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PORTUGAL

Selected Issues and Statistical Appendix

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THE PORTUGUESE BANKING SYSTEM: FEELING ITS PULSE ON THE EVE OF EMU[1]

I. INTRODUCTION

1. The Portuguese banking system of the late 1990s differs profoundly from that of yesteryear: a system tightly controlled by the state between the mid-1970s and the end of the last decade has, after wide-ranging reforms associated with Portugal's accession to the European Union (EU) in 1986, given place to a fully liberalized and modern system.

2. Throughout the period of reform, macroeconomic developments contributed to strengthening the performance of the banking system. During 1986–97, annual real GDP growth averaged some 3¼ percent; the 1993 recession, albeit relatively sharp, was short-lived and growth picked up to reach 4 percent by 1997. As fiscal consolidation and disinflation contributed to brightening prospects for early EMU participation over the past two years, long-term interest rates declined virtually to German levels, supporting asset markets, and generating a virtuous circle of accelerating investment and growth (sustained also by booming enterprise, mortgage, and consumer credit), and further fiscal consolidation.

3. As in other euro countries, the main current challenges facing the banking sector derive from prospective EMU participation. Monetary union is widely expected to act as a catalyst for the process of liberalization and integration already under way in Europe.[2] The Portuguese banking system is generally considered to be well-prepared from the point of view of the payments system and technology. However, EMU will reduce banks' home currency advantages in retail deposit-taking and lending activities and will encourage their larger customers to raise and lend funds directly in EMU-wide markets. Also, trading in escudo debt paper, one of the banks' key activities, will cease. In short, Portuguese banks are facing the prospect of becoming smaller players in a much larger financial market.

4. The objective of this paper is to "feel the pulse" of Portugal's banking system on the eve of EMU. It will survey the reforms of the financial sector, explore whether prudential concerns have arisen in the process of liberalization, and gauge how well prepared the Portuguese banking system is for heightened competition from abroad. Since Portugal provides an interesting case study of financial liberalization for emerging countries,[3] the paper will also draw policy lessons from its approach to reform. The paper is organized as follows: Section II briefly reviews the financial liberalization process prior to Portugal's accession to

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[1]Prepared by Jörg Decressin.

[2]Folkerts-Landau and others (1997) provide an overview of the likely impact of EMU on banking systems in Europe.

[3]Portugal was until recently classified as an "emerging market" in most standard market indices.

the EU and its broadening thereafter. Section III considers the relation between liberalization and the macroeconomy, while Section IV describes how liberalization has affected the structure of the banking system and of its supervision. Section V examines in greater detail the recent performance of the banking system and its major individual banking groups. Section VI reflects on the outlook for the Portuguese banking system. It assesses econometrically the relationship between banking system performance and the macroeconomy and compares the current state of Portugal's banking system, including individual banking groups, with those of other countries. Section VII draws policy lessons from Portugal's experience with financial liberalization and reflects on the challenges facing its banking system.

5. The paper finds that, unlike other countries that have liberalized their financial systems, Portugal did not experience a major credit boom or a surge in external borrowing. At the same time, banks availed themselves of the favorable economic environment to take major strides in improving their soundness. Only a decade ago, bad loans were specifically provisioned at barely 30 percent and exceeded banks' capital; today specific provisioning is close to 70 percent and equity exceeds bad loans by a factor of four. Financial liberalization, however, also exacted a toll on bank profitability. By raising competition, deregulation (together with privatization) has triggered a large drop in financial margins, to levels broadly in line with those in more mature banking systems, giving rise to an accelerated consolidation process. As a result, five banking groups now account for about 80 percent of market share. To compensate for the decline in financial margins, related both to stiffer competition and the sustained decline in interest rates, banks have sought new sources of income, stepping up housing and consumer lending, and expanding into investment banking and cross-selling of financial products (such as insurance policies) through their branch networks. The traditional distinction between various financial intermediaries has thus become increasingly blurred, raising the complexity of supervision, and requiring close cooperation between the central bank (Bank of Portugal), the stock exchange supervisory commission (CMVM), and the insurance market supervisory authority (ISP).

II. Reforming the Banking System

6. This section surveys the financial sector reforms implemented to integrate the Portuguese economy into the EU; an understanding of these reforms is key to interpreting recent developments in the structure of the banking system, its intermediation activity, and its profitability. The reform process encompassed domestic deregulation, privatization, and the opening of the capital account. A prerequisite for its implementation was a reduction in the large macroeconomic imbalances that had prevailed during the early 1980s. Subsequently, the reforms proceeded gradually and in stages: broadly speaking, the liberalization of the legal and operational framework of the banking system, together with the reform of monetary policy instruments, was initiated before the reprivatization of state-owned banks and the abolition of capital controls.[4]

[4]For a detailed overview of the process of financial liberalization, see Pinto (1996).

A. The Banking System Before EU Membership

7. In the decade following its nationalization in March 1975, the banking system developed in an environment characterized by large macroeconomic imbalances and pervasive public intervention in the economy. Loose fiscal policies and a worsening performance of public enterprises, stemming from price controls and poor management, pushed the public sector borrowing requirement to above 20 percent of GDP in certain years. In response, the government resorted to monetization, and to a system of credit ceilings and capital controls to enhance its ability to mobilize and channel resources. The resulting expansion in the monetary base contributed to distorting banks' balance sheets: deposits expanded much more rapidly than credit to the private sector, and excess reserves were channeled to the purchase of government paper, directly or indirectly, through low-interest deposits at the central bank. Except for the interbank rate, all interest rates were administratively fixed, and special subsidized rates applied to certain projects.[5] In general, interest rates were low or negative in real terms. As a result, by the time of EU accession, many banks were inadequately capitalized and making losses.

8. Early steps to reform the banking system were implemented after the adoption of a stabilization program that was supported under a Fund arrangement during 1983–85. The reduction in the government's borrowing requirement and in inflation achieved under the program were crucial prerequisites for the subsequent reforms, as the banking system was largely geared toward providing cheap financing to the state. Some of the key reforms that were implemented around this time period were: opening the banking system to private, both domestic and foreign, entry in 1983; establishing a foreign exchange spot market in 1985 (previously, that market had been centered almost exclusively on the Bank of Portugal); authorizing commercial banks to engage in medium-term operations (e.g., housing credit) in 1986, thereby blurring the previous regulatory distinction between commercial and so-called investment banks;[6] and introducing negotiable treasury bills and bonds in 1985–87, which allowed the government deficit to be financed outside the banking system at market interest rates. The latter was key for the move toward reliance on indirect monetary policy instruments as from the early 1990s.

9. The process of integration with the EU subsequently invigorated the trend toward market-based policies, as embodied in the government's 1987 medium-term "Program for Structural Adjustment of the Foreign Deficit and Employment" (PCEDED). The key pillars of

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[5]Up to about one-third of credit was extended at subsidized rates. In 1980, for example, the rate of subsidy was in the range of 2–6.5 percentage points for eligible projects in agriculture, housing, and exports, and 1.5–16 percentage points in some extreme cases for investment projects (OECD, 1982).

[6]According to that regulation, commercial banks could engage in short-term operations, while medium- and long-term operations were in the domain of investment banks.

this program were fiscal consolidation and a rollback of the state's intervention in the economy, notably through privatization. It also envisaged the modernization of Portugal's financial system.

B. The Reform Efforts Following EU Membership

10. EU accession entailed a broad-ranging overhaul of the financial system. Measures covered (i) central bank autonomy and the regulatory framework; (ii) the operating framework, including interest rates, credit, and policy instruments; (iii) ownership; and (iv) the external interface of the banking system. It is noteworthy that the steps that contributed the most to raising banks' opportunities to take on more risk (namely abolishing credit ceilings, opening the capital account, and allowing universal banking) were essentially taken last, from 1992 (1990 for the credit ceilings) onward. At this crucial juncture, two policy measures were adopted that circumscribed the scope for taking on excessive risks: the prudential framework was strengthened considerably with the adoption of the EU's Second Banking Directive and the introduction both in parallel and afterwards of a set of prudential ratios and limits; and the escudo joined the European Exchange Rate Mechanism (ERM) in April 1992, requiring the pursuit of a tight credit policy to sustain the exchange rate commitment.

Central bank autonomy, universal banking, and prudential regulation

11. The key reforms in the legal domain included the 1990 "organic" law, which provided for greater autonomy of the central bank, and the 1992 banking law. The organic law conferred upon the central bank a greater degree of autonomy in the conduct of monetary and exchange rate policy, and forbade it from financing the state, except through a nonremunerated current account and the underwriting of treasury bills. Later, in September 1995, this law was altered to make price stability the central bank's primary policy objective and to prohibit overdraft facilities to the state as well as other public bodies.[7]

12. The 1992 banking law provided the framework for the banking system's shift to universal banking, under which banks were allowed to participate in both commercial and investment activity. It transposed the EU's Second Banking Coordination Directive into domestic law, giving credit institutions a single license or passport to do business in EU countries, and defined the requirements for opening a new bank as well as the conditions under which the central bank was allowed to close an existing bank.[8]

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[7]The 1993 budget law had already terminated the treasury's overdraft facility at the central bank.

[8]Similar measures were also adopted for investment firms in 1996 as part of the implementation of the Investment Services Directive (93/22/EEC) and the Capital Adequacy Directive (93/6/EEC).

13. Concurrently, various EU directives strengthening prudential requirements and making them more uniform across EU countries were implemented. These included the directives on the components of banks' capital (89/299/EEC); on the BIS solvency ratio (89/647/EEC); and on consolidated supervision (89/30/EEC).[9] Subsequent measures to strengthen prudential regulations related, inter alia, to large exposures (1994);[10] the coverage of specific and general loan-loss-provisioning (1995);[11] pension liabilities (1995);[12] and capital requirements for market and exchange risks (1996–97).[13]

14. As noted, the Portuguese banking system was severely undercapitalized and underprovisioned at the outset of the reforms,[14] and the tightening of the prudential framework served to limit considerably banks' scope for taking on excessive risk.

The operating framework and monetary policy regime

15. Greater integration with the EU progressively eroded the effectiveness of capital controls, thus rendering credit ceilings and interest rate controls ineffective, and prompting the adoption of a market-based set of policy instruments. Interest rates were deregulated, credit ceilings abolished, and open-market operations developed. After Portugal joined the ERM in 1992, exchange rate stability became the principal monetary policy objective.

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[9]Moreover, a framework was laid out for establishing a deposit insurance scheme in line with the EU's directive on deposit insurance (94/19/EEC).

[10]According to the EU directive 92/121/EEC an exposure is defined as large if it exceeds 10 percent of a bank's regulatory capital; the upper limit on an exposure to a single borrower or a group of connected borrowers is set at 25 percent of a bank's regulatory capital; and the aggregate value of all large risks is not to exceed 800 percent of a banks' capital. The directive allowed a phased introduction of the regulation. In Portugal, the respective limits presently are 15 percent, 40 percent, and 800 percent. From 1999 onward, they will be 10 percent, 25 percent, and 800 percent, respectively.

[11]While the minimum provisioning for general credit risk was lowered from 2 percent to 1 percent, unrealized losses on public debt securities had to be provided for, as well as doubtful credits. Furthermore, provisioning for country risk was regulated.

[12]The regulation mandated, inter alia, the achievement by 1997 of full coverage of pension liabilities vis-à-vis staff having retired by that date as well as the adoption of a redemption plan to cover pension liabilities vis-à-vis active staff within a period of at most 20 years.

[13]This is covered under the EU's Capital Adequacy Directive (93/6/EEC).

[14]Some estimates suggested that, even abstracting from the provisioning problems, to meet the BIS ratio, public Portuguese banks would have had to raise their capital endowment by at least 20 percent or the equivalent of about 1.5 percent of 1988 GDP.

16. Interest rate deregulation began in January 1987 and was substantially completed by end-1989, with the exception of restrictions pertaining to rates on certain deposits, which were removed in May 1992. Compulsory credit ceilings were lifted in March 1990 and credit growth recommendations suspended by end-year. Excess liquidity—estimated at some 10 percent of GDP and associated with the existing regulatory structure—was absorbed through the issuance of central bank certificates of deposit. The remaining restrictions on consumer credit, including the stamp tax thereon, were abolished in 1995.

17. With interest rates liberalized and credit ceilings abolished, monetary policy shifted to indirect methods of control. Initially, it relied on imposing cash reserves for the banking system in order to influence the growth of liquidity. Reserve requirement ratios were first unified, and their coverage was then widened and their level lowered in a number of steps.[15] However, after Portugal joined the ERM in April 1992 and lifted its remaining capital controls by end-year, open market operations became the principal tool of monetary policy. This policy shift was prompted, inter alia, by the reduced informational content of monetary aggregates resulting from financial liberalization. Various new monetary policy instruments were developed subsequently, including: standing facilities for the provision (at a penalty rate) and absorption of liquidity (1993)—these tend to act as ceilings and floors for short-term money market rates; and "variable rate repos" (1994) which facilitate intervention in the money market with a view to managing the exchange rate.

The external interface

18. The exchange market was developed and capital controls were dismantled gradually as Portugal joined the EU. However, key steps in opening up the capital account were taken only after a framework for indirect monetary policy instruments had been put in place.

19. A forward market was introduced in early 1987—this market established a closer link between the foreign exchange market and the domestic money market via the interbank rate. In this market, each bank was allocated a ceiling on open positions. In the dismantling of capital controls, priority was given to those transactions that were most directly linked to

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[15]Reserve requirement ratios were unified at 17 percent in early 1989. The coverage was subsequently widened, and remuneration of part of the reserves was set quarterly at market-related rates as of 1991. This partial remuneration eliminated a considerable tax on the banking system. In 1994, the compulsory and partially remunerated reserve requirement of 17 percent was replaced with a nonremunerated 2 percent requirement. The liquidity that was released in the process, equivalent to about 13 percent of GDP, was absorbed by issuing central bank certificates of deposit (Pinto, 1996).

international trade and the right of establishment.[16] This process was partly interrupted in 1990–91, when high interest rates together with a crawling peg attracted capital inflows that threatened to undermine domestic monetary control: the authorities reacted by introducing a compulsory non-interest-bearing deposit with the central bank on financial loans from abroad as well as restrictions on forward foreign exchange transactions and on the purchase of domestic securities by nonresidents. In August 1992, the authorities announced and subsequently implemented the phased elimination of all remaining capital controls.

The reprivatization of banks

20. Mindful of the importance of banks for the development of a more market-oriented economy, the government's privatization efforts initially focused on the banking system.

21. While private banks were allowed to operate in the Portuguese market from 1983 onward, alongside a series of nonbank financial institutions, they played a minor role in the market until the sell-offs of the early 1990s. Two large public sector banking groups were formed, one comprising the *Caixa Geral de Depósitos*—the largest Portuguese bank, and which had already been state-owned before the 1974 revolution—*Banco Nacional Ultramarino*, and the insurance company *Fidelidade*, and the other group consisting of *Banco Fomento e Exterior* (the public investment bank), *Banco Borges e Irmão*, and the export insurance company *Cosec*. While the first group remains in public hands, a majority stake in the *Banco Fomento e Exterior* group was sold in 1996. Other key sell-offs included:[17] *Banco Totta & Açores* (July 1990), *Banco Espírito Santo* (February 1992), *Banco Português do Atlântico* (May 1992), *Banco Fonsecas & Burnay* (July 1992), *Crédito Predial Português* (December 1992), *União de Bancos Portugueses* (February 1993),[18] and *Banco Pinto & Sotto Mayor* (November 1994). To various degrees, these banks now form the pillars of the five major banking groups (see below).

22. The key policy issue arising in the privatization effort was that of ensuring the solvency of the banks being sold. The banks in question had large amounts of nonperforming loans on their books, inadequate provisions, underfunded pension liabilities, and fell short of

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[16]Suppliers' credits, purchases of listed shares and bonds by nonresidents, and foreign direct investment were liberalized in 1986; external borrowing to bring forward export proceeds in 1987; Portuguese direct investment abroad (with limits) as well as payments in escudos to nonresidents in 1988; portfolio and real estate investments (with limits) abroad in 1989; and foreign currency-denominated accounts at end-1991. For a detailed overview, see Bank of Portugal, *Annual Report for 1992*, pages 110–111.

[17]The sell-offs usually proceeded in stages; the dates in parentheses refer to the time by which a majority stake had been sold.

[18]Later renamed *Banco Mello*.

the minimum 8 percent solvency ratio. The problem was addressed, inter alia, through converting government-held bank debt into equity, prior equity increases, equity issues simultaneously with the privatization of existing stock, and the transfer of part of the privatization proceeds to augment state-owned banks' capital.

23. In sum, once public sector fiscal imbalances had been alleviated, the reform efforts initially focused on liberalizing internal market forces; subsequently, they were widened to include improvements in the banking system's legal, regulatory, and operational framework; and later they also encompassed the opening of the capital account as well as the reprivatization of state-owned banks. The reforms transformed the Portuguese banking system from one of Europe's most tightly controlled systems into one of its most liberal.[19] It is now, as will be examined further below, dominated by large financial conglomerates that comprise commercial banks, investment banks, mutual funds, and insurance companies. At the same time, the banking system has become more competitive and its profitability and soundness have strengthened appreciably.

III. Financial Liberalization and the Macroeconomy in the 1990s

24. The process of financial liberalization typically gives rise to prudential concerns.[20] This section analyzes the process of financial deepening in relation to the reforms and the macroeconomy to see whether there are grounds for similar concerns in Portugal. Such an analysis is timely given that those financial sector reforms that have created the greatest opportunities to take on risk (e.g., the abolition of credit ceilings, the opening up of the external interface, and the introduction of universal banking) have been completed only in the course of the last five to seven years.

25. The financial sector reforms were implemented against the backdrop of generally favorable macroeconomic developments in the 1990s, except for the period of ERM turmoil (Figure 1). Deregulation and privatization provided a fillip to the process of financial deepening, as evidenced by various indicators of intermediation activity (such as the share of quasi money in broad money, interest margins, and the share of credit in GDP—Figure 2). As in other countries that have undertaken a process of financial liberalization, Portugal experienced a boom in household credit.[21] However, in contrast to the general experience,[22] credit to nonfinancial enterprises evolved closely in line with the overall state of the

[19]Among the EU and G-10 countries, there are only five countries where banks are considered to have a wider set of permissible banking activities: Austria, Switzerland, the United Kingdom, France, and the Netherlands (see Folkerts-Landau and others, 1997, Table 44).

[20]For example, see Bisat and others (1992) and Demirgüç-Kunt and Detragiache (1998).

[21]See, for example, Drees and Pazarbaşioğlu (1998) for a review of the experience of the Nordic countries.

[22]For example, see Bisat and others (1992).

macroeconomy and the growth of total loans did not systematically outpace that of deposits. Furthermore, there are no indications that capital account liberalization has triggered a rush to borrow by the corporate sector.

A. Nonfinancial Enterprises

26. In spite of the abolition of credit ceilings and capital account controls, credit to nonfinancial enterprises evolved closely in line with economic developments, and foreign currency lending from domestic sources or abroad did not rise significantly. The ERM turmoil of the fall of 1992 triggered a period of unfavorable macroeconomic developments. With the depreciation of the peseta and other currencies important to Portugal's trade, the escudo's central parity was devalued in November 1992 and May 1993.[23] In the process, real interest rates rebounded, the stock market weakened, shedding almost 20 percent in the final months of 1992, and economic activity slowed during 1992–94 (Table 1). The pressures reverberated throughout the banking system: the share of credit to nonfinancial enterprises in GDP fell considerably, while interest margins edged up in tandem with an increase in the share of nonperforming loans (Figure 2 and Table 2). More recently, however, the authorities' commitment to early participation in EMU and the ensuing tightening of fiscal policy were rewarded by financial markets with a large, confidence-induced decline in nominal and real interest rates. As a result, the share of credit to nonfinancial enterprises in GDP recovered to the levels prevailing at the beginning of the decade, while asset markets boomed, and investment and growth accelerated rapidly .

27. Foreign-currency-denominated lending has been negligible. This may appear surprising, considering that much lower interest rates prevailed elsewhere in Europe, but is likely to have resulted from the negative experience of the beginning of the decade: such lending had been liberalized only in 1992 and firms that had taken advantage of it were penalized soon thereafter by the ERM turmoil, reportedly inducing subsequent caution.

28. Data on the sectoral composition of credit to nonfinancial enterprises indicate a considerable decline in the share of credit for manufacturing, particularly since 1993, and for electricity, gas, and water (Table 3). Among manufacturing sectors, metallurgy and chemical

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[23]The escudo was devalued by 6 percent and 6.5 percent, respectively. After the ERM bands had been widened to ±15 percent in the summer of 1993, the central parity of the escudo was devalued once more, by about 3.5 percent, in March 1995, to the level at which it had already been trading in markets. Prior to the 1992 turmoil, the escudo had rapidly strengthened to the top of the intervention band and reserves risen to a peak equivalent to one-third of 1992 GDP: considerably higher interest rates in Portugal than elsewhere in ERM countries had triggered large capital inflows, to the point of prompting the authorities to raise temporary barriers to such inflows (see Section II above).

industries were the most heavily affected. By contrast, the share of credit for trade and other services has risen.[24]

29. External indebtedness of nonfinancial enterprises and other nonmonetary institutions declined throughout the 1990s, except for a brief uptick in the period surrounding the ERM turmoil (Figure 1). Accordingly, the effect of the liberalization of the capital account did little to outweigh the uncertain external outlook. Finally, the data suggest that the nonfinancial corporate sector's debt as a share of GDP has not changed considerably in the course of the 1990s, after having peaked in 1993.[25]

B. Households

30. In contrast to credit to nonfinancial enterprises, household credit surged throughout the 1990s, expanding sharply even through the recession (Figure 2). The obverse of rising demand for credit by households has been a sharp decline in the household savings rate (Figure 1).

31. In the first instance, the boom in household credit reflects a stock adjustment in response to the abolition of restrictions on the granting of mortgages and consumer credit. Housing credit has grown rapidly since banks were allowed to provide medium-term credit in the early 1980s and interest rate ceilings on mortgages were abolished at end-1989. Since the mid-1990s, declining interest rates have boosted the demand for housing—this credit is typically extended at variable interest rates. In addition, generous tax incentives are provided

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[24]Shortcomings in reporting procedures hinder a more detailed analysis. Banks lend to nonbank financial institutions, which in turn lend to third parties or industrial or commercial companies within their own conglomerate. Such lending amounted to about 15 percent of lending to nonfinancial enterprises and private individuals. The loans will ultimately be channeled to different sectors of activity but are captured in the sector "other services", given that banks are obliged to report only on their loans to financial institutions, not on the final destination of these loans (the equivalent of about half of these loans are held in the form of deposits at the commercial banks). The nonbank financial institutions need not report their loans to the Bank of Portugal, as they are not accepting deposits from the public. As a result, the statistics underestimate the share of lending to sectors other than services. The Bank of Portugal intends to produce a breakdown of nonperforming credit by sector for the first time in 1998.

[25]The debt of the corporate, nonfinancial sector is measured as the sum of bank credit to, and securities issued by, nonfinancial enterprises, as well as foreign debt of the nongovernment, nonmonetary sector (Table 1).

for the purchase of a first home by the young.[26] Consumer credit received a strong impetus from the abolition of the 6 percent stamp tax in 1995. As a result, credit to households now stands at about 50 percent of disposable income, close to the levels recorded in other OECD countries.[27] Household spending will accordingly be more susceptible to interest rate changes in the future.

32. On the supply side, banks themselves are likely to have contributed to the expansion of household credit. With a narrowing of financial margins on traditional credit business, banks have responded by aggressively marketing more profitable household credit. Finally, the buoyant economic environment undoubtedly also contributed to the rapid growth of household credit.

C. Banks' Resources

33. Contrary to the experience in many countries after financial deregulation, credit did not systematically outgrow deposits in Portugal.[28] This may have been due to the relatively tight monetary policy stance and high real interest rates required to support the escudo within the ERM. In fact, money market interest rate remained consistently above the average interest rate on banks' financial liabilities, thereby providing an incentive for deposit mobilization. In addition, nonremunerated reserve requirements were reduced and the expansion of the branch network (see below) may also have contributed to the growth of deposits. With the boom in mortgage credit, the mismatch between maturities of assets and liabilities is likely to have risen. This mismatch does not extend to interest rates, however, as mortgages are typically extended at variable rates.

34. Banks' resources from foreign credit institutions and deposits from nonresidents were barely affected by the ERM crisis. Both had been tapped increasingly following capital liberalization in 1992: on a net basis, foreign resources had declined moderately by end-1997 (Figure 3).[29]

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[26]This scheme has been increasingly abused, prompting a more restrictive handling by the Ministry of Finance as of mid-1998.

[27]For example, this is below the levels recorded in 1997 in the United Kingdom (over 80 percent of disposable income) and the Netherlands (over 60 percent of GDP, implying a considerably higher ratio against disposable income), but close to the level in Germany (some 60 percent of disposable income), and above the level in Italy (under 35 percent of income). For 1996, the level in Portugal is similar to that recorded in Spain (about 40 percent).

[28]For example, see Bisat and others (1992) as well as Drees and Pazarbaşioğlu (1998).

[29]The continued accumulation of short-term liabilities over recent years, to the point that they now amount to 40 percent of GDP on a gross basis and about 9 percent on a net basis

(continued...)

IV. The Structure of the Banking System

35. Deregulation and privatization have altered the structure of the Portuguese banking system, leading to the formation of large heterogenous financial conglomerates, and complicating the task of the supervisor. These groups will not only be affected by rising competition in banking, but also by the liberalization of other sectors across Europe, notably insurance.

36. The Portuguese banking system has become progressively more concentrated in recent years and has forged extensive links with other markets, notably insurance. These links were established to preempt competitive pressures from nonbank financial institutions in the mobilization of resources, while exploiting synergies, and to develop new sources of income to compensate for the competition-driven decline in financial margins on traditional intermediation business.

37. The number of banking institutions has risen steadily, reaching 62 as of December 1997, of which almost two thirds are domestic banks. In recent years, the newcomers have tended to be banks without retail activity that operate in capital markets or investment banking. Following a wave of mergers and acquisitions, the market share of the five leading banking groups rose from about 67 percent in 1992 to 85 percent in 1996, retreating modestly in 1997 (Table 4).[30] The level of concentration in the Portuguese banking system has thus converged to that of other European countries of similar size (e.g., Finland, the Netherlands, and Sweden).[31] The competitive edge of the five groups vis-à-vis the smaller players in the market is illustrated by their share in net income of the banking system, which is higher than their share of assets (Table 4).

38. Despite the rise in the number of foreign banks operating in the Portuguese market, they still account for a small, even declining, share in the system's overall activity. Both past

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[29](...continued)
(Table 1), is driven by rising escudo deposits at Portuguese banks' branches in offshore centers. As a result, they do not appear as an increase in the banking system's indebtedness on a consolidated basis (Figure 3).

[30]This paper focuses on banks and does not review the activities of other credit institutions, such as certain savings banks, agricultural credit cooperatives, investment financing companies, leasing companies, factoring, and consumer credit companies. To the extent that these are parts of larger banking groups, their performance is reflected in the income statements of the five major banking groups that are reviewed below.

[31]See Folkerts-Landau and others, 1997, page 201.

restrictions on foreign ownership and competitive forces explain this development.[32] In terms of client funds raised, the foreign share stood at a mere 3.6 percent in December 1996.[33] Foreign banks with retail banking networks include *Banco Santander*, *Barclays Bank*, and *Banco Bilbao Vizcaya*. *ABN Amro* and *Deutsche Bank* are particularly active in wholesale and investment banking.[34]

39. The five major Portuguese banking groups comprise, in order of size, *Caixa Geral de Depósitos (CGD)*, *Banco Commercial Português (BCP)*, *Banco Pinto & Sotto Mayor (BPSM)*, *Banco Espírito Santo (BES)*, and *Banco Português de Investimento (BPI)*. Each of these groups includes at least one commercial bank, one investment bank, a mutual fund, and an insurance company (Box 1).

40. Accordingly, the traditional distinctions between various financial intermediaries have become increasingly blurred. As elsewhere, the formation of such large and heterogeneous financial conglomerates, and changes in the organization of their business and risk management, has raised new supervisory challenges.[35] More specifically, a number of the banking groups are adapting their internal control procedures and centralizing their risk

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[32]During most of the privatization process, Portuguese banks were protected from foreign ownership through a regulation that limited direct foreign ownership of share capital to 10 percent. This could be raised to 25 percent only with specific regulatory approval.

[33]This compares with a foreign share in banking assets equivalent to 57 percent in the United Kingdom, 14 percent in France, 12 percent in Spain, 4.5 percent in Germany, and 3.5 percent in Italy. Among the smaller countries, foreign banks have a particularly strong presence in Luxembourg, Belgium, and Ireland (see Folkerts-Landau and others, 1997, page 200).

[34]See Fitch IBCA Inc. (1997).

[35]For example, assessing capital adequacy has become considerably more complex from a variety of perspectives, including: (i) the measurement of capital adequacy on a group wide basis and avoiding multiple gearing; (ii) avoiding excessive leverage, which can occur when a parent company issues debt to fund equity of a subsidiary; and (iii) multiple gearing through, or the assumption of large risks by, unregulated intermediate companies (see Joint Forum on Financial Conglomerates, 1998). The difficulties of measuring capital adequacy are set to intensify as the financial conglomerates engage more actively in the unbundling, repackaging, and trading of risks.

Box 1. The Five Major Banking Groups

The five major banking groups in Portugal are, in order of size, *Caixa Geral de Depósitos (CGD), Banco Commercial Português (BCP), Banco Pinto & Sotto Mayor (BPSM), Banco Espírito Santo (BES), and Banco Português de Investimento (BPI)*. Foreign investors hold considerable stakes in the privately-owned Portuguese banks. Reportedly, about one fifth of *BCP* and *BES* is foreign owned, while for *BPI* it is somewhat less than one third. By contrast, Portuguese banks' overseas investments are deemed to be small compared to the banks' size.

- *CGD* comprises seven banks, five of which have foreign operations (one bank in Brazil and France, and three banks in Spain). The bank remains state-owned and there are no plans to sell a majority stake at this stage. It controls the second largest insurance company in Portugal, *Fidelidade*, and *Caixagest*, the largest investment fund company with assets of about Esc 1 trillion. Wages and salaries of state employees used to be deposited at *CGD*, providing it with an edge in the market for household lending (mortgage lending accounts for almost half of total loans at end-1996), but this practice was terminated in 1995. Deposits made before September 1, 1993, are still covered by a government guarantee.

- In 1986, *BCP* was one of the first private banks to be authorized to operate. It acquired a majority stake in *Banco Português do Atlântico (BPA)* in 1995, in the consumer credit bank, *Credibanco*, in 1994, in the investment bank *Cisf* in 1990, and owns the mortgage bank *Banco de Investimento Immobiliário*. *BCP*'s mutual fund arm (*AF Investimentos*) is almost the same size as that of *CGD*, having a 30 percent market share. The group has a particular strength in insurance, owning three companies (*Bonança, BPA Seguros,* and *Ocidental*), which together account for almost one-fourth of total premiums in 1997.

- Upon *BPSM*'s reprivatization in 1994, it was acquired by the industrialist Champalimaud through his insurance company *Mundial Confiança*, the fourth biggest player in Portugal's insurance market. Champalimaud had owned the bank prior to its nationalization. *BPSM* and *Mundial Confiança* acquired a majority stake in *Banco Totta & Açores (BTA)* in 1995 and the investment bank *Banco Chemical* in 1996. Also, the group controls the mortgage finance specialist *Crédito Predial Português* through *BTA*. The group's mutual fund, *Totta Fundos*, was acquired with *BTA*, and manages assets equivalent to about Esc 270 billion.

- *BES* stands out from the other groups, as it has largely grown without acquisitions. Upon its reprivatization in 1992, it was repurchased by the Espírito Santo family. It is part of the *Espírito Santo Financial Group* in Luxembourg, together with the largest Portuguese insurance company, *Tranquilidade*. Since end-1986, it has comprised the mortgage specialist *Banco Internacional de Crédito*. Its investment banking subsidiary is *Banco ESSI*. Its mutual fund *ESAF* has Esc 600 billion under management. The group has a an investment from France's *Crédit Agricole (CA)*. Through a joint venture with *CA* it owns *Banco Boavista*, Brazil's fourteenth largest bank.

- The distinguishing characteristic of the *BPI* group is that it started out as an investment bank (in 1981) and converted to a banking institution in 1984. In 1996, it took control of *Banco Fomento e Exterior (BFE)*, which specializes in corporate and medium- and long-term financing, and of its subsidiary *Banco Borges e Irmão (BBI)*. In addition, it owns the retail bank *Banco Fonsecas & Burnay (BFB)* which it acquired from the state in 1992. Fund management covers over Esc 500 billion.

Sources: *The Banker*; Fitch IBCA Inc.; and Bank of Portugal.

management following recent acquisitions.[36] The Bank of Portugal has responded to the changing environment by setting up designated supervisory teams for each group to be monitored; focusing supervision increasingly on banks' internal controls and risk management; expanding contacts with the other supervisory agencies (the CMVM and ISP); and tightening the restrictions on lending to connected parties.

41. The consolidation within the banking system and its expanding connections with other sectors have taken place against the background of an already relatively high degree of concentration in the Portuguese economy. As a result, large exposures to connected parties have generally been on the high side, although the total amount of large exposures is well within prescribed limits.[37] Large exposures to connected entities have hovered around 1.5 percent of total exposure and 25 percent of total equity for the six largest banking groups in Portugal during 1995–97 (these include the five aforementioned entities and *Banco Mello*). The total amount of large exposures fluctuated more markedly during that period, reaching 5 percent of assets or 88 percent of capital in 1997.

42. Given the heterogenous nature of the banking groups, they will be affected not only by EMU, notably by the loss of the escudo market, but also by the ongoing liberalization and rising competition in financial markets more generally, and notably in the insurance sector.[38]

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[36]There is a significant difference between risk assessment in the context of the internal control process and the broader concept of risk management of a bank's overall business. For example, the risk management process in banking organizations consists of setting organizational goals and objectives and identifying, measuring, and setting limits on the risk exposures that the bank will accept in order to achieve its objectives. The internal control process then works to ensure that objectives and policies are communicated and implemented, that compliance with limits is monitored, and that the deviations are corrected in accordance with management's policies (see Basle Committee on Banking Supervision, 1998).

[37]Note that the amount of credit granted, in any form or type, including the provision of guarantees, to a person who owns, directly or indirectly, a qualifying holding (10 percent or more of the capital or voting rights, or a stake which makes it possible to exercise a significant influence over the management of the undertaking) in a credit institution, or to companies directly or indirectly controlled by such a person, or belonging to the same group as such a person, shall not exceed 10 percent of the institution's regulatory capital. Presently, the total amount of credit granted to all such connected parties is not to exceed 30 percent of regulatory capital. As of 1999, the limit is reduced to 20 percent. The limits do not apply to credit institutions, financial companies, or holding companies which are included in the consolidated supervision to which the credit institution in question is subject.

[38]The increasing linkages between banks and insurance companies have inter alia aimed partly to open up new distribution channels for insurers. Aggressive price-cutting is reported to have

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Partly in a defensive move in the run-up to EMU, most of the banking groups have been increasing their links with institutions in other European countries. While the groups also have linkages with other markets, exposure to Asia, including Japan, has been limited and banks have not been significantly affected by the recent crisis.[39] The same holds for Latin America.[40]

V. Recent Performance of Banks

43. This section reviews the recent performance of the banking system with the aim of identifying the trends in banks' intermediation activity, profitability, and capital adequacy that have been triggered by financial liberalization. Broadly speaking, banks have taken advantage of the favorable economic environment and strengthened their balance sheets. The liberalization of interest rates during the second half of the 1980s contributed crucially to improving profitability (Figure 4), allowing banks to charge risk-adjusted rates of return, while intermediation activity received a boost from the abolition of credit ceilings. However, privatization-driven competition, and the general decline in inflation and interest rates, have shrunk interest margins, and nominal profits have retreated from the peaks recorded at the beginning of the 1990s. Profitability has nonetheless continued to improve in inflation-adjusted terms.[41]

44. The progress made is reflected in the banks' credit ratings (Tables 5 and 6). Generally speaking, the ratings suggest that the banks are considered adequate or strong. Bonds issued by the major banks are rated as upper-medium grade obligations, and the banks are considered to have a superior ability to meet their short-term obligations.

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[38](...continued)
already led to insurance underwriting losses in certain segments of the market (e.g., motor insurance), which have to date been offset by highly profitable investments in capital markets (see *Financial Times*, Portugal Survey of April 8, 1998). Recently, insurance companies have benefited from high consumer spending on life insurance: that market, virtually nonexistent at the beginning of the decade, now accounts for half of the insurance business. In addition, the boom in mortgage and consumer credit has raised the demand for insurance.

[39]The Bank of Portugal recently undertook a detailed examination of the banks in Macau and reportedly found no major issues of concern.

[40]Recent reports suggest the banking system's exposure to the main emerging markets is relatively low (under 2 percent of total credit for the major banking groups).

[41]Within the EU, the decline in interest margins is by no means unique to Portugal: France, Ireland, Spain, Denmark, and Greece experienced similarly sharp declines in margins (see Folkerts-Landau and others, 1997, Table 60).

A. The Banking System

45. Market liberalization and a favorable macroeconomic environment combined to provide a considerable boost to banks' intermediation activity during 1990–97 (Figure 5). Banking system assets grew at an annual rate exceeding 15 percent and became more diversified: a decade ago, loans accounted for more than 50 percent of assets, but their share has since declined to only around 35 percent in 1997. With the end of financial repression and the development of financial markets as from the mid-1980s, the share of interbank deposits and securities in assets rose.[42] The loan portfolio itself is more balanced between credit to nonfinancial enterprises, mortgages, and consumer credit. In contrast to banking systems in other European countries, the total number of banks and branches expanded rapidly in Portugal throughout the 1990s (Table 2). Many of the new branches are rather small, staffed with 3–4 employees, and some are located in supermarkets in an effort to attract new clients.

46. As the financial system was liberalized, stiffening competition and declining interest rates caused interest margins to drop to levels comparable to those prevailing elsewhere in Europe during the 1990s—such margins used to be considerably higher, owing to the controlled nature of the financial system (Figure 2 and Table 7).[43] The banks responded successfully to declining margins by controlling operating expenses and seeking productivity increases, as evidenced by a declining share of operating expenses in average assets, a rise in net income per employee, an increase in assets managed per branch, and a higher net income per employee (Figure 6).[44] This process was facilitated by the structure of employee

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[42]Note however that a considerable proportion of interbank operations are carried out between credit institutions of the same banking group, so that they would cancel out on a consolidated basis. Also, in practice, the bulk of security portfolios tends to be held in fixed income assets, notably government bonds. For example, in 1996 *BTA* of *BPSM* held only 5 percent of its security portfolio in variable rate securities and shares; *BPI*'s securities were largely government and supranational bonds, as well as financial sector medium-term bonds; and *BCP* held short-term commercial paper, bonds issued by leading Portuguese companies, and investment funds, which, to the extent they are issued in Portugal, typically contain a large fraction of fixed income securities (see also Fitch IBCA Inc.).

[43]The decline in margins also reflects a move toward unbundling costs and making separate charges (Honohan, 1997). Note that indicators such as the difference between the money market rate and the average return on interest-bearing assets suggest that banks took advantage of the interest rate liberalization to charge lending rates that take risk into account (Table 2).

[44]Data on the share of operating costs and income in assets need to be interpreted with caution, as they are affected by the rapid growth of interbank lending, a considerable proportion of which is likely to be between banks belonging to the same group. Table 2

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compensation, an important strength of the Portuguese banking system: contractual wage increases have only limited importance, as a large part of compensation depends on the performance of individuals and that of banks. Banks also pursued new sources of income and scale economies, using strategies including teaming up with investment banks and insurance companies. More recently, with interest rates declining and asset markets booming, banks benefited from large trading gains, particularly on fixed-income securities.

47. These cost-saving and productivity-enhancing efforts, together with a generally buoyant economic environment, allowed banks to withstand the drop in interest margins fairly well. While pretax and preprovisioning income declined by 60 percent during 1990–97, net income declined by only about half that amount, because of a reduced need for loan-loss provisioning—in fact, after adjusting for inflation, net income gradually improved over the past decade (Figure 4).[45]

48. With the economy booming, the share of overdue credit and interest in total credit has declined from the peaks recorded in this decade, during the period of ERM turmoil, and the data now suggest that previous problems regarding loan-loss provisioning have largely been resolved (Figure 7). Even so, loan-loss provisioning remains lower in Portugal than in certain industrialized countries.[46] Also, the drop in bad credit could appear relatively modest, and the amount outstanding still large, considering the favorable economic cycle.[47] A more adequate

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provides information on these ratios after excluding the equivalent of all interbank deposits from assets. Note that the conclusions drawn are not materially affected by the different presentation. The figures show the development of the ratios against total assets, as these are the indicators commonly referred to in other work.

[45]Figure 4 shows net income less the product of inflation and equity, in percent of assets.

[46]In 1996, for example, loan-loss provisioning in Canada, where it is considered to be very high, amounted to 270 percent of nonperforming loans; in the United States to 182 percent; and in Denmark to 207 percent (see Folkerts-Landau and others, 1997). In the United Kingdom, loan loss reserves covered 85 percent of "impaired lending". In Portugal loan loss coverage stood at around 95 percent of nonperforming loans. In making cross-country comparisons, it is crucial to bear in mind that loan-loss classification requirements differ across countries. See Beattie (1995) for information on accounting for loan losses in international banking.

[47]In 1996, overdue credit in Portugal amounted to 5.4 percent of client credit, above the equivalent rates in several other industrial countries: in Canada, it stood at 0.6 percent; in the United Kingdom, at 2.5 percent (defined as "impaired lending"); and in the United States at 1.05 percent. However, it was well below the 11 percent level recorded in Italy (see Folkerts-
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indicator of the progress made, however, is the amount of bad credit in total credit upon excluding specific provisions: this declined to 1.4 percent in 1997. In fact, Portuguese banks can easily provision against bad loans and thereby benefit from tax deductibility—the actual write-off may occur only many years after a loan has been provisioned, owing to the lengthy judiciary process in Portugal.[48] As a result, bad loans tend to remain on the books longer than elsewhere.

49. To the extent that there were bank failures, they were concentrated among the *caixas económicas* (small savings banks) and agricultural cooperatives, institutions that are not reviewed in this paper. These cooperatives have a system of mutual support. Their management is not as advanced as that of Portugal's top commercial banks, but, on a combined basis, the cooperatives' profitability and solvency are improving and some are expected to be absorbed by the major banking groups.[49]

B. The Five Largest Banking Groups

50. A more detailed assessment of the performance of the five major banking groups (Box 2) indicates that their aggregate performance is stronger than that of the market, as suggested by their rising market and profitability share (Table 4). It is thus the smaller banks that will be most affected by the heightened competition under EMU. While the individual performance of each of the five largest banking groups clearly differs, there are no disconcerting deviations from the performance of the market as a whole.

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[47](...continued)
Landau and others, 1997). A caveat that has to be borne in mind is that the loan classification requirements differ somewhat between countries. Moreover, the cyclical positions of their economies in 1996 also varied, although not to an extent that would obviously explain the discrepancies in loan performance.

[48]All loans on which payment of principal or interest is overdue must be classified as nonperforming and placed on a nonaccrual status. All nonperforming loans on which payment is overdue more than 90 days must be classified as past-due and provided for. Provisioning for a nonperforming loan without collateral must be 100 percent after one year; if the loan is a mortgage but not backed by housing, provisioning must reach 100 percent after three years; if it is backed by housing, it must reach 100 percent after five years. If well-justified, provisioning can amount to 100 percent earlier.

[49]The *Caixa Económica de Funchal* in Madeira became a bank after it experienced difficulties and its depositors became shareholders. The government organized a sizable capital injection. Similarly, in the case of the *Caixa Económica Açoreana*, the depositors became shareholders; subsequently it was sold to *Montepio Geral*, which falls under the Bank of Portugal's supervision (Fitch IBCA Inc.).

Box 2. Performance of the Large Banking Groups

- In examining the performance of the five largest banking groups, a caveat is in order: recent data for three of the five banking groups are distorted by mergers and acquisitions as well as rationalization measures that are being implemented. This is the case for *BCP*, *BPSM*, and *BPI*, the network of branches and employees of which more than doubled following their acquisitions in 1995, for the first two, and in 1996 for the third. The banks that were acquired by *BCP* and *BPI* had a considerably weaker capital base, as evidenced by the sharp declines in the equity-to-asset and BIS ratios of the groups in the years of acquisition; and all acquired banks had a worse loan portfolio, as can be gleaned from the increase in the share of nonperforming loans in assets in acquisition years. Accordingly, the acquisitions have so far proved a drag on profitability and solvency (Table 8).

- The aggregate performance of the banking groups appears stronger than that of the market, as suggested by their rising market and profitability share (Table 4). *CGD* and *BPI* largely escaped the interest-margin-driven decline in nominal profitability, while *BCP* and *BES* have made the greatest strides in tapping new sources of income (Table 8). The decline in nominal profitability occurred against the background of rapidly rising intermediation volumes, buoyant trading revenue, notably in 1996, and the groups' considerable strides in improving efficiency. The ratio of operating expenses declined in most groups, driven by savings on personnel and the exploitation of returns to scale, as evidenced by a steep rise in average assets per branch. While the strain on profits appears to have impacted on liquidity, loan-loss provisioning improved markedly. All the banking groups have made progress in provisioning for pensions, with liabilities for employees who had already retired being fully provisioned by end-1995. Other shortfalls are to be amortized over a period of 20 years as of 1995 (Table 9).

- Comparing the individual performance of the five largest banking groups with that of the market reveals no major, disconcerting deviations. On profitability and capital adequacy, only *BPSM*'s performance is less strong than that of the market. Concerning productivity (measured as net income per employee), *BPSM* and, to a much lesser extent, *BPI* perform below market, although the 1996–97 figures for the latter are distorted by acquisitions. Regarding asset quality (measured as the share of nonperforming loans in equity or assets), *CGD*, *BPSM*, and *BPI* perform worse, with the figures of the latter again distorted, but all except *CGD* have a coverage of nonperforming loans that is similar or better than that of the market.

VI. The Outlook

51. This section reflects on the outlook for the Portuguese banking system. After a brief review of the channels through which EMU is likely to affect the system, it reviews the operational challenges ahead for banks, including both those raised by EMU and those related to the Year 2000 problem. The section then analyzes the sensitivity of the Portuguese banking system to the economic cycle, as the present above-potential real GDP growth in Portugal cannot be expected to prevail indefinitely. To gauge the effect of heightened competition under EMU, the section concludes with an assessment of the relative strengths and weaknesses of Portuguese banks vis-à-vis their competitors in Europe. For the latter, the focus is on data for individual financial groups rather than the aggregate banking system.

52. The introduction of the euro will catalyze the integration of financial markets and thus provide a further impetus to the ongoing restructuring of Europe's financial services industry. A study commissioned by the Ministry of Finance on the impact of the euro on the Portuguese

economy notes that a deepening of financial markets can be expected following EMU, which is likely to raise intermediation activity, but also a further intensification of competition with much larger European banks.[50] But, the study notes that such competitive pressures may not become much stronger in retail banking, at least in the near future, given the informational advantages of domestic banks—at this level, local nonbank entities (e.g., insurance companies and mutual funds) are likely to be the greatest competitors in vying for customers' deposits. Commercial banks have so far successfully "internalized" such competition through financial conglomeration. Moreover, some restrictions to cross-border competition in retail banking remain even after the adoption of the Second Banking Directive.[51]

53. At the wholesale level the situation is different, as large, global institutions will find few barriers to entry after EMU. The euro will eliminate the "anchoring principle," which requires domestic financial institutions to lead-manage bond issues: in Portugal, participation in the primary market for government paper was already widened to encompass five nonresident institutions in 1997. Also, the euro eliminates the 80 percent matching rule on foreign currency exposures of insurance companies and pension funds within Europe. The lifting of this restriction will increase cross-border flows: financial groups with strong investment banking and asset management are likely to benefit. Finally, foreign exchange trading revenues will drop. The Ministry of Finance study notes that Portuguese banks' currency transactions would be reduced by up to one third, with an ensuing reduction in cash flow of up to 5.5 percent annually.

A. Operational Challenges

54. The key operational challenges currently facing the Portuguese banking system consist in the changes needed to cope with EMU and to address the Year 2000 problem. Since Portuguese banks are "latecomers" to modern banking, they tend to have a more up-to-date technology and thus are generally thought to face smaller hurdles in this area.[52] Nevertheless,

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[50] *O Impacto Do Euro Na Economia Portuguesa*, Ministry of Finance, Lisbon, 1998, Chapter 9.

[51] See Folkerts-Landau and others, 1997, Appendix to Annex IV.

[52] Regarding the direct costs of the introduction of the euro, i.e., those related to the operational changes required, the study by the Ministry of Finance advances an estimate of about 5–6 percent of annual operating costs distributed over a period of three to four years. The study derives the estimates from a survey by the Banking Federation of the European Union which covered all EU countries, except Portugal. It does not adjust for the fact that Portuguese banks are "latecomers" to modern banking and thus have more advanced technology. For the insurance sector, the study quotes a survey among Portuguese insurance firms according to which the costs of operational changes will be 0.5–1 percent of the volume of gross premiums issued. The study underscores that in a technology-driven sector such as

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the burden on the many small banks could be considerable, given the fixed costs involved in adjusting their operations. The Bank of Portugal has been assisting banks in the preparation for EMU through a number of working groups, and banks have initiated information campaigns to alert their customers to issues raised by the introduction of the euro.

55. With EMU preparations relatively well-advanced, the greatest remaining operational challenge appears to be the state of technology with regard to the Year 2000, particularly because it is not solely internal to banks, given their automated linkages and interdependencies with correspondents and customers, and the reliance on third party service providers and vendors that are not under banks' direct control. Banks need to be fully aware of the progress made by their clients, factor the potential for disruptions into their risk management, and develop contingency plans. In countries where Year 2000 problems are well in hand, all renovation work and, for the larger institutions, validation of renovation through testing, are targeted for completion by end-1998. To allow sufficient time for industry and business-wide testing, all validation work is to be completed by mid-1999.[53] Meetings between the Bank of Portugal and commercial banks on the Year 2000 have been slated to start in the second half of 1998. In the process, an industry-wide status assessment should be prepared, systemic risks identified, and actions initiated to address these risks.

B. Bank Profitability and the Business Cycle

56. Portugal has benefitted from a prolonged period of sustained economic growth and surging asset markets and is thus well ahead of most European countries in its economic cycle. The question that arises is to what extent the performance of the banking system is a reflection of the cycle rather than of structural change or, alternatively, how the banking system would fare during the next cyclical downturn. Addressing this issue requires an analysis of the sensitivity of the banking system to the cycle. An understanding of the relationship between performance and the cycle also allows a balanced interpretation of the results of the cross-country comparison of banks' performance undertaken in the next section.

57. The sensitivity of the banking sector to developments in real GDP growth, inflation, interest rates, and changes in the terms of trade has been established in other studies.[54] This section investigates econometrically the relation between these macroeconomic variables and preprovisioning profits as well as provisioning. For essentially two reasons, it does so for a group of OECD countries (Germany, Italy, the Netherlands, Portugal, Spain, the United

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banking, a number of the changes in technology would have been introduced over time in any event. Also, there is some overlap of these costs with those needed to address the Year 2000 problem.

[53]Basle Committee on Banking Supervision (1997).

[54]See, for example, Demirgüç-Kunt and Detragiache (1998).

Kingdom, and the United States): first, broadly consistent time series data are available for a short period only; and, second, the Portuguese banking system has evolved so rapidly over the last decade, that the experience of some of the more developed banking systems may offer insights into the relation between banks and the macroeconomy in Portugal that would not be obtained by focusing solely on its own history.

58. The appendix provides details of the econometric model, the data, the estimation technique, and the results. The parameter estimates are almost all of the right sign and most are significant at the 5 percent or 10 percent level. They suggest that real GDP significantly affects preprovisioning profits and provisioning. The net effect of a 1 percent decline in real GDP is a drop in the share of preprovisioning profits in assets by about 0.01 percentage points and an increase in the share of loan-loss provisions in assets by about 0.02 percentage points—the share of postprovisioning (net) income in assets thus falls by a total of 0.03 percentage points. Applying this cross-country evidence to Portugal would thus suggest that, as growth returns to potential (estimated at roughly 3 percent), the share of net income in assets would decrease by about 5 percent, considering that presently net income is equivalent to little under 0.7 percentage points of assets. However, there is evidence, albeit weak, suggesting that for Portugal specifically the effect could be twice as high.

59. With the economy expanding rapidly and long-term interest rates declining to near German levels, the stock market has been booming. During 1996–97, stock prices almost doubled, and rose by a further 50 percent through the spring of 1998. These latter gains have, however, been largely reversed at the time of writing. As elsewhere, the stock market surge prompted questions about possible asset market "bubbles" and the implications for financial markets and the economy more broadly. The surge was by no means unique to Portugal and, judging from the differential between the market price/earnings ratio and long-term interest rates, stocks have become a consistently more attractive form of investment (Table 1). The correction currently underway is not likely to have a major effect on the value of banks' investment portfolios, since these are tilted toward fixed income assets, but it could reduce loan collateral. However, the capitalization of the stock market remains small by comparison to other countries in Europe: at end-1997, it amounted to the equivalent of roughly 40 percent of Portugal's GDP—the recent increase in stock market capitalization is, to a considerable extent, a reflection of the privatization of the electricity concern EDP.[55] The aforementioned

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[55]See *O Impacto Do Euro*, page 396. In the wake of the EDP operation, an estimated 800,000 economic agents have become shareholders in Portugal. Nonetheless, even a large correction of the stock market is not expected to have a major impact on Portuguese consumption and investment. The vast majority of agents hold only a small fraction of their wealth in stocks, mostly in mutual funds: it is estimated that mutual fund holdings are equivalent to about one-third of bank deposits and that they hold merely 12 percent of their funds in shares. Furthermore, IPOs and share issues still play a comparatively small role in firms' financing, although this is likely to change over time. Firms have typically resorted to IPOs to get a

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study by the Ministry of Finance notes that, in August 1997, the five largest companies represented close to 40 percent of the market. The correction in this market is hence likely to have a smaller effect on banks in Portugal than elsewhere in Europe.

60. To conclude, the results of the econometric analysis presented suggest that as the current economic boom unwinds, pressures on banks' profitability will increase. There is, albeit weak, evidence that these pressures could be larger than in other, more advanced countries in Europe. Similarly, bank profitability would also suffer from a correction in the stock market, although here the effects are likely to be appreciably smaller than elsewhere in Europe.

C. How Do the Groups Compare with Their Peers in Europe?

61. An assessment of the relative strengths and weaknesses of Portuguese banks vis-à-vis their competitors in Europe is relevant to gauging the effect of stiffer competition from abroad on the Portuguese banking system

62. Data on the recent performance of the commercial banking system in Europe suggest that Portugal fares on a par with other countries both in terms of profitability and costs (Table 7), although the smaller banks seem to be less profitable than the larger ones. Considering that the larger banks will shape the future of Portugal's banking system and that all of them are of systemic importance, it is of interest to compare their performance, notably on costs and productivity, against that of individual major European banking groups. This task is facilitated by the availability of more recent data.[56] The comparator banks chosen include banking groups that have already been identified as having, to various degrees, a presence in Portugal. They include *ABN-AMRO (AMRO)* of the Netherlands, *Banco Santander (BSAN)* of Spain, *Barclays Bank (BARC)* of the United Kingdom, and *Deutsche Bank (DBANK)* of Germany. These banks rank as among the largest in Europe, and all but *Banco Santander* figure among the world's largest 20. As some of the data for these banks is likely to be affected by the cyclical positions of their economies, it is worth pointing out that the cyclical

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quotation on the stock market and build a track record, with the funds being often used to build cash reserves. It can be expected that subsequent major investment projects will be financed with share issues.

[56]As noted earlier, different accounting standards hamper comparability. While the larger European banks generally publish accounts in line with the ISA, in a few specific instances, deviations from ISA are allowed by the Bank of Portugal. To the extent that such deviations were explicit in the accounts, they are mentioned either in the text or the tables.

discrepancies between Portugal, the Netherlands, Spain, and the United Kingdom were not major over the period under consideration (1995–97). In Germany, however, activity was more subdued.[57]

63. The data suggest that the Portuguese banks—which are small in comparison with their European counterparts—compare well in profitability. However, a smaller fraction of their income stems from commissions and related business, they exhibit lower productivity, and, in some instances, higher costs (Tables 10 and 11). The lower productivity and higher costs reflect the lower level of assets managed per branch or employee, characteristics that the Portuguese groups share with their Spanish counterparts, and that are partly related to these economies' lower per capita income. Lower personnel costs, however, compensate to some extent for the productivity differential and, all in all, most of the Portuguese banks compare remarkably well against the European comparators on costs, particularly considering their much smaller size. From a solvency point view, the data suggest that most of the groups are adequately positioned to face increased competition from abroad. Two caveats are in order: (i) the interpretation of the BIS ratio is limited in the absence of data on the level of loan-loss provisioning for all groups; and (ii) as the current boom unwinds, nonperforming loans will likely climb, along with loan loss provisions, as suggested by the econometric evidence reviewed.

64. A key challenge facing the Portuguese banks is thus to generate more revenue from fees and commissions, while raising productivity and reducing costs. The banking groups have already advanced significantly in boosting commissions from nontraditional sources (mutual funds, insurance, and investment banking), as can be seen by comparing the 1995–97 averages with the 1997 annual data (Tables 10 and 11). They are also in the process of upgrading their information technology to better track and charge for typical account services (monthly statements, check processing, ATM services, etc.). The Portuguese banking system has been slow to introduce service fees, given its history of state ownership and opposition to such fees from consumer advocacy groups. Reflecting recent efforts, the share of net commissions in profits grew strongly in 1997, boosted also by the privatization program and the boom in asset markets (Table 2). Assuming a further decline in profitability driven by competition and lower interest margins, a number of the groups will need to step up their ongoing efforts to raise productivity and trim costs, including reaping the benefits of their recent acquisitions. The data on productivity suggest that considerable scope remains for improvement, notably through reducing staffing and rationalizing the branch network. There is clear awareness of this need: *BPSM* is implementing a group harmonization program, *BCP* closed a number of branches and laid off about 10 percent of its employees toward the end of 1996, and an early

[57]Given that *BPSM* was privatized only in 1994, pre-1995 data is not considered here. It would be of limited relevance for the banks, given the numerous changes that have occurred since then. Because of these changes, data for 1995–97 averages as well as data for 1997 only are shown.

retirement program is underway at *BPI*—the fruits of these efforts in terms of numbers can be gleaned in the data for 1997 (Table 8). However, here one should note that personnel reductions are complicated by the fact that employees do not contribute to the general social security scheme, but belong to a professional one specific to the banking system. As a result, banks usually have to resort to early retirement to cut staff, with the resulting savings on operating expenditure covering the upfront retirement costs after about 4–5 years. Overall though, cost rigidities are less significant an issue in Portugal than in retail banking elsewhere in Europe.

VII. Policy Lessons and Challenges

65. This paper set out to feel the pulse of the Portuguese banking system. Broadly speaking, it found that the banking system has progressed significantly in strengthening its soundness while undergoing a process of deregulation, privatization, and restructuring. Financial intermediation has grown rapidly, profitability has remained healthy, and loan-loss provisioning and capital adequacy have improved considerably since the mid-1980s. These achievements are reflected in the assessments by international credit rating agencies: they suggest good intrinsic financial strength, a sound risk profile, and the absence of any evident systemic problems. Looking ahead, the unwinding of the current economic boom, together with rising competition under EMU, can be expected to exert pressure on banks' profitability.

66. **What lessons can be drawn from Portugal's experience and what are the challenges now facing its banking system?** In contrast to other countries, financial liberalization in Portugal has triggered a comparatively modest and more balanced domestic credit boom and no sustained increase in net external lending. The credit booms typically observed after financial liberalization are attributed, inter alia, to the increase in opportunities to take on more risk (e.g., with the abolition of credit ceilings and interest rate controls), in the presence of mechanisms (limited liability) that distort bank managers' lending decisions. In addition, increased competition between banks, by lowering monopolistic profits, reduces banks' franchise values and thus the cost of bankruptcy, thereby raising the incentive to choose a riskier loan portfolio (Caprio and Summers, 1993; and Hellmann, Murdock, and Stiglitz, 1998). The boom in Portugal was largely driven by household credit, as could have been expected, since this type of credit had been severely repressed during the 1970s and early 1980s. By contrast, the ratio of credit to nonfinancial enterprises to GDP has changed relatively little between the late 1980s and 1997, as has net external indebtedness, thus limiting the extent of the credit boom.

67. **Several factors may explain the comparatively balanced domestic credit boom and the absence of a sustained increase in net external lending.**

- **First, a prudent macroeconomic policy**: a tight monetary policy circumscribed the scope for a lending boom, notably after the abolition of credit ceilings. Such a policy was called for particularly after the escudo had joined the ERM, and once convergence efforts toward the Maastricht criteria became a centerpiece of economic policy.

- **Second, an orderly sequencing of reforms.** Fiscal consolidation preceded deregulation, as the whole banking system was geared toward providing low-cost financing to the public sector. Financial liberalization then proceeded gradually. Private banks were permitted to operate well before the financial system was deregulated, allowing expertise to grow in an environment where the scope for risk-taking remained limited—some of the private banks that started operating in the 1980s grew to become the buyers of key state-owned banks a decade later. A preparatory framework for moving to indirect methods of monetary control was established before the abolition of credit ceilings, notably through the introduction of negotiable treasury bills and bonds. In addition, interest rates were largely deregulated before credit ceilings were lifted, allowing banks to charge risk-adjusted rates of return and rebuild profitability. And, in the final stage, the external interface was opened, the forces of competition were unleashed by privatization, and the scope of activity was widened by allowing universal banking. When foreign borrowing was about to take off in the early 1990s, it was reined in through the introduction of temporary controls on capital inflows. Also, when the scope for risk-taking was widened significantly, namely around 1992 with the opening of the external interface and the introduction of universal banking, the ERM turmoil provided Portuguese agents with a vivid example of the risks of international activity—an experience that is thought to have contained risk-taking thereafter.

- **Third, deregulation was accompanied by a strengthening of supervision by the Bank of Portugal.** The 1990 and 1992 laws conferred on the Bank of Portugal both greater autonomy and increased powers of supervision and control. Prudential regulations were reinforced considerably in the context of the adoption of the EU's Second Banking Directive. In addition, Bank of Portugal staff characterize their approach to supervision as having become increasingly "risk-based" rather than "rules-based."

Overall, the case of Portugal would thus confirm the common wisdom that to avoid excess, financial liberalization has to proceed gradually, be appropriately sequenced, and supported by both a prudent macroeconomic policy stance and a strengthening of supervision.

68. **There is nevertheless a question as to whether the observed household credit boom raises any prudential concerns.** The level of Portuguese households' indebtedness has been catching up rapidly with that in some other countries in Europe, expanding even in the midst of the 1993 recession. Portuguese banks are generally newcomers to the business of consumer credit and have become more heavily involved in mortgage credit only since end-1989; the rapid rise in credit demand may have thus strained approval procedures and could raise questions about the soundness of recent credit growth. **A number of considerations provide a degree of reassurance, although ultimately only the next downturn will bear out the soundness of such lending.**

- First, the level of household indebtedness remains below that in a number of OECD countries, and the sharp decline in interest rates of recent years has significantly alleviated its financial burden.

- Second, unlike credit to nonfinancial enterprises, household credit is almost fully collateralized, making it much easier to successfully pursue delinquent borrowers in the Portuguese justice system, which is otherwise marked by lengthy and cumbersome procedures.[58]

- Third, mortgage credit has not fueled a real estate boom: available data suggest that property prices did not rise excessively in 1997 in real terms and remain much below the peaks observed in 1992 (Table 1).

- Fourth, banks have been lending to small and medium-sized enterprises for many years and thus the informational infrastructure to follow up on households' credit history has been available, at least in its broad outlines.

- Lastly, growth of credit to nonfinancial enterprises, which typically is more sensitive to economic conditions, has remained moderate—as a result, the overall growth of banking system credit to clients has not systematically outpaced that of deposits. Similarly, net external lending growth has been rather modest.

69. **However, the sharp acceleration of credit growth underway since 1997 cannot continue unabated without raising concerns about the thoroughness of the credit approval process.** Given that, under EMU, the Bank of Portugal will no longer be able to raise interest rates to dampen credit growth, the burden will fall fully on strengthened supervision and a stepping up of the monitoring of lending practices. Moreover, the situation has implications for the stance of fiscal policy and the role of certain tax expenditures (notably the subsidies on mortgages for first-time home buyers).

70. **European Monetary Union and the Year 2000 issue are now the principal challenges facing the banking system.** Broadly speaking, EMU will trigger operational and market changes. From an operational point of view, the Portuguese banking system appears well prepared, although many of the smaller banks may face difficulties owing to the fixed cost nature of the required changes. The operational challenges are greater as far as the Year 2000 problem is concerned, and the Bank of Portugal will need to continue to monitor the progress closely, within both the banking system and the economy at large. In addition, the stock market supervisory authority (CMVM) should consider requiring firms listed on the stock

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[58]For example, for cars purchased on credit, Portuguese banks typically possess a duplicate key which facilitates repossession. Reportedly, credit delinquency is very low on car purchases.

exchange to disclose in detail their outstanding work toward addressing the Year 2000 problem, along the initiative recently taken by the Securities and Exchange Commission (SEC) in the United States.

71. **EMU will catalyze the integration of financial markets, heighten competition,** and provide a further impetus to the ongoing restructuring in Europe's financial services industry. These forces have made themselves felt in the Portuguese banking system ever since the early 1990s, with intermediation activity growing strongly in the current decade. However, financial margins have declined and profitability, while remaining at a healthy level, has been under pressure, triggering a series of mergers to cut costs and develop new sources of revenue.

72. **Large banks have performed better and, provided the remaining scope for raising productivity is realized, should be reasonably well positioned to withstand intensified competition.** A number of the smaller banks may come under strong competitive pressures in the future. Among the top five banking groups, none has fared considerably worse than the market average, which in itself was basically strong. Owing to lower staffing costs and the expansion of groups' operations, the gap in cost efficiency between some of the large Portuguese banks and the major successful banks in Europe is remarkably small. However, the data suggest considerable scope for raising productivity, inter alia, through rationalizing the branch network and reducing staffing. Regarding the structure of income, the more mature banking systems rely to a larger extent on commissions, reflecting their growing involvement in capital markets and nonintermediated activities, as financial margins are narrowing. While the Portuguese system has been no exception to this development, such income, albeit rising noticeably, still accounts for a smaller share of operating income. With trading income likely to suffer from the disappearance of the escudo market, it will be all the more important to develop this new income source. Banks are in the process of building the infrastructure necessary to that end and, through mergers and acquisitions, have expanded into investment banking, fund management, retail brokerage, and insurance.

73. **As the large banking groups are expanding into new areas of business to maintain profitability, supervision has to adapt.** The Bank of Portugal will need to continue to monitor the groups' activities closely, making sure that their risk management and internal controls (notably their credit approval process at a time of strong credit growth) comply with the best practices as established by the Basle Committee and other fora, and compare favorably with those of high quality banking groups elsewhere. A framework for evaluating internal control systems has recently been issued by the Basle Committee on Banking Supervision.[59] In particular, care has to be taken that in the process of centralizing internal controls and risk management an arm's length relationship is preserved between the various members of a financial holding or parties connected to it, as exposures to connected entities have generally been on the high side in Portugal, owing to the concentrated nature of

[59]See Basle Committee on Banking Supervision (1998).

the economy. A further important issue concerns the exchange of information between the various supervisory agencies. This regards not only the supervision of the financial conglomerates' activities but also the preparedness of the financial sector at large for the Year 2000 problem. So far, formal consultation arrangements between the supervisory agencies cover only reforms to the regulatory framework. In the area of supervision, arrangements have remained largely informal. A more structured and formal approach to information sharing and cooperation between the Bank of Portugal, the insurance supervisory authority (ISP), and the stock exchange supervisory commission (CMVM) appears warranted.[60] The Joint Forum on Financial Conglomerates has drawn attention to the usefulness of information sharing and underscored that Memoranda of Understanding or other appropriate arrangements between supervisors can help enhance supervisors' willingness to share information. It has also provided guidance on arrangements between supervisors.[61]

74. To conclude, financial liberalization proceeded gradually and was carefully sequenced. Accordingly, the surge in household credit that has been triggered does not currently raise any obvious systemic concerns. Nonetheless, a close monitoring of banks' loan approval procedures remains important. Banks have taken advantage of the generally favorable macroeconomic environment to make considerable strides in improving their soundness. Looking forward, some slowdown from the current pace of economic growth can be expected which, together with EMU, will put pressure on profitability. In the present international environment, the prospective slowdown is an eventuality that should not be discounted. For Portugal's large financial conglomerates, it may present the first stress test following their efforts to expand and restructure. If the banking groups take advantage of the scope that remains to raise productivity and diversify income, they should be well positioned to withstand foreseeable pressures, and reap the fruits of the progress recorded to date.

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[60]Cooperation between the Bank of Portugal and other supervisory agencies is covered in Article 81 and Articles 135–138 of the *Legal Framework of Credit Institutions and Financial Companies*. According to Article 81, the Bank of Portugal may exchange confidential information with the CMVM and the ISP, as long as that information is bound by professional secrecy and is only used for supervisory purposes. On the cooperation between domestic supervisory agencies, Articles 135–183 specify that the ISP shall supply the Bank of Portugal with the information required for supervision on a consolidated basis.

[61]See Joint Forum on Financial Conglomerates (1998).

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Banks and the Macroeconomy: Data and Regression Results

75. Preprovisioning income (PPI) and provisioning (PRO) are expressed in percent of average assets and are, respectively, regressed on log-differences of real GDP (dGDP), the CPI index (dCPI), the terms of trade index (dTOT), and on the level of the short-term deposit rate (R). The priors are that these variables are stationary and that dGDP and dTOT are positively related with profits and negatively with provisioning; R positively with both preprovisioning profits and provisioning, to the extent higher interest rates raise margins and worsen the quality of loans; and dCPI negatively with profits and positively with provisioning, to the extent inflation proxies macroeconomic tensions.

76. The (annual) data on banks for Portugal comes from the Bank of Portugal, while that for the other countries comes from the OECD.[62] Data for the macroeconomic variables comes from the IMF's WEO database. The time span covered is 1985–95 for most countries. Note that the data covers commercial banks for all but the Netherlands and Italy, where it covers all banks. The following model is fitted:

$$PXX_{ti}=\alpha_i+\beta_1*dGDP_{ti}+\beta_2*dCPI_{ti}+\beta_3*R_{ti}+\beta_4*dTOT_{ti}+\epsilon_{ti} ,$$

where PXX stands, respectively for PPI or PRO, t for the time period, and i for the country. As can be seen, the specification allows for country-specific intercepts. The results are shown in the table below. Note that for the PPI model the Durbin-Watson (DW) test-statistic drops to a very low level (see below, model PPI—A), suggesting positive serial correlation of the error term and hence unbiased but inefficient parameter estimates.[63] The results from fitting a totally unrestricted version of the model (i.e., a version that allows both for country-specific intercepts and slopes) suggest no such problem. The largest between-country discrepancies in parameter estimates arose with respect to R. Allowing for country-specific interest rate parameters yields the results shown under PPI—B below. As further restrictions are relaxed, the impact of GDP growth rises and the DW statistic climbs closer to 2, suggesting that the DW statistic is reflecting the specification of the model rather than underlying serial correlation of the error term. For reasons of parsimony, the restricted models were retained.

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[62]*Bank Profitability*, 1997.

[63]The Durbin Watson is computed with the help of a regression of residuals on their lagged values, allowing for fixed effects and a common slope parameter estimate. In principle, the slope parameter estimate is biased under these circumstances, with the size of the bias declining with the length of the time span covered by the data. This is a reason why the statistic should be interpreted cautiously.

Table A1. Regression Results [64]

	PPI—A		PPI—B		PRO	
ß	estimate	s. e.	estimate	s. e.	estimate	s.e.
1	0.98**	0.57	1.25*	0.56	-1.92*	0.58
2	-2.21	2.42	-2.82**	1.67	1.41	1.77
3	0.03*	0.01	specific[65]		0.02**	0.01
4	1.78*	0.60	1.70*	0.57	-0.24	0.34
	SEE=0.36	DW=0.81	SEE=0.36	DW=1.15	SEE=0.32	DW=1.40
	$Rbar^2$=0.94		$Rbar^2$=0.95		$Rbar^2$=0.53	

Note that all the parameter estimates in the table above have the expected signs. Real GDP, interest rates, and the terms of trade tend to have a significant effect on profits. Provisioning seems to be significantly related to real GDP and in interest rates only. Of all the macroeconomic variables, the most interesting may be real GDP, as a slowdown in growth can be expected over the next few years in Portugal. To check whether Portugal's banking system reacts differently to real GDP growth, a real GDP slope dummy for Portugal is introduced in the equations. The regressions suggest that the dummies are insignificant.[66] Accordingly, the results from the panel can be used to gauge the impact of real GDP on banks in Portugal. They suggest that a one percentage point decline in real GDP growth lowers the share of postprovisioning profits in assets by almost 0.03 percentage points:[67] 0.01

[64]Estimates that are significant at a 5 (10) percent level are denoted by a "*" ("**"). Values for Rbar, SEE, and DW are weighted statistics. The estimation procedure is Generalized-Least-Squares, using cross section residual variances as weights for the individual observations; the covariances are White Heteroskedasticity Consistent.

[65]Parameter estimates for all but the United States and the Netherlands were positive. The estimates for Germany, Spain, the United Kingdom, the United States, and the Netherlands were significant at a 5 percent level.

[66]The (wholly insignificant) parameter estimates for the slope dummies were 4.19, 6.50, and 9.86 for the PPI—A, PPI—B, and PRO models—for the latter, they would suggest a positive (albeit insignificant) effect of real GDP on provisioning. These results are not surprising, as the Portuguese banking system relied to a larger extent on cyclically sensitive lending to nonfinancial enterprises for its profits. Also, since the system started out from a considerably under provisioned position in 1985, banks have taken the opportunity offered by favorable macroeconomic developments to raise their provisioning for nonperforming loans and pensions.

[67] Note that since assets are likely to evolve more procyclically than equity, the return-to-

(continued...)

percentage points are accounted for by lower preprovisioning profits (see the estimate for β_1 in the PPI—B regression equation which is equal to 1.25) and 0.02 percentage points by higher provisioning (see the estimate for β_2 in the PRO regression equation which amounts to -1.92). Assuming that the slope dummy for the PPI—B model had been valid but not the one for the PRO—model (e.g., because Portugal has now largely caught up with provisioning), the effect would be a drop more than twice as large.

77. An issue that has not been addressed in the econometric modeling is that the effects of a decline in real GDP growth may take time to feed through fully. Allowing for this with a dynamic specification, however, would require data covering a longer time span. Finally, a word of caution is in order: preprovisioning profits and provisioning are likely to be affected by a host of other factors that have not been built into this simple regression framework (e.g., evolving accounting standards, changes in the regulatory framework, and financial sector liberalization). While certain of these factors may not have evolved much over time and thus be proxied well enough by the country-specific intercepts and some may be fairly independent of macroeconomic developments (e.g., evolving accounting standards), implying a limited bias in the estimates, the omission of others may seriously affect the results.

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[67](...continued)
equity ratios would exhibit considerably wider variations than the profit-to-asset ratios investigated here.

Table 1. Portugal: Selected Indicators of Financial Developments 1990–97

	1990	1991	1992	1993	1994	1995	1996	1997
			A. Interest and Exchange Rates					
Money market interest rate 1/	13.7	15.8	17.5	13.3	10.6	8.7	6.9	5.1
Long-term government bond 1/	15.2	17.8	15.4	12.5	10.8	10.0	7.0	5.7
Lending rate, 91-180 days	21.8	21.2	18.9	15.7	14.7	12.7	11.0	8.4
Deposit rate, 91-180 days	11.8	18.2	14.0	10.2	9.3	8.1	5.5	4.6
Escudo/US dollar e.o.p. 1/	133.6	134.2	146.8	176.8	159.1	149.4	156.4	183.3
Escudo/DM e.o.p. 1/	89.5	88.3	90.9	101.9	102.7	104.3	100.7	102.3
			B. Asset markets					
Stock market index 2/	2143	1978	1638	2614	2913	2494	3247	4707
percent change	-9.0	-7.7	-17.2	59.6	11.5	-14.4	30.2	45.0
P/E ratio 2/	12.0	...	10.4	18.7	16.4	15.5	17.4	21.3
E/P ratio-government bond differential	-6.9	...	-5.8	-7.1	-4.7	-3.6	-1.2	-1.0
Price-book value ratio 2/	1.7	...	1.3	1.5	1.8	1.4	1.9	3.8
Market capitalization 2/								
in percent of GDP	12.8	11.4	10.6	16.3	17.7	17.5	22.9	40.0
Real property prices 3/	...	7.4	-3.6	-5.0	-2.8	-3.6	-0.9	2.2
Nonfinancial sector debt								
in percent of GDP 4/	48.9	50.2	51.9	54.3	51.3	50.9	48.7	52.6
Debt-equity ratio proxy 5/	3.8	4.4	4.9	3.3	2.9	2.9	2.1	1.3
			C. Foreign position					
Banks' external position in percent of GDP	...	...	...	8.1	7.6	3.3	0.5	-1.0
assets	...	...	...	26.3	31.0	34.2	35.1	48.4
o/w short term	...	...	...	22.0	25.5	27.3	26.1	30.9
liabilities	...	...	...	18.2	23.4	30.9	34.6	49.4
o/w short term	...	...	...	16.3	21.4	28.6	32.3	40.0

Source: Bank of Portugal *WEBSITE*; Ministry of Finance; and author's calculations.

1/ Source: IFS.

2/ Source: IFC.

3/ Percent change in property prices (end-of-period) less rate of inflation.

4/ Computed as the ratio of the sum of bank credit to and securities issued by nonfinancial enterprises, and external debt of the nongovernment, nonmonetary sector to GDP. Data on securities issued are not available for the period before 1994; however, at this stage this source of financing was negligible. In 1994, it amounted to about 2.2 percent of GDP.

5/ Computed as the ratio of the sum of bank credit to and securities issued by nonfinancial enterprises, and external debt of nongovernment, nonmonetary sector on the one hand, and market capitalization of the stock market on the other. Data on securities issued are not available for the period before 1994; however, at that stage this source of financing was negligible. In 1994, it amounted to about 2.2 percent of GDP.

Table 2. Portugal: The Banking System, 1985–97

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Net interest income													
in percent of assets	2.4	2.8	3.4	3.7	4.1	4.4	4.6	3.9	3.4	2.9	2.4	2.1	2.0
excluding the amount of interbank liabilities from assets	2.4	2.8	3.5	3.8	4.3	5.3	5.6	4.8	4.3	3.8	3.3	3.0	3.0
in percent of operating income	75.9	81.8	81.7	82.1	83.7	80.5	82.8	78.8	75.7	77.9	73.2	65.8	64.6
Results on financial operations													
in percent of assets	...	...	...	...	...	...	...	0.4	0.4	0.2	0.3	0.4	0.4
in percent of operating income	...	...	...	...	...	...	...	8.9	9.9	6.3	7.7	13.6	12.1
Commissions													
in percent of assets	...	...	...	...	...	...	...	0.4	0.4	0.4	0.3	0.3	0.4
in percent of operating income	...	...	...	...	...	...	...	8.7	9.7	10.1	9.8	10.2	12.7
Pre-tax and preprovision income													
in percent of assets	1.0	1.1	1.9	2.9	2.6	3.4	3.2	2.5	2.1	1.6	1.3	1.3	1.4
excluding the amount of interbank liabilities from assets	1.0	1.1	2.0	3.1	2.7	4.2	4.0	3.1	2.7	2.1	1.7	1.8	2.1
Net income													
in percent of assets	0.3	0.3	0.5	0.7	0.8	1.0	1.1	0.8	0.8	0.6	0.6	0.6	0.7
less depreciation of capital and reserves	-0.9	-0.6	-0.3	-0.3	-0.5	-0.1	0.1	0.0	0.3	0.2	0.3	0.4	0.5
in percent of end-period capital 1/	5.5	3.7	6.2	6.8	7.1	12.4	12.7	9.5	10.0	7.8	8.2	8.5	10.4
in percent of assets													
excluding the amount of interbank liabilities from assets	0.3	0.3	0.6	0.7	0.8	1.2	1.3	1.0	1.0	0.8	0.8	0.8	1.0
Operating expenses 2/													
in percent of assets	2.2	2.2	2.3	2.3	2.3	2.0	2.2	2.3	2.1	2.0	1.8	1.8	1.7
excluding the amount of interbank liabilities from assets	2.2	2.3	2.3	2.4	2.4	2.5	2.7	2.8	2.7	2.6	2.5	2.6	2.5
Share of personnel in operating expenses	71.0	69.6	69.0	66.5	64.8	70.9	69.3	67.6	66.7	65.6	64.7	63.2	62.9
Net income per employee (in escudo million)	0.3	0.3	0.6	1.0	1.3	2.1	2.5	2.3	2.8	2.4	2.6	3.0	4.1
Average return on interest-bearing financial liabilities	...	...	...	...	...	...	...	10.6	9.2	7.3	7.1	6.0	4.8
less money market rate	...	...	...	...	...	...	...	-6.9	-4.1	-3.3	-1.6	-0.9	-0.3
Average return on interest-bearing financial assets	...	...	...	...	...	...	...	13.9	12.1	10.0	9.4	8.1	6.9
less money market rate	...	...	...	...	...	...	...	-3.6	-1.2	-0.7	0.7	1.2	1.8
Average assets per branch (in escudo billion)	3.3	3.9	4.5	5.0	5.5	6.3	6.4	6.6	6.9	7.4	7.9	8.0	8.7
excluding the amount of interbank liabilities from assets	3.3	3.8	4.3	4.8	5.2	5.2	5.2	5.3	5.5	5.6	5.7	5.6	5.8
Overdue credit and interest													
in percent of credit to clients	...	...	...	...	...	...	...	6.5	7.4	7.0	6.3	5.4	4.2
excluding specific provisions	...	...	...	...	...	...	...	2.7	3.6	2.9	2.2	1.9	1.4
in percent of assets	6.9	7.1	6.5	4.3	3.1	3.3	2.6	2.6	2.7	2.4	2.2	1.9	1.5
in percent of capital and reserves	123.2	106.0	78.3	44.8	30.1	45.2	34.2	32.6	36.7	33.6	33.1	29.1	24.7
Provisions for overdue credit													
in percent of overdue credit and interest	27.5	28.2	30.8	37.2	48.4	54.5	57.7	59.8	54.2	58.5	65.6	66.4	66.9
Total loan loss reserves													
in percent of overdue credit and interest	...	...	...	...	...	...	...	...	...	95.6	90.0	94.1	101.7
Capital to asset ratio 1/	5.6	6.7	8.3	9.6	10.3	7.3	7.6	8.0	7.4	7.2	6.5	6.4	6.0
Credit to clients													
percentage change	...	...	...	...	...	...	...	...	9.8	5.1	12.1	13.2	22.3
in percent of assets	...	...	...	...	...	...	...	40.4	36.8	34.4	34.3	34.1	35.2
Employees per branch	40	39	39	36	33	30	27	23	20	19	17	16	14
Branches	1,494	1,510	1,531	1,607	1,741	1,999	2,357	2,740	3,042	3,266	3,549	3,851	4,234
Employees	59,100	59,200	59,000	58,400	58,100	59,200	63,139	63,762	62,067	61,813	61,454	60,734	60,659
Banks	22	23	24	25	27	31	35	36	42	45	48	51	62

Source: Bank of Portugal.

1/ Until 1989, capital includes provisons.

Table 3. Portugal: Bank Credit to Nonfinancial Enterprises: Shares of Activity, 1990–97

Year	Agriculture, forestry, and fishing	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction and public works	Wholesale and retail trade, restaurants and hotels	Transport, storage and communications	Other services
1990	3.3	0.8	41.2	10.9	11.2	21.0	4.1	7.3
1991	3.4	1.2	38.2	10.2	11.4	21.2	5.0	9.4
1992	3.2	1.1	36.4	8.7	11.9	23.5	5.2	10.1
1993	2.9	1.3	35.9	6.5	11.9	23.8	5.0	12.7
1994	2.8	1.1	33.8	5.5	12.9	25.5	6.0	12.4
1995	2.2	0.9	31.8	4.1	13.6	27.2	4.7	15.4
1996	2.3	1.0	27.9	3.2	14.6	28.7	3.9	18.5
1997	1.9	0.9	25.6	3.1	14.8	30.0	3.1	20.5

Source: Bank of Portugal, *WEBSITE*, and author's calculations.

Table 4. Portugal: Market Shares of the Five Major Banking Groups

	1992	1993	1994	1995	1996	1997
Assets	...	67.7	68.8	77.6	83.0	78.0
Funds from clients	67.2	72.4	71.8	80.6	84.9	82.8
Credit to clients	67.8	71.9	69.7	76.0	79.4	77.1
Net income for the year	70.3	79.4	87.8	90.3	93.1	85.4

Source: Bank of Portugal.

Table 5. Bank Financial Strength Ratings for Selected Countries (June 1997)

	Average
Australia	C-C+
Austria	C
Denmark	C+
Finland	D
France	C
Germany	C+
Greece	D+
Ireland	C
Italy	C
Japan	D+
Norway	C
Portugal	**C**
Sweden	C-C+
United Kingdom	C+
United States	C+

Source: Folkerts-Landau and others, 1997, pages 133–134.
Moody's ratings, ranging from A to E, of whether a bank is likely to require financial support, with A being the strongest rating.

Table 6. Portugal: Credit Ratings, 1997-1998

	Moody's 1997	Fitch IBCA Inc. 1998
Short-term		
Caixa Geral de Depositos	...	...
Banco Comercial Portugues	P-2	F1
Banco Espirito Santo	P-1	...
Banco Pinto & Sotto Mayor	...	F1
Banco Totta & Acores	P-2	F1
Banco Portugues de Investimento	...	F1
Long-term		
Caixa Geral de Depositos	...	...
Banco Comercial Portugues	A3	A
Banco Espirito Santo	A2	...
Banco Pinto & Sotto Mayor	...	A
Banco Totta & Acores	A3	A
Banco Portugues de Investimento	...	A
Financial strength (Moody's)/Individual rating (Fitch IBCA)		
Caixa Geral de Depositos	...	...
Banco Comercial Portugues	C	B/C
Banco Espirito Santo	C+	...
Banco Pinto & Sotto Mayor	...	B/C
Banco Totta & Acores	C	B/C
Banco Portugues de Investimento	...	B

Source: Moody's and Fitch IBCA Inc.

Table 7. Commercial Banks in Portugal and Selected European Countries, 1995

	Portugal	Germany	Netherlands 1/	Spain	United Kingdom
Net interest income					
in percent of assets	2.3	2.0	1.8	2.3	2.3
in percent of operating income	76.0	72.3	66.7	71.8	57.0
Trading income					
in percent of operating income	7.7	4.0	6.9	7.4	12.5
Pre-tax and preprovision income					
in percent of assets	1.1	0.9	0.9	1.2	1.5
Net income					
in percent of assets	0.5	0.3	0.5	0.6	0.8
Cost to income ratio	65.0	67.2	67.0	64.1	63.9
Operating expenses					
in percent of assets	2.0	1.8	1.9	2.1	2.6
Share of personnel in operating expenses	55.9	60.3	55.1	61.7	55.8
Net income per employee (in US$ thousand)	17	21	43	23	24
Assets per branch (in US$ million)	60	206	143	35	118
Assets (in US$ billion)	208	1492	959	626	1,249
Average assets (in US$ billion)	201	1,382	917	603	1,184
Capital to asset ratio	8.2	5.4	4.2	8.6	3.9
Branches	3,447	7,260	6,729	17,842	10,601
per million inhabitants	347	89	436	455	182
Employees	60,000	218,000	111,400	148,900	382,700

Source: OECD, *Bank Profitability*.

1/ All banks.

Table 8. Portugal: Key Indicators for Commercial Banks, 1993–97

	1993	1994	1995	1996	1997
A. Profitability					
1. Pre-tax and preprovision income in percent of average assets					
Caixa Geral de Depositos	2.0	1.5	1.9	1.7	...
Banco Comercial Portugues	2.3	2.1	1.8	1.5	...
Banco Espirito Santo	1.8	1.4	1.2	1.4	...
Banco Pinto & Sotto Mayor	1.7	0.5	1.3	1.1	...
Banco Portugues de Investimento	1.1	0.9	1.1	1.3	...
2. Net income in percent of average assets					
Caixa Geral de Depositos	0.7	0.7	0.9	0.7	1.4
Banco Comercial Portugues 1/	1.4	1.0	1.1	0.8	1.1
Banco Espirito Santo	0.9	0.7	0.7	0.7	0.8
Banco Pinto & Sotto Mayor	0.1	0.1	0.6	0.5	0.5
Banco Portugues de Investimento	0.8	0.7	0.8	0.8	0.9
3. Net income in percent of equity					
Caixa Geral de Depositos	9.5	12.5	14.6	11.7	21.0
Banco Comercial Portugues	12.9	11.2	11.8	11.0	18.0
Banco Espirito Santo	9.5	8.2	8.6	8.8	12.8
Banco Pinto & Sotto Mayor	1.6	3.0	8.8	10.5	9.4
Banco Portugues de Investimento	17.3	12.5	11.1	14.1	17.8
4. Net interest income in percent of operating income					
Caixa Geral de Depositos	82.7	85.9	77.9	79.3	76.4
Banco Comercial Portugues	66.1	63.6	53.8	50.6	55.8
Banco Espirito Santo	74.4	80.6	69.2	62.3	52.1
Banco Pinto & Sotto Mayor	77.1	84.7	78.1	69.8	70.6
Banco Portugues de Investimento	66.4	72.9	69.7	58.3	61.9
5. Trading income in percent of operating income 2/					
Caixa Geral de Depositos	8.5	0.3	6.3	5.3	8.8
Banco Comercial Portugues	11.7	11.1	20.0	24.7	14.7
Banco Espirito Santo	10.2	2.1	9.5	13.7	15.1
Banco Pinto & Sotto Mayor	6.4	-1.4	4.5	9.0	6.3
Banco Portugues de Investimento	14.0	5.0	6.4	18.8	8.9
B. Efficiency					
1. Operating expenses in percent of operating income 3/					
Caixa Geral de Depositos	48.2	54.0	53.4	56.9	...
Banco Comercial Portugues	65.2	69.6	77.0	78.5	...
Banco Espirito Santo	57.2	65.0	68.8	63.7	...
Banco Pinto & Sotto Mayor	64.0	62.8	66.9	68.8	...
Banco Portugues de Investimento	65.3	68.1	70.4	63.2	...
Memorandum item: total expenses in percent of operating income 4/					
Caixa Geral de Depositos	45.6	54.0	53.3	56.9	53.4
Banco Comercial Portugues	62.1	67.3	68.5	70.3	67.3
Banco Espirito Santo	59.2	67.1	70.6	65.2	61.7
Banco Pinto & Sotto Mayor	64.0	62.8	66.9	68.9	60.4
Banco Portugues de Investimento	65.3	68.1	70.4	63.2	66.9

Table 8. Portugal: Key Indicators for Commercial Banks, 1993–97 (continued)

	1993	1994	1995	1996	1997
2. Operating expenses in percent of average assets 3/					
Caixa Geral de Depositos	2.3	2.2	2.2	2.1	...
Banco Comercial Portugues	3.9	3.6	4.0	3.4	...
Banco Espirito Santo	2.8	2.6	2.7	2.4	...
Banco Pinto & Sotto Mayor	2.6	2.4	3.7	2.5	...
Banco Portugues de Investimento	2.7	2.6	2.4	2.2	...
Memorandum item: total expenses in percent of average assets 4/					
Caixa Geral de Depositos	2.2	2.2	2.2	2.1	2.2
Banco Comercial Portugues	3.8	3.5	3.6	3.0	2.9
Banco Espirito Santo	2.9	2.7	2.8	2.5	2.6
Banco Pinto & Sotto Mayor	2.6	2.4	3.7	2.5	2.4
Banco Portugues de Investimento	2.7	2.6	2.4	2.2	2.7
3. Share of personnel in operating expenses 3/					
Caixa Geral de Depositos	59.2	59.8	58.4	58.7	...
Banco Comercial Portugues	45.9	48.0	45.7	44.6	...
Banco Espirito Santo	55.2	53.4	51.5	47.6	...
Banco Pinto & Sotto Mayor	65.1	66.8	59.4	58.2	...
Banco Portugues de Investimento	53.8	56.3	56.3	56.7	...
Memorandum item: share of personnel in total expenses 4/					
Caixa Geral de Depositos	62.6	59.9	58.4	58.7	60.9
Banco Comercial Portugues	48.2	49.6	51.5	49.8	50.2
Banco Espirito Santo	53.4	51.7	50.1	46.6	46.4
Banco Pinto & Sotto Mayor	65.1	66.8	59.4	58.1	57.7
Banco Portugues de Investimento	53.8	56.3	56.3	56.7	61.8
4. Net income per employee		(In millions of escudos)			
Caixa Geral de Depositos	2.44	3.10	3.94	3.33	7.31
Banco Comercial Portugues	4.98	4.62	3.65	4.22	6.06
Banco Espirito Santo	3.01	2.69	2.80	3.46	5.21
Banco Pinto & Sotto Mayor	0.17	0.32	1.49	1.98	2.35
Banco Portugues de Investimento	2.60	2.47	3.08	2.24	3.52
5. Average assets per branch		(In millions of escudos)			
Caixa Geral de Depositos	7,150	7,131	7,219	7,825	8,373
Banco Comercial Portugues	5,206	5,832	4,321	6,708	6,348
Banco Espirito Santo	6,710	6,113	5,431	6,334	7,269
Banco Pinto & Sotto Mayor	5,457	6,520	4,722	6,650	6,229
Banco Portugues de Investimento	6,590	6,581	6,493	4,940	6,796
6. Employees					
Caixa Geral de Depositos	14,706	14,302	15,022	15,208	14,585
Banco Comercial Portugues	4,655	4,354	10,918	9,678	9,721
Banco Espirito Santo	5,982	5,847	6,547	6,422	6,414
Banco Pinto & Sotto Mayor	5,846	5,877	12,418	12,367	11,512
Banco Portugues de Investimento	3,263	3,241	3,154	8,076	7,395
7. Branches					
Caixa Geral de Depositos	734	833	910	909	931
Banco Comercial Portugues	328	346	843	762	829
Banco Espirito Santo	287	356	481	514	548
Banco Pinto & Sotto Mayor	244	221	660	753	852
Banco Portugues de Investimento	164	170	196	433	440

Table 8. Portugal: Key Indicators for Commercial Banks, 1993–97 (concluded)

	1993	1994	1995	1996	1997
C. Liquidity, Capital Adequacy, and Asset Quality					
1. Liquid assets as percent of customer and short-term funding 5/					
Caixa Geral de Depositos	147.7	100.2	90.7	104.7	89.8
Banco Comercial Portugues	72.1	45.3	107.0	62.1	39.8
Banco Espirito Santo	169.3	119.1	112.8	94.0	81.9
Banco Pinto & Sotto Mayor	194.3	166.5	133.9	123.1	89.2
Banco Portugues de Investimento	138.5	112.8	133.3	100.8	82.9
2. Equity to asset ratio					
Caixa Geral de Depositos	6.7	5.7	5.9	5.9	6.1
Banco Comercial Portugues	9.5	8.3	6.6	7.3	6.0
Banco Espirito Santo	9.0	8.5	7.2	7.1	5.9
Banco Pinto & Sotto Mayor	4.3	4.2	4.4	4.4	5.4
Banco Portugues de Investimento	4.5	5.5	6.3	4.4	4.7
3. BIS ratio in percent 3/					
Caixa Geral de Depositos	14.7	13.8	13.0	12.9	12.7
Banco Comercial Portugues	15.0	15.7	9.3	9.7	10.0
Banco Espirito Santo	...	...	9.3	9.2	12.4
Banco Pinto & Sotto Mayor	11.3	11.6	8.5	8.4	...
Banco Portugues de Investimento	11.3	14.8	14.9	13.2	13.6
4. Nonperforming loans in percent of equity 3/					
Caixa Geral de Depositos	35.7	41.4	46.7	44.7	...
Banco Comercial Portugues	14.4	19.0	28.0	24.4	...
Banco Espirito Santo	11.3	12.7	18.7	15.3	...
Banco Pinto & Sotto Mayor	...	37.2	42.2	36.9	...
Banco Portugues de Investimento	40.1	28.3	20.7	33.6	...
5. Nonperforming loans in percent of average assets 3/					
Caixa Geral de Depositos	2.6	2.5	2.9	2.7	...
Banco Comercial Portugues	1.5	1.7	2.6	1.8	...
Banco Espirito Santo	1.1	1.1	1.5	1.2	...
Banco Pinto & Sotto Mayor		1.6	2.9	1.7	...
Banco Portugues de Investimento	1.8	1.6	1.4	2.0	...
6. Loan loss reserves in percent of nonperforming loans 3/					
Caixa Geral de Depositos	81.7	83.5	82.8	85.2	...
Banco Comercial Portugues	36.2	225.2	102.0	95.6	...
Banco Espirito Santo	133.0	112.4	98.5	111.2	...
Banco Pinto & Sotto Mayor		90.2	90.5	99.0	...
Banco Portugues de Investimento	83.3	97.2	95.6	122.2	...

Source: Bank of Portugal, unless otherwise indicated.

1/ The ratio for 1996 would amount to about 0.3 had extraordinary redundancy costs (Esc 29.1 billion) been charged to income, and unrealized losses on real estate assets (Esc. 20 billion) been charged against goodwill and amortized over 20 years, as called for by IAS, rather than against reserves directly (Fitch IBCA).

2/ Trading income equals profits on financial operations less losses thereon.

3/ Source: Fitch IBCA.

4/ Operating expenses comprise staff costs, services and supplies from third parties, depreciation, and taxes. Note that in general these should be higher than operating expenses; the fact that this is not the case here, may be due to the use of different sources.

5/ Liquid assets comprise cash and liquid assets at the central bank, liquid assets in credit institutions, and public fixed interest securities. Short-term funding comprises sight deposits from credit institutions and clients.

Table 9. Portugal: Pensions

	Pensions shortfall at at end-1995	In percent of Equity	Treatment
Caixa Geral de Depositos	44.1	10.9	20 year amortization
Banco Comercial Portugues	17.6	5.2	20 year amortization
Banco Espirito Santo	25.6	12.0	20 year amortization
Banco Pinto & Sotto Mayor	41.1	19.5	20 year amortization
Banco Totta & Acores 1/	9.6	6.8	2/
Banco Portugues de Investimento	12.1	13.9	20 year amortization

Source: Fitch IBCA Inc.
1/ Included in BPSM.
2/ Escudo 1.1 billion charged to income in 1995; the balance deducted from equity reserves in 1996.

Table 10. International Comparison of Performance, 1995–97 1/

	CGD	BCP	BES	BPSM	BPI	AMRO	BSAN	BARC	DBANK
Pre-tax and preprovision income									
in percent of assets 2/ 3/	1.8	1.6	1.3	1.2	1.2	1.0	1.2	1.5	0.7
Net income									
in percent of assets	1.0	1.0	0.7	0.5	0.8	0.5	0.7	0.8	0.2
Net interest income									
in percent of operating income	77.9	53.4	61.2	72.8	63.3	60.6	62.8	52.8	53.2
Trading profits in percent of operating income	6.8	19.8	12.8	6.6	11.3	9.2	11.2	5.4	14.2
Commissions and other income									
in percent of operating income	15.3	26.8	26.0	20.6	25.3	30.2	26.1	41.9	32.5
Cost to income ratio 3/	55.1	77.8	66.2	67.9	66.8	67.6	64.2	68.2	74.3
Operating expenses									
in percent of assets 2/ 3/	2.1	3.7	2.6	3.1	2.3	2.2	2.2	2.9	1.9
Share of personnel in operating expenses 3/	58.5	45.2	49.6	58.8	56.5	55.9	66.6	58.3	...
Net income per employee (in US$ thousand)	27	25	21	11	16	23	16	27	13
Assets per employee (in US$ thousand)	2,741	2,828	3,085	2,314	2,211	4,715	2,588	3,797	6,575
Assets per branch (in US$ million)	45	35	38	37	38	185	29	...	204
Employees per branch	16	12	13	16	17	39	11	...	31
BIS ratio 4/ 5/	12.9	9.7	10.3	8.4	13.9	10.8	12.0	10.4	10.2
Assets (in US$ million)	40,889	28,475	19,904	27,931	13,398	327,550	136,445	324,963	493,038

Sources: Bank of Portugal for Portuguese banks, websites for other banks, and author's calculations.

The banking groups are: Caixa Geral de Depósitos (CGD), Banco Commercial Português (BCP), Banco Pinto & Sotto Mayor (BPSM), Banco Espírito Santo (BES), Banco Português de Investimento (BPI), Banco Santander (BSAN), Barclays Bank (BARC), ABN Amro (AMRO), and Deutsche Bank (DBANK).

1/ Figures in US dollars were obtained by first computing averages in domestic currency terms and then converting at the 1997 exchange rate.

2/ Average assets of 1996 for the all banks except AMRO, BARC, and DBANK for which the average of end-year asset levels is used.

3/ Average of 1995–96, as 1997 data not available for the Portuguese banks.

4/ BPSM data for 1997 is not available and thus the avearge is for 1995–96; BPSM raised its capital in 1997.

5/ According to information provided by the Portuguese authorities, the lowest BIS ratio in 1997 among the six largest groups (i.e., the five mentioned above and Banco Mello) stood at 8.9 percent, the average at 11.3 percent, and the highest at 13.5 percent. In 1997, the risk-weighting of assets changed: previously, this took only into account credit risk. As of 1997, it also considers market (position, settlement, and counterparty risk) and exchange rate risk. Also, capital now includes short-term subordinated loans. Note that the components of capital for meeting the BIS standard differ across countries. They tend to be somewhat stricter in Germany and the United Kingdom (intangible assets, including goodwill, are not allowed) than in Portugal and the Netherlands (see Folkerts-Landau and others, 1997, Table 46).

Table 11. International Comparison of Performance, 1997

	CGD	BCP	BES	BPSM	BPI	AMRO	BSAN	BARC	DBANK
Pre-tax and preprovision income									
in percent of assets 1/ 2/	1.7	1.5	1.4	1.1	1.3	1.1	1.2	1.4	0.7
Net income									
in percent of assets	1.4	1.1	0.8	0.5	0.9	0.5	0.7	0.5	0.1
Net interest income									
in percent of operating income	76.4	55.8	52.1	70.6	61.9	58.4	61.8	53.2	49.1
Trading profits in percent of operating income	8.8	14.7	15.1	6.3	8.9	10.2	10.8	4.9	15.9
Commissions and other income									
in percent of operating income	14.7	29.5	32.7	23.1	29.2	31.4	27.4	41.9	35.0
Cost to income ratio 2/	56.9	78.5	63.7	68.8	63.2	67.7	63.4	67.4	72.4
Operating expenses									
in percent of assets 1/ 2/	2.1	3.4	2.4	2.5	2.2	2.3	2.2	2.9	1.9
Share of personnel in operating expenses 2/	58.7	44.6	47.6	58.2	56.7	55.2	66.4	58.6	...
Net income per employee (in US$ thousand)	40	33	28	13	19	25	15	22	7
Assets per employee (in US$ thousand)	3,090	3,051	3,772	2,534	2,280	5,402	2,352	4,664	7,643
Assets per branch (in US$ million)	48	36	44	34	38	220	32	...	247
Employees per branch	16	12	12	14	17	41	14	...	32
BIS ratio 3/	12.7	10.0	12.4	...	13.6	10.7	12.9	10.0	10.6
Assets (in US$ million)	45,073	29,662	24,197	29,168	16,862	414,634	171,092	388,076	581,979

Sources: Bank of Portugal for Portuguese banks, websites for other banks, and author's calculations.

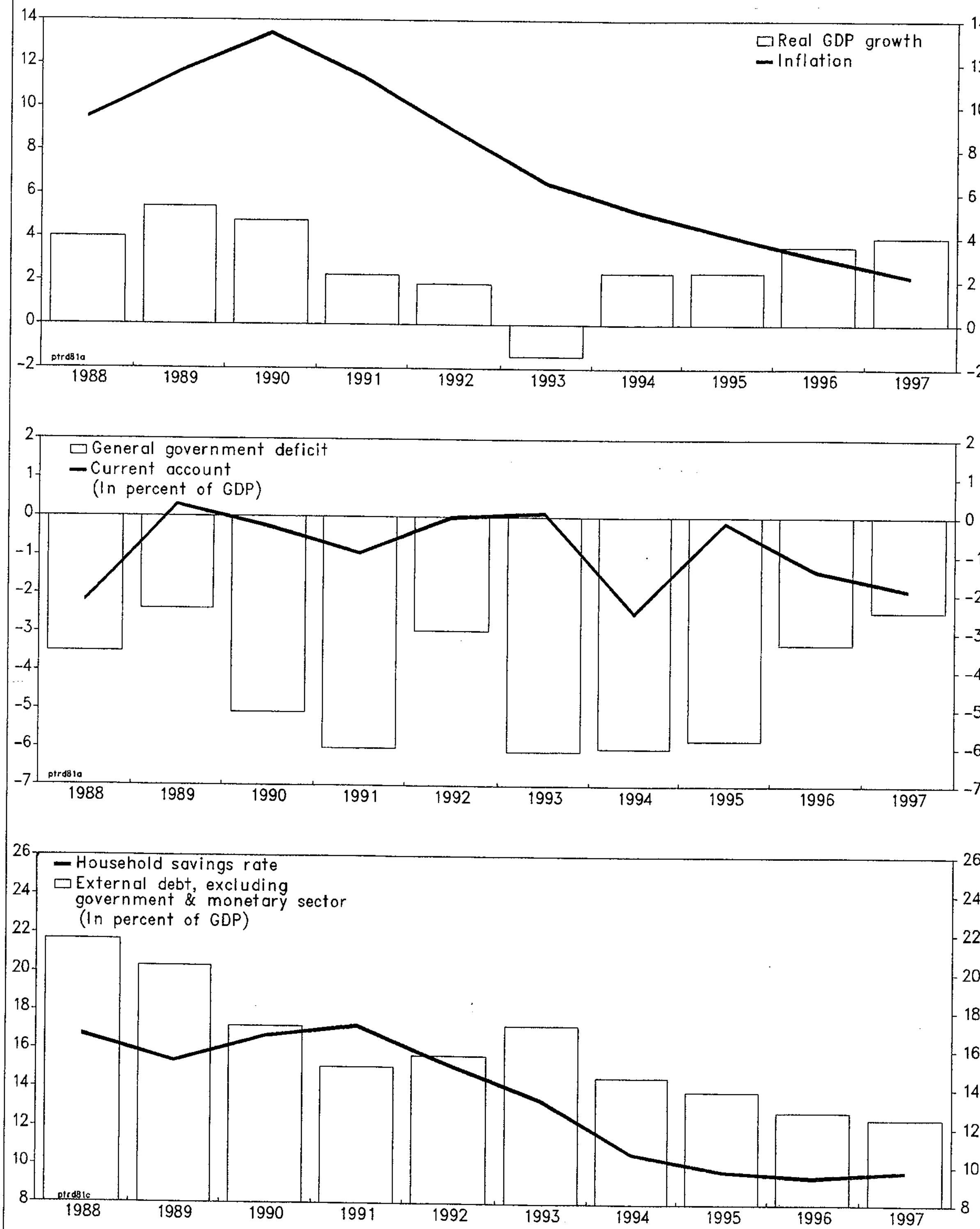
The banking groups are: Caixa Geral de Depósitos (CGD), Banco Commercial Português (BCP), Banco Pinto & Sotto Mayor (BPSM), Banco Espírito Santo (BES), Banco Português de Investimento (BPI), Banco Santander (BSAN), Barclays Bank (BARC), ABN Amro (AMRO), and Deutsche Bank (DBANK).

1/ Average assets of 1997 for the all banks except AMRO, BARC, and DBANK for which the average of end-year asset levels is used.

2/ Data shown here is for 1996.

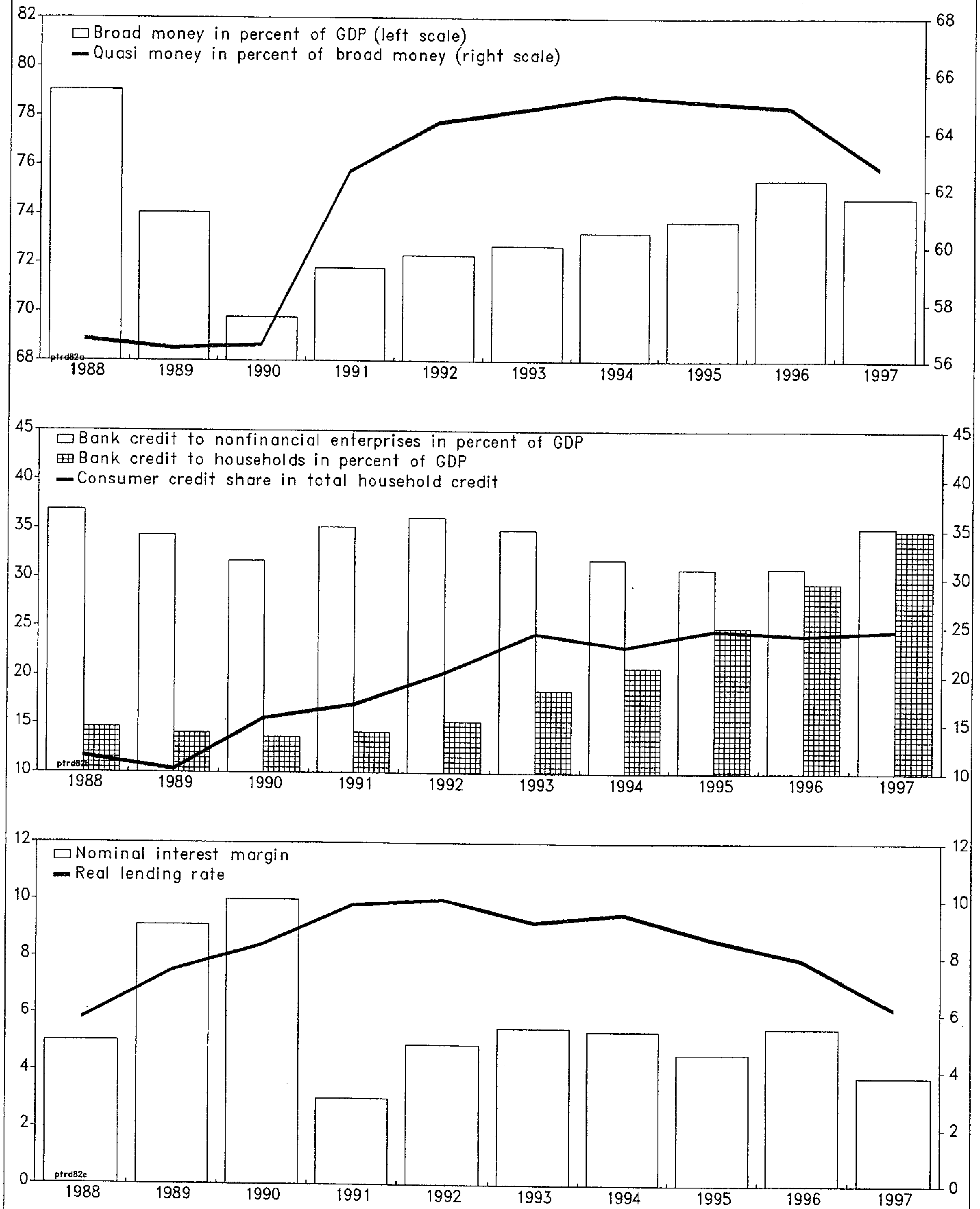
3/ BPSM raised its capital in 1997. According to information provided by the Portuguese authorities, the lowest BIS ratio in 1997 among the six largest groups (i.e., the five mentioned above and Banco Mello) stood at 8.9 percent, the average at 11.3 percent, and the highest at 13.5 percent. In 1997, the risk-weighting of assets changed: previously, this took only into account credit risk. As of 1997, it also considers market (position, settlement, and counter party risk) and exchange rate risk. Also, capital now includes short-term subordinated loans. Note that the components of capital for meeting the BIS standard differ across countries. They tend to be somewhat stricter in Germany and the United Kingdom (intangible assets, including goodwill, are not allowed) than in Portugal and the Netherlands (see Folkerts-Landau and others, 1997, Table 46).

Figure 1. Portugal: Macroeconomic Developments



Sources: Bank of Portugal Website; Ministry of Finance; and staff calculations.

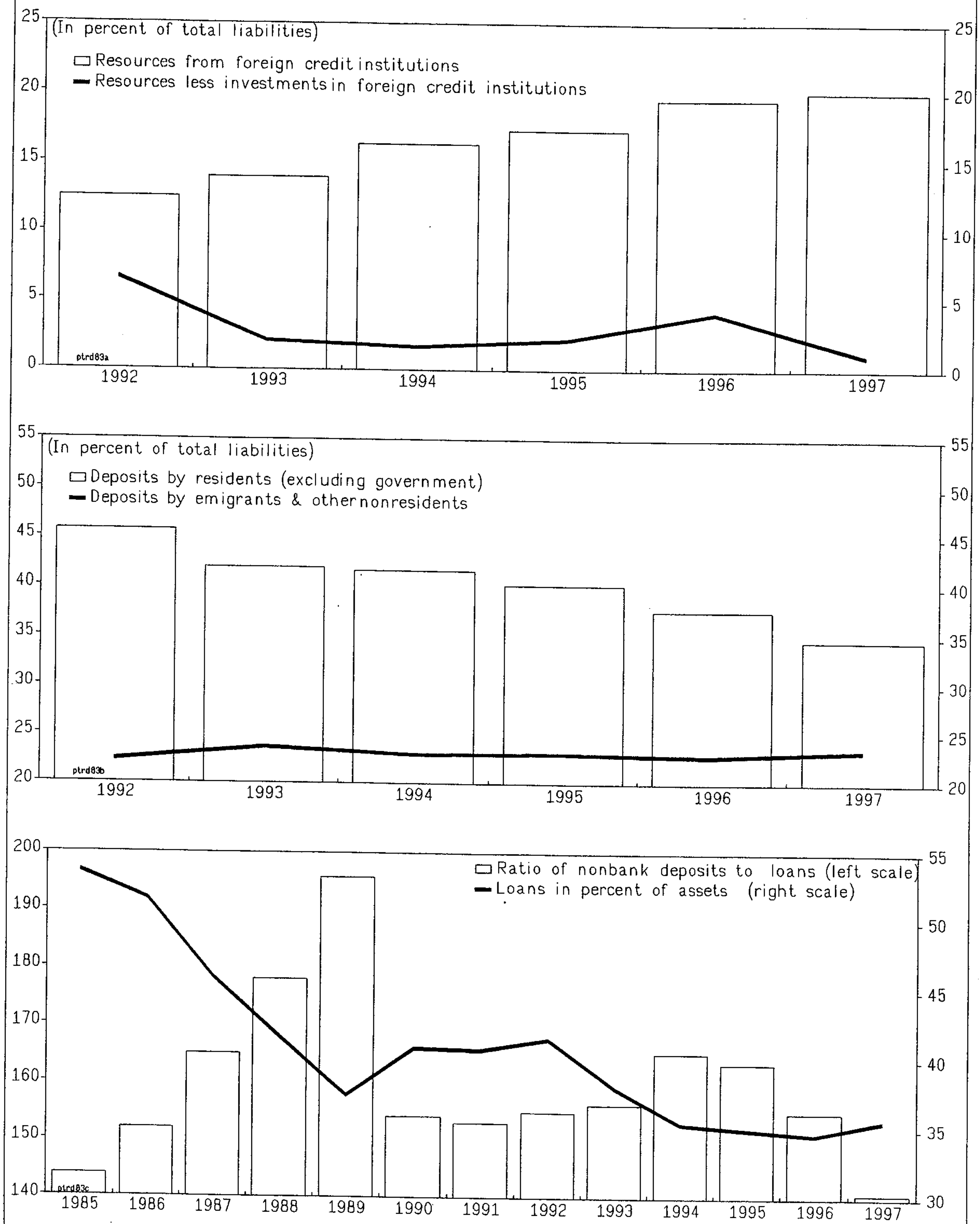
Figure 2. Portugal: Financial Deepening 1/ 2/



Sources: Bank of Portugal, Website; Ministry of Finance; and staff calculations.

1/ In 1990, a new accounting framework was introduced and foreign branches were included in the data coverage.
2/ Interest rate data for 1988-89 differ slightly. The lending rate is the 3-month rate, afterwards it is the 3- to 6- month rate. The deposit rate was computed net of tax (see SM/91/197) until 1989.

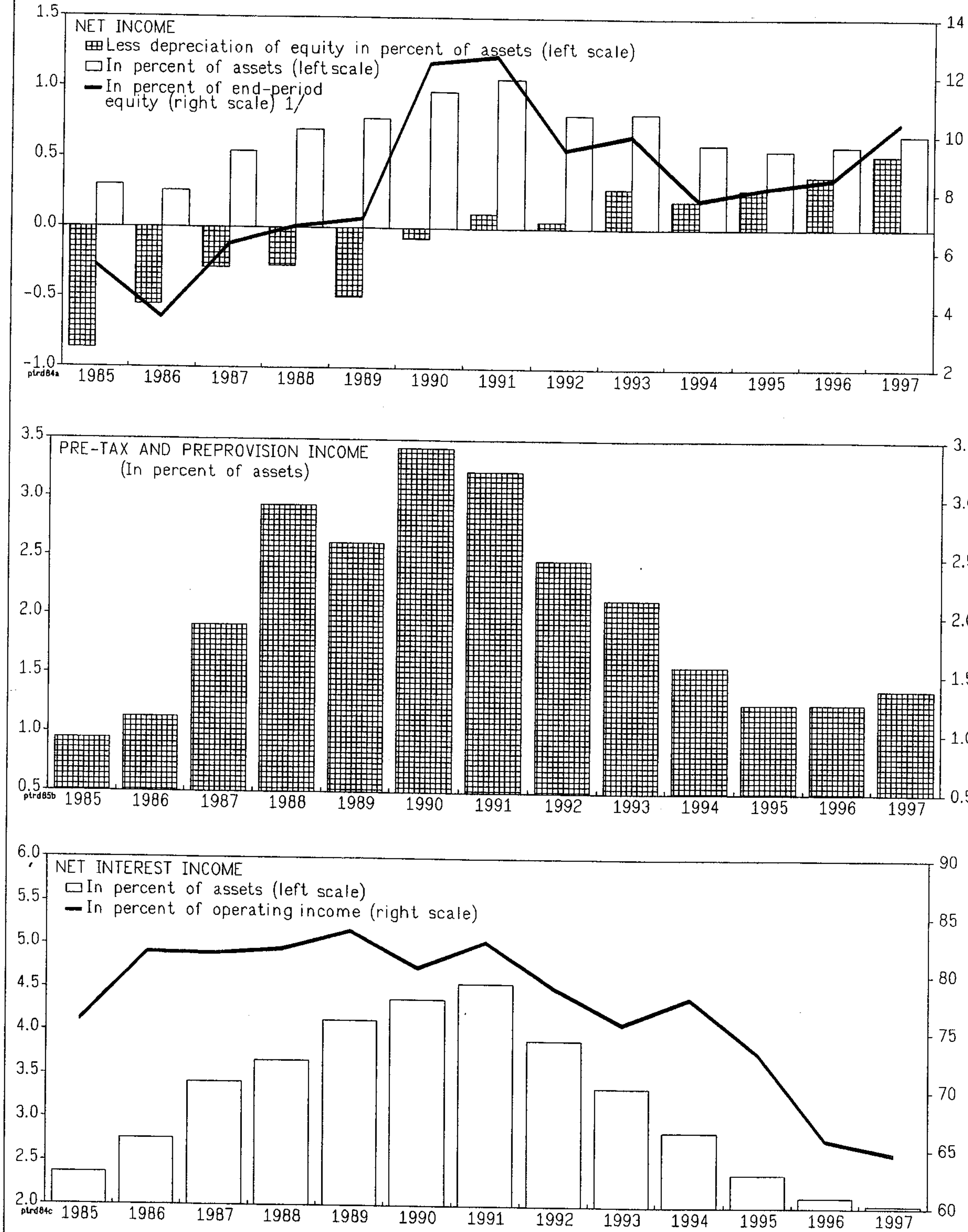
Figure 3. Portugal: Bank Resources 1/



Source: Bank of Portugal.

1/ In 1990, a new accounting framework was introduced and foreign branches were included in the data coverage.

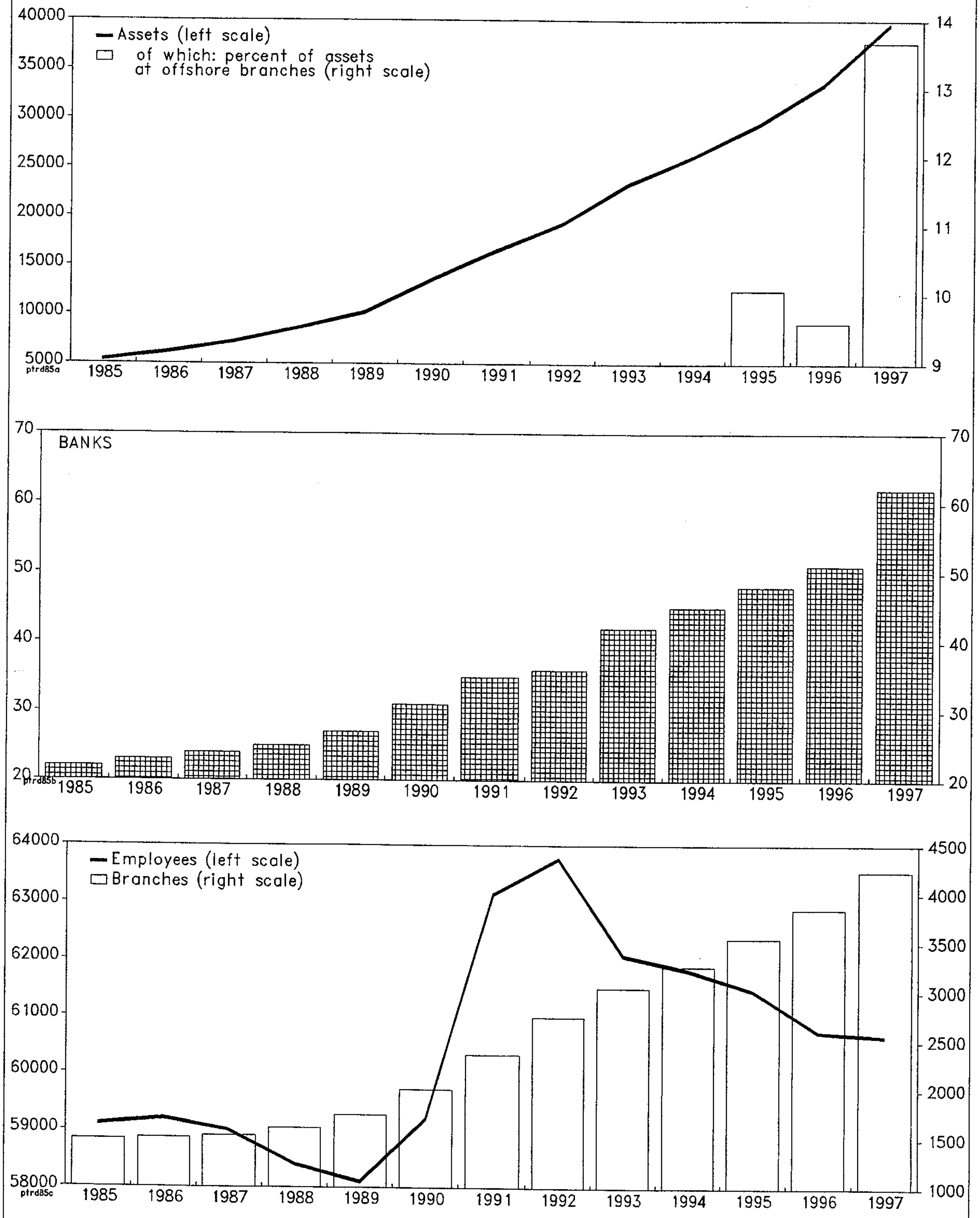
Figure 4. Portugal: Bank Profitability 1/



Source: Bank of Portugal.

1/ In 1990, a new accounting framework was introduced and foreign branches were included in the data coverage.
2/ Until 1989, capital includes provisions.

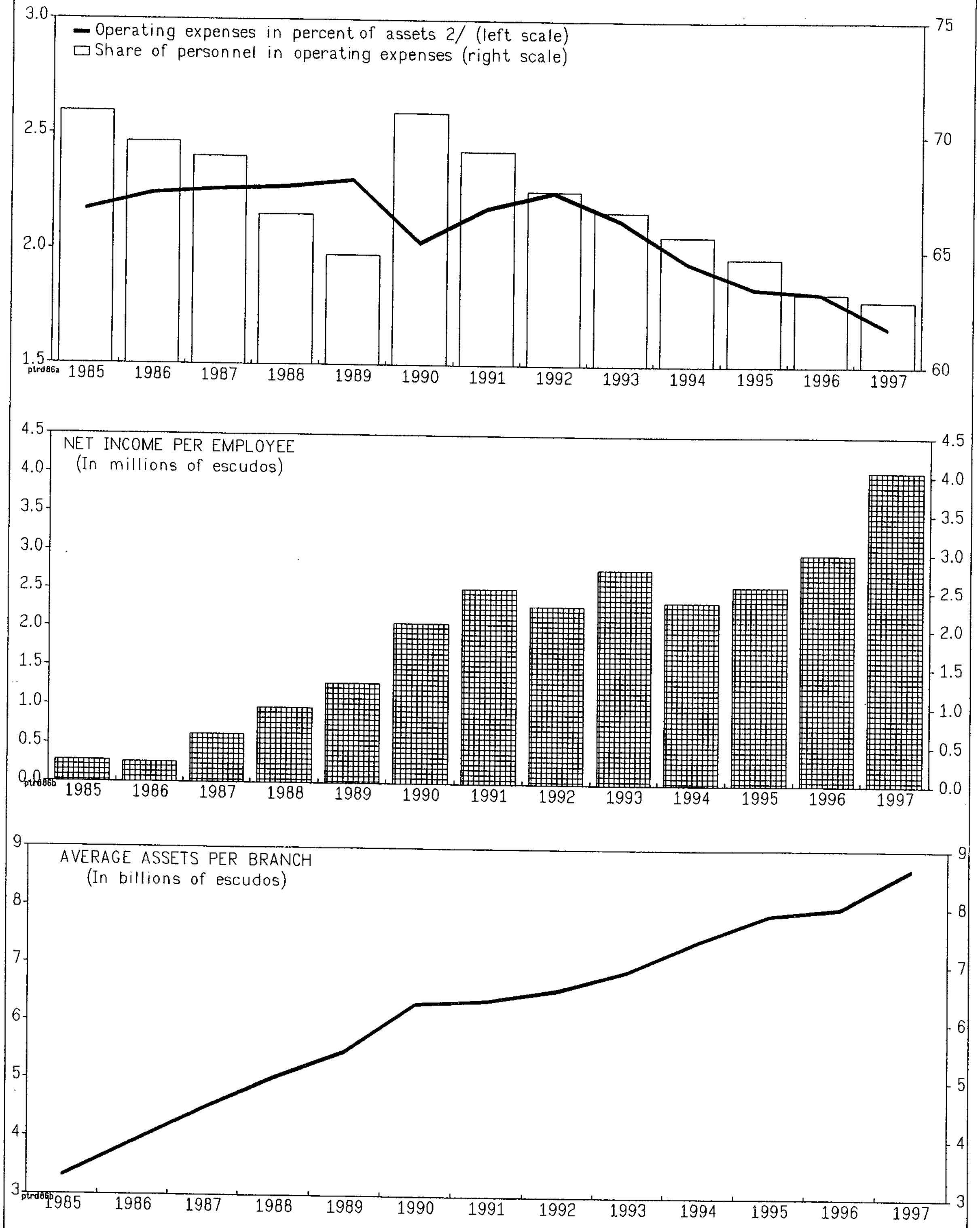
Figure 5. Portugal: Financial Intermediation 1/



Source: Bank of Portugal.

1/ In 1990, a new accounting framework was introduced and foreign branches were included in the data coverage.

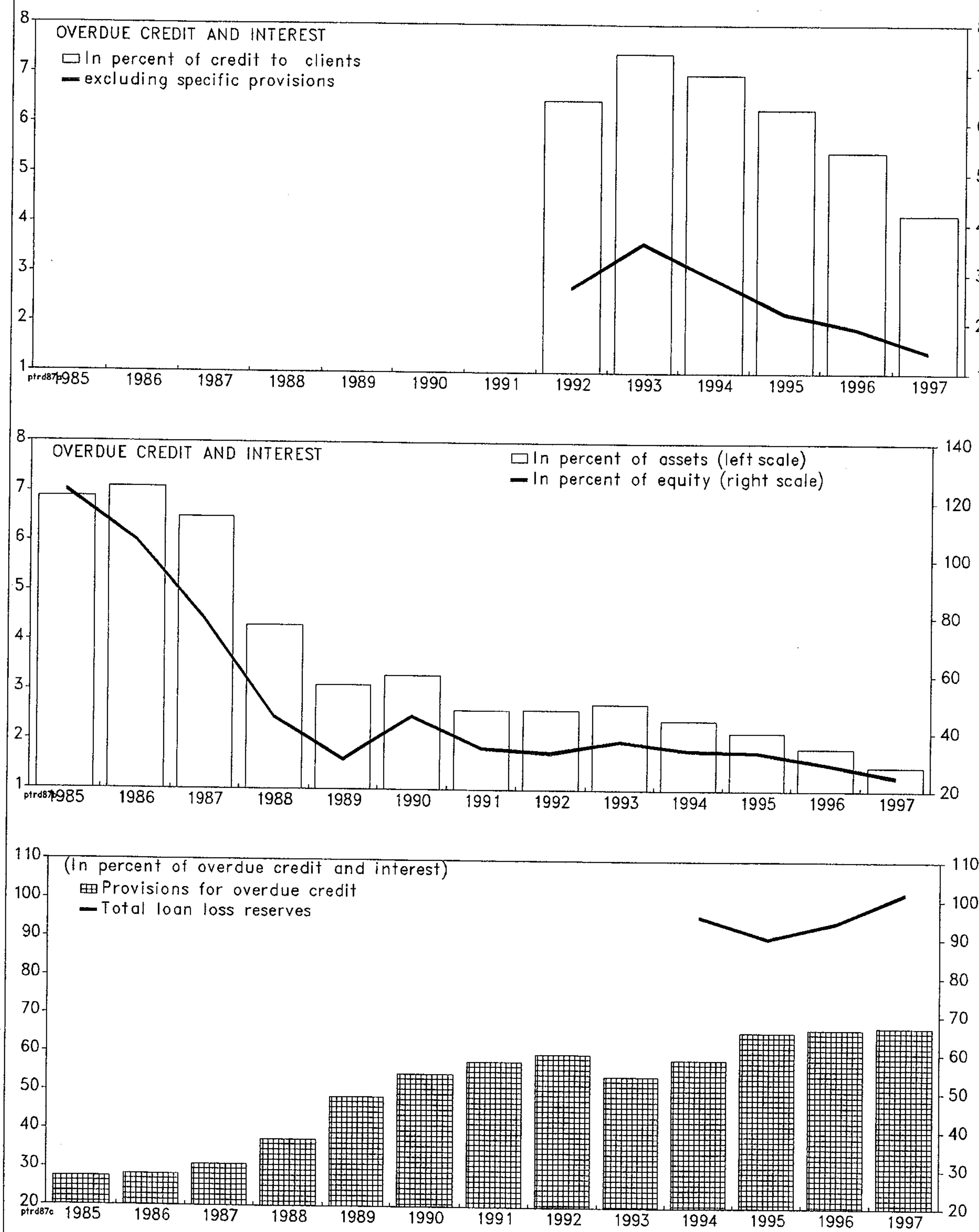
Figure 6. Portugal: Banks' Productivity and Costs 1/



Source: Bank of Portugal.

1/ In 1990, a new accounting framework was introduced and foreign branches were included in the data coverage.
2/ Until 1989, includes depreciation.

Figure 7. Portugal: Bad Loans and Reserves 1/



Source: Bank of Portugal.

1/ In 1990, a new accounting framework was introduced and foreign branches were included in the data coverage.

Table 1. Portugal: Aggregate Demand

	1992	1993	1994	1995	1996	1997
	(In billions of escudos, at current prices)					
Private consumption	8,281.2	8,957.2	9,669.4	10,284.0	10,886.4	11,469.6
Public consumption	2,208.3	2,410.4	2,572.3	2,794.7	3,045.0	3,310.2
Investment	3,341.5	3,155.6	3,527.5	3,697.1	3,961.3	4,546.6
Gross fixed investment	3,191.4	3,139.6	3,432.2	3,560.8	3,863.8	4,440.1
Change in stocks	150.1	16.0	95.3	136.3	97.5	106.5
Exports (goods and services)	3,691.5	3,731.9	4,241.6	4,923.5	5,263.1	5,734.9
Imports (goods and services)	4,763.6	4,782.1	5,382.0	5,994.2	6,457.1	7,145.3
GDP	12,759.0	13,473.1	14,628.8	15,705.1	16,698.8	17,916.1
	(Percentage change at constant prices)					
Private consumption	4.5	1.0	2.3	2.3	2.8	3.0
Public consumption	1.6	1.2	1.9	2.0	1.7	2.6
Investment	8.0	-10.1	5.9	2.9	6.4	12.8
Gross fixed investment	4.9	-5.8	3.4	1.9	7.7	12.9
Exports (goods and services)	1.5	-3.7	7.1	11.8	9.6	8.2
Imports (goods and services)	9.7	-3.8	8.0	9.6	7.8	10.3
GDP	1.9	-1.4	2.3	2.4	3.6	4.0
	(Percentage change, implicit deflators)					
Private consumption	9.5	7.1	5.5	4.0	3.0	2.3
Public consumption	11.4	7.9	4.7	6.5	7.1	6.0
Investment	2.3	5.0	5.5	1.9	0.7	1.8
Gross fixed investment	2.6	4.5	5.7	1.8	0.8	1.8
Exports (goods and services)	0.4	5.0	6.1	3.8	-2.5	0.7
Imports (goods and services)	-3.8	4.4	4.2	1.6	-0.1	0.3
GDP	10.6	7.1	6.1	4.8	2.6	3.1

Sources: Bank of Portugal; and National Institute of Statistics.

Table 2. Portugal: Contributions of Demand Components to Real GDP Growth 1/

	1992	1993	1994	1995	1996	1997
Private consumption	2.9	0.7	1.5	1.5	1.8	1.9
Public consumption	0.3	0.2	0.3	0.4	0.3	0.5
Investment	2.1	-2.6	1.4	0.7	1.5	3.0
Gross fixed investment	1.3	-1.4	0.8	0.4	1.8	3.0
Change in stocks	0.9	-1.2	0.6	0.3	-0.2	0.1
Exports (goods and nonfactor services)	0.5	-1.1	2.0	3.4	3.0	2.6
Imports (goods and nonfactor services)	3.9	-1.4	2.8	3.5	3.0	4.0
GDP	1.9	-1.4	2.3	2.4	3.6	4.0

Sources: Bank of Portugal; and National Institute of Statistics.

1/ Based on the structure of the previous year (at current prices).

Table 3. Portugal: Consumption and Investment Indicators

(Year-on-year real percentage change)

		Consumption			Investment				
		Current consumption total 1/	Auto sales 2/	Gasoline sales	Machinery imports 3/	Sales of commercial vehicles: Light 4/	Sales of commercial vehicles: Heavy 5/	Cement 6/	Steel 7/
	1992	3.0	22.1	13.1	6.3	21.1	-5.0	2.2	15.9
	1993	1.0	-12.7	6.0	13.8	-1.6	-28.1	-0.9	-7.3
	1994	5.4	-3.7	3.0	3.4	22.4	-21.8	0.6	19.5
	1995	5.7	-13.5	1.7	14.8	-33.4	6.2	4.3	13.8
	1996	...	8.1	2.8	9.0	27.1	4.4	6.6	11.9
	1997		-2.2	1.2	10.3	20.9	32.0	11.9	13.6
	1993								
I		2.1	-7.0	8.0	...	6.2	-28.3	1.1	-3.1
II		0.4	-16.9	7.4	...	2.6	-18.9	2.8	17.6
III		0.5	-9.0	4.9	...	-4.9	-31.5	-2.2	-19.1
IV		1.2	-16.9	4.3	...	-9.8	-33.8	-5.6	-21.6
	1994								
I		4.0	-8.2	5.4	-8.1	5.0	-28.7	-8.8	-7.3
II		-0.3	2.8	4.6	-0.7	10.4	-25.7	-3.3	-2.9
III		0.4	-8.2	2.2	8.7	14.3	-22.5	5.6	41.5
IV		1.5	-1.6	0.4	14.9	60.3	-11.3	10.1	57.9
	1995								
I		-2.5	-11.1	1.6	17.2	-24.5	1.1	10.6	38.0
II		4.9	-12.6	2.1	18	-29.2	3.0	9.7	30.4
III		4.9	-7.3	0.7	7.5	-27.3	3.0	0.7	-2.0
IV		3.4	-22.4	2.6	0.6	-46.1	16.7	-3.1	-1.8
	1996								
I		...	11.0	3.7	15.3	10.3	6.4	-7.2	-13.8
II		...	1.3	1.0	3.4	24.8	-2.8	2.8	-0.2
III		...	5.4	3.1	25.7	30.0	8.4	12.0	30.4
IV		...	16.5	3.5	17.9	43.2	6.4	19.5	34.9
	1997								
I		...	-4.0	1.0	7.1	28.3	14.7	22.6	37.7
II		...	-3.1	0.4	9.7	25.6	41.0	16.8	26.5
III		...	-2.3	2.8	16.5	19.6	44.5	9.4	19.1
IV		...	1.0	0.6	8.6	12.8	28.8	0.9	-16.0
	1998								
I		...	5.6	3.5	...	14.7	26.6	10.0	...

Sources: Bank of Portugal; and National Institute of Statistics.

1/ Based on sales by main supermarkets. New series since 1994.
2/ Passenger vehicles, excluding 4x4.
3/ Until 1995, imports of capital goods, excluding transport equipment.
4/ Light commercial vehicles, excluding 4x4.
5/ Heavy commercial vehicles, excluding 4x4.
6/ Sold to construction industry.
7/ 1992 includes steel imports.

Table 4. Portugal: Composition and Structure of Gross Fixed Investment 1/

	1992	1993	1994	1995	1996	1997
	(Real growth in percent)					
Gross fixed investment	4.9	-5.8	3.4	1.9	7.7	12.9
Construction	3.7	0.4	1.7	...	6.5	12
Equipment goods	2.3	-11.1	-3.3	8.6	11.9	8.9
Transport equipment	19.2	-15.1	31.8	-22.2	2.3	28.6
	(In percent of total)					
Composition by sector						
Public sector	29.1	30.6	28.7	30.4	30.8	30.5
General government	15.1	17.2	15.2	17.1	17.6	17.3
Public enterprises 2/	14.0	13.4	12.9	13.3	13.2	13.2
Private sector 3/	70.9	69.4	71.9	69.6	69.2	69.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Structure						
Construction	48.0	51.0	50.0	52.0	52.0	53.0
Equipment goods	39.0	37.0	35.0	36.0	36.0	34.0
Transport equipment	13.0	12.0	15.0	12.0	11.0	13.0

Sources: Bank of Portugal; and Ministry of Finance.

1/ Figures for public enterprises are based on estimates provided by the GAFEEP. Private sector investment (including nationalized banks) was calculated as a residual.
2/ Nonfinancial public enterprises.
3/ The figure for 1996 includes public enterprises investment.

Table 5. Portugal: Distribution of National Income

	1992	1993	1994	1995	1996	1997
	(In billions of escudos)					
1. Wage income	5,974.7	6,272.0	6,485.1	6,863.2	7,280.2	7792.3
2. Gross operating surplus	5,131.3	5,607.4	6,311.4	6,747.9	7,125.1	7677.8
3. GDP at factor cost (3=1+2)	11,106.0	11,879.4	12,796.5	13,611.1	14,405.3	15;470.1
4. Indirect taxes net of subsidies	1,652.9	1,593.7	1,832.3	2,094.0	2,293.5	2,446.0
5. GDP at market price (5=3+4)	12,758.9	13,473.1	14,628.8	15,705.1	16,698.8	17,916.1
6. Net factor payment from abroad	-19.0	-22.8	-122.2	-29.9	-91.5	-86.4
7. GNP at factor cost (7=3+6)	11,087.0	11,856.6	12,674.3	13,581.2	14,313.8	15,383.7
8. GNP at market price (8=5+6)	12,739.9	13,450.3	14,506.6	15,675.2	16,607.3	17,829.7
9. Net unrequited transfers	690.5	715.6	617.8	721.0	681.1	765.4
10. National disposable income (10=8+9)	13,430.4	14,165.9	15,124.4	16,396.2	17,288.4	18,595.1
Households	1,446.2	1,805.5	2,023.0	1,826.0	2,213.5	2751.3
Firms	9,763.8	10,335.5	10,817.7	11,392.1	12,017.2	12,705.3
General government	2,220.5	2,024.8	2,283.7	3,178.0	3,057.7	3,138.6
	(Percentage change)					
1. Wage income	14.7	5.0	3.4	5.8	6.1	7.0
2. Gross operating surplus	8.2	9.3	12.6	6.9	5.6	7.8
3. GDP at factor cost (3=1+2)	11.6	7.0	7.7	6.4	5.8	7.4
4. Indirect taxes net of subsidies	21.2	-3.6	15.0	14.3	9.5	6.6
5. GDP at market prices (5=3+4)	12.8	5.6	8.6	7.4	6.3	7.3
Memorandum item:						
Share of wage income in GDP factor cost	53.8	52.8	50.7	50.4	50.5	50.4

Sources: Bank of Portugal; and National Institute of Statistics.

Table 6. Portugal: Disposable Income

	1992	1993	1994	1995	1996	1997
			(In billions of escudos)			
Disposable household income	9,763.8	10,335.5	10,817.7	11,392.1	12,017.2	12,705.3
Private consumption	8,281.2	8,957.2	9,669.4	10,284.0	10,886.4	11,469.6
Households saving	1,482.6	1,378.3	1,148.3	1,108.1	1,130.8	1,235.7
Saving rate (in percent)	15.2	13.3	10.6	9.7	9.4	9.7
Saving rate (corrected for inflation)	8.8	8.8	6.8	7.1	7.4	8.4
Direct taxes	914.3	933.5	977.3	1,041.6	1,118.2	1,178.6
Social security taxes	1,644.5	1,813.2	1,917.6	2,092.0	2,261.2	2,442.3
Personal income	11,681.0	12,467.1	13,138.1	14,015.8	14,878.3	15,738.8
Wage bill	5,974.7	6,272.0	6,485.1	6,863.2	7,280.2	7,792.3
Other earned income	3,804.1	3,997.9	4,285.3	4,521.0	4,739.1	4,889.0
Domestic currency transfer	1,902.2	2,197.2	2,367.7	2,631.6	2,859.0	3,057.5
Transfers from abroad	641.5	615.1	574.4	509.9	518.3	587.3
Memorandum items:						
Disposable household income (except transfers from abroad)	9,122.3	9,720.4	10,243.3	10,882.2	11,498.9	12,118.0
Household savings (except transfers from abroad)	841.0	763.2	573.9	598.2	612.5	648.3
Savings rate (except transfers from abroad)	9.2	7.9	5.6	5.5	5.3	5.3
			(Percentage change)			
Disposable income	11.7	5.9	4.7	5.3	5.5	5.7
Real disposable income 1/	2.0	-1.1	-0.8	1.3	2.4	3.3
Personal income	15.3	6.7	5.4	6.7	6.2	5.8
Wage bill	14.7	5.0	3.4	5.8	6.1	7.0
Other earnings income	12.7	5.1	7.2	5.5	4.8	3.2
Domestic currency transfer	20.9	15.5	7.8	11.1	8.6	6.9
Private external transfers	-3.7	-4.1	-6.6	-11.2	1.6	13.3

Sources: Bank of Portugal; and National Institute of Statistics.

1/ Deflated by the private consumption deflator.

Table 7. Portugal: Savings and Investment

	1992	1993	1994	1995	1996	1997
			(In billions of escudos)			
Domestic saving	2,868.5	2,794.2	2,849.2	3,151.1	3,319.3	3,699.3
Private (including public enterprises)	2,763.4	3,107.3	3,261.4	3,534.4	3,332.0	3,527.7
Households	1,482.6	1,378.3	1,148.3	1,108.1	1,130.8	1,235.7
Firms	1,280.8	1,729.0	2,113.1	2,426.3	2,201.2	2,292.0
Public (general government)	105.2	-313.1	-412.2	-383.3	-12.7	171.6
Foreign saving	472.9	361.4	678.3	546.0	642.0	847.3
Gross saving = gross investment	3,341.4	3,155.6	3,527.5	3,697.1	3,961.3	4,546.6
Gross fixed capital formation	3,191.4	3,139.6	3,432.2	3,560.8	3,863.8	4,440.1
Change in stocks	150.0	16.0	95.3	136.3	97.5	106.5
Memorandum item:						
Households saving (excluding transfers from abroad)	841.0	763.2	573.9	598.2	612.5	648.3
			(In percent of GDP)			
Domestic saving	22	21	19	20	20	21
Private (including public enterprises)	22	23	22	23	20	20
Households	12	10	8	7	7	7
Firms	10	13	14	15	13	13
Public (general government)	1	-2	-3	-2	0	1
Foreign saving	4	3	5	3	4	5
Gross saving = gross investment	26	23	24	24	24	25
Gross fixed capital formation	25	23	23	23	23	25
Change in stocks	1	0	1	1	1	1
Memorandum item:						
Households saving (excluding transfers from abroad)	7	6	4	4	4	4

Sources: Bank of Portugal; and National Institute of Statistics.

Table 8. Portugal: Origins of Gross Domestic Product

(Real percentage change)

	1992	1993	1994	1995	1996	1997
Agriculture, forestry and fishing	5.9	-8.8	-0.4	0.9	7.2	-1.0
Manufacturing	-3.5	0.8	-0.8	...	4.6	5.2
Energy	0.2	4.8	10.1	5.8	6.0	-2.8
Construction	2.9	-0.6	1.6	4.8	6.5	12.0
Services	6.7	1.8	1.2	1.5	1.8	3.0
GDP at market prices	1.9	-1.4	2.4	2.4	3.6	4.0

Sources: Bank of Portugal; and National Institute of Statistics.

Table 9. Portugal: Consumer Prices 1/

(Annual average percent change)

	1992	1993	1994	1995	1996	1997
Overall index, excluding rents	8.9	6.5	5.2	4.1	3.1	2.2
Food and beverages	7.1	2.8	4.8	4.0	2.5	0.6
Clothing and footwear	11.9	7.0	4.1	1.9	1.6	0.6
Housing expenditures	9.6	7.0	3.5	3.3	2.7	3.2
Health	15.5	12.6	9.1	6.2	4.7	6.0
Transports and communications	9.7	11.1	5.9	4.8	4.6	3.8
Education,culture and recreation	9.5	9.0	7.6	6.2	2.7	3.3
Tobacco and related expenditures	19.1	11.5	6.1	6.3	4.8	7.6
Other	8.6	13.2	6.7	5.5	5.2	3.6
Housing rents	15.7	9.5	7.5	5.0	3.0	3.8
Overall index, including rents	9.5	6.8	5.4	4.2	3.1	2.3
Administered prices	7.7	6.8	3.9	3.3	3.3	3.8
Nonadministered prices	9.1	6.5	5.4	4.2	3.1	2.0
Memorandum items:						
End of period inflation	8.4	6.4	4.0	3.4	3.3	2.3
Underlying inflation 2/	11.8	8.9	5.7	5.0	3.9	2.4
Import prices	-5.4	0.8	3.1	1.7	-0.2	0.2
Inflation differential vis-à-vis EU 3/	4.7	3.1	2.2	1.0	0.6	0.2

Source: National Institute of Statistics.

1/ Annual averages.

2/ Excluding food and beverages, and energy.

3/ EU excluding Portugal.

Table 10. Portugal: Population, Labor Force, Employment, and Unemployment

	1992 1/	1993	1994	1995	1996	1997
			(In thousands)			
Total resident population	9,345	9,350	9,350	9,357	9,372	9,382
Civilian labor force	4,528	4,504	4,564	4,551	4,583	4,645
Total employment	4,341	4,255	4,252	4,225	4,251	4,332
Dependent employment	3,223	3,132	3,070	3,040	3,027	3,070
Fixed term contracts 2/	12.1	11.1	10.8	11.2	12.8	14.5
Unemployment	187	248	312	325	332	313
First employment seekers	40	39	52	60	68	61
New employment seekers	147	209	260	266	264	252
Labor market						
Application for employment by unemployed	339.3	365.1	410.2	451.8	460.2	420.7
Unfilled vacancies	7.0	5.0	5.1	7.3	7.8	9.5
Placements	27.9	28.6	35.1	46.8	46.3	54.8
			(In percent)			
Participation rate	48.5	48.2	48.8	48.6	48.9	49.5
Participation rate 15–64 years	68.4	67.8	67.5	67.2	67.5	68.5
Male	78.7	77.2	76.4	75.4	75.5	76.4
Female	58.9	59.0	59.2	59.5	59.9	61.1
Unemployment rate	4.1	5.5	6.8	7.2	7.3	6.7
Male	3.5	4.7	6.0	6.4	6.5	6.1
Female	4.9	6.5	7.8	8.0	8.2	7.6
Duration of unemployment						
Less than 3 months	35.7	29.4	27.3	22.0	21.9	22.4
Between 3 and 12 months	38.4	41.3	38.5	38.6	36.1	34.0
Over 12 months	26.0	29.2	34.2	39.4	42.0	43.6
Memorandum item:						
Unemployment rate in EU-12	9.8	11.1	11.6	11.2	11.4	11.1

Sources: National Institute of Statistics, *Inquerito ao Emprego*; Bank of Portugal; and IMF, *World Economic Outlook*.

1/ As a result of methodological changes in the construction of the series, data for 1992 is not strictly comparable to previous years.
2/ In percent of dependent employment.

Table 11. Portugal: Employment by Sector 1/

	1992 2/	1993	1994	1995	1996	1997
			(In thousands)			
Agriculture, forestry, and fishing	490.1	482.3	486.8	477.5	518.1	589.0
Manufacturing and mining industries	1,060.6	1,029.9	1,025.6	988.7	962.5	945.2
Electricity, water and gas	31.1	29.3	36.7	34.6	29.1	35.4
Construction	346.2	340.2	330.8	340.3	343.1	388.4
Services	2,412.7	2,373.5	2,371.3	2,384.1	2,397.7	2373.9
Total	4,340.7	4,255.2	4,251.2	4,225.2	4,250.5	4,331.9
Memorandum items:						
Public sector	940.4	902.4	...	...	...	...
General government 3/	810.8	784.8	793.5	802.2	771.0	760.3
Public enterprises	129.6	115.5	...	...	...	...
Public sector (percent of total)	21.7	21.2	...	...	...	...

Source: National Institute of Statistics, *Inquerito ao Emprego*.

1/ Period average.

2/ As a result of methodological changes in the construction of the series, data for 1992 is not strictly comparable to previous years.

3/ Including education and health services, public and private.

Table 12. Portugal: Wage Developments

	1992	1993	1994	1995	1996	1997
			(Annual nominal percentage change)			
Compensations per employee 1/	13.8	8.0	5.5	6.9	6.5	5.6
idem, excluding general government	11.4	6.6	6.7	6.2	5.1	4.7
Contractual wages						
Agriculture	11.7	7.3	4.8	4.5	4.4	3.7
Industry	10.7	7.6	5.2	5.1	4.4	3.5
Construction	10.8	6.6	0.0	4.5	4.5	3.6
Services 2/	11.9	7.4	4.9	4.5	4.4	3.5
Total, excluding						
General government	11.2	7.3	5.1	4.7	4.4	3.5
Public enterprises	11.4	5.8	3.6	3.9	4.4	3.2
Private sector	11.1	7.5	5.2	4.8	4.4	3.5
Memorandum item:						
Inflation rate (CPI)	8.9	6.5	5.2	4.1	3.1	2.2

Source: Bank of Portugal.

1/ Including employers' social security contributions.

2/ Private sector and public enterprises.

Table 13. Portugal: Labor Costs in Manufacturing

(1990 = 100)

	IPI (1)	Employment (2)	Productivity (3)	Wages (4)	Unit Labor Costs in Escudos (5)	Percent Change in ULC	Unit Labor Costs-Exterior in Escudos (6)	Relative Unit Labor Costs (7)	Percent Change in RULC
1986	83.2	88.7	93.3	59.7	64.0	...	73.5	86.9	-6.0
1987	87.5	92.7	93.9	67.9	72.3	13.0	82.6	87.5	0.3
1988	92.4	95.7	93.3	75.9	81.4	12.6	87.5	89.8	3.0
1989	98.8	98.7	93.4	86.0	92.1	13.1	92.4	92.9	3.4
1990	100.0	100.0	100.0	100.0	100.0	8.6	100.0	100.0	7.7
1991	99.9	100.1	100.6	116.4	115.8	15.8	104.2	111.7	11.6
1992	98.0	98.8	98.3	129.9	132.2	14.2	105.2	124.1	11.1
1993	95.4	96.1	96.0	137.2	142.9	0.1	114.6	122.0	-1.7
1994	97.0	95.9	95.4	144.3	151.2	5.8	115.9	123.6	1.3
1995	99.5	92.5	101.6	152.1	149.7	-1.0	113.5	125.1	1.2
1996 1/	104.4	...	...	...	...	...	...	123.2	-1.5
1997	109.4	...	...	...	...	...	...	121.2	-1.6

Source: Bank of Portugal based on the following data:

(1) National Institute of Statistics, Industrial Production Index (manufacturing); adjusted for working days.
(2) National Institute of Statistics.
(3) (1)/(2).
(4) Ministry of Employment and Social Security. Wages in manufacturing.
(5) ULC = (4)/(3).
(6) ULC of main partner countries weighted by manufacturing trade.
(7) (5)/(6).

Table 14. Portugal: General Government Expenditures and Revenues 1/

(In billions of escudos; national accounts basis)

	1992	1993	1994	1995	1996	1997	1998 Budget
Current receipts	5,505.4	5,725.7	5,968.9	6,060.6	6,721.4	7,322.3	7,753.5
Taxes	4,437.9	4,521.2	4,935.2	5,459.7	6,040.9	6,526.2	6,940.1
Direct taxes	2,633.7	2,726.8	2,919.4	3,255.5	3,627.6	3,974.9	4,244.2
Income and property	1,294.1	1,242.8	1,319.4	1,468.7	1,680.6	1,860.5	2,021.5
Social security	1,339.6	1,484.1	1,600.0	1,786.8	1,947.0	2,114.4	2,222.7
Indirect taxes	1,804.3	1,794.4	2,015.8	2,204.2	2,413.3	2,551.3	2,695.9
Other current receipts	1,067.5	1,204.5	1,033.7	600.9	680.5	796.1	813.4
Current expenditures	5,400.3	6,009.2	6,386.5	6,444.0	6,734.2	7,150.6	7,511.7
Public consumption	2,208.3	2,410.4	2,572.3	2,794.7	3,045.0	3,310.1	3,513.7
Of which: Payroll	1,820.8	1,965.8	2,015.6	2,198.0	2,378.9	2,590.3	2,789.4
Subsidies	156.9	175.9	175.7	110.2	119.8	105.3	113.8
Interest payments	917.9	837.3	910.2	1,014.5	810.8	765.0	690.3
Transfers	2,117.3	2,585.5	2,728.2	2,524.6	2,758.6	2,970.3	3,193.9
Current balance	105.1	-283.4	-417.6	-383.4	-12.8	171.7	241.7
Capital receipts	378.5	382.3	390.4	370.8	508.7	517.7	517.6
Capital expenditures	860.0	921.1	852.9	893.8	1,041.1	1,124.5	1,236.5
Investment	482.1	541.7	524.8	607.5	679.5	767.3	823.9
Transfers	377.9	379.4	328.1	286.3	361.6	357.2	412.7
Capital balance	-481.5	-538.8	-462.5	-523.0	-532.4	-606.8	-718.9
Overall balance excluding net lending	-376.4	-822.2	-880.1	-906.4	-545.2	-435.0	-477.2
Of which: Primary balance	541.5	15.1	30.1	108.1	265.6	330.0	213.1
Net lending	...	...	...	43.1	10.2	197.0	58.8
Overall balance incl. net lending	...	...	...	-949.5	-555.4	-632.0	-536.0
Memorandum items:							
Total expenditure excluding net lending	6,260.3	6,930.3	7,239.4	7,337.8	7,775.3	8,275.1	8,748.2
Of which:							
Total primary expenditures	5,342.4	6,093.0	6,329.2	6,323.3	6,964.5	7,510.1	8,057.9
Current primary expenditures	4,482.4	5,171.9	5,476.3	5,429.5	5,923.4	6,385.6	6,821.4
Total receipts	5,883.9	6,108.0	6,359.3	6,431.4	7,230.1	7,840.0	8,271.1
Fixed capital consumption	120.1	131.4	143.0	149.8	167.5	184.4	194.6

Source: Ministry of Finance.

1/ Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.

Table 15. Portugal: General Government Expenditures and Revenues 1/

(In percent of GDP)

	1992	1993	1994	1995	1996	1997	1998 Budget 2/
Current receipts	43.1	42.5	40.8	38.6	40.3	40.9	41.0
Taxes	34.8	33.6	33.7	34.8	36.2	36.4	36.7
Direct taxes	20.6	20.2	20.0	20.7	21.7	22.2	22.5
Income and property	10.1	9.2	9.0	9.4	10.1	10.4	10.7
Social security	10.5	11.0	10.9	11.4	11.7	11.8	11.8
Indirect taxes	14.1	13.3	13.8	14.0	14.5	14.2	14.3
Other current receipts	8.4	8.9	7.1	3.8	4.1	4.4	4.3
Current expenditures	42.3	44.6	43.7	41.0	40.3	39.9	39.8
Public consumption	17.3	17.9	17.6	17.8	18.2	18.5	18.6
Of which: Compensation of employees	14.3	14.6	13.8	14.0	14.2	14.5	14.8
Subsidies	1.2	1.3	1.2	0.7	0.7	0.6	0.6
Interest payments	7.2	6.2	6.2	6.5	4.9	4.3	3.7
Transfers	16.6	19.2	18.6	16.1	16.5	16.6	16.9
Current balance	0.8	-2.1	-2.9	-2.4	-0.1	1.0	1.3
Capital receipts	3.0	2.8	2.7	2.4	3.0	2.9	2.7
Capital expenditures	6.7	6.8	5.8	5.7	6.2	6.3	6.5
Investment	3.8	4.0	3.6	3.9	4.1	4.3	4.4
Transfers	3.0	2.8	2.2	1.8	2.2	2.0	2.2
Capital balance	-3.8	-4.0	-3.2	-3.3	-3.2	-3.4	-3.8
Overall balance excluding net lending	-3.0	-6.1	-6.0	-5.8	-3.3	-2.4	-2.5
Of which: Primary balance	4.2	0.1	0.2	0.7	1.6	1.8	1.1
Net lending	...	...	...	0.3	0.1	1.1	0.3
Overall balance including net lending	...	...	...	-6.0	-3.3	-3.5	-2.8
Memorandum items:							
Total expenditure excluding net lending	49.1	51.4	49.5	46.7	46.6	46.2	46.3
Of which:							
Total primary expenditures	41.9	45.2	43.3	40.3	41.7	41.9	42.7
Current primary expenditures	35.1	38.4	37.4	34.6	35.5	35.6	36.1
Total receipts	46.1	45.3	43.5	41.0	43.3	43.8	43.8
Fixed capital consumption	0.9	1.0	1.0	1.0	1.0	1.0	1.0

Source: Ministry of Finance.

1/ Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.

2/ Ratios to GDP are computed using nominal GDP of Esc. 18,890, as originally assumed in the 1998 budget.

Table 16. Portugal : General Government Accounts, 1995 1/

(In billions of escudos, national accounts basis)

	Central Government				
	State	Autonomous services and funds	Local administration	Social security	Total consolidated
Current revenue	3,556.7	1,094.5	544.7	2,050.9	6,060.7
Taxes on income and property	1,337.9	0.0	130.9	0.0	1,468.8
Social security contributions	0.0	0.0	0.0	1,786.8	1,786.8
Taxes on goods and services	1,916.7	49.3	168.9	69.4	2,204.3
Nontax revenue	302.1	1,045.2	244.9	194.7	600.8
Of which: From other general government sectors	5.0	883.8	138.8	158.5	0.0
Current expenditures	3,935.0	1,074.9	520.6	2,099.9	6,444.4
Public consumption	1,555.6	735.9	428.9	74.8	2,795.2
Of which: Compensation of employees	1,347.3	526.2	278.8	45.7	2,198.0
Subsidies	87.8	13.9	8.4	0.0	110.1
Interest payments	954.5	6.4	37.2	16.4	1,014.5
Other current transfers	1,337.1	318.7	46.1	2,008.7	2,524.6
Of which: From other general government sectors	1119.1	11.9	1.0	54.2	0.0
Current balance	-378.3	19.6	24.1	-49.0	-383.6
Capital revenue	46.9	417.2	221.0	90.5	370.8
Of which: From other general government sectors	2.1	269.0	129.8	3.8	0.0
Capital expenditure	494.7	422.7	270.4	110.8	893.8
Fixed investment	129.7	222.8	242.1	12.9	607.5
Capital transfers	365.0	199.9	28.3	97.9	286.3
Of which: To other general government sectors	342.5	9.7	0.1	52.5	0.0
Capital balance	-447.8	-5.5	-49.4	-20.3	-523.0
Overall balance	-826.1	14.1	-25.3	-69.3	-906.6
Primary balance	128.4	20.5	11.9	-52.9	107.9
Net lending	205.7	14.2	3.2	-180.0	43.1
Overall balance including net lending	-1031.8	-0.1	-28.5	110.7	-949.7

Source: Ministry of Finance.

1/ Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.

Table 17. Portugal : General Government Accounts, 1996 1/

(In billions of escudos, national accounts basis)

	Central Government				
	State	Autonomous Services and Funds	Local Administration	Social Security	Total Consolidated
Current revenue	3,937.3	1,222.0	608.9	2,415.2	6,721.5
Taxes on income and property	1,537.3	0.0	143.4	0.0	1,680.7
Social security contributions				1,947.0	1,947.0
Taxes on goods and services	2,081.9	53.8	183.0	94.6	2,413.3
Nontax revenue	318.1	1,168.2	282.5	373.6	680.5
Of which: From other general government sectors	5.3	966.5	159.5	330.6	0.0
Current expenditures	4,155.6	1,215.5	562.7	2,262.1	6,734.0
Public consumption	1,680.3	819.6	466.1	78.9	3,044.9
Of which: Compensation of employees	1452.3	577.3	300.7	48.6	2,378.9
Subsidies	95.4	14.8	9.5	0.0	119.7
Interest payments	770.1	5.4	34.4	0.9	810.8
Other current transfers	1,609.8	375.7	52.7	2,182.3	2,758.6
Of which: From other general government sectors	1,376.7	21.9	0.9	62.4	0.0
Current balance	-218.3	6.5	46.2	153.1	-12.5
Capital revenue	51.5	520.5	245.6	138.7	508.7
Of which: From other general government sectors	3.5	295.9	144.5	3.7	0.0
Capital expenditure	525.3	503.1	318.5	141.8	1,041.1
Fixed investment	124.6	259.3	281.0	14.6	679.5
Capital transfers	400.7	243.8	37.5	127.2	361.6
Of which: To other general government sectors	375.7	7.5	0.7	63.7	0.0
Capital balance	-473.8	17.4	-72.9	-3.1	-532.4
Overall balance	-692.1	23.9	-26.7	150.0	-544.9
Primary balance	78.0	29.3	7.7	150.9	265.9
Net lending	3.4	3.6	3.2	0.0	10.2
Overall balance including net lending	-695.5	20.3	-29.9	150.0	-555.1

Source: Ministry of Finance.

1/ Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.

Table 18. Portugal : General Government Accounts, 1997 1/

(In billions of escudos, national accounts basis)

	Central Government				
	State	Autonomous Services and Funds	Local Administration	Social Security	Total Consolidated
Current revenue	4,303.8	1,300.6	661.4	2,625.4	7,322.4
Taxes on income and property	1,702.8	0.0	157.8	0.0	1,860.6
Social security contributions	0.0	0.0	0.0	2,114.4	2,114.4
Taxes on goods and services	2,210.4	60.1	189.7	91.1	2,551.3
Nontax revenue	390.6	1,240.5	313.9	419.9	796.1
Of which: From other general government sectors	3.4	1,032.1	177.3	356.0	0.0
Current expenditures	4,350.2	1,325.9	610.7	2,432.9	7,150.7
Public consumption	1,796.2	914.2	511.7	88.0	3,310.1
Of which: Compensation of employees	1,563.8	641.9	330.0	54.6	2,590.3
Subsidies	89.2	5.7	10.4	0.0	105.3
Interest payments	726.1	4.3	34.6	0.0	765.0
Other current transfers	1,738.7	401.7	54.0	2,344.9	2,970.3
Of which: From other general government sectors	1,482.5	23.7	0.9	61.9	0.0
Current balance	-46.4	-25.3	50.7	192.5	171.5
Capital revenue	50.2	631.5	255.0	159.4	517.7
Of which: From other general government sectors	3.5	407.1	163.1	4.7	0.0
Capital expenditure	558.2	543.4	368.0	233.4	1,124.5
Fixed investment	128.9	295.6	326.8	16.0	767.3
Capital transfers	429.3	247.8	41.2	217.4	357.2
Of which: To other general government sectors	401.6	12.0	1.6	163.3	0.0
Capital balance	-508.0	88.1	-113.0	-74.0	-606.9
Overall balance	-554.4	62.8	-62.3	118.5	-435.4
Primary balance	171.7	67.1	-27.7	118.5	329.6
Net lending	7.4	108.8	5.8	75.0	197.0
Overall balance including net lending	-561.8	-46.0	-68.1	43.5	-632.4

Source: Ministry of Finance.

1/ Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.

Table 19. Portugal : General Government Accounts, 1998 (Budget)

(In billions of escudos, national accounts basis)

	Central Government				
	State	Autonomous Services and Funds	Local Administration	Social Security	Total Consolidated
Current revenue	4,591.9	1,425.2	704.9	2,745.1	7,753.4
Taxes on income and property	1,848.0	2.9	170.6	0.0	2,021.5
Social security contributions	0.0	0.0	0.0	2,222.7	2,222.7
Taxes on goods and services	2,332.8	63.4	202.7	96.9	2,695.8
Nontax revenue	411.1	1,358.9	331.6	425.5	813.4
Of which: From other general government sectors	24.4	1,107.2	188.9	393.2	0.0
Current expenditures	4,570.4	1,375.9	634.3	2,644.9	7,511.8
Public consumption	1,937.3	936.5	544.3	95.7	3,513.8
Of which: Compensation of employees	1,700.6	679.9	349.6	59.3	2,789.4
Subsidies	92.0	11.4	10.3	0.0	113.7
Interest payments	664.1	3.4	20.0	2.9	690.4
Other current transfers	1,877.0	424.6	59.7	2,546.3	3,193.9
Of which: From other general government sectors	1,600.5	38.3	1.1	73.8	0.0
Current balance	21.5	49.3	70.6	100.2	241.6
Capital revenue	62.8	564.9	296.2	142.6	517.6
Of which: From other general government sectors	8.4	332.0	203.3	5.2	0.0
Capital expenditure	620.6	588.8	381.5	194.5	1,236.5
Fixed investment	160.8	294.4	346.4	22.2	823.8
Capital transfers	459.8	294.4	35.1	172.3	412.7
Of which: To other general government sectors	413.0	39.0	1.0	95.9	0.0
Capital balance	-557.8	-23.9	-85.3	-51.9	-718.9
Overall balance	-536.3	25.4	-14.7	48.3	-477.3
Primary balance	127.8	28.8	5.3	51.2	213.1
Net lending	14.8	38.6	6.0	-0.6	58.8
Overall balance including net lending	-551.1	-13.2	-20.7	48.9	-536.1

Source: Ministry of Finance.

Table 20. Portugal: General Government Financing

	1992	1993	1994	1995	1996	1997
			(In billions of Escudos)			
General government deficit	376.4	822.2	881.8	906.3	545.2	435.0
Privatization receipts used for debt reduction	-199.9	51.3	-30.0	-122.8	-290.3	-635.0
Adjustment for complementary period	0.4	-35.8	-81.1	-152.5	75.6	15.9
Debt assumptions	98.0	95.4	210.8	170.5	169.9	43.0
Other adjustments	138.0	1.6	-55.0	-42.5	72.3	26.4
Public sector borrowing requirement	412.9	934.7	926.5	759.0	572.7	-114.7
Domestic credit	802.6	416.0	437.6	402.9	269.8	-931.4
Bank credit, net	397.8	168.7	490.1	-314.4	-189.3	-923.9
Bank of Portugal	306.6	10.9	6.0	-204.6	149.6	6.7
Deposit money banks	91.2	157.8	484.1	-109.8	-338.9	-930.6
TB and CLIP held by the public	-84.5	-103.3	-1.6	110.7	-10.5	-149.0
Nonbank credit	489.3	350.6	-50.9	606.6	469.6	141.5
Of which: saving certificates 1/	251.8	199.0	95.0	151.4	127.6	71.3
Foreign credit, net	-2.5	316.4	402.6	513.7	189.8	444.6
Foreign holdings of securitized debt	-413.9	250.7	62.7	-150.9	140.2	416.3
Net foreign assets of the treasury 2/	1.7	-5.7	36.8	-6.9	-16.7	-9.6
Errors and omissions	25.0	-42.7	-13.2	0.2	-10.4	-34.6
			(In percent of GDP)			
General government deficit	3.0	6.1	6.0	5.8	3.3	2.4
Privatization receipts used for debt reduction	-1.6	0.4	-0.2	-0.8	-1.7	-3.5
Adjustment for complementary period	0.0	-0.3	-0.6	-1.0	0.5	0.1
Debt assumptions	0.8	0.7	1.4	1.1	1.0	0.2
Other adjustments	1.1	0.0	-0.4	-0.3	0.4	0.1
Public sector borrowing requirement	3.2	6.9	6.3	4.8	3.4	-0.6
Domestic credit	6.3	3.1	3.0	2.6	1.6	-5.2
Bank credit, net	3.1	1.3	3.4	-2.0	-1.1	-5.2
Bank of Portugal	2.4	0.1	0.0	-1.3	0.9	0.0
Deposit money banks	0.7	1.2	3.3	-0.7	-2.0	-5.2
TB and CLIP held by the public	-0.7	-0.8	0.0	0.7	-0.1	-0.8
Nonbank credit	3.8	2.6	-0.3	3.9	2.8	0.8
Of which: saving certificates 1/	2.0	1.5	0.6	1.0	0.8	0.4
Foreign credit, net	0.0	2.3	2.8	3.3	1.1	2.5
Foreign holdings of securitized debt	-3.2	1.9	0.4	-1.0	0.8	2.3
Net foreign assets of the treasury 2/	0.0	0.0	0.3	0.0	-0.1	-0.1
Errors and omissions	0.2	-0.3	-0.1	0.0	-0.1	-0.2

Source: Bank of Portugal.

1/ Credit net of amortization and interest paid.
2/ Increase (-), decrease (+).

Table 21. Portugal: State Tax Revenues 1/

	1992	1993	1994	1995	1996	1997	1998 Budget
	(In billions of escudos)						
Direct taxes	1,174.6	1,118.4	1,190.2	1,323.7	1,524.1	1,683.5	1,833.7
General income tax	1,159.9	1,105.4	1,175.3	1,309.9	1,510.8	1,670.5	1,818.1
Personal	811.6	826.3	864.9	919.8	1,022.6	1,048.7	1,139.9
Corporate	348.3	279.1	310.4	390.1	488.2	621.8	678.2
Other	14.7	13.0	14.9	13.8	13.3	13.0	15.6
Indirect taxes	1,670.7	1,667.8	1,970.2	2,073.3	2,127.3	2,316.8	2,436.1
Value-added tax	832.0	797.3	1,038.9	1,124.9	1,131.1	1,285.0	1,353.9
Tax on petroleum products	362.5	369.6	399.1	427.9	448.3	446.7	459.8
Stamp tax	206.9	222.7	214.9	187.2	184.4	191.2	189.4
Tobacco tax	108.7	132.3	141.5	151.0	161.0	172.3	183.4
Motor vehicle tax	100.3	99.5	121.1	132.6	154.8	167.4	177.9
Alcohol tax	24.2	24.6	29.2	30.7	31.2	34.0	34.7
Other 2/	36.1	21.8	25.5	19.0	16.5	20.2	37.0
Total	2,845.3	2,786.2	3,160.4	3,397.0	3,651.4	4,000.3	4,269.8
	(In percent of GDP)						
Direct taxes	9.2	8.3	8.1	8.4	9.1	9.4	9.5
General income tax	9.1	8.2	8.0	8.3	9.0	9.3	9.4
Personal	6.4	6.1	5.9	5.9	6.1	5.9	5.9
Corporate	2.7	2.1	2.1	2.5	2.9	3.5	3.5
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Indirect taxes	13.1	12.4	13.5	13.2	12.7	12.9	12.6
Value-added tax	6.5	5.9	7.1	7.2	6.8	7.2	7.0
Tax on petroleum products	2.8	2.7	2.7	2.7	2.7	2.5	2.4
Stamp tax	1.6	1.7	1.5	1.2	1.1	1.1	1.0
Tobacco tax	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Motor vehicle tax	0.8	0.7	0.8	0.8	0.9	0.9	0.9
Alcohol tax	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other 2/	0.3	0.2	0.2	0.1	0.1	0.1	0.2
Total	22.3	20.7	21.6	21.6	21.9	22.3	22.1

Source: Ministry of Finance.

1/ On a public account basis. Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.

2/ Excludes VAT revenues: 45 billion escudos in 1995; 77.7 billion escudos in 1996; 72.4 billion escudos in 1997; and 78 billion escudos in 1998. These VAT revenues are accrued to social security.

Table 22. Portugal: Social Security Accounts 1/

(In percent of GDP)

	1992	1993	1994	1995	1996	1997	1998 Budget
Current revenues	8.6	9.5	9.2	9.0	10.8	9.8	9.9
Contributions	7.5	7.5	7.3	7.8	7.3	7.2	7.2
Budget transfers 2/	0.6	1.5	1.5	1.1	2.0	2.1	2.0
Other revenues	0.4	0.5	0.4	0.1	1.6	0.6	0.6
Current expenditures	8.4	9.0	9.1	9.3	9.2	9.1	9.2
Pensions	5.7	6.0	6.0	6.1	6.2	6.1	6.1
Survivors	0.7	0.8	0.8	0.9	0.9	0.9	0.9
Invalidity	1.3	1.3	1.3	1.2	1.2	1.1	1.1
Old age	3.7	3.9	4.0	4.1	4.1	4.1	4.1
Unemployment benefits	0.5	0.8	0.9	0.9	0.8	0.8	0.7
Sickness benefits	0.6	0.5	0.5	0.6	0.6	0.5	0.5
Social action	0.5	0.5	0.5	0.6	0.6	0.6	0.7
Of which: Minimum guaranteed income	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Other	1.1	1.1	1.0	1.1	1.0	1.0	1.0
Current transfers	0.3	0.2	0.3	0.4	0.4	0.4	0.4
Capital revenues	1.0	1.2	0.4	0.6	0.8	0.5	0.7
Capital expenditures	1.0	1.5	0.8	0.7	0.8	1.3	1.0
Overall balance	-0.1	0.0	-0.5	-0.8	1.3	-0.5	0.0
Current balance	-0.1	0.3	-0.2	-0.6	1.3	0.3	0.3
Capital balance	0.1	-0.3	-0.4	-0.1	0.0	-0.8	-0.3

Source: Ministry of Finance.

1/ Private sector general system, cash basis.
2/ Including all state budget transfers.

Table 23. Portugal: Public Transfers Between Portugal and the EU 1/

(In billions of escudos)

	1992	1993	1994	1995	1996	1997	1998 2/
A. From the EU to Portugal	557.4	619.5	507.9	661.1	688.0	750.1	692.0
(In percent of GDP)	4.4	4.6	3.5	4.2	4.1	4.2	3.6
Structural funds	455.7	500.7	324.2	436.3	502.0	486.5	471.0
(In percent of GDP)	3.6	3.7	2.2	2.8	3.0	2.7	2.4
(In percent of total investment)	13.6	15.9	9.2	11.8	12.7	10.7	9.3
ERDF	275.5	286.0	220.9	300.6	311.0	347.5	278.0
ESF	115.9	152.8	53.7	80.4	127.9	75.5	116.0
EAGGF-Guidance 3/	64.3	61.9	49.6	55.3	63.1	63.5	77.0
PEDIP	21.2	10.8	5.6	0.0	0.0	0.0	0.0
Social Cohesion Fund	0.0	15.7	33.7	82.5	37.6	116.0	80.0
EAGGF-Guarantee 4/	74.4	86.4	139.7	138.5	126.4	129.4	141.0
Other 5/	6.1	5.9	4.7	3.8	22.0	18.2	0.0
B. From Portugal to the EU	146.2	162.8	247.5	170.5	182.2	214.6	223.7
(In percent of GDP)	1.1	1.2	1.7	1.1	1.1	1.2	1.2
Customs and agricultural duties	36.6	35.3	39.9	40.3	26.6	30.8	26.7
Other own resources	108.6	127.5	206.9	130.0	155.5	183.8	197.0
Other	1.0	0.0	0.5	0.2	0.2	0.0	0.0
C. Net transfers (A-B)	411.2	456.7	260.4	490.6	505.8	535.5	468.3
(In percent of GPD)	3.2	3.4	1.8	3.1	3.0	3.0	2.4

Sources: Ministry of Finance and INE.

1/ On a cash basis.
2/ Authorities' forecast.
3/ Mostly under PEDAP, Specific Program for Portuguese Agriculture.
4/ Mostly price subsidies.
5/ Includes reimbursements and adjustments.

Acronyms:

EAGGF: European Guidance and Guarantee Fund
ERF: European Regional Fund
ESF: European Social Fund
PEDIP: Specific Program for the Development of Portuguese Industry

Table 24. Portugal: Direct Public Debt 1/

	1992	1993	1994	1995	1996	1997	1998
			(In billions of Escudos)				
Direct public debt 2/	7,226.0	8,478.8	9,515.7	10,562.4	11,078.2	11,341.7	11,889.3
Domestic debt	6,682.9	7,486.4	8,144.0	8,724.8	9,104.1	8,813.8	9,351.7
External debt	543.1	992.4	1,371.7	1,837.6	1,974.1	2,527.9	2,537.6
Total government debt 3/	7,548.8	8,497.1	9,331.0	10,417.3	10,902.7	11,007.3	11,464.6
			(In percent of GDP)				
Direct public debt 2/	56.6	62.9	65.0	67.3	66.3	63.3	61.6
Domestic debt	52.4	55.6	55.7	55.6	54.5	49.2	48.5
External debt	4.3	7.4	9.4	11.7	11.8	14.1	13.2
Total government debt 3/	59.2	63.1	63.8	66.3	65.3	61.4	59.4
			(In percent of direct public debt)				
Direct public debt 2/	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic debt	92.5	88.3	85.6	82.6	82.2	77.7	78.7
External debt	7.5	11.7	14.4	17.4	17.8	22.3	21.3

Source: Ministry of Finance and INE.

1/ Data reported by the authorities in July 1998 do not reflect minor revisions made subsequently, for which a full breakdown is not currently available.
2/ Gross securitized debt of the State, public accounts basis.
3/ Government debt in accordance with Maastricht Treaty criteria.

Table 25. Portugal: Interest Rates on Direct Public Debt

	1992	1993	1994	1995	1996	1997	1998 Projected
	(In billions of escudos; national accounts basis)						
Interest payments	937.5	855.8	788.4	936.4	751.7	714.6	652.1
Domestic debt	902.3	816.0	727.1	838.6	640.1	589.2	511.8
External debt	35.2	39.8	61.3	97.8	111.6	125.4	140.3
	(In percent of GDP)						
Interest payments	7.3	6.4	5.4	6.0	4.5	4.0	3.4
Domestic debt	7.1	6.1	5.0	5.3	3.8	3.3	2.7
External debt	0.3	0.3	0.4	0.6	0.7	0.7	0.7
	(In percent)						
Implicit nominal interest rate							
Domestic debt	14.1	11.5	9.3	9.9	7.2	6.6	5.6
External debt	6.5	5.2	5.2	6.1	5.9	5.6	5.5
Implicit real interest rate 1/							
Domestic debt	3.2	4.1	3.0	4.8	4.5	3.4	2.2
External debt	-3.7	-1.8	-0.8	1.2	3.2	2.4	2.1
Memorandum item:							
GDP deflator	10.6	7.1	6.1	4.8	2.6	3.1	3.3

Source: Ministry of Finance and INE.

1/ Implicit nominal interest rate deflated by the GDP deflator.

Table 26. Portugal: Privatization Revenues

(In billions of escudos)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 Budget
Total privatization revenues	78.9	169.6	173.0	313.5	80.4	188.1	363.5	473.5	867.6	...
In percent of GDP	0.9	1.7	1.5	2.5	0.6	1.3	2.3	2.8	4.8	...
Fondo de Regularicacao da Divida Publica, FRDP										
Receipts from privatization	57.1	130.7	108.8	221.0	66.5	93.8	144.1	381.1	825.9	400.0
Privatization receipts used for debt reduction 1/	45.0	72.5	73.1	199.9	51.3	30.0	122.8	292.0	635.0	206.7
In percent of GDP	0.5	0.7	0.6	1.6	0.4	0.2	0.8	1.7	3.5	1.1
Privatization receipts used for capital injections 2/	11.8	23.8	15.4	26.9	31.9	43.7	45.3	68.6	211.5	200.0
Balance for next period	0.1	30.7	47.5	32.5	8.5	35.3	3.8	29.4	4.4	...

Sources: Ministry of Finance and INE.

1/ These amounts are shown as a financing item of the general government.

2/ These amounts do not appear in the enlarged public sector accounts because the transactions cancel out: an expenditure of the FRDP (an off-budget autonomous fund) and a capital increase in the affected public enterprises.

Table 27. Portugal: Major Privatizations, 1989–98

Enterprise	Tranche	Date	Method	Percentage sold	Total Revenue Esc, billions	Total Revenue US$, millions	Sector
Unicer	1st	4/26/89	Public offer	49.00	9.4	60.44	Brewery
Banco Totta & Açores	1st	7/10/89	Public offer	49.00	28.6	182.72	Banking
Aliança Seguradora	1st	10/2/89	Public offer	49.00	7.1	44.74	Insurance
Tranquilidade	1st	12/4/89	Public offer	49.00	25.8	166.04	Insurance
Unicer	2nd	6/28/90	Public offer	51.00	13.3	90.74	Brewery
Banco Totta & Açores	2nd	7/31/90	Public offer	31.00	22.4	159.03	Banking
Tranquilidade	2nd	10/9/90	Public offer	51.00	18.9	140.49	Insurance
Centralcer		11/12/90	Public offer	100.00	34.6	265.40	Brewery
Banco Português do Atlântico	1st	12/11/90	Public offer	33.00	49.8	381.52	Banking
Sociedade Financeira Portuguesa		5/6/91	Public offer	100.00	16.1	107.34	Finance
Aliança Seguradora	2nd	5/29/91	Public offer	51.00	6.8	45.94	Insurance
Bonança	1st	6/25/91	Public offer	60.00	18.8	120.43	Insurance
Banco Espírito Santo & C.L.	1st	7/9/91	Public offer	40.00	60.9	384.78	Banking
Banco Fonsecas & Burnay	1st	8/27/91	Public tender	80.00	36.1	240.85	Banking
Banco Espírito Santo & C.L.	2nd	2/25/92	Public offer	60.00	89.0	627.54	Banking
Mundial Confiança		4/14/92	Public offer	100.00	33.4	235.77	Insurance
Banco Português do Atlântico	2nd	5/25/92	Public offer	17.64	50.6	377.55	Banking
Petrogal	1st	6/4/92	Public tender	25.00	40.8	305.69	Oil
Banco Fonsecas & Burnay	2nd	7/20/92	Public offer	20.00	9.0	72.22	Banking
Império		11/17/92	Public offer	100.00	25.5	179.76	Insurance
Banif		11/23/92	Public offer	16.01	5.3	37.01	Banking
Crédito Predial Português		12/2/92	Public offer	100.00	40.8	288.41	Banking
Bonança	2nd	12/9/92	Public offer	15.00	4.3	30.75	Insurance
União de Bancos Portugueses	1st	2/3/93	Public offer	61.11	24.4	163.99	Banking
Banco Português do Atlântico	3rd	7/7/93	Public offer	17.50	32.4	200.26	Banking
Banco Português do Atlântico	4th	3/25/94	Direct sale	7.50	15.4	89.50	Banking
Cimentos de Maceira e Pataias	1st	5/31/94	Public tender	80.00	31.8	186.56	Cement
SECIL	1st	5/31/94	Public tender	51.00	31.2	182.84	Cement
CIMPOR	1st	7/4/94	Public offer	20.00	39.6	240.98	Cement
Banco Pinto & Sotto Mayor	1st	11/16/94	Public tender	80.00	37.3	235.05	Banking
Bonança	3rd	12/12/94	Public offer	25.00	6.6	40.88	Insurance
Banco de Fomento e Exterior	1st	12/27/94	Public offer	19.50	19.4	119.69	Banking
Banco Português do Atlântico	5th	3/24/95	Direct sale	24.40	75.1	507.66	Banking
Banco Pinto & Sotto Mayor	2nd	3/28/95	Public offer	20.00	6.8	45.93	Banking
Cimentos de Maceira e Pataias	2nd	5/29/95	Public offer	20.00	7.8	53.22	Cement
SECIL	2nd	5/29/95	Public offer	7.90	4.7	32.47	Cement
Portugal Telecom	1st	6/1/95	Public offer	14.49	74.9	495.71	Telecom.
Portugal Telecom	1st	6/1/95	Direct sale	12.77	67.9	449.85	Telecom.
Portucel Industrial	1st	6/27/95	Public offer	12.10	10.4	71.02	Pulp & Paper
Portucel Industrial	1st	6/27/95	Direct sale	32.20	29.1	199.49	Pulp & Paper
União de Bancos Portugueses	2nd	7/11/95	Direct sale	20.00	7.5	50.90	Banking
Petrogal	2nd	7/31/95	Public tender	20.00	40.0	277.11	Oil
Siderurgia Nacional - Planos		8/31/95	Public tender	90.00	5.4	35.38	Steel
Siderurgia Nacional - Longos		9/28/95	Public tender	80.00	3.7	25.19	Steel
Companhia Nacional Petroquímica	1st	4/24/96	Direct sale	99.00	12.7	81.33	Chemical
Portugal Telecom	2nd	6/11/96	Public offer	6.66	42.7	269.62	Telecom.
Portugal Telecom	2nd	6/11/96	Priv. placement	15.10	103.7	655.32	Telecom.
Banco de Fomento e Exterior	2nd	8/28/96	Public tender	65.00	136.0	895.91	Banking
CIMPOR	2nd	10/15/96	Public offer	20.47	50.2	323.17	Cement
CIMPOR	2nd	10/15/96	Priv. placement	24.53	65.3	420.16	Cement
Companhia Nacional Petroquímica	2nd	10/18/96	Public offer	1.00	0.1	0.82	Chemical
Banco Totta & Açores	3rd	11/19/96	Public offer	3.06	4.5	29.53	Banking
Banco Totta & Açores	3rd	11/19/96	Priv. placement	10.15	16.0	105.41	Banking
Tabaqueira	1st	12/19/96	Public tender	65.00	33.2	211.19	Tobacco
Banco de Fomento e Exterior	3rd	2/7/97	Public offer	3.50	5.6	33.52	Banking
EDP	1st	6/18/97	Public offer	16.23	211.1	1,210.85	Elect. utility
EDP	1st	6/18/97	Priv. placement	13.36	180.4	1,034.76	Elect. utility
Quimigal	1st	8/29/97	Public tender	90.00	8.1	44.68	Chemical
Portugal Telecom	3rd	10/9/97	Public offer	9.11	125.6	703.56	Telecom.
Portugal Telecom	3rd	10/9/97	Priv. placement	10.58	148.8	833.52	Telecom.
Portugal Telecom	3rd	10/9/97	Direct sale	6.31	88.7	496.86	Telecom.
Brisa	1st	11/24/97	Public offer	19.86	55.0	310.72	Motorways
Brisa	1st	11/24/97	Priv. placement	15.14	43.2	244.06	Motorways
Cimpor	3rd	5/18/98	Public offer	25.00	81.9	449.90	Cement
Lisnave - Infraestruturas Navais (ex-Setenave)	1st	5/5/98	Direct sale	94.90	2.0	11.00	Shipyard

Source: Ministry of Finance.

Table 28. Portugal: Timetable for Privatizations, 1998

Enterprise	Percent to privatize	Method
EDP - electricity company	20	Public offer/Private placement
CIMPOR - cement company	15	Public offer
ANA - airport management company	25	Public offer
Petrogal - oil company	20	Public offer
Gas de Portugal - natural gas		
Brisa - highway company	20	Public offer
Portucel - pulp and paper company	50	Public offer
Setenave		
Estaleiros Navais de Viana do Castelo - shipbuilding	100	
TAP - national airline	...	Direct sale

Source: Ministry of Finance.

Table 29. Portugal: Monetary Survey 1/

(In billions of escudos; end-of-period)

		1992	1993	1994	1995	1996	1997
I.	Net foreign assets	3,532.1	4,463.6	3,874.0	2,915.5	2,199.5	1,808.4
	Bank of Portugal	3,563.0	3,700.7	3,273.8	3,132.4	3,240.5	3,440.7
	Other monetary institutions	-30.9	762.9	600.2	-216.9	-1,041.0	-1,632.3
II.	Other claims on nonresidents	272.2	330.3	511.5	742.7	1,127.6	1,511.3
III.	Total domestic credit	10,751.3	11,694.0	13,072.0	14,634.2	16,389.5	17,987.0
	Net credit to general government	3,120.4	3,193.6	3,666.7	3,464.7	3,267.8	2,173.6
	Credit to the private sector 2/	7,630.9	8,500.4	9,405.3	11,169.5	13,121.7	15,813.4
	Credit to nonfinancial firms and individuals	6,868.4	7,636.0	8,363.2	9,626.0	11,030.7	13,645.4
	Nonfinancial public firms	4,919.1	5,144.6	5,315.2	5,705.2	6,109.7	7,391.2
	Other nonfinancial firms and individuals	1,949.3	2,491.4	3,048.0	3,920.8	4,921.0	6,254.2
	Credit to nonmonetary financial institutions	762.5	864.4	1,042.1	1,543.5	2,091.0	2,168.0
IV.	Other items net	-2,353.1	-3,137.1	-2,969.6	-2,598.1	-3,183.9	-3,766.3
	Capital and reserves	-2,129.7	-2,745.5	-2,877.5	-2,804.5	-3,093.0	-3,736.3
	Nonmonetary assets	-184.2	-289.1	-281.4	-221.5	-358.5	-448.0
	Sundry items net	-39.2	-102.5	189.3	427.9	267.6	418.0
Liquid assets held by the public (L) = I+II+III+IV		12,202.5	13,350.8	14,487.9	15,694.3	16,532.7	17,540.4
	Liquid assets held by nonfinancial residents (L-)	9,227.1	9,795.4	10,715.4	11,576.9	12,591.0	13,375.6
	Broad money (M2-)	9,054.2	9,702.0	10,586.2	11,434.4	12,468.2	13,288.6
	Narrow money (M1-)	3,116.3	3,354.5	3,589.4	3,901.2	4,302.2	4,894.1
	Currency in circulation	708.2	752.9	795.8	841.0	867.2	776.1
	Demand deposits	2,408.2	2,601.6	2,793.6	3,060.2	3,435.0	4,118.0
	Quasi-money	5,937.9	6,347.4	6,996.8	7,533.3	8,166.0	8,394.5
	Time and savings deposits	5,548.9	6,053.4	6,464.0	7,147.9	7,698.8	7,798.2
	Foreign currency deposits	93.0	116.7	360.6	154.8	185.0	233.9
	Certificates of deposits	119.7	65.1	31.8	30.2	38.1	62.3
	Repurchase agreements of securities	82.8	25.0	71.0	114.7	154.6	150.8
	Other quasi-monetray liabilities	93.5	87.2	69.4	85.6	89.5	149.3
	Treasury-bills and CLIPs	172.9	93.4	129.2	142.5	122.8	87.0
	Liquid assets held by nonmonetary financial institutions 3/	675.4	933.1	1,033.4	1,369.0	1,130.4	1,296.5
	Deposits and other liquid assets held by emigrants	2,300.0	3,622.3	2,739.2	2,748.4	2,811.3	2,868.3

Source: Bank of Portugal.

1/ Figures adjusted for the abnormal component of checks in process of collection in 1986–1991.
2/ Includes nonfinancial public firms.

Table 30. Portugal: Credit and Monetary Aggregates 1/

(Percentage change over previous year; end-of-period)

	1992	1993	1994	1995	1996	1997
Credit aggregates						
Total domestic credit	16.4	8.8	11.8	12.0	12.0	9.7
Net credit to the general government	7.7	2.3	14.8	-5.5	-5.7	-33.5
Credit to the private sector 2/	20.4	11.4	10.6	18.8	17.5	20.5
Credit to nonfinancial firms and individuals	17.6	11.2	9.5	15.1	14.6	23.7
Nonfinancial public firms	12.5	4.6	3.3	7.3	7.1	21.0
Other nonfinancial firms and individuals	32.0	27.8	22.3	28.6	25.5	27.1
Credit to nonmonetary financial institutions	53.0	13.4	20.6	48.1	35.5	3.7
Monetary aggregates						
Liquid assets held by the public (L)	16.1	9.4	8.5	8.3	5.3	6.1
Liquid assets held by nonfinancial Residents (L-)	13.4	6.2	9.4	8.0	8.8	6.2
Broad money (M2-)	16.7	7.2	9.1	8.0	9.0	6.6
Narrow money (M1-)	17.5	7.6	7.0	8.7	10.3	13.8
Currency in circulation	3.7	6.3	5.7	5.7	3.1	-10.5
Demand deposits	22.2	8.0	7.4	9.5	12.2	19.9
Quasi-money	16.8	6.9	10.2	7.7	8.4	2.8
Time and savings deposits	25.0	9.1	6.8	10.6	7.7	1.3
Foreign currency deposits	1,090.7	25.5	209.0	-57.1	19.5	26.4
Certificates of deposits	-55.8	-45.6	-51.2	-4.9	25.9	63.6
Repurchase agreements of securities	-69.5	-69.8	183.8	61.5	34.8	-2.5
Other quasi-monetray liabilities	-4.0	-6.7	-20.4	23.3	4.6	66.8
Treasury-bills and CLIPs	-54.8	-46.0	38.3	10.3	-13.8	-29.2
Liquid assets held by nonmonetary financial institutions 3/	63.4	38.2	10.7	32.5	-17.4	14.7
Deposits and other liquid assets held by immigrants	15.7	57.5	-24.4	0.3	2.3	2.0
Memorandum items:						
Inflation (CPI)	8.9	6.5	5.2	4.1	3.1	2.2
GDP deflator	10.6	7.1	6.1	4.8	2.6	3.1

Source: Bank of Portugal.

1/ Figures adjusted for the abnormal component of checks in process of collection.
2/ Private sector is defined to include nonfinancial public firms.

Table 31. Portugal: Sources and Uses of Base Money

	1992 2/	1993 2/	1994	1995	1996	1997
	(Stocks in billions of escudos; end-of-period)					
Sources						
Net foreign assets, Bank of Portugal	3,563.0	3,700.7	3,273.8	3,132.4	3,240.5	3,440.7
Net credit to general government	-237.8	-225.9	-220.7	-425.4	-275.8	-269.1
Credit to financial institutions	8.8	272.9	576.1	639.9	269.9	120.0
Credit to nonfinancial enterprises and individuals	0.0	0.0	29.7	30.2	31.7	33.4
Total A	3,334.0	3,747.7	3,658.9	3,377.2	3,266.3	3,325.0
Other compulsory deposits	0.4	0.0	0.0	0.0	0.0	0.0
Operations absorbing liquidity 1/	381.4	23.8	1,854.5	1,855.2	1,543.6	1,227.6
Capital and reserves, counterpart to foreign exchange fluctuations, sundry items (net)	170.7	692.7	554.7	303.7	368.1	760.7
Total B	552.5	716.5	2,409.2	2,158.9	1,911.7	1,988.3
Monetary base (= Total A - Total B)	2,781.7	3,030.4	1,249.7	1,218.3	1,354.6	1,336.7
Uses	2,781.7	3,030.4	1,249.7	1,218.3	1,354.6	1,336.7
Currency (notes and coins)	797.8	846.2	881.1	935.8	983.7	924.0
Reserves and other noncompulsory deposits 2/	1,983.9	2,184.2	368.6	282.5	370.9	412.7
	(In percent of monetary base)					
Sources						
Net foreign assets, Bank of Portugal	128.1	122.1	262.0	257.1	239.2	257.4
Net credit to general government	-8.5	-7.5	-17.7	-34.9	-20.4	-20.1
Credit to financial institutions	0.3	9.0	46.1	52.5	19.9	9.0
Total A	119.9	123.7	292.8	277.2	241.1	248.7
Other compulsory deposits	0.0	0.0	0.0	0.0	0.0	0.0
Operations absorbing liquidity 1/	13.7	0.8	148.4	152.3	114.0	91.8
Capital and reserves, counterpart to foreign exchange fluctuations, sundry items (net)	6.1	22.9	44.4	24.9	27.2	56.9
Total B	19.9	23.6	192.8	177.2	141.1	148.7
Monetary base (= Total A - Total B)	100.0	100.0	100.0	100.0	100.0	100.0
Uses						
Currency (notes and coins)	28.7	27.9	70.5	76.8	72.6	69.1
Reserves and other non-compulsory deposits	71.3	72.1	29.5	23.2	27.4	30.9

Sources: Bank of Portugal, *Boletim Estatistico*.

1/ Securities repurchase agreements, central bank monetary certificates, central bank intervention bills and time-deposits.

Table 32. Portugal: Official Interest Rates
(In percent)

		Regular Operations 1/	Standing Facility	Absorption of Liquidity
1997				
April	I	6.500	8.300	6.200
	II	6.300	7.800	5.800
	III			
	IV	6.300		
May	I			
	II	6.000	7.700	5.700
	III			
	IV	6.000		
June	I	6.001		
	II	6.002		
	III	6.000		
	IV	6.000		
July	I	6.000		
	II	5.700	7.400	5.400
	III	5.703		
	IV	5.700		
August	I	5.710		
	II	5.730		
	III	5.500	7.200	5.200
	IV	5.501		
September	I	5.502		
	II	5.500		
	III	5.500		
	IV	5.501		
October	I	5.535		
	II	5.500		
	III	5.502		
	IV	5.502		
November	I	5.550		
	II			
	III	5.300	6.900	4.900
	IV			
December	I			
	II			
	III	5.300		
	IV	5.308		
1998				
January	I	5.350		
	II			
	III		6.800	4.800
	IV			
February	I	5.100	6.900	
	II			
	III	5.100	6.800	
	IV	4.900	6.600	4.600
March	I			
	II	4.900		
	III	4.700	6.400	4.400
	IV	4.700		
April	I	4.730		
	II	4.700		
	III	4.700		
	IV	4.700		
May	I	4.710		
	II	4.500	6.200	4.200
	III	4.500		
	IV	4.500		

Source: Bank of Portugal.

1/ Since July 14, 1994 this rate corresponds to the weighted average repo rate,

Table 33. Portugal: Selected Interest Rates

	Overnight rate	3-month interbank deposit rate	3-month treasury bill 1/	1-year treasury bill 1/	10-year bond yield	Year-on-year CPI inflation
1995						
January	8.8	10.7	10.5	11.3	11.8	4.5
February	8.8	9.9	9.9	10.9	11.7	4.6
March	9.9	11.0	10.7	11.5	12.0	4.8
April	9.2	10.8	10.7	11.5	12.2	4.6
May	9.0	10.0	10.0	11.0	11.9	4.3
June	9.0	9.9	9.8	10.8	11.9	3.8
July	8.9	9.5	9.3	10.1	11.7	3.7
August	8.8	9.3	9.2	9.9	11.3	4.0
September	8.6	9.3	9.1	9.6	11.2	4.0
October	8.7	9.3	9.1	9.5	11.2	4.0
November	8.7	9.1	8.9	...	10.7	3.9
December	8.6	8.9	8.8	8.9	10.0	3.4
1996						
January	8.2	8.4	8.3	8.4	9.4	2.5
February	8.0	8.1	7.9	7.9	9.5	2.5
March	7.9	8.0	7.8	7.8	9.5	2.4
April	7.5	7.5	7.1	7.2	9.1	2.9
May	7.2	7.2	6.9	6.9	9.0	3.5
June	7.4	7.3	7.0	7.0	8.9	3.6
July	7.4	7.3	7.2	7.1	8.7	3.8
August	7.2	7.2	7.2	7.2	8.7	3.6
September	7.1	7.2	7.0	7.0	8.3	3.4
October	7.0	6.9	6.8	6.7	7.6	3.0
November	6.9	6.9	6.7	6.5	7.2	3.0
December	6.7	6.4	6.4	6.0	7.0	3.3
1997						
January	6.4	6.2	5.9	5.5	6.7	3.7
February	6.3	6.2	6.1	5.6	6.7	2.7
March	6.2	6.3	6.1	5.9	6.9	2.4
April	6.1	6.0	5.8	5.7	6.8	1.8
May	5.9	5.7	5.6	5.3	6.5	2.0
June	6.0	5.9	5.6	5.3	6.4	2.0
July	5.7	5.8	5.6	5.2	6.3	1.9
August	5.5	5.5	5.4	5.2	6.4	1.6
September	5.4	5.4	5.2	5.1	6.1	1.5
October	5.5	5.3	5.1	4.9	6.0	1.7
November	5.2	5.4	5.0	4.9	6.0	2.3
December	5.1	5.2	4.9	4.8	5.7	2.4
1998						
January	5.0	4.8	4.7	4.5	5.4	1.9
February	4.9	4.7	4.7	4.4	5.3	2.1
March	4.7	4.6		4.1	5.3	2.3
April	4.7	4.5	4.4		5.2	2.7
May	4.5	4.5	4.3	4.0	5.2	2.6

Source: Bank of Portugal.

1/ Primary market rates.

Table 34. Portugal: Lending and Deposit Rates 1/

(In percent)

	1995				1996				1997				1998
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.
Lending Rates													
Over 90 days and up to 180 days	13.8	13.5	13.0	12.7	12.3	10.8	11.2	11.0	9.7	9.1	8.2	8.4	8.1
Discount of commercial bills	16.2	15.9	15.6	14.6	14.4	13.6	12.9	12.1	12.2	11.6	11.1	10.7	10.3
Over 180 days and up to 1 year	14.5	13.4	11.8	13.3	12.2	10.6	10.7	10.0	10.1	9.6	8.1	8.0	7.5
Over 2 years and up to 5 years	15.3	15.7	14.6	13.6	14.2	13.2	12.5	11.0	10.7	10.0	9.0	7.9	7.7
Over 5 years	13.1	14.0	13.3	12.4	12.6	11.8	10.9	9.5	9.2	9.3	10.0	8.3	8.2
Deposit rates (time deposits)													
Over 31 days and up to 90 days	9.1	8.7	8.1	8.1	7.3	6.4	6.3	5.9	5.4	4.8	4.8	4.6	4.2
Over 90 days and up to 180 days	8.9	8.9	8.3	8.1	7.2	6.4	6.2	5.5	5.3	4.9	4.8	4.6	4.2
Over 180 days and up to 1 year	8.6	8.5	8.2	8.1	7.0	6.2	5.9	5.4	4.8	4.6	4.3	4.1	3.5
Over 1 year	8.4	8.4	8.1	8.0	7.1	6.1	6.0	5.3	4.8	4.5	4.2	4.1	3.4

Source: Bank of Portugal.

1/ Weighted averages; loans and advances to nonfinancial enterprises excluding public enterprises.
2/ Provisional data.
3/ Since May 12, 1992 limits on these rates were lifted.

Table 35. Portugal: Exchange Rate Developments

(Percentage changes over previous years) 1/

	1992	1993	1994	1995	1996	1997	1998
Rate of Portuguese escudo against:							
U.S. dollar, period average 2/	7.0	-16.0	-3.1	9.9	-2.0	-12.0	-7.7
U.S. dollar, end of period 2/	-8.6	-17.0	11.1	6.5	-4.5	-14.7	-5.8
ECU, period average 3/	2.5	-7.1	-4.4	1.2	0.5	-2.4	-4.2
ECU, end of period 3/	1.1	-10.1	1.0	1.9	-1.4	-3.9	-3.7
DM, period average 2/	0.9	-11.1	-4.9	-3.0	2.9	1.4	-2.1
DM, end of period 2/	-3.1	-11.2	-0.3	-1.4	3.6	-1.7	-2.1
Nominal effective exchange rate							
Bank of Portugal index 3/	3.2	-6.0	-4.1	2.0	-0.5	-1.9	-2.0
IMF 5/	3.6	-5.7	-3.4	1.7	0.2	-2.1	-3.7
Real effective exchange rate							
Bank of Portugal index 3/	8.1	-3.1	-1.8	3.4	0.3	-1.6	-1.5
IMF (ULC) 4/	11.4	-1.6	-1.2	4.2	-0.2	-1.9	-3.3
IMF (consumer prices) 5/	8.4	-2.9	-1.2	2.9	0.9	-1.8	-3.3
Memorandum items:							
Escudos per U.S. dollar, end of period 2/	135.0	160.8	166.0	151.1	154.2	175.3	185.9
Escudos per U.S. dollar, period average 2/	146.8	176.8	159.1	149.4	156.4	183.3	184.0
Escudos per DM, end of period 4/	86.3	97.0	102.0	103.6	101.2	100.8	102.8
Escudos per DM, period average 4/	90.7	101.9	102.4	101.7	99.8	102.3	102.2

Sources: Bank of Portugal; IMF, *International Financial Statistics*; and Fund staff estimates.

1/ A negative sign indicates a depreciation.
2/ Data for 1998 is for April
3/ Trade weighted vis-à-vis 13 competitor countries (weights adjusted periodically).
4/ Data for 1998 is for March.
5/ Data for 1998 is for February.

Table 36. Portugal: Merchandise Trade and Terms of Trade

(Customs basis)

	1992	1993 1/	1994	1995	1996	1997
Exports, f.o.b. (in billions of escudos)	2,473.9	2,557.3	3,084.0	3,629.4	3,937.0	4,335.7
Percentage change in unit value	-2.1	6.0	6.5	4.2	-3.7	0.6
Percentage change in volume	7.5	-2.2	13.2	12.9	12.7	9.5
Imports, c.i.f. (in billions of escudos)	4,086.0	4,031.6	4,677.0	5,215.6	5,639.1	6,298.7
Percentage change in unit value	-5.4	9.2	4.3	1.7	-0.2	0.2
Percentage change in volume	13.5	-5.8	11.3	9.7	8.4	11.5
Trade balance, fob-cif, (in billions of escudos)	-1,612.1	-1,474.3	-1,593.0	-1,586.2	-1,702.1	-1,963.0
Memorandum items:						
Market growth	2.5	-6.1	11.8	9.1	4.9	9.7
Change in competitor countries' prices (in US$, export weighted)	3.5	-9.5	2.0	12.2	...	...
Change in Portugal's export prices (in US$)	4.7	-11.6	3.3	15.3	-6.4	-11.5

Sources: Direcção-Geral do Comércio; Bank of Portugal; IMF Research Department and *International Financial Statistics.*

1/ National accounts estimates from 1993 onwards - Bank of Portugal.
2/ A negative sign indicates a depreciation of the escudo.

Table 37. Portugal: Geographical Distribution of Trade 1/

	1992	1993	1994	1995	1996	1997
Imports						
Industrial countries	86.1	84.3	83.7	83.3	83.9	83.5
Of which:						
EU-12	74.1	72.8	72.4	73.4	74.5	75.0
Of which:						
France	12.6	12.6	12.8	11.8	11.1	10.9
Germany	14.8	14.9	13.9	14.7	15.5	15.3
Italy	10.1	8.6	8.6	8.4	8.3	8.3
Netherlands	6.8	4.9	4.4	4.6	4.4	4.2
Spain	16.4	17.7	19.9	21.2	22.5	23.8
United Kingdom	7.0	7.4	6.5	6.6	6.7	7.4
United States	3.0	3.1	3.6	3.3	3.2	2.9
Japan	3.0	3.2	2.8	2.2	2.2	2.4
Oil exporting countries	4.1	4.8	5.4	4.8	4.5	4.4
Other	9.7	10.5	10.7	11.7	11.5	9.5
Exports						
Industrial countries	88.2	89.6	89.3	89.9	89.0	87.8
Of which:						
EU-12	75.7	77.6	77.1	78.6	78.0	77.5
Of which:						
France	13.9	15.1	14.6	14.1	14.1	13.1
Germany	18.8	19.6	18.8	21.5	21.2	20.8
Italy	3.8	3.0	3.3	3.4	3.7	4.0
Netherlands	5.3	5.2	5.3	5.3	4.9	5.4
Spain	14.6	14.6	14.6	15.2	14.4	14.9
United Kingdom	10.9	11.4	11.5	11.1	10.8	11.5
United States	3.4	4.4	5.1	4.5	4.6	5.1
Japan	0.7	0.8	0.8	0.8	0.8	0.7
Oil exporting countries	0.7	0.9	0.8	0.6	0.6	0.5
Other	9.5	8.6	8.4	8.7	9.8	8.5

Source: IMF, *Direction of Trade Statistics*.

1/ From 1993 onwards - source: Direcção-Geral do Comércio.

Table 38. Portugal: Composition of Exports

(Custom basis; in percent)

	1993 1/	1994	1995	1996	1997 2/
			(Share of total exports)		
Agricultural products	7.3	7.3	7.5	7.5	7.4
Energy products	3.4	4.1	3.2	2.3	2.3
Products of chemical industry	5.6	6.3	6.2	5.9	6.2
Wood, cork, paper and paper products	10.5	10.8	11.1	9.3	9.7
Hides, skins and textile products	8.7	8.4	7.7	7.5	7.9
Clothing and footwear	29.9	27.7	24.2	23.5	22.3
Metal and mineral products	6.0	6.1	5.9	5.4	5.5
Machinery	14.7	15.8	17.1	16.1	15.7
Transport equipment	6.5	6.0	9.8	15.6	16
Other	7.4	7.6	7.4	6.9	6.9
			(Volume percent changes)		
Agricultural products	-5.2	18.2	16.1	6.8	12.1
Energy products	2.7	51.8	-6.4	-35.7	-1.1
Products of chemical industry	3.1	27.5	3.0	5.6	15.8
Wood, cork, paper and paper products	3.2	7.2	0.2	7.5	7.6
Hides, skins and textile products	-3.6	11.7	3.5	5.8	11.8
Clothing and footwear	-5.1	6.4	-0.6	5.7	4.3
Metal and mineral products	3.2	10.9	5.7	3.3	15.8
Machinery	2.7	27.5	29.8	3.8	10.3
Transport equipment	-10.2	6.0	88.1	81.6	13.9
Other	3.1	18.6	18.4	4.8	9.7
Total	-1.7	14.8	13.0	12.2	9.9
			(Changes in prices)		
Agricultural products	0.7	1.7	3.0	2.2	-1.0
Energy products	12.0	-4.2	-1.8	13.4	11.2
Products of chemical industry	1.6	5.8	13.6	-3.4	-0.2
Wood, cork, paper and paper products	-3.8	15.7	19.8	-16.1	5.8
Hides, skins and textile products	4.6	3.9	4.7	-0.3	5.4
Clothing and footwear	3.8	4.7	3.1	-0.2	3.5
Metal and mineral products	0.7	10.0	8.8	-5.2	0.7
Machinery	2.0	0.8	-1.6	-1.4	-5.4
Transport equipment	-5.2	4.3	2.1	-8.8	-3.8
Other	1.5	4.2	-2.5	-3.2	0.5
Total	1.7	4.8	4.2	-3.8	0.4

Sources: Direcção-Geral do Comércio; INE; and Bank of Portugal.

1/ Data from 1993 onwards computed on a new, not directly comparable basis relative to previous years.
2/ 1997 nominal (and real) percent changes are calculated by the Bank of Portugal, based on comparisons of provisional data for 1997.

Table 39. Portugal: Composition of Imports

(Custom basis; in percent)

	1993 1/	1994	1995	1996	1997 2/
			(Share of total imports)		
Agricultural products	14.0	14.5	14.0	14.0	12.8
Energy products	8.8	8.5	8.1	7.6	8.1
Products of chemical industry	11.9	12.2	12.8	12.8	12.7
Hides, skins, wood, cork, and paper	5.7	6.0	6.3	5.9	5.8
Textiles, clothing and footwear	10.7	10.8	10.6	10.5	10.4
Metal and mineral products	7.2	7.9	9.0	8.0	8.6
Machinery	20.9	20.0	20.8	21.6	21.9
Transport equipment	14.8	15.0	13.0	13.9	14.0
Other	6.0	5.3	5.1	5.6	5.7
			(Volume percent changes)		
Agricultural products	4.6	15.8	6.9	6.0	5.1
Energy products	-0.6	11.0	7.1	-17.7	11.4
Products of chemical industry	1.9	16.1	10.6	11.6	12.0
Hides, skins, wood, cork, and paper	-3.9	14.9	8.8	4.7	13.0
Textiles, clothing and footwear	-6.5	12.7	8.9	6.9	10.9
Metal and mineral products	-7.1	20.0	15.7	4.3	22.0
Machinery	-9.9	8.0	17.1	12.6	14.4
Transport equipment	-16.7	15.9	-3.8	15.7	5.4
Other	-3.2	0.3	18.9	15.3	14.4
Total	-5.8	12.8	9.5	8.1	11.4
			(Changes in prices)		
Agricultural products	1.4	3.9	0.7	2.3	-0.7
Energy products	5.1	0.7	-0.3	18.6	4.7
Products of chemical industry	-1.1	2.1	6.1	-3.6	-1.0
Hides, skins, wood, cork, and paper	0.8	5.8	7.8	-3.6	-0.8
Textiles, clothing and footwear	-1.1	3.6	1.1	-0.6	1.7
Metal and mineral products	-2.6	7.3	9.1	-7.9	0.0
Machinery	0.0	3.1	-0.8	-0.7	-0.8
Transport equipment	4.6	1.5	0.9	-0.5	0.3
Other	-1.4	1.5	-6.1	-0.3	0.7
Total	0.8	3.1	1.7	-0.2	0.2

Sources: Direcção-Geral do Comércio; INE; and Bank of Portugal.

1/ Data from 1993 onwards computed on a new, not directly comparable basis relative to previous years.
2/ 1996 nominal (and real) percent changes are calculated by the Bank of Portugal, based on comparisons of provisional data for 1996.

Table 40. Portugal: Indicators of Tourism

	1992	1993	1994	1995	1996	1997
Tourist arrivals						
(In thousands)	20,742	20,579	21,759	23,066	23,252	7,859 1/
(Annual percentage change)	5.6	-0.8	5.7	6.0	0.8	3.2 1/
Number of person-nights	17,877	16,176	18,785	20,357	19,887	20,772
Of which:						
Germany	3,298	3,073	4,273	5,031	5,189	4,998
Spain	1,625	1,531	1,628	1,422	1,451	1,563
France	785	718	886	881	926	874
Netherlands	1,495	1,148	1,488	1,389	1,420	1,533
United Kingdom	5,697	5,378	5,523	5,738	5,569	6,074
United States	539	409	541	476	488	546
Japan	75	102	115	117	137	143
Tourist receipts						
(In millions of U.S. dollars) 2/	5,227	4,068	4,101	4,850	4,792	4,594
(Annual percentage change)	2.8	-22.2	0.8	18.3	-1.2	-4.1

Sources: Bank of Portugal; Direcção-Geral do Turismo; and IMF, *International Financial Statistics.*

1/ May 1997.

2/ New series (Bank of Portugal estimates) from 1993 onwards.

Table 41. Portugal: Balance of Payments - Transactions Basis

(In billions of escudos)

	1992	1993	1994	1995	1996	1997
I. Current account	-39.8	12.7	-366.3	-107.5	-232.4	-322.0
Goods and services	-1,072.4	-1,038.7	-1,140.7	-1,082.1	-1,194.1	-1,410.3
Merchandise f.o.b. 1/	-1,455.4	-1,286.1	-1,376.4	-1,350.3	-1,442.3	-1,673.5
Services	383.0	247.3	235.7	268.2	248.2	263.2
Transportation	-30.5	-26.9	-68.1	-28.8	-42.1	-63.4
Travel and tourism 1/	485.2	348.9	398.7	405.2	387.2	425.8
Insurance	-22.3	-16.1	-25.8	-31.5	-23.0	-26.0
Other services	-23.9	-31.0	-39.7	-46.8	-38.0	-44.0
Government operations	-25.3	-27.6	-29.3	-29.9	-35.9	-29.2
Income	-19.0	-22.8	-122.2	-102.3	-91.5	-86.2
Labour income	0.2	13.5	11.6	11.3	11.1	8.9
Capital income 2/	-6.6	-14.1	-104.5	-80.9	-66.3	-49.8
Other income	-12.6	-22.3	-29.3	-32.7	-36.3	-45.3
Unilateral transfers	1,051.5	1,074.2	896.6	1,076.9	1,053.2	1,174.5
Public	410.0	459.1	322.2	567.0	534.9	587.0
Private	641.5	615.1	574.4	509.9	518.3	587.5
II. Nonmonetary financial account	191.3	434.0	-284.4	-160.4	-504.3	-148.3
Direct investment	206.5	226.6	161.2	0.9	-8.9	12.6
Portuguese investment abroad	-92.9	-22.6	-47.0	-103.3	-118.0	-290.3
Foreign direct investment in Portugal	299.4	249.2	208.2	104.2	109.1	302.9
Portfolio investment	-220.2	313.8	93.7	-99.2	-275.2	213.1
Portuguese investment abroad	-50.3	-406.1	-551.7	-406.7	-923.1	-1,010.0
Foreign investment in Portugal 2/	-169.9	719.8	645.5	307.5	647.9	1,223.1
External credits	198.0	40.7	-152.6	14.3	-125.5	-20.8
Granted to nonresidents	-27.0	-28.4	-9.1	-47.7	-56.5	-17.1
Received	225.0	69.1	-143.5	62.0	-69.0	-3.7
Other operations	7.0	-147.2	-386.8	-76.3	-94.7	-353.2
Assets	...	-173.2	-390.1	-73.5	-91.7	-354.1
Deposits	...	-126.0	-329.4	-63.3	-96.4	-358.7
Other	...	-47.2	-60.6	-10.2	4.7	4.6
Liabilities	...	26.0	3.3	-2.9	-3.0	0.9
III. Change in short-term net foreign assets of banks 3/	-231.8	-883.2	388.9	703.2	1,248.7	834.2
IV. Operations still to be classified	...	12.0	6.2	11.6	9.4	14.4
V. Leads and lags and statistical adjustments	93.7	-3.5	-53.9	-481.5	-442.0	-447.3
VI. Change in official reserves	-13.4	428.1	309.5	34.7	-79.4	69.0
Assets	-14.3	434.0	259.3	50.1	-71.1	68.2
Liabilities	0.9	-5.8	50.1	-15.4	-8.4	0.8
Memorandum Item:						
Nonofficial capital account (II+III)	-40.5	-449.3	104.5	542.8	744.4	685.9

Source: Bank of Portugal.

1/ Figures estimated by the Bank of Portugal.
2/ Includes corrections resulting from accounting of portfolio investment income debits on a transactions basis.
3/ A plus (minus) sign indicate a net decrease (net increase) in assets or a net increase (net decrease) in liabilities.

Table 42. Portugal: Current Account - Transactions Basis

(In billions of escudos)

	1992	1993	1994	1995	1996	1997
I. Current Account	-39.8	12.7	-366.3	-107.5	-232.4	-322.0
Goods and Services	-1,072.4	-1,038.7	-1,140.7	-1,082.1	-1,194.1	-1,410.3
Merchandise f.o.b. 1/	-1,455.4	-1,286.1	-1,376.4	-1,350.3	-1,442.3	-1,673.5
Credits	2,482.6	2,557.3	3,084.0	3,629.4	3,937.0	4,335.7
Debits	-3,938.0	-3,843.4	-4,460.4	-4,979.7	-5,379.3	-6,009.2
Services	383.0	247.3	235.7	268.2	248.2	263.2
Transportation	-30.5	-26.9	-68.1	-28.8	-42.1	-63.4
Credits	195.6	189.7	169.9	229.2	225.2	232.6
Debits	-226.1	-216.6	-238.0	-258.0	-267.3	-296.0
Travel and tourism 1/	485.2	348.9	398.7	405.2	387.2	425.8
Credits	705.7	654.0	680.8	726.4	739.1	805.3
Debits	-220.6	-305.0	-282.1	-321.2	-351.9	-379.5
Insurance	-22.3	-16.1	-25.8	-31.5	-23.0	-26.0
Credits	41.4	41.8	15.3	16.6	26.5	26.0
Debits	-63.8	-58.0	-41.1	-48.1	-49.5	-52.0
Other services	-23.9	-31.0	-39.7	-46.8	-38.0	-44.0
Credits	217.0	237.9	233.3	254.5	264.3	256.8
Debits	-240.9	-268.9	-273.0	-301.3	-302.3	-300.8
Government operations	-25.3	-27.6	-29.3	-29.9	-35.9	-29.2
Credits	6.3	8.1	8.9	11.3	11.6	12.4
Debits	-31.7	-35.7	-38.2	-41.2	-47.5	-41.6
Income	-19.0	-22.8	-122.2	-102.3	-91.5	-86.2
Labor income	0.2	13.5	11.6	11.3	11.1	8.9
Credits	15.7	21.9	22.6	24.0	24.0	25.3
Debits	-15.5	-8.3	-11.0	-12.7	-12.9	-16.4
Capital income 2/	-6.6	-14.1	-104.5	-80.9	-66.3	-49.8
Credits	355.7	372.3	347.2	516.6	627.8	657.5
Debits	-362.2	-386.4	-451.7	-597.5	-694.1	-707.3
Other income	-12.6	-22.3	-29.3	-32.7	-36.3	-45.3
Credits	8.0	5.8	4.9	3.0	4.0	4.6
Debits	-20.6	-28.1	-34.2	-35.7	-40.3	-49.9
Unrequited Transfers	1,051.5	1,074.2	896.6	1,076.9	1,053.2	1,174.5
Public 3/	410.0	459.1	322.2	567.0	534.9	587.0
Credits	559.8	649.4	584.8	782.1	767.5	830.3
Debits	-149.8	-190.2	-262.6	-215.1	-232.6	-243.3
Private	641.5	615.1	574.4	509.9	518.3	587.5
Credits	697.5	696.0	643.8	584.1	584.7	640.5
Debits	-56.0	-80.9	-69.4	-74.2	-66.4	-53.0

Source: Bank of Portugal.

1/ Figures estimated by the Bank of Portugal.
2/ Includes corrections resulting from accounting of portfolio investment income debits on a transactions basis.
3/ Includes capital transfers from the European Union.

Table 43. Portugal: Net Foreign Direct Investment -
Breakdown by Main Sectors of Economic Activity and Country of Origin

	1992	1993	1994	1995	1996	1997
			(In millions of U.S. dollars)			
Total	2,015	1,410	1,309	698	708	1,728
Agriculture, forestry, hunting and fishing	16	13	3	1	11	5
Mining and quarrying	15	6	1	4	4	1
Manufacturing industry	258	277	599	268	-79	-27
Electricity, gas and water	9	138	12	276	-87	-105
Construction and public works	151	40	21	27	20	-13
Wholesale and retail trade, restaurants and hotels	-48	100	144	211	247	609
Banks and other financial institutions, insurance and real estate	1,521	777	489	-133	478	602
Other	93	58	40	44	114	656
			(In percent of total)			
Total	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry, hunting and fishing	0.8	1.0	0.3	0.2	1.6	0.3
Mining and quarrying	0.8	0.4	0.1	0.5	0.6	0.1
Manufacturing industry	12.8	19.6	45.8	38.5	-11.2	-1.6
Electricity, gas and water	0.5	9.8	0.9	39.5	-12.3	-6.1
Construction and public works	7.5	2.9	1.6	3.8	2.8	-0.8
Wholesale and retail trade, restaurants and hotels	-2.4	7.1	11.0	30.2	34.9	35.2
Banks and other financial institutions, insurance and real estate	75.5	55.1	37.4	-19.1	67.5	34.8
Other	4.6	4.1	3.0	6.3	16.1	38.0
			(In millions of U.S. dollars)			
Memorandum Items:						
Country of Origin						
Germany	111	210	347	126	-73	223
Spain	161	389	199	-130	579	450
France	359	99	148	162	75	103
United Kingdom	598	255	-17	186	194	89
United States	83	36	45	28	-121	460
Switzerland	62	124	159	86	153	-47
Japan	26	34	16	13	8	3
Other	615	263	413	225	-106	447

Source: Bank of Portugal.

Table 44. Portugal: Official Reserves 1/

(In millions of U.S. dollars; end-of-period)

	1992	1993	1994	1995	1996	1997	1998 March	1998 May
I. Net official reserves								
With gold at book value	24,240	20,957	20,354	20,719	20,633	18,754	18,445	18,149
With gold at market price	24,558	21,785	21,325	21,710	21,351	18,426	18,235	17,884
II. Assets								
With gold at book value	24,333	21,005	20,716	20,997	20,844	18,945	18,481	18,404
With gold at market price	24,651	21,833	21,687	21,988	21,562	18,617	18,271	18,139
Gold 2/								
At book value	5,188	5,189	5,189	5,189	4,993	3,265	3,068	2,923
At market price	5,506	6,017	6,160	6,180	5,711	2,937	2,858	2,658
Foreign currency	16,659	13,188	12,745	13,088	13,010	12,913	12,584	12,536
Official ECU	2,109	2,255	2,356	2,151	2,239	2,210	2,122	2,229
Other assets	378	374	426	569	602	557	707	716
III. Liabilities	92	48	362	278	211	191	36	255
Memorandum Items:								
Gold (in thousand troy ounces) 3/	20,080	20,080	20,082	20,082	20,084	20,085	20,085	20,085
of which: gold swaps with EMCF/EMI	4,016	4,016	4,016	4,016	4,017	4,017	4,017	4,017
SDRs	46	58	71	85	98	107	111	116
Reserve position in the Fund	314	302	337	450	461	423	570	569

Sources: Bank of Portugal; and IMF, *International Financial Statistics*.

1/ Assets and liabilities of monetary authorities (Bank of Portugal and Treasury).

2/ From May 1988 onwards, the book value of gold is US$323 per troy ounce. Since December 1986, the market price is determined following the valorization principle of the European Monetary Co-operation Fund (EMCF)/European Monetary Institute (EMI).

3/ Includes gold swaps.

Table 45. Portugal: External Debt

(In millions of U.S. dollars; end-of-period)

	1992	1993	1994	1995	1996	1997
Medium- and long-term bank debt	16,287	13,648	13,946	14,854	14,098	12,256
General government	3,995	2,099	1,973	2,229	1,965	1,763
Nonfinancial public enterprises	6,968	6,303	6,596	7,123	7,019	6,429
Monetary institutions	1,420	902	846	685	498	188
Other	3,904	4,344	4,531	4,817	4,616	3,876
Short-term bank debt	2,849	2,496	2,275	2,652	2,086	1,913
Bank of Portugal and other monetary institutions	103	18	20	45	42	54
Nonfinancial public enterprises	1,044	843	374	1,462	1,060	1,183
Other	1,702	1,635	1,881	1,145	984	676
Stock of public debt bonds held by nonresidents	3,891	5,609	9,523	11,609	12,490	14,890
Of which:						
Public debt bonds issued in domestic market (PTE)	2,434	2,234	3,148	2,350	2,116	3,231
Public debt bonds issued in external markets (foreign currency)	1,457	3,375	6,375	9,259	10,374	11,659
Stock of other bonds held by nonresidents	84	367	531	511	852	785

Source: Data provided by the Portuguese authorities.

Table 46. Portugal: Net External Position

(In billions of escudos)

	1994	1995	1996	1997
Net external position	2,111.1	1,249.4	1,768.2	2,250.4
Foreign assets	9,640.1	10,559.4	12,156.4	16,660.6
Foreign liabilities	7,528.9	9,310.1	10,388.2	14,410.2
Nonmonetary sector	-2,236.3	-2,367.8	-1,540.4	-1,061.5
Foreign assets	1,810.3	2,054.9	3,032.3	4,459.7
Deposits 1/	1,173.9	1,119.7	1,412.3	2,142.3
Securities held by residents 2/	636.3	935.2	1,620.0	2,317.3
Foreign liabilities	4,046.5	4,422.7	4,572.7	5,521.2
Included in the external debt	2,446.3	2,513.4	2,453.1	2,562.8
Securities held by nonresidents 3/	1,600.2	1,909.4	2,119.6	2,958.4
Monetary sector	4,347.4	3,617.2	3,308.6	3,311.9
Monetary authorities	3,238.1	3,095.8	3,226.5	3,438.0
Foreign assets 4/	3,295.7	3,137.3	3,259.6	3,473.0
Foreign liabilities	57.6	41.5	33.1	35.0
Banks	1,109.3	521.4	82.1	-126.0
Short-term	600.2	-216.9	-1,041.0	-1,632.3
Foreign assets held	3,734.9	4,280.9	4,357.9	5,534.5
Foreign liabilities	3,134.7	4,497.9	5,398.9	7,166.8
Medium and long term	509.2	738.3	1,123.1	1,506.3
Foreign assets	799.3	1,086.3	1,506.5	3,193.4
Foreign liabilities	290.1	348.0	383.5	1,687.1
Memorandum Item:				
Net external assets (DLX) of the monetary sector 5/	3,838.2	2,878.8	2,185.6	1,805.7

Source: Bank of Portugal.

1/ Deposits of residents with nonresidents banks (Source: BIS).
2/ Long-term debt securities (bonds) and short-term securities. The stock of these securities held by residentes corresponds to an estimate, obtained by accumulating flows.
3/ Long-term debt securities (bonds) and money market instruments held by nonresidents.
4/ Assets of Bank of Portugal and Treasury with gold valued at book value.
5/ Net external position of the monetary authorities and short-term net external position of banks.

Table 47. Portugal: Official Development Assistance, 1993–1997

(Disbursements in millions of U.S. dollars)

	1993	1994	1995	1996	1997
Official development assistance	247.5	308.3	268.5	220.1	251.0
Multilateral	57.0	93.1	91.8	65.1	...
European community	44.8	68.9	60.4	...	...
Other multilateral	12.2	24.2	31.4	...	...
Bilateral	190.4	215.2	177.4	155.0	...
Loans	80.7	68.4	67.4	...	...
Grants	109.9	146.8	111.4	...	...
Memorandum items:					
Official development assistance as percent of GDP	0.29	0.35	0.26	0.21	0.25
Exchange rate escudo / U.S. dollar 1/	160.7	166	149.9	154.2	...
GNP 1/	84,909	88,081	101,942	105,488	...

Source: OECD DAC Review.

1/ Exchange rate and GNP figures as published by the OECD's DAC.

Table 48. Portugal: Some Official Web Sites with Useful Statistical Information

Bank of Portugal:	www.bportugal.pt
Ministry of Finance:	www.min-financas.pt
Economic Research and Forecasting Department:	www.dgep.pt
Budget Department:	www.dgo.pt
Public Debt Institute:	www.igcp.pt
National Statistical Institute:	www.ine.pt
Ministry of Employment and Solidarity:	www.min-qemp.pt
Lisbon Stock Exchange:	www.bvl.pt
Oporto Derivatives Exchange:	www.bdp.pt