

**an**  
**Recovery**  
**Program**

**PORTUGAL**  
**COUNTRY STUDY**

Economic Cooperation Administration  
February 1949 • Washington, D. C.

# *Portugal*

## *Country Study*



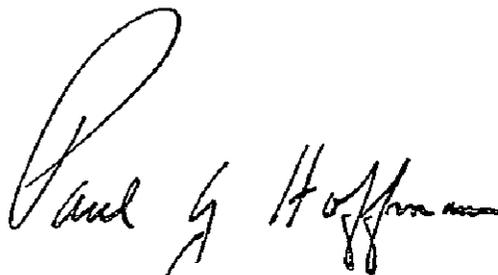
### *European Recovery Program*

Economic Cooperation Administration  
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This document is based on the best information regarding Portugal currently available to the Economic Cooperation Administration, and the views expressed herein are the considered judgment of the Administration. Both the text and the figures for 1949-50 are still preliminary in character; participating countries will therefore understand that this report cannot be used to support any request, either to the Organization for European Economic Cooperation or to the Economic Cooperation Administration, for aid in any particular amount for any country or for any particular purchase or payment.

A handwritten signature in cursive script, reading "Paul G. Hoffman". The signature is written in dark ink and is positioned to the right of the date.

*Administrator.*

FEBRUARY 14, 1949.

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## PART I

# Summary and Conclusions

Before the war, Portugal was one of the lowest-income countries in Europe, due mainly to the underdeveloped state of its economy. The Portuguese economy is devoted primarily to agriculture, which engages nearly 60 percent of its population. The country is virtually without heavy industry, and has for many years imported most of its machinery and fuel. Efforts by the Government in the last 20 years to accelerate industrialization have emphasized the development of hydroelectric resources, colonial development and the modernization of agriculture and transport.

In 1947, Portuguese industrial activity was at or above prewar levels, with output of coal, cotton textiles and cork higher than prewar. Agricultural production has suffered from recurrent drought in recent years, and in 1948 the wine, wheat, olive oil and corn crop was estimated to be well below the 1936-45 average. Because of an estimated lower production of wine, canned fish and cork in 1948, the outlook for Portugal's key exports in the near future is not good.

The balance of payments of Portugal and its colonies, which normally showed a surplus on current account of about 5 million dollars in prewar years, has been negative since 1947, chiefly for three reasons: (1) a rise in imports caused by pent-up demand as a result of wartime shortages and by some inflation; (2) an increase in agricultural imports on account of poor crops; and (3) greater imports of capital equipment to implement the industrialization program. As a result, Portuguese gold holdings, which amounted to 376 million dollars in July 1947 have been subjected to a heavy drain and are estimated at only 160 million to 170 million dollars as of June 30, 1949. Of this amount, about 140 million dollars is needed under existing legislation as legal backing for the country's currency, and the remainder will be sufficient to cover only a part of the estimated Portuguese balance of payments deficit for 1949-50. Foreign trade has been controlled by the Government since late in 1947 in order to reduce this drain on exchange reserves.

Because of the deterioration in its balance of payments position, Portugal had intended to apply for ERP aid during the first part of 1948. However, because by that time the first ERP appropriation had

already been fully allotted, Portugal was unable to obtain aid in 1948-49.

The following table indicates the size of ERP aid requested by Portugal in 1949-50 and the tentative aid figure estimated by ECA:

	<i>1949-50</i> <i>(In millions of dollars)</i>
Portuguese request for gross dollar aid.....	<sup>1</sup> \$100.6
ECA estimate of gross dollar aid.....	\$ 10.0

<sup>1</sup> According to OEEC document PR-48-51 (Rev. 5) of January 14, 1949, the revised Portuguese request for total ERP aid in 1949-50 amounts to 63.4 million dollars, consisting wholly of direct aid. The original figure of 100.6 million dollars includes 45.9 million dollars of direct and 54.7 million dollars of indirect aid. The basis of the 63.4 million dollar figure is not clear.

The Portuguese request for 100.6 million dollars was intended to cover what the country estimated would be its total gold and dollar deficit in 1949-50. ECA screening of the Portuguese import and export program has lowered the total gold and dollar deficit from 100.6 million dollars to 25-30 million dollars mainly by a drastic cut in capital equipment items. It is believed that this reduction can be effected without detriment to the Portuguese economy; in view of heavy imports of machinery during the three years immediately following World War II, it may be assumed that the more urgent replacements of capital goods not available during the war have been made, and that further imports of machinery would be principally for development purposes. While the United States is fully sympathetic to the desire of the Portuguese Government to accelerate the development of the economy in Portugal and its overseas territories, only a part of this development can properly be considered to fall within the objectives of the European Recovery Program. Accordingly, an aid figure of 10 million dollars has been tentatively estimated to be sufficient to make possible in 1949-50 such development as will contribute directly to the ERP. Such aid will serve to increase exports from Portugal and its colonies of items needed by the participating countries, such as foodstuffs, high-grade iron ore, chromium and manganese, and to reduce Portuguese imports of certain commodities, such as certain foods and fuels, which are now in short supply in the participating area as a whole. This aid could also benefit the United States by making possible an increased supply of strategic materials from continental Portugal and the colonies.

## PART II

# Chapter I. The Current Situation of the Portuguese Economy

### A. GENERAL CHARACTERISTICS OF THE PORTUGUESE ECONOMY

Portugal is an agricultural country with about 8½ million inhabitants and only 35,490 square miles of territory. Portugal has, however, a colonial empire, and must be placed among the five great colonial powers of Europe. The country's population is one of the fastest-growing in Europe, having risen from 170 to 240 inhabitants per square mile from 1920 to 1948. Portugal, like Italy, has in the past suffered from a serious disproportion between the rate of population growth and the rate of production growth. In the past, outlets for Portugal's excess population have been Brazil, the United States, and the Portuguese colonies.

The underdeveloped character of the Portuguese economy is shown by the fact that nearly 60 percent of Portugal's population is engaged in agriculture. The country's most important crop is wine, which is also its chief export item. Other important export products are cork, canned fish, and cotton textiles.

Because industrialization has proceeded slowly, Portugal has remained one of the lowest-income countries in Europe. Although no official income figures are available, the per capita national income in Portugal in normal years is believed to be lower than that of any other western European country, with the possible exception of Spain.

Since 1928, there has been a conscious effort on the part of the Portuguese Government to raise the standard of living by developing industry and modernizing agriculture. These efforts have centered mainly upon the development of irrigation, hydroelectric power, and transportation. Portugal is virtually without heavy industry because of a limited domestic supply of coal and a relatively underdeveloped transport system. For many years the country has been importing most of its machinery and fuel, including large amounts of petroleum. Plans and efforts to develop the country's power resources are intended

to render it independent of fuel and food imports, to develop its very small iron and steel industry and to solve such other problems as river navigation and flood control.

Before the war, the Portuguese Government adopted a 15-year plan to accelerate the industrialization of the country—a project which was delayed because of World War II. Wartime undermaintenance and a desire to recover lost ground have induced the Government to intensify its efforts for industrialization. One of the means currently employed to help accomplish this end is the control of imports—adopted in the fall of 1947—which is intended to ensure that only items essential to the country's current consumption and development shall be imported.

Because of the country's neutrality and its conservative fiscal policies, Portugal emerged from the war with a stable currency and with considerable reserves of gold and foreign exchange accumulated partly as a result of wartime sales of wolfram (tungsten) ore and tin to both belligerents, and partly because of a large inflow of refugee capital and the wartime reduction of imports. Economic activity generally is at the average level of the immediate prewar years.

As for the colonies, the Portuguese Government states that only Angola and Mozambique are in a position to make a quick contribution to European recovery, mainly in the form of increased food production. The territories named are producers of oilseeds, rice, corn, beans, meat and fish, and the Portuguese state that imports of machinery and electric power equipment are essential if irrigation, the use of more agricultural machinery and improved transportation are to lead to increased agricultural production.

## B. PRODUCTION

Portuguese industry has been operating at full capacity in the post-war period, and industrial unemployment is virtually nonexistent. In 1947 the production of cork, coal, and cotton textiles was higher than prewar, and the output of canned sardines was only slightly below the average 1935-38 level. The cotton textile industry, today one of Portugal's leading industries, has been steadily expanding during the war.

Table 1 on the following page shows the prewar and 1947 output of Portugal's principal industrial commodities.

The agricultural picture is not, on the whole, as favorable as the industrial. Portugal has suffered from droughts in recent years—notably in 1945 and in 1948. Also, a seriously reduced cork crop and sardine catch have been reported for 1948. Latest official estimates suggest that the additional foreign exchange cost to the Portuguese economy resulting from bad crops in 1948 might amount to around 25 million dollars as compared with the 1936-45 production average.

TABLE 1.—Continental Portugal: Prewar and 1947 output of principal industrial commodities

[Thousands of metric tons]

	1935-38 average.	1947
Cork.....	145	160
Canned fish.....	46	42
Coal.....	312	517
Cotton textiles (1938).....	116	22
Pyrites (1938).....	558	388
Wolframite (tungsten ore) (1938).....	2	2
Tin ore (1938).....	31	41

Source: Figures for cork, canned fish and coal were obtained from the 1948-49 Portuguese Annual Program; other sources as follows:

- <sup>1</sup> United Nations Monthly Bulletin of Statistics, November 1948.
- <sup>2</sup> Portugal-Instituto Nacional de Estatistica, Estatistica Industrial.
- <sup>3</sup> Foreign Commerce Yearbook, 1939.
- <sup>4</sup> Portugal-Boletim Mensal do Instituto Nacional de Estatistica.

The following table shows Portugal's production of principal agricultural commodities as estimated for 1948, in relation to a 10-year average.

TABLE 2.—Continental Portugal: Production of principal agricultural commodities

Commodity	Unit	1935-45 average <sup>1</sup>	1948 <sup>2</sup>
Wine.....	Million hectoliters.....	9	7
Wheat.....	Thousands of metric tons.....	370	232
Corn.....	do.....	304	343
Rye.....	do.....	103	120
Oats.....	do.....	83	92
Potatoes.....	do.....	602	650
Rice.....	do.....	72	35
Olive oil.....	do.....	56	20
Beans.....	do.....	40	41
Cork.....	do.....	136	80
Sardines.....	do.....	107	48

- <sup>1</sup> Portugal-Instituto Nacional de Estatistica-Estatistica Agricola.
- <sup>2</sup> Official Portuguese crop estimates for 1948.
- <sup>3</sup> Average for 1941-45 period.
- <sup>4</sup> Represents production in 1946, a normal year.

As may be seen, agricultural production in 1948, although bad, is not without its bright spots, since the output of rye, oats, potatoes, rice and beans is expected to exceed the 10-year average.

As for the Portuguese colonies, adequate production figures are not available, but the information on hand indicates that in 1948 the colonies will have shipped about 27,000 tons of raw cotton to the mother country, representing the bulk of continental Portuguese cotton requirements. The colonies produce considerable quantities of oilseeds, coffee, cocoa, sisal, sugar, beans, meat, and fish. An indication of the size of this colonial production is furnished by the fact that in 1946 total colonial exports amounted to 94.5 million dollars.

As for the postwar level of food consumption, the United Nations Food and Agriculture Organization estimates that in the fiscal year 1946-47 the average Portuguese daily per capita intake of food (ex-

cluding wine) was at the low level of 2,300 calories, approximately the prewar level. The items indicated below are still rationed in Portugal at this time. (Quantities indicated are per capita.)

*Bread.*—The daily ration amounts to 250 grams of ordinary bread or 154 grams of special quality bread, at the consumer's option.<sup>1</sup>

*Rice.*—500 grams of unpolished domestic rice, per month, in the Lisbon area; 100 to 700 grams in other areas. Domestic polished and imported rice are unrationed.

*Sugar.*—1 kilo of brown, locally processed sugar per month, in the Lisbon area; 300 grams to 1 kilo in other areas. Imported white sugar is unrationed.

*Laundry soap.*—500 grams monthly. Lower-grade soap is unrationed.

### C. INTERNAL FINANCE

Portugal experienced a certain amount of inflation during the war, partly because of the high cost and insufficiency of imports and partly because of heavy Government spending superimposed upon a large inflow of flight capital. The note circulation, which had stood at 2,550 million escudos (102 million dollars) in 1939, had by December 31, 1947, risen to 8,752 million escudos (350 million dollars). Demand deposits of Portuguese banks rose from 4,170 million escudos (166.8 million dollars) at the end of 1939 to 18,040 million escudos (721.6 million dollars) as of December 31, 1947. The public debt, which stood at 7,145 million escudos (285.8 million dollars) at the end of 1939, rose to 10,399 million escudos (415.9 million dollars) as of December 31, 1946.

The Portuguese wholesale price index, based on prices of both foodstuffs and non-foodstuffs in Lisbon, rose from 100 in 1938 to 236 in December 1947; and the official cost-of-living index for the city of Lisbon rose from 100 (representing an average for the period from July 1938 to June 1939) to 208 in December 1947. It must be pointed out, however, that these indexes reflect official prices only, which throughout the war and postwar period were considerably below black market prices. The wholesale price index reached its high of 276 in March of 1946, and hovered around 235 during the year ending July 1948, while the cost-of-living index reached its maximum point of 221 in April 1946 and fluctuated around 200 during the year ending July 1948. Despite this considerable rise in prices, the Government was able to cope with the situation through rationing and appropriate wage-price controls.

Having emerged from the war with a per capita public debt equivalent to only about 50 dollars and with a sound currency, Portugal may,

<sup>1</sup> While officially bread is still rationed, bakers are currently allowed to sell bread without ration cards; in fact, bread rationing was never effectively enforced in Portugal.

on the whole, be said to enjoy a relatively favorable internal financial condition.

## D. EXTERNAL ACCOUNTS

### I. General Characteristics

Metropolitan Portugal's exports in prewar years consisted largely of such products as wine, canned sardines, cork, cotton textiles, naval stores, wolfram (tungsten) ores and tin, pit props and pyrites. Since the war, cotton textiles have increased considerably in importance among Portuguese exports. As for Portuguese imports, the principal items consist of machinery, fuel, crude and semimanufactured iron and steel, raw cotton and grains.

The following table illustrates the trend of principal Portuguese exports since prewar:

TABLE 3.—Continental Portugal: Exports by principal commodities, 1938, 1946, 1947, and 1948-49<sup>1</sup>

Commodity	1938		1946		1947		1948-49	
	Thous- and metric tons	Thous- and dollars	Thous- and metric tons	Thous- and dollars	Thous- and metric tons	Thous- and dollars	Thous- and metric tons	Thous- and dollars
Wines (000 hl.).....	833	10,307	1,303	30,229	824	22,534	n. a.	<sup>2</sup> 30,350
Fish (canned).....	41	8,649	46	23,566	38	18,045	50	<sup>2</sup> 36,908
Cork (raw).....	113	5,533	165	17,751	159	18,162	130	n. a.
Cork (manufactures).....	11	2,202	25	15,137	20	13,949	n. a.	n. a.
Cotton (fabrics, yarns, etc.).....	5	3,712	7	20,452	7	21,547	n. a.	<sup>2</sup> 24,993
Naval stores.....	46	3,328	36	5,633	59	11,238	n. a.	n. a.
Timber.....	6	830	69	1,927	108	2,822	474	<sup>2</sup> 10,905
Wolfram ore.....	2	804	2	1,636	3	4,068	n. a.	<sup>2</sup> 3,600
Pyrites.....	554	676	242	1,599	303	1,921	<sup>2</sup> 250	n. a.
Tin ore.....	1	605	0	113	0	313	n. a.	<sup>2</sup> 2,000
All others.....		9,173		65,367		57,577		n. a.
Total exports.....		45,824		183,460		172,276		180,200

<sup>1</sup> Includes exports to Portuguese colonies.

<sup>2</sup> Portuguese program, unrevised by OEEC.

<sup>3</sup> Portuguese program, revised by OEEC.

Sources: Portugal-Instituto Nacional de Estatística, Comercio Externo and Portuguese 1948/49 annual program.

NOTE.—See table I of appendix for pseudo-dollar conversion rates.

The table indicates the extent to which Portuguese exports are concentrated in relatively few items; it shows also the considerable increase in prices of Portuguese exports since 1938, changes in tonnage being relatively small as compared with changes in value. Above all, the table shows that, despite wartime dislocations in international trade (such as the total loss of the German market immediately after the war) Portuguese exports in the immediate postwar years have, on the whole, fared comparatively well. A preliminary estimate of actual Portuguese exports for 1948, based on the first 8 months of that year, places the total at 169 million dollars. However, because of a lower production of wine, canned sardines and cork in 1948, the outlook for Portuguese exports in 1949 is not good.

The following table illustrates the trend of postwar imports into Portugal compared with prewar:

TABLE 4.—Continental Portugal: Imports by principal commodities <sup>1</sup>

	1938		1946		1947		1948-49 <sup>2</sup>	
	Thou- sand metric tons	Thou- sand dollars	Thou- sand metric tons	Thou- sand dollars	Thou- sand metric tons	Thou- sand dollars	Thou- sand metric tons	Thou- sand dollars
Machinery, vehicles, and ships.....	22	14,842	91	51,977	75	84,508	n. a.	76,713
Coal.....	1,148	7,668	586	12,892	914	19,104	1,266	16,420
Iron and steel.....	109	6,771	154	17,451	163	25,358	195	29,014
Grains.....	174	6,643	287	23,218	295	23,755	331	26,120
Cotton (raw).....	28	6,161	40	17,410	26	12,080	29	15,545
Codfish.....	43	5,007	17	6,974	28	11,770	n. a.	n. a.
P. O. L.....	196	4,583	359	17,127	717	18,897	675	19,599
Sugar.....	70	3,580	76	5,022	101	12,361	80	n. a.
Oilseeds.....	61	2,802	65	5,208	61	5,671	n. a.	n. a.
Nitrogenous fertilizers.....	71	2,439	62	4,159	49	3,449	<sup>3</sup> 20	5,000
Rock phosphates.....	127	707	251	4,608	170	2,326	200	2,150
All others.....		40,627		108,314		153,611		n. a.
<b>Total.....</b>		<b>101,830</b>		<b>274,360</b>		<b>378,480</b>		<b>325,748</b>

<sup>1</sup> Includes imports from Portuguese colonies.

<sup>2</sup> Portuguese program, as revised by OEEC.

<sup>3</sup> Tons of nitrogen.

Source: Portugal-Instituto Nacional de Estatística, Comércio Externo and Portuguese 1948/49 Annual Program. Coal figures for 1946 and 1947 obtained from ECE Coal Committee.

NOTE.—Value figures for 1938, 1946, and 1947 include ocean freight. Those for 1948/49 are f. o. b. values. See table I of appendix for escudo-dollar conversion rates.

The extent of the dependence of the Portuguese economy on industrial imports and grain may be judged by the following comparison of total prewar consumption of certain imported commodities with 1938 imports of these items:

TABLE 5.—Continental Portugal: Comparison of 1938 imports of certain commodities with their average prewar annual consumption

[Thousands of metric tons]

	Consumption average, 1935-38	Imports, 1938
Coal.....	1,400	1,148
Iron and steel.....	150	109
Grain.....	1,148	174
Cotton (raw).....	24	28
P. O. L.....	<sup>1</sup> 190	196

<sup>1</sup> Estimated on the basis of imports.

Source: Prewar consumption figures from Portuguese annual program 1948-49, except for coal, for which figure was obtained from ECE Coal Committee.

The marked increase in imports of machinery and iron and steel in postwar years over 1938 is significant, since it points unmistakably to an increased level of investment reflecting the desire of the Portuguese to accelerate the industrialization of their country. Part of this increase, however, (especially in 1947) must be attributed to the buying of de luxe automobiles and other relatively less essential con-

sumption goods; the former were one of the first items to be subjected to import licensing by the Portuguese Government, late in that year.

Lower imports of coal both during and after the war, due to a world shortage of that commodity, resulted in greater efforts at domestic production which, in 1947, stood about 200,000 tons above the 1935-38 average.

As for grains, higher imports of wheat in postwar years (mainly from the United States) are attributable largely to bad crops, which, as noted above, were due to low yields resulting from drought. Thus in 1940 the Portuguese wheat crop was 268,157 metric tons and in 1948 it is estimated at 282,000 metric tons, despite the fact that the area sown to wheat has been increased by 160,000 hectares above 1940.

The growing use of petroleum by Portuguese industry—mainly as a result of the wartime shortage of coal—promises to become a drain upon Portuguese gold and foreign exchange resources. It is for this reason—among others—that the Portuguese Government wishes to hasten the development of the country's hydroelectric power resources.

The table below shows the geographic distribution of Portuguese imports over a period of years. The increased dependence on the United States is noteworthy; in effect, the Portuguese appear to have turned to the United States for products which formerly came from Germany.

TABLE 6.—Continental Portugal: Imports, by country of origin, in percent of total value

	1938 (Percent)	1946 (Percent)	1947- (Percent)
United Kingdom.....	17	14	13
Germany.....	17	1	—
United States.....	12	25	31
Portuguese Colonies.....	10	15	7
Belgium.....	7	4	6
France.....	6	3	5
All others.....	31	38	38
Total.....	100	100	100

Source: Portugal-Instituto Nacional de Estatística, Comércio Externo.

The principal customers for Portugal's exports in 1947 were the Portuguese colonies, which took 26 percent of the total value of exports, followed by the United Kingdom, the United States, and Belgium, which accounted for 15 percent, 11 percent, and 10 percent, respectively. It is noteworthy that in 1938 the Portuguese colonies took only 12 percent of total exports, while the United Kingdom took 21 percent, and the United States and Belgium 5 percent each. Total exports to the Western Hemisphere were 18 percent of total value, contrasted with 11 percent in 1938. As for the United Kingdom, the fall from 21 percent in 1938 to 15 percent in 1947 reflects the British

"austerity" policy and explains, in part, the decline of wine exports in 1947 compared with 1946.

In line with the general European trend toward displacement of the Western Hemisphere as a source of supply, the Portuguese expect that in 1949-50 their purchases from the United States will decline from 31 percent (in 1947) to 22 percent of total imports. Purchases in other Western Hemisphere countries are expected to decline from 15 percent in 1947 to about 5 percent in 1949-50. The gain, totalling about 19 percent, is expected to accrue to the participating Sterling area.

The foreign trade of the Portuguese colonies consists principally of exports of oilseeds and vegetable oils, coffee, sugar, sisal, cocoa and other tropical products, and imports of machinery, transport equipment, petroleum, wheat flour and a variety of manufactured products. The trade of the colonies with continental Portugal is largely confined to exports of raw cotton, oilseeds and sugar. Colonial imports from the mother country consist mainly of wine.

## **2. Balance of Payments**

The trade balance of continental Portugal has, as a rule, been unfavorable, the only exception being the war period when Portugal accumulated large reserves of gold and foreign exchange due to heavy sales of wolfram (tungsten) ore and tin to both sides in the war and due to a heavy influx of flight capital. On the other hand, the balance of payments on current account for the Portuguese empire as a whole showed fairly regular annual surpluses of about 5 million dollars up to the beginning of World War II, due to the fact that the trade surplus of the colonies plus such invisibles as emigrant remittances, income from foreign and colonial investments, miscellaneous services, and capital transfers more than covered the trade deficit of continental Portugal.

Since World War II, the situation has changed, not as in the case of other participating countries because of a fall in the volume of exports, but because pent-up wartime demand for consumer and investment goods tended to swell postwar imports. A bad crop in 1945 made matters worse, but the main factor in Portugal's balance-of-payments difficulties is the cumulative effect of imports to carry out the national economic development program delayed by the war, and of imports to satisfy a variety of consumer demands which the accumulation of war earnings and some degree of postwar inflation had made effective.

The following table shows the size of the Portuguese trade deficit in prewar and postwar years:

TABLE 7.—Continental Portugal: Foreign trade balance: 1938, 1946, 1947, and 1948-49<sup>1</sup>

[In millions of U. S. dollars]

	1938	1946	1947	1948-49 <sup>2</sup>
Imports.....	3 82.8	4 230.0	3 348.7	4 295.5
Exports.....	40.2	142.1	126.9	146.1
Balance.....	-42.6	-87.9	-221.8	-149.4

<sup>1</sup> Excludes trade of continental Portugal with the colonies.

<sup>2</sup> Revised by the OEEC.

<sup>3</sup> Includes ocean freight, for which figures are not available.

<sup>4</sup> Excludes ocean freight.

Source: Portugal-Instituto Nacional de Estatística, Comercio Externo; and Portuguese 1948-49 Annual Program.

Because of the sharp increase in Portugal's trade deficit in 1947, the Government began to adopt import restrictions in the fall of that year. On October 3, 1947, imports of tires and deluxe cars were banned; since October 5, 1947, the importation of a long list of non-essentials has required an import license. On November 20, the Superior Foreign Trade Commission was created; its regulations went into effect on February 9, 1948. The Commission has the power to regulate Portuguese foreign trade and exchange dealings, subject to approval by the Council of Ministers. The core of Portuguese foreign trade regulations is the advance registration of all imports and exports with the Technical Corporative Council (a governmental body) through which the Government now exercises virtual control over foreign trade.

The nature and magnitude of the invisible items in the Portuguese balance of payments is shown in the following table:

TABLE 8.—Continental Portugal: Invisible items in the balance of payments:<sup>1</sup> 1939 and 1946

[In millions of dollars]

	1939			1946		
	Receipts	Expenditures	Balance	Receipts	Expenditures	Balance
Current account:						
Freight.....	0.3	0.7	-0.4	2.3	2.9	-0.6
Tourism.....	4.6	3.3	+1.3	5.7	1.6	+4.1
Emigrant remittances.....	9.2	.6	+8.6	15.9	2.8	+13.1
Investment income.....	2.0	1.6	+ .4	11.6	1.0	+10.6
Miscellaneous.....	8.1	8.2	-.1	35.6	55.7	-19.5
Balance.....			+9.8			+7.7
Capital account: Loans, investments, and other capital transfers.....	11.3	7.7	+3.6	28.0	7.5	+20.5
Total balance of invisibles.....			+13.4			+28.2

<sup>1</sup> Includes transactions with the colonies.

Source: Portugal-Instituto Nacional de Estatística, Situação Bancária, 1946.

The following table illustrates the area pattern of the balance of payments on current account of continental Portugal with foreign countries:

TABLE 9.—*Continental Portugal: Balance of payments on current account with foreign countries*<sup>1</sup>

[In millions of dollars]

	1945	1946
Participating countries.....	+6.6	-50.4
Western Hemisphere.....	+2.5	-43.0
Other nonparticipating countries.....	<sup>2</sup> -2	<sup>2</sup> -2
Balance on current account.....	+8.9	-83.6

<sup>1</sup> Includes transactions with the colonies.

<sup>2</sup> Spain.

Source. Portugal-Instituto Nacional de Estatística, Situação Bancária.

Unfortunately, Portugal has not submitted to the OEEC a detailed balance of payments for 1947 and 1948-49. However, the Portuguese have reported that the 1947 balance of payments of the Escudo Area with all countries, on current and capital account, showed a total deficit of 118.8 million dollars. While it is not possible to show in detail how this deficit was financed, it is, nevertheless, clear that to a large extent it was financed by liquidation of Government gold holdings.

As for the Portuguese colonies, their trade balance has been consistently favorable in the past and has fluctuated between a high of 15.9 million and a low of 8.1 million dollars. Portuguese statistics for 1946<sup>1</sup> place colonial imports at 94.8 million and exports at 94.5 million dollars, which shows that the colonial balance of trade tended toward equilibrium in recent years. Adequate data are lacking for colonial invisibles. However, the Portuguese estimate that in 1949-50 colonial invisibles will show a favorable balance of 20 million dollars, believed to be mainly intra-African emigrant remittances.

Because of the inadequacy of colonial statistics, no area break-down of the colonial balance of payments is possible for previous years. However, the 1949-50 Portuguese annual program, to be discussed in the next section, contains such a break-down for merchandise trade, and this will be shown.

### 3. Gold and Foreign Exchange Holdings

In the period 1939 to 1945 inclusive, Portugal accumulated a total of 661.8 million dollars in gold and foreign exchange, partly because of abnormally large wartime exports of wolfram ore and tin and

<sup>1</sup> Portugal-Instituto Nacional de Estatística, Anuario Estatístico, p. 356.

partly because of the heavy inflow of refugee capital. Total gold and foreign exchange holdings as of July 16, 1947, were as follows: <sup>2</sup>

TABLE 10.—*Portugal: Gold and foreign exchange holdings as of July 16, 1947*

[In millions of dollars and dollar equivalents]

Gold <sup>1</sup> .....	376.8
Dollars.....	13.1
Pounds sterling.....	315.8
Other foreign currencies of I. M. F. members <sup>2</sup> .....	2.2
Swiss francs, Swedish kronor, Argentine pesos and pesetas.....	2.9
<b>Total</b> .....	<b>710.8</b>

<sup>1</sup> Computed on the basis of \$35 per ounce of fine gold.

<sup>2</sup> Computed on the basis of rates reported to the I. M. F.

Source: CENEC Balance of Payments—Portugal, chart XIVa.

The following table obtained from official Portuguese sources shows Portuguese gold and foreign exchange holdings in certain years since 1933. Unfortunately, column 4 of the table includes both gold and foreign exchange, but the information given clearly evidences the fact that Portuguese prewar gold holdings were relatively small.

TABLE 11.—*Portugal: Gold and foreign exchange holdings in selected years*

[In millions of dollars]

(1) Year (end of)—	(2) Gold	(3) Foreign exchange	(4) Other foreign exchange and gold
1933.....	30.8	13.0	0.7
1935.....	36.4	18.3	3.6
1938.....	36.7	20.7	6.3
1941.....	53.7	61.4	127.7
1945.....	56.8	273.9	391.8
1946.....	241.6	196.8	399.7

Source: Portugal, Instituto Nacional de Estatística, Situação Bancária, 1946, pp. 20 and 22.

Because, during the war, legal reserves increased much faster than the note circulation and sight liabilities of the Bank of Portugal, the Government increased the latter's reserve requirements from 30 to 50 percent in April 1946. According to this increase, gold holdings against note circulation and sight liabilities of the Bank of Portugal totaling 14,228 million escudos (571.9 million dollars) as of November 30, 1948, should have been 143 million dollars, or 25 percent, while

<sup>2</sup> Portuguese short-term dollar assets in the United States were reported at 35 million dollars as of June 30, 1948 (Federal Reserve Bulletin, November 1948, p. 1437). Of this amount only 9.7 million dollars represented official holdings, while the remainder consisted of private working balances which cannot be considered available for covering a current dollar deficit. Long-term dollar assets (believed to be mostly private) amounted to 21 million dollars as of June 30, 1947. (Foreign Appropriations Bill for 1949—Hearings before Subcommittee of Committee on Appropriations, House of Representatives, 80th Cong., pt. I, p. 921, table XI.)

another 25 percent should have been foreign exchange. It may be noted that this ratio is high in comparison with that now actually maintained in other participating countries.

Available reports place Portuguese gold and dollar holdings at about 245 million dollars as of November 30, 1948. Since the Portuguese are estimated to be spending gold and dollars currently at the rate of about 93 million dollars a year, their total gold and dollar holdings as of the end of 1948 should be around 235-240 million dollars,<sup>3</sup> mostly in the form of gold. Assuming that the same rate of liquidation of gold and dollar holdings continues through 1948-49, and assuming a further drain of approximately 25 million dollars resulting from additional imports and reduced exports during the 1948-49 agricultural year due to relatively bad crops, the gold and dollar holdings of the Portuguese Government on June 30, 1949, should be in the neighborhood of 160 million to 170 million dollars.

Available estimates place total Portuguese sterling balances at the equivalent of 305 million dollars as of June 30, 1948. Since Portuguese sterling obligations as of December 31, 1946, amounted to the equivalent of 33 million dollars,<sup>4</sup> net Portuguese sterling assets as of June 30, 1948, may be placed at the equivalent of about 272 million dollars.<sup>5</sup> However, as in the case of the wartime sterling balances of other nations, this amount is now frozen, and the present tendency is for the United Kingdom to settle her current obligations to Portugal in such a way as not to give rise to transfers of gold or dollars. Any use of these sterling balances for purchases in other participating countries or the Western Hemisphere would, therefore, seem for the near future to be unlikely. However, although the use of these frozen sterling balances is restricted even within the sterling area, the OEEC report on the 1949-50 program (ch. II, Portugal, p. 2) states that Portugal's "deficit \* \* \* with the sterling area will be covered by capital arrangements agreed between the United Kingdom and Portugal."

<sup>3</sup> Excluding any net changes in private long- and short-term assets held in the United States.

<sup>4</sup> OEEC Balance of Payments—Portugal, chart XIVb.

<sup>5</sup> This assumes that the Portuguese sterling debt has not been substantially reduced since December 31, 1946.

# Chapter II. Justification of Possible ERP Aid in 1949-50

## A. INTRODUCTION

The Portuguese Government has submitted to the OEEC a balance of payments for 1949-50 in which the total ERP aid requested is 100.6 million dollars,<sup>1</sup> representing Portugal's total gold and dollar deficit for that year. In order to show the composition and relative importance of this amount within the framework of the general balance of payments of the Portuguese Empire for 1949-50, the latter is summarized as follows:

TABLE 12.—Portuguese Empire: General balance of current payments in all currencies for 1949-50, with the addition of capital transactions in gold and dollars<sup>2</sup>

[In millions of dollars]

	Nonparticipating countries			Participating countries		Total	DOT's	Total
	Western Hemisphere	Sterling area	Other	Sterling area	Other			
<i>Expenditures</i>								
Imports, continental Portugal.....	96.4	12.8	4.7	85.6	105.3	304.8	32.0	-----
Imports, Portuguese DOT's.....	33.6	8.7	.1	37.6	30.8	110.8	-----	-----
Total imports.....	130.0	21.5	4.8	123.2	136.0	415.6	32.0	447.0
Invisibles <sup>2</sup> .....	39.6	1.2	.7	33.2	14.2	83.8	-----	-----
Total expenditures.....	169.6	22.7	5.5	156.4	150.2	504.4	-----	-----
<i>Receipts</i>								
Exports, continental Portugal.....	35.1	7.9	11.7	37.5	61.1	153.4	36.2	-----
Exports, Portuguese DOT's.....	15.4	10.8	2.3	10.0	19.2	57.7	-----	-----
Total exports.....	50.5	18.7	14.0	47.5	80.3	211.1	36.2	247.2
Invisibles <sup>2</sup> .....	61.2	10.8	-----	57.4	12.6	151.0	-----	-----
Total receipts.....	111.8	38.5	14.0	104.9	92.9	362.1	-----	-----
Current account balance.....	-57.8	+15.8	+8.5	-51.5	-57.3	-142.3	-----	-----
Current account balance, sterling.....	-----	+15.8	-----	-51.5	-----	-35.7	-----	-----
Current a/c balance, gold and dollars.....	-57.8	-----	+8.5	-----	-57.3	-106.6	-----	-----
Gold and dollar capital transactions.....	+3.4	-----	-----	-----	+2.6	+6.0	-----	-----
Total gold and dollar deficit.....	-----	-----	-----	-----	-----	-100.6	-----	-----

<sup>1</sup> No balance of payments for capital transactions other than those in gold and dollars was submitted by Portugal to the OEEC for 1949-50.

<sup>2</sup> A break-down of invisibles, by categories, is given on page 23 of this paper.

Source: Portuguese 1949-50 annual program: General balance of current payments in all currencies and general balance of payments in gold and dollars.

<sup>1</sup> According to OEEC document PR-48-51 (Rev. 5) of January 14, 1949, the revised Portuguese request for total ERP aid in 1949-50 amounts to 63.4 million dollars. No details are now available as to how this reduced figure was reached.

Portugal's request is based primarily upon the argument that the import restrictions which that country adopted in the fall of 1947 will not, in themselves, be sufficient to assure equilibrium in the Portuguese gold and dollar balance of payments. This, the Portuguese contend, is especially true since the fiscal year 1949-50 is to be considered as the first year of the ERP 4-year program, in which heavy imports of capital goods will tend to swell the gold and dollar deficit.

The Portuguese contend that carrying out an ERP 4-year program in their country (which would be in effect a continuation of their long-term industrialization program mentioned above) will accomplish two important results: First, it will help render the country independent of the imports of fuel and food<sup>2</sup> which are now important factors responsible for the gold and dollar deficit; second, it will make available for export a number of agricultural and mineral products (such as fruits and vegetables, high-grade iron ores, chromium and manganese from continental Portugal; and oilseeds and vegetable oils from the colonies) as a result of better river transport and more widespread irrigation.<sup>3</sup>

The Portuguese hold that the credits which they have accumulated in the United Kingdom during the war were frozen at the time Portugal needed them to replace obsolete equipment and to continue its 15-year economic development program, delayed by the war; that, as a result, the country's gold and dollar reserves have had to bear a disproportionate share of the burden of the Portuguese industrialization program.

The following paragraphs make a preliminary analysis of the validity of Portugal's claim that it needs 100.6 million dollars of ERP aid in 1949-50.

## B. ANALYSIS OF IMPORTS IN 1949-50

### 1. Continental Imports

The principal imports of continental Portugal in 1949-50, broken down by areas, are as follows:

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<sup>2</sup> The development of hydroelectric power is expected to lead to large-scale irrigation projects which will increase crop production.

<sup>3</sup> The Portuguese expect that their power development projects will lead to the regularization and navigability of some of their rivers (in particular, of the Douro River) which they regard as a precondition for the export of iron ores at competitive prices. The Portuguese describe these ores as high-grade magnetites and hematites with an average iron content of about 50 percent and believe that as much as 2 million tons a year might be exported once river transport is available. They also believe that the region containing these iron ores might yield chromium and manganese, some of which was already exported during the war.

TABLE 13.—Continental Portugal: Principal imports, by commodities and areas, 1949-50

[Millions of dollars, f. o. b.]

	Western Hemisphere	Participating countries		All Others	Total	Quantity (thousand metric tons)
		Sterling area	Other			
Machinery and equipment.....	13 6	42 4	33 3		89 3	n. a.
Iron and steel.....	5 2	10 3	15 8	1 2	32 5	214
Grains.....	26 9			2 1	28 1	330
P. O. L.....	10 6	5	3 9	6 1	21 1	n. a.
Chemicals (including fertilizers).....	10 6	3 7	16 0	.8	31 1	n. a.
Solid fuels.....	4 5	11 7			16 2	1,160
Raw cotton.....	2 1			13 2	15 3	31
All other.....	23 7	17 0	36 2	26 2	103 1	n. a.
<b>Total.....</b>	<b>98 3</b>	<b>85 6</b>	<b>105 2</b>	<b>34 6</b>	<b>336 7</b>	<b>n. a.</b>

<sup>1</sup> This amount is payable to the nonparticipating sterling area.

<sup>2</sup> Includes 10.9 million dollars from the Portuguese colonies.

<sup>3</sup> Of these totals 32 million dollars will be imported from the Portuguese colonies.

Source: Portuguese 1949-50 annual program.

*a. Machinery and equipment.*—The most remarkable feature of the Portuguese 1949-50 import program is the size of machinery and equipment imports (89.3 million dollars), which are almost three times as large as any other category of imports and account for 29 percent of the total imports of continental Portugal. One third consists of power equipment, while another 30 percent is transport equipment.

Machinery and equipment imports of 89.3 million dollars in 1949-50 are substantially higher than those programmed for 1948-49 (76.7 million dollars). This, in turn, compares with 84.0 million dollars in 1947, a year in which excessive purchases of foreign goods led to import restrictions. The 1947 figure of 84 million dollars is fully 32.7 million dollars above that for 1946 (which was 51.9 million dollars) and is believed to include a considerable quantity of nonessential automobiles and tires. While, in general, tonnage is not a meaningful measure of machinery and equipment imports, it is perhaps of interest that in 1946 and 1947 an average of 83,100 metric tons of machinery and equipment was imported into Portugal against 22,218 tons in 1938. As for value, Portuguese machinery and equipment imports in 1936, 1937, and 1938 averaged 14.3 million dollars. Even if this figure is doubled to compensate for intervening price increases, giving a total of 28.6 million dollars, available figures would permit the estimate that average machinery and equipment imports in 1946, 1947, and 1948 were approximately 2½ times as large as in the three aforementioned peacetime years.

On the whole, it appears that the Portuguese machinery import program for 1949-50 reflects a desire to accelerate the industrialization of the country with ERP aid. While the United States is sympathetic to the desire of the Portuguese people and their Government for economic progress, it does not seem that this objective falls in its entirety

within the scope of the European Recovery Program. Accordingly, and considering the more critical balance of payments position and dollar needs of other ERP countries, it may tentatively be concluded that the projected equipment imports are in excess of the quantities that ECA should finance. It is therefore felt that in estimating requirements for ERP aid, a substantial reduction in imports of machinery and equipment would be appropriate.

*b. Iron and steel.*—Import requirements of iron and steel were programmed by Portugal at 29.0 million dollars (195,000 metric tons) for 1948-49.<sup>4</sup> This compares with actual imports of 163,700 metric tons in 1947, 154,200 metric tons in 1946, and with 108,700 metric tons in 1938. In view of the foregoing, scheduled imports of 214,000 metric tons in 1949-50 (of which about 15 percent from the United States) seem high, and some reduction in the gold and dollar import figure would seem called for.

*c. Grain.*—Imports in 1949-50 include an item of 21.8 million dollars for bread grains and one of 4.2 million dollars for coarse grains, both from the United States, or a total of 26 million dollars. In addition, 2.1 million dollars of grain imports from other sources are projected. Total grain import requirements in 1949-50 are placed at 330,000 metric tons. Although this tonnage is higher than in 1946 and 1947 (when it was 287,000 and 296,000 respectively) available estimates indicate that Portuguese requirements in 1949-50 have not been overstated. Accordingly, the Portuguese figure of 26.0 million dollars for dollar purchases of grains seems reasonable.

*d. P. O. L.*—The 21.1 million dollars programmed for gasoline and fuel oils in 1949-50 compares with 19.5 million dollars programmed in 1948-49, which represented 675,200 metric tons, almost equivalent to the 646,000 metric tons which the OEEC estimates as Portugal's total consumption in 1948-49. P. O. L. imports in 1947 were 18.8 million dollars (717,000 tons), 17.1 million dollars (359,000 tons) in 1946, and 4.5 million dollars (195,900 tons) in 1938. The considerable growth in petroleum consumption is thus readily apparent. Nevertheless, available estimates indicate that the figure of 21.1 million dollars for 1949-50 is somewhat higher than is warranted by anticipated consumption in that period and that some reduction in the program of gold and dollar imports of P. O. L. is indicated.

*e. Chemicals.*—Stated import requirements of chemicals (including fertilizers) amount to 31.1 million dollars in 1949-50. This compares with 26.4 million dollars in the 1948-49 annual program, with 19.9 million dollars in 1947 and with 5.1 million dollars in 1938. In view of the rather sharp rise in this item over a relatively short period of time, a reduction in the program of dollar imports of chemicals

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<sup>4</sup> Figure revised by the OEEC.

would seem to be indicated. It should be noted that the reduction is not made in imports of fertilizer—which Portugal needs rather badly—but applies to imports of other miscellaneous chemicals.

*f. Coal.*—Coal import requirements for 1949–50 are put by the Portuguese Government at 1,100,000 metric tons. About 75 percent of coal imports in 1949–50 are scheduled to come from the participating sterling area and only about 25 percent (or 4.5 million dollars) from the United States. This compares with a stated requirement of 1,266,000 tons for 1948–49, with 914,000 tons imported in 1947 and with 1,148,000 tons imported in 1938. The program figure for 1949–50 appears reasonable. However, in view of the anticipated availability of coal in the participating sterling area, it may be possible largely to eliminate the dollar expenditure of 4.5 million dollars by switching most of this sum to the United Kingdom.

*g. Cotton.*—Portugal has been importing virtually her entire requirement of raw cotton from the colonies, and purchases in the Western Hemisphere, usually made in Brazil, are quite small and are believed to be justified.

*h. Fats and oils.*—The Portuguese 1949–50 program calls for imports of 11.3 million dollars of fats and oils, of which 3.2 million dollars is to come from the Western Hemisphere and 1.6 million dollars from other participating countries, resulting in a total gold and dollar expenditure of 4.8 million dollars. On the other hand, 6.4 million dollars is scheduled to be imported from the colonies. Available estimates indicate that the Portuguese have underestimated their colonial production, and that imports of fats and oils from the colonies are likely to be close to 15.0 million dollars in 1949–50. However, since certain types of oils are not available in the colonies and must be imported from the Western Hemisphere, it is not possible to eliminate gold and dollar imports of fats and oils entirely.

## 2. Colonial Imports

Table 14 on the following page gives a break-down of the most important 1949–50 imports into the Portuguese colonies by areas, as shown in the Portuguese program.

If machinery and equipment plays a conspicuous part in the 1949–50 import program of continental Portugal, this is even more so in the case of the colonies where they comprise fully 68 percent of total imports. Of the 75.0 million dollars of machinery and equipment, 8.9 million dollars consists of power equipment, 14.2 million dollars of transport equipment, 21.3 million dollars of other inland transport equipment; agricultural machinery and tractors account for 14.3 million dollars, and oil-drilling equipment for 5.5 million dollars. Unfortunately, it is not possible to compare the 75-million-dollar figure with actual postwar imports. However, for 1948–49 machinery and

TABLE 14.—*Portuguese Colonies: Area and commodity break-down of principal imports, 1949-50*

[In millions of dollars]

Commodity	Western Hemisphere	Participating countries		All others	Total	Quantity, 1,000 metric tons
		Sterling area	Other			
Machinery and equipment, all types.....	22.5	26.0	25.6	0.9	75.0	n. a.
Iron and steel.....	.2	.7	1.3	.....	2.2	16
Grains.....	3.9	.....	.....	.....	3.9	35
P. O. L.....	3.3	2.8	.....	.....	6.1	273
Chemicals (miscellaneous).....	.6	1.1	.9	3.1	5.7	n. a.
Solid fuels.....	.....	3.7	.....	13.5	7.2	366
All others.....	3.1	3.3	3.0	1.3	10.7	.....
<b>Total.....</b>	<b>33.6</b>	<b>37.6</b>	<b>30.8</b>	<b>8.8</b>	<b>110.8</b>	.....

<sup>1</sup> From nonparticipating sterling area.

Source: Portuguese 1949-50 annual program.

equipment imports into the colonies were programmed by the Portuguese at only 12.5 million dollars, of which 10 million dollars consisted of railroad equipment and 1.2 million dollars of vehicles. Moreover, while up to 1947 the colonies showed a small trade surplus year in and year out, they would, if the 1949-50 program were carried out, show for the first time in their history a trade deficit of 53.1 million dollars in 1949-50 (of which 27.6 million in gold and dollars<sup>5</sup>) resulting mainly from these abnormally large imports of industrial equipment.

The colonial trade deficit by areas is shown in the following table:

TABLE 15.—*Portuguese Colonies: Area break-down of trade deficit in 1949-50*

[In millions of dollars]

Western Hemisphere	Participating countries		All others	Total trade deficit
	Sterling area	Other		
-18.1	-27.6	-11.6	<sup>1</sup> +4.2	-53.1

<sup>1</sup> Includes a credit item of 2.1 million in gold and dollars.

Source: Portuguese 1949-50 annual program, general balance of current payments in all currencies.

In examining the proposed program of colonial imports, the question is whether the use of ERP aid to finance the gold and dollar trade deficit of the colonies would make a more important contribution toward European recovery if spent in the Portuguese colonies rather than in continental Europe or in the overseas territory of other participating countries. If the Portuguese ERP 4-year program is carried out in the colonies as planned, the main recovery contribution of the colonies by 1952-53 will be a moderate increase in the export of oil kernels (mainly ground nuts and cashew nuts) and coal, as well as a

<sup>5</sup> Including a deficit with nonsterling participating countries in the amount of 11.6 million dollars.

moderate increase in the export of various other tropical products. The Portuguese visualize the resulting increase in colonial exports as follows:

TABLE 16.—*Portuguese Colonies: Estimated exports of certain products in 1946, 1949-50, and 1952-53*  
[Thousands of metric tons]

	1946	1949-50	1952-53
Oil kernels and cashew nuts.....	73	73	80
Copra.....	32	38	44
Sugar.....	120	130	155
Cocoa.....	11	11	12
Rice.....	7	10	50
Corn.....	120	139	150
Fish (dried, meal, and tinned).....	12	21	40
Frozen meat.....	0	0	7
Coal.....	16	300	590

Source: Portuguese memorandum to the OEEC on 1949-50 Program.

Apart from the coal estimate, which may be somewhat overoptimistic, it is not clear that the colonial developments under consideration for 1949-50 would make a contribution to European recovery entirely commensurate with the expenditure of ERP funds required to make possible the full amount of equipment imports shown in the 1949-50 program submitted by Portugal. A considerable reduction of the total 1949-50 colonial import figure, reflecting a reduction in equipment imports, would therefore seem indicated. (It should be borne in mind that the colonies would, even without ERP aid, be able to import 26.0 million dollars worth of well-diversified machinery and equipment from the Participating Sterling Area because of the favorable current Portuguese payment position in sterling. This amount is more than twice the 12.5 million dollars of machinery and equipment which the Portuguese programmed for the colonies for the fiscal year 1948-49.)

## C. PORTUGUESE EXPORTS AND INVISIBLES IN 1949-50

### I. Portuguese Exports in 1949-50

The following table gives an area break-down of Portuguese exports in 1949-50, both for continental Portugal and the colonies:

TABLE 17.—*Portuguese Empire: Estimated exports in 1949-50, by areas*  
[In millions of dollars]

	Western Hemisphere	Participating countries		All others	Total
		Sterling area	Other		
Continental Portugal.....	35.2	37.5	61.0	155.7	189.4
Portuguese colonies.....	15.4	10.0	10.2	13.1	257.7

<sup>1</sup> This amount includes exports of 36.1 million dollars to the colonies.

<sup>2</sup> This figure apparently excludes colonial exports to the metropole.

Source: Portuguese 1949-50 annual program.

Table 3 on page 7 above shows the principal exports of continental Portugal for 1938, 1946, 1947 and 1948-49, by tonnage and value. It should be stated at the outset that the general long-term outlook for Portuguese exports appears reasonably good. An increased production of cork—resulting in lower prices—may remove present uncertainties surrounding that item by restoring the former volume of exports. Because of the war, more Portuguese sardines and wines were imported into the Western Hemisphere than ever before, and since Germany and England may, in time, be expected to resume a part of their former imports of these products, the long-run outlook for Portuguese exports may be described as reasonably good. Moreover, the remarkable development of the Portuguese textile industry from 1938 to 1947 is an added guarantee that a possible displacement of one of the old-line export items will not find the country unprepared. Further industrialization, now the primary economic objective of the Portuguese Government, will result in greater diversification of exports than has hitherto obtained, and, hence, in greater economic security.

As regards Portugal's principal exports in 1949-50, wines are scheduled at 25.2 million dollars compared with 22.4 million dollars in 1947 and a target of 30.3 million dollars in 1948-49. The 1947 figure represents 824,600 hectoliters compared with 838,900 hectoliters in 1938. Since the 1949-50 figure does not seem out of line with prewar and 1947 performance, it may be regarded as reasonable. Since the Portuguese were able to export almost their full prewar volume in 1947, it is quite likely that this volume can be exceeded as world recovery continues.

In the case of canned fish, the Portuguese 1949-50 program calls for total exports of 36.2 million dollars, compared with 36.9 million dollars programmed for 1948-49. This figure represents 50,100 metric tons, compared with 38,200 tons in 1947, 46,600 tons in 1946, and 41,900 tons in 1938. In view of results achieved in recent years and of the reported poor sardine catch in 1948, the 1949-50 figure seems high, and a substantial downward revision in the target for gold and dollar exports of canned fish would seem indicated.

As regards cork, production in 1948 was estimated at 80,000 tons, compared with the high wartime level of 165,000 tons per year. Portuguese farmers are reported to be cutting the production of cork in the hope of keeping prices high. Also, exports of cork are reported to be meeting increased foreign competition. In view of this, estimated exports of 95,000 tons of raw cork in 1949-50 (which compares with 148,000 tons in 1948 (based on first 8 months) and 113,000 tons in 1938) seem to discount changed conditions fairly adequately. As for manufactured cork, programmed exports of 18,700 tons in 1949-50 compare with 20,020 tons in 1948 (based on first eight months), with 19,981

tons in 1947 and with 10,711 tons in 1938. The growth in exports of manufactured cork since prewar has been remarkable; the relatively slight reduction in 1949-50 as compared with 1947 and 1948 seems reasonable.

No information is available on the 1949-50 export target for cotton textiles, but official Portuguese figures for 1946 and 1947 show that exports of this item have been remarkably stable in recent years. Exports of lumber and naval stores have increased considerably over prewar.

## 2. Portuguese Invisibles in 1949-50

The 1949-50 Portuguese balance of payments merges continental invisibles with those of the colonies. As a result, it is necessary to show the combined figures, which are as follows:

TABLE 18.—*Portuguese Empire: Area breakdown of invisible items on current account, 1949-50*

[In millions of dollars]

	Western Hemisphere	Participating countries		All others	Total
		Sterling area	Other		
<b>EXPENDITURES</b>					
Transport.....	8.0	9.9	11.1	1.8	30.8
Tourism.....	.6	.4	.3		1.3
Income from capital.....	4.3	2.9	.2		7.4
Emigrant remittances.....	3.5	1.4			4.9
Other expenditures.....	23.2	18.6	2.6		44.4
<b>Total.....</b>	<b>39.6</b>	<b>33.2</b>	<b>14.2</b>	<b>1.8</b>	<b>88.8</b>
<b>RECEIPTS</b>					
Transport.....	5.8	6.3	10.2		22.3
Tourism.....	3.2	4.1	.4		7.7
Income from capital.....	5.1	11.6	.2		16.9
Emigrant remittances.....	17.3	7.6	.4		25.3
Other receipts.....	29.8	27.8	1.4		59.0
Other receipts of DOT's.....				19.8	19.8
<b>Total.....</b>	<b>61.2</b>	<b>57.4</b>	<b>12.6</b>	<b>19.8</b>	<b>151.0</b>
Debit balance.....			1.6		
Credit balance.....	21.6	24.3		18.0	+62.2

<sup>1</sup> Represents mainly emigrant remittances from nonparticipating sterling area.

Source: Portuguese 1949-50 Annual Program, General Balance of Current Payments in all Currencies.

Because of the various downward revisions in imports and exports outlined above, it is believed that the Portuguese deficit in all currencies for 1949-50 on current account could be reduced to a figure of 55 to 60 million dollars<sup>6</sup> without detriment to the Portuguese economy.

Complete 1949-50 balance of payments tables for the Portuguese Empire as originally submitted by Portugal and as revised by ECA are included as tables II and III, respectively, in the appendix to this report.

<sup>6</sup> The actual ECA estimate is 57.2 million dollars. See appendix, table III.

## D. CONCLUSION

The nature of Portugal's import program for 1949-50—in which capital goods play a predominant part—indicates that the Portuguese are not so much in need of assistance to recover from the ravages of war as to obtain capital for the development of their natural resources, both on the continent and in the colonies.

An analysis of Portuguese postwar imports indicates that purchases of machinery from abroad have been very high in relation to prewar years, due largely to the availability of substantial amounts of gold accumulated during the war. It would therefore seem reasonable to assume that some of the more urgent replacement needs due to wartime shortages have been met and that further imports of machinery may be regarded as being mainly for development purposes. While the United States is fully sympathetic to the desire of the Portuguese Government to accelerate the development of the economy of Portugal and its overseas territories, only a part of this development can properly be considered to fall within the objectives of the European Recovery Program. Accordingly, the Portuguese import program for 1949-50 has been reviewed and reduced, thus lowering the total Portuguese current account deficit in all currencies to 57.2 million dollars mainly by a considerable reduction in programmed imports of capital equipment.

Portugal's gold and dollar holdings as of June 30, 1949, are estimated at 160 to 170 million dollars. Since the present Portuguese central bank statute requires a gold reserve of 143 million dollars (as of November 30, 1948) against note circulation and demand liabilities, it would appear that part of the ECA-estimated gold and dollar deficit of 27.4 million dollars for 1949-50 could be financed out of Portugal's own gold and dollar resources without a change in the law.

The Portuguese indicate that their power development program would increase current relatively low exports of food to other participating countries by permitting more widespread irrigation; that it would lead to the navigability of some of their rivers which, in turn, would permit substantial exports of high-grade iron ores at competitive prices; that, in the process, an increased production of such strategic materials as chromium and manganese would become possible; and, finally, that power development would lessen the pressure on the Portuguese balance of payments by permitting a reduction in imports of fuel and food. These possibilities deserve serious consideration in the light of prevailing shortages.

In the sense that increased Portuguese farm and mineral production would directly benefit the other participating countries as well as Portugal and would increase the supply of strategic materials of

interest to the United States, Portugal's claim for ERP aid may be said to be valid. As to the possible size for which this aid might take, it is estimated that financial assistance of 10 million dollars, to be used exclusively for increasing the production of scarce commodities, is fully in line with ERP objectives.<sup>7</sup>

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<sup>7</sup> While the ECA estimates of ERP aid required in 1949-50 for all countries should be considered tentative, this is particularly true in the case of Portugal because of the comparative scarcity of adequate data concerning recent developments in the Portuguese economy and balance of payments, and because the OEEC has not yet had an opportunity to review the matter of aid for Portugal.

**PART III**  
**APPENDIX TABLES**

**TABLE I.—Portuguese Empire: Foreign exchange rates used in the conversion of the escudo into United States dollars**

Year:	Average foreign exchange rate for year (Cents per escudo)
1938.....	4.42
1939.....	4.03
1946.....	4.05
1947.....	4.02
1948.....	<sup>1</sup> 4.02

<sup>1</sup> Preliminary estimate.

Source: U. S. Department of Commerce.

**TABLE II.—Portuguese Empire: Estimated balance of payments on current account in all currencies, and total gold and dollar balance of payments, 1949-50, as originally submitted by Portugal**

[Millions of dollars and dollar equivalents]

	Dollar account			Nondollar account	Total
	United States	Other	Total		
1. Imports.....	105.2	29.6	134.8	280.7	415.6
2. Exports.....	31.3	33.2	64.5	146.5	211.1
3. Merchandise balance.....	-73.9	+3.6	-70.3	-134.2	-204.5
4. Invisibles (net).....	+14.9	+6.0	+21.0	+41.2	+62.2
5. Balance on current account.....	-59.0	+9.6	-49.3	-93.0	-142.3
6. Settlements <sup>1</sup> .....			<sup>2</sup> -100.6		
7. Amortization payments to U. S. agencies.....					
8. Net position.....			-100.6		
9. ERP financing.....			<sup>3</sup> +100.6		
10. Residual.....					

<sup>1</sup> Gold and dollar movements under terms of existing financial and commercial agreements with other participating countries and other nonparticipating countries.

<sup>2</sup> Includes a surplus of 6.0 million dollars on capital account.

<sup>3</sup> Amount of ERP aid requested by Portugal for 1949-50. According to OEEC document PR/48/51 (Rev. 5) of Jan. 14, 1949, the amount was revised downward to 63.4 million dollars, consisting wholly of direct aid. No explanation has been received from OEEC for the 63.4 million dollar figure.

TABLE III.—*Portuguese Empire: Balance of payments on current account in all currencies, and total gold and dollar balance of payments, 1949-50, as estimated by ECA*

[Millions of dollars and dollar equivalents]

	Dollar account			Nondollar account	Total
	United States	Other	Total		
Imports.....	72.8	29.9	102.7	221.9	327.6
Exports.....	29.0	31.4	61.3	143.7	205.0
Merchandise balance.....	-42.9	+1.5	-41.4	-81.2	-122.6
Invisibles (net).....	+15.5	+6.1	+21.6	+43.8	+65.4
Balance on current account.....	-27.4	+7.6	-19.8	-37.4	-57.2
Settlements.....			1-13.6		
Capital transactions.....			+6.0		
Net position.....			-27.4		
ERP financing.....			<sup>2</sup> +10.0		
Residual.....			<sup>3</sup> -17.4		

<sup>1</sup> Estimated gold and dollar movements under terms of existing financial and commercial agreements with nonparticipating countries.

<sup>2</sup> Assumes that 10 million dollars will be ERP aid.

<sup>3</sup> Use of Portuguese reserves.



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