5	6.5	21.6	19.1	22.5[4]

1. Bank of Portugal calculations.
2. Secretariat estimations.
3. January to April.
4. First three quarters of 1983.
5. January to November.

Sources: INE, New national accounts; Central Planning Department; Bank of Portugal, *Quarterly bulletin;* information supplied by Portuguese authorities.

For 1982 the wage bill for the whole economy rose by about 21 per cent and civil service pay by 19 per cent, which resulted in an average loss of purchasing power of close to 2 per cent for wages and salaries in aggregate. In 1983 the growth of total nominal wages may have been limited to about 18½ per cent and, given the acceleration of consumer prices, the loss of purchasing power probably amounted to about 5½ per cent. After two years (1980-81) in which wage income trends were comparatively favourable, there was thus a further decline in the wage share of national income.

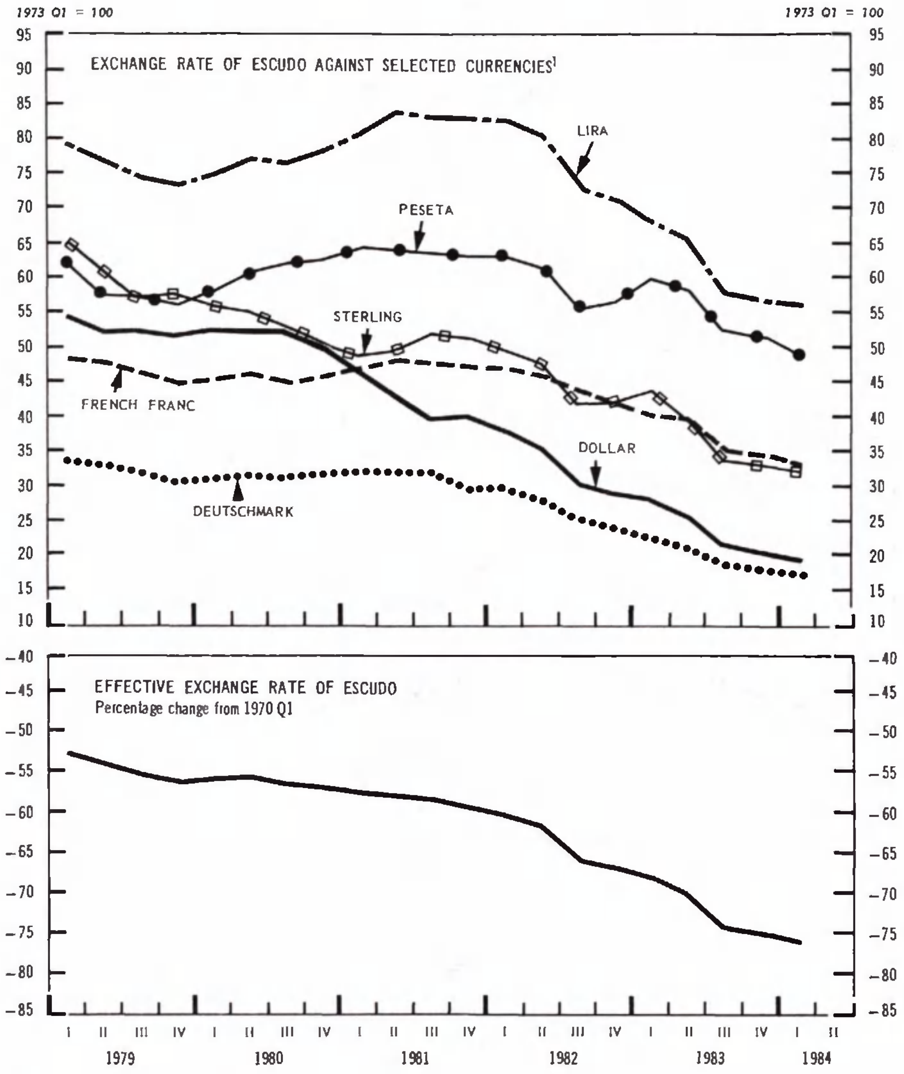
Exchange rates and balance of payments

The month-to-month rate of depreciation of the escudo's effective exchange rate, which was lowered between mid-1979 and end-1981, had to be raised subsequently because of both the deterioration of external competitiveness and the steep appreciation of the dollar against the European currencies, the latter having caused the escudo to appreciate against some of them. The month-to-month rate of depreciation was thus raised from 0.50 per cent to 0.75 per cent in December 1981 and then the weights of the currencies in the "basket" from which the effective depreciation is calculated were altered in April 1982 to reduce that of the dollar and increase those of the European currencies. In addition, the escudo was devalued in June, by 9.4 per cent in effective terms. In 1983, with the further deterioration of the trade balance and the surge of speculative pressures on the escudo the rate of depreciation was increased to 1 per cent beginning in March, and the authorities decided to devalue the escudo by 2 per cent in effective terms and then by 12 per cent in June, as part of the new government's austerity policy. In all, the escudo thus depreciated against the dollar by 28 per cent between December 1981 and December 1982 and then by nearly 32 per cent in 1983, while the effective exchange rate declined by 18 and 25 per cent respectively in 1982 and 1983. The escudo depreciations had the effect of improving external competitiveness in spite of the inflation differential between Portugal and its trading partners[25].

The current account deficit widened in 1981 and again in 1982, to reach $3.2 billion or 13¼ per cent of GDP, against $1.3 billion (5 per cent of GDP) two years earlier. The current account improved in the first half of 1983, moving back into balance in the third quarter, and for the year as a whole the shortfall is estimated at $1.7 billion. In 1981 most balance-of-payments items deteriorated. In 1982, however, while the visibles deficit in dollar terms narrowed, the surplus on invisibles – no doubt because of the effects of disguised capital outflows – continued to contract. The invisibles account deteriorated further during the first three quarters of 1983 but the trade deficit narrowed significantly and, all told, the current deficit was halved by comparison with the same period of 1982. With the worsening of the balance in 1981-82 inflows of non-monetary capital increased and, after showing a deficit in 1981, the balance on non-monetary transactions went back into surplus in 1982. Growth of medium- and long-term borrowing was very rapid in 1981 but then slowed down in 1982, while the share of short-term financing increased. In 1983 inflows of medium- and long-term capital decreased considerably and there were net outflows of short-term capital in the first nine months of the year. In all, non-monetary transactions showed a deficit of about $9 million, which compares with a small surplus over the same period of 1982.

Merchandise trade, which deteriorated very rapidly in 1980-81 with the upturn in domestic demand and under the influence of the drought, stabilised from 1982 on, the visibles deficit even declining slightly as a percentage of GDP (20½ per cent compared with 21½ per cent a year earlier). This was because both price and volume trends were more favourable. Although the escudo continued to depreciate against the dollar, the worsening in the terms of

Diagram 5. **Exchange rates**



1. Units of foreign currency per escudo.

Source: OECD Secretariat.

trade was halted given the more moderate growth of international prices. In addition, merchandise exports by volume rose almost twice as fast as imports (by 11 per cent compared with 5.9 per cent). The improvement became more marked in 1983 given that the growth of exports is put at close to 21 per cent and import volumes are estimated to have declined by nearly 7 per cent. The terms of trade probably deteriorated only very slightly.

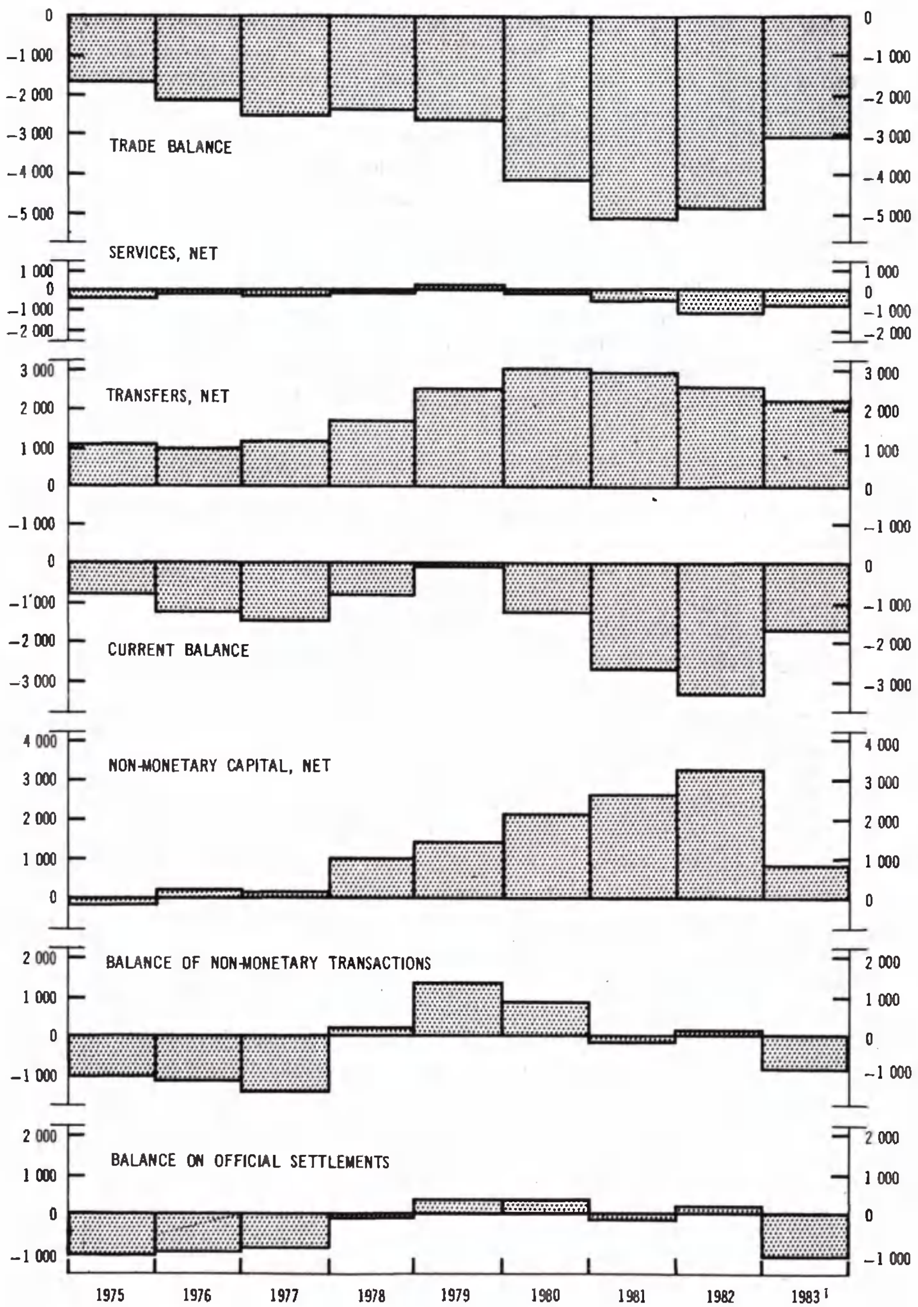
Table 14. **Balance of payments**

$ million, n.s.a.

	1981	1982	1983[1]	1981 II	1982 I	1982 II	1983 I	1983 II[1]
Exports, fob	4 088	4 119	4 553	2 005	2 049	2 070	2 317	2 236
Imports, fob	9 248	8 972	7 637	4 334	4 832	4 140	4 227	3 410
Trade balance	−5 194	−4 853	−3 084	−2 349	−2 783	−2 070	−1 910	−1 174
Services, net	−544	−1 092	−733	−264	−626	−466	−505	−228
Travel	777	609	581	460	217	392	207	374
Transport	−147	−283	−191	−34	−173	−110	−143	−48
Investment income	−975	−1 256	−1 054	−611	−568	−688	−517	−535
Other services	−199	−162	−69	−79	−102	−60	−50	−19
Transfers, net	2 888	2 681	2 131	1 556	1 206	1 475	1 002	1 129
Current balance	−2 850	−3 264	−1 686	−1 057	−2 203	−1 061	−1 413	−273
Medium and long-term capital	1 853	2 519	1 310	993	1 570	949	899	421
Private	1 357	1 885	718	767	1 109	776	757	−39
Official	496	634	592	231	461	173	132	460
Short-term capital and unrecorded	848	868	−500	141	563	305	−313	−187
Balance of non-monetary transactions	−149	123	−876	77	−70	193	−837	−39
Monetary institutions' short-term capital	43	−15	−190	−180	37	−52	−40	−150
Balance on official settlements	−106	108	−1 066	−103	−33	141	−877	−189
Drawing on IMF	−72	−59	388	29	−43	−16	42	346
Miscellaneous official accounts	−6	−211	77	90	−93	−118	637	−560
Change in reserves (Increase = −)	184	162	601	−16	169	−7	198	403

1. Provisional figures.
Source: Bank of Portugal.

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



1. Provisional figures.

Source: Bank of Portugal.

This good export performance was helped along by the development of new products, such as petrochemicals, electrical and electronic equipment, motor vehicles and spare parts, and by an increase in export quotas for textiles. In this connection it is worth remarking that exports of textiles not subject to quota increased far more rapidly (up 25 per cent to the EEC) than those of textiles subject to quota (up 7.5 per cent). Export performance was also helped by the improvement in external competitiveness resulting from the escudo depreciations. Portugal thus gained market shares, particularly in 1983 when it was able to take advantage of being cyclically out of phase with its partner countries. In 1982 merchandise imports grew at the average rate recorded in the four previous years (about 5½ per cent) under the impact of special factors connected with the drought (imports of food and energy products). The elasticity with respect to total demand nevertheless declined slightly (1.4 for goods and services, instead of 1.9 and 2.5 respectively in 1980 and 1981). The fall in import volumes in 1983, estimated at 6½ per cent over the year as a whole, affected all products but especially farm goods – following the good harvest in 1982 – and fuels – because of the slowdown of activity and destocking – and capital goods. The export/import ratio (fob values) thus rose to 58.3 per cent for the first three quarters of 1983, or close to its 1979 figure, and the highest since 1976.

Almost two-thirds of the deterioration of the current balance between 1980 and 1982 can be ascribed to the contraction of the invisibles surplus. The deficit on services widened, reaching some $1 billion in 1982 (87 billion escudos) following the doubling of the deficit on investment income in dollar terms, the widening of the shortfall on transport and the decline in tourism earnings. The deterioration of the investment income item was the result of the increase in outstanding foreign debt and the rise in interest rates. 1983 marked a halt in this trend; interest payments began to turn down in the second quarter owing mainly to the easing of interest rates. For the year as a whole it is estimated that interest payments declined to $1¼ billion from $1½ billion in 1982. The transport item was hit chiefly by the crisis in the ship repairs sector, which resulted in a slowdown in the growth of receipts in dollar terms in 1981 and then a decline in 1982 and 1983[26]. On the other hand, expenditure on merchandise freight began to fall in 1982 in conjunction with the decline in imports. The overall deficit on transport, which had widened in 1982, thus narrowed slightly in 1983. In addition, since 1980 tourism earnings have grown by less than the escudo's depreciation against the dollar. Hence, although they increased by close to 40 per cent per year between 1977 and 1980, in dollar terms they have since declined; they covered only 17.7 per cent of the trade deficit by 1982, although the figure was up again to approximately 18½ per cent in 1983, as against 27.3 per cent in 1980.

In 1982 tourism earnings showed a decline of 16.2 per cent in dollar terms, compared with a rise of 9½ per cent in national currency. A similar trend was observed in all the European countries following the depreciation of their currencies against the dollar. In real terms, in other words allowing – in addition to the depreciation – for Portugal's inflation differential with the other countries, earnings fell by 10.6 per cent, while in Europe as a whole they were slightly up (2.3 per cent). The provisional estimates for 1983 suggest that the increase in earnings in escudo terms was once again insufficient to offset the depreciation, notably in the second half-year. Over the full year tourism earnings probably declined by about 5 per cent in dollar terms, compared with an increase of 53 per cent in escudo terms.

Indicators of tourism trends by volume point to a significantly slower growth from 1981 on. The number of foreign tourists arriving at frontiers rose by 11.6 and 4.7 per cent respectively in 1981 and 1982, compared with 20 per cent in 1980. Furthermore, as in all the countries, the length of stay shortened; the number of nights spent in all forms of accommodation declined in 1981 and marked time in 1982. As in most European countries, the biggest increases in both the number of arrivals and the length of stay concerned tourists from the United Kingdom and France, whilst the steepest falls were in nights spent by Spanish tourists and arrivals and nights spent by German tourists. There was apparently also under-invoicing of tourism earnings, especially in 1982, owing to expectations of an escudo depreciation, which resulted in a marked downturn in tourists' expenditure per night spent; this probably rose by 8¾ per cent in 1982, a relatively low rate by comparison with inflation and lower than in 1979-1980 (with 14 per cent on average)[27].

Table 15. **Indicators of tourism trends**

Percentage changes

		1979	1980	1981	1982	1983
Tourist receipts						
Change in real terms[1]	Portugal	41.3	6.7	−7.5	−10.6	..
	Europe	2.2	−0.7	3.1	2.3	..
Share in GDP	Portugal	4.7	4.7	4.3	3.8	4.0
	Europe	1.7	1.7	1.7	..	..
Tourist arrivals at frontiers	Portugal	34.2	20.1	11.6	4.7	21.6
	OECD area[2]	−1.8	1.2	−1.8	0.2	..
Nights spent in hotels	Portugal	15.2	23.3	−2.3	2.1	..
	OECD area[2]	6.2	0	3.7	3.1	..
Nights spent in all types of accommodation	Portugal	18.6	24.7	2.5	0.7	..
	OECD area[2]	4.3	2.6	−2.9	0.3	..

1. Adjusted for the rise in prices and exchange-rate changes against the dollar.
2. Aggregate of OECD countries with figures for 1978-1982.
Source: OECD, *Tourism Policy and International Tourism.*

Migrants' remittances in dollar terms have consistently declined since 1981, under the combined effect of slower growth of nominal incomes (notably in the case of Germany and the United States) and the depreciation against the dollar of the European currencies in which two-thirds of the amount of remittances is denominated. The decline became more marked in 1983, when it was estimated at 18½ per cent for the year as a whole compared with 9 per cent in 1982[28]. There were several contributory factors. Admittedly, the depreciation of the European currencies is continuing to have a perceptible impact but, even if remittances are evaluated in ECUs, they showed a steep fall for the first time. In addition, unemployment continued to increase in Europe and nominal incomes continued to slow, particularly in the most important host countries, namely France where disposable income probably grew by less than 9 per cent compared with over 14 per cent in 1982, and Germany where it grew by only 2 per cent. Lastly, until June expectations of an escudo depreciation certainly helped to hold back transfers in spite of the rise in interest rates in Portugal. In fact, since the other factors are continuing to have an adverse impact there was no offsetting movement after the escudo adjustment in June and it is thought that migrants' remittances continued to decline though less rapidly than in the first half-year (by over 21 per cent from the previous year).

The widening of the current payments deficit was accompanied by big inflows of medium- and long-term capital representing, on the one hand, direct borrowing by the Treasury (a quarter of the surplus on medium- and long-term capital in 1982) and, as to almost one-half, borrowing by national enterprises. Capital inflows in respect of national enterprises increased by over 50 per cent in dollar terms in 1981 and by close to 25 per cent in 1982. In the first quarter of 1983 they continued to grow under the impact of drawings on external credit negotiated earlier by public enterprises. They declined subsequently by comparison with the previous year because borrowing terms were less favourable and owing to the scaling-down of investment plans in the main public enterprises. Over the year as a whole the balance on medium- and long-term capital thus probably fell back to about $1.3 billion, or half the 1982 level.

Short-term transactions moved in line with the policy of the authorities who wish to reduce the share of short-term borrowing. The balance on these transactions, including errors and omissions, remained constant in dollar terms in 1982, to stand at only one-quarter of the total amount of capital transactions of the non-monetary sector compared with about one-third two years previously. As from the first quarter of 1983 it moved into deficit with the growing difficulty of obtaining short-term financing on the international markets due to the uncertainty of the political climate, and also to the decline in volume imports, while debt repayment by the non-monetary sector reached a high figure. Non-monetary capital movements in aggregate, which more than offset the current deficit in 1982, financed only about one-half of it in 1983 in spite of its contraction. According to the preliminary estimates available, the balance on non-monetary transactions showed a deficit of close to $900 million over 1983 as a whole, resulting in a steep reduction in domestic liquidity.

With banks borrowing less on international financial markets, movements of bank capital showed a deficit of nearly $200 million and the balance on official settlements was heavily negative (about $1 billion). The Bank of Portugal's foreign exchange reserves, which declined slightly in 1981-82, probably fell by over $½ billion in 1983, most of this in the second quarter. Total reserves were estimated at $9.9 billion at end 1983, of which $8 billion in gold valued at market prices[29]. With the growing difficulty of financing the current deficit through borrowing on the international markets, the Bank of Portugal had to enlist the aid of the Bank for International Settlements which in 1983 extended it three gold-backed loans of a total

Table 16. **Trend of net external debt**

$ billion, end of period

	1980	1981	1982	1983[1]
Government	1.7	2.2	2.9	3.4
Bank of Portugal	1.1	1.0	0.7	1.1
Public Enterprises	4.6	6.0	7.7	7.3
Others	1.6	1.9	2.4	2.5
Memorandum items: per cent				
Short-term debt/Total debt	27	30	29	24
Debt/GDP[2]	36	49	66	81
Debt service/External receipts[3]	17	23	27	27

1. Provisional figures.
2. GDP valued at average exchange rate for December.
3. Medium- and long-term debt service/earnings from goods and service exports plus migrants' remittances.
Source: Bank of Portugal.

amount of \$1 billion. The first two, of \$700 million in all, were repaid in July and August out of sales of gold and the third, of \$300 million, was extended at the end of the year. In addition, the Bank of Portugal obtained a stand-by credit from the IMF for the period October 1983-February 1985 of 445 million SDRs and compensatory financing of 258 million SDRs. By June 1983 Portugal had used its last reserve tranche with the IMF of \$53 million.

All told, Portugal's foreign debt, which almost doubled between end-1979 and end-1982 (from \$7.3 to 13.7 billion), reached a peak in the second quarter of 1983 (\$14.6 billion), then declined slightly to \$14.3 billion last December. The increase in the debt, about 4½ per cent between December 1982 and December 1983, was thus limited by deceleration in short-term indebtedness with the narrowing of the current deficit. The growth of the medium- and long-term debt of the nationalised enterprises was much slower in 1983 than in the previous year (an increase of \$230 million compared with nearly \$1 billion in 1982). The share in total debt nevertheless remained stable, standing at about 30 per cent in December.

III. RECENT ECONOMIC POLICY

In recent years economic policy has mostly been dictated by short-term considerations, notably concerning the balance of payments. Hence, with the worsening external deficit, which in 1977 reached 9 per cent of GDP, a stabilisation programme was introduced in 1977-78 based essentially on exchange-rate adjustment (a 15 per cent depreciation in February 1977 followed the introduction of a crawling peg depreciation system in August) accompanied by tighter monetary policy (higher interest rates and a ceiling on lending). It was intended that fiscal policy should also have a restrictive impact, the plan being to stabilise the budget deficit in nominal terms in 1977 and 1978. The spectacular recovery of the current balance, which moved from a shortfall of \$1.5 billion in 1977 into virtual equilibrium in 1979, led the authorities to relax economic policy. In fact this development was not the result of any structural improvement in the economy, since the visibles deficit virtually showed no contraction between 1977 and 1979, and the pickup in the current payments position was ascribable almost solely to tourism receipts and migrants' remittances. It was not possible to hold down the budget deficit and growth of domestic lending was very rapid. The escudo's effective exchange rate stabilised progressively, and in 1980 it declined by only 1 per cent. The structural policy measures taken to reduce the fundamental imbalances in the economy (heavy dependence on imports of agricultural and energy products, uncontrolled growth of the public sector and its deficit, inappropriateness of the financial system) were highly inadequate during this period.

With the resurgence of internal and external disequilibria in 1980-81, the authorities progressively tightened economic policy as from mid-1981 (raising of interest rates and stricter quantitative controls on credit, the announcement of a more restrictive fiscal policy and, at the end of the year, a steeper devaluation of the escudo). In fact this policy proved insufficient to keep developments within bounds against an international background that penalised a heavily indebted economy (rising dollar and high interest rates), particularly since the climate of political instability at the beginning of 1983 was not very favourable to a policy of stringency. Various restrictive measures were nevertheless taken in the first half of 1983 (interest rates raised by 4 per cent and escudo devalued by 2 per cent in March, with the rate of monthly depreciation raised from 0.75 per cent to 1 per cent), with the aim of reining back budget expenditure and boosting tax revenue.

It was from June 1983 on that economic policy was shifted to a far more restrictive stance: the escudo was devalued by 12 per cent in June, a partial and temporary freeze was put on budget spending, direct and indirect taxes were increased, short- and long-term interest rates were raised and price subsidies were reduced. These measures are part of an economic programme worked out in agreement with the IMF.

The main objectives are as follows[30]:

- To reduce the current account deficit from $3.2 billion in 1982 (13¼ per cent of GDP) to $2 billion in 1983 (9¼ per cent of GDP) and $1.25 billion in 1984 (6 per cent of GDP);
- To hold external borrowing to a level compatible with a reduction in the debt service/foreign revenue ratio. To this end, it is planned that the amount of the external debt, excluding the short-term liabilities of the Bank of Portugal and the banking system, which reached $12.86 billion at end-1982, should not exceed $13.8 billion at end-1983 and $15 billion at end-1984;
- To reduce the public deficit, the target being to bring down the total general government deficit on a cash basis from 11¼ per cent of GDP in 1982 to 10 per cent in 1983 and 7¼ per cent in 1984;
- To hold growth of domestic credit to 29.7 per cent in 1983 and 22.6 per cent in 1984.

The government linked to this "short-term emergency programme" a medium-term (two to three year) "economic and financial recovery programme" aimed at reforming the financial system, placing the emphasis on regional development and improving the management of public enterprises. Lastly, a four-year economic modernisation plan, aimed at restructuring the economy, will be introduced when finalised.

Fiscal policy

The fiscal policy introduced in early 1983 was designed to slow down the growth of public spending and the general government borrowing requirement. Thus, in relation to the initial forecasts for 1982, it was planned that consolidated general government expenditure should increase by 27.3 per cent and current revenue by 31.2 per cent and that the overall balance (borrowing requirement plus equity funding) should stabilise in nominal terms at about 155 billion escudos, which would bring it down from 8¼ per cent of GDP to 6¾ per cent. However, given the disparity between the forecasts and outturns for the general government account in 1982, it was soon seen that the targets for 1983 would be difficult to attain. In addition, the pre-election period was not very favourable to measures that might keep public finance in check. However, some economy measures were taken in the interim budget. The figure for current spending for a number of items was cut by about 4 per cent, or 11.7 billion escudos. In addition, expenditure on goods and services was cut by 15 per cent or about 6 billion escudos. Taken together, these measures represented a saving of 3.2 per cent by comparison with the total figure for current expenditure in the initial budget. Furthermore, the import duty surcharge was raised from 10 to 30 per cent in February.

Beginning in June 1983 the new government took a series of fiscal measures designed both to slow the growth of the budget deficit in the short term and to curb domestic demand. Tax revenue was boosted in October 1983 by the introduction of a special tax on property and especially wage incomes[31], and by an increase in indirect taxes (stamp duty, including the

Table 17. General government account

National accounts basis

	Esc. billion					Percentage changes			
	1982 Forecast	1982 Outturn (*a*)	1983 Initial forecast (*b*)	1983 Revised forecast (*c*)	1984 Forecast (*d*)	$\frac{b}{a}$	$\frac{c}{b}$	$\frac{d}{c}$	$\frac{c}{a}$
Current revenue	568.8	563.7	746.7	768.1	998.2	32.5	2.9	29.9	36.3
Direct taxes	127.6	138.8	176.3	195.0	227.9	27.0	10.6	16.9	40.5
Social Security contributions	144.5	140.3	173.3	166.0	204.9	23.5	−4.2	23.4	18.3
Indirect taxes	271.3	261.1	347.3	359.5	481.6	33.0	3.5	33.8	37.7
Other	25.4	23.5	49.8	47.6	83.8	111.9	−4.4	76.0	102.5
Current expenditure	608.3	643.3	774.7	824.2	1 065.6	20.4	6.5	29.3	28.1
Goods and services	275.1	280.3	334.4	337.6	405.7	19.3	0.1	20.2	20.4
Subsidies	50.8	79.9	56.3	112.2	144.1	70.5	99.2	28.4	40.4
Transfers	173.4	182.0	225.0	227.5	280.4	23.6	0.1	23.3	25.0
Interest	109.0	101.1	160.0	146.9	235.4	58.3	−0.8	60.2	45.3
Balance	−39.5	−79.6	−28.0	−56.1	−67.4				
Capital revenue	9.7	14.8	11.4	16.0	17.4	−23.0	41.2	0.9	8.1
Capital expenditures	105.0	123.5	118.2	152.3	141.8	21.1	−2.8	−0.7	23.3
Transfers	18.3	28.8	20.2	41.0	38.1	−29.9	103.0	−0.7	42.4
Investment	86.7	68.8	98.0	81.0	77.9	42.4	−17.3	−0.4	17.7
Borrowing requirement	−134.8	−162.4	−134.8	−161.1	−166.0	183.0	19.5	3.0	−0.8
(As a percentage of GDP)		(8.7)		(7.0)	(−5.9)				
Equity funding for public enterprises	19.7	25.9	20.8	30.3	25.8	−19.7	45.7	−14.9	17.0
Net borrowing (−) or lending	−154.5	−188.3	−155.6	−192.4	−191.8				
(As a percentage of GDP)		(10.1)		(8.4)	(6.9)				
Including cash credits		−210.7		−196.8	..				
		(11½)		(8.6)	(7½)				

1. Forecast change from previous year's outturn.
Note: The forecasts are projection for the general government accounts figuring in the central government budget
Source: Ministry of Finance.

introduction of a travellers' exit tax, tax on motor vehicles). The additional revenue generated by the above was estimated at 25 billion escudos, or about 3½ per cent of total revenue. On the expenditure side, a number of measures were introduced to reduce its amount in the very short term (a freeze on investment spending until August and a one-twelfth cut in the annual total). In addition, the reduction in food subsidies was intended to ease the burden of spending on the autonomous Supply Fund, and consequently to enable the latter to make its interest payments and repay part of its debt.

On the basis of provisional estimates for 1983 which incorporate the budget measures of June and October, the general government consolidated account showed a deficit of 161.1 billion escudos, much the same as in 1982. The total borrowing requirement of the administrative public sector on a cash basis might be 196.8 billion escudos, or 13.4 billion less than in 1982, and represent 8.6 per cent of GDP, compared with 11¼ per cent in 1982[32]. This would be a better result than that announced in the Portuguese government's "letter of intent" which foresaw a deficit equivalent to 10 per cent of GDP. Indeed, it is to be feared that tax revenue including social insurance contributions were hit at the end of the year by the deterioration in economic conditions, which certainly brought about a decline in total wages. The sluggishness of household demand and imports held back indirect taxes, but the effects of this slowdown was partly offset by the effect of accelerating inflation at the end of the year. As regards expenditure, it seems that the pace of growth was in line with the revised forecasts, at least where central government spending is concerned. Given this trend in public finance, the public debt continued to rise rapidly in 1983 and by December was 38.2 per cent above its year-earlier level and equivalent to 59 per cent of GDP[33].

Table 18. **Central government budget: main items**

Esc. billion

	1982 Outturn	1983 Budget	1983 Expected outturn	1984 Budget
Tax revenue	323.8	437.6	435.8	530.5
Other receipts	33.6	60.6	59.5	95.3
Total	357.4	498.2	495.3	625.8
Total expenditure	529.7	660.2	678.8	802.5
Balance	172.3	162.0	183.5	176.7
Debt amortization	−42.0	−60.4	−64.8	−98.8
Debt issue	214.3	222.4	248.3	275.5

Source: Ministry of Finance.

The central government budget for 1984 (built round the assumption of GDP growth of – 1½ per cent and 24 per cent inflation) provides for an increase in the deficit of 14.7 billion escudos compared with the initial 1983 budget, implying a reduction of 6.8 billion escudos from the revised estimates for 1983. This would mean that, compared with the revised estimates for 1983 total expenditure will increase by 18.2 per cent in nominal terms and revenue by 26.3 per cent. On the basis of the official forecasts for inflation in 1984 capital expenditure should decrease by approximately 25 per cent in real terms and current spending by 4.2 per cent. On general government account, the total borrowing requirement, including equity funding of nationalised enterprises but excluding cash transactions for which no explicit forecasts have been made[34], should narrow from 192.4 to 191.8 billion escudos (or from 8 per cent of GDP to 6.9 per cent in 1984)[35]. Current expenditure, which is budgeted to grow by 29.3 per cent, will be boosted mainly by public debt interest payments which should be upped by about 60 per cent on 1983 and represent 22 per cent of total general government expenditure. Expenditure on goods and services should decline by some 3 per cent in real terms, as a result of the small increase budgeted for wages and salaries (16 per cent in nominal terms). On the revenue side, indirect taxes are expected to rise fairly rapidly owing to higher stamp duties and automobile sales taxes. Direct tax revenue will be affected by the

Table 19. **General government account: item-by-item forecasts**

Increase as between expected outturns for 1983 and forecasts for 1984[1]

		Central government					
		Central Authority	Autonomous departments	Autonomous funds	Local government	Social Security	Total
Current revenue		24.4	19.7	41.5	12.6	28.3	29.9
Direct taxes		15.7	..	33.1	8.8	—	16.9
Social Security contributions		—	—	—	—	23.4	23.4
Indirect taxes		23.5	−50.0	64.0	7.4	..	34.0
Other		67.6	22.2	ns	14.3	67.3	76.0
Current expenditure		23.9	17.1	46.3	21.7	25.7	29.1
Goods and services		20.5	19.3	72.7	20.0	22.6	20.4
Subsidies		13.1	ns	32.7	..	..	29.1
Transfers		10.5	15.7	65.0	..	25.7	27.5
Interest		43.5	ns	ns	ns	ns	50.1
Capital receipts		43.1	ns	ns	4.5	ns	8.1
Capital expenditure		−4.5	ns	ns	4.0	ns	−3.4
Transfers		3.6	ns	ns	..	ns	4.4
Investment		−15.4	ns	ns	4.0	ns	−6.8
Borrowing requirement	1983	(6.9)	—	—	—	—	(7.0)
(As a percentage of GDP)	1984	(5.8)	—	—	—	—	(5.9)
		−16.8	ns	ns	ns	ns	−14.6
Net borrowing	1983	(8.0)					(8.4)
(As a percentage of GDP)	1984	(6.5)					(6.8)

1. Owing to the small absolute amount (Esc. 1-2 billion) of capital receipts and expenditure of the autonomous departments and funds and of social security, the rates of increase in these items are not significant (ns).
Source: Ministry of Finance.

discontinuation of part of the special taxes (notably the tax on earned income) introduced in 1983 and is set to rise by only 17 per cent. As a whole the 1984 budget forecasts seem more realistic than those of past years inasmuch as they are based on plausible outturns for 1983. Even so, they are problematical given the possibility that expenditure and revenue may be affected by a higher inflation rate and a lower growth rate than those assumed for the purposes of the budget.

Monetary policy

In recent years, the conduct of monetary policy has been made difficult by the relatively unchecked expansion of the borrowing requirement of the public sector broadly defined (general government and public enterprises) and the policy for its financing, which has necessitated extensive recourse to domestic bank credit and external borrowing. Although all interest rates are controlled, their readjustments have been infrequent and hence relatively big. Moreover, subsidised rates have applied to a large share of domestic lending, almost 36 per cent of total domestic credit (financial uses excluded) in the third quarter of 1983. Subsidised credit goes mainly to the housing and investment sectors (these two sectors accounting for about 70 per cent of the total) and is extended chiefly by the savings and investment banks, 20 per cent of subsidised credit being extended by the commercial banks. The main monetary policy instrument has been and still is the credit ceiling system introduced in 1978. To target domestic credit expansion the monetary authorities have used the forecasts for monetary liquidity growth based on nominal GDP growth, velocity of circulation and interest rates. The split between the external and internal liquidity counterparts was made, until the summer of 1983, in accordance with the objectives for the net external assets of the banking system. After determining the internal borrowing requirement of general government, the monetary authorities deduced the credit available for the private sector including the national enterprises. Neither the monetary aggregate growth targets nor the credit ceilings calculated month-to-month were published. Individual bank credit ceilings were set in relation to the weight of each bank's resources (mainly deposits) in the total resources of the banking system[36]. In the event of an overshoot, banks were required to constitute non-interest-bearing compulsory reserves.

This system permitted fairly satisfactory control of domestic credit growth, but essentially to the disadvantage of the private sector in that there was no credit ceiling for the public sector. Furthermore, this system did not concern external credit, which made it difficult to maintain effective control over the monetary aggregates, notably M2, and reduced the effectiveness of monetary policy. Foreign indebtedness has increased substantially particu-

Table 20. **Money supply and counterparts**

	Esc. billion at 31.12.81	Percentage change from corresponding period of previous year							
		1982				1983			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4[1]
Currency in circulation	188.4	15.9	15.2	16.5	16.5	20.2	15.0	14.1	9.6
Sight deposits	336.9	12.4	9.8	12.2	15.9	15.0	14.1	9.3	16.7
M1	525.3	13.6	11.6	13.7	16.1	16.8	14.4	11.0	9.6
Time deposits	845.3	32.1	30.4	28.6	27.6	24.8	23.4	19.9	19.5
Emigrants' deposits	352.2	46.4	40.2	39.0	38.8	37.2	35.8	34.3	32.7
M2	1 722.8	28.9	26.4	26.1	26.4	25.2	23.5	20.6	19.7
Counterparts									
Net foreign assets	411.8	27.7	31.9	30.8	38.3	37.2	24.4	24.2	32.3
Credit to public sector	305.3	43.5	40.5	41.0	33.1	28.7	40.1	34.8	19.1
Credit to enterprises and households	1 342.3	23.0	21.6	23.3	25.0	23.6	23.2	23.0	25.0
Miscellaneous	−336.6	—	—	—	—				

1. Provisional figures.
Source: Bank of Portugal.

Table 21. **Total domestic and foreign lending**

Nominal growth rates, percentage change from a year earlier

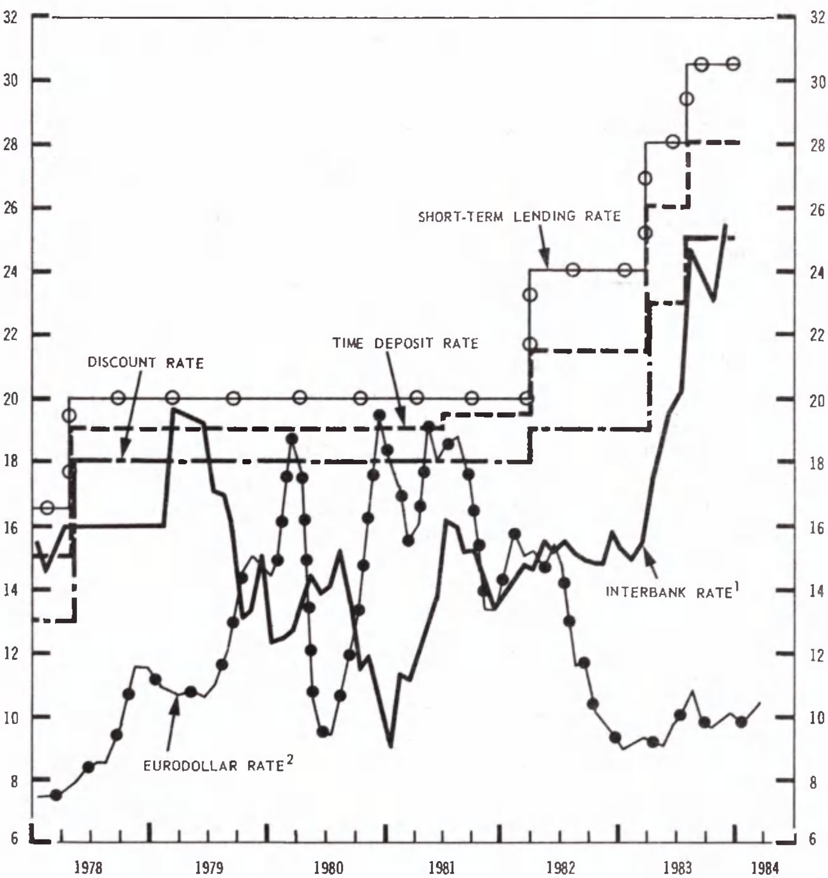
	Esc. billion at 31.12.81	1982 Q1	1982 Q2	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983 Q4[2]
Total credit	2 179.1	30.8	27.8	30.6	30.2	28.1	25.8	21.7	19.3
Domestic	1 651.1	28.1	26.1	27.8	27.4	25.3	28.1	26.4	23.0
Foreign[1]	528.0	40.7	33.5	35.1	40.0	38.0	18.6	7.2	8.0
Public sector	429.6	42.2	42.6	39.9	35.1	30.6	35.0	32.2	24.3
Domestic	305.4	43.3	40.5	40.5	33.1	28.7	40.1	34.8	19.1
Foreign[1]	124.2	37.6	50.2	33.5	43.1	38.8	17.9	23.0	43.0
Non-financial enterprises and households	1 749.5	27.9	23.6	27.3	28.5	27.2	22.5	17.9	17.5
Domestic	1 345.7	23.0	21.5	23.4	25.3	24.0	23.7	23.2	24.4
Foreign[1]	403.8	46.6	27.4	40.5	39.1	37.7	18.8	2.3	−3.1
Public enterprises	653.6	25.4	22.7	31.2	34.0	33.4	23.9	15.8	
Domestic	320.6	9.8	15.0	16.8	19.5	21.2	25.1	29.1	
Foreign[1]	333.0	43.8	29.7	40.5	47.9	44.5	22.8	5.0	−0.2
Other enterprises and households	1 095.9	29.5	24.1	24.9	25.3	23.4	21.7	19.3	
Domestic	1 025.1	27.8	23.7	25.6	27.2	24.8	23.3	21.4	
Foreign[1]	70.8	64.8	33.8	40.0	−2.4	1.2	−4.9	−16.0	−23.7

1. Provisional figures for foreign lending in 1983.
2. Provisional figures.
Source: Bank of Portugal.

larly on the part of public enterprises, some of which had no option but to borrow abroad. The method of controlling expansion of credit has been altered since last summer. From that time the monetary authorities' intention has been to control the expansion of total credit to the economy and not only that of domestic credit, in accordance with the objectives set for the current account and its financing. The ceiling system will continue to be the main instrument for regulating credit growth, incorporating from now on the targets for external borrowing. Ceilings will continue to be determined on a month-to-month basis with indicative data for the three months ahead on the basis of commercial credit outstanding as well as banks' financial uses and are not always published. According to the "letter of intent" addressed to the IMF, the growth rate targeted for total domestic lending was 22.6 per cent for 1984 (December 1984/December 1983). It was 29.7 per cent for 1983 (December 1983/December 1982) and the provisional figures for December 1983 show that this target was met.

Overall, monetary policy, which had been significantly relaxed in 1979, conserved its role of accommodating expansion up to the third quarter of 1982 when credit ceilings were tightened. In the first half of 1983 the monetary aggregates continued to grow rapidly though much less so than in the previous half-year. M2 was running at 23.5 per cent (nearly 2 per cent in real terms) compared with 26.4 per cent at the end of the fourth quarter of 1982 (nearly 6 per cent in real terms). Total credit to the economy also slowed in the first half of 1983 (with the annual growth rate down nearly 5 percentage points), owing in particular to financing problems on external markets. The increase in net external credit during the first half of 1983 amounted to only 20 per cent of the increase confirmed during the same period of 1982. During the second half of 1983 monetary policy took a yet more restrictive turn with interest rates raised again in August (2 points for rates paid on deposits and 2.5 points for borrowing rates after an increase of 4.5 and 4 points respectively in March), bringing the discount rate up to 25 per cent. At the same time, growth of domestic credit (i.e. credit ceilings) was consistent with the current balance target ($2 billion). As a result growth of total credit slowed again (down by some 20 per cent at end-1983, according to provisional data, or by 10 points on the previous year). The degree of restrictiveness of monetary policy in 1984 will depend in large measure on the targets set for the current balance (a deficit of $1¼ billion) and for foreign borrowing. Its success will depend on the capacity to control the public deficit. Should the public sector borrowing requirement prove higher than expected and if the authorities wish to continue to give priority to the external equilibrium targets, the ceiling set for growth of credit to the private sector would prove a major constraint.

Diagram 7. **Interest rates**



1. Average rate, 60 to 90 days.
2. 3-month rate.

Source: Bank of Portugal, *Quarterly Bulletin.*

The combination of tighter limits on domestic credit and the rise in interest rates caused growth of the principal monetary aggregates to slow in the second half of 1983. Thus M2 growth eased from 23.5 per cent in the first half year to 20 per cent in the second, a decline of about 11 per cent in realterms. According to provisional estimates credit growth slowed from 25.8 to 19.3 per cent between the second and fourth quarters. Growth of credit to the administrative public sector slowed only slightly in the third quarter but much more markedly in the fourth. Total bank financing of the administrative public sector in 1983 amounted to 196.8 billion escudos, or 13 billion less than in 1982. The deficit of this sector was probably financed as to about 39 per cent through external borrowing as compared with 25 per cent in 1982. Growth of credit to enterprises and households slowed sharply in the third and fourth quarters, especially in the case of external credit, as a result of a deliberate policy on the part of public enterprises of reining back foreign borrowing.

IV. SHORT-TERM PROSPECTS

The following forecasts are based on the assumption that the Portuguese government will pursue the economic policy outlined in its "letter of intent" of September 1983, together with the measures taken subsequently. As regards the international environment the forecasts given in OECD Economic Outlook No. 34 have been retained, though adjusted to take into account the policy of a monthly 1 per cent crawling peg devaluation of the effective escudo exchange rate. Economic policy will continue to play a restraining role in 1984. The restrictive effects of fiscal policy will derive from a decline in real terms in current goods and services expenditure, particularly in regard to wages and salaries, as well as in capital expenditure. There will be a further contraction of real private consumption through an increase in public utility charges and food prices as a result of continued reduction of subsidies. On the other hand, direct tax pressure should be eased by the non-renewal in 1984 of part of the special taxes introduced in 1984. The growth targets for monetary aggregates and particularly domestic credit announced for 1984 (though these are liable to be revised) also reflect the tight money policy. With the acceleration in inflation at the end of 1983, real interests rates have fallen though, if inflation slows as forecast during 1984, they could once again play a highly restrictive role.

How much domestic demand will fall in 1984 will to a large extent be determined by the inflation rate. The restriveness of economic policy is likely to curb the rise in prices, but this would in part be offset by the effects of the prices policy aimed at phasing out subsidies. No official estimates are available quantifying the mechanical effects which may be expected from the pursuit of this policy in 1984 but, as has been seen, the impact in the second half of 1983 was probably greater than the authorities anticipated. If the official forecast of a 20 per cent increase in prices over the year 1984, allowing for the big carryover from end-1983, the rise in consumer price rises on an annual average basis could be 27 per cent for the year as a whole.

The biggest element of uncertainty is the trend in wages in 1984. In the public sector, budget forecasts imply an increase in wages and salaries of some 18-20 per cent in 1984, which on the assumption of stability of numbers employed, would result in a loss of purchasing power for civil servants of some 8 per cent. For private sector wages, information is not yet available on the negotiations early in the year, though a fall in per capita real wages of around 4 to 5 per cent in 1984 seems likely. Given the decline in employment and shorter working hours, total gross wages could fall by some 6 per cent in real terms. Social transfers are likely to increase substantially as unemployment grows, investment income in 1984 will benefit from high interest rates, while emigrants' remittances could be stimulated by the economic upturn in Europe and by a measure of renewed confidence. These three types of income could suffer a loss in purchasing power of only 3 to 4 per cent, and, in all, households' gross income could decline by about 4.5 per cent in real terms. Owing to the non-renewal of the additional direct taxes introduced in 1983, tax pressure could stabilise and the decline in real disposable income could likewise be around 4.5 per cent.

Table 22. **Short-term forecasts**

	1982 Current prices Esc. billion	Percentage change from previous year in volume[1]	
		1983	1984
Private consumption	1 258.1	−¾	−2½
Public consumption	273.7	5	0
Gross fixed investment	579.0	−7½	−8
Final domestic demand	2 110.8	−1.9	−3½
Change in stockbuilding[2]	115.0	(−6)	(−1½)
Total domestic demand	2 225.9	−6.8	−4.9
Change in foreign balance	−366.8	(7.7)	(3.6)
Exports of goods and services	480.5	16½	7½
Imports of goods and services	847.3	−7½	−3
GDP at market prices	1 859.0	−½	−1.9
GDP deflator	—	23.5	22
Industrial production	—	1	−3
Private consumption deflator	—	23.5	27
		$ billion	
Current balance		−1.7	−1.3

1. At previous year's prices.
2. Changes as a percentage of GDP in previous year.
Sources: Central Planning Department and OECD Secretariat forecasts.

There could well be a further fall in the savings ratio in 1984 though less steep than in the previous year[37] and this could limit the decline in private consumption to around 2.5 per cent. This forecast may seem high, given the unfavourable assumptions regarding the trend in households' disposable income when even in 1983, despite a fall of some 5½ per cent in purchasing power, the level of real households' consumption remained virtually unchanged. Indeed, in view of the low absolute level of consumption of some households, there would seem little room for further reduction. The aggregate savings ratio is relatively high, largely because of the large share of migrants' remittances in total income and this certainly helps to limit the decline in consumption in phases of falling incomes. Finally because of statistical uncertainties in regard to income evaluation there may be considerable underestimation of undeclared income.

Under the combined effects of tight monetary and fiscal policy 1984 will probably see a decline in investment volume. From the budget forecasts, it appears that investment by general government might be 20 to 25 per cent lower in real terms in 1984 than in 1983 when it was already down by some 15 per cent. The decline in investment by public enterprises is expected to be of the same order (about 20 per cent in 1984). However, part of this steep fall is due to the fact that this investment was boosted in 1983 by aircraft purchases by the national airline. Very considerable uncertainty attaches to the trend of private-sector investment, in view of the difficult financing conditions caused by the tightening of monetary policy; but the export sectors certainly saw an appreciable improvement in their performance in 1983 and this trend should continue in 1984; finally, foreign investment might pick up if the results of the present policy are consolidated. All told, private-sector investment (including residential construction, which is still depressed) might decline in real terms by 5 per cent in 1984, which would mean a fall of about 8 per cent in gross fixed investment volume this year.

The destocking that began in 1983 will continue in 1984, though more slowly given that inventory levels are probably very low, and domestic demand might decline by nearly 5 per cent in volume terms. This differential of almost six percentage points for the second year running between domestic demand growth rates in Portugal and in its main partner countries should cause a further fall in import volumes of approximately 3 per cent. Given the prospects for world demand, export volumes might show a further appreciable increase in 1984 of some 7½ per cent for goods and services, and the growth contribution of foreign trade might be close to 3½ per cent which would limit the fall in real GDP to 2 per cent. This negative trend in production might cause employment to fall by about 3 per cent and the unemployment rate to rise to about 12 per cent.

The terms of trade may stabilise in escudo terms in 1984, which would mean a slight improvement in the trade balance. The invisibles balance might also improve in 1984, largely as a result of tourism receipts and possibly an increase in migrants' remittances. All in all, the current deficit may narrow to roughly 160 billion escudos or about $1.3 billion, more or less in line with the Portuguese authorities' target.

The forecasts for 1984 are clouded by a great degree of uncertainty. There is reason to wonder whether the deflationary process that began in 1983, the extent of which is still in doubt, is not liable to gather more momentum than expected, mainly because of a much more pronounced fall in households' disposable income. The latter might come about through a steeper-than-forecast drop in output, and hence in employment, with enterprises that produce primarily for domestic consumption being forced to cut back their activity considerably. Another uncertainty is the trend of prices and wages. If the forecast of a 27 per cent annual average rise in prices in 1984 is borne out, this would mean that the annual rate of increase would fall from 40 per cent in the second half of 1983 to 20 per cent in 1984. However, it would not seem that the prices of subsidised products or services have yet returned to the levels they would normally without subsidies. In addition, the depreciation of the effective exchange rate, which under the crawling peg exchange rate policy will amount to 16½ per cent on an annual average basis in 1984, will also be a major factor in price rises. Furthermore, the possibility cannot be entirely ruled out that wage costs will increase more rapidly than expected, in view of the fall in purchasing power that the present forecast implies. The possibility of the start of a wage catch-up process that would affect prices, though unlikely in 1984, cannot however be completely discounted in 1985. It would certainly have repercussions on the exchange rate (the present expectation is an increase in unit costs of the order of 22 per cent in 1984 with a 16.5 per cent depreciation of the escudo effective exchange rate) and consequently on import prices.

V. ECONOMIC POLICY CONCLUSIONS

The mounting imbalances in the economy, especially since the beginning of the 1980s, caused the new government to introduce in mid-1983 a short-term corrective programme designed essentially to reduce the current deficit and the public sector borrowing requirement. Initial results on these two fronts have been encouraging, with the current deficit narrowing from $1.4 billion to $0.3 billion between the first and second halves of 1983 and the accelerating trend in the public deficit being turned round. However, these results were achieved at the cost of a steep downturn in domestic demand with a resulting fall in employment and, secondly, an acceleration of inflation due to the policy of sharply reduced subsidies. Furthermore, external indebtedness is still very high, being equivalent to 70 per cent of GDP. The short-term corrective measures should be continued, but the results already achieved cannot be consolidated other than by implementation of the second part of the government's economic policy consisting of a set of structural measures of an economic, financial and social nature.

As regards short-term policy, the brunt of the adjustment will fall on the budget, the target being to rein back the general government borrowing requirement from over 7.1 per cent of GDP in 1982 to 5.6 per cent in 1984. It is to be achieved through a number of measures, some of which have already begun to be applied, such as a steep increase in direct and indirect taxation, a cut in public investment and subsidies to public enterprises and a curb on consumer prices. Monetary policy has also been made tighter with the raising of interest rates and limits on the growth of lending. Finally, in order to put an end to speculative movements the government devalued the escudo by 12 per cent in June 1983, while maintaining the system of monthly crawling-peg depreciation so as to ensure external competitiveness.

The government's stabilisation policy will be bound to affect activity in the short term; there will be a further decline in GDP and unemployment will continue to increase in 1984. However, it would seem essential to maintain the restrictive fiscal and monetary policy stance in order to restore external equilibrium, reduce inflation and improve the position of public finance. Already in the past, in 1977/1978, the Portuguese government adopted a restrictive policy stance, which also had very positive effects, in particular, on the trend of the current payments balance. However, the programme was maintained over too short a period and as early as 1979 economic policy was relaxed. There are two lessons to be drawn from the experience of 1977/1978: a restrictive monetary and fiscal policy can rapidly produce tangible results especially on the foreign payments front; but the stabilisation effort needs to be continued until such time as positive results in terms of slowing down inflation, rebuilding profits and shifting resources to the foreign sector are firmly established. But clearly stabilisation – essential though it is today – is only one component of a more comprehensive strategy aimed at slowing inflation, improving labour market flexibility, redressing the external balance, holding down the public sector deficit and promoting industrial modernisation.

A lasting slowdown in inflation has to be one of the central objectives of medium-term policy; in 1983 the rise in prices accelerated alarmingly. In 1984, despite the probability of a slowdown in the course of the year, it is unlikely that inflation will ease, particularly in view of subsidy reduction. This is why the active competition policy to be introduced during 1984 will be of great importance as a means of improving the way markets operate. It is essential to continue with the decontrol of prices and incomes and to reduce the rigidities in the labour market. The task will not be an easy one, especially since the public is likely to put up resistance. However, it will be interesting to see what effects the first measures to ease labour legislation will have on wage costs and on employment. It is also essential for income to be redistributed towards profits; a movement in this direction did indeed begin a few years ago but it will have to continue since this is a precondition for non-inflationary financing of productive investment. Finally, another factor in inflation, in Portugal's case, is the steep depreciation of the escudo; the crawling-peg system was necessary to offset Portugal's inflation differential with its main trading partners but it has at the same time contributed to widening that differential because of the economy's heavy dependence on imports, particularly food and energy. The only way to resolve this dilemma is to introduce thorough stuctural reforms.

The current payments deficit will probably narrow in 1984 essentially because of the differences in the cyclical positions of Portugal and its main trading partners. But if this improvement is to be consolidated and not compromised as soon as domestic demand picks up, the productive system will have to be thoroughly modernised, particularly in agriculture where the external deficit represents a considerable proportion of the total deficit. In addition, sustained efforts will certainly have to be made in tourism where there is considerable untapped potential. The contribution of foreign investment will without doubt be vital. More generally, the government ought to step up the efforts made since 1978-79 to attract foreign capital to Portugal and also to encourage Portuguese nationals working abroad to increase their remittances. It has to be said in this connexion that in 1983 both migrants' remittances and inflows of foreign capital showed a decline. The climate of political uncertainty during the first half of the year may be the explanation. Since 1978 the government has tried to encourage inflows of capital through its "investment code", but the administrative procedures will certainly have to be relaxed if considerably more foreign capital is to be invested in Portugal.

The weight of the public sector has grown steeply in Portugal since the beginning of the 1970s; total general government spending today represents about 40 per cent of GDP – which is still a modest figure by comparison with that in many other OECD countries and, in particular, the north European countries, but a high one for a country like Portugal where per capita income is still low. Whereas, for the OECD area as a whole, its weight as a percentage of GDP rose by about one-third during the 1970s, it almost doubled in Portugal's case (from 22 per cent in 1970 to 40 per cent today). This big increase in spending is ascribable, in particular, to the heavily subsidised productive public sector, to the development of the social insurance system, which was very rudimentary prior to the revolution, and to the steep rise in interest costs. Since revenue has not kept pace with expenditure, the deficit has widened and the public debt has increased, to stand at about 60 per cent of GDP by the end of 1983.

The restrictive stance of government fiscal policy therefore seems appropriate in the short term. However, Portugal is still one of the least developed among OECD countries and the social insurance system, in spite of its expansion during the 1970s, is still limited, and some risks (especially unemployment) are inadequately covered by the existing schemes. It therefore seems difficult to make the same type of recommendations in Portugal's case as might be appropriate in the case of the most developed countries in the area, where the sometimes overgenerous welfare cover is in process of being reviewed. And yet reducing the budget deficit remains a priority policy goal. For this reason it is vital, on the revenue side, to strengthen measures to combat evasion and to widen the tax assessment base since large categories of the population are still not paying enough tax. On the expenditure side, the use of public funds will have to be strictly controlled so as to prevent wastage, though leaving intact the modest gains in welfare cover. Lastly, while it seems appropriate to maintain a restrictive fiscal policy, this should be accompanied by measures to promote private investment. Clearly, job-creating investments with a good profit potential should be encouraged by way of suitable fiscal and monetary measures.

Radical structural action will also have to be taken to reduce Portugal's dependence on certain external supply sources and at the same time to improve export competitiveness. Agriculture is a key sector in this regard; it is paradoxical that while about a quarter of the population is currently employed in agriculture this last accounts for only 8.5 per cent of GDP and exports cover only a half of the country's food imports. The example of other OECD countries, in which natural conditions were not really any more favourable but which nonetheless have succeeded in the space of ten years in bringing about a significant improvement in performance, demonstrates that there is big potential in this area. Once the ownership system has been straightened out (situation regarding new farms, allocation of land and/or its return to former owners), the government will clearly have to take vigorous steps to encourage farmers to modernise and integrate into larger units.

In industry, the last ten years have seen the development of dynamic firms, both small and medium-sized, which have turned in good export performances; this indeed seems to have been the case in the traditional textiles and leather industries but also in precision engineering and electronics. It is not certain, however, that these good export performances have had a propellant effect on the economy as a whole given, in particular, that a major part of the profits made by exporting firms may have been used for financial investments. Any incentive that would change firms' behaviour and cause them to increase modernisation and capacity-enlargement investment would certainly be welcome. As regards a number of major industrial projects financed out of public funds – such as the Sinès complex, some features of which were discussed in last year's Survey – the authorities have already reappraised them and in some cases scaled them down by abandoning certain operations. It will certainly be necessary to continue in this direction and at the same time to allow market forces more play, in particular by extensively opening up to private enterprise – both Portuguese and foreign – sectors that were nationalised in their entirety after the revolution.

In all, the present short-term policy seems amply justified. It has already yielded some promising results and should be maintained until such time as these have been consolidated. But considerable efforts will have to be directed as of now to policy for the medium term. It would be desirable for the major reforms the government has announced (in particular with regard to the public sector, industrial restructuring and modernisation of agriculture) to be implemented as soon as possible in the form of projects for which the timetable and methods of financing are clearly set out and whose progress is closely monitored.

NOTES AND REFERENCES

1. According to Labour Ministry estimates, the unemployment rate could have risen from 5 ½ per cent in December 1974 to 14 per cent by end-1976, when approximately one-quarter of unemployment was accounted for by jobless repatriates.
2. According to the Bank of Portugal's calculations which are based on a basket of currencies with different weightings, the rate is 23 per cent.
3. Social insurance contribution rates were raised twice, in 1977 and 1980. In 1977 the employee rate went up from 17 to 19 per cent and the employer rate from 6.5 to 7.5 per cent. In 1980 the employee rate went up from 19 to 21 per cent and the employer rate from 7.5 to 8 per cent.
4. Comparative trends in wages and salaries and employers' contributions:

	Old system 1974-1976	New system 1977-1982
Wages and salaries	26.5	22.4
Employers' contributions	31.5	23.3

Source: INE, old system of national accounts up until 1976; INE, new system and Central Planning Department estimates as from 1977.

The new system differs appreciably from its predecessor: it includes civil servants' contributions and takes account of contributions due rather than contributions paid.

5. It should be noted that the income distribution statistics are not very trustworthy, and the quantitative estimates given here should therefore be interpreted as an indication of trends.
Although based on different systems of national accounts, the trends are still revealing.

Breakdown of GDP at market prices, percentage in total:

	Old system					New system					
	1981	1982	1973	1974	1975	1976	1977	1977	1978	1979	1980
Compensation of employees	44.0	49.4	59.6	58.3	52.8	55.2	52.2	50.9	52.6	53.8	51.3
Gross operating surplus	46.4	42.0	31.3	31.9	37.7	35.5	40.1	41.3	38.0	36.3	38.7
Net indirect taxes	9.5	8.6	9.1	9.7	9.5	9.2	7.7	7.8	9.4	9.7	9.9

Source: INE and Central Planning Department estimates.

6. The following equation was estimated by the Secretariat on the basis of annual data for the period 1963-1982.

$$PC-T = \underset{(1.9)}{0.27\,ULC} + \underset{(4.2)}{0.34\,PM} + \underset{(2.7)}{0.41\,PF}$$

$$DW = 1.94$$
$$R^2 = 0.84$$
$$SE = 3.8$$

where:

PC – T = Annual percentage change in the private consumption deflator less the change in the rate of indirect taxation net of subsidies.

ULC = Unit labour costs in the non-agricultural sector measured as the ratio of the wage and salary bill to non-farm GDP (annual percentage change, 3-year moving average).

PM = Import deflator (annual percentage change).
PF = Farm output deflator (annual percentage change, 2-year moving average).

The figures between brackets are the t values of the coefficients.

7. The relative unit labour costs referred to have been calculated by the Bank of Portugal in respect of Portugal's nine main trading partners. The results of any calculation of this type should be interpreted as no more than indicative of a trend since the basic data are not entirely comparable.

8. Data covering the period are available but the calculations are difficult to interprete because of sometimes substantial under-invoicing of exports.

9. The sector-by-sector analysis is based on the OECD's foreign trade statistics by commodities for the period 1972-82 and for the more recent period 1977-82 on the input-output tables published by the National Statistics Institute (INE).

10. The figures for market growth should be taken purely as indications of trend, owing on the one hand to a lack of homogeneous basic statistics of world trade volumes by commodities and markets and on the other to changes in the pattern of foreign trade. The data considered for 1973-77 are based on the trade pattern in 1975. For 1978-83 the calculations are based on the trade pattern in 1981.

11. Pattern of foreign trade by regions and countries:

	Exports			Imports		
	1977	1982	1973	1977	1982	1973
EEC	48.6	51.7	57.3	44.9	43.5	40.9
EFTA	13.8	15.1	12.2	11.6	8.4	6.7
United States	9.8	6.7	6.2	8.2	10.2	10.8
Ex colonies	14.8	6.5	5.0	9.7	1.1	0.5
OPEC	0.6	1.8	2.9	3.6	10.7	19.2
Other	12.4	18.2	16.4	22.0	26.1	21.9

Source: Document submitted by the Ministry of Trade and Tourism.

12. The introduction of a new national accounts system in 1976 also explains the decline in the weight of agriculture in total value added.

13. According to Portuguese experts at the Ministry of Agriculture, agricultural yields were roughly the same in Portugal, Greece, Yugoslavia, Spain and the South of France at the beginning of the 1960s. Today, however, Portugal's average productivity is probably very much below that of the other countries of southern Europe.

14. Total use of fertilisers (in kilograms) per hectare under crop (in 1979): Spain, 82; Greece, 149; Yugoslavia, 110; Italy, 189; Portugal, 77. The average for the EEC countries is of the order of 400 kilograms.
Source: OECD, "The Energy Problem and the Agro-food Sector", 1982.

15. An analysis of the administrative public sector according to the new national accounts is given in the Quarterly Bulletin of the Bank of Portugal, Volume 5, No. 1, March 1983. The autonomous departments number some 200 but the principal one is the autonomous health department. The autonomous Funds are: the Supply Fund, whose function is to subsidise prices of industrial fuel oil, fertilisers, cereals, oilseeds and milk, and whose main revenue comes from a tax on oil products; the Unemployment Fund; the Tourism Fund; and the Special Land Transport Fund.

16. Resulting among other things in the entry of 700 000 persons and in the demobilisation of one year's military service intake and part of the regular army which fell from 230 000 to 70 000 men between 1974 and 1977.

17. The level of social service provision in Portugal, which is still extremely low by comparison with the OECD average, has risen greatly since the beginning of the 1970s. The number of doctors per 1 000 inhabitants rose from 1.2 to 2.2 over the period 1975-82 and the infant mortality rate fell from 39 to 20 per mil.

18. In 1981 tax revenue as a percentage of GDP amounted to 36.16 per cent for the OECD countries and 38.93 per cent for the EEC countries.

19. "Non-financial public enterprises: features and trends", *Bank of Portugal Quarterly Bulletin*, Vol. 4, September 1982.

20. It should be noted, however, that the figure for value added by the transport sector is certainly reduced by charging policy in that sector.

21. Trend of total domestic demand in Portugal and the OECD countries.

	1979	1980	1981	1982	1983
OECD	1.9	0.4	0.6	0.0	2.5
OECD excluding the US	4.8	1.2	–0.6	0.8	1.0
Portugal	4.1	6.0	3.3	3.5	–6.9

Sources: OECD Economic Outlook; INE; DCP.

22. Nominal trend of direct foreign investment, percentage changes (based on values in escudos):

1974	1975	1976	1977	1978	1979	1980	1981	1982	1983I / 1982I
15.1	11.5	–19.2	16.8	27.2	62.0	40.8	43.5	6.4	3.8

Source: Bank of Portugal Quarterly Bulletin.

23. These figures are calculated on the definition of the INE's 1982 continuing employment survey and were estimated from the Ministry of Labour's latest statistics. From 1983 on the survey uses a different sample and different concepts. The figures available for the second quarter are therefore not comparable with those for earlier periods.

24. The increase in the prices of agricultural inputs, especially fertilisers (72 per cent in 1983), fuelled the rise in food prices. In addition, the floods at the end of 1983 caused a sharp rise in vegetable prices (63 per cent in December 1983 on December 1982).

25. See "Competitiveness and external disequilibrium" in Part I.

26. Trend of the main components of the balance on services and investment income. Percentage change from previous period, based on the amount in million dollars.

	Amount in 1982	1978	1979	1980	1981	1982	Jan-Sep 1983 / Jan-Sep 1982
Expenditure							
Investment income	1 377	75.8	37.0	38.7	50.6	19.8	–8.2
Merchandise freight	544	5.3	28.6	41.1	4.5	–3.4	–18.3
Receipts							
Travel	857	46.9	59.1	21.9	–10.8	–16.2	–1.3
Transport (other than freight)	379	–0.4	50.2	38.1	13.1	–29.2	–13.5

27. Expenditure per night spent is calculated as total tourism earnings divided by the number of nights spent in all forms of accommodation.
Sources: Bank of Portugal Quarterly Bulletin; OECD, *Tourism Policy and International Tourism.*

28. Trend of remittances (evaluated in dollars), index 1970=100

	1976	1977	1978	1979	1980	1981	1982	1983
Remittances per migrant	144	184	259	376	443	425	387	316

Source: Bank of Portugal.

29. Trend of total reserves of monetary institutions (Bank of Portugal, Treasury, and other monetary institutions), $ million, end-of-period position:

	1980	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Q4
Reserves:							
With gold at official price*(a)*	7 996	7 545	7 452	7 587	7 301	7 274	7103
With gold at market price*(b)*	15 958	11 058	11 512	11 650	11 032	10 537	9859
Excluding gold	2 324	1 880	1 821	1 960	1 792	2 038	1894

a) Bank of Portugal's accounting value ($254.92 per ounce).
b) Average of three month quotations on the London market (dollars per ounce). December 1980: 612.75; December 1981: 413.00; December 1982: 438.72; 1983, March: 439.00; June: 427.58; September: 413.75

30. This programme is set out in the "letter of intent" addressed by the Minister of Finance and the Plan and by the Governor of the Bank of Portugal to the Managing Director of the International Monetary Fund on 9th September 1983, which is reproduced in the Bank of Portugal Quarterly Bulletin, Vol. 5, No. 3, September 1983.

31. The special 2.8 per cent tax on wage incomes was applied retroactively to incomes received over the period January-September 1983. It was applied to civil servants who are normally exempt from income tax. The rate was 6 per cent in respect of the fee-earning professions and 2.8 per cent in respect of wage-earners.

32. According to the Portuguese authorities' most recent budget estimates, central government current revenue increased by 36.2 per cent in 1983.

33. The recent trend of the nominal public debt has been as follows (billion escudos at end of period and increase on same period of previous year):

	Q1	Q2	Q3	Q4
1982	886.7 (45.2%)	962.8 (50.9%)	979.3 (33.5%)	1028.8 (18.8%)
1983	1185.9 (33.7%)	1326.1 (37.7%)	1354.0 (38.2%)	

34. It may however be noted that the Portuguese authorities have set the cash deficit for 1984 at 7¼ per cent of GDP.

35. This percentage is calculated on the basis of the official 1984 forecast of 21.5 per cent for nominal GDP (–1.4 per cent volume and 23.3 per cent GDP prices).

36. This method comprises a double weighting, time deposits (which are the most costly for banks) having a higher weight than sight deposits. During the first three-quarters of 1981 a different method was applied, linking the authorised change in credit for each bank to the change in certain types of resource, resulting in a steep increase in the amount of credit.

37. The trend in the main items of the households' account may be as follows:

	Escudos million	Percentage change from previous year	
	1982	1983	1984
Wage incomes	805.0	18.5	20.0
Other incomes	1 090.0	21.3	22.5
Gross income	1 895.0	20.1	21.5
Taxes and social security contributions	148.5	40.8	22.5
Disposable income	1 747.8	18.3	21.4
Savings ratio (%)	28	24.3	23

Annex

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES

1983

January

Petrol, gas and electricity prices raised.

Minimum wages raised by 17 per cent.

A norm of 17 per cent set for negotiated wage increases during 1983 (measure lifted in July).

February

Import surtax raised to 30 per cent.

Approval of 1983 central government budget comprising some specific tax measures:

- Rate of stamp duty raised;
- Complementary and professional taxes reduced.

Civil service pay raised by 17 per cent.

March

Payment facilities instituted for tax arrears.

Raising of bank interest rates as well as of discount rate – to 23 per cent.

Effective 2 per cent devaluation of the escudo and rate of monthly depreciation increased from 0.75 to 1 per cent.

Raising of post and telecommunication charges, prices of water and diesel oil, as well as retail prices for bread and sugar and producer prices for milk.

April

Provision of technical and financial assistance to meet damage caused by drought.

Approval of the "agreed prices" system.

Composition of the Assembly after the elections of 25th April:

United People's Alliance (APU: PCP+MDP)	44 seats
Centre Democratic Party (CDS)	30 seats
Social Democratic Party (PSD)	75 seats
Socialist Party (PS)	101 seats
Total	250 seats

May

Publication of the terms of issue of Treasury bonds (short-term securities – Esc.7 billion; three-year Treasury bonds – Esc.20 billion).

Introduction of a special scheme to enable enterprises reporting economic difficulties to suspend individual work contracts.

Raising of excise duties on tobacco.

June

Rates of contribution to the Unemployment Fund raised (from 3 to 4 per cent).

Quotas set on consumer goods imports for the period April 1983-March 1984.

Agriculture brought within the social security system.

Investment expenditure by general government and public enterprises frozen until 31st August.

Issuance of regulations for a new saving-for-housing scheme.

Rises in prices of fertilizers (averaging 65 per cent), bread, sugar and milk (retail prices).

Effective 12 per cent devaluation of the escudo.

July

Prices of petrol and town gas raised.

Post and telecommunications charges raised.

Producer milk prices raised.

Enactment of special taxes on company profits and some categories of corporate expenditure.

Publication of the terms of issue of Treasury bonds to the general public or credit institutions: short-term securities (credit institutions) – Esc.13 billion; Treasury bonds – Esc.15 billion.

August

Raising of bank interest rates and of the Bank of Portugal's discount rate – to 25 per cent

Fare rises for rail and other public urban and interurban transport; water rates raised.

September

Raising of producer and retail milk prices and setting of government subsidies.

October

Agreement reached with the International Monetary Fund on a short-term economic recovery programme with the following main objectives, as set out in the Letter of Intent addressed by the Minister of Finance and the Plan and the Governor of the Bank of Portugal to the Managing Director of the IMF:

1. The current payments deficit to be reduced from $3.2 billion in 1982 (13.2 per cent of GDP) to $2 billion in 1983 (9.3 per cent of GDP) and $1.25 billion in 1984 (6.0 per cent of GDP).
2. The foreign debt, excluding the short-term liabilities of the Bank of Portugal and the banking system which totalled $12.9 billion at end-1982, to be limited to $13.8 billion at end-1983 and $15 billion at end-1984.
3. The banking system's net external assets ($980 million in the first half of 1983) to be limited to $160 million in the second half of 1983, with zero growth planned for 1984.
4. Growth of domestic credit to be limited to 29.7 per cent in 1983 and 22.6 per cent in 1984.

Tax on motor vehicle sales raised.

Amount of Treasury bond issues raised to Esc.21 billion.

Setting of intervention prices for marketing of cereals for the 1984-85 crop year.

Setting of norms for loans to housing and construction co-operatives.

Adoption of a series of tax measures:

- Introduction of a special supplementary tax on earned income and on income liable to land tax and capital tax.
- Raising of stamp duty.
- Higher rate of tax payable on the transfer of property or land to a value of Esc.10 million or more.
- Introduction of a travellers' exit tax.
- Introduction of a tax on bars, discos etc.

Limits placed on the use of part of the expenditure written into the central government budget.

November

Institution of a system allowing suspension of work contracts in case of difficulties involving employees or firms, and of a temporary reduction in normal working hours.

Privatisation of banking and insurance and of the cement and fertilizer industries.

Announcement of terms for the uprating of disability benefits and old-age pensions paid out by the social insurance system.

December

Amended central government budget for 1983 approved.

Establishment of norms to safeguard competition and setting up of a Competition Board (becoming operative in June 1984).

Approval of a frame-law making it compulsory for programmes to be presented in the budget on a multi-year basis.

Institution of a municipal tax to finance urban public transport systems.

The central government budget and the major Plan options for 1984 approved by Parliament.

Institution of a new housing loans scheme.

Modification of the system of interest rebates on export credit transactions.

1984

January

Minimum wage raised by 20 per cent.

Institution of norms limiting foreign borrowing by public or partly government-owned enterprises and establishment of a Co-ordinating Board for External Financing.

Approval of a new system of technical and financial assistance to energy users.

Prices system liberalised with a reduction in the number of goods and services subject to control and the transfer of certain goods from the "declared system" to the "surveillance system".

February

Raising of prices of petrol (15 per cent) and town gas.

Regulation of the setting up and operations of private commercial and investment banks.

Civil service pay increased by 16.3 per cent (retroactively to January).

Publication of the operating rules for the cereals market: institution of a pricing and intervention system and of an import-export scheme.

Approval of the requisite provisions for implementation of the 1984 central government budget (authorised expenditure cut by 10 per cent).

March

Establishment of a Standing Board for Social Consultation, with an advisory function.

Definition of municipalities' powers in respect to public investment and co-ordination between the central and local authorities.

Institution of norms for implementing and monitoring the management of integrated regional development programmes.

Approval of the broad lines of regional development policy and of the means and instruments for its implementation.

Approval of a new scheme for local authority finance.

Import surtax reduced from 30 to 10 per cent of import values; certain goods made totally exempt.

April

Ratification of the Convention on the Settlement of Investment Disputes between the State of Portugal and Nationals of other States.

Authorisation of an international bank consortium loan of an amount of Sw.Fr.150 million.

Reduction of the tax on transactions in various goods with the aim of lowering inflation and countering tax evasion.

Special beer tax increased.

Estate duty and capital transfer taxes increased.

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STATISTICAL ANNEX

Table A. **National product and expenditure**
Billion escudos

a) **Current prices**

	1977	1978	1979	1980	1981
Consumers' expenditure	450.4	535.3	667.7	820.7	1 019.3
Government current expenditure	87.8	109.7	140.9	181.4	217.6
Gross fixed asset formation	165.8	219.8	265.9	357.8	458.8
Change in stocks	15.9	20.2	27.9	61.1	47.8
Domestic expenditure	719.9	885.1	1 102.4	1 421.0	1 743.4
Exports of goods and services	115.3	158.4	261.3	345.4	392.6
Imports of goods and services	209.4	256.1	372.4	535.0	670.6
Gross domestic product at market prices	625.8	787.3	991.3	1 231.5	1 465.4

b) **1977 prices**

	1977	1978	1979	1980	1981
Consumers' expenditure	450.4	442.5	446.7	459.5	470.6
Government current expenditure	87.8	91.6	99.7	103.4	106.5
Gross fixed asset formation	165.8	177.6	175.9	194.1	204.0
Change in stocks[1]	15.9	16.3	33.5	41.5	28.8
Domestic expenditure	719.9	728.0	755.8	798.5	809.9
Exports od goods and services	115.3	128.1	166.8	179.5	173.5
Imports of goods and services	209.4	209.1	233.1	260.1	261.8
Gross domestic product at market prices	625.8	647.0	689.6	717.8	721.4

1. Including the statistical discrepancy.
Sources: National Statistics Institute; OECD, *National Accounts.*

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

Billion escudos

	1977	1978	1979	1980	1981
			Current prices		
Agriculture, forestry and fishing	74.6	94.0	115.8	126.9	124.4
Mining and quarrying Manufacturing	166.4	214.3	290.2	372.5	440.3
Electricity, gas and water	12.0	16.5	20.9	23.4	23.4
Construction	47.9	60.7	63.2	85.7	111.0
Transport and communications	35.0	43.5	55.4	64.4	85.8
Wholesale and retail trade	133.8	168.9	213.3	264.9	322.9
Banking, insurance and real estate	49.1	73.4	71.9	89.6	113.3
Public administration and defence	69.6	87.7	108.9	142.2	169.6
Other services[1]	22.6	14.5	37.8	45.2	52.0
Gross domestic product at factor cost	611.0	773.5	977.4	1 214.8	1 442.7
			1977 prices		
Agriculture, forestry and fishing	74.6	79.0	96.0	96.3	82.9
Mining and quarrying Manufacturing	166.4	175.6	188.6	199.3	202.5
Electricity, gas and water	12.0	12.3	13.0	10.4	9.2
Construction	47.9	54.0	51.4	55.4	57.5
Transport and communications	35.0	35.3	38.1	40.0	41.2
Wholesale and retail trade	133.8	132.9	137.8	144.7	147.8
Banking, insurance and real estate	49.1	61.3	52.6	54.7	60.0
Public administration and defence	69.6	72.2	77.4	81.4	84.6
Other services[1]	22.6	12.8	24.8	25.3	24.2
Gross domestic product at factor cost	611.0	635.4	679.7	707.5	709.9

1. Including the statistical discrepancy.

Sources: National Statistics Institute; OECD, *National Accounts.*

Table C. **Population by main age groups**

	1977	1978	1979	1980	1981	1982
Total (thousands)	9 168	9 204	9 338	9 423	9 496	9 555
Age groups: (per cent)						
0-24	44.2	44.1	44.9	44.7	46.5	46.1
25-64	45.3	45.3	45.1	44.9	43.3	43.6
65 +	10.5	10.6	9.9	10.4	10.2	10.2

Source: National Statistics Institute; Permanent employment survey, 2nd half year.

Table D. **Employment indicators**
1st quarter 1974 = 100

	1977	1978	1979	1980	1981	1982
Fishing	88.8	87.7	77.1	75.9	75.0	68.2
Mining	95.1	95.7	96.0	93.1	92.8	91.0
Manufacturing	99.7	100.0	100.5	101.7	101.3	99.7
Construction	90.0	91.7	89.0	88.6	93.6	94.4
Electricity, gas and water	108.5	120.4	129.2	139.5	140.9	143.5
Transport and communications	110.9	109.6	107.4	106.7	106.2	105.8
Trade	98.6	98.0	98.0	99.1	100.0	99.3
Banking, insurance, real estate	118.9	123.9	129.6	146.1	152.7	157.2
Services	100.1	102.2	103.2	103.6	104.8	106.2
Total	99.8	100.2	100.3	101.7	102.4	101.5

Note: Wages earners, excluding agriculture and civil service.
Source: Statistical office of the Ministry of Labour.

Table E. **Prices and wages**

	1980	1981	1982	1983 Q1	1983 Q2	1983 Q3	1983 Q4
Consumer prices, mainland (total less rent)	225.0	269.9	330.3	377.6	396.9	423.9	459.5
Index 1976 = 100							
Food an drink	228.3	272.8	338.6	385.1	407.5	434.8	475.0
Clothing and Footwear	238.4	287.3	332.1	371.2	383.7	395.8	417.9
Miscellaneous	209.8	253.3	310.8	363.0	376.5	407.1	435.7
Housing costs	223.7	269.3	323.5	373.1	394.0	426.4	458.3
Consumer prices, Lisbon							
(less rent)							
Index 1976 = 100	228.4	274.3	333.5	382.8	402.1		
Nominal average wages, mainland							
Index 1973 = 100							
Manufacturing Industry	445.4	538.4	644.6	621.4			
Construction	422.4	525.8	625.3	727.5	754.2	767.7	
Agriculture[1]	380.0	522.7	654.8	735.9	765.2	778.1	
Wages in industry and transports, Lisbon							
Index 1976 = 100	172.8	210.1	255.9	286.6	294.2		

1. Break in series.

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

Table F. General government revenue and expenditure

National accounts basis standardized concepts. Billion escudos

	1975	1976	1977	1978[1]	1979[1]	1980[1]	1981[1]	1982[1]
Central government								
Current revenue	60.42	89.71	138.2	189.8	245.3	324.2	414.2	505.3
Taxes and current transfers received	58.50	84.37	109.8	137.1	175.0	241.0	310.9	390.4
Income from property and entrepreneurship	1.92	5.33	28.4	52.7	70.3	83.2	103.3	114.9
Current expenditure	67.46	94.40	146.8	219.8	285.1	373.7	495.1	584.5
Goods and services	45.83	48.94	66.5	100.4	127.2	162.9	202.2	243.2
Current transfers paid	21.63	45.47	80.3	119.4	157.9	210.8	292.9	340.7
Current saving	–7.04	–4.69	– 8.6	–30.0	–39.8	–49.5	–80.9	–79.2
Net capital transfers paid	1.17	5.28	9.9	17.4	22.7	34.6	27.2	36.2
Gross fixed investment	6.48	9.30	18.7	18.4	21.8	24.6	33.4	36.6
Net borrowing (–) or lending	–14.69	–19.27	–37.2	–65.8	–84.3	–108.7	–141.5	–152.0
Consolidated account of general government								
Current revenue	93.95	132.05	168.0	212.2	264.3	362.6	447.1	563.7
Taxes and current transfers received	88.89	122.36	160.2	201.1	246.0	341.1	432.8	540.2
Income from property and entrepreneurship	5.06	9.69	7.8	11.1	18.3	21.5	14.3	23.2
Current expenditure	103.24	145.10	180.6	238.5	302.2	404.6	527.3	643.3
Goods and service	57.98	66.12	88.2	114.7	147.6	185.6	230.8	280.3
Current transfers paid	45.26	78.97	92.4	123.8	154.6	219.0	296.5	363.0
Current saving	–9.29	–13.04	–12.6	–26.3	–37.9	–42.0	–80.2	–79.6
Net capital transfers paid	1.11	5.33	5.1	8.2	6.3	15.0	7.9	14.0
Gross fixed investment	10.22	14.48	25.1	30.9	36.4	49.4	62.5	68.8
Net borrowing (–) or lending	–20.63	–32.86	–42.8	–65.4	–80.6	–106.3	–148.2	–162.4

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

Sources: National Statistics and Ministry of Finance.

Table G. **Money supply and its counterparts**

Billion escudos at end of period

	1978	1979	1980	1981	1982
Total money supply	726.6	991.9	1 339.3	1.722.9	2 177.7
Money	314.9	396.6	484.5	525.3	610.0
Notes and coins in circulation	122.0	145.3	166.5	188.4	219.5
Sight deposits, households and enterprises	192.9	251.3	318.0	334.2	386.0
Quasi-money	411.7	595.3	854.8	1 197.5	1 567.8
Counterparts					
Net foreign assets	–18.9	42.1	339.4	411.8	569.5
Net lending to the public sector	171.7	247.4	170.0	305.4	462.2
Lending to the private sector	703.2	853.4	1 073.1	1 342.3	1 677.6
Miscellaneous, net	–129.4	–151.0	–243.2	–336.6	–531.6

Source: Bank of Portugal, *Quarterly bulletin.*

Table H. **Maximum interest rates**

Percentages

	6/5/78	16/7/81	20/4/82	23/3/83	8/8/83
Discount rate	18.0-23.0	18.0-23.0	19.0-24.0	23.0-28.0	25.0-30.0
Lending rates					
Up to 90 days	18.25	21.0	23.0	27.0	29.5
Between 180 days and one year	20.00	22.0	24.0	28.0	30.5
More than 5 years	22.25	24.0	26.0	30.0	32.5
Borrowing rates					
Sights deposits	1.0	1.0	1.0	1.0	1.0
Time deposits up to 90 days	8.0	10.0	11.0	15.5	17.5
Time deposits between 180 days and one year	19.0	19.5	21.5	26.0	28.0
Time deposits of more than one year	20.0	21.0	23.0	28.0	30.0

Source: Bank of Portugal, *Quarterly bulletin.*

Table I. **Breakdown by nationality of foreign visitors**
Thousands

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total	4 079.7	2 621.8	1 966.4	2 175.4	3 055.4	3 389.3	5 287.4	6 977.0	7 277.0
Germany	209.7	167.2	143.8	150.1	204.2	259.3	286.7	300.1	306.6
Argentina	–	26.8	22.4	11.9	10.6	12.1	13.4	16.9	14.5
Belgium	46.3	30.4	27.2	32.1	50.7	46.9	48.2	45.6	48.4
Brazil	–	65.2	52.7	43.7	35.5	45.0	52.1	60.9	64.4
Canada	25.0	38.8	22.8	21.7	32.0	36.9	40.7	40.3	43.5
Spain	2 109.3	1 169.4	856.4	1 049.3	1 599.5	1 755.2	3 514.8	5 051.1	5 226.9
United States	345.7	217.6	96.1	82.1	141.5	161.5	153.8	135.5	141.7
France	248.6	152.9	119.1	134.4	172.4	179.6	183.2	237.4	239.0
Netherlands	54.1	37.4	39.5	51.6	92.3	111.1	129.8	127.7	128.7
Italy	80.0	83.7	69.8	66.6	65.4	72.4	70.1	72.7	68.3
United Kingdom	511.6	383.0	284.6	244.6	292.8	327.9	399.8	483.9	548.5
Sweden	42.8	31.6	27.3	49.2	61.0	56.3	51.4	62.7	71.3
Switzerland	50.0	38.5	23.0	23.2	32.8	31.7	36.0	40.0	41.3
Other countries	356.7	179.3	181.7	214.9	264.7	293.4	307.4	302.2	333.9

Source: National Statistics Institute, *Tourism Statistics.*

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

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Imports, total	2.908	4 581	3 839	4 315	4 963	5 142	6 529	9 271	9 787	9 541
Food and beverages	402	772	765	742	733	678	895	1 104	1 360	1 075
Basic materials	594	1 084	1 009	1 213	1 412	1 399	2 054	3 146	3 264	3 428
Manufactures										
Chemicals	312	458	348	507	560	627	794	997	959	880
Goods classified chiefly by material	511	861	583	598	789	829	934	1 412	1 271	1 273
Machinery and transport equipment	928	1 179	961	1 065	1 301	1 423	1 634	2 305	2 589	2 521
Miscellaneous	159	220	170	186	165	181	212	301	333	340
Unspecified	1	1	0	1	2	5	6	6	11	24
Exports, total	1 765	2 276	1 939	1 820	2 013	2 426	3 478	4 633	4 147	4 173
Food and beverages	303	3334	300	291	303	350	444	517	430	406
Basic materials	228	350	265	296	286	296	387	772	764	634
Manufactures										
Chemicals	103	188	125	95	102	129	208	286	247	343
Goods classified chiefly by material	632	780	664	594	666	836	1 236	1 464	1 306	1 247
Machinery and transport equipment	233	288	256	230	299	328	429	617	522	584
Miscellaneous	251	323	312	282	319	439	713	918	824	882
Unspecified	14	11	14	32	34.5	48	61	58	54	76

Note: Due to rounding, detail may not add to total.
SITC group:
Food and beverages: 0, 1
Basic materials: 2, 3, 4
Manufactures: 5, 6, 7, 8
Chemicals: 5
Goods classified chiefly by material: 6
Machinery and transport equipment: 7
Miscellaneous: 8
Unspecified: 9
Source: OECD, *Foreign Trade Statistics, Series B.*

Table K. **Geographical breakdown of foreign trade**

Billion escudos

	1977	1978	1979	1980	1981	1982
	Exports					
Total	77.7	106.4	176.1	232.2	256.9	331.9
OECD countries	61.4	86.2	142.6	187.1	199.1	271.3
OECD Europe	54.0	75.6	127.1	168.7	179.6	243.3
Germany	9.2	14.0	21.6	31.4	32.0	43.0
France	6.2	9.6	17.1	24.3	32.3	43.6
Italy	2.9	6.1	10.4	13.6	10.9	16.0
United-Kingdom	14.2	19.4	31.4	34.3	37.1	49.2
Other OECD European countries	21.6	26.5	46.6	65.1	67.3	91.5
United States	5.2	7.5	10.8	13.2	13.4	20.5
Other OECD countries	2.1	3.1	4.2	5.2	6.1	7.5
Non OECD countries	16.3	20.3	33.5	45.1	57.8	60.6
including: OPEC	1.4	1.5	3.4	. .	9.4	9.7
Previous Escudo area	5.0	5.9	9.0	13.8	19.4	16.5
	Imports					
Total	190.7	230.1	331.9	465.8	609.0	749.0
OECD countries	138.7	177.4	243.3	318.5	418.1	518.4
OECD Europe	109.9	138.7	188.6	247.7	318.7	404.0
Germany	23.7	31.9	41.8	54.2	66.9	88.3
France	15.4	20.7	28.4	33.7	47.4	64.8
Italy	10.2	12.6	17.1	24.2	32.8	41.3
United Kingdom	19.8	23.2	30.7	40.8	49.2	58.1
Other OECD European countries	40.7	50.2	70.6	94.8	122.4	151.5
United States	19.4	27.1	39.0	50.9	72.9	81.0
Other OECD countries	9.4	11.5	15.7	19.9	26.5	33.4
Non OECD countries	52.0	52.7	88.7	147.3	190.9	230.6
including: OPEC	20.6	27.1	47.9	. .	113.5	144.9
Previous Escudo area	2.5	1.5	3.2	2.1	2.6	3.3

Source: National Statistics Institute, *Monthly bulletin of foreign trade statistics.*

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

	1974	1975	1976	1977	1978	1979	1980	1981	1982
Exports, fob	2 303	1 940	1 790	2 001	2 379	3 550	4 575	4 088	4 119
Imports, fob	4 305	3 614	3 965	4 533	4 787	6 182	8 781	9 282	8 972
Trade balance	–2 002	–1 674	–2 175	–2 532	–2 408	–2 632	–4 206	–5 194	–4 853
Services, net	55	–184	–78	–97	–53	104	–45	–544	–1 092
Travel	259	101	182	268	431	695	859	777	609
Transports	–145	–128	–138	–104	–129	–114	–194	–147	–283
Investment income	128	–15	–132	–179	–329	–437	–612	–975	–1 256
Government transactions	–225	–172	47	–38	–31	–40	–98	–199	–162
Other services	37	30	–37	–44	4				
Transferts, net	1 118	1 039	964	1 134	1 635	2 476	3 000	2 888	2 681
Current balance	–829	–819	–1 289	–1 495	–826	–52	–1 251	–2 850	–3 264
Medium and long-term capital	274	–108	26	95	758	813	1 404	1 853	2 519
Private	357	–21	15	19	249	462	1 000	1 357	1 885
Official	–83	–87	11	76	509	351	404	496	634
Short-term and unrecorded	–83	–89	105	–30	228	594	705	848	868
Balance of non-monetary transactions	–638	–1 016	–1 158	–1 430	160	1 355	858	–149	123
Private monetary institutions short-term capital	59	–26	186	567	–201	–995	–498	43	–15
Balance on official settlements	–579	–1 402	-972	–863	–41	360	360	–106	108
Use of IMF credit	–	–	176	83	–53	–41	–102	–72	–59
Miscellaneous official accounts	–15	290	650	421	197	–251	–334	–6	–211
Changes in reserves (increase = –)	594	752	146	359	–103	–68	76	184	162

Source: Memorandum submitted to the OECD by the Portuguese authorities.

BASIC STATISTICS :

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan
Population Total	Mid-1981	Thousands	14 923	7 508	9 852	24 365	5 122	4 800	53 963	61 682	9 730	231	3 443	56 502[2]	117 660
Inhabitants per sq. km of land area	»	Number	2	89	323	2	119	14	98	248	74	2	49	118	316
Net average annual increase	Mid-1971 to Mid-1981	%	1.3	0.1	0.2	1.2	0.3	0.4	0.5	0.1	1.0	1.2	1.5	0.5	1.1
Employment Total civilian	1981	Thousands	6 364	3 276	3 669	10 933	2 369	2 234	20 959	25 588	3 529	107	1 136	20 623	55 810
of which: Agriculture	»	% of total	6.5	8.8	3.0	5.5	7.3	11.1	8.6	5.5	30.7	11.7	17.7	13.4	10.0
Industry[4]	»	»	30.6	39.5	33.4	28.3	29.3	34.8	35.9	43.5	29.0	37.4	31.7	37.5	35.3
Other	»	»	62.8	51.7	63.6	66.2	63.3	54.1	56.2	51.0	40.3	50.9	50.6	49.1	54.7
Gross domestic product in purchasers' values	1981	US $ billion[11]	160.7	66.5	95.1	284.3	58.1	49.1	569.4	683.2	36.7	2.9	16.7	350.2	1 129.5
Average annual volume growth[6]	1976 to 1981	%	2.7	2.6	1.5	2.8	1.3	3.5	2.3	2.5	2.9	4.0	3.8	2.6	4.6
Per capita	1981	US $[11]	10 763	8 842	9 651	11 741	11 350	10 238	10 552	11 076	3 769	12 791	4 855	6 123	9 606
Gross fixed capital formation	1981	% of GDP	24.9	24.9	17.9	23.7	15.7	24.3	21.2	22.0	21.0[8]	25.9	29.8	20.3	31.0
of which: Transport, machinery and equipment	»	»	12.4	11.7	5.8	8.7	6.4	9.8	9.3	8.3	8.0	7.5	12.7[26]	8.5	10.5
Residential construction	»	»	4.8[10]	..	3.9	4.8	4.0	6.3	6.1	6.6	6.0	4.7	6.6[26]	5.6	6.3
Average annual volume growth[6]	1976 to 1981	%	3.8	0.9	—2.6	3.0	—6.6	0.0	0.9	3.0	0.2	3.1	6.4	2.8	4.5
Gross saving ratio[12]	1981	% of GDP	21.5[10]	24.5	12.9	21.4	12.3	24.2	19.4	20.8	22.8	22.3	15.0	18.9	31.9
General government															
Current expenditure on goods and services	1981	% of GDP	17.1	18.4	19.0	19.5	27.7	19.1	15.8	20.7	17.9	11.8	22.0	18.1	10.1
Current disbursements[13]	»	»	31.1[10]	44.0	52.7	38.4	55.1	35.2	45.7	44.3	36.0	25.0[22]	48.3[26]	46.1	26.5
Current receipts	»	»	34.4[10]	47.4	44.0	38.7	51.2	39.4	46.1	44.6	30.4	34.0[22]	41.7[26]	38.7	29.3
Net official development assistance	1982	% of GNP	0.57	0.53	0.60	0.42	0.77	0.30	0.75	0.48	..	..	0.20	0.24	0.29
Indicators of living standards															
Private consumption per capita	1981	US $[11]	6 431	4 977	6 354	6 518	6 385	5 583	6 856	6 270	2 555	7 934	3 099	3 831	5 550
Passenger cars, per 1 000 inhabitants	1978	Number	475	272	302	410[22]	219	235	327	346	79	339	194	300	185
Telephones, per 1 000 inhabitants	1981	»	489[26]	421	387	694	675	522	498	488	302	475[26]	208	364	502
Television sets, per 1 000 inhabitants	1980	»	378	296[29]	395[29]	471	368[29]	322[29]	354	337[29]	156[29]	275[29]	225[23]	386	539
Doctors, per 1 000 inhabitants	1981	%	1.9	1.6[26]	2.6	1.6	2.2[26]	2.0	2.2[26]	2.3	2.3[23]	2.3	1.2[14]	3.1[26]	1.3[26]
Full-time school enrolment[15]	1980	%	86	74	89	89	87[23]	90	85	79[30]	81[19]	83[14]	93	73	91
Infant mortality[17]	1982	Number	10.0[28]	12.8	11.7[28]	9.6[28]	8.1[28]	6.5[28]	9.6[28]	11.6[28]	15.6[28]	6.0[28]	10.6[28]	13.2	7.1[28]
Wages and prices	Average annual increase														
Hourly earnings in manufacturing	1977 to 1982	%	10.2	6.3	8.1	9.9	10.4	11.0	14.2	5.4	26.3	49.9	16.3	19.6	6.2
Consumer prices	»	%	9.6	5.2	6.4	10.3	10.8	9.6	11.7	4.7	20.3	49.4	15.2	16.8	4.6
Foreign trade															
Exports of goods, fob	1982	US $ million[11]	22 152	15 648	52 404[7]	68 412	15 312	13 068	92 352	175 452	4 284	684	8 088	73 380	138 252
As percentage of GDP	»	%	14.01	23.36	60.58[7]	23.52	27.20	26.89	17.13	26.60	11.42	26.31	46.22	21.28	13.02
Average annual volume increase	1977 to 1982	%	2.32[32]	5.48	2.60[7]	0.08	5.83	5.25	3.54	4.57	2.59	..	6.83	3.07	4.77
Imports of goods, cif	1982	US $ million[11]	24 240	19 500	57 828[7]	54 816	16 836	13 428	115 380	154 044	9 972	948	9 684	85 920	131 124
As percentage of GDP	»	%	15.33	29.11	66.85[7]	18.84	29.90	27.63	21.40	23.36	26.59	36.46	55.34	24.92	12.35
Average annual volume increase	1977 to 1982	%	—0.69[32]	1.57	1.59[7]	—0.01	—0.24	3.87	4.54	3.06	3.26	..	4.26	3.05	1.66
Total official reserves[24]	Mid-1982	US $ million	4 336	6 131	5 796[7]	4 076	2 472	1 551	22 644	48 017	1 095	190	2 651	19 601	26 733
As ratio of average monthly imports of goods	In 1982	ratio	2.15	3.77	1.20[7]	0.89	1.76	1.39	2.35	3.74	1.32	2.41	3.29	2.74	2.45

	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia[1]
Population Total	366	14 247	3 176	4 100	9 970	37 654	8 324	6 429	45 747	56 020	229 849	22 520
Inhabitants per sq. km of land area	141	346	12	13	108	75	19	156	59	230	25	87
Net average annual increase	0.6	0.8	1.0	0.5	1.1	1.0	0.3	0.2	2.3	0.1	1.0	0.9
Employment Total civilian	160	4 922	1 265	1 932	3 969	10 931	4 225	3 054	14 668	23 819	100 397	9 690[3]
of which: Agriculture	5.6	5.0	11.2	8.5	26.7	18.2	5.6	7.0	60.1	2.6	3.5	33.8
Industry[4]	38.1	30.2	32.6	29.8	37.5	35.2	31.3	39.3	16.4	35.7	30.1	22.3
Other	56.3	64.8	56.1	61.7	36.8	46.6	63.1	53.7	23.5	61.7	66.4	41.9
Gross domestic product in purchasers' values	3.9	140.5	25.0[9]	57.1	23.8	186.1	122.4	94.5	57.6	497.8	2 906.3	67.8[26]
Average annual volume growth[6]	1.8	1.4	0.2	3.6	4.0	1.4	1.0	2.4	2.0	0.5	2.8	..
Per capita	10 566	9 861	7 957	13 937	2 398	4 938	13 505	14 778	1 262	8 886	12 647	3 034[26]
Gross fixed capital formation	23.3	19.0	20.6	27.2	31.3	20.1	19.3	24.2	19.9	15.9	17.9	31.0[26]
of which: Transport, machinery and equipment	9.2[26]	7.3	7.8[26]	9.1	13.8	6.5[26]	7.8	7.6	8.7[22]	8.1	8.1	..
Residential construction	5.5[26]	5.5	3.6[26]	4.5	7.8	5.5[23]	4.6	16.6	2.7[22]	2.1	3.6	7.2[26]
Average annual volume growth[6]	2.2	—0.4	—3.4	0.2	6.6	—1.2	—1.4	5.1	—2.4	—1.9	3.3	5.7[26]
Gross saving ratio[12]	47.8	20.0	20.7[9]	29.8	22.7	18.0	16.0	28.7	20.3	17.3	18.9	37.0[26]
General government												
Current expenditure on goods and services	17.5	17.9	17.4[9]	19.0	14.9	11.8	29.3	12.5	12.6	22.3	18.1	16.9[26]
Current disbursements[13]	51.6[26]	55.8	..	44.6	30.9[14]	29.4[26]	60.3	28.1	..	44.6	34.2	..
Current receipts	57.3[26]	55.9	..	52.5	28.1[14]	30.0[26]	59.0	32.6	..	43.4	33.7	..
Net official development assistance	..	1.08	0.28	0.99	..	..	1.02	0.25	..	0.38	0.27	..
Indicators of living standards												
Private consumption per capita	6 393	5 979	4 748	6 609	1 668	3 449	7 091	9 244	885	5 382	8 085	1 580[26]
Passenger cars, per 1 000 inhabitants	423	288	395	282	118	178	345	324	14	262	526	85
Telephones, per 1 000 inhabitants	547[23]	539	560	485	149	329	828	751	39[23]	507	789	71[22]
Television sets, per 1 000 inhabitants	245[23]	296[29]	278	292[29]	141	252	381[29]	314[29]	75[29]	404	624	192[29]
Doctors, per 1 000 inhabitants	1.7[26]	1.9	1.6	2.0	1.9[26]	2.6	2.2[26]	1.6	0.6	1.3	2.0[26]	1.3[22]
Full-time school enrolment[15]	69	94	81	94[23]	55[22]	87[23]	86	..	37[23]	82[23]	100[30]	83
Infant mortality[17]	11.0[28]	8.1	11.8	7.5[28]	26.0[26]	10.3[28]	6.8	7.6[28]	131.0[27]	11.8[28]	11.2	30.7[26]
Wages and prices												
Hourly earnings in manufacturing	6.2[31]	4.8	16.7	8.3	19.3	20.5	8.7	4.4	..	13.4	8.4	25.4
Consumer prices	6.2	5.5	14.9	9.7	21.0	16.0	10.3	4.2	56.5	12.0	9.8	27.3
Foreign trade												
Exports of goods, fob	..	66 228	5 551	17 544	4 176	20 568	26 736	25 932	5 772	97 224	212 280	8 364
As percentage of GDP	..	48.27	..	31.27	17.92	11.48	27.31	27.04	10.99	20.63	7.02	13.46[28]
Average annual volume increase	..	2.21	3.66	6.40	..	7.57[33]	3.52	1.85	14.25	1.55	2.91	..
Imports of goods, cif	..	62 580	5 782	15 456	9 420	31 620	27 624	28 596	8 940	99 672	243 948	10 980
As percentage of GDP	..	45.61	..	27.55	40.43	17.65	28.22	29.82	17.63	21.15	8.06	17.67[28]
Average annual volume increase	..	0.38	2.86	1.67	..	2.06[33]	1.89	4.43	—4.39	3.32	—0.31	..
Total official reserves[24]	..	1 480	656	6 611	1 374	9 809	3 798	18 024	1 254	14 572	27 710	1 260
As ratio of average monthly imports of goods	..	2.20	1.36	5.13	1.75	3.72	1.65	7.56	1.68	1.76	1.36	1.38

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 1st April.
10. Fiscal year beginning 1st July.
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. Gross enrolment rates in secondary schools.
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.
26. 1980.
27. 1975 to 1980.
28. 1981.
29. Licences issued.
30. Primary and secondary schools.
31. 1976 to 1981.
32. 1977 to 1980.
33. 1977 to 1979.

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*.

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