INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved the use of its resources totaling SDR 703 million by the Government of Portugal. Of the total, SDR 445 million, equivalent to 172.5 percent of quota, will be available over the period through February 1985 under a stand-by arrangement to support the Government's economic and financial program. The first drawing under the stand-by arrangement in the amount of SDR 96.75 million will be available immediately. In addition, SDR 258 million, equivalent to 100 percent of quota, is also available immediately under the compensatory financing facility. Currently, Portugal has no outstanding financial obligations to the Fund.

The easing of financial policies that began in 1980 stimulated real domestic demand which, coupled with relatively inflexible exchange and interest rate policies, contributed to a deterioration in the current account balance of payments. These policies were exacerbated by exogenous factors, including a 10.5 percent decline in the terms of trade between 1979 and 1982, the international recession, high interest rates abroad, and adverse weather which triggered additional agricultural and energy imports. As a result, the current account, which had been in near-balance in 1979, had moved to a deficit equivalent to 13.2 percent of gross domestic product (GDP) in 1982.

The economic and financial program, which the present stand-by arrangement supports, is primarily designed to reduce the current account deficit to a level that does not give rise to financing difficulties over the short-run, and that will allow a reduction in the debt service burden over the longer term. The envisaged improvement in the current account is to be secured through a combination of policies aimed at curbing domestic demand and at diverting resources toward the export sector. The main contribution to the stabilization program is to come from fiscal restraint. The combined position of the General Government and the Supply Fund, which subsidizes essential commodities, is targeted to move from a deficit equivalent to 12-1/2 percent of GDP in 1982 to a deficit of 9 percent in 1983 and 6 percent in 1984. The improvement in the finances of the General Government is to be complemented by a comprehensive effort to contain the borrowing requirement of public enterprises. At the same time, monetary policy is to be geared toward securing a scaling down of the growth of the monetary and credit aggregates consistent with the targeted improvement in the balance of payments and a deceleration of inflation.

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As the first steps in implementing these policies, the authorities have undertaken a number of measures including an effective 12 percent devaluation of the escudo in June, substantial increases in prices of a wide range of subsidized products, a cutback in the public sector investment program, and the introduction of new revenue raising measures. In addition, interest rates have been increased to levels that are significantly positive in real terms.

The drawing under the compensatory financing facility is in respect of a shortfall in earnings from merchandise exports, tourism, and workers' remittances experienced in the 12-month period ended March 1983. The primary cause of the shortfall was the adverse impact of the world recession on Portugal's export receipts and service income. The stagnation of real growth in the industrial countries not only weakened demand for exports and depressed commodity prices, but also affected travel abroad, decreasing tourist receipts, and reduced real wages and employment opportunities for emigrant Portuguese workers.