

# GENERAL AGREEMENT ON TARIFFS AND TRADE

## Committee on Balance-of-Payments Restrictions

### REPORT ON THE 1984 CONSULTATION WITH PORTUGAL

1. The Committee consulted with Portugal on 30 October 1984, in accordance with its terms of reference and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held under the Chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation in accordance with Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOP/249)
Secretariat Background Paper	(BOP/W/82 and Corr.1)
IMF report "Portugal - Recent Economic Developments", dated 13 July 1984	
Notifications by Portugal:	
- Import Surcharge Scheme	(L/5145/Add.3)
- System of Quotas for Some Consumer Goods	(L/5543/Add.1)

### Opening Statement by the representative of Portugal

3. In his introductory statement, the representative of Portugal announced that in terms of the "constat d'accord" concluded between the European Communities and the Government of Portugal in October 1984, the date of the accession of Portugal to the Communities had been scheduled for 1 January 1986. Since no transitional period was foreseen in these negotiations for the dismantling of trade measures applied at present, including surcharges and quotas for consumer goods, these measures were expected to be abolished at the time of Portugal's accession. The surcharge of 60 per cent on non-essentials would be replaced by a value-added tax to be introduced by mid-1985. The system of quotas for automobile vehicles was still under discussion with the EEC; it would possibly be extended over several years after accession, in view of the need to assure the viability of large investments made in the sector up to now. Concerning the issuance of import licences, he said that, as foreseen in the previous consultation, these procedures had been simplified by the introduction of computerized data processing methods in the Central Office of the Board of Trade. These methods would soon also be extended to its Oporto Division. The number of entities delegated by the Board of Trade for issuing licences as well as the products subject to licences issued by them had been reduced.

4. The current account deficit had been reduced to \$1,620 million (7.5 per cent of GDP) at the end of 1983. This figure was expected to be further reduced to about \$1 billion at the end of the current year. The performance in balance-of-payments obtained in 1983 had permitted Portugal to reduce the import surcharge from 30 per cent to the present level of 10 per cent as from the end of March 1984. However, domestic programmes, including the Emergency Short-Term Programme (an austerity programme) and the Financial and Economic Recovery Programme adopted in mid-1983 and mid-1984 respectively, continued to be implemented during the current year. A law on competition, closely following the relevant provisions of the Treaty of Rome, had entered into force at the beginning of June 1984.

5. In the present year a slight decrease of GDP, coupled with a contraction of internal demand, was expected as a consequence of the restrictive economic policy, notwithstanding good performance in the external sector. The latest available data on foreign trade indicated a reduction of the trade deficit by about 30 per cent in dollar terms; which might have been even further reduced were it not for the particular constraints faced by textile exports of Portugal in the markets of its main trading partners.

#### Statement by the representative of the International Monetary Fund

6. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

#### Balance-of-Payments position and prospects - alternative measures to restore equilibrium

7. One member, noting that Portugal's budget deficit had in the past contributed to the acceleration of rates of inflation and balance-of-payments deficits, asked about the effect of the improvement in the budget deficit in 1984 on prices and on the balance-of-payments position. Several members, while noting that programmes introduced since 1983 had had a positive effect on the external balance, asked questions relating to the servicing of the external debt.

8. The Portuguese representative said that certain measures taken to reduce the budget deficit, such as the freeing of some administered prices, had led to an increase in inflation in the short term, but that inflation was expected to be reduced by 5 or 6 percentage points by the end of the year. Regarding the size of the supplementary budget for 1984 and the steps taken to decrease the deficit in the budget for 1985, the representative of Portugal said that the supplementary budget for 1984, which was currently under discussion in Parliament, was not expected to lead to any substantial increase in public expenditure. The budget for 1985 had yet to be approved by the Council of Ministers before its presentation to Parliament. He added that according to the latest estimates available, the repayment of debt and interest payments increased in 1984, interest payments alone increasing by \$250 million. This should not, however, give rise to concern; although the capital account surplus in the first half of 1984 was \$500 million less than

that achieved in the first half of 1983, the current account deficit had been reduced by more than half compared to the previous year, standing at about \$600 million.

9. In response to a question on medium-term exchange rate policy, the representative of Portugal said that his authorities maintained a flexible crawling peg policy, which at the present time involved a 1 per cent effective rate of depreciation per month on average. In implementing this policy, his authorities constantly took into account trends in domestic and foreign inflation rates and the situation of Portugal's foreign exchange reserves.

10. Replying to a query on the relative change in the competitiveness of Portuguese exports, the representative of Portugal said that exports had generally remained competitive owing to the flexible foreign exchange rate policy and to the effective wage moderation. To a question on the impact of the rise in the value of the United States dollar on import costs, he replied that imports of agricultural products and petroleum had been particularly affected, and that this had reacted on the rate of inflation.

11. Several members enquired about the prospects for re-structuring the public enterprise sector so as to enable the reduction of government subsidies to this sector. The representative of Portugal said that the process of adapting the relevant public monopolies was well under way. State monopolies on certain cereals, sugar and oilseeds had been reduced or eliminated in different degrees and their activities opened up to private enterprise.

#### Systems, Methods and Effects of Restrictive Import Measures

12. One member, noting that the import surcharge and quotas on consumer goods would be abolished at the time of Portugal's accession to the European Communities, asked whether the Portuguese authorities planned to phase out these measures over the intervening period. He also asked whether the import licensing system would be eliminated or made fully automatic at the time of Portugal's accession. In reply, the representative of Portugal said that there were no interim plans to phase out the 10 per cent import surcharge and consumer goods quotas, but reiterated that the intention was to abolish these with effect from 1 January 1986. The import licensing system, whose operation had been simplified and improved through the introduction of computerized methods, was not used for restrictive purposes, but as a means of registration of goods principally for statistical purposes.

13. In reply to a question on the calculation of import quotas for consumer goods, the representative of Portugal said that such quotas were determined not on the basis of previous years' imports, but based on coefficients applied to the value of trade in 1975-76 for each item, adjusted for monetary factors. He added, in response to another question, that the system was applied on a non-discriminatory basis.

14. In relation to the "negative list" of residual import restrictions outlined in document L/2981/Add.14, Part A, the representative of Portugal said that no information could be provided on the share of imports of goods

on this list in total imports, as such goods could be imported in varying amounts on a case-by-case basis. It was noted that residual restrictions were properly a subject for discussion in other GATT fora.

15. In reply to a question concerning the future import licensing régime to be applied by Portugal after its accession to the European Communities, the representative of Portugal said that import licences on industrial products would be abolished three years after accession, while the question of licensing for agricultural goods was still under discussion.

#### Conclusions

16. The Committee noted the improvement that had taken place in Portugal's balance of payments in 1983, as well as the prospects for further improvement in 1984/85 as a result of the policy measures taken in 1983 and 1984. The Committee welcomed the actions taken by Portugal in 1984 to reduce the import surcharge and simplify import licensing procedures, in line with its previous recommendations.

17. The Committee noted with satisfaction the plan of the Portuguese authorities to replace the present 60 per cent import surcharge by a value-added tax system to be introduced by mid-1985. In welcoming Portugal's intention to abolish the 10 per cent import surcharge and to eliminate quantitative restrictions on most products by 1 January 1986, coincident with Portugal's accession to the European Communities, the Committee looked forward to these ends being achieved consistently with the expected improvement in Portugal's balance-of-payments situation.

ANNEX

Statement by the Representative  
of the International Monetary Fund

Portugal's current account balance deteriorated from a situation of near equilibrium in 1979 to deficits equivalent to 11.5 percent of GDP in 1981 and 13.4 percent of GDP in 1982 as a result of adverse external developments and of an accommodating stance of financial policies. In the same period, the rate of inflation remained considerably above the OECD average. During the first few months of 1983, the unsatisfactory economic situation, coupled with prolonged political uncertainties, contributed to significant financing difficulties in the international capital markets, resulting in sizable losses of official reserves.

The new government that took office in June 1983 quickly embarked on a stabilization program supported by a new stand-by arrangement with the Fund. The main objective of the program was the reduction of the current account deficit of the balance of payments to the equivalent of 9 percent of GDP in 1983 and 6 percent of GDP in 1984. The improvement in the external position targeted by the Portuguese authorities was based on a comprehensive policy effort designed to reduce domestic demand and promote foreign exchange earnings. The policy strategy in support of the external adjustment objective included: (a) a 12 percent devaluation of the escudo in June 1983, followed by a continuation of the policy of a "crawling peg" depreciation against a basket of currencies; (b) increases in August 1983 of 2 percentage points in interest rates on time deposits and 2 1/2 percentage points in nominal bank lending rates; (c) a package of tax measures equivalent to about 1 percent of GDP, sharp increases in administered prices of essential goods and of public services, efforts to contain public consumption and cuts in the public investment program; (d) a monitoring and reduction in the deficit of the public sector enterprises; and (e) a marked deceleration in the growth of total financing to the economy.

Performance under the program, especially in the external sector, was generally satisfactory in 1983. The current account deficit was contained below US\$1.7 billion, namely, 8 percent of GDP, or about US\$300 million, less than the program target. Total external debt remained well below the program ceiling, and its short-term component in particular recorded a sizable (US\$500 million) decline, leading to a significant improvement in the maturity structure of the debt. On the other hand, despite a 7 percent decline in real domestic demand, inflation accelerated to 34 percent by the end of 1983, largely as a result of adjustments in administered prices and a sizable devaluation of the escudo. However, owing to a strong export performance real GDP showed no change. The combined borrowing requirements of the general government and the public enterprises declined significantly from 22.2 percent of GDP in 1982 to 15.2 percent of GDP in 1983.

Preliminary indications through the first half of 1984 point to a continuing recession in domestic demand, which, in conjunction with a continued rapid growth of exports, is very likely to contribute to an improvement in the balance of payments beyond the program's target. Results of the first quarter indicate that the current account balance recorded a deficit that was about 60 percent lower than the corresponding period of 1983, and preliminary figures on merchandise trade through June substantiate the view that the 1984 target for the current account deficit (6 percent of GDP) will in all likelihood be undershot. Moreover, a moderate decline in the deficit of the enlarged public sector is expected in 1984. However, the rate of inflation shows little sign of abating, and is likely to exceed the year-end target of 24 percent.

Faced with the sharp deterioration in the balance of payments in 1981-82, Portugal at the beginning of 1983 raised the 10 percent import surcharge initially introduced in 1978 to 30 percent, pending the introduction of more fundamental adjustment policies. There was also some indication of a tightening of the administration of import licenses during this period of deterioration in the balance of payments. Following the substantial improvement in its external position in both 1983 and 1984, Portugal rolled back the import surcharge from the 30 percent level to 10 percent in March 1984. The authorities have indicated their intention to liberalize the administration of the import licensing system by making the granting of licenses virtually automatic except for selected products. The Fund hopes that the authorities will proceed speedily in the implementation of this intention, and will reduce further reliance on trade restrictions for balance of payments purposes as the country introduces fundamental structural changes to complement its recent adjustment policies.