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PORTUGAL

Key Economic Indicators

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

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	106.8	108.6	99.8
Real GDP Growth (pct) 3/	3.9	3.0	3.3
GDP by Sector: 2/			
Agriculture	3.5	3.6	3.3
Industry	34.7	35.3	32.3
Services	64.8	65.9	65.0
Per Capita GDP (US$) 2/	10,718	10,879	9,964
Labor Force (000's)	4,992	5,057	5,097
Unemployment Rate (pct)	4.6	4.5	3.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.8	5.9	8.0
Consumer Price Inflation	2.8	2.4	2.3
Exchange Rate (PTE/US$ annual average)	180	188	217
Balance of Payments and Trade:			
Total Exports FOB 4/	26.0	23.6	21.9
Exports to U.S. 4/	1.2	1.2	1.1
Total Imports CIF 4/	38.3	36.2	36.2
Imports from U.S. 4/	1.05	1.0	1.2
Trade Balance	-12.3	-12.7	-14.3
Balance with U.S.	0.15	0.2	-0.1
External Public Debt	13.6	N/A	N/A
Fiscal Deficit/GDP (pct)	1.9	1.7	1.5
Current Account Deficit/GDP (pct) 5/	4.8	6.6	8.1
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	21.6	13.1	13.9
Aid from the U.S.	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 figures are estimates based on available monthly data in October.
2/ Drop in GDP due to dollar-euro exchange rate fluctuation.
3/ Percentage changes calculated in local currency.

4/ Portuguese Ministry of the Economy.
5/ IMF figures. Bank of Portugal gives 7.7 percent for 1998, 9.3 percent for 1999, and projects 10.4 percent for 2000.

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-six 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-six 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.

Portugal has experienced a broad-based economic expansion since 1993. Much of this growth 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 Portuguese economy has continued to expand over the past year, the rate of growth has slowed, and is forecast to be lower than the EU average for the coming year.

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 a projected 92 percent of disposable income by the end of 2000. Other manifestations include an inflation rate that is persistently higher than the euro-zone average, a large and 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. Moreover, the government has found it difficult to impose fiscal restraint; the proposed budget for 2001 projects government spending to continue to rise as a percent of GDP.

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 over $20 billion 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 1999, total privatization receipts had reached $23.5 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 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 3.2 percent of GDP in 2000.

5. Significant Barriers to U.S. Exports

The EU Customs Code was fully adopted in Portugal as of January 1, 1993. In general, EU agreements and practices determine Portugal's trade policies. 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

Trademark Protection: 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. The law, however, is not considered to be entirely consistent with the terms of the trade related intellectual property provisions of GATT (TRIPS).

Copyright Protection: Portugal is finishing the process of adopting EU directives in the form of national legislation. Most recently, the country adopted the EU directive on protection of databases (Decree Law 122/2000, July 4, 2000). Software piracy remains a problem, however, with one survey indicating the rate is three percent higher this year than last.

Patent Protection: Currently, Portugal’s patent protection is afforded by the Code of Industrial Property that went into effect on June 1, 1995. In 1996 new legislation was passed to extend the life of then-valid patents to 20 years, consistent with the provisions of TRIPS. The current code, however, remains inconsistent with TRIPS in certain regards. A new industrial property code has been drafted and is currently open for public comment. Portugal’s perceived weak protection for test data, coupled with high registration costs, have restricted the introduction of new drugs into the country.

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 one to three 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 Portuguese government is fighting child labor through the office known as PEETI (Plan for Eliminating Exploitation of Child Labor), which was established by legislation passed in July 1998, and falls under the jurisdiction of the Ministry of Labor and Solidarity. The group collaborated with the ILO in 1998 and 1999 in a first of its kind survey to try to ascertain the extent of child labor in Portugal. The survey, which polled thousands of students and their parents, indicates that there are between 18,000 and 34,000 children who perform some kind of work in Portugal. The survey also indicates, however, that the majority of these situations constitute children working for their parents on family-owned farms, in labor which does not interrupt education. Portugal ratified ILO Convention 182 on June 1, 2000.

PEETI has called for stronger domestic legislation specifying the minimum age for employment, to be applied to all sectors of the economy. The organization also supports legislation which will extend labor laws to include all work done that has an economic value, even that done for family-owned businesses and farms. Finally PEETI is pushing legislation which makes it a felony to continue to employ minors once a firm has been notified of a violation.

Portugal has a regular system of unannounced inspections of firms by the Inspectorate General of Labor to check for the illegal employment of minors. Many current violations of labor laws, however, are thought to occur in the home, where children are engaged on a "piece-work" basis in the clothing and footwear sectors and where labor inspectors do not have authority to inspect. To fight this phenomenon, the Portuguese government has begun a program of unannounced inspections involving representatives of the Inspectorate General of Labor, the Social Security Inspection Services, and a representative of the court.

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 2000 the monthly minimum wage was raised to 63,800 escudos/month (approximately $277 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—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		436
Food & Kindred Products	110	
Chemicals & Allied Products	103	
Primary & Fabricated Metals	-8	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	192	
Transportation Equipment	65	
Other Manufacturing	(1)	
Wholesale Trade		355
Banking		(1)
Finance/Insurance/Real Estate		173
Services		158
Other Industries		69
TOTAL ALL INDUSTRIES		1,478

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.