RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

DRAFT

REPORT ON THE 1983 CONSULTATION WITH PORTUGAL

1. The Committee 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 (BISD 26S/205). The consultation was held on 11 October 1983 under the Chairmanship of Mr. J.N. Feij (Netherlands). 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:

Basic Document	(BOP/236 and Add.1)
Secretariat Background Paper	(BOP/W/68)
IMF report "Portugal - Recent Economic Developments", dated 19 May 1983	
Notifications by Portugal:	
- Import Surcharge Scheme	(L/5145/Add.2)
- Import Quotas for Consumer Goods	(L/5534 and L/5543)
- Quota System for Completely Knocked Down (CDK) Vehicles	(L/5558)

Opening Statement by the representative of Portugal

3. In his introductory statement, the representative of Portugal said that the external debt of his country had reached US$ 13.5 billion or 60 per cent of GDP at the end of 1982, and that the deficit in the trade balance had risen to US$ 4.8 billion in that year. In spite of these

serious problems and of certain constraints on the expansion of exports - in particular in the field of textiles - his authorities had decided to reduce the import surcharge from 30 to 10 per cent by 1 January 1984. The government which took office in June of this year had adopted an 18-month emergency programme backed by an IMF stand-by arrangement. The emergency programme aimed at reducing both the fiscal and the current account deficits. In pursuance of this programme it had been decided to devalue, on 22 June 1983, the escudo by 12 per cent in effective terms, to cut back the public investment programme, to increase administered prices and to raise interest rates. Budgetary policy had been tightened both through a reduction of expenditures and additional measures of direct and indirect taxation. The emergency programme, while leading to a decline in GDP growth and an increase in inflation in the short run, was expected to improve the trade balance both through better export performance and a slower import growth resulting from the decline in economic activity.

4. The short-term emergency programme was backed up by the progressive implementation of two other programmes: a two to three-year programme designed to improve the functioning of the economic and financial system and a four-year programme aimed at modernizing the Portuguese economy.

Statement by the representative of the International Monetary Fund

5. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

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

6. Several members expressed concern about the large budget deficits in Portugal and the related high rates of inflation. One member stressed that, to avoid recurring payments problems, it was necessary to implement the government's stabilization programme fully and not to relax the financial discipline as soon as the external balance had improved. One

member, noting that at present about half of Portugal's fiscal deficit was financed by the Bank of Portugal and that this had inflationary effects which led to a decline in export competitiveness, said that he welcomed the decision of the Portuguese government to diversify budget deficit financing by creating a private market for government bonds. The representative of Portugal said in response that the overall public-sector deficit was expected to decline to about 9.5 per cent of GDP in 1983. Important fiscal measures, such as further direct and indirect taxes and the reduction of both state subsidies and public investments, were aimed at achieving this result.

7. Several members, noting that the Committee had encouraged Portugal at the 1982 consultation to pursue monetary and fiscal policies which would foster an improvement in the current account, asked which steps Portugal had taken to improve the balance-of-payments situation. The representative of Portugal said that among the main steps taken was an increase in interest rates by a total of 6.5 to 7.5 percentage points in March and August 1983, a substantial decline in the rate of growth of the supply of credits and an effective devaluation of the escudo by 12 per cent in June 1983, combined with an increase in the monthly depreciation rate from 0.75 to 1 per cent as of March 1983.

8. The representative of Portugal added that these macroeconomic adjustment efforts would be supplemented by programmes designed to bring about structural improvements in the Portuguese economy. A two to three-year "Financial and Economic Recovery Programme" was to be presented to Parliament in the first half of 1984. It would bring about changes in the institutional framework governing economic and financial activity, in the regional development policies and in the management of public funds. In addition, the Portuguese government intended to present to Parliament in the second half of 1984 a four-year programme for the modernization of the Portuguese economy. This programme was aimed at the structural reorganization of the economy so as to prepare it for Portugal's accession to the European Communities.

9. One member, noting that some elements of the emergency programme could have an inflationary impact in the short run (in particular the depreciation of the escudo, the rise in administered prices and the reduction of certain subsidies) asked what the expected inflation rates during the programme period were. The representative of Portugal replied that the annual rate of price increases was expected to reach about 29 per cent at the end of 1983 (24 per cent for the calendar year) and then decline to about 20 per cent at the end of 1984 (24 per cent for the calendar year). In response to a question about the performance of the Portuguese economy during the first half of 1983, the representative of Portugal made the latest balance-of-payments statistics available to the members of the Committee. These showed that the current account deficit had declined from US$ 2,203 million in the first half of 1982 to US$ 1,428 million in the first half of 1983. During these periods, imports had declined from US$ 4,832 million to US$ 4,190 million, while exports had increased from US$ 2,049 million to US$ 2,326 million.

10. One member, noting that Portugal had at present the lowest agricultural production per unit of labour or land among the Western European countries, asked whether the Portuguese government had instituted policies to improve the performance of the agricultural sector. The representative of Portugal replied that the government attempted to modernize this sector through programmes in the fields of standardization, accounting, training and soil improvement.

System, method and effect of the restrictive import measures

11. In reply to a query about the overall effect of the import surcharge, the representative of Portugal said that imports of goods subject to the surcharge had increased faster than other imports; as a result, their share in total imports had risen from 20.3 per cent in 1980 to 21.1 per cent in 1982. One member asked how the products included in the list of goods subject to the surcharge had been selected. In response the representative of Portugal said that the list included non-essential consumer goods as well as intermediate and capital goods used for the production of non-essential goods.

12. Several members asked whether the Portuguese government had plans to remove the quotas and surcharges and whether a time schedule for the removal of these measures could be announced in accordance with paragraph 1(c) of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes and the recommendations of the Committee in previous consultations. The representative of Portugal replied that the quota system for consumer goods was a temporary measure, which had been instituted only on a yearly basis. The quotas on unassembled vehicles were going to be phased out at the end of 1984, when the legislation for the restructuring of the automotive industry expired. The 60 per cent surcharge on luxury goods would be transformed into an internal tax as soon as the value-added-tax system had been introduced, which the Portuguese authorities planned to do at the time of accession to the European Communities. The Portuguese government would take the decision to reduce the 30 per cent surcharge to 10 per cent by a single step before the end of this year, and the stabilization policies to be undertaken under the programme agreed with the Fund should create conditions favourable to a total removal of this surcharge.

13. Asked to indicate the rationale for the increase of the surcharge to 30 per cent in March 1983 and the planned roll-back to 10 per cent in January 1984, the representative of Portugal explained that the increase, decided in politically difficult circumstances, had been introduced as an interim measure pending the implementation of more basic adjustment policies.

14. One member, referring to Portugal's latest notification of the quota system for consumer goods (L/5543, Annex I), asked why the licences were still distributed among importers on the basis of their imports in 1975 and 1976; why Portugal applied a special régime for the allocation of the quotas for fruits classified under the heading 08.01; and whether the grant of additional quotas to exporters had the effect of stimulating countertrade. The representative of Portugal replied that 1975 and 1976 had been chosen as a basis for quota allocations because these were the two years that had preceded the introduction of the quota system. However, 15 per cent of the total quotas were set aside for new importers. New

importers were given licences only if their share of the quota exceeded a certain minimum amount so as to facilitate a control of the proper use of the licences. Fruit imports could be subjected to a different quota allocation system because of the special nature of these imports. Additional import quotas corresponding to a part of the national value added to exported goods could be allocated under certain circumstances.

15. Several members, noting that the import licensing system had continued to be administered restrictively and that this problem had already been discussed in previous consultations, asked what was the legal basis of these measures under the General Agreement. The representative of Portugal replied that the import licensing procedures were not intended to be restrictive and that his government planned to make the system more transparent and to avoid delays, inter alia, by introducing a computerized system. The new system was likely to be fully operative at the end of 1983.

16. One member asked why petroleum imports had increased sharply in 1982. The representative of Portugal replied that this had been due to the installation of a steam-cracker in Portugal. This rise in imports of oil products had been followed by an increase in exports of chemical products. In reply to a further query, the representative of Portugal confirmed that the imports of certain agricultural products by public agencies (BOP/236, page 4) were not subject to quota restrictions or surcharges. These import monopolies were presently examined with a view to bringing their activity into conformity with the requirements of membership in the European Communities. In response to a question about the volume effect of the value increase of the quota for unassembled vehicles the representative of Portugal said that the increase by 30.27 per cent in the escudo value of the quota had been designed to maintain the volume of imports during 1983 at the level of 38,000 units.

Conclusions

17. The Committee noted that Portugal, faced with a sharp deterioration in its balance-of-payments in 1982, had increased in February 1983 the 10 per cent surcharge to 30 per cent and that it had retained the 60 per cent surcharge and the import quotas for certain consumer goods and unassembled vehicles.

18. The Committee regretted that, although the surcharges had been applied since 1976 and the import quotas for consumer goods since 1977, no time schedule for the removal of these measures had as yet been announced in conformity with paragraph 1(c) of the Declaration on Trade Measures for Balance-of-Payments Purposes and the Committee's recommendations in previous consultations. The Committee therefore again requested the Portuguese authorities to announce a time-table for the removal of the restrictive import measures as soon as possible.

19. The Committee was concerned about indications that the procedures for the issuing of import licences had been used for restrictive purposes. It therefore welcomed the intention of the Portuguese authorities to make the import licensing procedures more transparent and to avoid delays in the issuing of licences.

20. The Committee noted with satisfaction that the Portuguese authorities had recently embarked on a comprehensive programme to bring about lasting improvement in the external position and that they intended to roll-back the 30 per cent surcharge to 10 per cent by 1 January 1984. The Committee asked Portugal to reduce its reliance on restrictive import measures for balance-of-payments purposes as soon as the stabilization efforts begin to produce results.

Annex

Statement by Representative of the International Monetary Fund

[to be added]