

Correspondence

July 18, 1979

MEMORANDUM FOR FILES

Subject: Portugal

Patrick de Fontenay called, before going to dinner tonight with Constancio and Silva Lopes, to report on his day in Lisbon. When he arrived in Lisbon, Nunes had explained that the Prime Minister (PM) wanted to talk to him about the question of the upward adjustment of public tariffs. They then saw the PM together. The latter had mused about the political difficulties in raising prices and said that it would be better to solve the financial difficulties of public enterprises by restructuring and reorganization measures. Could we not accept a commitment that they would make enterprises financially viable in that manner instead of insisting on price increases? Patrick had said that we could not. This was a sensitive question also in the Fund and many of the price increases that had been envisaged were already too low in the light of the latest developments. The PM said that he understood the Fund's position and would further examine the question. This almost certainly means, according to Patrick, that the stand-by is off, at least for the time being.

Patrick would return to Paris tomorrow and call again should he learn anything interesting at the dinner.



A. Pfeifer

cc: SED

CLF 500
WED



Office Memorandum

TO : The Deputy Managing Director

DATE: July 13, 1979

FROM : L. A. Whittome

SUBJECT : Visit to Portugal

Minister Nunes telephoned to ask that Mr. de Fontenay pay a very brief visit to Lisbon to discuss price increases with the Prime Minister. Mr. de Fontenay is on home leave but we have now arranged that he fly from Paris to Lisbon on July 18 returning to Paris on either July 19 or 20. Mr. Dini is aware.

May I please have your approval for this travel please.

cc: Mr. Clark
Mr. Van Houtven

July 13, 1979

MEMORANDUM FOR FILES

Subject: Portugal


Mr. Nunes telephoned yesterday to ask if Mr. de Fontenay could call briefly--he specifically said for one day only--in Lisbon some time next week. Later Mr. Silva Lopes phoned Mr. Dini and said that in his opinion it might be unwise to send a mission unless we were reasonably certain that an agreement would result--he implied that he himself was far from certain. I told Mr. Dini that wires had obviously become crossed and that a mission was not in question, indeed Nunes had made it plain that he was not now thinking in terms of any agreement with the Fund.

Later I phoned Mr. de Fontenay and today he told me that he could arrive in Lisbon from Paris on Wednesday July 18 (AF 501) returning to Paris either Thursday or Friday.

I called Nunes back but did not find him. I spoke to his assistant and asked for an early answer.

When an answer is received Mr. Dini must be warned (he may also want to be present), a hotel booking must be made (Tivoli-Jardim), Mr. de Fontenay must be told and management approval must be sought.

} done
AC
7-16


L. A. Whittome

cc: SED



Office Memorandum

TO : Mr. Whittome

DATE: July 2, 1979

FROM : P. de Fontenay

SUBJECT : Portugal

This note summarizes the present position with respect to Portugal.

1. On our last visit (May 16-29), we reached an agreement ad referendum on a program for a stand-by arrangement in the first two credit tranches and on a Letter of Intent.
2. The agreement was conditional on (a) the budget coming out of Parliament as assumed (i.e. minus the extraordinary tax on labor income); (b) the "budget decree", which implements the new budget, freezing part of the appropriations. Initially we had agreed on freezing 4 per cent of current expenditures and 13 per cent of capital expenditures but at the last meeting in Lisbon Dr. Nunes agreed to raise these percentages in order to offset 4 of the ESc. 7 billion shortfall resulting from the expected rejection by Parliament of the extraordinary tax on labor income, and; (c) increases of 25-30 per cent in public utility rates and oil product prices.
3. Apparently Parliament did not amend the budget significantly beyond the expected defeat of the extraordinary tax, while (b) and (c) are properly speaking preconditions. We do not know as yet whether the budget decree was issued and in what form. The Government resigned without taking the necessary price measures.
4. Based on past experience (see attached note by Mr. Stuart), a solution to the current Government crisis may take some time, particularly since the President has decided to proceed slowly and carefully in seeking a solution to the present crisis. Also it would be unadvisable to go to Portugal again until price measures have been adopted (unless it was felt we could again try to give another push in that direction). At a minimum, the next mission will need to check the budget voted by Parliament and how it was implemented, assess the impact on public finances of the delay in raising administered prices, and shift the program period from a March to March year to a June to June year. However, this should not represent a major problem, particularly if a program review takes place before the end of 1979, and the March and June 1980 credit ceilings become performance clauses only after the review.
5. On balance it would be desirable to attempt to reach an agreement as early as possible. We continue to believe that a program would provide some safeguard against the likelihood of the public finance situation getting out of hand. For their part, the Portuguese are probably anxious to lower the rate of depreciation, and while they can obtain some external bank financing without an agreement with the Fund, such an agreement would certainly make it easier.

cc: SED
Mr. Osunsade



Office Memorandum

DATE: June 27, 1979

TO : Mr. de Fontenay

FROM : Brian C. Stuart *BCS.*

SUBJECT : Portugal--Timing of Government Formation

Although no one is, as of yet, speculating on when a new government will be in operation in Portugal, I thought it might be useful to review the timing of three recent government crises.

On December 8, 1977, the First Constitutional Government of Dr. Mario Soares was defeated in Parliament. On December 28, 1977, Dr. Soares was reappointed as Prime Minister, some 20 days later. On January 26, 1978, 29 days later, a new cabinet was announced and 17 days later, the cabinet was approved by Parliament. The crisis lasted 66 days.

On July 27, 1978, Dr. Mario Soares was dismissed as Prime Minister. Two weeks later, on August 9, 1978, Dr. Nobre da Costa was appointed Prime Minister. It took an additional 19 days for a cabinet to be announced, on August 28, 1978. On September 14, 1978, the Third Constitutional Government was defeated by Parliament, 50 days after the dismissal of the Soares government.

On October 25, 1978, 41 days after the defeat of the government of Nobre da Costa, Dr. Mota Pinto was appointed Prime Minister. Despite the long interval before his appointment, it required an additional 24 days to announce a cabinet on November 18, 1978. On December 12, 1978, some 24 days later, the government program was accepted by Parliament. Thus it took 66 days in the first case, 50 days in the second case, and 89 days in the third between the emergence of a government crisis and the decision of Parliament on a new government.

The present government crisis began on June 6, 1979 when the cabinet of Mota Pinto resigned. Should it take 50 days for a new government to gain Parliamentary approval, this would occur on July 26; 89 days would move the date back to September 3, 1979.

Between the time a Prime Minister was appointed and a parliamentary decision was taken, between 36 and 48 days elapsed in the three recent crises. If a government were formed today, a 36 day interval would place the date of a parliamentary decision on August 2, 48 days - August 14, 1979.

These intervals might overstate the required time for the formation of a government with parliamentary approval; if a party government is to be formed, the selection of a cabinet might take much less time than in the 1978 crises. Although it should be noted that the one case when a party government

was being formed, in January 1978, it took the longest of the three cases to form a cabinet -- 29 days. From the formation of a cabinet and the parliamentary decision in recent crises, the time interval ranged from 17 to 24 days. Thus, if a cabinet were to be announced on July 2, the government might have parliamentary approval by July 19 or July 26.

cc: Mr. Osunsade
Mr. Mitra

Summary of Government Crises:

First Crisis - December 8, 1977 - February 12, 1978

Event	Date	Days Since Last Event	Total Days in Crisis
Soares government defeated in Parliament	December 8, 1977	--	--
Soares appointed new Prime Minister	December 28, 1977	20	20
New Cabinet Announced	January 26, 1978	29	49
Government approved by Parliament	February 12, 1978	17	66

Second Crisis - July 27 - September 14, 1978

Event	Date	Days Since Last Event	Total Days in Crisis
Mario Soares dismissed	July 27, 1978	--	--
Nobre da Costa appointed Prime Minister	August 9, 1978	14	14
Cabinet Announced	August 28, 1978	19	33
Government defeated by Parliament	September 14, 1978	17	50

Third Crisis - September 14, 1978 - December 12, 1978

Event	Date	Days Since Last Event	Total Days in Crisis
Nobre da Costa government de- feated in Parliament	September 14, 1978	--	--

<u>Event</u>	<u>Date</u>	<u>Days Since Last Event</u>	<u>Total Days in Crisis</u>
Mota Pinto appointed Prime Minister	October 25, 1978	41	41
Cabinet announced	November 18, 1978	24	65
Parliament accepts government	December 12, 1978	24	89



Office Memorandum

TO : Mr. L.A. Whittome

DATE: June 15, 1979

FROM : Brian Rose ^{BR}

SUBJECT : Portugal

Mr. de Fontenay came to see me today to discuss the vacation plans of Mr. Stuart and himself. Each of them wishes to go on leave on July 5, with Mr. Stuart returning on July 22 (Sunday) and Mr. de Fontenay sailing from France on July 30 and arriving in Washington on August 5 (Sunday). While Mr. de Fontenay expressed every readiness to interrupt his vacation to go on a mission to Portugal if necessary, I told him that it was my opinion (assuming that the Portuguese do not get in touch with us before July 5) that he and Mr. Stuart should both proceed with their vacation plans and that we should inform the Portuguese that it would be possible for a short mission to take place if necessary from July 23-27, or alternatively and less desirably, after July 30.

While I am sure we must try to cooperate with the Portuguese, it is also worth noting that this would be Mr. Stuart's fourteenth trip in three years and that a few weeks here or there really cannot make that much difference.

cc: Mr. de Fontenay



Office Memorandum

Mr. Whitton

CC: Area Dept. Hds
+ Paris Office
6/5
JH

TO : The Managing Director
The Deputy Managing Director

FROM : P. de Fontenay

SUBJECT : Portugal - Stand-by Negotiations

DATE: May 31, 1979 HU

A tentative agreement has been reached with Portugal on a stand-by arrangement in the first two credit tranches. The agreement is conditional on the authorities' raising public utility rates and gasoline prices by a sufficient amount.

The negotiations took an unexpected turn when on the day before the scheduled ending of the discussions, and before we could present our proposals, the Portuguese announced that, regretfully, they would not be in a position to negotiate a stand-by program at this stage and asked whether the negotiations could be postponed until after the Parliamentary debate on the budget. They did not indicate any reason for this request, but our guess was that they expected Parliament to amend the Government's budget proposal and that the Prime Minister, who had reversed an earlier decision to raise administered prices, remained adamantly opposed to such an increase. On the last day I had a private talk with the Governor of the Bank of Portugal and indicated my concern that the decisions that needed to be taken as part of the agreement would be much more difficult in June when, as is widely expected, the Government would be closer to being forced to resign and general elections might be called. The Governor agreed that one could easily envisage circumstances which would force postponement of an agreement until the fall and that this would imply a complete lack of restraint on government spending and credit expansion. I also emphasized the advantages of presenting the agreement soon after the budget vote as a package with the price measures balanced by a reduction in the monthly rate of depreciation and in interest rates. At a late meeting on Friday night, following a call by the Minister of Finance to the Prime Minister, it was agreed to try to reach an agreement by Monday, as we had to leave before the start of the budget debate in Parliament on Tuesday. The agreement would be conditional on the price measures being implemented and would assume that the extraordinary tax on the workers' "13th month" of wages and salaries, which is included in the budget proposal, would be rejected by the National Assembly.

Although it was reached in some haste, the agreement, unless it is completely disregarded, should guarantee that in a period of probable political instability, the financial situation will not be allowed to deteriorate too much. Besides the usual credit limits, we insisted that part of the budgetary appropriations be frozen in order to ensure that the agreed financing requirement of the public sector would not be exceeded. The agreement includes some new features compared with the previous ones: for the first time an external debt ceiling on the public sector has been introduced as a performance clause and a separate subceiling on credit to the public enterprises is also part of the agreement. The former has been made necessary by the increased availability of external financing on commercial terms, which could tempt the public sector, and in particular the public enterprises, to borrow excessive

amounts. The latter deals with a politically sensitive area and we had to settle for an indicative ceiling as a start. There are also some measures of a longer-term character designed to improve control over public expenditure. The balance of payments target, exchange rate and interest rate policies already agreed in Washington during the visit of the Portuguese delegation last April remain unchanged. Exchange and trade restrictions are not extensive in Portugal but some further progress has been made in that area: in particular restrictions on transfers of profits and dividends on foreign investment in Portugal will be completely eliminated by October.

There remains the possibility that the price measures will not be taken or that they will be insufficient. We insisted that public utility rates be raised sufficiently to cover cost increases since the last price increase (in the spring of 1978) in order to be consistent with the reduction in subsidies to public enterprises showed in the budget, and specified 25-30 per cent as a minimum. The difference between the cost of gasoline charged by refineries and the sale price to motorists feeds the Supply Fund which subsidizes the price of a score of basic consumer staples. The recent increases in world oil prices have not been passed on to final prices, and this implies a large increase in subsidies from the government budget to the Supply Fund rather than the decrease showed in the 1979 budget proposal. Oil product prices must therefore also be raised enough to more than cover recent increases in the price of imported oil. If price adjustments are postponed or are insufficient, or if the Government's budget proposal is significantly amended by the National Assembly, we may have to alter the arrangement to limit it to the first tranche. However, the fact that the agreement on the Letter of Intent has been completed and that some of its features have already been announced by the Minister of Finance puts pressure on the Prime Minister to reconsider his position on administered prices.

cc: Mr. Gold
Mr. Polak
Mr. Habermeier
Mr. Sturc
Mr. Whittome ✓

International Telex

Western Union International

International Telex



Western Union International, Inc.



cc: SED
WED

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Called: Mrs. Stuart
Being Called: Mrs. Premchand
Mr. Gantt for Ms. Mansveld

INTERNATIONAL MONETARY FUND

WASHINGTONDC20431

MISSION DEPARTING AS SCHEDULED

PREMCHAND AND STUART ARRIVING ON MAY 30 AT DULLES ON BA FROM

LONDON DE FONTENAY

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1028P EDT MAY 23

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1979 MAY 25 PM 2:49

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INTERNATIONAL MONETARY FUND

ORIG: EURO

WASHINGTONDC20431

CC: ~~IMF INST.~~

FAD

PREMCHAND AND STUART LEAVING LISBON ON TAP FLIGHT 312

SATURDAY MAY 26 ARRIVING NEW YORK 4:15 PM

REST OF MISSION DEPARTING AS SCHEDULED DE FONTENAY

COL 20431 312 26 4:15

Called: Mrs. Stuart

Mrs. Premchand

Being Called: Mr. Gantt for Ms. Mansveld

Called:

*Mr. Gantt's
Office*

Mrs. Stuart (Rosemarie)

Mrs. Premchand

*Pdelf called
at 4:30 on 5/25
to say they would
be staying now -
mtg. on Mon. &
earliest departure
would be Tues.
EUR, INST, FAD*

NNNN

ITT World Communications Inc.

ITT World Communications Inc.



Office Memorandum

TO : Mr. Whittome

FROM : P. de Fontenay

SUBJECT : Supplementary Financing

DATE: May 15, 1979

In connection with the briefing paper for Portugal, Mrs. Lachman commented that the supplementary financing facility could not be used by a country unless that country uses its four credit tranches. She quoted the sentence of the Decision which reads "A request by a member will be met under this decision only if the Fund is satisfied: (i) that the member needs financing from the Fund that exceeds the amount available to it in the four credit tranches..." I told her that I, and others, had understood that sentence as referring to the requirement of need but she insisted that this was the official interpretation of the Legal Department and she sent the attached material to back up her claim. I remain unconvinced but would welcome your own reaction as this will have some bearing on future operations with Portugal, as well, I am sure, with other countries.

Att.

cc: Mr. Pfeifer



Office Memorandum

TO : Mr. Patrick B. de Fontenay

FROM : Philine R. Lachman *ML*

SUBJECT : Supplementary Financing Facility

DATE: May 14, 1979

I am attaching some excerpts from documents of the Fund, which make it clear that use of supplementary financing in conjunction with use of the second credit tranche only would not be in accordance with the decision establishing the Supplementary Financing Facility, even if the unmet need exceeds the remaining part of the upper credit tranches. The Facility was established in order to enable the Fund to provide financing in amounts that would go beyond the four credit tranches.

Attachments: SM/79/84, page 2
EEM/77/121, pages 27-29

4. The amounts that could be purchased by a member qualifying to use the Supplementary Financing Facility under a stand-by or an extended arrangement would depend on a number of factors, including the member's need for balance of payments financing and the availability of supplementary resources to the Fund. The amounts available to a member under such an arrangement will be apportioned between ordinary resources and supplementary financing in proportions prescribed in the decision establishing the Facility, which, however, may be changed by the Fund following a review. The apportionment between ordinary resources and supplementary financing in accordance with the specified proportions will be made on the basis of the facts when the arrangement is granted by the Fund so that the amounts and the ratios established at that time will continue to govern purchases under the arrangement notwithstanding changes in the size of the member's quota or in the level of the Fund's holdings of the member's currency after the date of approval of the arrangement. 1/

5. In accordance with the prescribed proportions a member that has obtained a stand-by arrangement under the decision establishing the Facility permitting it to purchase the unused part of the four credit tranches 2/ would be able, given a balance of payments need, to make additional purchases up to a total equivalent to 102.5 per cent of its quota that would be financed with supplementary resources. 3/ Under an extended arrangement permitting a member to purchase up to 140 per cent of its quota, the member would be able to make additional purchases in an equal amount financed with supplementary resources. 4/ If a member has already used all or part of its credit tranches (whether the use was made before or after the effective date of the Facility), the stand-by arrangement will include the amount of supplementary financing that would have been available under the decision on supplementary financing if the earlier use of the credit tranches had been made under the decision. A similar principle will apply with respect to arrangements under the Extended Fund Facility.

1/ See SM/77/263, Supplement 1, pp. 8-9.

2/ I.e., the amount by which 200 per cent of the member's quota exceeds the level of the Fund's holdings of the member's currency other than those that must be excluded in accordance with a decision under Article XXX(c).

3/ Purchases under a stand-by arrangement will be met with supplementary financing as follows: The equivalent of 12.5 per cent of quota in conjunction with the first credit tranche and of 30 per cent of quota in conjunction with each of the upper credit tranches.

4/ Purchases under an extended arrangement will be met with ordinary resources and with supplementary financing in the ratio of one to one.

make it clear whether or not a country that was eligible to use supplementary financing would still have the option to refuse the supplementary financing and use only the ordinary resources of the Fund in the credit tranches.

The General Counsel responded that his understanding of the facility and the decisions, which was reflected in the drafting, was that if a member's problem was of the character that the supplementary financing facility was intended to cope with, and if the member came to the Fund for a smaller amount of assistance in order to use all the credit tranches first--and perhaps with the intention of using the supplementary financing later--the Fund would respond that it could not safely allow the member to make that more limited use of its resources. The Fund had a whole range of powers to safeguard its resources, and if it concluded that the amount of assistance that a member had requested would not be adequate to solve its problems, the Fund was entitled to refuse the member's request. One of the purposes of the Fund was to safeguard its resources by ensuring that members used them to solve their problems. If the Fund's assessment was that the amount available in the four credit tranches would be inadequate to assist the member in solving its problems, the Fund could say that the member should use supplementary financing at the same time that it used ordinary resources, in accordance with the proposed decision.

Mr. Pieske remarked that he had always understood that the supplementary financing was to be available to a member on an optional basis, so that the member could not be required by the Fund to request supplementary financing. When a member had requested supplementary financing and the Fund had granted the request, the precise amount of the supplementary financing to be available would no longer be at the option of the member. The amount would be based on a specific arithmetic relationship between the use of supplementary financing and the use of ordinary resources.

The General Counsel commented that the size of the member's problem was at the heart of the facility itself and of the thinking about the facility. In previous discussions there had been some question about the member's choice, that was to say, whether a member could use ordinary resources in the credit tranches, knowing at the outset that the size of its problems would require it to use supplementary financing later. And the question had been raised whether a member should observe a certain proportionality between ordinary resources and supplementary credit. It had been his understanding that those issues had been resolved on the basis of a statement by the Managing Director in which he had stressed that the clue to the whole concept of the new facility was indeed the size of the member's problem. The assumption was that the Fund and the member would be dealing with a massive problem, so that the member would not have

the right to say that it wished to receive only a portion of the financing necessary to solve its problem and that the Fund had to provide that relatively limited assistance. < The Fund would have to make an assessment of the member's problem, and if the assessment was that the amount of credit in the credit tranches would not suffice to solve the problem, it would then be a matter for discretion or judgment by the Fund whether it would take the risk of allowing the credit tranches alone to be used. If the problem was so large that it was clear that the member was exercising its option in order to avoid parallel use of supplementary financing with the intention of coming in later for supplementary financing, then the Fund was entitled to say to the member that its problem must be dealt with under the decision on the supplementary financing facility if the member wished to receive any assistance from the Fund. >

Mr. Ruding remarked that the General Counsel's comments had clarified the situation for him, but he was worried that the draft text would not make the matter clear for other readers.

Mr. Kent noted that the General Counsel, in describing the kind of member that would not have the choice of using only ordinary resources in the credit tranches, had been careful to say that such a member would have known in advance that it needed supplementary financing later. However, the General Counsel had then gone on to describe the member as one that clearly needed a much larger amount of resources than would be available in the credit tranches, and he had implied that the member would not be qualified to use the ordinary resources in the regular credit tranches. He was concerned about the way that the General Counsel's opinion had been expressed; the supplementary financing facility was to be temporary, and the General Counsel's statement had included a slight hint that, in the period after the facility had been terminated, there might be a group of members that could not qualify to use the regular Fund facilities because their needs were larger than the Fund could satisfy. Such an understanding should of course be carefully avoided. In addition, it was obviously not intended that, in the period prior to the implementation of the new facility, the Fund would deny assistance to some members merely because the available amount of the assistance was not sufficient to solve all of the member's balance of payments difficulties. Use of Fund resources was often related to the flow of private capital to a particular member in a way that could not be precisely quantified beforehand, so that there was bound to be an area of doubt about precisely how much assistance the Fund would need to provide to cover a member's entire payments problem. He did not wish to challenge the basic idea that the Fund should encourage members to use supplementary financing together with ordinary resources, but the idea should be carefully expressed.

The General Counsel said that a large element of judgment would be required in the case of each request to use the supplementary financing

facility. Access to supplementary financing would not be automatic. There would have to be an assessment. He did not wish to be taken to be suggesting that, in the period after the termination of the supplementary financing facility, a member could be turned away by the Fund because its need was quite large. Such a conclusion did not necessarily flow as a consequence from the establishment of the supplementary financing facility or from anything that he had said. Even after the supplementary financing facility was terminated it would still be possible for the Fund to grant a waiver and to go beyond the four credit tranches. In so doing, the Fund would of course be able to exercise its rights to safeguard its resources. If at the outset the Fund knew that a member's problem was so large that it could be dealt with only by means of ordinary resources plus supplementary financing, it could say that it was not possible for the member to come in for piecemeal assistance. That kind of response was well within the powers of the Fund, and he had assumed that it was part of the essential policy of the proposed decision. >

The Deputy Director of the Exchange and Trade Relations Department added that the problem under discussion, namely the circumstances in which the Fund might require the member to request supplementary financing, was not likely to be of much practical significance during the operation of the facility. The staff would assess the program of each member requesting use of Fund resources to ascertain that the adjustment was sufficient and that the proposed use of resources covered in full the remaining problems. Only in rare cases was it likely that the program proposed by the member would be such as to reduce the balance of payments deficit so quickly that the resources available from the supplementary financing facility would not be desirable. In such rare cases, it was likely that the member would not have a payments need that was large in relation to quota and so would not meet the need requirement for use of the supplementary financing facility.

Mr. Drabble considered that the present text was reasonably clear, but it might be useful to include a statement to the effect that the decision was not meant to affect members' normal access to Fund resources in the regular credit tranches.

Mr. Kafka said that he agreed with Mr. Drabble. He had been worried that the Fund might be able to refuse to assist countries on the ground that the amount of resources available in the first credit tranche was insufficient to solve the member's entire payments problems. He had been reassured by the staff's comments that that was not to be the case, but some statement to that effect in the text itself might be useful.

Mr. Hollensen remarked that the General Counsel had emphasized that the size of a member's payments problem was a crucial factor in determining its eligibility to use supplementary financing. However, since a fair and substantial share of the supplementary financing was to be employed

Mr. Pfeifer
F.O.
E

May 11, 1979

MEMORANDUM FOR FILES

Subject: Portugal

I received this morning the attached cable from the Portuguese Minister of Finance, which seemed to suggest that he would prefer a postponement of the mission. I then called the Governor of the Bank of Portugal, Dr. Silva Lopes, who confirmed that there had been some delay in the preparation of the information we had requested and that they would prefer it if we could postpone our arrival by one week. I told him that we would find it very difficult to complete our work in only one week and we agreed that we could start in Lisbon on May 17 and try to finish by May 26.

P. de Fontenay

cc: Mr. Dini
Mr. Pfeifer ✓
SED

MR. PATRICK DE FONTENAY

ASSISTANT DIRECTOR

INTERNATIONAL MONETARY FUND

WASHINGTON

I AM PLEASED TO INFORM YOU THAT THE BUDGET
WILL BE PRESENTED TO THE PARLIAMENT ON MAY 15 AND THE
DISCUSSIONS WILL PROBABLY TAKE PLACE AS FROM THE 28TH
SAME MONTH.

IN THE CIRCUMSTANCES I THINK THE MOST CONVENIENT
TIME FOR YOUR ARRIVAL WOULD BE BETWEEN THE ABOVE DATES.

I HOPE TO HAVE THE INFORMATION YOU NEED
BY THAT TIME.

BEST REGARDS.

M. JACINTO NUNES

MINISTER OF FINANCE AND PLANNING

⊕

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Dr. Manuel Jacinto Nunes
Minister of Finance and Planning
Ministry of Finance
Lisbon, Portugal

Special Instructions

18 I understand that it would be agreeable to you that an
17 IMF staff mission arrive in Lisbon on May 14 to resume
16 negotiations on a stand-by program. The mission will
15 consist of Messrs. P. de Fontenay, A. Premchand, F.
14 Osunsade, B. Stuart, and S. Mitra.
13 Public finance must again be at the center of the
12 discussions and we shall want to ascertain that the
11 financing requirements of the public sector for the fiscal
10 year 1979 will not exceed the figure we discussed here in
9 April with your delegation and that the administered price
8 increases will be implemented very shortly and are
7 sufficient to avoid the need for additional subsidies from
6 the budget to public enterprises, and that excessive
5 recourse to bank credit or foreign borrowing by these
4 enterprises will not take place.

cc
Dr. Silva Lope
Governor
Bank of Portug
Lisbon, Portug

3 During the visit of your delegation to Washington, we
2 began to explore other methods of improving administrative
1 control over public sector expenditures. Some of these | C

Distribution
cc Mr. Dini
Room 13-
30

MESSAGE MUST END HERE

Drafted by: P. de Fontenay
Department: European
Date: May 1, 1979

P. de Fontenay
NAME (TYPE)
NAME (TYPE)

P. de Fontenay
SIGNATURE
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FOR CABLE ROOM USE ONLY

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Special Instructions

18 would be designed to provide assurance that actual
 17 expenditures do not exceed appropriations; others should be
 16 viewed as part of a longer term effort to bring autonomous
 15 funds and services under the same public accounting rules
 14 as the state budget operations. We fully realize this is a
 13 technically, as well as politically, difficult area and we
 12 shall need your advice on the types of measures that are
 11 most needed and can be introduced in the immediate or near
 10 future. These measures would be featured in the letter of
 9 intent for the stand-by arrangement.

Distribution

8 Our work in Lisbon would be greatly facilitated if,
 7 prior to our arrival, information could be gathered on
 6 public enterprises, in particular their current financial
 5 position, their likely position after the implementation
 4 of the intended administered price increases and their
 3 investment plans and their domestic and foreign borrowing
 2 requirements. We would also like to have projections of
 1 receipts and expenditures for the Fundo de Abastecimento /C

MESSAGE MUST END HERE

Drafted by: _____
Department: _____
Date: _____

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Special Instructions

based on the recent decisions on the prices of the "basket" and on the increase in the price of gasoline and other oil products which is being envisaged. Finally, we think it would be useful to examine in some detail the recent evolution of expenditures for health services and the prospects for a slowing down of their rate of growth.

We hope that during our visit we can agree on the appropriate expansion of bank credit in Portugal and its allocation to the public sector and public enterprises, as well as on the other main features of the program, so that the stand-by arrangement could be finalized shortly after Parliament has passed the budget law and the administered price increases have been implemented.

Respectfully yours,

P. de Fontenay

INTERFUND

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P. de Fontenay

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The Deputy Managing Director

April 27, 1979

L. A. Whittome

Portugal

I attach a copy of a letter which you sent to Mr. Cross on the conclusion of the discussions with Portugal. As you will notice in this case we managed to avoid most of the difficulties by waiting until agreement had been reached on the staff level. I also attach a copy of a letter sent by the Managing Director to Mr. Cross in which we gave some assessment of performance under the stand-by. Both letters were written in response to a U.S. request for a piece of paper that would formally fulfill their undertaking not to release money until firstly an agreement had been reached with the Fund and, later, it could be said that the agreement was being observed.

Attachments



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

DEPUTY MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

May 8, 1978

Dear Mr. Cross:

At the request of the authorities of Portugal I am pleased to inform you that understandings have recently been reached with the authorities of Portugal on the policies and measures for a stabilization program for Portugal. These policies and measures have been set forth in a letter of intent that has been signed by the Minister of Finance and Planning and the Governor of the Banco do Portugal and has been dispatched to the Fund. The management of the Fund will recommend that the Executive Board support the program set forth in that letter by granting Portugal a stand-by arrangement in the second credit tranche. Accordingly, I am able to notify you formally at this time that the discussions that the staff of the International Monetary Fund held with the authorities of Portugal regarding a stabilization program by Portugal that I believe the International Monetary Fund can support with a stand-by arrangement in the second credit tranche have been successfully concluded.

Sincerely yours,

A handwritten signature in cursive script that reads "William B. Dale".

William B. Dale
Acting Managing Director

Mr. Sam Y. Cross
U.S. Executive Director
International Monetary Fund
Washington, D.C. 20431

September 28, 1978

Sir:

This letter responds to your request for information regarding Portuguese progress under the stand-by arrangement agreed for the period April 1978 to March 1979. At this early point it appears that the external objectives of the program may be in the process of being met. The increase in the net foreign liabilities of the banking system was below the ceiling set for end-June and all indications are that the increase to end-September will be well below the ceilings set for that month. The authorities have been depreciating the escudo at the agreed rate and are reducing restrictions on external trade and payments on schedule.

The ceilings on net domestic credit expansion and on public-sector recourse to bank credit were unfortunately exceeded in June. However, steps were taken in July and again in August with the objective of bringing the growth in the credit aggregates below the ceilings agreed for end-September.

Finally, we have agreed with the Portuguese to schedule Article IV consultation discussions for November of this year, in combination with the program review provided for in the stand-by arrangement.

Very truly yours,

J. de Larosière
Managing Director

cc: MD
DMD
EUR

The Honorable
Sam Y. Cross
U.S. Executive Director
International Monetary Fund



Office Memorandum

TO : Mr. Whitton *[Handwritten signature]*
FROM : P. de Fontenay
SUBJECT : Portugal

DATE: April 24, 1979

I told Dr. Silva Lopes that on the basis of his 'phone call of yesterday we were inclined to postpone the resumption of the negotiations until after the decision to raise administered prices had been taken and implemented. I reminded him that at the end of our last visit this had been one of the main reasons given to adjourn the negotiations. I added that if negotiations were to resume at the end of May on the basis of a weak budget and insufficient price increases I could foresee long and difficult negotiations, since an entirely different type of program would have to be devised and even greater attention would have to be given to public enterprises in order to avoid another excessive credit squeeze on the private sector. Finally, I told Dr. Silva Lopes that we still hoped that, despite the delay of the price measures, the current discussions on the Government's budget proposal would move closer to the suggestions we had made during their visit to Washington, in which case we could still envisage coming on May 7. Dr. Silva Lopes said that he agreed and that he would call back on Monday or Tuesday to report on the progress made.



Office Memorandum

TO : The Managing Director
The Deputy Managing Director

FROM : L.A. Whittome (for L.A.W. ft)

SUBJECT : Portugal

DATE: April 23, 1979

At the last meeting with the full Portuguese delegation on Friday morning, I said that we agreed with them that last year's stabilization effort had led to a period of stagnation and that the program for the next stand-by should allow room for a recovery of the economy. The recovery, however, would have to be cautious, given the persistent high rate of inflation and the fragility of the improvement in the balance of payments. It was also desirable that it be led by exports and productive investment rather than by private and public consumption, in order to ensure that it would be sustainable. Their latest proposals on the budget were not consistent with an out-turn which we would regard as prudent for monetary expansion and we asked them to reduce the financing requirements of the overall public sector by Esc 10 billion. I also indicated that we continue to be concerned at the probability that the actual budget deficit might turn out to be larger than the agreed figure and that the next mission would need to explore how controls and procedures might be improved to deal with this problem. If agreement could be reached on credit policy and the budget, we were prepared to accept a further reduction in the monthly rate of depreciation of the escudo to 0.75 per cent and a 2 percentage points cut in interest rates.

We agreed that a staff team would visit Lisbon starting May 7 to try to reach an agreement on the main lines of a stand-by program in the second credit tranche, which would be finalized after Parliament had approved the new budget proposal, probably around the end of May. This morning, however, Dr. Silva Lopes called to say that upon his return to Lisbon he had found out that the decision to raise administered prices by 18 per cent, which had been presented to us as already taken, had in fact been postponed until after the vote on the budget. At the very least the delay will increase the budget deficit, and we now propose to postpone the mission until the budget has been passed and the price increases have taken place. We are telling them that we would be prepared to reconsider our position if we were to get some assurance that the current discussions will result in a budget proposal closer to our suggestions.

Fresh from their visit to the U.S. Treasury, the Portuguese also raised the question of their access to the Supplementary Financing Facility. Up to now we had suggested that the Supplementary Financing Facility could be linked to an Extended Fund Facility agreement, but they have apparently given up the hope that they might be in a position to negotiate an EFF in the fall, and next year's general elections may involve a further postponement. They asked, therefore, whether they could not apply for the SFF in connection with the stand-by which

was being negotiated. I explained that given that the SFF is to be used normally with programs of more than one year and that their external position was presently comfortable it seemed premature to consider a use of the SFF in the immediate future. I did, however, hold out the prospect that either at the time of the mid-term review of the stand-by in November or one year from now the position could well be such as to justify a use of the SFF.

cc: Mr. Ware

April 23, 1979

MEMORANDUM FOR THE FILES

Subject: Portugal

I told Mr. Dini where we now stood following Mr. Silva Lopes' telephone call. He was sympathetic.



L. A. Whittome

cc: Mr. de Fontenay
SED



Office Memorandum

TO : The Managing Director
The Deputy Managing Director

FROM : L.A. Whittome (for LAW
H)

SUBJECT : Portugal

DATE: April 23, 1979

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cc: Mr. Ware

PUBLIC SECTOR BUDGET

(In billions of Ecuador)

	1978 Outturn	1979		
		Proposed	A	B
<u>Current receipts</u>	210.8	279.9	276.7	272.7
Direct Taxes	103.1	136.3	135.2	131.2
Indirect Taxes	97.4	123.5	121.5	121.5
Other	10.3	20.1	20.0	20.0
<u>Current expenditures</u>	239.3	279.3	280.1	280.1
Goods and Services	111.8	136.3	136.1	136.1
Subsidies	30.9	31.8	32.8	32.8
Transfers	73.9	82.6	82.6	82.6
Interest on public debt	22.7	28.6	28.6	28.6
<u>Current balance</u>	-28.5	+0.6	-3.4	-7.4
Capital receipts	3.5	3.9	3.9	3.9
Capital expenditures	43.2	56.9	58.7	58.7
Net lending	11.1	16.0	16.0	16.0
<u>Overall balance</u>	-79.3	-68.4	-74.2	-78.2
Amortization of debt	5.9	11.7	11.7	11.7
<u>Financing needs</u>	85.2	80.1	85.9	89.9
Treasury operations (a)	-0.3	x	3.0	3.0
Less: repayments to banking system	-3.4	-5.5	-5.5	-5.5
<u>Total</u>	81.5	74.6	83.4	87.4
<u>Financing:</u>				
Domestic non bank borrowing	5.0	10.4	5.0	5.0
Foreign borrowing	26.3	3.7	18.7	18.7
Net credit from the banking system	50.2	60.5	59.7	63.7

(a) Including adjustment for complementary period and discrepancies.

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Portugal: Comparison of Monetary Programs for 1979

	Portuguese		IMF	
	Average	Through the year	Through the year	
			I	II
			<u>Per cent change</u>	
GDP (market prices)	3.0	6.0	3.0	4.0
GDP deflator	21.0	15.0	18.0	18.0
Velocity	-1.7	-2.5	--	--
December/December money stock	24.9	24.9	21.5	22.7
Average money stock	26.8	26.8	24.5	25.2
Domestic credit expansion as a percentage of initial M2	28.9	28.9	24.8	26.0
			<u>Change in billions of escudos</u>	
Net foreign assets		-10.1 <u>1/</u>	--	--
Net domestic credit		209.9	179.7	188.4
Public sector		63.7	47.2	53.0
Private sector		146.2	132.5	135.4
Money stock		181.2	156.2	164.9
Other items, net		18.5 <u>2/</u>	23.5 <u>3/</u>	23.5 <u>3/</u>

1/ Assumes US\$ 200 million increase in net foreign liabilities, and proposal B in Portuguese public sector budget table.

2/ Assumes no valuation adjustment in QI 1979 and rate of depreciation of 0.5 per cent per month after April 30, 1979.

3/ Assumes no valuation adjustment in QI 1979 and rate of depreciation of 1.0 per cent per month after April 30, 1979.

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MR. PATRICK DE FONTENAY

INTERFUND

WASHINGTON DC

I THANK YOU FOR YOUR TELEX OF TODAY. WE
ACCEPT WITH PLEASURE THE INVITATION OF THE MANAGING DIRECTOR
FOR LUNCH ON APRIL 19. I INTEND TO CONTACT YOU BY THE END OF
THIS WEEK ABOUT OUR PROPOSED VISIT TO WASHINGTON.

BEST REGARDS.

JOSE DA SILVA LOPES
GOVERNOR

INTERFUND WSH

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The Managing Director

April 18, 1979

L. A. Whittome

Visit of Portuguese Delegation

I attach a briefing paper covering the visit of the Portuguese delegation on April 19-20. Your first meeting with them will be at the lunch which you are giving in their honor on Thursday, April 19. That morning we will have our first of a series of meetings with them. On Thursday afternoon the senior members of their delegation will, according to our private sources, visit the U.S. Treasury. On Friday we resume talks.

Now that the Minister of Finance, Mr. Nunes, is no longer coming to Washington, the visit is regarded by them as providing an opportunity for an exchange of views prior to the resumption of negotiations on the new stand-by which can only be sensibly held once the new budget is passed. This visit, therefore, should be regarded as a "pre-negotiating occasion". For our part, we would very much like to concentrate on the public sector finances where the main weakness now lies. We also have some serious differences of view as to the permissible expansion of domestic credit to the private sector. The other points at issue are less likely to pose real problems.

At the lunch, therefore, you may wish to touch on political developments and prospects and, as far as our discussions with them are concerned, concentrate primarily on the need for a tight fiscal policy and for the introduction of procedures which will provide some assurance that budget estimates are adhered to (so far, a weakness as serious as the weakness of fiscal policy itself). Depending on the outcome of the staff discussions, we are leaving open the possibility of a further meeting with you on Friday afternoon.

cc: The Deputy Managing Director
Mr. Ware
Mr. de Fontenay
SED

Portugal - Briefing Paper for the Managing Director

1. Introduction

A Portuguese delegation consisting of Dr. Jose da Silva Lopes, Governor of the Bank of Portugal, Dr. Vitor Constancio, Deputy Governor, Dr. Anibal Cavaco Silva, Director of Research of the Bank of Portugal, and Dr. Chen Goncalves, Director of Research of the Ministry of Finance, is coming to the Fund on April 19 and 20, in connection with the current discussions on a stand-by arrangement. Silva Lopes has no political affiliation, but he was Minister of Finance in the short-lived Government of Nobre da Costa last year. He has been courteous and often sympathetic in dealing with us. Constancio is an important figure in the socialist party. He was Minister of Finance in the second Soares Government and the last stand-by was largely negotiated with him. He was also until recently in charge of the negotiations with the EC. He is a well trained economist but tends to be somewhat mercurial and can dominate the proceedings on their side.

2. Portugal's relations with the Fund

Negotiations on a new stand-by arrangement in the second credit tranche, which took place in Lisbon in February-March, were suspended until Parliament had voted on the budget, prices and rates charged by public enterprises had been raised, and the Government had disclosed its proposal on the implementation of the new revenue-sharing legislation. The position taken by the staff team is summed up in the attached letter to the Minister of Finance.

The current second tranche stand-by arrangement with Portugal, under which no drawings have been made, runs out in June. The Fund's holdings of escudos are equivalent to SDR 172.3 million compared with a quota of SDR 172 million. These holdings include SDR 0.9 million resulting from the third distribution of gold and Portugal has thus all its credit tranche position available to it.

The Portuguese have told us that they need to reach an agreement with us in order to be able to continue borrowing in the international capital markets, and up to now the discussions have focused on an arrangement which would include the second credit tranche. They have inquired about the SFF and a third credit tranche but they have so far agreed that their borrowing needs will grow in the coming years as a result of their debt repayment obligations and their investment program and that it would thus be preferable to link the SFF to a future EFF program. The Portuguese and we had hoped that the latter could be negotiated this fall, but it is now unlikely that they can meet such a timetable.

3. Recent developments

The 1979 budget and economic plan, as well as the proposed 18 per cent ceiling on wage increases in 1979, were narrowly defeated in Parliament on March 22. The Government stayed in office, however, and it has already sent back the wage ceiling to Parliament and intends to resubmit its budget with little change. The recent split of the Social Democrat party, which abstained on the budget, is said to improve the chances of passage of the Government's proposals. Nevertheless, the position of the present Government, made up of lawyers and technocrats appointed by President Eanes, without support from any of the political parties, remains weak and is likely to grow weaker as the general elections, scheduled for early 1980, come closer.

In the early months of 1979, inflation remains a serious problem while there is no reason to expect that the economic downturn which occurred in the third quarter of 1978 has been reversed. The surge in inflation to 25 per cent at end-1978 had been attributed to some administered price increases late in the year and some moderation from this rate of inflation was anticipated.

It did occur in January, but consumer prices rose by almost 2 per cent in February and prices were once again 25 per cent above year earlier levels. The recent decision to raise by 18 per cent the prices of some basic staples, and the expected increase in public utility rates will push up prices further. On the external side, the monetary authorities have been intervening recently in the foreign exchange market more heavily than in the same period in 1978. Official holdings of foreign exchange declined by US\$170 million to US\$665 million between end-December 1978 and end-March 1979.

4. Main issues for discussion

For the Portuguese, the purpose of the visit is said not to be to resume negotiations on a stand-by arrangement but to exchange views on recent developments and prospects and to seek guidelines on the policies to be followed by Portugal in the months ahead, particularly with regard to the exchange rate, interest rates, credit policy, and public finance. The discussion will, nevertheless, be very material to any new stand-by program. We have arranged that the Portuguese delegation should meet primarily with the staff team which has handled the current negotiations, but the delegation will also want to hear your views. At lunch on Thursday you may want to support the position taken by the staff so far, viz. that credit policy must remain prudent, in view of the continued inflationary pressures and large current account deficits, and that steps must be initiated immediately to bring public sector expenditure under control. If we are satisfied with the commitments on these two points, we could then agree to a further reduction in the rate of depreciation of the exchange rate and to a small cut in interest rates. We would like to leave open the possibility of a meeting with you on Friday afternoon if this should appear necessary in the light of our discussions.

The Portuguese have agreed that the stand-by program should aim at a further reduction in the deficit on the current account of the balance of payments. We have insisted on a maximum of US\$800 million (v. US\$950 million in 1978); they prefer US\$850 million (Table 1). The difference is insignificant, but what is important is that the outturn should not be worse than that recorded in 1978. For the stand-by program we have projected an overall balance of payments deficit, including government compensatory borrowing, roughly the same as last year's (US\$300 million). The Portuguese believe that their current account target is consistent with a 3 per cent rate of growth of real GDP in 1979 (implying a rate of growth of about 6 per cent in through-the-year terms). We have many doubts on this and suspect that it is not reconcilable with a rate of growth of more than 4 per cent during the year (2 per cent on average) (Table 2).

The Portuguese authorities are concerned at the high rate of inflation and are determined to prevent a further decline in real wages (which in 1978 fell to 13 per cent below the 1975 level 1/ and were only 7 per cent above the 1973 level). They believe the proposed 18 per cent wage ceiling can only be approved by Parliament and respected by the unions if it becomes more apparent that the inflation rate will also be brought down to 18 per cent during 1979. For this they look mainly to a reduction in the monthly rate of depreciation of the effective exchange rate from 1.25 per cent up to end-March 1979 to a proposed 0.50 per cent thereafter.

We have argued against using the exchange rate mainly to reduce inflation and suggested that a reduction in the rate of depreciation could be acceptable provided financial policies were restrictive enough to make the

1/ The postrevolutionary wage explosion of 1974-75 raised real wages by 23 per cent.

new exchange rate policy viable. Meanwhile the Portuguese have taken advantage of the fact that their commitment to the Fund on the exchange rate ran out at the end of March to reduce the monthly rate of depreciation for April to 1 per cent. We were told that this was subject to discussion with us and the change in policy has not been officially announced.

We agree that, at its present level, the effective exchange rate for the escudo is very competitive (see attached Chart). This is appropriate given the balance of payments deficit and domestic unemployment, but there is no need to increase the undervaluation, inasmuch as capacity limits are being approached in the export industries and have already been reached in the tourism sector. The differential between the rate of increase of wages in Portugal and in its main trading partners is about 9 per cent (0.75 per cent a month). While we have no difficulty in accepting a reduction in the rate of depreciation to 1 per cent now, there would be some advantage in postponing a further reduction to 0.75 per cent until we get a firm commitment on the stance of credit policy and on public finance.

Credit policy remains an important area of disagreement with the Portuguese who want to reflate the economy with easier credit. We agree that something must be done to promote a recovery of economic activity, but we believe that it would be dangerous, given the present rate of inflation and the balance of payments deficit, to have a major relaxation of credit policy. A rate of increase of M2 of about 23 per cent during 1979, implying a credit expansion of 26.5 per cent (as a percentage of initial money stock) seems to be the maximum acceptable (Table 3). The Portuguese proposal (of a 31.2 per cent increase in credit) assumes a significant decline in the income velocity of money. On interest rates, we could accept the Portuguese proposal of a

2 percentage points reduction and perhaps a further cut in six months if the rate of inflation decelerates. So long as the reduction in the annual rate of depreciation is larger than that in interest rates, there would be no incentive to capital outflows.

An improvement in public finance should be the main contribution of the next stand-by and it must be made clear to the Portuguese: (1) that there is a maximum increase in credit to the public sector which would be regarded as acceptable to us and (2) that we must have some guarantee that, in contrast with the two previous stand-bys, this subceiling will not be exceeded. There is a need for a major administrative reform, a tax reform, and as far as the public enterprises are concerned, changes in labor legislation. These will obviously take time. In the meantime, it is important to make a start now by putting in place measures of expenditure control. We have suggested a hiring freeze in the public sector but we would like to supplement this with other measures such as quarterly budget reviews and monthly cash limits on public spending.

As far as the public sector deficit is concerned, the defeat of the budget puts the goal of eliminating the Government's current deficit and of reducing the overall deficit to Esc. 75 billion or less than 8 per cent of GDP (v. 10.7 per cent in 1978) in jeopardy (Table 4). We should, however, continue to press for an overall deficit below last year's Esc. 84 billion (v. Esc. 47 billion in 1977); otherwise the burden of adjustment will again fall entirely on the private sector. An overall deficit of Esc. 80 billion, of which the banking system would finance about Esc. 50 billion, would be bare¹ acceptable. If this target is impossible to achieve due to the unpopularity of certain tax measures included in the recently defeated budget

proposal, we would have to press for restraint on government expenditures, even investment expenditures, if necessary, as a means of reducing the deficit in the short run. We have warned the Portuguese that we would prefer putting the public enterprises under the public sector subceiling but we may, in the end, have to settle for an indicative ceiling. We shall, however, insist that price measures be taken to make the reduction in subsidies as shown in the budget realistic. We also want to review the investment program of the public enterprise sector to check its consistency with the macroeconomic projections.

On restrictions, we do not anticipate major difficulties in reaching an agreement. We shall continue to press for the elimination of the 30 per cent import surcharge on October 1 and for initiating a progressive reduction in the 60 per cent import surcharge (which affects about 2 per cent of imports) and quantitative restrictions.

Table 1. Portugal: Balance of Payments 1977-79

(In millions of U.S. dollars) 1/

	1977 Estimate	1978	1979 Projection
Exports of goods and services	2,890	3,513	4,165
Unit value		6	8
Volume		15	10
Imports of goods and services	5,344	5,713	6,340
Unit value		6	9
Volume		1	2
Balance of trade and non-factor services	-2,454	-2,200	-2,175
Investment income	-179	-327	-415
Private transfers	<u>1,134</u>	<u>1,585</u>	<u>1,790</u>
Current account	-1,499 (9)	-942 (5)	-800 (4)
Capital movements			
Medium-term and long-term capital, net	95	739	600
Of which:			
Government compensatory borrowing	(--)	(450)	(300)
Short-term and errors and omissions	<u>-33</u>	<u>356</u>	<u>200</u>
Balance on nonmonetary transactions	<u>-1,437</u>	<u>153</u>	<u>--</u>
Overall balance, including government compensatory borrowing	-1,437	-297	-300
Memorandum item:			
Growth in foreign markets	3.3	4.8	5.2

Sources: Data provided by the Portuguese authorities; and staff estimates.

1/ Numbers in parentheses are percentages of GDP.

Table 2. Portugal: Balance of Payments 1977-79

(In millions of U.S. dollars) 1/

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<u>Memorandum item:</u>			
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Sources: Data provided by the Portuguese authorities; and staff estimates.

1/ Numbers in parentheses are percentages of GDP.

4/17/79

Table 3. Portugal: Comparison of Monetary Projections

	1978		1979		
	Average	Through the year <u>1/</u>	Portuguese proposal	Through the Year	
				I <u>2/</u>	II <u>3/</u>
	<u>Per cent change</u>				
GDP (market prices)	3.2	--	6.0	3.0	4.0
GDP deflator	21.4	25.0	14.0	18.0	18.0
Velocity	-0.6	-2.6	-4.5	--	--
Average money stock	26.0	26.0	27.3	24.5	25.2
December/December money stock	28.3	28.3	26.4	21.5	22.7
Domestic credit expansion as a percentage of initial money stock, end-period	30.3	30.3	31.2	25.2	26.4
	<u>Change in billions of escudos</u>				
Net foreign assets <u>4/</u>		15.2	-14.7 <u>5/</u>	--	--
Net domestic credit		172.0	233.8	183.6	192.4
Public sector		48.7	60.0	47.2	53.0
Private sector		123.3 <u>6/</u>	173.8	136.4	139.4
Money stock		160.7	198.7	156.5	165.3
Other items, net		26.5	20.4	27.1	27.1

Sources: Data provided by the Portuguese authorities; and staff estimates.

1/ Estimated.

2/ Program as presented to Portuguese.

3/ Maximum acceptable.

4/ Including effect of counting special compensatory borrowing by the Central Government as an above-the-line capital inflow.

5/ The Portuguese have indicated that the Central Government may increase its net foreign borrowing in 1979 by US\$300 million or Esc 15 billion. To the extent that such borrowing actually takes place, the net foreign assets of the banking system could show no change, while domestic credit to the public sector could be reduced to Esc 45 billion.

6/ Including credit to public enterprises estimated at Esc 42.2 billion during 1978.

Table 4. Portugal: Public Sector Finances, 1977-79 1/(In billions of escudos) 2/

	1977 <u>3/</u>	1978		1979	
		Budget forecast	Outturn <u>3/</u>	Budget forecast	IMF <u>4/</u> alternative
Current receipts	<u>173.6</u>	<u>225.9</u>	<u>210.5</u>	<u>279.9</u>	<u>271.0</u>
Direct taxes and con- tributions to social security	80.5	107.2	103.0	136.3	127.4
Indirect taxes	82.1	106.3	97.4	123.5	123.5
Other	11.0	12.4	10.1	20.1	20.1
Current expenditures	<u>182.1</u>	<u>222.6</u>	<u>238.7</u>	<u>279.3</u>	<u>276.0</u>
Goods and services	87.0	105.8	112.4	136.3	133.0
Subsidies	21.7	28.3	30.5	31.8	31.8
Transfers	61.9	63.5	73.1	82.6	82.6
Interest payments	<u>11.5</u>	<u>25.0</u>	<u>22.7</u>	<u>28.6</u>	<u>28.6</u>
Current balance	-8.5 (-1.4)	3.3 (0.4)	-28.2 (-3.6)	0.6 (0.1)	-5.0 (-0.5)
Capital receipts	5.3	3.7	3.4	3.9	3.9
Capital expenditures	<u>41.9</u>	<u>54.6</u>	<u>55.1</u>	<u>74.6</u>	<u>74.6</u>
Investment and transfers	39.8	42.6	43.7	56.9	56.9
Net lending <u>5/</u>	<u>2.1</u>	<u>12.0</u>	<u>11.4</u>	<u>17.7</u>	<u>17.7</u>
Capital balance	-36.6	-50.9	-51.7	-70.7	-70.7
Other Treasury opera- tions, net	<u>-2.1</u>	<u>-6.0</u>	<u>-4.1</u>	<u>-3.6</u>	<u>-3.6</u>
Overall balance	-47.2 (-7.5)	-53.6 (-6.9)	-84.0 (-10.7)	-73.7 (-7.7)	-79.3 (-8.3)
<u>Memorandum items:</u>					
Bank credit to pub- lic sector	47.8	37.0	48.7	47.2	53.0
Bank credit to Pro- ductive sector	138.1	104.7	123.3	145.2	139.4

Sources: Data provided by the Portuguese authorities; and staff estimates.

1/ The public sector is defined to include the central government autonomous funds and services, plus the local authorities and the social security system, but excluding public enterprises.

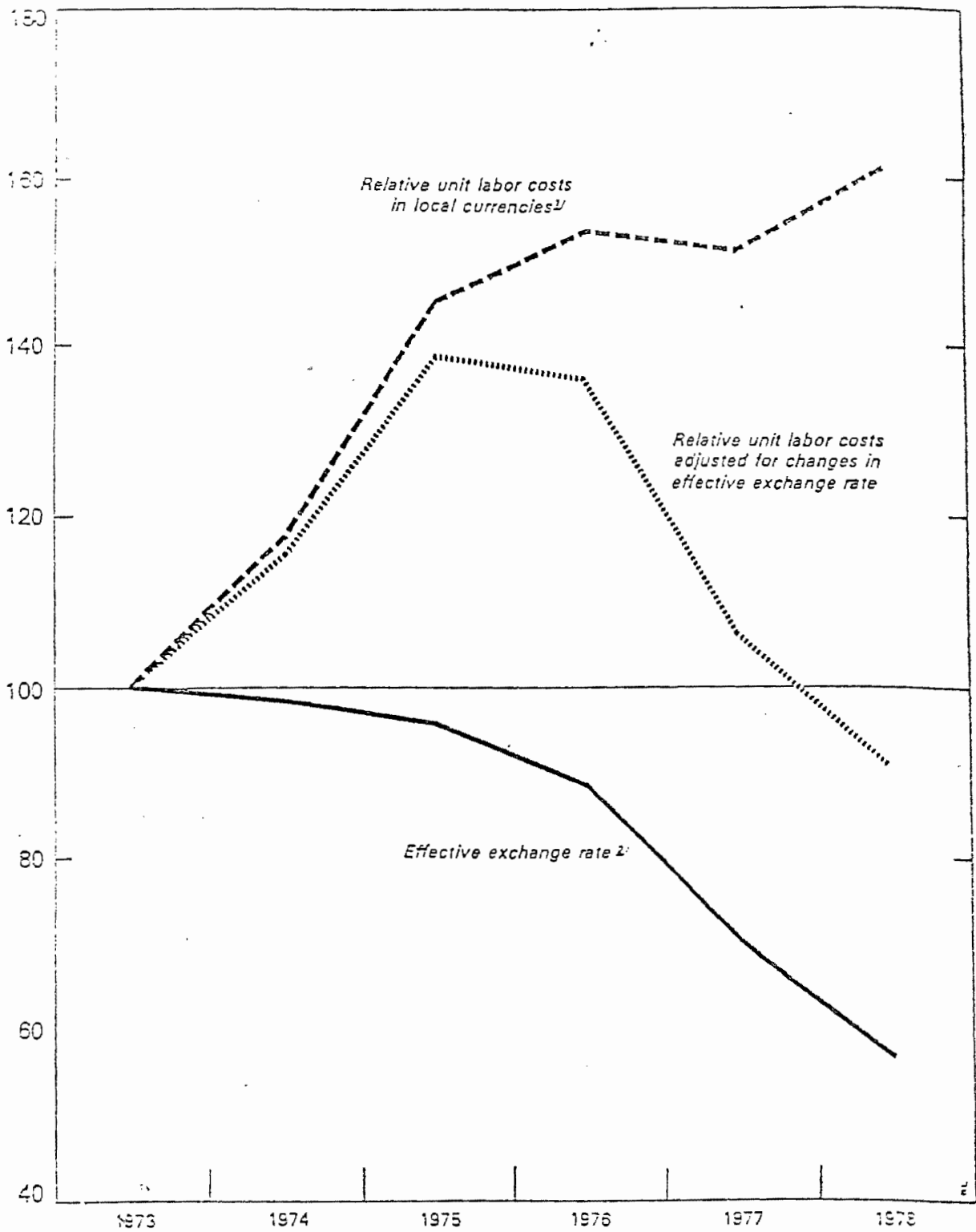
2/ Numbers in parentheses are per cent of GDP at market prices.

3/ Provisional.

4/ Maximum acceptable deficit.

5/ Net lending by the central administration to the productive sector.

CHART
 PORTUGAL
 RELATIVE UNIT LABOR COSTS 1973-78
 (Annual data; 1973=100)



Source: Data provided by the Portuguese authorities and staff estimates.
 — Annual wages in manufacturing.
 - - - Annual average.

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

SECRET

Telex
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Full Rate
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TIME RECEIVED APR 10 15 1-24

ADDRESSES

Dr. Oten Goncalves
Ministry of Finance
Lisbon, Portugal

Special Instructions

18 Dr. Goncalves,

17 On the occasion of your visit we should like to raise

16 with you the following questions related to budget

15 procedures and expenditure control.

14 1. In the last two or three years, the budget document

13 contained a much abbreviated listing of expenditure, showing

12 appropriations by ministries. Please explain on what level

11 of detail expenditures are approved by Parliament. Is it

10 up to the Ministry of Finance or the spending ministries to

9 allocate expenditure by directorate or functional expenditure

8 categories?

7 2. What is the basis of parliamentary appropriations

6 and/or executive branch allocations (cash, obligations,

5 other)?

4 3. Please describe the major steps of the process of

3 budget formulation (budget circulars, agency requests,

2 consolidation by the budget office) and the responsibilities

1

Distribution
cc Mr. Dini
Room - 13 300

EUR

MESSAGE MUST END HERE

Drafted by: _____
Department: _____
Date: _____

NAME	(TYPE)	SIGNATURE
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No. of words: 11 min. Log: 459357 Route: ITT Operator: JJ

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INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Night Letter
Full Rate
Code

TIME RECEIVED

ADDRESS

Special Instructions

- 2 -

18 of the offices involved. What techniques are used in the
 17 formulation and justification of requests, and in the
 16 process of trimming down excessive requests?
 15 4. How are budget appropriations handed down by the
 14 Paymaster General to the ministerial paymasters (monthly
 13 or annual allocations, globally or by budget lines, in the
 12 form of authority to obligate or to make payments)
 11 5. Does the Paymaster General apply any means of cash
 10 management with regard to allocations to spending
 9 ministries? In particular, are such allocations timed or
 8 curtailed to correspond to the anticipated inflow of
 7 revenue or the availability of temporary Treasury financing?
 6 6. Are the spending ministries entirely free to use
 5 their allocations or do they need general prior clearance
 4 or approval of individual transactions from the Ministry
 3 of Finance for some or all types of expenditures?
 2 7. Who is responsible for financial management within

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Drafted by: _____
Department: _____
Date: _____

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INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Special Instructions

- 3 -

18 the spending ministries? How does the Ministry of Finance
 17 assure that expenditure patterns are in line with the
 16 budget?
 15 8. How are supplementary estimates and requests
 14 processed? How does the Ministry of Finance or the spending
 13 ministry assure that at the end of the budget year
 12 sufficient funds remain for essential expenditure such as
 11 civil service salaries?
 10 9. To what extent and in which way do the budgetary
 9 and accounting procedures for the autonomous funds and
 8 services deviate from those of the spending ministries?
 7 10. To whom, in what detail, and with what delay, do
 6 spending ministries and autonomous funds and services,
 5 submit their accounts for ex post approval and auditing?
 4 In what way is the Paymaster General informed of the
 3 spending performance and the availability of cash balances
 2 of the ministries?
 1

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MESSAGE MUST END HERE

Drafted by: _____
Department: _____
Date: _____

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INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Special Instructions

18 — 11. Briefly discuss the mechanisms of expenditure
17 control in place in the various stages (commitments,
16 obligations, payments) and with regard to various offices
15 to the extent that the question has not already been
14 answered above.

13 — 12. Expenditure data prepared by the Ministry of
12 finance appear to be compiled on a national accounts basis.
11 In what way do these data deviate from cash payments and
10 obligations? To what extent are data on the latter basis
9 available?

Distribution

8 — 13. What operations may be carried out during the
7 complementary period (new commitments or obligations or
6 payments for previously committed expenditure)?

5 — 14. Do appropriations lapse at the end of the fiscal
4 year and are there any differences in this regard between
3 spending ministries and autonomous funds or services?

2 — We would also appreciate receiving the figures on
1

MESSAGE MUST END HERE

Drafted by: _____
Department: _____
Date: _____

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INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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TIME RECEIVED

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Special Instructions

- 5 -

18 requested for 1978 showing the detailed breakdown of
17 capital transfers to public enterprises and of subsidies
16 as well as state guarantees for domestic borrowing.
15 Many thanks and best regards
14 Patrick de Fontenay
13 Interfund

Distribution

MESSAGE MUST END HERE

Drafted by: Patrick de Fontenay -bth
Department: EUR
Date: April 10, 1979

Patrick de Fontenay
NAME (TYPE)
Patrick de Fontenay
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INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

TELETYPE SERVICE

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ADDRESSES

Dr. Silva Lopes
Bank of Portugal
Lisbon, Portugal

Special Instructions

Handwritten mark

We shall expect you and your delegation on April 19th and 20th and the Managing Director would like to invite you to lunch on April 19.
With best regards.
P. de Fontenay
INTERFUND

Distribution

MESSAGE MUST END HERE

Drafted by: P. de Fontenay
Department: European
Date: April 6, 1979

P. de Fontenay
NAME (TYPE)
NAME (TYPE)

Handwritten signature: P. de Fontenay

SIGNATURE
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No. of words:

Log:

Route:

Operator:

Mr Pfeifer
Pf

April 5, 1979

4

MEMORANDUM FOR FILES

Subject: Portugal

As he had promised Dr. Silva Lopes called back to propose that he, Dr. Constancio, Deputy Governor, Dr. Cavaco Silva and Dr. Ohen Goncalves come to Washington after Easter. He asked whether I thought that two days would be enough for their visit and I replied that it seemed that it should be sufficient. Dr. Silva Lopes then suggested that instead of coming on the 17th they would prefer to come on the 19th and 20th. He added that they did not expect during this visit to conduct actual negotiations but to discuss recent developments as well as policies to be put in place in the coming months. I told Dr. Silva Lopes that I would check whether the Managing Director could see them on either the 19th or 20th and would cable the answer.

Dr. Silva Lopes thought that the new budget could be passed within a month, although this could be somewhat optimistic. This means that it would be ready to be sent to Parliament within 2-3 weeks. However, the political situation was quite volatile and might interfere with the timetable. As regards the import surcharge, Dr. Silva Lopes said that the decree law reducing it to 10 per cent had been signed and that some import duties had been raised to offset some of the revenue effects of the reduction in the surcharge.

P. de Fontenay

cc: Mr. Pfeifer ✓
Mr. Rose
Mr. Finch/Mr. Osunsade
SED

Mr. Pfeifer
PF

April 4, 1979

MEMORANDUM TO FILES:

Subject: Portugal

I spoke to Dr. Silva Lopes about, (i) their prospective visit, (ii) the change in exchange rate policy mentioned to Mr. Dini, and (iii) the current status of the import surcharge which, under the current stand-by arrangement, should have been reduced from 20 to 10 per cent as of April 1.

I told Dr. Silva Lopes that we continued to believe that it would be useful if at least he himself would come to Washington after Easter to discuss the policies to be put in place in the coming months, particularly those dealing with the exchange rate, interest rates, credit and prices of public enterprises. I added that we still regarded the public sector as the main problem to be dealt with in the next stand-by and that we would like to elaborate on the recommendations we made in Lisbon and to suggest that some of the measures we would recommend be taken as soon as possible. Dr. Silva Lopes answered he intended to meet with the Minister of Finance tomorrow and that they would decide whether they would be coming to Washington on the agreed date and who would be coming. He saw some difficulty in discussing public finance without the presence of the Minister himself. I said that one alternative they might keep in mind would be, if the Governor came alone, that we could ourselves come to Lisbon to discuss the budget and the general question of control over the public sector expenditures.

On the exchange rate I told the Governor that under Article IV a change in the exchange rate policy should be notified to the Fund and that while we could regard his conversation with Mr. Dini as notification, the information given to us by Mr. Dini was clearly erroneous. Dr. Silva Lopes answered that they had decided to reduce the rate of depreciation for April from 1.25 to 1 per cent. He had not notified the Fund because this was viewed as a provisional change subject to modification after discussions with us and which had not been announced officially.

As regards the import surcharge, Dr. Silva Lopes said that he was not sure what the situation was but that he had not seen any decree reducing it to 10 per cent. He recalled that during the February discussions with us the Portuguese had requested an extension of the surcharge beyond the dates agreed in the 1978 stand-by. I answered that we had then indicated that it would be unfortunate if their commitment regarding the surcharge was not respected, at least as far as the April 1st reduction was concerned. Dr. Silva Lopes said that he would inquire about the Government's intentions on the surcharge.

Finally, Dr. Silva Lopes said that he would call me tomorrow to report on his discussions with the Minister on a visit to Washington and give us some information on the import surcharge as well as on the prospects for wage rates, following yesterday's rejection by Parliament of the 18 per cent ceiling on wage increases, as well as on the Government's intentions regarding price adjustments for public enterprises and utilities.

P. de Fontenay

cc: Mr. Pfeifer ✓
Mr. Rose
Mr. Finch/Mr. Osunsade
SED

SECRET

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

DISPATCHED
379 APR -2 PM 5:53
TIME RECEIVED

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Mr. L. A. Whittome
Eden Hotel
Via Ludovisi
Rome, Italy

Special Instructions

1. Patrick will be calling Silva Lopes Wednesday to discuss various possibilities and we will communicate further with you then.
2. While we think it unlikely that a visit by you would be the best move at this juncture this obviously remains one option.
Regards.

Distribution

Albin
Interfund

MESSAGE MUST END HERE

Drafted by: A. Pfeifer
Department: European
Date: April 2, 1979

A. Pfeifer
NAME (TYPE) SIGNATURE
NAME (TYPE) SIGNATURE

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No. of words: 2 min.

Log: 458167

Route: ITT

Operator: PD

248331 IMF UR

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248331 IMF URH

610567 EDENRM I 1979 APR -2 PM 12: 34

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MR. A. PFEIFER

EUROPEAN DEPARTMENT

I M F

1. IF YOU YOURSELVES AND SILVIA LOPES BELIEVE THAT A VISIT TO LISBON BY PATRICK AND MYSELF WOULD BE POSITIVELY USEFUL THEN I COULD ARRIVE IN LISBON ON TUESDAY, APRIL 10 AT 2130 BY SA 265.

2. I WOULD LIKE TO LEAVE LISBON ON WEDNESDAY, APRIL 11 AT 1400, BUT THIS IS PROBABLY IMPOSSIBLE IN WHICH CASE I WOULD NEED TO LEAVE ON THURSDAY, APRIL 12 AT 1100.

3. HANS ADVISES THAT A VISIT WOULD BE AN APPRECIATED GESTURE.

REGARDS

ALAN

EDEN HOTEL

ROME

U

610567 EDENRM I

248331 IMF UR.....

Reply via RCA: call 212-248-7000

RCA

Reply via RCA: call 212-248-7000

RCA

Reply via RCA: call 212-248-7000

RCA Global Telegram

Mr. Pfeifer
R

March 30, 1979

MEMORANDUM FOR FILES

Subject: Portugal

Mr. Dini called me to say that he had spoken to Dr. Silva Lopes about the current situation, following the rejection of the 1979 budget and economic plan by Parliament and whether the Minister of Finance was likely to come to Washington on the scheduled date. Dr. Silva Lopes said that this was still uncertain. He confirmed that it might take as long as two months to present a new budget and plan to Parliament. He had himself proposed to the Minister that he might come to Washington to report on the present situation but the Minister had not yet given an answer. He felt that it would be difficult to have a visit by the whole delegation which was due to come on April 17 since the Portuguese were not in a position to present a program.

I told Mr. Dini that we would try to decide among ourselves whether it might still be useful for the Portuguese to come to Washington and go back with firm proposals to present to Parliament. Mr. Dini agreed that this could be a useful approach and suggested that I call Dr. Silva Lopes before Friday April 6 since the decision on whether they would come to Washington would be taken on April 10.

Mr. Dini said that Dr. Silva Lopes had told him that they had decided to modify their exchange rate policy starting on Monday April 2 when they are no longer bound by their commitment under the 1978 stand-by. They had decided to reduce the rate of depreciation from 1.5 per cent a month (18 per cent per annum) to 1.25 per cent. I told Mr. Dini that there must have been an error in the transmission since the current rate of depreciation is already 1.25 per cent per month. This point will obviously need to be cleared up.

P. de Fontenay

cc: Mr. Pfeifer ✓
Mr. Rose
SED

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

Telex
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Full Rate
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Special Instructions

~~Dr. Manuel Jacinto Nunes~~
~~Minister of Finance and Planning~~
~~Ministry of Finance~~
~~Lisbon, Portugal~~

18 We are glad that it will be possible for you to visit
17 the Fund beginning on April 17. Mr. de Larosiere would
16 like to extend to you and your party an invitation to
15 lunch on April 17. We should be at your disposal for
14 discussion on the 17th and on subsequent days.

13 With best regards.

12 Whitton
11 Interfund

Distribution

MESSAGE MUST END HERE

Drafted by: P. de Fontenay
Department: European
Date: March 20, 1979

L. A. Whitton
NAME (TYPE)

[Signature]
SIGNATURE

NAME (TYPE)

SIGNATURE

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No. of words: 2Mins

Log: 456341

Route: ITT

Operator: PD

INTERNATIONAL MONETARY FUND

March 19, 1979

Mr. Ware:

○ re: Portuguese Visitors

Mr. Whittome would like to know please if the Managing Director could invite the people mentioned in the attached cable to lunch on April 17 or 18.

○
○
L. A. Whittome

cc: m. u. Ware.

370617

RECEIVED I.A.F.

1979 MAR 19 PM 1:02

CABLE ROOM

*Aldill, PR deal if MD commitments
them to land a 17/18th.*

MW

MR. L. WHITTOME
DIRECTOR EUROPEAN DEPARTMENT
INTERFUND
WASHINGTONDC

THANK YOU VERY MUCH FOR YOUR TELEX OF MARCH 9. GIVEN THE DIFFICULTIES IN ORGANIZING MY VISIT TO THE FUND DURING THE FIRST HALF OF APRIL I WOULD SUGGEST THAT THIS VISIT BEGINS ON APRIL 17. IN PRINCIPLE I WILL BE ACCOMPANIED BY MESSERS J. SILVA LOPES, VICTOR CONSTANCIO, CAVACO SILVA AND OEHEN GON#ALVES.

BEST REGARDS

MANUEL JACINTO NUNES

MINISTER OF FINANCE AND PLANNING?"

⊕
INTERFUND WSH⊕
12143 MINFIN P

Western Union International, Inc.

Western Union International, Inc.

International Telex



Office Memorandum

Mr. Whitteme
3

cc: Area Dept Head
cc: DCs + HU

TO : The Managing Director
The Deputy Managing Director

FROM : P. de Fontenay *ff*

SUBJECT : Portugal - Use of Fund Resources

DATE: March 9, 1979

Negotiations with the Portuguese authorities on a new stand-by arrangement were suspended after four weeks at our request until some major uncertainties surrounding the 1979 budget had been removed (see below). Lack of progress on a number of key issues was another consideration. I was asked whether it would be helpful if the Vice Prime Minister and Minister of Finance, Dr. Nunes, came to Washington before negotiations resumed in Lisbon and I agreed that this could be a useful step. The Portuguese now intend to send to Washington a sizable delegation and suggested April 9 as a possible starting date, with discussions resuming in Lisbon on April 17. They are anxious to reach an agreement soon, not only in order to be able to continue borrowing in the international financial markets, but also because they need guidance on policies, particularly as regards the exchange rate.

It was clear from the start that while the mission had come to negotiate a stabilization program, the Portuguese were thinking in terms of a reflation program and we had to fight on all fronts to avoid a major relaxation of practically all the policies agreed in the 1978 stand-by program, particularly those dealing with the exchange rate, interest rates, credit and trade restrictions. The sense of urgency which existed last year, when the memory of the mid-1977 exchange crisis was still fresh, is largely gone and the ability of the present government to push through unpopular measures is limited at present and will vanish completely as the 1980 elections approach. Last year's stand-by program was agreed with a Socialist government, supported by the largest party in Parliament; by contrast the present government is only tolerated by the major parties out of a reluctance to bring about a government crisis and anticipated elections which would, under the Constitution, need to be repeated next year.

The Portuguese insisted that they needed a growth rate of 3.5 per cent in 1979 (implying close to 7 per cent growth through the year) and could not therefore reduce the current account deficit below last year's deficit of \$950 million (5 per cent of GDP). They also wanted to bring down the rate of increase of prices to 18 per cent (v. 22 per cent in 1978) by reducing the monthly rate of depreciation to 0.4 per cent in effective terms after March (from 1.25 per cent under the policy agreed with the Fund) and to lower interest rates by 2 percentage points now and another 2 points six months later. This strategy was, as it turned out, not just a negotiating stance but one which had been carefully prepared before it was adopted by the government and used as a basis for the macroeconomic projections presented with the budget. The commitment to a reduction in the rate of inflation was also made to assure Parliamentary approval of a statutory 18 per cent limit on wage increases (down from 20 per cent in 1978). The mission argued instead that a further reduction in the current account deficit to \$800 million (4 per cent of GDP) was



Office Memorandum

4

TO : The Managing Director
The Deputy Managing Director

FROM : P. de Fontenay

SUBJECT : Portugal - Use of Fund Resources

DATE: March 9, 1979

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required and that a growth rate of 3 per cent during 1979 (equivalent to about 2 per cent on average) was the maximum consistent with that target. A modest reduction in the rate of depreciation, and perhaps in interest rates, could only be decided in fine provided the financial policies agreed upon were sufficiently restrained to avoid the risk of a resurgence of inflationary pressures and exchange rate speculation. At a last meeting Dr. Nunes offered the following "concessions"; they accepted a current account target of \$850 million (having "discovered" that the inflow of private transfers in 1978 had been underestimated by \$40 million) and a rate of depreciation of 0.5 per cent a month. // X

In defense of the Portuguese position, it must be recognized that the economy has weakened markedly since mid-1978 as a result of the credit squeeze and high interest rates, and that the rate of growth is probably negative at present. Also, based on standard cost-price comparisons, the exchange rate appears undervalued and the competitive position of Portugal continues to improve, with wages rising by 18 per cent annually (v. 9 per cent on average in trade partner countries), while the effective rate of depreciation is now about 16 per cent in annual terms. The only moot point is how much undervaluation Portugal needs to achieve both growth (through exports and import substitution) and a reduction in the current account deficit. One important consideration is the emergence of capacity constraints in the export sector, and particularly in tourism, as a result of a lack of new investment in recent years. However, the Portuguese would have to be prepared to put into place the type of financial policies necessary to support a lower rate of depreciation. // X

On paper the figures in the 1979 budget are in line with the targets of eliminating the deficit of the public sector on current operations (which reached Esc 28 billion in 1978, equivalent to 4 per cent of GDP) and to reduce the overall financing deficit from Esc 84 billion (11 per cent of GDP) in 1978 to about Esc 70 billion (7 per cent of GDP) in 1979. On closer analysis, however, revenue projections appear optimistic, while the realism of some of the expenditure forecasts seems questionable. The mission was particularly concerned at the uncertainty surrounding three major problems, (i) the current budget is balanced only through the introduction of an Esc 16 billion "extraordinary tax" of which about Esc 10 billion would result from taking away more than half of the salaried workers' "13th month" pay. Even assuming passage of the measure, its implementation would seem doubtful in a pre-election climate; (ii) an Esc 6.5 billion reduction in subsidies to public enterprises is only feasible if measures are taken promptly to raise prices and rates charged by these enterprises; and (iii) there was no allowance in the budget for any effect of a new law on revenue-sharing with local authorities. This law, which could have a potentially disastrous effect on the budget would, if it is followed to the letter, transfer this year Esc 28 billion from the state to local authorities while discussions would be held to transfer also certain responsibilities from the state to the local governments. It was on the basis of these concerns that the mission suggested adjournment of the negotiations until the budget had been approved by Parliament, the price and cost measures introduced, and the situation had clarified regarding the impact of revenue-sharing. Meanwhile, the mission recommended an immediate hiring freeze, except for a limited number of priority services, to put an end to the large recent increases in the number of government employees, which threaten a repetition of the 1978 experience of personnel expenditures exceeding appropriations. The position taken by the mission was summed up in a letter sent to Dr. Nunes on March 5.

10 h

On credit policy, the Portuguese presented their counter-proposals only on the last day and positions were so far apart that it seemed pointless to prolong negotiations on that item. In private, they argued that they had had to restrict credit drastically after August last year in order to remain within the agreed ceiling but they recognized that it was largely the excessive expansion of credit to the public sector which had forced them to squeeze the private sector. Whether the public sector, including public enterprises, can be brought under control remains one of the main issues for this year's program. In the absence of administrative and tax reforms, and in the case of the public enterprises, of a reform of labor legislation, the ability of the government to abide by its commitment on credit to the public sector, which it failed to do in the two preceding stand-bys, remains very much in doubt.

The Portuguese inquired about the Supplementary Financing Facility but agreed that while their financing needs were manageable at present, they were expected to grow rapidly as a result of debt repayment obligations and could become a major problem by 1981-82. It therefore seemed preferable to link Portugal's use of the Supplementary Financing Facility to an Extended Fund Facility. There continues to be delays in the elaboration of a medium-term program, but the Portuguese still hoped that following the review of the public investment program by a World Bank mission in April, discussions on an Extended Fund Facility could take place in the fall of this year.

cc: Mr. Gold
Mr. Polak
Mr. Habermeier
Mr. Sturc
Mr. Whittome
Mr. Ware

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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~~Dr. Manuel Jacinto Nunes~~
~~Vice Prime Minister for Economic Affairs~~
~~Ministry of Finance~~
~~Lisbon, Portugal~~

Special Instructions

18 Fontenay has reported on his return. From our
17 point of view it would be much easier if you were able
16 to visit us on the 26th or 27th March. The first half
15 of April is a most difficult time and I and several
14 others will, of necessity, be away then. The Managing
13 Director would hope that you are able to come in March
12 you would lunch with him on either of these two days.
11 Alternatively if it were more convenient to you sometime
10 in the second half of April would also be suitable for
9 us. Please also let us know in due course if you will
8 be accompanied and, if so, by whom?

Distribution

7 With my best wishes,
6 Whittome

*Denis has said that
Portuguese want to
come second half of April*

MESSAGE MUST END HERE

Drafted by: LAWZbac
Department: European
Date: March 9, 1979

L.A. Whittome
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L.A. Whittome
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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Special Instructions

Mr. S. Mitra
c/o King David Hotel
Jerusalem, Israel

18 You will not be able to go on Italian mission but are
17 included in team scheduled to visit Portugal possibly
16 starting April seventeen.

15 006E

Distribution

MESSAGE MUST END HERE

Drafted by: Brian Rose/vrb
Department: EUR
Date: 3/8/79

Brian Rose
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NAME (TYPE) SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 2Mins Log: 454081 Route: WUI Operator: JH

original (typed note)
to Podet

Mr W. Britton

P de F

W

~~carefully (we will need a)~~
~~would we work hard for this~~
visit, which should be ready in good

March 5, 1978

time - 1/11/78

Professor Jacinto Nunes
Vice-Prime Minister, Minister of Finance
and Planning, and Minister for European
Affairs
Ministry of Finance
Lisbon

Dear Mr. Minister;

The IMF staff team has reviewed recent economic develop-
ments and prospects in Portugal and held preliminary discussions
on the outline of a program which could be supported by a new
stand-by arrangement with the Fund. This letter summarizes
our views on the key aspects of the program.

The main objective of the program should be to extend the
progress achieved last year in reducing the current account
deficit of the balance of payments. Such a reduction is usually
the "raison d'être" of a stabilization program and a current
account deficit of about \$800 million would seem to be the maximum
consistent with such a program. In the coming years Portugal will
require large amounts of foreign borrowing to sustain its develop-
ment effort, prepare its economy for accession to EEC membership,
and face its external-debt repayment obligations. We estimate
that by 1981 the gross foreign borrowing requirement will be
around \$2 billion. This external financing is unlikely to be
forthcoming unless it can be demonstrated that Portugal is making
progress in generating a higher level of domestic savings and
that its foreign borrowing is being directed to productive uses
that will eventually enhance the foreign exchange earning capa-
city of the country. Portugal's external debt service burden
is already quite high and adding to it should be kept to a mini-
mum. This argues for caution in the elaboration of an invest-
ment program for the public sector, including public enterprises,
especially until such an investment program has been reviewed
in its entirety and integrated in a medium-term framework.

We believe that a reduction in the current account deficit
to about \$800 million is consistent with a rate of growth of
about 3 per cent during 1979. Thus, Portugal would have achieved
a major stabilization effort, reducing its external current defi-
cit from the equivalent of 8 per cent of GNP in 1977 to 4 per
cent in 1979, at a relatively moderate cost in terms of output

and employment. The main credit for this success should go to exchange rate policy which allowed a substantial expansion of production for export and import substitution; to interest rate policy, which curbed stockpiling of imports and encouraged the formation of domestic saving; and to wage restraint, which preserved the gains in competitiveness achieved by the exchange rate depreciation and kept the growth of private consumption in check. The gains achieved by these policies should not be compromised by an untimely change of course.

Another objective of the program should be to achieve a reduction in the rate of inflation. The lowering of the legal ceiling on wage increases should make this possible, but financial policies have also an important role to play, in particular: by inducing domestic producers to keep their profit margins to a minimum. If prospects for an improvement in the underlying rate of inflation and for the balance of payments remain good, it should be possible to envisage a modest reduction in the rate of depreciation of the escudo, ~~and perhaps of interest rates as well.~~ We must emphasize, however, that although exchange rate policy has obvious implications for the price level, its main role is to allow the achievement of both the balance of payments and growth targets. It would be dangerous to reduce the rate of depreciation of the escudo in order to achieve a pre-determined price objective if the new exchange rate policy cannot be sustained. Furthermore, the phasing out of the 30 per cent import surcharge in 1979 will already have effects on import prices equivalent to a reduction in the rate of depreciation. We hope, in any case, that the Portuguese authorities will refrain from a premature change in the present exchange rate policy, which would make it very difficult to reach an agreement with the Fund.

Fund programs normally feature measures to reduce restrictions on trade and payments. Our discussions indicate that it should be possible to achieve agreement on this. We hope that, pending a final agreement on a new stand-by arrangement, the commitment undertaken under the 1978 stand-by arrangement to reduce the 20 per cent import surcharge to 10 per cent on April 1, 1979 will be respected. It would seem difficult to justify an extension of the surcharge on the ground that equivalent revenue cannot be obtained from other sources.

In 1978 the public sector should be expected, by reducing its deficit, to make a major contribution to the stabilization effort. This would be in contrast with the experience of 1978 when both the traditional public sector and the public enterprises continued to borrow from the banking system at the same high rate as in 1977 while the private sector bore the full burden of the reduction in the rate of credit expansion.

Such a situation should not be allowed to continue in 1979. The borrowing requirements of the traditional public sector which emerge from the 1979 budget proposals are consistent with a monetary policy designed to provide support to economic activity and to accommodate a rate of inflation well below that of last year. We are concerned, however, whether an increase in the public sector's borrowing needs over and above the budget figure can be prevented. We have made some recommendations which, we believe, would help in this respect and they should be implemented soon if the budget figures are to be used as a solid basis for a financial program. It is also essential that any significant change in the budget proposals which threatens to enlarge the deficit be offset by some other source of revenue or by expenditure reductions. Otherwise, the objective of achieving an appreciable reduction in the overall deficit by comparison with 1978 would not be attained and a reasonable credit policy could not be followed without once again excessively restricting credit to the private sector.

As for the public enterprises, by the time our negotiations resume, we would expect the financial situation of these enterprises and their prospects for 1979 to be better known. This would enable us to ascertain that both their current operating results and their investment programs are consistent with the main elements of the stand-by program, particularly the allowable expansion of bank credit and the target for the current account deficit of the balance of payments.

We shall take with us to Washington the Government's proposed alternatives to some of the targets and policies that we suggested, and they will be given careful consideration by the Fund Management and staff. It remains our sincere hope that we can soon reach complete agreement on a program which will contribute to the improvement of economic conditions in Portugal.

Respectfully yours,

Patrick de Fontenay
Head of Mission

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MRS GIRVAN
INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

ORIG: EUR
CC: ETR

TEIGEIRO COMING BACK ON MARCH 6. BA 189.

STUART AND OSUNSADE COMING BACK ON MARCH 7.

BA 101 FROM LONDON

Company from Paris on TWA 3/7. (891 @ 3:40)

Called: Mr. Teigeiro
Mrs. Stuart
V. Pabek.

PATRICK

INTERFUND WASH

12172 JARDIN P

*P. de F. may be flying back tomorrow. (his
wife called here)
3/6.*

ETR
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Western Union International Telex International, Inc.

Western Union International, Inc.

February 27, 1979

MEMORANDUM FOR FILES

Subject: Portugal

Mr. de Fontenay phoned from Lisbon today. He said that they had now had an opportunity to study the budget and on paper it looked acceptable, but there had to be great skepticism as to whether or not it was realistic. He gave some examples of this throwing doubt on the likelihood that a large "extraordinary" tax would be introduced and also whether a wage tax that virtually halved the 13-month bonus would be implemented. He also thought that the estimates of other items on the receipts side were over optimistic. He had much the same doubts on the expenditure side giving one example that the new budget presumed no increase in health expenditure, whereas last year such expenditures had risen by 30 per cent and no changes in the system of benefits had been made. All in all he conveyed the impression that in reality the budget could turn out to be a very great deal weaker than the estimates that had been presented.

He had now come to the conclusion that it would be better to write a letter to Minister Nunes and explain his broad doubts and then return to Washington with the intention of resuming discussions after Easter. Hopefully, by this time the Portuguese Government would have taken measures to validate the budget estimates. Mr. de Fontenay gave some examples of the points he wished to make in his letter, and said that he had wondered about including a reference to a need for a hiring freeze for the public sector. I suggested that this latter point should be dropped from any written communication.

As regards the exchange rate de Fontenay thought that it would be inadvisable to make any concession at this stage both for tactical reasons and because until the budget outcome could be seen very clearly there would have to be great doubt as to what rate of depreciation would be appropriate.


L. A. Whittome

cc: SED

February 23, 1979

MEMORANDUM FOR THE FILES

Subject: Portugal

Mr. de Fontenay phoned yesterday. He reported that the discussions to date--and they have been there three weeks already--have been slow and painful and they had yet to discuss 1979 or be given a copy of the proposed budget.

In an attempt to speed matters, Mr. de Fontenay summarized his own views, namely a target in 1979 of a current account deficit of \$800 million and through the year a rate of growth of 3 per cent (2 per cent, 1979 over 1978) and a reduction in inflation. The response of the Portuguese was to counter with a statement that they needed a growth rate of 3.5 per cent in order to ensure no further increase in unemployment, and this implied a current account deficit of \$950 million. In addition, they insisted that the presently agreed rate of monthly depreciation be reduced to 0.5 per cent.

Mr. de Fontenay said that they might need to remain for some time yet as not having been given the budget figures they had yet to discuss credit targets. Moreover, the budget presentation might be less than candid--he mentioned a large appropriation pushed through in December in order to improve the look of the 1979 budget.

I counselled against trying to tie up all the ends at this stage and suggested that he should seek a private meeting with Nunes, during which he would get away from arguments on precise figures and instead emphasize the need for a conservative approach in the present stage of convalescence (if it is that) and to end up by taking the line that of course tactically it was tempting to put forward bargaining positions but a sense of responsibility and of time was needed. I also cautioned him not to forget that there were surely at least two views within the circle of Portuguese officials and our job was to attempt to strengthen those who might think as we did whilst helping to puncture the arguments of others.

If the mission continues for some time, Mrs. Teigeiro will need to return early for medical reasons.



L. A. Whittome

cc: SED

At Whittome to see
W

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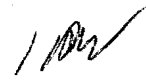
February 16, 1979

MEMORANDUM FOR FILES

Subject: Portugal

I spoke to Mr. de Fontenay on Wednesday, February 14. He said that the budget would be presented to Parliament on Wednesday and on that day he would meet with Mr. Nunes. He said that so far they had only been able to make an assessment of developments in 1978 for the Portuguese authorities were not yet prepared to discuss 1979. He had, however, some reason to believe that the prospects for 1979 would be disappointing in that a revenue sharing bill giving local authorities more than 10 per cent of the State Budget receipts was likely to prove more costly than had been originally expected. In addition, there had recently been heavy flooding which would certainly affect agriculture this year. The Portuguese had again emphasized that they wished to move to a slower rate of exchange rate depreciation, to reduce interest rates and to relax overall credit.

Mr. de Fontenay said that the figures available suggested that the economy had weakened rather more than had been expected and he said that he himself would favor a relaxation in credit designed to allow a real rate of growth of 3 per cent during 1979 which would be consistent with a growth rate of some 2 to 2 1/2 per cent 1979 over 1978. It had been calculated that this would be compatible with the current account deficit of \$800 million. It was emphasized that the financing of the current account provided no problem at all at present. Mr. de Fontenay envisaged that it would be necessary to return to Lisbon once the outcome of the budget was known--perhaps around April--and it might be advisable to pay a further visit in May when the wage position would be clearer. In conjunction with Mr. Schmitt I said only that great care should be exercised when leaving any memorandum behind at this stage and in particular it would be wise to eschew figures. I also said that if he thought it proper to relax the present set of conditions it would seem preferable to agree to a somewhat lower rate of depreciation (exports in volume terms had jumped very sharply in recent months) but to make as little concession as possible on interest rates. I also said that I thought we would never be in a position where we knew all the answers and that therefore he should not think in terms of more than one return visit.



L. A. Whittome

cc: SED

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MRS. PABST INTERNATIONAL MONETARY FUND

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*Valerie Pabst will call
Phony & the Secretary's Office!
Lantern will call Mr. Fager's
& Mrs. Stuart's mother*

LISBON, PORTUGAL

FEBRUARY 14, 1979

DUE TO LACK OF WATER IN LISBON COMMA MISSION MOVED TO HOTEL DO
MAR IN SESIMBRA COMMA TELEX 13883 COMMA PHONE NUMBER 2233 326
STOP PLEASE ADVISE FRONT OFFICE AND FAMILIES STOP STILL CANNOT
PHONE ANYWHERE BUT SOME INCOMING CALLS ARE GETTING THROUGH STOP
PLEASE ASK MR WHITTOME AND CHRISSY VTO TRY STOP THANKS

PATRICK

248331 IHF UR

12172 JARDIM P

Reply via RCA: call 248-7000

URGENT

Reply via RCA: call 248-7000

URGENT

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**INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431**

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TO: MR. WHITTOME, INTERFUND

FROM: PATRICK - PORTUGAL

FILING TIME: FEBRUARY 9, 1979

VIA: R C A

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[NEGOTIATIONS LIKELY TO BE DIFFICULT. ECONOMY DID WEAKEN MARKEDLY IN SECOND
HALF AND RATE OF GROWTH IS NOW PROBABLY NEGATIVE. PARTUGUESE WANT RELAXATION
OF CREDIT. LOWERING OF INTEREST RATES AND REDUCTION IN RATE OF DEPRECIATION.
WE HAVE NOT SEEN NEW BUDGET WHICH IS TO BE PRESENTED TO PARLIAMENT ON THURSDAY.]

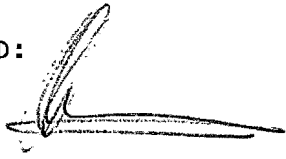
WILL CALL AS SOON AS PHONE SERVICE IS RESTORED.

REGARDS,

PATRICK

[IN FUND CIPHER]

APPROVED:



Briefing Papers

Portugal - Briefing Paper for the Managing Director

1. Introduction

A Portuguese delegation consisting of Dr. Jose da Silva Lopes, Governor of the Bank of Portugal, Dr. Vitor Constancio, Deputy Governor, Dr. Anibal Cavaco Silva, Director of Research of the Bank of Portugal, and Dr. Ohen Goncalves, Director of Research of the Ministry of Finance, is coming to the Fund on April 19 and 20, in connection with the current discussions on a stand-by arrangement. Silva Lopes has no political affiliation, but he was Minister of Finance in the short-lived Government of Nobre da Costa last year. He has been courteous and often sympathetic in dealing with us. Constancio is an important figure in the socialist party. He was Minister of Finance in the second Soares Government and the last stand-by was largely negotiated with him. He was also until recently in charge of the negotiations with the EC. He is a well trained economist but tends to be somewhat mercurial and can dominate the proceedings on their side.

2. Portugal's relations with the Fund

Negotiations on a new stand-by arrangement in the second credit tranche, which took place in Lisbon in February-March, were suspended until Parliament had voted on the budget, prices and rates charged by public enterprises had been raised, and the Government had disclosed its proposal on the implementation of the new revenue-sharing legislation. The position taken by the staff team is summed up in the attached letter to the Minister of Finance.

The current second tranche stand-by arrangement with Portugal, under which no drawings have been made, runs out in June. The Fund's holdings of escudos are equivalent to SDR 172.3 million compared with a quota of SDR 172 million. These holdings include SDR 0.9 million resulting from the third distribution of gold and Portugal has thus all its credit tranche position available to it.

The Portuguese have told us that they need to reach an agreement with us in order to be able to continue borrowing in the international capital markets, and up to now the discussions have focused on an arrangement which would include the second credit tranche. They have inquired about the SFF and a third credit tranche but they have so far agreed that their borrowing needs will grow in the coming years as a result of their debt repayment obligations and their investment program and that it would thus be preferable to link the SFF to a future EFF program. The Portuguese and we had hoped that the latter could be negotiated this fall, but it is now unlikely that they can meet such a timetable.

3. Recent developments

The 1979 budget and economic plan, as well as the proposed 18 per cent ceiling on wage increases in 1979, were narrowly defeated in Parliament on March 22. The Government stayed in office, however, and it has already sent back the wage ceiling to Parliament and intends to resubmit its budget with little change. The recent split of the Social Democrat party, which abstained on the budget, is said to improve the chances of passage of the Government's proposals. Nevertheless, the position of the present Government, made up of lawyers and technocrats appointed by President Eanes, without support from any of the political parties, remains weak and is likely to grow weaker as the general elections, scheduled for early 1980, come closer.

In the early months of 1979, inflation remains a serious problem while there is no reason to expect that the economic downturn which occurred in the third quarter of 1978 has been reversed. The surge in inflation to 25 per cent at end-1978 had been attributed to some administered price increases late in the year and some moderation from this rate of inflation was anticipated.

It did occur in January, but consumer prices rose by almost 2 per cent in February and prices were once again 25 per cent above year earlier levels. The recent decision to raise by 18 per cent the prices of some basic staples, and the expected increase in public utility rates will push up prices further. On the external side, the monetary authorities have been intervening recently in the foreign exchange market more heavily than in the same period in 1978. Official holdings of foreign exchange declined by US\$170 million to US\$665 million between end-December 1978 and end-March 1979.

4. Main issues for discussion

For the Portuguese, the purpose of the visit is said not to be to resume negotiations on a stand-by arrangement but to exchange views on recent developments and prospects and to seek guidelines on the policies to be followed by Portugal in the months ahead, particularly with regard to the exchange rate, interest rates, credit policy, and public finance. The discussion will, nevertheless, be very material to any new stand-by program. We have arranged that the Portuguese delegation should meet primarily with the staff team which has handled the current negotiations, but the delegation will also want to hear your views. At lunch on Thursday you may want to support the position taken by the staff so far, viz. that credit policy must remain prudent, in view of the continued inflationary pressures and large current account deficits, and that steps must be initiated immediately to bring public sector expenditure under control. If we are satisfied with the commitments on these two points, we could then agree to a further reduction in the rate of depreciation of the exchange rate and to a small cut in interest rates. We would like to leave open the possibility of a meeting with you on Friday afternoon if this should appear necessary in the light of our discussions.

The Portuguese have agreed that the stand-by program should aim at a further reduction in the deficit on the current account of the balance of payments. We have insisted on a maximum of US\$800 million (v. US\$950 million in 1978); they prefer US\$850 million (Table 1). The difference is insignificant, but what is important is that the outturn should not be worse than that recorded in 1978. For the stand-by program we have projected an overall balance of payments deficit, including government compensatory borrowing, roughly the same as last year's (US\$300 million). The Portuguese believe that their current account target is consistent with a 3 per cent rate of growth of real GDP in 1979 (implying a rate of growth of about 6 per cent in through-the-year terms). We have many doubts on this and suspect that it is not reconcilable with a rate of growth of more than 4 per cent during the year (2 per cent on average) (Table 2).

The Portuguese authorities are concerned at the high rate of inflation and are determined to prevent a further decline in real wages (which in 1978 fell to 13 per cent below the 1975 level 1/ and were only 7 per cent above the 1973 level). They believe the proposed 18 per cent wage ceiling can only be approved by Parliament and respected by the unions if it becomes more apparent that the inflation rate will also be brought down to 18 per cent during 1979. For this they look mainly to a reduction in the monthly rate of depreciation of the effective exchange rate from 1.25 per cent up to end-March 1979 to a proposed 0.50 per cent thereafter.

We have argued against using the exchange rate mainly to reduce inflation and suggested that a reduction in the rate of depreciation could be acceptable provided financial policies were restrictive enough to make the

1/ The postrevolutionary wage explosion of 1974-75 raised real wages by 23 per cent.

new exchange rate policy viable. Meanwhile the Portuguese have taken advantage of the fact that their commitment to the Fund on the exchange rate ran out at the end of March to reduce the monthly rate of depreciation for April to 1 per cent. We were told that this was subject to discussion with us and the change in policy has not been officially announced.

We agree that, at its present level, the effective exchange rate for the escudo is very competitive (see attached Chart). This is appropriate given the balance of payments deficit and domestic unemployment, but there is no need to increase the undervaluation, inasmuch as capacity limits are being approached in the export industries and have already been reached in the tourism sector. The differential between the rate of increase of wages in Portugal and in its main trading partners is about 9 per cent (0.75 per cent a month). While we have no difficulty in accepting a reduction in the rate of depreciation to 1 per cent now, there would be some advantage in postponing a further reduction to 0.75 per cent until we get a firm commitment on the stance of credit policy and on public finance.

Credit policy remains an important area of disagreement with the Portuguese who want to reflate the economy with easier credit. We agree that something must be done to promote a recovery of economic activity, but we believe that it would be dangerous, given the present rate of inflation and the balance of payments deficit, to have a major relaxation of credit policy. A rate of increase of M2 of about 23 per cent during 1979, implying a credit expansion of 26.5 per cent (as a percentage of initial money stock) seems to be the maximum acceptable (Table 3). The Portuguese proposal (of a 31.2 per cent increase in credit) assumes a significant decline in the income velocity of money. On interest rates, we could accept the Portuguese proposal of a

2 percentage points reduction and perhaps a further cut in six months if the rate of inflation decelerates. So long as the reduction in the annual rate of depreciation is larger than that in interest rates, there would be no incentive to capital outflows.

An improvement in public finance should be the main contribution of the next stand-by and it must be made clear to the Portuguese: (1) that there is a maximum increase in credit to the public sector which would be regarded as acceptable to us and (2) that we must have some guarantee that, in contrast with the two previous stand-bys, this subceiling will not be exceeded. There is a need for a major administrative reform, a tax reform, and as far as the public enterprises are concerned, changes in labor legislation. These will obviously take time. In the meantime, it is important to make a start now by putting in place measures of expenditure control. We have suggested a hiring freeze in the public sector but we would like to supplement this with other measures such as quarterly budget reviews and monthly cash limits on public spending.

As far as the public sector deficit is concerned, the defeat of the budget puts the goal of eliminating the Government's current deficit and of reducing the overall deficit to Esc. 75 billion or less than 8 per cent of GDP (v. 10.7 per cent in 1978) in jeopardy (Table 4). We should, however, continue to press for an overall deficit below last year's Esc. 84 billion (v. Esc. 47 billion in 1977); otherwise the burden of adjustment will again fall entirely on the private sector. An overall deficit of Esc. 80 billion, of which the banking system would finance about Esc. 50 billion, would be barely acceptable. If this target is impossible to achieve due to the unpopularity of certain tax measures included in the recently defeated budget

proposal, we would have to press for restraint on government expenditures, even investment expenditures, if necessary, as a means of reducing the deficit in the short run. We have warned the Portuguese that we would prefer putting the public enterprises under the public sector subceiling but we may, in the end, have to settle for an indicative ceiling. We shall, however, insist that price measures be taken to make the reduction in subsidies as shown in the budget realistic. We also want to review the investment program of the public enterprise sector to check its consistency with the macroeconomic projections.

On restrictions, we do not anticipate major difficulties in reaching an agreement. We shall continue to press for the elimination of the 30 per cent import surcharge on October 1 and for initiating a progressive reduction in the 60 per cent import surcharge (which affects about 2 per cent of imports) and quantitative restrictions.

Table 1. Portugal: Balance of Payments 1977-79

(In millions of U.S. dollars) 1/

	1977 Estimate	1978	1979 Projection
Exports of goods and services	2,890	3,513	4,165
Unit value		6	8
Volume		15	10
Imports of goods and services	5,344	5,713	6,340
Unit value		6	9
Volume		1	2
Balance of trade and non-factor services	-2,454	-2,200	-2,175
Investment income	-179	-327	-415
Private transfers	1,134	1,585	1,790
Current account	-1,499 (9)	-942 ⁷⁷⁵ (5)	-800 (4)
Capital movements			
Medium-term and long-term capital, net	95	739	600
Of which:			
Government compensatory borrowing	(--)	(450)	(300)
Short-term and errors and omissions	-33	356	200
Balance on nonmonetary transactions	-1,437	153	--
Overall balance, including government compensatory borrowing	-1,437	-297	-300
Memorandum item:			
Growth in foreign markets	3.3	4.8	5.2

Sources: Data provided by the Portuguese authorities; and staff estimates.

1/ Numbers in parentheses are percentages of GDP.

4/17/79

Table 2. Portugal: National Accounts, 1970-79

	1970-73	1974	1975	1976	1977	1978 ^{1/}	1979 ^{2/}
	Annual percentage change						
Gross domestic expenditures	9.6	6.3	-8.9	8.2	6.8	0.4	0.7
Private consumption	9.7	9.7	-0.9	2.0	0.6	1.3	--
Public consumption	7.6	17.3	6.6	7.0	8.0	7.8	3.0
Investment	10.8	-8.5	-45.3	32.8	29.1	-6.2	1.6
Of which:							
Gross fixed capital formation	10.9	-7.0	-11.3	1.0	12.0	4.0	1.9
Exports of goods and services	10.9	-15.7	-15.6	--	6.1	15.3	10.0
Imports of goods and services	13.2	4.8	-25.2	3.4	9.6	0.2	2.0
GDP at market prices	8.6	1.1	-4.3	6.9	6.1	3.2	2.0
<u>Memorandum items:</u>							
Partner countries real GNP ^{3/}	4.8	0.6	-1.3	4.2	2.2	3.2	3.3
GDP deflator	7.4	19.4	15.8	16.0	26.0	21.4	20.0
Savings ratio ^{4/}	24.8	19.5	14.1	14.5	19.4	22.6	22.6
<u>Contribution to growth rate of:</u> ^{5/}							
Domestic expenditure	10.2	6.9	-10.2	8.0	8.0	0.5	0.7
Of which:							
Changes in stocks	0.4	-0.8	-8.5	5.2	3.8	-2.4	--
Foreign balance	-1.5	-5.8	5.9	-1.1	-1.9	2.7	1.3

Sources: Bank of Portugal, Annual Reports; National Institute of Statistics, Monthly Bulletin of Statistics; and data provided by the Portuguese authorities.

^{1/} Preliminary estimate.

^{2/} Staff projection.

^{3/} Industrial countries, trade-weighted.

^{4/} Total national savings, including foreign remittances, as a percentage of total disposable income of households and businesses.

^{5/} Change in constant prices as a percentage of previous years GDP.

Table 4. Portugal: Public Sector Finances, 1977-79 1/(In billions of escudos) 2/

	1977 <u>3/</u>	1978		1979	
		Budget forecast	Outturn <u>3/</u>	Budget forecast	IMF <u>4/</u> alternative
Current receipts	<u>173.6</u>	<u>225.9</u>	<u>210.5</u>	<u>279.9</u>	<u>271.0</u>
Direct taxes and con- tributions to social security	80.5	107.2	103.0	136.3	127.4
Indirect taxes	82.1	106.3	97.4	123.5	123.5
Other	11.0	12.4	10.1	20.1	20.1
Current expenditures	<u>182.1</u>	<u>222.6</u>	<u>238.7</u>	<u>279.3</u>	<u>276.0</u>
Goods and services	87.0	105.8	112.4	136.3	133.0
Subsidies	21.7	28.3	30.5	31.8	31.8
Transfers	61.9	63.5	73.1	82.6	82.6
Interest payments	<u>11.5</u>	<u>25.0</u>	<u>22.7</u>	<u>28.6</u>	<u>28.6</u>
Current balance	-8.5 (-1.4)	3.3 (0.4)	-28.2 (-3.6)	0.6 (0.1)	-5.0 (-0.5)
Capital receipts	5.3	3.7	3.4	3.9	3.9
Capital expenditures	<u>41.9</u>	<u>54.6</u>	<u>55.1</u>	<u>74.6</u>	<u>74.6</u>
Investment and transfers	39.8	42.6	43.7	56.9	56.9
Net lending <u>5/</u>	<u>2.1</u>	<u>12.0</u>	<u>11.4</u>	<u>17.7</u>	<u>17.7</u>
Capital balance	-36.6	-50.9	-51.7	-70.7	-70.7
Other Treasury opera- tions, net	<u>-2.1</u>	<u>-6.0</u>	<u>-4.1</u>	<u>-3.6</u>	<u>-3.6</u>
Overall balance	-47.2 (-7.5)	-53.6 (-6.9)	-84.0 (-10.7)	-73.7 (-7.7)	-79.3 (-8.3)
<u>Memorandum items:</u>					
Bank credit to pub- lic sector	47.8	37.0	48.7	47.2	53.0
Bank credit to Pro- ductive sector	138.1	104.7	123.3	145.2 ✓	139.4

Sources: Data provided by the Portuguese authorities; and staff estimates.

1/ The public sector is defined to include the central government autonomous funds and services, plus the local authorities and the social security system, but excluding public enterprises.

2/ Numbers in parentheses are per cent of GDP at market prices.

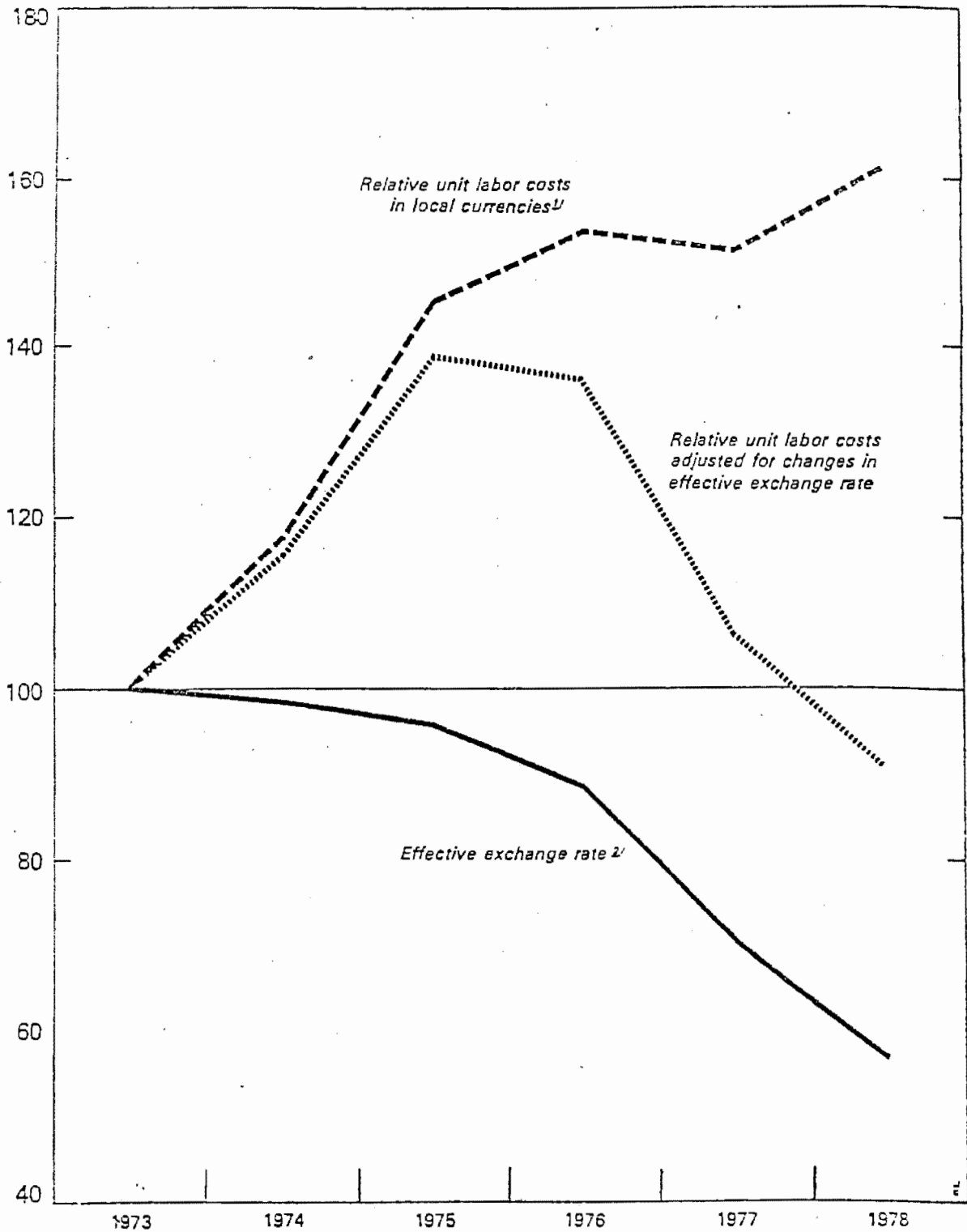
3/ Provisional.

4/ Maximum acceptable deficit.

5/ Net lending by the central administration to the productive sector.

CHART
 PORTUGAL
 RELATIVE UNIT LABOR COSTS 1973-78

(Annual data; 1973=100)



Source: Data provided by the Portuguese authorities and staff estimates.

(1) Annual wage in manufacturing.

(2) Annual average.

Minutes of Meetings
May 1979

F. O.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 1

Held at the Bank of Portugal
on Thursday, May 17, 1979, at 4:00 p.m.

Portuguese Representatives

Dr. Cavaco Silva
Dr. Alfredo Amaral
Eng.^a Engrid Almeida

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

I. Introduction

At this meeting, the basic schedule of the mission was agreed before turning to a review of recent economic developments, particularly as they related to production and demand, unemployment, prices and wages and the trade account of the balance of payments.

Dr. Cavaco Silva recognized that the staff team would like to concentrate on a review of the government budget and the situation of the public enterprises. These areas would be examined in meetings within the Ministry of Finance. Following a review of economic indicators and a meeting on recent monetary developments on the following day, discussion with the Ministry of Finance could begin on Monday, May 21. Mr. de Fontenay indicated that beginning on May 21, the staff team would like to meet with Dr. Ohe Concalves; Dr. Almeida, the Secretary of State for the Treasury responsible for Public Enterprises; representatives of the Public Accounting Department; the Secretary of State for the Budget to look at budgetary procedures and controls; and the Secretary for Public Administration to look at administrative reforms and wage policy. Also, Mr. Premchand would be interested in meeting with a section of the Public Accounting Department attached to a major spending Ministry. Finally, Mr. Osunsade would be interested in reviewing with Dr. Mendes the recent evolution of the external debt and progress in improving the reporting system, and Mr. Premchand would want to meet with the people in the Bank of Portugal who were responsible for recording the operations of the Treasury.

II. Recent Developments in the Domestic Economy

The Portuguese representatives presented several tables, most of which had been prepared in connection with work on the Annual Report of the Bank of Portugal. Dr. Cavaco Silva indicated that it was his impression that the economy continued to stagnate; price data for April were in line with an average rate of price increase in 1979 of 21 per cent. Unemployment had increased slightly. Data on exchange market

intervention by the Bank of Portugal suggested that the balance of payments had performed well in the first quarter of 1979. Data on foreign trade were still only available for January.

By way of introduction to a more detailed review of the tables being presented, Dr. Amaral noted that little or no data were available on 1979, while the recent data for 1978 were little changed from previous estimates. In Table 1, the sectoral composition of GDP, the only important change was a downward adjustment of the estimate for electricity production. Real domestic product at factor cost was still estimated to have risen by 3.4 per cent in 1978. However, the time path of activity was now thought to be different (Graph 1).

The deceleration in activity in the second and third quarter had been greater than originally thought, with a recovery in the fourth quarter. This recovery was concentrated in export-oriented light industry. It was felt that during the earlier part of the year, stocks of exportables had been run down, but as the recovery of demand continued, production of exports started to increase toward the end of the year. Heavy industry experienced a decline throughout 1978. Looking at capacity utilization ratios (Graph 2, Table 24), all sectors had shown declines except for consumption goods, closely related to exported goods, where capacity utilization ratios had risen in the third quarter of the year. The investment goods sector showed a strong decline after the second quarter of the year.

For construction, sales of steel and cement (Graph 3, Table 29) suggested a decline beginning in the second quarter of 1978 which extended into the first quarter of 1979. It was accepted that bad weather conditions in the first quarter of 1979 may have been a factor in the continuation of this trend. Also, the decline in sales of steel, which was more marked than the decline in sales of cement, could have been related to the fact that speculative stock piles of steel products had been built up during the speculative period prior to mid-1978. Dr. Mateus noted that in addition to the recovery of export production in the fourth quarter, retail sales (Graph 6) had also shown a strong recovery in the fourth quarter. Demand for consumer and intermediate goods may have recovered as early as the third quarter of 1978, though demand remained below 1977 levels (Graph 4). Mr. Stuart noted that it was generally accepted that destocking had been an important factor in turning the balance of payments around in 1978. He wondered whether there were any signs that a general replenishment of stocks, such as had affected export production toward the end of 1978, was now spilling into an increased demand for imports. Eng.^a Engrid replied that preliminary figures for January did not show any signs of this, but she had recently been informed that import figures for January were to be revised substantially upward. Also, leading indicators suggested a significant increase in imports in February.

Turning to expenditure (Table 3), Dr. Amaral noted that the major change from previous estimates was a reduction in the increase in public consumption in 1978, related to an upward revision of the base figure for 1977, due to a reclassification of public transfers as consumption. The investment figure was unchanged, the volume of exports had been revised downward to take account of a higher deflator, and a decline in import volumes was now shown. Private consumption had increased by 1 per cent, despite a sharp decline in purchases of consumer durables, particularly automobiles, despite a further decline in labor incomes. (Total wages and salaries grew by only 17 per cent compared to an increase in consumer prices of 22 per cent (Table 11)). Other incomes (profits and interest in particular) and private transfers had risen sharply. As a result, real disposable income grew by 6 per cent. As private consumption grew by only 1 per cent, there was a substantial rise in the propensity to save, and the Portuguese representatives attributed this to the large increase in the importance of private remittances from abroad in total disposable income.

As for investment, the Portuguese representatives argued that a number of the available indicators showed a decline in investment activity beginning in the third quarter of 1978. Thus, although investment intentions for the year as a whole showed an increase in escudo terms of 60 per cent from a year earlier (Table 31), quarterly figures dropped sharply in the second half of the year (Graph 7). Demand for investment goods declined steadily through 1978 (Graph 4). Mr. de Fontenay questioned this pessimistic view. The total supply of machinery in the economy had rebounded in the fourth quarter of 1978 to its peak level of the second quarter of 1978 (Graph 9, Table 28), mainly due to the spectacular recovery of domestic production. Building permits issued in 1978 stabilized at about the level recorded in respective quarters of 1977.

By way of summary, Mr. de Fontenay recalled that earlier in the year it had been thought that real output was declining, following a downturn in mid-1978. It was now apparent that a recovery had occurred in the fourth quarter but due to a lack of data of 1979, it was not known if this recovery had continued. It could be assumed that private consumption continued to develop in 1979 as it had in 1978, buoyed by increases in non-labor income and private remittances from abroad as in 1978. It was likely that public consumption was still increasing, while the foreign balance continued to make a positive contribution to domestic growth. It was difficult to gauge the present level of investment activity. The Portuguese representatives were of the opinion, in the absence of firm indicators, that the economy was stagnating. All areas of investment activity, but in particular construction, were in serious difficulties. Dr. Covaco Silva noted that banks were unable to lend the amounts allocated to them by the Bank of Portugal for the productive sector.

Reviewing recent price developments, Dr. Cavaco Silva noted that consumer prices in the first quarter of the year were 25 per cent above year levels (Table 12). Certain administered price increases had occurred in mid-April and part of their effect would be felt also in May. On average, prices rose by 3 per cent in April, but given the much larger increase of 6 per cent in April 1978, the through the year rate of price increase declined to 21 per cent in April. Some moderation was expected in the second half of the year, and for the year as a whole it was expected that prices would rise on average by 21 per cent.

The composition of price increase in 1978 was explored (Tables 14 and 15), where for the second year in a row, almost half of the rate of inflation was attributed to increases in other incomes. Imported inflation continued to be a problem despite the decline in world prices, due to the depreciation of the escudo. Mr. de Fontenay asked why profit margins had continued to rise in 1978, when demand was not seen as excessive. The Portuguese representatives attributed this to increased profit margins in the export sector, higher administered prices which had raised margins in the public enterprise sector, and higher interest rates. They also felt that expectations of higher prices had operated directly to raise prices beyond what would have been expected given cost developments. Finally, continued low agricultural output contributed to some price increases, though periodic shortages of imported agricultural goods were less of a problem recently as import limitations had been liberalized.

Turning to unemployment, Dr. Amaral indicated that between the second half of 1977 and the second half of 1978, the unemployment rate, as measured by the Institute of Statistics, had increased from 7.9 per cent to 8.4 per cent (Tables 7 and 8). Employment had increased slightly, on average, in 1978, and this was concentrated in such export-oriented sectors as clothing and footwear, and in the chemical sector, due to the opening of the refinery at Sines (Table 10). Limited data were available for early 1979, which showed a slight increase in the number of people looking for a new job (Table 9), but this could have been related to seasonal factors.

As for labor income, the total wage bill had risen by 17 per cent in 1978 (Table 11), and with employment rising by as much as 1 per cent, the per capita annual wage bill had risen by slightly less. There was an acceleration in the rate of increase in daily wages, particularly in Oporto, in the fourth quarters of 1978, and this was attributed to a concentration of wage agreements in this quarter (Table 33). A set of indicators showing the timing of wage negotiations was to be provided. It was pointed out that the daily wage continued to understate increases in labor costs, as certain benefits such as lunch subsidies had been increased in 1978.

Salaries of civil servants had been increased by 14 - 15 per cent in May of June 1978, retroactive to January of that year. Also certain

benefits, such as bonuses according to years of service and lunch subsidies, had been introduced during 1977 but affected all of 1978. It was estimated that the average annual salary of civil servants had risen by less than 20 per cent in 1978.

III. External Trade Developments

Eng.^a Engrid Almeida presented a series of tables showing the final trade figures for 1978, showing exports and imports by industrial and functional classification, and imports of food by public agencies, according to the "Food Plan." Preliminary trade data for January were also presented. Eng.^a Engrid noted that the forecast for 1978 exports made in February 1979 turned out to be quite accurate. However, the import figure for December 1978 turned out to be much less than had been expected. The low level of petroleum imports in December because of the closing of ports due to bad weather conditions had already been anticipated. In addition, actual food imports under the Food Plan were much less than had been indicated by the public agencies, suggesting that some planned purchases would not clear customs until early 1979. In the preliminary January figures, only two groups of products showed an increase, and these were petroleum products and food products. Mr. Stuart asked if these two factors could be quantified and Eng.^a Engrid replied that oil imports for December were some Esc. 1.5 billion less than had been expected, while food imports were some Esc. 2.0 billion less than expected.

In 1978, there had been a small increase in imports of equipment goods, a decline in intermediate goods, which would have been much larger were it not for imports under the Food Plan, and a further large decline in imports of consumer goods. Meanwhile, exports grew by almost 13 per cent in volume terms and there was a gain in the terms of trade of almost 2 per cent. The growth in export volumes was largely due to increased sales of textiles to the U.K. and Germany. Agricultural exports did very well in the fourth quarter of 1978 and chemicals and common metals did well in 1978. Machinery and appliances did not have a very good performance but these are products which in general take a long time to produce, and prospects for 1979 were very encouraging. Exports of ships were also expected to do very well. Exports of cars were becoming significant. There was at least some qualitative information that suggested that investment in the export sector was picking up, particularly in the wood and furniture sector and automobiles.

The January 1979 trade data showed a continued strong export performance and information from marketing boards for exports suggested continued increases further into the year. Imports in January showed declines, for all categories except oil and food products, but it was now known that these data would be revised significantly upward. The evolution of import licenses granted and subsequent imports had been examined and a relationship between import licenses granted in one month and actual imports in the following month had been indicated. If this relationship held, imports would rise significantly in February 1979, for all categories of imports.

Mr. de Fontenay asked if any further work had been done on a forecasting exercise for 1979. Eng.^a Engrid replied that the price forecast for imports had been reviewed and a world market price increase of 7 per cent in local currency terms (11 per cent in U.S. dollars based on February cross rates) seemed reasonable. The previous volume forecast based on 3 per cent real growth for the economy had not been changed. Exports had been projected earlier to grow by 8 per cent, based on a 5 per cent growth in foreign markets, and this had not been revised despite expectations that world markets would now grow by less.

Mr. de Fontenay asked if bad winter weather would noticeably affect the trade balance and Eng.^a Almeida replied that the effect of weather on domestic agriculture would mainly be reflected in higher domestic prices, affecting imports only with a lag. Exports would be little affected, as the government had already decided on importing wine to save domestic production for export.

Finally, Eng.^a Engrid noted that revised trade figures for January and preliminary data for February would be available very shortly.

Table 1.

QUADRO 1.1.

PRODUTO INTERNO BRUTO, AO CUSTO DOS FACTORES

2

Unidade: milhares de contos

Discriminação	1976	1977				1978			
	Preços correntes	Preços const. de 1976	Taxa de cresctº em volume %	Preços correntes	Taxa de cresctº dos preços %	Preços const. de 1977	Taxa de cresctº em volume %	Preços correntes	Taxa de cresctº dos preços %
Agricultura e Pesca	61 494	55 345	- 10,0	71 948	30,0	74 826	4,0	90 539	21,0
Indústrias Extractivas	2 524	2 910	15,3	3 788	30,2	3 833	1,2	4 735	23,5
Indústrias Transformadoras	142 754	156 173	9,4	200 084	28,1	206 687	3,3	256 292	24,0
Electricidade, Gás e Água	10 508	12 610	20,0	15 114	19,9	16 096	6,5	21 408	33,0
Construção	27 194	30 185	11,0	36 222	20,0	38 033	5,0	45 640	20,0
Transportes e Comunicações	28 060	29 042	3,5	36 702	26,4	37 069	1,0	45 224	22,0
Comércio por Grosso e a Retalho	53 054	54 858	3,4	70 190	27,9	70 900	1,0	86 506	22,0
Bancos, Seguros e Propriedades Imobiliárias	27 009	29 710	10,0	37 083	24,8	38 195	3,0	46 598	22,0
Administração Pública e Defesa, Saúde e Educação	52 160	55 811	7,0	66 977	20,0	70 996	6,0	85 195	20,0
Serviços Diversos	17 877	19 665	10,0	25 726	30,8	26 369	2,5	33 239	26,1
Produto Interno Bruto ao Custo dos Factores	422 634	446 309	5,6	563 834	26,3	583 004	3,4	715 376	22,7
Produto Interno Bruto (sem Administração Pública)	370 474	390 498	5,4	496 857	27,2	512 008	3,0	630 181	23,1

ORIGEM: 1976, INE, Contas Nacionais (com excepção da Construção); 1977 e 1978 estimativas do Banco de Portugal e Departamento Central de Planeamento

RC/MT

Meeting No. 1

GRAPH 1

BRASIL

INDICES DE PRODUÇÃO INDUSTRIAL BRUTOS

BASE: 1970 = 100

160
150
140
130
120
110
100
90

I II III IV I II III IV I II III IV I II III IV
1974 1975 1976 1977 1978

TRANSFORMAÇÃO TOTAL Indústria Pesada
Indústria Leve

80

Fonte: IBGE, Indústria e Comércio, Estatísticas Mensais

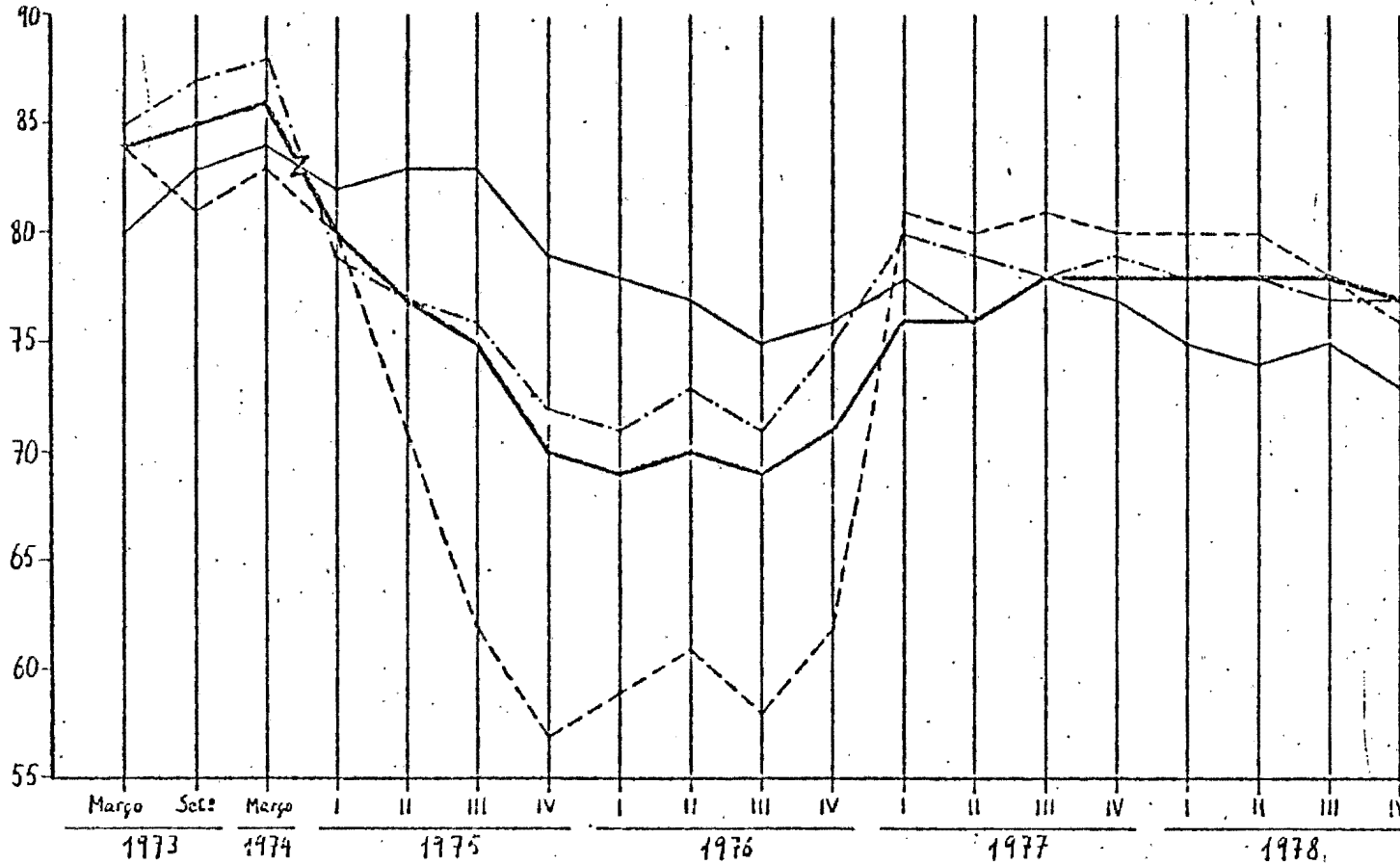


Graph 2
~~Table 2~~

GRÁFICO I.2

GRAD DE UTILIZAÇÃO DA CAPACIDADE PRODUTIVA NA
INDUSTRIA TRANSFORMADORA

(Em percentagem)



— Bens de consumo - - - - - Bens de investimento
- · - · - Bens intermédios — Total

Origem: 1973 e 1974, INE, Inquérito de Conjuntura
1975 e 1976, estimativa do Banco de Portugal
1977 e 1978, INE, Inquérito de Conjuntura da Indústria Transformadora (CICIT)

Handwritten notes:
Março 1974
Set 1974

elaboração No. 1

PRODUÇÃO INDUSTRIAL : VALOR ACRESCENTADO BRUTO

DAS INDÚSTRIAS TRANSFORMADORAS

Preços constantes de 1976

Unidade : milhares de contos

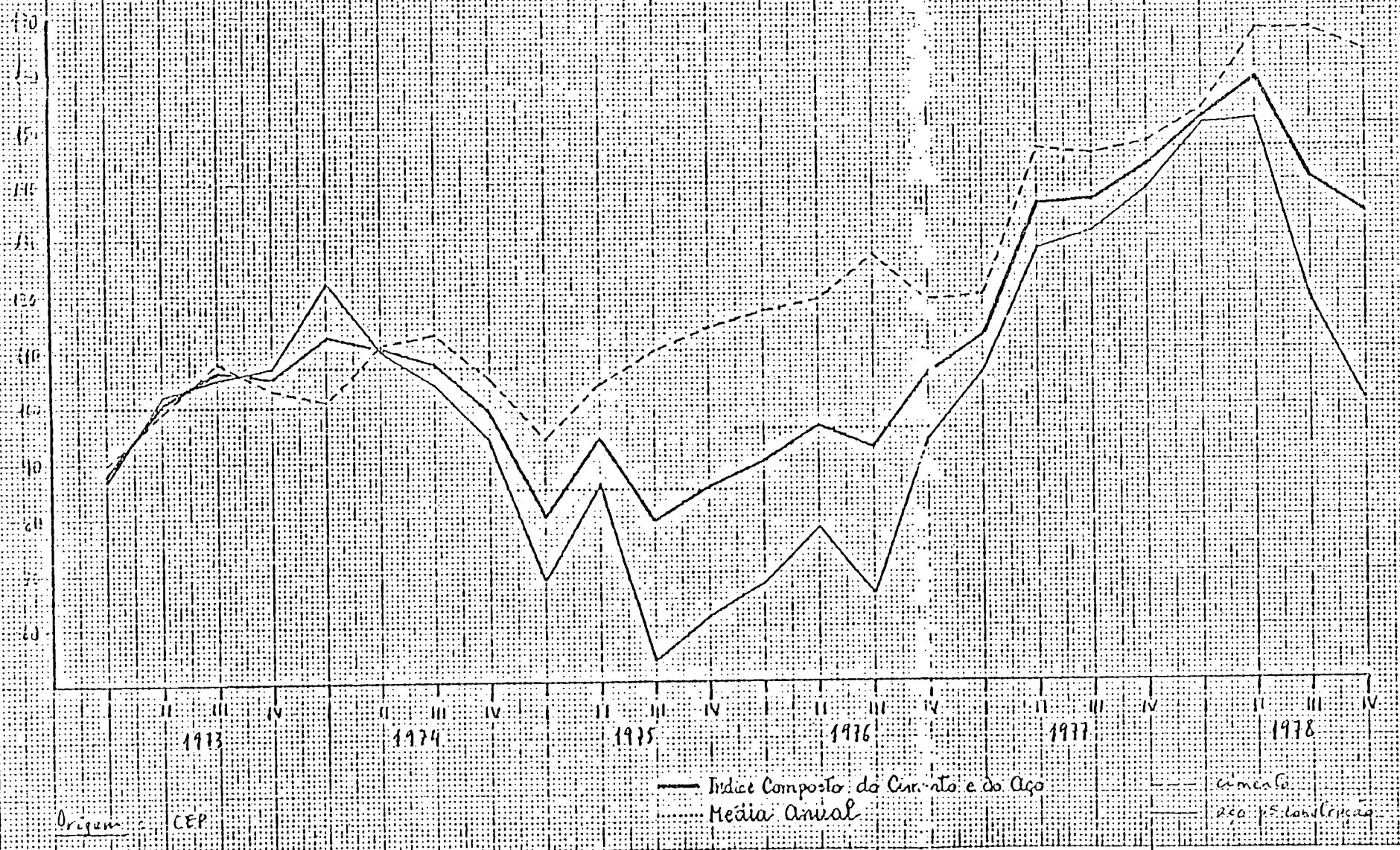
Sector	1976	1977		1978	
		Valor	Taxa de Cresctº %	Valor	Taxa de Cresctº %
Alimentação, bebidas e tabaco	16 382	17 430	6,4	18 929	8,6
Têxteis, vestuário e calçado	29 078	27 944	- 3,9	27 916	- 0,1
Madeira, cortiça e mobiliário	8 207	9 134	11,3	9 225	1
Papel, tipografia e editoriais	5 969	6 339	6,2	6 276	- 1
Químicas e conexas	18 333	20 643	12,6	21 923	6,2
Produtos minerais não metálicos	12 298	14 143	15,0	15 161	7,2
Metalúrgicas de base	2 502	3 040	21,5	3 587	18
Produtos metálicos, <u>indústrias</u> mecânicas, material eléctrico e de trans- porte	42 985	49 121	14,3	49 612	1
Transformadoras diversas	7 000	8 379	19,7	8 698	3,8
Total	142 754	156 173	9,4	161 327	3,3

ORIGEM: 1976, INE, Contas Nacionais; 1977 e 1978, estimativas do

Banco de Portugal e Departamento Central de Planeamento

GRÁFICO I.3
 INDÍCES DE VENDAS DE CIMENTO E DE AÇO PARA A CONSTRUÇÃO

(Base: 1973 = 100)
 Gráfico 3



Origem: CEP

— Índice Composto de Cimento e de Aço
 - - - Média Anual

- - - cimento
 . . . aço p. construção

3

QUADRO I.3

CUNTA DA DESPESA NACIONAL

Discriminação	1976			1977		1978			
	Preços correntes	Preços constantes de 1976	Taxa de crescimento em volume %	Preços correntes	Taxa de crescimento dos preços %	Preços constantes de 1977	Taxa de crescimento em volume %	Preços correntes	Taxa de crescimento dos preços %
Consumo Privado	367 179	369 382	.6	470 223	27.3	474 926	1.0	579 884	22.1
Bens duradouros	40 105	38 822	- 3.2	50 742	30.7	41 101	-19.0	53 431	30.0
Bens não duradouros	327 074	330 560	1.1	419 481	26.9	433 825	3.4	526 453	21.4
Consumo Público	66 122	72 295	9.3	88 200	22.0	93 139	5.6	111 767	20.0
Civil	51 949	57 559	10.8	70 223	22.0	74 981	6.8	90 036	20.1
Militar	14 173	14 736	4.0	17 977	22.0	18 158	1.0	21 731	19.7
Investimento Bruto	97 333	126 073	29.5	157 936	25.3	150 727	- 4.6	180 718	19.9
Formação Bruta de Capital Fixo	88 931	99 603	12.0	125 500	26.0	130 520	4.0	156 624	20.0
do qual: Casas de habitação - <i>known</i>	16 335	17 992	10.1	22 329	24.1	23 898	7.0	28 207	18.0
Investimento produtivo <i>residual</i>	59 802	66 968	12.0	84 851	26.7	88 186	3.9	106 383	20.6
Investimento público (Estado) <i>known</i>	12 774	14 643	14.6	18 320	25.1	18 436	.6	22 024	19.5
da qual: Construção	59 868	66 203	10.6	82 414	24.5	86 529	5.0	102 075	18.0
Equipamento	29 062	33 400	14.9	43 086	29.0	43 991	2.1	54 549	24.0
Variação de existências	8 042	26 470		32 436	22.5	20 207		24 094	19.2
Exportação de bens e serviços	78 679	83 321	5.9	110 984	33.2	126 411	13.9	156 113	23.5 ✓
Importação de bens e serviços	141 658	158 630	12.0	205 109	29.3	203 058	- 1.0	246 606	21.4 ✓
Produto interno bruto a preços de mercado	467 655	492 441	5.3	622 234	26.4	642 145	3.2	781 876	21.8
Saldo dos rendimentos do resto do mundo	- 4 021			- 6 872				- 14 487	
Produto nacional bruto a preços de mercado	463 634			615 362				767 389	
Menos: imposto indirectos	61 681			79 300				97 400	
Mais: subsídios	16 660			20 900				30 900	
Produto nacional bruto ao custo dos factores	418 613			556 962				700 889	

Origem: Estimativas do Banco de Portugal e Departamento Central do Planeamento

LA/AS

Rise 36.5

41.0 decline in real terms mainly due to

may be 2.0 will be higher

12

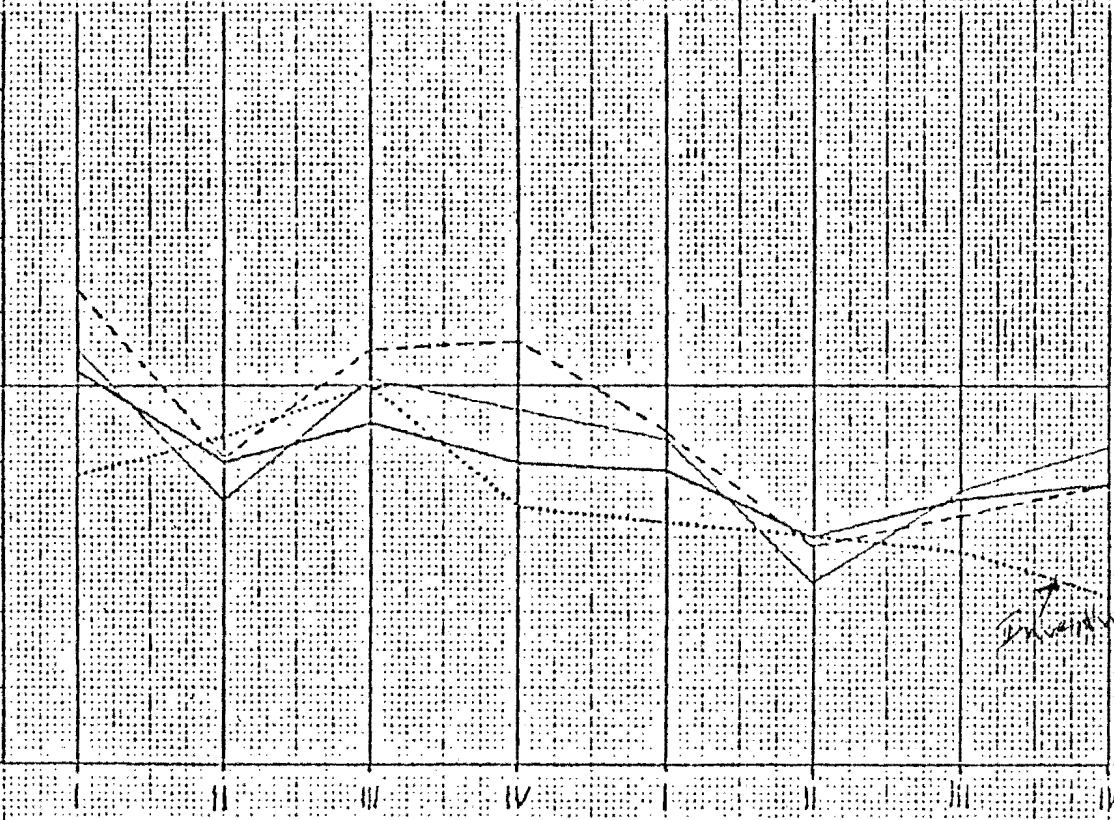
Doc 201

Procura global de produtos acabados

Gráfico II

Saldo*

+50
+40
+30
+20
+10
0
-10
-20
-30
-40
-50



1977

1978

- Indústria transformadora
- - - Bens de consumo
- ... Bens de investimentos
- · - · Bens de investimento

Entertainment
to
industry

* Diferença (pequena fonte - grande fonte), em porcentagem dos respectivos totais

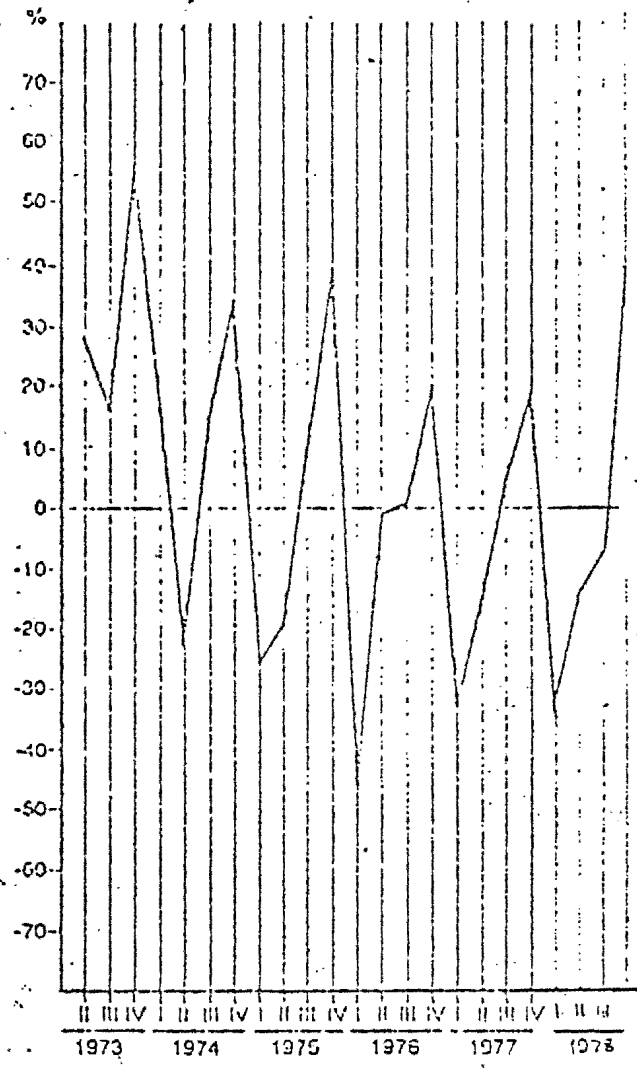
... Bens de consumo e Bens de Indústria Transformadora

Graph 5

~~GRÁFICO 5~~

VOLUME DE VENDAS EFECTUADAS NO COMÉRCIO A RETALHO

DIFERENÇAS DAS RESPOSTAS EXTREMAS (1)



Origem; INE, Inquérito de conjuntura ao comércio

(1) Aumentos - diminuições, em percentagem das respostas totais

Table 4

DESPESAS DOS CONSUMIDORES EM BENS E SERVIÇOS

Discriminação	1976				1977				1978			
	Preços const. de 1975	Taxa de cresc. em volume %	Preços correntes	Taxa de cresc. dos Preços %	Preços const. de 1976	Taxa de cresc. em volume %	Preços correntes	Taxa de cresc. dos Preços %	Preços const. de 1977	Taxa de cresc. em volume %	Preços correntes	Taxa de cresc. dos Preços %
1. Alimentação, bebidas e tabaco das quais:	165 512	6.8	204 077	23.3	204 537	.2	267 805	30.9	282 584	5.4	349 309	23.7
1.1. Cereais	16 346	6.0	16 379	.2	16 543	1.0	22 763	37.6	23 446	3.0	38 346	20.5
1.2. Batata	4 103	-4.0	4 439	8.2	4 883	10.0	4 370	-10.5	3 758	-14.0	2 627	-30.1
1.3. Açúcar	3 719	2.0	3 213	-13.6	3 309	3.0	3 309	.0	3 425	3.5	3 812	11.3
1.4. Frutas e legumes	26 101	4.0	38 603	47.9	50 882	-20.0	47 652	54.3	60 232	26.4	64 027	6.3
1.5. Carnes	32 685	10.0	43 962	34.5	47 479	8.0	57 647	21.5	56 937	-1.3	67 129	17.9
1.6. Pescado	16 052	8.0	22 987	43.2	23 447	2.0	30 082	28.3	26 713	-11.2	35 101	31.4
1.7. Leite e queijo	6 963	10.0	6 914	-.7	7 121	3.0	9 073	27.4	10 824	19.3	13 108	21.1
1.8. Vinho e cerveja	30 838	7.0	32 750	6.2	31 768	-3.0	52 289	64.6	55 269	5.7	97 273	76.0
2. Vestuário e Calçado	36 922	1.5	37 623	1.9	38 451	2.2	42 488	10.5	41 851	-1.5	50 912	19.5
3. Rendas e iluminação	14 819	8.0	19 264	30.0	21 190	10.0	23 309	10.0	25 453	9.2	33 268	31.0
4. Gasolina e outras despesas com utilização de veículos	15 383	-12.0	17 845	16.0	17 131	-4.0	23 127	35.0	22 849	-1.2	27 259	19.3
5. Bens duradouros	31 604	1.4	40 106	26.9	38 823	-3.2	50 742	30.7	41 101	-19.0	53 431	30.0
Sub-total	264 240	4.1	518 915		320 182	.4	407 471		413 638	1.5	513 279	
6. Outros bens e serviços	72 697	.3	79 344	9.0	80 467	1.4	102 555	27.3	101 488	-1.0	115 690	14.0
Total	336 937	3.3	398 259	13.2	400 649	.6	510 026	27.3	515 126	1.0	628 969	22.1

Nota: Na balança alimentar de 1976, 1977 e 1978 utilizaram-se os dados da produção agrícola, comércio externo e variações de existências obtidos pelo Banco de Portugal para estimar a balança alimentar. Para a gasolina, electricidade e automóveis utilizaram-se os dados de vendas a retalho publicados pelo C.E.P. e para os restantes bens e serviços utilizou-se a informação do Inquérito de Conjuntura ao Comércio. Origem: Estimativa do Banco de Portugal.

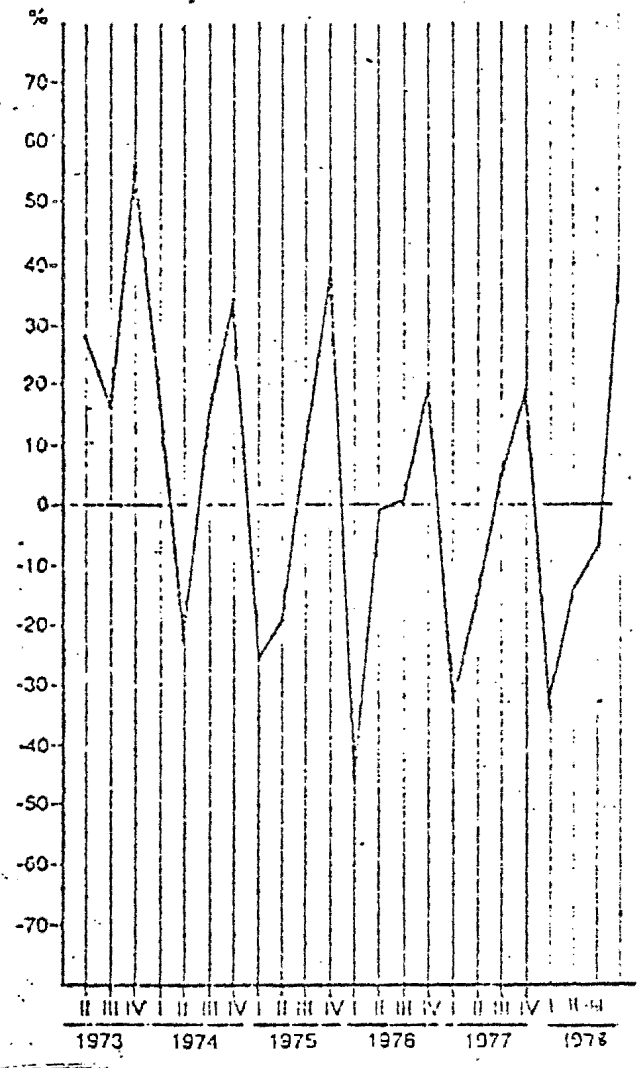
15
alterar no 1

Graph 6.

~~GRÁFICO 1.6~~

VOLUME DE VENDAS EFECTUADAS NO COMÉRCIO A RETALHO

DIFERENÇAS DAS RESPOSTAS EXTREMAS (1)



Origem; INE, Inquérito de conjuntura ao comércio

(1) Aumentos - diminuições, em percentagem das respostas totais

Table 5

QUADRO 1.6

RENDIMENTO DISPONÍVEL DOS PARTICULARES

PREÇOS CORRENTES

Unidade: milhares de contos

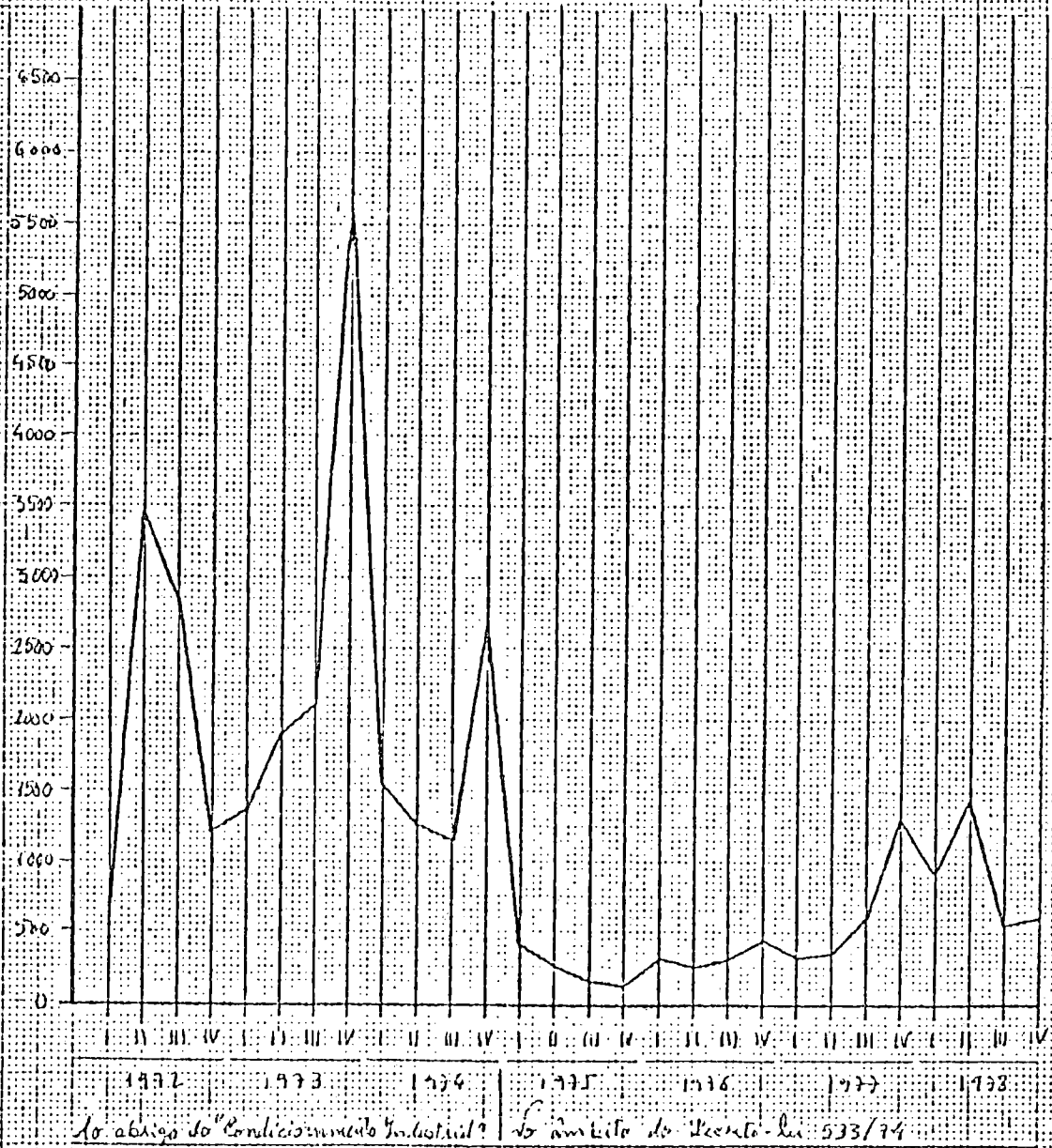
Discriminação	1976	1977		1978	
		Valor	Taxa de cresc. %	Valor	Taxa de cresc. %
1. Rendimento nacional	398 445	529 114	32,0	665 794	25,8
2. (+) Juros da dívida pública (interna)	4 619	9 447		19 897	
3. (+) Transferências correntes do Estado (líquidas)	50 193	60 900	21,3	73 900	21,3
4. (+) Transferências privadas do exterior (líquidas)	29 848	43 470	45,6	72 602	67,0
5. (-) Rendimentos do património e empresas do Estado	4 677	5 686		10 100	
6. (-) Lucros das empresas públicas	- 5 654	14 651		18 760	
7. (-) Lucros das sociedades privadas não distribuídos					
8. (-) Impostos directos incluindo contribuições para a segurança social	55 718	80 900	45,2	103 100	27,4
9. Rendimento disponível	428 364	541 694	26,5	700 233	29,3
10. (-) Despesas de consumo privado	367 179	470 223	28,5	579 884	23,3
11. Poupança dos particulares	61 185	71 471		120 339	
Taxa de poupança (%)	14,28	13,19		17,19	

ORIGEM: Estimativas do Banco de Portugal e Departamento Central de Planeamento.

17
 Anexo - NO.1

Graph 7

Gráfico 7
 Mt - JCS de Investimento no Ministério Transf. e Obra
 (Deflacionado pelo índice de preços implícito no I-SEF)
 10³ escudos



do âmbito do "Condicionamento Industrial" do âmbito do Decreto-Lei 533/74

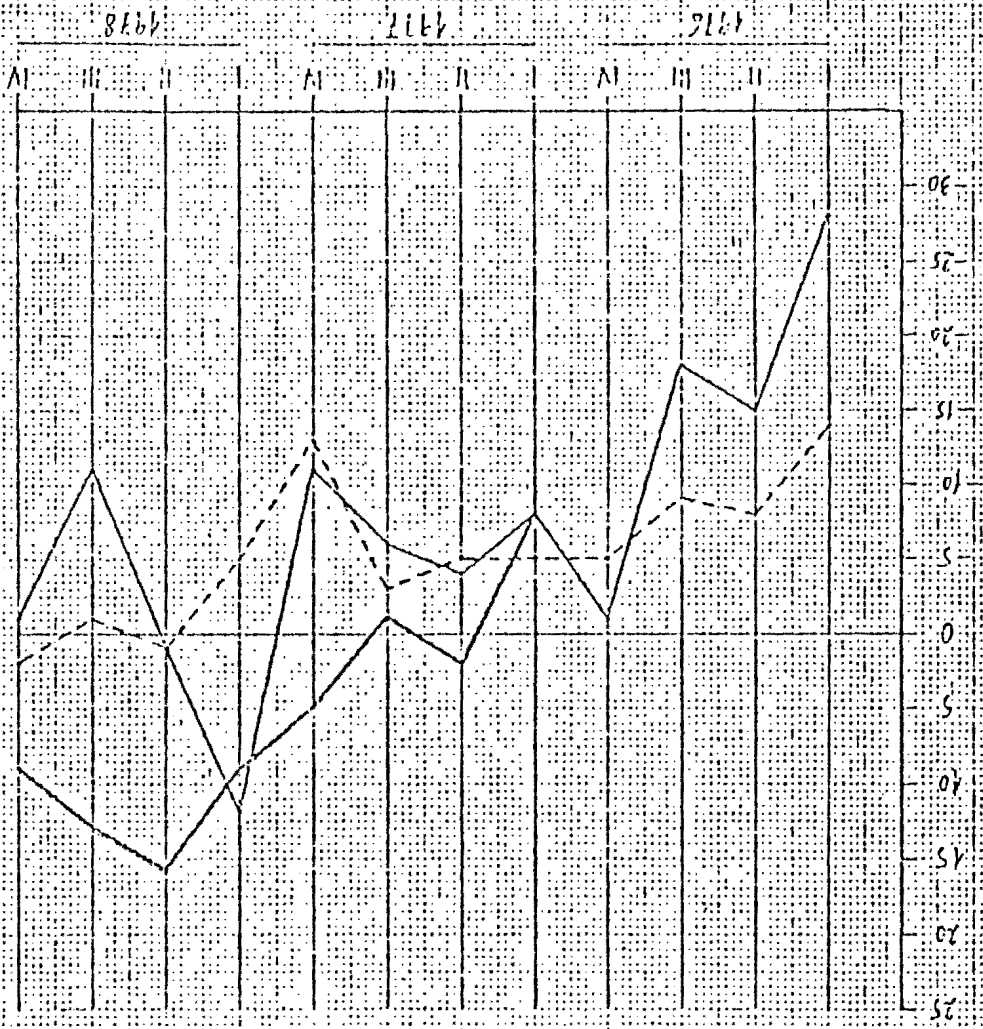
Nota: Os valores anteriores ao primeiro trimestre de 1975 e após este período não são comparáveis devido à nacionalização de algumas empresas industriais que deixaram de estar sujeitas ao registo dos investimentos no MIT.

Gráfico 8

Gráfico I. 2.

VARIAÇÕES DE EXISTÊNCIAS

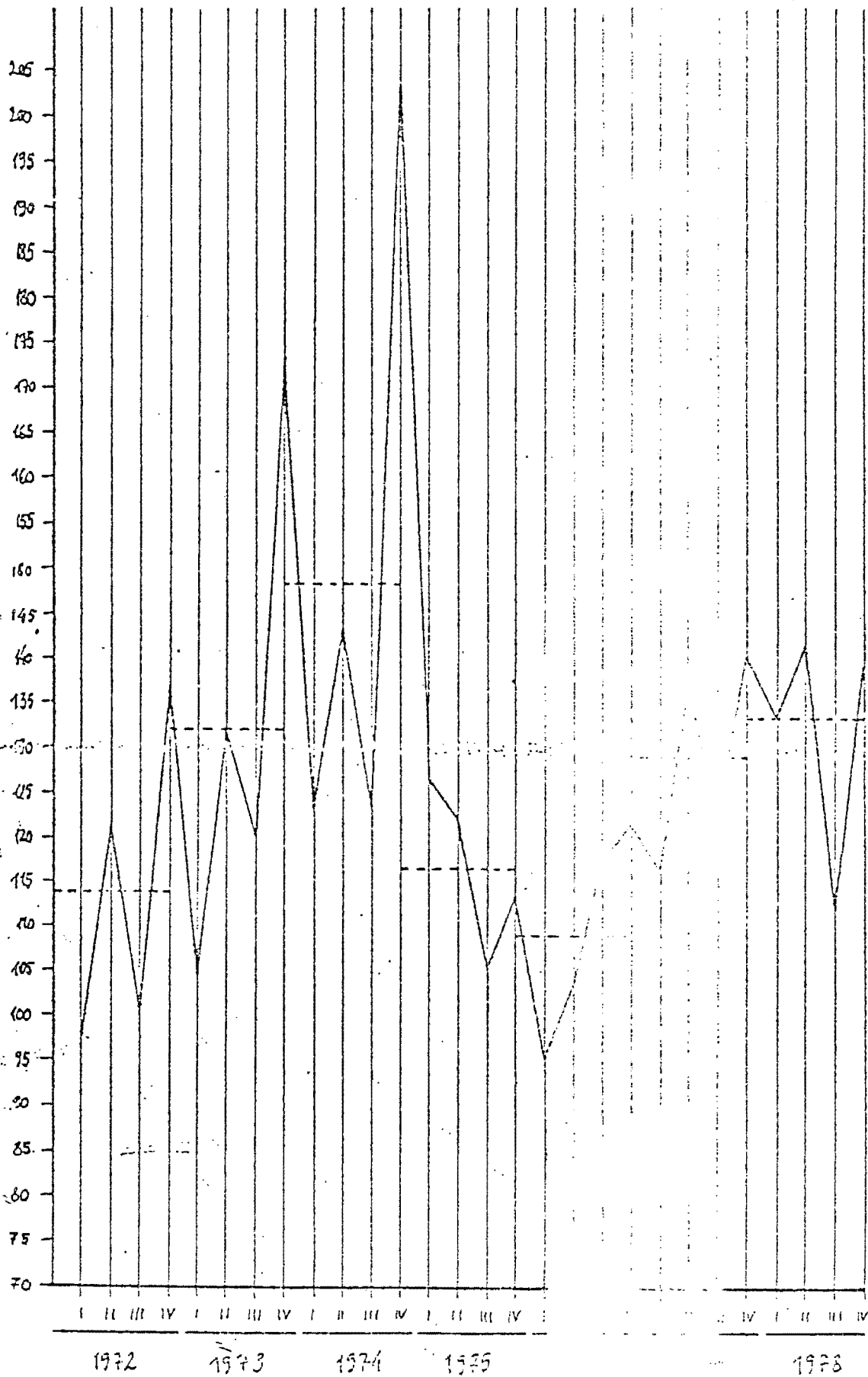
Sobre as existências anteriores, em percentagem



Origens:
NE: Indústria de Condições de Trabalho e
Importação de Condições de Trabalho Transformadoras
Comércio a retalho
Comércio por grosso

Gráfico No. 1

19



Origens: Importações de Máquinas - Ministério de Estatística, do IACO; Produção Industrial - "Boletim Industrial", do IACO.

Origens: "Boletim Mensal Industrial", do IACO.

Investimento em Casas de Habitação



- Índice da susceptibilidade dos pavimentos construídos [Base (100): 1975]
- - - Licenças concedidas para habitação (Setor privado)
- Edifícios construídos para habitação (Setor privado)

Origem: INE, "Boletim mensal das estatísticas industriais" e "Boletim Mensal de Estatística".

Table 6

QUADRO I. 9

Meeting No. 1

ÍNDICE DA RENTABILIDADE DO INVESTIMENTO EM CASAS DE HABITAÇÃO

BASE (100): 1970

PERÍODOS	ÍNDICES TOTAIIS DE RENDAS DAS HABITAÇÕES EM LISBOA (1)	ÍNDICES DO CUSTO DA CONSTRUÇÃO DE EDIFÍCIOS PARA HABITAÇÃO EM LISBOA (2)	QUOCIENTE (1) / (2)
1974			
1º Trimestre	165,8	145,9	113,6
2º Trimestre	169,5	153,9	110,1
3º Trimestre	174,4	164,0	106,3
4º Trimestre	160,1	184,0	87,0
1975			
1º Trimestre	154,5	197,6	78,2
2º Trimestre	165,9	199,4	83,2
3º Trimestre	165,7	199,4	83,1
4º Trimestre	172,8	200,6	86,1
1976			
1º Trimestre	186,2	213,8	87,1
2º Trimestre	183,3	226,2	81,0
3º Trimestre	214,9	236,6	90,8
4º Trimestre	215,0	241,4	89,1
1977			
1º Trimestre	223,9	270,5	82,2
2º Trimestre	214,3	279,2	76,8
3º Trimestre	216,2	290,8	74,3
4º Trimestre	216,3	300,6	72,0
1978			
1º Trimestre	216,1	315,6	68,5
2º Trimestre	216,2	317,5	68,1
3º Trimestre	216,2	349,8	61,8
4º Trimestre	235,7	359,0	65,7

ORIGENS: "Anuário Estatístico", "Boletim Mensal de Estatística", do INE e "Boletim Mensal de Estatística" de Estatística e elementos fornecidos pelo Ministério da Habitação e Obras Públicas.

Table 7
 QUADRO I - 13

EVOLUÇÃO DA POPULAÇÃO E DO DESEMPREGO (CONTINENTE)

(Com base no Inquérito do 2º semestre)

Discriminação	1974	1975	1976	1977	1978
População residente total (10 ³)	8 650	8 947	9 123	9 168	9 204
População activa civil* (10 ³)	3 853	3 957	4 096	4 107	4 157
Desemprego (10 ³)	86	222	276	326	348
- procura de novo emprego (10 ³)	45	136	151	160	150
- procura de 1º emprego (10 ³)	41	86	125	166	198
Taxa de actividade (%)	44,5	44,2	44,9	44,8	45,2
Taxa de desemprego (%)	2,2	5,6	6,7	7,9	8,4

* - Inclui empregados e desempregados de idade entre 10 e 14 anos

Origem: INE, Inquérito Permanente ao Emprego

23

35

Anexo No. 1

Table 8
~~QUADRO 1.14~~

EVOLUÇÃO DA POPULAÇÃO E DO DESEMPREGO (CONTINENTE)

(Com base no Inquérito do 1º semestre)

Discriminação	1974	1975	1976	1977	1978
População residente total (10 ³)	8 532	8 810	9 027	9 143	9 188
População activa civil* (10 ³)	3 668	3 847	4 003	4 078	4 055
Desemprego (10 ³)	47	133	244	291	319
- procura de novo emprego (10 ³)	23	81	152	149	141
- procura de 1º emprego (10 ³)	24	52	92	142	178
Taxa de actividade (%)	43,0	43,7	44,3	44,6	44,1
Taxa de desemprego (%)	1,3	3,5	6,1	7,1	7,9

* - Inclui empregados e desempregados de idade entre 10 e 14 anos.

Origem: INE, Inquérito Permanente ao Emprego

Table 9

SITUAÇÃO NO MERCADO DE EMPREGO

Unidade: Milhares

	1978	1979				1979	
		1º trim.	2º trim.	3º trim.	4º trim.	Jan.	Fev.
Pedidos de emprego relativos a desempregados (no final do período)	302,5	274,1	280,0	287,4	302,5	305,9	308,9
- 1º emprego	61,4	51,4	54,2	58,0	61,4		
- novo emprego	241,2	222,7	225,7	229,4	241,2		
Oferta de emprego no final do período	5,1	5,5	6,0	6,5	5,1	5,2	5,3
Colocações efectuadas ao longo do período	17,1	3,9	4,7	4,4	4,1	1,0	1,1

Origem : Direcção do Serviço de Emprego.

RC/MB

INDICES DE EMPREGO, POR ACTIVIDADES

Base: 1968 = 100

Sector de actividade	1974	1975	1976	1977	1978	1977				1978			
						I	II	III	IV	I	II	III	IV
Total	105,3	104,2	105,2	105,8	106,2	105,2	105,8	106,4	105,9	106,1	106,6	106,6	105,6
Pesca	84,8	81,8	77,4	76,9	76,0	71,3	73,2	82,2	81,0	75,0	77,9	77,7	73,2
Ind. Extractiva	83,4	82,5	80,8	79,8	80,4	79,3	79,3	79,8	80,6	80,8	80,3	80,6	79,9
Ind. Transformadora - Total	103,4	102,6	103,3	103,2	102,8	103,4	103,5	103,0	102,3	102,7	103,0	103,1	102,5
Alimentação	79,1	79,9	81,9	83,2	82,3	82,2	82,8	86,2	81,4	81,5	82,4	85,4	79,8
Bebidas e tabaco	158,5	164,7	170,1	175,6	175,3	172,6	179,0	178,8	171,3	173,0	179,2	179,2	171,7
Texteis	102,4	100,1	99,6	99,3	98,3	99,2	99,3	99,5	99,2	98,9	98,7	97,7	97,7
Vestuário e calçado	115,4	115,3	115,7	114,6	116,5	115,0	114,7	114,7	114,1	115,0	114,9	116,6	119,4
Madeira e cortiça	89,9	87,6	86,3	86,3	87,0	86,5	86,2	86,1	86,3	86,7	87,0	87,3	87,1
Mobiliário	116,0	119,9	121,1	117,4	113,9	119,5	118,3	116,3	115,5	115,7	115,2	113,0	111,8
Papel	90,8	89,8	90,7	94,3	95,5	91,9	94,5	95,4	95,4	95,5	95,6	96,3	94,7
Borracha	93,3	93,8	93,3	93,5	93,5	94,1	92,9	93,2	93,9	93,3	93,4	93,6	93,8
Químicas e petróleo	108,9	111,0	112,7	111,5	108,6	115,4	116,0	107,0	107,4	108,3	108,2	107,8	110,1
Minerais não metálicos	109,5	108,1	107,8	108,5	110,1	107,5	108,6	109,1	108,7	109,4	110,5	110,4	110,1
Metalúrgicas e metalomecânicas	110,7	109,4	110,4	109,3	110,3	109,7	109,0	108,9	109,4	110,2	110,4	110,3	110,1
Diversas	120,0	117,5	119,1	121,1	122,1	120,6	121,7	121,0	120,9	121,4	122,1	122,3	122,4
Construção e Obras Públicas	101,1	93,7	93,5	97,2	102,0	92,0	94,5	101,6	100,8	101,8	103,2	102,3	100,8
Electricidade, gás e água	96,6	97,9	101,7	104,2	115,5	102,5	103,6	104,9	105,9	112,1	114,5	117,4	115,1
Serviços - Total	118,8	120,2	122,9	124,5	125,2	123,5	124,9	125,1	124,6	124,8	125,6	125,6	124,6
Comércio	106,8	106,5	106,7	106,2	105,6	106,2	106,5	106,3	105,8	105,9	105,7	105,6	105,2
Bancos, Seguros, Op. s/ Imóveis	164,9	171,9	180,8	190,8	198,7	185,8	189,7	193,5	194,1	195,1	197,6	200,2	201,8
Transportes e Comunicações	112,1	116,6	122,1	123,8	122,5	123,3	124,0	124,0	123,9	123,2	123,1	122,9	120,6
Serviços Pessoais	139,2	135,0	136,7	139,1	141,2	136,3	142,2	139,8	137,7	138,7	145,2	142,7	138,0

Ponte: Serviço de Estatística do Ministério do Trabalho, Inquérito ao emprego

Nota: Os valores até 1977 das séries relativas ao total, Indústria Transformadora (Total), Mobiliário, Químicas e Petróleo, Construção e Obras Públicas, foram compatibilizados com os novos valores para 1978, resultantes das revisões de critérios efectuadas pelo Serviço de Estatística do Ministério do Trabalho

Table 11

Anexo I.19

Distribuição do Rendimento Nacional

(Preços correntes)

Rubrica	1976		1977			1978		
	Valor (10 ⁶ Esc)	%	Valor (10 ⁶ Esc)	%	Taxa de cresc. (%)	Valor (10 ⁶ Esc)	%	Taxa de cresc. (%)
1. Encargos com o factor trabalho	273 847	68,7	321 159	60,7	17,3	375 334	56,4	16,9
a) Ordenados e salários	200 420	50,3	228 048	43,1	13,8	259 975	39,1	14,0
b) Remunerações das Forças Armadas	10 223	2,5	60 848	11,5	24,7	74 660	11,2	22,7
c) Remunerações do Pessoal Civil do sector público	38 559	9,7						
d) Contribuições patronais para a Segurança Social	24 645	6,2						
2. Rendimento de empresa e de pro- priedade dos particulares	125 612	31,5	189 752	35,8	51,0	273 647	41,1	44,2
3. Transferências das sociedades para os particulares	86	0						
4. Poupança das sociedades	- 5 654	- 1,4	14 651	2,8	359,1	18 760	2,8	28,0
5. Impostos directos sobre as sociedades	4 965	1,3	8 466	1,6	70,5	10 653	1,6	25,8
6. Rendimento da propriedade e da empresa do Estado	4 677	1,2	5 686	1,1	21,6	10 100	1,5	77,6
7. Menos juros da dívida pública	5 088	- 1,3	10 600	- 2,0	108,3	22 700	- 3,4	114,2
8. Rendimento Nacional	398 445	100,0	529 114	100,0	32,8	665 794	100,0	25,8

27
Alves C. & No. 1

Table 12
QUADRO 1.21

ÍNDICE DE PREÇOS NO CONSUMIDOR
CONTINENTE

Base (100) : Preços Médios de 1976

Períodos	Classes de Despesas				Total, com exclusão da habitação (1)
	Alimentação e bebidas	Vestuário e calçado	Despesas de Habitação	Diversos	
1977	131.9	118.7	126.5	119.7	127.3
1º trimestre	118.2	112.0	112.3	110.3	115.6
2º trimestre	135.5 (14.6)	115.6 (3.2)	124.0 (10.4)	117.5 (6.5)	128.9 (11.5)
3º trimestre	134.1 (-1.0)	118.0 (2.1)	133.1 (7.3)	122.2 (4.0)	129.4 (4.4)
4º trimestre	138.6 (3.4)	129.2 (9.5)	136.6 (2.6)	128.3 (5.0)	135.0 (4.3)
1978	161.5 (22.4)	141.8 (19.5)	156.6 (31.9)	145.0 (21.1)	155.4 (22.1)
1º trimestre	147.1 (6.1)	131.8 (2.0)	139.1 (1.8)	132.6 (3.4)	141.5 (4.8)
2º trimestre	160.2 (8.9)	133.6 (1.4)	153.8 (10.6)	140.0 (5.6)	152.4 (7.7)
3º trimestre	165.6 (3.4)	139.8 (4.6)	162.8 (5.9)	149.4 (6.7)	159.2 (4.5)
4º trimestre	178.3 (7.7)	149.5 (6.9)	166.0 (2.0)	158.6 (6.2)	169.7 (6.6)
1979					
1º trimestre	187.7 (5.3)	155.9 (4.3)	168.1 (1.3)	161.1 (1.6)	176.5 (4.0)
Janeiro	183.2	153.9	167.7	159.7	173.3
Fevereiro	187.7	155.6	168.2	161.4	176.5
Março	192.3	158.2	168.3	162.3	179.6
Abril	200.8	163.1	169.3	162.8	185.1

200.8 - will also
about May prices.

200
200
200

(1) Base de ponderação: "Inquérito às despesas familiares, de 1973/74" (INE)

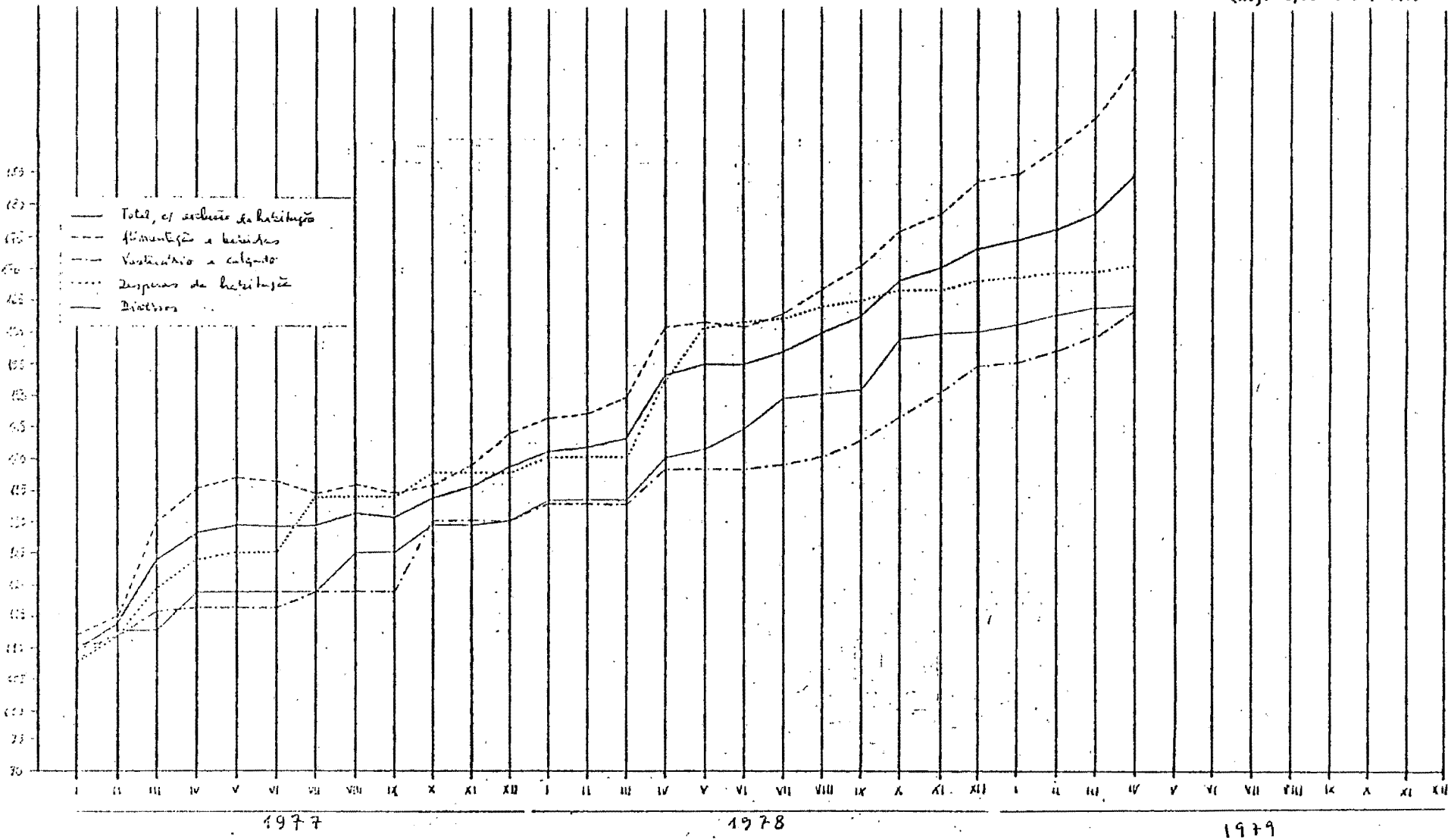
NOTA: Os números entre parêntesis representam taxas médias anuais e trimestrais de crescimento dos preços

ORIGEM; INE, "Índices de Preços no Consumidor".

Gráfico 11

Índices de Preços ao Consumidor

Base (100): preços médios de 1976



Fonte: INE, "Índices de Preços ao Consumidor"

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ANEXO 2-010-1

ÍNDICE DE PREÇOS NO CONSUMIDOR

Meeting No. 1.
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CONTINENTE

Base (100) : Preços Médios de 1976

Classe, grupos e subgrupos	1977	1978	Taxa de Cresct? %
Alimentação e bebidas	131.9	161.5	22,4
Alimentação	132.1	156.3	18.3
Cereais	122.4	145.1	18.5
Batatas, legumes e frutas ...	144.8	142.5	- 1.6
Carnes	137.2	161.7	17.9
Pescado	130.2	175.5	34.8
Leite e ovos	124.3	149.3	20.1
Óleos e gorduras	119.6	140.7	17.6
Alimentação consumida fora de casa	123.9	156.6	26.4
Outros	141.1	173.7	23.1
Bebidas	129.2	220.7	70.8
Vestuário e calçado	118.7	141.8	19.5
Vestuário	117.9	140.3	19.0
Calçado	122.7	149.3	21.7
Despesas de habitação	126.5	156.6	23.8
Aquisição de bens duráveis	123.1	143.1	16.2
Outras despesas	129.7	169.8	30.9
Diversos	119.7	145.0	21.1
Transportes	124.5	148.5	19.3
Outros	116.3	142.5	22.5
Total, com exclusão da habitação	127.3	155.4	22.1

ORIGEM: INE, "Índices de Preços no Consumidor"

Table 14.

CONTRIBUIÇÃO DAS VÁRIAS COMPONENTES DO CUSTO E DA DESPESA PARA A VARIACÃO

DOS PREÇOS IMPLÍCITOS NA DESPESA FINAL TOTAL

(em percentagem)

Anos	Contribuição das componentes do custo (em % do total)				Taxa de Variação dos Preços implícitos na Despesa Final Total	Contribuição das compon. da despesa (em % do total)			
	Remunerações do trabalho	Outros ren- dimentos	Impostos indi- rectos menos subsídios	Importações		Consumo privado	Consumo público	Investimento bruto	Exportações
1974	42,1	9,5	2,0	46,4	25,2	64,2	11,6	9,1	15,1
1975	102,7	-7,9	11,8	-6,6	15,1	111,6	21,3	-21,3	-11,6
1976	52,5	19,1	11,1	17,3	16,1	57,9	6,2	39,4	- 3,5
1977	16,9	46,3	5,9	30,9	27,2	45,9	10,1	30,0	14,0
1978	26,8	48,3	3,8	21,1	21,0	55,0	12,4	12,6	20,0

Origem: 1974 e 1975 - INE, "Contas Nacionais"

1976, 1977 e 1978 - Contas nacionais estimadas pelo Banco de Portugal e pelo Departamento Central de Planeamento.

LA/AS

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Table 1.5

CONTRIBUIÇÃO DAS IMPORTAÇÕES PARA A VARIACÃO DOS PREÇOS IMPLÍCITOS NADESPESA FINAL TOTAL

(em percentagem)

Anos	Taxa de variação dos Preços implícitos na Despesa Final Total	Contribuição das importações			
		Total	Varição do "Grau de penetração das importações" (1)	Atribuível a: Variação dos preços internacionais	Variação da taxa de Câmbio efectiva
1974	25,2	46,4	,4	42,8	3,2
1975	15,1	- 6,6	-29,7	16,5	6,6
1976	16,1	17,3	- ,6	3,7	14,2
1977	27,2	30,9	4,8	1,5	24,6
1978	21,0	21,1	- 1,9	-4,3	27,3

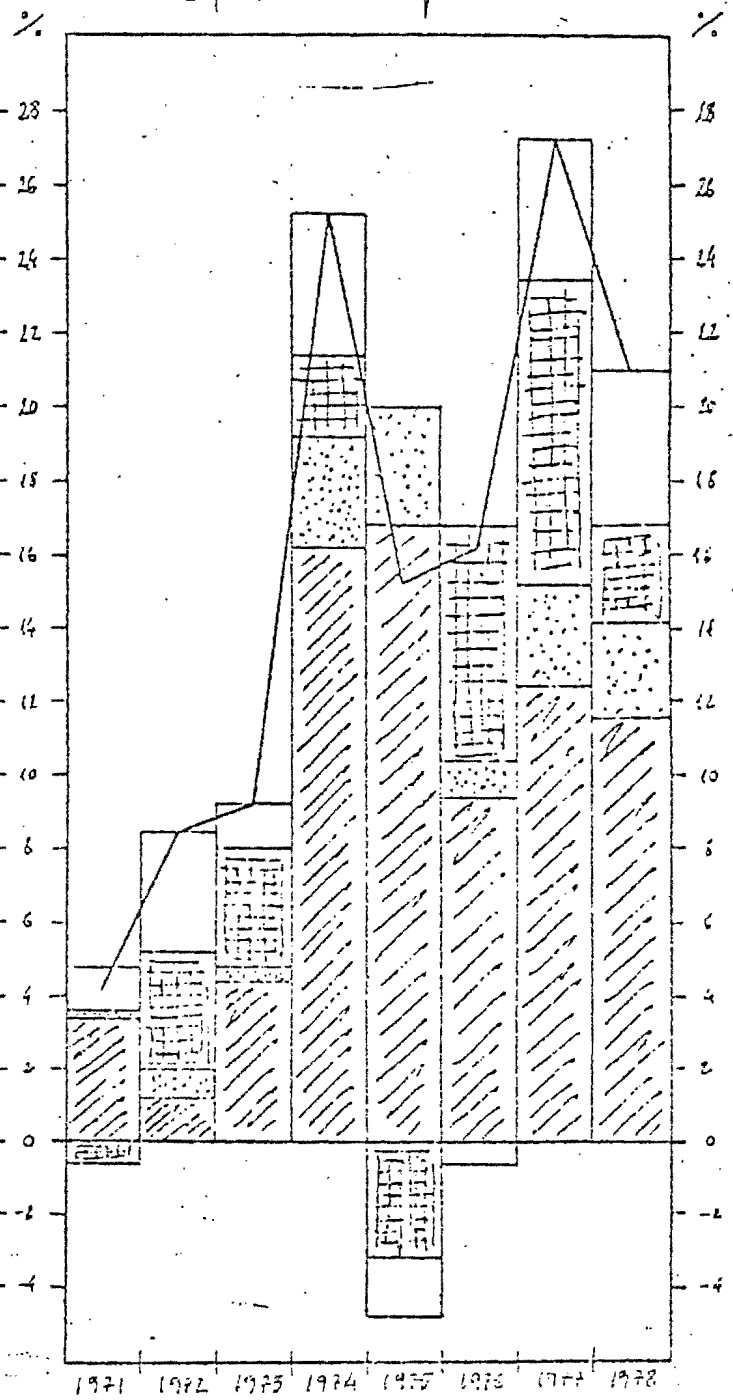
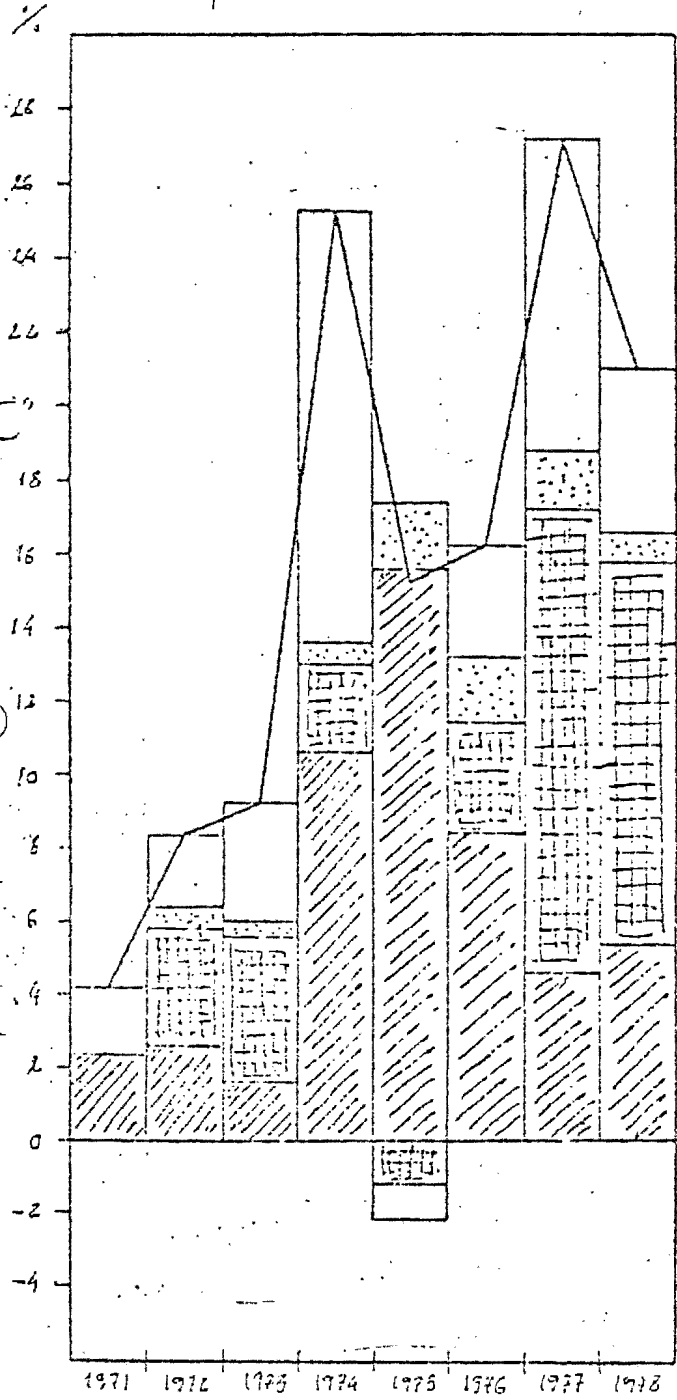
(1) Peso das importações na despesa final total ($\text{PNB}_{\text{pm}} + \text{Importações}$), ambas as grandezas expressas a preços constantes de 1963.

RC/AS

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 57
 1978-1979
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Óptica dos Custos

Óptica da Despesa



- Remuneração de trabalho
- Outros rendimentos
- Fiscalidade indirecta
- Impostos de lucros e serviços

- Consumo privado
- Investimento Bruto
- Consumo público
- Despesas de bens e serviços

Table 16
Quadro 1

PRODUTO INTERNO BRUTO, A PREÇOS CORRENTES

Unidade: Milhares de contos

SECTORES	1974	1975	1976	1977	1978	Origem, em % do P.I.B.	
						1977	1978
Agricultura e Pesca	47 726	53 187	61 494	71 948	90 539	12,8	12,7
Indústrias Extractivas	1 280	2 028	2 524	3 788	4 735	0,7	0,7
Indústrias Transformadoras	112 653	114 817	142 754	200 034	256 292	35,5	35,3
Electricidade, Gaz e Água	6 254	6 976	10 508	15 114	21 403	2,7	3,0
Construção	21 438	22 619	27 194	36 222	45 640	6,4	6,3
Transportes e Comunicações	19 843	23 722	28 060	36 702	45 224	6,5	6,5
Comércio por Grosso e a Retalho	37 576	41 978	53 054	70 190	83 506	12,4	12,1
Bancos e Seguros	12 150	13 833	17 478	37 083	46 598	6,6	6,5
Propriedades Imobiliárias	6 953	7 914	9 531	66 977	85 195	11,9	11,9
Administração Pública e Defesa	17 376	21 428	28 321	25 726	33 239	4,6	4,6
Serviços de Saúde e Educação	11 454	19 174	23 839				
Serviços Diversos	13 169	14 462	17 577				
P.I.B., ao custo dos factores	308 962	342 138	422 634	563 834	715 376	100,0	100,0
Mais: Impostos Indirectos	37 002	41 741	61 681	79 300	97 400		
Menos: Subsídios	7 550	7 640	16 660	20 900	30 900		
P.I.B., a preços de mercado	338 414	376 239	467 655	622 234	781 876	110,4	109,4

Origem:

Fontes: 1974 e 1975, Instituto Nacional de Estatística, Contas Nacionais; 1976, 1977 e 1978, estimativas do Banco de Portugal e Departamento Central de Planeamento.

PRODUTO INTERNO BRUTO, A PREÇOS CONSTANTES DE 1963

Un: milhares de contos.

Sector	1974	1975	1976	1977	1978	Taxa anual de crescimento	
						1977	1978
Agricultura e pesca	19 414	13 160	17 869	16 100	16 744	-10,0	4,0
Indústrias extractivas	947	959	1 096	1 264	1 264	15,3	0
Indústrias transformadoras	65 943	59 534	62 209	68 055	70 281	9,4	3,3
Electricidade, gás e água	5 714	5 706	5 721	6 865	7 311	20,0	6,5
Construção	9 575	8 074	8 478	9 410	9 881	11,0	5,0
Transportes e comunicações	12 416	11 483	11 769	12 181	12 303	3,5	1
Comércio por grosso e a retalho	17 775	16 955	18 012	18 623	18 623	3,4	0
Bancos e Seguros	5 883	5 364	6 517	12 739	13 121	10	3
Propriedades imobiliárias	4 740	4 911	5 064				
Administração pública e defesa	11 457	12 803	15 786	27 895	29 569	7	6
Serviço de saúde e educação	6 871	9 335	10 284				
Serviços diversos	6 038	5 683	6 557	7 212	7 392	10	2,5
PIB, ao custo dos factores	166 773	153 967	169 382	180 344	186 489	6,5	3,4

Origens

Fontes: 1974 e 1975, Instituto Nacional de Estatística, Contas Nacionais; 1976, 1977 e 1978, estimativas do Banco de Portugal e Departamento Central de Planeamento.

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 Estatística

QUADRO 3

Table 18

PRODUTO INTERNO BRUTO DA INDÚSTRIA TRANSFORMADORA, A PREÇOS CONSTANTES DE 1963

Un: milhares de contos

SECTORES	1974	1975		1976		1977		1978	
	Valor	Valor	Crescimen- to (%)	Valor	Cresci- o (%)	Valor	Cresci- o (%)	Valor	Cresci- o (%)
Alimentação, bebidas e tabaco	6 860	7 165	4,1	7 254	1,2	7 718	6,4	8 385	8,6
Têxteis, vestuário e calçada	17 975	15 442	-14,1	16 437	6,4	15 796	-3,9	15 777	-0,1
Madeira, cortiça e mobiliário	3 775	2 760	-26,4	2 768	-0,4	3 081	11,3	3 112	1
Papel, tipografia e editoriais	3 140	2 659	-15,3	2 693	1,3	2 860	6,2	2 831	-1
Químicas e conexas	7 808	7 081	-9,3	7 607	7,4	8 565	12,6	9 096	6,2
Produtos minerais não metálicos	4 724	4 661	-1,3	5 077	8,9	5 839	15,0	6 262	7,2
Metalúrgicas de base	1 071	925	-13,6	1 115	20,5	1 355	21,5	1 599	18
Produtos metálicos, máquinas, material eléctrico e de transporte	17 919	16 421	-8,4	16 383	-0,2	19 103	16,6	19 294	1
Transformadoras diversas	2 651	2 400	-9,5	2 875	19,8	3 738	30,0	3 925	5
Total	65 943	59 534	-9,7	62 209	4,5	68 055	9,4	70 281	3,3

Origens: ^{INE} Fontes: 1974, 1975 e 1976, Instituto Nacional de Estatística, Contas Nacionais; 1977 e 1978, estimativas do Banco de Portugal e Departamento Central de Planeamento.

JG/MD

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Table 19

CONTA DA DESPESA NACIONAL, A PREÇOS CORRENTES

Unidade: Milhares de contos

Discriminação	1974	1975	1976	1977	1978
Consumo privado	257 407	303 768	367 179	470 223	579 884
Bens duradouros	26 005	31 168	40 105	50 742	53 431
Bens não duradouros	231 402	272 600	327 074	419 481	526 453
Consumo público	49 136	57 983	66 122	88 200	111 767
Civil	29 034	41 242	51 949	70 223	90 036
Militar	20 102	16 741	14 173	17 977	21 731
Investimento bruto	84 287	61 547	97 333	157 936	180 718
Formação bruta de capital fixo	66 761	73 992	88 931	125 500	156 624
da qual: Casas de habitação	13 452	14 316	16 355	22 329	28 207
Investimento produtivo	46 478	50 608	59 802	84 851	106 383
Investimento público (Estado)	6 831	9 068	12 774	18 320	22 024
da qual: Construção	40 423	47 914	59 868	82 414	102 075
Equipamentos	26 338	26 078	29 052	43 096	54 549
Variação de existências	17 526	-12 445	8 402	32 436	24 094
Exportação de bens e serviços	87 745	74 067	73 679	110 984	156 113
Importação de bens e serviços	140 161	121 050	141 658	205 109	246 606
Produto interno bruto a preços de mercado	333 414	376 239	467 655	622 234	781 876
Saldo dos rendimentos do Resto do Mundo	3 279	- 369	- 4 021	- 6 872	-14 487
Produto nacional bruto a preços de mercado	341 693	375 870	463 634	615 362	767 389
Menos: Impostos indirectos	37 002	41 741	61 681	79 300	97 400
Mais : Subsídios	7 550	7 640	16 660	20 900	30 900
Produto nacional bruto ao custo de factores	312 241	341 769	418 613	556 962	700 889

Origens: 1974 e 1975, INE, Contas Nacionais; 1976, estimativa do Banco de Portugal e Departamento Central

do Planeamento

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Atalaya 2001

~~QUADRO 5~~
Table 20

DESPEZA INTERNA, A PREÇOS CONSTANTES DE 1963

Unidade: milhares de contos

DISCRIMINAÇÃO	1974	1975	1976	1977	1978
Consumo privado	137 311	136 096	140 859	141 704	143 121
Consumo público	26 315	28 057	30 021	32 813	34 650
Civil	9 866	8 172	7 362	8 525	9 280
Militar	16 449	19 885	22 659	24 388	25 370
Investimento bruto	41 348	22 615	29 321	39 487	36 994
Formação bruta de capital fixo	32 026	28 406	28 639	32 076	33 359
Variação de existências	9 322	- 5 791	682	7 411	3 635
Exportação de bens e serviços	38 757	32 715	32 715	34 645	39 461
Importação de bens e serviços	65 404	48 909	50 572	56 641	56 074
Produto interno bruto a preços de mercado	178 327	170 574	182 344	192 008	198 152

Origens: 1974 e 1975 - INE, Contas Nacionais

1976, 1977 e 1978 - estimativas do Banco de Portugal e do Departamento Central de Planeamento.

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	1974	1975	1976	1977		1978	
				Quant.	Taxa de variação (%)	Quant.	Taxa de variação (%)
GRANDEZAS							
Correntes (10 ³ t)					-24,3 ⁽¹⁾		7,6 ⁽²⁾
Trigo	533,6	601,2	685,7	224,3	-67,3	252	12,3
Milho	485,5	451,3	378,5	441,9	16,8	443	0,2
Centeio	142,8	145,9	164,8	102,7	-37,7	104	1,3
Arroz	129,5	132,7	97,2	95,0	-2,3	135	42,1
Aveia	99,1	120,7	126,7	59,5	-53,0	59	-0,8
Cevada	74,5	86,4	116,8	39,4	-66,3	39	-1,0
Tubérculos e Legumes (10 ³ t)					24,6 ⁽¹⁾		-5,5 ⁽²⁾
Fava	27,1	25,9	26,2	14,8	-43,5	17	14,9
Feijão	39,6	39,3	31,7	37,7	18,9	37	-1,9
Grão-de-bico	14,2	15,0	14,7	11,2	-23,8	16	42,9
Batata	1 114,5	1 012,9	918,1	1 200,6	30,8	1 080	-10,0
Vinho (10 ³ hl)	13 872,6	8 783,3	9 252,9	6 586,9	-28,8	5 988	-9,1 ⁽²⁾
Azeite (10 ³ hl)	525,6	538,9	391,5	325,2	-16,9	322	-1,0 ⁽²⁾
Frutas (10 ³ t)					-28,0 ⁽¹⁾		3,1 ⁽²⁾
Castanha	32,4	32,7	33,4	28,7	-14,1	28	-2,4
Maçã	122,2	140,5	154,6	94,5	-38,9	117	23,8
Pera	49,5	61,9	65,0	44,0	-32,3	45	2,3
Pêssego	52,6	63,0	79,3	32,6	-58,9	36	10,4
Amêixa	8,4	7,4	8,0	3,7	-53,8	3,6	-2,7
Cereja	15,0	15,4	21,3	11,7	-45,1	10	-14,5
Figo	88,3	84,1	62,4	33,8	-42,6	36	0,6
Amêndoa	18,2	11,5	17,0	5,3	-68,8	9	69,8
Laranja	114,3	120,0	104,4	116,0	11,1	97	-16,4
Vegetais (10 ³ t)							
Tomato	714,4	826,1	493,2	665,8	35,0 ⁽¹⁾	679	2,0 ⁽²⁾
Total					-16,0 ⁽¹⁾		-1,6 ⁽²⁾
PECUARIA							
Gado abatido (peso limpo, t) - Total	175 963	197 891	183 945	189 289	2,9	219 835	16,1
Bovino	84 772	93 069	79 821	77 705	-2,7	89 923	15,7
Ovino	10 347	10 055	9 278	7 932	-14,5	9 698	22,3
Caprino	1 965	2 245	1 903	1 672	-12,1	2 183	30,6
Suíno	77 745	92 485	92 075	101 288	10,0	117 206	15,7
Equino	1 134	1 037	869	692	-20,4	825	18,2
Animais de capoeira (tqz.)							
Frango	81 558	81 789	96 790	115 179	19,0	117 398	1,9
Ovos (t)	23 864	24 926	24 397	32 400	27,5	36 982	14,1
Leite (10 ³)	600 118	626 486	637 732 (342 256)	673 578 (301 504)	5,6	(438 970)	(21,4)
Manteiga (t)	1 776	1 351	1 475 24 828	(2 102) 27 844	48,7	(2 737)	(30,2)
Queijo (t)	21 473	21 961	(21 184)	(23 366)	12,1	(37 796)	(33,2)
Total							

taxa de variação dos índices de quantidades calculados com base nos preços de 1976.
 taxa de variação dos índices de quantidades calculados com base nos preços de 1977.
 e : INE, Anuário Estatístico, Boletim Mensal das Estatísticas da Agricultura e Pesca;
 CEP, Informação Sócio-Econômica (números entre parêntesis); os valores para o leite dizem respeito
 apenas ao leite controlado)

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ÍNDICES DE PRODUÇÃO INDUSTRIAL

INDÚSTRIA TRANSFORMADORA - TOTAL

(Índice-base)

(Base : 1970 = 100)

Períodos	Média dos Índices mensais brutos	Média dos índices mensais dessazonalizados e ajustados dos dias úteis
1971	<u>108,6</u>	<u>108,3</u>
1º trimestre	94,2	99,1
2º trimestre	111,1	108,0
3º trimestre	110,5	107,2
4º trimestre	118,7	119,0
1972	<u>122,7</u>	<u>123,0</u>
1º trimestre	114,0	116,7
2º trimestre	121,1	119,0
3º trimestre	131,7	131,0
4º trimestre	124,1	125,3
1973	<u>137,2</u>	<u>137,3</u>
1º trimestre	129,6	130,4
2º trimestre	135,1	133,3
3º trimestre	137,4	137,2
4º trimestre	146,5	148,1
1974	<u>140,3</u>	<u>140,4</u>
1º trimestre	146,2	146,6
2º trimestre	162,6	161,4
3º trimestre	133,0	136,8
4º trimestre	139,5	136,8
1975	<u>133,0</u>	<u>133,3</u>
1º trimestre	134,6	135,6
2º trimestre	134,1	131,3
3º trimestre	127,0	131,9
4º trimestre	136,2	133,8
1976	<u>139,8</u>	<u>139,3</u>
1º trimestre	137,2	136,3
2º trimestre	142,7	138,3
3º trimestre	130,6	136,5
4º trimestre	148,6	146,2
1977	<u>155,7</u>	<u>155,6</u>
1º trimestre	151,1	150,3
2º trimestre	158,2	153,5
3º trimestre	148,9	157,0
4º trimestre	164,8	161,7
1978	<u>166,2</u>	<u>166,6</u>
1º trimestre	166,9	165,7
2º trimestre	170,2	164,1
3º trimestre	155,4	164,6
4º trimestre	172,1	172,1

Fonte: INE, Boletim Mensal das Estatísticas Industriais e Índices de Produção Industrial; coeficientes de sazonalidade fornecidos pela

Table 3

ÍNDICES DE PRODUÇÃO INDUSTRIAL

(Média dos índices mensais, corrigidos dos dias úteis)

(Base : 1970 = 100)

Sector de actividade	1974	1975	1976	1977	1978	1977				1978			
						1º trim.	2º trim.	3º trim.	4º trim.	1º trim.	2º trim.	3º trim.	4º trim.
Indústrias extractivas	100,2	91,61	83,0	71,2	72,8	68,2	71,2	62,6	62,7	70,2	68,3	67,8	84,7
Indústrias transformadoras - Idal Total	140,2	133,2	139,4	155,8	166,8	150,9	160,6	145,8	165,7	166,8	172,3	152,6	175,5
Alimentação	129,5	136,5	162,7	177,2	169,0	166,9	173,5	175,2	193,4	178,3	181,7	182,4	213,5
Bebidas	197,6	209,6	206,4	213,3	259,7	183,9	247,3	264,7	157,3	201,0	264,5	330,8	242,5
Têxteis	147	122,2	173,7	120,3	122,5	126,8	126,6	99,5	128,1	128,2	131,1	97,2	133,5
Madeira e cortiça	121,5	99,9	107,8	122,8	124,9	135,2	129,5	97,7	128,8	127,4	125,0	108,5	138,6
Papel	143,4	131,9	138,8	159,6	154,5	161,9	164,6	146,2	165,7	165,6	155,8	142,9	153,5
Químicas	135,1	130	144,1	158,3	171,1	153,3	164,5	151,9	163,5	176,4	179,5	156,7	171,9
Borracha	118,4	107,6	99,9	124,5	127,6	134,6	134,2	91,1	137,9	138,9	143,5	90,8	137,0
Derivados de petróleo bruto e carvão	148,3	149,9	149,2	151,8	160,8	146,1	150,6	162,3	148,4	146,4	151,0	174,9	170,8
Minerais não metálicos	142,4	136,8	148,3	170,2	187,2	163,6	179,0	170,7	167,3	184,2	196,7	177,9	189,9
Metalúrgicas de base	141,3	109,8	124,8	162,6	201,1	131,5	162,1	155,0	201,7	200,3	210,4	190,5	203,2
Produtos metálicos	121,9	116,1	120,5	143,3	158,2	141,8	153,8	113,7	164,0	166,1	173,2	123,0	170,5
Construção de máquinas mecânicas	199,7	170	114,4	147,7	142,0	145,2	138,8	139,2	167,8	154,5	136,7	102,5	174,1
Construção de máquinas e aparelhos eléctricos	139,3	117,5	110,8	136,3	153,2	135,7	140,7	110,4	158,3	164,9	170,3	115,2	162,2
Artigos de matérias plásticas	145,6	125,6	159,1	195,4	203,8	193,8	205,7	177,9	204,3	213,5	219,2	177,7	204,8
Material de transporte	141,1	121,6	137,2	136,3	160,6	135,7	149,7	110,4	158,3	169,2	188,4	127,8	157,1
Electricidade, gás e vapor	145,8	144,6	132,6	179,0	187,0	205,4	163,4	151,5	195,4	226,4	192,4	134,6	194,7
Índice geral	139,7	133,0	137,3	155,4	166,0	153,2	158,5	144,1	165,9	169,1	171,3	148,9	174,7

Fonte : INE, Boletim mensal das Estatísticas Industriais e Índices de Produção Industrial

alterar no. 1

44-111-1
Table 24 42

electing No. 1

GRAU DE UTILIZAÇÃO DA CAPACIDADE PRODUTIVA NA INDÚSTRIA TRANSFORMADORA

(Em percentagem)

Discriminação	1973		1974	1975	1976	1977				1978			
	Março	Setº	Março	Média anual	Média anual	1º trim.	2º trim.	3º trim.	4º trim.	1º trim.	2º trim.	3º trim.	4º trim.
Bens de consumo	80	83	84	82	77	78	76	78	77	75	74	75	73
Bens intermediários	85	87	88	76	73	80	79	78	79	78	78	77	77
Bens de investimento	84	81	93	68	60	81	80	81	80	80	80	78	76
Total	84	85	86	76	70	76	76	78	78	78	78	78	77
Alimentação						74	71	75	74	75	73	73	73
Bebidas						54	70	79	58	59	67	78	59
Tabaco						100	100	100	100	100	85	95	95
Têxteis						75	74	77	76	75	75	76	77
Calçado e vestuário ⁽¹⁾						71	70	76	74	74	75	77	76
Madeira e cortiça						75	73	76	76	77	77	75	76
Mobiliário						67	64	70	70	65	60	64	66
Papel						85	81	87	85	64	85	89	84
Artes gráficas e editoriais						71	71	75	75	76	73	74	76
Curtumes						82	79	82	81	79	72	74	73
Borracha						82	81	82	84	85	86	83	83
Químicas ⁽²⁾						79	77	80	80	79	78	78	78
Derivados do petróleo ⁽³⁾						61	61	62	69	79	53	53	86
Produtos minerais não metálicos ⁽⁴⁾						81	80	82	82	65	83	83	84
Metalúrgicas de base ⁽⁵⁾						77	79	85	84	84	86	84	81
Produtos metálicos						76	77	80	78	77	78	78	76
Máquinas não elétricas						77	77	81	79	83	82	83	81
Material elétrico						79	79	80	81	86	85	87	83
Material de transporte						80	82	84	82	81	81	78	77
Outras						74	73	75	76	77	78	77	77

Origem: INE, Inquérito de Conjuntura à Indústria Transformadora (ICIT)

Nota: O ICIT forneceu os números de 1977 segundo a versão de 1964 da CAE e os de 1978 segundo a versão de 1973 da CAE

Para não haver quebra da série, ajustaram-se alguns números de 1978, de acordo com o referido nas notas (1) a (5).

(1) - em 1976 esta classe correspondeu às classes do calçado e do vestuário.

(2) - em 1978 : produtos químicos industriais + outros produtos químicos.

(3) - em 1978 : refinarias de petróleo + derivados do petróleo bruto e carvão

(4) - em 1978 : porcelana, grês fino e olaria + vidro e artigos de vidro + outros produtos minerais não metálicos

(5) - em 1978 : básicas de ferro e aço + básicas de metais não ferrosos

Table 5

QUADRO 10

TRANSPORTES

Tipos de transporte	1975	1976	1977	1978	1978			
					1º trim.	2º trim.	3º trim.	4º trim.
Ferroviário								
Passageiros/quilômetro transportados (milhões)	4 856	5 134	5 243 (4,517) ⁽¹⁾	4 301 ⁽¹⁾	1 318	1 225	1 321	
Mercadorias/quilômetro transportadas (milhares de toneladas)	754 004	856 154	884 701 (737 319) ⁽¹⁾	779 576 ⁽¹⁾	253 316	243 695	205 633	
Rodoviário (interurbano)								
Passageiros/quilômetro transportados (milhões)	3 023	2 856	2 371 (1 987) ⁽²⁾	2 088 ⁽²⁾	559	550	582	
Aéreo (companhias metropolitanas)⁽³⁾								
Passageiros/quilômetro transportados (milhões)	3 012	2 326	3 017	3 604	797	754	1 287	766
Mercadorias/quilômetro transportadas (toneladas)	60 506	67 874	85 848	105 459	23 247	25 649	28 335	28 228
Marítimo (porto de Lisboa)								
Mercadorias embarcadas e desembarcadas (milhares de toneladas)	9 765	11 931	11 408	11 365	2 899	3 103	2 547	2 816

(1) Referente a Janeiro/Outubro
 (2) Referente a Janeiro/Novembro
 (3) Não inclui movimento da SATA

Origem: INE, Boletim Mensal de Estatística

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estatística No 1

Table 26

QUADRO 11

INQUÉRITO AO COMÉRCIO POR GROSSO

Saldo das respostas extremas, em percentagem (a)

Setores de actividade	Volume de vendas efectuado relativamente ao trimestre anterior												Prospecções de volume de vendas no trimestre seguinte											
	1976				1977				1978				1976				1977				1978			
	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.
1) Bens de consumo não duradouros	-13,0	-6,5	+13,3	+8,8	-22,5	-27,3	-8,3	+33,0	+48,3	-9,3	-25,3	+44,0	-8,0	-22,5	+38,5	-20,0	-1,5	-9,3	+12,5	-53,0	-6,0	-30,5	+24,0	-22,0
2) Bens de consumo duradouros	-22,7	-2,1	+45,5	+67,7	-2,3	+29,3	+1,9	+19,0	-28,3	-0,7	-10,3	+43,2	+12,3	-26,3	+31,7	-22,3	-12,7	-22,0	+44,0	-42,0	+2,0	-34,7	+39,3	-53,0
3) Bens de investimento	+50,0	+50,0	+20,0	+27,0	+37,0	+32,0	+1,0	+5,0	-4,0	-37,0	-2,0	+13,0	+15,0	-22,0	+22,0	-7,0	-9,0	-22,0	-8,0	-47,0	0,0	-26,0	-6,0	-16,0
4) Produtos Intermediários	+10,7	-19,7	-8,7	+9,3	-7,7	+22,7	-19,7	-4,7	-21,0	-3,3	-22,3	+26,3	-17,2	-21,3	+6,3	-25,0	+8,3	-8,3	-3,7	-13,7	-0,3	-28,0	-14,3	-16,0
5) Total	+3,0	-10,9	+15,0	+17,0	-10,0	+11,0	-3,0	+23,0	-21,0	+1,0	-28,0	+43,0	-7,0	-23,0	+21,0	-10,0	+7,0	-7,0	+9,0	-19,0	0,0	-23,0	+13,0	-14,0
Setores de actividade	Nível actual das encomendas relativamente ao trimestre anterior												Encomendas aos fornecedores relativamente ao trimestre anterior											
	1976				1977				1978				1976				1977				1978			
	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.
1) Bens de consumo não duradouros	-6,0	-2,0	-5,0	+6,0	+3,5	+11,0	+8,0	-6,0	+6,0	-1,0	-11,3	-7,0	+6,0	-1,0	+8,0	+3,0	-0,0	+8,0	-19,0	+16,0	-5,3	-5,3	-29,0	+22,0
2) Bens de consumo duradouros	-4,0	-11,0	+3,0	-2,3	-	+0,7	+1,7	+12,3	+17,0	+22,0	-32,3	+23,3	+14,3	-6,7	+41,3	-27,0	+10,7	+10,0	-7,7	+7,0	-14,7	-10,7	-33,7	+6,7
3) Bens de investimento	-20,0	-20,0	-10,0	-10,0	-15,0	+5,0	-2,0	-21,0	-15,0	+1,0	+9,0	+21,0	+42,0	+45,0	+17,0	+23,0	+20,0	+37,0	+14,0	-3,0	-5,0	-2,0	-3,0	-5,0
4) Produtos Intermediários	-20,3	-19,3	-32,3	-10,0	-11,7	-17,0	-24,0	-21,7	-13,3	+1,7	-2,3	+0,7	+6,0	-17,7	+4,0	+25,7	-6,7	+10,0	+10,3	+0,3	-0,7	-3,0	-22,0	+21,3
5) Total	-11,0	-8,0	-9,0	-6,0	-5,0	-5,0	-13,0	-5,0	-5,0	0,0	-1,0	+2,0	+16,0	+5,0	+17,0	+22,0	-1,0	+11,0	-2,0	+10,0	-3,0	+3,0	-21,0	+26,0

(a) Entre os níveis e o volume de vendas em caso normal de actividade; entre aumentos e diminuições nos resultados crescentes.

- (1) Vestuário e Calçado; Alimentos, Bebidas e Tabaco.
- (2) Automóveis, Materiais e Bicicletas; Ferramentas, Utilidades, Equipamento e Aparelhos Eléctricos; Móveis e Artigos de Mobilidade.
- (3) Máquinas e Alfarrupes Agrícolas; Máquinas Industriais e Comerciais.
- (4) Materiais-primas agrícolas; Minérios; Matéria e produtos Químicos Industriais; Têxtil, Cera e Material de Construção.

Origem: Inquérito do Comércio ao Consumidor de Trimestre-Resposta de Setembro 1976, "Impulso à Conjuntura - Comércio".

diário 1001

Table 21

EUABRO 5 12

Inquérito ao comércio a retalho
Saldo das respostas estencias, em percentagem (a)

Sector de actividade	Volume de vendas <i>relativamente ao mesmo período</i>												Perspectivas de vendas do volume de vendas <i>relativamente ao mesmo período</i>											
	1976				1977				1978				1976				1977				1978			
	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.
1) Bens de consumo não duradouros	-20,0	+29,3	+0,5	+23,5	-11,3	+0,3	+11,8	+27,8	-21,0	-3,8	-4,3	+49,5	-1,3	-12,3	+13,3	-22,0	+18,3	-0,3	+23,3	-20,5	+14,5	-20,3	-27,3	-53,3
2) Bens de consumo duradouros	-29,3	-23,7	-2,3	+22,7	-12,3	-12,0	-22,0	+27,3	-43,3	-40,7	-9,7	+19,0	-32,0	-21,0	+3,3	-42,7	-13,0	-22,3	+0,7	-41,0	-26,3	-46,3	-2,7	-51,0
3) Combustível	-47,0	-32,0	+22,0	-5,0	-13,0	-16,0	-11,0	-45,0	-1,0	-11,0	-3,0	-6,0	-2,0	-11,0	-31,0	-52,0	-23,0	+3,0	-19,0	-51,0	-26,0	+18,0	-25,0	-24,0
4) Total	-46,0	-1,0	+1,0	+20,8	-23,0	-16,0	+8,0	+19,0	-23,0	-18,0	-8,0	+27,0	-11,0	-16,0	+10,0	-37,0	+8,0	-19,0	+25,0	-43,0	+3,0	-28,0	+29,0	-47,0

Sector de actividade	Nível de actividade <i>relativo das actividades em comparação</i>												Recomendas aos fornecedores <i>relativamente ao mesmo período</i>											
	1976				1977				1978				1976				1977				1978			
	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.	1.º trim.	2.º trim.	3.º trim.	4.º trim.
1) Bens de consumo não duradouros	-12,3	-11,3	-13,0	+1,3	+2,3	+2,0	-3,3	-10,3	+3,3	+3,3	+1,3	14,0	+4,3	+22,3	+12,3	+17,3	-1,3	-0,3	+18,0	-7,3	-12,3	-6,8	-11,0	+26,8
2) Bens de consumo duradouros	-22,7	-10,7	-13,0	-7,0	1,0	+4,0	+1,3	-1,7	-19,7	+3,7	-7,7	-2,3	-10,7	-4,3	+26,3	+26,3	-2,0	-10,7	-14,0	+6,7	-43,0	-20,0	-22,7	+12,7
3) Combustível	-13,0	-1,0	-10,0	-8,0	+6,0	+6,0	-8,0	-2,0	+4,0	+1,0	0,0	+1,0	-13,0	-21,0	+6,0	-2,0	-43,0	-15,0	-22,0	-25,0	0,0	-14,0	-8,0	-15,0
4) Total	-23,0	-12,0	-18,0	-1,0	-8,0	-4,0	-6,0	-11,0	+12,0	+1,0	-11,0	-1,0	-12,0	+13,0	+22,0	+23,0	-11,0	-17,0	+9,0	+3,0	-29,0	-9,0	-12,0	+24,0

(a) *Saldo das respostas e volume de vendas em termos de matéria em comparação*
 (1) Cereais Alimentícios e Bebidas; produtos Químicos Farmacêuticos e Outros; Têxtil, Vestuário e Calçado, Diversos
 (2) Móveis e Artigos de Mobiliário; Ferragens e utilidades; Automóveis, Motores e Bateria
 (3) Petróleo Gasolina e outros produtos.
 Origem: inquérito de Conjuntura do Conselho de Instituto Nacional de Estatística, INE, "Inquérito à Conjuntura do comércio"

1000000
 No. 1

QUADRO 13
Table 28 46

Sheet No. 1

INDICADORES DA OFERTA DE EQUIPAMENTOS

PERÍODOS	Importação de máquinas e aparelhos e Material Eléctrico			Índice da produção nacional de máquinas 1970=100	Índice composto da oferta de máquinas 1970=100
	Preços correntes	Preços constantes a 1970	Índice 1970=100		
	(10 ⁶ esc.)	(10 ⁶ esc.)			
1974	19 652	12 617	135.5	160.0	145.2
1Q Trimestre	2 670	1 907	82.4	164.0	123.7
2Q Trimestre	4 215	2 737	114.2	167.5	142.9
3Q Trimestre	3 489	2 493	107.7	139.0	125.4
4Q Trimestre	2 878	5 480	236.7	169.5	203.1
1975	16 107	4 472	95.9	136.5	116.2
1Q Trimestre	3 905	2 244	98.7	152.4	125.8
2Q Trimestre	3 956	2 261	97.7	145.3	121.5
3Q Trimestre	3 926	2 101	90.1	118.7	104.8
4Q Trimestre	4 318	2 226	96.2	129.2	112.7
1976	21 683	9 744	105.1	112.5	108.4
1Q Trimestre	3 776	1 794	77.0	113.2	95.1
2Q Trimestre	4 796	2 190	94.6	110.9	102.2
3Q Trimestre	7 030	3 124	134.9	98.7	116.8
4Q Trimestre	6 281	2 636	113.9	127.4	120.7
1977	32 720	10 856	117.1	140.3	128.7
1Q Trimestre	6 146	2 142	91.9	139.0	115.5
2Q Trimestre	4 893	3 111	134.4	140.1	157.3
3Q Trimestre	4 827	2 466	173.8	120.4	122.1
4Q Trimestre	4 849	2 737	118.5	161.6	140.0
1978	41 912	10 665	115.0	147.2	131.1
1Q Trimestre	4 201	2 439	104.6	161.3	153.0
2Q Trimestre	11 209	2 964	128.0	153.3	140.7
3Q Trimestre	11 167	2 663	115.0	107.9	111.5
4Q Trimestre	11 335	2 599	112.3	165.3	139.3

ORIGENS: Importações de máquinas-Ministério do Comércio e Turismo e "Solatim Mensal de Estatística", do IAN e "Produção Industrial e Comércio"; Produção nacional-"Índices de Produção Industrial", do INE e "Anuário de Estatística".

IASP

(1) obtido por média aritmética dos índices de importação e da produção nacional de máquinas

D. 20/75

Table 29 47

electing No. 1

QUADRO 12
VENDAS DE MATERIAIS AO SECTOR DA CONSTRUÇÃO

Períodos	Vendas de cimento		Vendas de aço		Índice composto(1) (Base : 1973=100)
	Milhares de ton.	Índice (Base : 1973=100)	Milhares de ton.	Índice (Base : 1973=100)	
1973	794.5	100.0	58.3	100.0	100.0
1º trimestre ...	712.3	89.7	50.4	86.5	87.9
2º trimestre ...	786.8	99.0	59.4	102.0	100.7
3º trimestre ...	860.9	108.4	61.0	104.7	106.3
4º trimestre ...	817.9	102.9	62.2	106.8	105.1
1974	853.3	107.4	62.6	107.4	107.4
1º trimestre ...	802.6	101.0	71.0	121.9	112.6
2º trimestre ...	880.2	110.8	64.0	109.9	110.3
3º trimestre ...	898.6	113.1	60.3	103.5	107.8
4º trimestre ...	831.6	104.7	55.0	94.4	99.0
1975	839.7	105.7	39.5	67.8	84.7
1º trimestre ...	750.1	94.4	40.0	68.7	80.1
2º trimestre ...	826.8	104.1	50.3	86.4	94.3
3º trimestre ...	875.9	110.2	31.6	54.2	79.1
4º trimestre ...	906.0	114.0	36.1	62.0	85.1
1976	957.3	120.5	46.6	76.5	96.1
1º trimestre ...	931.6	117.3	39.7	68.2	90.0
2º trimestre ...	946.3	119.1	45.4	77.9	96.2
3º trimestre ...	1 007.6	126.8	38.2	65.6	92.8
4º trimestre ...	943.8	118.8	55.0	94.4	105.3
1977	1 108.7	139.6	73.4	126.0	132.0
1º trimestre ...	954.5	120.1	61.6	105.8	112.2
2º trimestre ...	1 161.5	146.2	74.7	128.2	136.2
3º trimestre ...	1 150.3	144.8	76.0	130.5	136.9
4º trimestre ...	1 168.6	147.1	81.2	139.4	142.8
1978	1 290.0	162.4	77.4	132.8	146.0
1º trimestre ...	1 216.3	153.1	87.1	149.5	151.1
2º trimestre ...	1 324.0	166.7	88.2	151.4	158.2
3º trimestre ...	1 327.5	167.1	69.4	119.1	140.5
4º trimestre ...	1 392.2	162.6	64.8	111.2	134.1
1979					
1º trimestre ...	1 154.5	145.3			
Janeiro	405.1	151.8	21.5	110.6	132.0
Fevereiro	325.8	123.0	11.5	59.2	87.6
Março	423.6	161.1			

Fonte : CEP, Informação Sócio Económica.

(1) ponderações : cimento 0,445 , aço 0,555.

QUADRO 16
Tabela 30

EDIFÍCIOS NOVOS CONCLUÍDOS E LICENÇAS CONCEDIDAS

CONTINENTE

Períodos	Licenças concedidas		Edifícios concluídos		Número de áreas concluídas para habitação	Superfície dos novos edifícios concluídos para habitação (m ²)
	Total	Para habitação	Total	Para habitação		
1974	36 517	27 466	20 426	16 227	32 093 (42 500) ⁽¹⁾	3 509 997
1º trimestre	8 515	6 337	4 591	3 583	6 722	742 204
2º trimestre	9 500	7 220	4 647	3 571	7 043	837 234
3º trimestre	9 853	7 309	5 355	4 390	8 060	880 720
4º trimestre	8 661	6 520	5 833	4 683	9 460	1 049 759
1975	37 040	29 600	21 264	16 346	(31 172) ⁽¹⁾	
1º trimestre	8 342	6 291	4 443	3 242	6 460	722 418
2º trimestre	9 850	7 855	4 204	3 229	5 892	605 175
3º trimestre	10 102	8 204	5 940	3 153	5 120	609 642
4º trimestre	8 748	7 174				
1976	46 023	30 030	16 707	13 557	21 937 (29 290) ⁽¹⁾	2 706 359
1º trimestre	10 264	8 249	4 365	3 443	5 295	640 706
2º trimestre	11 790	9 802	5 822	2 992	5 445	654 128
3º trimestre	13 191	11 146	5 905	3 429	5 682	608 798
4º trimestre	10 778	8 761	4 615	3 693	5 515	722 647
1977	55 058	44 899	16 400	13 406	19 930	2 507 834
1º trimestre	11 047	8 877	5 783	3 063	4 390	502 207
2º trimestre	15 365	12 400	5 600	2 847	4 368	597 467
3º trimestre	15 933	13 190	4 637	3 712	5 022	658 421
4º trimestre	12 713	10 352	4 380	3 784	6 150	709 659
1978	51 849	46 024				
1º trimestre	12 602	10 293	5 846	3 162	5 255	662 653
2º trimestre	15 219	12 520	5 503	3 057	5 119	625 357
3º trimestre	15 721	13 214	4 179	3 621	5 351	732 792
4º trimestre	12 257	9 997				

(1) Total anual das Estatísticas de Construção.

Origem: INE, "Boletim Mensal de Estatística", "Boletim Mensal das Estatísticas Industriais" e "Estatísticas de Construção".

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estatística nº 10

Table 31

Intenções de Investimento e de Emprego na Indústria Transformadora

	1976		1977		1978	
	Investimento (10 ⁶ esc)	Emprego	Investimento (10 ⁶ esc)	Emprego	Investimento (10 ⁶ esc)	Emprego
Alimentação, bebidas e tabaco	1 537	5 840	3 938	6 562	5 019	5 667
Texteis	184	792	450	1 501	377	815
Vestuário e calçado excepto de borracha e plástico ..	75	1 246	197	2 309	179	1 592
Cartões	6	119	33	181	8	39
Madeira, cortiça e mobiliário	495	1 914	864	2 493	1 437	2 959
Papel e artes gráficas	65	242	547	644	1 234	928
Químicas industriais e outros produtos químicos	123	728	343	742	864	719
Derivados do petróleo e do carvão	10	46	28	94	69	41
Borracha	17	91	32	92	334	312
Artigos plásticos	89	441	456	1 155	945	1 864
Porcelana, faiança, grês fino e olaria de barro	7	44	20	109	325	576
Vidro	4	35	14	55	13	84
Outros produtos minerais não metálicos	319	1 033	2 837	3 287	5 150	4 627
Metalúrgicas do base	80	250	192	313	499	589
Produtos metálicos	476	2 099	839	2 045	1 008	1 731
Máquinas não eléctricas	718	1 678	509	1 649	1 408	2 741
Máquinas e material eléctrico	117	568	413	1 470	514	1 534
Material de transporte	25	104	496	1 967	520	644
Instrumentos profissionais científicos e aparelhos de óptica	23	212	47	435	42	153
Outras indústrias transformadoras	50	270	135	748	105	288
Serviços de reparações diversos	159	750	451	1 314	460	1 120
TOTAL	4 579	18 278	12 841	28 200	20 506	29 023

200/110/10 (3) 171.6.10

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electing No. 1

~~Quadro 12~~
Table 32

DISTRIBUIÇÃO PERCENTUAL DO EMPREGO POR CLASSES

DE REMUNERAÇÃO (1)

Escalões	Inquérito de Janeiro			
	1977		1978	
	Valores simples	Valores acumulados	Valores simples	Valores acumulados
Menos de 4 000\$00	2,6	2,6	1,2	1,2
De 4 000\$00 a 4 999\$00	12,0	14,6	3,0	4,2
De 5 000\$00 a 5 999\$00	14,7	29,3	10,9	15,1
De 6 000\$00 a 6 999\$00	19,3	48,6	12,4	27,5
De 7 000\$00 a 7 999\$00	19,0	67,6	15,0	42,5
De 8 000\$00 a 8 999\$00	12,7	80,3	25,9	68,4
De 9 000\$00 a 9 999\$00	6,3	86,6	12,3	80,7
De 10 000\$00 a 11 999\$00	6,7	93,3	10,1	90,8
Igual ou superior a 12 000\$00	6,7	100,0	9,2	100,0

Origem: Elementos fornecidos pelo Serviço de Estatística do Ministério do Trabalho.

(1) Não inclui trabalhadores das actividades agrícolas.

Table 33

ÍNDICES DE SALÁRIOS NOMINAIS E REAIS

Variações trimestrais, em percentagem

Rubricas	1975				1976				1977				1978			
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Trabalhadores rurais																
Homens:																
Salários nominais	3,8	4,7	2,1	0,6	6,2	5,4	-0,6	5,2	2,4	6,4	2,0	3,7	2,0	10,0	2,0	2,9
Salários reais (a)	-0,4	-0,6	-0,1	-2,3	-2,6	4,7	-3,4	-0,6	-7,6	-4,9	5,4	-0,5	-3,1	2,7	-1,2	-3,1
Mulheres:																
Salários nominais	5,8	6,4	2,3	2,8	2,3	5,3	1,7	4,1	5,1	6,5	3,4	3,4	-4,5	8,0	9,6	1,8
Salários reais (a)	1,6	1,1	0,1	-0,2	-6,2	4,7	-1,2	-1,6	-5,1	-4,6	6,9	-0,8	-9,4	0,8	6,1	-4,2
Profissionais da indústria e dos transportes																
Lisboa:																
Salários nominais	2,9	3,9	1,2	6,3	3,6	1,0	1,5	1,0	5,7	3,0	3,1	1,3	0,7	5,2	2,5	5,9
Salários reais (b)	-2,4	1,0	-1,0	2,9	-5,0	1,3	-3,5	-8,0	-1,9	-6,0	5,1	-0,2	-4,0	-1,5	-2,1	-0,4
Porto:																
Salários nominais	1,9	10,2	3,1	5,9	1,5	1,0	1,1	0,2	4,3	6,8	1,7	2,2	0,8	1,7	0,9	9,9
Salários reais (c)	-1,0	1,8	2,0	2,5	-5,8	-0,6	0,7	-6,7	-6,3	-6,8	9,9	-6,3	-4,7	-4,6	-1,2	0,7

Origem:

Fuente: INE, Boletim Mensal de Estatística

- (a) Salários nominais deflacionados por um índice médio ponderado dos preços no consumidor para as zonas rurais, calculado pelo Banco de Portugal.
- (b) Salários nominais deflacionados pelo índice de preços no consumidor, sem habitação, para a cidade de Lisboa.
- (c) Salários nominais deflacionados pelo índice de preços no consumidor, sem habitação, para a cidade do Porto

Alves - 2/20/1

Table 34 - QUANTO - 19
 Índices de Preços médios, no produtor, de produtos de origem vegetal - Continente

(médias anuais e trimestrais)

Base (100):1968

Períodos	Total	Alimentação Humana						Alimentação Animal (Conjunto)
		Conjunto	Cereais Panificáveis	Legumes	Batata	Vinho	Frutas Frescas	
1974	166.9	166.7	127.3	229.4	260.8	168.6	167.6	169.6
1º Trimestre	165.4	165.4	114.6	200.9	275.9	189.0	187.9	165.7
2º Trimestre	165.2	164.7	121.4	205.3	259.3	184.5	167.6	171.4
3º Trimestre	161.1	161.1	129.9	226.0	236.4	154.1	157.0	161.4
4º Trimestre	175.8	175.6	143.3	281.3	271.7	146.8	157.8	179.7
1975	191.5	192.0	163.1	327.2	345.3	130.1	172.5	179.1
1º Trimestre	173.5	173.2	152.3	287.3	264.7	136.1	133.8	183.3
2º Trimestre	185.4	185.4	153.3	316.9	336.3	125.9	167.7	186.4
3º Trimestre	193.0	194.2	167.5	331.9	343.9	118.2	217.2	167.6
4º Trimestre	214.0	215.1	178.9	372.8	436.5	140.2	171.3	179.0
1976	244.0	245.8	175.2	439.9	554.8	182.7	165.9	186.6
1º Trimestre	239.9	241.7	180.2	391.6	574.2	167.9	147.0	182.9
2º Trimestre	242.2	244.1	173.1	409.0	548.7	174.5	183.1	180.2
3º Trimestre	240.8	242.6	171.6	453.8	514.5	189.6	176.9	184.8
4º Trimestre	253.1	254.8	175.8	505.4	581.9	198.9	156.4	198.6
1977	313.4	312.3	200.5	610.9	620.3	252.2	285.8	351.1
1º Trimestre	286.6	288.1	183.7	549.6	702.5	216.6	173.5	236.0
2º Trimestre	324.6	326.0	194.2	609.1	818.8	221.7	295.1	277.8
3º Trimestre	314.4	311.7	209.7	618.9	513.8	243.0	404.3	401.5
4º Trimestre	328.2	323.3	214.3	665.8	446.3	327.7	270.4	489.1
1978	399.3	386.1	217.5	639.2	382.1	533.1	262.9	492.0
1º Trimestre	332.5	327.8	215.6	643.2	395.5	387.5	197.7	486.1
2º Trimestre	356.4	353.4	222.8	657.7	374.0	453.8	230.3	453.8
3º Trimestre	406.3	403.2	255.4	653.1	362.9	550.5	351.3	504.5
4º Trimestre	461.8	459.9	256.3	602.7	396.2	740.7	272.4	523.5

Origem: INE, "Boletim Mensal das Estatísticas da Agricultura e Pesca".

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 Estatística No. 1

~~Quadros 20~~ 53
Table 35

estat. No. 1

ÍNDICE DE PREÇOS POR GROSSO EM LISBOA

(Base: 1963 = 100)

Grupos e subgrupos	Médias			Variação anual (%)	
	1976	1977	1978	1977	1978
Índice geral	260	334	441	28,5	32,0
Dispositivo fundamental					
Alimentação	303	389	453	28,4	16,5
Bebidas e tabaco	260	347	642	33,5	85,0
Matérias-primas não alimentares, excepto combustíveis	197	296	348	50,3	17,6
Combustíveis e lubrificantes	283	345	454	21,9	31,6
Produtos da indústria química	174	205	272	17,8	32,7
Produtos manufacturados	192	232	281	20,8	21,1
Dispositivo complementar					
Produtos nacionais	276	357	501	29,3	40,3
Produtos fabricados a partir de matérias-primas importadas	250	280	324	12,0	15,7
Produtos do estrangeiro	235	326	390	38,7	19,6

Origem: INE, Boletim Mensal de Estatística

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Table 36

ÍNDICES DE PREÇOS NO CONSUMIDOR

Base (100): 1967

Cidades	Médias Anuais			Variações anuais em percentagem	
	1976	1977	1978	1977/76	1978/77
Linboa					
Total	355.6	440.8	502.5	+ 24.0	+ 14.0
Total sem habitação	342.9	431.4	507.0	+ 25.8	+ 17.5
Porto					
Total	345.0	436.0	515.7	+ 26.4	+ 18.3
Total sem habitação	313.2	403.2	490.8	+ 28.7	+ 21.7
Coimbra					
Total	347.1	426.0	496.2	+ 22.7	+ 16.5
Total sem habitação	296.0	367.3	437.2	+ 24.1	+ 19.0
Evora					
Total	362.1	449.1	514.1	+ 24.0	+ 14.5
Total sem habitação	310.9	394.6	469.9	+ 26.9	+ 19.1
Viseu					
Total	350.0	436.8	548.8	+ 24.8	+ 25.6
Total sem habitação	298.1	375.1	445.8	+ 25.8	+ 18.8
Faro					
Total	403.3	491.8	655.4	+ 21.9	+ 33.3
Total sem habitação	310.5	402.0	513.9	+ 29.5	+ 27.8
Média (1)					
Total	354.2	437.3	520.3	+ 23.5	+ 19.0
Total sem habitação	322.1	408.5	489.3	+ 26.8	+ 19.8

(1) Média ponderada pela população residente em cada ano nos distritos a que pertencem cada uma das seis cidades

ORIGEM: INE, "Boletim Mensal de Estatística" e nº 54 da série "Estudos"

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estatística

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 2

Held at the Bank of Portugal
on Friday, May 18, 1979, at 10:30 a.m.

Portuguese Representatives

Dr. Cavaco Silva
Dra. Cardoso

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

The meeting was devoted to developments in money and credit in 1979 and to the present stance of monetary policy. The Portuguese representatives stated that the figures for February and March were provisional. The money stock at the end of February was somewhat lower than had earlier been estimated, principally owing to a reduced rate of growth of demand deposits, but overall domestic credit was higher on account of larger net credit extended to the public sector. The earlier estimate for the net foreign asset position of the banking system stood. The first quarter showed a surplus of US \$ 20.5 million (+ US \$ 79 million in January, - US \$ 29.1 million in February, - US \$ 29.5 million in March) in the net foreign asset position, and according to balance of payments indications in April the net foreign asset position was expected to decline by US \$ 21 million and in May by a further US \$ 20 million. The money stock, particularly time deposits, continued to increase as expected, but the rate of increase of demand deposits was substantially lower than had been the case earlier. According to the seasonal pattern, emigrants' deposits increased rapidly in January and February. The credit figures had not been collected for the outstanding credits to the ex-colonies extended by the Caixa-Geral and the Banco de Fomento. The credit ceilings that were presently placed on the commercial banks now included their bad (uncollected) debts. However, only January figures were available for credits inclusive of uncollected debts, as the Caixa-Geral took a long time to classify bad debts. Revisions of bank credit data for December 1978 had been suggested by the monetary authorities. However, in flow terms expansion would not significantly be affected by these revisions, as the stock of uncollected debts was almost stable. In annual terms there was an increase in the money supply of 27.6 per cent in February and 28.2 per cent in March; the latter figure being subject to revision. As there was a jump in the money supply in April 1978, the next annual figure would have an obvious bias.

The credit ceilings imposed upon the commercial banks were revised in February and March principally because uncollected debts were now included in the limits, and also because in the absence of a firm figure that was implicit under a Fund program, the authorities had decided to act very cautiously. They tended to estimate the increase in demand of money holdings by the public conservatively and, in addition, to aim for no increase in the next foreign liability position of the commercial banks. The long delay in obtaining monetary statistics made the task of setting credit ceilings very difficult, but developments in the monetary base which were available with practically no lag, offered a reasonably good guide to the projected increase in the demand for money. There was an increase in the demand for credit in January but not so in February, a further increase in March, a flattening out in April, and an increase is anticipated in May. The banks were making full use of the credit limitations, which reflected the tightness of existing credit conditions as well as greater familiarity with this system of monetary control. Special monetary institutions such as the Caixa-Geral were allowed a margin above the credit ceiling, which they often used, but such a margin was not cumulative in practice and had ultimately to be liquidated.

Since the period September/October 1978 there had been a change in the way credit ceilings had been placed on individual commercial banks. Earlier there had been wide variations in departures from the credit ceilings in both directions, but now the pattern of observance was more uniform as the allocation of credit by the monetary authorities corresponded rather more closely with the anticipated needs of the commercial banks. However, problems of uncertainty remain. In October and November, a relatively high ceiling was given to the commercial banks which were then unfamiliar with the new method, but a low indicative ceiling was placed for December. At the end of November, the December ceiling was raised, but this caused difficulties as the banks were informed too late to make use of the liberalization. It was the present intention of the authorities to give commercial banks at least two months' notice. The rediscount policy of the authorities mirrored the overall level of the credit ceilings given to the banks and their utilization. In November a tight rediscount policy was followed and the banks could not finance the admittedly high ceilings. Subsequently, rediscount policy was loosened and the liquidity position of the banks improved with the balance of payments surplus. There has been a shift in the proportion of credit towards those extended by the special credit institutions which tended to go for housing and construction. Such credit was extended by the Caixa-Geral and by Montefin. The housing fund obtains credit from the Caixa-Geral and also partly from the central government budget.

It was the intention of the authorities to keep the commercial banks within the first tranche of allowable rediscounts now that they were up to their credit ceilings. It was further the intention to keep the growth rate of the overall volume of rediscounts as stable as possible. The authorities intervened in the money markets as well as in the inter-bank bond market in consonance with their liquidity intentions. But there were considerable difficulties as the banks were still familiarizing themselves with the new institutional operations and not all were fully aware of the monetary stance of the authorities. For example, certain banks were not always aware that during the two middle weeks of the month the volume of currency always decreased and this needed to be compensated for by the authorities. The money market now principally dealt in 90-day instruments in contrast to the 7-day maturities of the past. The surplus funds of the Caixa-Geral, often of substantial magnitude, were invested in the money markets or the bonds market. But as the latter tended not to be a highly efficient market, there was a greater reliance on the former, as a source of funds for the banks that provided an alternative to rediscounts by the Bank of Portugal. There was at the moment considerable room for improvement, especially in the bonds market. In addition, the non-bank public held Bank of Portugal bonds, generally of 8 years maturity, with reasonably attractive interest rates.

Dra. Cardoso undertook to supply information regarding the transactions of the autonomous funds vis-à-vis the Caixa-Geral - of these the supply fund was the most important and the Caixa-Geral was its major supplier. There remains some Bank of Portugal participation in the operation of the autonomous funds, especially that of social security. The Caixa-Geral also extended credit to the public enterprises.

Turning to more recent developments, Dra. Cardoso stated that at present the credit ceilings for the commercial banks for May were the only compulsory ones. Indicative ceilings for June and July had been decided upon, and these would be revised and made obligatory in due course. The authorities used the method of rolling ceilings two months at a time. But the notice given to the banks depended greatly on the speed with which the banks themselves supplied statistics to the authorities. Once the April figures were known, the ceilings for June and July would be put on a firm basis. The monetary survey showed that the net foreign asset position for December 1978 differed from that provided earlier only in Escudo terms as the different exchange rate was used for transactions with the IMF; the dollar figure remained the same. The growth rate in the money supply in annual terms was 28 per cent for December 1978, 28.2 per cent in January 1979, 27.6 per cent in February 1979, and 28.2 per cent for March 1979, but Dra. Cardoso, for purposes of credit ceiling calculations, was working on a 27.5 per cent expansion in the money supply for March 1979. It remained the policy

of the authorities to prevent a decline in the net foreign assets position of the commercial banks, although lately there had been an increase in their side; this was defined to be of up to one year maturity. Most bank liabilities were for 6 months. Only the liabilities of the Banco de Fomento and one loan that had been obtained by the Caixa-Geral were liabilities in excess of one year. The Sociedade Financeira was at present not included in the monetary survey as they were practically inactive, although monthly data are provided by them. Their activities were largely limited to paying their foreign liabilities upon maturity. The investment institution, once it is set up, is to be principally financed by long-term domestic deposits (5 years or more) and by foreign loans. But there were delays in the legislation concerning this institution.

The discussion turned to the seasonal pattern of the acquisition of government bonds by the commercial banks. This development took place largely in December and January (the complementary period) as the Ministry of Finance issued bonds at that time and these were taken up by the banks. Traditionally during the rest of the year the Republic did not issue bonds but financed its deficit with the aid of the Treasury subject to ceilings that had been established by law--such ceilings were the equivalent of 5 per cent of the latest available annual current receipts of the budget. A ceiling calculated in such a way had proved to be highly restrictive in recent periods, given the high rate of inflation and the lags in the collection of budgetary data; therefore, another account entitled "Loans to the State" had been created in the Bank of Portugal and this permitted the Ministry of Finance to borrow from the Bank of Portugal virtually without limitations. The rate of interest on such borrowings were substantially lower than on government bonds that had been placed with the commercial banks or with the non-bank public. In addition, the Caixa-Geral which in the past had been a department of the Ministry of Finance, also extended loans to the Ministry of Finance. It was established in the discussions that the Bank of Portugal had no effective way of enforcing any public sector credit ceiling that may be established upon either the Ministry of Finance or the enlarged public sector. The treatment and size of the profits of the Bank of Portugal was of little economic significance as most of it was transferred to the Ministry of Finance in order to cover interest payments by the government on its outstanding bonds, and only part of it went to the interest subsidy scheme on certain loans extended to the public. Some bonds issued to the non-bank public were linked to the rediscount rate.

Dra. Cardoso stated that a special team consisting of representatives from the Bank of Portugal, the Ministry of Finance, and the Planning Department had been created to examine the credit requirements of the public enterprises; this team was mainly concerned at the moment with obtaining past data. At least for the 18 public enterprises that had been identified for the Fund mission, the data for 1978 on a monthly basis may be available according to credit guaranteed by

(1) the Government, (2) banks, (3) or non-guaranteed credit, and would be made available to the mission. The authorities were aware of serious problems of seasonality of credit requirements of the autonomous funds; for example, the supply fund and the social security fund. The latter generally experienced a hump in August owing to the payment of double pensions and at such times increased recourse was made to the Caixa-Geral. In practice the autonomous services did not borrow from the commercial banks, although it was clearly open for them to do so. The autonomous funds, particularly the housing and the supply funds, tended to borrow only small amounts from the commercial banks, with the Caixa-Geral being the major source of their financing.

A discussion on interest rate developments followed. It was observed that the Eurodollar interest rate had tended to increase in recent months but given a lower rate of depreciation of the Escudo relative to the US dollar (as the dollar exchange rate tended to depreciate), the relative interest rate differential in favor of Portugal was relatively stable during 1978. In their calculations the Bank of Portugal used mainly the 6-month and the 1-month Eurodollar interest rates, as local deposits tended to be of the same maturity. The developments in emigrants' remittances since December did not suggest that domestic interest rates had lost relative attractiveness.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 3

Held at the Bank of Portugal
on Friday, May 18, 1979, at 3:00 p.m.

Portuguese Representative

Engeneira Engrid Alameida
(Ministry of Trade)

Fund Representatives

Mr. Premchand
Mr. Osunsade
Mr. Mitra

The meeting was convened to discuss recent developments concerning trade restrictions. In response to questions by the staff team, Eng.^a Engrid Alameida commented on various recent developments, as summarized below:

1. Import Surcharges. The 20 per cent import surcharge was reduced to 10 per cent, effective April 1, 1979. By Decree-Law No. 109/79, promulgated on April 17, 1979 and published on May 3, 1979, a list of import items (consisting mainly of intermediate and durable consumer goods, and amounting to 1.9 per cent of 1978 imports) was exempted from the 10 per cent import surcharge and made subject to basic import tariffs which were simultaneously introduced; the items affected were the so-called "non-bound" items under GATT regulations. The new basic tariff rates for these items ranged between 12 per cent and 18 per cent, ad valorem, for imports from EEC and EFTA countries; these were to be reduced in stages and to be fully eliminated by January 1, 1985, in accordance with the following schedule (cumulatively): (a) Reduction on date of introduction: 10 per cent. (b) Reduction on January 1, 1980: 30 per cent. (c) Reduction on January 1, 1983: 60 per cent. (d) Reduction on January 1, 1985: 100 per cent. For other trading partners, the rates of the new basic tariffs were generally higher than those applicable to trade with EEC and EFTA countries.

Concerning the 60 per cent surcharge, no change in rate or commodity coverage has occurred. However, a technical group was established earlier in the year to explore ways of replacing this surcharge with domestic tax measures, but no follow-up action has so far been taken.

2. Quota Restrictions. Coffee and plastic products were exempted from the value quotas recently established for 1979. For the items still subject to quotas, the overall limit for 1979 was Esc. 2,365 million, compared to Esc. 2,005 million for the same items in 1978, or a planned increase of 18.4 per cent in value terms. The basic determining criterion was to allow for at least the same volume as in the preceding year.

3. Other Areas. Concerning importation by the commodity marketing boards in the public sector, the import programs and related foreign exchange budgets for 1979 had not yet been finalized. In the meantime, the boards had been allowed to make purchase plans up to 60 per cent of their individual import programs for the preceding year, and to base their domestic marketing of the relevant products on the actuals for the previous year. Delays in finalizing the import programs were said to be related to the fact that decisions about changes in the administered prices of these products had not been made.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 4

Held at the Bank of Portugal
on Friday, May 18, 1979, at 5:00 p.m.

Portuguese Representative

Dr. Mendes (Bank of Portugal)

Fund Representatives

Mr. Premchand
Mr. Osunsade
Mr. Mitra

Dr. Mendes' responses to questions raised by the staff team concerning external debt data covered the following areas:

1. Source of External Debt Data. External borrowing by the traditional public sector is handled by the Treasury in the case of cash loans, and by the Junta do Credito Publico in the case of sales of government securities abroad. For all other foreign borrowings with an original maturity of one year or over (including those by the public enterprises), authorization "bulletins" are required from the Capital Department of the Bank of Portugal. Information derived from these bulletins, including the draw-down and amortization schedules of foreign loans were stored in the computer, and constituted an important source of data on Portugal's external indebtedness. For foreign borrowing by the public enterprises, bulletin-derived data were believed to be comprehensive, except for some isolated cases of suppliers' credit. It was not quite clear by what criteria authorization bulletins were issued; it was understood that they were issued more or less automatically for the public enterprises, though this was said not to be the case for other sectors.

2. Compilation of External Debt Data. Some external debt data have been compiled from the computer-based information on authorization bulletins; but, largely because they reflected original borrowing plans, these data were considered inaccurate in several respects--e.g. in counting as debt outstanding some yet undisbursed foreign loans. As a separate exercise, the balance of payments division of the Bank of Portugal has compiled external debt data based on actual capital movements as reported by the intermediating banks; these were said to be more reliable than those derived from the authorization bulletins.

In connection with technical assistance provided by Mr. Aimé Billoud of the Fund staff, a working group on the compilation of external debt data was set up in the Bank of Portugal. In a report submitted in early May 1979 to the Bank's Board of Directors, this

group recommended, inter alia, an integrated, centralized compilation of external debt data. The report had not yet been discussed by the Bank's Board.

3. Other Aspects. Concerning commercial bank guarantees of external borrowing, it was explained that this could happen only for the public enterprises, and only in cases of the use of buyers' credit to finance essential imports--i.e., payment for imports by means of a bank loan raised abroad with the guarantee of the domestic bank (such loans were in fact being classified as foreign liabilities of the domestic banks, though it was planned to shift them "above the line" as short-term capital movements). For 1977 and 1978, it was promised to provide end-of-year external debt data broken down among (a) those with government guarantee, (b) those with commercial bank guarantees, and (c) those non-guaranteed. External debt flow data for 1977 and 1978 were also requested in respect of the public enterprises, both for the total of such enterprises and for the 18 largest units for which domestic credit data had previously been provided. Dr. Mendes promised to report back early in the following week about the feasibility of these three requests.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 5

Held at the Ministry of Finance
on Monday, May 21, 1979, at 10:00 a.m.

Portuguese Representative

Dr. Ohen Gonçaves

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

The meeting was devoted to a discussion of the 1979 budget, budgetary controls, and possible longer-term reforms of budgetary procedures and systems. Dr. Gonçaves stated that the complementary period expenditures for 1979 would be roughly equal to those of 1978; Treasury operations were extra-budgetary and difficult to project. He confirmed that the financing requirement for the 1979 fiscal year was Esc. 51.4 billion and that, at present, an assumption of nil had been made for Treasury operations.

Dr. Gonçaves stated that the January and February figures for tax collections were available and he expected that the March figures would be available soon. The figures for direct taxes collection were particularly important as the professional (labor income) tax was collected essentially in the months of January, April, July, and October. Given the healthy development in this item in the first two months of the year, the new budget proposal contained a higher revenue forecast by Esc. 0.3 billion, at Esc. 14.6 billion. The extraordinary tax on labor incomes, which included civil servants', was reduced from 4 per cent to 2 1/2 per cent, and the revenue forecast from the extraordinary tax reduced from Esc. 16 billion to Esc. 13 billion. In the latest budget proposal the extraordinary tax on pensions has been dropped. In the first two months of the year collection of the tax on interest and dividends was particularly encouraging, and it implied a significant recovery as compared with the last two months of 1978, when, given the increase in interest rates, the volume of these taxes did not show a commensurate increase. Forecast receipts were raised from Esc. 6.4 billion to Esc. 6.75 billion. The collection of the complementary tax in the first month of the year, which really reflected arrears in tax collection, was again encouraging, but as the earlier revenue forecast had been considered to have been on the high side, it was left unchanged. As the industrial tax was primarily collected in July and October and the real estate taxes only in October, with the bulk of the real estate tax revenues going to the local authorities, developments in these and in other direct taxes in the months of January and February were not considered to be of significance. Taxes on imports were

chiefly four in number: import duties, the import surcharge, tax on cars, and the gasoline tax. In the first quarter the import duties were not very buoyant, perhaps even pointing to a stagnation in revenues from this item for the year, but the previous proposal of receipts of Esc. 6.5 billion or a 20 per cent increase was left untouched. Also, in the first quarter the import surcharge amounted to Esc. 1.5 billion, but this was largely artificial as early in 1978 there had been problems in collection. The new forecast of Esc. 3.5 billion (reduced from Esc. 4.3 billion from the last proposal) was considered to be quite feasible. The forecast of the yield from gasoline taxes was left unchanged, although developments in the first quarter should have led to a reduction in the budget estimate. However, an improvement in the collection of this tax was anticipated. The revenues from the automobile tax was increased in the latest proposal in the wake of collections of Esc. 1.6 billion in the first quarter of this year to Esc. 5.7 billion. No change has been forecast for the yield from stamp duties. The yield from sales taxes had been revised from Esc. 43.2 billion to Esc. 41.2 billion, partly owing to the fact that the extension of this tax to services has been delayed until July (rather than April) with proceeds only from August. The element of the sales tax attributable to services is now expected to yield only Esc. 0.6 billion. The increase in the rate of sales tax from 13 to 15 per cent would occur not in March as earlier expected, but in June, and this explained part of the reduction in the forecast. The collections in the first 2 months of 1979 came to Esc. 5.942 billion (Esc. 4.703 billion in 1978). Dr. Gonçalves considered the new yield forecast to be rather optimistic and much would depend on the effectiveness of tax collection. The tax on tobacco was still expected to yield Esc. 8.75 billion, but in June the rate of tax may be raised to 50 per cent, which was a higher rate than had been proposed initially and which would also come into effect two months earlier than the initial proposal. Dr. Gonçalves considered that the main sources of revenue difficulties for the budget were those expected from import duties as well as sales taxes. The reduction in the yield forecast for the latter was probably an underestimate. The import duty collection tended to be irregular and often stagnant.

On the expenditure side, there were a few differences between the two budget proposals. Current expenditures were marginally below the earlier figure with higher expenditures on subsidies and transfer payments but lower expenditures on goods and services and interest. There was Esc. 0.9 billion more on transfers, mainly owing to an increase in the appropriation for medical services for civil servants. The budget figures reflected a rate of implementation of 96 per cent for goods and services as well as for transfers. Local authorities' transfers were expected to be implemented fully. The 96 per cent implementation figure for other expenditures was not anticipated to be difficult to attain. But if full implementation were to take place, the current deficit would rise by Esc. 6 billion to Esc. 10.9 billion.

The rate of implementation on capital expenditures was assumed to be 87 per cent, which was less than the initial assumption of 95 per cent and, indeed, less than the actual implementation ratio of 92 per cent for 1978. Dr. Gonçalves stated that the government would take action to prevent full spending. The capital expenditure figure for local authorities, Esc. 8.2 billion (a high figure) was left unchanged. The lower rate of implementation saved Esc. 5.5 billion in the capital budget and thus Esc. 11.5 billion in the overall budgetary deficit. Expenditures on investment transfers to autonomous services were to be subject to the strict implementation ratio. Non-local authorities spending was expected to be Esc. 32 billion, of which Esc. 16 billion was in housing and public works. The achievement of budgetary targets would require further positive action by the government.

Turning to the implementation of the budget, Dr. Gonçalves stated that departments could use 1/12th of the budget appropriation figure (i.e., excluding the rate of implementation), but there were exceptions that are provided for under the decree law. In principle a decree law could be issued that would restrict departments to 1/12th of the expenditures adjusted for implementation ratios. For capital expenditures there were monthly allocations, but this was hardly a control mechanism as the bulk of expenditures were made in the months November to January. There were no monthly allocations on commitments. Commitments were simply based on the global budget figures and additional action was necessary if these were to be subject to control.

Mr. de Fontenay inquired what possible further measures could be taken to improve control over expenditures and the government deficit. Dr. Gonçalves stated that the monthly allocations could be based on the implementation ratios. For capital expenditures there would be difficulties in revising the present budgeted programs even though, as the budget had been delayed, this would be a desirable course of action, as such revisions would take too long. The simplest way would be to leave the investment programs unchanged and to implement strict control. It was true that the spending intentions of autonomous services had been probably revised downwards as the budget had been delayed by three months, but the budget did not significantly reflect this development. Many services were not expected to fully use their appropriations. The Ministry of Finance could only control expenditures made during the fiscal year, but not commitments, particularly as certain commitments gave rise to spending only in the following fiscal year. The commitments were subject to registration in the central Planning Commission and the Ministry of Finance was informed only at the spending stage. The figures for expenditure this year indicated spending by the services up to the budget's ceiling that had been provided to them for certain items. If budgetary expenditures tended to exceed the implementation ratios, the Ministry of Finance could free past savings that had been made from the 1/12 appropriation figure by ministries through the use of a budget decree.

The discussion turned to various areas of problem in keeping to budgetary estimates. Transfers to the health services was one of these. But Dr. Gonçalves expected that the problems of 1978 would not recur in 1979 as adequate provisions for the health services had been made. The Supply Fund and expenditures on subsidies could be problematic especially as the transfer to the Supply Fund has fallen to Esc. 3.4 billion in 1979 as compared to Esc. 5.6 billion in 1978, and the increase in gasoline prices has been considerably delayed. The rate of subsidization of essential foodstuffs remains such as to be a potential source of concern to the Supply Fund budget. There had been no change in the gasoline price since October 1978. The new budget proposal provided for Esc. 7.3 billion in subsidies for the public enterprises which represented a large decline compared to Esc. 11 billion in 1978. Most of the transfers are expected to go to the railways--nearly Esc. 5 billion. The budget included an increase in the equity of enterprises with Esc. 11.8 billion being the overall amount to be distributed, a large part of which would go to the transport sector. The Esc. 7.3 billion figure for subsidies for the public enterprises was another major area where the budget was probably too optimistic.

The government had not acted as yet to raise the prices of various services largely for political reasons, and it was not known when these prices would be revised upwards.

Transfers to the local authorities, according to one part of the new local authorities' financing law, would have been Esc. 26.7 billion, but responsibility for some Esc. 18.4 billion of expenditure by the central government (mainly on education) was notionally being transferred to the local authorities, so that only Esc. 8.3 billion was to be transferred. In total, in the present fiscal year there was to be a transfer of Esc. 4.2 billion to the local authorities, over and above what had been foreseen in the original budget proposal. Net tax revenues accruing to the local authorities would decline by Esc. 1.6 billion. Of the net gain to the local authorities, only Esc. 0.6 billion would be spent and the current savings of the local authorities were expected to rise by Esc. 2 billion. On the capital side new transfers totalled Esc. 13.0 billion (the initial proposal was Esc. 9.7 billion) but this increase in transfers corresponded to an increase in their overall savings. The additional cost to the state budget of the implementation of the new local authority financing law was Esc. 7.5 billion, but not all of this was to be spent; the net increase in expenditures was estimated to be Esc. 2.2 billion.

The discussion turned to longer-term reforms of budgetary procedures with particular attention to the autonomous services and autonomous funds. Dr. Gonçalves stated that there were a large number of autonomous services, but the major ones were undoubtedly the health services which constituted a large and complex group. In 1978 the government assumed responsibility for the health services of the working population which had previously been a

responsibility of social security, and this was managed by a coordinating committee and was therefore not really an autonomous service as yet. Various autonomous services such as the ports and airports functioned well without intervention of the Ministry of Finance. All autonomous services submitted their accounts to the Court of Audit in detail. The Contas de Ordem included fewer than 30 autonomous services. For most autonomous services, transfers from the state budget were the main source of revenues with sales of their goods and services being an additional source of revenue. The former could be made subject to monthly allocations, but a major problem remained the coordination of state budgets and those of autonomous services, in order to get a consolidated budget upon which monthly controls could be based.

The autonomous funds numbered 20 - 30, and most of them could in practice be included in the Contas de Ordem. These funds relied exclusively upon transfers from the budget, with the exception of four, the Supply Fund, the Employment Fund, the Land Transport Fund, and the Tourism Fund. Except for the Manpower Development Fund, their budgets were approved by the Ministry of Finance, but controls over their expenditures were entirely ex-post. A working group is being set up to examine the coordination of the budgets of the services of the funds. Dr. Gonçalves considered that the 96 per cent implementation assumption for transfers to the autonomous funds may be difficult to obtain without further action on the part of the Ministry of Finance. The Treasury could also take administrative action to keep payments to the public enterprises within policy limits. Dr. Gonçalves added that the general intention was to include gradually more and more services into the Contas de Ordem so that better control could be exercised, but in this regard a problem existed with regard to the health services and hospitals which were not subject to public accounting and enjoyed a great degree of autonomy.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 6

Held at the Office of the Director General of Public Accounting
on Tuesday, May 22, 1979, at 10:30

Portuguese Representative

Mr. J. M. Lourenco Gomes
Director General of
Public Accounting

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

The discussions with the Director General covered a wide range of the procedural aspects of release of funds, extent of control exercised by the Public Accounting Office, relationships with autonomous agencies and funds, role of delegations attached to the spending ministries, and related aspects.

Release of Funds. The Director General indicated that funds to the spending departments were released at the rate of one-twelfth of the actuals for 1978, for each month of the current fiscal year. In some cases, depending on the nature of the transactions, amounts approximating one-twelfth of the budget for 1979 were also released. However, to ensure that the overall levels of spending were well within the limits indicated in the budget, they have restricted releases on the capital side, only to the ongoing projects. Further, the authorities were also envisaging to exercise more rigorous controls on the budget provision for "miscellaneous expenditure" and it was their expectation that there would be marginal reductions in the eventual expenditure under this head. On enquiry from the staff, he clarified that the amount provided under this head constituted about 3 per cent of the current expenditure of the state budget.

As for the autonomous agencies and funds, releases were made at the rate of 1/12 of the actuals of 1978 and no restraint was exercised at this stage on these releases. It was his view, however, that the only item that would lend itself for the exercise of control, was the provision under the head "transfers" but added that no view has been taken on using it as an instrument of control.

The Director General added that the monthly releases on the basis 1/12 ratios were confined only to current expenditures. In regard to capital expenditure, a major role was played by the Department of Central Planning which reviews the requests for funds from the spending departments and authorizations were made by the Public Accounting Office on the basis of the certification by the Planning Department.

Responding to questions from the staff, the Director General pointed out that under a law enacted in 1977, the Ministry of Finance was empowered to issue budget decree that inter alia provided for a reduction in the expenditures of the administrative departments. Such adjustments could be made both for current and capital expenditures. The staff enquired whether in releasing funds for the period July to December, there would be a catch-up to the expenditure estimates of the new budget and whether the differential between the entitlement on the basis of the new budget and the amounts released on the basis of the previous year's actuals would be released. The Director General responded in the affirmative and indicated that there would be a catch-up except in regard to the miscellaneous expenditure head in the current budget in regard to which a further tightening was expected.

Role of delegations. The delegations of the Public Accounting departments are attached to the spending departments and are entrusted with the responsibility of verifying the transactions and the issue of authorizations. The delegations do not keep a record of the commitments. It is expected, however, that the administrative departments would watch the commitments and generally adhere to the ceilings indicated in the budget. In view of this adherence, there was unlikely to be any excess expenditure excepting for emergent expenditure incurred in the context of natural calamities and similar events. In response to a query from the staff on the nature of supplementary estimates during 1978 and whether they were obtained for regularizing already incurred expenditures, the Director General pointed out that 1978 was a somewhat unique year in that lack of anticipation of expenditure requirements and the instability at the political level had in some measure contributed to the situation.

Cash management. The Director General stated that the actual process of payment and related resource management was the responsibility of the Treasurer. On the whole, however, it was his feeling that there was no cash management in terms of a systematic forecast of receipts and outflows.

Status of reporting. A monthly report on the authorizations issued by the Public Accounting Office is published by the Director General. However, owing to reporting lags and associated delays, the latest available report is for the month of February (1979) only. In response to an enquiry from the staff, the Director General indicated that these reports were not reviewed in detail within the Ministry of Finance to identify the leads and lags of expenditure flows.

Coordinating entry (Contas da ordem) for autonomous agencies and funds. The Director General stated that the new entry in the budget on the net position of certain agencies and funds was primarily in the nature of a statistical device to bring together the autonomous agencies and funds. So far, harbours, land transportation

fund and others have been brought into the purview of this device, and it was their intention to gradually extend the scope of this to include the other major funds. He added that this device had proved helpful in ascertaining the surpluses available with some agencies and funds.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 7

Held at the Bank of Portugal
on Tuesday, May 22, 1979, at 3:00 p.m.

Portuguese Representatives

Dr. Cavaco Silva
Dr. Mendes

Fund Representative

Mr. Osunsade

1. Introduction. The meeting was convened as a follow-up on a number of questions previously discussed. Before proceeding to the discussions summarized below, Dr. Cavaco Silva was given a copy of the staff mission's outline of the proposed stand-by arrangements for onward transmission to the Governor of the Bank of Portugal.

2. Meeting Schedule. Dr. Cavaco Silva confirmed the mission's scheduled meeting with the Secretary of State for Public Administration in the afternoon of the same day, and another with the Secretary of State for the budget at 11 o'clock the following morning. He was unable to specify the timing of the expected meeting with the Secretary of the Treasury, owing to the latter's absence abroad; he hoped to confirm this the following day.

3. Phasing of Profit Remittances. It was reported that Mr. Rodrigues (Deputy Director of the Capital Transactions Department of the Bank of Portugal), who used to discuss this matter with the Fund staff, was no longer in charge; the Department's Director (by name of Dr. Caeiro Pereira) was now responsible for this matter. On the basis of his discussions with Dr. Pereira, Dr. Cavaco Silva promised that the requested data on exchange authorization and evolution of waiting time regarding profit remittances would be ready on Thursday, May 24, 1979, and possibly a meeting could be arranged on this subject for that day.

4. External Debt. The Bank of Portugal's study group that recently submitted its report to the Bank's Board of Directors, consisted of 6 staff members (from the Bank's Capital, Computer, and Research Departments); the group worked on the project for five months. The main feature of the group's recommendation was the call for the establishment of an external debt data unit in the Research Department of the Bank, to be staffed with the various people currently handling external debt matters (some in other departments). A revised format of the authorization bulletins

for capital transactions was also prepared by the group, as a means of facilitating the collection and processing of external debt data. For foreign borrowing transactions by the Treasury and the Junta do Credito Publico (which are not subject to authorization bulletins), the study group also designed a format for routine reporting of external debt developments at the level of the traditional public sector.

The Portuguese representatives expressed optimism that the recommendations on external debt data management would be accepted by the Bank's Board of Directors. They stated that there was great awareness of the external debt situation by the Bank's Governor and his Deputies. In fact, it had been intended that the new Annual Report of the Bank would contain a chapter on external debt developments, but this idea had to be abandoned for lack of data. As for timing, the Portuguese representatives stated that, if the establishment of the new unit could be approved within the next few weeks, the earliest time at which it could be expected to become fully operational would be September this year.

Concerning foreign borrowing by the public enterprises, they hoped to provide some data on the following day, for a slightly bigger sample than the 18 for which data had earlier been supplied to the Fund staff.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 8

Held at the Office of
the Secretary of State for Public Administration
on Tuesday, May 22, 1979, at 5:30 p.m.

Portuguese Representative

Mr. Figueiredo Lopes
Secretary of State for
Public Administration

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

Mr. Figueiredo Lopes was asked about the present government's thinking on salary increases for civil servants in 1979, about recent changes in the number of civil servants, and finally about current projects for a reform of the civil service. Mr. Figueiredo Lopes did his best, and then some, to answer the three questions.

On salaries he said that the government was trying to allocate the Esc. 10.5 billion provided in the budget for salary increases, between a general increase and some selective increases in salaries and benefits, such as pensions (Esc. 1.2 billion), health and other benefits (Esc. 400 million), reclassification of certain jobs (Esc. 1 billion). The government was also trying to "rationalize" civil service careers, to deal with "distortions", to increase the differential at the top of the scale, and to widen the salary scale from 1/3.5 to 1/4. This would leave only about Esc. 5 billion for the general salary increase, which, if it were to be retroactive to January 1 as the unions wanted, would imply an increase of 14.8 per cent. The government was hoping that the selective increases which would be part of the "restructuration" package could be put into effect as of July 1 only. At present the unions were demanding a 23 per cent general salary increase retroactive to January 1. The cost to the budget of such an increase would be Esc. 11 billion or 0.5 billion in excess of the budgetary appropriation of salary increases. ∕This is a surprisingly low figure, which probably excludes autonomous services/

Mr. Figueiredo Lopes confirmed that nobody had the slightest idea what the number of civil servants was at present. He offered an estimate for May 1978, which was politely declined. He then described what had been done for the 45,327 civil servants returning from the former colonies (Pessoal Adido). More than 12,000 of them had been fully integrated in permanent civil service jobs; 22,000 were "floating"; 6,563 were "desvinculados", i.e., about to be pensioned off or working in the private sector; finally, 3,200 were sitting at home waiting for a job, but still getting paid.

Mr. Figueiredo Lopes said that he was heading a central committee for the rationalization of public service personnel, the main tasks of which were to identify redundancy, simplify public service structures and career streams, facilitate the redistribution of personnel through training and recycling, and improve mobility between the various departments, which is practically nonexistent at present. A central department of recruiting and training would be created as well as a central filing system which, hopefully, would then be able to produce an estimate of the number of people employed in the civil service.

On administrative reform Mr. Figueiredo Lopes said that the main impetus had come from the second provisional government which had established a Ministry of Administrative Reform. The first step had been to set the goals for the reform, such as raise the moral standards of the civil service, restore dignity to same, correct distortion and injustices, and so on and so forth. The next step would be to try to "rationalize existing structures," whatever that means, modernize management, improve the relations between the civil servants and the public, and promote innovation and modernization in the civil service through a magazine called "The Public Administration Review." The meeting was then rudely interrupted by the President, who called to enquire what progress had been made on a project for a National Institute for Administration, which would train the top civil servants along the lines of the ENA in France. Mr. Figueiredo Lopes confirmed that that institute could start operating in less than a year.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources
Minutes of Meeting No. 9

Held at the Ministry of Finance
on Wednesday, May 23, 1979, at 11:00 a.m.

Portuguese Representatives

Dr. João Pinto Ribeiro
(Secretary of State for
the Budget)
Dr. António J. Carvalho
(Under-Secretary of
State for the Budget)
Dr. Othen Gonçalves
(Director of Research,
Ministry of Finance)

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

The meeting focused on the basic theme of what steps could be taken to ensure that the overall deficit figure in the proposed budget for 1979 would not be exceeded. The ensuing discussions centered around the following principal issues: (i) On the coming into effect of the new budget, would spending departments be allowed a "catching-up" (in the form of utilizing the excess of their monthly appropriations under the new budget over the 1978-based monthly allocations they had so far been given)? (ii) What procedures were in place regarding commitments of capital expenditure? (iii) The prevailing policy on the hiring of personnel in the civil service; and (iv) What preparations, if any, are under way for the 1980 budget?

Responding to questions on the above-mentioned areas, the Secretary of State for the Budget stated that questions dealing with capital expenditures and subsidies (together with transfers) should be directed to the Secretaries of State for Planning and the Treasury, respectively. As for current expenditures (which were under his jurisdiction), his intention for the current fiscal year

was to cut spendings for goods and services by 50 per cent and by 15 per cent for other current operating items, beginning July 1979. Expenditure requests beyond these limits would be made subject to substantial justification. On the question of the effectiveness of the rule of one-twelfth in the context of the control of commitments, the Secretary of State stated that there difficult cases of "fait accompli"--e.g., spendings relating to hospitals. On the question of whether spending departments could be required to submit lists of all commitments already made, he felt that this could be done, but added that there was at present no mechanism for control at the commitment stage. Turning to health expenditures, he commented that these increased sizeably during the past budget year, and the Esc 30 million in the 1979 budget did not appear adequate; any over-runs in this regard might, however, be offset by likely underspendings in other current account headings. Commenting on the fact that budgeted expenditures for health services had generally turned out to be substantially lower than actuals, the Secretary of State said that appropriations for these items were often set deliberately on the low side, to discourage the relevant departments from excessive spending.

Concerning personnel policy, the Secretary of State said that recruitment into the civil service was subject to his approval. The trend in this regard was said to portray a decline in new recruitments in relation to applications, as evidenced by the following data:

<u>Period</u>	<u>Number of Applicants</u>	<u>Number of Recruited Applicants</u>
1978 (Full Year)	4,496	2,560 (56.9 %)
1979: January	415	211 (50.8 %)
February	373	173 (46.4 %)
March	814	309 (38.0 %)

Most of the new recruits were from overseas; and the posts related mainly to social services (nurses and doctors) outside the major cities. By the end of 1978, civil service personnel totalled 302,804, the security forces 23,000, and the military 65,000. Priority in hiring was given to technicians and employment outside the cities. Plans were on hand to freeze employment in the civil service, but it was difficult to put such intentions into practice. The question was answered in the affirmative as to whether personnel requests by departments were ~~being~~ inflated with a view to making such departments still comfortable personnel-wise despite a cut in their requests. It was added that under the existing procedure, some autonomous services (e.g., universities) could recruit personnel without prior authorization by the Secretary of State.

Turning to the various stages in the budget formulation exercise, the Secretary of State explained that usually the exercise must start in June of each year, with each service required to submit its request by the end of that month. The budget document itself must be ~~prepared~~ ^{presented} to Parliament by October 15. In reply to a question, the Secretary of State agreed with the point that under this budget preparation procedure, expenditure estimates submitted in mid-year might be out of date by year-end when the budget is due for approval by Parliament.

INTERNATIONAL MONETARY FUND
Portugal - 1979 Use of Fund Resources
Minutes of Meeting No. 10

Held at the Bank of Portugal
on Wednesday, May 23, at 3:00 p.m.

Portuguese Representative

Dr. Mendes
(Bank of Portugal)

Fund Representative

Mr. Osunsade

The purpose of the meeting was to follow up some outstanding questions on external debt. Dr. Mendes began by making available to the staff mission a copy of the report containing the recommendations of the working group set up in the Bank of Portugal with a view to improving the machinery for the collection of external debt data.

On the external debt of the state enterprises, Dr. Mendes produced data showing that the net use of foreign loans by a selected list of 26 public enterprises in 1978 amounted to the equivalent of US \$ 223.7 million. This amount, however, excluded foreign borrowing during the year by a number of public enterprises, of which the following accounted for US \$ 100.3 million (in US \$ millions):

1. Banco de Fomento	:	51.0
2. SFP	:	13.3
3. SECIL (Cement company):		9.0
4. IAPO	:	<u>27.0</u>
Total	:	100.3

To obtain stock and flow data on the external indebtedness of all the public enterprises would, according to Dr. Mendes, require about 3 - 4 weeks of work, using the information stored in the

computer. Part of the problem was that the Bank of Portugal depended on a computer time-sharing arrangement with the Caixa Geral; but the Bank was planning to have its in-house computer services soon.

INTERNATIONAL MONETARY FUND

Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 11
Held at the Ministry of Finance on
Wednesday, May 23, 1979 at 4.00 p.m.

Present:

Portuguese representatives

Dr. Almeida, Secretary of State
for the Treasury
Dr. Cavaco Silva, Bank of Portugal
Dr. de Melo, Director of the Treasury
Dr. José Silva Rodrigues
Dr. Castro Guerra
Dr. Adriano de Carvalho

Fund representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

At this meeting, two general topics--the financial situation and investment plans of the public enterprises, and the possibility of implementing a cash management system for the central administration--were discussed.

I. Public Enterprises

Mr. de Fontenay opened the meeting by recalling that in February, the system of Planning for the Public Enterprises (SPEPP) had just gone into effect and the hope then was that by late March more data would be available on the financial situation, investment plans, and overall credit needs of the public enterprises sector. It was also expected that these data would be useful in determining new prices for the services and products offered by the enterprises. The Secretary of State for the Treasury, Dr. Almeida, replied that all the reports related to SPEPP had been received and these were being reviewed at the sectoral and enterprise level. Some historical figures were now available related to 1978 for 26 of the largest public enterprises. The data on bank credit to these firms as provided by the firms themselves had been compared with data from the banks, and there were only relatively minor discrepancies. Banking data showed that bank credit increased by 40 per cent, from Esc 83.2 billion at end-1977 to Esc 117.4 billion at end-1978. Indebtedness to foreign banks and suppliers reached Esc 96.58 billion at end-1978. All foreign credits were now being carefully monitored, irrespective of maturity. It was estimated that these credit figures, domestic and foreign, represented over 90 per cent of credit to the public enterprises sector.

The financial needs of the 26 enterprises, as indicated in requests for 1979, totaled Esc 104 billion, of which Esc 17 billion was for working capital, Esc 60 billion for projects already underway or approved, and

Esc 24.5 billion for new projects (Table 1). These requests included that some Esc 45 billion would come from the budget through either subsidies or equity, and Esc 55 billion from borrowing domestically and abroad. This was the only global indication of financing needs in 1979. Dr. Almeida indicated further that a figure of this magnitude (Esc 104 billion) was clearly unrealistic. For example, the state budget included only Esc 18 billion in financing to the public enterprises (Esc 7 billion for subsidies and Esc 11 billion for equity) compared with Esc 45 billion requested. The total figure was not based on a detailed list of projects. A detailed list of projects had been submitted by the transportation sector but no list had yet been received from the Ministry of Industry. In deciding on the total of projects that would go ahead in 1979, Dr. Almeida indicated that the Government would take into account the amount of financing to come from abroad given the balance of payments outlook, the foreign borrowing to be undertaken by the Government and financing to be made available through the domestic banking system. It was the Government's firm intention not to increase the amount shown in the budget for equity transfers, although it would be necessary to raise subsidies. During the meeting, the Secretary of State for the Treasury contacted the Minister of Industry, who indicated that some Esc 38-40 billion would be required for projects in the industrial sector which were approved in 1978. Decisions on which projects would be given priority would be made project by project, as no plan existed as of yet. Allowance would have to be made for projects approved or commitments given in the past, such as for the national bus company (RN) and the Lisbon bus company (CARRIS). Investment in railways and the Lisbon Metro were also being promoted, as these investments provided employment in the metalworking sector. An airport at Madeira and an investment by the electricity company (EDP) had been approved. Also, four big ships for the merchant marine might go forward. The steel project had been approved in principle, and would start once a market for the production was assured.

On the question of subsidies to public enterprises, Dr. Almeida presented a series of tables showing the subsidies provided by sectors and firms for recent years (Attachment 7). Data on increases in prices and charges of public enterprises and utilities were also presented (Attachment 2). Looking at the prospects for price increases in 1979, Dr. Almeida recalled that in February, price increases had been expected to come in late March. It had now been decided to raise prices only after the budget had been approved, perhaps within two weeks. Mr. de Fontenay noted that in April, price increases in the range of 18-20 per cent were thought to be imminent but these had been postponed. He suggested that even price increases of this magnitude would not cover increased costs since the previous price increase, and could only worsen the financial situation of the public enterprises.

Dr. Almeida doubted whether, given the present political situation, the Government was likely to raise prices by more than 20 per cent. He admitted that given increases of 20 per cent, the figure for subsidies in the present budget, Esc 7.3 billion, was unrealistic. The total would be closer to Esc 9.0 billion and even that would require strict control. Without such control, the final total might be Esc 14-15 billion.

II. Cash Management for the Central Administration

Mr. de Fontenay asked if it were now feasible to administer the state budget in such a way that the Government could predict three to six months into the future the cash needs of the state. Prior to the arrival of the

Director of the Treasury, the Secretary of State for the Treasury offered his personal opinion. He indicated that such a system had been written into the program of every recent Government, but cash management continued on a day-to-day basis. There was a very good system of day-by-day controls, including a very traditional system of paying bills. However, a system for projecting needs three months into the future would require a completely new computerized system, with a new department operating with models for projecting expenditures.

The Director of the Treasury, on the other hand, thought that a system of quarterly cash management presented much less of a problem. Expenditures related to the budget were not difficult to project, and while revenues presented more of a problem, these were not impossible to forecast. The real problem was related to "other Treasury operations," extrabudgetary operations which tended to cancel each other out over the course of the year but could result in substantial credits or debits over a three-month period.

Attachments

10/01

NECESSIDADES DE FINANCIAMENTO PARA 1979
DE 16 EMPRESAS PÚBLICAS MAIS SEGURADORAS

(Valores provisórios)

(Em milhões de contos)

FONTES			APLICAÇÕES		
1.	O.G.E.	45,4	5.	Imobilizado	86,4
1.1.	Entradas de capital	29,8	5.1.	Imobilizado Técnico	84,5
1.2.	Subsídios	15,6	5.1.1.	Projetos em curso de execução material	60
2.	Autofinanciamento	2,3	5.1.2.	Projetos novos	24,5
3.	Capital Alheio	55	5.2.	Imobilizado financeiro	1,9
3.1.	Interno	27	6.	Reservas do ativo circulante	17,4
3.1.1.	Bancários	29,5	7.	Reserva interna do imobilizado	53,4
3.1.1.1.	C. prazo	8,7	7.1.	Reserva interna do imobilizado	27
3.1.1.2.	M/L prazo	20,8	7.2.	" " interna	27
3.1.2.	Outros	(7,5)			
3.1.2.1.	C. prazo	(9,4)			
3.1.2.2.	M/L prazo	6,9			
3.2.	Externos	28			
3.2.1.	C. prazo	6			
3.2.2.	M/L prazo	22			
3.3.	3.3.1. Total c. prazo	53			
	3.3.2. " m/l prazo	49,7			
4.	Outros	1,1	8.	TOTAL (5+6)	103,8
5.	TOTAL (1+2+3+4)	103,8			

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ELEMENTOS ESTADÍSTICOS

Empresas Públicas

(em contos)

E P R E S A S	SUBSIDIOS N/REEMBOLSAVEIS(OGE)			
	1976	1977	1978	TOTAL
I - DA TUTELA DO MIT		1.249.005	1.364.000	2.613.005
II - DA TUTELA DO MTC	3.500.000	6.146.100	8.216.325	17.862.425
III - DA TUTELA DO MAP		480.875	747.175	1.228.050
IV - DA TUTELA DO MCT		1.300	92.000	93.300
V - DA TUTELA DO MCS		162.000	520.300	682.300
VI - DA TUTELA DO MHOP	460.000			460.000
T O T A L	3.960.000	8.039.280	10.939.800	22.939.080

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ELEMENTOS ESTATÍSTICOS

Empresas Públicas

(em contos)

E P R E S A S	SUBSIDIOS N/REEMBOLSAVEIS(OGE)			
	1976	1977	1978	TOTAL
I- <u>DA TUTELA DO MIT</u>				
CNP - Companhia Nacional de Petroquímica, E.P.				
EEM - Empresa de Electricidade da Madeira, E.P.				
EDP - Electricidade de Portugal, E.P.		600.000		600.000
EPPI - Empresa Pública de Parques Industriais, E.P.		157.000	15.000	172.000
ENU - Empresa Nacional de Urânio		17.005		17.005
ENVC - Estaleiros Navais de Viana do Castelo, E.P.			75.000	75.000
FEIS - Fábrica Escola Irmãos Stephens, E.P.			60.000	60.000
PETROFIBRAS - Petroquímica e Fibras Sintéticas, E.P.				
PETROGAL - Petróleos de Portugal, E.P.		120.000		120.000
QUIMIGAL - Química de Portugal, E.P.				
SETENAVE - Estaleiros Navais de Setúbal, E.P.		300.000	1.214.000	1.514.000
SIDERUGIA NACIONAL, E.P.		35.000		35.000
SMS - Sociedade Mineira de Santiago		20.000		20.000
T O T A L		1.249.005	1.364.000	2.613.005

ELEMENTOS ESTATÍSTICOS

Empresas Públicas

(em contos)

E P R E S A S	SUBSIDIOS N/REEMBOLSAVEIS(OGE)			
	1976	1977	1978	TOTAL
II - DA TUTELA DO MTC				
ANA - Aeroportos e Navegação Aérea, E.P.				
CP - Caminhos de Ferro Portugueses, E.P.	2.700.000	2.918.100	4.663.325	10.281.425
Companhia Carris de Ferro de Lisboa		345.000	550.000	895.000
DRAGAPOR - Dragagens de Portugal, E.P.				
METRO - Metropolitano de Lisboa, E.P.		294.000	242.000	536.000
NAVIS - Navegação de Portugal, E.P. (CTM/CNN)		1.025.000	1.200.000	2.225.000
RN - Rodoviária Nacional, E.P.		760.000	950.000	1.710.000
STCP - Serviços de Transportes Colectivos do Porto		250.000	300.000	550.000
TAP - Transportes Aéreos Portugueses, E.P.	800.000	500.000	241.000	1.541.000
TRANTEJO, E.P.		54.000	70.000	124.000
T O T A L	3.500.000	6.146.100	8.216.325	17.862.425

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ELEMENTOS ESTATÍSTICOS

Empresas Públicas

(em centos)

E P R E S A S	SUBSÍDIOS N/REEMBOLSAVEIS (OGE)			
	1976	1977	1978	TOTAL
III - <u>DA TUTELA DO MAP</u>				
CPP - Companhia Portuguesa de Pesca, SARL		150.875	108.175	259.050
Companhia das Lezírias. E.P.:			7.000	7.000
Complexo Agro-Indústrial do Cachão		80.000	99.000	179.000
DOCAPESCA - Sociedade Concessionária da Docapesca, SARL		75.000	107.000	182.000
PESCRUL - Sociedade de Pesca de Crustáceos, SARL		12.000	4.000	16.000
SNAB - Sociedade Nacional de Armadores de Bacalhau. SARL		108.000	107.000	215.000
SNAPA - Sociedade Nacional dos Armadores da Pesca de Arrasto. SARL		55.000	315.000	370.000
T O T A L		480.875	747.175	1.228.050

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 Anexo No. 11

Empresas Públicas

(em contos)

E P R E S A S	SUBSIDIOS N/REEMBOLSAVEIS(OGE)			
	1976	1977	1978	TOTAL
IV - <u>DA TUTELA DO MCT</u>				
ENATUR - Empresa Nacional de Turismo, E.P.		1.300		1.300
FRIANTARTICUS - Frigoríficos de Cascais, E.P.			1.000	1.000
GELMAR - Empresa Distribuidora de Productos Alimentares			41.000	41.000
SAPP - Serviço de Abastecimento de Peixe ao País, E.P.			50.000	50.000
T O T A L		1.300	92.000	93.300

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Empresas Públicas

(em contos)

E P R E S A S	SUBSIDIOS N/REEMBOI.SAVEIS(OGE)			
	1976	1977	1978	TOTAL
V - <u>DA TUTELA DO MCS</u>				
ANOP - Agência Noticiosa Portuguesa, E.P.		32.000	76.000	108.000
Correio do Minho		500	4.500	5.000
E.P.N.C. - Empresa Pública dos Jornais Notícias e Capital, E.P.		15.000	42.000	57.000
E.P.S.P. - Empresa Pública dos Jornais Sécuro e Popular, E.P.		56.000	90.000	146.000
Jornal Comércio		8.212	2.800	11.012
Rádiatelevisão Portuguesa, E.P.		45.000	70.000	115.000
RDP - Radiodifusão Portuguesa, E.P.			110.000	110.000
Subsídio do papel de jornal (Vidē relação anexa)			125.000	125.000
Diversas empresas estatizadas		5.288		5.288
T O T A L		162.000	520.300	682.300



electriz No. 11
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SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL
DIRECÇÃO-GERAL DA INFORMAÇÃO
GABINETE DO DIRECTOR-GERAL

Viúva e Herdeiros de José Barão (Jornal do Algarve)	
Exemplares <u>137.930</u> - Sede - Rua do Brasil, 43	156.842\$00
Vila Real de Santo António	
Empresa do "Jornal de Notícias", S.A.R.L. (Jornal de Notícias)	
Exemplares <u>23.880.129</u> - Sede - Rua Gonçalo Cristóvão, 195	19.918.463\$00
2-219 - Porto	
Carlos Maria Pinto Pedrosa, Herdeiros, Lda. (Notícias de Évora)	
Exemplares <u>492.145</u> - Sede - Rua do Raimundo, 43 Évora	410.546\$00
Imprelivro - Imprensa e Livros, S.A.R.L. (O País)	
Exemplares <u>390.015</u> - Sede - Rua D. Pedro V, 7 - 12.	742.409\$00
Lisboa	
Sojornal - Sociedade Jornalística Editorial, S.A.R.L. (Expresso)	
Exemplares <u>2.352.983</u> - Sede - Rua Duque de Palmela, 37-29. Dt. 2. (1)	1.962.671\$00
Lisboa-2	
Novimprensa - Sociedade de Publicações, S.A.R.L. (Jornal Novo)	
Exemplares <u>4.179.234</u> - Sede - Rua de Sta. Catarina, 2 (1)	3.485.947\$00
Lisboa	
Sociedade Cooperativa Editorial "A Luta" (A Luta) (1)	2.228.110\$00
Exemplares <u>2.683.206</u> - Sede - Rua Sacadura Cabral, 26	
Dafundo	
Rigor - Sociedade de Informação e Cultura, S.A.R.L. (O Dia) (1)	5.566.694\$00
Exemplares <u>6.673.836</u> - Sede - R. Victor Gordon, 27	
Lisboa	
Rigor - Sociedade de Informação e Cultura, S.A.R.L. (Edição Especial)	
Exemplares <u>556.025</u> - Sede - R. Victor Gordon, 27	463.823\$00
Lisboa	
A transportar 34.945.510\$00	

(1) Tem dívida à Portugal



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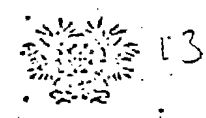
SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL
 DIRECÇÃO-GERAL DA INFORMAÇÃO
 GABINETE DO DIRECTOR-GERAL

SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL

	Transporte	34.945.510\$00
<u>Fábrica de Igreja Paroquial da Freguesia de</u>		
S. Pedro e Santiago de Torres Vedras (<u>Badaladas</u>)		
Exemplares <u>265.200</u>	- Sede - Praça 25 de Abril, 6 - 19. Torres Vedras	221.251\$00
Empresa - O Primeiro de Janeiro, S.A.R.L. (<u>O Primeiro de Janeiro</u>)		
Exemplares <u>9.353.270</u>	- Sede - R. de Santa Catarina, 326 Porto	7.801.610\$00
Diocese de Coimbra (<u>Correio de Coimbra</u>)		
Exemplares <u>184.500</u>	- Sede - Bairro de S. José, 2 Coimbra	153.939\$00
Imprenova - Imprensa Nova, S.A.R.L. (<u>Tempo</u>) (1)		
Exemplares <u>2.833.033</u>	- Sede - R. Ruben A. Leitão, 4 - 19. Lisboa.	2.404.827\$00
Carlos Marques - Indústrias Gráficas, S.A.R.L. (<u>Diário do Alentejo</u>)		
Exemplares <u>24.512</u>	- Sede - Praça da República, 43 Beja	20.493\$00
Esporizal Caminho, S.A.R.L. (<u>O Diário</u>)		
Exemplares <u>10.920.823</u>	- Sede - Rua João de Deus, 24 Venda Nova - Arnadora	9.109.106\$00
Sociedade Luz e Progresso, Lda. (<u>O Almonda</u>)		
Exemplares <u>143.485</u>	- Sede - Campo de Santana, 43 Lisboa	119.728\$00
A transportar		54.776.464\$00

(1) Tem dívida à Portugal

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SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL
DIRECÇÃO-GERAL DA INFORMACÃO
GABINETE DO DIRECTOR-GERAL

	Transporte	54.776.464\$00
<hr/>		
Editorial Via Norte, S.A.R.L. (<u>O DIABO</u>) (1)		
Exemplares <u>2.146.930</u>	- Sede - Rua Mouzinho da Silveira, 26 Porto	1.790.802\$00
<hr/>		
Notícias da Amadora, S.A.R.L. (<u>Notícias da Amadora</u>)		
Exemplares <u>72.000</u>	- Sede - Rua Elias Garcia, 245, 2º. E. Amadora	60.103\$00
<hr/>		
Tipográfica das Beiras, Ldª. (<u>Diário de Coimbra</u>) (1)		
Exemplares <u>867.907</u>	- Sede - Rua da Sofia, 179 Coimbra	723.969\$00
<hr/>		
Tipográfica das Beiras Ldª. (<u>Domingo - O Jornal do Dia</u>)		
Exemplares <u>120.994</u>	- Sede - Rua da Sofia, 179 Coimbra	100.969\$00
<hr/>		
Empresa do Diário do Minho, Ldª. Sucessora (<u>Diário do Minho</u>)		
Exemplares <u>684.577</u>	- Sede - Rua de Santa Margarida, 4-A Braga	571.053\$00
<hr/>		
Editorial 18 de Janeiro, S.A.R.L. (<u>Página Um</u>)		
Exemplares <u>203.451</u>	- Sede - Rua Braamcamp, 52-7º. Lisboa	169.746\$00
<hr/>		
	A transportar	58.193.106\$00

(1) Tem dívida à Portugal



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Electing No 11

SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL

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DIRECÇÃO-GERAL DA INFORMAÇÃO
GABINETE DO DIRECTOR-GERAL

Transporte 58.193.106\$00

Publigráfica - Publicidade e Artes

Gráficas, SARL (Jornal da Costa do Sol) 22.881\$00

Exemplares 27.375 - Sede - Trav. Afonso Sanches, 6-19.D.
Cascais

Alvaro Augusto dos Santos Dias (Jornal de Setúbal)

Exemplares 82.422 - Sede - Praceta Fernando Pessoa, 10 cv.
Setúbal 68.796\$00

E.P.N.C. - Empresa Pública dos Jornais

"Notícias" e "Capital", (A Capital) (1)

Exemplares 8.663.944 - Sede - Av. da Liberdade, 266
Lisboa - 2 7.226.643\$00

E.P.N.C. - Empresa Pública dos Jornais "Notícias"
e "Capital", (Diário de Notícias) (1)

Exemplares 19.149.894 - Sede - Av. da Liberdade, 266
Lisboa - 2 15.972.974\$00

Fernando Manuel Vitorino de Queiroz (Correio do Douro)

Exemplares 51.000 - Sede - R. Joaquim Marques dos Santos, 226
Valongo 42.887\$00

António Maria Paulouro (Jornal do Fundão)

Exemplares 315.115 - Sede - Rua do Jornal do Fundão
Fundão 429.705\$00

A transportar 81.956.692\$00

(1) Tem dívida à Portugal



SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL

DIRECÇÃO-GERAL DA INFORMAÇÃO
GABINETE DO DIRECTOR-GERAL

Transporte	81.956.692\$00
Diocese de Bragança (<u>Mensageiro de Bragança</u>)	129.363\$00
Exemplares <u>155.035</u> - Sede - Av. 25 de Abril Casa de Trabalho Bragança	
Diocese da Guarda (<u>Notícias da Covilhã</u>)	91.381\$00
Exemplares <u>109.500</u> - Sede - R. de Santa Maria, 65 Covilhã	
Edições "A Rua, Lda." (<u>A Rua</u>)	1.065.589\$00
Exemplares <u>1.277.475</u> - Sede - R. Sampaio e Pina, 58-2º.D. Lisboa	
A Empresa de "Diário de Notícias" Lda. (<u>Diário de Notícias</u>) do Funchal	1.558.296\$00
Exemplares <u>1.363.179</u> - Sede - R. da Alfândega, 8/12 Funchal - Madeira	
Empes - Empresa de Publicidade de Espinho, Lda. (<u>Defesa de Espinho</u>)	19.916\$00
Exemplares <u>23.320</u> - Sede - Rua 19, nº. 62 Espinho	
Sciva - Cooperativa Editorial SCARL (<u>Voz do Povo</u>)	342.136\$00
Exemplares <u>410.128</u> - Sede - Trav. das Almas, 2-A Lisboa	
Carlos Gomes de Almeida Mota (<u>Notícias de Gouveia</u>)	
Exemplares <u>96.000</u> - Sede - Largo Pelourinho, 2 Gouveia	80.122\$00
A transportar.....	85.243.495\$00

SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL
DIRECÇÃO-GERAL DA INFORMAÇÃO
GABINETE DO DIRECTOR-GERAL

Transporte 85.243.495\$00

Empresa de "A Comarca de Arganil" Lda.
(Comarca de Arganil) 769.328\$00

emplares 922.288 - Sede - Rua da Oliveira Matos, 1
Praça Simões Dias, 14-15
Arganil

Imprensa Gráfica, S.A.R.L. (Diário de Lisboa) (1)
emplares 3.421.073 - Sede - R. Castilho, 185 - 19.
Lisboa 7.024.065\$00

Empresa Pública dos Jornais
Diário e Popular, E.P.S.P. (Diário Popular) (1)
emplares 16.358.495 - Sede - Rua Luz Soriano, 67
Lisboa 14.061.710\$00

Publicações Projornal, Lda. (O Jornal) (1)
emplares 1.900.431 - Sede - Av. da Liberdade, 232-r/c
Lisboa 1.585.197\$00

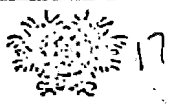
Empresa de "O Comércio do Porto", S.A.R.L.
(Comércio do Porto) (1)
emplares 16.187.623 - Sede - Av. dos Aliados, 107
Porto 13.502.144\$00

Imprensa Vicente Martins (A Comarca da Sertã)
emplares 33.600
Sertã 28.074\$00

Imprensa de Viseu (Jornal da Beira)
emplares 131.250 - Sede - R. Nunes de Carvalho, 28
Viseu 109.524\$00

A transportar 122.323.537\$00

Tem dívida à Pontual



SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL
DIRECÇÃO-GERAL DA INFORMAÇÃO
GABINETE DO DIRECTOR-GERAL

	Transporte	122.323.537\$00
Castro Lopes & Filhos, Lda. (<u>Notícias de Chaves</u>)		
Exemplares <u>128.445</u> - Sede - R. de Santo António, 16-A. Chaves		107.184\$00
Empresa do "Correio da Horta", Lda. (<u>Correio da Horta</u>)		
Exemplares <u>12.000</u> - Sede - R. Comendador Ernesto Rebelo, 5 Horta - Faial Açores		10.057\$00
José Domingos da Cruz Santos e Manuel C. Pinto Ferreira (<u>Miradouro</u>)		
Exemplares <u>83.200</u> - Sede - Boassas Cinfães		73.616\$00
Diocese do Algarve (<u>Folha do Domingo</u>)		
Exemplares <u>93.505</u> - Sede - Rua do Município, 12 Faro		82.211\$00
Empresa do Jornal de Madeira, Lda. (<u>Jornal da Madeira</u>)		
Exemplares <u>1.652.973</u> - Sede - R. Fernão Ornelas, 35-C. Funchal - Madeira		1.378.793\$00
Artur Pinto Bastos Herdeiros (<u>O Desforço</u>)		
Exemplares <u>43.200</u> - Sede - Rua Dr. Henrique Cabral Fafe		36.081\$00
Manuel José Madeira (<u>Diário do Sul</u>)		
Exemplares <u>528.000</u> - Sede - Travessa de Santo André, 8 Apartado 37 Evora		440.453\$00
	A transportar	124.451.932\$00

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SECRETARIA DE ESTADO DA COMUNICAÇÃO SOCIAL
DIRECÇÃO-GERAL DA INFORMAÇÃO
GABINETE DO DIRECTOR-GERAL

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Transporte 124.451.932\$00

Maria Dália da Silva Lourenço de Abreu
(Notícias de Viseu)

Exemplares 278.250 - Sede - Rua João Mendes, 72
Viseu 232.136\$00

Empresa Editora "Cidade de Tomar, Lda."
(Cidade de Tomar)

Exemplares 140.250 - Sede - Praça da República, 2
Tomar 117.030\$00

Diocese de Portalegre e Castelo Branco
(O Distrito de Portalegre)

Exemplares 43.200 - Sede - Praça do Município, 16-20
Portalegre 36.081\$00

Armando de Sousa Silveira (Notícias de Penafiel)

Exemplares 68.250 - Sede - Av. José Júlio, 257
Penafiel 56.975\$00

Cooperativa Editora e de Promoção Cultural
"Escrever é Lutar" SCARL (A Força)

Exemplares 105.600 - Sede - R. Tenente Valadim, 5 - 1º.
Torres Novas 88.129\$00

Património dos Pobres da Freguesia da Marinha Grande
(Jornal da Marinha Grande)

Exemplares 21.189 - Sede - Av. Conde Azarujinha, 5
Marinha Grande 17.717\$00

Total 125.000.000\$00

Empresas Públicas

(em contos)

E P R E S A S	SUBSIDIOS N/REEMBOLSAVEIS(OGE)			
	1976	1977	1978	TOTAL
VI - <u>DA TUTELA DO MHOP</u> EPAL - Empresa Pública das Águas de Lisboa, E.P.	460.000			460.000
T O T A L	460.000			460.000

11

Evolução do preço-base dos produtos
Siderúrgicos (%)

(IRON AND STEEL PRODUCTS)

	1975/1974	1976/1975	1977/1976	1978/1977
Varão para betão	0.0	24.6	18.7	38.9
Barras comerciais	0.0	22.1	20.5	62.0
Fio laminado	0.0	27.7	21.9	63.0
Perfis	0.0	42.6	20.2	61.4
Chapa laminada	0.0	34.4	22.9	52.7
Chapa galvanizada	0.0	58.4	22.9	50.3
Folha de Flandres	0.0	50.2	22.9	57.0

Acréscimos de preços no mesmo ano

	1976	1978	
Varão para betão ...	10.3	20.0	47.6
Barras comerciais ..	18.6	27.5	58.8
Fio laminado	12.3	31.7	31.6
Perfis	18.3	24.4	65.4
Chapas laminadas ...	18.0	24.5	20.7
Chapas galvanizada .	18.0	22.9	4.3
Folha de Flandres ..	16.7	22.7	22.7

Fonte: a partir de dados da D.G. do Comércio Não Alimentar

Por favor ler o anexo 20

PASTAS CELULÓSICAS - EVOLUÇÃO DE PREÇOS (%)

(PULPS)

	1977/1976	1978/1977	1979/1978
Pasta de eucalipto branqueado	74.3	0	24.5
Pasta de pinho branqueado	93.1	0	12.4

CIMENTO^(b) EVOLUÇÃO DE PREÇOS (%)
(CEMENT)

	1977/1976	1978/1977
Cimento Portland normal	15.0	50.0

VIDRO PLANO^(c) EVOLUÇÃO DE PREÇOS (%)
(GLASS)

	1976/1975	1977/1976	1978/77
Vidro plano	23.6	23.0	0.0

Fonte: Direcção-Geral do Comércio não Alimentar

- a) As pastas celulósicas são produzidas pela PORTUCEL, empresa nacionalizada que detém 60% do mercado, pela Celvi, empresa privada com participação de capital sueco e pela C , empresa privada com participação de capital inglês.
- b) O cimento é produzido pela CIMPOR, empresa nacionalizada que detém 75% do mercado e pela SECIL, empresa em que a CIMPOR detem 59% do capital e em que há participação de capital dinamarquês.
- c) O vidro plano é produzido pela COVINA em que 80%

Sela

EVOLUÇÃO DOS PREÇOS DOS ADUBOS (%)

ADUBOS COMPOSTOS	Preços aprovados aos fabricantes				Preços de tabela			
	76/75	77/76	78/77	79/78	76/75	77/76	78/77	79/78
Binários								
7-21-0	49.8	14.2	28.2		28.8	0.0	38.1	
10-20-0	49.9	12.4	27.7		28.5	0.0	38.1	
18-36-0	50.0	18.4	29.7		28.6	0.0	38.0	
20-20-0	49.9	26.0	23.6		28.4	0.0	38.0	
Ternários								
7-14-14	46.4	14.7	31.4		25.5	0.0	37.9	
10-10-10	47.3	13.6	29.3		26.4	0.0	37.9	
15-15-15	47.4	23.7	28.4		26.4	0.0	38.1	

FONTE: A partir de dados fornecidos pela Direcção Geral da Coordenação Comercial

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Directorio No. 11

EVOLUÇÃO DOS PREÇOS DOS ADUBOS (%)
(FERTILIZERS)

ADUBOS AZOTADOS	Preços aprovados aos fabricantes			Preços de tabela		
	76/75	77/76	78/77	76/75	77/76	78/77
Sulfato de amônio a 20/21 %	50.1	39.6	12.6	28.6	-	38.0
Dil. de nitrato de amônio a 20.5 %	50.1	18.2	19.9	28.6	-	38.1
Dil. de nit. amônio a 26/26.5 %	49.8	20.8	11.3	28.9	-	38.0
Dil. de nit. amônio a 33.5 %	-	-	19.9	-	-	38.1
Sulfnitrato de amônio a 26 %	49.8	42.9	15.7	28.6	-	38.0
Nitrato de cálcio a 15.5 %	50.1	28.4	19.2	28.6	-	38.1
Cianamida cálcica a 20.5 %	-	-	33.0	-	-	-
Ureia a 46 %	49.8	18.2	25.1	28.8	-	38.0

FONTE: A partir de dados fornecidos pela D. G. do Comércio Não Alimentar

23

Alcides
8 Nov 11

EVOLUÇÃO DO PREÇO DOS COMBUSTÍVEIS (%)
(FUELS)

Produtos	1975/74	1976/75	1977/76	1978/77
Gasolina Super	40.0	0.0	48.6	19.2
Gasolina normal	36.4	0.0	53.3	21.7
Gasóleo	0.0	50.0	23.1	33.3
Fuelóleo	53.8	0.0	65.0	21.2
Petróleo	0.0	33.3	50.0	50.0
Gaz butano	6.6	2.5	38.5	49.6
Gaz propano	6.6	4.9	45.9	49.2
Gaz de Cidade	0.0	0.0	25.0	57.1

FONTE: a partir de dados fornecidos pela Direcção Geral dos
Combustíveis

2000 - 2001

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Director General

EVOLUÇÃO DAS TARIFAS DE ELECTRICIDADE E ÁGUA COM BASE
NO RESPECTIVO ÍNDICE DE PREÇOS NO CONSUMIDOR
(ELECTRICITY AND WATER)

	1977/76	1978/77
Electricidade	41,8	32,9
Água	27,9	18,8

FONTE: a partir de dados do I.N.E.

EVOLUÇÃO DAS TARIFAS E TAXAS RELATIVAS ÀS COMUNICAÇÕES E
DE ACORDO COM O RESPECTIVO ÍNDICE DE PREÇOS NO CONSUMI
DOR (POSTS AND TELEPHONES)

	1977/76	1978/77
Comunicações	34,5	34,4
Correios	44,4	27,3
Telefones	33,8	35,0

FONTE: a partir de dados do I.N.E.

EVOLUÇÃO DO PREÇO DOS TRANSPORTES COM
 BASE NO IPC
 (1976=100)

	1977	1978
TRANSPORTES	124.5	148.5 (+19.3)
TRANSP. PRIVADO	130.3	155.4 (+19.3)
+ TRANSP. COLECTIVO URBANO	115.2	135.7 (+18.7)
+ TRANSP. COLECTIVO SUBURBANO	125.4	164.3 (+31.0%)
+ TRANSP. COLECTIVO DE LONGO CURSO	117.0	130.4 (+11.5%)
+ AUTOMÓVEIS DE ALUGUEL	124.7	143.7 (+15.2)

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 12

Held at the Bank of Portugal
on Wednesday, May 23, 1979, at 5:30 p.m.

Portuguese Representative

Dr. Ramalheira
(Bank of Portugal)

Fund Representatives

Mr. Premchand
Mr. Osunsade
Mr. Stuart

The meeting was held to discuss the structure of government accounts in the Bank and the efforts made by it to collect up-to-date information on the financial transactions of the Government and autonomous services and funds.

Structure. Dr. Heira indicated that basically two current accounts are maintained by the Bank for the Government of Portugal--the current account of the Treasury and the account of the Junta de Credit Publico. All the transactions of the Government pass through its current account and periodic overdrafts within the current limits are extended by the Bank whenever necessary. The fund maintained by the Government also includes transactions or selected autonomous services and funds. The Treasury also receives some deposits (such as those from the Social Security System, postal orders and related transactions). In response to a question from the staff, Dr. Heira pointed out that there had been some delays in the collection of receipts during 1978 as most firms preferred to use them to finance their activities in view of the credit restrictions.

The autonomous services and funds conduct their operations, he stated, through the Caixa Geral.

Reports. The Bank of Portugal prepares daily statements on the operations of the Government. As for the autonomous services and funds, monthly reports are received (by the 15th of the following month) from the Caixa Geral. Dr. Heira stated that he was heading a group within the Bank to look into the ways and methods that could be adopted for getting information from the autonomous services and funds and he expected that the report of his group would be ready by the end of the year. Meanwhile, he thought that it would be possible for them to alert the Government regarding the potential implications of the flows of public expenditure. As a prerequisite, however, it is essential that a ceiling should be indicated by the Government regarding the flows for each specified period.

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 13

Held at the Department of Central Planning
on Thursday, May 24, 1979, at 3:00 p.m.

Portuguese Representative

Dr. Maria José Constancio

Fund Representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

The meeting was held to discuss the procedures adopted by the Department of Central Planning for the preparation of the capital budget and its implementation, and the issues relating to the 1979 budget.

Budget formulation and execution. Dr. Constancio indicated that the annual program is drawn up on the basis of the lists of projects and programs furnished by the spending agencies. Detailed proforma have been evolved for submitting information on the sources of financing, e.g., internal resources, foreign loans, transfers from the State budget, etc. In the absence of a development plan, ad hoc procedures are adopted for the review of the departmental requests. After the broad program is approved, specific approval for each project is given by the Secretary of State for the Treasury. Where however detailed information is not available or the groundwork for the implementation is not adequate, approvals are deferred. Insofar as projects of autonomous services and funds are concerned, the review by the planning department is confined to the budgetary transfers. It was her view that the projects undertaken by the services and funds were generally decided more on political grounds than on economic considerations.

In the preparation of the projects, most recent price data, particularly those furnished by the Ministry of Public Works, are used. Notwithstanding this, there are considerable variations in the costs of the projects which are examined by the department, often after they have taken place, toward the end of the fiscal year. No specific attention has thus far been given to the computation of the maintenance expenditures of completed projects.

After the approval of the budget by the Assembly, the Department of Central Planning issues an authorization for each project for the year as a whole, but the monthly are transferred to restricted to 1/12 entitlements. The Department receives quarterly reports on the

financial progress that inter alia show the level of commitments made. However, these are not systematically followed through in the department. The flows of funds generally tend to be heavy during the last quarter in part because of the fear of lapse of funds. Actual realization tends to be different from sector to sector. New projects tend to have substantial shortfalls in the first year. Projects involving construction activity however appear to utilize the full appropriated amounts. As for transfer of funds from one project to project, she indicated that this could be done with the approval of the Planning Department.

1979 Budget. She indicated that pending the approval of the budget, authorizations had been limited to the pro-rated actuals of the previous year. However, there would be an acceleration in the issue of authorizations after the approval of the budget. Insofar as she is aware, there were no new projects in the budget for 1979. In response to an enquiry from the staff, she stated that in some cases, particularly where construction was involved, local authorities have already placed contracts in anticipation of funds from the 1979 budget.

INTERNATIONAL MONETARY FUND

Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 14
Held at the Bank of Portugal on
Thursday, May 24, 1979 at 4.00 p.m.

Present:

Portuguese representatives

Dr. Pinto, Bank of Portugal
Dr. Adriano de Carvalho,
Ministry of Finance

Fund representatives

Mr. de Fontenay
Mr. Premchand
Mr. Stuart
Mr. Mitra

At this meeting the Portuguese representatives presented a number of tables showing domestic and foreign borrowing by the 26 major public enterprises. The data in Table 1 show an increase in total domestic credit to these enterprises of Esc 35.6 billion in 1978. The stock figure for end-1978 of Esc 133.1 billion, after deducting rediscounting by these firms of other firms' bills, and foreign borrowing with a bank guarantee, became Esc 117.0 billion which was very similar to the figure reported by the firms themselves of Esc 113.6 billion (Table 2). Although the stock figure for end-1978 for the 26 firms represented only 68 per cent of total credit to the public enterprises sector as reported in the monetary survey, the change in credit to the 26 firms in 1978 represented 92 per cent of the change to the public enterprises sector. The Portuguese representatives noted that the data for the 26 enterprises was much more accurate than that shown in the monetary survey, particularly the end-1977 stock figure. However, they thought that it was reasonable to expect that the bulk of credit would be taken up by the 26 major firms.

On external borrowing, data provided by the 26 firms indicated that total external debt outstanding was Esc 96 billion at end-1978, while ~~data~~ information taken directly from the computer gave a figure of Esc 89.6 bil-

lion (Table 4). The Portuguese representatives saw the data provided by the firms as being more accurate, as it covered all operations, regardless of size or maturity. The estimate of net capital movements taken from Table 4 differed slightly from that taken from flow data provided by the computer, but both sources suggested that the bulk of "private sector" medium-term and long-term net capital inflows was being undertaken by the public enterprises sector. Noting that the end-1978 stock figures, which showed that the total stock of publicly-guaranteed medium-term and long-term debt was virtually the same as publicly-guaranteed debt of the public enterprises, the Portuguese representatives saw this as a reasonable result. The fact that the publicly-guaranteed debt of the public enterprises exceeded the total figure for publicly-guaranteed debt at end-1977 was not explained.

The discussion then turned to the likely financing needs of the public enterprises sector in 1979. The Portuguese representatives were unable to provide a detailed breakdown of the total investment plans of Esc 85 billion. Of the total requested, Esc 60 billion represented projects already underway or formally approved. The Portuguese representatives added that it was realistic to expect that an additional Esc 10 billion of projects would go ahead, as these projects had been given at least informal approval. In addition, some Esc 15 billion for working capital would be required, bringing the total financing needs to Esc 75-85 billion.

A partial breakdown of the Esc 85 billion originally requested was provided.

<u>Total Value of Projects Requested</u>	<u>Esc 85.0 billion</u>
Industrial sector	Esc 64.0 billion
Electricity	(20.0)
Petroquimici	(11.0)
Steel	(9.5)

<u>Total requested</u>	<u>Esc 85.0 billion</u>
Transportation and communication	19.0
Trains	(4.5)
Telephones	(8.0)
Housing	(1.5)

Attachments

Table 1. SALDOS DO CRÉDITO CONCEDIDO A ALGUMAS EMPRESAS PÚBLICAS

Em milhões de escudos

	Em 31/12/77			Em 30/6/78			Em 31/12/78		
	Curto prazo	Médio e longo prazos	Total	Curto prazo	Médio e longo prazos	Total	Curto prazo	Médio e longo prazos	Total
1. Crédito total	62 716	34 719	97 435	72 444	41 548	113 992	66 082	66 993	133 075
- Carteira comercial, empréstimos e outros créditos	61 390	34 329	95 719	70 348	41 190	111 538	64 733	66 820	131 561
- Crédito de cobrança duvidosa	1 326	390	1 716	2 096	358	2 454	1 349	165	1 514
2. Garantia prestada na obtenção de crédito externo a curto prazo	7 215	-	7 215	8 708	-	8 708	6 754	-	6 754
3. Responsabilidade efectiva (1. - 2.)	55 090	35 130	90 220	62 355	42 929	105 284	58 996	67 325	126 321
- Desconto de papel comercial	6 913	63	6 976	5 637	57	5 694	9 167	105	9 272
- Financiamento bancário	40 177	35 067	83 244	56 718	42 872	99 590	49 829	67 220	117 049
do qual: contrapartida de financiamento externo	17 298	370	17 668	27 287	645	27 932	18 345	1 318	19 663

11 Incluir

Effectivo 1978

Table 2. Portugal: Domestic Credit

(In billions of escudos)

	Monetary Survey	Banking System Data for 26 Firms <u>1/</u>	Data Provided by Firms
End-1977	156.6	97.435	...
End-1978	<u>195.3</u>	<u>133.075</u>	<u>113.577</u>
Change	38.7	35.640	...

1/ If short-term foreign credits with a bank guarantee, as well as bills of other companies discounted at the commercial banks, are excluded to make the concepts consistent with data provided by firms, the numbers would be:

Credit at end-1977	83.244
Credit at end-1978	<u>117.049</u>
Increase	33.805

Table 3. Portugal: Foreign Credits

(In millions of U.S. dollars)

<u>Stock</u>	<u>Data Provided by Firms</u>	<u>Data Computerized at Bank of Portugal</u>	
<u>Total</u>			
End-1977	...	1,760.8	
End-1978	<u>2,099.1</u>	<u>1,948.2</u>	
Change	...	187.0	
<u>Medium-term and long-term with public guarantee</u>			
	<u>Public Enterprises</u>	<u>Total</u>	
End-1976	...	328	
End-1977	556	488	
End-1978	<u>613</u>	<u>615</u>	
Change in 1978	57	127	
<u>Net capital movements</u>	<u>Derived from:</u>		
	Table 6	Table 4	<u>Balance of Payments</u>
1977			
Short-term	-33.0
Medium-term and long-term	55.3	...	19.0
1978			
Short-term	...	-9.5	175.0
Medium-term and long-term	223.7	198.1	249.0

Table 1
DIVIDA EXTERNA DE ALGUMAS EMPRESAS
PUBLICAS E NACIONALIZADAS

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PAGE 7

Em milhões de escudos

	Curto prazo	Médio e longo prazos	Total
Em 31/12/977			
Com aval do estado	4	22 164 500	22 168
Com garantia bancária e sem aval do estado	22 929	17 896 400	40 824
Sem garantia bancária e sem aval do estado	894	6 290 000	7 185
Total	23 827	46 350 000	70 175
Em 31/12/78			
Com aval do estado	-	28 197 600	28 197
Com garantia bancária e sem aval do estado	26 416	23 223 000	49 639
Sem garantia bancária e sem aval do estado	600	11 205 000	11 805
Total	27 016	62 625 000	89 639
Variação de 1977 para 1978			
Com aval do estado	- 4	+ 6 033	+ 6 029
Com garantia bancária e sem aval do estado	+ 3 487	+ 5 327	+ 8 812
Sem garantia bancária e sem aval do estado	- 294	+ 4 915	+ 4 620
Total	+ 3 189	+16 275	+19 464

Nota: Devido a arredondamentos os totais não correspondem à soma das parcelas indicadas.

Table 5.8

collecting 10/14

PORTUGAL: EXTERNAL DEBT OUTSTANDING

(In millions of U.S.dollars)

	End-period		
	1976	1977	1978 ^(a)
Government ^(b)	<u>258</u>	<u>319</u>	<u>894</u>
Bonds	31	27	26
Multilateral loans	23	54	112
Bilateral loans	204	238	756
Government guarantee ^(c)	<u>328</u>	<u>488</u>	<u>615</u>
Private banks	140	232	296
Bonds	23	68	52
Multilateral loans	95	120	135
Bilateral loans	55	48	50
Supplier's credits	15	20	82
Bank of Portugal ^(b)	<u>1,166</u>	<u>1,660</u>	<u>1,924</u>
Other private ^(c)	<u>1,140</u>	<u>1,939</u>	<u>1,937</u>
Medium and long-term	937	1,115	1,348
Short-term	203	824	639
With bank guarantee	196	803	618
Without bank guarantee	7	21	21
Total	<u>2,892</u>	<u>4,426</u>	<u>5,420</u>

(a) Provisional

(b) Disbursed

(c) May include undisbursed amounts.

U.S. \$ 2.1 billion
for NPE, end
1978

1000 -

sheet No. 14

9

MEDIUM AND LONG-TERM CAPITAL FLOWS

OF SOME PUBLIC ENTERPRISES

-In millions of dollars-

	<u>1977</u>	<u>1978</u>
Drawings (capital inflow)	151,6	260,2
Repayments (capital outflow)	96,3	36,5

Note: These flows refer to the following public enterprises:

AGA-Administração Geral do Açucar e Alcool, CIMPOR-Cimentos de Portugal, CNN-Companhia Nacional de Navegação, CNP-Companhia Nacional de Petroquímica, CCFL-Companhia Carris de Ferro, CP- Caminhos de Ferro Portugueses, CTM-Companhia de Transportes Marítimos, CTP-Correios e Telecomunicações, EDP-Electricidade de Portugal, ENVC-Estaleiros Navais de Viana do Castelo, EPAC-Abastecimentos de Cereais, EPAL-Águas de Lisboa, EPG-Petroquímica e Gás, ML-Metropolitano de Lisboa, PETROGAL-Petróleos de Portugal, PORTUCEL-Celulose e Papel, QUIMIGAL-Química de Portugal, RDP-Radiodifusão Portuguesa, RN-Rodoviária Nacional, RTP-Rádio Televisão Portuguesa, SETENAVE-Estaleiros Navais de Setúbal, SN-Siderurgia Nacional, TABAQUEIRA-Empresa de Tabacos, TAP-Transportes Aéreos Portugueses, TLP-Telefones, TRANSTEJO-Transportes Tejo.

Derived from the capital transactions record used for balance of payments purposes. Covering only flows equal or above ~~of~~ \$2 million.

DIRECCAO DE SERVIÇOS
DE ESTATÍSTICA E ESTUDOS ECONÓMICOS
COMÉRCIO EXTERNO E CAPITAIS
23.5.79

INTERNATIONAL MONETARY FUND
Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 15

Held at the Bank of Portugal
on Thursday, May 24, 1979, at 4:00 p.m.

Portuguese Representative

Dr. Rodriguez (Deputy
Director, Capital
Department)

Fund Representative

Mr. Osunsade

The meeting was convened to discuss the latest position with respect to the phasing of foreign exchange authorization for outward remittances of profits and dividends from nonresident investments. Data provided by Dr. Rodriguez showed that the waiting time for this authorization has declined further during 1979, down to an average of 37 days in April.

Asked about the prospects for further cuts in the waiting period, Dr. Rodriguez stated that it would take about a year to reduce the average delay to around one week. He showed some examples of authorization applications, to illustrate his point that the delay was due in many cases to incompleteness in the supporting documentation submitted by applicants. Among the required supporting materials are: (i) proof of payment of relevant local taxes; (ii) latest balance sheet of the relevant companies; (iii) minutes of the corporate meeting at which the profits and dividends in question were declared; and (iv) certification of eligibility from the Foreign Investment Institute. Dr. Rodriguez produced two cases of concluded applications to show that, when these criteria are fully met, remittance authorization could be given within a period of one to two weeks. In general, however, documentation submitted by applicants was incomplete, and it was necessary to go back and forth before the necessary criteria for approval could be satisfied. Dr. Rodriguez felt that increased familiarity of applicants with the documentation requirements would also help in curtailing the waiting period for foreign exchange authorization for these remittances.

INTERNATIONAL MONETARY FUND

Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 16
Held at the Bank of Portugal on
Friday, May 25, at 3.00 p.m.

Present:

Portuguese representatives

Dr. Vitor Constancio, Vice Governor
of the Bank of Portugal
Dr. Cavaco Silva, Bank of Portugal

Fund representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

At this meeting, the Portuguese representatives offered comments on the draft letter of intent. Dr. Constancio opened the discussion by noting that the authorities were not presently in a position to conclude the discussions, which would have to be resumed following approval of the budget. Furthermore, many of his preliminary comments were not official as not all aspects of the draft letter had been discussed with the Government.

The first point referred to the external current account target of US\$800 million for the year ending March 1980. Dr. Constancio argued that if an economic recovery were to be initiated soon, by the first quarter of 1980 some deterioration in the external balance could be expected. He was also concerned about the implication in paragraph 2 that the domestic counterpart of the external deficit was private and public consumption. Dr. Constancio requested a change in a sentence which seemed to suggest that consumption was a major cause for the current account deficit. Mr. de Fontenay replied that a figure of US\$800 million was already generous, particularly when compared with the likely figure for the year ending March 1979 of about US\$500-600 million. A deficit of US\$800 million was still a large one, and one that could only be justified by an even greater investment effort.

Dr. Constancio worried that a balance of payments test based on the assumption of a zero balance in the overall balance of payments might be too restrictive, particularly given the unpredictability of the exact timing of government borrowing abroad. Mr. de Fontenay noted that only two ceilings on net foreign liabilities would be set, and the second one (for March 1980) would be set only after the mid-term review. The ceiling for September 1979 was not particularly ambitious.

Dr. Constancio disputed the references in paragraph 4 to a lowering of the rate of inflation in 1979. With a new wage norm of 20 per cent it would be very difficult to achieve a lower average rate of inflation in 1979 than in 1978, particularly with the annual rate running at 24 per cent so far in 1979. Mr. de Fontenay replied that the authorities would have to be ambitious

in their targets for reducing inflation, and look to the causes of domestic inflation. The agreed deceleration in the monthly rate of depreciation meant that imported inflation should be less of a problem than in the past.

Dr. Constancio was concerned about the credit program included in the draft letter, particularly the ceilings for June which were much lower than were being expected by the Portuguese. He was also concerned that too strict a credit program would result in a balance of payments of surplus. Time deposits were after all the only savings instrument available to domestic savers. Mr. de Fontenay argued that the authorities should pay closer attention to the high growth rate of the domestic money stock, which was probably closely related to the high rate of domestic inflation. He agreed that there was little that could be done to change the June figures this late into the quarter, but that much of any upward revision in the June ceiling would have to come out of later quarters in the program. He noted that the monetary programming exercise had been started several months earlier when it was pretty generally accepted that the economy was quite weak. Given the strong performance in the fourth quarter of 1978, the situation called for caution.

Referring to paragraph 7, Dr. Constancio wondered if reducing expenditure entitlements to 75 per cent of budgeted amounts wasn't too restrictive. In any event, the Ministry of Finance would have to react on the points of fiscal policy and budgetary controls. Mr. de Fontenay noted that reviews of expenditure plans were to be called for after the figure of 75 per cent of appropriations had been reached, after which some expenditures could be authorized. The system was designed to provide considerable flexibility.

On the question of compulsory ceilings for domestic and foreign borrowing by public enterprises, Dr. Constancio noted that lack of control over these enterprises by the Government might lead to some difficulties. He suggested that indicative targets would be more acceptable. He wondered if the intention was to limit foreign borrowing by enterprises to 1978 levels. Mr. de Fontenay emphasized that the problem of public enterprises were seen as very serious and despite repeated requests, the Portuguese had yet to suggest an alternative to compulsory credit ceilings. Limits on foreign borrowing would be related to the current account deficit, figures for investment plans and repayment needs.

Dr. Constancio argued that a compulsory debt ceiling would be very difficult to accept, although the gross concept being proposed would be easier to accept than a net figure. Mr. de Fontenay noted that a debt ceiling would have to be an integral part of the program, as access to excessive capital inflows could be a serious problem for Portugal in the near future. The ceiling would be on the flows for the program year, and the figure to be set now would be subject to review.

Referring to trade and payments restrictions, Dr. Constancio stated that he was under the impression that it had been agreed that the abolition of the once 30, now 10, per cent surcharge would be postponed beyond October 1, 1979. Mr. de Fontenay replied that if the abolition was to be postponed to end-1979, the Portuguese would have to argue on the grounds of revenue needs or that the tariff structure was being re-examined. Dr. Constancio replied that revenue

considerations were very important. He also noted that the possibility of reducing the waiting period for the remittance of profits and dividends to one month had yet to be discussed with the Government. Mr. de Fontenay replied that such a short period was very close to being realized.

INTERNATIONAL MONETARY FUND

Portugal--1979 Use of Fund Resources

Minutes of Meeting No. 17
Held at the Ministry of Economic Coordination
on Friday, May 25, 1979 at 7.00 pm

Present:

Portuguese representatives

Dr. Jacinto Nunes, Minister of
Finance and Economy
Dr. Silva Lopes, Governor of the
Bank of Portugal
Dr. Vitor Constancio, Vice Governor
of the Bank of Portugal
Dr. Almeida, Secretary of State
for the Treasury
Dr. Cavaco Silva, Bank of Portugal

Fund representatives

Mr. de Fontenay
Mr. Premchand
Mr. Osunsade
Mr. Stuart
Mr. Mitra

Mr. de Fontenay opened the meeting by stating that the Fund had found the visit to Washington of the Governor of the Bank of Portugal and his team to have been very useful.

It was disappointing that the mission had not been able to make more progress during the recent visit to Lisbon. In his view public finance continued to be the most important problem confronting the Portuguese economy and urgent methods were necessary to prevent a deterioration in fiscal policy. He hoped that the Minister would be able to take the necessary measures and announce them together with the concessions that had been made on the rate of devaluation and the level of interest rates so as to increase public acceptability. It was even possible to blame the Fund for unpopular measures. Mr. de Fontenay stressed the dangers of postponing agreement and said that it would be more difficult to reach agreement with the onset of the general election campaign. In the view of the Fund two sets of measures were indispensable and were preconditions for a stand-by agreement: (1) increases in the prices of the output of the public enterprises and of oil products so that the revenue raised would be consistent with the subsidy estimates in the budget and with the financing of the Supply Fund and (2) the Decree Law implementing the budget should fully reflect underspending on account of delay in the passing of the budget; only then would the implementation ratio assumed in the budget forecast be realized. It was particularly important that there should be no catching up in public expenditures and therefore visas for capital projects should be extended with caution and the budget Decree Law should provide for restraint.

The Minister stated the Decree Law would contain the implementation ratio figures and that instructions had been given to the Ministries on spending limits. It was the general intention to raise certain administered prices after the passing of the budget. He noted that the letter

of intent mentioned a freezing of 25 per cent of total budgetary expenditures, which would be virtually impossible to implement and no Decree Law could contain a provision of this kind. However, given the strictness of this Decree Law and the firm intention of the authorities in sticking to the implementation ratios, the budget estimates should not be exceeded. Mr. de Fontenay replied that the letter of intent would be changed in the light of the Minister's statement.

The Minister continued by saying that the implementation ratio in the Decree Law would be 96 per cent for current expenditures and 87 per cent for capital expenditures and that the 1/12 ratio for all Departments and Ministries would apply to the estimates taking account of implementation ratios. However, if it was not possible to raise public prices sufficiently to validate the subsidy estimates of the budget, the authorities would cut public expenditures elsewhere, possibly in nonpersonnel current expenditures. Mr. de Fontenay confirmed that this would be acceptable to the Fund and enquired whether supplementary estimates had been ruled out. The Minister said that such estimates were not being considered because a reduction in overall expenditures was the major aim of the authorities. The Minister stated that the 87 per cent implementation ratio on capital expenditures would restrain new projects and would keep catching up to a minimum.

In reply to Mr. de Fontenay's question as to whether an agreement with the Fund could be reached very shortly, the Minister noted that an agreement had been reached on the rate of depreciation, the level of interest rates but differences existed on the credit limitations of public enterprises and on credit policies as well as on the 10 per cent import surcharge. The Fund team had raised the credit ceiling by more than Esc 20 billion and they considered this to be sufficient for the needs of the Government and private sector and consistent with the desire for deceleration of inflation. If an agreement could be reached on this point a letter of intent could also be agreed, and then the Fund staff would present a paper to the Board concluding a stand-by arrangement once adequate public sector pricing measures had been taken.

After a break during which the Minister of Finance telephoned the Prime Minister, the former stated that price measures would be taken by the Government after the passing of the budget but the latter did not want to commit himself before the budget had been approved by Parliament. The Minister further wished to point out that although the proposed deficit on the current account of the budget was lower than that of the previous fiscal year, Parliament may act to increase transfers to local authorities and would almost certainly strike down the proposal on the extraordinary labor tax. In that case the current deficit would rise by Esc 7 billion. Mr. de Fontenay replied that, as indicated in Washington, an increase in the deficit of this magnitude would not be acceptable to the Fund and he suggested reductions in total expenditures possibly by a lowering of implementation ratios. The Minister replied that it would be possible to pare expenditures on the current side and if this were done the deficit would probably increase by Esc 5 billion. Mr. de Fontenay proposed additional efforts on new investment projects so that further cuts, that were regrettable but necessary, on the capital side could take place. The Minister stated that the increase in the deficit in that case could be limited to Esc 3 billion and Mr. de Fontenay indicated that this would be acceptable to the Fund.

At a further meeting at 3 p.m. on Monday, May 28, 1979 the credit ceilings for the program year April 1979 to March 1980 were agreed (see attached). The Minister was given a note from Mr. de Fontenay on the two measures considered essential by the Fund that also were preconditions for agreement, namely public sector pricing measures involving adequate price increases by an average of 25-30 per cent in the prices of oil products and charges of public utilities, and a sufficiently stringent public Decree Law that would make the budget estimates achievable. The Minister undertook to take action on these issues and he understood that the staff's paper on Portugal would not be presented to the Board until these measures had been taken. It was further agreed that the external debt ceiling would cover only the nonfinancial public sector. It was also agreed that ceiling for credit to the public enterprises would be an indicative one. The authorities would provide justification for postponement of action on the 10 per cent import surcharge but they undertook to reduce the waiting period for repatriation of profits and dividends of foreign investment to the normal period by end-October 1979. The draft letter of intent was approved in its essentials.

Attachments

Portugal: Monetary Program, March 1979 to March 1980

(Flows in billions of escudos)

	1978		1979		Mar. 79	Dec. 79	Mar. 80	1979			1980
	Dec. 1/	March 2/	Dec.	Mar. 78	Dec. 78	Mar. 79	June	Sept.	Dec.	March	
	End-period stock						Program period				
Net foreign assets ^{3/}	-17.9	-17.7	-17.9	24.7	--	--	0.9	10.9	-10.8	-1.0	
Money stock	726.6	752.9	901.4	165.5	174.8	169.5	39.1	45.1	64.3	21.0	
Other items, net	136.7	146.0	156.9	28.2	20.2	22.8	-3.1	10.0	5.2	10.7	
Nonmonetary lia-											
bilities	18.4	17.8	22.3	4.5		5.9	0	5.9	--	--	
Valuation adjustment	--	--				8.4	1.9	2.1	2.2	2.2	
Other items	118.3	128.2	134.6	23.7		8.5	-5.0	2.0	3.0	8.5	
Net domestic credit	881.2	916.6	1,076.2	169.0	195.0	192.3	35.1	44.2	80.3	32.7	
Public sector	171.7	189.0	223.0	56.6	51.3	51.0	8.0	9.0	17.0	17.0	
Private sector	709.5	727.6	848.2	112.4	138.7	136.3	27.1	33.2	60.3	15.7	
<u>Memorandum items:</u>											
DCE as percentage of money stock of one year earlier				28.9			26.2	25.3	26.8	25.5	
Annual percentage change in money stock				28.2 ^{4/}			27.5	25.7	24.0	22.5	

Source: Staff estimates.

1/ Actual.

2/ Projected.

3/ Stocks include valuation adjustments; flows do not.

4/ March 1978 figures adjusted for bank strike.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 1
Held at the Bank of Portugal
on Tuesday, February 6, 1979 at 5:00 p.m.

Present:

Portuguese Representatives

Dr. José da Silva Lopes,
Governor of the Bank of Portugal
Dr. Victor Constancio, Vice-
Governor of the Bank of Portugal
Dr. Rui Vilar, Vice Governor
of the Bank of Portugal
Dr. Pinto, Vice Governor
of the Bank of Portugal
Dr. Covaco Silva, Bank
of Portugal
Dr. Saldanha do Valle,
Bank of Portugal

Fund representatives

Mr. Patrick de Fontenay
Mr. Festus Osunsade
Mr. Brian Stuart
Mrs. Claire Teigeiro

Dr. Silva Lopes opened the meeting by indicating that Dr. Jacinto Nunes, Vice Prime Minister in Charge of Economic Affairs, would meet with the Fund Mission on the following day, Wednesday, February 7, 1979 at 9:30 a.m. This meeting would be mainly to discuss the public sector budget for 1979; Dr. Silva Lopes warned that certain difficulties had been encountered in formulating the budget which was to be presented on February 15. Furthermore, this budget would be subject to possible revision by the parliament. Following the meeting with Dr. Nunes, Dr. Covaco Silva would provide technical data related to economic performance in 1978. It would likely take the remainder of the week to discuss these data but perhaps by Friday it would be possible for the mission to meet with Dr. Silva Lopes to present its preliminary interpretations. The Governor saw some difficulties in reaching agreement within three weeks. Dr. Constancio thought it might be possible to reach preliminary agreement on the basis of the budget presented to parliament and if parliament made substantial changes, negotiations would have to be reopened.

Mr. de Fontenay observed that the international community, as represented by the Fund's Executive Board, viewed Portugal's economic policy in 1978 as courageous. It was now important that these efforts not be in vain but that the authorities persevere with another year of stabilization. By the end of the

year, it could be possible for the Fund to support a medium term program based on an investment program. For the present year, the Fund saw the need to concentrate on the financial difficulties of the public sector, this time including the public enterprises.

Mr. de Fontenay asked for a review of recent developments and the authorities' views on appropriate policy for 1979. Dr. Silva Lopes replied that it would not be possible to discuss the outlook for 1979 as much of it depended on the outturn of the budget exercise currently underway. Looking back on 1978, it was now apparent that in many respects the situation had developed much more favorably than had been thought at the time of the Fund mission in November. Total credit expansion had been brought within the ceiling by end December, even though the ceiling on credit to the public sector had been exceeded. The external current deficit had been reduced to about U.S. 920 million. Detailed estimates of the capital account were not yet available but it was known that a large surplus had been recorded, bringing the overall balance of payments approximately into balance; perhaps even a small surplus had been registered. Inflation had slowed to an average of 22 per cent for the year. There had however been a clear slowing of economic activity. The latest estimates showed a growth of real output of 3.4 per cent, but most of this had occurred in the first half of 1978. There was stagnation or perhaps a decline in activity in the second half of the year.

Dr. Silva Lopes indicated that it was possible to discuss two policy areas where the Portuguese authorities saw a need for change. One was in regard to the credit ceilings set by the existing stand-by arrangement for end March 1979. These ceilings were now seen as excessively tight. Policy was still being set keeping these ceilings in mind but some difficulty was foreseen if those were not changed. The second area where an early change was required was in the area of exchange policy. Their calculations showed that if the present rate of depreciation was continued until end March and the rate was then fixed, the average effective depreciation in 1979 would be 13 per cent, which was seen as excessive. Dr. Constancio amplified on these two points by indicating that the credit ceilings had been set on the basis of a forecast increase in the velocity of circulation of money balances of 7.5 per cent; it now appeared that velocity was actually declining. If it was not for the fact that the ceilings on credit expansion had been defined to exclude the allowance for bad debts, the agreed ceilings would have been completely impossible to meet. It was hoped that some new understandings could be reached on the ceilings for end March, perhaps even before a stand-by program had been completely agreed. On the question of exchange rate policy, it was seen as preferable to slow the rate of depreciation as soon as possible so as to

avoid the need for a sudden change in policy, such as fixing the rate at end March.

Mr. de Fontenay replied that he could fully accept the need to change the March ceilings but he warned against a premature relaxation of policy which could undo much of the achievement of 1978. Similarly on the exchange rate, it was important that the system not be changed abruptly or in such a way that the problems associated with speculation against the exchange rate reemerge. He emphasized that the authorities' concern that the growth rate of economic activity be maintained would argue for keeping the exchange rate very competitive. Dr. Silva Lopes indicated that the ceiling of 18 per cent of wage increases that the government had announced only 2 days earlier would only be observed if price increases were held below 18 per cent. In his opinion it would be impossible to hold the rate of price increase to 18 per cent unless the rate of exchange rate depreciation was slowed.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 2
Held at the Ministry of Finance
on Wednesday, February 7, 1979 at 9:30 a.m.

Present:

Portuguese representatives

Dr. Jacinto Nunes, Vice Prime
Minister for Economic Affairs
Dr. Silva Lopes, Governor of the
Bank of Portugal
Dr. Rui Vilar, Vice Governor of
the Bank of Portugal
Dr. Cavaco Silva
Dr. Marta

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

Mr. de Fontenay opened the meeting by remarking that the achievements of the Portuguese authorities in 1978 had been substantial. The external accounts had improved beyond expectations, real wage increases had been contained for a third successive year, and the rate of inflation had decelerated. He noted, however, that it would be unfortunate if such hard-won gains were to be lost through a premature relaxation of present policies. Thus another year of stabilization would be necessary to consolidate the achievements of 1978.

The public sector budget would be a central issue during the current negotiations, with the public sector being defined to include the public enterprises. Broadly, the mission supported the objectives recently announced by the Government of a balanced current account for the traditional public sector and a reduction of its overall deficit to 7 per cent of GDP. Mr. de Fontenay further explained that it would also be important for the public enterprises to achieve a balance in their current transactions. Thereby permitting credit expansion to be used for investment. It would be highly desirable for the authorities to present a realistic budget and to execute it as planned. In this connection, he thought that a ceiling on the domestic credit operations of the overall public sector, including the public enterprises, would be necessary. It could also be useful to discuss expenditure ceilings for some parts of the budget. Exchange rate policy and credit policy would also figure importantly during the discussions, however, their eventual stance would depend to a large extent on the final shape of the budget.

Dr. Jacinto Nunes replied that it was the Government's firm intention to implement whatever measures might be necessary to ensure a balanced current account for the public sector. Some of these measures had already been prepared while others were awaiting Parliamentary approval. The Government's position was an unpopular one, but he felt that it had to be taken in the present circumstances. He thought that activity in the private sector had suffered in 1978, particularly in the second half of the year, because of tight credit policies. He hoped that in 1979 more room could be made for private sector credit expansion, leaving somewhat less for the public sector.

Mr. de Fontenay asked what timetable could be expected for the presentation and approval of the 1979 budget. Dr. Jacinto Nunes replied that the budget would definitely be presented to Parliament on February 15. It would then be considered by a parliamentary committee for five days, after which it would be discussed by Parliament itself. He felt that the budget debate would not be lengthy, as the Government intended to press the political parties to conclude the discussion as soon as possible.

Dr. Jacinto Nunes noted that part of the delay in presenting the budget this year had arisen because of administrative problems connected with the implementation of the new law on local authority finance. Many tax receipts which normally accrued to the budget of the Central Government would now flow directly to the local authorities. Similarly certain expenditures, particularly for education, social security, and public works, would now fall upon the local authorities. There were problems in setting up the necessary administrative structures to take over these functions which formerly had been handled by the Central Government.

Mr. de Fontenay asked what action had been taken in the area of medium-term planning. Dr. Jacinto Nunes explained that developing a medium-term plan was the Government's first priority after approval of the budget. He intended to create a small working group to study the issue. Some support had already been given by the IBRD, and their further help in developing the orientation of such a plan was anticipated later in the year. Dr. Jacinto Nunes explained that the Government was acutely aware of the need to develop a medium-term framework in view both of impending EC membership and the need to solve Portugal's structural problems within a longer-term time span. He noted, however, that there were political difficulties in implementing a medium term strategy; certain aspects of the plan could not be settled until after the 1980 elections.

Mr. de Fontenay asked whether any new taxes were being contemplated in order to achieve a balanced public sector current account in 1979. Dr. Jacinto Nunes replied that new tax measures were indeed being considered, but these would be discussed with the mission later. Mr. de Fontenay wondered how

the authorities intended to tackle the problem of the large operating deficits of the public enterprises. Dr. Jacinto Nunes explained that a system designed to ensure greater control over their expenditures had been implemented recently. Under this system (SPEP) some of the enterprises' financial activities now required the approval of the Minister of Finance as well as the Minister directly responsible for the enterprise. Thus a greater degree of financial control was gradually being established.

A technical discussion with Dr. Cavaco Silva concerning the availability of certain data and the scheduling of future meetings then followed.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 3
Held at the Bank of Portugal
on Wednesday, February 7, 1979 at 3:30 p.m.

Present:

Portuguese representatives

Dr. Cavaco Silva
Dra. Constancio
Dra. Cardoso
Dr. Abel Mateus
Dr. Alfredo Amaral
Dra. Cocco

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

The meeting covered recent economic developments, the national accounts, prices and wages. Dr. Cavaco Silva explained that there had been a market slowdown in output in 1978. The average rate of growth of GDP of 3.4 per cent was misleading because it did not reflect the sharp difference between the first half of the year and the second half when most of the deceleration took place. It was clear however that the slowdown had started before mid-year. Dr. Cavaco Silva thought that the reasons for the slowdown were the restrictive credit policy, the high interest rates, and the wage policy which had resulted for the third year in a row in a decline in real wages. In addition there had been special factors such as the bad grape harvest.

Dr. Mateus and Dr. Amaral then reviewed the main economic indicators. Industrial production for the three months from August to October 1978 had declined by 2 per cent over the previous three months. Capacity utilization had also declined in the third quarter. The industrial survey for the fourth quarter seemed to suggest a recovery but Dr. Mateus said that in 1978 firms had been over-optimistic as to the evolution of output. For example in the third quarter the difference between the percentage of firms forecasting an increase in output and that projecting a decline was -9, while the difference between those actually recording an increase and those recording a decrease in output was -15, the lowest figure since early 1977. Surveys of orders in commerce also showed a sharp decrease. Electricity consumption had increased by 10.7 per cent in each of the first two quarters of 1978 and by 4.7 per cent in the third quarter. Consumption of fuel had increased by 9.4 per cent in January-October 1977 and by 6.8 per cent in the same period of 1978.

Transportation of goods by ships had increased by 12.7 per cent in January-October 1977 and declined by .8 per cent in the same period of 1978. The number of new enterprises had risen by 37.7 per cent in the first ten months of 1977 and declined by 13.1 per cent in the same period of 1978. Production of steel for construction had increased by 78 per cent in the first 11 months of 1977 and by only 12 per cent in the same period of 1978. Estimates of imports of equipment goods for the whole year showed an increase of 21 per cent in 1977 and only 1.2 per cent in 1978. For intermediate goods, the figures were 70 per cent and .8 per cent, respectively.

In answer to a question Dr. Mateus said that there had been a decline in stocks of imported goods but that firms had recorded an increase in stocks of finished products due to a weakening of demand. He also gave the breakdown of the estimated increase in real value added in the services sector as follows: transports, 2 per cent (the weight of that subsector in services is 16 per cent); commerce, nil (weight of 14 per cent); public administration, 7 per cent; other, including tourism, 3 per cent.

The discussion then turned to expenditure. Dra. Constancio and Dr. Mateus explained that there had been a marked decline in the investment activity of public enterprises. They explained that those enterprises had to request the authorization of the Ministry of Finance for any investment in excess of 30 million escudos. The authorization covered access to domestic bank credit up to a certain limit and access for borrowing up to a limit. While the initial investment plan of public enterprises had been around 58 billion escudos, the actual investment was probably much lower, only 30 billion escudos had been authorized by the Ministry of Finance. Dr. Mateus also explained that in 1977 the traditional private sector accounted for 17.3 per cent of total gross fixed capital formation, public enterprises for 27.6 per cent and the rest was private sector investment.

On wages Dr. Cavaco Silva explained that the Government had just set a limit of 18 per cent on new wage settlements but the decision had been accompanied by a commitment to keep the rate of inflation at 17 per cent. He also confirmed that in 1978 the wage bill had gone up by 18 per cent and the average wage by 17 per cent.

The meeting adjourned at 6:15 p.m.

TABLE 1

GROSS DOMESTIC PRODUCT FACTOR COST

SECTORS	1977 current prices	78/77 volume	1978 1977 pri- ces	78/77 prices	1978 current prices
AGRICULTURE	71 948	4	74 826	21	90 539
INDUSTRY	203 872	3.3	210 523	24	260 944
ENERGY	15 114	9	16 474	33	21 910
CONSTRUCTION	36 222	5	38 033	20	45 640
SERVICES	236 678	2.7	243 003	22	296 343
GDP _{fc}	563 834	3.4	582 859	22.7	715 376

TABLE 2

GROSS DOMESTIC EXPENDITURE

Million contos

SECTORS	1977 current prices	78/77 volume	1978 (1977 pri- ces)	78/77 prices	1978 current prices
Private Consumption	472	1.3	478	22	583
Public Consumption	85	7.8	92	20	110
G.F.C.F.	127	4.0	132	22	161
Changes in stocks	34	x	19	x	23
Exports of goods and ser- vices	111	15.3	128	21.4	155
Imports of goods and ser- vices	205	0.2	205	22	250
GDP market prices	624	3.2	644	21.4	782
Net indirect taxes	60	x		x	67
GDP factor cost	564	3.4	583	22.8	715

TABLE 3

DISPOSABLE INCOME AND SAVINGS

Million contos current prices

	1977	1978
GDP factor cost	564	715
Net foreign factor income	-6.9	-14.5
Foreign transfers	43.5	70.3
Public transfers	63.9	72.6
Interest on public debt	11.5	22.5
Direct taxes	-80.5	-104.0
Other public current receipts (not including indirect taxes)	-11.0	-9.9
Disposable income ⁽¹⁾	584.5	752
Private consumption	472	583
Private domestic savings.....	112.5	169
Public savings.....	-8.5	-25.2
Foreign savings.....	57.5	40.1
Savings= Investment	161.5	184
Private domestic savings ratio %	19.3	22.5

(1) - Including depreciation.

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Wages indices 1970/78

(Annual percentage change)

	Manufacturing, Construction and Transport (daily wages)		Agriculture (daily wages)		Agriculture (annual wages)
	Lisbon	Oporto	Males	Females	
1970-73	10.8	12.0	12.7	13.9	12.8
1974	32.3	38.5	32.6	40.6	45.5
1975	18.7	27.8	24.3	34.5	41.9
1976	11.9	11.4	14.5	13.6	22.5
1977	12.0	12.2	14.7	19.0	16.0
1978					
1977(1)					
March	9.4 (5.7)	6.6 (4.3)	16.7 (4.1)	23.6 (8.4)	-
June	11.6 (3.0)	12.9 (6.8)	12.8 (2.5)	17.0 (3.1)	-
September	13.3 (3.1)	13.5 (1.7)	17.6 (3.6)	21.4 (1.7)	-
December	13.7 (1.3)	15.7 (2.2)	13.2 (2.4)	17.1 (3.1)	-
1978 ⁽¹⁾					
March	8.3 (0.7)	11.8 (0.8)	13.5 (4.3)	4.2 (-3.6)	-
June	10.6 (5.2)	6.5 (1.7)	18.1 (6.6)	13.8 (12.6)	-
September	10.0 (2.4)	5.7 (0.9)	18.2 (3.7)	17.6 (5.1)	-
December	-	-	-	-	-

Sources: Monthly Bulletin of Statistics - National Institute of Statistics

Annual Corporations Statistics " " " "

(1) - Percentage change from year earlier; numbers in brackets represent percentage change since last month of preceding quarter.

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ÍNDICE DE PREÇOS NO CONSUMIDOR - 1978 - VALORES MÉDIOS TRIMESTRAIS E ANUAL
(1976 = 100)

		1º Trim	2º Trim	3º Trim	4º Trim	Anual
ALIMENTAÇÃO E BEBIDAS	VE	147.1	160.2	165.6	178.3	161.5
	VC	+6.1	+8.9	+3.4	+7.7	-
	VH	+24.5	+18.2	+23.5	+28.6	+22.4
ALIMENTAÇÃO	VE	144.0	157.8	160.4	168.2	156.3
	VC	+5.2	+9.6	+1.6	+4.9	-
	VH	+21.3	+15.1	+19.2	+22.9	+18.3
BEBIDAS	VE	182.1	188.4	226.1	294.7	220.7
	VC	+15.5	+3.5	+20.0	+30.3	-
	VH	+61.4	+60.8	+75.9	+87.0	+70.8
VESTUÁRIO E CALÇADO	VE	131.8	137.2	137.4	149.5	141.8
	VC	+2.0	+4.1	+0.1	+8.8	-
	VH	+17.7	+18.7	+18.5	+15.7	+19.5
DESPESAS DA HABITAÇÃO	VE	139.1	157.3	162.8	166.0	156.6
	VC	+1.8	+13.1	+3.5	+2.0	-
	VH	+24.0	+26.4	+22.3	+21.5	+23.8
ÁGUA	VE	137.7	144.0	157.8	160.2	151.9
	VC	0.0	+4.6	+9.6	+1.5	-
	VH	+24.8	+7.1	+14.6	+16.3	+18.8
COMBUSTÍVEIS E ELECTRICIDADE	VE	134.3	183.0	193.2	198.5	178.5
	VC	0.0	+36.3	+5.6	+2.7	-
	VH	+14.0	+36.3	+43.9	+47.8	+37.3
DIVERSOS	VE	132.5	141.0	149.4	181.5	145.0
	VC	+2.8	+6.4	+6.0	+21.5	-
	VH	+20.2	+20.0	+22.3	+23.0	+21.1
TRANSPORTES	VE	134.1	146.9	149.8	164.8	148.5
	VC	0.0	+9.5	+2.0	+10.0	-
	VH	+16.1	+23.4	+16.1	+22.9	+19.3
COMUNICAÇÕES	VE	141.2	144.2	219.1	219.1	180.5
	VC	0.0	+2.1	+51.9	0.0	-
	VH	+38.8	+2.1	+55.2	+55.2	+34.4
TOTAL SEM HABITAÇÃO	VE	141.5	153.4	159.2	169.7	155.4
	VC	+4.6	+8.4	+3.8	+6.6	-
	VH	+22.8	+19.6	+22.7	+25.4	+22.1

FONTE: INE; DCP

Continent	1974		1975		1976		1977		1978
	the 1 st half	the 2 nd half	the 1 st half	the 2 nd half	the 1 st half	the 2 nd half	the 1 st half	the 2 nd half	the 1 st half
Population	8 537	8 650	8 810	8 947	9 027	9 123	9 143	9 168	9 188
Labor force	3 894	4 048	3 993	4 065	4 079	4 161	4 152	4 177	4 128
Military	227	195	147	109	78	65	75	70	73
Civilian employment:	3 620	3 767	3 713	3 734	3 757	3 820	3 786	3 781	3 736
Unemployment: (1)	47	86	133	222	244	276	291	326	319
Unemployment Rate	1.2	2.1	3.3	5.5	6.0	6.6	7.0	7.8	7.7
	1974		1975		1976		1977		1978
Employment									
Primary sector	1 264	1 312	1 260	1 265	1 282	1 286	1 263	1 228	1 187
Secondary sector of which:	1 188	1 300	1 245	1 268	1 262	1 280	1 250	1 253	1 283
Manufacturing	872	962	921	939	955	961	931	905	936
Construction	277	306	280	297	268	284	277	313	298
Tertiary sector of which:	1 162	1 148	1 193	1 195	1 207	1 249	1 269	1 294	1 259
Public Administration and Armed Forces	134	136	154	164	163	177	158	175	168
Total (2)	3 620	3 767	3 713	3 734	3 757	3 820	3 786	3 781	3 736

Notes: (1) It doesn't include the total unemployment of those who returned from Africa

(2) There is a statistical difference between the total and the some of individual items.

Source: Data of all series refer to the half-yearly labor-force survey carried out through the whole period by National Inst of Statistics (INE - Instituto Nacional de Estatística)

POPULAÇÃO ACTIVA CIVIL, EMPREGADA E DESEMPREGADA A PROCURA DE NOVO EMPREGO, SEGUNDO

A SITUAÇÃO NA PROFISSÃO, NO SECTOR PRIMÁRIO

Continente

Milhares

Situação na profissão	1º sem. 74	2º sem. 74	1º sem. 75	2º sem. 75	1º sem. 76	2º sem. 76	1º sem. 77	2º sem. 77	1º sem. 78
Patrões	20 (100.0)	21 (105.0)	23 (115.0)	15 (75.0)	9 (45.0)	10 (50.0)	9 (45.0)	8 (40.0)	11 (55.0)
Isolados	404 (100.0)	397 (98.3)	392 (97.0)	413 (102.2)	408 (101.0)	395 (97.8)	409 (101.2)	391 (96.8)	372 (92.1)
Trabalhadores por conta de outrém	345 (100.0)	378 (109.6)	357 (103.5)	348 (100.9)	313 (90.7)	307 (89.0)	256 (74.2)	263 (76.2)	272 (78.8)
Familiares e outros não remunerados	492 (100.0)	512 (104.1)	485 (98.6)	483 (98.2)	532 (108.1)	553 (112.4)	566 (115.0)	549 (111.6)	517 (105.1)
Outros	-	-	-	2	15	17	18	14	12
Erro estatístico	3	4	3	4	5	4	5	3	3
TOTAL	1 264 (100.0)	1 312 (103.8)	1 260 (99.7)	1 265 (100.1)	1 282 (101.4)	1 286 (101.7)	1 263 (99.9)	1 228 (97.2)	1 187 (93.9)

Fonte: INE - Inq. Perm.
ao Emp. (Valores
Provisórios)

POPULAÇÃO ACTIVA CIVIL, EMPREGADA E DESEMPREGADA À PROCURA DE NOVO EMPREGO, - SEGUNDO
A SITUAÇÃO NA PROFISSÃO, NO SECTOR SECUNDÁRIO

Continente

Milhares

Situação na profissão	1º sem. 74	2º sem. 74	1º sem. 75	2º sem. 75	1º sem. 76	2º sem. 76	1º sem. 77	2º sem. 77	1º sem. 78
Patrões	33 (100.0)	35 (106.1)	34 (103.0)	37 (112.1)	32 (97.0)	27 (81.8)	33 (100.0)	32 (97.0)	32 (97.0)
Isolados	63 (100.0)	70 (111.1)	72 (114.3)	75 (119.0)	68 (107.9)	73 (115.9)	71 (112.7)	77 (122.2)	74 (117.5)
Trabalhadores por conta de outrém	1 075 (100.0)	1 174 (109.2)	1 118 (104.0)	1 137 (105.8)	1 139 (106.0)	1 156 (107.5)	1 119 (104.1)	1 113 (103.5)	1 148 (106.8)
Familiares e outros não remunerados	11 (100.0)	14 (127.3)	14 (127.3)	13 (118.2)	15 (136.4)	16 (145.5)	16 (145.5)	22 (200.0)	19 (172.7)
Outros	1	2	2	2	1	4	5	5	7
Erro estatístico	5	5	5	4	7	4	6	4	3
TOTAL	1 188 (100.0)	1 300 (109.4)	1 245 (104.8)	1 268 (106.7)	1 262 (106.2)	1 280 (107.7)	1 250 (105.2)	1 253 (105.5)	1 283 (108.0)

Fonte: INE - Inq. Perm.
ao Emp. (Valores
Provisórios)

POPULAÇÃO ACTIVA CIVIL, EMPREGADA E DESEMPREGADA À PROCURA DE NOVO EMPREGO, SEGUNDO
A SITUAÇÃO NA PROFISSÃO, NO SECTOR TERCIÁRIO

Continente

Milhares

Situação na profissão	1º sem. 74	2º sem. 74	1º sem. 75	2º sem. 75	1º sem. 76	2º sem. 76	1º sem. 77	2º sem. 77	1º sem. 78
Patrões	47 (100.0)	49 (104.3)	45 (95.7)	51 (108.5)	45 (95.7)	43 (91.5)	43 (91.5)	41 (87.2)	42 (89.4)
Isolados	134 (100.0)	119 (88.8)	133 (99.3)	127 (94.8)	126 (94.0)	135 (100.8)	146 (109.0)	146 (109.0)	153 (114.2)
Trabalhadores por conta de outrém	923 (100.0)	924 (100.1)	964 (104.4)	960 (104.0)	979 (106.1)	1 005 (108.9)	1 020 (110.5)	1 034 (112.0)	1 006 (109.0)
Familiares e outros não remunerados	48 (100.0)	48 (100.0)	48 (100.0)	43 (89.6)	46 (95.8)	50 (104.2)	47 (97.9)	54 (112.5)	42 (87.5)
Outros	-	-	2	-	1	5	3	6	4
Erro estatístico	10	8	12	14	10	11	10	13	12
TOTAL	1 162 (100.0)	1 148 (98.8)	1 193 (102.7)	1 195 (102.8)	1 207 (103.9)	1 249 (107.5)	1 269 (109.2)	1 294 (111.4)	1 259 (108.4)

Fonte: INE - Inq. Perm.
ao Emp. (Valores
Provisórios)

(1)
ÍNDICES DE EMPREGO, POR ACTIVIDADES

ano: Janeiro 1969 = 100

Continúa

A.C.	ACTIVIDADES	1977				1978			
		Janairo	Abril	Julho	Outubro	Janairo	Abril	Julho	Outubro
	TOTAL	105,6	105,4	105,0	106,6	106,1	106,3	106,8	106,5
4	PESCA	77,8	71,3	73,2	82,2	81,0	75,0	77,9	77,0
1	INDÚSTRIAS EXTRACTIVAS	80,3	79,3	79,2	79,7	80,6	80,3	80,3	81,3
73	INDÚSTRIAS TRANSFORMADORAS	102,5	102,4	102,5	102,2	101,5	101,9	102,1	102,0
20	Alimentação	82,2	82,2	82,8	85,2	81,4	81,5	82,4	
21	Bebidas								
22	Tabaco	169,9	172,6	179,0	178,8	171,8	173,0	179,2	
23	Texteis	99,7	99,2	99,3	99,5	99,2	98,9	98,7	
24	Vestuário e Calçado	116,3	115,0	114,7	114,7	114,1	115,0	114,9	
25	Madeira e Cortiça	86,2	85,5	86,2	86,1	86,3	86,7	87,0	
	Mobiliário	119,4	118,4	117,2	115,2	114,4	114,6	114,1	
27	Papel	91,4	91,9	94,5	95,4	95,4	95,5	95,6	
28	Tipografia	84,3	85,3	85,9	85,4	84,5	84,3	84,3	
29	Curtumes	89,5	89,9	88,1	86,5	86,4	86,8	85,3	
30	Borracha	93,4	94,1	92,9	93,2	93,9	93,3	93,4	
31	Químicas								
32	Petróleo	103,8	105,5	106,0	97,8	98,2	99,0	98,9	
33	Produtos Minerais não Metálicos	107,6	107,5	109,6	109,1	108,7	109,4	110,5	
34/39	Metalúrgicas e Metalomecânicas	110,1	109,7	109,0	108,9	109,4	110,2	110,4	
39	Transformadoras Diversas	120,2	120,6	121,7	121,0	120,9	121,4	122,1	
4	CONSTRUÇÃO E OBRAS PÚBLICAS	98,6	97,8	100,4	108,0	107,1	108,2	109,7	107,5
5	ELECTRICIDADE, GÁS E ÁGUA	102,7	102,5	103,6	104,9	105,9	112,1	114,5	119,1
6	COMÉRCIO, BANCOS, SEGUROS CP.S/IMÓVEIS	125,0	124,9	126,0	126,5	126,2	126,5	126,9	
61	Comércio	105,5	105,2	105,5	105,3	105,8	105,9	105,7	
62/64	Bancos, Seguros e op. s/Imóveis	185,6	185,8	189,7	193,5	194,1	195,1	197,6	
	TRANSPORTES, ARMAZENAGEM COMUNICAÇÕES	123,6	123,3	124,0	124,0	123,9	123,2	123,1	123,0
85	SERVIÇOS PESSOAIS (2)	136,6	135,3	142,4	139,8	137,7	138,7	145,2	144,6

FONTE: M.T. - S.E. - Inquéritos ao Emprego.

NOTAS: (1) Traduz a evolução do número de trabalhadores por conta de outrem.

(2) Não inclui os serviços domésticos

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 4
Held at the Bank of Portugal
on Thursday, February 8, 1979 at 3:00 p.m.

Present:

Portuguese Representatives

Dr. Cavaco Silva, Bank of Portugal
Dra. Constancio, Ministry of Planning
Dra. Cocco, Ministry of Commerce
Dr. Matheus, Bank of Portugal
Dra. Cardoso, Bank of Portugal

IMF Representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

1. Introduction: Before proceeding to the balance of payments, the meeting discussed a new set of tables on certain real aspects of the economy, as follows: (a) Seasonally-adjusted index of industrial production: Abstracting from the usually lean month of August, the data for 1978 showed a persistent decline in the monthly index, following a peak level in May; this was seen as confirming the overall impression of a marked slow-down in the economy during the second half of the year. (b) Index of Supply Conditions for Equipment Goods: this showed a steady decline during the first three quarters of 1978 in respect of domestic production, and a drop from the second to the third quarter in respect of imported equipment, but an estimated increase in both cases for the last quarter of 1978. Why there should be an upturn in the December quarter in view of the slowdown in economic activity could not be satisfactorily explained, except that it could perhaps be due to statistical inaccuracies in estimation. (c) Stocks of finished goods: A chart provided by the Portuguese representatives showed that the stock of domestic manufactures rose during the first and second quarters of 1978, but declined slightly in the third quarter as sales picked up in that quarter. On a related note, the Portuguese representatives commented that the rate of capacity utilization in the economy had declined to 77 per cent. (d) Stock Levels in Retail and Wholesale Trade: Two charts provided by the Portuguese representatives showed that the stocks of retail trade declined during the second and third quarters of 1978, while those of wholesale trade showed an increase during the first three quarters of the year; the Portuguese representatives explained that this experience could be seen as consistent with their earlier statement that stocks of imported goods have declined in 1978 while those of domestic goods have increased.

2. Balance of Payments: The Portuguese representatives explained that balance of payments data compiled for 1978 were based on actual data for the January to November period, with the exception of foodstuffs and petroleum for which complete annual data were available. The data showed that, in US dollar terms, exports increased by 20.23 per cent in 1978, and imports by 6.62 per cent (see attached table); the corresponding rise in volume terms was by 14.2 per cent and 0.2 per cent, respectively. On the same basis, the average price of exports rose by 5.3 per cent during the year, while that of imports increased by 6.4 per cent. The deficit on account of services increased marginally to US \$132 million in 1978; this included a sharp rise from US \$179 million to US \$327 million in the net payment of investment income. Receipts from tourism were estimated to rise by 44.7 per cent in US dollar terms during 1978; during the first nine months of the year, the number of tourist nights spent in the country and US dollar receipts per tourist rose by 12.2 per cent and 15.3 per cent, respectively, over the corresponding period of the preceding year. The main constraint on the growth of the tourist sector now appeared to be one of capacity; a marginal increase (about 3 per cent) is expected in this capacity during 1979. At US \$1,585 million, net receipts from private transfers rose by close to 40 per cent in 1978; the Portuguese representatives considered this particularly satisfactory in view of the reduction in emigration during recent years. All told, the foregoing developments yielded a current account deficit of US \$943 million (5.8 per cent of GDP) in 1978, or US \$0.556 billion lower than in 1977.

The capital account (including errors and omissions) showed an even bigger turnaround in 1978, rising by over US \$1 billion to US \$1,095 million. Net inflow of medium and long term capital amounted to US \$739 million, of which US \$527 million was by the public sector. Net short-term capital movements (including errors and omissions) showed a sharp swing from a negative of US \$6 million in 1977 to a positive of US \$356 million in 1978. The Portuguese representatives thought that this development was related in part to a change during the year to a system under which importers could be expected to arrange short-term trade financing directly with the foreign suppliers, since short-term foreign borrowings guaranteed by domestic banks were covered by the credit ceilings in the stand-by arrangement with the Fund. As for inward direct investment, this was estimated at US \$50 million in 1978, compared to US \$68 million in 1977; the Portuguese representatives commented that current expectation was for a pick-up of inward foreign investment in 1979.

3. Trade Performance: The virtual stagnation of the import volume in 1978 was attributed by the Portuguese representatives partly to the economic slowdown in Portugal and partly to the decumulation of stocks. In this connection, they explained that the reduction of the 30 per cent import surcharge by 10 percentage

points on October 1, 1978 has shown no perceptible effect on imports. On the export side, they pointed out that the better export performance in 1978 has included an improvement in textile exports, particularly in Sweden and the U.K., where Portuguese exports amounted to 14 per cent and 10 per cent, respectively of the domestic market.

Table 1. Portugal: Balance of Payments, 1977 and 1978

(In millions of U.S. dollars)

	1977	1978
Merchandise Trade (net)	<u>-2,506</u>	<u>-2,396</u>
Exports	2,027	2,437
Imports	4,533	4,833
Services (net)	<u>-127</u>	<u>-132</u>
of which: Tourist receipts	(403)	(583)
Investment income (net)	(-179)	(-327)
Private Transfers (net)	<u>1,134</u>	<u>1,585</u>
Current Account (1 through 3)	<u>-1,499</u>	<u>-943</u>
Non-monetary capital (net)	<u>89</u>	<u>1,095</u>
of which: Medium & Long-term Capital (net)	(95)	(739)
Short-term Capital (including errors and omissions)	(-6)	(356)
Overall balance (4 + 5)	<u>-1,410</u>	<u>152</u>

Source: Data provided by the Portuguese authorities.

I.P.I. GERAL - VALORES CORRIGIDOS DOS DIAS ÚTEIS

VALORES CORRIGIDOS DA SAZONALIDADE

Ano	Janeiro	Fevereiro	Março	Abril	Maió	Junho	Julho	Agosto	Setembro	Outubro	Novembro	Dezembro
1974	148,14	143,25	148,59	145,40	138,58	137,22	138,60	137,20	127,90	139,35	133,53	140,12
1975	136,54	138,39	132,85	129,14	134,50	134,96	136,90	117,60	131,73	136,07	134,75	130,87
1976	132,22	135,17	135,94	136,34	141,67	136,97	136,00	115,95	138,48	140,01	148,06	148,13
1977	151,19	150,70	150,18	154,67	156,27	156,99	154,61	138,88	161,83	159,39	163,51	163,95
1978	169,15	164,25	164,67	168,36	169,44	167,43	166,51	141,48	162,94	161,58		

Origem: Centro de Estudos de Planejamento

AS/MA

I.P.I. - INDÚSTRIAS TRANSFORMADORAS

VALORES CORRIGIDOS DA SAZONALIDADE

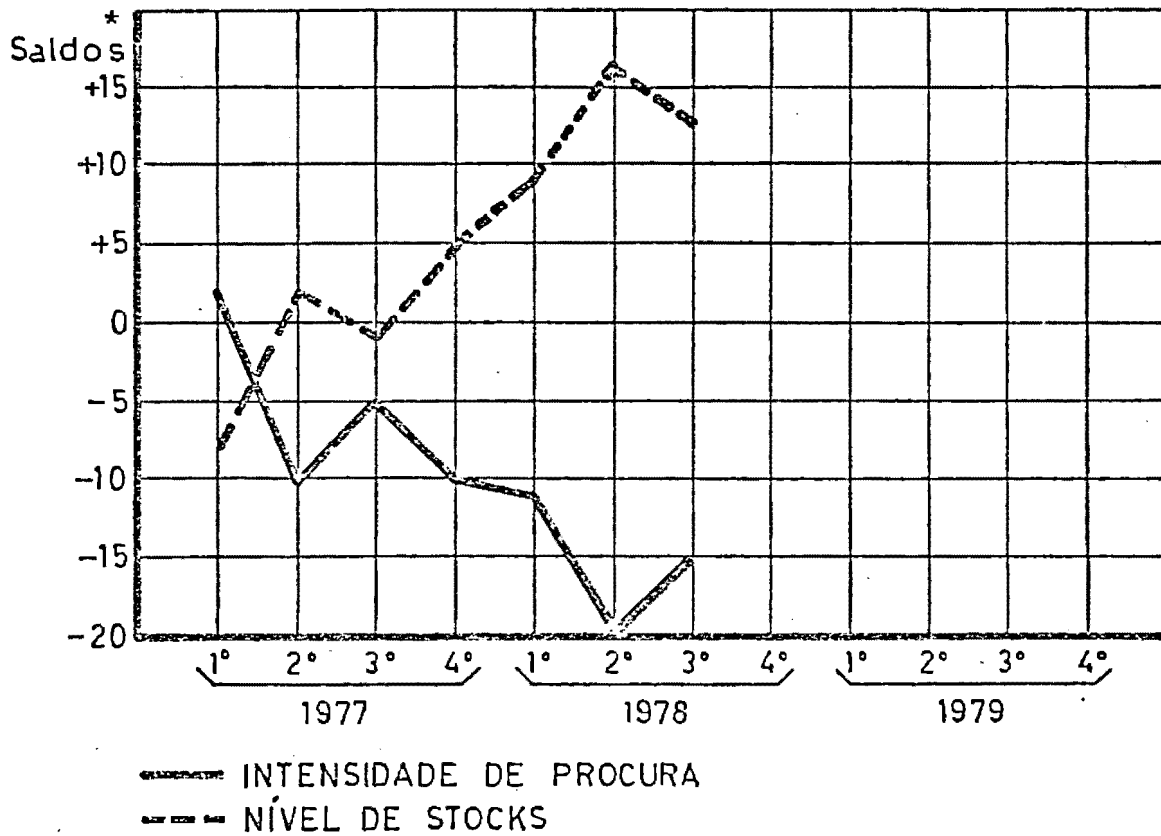
ANO	JAN.	FEV.	MAR.	ABR.	MATO	JUN.	JUL.	AGO.	SET.	OUT.	NOV.	DEZ.	TOTAIS
1974	147,36	143,93	148,50	145,82	139,91	138,43	138,54	141,94	129,81	137,41	133,26	139,86	1 684,77
1975	135,61	140,48	130,71	126,95	132,62	134,39	135,83	126,29	133,52	135,88	135,17	130,47	1 597,92
1976	133,16	136,62	138,67	137,03	139,81	138,06	137,99	130,75	140,90	141,89	146,74	149,93	1 671,55
1977	150,78	150,34	149,71	153,06	152,51	154,79	155,31	155,92	159,84	160,67	161,98	162,52	1 867,43
1978	168,64	162,41	165,90	164,74	162,85	164,62	168,33	161,38	164,39	163,41			

AS/MA

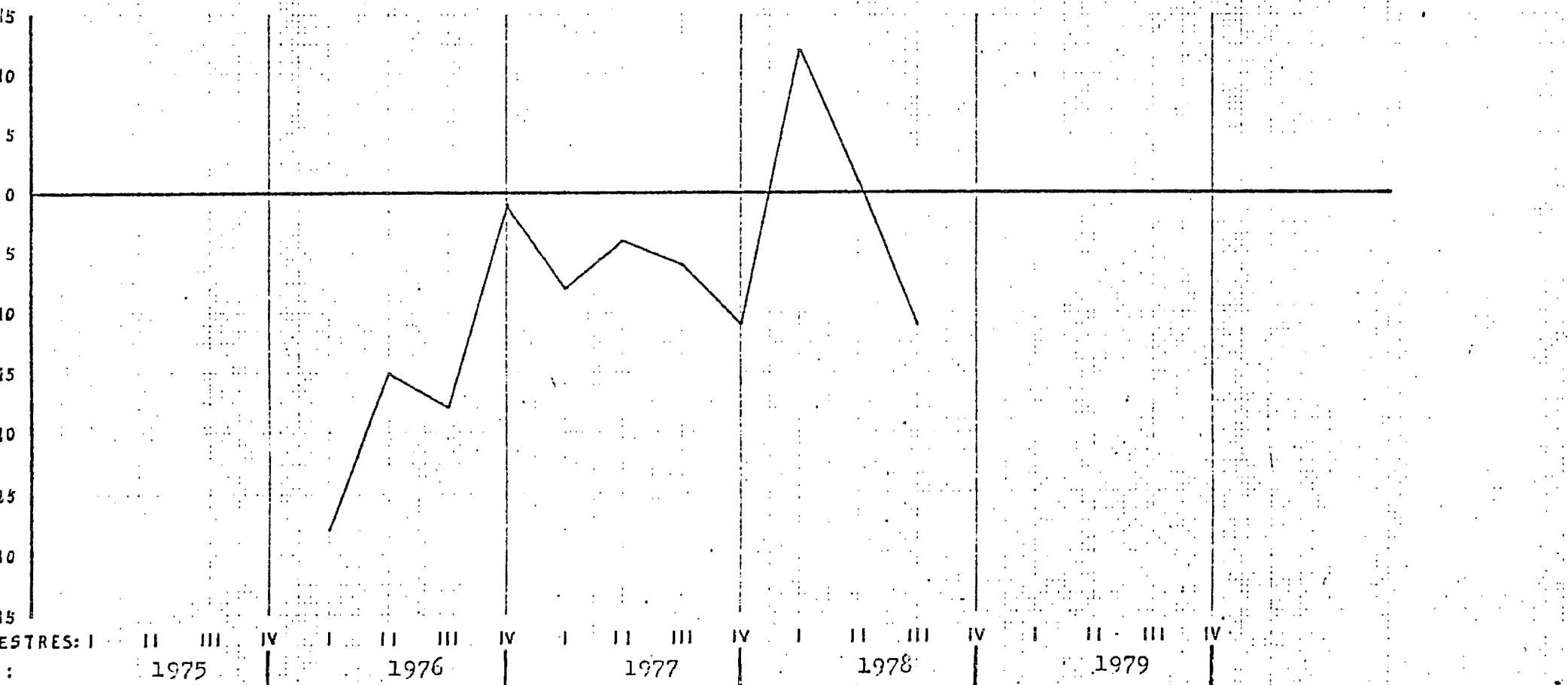
Corrigido

PROCURA GLOBAL E STOCKS DE PRODUTOS ACABADOS

INDÚSTRIA TRANSFORMADORA

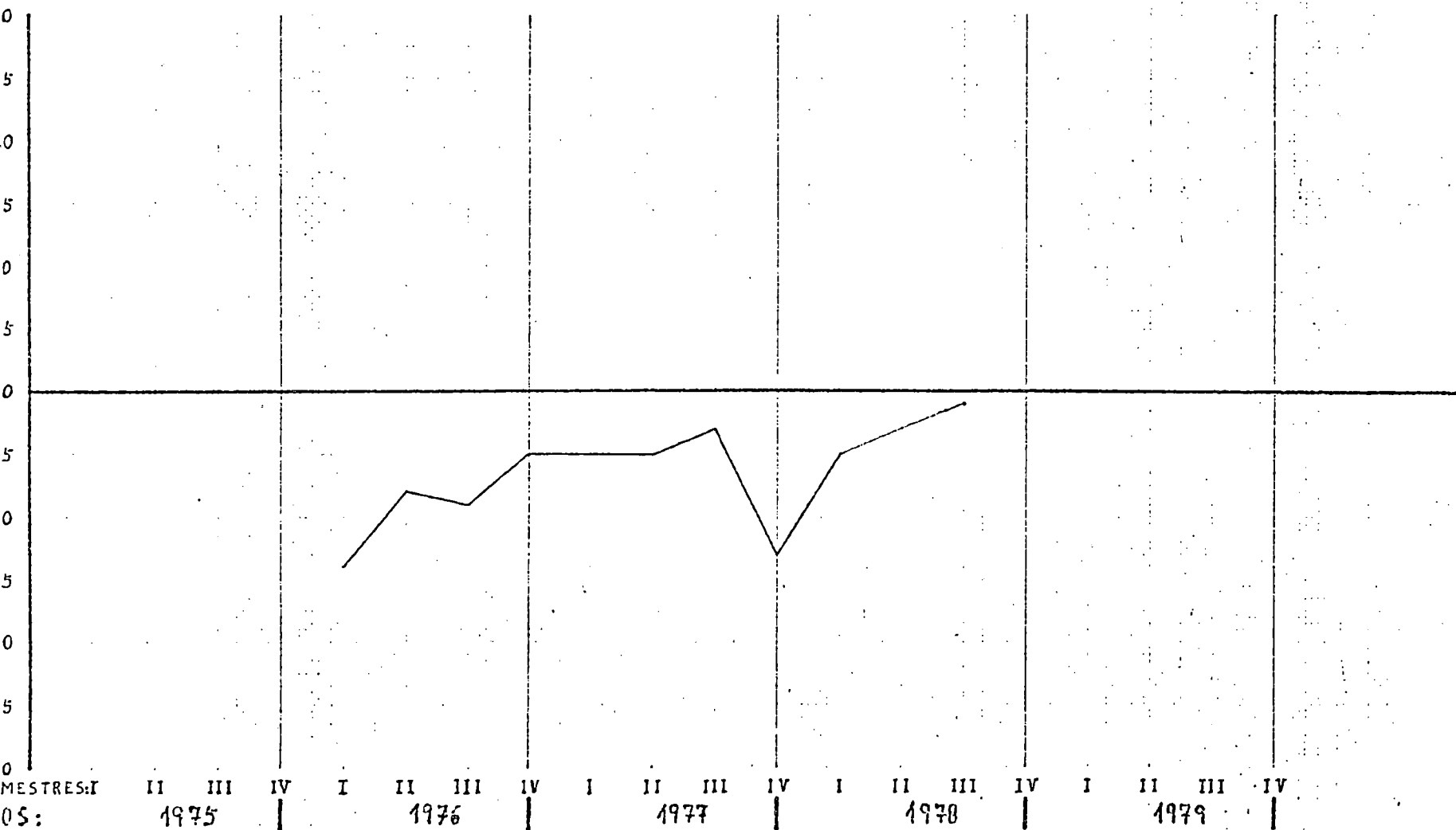


INQUÉRITO AO COMÉRCIO A RETALHO - Nível de Existências



ORICEM: "INQUÉRITO DE CONJUNTO AO COMÉRCIO", do Instituto Nacional de Estatística.

INQUÉRITO AO COMÉRCIO POR GROSSO - Nível de Existências



ORIGEM: "INQUÉRITO DE CONJUNTURA AO COMÉRCIO", do Instituto Nacional de Estatística.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 5
Held at the Bank of Portugal
on Friday, February 9, 1979 at 3:00 p.m.

Present:

Portuguese representatives

Dr. Cavaco Silva
Dra. Constancio
Dra. Cardoso
Dr. Mateus

Fund representatives

Mr. de Fontenay
Mr. Stuart
Mrs. Teigeiro

At the outset of the meeting Dra. Cardoso provided the mission with a number of tables, including the monetary survey, monetary base, net foreign liabilities of the banking system, use of rediscounts, and utilization of credit ceilings. She noted that the data for December 1978 were only estimates based on the weekly reporting sheets of the banks. For this reason the final figures for the money stock would probably be rather higher. She also thought that the weekly figures underestimated domestic credit expansion, but not by as much as in the case of the money stock. The net foreign liabilities data were relatively firm, so the major portion of the counterpart to the overestimation of M2 would probably appear in "other items, net."

Turning to the evolution of the monetary aggregates Dra. Cardoso explained that most of the increase in M2 in the fourth quarter of 1978 had been in the form of time and savings deposits, particularly emigrants deposits. She explained that since the differential between the yield on 6 months' deposits and deposits with a maturity of one year was only one percentage point, there appeared to be a decided preference among savers for six months' deposits. Deposits in this category had shown the largest increase among all maturities. At the end of December the estimate for the total domestic credit of the banking system was just under the stand-by ceiling, however credit to the public sector exceeded its subceiling by Esc. 11.2 billion. She noted that the decline in bad debts in December could have been due to end-of-year "window dressing" by banks, and thus could be expected to rise somewhat sharply in January. She explained that the monthly increase in bad debts was always deducted from the banks' individual credit ceilings, so any increase in subsequent months would have to be compensated for by a decline in the other components of domestic credit.

In answer to a question about the composition of "other items, net" Dra. Cardoso explained that the foreign currency deposits of residents now included in "nonmonetary liabilities" covered the proceeds of foreign loans deposited and held in foreign exchange with the Bank of Portugal by resident firms such as the Post Office until needed for domestic transactions. "Fundos públicos para concessão de crédito" referred to the counterpart of a little used credit facility provided by the Central Government to the Caixa Geral and the Banco de Fomento for credit to public enterprises. She further explained that the rather large increases in "contas diversas" in "other unclassified items" were the counterpart of the profits of the banks, especially the Bank of Portugal. Around May every year these profits were divided between the Ministry of Finance and the banks, with the banks' share being transferred to profits, i.e. "recursos próprios" in the monetary accounts.

Mr. de Fontenay asked how the Bank of Portugal's rediscount ceilings were set. Dra. Cardoso explained that the rediscount ceilings were set as a residual within the framework of the monetary base. The monetary base target was itself set by linking it to a monetary growth target consistent with the banks individual credit ceilings and the overall credit ceiling of the Fund stand-by. During December and January considerably less use was made of rediscounts than in previous months because the larger than expected expansion of credit to the public sector had provided ample liquidity. To correct for this problem as well as to permit greater flexibility, the rediscount ceilings were now being fixed by-weekly instead of monthly.

Concerning the credit ceilings on individual banks, Dra. Cardoso explained that there had been a change in the system in September/October. Previously some banks had been permitted to exceed their ceilings, because their excess demand was generally always compensated for by other banks which failed to use up all of their ceilings. Now, however, all banks were required to remain within their ceilings. Moral suasion and reducing rediscounts were the only penalties used until now in deterring banks from exceeding their ceilings. Mr. de Fontenay asked why the credit ceilings had not been as fully utilized in the fourth quarter as in the preceding quarter. Dra. Cardoso explained that this was due to the change in the system, outlined above, and also to an apparent weakening in the demand for credit.

Mr. de Fontenay asked whether any data were available covering the distribution of credit, particularly preferential credit and credit to the public enterprises. Dra. Cardoso explained that this was very difficult as the banks did not have their loans categorized in that way. She explained that the figures for credit and deposits of public enterprises which appeared in the Bank's Annual Report for 1977 had been discarded because

they were considered too unreliable. A list of public enterprises was given to the banks, but the accounts were apparently kept haphazardly, and there was a significant amount of double counting in the statistics. Other problems arose in trying to classify credits by maturity. Loans which were in fact rolled over every six months, were classified by their final maturity date which was usually considerably longer. Dra. Cardoso did note that the data which had been received from the Caixa Geral since July on credit to public enterprises were reasonably good, and the Caixa was one of the major lenders to such entities. Some 40 per cent of the Caixa's credit to the private sector went to public enterprises. Looking only at data received from the Caixa, credit to public enterprises had apparently risen much faster in 1978 than in 1977. In addition credit for housing had also increased sharply at a rate of about Esc. 1.0 billion per month. Much of this increase, however, was due to the decentralization of the Caixa's loan approval system at the end of 1977, which had considerably reduced administrative delays.

Mr. de Fontenay asked how the preferential credit system operated. Dra. Cardoso explained that an application for a subsidized credit is first submitted by a bank for approval by the Bank of Portugal. If the request is granted the bank then lends the funds to the borrower at the subsidized rate and receives the subsidy from the Bank of Portugal. The subsidy is financed from the Bank of Portugal's compensation fund which also collects the interest surcharge on consumer durables. Any shortfall is financed by the Bank of Portugal. Administrative delays were apparently quite common, biasing the statistics accordingly, but Dra. Cardoso undertook to provide the mission with data on the amount of credit actually subsidized and the interest rates paid.

Mr. Stuart asked how important was the Government's role in the housing sector. Dra. Constancio explained that of 38,000 houses finished in 1978, some 6,000 had been built at public expense. These were financed by the budget and through the Caixa, and were rented out at subsidized rates. Under the new law for local authorities, the responsibility for building subsidized housing would be transferred from the central government to the local authority.

Mr. de Fontenay asked whether there had been much switching between domestic and foreign financing by firms in 1978. Dr. Cavaco Silva pointed out that all foreign borrowing by banks or with bank guarantee was subject to the stand-by ceilings. Direct foreign borrowing outside the ceilings by Portuguese firms was quite uncommon as few firms except Petrogal or the Post Office were sufficiently well known to be able to borrow abroad. In addition, rising foreign interest rates and the present system of depreciation made such borrowing relatively unattractive to most firms. Within the ceilings, the banks, which only received

a commission for their services instead of the full interest rate, apparently preferred to lend from their own resources as their gross foreign liabilities, nearly all of which represent bank guaranteed foreign debt to the private sector, declined during 1978.

BASE MONETÁRIA

	Dezº	Janº	Fevº	Março	Abril	Maiø	Junho
DISPONIBILIDADES LÍQUIDAS SOBRE O EXTERIOR	- 12 541	- 14 593	- 15 105	- 15 097	- 17 476	- 21 065	- 22 560
Disponibilidades	54 036	52 603	50 089	49 840	46 691	56 400	54 212
Responsabilidades	66 577	67 196	65 194	64 837	64 167	77 465	76 772
(Utilização do crédito do F.M.I.)	(11 020)	(11 020)	(11 020)	(11 020)	(11 020)	(11 875)	(11 875)
CRÉDITO INTERNO TOTAL (C.I.T.)	211 547	209 309	208 530	214 898	215 482	221 172	219 818
Sector Público, líquido	112 207	122 495	120 270	124 999	124 201	129 731	128 452
Crédito	134 394	134 394	127 878	127 762	126 725	130 488	129 595
Depósitos	22 187	11 854	7 608	2 763	2 524	757	1 143
Empresas e particulares	293	289	286	239	236	231	228
Instituições financeiras não monetárias	6 689	4 269	4 388	4 443	4 473	4 251	3 256
(Sociedade Financeira Portuguesa)	(6 282)	(3 864)	(3 983)	(4 039)	(4 070)	(3 848)	(2 854)
Instituições monetárias	92 358	82 256	83 586	85 217	86 572	86 959	87 882
Bancos comerciais	79 504	70 038	71 314	73 450	74 436	73 410	73 657
(Redesconto)	(74 848)	(66 723)	(66 396)	(66 638)	(67 793)	(67 495)	(67 085)
Bancos de Poupança	5 389	4 903	5 147	4 804	5 087	5 514	5 647
(Redesconto)	(5 389)	(4 903)	(5 127)	(4 694)	(5 062)	(5 424)	(5 582)
Bancos de investimento	7 465	7 320	7 125	6 963	7 049	8 035	8 578
(Redesconto)	(7 465)	(7 320)	(7 125)	(6 963)	(7 049)	(8 035)	(8 578)
CRÉDITOS DE COBRANÇA DUVIDOSA	4 028	6 493	6 542	6 851	6 799	7 051	8 639
TOTAL DO ACTIVO - TOTAL DO PASSIVO	203 034	201 209	199 967	206 652	204 805	207 158	205 897
BASE MONETÁRIA	147 306	143 874	140 109	143 807	139 753	142 210	142 000
Circulação monetária	113 290	108 074	105 551	107 053	106 153	104 462	7 904
Reservas	33 727	35 596	34 253	36 542	33 373	37 466	33 816
Legais	25 829	26 418	33 010	34 161	34 428	35 137	35 882
Excesso	7 898	9 178	1 243	2 381	1 055	2 329	2 076
Outras resp. monetárias do B.P.	289	204	305	212	227	262	289
RESPONSABILIDADES NÃO MONETÁRIAS	6 370	6 810	6 467	5 677	5 809	7 013	6 323
Depósitos especiais	6 162	6 559	6 259	5 508	5 640	6 844	6 149
Bancos comerciais	1 604	1 809	1 710	1 563	1 618	3 422	3 159
Bancos de poupança	3 755	3 769	3 827	3 918	3 974	3 378	2 941
Bancos de investimento	803	981	722	27	48	43	49
Outras	208	251	208	169	169	169	174
RECURSOS PRÓPRIOS E RESULTADOS	36 603	36 599	36 594	36 594	36 594	30 790	30 791
CONTRAPARTIDA DE FLUTUAÇÕES CAMBIAIS, ATRIBUIÇÃO DE DIREITOS DE SAQUE ESPECIAIS E OUTRAS OPERAÇÕES SOBRE RESERVAS	9 907	11 276	13 675	15 996	16 099	14 547	17 593
Ouro e divisas	9 907	9 868	10 206	10 343	9 582	7 962	8 443
Fundo Monetário Internacional	-	-	-	-	-	- 1 764	- 1 764
Outras operações sobre reservas	-	1 408	3 469	5 653	6 517	8 348	10 914
DIVERSOS	2 848	2 650	3 122	4 578	6 550	12 598	9 181
Aplicações financeiras sobre o exterior	- 79	- 78	- 78	- 78	- 78	- 78	- 78
Imóveis, mobiliário e material	-	-	- 3	- 8	- 10	- 17	- 1
CTRs. líq.	1 078	-1 484	-1 454	- 675	- 545	- 517	- 508
CDs Líq.	1 848	4 213	4 658	5 340	7 184	13 211	9 784
(Proveitos - custos)	(-)	(3 054)	(3 399)	(4 610)	(5 459)	(6 566)	(8 598)

UTILIZAÇÃO DO CRÉDITO DO BANCO DE PORTUGAL

(Em milhares de contos onde relevante)

○	Taxa média de desconto (1)	Crédito utilizado (Saldo fim período) (2)	TOTAL DOS LIMITES DO REDESCONTO			(2)/(3) %	(2)/(4) %	(2)/(5) %
			1º Escalão (a) (3)	10+20 Escalões (b) (4)	10+20+30 Escalões (c) (5)			
1978								
JANEIRO	13,04	82 256	65 110	86 236	115 121	126,33	95,38	71,45
FEVEREIRO	13,51	83 586	66 423	87 356	115 990	125,84	95,68	72,06
MARÇO	13,99	85 217	66 344	80 370	100 152	128,45	106,03	85,09
ABRIL	13,88	86 572	68 750	87 676	99 569	125,92	98,74	86,95
MAIO	16,56	86 959	69 157	85 283	97 063	125,74	101,97	89,59
JUNHO	18,93	87 882	72 000	84 061	95 984	122,06	104,55	91,56
JULHO	19,47	88 204	72 720	83 097	95 955	121,29	106,15	91,92
AGOSTO		77 429	66 002	71 223	81 217	117,31	108,71	95,34
SETEMBRO		69 887	66 002	71 223	80 693	105,89	98,12	86,61
OUTUBRO		69 812	66 002	71 223	80 693	105,77	98,02	86,52
Nov: 28		63 776	59 229	64 248	73 359	107,68	99,27	86,94
Dez: 31		72 844	70 600	76 539	85 924	103,18	95,17	84,78
1979								
Jan: 31		71 010	70 600	76 539	85 924	100,58	92,78	82,64
15		68 557	67 070	74 309	85 924	102,22	92,26	79,79
○ 22		65 184	60 151	65 542	74 482	108,37	99,45	87,52
31		62 851	56 300	62 522	71 935	111,64	100,53	87,37
Fev: 7		61 785	56 800	62 022	70 835	108,78	99,62	87,22
15			55 300	60 422	69 135			
22			55 300	60 422	69 135			

(a) Até junho 1978 inclui o crédito à exportação e o resultado de contratos de desenvolvimento de habitação cujo redesc. não estava sujeito a limite.

(b) Inclui do total dos limites dos empréstimos concedidos

(c) Inclui do crédito titulado em licenças.

Utilization of Individual Credit
 Ceilings by Banking System ^(a)
 (in billions of rupees)

	Ceiling (1)	Credit Extended (2)	Credit Utilized as Percentage of Ceiling (2) / (1)
1978			
January			
February			
March			
April			
May			
June	554.07	561.50	101.3
July	573.54	574.17	100.1
August	578.22	581.12	100.5
September	582.30	581.47	99.9
October	592.02	582.36	98.4
November	600.86	589.90	98.2
December	625.58	613.96	98.1
1979			
January	617.58		
February	616.68		
March	619.58		

(a) From January through June the ceilings were merely indicative. Until May they excluded some types of preferential credit as well as credit extended by savings and investment banks. This makes the comparison between ceilings and credit extended during that period more difficult and not very meaningful. Include loans in foreign exchange

NET FOREIGN LIABILITIES OF THE BANKING SYSTEM - 1

	December /77		January		February		March		April		May		June	
	10 ⁶ esc.	10 ⁶ US\$	10 ⁶ esc.	10 ⁶ US\$	10 ⁶ esc.	10 ⁶ US\$	10 ⁶ esc.	10 ⁶ US\$	10 ⁶ esc.	10 ⁶ US\$	10 ⁶ esc.	10 ⁶ US\$	10 ⁶ esc.	10 ⁶ US\$
A. BANK OF PORTUGAL, NET	13,376	335.61	16,892	421.07	19,514	486.54	22,104	539.80	25,659	611.56	31,655	692.34	36,055	789.71
<i>Liabilities</i>	67,413	1 691.46	69,496	1 732.37	69,605	1 735.51	71,943	1 756.97	72,557	1 724.61	88,055	1 925.89	90,267	1 977.11
Use of IMF credit	11,856	297.48	11,938	297.59	12,049	300.42	12,417	303.23	12,598	300.27	12,895	282.03	13,084	286.58
I.S.R. credits	29,692	745.00	29,886	744.99	29,482	735.10	29,696	725.19	30,008	715.23	32,431	709.31	32,114	703.39
Bilateral agreements														
I.S.R.D. deposits	10	0.25	7	.17	9	.22	4	.10	7	.17	1	.02	-	-
Other	25,855	648.73	26,283	655.17	24,683	615.45	24,217	591.39	23,132	551.54	33,158	725.20	32,783	718.05
Cumulative profits on gold sales	-	-	1,382	34.45	3,382	84.32	5,612	137.06	6,612	157.60	9,570	209.33	12,286	269.09
<i>Assets</i>	54,037	1 355.85	52,604	1 311.30	50,091	1 218.97	49,842	1 217.17	46,698	1 113.03	56,400	1 233.55	54,212	1 187.40
Gold	40,850	1 024.97	40,674	1 013.91	40,401	1 017.36	40,907	998.97	41,266	983.55	44,095	964.42	43,885	961.21
S.D.R.'s	184	4.62	185	4.62	5	.12	5	.12	10	.24	-	-	-	-
Foreign exchange	13,003	326.26	11,745	292.77	9,685	241.49	8,930	216.08	5,422	129.25	12,305	269.13	10,327	226.19
Bilateral agreements														
B. OTHER BANKS, net	19,082	478.79	23,403	583.38	25,723	641.38	27,312	666.98	29,279	697.86	30,684	671.10	27,702	606.75
<i>Liabilities</i>	44,606	1 119.21	48,857	1 217.89	50,294	1 244.03	52,406	1 279.79	54,968	1 310.13	58,385	1 276.96	58,649	1 284.58
<i>Assets</i>	25,524	640.42	25,454	634.51	24,571	622.65	25,094	612.81	25,689	612.28	27,701	605.86	30,947	677.83
C. GOVERNMENT														
C₁ GOLD PROFITS, 1977	16,050	402.71	16,155	402.71	16,151	402.71	16,490	402.71	16,896	402.71	18,413	402.71	18,386	402.71
D. TOTAL (A+B+C+C₁)	48,501	1 217.11	56,450	1 407.16	61,386	1 530.63	65,906	1 609.49	71,834	1 712.14	80,752	1 766.15	82,143	1 799.17
<i>Memorandum items:</i>														
U.S.\$ per S.D.R.'s 1	1,21471		1,21512		1,22670		1,23667		1,22609		1,21985		1,23953	
Esc. per S.D.R.'s 1	48,412		48,746		49,198		50,702		51,442		55,774		56,592	
Esc. per U.S.\$ 1	39,855		40,116		40,106		40,949		41,956		45,722		45,656	

NET FOREIGN LIABILITIES OF THE BANKING SYSTEM - 1977

FEB 17 1978

	June		July		August		September		October		November		December	
	10 ⁶ Esc.	10 ⁶ US\$	10 ⁶ Esc.	10 ⁶ US\$	10 ⁶ Esc.	10 ⁶ US\$	10 ⁶ Esc.	10 ⁶ US\$	10 ⁶ Esc.	10 ⁶ US\$	10 ⁶ Esc.	10 ⁶ US\$	10 ⁶ Esc.	10 ⁶ US\$
A. BANK OF PORTUGAL, NET	36,055	769.71	32,331	712.77	41,138	465.81	23,045	507.81	11,415	331.74	13,318	284.45		
<i>Liabilities</i>	90,207	1 977.11	93,855	2 178.94	98,046	2 160.64	97,027	2 138.05	96,827	2 228.36	101,076	2 158.82		
Use of IMF credit	13,084	286.58	13,212	291.28	13,333	293.81	13,441	296.18	12,243	281.76	12,445	265.81		
B.I.S. credits	32,114	703.39	31,633	697.39	31,379	691.50	31,113	685.60	29,530	679.60	31,543	673.71		
Bilateral agreements	-	-	-	-	-	-	-	-	-	-	-	-		
I.B.R.D. deposits	-	-	1	.02	3	.07	4	.09	5	.12	3	.06		
Other	32,785	718.05	41,593	916.97	40,930	901.98	40,067	882.90	43,174	993.60	44,220	945.96		
Cumulative profits on gold sales	12,286	269.09	12,396	273.28	12,401	273.28	12,402	273.28	11,875	273.28	12,795	273.28		
<i>Assets</i>	54,212	1 187.40	66,504	1 466.17	76,908	1 694.83	73,982	1 630.24	82,412	1 896.62	87,758	1 874.37		
Gold	43,885	961.21	44,254	975.64	44,651	983.98	45,015	991.93	45,569	1 044.12	46,105	984.73		
S.D.R.'s	-	-	-	-	-	-	-	-	-	-	-	-		
Foreign exchange	10,327	226.19	22,250	490.53	32,257	710.85	28,967	638.31	37,043	852.50	41,653	889.64		
Bilateral agreements	-	-	-	-	-	-	-	-	-	-	-	-		
B. OTHER BANKS, net	27,702	606.75	27,978	616.81	27,058	596.28	25,770	567.86	22,971	529.11	20,293	433.43		
<i>Liabilities</i>	58,649	1 284.58	61,643	1 359.00	59,712	1 315.88	57,932	1 276.57	54,850	1 262.31	55,635	1 188.27		
<i>Assets</i>	30,947	677.83	33,665	742.19	32,654	719.60	32,162	708.71	31,859	733.20	35,342	754.85		
C. GOVERNMENT														
C₁ GOLD PROFITS, 1977	18,386	402.71	18,267	402.71	18,274	402.71	18,275	402.71	17,499	402.71	18,855	402.71		
D. TOTAL (A+B+C₁)	82,143	1 799.17	78,576	1 732.29	66,470	1 464.80	67,090	1 478.38	54,905	1 263.56	52,466	1 120.59		
<i>Memorandum items:</i>														
U.S.\$ per S.D.R.'s 1	1.23953		1.25986		1.27081		1.28107		1.34879		1.27241			
Esc. per S.D.R.'s 1	56,592		57,146		57,667		58,136		58,608		59,574			
Esc. per U.S.\$ 1	45,656		45,359		45,378		45,381		43,452		46,820			

SÍNTESE DA SITUAÇÃO MONETÁRIA

Milhões de escudos

Ano: 1977/1978

P A S S I V O	Dez.	Jan.	Fev.	Março	Abril	Mai	Junho	Julho	Ago.	Set.	Out.	Nov.	Dez.
.....	274 807	263 767	256 945	265 643	259 603	257 138	264 466	274 779	279 948	280 303	279 143	275 511	266 257
Circulação monetária e outras responsabilidades monetárias do Banco de Portugal	113 579	108 278	105 856	107 265	106 380	104 744	108 193	115 463	114 654	113 110	110 699	112 150	101 601
Depósitos à ordem e outras responsabilidades monetárias	161 228	155 489	151 089	158 378	153 223	152 394	156 273	159 316	165 294	167 193	168 464	173 603	164 857
Empresas públicas não financeiras													154 267
Outras empresas não financeiras													194 857
Particulares													
Instituições financeiras não monetárias													
Responsabilidades quase monetárias	292 641	305 625	320 479	329 635	338 612	349 556	356 474	366 755	374 379	385 799	396 729	405 915	411 923
Depósitos a prazo e de poupança	288 800	302 139	315 811	324 619	334 106	344 599	352 138	362 347	370 255	381 806	392 996	401 693	408 117
Empresas públicas não financeiras													
Outras empresas não financeiras													
Particulares													
Instituições financeiras não monetárias													
Emigrantes	33 993	39 803	39 656	42 351	45 848	46 315	49 426	59 126	63 540	68 204	71 595	74 679	79 947
Outras responsabilidades quase monetárias	3 841	3 486	4 668	5 016	4 506	4 997	4 336	4 408	4 124	3 903	3 739	4 122	3 798
.....	567 448	569 392	577 424	595 278	598 215	606 694	620 940	641 534	654 327	665 012	675 872	691 528	723 121
Responsabilidades não monetárias	13 941	13 360	13 299	13 355	13 640	16 367	15 401	15 145	15 387	16 519	16 387	17 668	17 869
Reservas	354	355	342	342	341	340	326	327	325	314	313	313	310
Depósitos prévios à importação	1 101	946	771	628	476	329	173	71	55	45	30	17	15
Fundos públicos para concessão de crédito	5 359	5 392	5 592	5 774	6 021	6 146	6 315	6 462	6 629	7 220	7 245	7 450	7 137
Crédito externo a médio e longo prazos	6 919	6 416	6 386	6 442	6 633	7 097	6 998	6 858	6 950	7 001	6 966	7 227	7 033
Outras (1)	208	251	208	169	169	2 455	1 589	1 427	1 428	1 939	1 833	1 261	1 224
Recursos próprios e resultados	71 385	72 924	73 282	73 467	73 967	69 295	70 120	70 923	70 867	69 918	70 595	71 256	69 439
Contrapartida de flutuações cambiais e outras operações sobre reservas	9 907	11 276	13 675	15 996	16 099	14 547	17 593	18 465	18 619	18 803	20 971	17 907	18 891
ouro e divisas	9 907	9 868	10 206	10 343	9 582	7 962	8 443	9 139	9 272	9 457	11 521	8 124	8 431
Fundo Monetário Internacional	-	-	-	-	-	- 1 764	- 1 764	- 1 764	- 1 764	- 1 764	- 1 764	- 1 764	- 1 764
Outras operações sobre reservas	-	1 408	3 469	5 653	6 517	8 349	10 914	11 090	11 111	11 110	11 154	11 167	11 824
Responsabilidades diversas líquidas	+14 179	+12 313	+ 9 032	- 255	+ 8 859	+18 983	+14 656	+14 208	20 980	+21 526	+21 740	-22 699	36 791
Aplicações financeiras sobre o exterior	- 3 549	- 3 582	- 3 582	- 3 592	- 3 647	- 3 644	- 3 655	- 3 655	- 3 670	- 3 670	- 3 673	- 3 672	- 3 673
Imóveis, mobiliário e material	- 5 882	- 5 968	- 5 979	- 6037	- 6 044	- 6 192	- 6 416	- 6 636	- 5 707	- 6 791	- 6 876	- 7 122	- 7 235
Contas transitórias e de regularização - líquidas	+ 8 922	+ 6 930	+ 4 049	- 5 385	+ 2 890	+ 7 181	+ 994	+ 1 055	+ 6 156	+ 6 059	+ 7 332	+ 4 157	8 121
Contas diversas - líquidas	+ 9 367	+ 9 903	+11 085	+11 595	+12 114	+17 969	+17 803	+20 167	+22 045	+23 220	+23 223	+25 314	23 692
Desempenhos	+ 5 321	+ 5 030	+ 3 459	+ 3 137	+ 3 546	+ 3 669	+ 5 925	+ 3 277	+ 3 156	+ 2 708	+ 1 235	- 3 262	32

(1) A partir de Maio, inclui depósitos de residentes em moeda estrangeira com contrapartida em depósitos especiais no Banco de Portugal.
 (2) Responsabilização dos depósitos de emigrantes.

SÍNTESE SITUACÃO MONETÁRIA

Millões de escudos

Ano: 1977/78

X

ACTIVO	Dez.	Jan.	Fev.	Março	Abril	Mai	Junho	Julho	Agto.	Seto.	Outo.	Nov.	Dez. 77	Dez. 78
Disponibilidades líquidas sobre o exterior	-31 623	-37 936	-40 828	-42 407	-45 755	-51 749	-50 267	-46 570	-31 337	-34 847	-24 019	-19 102	-16 404	-16 404
Banco de Portugal	-12 541	-14 593	-15 105	-15 097	-17 476	-21 075	-22 560	-18 598	-7 279	-9 077	-1 023	+ 1 191	+ 3 155	+ 3 155
Disponibilidades	54 035	52 603	50 689	49 840	46 691	56 400	54 212	66 504	76 903	73 932	82 412	87 758	81 423	81 423
Responsabilidades	-66 577	-67 196	-65 194	-64 937	-64 167	-77 467	-76 772	-85 102	-54 137	-33 059	-83 440	-86 567	-82 664	-82 664
(Utilização de crédito do F.M.I.)	-11 020	-11 020	-11 020	-11 020	-11 020	-11 875	-11 875	-11 875	-11 875	-11 875	-10 731	-10 731	-10 511	-10 511
Outras instituições monetárias	-19 032	-23 403	-25 723	-27 306	-29 279	-30 684	-37 702	-27 978	-27 058	-25 770	-22 991	-20 293	-13 219	-13 219
Disponibilidades	25 524	25 454	24 571	25 094	25 689	27 701	30 947	33 665	32 654	32 162	31 859	35 342	35 450	35 450
Responsabilidades	-44 606	-42 857	-30 294	-52 400	-54 903	-53 385	-58 649	-61 643	-57 717	-57 937	-54 850	-55 633	-43 693	-43 693
Crédito interno	651 153	652 863	652 870	672 132	697 374	706 168	711 127	729 114	735 038	744 227	742 338	749 558	780 090	780 090
Crédito ao sector publico, líquido	123 262	128 983	129 096	132 722	134 015	140 536	142 045	147 734	146 630	156 567	153 102	151 359	172 024	172 024
Banco de Portugal	112 207	122 495	120 270	124 997	124 201	129 731	128 457	138 267	137 857	146 758	138 694	137 667	155 453	155 453
Crédito	134 394	134 349	127 878	127 761	126 725	130 488	129 593	139 507	141 326	143 201	139 683	140 616	143 416	143 416
Depósitos	-22 127	-11 854	-7 608	-2 761	-2 524	-757	-1 142	-1 324	-3 469	-1 443	-989	-4 934	-10 391	-10 391
Outras instituições monetárias	11 055	6 488	8 826	7 724	9 814	10 805	13 593	9 472	8 773	9 509	14 403	13 672	13 572	13 572
Crédito	51 581	53 762	53 750	54 543	53 120	52 281	52 363	53 053	53 277	55 692	59 205	57 841	57 814	57 814
Depósitos	-40 526	-47 274	-44 924	-46 819	-43 306	-41 476	-38 772	-43 671	-44 504	-45 883	-44 797	-44 169	-44 242	-44 242
Crédito a empresas e particulares	527 891	523 880	523 774	539 410	553 359	565 632	569 072	581 381	588 403	587 660	589 236	598 209	616 052	616 052
Aplicações financeiras	20 403	20 871	20 751	21 129	21 555	21 465	21 503	21 826	21 740	21 731	22 423	23 028	24 405	24 405
Outros créditos (a)	507 488	503 009	513 023	518 281	531 804	544 167	547 574	559 544	566 663	565 929	566 748	575 201	591 647	591 647
Empresas públicas não financeiras	148 980	144 078	152 021	155 368	166 231	181 236	178 842	183 146	187 704	187 134	191 285	193 207	(A)	(A)
Outras empresas não financeiras e parti- culares	349 191	351 190	353 109	355 071	357 527	354 934	361 430	369 113	371 707	371 567	368 208	374 167	(A)	(A)
Instituições financeiras não monetárias ..	9 317	7 741	7 893	7 830	8 046	7 977	7 293	7 285	7 257	7 228	7 255	7 407	7 407	7 407
Créditos de cobrança duvidosa	57 350	64 398	64 670	68 111	70 161	71 467	77 850	77 737	79 427	83 395	87 246	89 936	90 480	90 480
TOTAL DO ACTIVO = TOTAL DO PASSIVO	676 860	679 265	686 712	697 844	710 780	725 880	738 710	760 271	780 180	792 728	805 565	820 422	864 174	864 174

(a) - Os valores deste desdobramento devem ser tomados a título indicativo.
 (b) Actos do fecho de contas do Banco de Portugal
 (c) Depois do fecho de contas do Banco de Portugal

20/2/79

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 6
Held at the German Embassy (Lisbon)
on Friday, February 14, 1979 at 4:00 p.m.

Present:

German Embassy

IMF Representative

Mr. Jürgen Oestreich
(Economic Counsellor)

Mr. Osunsade

1. Introduction: The meeting was convened to get a clear idea about the flow of German financial assistance to Portugal. Specifically, as part of an effort to have firm data on the capital account of the balance of payments, it was desired to ascertain (a) disbursements of German aid on annual basis, (b) any repayments falling due, and (c) aid commitments in the pipeline, including probable draw-downs in the near term. In response to questions in the above-mentioned areas, Mr. Oestreich commented as summarized below.

2. Size of Aid Program: Beginning in 1975, official aid to Portugal by the Federal Republic of Germany has amounted to roughly DM 70 million per annum in terms of commitments, making a cumulative total of DM 280 million by the end of 1978. Of this total, only about DM 50 million (some US \$24 million) was estimated to have been utilized during the four-year period. The slow rate of draw-down was attributed to administrative and technical constraints in project preparation and other factors limiting absorptive capacity. For 1979, disbursements are expected to increase to about DM 70 million, or some US \$35 million. The terms of the financial assistance are: 10 years grace period, 30 years original maturity, and interest at a rate of 4 1/2 per annum. Except for an insignificant amount, use of this financial assistance is not tied to purchases of German goods and services. As for amortization payments, these have related to loans given before the revolution. Because of the slow rate of draw-down, continued repayments on old loans have entailed little net inflow of German aid; indeed, a net outflow was registered in 1976. For the foreseeable future, commitments are expected to continue at the same annual rate of some DM 70 million.

3. Aid Projects: German financial assistance to Portugal is channelled generally to projects that are labor-intensive and have low import content. The already agreed projects within this framework are the following:

1. Rural Electrofication
2. Development of feeder roads
3. Construction of fishery ports
4. Flood control program
5. Irrigation projects
6. Railroad modernization (DM 9 million pledged in 1978)
7. Establishment of a Project Study Fund (to finance pre-feasibility or feasibility studies).

As regards aid administration, the procedure is for the Portuguese Ministry of Planning and the German Embassy in Lisbon to agree first on the relevant projects; thereafter, the related financial transactions are between the German aid agency (Kreditanstalt für Wiederaufbau, KFW) and the Portuguese 'Junta Nacional do Credito Publico'.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 7
Held at the Bank of Portugal
on Monday, February 12, 1979 at 9:30 a.m.

Present:

Portuguese representative

IMF Representative

Mr. Rodriguez (Head, Capital
Income Division of the Bank
of Portugal)

Mr. Osunsade

1. Summary of Data: Mr. Rodriguez provided tabulated data showing that (a) the number of remittance applications subjected to phasing was 5 out of a total of 34 received during the three month period ended in January 1979 (i.e., 15 per cent), compared to 52 out of 178 (or 29 per cent) during the preceding 12 month period; and (b) the average waiting period for phased applications was 58 days during November 1978 through January 1979, compared to 91 days in the seven months to mid-1978 and 70 days during the July-October period of 1978. By early February, the delay was reported to have been further curtailed to about one month. Mr. Rodriguez promised to supply requested data on the outstanding number of pending applications for remittances of profits and dividends, together with the value of the cumulative backlog.

2. Historical Background: In an effort to establish the point that the present practice amounted to a liberalization as compared to the practice previously in place, Mr. Rodriguez described the evolution of the system as follows: The period of about three years immediately following the revolution in April 1974 was characterized by a very low limit on individual invisible payments (including those for investment income) that the banks were permitted to authorize (in the Fund's Annual Report of Exchange Restrictions for 1976 and 1977, this limit ranged between Esc. 30,000 to Esc. 60,000, i.e., under US \$2,000). Those wishing to make outward remittances beyond this limit were required to make applications to the Bank of Portugal; however, because of the tightness of the foreign exchange situation, such applications were rarely granted. Abstracting from possible remittances outside the banking system, this situation meant that several foreign-owned enterprises in Portugal resorted to a more or less involuntary ploughing-back of profit (re-investment).

With the introduction, on August 24, 1977, of a new Investment Code, remittances of investment income were placed on a free basis, with, however, a provision for possible phasing of such remittances if it was felt that the balance of payments position was threatened. This liberalization was followed by a rapid increase in remittance applications, including pent-up applications. As a result, the authorities felt the need to invoke the phasing provisions of the Investment Code, beginning during the third quarter of 1977. However, as the flow of remittance applications has settled down over time towards a more normal rate, the authorities have been able to curtail the phased proportion of these applications as well as the average waiting period. Moreover, the minimum single amount subject to phasing has been increased over time; in July 1978, it was raised from the equivalent of US \$40,000 to the equivalent of US \$250,000. According to Mr. Rodriguez, the currently prevailing waiting-period could be attributed largely to administrative bottlenecks.

In reply to a question as to why problems about profit remittances should be reported only by the British, Mr. Rodriguez explained that this must be related to the experience of a British-owned firm operating in the wine industry. On the basis of a revaluation of its assets, this company had submitted unusually high profit figures to be remitted in respect of 1977. The Capital Income Division of the Bank of Portugal, however, took the view that this case involved strictly a repatriation of capital, rather than a pure case of profit remittances; and the Bank's Legal Department subsequently reached the same conclusion. The company's application was therefore later passed on to the section of the Bank of Portugal dealing with capital repatriation.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 8
Held at the Bank of Portugal
on Monday, February 12, 1979 at 3:00 p.m.

Present:

Portuguese representatives

Dr. Cavaco Silva, Bank of Portugal
Dr. Ohen Goncalves
Dra. Teodora Cardoso, Bank of Portugal
Dr. Alfredo Amaral

IMF representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

At this meeting the outturn of the public sector budget for 1978 and the implication of the recently published law on Local Authorities Financing were discussed. Dr. Ohen Goncalves presented two tables, one showing the financing of the deficit of the state and the public sector in 1978 and one showing the consolidated accounts for the public sector in 1978. He indicated that the data on the state were firmly based, but given the large number of public entities covered by the definition of the public sector, the results for the public sector were somewhat more preliminary. For the state, the deficit of Esc. 79.1 billion was adjusted for the amortization of existing debt and the effect of the complementary period, and this total was compared to known sources of finance. This yielded the discrepancy item which corresponded to net other treasury operations. This item included as inflows some borrowing abroad, mainly PL480 loans. These loans were considered as financing items in the accounts of the public sector. Outflows in this account included some subsidies, loans and expenditures. For the public sector, this discrepancy item represented a residual item.

The adjustment for the complementary period consisted of:

	Esc. 17.0 billion expenditure paid in Jan. 1978
Deficit of comple-	Esc. <u>22.4</u> billion expenditure paid in Jan. 1979
mentary period	5.4 billion

The table on the Consolidated Accounts of the Public Sector indicated a current account deficit of Esc. 26.1 billion and an overall deficit of Esc. 79.9 billion. The deficits were much

higher than had been anticipated in March 1978 and even in the original budget. In preparing the forecast outturn for the budget the budgeted receipts had been used as well as historical utilization rates of appropriations -- 95 per cent for personnel, 92 per cent for expenditure on goods and services and 90 per cent for investment expenditure of the plan. In the end, utilization rates had been much higher, close to 100 per cent. In addition, the Government had anticipated some expenditure for 1979 by appropriating a number of expenditures late in 1978. After fully utilizing the Esc. 10 billion provision for unallocated appropriations, the following proposals for new expenditures were presented

Appropriations in December 1978
(Billions of escudos)

Subsidy for Supply Fund	2.4
Increase in health services	3.2
Sines projects	2.0
Railway subsidy	0.7
Pension Fund for Railroad	0.4
Credit for refugee investments	<u>0.6</u>
Total	9.3

There had also been an unanticipated expenditure for interest on public sector floating debt of Esc. 1.2 billion but this was more than offset by the fact that total interest payments were less than budgeted. The increased appropriation for health services raised the total excess for the year to Esc. 6.6 billion. Also contributing to the higher than expected expenditure was the increased expenditure of the employment fund (Esc. 1.5 billion) and the higher pensions paid by the social security system (Esc. 4.2 billion on an annual basis) which had been reviewed with the staff mission in November. Mr. de Fontenay asked if increase in pensions after presentation of the budget, which had contributed to the overruns in 1978, was a normal timing pattern. Dr. Ohen Goncalves replied that even for 1979, the budget had been prepared on the basis of the existing level of pensions though increases were considered possible.

Turning to tax receipts, Dr. Ohen Goncalves reported that there had been a shortfall in indirect tax receipts of Esc. 5 billion, despite an increase during the year in the tax on gasoline. The shortfall on the transactions tax was Esc. 5 billion of which Esc. 1.7 billion was due to the failure to extend the tax to a list of services, even though the measure had received Parliamentary approval. In addition, budgeted receipts for the transactions tax had been traditionally overestimated, as the average rate for the tax applied to national

accounts estimates for expenditure suggested receipts should be much higher than in fact they were. Finally the increase from 12 per cent to 13 per cent in the basic tax rate which had been introduced in May was not effective until June, as receipts are collected with a two month lag.

Receipts from customs duties and the import surcharge had been Esc. 1.2 billion and Esc. 1.5 billion less than had been budgeted, and were less than the receipts for 1977. There had been an increase in the number of importers asking for exemptions under the drawback scheme for exporters, and collections were delayed until requests were processed. Also, some receipts from both the surcharge and import duties may have been classified with other treasury operations, which would be corrected in the final figures for 1978. In forecasting revenue from the surcharge, account had been taken of the reduction in the surcharge, but in general the forecast had been too optimistic. Receipts from the tobacco tax and stamp duties had been disappointing due to the delays in taking tax measures in 1978. Only the taxes on gasoline and car sales had exceeded expectations.

As for direct taxes, only the complementary tax receipts had been surprising. Collection of the tax had only begun in December, compared with the more normal time of August or September. As a result, some collections would only be made in January and February 1979. The delay in collecting this tax was related to delays in issuing tax notices for the real estate tax until October 1978. This was due to problems with the computerization of the collection of this tax, which would delay receipts until early 1979. The lower than expected receipts from the professional tax were related to an over estimation in the budget regarding the elasticity of the tax as nominal incomes rose. There were also indications of tax evasion within the liberal professions. Receipts from other taxes had been forecast fairly well.

The total increase in tax receipts for the state had been only 21 per cent in a year of important tax increases -- a 15 per cent surcharge on direct taxes except the professional tax where the surcharge was 10 per cent, an increase in the transactions tax from 12 to 13 per cent and important increases in stamp duties and taxes on tobacco and alcohol. It had been estimated in the budget that the increase in receipts due to these measures alone would total Esc. 11 billion; in the end total receipts had risen by only Esc. 19 billion.

Dr. Goncalves indicated that monthly figures for the stamp duties and the transactions tax revealed a declining trend which

he felt was related to a recession in the economy. Even annual projections based on October data had proved to be overoptimistic. Direct taxes had not exhibited such a trend -- annual projections based on August data had been reliable. There were also indications that tax payments were being delayed as a means of substituting for high cost credit.

Looking at the current accounts of the subsectors of the public sector, Dr. Goncalves noted that he would supply a table showing the outturn for the components of the public sector. Latest estimates suggested that only the state had a current deficit.

Current Balances in the
Public Sector

(Billions of escudos)

State	-38.0
Autonomous Services	1.0
Autonomous Funds	8.2
Local Authorities	1.3
Social Security System	1.5

The subsectors had achieved this surplus, however, because of transfers from the state. These included a transfer of Esc. 31.5 billion to the autonomous services (Esc. 14.2 for medical services) Esc. 3.5 billion to the local authorities, and Esc. 5.6 billion to the supply fund. The unemployment fund had a surplus of Esc. 5 billion and transferred Esc. 3.5 billion to the social security system for payment of unemployment benefits and Esc. 1.0 billion to the Manpower Development Fund. The Social Security System had a surplus of Esc. 1.5 billion, receiving the transfer from the Unemployment Fund and Esc. 3.1 billion from the state for pensions of railroad workers.

On capital account, the Unemployment Fund transferred Esc. 2.0 billion to the state and the state in turn transferred Esc. 8.0 billion to the local authorities. It was difficult to breakdown in a detailed way capital expenditure by the state.

By way of summary, Dr. Goncalves noted that, as in the past, the outturn for the state budget was a good indicator for the remainder of the public sector. In particular, in 1978 the state had helped finance the deterioration in the accounts of the rest of the public sector, thus raising its current deficit to Esc. 38 billion. The balance of all other subsectors had been

better than budgeted, except for the social security system where the surplus was Esc. 1.5 billion compared to the budgeted figure of Esc. 3.5 billion. Within the budget for the state, interest on the public debt had been lower than budgeted, subsidies had been Esc. 10.5 billion vs. Esc. 11.3 billion in the budget and there had been no increase in current expenditures. There had however been a short-fall of Esc. 23 billion in current receipts: tax revenue contributing Esc. 14.9 billion, current transfers not received from social security, Esc. 6.2 and property earnings Esc. 1.7 billion due to no profits being remitted from public enterprises nor rent on state land held in the area of the Agrarian reform (which accounted for Esc. 0.4 billion of the Esc. 1.7 billion). Perhaps Esc. 0.6 billion in budgeted receipts from minting was presently being accounted in other treasury operations. Capital receipts had been affected by the fact that the Unemployment Fund had transferred only Esc. 2 billion vs. the budgeted figure of Esc. 5 billion.

Mr. de Fontenay asked about the implications for credit demands by the public sector in the first quarter of 1979, particularly in light of the spending in the complementary period of Esc. 22.4 billion. Dr. Goncalves replied that the subsequent deposit of tax receipts, including the postponement until early 1979 of collection of 1978 taxes, would limit the increase in public sector credit from the banking system to Esc. 13.0 billion.

Mr. de Fontenay asked if it were possible to identify the subsidies and capital transfers that went to the public enterprises in the budget results. Dr. Goncalves replied that subsidies totalled Esc. 10.5 billion, for which a breakdown was available and would be provided. Approximately 40-50 per cent went to the railway company and other transportation companies. Subsidies were also provided to some industrial and fishing companies and newspapers. The original budget had provided for subsidies of Esc. 10.3 billion; the railway subsidy had been increased in December as noted earlier and there was some underspending of the total appropriation for subsidies, as per usual. The other type of financing to public enterprises consisted of increases of Esc. 7.2 billion in equity capital for firms. A partial breakdown showed:

Increases in equity capital in 1978
(Billions of Escudos)

EDP	0.50
Quimical	0.65
Urban Transport, Lisbon	1.20
Maritime Transport	0.27
Institute for State Participation	1.20

In reply to a question about how the amount of subsidies and capital transfers was decided, Dr. Goncalves indicated that for 1979 it had been decided to reduce the level of subsidies while increasing the amounts for new equity subscriptions. Subsidies would be limited to Esc. 6.0 billion of which the railways would take an important share and share capital would be raised to Esc. 11.5 billion. It was hoped that the lower level of subsidies would result in better management of firms. However, there were no specific provisions for raising charges of the public enterprises to lower their operating deficits and emergency amounts could be made available out of the unallocated appropriations or through other treasury operations. It was also possible for firms to borrow directly from banks although firms in real difficulty required a guarantee of the state. The state was careful in granting these guarantees and there were legal limits on the total value of guarantees. On domestic guarantees the limit was Esc. 43.5 billion and on external debt the ceiling was US \$1.7 billion. Dra. Cardoso noted that commercial banks were also quite particular in their lending to public enterprises.

Regarding subsidies in support of the system of subsidized prices, Dr. Goncalves noted that the subsidy for the basket of essential commodities had been set in the budget at Esc. 8 billion but this may have been exceeded. The supply fund had been budgeted to provide Esc. 17.7 billion for subsidies but these had likely risen to Esc. 19.2 billion.

On the question of indemnification bonds, it was indicated that no bonds had yet been issued but individuals had submitted to banks declarations of amounts to be compensated and it was expected that some bonds would be issued in 1979. The budget for 1979 contained provision for Esc. 2 billion in interest payments on these bonds.

In reply to a question on the relationship between interest paid on debt held by the Central Bank and profits of the Central Bank transferred to the Government, the Portuguese representatives indicated that the general rule was for a one to one relationship. There was however a lag as interest payments were made in December and January and profits were transferred in May. For example, in 1977 the Central Bank received Esc. 6 billion in interest payments on Central Government debt and transferred profits of Esc. 5.8 billion in 1978. Meanwhile, in 1978 interest payments were Esc. 11 billion and these would be transferred to the Government in 1979.

Mr. de Fontenay asked about the financial position of the social security system. In reply, it was indicated that as a result of the shifting of the responsibility for medical service to an autonomous service, the main expenditures of the social

security system were for old age pensions, family allowances and unemployment benefits. There were indications that the system was having considerable difficulty in collecting revenues, although in 1978 receipts had risen from Esc. 46 billion in 1977 to Esc. 56 billion with no increase in rates.

The discussion then turned to a review of the new Local Authorities Financing Law, which had been published on January 2, 1979. It represented an important change in the fiscal system and it was the intention of the government to proceed slowly in implementing it. The main difficulty with the law was that it provided for the almost immediate transfer of important amounts of money from the Central Government to the local authorities with no corresponding transfer of responsibilities for providing services. Working groups had been set up in various ministries to review which services currently being provided by the state could be shifted to the local governments. The law consisted of three parts or tranches. The first part would transfer revenue from the real estate tax and the stamp tax on automobiles to the local authorities. This would represent Esc. 4.4 billion. In addition revenue of some other public entities related to tourism would be transferred, amounting to Esc. 0.7 billion, for a total of Esc. 5.1 billion from the first part of the law. The second part of the law would transfer 18 per cent of revenue from almost all of the remaining direct taxes, representing a total of Esc. 8.3 billion. The third part, which was not to be implemented immediately, would involve an attempt to bring the total transfers from the second and third part of the law to 18 per cent of Central Government expenditure. The third part alone would require the transfer of Esc. 28.2 billion. The total amount of transfers would be divided among the municipalities according to various demographic and socio-economic indicators such as population, surface area, per capita income, number of young and old people, etc. On the expenditure side some of the working groups had taken decisions, for example responsibility for schools would be transferred to the local authorities.

Consolidated Budget of the Public Sector

12. FEB. 1979

(in billions of escudos)

	1 9 7 8		
	Original Budget	Estimated outturn	
		(March 78)	(Feb. 79)
Current receipts	<u>225.9</u>	<u>225.9</u>	<u>210.5</u>
Direct taxes and contribution to social security	107.2	107.2	103.0
Indirect taxes	106.3	106.3	97.4
Transfers	12.4	12.4	10.1
Current expenditure	<u>230.8</u>	<u>222.6</u>	<u>236.6</u>
Goods and services	115.7	105.8 (a)	112.4
Subsidies	29.1	28.3	29.8
Transfers	60.3	63.5 (a)	71.9
Interest on public debt	<u>25.7</u>	<u>25.0</u>	<u>22.5</u>
<u>Current balance</u>	<u>- 4.9</u>	<u>+ 3.3</u>	<u>-26.1</u>
Capital expenditures	<u>59.1</u>	<u>54.8</u>	<u>57.2</u>
Fixed capital formation	42.4	36.6	40.3
Capital transfers	6.3	6.0	5.8
Net lending	10.4	10.2	11.1
Capital receipts	<u>3.7</u>	<u>3.7</u>	<u>3.4</u>
Capital balance	-55.4	-51.1	-53.8
<u>Overall budget balance</u>	<u>-60.3</u>	<u>-47.8</u>	<u>-79.9</u>

Expenditure with refugees and civil servants from Overseas have been classified as current transfers.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 9

Held at the Bank of Portugal

On Tuesday, February 13, 1979 at 3:00 p.m.

Present:

Portuguese representatives

Dr. Cavaco Silva
Dra. Constancio
Dr. Abel Mateus
Dr. Alfredo Amaral

IMF representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

1. Introduction: The meeting was convened to discuss external debt developments, investments by the public enterprises, and administered prices in the public sector. Owing to the unavoidable absence of Dr. Cavaco Silva at some stage during the meeting, clarification of certain aspects of external debt developments was postponed until a later date.

2. External Debt: According to the available information provided by the Portuguese representatives, the end-of-year stock of external debt of Portugal, including short-term debt (i.e., those with an original maturity of less than one year) increased from US \$2,892 million in 1976 to US \$4,426 million (or by 53 per cent) in 1977, and to a provisional US \$5,420 million (by 22 per cent) in 1978; excluding short-term debt, the corresponding figures are US \$937 million, US \$1,115 million (a 19 per cent increase) and US \$1,348 million (21 per cent increase), respectively. Abstracting from the foreign debt of the Bank of Portugal, the outstanding end-of-year stock of external debt for 1976 to 1978, inclusive, would be US \$586 million, US \$807 million, and US \$1,509 million, respectively, representing an annual increase of 38 per cent and 87 per cent during the two latter years. The private-sector components of the debt (both those with and without Government guarantee) possibly included an uncertain amount of undisbursed funds. On the basis of external debt outstanding at the end of 1978, debt service payments (excluding those by the Bank of Portugal) were estimated by the Portuguese representatives at US \$1,173 million in 1979 (or 36 per cent of 1978 exports of goods and services).

Commenting on the quality of the available data, the Portuguese representatives stated that it was as yet virtually impossible to reconcile changes in the debt stock with capital movements in the

balance of payments; one reason given for this related to the exchange rate factor, which would affect flows and stock valuation differently. The currently available data on the debt stock had been based on information obtained directly from the users' side. On the question of the existing machinery for the collection of data on external debt, the Portuguese representatives explained that three main agencies were involved -- the Treasury, the Junta Nacional do Credito Publico, and the Bank of Portugal; a new unit was being set up in the Bank to coordinate the whole exercise. As regards authorization, it was pointed out that all external borrowing with an original maturity exceeding one year is subject to prior authorization by the Bank of Portugal; even for maturities shorter than one year, such authorization would be required in cases involving importation of essential goods -- such as wheat or oil.

3. Investment Spending by Public Enterprises: Data provided by the Portuguese representatives on the scope and activities of the public enterprises could be summarized as follows:

- (i) Total number of Public Enterprises (including 13 mixed enterprises): 74; of which
- (ii) Number of Enterprises which presented Investment Proposals for authorization in 1978: 51; of which
- (iii) Those which received spending authorization from the Ministry of Finance and Planning: 25.
- (iv) Number of Enterprises which submitted reports on their investment operations during the year: 35.

In summary, data provided for public enterprises in the 'industrial' and transportation sectors showed the following features for 1978:

a. Industrial Sector

- (i) Authorized total investment: Esc. 22.9 billion; of w
- (ii) Financing from the State budget : Esc. 4.0 billion
- (iii) Self-financing : Esc. 0.4 billion; the

other financial resources being raised in the form of domestic credit and external credit.

b. Transportation Sector

- (i) Authorized total investment: Esc. 8.2 billion; of which
- (ii) Financing from the State budget : Esc. 1.8 billion,
- (iii) Self-financing : Esc. 0.8 billion, with

domestic and external credit supplying the other means of financing. For a separate list provided on public enterprises in the transport and communication sectors, it was explained that requested investments in 1978 amounted to Esc. 18 billion; authorized investments totaled Esc. 14 billion, of which actual investments amounted to Esc. 8.49 billion.

On the scope of these enterprises, the Portuguese representatives explained that they covered a wide range of firms in manufacturing, electricity, water, gas, transport and communication, but did not include cooperatives. There were, however, certain cases in which an enterprise's operations included participation with private businesses -- i.e., mixed enterprises. On the nature of the institutional arrangement, it was explained that, by law, prior authorization by the Ministry of Finance and Planning was required for investments by these enterprises. In practice, however, some of the investments were undertaken without the Ministry's authorization. In 1978, requested authorization of investments by these enterprises totaled Esc. 58 billion, of which Esc. 30 billion was actually approved. As for a Technical Group that was set up to screen investment requests by the public enterprises, the Portuguese representatives pointed out that the Group had ceased to function since August 1977; subsequently, authorization decisions had been taken by the Ministry of Finance. In general, the decisive criteria in granting the investment applications included overall domestic budgetary constraint and the balance of payments constraint. It was explained that investment approvals included specified limits on any necessary recourse to domestic bank credit. On the relationship between the capital account of the state budget and the budget's contribution to the finances of these enterprises, the Portuguese representatives pointed out that the former was decided only as a global sum; allocation therefrom to individual public enterprises was determined on the basis of such criteria as the implementation capacity of the relevant enterprises and the need to stimulate economic activity in particular sectors deemed to be in difficulty. As for the authorization limits for 1979, the Portuguese representatives explained that the details of these were still being worked out.

4. Administered Prices: The discussion of administered pricing in the public sector sought particularly to clarify the questions of (a) on what basis decisions were taken to change these prices; (b) what was the usual time-table; and (c) what was the time-table specifically for 1979. No firm information was provided

on the last-mentioned question; though it was pointed out that work was under way regarding domestic price adjustments in response to the increase in oil prices announced by OPEC. Increases in all these prices, however, usually took place in the first half of the year. In 1978, the prices of gas, electricity, water and communications were raised in March, and those of the items in the 'basket' in April. The underlying objective for these price increases was to strengthen the financial position of the relevant enterprises, to ensure that they would be able to cover the cost of their operations. In general, proposals for price increases by large enterprises required official authorization, initially through the responsible ministries. With these exceptions, however, the enterprises were generally free to manage their prices in accordance with market forces.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 10
Held at the Foreign Investment Institute
on Wednesday, February 14, 1979 at 10:00 a.m.

Present:

Portuguese representatives

Dr. Vaz Pinto

IMF representatives

Mr. Osunsade
Mrs. Teigeiro

Dr. Vaz Pinto opened the meeting by outlining the principal functions of the Institute. He explained that the Institute had been created in August 1977 in order to centralize within a single body all governmental activities connected with foreign investment in Portugal. The Institute issues all authorizations for foreign direct investment, i.e., for the creation of the stock of a company, for additional capitalization of a company, and for imports of technology. The Institute may authorize investments of up to US \$2.0 million on its own initiative, however, for larger amounts the approval of the Minister of Finance, or in some cases the Council of Ministers, is required. The normal processing time for investment applications is two to three months. However, by law, the Institute is required to answer all applications within three months; no answer denotes automatic approval. He explained that most investment applications did receive approval, in 1978 some 120-130 applications had been authorized and only two or three rejected.

Approval of an investment takes the form of a "bulletin", a copy of which is sent to the investor, his bank, and the Bank of Portugal. The bulletin has an initial validity of three months during which the investor may initiate his project; however, the bulletin may be renewed. In the past, because bulletins are denominated in foreign exchange, some firms had applied for an unreasonable number of consecutive renewals, suggesting some speculation regarding the depreciation of the escudo. To avoid this the Bank of Portugal was now actively considering measures to limit the number of consecutive renewals to only two or three, with subsequent renewals being issued at a fixed exchange rate. The Bank of Portugal normally provides the Institute with a report on the utilization of investment authorizations; in 1978 roughly Esc. 1.8 billion had been authorized, about 50 per cent of which had been implemented. For

1979, an optimistic assumption, taking into account the Renault automobile project, was for authorizations totaling Esc. 3.0 billion, with roughly Esc. 2.0 - 2.5 billion being implemented.

Dr. Vaz Pinto explained that authorizations were granted on the basis of a feasibility study of the investment project which was carried out by the Institute. For increases in capital stock and for investments of up to Esc. 5.0 billion, approval was granted virtually automatically, however, for other investments special criteria were employed in appraising the project. These included: the project's contribution to the balance of payments, the value added to domestic output, the number of jobs created by the project, the quality and cost of the technology required to develop the project, and the existing productive capacity in the sector where the investment would take place.

Apart from project evaluation and authorization, promotion of foreign investment was the third major function of the Institute. The Institute's budget was small so promotion had initially been confined to publicizing the Institute in trade journals abroad. However, in 1979-1980 the setting up of branch offices in Oporto, New York, Frankfurt, and Japan was planned. In addition, the Institute planned to broaden its participation in trade fairs and industrial exhibitions worldwide in order to further publicize itself.

Dr. Vaz Pinto outlined some of the attractions as well as the disadvantages of investing in Portugal. He felt that the low cost and the ready availability of skilled manpower, impending entry into the Common Market, relative political stability, and an attractive corporate tax rate (40 per cent on average compared with 50 per cent in the EC) were the principal advantages to investing in Portugal. In addition, foreign investors generally were able to benefit from interest subsidies on domestic credit for exports and new investments. Their access to domestic credit, was however limited by the amount of foreign participation in their capital stock. Firms which were only 25 per cent foreign owned enjoyed the same benefits as domestic firms, those which were 25-50 per cent foreign owned were eligible to borrow up to 70 per cent of their resources domestically, while those with over 50 per cent foreign participation were only permitted to obtain 50 per cent of their borrowed resources domestically.

Foreign firms were most often deterred from investing in Portugal by the still somewhat uncertain state of the payment of indemnities for property nationalized during the revolution. In addition, the lack of a domestic capital market, the absence of domestic firms dealing with leasing operations and investment banks, and the lack of a medium-term investment plan, were also often cited as disadvantages to investing in Portugal.

Dr. Vaz Pinto felt, however, that the depreciation of the exchange rate was not a deterrent to investment as many firms apparently covered their debt service payments with exchange rate guaranteed contracts from export-import banks and other such institutions, or with special domestic accounts denominated in foreign exchange in which export earnings were earmarked for debt service payments.

Dr. Vaz Pinto explained that foreign firms could invest in any sector which was not publically owned. However, in certain sectors such as mining and fishing, 50 per cent Portuguese participation was obligatory. The sectors in which there was presently the greatest concentration of foreign investment included the mechanical, electrical, chemical, and tourism industries. However, the Institute was currently trying to promote more investment in the food processing industry, defined by the Government as a priority sector.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 11
Held at the Bank of Portugal
on Wednesday, February 14, 1979 at 4:30 p.m.

Present:

Portuguese representative

Dra. Cocco, Ministry of Foreign
Commerce

Fund representatives

Mr. Osunsade
Mr. Stuart

At this meeting, certain aspects of the system of import restrictions were discussed and a detailed description of export developments in 1978 was presented.

On import restrictions, Dra. Cocco explained that the value quota on automobile parts had been revised in December 1978. After taken into account the fact that the new quota would apply for a full year while the previous one covered only 10 months, the new quota was still some 18 per cent higher in escudo terms. Some 70 per cent of the quota would be allocated on the old basis while 20 per cent would be related to a firm's exports in the previous year and 10 per cent to the firm's exports in 1979. The decision on this quota had been taken in December as the old law was running out and firms needed information to prepare their budget for 1979. It was understood that the law was open to discussion under terms of the current stand-by negotiations, as were the other quotas and the surcharges. The authorities saw 1979 as a year in which restrictions could be relaxed, but careful attention would have to be paid to the effects on firms which had benefitted from the protective aspects of the balance of payments measures which had been taken.

Referring to the statement in the letter of intent that the authorities would study alternative tax measures to the present 60 per cent surcharge, Dra. Cocco indicated that this had been studied in a technical group. The tax covered about 2 per cent of 1975 imports, including some goods which had domestic substitutes. It would be difficult to place a high tax on a general category of goods, e.g., clothing, in order to tax luxury items in that category. Furthermore, some items were already subject to high domestic taxes. In replacing the

old 30 per cent surcharge, which was scheduled to be removed on October 1, 1979, the authorities had negotiated with Portugal's partners in the EEC and EFTA to replace the surcharge with a customs duty of 18 per cent (or 12 per cent in some cases) on one third of the items traded with the EEC and EFTA. These were items for which the tariffs had been reduced earlier but were on a list of products of so called "old industries" which could be raised in the future. These barriers would have to be phased out by 1985.

Referring to the value quotas on consumer durables, Dra. Cocco noted that in 1978 all licenses under the quota system had been utilized and data would be provided comparing the actual imports of goods with the applicable quotas. New measures for the year would be taken in April following the expiration of the existing law at end March. Perhaps some items could be removed and the overall value raised. In considering relaxation of the quota, it should be remembered that all goods under the quota system were subject to the old surcharge of 30 per cent.

Mr. Osunsade asked if there had been any changes in the negative import list and for an update on the import policy of the state trading monopolies. Dra. Cocco replied that there had been no changes in the negative import list, and in any event this was not a particularly important list, as it applied only to those countries with which Portugal had no trading agreements. As for the food import programs, no annual budgets had been decided upon as of yet. For the first few weeks of the year, imports were related to orders placed in 1978. Subsequently, the importing agencies had been informed of the percentage of last year's allowance that could be imported by the end of March. This was a high percentage of the total allocation of last year, perhaps as much as 70 per cent, similar to the procedure followed in 1978.

Mr. Osunsade asked about the special agreement with the EEC and EFTA countries for agricultural products and for a list of the imports for which foreign financing was required. Dra. Cocco replied that the agreements on agricultural products were trade agreements resulting from the fact that the major agreements with the EEC and EFTA covered only industrial products. She agreed to provide the list of imports for which foreign financing was required.

The discussion then turned to a review of export developments in 1978. Dra. Cocco noted that the forecast for the volume growth in exports for 1978 as of last November was 10 per cent, while present estimates were for an increase of 14 per

cent. A major factor in this revision was the present estimate of 23 per cent for the growth in textile exports, compared to an initial estimate of 16 per cent.

Mineral products and glassware had increased due mainly to a recovery in the glassware sector and in marble products, both of which had been doing badly previously. This was the first year of recovery in these sectors, and no direction of trade analysis was available. It was thought likely that the recovery was in traditional markets. There was no increase in exports of petroleum products, as Sines had started production only late in the year.

The recovery in chemical products was due in most part to one product for which Portugal had a virtual monopoly in the west -- pez louro, a natural resin. This was a primary product and output and sales were very unstable. The increase in exports of metal products was related in large part to exports of uranium which had been stockpiled during years in which no sales were made. An alloy of iron and manganese had also done well.

The increase in exports of transportation equipment was related to the exporting of cars, which occurred for the first time in 1978. Non electrical machinery, which went mainly to eastern countries, Cuba, Africa and the Middle East, did not perform particularly well in 1978 but on the basis of orders already received, would do better in 1979. By way of contrast, electrical machinery did well in 1978 but on the basis of protectionist tendencies in Germany as a result of Japanese competition, the outlook for 1979 was not good.

Dra. Cocco then reviewed in some detail developments as they affected textile exports. Beginning in 1975, there had been a recovery in the OECD market for textiles, but Portuguese exports had declined steadily until 1978 when there was a sharp recovery. In trying to explain why the recovery had been delayed until 1978, a country by country analysis had been undertaken.

In 1977, textile exports to all major markets had increased substantially, except to the U.K. and Sweden, which accounted for 26 per cent and 13 per cent respectively of Portugal's market. A special factor for the decline in exports to these markets was that in 1977, volume quotas on textile imports were imposed by these two countries. The EEC had limited restrictions to tariff quotas, i.e., above a certain level of imports, tariffs were applied. In addition, the general economic recovery was delayed in the U.K. However, in 1978, there was a significant recovery in the U.K. market, private consumption rose by

8 per cent, and the impact of the quotas was much less than had been anticipated. The quotas were actually set at pre-crisis levels which turned out to be not very restrictive.

Percentage Change in Volume of Textile Exports to

	<u>1977</u>	<u>1978</u>
U.K.	-8	47
Sweden	-14	24
West Germany	23	62
France	28	48
U.S.	19	31

In reply to a question about the different evolution of import and export prices of agricultural products Dra. Cocco noted that the large increase in export prices (14 per cent in US dollar terms) was fairly general throughout the category, except for tomato paste. Wine and canned fish had been sold mainly to Europe where the exchange rate had moved more favorably. In the field of wine exports, there was an attempt to specialize in better wines, for instance bottled wine vs. bulk wines. There had also been an increase in prices due to difficulties with the grape harvest in Portugal. Similarly, the decline in agricultural import prices was fairly general. Oil seeds prices had risen by only 4 per cent in escudo terms, cotton and sugar prices had actually declined. Coffee prices declined in dollar terms while prices of cereals had remained unchanged.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 12
Held at the Ministry of Finance
on Thursday, February 15, 1979 at 11:30 a.m.

Present:

Portuguese representatives

Dr. Jacinto Nunes, Minister of
Finance
Dr. Silva Lopes, Governor of
the Bank of Portugal
Dr. Rui Vilar, Vice Governor
of the Bank of Portugal
Dr. Cavaco Silva, Bank of Portugal

IMF representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

At the invitation of the Minister, Mr. de Fontenay provided an assessment of the current economic situation and its broad implications for policy in 1979. He noted that economic activity had clearly weakened in 1978, although some of this was related to the reversal of speculative stock building and was therefore welcome. A negative rate of economic growth during 1979 would not be desirable, however, measures to restore a positive rate of growth should be taken cautiously, with the emphasis being placed on stimulating exports and investment. With this goal in mind any major relaxation of interest rates and credit policy or a deliberate overvaluation of the exchange rate could lead to a revival of speculative stock-building and inflationary pressures, instead of to the desired increase in investment.

Turning to the balance of payments, Mr. de Fontenay noted that the large improvement in the current account had been very important in 1978. Nevertheless, even taking into account structural factors which tended to reduce the scope for improvement, the current account deficit still remained uncomfortably high. While ample financing for the deficit had been forthcoming in 1978, the absence of a clear attempt to further reduce the deficit in 1979 could have an adverse effect on the availability of external finance. In addition, Portugal's debt service burden was already high and any further borrowing to cover an external deficit largely caused by consumption would jeopardize future investment and long-term development goals.

Speaking specifically about credit policy, Mr. de Fontenay noted that it was difficult to argue that the expansion of credit in 1978 had been too low. The money stock had grown very rapidly and domestic credit had been supplemented by capital inflows, in part resulting from the increase in interest rates. Rather, the principal problem in 1978 had been the allocation of credit. There had been no reduction in credit to the public sector, with the result that the private sector had borne virtually all of the adjustment. It was undesirable for this misallocation of credit to continue in 1979.

The public sector accounts now appeared rather worse than when the staff visited Lisbon in November. The traditional public sector deficit had reached 10 per cent of GDP and the current account deficit had widened further. Part of this increase was related to special appropriations for expenditures which would normally have taken place in 1979 but which were shifted backward to 1978, while some 1978 revenues had been shifted forward into 1979. This had the effect of making the 1978 budget outturn look much worse than it actually was and the 1979 budget, correspondingly better. In view of this, it would be doubly important to achieve a significant reduction in the 1979 budget deficit with respect to 1978. More information on the operations of the public enterprises was also needed. From the little information that was available it appeared that many public firms had large operating deficits. Mr. de Fontenay urged that in future their operating expenses be covered by current receipts, either by raising prices, reducing expenditures, or by direct budgetary transfers which would be covered by tax receipts. It should be made clear that capital transfers and bank credit were to be used for genuine investment expenditures. He hoped that the budget about to be presented to Parliament met these concerns. Final agreement on a standby program could not take place until after the budget had been approved.

Dr. Jacinto Nunes replied that the Government intended to take a firm stand against attempts to weaken the budget. A copy of the budget would be given to the staff in the afternoon and negotiations could begin as soon as possible. The authorities were particularly interested in coming to some agreement on the exchange rate as soon as possible. In their view the present rate of depreciation should be slowed down.

Mr. de Fontenay replied that any final decision on the exchange rate would have to be taken in the context of an overall program, that this would ultimately depend on the budget. The authorities' growth target, which to a large extent depended upon the continued strength of exports, argued against any significant relaxation of present policies. Dr. Silva Lopes explained that, on the basis of Portugal's calculations, in order to maintain external competitiveness in 1979 it was not necessary to maintain the present depreciation schedule. On the contrary, a significantly lower rate of depreciation was called for. If the exchange rate were depreciated

by 1.25 per cent per month in effective terms until the end of March and left unchanged for the remainder of the year, this would result in an average annual rate of depreciation in 1979 compared to 1978 of 12 per cent, more than enough to maintain Portuguese competitiveness abroad.

In addition, Dr. Silva Lopes noted that it would be important to discuss as soon as possible the March credit ceilings. Mr. de Fontenay explained that the March figure should not be significantly affected by the new stand-by program as long as it incorporated a smooth adjustment from December. He felt that the staff were prepared to raise the March ceilings and that reaching agreement on this point should not prove too difficult.

Dr. Silva Lopes also hoped that the mission could express its views on restrictions and external debt at an early date. Mr. de Fontenay explained that it would be important to continue the momentum of the previous stand-by program in the area of restrictions, however the point would have to be discussed in more detail later. External debt, however, would remain a serious and continuing problem. The debt service ratio, at about 30 per cent, seemed very high. The mission did not intend to include an overall ceiling on external debt in the stand-by program, however, after agreeing on a reasonable figure for the recourse of the public sector to external borrowing, any excess external borrowing above that figure would be deducted from the credit ceiling. In 1978 this had been a problem as there had been little incentive to reduce the public sector deficit because ample financing had been obtained abroad.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 13
Held at the Bank of Portugal
on Thursday, February 15, 1979 at 3:30 p.m.

Present:

Portuguese representatives

Dr. José da Silva Lopez, Governor
of the Bank of Portugal
Dr. Almeida, Secretary of State
for the Treasury
Dr. Cavaco Silva

IMF representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

At this meeting, certain aspects of the problem of controlling the public enterprises sector were discussed.

Mr. de Fontenay began the discussion by noting that the problems of the public sector had existed for some time but these problems had recently been emphasized in the speech by the Prime Minister on January 22, 1979. In the speech, the Prime Minister had implied that the deficit of the public enterprises in 1978 was Esc. 23 billion. Mr. de Fontenay asked about the exact magnitude of the problem, the various sources of information, the main enterprises that were in difficulties and what were the main difficulties. He also asked about the main sources of finance and about possible measures that could be taken to equilibrate the accounts of the enterprises.

The Secretary of State for the Treasury, Dr. Almeida, began his remarks by stating that unfortunately he did not have a great deal of information. Since the sudden enlargement of the number of public enterprises in 1975, their control had been under a number of secretaries of state and the several changes in staff had created problems of continuity. The enlarged public sector had been created quickly, in the beginning had been very disorganized, and until mid 1976 there had been a great deal of independence. He noted that even before the revolution, the railway company (CP) had been in difficulty and several of the transport companies such as TAP had been affected by the loss of their monopoly position in the former territories. Very strict labor relations legislation affected particularly the public firms. Beginning at the end of 1976, the Government had tried to control the public enterprises more effectively. In 1978, the Government had concentrated on trying to limit the deficits of the largest corporations, including the road transport company (RN) and the public transportation of Lisbon (CARRIS).

It was not possible to provide data for 1978. The 15 largest companies had been asked to provide data on the production, employment, cash flow and financial outcome but so far no reports had been submitted. Only data on government subsidies, guarantees and capital transfers were available and a detailed listing was provided. In 1978, subsidies to cover deficits totaled Esc. 11 billion (US 225 million) of which Esc. 8.2 billion went to the transport sector and Esc. 1.4 billion went to the industrial sector. Capital transfers in 1978 totaled Esc. 5.4 billion, (US 111 million) of which Esc. 2.7 billion went to transportation and Esc. 2.2 billion went to industry. External guarantees totaled US 842 million (Esc. 40.3 billion) of which the industrial sector got Esc. 19.2 billion and the transport sector Esc. 6.5 billion. Esc. 14.7 billion was guaranteed for the Banco do Fomento and Sines. Government guarantees for internal credit totaled Esc. 7.8 billion (US 163 million) of which transportation received Esc. 6.2 billion. In addition, guarantees granted by special funds in the ministries of Industry and Transport totaled Esc. 10 billion to the transport sector. The latter guarantees could be used for domestic credit or for domestic banks to obtain credits abroad.

Looking at the 1979 budget, subsidies were to be reduced to Esc. 6.0 billion and capital transfers raised to Esc. 11.0 billion. Dr. Almeida noted that in his opinion, it was not realistic to expect that in one year subsidies could be cut to Esc. 6.0 billion. Some results could be expected from increased charges and better management. Mr. de Fontenay asked how it was possible to ensure that the higher appropriations for capital would not be used to cover operating losses. Dr. Silva Lopes replied that to some extent the capital increases would be used to retire some existing debt of the companies on which the interest burden was very large. Dr. Almeida emphasized that efforts were to be taken to control the investment of the public firms, as it was the feeling of the present Government that through controlling investment it was possible to control the companies.

In order to better control the companies, Dr. Almeida reported that two schemes were to be put into place. By the end of the following week (viz. February 22, 1979) the Minister of Finance would have put into place a special institution to gather the information necessary for control -- Sistema de Planeamento das Empresas Publicas et Participadas (SPEPP). It would likely take a year for this system to become fully effective. It was designed to require all enterprises to provide, at the beginning of each year, a current and capital budget, specifying sources of finance. The Minister of Finance would be responsible for making the aggregate of these budgets consistent with developments in the general economy. This measure had been approved in the final days of the third constitutional Government but subsequently was resisted by the public enterprises. However, the decree law was published on December 30, 1978 and would soon take effect.

In addition, Dr. Almeida referred to an effort on the part of the Ministry of Finance to require each ministry to evaluate the investment proposals of all the firms under their control and submit a list to the Minister of Finance for approval. The various industries would refer also to the likely sources of finances, including any self financing. He admitted that control in 1979 would be limited to investments planned in 1978 which had as yet no assured financing. All foreign loans and domestic loans of more than six years required the approval of the Secretary of the State for the Treasury. This new approach, which had been approved with a revision of a 1976 law only three weeks ago, gave the Ministry of Finance much greater control. In the past, the Minister responsible for each industry was able to grant approval and the approval of the Ministry of Finance was necessary only when a guarantee was required. Often orders were placed and the Ministry of Finance was forced to accept a fait accompli at the last minute. Also, theoretically, under the old system investments were to be included under the investment budget for the public enterprises (PISEE). However, firms often made commitments for investment different from those proposed in the budget and the Ministry of Finance was unable to undertake the required feasibility studies in time to control the investment. At present, no figures on total investments to be undertaken by public enterprises in 1979 were available but it was expected that a list of proposed projects would be submitted by end March 1979. At that time, the Esc. 11 billion of capital transfers in the public sector budget for 1979 would be allocated.

In the budget for 1979, the legal ceiling on guarantees for internal credit was raised from Esc. 43.5 billion to Esc. 45 billion. The limit on external credits was raised from US \$1.6 billion to US \$2.0 billion. These limits were to remain in effect until the end of April when they would be changed in line with the investment proposals of the public enterprises. The Directorate General of the Treasury in the Ministry of Finance was responsible for granting guarantees. External guarantees were granted to firms in good financial condition to improve the terms of the external credit. Internal guarantees were given to firms which would have a difficult time getting credit without the guarantee. The railways were the best example of this.

Mr. de Fontenay recalled that there had previously been a proposal to limit the access of public firms to bank credit to only finance investments and wondered if this was still being considered. Dr. Silva Lopes replied that it was often difficult to separate out credit needed for working capital and credit needed to cover operating losses. When an enterprise borrowed for non-investment purposes, the banks were very reluctant to lend and often a government guarantee was required. In 1976, guaranteed bank credit was used to a large extent to help finance losses and some of the capital subscriptions

in the 1979 budget would be used to cancel these debts. His personal opinion was that, at present, bank credit was not used to a large extent to cover losses.

Mr. de Fontenay asked about the magnitude of the problem of public firms not paying their taxes to the budget. The Secretary of State replied that this was a real problem with Petrogal, where the amount involved could be quite large, and with the beer company. The tax on beer was currently being remitted but arrears on previous taxes had not been collected. The problem of Petrogal was complicated as their financial difficulty derived to some extent from the fact that some transportation companies were not paying for their oil.

In response to a question about the likely timing of price increases for the products of the public enterprises, Dr. Almeida indicated that action would be required before the end of March. The exact increases would depend on the reports submitted to SPEPP and on any changes Parliament made in the appropriation of Esc. 6 billion for subsidies to public enterprises. He referred to the fact that the Government was now operating on a prorated version of last year's budget in which subsidies to the public enterprises were Esc. 11 billion. If the decision on the price increases for these firms was delayed much longer, firms would have received the bulk of their allocation for subsidies in the 1979 budget very early in the year and the situation would be untenable.

As to the exact figure for the operating deficits of the public enterprises, Dr. Almeida supposed that figures such as the Exc. 23 billion suggested in the Prime Minister's speech were derived from an aggregation of the deficits of a few large firms. He indicated that much more information on the various activities of the enterprises for 1977 and 1978 would be available in one week.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 14
Held at the Bank of Portugal
on Friday, February 16, 1979 at 11:00 a.m.

Present:

Portuguese representative

Dr. Mendes, Bank of Portugal

IMF representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuard
Mrs. Teigeiro

The meeting was convened to clarify a number of outstanding points on external debt, as described below.

1. Data Discrepancies: The discrepancies between capital movement data in the balance of payments series on the one hand and in the debt data series on the other, included an excess of the latter over the former with respect to net external borrowing by the Government during 1978 -- i.e., US \$527 million versus US \$575 million, a difference of US \$48 million. The Portuguese representative pointed out that exchange rate valuation differences between flows and stocks would be a major source of the discrepancy; the debt instruments were denominated in different foreign currencies, though most of them were expressed in US dollars. In addition, the two series were derived from different sources; the series in the BOP table were based on authorization 'bulletins' issued in connection with the approval of the related borrowing; they could therefore be said to be more reliable, since they reflected actual transactions.

As regards the private sector, the debt table showed that medium and long-term external debt (both with and without government guarantee increased by US \$360 million in 1978, whereas the BOP table showed a corresponding figure of US \$212 million for the same year, representing a difference of US \$148 million. In addition to the exchange rate valuation factor already mentioned, possible explanations cited by the Portuguese representative included the fact that the data on the private sector's stock of outstanding external debt included an unknown amount of undisbursed loans. It was also thought possible that part of the discrepancy

was due to possible time-lags between the issuance of authorization bulletins and the actual drawing of the related loans.

On short-term foreign borrowing, the Portuguese representative pointed out that the data on such borrowings with bank guarantee related mainly to the importation of certain essential goods. Concerning the fact that short-term foreign borrowing with bank guarantee fell to US \$618 million in 1978 following a sharp rise from US \$196 million to US \$803 million in 1977, it was believed that this development could be attributed generally to the inclusion of such guarantees within the ceilings agreed with the IMF with respect to the expansion of domestic bank credit.

2. Undisbursed foreign loans and projected disbursements: Data provided by the Portuguese representative showed that, as regards direct foreign borrowing by the public sector, undisbursed loans at the end of 1978 amounted to US \$248 million, of which US \$190 million were administered by the Treasury and US \$58 million by the Junta Nacional do Credito Publico. (Cumulative disbursements of direct Government loans administered through the Treasury amounted to US \$835 million at the end of 1978; the proportion of such loans operated through the Treasury has generally amounted to about 93 per cent). On the basis of a partial reporting of draw-down plans for 1979, it was expected that undisbursed loans outstanding by the end of 1979 would amount to US \$79 million, consisting of US \$51 million at the Treasury and US \$28 million at the Junta. Of the US \$190 million undisbursed foreign loans in Treasury records as of the end of 1978, no firm information on draw-down plans in 1979 was available in respect of US \$106 million. For those loans amounting to \$85 million with a known disbursement schedule, \$34-35 million were expected to be disbursed in 1979, leaving 51 million undisbursed. As for the end-1978 figure of US \$58 million undisbursed foreign loans in the Junta's records, the estimated corresponding figure of US \$28 million for the end of 1979 would imply a projected draw-down on this account, of US \$30 million. Taken together, the known cases of projected draw-down of undisbursed direct government loans during 1979 would thus amount to US \$65 million. The Portuguese representative underlined the fact that loans for which no disbursement schedule was known were related to project-financing, and that the actual rate of draw-down would therefore be related to progress in the execution of the relevant projects. No data were available on projected draw-downs of other undisbursed foreign loans, including those with government guarantees.

3. Debt Service Payments: For 1978, total debt service payments was estimated roughly at US \$748 million, derived as follows (US \$ millions): (A) Interest Payments: (i) Public Sector

(a) Direct Government:	16
(b) Other	: 42
(ii) Bank of Portugal	: 137
(iii) Private Sector	: <u>180</u>
Total:	<u>375</u>

(The figure of US \$180 million for the private sector was derived as a residual, by subtracting the other specified interest payments from the US \$375 million gross payment of factor income in the BOP table).

(B) Amortization Payments: (i) Public Sector

(a) Directo Gov.:	29
(b) Other	: 72
(ii) Private Sector	: <u>272</u>
Total:	<u>373</u>

(The US \$272 million figure for the private sector was also derived as a residual, by subtracting the US \$72 million repayment shown under 'other' in the data for the public sector, from the US \$344 million gross repayments of medium and long-term trade credits and financial loans as given in one of the supporting tables for the BOP series).

In relation to the exports of goods and services in 1978, the estimated overall debt service payments of US \$748 million would yield a debt service ratio of 21 per cent for the year.

For 1979, data provided by the Portuguese representative showed a projected debt service payment of US \$1,477 million, consisting of US \$1,097 million amortization and US \$380 million interest payment. The Portuguese representative agreed that the projected amortization payment of US \$1,007 million of private nonguaranteed debt included the US \$618 million short-term debt with bank guarantee, as reported for the end of 1978; exclusion of the latter amount would leave a projected repayment of medium and long-term private nonguaranteed debt of US \$389 million for 1979.

Added to the projected US \$90 million repayment of direct government and government-guaranteed debt for 1979, this yielded an overall projection of US \$479 million amortization payments on external debt during the year. Attention was drawn to the fact that the projected repayment of US \$389 million in respect of medium and long-term private nonguaranteed debt for 1979 amounted to nearly 30 per cent of the outstanding amount of such debt at the end of 1978, implying an average pay-off period of about three years. Though no particularly strong reason could be adduced for such a comparatively short repayment period, the Portuguese representative thought that the evidence would be consistent with a situation in which the stock of outstanding debt was risen by rather small amounts over time while amortization payments were falling due on old loans. As for the terms (including amortization schedule) of the two consortium loans totaling US \$450 million contracted last year, the Portuguese representative was unable to add much to the already known facts that the original maturity was for seven years and the interest rate, one percentage point over the London inter-bank offer rate (LIBOR).

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 15
Held at the Bank of Portugal
on Friday, February 16, 1979 at 9:30 a.m.

Present:

Portuguese representative

Dr. José Manuel Serrao, Director,
Bank of Portugal
Mr. X.

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

Dr. Serrao described the system of interest rates rebates which, starting in 1976, replaced the system of preferential rediscount rates. Interest rebates are subsidies granted by the Bank of Portugal for short-term agricultural credit, export credit, "financial restoration" and (since last year) housing. In 1977 the Bank of Portugal paid Esc. 807 million in rebates. The largest amount had gone to export credit, Esc. 375 million; the second largest amount to agricultural short-term credit, Esc. 210 million; then investment, Esc. 139 million; and stocks for exports, Esc. 70 million. The system had not been operative for the whole year, however, and in 1978 the total amount of interest rate subsidies rose to Esc. 2,022 million of which 22 per cent went to exports, 32 per cent to agriculture, 18 per cent to investment, 6 per cent to housing, and 2 per cent for working capital of exporters. These subsidies applied to loans amounting to a total of Esc. 74 billion. There was no relationship between loans eligible for interest rebates and loans rediscounted, but to compare magnitudes, in 1978 total rediscounts amounted to Esc. 254 billion. Another way of looking at it is that loans which benefited from interest subsidies represented less than 10 per cent of the total credit granted in 1978.

Turning to the application of the present system, Dr. Serrao said that banks charge immediately the interest rate net of the subsidy then apply for a refund. It was mainly for investment that there had been complaints that the system was complicated and that there had been delays in obtaining a refund. Some changes had been introduced to accelerate payments of the refunds, and it had been suggested that banks should calculate

the refund and present an application even before the loan had been extended. At present the criteria for new investments are: 1) the import content of the investment, which has to be less than 50 per cent and 2) the number of new jobs created. It had been found, however, that the first criterion was too restrictive in the sense that the average investment had an import content of about 50 per cent and the system penalized those projects which included new imported equipment even if they were export-oriented. A new system had therefore been devised and discussed for the funds and it was hoped to be put into effect in the following months.

Mr. X. attempted to describe the new system and only managed to get everybody, including himself, utterly confused. A distinction is now made according to the size of the project. For investments of less than Esc. 25 million, the present system continues more or less to apply. For the larger projects the rebates are linked to the exchange earning potential of the project per worker. Mr. X. said that this was based on the concept devised by Israeli economist, Michael Bruho, which required the use of shadow exchange rates, effective protection rates, etc., but Mr. X. was still incapable of describing it plainly. In addition, certain conditions were placed on the granting of rebates: the share of the equity capital of the firm must exceed 25 per cent and the payment of dividends above a certain level is restricted. Each project is to be evaluated and if it is not found good enough it would not even be eligible for rediscounting.

The calculations of the rebates will be based on 1) the old criterion including import content 2) employment creation and 3) the value added of output. Dr. Serrao said that he expected the new system to be operational within a month and to apply to about 20 to 30 per cent of new bank financed investments and that most of these would come to the Banco do Fomento and the Caixa Geral. He added that for some projects there would be a third category, meaning that the project would be eligible for rediscounting but would get no interest rebate. In order to provide an additional incentive for firms to come forward with projects eligible for interest rate rebates, the scheme was supposed to end in December 1980. Dr. Serrao expected that it provide a strong incentive for certain types of investments. The main limitations were the resources of the Bank of Portugal which had to pay the rebates. In answer to a question Dr. Serrao described the so-called financial restoration contracts which are managed by the Bank of Portugal for the account of the Government. For those companies, mostly companies with state participation or cooperatives with financial problems, the Bank studies them and classifies them in five

groups, depending in what shape they are in. The best group, Group A could receive an interest rate rebate of 5.5 per cent, up to a maximum of 10.5 per cent for Group D. Group E included firms which were not regarded as viable. Assistance included conversion of short-term debt to long-term debt, fiscal exemptions and guarantees from a special fund which was initially to receive a starting capital of Esc. 200 million from the budget but, because of financial difficulties, had received no transfer from the Treasury. Since June-July of last year, however, the fund was receiving the product of the interest rate surcharge on consumer loans and it had extended guarantees for 100 contracts. Dr. Serrao confirmed that the surcharge on consumer loans used to go to a fund financing exchange risk contracts for importers but that these contracts were no longer being drawn up and the fund was used mostly to guarantee exchange risk for exports but it received the gains resulting from the devaluation of the escudo.

Dr. Serrao explained that since last January the system of interest rate rebates was limited to the traded goods sector. In the past there had been a tendency for hotels to retain their foreign earnings. A recent attempt to link short-term credit to sales of foreign exchange to the banking system had proved fairly successful. Dr. Serrao also added that the interest rate rebates could apply to projects with maturity as long as seven to ten years but rebates would be paid for a maximum of 5 years. He also added that the average subsidy amounted to about 5 per cent points.

In answer to a final question, Dr. Serrao said that one major problem at present was the lack of equity capital. One possibility to deal with this problem was to use the resources of the compensation fund which provide guarantees for financial restoration contracts out of the receipts from the surcharge on consumer credit loans. This fund had fairly large resources and could perhaps be used for that purpose.

The meeting adjourned at 11:15 a.m.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 16
Held at the Bank of Portugal
on Tuesday, February 20, 1979 at 3:00 p.m.

Present:

Portuguese representatives

Dr. Cavaco Silva, Bank of Portugal
Dra. Mateus, Bank of Portugal

IMF representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

I. Introduction

The meeting took place in response to the expressed wish of the Portuguese representatives to present calculations showing that the continued depreciation of the escudo in recent years has resulted in more than a restoration of Portugal's international competitiveness to the pre-revolution level.

II. Exchange Rate and International Competitiveness

The Portuguese representatives explained that the Bank of Portugal had made computations of international relative costs, not only vis-à-vis Portugal's main trading partners as a group, but also vis-à-vis its competitors, represented by Greece, Italy, and Spain. Quarterly time-series data provided by the Portuguese representatives showed that, in US dollar terms, the index of labor cost per unit of output had declined in Portugal from a peak of 185 in the third quarter of 1975 (on a base of 1973 = 100) to 129.2 during the third quarter of 1978. During the same period, the corresponding index rose from 141.1 to 175 (same base-year value) for the main trading partners, defined to comprise the Federal Republic of Germany, France the Netherlands, Italy, the United Kingdom, Sweden and the United States. Consequently, the relative cost index for Portugal (with the same base of 1973 = 100) was computed to decline to 73.8 by the third quarter of 1978; the Portuguese representatives added that, according to preliminary estimate, the index stood at 61.6 during the fourth quarter of 1978. Calculations made by the Bank of Portugal on the same basis showed that by the third quarter of 1978, the index of relative cost of production in Portugal had declined to 61.2 vis-à-vis Spain, 52.1 vis-à-vis Greece, and 62.9 vis-à-vis Italy.

On the estimation approach, the Portuguese representatives pointed out that the index of labor costs in the calculations by the Bank of Portugal had been derived from the wage index, non-seasonalized. The series therefore differed from those calculated by the Ministry of Planning, which were based on average annual earnings in industrial employment. The Portuguese representatives stated that this difference of approach did not, however, significantly alter the fact of a marked and continuing improvement in Portugal's international competitiveness. Commenting generally, they noted that Portuguese exporters now readily admitted sizable profit margins and had reported pressures from foreign buyers to lower export prices in view of the favorable effect of exchange rate depreciation on the escudo value of export proceeds. Responding generally to the foregoing presentation, the staff team commented that the direction of change in Portugal's international competitiveness was indeed not in doubt, though differences in estimation approach would affect the computed magnitude of change in the relevant indicators.

III. Other matters: In a follow-up to other questions previously raised, the meeting also touched on the items mentioned below:

(a) The 18 largest public enterprises: The names of these enterprises were given; it was stated that the 18 accounted for 55-60 per cent of total credit outstanding to the public enterprises sector.

(b) Foreign loans to be disbursed in 1979: In addition to information previously provided concerning projected draw-downs of direct public sector foreign loans in 1979, new projected disbursements of US \$145 million for the year were given as follows:

(i)	Banco de Fomento	:	US \$45 million
(ii)	Portuguese Airways (TAP)	:	US \$50 million
(iii)	BRISSA (Highway Construction)	:	US \$50 million

Further disbursements of foreign loans during the year were expected by a number of other public enterprises, but detailed information on these was not yet available.

QUADRO 1

EVOLUÇÃO DA COMPETITIVIDADE

PORTUGAL/EXTERIOR*

(ÍNDICE: 1973 = 100)

PERÍODOS	PORTUGAL			EXTERIOR*	CUSTOS RELATIVOS
	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	C.T.U.P. (U.S.\$.)	
1973	100.0	100.0	100.0	100.0	100.0
1974	137.3	101.7	135.0	112.5	120.0
1975	175.5	97.0	180.9	141.0	128.3
I	175.1	100.0	175.1	139.9	125.2
II	180.6	99.0	182.4	145.8	125.1
III	170.0	91.9	185.0	141.1	131.1
IV	176.3	98.0	180.0	137.1	131.3
1976	175.0	101.6	170.6	135.0	126.4
I	186.6	100.3	174.5	135.9	128.4
II	173.3	102.3	169.4	132.1	128.2
III	170.3	98.3	173.2	134.2	129.1
IV	170.7	105.5	161.8	134.9	120.0
1977	154.8	115.5	134.0	144.4	92.8
I	164.5	111.8	147.1	138.3	106.4
II	151.2	118.9	127.2	141.7	89.8
III	153.7	108.2	142.1	145.6	97.6
IV	151.0	123.4	122.4	151.3	80.9
1978					
I	152.6	124.2	122.9	161.1	76.3
II	146.9	127.9	114.9	165.2	69.6
III	146.2	113.2	129.2	175.0	73.8
IV					61.6

* Exterior: Países que representam em média, entre 1973 e 1976, 58% do nosso comércio externo e são, com indicação do respectivo coeficiente de ponderação: R.F.A. (0.202), França (0.144), Holanda (0.062), Itália (0.077), Reino Unido (0.266)

QUADRO 2

EVOLUÇÃO DA COMPETITIVIDADE

PORTUGAL/ESPANHA

(ÍNDICE: 1973 = 100)

PERÍODOS	PORTUGAL			ESPANHA			CUSTOS RELATIVOS
	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	
1973	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1974	137.3	101.7	135.0	134.7	108.9	123.7	109.1
1975	175.5	97.0	180.9	176.7	104.3	169.4	106.8
I	175.1	100.0	175.1	158.5	98.3	161.2	108.6
II	180.6	99.0	182.4	166.0	102.9	161.3	113.1
III	170.0	91.9	185.0	190.0	103.1	184.3	100.4
IV	176.3	98.0	180.0	184.9	113.1	163.5	110.1
1976	175.0	101.6	170.6	182.9	112.7	162.3	105.1
I	186.6	100.3	174.5	162.9	104.8	155.4	112.3
II	173.3	102.3	169.4	167.9	113.0	148.6	114.0
III	170.3	98.3	173.2	203.9	113.8	179.2	96.7
IV	170.7	105.5	161.8	195.6	121.9	160.5	100.8
1977	154.8	115.5	134.0	213.0	120.1	177.4	75.5
I	164.5	111.8	147.1	195.7	117.6	166.4	88.4
II	151.2	118.9	127.2	212.9	119.1	178.8	71.1
III	153.7	108.2	142.1	224.9	120.1	187.3	75.9
IV	151.0	123.4	122.4	215.4	123.6	174.3	70.2
1978							
I	152.6	124.2	122.9	234.9	127.1	184.8	66.5
II	146.9	127.9	114.9	262.9	123.8	212.4	54.1
III	146.2	113.2	129.2	268.9	127.3*	211.2	61.2

* Valor estimado

QUADRO 3

EVOLUÇÃO DA COMPETITIVIDADE

PORTUGAL/GRÉCIA

(ÍNDICE 1973 = 100)

PERÍODOS	PORTUGAL			GRÉCIA			CUSTOS RELATIVOS
	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	
1973	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1974	137.3	101.7	135.0	124.9	97.1	128.6	105.0
1975	175.5	97.0	180.9	144.7	100.6	143.8	125.8
I	175.1	100.0	175.1	137.3	98.7	139.1	125.9
II	180.6	99.0	182.4	149.5	101.1	147.0	124.1
III	170.0	91.9	185.0	143.3	98.1	146.1	126.6
IV	176.3	98.0	180.0	148.1	102.8	144.1	124.9
1976	175.0	101.6	170.6	164.2	104.6	157.0	108.7
I	186.6	100.3	174.5	153.8	101.8	151.1	115.6
II	173.3	102.3	169.4	160.5	106.7	150.4	112.6
III	170.3	98.3	173.2	168.4	100.8	167.1	103.7
IV	170.7	105.5	161.8	173.8	108.3	160.5	100.8
1977	154.8	115.5	134.0	197.0	101.3	194.5	68.9
I	164.5	111.8	147.1	181.4	101.3	179.1	82.1
II	151.2	118.9	127.2	194.5	100.2	194.1	65.5
III	153.7	108.2	142.1	202.8	99.1	204.6	69.5
IV	151.0	123.4	122.4	210.9	104.0	202.8	60.4
1978							
I	152.6	124.2	122.9	226.2	103.0	219.6	56.0
II	146.9	127.9	114.9	238.5	108.0	220.8	52.0
III	146.2	113.2	129.2	250.5*	101.1	247.8	52.1

* Valor estimado

QUADRO 4

EVOLUÇÃO DA COMPETITIVIDADE

PORTUGAL/ITÁLIA

(ÍNDICE 1973 = 100)

PERÍODOS	PORTUGAL			ITÁLIA			CUSTOS RELATIVOS
	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	SALÁRIOS (U.S.\$.)	PRODUTIVIDADE	C.T.U.P. (U.S.\$.)	
1973	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1974	137.3	101.7	135.0	107.7	100.4	107.2	125.9
1975	175.5	97.0	180.9	137.3	91.0	150.9	119.9
I	175.1	100.0	175.1	132.6	91.5	155.2	112.8
II	180.6	99.0	182.4	142.0	91.4	155.4	117.4
III	170.0	91.9	185.0	137.8	87.1	158.2	116.9
IV	176.3	98.0	180.0	137.0	94.0	145.7	123.5
1976	175.0	101.6	170.6	130.3	101.9	128.2	133.1
I	186.6	100.3	174.5	124.6	98.9	126.0	138.5
II	173.3	102.3	169.4	121.2	103.6	117.0	144.8
III	170.3	98.3	173.2	136.7	100.0	136.7	126.7
IV	170.7	105.5	161.8	138.4	105.5	131.2	123.3
1977	154.8	115.5	134.0	156.4	108.9	143.6	93.3
I	164.5	111.8	147.1	144.5	116.3	124.2	118.4
II	151.2	118.9	127.2	153.2	107.9	142.0	89.6
III	153.7	108.2	142.1	161.6	105.4	153.3	92.7
IV	151.0	123.4	122.4	167.9	106.2	158.1	77.4
1978							
I	152.6	124.2	122.9	176.3	109.8	160.6	76.5
II	146.9	127.9	114.9	182.2	109.8	165.9	69.3
III	146.2	113.2	129.2	195.9	108.8	180.1	62.9

Evolução da competitividade externa da indústria transformadora portuguesa

	Índices de Produtividade do Trabalho					Índices de salários nominais					Índices de custo em trabalho por unidade produzida (CIUP)					Índices de taxa de câmbio relativamente ao US\$					Índices do CIUP corrigido pelo efeito da taxa de câmbio					Evolução da competitividade externa				
	Portugal (1)	Espanha (2)	Grécia (3)	Itália (4)	Países Unidos (5)	Portugal (1)	Espanha (2)	Grécia (3)	Itália (4)	Países Unidos (5)	Portugal (1)	Espanha (2)	Grécia (3)	Itália (4)	Países Unidos (5)	Portugal (1)	Espanha (2)	Grécia (3)	Itália (4)	Países Unidos (5)	Portugal (1)	Espanha (2)	Grécia (3)	Itália (4)	Países Unidos (5)	Espanha (2)	Grécia (3)	Itália (4)	Países Unidos (5)	
1972	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
1973	110,4	110,9	108,7	107,7	108,2	119,8	119,2	112,9	123,7	114,0	108,5	107,5	104,2	114,9	105,4	91,3	90,6	98,8	100,0	98,0	118,8	118,7	105,2	114,9	103,3	100,0	112,9	100,0	115,0	
1974	112,5	114,5	105,7	109,0	105,6	168,6	151,1	143,6	151,0	130,9	149,9	126,4	135,7	139,8	124,0	94,1	89,8	100,0	111,5	93,5	159,3	140,8	135,9	125,4	115,0	111,0	117,2	100,0	137,4	
1975	107,9	108,8	100,9	97,0	103,8	226,8	196,0	174,0	193,4	169,6	210,4	190,9	160,0	126,3	162,4	94,6	89,3	107,6	111,9	88,0	222,4	202,6	143,3	175,4	144,2	100,0	149,0	100,0	154,2	
1976	112,3	120,1	113,8	111,0	103,4	263,1	256,2	221,4	230,7	202,0	234,3	213,3	194,0	207,0	186,3	111,9	104,1	121,9	142,7	72,2	209,4	204,9	159,6	145,5	124,5	100,0	131,2	100,0	135,7	
1977	125,1	136,4	110,6	118,2	107,9	303,7	313,3	262,0	235,0	213,3	262,8	229,7	235,8	248,3	190,1	141,7	118,2	122,8	151,3	69,9	171,3	194,3	192,9	104,1	138,3	100,0	89,8	100,0	123,9	
1976 IV	100,0		100,0	100,0	100,0	100,0		100,0	100,0	100,0	100,0		100,0	100,0	100,0		100,0	100,0	100,0	100,0		100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	
1977 I	102,9		96,6	111,0	100,4	105,2		103,0	106,0	101,2	102,3		106,6	96,2	100,8	108,9		100,6	102,3	103,0	93,1		105,0	94,0	104,6		87,8	100,0	89,9	
II	106,7		92,4	101,4	98,3	109,5		108,9	112,7	102,2	102,6		117,9	112,1	104,0	123,2		100,0	102,7	104,1	83,3		117,9	109,2	109,3		70,7	100,0	76,9	
III	107,2		93,4	99,0	98,5	112,6		110,3	119,7	104,4	105,0		118,1	120,9	106,0	124,9		99,7	102,3	105,1	84,1		119,7	119,2	111,4		70,3	100,0	75,5	
IV	111,0		94,6	98,9	97,7	113,9		115,3	123,6	104,0	101,8		121,9	125,0	106,4	128,8		97,3	101,9	108,9	79,0		125,3	122,8	116,9		62,0	100,0	67,6	
1978 I	114,1		96,9	104,5	99,3	115,8		125,1	127,9	106,0	101,5		126,5	122,4	106,7	128,4		97,7	99,9	116,7	79,0		129,5	122,5	124,5		61,0	100,0	63,5	
II	114,7		97,9	107,3	100,6	118,8		135,7	132,1	123,6	103,6		138,6	123,1	122,9	140,2		99,5	100,0	111,1	73,9		139,3	123,1	136,5		53,1	100,0	54,1	
III	112,0		-	-	-	123,0		-	-	-	108,6		-	-	-	144,4		-	-	-	75,0		-	-	-		-	-	-	
IV																														

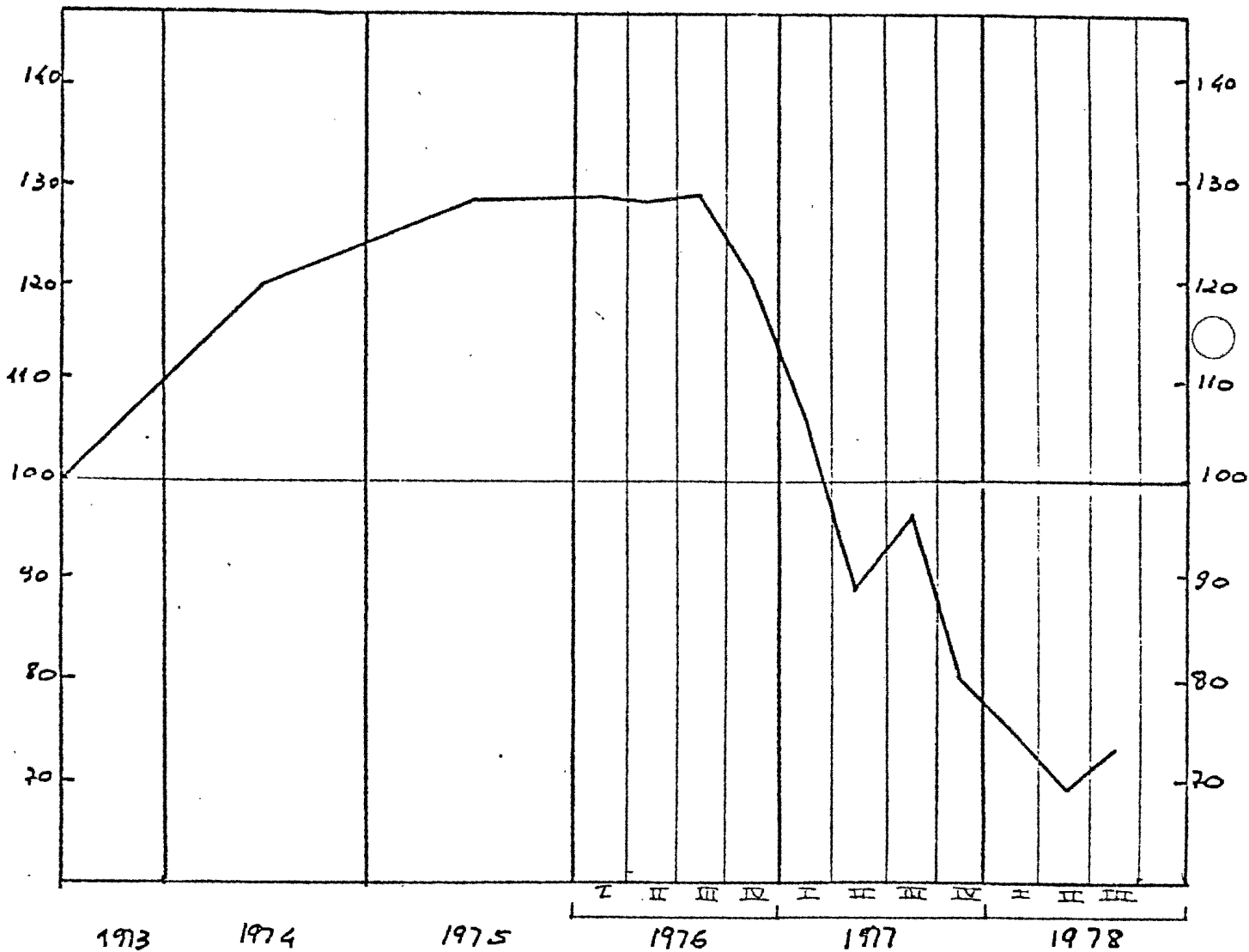
NOTAS EXPLICATIVAS

- PORTUGAL** - Índices de produção industrial (indústrias transformadoras): IIE, Boletim Mensal de Estatística. Os índices anuais são a média aritmética simples dos índices mensais corrigidos dos dias úteis; os índices trimestrais encontram-se corrigidos da sazonalidade (teste de simulação de ciclo económico) - Índices de emprego do Ministério do Trabalho: Referem-se a trabalhadores por conta de outrem e são obtidos por Inquérito a empresas com 10 e mais trabalhadores ao serviço. Os índices anuais foram obtidos por média aritmética ponderada dos índices de cinco trimestres consecutivos. Os índices trimestrais referem-se aos valores no fim do trimestre. - Índices de salários: Os índices anuais referem-se a ganhos médios anuais (Estatísticas Industriais), ponderados com o emprego global. Os índices trimestrais referem-se a salários diários da indústria e construção (Continente)-IIE - Taxa de câmbio relativamente ao dólar (rf): International Financial Statistics (IFI)
- ESPAÑA** - Índices de produção industrial: COCE - Industrial Production - Índices de emprego: COCE - Labor Force Statistics, Paris, 1976. Referem-se à população activa com profissão na indústria transformadora, 1974 a 1977: COCE - Índices Económicos, (Espanha), maio de 1979. Referem-se ao valor médio da população activa com profissão na indústria. - Índices de salários: Perspectivas Económicas do Iº COCE. Referem-se a ganhos horários na indústria transformadora. - Taxa de câmbio relativamente ao dólar (rf): International Financial Statistics (IFI)
- GRÉCIA** - Índices de produção industrial: COCE - Industrial Production - Índices de emprego: COCE - Main Economic Indicators. Referem-se aos trabalhadores por conta de outrem na indústria transformadora (empresas com 10 e mais trabalhadores ao serviço) - Índices de salários: COCE - Main Economic Indicators. Referem-se a ganhos horários dos operários da indústria transformadora (empresas com 10 e mais trabalhadores ao serviço). Foram convertidos em salários semanais tendo em conta a duração semanal do trabalho. - Taxa de câmbio relativamente ao dólar (rf): International Financial Statistics (IFI)
- ITÁLIA** - Índices de produção industrial: COCE - Industrial Production - Índices de emprego: COCE - Main Economic Indicators. Referem-se aos trabalhadores por conta de outrem na indústria transformadora e é obtido por inquérito por amostragem efectuado à primeira semana de trabalho de cada trimestre. A partir de 1974 inclui a construção. - Índices de salários: COCE - Main Economic Indicators. Referem-se a salários horários na indústria transformadora. Foram convertidos em ganhos semanais tendo em conta a duração semanal do trabalho. - Taxa de câmbio relativamente ao dólar (rf): International Financial Statistics (IFI)
- PAÍSES UNIDOS** - Índices de produção industrial: COCE - Industrial Production - Índices de emprego: COCE - Main Economic Indicators. Referem-se aos trabalhadores por conta de outrem na indústria transformadora. Os valores anuais referem-se ao mês de maio. - Índices de salários: COCE - Main Economic Indicators. Referem-se a ganhos horários. Foram convertidos em ganhos semanais tendo em conta a duração semanal do trabalho. - Taxa de câmbio relativamente ao dólar (rf). Ao contrário dos outros países, exprime o preço, em dólares, da libra esterlina. International Financial Statistics (IFI)

EVOLUÇÃO DA COMPETITIVIDADE

PORTUGAL / EXTERIOR (1)

(TODOS OS ÍNDICES EXPRESSOS EM U.S.\$)



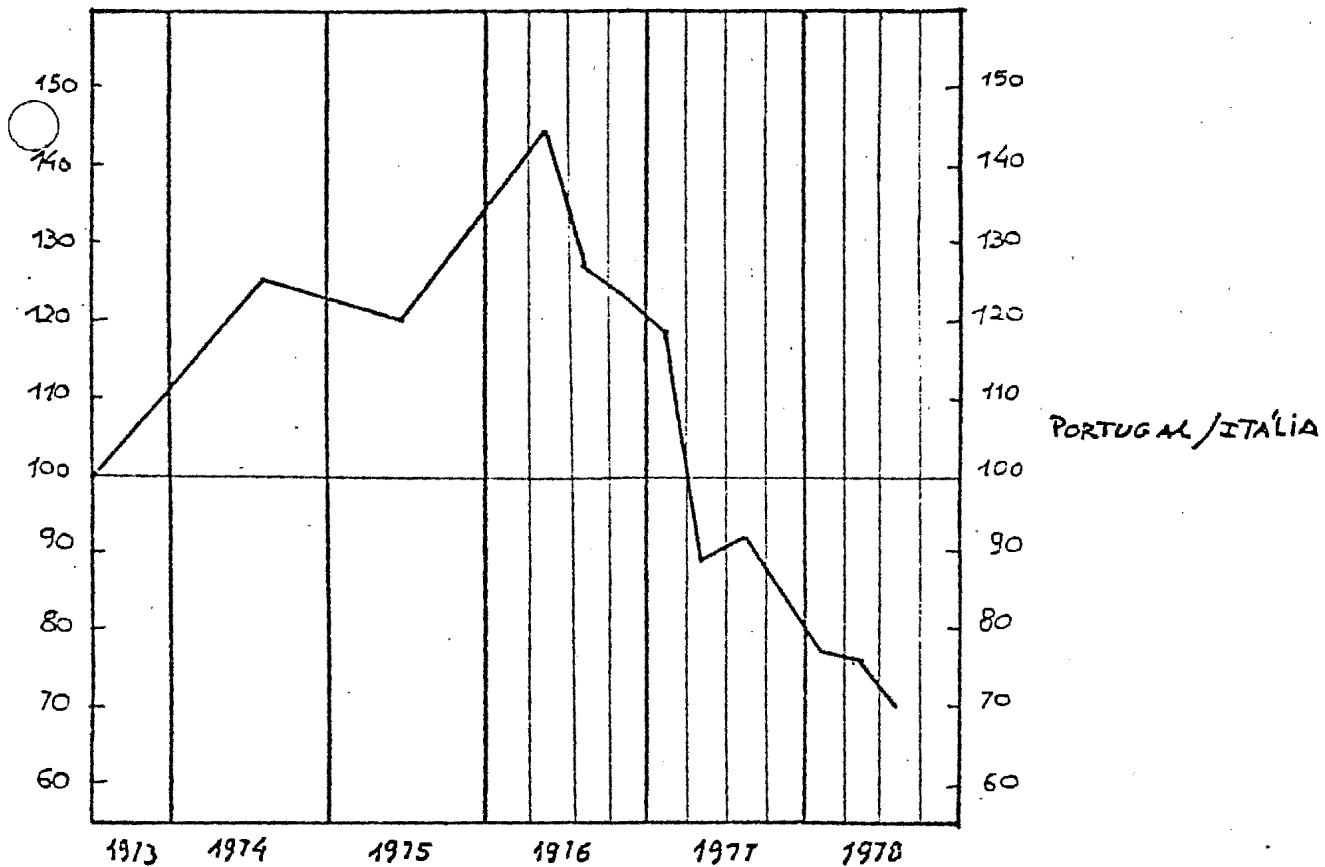
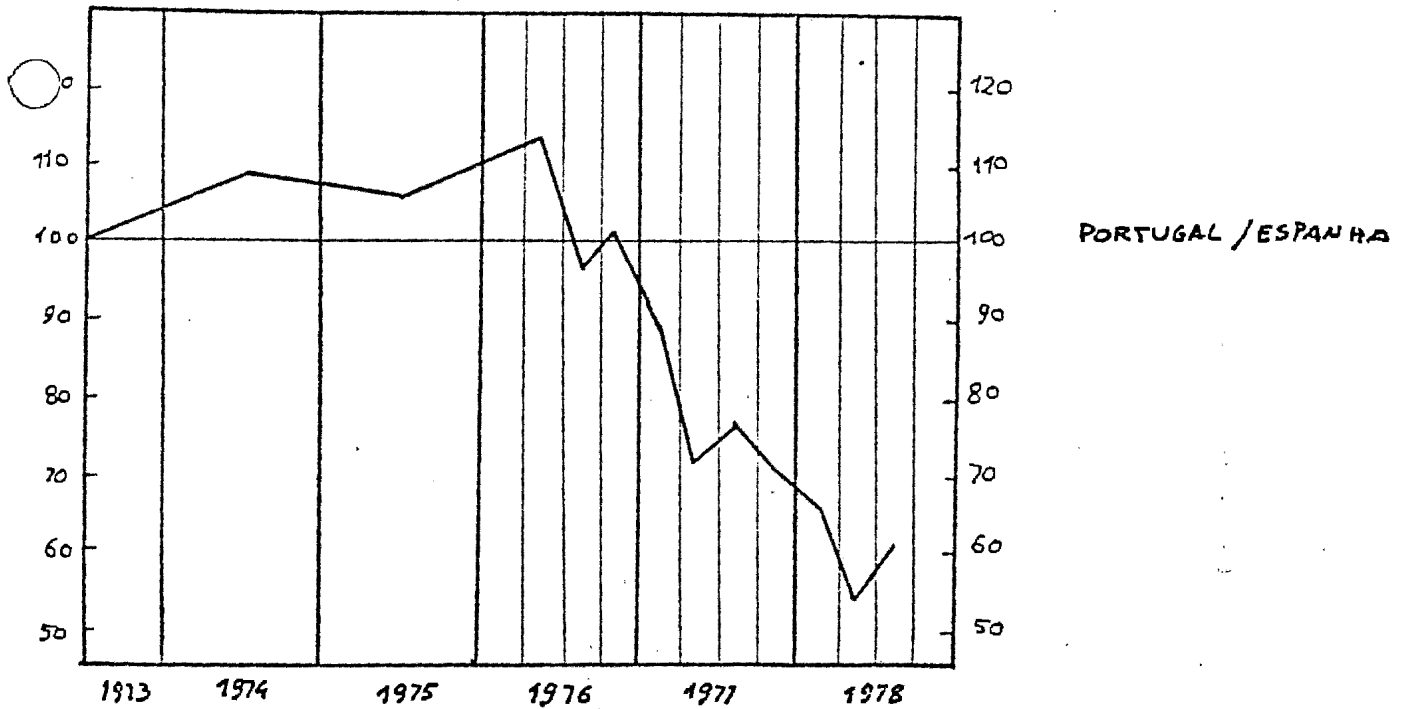
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SUBIDA DOS "RATIOS" - PERDA DE COMPETITIVIDADE DA ECONOMIA PORTUGUESA

DESCIDA DOS "RATIOS" - GANHOS DE COMPETITIVIDADE DA ECONOMIA PORTUGUESA

"RATIOS" = 100 - NÍVEL DE COMPETITIVIDADE EXISTENTE EM 1973

EVOLUÇÃO DA "COMPETITIVIDADE"
 PORTUGAL / PAÍSES COMPETIDORES
 (TODOS OS ÍNDICES SÃO EXPRESSOS EM U.S.\$)



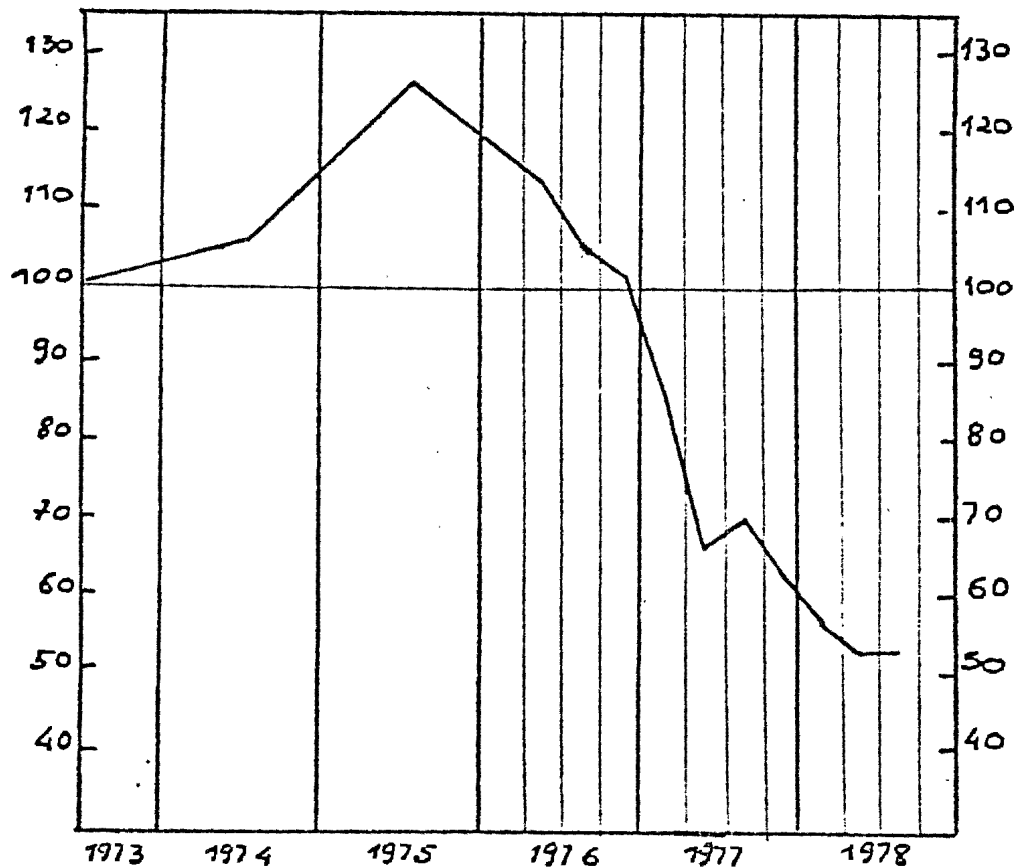
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 "RATIOS" = 100 - NÍVEL DE COMPETITIVIDADE EXISTENTE EM 1973

EVOLUÇÃO DA COMPETITIVIDADE ⁽¹⁾

PORTUGAL / PAÍSES COMPETIDORES

(TODOS OS ÍNDICES SÃO EXPRESSOS EM U.S.\$)

PORTUGAL / GRÉCIA



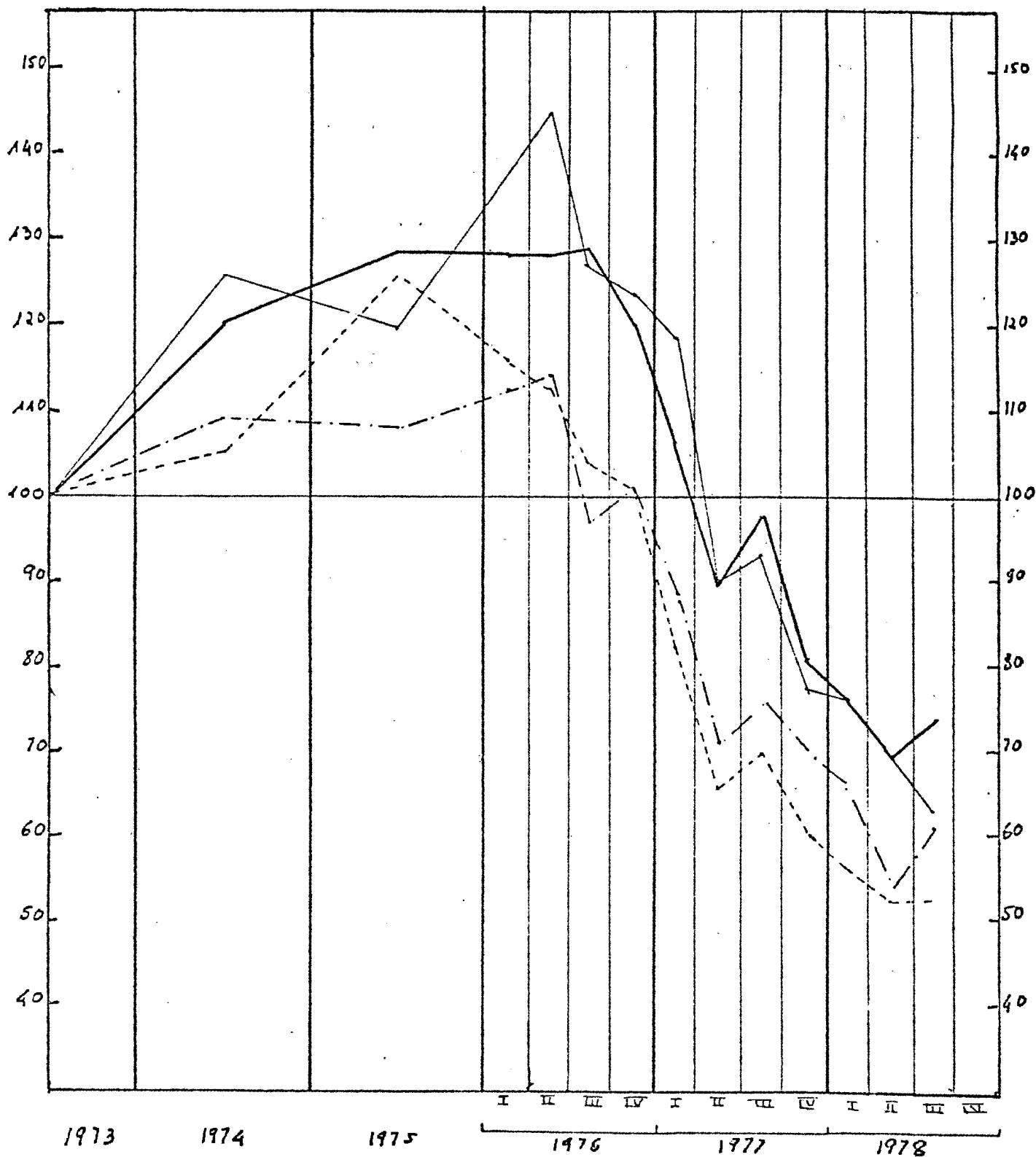
- (1) SUBIDA DOS "RATIOS" = PERDA DE COMPETITIVIDADE DA ECONOMIA PORTUGUESA
DESCIDA DOS "RATIOS" = GANHOS DE COMPETITIVIDADE DA ECONOMIA PORTUGUESA
"RATIOS" = 100 - NÍVEL DE COMPETITIVIDADE EXISTENTE EM 1973

EVOLUÇÃO DA COMPETITIVIDADE (1)

EXTERNA PORTUGUESA

(TODOS OS ÍNDICES EXPRESSOS EM U.S.\$)

— PORTUGAL / "EXTERIOR"
 — PORTUGAL / ITÁLIA
 - - - PORTUGAL / GRÉCIA
 — PORTUGAL / ESPANHA

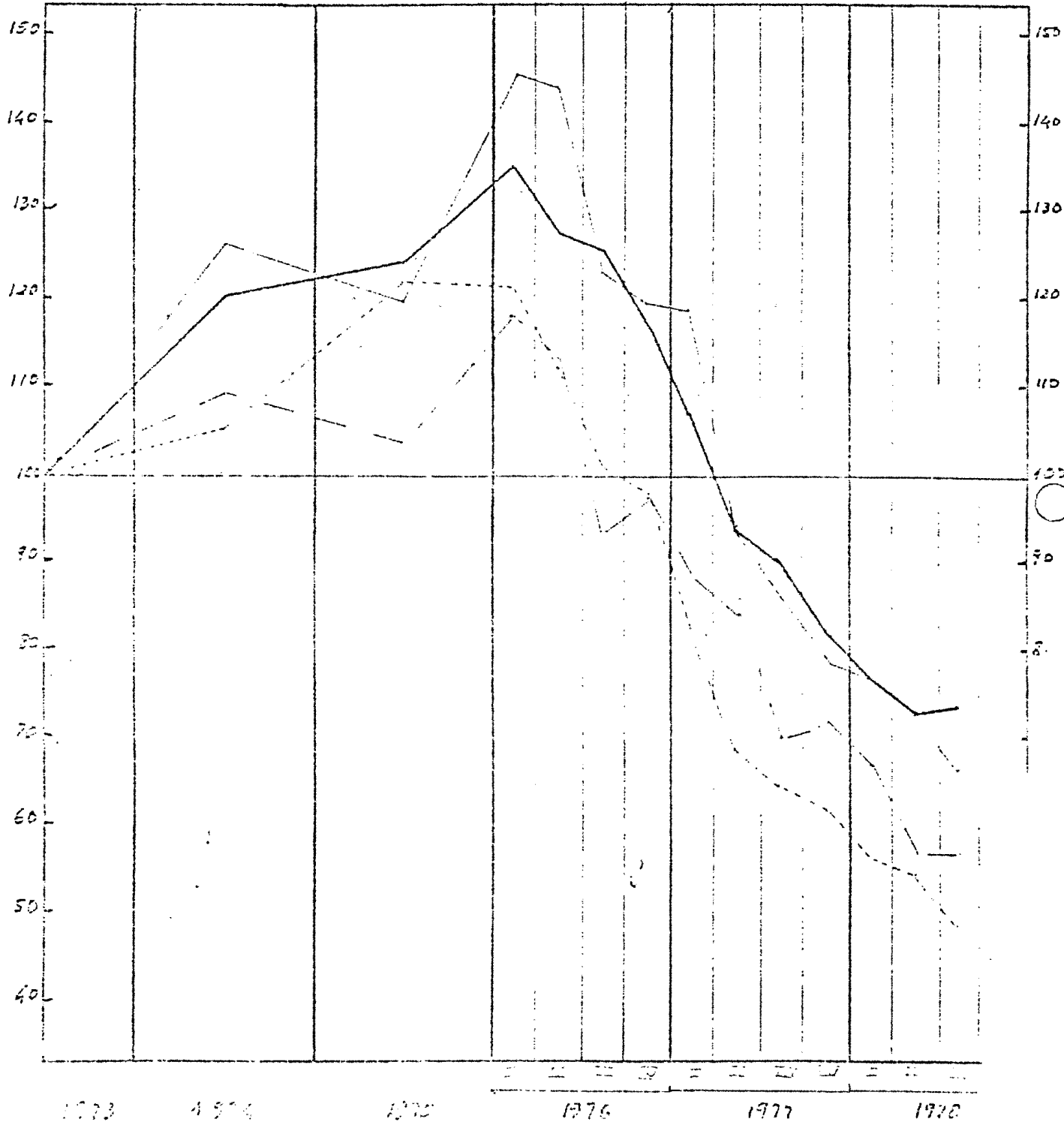


(1) SUBIDA DOS "RATIOS" = PERDA DE COMPETITIVIDADE DA ECONOMIA PORTUGUESA
 DESCIDA DOS "RATIOS" = GANHOS DE COMPETITIVIDADE DA ECONOMIA PORTUGUESA
 "RATIOS" = 100 - NÍVEL DE COMPETITIVIDADE DA EUROM

EVOLUÇÃO DA COMPETITIVIDADE EXTERNA PORTUGUESA (1)

(Todos os índices expressos em u.s.\$)

- PORTUGAL / "EXTERIOR"
- PORTUGAL / ITÁLIA
- - - PORTUGAL / GRÉCIA
- - - PORTUGAL / ESPANHA



1. Índice de competitividade externa (competitividade externa)

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 17
Held at the Bank of Portugal
on Tuesday, February 20, 1979 at 5:30 p.m.

Present:

Portuguese representatives

Fund representatives

Dr. José da Silva Lopes, Governor of
the Bank of Portugal
Dr. Rui Vilar, Vice Governor of the
Bank of Portugal
Dr. Victor Constancio, Vice Governor of
the Bank of Portugal
Dr. Pinto, Vice Governor of the
Bank of Portugal
Dr. Cavaco Silva
Dr. Saldanha do Valle

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

At this meeting, Mr. de Fontenay presented a document which outlined the staff team's preliminary approach to the programming exercise for 1979 which he emphasized was only a working document. It had not yet been possible for the staff team to have a detailed look at the budget, which was why the document was being presented to the Bank of Portugal rather than the Minister of Finance and Planning. Mr. de Fontenay recognized that the mission was taking a risk by putting forth a proposal without the benefit of having the views of the Portuguese representatives regarding 1979. He hoped that the presentation of the document would accelerate the pace of discussions, as the staff team review of 1978 had been completed almost one week ago. He saw the program being proposed as reasonable, emphasized that it should not be read as a bargaining position, and hoped that the discussion of the program would not be a confrontation. As he had indicated at the meeting opening the negotiations, the Fund and the Portuguese authorities had the same goal in mind -- a sustained improvement in the economic situation in Portugal.

The external current account target was for an improvement to a deficit of US \$800 million. The program for credit expansion allowed plenty of room in the early part of 1979, as well as for the year as a whole, to allow a recovery from the present low level of activity. On average, the growth in M2 in 1979 would exceed 24 per cent, which if anything was on the high side given a target rate of inflation of 13 per cent. The public sector subceiling was based on earlier discussions and a reading of the budget document presented to Parliament

last week and assumed a balanced current account budget and an overall deficit of 7 per cent of GDP. The type of ceilings that would be included in the program were roughly the same as in the previous program, with two exceptions. Due to the concern about the financial situation of public enterprises and the need for improvement, the public enterprises should be included in the credit subceiling on the public sector. In addition, any foreign borrowing in excess of an amount agreed in the preparation of the program would be deducted from the credit subceiling of the expanded public sector.

The details of the program included a reduction in the external current account deficit to US \$800 million or 4 per cent of GDP. The volume of exports of goods and services would rise by 9 per cent while imports of goods and services would rise by 2 per cent. The macroeconomic projections consistent with this external target included a rate of price increase during 1979 of 18 per cent and a growth in real output through the year of 3 per cent. The choice of programming in through the year terms had been made due to the difficulty of saying exactly what the profile of activity had been in 1978. Given the slowdown that had occurred during 1978, the 3 per cent growth through the year implied an average for 1978 of somewhat less. It was regarded as necessary that public and private consumption be kept constant in real terms allowing gross fixed capital formation to rise by 4 per cent. Thus, growth would come entirely from exports and investment. The money and credit projections would have to be revised as more information becomes available on the public enterprises' borrowing program. The distinction between public enterprises and the traditional public sector was only for exposition; in the final program the two would be combined under one sub-ceiling. The proposals for revising the exchange and trade system were included in the appendix to the document, and would involve further progress in the relaxation of restrictions begun in 1978. There was no discussion of the exchange rate because change in present policy of the order of magnitude that could be considered reasonable would not seriously affect the projections for 1978. In summary, Mr. de Fontenay emphasized that the program being proposed was designed to give some room for a recovery in 1979 in line with the goals of the previous program of reducing the rate of inflation and the balance of payments deficit. It would avoid a premature relaxation of policy; given the present high level of liquidity in the economy it would be very dangerous if expectations were to change for the worse.

Mr. de Fontenay asked how the negotiations should proceed. This outline had been provided as a catalyst to the discussions and it was hoped that the Portuguese representatives would present their own thoughts on the various issues that had been raised and not only their reaction to the specific proposals. Dr. Silva Lopes indicated that the program outline would facilitate their own work and speed up the discussions. The proposals would have to be studied; it was already apparent that on the basis of their projections there were

some differences of opinion but these were not as large as some people might think. He was concerned about the consistency of the proposal with a reduction in the rate of inflation to 18 per cent and also whether the 2 per cent growth target was consistent with a current account target of US \$800 million. On the question of scheduling, there was a problem as both he and Dr. Constancio would be away from Lisbon for a few days although it would be possible to meet the next day, Wednesday, February 21, to present some preliminary reactions. In the following days the budget could be discussed in detail and discussions on the exchange and trade system could begin.

Dr. Constancio argued that the assumption of no significant change in exchange rate policy was inconsistent, given likely world trade price developments, with the price objectives of the program. Mr. de Fontenay replied that the 18 per cent through the year rate of increase in prices was built up from an 18 per cent increase in wages, a 16 per cent through the year rate of depreciation and a 2-3 per cent increase in world market prices. Dr. Silva Lopes countered that all forecasts, including the OECD and UNCTAD (for raw material prices), showed a major acceleration in prices. Dr. Constancio also questioned the consistency of a rate of inflation through the year of 18 per cent and an average increase for 1979 of only 19 per cent, given that the rate of inflation at the end of 1978 was 25 per cent. The staff representatives replied that the forecast for world prices used in their working document was based on a detail forecast made for each country in connection with the Fund's world economic outlook exercise. On the latter point raised by Dr. Constancio, Mr. Stuart indicated that given the unpredictable pattern of price increases during the year, the factors affecting price increases on average and through the year had been used in the forecasts. The two results were not necessarily inconsistent.

Dr. Constancio noted that the subceiling on credit to the 18 largest public enterprises would reduce their share of credit from 13 per cent in 1978 to only 10 per cent in 1979 and asked about the reasoning behind this. He stressed that a ceiling on total credit (domestic plus foreign) to these enterprises would be a very difficult point in the negotiations as important investments of these firms (particularly the electric company, the fertilizer company and perhaps the steel company) were to be implemented. He saw the limitation of total credit as an inadequate instrument for controlling the operating losses of these corporations. Dr. Silva Lopes noted that as most of the foreign borrowing of the economy was done by the public sector and public enterprises, a ceiling on their borrowing was essentially an overall debt ceiling. In reply to these points, Mr. de Fontenay indicated that the very preliminary figure in the monetary survey for credit to the public enterprises took into account the increase of Esc. 6 billion in capital transfers from the budget to the public enterprises. He emphasized that there was no intention to stop foreign borrowing or investment spending by these firms, but to make sure the borrowing and investment which was undertaken was consistent with the remainder of the program.

Mr. Constancio asked what assumptions on interest rate levels were included in the program. Mr. de Fontenay indicated that the zero change in velocity that had been assumed precluded any change in deposit rates.

Outline of Program for 1979

The objective of the program is to achieve a further reduction in the current account deficit of the balance of payments and in the rate of inflation, while maintaining a positive rate of growth for the economy. In view of the fact that the deficit and the rate of inflation remain excessive, a premature relaxation of past year's stabilization efforts would be unadvisable despite the progress achieved last year. Any policy action which could be interpreted as likely to lead to an acceleration of the rate of inflation and exchange rate depreciation could, given the large increase in liquidity in the economy, have disastrous consequences, including pressures on the exchange rate. Another objective of the program is to attain a better allocation of the stabilization effort between the public sector, including public enterprises, and the private sector. In 1978, the former did not contribute at all to the reduction of dissaving in the economy. In 1979, the public sector should make a positive contribution to the savings effort and reduce its claim on financial resources. Finally, further progress should be made in reducing restrictions on trade and payments.

In quantitative terms, the targets of the program should be a reduction in the current account deficit of the balance of payments to not more than \$800 million; a reduction in the rate of inflation to not more than 18 per cent; and a rate of growth of real GDP of 3 per cent during 1979. The policy instruments used to achieve these targets are the same as in last year's program with minor adaptations. The detail of the program is described in the attached four tables. These should be regarded, however, as no more than a preliminary attempt to present the program in a consistent framework.

Tables 1-2 show balance of payments and national accounts projections. It should be noted that for the purpose of financial programming, given the uncertainties on the course of the economy in the last quarter of 1978, all projections are made from end-78 to end-79. In Table 2, however, average rates of change are shown. Thus the objective of a 3 per cent growth rate during 1979 translates into an average growth rate of about 2 per cent.

Table 3 presents the budget of the traditional public sector which would be consistent with the objective of stabilizing both private and public consumption in real terms: this requires

roughly that current receipts match current expenditures. While this represents apparently a considerable effort compared with 1978 results, one must view most of the 9 million contos of extraordinary appropriations in December 1978 as expenditures which would normally have taken place in 1979 and should therefore be subtracted from the 1978 budget and added to the 1979 budget. Therefore, while it may appear that the required change is from a current deficit of 26 million contos in 1978 to equilibrium in 1979, this represents in actuality a shift from a deficit of about 17 million contos in 1978 to one of about 9 million contos in 1979.

Table 4 is a preliminary outline of the monetary and credit targets. It shows for 1979 a further reduction in the rate of growth of money and credit, in line with the lower rate of growth of nominal income and expenditure. By comparison with the 1978 program the two main differences are: 1) the inclusion of public enterprises in the public sector subceiling in order to avoid that they pre-empt an excessive share of the overall permissible credit expansion, possibly to finance current expenditures. Due to data limitations, credit to only 18 public enterprises is shown in the table but it is hoped eventually to include credit to all public enterprises; 2) foreign borrowing by the public sector in excess of the amount agreed in the program will be counted against the credit ceiling. Figures given in the table for the public sector may need to be revised after discussion of the foreign borrowing prospects for 1979.

Appendix 1 summarizes proposals on restrictions.

Table 1. Portugal: Balance of Payments 1977-1979

(In millions of US dollars)^{1/}

	1977 Estimate	1978	1979 Projection
Exports of goods and services	2,890	3,513	4,060
Unit value		6	6
Volume		15	9
Imports of goods and services	5,344	5,713	6,175
Unit value		6	6
Volume		1	2
Balance of trade and nonfactor services	<u>-2,454</u>	<u>-2,200</u>	<u>-2,115</u>
Investment income	-179	-327	-415
Private transfers	<u>1,134</u>	<u>1,585</u>	<u>1,730</u>
Current account	-1,499 (9)	-942 (5)	-800 (4)
Memo:			
Growth in Foreign Markets	3.4	4.1	4.8

Sources: Data provided by the Portuguese authorities and staff projections.

^{2/} Numbers in brackets are percentage of GDP.

Table 2. Portugal: National Accounts 1978-79

(In billions of escudos)

	1978	1979		1978 Prices	1979 Prices
		Price deflator Percentage	Volume Increase		
Private Consumption	581	19.2	--	581	692
Public Consumption	112	18.0	--	112	133
Investment	<u>184</u>	<u>19.2</u>	<u>3.8</u>	<u>191</u>	<u>228</u>
Fixed capital	161	19.2	4.3	168	200
Stocks	23	19.2	--	23	28
Domestic expenditure	877	19.1	0.7	884	1,053
Exports of goods and services	155	20.0	9.0	169	203
Import using expenditure	1,032	19.3	2.0	1,053	1,256
Imports of goods and services	250	20.0	2.0	255	306
Gross domestic product	782	19.0 20.0	2.0	798	950

Table 3. Portugal: Public Sector Budget 1978-79

(In billions of escudos)^{1/}

	1978 Estimate	1979 Program
Current receipts on basis of no tax changes	210.5	257.6
Tax Effort		16.9
Current receipts	210.5	274.5
Current expenditures	<u>236.6</u>	<u>274.5</u>
Goods and Services	112.4	133.0
Subsidies and Transfers	101.7	107.5
Interest on Public Debt	22.5	34.0
Current balance	<u>-26.1</u>	<u>--</u>
Capital receipts	3.4	4.0
Capital Expenditure	57.2	66.0
Other treasury operations, net	-4.1	-5.0
Overall balance	-84.0 (-10.7)	-67.0 (-7.0)

^{1/} Numbers in brackets are percentages of GDP.

Table 4. Portugal: Monetary Projections

(Changes in billions of escudos)

	End period stock		1978	1979				1979
	1978			I	II	III	IV	
	III ^{1/}	IV ^{2/}						
Net foreign assets ^{3/}	-34.8	-18.0	13.6	--	--	5.1	-5.2	--
Money stock	666.0	728.0	160.6	28.0	27.0	45.5	56.0	153.5
Other items, net	126.8	138.1	28.6	--	--	--	--	--
Domestic credit ^{4/}	827.6	884.1	175.5	28.0	27.0	40.4	61.2	156.5
Public sector	156.6	171.5	48.2	13.0	7.0	7.0	18.0	45.0
Public enterprises ^{5/}	106.7	114.6	22.9	3.0	4.0	4.5	5.4	16.9
Private sector	564.3	598.0	104.4	12.0	16.0	28.9	37.8	94.6
Memorandum items:								
Domestic credit expansion as a percentage of initial M2	36.1	30.9		28.8	24.2	22.8	21.5	
Annual percentage change in M2	26.4	28.3		27.0	26.1	24.4	21.5	
Quarterly change in deseasonalized M2 ^{6/}	6.7	5.5		6.3	5.4	5.3	3.5	

Source: Staff projections.

^{1/} Actual.^{2/} Staff projection.^{3/} Excluding valuation adjustment and assuming average quarterly US \$/Escudo exchange rates for 1979 of: 46.884, 48.666, 50.515, 52.435.^{4/} Including uncollectable debts.^{5/} Eighteen enterprises only.^{6/} Bank of Portugal adjustment factors.

Portugal: Measures Concerning the Exchange and Trade System (1979)1. Remittances of Profits and Dividends

- a. The waiting period resulting from the phasing of these remittances averaged 58 days in January 1979; this should be reduced further to the point where it could be attributed entirely to administrative factors.
- b. The basic objective should be the restoration of prompt payments, defined as not involving a delay beyond one or two days.
- c. Procedurally, discontinuation of the present practice of phasing these remittances, need not involve a change in the relevant section of the Investment Code (i.e., Article 14, Section 2 of Decree-Law No. 348 of August 24, 1977); it can be done through a Central Bank circular to the banks, granting general authorization for such remittances to be effected in all bona fide cases.

2. Import Surcharges(i) The 20 per cent surcharge:

- a. It is important to adhere to the declared timetable of phasing out this surcharge by the beginning of October 1979.
- b. It is understood that an alternative measure being contemplated is in the form of a replacement of the surcharge by a general import tariff on the relevant items, following agreement with the EEC.

(ii) The 60 per cent surcharge:

- a. It is also important to make progress towards the declared objective of replacing this surcharge with alternative measures, beginning in early 1979.
- b. As a minimum, a beginning can be made by exempting from the surcharge, a defined list of items currently subject to it.
- c. There is also need for a time-table substantiating the intentions of the authorities to eliminate this surcharge.

3. Quantitative Restrictions on Imports

- a. Progress would also need to be demonstrated regarding the declared intention of the authorities to reduce or eliminate the restrictiveness of these trade restrictions.
- b. As an initial step, an announced list of currently affected import items could be made free from quota restrictions, and/or the relevant quotas could be increased in foreign exchange terms.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 18
Held at the Bank of Portugal
on Wednesday, February 21, 1979 at 6:00 p.m.

Present:

Portuguese representatives:

Dr. Silva Lopes, Governor of the
Bank of Portugal
Dr. Constancio, Vice Governor of
the Bank of Portugal
Dr. Oliveira Pinto, Vice Governor
of the Bank of Portugal
Dr. Cavaco Silva, Bank of Portugal

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

Dr. Silva Lopes explained that the Portuguese representatives had examined the staff's preliminary macroeconomic program and had found that it coincided with their own thinking on a number of points. While the Portuguese projected an external current account deficit of about US \$950 million for 1979, compared with the staff's target of US \$800 million, both projections assumed the same increase in export volumes (9 per cent), private transfers, and investment income, and roughly the same elasticity of imports with respect to changes in import using expenditures (1.0). The Portuguese projections differed from those of the staff on a number of key points, however. They had assumed an increase in real GDP of 3.5 per cent (compared with the staff's 2 per cent), a considerably higher increase in world prices (6.5 per cent in effective terms versus the staff's 1.0 per cent), and a significantly lower average rate of depreciation (0.4 per cent per month in effective terms after March 31, 1979, compared to the staff's assumption of no change in present policy).

After noting these differences Dr. Silva Lopes explained that the Portuguese forecast for the growth of real GDP of 3.5 per cent was considered to be the minimum necessary to avoid a further deterioration in unemployment. He noted that the index of employment had already begun to show a decline at the end of 1978, and it was the authorities' intention to try to avert the social and political tensions which would follow a large increase in unemployment. Turning to the composition of GDP, which was as follows:

	1979 percentage change in <u>constant prices</u>
Private consumption	1.7
Public consumption	3.0
Investment	4.9
Exports	9.0
Imports	<u>3.5</u>
GDP	3.5
GDP deflator	19.3

Dr. Silva Lopes explained that the figure for the growth of public consumption had been taken directly from the 1979 budget, while private consumption had been obtained as a residual. The projected increase in private consumption would be accounted for by increased consumption among non-wage earners as some further decline in real wages had been built-into the forecast. The targeted increase in real investment was not considered to be overly ambitious in the light of public (and some private) investment projects known to be in progress. The projected increases in the volume of exports and imports were derived directly from the balance of payments forecast.

In summary, Dr. Silva Lopes felt that the principal points of disagreement between the staff and the Portuguese representatives centered on the growth of real GDP, the increase in international prices, the current account deficit target, and the rate of depreciation. Of these he considered the international price assumptions and the rate of depreciation the most difficult to resolve.

In reply, Mr. de Fontenay stressed that in the staff's view the principal target of the program should be a further reduction in the external current deficit. This objective was consistent with a through-the-year increase in real economic growth of about 3 per cent. Achieving a further reduction of the rate of inflation was also very important. He felt that the staff and the Portuguese representatives were not far apart in their targets for the balance of payments, growth, and domestic prices, but differed on how such goals should be achieved. The Portuguese placed greater stress on reducing the rate of depreciation, whereas the staff placed greater emphasis on the contribution of fiscal and monetary policy.

The discussion then turned to an explanation of the assumptions underlying the staff's and the Portuguese representatives' international price projections. Mr. Stuart explained that the staff's projection was taken from the Fund's most recent World Economic Outlook forecasting exercise, completed just before the mission left for Portugal. This forecast showed a deceleration in the rate of growth of world prices in US dollar terms between 1978 and 1979, assuming unbroken cross rates for the dollar and other currencies at the end of 1978. Dr. Cavaco Silva explained that the Portuguese

projections had been based on recent price forecasts by the OECD and UNCTAD. The Portuguese had adjusted the general world price assumptions implicit in these forecasts for the particular composition of Portuguese imports. The projected increase in oil prices in 1979 would add 1.0 to 0.5 percentage points to the price forecast. In his view the decline in Portuguese import prices in 1978 had been due largely to the effective depreciation of the US dollar and to very favorable agricultural price developments. In 1979, a catching-up effect was expected to offset the decline in world prices of the previous year. This would lead to a 6.5 per cent increase in Portuguese import prices in effective terms, including petroleum. Mr. de Fontenay commented that the increase in Portuguese import prices in foreign currency terms over the past four years had been strikingly low. It was hard to reconcile this past performance with such a large increase in import prices in 1979. At Dr. Constancio's suggestion it was agreed that the Portuguese representatives would prepare a memorandum stating in detail the assumptions and calculations underlying their import price forecast.

Turning to the influence of the rate of depreciation on domestic inflation, Dr. Silva Lopes felt that the Portuguese model was based on a cost-push approach to controlling inflation whereas that of the staff emphasized demand factors. He explained that the Portuguese representatives had prepared an econometric model which indicated that the rate of depreciation was a crucial factor in explaining domestic price developments. Demand management policies were of course important in controlling inflation, however, they could not nullify the effect of labor costs, interest rates, and the rate of depreciation.

Mr. de Fontenay replied that the staff had no quarrel with the argument that depreciation was an important element determining the rate of inflation. The real question was to what extent the exchange rate could be utilized as an instrument in reducing the rate of inflation. If the exchange rate were to be given a key role in this process, it would undoubtedly have an undesirable effect on economic growth and reserve management. Under present conditions, i.e., a large external deficit, surplus labor, an unfavorable composition of exports, and the need to find new foreign markets, it was necessary to maintain an exchange rate which, if anything, would be overly competitive. In addition, in order to encourage import substitution it was important to ensure that the prices of traded goods rose faster than those of nontraded goods through exchange rate policy. He felt that there was no doubt that Portuguese exports were highly competitive at present, arguing for some slowing of the rate of depreciation. However, any significant alteration of present policy could only be contemplated

in connection with further reductions in the rate of inflation and the current account deficit of the balance of payments. It was important not to be too ambitious now in order to avoid a sudden increase in the rate of depreciation later which could have disastrous consequences for expectations.

Dr. Cavaco Silva explained that he felt that there was no basic disagreement between the staff and the Portuguese representatives on the need to maintain the competitiveness of Portuguese exports and the need to reduce the rate of domestic inflation. However, by slowing the rate of depreciation to an average of about 14 per cent during 1979, the Portuguese representatives felt that both goals could be achieved. It was very important to avoid the vicious cycle of inflation leading to faster depreciation leading to more inflation. He felt that with the important gains made in reducing the rate of inflation and the current external deficit in 1978, it was now time to significantly alter the rate of depreciation in order to avoid falling into the inflation-depreciation trap. Dr. Constancio added that the Portuguese representatives hoped that by reducing the rate of depreciation, and hence inflation, this year they would be in a position to set lower depreciation and inflation targets next year. This would mean an end to the repeated reductions of real wages experienced over the last three years. This was important because it was unlikely that the policy of reducing real wages to control inflation could be followed for much longer.

It was agreed to continue the discussion of world prices and the exchange rate at a later time and to begin discussion of the public sector budget and exchange and trade restrictions as soon as possible.

Turning to the question of the public enterprises, Mr. de Fontenay explained that it would be important for the staff to have a clear idea of their investment plans for 1979 and their intentions with respect to obtaining foreign and domestic financing. Dr. Constancio explained that no new major investment projects were now being considered as the financing for such projects was not presently available. He was concerned that the Portuguese representatives not be asked to commit themselves to a figure for overall credit to these enterprises as their investment program was still very unclear.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 19
Held at the Bank of Portugal
on Thursday, February 22, 1979 at 10:00 a.m.

Present:

Portuguese representative

Dr. Cavaco Silva, Bank of Portugal

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teixeira

The purpose of the meeting was to follow up on a number of outstanding questions on which the Portuguese representatives had promised to provide detailed information. The information gathered during the meeting is summarized below:

1. Restrictions on trade and payments: The Portuguese representative said that discussions were still going on concerning further liberalization of trade restrictions. In the view of the authorities, there were two distinct aspects to be taken into account -- that of the balance of payments, and that of economic development (protection). These matters were under the jurisdiction of the Minister of Trade, who had not yet finalized his thinking on the necessary adaptations. On the 60 per cent surcharge, it had also not been decided whether adaptation should be in the form of a reduction of the level or the commodity coverage. As for the surcharge which had been reduced to 20 per cent, though active consideration was being given to replacing it with general import tariff to be negotiated with the EEC, no firm decision had yet been taken. No major problem was envisaged on the need for further liberalization of the payments restriction arising from the phasing of outward remittances of profits and dividends from nonresident investments; the related delay had already been substantially curtailed, and the objective was to reduce it further to the point where it could be attributed entirely to administrative factors.

2. Details of the New Budget: The Portuguese representative agreed that it was high time for details of the new budget (including the budget report) to be made available to the staff team; for this reason, he had himself decided to contact the Minister of Finance directly on the matter, but no progress had so far been made; he would keep trying and notify the staff team about subsequent developments. He felt, however, that there were already some preliminary indications about certain important aspects of budgetary policy -- such as the 3 per cent increase in public consumption contained in

the financial projections given to the mission team on the previous day by the Bank of Portugal. On the question of an apparent inconsistency between this projected increase and the unchanged level mentioned in the new Plan, the Portuguese representative said that the 3 per cent figure was what had been officially given to the Bank of Portugal for purposes of monetary programming for 1979. He was not sure to what extent the projected increase in public consumption was related to a planned increase in transfers by the Central Government.

3. Investments by Public Enterprises: Concerning the public enterprises' investment activity in 1978, the Portuguese representative reported that Mrs. Constancio of the Planning Ministry had some data ready, and these would shortly be made available to the mission team. It was decided that the team would wish to have a further meeting with Mrs. Constancio after receiving these data. As for the investment plans of these enterprises during 1979, no information was yet available; the Portuguese representative promised to contact the Secretary of the Treasury again on the matter. He commented that, like the staff mission, a broad section of opinion in the Portuguese administration was agreed about the importance of these enterprises in the efforts to find solutions to the problems of the Portuguese economy.

4. BOP capital account in 1979: The Portuguese representative pointed out that so far the firmly known cases of draw-down plans for foreign loans by the public enterprises during 1979 were the following (US \$, million):

- | | | |
|----|---------------------------|------|
| 1. | Banco do Fomento | : 45 |
| 2. | TAP (Portuguese Airways): | 50 |
| 3. | Portuguese Railways | : 50 |
| 4. | BRISA | : 50 |

There were, however, several cases of on-going negotiations of foreign loans by other enterprises, but these were as yet in the preliminary stages. Those for which numbers could be given in this context were the following (again, US \$, millions):

- | | | |
|----|------------------|-------|
| 1. | The Post Office: | 75 |
| 2. | Quimigal | : 25 |
| 3. | Caixa Geral | : 100 |

As for direct foreign investment inflows, the Portuguese representative pointed out that these had been projected at US \$58 million for 1979 (i.e., same as the provisional data for gross inflow in 1978). Should the Renault investment project come on stream during the year, it would entail an additional inflow of about US \$15 million.

Concerning use of foreign loans by the Government during 1979, the Portuguese representative pointed out that the Belgian, Italian and Japanese tranches of the Paris loan were yet undisbursed. Disbursement of the Japanese tranche during the year was already negotiated, and those of the Belgian and Italian tranches were under negotiation. He added that the Portuguese Government planned to go to the international capital market also this year, but no precise indication was given as to the size of such new borrowing.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 19A
Held at the Bank of Portugal
on Friday, February 23, 1979 at 4.30 p.m.

Present:

Portuguese representatives

Dra. Maria Jose Constancio
Dra. Cocco

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

At this meeting, more details on investments undertaken by public enterprises in the industrial sector in 1978 were provided, followed by a detailed discussion of proposals by the Ministry of Foreign Trade related to changes in the restrictive system in 1979.

Dra. Constancio presented a table which showed that industrial public enterprises had spent some Esc 30 billion on investments in 1978. In contrast with developments in the transportation sector, where considerable delays had been achieved as a deliberate result of policy and actual investment had been below the level authorized, investment in the industrial sector had actually exceeded authorizations. The Government had been less intent on delays in this sector and the firms had been more aggressive. The petroleum industry, where expenditure was almost double that authorized, had access to own sources of finance as well as more foreign capital than had been expected. In the chemical industry, mainly petrochemicals, access to foreign credits was responsible for higher than authorized expenditure. Data on base metals were not available but investment in this sector had not been important in 1978, as one major project had been stopped. The figure of Esc 30 billion for total investment by industrial public enterprises was seen as reasonable, as it represented a 28 per cent increase over 1977, approximately the increase achieved for investment as a whole.

Looking to 1979, Dra. Constancio noted that the proposal by Petrogal was for an investment of Esc 3.7 billion compared with Esc 5.2 billion in 1978. Investments in the chemical and electricity sector would be higher. In 1978, the electricity sector had been restricted; only investment of Esc 10.6 billion had been authorized compared with an initial request of Esc 12.0 billion. The steel industry had requested Esc 8 billion for 1979 but the project was not well defined at this time. The decision on this project, as well as on requests made by the petrochemical sector, would have to be taken by the Government.

Mr. de Fontenay asked about the existing procedure for controlling the investments of the public enterprises. Dra. Constancio replied that a new law had been issued on December 30, 1978 which was designed to give the

Government better control of public enterprises. It was now expected, however, that this law would be revised. The Central Planning Department was currently receiving investment proposals; a list would be prepared and limitations by sectors would be proposed. Meanwhile, the Secretary of State for the Treasury was to receive data on the financial situation of firms during March and the Government had until the end of March to decide on the investment program of public firms. This concluded the discussion on public enterprise investments.

Mr. de Fontenay asked Dra. Cocco when trade data for December 1978 could be expected. Dra. Cocco replied that the data were expected at any time--the institute of statistics was careful to correct for major errors in the end of year data before presenting even preliminary data, and this was responsible for the delay at the end of the year. Mr. de Fontenay then asked about forecasts for export trends in 1979. Dra. Cocco noted that the Ministry of Foreign Trade had prepared a forecast based on the methodology used in 1978, taking into account the evolution of markets and the prospects for changes in market shares for each main category of goods. Present projections were for a volume increase in total exports of 9 per cent. The most difficult sector to forecast was textiles, for which a hypothesis of continued recovery, though at a slower pace than in 1978, had been used. The factor that most restrained optimism on textile exports was the agreement with the EEC which set a limit on exports of individual commodities by country; the most restrictive limits were set by the U.K., Portugal's most important market. The agreement with the EC went into effect in 1978 and was to last for three years; restrictions by the U.K. had been implemented in 1977. In 1978 the textile industry in Portugal had reacted surprisingly well to the situation. It was also important to note that the quotas had been set on the basis of pre-crisis levels in line with tariff quotas included in the 1972 agreement with the EC; these were not very restrictive given the low level of exports from Portugal in 1977. For 1979, the quotas would be more restrictive, though some expansion was possible, particularly for products where exports in 1978 were well below the set limits. Prospects were also good in countries which did not apply restrictions and Portugal was doing well in developing new products. Portugal had an advantage vis-à-vis other competitors as EC tariffs did not apply to Portuguese products. The outlook for exports to Sweden was not good. A very restrictive system had been in effect for two years and was due to be renegotiated in March of this year. So far no agreement had been possible as Sweden had wanted to extend the list to other products and lower the limits. The danger was that a new system would be imposed unilaterally.

The discussion then turned to a review of Portuguese import restrictions. Mr. de Fontenay expressed the hope that 1979 would see a continuation of the marked progress toward the relaxation of import restrictions that had occurred in 1978. A schedule for the phasing out of the old 30 per cent surcharge had already been agreed in connection with the previous standby arrangement. It was understood that this phasing was to be partially offset by an increase in some tariffs in line with multilateral agreements between Portugal and her trading partners in the EC and EFTA. As a point of information only, the Fund would be interested in more details on these tariff increases. On the 60 per cent surcharge and the quantitative restrictions, there had been statements in the previous letter of intent that the

Portuguese Government would attempt to replace the 60 per cent surcharge with domestic tax measures and reduce the restrictiveness of the system of quantitative restrictions. It should be part of a new stand-by agreement to reduce the coverage of the quota system and/or increase the value of the quotas.

Dra. Cocco indicated that it was not possible to present a definite proposal on the 60 per cent surcharge pending further discussions with the Minister of Finance. The matter had been studied by an interministerial group with a view to either reducing the coverage and replacing by domestic taxes or establishing a timetable for the removal of the surcharge. A number of the items were nonessential foodstuffs which were produced domestically for which an internal tax would be too harmful to domestic producers. Other items were true luxury goods, but on many of these domestic taxes were already very high. Also, for some items, it would be difficult to make the translation from trade category (import surcharge) to industrial classification (on which basis the domestic tax could be applied). In any event, the technical work had been completed and now a political decision could be required. She emphasized that the surcharge applied to about 1 per cent of imports in the first 11 months of 1978. Mr. de Fontenay indicated that there was little to choose between a reduction in the rate or a reduction in coverage. He noted that the authorities would have to argue that there were no alternative sources of tax revenue if the surcharge was to be justified on the basis of fiscal requirements. From the balance of payments point of view, Portugal was in a position to reduce restrictions.

Dra. Cocco then referred to the proposal to raise some tariffs to partially offset the reduction in the 20 per cent (formerly 30 per cent) surcharge. As a result of the October 1976 protocol agreement with the EC, Portugal had the possibility of reintroducing customs duties on products produced by a list of s-called "old industries, as long as they were subsequently removed by 1985. A similar agreement was also made with EFTA countries. The list was finalized and it was agreed that the tariffs could only be increased if all other restrictions on these items had been removed. Thus it was proposed to retire the affected products from the list of the 20 per cent surcharge to be replaced by a tariff of 18 per cent. The items covered represented 2.4 per cent of 1976 imports, compared with the total coverage of the 30 per cent surcharge of 26.9 per cent. For some EFTA countries, the replacement tariff would be only 21 per cent. It was expected that this action would take place before the end of March 1979. The surcharge would be removed on the affected products from all origins; the Portuguese Government would apply to GATT to raise duties on these products from non-EC and non-EFTA countries.

Mr. de Fontenay asked for confirmation of the authorities' intention to maintain the agreed schedule for phasing out the 20 per cent (formerly 30 per cent) surcharge. Dra. Cocco recognized that it was important that such a declaration be made, but it would have to come from the Minister of Finance or the Governor of the Bank of Portugal.

Turning to the quotas on consumer goods, Dra. Cocco presented a proposal to retire two items from the list (coffee and bananas) which would reduce the coverage of the quota from 4.1 per cent of 1976 imports to

3.2 per cent, and raise the quota on remaining items by 16.4 per cent from Esc 2.005 billion to Esc 2.335 billion, which she argued would maintain the foreign currency value of the quotas. Of the two items retired, coffee was quantitatively the most important, as coffee imports had totaled Esc 0.9 billion in 1976, Esc 2.0 billion in 1977 and Esc 1.2 billion in 1978. The Government was replacing the quota with an internal tax to be collected in customs which would be a receipt for the supply fund. To reduce the impact of speculation in the sector, legislation on commercial margins for coffee would also be introduced. The second item to be removed, bananas, had represented imports of Esc 0.253 billion in 1976 and Esc 0.212 billion in 1979.

The authorities had also investigated the possibility of reducing the quota coverage on manufacturing items. Dra. Cocco noted in this respect that seven industrial items, including wallpaper, electrical stoves and trailers, had been removed at the end of 1977. The main industrial products that remained were domestic appliances--refrigerators, dishwashers, washing machines for clothes--small electrical appliances and radios and televisions. For some of these products, domestic production was becoming significant, whereas when the quotas had been introduced production was practically non-existent. Television sets were now being exported. It was the hope of the authorities to introduce into the quota system exemptions for exports in order to promote exports.

Dra. Cocco presented further details on the quota on completely knocked down automobiles (CKD) which had been revised in December 1978. The authorities were not proposing any further changes in the law; Dra. Cocco presented a table which showed, given certain arbitrary assumptions, that even if the new "tranche" of the quota that was set aside to allow for exports of automobiles was not completely utilized, the new system would be less restrictive than the one prevailing prior to December 1978.

INVESTIMENTOS NO SECTOR INDUSTRIA E ENERGIA (P.I.S.E.E.)

1978

(10³ contos)

	Inv. em 1977	Inv. autorizado para 1978		Inv. realizado em 1978	
	Dispendido	Total	F.B.C.F.	Dispendido	%realização
	1	2	3	4	5=4/2
Extractivas	98.2	184.9	168.1	129.4	70
Químicas	4 564.3	9 584.4	8 447.0	11 364.1	119
Metalúrgias de base	260.0	156.0	x	x	x
Bebidas e tabaco	385.8	672.3	242.0	409.2	61
Construção Naval	597.1	735.0	223.0	387.1	53
Cimentos	255.7	1 836.0	1 836.0	522.8	28
Petróleos e derivados	7 628.3	2 723.0	2 723.0	5 209.0	191
Pasta para papel	420.6	1 262.8	x	867.3	69
Electricidade	9 360.0	10 635.0	10 583.0	11 380.0	107
Minerais não metálicos	x	95.5	44.0	5.9	6
Serviços prestados às empresas	99.7	193.0	193.0	92.6	48
TOTAL	23 669.8	22 920.4	21 736.1	30 367.4	132

Fonte: Elementos fornecidos pelo Gabinete de Planeamento do Ministério da Indústria.

CS/AS

Sistemas de contingentes de automóveis em CKD aplicados
em 1978 e a aplicar em 1979

	Valor (1000C.)	Período de aplicação
PORTARIA 762/77, de 17 de Dezembro	3 224,7	10,5 meses { 15 Fev978 31 Dez978
PORTARIA 712/78, de 6 de Dezembro	4 376,0	12 meses { 1 Jan979 31 Dez979

QUADRO 2

Comparação entre as quotas previstas para 1978 e 1979

	1978	1979 ⁽¹⁾
- Parcela completamente livre	2 579,8	2 680,3
- Adicional para exportação	644,9	765,8
- Adicional resultante de exportação efectuada no ano anterior	-	382,9
TOTAL	3 224,7	3 829,0
Variação em 1979/78/%		18,7%

(1) Considerou-se $\frac{10,5}{12}$ do valor total para o ano

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 20
Held at the Ministry of Finance
on Monday, February 26, 1979 at 10:00 a.m.

Present:

Portuguese representative

Dr. Ohen Gonçalves

Fund representatives

Mr. de Fontenay

Mr. Osunsade

Mr. Stuart

Mrs. Teigeiro

1. Introduction

The principal topic of discussion during the meeting was the proposed 1979 budget of the public sector. Outlining the principal features of the budget Dr. Gonçalves explained that the balance in the current account had been achieved at the cost of a very significant effort to hold down expenditures and raise additional tax revenues. While the Government's principal aim had been to present a balanced current account, an effort had also been made to restrict the overall budget deficit to one percentage point of GDP less than was reached in 1978. This roughly translated into an overall deficit in 1979 equivalent to about 8 per cent of GDP. The consolidated budget presented on a national accounts basis was estimated using actual expenditure implementation ratios expected in 1979 and thus represented a "best estimate" of the likely outcome, abstracting from any additional appropriations which might be made during the year. The implementations ratios assumed were the following:

(in per cent)

personnel	97.0
goods and services	95.0
other current expenditures	92.0
subsidies, current transfers, and interest payments	100.0
capital expenditures and capital transfers	95.0
financial assets/liabilities	100.0

On this basis an overall budget deficit of Esc. 68.4 billion, excluding amortization and other financial charges, was projected. Including financial charges the overall budget deficit was forecast at Esc. 80.1 billion, of which Esc. 10.4 billion would be financed from the sale of bonds to the nonbank public, Esc. 3.7 billion from foreign borrowing, Esc. 60.5 billion from net domestic bank borrowing, with the remaining Esc. 5.5 billion representing amortization of bank debt. Dr. Gonçalves noted that the Esc. 3.7 billion forecast for foreign borrowing only represented financing for investments included in the Plan.

2. Direct taxes

Dr. Gonçalves reviewed the estimates for direct taxes contained in the budget:

(a) Industrial tax. The estimate for the industrial tax had been based on the development of profits in 1978. The estimate of Esc. 9.1 billion contained in the budget was considered realistic, and Dr. Gonçalves pointed out that it was the only major tax for which collections had exceeded forecast receipts in 1978.

(b) Real estate tax. The receipts actually collected from this tax in 1978 had been disappointing; they had risen by less than expected, taking into account the 15 per cent surcharge introduced during 1978. Taking into account the tax rate and the present tax base, the receipts which should be collected from the real estate tax under normal circumstances could be expected to be rather higher than what in fact was normally collected. Part of the problem seemed to be due to delays in issuing tax notices for the real estate tax until October, which were related to problems with the computerization of collections. While forecast receipts in 1979 did take into account the payment of Esc. 0.1 billion of arrears from 1978, there was no guarantee that the computerization problems experienced in 1978 would not be repeated in 1979. For this reason Dr. Gonçalves felt that 1979 receipts from this tax might be somewhat overestimated.

(c) Professional tax. The Esc. 14.6 billion estimate for receipts from the professional tax in 1979 was based on the assumption of an average increase in wages and salaries of 18 per cent. The forecast also took into account some fiscal drag as well as the effect of the elimination of the 10 per cent surcharge and the increase in personal exemptions from 80 contos to 92 contos proposed in the budget.

(d) Tax on interest and dividends. The forecast for this tax was based on an estimate of the interest income earned on time deposits during 1978 as this represented the main revenue source for this tax. While the tax covers interest income earned

during 1979, because of the practice of paying interest at 6-monthly or annual intervals, the tax revenue would in fact be influenced by increases in interest rates and the level of time deposits held during 1978. Dr. Gonçalves felt that the estimate for this tax contained in the budget was about right because the tax base could be accurately calculated, and in previous years actual collections had differed little from forecast receipts.

(e) Complementary tax. The problem of arrears was traditionally an important one complicating accurate forecasts of receipts from this tax. The gap between forecast receipts and actual collections in 1978 was large - Esc. 2.3 billion - however, the 1978 forecast was known to have been seriously overestimated to begin with, and delays in issuing tax notices for the real estate tax, mentioned above, had also contributed to the large shortfall in receipts in 1978. Except for the problem of arrears, Dr. Gonçalves nevertheless felt that the 1979 forecast for receipts from the complementary tax was fairly realistic. The forecast had been based on the assumption of the collection of at least Esc. 0.5 billion in 1978 arrears (although this could be higher), a decline in the surcharge from 15 per cent to 10 per cent, larger personal deductions, and an increase in wages and salaries of 18 per cent.

(f) Extraordinary tax. Dr. Gonçalves explained that the budget forecast of Esc. 16.0 billion for receipts from this tax was very optimistic as it was based on the maximum rates for each of the taxes contained in the overall proposal. These were: 4 per cent on income subject to the tax on wages and salaries, 3 per cent on income from pensions, 4 per cent on income subject to the industrial and real estate taxes, 5 per cent on income subject to the tax on interest and dividends, and a 35 per cent surcharge on the vehicle tax.

(g) Other taxes. The estimate for the tax on gifts and inheritances of Esc. 0.8 billion was considered realistic, and represented only a small increase over collections in 1978. Dr. Gonçalves felt that the forecast 20 per cent increase in the real estate transfer tax (SISA) could be slightly optimistic as it depended primarily on transactions in the housing market which were not always easy to predict. Receipts from the tax on motor vehicles were forecast to total about the same as in 1978. This reflected stagnation in the market for motor vehicles as well as the fact that the tax rate would remain unchanged. (The 35 per cent surcharge on the vehicle tax proposed in the budget came under the heading of the extraordinary tax and thus did not affect forecast receipts for the vehicle tax itself).

Looking at direct taxes as a group, Dr. Gonçalves felt that the forecast for the real estate tax was probably too optimistic

while the complementary tax, and particularly the extraordinary tax, were difficult to predict and should therefore be treated with some caution. Mr. Stuart noted, however, that the forecast receipts from the industrial tax may also have been overestimated. Receipts in 1979 had been assumed to rise in line with profits, implying an elasticity of 1.0 with respect to the tax base. However, in previous years this elasticity had in fact been closer to 0.5. Dr. Gonçalves said that he would check this point. He noted that the 1979 forecast had taken into account some changes in the tax legislation which would have affected collections. These changes would not now be implemented, so to some extent the forecast did represent a slight overestimate.

3. Indirect taxes

(a) Import duties. The 21.0 per cent increase in import duties forecast for 1979 was based on a projected increase in import prices in escudo terms of 20-21 per cent, and the recovery of about Esc. 0.5 billion of 1978 tax arrears. No allowance had been made for increases in customs duties.

(b) Import surcharge. Receipts from this tax had been projected on the assumption of a delay from April to July in the reduction of the 20 per cent surcharge to 10 per cent, and its elimination in January 1980 instead of in October 1979. This delay was considered necessary in order to generate additional revenue to balance the current account of the public sector.

(c) Stamp duties. The 1979 forecast of Esc. 17.5 billion for stamp duties takes into account the proposed introduction of a 20 per cent surcharge on a wide range of fiscal stamps and stamp duties as well as a surcharge of 3 per cent on the stamp duty required for banking operations (some Esc. 0.3 billion in additional revenue was expected from this measure alone). The forecast was to a large extent dependent on the level of economic activity and to the extent that activity remained depressed during 1979, receipts from this tax could in fact be overestimated. During 1978, stamp duties were overestimated largely because the tax, which was expected to be introduced in April, was in fact only implemented at the end of June, resulting in the loss of 2 1/2 months of additional receipts.

(d) Transactions tax. During 1978 there had been a large shortfall in revenue from this tax due to the failure to extend it to the full range of services provided for in the budget, as well as to a lack of firm knowledge about the tax base. For 1979 the forecast for receipts was based on an increase in prices of 18 per cent, an increase in the "normal" tax rate from 13 per cent

to 15 per cent, similar rate increases for other groups of transactions, and the extension of the tax to the full range of services provided for in the 1978 budget law. The effect of price increases on tax receipts was expected to yield about Esc. 515 billion, while higher tax rates would result in an increase in revenue of about Esc. 5.6 billion. A further Esc. 1.2 billion was projected to come from the extension of the tax to services not previously affected, while the remaining Esc. 1.2 billion of the increase over 1978 collections would result from the fact that the additional 10 per cent surcharge provided for in the 1978 budget was only applied during the second half of 1978, but would affect all of 1979.

Mr. de Fontenay asked whether measures had been taken already to extend the transactions tax to other services. Dr. Gonçalves explained that some tentative steps had been taken. The tax department of the Ministry of Finance had prepared a set of draft regulations in June of 1978 which were subsequently revised, however, these regulations had not in fact been implemented as yet. The authorities' experience in trying to extend the tax to other services had not really met with much success to date. In July 1978 the Government had entered into an informal agreement with the telephone company whereby a part of the increase in telephone rates granted at that time would represent the collection of the transactions tax. However, at the end of 1978 the telephone company was unable to transfer the proceeds earmarked for the tax as planned because of its large operating deficit. Mr. Stuart asked whether further research had been conducted into assessing the base for the transactions tax on services. Dr. Gonçalves replied that no further work on defining the tax base had in fact been done.

(e) Other indirect taxes. Dr. Gonçalves explained that the forecast for receipts from the national salvation tax, which mostly affected gasoline and sugar, was considered realistic, or perhaps even on the low side, as collections were traditionally very stable. The forecast for the automobile sales tax took into account the projected stagnation of vehicle sales in 1979. The small (Esc. 0.5 billion) increase over actual 1978 collections was due to the assumption that the import surcharge on automobiles would be replaced by domestic tax. The increase in projected receipts from the tobacco tax in 1979 was wholly due to the proposed increase in the tax rate to the maximum of 40 per cent provided for by law; no increase in consumption was assumed.

4. Other revenue

(a) Rendimentos da propriedade. The Esc. 1.7 billion shortfall in receipts from this source in 1978 was mainly accounted

for by the absence of income from rents on collective farms (Esc. 0.4 billion) and the inability of public enterprises to remit profits to the Government (Esc. 1.0 billion). For 1979 the estimates were more realistic, however. Profits from credit institutions were expected to total Esc. 12.7 billion (about Esc. 7.0 billion in 1978), of which Esc. 11.4 billion would be derived from the Bank of Portugal; some Esc. 0.3 billion had been forecast for income from rents on collective farms, while a further Esc. 1.0 billion was expected from the profits of public enterprises. The remaining Esc. 0.6 billion would be derived from remuneration from the statutory capital of public enterprises and other property revenues. Dr. Gonçalves felt that receipt of the Esc. 1.3 billion from collective farms and public enterprises would depend very much on the Government's determination to collect it.

(b) Current transfers. The 1979 forecast included Esc. 1.8 billion in transfers from the social security system to the budget (Esc. 6.0 billion in 1978) arising from the planned 1.0 percentage point increase in contributions on a projected wage bill of Esc. 240 billion.

(c) Capital transfers. Capital transfers of some Esc. 3.2 billion from the employment fund were built into the 1979 budget. In 1978 such transfers had reached only Esc. 2.0 billion, although Esc. 5.1 billion had been forecast. The 1979 forecast was a reasonable one but its realization depended very much on the Government's determination to obtain the funds. Capital transfers from the employment fund to the budget were based on a "gentleman's agreement" which, as in the case of 1978, was not always kept. Dr. Gonçalves explained that some Esc. 1.0 billion in funds to be transferred were in fact loaned to enterprises to boost employment, while a part of the rest was used to build up the cash position of the employment fund. Dr. Gonçalves noted that the employment fund's receipts were derived from a tax on wages (which would not be increased this year). Such receipts amounted to Esc. 10.3 billion in 1978. The employment fund did not pay unemployment compensation directly but transferred funds to the social security system for this purpose.

5. Expenditures

Mr. de Fontenay asked how the Esc. 9.3 billion in special appropriations approved at the end of 1978 had been allocated. On an administrative basis Dr. Gonçalves explained that the special appropriations had been allocated as follows:

	(billions of <u>Escudos</u>)
Subsidy for supply fund - Ministry of Finance (outras despesas da administração)	2.4
Increase for health services - Ministry for Social Affairs	3.2
Sines projects - Ministry of Finance (despesas próprias)	2.0
Railway subsidy - Ministry of Finance (subsídios as empresas)	0.7
Pension fund for railroad - Ministry of Transport and Communications	0.4
Credit for refugee investments (General charges of nation)	<u>0.6</u>
	9.3

In terms of economic classification these items were all included in current transfers and subsidies. Within the Esc. 9.3 billion in special appropriations, the additional expenditures for the railway pensions, railway subsidies, health service, and social security were considered urgent and could not be delayed further. The appropriation for the Sines project and the supply fund was not as urgently needed, however, and could have been postponed until 1979. Dr. Gonçalves added that the Esc. 2.0 billion in special appropriations for the social security system had in fact been financed by Treasury operations and not by the budget. This loan from the Treasury to the social security system was to be repaid over several years from subsidies to the public enterprises which had evidently not been remitting social security contributions.

Mr. Stuart asked how the 3 per cent real increase in public consumption on a national accounts basis had been distributed by economic classification. Dr. Gonçalves explained that most of the increase by economic classification could be found in wages and salaries. He noted that the final estimate for this item in 1978 took into account expenditures for increased benefits, promotions, the creation of new services, and increases in personnel during the year. The 1979 forecast, however, was based on present knowledge of the public sector workforce and did not generally take into account increases for promotions, etc., except in the case of the armed forces. Dr. Gonçalves noted that while the Government had made statements from time to time about limiting hiring in the public sector, about 30,000 new public employees had in fact been hired in 1978, or an average of around 2-3,000 per month. This increase was responsible for the additional Esc. 0.5 billion appropriation for health services for civil servants contained in the 1979 budget under "other current expenditures."

Under "interest payments" Dr. Gonçalves noted that in 1979 Esc. 2.0 billion represented projected interest payments on

nationalization bonds. A further Esc. 13.0 billion corresponded to interest paid to the Bank of Portugal, compared to Esc. 11.0 billion in 1978. The interest rate on all existing and new government debt held by the Bank of Portugal had been lowered to 5 per cent in 1979, from 10 per cent in 1978, and 18 per cent in 1977. A further Esc. 1.0 billion in interest payments was earmarked for special payments on two types of securities issued by banks before the revolution. This payment amounted to Esc. 0.4 billion in 1978.

Mr. Stuart asked why the increase in current transfers from the Central Government to the rest of the public sector appeared so low. Dr. Gonçalves felt that this was a rather low figure and was perhaps unrealistic. He explained that this was due in part to a lack of coordination among public sector bodies. The autonomous funds and services submitted their 1979 expenditure proposals in June of 1978. With the delay in presenting the 1979 budget some of these bodies had submitted new proposals while others had not, so it was entirely possible that the final outturn in 1979 for this item would be much higher than forecast.

In answer to a question about transfers to the supply fund, Dr. Gonçalves indicated that in 1979 some Esc. 3.4 billion had been earmarked for this use, which included subsidies for the basket of essential goods (cabaz de compras), compared with an original appropriation of Esc. 3.2 billion in 1978 and a final outturn of Esc. 5.6 billion. The Esc. 2.4 billion overrun in 1978 had been used to repay financial obligations to the banking system.

In summary, Dr. Gonçalves explained that current transfers during 1979 could be subdivided into the following categories:

(In billions of escudos)

<u>Use</u>	Actual	Projected
	<u>1978</u>	<u>1979</u>
Housing fund	0.2	1.3
Institution for assistance to school children	1.7	1.9
Refugee Institute	1.4	1.0
Pension fund for railways	1.3	1.1
Health service for civil servants (ATSE)	1.1	1.1 ^{1/2}
Health and hospitals	N.A.	27.2
Local authorities	3.5	4.0
Pension	N.A.	1.1
Supply fund	5.6	3.4
Housing	N.A.	1.3
Export promotion fund	N.A.	0.7
Highways	N.A.	1.2
Sources for agriculture and fishing	N.A.	0.8
Other	N.A.	2.7
	<u>48.5</u>	<u>48.8</u>

Additional Esc. 0.4 billion in "other appropriations" is

Turning to capital expenditures, Dr. Gonçalves felt that the forecast for expenditures for investments of the Plan could be an overestimate as a certain amount of underspending was normal in this area. He felt that financial charges for decolonization might also have been overestimated slightly, but that the estimate for servicing the public debt was accurate.

The meeting was adjourned for lunch, and would resume at 4:00 p.m. the same afternoon.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 21
Held at the Ministry of Finance
on Monday, February 26, 1979 at 4:00 p.m.

Present:

Portuguese representatives

Dr. Ohen Gonçalves

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

At this meeting, Dr. Ohen Gonçalves continued his review of the budget report for 1979. Mr. de Fontenay recalled that the official communique announcing the budget had referred to significant increases in spending on health, education, and agriculture. However, in reviewing the morning meeting, it was difficult to find these increases. Dr. Gonçalves replied that he too was puzzled by the announcement but had not yet been able to check the source of validity of these figures; perhaps they were based on a comparison of the 1979 budget with initial budget figures for 1978.

Referring to the indications given during the morning meeting that the number of employees in the public service had risen considerably during the year, Mr. de Fontenay asked for information on which services had shown particularly large increases in 1978. He asked if it wasn't necessary for ministries to indicate the number of posts in their ministries when submitting their requests for appropriations. Dr. Ohen Gonçalves replied that there was considerable administrative difficulty in this area and they were forced to rely on indicators, such as the number of civil servants enrolling in the medical services plan. The Parliament did not approve the budget on the basis of functional classification but only according to Ministry. Each agency had a list of its posts which it used in filling vacancies and in some cases these had increased during 1978 and would have their full effect only in 1979.

Last year, the total cost of increases in salaries had come to approximately Esc 10 billion, Esc 7.5 billion for the Central Administration, Esc 1.2 billion for the local authorities and Esc 1.3 billion for hospitals and autonomous bodies. The cost of increases in the military services totaled Esc 2.4 billion of the total for the State of Esc 7.5 billion as the military got higher increases than other civil servants. The cost of restructuring in the armed services was an additional Esc 0.3 billion.

Dr. Gonçalves then turned to a detailed review of Table V, showing the appropriations by the Ministry. General Charges of the State were to decline by Esc 645 million due mainly to a decline in expenditure on refugees-- from Esc 1.4 billion in 1978 to Esc 1.0 billion in 1979. There were also some problems with classification, as this heading now included the Secretary of State for Culture and the Office of Administrative Reform.

National Defense appropriations had increased by Esc 4.5 billion due to increased expenditure on personnel and purchases of fuel. Salaries of military personnel would also be increased through allocation of some of the unallocated budget (Dotação provisional) of Esc 10 billion.

Under other general administrative expenses of the Ministry of Finance, there was a decline of Esc 2.5 billion due mainly to a decline in the transfer to the supply fund from Esc 5.6 billion in 1978 to Esc 3.4 billion in 1979. The increase in "Despesas Propriãs," within the Ministry of Finance were mainly for the tax department and for customs guards to control smuggling. This guard service was to be provided with better equipment and there was an allocation to provide some housing facilities for the guards.

The Ministry of the Interior had an increased appropriation of 17 per cent in Esc 2.3 billion including Esc 0.5 billion in transfer to the local authorities, Esc 0.6 billion in capital transfers and the impact on the full year in 1979 of new expenditures for security forces approved during 1978.

The Ministry of Justice had a 21 per cent increase largely due to a transfer of responsibility of labor tribunals from the Labor Ministry.

The Ministry of Agriculture and Fishing had an increase of 42 per cent or Esc 3.5 billion as there was a very complex plan to reorganize the Ministry to enable it to intervene more effectively in the economy which required Esc 1.9 billion for personnel expenditure. There was also an increase of Esc 1.3 billion for investment.

The Ministry of Industry and Technology was to receive Esc 555 million or 39 per cent additional of which Esc 260 million was to be used to establish a new institution, the National Laboratory for Engineering and Technology. There was also Esc 190 million for investments of the plan.

Commerce and Tourism was to be appropriated an additional Esc 800 million or 29 per cent but this was not a very meaningful figure. The largest amount of this, Esc 530 million, was for the Contas da Ordem of a public agency that was borrowing from the Caixa Geral on its own account to lend to hotels. This agency used to guarantee borrowings by hotels and in order to borrow on their own account they were required to submit an appropriation. There was also an allocation of Esc 165 million for investment in the plan.

The 4 per cent increase in the appropriation to the Ministry of Education was difficult to discuss because of a change in the designation of directorate within the Ministry.

The Ministry of Social Affairs was to receive an additional Esc 2.8 billion or 10 per cent more. In the final budget last year, some Esc 23.2 billion had been transferred to the health services (including hospitals) while this year Esc 27.5 billion would be transferred. (N.B., transfers from the social security system to the health services were to decline from Esc 3.4 billion to zero, implying that total transfers for medical services were Esc 26.6 billion of which hospitals received Esc 9 billion in 1978 compared with Esc 27.5 billion of which hospitals would receive Esc 10 billion in 1979

The Ministry of Transport and Communications was to receive Esc 722 million or 8 per cent less. This was partly due to a reduction in a *contas da ordem* item for the land transportation fund. Another decline was in the subsidy to the railroad pension plan of Esc 277 million which Dr. Ohen Gonçalves thought was wishful thinking. There was an increase of Esc 328 million for investments of the plan.

Housing and Public Works would receive Esc 5.8 billion or 24 per cent more, of which Esc 4.1 billion was for investments of the plan. Also, another "*contas da ordem*" account, an agency for the promotion of housing, was indicating additional revenues and expenditures of Esc 1.4 billion for an expansion in its activities.

Dr. Ohen Gonçalves then referred to Table VII on the functional classification of expenditures. The points to be mentioned that were not clearly brought out in the discussion of expenditure as shown in Tables V and VI were (1) a 19 per cent increase (Esc 5.2 billion) in health expenditures which was shared in by the Ministries of Social Affairs, Housing and Public Works and Education, (2) under the heading "*Serviços Gerais da Administração Pública*" was included Esc 10 billion for pay raises in the public sector.

Mr. de Fontenay recalled that Dr. Gonçalves had indicated during the morning meeting that the Ministry of Finance had issued guidelines to the various ministries to be used in the preparation of their requests for current appropriations. He asked about this procedure that had been followed in setting the capital budgets. Dr. Ohen Gonçalves recalled that during the life of the third Government, it had been indicated that in preparing the 1979 budget the current deficit should be eliminated and the overall deficit should be reduced in relation to GDP from the level then being estimated for 1978 (8.5 per cent) to 7.5 per cent. It was felt that a capital budget of Esc 45 billion, compared with Esc 35 billion in 1978, was consistent with this target. The Central Department of Planning was responsible for receiving proposals and establishing priorities.

Mr. de Fontenay asked for a clarification of how the new law on local authorities' financing was being handled in the new budget. Dr. Ohen Gonçalves replied that pending the preparation of the list of responsibilities to be transferred to the local governments by end-March and the subsequent parliamentary debate and approval, (followed by a revision of the budget law), it had been decided to keep current transfers at the 1978 level, Esc 4 billion. This compared with a potential loss to the budget if the first two parts of the law were implemented of Esc 13.4 billion.

Mr. Stuart referred to the consolidated public accounts table (Table XVI) on a national accounts basis and asked what implementation ratios had been used in preparing this forecast. Dr. Ohen Gonçalves indicated the following:

<u>Expenditure</u>	<u>Implementation Ratio</u>
Personnel	97%
Goods and Services	95%
Transfers, subsidies and interest payments	100%
Other current	92%
Capital expenditures and transfers	95%
Financial operations	100%

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 22
Held at the Ministry of Finance
on Wednesday, February 28, 1979 at 3.00 p.m.

Present:

Portuguese representative

Dr. Ohen Goncalves

Fund representatives

Mr. de Fontenay

Mr. Osunsade

Mr. Stuart

Mrs. Teigeiro

The meeting was held to conclude the discussion of the 1979 budget of the public sector. At the outset of the meeting Mr. de Fontenay asked Dr. Goncalves to explain the content and purpose of the "contas da ordem" in the budget. Dr. Goncalves explained that the contas da ordem was a balancing item composed of certain of the receipts and expenditures of many of the autonomous funds and services. Any autonomous fund or service whose transactions were included within contas da ordem automatically became subject to public accounting regulations. Not all such bodies were so included, but the authorities' aim was to eventually include at least the principal ones in order to introduce a greater degree of fiscal control over their operations. Dr. Goncalves noted that in the 1978 budget the port authorities of Lisbon and Oporto, two autonomous services, were included in the contas da ordem as were a number of other services. The principal autonomous funds so included were the Tourism, Merchant Marine, Fishing, Land Transportation, and Housing Funds, while the Supply Fund and the Unemployment Fund were not included. Borrowing by these funds, whether from the Treasury or the banking system, were counted as a receipt in contas da ordem in the budget of the state, but as a financing item in the consolidated public sector accounts.

Turning to the budgets of the autonomous funds and services Dr. Goncalves explained that the figures for transfers from the Central Government to these bodies should be treated with caution as in some cases there were discrepancies between the amount of transfers provided for in the budget and what these entities were expecting to receive during 1979. This problem stemmed from the fact that some of these bodies had not revised their estimates of projected budgetary needs for 1979, which were prepared in June 1978, to take into account any new requirements which might have surfaced between then and the preparation of the budget in February 1979. While it was hoped that these entities would practice greater restraint with respect to expenditures if their budgeted transfers fell short of their financing needs, Dr. Goncalves explained that they could bridge the resource gap by running down cash balances or by borrowing.

Mr. Stuart asked whether the 1979 forecast for transfers to and expenditures by the medical services was realistic in view of the fact that transfers to this service were so large in 1978. Dr. Goncalves explained that the medical services had submitted a request for transfers from the 1979 state budget of Esc 13.0 billion on the basis of their budget proposal prepared in June. However, the final figure now included in the 1979 budget was for transfers totaling Esc 17.0 billion, or about the same as in 1978 (Esc 17.6 billion). He pointed out that if the Esc 2.0 billion of the 1978 outturn specially transferred to pay for arrears to pharmacies was excluded, the 1979 forecast represented an increase of Esc 1.4 billion (9 per cent) and therefore was not quite so unrealistic.

In answer to a question concerning why the 1979 forecast for expenditures for goods and services of the autonomous funds and services showed virtually no increase over the November 1978 outturn estimates, Dr. Goncalves explained that in 1978 part of their expenditures which should have been included in current transfers, i.e., certain expenditures of the health services, were instead counted as goods and services. The error had now been rectified and this would be reflected in the final outturn for 1978 which was to be provided to the mission.

Turning to the budget of the social security system, Dr. Goncalves explained that the large increase in administrative expenditures contained in the 1979 budget reflected higher expenses for personnel. In the past wages and salaries in the social security system had been lower than elsewhere in the public sector and the intention was to raise them in 1979 to the level of the rest of the public sector. With respect to revenues the 1 percentage point increase in the contribution rate included in the 1979 budget was expected to generate an additional Esc 1.8 billion in revenues (calculated for a nine-month period). Dr. Goncalves explained that the recurrent sale of bonds by the social security system included in the 1978 budget exercise did not in fact occur because it was dependent upon the publication of legislation regulating the indemnification of the former owners of nationalized firms, which did not take place. In 1979, however, the sale to the banking system of some Esc 1.4 billion of the equities of such firms held in the portfolio of the social security system was planned and would be used to repay previous bank borrowing.

Concerning the financing of the deficits of the various components of the public sector, Dr. Goncalves explained that, excluding amortization and decolonization charges of Esc 11.7 billion, the Esc 60.1 billion deficit of the state (national accounts basis) would be wholly financed by borrowing. The deficit of the autonomous services (Esc 5.7 billion) would be financed by borrowing of Esc 3.8 billion and the use of cash balances of Esc 1.9 billion. The deficit of the autonomous funds (Esc 2.4 billion) would be financed by the running down of cash balances of Esc 2.8 billion (some Esc 2.4 billion from the unemployment fund) implying a repayment of Esc 0.4 billion in financial obligations. The Esc 1.6 billion deficit of the local authorities would be wholly financed by further borrowing, while the Esc 1.4 billion surplus of the social security system would be used to retire outstanding financial obligations. Overall, the deficit of the public sector was expected to reach Esc 68.4 billion in 1979 on a national

accounts basis. Including financial charges of Esc 11.7 billion, the global deficit of Esc 80.1 billion would be met by net borrowing from the banking system of Esc 60.5 billion, foreign borrowing of Esc 3.7 billion, the sale of Esc 10.4 billion of bonds to the nonbank public, with the remaining Esc 5.5 billion discrepancy being accounted for by the amortization of debt held by the banking system.

Mr. de Fontenay asked whether estimates could be provided for the 1979 complementary period and for Treasury operations. Dr. Goncalves explained that not enough information was presently available to forecast either of these variables accurately. The complementary period for 1978 had been higher than expected as a result of the additional expenditure appropriations made at the end of 1979, but the 1979 complementary period could be expected to conform to the more normal pattern of previous years. Dr. Goncalves felt that it was very risky to try to pinpoint a value for Treasury operations in 1979 as this item was subject to the influence of many unpredictable factors.

In answer to a question concerning whether transfer payments among the various elements of the public sector were eventually spread throughout the year, Dr. Goncalves explained that in previous years (including 1978) inter-governmental transfers did not generally conform to any particular time path. Most transfers were based on "gentlemen's agreements" and as a result the actual transfer of funds was often haphazard. It was hoped that in 1979 a quarterly schedule could be established, at least for the most important elements of the public sector.

Mr. de Fontenay asked whether there had been any indications of difficulties in tax collections in recent months. Dr. Goncalves explained that there had been a decline in tax collections during the final months of 1978. Part of this was undoubtedly related to cash-flow difficulties in some companies; this was particularly true in the case of the stamp tax. But in other instances, i.e., the real estate tax, the computerization of tax collections had accounted for at least some of the delay. He observed that at present a late charge of 2 per cent per month was imposed on all tax arrears.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 23
Held at the Bank of Portugal
on Wednesday, February 28, 1979 at 5.30 p.m.

Present:

Portuguese representatives

Dr. Silva Lopes, Governor
Dr. Vitor Constancio, Deputy Governor
Dr. Oliveira Pinto, Deputy Governor
Dr. Saldanha do Valle, Bank of Portugal
Dr. Cavaco Silva, Bank of Portugal

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

1. Introduction

The meeting was convened by the Governor, Dr. Silva Lopes, who opened the discussions by referring to the technical document prepared by the Ministry of Commerce, concerning the projection of Portugal's import prices in 1979. The Portuguese representatives were informed that the mission team had recently consulted headquarters about this matter and the consultation did not appear to warrant a change in the numbers discussed in earlier meetings. It was agreed to have a meeting on the following day, aimed at reaching a common position on the behavior of international prices.

2. Unresolved questions

Concerning the proposed program for 1979, Dr. Silva Lopes proceeded to outline what he called "areas of disagreement" as follows:

- (i) the GDP growth target;
- (ii) international price projections;
- (iii) depreciation rate of the escudo; and
- (iv) external current account (deficit) target

He commented that early agreement on the question of international prices would facilitate an agreement on the rate of depreciation, thus leaving two questions (on the growth and external current account targets) to be resolved.

Commenting on the suggested approach, including the time-ordering of proposed policy changes, Mr. de Fontenay said that the exchange rate policy followed thus far has been a notable success story, and that it would be unfortunate to make major changes in this policy at such an early stage. A change could be considered justifiable only at a later stage, if close examination of the related macroeconomic variables should show clear improvements. Consideration of the matter should also take account of reductions in import surcharges, since these were equivalent, on the import side, to a

lowering of the rate of depreciation. For example, phasing-out of the 20 per cent surcharge on 30 per cent of import payments would amount to a reduction of 6 per cent in the rate of depreciation, or by 0.5 per cent per month. However, should the evaluation of on-going discussions support an improvement in the underlying economic and financial situation, the mission would be willing to consider a modest downward change in the rate of depreciation, essentially as a reflection of an improvement in the underlying situation.

As regards the limit on the external current account deficit, Mr. de Fontenay commented that there was no room for flexibility in terms of upward revisions; indeed, an improvement in the evolution of this deficit was a *raison d'être* of Fund assistance in support of stabilization programs. It would therefore be difficult to justify a stand-by program with the Fund, should the external current account deficit be higher than the indicated figure of US\$800 million. Concerning the GDP growth target, Mr. de Fontenay pointed out that the Portuguese authorities' target of 3.5 per cent on average through 1979 was clearly on the high side, and would imply a growth rate of up to 7 per cent by the end of the year. Such a growth rate could not be considered consistent with a limit of US\$800 million on the external current account deficit. In this context, attention was drawn to the fact that the mission's visit was in connection with the formulation of a stabilization program, whereas the Portuguese authorities appeared to have somewhat different objectives in mind.

Responding to Mr. de Fontenay's observations, Dr. Silva Lopes stated that, given the wide differences in position between the two sides of the meeting, it was difficult to proceed; his side would like to re-examine their position in the light of the mission's presentation. He wondered, however, whether there were other areas that could be usefully discussed. Mr. de Fontenay stated that the objective should be to make as much progress as possible in the on-going discussions. On this basis, the discussions touched upon the new budget and the broad elements of credit ceilings for the proposed program, as summarized below.

3. Preliminary impressions on the new budget for 1979

Mr. de Fontenay pointed out that the mission was not yet in possession of full information on the new budget. Incomplete data thus far available, however, suggested that there were problems. How the budget would emerge out of forthcoming parliamentary debates was also uncertain. On the revenue side, considerable uncertainty appeared to surround the "extraordinary" tax (on workers' end-of-year bonus). Although the choice of individual tax measures was not the business of the mission, the rationale for the extraordinary tax was rather difficult to understand, in view of its apparent unpopularity. It was therefore difficult to count on the implementation of the tax, especially considering past failures to implement such a measure. Prospects also remained unclear concerning the recent law on revenue-sharing with local governments; no information was yet available to the mission on the proposals which the Government was expected to make concerning the implementation of this law. On the expenditure side, though greater realism than in the past was generally evident, there were problems in certain important areas. For example, it was not clear how the budgeted cut in subsidies was to be achieved. In respect of health services, budgeted outlay

for 1979, though high in absolute terms, appeared not to adequately reflect the large expansion of these services during 1978. On the whole, revenue seemed to have been at least slightly overestimated, while the picture on the expenditure side remained largely unclear. Looking ahead, Mr. de Fontenay added that the mission intended to give an assessment and some related suggestions to the Minister of Finance; discussions could therefore resume at a later date when the budget situation would be clearer. Sometime around mid-April 1979 was thought feasible for such a resumption of discussions. In this connection, it was agreed that the mission would meet the Minister of Finance on Friday, March 2, 1979.

4. Elements of a new credit program

As regards their thinking on a new credit program, the Portuguese representatives promised to provide the mission with relevant data at a meeting scheduled for Friday of the same week. Proceeding to other aspects of the financial program, they stated that the proposed inclusion of the public enterprises within the subceiling on credit to the public sector would create difficulties. Apart from the unavailability of adequate data on the financial operations of those enterprises, their inclusion in the fiscal subceiling would render the Government vulnerable to political accusations of trying to stifle the private sector (within which these enterprises are institutionally classified). The Portuguese representatives also wondered whether the Fund had ever adopted this approach toward public enterprises in stand-by arrangements with other Fund member countries; this question was answered in the affirmative by Mr. de Fontenay, citing the cases, inter alia, of the United Kingdom, Egypt and Jamaica. The Portuguese representatives were informed that the mission would be open to any alternative approach they might wish to suggest, consistent with the common objective of ensuring that these enterprises took necessary price and management steps to prevent excessive dependence on the budget and/or banking system credit.

As regards measures on the exchange and trade system, it was noted that, as stated in earlier meetings, no major problem was envisaged in the discussions. However, no official proposals had yet been made concerning alternative measures to replace the agreed phasing-out of the 60 per cent surcharge. As for the other import surcharge which had already been reduced to 20 per cent, the mission hoped that Portugal would adhere to the phasing-out timetable agreed under the prevailing stand-by arrangement with the Fund.

Concerning interest rate policy, the Portuguese representatives informed the mission that their plan was to lower interest rates by 2 percentage points immediately following the proposed stand-by arrangement with the Fund, and by further 2 percentagepoints later in the year. They explained that high interest cost was a major factor holding back the expansion of the economy, and that in the absence of such a relaxation, attainment of their growth objective would be impossible. Furthermore, in combination with their planned reduction also of the rate of depreciation, they did not see any serious danger that such a lowering of the rate of interest would create problems of leads and lags. Responding, Mr. de Fontenay expressed concern about the probable announcement effect of such a change in interest rates. Attention was also drawn to the fact that a lowering of domestic interest rates at this time would be contrary to on-going trends in the rest of the world. In any

case, to the extent that the financial problems of firms related to low cash flows, deriving in turn essentially from low capitalization, a different approach other than simply a lowering of lending rates might need to be considered. As for stimulating economic activity through a reduction in the cost of borrowing, this could in the meantime be done through selective changes in lending policies--such as an enlargement of the first tranche of the Central Bank's rediscount ceilings with the banks. The attention of the Portuguese authorities was also drawn to the fact that the provision for a mid-term review in the proposed program argued for a cautious approach in making policy changes; any further necessary changes could be identified at the review stage, in the light of evolving circumstances. On the question of possible enlargement of the first tranche of the Central Bank's rediscount ceiling, the Portuguese representatives pointed out that such a step would be unlikely to prove helpful to final borrowers, since there was no assurance that the banks would pass on the benefit to their customers. Concerning the implications of their proposed interest rate changes for the income velocity of money, the Portuguese representatives pointed out that, with an assumed deceleration of the rate of depreciation, the income-velocity of money should remain stable or perhaps decline somewhat.

With respect to growth and price objectives, the Portuguese representatives characterized the policies embodied in the 1978 stand-by arrangement as too restrictive arguing that these measures had produced overall external surplus and a deceleration of inflation, but little economic growth. They expressed surprise that, in spite of this outturn, the mission was still not changing its negotiating stance, adding that in the absence of such a change, resumption of growth would be impossible. They were, however, reminded of the available scope for growth, notably in the form of export expansion and investments by the private and public sectors; in addition, the new budget had provided for a 3 per cent increase in public consumption in real terms. As regards price policy, the Portuguese representatives argued that, considering the expectational factor, the present time was most opportune to start bringing down the inflation rate through a reduction in the rate of depreciation; otherwise, it would be difficult to avoid the vicious circle of high inflation leading to rapid depreciation, leading in turn to further inflation. They added that the Government had negotiated the 18 per cent annual limit on average wage increases in 1979 on the understanding that the rate of depreciation of the escudo during the year would not exceed 14 per cent in effective terms. In this connection, the attention of the Portuguese representatives was again drawn to the fact that a reduction of the import surcharge was bound to exert a downward effect on import prices in escudo terms. They argued, however, that the domestic price effect of such a measure would not be much, because of the limited coverage of the surcharge, the significant level of exemptions, and the p] to replace the surcharge with another tax in the case of automobiles.

Before closing the meeting, Dr. Silva Lopes reiterated that agreement on the question of international prices would facilitate progress in the discussions. In the meantime, he would contact the Minister of Finance to explore the scope for further re-examination of Government policies.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 24
Held at the Bank of Portugal
on Thursday, March 1, 1979 at 11.00 a.m.

Present:

Portuguese representatives

Dr. Cavaco Silva, Bank of Portugal
Dra. Cocco, Ministry of Commerce

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

1. Introduction

The meeting was convened to discuss the projections made by the Portuguese representatives concerning the behavior of import prices in 1979. These projections showed average price increases during the year, in U.S. dollar terms, of 2.5 per cent for agricultural products, 7.2 per cent for industrial raw materials, 10.0 per cent for fuel, and 12.4 per cent for manufactures; with allowance for the oil price increases announced for the year by the OPEC countries, the projected annual increase in the dollar price of manufactures was marked up by 1 percentage point, i.e., to 13.4 per cent. For the projection of import price increases in the local currencies of supplier countries, the approach followed by the Portuguese representatives was based on the shares in Portuguese imports, of eight countries accounting in 1977 for about 34 per cent of total imports and 61 per cent of manufactured imports, namely Belgium, the Federal Republic of Germany, France, Italy, the Netherlands, Sweden, the United Kingdom and the United States. By weighting the individual country shares with the expected local-currency price increase in each case, the Portuguese representatives obtained a projected overall price increase of 5 per cent in local currencies for imports of manufactured goods in 1979; this was raised by 1 percentage point on account of the expected impact of the increase in oil prices. Taking account of the probable rise in the local-currency prices of the other import categories, the Portuguese representatives arrived at an overall projection of 6.3 per cent average increase in the supplier countries' local currency prices of Portuguese imports in 1979.

2. Areas of difference

Commenting on the presentation made by the Portuguese representatives, Mr. de Fontenay stated that the work had undoubtedly been done with great care. The Portuguese projections of 1979 price changes for agricultural products, industrial raw material and fuels, were seen as presenting no major problems, as they did not differ substantially from these of the

mission team. The main inconsistency to be resolved related to prices of manufactured goods: the 1979 price increase projected for this group of imports by the Portuguese representatives was far in excess of expected price changes derived on the basis of the recent World Economic Outlook (WEO) exercise by the Fund. This exercise had yielded a projected 1979 price increase of 4.6 per cent for manufactures, which was close to the corresponding price projection by the OECD, in contrast to the 6.0 per cent increase (including oil price effects) projected by the Portuguese representatives. In response to the Portuguese representatives' point that the OECD price projection for 1979 (i.e., roughly 5 per cent increase for manufactures in 1979) was done before the increase in oil prices, and that the OECD had subsequently estimated an additional price increase of 0.5 percentage point to 1.0 percentage point on account of the oil price increase, the Portuguese representatives were informed that, arguably, an increase in oil prices, by increasing the danger of a recession, could lead to a reinforcement of anti-inflation measures in the industrial countries, which would therefore lead to a deceleration of upward pressure on the prices of manufactured exports by these countries. In answer to a question by the Portuguese representatives, it was explained that the projected price increase of manufactures in the WEO exercise was derived on the basis of the forecasted unit price increase of exports in the producing countries, weighted by country trade shares. In U.S. dollar terms, this approach yielded for manufactures a 1979 price increase of 8.1 per cent as weighted by shares in total trade, and 8.3 per cent in terms of their weight in Portugal's import trade. The Portuguese representatives drew attention to the fact that, in contrast, their projected price increase for manufactured imports had been derived on the basis of the shares of these countries in Portugal's manufactured imports, as noted in section 1 above.

3. Currency conversion problems

In answer to inquiries as to how they have proceeded from the computed local-currency price changes noted above, to their projected 1979 import price increase in overall terms of 21.33 per cent and 10.8 per cent in escudos and U.S. dollars, respectively, the Portuguese representatives explained that these were derived on the policy assumption of a depreciation of the escudo during the year by 14.0 per cent in effective terms and by 9.5 per cent in terms of the U.S. dollar; the assumption of 14 per cent effective depreciation during the year was consistent with a 0.4 per cent monthly rate of effective depreciation beginning after the first quarter of the year. Should the U.S. dollar and the escudo start to move together for the remainder of 1979, this would yield a depreciation of the escudo by 9 per cent against the U.S. dollar in 1979. In this context, attention was drawn to the point that, whereas the WEO exercise had assumed no change in cross-rates during the projection period, the Portuguese price projections appear to be based on a different assumption on cross-rates, since they implied a 17.2 per cent effective depreciation of the escudo vis-à-vis the currencies of the eight principal trading partners mentioned in section 1 above, in contrast to a projected 14.0 per cent effective depreciation in overall terms. The Portuguese representatives attributed this discrepancy to the fact that their manufactured imports were mainly from hard-currency countries. They also pointed out that whereas the Bank of Portugal's effective exchange calculations were based not only on merchandise transactions but also on

current invisibles, the effective exchange rate concept for their price projections related only to import weights. As to the countries supplying the balance of 39 per cent of their manufactured imports, they mentioned that these consisted of a wide range of countries, including Canada, Japan, Norway, Spain and Switzerland.

In conclusion, it was agreed that the mission team would have another look at the computations, and would at a later date prepare a short note on this subject for the Portuguese authorities. It was noted that at least the main areas of difference in these projections had been clearly identified.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 25
Held at the Bank of Portugal
on March 2, 1979 at 11:00 a.m.

Present:

Portuguese representatives

Dr. Cavaco Silva
Dr^a. Teodora Cardoso

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

Before the presentation of the Portuguese proposal on credit policy for 1979, Dr. Cavaco Silva presented a number of tables. One table indicated the effective exchange rate and U.S. dollar rate for the escudo for the period 1977-1978. Another table indicated the amortization schedule for the external debt of the Bank of Portugal in connection with which Dr. Cavaco Silva added that the Bank of Portugal was scheduled to repay some of the short-term BIS credits at a rate of US\$30 million a month. The loan agreements for the two 1978 consortium loans totalling US\$450 million were also presented.

Turning to the proposed credit program, Dr^a. Cardoso began the discussion by noting that most of the hypotheses on which the program was based had been mentioned previously. These included the almost immediate reduction in interest rates of 2 percentage points followed by an additional reduction of 2 percentage points in the period July-September 1979. The figures on net foreign liability developments were being presented for the first time and they indicated a loss of US\$300 million dollars. As for non-monetary liabilities, allowance had been made for an increase of US\$45 million in the foreign liabilities of the Banco do Fomento in the first quarter of 1979, as part of the loan agreement concluded toward the end of 1978. Also, US\$100 million was to go to the Caixa Geral--this was assumed to come in the second quarter of 1978, although it was possible it would be delayed until the third quarter. Finally, in the third quarter the Banco do Fomento was to receive an additional US\$20 million. The change in other items net included the profits made by the banking system, including the Bank of Portugal. The change in the second quarter reflected the transfer of profits from the Bank of Portugal to the Ministry of Finance. Profits of other banks were accumulated during the year and transferred to the capital account in the new year. Profits of the Bank of Portugal were projected to rise by less than in previous years due to the reduction in the rate of interest on public debt held by the central bank.

The exchange rate assumption on which the program was based had been indicated earlier to the mission but the specific Escudo/Dollar rates that were assumed were:

Exchange Rate for the Escudo

(Escudo/U.S. dollar) 1/

	End of Period	Average
1979		
I	47.515	47.194
II	48.087	47.896
II	48.666	48.472
IV	49.252	49.056

1/ Assuming cross rates of January 1979.

The valuation adjustment for bank credits denominated in foreign currencies was based on the outstanding level of these loans at the end of 1978. It was not the policy intention of the authorities to have these credits decline in 1979, as it had been in 1978.

There followed a lengthy discussion on the subject of the velocity of circulation which had been projected for 1979. Dr^a. Cardoso noted that for 1979 a reduction in the velocity of circulation of 3.3 per cent had been projected, compared with a reduction of 0.2 per cent in 1978. Dr^a. Cardoso also indicated that it was important to consider the change in velocity during the year, as dramatic changes in nominal GDP and velocity developments were being projected. In the absence of quarterly national accounts estimates, the consumer price index and industrial production index had been used as indicators to trace velocity developments in 1978. On this basis, real output was estimated to have been about 5 per cent above year-earlier levels at the beginning of 1978, and by year-end, real output was estimated to have been at about the same level or slightly below year-earlier levels. This pattern had been distributed in a very rough way and combined with the consumer price index to yield the following series.

Price and Income Developments

(Percentage Change from Year-Earlier Levels)

	Real Output	Prices	Nominal Income
1978			
I	5	23	29
II	4	20	25
III	2	23	25
IV	0	25	25

To estimate velocity changes, a rapid adjustment of money holdings to nominal income developments had been considered unlikely, so a four-quarter moving average, seasonally adjusted, money stock series had been generated. Using this series in combination with the nominal income series shown above, the following velocity changes were derived.

Change in Velocity of Circulation

	Percentage Changed During Quarter
1978	
I	0.2
II	-2.5
III	-3.8
IV	-2.0

This series compared with little or no velocity change on average in 1978, but Dr^a. Cardoso indicated she had not yet worked out the relationship between the concept of velocity and the quarterly estimates; the correspondence was difficult to make.

For 1979, a series for nominal income on a quarterly basis had been projected which indicated a marked slowdown in the rate of price increase and an acceleration in economic activity.

Price and Income Projections

(Percentage Change From a Year Earlier)

	Real Output	Prices	Nominal GDP
1979			
I	-1	25	24
II	-1	25	24
III	2	18	20
IV	5	12	18

The conclusions for the velocity of circulation that had been drawn from this projection were the following: With the rate of price increase going on with the rate of depreciation of the exchange rate falling rapidly

toward the end of the year, the effect of declines in the interest rate would be more than offset. For example, the rate of depreciation at the end of the year would be approximately 5 per cent at an annual rate while the three-month Eurodollar deposit rate in London was currently about 12 per cent. Thus the interest rate differential would be less than when the Eurodollar rate was 7-7.5 per cent and the rate of depreciation was 16 per cent. Mr. Stuart noted that the rate of depreciation of the escudo vis-à-vis the dollar had been considerably less than 16 per cent in 1978. Dr^a. Cardoso suggested it was not so much what had actually happened to the U.S. dollar rate, but what expectations had been, that mattered. The conclusions for velocity were the following: The average decline in velocity would be between 3 and 3.5 per cent, and through the year would continue the trend established in the second half of 1978.

Velocity of Circulation

	Percentage Changes During Quarter
1979	
I	-2.5
II	-3.5
III	-4.4
IV	-4.5

Mr. de Fontenay enquired as to how this series was a continuation of the series for 1978 which showed -3.8 for the third quarter of 1978 and only -2.0 for the fourth quarter. Dr^a. Cardoso replied that the figure for the fourth quarter of 1978 was difficult to interpret as the historic seasonal adjustment factor for the fourth quarter was becoming less relevant. Increases in the money stock at the end of December were becoming less and less important. Abstracting from the fourth quarter figure for 1978, the projection for 1979 could be seen as a continuation of the trend established in the second half of 1978. Dr^a. Carodos emphasized that the velocity numbers related through-the-year nominal income to changes between quarters in a four-quarter moving average seasonally adjusted money series. It had not been possible to relate through-the-year money numbers to nominal income, because the monetary series had behaved very strangely in the fourth quarter of 1977.

Mr. Stuart noted that according to the projections, the money supply would rise during 1979 by 26 per cent, while nominal income at end-1979 would be some 18 per cent above that of a year earlier, implying a velocity decline of 6 per cent. Dr^a. Cardoso repeated that she had not worked out the implications of her exercise for velocity measured in this way. Mr. de Fontenay noted that in addition to the relationship between the

of depreciation and the rate of interest, an important factor affecting velocity was the relationship between inflation and the rate of interest. Dr^a. Cardoso replied that the second adjustment of interest rates would come only as the rate of inflation was declining. Mr. Stuart noted that the first reduction which was planned would almost coincide with the surge in inflation resulting from the administered price increases.

Mrs. Teigeiro asked which sectors were expected to provide the basis of the recovery, and the Portuguese representatives replied that the interest rate reduction would benefit the construction sector. Dr. Cavaco Silva warned in this regard that, just as in the case of inflation, something must be done soon to start the recovery or the average growth projected for 1979 could not be achieved. Given the fact that two months of 1979 had already passed, it might be necessary to think in terms of a March 1979-February 1980 year in order to achieve the price and growth objectives.

Mr. de Fontenay asked why it was seen as necessary for the net foreign liabilities of the banking system to decline by US\$300 million in 1979 when the current account deficit was to be roughly the same as in 1978 and sufficient financing had been found in 1978 to actually reduce net foreign liabilities. Dr. Cavaco Silva replied that the favorable developments of 1978 should make a reduction possible in 1979. The figure of US\$300 million was not high in relation with what had been considered reasonable for 1978 when the previous program was agreed. Developments in short-term capital movements which resulted in an inflow of US\$350 million were largely once-for-all developments that would not be repeated. Mrs. Teigeiro asked what form it was expected this increase in foreign liabilities would take and how the remainder of the current account deficit was to be financed. Dr^a. Cardoso replied to the first question by noting that the net foreign liabilities of the commercial banks had declined toward the end of 1978 and it was possible for them to rise a bit, although it was not likely that they would be allowed to rise above their level of March 1978. The remainder would be financed using Bank of Portugal reserves. On the second question, Dr. Cavaco Silva replied that information on prospective capital flows had already been provided. There was a possibility of an additional loan to the budget which had not been mentioned but this information would have to come from the Minister of Finance. He suggested that all these credits made it possible to finance the current account deficit without using a large amount of Bank of Portugal reserves.

Mr. de Fontenay concluded the discussion by noting there was considerable disagreement on even the major basic assumptions--interest rates, exchange rate, growth rates, net foreign liabilities, and the velocity of circulation.

INTERNATIONAL MONETARY FUND

Portugal - 1979 Use of Fund Resources

Minutes of Meeting No. 26

Held at the Ministry of Finance

on Friday, March 2, 1979 at 6:00 p.m.

Present:

Portuguese representatives

Dr. Jacinto Nunes, Minister of Finance
Dr. Silva Lopes, Governor of the Bank
of Portugal
Dr. Almeida, Secretary of the Treasury
Dr. Rui Vilar
Dr. Oliveira Pinto
Dr. Cavaco Silva

Fund representatives

Mr. de Fontenay
Mr. Osunsade
Mr. Stuart
Mrs. Teigeiro

The Minister of Finance invited the mission to comment on the 1979 budget. Mr. de Fontenay replied that he would like first to report on the reasons for the difficulties met so far in reaching an agreement. The Fund mission had gone to Portugal on the understanding that a stand-by arrangement would be negotiated on the basis of a program which, as most such programs, would feature a reduction in the deficit on the balance of payments. Contrary to last year's experience, it was also understood that the adjustment would have to come this time mainly from the public sector. If this could be achieved then it might be possible to envisage a lower rate of depreciation of the exchange rate, and, possibly, lower interest rates. However, the Portuguese negotiators had tried to reverse the order of the discussions and to get the mission to agree to a change in the exchange rate policy and to a lowering of interest rates before agreement could be reached on financial policies. Unfortunately, the mission could not accept such a proposal because there was a serious danger that a reduction in the rate of depreciation and a lowering of interest rates, accompanied by lax financial policies, might lead to the same difficulties encountered in 1977 of inflation, speculative stockbuilding and capital outflows. There was also a basic disagreement on the role of exchange rate policy: the Fund mission did not regard the exchange rate as an appropriate instrument to achieve a pre-determined price target. Rather it regarded the exchange rate as an instrument which should enable Portugal to achieve an improvement in its balance of payments at a minimum cost in terms of output and employment. The mission was still, in principle, ready to accept a reduction in the rate of depreciation and to discuss a lowering of interest rates so long as financial policies were under control.

As far as credit policy was concerned, only preliminary discussions had been held and positions were still very far apart. But credit policy was largely dependent on the financial outcome of the public sector and Mr. de Fontenay said that he would now like to comment on the budget proposals. The mission was well aware of the difficulties the Government had faced in preparing the budget and that some of these difficulties were related to problems which could not be corrected quickly, such as the need to reform the tax system, and the relative incompressibility of expenditures

for personnel. Nevertheless the Government had undertaken a courageous commitment, and here Dr. Nunes commented that indeed it had been politically difficult, to balance the current account budget and reduce the overall deficit. The figure in the budget on the financing requirements of the traditional public sector gave no difficulty to the mission; however Mr. de Fontenay said he was worried about the implementation of the budget and whether the estimate of the deficit was realistic.

On the receipts side there was obviously a need for a strong effort to reverse the declining trend of tax collections. Furthermore because of the tax reductions included in the budget, the bulk of the tax effort came from the extraordinary tax. Mr. de Fontenay said he would like to return to this question later. On the expenditure side there also was a need for a stronger control over current expenditures in order to avoid the same problem as in 1978 of expenditures exceeding appropriations. The budget featured a reduction in subsidies to public enterprises, which could be achieved only if the necessary measures, mainly in the form of increases in prices and rates could be taken. The amount of transfers from the state budget to the rest of the public sector showed practically no increase over the amount spent last year and since this included among others the health services whose expenditures had increased very rapidly, one could question the realism of such a projection. There was no room in the budget for possible additional expenditures such as increases in social security pensions. Finally the projection for the deficit was dependent on normal rates of utilization of appropriations for investment and there was of course a danger that these might be exceeded.

Mr. de Fontenay commented that there were major uncertainties regarding budget policy which had led him to propose that the negotiations be suspended until mid-April. First there was the obvious question of the fate of the budget proposals in Parliament. Second there was the question already mentioned of the measures to be taken to improve the financial position of enterprises, such as administered price increases which normally took place in March. Third there was the question of the law on revenue sharing with local authorities. Mr. de Fontenay said that the mission would want to see what would be the Government's proposals in this respect and how it would be possible to suspend the application of this law or at least to transfer to local authorities both expenditures and receipts at the same time in order to avoid unbalancing the budget. Dr. Nunes commented that this was indeed the intention of the Government.

Mr. de Fontenay then said that it might strengthen the Government's position in achieving the desired implementation of the budget if the mission made some specific recommendations. These included (1) the immediate implementation of the proposed extraordinary tax with the exception of that part of the tax dealing with labor income which the mission could not support because of the danger that it might lead to higher wage demands and because it seemed inconsistent with the Government's efforts to reduce taxation of labor income. At this point Dr. Nunes interrupted to say that this would leave the budget with a shortfall of 8 billion escudos and asked whether this would be acceptable to the Fund. Mr. de Fontenay replied that if the projected deficit were enlarged to Esc 8 billion this would mean little progress over 1978 and he hoped

that it would be possible to find offsetting revenues or expenditure cuts. Dr. Nunes then asked whether the mission could agree to a postponement of the reductions in the import surcharge scheduled for April 1 and October 1. Mr. de Fontenay replied that as far as the April 1 reduction was concerned, this was awkward because it fell during the period of the present stand-by agreement and it would not be a good precedent if Portugal did not abide by its commitment. Furthermore it was difficult to present a program which would feature both a reduction in the rate of depreciation and a retention of the surcharge. Dr. Silva Lopes then commented that the removal of the surcharge would have little effect as compared with a change in the exchange rate policy. Mr. de Fontenay replied that it was difficult to argue both that the retention of the surcharge was needed for revenue purposes and that its retention would not have any effect on the price level.

The second recommendation of the mission was to implement the extension of the transactions tax to telephone service and to hotels, which had been decided in 1978 but not put into effect. The third recommendation was to take the necessary measures in terms of price and rate adjustments to improve the financial situation of public enterprises and to make the reduction in budget subsidies realistic. The last recommendation regarding the traditional public sector was to impose a hiring freeze, with the exception of a limited number of priority services such as agriculture, the new laboratory for the Ministry of Industry and the Tax Department. Although it was difficult to obtain figures on public sector employment, it seemed clear that it had increased quite rapidly in 1978 and there was a danger, if not controlled, that it might again be a source of excessive expenditure. Dr. Nunes commented that the Government was indeed trying to get better control on hiring of public employees. Turning to public enterprises, Mr. de Fontenay said that the mission had suggested including them in the subceiling on credit to the public sector in order to avoid their stepping up their bank borrowing in order to offset the reduction in subsidies. Finally the mission suggested that guarantees extended by the state to public enterprises for borrowing from the domestic banking system should not be increased by more than they were last year.

Thanking Mr. de Fontenay for his presentation of the mission's views, Dr. Nunes summarized the position of the Portuguese authorities. On the basis of an increase in private remittances of US\$40 million, which final December 1978 figures showed to be higher by that amount than originally estimated, and a reduction of US\$60 million in their earlier forecast for imports in 1979, the Portuguese were now willing to accept a target of US\$850 million for the current account deficit of the balance of payments in 1979. This target would be consistent with an increase in real GDP on average in 1979 of 3.0 per cent. Regarding the exchange rate, Dr. Nunes explained that an average effective depreciation of the escudo of 15 per cent instead of 14 per cent in 1979 would now be acceptable, implying a monthly rate of depreciation of 0.5 per cent after March 31. The forecast for the increase in international prices in local currency terms would be correspondingly reduced from 6.5 per cent to 6.0 per cent, on the assumption that the 10 per cent U.S. dollar increase in petroleum prices projected for 1979 would contribute only 0.5 percentage points to the international price forecast instead of 1.0 percentage points as assumed previously. Dr. Nunes proposed that interest rates be reduced by 2.0 percentage points as soon as

a new stand-by arrangement was concluded, followed by a further reduction of 2.0 percentage points sometime during the third quarter of 1979. Concerning the 20 per cent import surcharge, Dr. Nunes asked that both its reduction to 10 per cent on April 1 and eventual elimination by October 1 be postponed by three months.

Mr. de Fontenay said that he intended to send to the Minister a letter summarizing the position taken by the mission. He asked that the letter not be made public and said that he hoped that the Minister would find it possible to come to Washington to present Portugal's case to the Managing Director.

March 5, 1979

Professor Jacinto Nunes
Vice-Prime Minister, Minister of Finance
and Planning, and Minister for European
Affairs
Ministry of Finance
Lisbon

Dear Mr. Minister:

The IMF staff team has reviewed recent economic developments and prospects in Portugal and held preliminary discussions on the outline of a program which could be supported by a new stand-by arrangement with the Fund. This letter summarizes our views on the key aspects of the program.

The main objective of the program should be to extend the progress achieved last year in reducing the current account deficit of the balance of payments. Such a reduction is usually the "raison d'être" of a stabilization program and a current account deficit of about \$800 million would seem to be the maximum consistent with such a program. In the coming years Portugal will require large amounts of foreign borrowing to sustain its development effort, prepare its economy for accession to EEC membership, and face its external debt repayment obligations. We estimate that by 1981 the gross foreign borrowing requirement will be around \$2 billion. This external financing is unlikely to be forthcoming unless it can be demonstrated that Portugal is making progress in generating a higher level of domestic savings and that its foreign borrowing is being directed to productive uses that will eventually enhance the foreign exchange earning capacity of the country. Portugal's external debt service burden is already quite high and adding to it should be kept to a minimum. This argues for caution in the elaboration of an investment program for the public sector, including public enterprises, especially until such an investment program has been reviewed in its entirety and integrated in a medium-term framework.

We believe that a reduction in the current account deficit to about \$800 million is consistent with a rate of growth of about 3 per cent during 1979. Thus, Portugal would have achieved a major stabilization effort, reducing its external current deficit from the equivalent of 9 per cent of GDP in 1977 to 4 per cent in 1979, at a relatively moderate cost in terms of output

and employment. The main credit for this success should go to exchange rate policy which allowed a substantial expansion of production for export and import substitution; to interest rate policy, which curbed stockpiling of imports and encouraged the formation of domestic saving; and to wage restraint, which preserved the gains in competitiveness achieved by the exchange rate depreciation and kept the growth of private consumption in check. The gains achieved by these policies should not be compromised by an untimely change of course.

Another objective of the program should be to achieve a reduction in the rate of inflation. The lowering of the legal ceiling on wage increases should make this possible, but financial policies have also an important role to play, in particular by inducing domestic producers to keep their profit margins to a minimum. If prospects for an improvement in the underlying rate of inflation and for the balance of payments remain good, it should be possible to envisage a modest reduction in the rate of depreciation of the escudo, and perhaps of interest rates as well. We must emphasize, however, that although exchange rate policy has obvious implications for the price level, its main role is to allow the achievement of both the balance of payments and growth targets. It would be dangerous to reduce the rate of depreciation of the escudo in order to achieve a pre-determined price objective if the new exchange rate policy cannot be sustained. Furthermore, the phasing out of the 30 per cent import surcharge in 1979 will already have effects on import prices equivalent to a reduction in the rate of depreciation. We hope, in any case, that the Portuguese authorities will refrain from a premature change in the present exchange rate policy, which would make it very difficult to reach an agreement with the Fund.

Fund programs normally feature measures to reduce restrictions on trade and payments. Our discussions indicate that it should be possible to achieve agreement on this. We hope that, pending a final agreement on a new stand-by arrangement, the commitment undertaken under the 1978 stand-by arrangement to reduce the 20 per cent import surcharge to 10 per cent on April 1, 1979 will be respected. It would seem difficult to justify an extension of the surcharge on the ground that equivalent revenue cannot be obtained from other sources.

In 1978 the public sector should be expected, by reducing its deficit, to make a major contribution to the stabilization effort. This would be in contrast with the experience of 1978 when both the traditional public sector and the public enterprises continued to borrow from the banking system at the same high rate as in 1977 while the private sector bore the full burden of the reduction in the rate of credit expansion.

such a situation should not be allowed to continue in 1979. The borrowing requirements of the traditional public sector which emerge from the 1979 budget proposals are consistent with a monetary policy designed to provide support to economic activity and to accommodate a rate of inflation well below that of last year. We are concerned, however, whether an increase in the public sector's borrowing needs over and above the budget figure can be prevented. We have made some recommendations which, we believe, would help in this respect and they should be implemented soon if the budget figures are to be used as a solid basis for a financial program. It is also essential that any significant change in the budget proposals which threatens to enlarge the deficit be offset by some other source of revenue or by expenditure reductions. Otherwise, the objective of achieving an appreciable reduction in the overall deficit by comparison with 1978 would not be attained and a reasonable credit policy could not be followed without once again excessively restricting credit to the private sector.

As for the public enterprises, by the time our negotiations resume, we would expect the financial situation of these enterprises and their prospects for 1979 to be better known. This would enable us to ascertain that both their current operating results and their investment programs are consistent with the main elements of the stand-by program, particularly the allowable expansion of bank credit and the target for the current account deficit of the balance of payments.

We shall take with us to Washington the Government's proposed alternatives to some of the targets and policies that we suggested, and they will be given careful consideration by the Fund Management and staff. It remains our sincere hope that we can soon reach complete agreement on a program which will contribute to the improvement of economic conditions in Portugal.

Respectfully yours,

Patrick de Fontenay
Head of Mission



Office Memorandum

TO : The Managing Director
The Deputy Managing Director

FROM : P. de Fontenay

SUBJECT : Portugal - Use of Fund Resources

DATE: March 9, 1979

Negotiations with the Portuguese authorities on a new stand-by arrangement were suspended after four weeks at our request until some major uncertainties surrounding the 1979 budget had been removed (see below). Lack of progress on a number of key issues was another consideration. I was asked whether it would be helpful if the Vice Prime Minister and Minister of Finance, Dr. Nunes, came to Washington before negotiations resumed in Lisbon and I agreed that this could be a useful step. The Portuguese now intend to send to Washington a sizable delegation and suggested April 9 as a possible starting date, with discussions resuming in Lisbon on April 17. They are anxious to reach an agreement soon, not only in order to be able to continue borrowing in the international financial markets, but also because they need guidance on policies, particularly as regards the exchange rate.

It was clear from the start that while the mission had come to negotiate a stabilization program, the Portuguese were thinking in terms of a reflation program and we had to fight on all fronts to avoid a major relaxation of practically all the policies agreed in the 1978 stand-by program, particularly those dealing with the exchange rate, interest rates, credit and trade restrictions. The sense of urgency which existed last year, when the memory of the mid-1977 exchange crisis was still fresh, is largely gone and the ability of the present government to push through unpopular measures is limited at present and will vanish completely as the 1980 elections approach. Last year's stand-by program was agreed with a Socialist government, supported by the largest party in Parliament; by contrast the present government is only tolerated by the major parties out of a reluctance to bring about a government crisis and anticipated elections which would, under the Constitution, need to be repeated next year.

The Portuguese insisted that they needed a growth rate of 3.5 per cent in 1979 (implying close to 7 per cent growth through the year) and could not therefore reduce the current account deficit below last year's deficit of \$950 million (5 per cent of GDP). They also wanted to bring down the rate of increase of prices to 18 per cent (v. 22 per cent in 1978) by reducing the monthly rate of depreciation to 0.4 per cent in effective terms after March (from 1.25 per cent under the policy agreed with the Fund) and to lower interest rates by 2 percentage points now and another 2 points six months later. This strategy was, as it turned out, not just a negotiating stance but one which had been carefully prepared before it was adopted by the government and used as a basis for the macroeconomic projections presented with the budget. The commitment to a reduction in the rate of inflation was also made to assure Parliamentary approval of a statutory 18 per cent limit on wage increases (down from 20 per cent in 1978). The mission argued instead that a further reduction in the current account deficit to \$800 million (4 per cent of GDP) was

required and that a growth rate of 3 per cent during 1979 (equivalent to about 2 per cent on average) was the maximum consistent with that target. A modest reduction in the rate of depreciation, and perhaps in interest rates, could only be decided in fine provided the financial policies agreed upon were sufficiently restrained to avoid the risk of a resurgence of inflationary pressures and exchange rate speculation. At a last meeting Dr. Nunes offered the following "concessions"; they accepted a current account target of \$850 million (having "discovered" that the inflow of private transfers in 1978 had been underestimated by \$40 million) and a rate of depreciation of 0.5 per cent a month.

In defense of the Portuguese position, it must be recognized that the economy has weakened markedly since mid-1978 as a result of the credit squeeze and high interest rates, and that the rate of growth is probably negative at present. Also, based on standard cost-price comparisons, the exchange rate appears undervalued and the competitive position of Portugal continues to improve, with wages rising by 18 per cent annually (v. 9 per cent on average in trade partner countries), while the effective rate of depreciation is now about 16 per cent in annual terms. The only moot point is how much undervaluation Portugal needs to achieve both growth (through exports and import substitution) and a reduction in the current account deficit. One important consideration is the emergence of capacity constraints in the export sector, and particularly in tourism, as a result of a lack of new investment in recent years. However, the Portuguese would have to be prepared to put into place the type of financial policies necessary to support a lower rate of depreciation.

On paper the figures in the 1979 budget are in line with the targets of eliminating the deficit of the public sector on current operations (which reached Esc 28 billion in 1978, equivalent to 4 per cent of GDP) and to reduce the overall financing deficit from Esc 84 billion (11 per cent of GDP) in 1978 to about Esc 70 billion (7 per cent of GDP) in 1979. On closer analysis, however, revenue projections appear optimistic, while the realism of some of the expenditure forecasts seems questionable. The mission was particularly concerned at the uncertainty surrounding three major problems, (i) the current budget is balanced only through the introduction of an Esc 16 billion "extraordinary tax", of which about Esc 10 billion would result from taxing away more than half of the salaried workers' "13th month" pay. Even assuming passage of the measure, its implementation would seem doubtful in a pre-election climate; (ii) an Esc 6.5 billion reduction in subsidies to public enterprises is only feasible if measures are taken promptly to raise prices and rates charged by these enterprises; and (iii) there was no allowance in the budget for any effect of a new law on revenue-sharing with local authorities. This law, which could have a potentially disastrous effect on the budget would, if it is followed to the letter, transfer this year Esc 28 billion from the state to local authorities while discussions would be held to transfer also certain responsibilities from the state to the local governments. It was on the basis of these concerns that the mission suggested adjournment of the negotiations until the budget had been approved by Parliament, the price and cost measures introduced, and the situation had clarified regarding the impact of revenue-sharing. Meanwhile, the mission recommended an immediate hiring freeze, except for a limited number of priority services, to put an end to the large recent increases in the number of government employees, which threaten a repetition of the 1978 experience of personnel expenditures exceeding appropriations. The position taken by the mission was summed up in a letter sent to Dr. Nunes on March 5.

On credit policy, the Portuguese presented their counter-proposals only on the last day and positions were so far apart that it seemed pointless to prolong negotiations on that item. In private, they argued that they had had to restrict credit drastically after August last year in order to remain within the agreed ceiling but they recognized that it was largely the excessive expansion of credit to the public sector which had forced them to squeeze the private sector. Whether the public sector, including public enterprises, can be brought under control remains one of the main issues for this year's program. In the absence of administrative and tax reforms, and in the case of the public enterprises, of a reform of labor legislation, the ability of the government to abide by its commitment on credit to the public sector, which it failed to do in the two preceding stand-bys, remains very much in doubt.

The Portuguese inquired about the Supplementary Financing Facility but agreed that while their financing needs were manageable at present, they were expected to grow rapidly as a result of debt repayment obligations and could become a major problem by 1981-82. It therefore seemed preferable to link Portugal's use of the Supplementary Financing Facility to an Extended Fund Facility. There continue to be delays in the elaboration of a medium-term program, but the Portuguese still hoped that following the review of the public investment program by a World Bank mission in April, discussions on an Extended Fund Facility could take place in the fall of this year.

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