

1.Name of Country: Portugal

2. Commentary on general economic situation:

The Portuguese economy continues to be fragile and it would seem that signs of recovery are insufficient to put an end to the situation of divergence with other Euro Zone countries which has persisted since 2000.

GDP in this period saw real average growth of 0.6%, and the OCDE is forecasting an annual rate of growth for the 2005-2010 period of approximately 1.7%, while the Euro zone can expect to see growth of around 2.1%.

It is hoped that the results of the Programme for the Restructuring of Government Central Administration (PRACE) which contains general and special guidelines for the restructuring of ministries and which also aims to improve the quality of public services, will bring gains in efficiency and rationalization of resources.

Exports fell sharply over figures for 2004, going from growth of 5.3% to just 0.9%.

Accompanying the significant slowdown in global demand, imports also decreased significantly in 2005, growing just 1.8% as against 7% in 2004.

Given that the rate of growth in imports was greater than internal demand, the rate of penetration of imported goods and services rose once again.

In the first quarter of 2006, greater volume of business in industry was seen. The improvement in sales to foreign markets was particularly noticeable.

In comparison to 2005 we can state:

Gross domestic Product: 147 billion euros

GDP Growth Rate: 0,3%

GDP per capita: 13.9 thousand euros

Rate of inflation (IHPC): 2,1%

Rate of Unemployment: 7,6%

Exports: 42 billion euros

Imports: 55 billion euros

Trade balance: (13) billion de euros

Consumer price index (IPC): 2,3%

Interest Rates:

- Short term lending rate (média ponderada): 4,57%
- Long term lending rate (média ponderada): 4,14%
- Short term savings: 1.6%
- Long Term savings: 3,4 %

Exchange Rate: 1 € = 1,245 US\$

3. Commentary on special Tooling & Machining Industry Business Situation

Industry overview

The financial structure of the Portuguese moulds industry continues to be affected by the erosion of margins due to the prolonged slowdown in the world economy, and aggravated by unfavourable payment conditions which have come to be imposed by clients.

Present economic situation

The slimmer margins which have been in evidence in recent years have caused a reduction in profitability.

Production Characteristics

Pressure on prices has brought about measures to increase productivity through reengineering and a search for greater levels of specialization in a number of niche markets.

Market Characteristics

- **Domestic Market vs. Overseas Market** – Domestic market consumption is very low so only a small share of production (approximately 11%) is destined for internal use. However, a small rise has been noted in the importance of the domestic market.
- **Exports:** Accompanying the negative performance of Portuguese exports, the moulds industry also experienced a significant drop of approximately 13% in sales to foreign markets. The figure for exports stood at 298 million euros.
This fall was seen in most of the industry's main markets.
The European Union market reinforced its importance and now represents approximately 72% of total sales.
- **Imports:** Total national imports diminished strongly to the order of 15% fixing itself at 44 million euros.
- **International competitiveness:** Portuguese industry continues to be competitive in niche markets for highly complex moulds.

Production Technology & Equipment: Many of the investment programmes have been temporarily shelved or substantially reduced.

Human Resources & Wages: A stabilization has been seen in the number of workers in the industry. This has been achieved by increasing productivity through greater levels of process automation as a means of maintaining competitiveness.

Government & Industry Support Programs: Existing programmes are not particularly motivating and are also extremely bureaucratic. This has resulted in a reduction in the number of applications to these programmes.

Outlook for the future & Problems to be solved: Better levels of qualification in human resources so as to be able to deal with the greater challenges brought about by new working methods and more sophisticated production processes.

4. Summary and conclusion

As operating conditions are not favourable, measures to increase productivity and to act in the international market need to be taken.

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