Table 2-2-2 GENERAL SUMMARY OF EC TRADE

Unit: Million ECU

IMPORT FROM: EXPORT TO:	< EC IMPORT 1989 > Amount		< EC EXPORT 1989 > Amount	
EC	624,148	58.1%	625,720	60.0%
USA	83,525	7.8%	78,017	7.5%
EFTA	102,564	9.6%	107,940	10.3%
Switherland	32,037	3.0%	40,056	3.8%
Sweden	25,351	2.4%	24,048	2.3%
Austria	19,098	1.8%	25,275	2.4%
Norway	15,382	1.4%	8,604	0.8%
Finland	9,915	0.9%	9,367	0.9%
Japan	46,351	4.3%	21,179	2.0%
USSR	15,079	1.4%	12,610	1.2%
Canada	9,815	0.9%	10,645	1.0%
Brazil	10,449	1.0%	3,841	0.4%
Saudi Arabia	6612	0.6%	8806	0.8%
Others	175051	16.3%	174578	16.7%
TOTAL	1,073,594	100.0%	1,043,336	100.0%

Source: Statistical Yearbook 1990 (eurostat)

Table 2-2-3 PROGRESS OF INTRA - EC TRADE IN EC

Unit: Billion ECU

		World	Intra-EC(EUR12)	Intra-EC Ratio(%)
1958	Export	34.7	12.9	37.2%
	Import	37.2	13.1	35.2%
	Total	71.9	26.0	36.2%
1980	Export	497.1	276.9	55.7%
	Import	557.7	274.6	49.2%
	Total	1,054.8	551.1	52.2%
1985	Export	849.9	466.6	54.9%
	Import	874.7	466.7	53.4%
	Total	1,724.6	933.3	54.1%
1989	Export	1,043.3	625.7	60.0%
	Import	1,073.6	624.1	58.1%
	Total	2,116.9	1249.8	59.0%

Source: Statistical Yearbook 1990 (eurostat)

Table 2-2-4 GENERAL SUMMARY OF INTRA EC TRADE

Unit: Million ECU

	< EXPORT 1989 >						< IMPORT 1989 >					
	World Amount (c)	(c)/Total	Intra-EC Amount (d)	(d)/(c)	(d)/Total	Major Trade Partner	World Amount (a)	(a)/Total	Intra-EC Amount (b)	(b)/(a)	(b)/Total	Major Trade Partner
PORTUGAL	11,498	1.1%	8,196	71.3%	1.3%	S.G.F.	17,145	1.6%	11,636	67.9%	1.9%	G.F.S.UK
BELGIUM-LUXEMBURG	90,849	8.7%	66,838	73.6%	10.7%	G.F.	93,008	8.7%	64,140	69.0%	10.3%	F.G.N.
DENMARK	25,857	2.5%	13,111	50.7%	2.1%	G.SDN.	24,626	2.3%	12,889	52.3%	2.1%	G.UK.SDN
FRANCE	167,984	16.1%	103,450	61.6%	16.5%	G.IT.BL.	182,770	17.0%	118,792	65.0%	19.0%	G.IT.UK
W.GERMANY	308,682	29.6%	169,155	54.8%	27.0%	N.F.IT.	244,679	22.8%	130,559	53.4%	20.9%	F.IT.UK
GREECE	-		-			G.IT.	-		-			IT.UK.F.
IRELAND	18,756	1.8%	13,931	74.3%	2.2%	UK.USA.G.	15,687	1.5%	10,960	69.9%	1.8%	UK.G.F.
ITALY	127,799	12.2%	72,040	56.4%	11.5%	G.F.	138,963	12.9%	78,827	56.7%	12.6%	G.USA.UK
NETHERLAND	105,090	10.1%	79,575	75.7%	12.7%	G.BL.F.	101,550	9.5%	61,107	60.2%	9.8%	G.BL.UK
SPAIN	42,877	4.1%	26,535	61.9%	4.2%	G.F.IT.	62,669	5.8%	35,316	56.4%	5.7%	F.G.UK
U.K.	137,511	13.2%	68,767	50.0%	11.0%	G.USA.F.	178,644	16.6%	91,312	51.1%	14.6%	USA.G.F.
TOTAL *	1,043,336	100.0%	625,720	60.0%	100.0%		1,073,594	100.0%	624,148	58.1%	100.0%	

Notes:
[1] S: Spain, G: Germany, F: France, S: Sweden, IT: Italy,
N: Netherland, BL: Belgium-Luxemburg, USA: United State of America
[2] Including the estimates of Greek trade.
Source: Statistical Yearbook 1990 (eurostat)

Table 2-2-5 EC AND PORTUGAL

	Unit	EC (EUR)	Portugal	%
Area	1000km2	2,370.0	92.0	3.9%
Population (1988)	million	342.9	10.3	3.0%
GDP	US$ billion	4,970.0	41.0	0.8%
GDP per Capita	US$	14,500.0	4,386.0	
Ratio of				
Agriculture & Forestry		3.1%	6.4	
Mining & Manufacturing		34.3%	37.1	
Service		62.6%	56.5	
GDP Growth Rate (1988)	%(Real Term)	3.7%	4.7%	
Trade (1989)	US$ billion	2,301.0	31.5	1.4%
Export		1,134.5	12.7	1.1%
Import		1,166.5	18.8	1.6%

Source: JETRO - Handy Facts on EC-Japan Economic Relations

Table 2-2-6 COMPARISON BETWEEN 1985 AND 1990 IN PORTUGUESE EXPORT (FOB) BY COUNTRIES

Unit: Billion ESC

	1985		1990		1990-1985		1990 / 1985
	Amount	%	Amount	%	Amount	%	
EC	607.0	62.5	1,732.3	73.7	1,125.2	81.5	2.9
Belgium/Luxemburg	34.7	3.6	73.6	3.1	38.9	2.8	2.1
Denmark	19.9	2.0	50.8	2.2	30.9	2.2	2.6
France	123.7	12.7	364.8	15.5	241.1	17.5	2.9
Greece	2.7	0.3	12.0	0.5	9.3	0.7	4.4
W.Germany	133.3	13.7	392.7	16.7	259.4	18.8	2.9
Ireland	5.5	0.6	11.3	0.5	5.8	0.4	2.1
Italy	38.3	3.9	95.1	4.0	56.8	4.1	2.5
Netherlands	67.1	6.9	134.1	5.7	67.0	4.9	2.0
Spain	40.3	4.1	312.5	13.3	272.2	19.7	7.8
U.K.	141.5	14.6	285.5	12.1	144.0	10.4	2.0
EFTA	104.7	10.8	239.9	10.2	135.2	9.8	2.3
Norway	18.6	1.9	32.5	1.4	13.9	1.0	1.7
Sweden	35.7	3.7	95.7	4.1	60.0	4.3	2.7
Switzerland	22.5	2.3	45.4	1.9	22.9	1.7	2.0
PALOP *)	15.8	1.6	15.7	0.7	-0.1	-0.0	1.0
Angola	14.0	1.4	12.5	0.5	-1.5	-0.1	0.9
Mozambique	1.0	0.1	2.0	0.1	1.0	0.1	2.0
U.S.A.	89.6	9.2	113.4	4.8	23.8	1.7	1.3
Japan	8.3	0.9	24.2	1.0	15.9	1.2	2.9
Others	146.2	15.0	226.3	9.6	80.1	5.8	1.5
Total	971.6	100.0	2,351.8	100.0	1,380.2	100.0	2.4

Note: *) Portuguese-speaking African countries

Source: Banco de Portugal - Annual Report 1990; Table 2-1-12

Table 2-2-7 COMPARISON BETWEEN 1985 AND 1990 IN PORTUGUESE EXPORT (FOB) BY COMMODITIES

Unit: Billion ESC

	1985		1990		1990-1985		1990/1985(/100)
	Amount	%	Amount	%	Amount	%	(%)
Textile, Clothing, Footwear, etc.	342.6	35.3%	872.4	37.5%	519.8	38.7%	2.5%
Textiles & Clothing	285.9	29.4%	684.5	29.4%	398.6	29.7%	2.4%
Footwear	55.4	5.7%	187.9	8.1%	132.5	9.9%	3.4%
Machinary and Transportation Equipment	151.1	15.6%	456.7	19.6%	305.6	22.7%	3.0%
Electric Machinery, etc.	63.0	6.5%	182.1	7.8%	119.1	8.9%	2.9%
Non-Electric Machinery, etc.	50.9	5.2%	116.6	5.0%	65.7	4.9%	2.3%
Transport Equipment	37.2	3.8%	158.0	6.8%	120.8	9.0%	4.2%
Wood Processing Products	132.4	13.6%	284.5	12.2%	152.1	11.3%	2.1%
Pulp & Paper	67.9	7.0%	135.5	5.8%	67.6	5.0%	2.0%
Cork & Products	64.5	6.6%	149.0	6.4%	84.5	6.3%	2.3%
Food Processing Products	94.5	9.7%	169.6	7.3%	75.1	5.6%	1.8%
Drink & Alcoholic liquid	32.3	3.3%	31.1	1.3%	-1.2	-0.1%	1.0%
Chemical Industry and Plastics	75.4	7.8%	147.6	6.3%	72.2	5.4%	2.0%
Base Metal	52.1	5.4%	81.7	3.5%	29.6	2.2%	1.6%
Mineral Fuel	49.3	5.1%	136.7	5.9%	87.4	6.5%	2.8%
Others	74.3	7.6%	175.9	7.6%	101.6	7.6%	2.4%
Total	971.7	100.0%	2325.1	100.0%	1343.4	100.0%	2.4%

Source: BANCO DE PORTUGAL, Report of the Board of the Directors; Table 2-1-13

Table 2-2-8 COMPARISON BETWEEEN 1985 AND 1990 IN PORTUGUESE IMPORT (CIF) BY COUNTRIES

Unit: Billion ESC

	1985		1990		1990-1985		1990
	Amount	%	Amount	%	Amount	%	1985
EC	609.6	46.0	2,466.2	69.1	1,856.6	82.8	4.0
Belgium/Luxemburg	28.4	2.1	148.5	4.2	120.1	5.4	5.2
Denmark	7.8	0.6	32.1	0.9	24.3	1.1	4.1
France	106.8	8.1	409.9	11.5	303.1	13.5	3.8
Greece	1.0	0.1	4.6	0.1	3.6	0.2	4.6
W.Germany	152.4	11.5	510.9	14.3	358.5	16.0	3.4
Ireland	4.4	0.3	15.0	0.4	10.6	0.5	3.4
Italy	68.6	5.2	355.6	10.0	287.0	12.8	5.2
Netherlands	42.1	3.2	205.6	5.8	163.5	7.3	4.9
Spain	98.0	7.4	514.5	14.4	416.5	18.6	5.3
U.K.	100.1	7.5	269.5	7.5	169.4	7.6	2.7
EFTA	81.7	6.2	222.1	6.2	140.4	6.3	2.7
Norway	13.4	1.0	37.5	1.1	24.1	1.1	2.8
Sweden	17.8	1.3	51.4	1.4	33.6	1.5	2.9
Switzerland	25.8	1.9	74.6	2.1	48.8	2.2	2.9
PALOP *)	15.8	1.2	15.7	0.4	-0.1	-0.0	1.0
Angola	14.0	1.1	12.5	0.4	-1.5	-0.1	0.9
Mozambique	1.0	0.1	2.1	0.1	1.1	0.0	2.1
U.S.A.	129.0	9.7	140.0	3.9	11.0	0.5	1.1
Japan	4.0	0.3	94.3	2.6	90.3	4.0	23.6
Others	486.4	36.7	631.8	17.7	145.4	6.5	1.3
Total	1,326.5	100.0	3,570.1	100.0	2,243.6	100.0	2.7

Note: *) Portuguese-speaking African countries

Source: Banco de Portugal - Annual Report 1990; Table 2-1-13

Table 2-2-9 COMPARISON BETWEEN 1985 AND 1990 IN PORTUGUESE IMPORT (CIF) BY COMMODITIES

Unit: Billion ESC

	1985		1990		1990-1985		1990/1985(/100)
	Amount	%	Amount	%	Amount	%	(%)
Textil, Clothing, Footwear, etc.	118.8	9.0%	381.2	10.8%	262.4	11.9%	3.2%
Textile & Clothing	116.7	8.8%	358.0	10.1%	241.3	10.9%	3.1%
Machinary and Transport Equipment	285.2	21.5%	1290.6	36.5%	1005.4	45.4%	4.5%
Electric Machinery, etc.	66.2	5.0%	291.6	8.2%	225.4	10.2%	4.4%
Non-Electric Machinery, etc.	119.6	9.0%	495.4	14.0%	375.8	17.0%	4.1%
Transport Equipment	99.4	7.5%	503.6	14.2%	404.2	18.3%	5.1%
Food Processing Products	201.8	15.2%	419.7	11.9%	217.9	9.8%	2.1%
Cereals & Preparatives	57.1	4.3%	43.0	1.2%	-14.1	-	0.8%
Chemical Industry and Plastics	158.9	12.0%	399.5	11.3%	240.6	10.9%	2.5%
Base Metal	91.8	6.9%	242.2	6.8%	150.4	6.8%	2.6%
Mineral Fuel	355.4	26.8%	399.5	11.3%	44.1	2.0%	1.1%
Others	114.6	8.6%	407.1	11.5%	292.5	13.2%	3.6%
Total	1326.5	100.0%	3539.8	100.0%	2213.3	100.0%	2.7%

Source: BANCO DE PORTUGAL, Report of the Board of the Directors; Table 2-1-15

Table 2-2-10 COMPARISON BETWEEN 1985 AND 1990
FOREIGN DIRECT INVESTMENT TO PORTUGAL BY COUNTRIES

Unit: US$ Million

	1985	1990		1990-1985		1990
	Amount	Amount	%	Amount	%	1985
EC	124	1,579	72.8	1,455	74.4	12.7
France	14	395	18.2	381	19.5	28.2
W.Germany	9	141	6.5	132	6.8	15.7
Italy	2	32	1.5	30	1.5	16.0
Spain	9	238	11.0	229	11.7	26.4
U.K.	66	491	22.6	425	21.8	7.4
Other EC	24	282	13.0	258	13.1	11.8
Switzerland	10	105	4.8	95	4.9	10.5
U.S.A.	59	81	3.7	22	1.1	1.4
Japan	0	43	2.0	43	2.2	-
Others	26	363	16.7	337	17.3	14.0
Total	219	2,171	100.0	1,952	99.9	9.9

Source: Banco de Portugal - Annual Report 1990; Table 2-1-16

Table 2-2-11 COMPARISON BETWEEN 1985 AND 1990 IN FOREIGN DIRECT INVESTMENT TO PORTUGAL BY SECTORS

Unit: US$ Million

	1985		1990		1990-1985		1990/1985
	Amount	%	Amount	%	Amount	%	
Agriculture, Fishery & Forestry	3	1.4	24	1.1	21	1.1	8.0
Mining Industries	17	7.8	12	0.6	-5	-	0.7
Manufacturing Industries	102	46.8	456	21.0	354	18.1	4.5
Electricity, Gas and Water	-	-	-	-	-	-	-
Construction & Public Works	1	0.5	197	9.1	196	10.0	197.0
Wholesale & Retail, Restaurants & Hotels	31	14.2	214	9.9	183	9.4	6.9
Transportation, Communication	2	0.9	8	0.4	6	0.3	4.0
Banks and Financial Institute, Insurance and Real Estate	59	27.1	1,209	55.7	1,150	58.9	20.5
Services to Community Social Services & Personal Services	3	1.4	27	1.2	24	1.2	9.0
Others	-	0.0	24	1.1	24	1.2	-
Total	218	100.0	2,171	100.0	1,953	100.0	10.0

Source: Bance de Portugal - Annual Report 1990, Table 2-1-17

Table 2-2-12 INDICATIVE BREAKDOWN PRIORITY OBJECTIVE

Unit: ECU million 1988 price

	1989	1990	1991	1992	1993	5 years total	%
Objective 1	5.6	6.6	7.4	8.2	9.2	37.0	63.5
Objective 2	1.0	1.2	1.3	1.4	1.5	6.4	11.0
Objective 3 & 4	1.2	1.2	1.4	1.6	1.8	7.2	12.3
Objective 5(a)	0.6	0.6	0.7	0.7	0.7	3.3	5.7
Objective 5(b)	0.3	0.3	0.5	0.7	0.9	2.7	4.6
Sub-Total	8.7	9.9	11.3	12.6	14.1	56.6	97.1
Transition & Inovative Measures (1989 to 1993)	0.3	0.4	0.3	0.3	0.4	1.7	2.9
Total	9.0	10.3	11.6	12.9	14.5	58.3	100.0

Source: EEC - Guide to the Reform of the Community's Structural Funds

Table 2-2-13 CSF FINANCIAL ALLOCATION OF OBJECTIVE 1 (1989-93)

Unit: ECU million 1989 price

	CSF Financial Allocation							Others
	Total	(%)	1989	1990	1991	1992	1993	
Portugal	6,958	(19.2 %)	1,059	1,242	1,378	1,539	1,740	410
ERDF	3,757	(17.9 %)	545	641	753	859	959	(PEDIP)
ESF	2,028	(20.7 %)	339	356	400	440	493	
EAGGF	1,173	(21.6 %)	175	245	225	240	288	
Greece	6,667	(18.4 %)	1,163	1,220	1,327	1,419	1,538	526
ERDF	3,662	(17.5 %)	648	600	726	792	896	
ESF	1,728	(17.6 %)	290	330	339	364	405	
EAGGF	1,277	(23.5 %)	225	290	262	263	237	
Spain	9,779	(27.0 %)	1,603	1,719	1,914	2,147	2,396	0
ERDF	6,199	(29.6 %)	1,102	1,090	1,213	1,361	1,433	
ESF	2,348	(23.9 %)	386	394	431	486	651	
EAGGF	1,232	(22.7 %)	115	235	270	300	312	
France	888	(2.5 %)	150	164	177	187	210	8
ERDF	406	(1.9 %)	62	78	85	85	96	
ESF	322	(3.3 %)	64	54	59	69	76	
EAGGF	160	(2.9 %)	24	32	33	33	38	
Ireland	3,672	(10.1 %)	616	665	723	784	884	0
ERDF	1,646	(7.9 %)	273	280	314	354	425	
ESF	1,372	(14.0 %)	235	265	283	290	299	
EAGGF	654	(12.1 %)	108	120	126	140	160	
Italy	7,443	(20.6 %)	1,106	1,390	1,541	1,632	1,774	140
ERDF	4,942	(23.6 %)	697	924	1,036	1,101	1,184	
ESF	1,700	(17.3 %)	280	316	343	360	401	
EAGGF	801	(14.8 %)	129	150	162	171	189	
U.K.	793	(2.2 %)	156	160	157	160	160	0
ERDF	348	(1.7 %)	65	72	69	71	71	
ESF	315	(3.2 %)	68	61	61	62	63	
EAGGF	130	(2.4 %)	23	27	27	27	26	
EUR 12	36,200	(100.0 %)	5,853	6,560	7,217	7,868	8,702	1,084
ERDF	20,960	(100.0 %)	3,392	3,685	4,196	4,623	5,064	
ESF	9,813	(100.0 %)	1,662	1,776	1,916	2,071	2,388	
EAGGF	5,427	(100.0 %)	799	1,099	1,105	1,174	1,250	

Note: ERDF = European Regional Development Fund
ESF = European Social Fund
EAGGF = European Agricultural Guidance and Guarantee Fund
PEDIP = Special Development Program for Portugal's Industry
Source: EEC - Annual Report on the Implementation of the Reform of the Strucural Funds

Table 2-2-14 EUROPEAN STRUCTURAL FUND 1989-1993

Unit: ECU million

	Portuguese Contribution		Structural Fund		Total	
Infrastructure	2,495.0	(37.5 %)	1,339.0	(18.2 %)	3,834.0	(27.3 %)
PEDIP	901.9	(13.5 %)	1,481.0	(20.1 %)	2,382.9	(17.0 %)
Agriculture	496.6	(7.5 %)	1,168.0	(15.9 %)	1,664.6	(11.9 %)
Human Resources	1,731.4	(26.0 %)	2,197.0	(29.8 %)	3,928.4	(28.0 %)
Regional Programme	1,022.0	(15.3 %)	1,161.0	(15.8 %)	2,183.0	(15.6 %)
Others	12.0	(0.2 %)	22.0	(0.2 %)	34.0	(0.2 %)
Total	6,658.9	(100.0 %)	7,368.0	(100.0 %)	14,026.9	(100.0 %)
% to GDP	2.9 %		3.3 %		6.2 %	

Source: Commission of the European Communities

Table 2-2-15 INDICATIVE INTERVENTION RATES
PORTUGAL - OBJECTIVE 1

Unit: ECU million 1989 price

Development priorities	Indicative intercention rates *1) ERDF	ESF *2)	EAGGF
Priority 1 - Creation of economic infrastructures	48 %		
1.1.Communications and telecommunication	50 %		
1.2.Energy	30 %		
1.3.Science and technology	60 %		
1.4.Services	50 %		
Priority 2 - Support for productive investment and directly related infrastructures	65 % *3)		
Priority 3 - Development of human resources	50 %	65 %	
3.1.Education	50 %	65 %	
3.2.Improvement of training structure and employment promotion			
3.3.Apprenticeship		65 %	
3.4 Multi-sector training		65 %	
3.5.Employment and training in the framework of the MOP and IOP and the priorities		65 %	
Measures under Art.1(2) of Reg.4255/88		65 %	
ESF 1989 already committed		65 %	
Priority 4 -Agricultural and rural development			75 %
Priority 5 - Industrial conversion and restructuring	60 %	65 %	
Priority 6 - Development of the region's growth potential and local development	50 %	65 %	
6.1.Regions of mainland Portugal	50 %	65 %	
6.2.Autonomous regions	50 %	65 %	
Technical assistance	70 %		
Computing equipment			
ERDF projects 1989	47 %		
Objectives 3 and 4		65 %	
Objectives 5 a			50-75 % *4)

Note:
[1]The effective intervention rate shall be determined by the Commission decision concerning the measure financed
[2]1989 commitment enjoyed a rate of 55%; the rate of 65% for the ESF may be modified within the programmes
[3]Calculated on the basis of public expenditure
[4]Rate subject to revision in accordance with the Council Decision due under the reg.797/85

Source: Commission of the European Communities
Community support Framework 1989-93 Portugal

Chapter 3

INDUSTRIAL AND INVESTMENT CIRCUMSTANCES IN PORTUGAL

Chapter 3 Industrial and Investment Circumstances in Portugal

3.1 Outline of the National Economic Development Program

3.1.1 Five Year Development Plans

A policy for national development was initially implemented in 1953 by the Portuguese government with the First Five Year Development Plan of 1953-58, followed by the implementation of a Second Five Year Plan from 1959-64. Both of these plans proceeded satisfactorily with the Second Five Year Plan in particular realizing a level of 6.1% economic growth which considerably surpassed the economic growth targets initially set (for a 4.2% growth rate in GDP).

Following this a provisional development plan was implemented for two years (1965-67), then with the third Five Year Plan (1968-73) a clear target of a 7% growth rate in GDP was set. However, the third development plan ended without having realized the target since the average growth rate remained around 6.3%. A fourth Five Year Plan was decided on but this was interrupted by the Coup d'Etat beginning April, 1974.

The details of the first four five-years development plans were all national development programs which included development of overseas territories as well as the Portuguese mainland, reflecting the continuing influence of colonialist policies. After the Coup d'Etat in April, 1974 the main policies implemented were for nationalization, agrarian reform, nurturing of specific industrial projects and those relating to a program of short term economic reform. New five year development plans were not drawn up because of the confusing political situation.

3.1.2 PCEDED

Subsequently, the Anibal Cavaco Silva government which came to power in 1985, drew up its own plan for economic development designated as the PCEDED Program (Program for Structural Correction of the External Deficit and Unemployment) which was implemented as of March, 1987. This program was to be implemented for an eight year period from 1987 to 1994, being divided into two phases, with the first phase from 1987 to 1990 and the second phase from 1991 to 1994. In the first phase a general program of economic development was implemented. During the second phase implementation was to focus on the growth of individual industries and specific development projects in a flexible approach responding to changes in developing situation. Regular quarterly reviews of the domestic and international situation were to be carried out at every 1st quarter of the year to ensure that selected targets were within the range of possibility. The PCEDED was conceived as an economic development plan founded on a "Strategy of Controlled Progress" aiming to increase investment efficiency and thus effect the industrial reorganization for building up the economic basis for EC integration.

Figure 3-1-1 presents a flow diagram of the macroeconomic policies and objectives of the PCEDED. As can be seen from this, a detailed implementation program coordinating fiscal, foreign exchange and income policies was drawn up in order to realize the objectives of curbing inflation, reducing unemployment, modernizing industry and correcting the external debt. The concrete objectives of the PCEDED as published in March, 1987 were as follows.

1) to realize a 8-10% increase in annual investment (increase the total fixed capital formation).

2) reduce the rate of unemployment by 2% annually through the creation of 32,500 new jobs each year.

3) reduce the debt service to 24% of GDP by 1990

4) reduce the fiscal deficit to 5% of GDP by 1990

5) to bring down the rate of inflation to EC levels

Table 2-1-1 of Chapter 2 can be referred for the macroeconomic performance up to 1990. This data reveals that the initial objectives for increasing investment and reducing unemployment outlined above were largely met. However, though the debt service and fiscal deficit showed a trend towards reduction the results achieved did not realize the objectives set. Also, the rate of inflation in particular actually increased after 1987.

3.1.3 QUANTUM

The initial plan for the PCEDED to cover the period up to 1994 was reevaluated and replaced by a new development program under the name of QUANTUM (National Adjustment Program for the Transition towards the Economic and Monetary Union) in July,1990. This new program focused on accelerating the reconstruction of the Portuguese economy in coordination with the EC unification schedule. QUANTUM pays particular attention to policy changes which would be required to create the conditions for membership in the Exchange Rate Mechanism of the "European Monetary System"(EMS). Joining the " narrow band option" of the exchange rate mechanism of the EMS is required for full participation in the second stage of the EC integration, due to start in 1994.

In compiling the FY1992 government budget, the Portuguese government announced its guideline in Quantum 2. Like the previous Quantum, policy objectives are set to control the inflation rate to the level in other EC countries, while maintaining its economic growth rate at 3% - 4%. Also, the government envisages that economic growth up to 1995 will be primarily driven by investment, rather than consumer spending. This view is different from the OECD's forecast on Portuguese economy, which expects that consumer spending continues to be a locomotive for future growth.

Interestingly, Quantum 2 does not specify only unemployment problem nor action to be taken. Major economic indicators estimated in Quantum 2 and OECD's economic forecast are summarized as follows:

	QUANTUM 2		OECD	
	1992	1993/95	1992	1993
GDP Growth	3.0 %	4.0 %	2.6 %	2.7 %
Public Consumption	3.0-4.0	3.0-4.0	3.2	3.3
Private Consumption	3.25	5.0	5.3	5.1
Gross Capital Formation	7.5	5.0	5.3	5.1
Export	2.0	3.75	3.6	4.8
Import	3.75	4.25	7.1	7.3
Consumer Price Index	9.25	4.5	10.5	9.9

3.1.4 Industrial Promotion Policies

The policies for industrial promotion of the Anibal Cavaco Silva government involve the nurturing and strengthening of domestic industries in order to enable an effective response to be made to the intensification of competition which is expected to arise between Portugal and the other EC countries with the unification of Europe. However, the policies are not designed as direct aid to the companies and industrial sectors which will have to face this challenge but will rather take the form of indirect governmental support to ensure the reorganization and stimulation of industry.

The following four themes form the basis of the present policies for nurturing the manufacturing industries in Portugal.

(1) Improvement (Melhorar)

This has both the meaning of improving the markets and of improving technology. Markets open to all are to be established to allow the principle of competition free play. Improvements in development and production technology are then to be undertaken to allow for the manufacture of products which are acceptable in the market.

(2) Stimulation (Estimular)

Incentive systems are to be set up which promote increased of production, diversification, further product development and market research, a high level of technology, and the maximization of value added of products made using domestic resources and so as to incite enterprises to undertake investment.

(3) Reduction (Reduzir)

To promote the reduction of the volume of energy required in the production of finished goods and to further energy saving industries.

(4) Adaptation (Adaptar)

To support the development of industries matching with new domestic and foreign market environments. The main industries actually concerned by this are industries which seek to coordinate their activities with new markets relating to a) industries which employ domestic resources (such as woods, cork, pulp, copper products,etc.), b) traditional industries (textiles, footwear, cork, etc.), c)industries which already enjoy technical superiority, d) industries in sectors of advanced technology, e) information processing industries and f) export promoting industries.

The incentive systems adopted to realize industrial development based on the above four themes are implemented as part of the PEDIP (Specific Program for the Development of Portuguese Industry). The Ministry of Industry and Energy is the government body responsible for drawing up these policies for industrial development. This Ministry draws up and coordinates policies in cooperation with related authorities such as the Ministry of Commerce and Tourism (normally in charge of commerce and foreign investment) and the Ministry of Employment and Social Security (in charge of employment and vocational training). Further the body responsible for implementing the main incentives relating to the promotion of industry is the IAPMEI (Institute for Support to Small and Medium Sized Enterprises and Investment) which is under the control of the Ministry of Industry and Energy.

The PEDIP program embracing the policies for industrial promotion is recognized by the EC and is eligible for financial support by this as a special program for developing Portuguese industry to be implemented over a five year period form 1988 to 1992. Moreover, the PEDIP includes a plan of action for development of tourism. The breakdown of the financial resources for the operation of this program, beginning grants of structural funds is as follows.

Financial Resources of PEDIP

		Total Budget 1988-1992 (million ECU)
A. Grants		
- Structural Funds		
- FEDER	80 million ECU/yr.	400
- FSE	20 "	100
- Specific Budget Line	100 "	500
- Portuguese Contribution	20% of the total/yr.	350
Total Grant		1,350
B. Loan from EIB	200 million ECU/yr.	1,000
Total Financing	400 million ECU/yr.	2,350

The right hand column of the above table indicates the net total for the full five year period. On a yearly basis Four hundred million ECU representing one half of the full yearly amount is financed by a free grant from the EC and the remaining half is supplied as a loan from the EIB, while a further seventy million is contributed by the Portuguese government as a counter fund. Details of the individual projects covered by the PEDIP are given elsewhere in the present report while table 3-1-1 summarizes the overall make up of the PEDIP program.

The program is divided into seven main sections, which in turn are composed of one to three sub-sections. Further, the PITIE (Integrated Program for Information Technology and Electronics) and PRDIBE (Program for the Development of the Capital Goods Industry) are separately implemented programs for the nurture of strategic industries for industries judged to be important to ensuring the active role of Portuguese industry in the development of EC industrial development after unification.

3.1.5 Privatization Policy

Wide ranging nationalization of key industries (involving governmental participation in management) beginning with finance sectors (banks and insurance), iron and steel, petrochemicals, cement, engineering, etc. was pursued by the military Government from April, 1974 to November, 1975. However, this policy resulted in a loss of competing power of the public enterprises because of the protectionist measures such as artificially setting the price of crude oil and of exchange rates, the priority given to loans borrowed from the external debt, etc. This situation even resulted in a managerial crisis in some of the industries. Further, since the expansion of the public sector represented an increased financial burden for the government a reassessment of the policy of nationalization began in May, 1976.

Following this, the privatization of public enterprises was gradually undertaken, with the nation guarding a part of the capital and partial privatization being undertaken. The

Privatization Law guaranteeing 100% privatization of the public enterprises was passed in April, 1990. The Cavaco Silva government sees privatization as an important industrial policy not only since the expenditure of subsidies to the remaining public enterprises acts to increase the financial burden on the state, but also since the government holds that foreign capital will effect an introduction of needed capital and of advanced technology. However, the participation of foreign capital is not accepted in certain specific industries for which details are given in a separate section.

The main objectives of the Privatization Law of 1990 are stated as follows.

- To modernize economic units, increase their competitiveness and contribute to sectorial restructuring

- To reinforce the capacity of public enterprises

- To reduce the role of the State in the economy

- To contribute to the development of capital markets

- To make a wide participation of Portuguese citizens in the ownership of enterprises possible, through an adequate dispersion of equity ownership, paying particular attention to the workers of the enterprises and to small shareholders.

There were twenty one enterprises scheduled to undergo privatization (including those in which the process had already begun) by the end of 1991. Important enterprises such as the Petroleum refining company PETROGAL and the cement company Secil were among these. Also a number of important public enterprises have been designated for 100% privatization after 1991. In view of the government's alleged intentions in this direction, it is expected that an increasingly active role will be played by foreign capital in this process of privatization hereafter.

3.1.6 Policies for Small and Medium Industries

In Portugal, policies concerning small and medium industries are drawn up by the Directorate General of Industry (DGI) of the Ministry of Industry and Energy and are implemented largely through the IAPMEI. The Dept. for Planning of Small and medium Industries of the IAPMEI carried out the problem surveys and planning of nurture programmed for this sector of industry and its results are notified to the DGI which uses the data for drawing up its policies and measures on the small and medium size industries.

The biggest problem faced by the small and medium size companies in Portugal at present is how to respond and overcome the intensification of competition anticipated to occur with the unification of the EC market. Not only will competition within the EC intensify but fiercer competition is also expected to arise with the Newly Industrialized Economics (NIE) countries and with the African countries enjoying preferential treatment regarding exports. Against this background, there is no special measure applicable only to the small and medium size industries except PPIIS despite the fact that small and medium size industries account for 99.3% of its manufacturing sector. Portugal therefore applies the PEDIP program for nurturing industry and the ICEP program for promoting exports to industry regardless of company size.

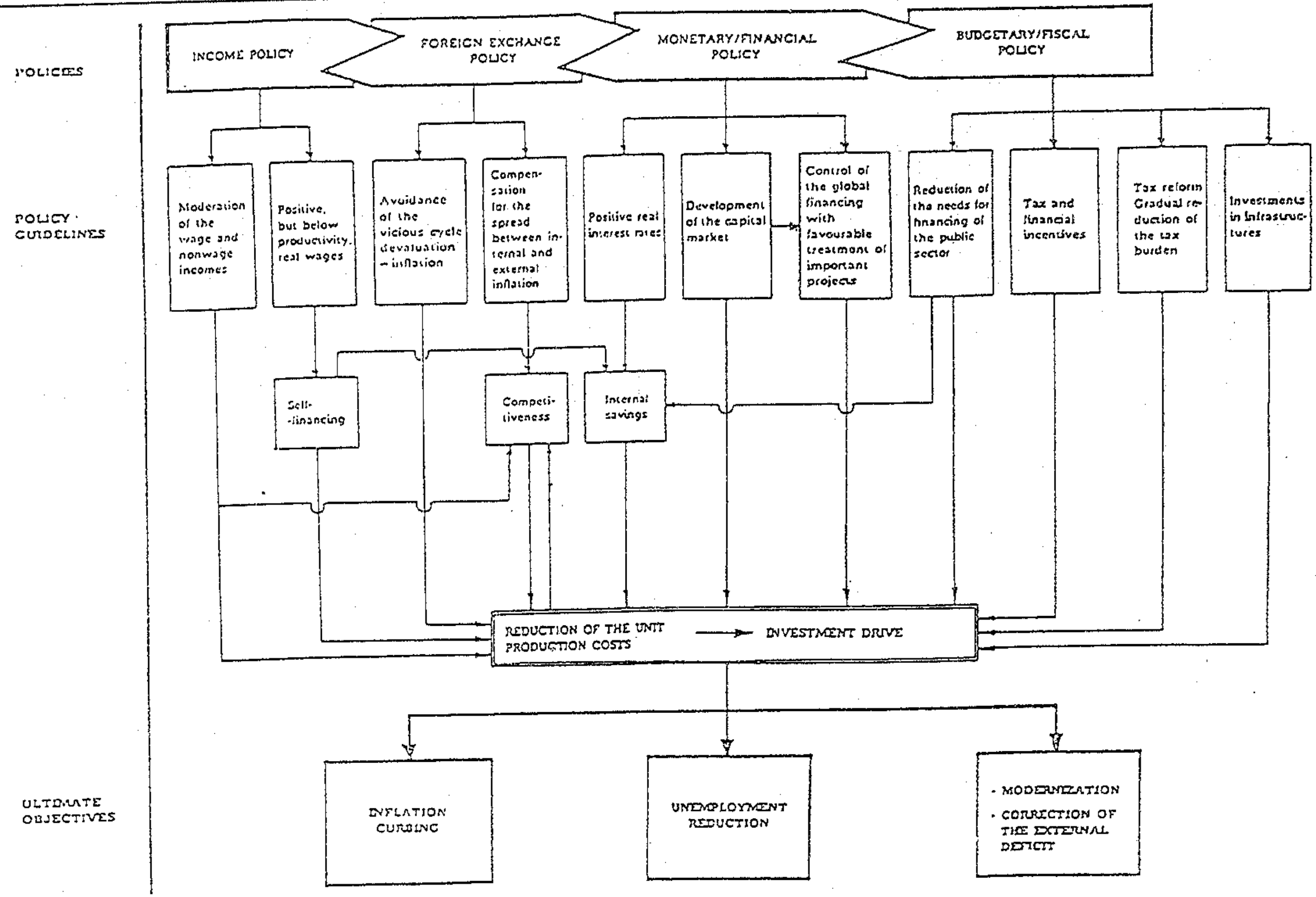
The only program which is implemented specifically to nurture small scale enterprises is the PPIIS program (Incentive System for Small Investment Projects). This is a program for the provision of assistance made within the IAPMEI budget. Investment projects up to 15 million Escudos to companies which have less than 30 personnel, and whose annual sales are under one hundred million Escudos, are eligible for this program. The assistance is set at between 25% to 40% of the Project cost and in comparison with PEDIP applications the procedural details regarding required documents and the examination period are much simpler. In addition to being limited to small scale projects the object of assistance is restricted to the equipment and machinery required for the project realization (including carriage and auxiliary costs). Also second hand machinery can be covered under the assistance program provided this is equipped with the latest functions (or systems).

Besides the above, the IAPMEI undertakes to act as credit guarantor under its bank guaranteeing system for small and medium size companies.

Table 3-1-1 PEDIP PROGRAM STRUCTURE

Main Guidelines	Operational Program	Sectoral Strategic Program	
GUIDELINE 1 Infrastructures for Support to Industry	PROGR.1 Basic and Technological Infrastructures	PITIE Integrated Program for Information Technology and Electronics	PRODIBE Program for the Development of the Capital Equipment Industry
GUIDELINE 2 Vocational Training	PROGR.2 Vocational Training		
GUIDELINE 3 Finance of Productive Investment	PROGR.3 Incentives for Productive Investment PROGR.4 Financial Engineering		
GUIDELINE 4 Productivity Drives and Industrial Quality	PROGR.5 Productivity Drives PROGR.6 Industrial Quality and Design		
	PROGR.7 Publicity, Implementation and Control		

Source: PEDIP, Ministry of Industry and Energy



Source: STRATEGY OF CONTROLLED PROGRESS, Volume 1

Ministerio das Financas, 31 March 1987

Figure 3-1-1 OBJECTIVES AND MACROECONOMIC POLICIES OF THE PCEDED

3.2 Competitive Position of Portugal in Attracting Foreign Investment

At present, EC member countries are working together to remove barriers between them and are making continuous adjustments in government policies and systems, with a final goal to create a true common market as "borderless Europe". As a result, previous differences in terms of investment environment, including economic policies related to foreign investment and trade, and institutional framework related to taxation, currency exchange control, and investment incentive, are disappearing. Thus, they are currently in the transition stage where differences still remain due to protectionism policies in some countries. Major differences in terms of policy and system between EC countries are summarized as follows.

3.2.1 Characteristics of Institutional Framework and Investment Circumstances

(1) Import restriction and transitional tariff measures

While a majority of EC countries including Great Britain, Germany, France, Netherlands, Ireland are already based on EC standards, Spain, Italy, Portugal and several others are still imposing quantitative restriction or quota on various items, including (automobiles, VTRs, TV sets, textile, and iron and steel). Similarly, Belgium is requiring import license on textile, automobiles, VTRs, TV sets and other items. Regarding important restriction against Japan, Portugal still maintains a restriction list on some items, with 27 items (as of 1990) including automobiles, motorcycles, some iron and steel products, and porcelains, Spain and Italy are imposing restriction targeting Japanese automobiles and VTRs. France is treating machine tools, VTRs and other items in the same manner, although taking the form of self-restriction on exports by Japan. At the same time, Portugal is granted the most favorable status on tariff within the EC and from EFTA countries, as transitional measures up to the unification of the EC market at the end of 1992, offering a significant degree of comparative advantage. Such favorable status include the privilege for non-tariff exports of industrial products (excluding textile, cheese, wine, canned food, concentrated tomato juice, and cork) to Spain under a bilateral special agreement; non-tariff exports to 10 EC countries excepting Spain; and non-tariff exports to EFTA countries with some exceptions. These offer a significant advantage to foreign investment in Portugal, if exports to the above countries are intended, which would more than compensate for the local content (60%) requirement in the country.

(2) Basic stance for foreign investment

All the EC countries basically welcome or freely accept foreign direct investment. In particular, many countries are taking a variety of measures to attract foreign investment, in recognition that it would help vitalization and modernization of economy and industry through industry-based technical cooperation, introduction of advanced technology, creation of employment as well as development of regional economy, and export promotion. Portugal has been successfully attracting foreign investment by using very attractive incentive programs established on the basis of advantages that the country is eligible for the EC Structural Funds and it can receive favorable financial assistance from the EC than other countries.

(3) Restricted industry subsectors and deregulation

Most of EC countries, excepting France, Italy, Portugal, and Greece, have few restriction on foreign investment in terms of industry subsector. Nevertheless, most of countries either ban or restrict foreign investment in the defense related industry, public services including broadcasting, air transport, rail, and gas, an insurance and banking. France restricts foreign investment in automotive industries as well as semiconductor, while Italy restricts or requires prior approval for foreign investment in marine and air transport, banking and insurance, hydrocarbon related businesses. Portugal has nationalized most of basic industries immediately after the 1974 revolution and has restricted private investment in a number of areas. Then, it has gradually privatized corporations and reduced the restriction considerably after the end of 1988. Today, restriction remains in 7 types of public services, waterworks and sewerage, postal service, communication, air transport excepting domestic service, rail transport, and development of ports and airports. Since 1989, national enterprises have been privatized, starting from brewery, banking and insurance. Also in 1989, the constitution was amended to lift the ceiling on privatization, which was previously 49%. As a result, full privatization has become possible, and a wave of privatization spreads into banking and insurance, cement, and iron and steel industries. Also, this deregulation has opened up an opportunity for foreign investment, although an upper limit is provided.

(4) Local content regulation

Most of the EC countries impose local content regulation in accordance with the guideline of the EC Committee, which sets the percentage of local procurement at 60% or over. As seen in difference in the area of automobile production, where France demands 80% or more local content, while Great Britain wants to draw a line at 60%, items subject to local content regulation need to be carefully watched. Portugal also imposes the 60% regulation, which may be exempt if specific parts cannot be procured in the EC.

(5) M&A regulation

Most of the EC countries do not impose restriction on or freely accept M&A activities in accordance with the EC's policy, excepting Belgium which requires acquisition to be reported to the Bank Board; France which requires prior notice or approval for acquisition; Ireland which requires M&A having more than a specific size to be reported to the Ministry of Industry; and Great Britain which requires transfer of 3% or more stock to be reported to the authority. Portugal basically approves M&A activities, with the proviso that acquisition which results in a combined domestic share will be increased over 20% or gives significant impacts on the market is subject to prior reviewing of the ICEP and IAPMEI.

(6) Tax incentives

Corporate taxes are generally imposed at rates in the range between 34% and 46%, with the taxation system varying between countries. Some countries offer corporate tax incentive. France offers tax credit or relief for local business tax for maximum 5 years, with rate and period varying with departments. Similarly, Italy provides corporate tax exemption for 10 years after incorporation in an attempt to encourage manufacturing activities in the southern region. Spain, Catalonia state in particular, gives tax credit of 500,000 pesetas per creation of one employment.

Portugal's corporate tax (IRC) is generally 36.5%, which is applied to both domestic and foreign companies. While no tax exempt is available only for foreign-affiliated corporations, financial assistance using the EC Fund is provided for new or re-investment, capacity expansion, or modernization, offering significant benefits. Also, a free zone is established on Madeira Island to provide incentives for corporate investment, together with offshore activities.

Regarding local tax, Great Britain, Ireland, Netherlands, and Belgium do not impose local tax. In Portugal, a 10% local tax is imposed in Lisbon and Porto. Other local governments can levy a special supplemental tax within 10% of the net amount of tax, but many of them exempt it for newly settled companies.

Real estate tax or property tax is exempt in Catalonia state, Spain if profit from sales of fixed assets is re-invested within 2 years, and Belgium offers tax exemption for 3 to 5 years after acquisition of fixed assets. Portugal levies a 0.8% to 1.3% real estate tax, which is relatively low in rate compared to other EC countries.

Regarding taxes on dividend, interest, and royalty, many of them apply a 25% rate while

0% in some countries. One exception is Italy which levies high rates of 32.4% to dividend, 30% to interest, and 30% to royalty. Throughout the EC, the reduced rate of 10% is applied to countries which have signed a tax treaty. As Portugal has not signed a tax treaty with Japan, it imposes a 25% dividend tax (for stock companies), a 20% interest tax, and a 16% royalty tax, which are withheld from payment.

Finally, each of the EC countries adopts an value-added tax (indirect tax) which varies greatly with countries in terms of tax rate and classification of taxable items. The standard tax rate ranges from 12% in Spain to 21% in Ireland, and that in Portugal is at around midpoint of 16% since February 1992.

(7) Financial incentives

Financial incentives include incentives based on cash-grant and subsidy, the other is financial support such as low-interest rate loan, grant for paying a fixed rate of interest, loan guarantee, or institutional finance. Within this framework, each country sets up its own incentive program according to its economic conditions, the level of regional development, the status of technological development, and employment conditions. Characteristically, many incentive programs fully utilize the EC's Structural Funds, which are generally directed to less developed countries, such as Portugal, Spain, Greece, and Ireland, as well as less developed regions in industrialized countries, such as Great Britain, France, and Italy. Thus, with exception of some countries which have enough financial resources of their own, a number of incentive programs are offered in combination of the EC funds and government funds, helping create attractive investment climate for foreign investment.

One of major characteristics commonly seen in incentive programs of the EC countries is the focus on projects contributing to transfer and development of advanced technology, those creating employment opportunities and export expansion, and those promoting vocational training and professional education.

Portugal, which is designated as the country eligible for the Structural Funds and receives relatively a large amount of the EC funds based on grant-in-aid, has been building physical infrastructure, mainly road and communication networks, at an accelerated pace in recent years, while improving social infrastructure through revitalization and restructuring of domestic industries spurred by foreign investment, and improvement of vocational training and general education.

(8) Investment and labor cost

At present, Portugal holds strong competitive position over other EC countries in terms of investment and labor costs. According to the IECP's investment data, the typical land acquisition cost in Portugal is approximately one half that in Spain and one fourth that in Ireland. Similarly, construction cost is estimated to be one half the level in Spain and one third that in Ireland. Eve if interest rates in Portugal are relatively high, country offers impressive competitive edges in land and building costs.

Portugal also has an advantage in labor cost. As shown in Table 3-2-1 which compares hourly wages and weekly average work hours in the EC countries on the basis of the 1989 statistics, the average hourly wage in Portugal is the lowest in the EC (1.63 ECU), being one third that in Spaiu and one fourth that in Ireland. Although the difference with other countries will decrease in the long run, making the quality of labor force a key competitive factor, Portuguese workers who are hard working with relatively a low separation rate will be able to compete with other countries.

Table 3-2-1 COMPARISON OF EUROPEAN WORKERS HOURLY WAGES

AND AVERAGE WEEKLY WORKING HOURS IN MANUFACTURING INDUSTRIES

	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK
Average Gross Hourly Earning (ECU)	7.55	11.32	9.39	3.23	5.68	6.27	6.60		8.70	7.91	1.63	7.03
Nomal Weekly Working Hours (hr)	38.4	37.4	38.0	40.3	40.2	39.5	40.6	40.1	40.2	36.8	43.3	43.1

Source: Eurostat, Basic Statistics of the Community 28th edition 1991

3.3 Promotion of Investment and of Exports

3.3.1 Foreign Investment Policies

The basic measures in force in Portugal regarding foreign investment are regulated by the Decree Law, No. 197-D/86 of 18 July, 1986 and the Regulation Decree No. 51/87 of 31st July, 1987 which supplements the former, together with a number of separate decrees.

The above decrees were newly coordinated and issued in order to bring these Portuguese decrees regarding foreign investment into line with the conditions required by EC integration. The general title given to these is the " Foreign Investment Legislation ".

At the root of Portuguese foreign investment policies is the concern to raise the level of Portuguese manufacturing to one on a par with the EC, and foreign investment is seen as one means to achieving this objective. Foreign investment is expected to contribute to an improvement of the international balance of payments (through the inflow of capital, import substitution and the strengthening of exports), to further the introduction of production technology and control technology, as well as contributing to regional development.

The framework of Portugal's foreign investment policy as based in its Foreign investment legislation is as follows.

(1) To treat domestic and foreign investors equally and ensure that the application of incentives is applied equally

(2) To allow freedom of action for investment by foreign companies with the exception of certain sectors.

Investment by foreigners is forbidden in the following sectors.

1) waterworks
2) public hygiene works
3) post office and communications undertakings
4) railway and public transport works
5) harbor and airport control works
6) military weapons undertakings
7) mining of mineral resources (only available under a license system)
8) any other industries closely related to tax revenues

(3) It is necessary to make a Prior Declaration to the ICEP and undergo an examination in

the case of investment by foreign enterprises

(4) The Government (the Ministry of Commerce and Tourism) carries out evaluation and approval through direct negotiation in the case of investment projects which are foreseen to have a considerable impact on the Portuguese economy.

(5) The following points are given consideration in the evaluation of investment projects mentioned in (3) and (4) above.

1) Creation of new jobs
2) Positive foreign currency balance that will help the external balance of payments
3) Improvement of national resources
4) Use of national goods and services
5) Contribution to industrial reconversion
6) Localization, taking into account regional development programs
7) Production of new goods and services or improvement in the quality of products already produced
8) Introduction of advanced technology
9) High added value
10) Amount foreseen for recourse to domestic loans in order to finance business capital
11) Professional training for Portuguese workers
12) Reduced industrial pollution

(6) In principle, the Portuguese government welcomes all investments in the manufacturing industries, and in particular wishes to encourage investment in strategic industries such as the advanced technology industries of information processing industries, the bio-technology industries, and the new ceramics industries, etc. as well as in automobile parts, food processing and sports goods industries.

(7) There are no limits on either the foreign capital ratio or the local supply content (with the exception of the common regulations designated by the EC Commission)

There are two particularities of Portugal's policy on foreign investment.

Firstly, there is no direct linkage made between foreign investment policies and export promotion policies. Of course, the contribution which foreign investment will make to improving the external debt is taken into account as one factor when making a decision as to approval (as already mentioned in (5)-2 above) but this is not always a necessary condition for the application of incentives. Compared to most Asian countries and a number of European countries where a contribution to exports is stipulated as a necessary condition of eligibility for the application of investment incentives the foreign investment policy in Portugal is much more liberal and adopts a fairer and more open market position.

The second peculiarity of Portugal is the high ratio of cash grant provision in comparison with the incentive systems of other EC countries. Beginning with SINPEDIP (refer to following section) the majority of Portugal's incentives are provided on a cash grant basis. Portugal applies special tax privileges to large scale investments on the basis of its contractual regime system and compared to measures of other EC countries which usually involve reduction or exemption from taxation this constitutes a particular feature of the Portuguese system.

3.3.2 Investment Incentives

As already observed, investment whether from domestic or foreign sources is treated equally under the Portuguese investment system. This is equally true of investment incentives and there are no special incentive systems which apply only to foreign investment. At present, the provision of cash grants largely supported by the huge capital funding received from the EC forms the mainstay of Portugal's incentive system regarding investments to domestic manufacturing. Incentive measures can be generally divided into financial incentives(grants), fiscal incentives (tax holidays) and training incentives. There are a number of particular incentive programs marshaled under the above headings. The following is an overall outline of the main incentive programs.

(1) Financial Incentives (cash grants given to projects)

1) SINPEDIP (System of Financial Incentives PEDIP)

This is a free grant program concerned mostly with mining and manufacturing projects which have already reached a relatively advanced stage of development in the coastal regions of the Atlantic centering on Lisbon, Aveiro and Porto. Evaluation is made of the contribution of such projects giving priority to criteria of technical innovation, modernization, quality control, environmental protection,etc. and a grant representing between 30-60% of the investment sum is provided.

2) SIBR (System of Incentives on a Regional Basis)

This program is for the provision of cash grants to investments in underdeveloped regions. The maximum limits set for grant provisions to a single project in the regions specified is either two hundred and fifty million Escudos or up to 75% of the total investment sum (normally however the maximum is 65% of investment). SIBR grants are usually applied in regions to which the SINPEDIP incentives are not applicable. The regions concerned by the SIBR and SINPEDIP programs are therefore distinct in Portugal.

The above two programs taken together cover the entire territory of Portugal and so manufacturing investment in Portugal will be eligible for the application of one of the above two programs. Applications for receiving such assistance are made to the IAPMEI irrespective of whether domestic or foreign investment is concerned. Further, the grant accorded to projects for promotion is paid in installments which are coordinated with the schedule of the investment project concerned.

(2) Fiscal Incentives (Tax privileges)

The government on an individual negotiating basis can accord tax holidays in the case of large scale investments exceeding ten billion Escudos. Further, tax deductions within a 30-40% range of Corporate income can also be accorded. As a past record, tax holidays ranging 6 to 10 years were approved subject to conditions such as schedule of increasing local contents of the finished products.

(3) Training Incentives (cash grants to vocational or specialist training programs)

This program is to assist training programs for company personnel by affording assistance to cover the entire costs incurred by such training programs for a certain specified period of time. The program is independently carried out by both the Program 2 of the PEDIP and by the IEFP (Institute for Employment and Professional Training).

A combined application by the Portuguese government of the above incentive programs is also possible. However, in the case of financial incentives application will only be made of either 1) or 2) but not both together for the same project. For example, in the case of the Ford-Volkswagen Project which was recognized as eligible for Contractual Regime application it was also possible to apply incentives up to a maximum of 297 billion Exscudos (representing 65% of the investment total estimated at 454 billion Escudos). All of the above programs were involved in this assistance. Further, on a local governmental level there are regions which are ready to apply their own incentives involving exemption from municipal fixed assets tax.

Table 3-3-1 shows the summary of incentives granting except fiscal incentives as of the end of May, 1991. (each program guideline should be refered in table 3-1-8). So far, about 38% of total PEDIP budget has approved and being continue to approve big project such as Ford/VW project, so that disbursement of PEDIP budget seems being handled firstly.

The first peculiarity of approved project is number of jobs creation in SIBR projects shows higher level than others. This indicate SIBR projects are mainly new investment project including new factory construction. Secondly, the projects for PEDIP GUIDELINE 2 namely vocational training incentives are highly received an incentive amount.

Number of approved projects in the target areas are not appear on the table 3-3-1, however, 262 projects from BAIXO VOUGA (7% of the national total number) and 140 projects from DAO-LAFOES (3.7% of as same) were approved.

The on site survey revealed that the general reaction of investors to the Portuguese investment incentives was a favorable one. Two problems were mentioned in this regard especially by small scale enterprises.

Firstly, it was felt in some quarters that the above incentives gave too much priority to large scale projects and so to large industries. Budgetting of the financial incentives and training incentives is done on the basis of financial assistance received from the EC, and so the total budget for the PEDIP is already decided. On the other hand, the application and approval of incentives is done on a first come, first served basis so that if a number of large scale projects receive approval one after the other the budget resources are quickly exhausted. It was therefore felt that where a middle or small size investment is competing for funds with a large scale investment, that the government tends to give priority to the large scale project. (This opinion mainly coming from foreign companies in Portugal)

Secondly, the complicated procedures involved in application for incentives were criticized. The same number of forms have to be prepared irrespective of the actual scale of the project concerned. Further, it was felt that the additional documents required during negotiations were almost the same. However, this equal burden falls differently on the shoulders of large scale investors with considerable managerial resources and investors in small-middle size companies. The investors of small-medium size companies complain that since they lack the managerial resources of the large companies the application procedures represent a greater burden and so constitute an obstacle.

3.3.3 Export Promotion Policies

(1) Overseas Trading System

Application of the EC tariff system began in 1986 when Portugal became a member of the EC, and since that date a staged adjustment of regulations has been carried out for the transition period scheduled to end in 1993.

Export and import regulations have both been simplified and in fact Portugal has few regulatory headings in comparison with other EC countries. Exports can be carried out freely except where EC volume quotas apply. In principle, imports are also free but in 1990 volume restrictions applied in the case of 27 items. In the case of imports to which such volume restrictions apply it is necessary to receive prior import approval.

The Portuguese Escudo entered the ECU currency basket as of Sept. 21, 1989. Although the relative importance of the Escudo is small in the basket with only a 0.8% ratio, entry is seen to have effected a certain resistance to exchange risks. In Portugal the Central Bank (Banco de Portugal) administers exchange on behalf of the Ministry of Finance and Portugal adopts a policy of concentrating its foreign currency in the Central Bank.

Policies for overseas trade are drawn up and implemented by the Ministry of Trade and Tourism in Portugal. The Direccao Geral do Comercio Externo which is a superstructure of the ICEP (Portuguese Foreign Trade Institute) controls the actual administration of trade and also implements policies directly itself or through the ICEP.

The main tasks involved in Portugal's overseas trade policies particularly with regard to promotion of exports are 1) the diversification of markets and of products, 2) the upgrading of product quality and design, 3) the establishment of Portuguese brands, 4) Intensification of overseas markets, especially in the "marketing" area and 5) development of cooperation project. (Joint Venture, etc.)

At present, the diversification of markets and of products is directed to increasing exports to the EC which is the main growing market. However it is also aimed to raise the share of exports to other destinations such as Japan, the Americas, Scandinavian countries, African countries, etc. so that the share of the EC in overall exports will become less dominant. Further, Portugal aims to diversify the types of item which it exports.

In order to achieve the second objective of upgrading product quality and design more value added is sought for the traditional export items. At the same time Portugal aims to establish a clear superiority and differentiation of its products from those of the NIEs which are anticipated to form its main competitor in the near future.

Further, Portugal aims to establish its own brands which will become familiar abroad in order to open up overseas markets, looking to the example of Italy in the sectors of apparel and furniture items. The establishment of such brands is seen as the first way of securing stable exports, and efforts are concentrated on creating as many Portuguese brands as possible.

(2) Export Promotion Policies

Policies aiming at the promotion of exports in Portugal can be roughly divided into those for financial support and those for fiscal support. The policies providing Financial and Technical Support are largely implemented by the ICEP while those for Fiscal Support are carried out by either the Ministry of Finance or the Bank of Portugal. The following is an outline of these policies.

1) Financial and Technical Support

a) IAPE (Incentivos Aduaneiros e Promociones a Exportacao)

This program supports the annual efforts of Portuguese companies to develop export markets. The main aim of the program is to improve the Portuguese pattern of trade through promotion of exports. Support is offered which improves the export marketing capacity of firms in developing export markets. Concrete measures include assistance to the expenses of overseas market surveys and realization contract with stylists, to designer expenses for improving design, for overseas registration of trademarks and patents, for video and advertisement.

The ICEP carries out reception and evaluation of application forms. This program was implemented first in 1991 and since then about 500 companies have been given assistance under its auspices annually.

b) NIDE (Novo Instrumento de Desenvolviment da Exportacao)

As with the IAPE programme outlined above, this affords assistance various programs for study, survey development and expansion of export markets as well as providing help from the planning stages of a company's export efforts relating for example to the development of products matching the needs of the export markets. The government provides financing provisions for part of the expenses (within 50% of the project costs) incurred by companies in their promotionactivities. The ICEP is responsible for the implementation and operation of this programme. The maximum financing period is three years interest free, and the maximum period accorded for repayment is also three years.

The company concerned and the ICEP cooperate to work out project details for the market research plan, product development planning to improve product quality, etc. From 1988 to date about 40 companies have been accorded assistance under this programme.

c) ACE (Agrupamento de Empresas para Exportacao)

The main aim of this programme is to strengthen the export competitiveness of small and middle size companies. This is an programme of financial assistance which is implemented by the ICEP and IAPMEI working in conjunction. The assistance grant is up to 50% of the project costs for the first three years and is up to 5 million Escudos annually.

2) Customs Benefit

These measures form part of the IAPE programme outlined above (having the same objectives and eligibility conditions). ICEP has responsibility to give guarantees the specific tariff and tax of import destinated for future export. (temporary imort)

The above represents the main programs of export promotion. A peculiarity of these systems in the case of Portugal is the greater relative importance given to the provision of subsidies and grants in comparison to tax incentives. Also free trade zones for the promotion of exports have been established in Madeira and the Azores in order to take full advantage of the geographical position of these two sites.

Madeira and Azores islands on the Atlantic are granted of special administrative authorities as autonomous regions by the Portuguese government. Within certain areas of these islands, the Export Processing Zones - one form of free trade zone - are being developed. These zones are provided with container ports and bonded warehouses, and companies settling in the zones are eligible for incentives including full exemption of corporate and local taxes. Products exported from these export process zones to the EC countries are designated as made-in-Portuguese products, which are subject to import duties on materials imported from the outside the EC.

Table 3-3-1 SUMMARY OF INCENTIVE GRANTING
(As of May 31 '91)

Unit: Million Esc.

TYPE OF INCENTIVE	PROJECTS SUBMITTED		APPROVED PROJECTS				INCENTIVES PAID
	No. of Submission	Amount Investment	No.of Approved Project	Amount Investment	Amount Incentive	Jobs to be Created	
PEDIP GUIDELINE 1	143	11,556	64	4,996	2,326	50	989
PEDIP GUIDELINE 2	2,137	541,017	900	318,408	60,452	14,602	29,942
PEDIP GUIDELINE 3	797	72,450	340	30,936	11,031	331	4,646
PEDIP GUIDELINE 4	1,659	24,872	1,003	13,072	2,441		2,104
Sub-Total	4,736	649,895	2,307	367,412	76,250	14,983	37,681
SIBR	3,898	760,784	1,319	320,798	83,425	40,420	28,112
SISTAT	18	2,062					
SIURE	28	2,148					
SIPE	212	2,857	113	978	424		
Total	8,892	1,417,746	3,739	689,188	160,099	55,403	65,793

Note : PEDIP - Specific Programme for the Development of Portuguese Industry
SIBR - System of Incentive on a Regional Basis
SISAT - System of Incentive to Advanced Telecommunications Services
SIURE - System of Inventive for the Rationalization of Energy Consumption
SIPE - System of Incentive to the Endogenous Potential

Source: IAPMEI

3.4 The Financial System

3.4.1 Present Financial Policy

After interest rates declined in reaction the governmental policy to lower interest rates subsequent to Portugal's joining the EC in 1986, they rose again after the government tightened in 1988, and throughout 1989 and 1990 remained high, in conformity with the government's tight money policy.

The decision to tighten in 1988 was prompted by a resurgence of inflation. While the Portuguese economy had made a rapid recovery on the strength of high levels of direct foreign investment and flows of EC funds, following Portugal's affiliation with the EC, inflation declined from a peak of 29.4% in 1984 until it reached the single-digit level, 9.4%, in 1987. Domestic liquidity and inflation have risen since then, however, because favorable economic conditions led to rises in wages and expansion of domestic demand, as well as inflows of foreign investment capital. Inflation in 1988 was 9.6%, but it rose to 12.6% in 1989. This trend was unchanged in 1990, when the rate reached 13.5%.

In particular, the government's announced policy of stepped devaluation of the escudo (0.25% per month, or 3% p.a.), in a high-interest country such as Portugal, has encouraged an inflow of speculative investments intended to earn arbitrage profits through use of interest-parity transaction against the escudo, future change of exchange rate of which was deemed to be foreseeable according to the government pre-announcement. This has further increased domestic liquidity.

The government, in addition to striving to absorb excess liquidity by selling public debt securities issued and held by the central bank and early redemption of foreign debt, adopted in July of 1990 a system of requiring the equivalent of 40% of foreign-currency-denominated loans to be deposited at the central bank in non-interest-bearing accounts, but it also proved necessary to permit a freer float of the escudo in September of that year, and postpone announcement of intention to use a pegged devaluation.

Real growth of the GDP since Portugal joined the EC has been maintained at levels higher than 4%, and the unemployment rate declined to 5% at the end of 1990, a level almost that of full employment so that in overall terms while the economies of other EC members have tended to be weak, the economy of Portugal has continued to be strong. For Portugal to participate in the European Monetary System as an important step toward financial integration with the other European economies, it remains necessary for the Portuguese government to bring inflation down to the EC average (about 5%).

For the Portuguese government as it moves toward more liberal policies in keeping with Europe's unification in 1993, there is of course no choice regarding direct methods such as import restrictions and price controls. Financial policy is being used as the major means of controlling inflation. This financial policy consists of control over the discount rate, quantitative regulation of credit, regulation of liquidity, and exchange rate policy.

(1) Interest rate regulation

Interest rates in Portugal were kept at relatively low levels from the end of World War II to the 1974 Revolution, and in actuality changed hardly at all. From the latter half of the 1970s, the importance of interest rate policy was a means of financial control was more strongly recognized, and on several occasions up to the first half of the 1980s interest rates were raised. Since joining the EC, interest rates have gradually declined, together with a decline in inflation, facilitating gradual deregulation of deposit, lending and various rates of interest which had been totally regulated before then so that at present the only regulated rates are the minimum for term deposits of 181 days to one year, and the maximum rate for demand deposits.

1) Official Discount rate

The foremost representative of credit policy is the discount rate, that is, the discount or rediscount rate used by the central bank for its supply of credit to financial institutions, because by changing this rate the government can adjust the level of market rates of interest. In changing the discount rates, either of two methods (or, possibly, a combination of them) may be used. That is, the changing of the discount rate may follow market rates (a lowering meaning an easing of credit, a raising meaning a tightening) as in the United States, or as in the major EC countries, the discount rate leads market rates. In either case a change has strong policy effects, as it is an indication of the policy direction of the financial authorities. These effects are especially strong when as a feature of the financial system, financial institutions' dependency on the borrowing facility (including rediscounting) at the central bank is high.

To review the recent situation regarding the Portugeuse central bank discount rate, it is seen that it was gradually lowered up to 1988 to a low of 13.5% p.a., then raised to 14.5% p.a. in March 1989. In the case of Portugal, state-owned companies comprise the majority of the nation's basic industry and until recently the finances of these companies were undertaken by the central bank and government. Largely because of this, as use of the central bank discounting facility by financial institutions was limited, the effect on credit of rate revisions was extremely limited.

2) Deposit Lending rate regulation

A maximum interest rate on bank loans to their clients is enforced for loans maturing in 180 days or less, and in March 1987 it was raised from 17.5% to 19.5% p.a. It was then lowered on several occasions, to 17% in 1988, and in September of that year the limit was eliminated, leaving each bank to set its own top rate. As of March 1991 the base lending rate as tabulated by the Banking Association had risen to 23% p.a. as a result of the government's high-interest policy and, correcting for inflation, the real interest rate was at the 9% level, which is high enough to cause difficulty for those industries that must rely on borrowing to secure funds for equipment investment. Regarding deposit rates, 14% is the minimum for term deposits of 180 days to one year, and 4.667% is the maximum for demand deposit accounts. (see Table 3-4-1).

(2) Credit regulation

Since the initial adoption of limits on banks' outstanding loan balances, that took place in 1977, regulation of credit has become a major means of carrying out financial policy. At the beginning the gross credit requirement of the domestic productive sector was estimated and a credit limit was given to each bank, its level based on each bank's fundraising ability. Balances were regulated on a monthly basis. Starting in 1986 limits on banks' credit balances were changed every two months. Such direct control of credit, however, works contrary to the principle of economic efficiency, so the authorities shifted their policy to a system of indirect means of regulating credit, through the financial mechanism and as a result of this and ended credit regulation in March 1990. Because of the prevailing conditions of high increases in liquidity, however, the central bank has continued to regulate credit by having the banks report at a semiannual frequency. As a result, the balance of outstanding credit at those reporting institutions, exclusive of their capital and statutory reserves, declined to -2.5% year on year in the first half of 1990 and for the entire year there was no change from the 1989 level. In 1991, credit regulation was ended.

(3) Statutory reserve ratio requirement

Financial institutions in Portugal are required to deposit with the central bank a certain ratio of savings deposited with them, as the former's statutory reserve requirement ratio, with the exception of home-acquisition savings and funds from the government or other financial institutions. The original reason for adopting such a requirement was to insure maintenance of sufficient liquidity to be able to pay cash withdrawn from accounts, and so the longer the term of deposit, the lower the ratio. The recent ratios are as shown in

Table 3-4-2 from which it can be seen that they have been changed frequently.

Reserve assets may be required to be held in cash and as deposits at the central bank, and until April 1990 it had been required that 70% of the reserves be in the latter form. From that month on, 100% of reserve ratio must be deposited at the central bank.

The reserve ratio requirement is now 17%, a uniform and high ratio. Until recently only commercial banks had been subject to the requirement but now all banks are obliged to comply. This is because of the policy of using the requirement as a way for the central bank to absorb superfluous liquidity from the financial sector. These accounts at the central bank originally paid no interest but from the viewpoint of easing the pressure on bank profits arising from the cost of maintaining a high reserve requirement, a temporary measure was adopted in April, 1986, whereby the central bank paid 13.5% interest for more than 180-day periods.

(4) Securities ownership and other regulation

With the exception of investment banks, all financial institutions are required to hold at least 5% of their assets in the form of government bonds or government-guaranteed bonds. Commercial banks are required to use at least 35% of the periodic increment in deposits having maturities of 180 days or longer for either medium or long term export finance or for financing fixed investment.

In addition there are regulations covering such matters as liquidity and solvency ratios but these are abridged as they are not directly related to financial adjustment policies.

(5) Exchange rate policy

The most important characteristic of exchange rate policy since Portugal's affiliation with the EC has been the step by step devaluation of the escudo. Made in accordance with having an inflation rate high by comparison to other EC members, this correction of the value of the escudo contributed to maintaining international competitiveness of Portugal's industry, and also had the objective of stabilizing the currency by setting its exchange rate at a level that more closely matched actual conditions. Then, in April 1986, a second crawling-peg devaluation was made. It was decided that from the fourth quarter of 1986 to lower the exchange rate by 0.9% each month, with results that have been as follows.

	Period	Revision
1986	QII	-0.9% each month
	QIII	-0.7%
	QIV	-0.6%
1987	All year	-0.5% each month
1988	QI	-0.4% each month
	QII	-0.3%
	QIII	-0.25%
	QIV	-0.25%
1989	All year	-0.25% each month

After adopting this crawling-peg devaluation policy it became possible to reduce the nominal rate of devaluation, in keeping with the reduction of the inflation rate, so that in 1988 the reduction was only 0.25% a month. It was contrary to the intentions of the authorities that it became necessary to tighten after inflation rose during 1988. That is, the announcement of a crawling peg devaluation was taken as an indication of the limits to volatility of the now-stable escudo, engendering arbitrage trading using the high level of interest rates, and causing the influx of large amounts of speculative capital. Because the inflow was driven by arbitrage motives, the money that entered Portugal was converted into escudos and became the source of the rapid increase in liquidity. The government sought to absorb this liquidity by selling public debt bonds issued and repaying external obligations before they fell due but the surge in inflow of capital and rise in liquidity raised the inflation rate, confounding government efforts to control inflation. In addition to forbidding forward currency contracts for nonresidents who did not have such actual requirements in connection with trade in goods and services, the authorities, in July 1990, sought to stop the inflow of capital, by requiring the equivalent of 40% of foreign-currency denominated loans to be deposited in non-interest-bearing accounts at the central bank. In September of the same year, the crawling peg devaluation process was temporarily stopped and greater flexibility was permitted in determination of the escudo's exchange rate, so that it could move with the market. By means of the crawling peg devaluation the exchange rate of the escudo against the ECU declined a total of 6.7% (3.6% in 1989, from 171.6 in December 1988 to 177.8 in December 1989 and further to 183.1 in September 1990; see Figure 3-4-1).

The increased flexibility in determination of the exchange rate made possible in September 1990 was attained by deciding to set the rate on the basis of a basket made up of the five most important component currencies in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS), namely the German mark (weight, about 30%), peseta (about 20%), French franc (about 19%), pound (about 15%) and lira (about 11%).

In September 1991 the central bank made a change in the escudo exchange rate system, and the exchange rate, that had been strongly influenced by the daily fixing rate, was freed to float, in principle, but the bank reserved its right to intervene when deemed necessary.

In place of the fixing rate, the central bank announces at 12:30 every business day an "official rate" calculated according to the following method, and, except for large-scale transactions, ordinary trades will probably be made at rates determined on the basis of this "official rate."

1) The central bank checks the escudo/DM rate at five commercial banks, between 12 and 12:15.

2) The central bank excludes the high and low quotations and takes the average of the remaining three for use as the "official rate". The rates for other currencies are calculated by means of the arbitration of escudo/DM rate.

At the time of the September 2 reforms, forward contracts over one year in the future were approved.

In April 1992, the inclusion of Portuguese Escudo into ERM was announced. Subsequently, Portuguese Monetary Authority is obliged hereafter to make the necessary intervention in the foreign exchange markets so that the escudo exchange rate shall not fluctuate beyond 6% over or below the central rate fixed this time (i.e. 178.735 ESC per European Currency Unit).

3.4.2 Financial System

The Portuguese financial system is now in the process of being reorganized. That is, since the 1974 Revolution, all financial institutions with the exception of savings banks, agricultural credit cooperatives and foreign banks were nationalized. The 19 commercial banks and 7 financial institutions that had existed at the start of 1960 had been reduced to 12 and of the commercial banks the 9 that had been Portuguese-owned were nationalized; the remaining 3 have non-Portuguese owners. Even the foreign exchange trading chambers that handled ordinary currency trades were shut down and insurance companies, other than those owned by others than Portuguese, and mutual companies, were nationalized.

The Banco de Portugal, as the central bank, is the banknote-issuing authority, and nationalized the Banco de Angola and the Banco National Ultramarino which had responsibility for Angola and other overseas territories, respectively.

These banks were fully nationalized for a period of about 10 years, and then in February 1984 new establishment of banks was once again authorized for private-sector interests. Because the banks were opened not only by Portuguese but also by non-Portuguese companies, a number of banks, including foreign-owned banks, were established. By the end of 1984 9 privately owned commercial banks and one privately owned investment bank had started operations, and of the 9 banks 6 were foreign-owned. There were 3 American, and one each British, French, and Belgian banks. By 1986, 3 more commercial banks were established by Portuguese interests.

Although all the newly established banks made swift growth, in terms of the scale of their assets they were still insignificant in comparison to the national bank. During this period, there also was the establishment of other types of financial institutions, namely leasing companies, factoring companies and other non-bank institutions, as well as investment funds and pension funds which contributed the further diversification of financial services. Whereas there had been a demarcation according to traditional lines between commercial, savings and investment banks, at the present time there is almost no legal restraint on any bank's entering another category of business and there is considerable competition among the banks, as the nation advances toward a system of universal banking. The Portuguese Government, in advance of the unification of the EC has adopted the external policy of opening the financial market, and the domestic policy of reforming the financial system by facilitating the elimination of business-line boundaries between what had been specialized financial institutions, thereby contributing to improved international competitiveness. Recently, a study on reform of the financial system has been presented to the government, that is said to recommend, in the interests of complying with EC financial directives, that the policy be adopted of classifying the financial institutions into two groups of universal banking one hand and specialized institutions on the other.

(1) The role of the central bank

The Organic Law: Decree-Law No. 337/90 of October 30 was promulgated in October 1990. Prior to that, the law related to the central bank was Organic Law: Decree-Law No. 644 of November 15, promulgated in November 1975, and it was replaced by the former because of the great change in financial affairs and especially change in the organization and functions of the financial market, there emerged new types of financial institutions, and the need to respond to financial liberalization.

The responsibilities of the central bank are as given in the new law are to maintain balance in domestic finance and to maintain the value of the currency outside the country. The major functions of the central bank, taking into account the government's guidelines, are as follows.

1) Cooperate in the formulation of and execute the monetary and exchange rate policy;
2) Manage the foreign assets of the country or any other assets entrusted to it;
3) Act as intermediary in the international monetary relations of the State;
4) Provide for the stability of the domestic financial system, performing for the purpose the function of lender of last resort.

In comparison to the old law, the new law has as its characteristics (1) granting to the central bank of broad powers, over a wide range, for preparation and implementation of financial and exchange rate policy and (2) prohibition of the central bank's supplying credit to the government or state-owned enterprises, with the exception of the issuances of Treasury Bills (TBs; Art. 27) and under special circumstances (Art. 25, subscription of Foreign Bonds by the Government and Art. 26, Borrowing of Up to 10% of the Previous Year's Income). Differing from the past, that state-owned entities are no longer permitted to rely on preferential financing by the central bank but now must obtain capital from the market and at market rates, is a sign of autonomously-sought reform.

The major roles of the central bank in implementing financial policy are to adjust the functioning of the financial market, through intervention, and to regulate the business activities of financial institutions through the exercise of supervisory power. Ultimate authority for approval of the establishment of banks or the opening of bank branches resides in the Ministry of Finance and the Prime Minister's office, but it is the central bank that accepts and reviews applications.

The specific functions of the central bank can be summarized as follows.

1) Management of the nation's foreign reserves and foreign assets
2) Financial adjustments, and management of the exchange rate and foreign currency market
3) Guidance, supervision and inspection of financial institutions
4) Raising and managing the funds of the government, as the Treasury
5) As the agency in charge of managing foreign currency transactions, management of payments to foreign countries and authorization of payments
6) Maintenance of deposit accounts owned by other financial institutions; the purchase and sale of debt obligations; and the underwriting and selling of government bonds
7) Management of financial and currency exchange statistics

Among these functions, it is the financial adjustment policy which exerts direct influence on economic and business conditions. In general, the discount rate, statutory reserve requirement ratio, and open market operations are the most typical means of financial adjustment by a central bank. In addition, as more direct methods of financial adjustment, there are regulation of interest rates on deposits, regulation of outstanding loan balances, and other items. Direct regulation is now being used by the Portuguese authorities as a means of bringing inflation under control. Recently they are gradually shifting to use of indirect methods, as preparation for the time, after EC unification, when the financial market in Portugal shall be open completely. As from 1991, regulation of loan balances have been ended. The high level of activity in the short-term TB market, in addition to being done to obtain funds for the government, is motivated by the desire to improve indirect financial adjustment in the form of open market operations. (See Table 3-4-3)

(2) Commercial banks and special credit institutions

The banking sector is broadly divided into commercial banks and special credit institutions, the latter comprising savings banks and investment banks. This classification is based on a traditional specialization, but the banks have been diversifying into business areas hitherto closed to them in a general move toward universal banking wherein, for example, commercial banks also engage in investment banking and other activity.

Commercial banks are in turn classified according to their source of capital into state-, privately- and foreign-owned commercial banks, including in the latter the branches of foreign banks. All special credit institutions at present are state-owned but it is planned to privatize all of them (as well as the state-owned commercial banks) except Caixa Geral de Depositos (CGD) and Banco Fomento e Exterior (BFE). Banco Totta and Acores has already been privatized, as has part of the Banco Portugues do Atlantico and Banco Espirito Santo and Comercial de Lisboa.

Members of the Association of Portuguese Banks have as shares of the banking sector 97% of all assets, 96% of all capital, 98% of all deposits, 99% of all branches and 99% of all employees. Of the 33 member banks that make up the banking sector (as of December 1990), 8 are state-owned commercial banks, 4 are special credit institutions, 8 are privately owned banks, and 13 are foreign-owned banks. (See Tables 3-4-4 and 3-4-5)

The major source of capital for comercial banks is deposits by individuals or corporations, and this money is managed primarily in the short-term money market, but the banks are also authorized to provide medium- and long-term export credits, investment finance, and home mortgage loans. Among the special credit institutions, CGD, a savings bank, has the most capital of all Portuguese banks. The savings deposits are used particularly for construction finance, and home mortgage loans, but the bank is also expanding activities as an investment bank.

Banco Portuguese de Investmento and BFE are investment banks. In particular, the BFE sources its funds in foreign markets, as well as using government funds and interbank deposits, and is actively engaged in provision of medium- and long-term credits. As an investment bank, it buys and holds shares in private corporations, and is expanding by supplying medium- and long-term export credits, investment finance, and international loans.

Credit Predial Portuguese, originally specialized in mortgage finance, also has been authorized, the same as CGD and BFE, to accept deposits and undertake commercial banking.

Regarding market share within the banking sector, prior to joining the EC, that is, at the end of 1985, the share of nationally-owned banks including the special credit institutions was higher than 95% regarding both assets and deposits, but these shares were greatly reduced by the end of 1990, to 74% and 82%, and the decline was especially marked in the case of the state-owned commercial banks. This of course is because of privatization (one bank as of the end of 1990), establishment of new banks, and an increase in the number of foreign banks.

As the next characteristic of the banking sector, there has been an extremely swift increase recently in the number of branches. In a recent 2-year period, there has been an increase of 24%, or 382 branches. As of the end of 1990, the total of banks and branches was 1,991, of which 1,019 (51.2%) were of state-owned commercial banks, 514 (25.8%) were of special credit institutions, 399 (20%) were of privately-owned commercial banks, and 59 (3%) were of foreign banks. The increase has been particularly strong among privately-owned commercial banks. The banks' branch network is concentrated in the Lisbon and Porto regions, where 776 banks and branches, or about 40% of the total, are. Next in importance are Aveiro, near Porto and where industrial development is proceeding at a rapid pace (116, 5.8%) followed by the Faro and Setubal regions. The increase in banks and branches during the past two years is similarly concentrated in these areas. (See Table 4-3-6).

What merits special attention regarding the special credit institutions is CGD and BFE which are not to be privatized. The CGD is originally a savings bank but has begun to engage in investment and commercial banking and as of the end of 1990 had 23.5% of total assets in the banking sector, as well as 27.6% of total capital and 26.1% of total deposits. This makes it much larger than second-place BESCL, that has shares of 8% for both assets and deposits. CGD has a 401-branch network, as well as 9,816 employees, and as the country's largest bank has powerful influence on the financial market. In international terms it is one of the largest savings banks. BFE originally was an investment bank, specialized in medium- and long-term credits, and had the nature of being an export-import bank, and also a development bank. It issues medium- and long-term bonds within and outside of Portugal, and has been active in medium- and long-term finance for exports and direct foreign investment by Portuguese companies.

(3) Non-banks and other financial institutions

1) Regional development corporations

Development finance is provided for each region by its own development corporation, which procures funds primarily by accepting deposits for periods of a year or longer from regional governments, and by issuing bonds, and then uses the money to provide medium- and long-term finance for companies in relation to public projects in the region. These corporations are also empowered to accept deposits from Portuguese working abroad.

2) Investment companies

Investment companies are engaged in a broad range of activities and have the nature of being quasi-banking institutions. They underwrite and trade securities, participate in the money market, provide medium- and long-term finance, and work at the establishment and reorganization of companies. The predecessor of

Banco de Portuguese de Investimento was an investment company.

3) Leasing companies

Leasing is the area in financial services that is showing the fastest rate of growth. Leasing companies provide finance for acquisition of capital goods such as machinery and equipment and also lease industrial, commercial and agricultural buildings and structures. Many of the leasing companies have business relationships with foreign companies.

4) Factoring companies

These companies are engaged in factoring of commercial obligations, through use of medium- and long-term loans from the domestic and overseas markets, and issuance of bonds. Similar to the case for regional development corporations, investment companies and leasing companies, the approval of the Finance Minister is needed to establish a factoring company.

5) Insurance companies

Since the 1974 Revolution the insurance sector, together with the banking sector, was nationalized, but in 1984 it was returned to the private sector. Companies in other EC member countries must be given access in the form of the possibility of establishing an insurance company in Portugal, and for other countries the principal of reciprocity is recognized.

Many insurance companies have been established and more than half are foreign-owned. The largers are a nationally-owned companies that have a market share of 70%. Insurance services are separated into life and property, and are administratively controlled separately. At present, life insurance companies do not have importance if compared with those that in other EC countries. The insurance companies are subject to supervision and oversight by the Instituto de Seguro de Portugal and the Ministry of Finance.

6) Other financial intermediaries

In keeping with the liberalization of finance, a number of new types of financial institutions have been created as the diversification process continues. They are:

a) Investment funds

b) Pension funds
c) Venture capital companies
d) Money market brokers

(4) Financial market

The interbank market at present consists of the Interbank Money Market (IMM) and the Interbank Securities Market (ISM). The Interbank Cash Surplus Transfer System was created in July 1976 as a means of adjusting the level of cash among banks, and was made into the IMM in 1977. In addition to the banks, participation is authorized for some of non-banks and other types of financial institutions, and they are for the most part lenders in the market.

Savings banks, investment banks and special credit institutions are for the mast part borrowers in the IMM. Until promulgation of the new central bank law in October 1990 the massive government deficit was basically funded by borrowing from the central bank. The ISM was created because this situation made for a tendency for excessive liquidity to be created in the banking sector, and it became possible for banks to manage surplus funds in a repo market where the central bank was provider of public bonds with buy-back condition that it held.

The central bank came to use the discount rate for public bonds and the amount that it sold in the ISM as a means of financial adjustment. In August 1985 started to issue TBs with maturities of 90 days, 180 days and one year, for purposes of deficit financing and on behalf of the government. Then from 1986 the bank further diversified its methods of adjusting liquidity level in the ISM through market operations, and started selling Monetary Certificates, short-term instruments of the central bank, in the process furthering the shift from direct to indirect control.

(5) Institutional finance -- with particular reference to preferential finance for industrial development and for small business

Financing with preferential terms and conditions and financial grants, for the promotion of industrial development and for the small business sector, are provided by SINPEDIP through IAPMEI, and SIBR and so on. All of those funds are sourced from the EC Fund, EIB and the government contribution.

There is a system whereby individual financial institutions provide credit for industrial development using funds from foreign export-import banks and international organizations.

They may be seen in (1) medium- and long-term finance and guarantees by the BFE and related to direct foreign investment, (2) credit guarantees and export credit guarantees provided by Companha de Seguro de Creditos (COSEC) for domestic companies, and (3) the finance provided on the basis of individual agreements using 5 billion Japanese yen "2-step loan" from the Japan Exim Bank to CGD. But all such activity is undertaken by the banks on a commercial basis, and there is no institutionally specialized governmental or government-supporting financial institutions to afford the preferential finance for industrial development or the small business sector in accordance with government policy, so there is no system whereby special, institutional arrangements exist for the supply of low-interest credit by export-import banks, development banks, or financial institutions specializing in credit for small business, which can be seen in other countries.

As the source of capital, it is necessary, apart from preferential measures of SINPEDIP SIBR etc., to borrow at commercial rates from ordinary financial institutions, and this is a problem because the high level of interest rates reduces the availability of funds for industrial investment and small business sector support.

It is natural for credit to become tight if the government raises rates in order to contain inflation, but given the underdeveloped state of the domestic capital market, a tight credit policy has serious implications for stable sourcing of medium- and long-term capital for industrial development.

Market economies are a fundamental assumption of economic management in the EC, and financial markets are no exception. That is, rates of interest should be determined by market forces and this makes it difficult for a given country to establish its own preferential-rate financial system for some specific purpose, or for national funds to be used as subsidies. In accordance with this fundamental concept, for example, the interest-compensation systems that had been in use prior to 1986 in connection with export finance were abandoned by all EC countries because they constituted preferential financing for exporters.

3.4.3 Future Financial Trends and Issues

(1) Privatization of the financial sector

Following the 1974 Revolution, together with most financial institutions, large corporations in the transport, chemicals, shipbuilding, steel, petrochemicals and other sectors were nationalized. Of the companies that were nationalized, 60 were totally nationalized, and several hundred were partially nationalized. With the exception of banks, many of the large corporations that were nationalized had confronted financial problems prior to nationalization. Because of economic diseconomies of state ownership (irrational price setting, overemployment, etc.) and deterioration of managerial efficiency, their financial condition worsened after nationalization, and the number of companies with high debt burdens increased. Because most of the loans provided by the nationalized banks were made to those companies, the banks came to own a large amount of low-margin, high-risk assets in the form of those loans. Since the opening of the financial sector to private investment, liberalization of establishing of new financial institutions, and opening of the market to foreign institutions, in 1984, development has proceeded at a swift pace. But up to 1989, national companies accounted for about 80% of the banks in the banking sector, and 60% of the insurance companies in that sector, or more than half of the financial sector in general. In 1988 the government decided to partially privatize the national companies and passed a law that stated that up to 49% of the shares in these companies could be sold to the private sector. The following restrictions, however, were made.

1) A minimum of 20% of the shares must be sold to the employees.
2) A private company could buy no more than 10% of t the issued shares of a given company
3) Foreign ownership must be within 10%
4) Proceeds from the sale of shares must be used to relieve the debt of the national companies and repay public obligations

Moreover, in April 1990 the privatization law was passed and full privatization was authorized for the companies that had been nationalized since April 25, 1974. The objectives of privatization were given as (1) modernization of the economy, (2) improvement of international competitiveness, (3) intrasectoral reorganization in industry, (4) vitalization of nationally-run companies, (5) reduction of government intervention in economic activities and promotion of participation of the general public in corporate activities, and (6) development of the capital market. By mid-1991 100% or part of the shares in 13 corporations that had been government-owned had been sold to the private sector, and by the end of 1991 8 more companies are to be privatized. They included 5 banks, and 4 insurance companies. The situati on regarding sale of the shares in the bank was as follows.

1)	Banco Totta e Acores	all shares sold
2)	Banco Portugues do Atlantico (BPA)	33%
3)	Sociedade Financeira Port	100%
4)	Banco Espirito Santo e Comercio de Lisboa (BESCL)	40%
5)	Banco Fonseca e Burnay	80% (planned)

With the exception of CGD and BFE, all financial instutions are to be privatized and as the second phase of the process privatization of BPA and BESCL is plannted, as well as privatization of Banco Pinto-sotto Mayor (BPSM).

(2) Internationalization and reorganization of financial institutions

It is expected that progress in EC unification during 1993-95 will generate a great deal of activity in the form of diversification within financial services by financial institutions in the EC countries, and at present the advance of Spanish banks is particularly conspicuous in Portugal. Competition among financial institutions is increasing and because interest rate spreads, which seemed to have hit the peak, already, will tend to become narrow.

The recent developments in the financial sector are characterized as follows.

1) Diversification of financial services
2) Progress of privatization
3) Quantitative expansion of financial activities, and increases in the number of domestic branches
4) Entry of foreign banks
5) Tie-ups and group formation among financial institutions

By means of the appearance of new types of financial institutions, diversification of financial techniques and financing activities is progressing. The financial system is tending to a polarization into universal banking institutions and specialized institutions. Universal banks, on their base of short-term commercial credit, medium- and long-term credit, investment banking, deposit-taking and other banking activities, are rapidly developing an even more diverse range of services by advancing into other fields of activity than these. An increase in scale is also seen desirable as a means of better competing with the mega-banks of other EC members.

Also evident is equity participation through purchase of bank shares, especially by Spanish banks. Participation by a foreign bank in principle is limited to 10% when a national bank is privatized. But each case is individually reviewed, and it is said that there are instances of acquisition of shares greater than 10%.

The increase in the number of domestic bank branches is of course based on the expansion in the scale or volume of financial activities but is particularly related to the increase in personal loan business, which has a high profit margin. The expansion of branch networks throughout the country in addition to international expansion by a way of the enlargement of business scale, indicates the policy direction toward specialization in retail banking in rural area where foreign banks find it difficult to penetrate into.

Thus, there is a vigorous process of the quantitative growth of the financial sector, diversification within it, internationalization, and liberalization of the sector, while the government seeks to both improve the efficiency of national banks by privatizing them and thereby to lessen its own financial burden, and the financial sector is undergoing a reorganization in the direction of improving its qualities and increasing its international competitiveness.

(3) Industrial promotion as seen from the financial side

As is stated in Chapter 2, the industrial development program using EC Fund support and supply of capital for industrial promotion by means of increase in direct foreign investment have brought about great results, but the unification of Europe in 1992 poses a grave problem to Portugeuse industry.

In addition to the need to further improve infrastructure, it is necessary to improve the qualities of the companies in almost all industries, and to improve the structure of industry as well. Not only do economic inefficiencies cause poor performance at the nationally owned companies, that comprise more than half of all major corporations, but the replacement of equipment and development of technology are urgent issues as well. It is for this reason that the government has embarked, since 1989, on a course of privatization as a way of vitalizing the activities of corporations and lightening the burden on the nation's own finances. Further, the textile, shoe, cork, and wine industries, traditional industries that are essentially either cottage-industry or small-business in nature and have until now been the main force in the country's export industries, acquired their international competitiveness from reliance on cheap domestic labor. These companies will find that intense compeitition among themselves is inescapable once the EC is integrated. Companies, large or small, must modernize equipment in order to improve their competitivness, and for this the procurement of capital becomes an essential process. But with the exception of the preferential system (grants) mentioned above as made by PEDIP, SIBR and EIB, using EC Fund money, there is no preferential finance system in this country for the promotion of industrial development, and support of the small business sector. There are limits, in terms of the amount of funds available as well as the applications of those funds, to what each individual bank can possibly accomplish by using the BFE's EFTA Industrial Development Fund for Portugal, or provision of medium- and long-term credits for exports or direct investment abroad through tapping the Japan Exim Bank's two-step loand funds or using funds available from other countries and international organizations. In particular, because the government has had a tight-credit policy since 1988, it has become difficult for companies to obtain capital for replacement of equipment or modernization. The approval rate of applications from PEDIP and SIBR to IAPMAI from 1988 to November 1990 (7.909 cases) was 45% (3,544 cases), which is one good indication of the strong demand for capital.

Further, although it is not an instance of preferential finance, mention may be made of the supply of capital by the BFE to the industrial sector, as this is an important source of credit for industrial develoment, as follows (source, BFE Annual Report, 1990):

1) Loan to net assets ratio: 55.3% (=287.3 billion ESC/519.4 billion ESC)
2) Share of manufacturing in loans made in 1990: 65.5% (=35.3 billion ESC/53.8 billion ESC)

By sector, credit supply was:

Rubber, chemicals, oil	55.0%
Food and feed	15.0
Pulp, paper, printing	9.3
Metals, machinery, electric equipment	6.5
Textiles, footwear	4.8
Transport devices	4.6
Others	4.8
Total	100.0%

The objectives of the loans were as follows:

Direct investment	85.9%
Renewable short-term credit	7.7
Export of capital goods and services	4.6
Import of capital goods	1.6
Production and sales	0.2
Total	100.0%

BFE, being the bank responsible for export and import credits, provides 65.5% of its loans to the manufacturing sector, and of that 85.9% is capital for direct foreign investment. This is an indication of the extremely strong demand for capital for industrial equipment even under conditions of high interest rates. Because at the present time a high reserve requirement ratio is imposed on the banking sector, and the banks are being obliged to buy public bonds as consequences of the tight credit policy, their loans to net assets ratio is low (51.1% for all banks as of December 1990) and there is a severe restriction on the amount of capital that they can use. Although the high level of interest rates can be ascribed to government policy, the financial margin of the financial institutions is quite large, at 5.8% (1990) in real term, so that we can expect an improvement of the efficiency of the banks, and as the margin declines, the increment will also be seen as a reduction in the interest paid by borrowers. In the fourth quarter of 1990 inflation peaked somewhat, and it is now possible to expect a gradual easing by the government. Hereafter, with the integration of the EC, the EC Fund limits will be further raised and this will certainly enable expansion of preferential systems using those funds, in addition to further development of foreign direct investment and privatization that will have their own repercussion effects.

Table 3-4-1 VARIOUS RATES OF INTEREST IN RECENT YEARS

Unit: % p.a.

	Administratively - Fixed Rates							
	Time deposit 180ds-1year (Min. rate)	Demand deposit (Max. rate)	Lending rate up to 180ds (Max. rate)	BOP Rediscount rate	Bond market Reference rate	P.B.A base Lending rate	Interbank 1-5ds	Interbank 6-30ds
1987 Jan	15.0	-	17.5	15.5	17.0		12.804	14.684
Mar	14.5	-	19.5	15.0	16.5		13.604	14.715
Oct	14.0	-	18.5	14.5	16.0		13.163	13.836
1988 Feb	13.5	-	18.0	14.0	15.5		12.381	13.000
Mey	13.0	-	17.0	13.5	15.0		12.373	12.681
Sep	13.0	-	Suspended	13.5	15.0		12.356	12.614
1989 Mar	13.0	4.33		14.5	16.0	18.8276	12.425	12.915
1990 Jan	14.0	4.667		14.5	16.0	20.4688		
Feb						20.7051		
Mar						21.1847		
Apr						21.4254		
May						21.5530		
Jun						21.6005		
Jul						21.6258		
Aug						21.8573		
Sep						22.1234		
Oct						22.3404		
Nov						22.6756		
Dec						22.9090		
1991 Jan						22.9583		
Feb						23.0000		
Mar						23.0208		

Note: P.B.A.: Portugal Bankers Association

Source: Banco de Portugal; Annual Report 1989 & 1990

Table 3-4-2 COMPULSORY RESERVE REQUIREMENTS

Unit: %

	Sight Deposit	Time Deposit			
		30-90ds	90-180ds	181ds-1yr	Over 1yr
1977	7	4	4	4	4
1978	7	7	7	7	7
1981	10	10	10	10	10
1982	12	12	12	12	9
1984	12	12	12	12	6
1985	12	12	12	6	3
1986	12	12	12	3	1
1987	15	12	12	3	1
1989	17	17	17	17	17

Note: Reserve requirement: Actual liabilities in local currency and liabilities relating to foreign currency deposit account opened in the name of residents

Source: Banco de Portugal, Annual Report 1990

Table 3-4-3 BALANCE SHEET OF BANCO DE PORTUGAL AS AT THE END OF YEAR 1990

Unit: Million ESC

** ASSETS (NET) **			%
Foreign exchange reserves		2,670,360	63.2
Gold and foreign exchange		1,484,793	35.1
Special drawing rights		7,651	0.2
Official ECU holdings		357,737	8.5
Portugal's quota in the International Monetary Fund		71,579	1.7
Other foreign exchange reserves		748,600	17.7
Other money-issue guarantees		1,056,626	25.0
Public Treasury - c/a		46,950	1.1
Autonomous Region of Madeira - c/a		3,346	0.1
Portuguese public debt bonds		779,614	18.4
Local metal coinage		3,747	0.1
Discount and rediscount		9,448	0.2
Guaranteed loans		375	-
Securities and investments - local institutions		158,269	3.7
Miscellaneous		54,877	1.4
Gold and foreign exchange due by EMCF		357,737	8.5
Other assets		141,286	3.3
Fixed property, buildings, equipment and other fixed assets		12,055	0.3
Fluctuations in reserve valuations		11,845	0.3
Miscellaneous		117,386	2.7
Total assets		4,226,009	100.0
** LIABILITIES **			
Notes in circulation		674,293	16.0
Deposits and current accounts - local currency - resident in Portugal		1,714,971	40.6
Public Sector		356,090	8.4
Autonomous Region of the Azores - c/a	(6)		(-)
Treasury - Investment - Treasury Bills	(345,539)		(8.2)
Public Credit Board	(7,137)		0.2
Other Public Sector deposits	(3,408)		(-)
Monetary institutions		1,339,004	31.7
Non-monetary financial institutions		19,877	0.5
Deposits and current accounts - local currency - resident abroad		50,858	1.2
International Monetary Fund		47,599	1.1
Other international financial institutions		147	-
Other		3,112	0.1
Applications of credit and parabanking instiutions		837,100	19.8
Other liabilities in local currency		19,868	0.5
Liabilities in foreign currency		1	-
Cumulative allocation of special drawing rights		10,134	0.2
ECU due to EMCF		357,737	8.5
Other liabilities		377,417	8.9
Miscellaneous		191,989	4.5
Provisions for risks		185,428	4.4
Statutory capital and reserves		183,630	4.3
Statutory capital		200	-
Legal reserve		6,020	0.1
Other reserves		176,396	4.2
Net income for the year		1,014	-
Total liabilities		4,226,009	100.0

Source: Banco de Portgal; Annual Report 1990

Table 3-4-4 MARKET SHARE AMONG BANKING SECTOR

	State owned Commercial Banks	Special Credit Institutions	Sub-Total	Private Commercial Banks	Foreign Banks	Total
	%	%	%	%	%	%
Gross Assets	39.7	34.3	74.0	21.1	4.9	100
Credit	37.0	37.1	74.1	19.9	6.0	100
Deposits	45.6	36.1	81.7	16.5	1.8	100
Capital & Reserve	22.7	38.8	61.5	29.3	9.2	100
Nos of Branch	978	555	1,533	399	59	1,991
	(49.1 %)	(27.9 %)	(77.0 %)	(20.0 %)	(3.0 %)	(100 %)
Nos of Employee	32,683	14,984	47,667	9,760	1,735	59,162
	(55.2 %)	(25.3 %)	(80.5 %)	(16.5 %)	(2.9 %)	(100 %)

Source: Portuguese Bankers Association

Table 3-4-5 LIST OF COMMERCIAL BANKS & SPECIAL CREDIT INSTITUTIONS
(BALANCES AS AT DECEMBER 31,1990)

Unit: million ESC

		Total Assets	%	Credits	%	Deposits	%	Capitals & Reserves	%	Cashflow	%
	BPA	994,386	8.6	338,002	7.1	800,752	9.4	57,380	4.8	39,948	8.6
S	BESCL	932,636	8.0	377,388	8.0	748,240	8.8	89,898	7.5	44,328	9.5
O	BPSH	871,651	7.5	255,620	5.4	655,289	7.7	42,514	3.6	39,234	8.4
C	BNU	632,985	5.5	219,056	4.6	450,897	5.3	49,296	4.1	13,695	2.9
B	UBP	532,030	4.6	176,052	3.7	440,604	5.2	42,585	3.6	16,680	3.6
	BBI	507,112	4.4	146,426	3.1	446,493	5.2	18,869	1.6	19,845	4.2
	BFB	452,076	3.9	149,286	3.2	364,999	4.3	22,130	1.9	14,010	3.0
	BCA	55,188	0.5	16,867	0.4	43,109	0.5	6,423	0.5	2,543	0.5
S	CGD	2,703,856	23.3	1,297,121	27.4	2,222,638	26.1	248,556	20.8	111,236	23.8
C	CPP	406,558	3.5	238,352	5.0	355,036	4.2	34,326	2.9	8,538	1.8
I	BFE	404,186	3.5	248,914	5.3	219,100	2.6	94,985	8.0	26,519	5.7
	SFP	31,033	0.3	19,389	0.4	9,151	0.1	12,068	1.0	7,961	1.7
P	BTA	835,492	7.2	258,549	5.5	647,600	7.6	75,453	6.3	35,486	7.6
R	BCP	752,993	6.5	212,603	4.5	476,182	5.6	126,801	10.6	23,063	4.9
I	MG	205,314	1.8	133,169	2.8	174,870	2.1	14,270	1.2	4,026	0.9
V	BANIF	177,809	1.5	64,567	1.4	96,123	1.1	25,781	2.2	6,879	1.5
A	BPI	170,313	1.5	87,558	1.9	47,629	0.6	44,318	3.7	12,677	2.7
T	BCI	147,276	1.3	94,432	2.0	74,775	0.9	26,781	2.2	7,447	1.6
E	BIC	101,867	0.9	52,626	1.1	55,853	0.7	16,912	1.4	4,298	0.9
	HANUF	66,758	0.6	37,833	0.8	7,973	0.1	24,356	2.0	5,244	1.1
F	BCH	40,955	0.4	20,462	0.4	10,866	0.1	11,794	1.0	2,083	0.4
O	C.L	130,499	1.1	52,241	1.1	74,545	0.9	15,005	1.3	3,302	0.7
R	LLOYDS	87,290	0.8	37,297	0.8	26,228	0.3	10,739	0.9	2,457	0.5
E	HANUF	66,758	0.6	37,833	0.8	7,973	0.1	24,356	2.0	5,244	1.1
I	BARCL	59,924	0.5	25,821	0.5	13,171	0.2	10,255	0.9	1,054	0.2
G	BNP	50,089	0.4	23,243	0.5	8,945	0.1	5,525	0.5	1,319	0.3
N	DBI	34,918	0.3	28,102	0.6	10,722	0.1	4,406	0.4	805	0.2
	GENERALE	29,924	0.3	12,482	0.3	2,355	0.0	4,277	0.4	842	0.2
B	CITI	29,589	0.3	18,005	0.4	6,337	0.1	9,446	0.8	2,009	0.4
A	CHASE	22,075	0.2	14,627	0.3	1,934	0.0	5,393	0.5	1,494	0.3
N	B B	21,015	0.2	11,399	0.2	3,835	0.0	6,243	0.5	1,348	0.3
K	BEE	13,835	0.1	10,385	0.2	3,193	0.0	3,894	0.3	491	0.1
S	ABN	11,937	0.1	9,013	0.2	857	0.0	3,894	0.3	494	0.1
	BTQ	9,237	0.1	5,590	0.1	672	0.0	3,771	0.3	361	0.1
	Total	11,589,564	100.0	4,730,310	100.0	8,508,946	100.0	1,192,700	100.0	466,960	100.0

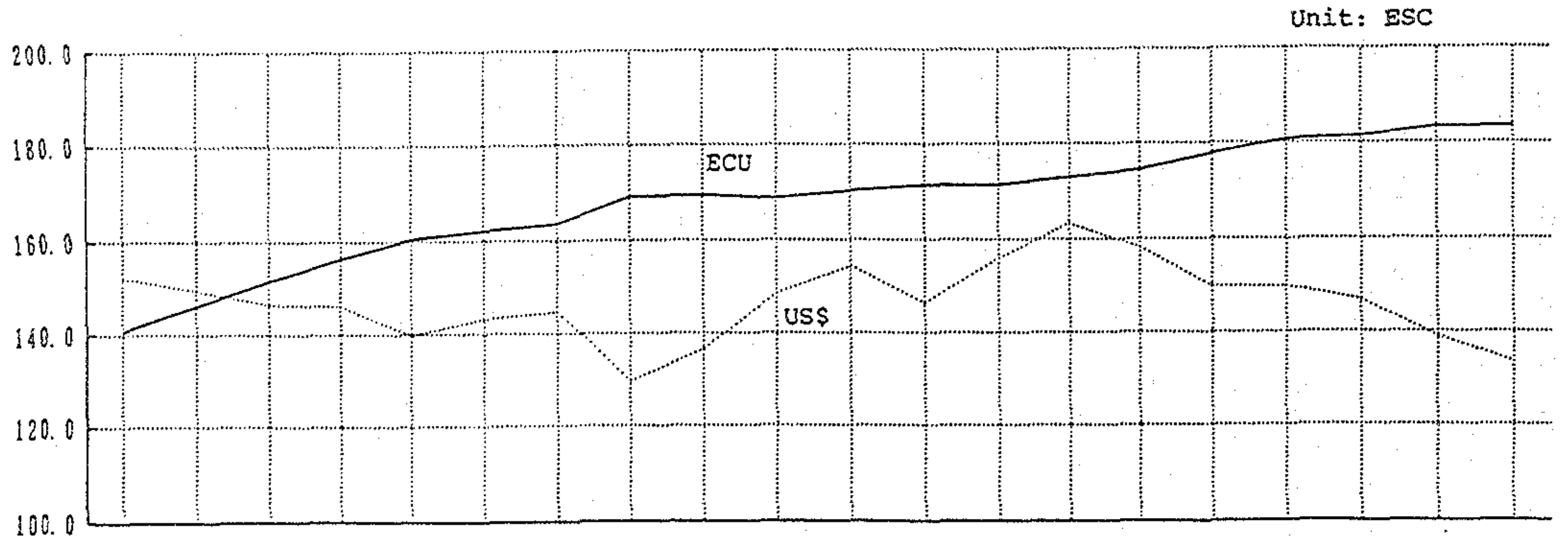
Note: SUCB = State-owned Commercial Banks - 8 Banks
SCI = Special Credit Institutions - 4 Banks
Private Banks - 8 Banks
Foreign Banks -13 Banks
Total 33 Banks

Source: Portuguese Bankers Association

Table 3-4-6 DISTRIBUTION OF AGENCIES OF BANKS BY DISTRICTS

Districts	No of Agencies Dec/90	%	Dec/88	Variation
Total	1,991	100.0	1,609	382
Aveiro	116	5.8	96	20
Beja	40	2.0	38	2
Braga	82	4.1	68	14
Braganca	42	2.1	39	3
Castelo Branco	51	2.6	42	9
Coimbra	80	4.0	66	14
Evora	42	2.1	40	2
Faro	106	5.3	81	25
Guarda	47	2.4	44	3
Leiria	82	4.1	71	11
Lisboa	481	24.2	353	128
Portalegre	45	2.3	42	3
Porto	295	14.8	218	77
Santarem	91	4.6	81	10
Setubal	105	5.3	77	28
Viana Castelo	43	2.2	40	3
Vila Real	49	2.4	43	6
Viseu	70	3.5	64	6
Acores	52	2.6	47	5
Madeira	72	3.6	59	13

Source: Portuguese Bankers Association



	86.3	6	9	12	87.3	6	9	12	88.3	6	9	12	89.3	6	9	12	90.3	6	9	12
ECU	140.8	146.1	151.6	156.3	160.5	162.2	163.6	169.3	160.6	169.0	170.5	171.6	171.6	173.0	174.5	177.8	180.7	181.3	183.1	183.2
US$	152.2	149.5	146.4	146.1	139.8	143.2	144.7	129.8	136.5	148.4	154.4	146.3	155.9	163.4	158.2	149.8	149.7	146.7	138.9	133.6

Figure 3-4-1 AVERAGE EXCHANGE RATES OF THE ESCUDO ON THE LISBON MARKET 1986-1990
(End of Month Rates)

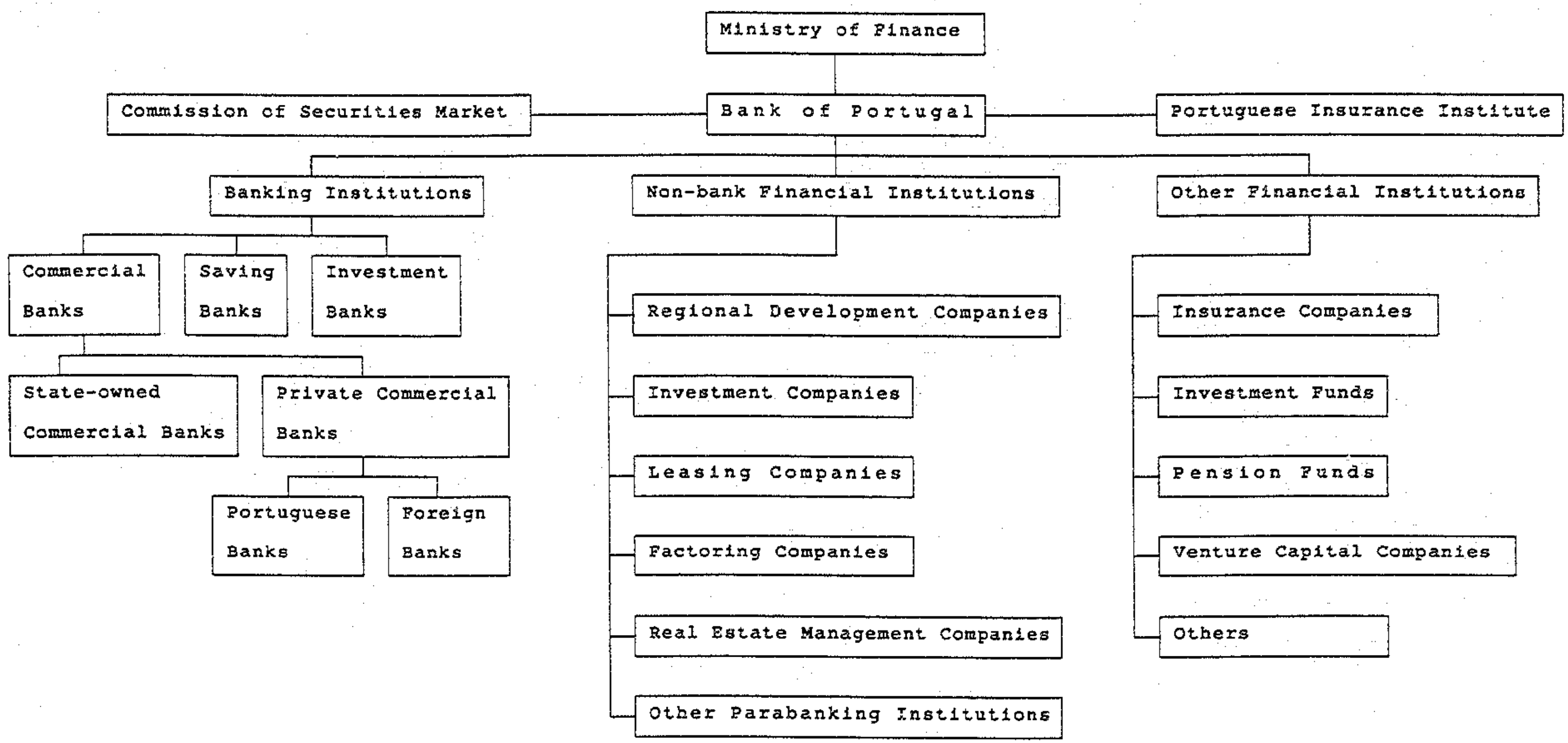


Figure 3-4-2 PORTUGUESE FINANCIAL SYSTEM

3.5 Industrial Infrastructure (Nation Wide)

This section makes a survey of technology-related environment to support industrial development in Portugal, or the foundation to sustain industrialization at a national level. The same analysis on the Aveiro-Viseu Region is presented in Chapter 5. To effectively promote industrialization of any country, objectives and means of industrial development for specific areas need to be clearly defined under the long-term economic development plan. As national development policies have been analyzed in 3.1, available means of development need to be analyzed. In addition to incentives discussed in 3.3 and development finance in 3.4, this section reviews more technical aspects - industrial infrastructure, as shown below, which would serve as basic data for the subsequent proposal.

1) Natural resource
2) Infrastructure
3) Education, training, and R&D systems

3.5.1 Natural Resource

(1) Mineral Resources

The development of Portugal's mineral resources has been subject to a strong impact by the discovery of the copper mine in "Neves-Corvo", which will make Portugal one of the principal copper suppliers in the world. Portugal has been already the important supplier of tungsten. And also Portugal produces a variety of mineral resources, including tin, coal, iron ore, uranium, and clay.

Production record of metallic and non-metallic minerals in 1989 and 1990, and geographical distribution of those resources are showing in Table 3-5-1 and in Figure 3-5-1 respectively. Details on the mineral reserves in Portugal is not for publication so that only geographical distribution is summarized as follows.

1) Coal: S.Pedro de Cova and Pejao on the west side of the north central part, Cabo Mondego located north of Foz Port on the west coast, and around Leiria and Rio Maior

2) Copper: Barrancos region (the southern part) along the border with Spain, and the south district of Vila Real region along the upper stream of Douro River in the northern part

3) Tin: The northern section of Castero (the northern part), the upper stream of Tamega River, around Viseu and Guarda

4) Iron ore: Guadramil, Moncorvo, and Marao in the northeastern part along the border with Spain, and Cercal region in the southern part

5) Uranium: The southern section of Guarda in a central mountain range, around Nelas along the upper stream of Mondego River, and the source of Vouga River.

6) Clay: The northern and central regions on the west and south coasts

(2) Agricultural Resource

Table 3-5-2 summarizes production and productivity levels for Portugal's major agricultural products including wheat, rice, corn, potatoes and tomatoes over the period 1980 to 1988. Table 3-5-3 summarizes similar data for fruits, meat, milk and wine.

Geographical distribution of these products can be divided roughly into as follows: the central and southern area mainly produce cereals, tomato and fruits, and milk and potatoes are the principal products in the northern agricultural area, of which the project region is a part.

Agriculture policies in the early 80's to ensure an adequate flow of milk to urban consumers resulted in unprecedented support to small farmers in the northern area and helped to establish a sizable dairy industry. Table 3-5-3 shows that milk production has increased steadily between 1980 to 1988, achieving a production level in 1988 factor 1.4 higher than in 1980.

(3) Forest Resource

Portugal's outstanding forest resources are wild pine, used for the production of resins and logs, and eucalyptus and cork. Eucalyptus functions as the input into the Portuguese pulp and paper industry, and cork as a major raw material for the wood-based manufacturing industry.

Table 3-5-4 summarizes production and export-import balance of major forestry based products in Portugal. Almost major product groups have made a positive balance of payments impact over the reference period 1980 to 1987. In terms of average export income earnings, pulp, sawn wood and cork have been the strongest performers.

(4) Fishery Resources

Table 3-5-5 summarizes the fish catch made by Portuguese owned vessels and unloaded at Portuguese harbors, broken down by major fish species. Total fish catch has naturally fluctuated, but increased somewhat above the 300,000 t level as of 1986.

Aveiro is located in the Central Region and is the country's principal center for the long-distance fleet, which unloads almost exclusively frozen and salted fish. In effect, Aveiro is and will be, according to the Ministry of Agriculture, in the long run the principal port for that type of treated fish products.

As regards the harbor's relevance for fresh fish, Aveiro has also improved its position over the period 1987 to 189. Aveiro harbor accounted in 1987 for 24.6% of total unloaded fresh fish in the Central Region and increased the share to 32% in 1989. Therefore, the fish-processing units located here accounted for 66% of total fish canning production in the Central Region. About 46% of total production is geared towards export markets.

As the natural resource based industry in Aveiro-Viseu areas, dairy products industry, fish canning industry, paper and pulps are rather popular in Aveiro, wood-working, wine industry are developing in Viseu.

Future industrialize task on the natural resources based industry is how to manage the new situation such as subsidry abolition, changing protective policy and cost increasing by natural environmental policy affects after EC unification. And also the introduction of new processing technology and development of export market is one of the important factors.

3.5.2 Infrastructure

(1) Transportation sector

The transportation sector in Portugal is largely under control of state enterprises. After the country joined the EC in 1986, however, the Ministry of Public Work, Transport and Communication (MOPTC) promotes privatization of the state enterprises (public corporations) as infrastructure has been improved at an accelerated rate under assistance from the EC Fund.

According to the MOPTC's report published in September 1990, the current state of the transportation sector in Portugal is summarized as follows:

1) In 1989, urban transport systems carried 9.4 million passengers, of which Lisbon accounted for 66%, Porto 33%, and remaining 13 cities meager 2%. Public transportation in Lisbon is provided by buses, street cars, and subway.

2) Users of transport systems in suburbs of major cities amounted to 4.96 million in 1989, of which around 53% used highway bus service on 5 routes operated by a public corporation - RN (Rodovaria Nacional, E.P.), 41% railways (11 lines) operated by a public corporation - the CP (Companhia Portugesa de Cominhos de Ferro), and 6% a water transport system on 6 routes, Trans Tejo.

3) Passengers using inter-city transport service totaled 1.38 million in 1989, of which 79% used the RN's highway bus service, 20% the CP's rail service, and 1% air transport service by TAP and other airliners.

4) As for land freight transport, for which only 1988 statistical data was available, 206 million tons were carried in the mainland. Of total, road transport accounted for 97.5% to indicate the dominant position of trucks in freight transport service in the country. In contrast, rail freight transport accounted for only 2.5%, while air freight transport held a minimal share.

5) Water transport (both coastal and ocean) is handled by three ports: Porto-Leixoes, major port in the northern part; Lisbon located at the mouth of Tejo River; and Sines which mainly handles liquid cargoes from and to petrochemical plants.

According to cargo handling data published by the port authority and the INE in 1990, the three ports accounted for approximately 73% of total; Porto-Leixoes accounted for 17.9%, Lisbon 21.9%, and Sines 33.4%.

6) Figure 3-5-2 shows the MOPTC's general organization.

(2) Main Road System

A nationwide road network in the mainland is illustrated in Figure 3-5-3.

As mentioned earlier, the road system handled 97.5% of freight carried in 1988 and consists of the following roads:

1) Major arterial highways (itinerary principal: IP)

2) Secondary arterial highways (itinerary complementary: IC)
3) Other roads (outra estradas: OE)

Major arterial highways consist of 3 routes (IP1, IP2, and IP3) run through the mainland in a north-south direction, and 6 routes (IP4, IP5, IP6, IP7, IP8, and IP9) connecting the north-south routes. Among them, IP1 serves as a main route connecting major cities along the Atlantic coast, including a 360km toll section between Setubal, Lisboa, and Porto. Traffic volumes on the highways increased by 38% for automobiles in 1989, compared to 1985, and 22% for motorcycles. Table 3-5-6 shows the comparing data of the number of motor vehicles holding in each EC countries. Holding share by Portugal is 1.4% in EC, and number of holding is estimated more than 2 million at present.

As sub-arterial highways, there are 24 ICs connecting the IPs. The unification of the EC market at the beginning of 1993 will further raise the importance of the main road system to serve as the foundation of the country's economic growth.

(3) Railway Network

The railway network in Portugal extends 3,061km and plays an important role in social and economic activities. Rail transport is under control of the MOPTC and is operated by the CP (Companhia Portugues de Caminhos de Ferro).

As pointed out in the Railway Modernization and Rehabilitation (Modermizacao e Reconversao dos Caminhos de Ferro) Plan (1988-1994) announced by the CP, most of the 3,061km line deteriorates due to aging and requires major rehabilitation. Of total, the 2,090km network has been left without rehabilitation to require a large amount of maintenance cost, and the outdated system prevents efficient rail operation. Under this recognition, the cabinet adopted the following resolution in February 1988:

a) To approve the Railway Modernization and Rehabilitation Plan (1988 - 1994);
b) To appoint the Minister of Finance and the Minister of Public Work, Transport and Communication to be in charge of preparing and controlling annual investment plans; and
c) To appoint the Minister of Public Work, Transport and Communication to be in charge of promoting rehabilitation projects.

1) Current state of the rail system

Figure 3-5-4 shows the current state of the rail system in Portugal, which is summarized as follows:

a) Most of the existing rolling stock has passed their average service life.
b) The communication system deteriorates due to aging, with relatively low reliability.
c) The traffic control system in most sections is outdated, heavily depending upon manual operation.
d) The number of employees decreased from 27,663 in 1977 to 21,404 in 1986.
e) Most of trains are operated on a section between Lisbon and Porto, which serves as the most important route.

According to the MOPTC's report published in September 1990, rail transport service provided by the CP in 1989 is summarized as follows:

a) The length of the CP's line decreased from 3,607km to 3,061km as a result of reduction by 15%.
b) Freight carried by rail grew 5% to 5,510,000 tons, compared to 1988.

Major types of freight were cement (35% of total), iron ore (10%), and wood and cork (7%).

c) The average distance of haulage per ton was 247km in 1989, a 4% decrease from the previous year.
d) Rail freight transport mainly originates in Lisbon and Vale do Tejo, which accounted for 53% of the total freight tonnage loaded, followed by the central region and Alentejo region on the opposite side of Tejo River, accounting for 22%. In terms of unloaded freight tonnage, the northern region accounted for 45%, the central region 24%, and Lisbon and Vale do Tejo region 23%.

2) Major railway policies

The 9th Government Transportation Policy sets forth the infrastructure investment policy related to railway, with emphasis on the following items:

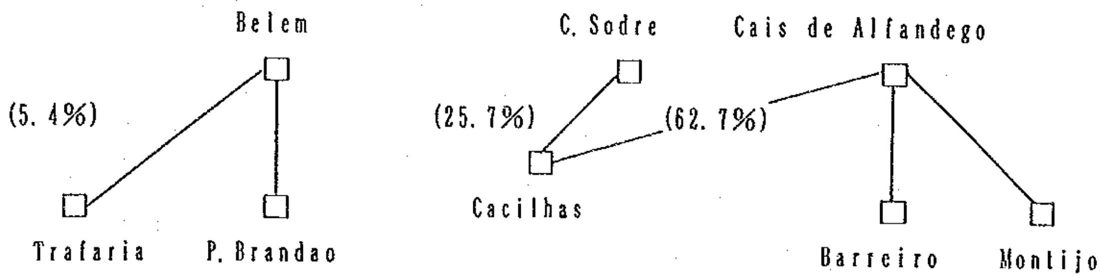
a) Construction, maintenance, and operation of the railway infrastructure are controlled by the government.

b) In modernization of the railway network, priority is given to the north-south line, and the Europe-bound lines via V.Formoso-Irun as well as Elvas-Madrid-Barcelona.

c) In city centers such as Lisbon and Porto, measures should be taken to remove obstacles to transport routes as far as possible.

(4) River Transport

Ferry services are operated between Lisbon, and Cacilhas, Bareiro, and Montijo on the opposite side of Tejo River, and between Trafaria and P.Brandao connecting 5 locations. These routes account for 90% of passengers using water transport, including commuters.



The busiest route is between the customs house pier (Caisde Alfandego) on the Lisbon side and Calilhas, accounting for 62.7% of ferry passengers, then 25.7% for between C.Sodre and Cacilhas, 5.4% for Belem - Trafaria, and 6.2% for other three routes. Transportation of motor vehicles (passenger automobiles and trucks) by ferry increased by 61% between 1985 and 1989. Of total, ferry transport on Sado River connecting Setubal and Troia represented 47% and that on Tejo River 30%.

(5) Air Transport

There are 3 international airports on the mainland, Lisbon (Portela), Porto (Pedras Rubras), and Faro. Figure 3-5-5 shows locations of major airports and air routes therefrom.

1) Lisbon Airport is located approximately 8km from the city center and has two runways - 2,400m and 3,805m long. Passenger terminals (for both international and domestic lines) are capable of handling approximately 3 million passengers per year, as well as 50,000 tons of cargo.

2) Oporto Airport is located 16km from the city center and has a 3,800m runway. A new terminal is under construction to handle 1.5 million passengers annually. The airport is capable of handling 20,000 tons of cargo per year.

3) Faro Airport is situated in Faro City of Argarve region, one of the most popular beach resorts in Europe located at the south end of the country. The airport has a 2,400m runway and handles 60% of chartered flights for tourists operated on the mainland.

Major Airports in Portugal

	Land area	Passenger	Runway		
	(ha)	terminal	No.	Length(m)	Width(m)
Lisbon	615	20,080	2	3,805	45
Porto	236	4,900	1	2,400	45
Faro	176	7,170	1	3,800	45

Source: Technical Assistance in National Transport Planning Special Report No.6, GEPTC

Air transport services are provided by three state enterprises; TAP (Transport Air Portugal), Air Atlantis, and LAR (Regional Air Service).

a) TAP

TAP operates domestic flight as well as regular international passenger, freight and mail air services to and from North America, Latin America, Europe, and Africa. Up to 1985, TAP operated regional flight services, which are mostly taken over by LAR, and it concentrates on international services.

TAP owns 26 airplanes as of 1989. It has been introducing new large planes to reduce the fleet for improved operating efficiency. Yearly changes in TAP's fleet are shown in Tables 3-5-1 and 3-5-2.

b) Air Atlantis

Air Atlantis is an affiliate of TAP and mainly operates non-regular (chartered) passenger flights.

It was established in 1985 and mainly serves the UK, Ireland, Germany, France, Austria, and Switzerland. It leases 2 Boeing B727/100s and 3 727/200s from TAP for operation. The number of employees was 43 in 1986, temporarily increased to around 100 during the summer, the peak tourist season. (see Table 3-5-3)

c) LAR (Regional Air Service)

LAR is owned by the government, and TAP contributes 30% of total. It was established in 1985 and employs 65 persons. It mainly serves the mainland and Madeira Island by using 4 airplanes - 3 19-seat "Twin-Otters" and 1 5-seat "Beach Craft".

d) Airport management corporation - ANA

ANA is a state enterprise, E.P (Aeroportios e Navegacao Aerea), solely responsible for management of airport facilities in Portugal.

Its services include facility management, air traffic control, communication control, and handling of passengers and air cargoes.

Tables 3-5-4 and 3-5-5 show recent performances of TAP and ANA, and the use of the airports by airline companies in Portugal.

(6) Marine Transport (Description of Major Ports)

Major sea ports in Portugal are Lisbon, Leixoes, and Sines, which account for approximately 71% of total cargo tonnage handled in Portugal. Figure 3-5-6 lists major sea ports in Portugal.

Lisbon Port is 4m to 13m deep and has 85 berths, some of which are designed to handle specific commodities, such as wheat and grain, sugar, fertilizer, iron ore, coal, crude oil and petrochemical products, wine, steel products, cement, and wood materials.

Leixoes Port is located in Porto, the second largest city in Portugal endowed with a long history. It handles general cargoes, liquid cargoes, and slid in bulk, equipped with container handling facilities. It is 5.5m to 12m deep and has 37 berths.

Sines Port is the most modern port in the country and started operation in 1978. The port is 10m to 22.5m deep and has 6 oil terminals to accommodate 350,000TDW tankers. Also, it has 2 berths to handle petrochemical products to accommodate 3,000- to 20,000-ton ships. At present, construction of a coal handling terminal (5.5 million tons per year) is underway.

In addition to the major ports, there are 6 secondary commercial ports; Viana do Castelo, Aveiro, and Figueira da Foz in the north central region; Setubal in the southern region; and Faro and Portimao located on the coast at the south end of the mainland.

Tables 3-5-7 through 3-5-12 summarize volumes of imports and exports, ports and harbors, and freight volumes handled by type of cargo.

(7) Telecommunications

The telecommunications business in Portugal is operated by 3 public corporations, CTT, TLP and MARCONI.

1) CTT (Telegraph, Telephone and Postal Service Public Corporation of Portugal)

CTT records the highest growth among other public corporations, with sufficient profit. It operates the following three businesses:

a) Postal service
b) Telegraph and telephone service
c) New businesses, including digital communication and videotex service

CTT's recent performance, as described in its annual report, is summarized as follows:

In the telegram and telephone sector, application for telephone increased by 2.5 times between 1985 and 1989, with a 50% increase in terms of installed base. At present, a new telephone is installed within 10 months after application. The use of telephone service has been growing at an annual average rate of 27%.

Around 60% of CTT's revenues come from the telegram and telephone sector, and 25% from the postal service.

2) TLP (Lisbon/Porto Telegram and Telephone Public Corporation)

While CTT covers the entire country, except for Lisbon and Porto regions which are served by TLP.

3) MARCONI (International Telegraph and Telephone PublicCorporation of Portugal)

MARCONI is a public corporation, 51% of which is owned by the government, and is exclusively operating and managing international telephone services. It employs 1,482 persons as of 1990. It has been rapidly growing with CTT as a result of accelerated infrastructure investment after the country joined the EC in 1986. Figure 3-5-7 summarizes MARCONI's operating results in 1990, as described in its annual report.

		1986	1990	Increase
Sales revenue	(10^6 ESCUDO)	20,662	36,520	1.7 times
Profit	(10^6 ESCUDO)	3,421	9,025	2.6 times
Assets	(10^6 ESCUDO)	33,046	56,751	1.7 times

Lines of business:

- Long distance telecommunications network service
- Telephone and facsimile
- Telex
- Telegraphy
- Data transmission
- Leased circuits
- Mobile telecommunications

(8) Electricity

The electric supply business in Portugal is operated by a state enterprise, Electricidade de Portugal (EDP). It was established in 1976 under Law 50/2/76 and handles the entire process of electric energy supply, including power generation and transmission. EDP employs 21,704 persons as of December 1989.

Table 3-5-13 summarizes power generation, transmission, and distribution in 1987, 1987 and 1988.

As of the end of December 1989, EDP operates 62 power plants; 55 hydropower stations and 7 thermal power plants. Their locations are shown in Figure 3-5-8. At present, 7 hydropower stations and 1 thermal power plant are under construction.

Table 3-5-15 summaries installed capacities of EDP's power plants.

Table 3-5-16 and Figure 3-5-9 show power transmission and distribution networks.

In 1989, approximately 47% of total electricity supply were consumed by industries and 25% by households.

Table 3-5-17 shows breakdown of power consumption in 1989 on the mainland by major industry groups.

Electricity is distributed to 4 districts established for the supply purpose; northern district (DODN), central district (DODC), Tejo district (DODT), and southern district (DODC). Figure 3-5-10 shows a detailed division of these districts.

(9) Water Supply

As Portugal has mountain areas along its eastern border with Spain, where many rivers originate to provide water which is used as a major source of electric energy and is consumed by industries and households.

Water is supplied to Lisbon and surrounding 16 districts by EPAL (Empresa Portugnesa das Aquas Livras, S.A.) which started service in 1731, around 260 years ago. EPAL has been steadily expanding its service area each year.

In other areas, a municipality or a district (concelhos) is responsible for water supply.

According to a survey conducted by the Water Supply Association of Portugal (APDA) in December 1989, annual amounts of water supply to major cities and their suburbs was as follows: 188 million m^3 to Lisbon area; 64 million m^3 to Porto area; 12 million m^3 to Evora area; 11 million m^3 to Coimbra area; 11 million m^3 to Setubal area; 8 million m^3 to Braga area; 2.4 million m^3 to Aveiro; and 4.3 million m^3 to Viseu area. This clearly indicates that major consumption occurs in Lisbon and Porto areas.

Figure 3-5-11 shows EPAL's water supply system, with the source being located in a branch stream of Tejo River.

3.5.3 Education, Training and R&D Systems

(1) Educational system

The educational system in Portugal is under jurisdiction of the Ministry of Education (Ministerio da Educacao) and is organized in the following hierarchy (Figure 3-5-12):

- Basic education (ENSINO BASICO)
- Secondary education (ENSINO SECUNDARIO)
- Higher education (ENSINO SUPERIOR)

1) Basic education is compulsory and is provided for 9 years starting at 6 years of age. No tuition nor registration and other expenses is required. Students are exempt from payment of transportation, meal and accommodation charges for certain reasons including family's financial conditions.

Basic (compulsory) education is offered in consecutive three stages: the lst stage - 4 years in a primary school; the 2nd stage - 2 years in a preparatory school; and the 3rd stage - 3 years in a junior high school. A certificate (certificado) is issued upon completion of each stage. After completion of the preparatory school at the second stage, a student may choose to enter the professional training center - level II operated by the Ministry of Employment and Social Security (Ministerio do Emprego e Seguranca Social) to complete the last three years of compulsory education in place of the junior high school.

2) Secondary education is provided for 3 years after completion of the 9-year compulsory education. There are three courses of secondary education operated under supervision of the Ministry of Education; (1) vocational education (ensino vocacional) course, (2) technoprofessional education (ensinotechnico professional) course, and (3) professional school course. Also, education at the professional training center - level III, under the Ministry of Employment and Social Security, serves as a formal secondary education course.

The technoprofessional education and professional school courses as well as the "level III" course at the professional training center are designed to provide professional education for students who start to work after graduation. Nevertheless, a person who has completed any of the courses can change his or her course of study afterwards.

The vocational education and technoprofessional education courses offer the following 5 areas of study to be selected by each student:

A. Natural science (cientifico-naturais)
B. Technological science (cientifico-tecnologicos)
C. Socioeconomics (economico-sociais)
D. Humanity (humanisticos)
E. Industrial arts (artes visuais)

A student who has completed any of these courses receives a certificate (certificado) of completion. A student who has completed professional education and finds employment is granted qualification (qualificacao) according to his or her course completed. Professional education is offered by 56 schools in the Northern District, 41 in the Central District, 70 in Lisbon District, 13 in Alentejo District, and 10 in Algarve District, totaling 190 schools. These schools offer various unique courses according to locality. In 1990/91, 36 courses in total were offered.

On the other hand, the 3-year professional schools, which are designed to make students ready for work, offer the following curriculum and grants qualification upon completion:

Component		%	Annual hours
a)	Social-Culture	25	300
b)	Science	25	300
c)	Technic/technology/ Theory and Practice	50	600
	Total	100	1,200

In particular, in component (c) above, courses are offered in 18 areas. (Table 3-5-17) The current state of professional schools is summarized in Table 3-5-18. In the recent 3 years, 134 professional schools were newly established and total enrollment grew to approximately 14,000.

3) Higher education is provided for persons of older than 25 years of age, who have completed any of the 3-year secondary education courses or who have passed a certification test to demonstrate the equivalent aptitude. It is divided into 2 types; 4 to 6 years of university education (ensino superior universitario) (enrollment

years vary with courses) and 2 to 3 years of polytechnic education (ensino superior artistico, ensino superior politecnico).

A person who has completed any of the higher education courses is granted the degree (GRAU); a person who has completed any of the polytechnic education courses is granted the Bachelor's degree (bacharel); a person who has completed university education receives the post-graduate degree (licenciado), followed by Master's degree (Mestre) and Doctor's degree (Doutor).

Higher education is offered in 16 public universities and 17 public professional schools. In addition, there are 54 private universities. Public educational institutions are listed in Table 3-5-20, and yearly changes in enrollment at higher educational institutions are shown in Table 3-5-21. As seen in the table, the number of students receiving higher education has been increasing at an annual rate of 10%.

(2) Professional training facilities

1) The Institute of Employment and Professional Training (Instituto do Emprego e Formacao Profissional: IEFP), having its headquarters in Lisbon, operates employment centers (centros de emprego) and professional training centers (centros de formacao profissional) through its 5 regional employment centers (Delegacao) to provide placement service and professional training for local residents. The IEFP was established in 1985 as an autonomous body under supervision of the Department of Employment and Professional Training (Secretaria do Estado Emprego e Formacao Profissional) of the Ministry of Employment and Social Security. Figure 3-5-13 shows IEFP's organization chart.

The headquarters in Lisbon, through consultation with the regional employment centers, establishes and coordinates plans at national levels, and decides on implementation policies and programs, while the regional employment centers are responsible for coordination between the headquarters and field organizations by representing their territories. The employment centers and the professional training centers implement IEFP's policies and programs by promoting employment and conducting necessary professional training.

At present, 76 employment centers are operated in the five districts as follows:

Northern branch (Norte)	26
Central branch (Centro)	15
Lisbon branch (Lisboa e Vale do Tejo)	19
Alentejo branch	11
Algarve branch	5
Total	76

On the other hand, there are 25 professional training centers:

	In operation	Planned	Total
Northern branch	6	5	11
Central branch	5	8	13
Lisbon branch	9	8	17
Alentejo branch	5	5	10
Algarve branch	0	2	2
Total	25	28	53

Courses offered by the professional training centers are considered to be equivalent to those of the educational system controlled by the Ministry of Education (Figure 3-5-12) and students enrolling in the professional training centers can be transferred to the ordinary educational institutions according to the number of years completed.

2) The employment centers provide, in addition to placement service and employment promotion, financial assistance for in-company professional training, together with sending of instructors, and implement projects to secure employment according to needs of local industries.

The professional training centers provide job applicants with education in basic technical skills in the form of lecture and practical training. As shown in Table 3-5-22, professional training is conducted for 25 areas, which are offered by each training center in various combinations according to local characteristics peculiar to each district.

The professional training courses consist of technical learning and practical training courses (Level III), which are offered to persons without work experience between 14 and 24 years old, who have completed the 9-year compulsory education. In addition, some centers offer 3-year training for persons who have completed 6 years of compulsory education. (Level II) Also offered are 6- to 12-month courses for the unemployed (35 hours/week) and short- and long-term retraining courses to improve skills of workers (active courses; 20 hours/week).

Finally, the new technology and information course, including information engineering and robotics, is offered for persons who have completed the level III course or equivalent, as well as a short-term course for managers and a long-term course for experts.

3) The above organizations are under direct supervision of the government and are financed by government budget, assistance from the EC, and private donation. The courses are taught by full-time instructors at the professional training centers and lecturers sent from various organizations including universities, research institutes, and corporations. Practical training is conducted at each center's training facilities as well as at factories under cooperation of private companies. No tuition is required for any of the courses, and scholarship as well as financial assistance to cover transportation and meal costs are available. A person who has completed each course receives a diploma which is recognized as an official academic record. Yearly changes in the number of persons who have completed the professional training courses is summarized in Table 3-5-23. As seen in the table, the number has been growing at an annual 50%.

4) In addition, 26 professional training centers jointly managed by the government and private organizations are operated throughout the country, although many of them are located in Porto and Lisbon Districts.

These training centers are primarily responsible for in-service training of workers and are specialized in various areas. The training centers currently in operation are listed in Table 3-5-24. The IEFP contributes 100% of the construction cost and 95% of the operating cost, while the private organizations bear the remaining 5%. In addition, companies who send their workers for retraining pay an amount equivalent to tuition to each center. Short-term (less than 1 year) and long-term (3 years) training are offered, depending upon contents of courses. Upon completion, each trainee receives a diploma which is recognized as an official education record. Table 3-5-23 shows yearly changes in the number of trainees who have graduated the training centers. The number has been growing at an annual rate of 30%.

The Professional Training Center for Metal and Metalworking Industries (Centro de Formacao Profissional da Industria Metalurgica e Metalomecanica: CENFIM) was established in 1984, headquartered in Lisbon. Today, the CENFIM operates 12 training centers, 6 each in Porto and Lisbon. The CENFIM's organization is shown in Figure 3-5-14.

Training courses are divided as follows:

- Basic training: 3 years; eligibility: 14 - 21 years old
- Practical training: 1 - 3 years; eligibility: 24 years old or younger
- Retraining: 1 year or less; as requested by a company
- Training on new technology: Less than 400 hours
- Seminar

Training covers machining, lathing, welding, electrical wiring, electromechanics, design, and other related areas. Additional training is provided upon request from companies. New technology is mainly related to computers.

Each training center employees 5 to 8 full-time instructors and 30 to 50 part-time instructors who are experts hired on a contract basis. Most of trainees receive basic or practical training, and approximately 700 persons receive training at the CENFIM's centers annually.

Major training facilities and equipment available at the training centers are:

- Metalworking workshop (lathes, milling machines, grinding machines, EDMs, welding machines)
- Pneumatic and hydraulic operation workshop
- Electrical wiring workshop
- Drafting workshop
- Electronics workshop (including CAD and CAM)

(3) Technical support organizations

1) IPQ (Instituto Portugues da Qualidade)

Under recognition that quality improvement and assurance were the key to productivity improvement and international competitiveness of both products and services, the IPQ was established in 1983 under the Ministry of Industry and Energy (MIE) for the purpose of (a) coordinating and managing a legal framework for quality issues in the country, (b) maintaining close ties with the EC countries in the area of international standards, and (c) establishing and implementing quality policies for products and services by representing quality related organizations in the country.

Major responsibilities of the IPQ include metrological control, calibration, standardization activities, and public relations including the dissemination of quality related information. In this connection, the IPQ issues official certification to approved products and/or manufacturers and authorizes the use of "Q mark".

The IPQ is currently coordinating activities of the Primary Metrological Laboratory and is preparing a draft bill to establish and control a hierarchized chain of metrological standards and legal metrology. Also, it plans to build the Central Laboratory for Metrology and 5 Regional Laboratories for Legal Metrology and Calibration under the EC's financial assistance.

Standardization activities are conducted directly by the IPQ or in collaboration with Sectorial Standardization Bodies (ONS) covering 29 areas, and the IPQ is responsible for preparation of standardization programs as well as approval and endorsement of Portugal Standards (NP), which are established by the Portuguese Technical Committees (CT) under participation of representatives from related industries.

The IPQ represents Portugal in the EC and the International Organization for Standardization (ISO) and is authorized to vote at the international organizations after consultation with related domestic industries. In Portugal, there are 3,218 standards currently in effect, and 2,628 in review. Of total, 69% conform to European and international standards.

The IPQ's other activities are listed in Table 3-5-25.

2) Technological centers

Technological centers are research organizations specialized in selected areas, which have been established jointly by government and private organizations, and business enterprises under a special law. Major members include the LNETI, the IAPMEI, the IPQ, industrial associations in various sectors, and major corporations.

Primary responsibilities of the technological centers are as follows:

- Technical assistance and consulting