

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

Committee on Balance-of-Payments Restrictions

1984 CONSULTATION WITH PORTUGAL

Background Paper by the Secretariat

1. This paper has been prepared in accordance with Paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes adopted by the CONTRACTING PARTIES on 28 November 1979 (BISD 26S/205-209). It updates the background paper prepared for the 1983 consultation (BOP/W/68).

I. Portugal's previous consultations in the Committee on Balance-of-Payments Restrictions

2. Since its accession to the General Agreement in 1961, Portugal has consulted eight times in the Committee on Balance-of-Payments Restrictions, namely in 1975, 1976 and every year since 1978. In the last consultation, which took place on 11 October 1983, the Committee noted that, although import surcharges had been applied since 1976 and import quotas for consumer goods since 1977, no time schedule for the removal of these measures had as yet been announced. It again requested the Portuguese authorities to announce a timetable for the removal of the restrictive import measures as soon as possible. The Committee was also concerned about indications that import licensing procedures had been used for restrictive purposes, and welcomed the statement by the Portuguese representative that the licensing systems were not intended to be restrictive, as well as the intention of the Portuguese authorities to make import licensing procedures more transparent and avoid delay in the issue of licences. The Committee also noted with satisfaction that the Portuguese authorities had recently embarked upon a comprehensive programme to bring about lasting improvement in the external position and that they intended to roll back the 30 per cent surcharge to 10 per cent by 1 January 1984. The Committee asked Portugal to reduce its reliance on restrictive import measures for balance-of-payments purposes as soon as the stabilization efforts begin to produce results.

¹The most recent reply by Portugal to the questionnaire on import licensing is contained in L/5640/Add.8.

II. Restrictive import measures taken for balance-of-payments purposes¹

(a) Import surcharge

3. Since the last consultation, the 30 per cent rate of import surcharge has been reduced to 10 per cent under Decree-Law No.103-A/84 of 30 March 1984. Under three decrees issued between 28 June 1983 and 30 March 1984, a number of products have been removed from the list of goods subject to surcharge (see L/5145/Add.3). The value of imports covered by the surcharge stood at 163.2 billion escudos in 1983, or 17.3 per cent of total imports, as compared to 163.5 billion escudos (21.7 per cent of total imports) in 1982.

4. The 60 per cent surcharge on "non essential" goods remains in force. The list of products subject to this surcharge, which has not changed, was originally notified by Portugal in BOP/216. The Committee was informed in previous consultations that the 60 per cent surcharge would be transformed into an internal tax as soon as a value-added tax system could be introduced, which it is intended to do at the time of Portugal's accession to the European Communities (BOP/R/134, paragraph 14).

(b) Import procedures

5. Practically all foreign trade transactions are subject to prior registration by "bulletins" issued by the Directorate-General for Foreign Trade. Such registration is generally required for imports greater than Esc 15,000 in value. For unrestricted items, "bulletins" serve for statistical purposes and allow importers to obtain the necessary foreign exchange; for products subject to restrictions, the bulletins are equivalent to import licenses and are subject to individual authorization.

6. In previous consultations, it had been noted that the system of import "bulletins" had been administered restrictively, as a discretionary barrier against imports of certain sensitive items. In the 1983 consultations the Portuguese representative noted that import licensing procedures were not intended to be restrictive. Import licences were granted as required. The government planned to make the system more transparent and to avoid delays, inter alia, by introducing a computerized system which would probably be fully operative by the end of 1983 (BOP/R/134, paragraph 16).

(c) Import quotas

7. The quota system for consumer goods, in force since February 1977, has been extended for a further year until 31 March 1985, notified in L/5543/Add.1. No changes have been introduced in the product coverage or operation of the system compared with that for the year 1983/84 (L/5543). The global value of quotas in escudo terms has been increased by some 31 per cent, from Esc 5.1 billion to Esc 6.7 billion; within this total most individual quotas are increased by 30 per cent, while that for tropical fruits is increased by 55 per cent and that for refrigerators by 10 per cent. The Portuguese authorities have stated that the aim of the global value increase is to maintain the same volume of imports in 1984/85 as in 1983/84.

8. Imports of completely-knocked-down (CKD) motor vehicles with kerb weight up to 2,000 kgs. remain subject to a quota system under which a value quota is allotted to each make of vehicle. This quota system forms part of legislation in force since 1980, aiming at the reorganization of the motor vehicle sector in Portugal. The overall quota for CKD vehicles was raised by some 46 per cent in value terms to 14 billion Escudos for 1984 (Esc 9.6 billion in 1983). Additional quotas for imports of CKD's may be granted as counterpart for the amount of Portuguese added value in exports of motor vehicles or components (see L/5558/Add.1). The policy of reorganization of the motor vehicle industry in Portugal is to be in force until the end of 1984. Imports of completely built-up (CBU) passenger vehicles remain subject to a quota of fifteen units per producer/year, or, if more favourable, to a maximum of 2 per cent of the number of passenger vehicles of the same make assembled in Portugal during the preceding year.

(d) Residual restrictions

9. Portugal maintains a number of residual restrictions on certain agricultural and industrial products, listed in L/2981/Add.14. Imports of products on this negative list are subject to individual authorization. Agricultural products subject to these restrictions as well as those subject to surcharges have been included in Portugal's submission to the Committee on Trade in Agriculture (AG/FOR/POR/1).

III. Recent developments in the Portuguese economy .

10. At the beginning of 1983, the Portuguese economy was facing major internal and external imbalances. The current account deficit and the external debt were, respectively, 13.5 and 60 per cent of GDP while the budget deficit stood at 10 per cent of GDP. In June 1983 a stabilization programme was implemented by the new government, aimed at restoring external and internal financial stability through the adoption of restrictive monetary and fiscal policy together with a further devaluation of the currency. As a result, the balance of trade deficit and the public deficit were markedly reduced by the end of the year, but these good results were accompanied by a deepening of the recession and an acceleration of inflation.

(a) Domestic sector

Production and employment

11. In 1983 real GDP declined by $\frac{1}{2}$ per cent, with the major reduction concentrated in the agricultural sector (-7 per cent) and construction industry (-6 per cent), only partially offset by an increase in the energy sector (+9 per cent). Manufacturing activity rose by about 1 per cent, thus growing at a slower rate than in 1981 and 1982.

12. Aggregate demand decreased by 2.7 per cent in 1983. Private consumption was down by one per cent, reflecting a reduction in disposable income, while public consumption was up by 4 per cent, partly owing to an

increase in the number of civil service employees. Gross fixed investment suffered a sharp decline (down 7.5 per cent) for the first time in 4 years, mainly because of the further tightening of an already restrictive credit policy.

13. Employment data for 1983 cannot be compared with those for 1982: data for 1983, which are still only provisional, come from a new Employment Survey which seeks to give a more complete picture of the situation regarding participation in the economy, unemployment and under-employment. However, employment levels apparently continued to decline in 1983 in all sectors except fishing, mining and tourism. Total unemployment by end-1983 was estimated to be 10.5 per cent of the labour force.

Inflation

14. Measured by movements in the consumer price index (excluding rents), the inflation rate continued to increase in 1983, running at an annual rate of about 25½ per cent. The rate accelerated markedly to around 32 per cent on a year to year basis in the fourth quarter of the year following the devaluation of the escudo and associated increase in the administered prices of public enterprises. However, the rate of growth of consumer prices had slowed down somewhat to about 30 per cent in the first half of 1984.

Fiscal policy

15. The fiscal policy measures undertaken by the authorities were designed to reduce the growth of public spending and the general government borrowing requirements. Before the elections, government spending was cut by 4 per cent and an import duty surcharge was introduced. After the elections, indirect taxes were increased, a special tax on property and wage incomes was introduced and a freeze in investment spending was implemented. As a result of these measures, the general government deficit declined below its 1982 level, and the overall public sector borrowing requirement decreased to 15.2 per cent of GDP (23.3 per cent in 1982).

Monetary policy

16. The management of the monetary policy in 1983 reflected the difficult condition of government finances and the widespread presence of subsidized interest rates (which represented about 36 per cent of domestic credit in 1983). The traditional instrument used by the monetary authority had been ceilings on domestic credit to the private sector. In the summer of 1983, the monetary authorities moved to a policy of controlling the total credit in the economy. Its rate of growth turned negative (-5 per cent on a year basis) reflecting the slowing down of external financing, in the first half of 1983 and further tightening followed in the second part of the year. Interest rates were raised in March and later in August, when interest rates on time deposits reached 29 per cent.

(b) External Sector

17. Trade balance difficulties and growing speculation caused the Portuguese government to devalue the currency in March and in June 1983. In March, the authorities depreciated the escudo by 2 per cent and raised the monthly rate of depreciation to 1 per cent. Later in the year, a major devaluation of the currency (12 per cent) was implemented as part of the austerity policy of the new government. As a result, the escudo depreciated by about 39 per cent against the US dollar in 1983 (20 per cent in trade-weighted effective terms). In August 1984 the exchange rate vis-à-vis the dollar stood 22.5 per cent below the level a year earlier (annual basis).

Balance of Payments

18. The current account deficit, which amounted to US \$3.2 billion in 1982 (13.4 per cent of GDP) was almost halved in 1983, reaching \$1.7 billion (5 per cent of GDP). This result was achieved despite a worsening of the invisibles account, as the trade deficit narrowed considerably. On the capital account side, the inflow of medium and long term capital decreased considerably, while net outflows of short term capital characterized the first nine months of the year.

19. Several elements had contributed to produce a persistent deficit in the overall balance of payments. In particular, there was the crisis of the tourism industry in the early eighties, plus a slowdown in migrants' remittances (in US dollar terms) because of European unemployment, the depreciation of European currencies against the dollar and the widespread expectation of the June 1983 devaluation of the escudo, which helped to hold back remittances. International reserves declined by $\frac{1}{2}$ billion dollars in 1983, especially in the second quarter and were estimated to amount to \$9.9 billion (8 billion in gold) at the end of 1983. Three gold backed loans (totalling US \$1 billion) were extended by the Bank for International Settlements during the year. Meanwhile, Portugal obtained a stand-by credit from the IMF for the period October 1983 - March 1985 in the amount of SDR 445 million. Portugal also drew SDR 258 million under the IMF's compensatory financing facility in 1983.

Foreign debt

20. Portugal's foreign debt stood at \$14.4 billion in December 1983. This is still about twice the level of the end 1979. Moreover, while in 1983 the share of short term debt to total debt decreased to 24 per cent (from 30 per cent in 1981), the share of debt to GDP, which was around 50 per cent in 1981, climbed to 83 per cent; the ratio of debt service/external receipts remained at 28 per cent.

• Trade balance

21. During 1983, Portugal reduced its trade deficit (in escudo value) with the EC by more than half and turned its deficit with the EFTA countries into a surplus. However, the trade deficit with North America and the OPEC countries continued to increase, particularly with the United States and Iraq. The former grew by 56 per cent and is now 25 per cent (14 $\frac{1}{2}$ per cent

in 1982) of the total imbalance, while the latter rose by more than 100 per cent so that the share of the deficit with OPEC countries to the total deficit reached 39 per cent (32 per cent in 1982). Nevertheless, the overall export/import ratio reached the level of 58.3 per cent which is the highest since 1976 and close to its 1979 figure.

22. In the first quarter of 1984, Portugal's trade deficit narrowed to ESC 95 billion (f.o.b./c.i.f.), compared to ESC 109 billion for the first three months of 1983. Exports in escudos rose by 69 per cent, while imports dropped by 20 per cent. For the first time in years, the country had positive balances with most partners in the EEC and EFTA. Moreover, there was a sizeable increase in the "coverage of imports" by exports in dollar terms to nearly 70 per cent, compared to 45 per cent in early 1983.

Exports

23. At \$4.58 billion, the dollar value of exports in 1983 was up by 11.4 per cent over 1982 (in escudo terms, exports were up 52 per cent); in volume terms, estimates suggest that export growth surpassed 15 per cent.

24. The sharp surge in exports was due largely to the development of new products (petrochemicals, motor vehicle components, electrical and electronic equipment), an increase in exports of textiles (exports of textiles to the EC not subject to quota were up by 25 per cent, while sales of textiles subject to quota increased by 7.5 per cent), and the enhanced competitiveness due to the exchange rate depreciation. The most rapid growth in export volume terms occurred for refined petroleum products (up by 90 per cent), whose share in total exports grew to nearly 5½ per cent in 1983 compared to 4 per cent the year before. Also, major increases in sales abroad characterized the transport equipment and machinery sector (up 61 and 46 per cent respectively) which in 1983 accounted for about 15½ per cent of total export against 14 per cent in 1982. Food exports also rose considerably in volume terms, with their share in the value of total exports reaching 5½ per cent. Sales of olive oil were up by about 39 per cent in volume terms. The share of other manufactures (including textiles) in total exports declined to 28½ per cent from 30 per cent in 1982. Finally, the volume of chemical exports having increased by 50 per cent in 1982, slowed down its rate of growth to 11 per cent, with its share in total exports declining to 7½ per cent.

25. In 1983, Portuguese exports to the EC increased by 12.2 per cent in US dollar value terms; the EC absorbed about 60 per cent of the total. Sales to France, Germany, the U.K. and the Netherlands increased considerably, but Italian purchases of Portuguese exports were down by 8 per cent. Exports to Spain were up by 23 per cent, while those to the United States rose only by 6 per cent. As for other markets, the picture was mixed. Trade with Comecon and Latin American countries was down, while exports to African, Far Eastern (especially China and Japan) and OPEC countries displayed a considerable increase.

Imports

26. Portuguese imports decreased by about 15 per cent in dollar terms, reaching \$8.2 billion; estimates in volume terms show a decline of 10 per cent. The slowdown in economic activity in 1983 caused the volume of Portuguese imports of fuel to decline. However, in value terms, fuel's share of total imports increased slightly and the petroleum bill still amounts to about 25 per cent of total purchases. Cereal imports slowed down considerably because of the good crop of 1982. This was accompanied by a reduction in purchases of livestock, meat, fruits, beans, coffee, cocoa and tea, thus pushing down to about 10 per cent the share of food in total imports. However, purchases of sugar continued to rise. Imports of chemicals were down in volume terms, though their share in the value of total imports reached 10 per cent. Purchases abroad of machinery and transport equipment were sharply reduced, with a decline of almost 18 per cent in volume terms, except for imports of aircraft from the United States, which increased considerably. As a result, while the share of the value of machinery imports to total imports decreased, the corresponding share for transport equipment increased to about 9 per cent. As regards the geographical distribution of Portuguese imports, purchases from the EC were curtailed considerably; the Community's share in total imports decreased from 40½ per cent to 39½ per cent. The volume of purchases from Spain decreased as well as that from OPEC countries. However, the United States increased its share in Portugal's shrinking import market from 11 to 14 per cent.

TABLE 1. - EXPORTS BY COUNTRY OF DESTINATION
(Percentages)

	1981	1982	1983
EC	53.7	57.3	58.9
France	12.6	13.3	13.6
Germany (Fed. Rep.)	12.5	12.9	13.4
Italy	4.2	4.8	4.1
Netherlands	4.7	6.0	6.4
United Kingdom	14.4	14.8	14.8
EFTA	13.4	12.2	10.7
Spain	2.9	3.5	4.0
Japan	0.9	0.9	1.3
United States	5.2	6.2	6.0
OPEC	3.4	2.9	3.6
Others	20.7	16.9	15.6
World	100.0	100.0	100.0

Source: Instituto Nacional de Estadística, Boletim Mensal das Estatísticas do Comércio Externo.

TABLE 2. - COMMODITY COMPOSITION OF EXPORTS
(Percentages)

	1982	1983
FOOD	4.9	5.6
Beverages and tobacco	4.7	4.0
Crude materials inedible, except fuel	9.4	8.2
Mineral fuels, lubricants etc.	4.4	5.6
of which: petroleum and petroleum products	4.4	5.6
Animal and vegetable oils, fats and waxes	1.4	1.7
of which: olive oil and related oils	1.4	1.6
Chemicals	8.2	7.7
Manufactures	29.9	28.6
of which: textile products	13.7	13.3
wood products	5.1	4.9
non-metallic products	4.3	3.5
Machinery and Transportation Equipment	14.0	15.4
of which: office machines	2.0	1.8
telecommunication and recording equipment	2.7	2.7
electric machinery	3.3	3.4
car vehicles	2.7	2.8
Other manufactures	21.1	21.1
of which: clothing	15.2	15.0
footwear	3.2	3.6
Others	2.0	2.1
Total	100.0	100.0

Source: Instituto Nacional de Estadística, Boletim mensal das Estatísticas do Comércio Externo.

TABLE 3. - IMPORTS BY COUNTRY OF ORIGIN
(Percentages)

	1981	1982	1983
EC	38.4	40.9	39.5
France	7.8	8.7	8.1
Germany (Fed. Rep.)	11.0	11.9	11.3
Italy	5.4	5.6	5.2
Netherlands	2.9	3.5	3.8
United Kingdom	8.1	7.8	7.6
EFTA	6.8	6.7	5.8
Spain	6.6	6.0	5.1
Japan	3.5	3.4	2.8
United States	12.0	10.8	14.2
OPEC	18.7	19.2	18.7
Iraq	3.9	3.1	2.1
Iran	2.0	2.2	4.0
Nigeria	2.3	2.4	2.6
Saudi Arabia	5.1	5.4	4.9
Others	14.1	13.0	13.9
World	100.0	100.0	100.0

Source: Instituto Nacional de Estadística, Boletim Mensal das Estatísticas do Comércio Externo.

TABLE 4. - COMMODITY COMPOSITION OF IMPORTS
(Percentages)

	1982	1983
FOOD	10.7	10.3
of which: fish	1.9	1.7
cereals and cereal products	5.5	5.9
Beverages and tobacco	0.6	0.4
Crude materials inedible, except fuel	8.7	10.0
of which: oil seeds	2.4	3.5
textile fibres	3.1	3.7
Mineral fuels, lubricants etc.	26.8	27.2
of which: petroleum and petroleum products	25.3	25.5
Animal and vegetable oils, fats and waxes	0.4	0.2
Chemicals	9.2	10.0
Manufactures	13.3	12.3
of which: textile products	2.7	2.7
iron and steel	4.1	3.0
Machinery and Transportation Equipment	26.4	25.9
of which: special machinery for special industries	5.4	4.4
industrial machinery and parts	4.1	3.3
electric machinery	3.6	3.6
car vehicles	8.0	6.6
other transportation equipment	0.3	2.7
Other manufactures	3.6	3.4
of which: scientific and professional equipment	1.1	1.1
Others	0.3	0.3
Total .	100.0	100.0

Source: Instituto Nacional de Estadística, Boletín Mensal das Estadísticas do Comércio Externo.