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A Long International Monetary Fund Intervention: Portugal 1975-1979

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Introduction

Most of the literature on the interventions of the International Monetary Fund (IMF) in Portugal points to the June 1978 Stand-by arrangement (SBA) between the Portuguese authorities and the IMF as being the first such intervention (Nunes, 2010, Lopes, 1982 and 1996, Pinto, 1983, Schmitt, 1981, or Mateus, 2013). However, our research has unearthed facts that challenge such interpretation. The reasons are many. First, Portugal started using IMF resources since July 1975 and following policies to control the external deficit that were concordant with IMF principles and techniques since December of the same year. Second, Portugal signed an SBA in April 1977, one year before the 1978 one. And third, Portugal did not comply with the performance criteria of the 1978 SBA, which supposedly defined the first "intervention" and, consequently, did not receive any financial assistance from the IMF for its duration: June 1978 to May 1979. Zorrinho (2018) is a recent exception to the common interpretation, suggesting that, rather than a one-year intervention in 1978-1979 and a three-year one in 1983-1985, relations between Portugal and the IMF in order to restore external balance during the period 1975-1985 corresponded to a sort of decade-long IMF intervention, involving three SBAs and various other utilisations of IMF resources on the part of Portugal. We do agree with Zorrinho (2018) that the chronology of the first intervention should be enlarged but not with his proposed chronology, as we believe that the use of IMF resources was interrupted between 1978 and 1983 and that the third SBA signed with the IMF in October 1983 should be viewed in a different framework.

Although the 1978 SBA was the first to include conditionality with performance criteria, the truth is that it represented the conclusion of a long process during which Portugal drew heavily on IMF resources. That such use did not imply, until then, strictly monitored conditionality had to do with the fact, first, that some of it had been done within the first tranches of the country's IMF quota, something that did not imply conditionality (or only mild one) according to IMF rules; and, second, that another part of that use had been channelled through special facilities created by the IMF in the context of the 1970s crisis that were also granted with no conditionality attached. What is more, the Portuguese authorities started following austerity policies concordant with IMF principles since 1976,

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in the context of the use of the second special Oil Facility. The stance of the Portuguese authorities in the context of the use of these resources is interesting: as the facility did not require strong policy commitments on the part of the receiving countries, this means that the Portuguese authorities seem to have started following those policies largely on their own, or at least in tandem with the IMF, rather than constrained by it. Similar policies continued to be adopted in the following year, in the context of the negotiation of a first SBA. This April 1977 SBA already implied conditionality, although only of a mild kind: the Government should present a policy plan to be approved by the IMF, but no performance criteria to be closely monitored. The reason for this was that the resources used were still within the first tranche of the Portuguese quota. But the Portuguese authorities adopted an adjustment programme in association with the SBA nevertheless: many of the most important policies adopted in the context of the 1978 SBA had been in use since 1977. That the 1978 SBA implied stronger conditionality for the first time did not have to do with the amount drawn nor with the severity of the measures taken but with the fact that, after having exhausted the IMF resources implying low to no conditionality, Portugal was now forced to go beyond that first pool. All of this means, consequently, that Portugal was, in fact, under IMF assistance since July 1975 and under policies of the kind sponsored by the IMF since December 1975. This apparently overzealous attitude on the part of the Portuguese authorities seems to be related with their internalisation of the need to adopt austerity measures in order to deal with the combined effects of the 1973 oil shock and the 1974 Portuguese revolution, something that coincided with a change in the political cycle in the country, as the initial socialist inclinations gave way to capitalist moderation, from late 1975 onward. The relationship with the IMF and the kind of policies followed from then on were an integral part of that change.

A much relevant aspect of the 1978 SBA is that Portugal failed to comply with some of its performance criteria and, consequently, did not receive any IMF assistance for its duration. The explanation for this lies in the fact that Portugal was then using other, much larger, sources of external financing: preeminent among these was a $750 million loan granted by a syndicate of countries led by the US, but there were many other loans with different origins. This points to one further dimension

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of the process, namely that IMF assistance was only a small fraction of the external assistance received by Portugal in the period: the IMF was only responsible for 8% of that assistance, the remaining 92% coming from other sources, such as the Bank of International Settlement (BIS), the European Economic Community (EEC) and individual countries, for instance the US, the Federal Republic of Germany or the UK. The reason for Portugal being such a large recipient of foreign assistance had to do with the international political context of the time: Portugal became then a pivotal stage of the Cold War, as the possibility of it becoming the first Western European country to adopt a communist regime was seen as highly probable, with some also probable contagion effects to Spain, France, Italy or Greece. Therefore, Western countries contributed with significant amounts of assistance in order to keep the country firmly within the capitalist side of the divide. This also helps explain why the conditionality associated with the 1978 SBA was not too harsh and was ultimately not even complied with.

The remainder of this paper is as follows. The first section describes the economic and political context explaining the need for an IMF intervention in Portugal, starting with the economic context, from the international crisis to the effects of the national revolution, and followed by the political context, namely the progressive evolution from the radicalised environment of 1974-1975 into the more moderate one from 1976 onward. The second section addresses the transformations through which the IMF was passing through itself at the time, especially due to the 1970s international crisis. This affected its relationship with Portugal, namely with respect to conditionality. We also make a brief history of conditionality in this section. The third section makes a thorough description of the different interactions between the Portuguese authorities and the IMF between 1975 and 1979. The fourth section investigates the other international loans received by Portugal.

1. The economic and political context

The need for the Portuguese economy to obtain large external financing between 1975 and 1979 resulted from the combination of the 1970s international crisis and a political revolution in the country. Two major shocks affected the world economy in the early 1970s: the end of the so-called

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“Bretton Woods system” (the fixed-exchange rate mechanism created in 1945), in the sequence of the Nixon administration’s decision to terminate the convertibility of the US dollar into gold in August 1971; and the decision by the Arab countries of the Organisation of Petroleum Exporting Countries (OPEC) to embargo oil exports to various Western countries in October 1973 (Hamilton, 2011). The latter, especially, had a huge impact on the Portuguese economy (Amaral, 2019).

To these, a series of internal challenges having to do with the overthrowing in 1974 of an authoritarian regime (the *Estado Novo*), which had ruled the country since 1933, were added. The events leading to the toppling of the regime were initiated by a movement of junior military officers, whose starting point was a general dissatisfaction with their career prospects and combat conditions in the Colonial War, a military conflict in which Portugal was involved in three scattered theatres of war throughout Africa: Angola, Portuguese Guinea and Mozambique. The main point of these officers was to terminate the war, but they associated it with the overthrowing of the authoritarian regime. On 25th April 1974, together with some senior officers, they orchestrated a military coup. The old authoritarian regime fell but there was no consensus among the revolutionaries over what the new regime should be. From 1974 to 1976, they split over the issue, together with the political agents and society in general. The division followed a typical Cold War pattern, with some favouring a democracy of the Western type and others an outright socialist/communist regime (Reis, 1994a, and Ramos *et al*. 2009). Between September 1974 and March 1975, the latter reached control of the political levers of the country.

1.1 The economic context

The political evolution described above had crucial economic consequences. One of them was the eruption of a vast wave of labour unrest, with the occurrence of various strikes and episodes of occupation of firms by workers. The purpose of much of this activity was to obtain higher pay and shorter working time (Santos *et al.*, 1976-1977). With the revolutionary authorities abstaining from repressing labour, workers were generally successful in their demands: wages increased 7% and 14%

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in real terms in 1974 and 1975, respectively (Mateus, 2013). The various governments approved legislation favourable to labour: a national minimum wage was introduced, striking became legal, a general system of unemployment benefit was created, the old corporatist unions were extinguished, unionisation became free, and a new Labour Code was approved, making individual firing almost impossible and collective firing also difficult (Amaral, 2019).

While this was taking place, the labour market was rocked by a massive shock deriving from the process of decolonisation. Getting out of Africa was the main objective of the revolutionaries. Panic started spreading among the colonists of Angola and Mozambique (the two territories with sizable white populations) since mid-1974, and they started an exodus in the direction of mainland Portugal, in a process that corresponded to one of the largest population movements ever in Portuguese history: about 600,000 to 700,000 people (or something close to 8% of the mainland's population), most of them economically active, entered the mainland between late 1974 and early 1976 (Pires *et al*., 1984). And this was not the only shock to the labour market. The slowing down of emigration, as the other European economies were also dealing at the time with the effects of the international crisis, and the demobilisation of the soldiers involved in the Colonial War, were other major contributors. Labour supply expanded massively, as active population grew by about 400,000 persons between 1973 and 1975 (Amaral, 2009). So, right when both the international crisis and the increase in the supply of labour should lead wages to fall, the exact opposite happened, thanks to the political environment of the country. Labour became a much dearer factor of production, not only because of wages but also of the reduction of working time. Thus, firms, already threatened by the cost of energy (as well as of other imported goods) and the fall in national and international activity, felt straight-jacked by these unprecedented wage pressures.

In the extremely volatile political environment of the period, the difficulties felt by firms to keep production levels were understood by the revolutionary authorities as "economic sabotage". Pressures started thus growing for many companies to be nationalised and taken away from their owners. Eventually, in March 1975, these pressures were translated into policy, and one of the largest

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nationalisation programs ever in modern European history unfolded: the move was directed at both the property of the large business groups and at those sectors the revolutionary authorities considered to be "strategic" – in reality, both categories coincided largely (Valério, 2004, and Amaral, 2015). The process was quite rapid: the bulk of it occurred between March and September 1975. In the end, 250 firms or stock were directly nationalised. But, since many of these firms were banks with significant shares in non-banking firms, these were also affected, implying the indirect nationalisation of 1,300 firms. By 1976, the Government controlled totally or partially a wide variety of sectors: money emission, banking, insurance, basic metals, naval construction and repair, cement, paper and paper pulp, chemicals and petrochemicals. The Portuguese entrepreneurial public sector became one of the largest in the Western world, being then responsible for about 20% to 25% of GDP, 30% of investment, and 8% of the workforce (Baklanoff, 1996). Besides nationalisation, two additional processes affected the property structure of the economy: one was a movement of occupation of factories by their workers. Since many of these experiences faced various difficulties to survive, control was ultimately transferred to the Government in many cases: between 1974 and 1975, about 300 firms were passed into the hands of the Government, affecting roughly 100,000 workers (Lopes, 1996). The other process was something the revolutionary authorities called an "Agrarian Reform", leading to the occupation, with Government support, of a great number of large farms in four Southern/Central regions of the country by rural workers, small tenants and small farmers. Occupations started on 31st March 1975 and continued until the end of the year. By early 1976, 1,200,000 hectares of land had been taken away from their former owners and appropriated by the workers, who started running the farms in collectivist fashion. Roughly 13% of national territory, including about 4,000 farms, 70,000 workers and 1,000 owners, were affected by the process (Barreto, 1987).

This series of events led to a rapid deterioration of the balance of payments, as shown in Figure 1. Portugal had got used to a comfortable international payments position during the Postwar period. The persistent trade deficit, of about 5% to 7% of GDP in the 1960s and early 1970s, was normally compensated by income obtained from emigrant remittances and tourism. Emigration accelerated in

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the 1960s, involving both rural and urban workers taking the direction of the then fast growing north European economies, especially France and Germany: more than one million persons left the country between 1961 and 1974 (Baganha, 1994). These emigrants were then responsible for an extraordinarily high influx of remittances, which grew in the late 1960s and early 1970s to reach a peak of 9% of GDP in 1972, as shown by the item Transfers in the balance of payments displayed in Figure 1. Tourism also grew in the 1960s, as Portugal became a favourite beach destination for many north Europeans (mostly from the UK but also the Netherlands, Germany or Scandinavia) and, in 1973, the number of tourists visiting Portugal reached the number of four million (Marques, 2000). Foreign exchange originating in tourism grew in the 1960s until reaching a peak of 5% of GDP in 1966; it declined slightly afterwards but still remained at a level of about 3% until 1973 (Figure 1). Because of this, the current account stayed roughly in balance, displaying even some surplus years of significant size (3% of GDP).

It was this structure of international payments that the mid-1970s crisis destroyed. The trade deficit without tourism passed from 5%-7% of GDP to 10%-15% in the second half of the 1970s. The traditional amount of tourist payments and emigrant remittances would not have been enough to compensate for such a deficit, but the situation got even worse as both declined in these years (Figure 1). All of this was compounded with the collapse of the economy. The last thirty years of the authoritarian regime had been the best in terms of economic growth in all of Portugal's History. But from 1974 onwards there was a significant slowdown: as Table I shows, the economy crashed in the transition from one period to the other –the remaining Western economies also had a slowdown, but the process was much more pronounced in Portugal. In the words of Schmitt (1981, p. 1), "the problem of managing economic growth with a balance of payments constraint was new to Portugal".

The initial policy reactions were largely uncoordinated. In the words of Dornbusch (1981, p. 244), "balance of payments and exchange rate problems were not at the centre of public policy discussion in 1974-5. There was no experience with problems of external finance because there had traditionally been a surplus. In addition, of course, there were ample exchange reserves. More

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importantly, the social reorganisation was much more exciting than esoteric questions of trade balance adjustment, competitiveness or exchange rate management. In fact, there was little economic management. Mostly macroeconomics happened as a direct outgrowth of the revolution and disorganisation of the public sector. The Banco de Portugal paid the bills, albeit reluctantly". The first measures taken consisted in a return to capital controls and protectionism: in September 1974, the Government limited the amount of foreign exchange for travel purposes to be sold by the banks to 20,000 escudos per adult for trips longer than three days and to 6,000 escudos for trips shorter than three days, with other amounts being dependent of authorisation by the Bank of Portugal (BoP).[1] And in May 1975 it introduced a surcharge of 20% to 30% over a large number of imported goods.[2] At the time, the authorities opted for not depreciating the exchange rate and relied mostly on the vast amount of foreign exchange reserves to buffer the impact of international payments needs. As Figure 2 shows, the BoP started eroding its reserves of foreign exchange in 1974 and continued to do so until 1976. The lack of action on the exchange rate, together with the wage shock described above made unit labour costs and real exchange rate rise massively (Figures 3 and 4). The difficulties in international trade were made even more complex thanks to the interruption of trade with the Overseas Provinces when they entered their independentist processes, as these transactions still represented 14% of the mainland's overall trade in 1973 (Clarence-Smith, 1985). And the difficulties in obtaining foreign exchange from other sources also increased thanks to the impact of the revolution on tourists and emigrants: potential tourists started avoiding Portugal, now seen as a risky destination, and emigrants followed a similar reasoning, as they feared the destruction of their assets thanks to the volatile political situation and reduced the amount of remittances sent to Portugal. All of this can be seen in Figure 1, where the current account deficits are shown to fall to levels between 5% and 10% of GDP until 1977 (Amaral, 2019).

[1] Ordinance 565/74, 4 September 1974.
[2] Decree-law 271/75, 31 May 1975.

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Portugal was in desperate need of external financing, but had no access to private international markets, due to its volatile political and economic situation (Lopes, 1996). This is the context explaining the long involvement of Portugal with the IMF and other creditors in the second half of the 1970s.

1.2 The political context

Most of the interactions between the Portuguese authorities and the IMF took place from late 1975 onwards, when the Portuguese political situation entered a period of moderation in relation to the revolutionary developments in 1974 and 1975 described above. However, the path leading to such moderation was complex. The drive toward the revolutionary spell of March 1975 that determined the nationalisation and Agrarian Reform programmes was caused by a failed coup d'état organised by the more right-wing sections of the military group that had toppled the authoritarian regime: the radical left-wing sections of the group were able to defeat them and used the position of force to impose a radical revolutionary turn in the political process (Reis, 1994a, and Ramos *et al*, 2009). The radical military revolutionaries were able to force the political parties into signing an agreement whereby their right to oversee future political events was set, through two institutions: the Armed Forces Movement (MFA, *Movimento das Forças Armadas*), which acquired legislative powers together with the soon to be elected constituent parliament, and a so-called Revolutionary Council (CR, *Conselho da Revolução*), with the power to confirm legislation produced by the legislative powers. According to that agreement the military-revolutionary organisms were to last for five years (Reis, 1994a, and Ramos *et al*, 2009).

These arrangements became especially relevant as elections were going to take place on 25 April 1975 for the constituent assembly, according to the calendar initially set by the revolutionaries. The arrangement meant that, whatever the result of the elections, the military-revolutionary overseeing of the political situation was going to survive. The situation got particularly confusing as the elections produced a result favourable to moderate parties: the winner was a centre-left party

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that opposed many of the radical measures, the Socialist Party (PS, *Partido Socialista*) immediately followed by a centre-right party, the Popular Democratic Party (PPD, *Partido Popular Democrático*). The two together had most of the seats in the new assembly (Reis, 1994a, and Ramos *et al*, 2009). This divergence between the revolutionary drive of the military and the moderate tendencies of the population at large ensured a bitter conflict throughout the Spring and Summer of 1975 between the majority of the parliament and the many revolutionary agents (inside and outside the parliament). The situation was only settled when a failed left-wing coup on 25 November 1975 led to counter-actions: in an inversion of what had happened in March, the moderate and right-wing military and civilian forces won this time and used their new strength to promote a different political course (Reis, 1994a, and Ramos *et al*, 2009).

It was the sixth interim Government (i.e. before the Constitution was approved) that first negotiated a programme with the IMF in December, associated with the use by Portugal of the 1975 Oil Facility (see Section 3). The negotiations with the IMF and the policies adopted by the Government were part of a general change in policy stance after the revolutionary drift of the previous months. The moderation of the political process was furthered by the conclusion of the constituent process, on 2 April 1976, and the elections for the first constitutional parliament and Government, on 25 April 1976. The Constitution was an essentially liberal one, with some revolutionary incrustations, imposed by a new agreement between the revolutionary military and the constituent assembly: according to the agreement, the revolutionary legislation concerning nationalisations, Agrarian Reform and labour had to be incorporated in the Constitution, being classified as “irreversible conquests of the working classes” (article 83); additionally, the military CR was to survive, with a constitutional surveillance role, in order to guarantee that the legislation approved by the future parliament was to conform with the revolutionary spirit (even if MFA lost its legislative powers) (Reis, 1994a, and Ramos *et al*, 2009). In the end the Constitution included the revolutionary legacy and attributed an important institutional role to the President of the Republic, who had large powers to dismiss and nominate Governments, especially when parliamentary majorities were small. The expectation in 1976 was that the first

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President would be a military. The important role attributed to the President and the CR aimed at ensuring that the parliaments and governments of the young democracy did not drift away too much from the revolutionary path (Reis, 1994a, and Ramos *et al*, 2009).

The 25 April 1976 elections confirmed the general moderate leanings of voters, with PS and PPD coming in first and second positions again. The same message resulted from the first presidential elections on 27 June 1976, in which the candidate supported by the moderate parties won over a collection of opposing revolutionary candidates. The proportional system designed by the Constitution did not allow for a stable parliamentary majority. The winning party (PS), with about one third of the votes, decided to rule without full parliamentary support. This was the Government that signed an SBA with the IMF in April 1977 and implemented two "austerity packages" during the year (largely connected with the SBA, as we will see in Section 3). The Government's weak parliamentary support, together with the very unstable economic situation resulting from the measures negotiated with the IMF, did not allow it to survive beyond December 1977. The result was the formation soon after of a coalition Government, in January 1978, between the PS and the most right-wing party in the parliament. It was up to this Government to negotiate the June 1978 SBA with the IMF (see Section 3). But the Government collapsed in August 1978, and the rest of the implementation of the package fell on the shoulders of technocratic governments chosen by the President of the Republic (with vague support from the parliament). Three such governments followed, the first between August and December 1978, more strictly technocratic; the second between December 1978 and July 1979, with a more right-wing ideological undertone; and the third between July and December 1979, with a more left-wing ideological undertone (Reis, 1994a and 1994b, and Ramos *et al*, 2009).

An important element in the moderation of the Portuguese political landscape was the country's candidacy to join the European Economic Community (EEC). Until 1976, the member countries of the EEC had many doubts about inviting Portugal to join the club, essentially on account of the indeterminacy of its political evolution, as the risk of the country falling into the communist side of the Cold War had not disappeared yet. On the other hand, in the same period, Portuguese

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politicians did not show much interest in membership either. But by late 1976 the situation changed, as membership started to be associated with strengthening of democracy. On 28 March 1977 Portugal applied to become a member, initiating a long period of negotiations that only finished on 12 June 1985 (Cunha, 2015, and Castaño, 2018).

2. The IMF context

The IMF interventions in Portugal in the 1970s occurred in a period in which the organisation was in a state of flux, having to deal with major shocks to the world economy that implied an important redefinition of its functions. The IMF was born in 1944 as part of the Bretton Woods package, the institutional framework designed to restore orderly international economic relations at the end of World War II. Michael Bordo (1993) defined the Bretton Woods system as "a weak variant of the gold standard" (p. 19): a multilateral, full-convertibility system with no trade barriers and with fixed exchange rates, having the US dollar as its nominal anchor (rather than gold). The purpose of the IMF was to manage the system and its functions consisted in monitoring national policies and help countries passing through balance of payments difficulties. The Fund should act before such difficulties made countries change the value of their exchange rate or introduce trade barriers.

As noted by de Vries (1986, p. 11), "the system was intended to give countries more freedom than did the gold standard to pursue their macroeconomic policies […] so that they could reach their domestic goals, particularly the goal of attaining and maintaining domestic full employment". The system was, thus, a hybrid, where the advantages of free trade, convertibility and fixed exchange rates were to be combined with the advantages of Keynesian demand management. The founders of the system anticipated that pursuing domestic goals might bring external pressure. In case these pressures brought a balance of payments crisis, the IMF had to establish if this corresponded to a "temporary" or a "fundamental" imbalance. In the case of a "temporary" imbalance the Fund should rapidly assist the country in order to help it keep its par value exchange rate. In the case of a "fundamental" imbalance the country could revise its par value but always in consultation with the Fund. Only if such

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sort of measures proved insufficient to solve the problem were countries allowed to consider introducing trade barriers or capital controls, again always coordinating with the Fund (Horsefield, 1969). According to the IMF's Articles of the Agreement the Fund's resources were to be used to give member-countries "the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity",[3] namely exchange rate depreciation and protectionism. And the Fund's resources were understood as a secondary source of resources, after the country's own gold and exchange reserves (Horsefield, 1969).

Implementing this system proved difficult, however, as many countries kept on relying on trade barriers and exchange rate manipulation for some decades after World War II (Eichengreen, 1996). Even if by the mid-1960s some balance was finally achieved, soon new problems appeared. These problems were interconnected. One of them concerned international liquidity: as international trade and financial transactions grew, the availability of reserves for the overall system became scarce; this led to the conversion of the US dollar into the main reserve asset used by the different countries; but this created the problem of forcing the US to run a persistent balance of payments deficit. The combination of these issues put the whole system at risk. The IMF tried to solve it by creating on August 6, 1969 a new international asset allocated with the Fund, the Special Drawing Rights (SDR), something that led to the first amendment of the Articles of the Agreement also in 1969 (on 28 July), mostly to accommodate the creation of the new instrument (de Vries, 1976 and 1986). However, the amount of emitted SDR was never enough to be considered an alternative reserve to the dollar. At the same time the economies of the world, including those of the industrialised West, developed ever more serious balance of payments problems in the late 1960s and early 1970s. The US found it increasingly more difficult to keep its external deficits and the whole par value system crumbled when President Nixon suspended the convertibility of the US dollar into gold, on 15 August 1971. A problem that was soon compounded by the 1973 oil shock and the international economic crisis of the second half of the 1970s (Eichengreen 1996).

[3] Articles of the Agreement, article I, paragraph V.

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With the collapse of the par value framework the IMF lost its function as "guardian of the international monetary system" (Polak, 1994, p. 2) and "several critics intimated that the Fund had outlived its usefulness" (de Vries, 1985, p. 3). The IMF had, thus, to reinvent itself, and the main direction it took was that of "developing into an important lending institution" (de Vries, 1986, p. 118). Rather than being the instrument for the smooth functioning of a no-longer existent system of fixed exchange rates, the Fund started accepting different exchange rate arrangements, concluding in the second amendment to its Articles of the Agreement in April 1978, whereby the abandonment of the role of guardian of the par value system was formalised (de Vries, 1985). And with the development of its lending function to ailing countries, it increased its monitoring activities of the policies followed by the member countries. This links with another crucial issue associated with IMF activity, that of so-called "conditionality".

2.1 A brief history of conditionality

"Conditionality" is Fund parlance for the set of conditions imposed on the countries borrowing from its resources. Although the idea of imposing conditions in order to give loans seems a quite straightforward one, the truth is that it was very controversial throughout the Fund's history. In the beginning, at the time of the Bretton Woods conference, only the US favoured the imposition of conditions on borrowing countries, in what John Maynard Keynes (the main British negotiator at the conference) described as the will to exert over them a "grandmotherly influence and control" (quoted in Dell, 1981, p.1). The remaining 44 countries fought for unconditional access to those resources. The reason for this was clear: due to the conditions of the world economy at the end of World War II, the expectations of most countries were to be on the borrowing side of the equation; the US, on the contrary, held the opposite expectation (Dell, 1981, and Diz, 1984). In the end a compromise was set so that the original Articles of the Agreement established, as "conditions governing the use of the Fund's resources", only that the country was able to prove its need for those resources, thanks to its

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current international payments problems; the Fund had the discretionary power to interrupt or even refuse to liberate those resources (Articles of the Agreement, Article V, Section 3).

At this stage, the Articles of the Agreement were mute on what policies the countries should follow in order to be entitled to the Fund's loans and what financial conditions were associated with them (Dell, 1981, and Diz, 1984). "In the early years of the Fund there were totally unconditional transactions, within the limits established by the Articles" (Diz, 1984, p. 220). But criticisms started arising over this practice, so that on February 13, 1952, the Executive Board decided that it should have power to assess "whether the problem to be met is of a temporary nature and whether the policies the member will pursue will be adequate to overcome the problem within such a period" (quoted in Dell, 1981, p. 10). SBAs should be envisaged for drawings from the Fund's resources, and repayment periods should be established between 3 and 5 years. This was complemented with further decisions in 1955 that there should be a differentiation between different types of drawings: drawings in the first credit tranche should be practically automatic, especially those within the "gold tranche" (Diz, 1984), but "the larger the drawing in relation to a member's quota the stronger is the justification required of the member" (quoted in Dell, 1981, p. 10).

The Fund's conditionality principles became clearly defined during the 1950s. As it was stated in its 1955 Annual Report: "access to the gold tranche is almost automatic; and requests for drawings within the next 25% (the so-called 'first credit tranche') are also treated liberally but, even so, such requests will be approved only if the country asking for assistance can show that it is making reasonable efforts to solve its own problems. For drawings beyond that tranche (i.e. beyond the first 50% of the quota), substantial justification is required" (quoted in Diz, 1984, p. 222). Finally, on September 20, 1968, the hallmarks of conditionality were defined in a clear way by an Executive Board decision, whereby: "a. Clauses requiring the member to remain in consultation with the Fund were to be included in all stand-by arrangements. Periodic consultations were also to be required in all cases of drawings beyond the first credit tranche, whether under a stand-by arrangement or otherwise; b. In stand-by arrangements limited to the first credit tranche, no provision would be made for phasing

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of amounts drawn or for the achievement of performance criteria as a condition of each additional drawing. Such provision would, however, 'normally be included' in all other stand-by arrangements but would be applicable only to purchases beyond the first credit tranche; c. Performance clauses would be limited to stipulating criteria necessary to evaluate the implementation of a member's stabilisation programme" (de Vries, 1976, p. 347). In 1969 the principle of conditionality was given full legal force by its inclusion in the first amendment of the Articles of the Agreement. From then on, countries having signed an SBA with the IMF should present an "economic programme" to be approved by the Executive Board and be subject to frequent "consultation" by the IMF staff (Diz, 1984). Between 1952 and 1968 the IMF approved 107 SBAs corresponding to a total of SDR 12,941 million (Diz, 1984, p. 225).

Right when the IMF was perfecting these concepts and techniques the world economy entered into a dramatic period that forced it to relax conditionality. Between 1966 and 1975 the IMF made access to its resources easier. In 1966, it liberalised access to the Compensatory Financing Facility, a scheme that had been created in 1963 to help primary producing countries deal with sudden shortfalls in exports receipts. The facility did not imply conditionality but access to it had been made relatively difficult until then (de Vries, 1976). Between 1966 and 1971 the Executive Board introduced a buffer stock financing facility, especially dedicated to developing countries facing wide price fluctuations of their exports. By financing buffer stocks, the IMF helped stabilise prices (de Vries, 1976). In 1974, the IMF introduced a temporary Oil Facility, dedicated to countries having difficulties in dealing with the oil shock. The facility did not involve conditionality. This was followed by a new temporary Oil Facility in 1975, involving some conditionality but of a mild kind: countries were only asked to make a statement on the policies they were intent on following to deal with the balance of payments difficulties but no performance criteria or phasing applied. The facility was discontinued in 1976 (de Vries, 1985, and Diz, 1984). Also in 1974, the Fund created an Extended Fund Facility, which implied conditionality similar to that used in SBAs but involving larger loans and longer periods (Diz, 1984). A final approach to the issue of easier access to the Fund's resources implied increasing the countries

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quotas with the Fund in 1970, 1976 and 1978: this also brought less use of conditionality in the sense that it increased the amounts that countries could use without having to resort to SBAs. The latter had increased in number between the mid-1960s and mid-1970s not only because of increased needs by member countries but also because quotas had diminished in relative size in comparison with the world economy (de Vries, 1985): "as more and more countries began to use resources in the upper credit tranches because of the Fund's limited size, average conditionality increased not as a consequence of a conscious political decision to change the degree of the Fund's conditionality but rather as an inevitable and negative […] by-product of an insufficient own-resource base" (Diz, 1984, p. 229).

Due to the new economic circumstances and the new practices by the IMF, drawings by member countries from the Fund's resources were much higher from 1966 onwards than at any time in its previous history (de Vries, 1986). Between 1963 and 1973, the IMF signed 200 SBAs with 40 countries, covering the whole spectrum from developed to developing ones (de Vries, 1986, p. 89). And the pace increased in the following years, when 100 SBAs, involving SDR 23.4 billion, were signed between 1971 and 1978, including two of the largest ever with the UK and Italy in 1977 (de Vries, 1985, p. 423). The two SBA signed by Portugal analysed in the next section were part of this set.

The bureaucratic pieces of SBAs were progressively formalised between the 1960s and the 1970s involving: a) the "letter of intent", where the authorities (normally the Minister of Finance and the Governor of the Central Bank) of the country using the Fund's resources state the policies to be followed for the period of the agreement; the letter of intent is the result of policy discussions between the IMF's staff and the member's technical team; and b) "performance criteria", consisting in a number of mostly quantitative objectives the country commits to achieve and which are to be monitored by the Fund's staff; non-compliance with the criteria implies the interruption of the Fund's financial assistance; quite frequent among these criteria were ceilings on internal credit, ceilings on credit to the public sector or phasing out of trade or international capital restrictions (Polak, 1991). Monitoring of the performance criteria was normally done through the annual consultations under

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Article XIV of the Articles of the Agreement (until the 1978 amendment) or Article IV (after the 1978 amendment). Both consultations assessed if the country was behaving fairly with respect to exchange rates, so that it was not using exchange rate manipulation beyond what was necessary to face its balance of payments problems. The consultation generally involved a thorough review of the economic situation of the country.

2.2 The economic aspects of conditionality

Conditionality came associated with an economic or adjustment programme to be followed by the recipient country. These programmes were fundamentally based on an approach that has received the name of "financial programming" in IMF parlance. As noted by the Research Department of the International Monetary Fund (1987, p. 1), this approach "is largely based on oral tradition" within the Fund's personnel, although some theoretical underpinnings have been offered by a few internal pieces or work, such as Polak (1957) and unpublished works by E. Walter Robicheck in 1967 and 1971 (mentioned in Research Department of the International Monetary Fund, 1987). These initial formulations had still in mind short loans in a world economy of fixed exchange rates. As such initial conditions changed, the framework also changed despite retaining the bulk of its original features. Nevertheless, the Fund never looked at that framework in a fixed way, keeping an "eclectic approach to programme design" (Research Department of the International Monetary Fund, 1987, p. 2) – see also Polak (1997).

Even if external balance is the main objective of the adjustment programmes accepted by the member countries in their interaction with the IMF, it is not the only one. In the words of Research Department of the International Monetary Fund (1987, p. 12), they aim, in fact, at restoring "balance of payments equilibrium while maintaining, indeed strengthening, the conditions for achieving a satisfactory rate of long-term output growth in a noninflationary manner". In order to achieve this triple objective (international payments balance, economic growth and low inflation), the IMF uses a diversified toolkit, although always based on financial programming and the kind of macroeconomic

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analysis underlying it. This macroeconomic analysis is the one that has been sometimes called the "monetary approach to the balance of payments" (Research Department of the International Monetary Fund, 1987, and Polak, 1991 and 1997).

We will follow in the next paragraphs Research Department of the International Monetary Fund (1987), where the monetary approach to the balance of payments is closely described. We will stick to its main elements, leaving the details to be consulted there. According to this approach, the productive capacity of an economy is assumed to be fixed, even if not necessarily fully utilised, meaning that output and income can change. The expenditure of residents on domestic and foreign goods and services, which corresponds to the sum of private consumption, domestic investment, and Government expenditure, is called absorption (A). The difference between domestic production (Y) (or income) and A is the balance of trade in goods and services, or the current account balance (CA):

$$CA = Y - A \tag{1}$$

The current account is in surplus if income exceeds absorption and in deficit if the opposite occurs. This means that a current account deficit can be reduced either by a decline in absorption (relative to income) or by an increase in income (relative to absorption). The way in which the balance of payments acts as a constraint to resource use in the economy is shown by the following extension to (1): attention should be payed to the following balance of payments identity:

$$\Delta R = CA + \Delta FI \tag{2}$$

where R is net foreign assets of the banking system (including the reserves of the central bank) and FI is the net foreign indebtedness of nonbank residents and Δ indicates a one-period change. The combination of (1) and (2) yields

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$$\Delta R = Y - A + \Delta FI \tag{3}$$

This shows that an excess of absorption over income not entirely financed by foreign borrowing leads to the running down of net foreign assets. However, the possibility for a country to finance absorption in this manner is limited. Equation (3) shows that a balance of payments deficit leads to a decline in the overall liquid balances of residents.

A reduction in the current account deficit can be reached through some combination of increasing output and reducing absorption. To quote from Research Department of the International Monetary Fund (1987, p. 6), "it is generally easier to reduce absorption than to increase production. For this reason, policies affecting absorption are often first put in place […]. In many instances, the source of excessive domestic demand is the government sector, or more broadly the public sector, and a combination of a reduction in public sector outlays and an increase in revenues appears the most direct way of reducing domestic demand; similarly, private consumption and investment can be reduced by raising taxes. Alternatively, demand-management policies may be pursued by influencing the monetary aggregates underlying both domestic demand and the balance of payments – for example, by measures to change the volume of credit extended to the private sector".

This is the context in which financial programming should be understood. Initial IMF programmes tried to solve the above problems in a fixed-exchange rate setting. The starting point of the monetary approach to the balance of payments is that in an open economy operating under fixed exchange rates, the money supply is an endogenous variable affected by surpluses and deficits in the balance of payments, and not an exogenous policy instrument. It begins with the following identity:

$$\Delta M = \Delta R + \Delta D \tag{4}$$

where M is the stock of money and D is net domestic assets of the banking system (domestic credit).

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Another crucial element of the approach is the demand for money, which can take the following form:

$$\Delta M^d = f(\Delta y, \Delta P, \dots) \tag{5}$$

where the change in nominal money balances (ΔM^d) is positively related to the change in real income (Δy), the change in the domestic price level (ΔP), and other unspecified variables such as interest rates paid on deposits and other financial assets, wealth, expected inflation, and others.

A more restrictive version of (5) relates the change in nominal money $\left(\Delta M^d\right)$ to changes in nominal income (ΔY):

$$\Delta M^d = k\Delta Y \tag{6}$$

where k is the inverse of the income velocity of money, assumed to be constant over time.

One final element of the approach defines the flow equilibrium in the money market:

$$\Delta Md = \Delta M \tag{7}$$

meaning that the change in the demand for money is equal to the change in the actual supply of money.

All these elements can be combined in an expression for the change in net foreign assets:

$$\Delta R = \Delta M - \Delta D = f(\Delta y, \Delta P, \dots) - \Delta D \tag{8}$$

i.e. changes in net foreign assets will be positive (the balance of payments will be in surplus) to the extent that the change in the total money stock exceeds the change in domestic credit.

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Remembering (1):

$$CA = Y - A \tag{9}$$

The current account must be matched by changes in net foreign assets of the banking system and in the net foreign indebtedness of nonbank residents:

$$CA = \Delta R - \Delta FI \tag{10}$$

As changes in net foreign assets of the banking system equal the difference between the change in the money supply and the change in domestic credit, combining equations (8) and (10) gives:

$$CA + \Delta FI = \Delta M - \Delta D \tag{11}$$

which can be rewritten in terms of the difference between nominal income and domestic absorption:

$$Y - A + \Delta FI = \Delta M - \Delta D \tag{12}$$

This means that calls on resources by residents (absorption) will exceed the sum of the supply of domestic resources (income) and foreign savings (changes in net foreign indebtedness) when the change in domestic credit exceeds the change in the money stock. So, a ceiling for ΔD will determine ΔR, i.e. the balance of payments.

This is the basic design of the financial programming model used by the IMF. As the fixed exchange rate system collapsed, the model was extended to include exchange rate adjustments as an instrument to change the relative weight of foreign and domestic expenditure between foreign and

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domestic goods. A restoration of internal balance while an external deficit still exists would require further restraint of demand in order to reach external balance. But this would bring underutilisation of productive resources. In order to avoid it, expenditure-switching policies should be followed. An exchange rate depreciation would allow for it, by changing the relative prices of foreign and domestic goods. All these aspects are discussed in detail in Research Department of the International Monetary Fund (1987) and Polak (1997). From the 1980s onward, Fund programmes became more complex, but the above description corresponds to the essential toolkit with which the institution approached the Portuguese case in the 1970s. It should be understood, however, that the IMF considered this set of instruments to be used in a pragmatic manner, taking into consideration the local specificities of each country (Research Department of the International Monetary Fund, 1987).

3 The interactions between the IMF and Portugal and the programmes adopted (1975-1978)

3.1 First interactions with the International Monetary Fund (1975-1976)

The first moment of financial assistance from the IMF to Portugal after the revolution took only about one year to occur: on 29 July 1975 the Portuguese authorities asked for the purchase of 22,28 million SDR from its gold tranche in order to meet balance of payments needs, a request that was accepted the following day by the IMF's Executive Board.[4] The purchase represented 19% of the Portuguese quota in the organisation and 0.14% of Portugal's GDP (Table II) and the financial conditions were the ones associated with SDR drawings at the time: an interest of 3.75% per year, practically half of US dollar market rates, plus charges raised by the Fund of 2% per year as remuneration for the service provided (de Vries, 1985). Since this purchase was made well within the Portuguese quota, no conditionality was associated with it. But Portugal's transactions with the IMF continued until the end of the year. On 24 December, the Portuguese authorities asked to purchase the remainder of the country's gold tranche, in an amount of 7 million SDR, again to cover a balance

[4] "Portugal – Gold Purchase Transaction", EBS/75/267, 29 July 1975, IMF Archive ref. 187074, and "Executive Board Minutes", EBM 75/134, 30 July 1975, IMF Archive ref. 187064.

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of payments deficit, which was accepted by the Executive Board on 31 December.[5] The amount represented 6% of the Portuguese quota and 0.05% of its GDP (Table II), this time with an interest rate of 3.5% per year. Again, no conditionality was associated with the purchase.

Roughly two weeks before the latest transaction, on 15 December, Portugal made one further and larger request for assistance, this time under the 1975 Oil Facility, in an amount of 73,12 million SDR, corresponding to 50% of the country's access to the facility and to 0.48% of GDP, accepted by the Executive Board on 22 December, with the financial conditions associated with the facility (which were different from those of SBAs): a 7.25% a year interest rate for a period between 3 and 7 years, with charges payable to the Fund of 7.625% up to 3 years, 7.750% between 3 and 4 years and 7.875% between 5 and 7 years.[6] These rates were close to market rates obtained in good conditions: in the case of the Oil Facilities the role of the IMF was to raise the funds in the market and then lend to the country requesting them – the advantage for the country was that it would certainly have trouble finding loans in as good conditions as those obtained by the Fund.

The manner in which the Portuguese authorities formulated this request is very interesting. As we have seen in the previous sections, the 1974 and 1975 oil facilities had been created by the IMF as instruments to help countries in external distress without imposing much conditionality. Receiving assistance under the heading of the 1975 facility implied only a statement on the policies to be followed. The Portuguese authorities, however, presented a relatively detailed package of measures.

The nature of the package was somewhat mixed in terms of incentives, with both expansionary and restrictive measures, but included many aspects of the kind of "financial programming" typical of IMF adjustment programmes described above (see Table III). This ambiguous stance corresponded to the dilemma of Portuguese economic policy at the time, where a collapse of production in 1974 and 1975 (Table II), especially in the latter year, was associated with an enormous deterioration of the

[5] "Portugal – Gold Tranche Purchase of Special Drawing Rights", EBS/75/491, 24 December 1975, IMF Archive ref. 184978, and "Executive Board Minutes", EBM 75/208, 31 December 1975, IMF Archive ref. 184900.
[6] "Portugal –Purchase under the Oil Facility", EBS/75/467, 15 December 1975, IMF Archive ref. 185208, and "Executive Board Minutes", EBM 75/203, 22 December 1975, IMF Archive ref. 185012.

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balance of payments (Figure 1). As the IMF staff stated in December 1975: "the [Portuguese] authorities consider that the re-establishment of sustainable external equilibrium cannot be achieved by a further increase in unemployment but rather will require a recovery of production, specifically of exports and import substitutes".[7] This implied allowing prices to increase, to restore profit margins and stimulate investment. The way of doing it was by stopping to subsidise certain consumption goods, as had been done in the previous years. As the staff noted: "subsidies of consumption goods, the prices of which have been kept at artificially low levels, have raised the demand for importables".[8] A similar effect would be obtained by raising indirect taxation as well as limiting directly wage growth. As additionally noted by the staff, "for the beneficial effects of these price increases to be realized, it is necessary that nominal wage rates not increase [sic] in proportion. Accordingly, a wage freeze has now been introduced until the end of 1975".[9] Compensating partially for this freeze, the national minimum wage had been increased in June 1975 by 21.2% (from 3,300 escudos to 4,000 escudos),[10] and working times were reduced in December 1976, when workers were given the right to a two-day-per-week rest and a holiday period between 21 and 30 days per year.[11]

The Portuguese authorities, and the IMF together with them, believed there was room for an expansion of credit, in order to accommodate the predicted expansion of the economy. Consequently, they proposed to allow credit to grow above the estimate of nominal GDP (31% vs. 25%), although introducing a ceiling, so that the process did not lack entirely some discipline (Table III). As the Governor of the BoP stated in the request for the purchase, the problem in 1974 and 1975 had been one of sluggish growth of credit.[12] This had been the result of a sudden propensity in 1974 and 1975 of the population to hold currency rather than deposits, especially time deposits. As Figure 5 shows, M1 and M2 as a share of GDP declined in these years, especially the latter, and the money base

[7] "Portugal –Purchase under the Oil Facility", EBS/75/467..., p. 7.
[8] *Idem*, *ibidem*.
[9] *Idem*, *ibidem*.
[10] Decree-law 292/75, 16 June 1975.
[11] Decree-law 874/76, 28 December 1976.
[12] "Portugal –Purchase under the Oil Facility", EBS/75/467..., p. 18.

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increased, and as Figure 6 shows the ratio of currency in circulation by the higher monetary aggregates increased sharply. Both were a consequence of the lack of trust in the banking system and the redistribution of income in favour of labour, where the familiarity with the financial system was less widespread. If the prediction that the measures taken would really result in an expansion of the economy was right, then internal credit would have to grow at a rapid pace. And this implied a renewal of trust in the banking system as well as a moderation of hoarding and a return to habits of depositing money in the banks. Even if the Portuguese authorities and the IMF believed that the expansion of credit would contribute to the deterioration of the balance of payments, they expected the price and tax measures to compensate for it, by increasing the demand of exportables and decreasing that of importables. All of this explains also why the Portuguese authorities and the IMF accepted the possibility of a deterioration of public accounts, with credit to the public sector allowed to grow by 58%.

Despite the strong reliance on the substitution of imports and the expansion of exports, no clear measures were taken at this time concerning exchange and interest rates. The Portuguese authorities had depreciated the escudo only mildly until the end of 1975 (7% throughout the year) and, rather than making a strong commitment in this respect, they proposed to continue to have "a flexible approach to exchange rate policy".[13] The practical result of this "flexible approach" was a depreciation of the escudo's effective rate by 9% during 1976, with the efforts in the beginning of the year being interrupted in July and resumed in December (Figure 8) (Pinto, 1983 and Dornbusch, 1981). The same kind of flexibility applied to interest rates: in late 1975 the BoP reduced its discount and rediscount rates by 1% to 1.5% and raised the commercial bank's lending rates (Pinto, 1983). The fear of an excessively contractionary effect made the authorities shy away from more decisive steps. Also part of the strategy of substituting importables with exportables were measures clearly not appreciated by the IMF but somehow tolerated in view of the external imbalance: one was the non-removal of the import surcharge introduced in May 1975 (see above). In the December 1975 negotiations over the

[13] *Idem*, p. 5.

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use of the Oil Facility, the Portuguese authorities committed to suppress the surcharge by December 1976.[14] However, thanks to the continuation of the difficulties, the authorities decided on October 9 to extend the life of the surcharge until 31 March 1977 and to raise the rates from 30% to 60% on "luxury" goods and from 20% to 30% on almost a third of other imports.[15] In addition, some bureaucratic difficulties were increased in credit for imports. Also with the balance of payments in sight, the IMF accepted the restrictions introduced in 1974 for the amount of escudos Portuguese citizens could exchange for foreign currencies for travelling purposes: on 18 June 1976 the Portuguese authorities made it stricter, by reducing the authorised amount from 21,000 escudos to 7,000 for persons of more than 18 years of age, to 4,000 escudos for persons between 12 and 18 years of age, and 2,000 escudos for persons of less than 12 years of age.[16] In addition, an advance deposit for six months on approximately 7.5% of imports was also introduced.[17]

Other measures to increase the influx of international means of payments were introduced throughout the year 1976: a new foreign investment code was approved on 6 April, having in mind a higher confidence of foreign investors.[18] But even here some restrictions were present: the transfer of dividends abroad was only guaranteed up to 12% of the amount initially invested, or to 20% if the firm was an exporting one; any amounts beyond such limits were subject to the BoP discretionary authorisation. Other measures having in view the increase of the influx of international means of payment aimed at a reanimation of emigrant remittances: on 22 December 1975 new legislation allowed emigrants to open foreign currency accounts in Portuguese banks,[19] a possibility that was reinforced by the introduction of various new instruments throughout 1976, including special savings accounts.[20]

[14] *Idem*, p. 19.
[15] Decree-law 720-B/76, 9 October 1976.
[16] Ordinance 374-A/76, 18 June 1976.
[17] Decree-law 720-C/76, 9 October 1976.
[18] Decree-law 239/76, 6 April 1976.
[19] Decree-law 729-H/75, 22 December 1975.
[20] Decree-law 540/76, 9 July 1976 and Decree-law 545/76, 10 July 1976.

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Most of the measures presented to the IMF were not required by it. Instead, they were part of a general change in policy stance after the wave of revolutionary measures, corresponding to the more moderate sixth interim Government, after the failed coup d'état of 25 November 1975, and the first constitutional Government, resulting from the 25 April 1976 elections (see above). In the words of Franco (1994, p. 207), "the inspiration for the policies [of the 1976 government] becomes […] a 'normalising' one". Or, in the words of the IMF staff in the context of Portugal's first request to use the Oil Facility, the Portuguese authorities believed that the adjustment process was "contingent on more than purely economic measures and developments. The restoration of orderly procedures for production and investment will require a clearer definition of the scope for private and public enterprise",[21] i.e. some limit had to be introduced in the process of nationalisation.

The new Constitution was approved on 2 April 1976 and it included most of the economic and social revolutionary heritage, as seen above. This means that the basic sectors (i.e. the nationalised ones) remained closed to private initiative and that the labour legislation approved in 1975, especially the "just cause" principle, became a constitutional matter, making change by regular legislative processes almost impossible. This was a confirmation of the economic and social aspects of the revolution, but it also represented a restriction into a hitherto possible indefinite process of socialisation. Also, during the year 1976 some legal changes were introduced that seemed to contradict the constitutional legacy, if not in the letter of the law at least in its spirit. That is the case of labour law. Since labour law was a constitutional matter, changing it implied a lot of legislative ingenuity. In January 1976, a new piece of legislation reduced the threshold of collective firing to 2 to 5 workers in firms with less than 50 workers, and to more than 5 in firms with more than 50 workers.[22] Even if firing individual workers continued to be almost impossible under the protection of "just cause", the new thresholds made collective firing converge to individual firing, making of it an usable instrument for firm restructuring. Later in the year, in another crucial legislative change, new short-

[21] "Portugal –Purchase under the Oil Facility", EBS/75/467..., p. 7.
[22] Decree-law 84/76, 2nd January 1976.

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term contracts were introduced, making it possible for firms to hire workers for any fixed period between one month and three years: for a firm to sever a working relationship it needed only not to renew the new short-term contracts.[23] And all of this went together with the measures agreed with the IMF mentioned above and described in Table III: between November 1975 and February 1976 wage negotiations were canceled, first by a decision of the Revolutionary Council, later by a decree-law coming from the Government itself, something that amounted to a true temporary wage freeze; then, various administered prices were raised: diverse consumption goods (from basic foodstuffs to other kinds of goods), petrol (in a range between 36% and 54% depending on the type of fuel), public transportation (in a range between 20% and 60%); also, various taxes were raised, from the transaction tax to the capital income tax and taxes on cars and petrol (check more details in Table III).

As the balance of payments problems seemed to continue, the Portuguese authorities asked for new assistance on 10 March 1976, again under the heading of the 1975 Oil Facility, approved by the Executive Board on 18 March.[24] With this purchase, of 41,64 million SDR, representing 0.27% GDP, Portugal exhausted its Oil Facility quota. In order for the request to be accepted by the IMF, the Portuguese authorities simply stated that they were "broadly implementing the economic and financial policies which were outlined in connection with the request for the first purchase under the 1975 oil facility".[25] But just a few months after this, on 18 June 1976, the Government made a new purchase request, this time under the heading of the Compensatory Financing Facility, of 53,5 million SDR, amounting to 0.36% of GDP, approved by the Executive Board of the IMF on 23 June; financial conditions were the same as for regular SDR drawings (de Vries, 1985).[26] Conditionality associated with this facility was light, implying essentially an assessment on the part of the Fund if the shortfall on export earnings was due to reasons beyond the member's control, and a verbal commitment on

[23] Decree-law 781/76, 28th October 1976.
[24] "Portugal –Purchase under the Oil Facility", EBS/76/105, 10 March 1976, IMF Archive ref. 183860, and "Executive Board Minutes", EBM 76/47, 18 March 1976, IMF Archive ref. 183692.
[25] "Portugal –Purchase under the Oil Facility", EBS/76/105, p. 5.
[26] "Portugal – Use of Fund Resources – Compensatory Financing", EBS/76/280, 18 June 1976, Archive ref. 182138, and "Executive Board Minutes", EBM 76/91, 23 June 1976, IMF Archive ref. 185012.

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the part of the member that it would apply the appropriate measures to correct the balance of payments need. Despite all this, the foreign reserves of the BoP kept on being exhausted (Figure 2).

The interactions between Portugal and the IMF mentioned above show that for the whole year of 1976 Portugal tried to follow policies in part co-ordinated with the IMF having the purpose of combining external rebalance and economic growth. The results, however, were far from outstanding, on both counts: Table I shows that growth continued to be negative in 1976, although rising from the extreme depths of the previous year, and Figure 1 shows that the current account continued deteriorating. Table IV shows that private consumption failed to reanimate significantly in 1976 and that most of the growth of consumption was of the public sort. This explains the deteriorating budget deficit (Figure 7). Investment, instead, rebounded, but not due to gross fixed capital formation (GFCF) and rather to reconstitution of inventories, especially of imported goods (Table IV). Schmitt (1981) attributes this to hedging from high inflationary expectations and to the prevailing low interest rates, and Lopes (1982) attributes it to a necessary restoration of inventories of raw materials, intermediate goods and durable goods that had been eroded in the immediately preceding years. Much hope was also put on the low interest rates to lead to a recovery in construction, which would provide for housing for returning settlers from the colonies as well as demobilised military personnel from the war, while at the same time allowing for growing employment without much pressure on foreign exchange. But the results were far from spectacular, especially due to rent control, zoning problems and to the preference of the population for foreign currency as a hedge against inflation (Schmitt, 1981). The growth of exports also failed to materialise, despite the reliance on policies bent on substituting importables with exportables: Table IV shows exports recovering from the extreme underperformance of the previous year but without a major recovery, especially on account of services. Imports, on the contrary, resumed a high pace, which explains the new deterioration of the international current account. Pinto (1983) attributes some of these movements to the under-invoicing of exports and over-invocing of imports as a form of capital flight and speculation against the escudo. In fact, this deterioration was due to a combination between a growing trade deficit and

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an even stronger reduction as in previous years of the influx of emigrant remittances and tourism (Figure 1).

Revealing the difficulties in reanimating the economy is the fact that, despite the relatively generous ceiling on internal credit proposed by the Portuguese authorities in December 1975, its actual expansion remained below the limit (Table III). This seems to have been a result of only moderate de-hoarding, as Figures 5 and 6 show: base money as a proportion of GDP declined but so did M1 and M2. However, the last two declined less than base money, which allowed for a moderate decline of the C/M1 and C/M2 ratios. Nothing of this prevented the continuation of high inflation, whose rate increased slightly from 18% to 21% in 1976 (Figure 9)

3.2 The April 1977 Stand-by arrangement

It is not surprising that, under these circumstances, Portugal continued to need external assistance, and 10 months after having taken recourse of the resources of the IMF, asked for further assistance. This time, it was difficult for Portugal to continue using the special facilities created by the IMF to deal with the 1970s international crisis and so the country signed its first SBA with the Fund. The request was made on 12 April 1977 for the amount of 42,4 million SDR for one year, corresponding to 36% of Portugal's quota with the Fund and 0.26% of GDP, and was accepted by the Executive Board on 25 April 1977 (Table II).[27] The financial conditions associated with SBAs were a charge of 4.38% per year for the first year (growing yearly to 4.88%%, 5.38%, 5.88%, and 6.38% up to five years) plus a service charge of 0.5% per year (as remuneration for the service provided by the Fund) (de Vries, 1985). In most of the literature this SBA is barely mentioned. But in fact, it turned out to be a pivotal moment, or at least the policies associated with it became pivotal in the inversion of the external imbalance coming from 1975. The SBA itself did not imply conditionality, as it was still within Portugal's

[27] "Portugal – Request for Stand-By Arrangement", EBS/77/100, 12 April 1977, Archive ref. 226616, and "Executive Board Minutes", EBM 77/61, 25 April 1977, IMF Archive ref. 226352.

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quota. But it came associated with a policy package, which was designed autonomously from IMF assistance but that included the policies that became a hallmark of the 1977-1980 period.

The policy was implemented in two “austerity packages”, as they were commonly named at the time, put in place by the first constitutional Government: one was adopted in February, the other in August, with the actual SBA being signed in April. The February measures covered many dimensions: wages, prices, taxes and exchange and interest rates (Table V). Wage increases were capped at 15% for the year 1977, first for public servants and then for all dependent workers, although partially compensated by an increase in the national minimum wage of a magnitude of 12.5% (from non-existent in agriculture to 3,500 escudos and from 3,500 escudos to 4,500 escudos in industry),[28] still clearly below inflation. The prices of public transportation, public services (electricity, water, and telephone) and foodstuffs were raised in various proportions. Besides, a new system for administrative prices was designed in order to make price changes easier to decide and implement. The sales tax was raised by 20%. The exchange rate was depreciated by 15% and pegged to a basket of currencies, consisting of those more relevant for Portuguese external payments (Figure 8). Interest rates (the rediscount rate and the banking rates) were raised in variable proportions. Also, the Government not only kept the import surcharge introduced in 1975 and aggravated in 1976, but introduced quantitative import quotas for about 4% of imports as well.[29] It also kept the restrictions on the amount of foreign exchange for travel purposes, but it did not renew (in December 1977) the advance deposit on imports introduced in October 1976.

In April the SBA was signed. As the drawing from the IMF was still within the Portuguese quota, no conditionality was attached to it. But this did not prevent the Portuguese authorities from presenting the measures adopted in February as being part of a programme to deal with the balance of payments and economic growth problems, as well as adopting some measures typical of IMF financial programming, such as ceilings on domestic credit and credit to the public sector. This time

[28] Decree-law 49-B/77, 12 February.
[29] Ordinance 99-A/77, 28 February 1977.

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the credit ceilings were apparently tighter, but due to a mistake in incorporating in them irrecoverable debt of the banking system they allowed for some flexibility (Table V). As a matter of fact, uncollectible debt was classified outside the credit ceiling and it was possible to reclassify some banking loans into bad debt, thus avoiding the strictness of the ceiling (Lopes, 1982).

The Government also had a more detailed proposal to control the budget deficit. As stated by the Minister of Finance, Henrique Medina Carreira, and the Governor of the BoP, José da Silva Lopes, in the Letter of Intent to the IMF: "on December 30, 1976 the National Assembly of the Republic approved the 1977 budget and economic plan presented by the Government. The policies described in these documents, together with the action taken on February 25, to depreciate the escudo by 15% are the mainstay of the Government's program for 1977. […] The budget for 1977 provides for a reduction in the current deficit of the public sector to about three quarters of its 1976 level".[30] The IMF had a positive appreciation of the whole package. In its assessment of the Portuguese request, the staff noted that "the program described in the attached letter aims at reducing the deficit of the balance of payments and at laying the groundwork for the development of the economy on a sound basis. It consists of measures taken by the Portuguese Government which took office in July 1976 (some of them building on earlier measures introduced by the Sixth Provisional Government) culminating in the comprehensive package announced on February 25, 1977 […], as well as of understandings specific to the stand-by arrangement".[31]

According to the staff, the measures were adequate for the economic purposes of the Portuguese Government and the BoP: "the authorities' economic strategy is to reduce the balance of payments deficit by containing consumption and imports and to stimulate investment and exports. The former objective is to be achieved by limiting wage increases, by allowing prices to reflect cost developments and by fiscal policy; the latter is to be sought through stepped-up public capital expenditure and measures to improve the financial position of enterprises, particularly changes in

[30] "Portugal – Request for Stand-By Arrangement", EBS/77/100, p. 28.
[31] *Idem*, p. 9.

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labour legislation designed to improve productivity and to contain labour costs. The depreciation of the escudo is an essential part of the program: by raising the domestic cost of imports and restoring the competitiveness of Portuguese exports it can be expected to make a substantial contribution, in combination with the restraints placed on credit expansion, to the desired reduction in the balance of payments deficit. However, financing constraints have called for the introduction of fast-acting measures in the form of […] temporary import restrictions".[32] The programme would be completed in August-September with a new depreciation of the escudo by 4% and mostly the introduction of a crawling peg mechanism for depreciation to start operating from 15 September onward. Under this regime the escudo would depreciate at the rate of 1% per month in relation to the currencies of the most relevant international partners (Figure 8) (Dornbusch, 1981). Interest rates were again raised on a variable basis, to limit pressure on the external value of the escudo and control inflation (Table V).

Despite the adoption of these measures, the current account deficit reached the record level of 8.4% of GDP in 1977 (Figure 1). This time, however, the economy boomed, as GDP per capita passed from a negative rate of -0.14% in 1976 to a positive one of 7.2% (Table I). Deterioration of the current account resulted from trade, whose deficit passed from 13% in 1976 to 15% in 1977 (Figure 1). This shows that depreciation, combined with wage control, was not enough to restore the competitiveness of Portuguese exports. Table IV shows that exports did grow at an interesting pace but were more than offset by the growth of imports. This time both remittances and tourism improved their performance, but the problem was that their contribution was not enough to compensate for the trade deficit (Figure 1). As for growth of the economy, the largest contributors were public spending and investment (Table IV), the latter explaining also the large increase in imports, as raw materials and intermediate goods were necessary to reactivate it.

Despite the deterioration of the balance of payments, the money stock continued to decline as a proportion of the economy: although de-hoarding continued, with the money base as a share of GDP declining in 1977, both M1 and M2 also declined (Figure 5). As they declined less than the money base,

[32] *Idem*, *ibidem*.

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the C/M1 and C/M2 ratios fell but still far from reaching the levels prior to 1974 (Figure 6). However, credit including irrecoverable debt grew faster than the money stock: while the ceilings for credit proposed in the SBA without including irrecoverable debt were respected, credit including irrecoverable debt grew much beyond those ceilings (Table V), even if, as noted by the IMF staff, measures had been taken "throughout 1977 and in early 1978 to improve the efficiency of monetary control. The principal ones include the introduction of an interbank money market, the reduction of rediscount quotas, and finally the establishment of a uniform reserve requirement".[33] According to the IMF staff, the cause for this was inflation: "a renewed sharp increase in prices […] [contributed] to a further rise in the demand for credit, in part to finance speculative inventories and capital flight".[34]

The emergency measures taken in 1977 were complemented with other more strategic ones having the purpose of creating better conditions for business. One of the clearest examples is that of a new law defining the boundaries of the public entrepreneurial sector. The law received, in political discussion, the non-official name of "Law of Sector Delimitation", and its purpose was to define the economic sectors where private ownership was authorised and those where it was not.[35] The 1976 Constitution prevented opening the sectors that had been nationalised to private ownership, but the new law found some shortcuts to it. Private ownership continued to be prohibited in banking, insurance, electricity, gas, water, communications, air transportation, railways, and cement. However, it became possible to create mixed firms (partly public, partly private) in oil refining, petrochemicals, steel, chemicals, and the armament industry. Private management, although under public ownership, became possible in urban transportation, ports, and airports. Additionally, new kinds of financial institutions were created that did not fall under the category of "bank" as defined by the Constitution and which could, thus, according to the new law, be privately owned: "caixas económicas" (a new type of savings bank), regional development societies, and investment societies (Amaral, 2019).

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[33] "Portugal – Request for Stand-By Arrangement", EBS/78/228, 9 May 1978, Archive ref. 220586, p. 7
[34] *Idem*, p. 6.
[35] Law 46/77, 8 July 1977.

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Still in one further reversion of the revolutionary inheritance, new criteria were adopted for Agrarian Reform. The ultimate consequence of the introduction of the new criteria was to put an end to the collectivist experience, by giving back the land that had been expropriated to the previous owners: in September, a new law made the criteria for lawful expropriation much more restrictive (and, consequently, much more favourable to private ownership).[36] Significant amounts of land were reclassified under this law and given back to their previous owners. In the next few years, the whole Agrarian Reform was completely reverted (Amaral, 2019). Also in 1977 compensation was finally given to the former owners of the assets expropriated in 1974 and 1975, although with several limitations (Valério, 2004, and Amaral, 2019)[37] – despite these limitations, there is no doubt that the law marked a new attitude of political authorities in relation to private entrepreneurs.

3.3 The June 1978 Stand-by arrangement

The record of the economy after two years of policies to recover from the chaos of the 1973-1975 period was somewhat mixed: growth had returned but external balance had worsened. The measures aiming at substituting imports with exports had not fully produced the expected results, and tourism and emigrant remittances, despite some recovery, were still far from the 1973 levels. Portugal took, thus, recourse to another SBA on 9 May 1978, this time signed by the second constitutional Government, a Government formed in January basically to sign it (Reis, 1994b, and Ramos *et al*, 2009). But the new agreement did not bring a radical change of policy, as the measures adopted did not differ essentially from those coming from 1977. The origin of the 1978 SBA seems to come from the fact that a group of countries willing to make Portugal a giant loan of 750 billion US dollars (agreed in the Summer of 1977) made its disbursing conditional on the country signing a new SBA with the IMF (see Section 4) (Schmitt, 1981, Lopes, 1982 and 1996, and Pinto, 1983). The idea of the creditors seems to have been to ensure that the assistance was temporary, i.e. that the Portuguese authorities, by

[36] Law 77/77, 22nd July 1977.
[37] Law 80/77, 28th October 1977.

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following a stabilisation programme along lines typical of IMF conditionality, would be able to quickly revert the negative external situation (Schmitt, 1981). The amount negotiated under the new SBA was 57,3 million SDR, or 0.36% of GDP, quite similar to what had been obtained in the previous interactions with the Fund, and was approved on 5 June 1978.[38] The financial conditions were the same as in the 1977 SBA, with only a slight increase of the Fund's service charge. The main difference between this SBA and the previous interactions between Portugal and the Fund was that, as Portugal was now delving beyond its quota, heavier conditionality was required. But the conditions associated with the SBA went very much along the policies coming from previous years, especially the February-August 1977 package. Some difference existed in language and presentation in 1978, as the measures were now labelled a "stabilisation program" and were presented in a more systematic way.

In their letter of intent to the IMF, the Minister of Finance and Planning (Vitor Constâncio) and the Governor of the BoP (José da Silva Lopes) stated that "the purpose of this request is to support the stabilisation program recently adopted by the Government of Portugal, to strengthen the balance of payments and reduce inflationary pressures while maintaining a positive rate of growth of the economy to keep unemployment in check. These objectives are to be achieved through fiscal, monetary, and wage restraint combined with a [certain] exchange rate policy".[39] The latter consisted in continuing with the crawling peg coming from 1977, besides a one-off depreciation of 7% in early May 1978, and any other changes were to be "guided by the Government's decision not to allow the net foreign liabilities of the banking system, which stood at US$1,352 million on December 31, 1977, to exceed US$1,922 million on June 30, 1978; US$2,092 million on September 1978; US$ 2,297 million on December 31, 1978; and US$ 2,457 million on March 31, 1979".[40] This was associated with the objective of reducing the current account deficit from "about US$1,500 million in the period April

[38] "Executive Board Minutes", EBM 78/81, 5 June 1978, IMF Archive ref. 220168.
[39] "Portugal – Request for Stand-By Arrangement", EBS/78/228, p. 1.
[40] *Idem*, p. 2.

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1977-March 1978 to about US$ 1,000 in the period April 1978-March 1979”,[41] although this was not transformed into a performance criterium.

However, in order “to reduce inflationary pressures” and “limit unnecessary pressure on the external value of the escudo, interest rates […] [suffered] substantial increases in May 1978”. The Portuguese authorities considered “these rates necessary […] to check increases in the velocity of money, speculation in stocks, or adverse capital movements”.[42] Other instruments to limit inflationary pressures were the use of the typical financial programming ceilings on credit, both general and to the public sector: “net domestic credit of the banking system, the total of which amounted to Esc. 654 billion on December 31, 1977, will not be permitted to exceed Esc. 791.6 billion on or before June 30, 1978; Esc. 738.6 billion on or before September 30, 1978; Esc. 795.7 billion on or before December 31, 1978; and Esc. 811.4 billion on or before March 31, 1979”.[43] These limits were much tighter than in the two previous times when the same instrument had been used, as their rate of growth was set below the rate of growth of nominal GDP (Table VI), although the fact that uncollectible debt continued to be classified outside the ceiling allowed for some flexibility. This was to be accompanied also by a “close and continuous scrutiny” of the monetary base, which was limited to the informal ceilings of “Esc. 143.6 billion by June 30, 1978; Esc. 143.6 billion by September 30, 1978; Esc. 151.0 billion by December 30, 1978; and Esc. 149.2 billion by March 31, 1979”.[44] To ensure the effectiveness of the policy, “the monetary authorities have gradually reduced rediscount quotas and introduced a uniform reserve requirement of 7% on all monetary deposits, with the result that the banks’ liquidity position has already become very tight”.[45] All this would be complemented with “fiscal restraint” measures aiming at both an increase in receipts and a reduction in outlays. On the other hand, administered prices were to be raised, from public utilities to foodstuffs, and protection against imports was to be kept: although the import deposit requirement was abolished in December 1977

[41] *Idem*, p. 1.
[42] *Idem*, *ibidem*.
[43] *Idem*, p. 3.
[44] *Idem*, *ibidem*.
[45] *Idem*, *ibidem*.

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and the 30% surcharge was to be phased out until October 1979, the import quotas that had been introduced in February 1977 were raised in June.[46] Assistance was made conditional on Portuguese authorities respecting the ceilings on internal credit and credit to the public sector, as well as the limit to the net foreign liabilities of the banking system. The same applied to Portuguese authorities respecting their commitment to reduce the protectionist devices in place.[47] The SBA, with slight adjustments, was approved by the Executive Board on 5 June 1978. Lopes (1982) is of the opinion that the programme was relatively mild, due namely to the fact that the 750 million dollars loan made the balance of payments constraints less stringent.

Most measures of the stabilisation programme were taken right before or around the time of the signing of the SBA. The prices of various goods and services (foodstuffs, public transportation, electricity, gas and water) were raised in March, to become effective in April, in an amount between 30% and 50% - the price of fuel would only be raised in October, although in a similar proportion. Taxes were raised in variable proportions (between 10% and 15%) in April, when the Government's budget for the year was approved by the parliament; a cap on wage increases at 20% for the year was also introduced. To compensate for these measures, the national minimum wage was raised in May by 26.7% (from non-existent to 3,500 escudos in domestic activities, from 3,500 to 4,500 in agriculture, and from 4,500 escudos to 5,700 escudos in industry and services).[48] The exchange rate was depreciated 6% in May while the monthly depreciation under the crawling peg was increased from 1% to 1.25% (Figure 8). At the same time the various interest rates were increased in variable proportions, with some exceptions for activities that were considered to be of exceptional relevance (agriculture, exports and certain priority investments) (details on all these aspects in Table VI).

Positive results started finally to appear in 1978 and 1979. The current account passed from a deficit of more than 8% of GDP to 4% in 1978 and actual balance in 1979 (Figure 1) while GDP per capita grew at the quite respectable rates of 5% and 7% in each of those years, considerably above

[46] *Idem*, pp. 4-5; see Ordinance 331/78, 22 June 1978.
[47] *Idem*, p. 5.
[48] Decree-law 113/78, 29 May 1978.

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the average of Western countries (Table I). And these results were obtained without respecting some of the most important performance clauses of the SBA set by the IMF, namely both credit ceilings (Table VI) – this determined that Portugal would end up not receiving any financial assistance from the Fund. Interestingly, external balance was achieved while the budget deficit deteriorated, from 4% in 1977 to 6% in both 1978 and 1979 (Figure 7). Inflation also exceeded expectations, as, despite some moderation, continued to display quite high rates (from 33% in 1977 to 27% in 1978 and 24% in 1979) (Figure 9).

The positive evolution of the current account seems to have depended of various developments: exports of goods had finally strong growth, not offset by imports (which also grew strongly, but less than exports) – an especially positive development was the decline in the use of imports to accumulate inventories as a hedge against inflation (Table IV). All of this happened while the import surcharge fell from 30% to 20% in October, as had been negotiated with the IMF.[49] Consequently, public and private internal demand (consumption and investment) could grow at a relatively high pace without jeopardising external balance (Table IV). GFCF grew especially quickly and the Government budget deteriorated even more, as the authorities continued expanding the most important social programmes: spending on Health, which corresponded to just 2% of GDP in 1970, doubled to 4% in 1975 and 1976; Education had a similar evolution; as for pensions and unemployment benefits, the jump is equally clear, from roughly 1% of GDP in 1973 to close to 4% in 1976 (for more details, Amaral, 2019).

In Lopes' (1982) opinion, the existence of a high volume of unused capacity in the export sector meant that the combination of the exchange rate depreciation and of the wage restraints (nominal wage increases remained below the legal limits established by legislation: Schmitt, 1981) were especially effective. The real exchange rate and unit labour costs did have a very strong reduction (Figures 3 and 4). As a consequence of all this, the trade balance for goods improved. However, it still remained at the very high level of 12% of GDP.

[49] Decree-law 300/78, 29 September 1978.

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This is where other elements enter the picture: tourism reanimated, and exchange entries associated with it returned in 1979 to levels close to those before the revolution, at about 4% of GDP; but the most important contributor to external balance were emigrant remittances, which started recovering in 1977 and reached their highest level in 1979, with 11% of GDP – this is where the secret for external rebalance in 1979 lay. Schmitt (1981), Lopes (1982) and Pinto (1983), again, attribute great important to the interest rate policy in explaining this positive behaviour. Lopes (1982) and Pinto (1983) stress also the positive effects of interest rates on the capital account, by disincentivising speculative capital outflows and incentivising foreign borrowing.

Interest rates seem to have played a positive role also in the increase of the money stock as a proportion of the economy finally appearing in 1979. De-hoarding continued, with the money base as a share of GDP declining in 1979 to levels similar to those existing before the revolution and, while M1 also declined, M2 on the contrary increased (Figure 5). These developments allowed for a pronounced fall of the C/M1 and C/M2 ratios, also approaching pre-revolutionary levels (Figure 6). This indicates an increased propensity of the Portuguese population to use the financial system, especially in more sophisticated instruments such as time deposits. The adopted credit ceilings proved to be contractionary, as they grew clearly below the higher monetary aggregates, even including irrecoverable debt and even if they were ultimately not respected (Table VI). Despite these contractionary effects, inflation continued to be quite high, although with some decline – from 27% in 1978 to 24% in 1979 (Figure 9).

The second constitutional Government, which had signed the SBA, fell in August 1978, being replaced by three technocratic Governments organised by the President of the Republic, meaning that the implementation of the 1978 SBA was mostly done through this special political solution not resulting directly from parliamentary elections. The Portuguese authorities implemented practically all aspects of the stabilisation programme. They reduced the 30% import surcharge to 20% (making also the bureaucracy associated with imports less stringent) and respected the limit of the net foreign liabilities of the banking system, but they failed to comply with two other performance criteria: those

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relative to the ceilings, both for overall credit and for credit to the public sector (Table VI). Consequently, the country did not receive any financial assistance from the IMF during this period.[50]

3.4 Existing explanations for the success of the 1978 stand-by arrangement

Most authors that have tried to explain the success of the 1978 SBA in restoring external balance while at the same time allowing the economy to keep a good growth record put great stress on the exchange rate and interest rate policies as well as on wage moderation. Schmitt (1981, p. 1) summarises thus a perspective that is shared by other authors, such as Krugman and Macedo (1981), Lopes (1982 and 1996), Pinto (1983), and Mateus (2013): "a monthly depreciation rate was established for the escudo, together with a matching set of interest rates on bank deposits. The former was intended to make the economy competitive by reducing costs, while the latter was designed to ensure that savings would not only increase but be placed at home. As a safety measure, a limit was also imposed on domestic credit expansion, and to protect the productive sector, credit to the public sector was rationed within the total". Continuing to quote from Schmitt (1981, p. 11), "the external recovery can, in the first instance, be traced to exchange rate changes, which helped to improve the country's competitive position" but "the effect […] of interest rate increases was equally striking [as they reversed and then made decline] the public's willingness to hold domestic financial assets. The consequent drop in stockbuilding was the major factor in holding real domestic demand, and imports, virtually constant in 1978. Predominantly financial motives also prompted the overwhelming response of workers' remittances, and may have been a factor in the recovery of tourist receipts". Lopes (1982, p. 148) conveys a similar perspective: "the program had judiciously recognised the scope for achieving a large part of the intended improvement of the balance of payments through expenditure switching policies. In consequence, it put great emphasis in exchange rate depreciation and in increases in interest rates, although measures to restrain domestic expenditure were also considered". Pinto, 1983, p. 570) notes how "the depreciation of the escudo […], by making foreign production more

[50] "Portugal – Review of Stand-By Arrangement", EBS/78/707, 26 December 1978, Archive ref. 216774.

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expensive than national production, has contributed to reduce imports and increase the competitiveness of exports".[51] The same author (Pinto, 1983, p. 568-569) additionally notes how "the increase in the passive interest rates has contributed not only to raise the savings of the residents – and thus to reduce imports through the imported component of consumption – but also to favour its use in national currency. This fact, together with the credibility of the exchange rate policy, disincentivised capital flight abroad and stimulated emigrants' remittances. […] On the other hand, the increase in the active interest rates, by making internal credit dearer, moderated the expansion of GFCF and the accumulation of speculative stocks".

But all authors also stress wage moderation as an essential explanatory factor. According to Lopes (1982, p. 148), "the adjustments in the exchange rate and interest rates were exceptionally effective because of a combination of specific circumstances which are not likely to be easily repeated in Portugal, and which included: the acceptance by the trade unions of large declines in real wages; the quick response of exports of goods and tourism to the exchange rate policy due to the high proportion of unused capacity in the export sector; and the large amounts of emigrants' remittances awaiting abroad for better conditions of transfer into Portugal". Schmitt (1981, p. 11) notes how "nominal wage increases remained below their legal limits in both stabilization years, reflecting downward pressure from the accumulated overhang of unemployed workers and returnees from the former colonies". Both Pinto (1983) and Krugman and Macedo (1981) present similar ideas.

4 Other foreign assistance

The IMF was far from being the main source of financing of Portuguese external imbalance. Quite the contrary, as its weight was relatively small among those various sources. At its highest point, in 1976, it accounted only for 17% of Portuguese financing needs (see table VII – and Appendix 1 for the detailed data and sources). Until 1978, by far the most substantial amount of financing came directly through the BoP. On May 9 1975, amid the most turbulent period in the Portuguese

[51] Translation by the authors.

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revolution, the Bank of International Settlements (BIS) approved a 250 million US dollars loan, 72% of the yearly external debt resources in that year and explicitly earmarked to finance the external deficit. By contrast, the resources coming from the IMF in the same period (July 1975) accounted for 8% of the Portuguese external debt. The BIS performed the most critical role in mobilising financial resources for filling in the current account deficit, either on its own or in conjunction with other European central banks. For instance, in 1975 and besides the BIS, the Swiss National Bank lent 50 million US dollars to Portugal on a short-term basis, in an instrument that could be rolled out for 3 years and represented much more than the annual transactions with the IMF in that year (Appendix 1).

The decrease in the importance of loans through the BoP and having the BIS as the pivotal institution only receded below other sources of funding in 1978, but even then they amounted to just below 1/3 of the total external debt. The direct financing role of the IMF and its SBA arrangements disappeared then. Slowly in 1976 and decisively after 1977, the Portuguese government was receiving higher amounts of funding through external debt. The World Bank (38%), the USA government and AID (19%), the European Investment Bank (12%), the KfW (German state-owned development bank, 10%) and the Council of Europe (7%) were the main agents of this mostly institutional funding to the Portuguese government (Appendix 1). For instance, the Resettlement Fund for Refugees within the Council of Europe was financing the aid for returning Portuguese citizens from the former African colonies. AID, the European Investment Bank, and KfW funded a series of infrastructure projects (in education, housing, sanitation, irrigation, electric power, ports, roads, airports or communications), as well as small and medium-sized firms, and the restructuring of state-owned firms (Petrogás, Quimigal, Empresa Polímeros de Sines).

Market-driven external debt became significant only after 1978, coinciding with the 750 million US dollar loan to Portugal organised by the Paris consortium mentioned above and which was at the origin of the second SBA with the IMF. One small bond issuing had already taken place in 1977, but the most significant operations referred to the use of the Eurodollar market to get 641.2 million dollars in 1978, increasing to 811 million in 1979. This return to the debt market had much to do with the

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increased confidence in the credibility of the Portuguese government, thanks to the process of political moderation described in Section 1, and which the Paris and IMF agreements confirmed.

The first question these results raise is why the BIS played such a critical role in the first years after the revolution. The role of the BIS needs to be understood considering the Bretton Woods institutional framework, even after the general move to floating rates in 1973. There was from the beginning some division of labour between the BIS and the IMF (Bordo and James 2000): the former provided immediate assistance when there was the risk of an imminent collapse of the financial system or under severe short-term shortages of funds, the latter acted mostly as an agent to restore confidence, backing domestic economic policies aimed at regaining credibility and persuading the financial markets that the sources of financial imbalances would be overcome. By doing so, the IMF provided a sort of "seal of approval" in relation to such policies. The IMF also provided funds and they had a longer-term maturity. But when amounts went above the gold tranche it asked increasingly for heavier conditionality, as shown in Section 2, something that implied lengthy negotiations. On the contrary, funding available through BIS and the mobilisation of central banks could bring in substantial volumes of short-term credit without the administrative complications associated with the IMF. In 1975, the BoP could resort to credits directly from the BIS or consortia of European central banks in the amount of 300 million dollars. The process was rapid, depended from collateral provided by the BoP, using the gold reserves and involved the provision of substantial amounts of currency reserves. Additionally, decisions took place at the BIS and central banks level, characterized by confidentiality and outside public scrutiny.

Sometimes these short-term credits centred on the BIS and central banks were linked to later IMF assistance. The IMF assistance to the United Kingdom in December 1976 resulted from a prior decision taken by the consortium of the central banks in June 1976 to impose conditionality requirements through the intervention of the IMF, if the short-term credit was not fully repaid. In a similar stance, the consortium of countries that agreed to provide 750 million dollars to the BoP in June 1977, required that the Portuguese government should negotiate an SBA with the IMF. In the

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Portuguese case, the consortium was providing a loan with maturities of 7 to 10 years, far different from the usual short-term loans channelled through BIS and associated central banks.

This division of labour reinforced the IMF role as rule setter. A loan from the Fund provided borrowers with more than just money. In fact, in relative or absolute terms, the amounts received from the IMF were behind other institutions, as the BIS, the consortia of central banks, and the World Bank. However, getting IMF assistance through an SBA signalled to financial markets and the international community a mark of credibility and a seal of approval.

Conclusion

This paper has shown that the SBA signed with the IMF by the Portuguese authorities in 1978 should not be seen in isolation from a string of interactions between the two entities since late 1975. This means that the 1978 SBA should not really be seen as an "intervention" but rather the conclusion of a long effort of stabilisation that started in 1975 and was progressively adjusted until 1979, in order to restore external balance while keeping the economy growing with controlled inflation. The effort included the use of various IMF instruments: the buying of foreign exchange within the country's quota, the use of different special facilities created by the IMF to help countries deal with the 1970s crisis , and the signing of two SBAs. The fact that the 1978 SBA was the first to include explicit conditionality did not have to do with the fact with the country using IMF resources for the first time (which it was not) but rather with the circumstance that the country had already exhausted all means including no to weak conditionality. This long relationship between the Portuguese authorities and the IMF was an integral part of the process of change in the Portuguese political cycle, from socio-communist revolution in 1974-1975 to capitalist moderation after late 1975.

The importance of the IMF for the process of rebalancing of the Portuguese current account was never much linked to the amount of financing provided by the Fund but rather in the apposition of a sort of "seal of approval" on the policies followed by the Portuguese authorities in order to restore a certain international confidence in the Portuguese political and economic situation. Other sources

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were much more relevant, such as the Bank of International Settlement (BIS), the European Economic Community (EEC) and individual countries (for instance the US, the Federal Republic of Germany or the UK). The reason for Portugal being such a large recipient of foreign assistance in this period had to do with the international political context of the time, as the country became a pivotal stage of the Cold War, thanks to the possibility of it becoming the first Western European country to adopt a communist regime. Therefore, Western countries contributed with significant amounts of assistance in order to keep the country firmly within the capitalist side of the divide.

Despite the adoption of many measures designed in coordination with the IMF, the results in terms of external rebalancing and economic growth took a relatively long time to come about. By 1977 growth returned at a relatively quick pace but not external balance. The joint return of external imbalance and economic growth only appeared in 1979. The existing explanations for this process stress the relevance of the exchange rate depreciations (especially under the form of the crawling peg adopted since September 1977) to increase exports and reduce imports, and of the interest rate increases to reanimate the inward flux of emigrant remittances.

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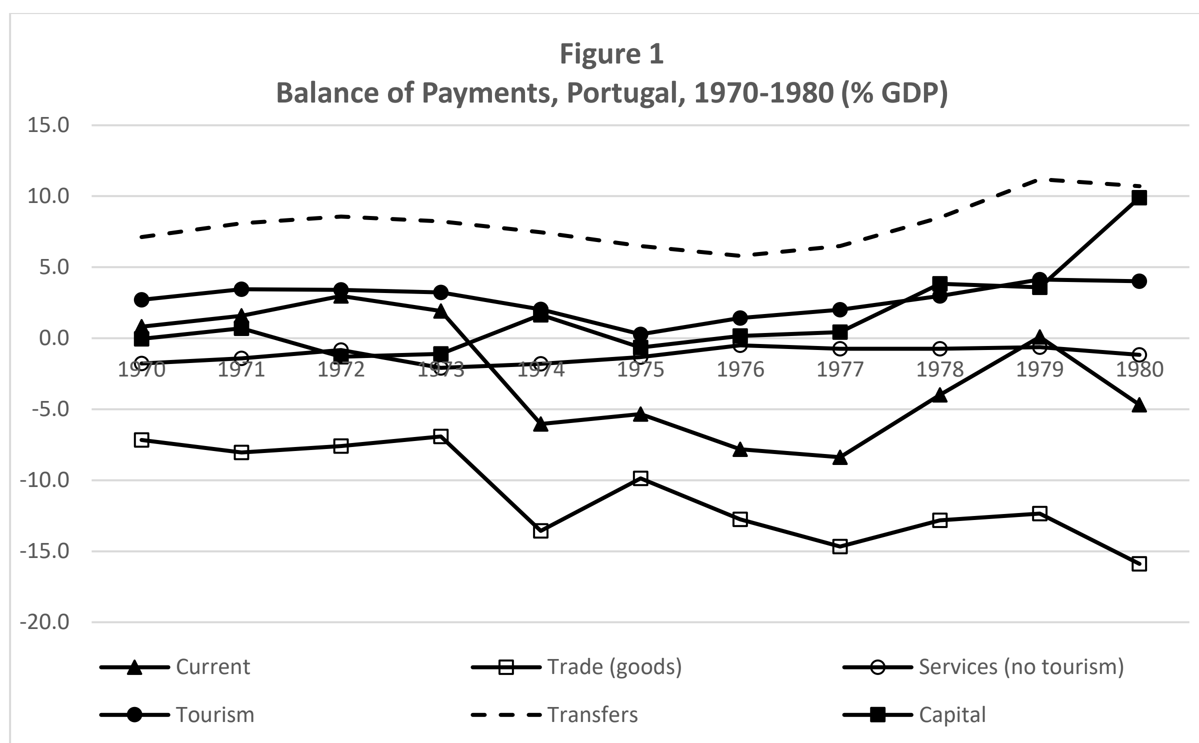

Source: Pinheiro (1997)

Table I
GDP per capita, Portugal and former EU-15 (annual growth rates), 1970-1980

	Portugal	EU-15
1970	9.21	4.12
1971	11.07	2.93
1972	10.29	4.89
1973	4.87	4.94
1974	0.24	2.04
1975	-9.18	-0.19
1976	-0.24	3.48
1977	7.18	2.20
1978	5.43	2.77
1979	6.71	3.24
1980	4.44	1.43

Source: Portugal Amaral (2009); Former EU-15: The Conference Board

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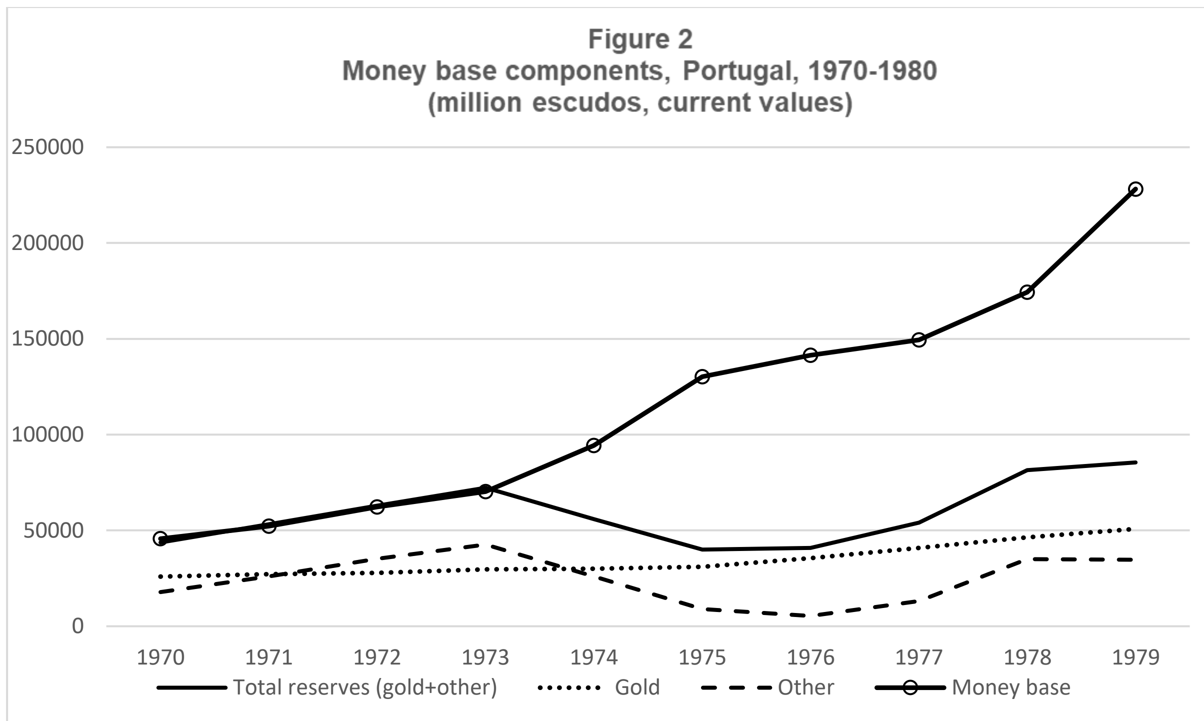

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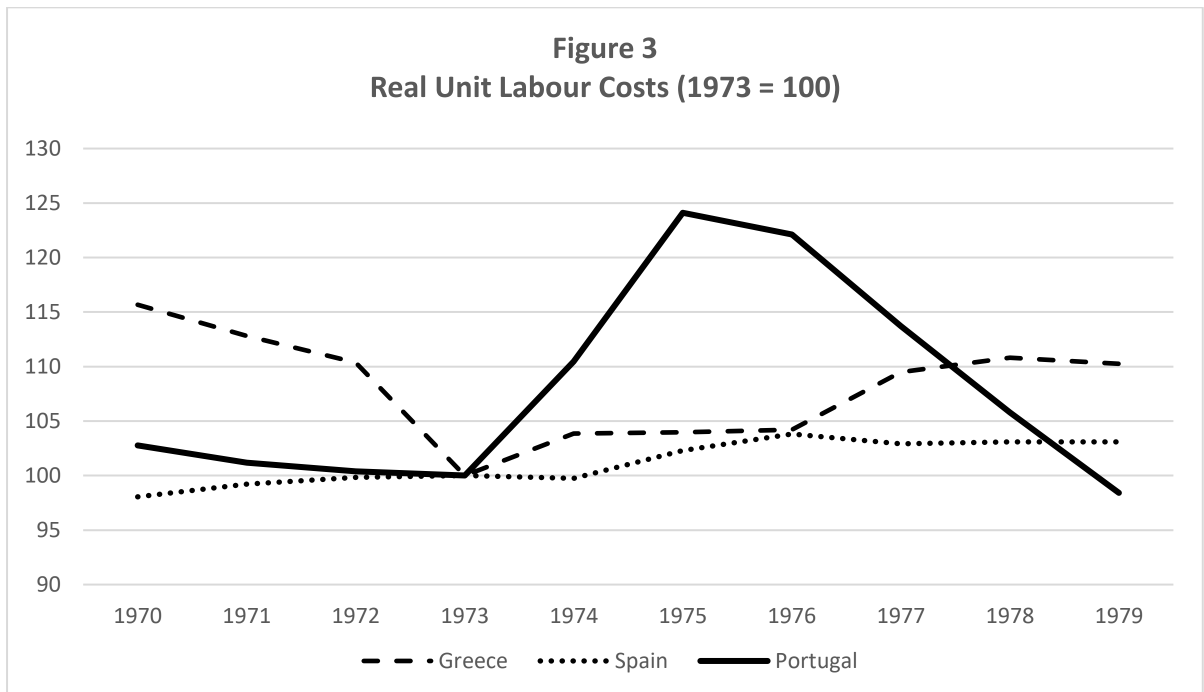

Source: AMECO

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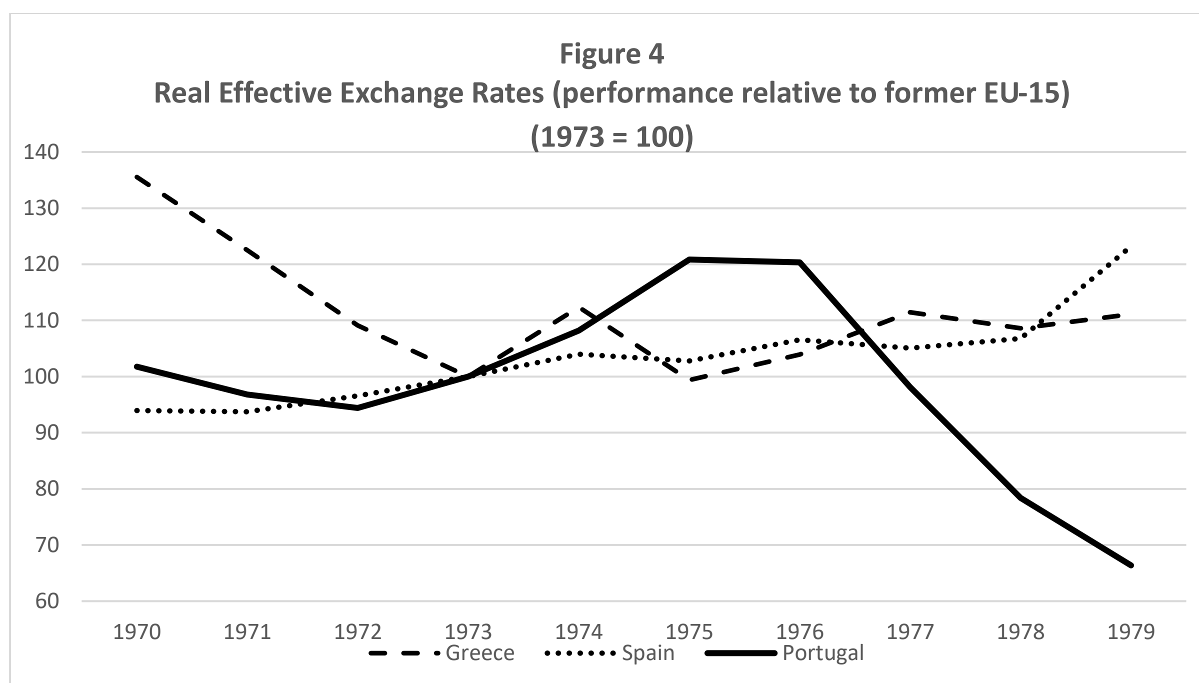

Source: AMECO

Table II
Portugal purchases with the IMF

Gold tranche: 28th July 1975	22,28 million SDR	19% of Portugal's quota	0.14% GDP
Oil Facility: 15th December 1975	73,12 million SDR	62.5% of Portugal's quota 50% of Portugal's access to the facility	0.48% GDP
Remainder Gold tranche: 24th December 1975	7 million SDR		0.05% GDP
Oil Facility: 11th March 1976	41,64 million SDR	Remaining 50% of Portugal's access to the facility	0.27% GDP
Compensatory Financing of Export Fluctuations: 23rd June 1976	58,5 million SDR		0.36% GDP
Stand-by arrangement 12th April 1977	42,4 million SDR	36.2% of Portugal's quota	0.26% GDP
Compensatory Financing of Export Fluctuations: 22nd July 1977	29,25 million SDR	25% of Portugal's quota	0.18% GDP
Stand-by arrangement 5th June 1978	57,3 million SDR		0.36%

Sources: "Portugal – Staff Report and Proposed Decision for the 1976 Article XIV Consultation", SM/76/186, 20 August, 1976, IMF Archive ref. 181178; "Minutes of Executive Board Meeting" EBM/76/91, 23 June, 1976, IMF Archive ref. 185012; "Portugal – Stand-by Arrangement", EBS/77/100, 27 April, 1977, IMF Archive ref. 226306; "Portugal – Use of Fund Resources – Compensatory Financing", EBS/76/280, 18 June, 1976, IMF archive ref. 182138; "Portugal – Stand-by Arrangement", EBS/78/228, 6 June, 1978, IMF Archive ref. 220136

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Table III
Measures Oil Facility, 1975

Net domestic credit of the banking system (until June 1976):
Ceiling: 421 billion escudos
Rate of expansion: 31.15% (predicted growth of nominal GDP: 25%)
Actual: 392 billion escudos
Rate of expansion: 22.12%
(actual growth of nominal GDP: 22.9% - December)

Bank credit to the public sector (until June 1976):
Ceiling: 81,66 billion escudos
Rate of expansion: 58.07%
Actual: 85.3 billion escudos
Rate of expansion: 65.12%

Price increases:
Foodstuffs: various pieces of legislation for different goods between late 1975 and the year 1976;
Petrol: between 36% and 54% depending on the type of fuel (Dispatch 29 December 1975, Dispatch 5 March 1976, and Declaration 9 November 1976)
Public transportation: between 20% and 60% (Ordinance 783-A/75, 30 December 1975, and Ordinance 595-A/76, 8 October 1976)

Taxes:
Various: Decree-law 768/75, 31 December 1975 (Government budget for 1976): Rental income tax, increase from a flat 12% rate to a progressive range from 13% to 20%; Rates on dividends raised from 6.5% to 10%, tax on interest reduced from 15% to 10%; Transaction tax: rates were increased from 7%, 12% and 20% to 10%, 20%, and 30%, with a new 40% rate being created; Various excise taxes, including petrol, cigarettes and drinks;
Car registration and sales: Decree-law 81/76: tax rates on car registration raised between 20% and 40% depending on type of car, and tax rates on car sales raised from a range of 18-57% to a new one of 26-90%

Wage limits:
Cancelation of wage negotiations (Revolutionary Council decision, 27 November 1975 and Decree-law 783/75, 31 December 1975)

Balance of payments objective:
Keeping the same deficit of the current account; Not achieved: deterioration current account from 5.34% of GDP in 1975 to 7.82%

Sources: "Portugal –Purchase under the Oil Facility", EBS/75/467, 15 December 1975, IMF Archive ref. 185208; "Portugal – Staff Report and Proposed Decision for the 1976 Article XIV Consultation", SM/76/186, 20 August, 1976, IMF Archive ref. 181178; Portuguese legislation; Schmitt (1981)

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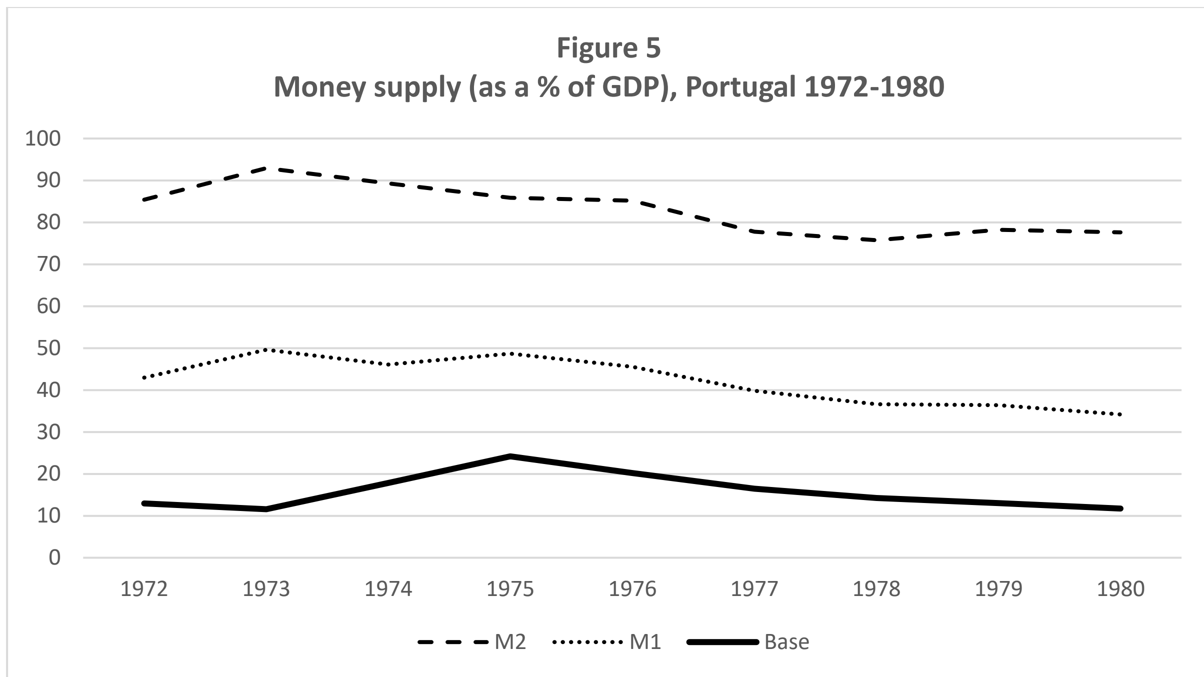
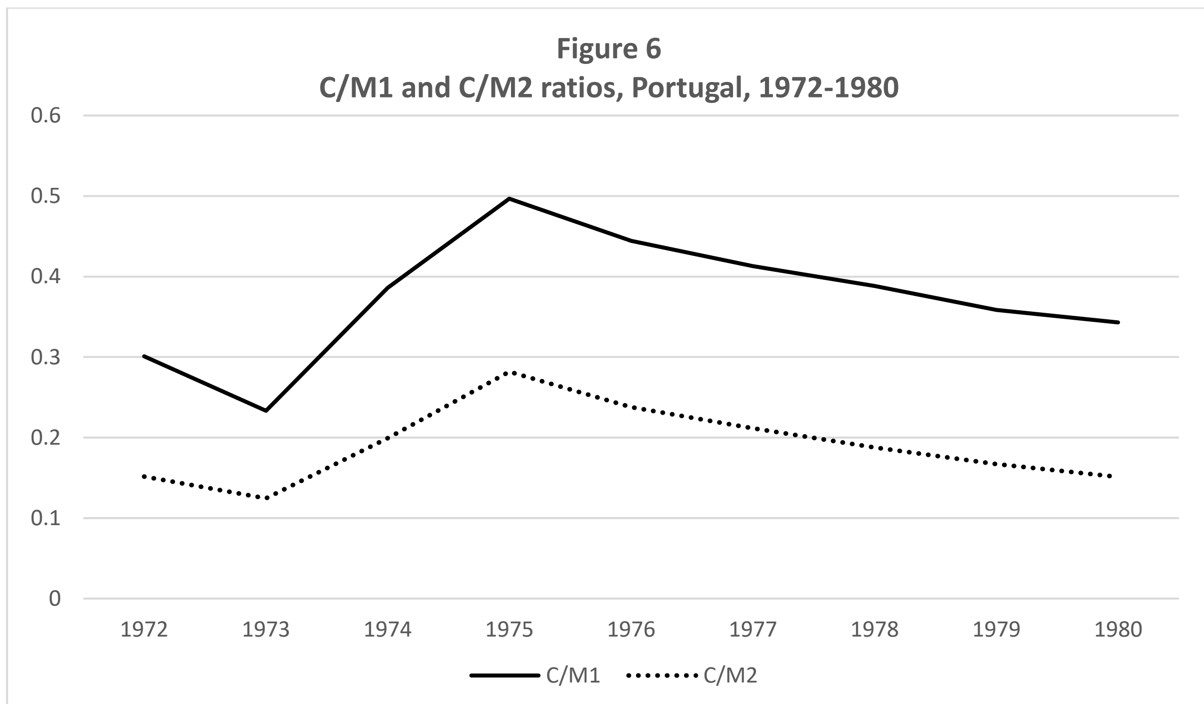


Source: Pinheiro (1997)



Source: Pinheiro (1997)

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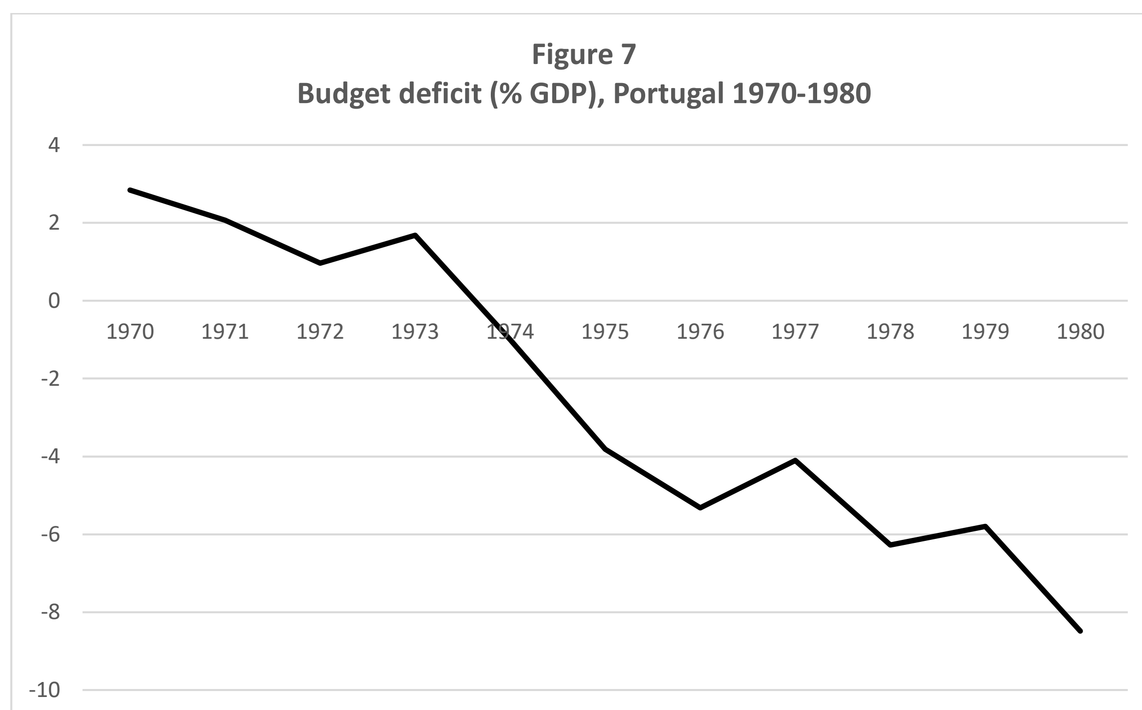
Table IV
Contribution to GDP growth (% annual rates), Portugal 1973-1980

	1973	1974	1975	1976	1977	1978	1979	1980
Private consumption	6.74	8.68	-5.36	1.15	2.60	6.35	7.12	8.48
Public consumption	5.86	14.67	3.77	5.04	10.35	5.04	7.17	8.93
Investment	3.17	-4.23	-20.59	9.17	18.47	0.05	-1.46	6.71
GFCF	8.92	6.26	-21.09	-6.38	19.98	-3.73	13.51	-5.46
Inventories	-5.75	-10.49	0.50	15.55	-1.51	3.78	-14.97	12.17
Exports	12.47	-5.00	-14.40	-0.21	5.19	10.15	27.83	11.13
Goods	15.65	-5.41	-15.88	4.72	4.80	12.24	29.44	7.86
Services	-3.18	0.40	1.48	-4.93	0.39	-2.10	-1.61	3.28
Imports	12.59	7.19	-22.39	6.64	13.03	0.65	8.45	19.91
Goods	9.21	10.66	-23.82	16.10	13.24	0.74	7.91	16.57
Services	3.38	-3.46	1.43	-9.46	-0.22	-0.09	0.54	3.34
GDP	4.92	2.91	-5.10	2.29	6.02	6.17	7.10	4.76

Source: Pinheiro (1997)



Source: Pinheiro (1997)

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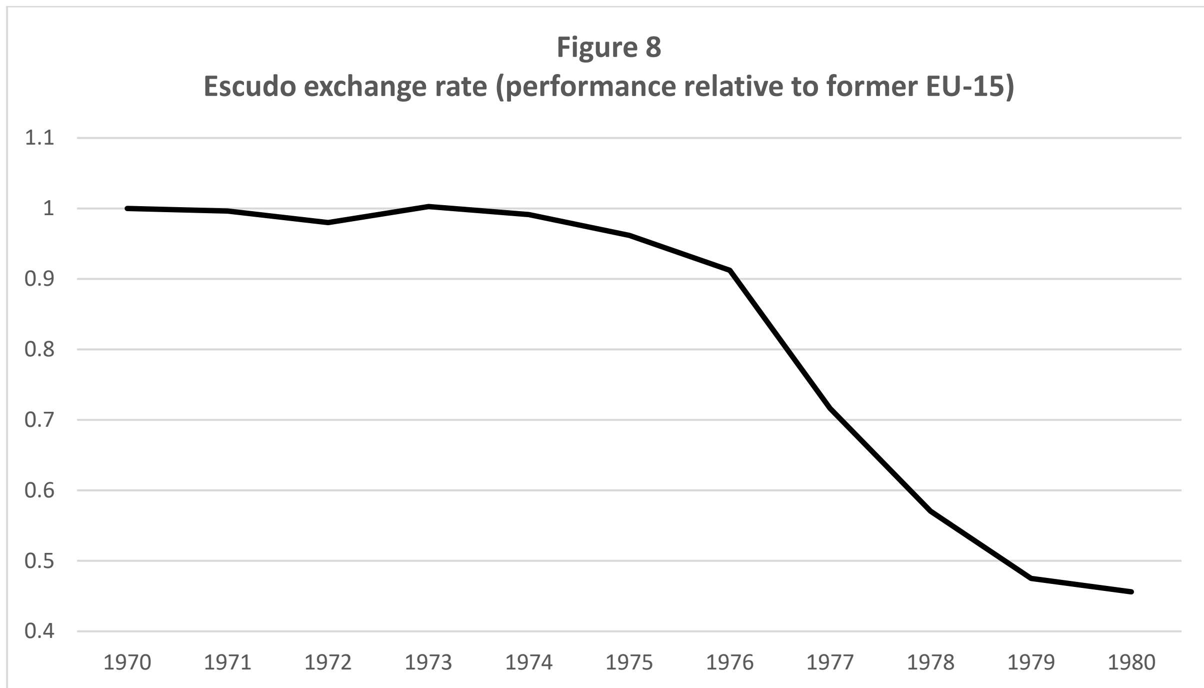

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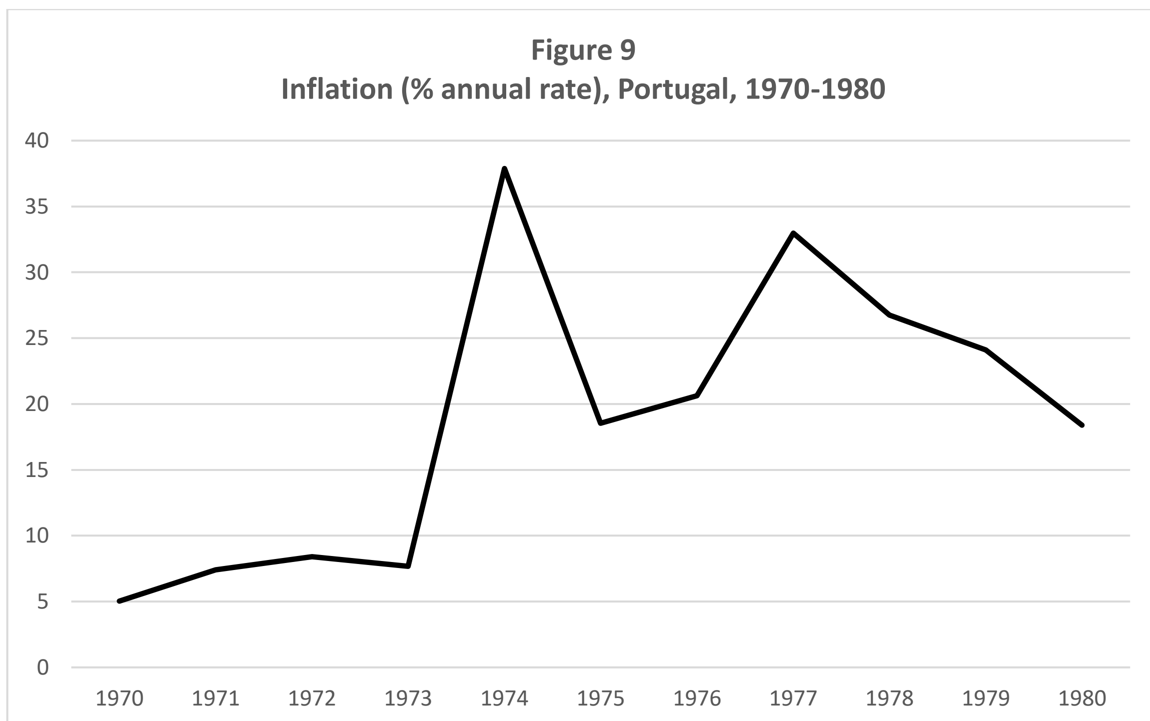

Source: Bastien (2001)

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Table V
Measures Stand-by arrangement 1977

Net domestic credit of the banking system (until December 1977):
Ceiling: 651.2 billion escudos (excluding uncollectible debt)
Rate of expansion: 28.63% (predicted growth of nominal GDP: 27.7% - year)
Actual: 645.7 billion escudos (702.6 including uncollectible debt)
Rate of expansion: 27.42% (39.96%)
(actual growth of nominal GDP:28.53)

Bank credit to the public sector (until December 1977):
Ceiling: 123.3 billion escudos
Rate of expansion: 52.22%
Actual: 123.3 billion escudos
Rate of expansion: 52.22%

Exchange rate:
1) 15% depreciation (February 1977) and pegging to basket of currencies
2) 4% depreciation (September 1977)
3) Crawling peg (1% month depreciation from 15 September on)

Interest rates:
1) Rediscount: 6% to a progressive scale 8%-12% (February 1977); 13%-18% (August 1977)
2) Deposit rates:
   30-90 days: 4.5% to 5% (February 1977); 6% (August 1977)
   180 days-1 year: 9.5% to 11% (February 1977); 15% (August 1977)
   1-2 years: 10.5% to 12% (February 1977); 16% (August 1977)
3) Standard lending rates:
   Up to 90 days: 8.75% to 10.25% (February 1977); 14.75% (August 1977)
   180 days-1 year: 10.5% to 12% (February 1977); 16.5% (August 1977)
   2-5 years: 12.25% to 13.75% (February 1977); 17.75% (August 1977)

Price increases:
Public transportation: between 25% and 43% (Ordinance 595-A/76, 8 October 1976)
Foodstuffs: 20% - basket essential goods (Resolution 51-D/77, 28 February 1977)
Electricity: Ordinance 31-A/77, 21 January 1977
Telephone and mail: Ordinance 99-E/77, 22 February 1977
Water: Ordinance 790/76, 31 December 1976
Petrol: 20% - Resolution 11-A/77, 21 January 1977; 25% - Resolution 210-A/77, 26 August 1977
Prices controls system: Decree-law 75-Q/77, 28 February 1977

Wage limits:
Limiting to 15% increase in public servants' wages for the year 1977 (Decree-law 923/76, 31 December 1976)
Extending the same limit to all workers (Decree-law 49-A/77, 12 February 1977)

Taxes:
Sales tax: 20% increase (Decree-law 75-G/77, 28 February 1977)

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(continuation)

Budget deficit objective:
56,8 billion escudos (75% reduction as a percentage of GDP)
Achieved: actual budget deficit 53,9 billion escudos

Balance of payments objective:
Reduction from 1 billion US dollars to 650 million US dollars of the current account; not achieved: deterioration to 1,500 billion US dollars

Sources: "Portugal – Request for Stand-By Arrangement", EBS/77/100, 12 April 1977, Archive ref. 226616; "Portugal – Stand-by Arrangement", EBS/77/100, 27 April, 1977, IMF Archive ref. 226306; "Portugal – Request for Stand-By Arrangement", EBS/78/228, 9 May 1978, Archive ref. 220586; Portuguese legislation; Schmitt (1981)

Table VI
Measures Stand-by arrangement 1978

Net domestic credit of the banking system (until March 1979):
Ceiling: 698.8 billion escudos in June 1978; 735.8 billion escudos in September 1978; 792.9 in December 1978; 808.6 in March 1979 (all excluding uncollectible debt)
Rate of expansion yearly: 19.92% (predicted growth of nominal GDP:26.79%)
Actual: 705.5 billion escudos in June 1978 (782.8 including uncollectible debt); 738.7 billion escudos in September 1978 (821.5 including uncollectible debt); 784.6.9 in December 1978 (874.9 including uncollectible debt); 808.8 in March 1979 (874.9 including uncollectible debt)
Rate of expansion: 21.33% (23.97%, including uncollectible debt) (actual growth of nominal GDP:27.30%)

Bank credit to the public sector (until March 1979):
Ceiling: 137.3 billion escudos in June 1978; 142.3 billion escudos in September 1978; 160.3 in December 1978; 177.3 in March 1979
Rate of expansion yearly: 30.01% (predicted growth of nominal GDP: 26.79%)
Actual: 142 billion escudos in June 1978; 156.6 billion escudos in September 1978; 171.7 in December 1978; 188.6 in March 1979
Rate of expansion: 39.25%

Informal ceiling for the money base (until March 1979):
Ceiling: 143.6 billion escudos in June 1978; 143.6 billion escudos in September 1978; 151.0 in December 1978; 149.2 in March 1979
Actual: 197.3 billion escudos in June 1978; 210.9 billion escudos in September 1978;

Exchange rate:

1) 6% depreciation (May 1978)
2) Crawling peg (1.25% month from May 1978 onwards)

(continues)

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(continuation)

Interest rates:

1) Rediscount: from a range of 13%-18% to 18%-23% (May 1978)
2) Deposit rates:
   Interest rates on time deposits raised by 4%b (May 1978)
3) Standard lending rates:
   increased by 3.5% except for housing, only 1%-2%, and agriculture, exports and priority investments, only by 2%-3% (May 1978)

Price increases:

Public transportation: 35%-50% (Ordinance 169/78, 29 March 1978)
Foodstuffs: 30% (various pieces of legislation, April 1978)
Electricity: 35%-50% (Resolution 47/78, 29 March 1978)
Gas: 35%-50% (Resolution 47/78, 29 March 1978)
Water: 35%-50% (Ordinance 179/78, 31 March 1978)
Petrol: 35%-50% (Resolution 161-A/78, 21 October 1978)

Wage limits:

Limiting to 20% increase in wages (Decree-law 126/78, 6 June 1978)

Taxes:

10% increase of the "professional tax", 15% increase on most other direct taxes; 10% on the transactions tax and enlargement of the transactions tax (at 10%-15% rates) to services previously exempted from it (Budget: Law 20/78, 26 April 1978)

Balance of payments objective:

Reduction from 1,500 million US dollars to 1,000 million US dollars on the current account; achieved: 520 million US dollars

Sources: "Portugal – Request for Stand-By Arrangement", EBS/78/228, 9 May 1978, Archive ref. 220586; "Portugal – Review of Stand-By Arrangement", EBS/78/707, 26 December 1978, Archive ref. 216774Portuguese legislation; Schmitt (1981)

Table VII
Portuguese external debt as a percentage of current GDP (1975-1979)

	(1) Loans to BoP	(2) Loans to Government	(3) IMF loans	(4) Market	(5) Total	(6) Total debt, M USA$
1975	1.63	0.07	0.19	–	1.90	348.8
1976	4.03	0.98	1.08	0.27	6.36	1182.3
1977	2.22	1.66	0.44	0.73	5.05	952.2
1978	2.21	1.45	0.36	3.15	7.17	1458.6
1979	1.16	1.65	–	3.49	6.30	1463.0

Sources: Columns (1) and (2): Appendix; Column (3): tables II, III, V, and VI; Column (4): Mateus (1982)

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Appendix

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a) **Loans to Bank of Portugal (BoP)**

Date	Creditor	Country of origin	Amount	Amount (million Escudos)	Conditions (Maturity and yearly interest rate)	% GDP	Objectives	Source
9 May 1975	Bank of International Settlements (BIS)		US$ 250 million	6385.750	1 year	1.36	Deficit balance of payments	BoP Annual Report 1975, p.86
28 November 1975	Swiss National Bank (SNB)	Switzerland	US$ 50 million	1277.150	3 months, commitment for 3 years	0.27		BoP Annual Report 1975, p.86
1976	Deutsche Bundesbank	Federal Republic of Germany	US$ 250 million	7557.250		1.34		BoP Annual Report 1976, p.160; Diário de Notícias 5/02/76
9 March 1976	BIS/Banking syndicate		US$ 250 million	7557.250	1 year	1.34	Deficit balance of payments	BoP Annual Report 1976, p.160
1976	Syndicate European central banks (Federal Republic Germany, Switzerland, Austria, Norway, Sweden, Denmark, Netherlands, Belgium)		250 million US dollars (165 used in 1976)	7557.250		1.34		BoP Annual Report 1977, p.98
1977	SNB		US$ 110 million	4210.580		0.58		BoP Annual Report 1977, p.98
1977	Norges Bank (1977)		US$ 18 million	689.004		0.10		BoP Annual Report 1977, p.98
1977	Banque de France (1977)		US$ 15 million	574.170		0.08		BoP Annual Report 1977, p.98
1977	National Bank of Denmark		US$ 15 million	574.170		0.08		BoP Annual Report 1977, p.98
1977	BIS		US$ 245 million	9378.110		1.30		BoP Annual Report 1977, p.98
1977	Fondo de Inversiones de Venezuela		US$ 15 million	574.170		0.08		
18 July 1978	Banking syndicate (Paris credits)		US$ 150 million	6590.550	7 years, 1% above LIBOR	0.74	Public investments	Mateus (1982), p.106, 111 and 112, and Resolution 113/78, 15 July 1978

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b) Loans to Government (concessionary)

Date	Creditor	Country of origin	Amount	Amount (million escudos)	Conditions (Maturity and yearly interest rate)	% GDP	Objectives	Source
30 June 1975	AID	USA	US$ 13,250 million	338.445	25 years, 5%	0.07	Social housing	Mateus (1982), p.106 and p.107 and Government Notice 6 October 1975
18 March 1976	US Government	USA	US$ 15 million	453.435	17 years, 4.5%	0.08	acquisition of US agricultural goods	Mateus (1982), p. 106 and p. 107; Government Notice 26 April 1976
13/08/1976	AID	USA	US$ 11 million	332.519	25 years, 5%	0.06	Schools' construction	Mateus Table, p.106, e Diário da República 25/09/76, DRE-226
13/08/1976	AID	USA	US$ 8 million	241.832	25 years, 5%	0.04	Water supplies and sewage systems	Government Declaration 27 October 1976
22/10/1976	US Government	USA	US$ 50 million	1511.450	17 years, 4.5%	0.27	acquisition of US agricultural goods	Mateus (1982), p.106
01/12/1976	Resettlement Fund for Refugees (RFR)	Council of Europe	20 million Deutsche Mark	240.400	7 years, 7.5%	0.04	Aid for returning African settlers	Mateus (1982), p.106
15/12/1976	RFR	Council of Europe	34 million Swiss Francs	410.618	12 years, 6.5%	0.07	Aid for returning African settlers	Mateus (1982), p.106
15/12/1976	RFR	Council of Europe	1.25 million Swiss Francs	15.096	12 years, 1%	0.00	Aid for returning African settlers	Mateus (1982), p.106
1976	European Investment Bank (EIB)		35 million ECU	896.630	12 years, 1%	0.16	Thermal power station Setúbal and construction of grid to link to Spain	EIB Information, n 12, p. 7

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1976	EIB		20 million ECU	512.360	12 years, 1%	0.09	Hydro-electric power station at Pocinho	EIB Information, n 12, p. 7
1976	EIB		15 million ECU	384.270	12 years, 1%	0.07	Portuguse National Development Bank to help SMEs	EIB Information, n 12, p. 7-8
1976	EIB		20 million ECU	512.360	12 years, 1%	0.09	New works of CUF (extraction of iron content from pyrites)	EIB Information, n 12, p. 7-8
1977	EIB		12 million ECU	325.536	17 years, 6.5%	0.05	Irrigation projects in Alentejo	EIB Information, n 12, p. 5 and 8
1977	EIB		16 million ECU	434.048	17 years, 6.5%	0.06	Port of Leixões	EIB Information, n 12, p. 5 and 8
1977	EIB		8 million ECU	217.024	17 years, 6.5%	0.03	Port of Lisbon	EIB Information, n 12, p. 5 and 8
1977	EIB		9 million ECU	244.152	17 years, 6.5%	0.03	Portuguse National Development Bank to help SMEs in industry and tourism	EIB Information, n 12, p. 5 and 8
01/07/1977	RFR	Council of Europe	14.9 million Deutsche Mark	246.297	10 years, 7.125%	0.03	Aid for returning African settlers	Mateus (1982), p.106
01/07/1977	RFR	Council of Europe	1.1 million Deutsche Mark	18.183	10 years, 1%	0.00	Aid for returning African settlers	Mateus (1982), p.106
01/11/1977	RFR	Council of Europe	28 million Deutsche Marks	462.840	10 years, 6.5%	0.06	Aid for returning African settlers	Mateus (1982), p.106

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04/03/1977	AID	USA	US$ 10 million	382.780	25 years, 5%	0.05	Social Housing	Mateus (1982), p.106, and Government Notice 15 April 1977
30/09/1977	AID	USA	1) US$ 15 million; 2) US$ 12 million; 3) US$ 17 million; 4) US$ 6 million; Total: US$ 50 million	1913.900	25 years, 5%	0.26	1) Schools; 2) Sewage; 3) Health centres; 4) Rural education	Mateus (1982), p.106
05/04/1977	Nederlands Investeringsbank voor Ortwikkelings Landenv (NIOL)	Netherlands	9 million Dutch guilder	140.6007	30 years, 3.75%	0.02	Education and Housing	Mateus (1982), p.106, p.110
1977	European Investment Bank		15 million ECU	406.920	20 years, 6.3%	0.06	Irrigation projects in Trás-os-Montes	EIB Information, n 12, p. 5 and 8
08/11/1977	Kreditanstalt für Wiederaufbau (KfW)	Federal Republic of Germany (FRG)	44,85 million Deutsche Mark	741.371	20 years, 4.5%	0.10	Rural roads	Mateus (1982), p.106, and Government Declaration 22 December 1978
31/03/1977	KfW	FRG	70 million Deutsche Mark	1157.100	31 semesters, 2%	0.16	Protection against flooding, and irrigation in the lower Mondego river	Decreto-lei 110/77, 26 March 1977
04/08/1978	US Government	USA	US$ 40 million	1757.480	18 years, 5%	0.20	Grain Imports	Mateus (1982), p.106, and Government Declaration 26 August 1978
16/05/1978	RFR	Council of Europe	30 million Deutsche Mark	658.530	10 years, 6.25%	0.07	Aid for returning African settlers	Mateus (1982), p.106
01/11/1978	RFR	Council of Europe	20 million Deutsche Mark	439.020	10 years, 6.25%	0.05	Aid for returning African settlers	Mateus (1982), p.106

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01/11/1978	RFR	Council of Europe	29 million Deutsche Mark	636.579	10 years, 6.5%	0.07	Aid for returning African settlers	Mateus (1982), p.106
01/11/1978	RFR	Council of Europe	1 million Deutsche Mark	21.951	10 years, 1%	0.00	Aid for returning African settlers	Mateus (1982), p.106
07/11/1978	UK Government	UK	5 million pounds	421.665	25 years, 6%	0.05	Imports from the UK	Mateus (1982), p.106 and p. 109, Government Resolution 9 November 1978
1978	AID	USA	US$ 14 million	535.892		0.06	Schools, Sewage, Health centres	BoP Annual Report 1978, p.143
02/03/1979	Norges Bank	Norway	50 million NKR	483.100	12 years, no interest	0.04	Reconstruction of Lordelo Hospital	Mateus Table, p.106, p. 109, and p.110
26/07/1979	US Government	USA	US$ 38 million	1859.112	17 years, 5%	0.16	Grain Imports	Mateus (1982), p.106
27/09/1979	RFR	Council of Europe	9,4 million Deutsche Mark	251.196	10 years, 7.75%	0.02	Aid for returning African settlers	Mateus (1982), p.106
27/09/1979	RFR	Council of Europe	600,000 Deutsche Marks	16.034	10 years, 1%	0.00	Aid for returning African settlers	Mateus (1982), p.106
27/12/1979	NIOL	Netherlands	20.9 Dutch guilder	729.739	20 years, 5%	0.06	Fishing	Mateus Table, p.106 and p.110
03/12/1979	KfW	FRG	70 million Deutsche Mark	1870.610	20 years, 4.5%	0.16	Hydroelectric project Cova da Beira	Mateus (1982), p.106
03/12/1979	KfW	FRG	17.5 million Deutsche Mark	467.653	20 years, 4.5%	0.04	Fishing Port Figueira da Foz	Mateus (1982), p. 106, 110
03/12/1979	KfW	FRG	17.5 million Deutsche Mark	467.653	20 years, 4.5%	0.04	Fishing Port Nazaré	Mateus (1982), p. 106, 110

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c) Loans to Government (market conditions)

Date	Creditor	Country of origin	Amount	Amount (million Escudos)	Conditions (Maturity and yearly interest rate)	% GDP	Objectives	Source
3 March 1977	International Bank for Reconstruction and Development (IBRD)		US$ 24 million	918.672	14 years, 8.7%	0.13	Road and Transportation	Mateus (1982), p.106, and Government Resolution 13 April 1977
6 June 1978	IBRD		US$ 21 million	922.677	15 years, 7.5%	0.10	Education	Mateus (1982), p.106, p. 108, and Government Resolution 12 April 1978
6 June 1978	IBRD		US$ 40 million	1757.480	15 years, 7.45%	0.20	Lisbon Water Company (EPAL)	Mateus (1982), p.106, p. 108, an parliament authorisation 1 June 1978
27 June 1979	IBRD		US$ 45 million	2201.580	15 years, 7.9%	0.19	Small and Medium-sized manufacturing firms	Mateus (1982), p.106 and p. 109
27 July 1979	IBRD		US$ 40 million	1956.960	15 years, 7.9%	0.17	Road and Transportation	Mateus (1982), p.106 and p. 109

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