1999 Country Reports on Economic Policy and Trade Practices
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PORTUGAL

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise shown)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP 2/	101.9	106.8	108.6
Real GDP Growth (pct) 3/	3.4	3.9	3.0
GDP by Sector:			
Agriculture	3.8	3.5	3.6
Industry	33.4	34.7	35.3
Services	59.8	64.8	65.9
Per Capita GDP (US$)	10,864	10,718	10,879
Labor Force (000's) 4/	4635	4992	5057
Unemployment Rate (pct)	6.5	4.6	4.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.6	6.8	5.9
Consumer Price Inflation	2.2	2.8	2.4
Exchange Rate (PTE/US$ annual average)	175	180	188
Balance of Payments and Trade:			
Total Exports FOB 5/	24.8	26.0	23.6
Exports to U.S. 5/	1.1	1.2	1.2
Total Imports CIF 5/	34.9	38.3	36.2
Imports from U.S. 5/	1.1	1.05	1.0
Trade Balance	-10.0	-12.3	-12.7
Balance with U.S.	0.0	0.15	0.2
External Public Debt	14.4	13.6	N/A
Fiscal Deficit/GDP (pct)	2.7	1.9	1.7
Current Account Deficit/GDP (pct)	3.6	5.3	6.6
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	20.3	21.6	13.1
Aid from the U.S.	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

1/ 1998 figures are estimates based on available monthly data in October.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Reflects a change in the series beginning in 1998
5/ Portuguese National Institute of Statistics.

1. General Policy Framework

Prior to the 1974 Portuguese revolution, Portugal was one of the poorest and most isolated countries in Western Europe. In the twenty-five years since, however, the country has undergone fundamental economic and social changes that have resulted in substantial convergence with its wealthier European neighbors. Joining the European Union in 1986 was a primary factor in this progress. The country has not only enjoyed growing trade ties with the rest of Europe, but has been one of the continent's primary beneficiaries of EU structural adjustment funds. The last twenty-five years have witnessed not only economic growth, but also significant structural changes. An economy that was once rooted in agriculture and fishing has developed into one driven by manufacturing and, increasingly, by the service sector.

Over the more recent past, the country has experienced a broad-based economic expansion since 1993 and is forecast to grow at rates higher than the EU average for the next several years. Much of the growth since 1993 can be linked with the country's successful efforts to join European monetary union (EMU), which was formally established at the beginning of 1999. To qualify for EMU, Portugal took steps to reduce its fiscal deficit and implement structural reforms. As a result, the country has benefited from currency stability, a falling inflation rate and falling interest rates. The falling interest rates, in turn, have reduced the government's interest expenditures and made it easier to meet its fiscal targets. The broader economy has been stimulated by a boom in consumer spending brought on by lower interest rates and greater availability of credit.

Although the economy is generally healthy, there is some concern among economists that the current expansion shows signs of overheating. One manifestation of the growth in consumption has been a rise in household debt -- from less than 20 percent of disposable income in 1990, to almost 65 percent of disposable income by the end of 1998. Other manifestations include an inflation rate that is persistently higher than the Euro-zone average, a growing current account deficit, and a sharp rise in real estate prices. With monetary union, Portugal no longer has the ability to craft a monetary response to the situation. However, the government has not yet employed fiscal restraint. When the effects of falling interest payments are taken into account, the government's current expenditures are still growing at a higher rate than are government revenues. These concerns will be one of the issues facing the newly re-elected government.

2. Exchange Rate Policy

On January 1, 1999, Portugal and 10 other European countries entered monetary union; the escudo exchange rate is fixed at 200.482 Portuguese escudos being equal to one Euro. Future exchange rate policy for the Euro-zone countries will be governed by the European Central Bank.

3. Structural Policies

Portugal has generally been successful in liberalizing its economy. The country has used a large proportion of the 20 billion-dollar EU-backed regional development financing for new infrastructure projects. These projects have included new highways, urban renewal for the site of Lisbon-based EXPO 98, rail modernization, subways, dams and water treatment facilities.

Portugal has also pursued an aggressive privatization plan for state-owned companies. In 1988, state-owned enterprises accounted for 19.4 percent of GDP and 6.4 percent of total employment. By 1997, these had fallen to 5.8 percent and 2.2 percent, respectively, and the country has continued with an aggressive schedule of privatization. By the end of 1998, total privatization receipts had reached $21.5 billion. Former state-controlled companies now account for the bulk of the market capitalization of the Lisbon stock exchange and several of them have taken steps to expand their investments overseas. Notably, EDP (electricity) and Portugal Telecom (telecommunications) have made major investments in their respective sectors in Brazil.

4. Debt Management Policies

Following the removal of capital controls in 1992, lower interest rates abroad led to a shift towards a greater reliance on the use of foreign public debt, which rose to 15.0 percent of GDP by 1998. That debt, however, has yielded benefits in the form of longer debt maturities and lower costs for domestic debt. As a result, interest expenditure on public debt fell from 6.2 percent of GDP in 1994 to an estimated 2.8 percent of GDP in 1999.

5. Significant Barriers to U.S. Exports

The EU Customs Code was fully adopted in Portugal as of January 1, 1993. Special tariffs exist for tobacco, alcoholic beverages, petroleum and automotive vehicles. Portugal is a member of the World Trade Organization.

Because Portugal is a member of the EU, the majority of imported products enjoy liberal import procedures. However, import licenses are required for agricultural products, military/civilian dual use items, some textile products and industrial products from certain countries (not including the United States). Imported products must be marked according to EU directives and Portuguese labels and instructions must be used for products sold to the public.

Portugal welcomes foreign investment and foreign investors need only to register their investments, post facto, with the Foreign Trade, Tourism, and Investment Promotion Agency. However, Portugal limits the percentage of non-EU ownership in civil aviation, television operations, and telecommunications. In addition, the creation of new credit institutions or finance companies, acquisition of a controlling interest in such financial firms, and establishment of subsidiaries require authorization by the Bank of Portugal (for EU firms) or by the Ministry of Finance (for non-EU firms).

With respect to the privatization of state-owned firms, Portuguese law currently allows the Council of Ministers to specify restrictions on foreign participation on a case-by-case basis. Portuguese authorities tend, as a matter of policy, to favor national groups over foreign investors in order to "enhance the critical mass of Portuguese companies in the economy."

Portuguese law does not discriminate against foreign firms in bidding on EU-funded projects. Nevertheless, as a practical matter, foreign firms bidding on EU-funded projects have found that having an EU or Portuguese partner enhances their prospects. For certain high-profile direct imports; i.e., aircraft, the Portuguese Government has shown a political preference for EU products (Airbus).

Companies employing more than five workers must limit foreign workers to 10 percent of the workforce, but exceptions can be granted for workers with special expertise. EU and Brazilian workers are not covered by this restriction.

Portugal maintains no current controls on capital flows. The Bank of Portugal, however, retains the right to impose temporary restrictions in exceptional circumstances and the import or export of gold or large amounts of currency must be declared to customs.

6. Export Subsidies Program

Portugal's export subsidies programs appear to be limited to political risk coverage for exports to high-risk markets and credit subsidies for Portuguese firms expanding their international operations.

7. Protection of U.S. Intellectual Property

Portugal is a member of the International Union for the Protection of Industrial Property (WIPO) and a party to the Madrid Agreement on International Registration of Trademarks and Prevention of the Use of False Origins. Portugal's current Trademark Law entered into force on June 1, 1995. However, existing Portuguese legislation fails to comply with a number of specific provisions of the WTO TRIPS Agreement. The Portuguese government is aware of these deficiencies and has been engaged in a lengthy review and revision process, but no revisions have been approved to date. Portugal adopted national legislation in 1996 to extend patent protection to be consistent with the 20-year term specified in TRIPS and is considering legislation to protect test data.

Some problems related to intellectual property protection remain. Software piracy has decreased over the last two years but rates in Portugal remain among the highest in Europe. Furthermore, Portugal's perceived weak protection for test data has restricted the introduction of new drugs into the country. Outside these sectors, however, Portuguese intellectual property practices do not have a significant impact on trade with the U.S.

8. Worker Rights

a. The Right of Association: Workers in both the private and public sectors have the right to associate freely and to establish committees in the workplace to defend their interests. The Constitution provides for the right to establish unions by profession or industry. Trade union associations have the right to participate in the preparation of labor legislation. Strikes are constitutionally permitted for any reason; including political causes; they are common and are generally resolved through direct negotiations. The authorities respect all provisions of the law on labor rights.

Two principal labor federations exist. There are no restrictions on the formation of additional labor federations. Unions function without hindrance by the government and are affiliated closely with the political parties.

b. The Right to Organize and Bargain Collectively: Unions are free to organize without interference by the government or by employers. Collective bargaining is provided for in the Constitution and is practiced extensively in the public and private sectors.

Collective bargaining disputes are usually resolved through negotiation. However, should a long strike occur in an essential sector such as health, energy or transportation, the government may order the workers back to work for a specific period. The government has rarely invoked this power, in part because most strikes are limited to 1 to 3 days. The law requires a “minimum level of service” to be provided during strikes in essential sectors, but this requirement has been applied infrequently. When it has, minimum levels of service have been established by agreement between the government and the striking unions, although unions have complained, including to the International Labor Organization, that the minimum levels have been set too high. When collective bargaining fails, the government may appoint a mediator at the request of either management or labor.

The law prohibits antiunion discrimination, and the authorities enforce this prohibition in practice. The General Directorate of Labor promptly examines complaints.

There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor: Forced labor, including by children, is prohibited and does not occur.

d. Minimum Age for Employment of Children: The minimum working age is 16 years. There are instances of child labor, but the overall incidence is low and is concentrated geographically and sectorally.

The Government has worked actively to eliminate child labor and created a multi-agency body, the National Commission to Combat Child Labor (CNCTI) in 1996, to coordinate those efforts. The Commission is joined in its efforts by two non-governmental organizations, the National Confederation of Action on Child Labor (CNASTI) and the Institute of Support for Children (IAC). With the assistance of regional commissions, CNCTI works through local intervention teams on public awareness measures to prevent child labor and, on a case-by-case basis with school dropouts and with minors found to be working.

The key enforcement mechanisms of labor laws in Portugal fall to labor inspectors and the number of cases has fallen significantly over the past several years. Inspectors have been hampered, however, in investigating case of children working at home or on their parents' farm, by legal restrictions on inspections of private homes. These areas may comprise the largest remaining incidence of child labor in Portugal.

In a first of its kind study, conducted in conjunction with the ILO in October 1998, the Portuguese Government polled 26,500 families, with separate questionnaires for parents and children, to try to measure the incidence of child labor in Portugal. According to this survey, as many as 20-40,000 Portuguese children, under the age of 16, may be engaged in some form of labor. The majority of these cases, however, consist of daily chores on family farms that do not prevent school attendance. The study estimates, however, that as many as 11,000 children may be working for non-family employers, a figure which represents 0.2 percent of the labor force. Additional such studies are planned.

e. Acceptable Conditions of Work: Minimum wage legislation covers full-time workers as well as rural workers and domestic employees ages 18 years and over. For 1999, the monthly minimum wage was raised to 61,300 escudos/month (approximately $331 at current exchange rates) and generally is enforced. Along with widespread rent controls, basic food and utility subsidies, and phased implementation of an assured minimum income, the minimum wage affords a basic standard of living for a worker and family.

Employees generally receive 14 months pay for 11 months work: the extra 3 months pay are for a Christmas bonus, a vacation subsidy, and 22 days of annual leave. The maximum legal workday is 8 hours and the maximum workweek 40 hours. There is a maximum of 2 hours of paid overtime per day and 200 hours of overtime per year. The Ministry of Employment and Social Security monitors compliance through its regional inspectors.

Employers are legally responsible for accidents at work and are required to carry accident insurance. An existing body of legislation regulates health and safety, but labor unions continue to argue for stiffer laws. The General Directorate of Hygiene and Labor Security develops safety standards in harmony with European Union standards, and the General Labor Inspectorate is responsible for their enforcement, but the Inspectorate lacks sufficient funds and inspectors to combat the problem of work accidents effectively. A relatively large proportion of accidents occurs in the construction industry. Poor environmental controls in textile production also cause considerable concern.

While the ability of workers to remove themselves from situations where these hazards exist is limited, it is difficult to fire workers for any reason. Workers injured on the job rarely initiate lawsuits.

f. Worker Rights in Sectors with U.S. Investment: Legally, worker rights apply equally to all sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		335
Food & Kindred Products	113	
Chemicals & Allied Products	114	
Primary & Fabricated Metals	-5	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	37	
Other Manufacturing	9	
Wholesale Trade		397
Banking		239
Finance/Insurance/Real Estate		261
Services		98
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,474

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.