

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

DRAFT REPORT ON THE 1980 CONSULTATION WITH PORTUGAL

1. The Committee has consulted with Portugal in accordance with its terms of reference and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (L/4904). The consultation was held on 5 May 1980 under the Chairmanship of Mr. C.S.F. Jagmetti (Switzerland). The International Monetary Fund was invited to participate in the consultation pursuant to Article XV of the General Agreement.
2. The Committee had the following documents before it:
 - Report on the last consultation with Portugal
held on 30 April 1979 (BOP/R/106)
 - Basic document supplied by the Portuguese
authorities (BOP/206 and Add.1)
 - Background paper by the secretariat (BOP/W/39)
 - Background material supplied by the IMF
dated 2 April 1980

Opening statement by the representative of Portugal

In her opening statement, the full text of which is contained in the Annex, the representative of Portugal described the economic developments in the Portuguese economy in 1979, the trade liberalization measures taken since the last consultation, and the prospects and policies for 1980. She said that in 1979 the GDP had risen by about 3.4 per cent. The main stimulus to economic growth had

been the remarkable 22 per cent rise in exports of goods and services. Imports of goods and services had only risen by 4.5 per cent in real terms. These developments reflected the improvement of Portugal's competitive position which was the consequence of low unit labour costs and "crawling peg" devaluations. An increase of 66.6 per cent in private transfers had further contributed to the improvement of the current account. For the first time since 1973 it had registered a surplus (over \$100 million according to the most recent estimates). There had also been a substantial increase in capital inflows and as a result the surplus in overall balance rose from \$160 million in 1978 to \$1.3 billion in 1979.

4. As a consequence of these positive developments Portugal had been able to continue to relax its restrictive import measures. The surcharge, which had been introduced in 1975 with a rate of 30 per cent, had been reduced to 20 per cent in October 1978 and to 10 per cent in May 1979. Several items were lifted from the list of goods subject to the surcharge and, as a result, its coverage had dropped from 26 to 24 per cent of total imports. The quota system on consumer goods had been extended, but the removal of two items - coffee and plastic products - substantially reduced the coverage, namely from 4.2 to 3.3 per cent of total imports in 1976, the year before the system had been introduced.

5. The Parliament had recently approved the Government's annual plan and budget which were based on the assumption that the GDP would grow by 3.6 per cent in 1980, private consumption by 1.5 per cent, public consumption by 0.5 per cent and productive investment by 6 per cent. The current account was expected to be in deficit (\$750 million) mainly due to a forecast

30 per cent increase in the trade deficit (\$800 million). In view of the sharp deterioration of the external financial position expected for 1980, the Government had considered it necessary to extend, until the end of the year, the 10 and the 60 per cent surcharges, to extend the quota system for consumer goods for a further twelve-month period to 31 March 1981 and to maintain the quota system for unassembled vehicles. The value of the quota system for consumer goods was about to be increased by about 15 per cent, which was estimated to compensate the increase in the average price of the goods subject to these restrictions. The escudo value of the quotas for unassembled vehicles had been increased by 36 per cent.

6. In concluding her statement the representative of Portugal declared that, given the outlook for 1980, the trade measures taken for balance-of-payments purposes had to be prorogated to safeguard Portugal's external accounts situation. She also stressed that the Portuguese authorities intended to continue to use these measures to a very small extent and to apply them only in a non-discriminatory manner.

Statement by the representative of the International Monetary Fund

7. Upon the invitation of the Committee, the representative of the International Monetary Fund made a statement in which he noted the further consolidation in 1979 of the success which the Portuguese authorities had achieved in reducing internal and external disequilibria in the economy, and in particular the marked improvement in the balance-of-payments position. He reviewed in some detail recent developments in the overall economic and financial conditions and policies adopted by the Portuguese authorities. The Fund representative described the outlook for 1980 as clouded by

uncertainties regarding both the external environment and the stance of domestic financial policies. He referred to the concern of the Portuguese authorities about the impact of escudo depreciations on the domestic price level which had prompted a gradual shift in the focus of exchange rate policy leading to a 6 per cent effective revaluation of the escudo in February 1980. He suggested that this was likely to impinge on Portugal's international competitiveness at a time when prospects were, in any case, for a sharply lower growth of exports in 1980 than in 1978/79. With the terms of trade likely to deteriorate as a result of oil price increases and receipts from tourism and workers' remittances unlikely to attain the same magnitude as in the past two years, the small surplus attained on current account in 1979 was expected to give way to a moderate deficit. However, with the support of appropriate financial policies the financing requirement for a deficit of the magnitude presently envisaged should be adequately met by net capital inflows and official borrowing on a moderate scale. In view of this outlook, the Fund representative expressed the view of the Fund that a further relaxation of the import restrictions maintained by Portugal, and an acceleration of their removal, can be accomplished.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

8. Several members of the Committee prefaced their remarks by noting that the present consultation was the first held in accordance with the Declaration on Trade Measures Taken for Balance-of-Payments Purposes which had been adopted by the CONTRACTING PARTIES on 28 November 1979. They noted that in many respects this Declaration was a codification of present practices; however it also contained a number of new elements which the Committee would need to take into account in its work.

9. The Committee noted the improvement in the balance-of-payments situation of Portugal in 1979. It noted in particular that there had been a current account surplus of over \$100 million in that year compared with a deficit of \$800 million in 1978. Members of the Committee commended the Portuguese authorities for their realistic and courageous exchange, wage and monetary policies which had contributed to the strong foreign demand for Portuguese exports, stimulated remittances from abroad and capital inflows, and increased receipts from tourism. Some of them regretted however that the Portuguese authorities had not made use of the favourable situation in 1979 to further relax restrictive import measures. One member said that he doubted whether there had been in 1979 any need for trade measures to safeguard the external financial position. In particular it was regretted that the Portuguese authorities had not been able to carry out their announced plan to abolish the 10 per cent surcharge in October 1979 and that no new deadline for its termination had been set. The question was asked whether the Portuguese authorities could now commit themselves to the gradual removal of the remaining restrictive import measures in accordance with an announced time schedule.

10. The representative of Portugal replied that it was difficult for a country on the brink of industrialization to pursue for a long time the restrictive credit and wage policies that had made the improvement in the payments situation possible. The government had to take into account the need to secure investments, employment opportunities, and some increase in private consumption. These factors had limited the scope for trade liberalization in 1979. The legislation on the quotas for unassembled vehicles

provided for a calendar for the phasing out of these restrictions. The relatively uncertain balance-of-payments situation made it however difficult to announce a time schedule for the removal of the other restrictive import measures at the present time. The Portuguese representative reaffirmed that the restrictive import measures imposed for balance-of-payments purposes were of a temporary nature and that it was the intention of the Portuguese authorities to remove them as soon as the external financial position permitted. He also declared that a time schedule for the removal of these measures would be announced whenever practicable in accordance with the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes.

11. Asked about the cause of inflation and the policies to contain it, the representative of Portugal explained that among the main factors which had contributed to the rise in prices in 1979 was a 33 per cent increase in import prices caused in large part by the effective depreciation of the escudo. Structural problems in some sectors were an additional factor. Since wage ceilings recommended by the government had on the whole been observed, wage increases tended to be a reflection rather than a cause of inflation. The recovery of profit margins and the relatively high interest rates stimulated inflation to a certain extent. In response to a query on the influence of the rise in the price of oil, the representative of Portugal said that oil imports represented in 1979 about 20 per cent of total imports. While oil imports were expected to rise in 1980 by more than 15 per cent in volume and by 60-70 per cent in value, total imports were expected to increase by about 5 per cent in volume and 22 per cent in value.

12. Several members asked questions about the exchange rate and interest rate policies of Portugal. The representative of Portugal replied that the programmed depreciation of the effective exchange rate for the escudo was now set at 0.75 per cent per month, however this rate could be changed if necessary. At present the depreciation rate was sufficient to compensate the difference in the rate of inflation in Portugal and that in its trading partners, and it was therefore considered realistic. The interest rate policy of the Portuguese authorities was flexible but in general attempted to take into account interest rates abroad and the difference between the inflation rates in Portugal and in its main trading partners. The policy was, inter alia, aimed at stimulating savings, remittances from abroad and capital inflows.

13. Replying to a number of questions on the foreign debt and its maturity profile, the representative of Portugal said that, of the total debt of 6.5 billion dollars, 1.2 billion were government debts, 1.8 billion private debts with government guarantee, 2.8 billion private non-guaranteed debts, and 1.6 billion debts of the Bank of Portugal. He added that for the Government large repayments would begin in 1983, while the majority of the private, non-guaranteed debt fell due for repayment in 1980.

System, method and effect of the restrictions

14. A number of detailed questions were asked about specific aspects of the Portuguese import régime. In reply to queries on the coverage of the 10 per cent surcharge, the representative of Portugal stated that the product categories subject to the surcharge accounted for 23-24 per cent of total imports but that a large portion of the import of products in such categories was exempt from the surcharge so that the coverage was in fact reduced by more

than one half. This was because the legislation exempting certain imports from duties, such as the imports by public entities or imports for specified purposes, applied to the surcharge as well. The fiscal revenue generated by the surcharge was now only 60 per cent of what it was in 1977, which reflected mainly the reduction of the surcharge together with the decline in imports of covered goods and the reduction in the actual coverage.

15. One member of the Committee suggested that, since only five items covered by the 60 per cent surcharge were bound under GATT, the Portuguese Government might have recourse to the GATT provisions permitting the adjustment of bound duties. In reply to this suggestion and other queries related to the 60 per cent surcharge, the representative of Portugal said that his authorities had studied the possibility of replacing this surcharge by internal taxes as had been suggested at the last consultation but its preliminary conclusion was that this would not be possible since the transaction tax was already very high on these goods and a further increase would render a future harmonization of the tax with EEC requirements more difficult. The preferable solution was to gradually reduce the surcharge as balance-of-payments developments permitted.

16. One member, welcoming the removal of coffee and plastic products from the list of products subject to the quota system for consumer products asked how the escudo value of the remaining quotas was adjusted. The representative of Portugal answered that the quota value had been adjusted on a twelve-month basis to take into account the expected increase in the average price of the restricted imports. In response to a further question he said that both the quota system for consumer products and that for unassembled vehicles were administered in a non-discriminatory manner.

17. Some members said that there had been delays in the issuing of import "bulletins". Delays appeared to have occurred in particular with regard to textiles imports. These members urged the Portuguese authorities to remedy the situation. The representative of Portugal said that "bulletins" were required solely for statistical but not restrictive purposes. Any delays in the issuing of the "bulletins" must have been exceptional and accidental. The Portuguese representative suggested that the members take up any specific problems through the appropriate channels.

Conclusions

18. The Committee noted with satisfaction that Portugal's external financial position had substantially improved in 1979 and that the Portuguese authorities had lowered the main surcharge to 10 per cent, reduced its coverage and removed major items from the list of goods subject to quota system for consumer goods. The Committee regretted however that Portugal had not been able to take advantage of the favourable payments situation in 1979 to relax the restrictive import measures further.

19. The Committee noted that Portugal's external financial position had deteriorated in early 1980 and that the outlook for the remaining part of the year was uncertain. It therefore agreed that the maintenance of the remaining restrictive import measures imposed for balance-of-payments purposes was presently justified. However, it also noted that according to the International Monetary Fund the deficit in the current account in 1980 was expected to be moderate and that appropriate financial policies should make it possible to meet the financing requirement for the deficit by net capital inflows and official borrowing on a moderate scale. The Committee

therefore concluded that efforts towards a further relaxation and early removal of the restrictive import measures imposed for balance-of-payments purposes should be made.

20. The Committee noted that Portugal had so far not announced a time schedule for the removal of the 10 and 60 per cent surcharges and the quota system on consumer goods. Recalling paragraph 1(c) of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes the Committee recommended that the Portuguese authorities announce such a time schedule as soon as practicable. The Committee expressed the hope that the Portuguese authorities would find this possible before the next consultation.

ANNEX

Opening Statement by the Representative of Portugal

[to be inserted]