Report No. 5617-PO

# Portugal
# Economic Stabilization and Priorities For Financial Recovery

July 1, 1986

Country Programs I
Europe, Middle East and North Africa Region

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**Document of the World Bank**

## FISCAL YEAR

January 1 to December 31

## CURRENCY EQUIVALENTS

Portuguese escudos per U.S. dollar

| | Average annual | End of period |
|---|---|---|
| 1979 | 48.9 | 49.8 |
| 1980 | 50.1 | 53.0 |
| 1981 | 61.5 | 65.2 |
| 1982 | 79.5 | 89.1 |
| 1983 | 110.8 | 131.5 |
| 1984 | 146.4 | 169.3 |
| 1985 | 170.4 | 157.5 |

## ABBREVIATIONS

| | |
|---|---|
| AIP | Associacao da Industria Portuguesa |
| APS | Administrative Public Sector |
| BPA | Banco Portugues do Atlantico |
| CAP | Common Agricultural Policy (of the EC) |
| CIP | Confederacao da Industria Portuguesa |
| DCP | Central Department of Planning of the Ministry of Finance |
| EC | European Community |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| OECD | Organization of Economic Co-Operation and Development |
| PAREMPRESA | Sociedada Parabancaria para a Recuperacao de Empresas |
| PIDDAC | Investment Program of the Administrative Public Sector |
| PISEE | Investment Program of Public Enterprises |
| PRFE | Financial and Economic Recovery Program |
| SIII | System of Integrated Investment Incentives |
| VAT | Value-Added Tax |

# PREFACE

This report is the result of a mission that visited Portugal between March 24 and April 9, 1984. The mission was composed of P. Lazar (Mission Leader), V. Rajagopalan (Sr. Loan Officer), M. Ballesteros (Sr. Agricultural Economist), C.W. Hartland-Peel (Investment Officer, IFC), D. Nowicki (Research Assistant), Ch. de Boissieu (Consultant) and F. Veneroso (Consultant, IFC). References to ministries and ministerial responsibilities pertain to those in operation at the time of the mission. During spring 1985, the report was updated through 1984, and A. Stevenson (consultant) helped revise the report. A draft report was discussed in Lisbon in July 1985 by P. Hasan (Chief Economist) and P. Lazar and resubmitted shortly thereafter. M. de Melo (Sr. Economist) undertook subsequent revisions and finalized the report.

Prior to dessiminating the report, the Portuguese authorities requested the Bank to reconsider certain aspects of the analysis. These requests and changing political leadership have led to delays in finalizing the report and distributing it to the Board. In this connection, it should be noted that most of the information and analysis in the report dates from July 1985. The discussion of priorities for economic management remains generally valid, although developments in 1985 and early 1986—in particular, the declines in the dollar and the price of oil—have improved Portugal's growth and balance of payments positions relative to those anticipated.

## ABSTRACT

The deterioration in Portugal's public finances and balance of payments during 1980-82 led to difficulties in external financing in early 1983 and the introduction of an emergency stabilization program. This report focuses on the evolution of the Portuguese economy in 1983 and 1984 under this program and then discusses further priorities for financial recovery. The stabilization program consisted of discrete devaluations of the escudo, an increase in interest rates, an increase in administered prices, and stricter ceilings on domestic and external credit. These measures resulted in major reductions in the current account deficit in 1983 and 1984, although real GDP declined slightly. The internal adjustment effort was less successful, however, with a major improvement in public finances in 1983 followed by a deterioration in 1984. With this background, the report presents alternative scenarios of macroeconomic developments over the medium term and points to the range of policies and programs which will help Portugal achieve and maintain satisfactory growth. Special emphasis is given in the report to improving the management of public finances and instituting better financial policies to encourage growth in the private sector.

# PORTUGAL: ECONOMIC STABILIZATION AND PRIORITIES FOR FINANCIAL RECOVERY

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# COUNTRY DATA - PORTUGAL

| AREA | POPULATION | DENSITY (1984) |
|---|---|---|
| 92,100 sq km | 9.610 million (1984) | 111.7 per square km |

| POPULATION CHARACTERISTICS (1982) | |
|---|---|
| Crude Birth Rate (per 1,000) | 17.8 |
| Crude Death Rate (per 1,000) | 9.9 |

| INCOME DISTRIBUTION (1968) | |
|---|---|
| % of national income, highest quartile | 56.1 |
| lowest quartile | 6.2 |

| ACCESS TO SAFE WATER (1976) | |
|---|---|
| Occupied dwellings without access (%) | 35.0 |

| NUTRITION (1980) | |
|---|---|
| Calorie intake as % of requirements | 110.0 |
| Per capita protein intake (grams/day) | 70.0 |

| HEALTH | |
|---|---|
| Population per physician (1979) | 540 |
| Population per hospital bed (1978) | 650 |

| ACCESS TO ELECTRICITY (1969-71) | |
|---|---|
| % of population - total | 64.2 |
| - rural | n.a. |

| EDUCATION | |
|---|---|
| Adult literacy rate % (1979) | 78.0 |
| Primary school enrollment % (1982) | 103.0 |

GNP PER CAPITA IN 1984 US$1,970 /a

| GROSS NATIONAL PRODUCT IN 1984 | US$ Mln. | % | ANNUAL RATE OF GROWTH (% constant prices) 1974-77 | 1977-82 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| GDP at Market Prices | 19,290 | 9.5 | 2.6 | 3.5 | -0.1 | -1.3 |
| Gross Domestic Investment | 4,406 | 22.8 | -0.8 | 7.6 | -22.7 | -18.9 |
| Gross Domestic Saving | 3,067 | 15.9 | -5.5 | 9.7 | -8.0 | 3.3 |
| Current Account Balance | -623 | 3.2 | . | . | . | . |
| Exports of Goods, NFS | 6,942 | 36.0 | 6.7 | 8.6 | 16.7 | 14.5 |
| Imports of Goods, NFS | 8,432 | 43.7 | -5.7 | 6.3 | -8.7 | -3.5 |

| OUTPUT, EMPLOYMENT AND PRODUCTIVITY IN 1984 | Value Added US$ Mln | Value Added % | Labor Force Thousands | Labor Force % | V.A. Per Worker US$ | V.A. Per Worker % |
|---|---|---|---|---|---|---|
| Agriculture | 1,810 | 9.5 | 969 | 23.7 | 1,870 | 40.0 |
| Industry | 7,630 | 40.0 | 1,388 | 33.9 | 5,497 | 118.1 |
| Services | 9,618 | 50.5 | 1,738 | 42.4 | 5,534 | 119.0 |
| Total/Average | 1,9058 | 100.0 | 4,095 | 100.0 | 4,659 | 100.0 |

| GOVERNMENT FINANCE | General Government Esc. Billion 1984 | General Government % of GDP 1980 | 1983 | 1984 | Central Government Esc. Billion 1984 | Central Government % of GDP 1980 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Current Receipts | 901.3 | 29.4 | 36.6 | 31.9 | 536.2 | 16.2 | 21.2 | 19.0 |
| Current Expenditures | 1,017.4 | 32.7 | 39.9 | 36.0 | 695.4 | 20.7 | 24.5 | 24.6 |
| Current Surplus | -116.1 | -3.4 | 39.9 | 36.0 | -159.2 | -4.5 | -3.4 | -5.6 |
| Capital Expenditures | 124.6 | 5.7 | 5.1 | 4.4 | 96.1 | 4.9 | 4.3 | 3.4 |

/a The per capita GNP estimate is calculated by the same conversion technique as the World Bank Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

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## COUNTRY DATA - PORTUGAL

| MONEY, CREDIT AND PRICES | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| | (Million Esc. outstanding end period) | | | | | |
| Money Supply (M2+) /a | 994.2 | 1,340.4 | 1,723.7 | 2,178.1 | 2,610.9 | 3,317.2 |
| Domestic Bank Credit to Public Sector | 499.3 | 453.7 | 626.5 | 846.1 | 1,138.8 | 1,501.1 |
| Domestic Bank Credit to Private Sector | 604.1 | 792.4 | 1,023.8 | 1,304.1 | 1,469.2 | 1,729.8 |
| | (Percentage Change or Index Numbers) | | | | | |
| Money as % of GDP | 100.1 | 108.5 | 117.0 | 124.0 | 114.0 | 117.5 |
| Consumer Price Index (1976 = 100) | 193.0 | 225.0 | 269.9 | 330.3 | 414.6 | 536.1 |
| Annual percentage changes in: | | | | | | |
| Consumer Price Index | 24.2 | 16.6 | 20.0 | 22.4 | 25.5 | 29.3 |
| Bank Credit to Public Sector | 29.1 | -9.1 | 38.1 | 35.1 | 34.6 | 31.8 |
| Bank Credit to Private Sector | 23.0 | 31.2 | 29.2 | 27.4 | 12.7 | 17.7 |

### BALANCE OF PAYMENTS (US$ million)

| | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|
| Exports of Goods, NFS | 5,733 | 5,411 | 6,163 | 6,958 |
| Imports of Goods, NFS | 10,298 | 9,917 | 8,910 | 8,559 |
| Resource Gap (deficit = -) | -4,565 | -4,506 | -2,747 | -1,601 |
| Interest Payments (net) | -975 | -1,269 | -1,064 | -1,200 |
| Other Factor Payments (net) | 2,688 | 2,530 | 2,171 | 2,178 |
| Net Transfers | .. | .. | .. | .. |
| Balance on Current Account | -2,852 | -3,245 | -1,640 | -623 |
| Direct Private Foreign Investment | 144 | 120 | 118 | 158 |
| Net MLT Borrowing | | | | |
| Disbursements | 2,619 | 3,582 | 2,659 | 2,798 |
| Amortization | 829 | 922 | 1,193 | 1,641 |
| Subtotal | 1,790 | 2,660 | 1,466 | 1,157 |
| Other Capital (net) and capital n.e.i. | 1,101 | 519 | 1,010 | -563 |
| Increase in Reserves (-) | 183 | 54 | 1,066 | -129 |
| Gross Reserves (end year) | 9,335 | 1,0540 | 8,179 | 6,775 |
| of which gold | 8,801 | 10,093 | 7,794 | 6,259 |

### MERCHANDISE EXPORTS, 1984

| | US$ million | % |
|---|---|---|
| Agricultural Products | 584.7 | 11.3 |
| Mineral Products | 390.7 | 7.5 |
| Chemical Products | 434.2 | 8.4 |
| Wood and Cork Products | 746.6 | 14.4 |
| Textilies and Clothing | 1453.2 | 28.0 |
| Leather and Footwear | 280.1 | 5.4 |
| Metals and Metal Products | 254.3 | 4.9 |
| Machinery | 646.5 | 12.4 |
| Other Products | 126.0 | 2.4 |
| Transport Equipment | 162.4 | 3.1 |
| Aircrafts and Boats | 81.8 | 1.6 |
| Diamonds | 34.8 | 0.6 |
| | 5195.3 | 100.0 |

### EXTERNAL DEBT (US$ million as of DECEMBER 31)

| | 1983 | 1984 |
|---|---|---|
| Public Debt, incl. guaranteed /b | 9,951 | 11,435 |
| Non-Guaranteed Private Debt /b | 632 | 524 |
| Total Outstanding & Disbursed /b | 10,583 | 11,959 |
| Short-term Debt /c | 3,578 | 3,015 |

### NET DEBT SERVICE RATIO

| | | |
|---|---|---|
| Public Debt medium- and long- term incl. guaranteed | 22.4 | 31.7 |
| Total Outstanding and Disbursed /d | 28.2 | 35.5 |

### RATE OF EXCHANGE

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| US$1.00 = Esc. | 61.55 | 79.47 | 110.78 | 146.39 | 170.39 |
| Esc. 1.00 = US$ | .0162 | .0126 | .0090 | .0068 | .0059 |

### IBRD/IDA LENDING December 31, 1985 (US$ million)

| | IBRD | IDA |
|---|---|---|
| Outstanding and Disbursed | 264.9 | - |
| Undisbursed | 393.7 | - |
| Outstanding inc. Undisbursed | 658.6 | |

/a Includes currency, demand deposits, time and other deposits.
/b Medium- and long-term only. Source: DRS. Does not include short-term debt.
/c Source: Bank of Portugal.
/d Including interest on short-term debt.

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# EXECUTIVE SUMMARY

## Economic Developments in 1983-84

i. This report is largely based on data available up to July, 1985 when an earlier draft of this report was discussed with the Government. These discussions led to revisions in the report but subsequent changes in the Government, combined with further discussions of selected issues, prevented earlier distribution of the document to the Board. Although the report focuses mainly on the implications of developments in 1983-84, its main conclusions and recommendations remain broadly relevant to Portugal's efforts to improve the performance of the economy.

ii. Portugal again faced a balance of payments crisis early in 1983; and, on taking over from the caretaker Government in June, the new Government drew up an emergency stabilization program. Measures were immediately taken to devalue the escudo and to increase administered prices and interest rates. A Stand-By agreement was reached with the IMF, which included additional provisions for monitoring the external debt as well as the deficit of the public sector. As a result of these measures, the current account deficit in the balance of payments fell very sharply. It was reduced by half in 1983 to just above US$1.6 billion (7.2 percent of GDP) and fell further in 1984 to an estimated US$0.5 billion (2.2 percent of GDP). This was achieved mainly by a drop in imports and by an increase in exports of 20 percent in volume in 1983 and 14 percent in 1984. The reduction of the trade deficit was accompanied by a sharp drop in domestic demand, especially in investment which fell by more than a third from 1982 to 1984. Public consumption, however, continued to increase throughout 1983 and only during the first half of 1984 did the situation show signs of being brought under control.

iii. The sharp decline in domestic demand led initially to a moderate decline in production. But in 1984 the recession deepened and GDP declined by 1.7 percent. In manufacturing, the investment-good industries suffered heavily, while export-oriented industries fared better. In agriculture, production fell in 1983 but recovered in 1984 due to more favorable weather. In services, economic activity stagnated, but in the parallel economy it was probably better sustained. Unemployment exceeded 10 percent in 1983-84, and real wages fell sharply. Inflation rose to 34 percent in December 1983, but fell thereafter due to the recession. By the end of 1984, the rate of inflation had dropped to 21 percent and was below the level projected in the stabilization program.

iv. Following a continuous deterioration in public finances from 1980 to 1982, one of the main objectives of the new Government was to reduce the public sector deficit. The effort towards internal balance has not been sufficient, however, given the magnitude of the adjustment required. After declining from 23 percent of GDP in 1982 to 15 percent in 1983, the deficit of the enlarged public sector rose to an estimated 17.5 percent of GDP in 1984. In addition, Government arrears to public enterprises, that had increased

fourfold between 1979 and 1982, continued to rise in 1983, when they were estimated to exceed 10 percent of GDP, and probably also continued to grow in 1984.

v. The large volume of funds mobilized to finance the deficits of the public sector cut into the volume of credit available to the private sector and thereby raised the implicit equilibrium real rate of interest. Real lending rates were already relatively high at end-1982, and nominal interest rates were raised by 6.5 percentage points in 1983. Inflation also increased, and in 1983-84 real interest rates on short-term credit were around 8 percent on average, with end-of-quarter estimates ranging from 3 to 14 percent. As the recession developed, enterprises cut investment and accumulated arrears, and while banks became more selective in extending credit, many private enterprises experienced serious financial difficulties. Few bankruptcies were declared, however, largely because banks did not wish to risk endangering their own financial situation. In June 1984, the Government presented a financial recovery program and took measures to help break out of this downward spiral; but, as of mid-1985, the Government still faced serious financial and economic problems.

Policies for the Medium-Term

vi. The most urgent task is to improve public finance management. This should lead to a further reduction in the deficit of the enlarged public sector, which is a priority since continued inflation and tight monetary policy will discourage investment and growth in the productive sector, and particularly in the private sector. First, Government expenditures will need to be cut; but, in addition to keeping expenditures of the public sector under tight control, improving budgetary procedures is necessary and should facilitate identifying areas for expenditure cuts. In particular, it should help distinguish current from capital expenditures and financial transfers to public enterprises and to autonomous funds from other current and capital expenditures. Also, there is a need to better estimate the cost of various fiscal incentives, to improve the process for planning capital expenditures (PISEE and PIDDAC) and to work out a system of multiannual investment planning. But pending elimination of fiscal incentives for private investment, the Government could fully incorporate the cost of such incentives into the budget, rather than impose these costs on the banking system. Much could be done to clarify the operations of the autonomous funds by including the pricing and subsidy programs in the Central Government budget rather than in the budget of the Supply Fund, and also by incorporating the financial transactions of other autonomous funds in the budget. By the same token, the social obligations of public enterprises could be better identified in the budget and provision made for their reimbursement in a systematic way.

vii. Second, changes will have to be made in the tax system for, given the existing burden of taxation, the prospects for increasing revenues quickly are dim, and the tax system does not give much encouragement to productive efforts. The Government is conscious of that and has set up a special commission to prepare detailed proposals for a tax reform. Four general principles for a reform of direct taxes seem to be widely accepted: (i) an enlargement of the tax base to include categories of activities and professions which were taxed insufficiently or not at all; (ii) the

elimination of a vast number of taxes which produce little income; (iii) the transformation of existing taxes such as the stamp tax, and if needed, the creation of new taxes; and (iv) an adjustment of tax brackets to correct for the distortions introduced by past inflation. In addition, the value added tax (VAT), that is scheduled to be introduced in January 1986, should provide a more even distribution of the indirect tax burden and therefore reduce the incentives for tax evasion.

viii. Third, efforts to stem the drain on the budget by public enterprises are likely to have limited results without a thorough reform of the relationship between these enterprises and the Government. As a clear first step to reduce the public sector deficit, a program to restructure public enterprises has been under preparation with the assistance of the IBRD. This program identifies basic changes in three areas: (i) behavioral restructuring, to improve the Government's control over the enterprises and to promote decentralization; (ii) financial restructuring to strengthen the firms' liquidity position; and (iii) real restructuring to improve the firms' profitability position. While some of the changes that are envisaged may require time to be fully implemented, many of them can and should be tackled quickly. As long as the public sector deficit remains so large and has to be financed through the banking system, there is no simple and easy solution to providing adequate financing to the private sector. In the meantime, efforts should be made to increase the purchase of government bonds by the public, but the Government should borrow from the Bank of Portugal at market rates instead of at discounted rates, and private sector bond issues should be treated equally with those of the public sector. Short-term interest rates should be lowered so as to reduce the financial costs of enterprises and to stop the accumulation of arrears in the public and in the private sectors. This is not a simple matter, however, since credit ceiling mechanisms, the importance of workers' remittances to the Portuguese economy, the budget constraint, and the financial position of banks limit the authorities' scope for doing so and for improving the structure of interest rates. The measures taken in July 1984 to make deposit rates more flexible and to reduce the level of reserve requirements are a step in the right direction. In addition, action should probably be concentrated on reducing taxes on all deposits and on reducing lending interest rates. 1/ It should be possible to lower the lending

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1/ A financial policies package was under consideration by the Government in early July 1985, while this report was being discussed. Lending interest rates were to be reduced by 2.5 percent and deposit rates by 3 percent. At the same time, the rate of the capital tax on deposits was to be reduced from 19.8 percent to 15 percent and that of emigrant deposits from 10 percent to 4 percent, so as to limit the reduction in the net of tax return on time deposits to one percentage point. The proposed change in the capital tax would have a negative impact on the budget, however, unless other measures are introduced to reduce the deficit. Also, in order to reduce the monetization of the public sector deficit and its cost for the financial system, treasury bills were to be sold to the public with interest rates of 22 to 24 percent.

interest rates by four to six points by reducing the rate of the capital tax and of the stamp tax, at the cost, however, of a shortfall in Government revenues. It is important, therefore, that the reduction in lending interest rates be coordinated with the Government's effort to reduce public expenditures.

ix. Although there is no simple and quick solution to reducing the relatively high indebtedness of private enterprises, much can be done to improve their situation. Debt rescheduling should be continued for the enterprises that appear to be viable but for those that do not, corporate reorganization may be needed, bankruptcies may have to be declared, and policies may have to be put into place to reduce the social cost of the increased unemployment. The reforms that have been undertaken already to modernize the banking system should be continued. After the law on private banking had been approved at the end of 1983, three private banks--one domestic and two foreign ones--were established, and more banks have applied. While foreign banks will introduce more competition in financial markets, they may also play a major role in introducing new financial instruments and techniques to Portugal, as they have done in Spain and Italy. In addition, major changes will have to be made in the the operations and structure of capital markets. This would involve changing the taxation of financial instruments, creating an entity directly responsible for the development and supervision of the securities market, insuring transparency and efficiency in the trading of securities, and introducing new financial instruments, such as non-voting preferred stocks or convertible stocks, so as to gradually prepare the way for a revitalization of equity ownership. Although some measures have been taken already that go in the right direction, much remains to be done to put the reform proposals that have been presented recently by the Government into operation.

x. Next to changes in financial policies, other measures that were postponed while stabilization was in the forefront of attention are urgently required. Portugal's balance of payments is still quite vulnerable. The gains in traditional exports resulting from EC membership are likely to be small initially because tariffs and other restrictions on Portuguese exports have already been largely eliminated; and, in agriculture, the trade deficit could become larger due to the adoption of the EC's Common Agricultural Policy (CAP). The prospects for continued growth in workers remittances are quite uncertain and interest payments will remain high because of Portugal's large external debt. The Portuguese authorities can affect some of these factors, but many are beyond their control. To stimulate the growth of exports and import substitution, industrial policy should be sharpened and more focused. Whatever the Government has planned or proposed should be transformed into specific and coherent measures, for example to provide more flexibility in labor and capital markets, adequate retraining programs to compensate for the reduction in employment associated with industrial restructuring, basic infrastructure that is still required in many parts of the country, a simple system of investment incentives, improved services at nationalized banks, a simpler and improved tax system, and a further reduction in price controls. Modern export promotion and diversification policies will have to be introduced, the existing export credit and insurance schemes modernized, and energy savings encouraged further.

xi. Agricultural policy will have to change, as Portugal adopts the CAP. In addition, action should be taken by the Government to provide a wide variety of technical support services, to modernize the system of agricultural credit and to improve the level of technical and economic know how at the Ministry of Agriculture. In regard to the land reform in the south, the Government needs to resolve outstanding issues. In the north, where farms are small, much remains to be done in order to free the market in land and to facilitate land consolidation. Also, while the accession to the EC will provide additional resources from the EC regional and special funds, this will not happen automatically and will require continuous efforts by the Portuguese authorities to establish a new administrative framework. To highlight the risks that lie ahead for the Portuguese economy, two simulations have been prepared for the 1985-1995 period. The first scenario indicates what might happen if Portugal fails to overcome the causes of its erratic performance of the past ten years. Public sector deficits, inflation and unemployment would remain high, and economic growth would be slow. In the absence of fiscal stringency, public consumption would continue to grow rapidly and investment in the productive sector would be insufficient to ensure a steady growth of exports and of GDP. Both the rate of growth of investment and of exports would be less than in 1973-1980 and much less than during the 1960s. Inflation would stay high as the public sector deficits would be financed through the banking system. Because of a combination of low growth, high unemployment and high inflation, private consumption would decline in real terms, especially after 1990, and living standards would deteriorate. The deficits of the balance of payments would rise after 1985 and become very large during the 1990s. The debt service ratio would exceed 44 percent by 1990 and be close to 48 percent by 1995. This situation would be unsustainable and a new stabilization program would soon be required.

xii. The second scenario shows what could happen if Portugal is successful in putting into place policies which will permit a financial recovery both in the public and in the private sectors, gradual integration to the EC and the expansion of industry, agriculture and services as well as exports close to long term potential rates. In the public sector, the growth in public employment would be contained, a reform of the public enterprises would be implemented and public sector deficits would be reduced. With the reduction in the public sector deficit, inflation would be less, investment in the productive sector would grow faster, the growth of exports and of GDP would be sustained and the employment situation could improve. GDP growth would average 3.4 percent between 1985 and 1990 and 4.2 percent between 1990 and 1995. Private consumption and private consumption per capita would rise significantly, especially after 1990. Smaller current account deficits would mean lower net borrowings from abroad and lower interest payments. Capital flows to Portugal, especially grants from the EC, would expand, partly as a result of improved absorptive capacity, and the average interest rate on external debt would be less. As a result, the balance of payment deficits would remain small, and the growth of external debt would slow down. The debt service ratio would decline gradually until the end of the decade and drop rapidly thereafter, to less than 20 percent by 1995.

## CHAPTER I

## ECONOMIC DEVELOPMENTS in 1983-84

### I. Introduction

1.1 In the three years that followed the revolution of April 1974, Portugal's political and economic systems were radically transformed. A representative political system was introduced and trade unions were legalized. A land reform was carried out, and banks, insurance companies, transportation companies, and large industrial companies were nationalized. Following the independence of the colonies, traditional colonial markets were lost and about 600,000 emigrants came back to Portugal and were integrated into the labor force. Minimum wages were established, sweeping wage increases were granted, price controls were substantially reinforced, and expectations of a substantial increase in consumption were raised. The public sector expanded enormously as the result of a large and continuous increase in government employment and consumption, in subsidies mainly for food and oil, and in transfers to social security and to public enterprises often to finance investment of dubious economic value. At the same time, however, productivity dropped as a result of a widespread lack of discipline and continuing political unrest. These changes took place at a difficult period with regard to Portugal's external position: the first oil price increase in 1973 led to a very unfavorable shift in Portugal's terms of trade and a downturn in Western Europe reduced the demand for Portugal's exports, including tourism, and leveled off the demand for Portuguese workers.

1.2 By 1977 democratic institutions were firmly established, but Portugal's economic and financial situation had deteriorated seriously: production was low, unemployment and the rate of inflation were high. The budget and balance of payments situation had become unsustainable. In that year the first Stand-By arrangement was reached with the International Monetary Fund and within two years the Government succeeded in almost eliminating the balance of payment deficit and in containing the growth of external debt. However, the budget deficit had not been reduced significantly, remaining close to 10 percent of GDP, and the annual rate of inflation was about 25 percent.

1.3 In 1980, about one year after the second sharp rise in oil prices, the coalition Government that took over could not maintain the tight monetary, fiscal, and exchange rate policies that would have been necessary to consolidate the achievements of the stabilization program, and especially to reduce the deficit of the public sector. At a time when most industrial economies were in a recession, the Government pursued expansionary policies, particularly in the public sector, and this led inflation to accelerate and the balance of payments and public sector deficits to rise to unprecedently high levels. The debt service ratio on the external debt rose from 16.8 percent in 1979 to 28.2 percent in 1982. Moreover, the Government did

not attempt to restructure the agricultural and the industrial sectors, something that was long overdue. It was effective, however, in bringing a change in the constitution that laid the ground for opening key economic sectors including banking to private initiative. In December 1982 the coalition collapsed and for the next six months Portugal was governed by a caretaker Government which found it increasingly difficult to finance the balance of payments deficit. At the same time, commercial banks became increasingly unwilling to roll over part of the short term debt of public enterprises, the flow of net capital into Portugal reversed itself, and part of the gold reserves had to be sold.

1.4. On taking over from the caretaker Government in June 1983, the new Government presented an emergency stabilization program to cover the following eighteen months and announced that it would present for public discussion before July 1984 a program of financial and economic recovery, and a few months later a modernization program for the medium term. Measures were immediately taken to devalue the escudo by 12 percent, increase administered prices, and reduce subsidies. In particular, subsidies on fertilizers, imported oilseeds and cereals were drastically reduced and their prices increased by 35 to 80 percent. Credit ceilings were reinforced, and interest rates, which had been raised by 4 to 5 percentage points in March 1983, were increased again in August by two percentage points. As it became obvious that the objectives of the original State budget for 1983, drawn up and approved in April 1983, could not be met, the new Government rapidly put together a supplementary budget which was approved in September 1983. The supplementary budget included a combination of exceptional tax increases, additional taxes on capital, and a retroactive tax on the wages paid since January 1983. It made large cuts in public investment and also provided for substantial administrative price increases following further reductions in food and energy subsidies.

1.5 The stabilization program was complemented in September 1983 by a new Stand-By arrangement with the International Monetary Fund extending to February 1985. This provided additional mechanisms for monitoring the balance of payments deficit, the budget deficit, the external debt, the growth of credit and the rate of inflation. A monetary program was drawn up, and credit ceilings, designed to be compatible with the revised budget deficit, were set on the total borrowings of the General Government. Ceilings were also set on the external borrowing of public enterprises which were to cover more of their financial needs by adopting realistic pricing policies. In addition the program provided for a reduction in the surcharge on imports, the elimination of non tariff barriers to imports and interest rate subsidies on export credit. From US$3.2 billion (13.4 percent of GDP) in 1982, the current account deficit was to be reduced to US$2.0 billion, (8.4 percent of GDP) in 1983, and to US$1.25 billion (6 percent of GDP) in 1984. From 12.6 percent of GDP in 1982, the deficit of the General Government was to decline to 9 percent in 1983 and to 6 percent in 1984. Total external debt was not to exceed US$15 billion by the end of 1984. Subsequently, at the mid term review of the IMF program in June 1984, credit ceiling mechanisms were adjusted in order to improve the allocation of credit to the private sector. The consolidated deficit of the enlarged public

sector, i.e., including public enterprises, was not to exceed 14.4 percent of GDP in 1984, compared to 15.5 percent in 1983. The rate of inflation was to be reduced from an expected 29 percent in 1983 to 23 percent by the end of 1984.

1.6 The sections that follow examine the efforts made by the Portuguese authorities to bring the situation into balance in terms of: the external accounts, the domestic economy, and internal finance. This report is largely based on data available up to July, 1985 when an earlier draft of this report was discussed with the Government. These discussions led to revisions in the report but subsequent changes in the Government, combined with further discussions of selected issues, prevented earlier distribution of the document to the Board. Although the report focuses mainly on the implications of developments in 1983-84, its main conclusions and recommendations remain broadly relevant to Portugal's efforts to improve the performance of the economy.

## II. External Accounts

### A. Current Account

1.7 The current account deficit in the balance of payments fell even more sharply than had been projected in the stabilization program. It was just above US$1.6 billion (7.2 percent of GDP) in 1983, and in 1984 it dropped to US$623 million (3.2 percent of GDP). This reduction derived mainly from a swing in the trade balance resulting principally from a US$1.6 billion drop in imports combined with a $1.1 billion growth in exports (see Table 1.1) over these two years.

1.8 Imports declined from US$8.9 billion in 1982 to US$7.6 billion in 1983, or by 8.8 percent in volume. In 1984 they fell further to an estimated US$7.3 billion. Declines were registered in all categories. In 1983, petroleum products, by far the largest import category with 28 percent of total imports, fell by 5 percent. Food imports, 15 percent of total imports in 1983, fell by 10 percent. These declines were caused in part by the actions of the oil and cereal import monopolies, which, faced with a tight financial situation and difficulties in obtaining new loans, drew down their stocks. Sharp drops also took place in all imports sensitive to changes in disposable income, e.g., household equipment goods (-37 percent) and automobiles (-22 percent) and in capital goods (-18 percent for machinery). In 1984, most imports continued to decline except for cereals and textiles. These categories were affected respectively by the poor harvest in 1983 and the need to replenish textile raw material stocks that were being drawn down by the rapid expansion of exports.

1.9 Imports fell for several reasons. First, they fell because stocks were drawn down following increases in interest rates and the depreciation of the escudo (see Table 1.2 for developments in the exchange rate). Second, during the first half of 1983, when foreign capital inflows dropped, import registration certificates (BRIs) were utilized to ration foreign exchange and caused a decline in imports. Third, the restrictive monetary and fiscal

Table 1.1: BALANCE OF PAYMENTS, 1979-1984

(in millions of US$)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| Current Account Deficit | -52 | -1,251 | -2,852 | -3,245 | -1,640 | -623 |
| (as a % of GDP | (.1) | (5.2) | (11.5) | (13.2) | (7.2) | (3.2) |
| Trade Balance | -2,632 | -4,206 | -5,195 | -4,833 | -3,075 | -2,131 |
| Exports, (f.o.b.) | 3,550 | 4,575 | 4,088 | 4,108 | 4,569 | 5,177 |
| Imports, (f.o.b.) | 6,183 | 8,781 | 9,282 | 8,941 | 7,644 | 7,308 |
| Nonfactor Services Net | 541 | 567 | 431 | 177 | 328 | 530 |
| of which: | | | | | | |
| Tourism receipts, net | 695 | 859 | 777 | 609 | 591 | 760 |
| Net Investment Income | -435 | -612 | -975 | -1,269 | -1,064 | -1,200 |
| Net Transfers | 2,476 | 3,000 | 2,887 | 2,680 | 2,171 | 2,178 |
| of which: | | | | | | |
| Workers' remittances | 2,455 | 2,931 | 2,832 | 2,599 | 2,151 | 2,155 |
| Financing | | | | | | |
| Medium and long-term | 813 | 1,324 | 1,790 | 2,660 | 1,466 | 1,315 |
| Short-term capital, and errors and omissions | 617 | 809 | 913 | 708 | -649 | -324 |
| Overall balance | 1,378 | 882 | -149 | 123 | -823 | 368 |
| Change in Official Reserves (- denotes an increase) | -68 | 120 | 106 | -108 | 1,066 | -129 |
| Changes in current account deficit: | | -1,199 | -1,601 | -393 | 1,605 | 1,017 |
| Explained by changes in: | | | | | | |
| Trade Balance | | -1,574 | 362 | -2,200 | 1,758 | 944 |
| Nonfactor services (net) | | 27 | -137 | -364 | 151 | 202 |
| Net investment income | | -363 | -294 | -834 | 205 | -136 |
| Net transfers | | 524 | -207 | 204 | -509 | 7 |

Source: Bank of Portugal and IMF.

policies introduced by the Government caused a marked decline in domestic demand. Fourth, prices of petroleum products, oilseeds and cereals were raised sharply following a major reduction in the subsidies applied to these products. Fifth, in 1983 the Government increased the surcharge on imports from 10 percent to 30 percent. (However, as part of the agreement with the IMF, the surcharge was reduced again to 10 percent in April 1984). Finally, the rise in interest rates and the elimination of interest rate subsidies for exports led traders to draw down stocks.

Table 1.2: DEVELOPMENTS IN THE EXCHANGE RATE

(percent)

| Periods Considered | Depreciation of the escudo against selected currencies | | | | | |
|---|---|---|---|---|---|---|
| | Nominal Effective Exchange Rate /a | US Dollar | Pound Sterling | French Franc | German Mark | Real Exchange Rate Index /b (1980 = 100) |
| 1978/1977 | -18.8 | -13.1 | -20.7 | -20.2 | -24.7 | 102.8 |
| 1979/1978 | -14.2 | -10.4 | -18.8 | -15.0 | -17.9 | 98.8 |
| 1980/1979 | -1.0 | -2.3 | -10.8 | -2.9 | -3.0 | 100.0 |
| 1981/1980 | -1.9 | -18.3 | -6.1 | 4.6 | 1.2 | 104.0 |
| 1982/1981 | -10.3 | -21.8 | -10.4 | -6.0 | -16.7 | 103.1 |
| 1983/1982 | -17.9 | -27.9 | -17.4 | -16.7 | -24.4 | 96.1 |
| 1984/1983 | -13.8 | -25.3 | -13.9 | -13.5 | -15.9 | 97.3 |

Source: Bank of Portugal and IMF and mission estimates.

/a Trade weighted, exports plus imports, yearly average.
/b Based on inflation differentials between Portugal and trading partners as calculated by the IMF.

1.10 The performance of exports, on the other hand, was very good. Exports rose by 20 percent per annum in volume in 1983 and by 14 percent in 1984. There are various possible explanations for this rise. To some extent Portuguese exports were still recovering trading positions they had lost in the previous years. The decline in domestic demand may also have played a part. The main reason, however, was that Portugal's competitive position improved as a result of a sharp decline in real wages and of the exchange rate policy that was followed. The escudo was devalued twice in 1983, by 2 percent in March and by 12 percent in June, and the monthly rate of depreciation of the escudo was raised from 0.75 percent to 1 percent (by means of the so-called "crawling peg" procedure, by which the escudo has been depreciated monthly since 1977 against a basket of eighteen currencies, the statistical weight of which reflect their relative importance in exports and imports). At the same time, the US dollar was appreciating against all European currencies. The combined effect of these changes was that in the

course of 1983, the escudo fell by 32 percent against the US dollar, and the escudo's real effective exchange rate was restored to a more favorable position than at the end of 1979. In 1984, the competitiveness of the escudo was maintained at its level of 1983, mainly due to a further decline in real wages (and it appreciated slightly if the consumer price index is used as a deflator).

1.11 Receipts from tourism, which, expressed in US dollars, had dropped by 20 percent between 1980 and 1982, declined by a small amount in 1983. However, unlike 1981 and 1982, when the decline was caused by the recession in Western Europe, tourism receipts declined in dollar terms in 1983 because European currencies were depreciating against the US dollar. Measured by the number of nights spent in the country or in ECUs, tourism performed well, mainly because of receipts from Spain. In 1984, however, there was a strong recovery in tourism receipts, that rose by 30 percent in US dollars, because of the rising expenditures by US tourists, and probably also because capital, that had in preceding years left Portugal, returned. 1/

1.12 In the late seventies, workers' remittances were relatively much larger than they have been recently. In 1978-79, they rose by 40 percent above their level of 1977 and were about equal to the level of the trade deficit. Since 1980, however, they have declined steadily from US$3.0 billion to US$2.2 billion in 1983 and stayed at about the same level in 1984. This decline is attributed to inappropriate exchange rate and interest rate policies, the depreciation of European currencies against the US dollar, and to some extent, the political uncertainty which led Portuguese workers abroad to keep their savings in their country of residence. In 1983 and 1984, the devaluation of the escudo, increases in interest rates and the stabilization of the political situation might have been expected to bring about a recovery of workers' remittances. But this did not take place. The main reasons were the large depreciation of European currencies against the US dollar, which depressed workers' remittances when expressed in US dollars, and the continuing economic difficulties in France and the Federal Republic of Germany where the majority of the emigrants reside. There may be, however, more fundamental reasons for the recent decline in remittances. A substantial number of Portuguese emigrants, estimated at 40,000 in 1983, have

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1/ Capital flight, particularly in the form of overinvoiced imports or underinvoiced exports, is believed to have taken place before the first stablilization program, and again between 1980 and 1982, when economic policy became more expansionary. While the measures implemented during the first stabilization program in 1978-79 led to a reversal of capital flight, this does not seem to have happened in 1983. This may be because in spite of increases in nominal interest rates in Portugal and the devaluation of the escudo, real returns on escudo deposits, net of capital tax, were substantially negative from mid-1983 to mid-1984. Reverse capital flight may have occurred after mid-1984 in response to a combination of relatively high real interest rates and a relatively competitive exchange rate.

been returning to Portugal because of the economic difficulties in Western Europe. Also, as workers abroad grow older and the younger members of the families become better integrated in the societies of the host countries, the ties with Portugal weaken, and a smaller proportion of the emigrant's income is sent back.

1.13 In recent years, interest on external debt has become a sizeable burden on the balance of payments. As both the volume of the debt and the level of interest rates rose, it increased from US$430 million in 1979 to US$1.25 billion in 1982. The drop in interest payments in 1983 to US$1.1 billion and its stabilization at roughly that level in 1984 are attributable to the recent decline in international market interest rates.

B. External Debt

1.14 Practically all of Portugal's external debt is public; most of it is in US dollars and has been contracted at floating interest rates. As shown in Table 1.3, external debt grew rapidly from US$7.5 billion in 1979 to US$13.6 billion in 1982. Short-term debt, which is concentrated in a few enterprises, mainly the grain and oilseed monopolies and the nationalized petroleum company, increased sharply from 22 percent to 28 percent of the

Table 1.3: EXTERNAL DEBT, 1978-84

(US$ million)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| Total external debt outstanding and disbursed | 7,547 | 9,281 | 10,977 | 13,661 | 14,485 | 14,914 |
| 1. Short-term | 1,650 | 2,395 | 3,335 | 3,862 | 3,422 | 3,016 |
| of which | | | | | | |
| Nonfinancial public enterprises | 1,010 | 1,942 | 2,766 | 3,514 | 2,907 | 2,704 |
| Nonfinancial private sector | 58 | 232 | 258 | 177 | 144 | 312 |
| 2. Medium and long term | 5,897 | 6,886 | 7,642 | 9,799 | 11,063 | 11,898 |
| Administrative public sector | 1,501 | 2,082 | 2,206 | 2,865 | 3,435 | 3,843 |
| Bank of Portugal | 1,077 | 896 | 712 | 550 | 789 | 851 |
| Other monetary institutions | 413 | 617 | 793 | 1,282 | 1,734 | 1,789 |
| Nonmonetary financial institutions | 128 | 114 | 96 | 130 | - | - |
| Nonfinancial public enterprises | 2,400 | 2,592 | 3,095 | 4,233 | 4,473 | 4,946 |
| Nonfinancial private sector | 378 | 585 | 740 | 739 | 632 | 469 |
| 3. Debt Service Ratio /a | 16.8 | 14.6 | 22.7 | 28.7 | 28.2 | 35.5 |

Source: Bank of Portugal and IMF.

/a Excluding the amortization of short-term debt.

total. The Government, striving to find ways of financing the rising balance of payments deficit, encouraged these enterprises to borrow abroad even more than they needed to cover their cash deficits. In 1983 and 1984, external debt grew more slowly as the current account deficit was being reduced, a ceiling had been placed on total external debt and on the foreign borrowings by public enterprises, and because in 1983, about half the current account deficit was financed from reserves, including sales of gold.

1.15 Despite this modest improvement, Portugal's external debt situation remains serious. At the end of 1983 the debt was equivalent to almost 70 percent of GDP, up from less than 50 percent two years before. There are two reasons for this large percentage increase. The volume of debt has grown and the US dollar, in which most of it is denominated, has been appreciating with respect to the escudo. Expressed as a percentage of the country's rather substantial gold reserves, the external debt has risen even faster because of the increase in the value of the debt in US dollars and the severe drop in the price of gold expressed in US dollars.

1.16 The service on this debt has become very burdensome. In 1983 interest payments alone were US$1.1 billion, or nearly 14 percent of exports and non factor services plus transfers. If amortization on medium- and long-term debt is added to this, the debt service ratio was 28.2 percent in 1983 and rose to an estimated 35.5 percent at the end of 1984. The situation is aggravated by the fact that 70 percent of the debt was contracted at floating rates and that, in addition, the monetary authorities have to roll over annually a volume of short term debt equivalent to about two thirds of the total value of exports. However, the Portugese authorities have recently succeeded in converting some of the short-term debt into medium and long-term debt, and in reducing their dollar exposure somewhat. As suggested above, Portugal still holds relatively large gold reserves; at the end of 1984 they were equal to 20.3 million troy ounces, or about US$6.3 billion with gold estimated at market value. Nevertheless, gold reserves are difficult to use because of the negative impact that gold sales have on the country's perceived credit risk. For some time to come, the management of external debt will be a major issue of economic policy and a constraint for the country's development.

## III. The Domestic Economy

### A. Domestic Demand

1.17 The stabilization measures implemented by the Government were designed to bring a marked switch from domestic to external demand. The reduction in the deficit on goods and nonfactor services was accompanied by a sharp contraction in domestic demand, by 7.2 percent in 1983 and by an estimated 5.4 percent in 1984. A good deal of that decline represents a correction for the excessive levels of domestic demand that had persisted ever since the revolution. In 1984, domestic demand was equivalent to about 104 percent of GDP, or about the same proportion as in 1973.

1.18 The major share of the real adjustment fell on investment, which declined by almost 23 percent in inflation adjusted terms in 1983, and by

about the same amount in 1984, because of a sharp drop both in fixed capital formation and in inventories (see Table 1.4). Cuts in the investment program of the administrative public sector were ordered in 1982; they were reinforced in the following years and a freeze was ordered on public construction. In 1983, in spite of an increase in the investments of public enterprises, fixed capital formation in the enlarged public sector declined by 4 percent. The decline of fixed capital formation was even larger in 1984, especially in the private sector. This decline is associated with higher interest rates, which were raised by 6.5 percentage points in 1983, but is more directly attributable to crowding out as a result of the large public sector deficits.

1.19 Despite the need to reduce government demand, public consumption proved difficult to restrain. While real wages drifted down as prices continued to rise, public consumption went on increasing throughout 1983. Despite a hiring freeze, 14,000 new jobs were added in the administrative public sector in 1983, and in 1984 the situation was only marginally better. At first households drew on their savings in an effort to maintain consumption in the face of declining real incomes and higher taxes, so that private consumption declined by only one percent in 1983, but in 1984, the decline was above 3 percent.

Table 1.4: REAL GROWTH OF DOMESTIC EXPENDITURES

| | Structure | | Real Growth Rates | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1983 | | | | | | |
| | % | % | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
| GDP at m.p. | 100.0 | 100.0 | 6.2 | 4.1 | .8 | 3.4 | -.1 | -1.7 |
| Domestic demand | 110.9 | 112.6 | 3.6 | 6.0 | 3.5 | 3.4 | -7.1 | -7.0 |
| Private consumption | 67.5 | 69.0 | .9 | 2.9 | 2.8 | 2.1 | -1.0 | -3.0 |
| Public consumption | 13.9 | 14.7 | 6.5 | 3.7 | 5.3 | 4.5 | 4.2 | 1.4 |
| Gross investment | 29.5 | 28.9 | 8.6 | 13.8 | 4.0 | 5.4 | -22.7 | -26.3 |
| Fixed capital formation | 26.8 | 29.8 | 1.0 | 10.3 | 5.1 | 2.9 | -7.5 | -18.8 |
| Variation in stocks | 2.2 | -1.0 | 125.5 | 55.5 | -2.9 | 22.7 | -112.1 | -254.4 |
| Exports of goods and NFS | 27.0 | 32.0 | 27.3 | 6.8 | -2.4 | 6.5 | 16.7 | 14.5 |
| Imports of goods and NFS | 37.8 | 44.6 | 10.6 | 11.4 | 5.8 | 5.4 | -8.7 | -3.5 |

Source: Bank of Portugal and DCP.

## B. Production

1.20 Because it was partially offset by a large reduction in the deficit on goods and nonfactor services, the sharp decline in domestic demand led initially to a moderate decline in GDP. In 1984, however, the recession deepened and GDP declined by about 1.7 percent. Yet the situation varied from sector to sector. In manufacturing, which accounts for 30 percent of GDP, export oriented industries—e.g., textiles, wood, cork and paper—

benefited from the depreciation of the escudo, and output increased moderately. But those industries oriented towards investment--such as metallurgy, chemicals and engineering--suffered heavily. Construction declined by 6 percent in 1983 and probably by more in 1984. As a result of the freeze on public construction, of the increase in interest rates and the decline in disposable income, there were virtually no new starts.

1.21 Although much preparatory work was done to develop a new legal framework for industrial policy and industrial investment incentives, industrial policy did not influence many developments in industrial production. It is true that in 1983-84 tight financing conditions and the budget constraint have made it difficult to develop a constructive industrial policy designed to modernize traditional industries, as well as to diversify into activities where Portugal has a comparative advantage. However, apart from stimulating interesting debates, industrial policy has tended to be both overambitious and ineffective. A very elaborate, although controversial, energy plan was prepared but has not yet been approved by the Government for lack of consensus on the size and desirability of the recommended investment program. Much effort was spent on preparing a draft industry law which has never been approved. The Government decided in 1983 to eliminate the ineffective system of industrial investment incentives (SIII), which since 1980 had been the only instrument for industrial policy in the private sector. In 1983-84, however, progress in designing a new scheme was very slow, as government bodies held widely differing views on how to proceed. Meanwhile, interest subsidies continued to be granted under the SIII, but these subsidies were often not paid by the State which in the process has accumulated large arrears.

1.22 The position of agriculture has been even more complicated. There, production stagnated for twenty years despite being increasingly heavily subsidized through the Supply Fund. This autonomous government agency, originally intended to be financially self-sufficient, was to subsidize basic foodstuffs, fertilizers, and vegetable, diesel and fuel oil from taxes levied on gasoline products. After the the second oil price hike of 1979, the prices of the subsidized products were not raised fast enough to cover the higher import costs, and the Fund started to incur large losses and accumulated arrears to the public enterprises responsible for distributing cereals, oilseeds, fertilizers and and petroleum products. These in turn financed their deficits by borrowing abroad. As a part of its policy of reducing the public sector deficit, and at the same time overhauling the complex agricultural pricing and subsidy system, the Government decided in the summer of 1983 to eliminate the subsidies on agricultural inputs. Initially, prices of fertilizers and feedstuffs were increased by 50 to 75 percent, and milk prices by 47 percent. Later on, producer prices for cereals were raised by 30 to 50 percent. These measures did help to increase production. The main factor, however, seems to have been good weather. From abnormally low levels induced by the drought of 1982-83, wheat and coarse grain harvests rose substantially (to 410,000 tons for wheat against a ten-year average of about 300,000 tons), reducing the need to import grain in 1984-85 and easing the foreign exchange position significantly.

1.23 The price increases in agricultural inputs and products were justified in order to reduce the deficit of the Supply Fund and may have led to a temporary surge in production of cereals. In some cases, however, they may have been too pronounced and may have ignored intersectoral relationships, domestic comparative advantage, and equity. Raising the prices of imported corn and oilseeds, used mainly for fodder, to cover real costs led to a large increase in the price of meat. As the demand for meat declined, this has, in turn, probably discouraged producers from continuing an inefficient way of producing meat production. At the same time, however, raising the prices of domestic cereals and of fertilizers by about the same percentage may have encouraged cereal growing in lands that are naturally better suited for grazing. Coming a short time before Portugal's accession to the EC, these price increases have put cereal prices in Portugal 20 to 30 percent above EC levels (in 1983). The burden of the price changes does not seem to have been shared equitably and was borne mainly by consumers, at a time when disposable income was declining. Finally, in spite of the price increases, subsidies continued to be paid to agriculture. This suggests that further increases in consumer prices and declines in producer prices are unavoidable.

1.24 These of pricing policy measures and the negotiations for EC accession have preoccupied the policy staff of the Ministry of Agriculture, and many basic problems of Portuguese agriculture remained unsettled in 1983-84. Land reform has yet to be completed and much has to be done to bring more flexibility to the land market. Also, the situation in agricultural credit remains extremely confused. Reform of the trading monopolies for cereals and oilseeds has been decided on, but its implementation is slow and fraught with difficulties. Modern techniques are available in Portugal to improve cereal and livestock production. The effective use of these techniques, however, will depend on improvements in farming systems, farm management and Government strategy. In all of these areas, much still has to be done. 1/

1.25 In services, which account for more than 50 percent of GDP, activity stagnated in 1983 and probably declined in 1984. Activity in trade, banking and other services also declined. The only sector to have shown a significant increase was energy, dominated by the production of electricity where production increased by 9 percent. There is no simple explanation for this increase in a period of recession. It may be that the output of the preceding years was abnormally low because a continuing drought limited the production of hydroelectricity. Another possible explanation is that the high electricity consumption reflects a thriving underground economy, which according to several estimates may represent more than 10 percent of GDP.

## C. Employment, Wages and Inflation

1.26 Even before the 1982-83 recession, unemployment in Portugal presented a serious problem. Between 1978 and 1982 the rate stabilized at

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1/ See Portugal: Agricultural Sector Survey, A Near-Term Action Program for Agriculture. July 20, 1984. IBRD 5007-PO.

8-9 percent of the labor force. But the economy was not able to absorb the annual addition to the labor force, and the recession brought a rapid increase in the jobless whose ranks were swelled by the continuing inflow of Portuguese emigrants returning from other European countries. Based on a new employment survey 1/, unemployment rose from 9.6 percent during the second quarter of 1983 to 10.8 percent during the fourth quarter of 1984.

1.27 What is disturbing about unemployment is not so much its level, which appears lower than in some neighboring countries, as its structural character. In 1983, 50 percent of the unemployed were under 25 and 83 percent of the first job seekers were under 30 years of age. This may be partly attributable to the educational system, as school leavers are apparently not well prepared for the business world. But it also reflects a genuine lack of new employment opportunities, a lack of social mobility and restrictive labor laws.

1.28 In spite of recent changes in labor legislation, it remains difficult for an organization to dismiss labor when it is redundant and even to shift an employee from one occupation to another. As a result, over-staffing remains widespread, particularly in the public sector, which, including public enterprises, employs about 600,000 people or 14 percent of all employed. In banking and in the private sector, the picture is similar. Even in the traditional export oriented industries such as textiles and mechanical industries, studies have shown that at least one worker out of five is redundant. Further, because until recently many of the well trained and younger workers left for France or Germany where career opportunities and salaries were better, good technicians and foremen are scarce. The spread of temporary labor contracts since 1980, and the 1984 law on layoffs should do something to promote a more rational use of labor, but the situation is likely to pose serious problems for some time to come.

1.29 Given the severity of the employment problem and the deepening of the recession, wage demands in 1983 and in 1984 were no longer the main factor in fueling inflation. Yet, because of the sharp increase in agricultural and food prices resulting from the reduction in subsidies given through the Supply Fund, consumer prices continued to rise until the first half of 1984 after which they declined until the end of 1984. Between December 1983 and December 1984 the increase in the index was 21.2 percent, which is better than projected in the agreement with the IMF, but the average increase for the year was 29.3 percent (see Table 1.5). At the same time, wages increased by only 19.4 percent and 18 percent respectively in 1983 and 1984. Thus, real wages continued to fall as they did since 1982, and real earnings dropped sharply, declining to below their level of 1973. Indeed, such was the fear of unemployment that workers accepted cuts in real wages or even agreed to continue to work when salaries had not been paid for months, rather than risk losing their jobs and/or bringing their employers to bankruptcy. By May 1984, based on a study by the Ministry of Labour, about

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1/ Employment and unemployment data before and after 1983 are not strictly comparable.

Table 1.5: INFLATION AND WAGES

| | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|
| Consumer price index (1976=100) /a | 225.0 | 269.9 | 330.3 | 414.6 | 534.4 |
| Average Increase (%) | 16.6 | 20.0 | 22.4 | 25.3 | 29.3 |
| GDP deflator (1976 = 100) | 214.0 | 253.2 | 309.3 | 381.8 | 482.2 |
| Average wage increase (%) | 22.0 | 20.0 | 21.1 | 19.4 | 18.0 |
| Real earnings index (1973 = 100) /b | 112.4 | 112.4 | 110.0 | 104.3 | 95.5 |

Source: INE, Bank of Portugal, IMF and mission estimates.

/a Excluding rent.
/b In manufacturing industry.

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45,000 people had wage arrears. All this has led to significant social distress, particularly in the coastal area around Lisbon, and the Government has started a program of emergency aid.

## IV. Domestic Finance

### A. Enlarged Public Sector

1.30 Following the continuous deterioration in coalition public finances from 1974 to 1982, one of the main objectives of the new government was to bring a reduction in the public sector deficit. However, the reduction turned out to be smaller than expected. After a dramatic decline, from 22.2 percent of GDP in 1982 to 15.2 percent of GDP in 1983, the "enlarged" public sector deficit increased again in 1984 and, based on preliminary figures, it was equal to 17.5 percent of GDP. Table 1.6 describes the net savings between 1979 and 1984 of the enlarged public sector and its two main components, the administrative public sector (APS) and nonfinancial public enterprises. The APS is composed of the State, the autonomous services, the autonomous funds, social security and local administration. Each of these entities has its own budget but there are significant flows and transfers between them. Public enterprises include entities having varying degrees of government participation. Due to the complexity of the financial flows between the APS and public enterprises, there is no simple way to measure their deficits except by using monetary data. Thus, the deficit of the enlarged public sector is estimated by adding the borrowing requirements of the APS and nonfinancial public enterprises.

#### Budget of the Administrative Public Sector

1.31 It was obvious to the new Government that the objectives of the original State budget drawn up and approved under its predecessor in April

Table 1.6: PORTUGAL: NET SAVINGS, 1979-84

(borrowing requirements as a percent of GDP)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| Public sector | -16.2 | -18.5 | -21.5 | -22.2 | -15.2 | -17.5 |
| Administrative public sector | -9.8 | -9.3 | -11.7 | -11.8 | -9.0 | -9.8 |
| Nonfinancial public enterprises | -6.4 | -9.2 | -9.8 | -10.4 | -6.2 | -7.7 |
| Private sector | 15.9 | 13.3 | 10.0 | 9.0 | 8.0 | 15.3 |
| Foreign sector | -0.3 | -5.2 | -11.5 | -13.2 | -7.2 | -2.2 |

Source: Bank of Portugal, IMF and IBRD estimates.

1983 could not be met. Revenues were falling short of target and expenditures were out of control. However, in trying to limit current expenditures, the new Government was constrained by rising interest payments and expenditures on goods and services, both of which were difficult to bring under control quickly. The supplementary budget, that was approved in September 1983, was designed therefore mainly to provide additional resources and to reduce investment expenditures. This was achieved by a combination of tax increases and additional taxes, including an exceptional and retroactive tax on wages paid since January 1983; by further cuts in the Government investment program, in particular that portion of the investment program of public enterprises which was financed through the budget; and by substantial increases in administered prices which were meant to reduce food and energy subsidies. The Supply Fund, whose operations were discussed earlier, was brought almost into financial balance as a result of the increases in the prices of the agricultural inputs and petroleum. Social security, however, which in terms of revenues and expenditures is the most important subsector of the General Government after the State, continued to be in deficit in spite of transfers from the State budget. Altogether, the additional measures taken in the third quarter were effective, and the cash deficit of the APS in 1983 was reduced to 9.5 percent of GDP, or two percentage points less than the corresponding deficit in 1982 (see Table 1.7).

1.32 In 1984, several factors made further reduction a harder task. It was perhaps more difficult to reduce current expenditures because the escudo was continuously depreciating against the US dollar, because the volume of debt had risen, and because the measures to freeze public employment were slow to produce an effect (the freeze on public employment was only felt by March-April 1984, so that expenditures on goods and services continued to rise in 1984, although at a slower pace than in 1983). At the same time the recession brought lower revenues from direct and indirect taxes. In addition, the new Government had the same difficulties as its predecessors in

Table 1.7: SUMMARIZED BUDGETARY ACCOUNT OF THE ADMINISTRATIVE PUBLIC SECTOR, 1979-1984
(escudos billions; budget on a cash basis)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 /a |
|---|---|---|---|---|---|---|
| Current balance | -37.9 | -42.3 | -69.7 | -90.9 | -75.5 | -116.1 |
| Current revenues | 264.3 | 361.9 | 486.4 | 618.0 | 838.5 | 901.3 |
| of which direct taxes | 124.0 | 168.1 | 249.3 | 319.4 | 415.4 | 423.5 |
| indirect taxes | 122.0 | 172.9 | 213.7 | 261.9 | 356.6 | 423.9 |
| net tax revenues | 20.3 | 20.9 | 23.4 | 36.7 | 66.5 | 53.9 |
| Current expenditures | 302.2 | 404.2 | 556.1 | 708.9 | 914.0 | 1017.4 |
| of which goods and service | 147.6 | 185.7 | 217.7 | 266.6 | 333.6 | 415.5 |
| subsidies | 46.5 | 59.7 | 76.9 | 101.4 | 142.9 | 121.2 |
| current transfers | 79.6 | 120.0 | 178.8 | 239.8 | 290.5 | 280.6 |
| interest payments | 28.5 | 38.8 | 82.7 | 101.1 | 147.0 | 200.1 |
| Capital balance | -42.7 | -64.1 | -79.3 | -95.3 | -111.4 | -101.4 |
| Capital revenues | 4.2 | 5.9 | 3.2 | 7.3 | 6.5 | 23.2 |
| Capital expenditures | 46.0 | 70.0 | 82.5 | 102.6 | 117.9 | 124.6 |
| of which fixed investment | 36.4 | 49.3 | 63.4 | 71.5 | 77.0 | 80.7 |
| capital transfers | 10.5 | 20.7 | 19.1 | 31.1 | 40.9 | 43.9 |
| Other adjustments /b | -18.0 | 21.1 | -18.2 | -25.9 | -30.9 | -61.1 |
| Overall balance | -98.6 | -127.5 | -167.2 | -212.1 | -217.8 | -278.6 |
| As % of GDP | | | | | | |
| Current balance | -3.8 | -3.4 | -4.7 | -4.9 | -3.3 | -3.8 |
| Overall balance | -9.9 | -10.3 | -11.3 | -11.4 | -9.5 | -9.8 /c |

/a Preliminary. Based on data from the Portuguese Treasury.
/b Including Treasury operations and net lending.
/c Including revenues from social security.

Sources: Bank of Portugal and IMF.

designing and implementing a realistic budgetary policy. First, there were widespread losses by public enterprises that were inadequately foreseen, and capital transfers to public enterprises were substantially larger than expected. Second, about Esc. 45 billion of the receipts expected from gold sales did not materialize because the balance of payments deficit was smaller than expected. Mainly for these two reasons, by the end of the summer 1984, the budget deficit was expected to be Esc. 70 billion (about 30 percent) larger than planned, and a supplementary budget was hastily drawn up and approved by Parliament in October 1984. Available information on the autonomous funds indicates that delays in making price increases effective resulted in their deficits being significantly above the original estimates

and, in the case of the Supply Fund, substantial arrears were accumulated. In effect, the cash deficit of the APS turned out to be 9.8 percent of GDP, almost 3 percent more than projected in the original budget. The failure of the Government to contain expenditures, increase revenues and prepare realistic budgets, is not new. Since 1979 the deficits of the APS have fluctuated around 10 percent of GDP. These high deficits are rooted in serious shortcomings in the management of public sector finances that are likely to persist in the years to come. An improvement in this area will require basic changes, some of which are discussed in more detail in Chapter III.

Nonfinancial Public Enterprises

1.33 Before the stabilization program, the financial situation of nonfinancial public enterprises was difficult. Their indebtedness was high, their return on equity and their net savings were low. There were a number of reasons for this. First, public enterprises are concentrated in industries which are depressed worldwide (e.g., shipbuilding, steel, cement and international transport); and, in some enterprises, the strong position of labor unions has made management even more difficult. Second, ad hoc interventions by a variety of government agencies, administered prices, rigid labor laws, inadequate managerial incentives and accountability, and an absence of strict self-financing requirements have retarded rationalization. Third, public enterprises have had to bear the consequences of the Government's inadequate fiscal policies. They could do little about the delays and uncertainties in budgetary transfers and investment approvals and had to carry a heavy burden of unpaid Government bills. Between 1979 and 1982, arrears from the Government to public enterprises have increased fourfold compared to an increase in prices of 140 percent. At the end of 1983, the amount of arrears due from the three autonomous funds which account for the bulk of the arrears (the Supply Fund, the Thermal Support Fund, and the Foreign Exchange Risk Guarantee Fund) and from some municipalities were estimated at Esc. 345 billion (US$2.5 billion), equivalent to 10 percent of GDP and 40 percent of the debt of public enterprises. Fourth, public enterprises had to borrow abroad and contracted US dollar-denominated debt at variable interest rates.

1.34 At the time this report was being prepared, detailed accounts were not available for all the nonfinancial public enterprises in 1984. In 1983, although large cuts were made in the investment program, administrative prices were increased, wage increases were moderate, and capital transfers were higher, the situation appears not to have improved. Interest expenditures increased and the recession constrained revenues from sales since most of the public enterprises are domestic oriented. Also, the Inspector General of Finance's review of the 1983 accounts suggests that there were substantial unrecorded losses due to an increase in the escudo value of the foreign debt. 1/

B. Monetary Policy and the Private Sector

1.35 Already before the stabilization program, private enterprises in industry and services were in a difficult financial position. Productivity

1/ See: Public Enterprises in Portugal: Recommendations for Institutional and Financial Reforms, Report PO 5101-PO, dated June 1986.

was often low, indebtedness high, management, marketing and labor relations poor. Typically profit rates were low or negative except in tourism and trade. Detailed information on private sector profitability is not available for 1983-84. With falling output, reduced capacity utilization, higher interest rates and foreign exchange losses, profitability could well have been negative. Yet it is not clear that private enterprises as a whole were adversely affected because real wages fell sharply and export volumes grew rapidly. Probably the situation was skewed, with exporting firms performing substantially better than the average.

1.36 Private enterprises certainly were faced with serious liquidity problems. These were caused initially by rises in nominal, and in some periods real, interest rates which imposed severe cash flow obligations on firms. The nominal lending rate for three month credit was raised by 6.5 percentage points between March and August 1983, from 23 percent to 29.5 percent. Given the provision for payment of interest in advance, and assuming two-thirds of short-term loans are 3-month and one-third is 6-month, this nominal rate of 29.5 percent corresponded to an effective interest rate of almost 37 percent starting in the third quarter of 1983.

1.37 Table 1.8 provides end-of-quarter estimates of real lending rates for short-term credit with interest in advance, where the consumer price index is used as a deflator. Although not shown in the table, the stamp tax of 6 percent levied on credit and the service charge of 0.5 percent would increase the cost to the borrower even more. What is interesting from this table is that firms were already paying high real interest rates before the 1983 increases in nominal rates. Real interest rates fell with the acceleration of inflation in late 1983, and rose again in late 1984 as inflation subsided. Over the 1983-84 period as a whole, real interest rates averaged around 8 percent; and many enterprises, which for historical reasons had high debt service ratios, were unable to service their debts. During the first half of 1985, firms have suffered the highest real rates yet, on the order of 12-15 percent.

1.38 The demand for credit by private enterprises fell over this period, and public enterprises switched massively from external to domestic borrowing (see Table 1.9). In the past they had relied partly on external loans to finance their deficits and had been encouraged to do so by the Government. Starting at the end of 1982, with the collapse of the Government coalition and the deterioration in overall economic performance, external borrowing became increasingly difficult for public enterprises, and this situation persisted until the first half of 1984 when it was clear to the international finance community that the stabilization program was working. Private and public enterprises had to compete for the limited amount of credit available under their common credit ceiling, 1/ and some private enterprises were unable to borrow.

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1/ The share of domestic credit allocated to the productive sector, through both public and private enterprises, is determined by subtracting the amount of credit to the APS from the total credit available to the economy (see Chapter IV).

Table 1.8: REAL INTEREST RATES ON SHORT TERM CREDIT

| | (A) Nominal Lending Rate w/ interest in advance/a | (B) Consumer Price Index | (C) Real Lending rate = A/B |
|---|---|---|---|
| December 1982 | 27.3 | 18.9 | 8.6 |
| March 1983 | 33.0 | 20.3 | 12.7 |
| June 1983 | 33.0 | 21.4 | 11.7 |
| September 1983 | 36.7 | 28.7 | 8.3 |
| December 1983 | 36.7 | 33.9 | 2.8 |
| March 1984 | 36.7 | 31.8 | 7.0 |
| June 1984 | 35.2 | 32.1 | 3.1 |
| September 1984 | 35.2 | 27.1 | 8.1 |
| December 1984 | 35.2 | 21.3 | 14.0 |
| March 1985 | 35.2 | 23.2 | 12.0 |
| June 1985 | 35.2 | 20.1 | 15.1 |

/a Two-thirds of short term loans are assumed to be 3 month, and one-third is assumed to be 6-month. These rates do not include the 6 percent stamp tax or the 0.5 percent service charge.

Source: Bank of Portugal

1.39 When the recession deepened, many private enterprises facing declining sales, higher financial charges and increasing difficulties in obtaining credit came to the verge of bankruptcy. Arrears multiplied. The proportion of non performing loans in the banks' total portfolio increased and as a result the profitability of banks, which had been deteriorating since 1978 in spite of a virtually constant interest spread of 5-6 percent, dropped sharply. Banks became more cautious in extending credit, and this caused further difficulties for private enterprises. Few, if any, bankruptcies were declared for large firms, however, because widespread bankruptcies could have endangered the financial soundness of the banks.

1.40 In June 1984, the Government took measures to break out of this downward spiral. Short-term lending rates were reduced by one percent. At the same time, to permit banks to attract more deposits, the Government decided to free all deposit interest rates except for the one on deposits from six months to one year, which was maintained at its previous level of 28 percent (although a decline of one percentage point was decided in January 1985). Finally, the minimum reserves which banks were required to hold were reduced, to compensate for the losses that might be caused by the decline in lending rates. These measures were designed to help the financial situation of private firms. However, although nominal lending rates were reduced

Table 1.9: TOTAL CREDIT TO THE ECONOMY

| | 1983 in Esc. billion | Growth Rates (in %) 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| Total financing | 3,366 | 33.7 | 31.1 | 30.6 | 17.9 | 21.0 |
| Domestic bank credit | 2,528 | 28.2 | 28.6 | 27.5 | 19.9 | 22.2 |
| External credit | 838 | 60.6 | 40.8 | 41.5 | 11.8 | 18.1 |
| Administrative Public sector | 836 | 35.1 | 39.8 | 55.1 | 24.9 | 28.9 |
| Domestic bank credit | 583 | 35.4 | 39.6 | 33.1 | 19.1 | 29.0 |
| External credit | 254 | 33.9 | 41.6 | 44.4 | 46.0 | 28.8 |
| Public enterprises | 849 | 33.3 | 28.3 | 27.8 | 16.4 | 21.9 |
| Domestic bank credit | 361 | 13.8 | 13.6 | 19.6 | 35.3 | 23.2 |
| External credit | 488 | 68.8 | 42.0 | 48.2 | 5.5 | 20.9 |
| Private sector | 1,681 | - | 29.4 | 24.0 | 14.9 | 16.0 |
| Domestic bank credit | 1,584 | - | 29.2 | 27.4 | 17.5 | 19.0 |
| External credit | 97 | - | 33.9 | -5.0 | -70.8 | -33.2 |

Source: Bank of Portugal, IMF

slightly, real rates increased in the second half of 1984. At the same time, the public sector credit ceilings agreed upon with the IMF were exceeded, and the stabilization program was not adhered to as originally planned.

Conclusion

1.41 At the beginning of 1983, Portugal was facing a balance of payments crisis which the new Government managed to contain. Two years later, the balance of payments and external debt situation had substantially improved. However, the Government was less successful in reducing the deficit of the public sector. In addition, the measures it took triggered an economic recession more severe than expected, leading to a major decline in investment and real wages as well as an increase in unemployment. Inflation remained high. Moreover, although inflation had been declining since the beginning of 1984, and although some measures had been taken by the Government, the financial situation of the economy was still disturbing.

# CHAPTER II

## MEDIUM-TERM OUTLOOK

### I. Introduction

2.1 As the analysis of the preceding chapter has shown, after two years of stabilization and less than one year before Portugal's accession to the EC, the Government still faces serious financial and economic problems. Right now, the main problem is how to maintain the progress made in stabilizing the economy and at the same time bring the economic recession to an end and prevent living standards and the financial situation from deteriorating further. This is a dilemma by no means unique to Portugal; it is typical of an open economy undergoing an adjustment to changed conditions. If domestic demand is stimulated too much, the balance of payments and budget deficits may get out of control. If, on the other hand, economic recovery is too slow, the recession will drag on, the employment, wage and financial situation of enterprises remain weak and the new investment which is required to ensure continuing growth will not be undertaken. This dilemma is not new to Portugal. In many respects, it resembles a similar one after the first stabilization program in 1980. However, the economy is now weaker, financial imbalances are more severe, external debt has doubled, and gold reserves are worth less than half what they were in 1980.

2.2 What will happen to the Portuguese economy in the medium term will largely depend on the macroeconomic and financial policies adopted by the Government and on its capacity to undertake successfully the reforms that are needed with respect to industry, agriculture, the financial system, and labor; but it will also be affected by the progress made in industrialized economies to overcome the problems faced in the first half of the nineteen eighties. It will take a combination of sound macroeconomic and financial management, adequate and timely structural reforms, and good luck in relation to the international environment, for Portugal to make a smooth transition back to steady growth and to higher living standards for its people, to avoid difficulties in servicing its debt, and not to continue on the erratic course of the past ten years. The first section of this chapter presents a general discussion of the main issues facing Portugal in the medium term; the second section presents a macroeconomic framework for the 1985-1995 period; and the third section presents a review of the main policy reforms to be undertaken in the medium term.

### II. General Issues

#### A. The Vulnerability of the Balance of Payments

2.3 In the near future, the balance of payments position could well get worse. Some of the factors contributing to the decline in imports in 1983-84, such as the sharp decline in stocks, were one-time phenomena.

Portugal needs a strong growth of manufactured exports to sustain even a modest increase in GDP. Exports, of which more than 70 percent in 1980 were manufactured exports, are produced mainly by privately owned companies; but, at the present time, neither the financial situation of the private sector nor the high level of interest rates nor the low level of confidence among investors seems to presage a strong recovery of private investment, and thus of manufactured exports. This is quite disturbing since rapid growth of manufactured exports has played such a key role so far in Portugal's efforts to restore external equilibrium.

2.4 Sustained export growth will be even more important in the future because interest payments on the external debt will remain high, because over the next five years about US$10 billion of Portugal's outstanding external debt will have to be amortized or rolled over, and because the prospects for continued growth of workers remittances are quite uncertain. In the short term, workers remittances may decline if the recovery in the recession in western Europe drags on, causing emigrants to return to Portugal. In the medium term, however, Portuguese workers will probably have increasing freedom to work in the other countries of the EC. Under the terms of the transition arrangement reached with the EC, seven years after Portugal's accession migrant workers and their families will have the right to live in the host country. If they choose to do so, this might prevent the secular decline in workers remittances that was foreseen until recently.

2.5 While in the long run Portugal's entry into the EC could have large beneficial effects on its trade balance, and although during the transition period some sectors will continue to be partly protected, entry may, in the beginning, bring a deterioration in the current account position. Administrative barriers to trade against the EC partners through licensing will have to be eliminated in January 1986. This will result in higher imports from the EC, including Spain, as EC equipment supplies and material will substitute for more expensive Portuguese supplies. Portugal will have to adopt the common external tariff of the EC and the standardized non-tariff barriers against third countries where an EC agreement concerning this is in place (e.g., the multifibre agreement). This will probably lead to more imports from third countries as Portugal's external protection will be brought down to EC levels. At the same time, gains in traditional exports (textiles, mechanical industries) resulting from EC membership will be small initially, because tariffs and other restrictions on Portuguese exports to the EC have already been largely eliminated and because, in the case of textiles, the self-limiting export agreement will continue to apply for three years after accession.

2.6 In agriculture, EC entry could have even greater effects. Portuguese agriculture is at present unable to meet EC and international competition except in highly specialized markets such as tomato paste and Port wine. Internal prices are currently maintained by trade monopolies. By adopting the common agricultural policy (CAP) of the EC, Portugal will have to fully dismantle these trade monopolies, to give preference to Community production, at prices possibly higher than world market prices (but lower than most domestic producer prices in Portugal), and to subject imports from third

countries to levies and remit the proceeds of these levies to the EC Guarantee Fund. As a result, the import prices for cereals and sugar will rise, because of a redirection of Portugal's imports to the EC or because of the imposition of import levies on non EC imports. In either case, the balance of payments cost of agricultural imports will rise, and farm incomes may be squeezed because of the adjustment of producer prices to lower CAP prices. To limit the negative consequences of the accession in the short term, an agreement has been reached with the EC to introduce these changes gradually over a transition period that will last up to ten years. However, the continuing protection that will be provided during the transition period will be highly selective, and in exchange Portugal will have to institute structural changes that are long overdue. In both agriculture and industry, Portugal's problem is made more complicated by the simultaneous accession of Spain, which enjoys similar physical and comparative advantages but is more developed in many sectors. By the same token, entry into the EC could bring a substantial rise in official EC assistance and in private foreign investment. These capital flows could help improve the overall balance of payments, especially if regional reform is carried forward, if labor conditions are improved, if regulations for foreign investment are simplified, and if macroeconomic policies are stabilized.

2.7 Several important factors influencing the balance of payments are at least partly beyond the control of the Portuguese authorities. And the rate of growth of exports, the level of receipts from tourism and the evolution of workers' remittances will depend partly on whether the economic recovery in industrialized economies, especially in Western Europe continues. In addition, as exports and workers remittances are mostly denominated in European currencies and imports mostly in US dollars, a depreciation of the US dollar against European currencies could bring an automatic reduction in Portugal's current account deficit; so would a reduction in the level of international inter- est rates. The growth prospects in industrialized economies, the future value of the US dollar in European currencies, and international real interest rates are quite difficult to predict, however; and economic growth is by no means guaranteed over the next ten years.

## B. The Fragility of the Financial Situation

2.8 The vulnerability of the balance of payments and the uncertainty about the future of the world economy are by themselves good reasons for Portugal to adopt cautious macroeconomic policies in the medium term. As will be examined in greater detail in the next two chapters, the fragility of the financial situation complicates the Government's task considerably. Rising interest payments on a growing public debt, numerous administrative difficulties in limiting the rise in public employment, and the continuing need for large transfers to public enterprises make it difficult to contain the growth of public expenditures. Interest rates are high in nominal terms in part because the rate of inflation is high; and these high nominal rates affect enterprises' liquidity, if not their profitability. Thus, the rise in nominal interest rates and the reduction in interest rate subsidies that took place since 1983 have led to an increase in the deficits of public enterprises and eventually to a heavier burden on the central government budget

deficit. In the private sector, they have led to more bankruptcies and increased unemployment. Private enterprises are heavily indebted and they will probably continue to face the same difficulties unless their equity base is strengthened. This will be difficult as long as capital markets are not modernized. In many cases even this may not be sufficient, as the financial weaknesses of enterprises are symptoms of underlying economic difficulties that have long gone unresolved. Further weaknesses in the financial system revealed during the recent recession are unlikely to disappear unless efficiency is improved.

## III. Medium-Term Macroeconomic Framework

2.9 Financial and budgetary policies will to a large extent determine the prospects for growth in Portugal in 1985 and beyond. As of June 1984, the Government took some measures to stimulate economic growth, but so far they seem to have been insufficient either to control the public sector deficit or to stop the recession. Lending interest rates were reduced by one percent, but since inflation was decelerating, they rose in real terms (see Chapter IV). In July 1985, when this report was revised, domestic demand was still depressed; during the first semester of 1985, imports declined and activity in construction was at a record low. Nevertheless, the Government expects that economic growth could reach 1.6 percent, due to the continuing growth of exports, which increased by about 12 percent in volume during the first quarter of 1985, and to a more expansionary stance of fiscal policy. The 1985 budget deficit is foreseen to be larger by about Esc. 100 billion and by almost 1.5 percent of GDP higher (10.5 percent against 9.1 percent) than in 1984. At the same time, imports will not rise much in volume as long as domestic demand is depressed and the US dollar and international interest rates are expected to be lower. Overall, these could lead to a current account deficit in 1985 of less than US$500 million, provided that exports show an average increase of 7.5 percent.

2.10 However, there are also indications of slippages in economic policy. In particular, the increases in administered prices that were decided in January 1985 were either insufficient to cover costs or postponed. Keeping the public sector deficit at the level planned would require that the Government succeed in holding to its original spending estimates, something which has almost never happened in recent years, and which will be particularly difficult as interest payments now represent a higher share of current expenditures. Moreover, the uncertainty in the political situation will constrain the implementation of economic policy, perhaps even up to mid-1986. Following the collapse of the coalition Government in June 1985, the country will be governed by a caretaker Government until a new coalition emerges. Economic decisions will be difficult to make since a new Government might not be formed for another 6 months. With the political pressures associated with the various upcoming parliamentary, presidential, and local elections, there is thus a danger that inflation will be suppressed, that the deficits of public enterprises will become larger than projected, and that government arrears in payments to public enterprises will accumulate further.

2.11 To highlight the dangers that lie ahead for Portugal over the medium term, two simulations have been prepared for the 1985-1995 period. This time

frame corresponds roughly to the end of the transition period granted to Portugal by the EC; it is also long enough to explore the effects of various economic policies on the debt service ratio. The two scenarios presented cannot be considered as predictions or forecasts, but rather as broad indications of how two different policy approaches will affect Portugal's growth prospects and the living standards of its people. The first scenario (A) indicates what might happen if Portugal fails to overcome the causes of its erratic performance of the past ten years. Public sector deficits, inflation, and unemployment would remain high and economic growth would be slow. In the second case (Scenario B), it is assumed that Portugal has been successful in putting into place policies which would permit its gradual integration into the EC and the expansion of industry, agriculture and services as well as exports close to long term potential rates. The basic assumptions made in these scenarios about growth, export growth, the level of inflation, and real interest rates on the external debt, as well as assumptions about the value of the main economic variables in industrialized economies, are set out in Table 4.1 below. The latter assumptions are averages derived from the high growth scenario and the low growth scenario for the world economy that are included in the IBRD's 1985 World Development Report.

Table 4.1: MAIN ASSUMPTIONS OF PROJECTIONS /a

(average annual growth rates in %)

| | 1980-85 | | 1985-90 | | | 1990-95 | | |
|---|---|---|---|---|---|---|---|---|
| | Portugal | Industrial Economies | Portugal A | Portugal B | Industrial Economies | Portugal A | Portugal B | Industrial Economies |
| GDP growth | 1.5 | 2.3 | 2.4 | 3.4 | 3.1 | 2.4 | 4.2 | 3.4 |
| Export gnfs | 10.0 | 5.7 | 4.7 | 7.0 | 5.2 | 4.7 | 7.7 | 5.1 |
| Inflation | 25.0 | 0.5 | 25.0 | 19.0 | 6.2 | 25.0 | 8.0 | 7.5 |
| Real int. rate /b | n.a. | 6.8 | 4.3 | 3.8 | 4.1 | 3.1 | 2.5 | 3.0 |

/a Includes estimates for 1985.
/b On external debt.

2.12 In Scenario A, because of a lack of fiscal stringency, public consumption would continue to grow rapidly and public sector deficits would remain high (see Table 4.2). As the public sector would continue to absorb a large share of available savings, investment in the productive sector would be insufficient to ensure a steady growth of exports. As a result, GDP and export growth would be slow, averaging respectively 2.4 and 4.4 percent, or less than the average growth during the 1973-1980 period (3.3 percent for GDP and 6.6 percent for exports), and much less than in the 1960s. Because investment levels remain low, it would be difficult for the industrial sector to modernize. The pace of agricultural growth will continue to be sluggish as it has been over the past thirty years. Import elasticities will remain

high largely because of the stagnation in agriculture which would increase the dependence on food imports and because of a continuing dependence on imported energy. Growth in services would continue, driven by continued expansion of public employment and partly by increased trading activities generated by import growth.

Table 4.2: REAL GROWTH OF GDP

(in percent)

| | Averages | | Projections | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 1985-90 | | 1990-95 | |
| | 1977-82 | 1983-84 | 1985 | A | B | A | B |
| GDP at mp | 3.7 | -0.8 | 1.6 | 2.4 | 3.4 | 2.4 | 4.2 |
| of which: | | | | | | | |
| Consumption | 1.6 | -1.5 | 0.6 | 1.6 | 1.9 | 1.4 | 3.1 |
| Public consumption | 5.3 | 1.8 | 1.5 | 4.3 | 1.7 | 4.5 | 1.0 |
| Private consumption | 1.6 | -2.0 | 0.0 | 0.3 | 2.0 | 0.0 | 3.6 |
| Investment | 4.8 | -24.5 | -6.3 | 4.4 | 5.4 | 3.7 | 5.3 |
| Exports of GNFS | 9.0 | 15.5 | 7.5 | 4.4 | 7.2 | 4.4 | 7.7 |
| Imports of GNFS | 6.5 | -6.1 | 2.3 | 3.7 | 6.2 | 3.3 | 6.4 |
| Agriculture | 3.6 | 2.0 | 2.5 | 1.5 | 2.3 | 1.5 | 2.5 |
| Industry and constr. | 4.4 | -1.0 | 1.5 | 2.5 | 3.6 | 2.5 | 5.0 |
| Other | 3.7 | -2.0 | 1.5 | 2.5 | 3.5 | 2.5 | 4.0 |

2.13 Inflation would remain high as the public sector deficits would be financed through money creation, and so would real domestic interest rates—partly because nationalized banks would need to keep high interest rate margins in view of the continuing deterioration of their portfolios. The combination of low growth and high inflation would lead to a decline of private consumption in real terms, high unemployment and a decline in living standards. Assuming that population would increase at an annual rate of 0.9 percent, private consumption per capita would decline by about 3.0 percent between 1985 and 1990 and by about 9.5 percent between 1990 and 1995. Workers' remittances would decline in real terms as interest rates in Portugal would not be attractive enough. The real interest rates on Portugal's external debt would remain high and the terms (grace and maturity) would not be as favorable as they have been. The unfortunate consequences of this growth scenario for the balance of payments and external debt are presented in Table 4.3. The deficits of the balance of payments are likely to rise after 1985 and become very large during the 1990's. The debt service ratio could exceed 44 percent by 1990 and be close to 48 percent by 1995. This scenario is unsustainable and a new stabilization program would soon be required.

2.14 Under Scenario B, the Government would undertake rapidly the reforms that are needed to restructure public enterprises, to rationalize the budget, and to reform the financial system. The growth in public employment would be

Table 4.3: BALANCE OF PAYMENTS

(current US$ million)

| | 1985 /a | 1990 A | 1990 B | 1995 A | 1995 B |
|---|---|---|---|---|---|
| Balance of goods & NFS | -1,250 | -2,588 | -1,900 | -3,763 | -2,853 |
| Transfers | 2,259 | 2,584 | 3,104 | 2,845 | 3,559 |
| -workers remittances | 2,100 | 2,350 | 2,857 | 2,643 | 3,300 |
| Interest payments | 1,303 | -2,123 | -1,650 | -2,605 | -1,367 |
| Current account | -466 | -2,132 | -446 | -3,561 | -661 |
| Debt service ratio | 35 | 44 | 31 | 48 | 19 |
| Medium- and long-term debt | 12,500 | 18,772 | 13,878 | 32,942 | 15,635 |

/a Estimate

contained, public sector deficits would be reduced, and, as a result, investment in the productive sector could grow faster. With the reduction in the public sector deficit, inflation would be less, so that it would be easier to keep exports competitive and to attract emigrant remittances. These actions, combined with higher efficiency in the use of energy and new investment in the sectors where Portugal's comparative advantage is greatest, could lead exports to grow rapidly and GDP growth to average 3.4 percent between 1985 and 1995 and over 4 percent between 1990 and 1995. Unemployment would fall gradually as a result of sustained economic growth. Private consumption and private consumption per capita would rise significantly, especially after 1990. Workers remittances would increase slightly faster than inflation. Smaller current account deficits would mean lower net borrowings from abroad and lower interest payments. Capital flows to Portugal, especially in the form of grants from the EC, would expand, partly as a result of improved absorptive capacity, and the average interest rate on external debt would be reduced. As a result, the balance of payments deficits would be small, and the growth of external debt would slow down. The debt service ratio would decline gradually until the end of the decade and drop rapidly thereafter, to about 19 percent in 1995.

## IV. Reforms for the Medium Term

2.15 In order to obtain the supply response that is needed to achieve the level of economic growth presented in the high case scenario, reforms will be needed in many areas. The Government is well aware of this and in particular that a lasting improvement in the macrofinancial situation can only be achieved by combining short-term policy measures with difficult longer term reforms. By mid-1984, the Government presented its draft Financial and Economic Recovery Program (PRFE) for the 1985-87 period. The objectives of this program are to resume economic growth, to reduce unemployment and inflation, and to prepare the ground for structural reforms in the financial

situation of the public and private sectors. This program was supplemented by the 1985 Grandes Opcoes do Plano, the annual plan document that accompanies the budget. In addition, the Government is working on a medium term development program that should be presented soon.

2.16 In the draft PRFE, the Government has proposed to undertake reforms aimed essentially at improving financial management. As regards the restructuring of public enterprises, it proposes among other things a reorganization of the system of Government supervision and specific programs to restructure individual enterprises. The program also proposes measures aimed at modernizing capital markets and at further encouraging the development of private banks. Work is already in progress to translate these proposals into action, but much remains to be done. In addition, the program proposes other financial reforms, including a reform of the nationalized banking and insurance systems, measures to restructure financially troubled private enterprises, and to create a regional development framework to facilitate Portugal's entrance into the EC.

2.17 It is clear that some of the proposals in the draft program are controversial, and that they are far from being ready to put into operation. Since the mission had completed its field work before the draft was available for discussion--the draft program has been widely debated in Portugal and a revised version approved by the Government in March 1985--this report does not undertake an assessment of the reforms proposed. Instead, it confines itself in the next two chapters to a conventional examination of some of the areas where change is needed if financial management is to be improved. In the course of this discussion reference will be made to the reforms proposed in the PRFE.

2.18 Of course, improved financial management is not all that is needed. Changes, some of which were postponed while stabilization was in the forefront of attention, are urgently required in many areas. In industrial policy, there is a need to draw on recent studies to formulate a set of coherent policies and the reforms. The ones that have already been announced, such as reform of the system of industrial investment incentives (the SIII), should be decided upon and carried through. Studies both in Portugal and outside have shown that Portugal's comparative advantage lies in light industries that are in the middle range in terms of technological development, mainly because semi-skilled labor is available at a relatively low cost. However, Portugal cannot exploit this advantage further because of persistent overstaffing, weak capital markets, and a weak technology base. This is in turn complicated by rigid labor laws and practices, poor training facilities, and by the absence of a consistent industrial policy on which entrepreneurs can rely. Therefore, before these problems are solved, it may not be to Portugal's advantage to push too far with ambitious government programs aimed at developing the advanced technologies, as was suggested in the recent draft industry law. 1/

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1/ Because Portugal's technological base is extremely thin, both in human and material terms, there are questions about how effective government programs can be. A fuller discussion of desirable approaches to industrial policy will be provided in a forthcoming IBRD report.

2.19 As long as the decision-making process for industrial policy remains fragmented between several ministries and many commissions, Government efforts to promote industrial development are likely to remain ineffective. Instead, Government authorities should be focusing on rationalizing industrial public enterprises and on providing the services that private investors expect from the State. This would include providing more flexibility to labor and capital markets, adequate retraining programs to compensate for the reduction in employment associated with industrial restructuring, basic infrastructure such as a modern road network in the region of Oporto, a simple system of investment incentives on which entrepreneurs can rely, improved services at nationalized banks, a simpler and improved tax system, and a further reduction in price controls. Given the importance of manufactured exports for economic growth and the balance of payments, there is a need to introduce in Portugal modern export promotion and diversification policies, to revamp the existing export credit and insurance schemes, and encourage further energy savings. Although Portugal has made some progress at saving energy, it is still heavily dependent on petroleum imports.

2.20 It is unlikely that agricultural production can respond quickly to a rapid increase in demand and that the agricultural sector can adapt harmoniously to EC regulations without a major improvement in productivity. Productivity is at present the lowest in Europe, and adopting the CAP will mean lower support prices and the elimination of subsidies, hence lower incomes for producers. For consumers, integration into the EC will mean higher prices. Also the harmonization of prices to EC levels will affect the different regions of Portugal unequally. Producers of dairy products in the north and cereals and livestock products in the central regions will be the main losers, while the producers of fruits and vegetables, especially in the southern region, will be the main gainers. To cope with these problems, farmers will have to modernize their methods of production and diversify their output. Government support in this effort will be essential. Action should be taken to provide a wide variety of technical support services, to modernize the system of agricultural credit, and to improve the level of their technical and economical know how at the Ministry of Agriculture. In regard to the land reform in the south, the Government needs to resolve outstanding issues. In the north, where farms are small, Government action should focus on freeing the market in land in order to facilitate land consolidation. In addition, while the accession to the EC might provide additional resources from the EC regional and special funds, this will not happen automatically and will require continuous efforts by the Portuguese authorities to establish a new administrative framework. 1/

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1/ For further discussion, see: Portugal: Agricultural Sector Survey - A Near-Term Action Program for Agriculture. July 20, 1984, IBRD 5007-PO.

# CHAPTER III

## PUBLIC FINANCE MANAGEMENT

3.1 This chapter will examine briefly the major components of the Portuguese public finances and their relation to one another in an effort to clarify their contribution to the persistent deficit and their possible role in reducing it. Progress can be made by streamlining the budgetary process and managing it better and also by cutting expenditures and improving the design and administration of taxes. But the present structure of revenue and expenditures will set limits to what can be done by these means and a satisfactory and lasting solution will not be achieved without fundamental changes both in the tax system and in the relations between the Government and public enterprises.

### I. Background

#### A. The Budget of the Administrative Public Sector

3.2 The "administrative public sector" (APS) includes, in addition to the Central Government budget, the social security administration, local government, and the regional administrations of the Azores and Madeira. The Central Government budget, in turn, includes the State budget plus the autonomous funds and services. The budgets for local and regional administration are approved by their own authorities and include Central Government budgetary contributions in their receipts. The "enlarged" public sector comprises the APS and public enterprises.

3.3 The Central Government budget follows the Government's annual plan, which is set out in the Grandes Opcoes do Plano. This document outlines the Government's assumptions about the economy, its major economic goals, budgetary, monetary and balance of payment targets, and ceilings on the investment program. The budget includes—in addition to recurrent receipts and expenditures—appropriations for the investment program. The latter is divided into two components—the Program of Investment and Development Expenditures of the Central Administration (PIDDAC), and the Investment Program of the Public Enterprises (PISEE). For the PISEE, the State budget covers the provision made for capital transfers.

3.4 Table 3.1 gives data for 1983 for the APS. It is noteworthy that the budgets of the entities other than the State account for a significant proportion of both taxes and expenditures. The Social Security Administration accounts for over 25 percent of tax receipts, and for about 80 percent of transfer payments. The autonomous funds, of which the Supply Fund is the most important, account for about 15 percent of tax receipts. They receive funds from taxes earmarked for specific purposes—for example, the taxes on petroleum products for the Supply Fund. Payments are made for special programs or to public enterprises. The autonomous funds account for

Table 3.1: ACCOUNTS OF THE ADMINISTRATIVE PUBLIC SECTOR /a
(Escudos billion) Year: 1983

| | Central Administration | | | | | |
|---|---|---|---|---|---|---|
| | State (O.G.E.) | Autonomous Services | Autonomous Funds | Local Admin. | Social Security | Total |
| 1. Current receipts | 484.7 | 103.6 | 135.5 | 40.4 | 236.0 | 838.5 |
| Direct taxes and social security contributions | 173.2 | .. | 16.6 | 9.1 | 216.5 | 415.4 |
| Indirect taxes | 253.4 | 3.6 | 97.0 | 2.7 | .. | 356.6 |
| Other current receipts | 58.2 | 100.0 | 21.9 | 28.6 | 19.5 | 66.5 |
| (of which: Transfers from other subsectors) | (1.2) | (98.6) | (18.0) | (27.1) | (16.8) | * |
| 2. Current expenditures | 562.0 | 103.3 | 147.2 | 34.9 | 228.3 | 914.0 |
| Expenditures on goods and services | 221.3 | 64.8 | 2.0 | 33.1 | 12.4 | 333.6 |
| of which Subsidies | 16.4 | 1.3 | 125.2 | .. | .. | 142.9 |
| Interest | 143.7 | 0.1 | 2.0 | 0.8 | 0.4 | 147.0 |
| Current transfers | 180.6 | 37.1 | 18.0 | 1.0 | 215.5 | 290.5 |
| (of which: Transfers to other subsectors) | (144.8) | (1.4) | (15.5) | (..) | (..) | * |
| 3. Current Balance | -77.3 | +0.3 | -11.7 | +5.5 | +7.7 | -75.5 |
| 4. Capital receipts | 13.8 | 6.3 | 0.0 | 19.9 | 2.0 | 6.5 |
| (of which: Transfers from other subsectors) | (8.9) | (4.7) | (0.0) | (19.9) | (2.0) | * |
| 5. Capital expenditures | 99.1 | 7.6 | 15.1 | 29.1 | 2.5 | 117.9 |
| Fixed gross capital formation | 38.7 | 5.8 | 0.9 | 29.1 | 2.5 | 77.0 |
| Capital transfers | 60.4 | 1.8 | 14.2 | .. | 0.1 | 40.9 |
| (of which: Transfers to other subsectors) | (23.0) | (0.5) | (12.0) | (..) | (..) | |
| 6. Loans granted (net of reimbursements) | 25.0 | 0.9 | 4.6 | .. | -0.5 | 30.9 |
| (of which: Loans to other subsectors) | | | | | | |
| 7. Total balance (3) + (4) - (5) - (6) | -188.5 | -1.9 | -31.4 | -3.7 | +7.7 | -217.8 |

Source: Bank of Portugal.
/a National accounts basis.
* Result ignored
.. Result nil

nearly 90 percent of all subsidies. The autonomous services, the most important of which is the health service, account for nearly a third of the budgetary expenditures on goods and services and depend for their current expenditures almost entirely on transfers from the State budget.

3.5 Local government, which has been increasing in importance, accounts for a tenth of budgetary revenues and for about 6 percent of current budgetary expenditures. Since revenues are relatively inelastic, it must rely heavily on transfers from the Government for both current and capital expenditures. Until recently, these budgetary transfers were supposed to be a pre-determined portion of the State budget, but a law recently approved makes local government directly responsible for determining the levels of local services and financing them. Furthermore, the budget for 1984 proposed to transfer the responsibility for primary education and the resources provided for it from the state to local government. In addition, the municipal finance law has been changed recently so that aggregate budgetary transfers to the municipalities would be fixed in the annual budget, but not according to any prescribed formula. What effect these changes will have in containing public expenditures remains to be seen.

3.6 The complexities of the financial relations between the APS and public enterprises make it difficult to assess the true magnitude of the deficit of the public sector and to apportion it between these two sectors. The cash deficit of the enlarged public sector can probably be estimated fairly accurately from the borrowing requirements of the public sector obtained from monetary data. In 1982, they were equal to 22.9 percent of GDP with the APS and public enterprises accounting each for about half of the total (see Table 1.6). However, this breakdown does not take into account the fact that a portion of the deficit of public enterprises is caused by their having to finance the large arrears that the State (through the autonomous funds) has accumulated against them. By adjusting for this and in addition for the distortions introduced by inflation, and normal borrowing requirements of public enterprises, one may obtain a fairly clear picture of the size and locus of the "true destabilizing deficit." The recent Bank report on public enterprises 1/ provided such an estimate, showing that, if arrears and inflation are taken into account, (i) the "adjusted deficit" is less than the borrowing requirements of the public sector, and (ii) the share of the APS in the deficit is larger. For the year 1982, the destabilizing deficit of the public sector was estimated at 15 percent of GDP, that of the APS at 9.5 percent of GDP, only two percentage points of GDP lower than its borrowing requirements, and that of public enterprises at 5.5 percent of GDP, or about half the size of their borrowing requirements. Therefore, particular attention should be given to reducing the budget deficit.

## B. Recent Trends in Expenditures and Revenues

3.7 While the budget deficit of 1983 was of the same order of magnitude as that of 1979 following the first stabilization program, the underlying

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1/ Public Enterprises in Portugal: Recommendations for Institutional and Financial Reforms. IBRD 5101-PO; June 1986.

situation was very different. Total expenditures of the administrative public sector had risen from 39 percent of GDP to 46 percent, and current expenditures from 30 percent to 40 percent. The main causes of these steep rises were the increase in interest payments, by about 50 percent annually. They were 16 percent of current expenditures in 1979 and rose to 19 percent in 1983. Rising social security expenditures and the financial losses of public enterprises were responsible for the jump in current transfers from 26 to nearly 32 percent of current expenditures. At the same time, public enterprises maintained a high level of capital expenditures which were in part financed by capital transfers, but mainly from foreign borrowing. As was explained earlier, most subsidies were paid through the autonomous funds and were supposed to be financed by revenues from taxes levied on specific goods. As these taxes were not raised rapidly enough to cover rising costs, the funds allowed arrears to accumulate and the enterprises to which payments were due borrowed heavily abroad to finance these arrears.

Table 3.2: SUMMARIZED BUDGETARY ACCOUNT OF THE ADMINISTRATIVE PUBLIC SECTOR STRUCTURE AND GROWTH (in %)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984/a | 1985 Budget | Index 1983 1979=100 |
|---|---|---|---|---|---|---|---|---|
| Current revenues | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 317.3 |
| of which | | | | | | | | |
| Direct taxes | 46.9 | 47.1 | 51.3 | 51.7 | 49.5 | 46.9 | 48.5 | 335.0 |
| Indirect taxes | 46.2 | 47.8 | 43.9 | 42.4 | 42.5 | 48.2 | 48.1 | 292.3 |
| Other revenues | 6.9 | 4.0 | 4.8 | 5.6 | 8.0 | 4.9 | 3.4 | 363.4 |
| Current Expenditures | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 302.4 |
| of which | | | | | | | | |
| Goods and services | 48.8 | 45.9 | 39.1 | 37.6 | 36.5 | 40.4 | 39.1 | 226.0 |
| Subsidies | 15.4 | 14.8 | 14.9 | 14.3 | 15.6 | 11.7 | 9.7 | 307.3 |
| Current transfers | 26.3 | 29.8 | 32.2 | 33.8 | 31.8 | 27.7 | 28.1 | 364.9 |
| Interest payments | 9.4 | 9.6 | 13.8 | 14.3 | 16.1 | 20.2 | 23.2 | 515.8 |
| Current balance/GDP | -3.8 | -3.4 | -4.7 | -4.9 | -3.3 | -3.8 | -4.1 | - |
| Overall balance/GDP | -9.9 | -10.3 | -11.3 | -11.4 | -9.5 | -9.8 | -9.3 | - |
| Current expenditures/GDP | 30.4 | 32.7 | 37.8 | 38.2 | 39.9 | 35.9 | 36.0 | - |
| Current revenues/GDP | 26.6 | 29.3 | 33.0 | 33.3 | 36.6 | 32.1 | 31.9 | - |
| Capital expenditures/GDP | 4.7 | 5.7 | 5.6 | 5.5 | 5.1 | 4.5 | 4.8 | - |
| Total expenditures/GDP | 35.1 | 38.4 | 43.6 | 43.7 | 45.0 | 40.4 | 40.8 | - |

Source: Bank of Portugal and mission estimates.

/a Preliminary.

3.8 It is not clear that the stabilization measures initiated in 1983 and pursued in 1984 have reversed the trend of rising subsidies and transfers. Based on preliminary data on the implementation of the 1984 budget, subsidies plus transfers dropped from 46.4 percent of current expenditures in 1983 to 38.4 percent in 1984 and subsidies alone from 15.6 percent of total expenditures in 1983 to 11.7 percent in 1984 (see Table 3.2). However, while it is likely that the increase in prices decreed by the Government in June 1983 on fertilizers, cereals, milk and livestock may have contributed to a decline in subsidies, the decline may be less significant than it appears from the data above since unpaid subsidies in the form of Government arrears seem to have increased significantly in 1984. Interest payments continued to increase rapidly and their share in current expenditures rose to more than 20 percent. This change in the composition of current expenditures was accompanied by a marked drop in current expenditures as a percentage of GDP (by 4 percentage points). As capital expenditures were also reduced, total expenditures as a percentage of GDP dropped by 6 percentage points in relation to the level reached in 1983.

3.9 As may be seen from Table 3.3 showing the major sources of revenue of the State, the tax structure is characterized by a heavy reliance on revenues earmarked for specific expenditures and taxes on incomes. To finance the rapidly growing expenditures, the Government raised new taxes, increased indirect taxes and sought to reduce tax evasion. Current tax revenues, including social security contributions which account for about 25 percent of the total current revenues of the APS, rose from about 28 percent of GDP in 1979 to almost 34 percent in 1983 (part of the increase in 1983 was due to the extraordinary tax package that was introduced in September 1983). This is quite a substantial level of taxation, comparable to the tax burden in France or Sweden. The fact that current tax revenues dropped to an estimated 32.1 percent in 1984, and that they are expected to stay at about that level in 1985, suggests that such a level of taxation is difficult to maintain in a country of Portugal's income level.

## II. Managing the Budget

### A. Main Issues

3.10 Budgetary procedures and practices are unsatisfactory and make the Government's job of managing the budget difficult. In the recent past, budget estimates have been quite unrealistic. For instance, the initial budget for 1983 estimated the deficit at the same level as the 1982 initial budget when it was already known that the actual deficit would be almost Esc. 40 billion higher. Current and capital expenditures are not clearly distinguished, some current expenditures being included in the current budget and some recurrent costs in the capital program. Again, because the capital budget is proposed after the current budget, the spending ministries and agencies have tended to use it as a means to provide additional resources to their recurrent budgets. And there are inconsistencies in the treatment by the Ministry of Finance of requests for staff increases and replacement of equipment. As a result, such recurrent costs have sometimes been excluded from or inadequately provided for in the current budget.

Table 3.3: STRUCTURE OF CURRENT TAX REVENUE OF THE STATE

(in percentage of total tax revenue)

| | 1979 | 1983 | 1984 /a |
|---|---|---|---|
| Direct taxes | 33.3 | 38.2 | 41.2 |
| Industrial tax | 6.3 | 7.0 | 8.3 |
| Professional tax (labor income) | 10.2 | 9.9 | 11.3 |
| Capital tax (interest income) | 5.8 | 9.6 | 12.9 |
| Complementary tax (labor and other income) | 4.6 | 3.0 | 2.9 |
| Extraordinary tax | 3.1 | 5.5 | 2.8 |
| Other direct taxes | 3.3 | 3.1 | 3.0 |
| Indirect taxes | 56.3 | 52.5 | 58.8 |
| of which: | | | |
| Transaction tax | 23.9 | 21.8 | 22.8 |
| Stamp duties | 10.5 | 11.1 | 16.1 |
| Tobacco tax | 5.7 | 5.3 | 6.0 |
| Tax on automobiles | 4.6 | 5.6 | 5.2 |
| Other indirect tax receipts | 11.6 | 8.7 | 8.7 |
| Other current revenues | 10.4 | 9.3 | 0.0 /b |
| Total | 100.0 | 100.0 | 100.0 |

Source: Bank of Portugal, OECD, A Situacao Fiscal em Portugal, (see footnote to para. 3.16).

/a Preliminary.
/b Allocated among above categories.

3.11 In the recent past, moreover, some important financial transfers between the Government and various public agencies have not been clearly reflected in the budget. For instance, the Government is required to pay subsidies, such as urban transportation subsidies, to public enterprises for social obligations they must fulfill. Because of a failure in some cases to make a direct estimate of these social obligations and due to shortages of funds, these subsidies have been frozen at relatively low levels. Only Esc. 11 billion were included in the 1983 budget, and only Esc. 14 billion in 1984, although the amounts needed to compensate the enterprises for social obligations were known to be much larger. Consequently, some of the capital transfers to the public enterprises are in effect utilized to meet operating losses.

3.12 As has been mentioned earlier in this report, a similar phenomenon has occurred in connection with the budgetary transfers to the autonomous funds. To the extent that these subsidies are financed by the budget, annual budget provisions have been inadequate to cover the funding requirements,

thus resulting in substantial arrears due to public enterprises. The 1984 budget included only about 7 billion escudos for subsidies although it was known that total amounts payable, including past arrears, were over 50 billion escudos. For example, the budgetary transfers to the Supply Fund to cover agricultural input subsidies have been consistently inadequate to cover the Fund's obligations. Despite the transfer of Esc. 15 billion from the budget, the Supply Fund had a debit balance of over Esc. 3 billion in 1983, and it was not clear whether this transfer represented fully amounts payable for 1983, or whether it also included provision for the liquidation of some overdue payments to the enterprises.

3.13 The budget does not make adequate provision for the cost of various fiscal incentives, such as interest subsidies for investments undertaken by the private sector in agriculture, industry, housing, and—by the local administration—infrastructure. Some of the subsidies, which relate to private investment in agriculture and industry and investment by local authorities, are financed partly or wholly out of the earnings of the Central Bank (e.g., for the agricultural credit scheme) and of the Caixa Geral de Depositos (for local administration). The following paragraphs provide a review of the means by which this process can be improved.

## B. Recommendations

### 3.14 1. Improve Estimating and Planning Procedures

(i) Make a realistic assessment of Government current expenditures in regard to recurrent costs. It would be desirable to take due account of the recurrent costs of capital expenditures, and to make a realistic provision for such recurrent expenditures as part of the normal budget. The present practice of trying to hold down rather arbitrarily the growth of recurrent expenditures only encourages the circumvention of guidelines for preparation of the normal budget.

(ii) Improve the planning of capital expenditures in the investment program (PIDDAC) of the APS and develop multiannual investment planning. Sectoral ministries ought to be given more authority to make changes between the current and capital expenditures of a project and in the allocations for an approved program within its functional units. The practice of cutting public investment programs across the board and treating all projects alike should be stopped. The regulations governing the implementation of the new law on pluri-annual budgeting approved by Parliament in 1984 should be promulgated. Even though budgetary appropriations would still continue to be authorized by the Parliament annually, and annual adjustments would still need to take into account actual progress in implementation and the escalation of prices, this new law should help to eliminate some of the delays in the commitment of authorized expenditures.

2. Clarify Transfer Procedures to Autonomous Funds

(iii) Clarifying pricing policies and incorporating pricing and subsidy policies in the State budget rather than in the budget of the Supply Fund are both needed. Towards this end, the Supply Fund should be incorporated into the State budget. Even if the Fund were annually in balance, it would be far better to incorporate the Fund's receipts and payments as part of the State's regular budget, to make obvious the impact of the Government's pricing and subsidy policies. This would be even more necessary when the Fund is in deficit. At a minimum, the budget documents should explain clearly the net outcome of the Fund's operations for the year, and the changes in its outstanding and contingent liabilities including those on account of the foreign exchange risk on the external debt of public enterprises.

(iv) The Government should also integrate into its budget other autonomous funds (such as the Unemployment and Land Transportation Fund) which have been designed to encourage specific objectives, with earmarked revenues. While earmarking of expenditures against specific tax receipts has been favored to provide the direct connection between taxes and benefits to the taxpayers, it tends to distort government priorities. The autonomous services should also be incorporated into the State budget as their revenues are negligible, and as they rely almost entirely on budgetary transfers. Nearly 75 percent of their outlays represent expenditures on salaries, goods and services, and despite the reduction in real wages, they have increased in real terms. The Government's plans to review the functioning of these services, to retain as autonomous only those services which are financially self-supporting and to merge the rest within the regular government services, is therefore a welcome step. To finance investments, besides budgetary transfers, the autonomous services also borrow from internal and external sources. Their internal resources are inadequate to meet the debt service on the loans taken to finance investment, and their debt service liabilities add to the state liabilities. There is also a clear need to incorporate the detailed investment program, extra-budgetary sources of financing such as treasury operations and all debt service liabilities into the State budget.

3. Provide in the Budget for the Social Obligations of Public Enterprises

(v) Ultimately, the reduction in transfers will depend on the success of the efforts to restructure public enterprises and on a rationalization of social security expenditures. However, there is in the meantime a need to determine explicitly the Government's support to public enterprises for the social obligations they are required to undertake as a matter of

public policy, and to fully provide for them in the budget. Similarly in regard to investments by public enterprises, the Government should decide its equity contributions on rational principles governing their capital structure rather than on an ad hoc basis as is often presently the case.

4. Make Clear Procedures and Adequate Provisions for Interest Rate Subsidies and Other Fiscal Incentives

(vi) Pending actions to eliminate fiscal incentives for private investment in various sectors, in line with the Government's stated objectives, the Government should fully incorporate the annual cost of such incentives into the budget, including those currently borne by other public authorities such as the Bank of Portugal and the Caixa Geral de Depositos. The amounts met by these institutions out of their earnings could be transferred to the Government as its receipts. While it would not make any change in regard to total resources available to meet the subsidy liabilities, such a change would have the merit of disclosing the total burden of such subsidies. To the extent such incentives are considered necessary, it would be preferable to make them as capital grants rather than provide subsidies over the life of the loans. This would have the advantage of quantifying in advance the extent of the Government's support to which the present interest subsidy system does not lend itself. Since such subsidies are payable over the period of the loans, the burden of interest subsidies over the life of the loans is not easily quantifiable. Further, to the extent the Government continues to subsidize such investment, these subsidies should legitimately be treated as part of the Government's development and investment expenditures (PIDDAC).

## III. Further Reforms

### A. Tax Reform

3.15 As has been noted above, current expenditures have tended to grow more rapidly than revenues ever since the Revolution. Some progress was made in narrowing the gap in the first stabilization period but it proved to be short-lived. While more can no doubt be done to curb subsidy, wage payments, and social security expenditures, real incomes have declined so much already that it would not be reasonable to expect too much from that source. Interest payments, on the other hand, will continue to rise sharply. In the 1985 budget almost two-thirds of all current expenditures are for interest and goods and services. Efforts to stem the drain on the budget by the public enterprises seem likely to have but limited results without a thorough going review and reform of the relationship between the Government and these entities. Capital expenditures may also be cut in particular areas, but the scope for such reductions seems likely to be limited by the fact that much of the country's public capital stock urgently needs to be modernized. In sum, any improvement in the expenditure picture is not likely to be dramatic.

3.16 Given the existing burden of taxation, the prospect for increasing revenues quickly is also rather bleak. Under the present system, the burden of taxation is spread very unevenly. Until recently, civil servants have been exempt. Tax on agricultural income has practically disappeared while taxation of business is low because incomes are often underreported and deductions from the industrial tax are generous. The tax base has also been eroded by an array of tax incentives and exemptions which seem to be administered without adequate regard to their effect on revenues. A recently published study 1/ showed that wage earners have borne the brunt of the tax increase in recent years and that the average tax burden of wage earners increased from 9 percent of their income in 1963 to 23 percent in 1983.

3.17 The tax system discourages productive effort. Taxes on wages are too progressive and the problem has been considerably aggravated because marginal tax rates have been only partly and irregularly adjusted for inflation. Thus in 1983, the effective marginal tax rate paid on the highest income bracket, including the tax on wages, exceeded 90 percent. Such high marginal tax rates obviously encourage tax evasion. The taxation applied to income from capital discourages risk investment because of the double taxation of profits and excessive advantages given to Government bonds against private securities and equity investment. The capital tax (on revenues from capital, in fact mainly interest income) is regressive since real interest rates on deposits have been for many years at best barely positive. In addition, the collection of taxes leaves something to be desired and the tax collection system is cumbersome. More than 57 percent of the tax income comes from 20 of the 80 taxes.

3.18 The Government is conscious that changes must be made in the tax system. In the PRFE, it has introduced the subject of tax reform and has created a special commission for the reform of direct taxes. Although much remains to be done to reconcile the views of the different groups which are interested in this reform, and to coordinate the efforts for a a tax reform, it seems that four basic principles for a reform of direct taxes would be generally acceptable. These principles are: (i) an enlargement of the tax base to include categories of activities and professions which were taxed insufficiently or not at all, (ii) the elimination of a vast number of taxes which produce little income, (iii) the transformation of existing taxes such as the stamp tax, and if needed, the creation of new taxes, and (iv) an adjustment of tax brackets to correct for the distortions introduced by past inflation.

3.19 The major issue in indirect taxation concerns the way in which the value added tax (VAT) will be adopted when Portugal joins the EEC. Currently, the transaction tax is the most important indirect tax, accounting for 64 percent of the State's indirect taxes and 22 percent of its tax revenues. However, the combination of high tax rates and poor administration

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1/ A Situacao Fiscal em Portugal - Dr. Medina Carreira, July 1984. This report has been published jointly by the two main industrial associations in Portugal, the CIP and the AIP.

results in some loss of potential revenues. Because the rates applied to some consumer items such as household equipment are high, tax evasion is widespread. The VAT is scheduled to be introduced in 1986 but the Government still has to determine which existing taxes should be repealed, what the rates of the VAT will be and to which categories of products it will apply. The introduction of the VAT should provide a more even distribution of the indirect tax burden and therefore reduce the incentives for tax evasion. At the same time food items, which were free of tax or even subsidized under existing tax laws, could become subject to a substantial tax with the introduction of the VAT. The Government has therefore envisaged the possibility of introducing a zero VAT for basic foodstuffs.

B. Public Enterprises Reform

3.20 In the years following the Revolution, a substantial number of institutions came under state ownership. These cover a wide range of commercial and industrial activities, from public utilities and transport through oil refining and chemicals to pulp and paper, steel, cement and the marketing of cereals. Subsequently, nonfinancial public enterprises have been encouraged by successive governments to undertake important investment projects, to give the lead in expansion and modernization, and to maintain employment. They expanded considerably more rapidly than the economy and at the same time, largely because of lags in price increases and rising financial costs, their financial situation deteriorated markedly. In addition, as was mentioned earlier, the Government has been slow in paying a number of these enterprises for services rendered so that substantial arrears have been allowed to accumulate. The enterprises have in turn borrowed from the banks (also public institutions) and accumulated payment arrears to the private sector to the point that the soundness of the banking system was threatened. Thus, many of these enterprises have recently been playing a highly significant role in financing Government, a role for which they were not designed.

3.21 A detailed discussion of what should be done to bring public enterprises back to a state of health and vigor would range far beyond both the scope of this chapter and the field of public finance. But it is clear that the health of Portugal's public finances will remain poor until steps are taken by the Government and the public enterprises to see to it that the latter are no longer a major contributor to the public sector deficit. The separate Bank study that was mentioned above (Public Enterprises in Portugal: Recommendations for Institutional and Financial Reforms) analyzes the many problems of the public enterprises and proposes recommendations in three areas: (i) behavioral restructuring to improve the Government's control over the enterprises and to promote decentralization of the decision making authority; (ii) financial restructuring to strengthen the firms' liquidity position and capital structure through improved availability and terms of finance; and (iii) real restructuring to improve the profitability of enterprises by renovating, rehabilitating or modernizing plant and equipment, by retraining or redeploying labor, and by closing production lines and selling assets. In addition, the study recommends clarifying the pricing policies of public enterprises, defining more precisely the budgetary transfers to public enterprises and making the budget approval and allocation

process more transparent. The findings and recommendations of this report were discussed with the Government and a reform program is under preparation. Some of the measures that are envisaged can be tackled fairly quickly, e.g., making arrangements tc settle existing arrears and prevent further accumulation or instituting realistic price policies and seeing that they are adhered to. Others, such as establishing which operations in individual enterprises are viable and dealing with those that are not, establishing performance evaluation or setting up a system by which the Government can oversee the activities of the public enterprises without encroaching on the autonomy they require to make timely business decisions and operate efficiently, range over many fields and may require more time, but the reform process should be put in hand at once.

# CHAPTER IV

## FINANCIAL POLICIES AND THE PRIVATE SECTOR

### I. Introduction

4.1 The above examination of the public sector deficit and how it might be reduced, pointed out that financing that deficit has at times preempted a very large proportion of Portugal's savings. Policies regarding interest rates and credit allocation have favored the public sector. Some of the savings transferred to the public sector might have otherwise been available to expand investment in the private sector which urgently needs to modernize its equipment, thus improving its competitive position in world markets while expanding employment and providing more and cheaper goods to the domestic market. This chapter reviews the financial situation of private enterprises in Portugal, and examines policies to improve the allocation of capital to the private sector. The chapter has two sections. The first section discusses the vulnerability of private enterprises caused by a weak financial structure and by inadequate government financial policies. The second section offers recommendations for adjusting these policies so that they better meet the needs of private enterprises, taking into account balance of payments and budget constraints, and the financial situation of banks.

### II. The Vulnerability of Private Enterprises

#### A. Financial Structure of Private Enterprises

4.2 The mission carried out an analysis of the financial returns of a sample of 4,500 public and private enterprises from 1979 to 1982. 1/ Profits were negative in most sectors and in most years, indicating that enterprises had to borrow to meet their financial charges. There was a wide variation in the financial condition of enterprises in each sector, and little correlation between export exposure and profitability. As mentioned in Chapter I, profits may have been negative in most domestic oriented sectors both in 1983 and 1984. However, on average, Portuguese firms may be more profitable than their published accounts would indicate. Profits are said to be under-reported because private family-owned firms (most private firms are family-owned) do not wish to declare profits at their true level, since by doing so they may attract undesirable attention from the Government and organized labor. Tax avoidance is also reported to be widespread, as are capital exports through underinvoicing of exports or overinvoicing of imports It is contended and supported by anecdotal evidence that private entrepreneurs may be more interested in preserving net worth than declaring profits.

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1/ These returns are based on data from public and private enterprises published by the Banco Portugues do Atlantico. The methodological problems raised by this analysis as well as detailed tables and analysis are presented the Annex.

4.3 Private enterprises are heavily in debt, and their indebtedness rose markedly between 1979 and 1982. In 1982, the average debt/equity ratio corrected for various distortions was estimated to be 2.5:1 compared to an average for all enterprises of 3.2:1 (for public enterprises it was 4.5:1). When allowance is made for the revaluation of assets of 1982, and for differences in accounting conventions, this ratio appears to be higher than those prevailing in other OECD countries. Many factors have encouraged this development. Even before 1974, enterprises in Portugal were often under-capitalized because the legal framework for capital markets was inadequate, and because many of them were controlled by banks which preferred to lend them money. After the Revolution, most of the large enterprises and all commercial banks were nationalized and thereafter, with the public no longer able or predisposed to hold assets in the form of shares, the market for equities almost disappeared. Private enterprises might have chosen to under-capitalize thereafter because they feared further nationalizations and because former owners of nationalized properties believed they had not been properly compensated for the assets they lost through the nationalizations. In addition, it was rational until recently for enterprises to borrow heavily to finance real assets since real interest rates were negative; interest rate subsidies reduced greatly the cost of borrowing.

4.4 In 1982, no less than 80 percent of the total liabilities of the enterprises were short-term, essentially commercial bank credit. This is at first sight surprising since the cost of short-term credit is much higher than that of long-term credit. The main reasons for this situation were the difficulties encountered in enterprises issuing bonds and the fact that few of them were sound enough to meet the criteria required to obtain medium-term credit from banks. After 1977, in order to reduce the cost of carrying large amounts of short-term debt for enterprises that could not pay, the Government organized a scheme for debt rescheduling, the so called "viabilization contracts". More recently, it established PAREMPRESA, a public enterprise which negotiated the rescheduling of enterprise debt with commercial banks and arranged for interest rate subsidies to be paid. These schemes did not bring a lasting improvement, however, because the resources were allocated were insufficient and many of the enterprises whose debt was rescheduled turned out not to be viable.

4.5 Because of this combination of low profitability and high indebtedness, private enterprises became heavily dependent on the availability of short-term bank credit and extremely vulnerable to increases in interest rates. The large (6.5 percentage points) increase in nominal lending rates implemented by the authorities in 1983 had a dramatic impact on the financial situation of the companies that had high debt/equity ratios. Many were unable to service their debt since funds generated from operations were in general insufficient. In such circumstances companies might have tried to raise new equity but, because of reduced profits during the recession and for the reasons outlined below, this has not been possible. Thus, a vicious circle developed whereby companies were unable to reduce their high debt/equity ratios by funds generated from operations and unable to raise additional equity funds. Under these circumstances they cut back on investment and inventories and accumulated arrears. Although the modest

reduction in interest rates decided in June 1984, as well as the other measures taken recently by the Government to contain this downward spiral, were helpful (see Chapter I), the underlying financial weakness of private firms remains.

B. Access to Capital Markets

4.6 The vulnerability of private sector enterprises is in part due to a lack of access to equity capital. It is difficult for the private sector to compete with the tax and yield advantages that are granted to public bonds. In 1983, the Government and public enterprises borrowed on the primary market at 29 percent per annum. In order to compensate for any differences in tax status between public and private bonds, private firms would have had to issue their bonds at at least 32 percent. In addition, the issue of new bonds is controlled by the Bank of Portugal which so far has given preference to public bond issues.

4.7 Under these conditions private enterprises have preferred to borrow from commercial banks. Bank loans over five years cost 32.5 percent, but under the system of industrial investment incentives, firms could obtain interest rate discounts up to 8 percent. In addition private bond issues are more complicated to prepare and entail more risk than five-year credit from the banks. Moreover, the firms that are sufficiently creditworthy to issue bonds may also be able to obtain short-term credit without necessarily having to pay interest in advance (see para. 4.9). At the same time, for banks, the high real interest rates on short-term credit (see next section) make it much more attractive to extend short-term credit and roll it over than to subscribe to private securities issued on capital markets. Thus, although measures were taken recently to better articulate the structure of bank lending rates and that of rates on capital markets (such as the rates on the interbank securities market), and although the Government has extended the capital tax exemption to all bondholder issues, there has been only one bond issue in the private sector since the start of 1984.

4.8 The discrimination against equity investment is even stronger than in the case of bonds, and the fear of nationalization largely explains why corporate equity issues are so rare. Because tax treatment of equity financing is much less favorable than that of bonds or time deposits, and because both profits and dividends are subject to taxation, it is unattractive for savers to hold equity and for companies to invest their own resources. For example, a retained profit of 100 will be taxed at 54 percent; including the taxation of dividends, the tax burden can be as high as 68 percent. To give shareholders a net yield comparable to that obtainable on Government bonds is clearly beyond the reach of most private companies. For instance, in order to generate a 20 percent after-tax yield on equity, for a shareholder with a marginal tax rate of 30 percent, the company would have to earn a pretax return on equity of 58 percent. 1/

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1/ Excluding the increase in the real value of the assets (based on the report cited above: Portugal: Policies for Industrial Restructuring).

## C. Interest rates 1/

4.9 Because of their high indebtedness, private enterprises are extremely vulnerable to high interest rates; and short-term bank lending, on which many enterprises depend, can be quite expensive. The structure of interest rates for the period 1977-84 is shown in Table 4.1, and the effective rates on short-term credit with interest paid in advance were shown earlier in Table 1.9 for the period December 1982 through June 1985. These effective rates indicate an increase in the real cost of credit in early 1983 and again in late 1984. In the most recent period, bank competition for good customers has meant that customers no longer have to pay interest in advance; but smaller firms or firms with financial difficulties are still faced with the higher real rates.

4.10 Since much industrial financing is accomplished by rolling over short-term credit, financing capital outlays can be quite expensive for the many enterprises that do not benefit from bank discounts. Payment of interest in advance is to be found in typical short-term operations, such as the discounting of bills of exchange or other short-term paper, and this raises the effective interest rate for a wide variety of liabilities. But in Portugal today more than 43 percent of all credit outstanding is for less than one year, from which the conclusion seems inescapable that a substantial proportion of the loans granted are at quite high rates or inappropriate maturities. This is graphically illustrated by the unusual shape of the yield curve. It rises very rapidly up to one year (largely because of the influence of advance interest payments) but thereafter slopes upward much more gradually. Some loans are granted interest rate subsidies, but these apply mostly to medium and long-term loans. However, since the reduction in effective interest rates caused by interest rate subsidies is probably offset by the six percent capital tax, the average interest rate on medium- and long-term credit is probably only marginally positive.

4.11 While the private sector has to pay high real interest rates on short-term credit, often the State can borrow at a negative real interest rate. The administrative public sector deficit is largely financed by the Bank of Portugal at the Bank's basic discount rate, 25 percent since August 1983. In addition, the State is exempted from the stamp tax and does not pay interest in advance. Thus, between August 1983 and December 1984, when inflation averaged 30 percent, the real cost of borrowing for the State was negative by about 5 percent. As inflation subsequently declined, this cost of borrowing became slightly positive, averaging about 1 percent between January and May 1985; but it is still much lower than the rate the private sector has to pay.

4.12 Nominal deposit rates are given in Table 4.2. In Portugal, the most important deposit rate is the rate on time deposits of six months to one year,

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1/ This discussion refers to interest rates in effect up until mid-1985. While this report was being discussed, the Government was considering a change in interest rates to take effect on July 1.

Table 4.1: INTEREST RATES 1977-1984

| Interest Rates for Lending | August 1977 | May 1978 | July 1981 | April 1982 | March 1983 | August 1983 | June 1984 |
|---|---|---|---|---|---|---|---|
| to 90 days | 14.75 | 18.25 | 19-21 | 23 | 27 | 29.5 | 28.5 |
| m 90-180 days | 15.25 | 18.75 | 19.5-21.5 | 23.5 | 27.5 | 30 | 29.0 |
| m 180 days to one r | 16.5 | 20 | 20-22 | 24 | 28 | 30.5 | 29.5 |
| dits from one to years | 17 | 20.5 | 20.5-22.5 | 24.5 | 28.5 | 31 | 31 |
| dits from two to e years | 17.75 | 21.25 | 21-23 | 25 | 29 | 31.5 | 31.5 |
| dits over five rs | 18.75 | 22.25 | 22-24 | 26 | 30 | 32.5 | 32.5 |

| Changes in the count Rate from Central Bank | August 1977 | May 1978 | July 1981 | April 1982 | March 1983 | August 1983 |
|---|---|---|---|---|---|---|
| - 1st level | 13 | 18 | 18 | 19 | 23 | 25 |
| - 2nd level | 15.5 | 20.5 | 20.5 | 21.5 | 25.5 | 27.5 |
| - 3rd level | 18 | 23 | 23 | 24 | 28 | 30 |

e: Bank of Portugal.

The dates given correspond to the dates on which the interest rate grid was modified.

in 1983 accounted for 63 percent of all deposits, and which between t 1983 and June 1984 was equal to 28 percent. When account is taken of apital tax of 19.8 percent, however, the return to the saver is reduced 22.5 percent. Estimates by the Bank of Portugal based on the 6-month rate that real deposit rates net of capital tax were substantially negative bout 10 percent from mid-1983 to mid-1984. In June 1984, with a view to lening the range of interest rates and to increasing the competition en banks for collecting savings, the Government freed all interest rates posits except the rate on deposits from six months to one year that was ay the role of a pivot or central rate. By January 1985, the pivot rate

Table 4.2: DEPOSIT INTEREST RATES 1977-84

| | Aug. 1977 | May 1978 | July 1981 | Apr. 1982 | Mar. 1983 | Aug. 1983 | June 1984 | Jan. 1985 |
|---|---|---|---|---|---|---|---|---|
| **Demand Deposits** | | | | | | | | |
| -at com. banks | | | | | | | | |
| -at the Caixa Geral de Depositos and other special credit institutions | 1 | 1 | 1 | 1 | 1 | 1 | free | free |
| -up to Esc. 70,000 | 4 | - | - | - | - | - | free | free |
| -up to Esc. 100,000 | - | 4 | 4 | - | - | - | | |
| -up to Esc. 150,000 | - | - | - | 4 | 4 | 4 | free | free |
| **Time Deposits** | | | | | | | | |
| -under 90 days | 6 | 8 | 10 | 11 | 15.5 | 17.5 | free | free |
| -from 90 to 180 days | 9 | 12 | 14 | 15 | 19.5 | 21.5 | free | free |
| -from 180 days to one year | 15 | 19 | 19.5 | 21.5 | 26.0 | 28.0 | 28.0 | 27.0 |
| -over one year | 16 | 20 | 21 | 23.0 | 28.0 | 30.0 | free | free |
| -Savings deposits at special credit institutions | | | | | | | | |
| -one year | 16.0 | 20.0 | 21.0 | 23.0 | 28.0 | 30.0 | free | free |
| -two years | 16.25 | 20.25 | 21.25 | 23.25 | 28.25 | 30.25 | free | free |
| -three years | 16.5 | 20.5 | 21.5 | 23.5 | 28.5 | 30.5 | free | free |
| -four years | 16.75 | 20.75 | 21.75 | 23.75 | 28.75 | 30.75 | free | free |
| -over | 17.0 | 21.0 | 22.0 | 24.0 | 29.0 | 31.0 | free | free |

was reduced by 1 percent but inflation was less. During the first semester of 1985, the net real return to the saver changed from slightly negative to slightly positive.

## D. Credit Availability

4.13 Availability of credit can be a problem for many private enterprises, which must continuously roll over their large volume of short-term debt. Until recently at least, available credit was allocated in a way calculated to favor the public sector. The system of credit allocation is based on a series of ceilings on the amount of credit which will be allocated to various sectors in the economy. These ceilings are worked out and periodically adjusted by the Central Bank. The ceiling on credit to the productive sector is established as follows:

(i) The monetary authorities set, for the coming year, a target growth rate for the money supply ($M_2$) on the basis of forecasts and/or targets for the growth of GDP, the rate of inflation and the velocity of circulation. This target of monetary growth is not made public.

(ii) They then set a similar target for the current account deficit in the balance of payments and project how it will be financed, including changes in external assets.

(iii) They next project the public sector deficit and how it will be financed (including external borrowing) to determine the change in the indebtedness of the public sector to the banking system.

(iv) Finally, by subtracting the expected change in external assets and in public sector indebtedness to the banking system, they establish the allowable growth of credit to the productive sector, which until July 1984 included both public and private enterprises.

4.14 In this system, if the amount of credit to the public sector rises faster than planned, the amount that is left for the private sector declines in proportion. Until 1983 this system did not necessarily work to the disadvantage of the private sector, largely because macroeconomic policies were expansionary, because public enterprises were encouraged to borrow abroad, and because the penalties imposed on commercial banks for exceeding individual credit ceilings were not severe. Starting in 1983, when monetary policy became more restrictive, and public enterprises were no longer able to borrow abroad, they drew heavily on the domestic market, and private enterprises experienced some difficulties in obtaining credit. In 1983, more than 52 percent of the General Government deficit was financed through domestic credit, another 34 percent through external credit, and more than 40 percent of the total credit to the economy was mobilized to finance the deficit of the public sector including public enterprises. As discussed in Chapter I, however, it is not clear that the difficulties experienced by private firms were caused only by the way credit ceilings were operated. Credit ceilings at individual banks were hardly exceeded. If credit rationing took place, it was probably more because of the high real interest rates and because commercial banks became more cautious in lending.

## III. Selected Recommendations

4.15 Neither the structure of the Portuguese capital markets, nor interest rates, nor credit allocation mechanisms seem well suited to the task of providing appropriate finance to private firms and/or bringing a lasting recovery to the private sector. Yet, as indicated above, recovery is critically important for Portugal's growth prospects. The paragraphs that follow will explore the areas where policy changes and reforms could benefit the private sector, pointing out also the constraints that limit their applicability.

### A. Adjustments of Interest Rates

4.16 As soon as possible, short-term interest rates should be lowered further so as to reduce the financial costs of enterprises (practically all of the debt that enterprises have contracted has been at floating rates) and to stop the accumulation of arrears in the public and in the private sector. This is not a simple matter, however, since credit ceiling mechanisms, the

importance of workers' remittances to the Portuguese economy, the budget constraint and the financial position of banks limit the authorities' scope for reducing lending rates and for improving the structure of interest rates. First, credit controls influence the formation of interest rates, for in a system where credit allocation is controlled, interest rates are normally administered. Otherwise, if credit ceilings were imposed on a system where interest rates are fixed by the laws of supply and demand, they would bid up interest rates consistent with the desired level of credit.

4.17 Second, because of Portugal's structural balance of payments deficit, it is necessary to maintain interest rates at a level which attracts deposits from emigrants and thereby reduces the current account deficit. Emigrant deposits account for 60 percent of medium- and long-term time deposits. Portuguese emigrants are sensitive both to the differential between nominal interest rates in Portugal and the host country (adjusted for expectations of variations in exchange rates) and to the level of real interest rates in Portugal. They are also sensitive to tax advantages. Until recently they were exempted from the capital tax; in December 1984, the rate on time deposits for six months to one year was 28 percent and emigrants would thus be paid a positive real interest rate of 2 to 3 percent (assuming current inflationary expectations of 25 percent per annum). However, the 1985 budget provided that emigrants should pay the capital tax at a rate of 10 percent as against a normal rate of 19.8 percent. As deposit rates were reduced by 1 percent in January 1985, the net return to the emigrant would be 24.3 percent, i.e, slightly negative in real terms assuming inflationary expectations of 25 percent per annum.

4.18 Third, the budget has become an important constraint on interest rate policy. Time deposits are subject to the capital tax of 19.8 percent and lending rates to the stamp tax of 6 percent. In 1984 revenue from the capital tax represented an estimated 12.3 percent of the State's current revenues, and from the stamp tax another 11.6 percent. When considering a reduction of interest rates, the Government has to weigh the effects that it would have on tax revenue and on stimulating the economy. These two effects are in opposite directions and it is difficult to say a priori what the net effect would be. Economic studies would be necessary to estimate more precisely the interest rate elasticity of demand in Portugal.

4.19 Fourth, the profitability of banks is another constraint for reducing interest rates further. As shown in Table 4.3, in spite of high and stable interest rate margins of 5 to 6 percent, the net interest rate margin for commercial and savings banks has been getting smaller year by year, and was even negative in 1983. This is explained partly by the fact that while interest rates on time deposits are slightly positive in real terms, banks are constrained in utilizing their resources by the level of required reserves, the required use of part of their deposits to finance the public debt at lower than market interest rates, and the impact of credit ceilings in freezing resources. In addition, the net interest rate margin also declined because of the drop in lending activities in 1983 and the deterioration in banks' portfolios. Non-performing loans have risen from 12.5 percent of banks portfolios in 1980 to an estimated 13.5 percent in

1984. In addition, operating costs are relatively high in Portugal, and recently, net results before taxes were maintained only by income from other activities such as foreign exchange operations and income from Government and public enterprise bonds.

Table 4.3: INTEREST RATE MARGINS AND PROFITABILITY OF BANKS
(all banks, as percent of credit outstanding)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|
| Average lending interest rate | 16.4 | 17.9 | 18.5 | 19.4 | 21.4 | 22.2 |
| Average deposit interest rate | 10.3 | 13.0 | 13.5 | 14.2 | 15.7 | 16.7 |
| Interest margin /a | 6.1 | 4.9 | 5.0 | 5.1 | 5.7 | 5.6 |
| Interest margin rate /b | 3.6 | 2.1 | 1.6 | 1.1 | 0.7 | -0.3 |
| Other income | 0.8 | 2.2 | 2.8 | 3.2 | 3.7 | 4.1 |
| Operating income | 4.4 | 4.2 | 4.4 | 4.3 | 4.3 | 3.8 |
| Operating costs | 2.2 | 2.3 | 2.4 | 2.3 | 2.3 | 2.4 |
| Net results before taxes /c | 0.6 | 0.8 | 0.5 | 0.7 | 0.7 | 0.4 |

Source: Bank of Portugal.

/a Differential between average interest rate on loans and the average interest rate on deposits
/b Interest income minus interest cost on bank intermediation divided by volume of activity.
/c After provisions.

4.20 In spite of these constraints, some adjustments to permit lower lending rates while maintaining attractive deposit rates appear possible. Indeed, the measures taken in July 1984 to make deposit rates more flexible and to reduce the level of reserve requirements are a step in the right direction. For instance, for time deposits from six months to one year, reserve requirements were reduced from 12 percent to 9 percent. Other measures which should be considered in this area are: a gradual elimination of the prepayment of interest on short-term credit, which would substantially lower the effective cost of such borrowing; offering higher rates on emigrants' deposits so they are sustained if other deposit rates are lowered; improving the

financial performance of the banks so they can achieve profitability with possibly lower margins between borrowing and lending rates; and reducing taxes on deposits and loans. This last area for reform may be the most promising, particularly in the context of a broader tax reform (see Chapter III).

4.21 Table 4.4 presents an example of various possible measures and their effects, assuming essentially constant bank interest margins. This example shows that independently of the evolution of inflation, it might be possible to lower the lending interest rates by 4 to 5 percent, at the cost, however, of some increase in the budget deficit. According to government estimates, revenue from the capital tax on lending interest rates should be equal to nearly 13 percent of all the State's fiscal revenue in 1985. Consequently, reducing the capital tax from 19.8 percent to 10 percent would, other things being equal, cause a drop in fiscal receipts of about 6 percent. By the same token, reducing the stamp tax from 6 to 3 percent should lead to a drop of fiscal receipts of about 3 percent. As Portugal should be emerging from a recession, the decline in fiscal receipts due to the measures decided above could be partly or eventually fully offset by the stimulative effects of lower interest rates or investment and growth. In addition, a lasting slowdown in inflation--for example, from inflation of close to 25 percent to 20 percent or lower--should make it possible to reduce nominal interest rates further. However, in order to avoid a major shortfall in Government revenues, the level of reduction in the rate of the capital tax and of the stamp tax should be decided in coordination with the Government's efforts to reduce public expenditures and reform the fiscal system. 1/

B. Debt Rescheduling, Bankruptcies and Corporate Reorganization

4.22 While action to reduce interest rates could be taken fairly rapidly, there is no simple and purely financial solution to reduce the indebtedness of private enterprises. Debt rescheduling should be continued for the enterprises that appear to be viable, but for those that do not, more bankruptcies may have to be declared and policies put into place to reduce the social cost of the increased unemployment. In addition, even when enterprises are economically viable, debt rescheduling may not be sufficient. Corporate reorganization may be needed, involving reorganizing the activities of the firm, such as plant layout, marketing, staffing and pricing policies and even closing down parts of enterprises that are not

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1/ Changes in interest rates were under consideration by the Government in early July 1985 while this report was being discussed. Lending rates were to be reduced by 2.5 percent and deposit rates by 3 percent. In order to limit the reduction in the rate of return to the saver, the latter decline was to be offset by a reduction in the capital tax from 19.8 percent to 15 percent on the deposits of residents and from 10 percent to 4 percent on emigrants' deposits. The proposed change in the capital tax would have a negative impact on the budget unless other resources are substituted.

Table 4.4: IMPACT OF SELECTED ADJUSTMENTS TO INTEREST RATE REGULATIONS ON THE LEVEL OF INTEREST RATES

| Measure | Anticipated Drop in Lending Interest Rates |
|---|---|
| - reducing capital tax on deposit rates from 19.8 percent to 10 percent | 2 to 3 percent |
| - reducing stamp tax on lending rates from 6 percent to 3 percent | 1 percent |
| - reduction in required reserves /a | 1 percent |

/a For deposits from six months to one year from 9 percent to 6 percent; for deposits above one year from 6 percent to 4 percent.

viable. Changes in labor relations and laws may also facilitate this effort. 1/ In the draft PRFE, the Government proposed to eliminate PAREMPRESA, the entity responsible for rescheduling the debt of private enterprises, and to transform the bad debts of enterprises into equity to be owned by the nationalized banks. This is probably not a workable solution. Many enterprises are probably not economically viable, so this proposal would probably lead in the short term to a deterioration in the financial situation of the banks, which are in any case no better equipped than PAREMPRESA to handle corporate reorganization. Furthermore, a policy of avoiding bankruptcies of enterprises with the cost borne by commercial banks may simply defer the adjustment process and lead to a far greater degree of financial instability.

C. Modernization of Capital and Credit Markets

4.23 In the medium term, if existing private companies are to be in a position to modernize and new enterprises in a position to develop, major changes will have to be made in the the operations and structure of capital markets. The Government is well aware of this and is committed to stimulate the development of the securities market as a viable alternative for corporate capitalization. In the PRFE the Government presented a program for the "revitalization of capital markets." 2/ Recommendations are made to

1/ This point deserves a much broader treatment than can be given here. A discussion of these issues, including the role of PAREMPRESA, and recommendations to reorganize key industrial sectors are included in an earlier Bank report: Policies for Industrial Restructuring, 1982-PO.

2/ This program incorporates some of the findings and recommendations of a report by the International Finance Corporation (IFC): "Capital Market Revitalization Program," 1984.

change the taxation of financial instruments, creating an entity directly responsible for the development and supervision of the securities market, and insuring transparency and efficiency in the trading of securities. It also recommends that new financial instruments be introduced, such as non-voting preferred stocks or convertible stocks, to gradually prepare the way for a revitalization of equity ownership. Since the report was presented, a special commission has been created to implement its recommendations. Thus, while some steps in the right direction have been taken already, much remains to be done.

4.24 As long as the public sector deficit remains so large and has to be financed through the banking system, there is no simple and easy solution to providing adequate credit to both the public and the private sector. In the meantime, efforts should be made to increase the purchase of government bonds by the public. Government bonds are attractive, they are exempted from the capital tax, they involve only a small risk on the secondary market, and their interest rates are indexed to changes in the interest rates on time deposits. Increased purchases of these bonds would free up bank credit for the private sector. In addition, however, the Government should borrow from the Bank of Portugal at market rates instead of at discounted rates, and private sector bond issues should be treated equally with those of the public sector.

4.25 While thought might be given to substituting money base management for the the present system of credit ceilings, this is probably not a matter which calls for action until Portugal's finances are in a more stable condition. Moreover, the conditions for implementing a monetary policy based on the management of a monetary base are not met in Portugal at the present time. Until they are, credit ceilings are likely to remain the main instrument of credit policy. Several means to improve the operation of the credit allocation mechanisms could be envisaged. For instance, one could consider the possibility of introducing credit bite indicators, as is done in some other countries that utilize credit ceilings. Credit bite indicators are means by which the Central Bank can measure the extent to which certain agents, private or public enterprises, are hurt by credit ceilings. This would indicate clearly to the Central Bank when the private sector is being crowded out and allow it to take the necessary measures in time.

4.26 Private and public enterprises could benefit substantially from modernization of the banking system. Some change is taking place already. After the law on private banking was approved at the end of 1983, three private banks (one domestic and two foreign) were established. More banks have applied and the Government is currently facing a difficult choice given the limited number of additional banks that the Portuguese market can bear. While foreign banks will introduce more competition in financial markets, they may also play a major role in introducing new financial instruments and techniques to Portugal, as they have done in Spain and Italy. The new foreign banks and the new private Portuguese banks will probably specialize in corporate banking while existing banks will stress retail banking. One might expect foreign banks to offer negotiable certificates of deposit, repurchase agreements, and more generally all the new financial products and

techniques of issue in capital markets which have appeared in recent years. Such developments, properly supervised, could do much to increase the efficiency of the Portuguese financial system and improve the prospects for economic growth.

4.27 The Government is well aware that changes will also have to take place in the way the nationalized banking system is organized and operates. In the PRFE it proposed to improve the efficiency of banking operations mainly by merging nationalized banks, supposedly in order to enable banks to exploit economies of scale, to mobilize more resources, and to extend bigger loans. The draft PRFE also proposes to bring more specialization among banks, and to coordinate under one Secretariat the supervision of banks that is now exercised by various authorities responsible to the Minister of Finance. While one cannot take exception to the Government's objective, the measures that are contemplated to achieve it are more controversial, and may require further study. In other countries, studies have shown that in banking, economies of scale are limited. And in Portugal the widespread overstaffing suggests that banks could do much to improve their productivity by internal reorganization without having to increase their deposit base through mergers. So far at least, banks have had difficulties not in mobilizing resources, but rather in utilizing them efficiently. Furthermore, the whole issue would have to be considered in the light of Portugal's imminent accession to the EC.

## ANNEX

## THE FINANCIAL SITUATION OF PRIVATE ENTERPRISES IN PORTUGAL

1. This annex on private enterprises reviews trends from 1979 to 1983 with an assessment, by sector of economic activity, of their financial situation. The impact of the recent stabilization policies on the private corporate sector is also reviewed.

2. The principal data base used is that provided by the Central de Balancos of the Banco Portugues do Atlantico (BPA), which is the most extensive source of aggregate financial data of the industrial and commercial sectors. This sample includes 4,257 enterprises--both private and public--for which information is available for 1981 and 1982. It is supplemented by additional information provided by BPA on debt/equity ratios from 1979. Tables 1-3 provide the basic indicators of the financial situation of these enterprises.

### A. Reliability of Financial Statements of Portuguese Companies

#### General Considerations

3. Certain caveats need to be expressed concerning the reliability of financial statements issued by Portuguese companies. International auditing firms indicate that there are no auditing standards as commonly understood in the international context. Also, corporate accounting has traditionally been tax oriented. Although a national plan of accounts was introduced in 1977 with the objective of improving the meaningfulness of published statutory accounts, the plan has, in practice, had little impact on raising the quality of financial reporting. The plan calls for (i) adhering to principles of consistency, accrual and prudence; (ii) well-defined accounting policies regarding inventory valuation, fixed asset amortization and the treatment of foreign exchange liabilities; and (iii) the appointment of a supervisory commission reporting to the Ministry of Finance.

4. The plan has had little impact partly because the supervisory commission was not appointed and also because--apart from inventory valuation--companies are not required to refer to the principles or accounting policies underlying the statutory financial statements. In particular, the principles of consolidated accounts or equity accounting are not recognized or followed, and goodwill is rarely identified as such. Also, there continues to be a fundamental contradiction between tax allowances (that must be taken up in the statutory accounts if their benefit is to be obtained) and provisions or reserves required under accrual or prudent accounting. This contradiction has been officially reaffirmed in tax

# PORTUGAL

## TABLE 1: BPA - ECONOMIC SURVEY

### Debt/Equity Ratios 1977-1982

| | 1982 Sectoral Weight | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|---|---|---|---|---|---|---|---|
| AGRICULTURE AND FISHING | 1.6% | n.a. | -------- | 1.50 | --------- | 2.10 | 1.84 |
| Agriculture | | n.a. | -------- | 1.65 | --------- | 1.54 | 1.32 |
| Fishing | | n.a. | -------- | 1.49 | --------- | 3.05 | 2.57 |
| MINING | 0.7% | n.a. | -------- | 0.54 | --------- | 0.76 | 0.70 |
| Metal | | n.a. | -------- | 0.46 | --------- | 0.59 | 0.68 |
| Other | | n.a. | -------- | 1.38 | --------- | 1.00 | 0.73 |
| MANUFACTURING | 63.7% | 2.96 | 1.97 | 2.24 | n.a. | 4.39 | 3.19 |
| 31 Food and beverage | | 1.79 | 1.45 | 1.74 | n.a. | 2.79 | 2.22 |
| 32 Textile, leather and shoes | | 2.85 | 2.09 | 2.14 | n.a. | 3.60 | 2.48 |
| 33 Wood and furniture | | 3.04 | 1.79 | 2.30 | n.a. | 3.10 | 2.21 |
| 34 Paper and publishing | | 3.98 | 2.20 | 3.00 | n.a. | 2.84 | 1.51 |
| 35 Chemicals, etc. | | 2.56 | 1.53 | 2.01 | n.a. | 7.16 | 5.23 |
| 36 Non-metalic mineral products | | 1.60 | 1.17 | 1.36 | n.a. | 3.72 | 2.61 |
| 37 Basic metallurgy | | n.a. | n.a. | n.a. | n.a. | 4.45 | 3.24 |
| 38 Engineering | | 4.44 | 3.10 | 2.84 | n.a. | 4.77 | 3.48 |
| 39 Other | | n.a. | n.a. | n.a. | n.a. | 1.35 | 1.35 |
| CONSTRUCTION | 11.9% | n.a. | -------- | 12.51 | --------- | 24.88 | 10.47 |
| TRADE AND TOURISM | 17.8% | n.a. | -------- | 2.13 | --------- | 3.46 | 2.77 |
| Wholesale | | n.a. | -------- | 2.31 | --------- | 3.98 | 3.37 |
| Retail | | n.a. | -------- | 2.89 | --------- | 3.43 | 3.07 |
| Restaurants and hotels | | n.a. | n.a. | n.a. | n.a. | 2.05 | 1.26 |
| TRANSPORT AND STORAGE | 1.6% | n.a. | n.a. | n.a. | n.a. | 11.64 | 9.17 |
| BUSINESS SERVICES | 2.0% | n.a. | n.a. | n.a. | n.a. | 4.90 | 3.70 |
| PERSONAL SERVICES | 0.7% | n.a. | n.a. | n.a. | n.a. | 6.53 | 2.91 |
| Total | 100.0% | | -------- | 2.57 | --------- | 4.60 | 3.41 |

[illegible]

TABLE 21 BPA - ECONOMIC SURVEY

[illegible] FINANCIAL AND OPERATING DATA
(Millions Dollars)

| | Total Assets | | Revenues | | Cash Flows | | Financial Expenses | | Net Income | | Asset Turnover | | Gross Margin as % of Net Revenues | | Income Expense as % of Net Revenues | | Net Income as % of Total Assets | | Net Income as % of Interest | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 |
| AGRICULTURE AND FISHERIES | 19.0 | 20.0 | 19.7 | 24.4 | 6.0 | 9.1 | 0.0 | 1.5 | (0.1) | (0.1) | 0.69 | 0.84 | 35.0 | 37.6 | 1.6 | 6.0 | (1.5) | (1.9) | (1.5) | (2.0) |
| Agriculture | 18.1 | 19.2 | 18.0 | 19.4 | 3.5 | 3.1 | 0.4 | 0.5 | - | 0.1 | 1.11 | 0.88 | 36.0 | 33.1 | 1.1 | 3.2 | - | 0.7 | - | 0.7 |
| Fishing | 0.5 | 15.1 | 7.7 | 11.0 | 4.4 | 6.0 | 0.5 | 1.0 | (0.1) | (0.6) | 0.01 | 0.73 | 37.1 | 56.5 | 1.4 | 8.9 | (3.2) | (4.3) | (3.9) | (5.9) |
| MINING | 9.1 | 12.4 | 3.9 | 5.5 | 3.9 | 4.1 | 0.3 | 0.4 | 0.2 | 0.5 | 0.43 | 0.44 | 36.4 | 36.5 | 5.6 | 3.1 | 2.2 | 3.8 | 3.1 | 6.7 |
| Metal ore | 4.0 | 7.2 | 1.7 | 2.8 | 1.4 | 2.3 | 0.1 | 0.1 | 0.1 | 0.4 | 0.15 | 0.19 | 82.4 | 78.0 | 4.1 | 4.0 | 3.0 | 5.6 | 6.5 | 15.4 |
| Other | 4.1 | 5.2 | 2.2 | 2.7 | 1.5 | 1.8 | 0.1 | 0.3 | 0.1 | 0.1 | 0.52 | 0.53 | 40.3 | 38.4 | 6.9 | 10.1 | 1.5 | 1.4 | 3.5 | 7.7 |
| MANUFACTURING | 812.2 | 1,190.1 | 691.5 | 1,042.0 | 114.2 | 404.7 | 60.7 | 89.4 | 4.1 | (14.5) | 1.10 | 0.91 | 37.5 | 37.5 | 7.7 | 8.3 | 0.5 | (1.2) | 0.5 | (1.2) |
| Food and beverage | 97.2 | 134.0 | 141.6 | 178.6 | 40.4 | 49.0 | 7.1 | 10.5 | 1.6 | 0.7 | 1.45 | 1.33 | 28.7 | 27.5 | 5.1 | 5.9 | 1.7 | 0.5 | 1.1 | 0.4 |
| Textile and leather | 110.1 | 162.4 | 133.6 | 160.4 | 14.3 | 22.4 | 11.0 | 15.5 | (0.1) | (1.1) | 1.00 | 0.99 | 65.2 | 65.3 | 9.6 | 10.3 | (0.2) | (1.6) | (0.1) | 1.4 |
| Wood and furniture | 21.4 | 23.2 | 24.7 | 23.2 | 10.5 | 12.0 | 2.2 | 2.7 | 0.1 | 0.1 | 1.15 | 1.01 | 42.5 | 44.1 | 8.4 | 9.9 | 1.1 | 0.6 | 1.1 | 0.5 |
| Paper and publishing | 51.9 | 79.0 | 54.1 | 61.5 | 29.5 | 14.0 | 4.9 | 6.5 | 3.0 | 0.0 | 1.03 | 0.80 | 56.1 | 55.7 | 9.1 | 10.0 | 3.7 | 1.0 | 3.6 | 1.2 |
| Chemicals | 154.4 | 196.0 | 150.5 | 116.6 | 40.0 | 64.1 | 23.0 | 26.5 | (0.1) | (4.6) | 1.02 | 0.60 | 26.3 | 26.6 | 8.0 | 8.4 | (0.1) | (1.3) | (0.1) | (1.4) |
| Nonmetallic minerals | 12.3 | 42.0 | 33.7 | 19.3 | 19.3 | 22.4 | 2.8 | 3.7 | (0.1) | (1.4) | 1.04 | 0.42 | 37.5 | 57.4 | 8.4 | 8.4 | (0.4) | (1.3) | (0.4) | (1.5) |
| Basic metallurgy | 54.0 | 86.0 | 49.6 | 53.8 | 19.8 | 22.0 | 6.9 | 6.5 | (3.6) | (1.1) | 0.90 | 0.74 | 30.3 | 42.3 | 9.9 | 10.2 | (4.7) | (1.9) | (5.2) | (5.2) |
| Engineering | 172.5 | 216.8 | 197.2 | 270.2 | 66.0 | 100.5 | 11.7 | 16.4 | 3.4 | (4.4) | 1.11 | 0.97 | 44.7 | 45.2 | 5.9 | 7.4 | 1.7 | (1.9) | 1.5 | (2.4) |
| Other | 3.4 | 4.3 | 3.8 | 4.6 | 3.0 | 3.3 | 0.2 | 0.3 | 0.1 | - | 1.12 | 1.01 | 32.6 | 30.0 | 6.0 | 6.6 | 3.1 | 0.9 | 3.0 | 0.8 |
| CONSTRUCTION | 190.1 | 210.5 | 91.0 | 121.0 | 41.4 | 45.0 | 4.0 | 0.1 | 1.7 | 1.0 | 0.61 | 0.56 | 31.6 | 32.5 | 5.1 | 6.5 | 1.1 | 3.1 | 1.6 | 4.0 |
| TRADE AND TOURISM | 233.6 | 320.7 | 450.0 | 510.1 | 94.3 | 110.5 | 15.7 | 20.0 | 5.6 | 3.0 | 1.79 | 1.65 | 20.7 | 21.7 | 3.7 | 3.9 | 2.4 | 0.6 | 1.4 | 0.1 |
| Wholesale | 146.1 | 200.2 | 312.7 | 302.6 | 61.2 | 66.3 | 10.7 | 13.0 | 3.0 | 2.1 | 2.00 | 1.60 | 19.0 | 20.5 | 3.2 | 3.6 | 2.0 | 1.2 | 1.5 | 0.5 |
| Retail | 33.0 | 42.3 | 102.1 | 130.7 | 31.1 | 26.0 | 2.6 | 3.9 | 2.5 | 1.6 | 3.11 | 1.94 | 20.0 | 20.6 | 7.1 | 3.0 | 4.7 | 2.0 | 2.2 | 1.2 |
| Restaurants and hotels | 14.7 | 18.7 | 13.0 | 15.0 | 0.0 | 10.1 | 1.4 | 3.1 | (1.9) | (7.1) | 0.11 | 0.11 | 46.7 | 48.7 | 11.6 | 40.5 | (5.3) | (6.1) | (16.2) | (13.9) |
| TRANSPORT AND STORAGE | 21.1 | 19.0 | 33.6 | 19.0 | 22.7 | 26.0 | 1.7 | 2.3 | (0.1) | (1.1) | 1.16 | 1.14 | 42.6 | 46.0 | 3.1 | 3.6 | (0.3) | (6.2) | (0.2) | (1.2) |
| BUSINESS SERVICES | 20.6 | 17.3 | 13.0 | 17.4 | 0.7 | 11.1 | 1.6 | 2.4 | 0.6 | 0.7 | 0.49 | 0.47 | 61.0 | 61.0 | 11.9 | 14.0 | 2.8 | 0.4 | 5.7 | 0.4 |
| PERSONAL SERVICES | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| | 1,105.5 | 1,615.0 | 1,518.5 | 1,841.0 | 171.2 | 667.6 | 90.1 | 125.6 | 11.4 | (9.0) | 1.16 | 1.01 | 34.5 | 35.7 | -.1 | 6.0 | 0.9 | (0.5) | 0.6 | (0.7) |
| % increase | | 46.0% | | 21.1% | | 21.7% | | 16.1% | | n.m. | | (17.7%) | | | | | | | | |

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TABLE 3: SELECTED FINANCIAL STATEMENT ANALYSIS
Net Profit 1981 & 1982

| | All Reporting Enterprises | | | Profitable Enterprises | | | |
|---|---|---|---|---|---|---|---|
| | Number of Companies | Net Profit (E° 000,000) | | Number of Companies | | Net Profit (E° 000,000) | |
| | | 1981 | 1982 | 1981 | 1982 | 1981 | 1982 |
| AGRICULTURE AND FISHING | 77 | ( 298) | ( 549) | 47 | 54 | 209 | 411 |
| Agriculture | 54 | 6 | 98 | 36 | 44 | 155 | 258 |
| Fishing | 23 | ( 304) | ( 647) | 11 | 10 | 54 | 153 |
| MINING | 37 | 198 | 476 | 26 | 24 | 301 | 687 |
| Mining (Metal ore) | 9 | 142 | 404 | 4 | 5 | 223 | 589 |
| Mining (Other) | 28 | 56 | 72 | 22 | 19 | 78 | 98 |
| MANUFACTURING INDUSTRIES | 2,035 | 4,126 | (14,471) | 1,589 | 1,346 | 19,016 | 18,909 |
| Food & Beverage | 287 | 1,605 | 650 | 212 | 197 | 3,160 | 3,541 |
| Textile, Leather & Shoes | 549 | ( 41) | ( 2,231) | 424 | 329 | 3,008 | 3,515 |
| Wood & Furniture | 171 | 274 | 104 | 123 | 110 | 755 | 504 |
| Paper & Publishing | 122 | 1,967 | 707 | 104 | 87 | 2,231 | 1,719 |
| Petrochemicals, Rubber & Plastics | 218 | ( 53) | ( 4,555) | 177 | 149 | 2,321 | 2,665 |
| Non-metallic Mineral Products | 141 | ( 118) | ( 1,371) | 102 | 83 | 1,026 | 747 |
| Basic Metallurgy | 51 | ( 2,587) | ( 3,331) | 35 | 20 | 751 | 614 |
| Metal Products, Machinery & Equipment | 461 | 2,972 | ( 4,562) | 305 | 336 | 5,610 | 5,391 |
| Other Manufacturing Industries | 35 | 107 | 38 | 27 | 27 | 154 | 133 |
| CONSTRUCTION | 311 | 1,653 | 5,044 | 267 | 249 | 2,632 | 5,617 |
| TRADE AND TOURISM | 1,570 | 5,571 | 1,999 | 1,398 | 1,307 | 9,652 | 8,071 |
| Wholesale | 1,062 | 5,043 | 2,523 | 937 | 802 | 6,485 | 5,727 |
| Retail | 453 | 2,475 | 1,556 | 422 | 390 | 2,577 | 1,948 |
| Restaurants & Hotels | 55 | ( 1,947) | ( 2,090) | 39 | 35 | 590 | 296 |
| Transport & Storage | 89 | ( 66) | ( 1,257) | 71 | 50 | 384 | 421 |
| Real Estate & Business Services | 96 | 500 | 161 | 73 | 60 | 735 | 553 |
| Recreation Services | 19 | ( 378) | ( 302) | 13 | 12 | 175 | 33 |
| Personal Services | 23 | 17 | 9 | 21 | 16 | 23 | 20 |
| | 4,257 | 11,403 | ( 8,980) | 3,505 | 3,134 | 33,127 | 34,722 |

Source for data: BPA - DGEM.

legislation which encourages the application of arbitrary rates of depreciation of fixed assets.

5. These factors result in distortions in financial statements and affect especially the manufacturing sector in the following ways:

(a) Fixed assets. Revaluation of fixed assets was mandatory in 1979 and 1982. This resulted in, firstly, a large increase in reported net worth and, secondly, in depreciation charges. In addition, accelerated depreciation of 150 percent of established rates is allowed where more than one eight-hour shift is worked and a level of 200 percent where export sales represent 25 percent of turnover. Thus, on the one hand, all companies were under-depreciating on account of the failure to revalue assets and, on the other hand, certain companies—notably in textiles and engineering—may be over depreciating because of accelerated depreciation.

(b) Inventory. Inventory is valued on the basis of historical cost, market value or replacement cost. The allocation of production overheads varies widely from company to company but is generally applied consistently. Reduction to net realizable value is optional, however, and in practice inventory valuation is reduced by an arbitrary tax allowance of 10 percent. Overall, inventories tend to be generally undervalued in order to reduce taxable income.

(c) Foreign currency translation. The principle usually followed is that any losses arising through foreign currency liabilities are only recognized on realization. Hence, reported net income does not take into account unrealized exchange losses. These, where they exist, will be large since the devaluation of the escudo in recent years has been substantial.

(d) Doubtful receivables. Bad debts will only be allowed if court action has been taken and noncompliance with the court order can be proved. This is a lengthy and costly process. A general allowance of up to 4 percent can be established regardless of circumstances, but receivables may be overstated.

## Institutional Pressures Leading to Understated Profitability in Private Firms

6. The private corporate sector in Portugal, comprising primarily family owned companies, has no vested interest in declaring reported profits *per se*. Very few companies are listed on the Stock Exchanges where such profitability can be translated into value through marketable securities. It is contended, and supported by anecdotal evidence, that Portuguese entrepreneurs are far more concerned with the preservation of

net worth than with the declaration of profitability that has, in the past, attracted undesirable attention. The tendencies of Portuguese entrepreneurs to understate profits, avoid taxes, and export capital are consistent with these concerns. Following the 1974 revolution and subsequent nationalizations of most domestic corporations listed on the stock exchanges, entrepreneurs have used tax regulations, together with transfer pricing, to hide profits. Capital is exported through the over-invoicing of imports and under-invoicing of exports which lead to understated profits. Such activities are widely and openly acknowledged within the private sector. This situation is confirmed indirectly since external equity financing is available to meet expansion plans. Also, a high proportion of shareholders, when required by Parempresa to make equity contributions on reorganization, have done so. This indicates that entrepreneurs are willing to commit new money for what ostensibly are "unprofitable" companies.

7. Events have encouraged high indebtedness amongst Portuguese firms. Some of the reasons for this indebtedness are self-fulfilling and have arisen on account of the lower cost of debt vis-à-vis equity finance. 1/ Firms having taken on higher levels of debt have found that, with rising nominal interest rates, the cost of debt servicing has expanded to the point where distributable earnings are insufficient to adequately remunerate equity funds. In such an environment, it is not possible to attract additional equity funds from outside sources since companies are not in a position to distribute earnings. Also, retained earnings when and where they exist are a preferable method of providing new equity, since the effective rate of taxation is much lower. Net income is only subjected to the industrial tax; so, the corporate complementary tax, withholding taxes, and individual income taxes at highly progressive rates are avoided. As most companies are family owned, the payment of dividends would actually result in a decrease in a family's net worth because of tax considerations. Thus, companies needing to increase shareholders' equity would choose the route of increasing equity through retained earnings rather than contributing fresh money that had already been taxed at highly progressive rates. Where companies find that retained earnings are inadequate to finance operations and investment, they resort to borrowing, which is still cheaper than equity financing, notwithstanding the increase in interest

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1/ This is discussed more fully in the World Bank Report - Portugal: Policies for Industrial Restructuring, August 1982 - Annexes IX.1 and IX.2. In order to generate a 20 percent after tax yield on equity, for a shareholder with a marginal tax rate of 30 percent, the company would require a pretax return on equity of 58 percent. (Although based on dated tax information, it should be noted that tax rates and policy have not changed significantly). Even this return, however, is less than interest paid tax free on Government Treasury Bonds and public sector enterprise bonds.

rates of recent years. Such borrowing is reinforced by the desire of entrepreneurs to avoid taxes by reporting low profitability and to maintain their real net worth by holding foreign assets that appreciate in escudo terms. Thus, borrowing finances the export of capital through over/under invoicing of imports/ exports.

8. There were strong reasons in the past for Portugese enterprises to borrow to finance real assets, especially inventories, since interest rates in real terms were, until recently, negative. The gradual increase in real interest rates since 1977 has had a dramatic impact since it has become less and less profitable to finance assets with debt. However, because of the historically high debt/equity ratios, companies are unable to repay debt since funds generated from operations are, in general, inadequate to service this debt. The normal response under such circumstances would be for companies to raise new equity but, because of reduced profitability arising on account of the recession and for the reasons outlined above, this has not been possible. Thus, a vicious circle has developed whereby companies are currently unable to reduce their high debt/equity ratios by funds generated from operations. They are also unable to raise additional equity funds, and the only avenue open to them has been to cut back on investment and inventories.

Impact of Inflation

9. Another major distortion in company accounts is due to inflation, which has affected balance sheets and income statements. Inflation has been high in Portugal during the period under study--22 percent in 1982 and 26 percent in 1983. Portuguese enterprises make only partial and occasional adjustments to their balance sheets. In addition, there are misinterpretations of corporate income accounts which arise indirectly from the effects of inflation. These include the treatment of the losses on foreign currency debt from devaluation of the escudo. Thus, the financial statements of Portuguese companies can be misleading and unreliable. Using unadjusted data, one can arrive at wrong conclusions and as a result recommend inappropriate policy responses.

## B. Analysis of Enterprise Accounts

10. In attempting to evaluate the BPA data, the above distortions have to be taken into account. Notwithstanding this, conclusions can be arrived at, based partly on intuition and an understanding of the motives of Portuguese entrepreneurs. This section attempts to evaluate the state of the Portuguese corporate sector in the light of such distortions.

Balance Sheet Impact

11. Portuguese corporations revalue fixed assets in order to reflect domestic price inflation, but this is done only occasionally. There were no widespread asset revaluations from 1979 to 1982. In 1982, assets were revalued to reflect year-end 1981 prices. In other words, the 1982 financial

statements were revalued to account for several years of inflation, although a one year lag remained.

12. This quantum revaluation resulted in a very large increase in corporate book equity in 1982 (Table 4). Corporations included in the BPA aggregates experienced a 175 percent increase in their revaluation reserve, and the ratio of this reserve to total book equity increased from 28 percent to 58 percent. As a consequence, reported corporate equity rose considerably faster than sales or total debt, despite reported losses; and the aggregate debt/equity ratio of the corporate sector improved sharply from 4.6 to 3.4 (Table 1). In effect, this apparent improvement in debt/equity ratios of corporations in 1982 reflected the partial elimination of an accounting distortion due to inadequate inflation adjustment of accounts rather than an underlying improvement in balance sheet structures. At this time, total debt/equity ratios were highest in the chemicals, metallurgy, and engineering industries, which also have the highest concentration of domestic turnover. Hence, these sectors were the most vulnerable to both increases in interest rates and fluctuations of demand.

13. Impact of public sector enterprises. As mentioned above, the BPA sample encompasses public sector as well as private sector firms. A recent study of nonfinancial public enterprises in Portugal estimated the aggregate unadjusted debt/equity ratio in 1982 of the six largest industrial firms as more than 5.0. 1/ Thus, although it has not been possible to separate out public and private sector enterprises, the implication is that debt/ equity ratios in the private sector are lower than the sample average. If public sector enterprises comprise about 40 percent of the total assets in the BPA sample, the reported debt/equity ratio for the private sector in 1982 would be on the order of 2.5 on average.

14. There are many other distortions in the balance sheets of enterprises in Portugal, so precision is difficult. As noted above, because of the one-year lag in the application of the revaluation index, private enterprise balance sheets would appear to have more equity and somewhat less leverage than shown. On the other hand, some firms, especially in the public sector, have assets whose economic value is less than their fully revalued net depreciated book value and have liberally capitalized debt and other expenses. Also, most firms employ questionably long depreciation schedules on account of tax policy. Such accounting distortions may also inflate the book equity of some private firms.

15. Comparative data. In other countries, corporate debt/equity ratios tend to be overstated due to the failure to revalue assets, the impact of accelerated depreciation, and other distortions. Thus, debt/equity ratios of Portuguese companies appear to be higher, in relative terms, than in other

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1/ Public Enterprises in Portugal - Recommendations for Institutional and Financial Reforms, Report 5101-PO, dated June 1986.

**PORTUGAL**

**TABLE 4: SPA ECONOMIC SURVEY**

**SELECTED FINANCIAL DATA**
**(Escudos billions)**

| | 1981 | | | 1982 | | | | | Equity Net of Revaluation Reserve | | | | 1982 Net Income (Loss) | New Equity Provided 1982 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity | Revaluation Reserve | | Equity | Revaluation Reserve | | Increase | | 1981 | 1982 | Increase (Decrease) | | | |
| | E° | E° | % of Equity | E° | E° | % of Equity | E° | % | E° | E° | E° | % | E° | E° |
| AGRICULTURE AND FISHING | 6.4 | 3.5 | 54.7 | 10.1 | 7.2 | 71.3 | 3.7 | 106 | 2.9 | 2.9 | - | - | (0.5) | 0.5 |
| *Agriculture* | 4.1 | 2.5 | 61.0 | 5.9 | 4.0 | 67.8 | 1.5 | 60 | 1.6 | 1.9 | 0.3 | 18 | 0.1 | 0.2 |
| Fishing | 2.3 | 1.0 | 43.5 | 4.2 | 3.2 | 76.2 | 2.2 | 220 | 1.3 | 1.0 | (0.3) | (23) | (0.6) | 0.3 |
| MINING | 5.2 | 0.2 | 3.8 | 7.3 | 1.1 | 15.1 | 0.9 | 450 | 5.0 | 6.2 | 1.2 | 24 | 0.5 | 0.7 |
| Metal ore | 3.1 | - | - | 4.3 | 0.6 | 14.0 | 0.6 | Inf | 3.1 | 3.7 | 0.6 | 19 | 0.4 | 0.2 |
| Other | 2.1 | 0.2 | 9.5 | 3.0 | 0.5 | 16.7 | 0.3 | 150 | 1.9 | 2.5 | 0.6 | 32 | 0.1 | 0.5 |
| MANUFACTURING | 150.6 | 35.6 | 23.6 | 279.0 | 169.0 | 60.6 | 133.4 | 375 | 115.0 | 110.0 | (5.0) | (4) | (14.5) | 9.5 |
| Food and beverage | 25.6 | 7.8 | 30.5 | 42.0 | 23.0 | 54.8 | 15.2 | 195 | 17.8 | 19.0 | 1.2 | 7 | 0.7 | 0.5 |
| Textile, leather and shoes | 25.7 | 6.6 | 25.7 | 46.6 | 28.8 | 61.8 | 22.2 | 336 | 19.1 | 17.8 | (1.3) | (1) | (2.2) | 0.9 |
| Wood and furniture | 5.2 | 1.1 | 21.2 | 8.4 | 4.3 | 51.2 | 3.2 | 291 | 4.1 | 4.1 | - | - | 0.1 | (0.1) |
| Paper pulp and publishing | 13.8 | 4.9 | 35.5 | 31.4 | 21.1 | 67.2 | 16.2 | 331 | 8.9 | 10.3 | 1.4 | 16 | 0.8 | 0.6 |
| Chemicals, etc. | 31.2 | 6.8 | 21.8 | 63.7 | 42.6 | 66.9 | 35.8 | 527 | 24.4 | 21.1 | (3.3) | (14) | (4.6) | 1.3 |
| Non-metallic minerals | 6.8 | 2.0 | 27.9 | 11.9 | 7.8 | 65.5 | 5.8 | 290 | 4.8 | 4.1 | (0.7) | (15) | (1.4) | 0.7 |
| Basic metallurgy | 10.1 | 1.1 | 10.9 | 20.3 | 12.9 | 63.5 | 11.8 | 1,073 | 9.0 | 7.4 | (1.6) | (18) | (3.3) | 1.3 |
| Engineering | 30.8 | 5.1 | 16.6 | 52.9 | 28.0 | 52.9 | 22.9 | 449 | 25.7 | 24.9 | (0.8) | (3) | (4.6) | 3.8 |
| Other | 1.4 | 0.2 | 14.3 | 1.8 | 0.5 | 27.8 | 0.3 | 250 | 1.2 | 1.3 | 0.1 | 8 | - | 0.1 |
| CONSTRUCTION | 5.8 | 1.3 | 22.4 | 19.1 | 8.9 | 46.6 | 7.6 | 585 | 4.5 | 10.2 | 5.7 | 127 | 5.0 | 0.7 |
| TRADE AND TOURISM | 57.3 | 22.0 | 38.4 | 86.8 | 47.3 | 54.5 | 25.3 | 115 | 35.1 | 39.5 | 4.2 | 12 | 2.0 | 2.2 |
| Wholesale | 33.4 | 3.5 | 10.5 | 47.8 | 15.5 | 32.4 | 12.0 | 343 | 29.9 | 32.3 | 2.4 | 8 | 2.5 | (0.1) |
| Retail | 11.9 | 1.8 | 15.1 | 16.5 | 4.6 | 27.9 | 2.8 | 256 | 10.1 | 11.9 | 1.8 | 18 | 1.6 | 0.2 |
| Restaurants and hotels | 12.0 | 16.7 | 138.3 | 22.5 | 27.2 | 120.9 | 10.5 | 63 | (4.7) | (4.7) | - | - | (2.1) | 2.1 |
| TRANSPORT AND STORAGE | 1.7 | 0.8 | 47.1 | 2.9 | 2.4 | 82.8 | 1.6 | 200 | 0.9 | 0.5 | (0.4) | (44) | (1.3) | 0.9 |
| BUSINESS SERVICES | 4.8 | 1.2 | 25.0 | 7.9 | 3.4 | 43.0 | 2.2 | 183 | 3.6 | 4.5 | 0.9 | 25 | 0.2 | 0.7 |
| PERSONAL SERVICES | 1.2 | 1.1 | 91.7 | 3.1 | 1.4 | 45.2 | 0.3 | 27 | 0.1 | 1.7 | 1.6 | 1,500 | (0.4) | 2.0 |
| | 233.0 | 65.7 | 28.2 | 416.2 | 240.7 | 57.8 | 175.0 | 266 | 167.3 | 175.5 | 8.2 | 5 | (9.0) | 17.2 |

countries. Set out in Table 5 are debt/equity ratios of manufacturing firms of selected countries; although the information is somewhat dated, trends in debt/equity ratios for these countries are fairly stable.

Table 5: REPORTED DEBT/EQUITY RATIOS OF MANUFACTURING COMPANIES a/

| | Portugal | United Kingdom | Germany | Japan | USA |
|---|---|---|---|---|---|
| 1975 | n.a. | 2.48 | 3.56 | 5.92 | n.a. |
| 1976 | n.a. | 2.54 | 3.65 | 5.88 | n.a. |
| 1977 | 2.96 | 2.39 | 3.65 | 5.75 | n.a. |
| 1978 | 1.97 | n.a. | 3.69 | 5.43 | n.a. |
| 1979 | 2.24 | n.a. | 3.76 | 5.18 | n.a. |
| 1980 | n.a. | n.a. | n.a. | 4.85 | n.a. |
| 1981 | 4.39 b/ | n.a. | n.a. | n.a. | n.a. |
| 1982 | 3.19 b/ | n.a. | n.a. | n.a. | n.a. |
| Average 1970-79 (Industrial and commercial companies) | n.a. | 2.36 | 4.18 | 6.85 | 1.77 |

a/ Bank Lending and Industrial Investment, Banking Information Service, London.
b/ March 1982 BPA data.

16. When evaluating the data, it should be noted that accounting corrections lead to an overstatement of debt/equity ratios in Germany and Japan. German companies are prohibited by law from revaluing fixed assets to take account of inflation, and accumulated depreciation is included in, rather than being set off against, fixed assets. The significance of accounting corrections in Japan is even greater, resulting in a considerable understatement of debt/equity ratios. First, companies' balance sheets include tax-free reserves relating to bad debts and bonus payments to employees which are classified as long-term liabilities. Second, large companies have unusually high levels of accounts receivables and payables which swell balance sheet totals leading to an understatement of the relative importance of equity. Third, fixed assets, especially, have failed to be adequately revalued over time. A 1980 paper of the Bank of Japan 1/ indicates that the implementation of a full revaluation of fixed assets would cause debt/equity ratios of large companies to fall to 2.1.

17. In sum, in making international comparisons of debt/equity ratios, accounting conventions must be taken into account in order to ensure comparability of data. Clearly, the adjusted debt/equity ratios of the manufacturing sectors of other OECD countries must be lower than the reported data would suggest, perhaps on the order of 2.3. Another relevant factor is

1/ Japan Economic Studies, Kuroda and Oritoni, 1980.

the relative size of companies since, generally, large well established companies with well developed marketing networks, substantial external markets, and well developed product lines have easier access to credit than smaller companies and hence higher levels of indebtedness. Given the smaller size of Portuguese companies and the level of corporate indebtedness, their debt/equity ratios may be higher in relative terms than those prevailing in other industrialized countries.

18. Finally, it is noteworthy that official bodies in major OECD countries have been voicing concern regarding the structure of corporate finance and the growing indebtedness of companies. The German Bundesbank has expressed concern over the downward trend of equity ratios. Likewise, the Instituto Mobilizare Italiano has warned of the untenable level of indebtedness. Other OECD countries are introducing incentives, particularly fiscal incentives, in order to encourage and widen share ownership so that companies have a wider shareholder base from which they can raise equity funds.

19. Trends of debt/equity ratios in Portugal. Despite the fixed asset revaluation of 1982, a marked deterioration can be observed in balance sheets between 1979 and 1982 (Table 1). By year-end 1982, fixed assets were as close to current replacement cost as they were in 1979, and possibly more so, owing to the systematic nature of the revaluation in that latter year. Therefore, the deterioration in reported debt/equity ratios between 1979 and 1982 (from 2.57 to 3.41), probably reflects a true deterioration. It is difficult to assess whether private enterprises share in this increase in relative indebtedness, since the reported change between 1979 and 1982 is not that great and data limitations do not allow for a disaggregation of the BPA sample into public and private enterprises. On balance, because public sector enterprises had reported debt/equity ratios which were high throughout the period, one might surmise that the deterioration of debt/equity ratios applies especially to private enterprises.

Income Statement Impact

20. The fixed asset revaluation in 1982 distorts profitability trends of companies between 1981 and 1982 as well as balance sheets trends, since it was accompanied by a corresponding increase in depreciation charges. In effect, failure to revalue assets for several years led to a serious understatement of depreciation charges in 1981 and a corresponding overstatement of profits in that year. By 1982, most of this error was eliminated, though not all of it, since the one year lag in asset revaluation still resulted in a one year lag in adjustment to the depreciation account.

21. However, there are other distortions in the income statements of Portuguese firms. These arise from a failure to fully adjust financial accounts for inflation-distortions which understate real profitability. The principal distortion is the failure to include as income nominal inflation gains on fixed assets financed with debt, even though the entire nominal interest cost on this debt, including its large inflation premium, is

expensed. Because Portuguese firms are highly indebted, fixed assets typically exceed equity by a significant margin and, with 20 percent per annum average inflation, the aggregate unrecorded inflation gain on fixed assets financed with debt is very large. If one makes this "gearing" adjustment, the profitability of Portuguese enterprises improves by a magnitude which exceeds the understatement of profits due to inadequate depreciation. (Some estimates of the magnitude of these two inflation related distortions in income accounts in Portugal have been made for the large state enterprises in the context of the IBRD public enterprise study.)

22. The magnitude of this latter distortion--and even its sign--is dependent on the debt/equity ratio of the firm. To correct it one should only adjust net income for the inflation gain on fixed assets financed by debt. Typically fixed assets represent 50 percent of total assets and this distortion only becomes significant when the ratio of debt to total liabilities is significantly greater than the ratio of fixed assets to total assets. Portuguese private enterprises are highly indebted, but not as much as the overall BPA sample since this includes public enterprises. For private enterprises as a whole, it is possible that the understatement of profits due to the failure to include in income the inflation gains on fixed assets financed by debt is not much larger than the overstatement of profits due to underdepreciation. Thus, the reported level of aggregate profitability may be close to the real level of profitability. This is unlikely to be the case for individual firms, however.

23. Inventory Valuation. Unfortunately, there are still further distortions in corporate income accounting in Portugal. Inventory profits are often recorded, as many firms use FIFO inventory accounting. For leveraged firms using FIFO accounting, these inventory profits are offset by high nominal interest charges, but only in a very approximate way. For firms with very low levels of leverage, inventory profits would overstate real profitability. For firms using other principles of inventory accounting, real profitability may be understated. Against this possibility, one has to weigh the impact of the undervaluation of inventories, e.g., the exclusion of production overheads, in order to reduce taxable income. From anecdotal evidence, such undervaluation appears to be widespread.

24. Other Factors. It is widely believed that, because the 1974 revolution was followed by nationalizations without fair compensation, Portuguese entrepreneurs tend to seriously understate profits in the ways set out above. In addition, entrepreneurs tend to avoid large visible holding companies and often own numerous small firms which also are eligible for special incentives and tax concessions available only to small companies. Transfer pricing and other measures are used to "hide" the profits of these firms. The above-mentioned claims that capital is often sent abroad through over-invoicing imports and under-invoicing exports does not go unconfirmed. There is an abnormally high level of external equity financing of private enterprises in Portugal, indicating that hidden profits are later injected into firms to meet expansion needs. Looking again at Table 4, Esc. 17.2 billion new equity was raised in 1982 by the companies in the BPA sample, of

which Esc. 9.5 billion in the manufacturing sector. This amounted to approximately 5 percent of total equity of all the companies in the BPA sample. Also, as noted earlier, when firms go into reorganization and shareholders are required to make equity contributions by Parempresa, a high percentage have done so. Such contributions indicate first that unrecorded profitability is recognized, thereby warranting such equity investments, and second that funds are available, pointing to hidden accumulated profits. It is also interesting to note in this connection that the rate of increase in commercial bank borrowing by manufacturing firms slowed significantly as real interest rates increased in late 1982 and early 1983 (Table 6).

Conclusions - Impact and Evaluation of Distortions

25. In the aggregate it appears that Portuguese firms are more profitable than their accounts would indicate. There is no way of determining by how much, however. From the BPA sample, one notes stable operating margins between 1981 and 1982. The accounting data relating to operating margins is at least largely free of inflation related distortions and hence point to a stable trend in profits over the 1982 period. On balance, a fairly stable real profit rate and the above cited modest deterioration in balance sheets is our best guess about trends. The apparent combination of low reported profitability and rapid investment would, of course, lead to balance sheet deterioration. Real profits, in the private sector at least, are no doubt higher than reported profits. However, investment levels in Portugal have been very high, and it is likely that true profits, even when partly reinjected into firms as capital subscriptions, have not been high enough to maintain stable debt/equity ratios.

26. Debt/equity ratios of the corporate sector in Portugal are high and would appear to be higher than in other OECD countries. And high debt/equity ratios do lead to increased vulnerability of companies. This is evidenced by the high arrears of the banking system in Portugal, indicating that companies are unable to service their debts and that liquidity is a continuing problem. Asset turnover ratios are low in the manufacturing sector especially in the capital intensive sectors of chemicals, basic metallurgy and engineering.

27. It would appear that there is a continuing deferral of bankruptcies of financially non-viable firms partly as a result of Government ownership of banks and special programs undertaken by Parempresa and the Compensation Fund. As a result, the financial erosion of weak firms can go further than in a market oriented economy. The deferral of bankruptcies delays this adjustment process and leads to associated financial instability.

PORTUGAL

TABLE 6: DISTRIBUTION OF BANKING ADVANCES AND MATURITY ANALYSIS
(Balance in Escudos billions at period end)

| | 1979 | | 1980 | | 1981 | | 1982 | | August 1983 | | Annual increase % | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | E* | % | E* | % | E* | % | E* | % | E* | % | 1979 1983 | 1981 1982 | December 1982 August 1983 (Annualized) |
| Agriculture and fishing | 30.6 | 4.1 | 37.6 | 3.9 | 59.5 | 4.5 | 74.1 | 4.5 | 81.5 | 4.3 | 31.4 | 24.5 | 15.0 |
| Mining | 5.5 | 0.7 | 5.4 | 0.6 | 8.3 | 0.6 | 9.5 | 0.6 | 10.7 | 0.6 | 20.4 | 14.5 | 18.9 |
| Manufacturing | 310.8 | 41.6 | 386.4 | 40.4 | 510.6 | 38.5 | 600.5 | 36.0 | 659.8 | 35.1 | 23.4 | 17.7 | 14.8 |
| of which: Textiles | 51.6 | 6.9 | 66.7 | 7.0 | 100.4 | 7.5 | 113.7 | 6.8 | 123.9 | 6.6 | 27.7 | 13.2 | 13.5 |
| Chemicals | 64.6 | 8.7 | 76.4 | 8.0 | 89.4 | 6.7 | 97.6 | 5.9 | 103.9 | 5.5 | 14.2 | 9.2 | 9.7 |
| Metal working | 68.3 | 9.2 | 85.9 | 9.0 | 115.3 | 8.7 | 132.8 | 8.0 | 148.8 | 7.9 | 24.3 | 15.3 | 18.1 |
| Electricity, water, gas | 46.0 | 6.2 | 58.1 | 6.1 | 76.6 | 5.8 | 83.5 | 5.0 | 97.1 | 5.2 | 23.2 | 9.0 | 24.4 |
| Construction | 71.7 | 9.6 | 89.2 | 9.3 | 135.0 | 10.2 | 172.7 | 10.4 | 196.9 | 10.5 | 32.6 | 27.9 | 21.0 |
| Trade and tourism | 106.8 | 14.3 | 145.3 | 15.2 | 205.3 | 15.4 | 280.5 | 16.9 | 346.6 | 18.5 | 38.9 | 36.6 | 35.3 |
| Transport and storage | 37.3 | 5.0 | 37.8 | 4.0 | 51.1 | 3.8 | 65.3 | 3.9 | 64.4 | 3.4 | 16.5 | 27.8 | (2.1) |
| Non-bank financial institutions | 4.5 | 0.6 | 6.3 | 0.7 | 5.7 | 0.4 | 6.3 | 0.4 | 7.3 | 0.4 | 14.5 | 10.5 | 23.8 |
| Public sector | 23.2 | 3.1 | 28.8 | 3.0 | 39.2 | 2.9 | 52.5 | 3.2 | 50.1 | 2.7 | 24.0 | 33.9 | (6.9) |
| Other | 110.0 | 14.8 | 160.3 | 16.8 | 238.7 | 17.9 | 316.9 | 19.1 | 361.9 | 19.3 | 39.4 | 32.8 | 21.3 |
| of which: Housing finance | 54.9 | 7.4 | 89.2 | 9.3 | 141.3 | 10.6 | 190.2 | 11.4 | 227.5 | 12.1 | 48.7 | 34.6 | 29.4 |
| | 746.4 | 100.0 | 955.2 | 100.0 | 1,330.0 | 100.0 | 1,661.8 | 100.0 | 1,876.3 | 100.0 | 32.0 | 24.9 | 19.4 |
| Maturity | | | | | | | | | | | | | |
| Less than 1 year | 457.3 | 61.3 | 557.1 | 58.3 | 720.0 | 54.1 | 825.8 | 49.7 | 880.4 | 46.9 | | | |
| 1-5 years | 106.3 | 14.2 | 133.8 | 14.0 | 209.6 | 15.8 | 303.4 | 18.3 | 374.7 | 20.0 | | | |
| More than 5 years | 182.8 | 24.5 | 264.3 | 27.7 | 400.4 | 30.1 | 532.6 | 32.0 | 621.2 | 33.1 | | | |
| | 746.4 | 100.0 | 955.2 | 100.0 | 1,330.0 | 100.0 | 1,661.8 | 100.0 | 1,876.3 | 100.0 | | | |

Source: Banco de Portugal, Quarterly Report December 1983.

# STATISTICAL APPENDIX

# Statistical Appendix

## Index of Tables

### Standard Tables



### Population and Employment



### National Income and Expenditure



### Balance of Payments and Foreign Trade



### Debt and Reserves

EPD DATA BANK

COUNTRY REPORT BY BLOCK AND COUNTRY

PORTUGAL

| INDICATORS | UNITS | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| **TABLE A: NATIONAL ACCOUNTS SUMMARY IN CURRENT PRICES** | | | | | | | |
| (IN NATIONAL CURRENCY) | | | | | | | |
| **ORIGIN AND USE OF RESOURCES** | | | | | | | |
| A.1. GDP AT MARKET PRICES | BILL | 993.3 | 1235.0 | 1472.7 | 1856.9 | 2289.0 | 2824.0 |
| 2. NET INDIRECT TAXES | BILL | 12.5 | 15.1 | 20.5 | 26.6 | 35.8 | 34.0 |
| 3. GDP AT FC / MP | BILL | 980.8 | 1219.9 | 1452.2 | 1830.3 | 2253.2 | 2790.0 |
| 4. AGRICULTURE | BILL | 115.0 | 126.0 | 123.6 | 159.8 | 200.0 | 265.0 |
| 5. INDUSTRY | BILL | 376.3 | 484.1 | 579.6 | 734.8 | 902.0 | 1117.0 |
| A. MANUFACTURING | BILL | 290.9 | 373.1 | 442.2 | 557.3 | 687.0 | 882.0 |
| B. MINING | BILL | - | - | - | - | - | - |
| C. OTHER INDUSTRY | BILL | 85.4 | 111.0 | 137.4 | 177.3 | 215.0 | 235.0 |
| 6. SERVICES | BILL | 489.5 | 609.8 | 749.0 | 935.9 | 1151.2 | 1408.0 |
| B.1. RESOURCE BALANCE | BILL | -107.6 | -166.0 | -297.3 | -374.0 | -282.0 | -196.0 |
| 2. EXPORTS OF GOODS & NFS | BILL | 268.7 | 355.1 | 403.0 | 488.7 | 733.0 | 1096.0 |
| 3. IMPORTS OF GOODS & NFS | BILL | 376.3 | 541.1 | 700.3 | 862.7 | 1015.0 | 1292.0 |
| C.1. DOMESTIC ABSORPTION | BILL | 1100.9 | 1421.0 | 1770.0 | 2230.9 | 2571.0 | 3020.0 |
| D.1. TOTAL CONSUMPTION | BILL | 807.9 | 1000.4 | 1239.0 | 1542.7 | 1904.0 | 2375.0 |
| 2. PRIVATE | BILL | 670.3 | 823.1 | 1020.3 | 1276.1 | 1570.0 | 1969.0 |
| 3. GENERAL GOVERNMENT | BILL | 137.6 | 177.3 | 218.7 | 266.6 | 334.0 | 406.0 |
| E.1. GROSS DOMESTIC INVESTMENT | BILL | 293.0 | 420.6 | 531.0 | 686.8 | 667.0 | 645.0 |
| 2. FIXED INVESTMENT | BILL | 270.6 | 364.2 | 463.0 | 587.5 | 678.0 | 681.0 |
| 3. CHANGES IN STOCK | BILL | 22.4 | 56.4 | 68.0 | 99.3 | -11.0 | -36.0 |
| F.1. STATISTICAL DISCREPANCY | BILL | - | - | - | 1.4 | - | - |
| **MEMORANDUM ITEMS:** | | | | | | | |
| G.1. NET FACTOR INC FR ABROAD | BILL | -22.3 | -32.6 | -60.7 | -103.8 | -118.5 | -176.0 |
| 2. NET CURR TRANSF FR ABROAD | BILL | 120.3 | 150.3 | 178.8 | 212.1 | 236.1 | 319.3 |
| 3. GROSS NATIONAL PRODUCT | BILL | 971.0 | 1202.4 | 1412.0 | 1753.1 | 2170.5 | 2648.0 |
| H.1. GROSS DOMESTIC SAVING | BILL | 185.4 | 234.6 | 233.7 | 314.2 | 385.0 | 449.0 |
| 2. GROSS NATIONAL SAVING | BILL | 283.4 | 352.3 | 351.8 | 422.5 | 502.6 | 592.3 |
| I.1. EXPORTS OF GOODS & NFS | | | | | | | |
| AS PER BOP | BILL | 252.5 | 333.9 | 380.5 | 456.4 | 750.7 | 1016.3 |
| A. DIFFERENCE WITH NA (%) | UNIT | -6.0 | -6.0 | -5.6 | -6.6 | 2.4 | -7.3 |
| 2. IMPORTS OF GOODS & NFS | | | | | | | |
| AS PER BOP | BILL | 354.1 | 505.7 | 658.1 | 825.8 | 976.6 | 1234.9 |
| A. DIFFERENCE WITH NA (%) | UNIT | -5.9 | -6.5 | -6.0 | -4.3 | -3.8 | -4.4 |
| 3. NET FACTOR INCOME | | | | | | | |
| AS PER BOP | BILL | -21.4 | -31.8 | -59.7 | -99.1 | -119.0 | -174.4 |
| A. DIFFERENCE WITH NA (%) | UNIT | -4.2 | -2.5 | -1.7 | -4.5 | 0.4 | -0.9 |
| **EXCHANGE RATES:** | | | | | | | |
| J.1. NATIONAL UNITS/US$ | 10-3 | 48624.0 | 50062.0 | 61546.0 | 79473.0 | 110780.0 | 146390.0 |
| 2. NATIONAL UNITS/SDR | 10-3 | 65578.0 | 67648.0 | 75947.0 | 98247.0 | 137622.0 | 165930.0 |
| 3. CONVERSION RATE | 10-3 | 48624.0 | 50062.0 | 61546.0 | 79473.0 | 110780.0 | 146390.0 |

EPD DATA BANK

COUNTRY REPORT BY BLOCK AND COUNTRY

PORTUGAL

| INDICATORS | UNITS | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| **TABLE B: NATIONAL ACCOUNTS SUMMARY IN CONSTANT PRICES** | | | | | | | |
| (IN NATIONAL CURRENCY: USING NATIONAL BASE PERIOD) | | | | | | | |
| **ORIGIN AND USE OF RESOURCES** | | | | | | | |
| A.1. GDP AT MARKET PRICES | BILL | 687.2 | 715.4 | 721.1 | 744.2 | 743.5 | 730.9 |
| 2. NET INDIRECT TAXES | BILL | 8.5 | 8.9 | 8.7 | 9.1 | 8.5 | 5.2 |
| 3. GDP AT FC / MP | BILL | 678.7 | 706.5 | 712.4 | 735.1 | 735.0 | 725.7 |
| 4. AGRICULTURE | BILL | 95.4 | 95.7 | 83.1 | 87.9 | 83.5 | 85.2 |
| 5. INDUSTRY | BILL | 254.0 | 266.0 | 271.2 | 279.5 | 280.8 | 273.9 |
| A. MANUFACTURING | BILL | 187.3 | 197.8 | 201.8 | 207.5 | 209.6 | 208.6 |
| B. MINING | BILL | - | - | - | - | - | - |
| C. OTHER INDUSTRY | BILL | 68.7 | 68.2 | 69.4 | 72.0 | 71.2 | 65.3 |
| 6. SERVICES | BILL | 329.3 | 344.8 | 358.1 | 367.7 | 370.7 | 366.6 |
| B.1. RESOURCE BALANCE | BILL | -72.0 | -87.4 | -108.2 | -110.9 | -57.1 | -18.6 |
| 2. EXPORTS OF GOODS & NFS | BILL | 157.3 | 168.0 | 164.0 | 173.9 | 202.9 | 232.3 |
| 3. IMPORTS OF GOODS & NFS | BILL | 229.3 | 255.4 | 270.2 | 284.8 | 260.0 | 250.9 |
| C.1. DOMESTIC ABSORPTION | BILL | 759.2 | 802.8 | 827.3 | 855.1 | 800.6 | 749.5 |
| D.1. TOTAL CONSUMPTION | BILL | 546.9 | 563.5 | 581.8 | 597.6 | 596.5 | 584.6 |
| 2. PRIVATE | BILL | 449.4 | 462.4 | 475.3 | 486.3 | 480.5 | 467.0 |
| 3. GENERAL GOVERNMENT | BILL | 97.5 | 101.1 | 106.5 | 111.3 | 116.0 | 117.6 |
| E.1. GROSS DOMESTIC INVESTMENT | BILL | 210.5 | 239.6 | 249.2 | 282.6 | 203.0 | 164.6 |
| 2. FIXED INVESTMENT | BILL | 177.9 | 196.2 | 206.2 | 212.2 | 196.2 | - |
| 3. CHANGES IN STOCK | BILL | 32.6 | 43.4 | 43.0 | 50.4 | 6.8 | - |
| F.1. STATISTICAL DISCREPANCY | BILL | 1.3 | -0.3 | -3.7 | -5.1 | 1.1 | 0.3 |
| **MEMORANDUM ITEMS:** | | | | | | | |
| G.1. NET FACTOR INC FR ABROAD | BILL | -15.4 | -18.9 | -29.7 | -41.6 | -38.7 | -49.9 |
| 2. NET CURR TRANSF FR ABROAD | BILL | 83.0 | 84.9 | 83.6 | 81.3 | 73.5 | 79.2 |
| 3. GROSS NATIONAL PRODUCT | BILL | 671.8 | 696.5 | 691.4 | 702.6 | 704.8 | 681.0 |
| H.1. GROSS DOMESTIC SAVING | BILL | 148.7 | 151.5 | 130.8 | 134.0 | 131.9 | 126.8 |
| 2. GROSS NATIONAL SAVING | BILL | 214.3 | 217.5 | 184.7 | 173.7 | 166.7 | 156.2 |
| I.1. CAPACITY TO IMPORT | BILL | 163.7 | 167.6 | 155.5 | 161.3 | 187.8 | 212.8 |
| 2. TERMS OF TRADE ADJUSTMENT | BILL | 6.4 | -0.4 | -8.5 | -12.6 | -15.1 | -19.5 |
| 3. GROSS DOMESTIC INCOME | BILL | 693.6 | 715.0 | 712.6 | 731.6 | 728.4 | 711.4 |
| 4. GROSS NATIONAL INCOME | BILL | 678.2 | 696.1 | 682.9 | 690.0 | 689.7 | 661.5 |
| **ALTERNATIVE EXPORTS & IMPORTS DEFLATORS** | | | | | | | |
| (RESCALED TO NA BASE YEAR) | | | | | | | |
| J.1. NATIONAL ACCOUNTS | | | | | | | |
| A. EXPORTS | UNIT | 170.8 | 211.4 | 245.7 | 281.0 | 361.2 | 471.8 |
| B. IMPORTS | UNIT | 164.1 | 211.9 | 259.2 | 302.9 | 390.4 | 514.9 |
| C. TERMS OF TRADE (PX/PM) | UNIT | 104.1 | 99.8 | 94.8 | 92.8 | 92.5 | 91.6 |
| 2. UNCTAD MERCHANDISE TRADE DEFLATORS (ORIGINAL BASE ) | | | | | | | |
| A. EXPORTS | UNIT | - | - | - | - | - | - |
| B. IMPORTS | UNIT | - | - | - | - | - | - |
| C. TERMS OF TRADE (PX/PM) | UNIT | - | - | - | - | - | - |
| 3. OTHER SOURCE ( ) (ORIGINAL BASE ) | | | | | | | |
| A. EXPORTS | UNIT | - | - | - | - | - | - |
| B. IMPORTS | UNIT | - | - | - | - | - | - |
| C. TERMS OF TRADE (PX/PM) | UNIT | - | - | - | - | - | - |

FOOTNOTE:

- NET FACTOR INCOME FROM ABROAD WERE ESTIMATED BY DEFLATING CURRENT PRICE DATA BY THE IMPLICIT GDP DEFLATOR
- NET FACTOR INCOME FROM ABROAD WERE ESTIMATED BY DEFLATING CURRENT PRICE DATA BY THE IMPLICIT IMPORT PRICE DEFLATOR

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | UNIT | - | - | - | - | - | - |

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COUNTRY REPORT BY BLOCK AND COUNTRY

PORTUGAL

TABLE C : IMPLICIT DEFLATORS FOR NATIONAL ACCOUNTS

(IN NATIONAL CURRENCY)

| INDICATORS | UNITS | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| **ORIGIN AND USE OF RESOURCES** | | | | | | | |
| A.1. GDP AT MARKET PRICES | UNIT | 144.5 | 172.6 | 204.2 | 249.5 | 307.9 | 386.4 |
| 2. NET INDIRECT TAXES | UNIT | 147.1 | 169.7 | 235.6 | 292.3 | 421.2 | 653.8 |
| 3. GDP AT FC / MP | UNIT | 144.5 | 172.7 | 203.8 | 249.0 | 306.6 | 384.5 |
| 4. AGRICULTURE | UNIT | 120.5 | 131.7 | 148.7 | 181.8 | 239.5 | 311.0 |
| 5. INDUSTRY | UNIT | 148.1 | 182.0 | 213.7 | 262.8 | 321.2 | 407.8 |
| A. MANUFACTURING | UNIT | 155.3 | 188.6 | 219.1 | 268.6 | 327.8 | 422.8 |
| B. MINING | UNIT | - | - | - | - | - | - |
| C. OTHER INDUSTRY | UNIT | 128.0 | 162.8 | 198.0 | 246.2 | 302.0 | 359.9 |
| 6. SERVICES | UNIT | 148.6 | 176.9 | 209.2 | 254.5 | 310.5 | 384.1 |
| B.1. TERMS OF TRADE (PX/PM) | UNIT | 104.1 | 99.8 | 94.8 | 92.8 | 92.5 | 91.6 |
| 2. EXPORTS OF GOODS & NFS | UNIT | 170.8 | 211.4 | 245.7 | 281.0 | 361.3 | 471.8 |
| 3. IMPORTS OF GOODS & NFS | UNIT | 164.1 | 211.9 | 259.2 | 302.9 | 390.4 | 514.9 |
| C.1. DOMESTIC ABSORPTION | UNIT | 145.0 | 177.0 | 213.9 | 260.9 | 321.1 | 402.9 |
| D.1. TOTAL CONSUMPTION | UNIT | 147.7 | 177.5 | 213.0 | 258.1 | 319.2 | 406.3 |
| 2. PRIVATE | UNIT | 149.2 | 178.0 | 214.7 | 262.4 | 326.7 | 421.6 |
| 3. GENERAL GOVERNMENT | UNIT | 141.1 | 175.4 | 205.4 | 239.5 | 287.9 | 345.2 |
| E.1. GROSS DOMESTIC INVESTMENT | UNIT | 139.2 | 175.5 | 213.1 | 261.5 | 328.6 | 391.9 |
| 2. FIXED INVESTMENT | UNIT | 152.1 | 185.6 | 224.5 | 276.9 | 345.6 | - |
| **MEMORANDUM ITEMS** | | | | | | | |
| F.1. NET FACTOR INC FR ABROAD | UNIT | 144.8 | 172.5 | 204.4 | 249.5 | 306.2 | 352.7 |
| 2. NET CURR TRANSF FR ABROAD | UNIT | 145.0 | 177.0 | 213.9 | 260.9 | 321.1 | 402.9 |
| 3. GROSS NATIONAL PRODUCT | UNIT | 144.5 | 172.6 | 204.2 | 249.5 | 308.0 | 388.8 |
| G.1. GROSS DOMESTIC SAVING | UNIT | 126.4 | 154.8 | 178.7 | 234.4 | 292.0 | 354.0 |
| 2. GROSS NATIONAL SAVING | UNIT | 132.2 | 162.0 | 190.5 | 243.2 | 301.5 | 379.2 |

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COUNTRY REPORT BY BLOCK AND COUNTRY

COUNTRY PORTUGAL

TABLE D: BALANCE OF PAYMENTS SUMMARY AT CURRENT PRICES

( IN US$)

| | UNITS | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| A.1. EXPORTS OF GOODS & NFS | MILL | 5192.5 | 6669.0 | 6182.3 | 5743.1 | 6776.4 | 6942.4 |
| 2. MERCHANDISE | MILL | 3547.8 | 4584.0 | 4058.7 | 4123.5 | 5228.5 | 5208.1 |
| 3. NON FACTOR SERVICES | MILL | 1644.7 | 2085.1 | 2123.7 | 1619.6 | 1547.9 | 1734.3 |
| B.1. IMPORTS OF GOODS & NFS | MILL | 7283.0 | 10101.2 | 10692.6 | 10390.9 | 8816.0 | 8435.8 |
| 2. MERCHANDISE | MILL | 6179.6 | 8609.6 | 9105.5 | 8970.1 | 7612.3 | 7228.4 |
| 3. NON FACTOR SERVICES | MILL | 1103.4 | 1491.6 | 1587.1 | 1420.9 | 1203.7 | 1207.5 |
| C.1. RESOURCE BALANCE | MILL | -2090.5 | -3432.1 | -4510.3 | -4647.9 | -2039.7 | -1493.4 |
| D.1. NET FACTOR INCOME | MILL | -439.3 | -635.1 | -969.3 | -1247.5 | -1074.3 | -1191.1 |
| 2. FACTOR RECEIPTS | MILL | 135.7 | 175.7 | 206.4 | 157.9 | 173.2 | 200.9 |
| A. OF WHICH LABOR INC | MILL | 32.3 | 40.3 | 47.2 | 35.3 | 38.5 | 49.2 |
| 3. FACTOR PAYMENTS | MILL | 574.9 | 8'0.9 | 1175.6 | 1405.4 | 1247.5 | 1392.0 |
| A. OF WHICH MBLT INTEREST PER DRS | MILL | 340.0 | 491.4 | 842.0 | 940.7 | 882.8 | 1057.3 |
| E.1. NET CURRENT TRANSFERS | MILL | 2474.2 | 3001.3 | 2905.5 | 2668.4 | 2131.6 | 2181.2 |
| 2. TRANSF RECEIPTS | MILL | 2532.3 | 3043.0 | 2934.9 | 2705.9 | 2208.6 | 2263.2 |
| A. OF WHICH WORKERS REM | MILL | 2450.9 | 2923.2 | 2848.9 | 2606.6 | 2119.8 | 2156.6 |
| 3. TRANSFER PAYMENTS | MILL | 59.4 | 41.6 | 29.5 | 37.5 | 75.9 | 81.0 |
| F.1. CURRENT ACCOUNT BALANCE | MILL | -56.8 | -1066.0 | -2574.1 | -3227.0 | -982 4 | -502.3 |
| G.1. DIRECT INVESTMENT (NET) | MILL | 86.6 | 143.2 | 155.6 | 135.8 | 122.9 | 185.5 |
| 2. OFFICIAL CAPITAL GRANTS | MILL | - | - | - | - | - | - |
| 3. NET MBLT LOANS (DRS) | MILL | 1390.2 | 1340.5 | 1442.2 | 1887.2 | 1502.4 | 925.7 |
| A. DISBURSEMENTS | MILL | 1860.3 | 1924.9 | 2261.2 | 2777.7 | 2604.2 | 2566.5 |
| B. REPAYMENTS | MILL | 470.1 | 584.5 | 819.0 | 890.6 | 1101.8 | 1640.8 |
| 4. OTHER MBLT INFLOWS (NET) | MILL | -766.2 | -749.6 | -350.2 | 94.5 | -345.7 | 125.0 |
| H.1. NET SHORT TERM CAPITAL | MILL | -998.7 | -503.7 | -63.7 | 112.6 | -267.3 | -236.8 |
| 2. CAPITAL FLOWS N.E.I. | MILL | 22.0 | -27.3 | -8.3 | -6.6 | -44.9 | -83.0 |
| 3. ERRORS AND OMISSIONS | MILL | 595.6 | 1206.5 | 1277.0 | 1127.2 | -553.7 | -412.1 |
| I.1. CHANGE IN NET RESERVES | MILL | -272.6 | -343.6 | 121.5 | -123.6 | 568.7 | -2.1 |
| 2. NET CREDIT FR IMF | MILL | -40.1 | -101.5 | -54.2 | -42.0 | 368.8 | 222.4 |
| 3. OTHER RESERVE CHANGES | MILL | -232.6 | -242.1 | 175.7 | -81.7 | 199.9 | -224.5 |
| MEMORANDUM ITEMS | | | | | | | |
| J.1. EXPORTS OF MERCHANDISE (UN TRADE SYSTEM) | MILL | 3353.7 | 4628.9 | 4179.9 | 4167.3 | - | - |
| A. DIFFERENCE WITH BOP | UNIT | -5.5 | 1.0 | 3.0 | 1.1 | -100.0 | -100.0 |
| 2. IMPORTS OF MERCHANDISE (UN TRADE SYSTEM) | MILL | 5508.7 | 9292.9 | 9945.9 | 9006.8 | - | - |
| A. DIFFERENCE WITH BOP | UNIT | 5.3 | 7.9 | 9.2 | 0.4 | -100.0 | -100.0 |

**Table 1a: POPULATION, EMPLOYMENT AND UNEMPLOYMENT 1/**

(Continental Portugal)
(first half of year)

| Items | (Thousands) | | | | | | | | | | | Growth Rate (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 |
| Resident Population | 8537 | 8810 | 9027 | 9143 | 9188 | 9311 | 9366 | 9479 | 9525 | 9477 | 9570 | 3.1 | 2.5 | 1.3 | 0.5 | 1.3 | 0.6 | 1.2 | 0.5 |
| Labor Force 2/ | 3668 | 3847 | 4003 | 4078 | 4055 | 4142 | 4207 | 4381 | 4279 | 4606 | 4562 | 4.8 | 4.0 | 1.9 | -0.6 | 2.1 | 1.6 | 4.1 | -2.3 |
| Labor Participation Rate (%) | 43.0 | 43.7 | 44.3 | 44.6 | 44.1 | 44.5 | 44.9 | 46.2 | 44.9 | 48.6 | 47.7 | - | - | - | - | - | - | - | - |
| Unemployment | 47 | 133 | 244 | 291 | 319 | 343 | 320 | 386 | 310 | 444 | 464 | 182 | 83 | 19.3 | 9.6 | 7.5 | 6.7 | 20.6 | -19.7 |
| Rate of Unemployment (%) | 1.3 | 3.5 | 6.1 | 7.1 | 7.9 | 8.3 | 7.6 | 8.8 | 7.2 | 9.6 | 10.2 | - | - | - | - | - | - | - | - |

Source: Instituto Nacional de Estatistica (INE).

1/ 1974-1982 data based on INE Employment Survey undertaken from 1974 to 1982, 1983 and 1984 data based on new INE Employment Survey started in second Trimester 1983 and reflect the situation for the 2nd Trimester. Due to conceptual and methodological differences, data of the two surveys are not comparable.
2/ Includes employed and unemployed figures for age groups 10 and 14.

(1036G, p. 36)

**Table 1b: POPULATION, EMPLOYMENT AND UNEMPLOYMENT 1/**

(Continental Portugal)
(second half of year)

| Items | (Thousands) | | | | | | | | | | | Growth Rate (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 | 1979-80 | 1980-81 | 1981-82 |
| Resident Population | 8650 | 8947 | 9123 | 9168 | 9204 | 9338 | 9423 | 9496 | 9555 | 9499 | 9610 | 3.4 | 2.0 | 0.5 | 0.4 | 1.5 | 0.9 | 0.8 | 0.6 |
| Labor Force 2/ | 3853 | 3957 | 4096 | 4107 | 4157 | 4251 | 4303 | 4269 | 4272 | 4613 | 4624 | 2.7 | 3.5 | 2.7 | 1.2 | 2.3 | 1.2 | -0.7 | 0.07 |
| Labor Participation Rate (%) | 44.5 | 44.2 | 44.9 | 44.8 | 45.1 | 45.5 | 45.7 | 45.0 | 44.7 | 48.5 | 47.6 | - | - | - | - | - | - | - | - |
| Unemployment | 86 | 222 | 276 | 326 | 348 | 344 | 340 | 325 | 323 | 490 | | 158.1 | 24.3 | 18.1 | 6.7 | -1.1 | -1.2 | -4.4 | -1.2 |
| Rate of Unemployment (%) | 2.2 | 5.6 | 6.7 | 7.9 | 8.4 | 8.1 | 7.9 | 7.6 | 7.6 | 10.6 | 10.8 | - | - | - | - | - | - | - | - |

Source: Instituto Nacional de Estatistica (INE).

1/ 1974-1982 data based on INE Employment Survey undertaken from 1974 to 1982, 1983 and 1984 data based on new Employment Survey started in second Trimester 1983 and reflecting the situation of 3rd Trimester. Due to conceptual and methodological differences, data of the two surveys are not comparable.
2/ Includes employed and unemployed figures for age groups 10 and 14.

Table 2: EMPLOYMENT BY SECTOR 1/
(in Thousands)

| | 1977 | | 1978 | | 1979 | | 1980 | | 1981 | | 1982 | | 1983 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1st half | 2nd half | 1st half | 2nd half | 1st half | 2nd half | 1st half | 2nd half | 1st half | 2nd half | 1st half | 2nd half | 2nd Quarter | 3rd Quarter |
| Agriculture | 1237 | 1209 | 1157 | 1147 | 1142 | 1158 | 1127 | 1061 | 1064 | 1005 | 1024 | 975 | 952 | 870 |
| Fishing | 26 | 19 | 30 | 23 | 32 | 31 | 31 | 21 | 26 | 22 | 27 | 23 | 26 | 44 |
| Mining | 20 | 16 | 20 | 21 | 22 | 22 | 19 | 23 | 20 | 21 | 24 | 25 | 14 | 42 |
| Manufacture | 931 | 905 | 936 | 982 | 963 | 1000 | 975 | 1029 | 1016 | 1013 | 1009 | 1019 | 1055 | 943 |
| Electricity, Gas and Water | 22 | 19 | 29 | 20 | 34 | 13 | 32 | 19 | 27 | 22 | 25 | 19 | 37 | 27 |
| Construction | 277 | 313 | 298 | 321 | 311 | 329 | 356 | 372 | 383 | 394 | 407 | 409 | 394 | 362 |
| Trade | 433 | 454 | 435 | 445 | 442 | 461 | 452 | 466 | 515 | 489 | 493 | 472 | 512 | 580 |
| Transport and Communication | 179 | 163 | 163 | 157 | 158 | 161 | 161 | 160 | 159 | 151 | 163 | 160 | 179 | 187 |
| Banks, Insurance, etc. | 70 | 70 | 73 | 73 | 65 | 76 | 60 | 80 | 74 | 89 | 88 | 97 | 114 | 112 |
| Public Administration and Defense | 325 | 343 | 336 | 369 | 379 | 408 | 396 | 438 | 423 | 434 | 427 | 416 | 517 | 526 |
| Other Services | 262 | 264 | 252 | 244 | 246 | 252 | 268 | 286 | 279 | 297 | 274 | 327 | 367 | 332 |
| Total | 3782 | 3775 | 3729 | 3802 | 3794 | 3911 | 3961 | 3961 | 3994 | 3943 | 3968 | 3949 | 4166 | 4025 |

Source: INE, Permanent Survey on Employment.

1/ 1977-1982 data based on INE Employment Survey undertaken from 1974 to 1982. 1983 data based on new INE Employment Survey started in second Trimester 1983. Due to different sample and methodology, the data of the two surveys are not comparable.

(1036G, p. 38)

Table 3: GROSS DOMESTIC PRODUCT BY SECTOR OF ACTIVITY /a /b
(Current Market Prices, escudos billion)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Agriculture, Forestry and and Fisheries | 74.6 | 94.0 | 115.0 | 126.1 | 123.6 | 159.8 | 200.0 | 260.8 |
| Mining and Manufacturing | 166.4 | 214.3 | 290.9 | 373.1 | 442.2 | 557.4 | 687.0 | 869.3 |
| Electricity, Gas and Water | 12.0 | 16.5 | 20.0 | 22.4 | 22.3 | 31.7 | 45.0 | 61.0 |
| Construction | 47.9 | 60.7 | 65.4 | 88.6 | 115.1 | 145.6 | 170.0 | 166.2 |
| Services | 336.0 | 432.9 | 531.4 | 667.8 | 828.7 | 1,041.3 | 1,281.0 | 1585.2 |
| Banking | 29.5 | 49.2 | 48.7 | 66.0 | 89.2 | 115.8 | 129.4 | 172.9 |
| Public Administration | 69.6 | 87.7 | 108.6 | 141.9 | 175.0 | 210.5 | 262.9 | 313.1 |
| Trade | 117.9 | 147.9 | 188.4 | 235.5 | 289.9 | 362.2 | 445.2 | 536.4 |
| Other | 119.0 | 148.2 | 185.7 | 224.4 | 274.6 | 352.9 | 443.5 | 562.8 |
| Subtotal | 637.0 | 818.4 | 1,022.7 | 1,277.9 | 1,532.0 | 1,935.8 | 2,383.0 | 2942.5 |
| Banking services, imputed (-) | 25.9 | 49.9 | 41.9 | 58.0 | 79.9 | 105.5 | 129.8 | 172.3 |
| Import Taxes | 14.8 | 13.8 | 12.5 | 15.1 | 20.5 | 26.6 | 36.0 | 34.0 |
| GDP at Market Prices | 625.8 | 787.3 | 993.3 | 1,235.0 | 1,472.7 | 1,856.9 | 2,289.2 | 2804.2 |

Source: Bank of Portugal.

/a Continent only.
/b 1977-79 National Institute for Statistics(INE), 1980-83: Bank of Portugal.

Table 4: GROSS DOMESTIC PRODUCT BY SECTOR OF ACTIVITY /a
Volume Growth (percent)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| Agriculture, Forestry and Fisheries | 6.0 | 20.6 | 0.4 | -13.2 | 5.8 | -5.0 | 2.8 |
| Mining and Manufacturing | 5.5 | 6.7 | 5.6 | 2.0 | 2.8 | 1.0 | -0.8 |
| Electricity, Gas and Water | 1.7 | 7.5 | -20.5 | -11.1 | 15.0 | 10.0 | 7.1 |
| Construction | 12.7 | -0.7 | 7.9 | 4.0 | 2.0 | -3.0 | -10.0 |
| Services | 4.7 | 1.1 | 5.0 | 4.0 | 3.3 | -0.4 | 0.7 |
| Banking and Insurance | 39.3 | -23.7 | 6.4 | 12.7 | 6.5 | -9.3 | 1.3 |
| Public Administration | 5.8 | 7.0 | 5.1 | 5.9 | 4.0 | 4.8 | 2.8 |
| Trade | -1.0 | 2.3 | 5.6 | 2.4 | 2.2 | -0.6 | -3.0 |
| Other | 1.3 | 4.6 | 3.9 | 1.8 | 2.9 | -0.5 | -1.2 |
| Subtotal | 5.6 | 4.8 | 4.4 | 1.4 | 3.4 | -0.4 | -1.0 |
| Banking services, imputed (-) | 44.3 | -27.8 | 8.6 | 14.9 | 7.9 | -7.9 | 4.6 |
| Import Taxes | -21.5 | -26.5 | 4.9 | -2.2 | 3.5 | -6.0 | -25.8 |
| GDP at Market Prices | 3.4 | 6.2 | 4.1 | 0.8 | 3.2 | -0.1 | -1.7 |

Source: 1978-81 INE; 1982-83, Bank of Portugal.

/a Continent only.

Table 5: GROSS DOMESTIC PRODUCT BY SECTOR OF ACTIVITY /a
(Constant 1977 prices, escudos billion)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Agriculture, Forestry and Fisheries | 74.6 | 79.1 | 95.4 | 95.7 | 83.1 | 87.9 | 83.5 | 85.8 |
| Mining and Manufacturing | 166.4 | 175.6 | 187.3 | 197.8 | 201.8 | 207.5 | 209.6 | 207.9 |
| Electricity, Gas and Water | 12.0 | 12.2 | 13.1 | 10.4 | 9.2 | 10.6 | 11.7 | 12.5 |
| Construction | 47.9 | 54.0 | 53.6 | 57.8 | 60.2 | 61.4 | 59.5 | 53.6 |
| Services | 336.0 | 351.9 | 355.7 | 373.5 | 388.4 | 401.2 | 399.5 | 407.1 |
| Banking and Insurance | 29.5 | 41.1 | 31.4 | 33.5 | 37.8 | 40.3 | 36.3 | 36.8 |
| Public Administration | 69.6 | 73.6 | 78.8 | 82.8 | 87.7 | 91.2 | 25.6 | 26.3 |
| Trade | 117.9 | 116.7 | 119.4 | 126.1 | 129.1 | 131.9 | 131.1 | 127.2 |
| Other | 119.0 | 120.5 | 126.1 | 131.1 | 133.8 | 137.8 | 136.5 | 216.8 |
| Subtotal | 637.0 | 672.8 | 705.1 | 735.2 | 742.7 | 768.6 | 763.8 | 766.9 |
| Banking services, imputed (-) | 25.9 | 37.3 | 26.4 | 28.7 | 30.3 | 33.5 | 28.8 | 44.9 |
| Import Taxes | 14.8 | 11.6 | 8.5 | 8.9 | 8.7 | 9.1 | 8.5 | 8.9 |
| GDP at Market Prices | 625.8 | 647.1 | 687.2 | 715.4 | 721.1 | 744.2 | 743.5 | 730.9 |

Source: Table 4.

/a Continent only.

**Table 6: GROSS DOMESTIC PRODUCT BY EXPENDITURE 1/**
**(Current Prices, escudos billion)**

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 4/ |
|---|---|---|---|---|---|---|---|---|
| Total Consumption | 538.1 | 645.1 | 807.9 | 1,000.4 | 1,239.0 | 1,542.7 | 1,904.0 | 2,375.0 |
| Private Consumption | 450.3 | 535.4 | 670.3 | 823.1 | 1,020.3 | 1,276.1 | 1,570.0 | 1,969.0 |
| Public Consumption | 87.8 | 109.7 | 137.6 | 177.3 | 218.7 | 266.6 | 334.0 | 406.0 |
| Investment | 181.7 | 240.0 | 293.0 | 420.6 | 531.0 | 686.8 | 667.0 | 645.0 |
| Fixed Investment 2/ | 167.9 | 222.3 | 270.6 | 364.2 | 463.0 | 587.5 | 678.0 | 681.0 |
| Changes in Stock | 13.8 | 17.7 | 22.4 | 56.4 | 68.0 | 100.9 | -11.0 | -36.0 |
| Domestic Demand | 719.9 | 885.0 | 1,100.8 | 1,421.0 | 1,770.0 | 2,230.9 | 2,571.0 | 3,020.0 |
| Exports of Goods and Services | 115.3 | 158.4 | 268.7 | 355.1 | 403.0 | 488.7 | 733.0 | 1,096.0 |
| Total Demand | 834.6 | 1,043.4 | 1,369.4 | 1,776.1 | 2,173.0 | 2,719.6 | 3,304.0 | 4,116.0 |
| Imports of Goods and Services | 209.4 | 256.1 | 376.3 | 541.1 | 700.3 | 862.7 | 1,015.0 | 1,292.0 |
| Gross Domestic Product at Market Prices | 625.8 | 787.3 | 993.3 | 1,235.0 | 1,472.7 | 1,856.9 | 2,289.0 | 2,824.0 |
| Net income from Abroad 3/ | -7.9 | -15.7 | -22.3 | -32.6 | -60.7 | -103.8 | -119.0 | -176.0 |
| Gross National Product 3/ at Market Prices | 617.9 | 771.6 | 971.0 | 1,202.4 | 1,411.9 | 1,753.1 | 2,170.0 | 2,648.0 |

Source: Bank of Portugal (1977 1979 data from INE, 1980 1983 Bank of Portugal estimates.)

1/ Continent only.
2/ Including changes in stock in the construction sector.
3/ Excluding transfers.
~~4/ Preliminary DCP estimates.~~

(1036G, p. 4)

Table 7: GROSS DOMESTIC PRODUCT BY EXPENDITURE 1/
Volume Growth (percent)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| Total Consumption | -0.2 | 1.9 | 3.0 | 3.2 | 2.5 | 0.0 | -2.0 |
| Private Consumption | -1.1 | 0.9 | 2.9 | 2.8 | 2.1 | 1.0 | -3.0 |
| Public Consumption | 4.3 | 6.5 | 3.7 | 5.3 | 4.5 | 4.2 | 1.4 |
| Investment | 6.7 | 8.6 | 13.8 | 4.0 | 5.4 | -22.7 | 24.5 |
| Fixed Investment | 7.0 | -1.0 | 10.3 | 5.1 | 2.9 | 7.5 | 18.0 |
| Changes in Stock | 2.9 | 125.5 | 55.5 | -2.9 | 22.7 | -112.1 | -254.4 |
| Domestic Demand | 3.4 | 6.2 | 4.1 | 0.8 | 3.2 | -0.1 | -7.0 |
| Exports of Goods and Services | 7.2 | 27.3 | 6.8 | -2.4 | 6.0 | 16.7 | 14.5 |
| Imports of Goods and Services | -1.0 | 10.6 | 11.4 | 5.8 | 5.4 | -8.7 | -3.5 |
| Gross Domestic Product at Market Prices | 3.4 | 6.2 | 4.1 | 0.8 | 3.2 | -0.1 | -1.7 |

Source: 1978-1979 INE; 1980-1984 Bank of Portugal

1/ Continent only.
~~2/ Preliminary~~.

(1036G, p. 5)

Table 8: GROSS DOMESTIC PRODUCT BY EXPENDITURE 1/

(Constant 1977 prices, escudos billion)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Total Consumption | 538.1 | 536.9 | 546.9 | 563.5 | 581.8 | 596.6 | 596.5 | 584.6 |
| Private Consumption | 450.3 | 445.3 | 449.4 | 462.4 | 475.3 | 486.3 | 480.5 | 467.0 |
| Public Consumption | 87.8 | 91.6 | 97.5 | 101.1 | 106.5 | 111.3 | 116.0 | 117.6 |
| Investment | 181.7 | 193.9 | 210.5 | 239.6 | 249.2 | 262.6 | 203.0 | 153.3 |
| Fixed Investment | 167.9 | 179.7 | 177.9 | 196.2 | 206.2 | 212.2 | 196.2 | 161.0 |
| Changes in Stock | 13.8 | 14.2 | 32.0 | 49.8 | 48.4 | 59.3 | 7.2 | -7.7 |
| Domestic Demand | 719.9 | 730.8 | 757.4 | 803.1 | 831.0 | 859.2 | 799.5 | 743.5 |
| Exports of Goods and Services | 115.3 | 123.6 | 157.3 | 168.0 | 164.0 | 173.9 | 202.9 | 232.3 |
| Imports of Goods and Services | 209.4 | 207.3 | 229.3 | 255.4 | 270.2 | 284.8 | 260.0 | 250.9 |
| Statistical Discrepancy | - | - | 1.8 | 0.3 | -3.7 | -4.1 | 1.1 | 6.0 |
| Gross Domestic Product at Market Prices | 625.8 | 647.1 | 687.2 | 715.4 | 721.1 | 744.2 | 743.5 | 730.9 |

Source: Tables 6 and 7.

1/ Continent only.

(1036G, p. 6)

Table 9: DEFLATORS FOR GROSS DOMESTIC PRODUCT BY EXPENDITURE 1/

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Total Consumption | 100.0 | 120.2 | 147.7 | 177.5 | 213.0 | 258.6 | 319.2 | 406.3 |
| Private Consumption | 100.0 | 120.2 | 149.2 | 178.0 | 214.7 | 262.4 | 326.7 | 421.6 |
| Public Consumption | 100.0 | 119.8 | 141.1 | 175.4 | 205.4 | 239.5 | 287.9 | 345.2 |
| Investment | 100.0 | 123.8 | 139.2 | 175.5 | 213.1 | 261.5 | 328.6 | 421.0 |
| of which Fixed Investment | 100.0 | 123.7 | 152.1 | 185.6 | 224.5 | 276.9 | 345.6 | 423.0 |
| Domestic Demand | 100.0 | 121.1 | 145.3 | 176.9 | 213.0 | 259.6 | 321.6 | 406.2 |
| Exports of Goods and Services | 100.0 | 128.2 | 170.8 | 211.4 | 245.7 | 281.0 | 361.3 | 471.8 |
| Imports of Goods and Services | 100.0 | 123.5 | 164.1 | 211.9 | 259.2 | 302.9 | 390.4 | 515.0 |
| Gross Domestic Product at Market Prices | 100.0 | 121.7 | 144.5 | 172.6 | 204.2 | 249.5 | 291.9 | 362.3 |

Source: Mission estimates. Derived from Tables 6 and 8.

1/ Continent only.

(1036G, p. 17)

Table 10: GROSS FIXED CAPITAL FORMATION 1/
Current prices, billion escudos

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| Total | 167.9 | 222.3 | 270.5 | 357.8 | 463.0 | 587.5 | 678.0 | 681.0 |
| By Purpose | | | | | | | | |
| Housing | | | | 184.5 | 239.3 | 304.9 | 375.0 | 386.0 |
| Other Construction | | | | | | | | |
| Equipment | | | | 170.4 | 218.7 | 282.6 | 303.0 | 295.0 |
| Other (Primary sector) | | | | 2.9 | 5.0 | .. | .. | .. |
| By Sector | | | | | | | | |
| Public Administration | | | | 53.8 | 63.4 | 73.0 | 89.3 | 86.5 |
| Public Enterprises | | | | 66.0 | 87.7 | 101.5 | 138.6 | 136.5 |
| Private | | | | 238.0 | 311.9 | 413.0 | 450.1 | 458.0 |

1/ Detail for earlier years not available.

Source: Bank of Portugal.
(Estimates on the basis of preliminary data from INE (1981) and for public investment from Central Planning Department).

(..) data not available.

(1036G, p. 18)

Table 11: GROSS FIXED CAPITAL FORMATION 1/
Volume Growth (percent)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| Total | 7.0 | -0.9 | 10.3 | 5.1 | 2.9 | -7.5 | -18.0 |
| By Purpose | | | | | | | |
| Housing | | | | 4.3) | 2.0) | -3.0) | -12.0) |
| Other Construction | | | | ) | ) | ) | ) |
| Equipment | | | | 5.2 | 3.9 | -12.4 | -24.0 |
| Other (Primary sector) | | | | | .. | | |
| By Sector | | | | | | | |
| Public Administration Sector | | | | 2.0 | 5.7 | -14.6 | -16.5 |
| Public Enterprises Sector | | | | 5.7 | -6.3 | 4.0 | -18.5 |
| Private Sector | | | | 5.7 | 7.2 | -9.1 | -22.0 |

1/ Detail for earlier years not available.

Source: Bank of Portugal.
(Estimates on the basis of preliminary data from INE (1981) and for public investment from the Central Planning Department).

(1036G, p. 19)

Table 12: BALANCE OF PAYMENTS
(US$ million)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Exports, (f.o.b.) | 2,238 | 1,936 | 1,790 | 2,001 | 2,379 | 3,550 | 4,575 | 4,088 | 4,108 | 4,569 | 5,177 |
| of which: petroleum and petroleum products | (67) | (39) | (35) | (34) | (44) | (103) | (242) | (472) | (93) | (85) | (208) |
| Imports, (f.o.b.) | 4,277 | 3,606 | 3,965 | 4,533 | 4,787 | 6,182 | 8,781 | 9,282 | 8,941 | 7,644 | 7,308 |
| of which: petroleum and petroleum products | (575) | (621) | (696) | (743) | (822) | (1,261) | (2,199) | (2,414) | (2,464) | (2,126) | (2,666) |
| Trade Balance | -1,989 | -1,670 | -2,175 | -2,532 | -2,408 | -2,632 | -4,206 | -5,194 | -4,833 | -3,075 | -2,131 |
| Nonfactor Services (Net) | -74 | -170 | 54 | 82 | 276 | 541 | 537 | 431 | 177 | 328 | 530 |
| (Tourism receipts, gross) | (513) | (360) | (327) | (403) | (592) | (942) | (1,148) | (1,024) | (857) | (810) | (950) |
| Net Investment Income | 129 | -14 | -132 | -179 | -329 | -437 | -612 | -975 | -1,269 | -1,064 | -1,200 |
| Transfers (Net) | 1,111 | 1,037 | 964 | 1,134 | 1,635 | 2,476 | 3,000 | 2,888 | 2,680 | 2,171 | 2,178 |
| of which: workers' remittances | (949) | (821) | (907) | (1,174) | (1,671) | (2,455) | (2,931) | (2,832) | (2,599) | (2,151) | (2,155) |
| Current Account Balance | -823 | -817 | -1,298 | -1,495 | -826 | -52 | -1,261 | -2,850 | -3,245 | -1,640 | -623 |
| Medium- and Long-Term Capital | 272 | -94 | 26 | 95 | 758 | 813 | 1,404 | 1,790 | 2,582 | 1,466 | 1,315 |
| Basic Balance | -551 | -911 | -1,263 | -1,400 | -68 | 761 | -153 | -1,060 | -663 | -174 | 692 |

Source: Bank of Portugal.

Table 13: EXPORTS BY PRODUCT GROUP, 1974-1983
(escudos billion)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 1/ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agricultural products | 9.372 | 8.291 | 9.455 | 12.653 | 16.873 | 24.388 | 28.695 | 30.054 | 38.300 | 59.141 | 85.746 |
| Mineral products | 3.892 | 2.952 | 3.337 | 4.544 | 6.453 | 12.203 | 21.957 | 28.957 | 26.484 | 46.264 | 56.653 |
| Chemical products | 4.428 | 2.893 | 2.675 | 3.766 | 5.960 | 9.801 | 13.732 | 15.901 | 28.449 | 40.665 | 64.309 |
| Wood, cork & paper | 9.310 | 7.873 | 10.635 | 13.956 | 16.838 | 28.398 | 38.914 | 41.706 | 49.107 | 67.871 | 110.244 |
| Textiles & clothing | 16.252 | 13.436 | 14.456 | 20.444 | 31.030 | 51.392 | 61.584 | 69.269 | 96.960 | 143.647 | 215.130 |
| Leather & footwear | 1.129 | 1.325 | 1.635 | 2.640 | 3.982 | 7.561 | 9.780 | 10.954 | 14.030 | 23.417 | 41.312 |
| Metals & metal products | 2.006 | 2.312 | 2.752 | 3.787 | 5.310 | 10.568 | 11.444 | 12.156 | 14.857 | 23.511 | 37.514 |
| Machinery | 6.093 | 5.444 | 5.306 | 8.775 | 10.656 | 14.532 | 20.164 | 24.090 | 34.034 | 57.950 | 95.696 |
| Other products | 1.854 | 2.120 | 2.280 | 2.941 | 4.878 | 7.884 | 9.424 | 9.128 | 13.277 | 20.955 | 18.374 |
| Transport equipment | 465 | 425 | 526 | 635 | 2.861 | 4.703 | 7.068 | 6.970 | 9.401 | 15.078 | 23.733 |
| Aircraft & boats | 810 | 612 | 1.147 | 2.130 | 1.083 | 2.016 | 3.470 | 1.515 | 2.462 | 4.412 | 12.249 |
| Diamonds | 2.403 | 1.645 | 885 | 1.414 | 527 | 2.605 | 5.391 | 6.212 | 4.882 | 5.658 | 3.594 |
| Total exports | 58.014 | 49.328 | 55.089 | 77.685 | 106.451 | 176.051 | 231.623 | 256.912 | 331.743 | 508.569 | 765.586 |
| Total in million dollars | 2.263 | 1.882 | 1.822 | 2.029 | 2.423 | 3.600 | 4.575 | 4.088 | 4.108 | 4.569 | 5.210 |

1/ Preliminary.

Source: Bank of Portugal.

(1036G. p. 20)

Table 14: IMPORTS BY PRODUCT GROUP, 1974-1983
(escudos billion)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 1/ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agricultural products | 23.7 | 23.3 | 26.7 | 35.0 | 39.0 | 55.9 | 66.3 | 97.8 | 107.9 | 131.7 | 199.0 |
| Mineral products | 15.8 | 17.2 | 22.9 | 30.8 | 39.4 | 67.2 | 119.7 | 154.1 | 209.8 | 249.8 | 342.8 |
| Chemical products | 13.4 | 10.3 | 17.6 | 25.1 | 32.5 | 45.9 | 59.4 | 69.7 | 81.9 | 105.2 | 134.6 |
| Wood, cork & paper | 3.5 | 2.7 | 3.7 | 7.6 | 6.2 | 10.6 | 15.6 | 20.0 | 22.9 | 26.0 | 41.4 |
| Textiles | 11.6 | 7.8 | 11.5 | 16.1 | 16.1 | 24.9 | 35.5 | 38.4 | 46.0 | 60.0 | 89.7 |
| Metals & metal products | 12.5 | 8.9 | 11.3 | 19.1 | 23.2 | 27.6 | 38.9 | 42.6 | 55.1 | 57.1 | 71.3 |
| Machinery | 20.5 | 16.7 | 21.9 | 32.8 | 44.2 | 58.6 | 82.7 | 104.2 | 133.5 | 146.1 | 155.3 |
| Transport equipment | 7.2 | 5.9 | 8.3 | 15.8 | 17.7 | 24.7 | 34.0 | 52.0 | 62.6 | 62.6 | 64.4 |
| Other products | 5.0 | 4.0 | 4.7 | 6.7 | 8.3 | 11.8 | 16.2 | 21.2 | 28.9 | 34.8 | 38.0 |
| Aircraft & boats | 2.3 | 1.7 | 1.7 | 0.7 | 1.4 | 1.9 | 1.8 | 4.2 | 1.8 | 22.7 | 4.6 |
| Diamonds | 2.6 | 1.1 | 0.5 | 1.0 | 2.0 | 2.8 | 5.5 | 4.9 | 3.6 | 4.4 | 9.2 |
| Total imports | 118.1 | 99.5 | 139.9 | 190.7 | 230.1 | 331.9 | 475.5 | 609.0 | 754.0 | 899.3 | 1,150.4 |
| Total in $ million | 4,607 | 3,794 | 4,329 | 4,982 | 5,238 | 6,787 | 8,781 | 9,283 | 8,941 | 7,644 | 7,241 |

1/ Preliminary.

Source: Bank of Portugal.

(1036G, p. 21)

Table 15: EXTERNAL TRADE SUMMARY, 1973-1983
(annual rate of change - percent)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 1/ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| IMPORTS (C.I.F.) | | | | | | | | | | | | |
| Value | 23.2 | 57.9 | -15.8 | 31.6 | 45.7 | 20.7 | 44.2 | 42.8 | 28.1 | 23.8 | 19.3 | 27.0 |
| Price (in escudos) | 13.4 | 44.5 | 9.6 | 11.4 | 29.2 | 23.3 | 35.2 | 27.9 | 21.1 | 17.3 | 28.9 | 31.9 |
| Price (in dollars) | 24.2 | 39.1 | 7.2 | -3.4 | 2.0 | 7.4 | 21.5 | 24.9 | -1.5 | -9.1 | -7.5 | 0.2 |
| Volume | 8.7 | 9.4 | -23.1 | 18.0 | 12.8 | -2.1 | 6.7 | 11.7 | 5.8 | 5.5 | -7.5 | 3.0 |
| EXPORTS (F.O.B.) | | | | | | | | | | | | |
| Value | 28.8 | 27.8 | -15.0 | 11.7 | 41.0 | 37.0 | 65.4 | 31.6 | 10.9 | 29.1 | 53.3 | 50.5 |
| Price (in escudos) | 9.4 | 39.4 | 1.1 | 7.1 | 35.5 | 23.3 | 28.0 | 21.6 | 13.3 | 16.5 | 26.7 | 30.5 |
| (in dollars) | 19.4 | 34.2 | -1.2 | -7.1 | 7.0 | 7.4 | 15.0 | 18.9 | -7.8 | 9.8 | -9.0 | -1.2 |
| Volume | 17.7 | -8.3 | 15.9 | 4.3 | 4.1 | 11.1 | 29.2 | 8.2 | 2.1 | 10.8 | 20.3 | 15.4 |

1/ Preliminary.

Source: Bank of Portugal.

(1036G, p. 22)

Table 16: TERMS OF TRADE
(1970=100)

| | Export Price Index | Import Price Index | Terms of trade | Percentage Change |
|---|---|---|---|---|
| 1971 | 103.0 | 102.3 | 100.7 | -0.7 |
| 1972 | 108.3 | 105.1 | 103.0 | 2.3 |
| 1973 | 118.4 | 119.2 | 99.3 | -3.6 |
| 1974 | 165.1 | 172.3 | 95.8 | -3.5 |
| 1975 | 166.9 | 188.7 | 88.4 | -7.7 |
| 1976 | 178.8 | 210.2 | 85.1 | -3.7 |
| 1977 | 242.2 | 271.6 | 89.2 | 4.8 |
| 1978 | 298.7 | 334.8 | 89.2 | 0.0 |
| 1979 | 382.3 | 452.7 | 84.4 | -5.4 |
| 1980 | 467.5 | 578.6 | 80.8 | -4.3 |
| 1981 | 529.7 | 700.6 | 75.6 | -6.4 |
| 1982 | 617.1 | 821.9 | 75.1 | -0.7 |
| 1983 | 782.5 | 1,059.4 | 73.9 | -1.6 |
| 1984 1/ | .. | .. | 73.2 | -1.1 |

Source: Secretaria de Estado da Exportacao - Servicio de Estudos e Planeamento, Departamento Central de Planeamento (1971-1980) and IMF (1983-84).

1/ Preliminary.

(..) data not available.

(1036G, p. 16)

Table 17: DEVELOPMENTS IN THE ESCUDO RATE
(percent)

| Periods Considered | Effective Exchange Rate | Devaluation of the escudo against several currencies | | | |
|---|---|---|---|---|---|
| | | US Dollar | Pound Sterling | French Franc | German Mark |
| 1978/1977 | -18.8 | -13.1 | -20.7 | -20.2 | -24.7 |
| 1979/1978 | -14.2 | -10.4 | -18.8 | -15.0 | -17.9 |
| 1980/1979 | -1.0 | -2.3 | -10.8 | -2.9 | -3.0 |
| 1981/1980 | -1.9 | -18.3 | -6.1 | 4.6 | 1.1 |
| 1982/1981 | -10.3 | -21.8 | -10.4 | -6.0 | -16.7 |
| 1983/1982 | -17.9 | -27.9 | -17.4 | -16.7 | -24.4 |
| 1984/1983 | -13.8 | -25.3 | -13.9 | -13.5 | -15.9 |

Source: Bank of Portugal and IMF.

(1036G, p. 23)

**Table 18: FOREIGN TRADE BY REGION**
(million escudos)

| | Exports | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1981 | | 1982 | | 1983 | | 1984 1/ | |
| | Value | % | Value | % | Value | % | Value | % |
| EEC | 137,831 | 53.7 | 190,220 | 57.3 | 297,757 | 7.3 | 436,314 | 57.6 |
| EFTA | 34,371 | 13.4 | 40,471 | 12.2 | 53,598 | 10.9 | 79,023 | 10.4 |
| US | 13,405 | 5.2 | 20,445 | 6.2 | 30,852 | 6.1 | 66,887 | 8.8 |
| European Centrally Planned Economies | 5,179 | 2.0 | 8,847 | 2.7 | 9,111 | 1.8 | 13,117 | 1.7 |
| New Portuguese Speaking Countries | 19,380 | 7.5 | 16,464 | 5.0 | 22,667 | 4.5 | 33,324 | 4.4 |
| Other | 46,746 | 18.2 | 57,296 | 17.2 | 92,584 | 18.2 | 128,384 | 17.1 |
| Total | 256,912 | 100.0 | 331,743 | 100.0 | 508,569 | 100.0 | 757,049 | 100.0 |

| | Imports (CIF) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1981 | | 1982 | | 1983 | | 1984 | |
| | Value | % | Value | % | Value | % | Value | % |
| EEC | 233,539 | 38.3 | 308,265 | 40.9 | 358,052 | 39.8 | 407,483 | 35.9 |
| EFTA | 41,385 | 6.8 | 50,724 | 6.7 | 52,729 | 5.9 | 59,179 | 5.2 |
| US | 72,865 | 12.0 | 81,506 | 10.8 | 126,632 | 14.1 | 153,763 | 13.6 |
| European Centrally Planned Economies | 16,829 | 2.8 | 10,016 | 1.3 | 14,349 | 1.6 | 15,527 | 1.4 |
| New Portuguese Speaking Countries | 2,572 | 0.4 | 3,390 | 0.4 | 4,118 | 0.5 | 8,233 | 0.7 |
| Other | 241,829 | 39.7 | 300,080 | 39.8 | 343,450 | 38.2 | 490,051 | 43.2 |
| Total | 609,014 | 100.0 | 753,981 | 100.0 | 899,340 | 100.0 | 1,134,292 | 100.0 |

| | Balance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1981 | | 1982 | | 1983 | | 1984 | |
| | Value | Exports as % of Imports | Value | Exports as % of Imports | Value | Exports as % of Imports | Value | Exports as % of Imports |
| EEC | -95,708 | 59.0 | -118,045 | 61.7 | 60,295 | 83.2 | 28,831 | 107.1 |
| EFTA | -7,014 | 83.1 | -10,253 | 79.8 | 2,853 | 105.4 | 19,844 | 133.5 |
| US | -59,460 | 18.4 | -61,061 | 25.1 | -95,780 | 24.4 | 86,882 | 43.5 |
| European Centrally Planned Economies | -11,615 | 30.8 | -3,169 | 88.3 | -5,238 | 63.5 | -2,410 | 84.5 |
| New Portuguese Speaking Countries | 16,808 | 755.8 | 13,074 | 485.7 | 18,549 | 550.4 | 25,091 | 404.0 |
| Other- | 195,083 | 19.3 | -242,784 | 19.1 | -250,867 | 27.0 | -361,667 | 26.2 |
| Total | -352,102 | 42.2 | -422,238 | 44.0 | -390,772 | 56.5 | -377,193 | 66.7 |

(1) Preliminary.

Source: INE.

(1036G, p. 24)

Table 19: WORKERS' REMITTANCES BY REGION

| | 1980 | | 1981 | | 1982 | | 1983 | | 1984 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ million | % | $ million | % | $ million | % | $ million | % | million | % |
| OECD - European countries | 2,251 | 76.8 | 1,974 | 69.7 | 1,735 | 66.8 | 1,507 | 70.1 | 1,514 | 70.3 |
| US and Canada | 378 | 12.9 | 443 | 15.6 | 432 | 16.6 | 403 | 18.7 | 431 | 20.0 |
| Other | 302 | 10.3 | 415 | 14.7 | 432 | 16.6 | 241 | 11.2 | 210 | 9.7 |
| Total | 2,931 | 100.0 | 2,832 | 100.0 | 2,599 | 100.0 | 2,151 | 100.0 | 2,155 | 100.0 |
| In French Francs millions | (12.3) | | (15.5) | | (17.3) | | (16.1) | | | |
| In ECU millions | (2,107) | | (2,557) | | (2,677) | | (2,410) | | | |

Source: Bank of Portugal.

(1036G, p. 25)

**Table 20: FINANCING OF CURRENT ACCOUNT**
**(in US$ million)**

| | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|
| Current account 1/ | -1,251 | -2,850 | -3,245 | -1,686 | -570 |
| Registered capital, net | 2,109 | 2,701 | 3,368 | 844 | 1,030 |
| Medium- and long-term (Debt) | 1,353 | 1,633 | 2,492 | 1,242 | 1,131 |
| Inflow | 1,988 | 2,319 | 3,284 | 2,294 | 3,022 |
| Outflow | 635 | 686 | 792 | 1,052 | 1,891 |
| State | 607 | 552 | 613 | 641 | 516 |
| Inflow | 634 | 585 | 653 | 850 | 805 |
| Outflow | 27 | 33 | 40 | 209 | 289 |
| Other monetary institutions | 213 | 182 | 492 | 270 | 109 |
| Inflow | 240 | 211 | 590 | 530 | 551 |
| Outflow | 27 | 29 | 98 | 260 | 442 |
| Non-monetary financial institutions | -10 | -8 | 42 | 11 | 12 |
| Inflow | 1 | 2 | 48 | 25 | 14 |
| Outflow | 11 | 10 | 6 | 14 | 26 |
| Public Enterprises | 299 | 684 | 1,272 | 426 | 644 |
| Inflow | 745 | 1,161 | 1,754 | 778 | 1,577 |
| Outflow | 446 | 477 | 482 | 352 | 933 |
| Private Sector | 244 | 223 | 73 | -106 | -126 |
| Inflow | 368 | 360 | 239 | 111 | 75 |
| Outflow | 124 | 137 | 166 | 217 | 201 |
| Short-term (Debt) | 1,101 | 861 | 695 | -626 | -101 |
| Inflow | 3,698 | 6,152 | 8,070 | 6,679 | .. |
| Outflow | 2,597 | 5,291 | 7,375 | 7,305 | .. |
| Non-monetary financial institutions | 1 | 17 | -9 | -1 | |
| Inflow | 1 | 22 | 132 | 55 | .. |
| Outflow | - | 5 | 141 | 56 | .. |
| Public Enterprises | 927 | 825 | 770 | -586 | |
| Inflow | 3,380 | 5,663 | 7,480 | 6,323 | .. |
| Outflow | 2,453 | 4,838 | 6,710 | 6,909 | .. |
| Private Sector | 173 | 19 | -66 | 39 | |
| Inflow | 317 | 467 | 458 | 301 | .. |
| Outflow | 144 | 448 | 524 | 340 | .. |
| Nondebt capital and errors and omissions | -345 | 207 | 181 | 228 | 88 |
| Direct investment (net) | (119) | (135) | (109) | (113) | .. |
| Change in net Foreign Assets of the Banking System ( denotes increase) | -858 | 149 | -123 | 876 | -372 |

Source: Bank of Portugal.

1/ Not consistent with Table 12. Based on earlier estimates of the current account deficit.

(..) not available

(1036G, p. 15)

Table 21: GROSS INTERNATIONAL RESERVES OF PORTUGAL
(US$ million, end of year)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|
| 1. Official Reserves | 12262 | 13864 | 9335 | 10540 | 8179 | 6775 |
| Gold /a | 11331 | 13069 | 8801 | 10093 | 7794 | 6259 |
| Foreign Exchange | 930 | 751 | 467 | 391 | 353 | 475 |
| Total Reserves minus gold | 931 | 795 | 534 | 447 | 385 | 516 |
| 2. Other Institutions | 1508 | 1739 | 1553 | 1532 | 1704 | 1843 |
| 3. Total Gross Reserves | 13770 | 15603 | 10888 | 12072 | 9883 | 8618 |

Source: International Financial Statistics, IMF.

/a End of year London gold prices in dollars per ounce are:

1979 - 512.0
1980 - 589.5
1981 - 397.5
1982 - 456.9
1983 - 381.5
1984 - 308.3

Table 22: EXTERNAL DEBT
(US$ million)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| Total external debt outstanding and disbursed | 5,420 | 7,547 | 9,281 | 10,977 | 13,596 | 14,485 | 14,914 |
| 1. Short term | 1,583 | 1,650 | 2,395 | 3,335 | 3,839 | 3,422 | 3,016 |
| Administrative Public Sector | - | - | - | 3 | - | - | - |
| Bank of Portugal | 994 | 582 | 220 | 250 | 120 | 300 | 200 |
| Other Monetary Institutions | - | - | - | 37 | 41 | 61 | - |
| With Government Guarantee | - | - | - | - | - | - | - |
| Without Government Guarantee | - | - | - | 37 | 41 | 61 | - |
| Non Monetary Financial Institutions | - | - | 1 | 21 | 9 | 10 | 13 |
| With Government Guarantee | - | - | | 1 | - | - | .. |
| With Bank Guarantee | - | - | | - | - | - | .. |
| Without Guarantee | - | - | 1 | 20 | 9 | 10 | .. |
| Non Financial Public Enterprises | 598 | 1,010 | 1,942 | 2,766 | 3,493 | 2,907 | 2,704 |
| With Government Guarantee | - | - | | - | 55 | 43 | .. |
| With Bank Guarantee | 583 | 678 | 59 | 7 | - | - | .. |
| Without Guarantee | 15 | 332 | 1,883 | 2,759 | 3,438 1/ | 2,864 | .. |
| Non Financial Private Sector | 41 | 58 | 232 | 258 | 176 | 144 | 99 |
| With Government Guarantee | | | | | | - | .. |
| With Bank Guarantee | 35 | 36 | 9 | 5 | 6 | 10 | .. |
| Without Guarantee | 6 | 22 | 223 | 253 | 170 1/ | 134 | .. |
| 2. Medium and long term | 3,837 | 5,897 | 6,886 | 7,642 | 9,757 | 11,603 | 11,898 |
| Adminstrative Public Sector | 894 | 1,501 | 2,082 | 2,206 | 2,865 | 3,435 | 3,843 |
| Bank of Portugal | 980 | 1,077 | 896 | 712 | 550 | 789 | 851 |
| Other Monetary Institutions | 161 | 413 | 617 | 793 | 1,294 | 1,583 | 1,660 |
| With Government Guarantee | 153 | 277 | 255 | 242 | 238 | 187 | .. |
| Without Government Guarantee | 8 | 136 | 362 | 551 | 1,056 1/ | 1,396 1/ | .. |
| Non Monetary Financial Institutions | 71 | 128 | 114 | 96 | 133 | 151 | 129 |
| With Government Guarantee | 20 | 85 | 82 | 75 | 71 | 67 | .. |
| With Bank Guarantee | 45 | - | - | - | - | 1 | .. |
| Without Guarantee | 6 | 43 | 23 | 21 | 62 1/ | 83 1/ | .. |
| Non Financial Public Enterprises | 1,384 | 2,400 | 2,592 | 3,095 | 4,149 | 4,473 | 4,946 |
| With Government Guarantee | 417 | 627 | 623 | 629 | 796 | 982 | .. |
| With Bank Guarantee | 545 | 730 | 726 | 578 | 495 | 403 | .. |
| Without Guarantee | 422 | 1,043 | 1,243 | 1,888 | 2,858 1/ | 3,088 1/ | .. |
| Non Financial Private Sector | 347 | 378 | 585 | 740 | 766 | 632 | 469 |
| With Government | 25 | 18 | 37 | 33 | 27 | 20 | .. |
| With Bank Guarantee | 183 | 179 | 242 | 291 | 292 | 238 | .. |
| Without Guarantee | 189 | 181 | 306 | 416 | 447 1/ | 374 1/ | .. |

Source: Bank of Portugal.

1/ Preliminary.

(1036G, p. 27)

Table 23: PORTUGAL - ACCOUNTS OF THE PUBLIC SECTOR
(Escudos billion)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 1/ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Current revenue | 77.9 | 93.2 | 131.4 | 168.0 | 212.2 | 264.3 | 361.9 | 486.4 | 618.0 | 838.5 | 901.3 |
| Direct taxes (inc. social security contributions) | 36.1 | 47.1 | 60.7 | 80.9 | 103.6 | 124.0 | 168.1 | 249.3 | 319.4 | 415.4 | 423.5 |
| Indirect taxes | 37.0 | 41.8 | 61.7 | 79.3 | 97.5 | 122.0 | 172.9 | 213.7 | 261.9 | 356.6 | 423.9 |
| Nontax revenue | 4.8 | 4.3 | 9.0 | 7.8 | 11.1 | 18.3 | 20.7 | 23.4 | 36.7 | 66.5 | 53.9 |
| 2. Current expenditures | 76.6 | 102.5 | 144.4 | 180.6 | 238.5 | 302.2 | 404.2 | 556.1 | 708.9 | 914.0 | 1017.4 |
| Goods and services | 49.1 | 58.0 | 66.1 | 90.2 | 114.7 | 147.6 | 185.7 | 217.7 | 266.6 | 333.6 | 415.5 |
| Subsidies | 7.6 | 7.5 | 17.1 | 20.9 | 30.9 | 46.5 | 59.7 | 76.9 | 101.4 | 142.9 | 121.2 |
| Interest on public debt | 1.5 | 2.8 | 5.1 | 10.6 | 21.6 | 28.5 | 38.8 | 82.7 | 101.1 | 147.0 | 200.1 |
| Current transfers | 18.4 | 34.2 | 56.1 | 58.9 | 71.3 | 79.6 | 120.0 | 178.8 | 239.8 | 290.5 | 280.6 |
| 3. Current balance | 1.3 | 9.3 | -13.0 | -12.6 | -26.3 | -37.9 | -42.3 | -69.7 | -90.9 | -75.5 | -116.1 |
| 4. Capital receipts | 4.5 | 5.0 | 2.4 | 3.6 | 3.5 | 4.2 | 5.9 | 3.2 | 7.3 | 6.5 | 23.2 |
| 5. Capital expenditures | 11.2 | 16.4 | 22.3 | 33.8 | 42.6 | 46.9 | 70.0 | 82.5 | 102.6 | 117.9 | 124.6 |
| Fixed investment | 7.8 | 10.3 | 14.6 | 25.1 | 30.9 | 36.4 | 49.3 | 63.4 | 71.5 | 77.0 | 80.7 |
| Capital transfers | 3.4 | 6.1 | 7.7 | 8.7 | 11.7 | 10.5 | 20.7 | 19.1 | 31.1 | 40.9 | 43.9 |
| 6. Net lending | 2.5 | -0.9 | 1.7 | 2.7 | 23.9 | 18.0 | 21.1 | 18.2 | 25.9 | 30.9 | 37.1 |
| 7. Overall balance (Nat. Account basis) | -7.9 | -19.8 | -34.6 | -45.5 | -89.3 | -98.6 | -127.5 | -167.2 | -212.1 | -217.8 | -254.6 |
| 8. Treasury operations and other adjustments | .. | .. | .. | .. | .. | -0.5 | 10.5 | -9.3 | -22.6 | -15.7 | -24.0 |
| 9. Borrowing | .. | .. | .. | .. | .. | -99.1 | -120.6 | -172.3 | -234.7 | -233.5 | -278.6 |
| 10. Financing | .. | .. | .. | .. | .. | 99.1 | 120.6 | 172.3 | 234.7 | 233.5 | .. |
| Bank credit | .. | .. | .. | .. | .. | 76.7 | 89.0 | 133.6 | 162.0 | 122.4 | .. |
| Nonbank credit | .. | .. | .. | .. | .. | 4.2 | 10.1 | 4.1 | 13.0 | 31.1 | .. |
| External credit | .. | .. | .. | .. | .. | 18.2 | 21.5 | 34.6 | 53.4 | 8.0 | .. |
| Other sources | .. | .. | .. | .. | .. | .. | .. | .. | 6.3 | 80.0 | .. |
| 11. Line 9 as a percentage of GDP | .. | .. | .. | .. | .. | 10.0 | 9.8 | 11.7 | 12.6 | 10.2 | 9.8 |
| 12. Line 7 as a percentage of GDP | 2.3 | 5.3 | 7.4 | 7.3 | 11.3 | 9.9 | 10.3 | 11.3 | 11.4 | 9.5 | 9.1 |

Source: Bank of Portugal and IMF.

1/ Estimate

(..) data not available

(1036G, p. 10)

Table 23A: PORTUGAL - ACCOUNTS OF THE PUBLIC SECTOR
(billion escudos)

| | 1981 | 1982 Budget | 1982 | 1983 Budget | 1983 1/ | 1984 Budget | 1984 1/ | 1985 Budget 2/ |
|---|---|---|---|---|---|---|---|---|
| 1. Current revenue | 486.4 | 568.8 | 618.0 | 746.7 | 838.5 | 998.2 | 901.3 | 1105.1 |
| Direct taxes (inc. social security contributions) | 249.3 | 272.1 | 319.4 | 349.6 | 415.4 | 432.8 | 423.5 | 534.9 |
| Indirect taxes | 213.7 | 271.3 | 261.9 | 347.3 | 356.6 | 481.6 | 423.9 | 531.2 |
| Nontax revenue | 23.4 | 25.4 | 36.7 | 49.8 | 66.5 | 83.8 | 53.9 | 39.0 |
| 2. Current expenditures | 556.1 | 608.3 | 708.9 | 774.7 | 914.0 | 1065.6 | 1017.4 | 1307.0 |
| Goods and services | 217.7 | 275.1 | 266.6 | 333.4 | 333.6 | 405.7 | 415.5 | 509.5 |
| Subsidies | 76.9 | 50.8 | 101.4 | 56.3 | 142.9 | 144.1 | 121.2 | 125.0 |
| Interest on public debt | 82.7 | 109.0 | 101.1 | 160.0 | 147.0 | 235.4 | 200.1 | 308.0 |
| Current transfers | 178.8 | 173.4 | 239.8 | 225.0 | 290.5 | 280.4 | 280.6 | 364.5 |
| 3. Current balance | -69.7 | -39.5 | -90.9 | -28.0 | -75.5 | -67.4 | -116.1 | -201.9 |
| 4. Capital receipts | 3.2 | 9.7 | 7.3 | 11.4 | 6.5 | 17.4 | 23.2 | 20.2 |
| 5. Capital expenditures | 82.5 | 105.0 | 102.6 | 118.2 | 117.9 | 116.0 | 124.6 | 145.2 |
| Fixed investment | 63.4 | 86.7 | 71.5 | 98.0 | 77.0 | 77.9 | 80.7 | 86.6 |
| Capital transfers | 19.1 | 18.3 | 31.1 | 20.2 | 40.9 | 38.1 | 43.9 | 58.6 |
| 6. Net lending ( ) | 18.2 | 19.7 | 25.9 | 20.8 | 30.9 | 25.8 | 37.1 | 37.0 |
| 7. Overall balance (National Accounts basis) | -167.2 | -154.5 | -212.1 | -155.6 | -217.8 | -191.8 | -254.6 | -363.9 |
| 8. Treasury operations and other adjustments | -9.3 | | -22.6 | | -15.7 | 5.0 | -24.0 | .. |
| 9. Borrowing | -172.3 | | -234.7 | | 233.5 | 196.8 | 278.6 | .. |
| 10. Financing | 172.3 | | 234.7 | | 233.5 | 196.8 | .. | .. |
| Bank credit | 133.6 | | 162.0 | | 122.4 | 139.3 | .. | .. |
| Nonbank credit | 4.1 | | 13.0 | | 31.1 | 5.0 | .. | .. |
| External credit | 34.6 | | 53.4 | | 80.0 | 67.5 | .. | .. |
| Other sources | - | | 6.3 | | | 15.0 | .. | .. |
| 11. Line 9 as a percentage of GDP | 11.7 | | 12.6 | | 10.2 | | .. | .. |
| 12. Line 7 as a percentage of GDP | 11.4 | | 11.4 | | 9.5 | | 9.1 | 10.5 3/ |

Source: Bank of Portugal.

1/ Estimate.
2/ Preliminary.
3/ Projected.

(..) data not available.

(1036G, p. 9)

Table 24: PORTUGAL - CURRENT RECEIPTS OF THE CENTRAL GOVERNMENT BUDGET
(billion escudos)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 1/ |
|---|---|---|---|---|---|---|
| Direct Taxes | 52.4 | 67.9 | 97.6 | 126.8 | 183.4 | 215.3 |
| Contributions from industry | 10.1 | 21.0 | 28.1 | 33.0 | 33.9 | 42.8 |
| Professional tax | 16.0 | 18.1 | 27.8 | 36.2 | 47.8 | 61.1 |
| Tax on capital | 9.1 | 13.6 | 22.8 | 35.4 | 46.0 | 66.0 |
| Complementary Tax | 7.2 | 8.4 | 11.3 | 12.8 | 14.4 | 12.0 |
| Tax on inheritance and bequest | 0.7 | 0.9 | 1.3 | 1.6 | 4.8 | 6.9 |
| Tax on transfers | 3.0 | 4.1 | 5.2 | 6.6 | 8.1 | 8.6 |
| Special tax | 4.9 | - | - | 0.1 | 26.3 | 15.6 2/ |
| Other taxes | 1.2 | 1.7 | 1.0 | 1.1 | 2.1 | 2.3 |
| Indirect taxes | 87.5 | 125.0 | 160.0 | 197.0 | 251.1 | 297.5 |
| Import rights | 5.8 | 7.1 | 8.7 | 10.2 | 9.5 | 10.5 |
| Import surtax | 4.7 | 5.0 | 6.9 | 8.9 | 13.5 | 9.2 |
| Consumption tax | 2.5 | 2.6 | 2.5 | 3.6 | 3.4 | 3.9 |
| Fiscal stamps | 16.8) | 22.4) | 28.7) | 8.1 | 9.1 | 9.8 |
| Stamp tax | ) | ) | ) | 30.7 | 44.3 | 69.7 |
| Transaction tax | 37.0 | 56.9 | 71.7 | 82.3 | 103.8 | 118.3 |
| Vehicle tax | 7.1 | 11.8 | 16.5 | 19.5 | 26.8 | 26.2 |
| Tobacco tax | 8.9 | 12.0 | 16.0 | 20.9 | 25.7 | 31.5 |
| Other taxes | 4.8 | 7.3 | 9.1 | 12.8 | 15.0 | 18.4 |
| Total taxes | 139.9 | 192.9 | 257.7 | 323.8 | 434.5 | 512.8 |
| Fiscal receipts as % of GDP | 14.1 | 15.6 | 17.5 | 17.4 | 19.0 | 18.2 |

Source: Bank of Portugal and Central Planning Department (MOFP).

1/ Preliminary.
2/ Special tax on profits.

(1036G, p. 8)

Table 25: PORTUGAL - NATIONAL ACCOUNTS OF THE AUTONOMOUS FUNDS
(billion escudos)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 Estimate |
|---|---|---|---|---|---|---|
| Current Receipts | 50.1 | 71.4 | 81.6 | 99.5 | 134.5 | 179.1 |
| Direct taxes | 6.2 | 7.6 | 11.8 | 12.6 | 16.6 | 22.1 |
| Indirect taxes | 31.6 | 44.0 | 48.9 | 62.1 | 97.0 | 149.9 |
| Other receipts | 12.3 | 19.8 | 25.9 | 24.8 | 21.9 | 7.1 |
| Current Expenditures | 45.8 | 65.7 | 73.7 | 103.0 | 147.2 | 149.4 |
| Goods and services | 2.1 | 3.2 | 1.4 | 1.5 | 2.0 | 1.9 |
| Subsidies to enterprises | 33.8 | 48.6 | 63.6 | 84.0 | 125.2 | 94.8 |
| Interest | 1.5 | 1.7 | 0.7 | 1.9 | 2.0 | 23.0 |
| Transfers | 8.4 | 12.2 | 7.9 | 15.6 | 18.0 | 29.7 |
| Current Balance | 4.3 | 5.7 | 7.9 | -3.5 | -11.7 | 29.7 |
| Capital Receipts | 0.4 | 0.3 | 0.4 | 5.0 | 0.0 | 0.6 |
| Capital Expenditures | 3.5 | 8.1 | 14.0 | 12.0 | 15.1 | 19.4 |
| Gross fixed capital formation | 0.8 | 0.6 | 0.9 | 0.9 | 0.9 | 1.8 |
| Transfers | 2.7 | 7.5 | 13.1 | 11.1 | 14.2 | 17.6 |
| Granted Loans | 2.3 | 2.3 | 0.5 | 5.6 | 4.6 | 4.1 |
| Total Balance | -1.1 | -4.4 | -6.2 | -16.1 | -31.4 | 6.8 |

Source: Bank of Portugal.

(1036G, p. 28)

**Table 26: MONETARY SURVEY**
**(Escudos billion, end of period)**

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|
| **Assets of the Banking System** | | | | | | | | |
| Net Foreign Assets | -33.5 | -18.9 | 42.1 | 339.4 /1 | 411.8 | 569.5 | 760.1 | 1041.4 |
| Net Domestic Credit | 702.9 | 877.9 | 1103.4 | 1246.1 | 1650.3 | 2150.1 | 2689.7 | 3325.7 |
| (Of which: Bad Debts) | (56.9) | (90.3) | (106.4) | (112.0) | (132.5) | (171.3) | 165.3 | 198.1 |
| Enlarged Public Sector | 283.1 | 386.7 | 499.3 | 453.7 | 626.5 | 846.1 | 1138.8 | 1501.1 |
| Administrative Public Sector | 123.2 | 173.9 | 250.9 | 171.0 /1 | 305.4 | 462.2 | 582.7 | 776.1 |
| Bank of Portugal | 112.2 | 158.5 | 238.3 | 100.8 /1 | 175.8 | 309.8 | .. | .. |
| Other Banks | 11.0 | 15.4 | 12.6 | 69.1 | 128.8 | 152.4 | .. | .. |
| Public Enterprises | 159.9 | 212.8 | 248.4 | 282.7 | 321.1 | 383.9 | 556.1 | 725.0 |
| Nonmonetary Financial Institutions, Private Enterprises, and Individuals | 419.7 | 491.3 | 604.1 | 792.4 | 1023.8 | 1304.1 | 1550.9 | 1824.6 |
| TOTAL | 669.4 | 859.0 | 1145.5 | 1585.5 | 2062.1 | 2719.6 | 3449.8 | 4367.1 |
| **Liabilities of the Banking System** | | | | | | | | |
| Monetary Liabilities (M2+) | 567.4 | 728.9 | 994.2 | 1340.4 | 1723.7 | 2178.1 | 2610.9 | 3317.2 |
| Currency | 113.3 | 121.4 | 142.1 | 165.2 | 188.4 | 219.5 | 240.2 | 267.5 |
| Demand Deposits | 159.3 | 189.7 | 248.8 | 312.2 | 328.8 | 380.4 | 411.7 | 480.8 |
| Time and Other Deposits | 294.9 | 417.7 | 603.2 | 863.0 | 1206.4 | 1578.2 | 1959.0 | 2568.9 |
| Residents' Deposits | 256.8 | 330.0 | 453.2 | 608.6 | 827.0 | 1066.3 | 1282.5 | 1648.7 |
| Emigrants' Deposits and Other Deposits | 38.1 | 87.7 | 150.0 | 254.4 | 379.4 | 511.9 | 676.5 | 920.2 |
| Other Liabilities and Capital (Net) | 102.0 | 130.1 | 151.3 | 245.1 | 339.6 | 540.3 | 838.8 | 1049.9 |
| TOTAL | 669.4 | 859.0 | 1145.5 | 1585.5 | 2063.3 | 2718.4 | 3449.8 | 4367.1 |
| Annual Percentage Change in Adm. Public Sector Credit | 63.2 | 41.2 | 44.3 | 35.4 /2 | 39.3 /2 | 33.3 /2 | 19.1 /2 | 25.7 |
| Annual Percentage Change in Private Sector Credit, including Public Enterprises | 30.9 | 21.5 | 21.1 | 26.1 | 25.2 | 25.5 | 24.8 | 21.0 |
| Percentage Change in M2 | 23.1 | 28.5 | 36.4 | 34.8 | 28.6 | 26.4 | 19.9 | 27.1 |

Source: Bank of Portugal.

1/ By January 1, 1980, the stock of gold was revalued, raising net foreign assets by Esc. 168.7 billion. This revaluation appears also through a decline of the same amount in the account "Net Credit to the Public Sector."
2/ Corrected by including the Esc. 168.7 billion corresponding to the revaluation of gold.
3/ Preliminary.

(1036G, p. 11)

Table 27: CONSUMER PRICE INDICES FOR PRINCIPAL PRODUCTS

(New Continental Index, 1976 = 100)

| Category | 1978 | Growth Rate % 1978-77 | 1979 | Growth Rate % 1979-78 | 1980 | Growth Rate % 1979-80 | 1981 | Growth Rate % 1980-81 | 1982 | Growth Rate % 1981-82 | 1983 | Growth Rate % 1982-83 | 1984 | Growth Rate % 1984-83 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Food and Beverages | 161.5 | 22.4 | 206.8 | 28.0 | 228.3 | 10.4 | 272.8 | 19.5 | 338.6 | 24.1 | 423.5 | 25.1 | 553.9 | 30.8 |
| Food | 156.3 | 18.3 | 199.2 | 27.4 | 229.3 | 15.1 | 273.9 | 19.5 | 340.5 | 24.3 | 431.7 | 26.8 | 568.8 | 31.8 |
| Cereals | 145.1 | 18.5 | 179.5 | 23.7 | 218.1 | 21.5 | 280.4 | 28.6 | 362.4 | 29.2 | 458.4 | 26.5 | 596.8 | 30.2 |
| Potatoes, Fruits and Vegetables | 142.5 | 1.6 | 176.7 | 24.0 | 187.8 | 6.3 | 255.2 | 35.9 | 318.6 | 24.8 | 339.2 | 6.4 | .. | .. |
| Meats | 161.7 | 17.9 | 225.6 | 39.5 | 271.6 | 20.4 | 286.4 | 5.4 | 345.5 | 20.6 | 492.1 | 42.4 | 612.8 | 24.5 |
| Fish | 175.5 | 34.8 | 223.2 | 27.2 | 248.5 | 11.3 | 324.9 | 30.7 | 393.2 | 21.0 | 480.7 | 22.3 | 598.2 | 24.4 |
| Milk and Eggs | 149.3 | 20.1 | 177.8 | 19.1 | 191.2 | 7.5 | 246.6 | 29.0 | 313.7 | 27.2 | 425.3 | 35.6 | .. | .. |
| Oils and Fats | 140.7 | 17.6 | 170.1 | 20.9 | 196.9 | 15.8 | 222.9 | 13.2 | 322.9 | 44.9 | 382.9 | 18.6 | 592.2 | 54.7 |
| Food consumed outside home | 156.6 | 26.4 | 194.3 | 24.1 | 224.0 | 15.3 | 268.2 | 19.7 | 328.5 | 22.5 | 408.1 | 24.2 | 509.8 | 24.9 |
| Others | 173.7 | 23.1 | 194.5 | 12.0 | 224.1 | 15.2 | 257.5 | 14.9 | 292.3 | 13.5 | 372.6 | 27.5 | .. | .. |
| Beverages | 220.7 | 70.8 | 294.1 | 33.3 | 216.8 | -26.3 | 259.9 | 19.9 | 316.8 | 21.9 | 329.9 | 4.1 | 383.0 | 16.1 |
| Clothes and Shoes | 141.8 | 19.5 | 177.4 | 25.1 | 238.4 | 34.4 | 287.3 | 20.5 | 332.1 | 15.6 | 397.8 | 19.8 | 494.9 | 24.4 |
| Clothes | 140.3 | 19.0 | 172.2 | 22.7 | 232.2 | 34.8 | 287.3 | 23.7 | 335.6 | 16.8 | 403.8 | 20.3 | 501.8 | 24.3 |
| Shoes | 149.3 | 21.7 | 203.5 | 36.3 | 270.0 | 32.7 | 287.1 | 6.3 | 314.4 | 9.5 | 367.6 | 16.9 | 459.7 | 25.1 |
| Household Expenditures 1/ | 156.6 | 23.8 | 177.1 | 13.1 | 223.7 | 26.3 | 269.3 | 20.4 | 323.5 | 20.1 | 417.3 | 29.0 | 558.3 | 33.8 |
| Acquisition of durable goods | 143.1 | 16.2 | 155.6 | 8.7 | 187.3 | 20.4 | 221.4 | 18.2 | 264.2 | 19.3 | 323.6 | 22.5 | 405.9 | 25.4 |
| Other expenses | 169.8 | 30.9 | 198.0 | 16.6 | 259.1 | 30.9 | 315.9 | 21.9 | 381.0 | 20.6 | 508.4 | 33.4 | .. | .. |
| Miscellaneous | 145.0 | 21.1 | 172.5 | 19.0 | 209.3 | 21.6 | 253.3 | 20.7 | 310.8 | 22.7 | 397.3 | 27.8 | 495.6 | 24.7 |
| Transportation | 148.5 | 19.3 | 177.3 | 19.4 | 226.0 | 27.5 | 282.2 | 24.9 | 363.9 | 29.0 | 483.8 | 32.9 | 593.8 | 22.7 |
| Others | 142.5 | 22.5 | 169.1 | 18.7 | 198.5 | 17.4 | 233.1 | 17.4 | 273.7 | 17.4 | 336.9 | 23.1 | .. | .. |
| TOTAL 2/ | 155.4 | 22.1 | 193.0 | 24.2 | 225.0 | 16.6 | 269.9 | 20.0 | 330.3 | 22.4 | 414.6 | 25.5 | 536.1 | 29.3 |

Source: National Institute of Statistics.

1/ Rent excluded.
2/ Because of difficulties in the past in measuring it, there is no rent component in the overall index. (Its weight would have been about 12 percent). Since rents are heavily controlled, the omission of this item results in an over estimate of the rate of inflation.

(1036G, p. 13)

Table 28: RATES OF CHANGE OF AVERAGE EARNINGS, 1973-1984

| | (Index 1973=100) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 1/ |
| **A) Nominal** | | | | | | | | | | |
| Agriculture | 135.2 | 172.4 | 196.8 | 228.5 | 265.1 | 323.4 | 380.0 | 442.3 | 539.2 | 630.9 |
| Manufacturing | 145.4 | 193.3 | 229.4 | 267.0 | 304.9 | 366.7 | 460.8 | 553.0 | 662.4 | 777.0 |
| Construction | 148.1 | 192.8 | 214.8 | 245.3 | 281.4 | 336.0 | 401.0 | 449.2 | 593.6 | 718.8 |
| Public Sector | -- | -- | -- | -- | -- | -- | -- | | | |
| **B) Real** | | | | | | | | | | |
| Agriculture | 105.7 | 111.9 | 108.1 | 98.5 | 93.6 | 92.0 | 92.7 | 89.9 | 86.3 | 80.4 |
| Manufacturing | 113.7 | 125.4 | 126.0 | 115.1 | 115.1 | 107.7 | 112.4 | 112.4 | 110.0 | 104.3 |
| Construction | 115.8 | 125.1 | 118.0 | 105.8 | 99.4 | 95.6 | 97.9 | 101.6 | 98.7 | 95.2 |
| Public Sector | -- | -- | -- | -- | -- | -- | -- | | | |

| | Annual Percentage Change | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
| **A) Nominal** | | | | | | | | | | | |
| Agriculture | 35.2 | 27.5 | 14.2 | 16.1 | 16.0 | 22.0 | 18.8 | 16.4 | 25.3 | 17.0 | 9.5 |
| Manufacturing | 45.4 | 32.9 | 13.7 | 16.4 | 14.2 | 20.3 | 22.0 | 20.0 | 19.8 | 17.3 | 17.3 |
| Construction | 48.1 | 30.2 | 11.4 | 14.2 | 14.7 | 19.4 | 25.7 | 24.5 | 22.3 | 21.1 | 14.5 |
| Public Sector | -- | -- | - | | 18.5 | 15.4 | 22.1 | 16.0 | 15.6 | 19.1 | 18.2 |
| **B) Real** | | | | | | | | | | | |
| Agriculture | 5.7 | 5.9 | 3.4 | -8.9 | -5.0 | -1.7 | 1.9 | 3.0 | 2.2 | -6.1 | .. |
| Manufacturing | 13.7 | 10.3 | 0.5 | -8.7 | -6.4 | -3.2 | 4.6 | 0.0 | -2.2 | -4.3 | -9.1 |
| Construction | 15.8 | 8.0 | -5.7 | -10.3 | -6.0 | 3.8 | 2.4 | 3.8 | -0.5 | -2.6 | .. |
| Public Sector | | - | -- | -- | -2.9 | -7.1 | 2.7 | -3.3 | -5.6 | -6.5 | .. |

Source: INE and Bank of Portugal.

(1036G, p. 29)

## Table 29: PORTUGAL - MAXIMUM INTEREST RATES (%)

| | 1972 1/ From Dec. 18 | 1975 From Dec. 19 | 1976 From Jul. 1 | 1977 From Feb. 28 | 1977 From Aug.26 | 1978 From May 6 | 1981 From Jul. 16 | 1982 From Apr.20 | 1983 From Mar.23 | 1983 From Aug.8 | 1984 June | 1985 January |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rediscount Rate | 4.0 | 6.5 | 6.5 | 8-12 | 13-18 | 18-23 | 18-23 | 19-24 | 23-28 | 25-30 | 25-30 | 25-30 |
| Deposit Rates | | | | | | | | | | | | |
| Demand Deposits of Individuals 2/ | 1-3 4/ | 1-4 | 1-4 | 1-4 | 1-4 | 1-4 | 1-4 | 1-4 | 1-4 | 1-4 | 1-4 6/ | 1.4 6/ |
| Time Deposits and Deposits at Notice | | | | | | | | | | | | |
| up to 90 days | 3.25 | 4.5 | 4.5 | 5 | 6 | 8 | 10 | 11 | 15.5 | 17.5 | 17.5 6/ | 16.5 6/ |
| 91-180 days | 4.25 | 6.5 | 6.5 | 7.5 | 9 | 12 | 14 | 15 | 19.5 | 21.5 | 21.5 6/ | 20.5 6/ |
| 181 days-1 year | 5.25 | 9.5 | 9.5 | 11 | 15 | 19 | 19.5 | 21.5 | 26 | 28 | 28.0 | 27.0 |
| more than 1 year | 5.75 and 6.75 5/ | 10.5 | 10.5 | 12 | 16 | 20 | 21 | 23 | 28 | 30 | 30.0 6/ | 29.0 6/ |
| Savings Deposits | | | | | | | | | | | | |
| 1st year | | 10.5 | 10.5 | 12 | 16 | 20 | 21 | 23 | 28 | 30 | 30.0 6/ | 29.0 6/ |
| 2nd year | | 10.75 | 10.75 | 12.75 | 16.25 | 20.25 | 21.25 | 23.25 | 28.25 | 30.25 | 30.25 6/ | 29.75 6/ |
| 3rd year | | 11 | 11 | 12.5 | 16.5 | 20.5 | 21.5 | 23.5 | 28.5 | 30.5 | 30.5 6/ | 29.5 6/ |
| 4th year | | 11.25 | 11.25 | 12.75 | 16.75 | 20.75 | 21.75 | 23.75 | 28.75 | 30.75 | 30.75 6/ | 29.75 6/ |
| Subsequent years | | 11.5 | 11.5 | 13 | 17 | 21 | 22 | 24 | 29 | 31 | 31.0 6/ | 30.0 6/ |
| Loan Rates 3/ | | | | | | | | | | | | |
| up to 90 days | ) | 7.75 | 8.75 | 10.25 | 14.75 | 18.25 | 19 and 21 | 23 | 27 | 29.5 | 28.5 | 28.5 |
| 91-180 days | ;5.75 | 8.25 | 9.25 | 10.75 | 15.25 | 18.75 | 19.5 and 21.5 | 23.5 | 27.5 | 30 | 29.0 | 29.0 |
| 181 days-1 year | 6.5 | 9.5 | 10.5 | 12 | 16.5 | 20 | 20 and 22 | 24 | 28 | 30.5 | 29.5 | 29.5 |
| more than 1-2 years | 7.25 | 10.75 | 11.25 | 12.75 | 17 | 20.5 | 20.5 and 22.5 | 24.5 | 28.5 | 31 | 31.0 | 31.0 |
| more than 2-5 years | 7.5-7.75 | 11.75 | 12.25 | 13.75 | 17.75 | 21.25 | 21 and 23 | 25 | 29 | 31.5 | 31.5 | 31.5 |
| more than 5 years | 8-8.25 | 12.25-12.75 | 12.75-13.25 | 14.25-14.75 | 18.75 | 22.25 | 22 and 24 | 26 | 30 | 32.5 | 32.5 | 32.5 |

Source: Bank of Portugal

1/ Changes made between December 1972 and December 1975 are not shown in this table.
2/ The precise rate depends partly on the level of the deposit.
3/ Lower rates prevail for preferred types of credit, such as for agriculture, exports, housing, and labor intensive and export oriented investments. The types of projects which receive subsidies have changed through time. An interest surcharge is applied on loans for the purchase of consumer durables. The subsidies on interest rates were originally introduced in 1977 when interest rates began to rise and the investment climate was unfavorable.
4/ Including also "Deposits at Notice" up to 15 days.
5/ Over 2 years.
6/ Rates have not been changed officially but banks have greater leeway in setting rates.

(1036G, p. 30)

**Table 30: INDEX OF INDUSTRIAL PRODUCTION, 1970-1984**
**(1970 = 100) 1/**

| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Food products | 113.1 | 124.3 | 131.8 | 136.5 | 163.5 | 162.7 | 177.6 | 189.3 | 191.6 | 199.9 | 207.4 | 200.5 | 210.7 | 196.8 |
| Beverages | 109.3 | 118.7 | 159.7 | 189.4 | 207.5 | 206.4 | 213.6 | 261.4 | 267.8 | 256.6 | 282.6 | 269.9 | 269.6 | 250.0 |
| Tobacco | 101.6 | 106.2 | 120.2 | 132.9 | 140.6 | 142.2 | 148.1 | 153.5 | 151.4 | 148.9 | 153.2 | 167.4 | 177.7 | 166.4 |
| Textiles and clothing | 100.4 | 120.0 | 139.4 | 147.0 | 115.5 | 123.7 | 120.2 | 122.5 | 142.9 | 155.0 | 150.6 | 154.3 | 159.0 | 164.5 |
| Leather manufactures 2/ | 89.6 | 89.8 | 86.3 | 72.2 | 76.0 | 85.0 | 90.2 | 98.6 | 99.3 | 102.8 | 105.4 | 115.1 | 127.0 | 122.3 |
| Wood and cork | 100.4 | 120.3 | 123.3 | 125.2 | 127.2 | 107.7 | 123.2 | 124.9 | 136.0 | 139.9 | 134.8 | 129.5 | 147.8 | 142.4 |
| Paper and pulp | 109.1 | 118.3 | 116.3 | 143.4 | 136.3 | 138.9 | 159.6 | 154.6 | 176.9 | 197.4 | 207.9 | 212.4 | 231.4 | 245.7 |
| Chemicals | 108.2 | 117.7 | 132.3 | 132.8 | 125.1 | 144.2 | 158.3 | 171.1 | 190.1 | 189.4 | 185.8 | 207.7 | 199.3 | 212.6 |
| Petroleum products and coal | 103.8 | 118.2 | 116.1 | 153.1 | 144.8 | 149.2 | 151.9 | 160.8 | 199.7 | 205.0 | 214.4 | 206.3 | 217.7 | 194.2 |
| Rubber products | 107.2 | 112.7 | 118.3 | 118.4 | 109.2 | 99.9 | 124.5 | 127.5 | 127.2 | 129.4 | 134.9 | 120.8 | 131.7 | 139.8 |
| Plastics | 97.3 | 118.3 | 151.4 | 145.6 | 110.8 | 159.1 | 195.8 | 203.9 | 232.1 | 256.4 | 249.0 | 269.9 | 245.8 | 238.7 |
| Non-metallic minerals | 101.5 | 121.9 | 136.6 | 139.7 | 136.3 | 148.5 | 170.2 | 187.2 | 187.5 | 206.2 | 218.6 | 227.5 | 236.4 | 238.0 |
| Base metals | 115.7 | 151.4 | 163.6 | 134.0 | 103.5 | 124.8 | 162.7 | 201.1 | 197.0 | 220.8 | 211.3 | 248.5 | 225.1 | 237.5 |
| Metal products | 103.3 | 115.8 | 114.4 | 122.0 | 116.2 | 120.5 | 143.4 | 158.4 | 149.2 | 169.0 | 158.9 | 169.3 | 141.5 | 146.7 |
| Non-electrical machinery | 127.1 | 158.1 | 203.4 | 171.0 | 137.9 | 114.4 | 147.8 | 142.0 | 152.6 | 159.3 | 181.7 | 221.8 | 200.4 | 150.9 |
| Electrical machinery | 113.2 | 101.5 | 130.1 | 139.3 | 119.5 | 110.8 | 136.3 | 154.2 | 171.3 | 198.9 | 201.9 | 230.2 | 236.4 | 215.6 |
| Transport equipment | 113.9 | 135.3 | 136.9 | 136.0 | 120.6 | 137.1 | 174.0 | 160.8 | 148.4 | 192.8 | 211.2 | 204.2 | 152.4 | 122.6 |
| TOTAL | 108.2 | 122.7 | 137.2 | 139.9 | 129.9 | 139.4 | 155.8 | 167.2 | 177.8 | 189.3 | 192.1 | 200.7 | 200.3 | 199.1 |

Source: INE.

1/ The indices shown are calculated as the average for each year, of the twelve monthly indices.
2/ Excludes footwear.

(1036G, p. 14)

Table 31: CAPACITY UTILIZATION IN MANUFACTURING INDUSTRIES

(Annual Averages Percent)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|
| Consumer Goods | 74 | 75 | 77 | 76 | 75 | 73 |
| Intermediate Goods | 78 | 77 | 78 | 76 | 75 | 70 |
| Investment Goods | 79 | 78 | 82 | 80 | 75 | 71 |
| Food | 74 | 73 | 74 | 71 | 72 | 72 |
| Tobacco | 94 | 93 | 83 | 85 | 82 | 83 |
| Beverages | 66 | 72 | 70 | 73 | 70 | 70 |
| Textiles | 76 | 81 | 82 | 73 | 78 | 78 |
| Clothing | 74 | 80 | 80 | 79 | 81 | 81 |
| Footwear | 79 | 85 | 80 | 80 | 81 | 82 |
| Wood and Cork | 76 | 78 | 80 | 74 | 74 | 75 |
| Paper | 86 | 88 | 89 | 90 | 89 | 87 |
| Rubber | 84 | 85 | 85 | 85 | 81 | 80 |
| Industrial Chemicals | 81 | 84 | 78 | 76 | 77 | 72 |
| Other Chemicals | 77 | 77 | 78 | 77 | 74 | 76 |
| Petroleum Refineries | 68 | 54 | 46 | 48 | 53 | 48 |
| Non-metallic Minerals | 84 | 82 | 83 | 84 | 81 | 79 |
| Basic Metals | 84 | 82 | 86 | 83 | 86 | 80 |
| Metal Products | 77 | 74 | 78 | 78 | 76 | 71 |
| Non-electric Machinery | 82 | 80 | 81 | 81 | 77 | 74 |
| Electrical Machinery | 87 | 88 | 88 | 87 | 86 | 83 |
| Transport Equipment | 79 | 78 | 83 | 77 | 71 | 66 |
| TOTAL | 78 | 79 | 79 | 78 | 77 | 76 |

Source: INE.

(1036G, p. 31)

Table 32: AREA PLANTED IN MAJOR CROPS, 1955-1983
('000 hectares)

| Year | Wheat | Rye | Rice | Maize | Barley | Oats | Potatoes | Pulses |
|---|---|---|---|---|---|---|---|---|
| 1955 | 806 | 254 | 38 | 471 | 151 | 301 | 89 | 450 |
| 1956 | 786 | 254 | 39 | 487 | 154 | 302 | 89 | 439 |
| 1957 | 814 | 255 | 37 | 483 | 155 | 309 | 90 | 433 |
| 1958 | 812 | 253 | 35 | 479 | 152 | 303 | 84 | 432 |
| 1959 | 847 | 272 | 36 | 481 | 137 | 304 | 89 | 464 |
| 1960 | 738 | 269 | 37 | 468 | 120 | 302 | 92 | 464 |
| 1961 | 658 | 299 | 38 | 495 | 127 | 268 | 108 | 570 |
| 1962 | 728 | 309 | 37 | 498 | 134 | 288 | 102 | 571 |
| 1963 | 740 | 319 | 37 | 488 | 126 | 296 | 109 | 573 |
| 1964 | 685 | 312 | 38 | 496 | 110 | 242 | 109 | 572 |
| 1965 | 628 | 316 | 35 | 484 | 126 | 271 | 101 | 557 |
| 1966 | 523 | 282 | 35 | 473 | 111 | 218 | 101 | 543 |
| 1967 | 587 | 239 | 32 | 486 | 107 | 226 | 117 | 507 |
| 1968 | 516 | 230 | 33 | 434 | 115 | 190 | 105 | 484 |
| 1969 | 473 | 228 | 37 | 427 | 100 | 171 | 107 | 469 |
| 1970 | 494 | 226 | 42 | 418 | 88 | 152 | 113 | 447 |
| 1971 | 509 | 225 | 42 | 393 | 92 | 168 | 110 | 413 |
| 1972 | 489 | 226 | 43 | 390 | 89 | 168 | 112 | 405 |
| 1973 | 442 | 207 | 39 | 372 | 81 | 157 | 109 | 388 |
| 1974 | 462 | 210 | 33 | 360 | 94 | 171 | 112 | 383 |
| 1975 | 462 | 211 | 30 | 372 | 101 | 207 | 107 | 401 |
| 1976 | 532 | 219 | 22 | 349 | 143 | 215 | 116 | 353 |
| 1977 | 259 | 190 | 34 | 361 | 67 | 145 | 125 | 329 |
| 1978 | 355 | 213 | 33 | 369 | 86 | 177 | 119 | 358 |
| 1979 | 281 | 209 | 35 | 376 | 72 | 159 | 108 | 330 |
| 1980 | 300 | 213 | 35 | 390 | 74 | 177 | 116 | 339 |
| 1981 | 340 | 199 | 25 | 348 | 74 | 160 | 108 | 301 |
| 1982 1/ | 357 | 191 | - | 0 | 85 | 176 | 122 | 303 |
| 1983 1/ | 400 | 183 | - | 0 | 98 | 194 | 120 | 298 |
| 1963-75 Average | 684 | 316 | 37 | 489 | 121 | 270 | 106 | 567 |
| 1976-80 Average | 354 | 207 | 32 | 366 | 89 | 174 | 116 | 343 |
| Change (%) | -47 | -37 | -8 | -24 | -26 | -38 | +5 | -31 |

Source: INE

1/ Preliminary.

(1036G, p. 32)

Table 33: YIELDS OF MAJOR CROPS, 1955-1983
(tons/ha)

| Year | Wheat | Rye | Rice | Maize | Barley | Oats |
|---|---|---|---|---|---|---|
| 1955 | .63 | .61 | 4.8 | .93 | .48 | .27 |
| 1956 | .71 | .67 | 4.1 | 1.00 | .51 | .32 |
| 1957 | .98 | .79 | 4.4 | .81 | .65 | .42 |
| 1958 | 1.00 | .83 | 4.3 | .90 | .67 | .47 |
| 1959 | .74 | .64 | 4.5 | 1.00 | .48 | .29 |
| 1960 | .67 | .51 | 4.0 | 1.00 | .42 | .20 |
| 1961 | .65 | .40 | 4.7 | 1.28 | .41 | .24 |
| 1962 | .89 | .55 | 4.7 | 1.19 | .54 | .36 |
| 1963 | .80 | .68 | 4.5 | 1.07 | .49 | .33 |
| 1964 | .69 | .54 | 4.8 | 1.20 | .41 | .28 |
| 1965 | .98 | .66 | 4.0 | .95 | .57 | .36 |
| 1966 | .60 | .51 | 4.4 | 1.2 | .44 | .29 |
| 1967 | 1.09 | .73 | 4.6 | 1.3 | .69 | .49 |
| 1968 | 1.45 | .87 | 4.5 | 1.3 | .81 | .68 |
| 1969 | .96 | .73 | 4.8 | 1.3 | .54 | .46 |
| 1970 | .11 | .69 | 4.6 | 1.4 | .61 | .48 |
| 1971 | 1.56 | .75 | 3.9 | 1.3 | .92 | .74 |
| 1972 | 1.24 | .73 | 3.8 | 1.3 | .70 | .50 |
| 1973 | 1.17 | .65 | 4.3 | 1.4 | .70 | .50 |
| 1974 | 1.16 | .68 | 3.9 | 1.4 | .79 | .58 |
| 1975 | 1.30 | .69 | 4.4 | 1.2 | .86 | .58 |
| 1976 | 1.29 | .75 | 4.4 | 1.1 | .82 | .59 |
| 1977 | .87 | .54 | 3.0 | 1.2 | .59 | .41 |
| 1978 | .73 | .58 | 4.1 | 1.2 | .51 | .36 |
| 1979 | .88 | .58 | 4.2 | 1.2 | .57 | .44 |
| 1980 | 1.43 | .64 | 4.5 | 1.2 | .67 | .53 |
| 1981 | .93 | .63 | 4.4 | 1.08 | .55 | .45 |
| 1982 1/ | 1.40 | .57 | - | 1.19 | .66 | .56 |
| 1983 1/ | .96 | .55 | - | 1.20 | .51 | .43 |
| EEC-10 1978-80 Average | 4.59 | 36.64 | 5.0 2/ | 5.76 3/ | 4.09 | 3.57 |

Source: OECD and INE.

1/ Preliminary.
2/ France, Italy and Greece only.
3/ France, Italy, Germany, Belgium, Netherlands and Greece only.

(1036G, p. 33)

Table 34: INDICES OF AGRICULTURAL PRODUCTION

| Year | Total Agriculture | Crops | Livestock | Forest |
|---|---|---|---|---|
| A. Old Index of Agricultural Production (1963-65 = 100) | | | | |
| 1963-65 | 100 | 100 | 100 | 100 |
| 1966 | 93 | 77 | 116 | 99 |
| 1967 | 103 | 91 | 115 | 96 |
| 1968 | 80 | 46 | 122 | 106 |
| 1969 | 104 | 84 | 135 | 103 |
| 1970 | 107 | 114 | 101 | 102 |
| 1971 | 102 | 108 | 89 | 106 |
| 1972 | 101 | 104 | 94 | 109 |
| 1973 | 106 | 114 | 97 | 100 |
| 1974 | 111 | 101 | 125 | 111 |
| 1975 | 110 | 99 | 136 | 94 |
| 1976 | 97 | 74 | 130 | 106 |
| B. New Index of Agricultural Production (1976 = 100) | | | | |
| 1977 | 102.2 | 95.2 | 114.7 | |
| 1978 | 106.2 | 95.4 | 125.8 | |
| 1979 | 120.4 | 117.2 | 126.7 | |
| 1980 | 119.0 | 101.9 | 149.6 | |
| 1981 | 119.4 | 80.0 | 168.4 | |
| 1982 | 127.2 | 99.3 | 161.8 | |
| 1983 1/ | 120.3 | 97.0 | 147.4 | |

Source: Bank of Portugal, Annual Reports.

1/ Estimate.

(1036G, p. 34)

**Table 35: OUTPUT OF SELECTED AGRICULTURAL PRODUCTS, 1970-1983**

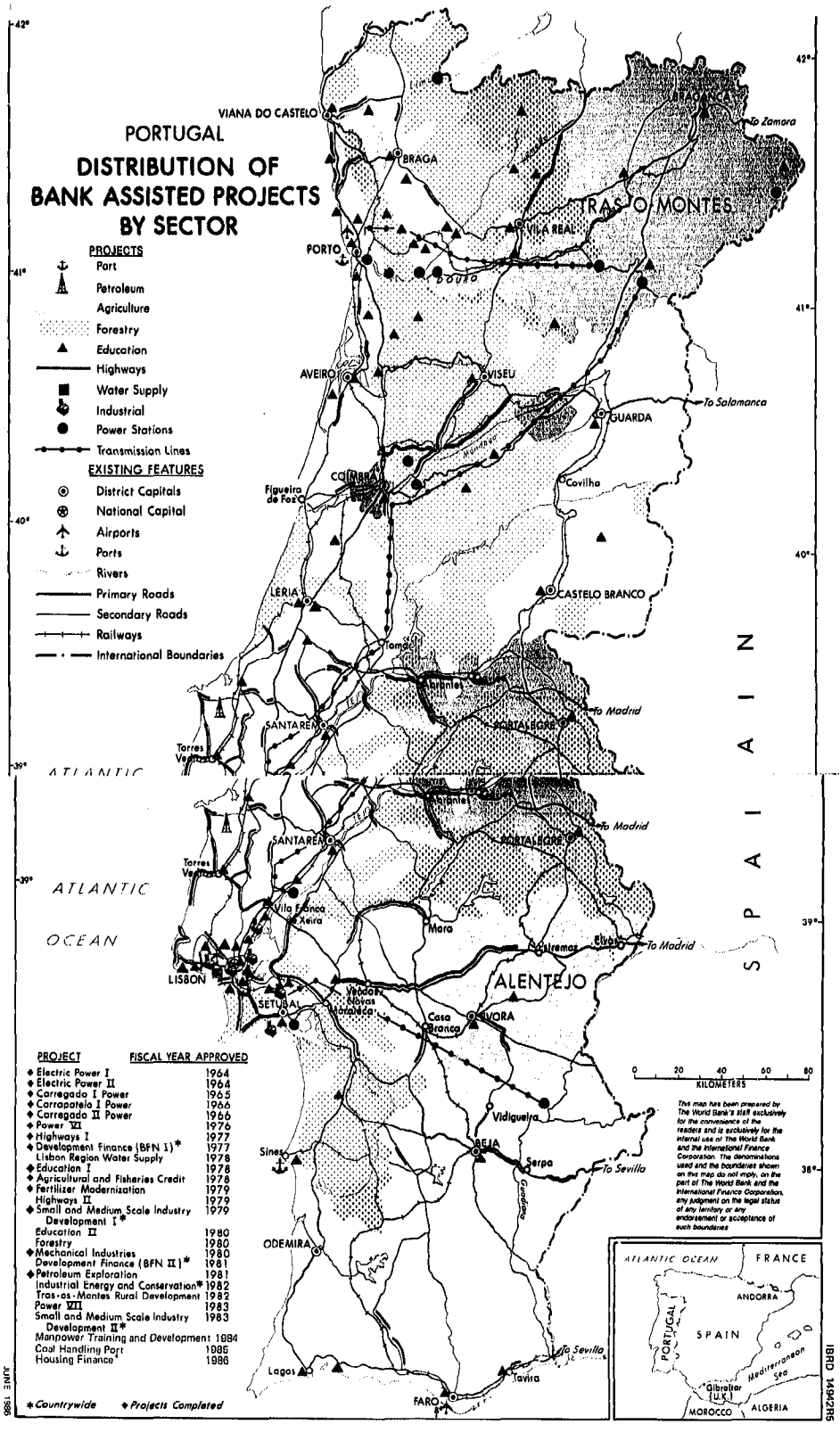
| | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 1/ | 1983 a/ | Annual Growth Rate 2/ 1970-82 | Annual Growth Rate 2/ 1970-83 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Thousand tons) | | | | | | | | | | | | | | % | |
| Wheat | 548.2 | 793.7 | 604.3 | 516.9 | 533.6 | 601.2 | 685.7 | 224.3 | 259.9 | 247.8 | 429.5 | 315.2 | 445.0 | 310.0 | -6.1 | 6.1 |
| Maize | 581.4 | 526.4 | 518.5 | 508.6 | 405.5 | 451.3 | 378.5 | 441.9 | 449.4 | 461.4 | 489.0 | 377.0 | 422.0 | 430.0 | -2.4 | -2.1 |
| Rye | 157.0 | 168.5 | 164.4 | 133.8 | 142.8 | 145.9 | 164.8 | 102.7 | 122.6 | 120.2 | 138.0 | 126.0 | 118.0 | 113.0 | -2.6 | -1.6 |
| Oats | 72.3 | 125.0 | 84.8 | 79.2 | 99.1 | 120.7 | 126.7 | 5[illegible].5 | 64.0 | 69.5 | 96.0 | 72.0 | 82.0 | 64.0 | -2.0 | -0.9 |
| Barley | 54.0 | 84.5 | 62.3 | 56.6 | 74.5 | 86.5 | 116.8 | [illegible].4 | 43.9 | 41.2 | 54.0 | 41.0 | 48.0 | 42.0 | -3.9 | -0.1 |
| Rice | 194.7 | 161.6 | 163.9 | 167.6 | 129.5 | 132.7 | 97.2 | 101.7 | 134.9 | 145.3 | 154.8 | 112.0 | 143.0 | .. | -2.6 | -1.2 5/ |
| Sunflower | 1.3 | 1.6 | 1.6 | 1.6 | 2.9 | 7.5 | 9.2 | 6.9 | 14.6 | 12.2 | 17.0 | 15.4 | 20.0 | 12.5 | 23.9 | 1.8 |
| Safflower | 11.4 | 21.9 | 14.9 | 10.9 | 7.2 | 12.4 | 8.0 | 2.5 | 3.5 | 1.3 | 2.4 | 0.3 | 1.0 | .. | -19.7 | -31.0 5/ |
| Chickpea | 19.6 | 16.3 | 14.4 | 15.4 | 14.2 | 15.0 | 14.7 | 11.2 | 14.9 | 13.3 | 15.0 | 8.0 | 7.0 | 6.0 | -4.8 | -18.4 |
| Dry Bean | 54.3 | 55.7 | 50.7 | 50.4 | 39.6 | 39.3 | 31.7 | 37.7 | 41.9 | 38.4 | 42.0 | 30.0 | 33.0 | 37.0 | -4.2 | -4.0 |
| Broad Bean | 54.3 | 55.7 | 50.7 | 50.4 | 39.6 | 39.3 | 31.7 | 37.7 | 41.9 | 38.4 | 42.0 | 30.0 | 33.0 | 15.0 | -4.2 | -4.0 |
| Potato | 1,220.0 | 1,123.9 | 1,138.9 | 1,086.2 | 1,114.5 | 1,012.7 | 918.1 | 1,200.6 | 1,127.8 | 1,020.6 | 1,188.0 | 829.0 | 1,006.0 | 904.0 | -1.4 | -4.3 |
| Tomato (for industry) | 691.0 | 622.3 | 855.7 | 924.2 | 714.4 | 826.1 | 493.2 | 665.8 | 631.6 | 553.2 | 457.0 | 342.7 | 373.5 | 388.5 | -4.6 | -10.6 |
| Wine 3/ | 11,327.6 | 8,834.9 | 8,196.0 | 11,086.0 | 13,872.5 | 8,773.3 | 9,252.9 | 6,586.9 | 6,362.0 | 14,078.2 | 10,035.5 | 8,819.0 | 9,738.0 | 7,700.0 | -0.6 | -9.8 |
| Olive Oil 3/ | 734.8 | 457.8 | 588.2 | 457.5 | 525.6 | 538.9 | 391.5 | 327.3 | 439.0 | 624.8 | 348.0 | 251.0 | 384.0 | 552.0 | -5.3 | -1.9 |
| Cork | 132.3 | 151.3 | 192.6 | 188.4 | 162.2 | 133.3 | 100.5 | 170.3 | 155.4 | 103.3 | 81.8 | .. | .. | .. | -4.1 4/ | |
| Oranges | | | | | 114.3 | 120.0 | 104.4 | 116.0 | 97.0 | 114.0 | 91.5 | 73.2 | 67.6 | 78.4 | | |
| Apples | | | | | 122.7 | 140.5 | 154.6 | 94.5 | 117.0 | 107.0 | 127.6 | 97.0 | 105.0 | 108.0 | | |

1/ Preliminary
2/ Percent annual compound ($y = ar^x$)
3/ Thousand hectoliters.
4/ Growth rate, 1970-80
5/ Growth rate, 1978-82

Source: INE, MACP Planning Office and USDA.

(1036G, p. 35)

# PORTUGAL
# DISTRIBUTION OF BANK ASSISTED PROJECTS BY SECTOR




| PROJECT | FISCAL YEAR APPROVED |
|---|---|
| ◆ Electric Power I | 1964 |
| ◆ Electric Power II | 1964 |
| ◆ Carregado I Power | 1965 |
| ◆ Carrapatelo I Power | 1966 |
| ◆ Carregado II Power | 1966 |
| ◆ Power VI | 1976 |
| ◆ Highways I | 1977 |
| ◆ Development Finance (BFN I)* | 1977 |
| Lisbon Region Water Supply | 1978 |
| ◆ Education I | 1978 |
| ◆ Agricultural and Fisheries Credit | 1978 |
| ◆ Fertilizer Modernization | 1979 |
| Highways II | 1979 |
| ◆ Small and Medium Scale Industry Development I* | 1979 |
| Education II | 1980 |
| Forestry | 1980 |
| ◆ Mechanical Industries | 1980 |
| Development Finance (BFN II)* | 1981 |
| ◆ Petroleum Exploration | 1981 |
| Industrial Energy and Conservation* | 1982 |
| Tras-os-Montes Rural Development | 1982 |
| Power VII | 1983 |
| Small and Medium Scale Industry Development II* | 1983 |
| Manpower Training and Development | 1984 |
| Coal Handling Port | 1985 |
| Housing Finance* | 1986 |

* Countrywide ◆ Projects Completed

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IBRD 14842R5