



ECONOMIC SURVEYS

1. 2. 3. 6.

PORTUGAL

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

PARIS DECEMBER 1966

BASIC STATISTICS OF PORTUGAL

THE LAND

Area (sq. km)	91,971	Major cities (1960 census, thousands of inhabitants):	
Agricultural area (sq. km)	49,400	Lisbon	802
		Oporto	303

THE PEOPLE

Population (1960 census, thousands)	8,889	Total labour force (1960 census, thousands)	3,424
Number of inhabitants per sq. km (1960)	97	— In agriculture	1,448
Net natural increase (average 1961-1965, thousands)	118	— In industry	737
Net rate of increase per 1,000 inhabitants (average 1961-1965)	13	— In construction	230
Net emigration (average 1961-65 thous.)	57	— Other	1,009

PRODUCTION

Gross national product in 1965 (million escudos)	107,543	Gross domestic product at factor cost by origin in 1965 (%):	
Gross national product per head, 1965 (U.S. \$)	408	— Agriculture	21
		— Industry and construction	42
		— Services	37

THE GOVERNMENT

Public consumption in 1965 (% of GNP)	14	Current Government revenue in 1965 (% of GNP)	14
of which : Defence (% of public consumption)	48	Internal public debt (% of Central Government current revenue 1965)	153
Public investment in 1965 (% of total investment)	14		

STANDARDS OF LIVING

Calories per head, per day (1963-64)	2,640	Numbers per 1,000 inhabitants :	
Annual meat consumption (kg per head, 1964)	20	— radio sets (1965)	128
Electricity final consumption (kWh per head, 1965)	463	— telephones (1965)	60
Illiteracy rate in 1960 (% of people aged above 15 years)	38	— private cars (1964)	23

FOREIGN TRADE

Exports (average 1964-65); percentage of total exports:		Imports (average 1964-65; percentage of total imports):	
— Foodstuffs	24	— Foodstuffs	12
of which: fish products	9	— Energy	9
beverages	8	— Raws materials	20
— Raw materials (including energy)	14	of which: textiles fibres	12
— Manufactured products	62	— Manufactured products	59
of which: textiles	25	of which: machinery	26
cork and wood products	9	metal products	11

THE CURRENCY

Monetary unit: escudo.	Currency units per U.S. dollar	28.75
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ECONOMIC SURVEYS BY THE OECD

PORTUGAL

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 OECD 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 OECD, which came into being on 30th September 1961.

The members of OECD are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

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INTRODUCTION

Economic activity expanded considerably in 1964 and 1965, owing partly to a substantial rise of exports. But the rate of increase of industrial output tended to slow down in late 1965 and the first half of 1966. During this period, public finance had a contractionary effect on the economy and total investment was probably below the plan's targets. On the other hand, investment in industrial machinery continued to increase at a high rate. Agricultural crops, which tend to fluctuate rather sharply, were on the whole unfavourable in 1966. An appreciable rise of food prices was due both to increases in certain guaranteed prices and to the lack of adaptation of agricultural production to the changing pattern of demand. Recently, there have been signs of a quicker expansion of domestic demand. But the short-term prospects for general economic activity may depend significantly on appropriately expansionary public policies.

Trends in the Portuguese economy over the last few years clearly confirm the need for more active development policies. The dependence of economic activity on external impulses seems still very important, and it can hardly be said that the economy has acquired a sufficient dynamic impetus. The need for speeding up economic development is illustrated by the substantial emigration of workers to other European countries, which has expanded considerably over the last few years. It is therefore of crucial importance that the "interim" development plan for 1965-67, which aims at an acceleration of productive investment, be implemented at proper speed and scale. More rapid balanced growth would be helped, in Portugal, by favourable conditions rarely obtaining in countries in a similar stage of development: there is probably a substantial margin of potential saving, external reserves stand at a very high level and the balance of payments is being reinforced by the growth of tourist receipts and emigrants' remittances.

A. OUTPUT AND DEMAND

General trends

Non-agricultural output has increased appreciably in recent years. After the earlier slack¹, industrial production resumed a faster tempo of expansion in 1964 and 1965, construction activity revived and the service sector benefited from the considerable growth of tourism. Agricultural production (which represents roughly one fifth of the gross domestic product and nearly one quarter including forestry and fishing) recovered in 1965 from the previous year's decline, but seems to have been rather unfavourable in 1966. The more recent data indicate a slowing-down of the growth of non-farm production up to the spring of 1966; but this may have given way since to a certain recovery.

The behaviour of the main factors of supply and demand is difficult to assess quantitatively owing to gaps and limitations in the available economic statistics. Some important improvements were made in recent years (for example, the establishment of a global balance of payments for the metropolitan area) but the need for further, general progress in this field was recognised by the decree-law of March 1966 on the re-organisation of national statistics. Work now in progress includes, as a matter of priority, the revision of the national accounts, which raised certain problems of interpretation pointed out in previous OECD Surveys. It should be hoped that the extensive programme of statistical improvement adopted by the authorities will start producing in the near future valuable results for the elaboration of economic policy.

The general picture emerging from the available evidence is that a significant recovery of total effective demand started in late 1963 and continued for about two years, partly as a result of a strong rise in exports and of a considerable expansion of tourism. Domestic demand must have also increased appreciably judging by the rapid growth of imports. The trend of private consumption is very difficult to assess. Farm incomes, depressed in 1964, should have benefited in 1965 from better crops and higher guaranteed prices. Furthermore, rising employment and wages in industry and services, together with an increasing flow of emigrants' remittances, have probably led to a steady growth of consumers' expenditure in real terms, in spite of the rise in the cost of living. The budget accounts suggest a somewhat higher increase of public consumption in the last two years². Total fixed investment

1. For the slowing-down of expansion between 1961 and the summer of 1963—due to the consequences of events in the overseas provinces, the sharp rise of military expenditure and the fiscal policy measures taken at that time—see the OECD Survey on Portugal published in 1964.

2. It is not possible, however, to estimate from the budget out-turn which part of current Government expenditure was incurred in the metropolitan area.

probably increased appreciably in 1964, when housebuilding recovered strongly, imports of machinery expanded by 20 per cent over the previous year and expenditure under the Second Development Plan showed an annual increase of 9 per cent. In 1965 industrial investment must have continued to increase considerably, since imports of machinery rose by a further 17 per cent. But housebuilding tended to level off and investment expenditure from the budget declined by 13 per cent. From the partial data available so far, it seems that total fixed investment may have expanded less than the previous year.

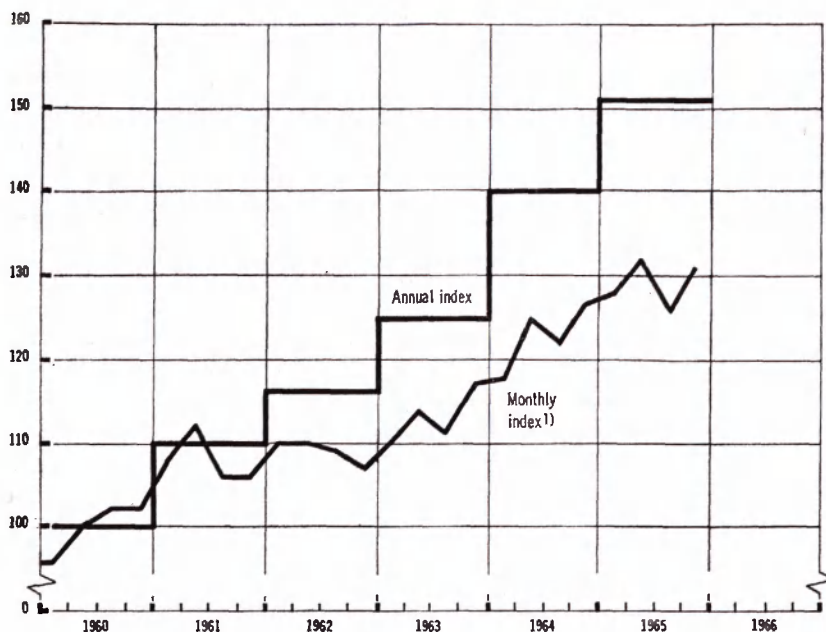
In the course of 1965 and the early months of 1966, there was a progressive deceleration in the growth of output and demand, as evidenced by the smaller rise of industrial production, the flatter-out of housebuilding activity and the trend of imports, which by the first quarter of 1966 showed no increase compared to a year earlier. The slowing-down in the growth of exports — after the earlier substantial increases — removed an important stimulus to industrial production and overall demand. Moreover, public finance had a contractionary impact on the economy up to the middle of 1966. In the second and third quarters, however, imports picked up again, suggesting a somewhat quicker expansion of domestic demand. In particular, imports of machinery continued to rise strongly throughout the period under review, denoting steady expansion of industrial investment.

Industry

Industrial production increased considerably in 1964 — by about 12 per cent. A certain deceleration observed in the second half of the year may reflect some statistical problems of seasonal adjustment, but was also due partly to restrictions of electricity supply caused by the drought, which have hit inter alia the chemical industry. For the year as a whole, most branches of manufacturing showed important increases. A notable feature was the increase of textile production by over 9 per cent, sustained by booming exports. In 1965, industrial production rose again appreciably (by 8 per cent) despite a continuing decline in mining output and a fall in electricity supply caused by unfavourable weather conditions. Manufacturing production increased at a rate corresponding to the average increase of the previous three years. The most rapid expansion occurred in certain new industries, like pulp and paper, included in “other manufacturing” in Table 1.

According to the monthly indices (of limited coverage) there was a gradual slowing-down of industrial expansion in the course of 1965. By the fourth quarter, the increase over the same period of 1964 was 3.5 per cent, and for manufacturing production only 2.1 per cent. For 1966, the general index is not available since January because of statistical revisions under way. But the partial indices published so far

Diagram 1. GENERAL INDICES OF INDUSTRIAL PRODUCTION
1960 = 100



1. Quarterly averages, seasonally adjusted; the monthly index has a considerably smaller coverage than the annual index.

Sources: Portuguese Industrial Association and OECD Main Economic Indicators.

TABLE 1. INDUSTRIAL PRODUCTION
PERCENTAGE INCREASES OF ANNUAL INDICES

	1960	1961	1962	1963	1964	1965 ¹
1. Mining and quarrying	-10.4	11.6	-1.0	-11.3	-4.4	-5.7
2. Manufacturing, total	10.5	9.5	6.3	8.9	12.2	9.1
3. Food and drink	10.6	4.3	0.0	4.2	9.6	2.9
4. Textiles, clothing and foot-wear	8.0	6.5	4.3	15.8	9.4	9.2
5. Cork, wood and furniture	10.2	3.4	0.8	4.8	14.6	1.3
6. Chemical and oil products ...	11.1	0.8	9.9	12.0	6.7	4.4
7. Non metallic minerals	8.6	14.0	8.5	4.3	11.6	5.5
8. Metal industries, machinery and electrical equipment	6.6	23.9	10.0	7.1	6.9	9.1
9. Other manufacturing industries	19.5	8.1	4.8	11.8	20.5	22.3
10. Electricity	8.9	10.7	6.7	11.8	10.6	-2.8
11. GENERAL INDEX	9.4	9.5	5.5	8.2	11.7	8.0

1. Provisional.

Source: Portuguese Industrial Association.

confirm the impression of slower growth. In the first half of the year, apart from a recovery in electricity, there were increases in the food-processing industries and in "other manufacturing", compared with the first half of 1965. But the output of textiles was at the same level as a year earlier and the chemical and wood-and-cork industries showed declines (see Statistical Annex).

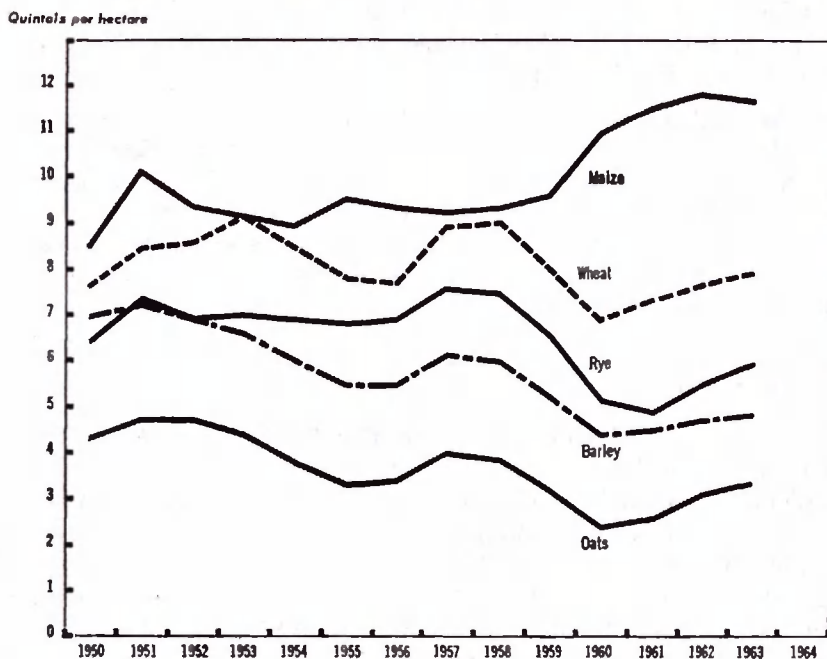
After about two years of levelling-off, housebuilding picked up considerably in 1964 when the number of dwellings completed rose by 18 per cent. The volume of housebuilding has probably remained at a high level in 1965, but showed no further increase. The latest figures available (fourth quarter 1965 and first quarter 1966) indicate a flattening-out in private housebuilding. Information on the volume of other construction is not yet available.

Agriculture

The volume of agricultural production fell by about 4 per cent in 1964, when the harvests of wheat and several secondary cereals were particularly low and the olive crop was the worst since twenty years. These crops were considerably better in 1965, when total agricultural output probably rose significantly, although some harvests were affected by prolonged drought. Provisional estimates for 1966 show again important decreases for most cereals, a reduced olive harvest (according to the biennial cycle) and very few increases in other harvests. On the other hand, meat production, which had declined considerably in 1963-64, recovered the following year and continued to expand at a high rate up to the summer of 1966. Forestry and fishing (both relatively important sectors in Portugal) showed favourable results on the whole.

The rather frequent poor harvests of cereals and the fact that yields per hectare remain comparatively low indicate that the present pattern of production is not well adapted to the average climatic conditions of the country and that production methods for several traditional crops have not progressed significantly. An important cause of low average yields is the cultivation of large areas of marginal land, which should, according to the official plans, revert to forestry. But several structural deficiencies of the agricultural sector contribute to its relatively slow progress — e.g. size of holdings, insufficient investment, inadequate credit facilities and advisory services etc. The necessary improvements and reforms would need a long time to yield results. But the present rapid exodus of manpower from the farms may soon render acute the problems of a backward agricultural sector. In recent years successful efforts have been made to encourage fruit-growing and animal husbandry. But the shift towards "high-income" food does not seem to have acquired yet sufficiently great proportions and to have kept in line with the changing pattern of demand.

Diagram 2. YIELDS OF CEREALS
THREE-YEARS MOVING AVERAGES



Sources: National Institute of Statistics, "Agricultural Statistics" and OECD "Agricultural and Food Statistics".

TABLE 2. YIELDS OF CEREALS
AVERAGE 1957-63

Quintals per hectare.

	PORTUGAL	SPAIN	GREECE	YUGOSLAVIA	ITALY	FRANCE	AVERAGE OECD EUROPE
Wheat	8.1	10.3	15.4	16.7	18.4	25.3	17.6
Rye	6.3	8.8	9.4	10.4	15.2	13.9	18.2
Barley	5.2	13.0	12.7	14.3	12.7	25.2	22.2
Oats	3.3	8.8	11.7	10.8	13.3	18.7	19.7
Maize	10.5	22.8	13.4	21.4	31.1	28.5	23.1

Source: OECD Agricultural and Food Statistics.

Migration

There is clear evidence of a fairly large movement of manpower away from the farms, which is creating difficulties to hire agricultural labour. In the absence of current employment statistics it is impossible to estimate the transfers of manpower to industry and the service sector. But the more notable development is the substantial increase of workers' emigration to Western European countries (mainly to France) which exceeds since 1964 the number of new entrants into the labour force. According to official estimates, some 72,000 persons of working age¹ left the country in 1965; of these about 42,000 came from industry and construction. This movement can have beneficial effects up to a certain point, as it creates pressure towards higher efficiency on Portuguese firms. However, apart from the difficulties of replacing skilled labour, large sectors of industry cannot be expected to compete in the near future, in terms of wages offered and conditions of work, with the highly industrialised countries. The long-term answer to these problems is the acceleration of the country's economic development. But, as certain other Member countries, Portugal may be faced with difficult problems of transition if a very rapid emigration of workers were to continue.

TABLE 3. EMIGRATION

	1960	1961	1962	1963	1964	1965
1. Emigration to foreign countries:						
France ¹	3,593	5,445	8,242	15,223	32,637	57,315
Rest of Europe	211	579	918	1,876	4,165	14,180
Brazil	11,498	15,209	12,531	10,080	3,764	1,981
Others (mainly North and South America) .	15,156	10,507	10,179	10,170	13,320	14,012
Total	30,458	31,740	31,870	37,349	53,886	87,488
2. Emigration to overseas provinces	10,415	— 6,919	17,291	8,405	11,222	14,123
3. Total emigration	40,873	24,821	49,161	45,754	65,108	101,611
4. Natural increase of population	118,888	117,926	123,336	114,141	120,258	115,112

1. Permanent work permits granted in France to Portuguese nationals: 1963: 24,781; 1964: 43,751; 1965: 47,330 (Monthly Bulletin of the French Institute of Statistics).

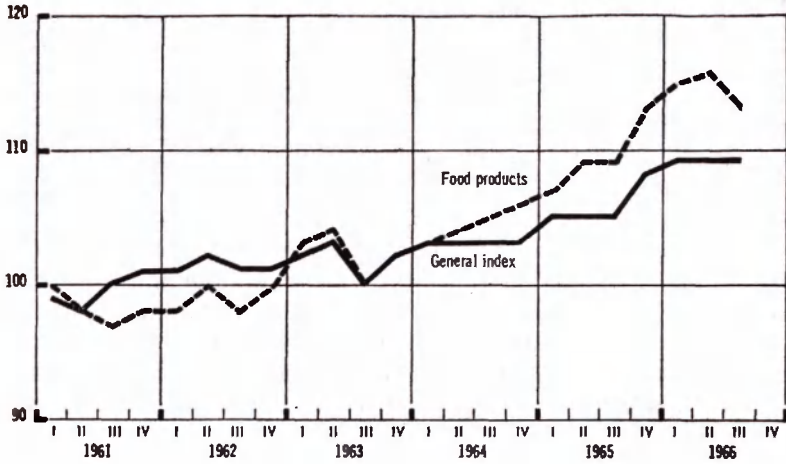
Source: National Institute of Statistics.

1. The figures in Table 3 refer to total emigration. The Portuguese statistics do not give a complete picture of the phenomenon, because illegal emigration has been important, despite the conclusion of bilateral agreements with European countries of immigration.

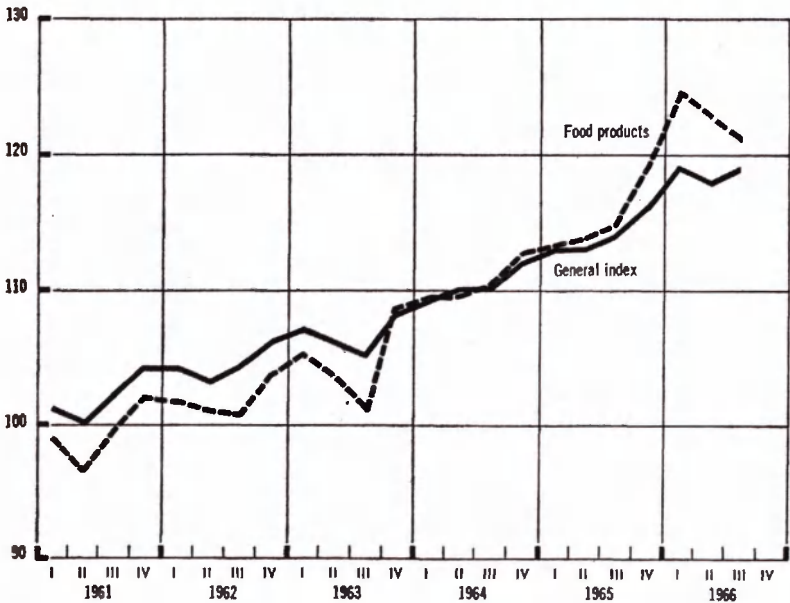
Diagram 3. PRICE INDICES (LISBON)

Quarterly averages : 1960 = 100

a) WHOLESALE PRICES



b) CONSUMER PRICES



Sources: National Institute of Statistics and OECD Main Economic Indicators.

B. THE INTERNAL FINANCIAL SITUATION

Prices and wages

Price movements were quite modest for many years, but in the period under review appreciable pressures have developed on food prices. The trend of other prices remained, in general, moderate. The wholesale index rose by less than 1 per cent in 1964, but by 3.3 per cent in 1965 due mainly to an increase in the food component. The index of consumer prices in Lisbon increased by 3.4 per cent in both years, with food prices rising by 4.2 per cent in 1965. Although the increase slowed down recently, consumer prices in the third quarter 1966 were 4.5 per cent higher than a year earlier owing to a 5.8 per cent increase of food prices. Retail prices of several basic food products are controlled by the authorities, who declared that the increase in certain guaranteed prices to farmers would not be borne by the consumers. In some cases of centralized procurement (e.g. for cereals) the higher domestic cost is partly offset by the lower, international prices paid for imports. But beyond certain limits, such methods cannot be sufficient for maintaining stable food prices. Moreover, they can help to shift the burden, but cannot eliminate the consequences of low average agricultural productivity.

Agricultural wages continued to increase appreciably, though with marked short-term fluctuations due to seasonal factors and to the state of the various crops. The average rise for male workers was about 7 per cent in 1964, 6 per cent in 1965 and 18 per cent for the first eight months of 1966. The general index of industrial wages in Lisbon increased at about the same rate as in recent years — by 6 per cent over the twelve months to June 1966. Due to the rise in the cost of living the increase of real wages was significantly smaller. But wage rates in Porto (the other important industrial centre) increased, once again faster — by about 11 per cent over the same period. Moreover, wage earnings seem to have risen faster than wage rates in most branches of industry. As shown in Table 4, the gap in the level of earnings between the traditional and the more modern industries tended to widen in the last few years. The former often employ large numbers of women; but, in addition, the modern industries may have been feeling more the shortage of qualified workers, for whose services they are in a better position to compete. More recently, appreciable and widespread rises in wage earnings have been observed. The continuing substantial emigration of workers has undoubtedly influenced the level of wages. Nevertheless, judging from the statistics available, it seems that wage levels in Portugal still confer a very substantial competitive advantage to firms with relatively modern equipment.

TABLE 4. EARNINGS OF OPERATIVES PER WORKING DAY¹

	1960		1961	1962	1963	1964	1965	1965	
	NUMBER OF WORKERS in thousands	DAILY EARNINGS in escudos	Percentage increases					DAILY EARNINGS in escudos	HOURS WORKED PER WEEK
Fish canning	17.4	23.6	-4.6	5.8	2.9	13.0	9.7	30.4	41.4
Cotton textiles	62.3	26.0	16.9	1.6	1.6	3.5	21.5	39.5	45.6
Cork industries	17.2	..	..	..	4.9	1.8	6.3	36.9	41.4
Pulp and paper	5.6	30.9	7.1	8.1	7.8	9.3	15.1	48.7	45.4
Glass industries	7.3	39.1	2.8	1.0	2.5	15.6	7.3	51.6	45.2
Shipbuilding	1.1	57.4	5.1	5.6	5.3	5.2	3.0	72.7	49.8
Fertilisers	1.2	49.9	4.0	2.7	8.0	3.8	9.7	65.6	46.5
Cement	1.9	52.6	5.5	12.1	8.0	7.1	4.6	75.3	46.2
Petrol refineries	1.0	75.4	9.5	4.1	11.1	0.0	23.8	118.4	39.5

1. Total earnings per month divided by the number of days worked.

Source: National Institute of Statistics.

Money and credit

The strong demand for credit continued in the period under review. The large increase in foreign reserves in 1964 was the principal factor of the growth of bank liquidity, which permitted an expansion of commercial bank credit by about 23 per cent, compared to 19 per cent in 1963. The bulk of the increase was accounted for by a substantial rise in bills discounted — the preferred credit instrument of Portuguese banks for reasons of liquidity and security. Deposits with the commercial banks rose by about 25 per cent. The banks continued to compete for attracting time deposits, paying interest rates of up to 4 per cent¹. As shown in Table 5, money supply and total liquid assets increased considerably in 1964 — somewhat faster than in 1963. Total credit to the private sector by the banking system increased by 15.4 per cent (compared to 13.7 per cent in 1963), much less than the rise for commercial banks alone. In fact, the expansion of credit by the savings banks — essentially the State-owned “Caixa Geral” — was 8.5 per cent. And credit by the Bank of Portugal declined, as a result of policy decisions.

In 1965, the expansionary effect on liquidity of the external sector was again appreciable, but less pronounced than in 1964. The more

1. Unlike sight deposits, time deposits were not subject to legal limitations of the interest paid to customers; moreover, the reserve requirements were much lower than for sight deposits. It may be noted that even the Monetary Fund of the Escudo Area transferred funds in 1964 from a sight deposit with the Bank of Portugal to time deposits with other credit institutions.

TABLE 5. MONEY AND CREDIT

Million escudos.

	ANNUAL INCREASES					PERCENTAGE INCREASES		POSITION AT END OF 1965
	1961	1962	1963	1964	1965	1964	1965	
LIQUID ASSETS:								
1. Money supply	- 229	+ 3,962	+ 7,102	+ 8,169	+ 3,950	+ 13.8	+ 5.9	71,158
a) Currency	+ 2,099	+ 832	+ 947	+ 909	+ 2,170	+ 5.3	+ 12.1	20,071
b) Sight deposits	- 2,328	+ 3,130	+ 6,155	+ 7,260	+ 1,780	+ 17.3	+ 3.6	51,087
2. Quasi-money (Time deposits)	+ 870	+ 2,218	+ 2,017	+ 2,814	+ 5,755	+ 25.3	+ 41.3	19,703
3. Total liquid assets (1 + 2)	+ 641	+ 6,180	+ 9,119	+ 10,983	+ 9,705	+ 15.7	+ 12.0	90,861
COUNTERPARTS:								
1. External assets	- 2,766	+ 3,059	+ 1,799	+ 2,669	+ 2,253	+ 10.3	+ 7.9	30,752
2. IMF account	+ 431	+ 29	- 11	-	-	-	-	449
3. "Promissorias"	+ 480	+ 241	+ 417	+ 471	+ 369	+ 22.3	+ 14.3	2,954
4. Credit	+ 2,785	+ 2,049	+ 5,303	+ 6,765	+ 9,292	+ 15.4	+ 18.3	60,036
5. Overseas provinces ¹ compensation accounts	-	-	+ 437	- 73	+ 77	-	-	441
6. Miscellaneous ² (residual item)	- 289	+ 802	+ 1,174	+ 1,151	- 2,286	-	-	- 3,771

1. The new system of payments for the Escudo Area went into effect in March, 1963.

2. The unclassified assets and liabilities of commercial banks represented a relatively large proportion of the total—about one third in 1962 and 1963.

Source: Bank of Portugal.

important factor of expansion was the growth of bank credit, which is, however, difficult to measure exactly due to certain accounting changes. Credit by the commercial banks increased particularly fast in the second half of the year despite the new regulations of August 1965 (described below). But, at the same time, certain claims of the banks on the private sector, included previously in the unclassified items of Table 5, were transferred to the credit items (cf. the large reversal of the residual entry in the table). Therefore, the apparent increase of commercial bank credit in 1965 (17.4 per cent) over-estimates the real movement and the deceleration, compared to 1964, must have been significant. Nevertheless, the real expansion of bank credit remained considerable; it was facilitated by the banks' extensive recourse to the Bank of Portugal and by increased recourse to foreign funds. In fact, the operations of the central bank helped to prevent the application of the new regulations having any significant short-term deflationary effects. With the sharp rise in credit by the Bank of Portugal and a further moderate expansion of credit by the savings banks (see Statistical Annex), total credit to the economy by the banking system increased by 18.3 per cent. As already explained this percentage exaggerates the real increase, which was probably not very different from the increase of 1964.

The increase of total liquid assets slowed down in 1965 (12 per cent, compared to more than 15 per cent in each of the two previous years). Moreover, nearly one fifth of the increase corresponded to the improvement of the Treasury's cash position. The composition of liquid assets, on the other hand, showed some striking changes. The currency circulation increased very fast; sight deposits increased only marginally; and the rise of time deposits, which was already substantial, accelerated sharply. There is no doubt that, taking account of the new regulations, a significant part of sight deposits with the commercial banks was transformed to time deposits. In these circumstances, it seems more than usually risky to concentrate attention on particular types of assets (e.g. money supply).

As part of an extensive programme of reforms in the field of money and credit, a number of new regulations were published in August 1965:

- a) The cash reserve ratios of commercial banks were fixed at 10 per cent of withdrawal-notice and time deposits between 30 and 90 days and at 5 per cent of time deposits at more than 90 days. (Previously 5 per cent was required against the total of time deposits at more than 30 days.) The reserve ratio for sight liabilities was maintained at 15 per cent.
- b) Maximum rates payable by commercial banks now range from 0.5 per cent on sight deposits and 1 per cent on deposits at up to 15 days, to 3.5 per cent on time deposits at six months to one year. The previous rules allowed 1.5 per cent on sight deposits and set no limit for time deposits. Somewhat higher

maximum rates were established for special credit institutions, including savings and investment banks.

- c) The rules for maximum rates which credit institutions can charge on credits granted, have been completed and refined. The maximum for commercial discounts and other operations of up to six months is 1.5 per cent above the discount rate of the Bank of Portugal. Progressively higher limits are set for longer periods; for credits above five years the maximum is 3.5 per cent above the Central Bank's discount rate.

The new approach of the authorities in the field of money and credit was highlighted by the increase in September 1965 (for the first time since 1944) of the Bank of Portugal's discount rate from 2.5 to 3 per cent and of the re-discount rate from 2 to 2.5 per cent¹. Rigid legal ceilings on interest rates have been maintained for a long period, at levels which were most of the time artificially low. This had led to a variety of distortions — between different types of domestic credit, and between rates in the Portuguese and foreign markets. The new decisions are an important step towards a more realistic and rational pattern of interest rates. The reduction of interest rates payable on bank deposits aims at shifting the flow of funds towards longer-term, productive ventures. The same general aim underlies the authorization to the Minister of Finance to reduce taxes on bonds issued for financing approved projects — e.g. those included in the Development Plan. In present circumstances, however, there is a conflict between the desirable long-term effects of these reforms and the requirements of short-term policy. The new measures tend to restrict the potential growth of bank credit. But the expansion of long-term credit would in any case need a long period to materialise. In addition, the intended shift of funds continues to be hindered by the practice of not authorizing private bond issues at rates above 5 per cent². Accordingly, the monetary authorities should continue taking appropriate action in order to ensure an adequate expansion of total credit to the private sector. Any excessive deceleration of such credit would not at present be justified on general economic considerations.

Other measures taken in 1965 included the establishment of regulations for investment trusts and the powers given to the Bank of Portugal to fix maximum limits to the foreign exchange holdings of commercial banks. It was also decided to prepare regulations for hire-purchase credit. Of special importance for the elaboration of policy in the future, are the rules obliging, since September 1965, the banks and other financial

1. Rates for Lisbon and Porto. Since these rates were already applied in the rest of the country and were left unchanged, the previous, hardly justified difference was eliminated.

2. It should be noted, however, that there is no legal ceiling on bond rates.

institutions to submit regular information on their balance sheets and operations to the Bank of Portugal. Thus, starting from the end of 1965, the coverage and classification of banking statistics were improved significantly.

The figures so far available show that during the first half of 1966 commercial bank credit increased by 5.3 per cent — an appreciable rate of expansion taking account of seasonal factors. Total credit by the banking system rose less fast (by 2.4 per cent), mainly because of a decrease in outstanding credit by the Bank of Portugal. The latter was no doubt due to selective measures applied by the central bank, which, however, continued to provide appreciable facilities to the commercial banks. It seems, indeed, that by June bank liquidity was very close to the minimum prescribed ratios. It should have benefited in the second half of the year from the expansionary effect of the external surplus. But the operations of the Treasury may have continued producing a significant contractionary impact.

Public finance

The main features of the budget out-turn for 1964 were new considerable increases in both defence and investment outlays and a slowing-down in the rise of tax revenue. As a result, there was a higher volume of Government borrowing, at home as well as in foreign markets. As was the case in earlier years, however, the expansionary impact of these developments on the economy was limited by the fact that much of the additional expenditure was incurred outside the metropolitan area. The smaller rise of tax receipts (by 4.7 per cent, compared to 7.3 per cent in 1963) was partly the result of temporary factors. Revenue from direct taxes increased by 5.7 per cent, but the results were influenced by the progressive application of extensive tax reform measures and by the prolongation of the periods allowed for certain tax declarations. Indirect tax receipts rose by only 3.9 per cent; excluding customs duties, however, the rise was over 10 per cent. Customs revenue declined slightly, despite the strong rise in imports, because of tariff reductions in accordance with EFTA and GATT obligations and the abolition, since January 1964, of all duties on imports from the overseas provinces (special excise taxes have been introduced on a few overseas products). The increase of total revenue¹ by 7.4 per cent was largely due to items whose variations have no clear economic significance — e.g. “ earmarked receipts ” and “ repayments ”. Total expenditure rose by 9.3 per cent. The largest increase concerned defence outlays, with part of the additional expenditure being incurred in the overseas provinces. Similarly, the considerable increase of investment outlays (by 520 million escudos

1. Excluding Government borrowing.

TABLE 6. CENTRAL GOVERNMENT BUDGET

Million escudos.

	ACTUAL						FORECASTS			
	1960	1961	1962	1963	1964	1965	1963	1964	1965	1966
1. Ordinary revenue.....	9,591	10,812	11,355	12,002	13,112	15,173	9,758	10,305	11,624	12,819
<i>of which:</i>										
2. Tax revenue.....	7,284	8,247	8,624	9,255	9,689	11,446	7,088	7,438	8,496	9,360
a) Direct taxes.....	3,060	3,295	3,419	3,676	3,887	4,686	2,999	3,154	3,805	4,320
b) Indirect taxes.....	3,670	4,272	4,385	4,700	4,883	5,738	3,283	3,476	3,843	4,094
c) Special indirect taxes.....	554	680	820	879	919	1,022	806	808	848	946
3. Other ordinary revenue.....	2,307	2,565	2,731	2,747	3,423	3,727	2,670	2,867	3,128	3,459
4. Extraordinary revenue other than borrowing.....	335	278	1,274	1,050	909	1,151	1,248	1,055	1,475	1,401
5. TOTAL REVENUE.....	9,926	11,090	12,629	13,052	14,021	16,324	11,006	11,360	13,099	14,220
6. Public debt servicing.....	852	910	986	1,162	1,289	1,819	1,433	1,571	1,869	2,055
7. Current civilian expenditure.....	3,325	3,464	3,541	3,720	3,830	4,132	3,706	3,871	4,416	4,331
8. Defence and internal security expenditure.....	3,258	5,221	6,117	6,274	6,983	7,705	4,992	5,152	6,216	6,745
9. Investment expenditure.....	3,905	3,852	4,189	4,549	5,070	4,403	4,019	4,189	4,238	4,279
10. TOTAL EXPENDITURE.....	11,340	13,447	14,833	15,705	17,172	18,059	14,150	14,783	16,739	17,410
11. Current balance (5—6—7—8).....	+ 2,491	+ 1,495	+ 1,985	+ 1,896	+ 1,919	+ 2,668	+ 875	+ 766	+ 598	+ 1,089
12. Overall balance (5—10).....	- 1,414	- 2,357	- 2,204	- 2,653	- 3,151	- 1,735	- 3,144	- 3,423	- 3,640	- 3,190
financed ¹ by:										
13. Internal borrowing.....	1,479	2,852	1,267	1,774	1,937	542	2,076	1,698	2,276	2,133
14. Foreign credits.....	—	—	1,287	1,026	1,541	1,291	1,070	1,727	1,366	1,058

1. Items 13 and 14 represent those parts of Government borrowing which "were used to cover expenditure" according to the Budget accounts. Their sum usually exceeds the negative overall balance (Item 12) and the difference is carried forward to the following year as a surplus.

Sources: Finance Bills and Official Journal.

or 11.3 per cent) was due to a 560 million escudos increase in expenditure in overseas provinces under the Second Development Plan. Current civilian expenditure showed, as usual, only a moderate rise.

In contrast to the previous year, budget revenue¹ increased much more than expenditure in 1965 with the result that the overall deficit (Government borrowing) came down by nearly one half to an amount slightly lower than expenditure for public debt servicing. The current surplus was the highest since several years. Total tax receipts rose substantially — by 18 per cent. The increase in direct tax revenue by over 20 per cent was partly due to the fact that the previous year's delays in tax collections were caught up. In addition, the effects of the earlier tax reforms² started being felt to a much greater extent. The yield of indirect taxes also rose considerably (+17.5 per cent). There was an exceptionally high increase of customs revenue (+30 per cent) due largely to sizeable payments of import duties on automobile parts. Compared with the increase of total revenue by 16.4 per cent, total expenditure rose by only 5.2 per cent. Besides a marked increase in public debt servicing and a 10 per cent rise in defence outlays, current civilian expenditure rose more than in previous years; but the apparent acceleration was due to exceptional allocations to a general account of the Ministry of Finance. On the other hand, investment expenditure declined by 13 per cent, owing partly to the termination of certain important projects. Over the five years from 1960 to 1965 total expenditure rose by 60 per cent, two thirds of the increase being due to defence outlays. Taking 1964 and 1965 together, defence accounted for 42 per cent and investment for 27 per cent of total expenditure.

The budget for 1966, like previous budgets, under-estimated tax revenue considerably. Compared with the previous year's forecasts (which under-estimated tax receipts by 35 per cent) the forecasts for 1966 showed an increase of 10 per cent. But they implied that tax revenue would fall by 18 per cent from the actual level of 1965. Total expenditure was put at 4 per cent above the initial estimates for 1965, but 4 per cent lower than the actual out-turn. Current civilian expenditure was expected to rise moderately (allowing for the special item mentioned above). As was the case in earlier budgets, the defence estimates were higher than the 1965 forecasts, but lower than the results of the two preceding years. In recent years, however, the "extraordinary" defence allocations for the overseas provinces have been approximately doubled by supplementary credits (this item amounted to 2.5 billion escudos in the 1966 budget). The forecasts of investment expenditure have also been often revised upwards. In the last budget they were only slightly above the initial forecasts for 1965, but 16 per cent

1. Excluding Government borrowing.

2. These reforms have been summarised in the 1964 Survey, page 13.

below the actual level of 1964. The forecasts of productive investment were lower than in the previous budget, due to the completion of major projects like the Tagus bridge¹ and the first phase of the Alentejo irrigation works. There is no doubt, however, that the needs for public investment, especially in agriculture, are far from being exhausted.

According to the provisional Treasury accounts, revenue continued to rise considerably in the first seven months of 1966 (+14 per cent over the corresponding period of 1965) while expenditure increased only marginally. Thus the seasonal cash surplus of the Treasury represented 20 per cent of total receipts and was more than double that of January-July 1965. Tax revenue increased by 10.6 per cent between these two periods. During the rest of the year it has probably been boosted by the application, since last summer, of the new tax on transactions. Therefore, the restrictive impact of public finance on the economy may have continued, unless the growth of expenditure has accelerated considerably in recent months. At the time of writing, the budget forecasts for 1967 were not yet available.

C. BALANCE OF PAYMENTS

General trends

For the first time it was possible to establish a global balance of payments of the metropolitan area for 1964, covering transactions both with foreign countries and with the other regions of the escudo area. In that year Portugal's current account deficit with foreign countries was matched by an equal current surplus with the overseas provinces. In 1965, a higher deficit vis-à-vis foreign countries led to a modest overall deficit on current account. As can be seen in Table 7, a large part of the trade deficit with foreign countries was offset by net earnings on services and private transfers. On the other hand, the trade surplus with the overseas provinces coincided with an important surplus on private invisible transactions; however, considerable amounts of Government payments helped to reduce the metropolitan area's current surplus with the rest of the escudo area. Public borrowing from foreign countries was particularly high in 1964 and again appreciable in 1965. In both years it was only partly offset by exports of public capital to the overseas territories. In addition, there was an appreciable inflow of foreign private long-term capital, which led to an overall surplus of \$46 million in 1964. The following year the overall surplus rose to \$87 million owing

1. The budget accounts and the investment programme may possibly show the same item of expenditure under different accounting periods (cf. Table 12).

TABLE 7. GLOBAL BALANCE OF PAYMENTS OF METROPOLITAN PORTUGAL

Million dollars.

	1964			1965		
	WITH OVERSEAS PROVINCES	WITH FOREIGN COUNTRIES	TOTAL	WITH OVERSEAS PROVINCES	WITH FOREIGN COUNTRIES	TOTAL
A. CURRENT ITEMS:						
1. Imports ¹	96	610	706	93	735	828
2. Exports ¹	147	396	543	168	438	606
3. Trade balance	51	- 214	- 163	75	- 297	- 222
4. Transport and insurance	6	- 41	- 35	8	- 42	- 34
5. Foreign travel	12	68	80	16	81	97
6. Investment income	24	- 6	18	29	- 5	24
7. Government transactions	- 52	- 3	- 55	- 72	13	- 59
8. Other services	12	5	17	14	16	30
9. Private transfers	59	79	138	43	108	151
10. Current balance	112	- 112	-	113	- 126	- 13
B. CAPITAL MOVEMENTS (non-monetary sectors):						
11. Private capital, long-term	- 1	36	35	1	32	33
12. Private capital, short-term	3	- 4	- 1	2	46	48
13. Public capital	- 48	61	13	- 12	29	17
14. Total	- 46	93	47	- 9	107	98
C. ERRORS AND OMISSIONS						
(A + B + C) OVERALL BALANCE	65	- 19	46	103	- 16	87
D. FINANCING:						
15. Monetary movements (increase = -) ²	- 34	- 12	- 46	- 85	- 2	- 87
16. Multilateral settlements	- 31	+ 31	-	- 18	+ 18	-

1. With foreign countries: fob; with overseas provinces: settlements.

2. Estimated values derived from data on settlements of overseas provinces transactions with foreign countries through metropolitan banks.

Source: Bank of Portugal.

to higher receipts of foreign capital and reduced capital exports to the overseas provinces. (The trend of private capital exports to the rest of the escudo area is discussed below — pages 28-29.) There are not yet sufficient data for evaluating Portugal's global balance of payments in 1966.

The balance of payments of the escudo area with foreign countries is summarised in Table 8¹. The current deficit of the metropolitan area vis-à-vis foreign countries increased sharply in 1961 owing to exceptional circumstances. It fell back steeply the following year and increased only slightly up to 1965 despite a considerable widening of the trade deficit, thanks essentially to the growth of tourist receipts and emigrants' remittances. On the other hand, the overseas provinces' regular surplus with foreign countries has tended to fluctuate owing largely to changes in crops and world prices of the primary products which account for the bulk of their exports. In 1964, although the imports of these provinces increased sharply, their export earnings and invisible receipts increased even more, so that the total current account of the escudo area switched into surplus.

In 1965, the current account of the escudo area reverted into a small deficit. The main reason was the appearance, for the first time in several years, of a deficit (on the basis of settlements) in the trade of the overseas provinces with foreign countries. The imports of these provinces continued to expand considerably, but their receipts from exports to foreign countries fell sharply. Comparison with the customs returns and other evidence suggests that this fall was due to a large extent to non-repatriation of export earnings. The corresponding capital outflow may conceivably have been matched by movements of foreign short-term capital into the metropolitan area. In any case total net receipts of foreign capital² increased in 1965 leading to a further rise in official reserves. The continuing appreciable inflow of private long-term capital — especially of direct investment — presents advantages beyond the accrual of foreign exchange, namely the technological and organisational improvements which often accompany such ventures. These considerations have inspired the new legislation of 1965, which liberalised the conditions for foreign productive investment and extended the guarantees accorded to foreign capital.

The information so far available for 1966 suggests an improvement of Portugal's balance of payments with foreign countries. For the first nine months of the year the trade deficit with these countries was some-

1. These statistics have been available for many years. Starting from 1962, however, there were significant improvements in coverage and classification, so that some items are not exactly comparable to those for earlier years.

2. The bulk of the recorded capital flows given in Table 8 were to the metropolitan area.

TABLE 8. BALANCE OF PAYMENTS OF THE ESCUDO AREA

Million dollars.

	1961	1962	1963	1964	1965	1ST QUARTER	
						1965	1966
I. CURRENT ITEMS:							
A. Metropolitan area							
1. Imports (fob)	526	457	509	610	735	143	145
2. Exports (fob)	258	294	326	396	438	89	99
3. Trade balance	-268	-163	-183	-214	-297	-54	-46
4. Transport	-30	-26	-32	-38	-42	-8	-11
5. Foreign travel	13	25	41	68	81	9	21
6. Other services	-14	9	-4	-7	24	9	-2
7. Unilateral private transfers	41	50	69	79	108	14	35
8. Current account balance	-259	-105	-109	-112	-126	-30	-3
B. Overseas provinces							
9. Imports ¹	101	149	149	208	221	50	61
10. Exports ²	185	163	172	240	194	44	52
11. Trade balance	84	14	23	32	-27	-6	-9
12. Services and transfers, net ³	31	56	65	96	118	25	27
13. Current account balance	115	70	88	128	91	19	18
(A + B) Current account balance of the Escudo Area	-144	-35	-21	16	-35	-11	15
II. CAPITAL MOVEMENTS, NON-MONETARY SECTORS:							
14. Private capital, long-term	36	46	54	38	27	-1	12
15. Private capital, short-term	20	16	6	-7	45	-18	-48
16. Public capital	-12	74	21	61	29	23	-
17. Total	44	136	81	92	101	4	-36
III. ERRORS AND OMISSIONS	-8	-1	+2	+2	+3	-	-2
IV. MONETARY SECTORS:							
18. Private institutions	4	-6	-29	7	-25	-2	15
19. Central institutions ⁴	104	-94	-33	-117	-44	9	8
of which:							
Changes in official ⁴ reserves (increases = -)	+102	-114	-46	-128	-66	9	10
20. Total	108	-100	-62	-110	-69	7	23

1. Settlements.

2. For 1961 global estimate.

3. Including changes in central bank long-term assets.

4. The figures cover changes in gold and short term freely usable assets of the Bank of Portugal excluding repayments on long-term central bank assets and bilateral clearing balances. The figures shown below cover changes in gold and short-term freely usable assets of the Bank of Portugal and other central institutions (Government and Exchange Funds): 1961, +98; 1962, -109; 1963, -46; 1964, -135; 1965, -54; 1st qtr. 1965, +10; 1st qtr. 1966, +10.

Source: Bank of Portugal.

what higher than in the corresponding period of 1965. But this deterioration was probably more than offset by increased earnings on invisibles. The balance of payments of the escudo area probably showed an overall surplus in this period, judging by the increase of official reserves¹ and allowing for some outflow of banking funds in the first half of the year. At the end of September the official reserves stood at the record level of \$1,030 million, representing approximately one-year's imports of the escudo area.

Foreign trade

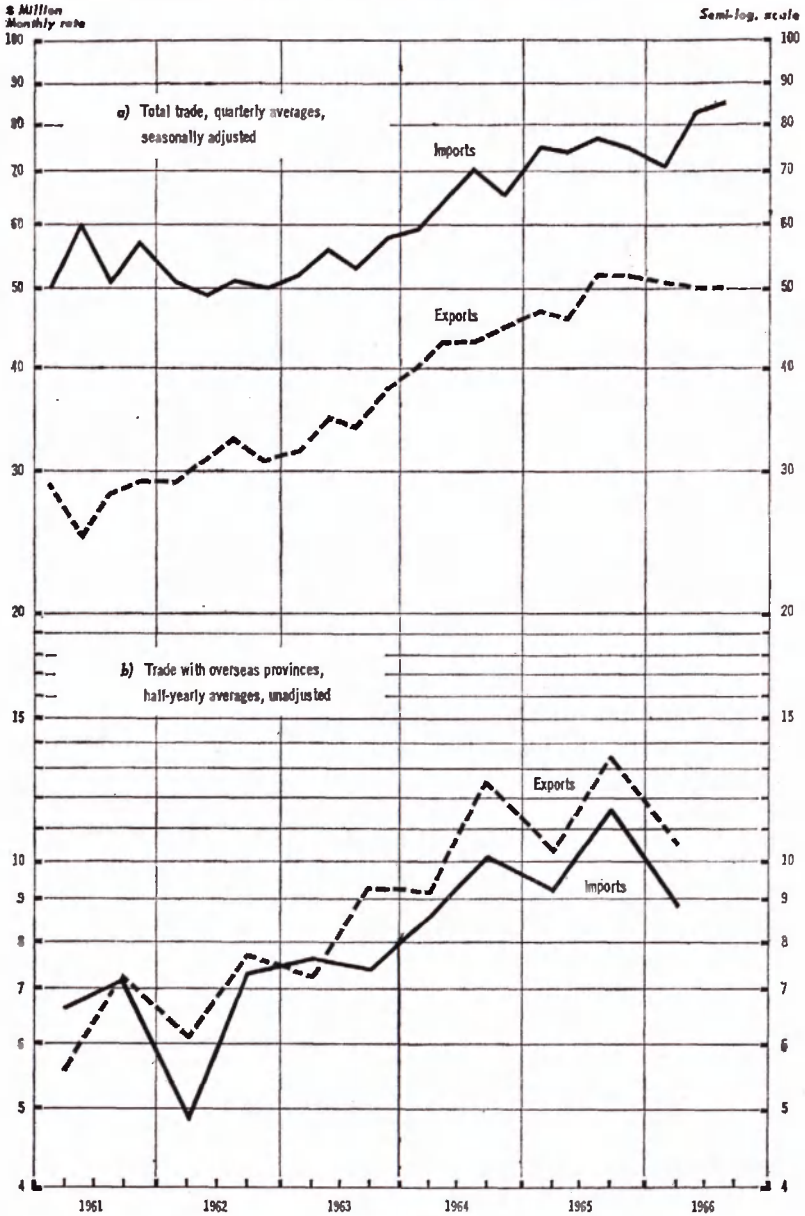
The brisker pace of industrial activity was accompanied by a 19 per cent rise of imports in 1964. But exports increased even faster (+23 per cent), so that the trade deficit rose only moderately. A new feature in the trade returns (exports of Angolan diamonds, which were previously exported directly to foreign countries but started being sent to metropolitan Portugal for classification and cutting) had a certain influence on the rates of increase. Excluding this item, the rise of imports and exports in 1964 works out at 15 per cent and 19 per cent respectively. Practically all the main categories of imports increased considerably — e.g. food products +19 per cent, machinery +20 per cent, metals and metal products +30 per cent, textiles (principally raw materials) +17 per cent, chemicals and rubber +15 per cent. As several assembly plants started operations, the restrictions on imports of automobiles came into force, but the decline was largely offset by higher imports of car parts and spares. The considerable growth of exports was due largely to the continuing strong expansion of textiles and to appreciable increases of other industrial exports.

In 1965 total imports rose at the same rate as the previous year (+19 per cent). Food products increased again considerably (+22 per cent). Even allowing for the temporary effects of poor harvests, a rising trend of such imports, mainly from foreign countries, is noticeable over the last few years. Most other categories of imports showed appreciable rates of expansion, though somewhat lower than those of 1964 — e.g. machinery +17 per cent, metals +15 per cent, textiles +12 per cent, chemicals +13 per cent. And there was a sharp increase in imports of automobile parts for the expanding local assembly industries. Total exports rose by 12 per cent so that the trade deficit widened significantly. The increase was largely due to agricultural and food exports (+19 per cent). If exports of both food products and diamonds are excluded, the rise for all other groups combined works out at only 6 per cent, compared to 22 per cent the previous year. This deceleration had a bearing on the trend of industrial production and economic acti-

1. By \$ 36 million up to September, not counting the rise in the IMF position. Cf. Statistical Annex.

vity. It should, however, be interpreted in the light of some earlier, exceptionally high increases. Exports of textiles, which rose by 5 per cent in 1965, had nearly doubled over the three previous years; they

Diagram 4. FOREIGN TRADE



Sources: National Institute of Statistics and OECD Main Economic Indicators.

account at present for about one quarter of total exports. On the other hand, certain other exports of manufactures — e.g. chemicals, machinery and pulp and paper where modern plant was set up in recent years — continued to show constant gains, resulting in a gradual diversification of Portuguese exports.

The growth of imports slowed down in the course of 1965 and tapered off in the early months of 1966. More recently imports picked up again, though their rate of increase (+8 per cent for January-September over the same period a year earlier) was distinctly smaller than in 1964-65. This was due to the slower expansion of imports of food products (+3 per cent) and other commodities and to a fall in imports of textile materials and iron and steel, despite a new substantial increase in imports of machinery (+21 per cent). There was also a deceleration of exports (+4 per cent for the first nine months) which became more marked in recent months. The slowing-down concerned several commodity groups (see Statistical Annex), although exports of both food products and textiles showed increases of about 8 per cent. The new export lines mentioned above continued making satisfactory progress.

D. ECONOMIC RELATIONS WITH THE OVERSEAS PROVINCES

Economic developments in Portugal are influenced significantly by the multiple, close links with the overseas provinces. It is true that economic relations with foreign countries, which account for four fifths of the metropolitan area's external trade, are much more important. The bulk of Portugal's tourist receipts and long-term capital inflow comes from the highly industrialised countries, which are also attracting at present the major part of workers' emigration and provide probably for the near future the more important opportunities for the expansion of Portuguese exports. However, economic relations with the rest of the escudo area influence significantly the structure of Portugal's foreign trade and international payments. The extensive flows of private and public invisible transactions and capital movements inside the escudo area have a considerable bearing on the trend of incomes, expenditure and saving in the metropolis. Furthermore, the programme of "economic integration" of the escudo area and the investment plans for the overseas provinces will probably exert in the future an appreciable influence on economic trends in the metropolitan area.

Balance of payments with the overseas provinces

Trade relations with the overseas provinces are of major importance for certain commodity groups. The Portuguese textiles industry absorbed in 1965 all the cotton exports of Angola and Mozambique and a large share of other fibres and supplied the bulk of their textile imports.

Other traditional flows of trade where intra-area relations are preponderant include Portuguese imports of sugar, other foodstuffs and oilseeds, and imports of wine, tinned fish, chemicals and rubber products in the overseas provinces. The metropolitan area is a basic market for certain primary products of these provinces, which are covered by bulk contracts at fixed prices. But recent developments in industry and mining have resulted in some important new lines of trade — e.g. petroleum exports from Angola to the metropolis and iron and steel trade in the opposite direction. This diversification of trade (and the new channelling of diamond exports mentioned earlier) have contributed to the expansion of total trade with the overseas provinces during the period under review. This expansion probably reflects also increased import demand in the overseas provinces as a whole, resulting, inter alia, from higher total export earnings, from the increased military expenditure by the Central Government in these provinces during the last few years, and from the inflow of capital from the metropolis.

For the first time, official estimates of invisible transactions and capital movements are available since 1964. Table 9 shows the import-

TABLE 9. BALANCE OF PAYMENTS OF THE METROPOLITAN AREA WITH THE OVERSEAS PROVINCES¹

Settlements; net balances in million escudos.

	ANGOLA		MOZAMBIQUE		OTHERS		TOTAL	
	1964	1965	1964	1965	1964	1965	1964	1965
A. CURRENT TRANSACTIONS:								
1. Merchandise	789	882	308	811	363	472	1,460	2,165
2. Current invisibles .	626	— 228	1,382	1,524	— 247	— 237	1,761	1,059
<i>of which:</i>								
— investment income	498	427	160	342	31	57	689	826
— Government ..	— 1,145	— 1,784	195	279	— 532	— 567	— 1,482	— 2,072
— other services .	454	574	355	425	35	69	844	1,068
— private transfers	819	555	672	478	219	204	1,710	1,237
Total	1,415	654	1,690	2,335	116	235	3,221	3,224
B. CAPITAL MOVEMENTS:								
1. Short-term	60	53	65	27	— 16	— 18	109	62
2a. Long-term, private.	— 90	— 57	59	85	— 7	11	— 38	39
2b. Long term, official.	— 552	— 184	— 754	— 29	— 93	— 138	— 1,399	— 351
Total	— 582	— 188	— 630	83	— 116	— 145	— 1,328	— 250
C. Unbalanced transactions, errors and omissions	— 31	6	7	— 14	— 8	— 21	— 32	— 29
D. Total	802	472	1,067	2,404	— 8	69	1,861	2,945

1. A more detailed statement, including the financing items, will be found in Table VIII of the Statistical Annex.
Source: Bank of Portugal.

ance of Government current transactions and of the official capital out-flow. On the other hand, it shows only a modest net flow from Portugal of private long-term capital, especially if compared with the amounts of investment income. Certain forms of capital movements (e.g. transfers of physical assets) are not covered by the statistics, which are on the basis of settlements. Moreover, it may be asked whether some entries reflect the real trends or, possibly, greater use of the official channels for transfers of funds to the metropolitan area than in the opposite direction. Nevertheless, it seems that the real net flow of private capital to the overseas provinces is not very appreciable.

Indications about the trend of public capital exports to the overseas territories are provided by figures concerning the last and the present development plans. The original forecasts of the Second Development Plan (1959-64) were that investment projects in the overseas provinces amounting to more than 9 billion escudos would be financed to the extent of about 5 billion from metropolitan loans and for the rest from local sources. During the six years of the plan, finance secured from local sources was 3.7 billion, while authorisations for metropolitan loans were stepped up to 5.4 billion. The Interim Development Plan for 1965-67 forecast 14.4 billion for investment in the overseas provinces. Over the three years it was estimated that the Central Government would contribute 3 billion escudos. The other sources of finance would be the provincial administrations (1.6 billion), private sources and credit institutions (5.2 billion, of which 0.8 billion from the issue of "development bonds") and 4.6 billion of foreign capital, which was thus expected to make a contribution equivalent to \$160 million.

Measures of economic integration

The programme established in 1961 provides for the gradual liberalisation of trade and other transactions and for the abolition of tariffs inside the escudo area. There are no provisions in this programme for a common external tariff. (The "Organic Law" of 1953 envisaged the unification, as far as possible, of external tariffs, with exceptions for the Far Eastern provinces.) With the removal of all customs duties, in January 1964, on imports of the metropolitan area from the overseas provinces, the only remaining restrictions on such imports are quotas for certain agricultural commodities (including processed products like ground-nut oil and tobacco) and for petroleum products. In the overseas provinces, imports from the metropolis are free from quotas (with some exceptions) but the process of tariff cuts is more gradual. On the other hand, the basic programme foresees explicitly the introduction of appropriate measures, including new quotas and tariffs, for the temporary protection of infant industries. The list of invisible transactions and private capital movements which were liberalised within the escudo area in 1963 has not so far been amended.

One important measure was the establishment, since March 1963, of a system of multilateral clearings and of a Monetary Fund for the escudo area. The system of monthly settlements through "compensation" and "reserve" accounts has worked smoothly. But the exchange fund of Angola, after drawing the whole available automatic credit of 250 million escudos, was granted in addition a special credit of 100 million which is still outstanding. It may be noted that the exchange funds of the overseas provinces have their own balances in gold and foreign currency, apart from the balances in escudos.

E. DEVELOPMENT PLANS

Implementation of the 1959-64 Plan

The Second Development Plan was completed in 1964. It was essentially a programme of important investment projects (public investments and certain major private projects) which represented about 30 per cent of total investment. Some basic projections accompanying the Plan have been exceeded. There is no doubt that the average growth of GDP in the six years exceeded significantly the forecast of 4.2 per cent. And the share of fixed investment in national expenditure was probably higher at the end than at the beginning of the period covered by the Plan. Owing to the higher growth of domestic demand — due partly to the sharp rise in military expenditure after 1961 — the current balance of payments deficit was considerably higher than the forecasts¹. But long-

TABLE 10. IMPLEMENTATION OF THE DEVELOPMENT PLAN 1959-64

Million escudos.

	1959	1960	1961	1962	1963	1964	TOTALS 1959-64	
	<i>Actual expenditure</i>						<i>Original forecasts</i>	<i>Actual expenditure</i>
1. Agriculture and forestry	420	423	470	501	714	702	3,812	3,230
2. Fishing	77	118	127	160	125	126	550	733
3. Mining and manufacturing	846	1,753	1,714	1,051	880	1,416	5,787	7,661
4. Electricity	905	1,024	1,159	1,226	1,487	1,268	4,595	7,069
5. Transport and communications	877	1,107	1,058	1,286	1,671	1,843	6,613	7,842
6. Research and technical education	83	131	131	105	80	52	631	583
7. Total	3,208	4,556	4,659	4,329	4,957	5,407	21,988	27,118

Sources: Portuguese Memorandum to the OECD and Presidency of the Council, Technical Secretariat.

1. The absence of complete balance of payments data for the metropolitan area prior to 1964 was mentioned above.

term borrowing abroad and the balance of payments surpluses of overseas provinces with foreign countries contributed to an appreciable increase of official reserves over this period.

The investment programme has been approximately carried out in most sectors, but there was a serious shortfall in agricultural investment. The excess of actual expenditure (27.1 billion escudos in current prices) over the original forecasts of 22 billion was due both to the intervening price and wage increases and to the fact that the real cost of some projects (e.g. in electricity) exceeded the original estimates. About 40 per cent of expenditure was financed from public funds. Foreign credits covered about 12 per cent for the whole period (and 22 per cent in the last two years of the plan) but their real share was probably higher, since some credits by the banking system had a counterpart in foreign loans.

The Interim Development Plan 1965-67

The "Interim" Development Plan was based on broad projections covering the period up to 1973. But the decision to formulate concrete targets for only three years seems entirely justified. First, there were uncertainties about some important exogenous variables — e.g. the effects of economic integration in Europe and in the escudo area and the trend of defence expenditure. Second, some of the projections were inevitably based on inadequate statistics, which it should be possible to improve in the near future. Third, the new plan intended to be much more than a list of investment projects: to a large extent, the projected structure and development of output and demand was conceived as a target. Such projections need to be reviewed in the light of experience after a not-too-long period. Within the plan period, the procedure of the annual programmes provided for flexible policies and possible revisions — e.g. of the investment targets.

The projections for output and demand took 1962 as the base year with certain estimated adjustments to the official national accounts. It is now evident that certain important projections of the plan are in need of substantial revision for two reasons. First, as it has often happened in other countries, actual developments have in some cases diverged considerably from the assumptions of the plan (e.g. in foreign trade, emigration etc.) so that a re-appraisal of these assumptions seems necessary. Second, some recent improvements in economic statistics have confirmed the fact that the plan's forecasts were based on a partly defective picture of the Portuguese economy and of its past trends. Further amelioration of the statistics would provide a more firm basis for forecasting in the future. However, some of the plan's projections may be examined in terms of the nature of the development process which they seem to envisage and of the corresponding policy implications.

TABLE 11. PROJECTIONS OF THE

a) NATIONAL PRODUCT AND EXPENDITURE

	BILL. ESCUDOS AT 1958 PRICES		ANNUAL VOLUME INCREASES		
	1962 ¹ ESTI- MATES	1967 FORE- CASTS	TREND 1953-62	FORECASTS	
				1965-67	1968-73
1. Private consumption	60.4	79.0	4.0	5.2	5.2
2. Public consumption	11.4	15.3	5.9	6.4	6.5
3. Gross fixed investment	13.0	19.2	8.5	8.1	9.2
4. Changes in stocks	1.5	0.6	..	..	..
5. External deficit on goods and services.....	3.8	6.3	4.3	0.6	-1.4
6. Gross national product at market prices	82.5	107.7	4.7	6.1	6.5
7. Gross domestic product at factor cost	76.5	100.0	4.5	6.1	6.5
8. Primary sector	19.6 ²	19.2	1.2	1.5	1.8
<i>of which:</i>					
a) Agriculture and fishing	(19.1)	(18.5)	(1.2)	(1.2)	(1.5)
b) Mining	(0.5)	(0.7)	(-2.0)	(6.5)	(6.5)
9. Secondary sector	28.3	44.5	8.7	9.5	9.1
<i>of which:</i>					
a) Manufacturing	(23.2)	(36.3)	(8.0)	(9.5)	(9.0)
b) Construction	(3.2)	(5.0)	(10.0)	(8.1)	(8.5)
10. Tertiary sector	28.6	36.3	3.6	5.0	5.5

1. There are certain important differences with the Portuguese national accounts.
2. Exceptionally good harvests.

b) EMPLOYMENT

In thousands.

	1960 ACTUAL	1967 FORE- CAST	AVERAGE ANNUAL CHANGES		
			1950-60	1965-67	1968-73
1. Agriculture and fishing.....	1,337	1,182	- 8.4	-23.8	-46.4
2. Industry and mining	921	1,018	19.4	19.3	30.5
<i>of which:</i>					
a) Manufacturing	(668)	(751)	(11.5)	(14.4)	(24.3)
b) Construction	(213)	(225)	(7.3)	(4.5)	(6.0)
3. Services	847	1,016	7.3	20.5	31.9
4. Total	3,105	3,217	19.6	16.0	16.0
5. Workers' emigration				27.0	27.0
6. Increase in active population				43.0	43.0

INTERIM DEVELOPMENT PLAN

c) BALANCE OF PAYMENTS

Annual percentage increases.

IMPORTS	1965-	1968-	EXPORTS	1965-	1968-
	67	73		67	73
1. Food products	4.6	5.0	1. Products of agriculture and fishing	4.7	5.0
2. Other consumer goods ...	8.0	7.6	2. Products of forestry and mining	4.2	4.4
3. Energy	4.9	2.6	3. Textiles and clothing	8.6	7.8
4. Raw materials	6.9	7.5	4. Other industrial products ..	10.8	10.6
5. Equipment	5.3	6.0	5. Tourism	16.5	16.5
6. Total goods	6.2	..	6. Other services .....	..	..
7. Services	7.9	...			
Total goods and services ..	6.5	7.1	7. Total goods and services ..	8.3	9.1

d) INVESTMENT PROGRAMME 1965-67

Million escudos.

METROPOLITAN AREA		OVERSEAS TERRITORIES	
1. Agriculture and forestry ...	2,829	1. Collection of data and basic studies	366
2. Fishing	318	2. Agriculture and forestry	1,614
3. Industry	14,792	3. Fishing	972
4. Energy	5,668	4. Energy	1,330
5. Transport and communications	6,261	5. Industry	3,611
6. Tourism	1,504	6. Transport and communications	4,165
7. Education and research ...	1,039	7. Tourism	255
8. Housing	1,998	8. Housing	604
9. Health	380	9. Social expenditure	1,483
10. Total	34,789	10. Total	14,400

The plan aimed at a growth rate of GNP of 6.1 per cent per year, and envisaged in principle a rate of 6.5 per cent for 1968-73. It considered that manufacturing and tourism will be the more important dynamic sectors of the economy over the next few years, and will induce expansion in other sectors. It estimated that additional demand for labour in industry and services will lead to an acceleration of manpower transfers from agriculture, assuming net emigration of workers at about 27,000 a year; it stated that a higher rate of emigration will mainly lead to a still higher exodus from the farms¹. Agriculture has been treated generally as the residual sector and it may be wondered whether all the implications of this approach have been considered in the elaboration of the plan. The modest rise forecast for agricultural output up to 1967 may have been realistic, since the introduction of improved methods will need time. But the rise forecast for the following six years seems low considering the large scope for improvements in techniques; it should probably be related to the small share of agriculture in the 1965-67 investment programme (8.1 per cent, compared to 17.3 per cent in the Second Development Plan). Such a development, however, is likely to lead to higher pressures on the price level and on the import bill than envisaged in the plan. The volume of food imports was expected to grow less than the volume of private consumption in the period up to 1973. But at present income levels, additional demand for "higher-income" food (e.g. sugar, meat and dairy products) is likely to be very strong, as experience from other countries has shown. And in order to satisfy such increments in demand from local sources, a rather substantial effort would be needed in terms of investment, reforms and application of new techniques in agriculture.

The strong emphasis given to industrial development is illustrated by the projections for exports, particularly the rise by over 10 per cent per annum of industrial exports, excluding textiles and processed primary products. At the same time, an appreciable degree of import substitution for various types of manufactures was foreseen. These forecasts were based on the assumption that industrial productivity (per employed person) would rise by about 6 per cent per annum and that gross fixed investment in manufacturing would increase by about² 9.5 per cent on the average up to 1967 and by 11.3 per cent over the following six years. Subject to appropriate policies, such high rates would not seem unfeasible at the present stage of the country's development. What might be questioned is that imports of equipment should increase by only about half as fast as industrial investment. The rates of productivity and export performance forecast for industry imply a predominant use of modern machinery in new investment and on these conditions import substitution may need a rather long time.

1. Emigration of workers is at present at least double the rate assumed in the plan: cf. Table 3 above.

2. The projections for investment covered both manufacturing and construction, without providing a breakdown.

The balance of payments forecasts are in particular need of revision, since at the time they were established no complete balance of payments statistics were available. The very rapid growth foreseen for tourist receipts took account both of the recent strong expansion and of similar experience in certain other countries. Accordingly, the plan attached special importance to the expansion of tourist facilities.

The investment programme approved with the plan was based on the target of an 8.1 per cent average increase in the total volume of fixed investment in 1965-67 (to be followed by an average increase of 9.2 per cent in 1968-73). It is not exactly comparable to the investment plan for 1959-64, which represented about 30 per cent of total fixed investment. The new programme represents 62 per cent of the forecast for gross fixed investment in 1965-67 and includes the "priority" projects. The public investment forecasts (about 30 per cent of the programme) represented firm commitments of the authorities, who would also try to ensure the implementation of the more important private projects. In general, the plan stipulated an acceleration of productive investment — especially in industry — and the new programme manifested an increased responsibility of the authorities in the attainment of this target. The parallel investment programme for the overseas provinces was the result of a different method of elaboration, corresponding to the quite different stage of economic development of these provinces. It represented a considerable increase, if compared with the 1959-64 plan for the overseas provinces.

The Annual Investment Programmes

The annual programmes for 1965 and 1966 assumed that the growth of output and of the main demand factors would conform approximately to the average forecasts of the plan for 1965-67. A few estimates were revised, but in general the official documents recognised that the nature and delays of current economic statistics do not allow the formulation of annual programmes to take account of conjunctural trends. The total investment target for 1965 was roughly one third of the figure for the three years, but with different proportions for certain sectors. Data are still lacking on the implementation of the programme in industry, which represented about 35 per cent of total planned investment. For all the other sectors combined, actual expenditure was only 64 per cent of the forecasts. But the figures may be revised upwards, given the delays in the centralisation of accounts¹. In order to follow properly the implementation of the plan in the future it is clearly necessary to improve these

1. Similar delays have been observed for the Second Development Plan. For instance, in early 1966, the figures for total expenditure in 1963 and 1964 were revised upwards by 11 per cent and 36 per cent respectively.

TABLE 12. THE ANNUAL INVESTMENT PROGRAMMES

a) METROPOLITAN AREA

Million escudos.

	PLANNED INVESTMENT	SOURCES OF FINANCE				ACTUAL EXPENDITURE ^a
		BUDGET	OTHER PUBLIC FUNDS ¹	FOREIGN CREDIT	OTHER SOURCES	
<i>1965 Programme:</i>						
1. Agriculture and forestry	1,123	673	221	24	205	868
2. Fishing	106	50	...	...	56	134
3. Industry	4,060	17	...	839	3,204	n.a.
4. Energy	1,839	...	169	423	1,247	1,276
5. Transport and communications ...	2,530	924	686	450	470	1,780
6. Tourism	409	40	60	...	309	37
7. Education and research	330	297	33	...	...	264
8. Housing	900	20	767	...	113	258
9. Health	116	76	27	...	13	65
Total	11,413	2,098 ^a	1,964	1,737	5,614	...
<i>1966 Programme:</i>						
1. Agriculture and forestry	1,117	566	456	...	95	
2. Fishing	118	50	...	...	68	
3. Industry	5,958	16	...	1,152	4,790	
4. Energy	2,815	20	260	822	1,713	
5. Transport and communications ...	2,598	820	792	533	453	
6. Tourism	408	40	60	...	308	
7. Education and research	381	305	76	...	...
8. Housing	908	96	600	...	212	
9. Health	176	144	24	...	8	
10. Regional development	100	100	...	...	...
Total	14,579	2,157 ^a	2,268	2,507	7,647	

1. Local administration, autonomous public funds, social security institutions and self-finance of public enterprises.

2. Provisional.

3. Including expenditure financed with foreign credits: 402 million escudos for the Tagus bridge in 1965 and 296 million escudos in 1966, plus unspecified amounts for irrigation works and airports.

Source: Presidency of the Council, Technical Secretariat.

b) OVERSEAS PROVINCES

Million escudos.

	PLANNED INVESTMENT	SOURCES OF FINANCE				
		CENTRAL GOVERNMENT ¹	PROVINCIAL ADMINISTRATIONS	DEVELOPMENT BONDS	OTHER NATIONAL SOURCES	FOREIGN CREDIT
<i>1965 Programme:</i>						
Angola	2,377	370	250	200	671	886
Mozambique	1,758	423	173	73	628	461
Other provinces	647	228	53	...	304	62
Total	4,782	1,021	476	273	1,603	1,409
<i>1966 Programme:</i>						
Angola	2,416	532	250	200	675	759
Mozambique	1,769	550	143	100	811	165
Other provinces	418	300	40	...	78	...
Total	4,603	1,382	433	300	1,564	924

1. Including expenditure financed with foreign credits: an unspecified amount in 1965 and 449 million escudos in 1966.

Source: Presidency of the Council, Technical Secretariat.

administrative procedures. In any case, actual investment probably fell significantly short of the forecasts in many sectors. Attainment of the targets in the first year of the plan would have been difficult, both because of the planned increase in total outlays and because of the intended shifts in the pattern of investment — e.g. the emphasis given to manufacturing and tourism. It is nevertheless essential that the initial delays should be caught up as soon as possible.

The programme for 1966 provided for considerably higher expenditure — 14.6 billion escudos, compared with 11.4 billion initially forecast for 1965. The more important increases concerned investments in industry and electricity. Taking account of the first year's shortfalls, approximate realisation of the new programme would mean strong acceleration of investment outlays. There is no doubt that the current state of the economy, with unused potential resources, allows a substantial increase of productive investment, which is eminently desirable given the vast needs of modernisation of the productive apparatus. But past experience shows that technical and administrative time-lags may be important, in particular for projects financed with public funds. Expenditure for such projects was expected to increase less than private investment in the 1966 programme. In total, it is doubtful whether the planned acceleration of investment has been fully achieved, but adequate information on actual expenditure will not be available for some time yet.

Development policies

The most important element in the plan was certainly not the set of quantitative forecasts, but the effort to define coherent policies conducive to orderly growth. The interim plan contained statements on the general lines of economic policy to be followed in different fields and also a certain number of concrete measures. The timely application of the measures envisaged and, above all, a continuous effort by the authorities to elaborate consistent economic policies favouring economic development will be the real test of success of the plan. The present and foreseeable changes in the structure of the economy require certain revisions of past economic policies and of methods of State intervention.

Both the correct short-term management of the economy and the promotion of long-term growth necessitate greater use of methods of general, flexible intervention by the authorities — notably of credit and budgetary policies. In the past, monetary and credit policy has rarely been active and the necessary tools were lacking. The recent important measures concerning banking and credit should facilitate the authorities' task in this field; and it should be hoped that in the future the Central Bank will be in a better position to exercise its normal functions in controlling the monetary and financial markets. In the field of public

finance, the recent tax reforms represent in general an appreciable progress compared with the previous legislation. But it will also be necessary to conceive the budget increasingly with reference to its real impact on the economy, as opposed to more traditional conceptions. A prerequisite for a more rational use of budget policy is an improved presentation of the public accounts, which would facilitate their economic interpretation (preparatory studies on this subject were started within the administration).

But whereas more intervention of the State will be needed in the future in terms of general economic management, there is little doubt that the gradual development of a complex and dynamic economy necessitates the abolition of many direct controls of the administration in the field of industry. Experience from many countries indicates that excessive detailed controls thwart initiative, create undue delays, and reduce competition by protecting in practice established positions. The need for a revision of existing rules was recognised by the amendment, in November 1965, of the industrial licensing legislation (*condizionamento industrial*) which was established in the past under very different economic circumstances. The amendment aimed, inter alia, at simplifying administrative procedures and at delegating certain powers of decision to local authorities in the overseas provinces. For the metropolitan area, a new list is in preparation of those branches of industry where the direct controls will be maintained. It would not be advisable to keep such types of control as will risk interfering with normal management functions, save in rather exceptional cases.

One area where Government action is of the utmost importance is, obviously, agriculture. It was suggested earlier that the scope of the investment envisaged in this field may be insufficient and that the general economic consequences of a backward agricultural sector may have been under-estimated in the plan. Clear evidence in support of this view may be seen in the considerable rise of food imports over the last few years and in the recent appreciable increase of retail food prices. The latter was partly the result of price support measures. In 1965 the fixed purchase price of wheat and the guaranteed prices of certain secondary cereals were raised by about 4 to 7 per cent (the price of wheat had been practically unchanged since 1948). In addition, significant subsidies¹ were introduced, linked in principle to agricultural improvements but paid exceptionally in 1965 to all producers of cereals. Limited subsidies were also established for certain animal products.

From the great number of special measures announced in the plan, it seems important to single out the plans for expanding vocational training facilities. Such plans, together with the recent increase of the obliga-

1. Together with the "co-efficient of correction", these amounted in 1965 to 25 per cent of the increased price of wheat.

tory school attendance from four to six years and with other measures aimed at improving general education and training, represent probably the most important " investment " for the country's long-term development. It is essential that they should be carried out as foreseen, and, as far as possible, expanded in the future.

CONCLUSIONS

Total demand and non-agricultural output, after the slowing-down of 1962-63, increased considerably in 1964 (a year of very poor crops) and in 1965 (when most harvests were distinctly better). On the whole, the growth of the national product was appreciable in both years. The more dynamic factors of demand were a substantial increase of exports, a rapid development of tourism and, most probably, a considerable increase of industrial investment. However, in the course of 1965 and the early months of 1966 indications of weakening domestic demand became apparent — notably a progressive deceleration in the rise of industrial production and a flattening-out of imports. This trend may be related, *inter alia*, to the contractionary impact of public finance during this period.

More recently, imports picked up appreciably, suggesting a revival of domestic demand. Especially, imports of machinery continued to expand strongly, indicating a high rate of industrial investment. On the other hand, harvests of various crops were again unfavourable in 1966 and this should tend to depress the levels of income and economic activity. Thus the impact of the budget may prove to be of great importance for the level of economic activity in late 1966 and in 1967. Up to last summer, revenue was rising much faster than expenditure. In particular, public investment expenditure declined in 1965 (a year when the targets of the overall investment programme were probably not attained) and should remain stable in 1966 according to the budget forecasts.

Price movements of industrial products remained moderate, but food prices increased considerably in the period under review. This was due essentially to the lack of adaptation of agricultural production to the growing volume and the changing pattern of demand for food products, and also to increased guaranteed prices for certain farm products. It can surely not be taken as an indication of a general excess of domestic demand. In fact, the total balance of payments of the metropolitan area on current account was in equilibrium in 1964 and showed only a modest deficit in 1965, the higher trade deficit being largely offset by increased earnings from tourism and emigrants' remittances. For 1966, an impro-

vement of the current account seems likely. With a continuing capital inflow from abroad, the balance of payments of the escudo area showed new surpluses leading to further increases of official reserves. Accordingly, there seem to be no constraints to the pursuance of a dynamic growth policy.

The first task of such a policy is to maintain a sufficiently high rate of expansion of output and demand. If, therefore, the signs of a possible slackening in the growth of economic activity were to be confirmed, the authorities should take appropriate countervailing action. This action may include the acceleration, as far as possible, of planned investment and some selective reductions of the tax burden. In present circumstances, it seems indeed particularly advisable to review budgetary and fiscal policies in order to prevent any deflationary effects of public finance. Moreover, the authorities should continue taking appropriate action for ensuring a rate of expansion of credit to the private sector, sufficient to satisfy the requirements of sound economic growth. The avoidance of a restrictive monetary impact of the Treasury's operations would facilitate the task of a reasonably expansionist credit policy.

Over the last few years, there have been certain satisfactory developments in the Portuguese economy. Important works of infrastructure have been carried out under the Second Development Plan of 1959-64. Modern plant has been installed in some sectors of industry and this has contributed to a certain diversification of exports, where a few primary products held until recently a predominant share. Moreover, the rapid growth of tourism and of emigrant's remittances have further reinforced the balance of payments. On the other hand, there has been very little progress in agriculture which still employs about 40 per cent of the active population. The trend towards modernisation does not seem to have spread yet to a very large sector of industry. And the economy in general has not yet acquired a sufficient dynamism, but depends still very largely on external impulses.

In these circumstances, public policies aimed at accelerating economic development can play a decisive role. Such policies have found expression in the Interim Development Plan, which aimed at a growth rate of 6.1 per cent for GNP in 1965-67 and envisaged a rate of 6.5 per cent for 1968-73. The elaboration of this plan represented a very considerable effort — to take stock of the existing economic situation, to formulate coherent projections and targets and to outline policies conducive to economic development. The results of this work will be very useful in helping the future course of policy. But the decision not to adopt a plan of very long duration has been wise, as it seems now clear that revision of several forecasts is needed in the light of experience. Moreover, the serious imperfections of economic statistics (despite some recent appreciable improvements) still hinder greatly the elaboration of

both short- and long-term policies. The speedy application of the extensive programme of statistical improvements adopted in 1966 is highly desirable.

One important area where a thorough re-evaluation of policies seems to be called for is agriculture. For a long time, structural deficiencies of the agricultural sector have kept average yields of traditional crops very low. Despite some successful initiatives of the authorities — e.g. to develop fruit-growing and stock-breeding — overall investment in agriculture has been insufficient, and it remains insufficient in the investment programme for 1965-67. The forecasts for 1966 did not show any increase, partly because of the completion of the first phase of the Alentejo irrigation programme; but this shows the need to prepare quickly new investment projects. The present rapid movement of manpower away from the farms is removing the economic basis of a large part of agricultural production and risks leading to increased strains in the future — e.g. on the level of food prices and on the import bill. Over the last few years, there were already indications of these developing tensions, which cannot be corrected simply by price support measures. Accordingly, much greater efforts seem to be needed in the future to encourage the shift to more profitable crops, to increase agricultural investment, to spread the use of improved techniques and to carry out the necessary reforms.

Although important progress is feasible and necessary in agriculture, economic development will depend very largely on the growth of industry and this is one of the principal objectives of the Development Plan. This objective seems to require not only direct promotional action of the kind the authorities have already been taking (e.g. State participations and guarantees or fiscal incentives) but also some general reshaping of the methods of managing the economy. Up to now, methods of general intervention, like monetary and credit policy, were very little developed, with the result that relatively greater emphasis was placed on direct administrative controls.

Some recent measures indicate a welcome movement towards more efficient methods. The reforms in banking regulations and the change in the bank rate are not only an important step towards a more rational and realistic structure of interest rates (which should be completed by revising the regulations and official practices concerning the capital market). They also increase the possibilities of an efficient and flexible use of monetary and credit policies. Furthermore, the recent extensive reforms of tax legislation should result, *inter alia*, in greater responsiveness of tax revenue to variations in the national income; they should thus pave the way for a better use of the budget as an instrument of general economic policy. But the movements in this direction should be accompanied by an overhaul of the detailed direct controls instituted in the past under very different general economic conditions. Excessive

controls of this type are incompatible with the requirements of a complex and dynamic modern industrial structure. It should be hoped that they will be curtailed following the recent revision of the industrial licensing legislation.

Such action may be expected to promote a sufficient degree of competition in the domestic market. But given the size of the economy and the present and prospective benefits from foreign trade, it will be essential that industrial production should become as far as possible internationally competitive. Comparatively low wages are an important advantage, but the increasing use of modern equipment and techniques is no less important. A useful role in this respect can be performed by foreign direct investment and this was recognised by the legislation which increased liberalization in this field and extended the guarantees granted to foreign productive investment in Portugal.

Despite the continuing high levels of military expenditure and the increased effort required to finance productive investment in the overseas provinces, there are at present great possibilities for rapid economic growth in metropolitan Portugal. There are some basic favourable conditions — i.e. large potential domestic savings, a strong balance of payments and comparatively high foreign reserves. But the present substantial emigration of workers to more industrialised countries illustrates the need to speed up economic development and the creation of adequate employment opportunities. The new development plan and some recent measures of economic reform represent important steps towards the elaboration and application of a dynamic development policy.

STATISTICAL ANNEX

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TABLE I. AGRICULTURAL PRODUCTION

	UNIT	AVERAGE 1953-57	AVERAGE 1958-62	1962	1963	1964	1965 PROVI- SIONAL
1. Wheat	1,000 tons	667	600	645	592	472	638
2. Rye, barley and oats	—	386	323	347	376	281	380
3. Maize	—	432	520	591	523	597	459
4. Rice	—	160	163	173	166	181	146
5. Potatoes	—	1,119	989	894	1,145	1,143	888
6. Wine	1,000 hectolitres	11,160	10,331	15,268	12,979	13,595	14,749
7. Olive oil	—	883 ¹	923 ²	580	1,084	450	701
8. Total slaughterings	1,000 tons	82	95	108	101	91	110
<i>of which:</i>							
Cattle	—	36	42	49	46	43	57
Sheep and goats	—	11	12	13	13	11	12
Pigs	—	35	41	46	42	37	41
9. Fish landings	—	299	339	361	364	417	405

1. Average 1952-57.

2. Average 1958-63.

Source : National Institute of Statistics.

TABLE II. INDICES OF INDUSTRIAL PRODUCTION¹

	ANNUAL INDICES (1958 = 100)							MONTHLY INDICES (1958 = 100)											
	1959	1960	1961	1962	1963	1964	1965 ²	1964	1965	1964				1965				1966	
										I	II	III	IV	I	II	III	IV	I	II
1. General index (mining, manufacturing and electricity)...	106	116	127	134	145	162	175	139	146	133	142	138	143	144	149	143	148	...	...
2. Mining and quarrying	106	95	106	105	91	87	82	77	74	80	77	76	77	82	73	73	67	69	69
3. Manufacturing	105	116	127	135	147	165	180	137	145	130	140	136	142	143	148	143	146	...	...
4. Food and drink	104	115	120	120	125	137	141	114	115	112	120	104	120	110	119	115	115	116	123
5. Textiles, clothing and footwear	100	108	115	120	139	152	166	131	136	128	130	132	132	129	140	134	141	133	136
6. Cork, wood and furniture ...	108	119	123	124	130	149	151	152	169	137	161	153	156	169	182	153	173	172	166
7. Chemical and oil products ..	108	120	121	133	149	159	166	141	146	142	146	143	135	160	154	140	130	158	136
8. Non-metallic minerals	105	114	130	141	147	164	173	171	182	164	172	173	177	172	172	193	192	...	...
9. Metal industries, machinery and electrical equipment...	106	113	140	154	165	187	204	128	134	115	134	127	136	129	132	140	136	...	...
10. Other manufacturing industries	113	135	146	153	171	206	252	159	181	145	153	160	177	176	184	179	185	188	198
11. Electricity	112	122	135	144	161	178	173	177	175	180	176	182	169	166	173	151	211	206	202

1. The annual indices have a considerably wider coverage than the monthly indices.

2. Provisional

Source: Portuguese Industrial Association.

TABLE III. OTHER INDICATORS OF ECONOMIC ACTIVITY

	1960	1961	1962	1963	1964	1965	1964				1965				1966	
							I	II	III	IV	I	II	III	IV	I	II
TOURISM (thousands) :																
1. Nights spent by foreign tourists ¹ ..	1,246	1,334	1,358	1,850	2,283	2,702	322	585	1,009	366	355	750	1,181	416	383	838
2. Number of foreign tourists	353	380	463	516	1,032	1,505	84	264	450	234	211	374	607	313	...	...
CONSTRUCTION (Continent) :																
3. Number of dwellings completed (thousands)	26.4	28.2	28.3	28.6	33.9	32.1 ²	6.9	8.2	8.4	8.4	7.6	8.4	8.3	7.8	8.0	

1. In hotels and boarding houses only.

2. All quarterly figures and the provisional annual figure for 1965 cover private housebuilding only.

Source: National Institute of Statistics.

TABLE IV. PRICE AND WAGE INDICES

	BASE	1960	1961	1962	1963	1964	1965	1964				1965				1966		
								I	II	III	IV	I	II	III	IV	I	II	III
1. WHOLESALE PRICES ¹	1948 = 100	118	118	119	120	121	125	121	121	121	122	124	124	124	127	129	129	128
<i>of which:</i>																		
2. Manufactured products	—	104	106	110	107	108	111	107	108	109	110	109	110	111	112	120	118	119
3. Food products	—	110	107	108	112	115	120	113	114	115	116	117	119	119	124	126	127	124
4. CONSUMER PRICES ¹	1948-1949 = 100	112	114	117	119	123	127	124	123	124	126	127	126	127	130	133	132	133
<i>of which:</i>																		
5. Food products	—	113	113	115	119	125	131	126	124	126	129	131	129	130	135	141	139	137
6. INDUSTRIAL WAGES ¹	1961 = 100	...	100	107	112	118	124	115	117	119	120	122	124	125	127	130	132	...
7. AGRICULTURAL WAGES	1958 = 100																	
Men	—	114	119	141	148	166	177	154	178	172	161	166	180	178	184	192	214	217 ²
Women	—	113	118	136	142	160	172	144	171	168	155	159	174	179	176	182	201	203 ²

1. Lisbon.

2. July-August.

Source: National Institute of Statistics.

TABLE V. MONETARY AND BANKING STATISTICS

Billion escudos: end of period.

	1960	1961	1962	1963	1964				1965				1966		
					I	II	III	IV	I	II	III	IV	I	II	
BANK OF PORTUGAL															
1. Credits and advances	3.4	5.5	4.8	5.2	4.5	4.2	4.5	4.7	4.5	4.9	5.8	7.2	6.4	6.0	
2. Gold and foreign exchange assets	20.6	18.1	22.4	23.5	23.9	24.0	25.6	26.8	26.4	26.2	27.1	28.3	28.0		
3. Note circulation	14.8	17.1	17.9	19.3	19.1	19.4	20.1	21.2	20.6	21.0	22.2	23.6	22.8		
4. Other sight liabilities in national currency	9.9	7.3	8.4	9.0	9.1	8.5	9.6	9.6	9.9	9.5	10.2	11.1	11.0		
COMMERCIAL BANKS															
5. Portfolio of securities	3.4	3.4	3.3	4.0	3.9	4.2	4.4	5.1	5.2	5.1	5.2	5.3	5.3	5.3	
6. Credits and advances	20.9	20.5	22.7	27.0	27.1	28.6	30.4	33.3	33.7	35.0	36.8	39.1	39.2	40.0	
7. Deposits (8 + 9)	26.9	25.5	29.8	36.3	36.7	38.6	40.2	45.3	45.7	47.3	48.1	50.3	51.8	53.3	
8. Sight deposits	20.9	19.2	21.4	26.1	25.5	26.8	28.0	32.5	31.5	32.3	32.0	31.9	30.8	32.1	
9. Time deposits	6.0	6.3	8.4	10.2	11.2	11.8	12.2	12.8	14.2	15.0	16.1	18.4	21.0	21.2	
NATIONAL DEVELOPMENT BANK															
10. Portfolio of securities	0.9	0.9	0.8	0.8	0.8	0.9	0.9	1.1	0.9	1.0	1.0	1.0	1.1	1.2	
11. Advances	3.3	4.0	4.4	4.3	3.4	3.3	3.4	4.8	3.6	3.5	3.6	3.6	5.5	3.6	
SAVINGS BANKS															
12. Credits and advances	9.6	10.7	11.2	11.8	11.7	12.1	12.0	12.8	12.9	13.1	13.1	13.8	13.9	14.1	
13. Deposits ¹ (Total)	13.5	13.3	14.3	15.3	15.7	16.4	16.8	17.2	17.2	17.7	17.7	18.5	19.2	19.5	
MONEY SUPPLY															
14. Total (15 + 16)	48.2	48.0	51.9	59.0	58.9	60.5	63.1	67.2	67.3	68.0	70.1	71.2			
15. Currency	13.1	15.2	16.0	17.0	17.5	17.7	18.4	17.9	18.6	18.9	20.2	20.1			
16. Sight deposits ¹	35.1	32.8	35.9	42.0	41.4	42.8	44.7	49.3	48.7	49.1	49.9	51.1			
CAPITAL MARKET															
17. Yield on Government securities (per cent) ²	3.46	3.82	3.96	4.18	4.04	3.92	3.91	3.91	3.92	3.90	3.85	3.82	3.85	3.87	
18. Industrial shares index (4th qtr. 1952 = 100) ³	172	154	135	151	156	161	175	179	192	191	180	188	209	221	

1. Including Government deposits.

2. IMF, Monthly averages.

3. Metropolitan firms.

Source: Bank of Portugal.

TABLE VI. FOREIGN TRADE BY COMMODITY GROUPS

a) IMPORTS

Million escudos.

	1961	1962	1963	1964	1965	JAN.-SEPT.	
						1965	1966
1. Live animals, meat and fish	450	370	453	660	739	570	459
2. Vegetable products	1,570	1,326	1,825	1,992	2,834	1,911	2,078
of which: cereals	713	647	652	771	951	542	887
oil seeds	343	290	527	474	764	540	532
3. Processed food, beverages and tobacco	802	835	832	1,040	941	614	641
4. Fuel, coal and other mineral products	2,003	2,036	2,182	2,274	2,518	1,722	1,741
5. Chemicals, plastics and rubber	1,998	1,881	2,160	2,479	2,813	1,983	1,994
6. Textile materials and products	2,600	2,616	3,108	3,638	4,093	2,901	2,546
of which: raw wool	180	165	198	310	255	237	123
raw cotton	1,253	1,226	1,328	1,426	1,688	1,219	1,121
raw jute and sisal	342	330	478	504	470	314	294
artificial fibres	376	452	568	718	831	264	187
7. Metals and metal products	2,642	1,912	2,012	2,616	3,001	2,039	1,979
of which: iron and steel	1,945	1,319	1,374	1,825	1,979	1,352	1,202
8. Machinery and appliances	3,004	3,115	3,332	4,012	4,675	3,103	3,769
of which: radio and TV sets	187	118	167	222	249	143	170
9. Transport equipment	2,495	1,668	1,723	1,400	2,454	1,508	2,242
of which: ships	1,117	5	283	10	8	...	...
motor vehicles and spares	1,120	1,126	1,180	1,093	1,851	1,246	1,388
10. Precious metals and stones	74	55	60	805	866	560	794
11. Other	1,225	1,016	1,179	1,404	1,689	1,060	1,127
12. TOTAL IMPORTS	18,863	16,830	18,866	22,320	26,553	17,971	19,370

Source: National Institute of Statistics.

TABLE VI. FOREIGN TRADE BY COMMODITY GROUPS

b) EXPORTS

Million escudos.

	1961	1962	1963	1964	1965	JAN.-SEPT.	
						1965	1966
1. Olive oil	86	279	104	114	112	76	122
2. Tinned fish	1,185	1,199	1,174	1,174	1,419	821	773
3. Wine	767	784	876	1,064	1,210	811	908
4. Mineral products	553	508	552	644	658	457	494
5. Chemicals	625	709	911	1,125	1,127	741	845
<i>of which: colophony and rosin</i>	295	346	423	464	431	264	259
6. Tyres and tubes	125	113	121	139	162	113	123
7. Wood and wood products	551	510	566	683	721	509	504
8. Raw cork	610	643	710	695	705	545	515
9. Cork products	766	773	897	940	924	696	692
10. Pulp and paper	254	256	333	461	529	365	403
11. Textile materials and products	2,010	2,645	3,252	3,889	4,089	2,761	2,975
<i>of which: cotton yarn</i>	368	473	499	526	538	326	475
cotton fabrics	800	1,021	1,072	1,162	1,113	766	672
cotton clothing, etc.	180	238	425	652	669	433	509
sisal and jute products	226	320	458	579	540	429	489
12. Machinery and appliances	220	282	313	416	503	321	442
13. Precious metals and stones	11	10	21	548	958	1,059	732
14. Other	1,610	1,921	2,194	2,939	3,456	2,159	2,332
15. TOTAL EXPORTS	9,373	10,632	12,024	14,831	16,573	11,434	11,860

Source: National Institute of Statistics.

TABLE VII. FOREIGN TRADE AND RESERVES

Million dollars.

	1959	1960	1961	1962	1963	1964	1965	1964				1965				1966		
								I	II	III	IV	I	II	III	IV	I	II	III
FOREIGN TRADE¹ (monthly averages):																		
1. Imports	40	45	55	49	55	65	77	50	64	66	78	62	74	73	90	61	84	79
<i>of which:</i>																		
from overseas provinces	6	7	7	6	8	9	11	8	9	7	13	9	9	8	15	9	8	10
2. Exports	24	27	28	31	35	43	48	33	41	41	57	38	45	50	65	42	48	48
<i>of which:</i>																		
to overseas provinces	7	7	6	7	8	11	18	8	11	11	15	9	12	12	15	9	12	11
3. (= 1 - 2) Trade balance	-16	-18	-27	-18	-20	-22	-29	-17	-23	-25	-21	-24	-30	-23	-25	-19	-36	-31
VOLUME INDICES²																		
4. Imports .....	...	100	120	110	124	151	187	147	141	154	157	189	184	197	180	192	220	...
5. Exports .....	...	100	104	125	132	156	158	149	167	156	164	165	160	141	164	174	184	...
OFFICIAL RESERVES (end of period):																		
6. Gold and foreign exchange	862	844	733	829	865	985	...	880	881	940	985	977	957	...	...	...	...	...
<i>of which:</i>																		
Bank of Portugal	808	794	692	792	827	939	994	842	849	895	939	929	918	948	994	982	982	1,030
7. IMF gold tranche position	—	—	—	15	15	15	15	15	15	15	15	15	15	15	15	19	19	19

1. The annual figures are sometimes significantly higher than the total of the monthly figures due to wider coverage.

2. Base: corresponding quarter of 1960 = 100. The annual indices were taken from the annual publications "Foreign Trade" of the National Institute of Statistics.

Sources: National Institute of Statistics, IMF International Financial Statistics and OECD Foreign Trade Statistics.

TABLE VIIIa. BALANCE OF PAYMENTS OF THE METROPOLITAN AREA WITH THE OVERSEAS PROVINCES IN 1964

Million escudos.

	ANGOLA		MOZAMBIQUE		OTHERS		TOTAL		
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	BALANCE
A. CURRENT TRANSACTIONS	3,571	4,986	1,655	3,345	1,055	1,171	6,281	9,502	+ 3,221
1. Merchandise	1,481	2,270	1,085	1,393	207	570	2,773	4,233	+ 1,460
2. Current invisibles	2,090	2,716	570	1,952	848	601	3,508	5,269	+ 1,761
of which:									
a) Travel	6	221	1	133	6	13	13	367	+ 354
b) Investment income	13	511	134	294	3	34	150	839	+ 689
c) Government	1,988	843	387	582	783	251	3,158	1,676	- 1,482
d) Transport and other services	42	281	14	237	36	64	92	582	+ 490
e) Private transfers	41	860	34	706	20	239	95	1,805	+ 1,710
B. CAPITAL MOVEMENTS	582	...	630	...	116	...	...	...	- 1,328
1. Short term (net) .....	...	60	...	65	16	...	...	...	+ 109
2. Long term	722	80	811	116	116	16	1,649	212	- 1,437
a) Private sector	97	7	26	85	7	...	130	92	- 38
b) Official sector	625	73	785	31	109	16	1,519	120	- 1,399
C. UNBALANCED TRANSACTIONS AND ERRORS	31	...	...	7	8	...	...	...	- 32
D. TOTAL .....	...	802	...	1,067	8	...	...	...	+ 1,861
E. FINANCING	802	...	1,067	...	...	8	...	...	- 1,861
1. Multilateral settlements	1	...	...	1	...	...	...	...	...
2. Net changes of short-term assets [increase (-)] .....	...	201	...	540	41	...	...	...	+ 700
3. Compensation account of the Metropolitan Area [credit (-), debit (+)]	1,001	...	1,607	...	...	59	...	...	- 2,549
4. Reserve accounts of the Overseas Provinces [credit (+), debit (-)] ..	1	...	1	...	10	...	...	...	- 12

Source: Bank of Portugal.

TABLE VIIIb. BALANCE OF PAYMENTS OF THE METROPOLITAN AREA WITH THE OVERSEAS PROVINCES IN 1965

Million escudos.

	ANGOLA		MOZAMBIQUE		OTHERS		TOTAL		
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	BALANCE
A. CURRENT TRANSACTIONS	3,933	4,587	1,379	3,714	1,046	1,281	6,358	9,582	+ 3,224
1. Merchandise	1,467	2,349	1,019	1,830	186	658	2,672	4,837	+ 2,165
2. Current invisibles	2,466	2,238	360	1,884	860	623	3,686	4,745	+ 1,059
<i>of which:</i>									
a) Travel	6	239	6	187	...	35	12	461	+ 449
b) Investment income	31	458	9	351	...	57	40	866	+ 826
c) Government	2,352	568	292	571	822	255	3,466	1,394	- 2,072
d) Transport and other services	47	388	15	259	22	56	84	703	+ 619
e) Private transfers	30	585	38	516	16	220	84	1,321	+ 1,237
B. CAPITAL MOVEMENTS	188	...	...	83	145	...	...	...	- 250
1. Short term (net) .....	...	53	...	27	18	...	...	...	+ 62
2. Long term	457	216	588	644	201	74	1,246	934	- 312
a) Private sector	170	113	77	162	19	30	266	305	+ 39
b) Official sector	287	103	511	482	182	44	980	629	- 351
C. UNBALANCED TRANSACTIONS AND ERRORS (net) .....	...	6	14	...	21	...	...	...	- 29
D. TOTAL .....	...	472	...	2,404	...	69	...	...	+ 2,945
E. FINANCING	472	...	2,404	...	69	...	...	...	- 2,945
1. Multilateral settlements	34	...	16	...	...	50	...	...	...
2. Net changes of short-term assets [increase (-)] .....	...	524	136	...	275	...	...	...	+ 113
3. Compensation account of the Metropolitan Area [credit (-), debit (+)]	962	...	2,252	...	...	161	...	...	- 3,053
4. Reserve accounts of the Overseas Provinces [credit (+), debit (-)]	5	- 5

Source: Bank of Portugal.

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