

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/R/96
7 February 1978

Limited Distribution

Committee on Balance-of-Payments Restrictions

REPORT ON THE CONSULTATION WITH PORTUGAL AND EXAMINATION OF PORTUGUESE IMPORT SURCHARGES

1. In accordance with its terms of reference the Committee has conducted the 1977 consultation with Portugal, and has examined Portugal's temporary import surcharge introduced on 31 May 1975 and an additional surcharge introduced on 6 June 1977. The last consultation with Portugal had taken place in November 1976 (see BOP/R/93).
2. The Committee had before it a basic document supplied by the Portuguese authorities (BOP/182), an additional document describing the Portuguese economic situation in 1977 (BOP/182/Add.1) and notifications of changes in the surcharges and the introduction of an import deposit scheme (L/44?? and Adds. 1 to 4). The International Monetary Fund supplied a supplementary background paper dated 3 October 1977. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 26 January 1978. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Portugal. Upon the invitation of the Committee, the representative of the Fund made a statement as follows:

"Portugal's economy continues to be severely afflicted by the aftermath of the disturbances caused by the events in 1974 and 1975. In addition to the problems associated with the economy's modest level of development and the world recession, serious structural difficulties were caused by the loss of important protected export markets, the entry into the labor force of large numbers of expatriates from the ex-colonies and the attempt to rapidly redistribute income and improve the social welfare system. These developments led to high unemployment, labor disruptions, stagnating output,

a sharp increase in inflationary pressures, and a major deterioration in the balance of payments. Consequently, the authorities were faced with the dual and closely interrelated tasks of restoring internal and external economic stability and of mounting a major economic reconstruction and development effort.

"After a decline in real gross domestic product of nearly 4 per cent in 1975, the Portuguese economy recovered sharply in 1976, with a real growth rate estimated at close to 6 per cent. This recovery was assisted by an expansionary fiscal policy and a substantial acceleration in the rate of domestic credit expansion. The public sector deficit rose from 5.6 per cent of gross domestic product in 1975 to 11.5 per cent in 1976, and the rate of domestic credit expansion (as a percentage of money stock at the beginning of the period) increased from 17 per cent in 1975 to 24 per cent in 1976.

"Following sizable wage awards in the early postrevolutionary period, wage increases had moderated substantially by 1976. This, together with more stable import prices (in foreign currency terms) and continued price controls, contributed to a lowering of the domestic rate of inflation to an annual rate of less than 15 per cent by mid-year. However, the acceleration of domestic demand, the emergence of distribution problems as well as a faster effective depreciation of the currency during the second half of the year, raised the annual rate of inflation once more to over 30 per cent at year-end.

"The export volume increased somewhat in 1976, after two years of substantial declines, but this growth was more than offset by a continued decline in export prices (in foreign exchange terms). At the same time, the higher rate of growth of domestic demand and output generated a sharp increase in imports, leading to a deterioration in the current account deficit, from the equivalent of 6 per cent of gross domestic product in 1975 to about 8 per cent in 1976. Despite some improvement in the capital account, the overall balance of payments deficit widened slightly. As a result, the level of foreign exchange reserves fell to a low level, and the Bank of Portugal undertook substantial compensatory borrowings, partly secured by gold holdings. In addition, Portugal purchased SDR 115 million under the IMF oil facility in early 1976, and a further SDR 58 million under the compensatory financing facility in July 1976.

"In response to the economic deterioration, the authorities, in early 1977, embarked upon a wide ranging stabilization programme, involving a 15 per cent depreciation of the escudo, legislation limiting wage increases to 15 per cent in 1977, substantial price increases for essential commodities subject to price control, a liberalization of price controls on other commodities, a 20 per cent increase in sales taxes, increases in rediscount rates and other interest rates, reopening of the stock exchange, and the announcement of plans to compensate foreign owners for property nationalized or expropriated. In addition, the authorities embarked upon fiscal and monetary policies designed to reduce substantially the deficit of the balance of payments.

"The rate of real growth in domestic demand and output remained high in the first half of 1977. Despite a disappointing performance in the agricultural sector and an expected slowing down in manufacturing in the second half of the year, it is presently expected that gross domestic product will still have grown by about 6 per cent in 1977 leading to some reduction in the high rate of unemployment.

"The domestic price situation deteriorated sharply, in large part as a result of the corrective measures in February. The rate of inflation rose to an annual rate of about 40 per cent by mid-1977. Without further shocks, the rate of price increases began to moderate around the middle of the year, however, and the average rate of inflation was expected to be somewhat less, or about 28 per cent for 1977 as a whole. The wage ceiling has been maintained at 15 per cent and a substantial fall in real wages was expected for 1977.

"The rate of domestic credit expansion continued to accelerate in the first half of 1977, to a large extent as a result of larger than expected public sector recourse to the banking system. This, in turn, reflected both the emergence of a substantial deficit on the social security accounts of the Government and the inability of the Government to raise funds from the non-banking public to the extent originally envisaged.

"One factor contributing to a continued high growth of domestic output in 1977 has been the growth in exports of goods and services. Most of this growth is, however, expected to come in the form of non-factor services and particularly as receipts from tourism. The volume of exports of goods is presently expected to increase only moderately faster than in 1976. The high rate of growth in domestic demand and in manufacturing output has, together with crop failures and some speculative imports, led to a continued growth in imports, leading to a significant increase in the trade deficit in the first half of 1977.

Although the rate of import growth is expected to moderate in the second half of the year, the trade deficit is forecast to exceed that of 1976 and reach about 16 per cent of gross domestic product. So far, the deterioration in the trade balance has been nearly offset by a substantial increase in the inflow of emigrants' remittances and tourist receipts. Continued improvement in these areas lead the authorities to project that the current account deficit in 1977 can be limited to only slightly above the 1976 level. Substantial further recourse to compensatory borrowing by the Bank of Portugal, partly against gold collateral, has been necessary so far in 1977 as the level of readily available foreign exchange reserves has reached a low level. As commercial banks also have increased their foreign indebtedness, net foreign assets of the banking system turned negative early in 1977. Portugal has also purchased SDR 42.4 million from the Fund under a first credit tranche standby arrangement, granted in April 1977 and a further SDR 29.3 million under the compensatory financing facility in July 1977.

"In October 1976, the import surcharges were increased from 20 and 30 per cent to 30 and 60 per cent respectively. At present, the former rate is estimated to apply to about 28 per cent and the latter to about 2 per cent of 1976 imports. At the same time, an import deposit requirement of 50 per cent of the c.i.f. value was imposed on about 7.5 per cent of total imports, all within the category of imports already subject to the surcharge. In February 1977, quantitative restrictions in the form of value quotas related to the average value of imports for 1975 and 1976 were introduced for such items as automobile parts, domestic appliances, coffee and bananas, affecting approximately 6 per cent of 1976 imports. In connexion with the Fund's standby arrangement, the Portuguese authorities have expressed their intention to eliminate the import deposit requirement and to review the quantitative restrictions with the Fund before the end of 1977. They have also stated that the import surcharge will be phased out gradually as soon as the balance of payments position permits.

"In order to seek an improvement in the external accounts, the authorities announced, in August 1977, the introduction of a crawling peg system for the escudo, designed to compensate for differential price developments in Portugal and its major trading partners. Up to September 15, the effective exchange rate depreciated by 4 per cent. At that time, the authorities began announcing forward exchange rates for the currencies of major trading partners for one, three and six months, to reflect a prospective depreciation of 1 per cent a month. Also in August, domestic interest rates were raised by an average of 4.5 per cent.

"The authorities regard the import surcharge and the other trade restrictions as temporary measures to help contain the current account deficit, while alternative policies are being formulated and implemented. The Fund believes it important that the import surcharge and other trade restrictions should be used on a temporary basis and that a schedule for their gradual removal and early abolition be established and announced at an early opportunity. A continued and prolonged maintenance of these measures can only lead to a further aggravation of the existing serious problems of domestic resource allocation."

Opening statement by the representative of Portugal

4. The representative of Portugal made an opening statement, the full text of which is annexed, in which he outlined the present difficulties of the Portuguese economy and the prospects for 1978. In 1977, the GNP of Portugal had grown by 6 per cent against 5 per cent in 1976. This was essentially due to a rapid growth of industrial production (8 per cent) and in the building industry (14 per cent); the agricultural production had declined by 5 per cent after having stagnated in 1976. The inflation rate had risen in 1977 to 30 per cent, however since March there had been some improvement. Receipts from tourism had increased substantially, but the trade balance had deteriorated. The 1977 trade deficit might have exceeded by 50 per cent that of 1976. In the face of these developments Portugal had to take a series of policy measures designed to redress the external financial position of Portugal and, in order to gradually reduce the restrictiveness of its import system, it had decided to abolish the import deposit system as of 31 December 1977. A new government was now being formed and the political agreement that had been signed in this connexion stipulated that the future government policy was to rest on two basic instruments, namely the "1978 Economic Stabilization Programme" and the "Medium-Term Development Plan for 1979-1984". The purpose of these instruments was, inter alia, to reduce the deficit on the current account, curb inflation and unemployment, restrain monetary expansion, improve fiscal policies (e.g. balancing the current budget), establish a ceiling on wage increases and encourage private investment. The representative of Portugal concluded by appealing to the economically stronger countries to stimulate their economies and to liberalize their imports.

I. Balance-of-payments position and prospects - alternative measures to restore equilibrium

5. The members of the Committee commended the representative of Portugal for the comprehensive and detailed documentation the Portuguese Government had submitted to GATT and for the frank and revealing opening statement.

They expressed their sympathy for the continued economic difficulties Portugal was facing. The documents submitted by the Portuguese authorities and the supporting analysis made available by the International Monetary Fund showed clearly that Portugal had severe balance-of-payments difficulties and that temporary trade measures were necessary to cope with them. They further expressed their support for the efforts of the Portuguese Government to adopt fundamental measures to improve the balance of payments, such as the 1977 devaluation of the Escudo. They welcomed the statement of the Portuguese representative that Portugal remained committed to liberalize its trade and commended the Portuguese Government for having terminated the import deposit scheme.

6. One member of the Committee wondered whether the decline in the inflation rate during recent months was expected to continue. In this context he asked whether the Portuguese authorities had taken measures to contain the increase in liquidity that was going to follow the abolition of the import deposit scheme. The Portuguese representative replied that a reduction in the rate of inflation was one of the main goals of his country's economic policies. The political agreement on the basis of which the new government was now being formed aimed at the reduction of the inflation rate to 20 per cent during 1978. Regarding this target, the agreement expressed the hope that the anti-inflation policy could be reinforced by an agreement with the trade unions to curb wage increases. It was not possible to eliminate inflation within a short period of time; only a relatively modest goal therefore had to be set for 1978. It was true that the abolition of the import deposit scheme would increase liquidity as past deposits were repaid and no new deposits were required. However, the overall impact of this on liquidity was minimal. The deposits to be repaid amounted to only Esc 1.3 thousand million while the overall money supply (M1) had been Esc 276,000 thousand million in 1977.

7. In response to a query on the exchange rate policies of Portugal the Portuguese representative stated that his country had adopted in August 1977 a crawling peg system. The current policy was to announce exchange rate modifications six months in advance; at present the Escudo was being devalued at the rate of 1 per cent per month in terms of a basket of ten currencies.

8. One member noted that there had been a substantial outflow of capital and he wondered whether Portugal had any specific policies for reversing this flow. In response the Portuguese representative listed four sets of measures the Portuguese authorities had taken to counter capital flight. First, interest rates had been increased so as to attract capital into Portugal and to contain the outflow of capital. Second, the Bank of Portugal

was now only accepting Escudos presented by foreign commercial banks if these had not exchanged more than Esc 1,000 per person, the amount residents travelling abroad were allowed to take out of the country in Portuguese currency. Third, measures against leads and lags were taken. Thus, it was no longer permitted to pay bills for imports before maturity. Fourth, the Portuguese authorities had taken measures against the over-valuation of imports as a means of illegal capital export. There were now thorough analyses of invoices. The surcharges and the former deposit scheme had also created incentives to avoid over-valuation. The difference between world market prices and import prices that could be observed in 1974/75 had now disappeared completely, which showed that over-valuation was no longer widely practised.

9. One member of the Committee wished to be informed of the measures Portugal was taking to diversify its export markets and, in particular, to increase exports to the oil-producing countries. In reply the representative of Portugal stated that at present 80 per cent of Portugal's total exports was going to OECD countries but efforts were made to increase the share of exports to oil-producing countries. Bilateral trade agreements had been negotiated inter alia with Iraq, Iran, Morocco, Tunisia and Algeria and it was hoped that they would improve the present negative trade balances with these countries. He also mentioned in this context that the trade balance with Portugal's former territories in Africa had considerably improved in 1977, showing a surplus as a result of increased exports, and that exports to COMECON countries had risen from near zero to 5 per cent of total exports since 1973.

10. Several members of the Committee indicated a keen interest in Portugal's new code for foreign investments. The representative of Portugal explained that the main purpose of this new code was to clarify the previously existing law and to bring it in conformity with international practices, in particular with the OECD Code of Liberalization of Capital Movements, and to establish thereby long-lasting relationships with foreign companies. The code substituted the concept of non-resident investor for that of non-national investor (in line with OECD and EEC practices). It established an exchange guarantee for investors repatriating profits and thereby accepted the view expressed in World Bank reports that foreign investors must be protected against an erosion of their earnings by some form of exchange guarantee. There were for the time being no limitations on the annual transfer of profits and dividends and of the compensation paid for a nationalization; however, when Portugal's balance of payments was in serious imbalance a delay in the transfers of up to five years could be imposed. The new code further provided that foreign firms may raise credit locally and foreigners may work in key positions. The regulations regarding the transfer of the

savings and the personal effects of key personnel had been eased. Decisions on foreign investments were now centralized in the Foreign Investment Institute. The political agreement on the basis of which the next government was to be formed declared that foreign investments have an important rôle to play in the Portuguese economy as a means of obtaining finance, technology and access to new markets.

11. One member of the Committee said that during the last consultation the Committee had been informed of a medium-term economic plan for 1977-1980, the core of which was an inventory of public investment projects. He wondered whether this plan had actually been introduced. The representative of Portugal replied that the plan had been formulated and submitted to parliament but had not yet been debated or put into effect.

12. One member of the Committee noted that a large part of the Portuguese Government's revenue was based on indirect taxation and he wondered whether there were plans to increase the share of direct taxes. The reply was that efforts in this direction were being made, but that it had to be recognized that the raising of indirect taxes was, in the short run, a better way to increase substantially tax receipts. A commission was presently studying the possibility of creating a unique direct tax that would raise the share of direct taxes in total fiscal revenues and improve the flexibility of the fiscal system.

13. One member of the Committee wished to know why the rate of increase in import prices in 1977 had been higher than the rate of the devaluation of the Escudo. The Portuguese representative answered that this difference was due to world inflation. Another member asked whether Portugal's exchange rate policies ensured that the competitiveness of Portuguese industry in foreign markets was maintained. In reply the Portuguese representative said that it was very difficult to establish precisely the changes in competitiveness of the Portuguese industry. Nevertheless, studies made in the Bank of Portugal indicated that, in 1976, the decline in competitiveness that had been observed had stopped. As a result of the February 1977 devaluation and the subsequent introduction of the crawling peg system, the competitiveness of the Portuguese industry may have been brought back to the level of 1973. The present flexible exchange rate policies made it possible to adjust the exchange rates continuously with regard to competitiveness requirements.

14. Another question concerned Portugal's debt service requirements and the amortization structure of its debts. The Portuguese representative replied that no definitive figures on Portugal's current debts were as yet available. Portugal was receiving technical assistance from the World Bank to clarify its debt situation. Debts had increased from 1976 to 1977 and

interest payments amounted in 1978 probably to about 4-5 per cent of the value of imports. The same lack of information together with the possible renewal of part of the debt did not allow precise estimates of the amortization payments for 1978.

15. In reaction to expressions of regrets regarding the continuous use of surcharges as balance-of-payments measures, the representative of Portugal declared that studies were being undertaken to evaluate the possibility of gradually reducing the 30 per cent surcharge with a view to phasing it out and of substituting the 60 per cent surcharge by internal fiscal measures.

16. In reply to a question regarding the extent of public sector borrowing, the representative of Portugal explained that figures on the total amount of public sector borrowing for 1978 were not yet available. However, an indication for the amount of public sector borrowing in the past was the fact that 12.6 per cent of the total current expenditures provided for in the 1978 budget was allocated to the servicing of public debts.

II. System, methods and effect of the restrictions

17. Several members of the Committee said that their governments had received complaints from exporters concerning time delays in the issuing of import licences by the Portuguese authorities in practically all import sectors. They asked whether the representative of Portugal could explain his authorities' policies on the issuing of import licences and whether there were plans to modify the licensing requirements. The representative of Portugal said that a prior registration in the form of an import "bulletin" was required for all imports with an invoice value over Esc 5,000. Last year a new data processing system had been introduced in the Central Bank and in this connexion new forms serving at the same time customs, foreign exchange and statistical purposes were introduced. As a result there had been, for a short period of time, delays in the issuing of import "bulletins". This had been misinterpreted by importers as a decision of the Government to increase the restrictiveness of the import régime and many of them doubled or even tripled their import applications. Now, however, it looked as if the situation had stabilized and the initial problems of the new system had been overcome.

18. One delegate noted that, according to the basic document submitted by Portugal, the surcharges applied without any discrimination. He wondered whether this meant that the charges applied to products of EEC or EFTA origin were the same as those applied to imports from other countries. The representative of Portugal confirmed that the surcharges were the same for products from all exporting countries whether EEC or EFTA members or not.

19. Some member of the Committee noted that there were, according to the basic document submitted by Portugal, bilateral quotas for specified agricultural products from certain EFTA countries and that imports of industrial products, except certain steel products and assembled automobiles, were free from import restrictions when originating in EFTA or EEC countries. They wondered how this action was consistent with the non-discriminatory clause in Article XIII of the GATT. They also asked whether the so-called negative list was also applied for balance-of-payments purposes or whether these restrictions fell outside the balance-of-payments area. The representative of Portugal replied that the treatment in respect of EFTA and EEC countries was justified under Article XXIV of GATT which read, in part, "the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area". The negative list contained residual quantitative restrictions which were notified to GATT when Portugal acceded to the General Agreement and which were not applied for balance-of-payments purposes. One member of the Committee speaking on behalf of several members supported the view of the Portuguese representative regarding Article XXIV of GATT. Others however felt that quantitative restrictions imposed for balance-of-payments reasons were not regulated by Article XXIV of the GATT but by the balance-of-payments provisions of the General Agreement. The invocation of Article XXIV did therefore not mean that the balance-of-payments provision of GATT, in particular the obligation not to discriminate contained in Article XIII, no longer had to be observed. It was agreed that the Balance-of-Payments Committee was not the proper forum for pursuing this debate. As far as the import quota system introduced in 1977 was concerned the Portuguese representative said that it was non-discriminatory. One member of the Committee enquired in this connexion whether the importer, once he had obtained an import licence, could use it for imports from all countries. The answer was positive.

20. One member of the Committee noted that an Exchange Guarantee Fund had been created in 1977. He wished to be informed how this Fund operated, what its likely affect on exports was, and what the costs of the Fund to the Portuguese Government were. The representative of Portugal explained that the main purpose of this Fund was not to finance exports but to give importers an incentive to obtain foreign financing of imports by establishing exchange rate guarantees for them. Its cost to the Government were nil since its capital was subscribed by commercial banks and its expenditures were financed mainly through charges to customers and surcharges applied by commercial banks on consumer credits. The importance of the Fund was not as great as had originally been anticipated because it had declined with the introduction of forward rates when the crawling peg system had been implemented. The Fund

could give guarantees up to one year, the crawling peg system guaranteed exchange rates for up to six months. As a consequence the Fund's functions were limited in a certain way to guaranteeing the exchange rates for credits with a maturity of six to twelve months.

21. A further question related to a system of special export credit interest rates, the spread between export and domestic rates, and the system's cost to the Government. The reply was that the spread was about 5 per cent and that it was financed not by the Government but by the Central Bank.

22. One member of the Committee said that, judging by the documents presented by the Portuguese authorities, it appeared that the surcharge introduced in 1975 had been extended by various decrees at various intervals and that the last decree extended the surcharge until 31 December 1977. He wondered what the present legal basis of the surcharge was and until when the surcharge had now been extended. The representative of Portugal said that the decree extending the validity of the surcharge system until the end of last year was still being applied because the budget for 1978 had not yet been discussed pending the formation of a new government after the governmental crisis in December.

Conclusions

23. The Committee recognized that Portugal had serious balance-of-payments difficulties which justified the resort to surcharges and import restrictions as temporary measures to contain the current account deficit while more fundamental policies were being implemented. It welcomed the abolition of the import deposit scheme as of the end of last year and asked Portugal to pursue its plans to replace the import surcharges by internal fiscal measures or to phase them out as soon as the balance-of-payments situation permits. It shared the view of the International Monetary Fund that the establishment and the public announcement of a schedule for the gradual removal of the restrictive measures and their early abolition would help avoid a further aggravation of the existing resource allocation problems in Portugal and would facilitate the return to a liberal trade régime.

ANNEX

Opening Statement by the Representative of Portugal

The Portuguese delegation has pleasure in attending this meeting of the Committee on Balance-of-Payments Restrictions to consult once more with the contracting parties.

Since 1962 my country has been participating in GATT in a spirit of observance of the provisions of the General Agreement.

Despite difficult periods in international trade that have also affected us, Portugal has never moved away from the multilateral framework of trade. Similarly we have always declared our readiness to enter into consultations with our partners concerning any measures that might need to be examined. It is in that spirit, therefore, that we are here once more today.

Taking into account the economic documents prepared by the Portuguese authorities for this consultation, I think it might be useful for the Committee's work if I outline briefly the main characteristics of the Portuguese economic situation in 1977, and supplement that statement by indicating the prospects for the current year.

It is estimated that in 1977 domestic production increased in real terms by 6 per cent, as against 5 per cent in 1976. That growth is mainly attributable to an increase of 8 per cent in industrial output and 14 per cent in the building sector. Agricultural production declined by 5 per cent, after a year of stagnation in 1976. The production increase was achieved mainly by drawing on under-utilized capacity.

There has been an appreciable resumption of investment; part of this investment, however, was earmarked for replenishing and increasing stocks; in real terms, the increase in gross fixed capital formation is estimated at 18 per cent.

While the employment situation has not deteriorated, it has shown no substantial improvement. Inflation has become more serious: consumer prices are estimated to have risen by about 30 per cent, although this trend has slackened since the month of March.

It should be noted that the wage cost component has not affected the price increase as much as in 1974 and 1975; indeed, in 1977 wage increases were limited by law to a maximum of 15 per cent.

The contributory factors to this level of inflation included the need to allow undertakings to find equilibrium again, after several poor years, the exchange rate policy and the new price policy pursued by the Government.

The aspect of the economic situation that gave rise to most concern in 1977 was the high external deficit, despite a substantial improvement in the credit balance for current invisibles (US\$1,282 million net as against US\$868 million in 1976). The trade balance (f.o.b.) was the principal factor of deterioration, given that the corresponding deficit is estimated as being in the region of Esc 90 million (\$2,350 million), i.e. about 50 per cent above the 1976 level.

Imports increased in volume by about 10 per cent, although during the first six months of 1977 the increase was in the region of 16.5 per cent, the largest increments being in respect of capital goods and intermediate goods. Exports developed by only about 3 per cent in volume, mainly because of weaker external demand, restraints imposed by textile importing markets and also sectoral difficulties in domestic industry.

The deficit situation caused some erosion of Central Bank availabilities for external payments (liquidity for commitments); since the end of 1976 these availabilities have diminished from a surplus of Esc 4,400 million to a deficit of Esc 14,100 million, as a result of increased indebtedness toward other central banks and the IMF, although this has allowed some improvement of the situation in terms of immediate foreign exchange availabilities.

Portugal's external indebtedness continued to grow and at 1 September 1977 was equivalent to 23 per cent of GDP, as against 19 per cent at the end of 1976.

In view of this increase in foreign indebtedness, the Government decided to extend the import surcharges until the end of 1977, to maintain in force the prior import deposit established in October 1976, and to set annual import quotas for certain non-essential consumer goods and for CKD motor vehicles of a load capacity not exceeding 2,000 kgs.

Like the other measures already in force, the quantitative restrictions that have been introduced are not discriminatory and are applied on a temporary basis, solely for the period absolutely necessary for improvement of the balance of payments. Some of these measures are cumulative, but their aggregate incidence does not exceed 3.4 per cent of total imports.

The products subject to 30 per cent surcharge in 1977 accounted for 29.1 per cent of imports in 1976. With respect to the products subject to the 60 per cent surcharge and taking into account the addition of some new

products that had formerly been subject to the 30 per cent surcharge, the equivalent percentage was 2 per cent.

The coverage of products under quota is approximately 7 per cent (4.26 per cent for durable consumer goods and 2.78 per cent for CKD vehicles).

Nevertheless, with a view to progressively eliminating measures that had been introduced temporarily, the Portuguese Government has just abolished the prior import deposit requirement with effect from 31 December 1977.

Apart from the import measures already mentioned, in February and August 1977 the Government adopted some other economic policy measures as reported in document BOP/182/Add.1. Among those measures I would mention in particular the devaluation of the Escudo, adoption of a new exchange policy, increase of the interest rate, approval of a new foreign investment code, establishment of regulations on the right to strike, authorization to suspend work contracts in the event of economic difficulties, a new Act on agrarian reform and an Act on compensation. In addition, the Parliament has adopted certain general economic measures, in particular the Act defining the public and private sectors and the agrarian reform Act.

Although it is still too early to perceive all the positive effects expected of the measures adopted, because of the time-lag involved, we believe it is relevant to underline, on the one hand, the special situation of Portugal which is a net importer of capital goods as well as of raw materials and on the other hand, the by no means encouraging world picture characterized by low growth rates for international trade.

I would add that the decisions of a protectionist character that have been made by certain countries, and regarding which the most recent GATT report "International Trade 1976/1977" sounds the alarm, are not conducive to the export recovery that we would wish to see. In this connexion, that same report underlines the impact of this wave of protectionist pressures on the Southern European countries. If that were not the case, one might achieve a concomitant improvement in the balance of current transactions that would allow some more of our restrictions to be removed.

There are grounds for hoping, nevertheless, that the measures adopted will slow down imports of consumer goods appreciably without unduly affecting purchases of intermediate and capital goods whose price-elasticity is relatively low for certain commodity categories; moreover, one would not be surprised to see an accumulation of speculative stocks, but only as from the second half of the year, and we believe that such an accumulation has been discouraged to a considerable extent by high interest rates.

It should be underlined that imports of agricultural and industrial raw materials and intermediate goods, including petroleum, accounted for nearly 70 per cent of total imports in 1976.

I should like now to touch on prospects for the current year. As you know, a new government - the second Constitutional Government - is currently being established in Portugal. With a view to the formation of this government, political agreements have just been signed which stipulate that the economic policy will have two basic instruments: the "economic stabilization programme for 1978", and the "medium-term development plan, 1979-1984". I need hardly mention that the programme of the new government will naturally have to be submitted for prior approval to the Assembly of the Republic.

The fundamental objectives of the above-mentioned instruments are the following: reduction in the deficit for current transactions, which will imply a moderate growth rate for domestic product; containment of inflation at levels around 20 per cent; creation of employment opportunities so as not to worsen present unemployment levels; equilibrium in the current budget; implementation of a more restrictive monetary policy than in 1977, while maintaining the necessary selectivity; maintenance of the policy of price subsidies for essential goods ("shopping basket"); improvement of fiscal policy; establishment of a ceiling for wage increases, in the region of 20 per cent; and encouragement of private investment.

I must underline, furthermore, that under this political agreement it is considered necessary to complete as soon as possible the negotiations with the IMF with a view to obtaining the external financing that the economy needs.

Certain measures are still in effect, such as for example, already in 1978, the implementation of a restrictive credit policy.

Recent trends in the Portuguese economy have reflected some fairly positive aspects; that is why a programme of appropriate economic stabilization measures will bring a significant improvement in the present situation. Under these circumstances, we believe it appropriate not to isolate the Portuguese situation from the broader context in which it belongs, and in this connexion we are calling for greater solidarity on the part of the economically stronger countries, through adequate measures to reactivate their own economies and the elimination of barriers to free access of goods from other countries.