Report No. 1408a-PO

Portugal: An Economy in Transition

March 16, 1977

Europe, Middle East and North Africa Region

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CURRENCY EQUIVALENTS

Until 1971	1 US dollar	=	28.75 Escudos
	1 Escudo	=	0.035 US dollar
1972	1 US dollar	=	27.25 Escudos
	1 Escudo	=	0.037 US dollar
1973	1 US dollar	=	24.67 Escudos
	1 Escudo	=	0.041 US dollar
1974	1 US dollar	=	25.41 Escudos
	1 Escudo	=	0.039 US dollar
1975	1 US dollar	=	25.44 Escudos
	1 Escudo	=	0.039 US dollar
1976	1 US dollar	=	30.0 Escudos
	1 Escudo	=	0.033 US dollar
1977 (Feb. 26)	1 US dollar	=	38.73 Escudos
	1 Escudo	=	0.026 US dollar

FISCAL YEAR

January - December

PORTUGAL:

AN ECONOMY IN TRANSITION

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Foreword

This report is based on the findings of a mission which visited Portugal in July-August, 1976. The mission included Messrs. Fateh M. Chaudhri (Chief), Surendra K. Agarwal (General Economist), C.L. Germanacos (Education Consultant), Ian A. Harvey (Industrial Economist), and F. Javier Tellez (Agriculture Economist). The mission benefitted substantially from the contribution made by Mr. Basil G. Kavalsky, Senior Economist, Country Programs I, EMENA. A draft report was discussed with Government officials in Lisbon during January 11-22, 1977, by a Bank team consisting of Messrs. Paijmans, Kavalsky and Fateh Chaudhri, and takes account of developments up to that time.

On February 26, 1976, the Portuguese Government announced a comprehensive economic policy package, including a devaluation of 15 percent, an increase in the discount rate from 6.5 percent at 8 percent, establishment of the maximum commercial banks lending rate at about 15 percent, further expansion of the list of items subject to a 60 percent import surcharge and an introduction of temporary quantitative limit on certain consumer imports. Other important measures included in this package aim at: restricting food subsidies to some basic commodities in the consumer basket such as bread, rice, sugar, milk, frozen fish and beef; increasing the controlled maximum prices of some commodities and postal as well as telephone subscription rates. The government has also announced a scheme for 'provisional' compensation of nationalized properties. The impact of these measures in the policy package will be reflected in other bank documents subsequent to this report.

COUNTRY DATA - PORTUGAL

AREA
92,072 km^2

POPULATION
9.64 million (end-1975)
Natural growth: 0.9 p.a.
Actual growth;1960-75: 0.45

DENSITY
105 per km^2

PER CAPITA INCOME (1975): $1610

POPULATION CHARACTERISTICS 1975

Crude Birth Rate (per 1,000)	18.3
Crude Death Rate (per 1,000)	10.6
Infant Mortality (per 1,000 live births)	50

HEALTH

Population per physician	896
Population per hospital bed	160

NUTRITION (1970)

Per capita calorie intake as % of requirements	118
Per capita protein intake (grams per day)	85

EDUCATION (1973)

Adult literacy rate %	65
Primary school enrollment %	100

LAND OWNERSHIP (1968)
(in % of total)

	Owners	Land holding
up to 4 ha.	78	15
4-50 ha.	21	34
over 50 ha.	1	51

GROSS NATIONAL PRODUCT IN 1975-
(current prices and current rate)

ANNUAL RATES OF GROWTH (%. constant 1970 prices)

	US$ Mln.	%	1969-73	1973	1974	1975 P/
GNP at Market Prices	15,601	100	7.5	10.3	2.7	-5.5
Private and Public Consumption	14,961	96	6.1	10.8	8.8	5.2
Gross National Saving	641	4	14.1	8.2	-21.7	-65.5
Gross Domestic Investment	1,502	10	11.7	11.9	9.8	-58.0
Current Account Deficit	877	6	--	--	--	--
Exports of Goods and NFS	2,826	18	8.5	8.4	-11.8	-20.7
Imports of Goods and NFS	4,607	30	9.2	10.6	9.3	-24.6
GDP at Factor Cost	13,514	100	6.9	11.1	5.4	-2.7
of which:						
Agriculture	2,402	18	-0.8	5.9	3.4	0.2
Industry	5,786	43	10.2	13.9	5.4	-6.4
Services	5,326	39	6.6	9.6	6.0	0.6

LABOR FORCE AND PRODUCTIVITY IN 1975

	Labor Force 1,000	%	V. A. Per Worker US $	%
Agriculture	838	28	2,865	64
Industry	1,046	35	5,539	124
Services	1,149	37	4,632	104
Total/Average	3,033	100	4,457	100

GOVERNMENT FINANCE
(billion escudos)

	1972	1973	1974	1975 P/	1975 % of GNP
Current Receipts	32.4	39.0	45.9	49.6	(12.5)
Current Expenditures	29.3	35.2	46.1	52.0	(13.1)
Current Surplus/Deficit (-)	3.1	3.8	0.2	-2.4	(-0.6)
Capital Expenditures	7.7	9.5	13.1	19.1	(4.8)
Other Items (Net)	-1.1	2.0	3.3	-5.6	---
Overall Deficit	-5.5	-3.7	-9.6	-27.1	(-6.8)

COUNTRY DATA - PORTUGAL (Cont'd)

MONEY, CREDIT, WAGES AND PRICES	End 1976 Bil. escudos	Annual Percentage Increase 1972	1973	1974	1975	1976
Money and Quasi-money	453	20.6	23.4	13.6	12.6	17.7
of which: currency	108	13.1	6.0	82.5	57.1	-1.8
sight deposits	142	19.5	35.3	-11.0	4.1	21.4
time deposits	203	25.2	15.9	17.7	Nil	28.5
Bank Credit	454	24.0	30.1	21.8	19.0	26.1
of which: private sector	357	23.0	32.6	17.7	7.6	20.6
public sector a/	97	49.1	-23.6	—	137.0	51.6
Wages (Lisbon)		8.5	11.8	32.3	18.7	—
Wholesale Prices (Lisbon)		5.9	11.1	28.2	14.5	—
Consumer Prices (Lisbon)		10.7	12.9	25.1	15.2	21.6

BALANCE OF PAYMENTS

	1971	1972	1973	1974	1975
	(------	US$ Mi'''--		-------)	
Exports, fob	987.8	1,225.7	1,740.2	2,192.1	1,886.8
Imports, fob of	1,638.3	1,981.7	2,672.1	4,175.5	3,518.1
which: oil		122.1	154.7	531.3	572.2
Trade Deficit	-650.5	-756.0	-931.9	-1,983.4	-1,631.3
Tourism, Receipts	212.2	260.6	320.2	513.2	373.4
Other NFS, net	-121.7	-77.1	-252.9	-587.6	-534.6
Factor Income, net	678.3	895.4	1,182.4	1,243.2	915.9
Current Balance	118.3	322.9	317.8	-814.6	-876.6
MLT Capital, net	83.4	29.4	-52.7	196.8 e/	-173.0 e/
of which: direct investment	41.7	66.1	56.7		
loans	41.7	-36.7	-109.4		
ST Capital and Errors and Omissions	146.1	11.0	186.5	-4.0 e/	118.0 e/
Changes in Net Reserves (- = increase)	-347.8	-341.3	-451.6	621.8	931.6
Official Reserves, Gross End of year	1,881.7	2,326.9	2,946.9	2,239.3	1,627.4
of which: gold	946.1	1,020.2	1,203.9	1,153.1	1,222.5
foreign exchange	907.8	1,277.1	1,710.6	1,054.7	397.0

MERCHANDISE EXPORTS, 1974

	US$ Million	Percent
Agricultural and Forestry Products	600	27
Textiles and Footwear	636	29
Machinery and Equipment	237	11
Chemical and Paper Products	307	14
Others	412	19
Total	2,192	100

EXTERNAL DEBT, June 30, 1976
(Including Undisbursed)

Public Debt	US$929 million
Debt Service Payments, 1975 e/	US$158 million
Debt Service Ratio, 1975 e/ (goods, NFS and FS)	5.5 percent

IBRD LENDING, December 31, 1974

	US$ mln.
Total Loans Outstanding and Disbursed	57.5
Principal Repayments	15.4
Effective Loans Held by Bank	42.1

RATES OF EXCHANGE

Through Dec. 1971	US$1.00 = Esc. 28.75
Jan. 1972 - Feb. 1973	US$1.00 = Esc. 27.25
Feb. 1973 - Jan. 1974	US$1.00 = Esc. 24.67

The exchange rate has been floating since January 22, 1974.
The average rate during 1974 and 1975 was US$1.00 = Esc. 25.41 and Esc. 25.44 respectively

e/ Estimated

p/ Provisional

a/ Includes claims on non-monetary financial Institutions

February 28, 1977
EMENA REGION

SUMMARY AND CONCLUSIONS

i. On April 25, 1974, the Portuguese army ousted the Government of Dr. Marcello Caetano. This brought to an end nearly half a century during which Portugal had been ruled by the philosophy and methods of Dr. Antonio Salazar. Salazar's approach had been born out of the chaos of the period between the fall of the monarchy in 1910 and the establishment of a military dictatorship in 1926. A central element of Government policy between 1926 and 1974 was the retention of Portugal's colonies. Keeping control of colonies with a total land area 23 times the size of Portugal itself, became an increasing burden in the sixties with the rise of revolutionary movements in Angola, Mozambique and Guinea-Bissau. The regime's colonial policy became increasingly unpopular in Portugal and within the Portuguese army, and it also alienated the international community.

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ii. The revolution of 1974 had three broad objectives: first, to end the colonial wars and give independence to the colonies; second, to establish a democratic society and restore civil liberties; and third, to wrest economic power from the groups which dominated the pre-revolution period and to raise the standard of living of workers and small farmers as quickly as possible. The first two objectives were achieved within a remarkably short period of two years, and the third objective of redistributing the ownership of resources and the income derived from them became a dominant theme with the various Governments following the revolution of 1974.

Past Performance

iii. The five years preceding the revolution of April 1974, were years of rapid growth for Portugal. GDP increased at an average rate of 7 percent per annum with industry and construction growing at 10 percent and 12.5 percent respectively. Investment levels were high--21 percent of GNP on average during the period. Foreign investment was attracted to Portugal by the low labor costs, substantial incentives to industry, a political climate of apparent stability, and support for the private sector. The rapid growth in western Europe during the period contributed to an increase of 9 percent per annum in Portugal's exports (though nearly 20 percent of the total went to the colonies), while the balance of payments also benefited from large numbers of tourists and the remittances from the huge migrant labor force of Portuguese in northern Europe. By 1974, migrants totaled over one million, or the equivalent of one-third of Portugal's labor force. As a result, despite the costs of maintaining a large colonial army, the balance of payments showed substantial surpluses, with accumulated foreign exchange reserves reaching the high level of $1.7 billion and a stock of gold of about 28 million ounces, at end 1973.

iv. Yet the rapid growth concealed a number of fundamental weaknesses. Value added in agriculture in 1973 was about 3.4 percent below the 1968 level partly as a result of the emphasis given to industrialization and the exodus of the rural labor force. The heavy protection given to domestic manufacturers, together with easy access to credit at low interest rates, boosted private sector profits and savings, but at the expense of equitable income distribution. By 1973, the bottom 50 percent of households were receiving only 14 percent of total income while the top 5 percent received 40 percent. Economic power was concentrated in the hands of a small number of powerful companies and individuals. Significant sections of the population, including particularly the laborers on large agricultural estates of the south of the country often farmed by absentee landlords, had failed to benefit much from the high growth rate.

Recent Developments

v. Among the major objectives of the revolution of April 1974, was the transfer of economic power from the large private industrialists and landlords to the State, and the redistribution of income to the workers in both the rural and urban areas. The first seventeen months saw five changes in government and conditions of political and economic life which created instability in the economic environment. During the period ending September 1975, a substantial transformation of the institutional framework and ownership pattern of the Portuguese economy took place. There was the nationalization of the banking system, the power sector, and insurance, and the take-over by the Government of some of the large industrial groups and major producers in industries such as steel, cement, petroleum and pharmaceutical and tobacco as well as most modes of transport, radio and TV. Rural workers took over the large farms in the south of the country and part of this was legalized through the passing of land reform legislation. There were similar take-overs in a few private enterprises in other sectors, and the overall effect of this was to establish a quite different relationship between management and labor, which perhaps inevitably was initially characterized by indiscipline, absenteeism and lowered productivity. One of the most important changes was the decision to give independence to Angola and Mozambique. This meant a substantial reorientation of the Portuguese society, most importantly through the arrival of large groups of returnees--perhaps as many as half a million or 5 percent of Portugal's population.

vi. While this restructuring was taking place, the economy was being severely affected by the impact of the world recession. This had a major impact on the current account balance of payments which dropped sharply from a surplus of about \$330 million in 1973 to a deficit of \$800 million in 1975 and about \$1 billion in 1976. Of course the unstable situation in Portugal was also an important factor in these declines, as production in some export industries fell, deliveries became uncertain, and migrant workers and potential tourists were affected adversely. Nevertheless with almost two-thirds of Portuguese exports going to the European Economic Community (EEC) and the European Free Trade Association (EFTA) recession in those countries was a major blow to the capacity of the Portuguese economy to weather the difficulties it was facing. During 1974 and 1975 Portugal lost almost all its foreign exchange reserves. About \$1.5 billion was used during the period with gross reserves reaching about \$160 million at end 1976, equivalent to less than one month of imports. However, there still remains a gold stock of about 27.7 million ounces valued at \$3.7 billion at current market prices. The gold stock serves as a safety net which Portugal is using as collateral for borrowing purposes.

vii. The social unrest and political uncertainties in Portugal during 1974 and 1975 resulted in a fall in the rate of growth of GDP in 1974 and a decline in real GDP of 3.5 percent in 1975 with about 4 percent increase expected in 1976. Investment by the private sector stopped almost completely in the face of the nationalizations, the aggressive role played by trade unions, and very large increases in real wages. Inevitably the revolution gave rise to the expectation of a substantial upward jump in living standards for most of the working population. To satisfy this, the successive governments were forced to protect the increase in nominal wages by subsidizing the prices of essential commodities and instituting general price controls. These subsidies, combined with higher salaries for civil servants, expenditure on returnees and an attempt by the Government to take up some of the slack caused by the shortfall in private investment, resulted in the budget deficit rising from \$400 million in 1974 to \$1.6 billion in 1976. This took place in spite of a reduction of 42 percent and 75 percent in military extraordinary expenditures in 1975 and 1976 respectively. The rate of inflation was 25 percent in 1974 and 15 percent in 1975, with the latter reduction only taking place because of the fixing of prices at levels which probably cannot be sustained in the future. The rate of increase in prices is estimated at 22 percent for 1976.

viii. Perhaps the most disturbing result of the events of 1974 and 1975 is that they have produced a level of unemployment of the order of 14 percent of the work force and substantially increased the degree of under-employment in the rural areas as well. The causes of the unemployment problem are clear; first and foremost, was the large number of returnees from the colonies; second, the demobilization following the end of the colonial wars; third, the overall low level of economic activity and particularly the shortfall in investment and construction; fourth, the reduced demand for Portuguese migrant workers in northern Europe. Unemployment at this level obviously poses serious threats for Portugal's continued political stability, quite aside from the personal hardship it involves for many of the population.

The Government's Response

ix. The revolution and the subsequent changes had brought obvious gains in reforming the structure of the Portuguese economy. Yet in combination with the world recession they also resulted in a perilous balance of payments position, large budgetary deficits, severe inflation, and high levels of unemployment. The challenge was to preserve the important elements of the new economic order, while gradually restoring the economy to a path combining growth with increased stability. The sixth provisional Government, which came to power in September 1975, took a series of austerity measures which are described below. These measures represent an important first step in dealing with the economic problems. In April 1976 the new constitution was implemented through the election of a legislature, and in July the President of the Republic was elected. The new Government took office in late July and immediately committed itself to going beyond these measures, and to developing a program to reestablish stability and growth.

x. Perhaps the most important steps taken during the past year relate to the objective of containing domestic consumption. At end 1975 heavy sales taxes were imposed on most commodities, ranging from 10 to 40 percent, while the tax on new cars and some alcoholic beverages was almost doubled. Taxes on income from urban property and agriculture were raised. Then in early 1976, prices of some important consumer items were raised (e.g. gasoline and fuel oil by 35 to 55 percent, public transport by 20 to 60 percent, telephone and postal rates by 40 percent, cement by 28 percent and electricity by about 24 percent). In late 1976, the Government announced the setting up of a national council to develop a prices and incomes policy. Starting January 1977, annual payroll increases are being limited to a maximum of 15 percent and supplementary incomes and fringe benefits will be lowered. If private savings do not finance budget deficit to the tune of Esc 15-16 billion on a voluntary basis then schemes might be prepared for compulsory savings. Contributions by employers and workers to the social security system have already been raised. Together with the relatively cautious monetary policy which is being followed, these measures form a useful beginning towards the objective of lowering the inflation rate.

xi. The measures to reduce domestic inflation will also improve the prospects for dealing with the balance of payments problem. The Government has taken a number of direct measures. Surcharges on imports were imposed in May 1975 and have since been increased. The exchange rate was permitted to depreciate by about 15 percent during 1976. Special credit facilities for exports at concessionary interest rates have been introduced. The Government has also negotiated trade concessions for Portuguese exports with the EEC and EFTA. Portugal has also sought and obtained substantial aid from the EEC, EFTA, the USA and Germany. To encourage workers' remittances the Government established special foreign currency deposits in December 1975, with exchange guarantees and free convertibility.

<u>Tasks Ahead</u>

xii. All these measures were in the right direction but taken together were quite inadequate to the task of raising the levels of savings, exports and employment. It is difficult, however, to conceive that more could have been done in the context of the political instability and constant changes in Government and key personnel which characterized Portugal in 1974 and 1975. The problems of the economy have continued and in some respect worsened in 1976. The level of overall consumption is still very high and the share of savings and investment in GDP is depressingly low. The financial imbalance in the public sector is at an all-time high, inflationary pressures persist, and the balance of payments deficit has become a critical constraint. Foreign exchange reserves have declined to a dangerously low level and about one-third of the 28 million ounce gold stock has been pledged as collateral for borrowings abroad. Above all, unemployment has escalated to an unprecedented level. In the mission's judgment, the keys to an effective response to the present economic situation are:

(i) Progressively bringing the rate of domestic inflation in line with the international rate;

(ii) Containing growth in real consumption by all sections of the population. Reducing private consumption by decontrolling prices and by limiting wage increases to about 10-15 percent per annum, reducing budgetary deficits by allowing no increases in ordinary budget expenditures in real terms, reducing food subsidies, raising taxes and increasing profits of public enterprises, and generating savings on the current account of the budget;

(iii) Encouraging voluntary private savings by allowing tax exemption for interest income and by raising interest rates;

(iv) Promoting both public and private investment which is geared to export development and has a high employment impact and carrying out economic analyses of all proposed investment projects;

(v) Improving the balance of payments situation through a more active exchange rate policy, special tax incentives to exporters and through economic import substitution, particularly in agriculture;

(vi) Designing specific employment programs.

xiii. From a policy point of view, promoting export-oriented, labor-intensive investment is the key to Portugal's growth strategy. Such investment in the past, to the extent it has taken place, has been in the private sector. Yet private sector confidence has been shaken by the events of the past two years. The very positive assurances given by the Prime Minister, Mr. Mario Soares, in his recent speeches are encouraging although both domestic and foreign private investment can only be expected to revive gradually over the next few years. Nor is the public sector in a position to take up the slack. Aside from the obvious resource constraints facing the public sector, it does not yet have the institutional and managerial capability to launch the kind of investment program which would raise employment levels and increase productivity and exports. The public sector before the revolution performed mainly a regulatory function. Its transformation to providing the major entrepreneurial role in the country will not take place overnight. Strenuous efforts are being undertaken to provide the institutional strengthening which is needed and to prepare suitable investment programs, and the Government has budgeted for a substantial increase in public investment over past levels. Increased employment in the immediate future however, will probably depend on special schemes particularly in the housing and construction sector. Recognizing this, the Government has introduced special incentives for private home construction and embarked on a number of low-income housing projects in the public sector.

xiv. Achieving the objectives of reduced inflation, an improved balance of payments and higher employment, would only be possible in the context of a substantial reduction in the growth rate of consumption, both public and private, and real wages. The elements of such a policy would have to consider seriously the scope for increasing voluntary savings and a more comprehensive incomes policy including selective price decontrol. The balance of payments problem will also require that consideration be given to measures designed to promote exports, remittances, and earnings from tourism, while reducing the demand for imports. The new Government's initial statements and measures provide clear indications that it recognizes the urgency of the situation. While the short-term issues of economic management inevitably dominate its current thinking, the new Government is also turning its attention to sectoral policies which will lay the basis for longer-term development.

xv. Much more emphasis than ever before should be placed on agriculture in Portugal's growth strategy. The reasons for this are both social and economic, namely the existence of a large rural population without the basic amenities of life, and the country's growing reliance on imports of food and agricultural raw materials. While other sectors of the economy will have to create additional opportunities for gainful employment, the agricultural sector should at least keep the present labor force productively employed. Perhaps the most important requirement to reactivate the agriculture sector is to complete the implementation as expeditiously as possible of land reform in the south and the improvement of land tenure conditions in the north. Investment programs should be prepared with a sense of urgency, particularly in areas affected by land reform. The Cooperative Producers' Units should be organized quickly and support should be given in the production and marketing processes. The present producer prices do not provide adequate incentives to farmers and should be adjusted upward as a matter of priority. It is only when the farmers have adequate income that they can be expected to achieve the much-needed higher level of investment and be receptive to suggestions aimed at improving agricultural practices. Once sufficient progress has been made on these two fronts, a wide range of supplementary policies should aim at promoting the introduction of modern farming techniques utilizing better seeds, more fertilizer, improved farm implements and a more balanced rotation of crops on the advice of an efficient extension service backed by practical farm-oriented research and adequate credit facilities. To achieve success in this effort and to provide infra-structure facilities, such as marketing, storage, pasture development etc., the reorganization of the institutional framework--Ministry of Agriculture and Fisheries and autonomous organizations--should be expedited. In the long-run, fuller use of the installed irrigation capacities and more intensive land use will be essential to mitigate the impact of deficiencies of the soil and climatic conditions.

xvi. The industrial sector was affected most deeply by the fundamental changes and reforms introduced after the revolution. Suddenly a major part of the sector became the responsibility of the public sector and the private sector became uncertain of its future. The Government has recently reiterated its intention of assigning an important role to the private sector and limiting the productive public sector to the previously nationalized enterprises. However, the speed with which the confidence of the private sector and foreign investors can be restored--which is critical for their contribution to investment and growth in the sector--will depend in part on the Government policy regarding the mode and level of compensation for nationalized assets. There are considerable technical difficulties in the evaluation of assets to be compensated but pending final evaluation the government might consider part payments as 'advance compensation' so that the confidence of the private and foreign investors is revived promptly. The continued predominance of the private sector in aggregate production, employment and exports clearly indicates how crucial it is that the resources available in this sector be harnessed. Low labor productivity relative to product prices which are controlled in many cases is a serious barrier to industrial development. Increased investment in the private sector will materialize only if more flexibility in the adjustment of product prices is introduced. This, together with a period of political stability, will be critical to higher capacity utilization, more investment and improved price competitiveness of Portuguese products both in the domestic market and abroad. The Government should introduce measures and policies to provide financial and technical support to a large number of small and medium size enterprises to make them more efficient and financially viable. In the public sector many managers need further training to achieve greater efficiency and profitability in the enterprises under their management. Decision making, in general, and adjustments in costs and prices should be the function of public enterprise managers with the Government only monitoring performance on the basis of well-defined criteria. The Government should establish clear priorities for the development of the sector, and the employment impact on scarce investment resources in on-going and prospective public sector projects.

xvii. A more dynamic role for the construction and housing sector in the revival of growth in the economy will require policies which will remove impediments to investment in the sector. Rising construction costs, high prices for land and shortage of long-term credit are current constraints. These have been reinforced by the freezing of rents and uncertainty after the revolution, making new private construction in housing unattractive. The decontrol of rents, at least for new houses, and ensuring security of ownership will be necessary to reactivate the sector and expand its potential for employment and growth. In addition, measures should be adopted for increasing loans, management and organizational support to private construction firms. Provision of infrastructure facilities like water, sewerage, electricity, and roads is also important. The public housing program by itself cannot reduce much the backlog of housing in the country but it has a role to play in providing housing for low income families. However, given the large and growing budgetary imbalance, the major housing subsidy programs should be reviewed. Measures to encourage the use of labor intensive and self-help construction methods, low cost indigenous materials, low quality of finish, provision of communal rather than private plumbing and sanitary facilities together with higher density construction could all lead to higher employment and lower construction costs and provide appropriately priced housing to a larger number of persons.

xviii. One sector that cuts across all other sectors and will have an important influence on both overall growth and employment is the education and training sector of the Portuguese economy. Some overdue policy decisions are needed in the education sector to reflect the new socio-political objectives, to eliminate skill shortages in certain categories of labor and to meet the manpower needs of the economy. Measures will need to be taken to reduce regional imbalances and to lessen disparities in the quality and range of educational opportunity available as between the rural and urban areas and to remedy overcrowded facilities catering to the needs of the poorer sections in the urban areas. Expenditures on education have been low by international standards and should be increased as the budgetary situation improves and directed towards the lagging technical sectors of the education system. There are also shortages of functional school facilities, supervisors, administrators, trainers and researchers. The question of the quality and relevance of education is, indeed, of paramount importance particularly when resources may not be available to increase both the quantitative output and qualitative excellence of those who come out of the education system in the next few years.

xix. The next five years will be a testing time for the Portuguese economy. At best, per capita consumption is likely to increase slowly over the period. In the short-run the Portuguese have made substantial gains in the distribution of income and in the increased sense of participation by the majority of the people in economic and political life. But it would appear that in the longer run Portugal must generate a very rapid rate of export growth and employment growth if living standards are to rise. Part of the Government's dilemma is that the drift of events is taking Portugal away from this course. The revolution has conferred a leading role on the public sector in industrial development. Yet the public sector may lack the flexibility and responsiveness which are needed for an export drive. The strategy calls for stimulating investment, but in the short-term the private sector is not in a position to respond so the onus falls on the public sector. In the public sector, however, the projects which are on the drawing board ready to move, are for the most part large capital-intensive projects which are not relevant to the new economic situation in which Portugal finds itself. And yet there is no reason for despondency about the situation. Portugal has substantial resources to tackle the problems which it is facing. It will do so with a unique degree of participation by the population at large in the political and economic life of the country. There is no longer the euphoria and unrealistic expectations of two years ago. The mists are clearing; the immediate future calls for sacrifice and hard work, but there is a promise of solid gains ahead. The government has demonstrated its awareness of the problems and has committed itself to preparing and implementing measures which will progressively restore stable economic growth.

PART I. THE ECONOMY

I. INTRODUCTION

1. On April 25, 1974, the Portuguese army ousted the Government of Dr. Marcello Caetano. This brought to an end nearly half a century during which Portugal had been ruled by the philosophy and methods of Dr. Antonio Salazar. Salazar's approach had been born out of the chaos of the period between the fall of the monarchy in 1910 and the establishment of a military dictatorship in 1926. It began as an attempt to restore stability and dignity to Portugal but soon became an attempt to seal the country off from the ideas and realities of a rapidly changing world.

2. A central element of government policy between 1926 and 1974 was the retention of Portugal's colonies. Keeping control of colonies with a total land area 23 times the size of Portugal itself, became an increasing burden in the sixties with the rise of revolutionary movements in Angola, Mozambique and Guinea-Bissau. The regime's colonial policy became increasingly unpopular in Portugal and within the Portuguese army, and it also alienated the international community.

3. The sixties and early seventies saw other important changes in Portuguese society. The high rate of growth of the Common Market countries spilled over into Portugal. Western Europe provided an expanding market for Portuguese manufactures, a steady stream of tourists to Portugal, and above all employment to nearly one million Portuguese emigrant workers by 1973. Growth was rapid, but was perceived as benefitting mainly a small group of powerful industrialists and landowners with close ties to the regime. The links which these groups had with the colonies as markets and sources of raw materials were seen as one of the main motivations for the Government fighting to hold the colonies despite the increasing costs of doing so.

4. The revolution of 1974 had three broad objectives: first, to end the colonial wars and give independence to the colonies; second, to establish a democratic society and restore civil liberties; and third, to wrest economic power from the groups which dominated the pre-revolution period and to raise the standard of living of workers and small farmers as quickly as possible. These objectives provided the unifying factors in the two turbulent years which followed April 1974.

5. The achievement of the first objective - decolonization - took place in the period from September 1974 when Guinea-Bissau became independent, to November 1975 when Angola gained independence. This had a substantial impact within Portugal itself. By the end of 1976 an estimated half a million Portuguese who had settled in the colonies before the revolution, had returned to Portugal, a figure equivalent to about 5 percent of the country's population. 1/ In addition, the new Governments in many of the colonies nationalized Portuguese-owned enterprises and farms.

1/ The latest enumeration of returnees conducted at end 1976 estimates the total number close to about half a million and not 800,000 as previously estimated.

6. Representative Government proved a more difficult objective to attain. After the revolution there was a period of euphoria as the population savored the formation of political parties and trade unions, freedom of the press, and the Army's promise to establish a democratic society. There were differences, however, between the Armed Forces Movement which had spearheaded the revolution, and the successive Governments which were formed. There is no need here to detail the sequence of events which led to six changes in government within two years, attempted coups and frequent strikes and demonstrations which at times exploded into violence.

7. There was a growing recognition that the aim of the revolution of bringing democratic government to Portugal was in serious danger. A constitution was drawn up during the second half of 1975 and on April 25, 1976 Portugal's first parliamentary elections in half a century were held. In these elections, the Socialist Party received 35 percent of the votes cast and won the largest number of seats, 106 out of a total of 263. In June 1976 General Antonio Ramalho Eanes was elected President of the Republic with 61 percent of the votes cast, and invited the leader of the Socialist Party, Mr. Mario Soares, to form a government.

8. The third objective of redistributing the ownership of resources and the income derived from them, is central to the theme of this report. Shortly after the revolution there were many instances of take-over by workers of factories and farms. In most cases these were formalized by subsequent legislation. In addition there was nationalization of banking and insurance and certain major industrial groups. Since the banks had shareholdings in many private companies, the effect was to bring a large proportion of industrial assets into the public sector. Comprehensive land reform legislation was also passed. Direct measures were taken to increase wages and protect workers' rights, while prices were controlled.

9. A major restructuring of the Portuguese economy has taken place. It has been accompanied, however, by sharp declines in private investment and savings, a rise in private and public consumption, large government deficits, rampant price inflation, declining exports, an increasing balance of payments deficit and loss of reserves, and very high levels of unemployment. While these disturbing trends are in part attributable to world economic developments during the period, they are also related to the expectations created by the revolution and the actions taken in support of these expectations. The deterioration of the economy has reached a point where it threatens the positive achievements of the revolution. The task facing the new Government is to devise and enact measures to halt the slide and to improve the medium-term prospects for the Portuguese economy.

II. THE ECONOMY BEFORE THE REVOLUTION

10. The five years preceding the revolution of April 1974 were years of rapid growth for Portugal. GDP increased at an average rate of 7 percent per annum with industry and construction growing at 10 percent and 12.5 percent respectively. The service sector grew in line with overall GDP growth. But the agricultural sector stagnated and output declined during the period 1968 to 1973 at a rate of 1 percent per annum as the Government policies favored industry. Investment levels were high--about 21 percent of GNP--on average during the period. Foreign investment was attracted to Portugal by the low labor costs, substantial incentives to industry, a political climate of apparent stability, and the regime's support for the private sector. The rapid growth in western Europe during the period contributed to an increase of 9 percent per annum in Portugal's exports (though nearly a fifth of the total went to the colonies), while the balance of payments also benefited from large numbers of tourists and remittances from the huge migrant labor force of Portuguese in western Europe. As a result, despite the costs of maintaining a large colonial army, there was a substantial balance of payments surplus. Nevertheless, Portugal remained one of the poorest countries in Europe; its per capita income in 1973 was about one-fourth the level of the Federal Republic of Germany, Sweden and Denmark, and considerably lower than Greece and Spain.

11. Table 1 shows the changes in output, investment and employment for major sectors of the economy between 1968 and 1973.

Table 1: MACRO-ECONOMIC INDICATORS
(Billion Escudos, at 1970 Prices)

	1968	1970	1973	Percent Per Annum change 1968-73	Percent Per Annum change 1970-73	% of GDP 1973
GDP at Factor Cost	146.4	158.7	203.9	6.9	8.7	100.0
Agriculture /a	29.7	28.8	28.7	-0.8	-0.2	14.0
Industry /b	51.1	59.1	82.3	10.0	11.7	40.4
Construction	7.3	8.1	13.2	12.5	17.7	6.5
Services	58.3	62.7	79.7	6.4	8.4	39.1
Gross Fixed Investment	25.7	31.1	47.0	12.8	14.8	23.1
Agriculture	2.2	2.1	2.8	5.0	10.1	1.4
Industry	10.1	12.6	16.8	10.7	10.1	8.2
Construction	0.4	0.7	1.2	25.0	19.7	0.6
Services	13.0	15.7	26.2	15.0	18.6	12.9
	(Thousands of Persons)					% of Total 1973
Employment	n.a./c	3180.1	3124.3	n.a.	-0.4	100.0
Agriculture	--	927.1	821.1	--	-4.0	26.3
Industry	--	860.9	900.5	--	1.5	28.8
Construction	--	264.2	276.1	--	1.5	8.8
Services	--	1127.9	1126.6	--	-0.05	36.1

/a Including forestry and fisheries.
/b Including mining, power, gas and water.
/c The revised employment series go back to 1970 only.

Source: Ministry of Planning and Economic Coordination, and Ministry of Labor.

12. The momentum of economic growth was sustained by a relatively high rate of investment. The construction and housing sector experienced the highest rate of growth of investment (25 percent per annum), followed by the services sector (15 percent per annum) and by industry (11 percent per annum). Agriculture, however, was neglected; its share in the total investment was only 7 percent compared with 40 percent for industry and 50 percent for the services sector including housing during 1968-73.

13. All investments were financed from Portugal's own resources. This was made possible by large domestic savings and large workers' remittances which resulted in the high levels of national savings shown in Table 2 below.

Table 2: SAVINGS AND INVESTMENTS
(Billion Escudos, Current Prices)

	1968	1973	Percent of GNP in 1973
Sources			
Gross National Savings (GNS)	24.8	64.8	20.9
Foreign Savings (Minus Current Account Surplus)	-0.3	-7.8	-2.5
Discrepancy	-	-0.8	-0.3
Total Savings	24.5	56.2	18.1
Uses			
Gross Fixed Capital Formation	24.5	56.5	18.2
Changes in Stocks	-	-0.3	-0.1
Total Investments	24.5	56.2	18.1
Memo. Items			
Gross Domestic Savings	15.0	35.2	11.4
Workers' Remittances	9.2	27.5	8.9
(Workers Remittances as % of GNS)	(37.1)	(42.4)	(42.6)

In 1973, gross national savings were 21 percent of GNP with workers' remittances contributing 43 percent. As a result, aside from financing all investments from savings, substantial foreign exchange reserves were also built up. Most of these savings were generated in the private sector, much of it in the form of profits, income from property and individual savings. Government savings were adequate to finance the relatively modest level of public sector investment (12 percent of total Government expenditure in 1973). With defense expenditures claiming a large and increasing share of Government revenues--almost 30 percent--the shares of revenue allocated to health (5 percent), to education (13 percent) and to other infrastructure facilities in the early 1970s were low.

14. Average labor productivity during 1970-73 rose in all sectors; the largest gains were in construction (16.0 percent per annum) and in industry (10 percent per annum) followed by services (8.4 percent per annum), and agriculture (4.0 percent per annum). Workers, however, benefited less from the productivity gains. Real wages increased by about 4 percent per annum compared with an increase in overall productivity of about 9 percent per annum during the early 1970s.

15. The rapid rise in production and investment could initially be absorbed by the existing capacities. But bottlenecks developed in the late 1960s, creating pressure on resources and leading to price rises. Simultaneous massive emigration created shortages of skilled labor, and competition among employers pushed nominal wage levels up, thus reinforcing the inflationary pressures. The stagnation of agricultural production put further pressure on prices and wages. Low interest rates and easy access to bank credit also contributed to an increase in prices of 12 percent a year in the

early 1970s--a rate considerably higher than international price increases during that period. However, industrial wages still remained far below the wage levels in European countries.

16. The low wage rates by European comparison and relatively high productivity gains gave Portuguese exports the necessary competitiveness in the external market. Exports increased at an annual rate of 8.5 percent in real terms during 1968-73. Strong gains were made in exports of manufactured consumer goods, especially textiles and footwear. Other leading export commodities were chemicals, pulp and paper and, more recently, capital goods and equipment. The traditional exports such as cork and timber also increased substantially. Access to the markets of multinational firms based in Portugal helped exports considerably. The thrust of Portugal's export drive was directed towards western Europe and especially the United Kingdom, which gave significant trade concessions after Portugal joined EFTA in 1962. Exports to EEC and EFTA during 1968-73 increased by 11.9 and 12.5 percent per annum. During the early 1970s about 60 percent of total exports went to EEC and EFTA countries and about 20 percent to the colonies.

17. Imports rose as fast as exports (9 percent per annum in real terms), reflecting the needs of a rapidly expanding economy and its high dependence on imported inputs. In 1973 imports were equivalent to 32 percent of GDP, revealing a high degree of outward orientation of the economy. Machinery and equipment accounted for a large share of the import bill. Other major industrial imports were chemicals, metals and metal products, and minerals including crude oil. Foodstuffs and textiles were the most important consumer goods imports. Import policies were designed to facilitate supplies of essential industrial inputs and consumer goods while protecting domestic industries.

18. Despite a dynamic export sector, Portugal's dependence on imported foodstuffs, energy, and equipment entailed a large trade deficit, but massive emigration led to an inflow of large and rising workers' remittances. At the same time, the political stability and relatively low prices encouraged a bouyant tourist trade, and tourism became the most important source of foreign exchange from non-factor services, outranking the traditional earnings from shipping and transport. Receipts from workers' remittances and tourism were large enough to offset the trade deficit and the current external payments account remained in surplus. At the end of 1973, accumulated foreign exchange reserves reached the high level of $1.7 billion, equivalent to about 8 months of imports. In addition, there was a gold stock of about 28 million ounces.

19. Yet the rapid growth concealed a number of fundamental weaknesses. Agriculture, which still provides the livelihood for a large segment of the population, was neglected and experienced little real growth. Output in agriculture declined during the period 1968 to 1973 and the share of agriculture in total GDP (at constant 1970 prices) fell from 20 percent in 1968 to 14 percent in 1973, while the share of industry increased from 35 percent to 40 percent and that of construction from 5 percent to 6.5 percent. The deterioration in agriculture and the rapid expansion of manufacturing and construction industries as well as urban-oriented services suggest that the urban

centers and city-dwellers benefited most from the growth process. The poor performance of the agricultural sector also reflects its neglect by Government, whose policies favored industry. As a result, institutional weaknesses such as the inadequacy of credit and irrigation facilities, limited application of new technology, and scarcity of efficient extension services retarded progress in the agricultural sector. Large agricultural estates in the south of the country were often farmed by absentee landlords, and land was fragmented in the north. In addition, inadequate pricing policies and marketing deficiencies provided little incentive to farmers. The neglect of rural areas and lower income groups led to a mass exodus of young people who could do far better in the cities (in industry, construction, and services) or in the industrialized countries of western Europe.

20. The development process took place within a paternalistic economic and social structure based largely on private enterprise and financial austerity. Labor organizations were tightly controlled by the State, and workers had no right to form independent trade unions. Economic policies leaned heavily on the initiative of the private sector, which flourished in the climate of political and financial stability. Economic power was concentrated in the hands of a small number of powerful companies and individuals. Government incentives such as protection given to domestic manufacturers, together with easy access to credit at low interest rates, boosted private sector profits and savings and fostered private investment (including foreign investment), while an outward-looking trade policy and low domestic wages encouraged exports. This industrialization strategy, however, was at the expense of equitable income distribution. In 1973, the poorest 50 percent of households were receiving only 14 percent of personal income while the top 5 percent received 40 percent.

21. On the surface, the economy enjoyed full employment, with an unemployment rate of 2.7 percent in 1970 and 3.0 percent in 1973. This was illusory, however, because it was a consequence of massive emigration (about 700,000 during 1969-73), mainly to France and the Federal Republic of Germany, and an increase in the size of the Army to contain the independence movements in the colonies. Total employment in the domestic economy actually declined. The proportion of agricultural workers fell from 29 percent of the total employed in 1970 to 26 percent in 1973, i.e. at a rate of 4 percent per annum. However, the rapid decline in the number of workers in the agricultural sector was not accompanied by a corresponding rise in industry, construction or the service sector. A significant number of workers leaving the agricultural sector emigrated abroad. Although the share of industry in GDP increased, from 37.2 percent in 1970 to 40.4 percent in 1973, the sector's proportion of employed rose only from 27.1 percent to 28.8 percent. One possible explanation for the small increase in employment in industry is that there was a shift from small-scale to medium and large-scale industries, such as metal, non-metal mineral products, metal products, machinery and transport equipment industries, and that as a result investment in industry became more capital-intensive. Employment elasticity of output during 1970-73 was 0.13 in industry, 0.08 in construction and -0.006 in services.

22. In summary, the Portuguese economy until 1973 grew at a fairly rapid pace. Economic policies during the pre-revolution period, together with a strong foreign demand for Portuguese exports and tourism, resulted in high growth rates of production (except in agriculture) and exports, and in a rapid increase of average per-capita incomes. While successful in terms of overall growth and export promotion, past development policies created serious imbalances in the economic and social structure of the economy. Official development planning was essentially indicative and Government spending for development stayed at a low level as a substantial part of public resources was absorbed by defense expenditures. The stated objectives were economic growth, a more equitable distribution of incomes, and reduced regional imbalances. But while the overall growth objective was by-and-large achieved with the notable exception of the agriculture sector, the socio-economic objectives were not well defined and effective policies were lacking to implement social change. Economic power was concentrated in a few hands. The distribution of land ownership was lopsided in the south of the country. Real wages were increasing at a far slower rate than profits. Social services were underdeveloped. All these factors hindered the progress towards more equal income distribution. The neglect of the rural areas and lower income groups induced a mass exodus of about one-third of the labor-force--mostly young people--towards the industrialized countries of western Europe.

III. THE IMPACT OF THE REVOLUTION ON OWNERSHIP AND INCOME DISTRIBUTION

23. The period following the revolution of April 25, 1974 to end-1976 has seen dramatic changes in the structure of the Portuguese economy, a sharp deterioration in the economic situation and a series of measures by successive Governments to attempt to deal with the problems of falling investment levels, large balance of payments deficits and the high unemployment rate. It seems useful to deal with the structural change, economic deterioration and Government response as three distinct phases despite the fact that they overlap in time and that their interaction has been far more complex than the sequence suggests.

24. The revolution was spearheaded by a group of army officers with socialist leanings. The political orientation of the first post-revolution Governments reflected their viewpoint. Industrial and rural workers provided strong support to the new regime since they were relatively well-organized political groups, with a clear common interest in economic change. The thrust of the first year after the revolution was in the direction of redistributing assets and income from the large industrialists and land-owners to the State and to industrial and rural workers.

25. One of the most important changes after the revolution was <u>land reform</u>. Prior to 1973, 45 percent of the agricultural land area was held in 0.5 percent of the farm units, while 45 percent of the area was held in 80 percent of the units. There was a sharp difference between the central and southern part of the country, particularly the Alentejo, where land holdings were large and often owned by absentee landlords, and the northern part which was characterized by very small holdings. After the revolution there were many instances of agricultural laborers in the southern part of the country, occupying farms and setting up cooperative units. In July 1975, these take-overs were to a large degree formalized by legislation to expropriate and redistribute unirrigated land in the central and southern parts of the country and to nationalize all land which benefited from Government irrigation schemes.

26. Under the land reform legislation, farms accruing more than 50,000 points of annual net operating income (about \$3300) 1/ and larger than 30 ha. were to be expropriated, as well as any farm exceeding 700 ha regardless of points. According to recent Government estimates, 1.1 million ha (about 23 percent of cultivable land excluding forests) have been expropriated of which 177,000 ha under irrigation have been nationalized. Expropriated land is largely farmed collectively by the newly created Cooperative Producers' Units or by salaried workers on State-owned farms. The Government has also started the process of returning to their former owners lands which were not taken over according to the land reform legislation.

1/ Points are calculated by a system based on soil type and crop produced, using the results of cadastral surveys.

27. In addition, steps have been taken to improve land tenure conditions in the northern areas of the country. In 1975 comprehensive land tenure regulations were instituted which affected almost 300,000 farms, with an average size of less than 2 ha. As a result, sharecropping based on payment in kind or services has been abolished. All contracts in future are to be for a minimum of six years and formalized in writing. The regulations also set maximum annual land rents according to crops, past yields and soil type.

28. An equally important change that took place after the revolution was the nationalization of the banking system, insurance companies and the power sector, and the takeover by the Government of some of the large industrial groups and major producers in industries such as steel, cement, petroleum and petrochemicals and tobacco as well as most modes of public transport, radio and TV. The formal steps were completed by September 1975. The reorganization of the banking system and the evolution of a system of management control for State enterprises has not yet been completed however. The nationalization of the banking system gave the Government varying degrees of participation in individual enterprises depending on the shareholding of the banks. There are therefore a number of different types of public enterprises; those which were in the public sector prior to 1974, those which were nationalized and those which have some State participation. An Institute for State Participation has been set up to deal with the many disparate (often tiny) enterprises in which the Government has a majority shareholding. The scope of its precise role, however, is still evolving.

29. Public enterprises (including both nationalized and those with majority State participation) now account for about 27 percent of GDP, 50 percent of gross fixed capital formation and 20 percent of the total labor force. Initially, after the revolution, the basic roles of the private and public sectors were not defined and their respective boundaries remained vague. More recently, however, the Government has explicitly recognized the role to be played by the private sector. A law presently being discussed by the Council of Ministers would permit private enterprises to engage in all sectors except areas such as water, power, telecommunications, public transport, and armaments. The Government has also announced that no further nationalizations are envisaged.

30. A significant step following the revolution was the action taken to strengthen trade unions and workers' commissions and to protect workers' rights. There was a profound change in the management style of companies in both the public and private sectors as workers demanded and obtained a great deal more influence on policies both as they relate to labor and to the more general aspects of management. In April 1975, legislation was passed by the Council of Revolution to make Intersindical (a trade union group) the sole representative of the workers.

31. These developments together with worker takeovers in a few private enterprises and the enactment of legislation prohibiting dismissals, established a quite different relationship between labor and management from the past, which was initially characterized by indiscipline, absenteeism and lower productivity. The result was a significant erosion of the confidence

of the private sector and a decline in investment. Consequently, in October 1976, the Government announced changes in the regulations concerning dismissals, limits on fringe benefits, strict control of sick leave, reductions in overtime hours and the establishment of a 40 to 45 hour legal work week. Workers can now be dismissed because of refusal to obey orders, unjustified absenteeism and acts of violence against property or persons.

32. The redistribution of productive assets was accompanied by direct measures to redistribute income. One of the first decisions taken after the revolution was to establish a minimum wage for the workers. In May 1974 a minimum wage for non-agricultural workers of Esc 3,300 a month was introduced, which applied to almost 50 percent of non-agricultural workers at that time; at the same time a freeze on salaries above Esc 7,500 was also instituted. In June 1975, the minimum wage was increased to Esc 4,000 a month, affecting 20 percent of the non-agricultural labor force at this time, and salaries above Esc 12,000 a month were frozen. The minimum wage was subsequently increased to Esc 4,500 a month in October 1976. Social security benefits were also increased from a range of Esc 800 - 1,200 a month to Esc 1650 a month. This was increased further to Esc 2,000 a month in July 1975. The social security system for rural workers was also substantially revised in April 1975.

33. The emphasis of the Government's wage policy on raising minimum wages and restraint on higher wage levels, considerably narrowed wage differentials and income inequalities. The lowest quintile of non-agricultural workers received 11.5 percent of total wages in 1976 compared to about 8 percent in 1974, while the share of wages received by the highest quintile dropped from about 40 percent in 1974 to about 32 percent in 1976.

34. To protect the increase in nominal wages, successive Governments subsidized the prices of essential commodities, particularly food, and instituted general price controls. Prices and rents were frozen until July 1974 when the freeze was replaced by an elaborate set of controls. In addition, use of the Supply Fund 1/ was increased. In August 1974, in the face of a growing deficit on the Supply Fund, price controls on basic foodstuffs were removed. In April, 1975 a freeze on prices of basic foodstuffs was reintroduced. In both 1974 and 1975 the Supply Fund registered a deficit of Esc 3 billion compared with small surpluses in the three years preceding the revolution, and the deficit is estimated at Esc 2.5 billion in 1976. During 1974-76, about 60 percent of consumer items remained under price control of one form or another. The Government is currently preparing a scheme which will relax price controls, except for a few basic items and will take into account the financial difficulties of enterprises whose cost increases have escalated in recent years.

1/ This fund was designed to moderate price fluctuations by purchasing foreign supplies for sale on the domestic market when domestic prices were rising and by absorbing excess domestic supply when prices were falling.

35. These changes together represented a fundamental reshaping of economic relations and institutions in Portugal. The essence of a revolution lies in the rapidity with which change takes place. There was no time to carefully think through the repercussions of many of these steps and take appropriate actions to minimize any negative effects. There was no time to prepare institutions for the part they would need to play in the changed environment. Inevitably the economy and the society for that matter have not yet absorbed the magnitude of the change, nor defined the steps which must be taken if their contribution is to be positive and lasting.

IV. RECENT ECONOMIC TRENDS

Introduction

36. The Portuguese economy is still adjusting to the far reaching changes described in Chapter III. Six rapid changes of Government with varying political perspectives inevitably created instability in the economic environment. Nationalization of the financial sector, large industrial groups and major producers in basic industries suddenly brought these activities into a public sector whose employees had little or no previous management experience. The productive system was disrupted by workers' take-over of many enterprises and by strikes which became a common phenomenon. This, together with land reform--initiated by the workers themselves--created an environment filled with uncertainty. The measures described in Chapter III (e.g., minimum wages, higher social security benefits) to redistribute income in favor of lower wage earners, accompanied by price controls and a widespread use of subsidies led to a sharp increase in consumption, reduced profits and lower savings.

37. These fundamental changes in the domestic economy coincided with a series of shocks emitted by the world recession and unfavorable international price developments for Portugal. The recession that hit most of the OECD countries reduced demand for Portuguese goods, and opportunities for Portuguese workers abroad. It also sharply reduced earnings from tourism and workers' remittances. The quadrupling of oil prices at end 1973 added about $400 million to Portugal's import bill, equivalent to almost 15 percent of 1973 imports. Most important of all, decolonization induced an inflow of about half a million returnees, many of them without resources and professional skills, and resulted in the loss of important export markets.

38. These events, taken together, have had a profound impact on the performance of the Portuguese economy. During 1974-76, the recessionary trends became pronounced, unemployment soared, price inflation accelerated and the budgetary and balance of payments deficits expanded to unprecedented levels.

The Recession

39. The national economy took a downward plunge from a 7 percent per annum rate of growth during 1969-73 to 5.3 percent in 1974 before actually declining by 2.7 percent in 1975. With increased population, GNP per capita by end 1975 was about 10 percent lower than in 1973. The following table illustrates the extent of deterioration in the economy by major sectors.

Table 3: GDP BY SECTORS OF ACTIVITY
(Percent Increase, 1970 Prices)

	1968-73	1974	1975
GDP at Factor Cost	6.9	5.3	-2.7
Agriculture	-0.8	3.3	0.2
Manufacturing and Mining	10.0	2.4	-5.5
Construction	12.5	19.7	-12.0
Others	10.1	6.5	-0.8

40. Agricultural production, which had declined by about 1 percent per annum during 1968-73, increased by 3 percent in 1974 due to exceptionally good weather but did not register further increase in 1975 or 1976 in part due to the unsettled land tenure conditions and continued inadequacy of incentive prices to farmers. Industrial output suffered the heaviest decline from a rate of growth of 10 percent per annum during 1968-73 to a small increase of 2 percent in 1974 before declining by 6 percent in 1975. Within the manufacturing sector, however, production in the food and tobacco processing industries, relying heavily on imported inputs, increased sharply, mainly due to the bouyancy of demand as a result of the redistribution of income and influx of returnees from Angola and Mozambique. On the other hand, production of export-oriented products and investment-related industries declined. Export-oriented industries suffered serious setbacks due to international recession, loss of colonial markets, wage-cost increases which affected the competitiveness of Portuguese products, and labor strikes and the consequent disruptions in supplies. High wages and material costs were not offset by exchange rate adjustments, while labor productivity declined in 1974 and 1975. Following a rapid increase in construction activity during 1968-73 and in much of 1974, when it was still significant largely due to projects initiated in earlier years, new construction activity registered a substantial decrease towards the end of 1974 and in 1975, reflecting the decline in economic activity, poor investment climate and difficulties in the tourism and housing sectors. Private investment in the housing sector, which accounted for about 90 percent of investment in that sector until 1973, stopped almost completely due to uncertainty in general, and about the future of private ownership in particular. Although there was some illegal housing construction without permit, especially in areas outside large urban centers, the decline in housing construction by private enterprises for sale, rent and tourism purposes resulted in a recession in construction and created high unemployment in the sector.

High Consumption and Low Level of Savings and Investment

41. The rapid increase of 9 percent in total real consumption in 1974 followed by another 5 percent increase in 1975 when GDP declined, resulted in total consumption exceeding GDP and reduced domestic savings to a negative

level. The recession in the economy and overall political uncertainties reduced sharply the share of investment in GDP from about 20 percent in 1974 to 9-10 percent in 1975.

Table 4: GROSS DOMESTIC PRODUCT BY EXPENDITURE
(Constant 1970 Prices)

	Percent of GDP			Growth Rate Constant 1970 Prices Annual		
	Annual Av. 1968-73	1974	1975	1968-73	1974	1975
Total Consumption:	89.3	92.7	101.1	7.9	8.8	5.2
(Private)	(75.0)	(76.9)	(82.2)	(6.0)	(7.4)	(3.1)
(Public)	(14.3)	(15.8)	(18.9)	(6.6)	(16.2)	(15.3)
Gross Fixed Investment	18.7	19.7	9.4	12.8	-2.8	-38.6
Gross Domestic Savings	10.7	7.3	-1.1	12.0	-34.0	-58.6
Memo Items:						
Labor Share in National Income	50.0	52.0	57.0	-	-	-

Source: Central Planning Secretariat and Institute of National Statistics.

42. The main factor contributing to the rapid increase in private consumption in 1974 and 1975 was the redistribution of income entailed by the establishment of minimum wages, expansion of social security benefits and the freeze in higher level wages and salaries. The shift in income to groups with higher propensity to consume, together with control on prices and a widespread use of subsidies, led inevitably to higher levels of consumption. While the redistribution policies were in full swing, the resident population of Portugal was increasing at an unprecendented rate (4 percent in 1975) due to returnees, demobilization of armed forces and a drastic fall in net emigration following economic recession and rising unemployment in western Europe countries. The combined effect of the redistribution of income and the sharp increase in the resident population was not only to increase private consumption but also to tilt the pattern of consumption towards those items which were considered essential and therefore attracted no sales tax and import duties or were subject to very low tax rates. Public consumption grew at a much higher rate of about 15 percent per annum in real terms during 1974-75 compared with less than half this rate during 1968-73. This growth was due mainly to increased civil servants' salaries, expanded employment in the public sector, and larger outlays on transfers and subsidies.

43. The result has been an increasing divergence between the trends of production and total consumption which amounted to 89 percent of GDP during 1968-73, reached 93 percent in 1974 and exceeded GDP (101.1 percent) in 1975.

The rapid increase in domestic consumption led to a precipitous fall in gross domestic savings by about 35 percent in 1974 and 60 percent in 1975 compared with a rise of 12 percent per annum in real terms during 1968-73. This pushed domestic savings to negative levels and reduced national savings to 6 percent of GDP in 1975 which was the lowest rate of savings among European countries.

44. Associated with declining savings, gross fixed investment which was consistently high and growing during 1968-73--averaging about 13 percent per annum increase in real terms--declined by 3 percent in 1974 and decreased sharply by about 39 percent in 1975. The decrease in capital formation took place primarily with respect to investment by the private (both domestic and foreign) sector which was influenced by reduced profits as well as by economic and political uncertainties.

Growing Budgetary Gaps

45. One consequence of the sharp deterioration in the rates of savings, investment and overall growth in the economy during 1974-76, was a worsening of the domestic financial situation. The budgetary gap of Esc 47 billion in 1976 is equal to 10 percent of GDP. In addition there are large deficits on a number of autonomous funds which are not included in the calculation of the budget deficit. The figures in Table 5 below give evidence of the large and growing imbalance in the receipts and expenditure of the public sector.

Table 5: BUDGETARY GAPS, 1972-76
(Billion Escudos)

	1972	1973	1974	1975	1976 /a
Total Expenditures	40.9	48.9	63.4	87.4	125.0
- Ordinary	23.0	27.5	35.6	52.6	77.6
- Extraordinary	17.9	21.4	27.8	34.8	47.4
(of which Capital Expenditures)	(4.9)	(5.8)	(7.7)	(13.3)/b	(20.0)/b
Total Receipts	38.3	45.2	52.2	58.3	78.5
- Direct Taxes	11.1	13.7	16.6	16.2	20.0
- Indirect Taxes	18.6	21.5	26.0	30.4	44.2
- Others	8.6	5.5	9.6	11.7	14.3
Budgetary Gap	2.6	3.7	11.2	29.1	46.5
Memo. Items			(Percent of GDP) /c		
Total Expenditures	17.7	17.4	18.7	23.4	26.5
Total Receipts	16.6	16.1	15.4	15.6	16.6
- Direct Taxes	(4.8)	(4.9)	(4.9)	(4.3)	(4.2)
- Indirect Taxes	(8.1)	(7.7)	(7.7)	(8.1)	(9.4)
Budgetary Gap	1.1	1.3	3.3	7.8	9.9
Budgetary Gap (% of Total Receipts)	6.7	8.2	21.5	49.9	59.8

/a Provisional actuals based on discussions with the Ministry of Finance.
/b Estimates.
/c Ratios for 1976 were calculated by assuming 26 percent growth in nominal GDP in 1976 over the 1975 level.

Source: Ministry of Finance.

46. The increased budget deficit was a result of increased spending rather than lower revenues. Total expenditures in nominal terms increased at an average annual rate of 37 percent, raising expenditures from Esc 49 billion in 1973 to Esc 125 billion in 1976. Total expenditures now represent about 27 percent of GDP compared to about 17 percent in 1973. The rapid increase in ordinary expenditures, particularly in 1975 and 1976, reflects increases in the salaries of civil servants and consumer subsidies. Extraordinary expenditures increased at an annual rate of about 28 percent during 1973-76 despite a drastic reduction in defense extraordinary expenditures which declined by 42 percent and 77 percent in 1975 and 1976 respectively. This was due partly to a four-fold increase (from Esc 6 billion in 1973 to about Esc 20-22 billion in 1976) in development expenditures, including transfers for investment in the newly nationalized sector. It also included substantial transfer payments to the ex-colonies and aid to the returnees, about Esc 8 billion and Esc 13 billion in 1975 and 1976 respectively.

47. The rapid growth in expenditure was not matched by a similar increase in Government receipts. Partly due to shifts of incomes out of high tax categories, total budgetary receipts have stayed just in line with the growth in current GDP, maintaining the ratio of total receipts to GDP at 16-17 percent. The new tax measures and import surcharges introduced at end 1975 helped to offset the decline in revenues from the industrial profit tax, the property transfer tax and stagnation of import duties (excluding import surcharges). During 1973-76, collection of indirect taxes increased at an annual rate of about 27 percent and direct taxes at 13 percent, intensifying the traditionally heavy reliance on indirect taxes.

48. The rate of growth of total receipts--20 percent per annum--has lagged substantially behind total expenditures growing at 37 percent per annum. The divergent trends in receipts and expenditures have enlarged the budgetary gap from about Esc 4 billion in 1973 to Esc 47 billion in 1976, or from 1 percent of GDP in 1973 to 10 percent in 1976. The budgetary gap expanded from 7-8 percent of total receipts during 1972-73 to about 55 percent in 1975-76.

49. In Portugal, the autonomous funds administer the Government's subsidies to the productive sector and serve as a major instrument of the Government's price policies (through the Supply Fund) and provide unemployment benefits (through the Unemployment Fund). The latest accounts of all the autonomous funds are not yet available. In 1974, however, spending by the autonomous funds more than doubled by comparison with 1973, amounting to about Esc 10 billion. The deficit of the Supply Fund remained around Esc 3 billion during 1974-1976 (compared to a small surplus in 1973). Similarly, the Unemployment Fund, which showed considerable surpluses until 1975, is expected to show a deficit of Esc 3 billion in 1976. The deficit of the social security system is estimated to have risen from Esc 6 billion in 1975 to about Esc 15 billion in 1976. A further deficit of Esc 8 billion is expected on the public utilities account (mainly transport). These operations have given rise to a very high public sector deficit of about Esc 70-75 billion, equivalent to about 15-16 percent of the estimated GDP in 1976. Another disturbing feature of these deficits is that they are related mostly to transfers and subsidies and only partly to increases in investment. One of the most difficult tasks facing the Government is to reduce these deficits and to switch expenditures towards investments and productive activities rather than keeping them locked in consumption.

Rapid Inflation

50. The growing budgetary deficits and the deficits of the autonomous funds have been financed through increased credit to the Government. This has contributed to the inflationary spiral, fueled by wage increases, in the economy. By end 1976, prices were up by 76 percent compared to the end 1973 level, money supply (M1) was up by 51 percent and the supply of the broadly defined money (M2, including time and savings deposits) was up by about 50 percent.

51. The following table shows the key monetary indicators in the Portuguese economy during 1973-76.

Table 6: MONETARY INDICATORS
(Percent Change)

	End Year			
	1973	1974	1975	1976
Increase in prices	12.9	25.1	15.2	21.6
Increase in Money Supply (M1)	28.3	10.2	24.0	10.1
Increase in Money Supply (M2) (including Time and Savings Deposits)	23.2	13.6	12.2	17.7
Increase in Total Domestic Credit	30.0	21.7	19.5	25.4
Increase in Credit to the Public Sector /a	-23.6	nil	126.0	50.0
Interest Rate on Time Deposits /b	6.5	9.5	10.5	10.5

/a Including non-monetary financial institutions.
/b Applies to deposits over 1 year and up to 2 years.

The 22 percent increase in total domestic credit in 1974 was in line with the trend growth rate of overall credit in the several pre-revolution years but in 1974 and 1975, the growth of credit extended to the private sector declined sharply while credit to the Government sector increased rapidly (tripling in 1974, doubling in 1975 and increasing by 50 percent in 1976). Of the Esc 56 billion increase in total credit in 1975, about Esc 29 billion or 52 percent was absorbed by the credit to the Government sector, 13 percent by the financial institutions and about a third by the private sector. This was the reverse of the situation in earlier years. The distribution of bank credit, however, shifted considerably in favor of the private sector during 1976. Most of the banking system credit to the Government in post-revolution years has been extended by the Central Bank and this contributed to the rapid growth of the base money and the rate of inflation during 1974-76.

52. Broadly defined money, M2, including time and savings deposits, increased by about 12 percent in 1975 compared with an 24 percent increase in the narrowly defined money supply (currency and demand deposits), M1. In 1976, however, the growth in M2 (18 percent) was considerably greater than the growth in M1 (10 percent). The demand for currency, which increased sharply in 1975 at the expense of both demand deposits and time and savings deposits, showing lack of public confidence in the banking system, has been reduced considerably in 1976. The real interest rates, however, have been substantially negative in recent years.

53. Traditionally, commercial bank deposit and lending rates have been low in Portugal. Even though the inflation rate in the pre-revolution period was not as high as in recent years, it exceeded the deposit and lending rates by a considerable margin, resulting in negative real deposit and lending rates. During 1971-73, the annual price inflation rate was about 12 percent compared

with 5-6 percent interest on one year deposits and 8-9 percent interest on 5 to 7 year loans. Since the beginning of 1974, the interest rate on one year deposits has been raised from 5-6 percent to 9.5 percent (July 1976) and lending rates for 5 to 7 year loans from 8.8 percent to 13 percent. During 1974 and 1976 the average annual inflation rate was about 21 percent, making real deposit and lending rates negative to the extent of 8-12 percentage points.

54. The rate of increase in consumer prices (25 percent) in 1974 was more than double the rate of price increase during 1971-73. In 1975, the increase in consumer prices was 15 percent, mostly as a result of an extensive system of price controls and subsidies which were introduced in July 1974. The increase in wholesale prices also showed a similar trend, rising from about 6 percent during 1970-73 to about 27 percent in 1974 and 14 percent in 1975. Prices were controlled for a number of commodities, such as cement, bricks, and tiles, and for basic foodstuffs like sugar, rice, meat and milk. This together with restricted profit margins (10 percent at wholesale and 15 percent at retail levels for most products) prevented prices from rising to even higher levels in 1975. However, since the end of 1975, necessary price increases of petroleum products, rate increases in public utilities and sales tax increases have exerted pressure on prices; the rate of increase in prices during 1976 was about 22 percent.

<u>Declining Productivity</u>

55. Portugal's rapid inflation was caused by both demand and cost factors. During 1970-73, the average annual increase of nominal wages was about 16 percent while real wages increased by about 4 percent. The establishment of the minimum wage in May 1974 and its upward adjustments due to trade union pressures for higher wages and the various post-revolution Governments' desire to permit increases in wages in favor of workers, resulted in an increase in nominal wages by about 34 percent in 1974 and 23 percent in 1975. By end 1975, nominal wages were about 65 percent more than the end-1973 level. This increased real wages by about 9 percent in 1974 and 5 percent in 1975.

56. Given the recent trends in nominal wages and implied labor productivity, the unit labor cost showed a marked increase in 1974 and 1975, about 26 percent and 23 percent respectively, compared to only 6 percent per annum during the three year period before the revolution. This is shown in Table 7 below:

<u>Table 7</u>: TREND IN WAGES, PRODUCTIVITY AND LABOR COST
(Percent Per Annum Changes)

	1970-73	1974	1975
A. Nominal Wages	15.5	33.7	22.7
B. Changes in Productivity	8.6	6.1	-0.1
(Total Real Output)	(8.2)	(5.3)	(-2.7)
(Total Employment)	(-0.4)	(-0.8)	(-2.6)
C. Unit Labor Cost (1+A/1+B)	6.4	26.0	22.8

57. The decline in productivity, particularly in 1975 was to a considerable extent due to labor strikes, absenteeism and labor indiscipline. One of the most challenging tasks facing the Government is to bring back the traditional 'work ethic'. The changes in labor laws at end 1976, improved labor-management relations and measures to discourage absenteeism are expected to reverse the decline in labor productivity in 1977.

The Worsening Balance of Payments Situation

58. Portugal's balance of payments has deteriorated sharply since 1974. The trade gap is estimated to have widened from about Esc 22 billion in 1973 to about Esc 51 billion in 1976. This is due to a sharp decline in exports at constant 1970 prices--11 percent and 15 percent in 1974 and 1975 respectively with only 8-9 percent increase expected in 1976. On the other hand imports increased by about 13 percent in 1974 and, following a decline of 24 percent in 1975, they are estimated to have increased again by 4 percent in 1976. With a substantial decline in tourist receipts and workers' remittances during the period, the current account balance has shifted from a surplus of about $330 million in 1973 to a deficit of about $1 billion in 1976.

59. The growth of imports in 1974 was mainly due to increased demand for consumer goods. The redistribution of income generated heavy demand for those goods which the Portuguese productive system was unable to supply partly because of disruptions in supply. Imports of capital goods and fuels also increased, as a result of orders placed in earlier years. The following table provides estimates of import volume by major categories.

Table 8: IMPORT VOLUME BY TYPE

	Share of Total, 1974	1974 Annual Percentage Change	1975 Annual Percentage Change
Equipment Goods /a	18.4	20.7	-39.5
Intermediate Goods	57.2	4.8	-27.8
Combustibles and Lubricants	7.9	35.0	- 5.0
Consumer Goods	13.9	30.8	-16.8
Other Non-Durables	2.5	12.3	-15.1

/a Excluding ships and planes.

Source: National Institute of Statistics and IMF Report, August 1976.

The sharp drop in 1975 in imports of equipment and intermediate goods reflected a steep decline (about 40 percent) in gross domestic investment and industrial production, and difficulties in obtaining suppliers' credit abroad. The decline in imports of consumer goods was mainly due to a liquidation of stocks built up in 1974 and the imposition of the import surcharge. In 1976, imports are estimated to have increased by 4 percent in volume and about 17 percent in value. Data for the first half of 1976 suggest that consumer goods imports will account for a third of total imports in 1976 compared to about one fourth in the first half of 1974.

60. Export volume fell by about 11 percent in 1974 and about 15 percent in 1975 and showed a 8-9 percent increase in 1976. Rising domestic costs of labor and other inputs reduced the profitability and competitiveness of Portuguese exports. In addition, exports were also affected by the disruption in supplies due to labor strikes and absenteeism, the loss of colonial markets which accounted for about 20 percent of total exports in the early 1970's, and the recession in the economies of Portugal's major trading partners. By product category, exports of tomato concentrates suffered most in 1974 and 1975. Exports of wine, wood products and textiles also declined substantially.

Table 9: EXPORT VOLUME BY COMMODITIES

	Share of Total, 1974	1974	1975
		Annual Percentage Change	
Tomato Concentrates	2.0	-48.7	-53.7
Wines	7.0	-10.8	-13.2
Cotton Textiles	18.0	-24.6	-33.5
Wood and Cork	10.3	11.4	-47.8

61. During the decade prior to 1973, Portugal's exports in general did not cover more than two-third of payments for merchandise imports. Receipts from tourism and workers' remittances easily bridged the massive trade gap and the overall surplus added to the country's foreign exchange reserves. Beginning 1974, however, the deterioration in the trade balance became critical; the negative balance increased from \$990 million in 1973 to about \$2 billion in 1974 or equivalent to about 15 percent of GDP in that year. With tourism receipts declining at a rate of about 16 percent per annum during 1974-75 and workers' remittances in 1975 being 10 percent below the 1973 level, the current account balance dipped sharply from a surplus of about \$330 million in 1973 to a deficit of over \$800 million in 1975. While both tourism receipts and workers' remittances are showing signs of improvement, the current account deficit is estimated at a high level of \$1 billion in 1976.

62. The figures in Table 10 below provide evidence of the seriousness of Portugal's balance of payments situation.

Table 10: BALANCE OF PAYMENTS
(Billion Escudos)

	1973	1974	1975 /p	1976 /e
Exports, f.o.b. /a	45.5	58.1	49.5	55.1
Imports, f.o.b. /a	67.7	108.7	90.6	106.0
of which Petroleum and Petro.Products	(3.8)	(13.50)	(14.56)	(19.2)
Trade Balance	-22.2	-50.6	-41.1	-50.9
(In Million US dollars)	(-899.9)	(-1,991.3)	(-1,615.6)	(-1,697)
Non-Factor Services (Net)	1.16	-1.89	-3.7	-1.5
of which Tourism (Net)	(7.90)	(6.56)	(3.74)	(--)
Investment Income (Net)	2.11	3.28	-0.27	-2.5
Transfer Payments (Net)	27.06	28.21	24.40	26.0
Current Account Balance	8.13	-21.00	-20.67	-28.9
(In Million US dollars)	(329.6)	(-826.4)	(-812.5)	(-963)
Capital Account (Net)	1.17	5.20	3.03	-4.6
Overall Balance	9.4	-15.80	-23.7	-33.5
(In Million US dollars)	(377.0)	(-621.1)	(-931.6)	(-1167)
Financing				
Changes in Official Assets (decrease, +)	-9.3	15.80	15.5	
Changes in Liabilities (increase, +)	-0.1	--	8.2	

/a Including diamonds.
/e Estimates.
/p Provisional.

Source: Bank of Portugal, 1975 Annual Report, and IMF Report, August 1976.

As the table shows, merchandise exports declined in real terms and fell to about 13 percent of GDP by 1975 compared to about 16 percent in 1973. According to preliminary estimates, the share of exports in GDP in 1976 may be slightly below the 1975 level. Secondly, the country's dependence on imports remains high and is estimated at about 23 percent of GDP in 1976, with the share of food and other consumer goods in total imports rising gradually in 1975 and 1976. Thirdly, workers' remittances and tourist receipts--the most important sources of foreign exchange besides merchandise exports--no longer fill the trade gap, which is being bridged by drawing down reserves and by foreign borrowing. Finally, foreign exchange reserves have fallen to a low point, $160 million at end 1976, covering less than one month's imports at the current level. However, a stock of about 28 million ounces of gold valued at $3.7 billion at current market prices continues to provide a safety net for payment obligations and is being used as collateral in external borrowing. 1/

High Rates of Unemployment

63. Perhaps the most disturbing feature of the current situation in Portugal is the high level of unemployment in the economy. The low level of unemployment until 1974--about 3 percent--was admittedly illusory. The total population remained virtually stable between 1960 and 1974 because of massive net emigration (e.g. 700,000 during 1969-73), mainly to France and Germany. A substantial number of persons (about 135,000) were also absorbed in the armed forces before 1973. Starting 1974, however, the situation was reversed. Decolonization resulted in a heavy influx of returnees, which by the end of 1976 could reach about half a million, equivalent to 5 percent of the total population. At the same time emigration declined drastically, due to restrictions and lack of demand in European countries for imported labor, from 70,000 in 1974 to 40,000 in 1975 and is estimated at about 30,000 in 1976. The reduction in the armed forces has also added about 90,000 persons to the civilian labor force. These developments led to a sharp increase in both the total population and labor force while the rate of growth, and in 1975 even the level of output and employment, declined. Unemployment was therefore pushed up to 12 percent in 1975 and 14 percent in 1976 and the number of unemployed totalled more than half a million in 1976. The number of unemployed per available job, registered with the Directorate of Employment Services, increased from 1.0 in December 1973 to 48 in June 1976. The Government's intervention to support many enterprises facing financial difficulties, together with trade union pressures and legislation against dismissals, prevented open unemployment from rising to even higher levels but created widespread underemployment. 2/ The magnitude of the unemployment problem can be seen from Table 11 below.

1/ At end July 1976, about one third of gold was pledged for short-term borrowing.

2/ There were about 20,000 dismissals in 1974 when the aggregate output in the economy increased by about 5 percent compared with 6,500 dismissals in 1975 when GDP actually declined by about 3 percent.

Table 11: EMPLOYMENT BY MAJOR SECTORS
(End Year Figures, In Thousands)

	1973	1976 /a
Total Employment	3,124.3	3,038.4
of which:		
Agriculture	821.1	768.0
Industry	900.5	869.4
Construction	276.1	258.1
Services	1,126.6	1,142.9
Unemployment	99.0	503.7
Total Labor Force	3,223.3	3,542.1
Unemployment Rate (% of Labor Force)	3.0	14.2
Net Emigration	120	30

/a Estimates.

Source: Annex Table 1.3.

The Economy at End 1976

64. At end 1976, the Portuguese economy is in the grip of serious problems and has not benefited as yet from the gradual upswing in the economies of its major trading partners. The increase in aggregate production and the creation of new jobs have been painfully slow. The level of consumption is still very high and the shares of savings and investment in GDP are depressingly low. The financial imbalance in the public sector is at an all-time high, inflationary pressures persist and the balance of payments deficit has become a critical constraint. Foreign exchange reserves excluding the gold stock have declined to a level which makes management of the foreign exchange liquidity very difficult. Above all, unemployment has escalated to an unprecedented level and has become a major problem in the management of the economy.

V. THE GOVERNMENT'S RESPONSE TO CURRENT PROBLEMS

65. The revolution inevitably gave rise to the expectation of a substantial improvement in living standards for most of the working population. Successive governments took action to restructure the pattern of ownership and income distribution. There was little or no recognition in the first eighteen months following the revolution that supporting actions were needed to safeguard the levels of investment, output and employment. By late 1975, however, it had become obvious that unless other actions were taken, the longer-term result would be a deterioration in the living standards of the very groups the revolution was intended to serve.

66. The response to this situation was initiated by the sixth provisional Government, which came to power in September 1975 and undertook a series of austerity measures. The continuation and in some respects the worsening of the problems in 1976 made it clear that the measures introduced were not enough. The new Government which took office in July 1976--the first under the new constitution--immediately committed itself to going beyond these measures, and prepared its Program entitled "Program of the Constitutional Government", which was approved by the Assembly in August 1976. The Program delineates in general terms the Government's objectives and the broad approaches it proposes to follow in achieving them. In some areas specific follow-up actions have already been taken. The question is to what extent the measures taken so far represent an adequate response to the seriousness of Portugal's economic situation and whether they offer hope for achieving the three goals which dominate economic management at present; containing domestic consumption; improving the balance of payments, and reducing the level of unemployment.

67. Perhaps the most important steps taken during the past year relate to the objective of <u>containing domestic consumption</u>. During 1975 the rate of inflation was held down to 15 percent through a combination of price controls and subsidization of food items. This was less than the increase in nominal wages for the lower-paid sections of the working population. In late 1975 and early 1976 cost increases were passed on to consumers and taxes were increased in an effort to reduce private consumption and increase public savings in real terms.

68. These measures fell into three categories: firstly raising the controlled maximum prices, secondly increasing indirect taxation, and thirdly setting higher prices for public utilities. In early 1976 controlled maximum prices of gasoline and fuel oil were raised by 35-55 percent, cement by 28 percent, sugar by 70 percent, beef by 40 percent, milk by 50 percent, and coffee by 90 percent. In order to provide relief to the poorer groups however, prices of sugar and potatoes were reduced by 13 percent and 40 percent respectively in April 1976 and maximum prices were established for such commodities as beer and tinned fish. At end 1975 sales taxes ranging from 10 percent to 40 percent were imposed on most consumer goods and only basic food items, medicines and investment goods were exempted. Import surcharges were levied in May 1975 and raised in October 1976. At the beginning of 1976 public

utility rates were raised: public transport by 20-60 percent, telephone and postal rates by 40 percent and electricity by 24 percent. These measures contributed to a price increase which is estimated at 25 percent in 1976.

69. The actions to raise prices were supplemented by measures to control rising incomes. The first element of these was direct tax increases. Taxes on income from urban property were increased from the previous 12 percent rate to 20 percent, and taxes on income from agriculture were raised from 10 percent to 15 percent, in early 1976. In August 1976 the Government raised the maximum rate of professional tax from 15 percent to 22 percent, the complementary tax on the upper end of taxable income from 56 percent to 80 percent for individuals and from 8 percent to 12 percent for retained profits of corporations. A surtax of 10 percent on collections on the majority of direct taxes was also imposed during 1976. The rate for industrial tax was made more progressive and raised from 15 to 20 percent.

70. The second element of the attempt to control incomes relates to the social welfare system. Even before the revolution the social welfare system was characterized by deficits. After the revolution, however, benefits were extended through increased pensions and an adjustment in family allowances. These increased benefits were accompanied by a smaller increase in receipts. At the same time, the number of beneficiaries also rose. Consequently, total payments in 1975 were Esc 35 billion, equivalent to 9 percent of GNP, with the deficit at Esc 6 billion. The social welfare budget for 1976 called for an expenditure of no less than Esc 50 billion with a deficit of Esc 15 billion. In August 1976 the Government raised contributions by employers from 17.5 percent to 19.5 percent and by workers from 6 percent to 7 percent. In a full year this will raise total receipts by about Esc 5 billion which is still far from closing the deficit.

71. A third set of measures relate to direct controls on wages and incomes. It has been announced in recent months that payroll increases will be limited to a maximum of 15 percent per annum and that supplementary income and fringe benefits will be lowered. A national council on prices and wages is being set up to develop a comprehensive prices and incomes policy. In 1974 and 1975 the increase in real private consumption exceeded by a substantial margin the increase in GNP. The challenge facing the new council will be to devise an approach by which the increase in real private consumption can be kept well below the increase in GNP in the coming years.

72. From 1973 to 1975 private consumption rose by 10.7 percent while public consumption rose by 34 percent in real terms. Despite the measures cited above, the current budget surplus of the pre-revolution period was converted into a sizeable current deficit. The overall deficit which was under Esc 4 billion in 1973, ballooned to no less than an estimated Esc 47 billion in 1976. At end June 1976 the Government ordered a 10 percent reduction in current expenditures over the initial authorizations for certain categories of current expenditures covering about 15 percent of the total. Also at end June 1976, government investment expenditure was reduced by about 15 percent. It is difficult to argue that the actions taken so far come to grips with the problem of restoring the budget to respectability.

73. The measures to contain domestic consumption were of course an important part of the overall strategy of improving the balance of payments. Import taxes have been increased substantially both as a revenue measure and to reduce import demand. The 13 percent increase in imports in real terms and the $800 million current account deficit in 1974 led to the imposition of surcharges in May 1975 which were designed to curb the import of non-essential goods. A surcharge of 20 percent covered 30 percent of total imports (mainly intermediate goods) 1/ and a surcharge of 30 percent covered a further 8 percent of total imports (mainly consumer goods). The surcharge was instrumental in the reduction in the import of consumer goods by 17 percent in 1975. Imports of intermediate goods fell by 28 percent in 1975 due partly to the imposition of the surcharge but mainly to the effects of the decline in industrial production, the decline in investment demand and the drawing down of stocks.

74. Even with a 24 percent decline in real imports overall in 1975, poor export performance resulted in the balance of payments deficit remaining at the $800 million level of the previous year. In the early months of 1976 there was a further deterioration and in October of that year, the Government increased the import surcharge to 30 percent on intermediate goods as well. In addition, a surcharge of 60 percent was imposed on non-essential commodities such as carpets, watches, tape recorders, beer, wine and canned food. With the higher level and broader coverage of the import surcharge, the Government also introduced advance deposit requirements (50 percent of the value of imports to be deposited for six months without interest) on some of the goods subject to import surcharges. The Government also announced that it would ban imports of certain non-essential goods, if necessary, to improve the foreign exchange position.

75. The increase in import duties appears to have been more significant in shifting imports out of the less essential categories than in curbing overall import demand. With the substantial income redistribution to lower income groups which took place, the import pattern had in any case shifted towards 'essentials'. Thus in 1974 total import duty collections were equivalent to 4.5 percent of total import payments, while in 1976 they had only risen to 5 percent. The impact of the most recent measures will, of course, only be visible in 1977. The higher level of import duties was, however, only one of the measures by which the price of imports was raised. Many imports were subject to domestic sales taxes and perhaps most importantly, the Government permitted the exchange rate to depreciate by 15 percent during 1976.

76. This depreciation of the exchange rate was an important step in restoring some of the price competitiveness of Portuguese exports. In the years 1974-76 Portuguese prices rose by some 80 percent while international prices went up by about 50 percent. In 1976 Portuguese exports were only about 75 percent of their 1973 level in real terms. A series of measures have been taken in the past year to encourage exports. These include special credit facilities for exports at concessionary interest rates (6.5

1/ Imported inputs into export-oriented production were, however, exempted.

percent since March 1976), a modification in the export insurance scheme to make it more effective, tax drawback in favor of exporters, and the creation in April 1976, of a council to coordinate the financing and other needs of exporters. The Government has also negotiated trade concessions for Portuguese exports with the EEC and EFTA. In September 1976 a protocol was signed with the EEC which (a) raised the ceiling on selected Portuguese exports such as textiles; (b) abolished customs duties on many industrial imports into the EEC from Portugal with effect from July 1976; (c) reduced tariffs on some agricultural products entering EEC markets from Portugal, most importantly on certain wines; and (d) allowed Portugal to re-establish tariffs on industrial imports from the EEC to protect its own industries. For the longer-term, the Government has expressed its desire to negotiate membership in the EEC.

77. In the five years preceding the revolution, the trade deficit was financed through tourism earnings and substantial workers' remittances. With the combination of instability in Portugal and recession in western Europe, however, tourist arrivals in 1975 were only 48 percent of their 1973 level, while workers' remittances in 1975 were 38 percent lower than in 1973 in real terms. To encourage remittances from emigrant workers the Government established foreign currency deposits in December 1975, with exchange guarantees and free convertibility. Obviously the restoration of internal stability is the key to higher earnings from tourism and remittances.

78. The balance of payments current account deficit in 1976 is estimated at about $1 billion. The third year in a row of very large deficits has used up Portugal's once ample liquid foreign exchange reserves and the country has been forced to borrow sizeable amounts with the gold stock as collateral. The Portuguese Government recently obtained from the U.S. Government a short-term loan of $300 million. The U.S. Government has also initiated discussions with other potential donors to set up a consortium to provide $1.5 billion of medium-term assistance to Portugal. In addition the EEC has also granted $180 million concessionary aid to Portugal, committed a further 200 million units of account ($240 million) over a 5-year period and EFTA has established a $100 million industrial development fund. Aid at this level would give the Government important room for maneuver in taking the measures which are needed to stop the further erosion of Portugal's external position.

79. From a policy point of view, reducing the rate of unemployment has been and will remain the most difficult of Portugal's objectives to achieve. To the extent that it is cyclical and can be tackled by stimulating the economy this is likely to result in increased consumption and further worsening of the balance of payments situation. To the extent that it is a consequence of the inflow of returnees from the colonies and lower rates of emigration from Portugal, it is only to a limited extent amenable to short-term policy measures.

80. The Government has so far adopted two approaches. The first was to stop open unemployment from rising to higher levels through direct assistance in the form of subsidies, loans and guarantees to small-scale industries in financial difficulties and legislation to make dismissals of workers difficult in theory and nearly impossible in practice. These measures were

soon seen to be merely palliative and in many respects damaging in the longer term because of the disincentives they created for increased productivity on the one hand and new investment on the other--except insofar as the objective of new investment was to displace labor.

81. Since the second approach to the employment problem was precisely to raise productivity and new investment, the Government introduced the changes described earlier, designed to make dismissals easier and improve labor discipline. The objective of increasing investment comprises both the public and the private sectors. It is recognized that private investment is likely to be both more export-oriented and more labor-intensive and special efforts have been exerted to restimulate it. Figures on private investment are not available but it is evident from the fact that gross fixed capital formation was down by 40 percent in real terms in 1975 from 1973 while budgetary capital expenditures rose in the period, that new private investment virtually evaporated during the period.

82. Measures have also been taken to encourage foreign private investment. The new foreign investment code published in April 1976 offers generally attractive conditions and adequate guarantees to foreign investors. Further revisions are being made to make the code even more attractive. The Government has also established a committee to set up the Foreign Investment Institute which will coordinate, guide and supervise foreign direct investment in Portugal.

83. It can be argued that recent measures go a long way to re-establishing a positive climate for private investment. The Government has shown that it fully accepts the role of the private sector and will not allow labor indiscipline to stand in the way of economic recovery. It can be argued that time and political stability will do the rest. This neglects the question of profits however. Price controls have exerted a squeeze on profit margins. Investment is not likely to recover without some reversal of this trend. This is understandably a difficult political issue in post-revolution Portugal. Nevertheless, the Government has initiated steps to modify the price control system and some improvement is expected in the near future.

84. For the present the most substantial approach to the employment question has been through increased levels of public investment. The estimated increase in development expenditures for 1976 is about 50 percent in nominal terms over the 1975 level. Emphasis was placed on low-income housing projects, urban development, transport, communications, power and rural electrification. The capital intensity of public investment tends overall to be high however. The present Government inherited the major port development and heavy industry project at Sines, which accounts for a sizeable chunk of the total public investment program with only a very limited employment impact. There has been an attempt to shift the pattern of both public and private investment towards more labor-intensive projects, particularly in housing. This is obviously one of the keys to dealing with the employment problems. Special incentives have been introduced for private housing construction and ambitious public programs have been formulated which have been partly financed by foreign assistance.

85. It is apparent from the above that Portugal still has a long way to go in coming to grips with the three critical areas of higher savings, exports and employment. Why has more not been done? First of all it is never politically easy to contain the growth of real income and consumption. It is infinitely more difficult after a revolution in which higher living standards for the masses was one of the rallying calls. It is almost impossible when the revolution is followed by the political instability and constant changes in Government and key personnel which have characterized Portugal between 1974 and 1976. Second, the measures which are needed to put Portugal back on the growth path are by no means simple or obvious. There is a delicate balance to be maintained between stimulating the economy and spiralling wages and prices; or looked at from another angle, between stabilizing the economy and revival of investment and employment growth. Nevertheless, whatever has or has not been done in the past, the situation as of end 1976 is that the economy has serious problems and that appropriate measures can and should be formulated and implemented to deal with them.

VI. GROWTH PROSPECTS AND POLICIES

86. Despite a considerable potential, the revival of growth in the Portuguese economy is by no means an easy task. The downward plunge of the national economy will have to be halted and reversed to make a meaningful contribution to higher incomes and the creation of new jobs. This will require not only fuller utilization of existing capacity but also a substantial increase in productive investment. The implication of this is the need for a marked increase in domestic savings in both the private and public sectors. The growth in real private consumption cannot continue at the rate of the recent past and public sector deficits will have to be substantially curtailed. The already serious inflationary pressures will have to be moderated not only to encourage savings but also to improve the deteriorating balance of payments situation. Government policies should also restore Portugal's competitive position to take advantage of the upswing in the world economy.

Government Program

87. The Government is aware of the tasks ahead. Soon after coming into office, it introduced a number of measures to stem further deterioration in the budgetary position and the balance of payments. At the same time, it announced a Program which highlights socio-economic objectives and provides the functional ministries and public and semi-public institutions with general guidelines and a basic framework. The main purpose of this Program is to develop measures which would tackle the budgetary deficits by restraining the growth of expenditure of the central Government, public institutions and autonomous funds. The Program suggests that the burden of taxation is heavy, particuarly under the current recessionary conditions of the economy and that the main thrust will be towards rationalizing and consolidating the income taxes, introducing more progressivity in some taxes and implementing measures to stem evasion of local taxes. The Program also proposes to mitigate the financial difficulties of enterprises by the establishment of a precise and clear policy which, while respecting the interest of the consumer, would allow the enterprises to raise prices. It recognizes the enterprises' right to dismiss workers under certain conditions. Also to improve the efficiency and effectiveness of management, a career service for public managers and management rules for public enterprises has been proposed. To improve the prospects for dealing with the balance of payments problem, the Program calls for the adoption of measures to contain imports (e.g. import surcharges, sales taxes, deposit requirements, etc.), to check capital flight, to control the outflow of invisible payments, to provide further incentives for exports, workers' remittances and tourism receipts and to encourage foreign loans by setting up a suitable scheme for covering the exchange risk. The Program has also indicated the formulation of a more active monetary policy, including adjustments in interest rates. It envisages the establishment of an agency for coordination of investment credit policy, reorganization of the nationalized financial system, revitalization of the capital market and the establishment of a National Economic Development Fund which will progressively absorb a number of existing funds. Furthermore, the Program includes measures in the

important sectors of the economy such as industry, agriculture, public works and construction, housing and urbanization and education. These are discussed in Part II of this report.

88. The Program is broad in its coverage and general in its approach. It is specific only with respect to the timing of the preparation of plans and draft legislation. The Program was evolved by different agencies of the Government and put together at great speed. Consequently, it does not indicate: (i) what are the priorities of the Government; (ii) what will be the financial, personnel, and administrative requirements of implementing the programs; (iii) how the various programs are linked with each other; and (iv) how conflicting policy approaches (e.g. allowing enterprises to charge higher prices and general inflation or allowing dismissals and improving the unemployment situation) will be resolved. Above all, the Program does not address itself directly to crucial problems like unemployment and the type of investment projects which are needed at this point in time.

89. What this amounts to is that there is as yet no clear view as to where the Portuguese economy is headed. The situation is an extraordinarily complex one and the alternatives are not clear-cut. In these circumstances it is not surprising that a consensus on the approaches which should be adopted, is still evolving in Portugal. In the following pages, a scenario is presented including the policy initiatives which might contribute to its achievement. The scenario is also related to the principal sectoral policies (which are dealt with in more detail in Part II of this Report).

Medium-Term Development Objectives and Prospects

90. The Portuguese Government is faced with a classic dilemma--the trade-off between short-term and long-term objectives. On the one hand short-term political costs can be minimized by maintaining consumption levels, in part with foreign assistance. Low levels of investment and a large external debt burden will, of course, hamper the economy's ability to grow in the longer-term. On the other hand, draconian measures to increase savings and investment may be costly in the short run in political support and personal hardship. The long-run benefits of more rapid income growth may well be reaped by a successor government. It is our assessment that the risks of inertia are so great at this point that they justify at least the social and economic costs of an aggressive program aimed at economic recovery. Inaction now will, at best, delay but not obviate the need for difficult decisions and unpopular actions.

91. The present structure of aggregate demand is not one which can be sustained over the longer run. The current level of investment will only lead to a moderate growth rate of output and will scarcely allow the absorption of future additions to the labor force, let alone remedying the backlog of unemployment. Even this level of investment, however, will be impossible to maintain without a substantial increase in the savings level. Both domestic savings and foreign aid will need to substitute for the use of

reserves in the years ahead. There will be little dispute with the objective of shifting the Portuguese economy towards the level and pattern of investment and savings which are consistent with adequate growth rates in consumption and employment. The pace at which this can be achieved however, is constrained by political realities. A serious approach to the problem must recognize these constraints explicitly and define a set of objectives and policy measures which take account of the limits within which a democratic government operates. One such approach is illustrated in Table 12 below and discussed in the succeeding paragraphs.

Table 12: SELECTED MACRO-ECONOMIC AGGREGATES
(As Percentage of GDP)

	1973	1976 Est.	1982 Proj.	Av. 1977-82 % annual growth
Investment	20.6	13.0	19.9	12.9
Domestic Savings	11.5	1.4	14.9	56.5
Imports	33.3	27.0	26.8	4.9
Exports	24.3	15.8	22.6	11.6
Terms of Trade Adjustment	0.1	0.4	0.8	--
GDP	-	-	-	5.2

This would not by any means be the end of the road. Further shifts into investment, savings and exports would still have to continue, but if these targets can be achieved, the economy will have weathered the worst and the population could look foward to appreciably larger rising per capita consumption in the following years.

92. These objectives translate into the following scenario:

(a) Output growth. There is a great deal of slack in the economy at present. Utilization of capacity is relatively low and needless to add there is ample labor. The expansion of output for the domestic market is important in the agricultural sector. In the manufacturing sector, however, growth will have to be led by exports since the balance of payments is a severe constraint on production for the domestic market. The other leading force will be investment, which will need to be oriented to export, import substituting and labor-intensive sub-sectors. If the kind of measures outlined below can be taken, then the medium-term prospect is a promising one. The mission projects that, in the period 1977-82, Portugal should be able to achieve a growth in income of about 5 percent per annum, rising from about 4 percent per annum increase in the late 1970's to about 6 percent in the early 1980's.

(b) Real Consumption. With population growing at 1.5 percent per annum, growth at that rate in real consumption will be needed to maintain its per capita level. To permit private consumption to grow at a slightly higher rate, public consumption will need to be held at its current level in real terms. In this projection, real consumption per capita would grow at about 2.5 percent per annum during 1977-82. Private consumption would grow at nearly 3 percent and public consumption at less than 2 percent per annum. The restraint on public consumption would permit a progressively larger decrease in budgetary deficits. By 1982, total consumption would account for about 84 percent of GDP.

(c) Investment Growth. The investment picture is very unclear at this point, but despite some increase in 1976, the level of investment remains very low (about 13 percent of GDP). It is assumed that growth will continue to be led by increase both in public and private investment -- about 13 percent per annum. In the absence of a substantial recovery in private investment, this may prove the maximum that can be achieved. If private investment can be restimulated, however, this is almost certain to be achieved and may be too conservative an estimate. The overall investment is projected to increase from about 13 percent of GDP in 1976 to about 20 percent by 1982 reaching the level of the pre-revolution years in the early 1980′s.

(d) Domestic Savings. Increased investments on higher level will clearly require a correspondingly vigorous savings effort. The projections imply that the share of domestic savings in GDP would rise to about 15 percent by 1982 compared to about only 1 percent in 1976. This estimate does not assume a very substantial rise in private investment and savings out of profits. It is based on reduction in public dis-savings, increase in contributions to the social security system and savings in the private sector which would be mobilized for public investment. Domestic savings would be higher as a percentage of GDP than in 1973, and this is a consequence of the lesser extent to which remittances from Portuguese workers abroad can be expected to finance investments in the years ahead.

(e) Import Growth. About 5.0 percent per annum is projected in 1977-82. The import projections envisage a sharp reduction in imported consumer goods in 1977 and a small 1-2 percent increase in subsequent years. It also envisages some economy in the use of imported capital equipment and machinery. The estimates also imply a significant restructuring of the import bill -- away from consumer goods and food items to industrial raw materials and producers′ equipment. An overall import elasticity of less than one runs counter to the long-term experience in Portugal and would have to be achieved through containing imports of consumption goods, since the enlarged investment program is inevitably import-intensive. 1/

(f) Export Growth. A better balance in external trade and payments would require substantial progress in economic import substitution and vigorous export promotion effort. The projections assume about 11-12 percent per annum increase in exports and a similar increase in workers' remittances. This growth rate of exports and resumption of increased tourism earnings are central to the overall scenario and would still leave the level of real exports in 1982 only 25 percent above the 1973 level.

(g) The Balance of Payments Deficit on Current Account. The deficit would not be eliminated, but there would be no question of Portugal's creditworthiness in the context of the overall trends. The deficit would gradually decline from about \$1.0 billion in 1976 to about \$115 million in 1982. With the inclusion of debt servicing, there would still be a need for sizeable foreign inflows till about 1982.

(h) Employment. With regard to employment, the projections indicate a substantial contribution by the industrial, construction and services sectors, but overall employment cannot be expected to increase much more than 3 percent per annum. The additional jobs created would be about half a million, enough to eliminate the present unemployment, but providing few openings for new entrants to the labor force. Even this progress will hinge quite heavily on the success in steering the economy in the direction of labor-intensive sub-sectors and investments and also in devising special employment programs.

93. The balance of payments implications of these targets are presented in the table below.

1/ A recent study calculated the import component of investment at 45 percent.

Table 13: BALANCE OF PAYMENTS PROJECTIONS
(Current Prices, Millions of U.S. Dollars)

	Est. 1976	Projections 1979	1982
Exports and NFS	2,395	4,002	6,783
Imports and NFS	-4,207	-5,637	-8,307
Balance of Goods and NFS	-1,812	-1,635	-1,524
Factor Service Income (Net)	797	1,007	1,426
of Which:			
(Workers' Remittances)	(867)	(1,278)	(1,795)
Transfers (Net)	-16	-16	-16
Balance on Current Account	-1,031	-644	-114

Even if growth rates of exports and imports are achieved, the current account will still remain in deficit until 1982, although the deficits would be reduced substantially. With the inclusion of debt repayments, the country will continue to require sizeable external capital inflow during 1977-82.

94. In dealing with the specific policy measures it is useful to classify them under the three headings which summarize Portugal's economic difficulties; containing consumption; improving the balance of payments; and increasing employment.

Containing Consumption

(a) Stabilize prices. This is an important component of encouraging savings and is also a key to managing the balance of payments. Acceptable targets would be to bring the rate of inflation in line with the international rate towards the end of 1970's. Measures to achieve this may include: (i) Decontrolling all prices and wages but referring for approval any proposed increase above 10-15 percent in the next two years. All increases above this level would be referred to the Prices and Incomes Board for decision. (ii) Raise interest rates on time and savings deposits. Consideration should also be given to providing interest to demand deposits in general which are now available to corporation deposits only.

(b) Reduce the budget deficit: The objective would be to keep the increase in money supply below the target inflation rate and the real growth in the economy. The key element is reducing the budget deficit through: (i) Limiting increases in the current/ordinary budget to the increase in price inflation, i.e. no increase in real terms. (ii) Further rises in taxation will obviously have to be considered. A particular target could be areas where domestic consumption competes goods away from the export markets.

(c) Reduce food subsidies while protecting lower income consumers: If not tackled food subsidies are likely to become an intolerable economic burden and a political albatross. Actions should be undertaken to eliminate general subsidies and to help specific groups who would suffer particularly from higher food prices. This can be done through a food coupon program for those on social security or at the bottom end of wage scale. In addition, international food prices are expected to decline in 1977 (see para 94-b below) which will lessen the hardship of the reduction in subsidies.

(d) Encourage private voluntary savings: This is an area which the Government has so far hardly tapped at all. The potential is considerable in the longer-term. Private savings could be encouraged through: (i) Tax exemptions for interest income from special small-savers accounts--i.e. subject to a ceiling on the amount of the deposit. (ii) Higher interest rates were cited in (a) above.

(e) Incentives for private investment: Obviously not all measures are consistent with each other. Setting limits to price decontrol except in special cases will reduce profits and act as a disincentive. Nevertheless freedom to maneuver within the specified range at least will be a useful liberalization. Higher interest rates for deposits would have to be matched by higher rates for lenders and this too would represent a disincentive though the shift would probably be small enough and the impact would be positive through the higher price it would mean for capital relative to labor. Also, special incentives and tax holidays for new export-oriented investment and new housing and construction activities should be considered. While the raised level of investment is important, the quality of investment would also be a crucial factor in achieving the target growth in income and in improving the balance of payments and employment situation.

(f) Raise the level of public investment: The problem of public investment is as much institutional as financial. Individual units do not have the capacity to prepare good projects at present. Furthermore there is little evaluation of the economic as opposed to the financial impact of the projects which are prepared. Part of the solution might be to strengthen the recently established special group in the Ministry of Planning and Economic Coordination which carries out evaluation of projects. Consideration will have to be given to redirecting the investment program away from long gestation capital-intensive projects. Decisions in investment projects need to be based on calculations of economic profitability that involve more sophisticated methodologies than are presently being employed. Among the ongoing projects, these calculations are of particular importance with regard to the Sines Complex. Strengthening the project preparation capability of the public sector and improving the quality of investment would seem to have very high priority at present.

Improving the Balance of Payments

95. (a) Export promotion: The exchange rate policy should reflect the changes in the world economy which have taken place since 1973 and the rapid rate of inflation and decline in productivity within Portugal since the revolution. (i) An active exchange rate policy is a necessary though not a sufficient condition for Portugal regaining its past rate of export growth. 1/ The policy which is adopted should take account of the possibility of some further erosion of Portugal's competitiveness in the next two years. (ii) Consideration should be given to some special tax incentives to exporters. This might even extend to workers in exporting firms. The administrative difficulties of such schemes are legion, but exports are so critical to Portugal's growth that they should be considered. (iii) Tax measures on domestic consumption of exportable goods were referred to in 94-b above. It is recognized that the target growth rates in exports are ambitious. In the long-term however, they are the centerpiece of Portugal's growth strategy. A recent paper has explored the link between industrial exports and overall economic growth in Portugal. 2/ It points out that export growth will make a major contribution to employment, since export industries could expand production with existing capacity and would not be constrained by domestic demand. It stresses the need for adequate incentives for exports and calls for the more flexible use of the exchange rate instrument and strongly endorses the Government decision to explore the possibility of association with the European Economic Community.

1/ The Government devalued the escudo on February 26, 1977 and introduced some other important measures as mentioned in the Foreword to this report.

2/ See Bela Balassa: Industrial and Trade Policy in Portugal. Paper prepared for the Lisbon Conference on the Portuguese Economy, Oct. 11-13, 1976.

(b) Import restriction and substitution: Exchange rate policy should also be used to achieve a measure of control over the growth of imports. It is obvious that higher prices of imported goods will make price stabilization that much harder to achieve, particularly as it applies to imported food. The higher price of imported food is obviously the key to the political debate on whether measures of the kind outlined here should be undertaken. That is why it is so important to conceive a package of measures which would protect poorer consumers from the impact of a sharp rise in prices. It may be worth noting here however, that the IBRD projects a 10 percent decline in its constant price index for food items in 1977 over 1976. It is unlikely that a more opportune moment will present itself in the next two or three years.

Raising Employment Levels

96. The growth of the economy itself will not be sufficient to insure that employment growth is adequate even in the longer-term. If past elasticities were to prevail during 1977-82, employment growth would be only 1.04 percent in the industrial sector and 1.0 percent in construction, creating less than 100,000 jobs in the economy during the period. 1/ This assumes, optimistically, that the projected growth in agriculture would stem the outflow of the labor force from this sector which was about 4 percent per annum during 1970-73. This prospective increase in employment is very small compared with the need to absorb about half a million unemployed together with the additions to the labor force which will arise from the natural increase in population. Emigration to other countries in Europe is unlikely to serve as a 'safety-valve' as in the past, and a large number of returnees--more than half of whom are under 16 years of age and about 40 percent of those working age are without professional or trade skills--need to be absorbed into the economy.

97. It is apparent that projects and investment programs, given technical feasibility, should be substantially more labor-intensive than in the past and that special employment-oriented schemes and labor-intensive projects should be advanced. 2/ Needless to add, improving labor relations is another sine qua non for increased employment. The application of such approaches could help in bringing Portugal's unemployment problem to manageable levels by 1982.

1/ The sectoral growth rates on which these figures are based are included in Table 14 below.

2/ Fortunately Portugal is well placed to increase production in small-scale industries, and in labor-intensive activities such as textiles, clothing, machinery and electronics where an increase in exports along the lines of Portugal's comparative advantage would tend to be concentrated.

98. Portugal's employment problem is unlikely to be solved without major shifts in policies. So far employment policy has had two main prongs, firstly maintaining a high level of aggregate demand and secondly promoting both public and private investment in labor-intensive activities, particularly housing construction. The first of these approaches has had mixed results. It may well have kept in business a few firms which would otherwise have gone under, though often at the expense of increased imports. On the other hand, far from promoting investment it has added to the instability of the current economic situation and consequently may have discouraged the private sector and made labor discipline more difficult to achieve. The objectives of macro-policy in Portugal would seem to be better oriented to growth in exports and savings at this point in time.

99. The second approach of encouraging labor-intensive activities such as housing construction is a far more promising avenue. The employment problem is for the moment best tackled at the sector and micro-level. It would be unrealistic to project a rate of growth of employment higher than 3 percent per annum. Even this level will be extremely difficult to achieve. A useful start might be to (i) set up a special agency within the Planning Ministry to develop employment-oriented policies, programs and projects. Both this agency and the Ministry should (ii) review the existing public investment program in relation to efficient employment creation. The Sines complex would clearly be the starting point for any such review. Consideration should also be given to whether (iii) funds currently used for social security expenditures could not be adapted to a job corps type program of public services and public works at relatively small additional cost. A further possibility is (iv) to expand the education system through more intensive use of existing facilities and longer compulsory schooling. This would only provide a breathing space, not a solution, however.

Sectoral Policies

100. To achieve long-term growth, macro-policies need to be closely co-ordinated with measures at the sectoral level. Sectoral growth rates are projected as follows:

Table 14: SECTORAL GROWTH RATES
(Percent Per Annum, 1977-1982)

	Growth rates
GDP	5.2
Agriculture /a	2.5
Manufacturing /b	7.0
Construction	10.0
Other Sectors	3.5

/a Including forestry and fisheries.
/b Including mining, electricity, gas and water.

Part II of this Report examines in greater detail the measures which will be necessary to achieve these sectoral growth rates. It may be useful, however, to summarize here the most important conclusions which flow from that analysis.

101. Much more emphasis than ever before should be placed on agriculture in Portugal's growth strategy. The reasons for this are both social and economic, namely the existence of a large rural population without the basic amenities of life, and the country's growing reliance on imports of food and agricultural raw-materials. While other sectors of the economy will have to create additional opportunities for gainful employment, the agricultural sector should at least keep the present labor force productively employed. Perhaps the most important requirement to reactivate the agriculture sector is to complete the implementation as expeditiously as possible of land reform in the south and the improvement of land tenure conditions in the north. Investment programs should be prepared with a sense of urgency, particularly in areas affected by land reform. The Cooperative Producers' Units should be organized quickly and support should be given in the production and marketing processes. The present producer prices do not provide adequate incentives to farmers and should be adjusted upward as a matter of priority. It is only when the farmers have adequate income that they can be expected to achieve the much-needed higher level of investment and be receptive to suggestions aimed at improving agricultural practices. Once sufficient progress has been made on these two fronts, a wide range of supplementary policies should aim at promoting the introduction of modern farming techniques utilizing better seeds, more fertilizer, improved farm implements and a more balanced rotation of crops on the advice of an efficient extension service backed by practical farm-oriented research and adequate credit facilities. To achieve success in this effort and to provide infra-structure facilities, such as marketing, storage, pasture development etc., the Government proposed reorganization of the institutional framework--Ministry of Agriculture and Fisheries and autonomous organizations--should be expedited. In the long run fuller use of the installed irrigation capacities and more intensive land use will be essential to mitigate the impact of deficiencies of the soil and climatic conditions.

102. The industrial sector was affected most deeply by the fundamental changes and reforms introduced after the revolution. Suddenly a major part of the sector became the responsibility of the public sector and the private sector became uncertain of its future. The Government has recently reiterated its intention of assigning an important role to the private sector and limiting the productive public sector to the previously nationalized enterprises. However, the speed with which the confidence of the private sector and foreign investors can be restored--which is critical for their contribution to investment and growth in the sector--will depend in part on the Government policy regarding the mode and level of compensation for nationalized assets. The continued predominance of the private sector in aggregate production, employment and exports clearly indicates how crucial it is that the resources available in this sector should be harnessed. Low labor productivity relative to product prices which are controlled in many cases is a serious barrier

to industrial development. Increased investment in the private sector will materialize only if more flexibility in the adjustment of product prices is introduced. This, together with a period of political stability, will be critical to higher capacity utilization, more investment and improved price competitivenes of Portuguese products both in the domestic market and abroad. The Government should introduce measures and policies to provide financial and technical support to a large number of small and medium size enterprises to make them more efficient and financially viable. To increase the efficiency and profitability of public sector enterprises competent managers should be selected and trained. Decision making, in general, and adjustments in costs and prices should be the function of public enterprise managers with the Government only monitoring performance on the basis of well-defined criteria. The Government should establish clear priorities for the development of the sector, and the employment impact on scarce investment resources in on-going and prospective public sector projects.

103. A more dynamic role for the construction and housing sector in the revival of growth in the economy will require policies which will remove impediments to investment in the sector. Rising construction costs, high prices for land and a shortage of long-term credit are current constraints. These have been reinforced by the freezing of rents and uncertainty after the revolution, making new private construction in housing unattractive. The decontrol of rents, at least for new houses, and ensuring security of ownership will be necessary to reactivate the sector and expand its potential for employment and growth. In addition, measures should be adopted for increasing loans, management and organizational support to private construction firms. Provision of infrastructure facilities like water, sewerage, electricity, and roads is also important. The public housing program by itself cannot reduce much the backlog of housing in the country but it has a role to play in providing housing for low-income families. However, given the large and growing budgetary imbalance, the large subsidies which are implicit in these programs should be reviewed. Measures to encourage the use of labor intensive and self-help construction methods, low cost indigenous materials, low quality of finish, provision of communal rather than private plumbing and sanitary facilities together with higher density construction could all lead to higher employment and lower construction costs and provide appropriately priced housing to a larger number of persons.

104. One sector that cuts across all other sectors and will have an important influence on both overall growth and employment is the education and training sector of the Portuguese economy. Some overdue policy decisions are needed in the education sector to reflect the new socio-political objectives, to eliminate skill shortages in certain categories of labor and to meet the manpower needs of the economy. Measures will need to be taken to reduce regional imbalances and to lessen disparities in the quality and range of educational opportunity available as between the rural and urban areas and to remedy overcrowded facilities catering to the needs of the poorer sections in the urban areas. Expenditures on education have been low by international standards and there is a need to increase them and to direct them, as the

budgetary situation improves, towards the lagging technical sectors of the education system. There are also shortages of functional school facilities, supervisors, administrators, trainers and researchers. The question of the quality and relevance of education is, indeed, of paramount importance particularly when resources are limited to increase both the quantitative output and qualitative excellence of those who come out of the education system in the next few years.

Conclusions

105. Portugal's objective situation seems to call for a growth strategy based on labor-intensive, export-oriented investment, particularly in manufacturing industry. This is not the only component of course--agriculture must be developed, and the construction sector must serve as a means of absorbing the unemployed. But it would appear that in the longer run Portugal must generate a very rapid rate of export growth and employment growth if living standards are to rise. Part of the Government's dilemma is that the drift of events is taking Portugal away from this course. The revolution has conferred a leading role on the public sector in industrial development. Yet the public sector may lack the flexibility and responsiveness which are needed for an export drive. The strategy calls for stimulating investment, but in the short-term the private sector is not in a position to respond so the onus falls on the public sector. In the public sector however, the projects which are on the drawing board ready to move, are for the most part large capital-intensive projects which are less relevant to the new economic situation in which Portugal finds itself. And yet there is no reason for despondency about the situation. Portugal has substantial resources to tackle the problems which it is facing. It will do so with a unique degree of participation by the population at large in the political and economic life of the country. There is no longer the euphoria and unrealistic expectations of two years ago and it is inconceivable that there should be. The mists are clearing; the immediate future calls for sacrifice and hard work, but there is a promise of solid gains ahead. It is a time for decisions, for plans and above all for motivating the farmers, workers and managers on whom Portugal's future depends. It is a time of opportunity to realize the silent hopes of fifty years.

PART II. SECTORAL PROBLEMS AND PROSPECTS

VII. AGRICULTURE 1/

Structure and Potential

106. In spite of a steady decline in the share of agricultural production in the total economic activity, the agricultural sector still holds an important place in the Portuguese economy, providing employment for 27 percent of the active population, accounting for 31 percent of export trade, and contributing nearly 13 percent to GDP. The composition of agricultural output is fairly diversified due to variations in climate and topography over the country. The average farm size of less than 2 ha, characteristic of the Atlantic region, gradually shifts to larger holdings in the Eastern Mediterranean region with an average farm size of 50 ha. Of Portugal's 8.9 million ha of territory, the total cultivable area excluding forestry is 4.8 million ha, of which about 2 million ha (excluding fallow) are in field crops such as wheat, maize, rye, rice and other grains, and pulses (especially potatoes and tomatoes). Vineyards are widespread in the Atlantic littoral and 600,000 ha throughout the country are planted with olives. Agriculture is complemented by an additional 2.7 million ha in forests with a large production of wood, pulp, and cork, and by an important coastal and deep sea fishing industry.

107. Agricultural output (excluding forestry and fisheries) has grown slowly at about 1 percent a year since the early 1960's, and remained at about the same level between 1968 and 1973 while the economy as a whole grew by about 7 percent a year. 2/ In 1974 and 1975 agricultural output has grown by 1.7 percent annually.

108. Although the total production of grains remained stable during 1961-71, the relative proportions have changed. Of the coarse grains, production of barley has increased slightly while the output of maize, oats and rye has actually declined. Of other crops, output of rice and potatoes has increased slightly, while output of wine and olive oil decreased in the last decade. Areas sown and production levels increased in most grains in 1975 and 1976. Output of meat and livestock products, especially beef, pork and poultry, increased 7 percent annually between 1970 and 1975, although the rate of slaughtering points to a corresponding reduction in the national herd. Mutton output remained stationary throughout the last decade.

1/ Issues in the agricultural sector are difficult and complex. A more thorough review and analysis of this sector has been undertaken by an agriculture sector review mission (October 18-November 7, 1976) and will be published as a separate report.

2/ Agricultural output, including forestry and fisheries, actually declined at an annual rate of slightly less than one percent during 1968-73.

109. The relatively stagnant situation of domestic agriculture has induced steadily increasing imports of food products and raw materials to keep pace with the growing demand, especially since the early 1970's. Imports of food and agricultural products (excluding timber) represented 16 percent of the total imports between 1963-73, and increased to 22 percent in 1974 and 1975. 1/ In recent years, the imports of maize, wheat, beef, oilseeds and codfish have increased substantially. There are also significant imports of cotton, sugar and tobacco. Agricultural exports fluctuated between 20 and 26 percent during 1963-73 and are presently 31 percent of the total exports reflecting a decline in other exports rather than an increase in agricultural exports. The major export products are alcoholic beverages, fish, and processed tomatoes. In addition, cork and timber are steady export products. While in the early 1960's exports of agricultural products were roughly in balance with imports, the latter exceeded exports by some 33 percent in 1974 and 41 percent in 1975.

110. Progress in agricultural output and productivity has been constrained by a variety of factors, the most important being (a) land tenure conditions which impeded the introduction of modern farming techniques in the north and encouraged poor land use in the south; (b) conflicting price policies which often were aimed both at keeping food costs low to consumers and providing incentives to farmers; (c) insufficient capital formation and inadequate arrangements for agricultural credit; (d) lack of effective extension services backed up by practical, farm-oriented research; (e) limited exploitation of the irrigation potential and insufficient use of the present irrigation facilities; and (f) slow modernization of traditional farming practices. Fertilizer consumption (NPK) of 47 kg/ha of cultivated area is much below the European average and, on average, there is only one tractor for every 300 ha. The old age and illiteracy of most farmers has also contributed to the unsatisfactory performance of the sector.

111. Although Portugal does not have the natural resources and climate suitable for a rapid expansion of agricultural output, there are many opportunities to improve the use of existing resources through irrigation, pasture development and, most important of all, more intensive exploitation of presently irrigated lands. Pastures and forage production under non-irrigated conditions have been tried with success in the south-central interior areas, where land use can be intensified by seeding otherwise fallow land and increasing the number of animals per unit of land. Through rehabilitation, the presently low utilization of the irrigation schemes could also be improved and production redirected toward higher value crops. Sugar beet and tobacco production also have good prospects. Possibilities also exist for forestry development. In addition fisheries development has a good potential.

1/ These figures include imports from the former colonies.

Institutional and Policy Requirements

112. In order to utilize the existing agricultural potential, effective steps will have to be taken to overcome the institutional and economic constraints on production. The Government is establishing a new organizational framework for agricultural development, although it will be some time before it is completed. The Government proposed reorganization of the Ministry of Agriculture and Fisheries is a step towards better control over a large number of units, services, and autonomous boards. The role of the Ministry would be strengthened if most of the widely scattered institutions which regulate prices and provide services and funds to the sector are coordinated and guided by the Ministry. Eventually, the regional services will become the channel for all the functions and services of the Ministry.

113. Prior to 1975, 45 percent of the agricultural land was held in 0.5 percent of the farm units while 15 percent of the area was held in 80 percent of the units. In central and southern Portugal, average farm size is about 20 ha, and in the districts of Evora, Portalegre and Beja it exceeds 50 ha, compared with the national average of 6.1 ha and less than 2 ha in the northwestern areas. During 1975 and 1976, the Government carried out land reform to redistribute non-irrigated farmland, and nationalized irrigated farmland in the central and southern areas of the country. Farms accruing more than 50,000 points of annual net operating income ($3,333 in 1975-76) and larger than 30 ha were to be expropriated, as well as any farm exceeding 700 ha irrespective of points. About 1.1 million ha have been affected at present, of which 177,000 ha under irrigation have been nationalized. Expropriated land was entrusted administratively to the Land Reform Institute created in 1974 and is largely farmed collectively by Cooperative Producers' Units (UCPs) or by salaried workers on State owned farms. The expropriation procedures, technical assistance and seasonal credit to the newly formed UCPs are handled through eight regional Agrarian Reform Centers of the Land Reform Institute. The Government has placed great priority on returning to their former owners lands which were not taken over according to the land reform legislation.

114. The impact of land redistribution on yields and production is difficult to assess due to insufficiency of data. Official estimates, however, indicate that areas planted and yields have increased in wheat (19 percent and 25 percent respectively) partly due to a mild winter. Some area increases correspond to marginal areas brought into production which in the future should remain fallow or in pasture. Some measures should be taken, however, to continue and consolidate the achievements thus far obtained. Flexibility should be preserved in determining farm size according to the potential of the land, while avoiding excessive fragmentation into economically non-viable holdings. To make it effective, the land reform needs to be implemented quickly and supported by credit, extension services, and other complementary measures to insure that it makes a positive contribution to income and production. The Government's proposed statutes on compensation, mode of ownership and use of expropriated land, and on the new cooperative units of producers as well as the law on land, water and forestry, should be introduced promptly to remove uncertainty and to consolidate the actions already implemented.

115. In April 1975, the Government also instituted a comprehensive land tenure regulation affecting almost 300,000 farms in northern Portugal under which share cropping based on payment in kind or services was abolished. All land contracts are to be for a minimum of six years and formalized in writing. In addition, maximum annual land rents are set according to crops, past yields, and soil type. These rents should be updated frequently and published far in advance of the crop year to ensure proper use of the land.

116. Portugal's agricultural policy in the past has been price-oriented and there are price supports and fixed prices for most agricultural commodities. The present system of agricultural price controls and subsidies is complex and pursues conflicting objectives by trying to provide incentives to farmers while at the same time attempting to protect consumers from excessive food costs. 1/ A large number of agencies are involved, with price policy set individually for each group of commodities by either the Ministry of Agriculture and Fisheries or of Commerce, and carried out by autonomous boards. The price system at the consumer level is similarly complex. Often, the price of a single commodity is subsidized or regulated at different marketing stages. The autonomous boards draw resources from the Supply Fund as well as from budgetary transfers, levies and revenue on services. In turn, the Supply Fund draws its resources from taxes, the Government budget and revenue from the difference between the purchase price of imported commodities and their sale to domestic processors. As world prices have risen in recent years and the scope of intervention has increased, the level of subsidies financed from the Government budget has mounted for all agencies involved. Consequently, in the process of reorganization of the Ministry of Agriculture and Fisheries, which is underway, ways should be found for it to coordinate, to avoid duplication and to assume effective control over agricultural prices with the objective of eventually eliminating inefficient subsidies and price controls.

117. The effectiveness of the extension activities (Brigadas Tecnicas) has been constrained by limited staff, by too high a proportion of sub-professional staff, by inadequate financing and by limited coordination among its 16 regional offices. Another entirely different type of extension service is Agricultural Support and Development Service (SADA) created in April 1975 to provide technical assistance and extension services to the small and medium size farms in northern Portugal. A major emphasis of its work is to promote cooperatives and to assist in the interpretation and use of the land tenure systems. The extension service has been concerned mainly with narrowly defined agronomic and technical problems and has given little attention to economic, financial and farm management needs of farmers. Experimentation and field trials have taken up much of the effort. A new approach to manpower training and assignment of personnel is essential to establish effective extension services. At present most extension agents

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1/ The meat subsector alone has ten different subsidies or price interventions and the milk subsector has thirteen subsidies.

are secondary school graduates with very limited technical agricultural training. There is a need for some reorganization of extension services to integrate the differing activities of the Brigadas Tecnicas and SADA, and to bolster both organizations while avoiding duplications of extension services in the northern half of the country.

118. As a result of reorganization of agricultural research, the National Institute of Agricultural Research (INIA) was created in 1974 but the reorganization is not yet completed. Thus far INIA has incorporated 22 separate agricultural research units within the Ministry with about 400 researchers out of a total staff of 1,400. However, there are still 59 other units dealing with agricultural research to be integrated. The INIA has planned its efforts to consolidate the administratively dispersed and uncoordinated agricultural research units into five commodity-oriented regional centers while keeping more basic and general research in three national centers. The reorganization of agricultural research must also involve INIA's own activities since the present research includes 34 research programs and 219 projects. Proper coordination is necessary to ensure close connection with extension, land reform and education, as well as to incorporate into INIA, the agricultural research conducted outside the Ministry.

Investment and Input Requirements

119. Agriculture's share in gross fixed capital formation has been low and averaged 6.6 percent between 1968 and 1974. Agricultural credit has been insufficient. Terms which almost always required land as a collateral virtually eliminated most tenants from obtaining production credit. Of the nine effective credit sources, the most important are three funds, Agricultural Improvements, Cooperative Development, and Land Consolidation, operated by the Institute of Agrarian Reform (IRA), the main source of credit for agriculture. The Caixa Geral de Depositos, the Banco de Fomento Nacional and 144 local mutual agricultural banks also provide some credit as well as numerous other marketing boards and producers' associations. In 1974, IRA started granting credit without collateral, based on the technical feasibility and repayment capacity of a borrower, but its activities are limited because all applications must be approved in Lisbon, it cannot accept deposits, and it depends on budget transfers and some borrowing for its financing. A large proportion of credit requested, therefore, goes unfulfilled with credit volume fluctuating yearly. Recent land reform has further increased credit needs. In 1975, IRA could lend only Esc 286 million of the Esc 1,200 million required. Different credit activities should be integrated into or coordinated by a single entity to provide a unified source of credit.

120. A large number of resource development projects offer promise for the long-range expansion of agriculture. Rehabilitation and intensification of existing irrigation projects including tertiary canals and drainage should contribute to sustained and significant increases in output. The use of tractors and earth-moving equipment through producer associations can speed up the development of small irrigation systems and can result in a shift of crops to extensive and irrigated farming areas. Light agricultural machinery

and implements could also benefit the small rainfed farming areas. Development of pastures and forage, both in irrigated and non-irrigated areas, is also essential for increasing animal densities. Efforts to grow new industrial crops such as sugar beet and tobacco would reduce their imports. Investment in processing and marketing facilities, wineries, fruit and vegetable cold storage facilities, cereal silos at the port and in inland areas, and modernization of slaughter plants could benefit the sector quickly.

Fisheries

121. Fishing is one of Portugal's traditional industries, and fish consumption of 61 kg per capita is among the highest in the world. However, fish landings have remained fairly constant and averaged 377,000 tons for the period 1960 to 1973. Landings decreased considerably in 1974 and 1975. For the period 1970 to 1974, exports and imports averaged 76,000 tons and 97,000 tons respectively. The number of persons employed in the fisheries sector has declined from 32,500 in 1970 to 21,600 in 1975. There is a need for rationalization in coastal as well as deep sea fishing through the more modern equipment and ports. Investment in vessels, equipment, and harbor facilities is required. The recent reorganization of fisheries administration by integrating 23 separate units under a single secretariat in the Ministry of Agriculture and Fisheries will contribute to the implementation of a large series of measures proposed by the Government such as training of fishermen, organization of cooperatives and construction of several fishing ports.

The Program

122. The overall objectives of the 1976 Program in the agricultural sector are: to meet food needs, to increase production for industry and export, to protect productive potential, to improve the standard of living of the rural population, and to ensure participation by agricultural workers in the planning and control of the means of production. To achieve these objectives, a number of measures are proposed. First, a complete reorganization of the Ministry of Agriculture and Fisheries with decentralization and regionalization of services will receive high priority. Second, the reform in land tenure will be continued and gains achieved will be consolidated to be followed by further legislation. Third, steps will be taken to encourage production of feed grains, legumes for forage, milk, meat, tobacco and sugar beets. Fourth, the intensification of cropping and the rehabilitation of several irrigation projects are also envisaged. Fifth, the credit system will be decentralized and handled exclusively through the banking system. A new entity would be created to coordinate all credit activities. Sixth, agencies administering price and marketing policies will be reorganized and a new price policy will be formulated to reorient production.

123. Although the Program provides a comprehensive list of the Government's objectives and planned measures, its budgetary implications and priorities still have to be worked out. The Program is an excellent starting point, however, in terms of identifying the measures which need to be taken. Its speedy and efficient implementation would lay the basis for a substantially larger contribution by the agricultural sector to growth in the next decade than has been the case in the recent past.

VIII. MANUFACTURING INDUSTRY

Industrial Growth and Structure

124. Manufacturing industry was the leading sector in the Portuguese economy during the 1960s and early 1970s. Output grew at 10 percent per annum from 1963 to 1973 by which year manufacturing industry, operating at 85-90 percent of capacity, contributed 36 percent of GDP, employed 25 percent of the labor force and produced over 60 percent of merchandise exports. This growth was concentrated in larger enterprises using modern and often capital-intensive production techniques and, as a result, employment grew by only 0.5 percent per year. The industrial sector diversified over this period, with new industries (metal working, electrical and transportation equipment) growing to almost one third of manufacturing output, and some industries (chemicals, textiles and footwear) maintaining their share, but other traditional industries (food processing, wood and cork) accounting for a declining share of total output. Through good quality, competitive prices and reliable deliveries, Portuguese manufacturers (particularly of textiles) took advantage of market potential in the EFTA, the US and the EEC. The leading manufactured export products were textiles and footwear of which about 40 percent of production was exported, accounting for about a third of total exports in 1973. Exports of chemicals, processed foods, timber and cork declined in relative value. About two-thirds of exports were concentrated in the EFTA and the EEC countries in 1973.

125. Manufacturing industry accounted for about one third of capital investment in Portugal by 1973, concentrated in the higher growth sub-sectors such as metal products, machinery, and textiles but with substantial investment also in chemicals and foodstuffs. During 1963-73 the sector's investment rate was equivalent to about 17 percent of its gross value added. Retained earnings financed much of this investment, with domestic bank credit and foreign capital being the other important sources. Smaller enterprises tended to experience difficulty in acquiring external financing and to become trapped in lower profitability and obsolete technology. Industry remained fragmented and small with an average of less than eighteen employees per company: of about 43,000 industrial enterprises almost three quarters employed less than five people, and only 1,100 employed more than 100. There were equally wide variations in management ability, organization, technology, marketing and investment planning capabilities. By 1973 manufacturing industry was concentrated in two centers, Lisbon/Setubal and Oporto. With the initiation of the Sines project, comprising a port, infrastructure and heavy industry about 150 kilometers south of Lisbon, the Government hoped to establish a third development pole in the country.

Past Industrial Policies

126. Industrial policies relied on private entrepreneurial initiative, stimulated by a wide range of Government incentives through tax concessions, low interest rates, tariff protection and an industrial licensing system which closely regulated domestic competition. Wages were kept low with no minimum

wage rates. The ban on trade union activities prevented labor disputes and strikes. Much of industry was in private or family ownership, with many of the larger firms having close links to the financial community and to foreign companies. This interlocking of the industrial and financial sectors, together with the Government industrial licensing system, created stiff barriers to entry for new entrepreneurs. These policies provided high returns to company owners and created inefficient sub-sectors, such as the plethora of car assembly firms. The monopolistic position of some firms was strengthened by the considerable discretionary powers exercised through the licensing process. By 1973 the Government had started to liberalize investment and licensing, to increase competition in the industrial sector, and to initiate industrial planning, but these changes were overtaken by the events of 1974.

Recent Developments

127. The industrial sector was affected directly by the fundamental economic and social changes that occurred in Portugal after the revolution in 1974. There was a profound impact on labor relations, productivity, financial structures, export markets, investment and management. Industrial output dropped from its average 10 percent growth in 1963-73 to 2 percent in 1974 and fell by 5 percent in 1975. The breakdown by major sub-sectors is shown in Table 15 below:

Table 15: MANUFACTURING OUTPUT - RATES OF GROWTH 1968-75
(in percent at constant 1970 prices)

Sector	1968-73	1974	1975
Textiles	12	6	-17
Basic metals	12	-13	-18
Metal products	13	-1	-13
Foodstuffs	7	13	27
Total manufacturing	10	2	-5

Capacity utilization dropped to 80 percent in 1974 and to between 65 percent and 75 percent in 1975. 1/ Problems of absenteeism, the inability of enterprises to discharge workers and a shorter work week increased the industrial labor force slightly so that productivity fell by over 5 percent. Export growth collapsed from a 9 percent increase in 1968-73 to a decline of 10 percent in 1974 and 13 percent in 1975, with the worst affected markets being the USA, UK and the former colonies. This decline was partly due to the world recession and partly due to dislocation and political uncertainty in Portugal. The distribution of the decline is shown in Table 16 below:

1/ Mission estimate. The official figure is 75 percent and is believed to be high.

Table 16: EXPORT DECREASE BY COUNTRY OF DESTINATION, 1974-75
(In Percent)

Total	USA	UK	Angola	Mozambique	Others
100	28	25	22	7	18

Total gross fixed capital formation (in all sectors) declined in real terms by 3 percent in 1974 and then fell catastrophically by a further 39 percent in 1975. From an average 19 percent of GDP in 1968-73 it fell to 14 percent in 1975.

128. The fall in output stemmed mainly from reduced demand for both domestic and export-oriented production. The sharp reduction in investment goods followed the fall in capital investment mainly in the private sector. Severe declines in chemicals, textiles and wood products reflected the reduced price competitiveness of Portuguese exports, the loss of confidence in supply reliability by purchasers of Portuguese goods and the effects of the world recession. Portugal also lost in its former colonies a source of relatively cheap raw materials and privileged markets for Portuguese exports. In a few sub-sectors, such as steel, supply has been insufficient to meet demand due to the continued problems of management in the volatile labor situation. Increased personal disposable income in the hands of lower income groups and the influx of returnees in 1975 accounted for sharp increases in the production and consumption of foodstuffs and consumer durables.

The Private Manufacturing Sector

129. Private firms in the manufacturing sector continue to dominate both aggregate output and exports and to employ the bulk of the industrial labor force, particularly in the small and medium segments of the manufacturing sector. However, since April 1974, private investment has been inhibited by the uncertainty facing investors. Doubts remain about future nationalization despite Government statements to the contrary and because the level and mode of compensation to former shareholders remain uncertain. The Government's "intervention" for up to eighteen months in enterprises in financial difficulties or which were not contributing to economic, financial or social goals has added to the uncertainty. 1/ Investment is unattractive due to the uncertainty about labor discipline and the fear of further rapid rises in wages. Many enterprises have been decapitalized and are suffering severe liquidity problems following steep increases in raw material prices and labor costs while being

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1/ Criteria for State intervention in the private sector are broad but intervention is supposedly an exceptional step and to be used only as a last resort. As a first step, the State may suspend managers and directors of the enterprise and appoint interim administrators. The State may also offer financial assistance or declare the company bankrupt. However, State intervention can only last for eighteen months.

prevented by price controls from passing on these cost increases. The eroded confidence of the private investor will be restored only by a period of industrial and political tranquility as well as by active Government support.

130. Private industrial recovery is essential for national economic recovery because of its large contribution to GDP and exports. Larger private enterprises will be less hindered in a recovery than those small and medium enterprises which are in great need of assistance in developing their financial, marketing and technological skills. The Institute for Assistance to Small and Medium Scale Enterprises has embarked on providing such help, but its resources are limited and it has as yet only touched the deep problem of redefining the future of small and medium industry. Given its resource constraints, the Institute should concentrate its efforts on enterprises with larger growth potential. With equity impairment and liquidity problems in many enterprises, Banco de Fomento Nacional has taken an important lead in moving away from lending criteria based on an enterprise's current financial position to those based on potential return on investment.

131. Private sector industry can provide support to the economy through reducing unemployment and improving the balance of payments only if: (a) it is able to pass on labor and other cost increases by raising prices so that profit margins are maintained at levels adequate to generate internal funds and encourage investment; (b) uncertainties are removed regarding future public ownership and Government "intervention"; (c) measures to improve labor discipline and labor productivity are introduced; and (d) adequate financial and technical assistance and credit are made available to both encourage and enable industry to restructure, balance and modernize itself. Private foreign capital will not be forthcoming in any measurable amounts unless adequate guarantees for investment and transfer of profits are provided for within a clearly defined framework of safeguards that Portugal establishes for such investments. Labor discipline and labor cost constitute, as in private domestic industry, the most important factors that foreign investors will consider before they expand present operations or undertake new ones. Improvement in the investment climate is needed to eliminate problems facing the private sector. Meanwhile, the public sector has an important role to play in generating investment in the short term.

The Public Sector

132. Following the revolution, the nationalization of banks and insurance companies in 1974 gave the Government a significant shareholding in private industry. Economically important sectors of industry such as chemicals, steel, some shipbuilding, cement and oil refining were nationalized directly. The traditional public sector (posts, telephones and telecommunication) and the newly nationalized major industries now exist as a single type of Nationalized Enterprise (Empresa Publica). About 25 percent of GDP, 50 percent of annual gross fixed capital formation and 20 percent of the total labor force is now in the public sector (which includes both nationalized enterprises and private companies with partial Government shareholding). The breakdown of public sector activities is given in Table 17 below:

Table 17: ENTERPRISES WITH PARTIAL /a OR TOTAL STATE OWNERSHIP /b

Sector	Gross value added at factor cost (% of sector)	Gross fixed investment (% of sector)	Employment /c (% of sector)
Manufacturing	17	34	12
Extractive industries	6	10	7
Transport & communications	76	81	40
Banking, insurance and real estate	63	34	56
Total (all sectors) /d /e	27	50	22

/a Partial ownership: More than 20 percent State ownership, providing effective control.
/b 1974 data.
/c Other than self-employed.
/d Including, for example: health, education, agriculture, public administration.
/e Approximately 85 percent of public sector value added and investment and about 70 percent of public sector employment is contributed by Empresa Publica.

Although the financial holding structure for nationalized enterprises has not yet been finalized, it appears that both financial and managerial responsibilities will be centered on the sectoral Ministry. The type of control imposed upon public enterprises is crucial to their development because despite the competence of individual managers overall management effectiveness appears to be low at this stage. The Government's public sector management control system should monitor performance closely but keep decision making largely at the enterprise level. Project preparation capacity is poor and only 60 percent of public enterprises were able to submit projects for fiscal 1976. Government shareholdings in the private sector are presently held via the Institute for State Participation, and uncertainty remains regarding the Government role in these enterprises.

Government Policy and Action Program

133. The Government has recognized that economic recovery will be slow to start in the private sector and will have to be driven at least in the short-term by public investment. It has recognized also that much of both public and private industry is in need of technical, financial, managerial, research and development, and marketing assistance. The Ministry of Industry and Technology has been reorganized to provide both better supervision of public enterprises and an improved and more specific response to the needs of both public and private industry. The strategic outline contained in the Program covers the major problems now faced by industry, but does not set priorities, resolve conflicts (such as employment creation and the repeal of the law preventing worker dismissal), or match investment plans with resource constraints.

134. Objectives of Government industrial strategy are employment creation, promotion of, and investment in, exporting and import substituting sectors and improved distribution of the national product. To improve the financing and promotion of foreign trade, a coordinating committee has been established in the Central Bank, and the Export Fund is being reorganized to be more responsive to exporters' needs. Drawback facilities are granted on imported inputs used in the manufacture of exports and a special working group is looking at price competitiveness of exports and the potential for import substitution. Other short-term measures will be focused on stimulating production from existing underutilized capacity, reversing the financial deterioration of public and private enterprises and, perhaps most important of all, bringing more order into the current labor situations. The present decapitalization and liquidity problems of many enterprises will be alleviated by allowing greater freedom in hiring and dismissal policies to cut down gross overstaffing, absenteeism and overtime working, and to allow enterprises to pass on increased costs via higher prices. Although some relaxation of price control has already taken place, some companies (for example Siderurgie Nacional, the national steel company) are still barely able to cover variable costs in their prices.

135. The Government passed legislation in April 1976 defining the general principles, management structure, and the scope of Government intervention. According to this law, the Government designates a firm's administrative agencies, orients its activity according to the national plan and determines guidelines for price and wage setting by public enterprises. The objective of this is to ensure that prices cover costs to provide adequate levels of self-financing and satisfactory returns on invested capital. Firms would prepare their production and investment plans but the final determination of these plans would take place in the framework of the national plan.

136. Major development projects in heavy industry, mainly in the public sector, are to go ahead, e.g. in steel, petrochemicals, cement, fertilizer, and shipbuilding. Other sectoral plans will include projects for transportation equipment, agricultural implements, machinery, glass, household goods and sugar beets. The investments in light, primarily private, industry will be in sectors to be reorganized under Government programs and may include food, pharmaceuticals, textiles, glass, automobile assembly, metals manufacturing, electronic and electrical engineering, wood, cork and plastics.

137. To help small and medium private industry, the Government is further strengthening the Institute for Support to Small and Medium Enterprises, and the Export Fund; it proposes also to provide additional assistance in reorganization, and support in the technical, taxation, credit and insurance fields. The New Foreign Investment Code, intended to encourage foreign investment to return to Portugal, has encountered criticism concerning profit remittances and the transfer of technology. The code would benefit from revision to reduce the uncertainties covering worker control and nationalization. In general, while many of the problems of industry are understood by Government a clear and specific industrial policy is emerging only gradually.

Government Investment Program

138. The Government proposes to invest over the next five years, Esc 90 billion in public sector heavy industry, and Esc 30 billion in light industry in both public and private sectors. Sources of these funds will be the Government budget (increasing the social capital of public enterprises), internal cash generation and borrowing from the banking system. The creation of 20,000 jobs in heavy industry is at a cost of about Esc 4.5 million (or $150,000) per direct job created. Many of the projects contained in PISPE 76 1/ appear unsuitable to Portugal's new goals and resource constraints; the cost per direct job created is about Esc 7 million ($230,000). 2/ Adequate economic analysis of projects has not yet been undertaken, and the matching of public investments to resources and monitoring the performance of current projects remain to be implemented.

139. A major part of the Government investment program is the port and industrial complex being built at Sines, 150 kilometers south of Lisbon. To be built in three phases, the port will comprise deep water berths for oil, ore and general cargo terminals, infrastructure and a new town, and will cost about Esc 32 billion 3/. An industrial complex costing about Esc 85 billion 4/ is being built, comprising a 10 million tonnes/year refinery now partially completed, a petrochemical complex which is in the final planning stage, and a 1.5 million tonnes/year steel plant, a pyrites plant and other manufacturing plants. Proposed completion is by 1982. Associated developments include the building of new road and rail links, development of an iron ore body at Moncorvo in north east Portugal and a pyrites body at Aljustrel in south east Portugal. With 15-20,000 jobs created, the investment at Sines will cost about Esc 5 million (about $165,000) per direct job created. 4/ Construction costs of Phase I civil works have doubled since construction started and trebled since the feasibility study in 1973. Refinery completion will be delayed from mid-1977 until at least mid-1978 due to labor problems and the general lack of certain categories of skilled labor e.g. welders, supervisors and production managers.

140. Investment policies should meet both short-term problems and anticipate the possible long-term transition from a low wage to a high wage economy. It is evident, however, that the public investment program rests heavily on

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1/ PISPE 76: The Sixth Government's portfolio of public sector projects, including the Sines complex, aircraft for the Portuguese National Airline and power generating equipment, originally totalled Esc 42 billion for 1976, but was recently revised downwards.

2/ Some of these investment projects are for replacement and upgrading of existing plants and do not create new direct jobs.

3/ 1976 estimates.

4/ Average United States investment is currently about $60,000 per direct job created.

long-term capital-intensive projects which appear to conflict with the goal of creating employment in a period of severe capital shortage. Although a long-term industrial strategy must encompass long term projects, one immediate danger is that very large projects, such as Sines, will continue without reassessment because of their inherent momentum and the present lack of alterative investible projects. These long-term, capital-intensive projects may pre-empt alternative projects in future years, inhibiting urgently needed development in areas such as agriculture, agroindustry, fisheries and small and medium industry.

Prospects

141. The general outlook indicates an improvement from 1975 with growth in both output and exports. Because much of the anticipated output increase will come from improved productivity and capacity utilization, investment and employment will be slower to recover. The public investment program will generate some improvement in demand for capital goods but probably not until late in 1977. Labor discipline and productivity remain a major problem in both public and private sectors, affecting domestic and foreign price competitiveness and delivery reliability. Ameliorating the labor problem will help alleviate the financial problem of industry, which remains the single most important factor in the private sector. With Government control of prices and employment severely limiting profit levels, private industry will continue to invest at a low level. Much of small and medium industry remains weak, inefficient and uncompetitive. The Government, by providing short-term rescue measures such as finance and simple management analysis and advice, may give industry sufficient time to adjust to its radically changed circumstances. Larger companies in the private sector are less hampered and have the size and confidence to take advantage of opportunities available to them.

142. Public sector enterprises face the same difficulties as the rest of industry, in addition to management problems and Government bureaucracy. If they are to fulfill the growth and investment expectations of the Government, then action will be needed in several areas: (i) improvement of management; (ii) assistance in preparing investment projects; (iii) review of the public investment program relating financial and human resources reflecting the goals of the Government; and (iv) improved coordination between the Ministries of Finance, Planning and Economic Coordination, and Industry and Technology in order to set policy priorities and monitor public sector performance and projects.

IX. CONSTRUCTION AND HOUSING

Past Performance and Recent Developments

143. The construction industry has been one of the more dynamic activities in Portugal's economic development and it provides a major portion of industrial employment. In 1973, the peak year of construction activity, 290,000 workers were employed equal to 9.4 percent of the total labor force. Its share of GDP increased from 5 percent in 1968 to 6.4 percent in 1973 (at 1970 prices) and gross fixed capital formation (GFCF) increased from Esc 4.1 billion in 1968 to Esc 8.8 billion in 1973 (at 1970 prices), an annual growth rate of 16.5 percent. The number of dwelling units constructed increased from 27,000 in 1970 to 42,000 in 1973.

144. New construction activity registered a significant drop in late 1974 and 1975 reflecting the deterioration in economic activity, particularly in tourism, housing and new investments. The share of construction activity in GDP declined by about 11 percent in 1975. The number of buildings constructed in 1974 fell by 23 percent from 1973 and further declined in 1975. Private investment accounted for about 90 percent of housing investment until 1973, but almost stopped in 1975 due to uncertainties about both private ownership, and rent controls which made rental housing construction unprofitable. However, there was some illegal housing construction without permit, especially in areas outside large urban cities not covered by residential planning and adequate infrastructure, accounting for the high cement consumption in recent years. The decline in housing construction by private enterprises for sale, rent and tourism purposes resulted in a recession in construction and created high sectoral unemployment. Recovery was slow because the Government's own capacity for expanding investment and thus increasing construction demand could be enlarged only gradually. The following table provides indicators of construction activities in recent years.

Table 18: INDICATORS OF CONSTRUCTION ACTIVITY

	1968	1970	1973	1974	1975	1976 /a
Employment ('000)	251.2/b	258.3	291.3	273.5	263.4	265.0
Percent Share in GDP ('70 Prices)	5.0	5.1	6.4	7.4	6.6	n.a.
GFCF (Billion Escudos in '70 Prices)	4.1	5.1	8.8	11.1	n.a.	n.a.
Building Permits Issued ('000)	n.a.	31.3	39.1	36.5	27.0/c	10.3/d
Buildings Constructed ('000)	27.3/b	19.7	26.4	20.4	8.6/e	n.a.
Dwelling Units Built ('000)	19.0/b	27.2	41.9	43.4	n.a.	n.a.
Cement Consumption (Million Tons)	1.8	2.3	3.1	3.4	3.3	1.9/e
Steel Consumption ('000 Tons)	n.a.	247.8/f	232.6	250.2	158.1	85.1/e

/a Estimates.
/b 1965.
/c For 9 months.
/d For January-March.
/e For January-June.
/f 1971.

145. There were about 20,000 firms in the construction sector in 1973, most of them of small and medium size. About 80 percent of firms had up to 9 workers (employing a total of about 100,000 workers) and only 2.3 percent employed more than 50 workers. The regional distribution of construction firms is also highly unbalanced, with a high concentration--nearly 43 percent of the total--in the cities of Lisbon and Oporto. Many of the small firms suffered severely from the slowdown in investment activity and the sharp cost increases due to wage and general price rises that occurred during 1974 and 1975. These difficulties were compounded by management problems, under-capitalization and limited technical know-how. Only the special credit program launched by the Government in the fall of 1974 to support small and medium scale enterprises in financial difficulties, together with expanded public investment in housing, prevented the closing down of many of the smaller construction firms. Despite the Government's legislation against dismissals of workers, about 10,000 construction workers were dismissed between June 1974 and end 1975. About 25,000 construction workers are currently unemployed and there is considerable under-employment. After the revolution, about 20 of the larger private consulting, planning and construction firms (employing about 10,000 workers and operating in the housing sector) which faced financial difficulties were brought under public control through State intervention.

146. The future of construction activity is closely linked to the level of investment, especially in housing. Demand for housing has been growing strongly because of population migration to urban centers and rising real incomes. However, house building has not kept pace with demand, creating a housing shortage presently estimated by the Government authorities to be on the order of more than 600,000 dwelling units. Shortage of long-term credit, rising construction costs and high prices for land were major factors of constraint. They were reinforced by the freezing of rents and uncertainty after the revolution in 1974 which made new private construction in housing unattractive. This shortage has been aggravated by the influx of about 500,000 returnees from the former colonies; a significant proportion of whom are housed in hotels at an expense of Esc 350 million ($11.7 million) per month to the Government. A large proportion of the present housing stock also lacks basic infrastructure services. Of the national housing stock of about 2.4 million dwelling units, 65 percent have no residential water supply, 54 percent have no electricity and 57 percent have inadequate sewerage facilities.

The Program

147. To eliminate the housing deficit, the Government has announced that it will aim at constructing about 60-65,000 dwelling units a year for the period of 1976-80, compared to 42,000 units actually built in 1973. Of these, about 35,000 are expected to be constructed by the private sector. The public sector program will aim primarily at low and middle income families. Measures will be taken to encourage housing construction by the private sector for medium and high income groups. Public sector investment is expected to increase from Esc 4.7 billion in 1975 to Esc 7.2 billion in 1976 compared to Esc 1.1 billion in 1974. About 10,000 units a year will be constructed from the general budget, 15,000 units a year in low cost and rent controlled housing projects through credit institutions and 5,000 units per year in low cost cooperative programs. These programs will also include the clearing of urban slums and the upgrading of dwellings in disrepair. The Government established body, Fundo do Fomento da Habitacao, uses private construction firms for its low income housing programs. These programs began to take effect in 1975 and 1976 when about 30,000 units were started, compared with less than 3,000 units in 1973 and only 300 in 1974. Some of these programs are being financed through assistance from abroad; the United States Government has already approved a housing loan of $13.2 million and has guaranteed $20 million in housing loans from American financial institutions. Housing loans and garantees for a further $30 million are proposed. Norway has provided a credit for 2,000 prefabricated houses.

148. The Government recognizes that it cannot keep rents controlled at low levels for long, and is preparing a law to revise rents upward. Rents for low income families will be fixed in relation to family income, family size, and type of housing, but will be almost freed for housing built by private enterprise for medium and high income families. There will be a direct subsidy from Government funds on rents for very low income families. Credit will be made available for the purchase of owner-occupied houses for

a term between 15 to 25 years and at interest rates between 4 to 9 percent with down payments between 5 to 25 percent based on family income.

149. The measures announced in the Program to restore the confidence of the private sector and to support various housing programs include:

(a) Provision of adequate financial facilities for construction firms.

(b) Facilities to provide financing at favorable terms to private investors for construction of housing for low income groups.

(c) Use of private firms under contract for study and execution of the Government housing programs.

(d) Laws to protect the right of private ownership.

(e) A land law for gradual municipalization of land in urban areas for future planning and to make land available for housing.

(f) A review of the expropriation law including compensation rules.

(g) A law to give powers to the Government to prevent illegal housing construction.

(h) A law to establish standards for low-cost housing.

(i) A program to actively support both the creation of new cooperatives, and the reorganization of existing cooperatives.

(j) A law concerning the sale of property between private individuals.

(k) A revision of the tax structure for real estate profits.

(l) A law regulating the process of selling and transferring public sector housing.

150. In addition, the program envisages extensive public works projects with a focus on rural and local infrastructure works such as roads, electricity, water supply, sanitation, irrigation systems, school and hospital centers. Measures will also be taken to encourage the completion of tourism projects by the private sector which were suspended after the revolution.

Major Tasks

151. The construction and housing sector can make a substantial contribution to reducing the rate of unemployment and in expanding the economy. In the short run, investment in housing will have a significant impact on employment, will benefit low income families and will also help in the revival of other industries related to construction activity. The other important benefit of renewed housing construction will be to induce household savings. Also, the import content of housing construction is relatively low and, therefore, expanded housing construction can contribute to economic growth and lead to more employment with minimal effect on the balance of payments.

152. Although the Program is a useful beginning, further measures will have to be taken to revive the construction and housing sector. It will not be possible to meet all housing needs through Government programs. Incentives are therefore needed to stimulate private investment to meet housing demand. These should include: provision of facilities for loans for building materials; provision of basic infrastructure facilities like water, sewerage, electricity, transportation and other services; adoption of realistic building codes; and reduction of uncertainty through a clear definition of the role of private investment. Rent controls also have been an important constraint on new private construction and investment and have resulted in disinvestment and deterioration of housing through lack of maintenance. Rent controls lasting for a long time are not likely to be successful as they tend to lead to a rationing system by which side payments become a substitute for proper rents. Consequently, the poor may be driven out of rent controlled private housing. Rents must be reviewed periodically to encourage private initiatives for investment and to ensure proper maintenance of buildings; rent controls can be restricted to old buildings.

153. The Government housing programs for low income families subsidize both direct costs and interest rates. Given a large and growing budgetary imbalance, the need for reviewing major subsidy programs both in housing and other areas is imperative. Making a long-term mortgage credit available with lower down payments requirements is an alternative to adjustments in interest rates. There should also be some examination of the possibility of lowering housing standards in relation to income levels and the ability of low income families to pay, and to avoid large expenditures of limited public resources on high priced housing for a small proportion of the population. The use of labor intensive and self-help construction methods, low cost indigenous materials, cheaper finishes, provision of communal rather than private plumbing and sanitary facilities, together with higher density construction could all lead to lower construction costs and provide appropriately priced housing.

X. EDUCATION AND TRAINING

The Need for Education Reform

154. Serious proposals for reform of the education system in Portugal were put forward in 1973. Subsequently, the six post-revolution provisional Governments sought to reshape and reorient the proposed reform measures in the light of the declared new political and social policies. The education planners, however, had insufficient time to consider these broad policy proposals and embody them into a comprehensive education plan. Consequently, some important decisions have been made and programs initiated without adequate study of the demands these would make on resources. The education system remains in a state of transition and of uncertainty despite some imaginative initiatives and a number of on-going studies examining key aspects of development such as agricultural education, educational television and school mapping.

155. The reform of the education and training system has been a major concern of the provisional Governments and now of the new Government. The formal education system has a broad primary base. It is quantitatively fairly well-developed with enrollment rates equivalent to over 100 percent in primary, 46 percent in secondary and about 8 percent in higher education, and female participation at 49 percent, 45 percent and 48 percent of total enrollments respectively. 1/ However, there are regional imbalances and particularly disparities in the quality and range of educational opportunity available as between the urban and rural areas (teachers, equipment, types of schools); within the urban area overcrowded facilities in the poorer sections are quite common. The literacy rate of about 70 percent is low, reflecting past neglect, and dropout and repeater rates are higher than European standards. Another weakness is evident in higher education where full degree courses until recently accounted for almost the whole enrollment to the neglect of technician level training. In recent years, the administrative and organizational structure of higher education also suffered seriously. Curricula content in general is often outdated. It simply has not been possible to deal practically with practical subjects or to introduce modern active learning situations because functional buildings, equipment, learning and teaching materials have been in short supply 2/ and because teachers have not been trained adequately. 3/ Expenditures on education have been low by international standards; the total costs of education in 1974 of 16.5 percent of the total Government budget (2.8 percent of GDP) is low and is typical of the under-expenditures on education in the previous years.

1/ These are gross enrollment rates (i.e. including over-age), for 1973-74.

2/ This is not the case in the Ministry of Labor vocational centers, or in the Technical (Industrial and Agricultural) Institutes of the Ministry of Education which are now being upgraded to post-secondary institutions.

3/ The great majority of teachers in secondary education are university graduates but have very little or no teacher training.

A Framework for Education Objectives

156. It is possible to arrive at an understanding of acceptable reform directions because through the programs of the post revolution Governments there runs a common vein of desired education reforms with differences only in degree of emphasis. Educational reforms are particularly stressed in the new Government's Program. There were three major concerns implicit or explicit in the policy statements of all Governments. First, to support the principle of social equity and personal betterment policies, access to education and training resources must be facilitated for all. Second, to maximize the education and training effort to meet increased demand for improved skills and more productive and trainable workers. Third, to increase the efficiency of the education system through a more rational use of resources, improved administrative organization and effective decentralization. Another dimension has been added more recently: how can the education system contribute to the solution of the problem of excessive unemployment?

157. The more specific objectives of the new Government are:

(a) The formal education system will be restructured to eliminate favors to the privileged; compulsory education will be extended from 6 to 8 or 9 years to afford a more lasting fundamental education to those who leave the formal system at the end of the obligatory period.

(b) Curricula, syllabi, teacher education, school facilities will be re-designed to conform with the new orientation, objectives and structure and with modern education practices.

(c) The network of education and training facilities will be expanded to improve accessibility, and special attention will be given to the handicapped, to adult education, to non-formal training, and to educational television.

(d) The comparatively poor efficiency of the education system will be improved by the reform measures mentioned above, but also by modern school administrative and organizational practices, and improved student services (health, meals, scholarships and transportation where necessary).

(e) In regard to productivity, attention will be paid to reconciling types and quality of the output of the education system, and particularly of vocational centers and higher education institutions, with the more specific requirements of the economy.

(f) It is proposed to give greater relevance and efficiency to the system by decentralizing its administration and by 'reorganizing' education programs.

Strategy and Action Programs

158. Programs on these lines, when implemented, should constitute a strategy designed to promote action in the neglected areas of adult and continuing education and literacy, to ensure more equitable distribution of educational opportunity and ameliorate regional disparities, to revitalize curricula, to build up a sound basic education system followed by a diversified secondary education structure, to introduce urgently needed sub-professional level technical programs in higher education, to provide suitably-equipped facilities, and to introduce modern education technologies applied by appropriately trained teachers.

159. Programs to deal with these reform and expansion measures will take time to plan in detail and to implement. They will make demands on resources in a planned time framework to overcome the three major handicaps to introduction in the schools of educational reform programs, namely: (i) the extreme shortage of functional school facilities (resulting in most schools working double and sometimes treble shifts); (ii) inadequacies of the teaching force; and (iii) the shortage of well-trained supervisors of schools and school districts and of education administrators, trainers and researchers for national and district purposes.

160. The problem of planned and phased resource availability is best illustrated by examining the possible requirements for functional facilities in the period 1974-1985. A tentative planning model prepared by the Planning Bureau of the Ministry in 1975 projects enrollments (in the formal education system) as shown below:

Table 19: ENROLLMENT OF STUDENTS

Level of Education	1973-74		1985-86		1985-86 in Public Education /b
	---------------in thousands---------------				
A. Primary Education (Grades 1-6)	1,191	(117%) /a			
Basic Education (Grades 1-9)			1,562	(102%)	1,480
B. Secondary Education (Grades 7-11)	371	(46%)			
Unified Secondary (Grades 10-11/12)			352	(93%)	300
C. Higher Education	59	(8%)	97/c	(11.5%)	92

/a The figures in parentheses are gross enrollment rates (i.e. including over-age).
/b Mission estimates.
/c This figure may be underestimated in view of actions recently taken to expand university and sub-professional programs.

161. The estimated teacher requirements in absolute numbers for the projected enrollments can be met without difficulty, but the need for new forms of teacher training will be quite substantial and will call for special facilities and for training of adequate numbers of trainers. Moreover, the financial implications of the school building and equipment program should be manageable, assuming a slow rate of elimination of double shifts in schools and of replacement of presently obsolete buildings. The average annual cost of the facilities in the period 1975-1985 would then be $31 million for basic education, $29 million for secondary education and $25 million for higher education; totalling $85 million (Annex Table 11.2).

162. These estimates, however, do not include costs of teachers' houses, boarding and purchase of land. This partial estimate of $85 million should be compared with the $76 million included in the 1976 budget for capital expenditures in education. Allocations to the Ministry would need to be increased if the targets are to be met. Of course, the assumptions will need to be revised as new data becomes available, but any substantial increase is likely only if higher education enrollments and all unit costs prove to have been highly underestimated. Given the enrollments and teacher:pupil ratios in public education shown in Annex Tables 11.1 and 11.2, public recurrent and capital expenditures on education in 1985 would still be of the order of only

3 percent of GDP. 1/ This suggests that Portugal should be able to allocate funds for at least the moderate growth rates assumed in this exercise.

Major Issues

163. Quality Versus Quantity. If resources are found to be limited for simultaneous action on a broad front of both qualitative and quantitative programs, a fundamental decision will have to be taken whether priority should be given to a quantitative expansion or whether the major effort should be made to raise the quality of the system. This basic issue points to the urgency for a new comprehensive education planning exercise prior to final decision-making, aimed at developing two or three alternative approaches and options for determination of a viable education development strategy and related action programs.

164. To ensure a more integrated approach for developing the potential of the education system, the Human Resource Development Division of the Ministry of Planning and Economic Coordination needs to be strengthened to provide: guidelines on overall national human resource development policy; basic manpower data--existing stocks and the projected needs; specific manpower needs (numbers and skill levels) of proposed development programs/projects of each of the technical ministries or agencies; and the order of magnitude of the funds that may be made available at least over a four-year period for education and training.

165. A number of programs require further planning studies if specific investment projects are to be defined, particularly those relating to: (i) the appropriate structure for the education system in the context of Portuguese realities; (ii) proposals for some form of vocational training for the basic-school leavers and for secondary-school graduates not going on to higher education; (iii) assessment of the need for further training and upgrading apart from the provisions for agricultural education in the formal system; (iv) revised curricula for the new secondary schools; (v) preparation of a teacher education plan, including the demand for teacher trainers; (vi) measures to ensure the most rational use and deployment of physical and teacher resources; and (vii) measures necessary to popularize and expand technician or sub-professional training. This presupposes decisions on the terms and conditions of service of teachers, class sizes at each level and type of education, and completion of the school mapping operations to provide detailed information on the schedules, status of the accommodation and equipment of each school in the country and its functional capacity when economically operated.

1/ This assumes an average growth rate of GDP of 4 percent in 1976, 5.5 percent in 1977-81, and 6.5 percent in 1982-85 and recurrent unit costs of $150 in basic, $350 in unified secondary, and $900 in higher education (at constant 1974 prices) compared with about $60 in primary, $180 in preparatory, $200 in secondary and $500 in higher in 1974, thus making allowance for improved services in schools and to students and the more practical bent to programs.

166. A full-scale feasibility study is needed on the use of television and radio in the national educational effort, before embarking on large scale investments in an open university and in television programs.

STATISTICAL APPENDIX

POPULATION AND EMPLOYMENT

NATIONAL INCOME AND INVESTMENT

FOREIGN TRADE AND PAYMENTS

EXTERNAL DEBT

PUBLIC FINANCE

STATISTICAL APPENDIX (Continued)

OTHER SECTORS

Table 1.1: POPULATION DATA

	1970	1971	1972	1973	1974	1975 c/	1976 c/
Total End-Year Population (mln)	9.134	9.072	9.050	9.023	9.040	9.419	9.611
of which : Continental Portugal	8.591	8.532	8.514	8.494	8.524	8.845	9.0[illegible]
Azores) Madeira)	0.543	0.540	0.536	0.529	0.516	0.574	0.598
Males	4.329	4.298	4.288	4.267	4.262	-	-
Females	4.805	4.774	4.774	4.756	4.778	-	-
Net traditional emigration a/ ('000)	179.1	150.4	104.6	119.1	70.0	40.0	30.0
Crude Birth Rate ('000)	18.7	20.7	19.3	19.1	18.8	18.3	18.3
Crude Death Rate ('000)	10.1	10.8	10.0	10.6	11.1	10.6	10.6
Rate of net increase ('000)	8.6	9.9	9.3	8.5	7.7	7.7	7.7
Net Emigration to over-sea territory ('000)	- 3.5	- 2.5	- 1.5	+ 15.1	+ 17.5	+ 350.0	+ 150.00
Calculated rate of population increase (%) b/	- 1.2	- 0.7	- 0.2	- 0.3	+ 0.2	+ 4.2	+ 2.0
Proportion of Population (%):							
Aged - 0-14	28.5	28.4	28.3	28.1	27.3	-	-
Aged - 15-64	61.8	61.9	61.9	61.9	62.5	-	-
Aged - 65 and over	9.7	9.7	9.8	10.0	10.2	-	-

Source: Ministry of Labor. Population and employment figures are being discussed within an inter-ministerial group and final figures will be incorporated in the Government's medium term Plan.

a/ Data for returning imigrants may be incomplete and this may result in an over-estimation of net emigration.

b/ The calculated rate of population increase which is based partly on migration data may differ from actual rates of population increase owing to inaccurate migration data and the fact that migration may be nonuniformly spread throughout the year.

c/ Estimates.

Table 1.2: MIGRATION

(In Thousands)

	1960	1965	1969	1970	1971	1972	1973	1974	1975	1976 c/
Gross Emigration a/	35	92	154	180	151	105	120	71	45	30
of which to										
France	5	60	111	136	111	69	61	38	24	-
Germany	0	12	13	20	17	14	32	3	1	-
Returning Migrants b/	2	2	1	1	1	0	1	1	5	-
Net Emigration	33	90	153	179	150	105	119	70	40	-

a/ Including non-legal emigration.

b/ Known returning migrants only.

c/ Estimates.

Source: Secretariat of State for Emigration and Central Planning Secretariat.

TABLE 1.3: Sectoral Distribution of Employment
(Year End Figures for Continental Portugal, in Thousands)

	1970	1971	1972	1973	1974	1975	1976 a/
TOTAL	3180.1	3171.3	3150.4	3124.3	3098.6	3015.3	3038.4
Agriculture, Forestry & Hunting	894.6	871.5	833.2	790.7	769.4	752.2	746.4
Fishing	32.5	31.7	31.1	30.4	28.5	25.8	21.6
Mining	12.3	11.8	11.5	11.3	11.1	11.1	11.0
Manufacturing	828.9	841.6	853.6	868.4	849.4	831.5	836.9
Construction and Public Works	264.2	268.1	872.1	276.1	265.0	253.5	258.1
Electricity, Gas & Water	19.7	20.1	20.5	20.8	20.9	21.5	21.5
Commerce, Banking, Real Estate & Insurance	341.5	348.2	357.1	362.0	364.0	365.2	389.2
Transport and Communications	155.3	159.8	162.7	166.2	175.7	177.4	175.4
Public Administration	163.3	166.6	170.0	173.5	175.3	173.9)	
Education	56.7	59.3	62.1	64.9	66.3	68.0)	
Health	33.1	33.4	33.7	34.1	34.3	34.5)	539.3
Miscellaneous Services	276.9	273.3	270.0	267.0	275.0	260.5)	
Poorly defined activities	101.1	85.9	72.8	58.9	63.7	40.0	39.0

a/ Estimates.

Source: Ministry of Labor. Population and employment figures are being discussed within an inter-ministerial group and final figures will be incorporated in the Government's medium term Plan.

Table 1.4: UNEMPLOYMENT ESTIMATES

(Figures for Continental Portugal in Thousands)

	Total Unemployed	Of Which: Looking for First Job	Looking for New Job	Repatriates
1970	85.3	64.8	20.5	...
1974	179.5	n.a.	n.a.	3.8
1975	396.0	141.0	135.0	120.C
1976				
March	428.5	157.5	141.0	130.0
April	442.0	162.0	150.0	130.0
September	468.7	177.0	166.0	125.7
December	503.7	200.0	178.0	125.7

Source: Ministry of Labor.

Table 1.5: UNEMPLOYMENT INDICATORS

Number of Unemployed and Job Offers Registered
with Directorate of Employment Services

(In Thousands)

	Unemployed Job Applicants	Job Offers	Unemployed per Available Job
1973			
December	26.0	20.6	1.3
1974			
March	27.4	24.3	1.1
June	32.6	14.7	2.2
September	41.2	8.3	5.0
December	58.5	5.2	11.3
1975			
January	62.8	4.5	13.9
February	68.4	4.4	15.5
March	73.2	4.0	18.3
April	81.9	3.4	24.1
May	94.2 a/	3.6	26.2
June	104.7	3.5	29.9
July	114.0	3.6	31.7
August	122.0	4.0	30.5
September	130.6	3.5	37.3
October	137.8	3.4	40.5
November	143.0	3.2	44.7
December	146.8	2.9	50.6
1976			
January	154.0	2.7	57.0
February	161.7	2.9	55.8
March	165.2	3.3	50.1
April	171.0	3.6	47.5
May	176.3	3.7	47.6
June	180.4	3.8	47.5

a/ Beginning in May 1975, survey covers approximately 40 percent of total work force compared with 35 percent in preceding months.

Source: Statistical Bulletins of the Ministry of Labor, and Directorate of Employment Service.

Table 2.1: GDP BY SECTORS OF ACTIVITY

(Current Prices, Million Escudos)

	1968	1969	1970	1971	1972	1973	1974	1975 P/
Agriculture, Forestry and Fisheries of which:	26,242	27,710	28,784	30,015	33,254	41,071	48,250	61,100
a) Agriculture	21,738	23,089	23,760	24,439	27,510	32,904	28,916	--
b) Forestry	3,194	3,553	3,720	4,078	4,297	6,387	7,257	--
c) Fisheries	1,310	1,088	1,304	1,498	1,447	1,780	2,077	--
Mining	815	825	916	955	1,072	1,232	1,880	119,800
Manufacturing Industry of which:	43,234	48,039	53,882	60,349	72,677	89,989	109,677	
a) Food stuff, beverages and Tobacco	5,293	5,713	6,307	6,681	7,665	9,299	13,046	--
b) Textiles, apparel and footwear	8,163	9,220	10,030	11,814	14,336	19,596	22,785	--
c) Chemicals and related activities	4,945	5,695	6,304	7,129	8,484	10,664	13,178	--
d) Non-metal mineral products	2,989	3,256	3,924	4,629	5,536	6,919	8,064	--
e) Metal products, mechanical, electrical and transportation equipment	12,204	13,887	16,103	18,179	22,390	25,283	30,599	--
Electricity, Gas and Water	3,327	3,720	4,319	4,714	5,271	5,788	6,609	6,400
Construction	7,055	[illegible],551	8,104	11,127	13,373	16,222	21,463	21,200
Transport and Communication	7,577	9,176	10,487	11,610	13,269	15,840	19,746	
Retail and Wholesale Trade	16,493	17,420	18,405	21,525	24,513	30,775	37,731	
Banks, Insurance, Etc.	4,124	4,802	5,745	6,432	7,562	9,998	13,371	
Real Estate	3,915	4,517	4,529	4,963	5,738	6,138	6,501	135,400
Public Administration and Defense	8,967	9,224	10,994	11,631	14,107	15,652	17,376	
Education and Health	3,371	3,993	4,942	5,634	6,666	8,539	11,843	
Miscellaneous Services	6,523	6,860	7,581	8,918	10,641	12,347	14,096	
GDP at Factor Cost	131,743	143,844	158,688	177,873	208,143	253,571	308,543	343,800
Net Factor Income from Abroad	609	935	889	415	578	2,109	3,279	--
GNP at Factor Cost	132,352	144,779	159,577	178,288	208,721	255,680	311,822	--

P/ Provisional.

Source: Institute of National Statistics and Central Planning Secretariat.

Table 2.2: GDP BY SECTORS OF ACTIVITY

(Constant 1970 Prices, Millions of Escudos)

	1968	1969	1970	1971	1972	1973	1974	1975 P/
Agriculture, forestry and fisheries	29,677	27,019	28,784	26,122	27,134	28,668	29,631	29,690
of which								
a) Agriculture	23,614	20,962	23,760	21,189	22,123	22,330	24,576	-
b) Forestry	4,812	5,080	3,720	3,871	3,983	5,000	4,084	-
c) Fisheries	1,751	1,977	1,304	1,062	1,028	1,338	971	-
Mining	954	874	916	1,032	1,067	1,736	1,431	1,346
Manufacturing industry	46,581	49,293	53,882	58,059	65,453	74,725	76,797	72,558
of which								
a) Foodstuffs, beverages, tobacco	5,717	5,776	6,307	6,380	6,984	7,971	9,019	11,453
b) Textiles, apparel and footwear	9,240	9,565	10,030	11,602	13,117	15,990	16,835	13,937
c) Chemicals and related activities	4,900	5,386	6,304	6,391	6,869	8,357	8,360	8,831
d) Non-metal mineral products	3,258	3,463	3,924	4,238	4,630	5,405	5,559	5,666
e) Metal products, mechanical, electrical, transportation equipment	13,100	14,381	16,103	18,028	21,467	23,136	22,911	19,961
Electricity, gas and water	3,550	3,888	4,319	4,605	5,247	5,798	6,600	6,402
Construction	7,301	7,688	8,104	9,988	11,569	13,188	15,796	13,861
Transport and communication	8,088	8,758	10,487	11,350	12,426	13,717	16,100	
Retail and wholesale trade	19,089	18,527	18,405	19,925	20,489	22,772	22,325	
Banks, insurance, etc.	4,761	5,109	5,745	5,955	6,297	7,370	7,877	
Real estate	4,264	4,395	4,529	4,761	4,947	5,212	5,433	85,054
Public administration and defense	10,401	10,672	10,994	11,675	13,608	14,335	15,475	
Education and health	4,005	4,445	4,942	5,572	6,488	7,677	9,508	
Miscellaneous services	7,529	7,306	7,581	8,251	8,906	9,162	8,336	
GDP at factor cost	146,200	147,929	158,688	167,295	183,641	203,860	214,809	208,911
Net factor income from abroad	716	996	889	385	467	1,508	1,873	
GNP at factor cost	146,916	148,920	159,577	167,680	184,108	205,368	216,682	

P/ Provisional.

Source: National Institute of Statistics and Central Planning Secretariat.

Table 2.3: GDP BY EXPENDITURE

(Current Prices, Millions of Escudos)

	1968	1969	1970	1971	1972	1973	1974	1975 P/
Consumption, of which	130,335	140,016	159,180	174,997	199,731	245,270	319,048	380,600
Private	110,756	118,802	133,935	147,347	167,890	208,164	269,912	315,900
Public	19,579	21,214	25,245	27,650	31,841	37,106	49,136	64,700
Investment, of which	24,455	27,987	30,746	37,661	46,663	56,544	72,652	38,200
GFCF	24,433	27,294	31,060	36,974	47,080	56,891	65 152	50,700
Changes in stocks	22	693	-314	687	-417	-347	7,500	-12,500
Exports of goods and NFS	33,547	36,130	41,267	48,201	57,065	70,055	85,281	71,900
Imports of goods and NFS	43,004	45,280	54,199	63,335	72,669	91,403	138,656	117,200
GDP at market prices	145,333	158,853	176,994	197,524	230,790	280,466	338,325	373,500
Factor income receipts from abroad	2,043	2,564	2,381	1,843	2,261	3,647	5,162	-200
Factor income payments to abroad	1,434	1,629	1,492	1,428	1,683	1,538	1,883	
Workers' Remittances	9,220	12,260	14,635	19,256	24,164	27,540	28,662	23,600
GNP at market prices	155,162	172,588	192,518	217,195	255,532	310,115	370,266	396,900
Indirect taxes less subsidies	13,590	15,549	18,306	19,651	22,647	26,895	29,782	-
GNP at factor cost	141,572	157,039	174,212	197,544	232,885	274,220	340,484	-
Amortization	7,727	8,530	9,356	10,331	12,120	13,587	15,293	-
NNP at factor cost	133,845	148,509	164,856	187,213	220,765	260,633	325,191	-

P/ Provisional.

Source: Central Planning Secretariat. Figures are not comparable with National Institute of Statistics. Exports and imports are correct excluding diamonds and correcting trade with ex-colonies.

Table 2.4: GDP BY EXPENDITURE

(Constant 1970 Prices, Millions of Escudos)

	1968	1969	1970	1971	1972	1973	1974	1975 P/
Consumption, of which	146,702	147,819	159,180	165,823	178,119	197,360	214,705	225,900
Private	123,870	124,210	133,935	138,965	148,970	165,960	178,225	183,800
Public	22,832	23,609	25,245	26,858	29,149	31,400	36,480	42,100
Investment, of which	26,447	29,484	30,746	35,675	41,121	45,960	50,490	21,000
GFCF	25,731	28,040	31,060	34,553	42,013	46,961	45,623	28,000
Changes in stocks	716	1,444	-314	1,122	-892	-1,001	4,867	-7,000
Exports of goods and NFS	36,109	38,224	41,267	45,366	49,928	54,098	47,706	37,800
Imports of goods and NFS	47,959	49,584	54,199	61,381	67,248	74,343	81,231	61,200
GDP at market prices	161,299	165,943	176,994	185,483	201,920	223,075	231,670	223,500
Factor income receipts from abroad	2,365	2,738	2,381	1,707	1,825	2,607	2,949	-
Factor income receipts to abroad	1,659	1,732	1,492	1,322	1,358	1,099	1,076	-
Workers' Remittances	10,130	13,470	14,635	18,081	21,141	21,927	19,631	15,733
GNP at market prices	172,135	180,409	192,518	203,949	223,528	246,510	253,174	239,233
Indirect taxes less subsidies	15,729	18,019	18,306	18,188	18,279	19,215	17,012	-
GNP at factor cost	156,406	162,390	174,212	185,761	205,249	227,295	236,162	-
Amortization	8,133	8,763	9,356	9,691	10,828	11,224	10,738	-
NNP at factor cost	148,273	153,627	164,856	176,070	194,416	216,071	225,424	-

P/ Provisional.

Source: Central Planning Secretariat. Figures are not comparable with National Institute of Statistics. Exports and imports are corrected excluding diamonds and correcting trade with ex-colonies.

Table 2.5: GROSS FIXED CAPITAL FORMATION BY SECTORS

(Current Prices, Million Escudos)

	1968	1969	1970	1971	1972	1973	1974	Growth Rates 1968-1973	Growth Rates 1974
Agriculture, fisheries and forestry	2,042	2,193	2,131	2,353	2,599	3,378	3,023	10.6	-10.5
Mining	114	169	233	164	185	173	151	8.7	-12.7
Manufacturing	6,963	7,894	9,737	11,478	13,821	15,977	19,600	18.1	+23.0
Construction	327	577	679	1,052	1,072	1,495	1,788	35.6	+19.6
Electricity, water and gas	2,473	2,509	2,642	3,051	3,611	4,118	5,810	10.7	+41.0
Transport and communication	4,252	4,191	5,560	7,069	10,545	11,114	9,408	21.1	-15.4
Dwellings	3,629	4,323	4,443	4,851	6,666	9,188	13,489	20.5	+46.8
Public administration	1,242	1,433	1,301	1,913	1,670	1,779	2,426	7.5	+36.4
Others	3,391	4,005	4,334	5,043	6,911	9,669	9,449	23.3	-2.3
TOTAL	24,433	27,294	31,060	36,974	47,080	56,891	65,152	18.4	+14.5
	- - - - - - - - - - Implicit Deflator - - - - - - - - - -								
Agriculture	91.2	94.0	100.0	106.2	111.4	120.7	151.7		
Mining	95.0	97.1	100.0	103.8	106.3	121.0	154.1		
Manufacturing	94.3	97.1	100.0	104.5	110.5	120.5	147.2		
Construction	93.7	96.6	100.0	103.1	108.6	120.2	152.2		
Electricity, water and gas	95.9	98.1	100.0	110.0	114.3	121.6	139.5		
Transport and communication	95.3	97.8	100.0	107.2	112.0	121.2	142.7		
Dwellings	96.7	98.4	100.0	111.7	115.6	121.3	136.1		
Public administration	96.1	97.9	100.0	109.4	114.2	121.6	137.6		
Others	95.4	97.7	100.0	106.9	111.4	121.3	142.9		
TOTAL	95.0	97.3	100.0	107.0	112.1	121.2	142.8		

Source: Central Planning Secretariat.

Table 2.6: GROSS FIXED CAPITAL FORMATION BY SECTORS

(Constant 1970 Prices, Million Escudos)

	1968	1969	1970	1971	1972	1973	1974	Growth Rates 1968-1973	Growth Rates 1974
Agriculture, fisheries and forestry	2,239	2,334	2,131	2,215	2,334	2,799	1,993	4.6	-28.8
Mining	120	174	233	158	174	143	98	3.6	-31.5
Manufacturing	7,382	8,130	9,737	10,988	12,511	13,262	13,315	12.4	+0.4
Construction	349	597	679	1,020	987	1,244	1,175	29.0	-5.6
Electricity, water and gas	2,578	2,559	2,642	2,775	3,159	3,385	4,164	5.6	+23.0
Transport and communications	4,461	4,287	5,560	6,592	9,415	9,167	6,592	15.5	-28.1
Dwellings	3,754	4,394	4,443	4,342	5,765	7,576	9,909	15.0	+30.8
Public administration	1,292	1,464	1,301	1,748	1,463	1,463	1,763	2.5	+20.5
Others	3,556	4,101	4,334	4,717	6,205	7,972	6,614	17.5	-17.0
TOTAL	25,731	28,040	31,060	34,553	42,013	46,961	45,623	12.8	-2.8

Source: Central Planning Secretariat.

Table 3.1: BALANCE OF PAYMENTS [a]

(Billions of Escudos)

	1970	1971	1972	1973	1974	1975 [p]	1976 [e]
Exports, f.o.b.	26.12	28.39	33.36	42.93	55.68	48.00	55.1
Imports, f.o.b.	39.94	47.10	53.98	65.92	106.10	89.50	106.0
Trade Balance	-13.82	-18.71	-20.62	-22.99	-50.40	-41.50	- 50.9
Non-Factor Services (Net)	0.89	3.57	5.00	1.66	-1.89	-3.70	- 1.5
(Tourism Receipts, gross)	(6.9)	(9.44)	(11.30)	(13.58)	(13.04)	(9.5)	
Investment Income (Net)	0.89	0.41	0.58	2.11	3.28	-0.20	-2.50
Transfers (Net) [b]	14.56	19.11	23.73	27.06	28.21	23.60	26.00
Current Account Balance	2.52	4.3	8.69	7.84	-20.90	-21.90	-28.9

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a/ Import-Export data in this table and other tables are not exactly the same because of differences in trade statistics and the balance of payments data.

b/ Mostly workers' remittances.

e/ Estimates.

p/ Preliminary.

Source: Bank of Portugal and Central Planning Secretariat.

Table 3.2: BALANCE OF PAYMENTS
(Billion of Escudos)

Non-Factor Services (NFS)

Receipts	1970	1971	1972	1973	1974	1975 p/	1976 e/
Tourism	6.92	9.44	11.30	13.58	13.04	9.50	10.5
Transport	1.92	2.80	3.37	3.93	4.51	3.91	
Government, n.i.e.	3.76	4.38	4.65	4.83	6.04	3.00	9.5
Miscellaneous	2.55	3.19	4.38	4.80	6.01	8.15	
Total	15.15	19.81	23.70	27.14	29.60	24.56	20.0
Payments							
Tourism	2.82	3.34	4.18	5.68	6.48	5.76	5.5
Transport	3.20	3.40	4.34	5.68	8.19	7.90	
Government, n.i.e.	5.92	6.75	7.11	9.53	11.25	6.00	16.0
Miscellaneous	2.32	2.75	3.07	4.59	5.57	8.93	
Total	14.26	16.24	18.70	25.48	31.49	28.59	21.5
NFS (net) - Total	0.89	3.57	5.00	1.16	-1.89	-4.03	-1.5
Tourism (net)	4.10	6.10	7.12	7.90	6.56	3.74	

e/ Estimates.

p/ Preliminary.

Source: Bank of Portugal and Central Planning Secretariat.

Table 3.3: BALANCE OF PAYMENTS

(Billions of Escudos)

A. Transfers	1970	1971	1972	1973	1974	1975 p/	1976 e/
Receipts	15.11	19.79	24.51	28.12	29.10	25.33	27.00
Payments	0.55	0.68	0.73	1.06	0.89	0.93	1.00
NET	14.56	19.11	23.78	27.06	28.21	24.40	26.00

B. Investment Income							
Receipts	2.38	1.84	2.26	3.65	5.16	2.05	1.00
Payments	1.49	1.43	1.68	1.54	1.88	2.32	3.50
NET	0.89	0.41	0.58	2.11	3.28	-0.27	-2.50

p/ Preliminary.

e/ Estimates.

Source: Bank of Portugal and Central Planning Secretariat.

Table 3.4: DIRECTION OF FOREIGN TRADE

(Billions of Escudos)

	Imports (cif)					Exports (fob)				
	1971	1972	1973	1974	1975	1971	1972	1973	1974	1975
EEC a/	17.2	19.1	33.6	51.4	39.2	5.7	7.2	22.1	28.0	24.8
EFTA	13.0	14.8	8.7	11.8	8.8	11.3	14.4	6.3	8.4	7.5
Other Europe	3.6	4.3	5.9	7.3	6.9	1.0	1.3	1.6	2.1	3.3
U.S.A.	3.6	5.9	6.6	11.1	12.7	2.9	4.4	5.3	5.8	4.2
Other Countries	8.1	9.6	12.5	24.1	25.8	2.8	2.8	3.4	7.3	6.5
Overseas Territories	6.9	7.0	7.5	12.4	4.2	6.5	5.2	6.7	6.4	3.0
TOTAL (excluding diamonds)	50.2	58.7	73.0	115.5	96.5	28.3	33.4	42.8	55.6	47.7
TOTAL	52.4	60.7	74.8	118.1	97.6	30.2	35.3	45.4	58.0	49.3

a/ Since 1973 including the United Kingdom, Denmark and Ireland.

Source: National Institute of Statistics and Central Planning Secectariat.

Table 3.5 IMPORTS AND EXPORTS OF OIL AND OIL PRODUCTS

	1972	1973	1974	1975	1976 b/
			Volume (Millions of Tons)		
Imports					
Crude Oil	4.3	4.4	5.7	5.54	5.70
Refined Oil Products	1.7	1.9	1.3	1.18	1.34
Total	6.0	6.3	7.0	6.72	7.04
Exports					
Refined Oil Products	0.4	0.2	0.3	0.1	
Total Net Imports	5.6	6.1	6.7	6.82	
			Value (Millions of U.S. Dollars)		
Imports, f.o.b.					
Crude Oil	70.3	81.1	393.6	447.8	490.6
Refined Oil Products	51.8	72.9	137.7	124.4	148.5
Total	122.1	154.0	531.3	572.2	639.1
Exports, f.o.b.					
Refined Oil Products	11.1	8.1	59.0	10.7	
Total Net Imports	111.0	145.9	472.3	582.9	
			Unit Value a/		
Imports					
Crude Oil	16.3	18.4	69.1	80.86	86.07
Refined Oil Products	30.5	38.4	105.9	105.50	110.51
	20.4	24.4	75.9	85.15	90.78
Exports					
Refined Oil Products	27.8	40.5	196.7	138.0	
Total Net Imports	19.8	23.9	70.5	85.4	

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a/ U.S. dollars (f.o.b.) per ton derived from the value and volume figures.

b/ Estimated by the General Direction of Oil Products.

Conversion factors:

1972 Esc/$: 27.011; 1973 Esc/$: 24.673; 1974 Esc/$: 25.408;
1975 Data provided in US$.

Source: Data provided by the Portuguese authorities.

Table 3.6: TERMS OF TRADE

(In Percent, 1963=100)

Years	Export Prices	Import Prices	Terms of Trade
1963	100.0	100.0	100.0
1964	104.0	102.7	101.3
1965	107.1	104.5	102.5
1966	105.0	104.8	100.2
1967	109.1	102.4	106.5
1968	111.5	99.9	111.6
1969	109.8	100.7	109.0
1970	115.7	110.4	104.8
1971	121.2	112.1	108.1
1972	129.3	115.9	111.6
1973	148.3	132.4	112.0
1974	212.6	188.7	112.7
1975 e/	212.6	207.6	102.4

e/ Estimates.

Source: Central Planning Secretariat.

Table 3.7: INTERNATIONAL RESERVES OF PORTUGAL

(Billions of Escudos, Metropolitan Area)

	1970	1971	1972	1973	1974	1975	June 1976	Sept 1976
A. Gross official reserves a/	44.1	54.1	63.4	72.7	56.9	41.4	40.7	40.7
Gold	25.9	27.2	27.8	29.7	29.3	31.1	35.0	34.5
Foreign currencies	17.7	26.1	34.8	42.2	26.8	10.1	5.5	5.8
Reserve position in IMF	0.5	0.8	0.8	0.8	0.8	--	--	--
SDR's	--	--	--	--	--	0.2	0.2	0.4
Official Liabilities	0.1	0.1	0.1	--	--	8.2	27.9	33.1
B. Net official assets	44.0	54.0	63.3	72.7	56.9	33.2	12.8	7.6
Other institutions b/								
Assets	8.2	7.6	7.8	11.4	10.3	9.9	12.2	
Liabilities	2.3	2.0	2.0	2.5	3.6	3.5	4.0	
C. Net other institutions' assets	5.9	5.6	5.8	8.9	6.7	6.4	8.2	
D. Net total assets (B + C)	49.9	59.6	69.1	81.6	63.6	39.6	21.0	

Source: Bank of Portugal

a/ Official reserves refer to Bank of Portugal and Treasury.
b/ Mainly commercial banks.

Note: (i) Assets and liabilities in gold and foreign currencies only.
(ii) Before 1974, gold was valued at international gold price of $35.0 and $42.2 per ounce and since June 1974 it has been valued at SDR $35.00 per ounce, and SDR were expressed in terms of the basket of currencies and exchange rate prevailing at the end of each year.

Table 3.8: PORTUGAL: FOREIGN AID COMMITMENTS

(Million U.S. Dollars)

		1975	1976	1977 a/
	Balance of Payments Support			
A.	Bank of International Settlements a/	250 b/	250 b/	
B.	International Monetary Fund:			
	(i) Oil Facility		86	
	(ii) Supplementary Oil Facility		48	
	(iii) Compensatory Financing		67	
	(iv) Gold Tranche	36		
C.	Central Banks	50 b/	415 b/	85
	Sub-Total	336	866	85
	Long-term Development and Emergency Aid			
D.	EEC Through E.I.B.:			
	(i) Power		42	
	(ii) Development Bank (BFN)		18	
	(iii) Pyrite Processing (CUF)		24	
	(iv) Irrigation (Odivelas)		12	
	(v) Oporto Harbour			24
	(vi) Others			60
E.	EFTA (Industrial Development Fund) c/		2	20
F.	US AID:			
	(i) Housing Loans	13.3		10
	(ii) Housing Credit Guarantees	20		20
	(iii) Refugees Emergency Grant	7.5	35	
	(iv) PL 480 Sales		25	50
	(v) Technical Assistance Loans	1		
	(vi) Technical Assistance Grants	0.8	1	
	(vii) Secondary Schools Construction			11
	(viii) Basic sanitation			8
G.	Federal Republic of Germany:			
	Irrigation (Mondego)			27
H.	The Netherlands:			
	Universities & Pre-fabricated Houses Loan			3.7
	Technical Assistance & Employment Promotion grants			2.5
I.	Norway:			
	Fishing Equipment & Pre-fabricated Houses		36.4	
J.	World Bank:			
	(i) Power		36	24
	(ii) Highways			
	Sub-Total	42.6	231.4	260.2
	GRAND TOTAL	378.6	1,097.4	345.2

a/ Expected to be committed during 1977, excluding a U.S. short-term loan of $300 million and a $1.5 billion multinational consortium for medium-term financing.

b/ With gold as collateral and most loans renewable every three to six months.

c/ $100 million Fund over 5 years.

Table 4.1: EXTERNAL PUBLIC DEBT (Including Undisbursed)

(US$ millions)

I. Debt Outstanding	June 30, 1976
1. Direct Government Debt, total of which:	570.0
a) Debt incurred for the construction of Cabora Bassa Dam (Mozambique) a/	340.8
- in French francs	(106.7)
- in Deutsch marks	(149.2)
- in rands	(79.9)
- in US dollars	(5.0)
b) Marshall Plan	15.4
c) Debt incurred for the construction of the Tejo bridge (Export-Import Bank)	47.8
d) Debt incurred to import agricultural products (AID loans)	43.3
e) Debt incurred to promote housing programs (AID loans)	33.3
f) Savings bonds in US dollars	27.3
g) Promissory notes in rands (South African Reserve Bank)	4.4
h) Other credits in rands	61.2
i) Debt incurred for irrigation programs (Kreditanstalt fur Wiederaufbau) in Deutsch marks	28.0
j) Bonds issues in sterling pounds	8.5
2. Debt Guaranteed by the Government, of which	318.5
a) IBRD	(37.3)
b) EEC Emergency Aid	(77.0)
c) Other credits in US dollars	(101.5)
d) Other credits in Swiss francs	(45.2)
e) Other credits	(57.5)
3. Total External Public Debt	928.5

II. Estimated Debt Service Payments

	1976	1977	1978	1979	1980	1981
Direct Debt	55.3	60.1	53.4	53.4	49.5	45.3
Guaranteed Debt	38.9	35.5	38.5	33.7	26.9	23.5
TOTAL	95.2	95.6	91.9	87.1	76.4	68.8

a/ Data referred to May 31, 1976.

Source: Planning and Studies Department--Ministry of Finance.

Table 5.1: CENTRAL GOVERNMENT BUDGET : 1972-76

(In Billion Escudos)

	ACTUALS			Budget	Actual	Actual	Budget
EXPENDITURES	1972	1973	1974	1975		1976	1977
Current	29.3	35.2	46.1	51.7			111.3
Wages and Salaries	9.6	11.7	16.9	19.0			44.0
Goods and Services	4.8	4.8	5.8	7.1			8.8
Transfers	4.7	6.1	8.3	16.0			30.9
Others	10.2	12.6	15.1	9.6			27.6
Capital	7.7	9.5	13.1	19.1			43.7
Investments	2.9	3.2	3.6	0.8			25.2
Transfers	1.1	2.6	5.7	5.6			9.2
Financial Assets and Liab.	3.3	3.5	3.6	3.3			9.3
Others	0.4	0.2	0.2	9.4			--
Unclassified	0.1	0.1	0.1				--
Intrabudgetary Transfers	3.7	4.1	4.1	4.5		4.0	4.2
Total General Budget	40.9	48.9	63.4	75.4	87.4	105.5	159.2
Extrabudgetary Accounts	4.1	1.3	-0.1	--	-0.2		--
Less Redemption of Borrowing	-1.1	-1.3	-1.5	--	-1.8	--	-3.1
Total Expenditure	43.9	48.9	61.8	75.4	85.4	105.5	156.1
RECEIPTS							
Current	32.4	39.0	45.9	51.4	49.6	64.0	85.8
Direct Taxes	11.1	13.7	16.6	18.5	16.2	19.9	24.4
Indirect Taxes	18.6	21.5	26.0	29.4	30.4	39.0	53.7
Transfers	0.7	0.7	0.8	0.8	0.5	0.6)	
Others	2.0	3.1	2.5	2.7	2.5	4.5)	7.7
Capital	2.0	1.7	1.9	3.7	0.7	2.7	9.2
Transfers	1.4	1.0	1.3	2.6	--	2.2	
Financial Assets and Liab.	0.7	0.8	0.6	1.1	0.7	0.5	
Others	--	--	--	--	--	--	
Refunds	0.2	0.4	0.3	0.1	0.7	0.1	
Intrabudgetary Transfers	3.7	4.1	4.1	4.5	3.7	4.0	4.2
Extraordinary Receipts	-	-	-	-	3.6	-	99.2
Total Receipts	38.3	45.2	52.2	59.6	58.3	70.7	-56.8
Surplus/Deficit (-)	-5.5	-3.7	-9.6	-15.8	-27.1	-34.8	
Financing							
Net Domestic Borrowing	3.1	3.9	6.8	15.8)	28.8)	34.8	
Net Foreign Borrowing	-0.1	0.3	--	--)	-0.5)	--	
Use of Cash Balances	2.5	-0.5	2.9	--	-1.2	--	

Source: Ministry of Finance

Table 5.2: GOVERNMENT BUDGET RECEIPTS

(In billions of escudos; figures in parantheses are percentage changes over previous year or corresponding period in previous year)

	1973	1974	1975	1976 a/	1977
Tax revenue	35.22 (20.3)	42.58 (20.9)	46.66 (9.6)	64.16 (37.2)	78.08 (21.7)
Direct taxes b/	13.69 (28.2)	16.56 (21.0)	16.24 (-0.2)	20.01 (23.2)	24.41 (22.0)
Industrial tax	2.88	4.06	3.66	1.88	4.00
Professional tax	2.05	2.97	4.05	5.28	7.00
Real estate tax	1.43	1.61	1.71	2.01	2.30
Complementary tax	1.82	2.40	1.34	4.89	4.90
Gift and inheritance tax	0.77	0.91	0.87	0.67	0.70
Property transfer tax	2.13	2.26	1.46	1.37	1.20
Capital tax	1.46	1.63	2.10	2.66	3.10
Other c/	1.15	0.72	1.05	1.25	1.21
Indirect taxes	21.53 (15.8)	26.02 (20.9)	30.42 (16.9)	44.15 (44.7)	53.67 (21.6)
Transaction tax	6.57	8.65	10.40	15.28	18.80
Stamp tax	3.82	4.43	4.88	7.81	9.20
Import duties	4.72	5.13	3.95	4.01	4.50
Import surcharge	-	-	1.64	4.32	5.00
National salvation tax	2.35	2.38	2.76	2.70	2.90
Other c/	4.07	5.44	6.79	10.03	13.27
Other ordinary receipts d/	8.16	7.70	8.07	11.76	11.93
Extraordinary receipts e/	1.80	1.89	3.56	2.60	9.24
Total receipts	45.18 (17.8)	52.17 (15.5)	58.29 (11.7)	78.52 (34.5)	99.25 (26.4)

Sources: Ministry of Finance, General Direction of Public Accounts (General Accounts State) and data provided by the Planning and Studies Department.

a/ January 1977 revised estimates.
b/ Excludes extraordinary direct tax (prior to 1976).
c/ Includes taxes on tobacco and land transportation, and on sales of automobiles.
d/ Includes fees, enterprise profits and incomes from financial assets, and earmarked receipts.
e/ Includes transfers and repayments. Prior to 1976 included also special tax for overseas territories.

Table 5.3: CENTRAL GOVERNMENT EXPENDITURE (IN BILLIONS OF ESCUDOS)

	1972	1973	1974	1975	1976 b/
Ordinary expenditure	22.99	27.50	35.59	52.82	77.60
Public debt	2.62	2.87	3.32	4.33	7.50
Military and security departments	5.27	5.87	8.30	11.73	17.10
Other departments	15.10	18.76	23.97	36.76	53.00
Extraordinary expenditure	17.88	21.39	27.82	33.80	47.40
Defense and security	10.12	11.90	14.90	8.28	1.90
Development plan (Portugal)	4.89	5.80	7.72	13.24	20.00
Overseas territories a/	0.93	2.06	1.67	7.94	13.30
Other	1.94	1.63	3.53	4.34	12.20
Total expenditure	40.87	48.89	63.41	86.62	125.00

a/ Prior 1975 aid to overseas territories. After 1975 decolonization and cooperation with the new states.

b/ Provisional actual.

Source: Data provided by the Portuguese authorities.

Table 5.4: SUPPLY FUND a/
(IN BILLION ESCUDOS)

	Receipts	Expenditures	Surplus/ Deficit	Borrowing	Balance
1971	3.10	2.8	0.3	-	0.3
1972	3.05	3.1	-0.05	0.25	0.2
1973	2.95	2.9	0.05	0.25	0.3
1974	5.00	7.8 b/	-2.8	3.50	0.7
1975	2.70	5.6	-2.9	3.50	0.6

a/ The Supply Fund regulates the domestic supply of essential foodstuffs (e.g. wheat, sugar) through purchases of these commodities in the world market and sales to domestic consumers. In the course of its transactions the Fund also stabilizes domestic consumer prices, generating surplus when world prices are low and sustaining losses when (as in 1974 and 1975) world prices are high.

b/ Excludes redemption of loan, Escudo 0.3 billion.

Source: Supply Fund

Table 5.5: UNEMPLOYMENT FUND
(IN MILLIONS OF ESCUDOS)

	1971	1972	1973	1974	1975	1976 a/
Total Receipts of which:	1586	1888	2269	2998	5284	7197
Taxes	1542	1840	2231	2952	5221	6000
Repayment of previous loans	37	42	30	38	44	1195
Miscellaneous	7	6	8	8	19	2
Total Expenditures of which:	1549	1630	2137	2649	3045	10,257
Unemployment subsidy	..	..	..	..	890 b/	5150 b/
Public works	612	844	1008	1270	812	3198
Professional training and subsidies	851	664	959	1217	1221	688
Loans	19	39	88	64	17	962
Administration	67	83	82	98	105	259
Balance	37	258	132	349	2239	-3060

a/ Figures for 1976 are from budget.

b/ Includes unemployment benefits to returnees from former colonies. For 1976, this is estimated to be about Escudo 3.56 billion.

Source: Department of Unemployment Fund.

Table 5.6: SOCIAL SECURITY a/
(IN BILLION ESCUDOS)

	1973	1974	Budget Estimates 1975	Budget Estimates 1976
Receipts	19.4	23.6	29.1	34.7
Contributions	15.5	19.3	25.0	28.4
Others	3.9	4.3	4.1	6.3
Expenditures	19.5	25.7	35.3	50.0
Contributions	16.7	22.8	32.2	46.5
Others	2.8	2.9	3.1	3.5
Deficit	-0.1	-2.1	-6.2	-15.3

a/ Excluding civil service.

Source: Ministry of Social Affairs -- Director General of Social Security.

Table 6.1: MONETARY SURVEY

	In Billion Escudos End of Year				Percent Change	
	1973	1974	1975	1976	1975	1976
Liabilities						
Money Supply (M1) of which:	166	183	227	250	24.0	10.1
currency	38	70	110	108	57.1	-1.2
demand deposits	128	113	117	142	3.5	21.4
Time and Savings Deposits	136	160	158	203	-1.2	28.5
Broadly Defined Money Supply (M2)	(302)	(343)	(385)	(453)	12.2	17.7
Capital Account and Others Net	25	23	16	13	-30.5	-18.7
Total Liabilities = Assets	327	366	401	466	9.6	16.2
Foreign Assets Net	78	68	39	12	-32.8	-59.2
Claims on Government, Net a/	8	23	52	78	126.0	50.0
Claims on Financial Institution	1	5	13	18	160.0	38.5
Claims on Private Sector	240	275	297	357	8.0	20.2
Memo Items						
Total Domestic Credit	249	303	362	454	19.5	25.4
Government Net Credit as % of Total	(2.5)	(6.3)	(13.0)	(16.7)	-	-
Private Sector Credit as % of Total	(96.4)	(90.8)	(82.2)	(76.6)	-	-

a/ Including autonomous funds.

Source: Bank of Portugal

Table 6.2: MAXIMUM INTEREST RATES
(In per cent)

	1970 April	1971 February	1972 December	1973 December	1974 July	1974 December	1975 December	1976 July g/
Bank of Portugal								
Discount	3.5	3.75	4.0	5.0	6.5	7.5	6.5	6.5
Rediscount	2.0-3.5	2.0-3.75	2.0-4.0	3.0-5.0	4.0-6.5	4.5-7.5	3.0-6.5	3.0-6.5
Commercial Banks								
Deposit rates								
Sights deposits	1.0	1.0	1.0	0.5	–	1 d/	1 d/	1 d/
Other deposits--notice or time deposits of up to:								
15 days	1.0	1.0	1.0	0.5	–	1 d/	1 d/	1 d/
15-30 days	2.0	2.25	2.25	2.5	3.5	3.5		
30-90 days	3.0	3.25	3.25	3.5	3.5	4.5	4.5	4.5
90-180 days	4.0	4.25	4.25	4.5	5.5	6.5	6.5	6.5
180-270 days)				5.5	7.0	8.0)		
270 days - 1 yr)	5.0	5.25	5.25	6.0	8.0	9.0)	9.5	9.5
Investment and Savings Banks								
Sight deposits	3.0 a/	3.0 a/	3.0 a/	3.0 b/	3.0 b/	4.0 e/	4.0 e/	4.0 e/
Other deposits--notice or time deposits of up to:								
15 days	3.0 a/	3.0 a/	3.0 a/	3.0 b/	3.0 b/	4.0 e/	4.0 e/	4.0 e/
15-30 days	2.0	2.25	2.25	2.5	3.5	3.5		
30-90 days	3.0	3.25	3.25	3.5	3.5	4.5	4.5	4.5
90-180 days	4.0	4.25	4.25	4.5	5.5	6.5	6.5	6.5
180-270 days)				5.5	7.0	8.0)		
270 days-1 yr.)	5.0	5.25	5.25	6.0	8.0	9.0)	9.5	9.5
over 1 year	5.5	5.75	5.75	6.5	8.5	9.5	10.5	10.5
over 2 years		6.75 c/	6.75 c/	7.5 c/	9.5 c/	9.5/10.5 c/	10.5/11.5 c/	10.5/11.5 c/
All Credit Institutions								
Lending Rates								
Discount and Loans up to:								
3 months)					6.75	7.75	4.5/7.75 f/	4.5/8.75 f/
3-4 months)	5.25	5.5	5.75	5.75	6.75	7.75)		
4-6 months)					7.25	8.25)	5/8.25 f/	5.0/9.25 f/
6-12 months	6.0	6.25	6.5	6.75	8.25	9.25	6/9.5 f/	6.0/10.5 f/
1-2 years	6.75	7.0	7.25	7.75	9.5	10.5	10.75	11.25
2-3 years)			7.5	8.25	10.0	11.0)		
3-5 years)	7.25	7.5	7.75	8.5	10.5	11.5)	11.75	12.25
5-7 years)		7.75	8.0	8.75	11.0	12.0	12.25	12.75
over 7 years)		8.0	8.25	9.0	11.5	12.5	12.75	13.25

Source: Bank of Portugal.

a/ Only for deposits by individuals up to Esc 50,000, otherwise 1.5 per cent.
b/ Only for deposits by individuals up to Esc 50,000, otherwise 1 per cent.
c/ Only for special cases.
d/ Only for deposits by individuals.
e/ Only for deposits by individuals up to Esc. 70,000, otherwise 2.0 per cent.
f/ Minimum rates concern operations with preferential rediscount rates.
g/ Only lending rates were changed. Bank of Portugal's rates and deposit rates were kept the same as in December 1975.

Table 7.1: PRICE DEVELOPMENTS, 1970-75

(1969 = 100)

(Percentage increase over same period of previous year)

	1970	1971	1972	1973	1974	1975	1974 1st qtr.	1974 2nd qtr.	1974 3rd qtr.	1974 4th qtr.	1975 1st qtr.	1975 2nd qtr.	1975 3rd. qtr.	1975 4th qtr.
Consumer Prices														
Food	5.0	8.9	9.9	9.2	32.4	23.6	23.2	31.1	38.5	36.8	32.2	27.7	19.2	15.7
Clothing and footwear	2.0	6.1	9.1	25.6	32.1	8.5	35.7	31.7	32.4	28.5	13.9	9.3	8.2	3.1
Rents	7.2	30.8	19.6	18.3	9.6	-7.7	29.5	17.9	10.8	-16.7	25.8	17.9	-5.9	26.0
Fuel and Electricity	0.6	3.5	-	6.7	19.9	9.4	13.4	19.4	22.2	24.4	12.7	5.4	7.1	12.8
Hygiene	1.6	16.6	17.9	7.3	22.5	13.8	12.3	18.7	23.9	35.0	25.1	18.7	13.1	1.3
Miscellaneous	11.5	8.3	6.7	13.0	21.5	18.9	14.0	21.1	23.8	24.0	26.9	20.9	15.5	13.0
Lisbon (official)	6.4	11.9	10.7	12.9	25.1	15.2	23.8	25.9	28.7	22.1	16.5	15.2	12.7	15.0
Wholesale prices (Lisbon)	3.4	2.0	5.9	11.1	27.4	13.9	25.1	29.1	30.3	30.0	18.2	16.0	11.2	
Food	2.2	5.0	6.8	5.1	24.4	32.2	20.8	25.0	31.9	38.5	33.5	38.4	31.5	
Manufactures	-	3.1	6.9	10.7	12.1	4.0	14.2	17.6	17.1	9.5	5.0	3.9	2.9	
Domestic goods	6.4	1.2	8.9	11.5	26.3	7.7	25.6	27.2	25.9	22.4	9.2	8.2	5.6	
Domestic goods using imported raw materials	-0.8	3.1	1.5	3.7	19.9	35.7	12.4	23.0	39.9	60.4	55.8	51.6	35.5	
Import prices a/ (b)	-1.0	3.6	6.4	26.3	26.1	16.0	24.6	32.0	21.5	28.8	32.8			
Composite export prices of industrial countries a/	6.4	4.0	8.7	23.9	40.7	---	24.4	27.8	21.5	24.5	26.8	13.5		

Source: Bank of Portugal, Annual Reports; National Institute of Statistics, Monthly Bulletin of Statistics.

a/ International Financial Statistics, October 1975.

Table 7.2: AVERAGE YEARLY REMUNERATION

(Annual Changes in Percent)

	Nominal Remuneration			Real Remuneration		
	1970-73	1973-74	1974-75	1970-73	1973-74	1974-75
Agriculture, Fishing and Hunting	12.9	32.9	24.7	1.4	5.3	6.6
Fishing	11.9	30.6	20.0	0.5	3.4	2.6
Mining	19.0	45.4	30.4	6.8	15.2	11.5
Manufacturing	15.4	38.5	25.0	6.2	10.5	6.8
Construction	15.3	29.7	24.8	3.4	2.7	6.7
Electricity, Gas and Water	16.4	29.9	24.3	4.4	2.9	6.2
Trade	12.4	33.3	20.0	0.9	5.6	2.6
Banking, Insurance and Real Estate	8.0	23.3	20.0	-3.1	1.6	2.6
Transportation and Communications	15.6	40.5	20.0	3.7	11.4	2.6
Private Services	13.5	30.8	20.0	1.8	3.6	2.6
Total (excl. non-productive public services)	16.0	37.6	22.7	4.1	9.0	4.9
Total	15.5	33.7	22.1	3.7	5.9	4.4
Total (excl. employers' contributions to Social Security)	16.2	32.9	23	4.3	5.3	5.1

Source: National Institute of Statistics - Industrial Statistics, Business Statistics, Construction Statistics; Central Planning Secretariat.

Table 7.3: ANNUAL WAGES AND SALARIES 1965-75[a/]

	1965	1970	1971	1972	1973	1974 [b/]	1975 [b/]
Agriculture and silviculture	11 460	18 390	21 700	22 980	26 430	35 120	43 790
Fishing	21 640	37 750	41 600	46 580	51 820	67 370	80 840
Extractive industries	13 130	20 700	24 590	29 870	34 820	51 060	66 380
Manufacturing industries	15 410	25 880	30 450	34 500	42 020	58 180	72 730
-Food	13 570	21 710	24 640	26 820	33 470	47 180	n.a.
-Beverages	26 490	37 570	42 890	47 110	58 520	82 780	n.a.
-Textiles	13 370	18 560	22 340	25 750	30 610	43 070	n.a.
-Clothing and footwear	10 720	17 820	19 640	22 310	26 030	37 260	n.a.
-Wood and cork	12 530	18 510	21 130	22 310	28 990	41 520	n.a.
-Furniture	14 830	26 310	30 380	35 040	41 280	44 490	n.a.
-Paper	16 300	30 050	38 600	42 220	49 170	69 940	n.a.
-Rubber	18 930	30 890	33 850	37 940	47 220	61 600	n.a.
-Chemicals	20 936	35 055	44 630	47 540	60 680	85 030	n.a.
-Petroleum	47 460	80 750	83 660	87 730	100 420	154 290	n.a.
-Non-metallic minerals	16 620	25 210	31 300	35 630	41 600	58 260	n.a.
-Base metals	25 200	48 700	53 270	46 620	54 130	85 990	n.a.
-Metal products	14 060	22 760	31 390	40 200	45 336	67 100	n.a.
-Electrical equipment	21 790	37 020	38 190	38 750	47 560	83 660	n.a.
-Transport equipment	24 050	43 390	45 194	54 720	68 520	90 700	n.a.
-Miscellaneous manufacturing	13 400	23 410	28 280	33 220	39 510	56 460	n.a.
Construction	10 010	21 160	23 050	26 880	32 220	41 890	52 270
Electricity	35 260	62 180	67 600	80 620	97 020	126 130	157 180
Commerce	23 720	36 510	41 370	46 210	53 540	69 600	83 520
Banking, insurance and real estate	58 190	83 890	87 570	91 460	101 600	132 080	153 500
Transport and communications	27 260	41 950	45 930	57 090	65 190	91 260	109 520
Services	12 470	20 670	22 880	26 560	30 240	40 290	50 330
Total (excluding public sector)	15 280	26 170	29 990	34 240	40 710	55 820	69 130
Total	17 500	30 290	34 240	39 660	46 630	62 110	76 660

a/ Based on salaries in Lisbon, Porto, Evora, Coimbra, Faro, Viseu.
Escudos/person/year.
Excluding Social Security and other welfare benefits.
Excluding overtime payments, 13th month bonuses, etc.

b/ Estimates.

Source: Ministry of Labor.

Table 8.1: GROSS AGRICULTURAL PRODUCTION [a/]

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
	billion escudos in current prices									
Total Agriculture	20.0	20.2	22.7	23.5	24.9	27.5	28.5	31.6	39.1	45.9
Crops	10.2	9.4	11.6	12.2	12.0	15.9	16.7	19.0	21.5	24.1
Livestock	6.8	7.6	7.9	7.9	9.2	7.8	7.7	8.3	11.2	14.6
Forestry and Hunting	3.0	3.1	3.1	3.4	3.6	3.7	4.1	4.3	6.4	7.3
	billion escudos in 1963 prices									
Total Agriculture	17.9	16.0	17.7	18.4	17.9	18.5	17.5	17.5	18.3	19.1
Crops	8.9	6.6	8.6	8.6	7.4	10.0	9.6	9.2	9.1	9.0
Livestock	6.3	6.6	6.5	6.9	7.6	5.7	5.0	5.3	5.5	7.1
Forestry and Hunting	2.7	2.7	2.6	2.9	2.8	2.8	2.9	3.0	3.7	3.0
	indices in 1963 prices									
Total Agriculture (1963 = 100)	103	92	102	106	103	107	101	101	106	110
Crops	97	72	93	93	80	109	104	100	99	98
Livestock	119	124	123	130	143	108	94	100	104	134
Forestry and Hunting	100	100	96	107	104	104	107	107	137	111

Source: National Institute of Statistics - Estatisticas Agricolas.

a/ Figures in this table do not correspond with the table on GDP by sectors of activity mainly due to exclusion of fisheries in this table.

Table 8.2: YIELDS OF MAIN FIELD CROPS

	Wheat	Maize	Barley	Oats	Rye	Rice	Potatoes
	100 kg/ha						
Average 61-65	8.00	11.37	4.83	3.16	5.65	45.18	97.03
Average 64-73	11.28	12.57	6.55	4.92	6.88	43.30	101.51
1966	5.97	11.94	4.41	3.42	5.13	44.35	91.78
1967	10.87	13.22	6.89	4.90	7.32	45.26	111.04
1968	12.17	12.63	6.93	5.51	8.33	45.26	103.00
1969	9.59	12.95	4.55	3.64	7.10	46.81	105.03
1970	11.10	13.92	5.14	4.77	6.94	46.68	107.69
1971	15.60	13.38	7.54	7.45	7.49	38.30	102.26
1972	12.38	13.30	6.97	5.04	7.29	37.68	101.77
1973	11.69	13.66	7.00	5.04	6.47	42.76	99.37
1974	11.56	13.50	7.97	5.81	6.81	39.27	99.72
1975 /a	12.40	12.53	8.99	7.13	7.26	39.64	87.41
1976 /b	13.77	13.53	9.87	7.56	7.48	38.18	95.84

a/ Provisional data.
b/ Estimates.

Source: Central Planning Secretariat, National Institute of Statistics - Estatisticas Agricolas and Indicadores da Actividade Economica (June and July 1976) and mission estimates.

Table 8.3: OUTPUT OF MAIN FIELD CROPS - CONTINENTAL PORTUGAL

	Average 1964-73	Average 1961-65	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975/a	1976/b
	thousand tons												
Wheat	570	550	312	637	748	454	548	794	604	517	534	600	791
Maize	543	560	565	577	548	553	581	526	579	509	486	463	490
Barley	65	61	49	73	94	54	54	85	62	57	75	94	117
Oats	93	87	63	111	129	79	72	125	85	79	99	127	143
Rye	169	147	145	175	199	167	157	169	164	134	143	144	148
Rice	163	167	154	146	149	176	195	162	164	168	130	121	91
Potatoes	1,103	1,025	923	1,296	1,083	1,126	1,220	1,124	1,139	1,086	1,114	940	1,271
Cork	n.a.	181	167	139	197	[illegible]	132	151	192	188	150	n.a.	n.a.
	thousand hectoliters												
Wine	10,623	12,802	8,930	9,740	11,690	8,081	11,328	8,835	8,196	11,086	13,873	9,067	
Olive oil	614	828	414	883	581	790	735	458	588	458	526	535/2	

/a Provisional data.
/b Estimates.

Source: Central Planning Secretariat, National Institute of Statistics - Estatisticas Agricolas (various issues) and Indicadores da Actividade Economica (June and July 1976), and mission estimates.

Table 8.4: OUTPUT OF LIVESTOCK PRODUCTS - CONTINENTAL PORTUGAL

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976[a]
	----	----	----	----	slaughter	in tons	----	----	----	----	----
Beef and veal	61,063	50,319	58,535	79,908	88,851	76,350	73,969	81,580	84,772	92,069	86,158
Mutton and lamb	10,646	10,685	12,607	12,317	13,052	9,979	8,286	10,348	10,334	10,055	-
Pork	49,496	39,543	54,232	61,847	52,321	56,649	65,263	75,285	76,457	92,242	-
Goat	1,461	1,572	1,724	1,857	1,895	1,726	1,641	1,881	1,959	2,245	-
Milk ('000 hl)	4,749	4,699	5,070	5,675	5,796	5,483	5,687	5,868	6,132	n.a.	n.a.
Poultry (broiler)	n.a.	n.a.	n.a.	n.a.	44,047	52,286	57,461	65,462	81,558	81,799	105,520
Eggs (million units)	617	629	641	653	664	676	680	729	777	805[b]	-

a/ Provisional data.
b/ Estimates.

Source: Central Planning Secretariat, National Institute of Statistics - Estatisticas Agricolas and Indicadores da Actividade Economica (June and July 1976) and mission estimates.

Table 8.5: IMPORTS OF AGRICULTURAL PRODUCTS

Commodity	1969	1970	1971	1972	1973	1974	1975
				thousand tons			
Livestock	14	15	41	55	35	67	-
Meat	10	9	34	46	27	51	30
Crops	1,147	1,084	1,169	1,546	1,653	2,250	-
Vegetables	67	36	32	70	62	91	-
Fruits	25	39	55	67	62	79	-
Coffee, tea	18	17	20	22	21	20	-
Cereals	824	797	857	1,177	1,302	1,860	-
Wheat	361	378	186	192	196	380	345
Corn	417	336	517	821	821	1,006	1,188
Seeds	187	174	187	201	198	193	153
Food and beverages	262	357	396	426	457	551	-
Sugar	176	251	203	261	256	317	275
Wood and wood products	197	175	213	252	393	327	-
Textiles	166	185	184	194	224	154	-
Cotton	98	93	92	116	146	86	92
				million escudos			
Total	8,940	9,544	10,827	13,796	18,345	28,681	-
Livestock	317	407	1,056	1,409	1,121	2,387	-
Meat	161	208	794	1,122	842	1,884	919
Crops	3,192	3,089	3,483	4,288	5,915	11,490	-
Vegetables	151	125	132	228	284	445	-
Fruits	129	205	285	418	419	549	-
Coffee, tea	299	280	322	343	387	487	-
Cereals	1,550	1,637	1,685	2,185	3,520	8,062	-
Wheat	610	764	340	407	744	2,100	1,784
Corn	776	703	1,025	1,461	2,059	3,895	4,726
Seeds	960	741	942	1,032	1,215	1,821	1,606
Food and beverages	1,209	1,656	1,851	2,119	2,967	5,655	-
Sugar	592	848	725	989	1,119	3,279	4,963
Wood and wood products	406	375	447	506	854	1,148	-
Textiles	2,368	2,434	2,485	3,179	4,652	4,702	-
Cotton	1,791	1,679	1,773	2,481	3,462	3,150	3,105
Tractors	278	270	221	396	576	800	625

Source: Central Planning Secretariat, National Institute of Statistics - Estatisticas Agricolas (various issues), and Boletin Trimestral das Estatisticas da Agricultura e da Pesca (October-December, 1975).

Fundação Cuidar o Futuro

Table 8.7: SIZE OF FARMS

Size Class	Number of Farms ('000)	(%)	Area ('000 ha)	(%)
Less than 1 ha	314	39	125	3
1 to 4 ha	315	39	618	12
4 to 20 ha	153	19	1,182	24
20 to 50 ha	18	2	504	10
50 to 100 ha	4	0.5	298	6
Over 100 ha	5	0.5	2,248	45
Total	809	100	4,974	100

Source: National Institute of Statistics - 1968 Inquerito as Exploracoes Agricolas do Continente (December 1972).

Table 8.8: STATE AGRICULTURAL CREDIT

	1969	1970	1971	1972	1973	1974	1975
	Million Escudos						
Total State Credits	288	423	400	320	473	386	n.a.
Of which total IRA	252	397	360	290	433	186	286
Through FMA	245	278	310	257	395	133	246
Through FFC	7	119	50	33	38	53	40
Total State Subsidies	105	147	206	491	192	150	146
Of which IRA							
Through FSRF	n.a.	n.a.	10	9	10	14	2

Source: Instituto de Reforma Agraria - Annual Reports, and National Institute of Statistics - Estatisticas Agricolas.

Table 9.1: MANUFACTURING OUTPUT-RATES OF GROWTH, 1968-75

(Constant 1970 Prices, In Percent)

	1968-73	1974	1975
Foodstuffs, beverages and tobacco	6.6	13.1	27.0
Textiles Apparel and Footwear	11.6	5.8	-17.2
Wood, cork and furniture	4.8	-1.0	-6.9
Paper, printing and publishing	6.5	29.3	0.5
Chemicals and related activities	10.2	0	5.6
Non-metal minerals	10.5	2.8	1.9
Basic metals	11.9	-13.1	-18.2
Metal products, mechanical and electrical equipment, and transportation equipment	12.6	-1.0	-12.9
Miscellaneous manufacturing	2.2	-16.8	21.3
TOTAL Manufacturing	9.9	2.1	-4.9

Source: National Institute of Statistics - 1967-73, constant 1963 prices; converted by the Central Planning Secretariat into constant 1970 prices.

1974 - ibid., National Institute of Statistics estimates.

1975 - Central Planning Secretariat estimates.

Table 9.2 GROSS VALUE ADDED BY MANUFACTURING INDUSTRY

(Million Escudos, at 1970 Constant Prices)

	1970	1971	1972	1973	1974	1975 e/	1976 e/
TOTAL	53,882	58,059	65,453	74,725	76,297	72,558	78,000
Food, beverages and tobacco	6,307	6,380	6,984	7,971	9,019	11,453	12,400
Non-metals mineral products	3,924	4,238	4,630	5,405	5,559	5,666	6,300
Metal products, machinery and transport equipment	16,103	18,028	21,467	23,136	22,911	19,961	44,700
Textiles, clothing and footwear	10,030	11,602	13,117	15,990	16,835	13,937	
Wood and cork products	3,314	3,406	3,916	3,911	3,873	4,140	
Paper products and printing	2,671	2,606	2,697	2,915	3,768	3,785	
Chemicals and related products	6,304	6,391	6,869	8,357	8,360	8,831	14,600
Basic metal industries	2,037	2,465	2,826	3,113	2,705	2,214	
Miscellaneous	3,192	2,943	3,447	3,927	3,267	2,571	

e/ Estimates.

Source: Central Planning Secretariat.

Table 9.3: GROSS FIXED CAPITAL FORMATION a/

(Millions of Escudos)

	1973		1974						1976 c/					
	Total		Public sector b/		Private sector		Total		Public sector (PISPE-76) d/		Private sector		Total	
	Esc.	%	Esc.	%	Esc.	%	Esc.	%	Esc.	%	Esc.	%	Esc.	%
Agriculture	2 380	4	10	*	2 800	6	2 810	4	70	*	n.a.		n.a.	
Fisheries	1 000	2	110	*	110	*	220	*	70	0	n.a.		n.a.	
Extractive industries	170	*	30	*	120	*	150	*	510	1	n.a.		n.a.	
Manufacturing	15 980	28	6 780	30	12 830	30	19 610	30	17 630	41	n.a.		n.a.	
Electricity, gas, water	4 120	7	5 290	24	520	1	5 810	9	7 150	17	n.a.		n.a.	
Construction and public works	1 500	3	210	1	1 580	4	1 790	3	3 040	7	n.a.		n.a.	
Commerce	3 280	6	230	1	3 230	8	3 460	5	1 480	3	n.a.		n.a.	
Transport and communications	11 110	20	6 470	29	2 940	7	9 410	14	12 530	29	n.a.		n.a.	
Banks, insurance, etc.	11 080	20	3 010	13	12 300	29	15 310	24	-0	0	n.a.		n.a.	
Services, other	2 960	5	260	1	6 320	15	2 670	4	490	1	n.a.		n.a.	
Total	56 890	100	22 400	100	42 750	100	65 150	100	42 900	100		100	74 400	100
Percentage of total yearly investment				34		66		100		58		42		100

a/ Excludes public administration.
b/ Includes all totally owned enterprises and those with more than 20 percent State ownership.
c/ Forecast, Ministry of Finance, Planning Secretariat.
d/ PISPE-76: Investment program for nationalized enterprises (Empresa Publica).
* Less than 1 percent.

Source: PISPE 1976.

Table 9.4: GROSS FIXED CAPITAL FORMATION IN MANUFACTURING PUBLIC SECTOR a/

Category	Public sector 1973 Million Esc.	Public sector 1973 %	Public sector 1974 Million Esc.	Public sector 1974 %	PISPE 1976 Million Esc.	PISPE 1976 %
Manufacturing industry--Total	4,300	100	6,780	100	17,630	100
Food, beverages, tobacco	450	10	830	12	480	3
Textiles, clothing, footwear	10	*	10	*	60	*
Wood, cork, furniture	60	1	70	1	20	*
Paper, printing, publishing	660	15	550	8	60	*
Chemicals	860	20	2,910	43	12,230	69
Non-metallic minerals	1,390	32	1,210	18	780	4
Basic metals	300	7	280	4	2,220	13
Metalworking, transport equipment, industrial goods	600	14	280	4	1,750	10
Miscellaneous and undefined manufacturing	20	*	690	10	30	*

a/ Includes all totally owned enterprises and enterprises with more than 20 percent State ownership.

* Less than 1 percent.

Source: PISPE 1976.

Table 9.5: CAPACITY UTILIZATION AND PROPORTION OF ENTERPRISES WORKING AT FULL CAPACITY

MANUFACTURING AND EXTRACTIVE INDUSTRIES

	Sept. 72	Sept. 73	March 74	March 75	Sept. 75
Capacity utilization (in percentage)					
Consumer goods industries	76	83	84	83	83
Intermediate goods industries	84	87	88	79	76
Investment goods industries	85	81	83	80	62
All manufacturing and extractive industries	81	85	86	80	76
Proportion of enterprises working at full capacity (in percentage)					
Consumer goods industries	25	38	39	40	42
Intermediate goods industries	36	54	62	38	28
Investment goods industries	34	49	45	12	15
All manufacturing and extractive industries	32	48	53	36	31

Source: National Institute of Statistics, Business survey, May 1976.

Table 9.6: EXPORTS OF SOME IMPORTANT PRODUCTS

(Constant 1970 Prices)

	Average Rate of Growth 1970-73	Annual Change 1974	Annual Change 1975
Canned Fish	3.3	-31.7	+21.0
Tomato Pulp and Paste	9.5	-48.7	-53.0
Port Wines	11.2	-10.8	-13.2
Table Wines	-0.1	-6.3	+4.6
Wolfram	27.6	+80.3	-39.0
Cellophane	6.8	+10.2	-55.2
Raw or Sawn Timber	8.0	+11.4	-47.8
Cork and Cork Products	.59	-5.0	-16.8
Pulp for Paper	10.4	-21.8	-26.0
Cotton Fiber	10.2	-30.1	-11.1
Synthetic Textiles	26.6	-5.0	-0.2
Cotton Cloth	5.6	-24.6	-33.5
Bed Linens	23.2	-6.1	+26.8
Clothing	27.7	+12.0	-16.3
Footwear	3.1	+5.9	+16.3
Ferrous Alloys	21.5	+15.3	+318.8
Electric Appliances and Machines	20	+59.9	-27.0

Source: National Institute of Statistics; Data converted to constant 1970 prices by the Central Planning Secretariat.

Table 10.1: NUMBER OF PERMITS ISSUED FOR CONSTRUCTION OF BUILDINGS a/

	1970	1971	1972	1973	1974	1975 b/	1976 c/
Residential	23,512	25,935	25,600	29,558	27,466	21,324	8,249
Commercial	165	213	289	244	132	84	35
Industry	444	416	470	585	475	250	116
Agriculture	2,719	2,494	2,733	2,855	2,657	1,564	575
Others	4,508	4,479	4,724	5,838	5,787	3,762	1,289
Total	31,348	33,537	33,816	39,080	36,517	26,984	10,264

a/ For continent only

b/ For January to June and October to December, 1975.

c/ For January to March 1976.

Source: Department of Housing, Central Planning Secretariat.

Table 10.2: NUMBER OF BUILDINGS CONSTRUCTED

	1965	1970	1971	1972	1973	1974	1975 a/
Residential (Dwelling Units)	20,641 (19,052)	14,437 (27,227)	18,056 (36,007)	19,057 (40,611)	20,009 (41,923)	16,227 (43,402)	6,471
Commercial	298	204	225	170	152	139	76
Industry	841	394	366	386	368	346	171
Agriculture	5,097	2,441	2,431	2,674	2,539	1,572	1,151
Others	431	2,215	2,885	3,162	3,308	2,142	780
Total	27,308	19,691	23,963	25,449	26,376	20,426	8,649

a/ For January to June 1975.

Source: Department of Housing, Central Planning Secretariat.

Table II.1: THE EDUCATION EFFORT,[a] 1973-1974

Level and Type	Grades	Number of Institutions	Enrollments: Total	As % Age-Group	Number and % in Private	Number and % Female	Graduates	Teachers: Total[b]	Number in Public Education	Teacher-Student Ratio[b]	Number Females and as %
A. Pre-Primary		706	41,080		37,455 (90%)	19,832 (49%)		1,667	203		
B. Basic Education	1-6		1,191,477	117%	94,046 (8%)	579,308 (49%)	273,154	48,352	43,723	1:25	39,584 (81%)
Primary	1-4	16,045	946,824	137%	59,800	458,701	167,906	32,020	29,880	1:33	29,023
Preparatory	5-6	1,343	244,653	74%	34,246	120,607	105,248	16,332	13,843	1:18	10,561
C. Secondary	7-11/12		370,691		98,591 (27%)	166,996 (45%)					
(i) Academic (Lycee)	7-11	464	211,772	26.5%	88,677[c] (42%)	108,793 (51%)	20,730[d]	101,307	6,871	1:21	7,215 (70%)
First Cycle	7-9		159,689		66,296	84,382	(34,131)				
Second Cycle	10-11		52,083		22,381	24,411	20,730				
(ii) Technical		240	151,372	18.5%	9,221 (6%)	52,163 (34%)	32,404[e]	11,212	10,663		.....
Industrial	7-11		61,509		3,741	9,794	15,272	.....	.....		
Commercial	7-11	190	73,663		4,180	39,966	14,117	.....	.....		
Agriculture	7-11		803		-	111	191	.....	.....		
Nursing and Midwives		33	3,289		1,286		1,366	727	447		375
Music and Drama		14	5,230	46%	2,808		49	298	141		
Technical Institutes	10-12	9	10,451		-	1,401	1,016	515	515		141
Others		8	1,958		703	891	393	199	14		.....
(iii) Teacher Training		67	7,547	1%	693 (10%)	6,040 (80%)	3,370	597			
Infants	10-11	4	650		650 (100%)	.....	141	73	-		58
Primary	10-11	27	6,482		43 (1%)	6,040	2,505	256	248		112
Preparatory	10-11	33	584		-	.....	556	228	228		185
Physical Education	10-11	2	458		-	.....	146	32	32		.....
Others		1	23		-	.....	22	8	8		7
Higher Education			59,238	7.8%	3,727 (6%)	28,287 (48%)	7,025	.....			
Humanities			14,250		377	11,293	1,270				
Social Sciences			10,641		2,841	4,343	1,195				
Law			5,486		-	1,414	870				
Sciences			4,864		-	2,686	254				
Engineering Sciences			6,469		-	981	1,008				
Health Sciences			11,834		-	5,818	1,283				
Agricultural Sciences			1,062		-	313	155				
Physical Education			369		-	123	8				
Military Education			729		-	-	147				
Secondary Teacher Training		(59)	633		-	.....	611				
Fine Arts			2,392			1,310	249				
Theology			509		509 (100%)	-	27				

a/ Ministry of Education only.
b/ It has not been possible to eliminate the double (and treble) counting; hence the full-time equivalency cannot be calculated and the teacher-student ratio shown can be quite misleading.
c/ Includes 57,249 are studying privately outside institutions; only 31,428 are in private schools proper.
d/ Including graduates from the self-study group.
e/ Including graduates at different levels.

Source: Ministry of Education.

Table 11.2: ESTIMATED PHYSICAL FACILITIES REQUIREMENTS IN PUBLIC EDUCATION (IN THOUSANDS)

	Enrollments 1973/1974	Estimated Number of Places 1974 a/	Projected Enrollments 1985-1986	Additional Enrollments 1985 over 1974	New Places for Additional Enrollments 1985 over 1974 b/	New Places for Replacement 1985 over 1974 c/	New Places for Eliminating Double Shift 1985 over 1974 d/	Total New Places for 10-Year Period	Average Annual Requirement	Estimated Unit Cost US$ e/	Average Annual Capital Cost US$ Million
Basic Education comprising Primary Preparatory and (Secondary First Cycle)	1,330	860	1,480	160	120	260	260	640	5	600	31
Secondary Education	80 (Second Cycle)	50	300	220	160	15	15	190	19	1,500	29
Higher Education (University and non-University)	56	45	92	36	36	9	5	50	5	5,000	25
										Total US$	85 million

a/ Assumption: Actual number of physical spaces at full capacity is equivalent to about 65% of Enrollment.
b/ Assumption: 50% new places provided would be used on double shift.
c/ Assumption: Replacement of about 3% of existing places annually.
d/ Assumption: Provision of new places annually equivalent to 3% of existing places.
e/ At constant 1975 prices.

Source: Ministry of Education.

Table 12.1: TOURISTS BY COUNTRY OF ORIGIN
(IN THOUSANDS)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975 a/	1976 b/
Spain	592	836	1,400	1,345	1,374	1,713	2,056	2,013	2,109	1,169	856	249
U.K.	220	254	255	289	339	406	457	493	512	383	285	64
U.S.A.	185	225	234	237	304	355	366	386	346	217	96	18
France	178	185	167	140	168	204	215	233	249	153	119	21
Other	335	429	461	500	600	665	773	800	864	700	610	170
Total	1,510	1,929	2,517	2,511	2,785	3,343	3,667	3,925	4,080	2,622	1,966	522

a/ Estimates.

b/ For January to April 1976.

Source: Tourism Office and Center for Planning Studies (CEP).

Table 12.2: TOURISM INDICATORS

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 c/
Foreign Visitors (in thousands)										
Tourists	1,025	1,102	1,186	1,586	1,963	2,173	2,438	1,384	920	-
Excursionists	1,131	1,010	1,183	1,363	1,556	1,435	1,335	817	684	-
In Transit	360	399	416	393	348	318	307	367	362	-
Total	2,517	2,511	2,785	3,342	3,867	3,926	4,080	2,622	1,966	522
Tourist Earnings ($ Million)	n.a.	n.a.	167	221	300	390	492	512	375 a/	-
Number of Hotels	1,322	1,337	1,345	1,373	1,375	1,403	1,332	1,384	1,429 b/	-
Number of Beds	67,597	69,830	70,938	73,236	73,752	80,495	75,458	77,413	91,348 b/	-
Nights (in thousands) Spent by										
Foreign Tourists	3,302	3,128	3,598	4,392	4,791	5,291	5,575	4,443	3,257	-
Domestic Tourists	3,575	3,661	3,727	3,978	4,062	4,195	4,612	4,938	6,895	-

a/ Estimates.

b/ For January to August 1975.

c/ For January to April 1976.

Source: Tourism Office and Center for Planning Studies (CEP).

Table 12.3: MAIN ROAD NETWORK a/

(Km)

		1963	1968	1973	1974
National		17,671	18,208	18,251	18,233
Paved		17,055	17,714	17,967	17,995
of which:	1st class	5,664	5,676	5,687	5,669
	2nd and 3rd class	11,391	12,038	12,280	12,326
Gravel and Earth		616	494	284	238
of which:	1st class	33	36	5	...
	2nd and 3rd class	583	458	279	238
Municipal		11,332	11,678	13,609	13,820
Paved		10,007	10,191	11,997	n.a.
Gravel and Earth		1,325	1,487	1,612	n.a.
National and Municipal		29,003	29,886	31,860	32,053

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a/ Excluding city and municipal streets and forestry roads.

Source: Annuario Estatistico 1963 and 1968, Ministerio do Equipemento Social et do Ambiento, and Central Planning Secretariat.

Table 12.4: MOTOR VEHICLE FLEET
(Vehicles in actual use)

Year	Light Vehicles a/	Heavy Vehicles b/	Total
1968	380,520	31,085	411,605
1969	434,320	32,979	467,299
1970	492,040	33,469	525,509
1971	560,620	35,000	595,620
1972	632,800	36,800	669,600
1973	707,000	38,000	745,000
1974	800,400	39,600	840,000
1975	906,000	41,200	947,200

a/ Automobiles, pick-ups, etc.

b/ Trucks and buses.

Source: Estimates by the Junta Autonoma de Estradas.

Table 12.5: HIGHWAY EXPENDITURES FOR NATIONAL NETWORK a/
(Million Escudos)

Year	Capital Expenditures	Current Expenditures	Total
1963	374	107	481
1964	299	108	407
1965	350	112	462
1966	343	110	453
1967	355	128	483
1968	396	133	529
1969	511	135	646
1970	478	181	659
1971	581	214	795
1972	511	225	736
1973	543	276	819
1974	694	407	1,101
1975	1,169	484	1,653

a/ Excluding expenditures for local roads and city streets.

Source: Junta Autonoma de Estradas

Table 12.6: RAILWAY NETWORK AND EQUIPMENT

	1963	1968	1973	1974	1975
Network (km) a/					
Total length	3,563 CP + 26 SE	3,563 CP 26 SE	3,563 CP 26 SE	3,563 CP 26 SE	3563 CP 26 SE
Narrow gauge	765 CP	759 CP	759 CP	759 CP	759 CP
Double track	399 CP + 26 SE	399 CP 26 SE	399 CP 26 SE	399 CP 26 SE	399 CP 26 SE
Electrified	256 CP + 26 SE	391 CP 26 SE	391 CP 26 SE	391 CP 26 SE	391 CP 26 SE
Equipment (units) b/					
Steam locomotives	328	281	152	153 d/	153 d/
Electric locomotives	19	35	35	42	47
Diesel and other locomotives	80	177	217	219	225
Self-propelled cars	155	175	169	170	171
Passenger cars c/	1,026	1,157	1,231	1,229	1,193
Freight wagons	[illegible]	9,235	7,810	8,085	8,299

---

a/ Portuguese Railways (CP) and Sociedade Estoril (SE).

b/ Excluding Sociedade Estoril (SE).

c/ Includes baggage cars.

d/ Includes 84 broad-gauge steam locomotives most of which are being taken out of use.

Table 12.7 RAILWAY TRAFFIC a/

	Passenger Traffic			Freight Traffic		
Year	Million Passengers	Million Pass - km	Average Distance km	Million m ton	Million m ton-km	Average Distance km
1963	87.1	2,155	24.7	3.79	766.0	201.8
1964	89.4	2,258	25.3	3.78	762.4	202.0
1965	93.3	2,408	25.8	3.69	754.9	204.6
1966	96.1	2,510	26.1	3.27	676.4	206.6
1967	100.4	2,610	26.0	3.40	727.0	213.5
1968	103.3	2,654	25.7	3.58	770.6	215.2
1969	104.8	2,765	26.4	3.49	736.5	210.8
1970	104.5	2,821	27.0	3.93	776.3	197.7
1971	104.3	2,825	27.1	3.99	812.3	203.5
1972	110.3	2,982	27.0	4.40	828.8	188.2
1973	117.3	3,225	27.4	4.72	864.2	183.2
1974	126.7	3,618	28.5	4.18	919.2	219.9
1975	128.4	3,848	29.2	3.30	753.8	228.4

a/ Portuguese Railways only.

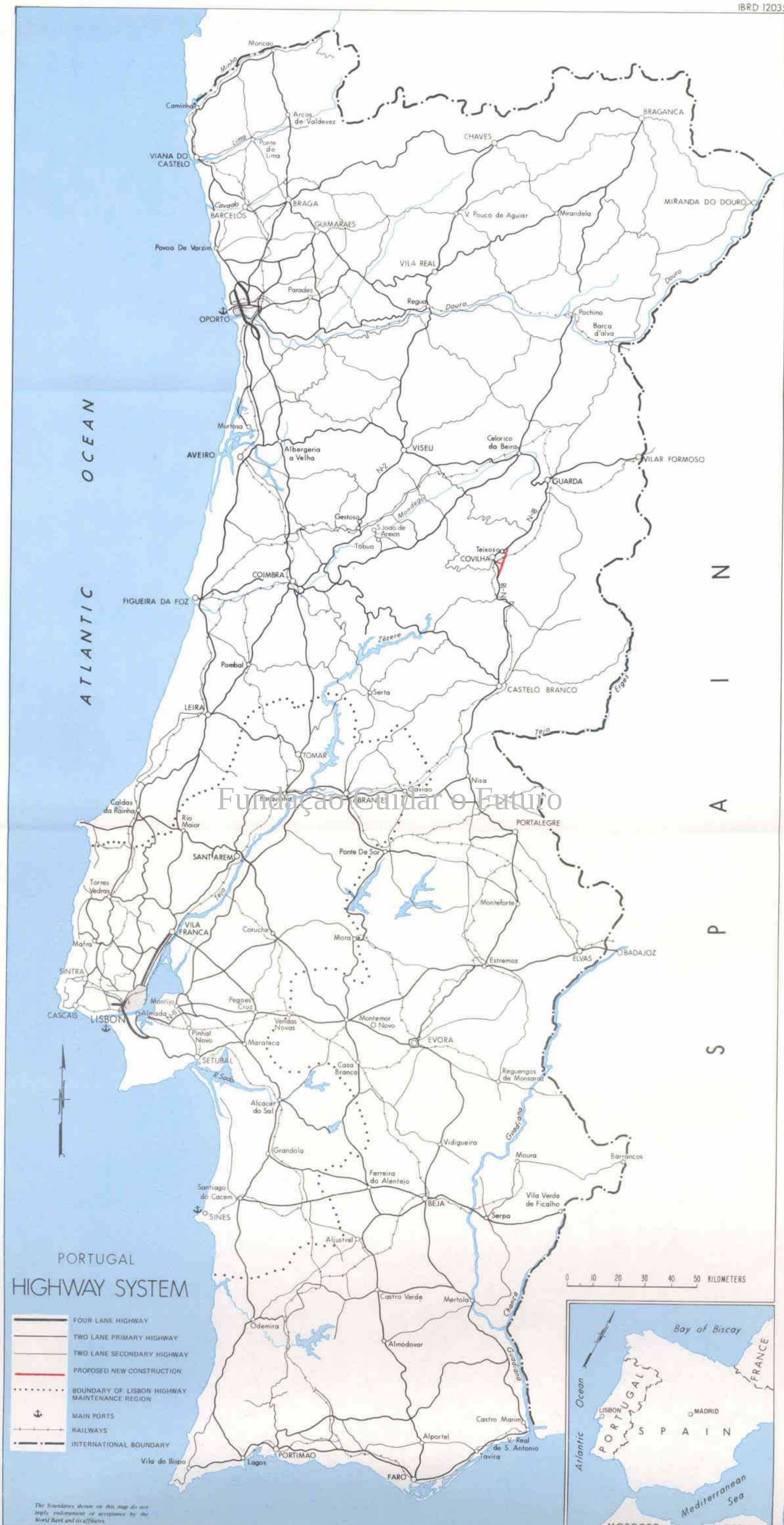
Source: Camihos de Ferro Portugueses.

Table 12.8: SOURCES AND USES OF ENERGY
(1,000 tons of oil equivalent)

	1960	1965	1970	1971	1972	1973	1974	1975	1976 e/	1977 e/	1980 e/
Oil products	1,842	2,770	4,568	5,208	5,681	6,255	6,586	6,813	6,944	7,513	12,236
Coal	475	648	730	493	435	500	393	379	408	439	554
Domestic	(188)	(194)	(239)	(113)	(100)	(160)	(113)	(94)	(94)	(94)	(94)
Imported	(287)	(454)	(491)	(380)	(335)	(340)	(280)	(285)	(314)	(345)	(460)
Wood	330	285	250	243	236	230	224	218	212	206	190
Hydroenergy	259	342	498	528	609	620	661	554	554	615	707
Total	2,906	4,045	6,046	6,472	6,961	7,605	7,864	7,964	8,118	8,773	13,687
Consumption by											
Industry	1,131	1,677	2,310	2,540	2,775	3,032	n.a.	n.a.	n.a.	n.a.	n.a.
Transport	696	884	1,305	1,470	1,705	1,951					
Agriculture	145	189	253	260	270	306					
Others	934	1,295	2,178	2,202	2,211	2,316					

e/ Estimates.

Source: Office of Director General for Energy, Ministry of Industry and Technology.


IBRD 12035
PORTUGAL
HIGHWAY SYSTEM
FOUR LANE HIGHWAY
TWO LANE PRIMARY HIGHWAY
TWO LANE SECONDARY HIGHWAY
PROPOSED NEW CONSTRUCTION
BOUNDARY OF LISBON HIGHWAY MAINTENANCE REGION
MAIN PORTS
RAILWAYS
INTERNATIONAL BOUNDARY
0 10 20 30 40 50 KILOMETERS
ATLANTIC OCEAN
SPAIN
Moncao
Minho
Caminha
Arcos de Valdevez
Lima
Ponte de Lima
VIANA DO CASTELO
BRAGANCA
CHAVES
MIRANDA DO DOURO
Cavado
BARCELOS
BRAGA
GUIMARAES
V. Pouca de Aguiar
Mirandela
Povoa De Varzim
VILA REAL
Parades
Regua
Douro
OPORTO
Pochino
Barca d'alva
Murtosa
AVEIRO
Albergaria a Velha
VISEU
Celorico da Beira
VILAR FORMOSO
GUARDA
N-2
Mondego
Gestosa
S. Joao de Areias
Tabua
N-18
Teixoso
COVILHA
COIMBRA
FIGUEIRA DA FOZ
Zêzere
Pombal
Serta
CASTELO BRANCO
LEIRA
Erges
Tejo
TOMAR
Nisa
Gaviao
Caldas da Rainha
Rio Maior
PORTALEGRE
SANTAREM
Ponte De Sor
Torres Vedras
Monteforte
VILA FRANCA
Coruche
Mora
Mafra
Estremoz
ELVAS
BADAJOZ
SINTRA
Montijo
CASCAIS
LISBON
Almada
Pegoes Cruz
Vendas Novas
Montemor O Novo
Pinhal Novo
Marateca
EVORA
SETUBAL
R. Sado
Casa Branca
Reguengos de Monsaraz
Alcacer do Sal
Guadiana
Vidigueira
Grandola
Moura
Barrancos
Ferreira do Alentejo
Santiago do Cacem
BEJA
Vila Verde de Ficalho
SINES
Serpa
Aljustrel
Castro Verde
Mertola
Chanca
Odemira
Almodovar
Castro Marim
Alportel
V. Real de S. Antonio
Vila do Bispo
Lagos
PORTIMAO
Tavira
FARO
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Bay of Biscay
FRANCE
Atlantic Ocean
PORTUGAL
LISBON
MADRID
SPAIN
Mediterranean Sea
MOROCCO
ALGERIA
JUNE 1976