

RESTRICTED

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments  
Restrictions

## REPORT ON THE 1976 CONSULTATION WITH PORTUGAL - IMPORT SURCHARGES AND DEPOSITS

1. In accordance with its terms of reference the Committee has conducted a consultation with Portugal, and has examined Portugal's temporary import surcharge introduced on 31 May 1975 and import deposit introduced on 28 October 1976. The last consultation with Portugal had taken place in July 1975 (see BOP/R/82).
2. The Committee had before it a basic document supplied by the Portuguese authorities (BOP/171), the notification of changes in the surcharges and the introduction of import deposits (L/4433 and Add. 1 to 3), as well as a descriptive paper on the Portuguese economic situation distributed during the meeting. The International Monetary Fund supplied a background paper dated 25 August 1976. The Committee generally followed the plan for such consultation recommended by the CONTRACTING PARTIES (see BISD, 18th Supplement, pages 52-53). The consultation was held on 15 November 1976. 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:

"Since the events of April 1974 the economy of Portugal has passed through a difficult period. Temporary disruptions in production have accompanied efforts to bring about a major redistribution of income. The granting of independence to the former overseas territories upset long standing trade patterns and brought an inflow of refugees equivalent to about 9 per cent of the total population. Simultaneously, the economy experienced the effects of the world recession as export markets weakened, the emigration of Portuguese workers to France and Germany came to a halt contributing further to heavy unemployment, and workers' remittances as well as receipts from tourism declined. Real gross domestic product grew by only about 4 per cent in 1974 and declined by some 3.5 per cent in 1975, despite a favorable agricultural season. Gross fixed investment declined by nearly 40 per cent in 1975, while domestic economic activity was sustained by consumption. The index of industrial wage rates rose by 35 per cent in 1974 and 23 per cent in 1975, while the consumer price index advanced by 25 per cent in 1974 and 15 per cent in 1975."

"The balance of payments position deteriorated sharply in 1974 and continued to be serious in 1975, as a result of adverse developments in both the current and capital accounts. Imports were about 40 per cent higher in 1974-75 than in 1973, largely because of higher import prices, especially of oil. In addition, export volumes declined, partly because of reduced competitiveness, but also because of supply disruptions, the loss of markets in the former territories, and restrictions imposed in other countries affecting certain Portuguese exports. Consequently, the trade deficit in 1974-75 was about double the 1973 level. The current account balance swung from a surplus of SDR 291 million in 1973 to deficits of SDR 685 million in 1974 and SDR 691 million in 1975. Capital movements, which were positive in 1974 as enterprises borrowed abroad, shifted to a negative position in 1975 so that the overall deficit doubled to SDR 884 million. Gross international reserves declined from SDR 1,922 million at the end of 1974 to SDR 1,310 million at the end of 1975. Almost SDR 1 billion of these reserves was in the form of gold, valued at \$42.22. In the first months of 1976 the current account deficit continued at about the same level as in 1975. Capital outflows appear to have accelerated, but during the summer there was some improvement in invisible receipts. The overall balance of payments deficit for the year as a whole is anticipated to be a little larger than in 1975. By mid-1976 Portugal's net foreign exchange reserves were negative, and a substantial proportion of the gold stock had been pledged as collateral for official foreign borrowing. Gross foreign exchange reserves stood at SDR 414 million or the equivalent of six to seven weeks of 1975 imports.

"In addition to running down official reserves to finance balance of payments deficits and undertaking compensatory borrowing from foreign governments, Portugal drew SDR 30 million, the gold tranche, from the IMF in 1975, SDR 115 million under the IMF oil facility in early 1976, and SDR 58 million under the compensatory financing facility in July 1976.

"The effective exchange rate remained fairly stable through 1975 but gradually depreciated by a total of about 9 per cent in the first five months of 1976. The policy of gradual depreciation, however, stimulated speculation and capital flight, and was discontinued in June primarily because of unfavorable effects on emigrants remittances.

"As an emergency measure Portugal introduced an import surcharge on May 31, 1975, at rates of 20 and 30 per cent on approximately 38 per cent of imports, effective until December 31, 1975. It was renewed on December 17, 1975 until March 31, 1976 and a second time on April 1, 1976 until December 31, 1976 with slightly reduced coverage. Although the surcharge contributed toward the 25 per cent drop in import volumes during 1975, the main factor in this decline was the weakness of investment and exports.

"The new government, which took office in July 1976, presented a general program for reactivating the economy to the Assembly of the Republic in August. More concrete first financial proposals to be introduced in October and November 1976 was announced on September 10. The Government's main objectives are to stimulate productive activity and reduce the balance of payments deficit. The recovery of production and investment is to be pursued essentially through a more flexible price policy to improve the profitability of business enterprises, and through adoption of new regulations governing labor relations and the expansion of public investment. The role of the private sector is to be defined and incentives provided for private investment. A new Foreign Investment Code has already been published. The Government intends to moderate inflationary pressures by avoiding further increases in the budget deficit and reducing the social security deficit. Taxes have already been increased and collections improved. Monetary policy will provide for credit expansion in line with the growth of nominal GNP. A new National Council for Incomes and Prices has been established.

"With respect to the external sector the Government intends to encourage merchandise exports, although it recognizes that this policy will take time to implement, partly because of supply constraints. In view of the reserve position and the prospective increase in import requirements as the economy is reactivated, the Government is attempting to contain the growth of imports by establishing a foreign exchange budget for the public sector, by restricting credit for purchases of consumer durables and increasing sales taxes on these items, and by restricting fuel consumption. On October 8, the Government announced that as a temporary measure the rates of the import surcharge would be increased from 20 per cent and 30 per cent to 30 per cent and 60 per cent; the latter rate applies to only about 1.3 per cent of total 1975 imports. At the same time an import deposit requirement of 50 per cent was introduced applying mainly to the imports subject to the 30 per cent rate of surcharge. These restrictions are to be applied in a nondiscriminatory manner.

"The authorities regard the import surcharge and the other trade restrictions as temporary actions to help contain the current account deficit while alternative policies are being formulated and implemented. The Fund concurs with this view and, as noted in the decision of the Fund's Executive Board on September 17, 1976, "The Fund hopes that Portugal will as soon as possible adopt a comprehensive program of domestic policies and external measures to achieve the required adjustment in its balance of payments." The adoption of such a program would allow Portugal to reduce its reliance on trade restrictions for balance of payments purposes."

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 retraced and explained in detail the reasons that had led his authorities to maintain and reinforce the measures taken to protect the balance of payments. He explained the fundamental elements at play in the Portuguese economy and said that from early 1976 production had picked up moderately the investment climate was still very weak, there was a high rate of unemployment, inflationary pressures were unrelenting and there was a large budget deficit which contributed to the difficulties of foreign payments. He gave details on the extension and modification of the surcharges from 20 and 30 per cent to 30 and 60 per cent respectively, and on the introduction of a prior import deposit scheme which aimed at sopping up excess liquidity on the domestic market. The Portuguese authorities had to adopt a general policy of austerity. He concluded by stating that the restrictive measures taken by his Government were appropriate and commensurate with the grave economic situation of Portugal.

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

5. The members of the Committee thanked the representative of Portugal and of the International Monetary Fund for their statements. They recognized the seriousness of the economic and balance-of-payments situation of Portugal and the need for corrective measures. The Portuguese economy was going through a period of change which was not made easier by the present world economic situation. Questions were asked concerning the short and medium-term prospects for the balance of payments and for the GNP. The representative for Portugal replied that forecasts indicated that there would be a moderate growth of GNP of some 5-6 per cent, compared to 6 and 7 per cent in the 1960's and early 70's. For 1977 a slight reduction of the current account deficit was expected. He drew attention to the descriptive paper supplied by his delegation on the economic situation in Portugal, which gave balance-of-payments figures for 1976. Thus for the first half of 1976 the overall balance-of-payments deficit was estimated to be about Esc 23.2 billion which corresponded to an aggravation of Esc 7.5 billion compared to the same period in 1975. Forecasts for the current account for 1976 as a whole showed a deficit of Esc 29 billion; Esc 51 billion deficit on the trade balance, Esc 4 billion deficit on the services balanced by migrants' remittances of Esc 26 billion. Referring to the opening statement of the representative of the IMF he pointed out that the 1975 figures for the balance of payments were estimates published in the Report of the Bank of Portugal and that more up-to-date statistics were now available.

6. In reply to questions concerning measures envisaged to improve the deficit on capital account, the representative of Portugal explained that the investment climate had deteriorated in 1975 and that in an effort to promote capital inflows the Government had prepared a foreign investment code. With respect to measures to increase emigrants' remittances to Portugal a system of foreign currency deposit accounts had been established, offering exchange rate guarantees for those remittances. Furthermore, these accounts could then be used as collateral to obtain special housing loans at concessional terms. Until now, this scheme had improved the inflow of remittances, especially from the United States. The information available for July and August 1976, already showed a clear recovery in the level of remittances in comparison with the same months of the previous year (about +30 per cent), reflecting an improvement in the general internal situation.

7. Commenting on the Portuguese Government's expansionary policies, members of the Committee remarked that these had been applied at the cost of the balance-of-payments equilibrium and felt that more neutral monetary policies would better serve the Portuguese economy's interests. The representative of Portugal said that with regard to developments in Portuguese monetary policy, the rate of growth in the money supply (broadly defined) in 1975 had exceeded slightly that of the GNP at current prices; this had been done with the aim of not imposing restrictions on economic activity which, for other reasons, was already going through a stage of deep recession. In 1976 the rate of growth of the broadly defined money supply (M2) (+14 per cent) was somewhat lower than the rate of growth of nominal GDP. This situation, in the first half of this year, was not the result of a restrictive credit policy of the Bank of Portugal, but was related to the weakness of internal credit demand, especially as regarded investment.

8. Members of the Committee asked a number of questions concerning the new economic plan 1976/1978 which had been in preparation and in which great interest had been expressed during the previous consultation with Portugal (BOP/R/82). This plan was now replaced by another economic plan 1977/1980. It was asked in particular whether the previous plan had been cancelled or whether the new 1977/1980 plan was a continuation of the previous one. The representative for Portugal explained that the constitution provided both for an annual and a medium-term economic plan. With regard to the medium-term plan there had been a delay in the preparation of the original 1976/1978 plan (caused by the changes of government) so that it had been carried over to 1977/1980. This plan was in the course of formulation; now that Portugal had a constitutional Government progress was possible in the co-ordination of consistent policies. A considerable amount of work had to be done prior to developing the plan; for instance, an inventory of public investment projects had had to be drawn up. It had been found that some of these public investment projects had adverse effects, such as creating excess production capacity or lack of profitability. Also as they concentrate on basic industries, they were insufficient in terms of developing and restoring

Portugal's balance-of-payments equilibrium. He added that at this stage, however, there was not much leeway to alter the projects of public enterprises, but in the 1977-1980 economic plan a final choice should be made which would stimulate complementary investment. Referring to the annual plan for 1977, the representative of Portugal said that the measures now being discussed in the Portuguese Parliament had the character of a stabilization programme preparing a viable basis for the medium-term plan.

9. Noting the size of the budgetary deficit questions were asked concerning prospects for a balanced budget in 1977 and on the ways of financing the deficit. The representative of Portugal said that it was his authorities' intention to reduce the budgetary deficit in 1977. With regard to its financing, he said that some progress had been made in obtaining the private sector to cover a larger part of the deficit, thus, while in 1975 the private sector had contributed only some Esc 3 billion, in 1976 the private sector was expected to contribute Esc 14 billion.

10. Members of the Committee noted that the Portuguese authorities had taken a number of measures to restrain internal demand to promote investments and to promote exports. Efforts had been made to diversify export production and to obtain greater access to external markets through the negotiation of trade agreements and co-operation agreements. It was asked whether the Portuguese authorities were optimistic with regard to the results of these measures. It was also asked what complementary measures the Portuguese authorities were considering; whether a fiscal reform was under consideration and in this case which taxes would be increased; what kind of measures to implement the policy of forced savings were envisaged and whether the measures concerning price control and incomes policy, to be supervised by a Council created in July 1976, had shown any results.

11. It was noted that certain indirect taxes had already been increased and it was asked whether some reform of the fiscal régime in Portugal which seemed to be based mainly on indirect taxation was contemplated in order to increase revenue. The representative of Portugal drew attention to the influence of the political and social climate prevailing in terms of obtaining positive results from certain measures. He recalled that Portugal had a constitutional Government only since August 1976 and that over the past two years there has been six changes of Government, which had not contributed to continuity in Government policy aims. He added that both the political and social climates were improving at present and that this would contribute to the effectiveness of the measures taken. With regard to fiscal policy he said that the State had had to raise revenue to cover public expenditure, and to this purpose it had increased sales taxes early in 1976 and direct taxes (namely complementary and professional taxes) in August. Though indirect taxes had an important rôle in the Portuguese fiscal system the recent revision of direct taxes was a rather significant step in the evolution of the

system. Concerning forced savings he said that the Government had declared that a system of forced savings would be applied to all forms of revenue. Under this forced savings system salary earners would not be able to cash their Christmas bonuses above a sum of Esc 7,000 - the balance would be given in the form of Government bonds. The measures envisaged for non-salaried workers were expected to impose forced savings on one fourteenth of the declared annual revenue above Esc 7,000.

12. Several questions were asked concerning measures to promote exports and to diversify production; in particular it was asked whether besides investments in heavy industry, it was envisaged to encourage medium light industries. The representative of Portugal explained that the Government had committed itself to the programme it had presented in August 1976 to complete a study by the end of this year to revise export promotion measures. The report of the Working Group in charge of this study was due in early December and the Government was expected to act on this report before the end of the year. Another working group was to study new fields of investment and production on the basis of existing internal and external markets' demand: this would include either import substitution or export oriented production. The main criteria to be applied would be profitability; it was generally thought that some good opportunities for profitable investment and production would be found within the light industries. He recalled also the efforts made by the Portuguese authorities to negotiate trade and co-operation agreements with other countries. It was the Government's intention to diversify its trade relations as well as to reinforce the commercial links with its traditional partners.

13. Members of the Committee noted that the Portuguese authorities regarded the import surcharge and other trade measures as temporary and drew attention to the statement by the representative of the International Monetary Fund which expressed the hope that it would soon be possible for Portugal to adopt a comprehensive programme of domestic policies and external measures to achieve the required adjustment in its balance of payments, and thus reduce its reliance on trade restrictions for balance-of-payments purposes.

## II. System, methods and effects of the restrictions

14. Members of the Committee noted that the import surcharge of 20 and 30 per cent introduced in May 1975 had been prolonged beyond its original expiry date until March 1977; the rates had been increased from 20 per cent to 30 per cent and a new rate of 60 per cent was introduced which applied only to some products previously included in the 30 per cent category. The product coverage slightly increased. The members of the Committee also noted that on 28 October 1976 the Portuguese authorities had introduced an import deposit of 50 per cent for all those goods which were subject to the 60 per cent surcharge and some of the goods

in the new 30 per cent category. Members of the Committee regretted that such restrictive measures had been taken, they considered the rates of the surcharges and of the deposits very high and expressed the hope that Portugal would eliminate them very soon. With regard to the very high rates of these measures, some doubt was expressed as to their compatibility with the limits set to trade restrictions under Article XIII. Members of the Committee welcomed the fact that both measures were applied on a non-discriminatory basis.

15. It was asked whether it was the intention of the Portuguese authorities to terminate the surcharge in March 1977. It was also asked what circumstances would permit the elimination of the surcharges and the deposits, and whether this would depend on balance-of-payments improvements or on alternative measures being taken. The representative of Portugal replied that the unfavourable developments in the balance of payments had obliged Portugal to extend the period of application of the surcharge and introduce the deposit scheme. He could not give any precise indication at this stage concerning termination on either measure. He added, however, that it was his Government's interest and intention not to apply such measures beyond the period of strict necessity. The principal factors that would contribute to an elimination of the measures would be developments in the balance-of-payments position.

16. Members of the Committee asked whether the Portuguese authorities were considering alternative measures to mop up excess liquidity once the deposit requirements would be removed. The representative of Portugal replied that his authorities would consider this problem and would not fail to take whatever corrective measures the situation called for.

17. In reply to a question concerning the mode of calculation of the surcharge the representative of Portugal said that it was calculated on the basis of the customs value as defined by the Customs Cooperation Council, that was without including the tariff. Several questions were asked concerning the product coverage of the surcharge and the criteria applied for granting exemptions. The representative of Portugal replied that the category of products which had previously been subject to a 20 per cent surcharge had been increased to 30 per cent to compensate the effects of inflation. This category of goods comprised mainly non-essential consumption goods, raw materials, intermediate and equipment goods for which there was domestic production. On the other hand, for luxury products and some less essential consumer goods, previously included in the 30 per cent surcharge rate, an increase of the rate of the surcharge to 60 per cent had taken place, as the import restraining effect of the previous rate of surcharge was gradually decreasing. Members of the Committee expressed some surprise that certain investment goods and intermediary goods were subject to surcharges and asked whether this would not contribute to increasing the cost of production of these goods. The representative of Portugal said that in order to check the increase of domestic costs of production arising from the surcharge, there were

provisions for granting exemptions. These included the cases of products having a zero duty and products which were indispensable to public supply, raw materials, goods destined to be incorporated in specific productions, like canned fish, goods for public enterprises such as railways etc. and goods connected with oil prospection. These exemptions were granted mainly on goods that were previously subject to the 20 per cent and now subject to a 30 per cent surcharge. In reply to a specific question he added that there was no exemption scheme for the deposit requirement which was limited to luxury products and some less essential consumer goods. Members of the Committee felt that these measures were quite severe, in particular for those products which accumulated both a 60 per cent surcharge and a 50 per cent prior import deposit requirement. They asked whether the cumulative restrictive effect was deliberate. The representative of Portugal explained that the cumulative effect of the highest rate of surcharge and the import deposit affected a very small proportion of imports - 1.3 per cent in terms of 1975 imports - and was limited to unessential consumption luxury goods. Products for which the import deposit scheme applied cumulatively with the 30 per cent surcharge accounted for 6.2 per cent of total imports in 1975.

18. It was asked whether the Portuguese authorities considered the measures effective and what impact there had been on trade. The representative of Portugal said that it was too early to estimate the effects of the import deposit scheme, but that the surcharge had clearly been successful. Total imports of surcharged goods had shown in the beginning of 1975 (January to May), when the surcharge was not yet applied, an increase +4.71 per cent whereas for the period of June to November when the surcharge was in effect there had been a decline of 43.4 per cent. For the category of goods subject to the 20 per cent surcharge, the period of January to May 1975 had shown an increase in imports of 2.1 per cent whereas for the period of June to November 1.75 there had been a decline of 36.5 per cent. The same calculation for the 30 per cent category, for the same dates, had shown an increase in imports of 4.7 per cent and respectively a decrease of 43 per cent. Within the 30 per cent surcharge goods the categories of products which had shown the largest variations were household consumer goods with figures showing plus 22 per cent and minus 40 per cent and radios and television sets with figures of plus 31 per cent and minus 42 per cent for respectively the same periods as quoted above. The representative of Portugal concluded that the measure had been effective in reducing the level of imports. In reply to comments that the rates were excessive the representative of Portugal said that the level of liquidity outside the banking system had, to a certain extent, encouraged the maintenance of a high level of imports as commercial firms had found it possible to pass on the cost of the surcharge to consumers. It had been to cope with this problem that the Government had imposed the import deposit.

19. Members of the Committee noted that all imports were subject to obtaining an import "bulletin" to get foreign exchange. This covered all trading activities and exemptions concerned only goods with a value of less than Esc 5,000. It was asked whether this measure had a statistical aim only, as it had been reported that there had been cases of delays in obtaining these bulletins which had hindered trade. The representative of Portugal confirmed that only goods with a value of less than Esc 5,000 were exempted from the requirement of a bulletin. He added that the aim of the measure was purely statistical but that the administrative procedures connected with its application might be revised. With regard to delays incurred in obtaining the bulletin, he said that this had happened at a period of intense difficulties in Portugal's economic life but that normally the bulletins were issued promptly. In reply to a question concerning the percentage of imports subject to State trading, the representative of Portugal said that the full list of products covered by State trading was regularly notified to GATT under Article XVII notifications. Generally it included food products (cereals like maize and rice, cod, sugar, meat, olive oil and certain vegetable oils), petroleum products and together, excluding petroleum products, made up some 15 to 20 per cent of total imports.

20. The members of the Committee noted with concern that among the measures adopted by Portugal on 28 October 1976 was enabling legislation to impose quantitative restrictions on imports and it was asked whether the Portuguese authorities intended to use this legislation. The representative of Portugal said that his Government had admitted the possibility of imposing quantitative restrictions. However, there were some practical difficulties of application involved as the system of quotas required a complicated administrative machinery. The Government has been aware of the undesirable secondary effects that such a system could bring about, such as the creation of extra profits to importers holding licences. He said that the problems connected with the imposition of quantitative restrictions would be carefully studied before an introduction would be envisaged. He added that the Portuguese authorities were not dogmatic as to the means it employed to protect its balance of payments, but that it would make every effort to co-ordinate the measures that were necessary and that it was not its intention to encourage the proliferation of measures but rather to find the most appropriate ones.

#### Conclusions

1. The Committee recognized the serious problems facing the Portuguese economy and balance of payments and the need for corrective measures. It regretted that the surcharges had been extended and the rates increased, and that in addition, an import deposit had been introduced on non-essential products. These measures were considered severe.

2. The Committee viewed with concern the enabling legislation on quantitative restrictions adopted on 28 October 1976 and urged the Portuguese authorities to refrain from applying it. It invited Portugal to give careful consideration to the adoption of a comprehensive programme of domestic policies and external measures to achieve the required adjustment in its balance of payments, as indicated in the finding of the International Monetary Fund. In this context, it was hoped that the Portuguese authorities would thereby find it possible to relax or remove the temporary surcharges and import deposit. In the meantime, the Committee expressed the hope that the internal measures already taken to redress the economy would be successful.

3. The Committee welcomed the fact that the trade measures adopted, as well as the surcharge exemptions granted, were applied on a non-discriminatory basis. It also welcomed the statement by the representative of Portugal to the effect that these measures were temporary and that it was his authorities' firm intention not to apply trade restrictions beyond the time and level of what was strictly needed to protect the balance of payments.

ANNEX

Opening Statement by the Representative of Portugal

On behalf of the Portuguese technical delegation, I would like to express our pleasure at having this opportunity to participate in the work of this Committee and to furnish any clarifications that may be considered necessary concerning developments in the Portuguese economy and the policy lines followed in that respect, more particularly in connexion with safeguarding the balance of payments.

I would like, first of all, to outline the reasons that have led Portugal to maintain and even recently to strengthen the measures that have been in effect since the end of May 1975 to safeguard the balance of payments.

Since the beginning of this year, the following fundamental aspects have been perceptible in Portugal's economic situation:

- .. a resumption of producing activities, though at a moderate rate;
- weakness of investment, except in the housing sector;
- some decline in consumption;
- a continuing high unemployment rate;
- a slight aggravation of inflationary pressures;
- .. a considerable budget deficit;
- increasing difficulties in Portugal's foreign payments situation.

I shall comment on these briefly, point by point:

A production growth rate of 5 per cent is expected for the current year as a whole, after a decline by 2.7 per cent in 1975. This is mainly the result of the upturn in the housing and public works construction sector, estimated at a rate of 20 per cent, whereas for the processing industries the growth rate is not likely to exceed 5 per cent. It is also significant that in a period of fundamental structural changes in Portuguese agriculture, growth in this sector is also likely to be comparable to or even in excess of past trends, partly as a result of favourable weather conditions.

Because of delays in defining fields of activity reserved for State initiative and operating rules for the economic system, private investors have shown some reluctance that has not been adequately offset by more active investment in the public sector.

Investment will be equivalent to only 13 per cent of national expenditure in 1976; this is very inadequate from the aspect of economic recovery and is well below past rates.

Private consumption levels that were excessively high in the light of the country's present possibilities have been contained to some extent by the introduction of substantial increases in taxes on sales and income, and by the suspension since 1975 of instalment sales facilities as well as through a more restrictive policy on wage increases.

It is hoped, of course, that the trade measures recently introduced will also yield a positive contribution.

Unemployment has reached a level in excess of 10 per cent of the total labour force, although existing estimates do not entirely concur. This is a fairly natural phenomenon in the short term, given large-scale arrival in the labour market of workers from the former colonies (a further 350,000 refugees in 1976), well beyond the Portuguese economy's absorption capacity, while emigration to Europe has virtually ceased.

Prices increases have mainly been the result of higher production costs and indirect taxation. Because of the unfavourable trend in average productivity levels, it has not been possible to reduce as much as hoped the effects in respect of increased costs. It should also be pointed out that as regards the least essential consumer goods, which are subject to increased taxes, the higher prices are consistent with the austerity guidelines laid down by the Government.

Given the relative inertia of private entrepreneurs and the pressing needs of national economic recovery, the public sector has had to take on considerable responsibilities in regard to investment in Portugal. Financial assistance to firms in difficulties, aid to citizens arriving from the former colonies, long-promised improvements in the material situation of public service employees - all these factors have contributed to produce a record budget deficit, which is expected to reach Esc 45 million by the end of the year, i.e. approximately 10 per cent of gross national product; a comparable deficit cannot possibly be contemplated for next year.

The balance of payments in the first part of 1976 reflected the various difficulties that I have just mentioned, and at the end of June showed a deficit of Esc 23,000, equivalent to approximately \$800 million, representing an increase by 47.5 per cent over the level in mid-1975.

The trade balance has also deteriorated rapidly. Imports have increased in value much faster than exports (13 per cent as against 6.3 per cent) and by the end of June the trade deficit had reached Esc 25,000 million. This deficit is expected to be about double that figure by the end of the year, but taking into consideration more favourable results expected in the tourist balance (a pronounced reduction in foreign expenditure because of restrictions on the grant of foreign exchange for tourist purposes during the summer) and also transfers by emigrants, the negative balance on current account might not exceed Esc 29,000 million at the end of the year (as against Esc 19,000 million for last year). Account must also be taken, however, of the deficits expected in respect of medium and short-term capital movements which will further swell the deficit in the basic balance.

It is not surprising, therefore, that Portugal has had to resort to more stringent measures to safeguard its balance of payments, in the overall perspective of the economic policy orientations that seem best suited to the requirements of our economic recovery.

In the trade field, the measures introduced recently, on 9 October, include a prior import deposit in respect of a list of less-essential products, and an increase to 30 and 60 per cent respectively of the import surcharge rates of 20 and 30 per cent already in force. The deposit is to be in an amount equivalent to 50 per cent of the c.i.f. value of the import transaction, to be held for six months and be non-interest bearing. The 30 per cent surcharge remains applicable to goods which accounted for approximately 28.3 per cent of Portugal's imports in 1974, mainly comprising intermediate and capital goods intended for the production of articles that are non-essential or can be replaced by similar domestic products. Part of these goods, representing 6.4 per cent of imports in 1974, were in addition subject to the prior deposit. The 60 per cent surcharge and the prior deposit are both applicable on luxury or at least non-essential consumer goods, which in 1974 accounted for 1.6 per cent of total imports. In addition to goods produced in Portugal, this list contains many others that are not produced in our country.

Clearly it was necessary to raise the lower level of surtax to 30 per cent at least, given that domestic inflation had already wiped out part of the restrictive effects that had been expected.

There is a direct connexion between the establishment of the prior deposit and of the surcharge of 60 per cent and the new constitutional Government's concern to apply a policy-line of austerity - which has already led to other measures, to which I shall refer later. In this way the authorities have tried to avoid the introduction of even more stringent measures - a possibility which could not be

discarded if the situation of the country's foreign payments should further deteriorate, to the extent of possibly depriving the country of the means of financing imports of food, raw materials, energy and equipment vital to the population and to the normal functioning of the economy. In particular, the prior import deposit system was designed to mop up excess liquidity held by commercial undertakings and private persons, which was jeopardizing the success of a credit policy restricting the purchase and import of non-essential goods. In short, for that category of goods, the surcharges, prior deposits, higher indirect taxes and credit restrictions form a whole, no doubt entailing restrictive results but consistent with reasonable policy priorities.

That is why I do not think it is possible for me to give a definite reply to the question of the timing envisaged for application of these measures. Portugal's interest and concern is not to keep them in force longer than they prove to be strictly necessary. Future developments in Portugal's balance of payments will provide the best indications as to the practicability of reducing or even terminating the measures which have just been adopted.

As regards austerity, it is important to mention at least the following recent measures:

- (a) higher income taxes;
- (b) increased prices for certain - even essential - energy resources, goods and services;
- (c) limitations on the grant of foreign exchange for tourist purposes;
- (d) the special compulsory savings scheme for the end of the year, which will absorb a large proportion of Christmas bonuses.

What is more, the recent creation of the National Council for Incomes and Prices, with the participation of labour and management, could contribute to a more moderate approach as regards conditions for adjusting wages and prices, with a view to restraining as much as possible the growth rate of private consumption.

As regards efforts contributing to economic recovery, I shall briefly mention

- (a) the export-incentive measures already taken: improvement of the credit and credit-insurance system; very favourable long-term interest rates as low as 8 per cent; additional advantages for undertakings that sign export-development contracts with the Government;

- (b) measures to encourage transfers by emigrants:
  - creation of special foreign-currency savings accounts for emigrants;
  - credit to emigrants having deposits in Portugal, for the construction or purchase of housing or other property;
- (c) measures promoting foreign investment, publication of a Code at present under review;
- (d) rationalization of public sector management:
  - creation of the IPE;
  - the public enterprises law.

Other measures under discussion in the Government or in Parliament cover such important areas as:

- definition of the sectors reserved for Government action;
- regulation of the cases in which the State may intervene in certain undertakings;
- control of workers' management,
- changes in labour legislation with a view to arriving at a more just balance between workers' rights and responsibilities.

The main economic policy guidelines for the coming year and the most important measures and mechanisms to be employed in their implementation will be incorporated, along with the investment programmes and the current budget of the State, in a document which is to be presented by the Government to the Assembly of the Republic this very day - 15 November.

This Plan for 1977 is basically designed to ensure the financial stability necessary for the preparation by May, and for the starting, of a medium-term development plan for the period 1977-80, as envisaged in the Programme of the first constitutional Government.

In view of the current economic situation, the basic objectives set forth in the Government's Programme of last August - economic recovery, reduction of unemployment and correction of inequalities in the standard of living - will be limited in their execution by the need to reduce the external deficit and the deficit in the Government's budget.

Thus, economic recovery will be linked to an increase in global demand of a kind that can reflect itself as little as possible in an increase in the balance-of-payments deficit. With that in view, a policy that restricts consumption will be pursued simultaneously with a substantial increase in public investment and the encouragement of private investment. The increase in public investment in certain service sectors will serve to offset the inevitable decline in living standards in terms of direct purchasing capacity for goods and services.

And especially as regards the construction of moderate-rent housing, it will have a rather negligible impact on imports but an important influence on the reduction of unemployment.

The investment programme of the public enterprises sector - which after the nationalizations is rather large - concentrates on heavy-industry projects that were started before the Revolution and, in general, even before the oil crisis. Some of these projects will be less profitable in the present international economic situation; others, such as the expansion of the iron and steel industry, seem to be assured of a satisfactory level of profitability. The investments required for these projects are rather large at present.

However, the import of capital goods will not weigh too heavily on the balance of payments, whereas, by way of compensation, import replacement and exports resulting from these projects could have a very positive effect on the trade balance after the years 1978-1979.

The investment programmes of the public sector taken together with a certain recovery in private investment would, it is estimated, result in an investment rate of 17 per cent in 1977, which is still rather low when compared with rates attained in the past but definitely better than those recorded in 1975 and 1976.

We do not think it will be possible to attain the indispensable reduction of several billion escudos in the deficit of the balance of current transactions solely by the policy of restricting consumption. The main policy instruments to be used will, inter alia, be the institution of special savings schemes, increased taxes on transactions, and the integration of wage adjustments in a prices and incomes policy.

Public consumption, just as private consumption, will be contained, with a view to gradual restoration of equilibrium in the State's accounts and in expectation of a positive influence on inflation.

The current deficit of the public sector ought to be reduced in 1977 by the cumulative effect of increased taxes and social security contributions, and of reduced expenditure, especially that connected with decolonization.

I must conclude by expressing to the Committee the certitude that Portugal can rely on the solidarity and the understanding of its trading partners to aid it in surviving this crucial period of its existence.