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ECONOMIC SURVEYS BY THE OECD

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PORTUGAL

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JUNE 1963

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

PARIS

PORTUGAL

BASIC STATISTICS

THE LAND

Area (1,000 sq.km)	91,971	Principal towns (1960):	
Cultivated area (1,000 sq.km)	49,400	Lisbon	817,326 inh.
Arable land (thousands of sq.km) ..	41,300	Porto	305,455 —

POPULATION

Total population (1960 census)	8,874,640	Total labour force (1960-continent)	3,193,000
Density per sq.km	97	Employment (1960)	3,115,000
Net natural increase		Employment in agriculture (1960) ..	1,285,000
(average 1956-1960)	112,046	Net average emigration (1956-1960)	43,000
Annual net rate of increase per			
1,000 inhabitants (average 1956-			
1960)	12.4		

PRODUCTION

Gross national product in 1961		Origin of the domestic product in	
(millions of escudos)	74,601	1961:	
Gross national product per inhabitant		— Agriculture, forestry and fishing	24.4 %
(in U.S. dollars)	292	— Industry and construction	41.3 %
		— Services	34.4 %

GOVERNMENT

Public consumption in 1961 (as per-		Internal public debt in relation to	
centage of gross national product)	14.0	ordinary revenue of the Central	
Public investment (as percentage of		Government (1961)	138 %
total investment)	11.4	Ordinary revenue of the Government	
		(as percentage of gross national	
		product (1961)	14.5 %

STANDARDS OF LIVING

Calories per inhabitant and per day		Number of radio sets per 1,000	
in 1960	2,511	inhab. (1961)	101
Number of cars per 1,000 inhabitants		Number of telephones per 1,000 inhab.	
(1961)	18	(1961)	48
		Illiteracy rate of the population aged	
		7 years and above in 1950	40.4 %

FOREIGN TRADE

Exports of goods and services as per-		Imports of goods and services as per-	
centage of gross national product		centage of gross national product	
(average 1959-1961)	17	(average 1959-1961)	25
Principal products exported in 1961 (as		Principal products imported in 1961	
percentage of total exports):		(as % of total imports):	
Foodstuffs and beverage	31	Machines, apparatus, instruments	31
— of which: fish products	13	Foodstuffs	12
Raw materials	17	Base metals and metal manufactures ..	14
— of which: cork and timber	11	Fabrics, yarns, felt and articles there-	
Fabrics, yarns, felt and articles thereof	22	of	14
Manufactured articles of cork	8	Mineral products	11

CURRENCY

Monetary unit: escudo.		Number of monetary units equal to	
		one United States dollar	28.75

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1963

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the O.E.C.D. shall promote policies designed :

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy ;*
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development ;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The legal personality possessed by the Organisation for European Economic Co-operation continues in the O.E.C.D., which came into being on 30th September 1961.

The Members of O.E.C.D. are : Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

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PORTUGAL

INTRODUCTION

1. The gross national product increased substantially in 1961 (about 7 per cent), and there was probably a further increase in 1962 mainly as a result of fairly good harvests. The year 1961 was, however, marked by certain developments which have somehow weakened, partly through their effects on the business climate, and the expansionary trend of the economy. The trade deficit increased considerably, though largely because of non-recurring factors, and there was a substantial drop in foreign reserves. Military expenditure soared due to events in overseas provinces and tax increases were introduced in the course of the year. The traditional flow of immigration to Africa was reversed for a time. Important strains developed on the credit system and a certain stock-building movement was observed. Some of these strains were merely temporary (in fact there has been an appreciable decline of the trade deficit and an appreciable increase in foreign reserves in 1962, while the money and credit situation has become more normal). But they have occurred at a time when the tendency for expansion of industrial output and investment seemed to be gaining strength.

2. The main issue of economic policy at present is whether the incipient forces of economic growth can be sustained or whether the additional calls on the country's resources for defence expenditure have to be accompanied by a slower rate of increase in productive investment. The 1962 budget, reflecting a prudent attitude on the part of the authorities, provides for a big rise of tax revenue, a levelling off of investment allocations and a sharp reduction of government borrowing. Nevertheless, changes introduced during the year and the 1963 budget indicate certain adjustment of the Government's economic policy. Defence credits are rising, but it is also expected that more money will be spent on investments and more use made of loans. Although internal financial stability should continue to be an important objective of policy, the fundamental answer to Portugal's economic problems remains unchanged; namely, an acceleration in the growth of the national product. The present additional difficulties only make

it more urgently necessary to eliminate as far as possible the various obstacles that have hampered long-term growth in the past.¹

A. GENERAL ECONOMIC TRENDS AND POLICIES

3. Despite the progress made in the industrial sector during recent years the Portuguese economy is essentially at an early stage of development compared with most Member countries in Europe. About 40 per cent of the active population is employed in agriculture and national income per head is quite low compared with the same Member countries. A strong preference for unproductive (money) or traditional (buildings and land) types of assets among the high income groups and a lack of entrepreneurial initiative have for a long time limited the growth of internal demand. As regards external demand, there has been comparatively little increase in the value of commodity exports for a number of years, mostly because of world demand and price trends for the few primary products which continue to represent the predominant element in total Portuguese exports. For a long time general economic policy has laid primary emphasis on budgetary balance and financial stability. This trend has, on the other hand, contributed to the fact that the substantial foreign exchange reserves (which had been built up during the Second World War and during the Korean boom in prices of primary products) continued to increase up to 1960. The combined effect of the vicious circles of an underdeveloped economy and of a cautious public policy together with inherent difficulties in the country's present export pattern, has been to maintain a rate of growth below what was feasible if the large reserves of underemployed labour, the potential national saving and the favourable external balance are taken into account.

4. During the more recent years, however, there have been signs of a certain transformation in the economic scene. Modern patterns of consumption have started spreading in the urban areas. The flow of persons of working age to the cities seems to have been quite appreciable, so as to cause a significant rise in agricultural wages. Furthermore, output and investment in a number of industrial sectors have shown a more dynamic trend. Among the causes of these developments, the impulses transmitted through economic relations with industrialised countries should be mentioned and a usual "demonstration effect" must have played a certain role. There are also indications that the prospect of greater international economic integration has affected favourably the propensity to invest in up-to-date industrial equipment often under co-operative arrangements with

1. In order to put recent developments in perspective, section A of the present report recalls briefly the general economic trends and policies over the last several years. In section B there is a description of the current economic situation. Finally, Section C contains the conclusions.

foreign firms, but an important cause of these new tendencies has surely been the gradual evolution of public policy towards a more positive approach to the problems of economic development. The principal manifestation of the new approach has been the adoption of the two Development Plans (for 1953-1958 and 1959-1964), the implementation of which has already yielded substantial results. It remains true, however, that the dynamic factors of economic development are still not powerful enough to bring about a process of rapid growth.

POPULATION AND LABOUR FORCE

5. The general demographic trends illustrate sufficiently how important a development drive would be required if the Portuguese economy were to provide adequate employment opportunities to the population of working age. The increase of the resident population of metropolitan Portugal (continental area and nearby islands) between the two censuses of 1950 and 1960 corresponded to an average annual increase of 0.7 per cent. The natural increase was significantly higher (1.24 per cent) but, as shown in Table 1, net emigration has been relatively important during this period. It seems probable that the annual net emigration of workers has exceeded 20,000, corresponding to about half the increase of the active population. Since one of the assumptions of the Second Development Plan is the creation of some 20,000 new jobs a year, it follows that — even if emigration continues at the previous high rates, the absorption of agricultural under-employment can hardly become appreciable unless there is an acceleration in the growth of total output.

6. The employment problem looks even bigger when account is also taken of the fact that the process of industrialisation should normally lead to an increased entry of women in the labour market and, sooner or later, to some movement of workers away from low-productivity, labour intensive sectors. These sectors continue to employ a very important proportion of the urban labour force. Although regular adequate statistics on employment are not available, sufficiently broad indications are given by the analysis of the last two censuses reproduced in Table 2. From 1950 to 1960 employment outside the primary sectors increased by about 18 per cent, the strongest advance being recorded in construction and, to a lesser degree, in the manufacturing industries. Agricultural employment¹ having declined by more than 9 per cent during the same period, the increase in total employment during these 10 years has been some 5 per cent. Despite the expansion of employment in industry, its

1. It will be seen from the figures in Table 2 that the employment of males in agriculture has hardly changed. Nevertheless the study of changes in the agricultural labour force has come up against difficulties well known in most Member countries.

TABLE 1. POPULATION TRENDS

In thousands.

	AVERAGE 1951-1955	AVERAGE 1956-1960	1960	1961	1962
1. Natural increase of population	106.1	112.0	118.9	117.9	123.3
2. Net emigration	49.0	43.0	40.9	24.8	49.2
3. To foreign countries	36.9	30.7	30.5	31.7	31.9
4. To overseas provinces	12.1	12.3	10.4	6.9 ¹	17.3
5. Increase of resident population	57.1	69.0	78.0	93.1	74.1

1. Excess of returns over departures.

Sources: National Institute of Statistics, *Annuario Demografico 1961* and *Monthly Statistical Bulletin*.

TABLE 2. COMPOSITION OF THE LABOUR FORCE

CONTINENTAL AREA

In thousands.

	1950 CENSUS RETURNS		1960 PROVISIONAL CENSUS RETURNS	
	TOTAL	OF WHICH MALES	TOTAL	OF WHICH MALES
1. Agriculture and forestry	1,413	1,178	1,285	1,181
2. Fishing	40	39	40	39
3. Mining	25	23	26	25
4. Manufacturing	569	408	665	499
<i>of which:</i>				
a) food industries	71	49	68	44
b) textiles, clothing and footwear	233	113	238	130
c) wood, cork and furniture	88	80	96	88
d) metal-working	82	80	139	134
e) other	105	86	124	103
5. Construction and public works	145	144	213	211
(Sub total: 4 + 5)	714	552	878	710
6. Electricity, gas, etc.	10	9	14	13
7. Commerce, banking and insurance	216	184	253	214
8. Transport and communication	102	95	116	106
9. Services and miscellaneous	446	185	503	193
<i>of which:</i>				
domestic and other personal services	290	75	249	60
10. Total civilian employment	2,966	2,265	3,115	2,481
11. Unemployed	88	76	78	74
12. Total civilian labour force	3,054	2,341	3,193	2,555

Source: National Institute of Statistics.

composition has still not basically changed ; the textile, clothing and footwear branches still represented 36 per cent of the total employed in the manufacturing industries in 1960, as against 39 per cent in 1950.

THE GROWTH OF THE NATIONAL PRODUCT

7. In 1961, the Institute of Statistics published extensively revised national accounts¹. The new estimates give often higher values and higher rates of growth than the old series for the main components of national product and expenditure. The revised figures contradict a few of the detailed statements made in previous reports of the Organisation on the Portuguese economy, but they do not alter the broad picture presented in these reports.

8. During the last decade the growth of Portugal's national product has been fairly moderate and that of national product per head even more so, which cannot be regarded as satisfactory when the starting point is very low, especially since some of the main factors which hamper economic growth in other developing countries do not affect Portugal, which has had no balance-of-payments problems except in 1961, and no difficulty in financing the investments made in recent years. The image of the economy emerging from Tables 3 and 4 is that a process of industrialisation has already started, but that the threshold has not yet been reached, after which self-perpetuating dynamic forces would acquire a dominant influence.

AGRICULTURE, FORESTRY AND FISHING

9. The average growth of agricultural output and productivity over the last decade has been disappointing. There was a considerable expansion in the production of crops in the early fifties. It is true that there has been some improvement in farming methods but the increase in production, especially of cereals, is partly explained by the more intensive cultivation of fallow land, sometimes marginal land, cleared between 1930 and 1940 and now thought to be better suited to forestry. In any case agricultural incomes rose, but there was no similar rise in agricultural investment. In the more recent period there was a succession of crop failures caused by adverse climatic conditions. The overall picture is that, whereas in most Member countries agriculture is facing a crisis of abundance, in Portugal it seems to have hardly benefited from modern technological advances. Although many factors must have played a role in this, for example the still high rate of illiteracy, the absence of a sufficient volume of investment has been of primary importance. The Second Development Plan devotes

1. Instituto Nacional de Estadística : O rendimento Nacional Portugues, Estudo no. 34, containing tables up to 1958 as well as detailed statements of definitions and methods. Figures for more recent years used in the present report were communicated to the O.E.C.D. by the Portuguese authorities.

TABLE 3. SUPPLY AND USE OF RESOURCES

	1961 ¹		% VOLUME INCREASE				AT CURRENT PRICES			
	AT CURRENT PRICES		AVERAGE 1953-60	1959	1960	1961 ²	1960		1961 ²	
	MILLION ESCUDOS	%					MILLION ESCUDOS	%	MILLION ESCUDOS	%
1. Private consumption	35,241	79.2	4.2	1.7	6.2	6.4	52,964	76.6	57,259	76.8
2. Public consumption	4,501	10.1	6.7	14.2	5.3	26.0	8,250	11.9	10,455	14.0
3. Gross fixed investment	6,489	14.6	8.6	9.2	15.6	7.6	12,593	18.2	13,725	18.4
<i>of which:</i>										
a) dwellings	1,197	2.7	8.1	8.3	-2.5	13.9	2,097	3.0	2,489	3.3
b) other construction	2,787	6.3	6.6	-6.8	4.4	4.9	4,617	6.7	4,937	6.6
c) transport equipment	1,147	2.6	6.1	3.5	36.0	-13.0	1,681	2.4	1,463	2.0
d) other machinery and equipment ..	1,358	3.0	16.5	53.0	37.5	15.7	4,198	6.1	4,834	6.5
4. Changes in stocks	539	1.2	...	...	...	...	-243	-0.3	1,995	2.7
5. Exports of goods and services	8,254	18.5	5.9	5.4	7.3	1.0	12,282	17.8	12,386	16.6
6. Total use of resources	55,024	123.6	5.0	3.9	7.9	10.2	85,846	124.2	95,818	128.4
7. Imports of goods and services	10,502	23.6	5.2	-3.4	7.1	21.1	16,724	24.2	21,217	28.4
8. Gross national product at market prices	44,522	100.0	5.0	5.8	8.1	7.7	69,122	100.0	74,601	100.0
9. External deficit on goods and services as % of G.N.P.		5.0						6.4		18.4

1. First year for which a complete set of estimates is given by the N.I.S.

2. Provisional estimates; in particular, the figures for items 5, 7 and 9 are extrapolations from balance of payments data for the first half of the year.

Sources: National Institute of Statistics and Portuguese memorandum to the O.E.C.D.

TABLE 4. INDUSTRIAL ORIGIN OF GROSS NATIONAL PRODUCT AND DISTRIBUTION OF FIXED INVESTMENT

	% VOLUME INCREASE				1961 ² - MILLION ESCUDOS AT CURRENT PRICES			
	AVERAGE 1953-60	1959	1960	1961 ²	GROSS NATIONAL PRODUCT		GROSS FIXED INVESTMENT	
						%		%
1. Agriculture, forestry and fishing	2.1	3.6	2.7	3.4	16,665	24.4	1,087	7.9
<i>of which</i> : Agriculture	2.0 ¹	1.3	1.8	3.7	13,178	19.3		
2. Mining, manufacturing, construction and public utilities	6.7	5.0	11.4	9.1	2,261	41.3	6,207 ³	42.5
3. Other activities	5.4	8.5	7.6	6.9	23,548	34.4	6,429 ⁴	46.8
Gross national product at factor cost	5.0	5.8	8.1	6.7	68,380	100.0	13,723	100.0

1. High increase in 1953; the average variation for 1954-60 was: 0.2 per cent.

2. Provisional estimates.

3. *Of which*: electricity, gas and waterworks; 1,271 million escudos.

4. *Of which*: dwellings 2,489 million escudos and transport and communications 2,121 million escudos.

Sources: National Institute of Statistics and Portuguese memorandum to the O.E.C.D.

a higher share of investment to agriculture, but important delays have occurred in this sector. The case of the irrigation works for the Alentejo area, south of the river Tagus, is noteworthy: technical studies had been completed some time ago and finance was secured, but work was delayed for a long time because some amendments to property rights were involved. Ultimately, in November 1962, the legislation required for starting work was passed. The structure of holdings is, in fact, one of the most serious obstacles to the development of agriculture; there are very large estates in the southern provinces, whereas in the northern areas the pressure of population has resulted in an excessive fragmentation of holdings.

10. Although the statistics available may understate the output of livestock and dairy products, there is no doubt that developments in this sector have been very slow. Fish must still represent the bulk of the population's intake of proteins of animal origin: this fact, together with the traditional export trade, accounts for the existence of an appreciable fishing industry. Finally, the great importance of forestry should be mentioned, especially as regards exports. During the period under review policies to maintain and improve productive efficiency in these two sectors have been applied with more success on the whole than in agricultural and livestock production.

INDUSTRY, CONSTRUCTION AND PUBLIC WORKS

11. The regular expansion of industrial production during the last few years is shown by the figures in Table 6. A number of new industries have been established, generally with big units and efficient equipment. There has also been a certain amount of modernisation in some traditional branches but its relative importance is still rather small. Over a wide field the typical firm remains of small dimensions; various plans for concentration with public support have been prepared, but they have not been applied so far to any significant extent. The authorities have taken a number of special measures in order to promote industrial expansion, for instance, high depreciation allowances, special tax exemptions and measures in the field of credit including the possibility of State guarantees for foreign credits. Although general economic policy is inspired by liberal principles, there are certain legal administrative and financial obstacles that risk hampering industrial expansion but the existing regulations provide for the possibility of ad hoc exemptions and such exemptions are very often granted. For example, manufacturers are often granted exemption from import duties on raw materials and capital equipment. Authorisation for recourse to the capital market is counted among the measures taken to promote industrial investment, but there has hardly been any need to refuse it so far. It seems well worth re-examining the practical significance of some of these arrangements.

TABLE 5. AGRICULTURAL PRODUCTION

	UNIT OR BASE	AVERAGE 1953-57	1958	1959	1960	1961	1962 ¹
1. Total agricultural output	1952/53— 1956/57 = 100	1,102	100	102	104		
2. Livestock output	" " "	101	102	104	106		
3. Wheat	Thousand metric tons	667	809	623	492	430	554
4. Rye, barley and oats	"	386	454	330	250	236	323
5. Maize	"	432	425	487	466	632	551
6. Rice	"	160	149	163	151	177	173
7. Potatoes	"	1,119	1,087	866	1,041	1,056	837
8. Wine	Thousand hectolitres	11,159	8,585	8,924	11,460	7,420	12,510
9. Olive oil	"	883 ²	673	1,000	942	1,234	529

1. Provisional.

2. Average 1952-1957.

Source: Information supplied by the Portuguese Authorities.

TABLE 6. INDUSTRIAL PRODUCTION

Annual indices : 1953 = 100.

	1954	1955	1956	1957	1958	1959	1960	1961
1. Total industrial production ¹	111	119	130	137	147	155	172	186
2. Mining and quarrying	87	79	81	91	78	78	79	87
3. Total manufacturing	111	119	130	138	147	155	171	185
<i>of which :</i>		107						
4. Food and drink	111	120	123	125	135	143	156	163
5. Textiles, clothing and footwear	108		121	127	133	132	143	153
6. Wood, cork, furniture	98	114	118	124	127	136	162	162
7. Chemical products and oil	110	118	126	130	142	150	169	174
8. Non-metallic mineral products	99	110	128	125	135	143	153	170
9. Metallurgy, engineering and electrical equipment	116	124	143	163	182	189	200	243
10. Other (including pulp and paper and rubber)	130	147	162	176	175	194	228	242
11. Electricity	120	137	158	157	193	217	236	262

1. Mining and quarrying, manufacturing and electricity.
Source : Portuguese Industrial Association.

12. The more important intervention of the public sector so far has been in the creation of general infrastructures. The transport system and the production and distribution of electricity are the two sectors where the greatest part of public funds have been invested under the two Development Plans. Both public works and the private sector have contributed to a relatively important volume of non-residential construction during the period under review, which is not surprising given the present state of Portugal's economic development ; but the construction of dwellings has also been very important and rather excessive from an economic point of view. It is only in the more recent period that the share of investment represented by housing has shown a declining tendency. The authorities have been concerned with this problem. They took certain fiscal and other measures last year aimed at discouraging an excessive volume of house building especially of the more expensive categories.

THE DEVELOPMENT PLANS

13. The First Development Plan covered the six years 1953-1958. It was in reality not much more than a plan of investments by the public sector. It included certain privately financed projects but it was not the result of a co-ordinated approach to the country's development problems. Although the plan was of rather modest proportions there have been important delays in its execution in some sectors. Actual expenditure in the metropolitan area over the whole period was of the order of 10 billion escudos (of which more than two billion were financed directly by the budget) representing 3 per cent of the gross national product.

14. The Second Development Plan (for 1959-1964) marked clear progress compared with the first from certain points of view. It involves total outlays (in the metropolitan area) of more than 22 billion escudos, as against some 10.3 billion spent under the First Plan. It gives greater prominence to investment in agriculture and in manufacturing industries. And it has also been accompanied by some important measures of economic policy such as the Banking Reform Law of 1957 and the creation of a National Development Bank. Nevertheless, its scope is still restricted compared to the economy's needs and possibilities ; and the co-ordination of development policy measures which it represents has not yet obtained the degree which seems feasible under present circumstances.

15. The execution of the Plan in 1959-1962 and the forecasts for the current year are summarised in Table 7. Some important initial delays were largely overtaken in 1960, when total expenditure rose considerably. In 1961, the level of expenditure declined. Assuming that the 1962 forecasts have been realised, there will be an important reduction in investment under the Plan in 1963-1964 (see Table 7), unless, of course, new projects are added in time to the present list.

TABLE 7. THE SECOND DEVELOPMENT PLAN (1959-1964)

A. EXPENDITURE

Million escudos.

	ACTUAL EXPENDITURE				REVISED FORECASTS	INITIAL FORECASTS	TOTAL 1959-1964	
	1959	1960	1961	1962 ¹ JAN.-SEPT.	1962	1963 AND 1964 ²	INITIAL FORECASTS	ACTUAL EXPEND. 1959-61 AND FORECASTS 1962-64 ³
1. Agriculture and forestry	420	423	470	292	643	1,312	3,812	3,268
2. Fishing	50	110	116	95	125	194	550	595
3. Mining and manufacturing	620	1,716	1,505	643	1,143	1,719	5,787	6,703
4. Electricity	895	955	1,063	641	1,095	1,169	4,595	5,177
5. Transport and communication	838	1,082	953	602	1,741	1,684	6,613	6,298
6. Research and technical education	82	131	132	61	120	116	631	581
7. Total	2,905	4,417	4,239	2,332	4,868	6,194	21,988	22,623

1. Provisional.

2. Figures from the tables of the Second Plan (1959-64), as approved at the beginning of 1959.

3. Actual expenditure in 1959, 1960, and 1961, plus revised forecasts for 1962, plus initial forecasts for 1963 and 1964.

TABLE 7 (continued). THE SECOND DEVELOPMENT PLAN (1959-1964)

B. FINANCING¹

Million escudos.

	ACTUAL						FORECASTS		
	1959		1960		1961		1962 ³ JANUARY- SEPTEMBER	1962	
		%		%		%			%
1. Budget	712	24	848	22	873	25	603	1,113	23
2. Social Security Institutions	359	12	416	11	416	12	451	492	10
3. Development Bank ²	275	9	308	8	350	10	234	186	4
4. Savings banks	186	6	188	5	210	6	—	237	5
5. Commercial banks and private institutions	568	19	1,039	27	529	15	312	912	18
6. Private self-financing	555	19	783	20	612	17	190	588	12
7. Public self-financing	112	4	92	2	123	3	293	256	5
8. Credit from abroad	62	5	173	4	164	5	103	128	3
9. Other sources	138	5	173	4	164	5	103	128	3
10. Total	2,967	100	3,866	100	3,525	100	2,185	4,868	100

1. No account is taken in this table of certain types of finance (e.g. pre-financing of investment with bank credits). This is the reason of the appreciable differences between total investment and total finance.

2. For 1959 National Development Fund.

3. Provisional figures.

Sources: Second Development Plan and information supplied by the Portuguese Authorities.

The fact that actual expenditure for investments in agriculture continues so far to fall seriously behind the comparatively modest targets of the Plan should be underlined.

TRENDS IN THE BALANCE OF PAYMENTS

16. Apart from the trade returns, most of the balance of payments statistics available refer to the escudo area as a whole ; thus, it is not possible for example to make a quantitative description of the movement of invisibles or of private capital between the metropolitan area and the overseas provinces¹. A distinctive feature of the metropolitan balance of payments is an appreciable trade deficit with foreign countries, only partly offset by a small trade surplus with overseas territories. Portuguese imports have shown a marked upward trend since 1954, which was interrupted in 1958-1959, but was resumed afterwards. On the other hand, there has been comparatively little regular expansion in the value of exports, the composition of which has not changed significantly over the last decade. A few primary products — either in a raw state or after simple processing — continue to account for a big share of total exports. There has, however, been some progress in the export of certain manufactures, especially of textile products ; in recent years exports of textiles to foreign countries have exceeded exports to the traditional markets of overseas provinces.

17. The fairly substantial trade deficit has been offset by appreciable invisible earnings (principally emigrants' remittances) the inflow of capital, and by trade surpluses of the overseas territories with foreign countries. The foreign exchange reserves continued to increase until 1960, and despite a fall during 1961 which was in any event largely cancelled out in 1962, they remain high by accepted economic standards. On the other hand, Portugal has so far no important foreign indebtedness.

B. THE CURRENT ECONOMIC SITUATION

OUTPUT AND DEMAND

Trend of demand and gross national product

18. The revised estimates for 1960 show appreciably higher rates of expansion in overall demand and in the gross national product (about 8 per cent in real terms) than those given in the provisional figures. It will be noted in particular that, imports and exports of goods and services increased in volume by more than 7 per cent ; and above all, fixed investment increased by 15.6 per cent compared with a provisional estimate of only 4.4 per cent.

1. Balance of payments figures for the last few years are given in Table 11 (Section B of this report).

19. For the year 1961 only provisional estimates are available. They show an important volume increase of the gross national product (7.7 per cent in volume at market prices and 6.8 per cent at factor cost). Although the rate of expansion of global demand (10.3 per cent in volume) is subject to verification, it is clear that the economic situation in 1961 was marked by a continued and very vigorous expansion in public expenditure and by a substantial increase in stocks. The growth in the volume of public consumption has probably reached nearly 25 per cent in volume as a result of the very large substantial in military expenditure. The level of stocks, which had fallen during the period 1958-1960, rose appreciably in 1961 when stocks both of raw materials and manufactured goods were reconstituted. Cotton, textiles, cork, resinous products and iron and steel products accounted for a large part of this increase in stocks, which in all amounted to nearly 3 per cent of the gross national product at current prices.

20. According to the same provisional estimates, fixed investment increased in volume by 7.6 per cent in 1961. The rise was appreciable in processing industries, construction¹ and the electrical sector ; on the other hand the volume of investment in agriculture once again remained stationary.

TABLE 8. TREND OF MAIN EXPORTS

Million escudos.

	1953		1957		1959		1961	
		%		%		%		%
1. Tinned fish	599	9.5	975	11.8	1,118	13.4	1,190	12.7
2. Wine	606	9.5	739	8.9	737	8.8	767	3.2
3. Cork, raw	733	11.7	689	8.3	657	7.9	610	6.5
4. Non-ferrous metals	487	7.8	180	2.2	105	1.3	117	1.2
5. Cork products	472	7.5	683	8.2	660	7.9	766	8.2
6. Textiles	966	15.4	1,312	15.8	1,280	15.3	1,676	17.9
7. Total items 1 to 6	3,863	61.5	4,578	55.2	4,557	54.6	5,126	54.7
8. Total exports	6,283	100.0	8,289	100.0	8,351	100.0	9,373	100.0

Sources : National Institute of Statistics, Foreign Trade, Vol. I.

As shown in Table 7, actual investment expenditure under the Development Plan was somewhat lower than in 1960. The fall of investment outlays for basic industries is due to the completion of the first phase of the iron and steel projects ; there was a similar decline of investment in maritime transport ; but investment under the Plan in agriculture and in railways was higher.

1. The national accounts do not give separate estimates of production and investment in these two branches of activity.

21. As regards the development of other demand factors in 1961, it should be mentioned that the recovery in exports recorded in 1960 did not continue in 1961; this was mainly due to the decline in demand from the overseas provinces. Private consumption was certainly encouraged by the increase in wages which seems to have been more rapid than in the past. The poor harvests and the new taxes imposed in the middle of the year on certain current consumption goods (though not on basic necessities) must, however, have limited this expansion.

22. The rise in total expenditure in 1961 was partly absorbed by a very substantial increase in imports of goods and services, which grew in volume by nearly 20 per cent. Nevertheless, the gross national product seems to have increased appreciably. If the 7 per cent growth of gross national product is confirmed by the definite estimates, it will have been one of the highest rates recorded for several years.

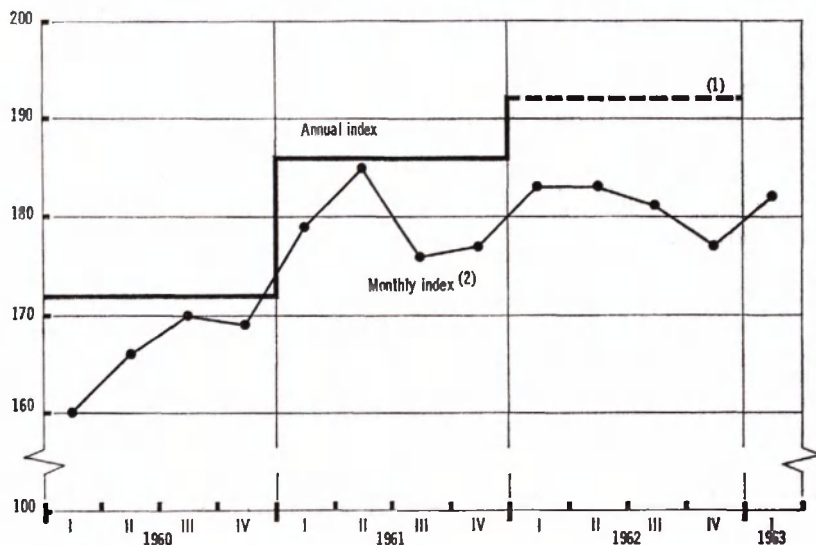
23. The data at present available for 1961 allow only partial and provisional assessments to be made. The monthly index of industrial production, which had already been rising more slowly during the second half of 1961, levelled off in the first months of 1962. Credit granted by the banking system showed a decline, perhaps linked to some extent with the partial liquidation of stocks accumulated in the previous year. Finally, investment under the Development Plan which, according to the forecasts, should have exceeded the 1961 level by about 16 per cent, was less during the first nine months of 1962 than during the first nine months of 1961. All these factors seem to reflect some slowing down of the expansion, in spite of the distinct increase in exports. Since the middle of last year, however, the trend in bank credit has again been upwards and a certain recovery in industrial production has got under way. Comparatively good harvests, the continuing rise in public expenditure, and a possible increase in investment under the Development Plan probably gave a fresh impetus to internal demand during the second half of the year.

Agricultural production

24. Agricultural production increased slightly in 1961 over 1960, despite a fall in the wheat harvest by 13 per cent and a decline in the production of wine. Forestry production did not reach the 1960 level, owing to a fall in cork production. In 1962, there has been a fairly good harvest of cereals. The wheat crop exceeded the 1961 crop by about 30 per cent and by 8 per cent the average of the last ten years. Production of wine has also increased appreciably compared to 1961. The drought of last summer, however, affected several crops and caused a certain fodder shortage. After a plentiful olive harvest in the previous year, there was an appreciable fall in 1962 in accordance

with the two-year production cycle. The output of the fishing industry, which had shown a favourable trend in 1961, remained at about the same level during the first eleven months of 1962.

Diagram 1. INDICES OF INDUSTRIAL PRODUCTION
(1953 = 100)



(1) Provisional estimate.

(2) Quarterly averages, seasonally adjusted; the monthly indices cover only about 40 per cent of industrial production.

Source: Portuguese Industrial Association.

Industrial production and building

25. Industrial production continued to grow in 1961 at a high rate (+ 8 per cent) though the rate of increase was slightly lower than in 1960 (+ 11 per cent) due to some slackening of expansion in the food, chemical and woodworking industries; the output of textiles and clothing was 7 per cent higher than in 1960. The most striking feature in the development of industrial output in 1961 was the rise in the basic metals and metal working sectors, linked in particular to the coming into service of the new iron and steel plant at Seixal, which attained an output of 120,000 tons. However, the slowing down of industrial expansion which set in during the second half of 1961 has been more pronounced in the first months of 1962, according to the monthly indices of industrial production¹. The average of the general index of industrial production for the first six months of 1962 was about the same as for the corresponding period of 1961. The textile

1. The monthly indices cover 40 per cent only of industrial production and underestimate the weight of the new industries, so that the monthly averages for the year may be lower than the annual indices.

industries showed a decline and the food industries remained practically stable ; other sectors of the processing industries, however (in particular the metal, engineering and chemical industries), and electricity production, show appreciable increases. From last June onwards, industry as a whole began to recover : the average of the general index for the second half of 1962 was slightly above that for the second half of 1961.

26. The number of dwellings completed in 1961 was 13 per cent higher than in 1960. Furthermore, non-residential building seems to have expanded rapidly, the area built having increased by nearly 25 per cent. During the first three-quarters of 1962 the construction of dwellings was slightly above the figure for the corresponding period of 1961 while the non-residential built-up area decreased over the same period.

THE INTERNAL FINANCIAL SITUATION

Prices and wages

27. Prices continue to be stable. The wholesale price index rose slightly during the second half of 1961, owing partly to higher prices of fuel, due to tax increases. The average for the whole year was, however, the same as in 1960. In December 1962 the index was 103 (1953 = 100), the same as in December 1961. The average index of consumer prices which had increased slightly in 1961, showed a more marked increase last year, largely because of the trend of food prices ; in February 1963 it was 3.2 per cent more than in February 1962.

28. Wage increases have been greater than in the past. The average index of industrial wages in Lisbon increased by 4.4 per cent in 1961 compared with 1.6 per cent and 4.1 per cent in 1960 and 1959 respectively. The increase in the average value of the index in 1962 worked out at 7 per cent. In agriculture, men's wages rose by about 4 per cent in 1961 ; the partial figures available show that the advance in agricultural wages continued in 1962.

Public finance

29. The budget estimates for 1961 provided for an appreciable increase in expenditure — by 12 per cent compared to the 1960 budget. Since the estimated increases in revenue were smaller, the global budget deficit (total expenditure, less revenue other than government borrowing) forecast was much higher than in previous years. Towards the middle of 1961, however, in order to meet supplementary military expenditure, the authorities imposed a number of tax increases, selecting the taxes to be increased in the light of their

plans for fiscal reform. In addition to the tax on the transfer of landed property the main taxes affected were the supplementary income tax, the taxes on tobacco, beer, motor cars and other consumer goods and the petrol tax. As a result of these measures, the provisional accounts for 1961 show an increase of revenue by 14 per cent, as against the initial estimate of 7 per cent ; the more important increases concern indirect taxes and the special taxes on tobacco and beer. Expenditure for defence and internal security increased by 75 per cent in 1961 and accounted for some 40 per cent of total expenditure, which rose by 23 per cent ; investment expenditure showed a slight decline. Due to the rise in receipts, the global deficit was roughly as forecast at the beginning of the year. The growth of current expenditure has resulted in a substantial fall of the current surplus, which represented 10 per cent of total receipts in 1961 compared to more than 25 per cent in 1958-1959.

30. The 1962 budget reflected a certain change from the financial policy followed in recent years up to 1961. A halt had been called to the expansion in public investment and resort to borrowing was appreciably reduced, after the rapid increase of recent years. It seems, therefore, that the very substantial increase in military expenditure caused by events in the overseas provinces has induced the Government to limit the expansionary influence of the public sector in order to ensure internal and external financial equilibrium. The 1962 budget also provided for substantial resort to external credit to finance investment expenditure. The overall budget deficit (as defined in the preceding paragraph) was reduced to 1.8 billion escudos compared to the 2.6 billion in the 1961 budget estimates. Compared with the 1961 budget there was a very considerable increase in revenue other than borrowing, while total expenditure increased by much less. Expenditure on defence and national security increased by about 15 per cent. Investment expenditure under the Development Plan increased from 1,252 million escudos (the figure in the 1961 budget) to 1,371 million escudos. Because of a decline in other investment under the budget, however, total investment expenditure was about the same as under the 1961 budget. On the basis of information at present available for the results of the year 1962, it can be estimated that the overall deficit, covered by borrowing, exceeded the budget estimate but probably fell short of the 2.6 billion recorded in 1961. Comparing the first three quarters of 1961 with the same period in 1962, there was a rise in total expenditure of about 500 million escudos and a rise in "ordinary" revenue alone of almost 700 million. Large increases in budget appropriations during the year (of which 1,830 million were made for defence services and 520 million for investment during the first 8 months) must have increased the rate of expenditure in the closing months of 1962. It is nevertheless fairly probable that budget revenue has appreciably exceeded the estimates, especially as they were below the 1.3 milliard escudos of actual revenue in 1961.

TABLE 9. CENTRAL GOVERNMENT BUDGET

Million escudos.

	ACTUAL				FORECASTS			
	1958	1959	1960	1961 PROVIS.	1960	1961	1962	1963
1. Ordinary revenue	8,378	8,835	9,590	10,812	7,820	8,238	9,481	9,758
<i>of which:</i>								
2. Direct taxes	2,730	2,870	3,060	3,295	2,258	2,674	2,839	2,999
3. Indirect taxes	3,067	3,266	3,670	4,272	2,549	2,686	3,309	3,283
4. Extra-ordinary revenue other than borrowing	100	244	335	528	715	893	1,213	1,248
5. Total revenue (1 + 4)	8,478	9,079	9,925	11,340	8,535	9,131	10,694	11,006
6. Current civilian expenditure	3,410	3,923	4,177	4,374	4,197	4,406	4,508	5,140
7. Defense and internal security expenditure	2,493	2,890	3,258	5,718	2,975	3,925	4,504	4,992
8. Investment expenditure	2,787	2,938	3,905	3,852	3,316	3,450	3,449	4,018
9. Total expenditure (6 + 7 + 8)	8,690	9,751	11,340	13,944	10,488	11,781	12,461	14,150
10. Current balance (5 — 6 — 7)	+ 2,575	+ 2,266	+ 2,490	+ 1,248	+ 1,363	+ 800	+ 1,682	+ 874
11. Overall balance (5 — 9)	- 212	- 672	- 1,415	- 2,604	- 1,953	- 2,650	- 1,767	- 3,144
<i>Financed by:</i>								
12. Internal borrowing	267	699	1,479	2,602	1,955	2,657	844	2,077
13. Foreign credits	—	—	—	—	—	—	926	1,070
<i>Pro mem:</i>								
14. Fiscal receipts of General Government (including autonomous bodies, local authorities and social security institutions) as percentage of G.N.P.	19.2	18.9	18.7					
15. Expenditure of General Government as percentage of G.N.P.	22.8	19.9	21.5					

Sources: Finance Bills and Official Journal.

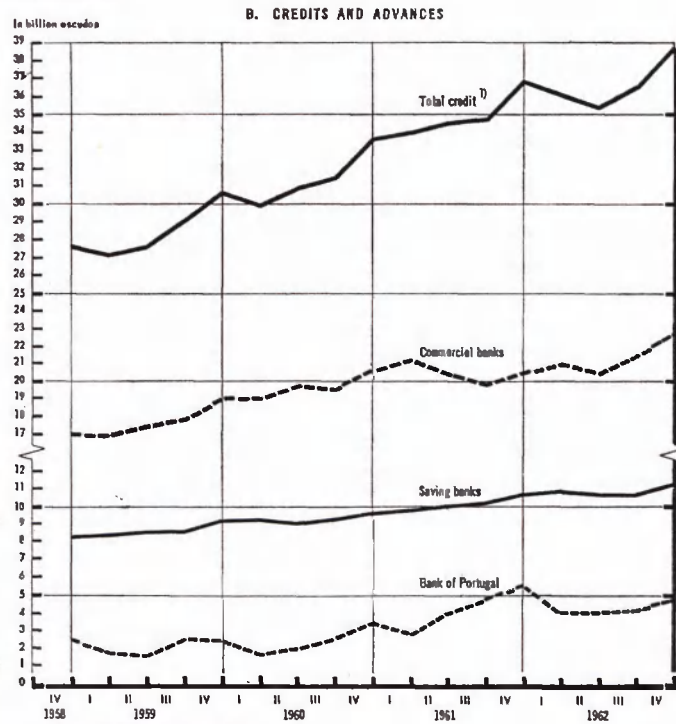
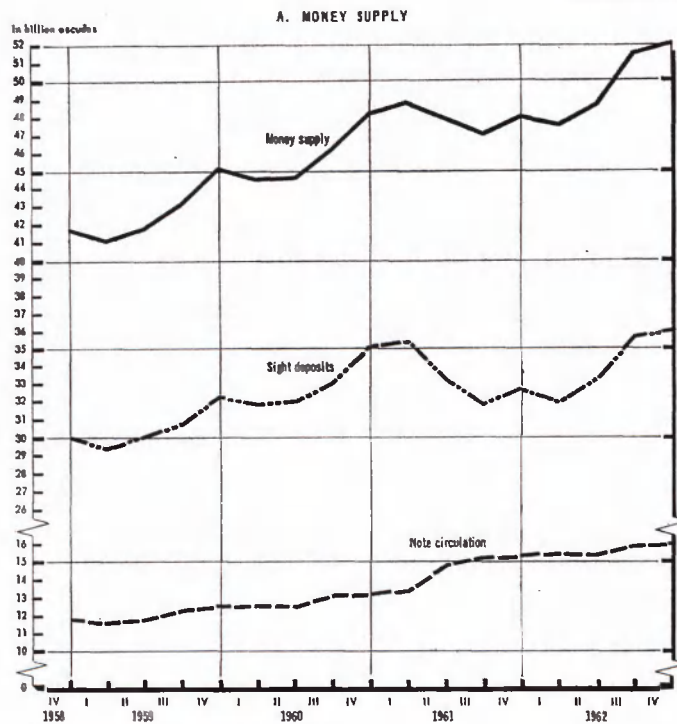
31. The budget just adopted for 1963 is more expansionary than the preceding one. It provides for 313 million escudos more on the revenue side than the 1962 estimates, and 1,689 million escudos more of expenditure, affecting all the main categories. Expenditure concerned with defence and national security is again increased by 11 per cent, reaching nearly 5 milliard escudos (35 per cent of total expenditure). The increase in current civil expenditure is 632 million. Disregarding the 450 million escudos payable for increased interest and amortization on public debt, there remains a five per cent increase in this category of expenditure, including in particular an increase of more than 100 million (11 per cent) for national education. Finally, there is this year a large increase in appropriations for investment (570 million, or 17 per cent) mainly under the Development Plan. This is mostly accounted for by an appropriation of some 600 million for the construction of the Tagus bridge. The overall budget deficit is increased, according to the estimates, to 3.1 billion escudos. The expansionary effect of the budget on internal demand, however, is probably less marked than these figures would indicate. A significant part of the increase in investment and defence expenditure will be effected in foreign markets, and foreign borrowing will again be large. It is also possible that budget revenue may have been under-estimated, at least if the assumption of a marked decline in economic activity in 1963 is discounted. It is true that the implementation of the G.A.T.T. and E.F.T.A. agreements and the Statutory Decree on economic integration of Portuguese territories will reduce import and export duties (the decline in revenue from this source has been estimated at 145 million escudos). The estimate of ordinary revenue for 1963 is however more than one billion escudos below the 1961 figure, while the estimates of direct and indirect tax revenue for the financial year 1963 are little more than the actual revenue from this source during the first nine months of 1962 alone.

MONEY AND CREDIT

32. The relatively large expansion in the money supply recorded in recent years was followed by a slight reduction in 1961 and in the first months of 1962. The main reason for this, in 1961, was the balance of payments deficit, whilst the increase in bank credit was not sufficient to offset this factor. Furthermore, a very marked preference for bank notes over slight deposits has developed in the course of 1961. In fact, whilst bank note circulation increased by 16 per cent, compared with 5 per cent only in 1960 and 1959, sight deposits fell by 2.3 billion escudos. The whole of the money supply and time deposits increased in 1961 by 640 million escudos only, compared with 4,700 million in 1960. The reduction in the money supply has continued during the first four months of 1962. The main cause was the decline in credit. Subsequently, however, the balance-of-payments surplus and the expansion of bank credit brought about an appreciable

Diagram 2. MONEY AND CREDIT

FIGURES END OF PERIOD



increase in liquidity in the private sector. The total of the fiduciary issue, sight deposits (not including deposits with the Bank of Portugal) and time deposits was 11.5 per cent higher in December last than in December 1961; the most marked increase was that in time deposits (32 per cent).

33. The Bank of Portugal took action in 1961 to prevent the external deficit and the withdrawal of sight deposits from causing undue strain on the liquidity of the commercial banks. By means of commercial rediscount and, to a much more limited extent, of direct operations with the public, it has created liquidities amounting to 2.1 billion escudos, an amount almost equivalent to the drop in external reserves.

TABLE 10. MONEY AND CREDIT

Million escudos.

	1959	1960	1961	1962
CHANGES IN MONEY SUPPLY AND QUASI-MONEY :				
1. Currency	+ 665	+ 633	+ 2,099	+ 844
2. Sight deposits	+ 2,601	+ 2,502	- 2,328	+ 3,299
3. Money supply (1 + 2)	+ 3,266	+ 3,135	- 229	+ 4,143
4. Time deposits	+ 805	+ 1,608	+ 870	+ 2,306
Total	+ 4,071	+ 4,743	+ 641	+ 6,449
COUNTERPART :				
1. External assets ¹	+ 493	- 155	- 2,766	+ 2,904 ²
2. I.M.F. account	—	—	+ 431	+ 29
3. " Promissorias "	- 22	+ 500	+ 480	+ 241
4. Credit	+ 3,087	+ 3,486	+ 2,785	+ 2,107
5. Miscellaneous ³	+ 513	+ 912	- 289	.....

1. Revised series, following the re-valuation of official reserves in July 1962 on the basis of the I.M.F. parity for the escudo.

2. Secretariat estimate on the basis of the increase in the gold and foreign exchange reserves of the Bank of Portugal; thus changes in commercial banks' foreign position are not included.

3. Residual item.

Source : Bank of Portugal, Annual Report.

The contraction in the liquidity of the commercial banks, which was already nearing the statutory minimum towards the end of 1960, has reduced the credit financed by them (net of rediscount by the Bank of Portugal) by 400 million escudos. In addition to the action of the Bank of Portugal, the Caixa Geral de Depositos and the savings banks have developed their lending to offset the effects of the contraction of bank liquidity. The amount of advances made by these institutions were up from 9.6 billion escudos at the end of 1960, to 10.7 billion escudos at the end of 1961 (reaching 11.2 billion in December 1962). The increase in total credit granted by the banking system (excluding the National Development Bank) has therefore been of the order of

10 per cent. In 1962, the Bank of Portugal ceased to sustain the liquidity of the banks and of the private sector in general ; its commercial rediscount and advances at the end of 1962 were 740 million escudos less than in December 1961. This decline in credit granted by the Bank of Portugal was not offset by the very limited increase in credits granted by the commercial and savings banks during the first half of 1962 ; this trend in credit may be partly linked to the levelling-off of industrial production and perhaps also to a decline in stocks. Between June and December last year, however, commercial bank credit showed a large increase (of 2.2 billion escudos). Bank liquidity, which had sharply declined during 1961, did not vary appreciably in 1962. The increase in bank credits in 1962 was 5.6 per cent only. Medium and long-term credit granted to the private sector in Metropolitan Portugal by the National Development Bank reached 688 million escudos compared with 672 million in 1961 and 449 million in 1960. On the other hand, credits of this type granted by the Caixa Geral de Depositos rose from approximately 240 million escudos in 1960 and 1961 to 640 million last year.

34. The reduced liquidity of the banking system has sent up the interest rate applied by the banks, which are normally less than the statutory maximum. For discount operations the average rate normally applied went up from 3 per cent to about 4.2 per cent, the statutory maximum being 4.5 per cent. Portugal remains, however, one of the countries with the lowest interest rates on the money and financial market and this has, no doubt, an unfavourable effect on the channelling of private savings towards the capital market. The rediscount rate of the Bank of Portugal, which is now fixed at 2 per cent, has not been changed since 1944.

35. Private bond issues declined appreciably in 1961, after reaching a very high level in the two previous years. Share issues on the market also suffered from the fall in prices on the Stock Exchange ; nevertheless the total capital raised by joint stock companies — by share issues or other means — was 1.2 billion escudos in 1961 compared with less than 1 billion in 1960. The index of share prices continued to fall during the first half of 1962 but remained approximately steady between last July and January, 1963, except for shares in overseas companies which again declined. The index for companies in Metropolitan Portugal stood at 136 in January last (last quarter of 1952 = 100) compared with 151 in January, 1961, and 176 in January, 1960.

Foreign trade

36. The foreign trade deficit of Metropolitan Portugal, which had increased substantially in 1961, was reduced appreciably in 1962. The total value of imports after rising by 15 per cent in 1960 and by 20 per cent in 1961, fell by 10.6 per cent in 1962. In fact, the growth

of imports in 1961 was largely due to some exceptional factors, such as imports of ships amounting to about \$ 38 million and the purchase of wheat for \$ 19 million, caused by the poor harvest (monthly average imports in 1960 were \$ 45 million). Other imports which increased substantially in 1961 included cotton and other textile raw materials, iron and steel products, machinery apparatus and instruments and road vehicles. The decline in imports in 1962 was mainly due to the absence of imports of large ships and a fall in the purchases of iron and steel products, cotton and food products other than wheat. On the contrary, imports of machinery were higher. Comparing the 1961 imports by areas of origin to those of 1960, there has been a relative fall in imports from the overseas provinces — although their absolute value has risen — and an increase in imports from the United Kingdom, linked among other things to the purchase of ships; the shares of the E.E.C. and of the United States in Portuguese imports were approximately the same as in 1960. In 1962, imports from the overseas provinces and foreign countries fell in the same proportions. Only imports from the United States, France and Italy increased significantly.

37. The value of exports in 1961 was no greater than the preceding year. There were, however substantial increases in certain traditional export products, especially preserved fish, cotton thread and Port wine. Exports of superphosphates and sisal yarn also increased. On the other hand exports of collophane, pyrites, cork and cotton fabric fell substantially. The overall stagnation of exports was caused by the fall in demand from the overseas provinces; foreign exports increased by 4 per cent in 1961 compared with the previous year, as a result of higher exports to the E.F.T.A. countries and the United States. Exports to the E.E.C. countries increased only very slightly. During 1962, the trend of exports was definitely more favourable; they were 12.6 per cent higher in value than in 1961. The more important increases concern olive oil and especially textile materials and products; the increase in the exports of machinery and apparatus and electrical equipment should also be mentioned, although such manufactures represent still a very small percentage of total exports. Exports to the overseas provinces have risen in 1962 again, while exports to foreign countries were about 14 per cent higher. Exports to E.E.C. countries increased markedly (+ 20 per cent) and represented 23 per cent of total exports compared with 20 per cent for Portugal's partners in E.F.T.A. Exports to the United States rose by nearly 25 per cent, due to a large extent to the progress made by textiles. The terms of trade, which had improved by 2 per cent in 1961, deteriorated by more than 3 per cent in the first three quarters of 1962.

38. The substantial increase in Metropolitan Portugal's trade deficit with foreign countries in 1961, was the main cause of the

TABLE 11. BALANCE OF PAYMENTS OF THE ESCUDO AREA

	1957	1958	1959	1960	1961	1961		1962
						1ST HALF	2ND HALF	1ST HALF
<i>Trade with foreign countries (job):</i>								
1. Metropolitan area — imports	395	368	371	424	526	247	279	212
2. Metropolitan area — exports	218	215	212	251	258	111	147	130
3. Metropolitan area — trade balance	- 177	- 153	- 159	- 173	- 268	- 13	- 132	- 82
4. Overseas provinces — imports	100	101	97	101	101	40	61	72
5. Overseas provinces — exports	149	168	169	168	185	89	96	79
6. Overseas provinces — trade balance	+ 49	+ 67	+ 72	+ 67	+ 84	+ 49	+ 35	+ 7
7. Invisibles, net	45	63	40	39	- 5	- 19	14	15
8. Unilateral private transfers	49	49	57	55	45	18	27	24
9. CURRENT ACCOUNT BALANCE	- 34	26	10	- 12	144	- 88	- 56	- 36
<i>Capital movements, non-monetary sectors:</i>								
10. Private capital, long-term	2	2	1	4	36	—	36	16
11. Public capital, long-term	- 1	- 3	- 22	- 14	- 10	- 8	- 2	7
12. Private capital, short-term	19	- 2	4	2	20	- 1	21	13
13. Public capital, short-term (non-monetary sector) .....	..	..	..	..	- 2	—	- 2	..
14. Total (10 to 13)	20	- 3	- 17	- 8	44	- 9	53	86
15. Errors and omissions	7	3	—	2	- 7	- 9	2	1
16. MONETARY FACTORS — TOTAL	7	- 26	7	18	108	107	1	- 51
17. MONETARY FACTORS — private institutions	3	..	3	1	4	18	- 14	- 9
18. MONETARY FACTORS — central institutions	10	- 26	4	17	104	89	15	- 42
<i>of which:</i>								
a) I.M.F. subscriptions	—	—	—	—	- 15	- 15	—	—
b) Gold and foreign exchange reserves (increase = -)	- 9	- 38	- 43	2	102	97	5	- 46
c) Other	19	12	47	15	17	7	10	4

Source: Portuguese memorandum to the O.E.C.D. and Bank of Portugal.

balance of payments deficit of the escudo area which reached \$ 95.7 million. As shown by the figures in Table 11, exports abroad from the overseas provinces increased appreciably during that year. On the other hand current invisible transactions resulted exceptionally in a deficit due to an increased deficit on transport and higher Government expenditure abroad, but which seems also to have partly reflected to some private capital exports. Remittances by Portuguese emigrants also fell. Portugal's subscription to the World Bank (\$ 10 million) and the International Monetary Fund (\$ 15 million) should also be recalled. The fall in the official reserves, which occurred mainly during the first half of the year, was \$ 103 million over the whole year. In 1962 most of these tendencies were reversed. According to the data for the first half year, the deficit on current transactions and unilateral transfers of the escudo area was well below the figure for the first half of 1961 in spite of an appreciable increase in imports by the overseas provinces. There was a net contraction in Metropolitan Portugal's trade deficit and once more a favourable balance on account of invisibles. Large imports of long-term capital, particularly in the public sector, have more than offset the current deficit and the official reserves increased as a result. The improvement in Metropolitan Portugal's trade balance continued during the second half of 1962 and the increase in the reserves for the whole year was \$ 101 million. They amounted to \$ 782 million in February 1963, representing 16 months' imports for Metropolitan Portugal.

NEW ECONOMIC POLICY MEASURES

Relations with the Overseas Provinces

39. In November 1961, a Decree-law on the economic integration of Metropolitan Portugal and the overseas provinces was published. It is designed to do away progressively with all existing restrictions on the movement of merchandise, capital and individuals between the various Portuguese territories so as to bring the trade and payments system into line with the commitments entered into by Portugal on its entry into the I.M.F. and the G.A.T.T. The essential objectives of this Decree-law are, first, the economic integration of all the Portuguese territories ; and second, the economic development of the various regions and in particular of the overseas provinces. All customs duties and quantitative restrictions on trade within the escudo area are to be abolished by the end of 1971, according to a time-table, which entered into force in August 1962. In particular, as from 1st January, 1964, all imports into continental Portugal, Madeira and the Azores originating from the overseas provinces will be totally exempt from customs duties. For the imports of overseas provinces the tariff reductions will be spread over a longer time ; as from 1st January, 1967, each overseas province will import free of duty from Metropolitan Portugal commodities which represented at least 40 per cent of that province's total purchases in the Metropolitan area in the year

1960. A time-table for the abolition of quantitative restrictions on both imports and exports is also established. Moreover, the Decree-law lays down the principle of gradual liberalisation of invisible transactions and of private capital movements. With regard to the objective of economic development in the various regions, this text contains, first, special clauses which allow amendments to the liberalisation process, in cases when this is justified by the development needs of a given province ; secondly, an increase is foreseen in the aid provided by the State to the less developed regions. The same Decree-law establishes the basic lines for a re-organisation of the payments system and provides inter alia for the creation of a "Monetary Fund of the Escudo Area", the agent of which will be the Bank of Portugal.

Development plans and co-ordination of economic policy

40. A new Decree-law prepared last year provides for extensive re-organisation of the bodies responsible for the study and conduct of long-term economic policy ; this text also lays down certain methods for attaining the twofold target of economic development of each Portuguese territory and progressive economic unification of the escudo area. A new Committee of Ministers for Economic Affairs is responsible for the co-ordination of national economic policy and a Technical Secretariat of the Presidency of the Council will be created to study questions related to the development plans (national plan and regional plans) and those concerning economic integration. This Decree-law provides subsequently for the preparation of an interim Plan for the transitional period between the present Plan and the one to follow it ; it was later decided that this Interim Plan should cover the years 1964-1966. Provision is likewise made for revising the regulations on the establishment of new industries, the investment of foreign capital, etc. The Committee of Ministers for Economic Affairs is responsible for approving the different forms of aid to enterprises deemed to be in the general interest and for the prior approval of the constitution of companies with a capital exceeding 50 million escudos and of the issue of shares or bonds for an annual amount exceeding 10 million escudos. Finally, provision is made for the creation of an Economic Development Fund to be financed by budget appropriations and by the proceeds of internal or external loans. This Fund will finance Government aid to private enterprises or direct Government participation in the establishment of firms ; in addition it will be able to grant credits for specific purposes to the National Credit Fund and to the National Development Bank.

Relations with foreign countries

41. In June 1962, the Portuguese Government asked for the opening of negotiations with the European Economic Community. The Portuguese authorities' policy of attracting foreign long-term

capital resulted last year in the conclusion of several agreements — with the German Federal Republic, the United States Export-Import Bank and various private banks. The total amount of credits negotiated was \$ 156 million. This figure should be compared to the estimate of \$ 245 million for foreign financing of investments included in the Development Plan during the three years 1962 to 1964. Moreover, it has been announced officially that negotiations are being carried out with the World Bank for the granting of a loan to Portugal of about \$ 25 million.

C. PROSPECTS AND CONCLUSIONS

42. The average rate of growth of the national product over the last decade has been rather modest, having regard to the population increase and to the low absolute levels of production. In recent years, however, there have been some appreciable gains of output and investment in several branches of industry, as well as important works of infrastructure ; a key factor in these developments has been the implementation of the Economic Development Plan. Although periods of increased investment often coincided with very poor harvests, the overall balance of payments was practically unaffected except in 1961, and internal financial stability has been maintained up to the present. The total volume of investment has not yet exhausted the margins provided by the amount of potential domestic savings and by the favourable state of the balance of payments.

43. The conjunction in 1961 of a big rise in the trade deficit and of the well-known events in the overseas provinces had an unfavourable effect on economic expectations, witnessed by the increased demand for cash holdings, by a certain amount of capital outflow and by widespread stockbuildings. Understandably the Authorities' first reaction to these events has been to emphasize their determination to safeguard financial stability. This tendency was reflected in the special measures taken in the summer of 1961 and in the 1962 Budget ; the latter provided for a rise in military expenditure matched by increases in taxation and the levelling off of investment expenditure. Even allowing for modifications to this budget during the year, the expansionist effect of the public sector has apparently been lower in 1962 than the year before.

44. Recent economic trends should lead to some reconsideration of the emphasis put on Government policies. Most of the disquieting phenomena which appeared in 1961 proved to be purely temporary, or amenable to corrective action by the Authorities, as in the field of bank credit. In particular, imports and the trade deficit, which were exceptionally high in 1961, decreased appreciably in 1962, and the decline in official reserves was almost entirely made good. Moreover, price and wage movements are far from indicating an excessive demand

pressure, and the index of industrial production in 1962 suggests some slackening of the growth rate. In short, the problem of the Portuguese economy at present might well be a certain deficiency rather than an excess of demand, despite the recent increase of exports and the steady increase in military expenditure. The general orientation of the 1963 Budget seems to take into account to some extent this assessment of the economic situation.

45. In addition, it should not be forgotten that, for a given amount of total demand, a composition implying less investment and more current Government expenditure risks hampering the much needed growth of the economy: and a search for internal equilibrium based on a static appreciation of the possibilities of the economy may be self-defeating in the end. Additional Governmental demands on the national output — for military expenditure or for an increased flow of capital to the Overseas Provinces — will be difficult to satisfy without undue strain, unless the nation's productive capacity expands at a relatively high rate. It seems, therefore, appropriate that economic policy, without losing sight of the requirements of financial stability and whilst retaining the flexibility necessary to respond to a change in circumstances, should put an increasing emphasis on measures promoting the expansion of output.

46. First, the investment of the total amount scheduled for 1963-64 under the Development Plan should be considered as a minimum requirement. Moreover, it seems highly desirable to initiate quickly studies of additional investments under the Plan. The policy of the Authorities is to guarantee that the global amounts originally foreseen for 1959-1964 will be fully spent. Moreover, they have recently revised upwards the initial forecasts; but even the revised estimates imply an appreciable fall in the rate of expenditure during the 1963-64 period. In order to prevent, at least, such a fall, an enlargement of the Second Plan's scope is required; this is the more important as experience since 1953 has shown that delays of implementation connected with legal, administrative and technical bottlenecks are by no means negligible. The recent measures for the reorganisation of the Planning Services and the decision of principle of envisaging an interim Plan before expiry of the second Six-year Plan should facilitate the vital task of accelerating productive investment.

47. Special importance attaches to measures for raising agricultural output and productivity, the long-term stagnation of which is one of Portugal's more conspicuous economic problems. Given the relative importance of this sector, a satisfactory overall rate of growth will be difficult to achieve if the present situation of low yields, insufficient investment and uneconomic structure of holdings were to persist. One of the first priorities is surely to carry out the important irrigation works held up for some time. Action on many other special lines will, naturally, be needed for achieving higher efficiency in the pro-

duction and marketing of agricultural produce. The authorities have already taken successfully certain measures and are preparing further action. Special mention can be made of the two plans adopted in 1962 for the development of livestock products and of fruit growing. The general problem is obviously a long-term one; but the way towards its solution will be opened only if the partial, special measures are supplemented by the mobilisation of sufficient finance for investment and by concentrated action in certain important regions. Such action should be linked to measures designed to improve the structure of agricultural property, characterised at present by excessive fragmentation in the North and the prevalence of very large estates in the South.

48. In order to promote industrialisation, it has been rightly decided that the public sector should not only finance works of infrastructure, but should also play a certain role in the creation of processing industries. Important units in new production lines have already been established or are planned as a result of this policy. But the modernisation of traditional industries, where small and uneconomic firms still predominate, has not proceeded apace on the whole. It is essential that the existing reorganisation plans for some sectors should be applied as soon as possible and that new measures to encourage the rationalisation of industry should be prepared. One very difficult problem facing the authorities will be the application in practice of their declared objective to encourage, in principle, the more employment-creating types of investment, given the great pressure of the country's manpower reserves. But experience, both from other countries and from certain developments in Portuguese industry, suggests that this objective cannot often be reconciled with the facts of modern technology and with the over-riding objective of keeping total unit costs low. Until industrialisation makes much greater headway, important relief in the employment situation will depend partly on the continuation of emigration and also on the very advisable replacement of extensive agriculture by intensive methods of exploitation. But a necessary condition of industrial progress is to continue and increase the effort being made to expand training facilities and to improve the provision of general, basic education. The Government has already decided to take certain measures in order to cope with the shortage of skilled manpower (increase of the number of vocational training institutions, establishment of courses for accelerated training, etc.).

49. The promotion of private investment implies the need for adequate finance. The authorities have various means at their disposal for ensuring the necessary supply of credit. In particular, the official credit institutions could continue to play an important role. And recourse to foreign long-term capital, which has recently become more important, will also be helpful. However, problems may arise in the

future concerning bank credit, which in Portugal serves also for medium and long-term finance. The successful intervention of the monetary authorities in 1961 redressed the fall in bank credit, but, given the present liquidity of the banks and the fact that the normal evolution of credit in Portugal in practice depends on a regular balance-of-payments surplus further action will probably be needed; besides rediscount operations and other measures, it might be necessary to reconsider the rules governing bank liquidity, which should not be taken as valid for all times and all possible circumstances and to study possibilities for open market operations in the future. Recent developments also bring into the limelight a long-standing problem, namely the rigidity of interest rate regulations and policies. For instance, the question arises whether the rates ruling in the capital market are those needed to help channel into productive investment existing savings which either remain idle or are used in less economically desirable directions.

50. The recent trend of the balance-of-payments is satisfactory. Moreover, the foreign exchange reserves provide ample margins for an expansionist policy, since they represent more than a full year's imports at the current rate and their amount exceeds the annual value of gross fixed investment in Portugal. Finally, the agreements recently concluded on foreign long-term loans and those in the course of negotiation illustrate the existing important possibilities of attracting long-term capital, both private and official, from abroad. In the long run, however, the balance-of-payments may become a serious bottleneck in the process of economic development. In addition to the usual factors of increased import requirements, there will be an appreciable expansion of food imports in the future, following the growth of population and the rise of real incomes from their present low level, unless the growth of agricultural output is much more pronounced than in the last few years. Moreover, given the Government's policy of promoting rapid economic development in the overseas provinces, it is probable that their trade surplus with foreign countries will dwindle in the coming years, since much of the capital equipment they will need will be coming from the main industrialised countries. Despite the possibility of additional flows of foreign capital, it is likely that the contribution of the overseas provinces to the central reserves of the escudo area will become less important.

51. In view of these long-term prospects, the absence of an expansionary trend in Portuguese exports constitutes one of the more serious economic problems. It is well known that the development of exports of primary products, which account still for the bulk of Portuguese exports, is rendered difficult by the trend of world prices and demand for such products, but in certain cases also by the not very liberal import policies of industrialised countries. In any case, all possible measures for promoting the growth and diversification of

exports should command a high priority in the elaboration of Portugal's general economic policy. Some successful efforts have already been made to create industries with an export potential, processing the country's primary products (notably forest products) but much more remains to be done in this direction. The really important achievement of a policy of export promotion would be to exploit the great advantage of comparatively low wages. This factor by itself cannot, of course, produce big results ; but, coupled with a selective investment drive, with an effort to improve training facilities and with general policies providing incentives for exports, it could be of decisive importance. Finally, there are important possibilities of additional foreign exchange receipts from the development of tourism, where there is a great unexploited potential. A special investment plan and co-ordinated measures for the expansion of tourism would seem to be an essential element of any long-term approach to the balance-of-payments problem.

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STATISTICAL ANNEX

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TABLE I. NATIONAL PRODUCT AND EXPENDITURE

In million escudos.

	AT CURRENT PRICES					AT 1954 PRICES				
	1957	1958	1959	1960	1961	1957	1958	1959	1960	1961
1. Private consumption	45,667	46,253	48,704	52,964	57,259	44,429	44,541	45,290	48,110	51,241
2. Public consumption	6,425	6,633	7,657	8,250	10,455	6,148	6,246	7,136	7,517	9,437
3. Enterprises' gross fixed asset formation	7,490	8,350	9,364	11,023	12,159	7,219	8,138	9,069	10,483	11,424
4. Government gross fixed asset formation	1,207	1,396	1,349	1,570	1,564	1,176	1,358	1,305	1,514	1,485
5. Change in stocks	1,164	— 196	— 483	— 243	1,995	1,036	— 139	— 455	— 258	1,706
6. Exports of goods and services	11,018	11,311	10,880	12,282	12,386	9,503	9,944	10,484	11,248	11,365
7. TOTAL USE OF RESOURCES	72,971	73,747	77,471	85,846	95,818	69,510	70,088	72,829	78,614	86,678
8. Minus : imports of goods and services	15,176	14,681	14,569	16,724	21,217	14,745	14,561	14,064	15,069	18,245
9. GROSS NATIONAL PRODUCT AT MARKET PRICES	57,795	59,066	62,902	69,122	74,601	54,766	55,527	58,765	63,545	68,433
10. Gross domestic product at factor cost	53,567	54,697	58,214	63,866	68,474	50,720	51,413	54,397	58,745	62,849
11. Agriculture, forestry and fishing	15,349	14,733	15,542	16,171	16,665	14,184	13,416	13,896	14,277	14,760
12. Mining and quarrying, manufacturing, public utilities and construction	20,940	22,023	22,949	25,987	28,261	20,103	21,096	22,156	24,692	26,946
13. Others	17,268	17,941	19,723	21,708	23,548	16,433	16,901	18,345	19,776	21,143

1. Provisional.

Source : Portuguese Memorandum to the O.E.C.D. and National Institute of Statistics.

TABLE II. MONTHLY INDICES OF INDUSTRIAL PRODUCTION¹

1953 = 100.

	1961				1962				1963
	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.	1ST QTR.
1. General index, unadjusted	171	180	183	183	174	179	188	184	173
2. General index, seasonally adjusted	179	185	176	177	183	183	181	177	182
3. Mining and quarrying	72	74	77	74	70	67	67	60	57
4. Manufacturing, total	169	180	183	181	170	177	187	184	167
5. Food and drink	109	134	162	173	108	135	168	161	110
6. Textiles, clothing and footwear	164	169	153	156	161	159	150	161	159
7. Wood, cork, furniture	254	206	177	169	177	167	155	192	177
8. Chemical and oil products	152	174	198	173	169	170	204	163	183
9. Non-metallic minerals	155	173	189	176	156	179	218	213	172
10. Metal industries, machinery and electrical equipment	184	207	206	207	209	220	215	212	183
11. Other manufacturing industries	216	226	210	234	236	237	218	232	225
12. Electricity (mill, kWh monthly averages)	303	288	285	327	339	314	311	312	...

1. The monthly indices cover only some 40 per cent of industrial production.

Source: Portuguese Industrial Association.

TABLE III. OTHER INDICATORS OF ECONOMIC ACTIVITY

	1958	1959	1960	1961	1962	1961				1962			
						1st QTR	2nd QTR	3rd QTR	4th QTR	1st QTR	2nd QTR	3rd QTR	4th QTR
1. Dwellings completed ¹ (quarterly averages, in thousands)	6.5	6.5	6.7	7.1	7.3	6.1	7.8	7.7	7.0	6.3	8.3	7.2	7.2
2. Foreign tourists (thousands)	337	350	395	431	438	63	119	186	63	56	121	187	75

1. Continent and islands.

Source: National Institute of Statistics.

TABLE IV. PRICES AND WAGES

	BASE	1958	1959	1960	1961	1962	1961				1962				1963
							1st	2nd	3rd	4th	1st	2nd	3rd	4th	
							QTR	QTR	QTR	QTR	QTR	QTR	QTR	QTR	
1. WHOLESALE PRICE INDEX	1953=100	100	99	102	102	103	101	100	102	103	103	103	103	103	103
of which :															
2. Manufactured goods	"	93	93	94	96	99	94	95	97	97	101	100	98	97	97
3. Food products	"	104	105	109	106	107	108	106	105	106	106	108	106	108	111
4. CONSUMER PRICE INDEX	"	105	107	109	111	115	110	110	112	114	114	114	114	116	117
of which :															
5. Food products	"	106	108	111	110	113	110	107	110	113	113	112	112	115	117
6. WAGE INDEX IN LISBON	1948=100	125	130	132	138	138	136	138	139	139	140	148	150	153	
7. AGRICULTURAL WAGE INDICES :															
Men	"	109	115	125	130	130	129	133	130	130					
Women	"	111	117	126	132	132	125	137	136	132					

1. General indices have not been established for 1962 due to statistical changes in the component series.

Sources: O.E.C.D. General Statistics and Bank of Portugal.

TABLE V. MONETARY AND BANKING STATISTICS

Billion escudos ; end of period.

	1958	1959	1960	1961				1962				1963
				1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st
				QTR.	QTR.	QTR.	QTR.	QTR.	QTR.	QTR.	QTR.	QTR.
BANK OF PORTUGAL :												
1. Credits and advances	2.4	2.5	3.4	2.9	4.0	4.8	5.5	4.1	4.1	4.2	4.8	3.5
2. Gold and foreign exchange assets	20.3	20.7	20.6	19.5	18.3	17.3	18.1	17.7	19.4	21.5	22.4	22.3
3. Note circulation	13.0	13.9	14.8	14.5	15.8	16.2	17.1	16.5	16.6	16.8	17.9	17.3
4. Other sight liabilities in national currency	10.3	10.0	9.9	8.9	7.2	6.4	7.3	5.8	7.1	9.2	8.4	7.5
COMMERCIAL BANKS :												
5. Portfolio of securities	2.1	2.7	3.4	3.5	3.5	3.5	3.4	3.4	3.4	3.8	3.9	3.3
6. Credits and advances	17.0	19.0	20.6	21.2	20.4	19.8	20.5	21.0	20.5	21.5	22.7	23.8
7. Deposits (8+9)	21.3	23.8	26.8	26.4	25.6	24.0	25.6	25.2	25.6	26.8	30.0	30.9
8. Sight deposits	17.3	19.0	20.8	20.1	18.8	17.8	19.2	18.6	18.6	19.3	21.6	21.6
9. Time deposits	4.0	4.8	6.0	6.3	6.2	6.2	6.4	6.6	7.0	7.5	8.4	9.2
NATIONAL DEVELOPMENT BANK :												
10. Portfolio of securities	—	—	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
11. Advances	—	—	2.3	2.4	2.5	2.7	3.0	3.0	3.0	3.3	3.3	3.3
SAVINGS BANKS :												
12. Credits and advances	8.2	9.1	9.6	9.8	10.0	10.1	10.7	10.9	10.7	10.7	11.2	11.2
13. Deposits (total)	12.3	13.0	13.5	13.5	12.9	12.9	13.3	13.6	13.8	13.9	14.3	14.7
MONEY SUPPLY :												
14. Total (15+16)	41.8	45.1	48.2	48.8	47.9	47.0	48.0	47.5	48.6	51.5	52.1	52.7
15. Fiduciary circulation	11.8	12.5	13.2	13.4	14.8	15.2	15.3	15.5	15.4	15.9	16.0	16.1
16. Deposits ¹	30.0	32.6	35.0	35.4	33.1	31.9	32.7	32.0	33.2	35.6	36.1	36.6
CAPITAL MARKET (monthly averages) :												
17. Yield on Government securities (per cent)	3.03	3.45 ²	3.46	3.75	3.86	3.85	3.72	3.82	..	..	4.10	4.14
18. Industrial shares index (1958 = 100) ³	100	103	115	116	109	103	110	108	102	97	99	..

1. Including Government deposits.

2. New series-I.M.F.

3. I.M.F.

Sources: Bank of Portugal, National Institute of Statistics and I.M.F.

TABLE VI. FOREIGN TRADE AND RESERVES

	UNIT OR BASE	1958	1959	1960	1961	1962	1961				1962				1863
							1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st
							QTR.	QTR.	QTR.	QTR.	QTR.	QTR.	QTR.	QTR.	
FOREIGN TRADE (monthly averages):															
	Millions of U.S. dollars														
1.	Imports cif	40	40	45	54	49	42	61	49	66	41	48	48	59	43
2.	Exports fob	24	24	27	28	31	24	24	27	35	25	30	31	37	25
3.	Trade balance	16	16	18	27	18	19	36	22	31	16	18	17	22	18
4.	Volume of imports		100	110	131	119	130	125	133	134	120	111	124	122	
5.	Volume of exports		100	107	104	121	104	100	100	112	114	128	116	126	
6.	OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES (end of period):	776	808	794	691	792	751	701	665	691	676	737	763	792	776

1. Moving-base indices, presented in the form: corresponding quarter of 1959 = 100.
 Source: National Institute of Statistics, O.E.C.D. General Statistics and I.M.F.

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