



ECONOMIC SURVEYS

SPAIN



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

PARIS JULY 1966

I-22/27 P3

BASIC STATISTICS OF SPAIN

THE LAND

Area (1,000 sq. km)	504.7	Major cities (1960 census, thousands of inhabitants) :	
Agricultural area (1,000 sq. km) ...	208.3	— Madrid	2,260
		— Barcelona	1,558
		— Valencia	505
		— Sevilla	442

THE PEOPLE

Population (1960 census : thousands)	30,903	Total labour force (1960 census : thousands)	11,634
Number of inhabitants per sq. km (1960)	61	— In agriculture	4,803
Net natural increase (average 1961-65 thousands)	395	— In industry	2,749
Net rate of increase per 1,000 inhabitants (average 1961-65)	12.7	— In construction	822
		— In services ..	3,260

PRODUCTION

Gross national product 1965 (billion pesetas)	1,305	Gross domestic product at factor cost by origin in 1965 (percentages) :	
GNP per head, 1965 (US \$) ...	688	— Agriculture	19
		— Industry and construction	35
		— Other	46

THE GOVERNMENT

Public consumption in 1964 (percentage of GNP)	8	Current government revenue in 1964 (percentage of GNP)	12
Public investment in 1964 (percentage of total investment)	15	Internal public debt (percentage of central Government current revenue 1963)...	90

LIVING STANDARDS

Electricity final consumption (kWh per head) in 1965	790	Number of radio sets per 1,000 inhabitants in 1963	129
Illiteracy rate in 1960 (percentage of people aged above 10)	13	Number of private cars per 1,000 inhabitants in 1965	25
Calories per head, per day (1963-64) ..	2,850	Number of telephones per 1,000 inhabitants in 1965	88
Annual meat consumption (kg per head, 1965)	27		

FOREIGN TRADE

Exports of goods and services as a percentage of GNP (Average 1963-64)...	12	Imports of goods and services as percentage of GNP (Average 1963-64)	14
Exports (Average 1964-65 ; percentage of total exports) :		Imports (Average 1964-65 ; percentage of total imports) :	
— Foodstuffs	46	— Foodstuffs	16
— Raw materials	16	— Raw materials	26
— Manufactured products	38	— Manufactured products	58

THE CURRENCY

Monetary unit : peseta.	Currency units per US \$	60
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ECONOMIC SURVEYS BY THE OECD

SPAIN

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the OECD shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

The legal personality possessed by the Organisation for European Economic Co-operation continues in the OECD, which came into being on 30th September 1961.

The Members of OECD are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

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INTRODUCTION

The rapid growth of output continued in 1965, when the volume increase of the national product was of the order of 8 per cent according to preliminary official estimates. But the expansion of demand far exceeded the rise in production, with consequent pressure on the price level and the balance of payments. Steps to increase food imports have since succeeded in bringing about a considerable deceleration of price increases. But the measures taken in the summer of 1965 to restrain the growth of housebuilding do not yet seem to have significantly decreased the strains in this sector, and a rather general condition of excessive demand seems now to have developed.

In the early months of 1966 it seemed probable that an expansionary budget would constitute an additional factor of inflationary pressure. On the other hand, the measures of credit restraint taken by the authorities at the end of 1965 were being reinforced by the effects on bank liquidity of a considerable external deficit. The resulting appreciable deceleration of bank credit, if carried too far, would risk affecting unfavourably private investment, production and employment. If the burden of adjustment is not to fall mainly on productive investment (with undesirable consequences on both the present level of activity and longer-term growth) quick and strong action is needed in the field of public finance, notably a speedy application of the recent Government decisions aimed at containing the growth of public expenditure.

Part I of the present Survey outlines, and puts briefly in perspective, economic developments in 1965 and the early months of 1966; it also discusses certain problems concerning the use of monetary policy. Part II discusses short-term prospects and the more important current issues for economic policy. The final section contains the principal conclusions to be drawn from the analysis.

I. ECONOMIC DEVELOPMENTS IN 1965 AND EARLY 1966

a) *Medium-term trends*

From late 1961 to early 1966 output has been rising steadily and rapidly. During the early part of this period sharply rising demand could

be reconciled with equilibrium because production was recovering swiftly from the temporary stagnation which followed the stabilisation programme of 1959, and because that programme had significantly improved the general conditions under which the economy was functioning. The spectacular increase in foreign exchange receipts and the partial liberalisation of imports, for example, had made possible a normal flow of raw materials and capital goods to Spanish industry—for practically the first time in thirty years. But when demand continued to expand rapidly, important disequilibria began to develop; more recently appreciable inflationary pressures have become manifest.

From the beginning, the expansion was characterised by a vigorous trend of private productive investment. More than a cyclical phenomenon, this represented an adjustment of Spanish industry to the novel conditions of an "open" economy and the relaxation of administrative controls on business operations. The fact that, for a significant part of industry, investment in modern equipment implied the passage from the technological level of the 1920's to that of the 1960's explains, in part, the strength of investment demand. And the discovery of the potentialities of the Spanish market by foreign business contributed directly to the rapid increase of industrial investment.

The industrial boom had important multiplier effects on non-farm employment and total incomes, which helped to prolong it. Other factors (notably the sharp increase of workers' emigration to other European countries) modified demand/supply conditions in the labour market and strengthened the rising trend of wages. A factor of special importance—because of its effects on the labour market and its contribution to the growth of total domestic demand—was the acceleration of housebuilding, helped by substantial public grants and loans. Hence, by 1963, the growth of demand and the emergence of pressures on prices again began to raise the problem of internal financial stability. Moderate adjustments of policy, and very good harvests, sufficed to restore approximate equilibrium in 1963¹. The economy had, in fact, gained strength from substantial increases in industrial productivity; and—despite the reappearance of an external deficit on current account—an expanding inflow of foreign capital resulted in a further increase of reserves.

Thereafter, with the economy working close to capacity levels and higher public investment and private investment incentives laid down in the Development Plan for 1964-67, it became extremely important to prevent sectoral imbalances which risked spilling over into the rest of the economy and undermining general financial equilibrium. Developments in 1964² initiated a period of mounting inflationary pressures. In order

1. Cf. the OECD Survey published in July 1964.

2. Cf. the OECD Survey published in July 1965.

to protect agricultural incomes, guaranteed farm prices were raised substantially and food imports were reduced; inevitably food prices rose sharply and the price-wage spiral accelerated. The increase of current public expenditure considerably exceeded the limits set in the Plan. And the residential building boom, helped by substantial amounts of public funds, absorbed at least 60 per cent more resources than the Development Plan had considered compatible with general equilibrium.

1965 saw an acceleration in the growth of domestic demand, and inflationary pressures continued despite substantial further increases in production. The authorities took certain measures to restrain housebuilding, but at the time of writing these had not yet yielded very appreciable results. Steps to stabilise the level of food prices by increasing imports of food, on the other hand, had a substantial measure of success.

b) *The trend of output*

Although most harvests increased in 1965 from the low level of the previous year, the general index of vegetable production remained below the recent years' average (see the Statistical Annex). Prospects for crops in 1966 seem quite favourable at present. Total output of animal products, however, decreased in 1965, meat production in particular falling back from the high level of 1964, when the rise in support prices had encouraged

TABLE 1. INDICES OF OUTPUT

Percentage increases.

	1963	1964	1965 ¹
A. INDUSTRY²:			
1. Mining.....	1.5	1.9	7.2
2. Manufacturing	12.3	12.4	10.2
3. Electricity, gas, water	11.7	13.1	13.2
4. Construction and public works	9.5	16.0	11.0
5. Total	11.4	12.5	9.8
	1963-64	1964-65	1965-66 ¹
B. AGRICULTURE :			
1. Final vegetable production	11.7	-15.5	4.5
2. Final animal production	21.7	-0.3	-3.2
3. Total : final agricultural production.....	15.4	-9.5	1.1

1. Provisional estimates.

2. Coverage different from that of the indices of industrial production in Table 2.

Sources: A. Ministry of Industry: Informe Sobre la Coyuntura Industrial 1965.

B. Ministry of Agriculture: La Agricultura Española en 1965.

Index

210
200
190
180
170
160
150
140
130
120
110
100

Five months moving average

Monthly figures

1962 1963 1964 1965 1966

J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

Source: National Institute of Statistics.

heavy slaughtering. The census statistics of the Ministry of Agriculture indicate virtually stationary cattle herds since 1963 and significant reductions in the numbers of pigs and sheep. There is therefore little prospect of an early increase in the domestic supply of meat at anything like the rate required to satisfy the probable trend of demand, although according to recent official estimates a significant increase is expected for 1966.

The growth of industrial production was again substantial in 1965—of the order of 10 per cent. The branches which have been most dynamic in the last few years (notably basic metals and engineering products) continued to expand rapidly, reflecting both the investment boom and the strong increase in the demand for consumers' durables. Production of passenger cars increased by 34 per cent to about 160,000 and industrial vehicles by 23 per cent to 74,000. New registrations of passenger cars showed an increase of 25 per cent and have more than doubled in four years. Apart from the growth of real incomes and changing consumption patterns, strong demand for all types of consumers' durables was also, apparently, helped by a considerable increase of instalment credit.

TABLE 2. INDUSTRIAL PRODUCTION INDICES

Monthly average 1960 = 100.

	WEIGHTS	1964 ¹	PERCENTAGE INCREASES 1964	1965 ²	PERCENTAGE INCREASES 1965
1. Food, drink and tobacco	16	134.7	15.9	136.8	1.6
2. Textiles	16	131.8	4.8	136.1	3.3
3. Basic metals	7	169.9	12.7	190.5	12.1
4. Engineering and transport equipment ...	18	191.1	19.9	233.5	22.2
5. Chemical and petroleum products	10	172.8	13.9	186.6	8.0
6. Other manufacturing industries	20	165.5	...	180.4	9.0
7. Manufacturing (Total).....	86	160.1	13.7	176.5	10.2
8. Mining	8	94.3	-2.9	99.7	5.7
9. Electricity and gas	6	156.3	13.7	167.1	6.9
10. GENERAL INDEX.....	100	155.1	12.9	170.3	9.8

1. Revised figures.

2. Provisional.

Source: National Institute of Statistics.

Such information as is available for the early months of 1966 indicates a continuing rapid growth of industrial output. The general production index for January-April was up 18 per cent on the year; a new feature was a significant expansion in textiles, which started in the last months of 1965. Total consumption of electricity increased by some 14 per cent between

the first four months of 1965 and 1966. Business surveys (up to April) indicate a high level of orders and expectations of rising output in most branches of industry. The heavy pull of domestic demand is illustrated by the figures in Table 3.

TABLE 3. BUSINESS SURVEYS

	APRIL 1965				APRIL 1966			
	+	=	-	NIL	+	=	-	NIL
I. PERCENTAGES OF REPLIES¹								
A. Judgements:								
1. Total orders	17	65	18		15	66	19	
2. Orders from abroad	2	12	20	66	3	15	23	59
3. Stocks of finished products ..	18	71	11		20	71	9	
B. Expectations:								
4. Production	33	57	10		37	54	9	
5. Prices	31	64	5		33	61	6	
a) Construction firms ²					85	15	—	
b) All other ²					22	70	8	
	TOTAL	INVESTM. GOODS	CONSUMPT. GOODS	INTERMED. PRODUCTS	TOTAL	INVESTM. GOODS	CONSUMPT. GOODS	INTERMED. PRODUCTS
II. NUMBER OF MONTHS								
6. Work secured by present orders :								
a) Total sample	2-3	2-3	1-2	2-3	4-6	9-12	2-3	3-4
b) Construction firms ²		9-12				12-18		
c) All other ² .....	...	...				6-9		

1. Positive signs indicate "higher than normal" for judgements and "increase" for expectations, referring to the next 2-3 months.

2. This breakdown was introduced recently. Item 5 a) refers to the expected trend of costs.

Sources: Ministry of Industry, monthly business surveys.

Absence of adequate statistics for construction creates serious difficulties for the formulation of policy. In 1965, the authorities took measures to moderate the excessive housebuilding boom: in particular, official credit for residential construction was tightened and a ceiling was set for authorisations of new plans involving financial support by the State¹.

1. The measures were described in the 1965 OECD Survey on Spain.

These decisions could, naturally, only produce their effects with a certain time-lag (owing, especially, to the backlog of authorisations already granted). But at the moment of writing it is still doubtful whether very significant results can be expected before the end of 1966. There is some evidence that credit for housebuilding expanded less in the second half of 1965; but budgetary transfers for housebuilding significantly exceeded the forecasts (Table 6C). Completions of State-supported dwellings rose only slightly last year. But private residential construction seems to have expanded considerably. New authorisations for State-supported housebuilding were somewhat below the ceiling fixed in 1965. But the ceiling originally set for this year was recently revised upwards.

TABLE 4. HOUSEBUILDING

Thousand dwellings.						
	1961	1962	1963	1964	1965	1966 FORE- CASTS
<i>State-supported housebuilding:</i>						
1. Requests submitted to Ministry of Housing	210.1	215.8	312.6	467.2	240.7	200.0 ^a
2. Requests approved.....	172.7	229.0	301.5	393.8	127.2 ^a	
3. Dwellings completed.....	134.5	147.8	187.9	231.2	240.8	
<i>Private housebuilding:</i>						
4. Dwellings completed ¹	13.5	14.6	18.8	25.7	...	
5. (=3+4) Total completions.....	148.0	162.4	206.7	256.9	...	
6. Targets of long-term housing plan (1961-1976)	125.1	139.6	150.5	162.1	175.1	188.4

1. Up to 1964, the Ministry of Housing assumed that private housebuilding was about 10 per cent of State-supported housebuilding. Data collected through the professional organisation of architects indicate an appreciable increase of private housebuilding in 1965, but no regular statistics are available.

2. The limitation of new authorisations decided in May 1965 corresponded to annual ceilings of 140,000 for 1965 and 200,000 for 1966. The decree of June 1966 providing for additional authorisations and credits this year does not make clear to what extent the previously fixed ceiling has been revised.

Source: Ministry of Housing.

As far as can be judged from the available statistics and from indirect evidence, total claims on the construction industry are likely to remain excessive in the near future, even if housebuilding activity weakened somewhat in the next few months. Non-residential private construction will probably continue to expand; and important additions are planned to the substantial volume of public works in progress, which will risk creating additional strains on resources. The construction firms which replied to the April business survey reported a rather low level of orders; but at

the same time they judged that orders in hand corresponded to more than a full year's work and forecasted the most widespread cost and price increases of any group.

c) *Demand factors*

Apart from a virtual stagnation of commodity exports, all the principal components of demand expanded strongly last year. In the early months of 1966 domestic demand remained buoyant and exports also increased considerably. Close quantitative estimates are not possible¹, but consumption certainly rose significantly in 1965 (in spite of the substantial increase in prices) and gross fixed investment is estimated to have risen by nearly 20 per cent in volume, following an increase of about 15 per cent in 1964. Exports of services (mainly tourism) continued to expand considerably. With better harvests, total agricultural stocks may have increased², and the accumulation of non-agricultural inventories was probably substantial : in addition to the requirements of expanding industrial production, there is evidence of excessive stockbuilding in late 1965 and early 1966. A broad measure of the pressure of demand is provided by the rise in prices and the simultaneous rapid increase of imports. Preliminary official estimates put the increase of the GNP general price deflator as high as 12 per cent last year, and imports rose by 34 per cent. In recent months, the price increases have slowed down significantly ; but the rise of imports has remained substantial. The contribution of public expenditure to the growth of domestic demand, and the role of credit expansion are analysed below.

d) *Prices and wages*

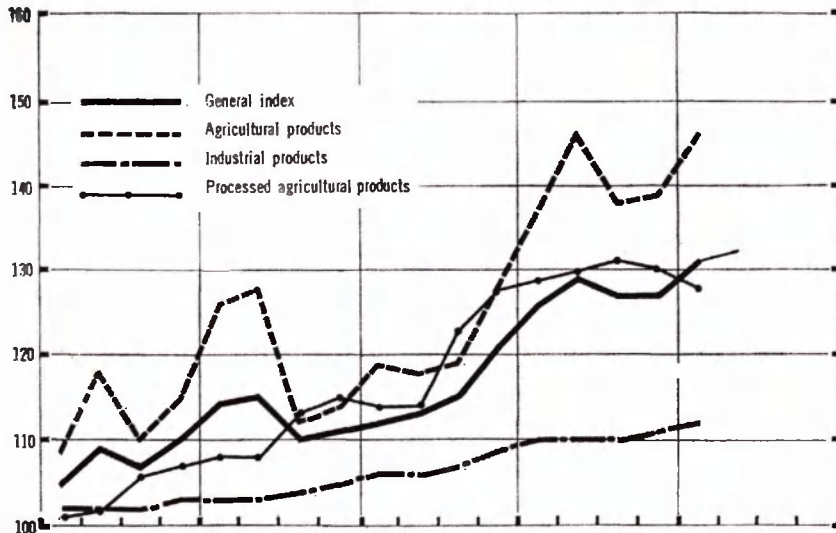
The sharp increase of average prices between 1964 and 1965 largely reflected the rise which took place during 1964—a rise provoked by the policies mentioned earlier. The new orientation of agricultural policy (a standstill in guaranteed farm prices and enlarged food imports) resulted in a slower increase of food prices in the course of 1965. This tendency continued in the first half of 1966 and was the main reason for the fact that the cost of living rose by only 2.2 per cent from December to May compared to 4.7 per cent a year earlier. But the recent decisions to raise guaranteed prices of secondary cereals and to increase import levies of certain meat products may lead to further increases of food prices. Throughout the

1. The national accounts for past years raise certain difficulties of interpretation, as pointed out in previous OECD surveys. For 1965 only partial, preliminary estimates are available for the moment.

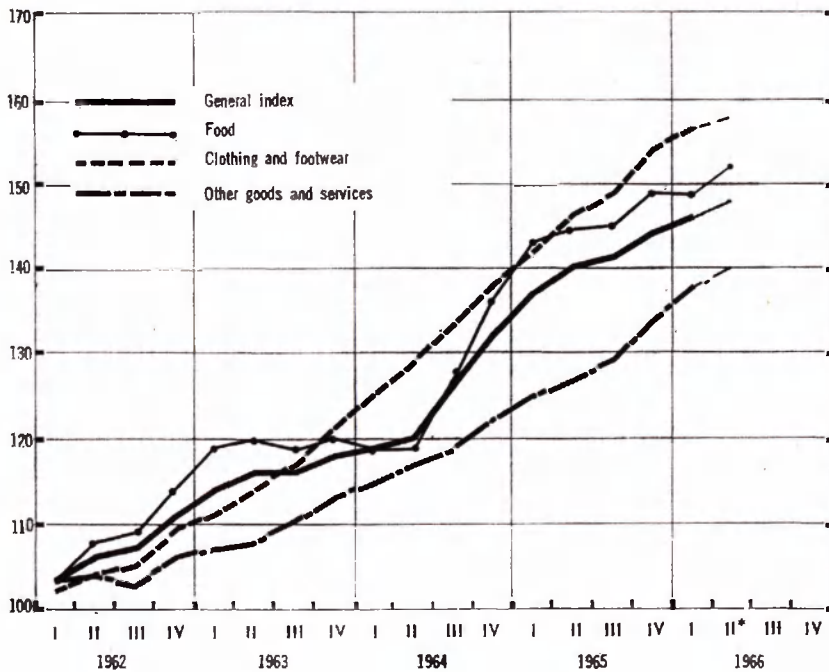
2. The value of stocks held by official agencies may have varied little (see Table 8 D) since increases of wheat and wine seem to have been largely offset by liquidation of other stocks.

Diagram 2. PRICE INDICES
QUARTERLY AVERAGES: 1960 = 100

(A) WHOLESALE PRICES



(B) COST OF LIVING



* April-May

Source: National Institute of Statistics and OECD Main Economic Indicators.

TABLE 5. PRICES AND WAGES

	WEIGHTS	AVERAGE ANNUAL INCREASES			INCREASES IN THE COURSE OF THE YEAR 4th qtr. to 4th qtr.		LATEST SIX MONTHS ¹ At annual rates
		1963	1964	1965	1964	1965	
WHOLESALE PRICES :							
1. GENERAL INDEX	100	4.3	2.9	10.1	8.8	6.1	5.9
of which:							
2. Food, drink and tobacco	52	6.3	2.1	15.7	12.0	9.4	4.1 ^a
“Special Groups”							
3. Agricultural products	34	6.4	0.7	15.5	12.3	8.7	13.3 ²
4. Processed agricultural products	12	6.3	8.1	8.4	11.0	1.8	2.2 ^a
5. Industrial products	30	1.5	3.0	3.1	4.3	1.7	2.7 ^a
COST OF LIVING :							
1. GENERAL INDEX	100	8.8	7.0	13.2	11.7	9.8	6.2
2. Food	55	10.0	5.1	15.8	13.3	9.6	4.6
3. Clothing	14	9.9	13.5	12.6	14.2	11.8	7.6
4. Rent.....	5	4.4	5.6	10.5	5.2	12.6	8.1
5. Household expenses	8	7.9	7.9	7.1	6.7	6.5	3.1
6. Other goods and services	18	5.3	8.4	8.9	8.8	9.9	10.9
WAGES :							
1. Hourly earnings in industry (monthly index, Institute of Statistics)		21.6	16.6	12.9 ^a	16.9	9.6 ^a	
2. Hourly earnings in industry including construction (annual estimates, Ministry of Industry)		14.5	12.9	14.6			
of which: a) Manufacturing .....		...	13.4	...			
b) Construction		20.3	12.4	...			
3. Agricultural wages (annual index, Ministry of Agriculture)		27.8	12.0	10.8			

1. March-May 1966 over September-November 1965.

2. February-April 1966 over August-October 1965.

3. Revised figures; previously the rates shown were 20.2 per cent and 17.6 per cent respectively.

Sources: National Institute of Statistics, Ministry of Agriculture and Ministry of Industry.

period under review, wholesale prices of industrial products have generally risen moderately, thanks, no doubt, to the influence of growing imports. But consumer prices of manufactures continue to rise at a considerable rate, even if less fast than previously. The reason for the divergence may be sought in the much higher impediments (quotas and tariffs) to imports of non-food consumer goods, which represented last year only 5 per cent of total imports, and in the influence of distribution margins. The impact of the service component on the price level is likely to be particularly high in a period when rapid industrial growth and urbanisation coincide with particularly slow modernisation of trade and other services, but when wage increases in services follow those in industry rather closely.

Despite the slowing-down of price increases, the price-wage spiral does not seem yet to have been arrested. Considerable uncertainty¹ attaches to the existing wage statistics ; but the figures in Table 5 and the Statistical Annex may be taken broadly to reflect the order of magnitude of wage rises. These seem, in 1965, to have been in the 10 to 15 per cent range—at a time when the cost of living rose by about 13 per cent. The spiral resulted in strong upward pressure on nominal costs, and an apparently very small improvement in real wages. With a number of collective agreements up for renegotiation this year, the authorities have announced a guide line of 8 per cent for annual wage rises. There is no official information on the total effect of recent renewals. A number of them provide for increases far in excess of the guide line, but the relation of basic rates to total earnings is not even approximately known. A new feature is the incorporation of sliding-scale clauses in certain wage contracts—an element discouraged by the authorities on the grounds that it risks accelerating the propagation of inflationary tendencies.

The difficulties of holding the guide line of 8 per cent, which exceeds only slightly the recent rate of increase in the cost of living, underline the basic need for economic policies which will limit the rise in prices by allowing foreign competition to exert its full effects and by containing the expansion of overall demand.

e) *Public finance*

The public sector² has played an important role in the excessive growth of domestic demand. In the absence of special measures, this would risk being even more pronounced in 1966. As Table 6A indicates, budget

1. In addition, there are sometimes very substantial revisions of current statistics. Cf. footnote 3 to Table 5.

2. Information is regularly available only for Government finance. The data for local administration and autonomous agencies are very scarce and usually out of date. But starting with 1964, detailed information on investment by the entire public sector is given in the reports on the implementation of the Development Plan.

TABLE 6 A. PUBLIC FINANCE

Billion pesetas.

	ACTUAL				1965		1966	ACTUAL ¹		
	1961	1962	1963	1964	FORE-CAST	ACTUAL	FORE-CAST	JANUARY-MAY		
								1964	1965	1966
REVENUE :										
1. Budget revenue	81.1	95.0	109.0	125.8	136.8	149.6	168.7	50.9	56.7	68.0
of which: 2. Tax revenue	73.4	84.5	95.8	110.1	118.5	130.2	145.3	44.0	48.1	59.5
3. Other receipts	7.7	10.5	13.2	15.7	18.3	19.4	23.4	6.9	8.6	8.5
4. Annexed budget ²	4.8	3.3	3.8	1.6	4.2	1.6	...	0.8	1.1	0.9
5. TOTAL REVENUE	85.9	98.3	112.8	127.4	141.0	151.2	168.7	51.8	57.9	68.9
EXPENDITURE ³ :										
6. Investment expenditure (civilian) .....	...	...	25.9	36.3	40.1	...	48.6			
7. Other expenditure .....	...	...	82.5	88.8	96.7	...	120.1			
8. TOTAL BUDGET EXPENDITURE	74.0	88.8	108.4	125.1	136.8	152.7	168.7	41.2	55.0	66.9
9. (= 1-8) Budget balance	+7.1	+6.2	+0.5	+0.7	—	—3.1	—	9.7	1.7	1.1
10. Annexed budget ²	4.1	4.2	4.0	1.7	4.2	1.9	—	1.0	0.7	0.5
11. On account of local bodies, net	0.2	—0.3	—2.7	—0.6	...	—0.3	—	1.0	1.2	2.2
12. Other expenditure, net ⁴	0.3	—2.4	—0.1	0.7	...	4.5	—	3.7	3.1	0.2
13. TOTAL EXPENDITURE	78.0	90.3	109.7	126.9	141.0	158.8	168.7	46.9	60.0	69.8
14. (= 5—13) TOTAL BALANCE (equals total borrowing and lending)	+7.9	+8.0	+3.1	+0.5	—	—7.6	—	+4.9	—2.1	—0.9
Borrowing (+) and lending (—)										
15. Treasury issues	3.0	0.5	5.0	15.0	20.0	27.5	28.5	—	10.0	8.6
16. Less : Transfers to official credit institutions	—10.1	—7.2	—4.9	—17.6	—20.0	—24.7	—28.5	—6.0	—10.8	—10.4 ⁵
17. Recourse to the Bank of Spain	—0.8	—1.3	—3.2	2.1	...	4.8	...	1.1	2.9	2.7
18. (14+16) TOTAL BALANCE PLUS TRANSFERS	—2.2	+0.8	—1.8	—17.1	—20.0	—32.3	—28.5	—1.1	—12.9	—11.3

1. Budget expenditure (Item 8) includes the "seccion apéndice."

2. Expenditure financed with U.S. aid counterpart funds.

3. The classification of budget expenditure has been revised since 1963.

4. Residual item. It includes: annexed budget operations other than those in Item 10, the "special section" of the budget and the net balance of other cash operations of the Treasury.

5. Excluding an accounting transfer of 2.1 billion corresponding to profits retained by the official credit institutions.

Source: Ministry of Finance and Bank of Spain.

TABLE 6 B. FISCAL RECEIPTS

Billion pesetas.

	1960	1961	1962	1963	1964	1965 FORE- CASTS	1965 ACTUAL	1966 FORE- CASTS
I. DIRECT TAXES :								
1. Tax on income from agricultural property	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.1
2. Tax on income from urban property	1.6	1.8	1.9	2.2	2.3	2.5	2.6	3.2
3. Tax on salaries and professional earnings	5.3	5.9	6.6	7.6	8.3	8.0	8.7	8.0
4. Tax on income from capital	2.4	2.6	2.9	3.1	3.5	3.9	4.4	4.8
5. Corporation tax	7.1	7.9	8.9	9.2	9.7	11.8	13.2	14.2
6. Tax on business licenses and on personal profits	2.3	2.5	3.6	4.0	4.6	5.3	6.0	6.2
7. Surtax on personal incomes	1.0	1.0	1.2	1.4	1.6	1.2	2.0	1.6
8. Inheritance and estate tax	1.3	1.4	1.6	1.6	1.9	2.3	2.2	2.3
9. Other	1.1	1.1	1.2	1.4	1.6	0.4	0.8	1.6
TOTAL DIRECT TAXES	23.4	25.6	29.3	31.8	34.9	36.8	41.3	43.1
II. INDIRECT TAXES :								
1. Transaction taxes and stamp duties	8.5	9.6	10.5	13.0	14.2	9.8	9.2	11.0
2. Customs duties	5.3	8.2	10.4	12.2	14.1	21.2	24.1	26.6
3. Fiscal duties on imports	1	1	3.8	4.6	5.7			
4. General tax on expenditure	13.6	15.1	13.7	15.1	17.3	26.1 ¹	26.1 ¹	34.6 ²
5. Luxury taxes	6.4	7.3	8.5	10.4	13.3	13.2	16.4	16.7
6. Fiscal monopolies	5.2	6.8	7.6	7.9	9.6	10.2	10.9	12.5
7. Other	1.0	0.8	0.7	0.8	1.0	1.1	1.1	0.6
TOTAL INDIRECT TAXES	40.0	47.8	55.2	64.0	75.2	81.7	88.9	102.1
TOTAL TAXES	63.4	73.4	84.5	95.8	110.1	118.5	130.2	145.3

1. Included in general tax on expenditure (Item 4).

2. It includes the new general turnover tax.

Source: Ministry of Finance.

TABLE 6 C. BUDGET EXPENDITURE

Billion pesetas.

BUDGET CHAPTER		1962 ACTUAL	1963 ACTUAL	1964		1965		1966 FORECAST
				FORECAST	ACTUAL	FORECAST	PAYM. ¹ AUTHOR.	
1	Wages, salaries, pensions	29.3	33.6	41.5	39.6	47.0	48.0	68.7
	of which: education	(4.2)	(5.0)	(6.4)	(5.8)	(6.7)	(7.1)	(11.4)
2+3	Other current expenditure	10.0	13.1	12.9	13.5	13.5	11.2	15.5
	of which: defence	(4.0)	(4.4)	(5.8)	(5.5)	(5.8)	(2.2)	(6.6)
4	Current subsidies and transfers	13.3	21.1	16.9	24.4	21.9	24.6	23.4
	of which: agriculture	(0.9)	(1.7)	(0.4)	(4.3)	(0.5)	(1.0)	(0.5)
	national funds ²	(1.0)	(2.8)	(2.7)	(5.0)	(3.0)	(4.7)	(3.6)
	local administration	(0.3)	(4.2)	(3.9)	(4.8)	(7.5)	(8.5)	(8.0)
	education .....	..	..	(1.3)	(1.2)	(1.3)	..	(1.5)
	railways .....	..	..	(2.9)	(2.5)	(2.9)	..	(2.7)
	TOTAL CURRENT	52.7	67.9	71.3	77.6	82.4	83.8	107.6
6+9	Direct investment ³	10.6	14.2	20.5	19.0	23.0	21.9	25.5
	of which: public works	(4.8)	(7.8)	(9.7)	(11.8)	(10.9)	(11.9)	(13.0)
	education	(0.4)	(1.0)	(1.6)	(1.1)	(1.9)	(1.4)	(2.9)
	defence	(4.0)	(3.8)	(5.2)	(3.7)	(5.3)	(3.8)	(4.6)
	local administration ⁴	(1.0)	(1.4)	(1.7)	(1.6)	(2.7)	..	(2.0)
8	Capital transfers	14.5	15.5	20.4	21.0	22.4	22.6	25.3
	of which: housebuilding	(6.6)	(7.5)	(7.4)	(9.2)	(7.4)	(9.2)	(7.6)
	public works .....	..	..	(5.4)	(5.3)	(5.4)	..	(5.8)
	education .....	..	..	(1.6)	(1.2)	(1.6)	..	(2.6)
	agriculture .....	..	..	(5.0)	(4.7)	(5.0)	..	(5.6)
	TOTAL CAPITAL	25.1	29.7	40.9	40.0	45.4	44.5	50.8
5+7	Financial transactions	11.2	10.8	8.7	7.5	8.9	6.7	10.3
	of which: public debt operations	(6.8)	(6.1)	(6.9)	(6.3)	(7.0)	(4.0)	(7.2)
	TOTAL ACTUAL EXPENDITURE	89.0	108.4	121.0	125.1	136.8	152.7	168.7

1. The chapter figures are not comparable to those for previous years. Their total (135 bil. pes.) represents payments authorised up to 31st December. Comparable figures for 1963 and 1964 were 102 bil. and, 116 bil. respectively.

2. The proceeds of certain taxes are earmarked for the "national funds." These funds provide financial assistance to workers dismissed because of re-conversion of enterprises, distribute study grants, etc.

3. Expenditure authorised in preceding budgets (Chapter 9) relates almost entirely to public investment projects, except for minor amounts which are included in the totals of actual current expenditure.

4. Participation of the central budget in the cost of investment carried out by local administration bodies.

Source: Ministry of Finance.

expenditure has been rising very rapidly for several years, more than doubling between 1961 and 1965. Since revenue rose less fast, the earlier budget surpluses gave way, last year, to a significant deficit. Even though domestic demand in general was known to be rising and the need to contain the growth of public expenditure and prevent the emergence of a deficit was recognised, the budget out-turn in 1965 had an inflationary impact. Total expenditure, including extra-budgetary payments, rose by no less than 25 per cent and the cash deficit corresponded to about 5 per cent of expenditure. The total of the deficit and of transfers by the Treasury to the official credit institutions probably represented between 2 and 3 per cent of the national product.

TABLE 6 D. THE BUDGET OUTLOOK FOR 1966

Billion pesetas.

1966 : INITIAL FORECASTS AND ESTIMATES BASED ON THE HYPOTHESIS OF A 10% CEILING ON THE RISE OF TOTAL EXPENDITURE		1965 OUT-TURN
EXPENDITURE :		
1. Budget forecast (adjusted for the transfer of salaries) ..	161.0	136.8
2. Carry-over expenditure.....	(17.0)	12.3
3. Net total of supplementary credits minus under-utilisation of budget credits	[— 5.0]	3.6
4. Actual budget expenditure	[173.0]	152.7
4a. % increase over previous year	[+13 %]	+22 %
5. Other expenditure (including annexed budget)	[—]	6.1
6. Total expenditure	[173.0]	158.8
6a. % increase over previous year	[+10 %]	+25 %
REVENUE :		
7. Forecast of tax revenue.....	145.3	118.5
8. Excess over forecast	(8.3)	11.7
9. Actual tax revenue.....	(153.6)	130.2
9a. % increase over previous year	(18 %)	+18 %
10. Other revenue (adjusted as in item 1)	(19.4)	21.0
11. Total revenue	(173.0)	151.2
11a. % increase over previous year	(+14 %)	+19 %
12. (=5—11) DEFICIT	[=]	7.6
13. Transfers to official credit institutions : official forecast for 1966.....	28.5	24.7
14. Deficit plus transfers	[28.5]	32.3

Sources: Ministry of Finance and estimates by the OECD Secretariat.

NOTE. Figures in parenthesis are approximate estimates; those in square brackets are derived from the assumption of a 10% rise in total expenditure.

Although tax receipts, and total budget revenue, registered their highest rate of increase last year after a period of continued growth, the rise of tax yields (18 per cent) was once again slightly less than the estimated increase of the national income at current prices (20 per cent). About one half of the total increase in direct taxes was accounted for by an exceptionally sharp rise in the yield of the corporation tax, which partly reflected, however, changes in classification introduced with the fiscal reform measures. Among indirect taxes, customs and fiscal duties increased, once again, at a particularly high rate because of the expansion of imports. Although total tax revenue has been rising considerably over the last few years, the yields from certain taxes seem to have responded only intermittently to the growth of incomes. This may be due, *inter alia*, to certain special features of the Spanish tax system. Most direct taxes, and the general turnover tax, are assessed globally for each professional or business category¹. Variations in the corresponding yields depend, therefore, not only on the trend of incomes but also on the timing of changes in the basis of assessment, negotiated between the tax authorities and business representatives. It would seem desirable to review and amend in the future any procedures of tax assessment which may limit substantially the automatic stabilising effects of taxation and hinder the use of fiscal policy as an anti-cyclical tool.

In 1965 budget expenditure exceeded considerably the initial forecasts and was substantially higher than the out-turn for 1964. Expenditure on salaries increased by some 20 per cent and current subsidies exceeded the high level of 1964. The actual increase in direct public investment and a number of capital transfers cannot be assessed accurately before the distribution of actual expenditure (as distinct from the breakdown of payments authorised) becomes known. Table 7 indicates the broad trends of total public investment, which increased by about 14 per cent last year². Due to the intervening price and wage rises, the volume increase must have been significantly smaller, in particular for building and construction works. As for last year, full realisation of the Plan forecasts for 1966 would imply a sharp rise of public investment (+24 per cent). This seems rather doubtful, because of the technical time-lags. But it also seems undesirable, given the general pressure on resources. Such an acceleration of expenditure would risk being largely absorbed by price increases.

In addition to the budget deficit, last year saw 4.5 billion pesetas of net extra-budgetary payments by the Treasury, details of which are not available. To some extent these payments have represented in the past

1. The main procedures are known as "evaluaciones globales" and "convenios colectivos." Individual taxpayers have the possibility of requesting separate assessment, but this option is rarely used.

2. These figures are not comparable to the budget data, because of the consolidation of the accounts of central Government and autonomous institutions, the exclusion of investment for defence and other reasons.

TABLE 7. PUBLIC INVESTMENT

Billion pesetas.

	1964						1965						DEV- ELOP- MENT PLAN FORE- CAST FOR 1966
	CENTRAL GOVERNMENT AND AUTO- NOMOUS INS- TITUTIONS ¹		LOCAL ADMINISTRATION		TOTAL		CENTRAL GOVERNMENT AND AUTO- NOMOUS INS- TITUTIONS ¹		LOCAL ADMINISTRATION		TOTAL		
	FORE- CAST	ACTUAL	FORE- CAST	ACTUAL	FORE- CAST	ACTUAL	FORE- CAST	ACTUAL	FORE- CAST	ACTUAL	FORE- CAST	ACTUAL	
1. Education	2.4	2.1	1.1	0.3	3.5	2.5	3.9	3.3	0.4	0.5	4.3	3.8	6.4
2. Housing and urban development	12.3	12.5	2.8	3.4	15.2	15.9	13.3	13.0	2.7	4.1	16.0	17.1	16.8
3. Agriculture	3.8	2.9	...	...	3.8	2.9	4.2	3.2	0.5	0.1	4.7	3.3	4.9
4. Irrigation	11.7	9.6	...	...	11.7	9.6	12.1	9.5	...	...	12.1	9.5	12.2
5. Transport	15.4	13.3	1.6	1.8	17.0	15.1	18.0	17.8	1.8	1.9	19.8	19.7	22.1
6. Other sectors.....	4.9	2.0	1.9 ²	2.4 ³	6.7	4.4	4.2	2.0	1.5	2.2	5.7	4.2	8.8
7. Total	50.5	42.5	7.4 ²	7.9 ²	57.9	50.4	56.7 ²	48.8	6.9	8.8	63.6 ²	57.6	71.2
8. Subsidies for growth centres ("polos")..	0.7	—	—	—	0.7	—	1.0	0.1	—	—	1.0	0.1	1.2
9. "Financial investment" ⁴	11.8	11.4	0.5	—	12.3	11.4	13.1	11.6	0.5	0.7	13.6	12.3	14.9

1. The breakdown of expenditure between Central Government and autonomous institutions is not available. The present table excludes investment for defence.

2. Includes agriculture and "financial investment."

3. Including 1 bil. unallocated.

4. Principally issues of bonds by the National Institute for Industry (INI): 8.3 bil. in 1964 and 9.1 bil. in 1965.

Source: Comisaria del Plan.

the cost of supporting agricultural prices¹. But in general they constitute advances in excess of budgetary allocations. The resulting overall deficit was 7.6 billion, about 5 per cent of total expenditure. But the rapid expansion of Treasury transfers to the official credit institutions (24.7 billion in 1965) is also of great relevance in this context. Despite the fact that these transfers are legally in the nature of "advances," and have been "financed" in the last few years through the issue of approximately equivalent amounts of Government bonds (cedulas), they have helped to increase the pressure of effective demand. The Government bonds have been absorbed largely by the banking system without impairing, until recently, its potential for strong credit expansion (see below). And the official credit institutions receiving the funds have used them without delay for extending credit on particularly favourable terms. In such circumstances, the economic effects of these transfers have been similar to those of other capital transfers included in the budget, and their impact on the economy has not been very different from that of a budget deficit of equal amount.

In 1966, the budget is again likely to have an inflationary impact. The forecasts of expenditure are 18 per cent above the initial forecasts of 1965, excluding for the sake of comparability 7.7 billion pesetas representing the transfer to the budget this year of part of civil service emoluments previously paid from special funds. An equivalent transfer is included in non-tax revenues. With a similar adjustment, the forecasts of budget revenue are also 18 per cent above last year's initial estimates and are balanced with the forecasts of expenditure at 168.7 billion pesetas. But the Treasury plans to issue 28.5 billion worth of bonds, the proceeds being transferred to the official credit institutions. Furthermore, it is highly probable that, unless special measures are applied, the actual out-turn this year will differ substantially from the budget forecasts, as in previous years.

Compared with actual budget expenditure in 1965, this year's forecasts (adjusted for comparability as explained above) imply an increase of only about 5 per cent. But such a sharp de-celeration in the growth of public expenditure seems very doubtful, given existing commitments for salary increases and the probability of substantial amounts of supplementary and extraordinary credits. These include public investment projects worth 9 billion pesetas, which are authorised in the budget but are not included in the budget total, on the grounds that they are due to be financed from foreign credits; it is doubtful whether foreign finance will be available in time for the whole amount. On present evidence, the amount of under-utilisation of investment credits (due to technical and administrative time-lags) is likely to be much lower than the total amount of carry-overs and supplementary credits. If determined action were not applied in time,

1. The State agencies which collect farm products have also been authorised frequently to borrow from the Bank of Spain.

budget expenditure would tend to rise this year by some 15 to 20 per cent on a comparable basis. And even assuming no net extra-budgetary payments by the Treasury in 1966, the increase in total expenditure might still be of the order of 15 per cent. In present circumstances, such a rate of increase is clearly undesirable, even if it were fully covered by increased revenue; for it is very likely that part of the additional taxes would be paid out of dis-saving by the private sector. A significant budget deficit would have even more undesirable consequences.

Table 6D illustrates in broad terms the magnitude of the problems involved in bringing down the increase of total expenditure this year to 10 per cent, which may be taken as the maximum tolerable limit, having regard to the likely trend of national income. Allowing for carry-over payments, achievement of this illustrative target implies both a reduction of supplementary credits and rather substantial under-utilisation of budget credits. It need hardly be pointed out that the problem facing the authorities is to cut back the expansion of the public sector's demand for goods and services and not merely to postpone Treasury cash payments. If such a deceleration of expenditure could be achieved, it might be possible to prevent a deficit this year, since budget revenue will probably be more buoyant than foreseen. Tax revenue was put at about 12 per cent above last year's actual level, which was 18 per cent higher than the year before. However, the increase forecast for direct taxes (5 per cent above the 1965 out-turn) is almost certainly on the low side. But even assuming, as in Table 6D, a rate of increase of tax yields equal to last year's, the excess of actual revenue over the forecasts risks being smaller than the likely excess of expenditure. Thus, if a large increase of expenditure (which is in any case undesirable) cannot be avoided, significant tax increases will be needed to prevent a budget deficit. The measures envisaged by the Government for limiting the growth of expenditure are outlined below (page 38).

Provisional figures up to May (Table 6A) suggest that the application of these measures has not yet yielded sufficient results. Total revenue showed a substantial increase (+19 per cent¹ compared with the first five months of last year); but the figures are difficult to interpret because revenue was comparatively low in early 1965 and picked up sharply in May. During the same period budget expenditure was 22 per cent¹ higher than a year earlier. Since net extra-budgetary payments were much smaller, the rise of total Treasury expenditure between the first five months of 1965 and 1966 worked out at 16 per cent. In order to keep the annual rise of expenditure within the illustrative limit of 10 per cent, it would be necessary that during the rest of the year net extra-budgetary payments should return to balance and that the rate of increase of budget expenditure should be less than half the rate observed during the first five months of 1966.

1. No adjustment of revenue or expenditure for the sake of comparability with 1965 is yet possible.

f) *Money and credit*

The recent signs of some change of trends in the field of money and credit invite special attention to current developments and call for a brief examination of the instruments available for monetary and credit policy. The expansion of domestic liquidity (money plus near money) in 1965 was of the same order of magnitude (18 per cent) as in the previous three years (see Table 8A). But the factors underlying this development were different. The finances of the central administration were much more expansionary in 1965 than in 1964; but unlike 1964 the operations of the Wheat Service and of other official agencies (the bulk of whose borrowing reflects the financing of stocks of agricultural produce) had no significant impact. The expansion of credit to the private sector (including securities purchased) by the banking system slowed down in the first quarter of 1965, but accelerated for the rest of the year to reach an annual growth of 24 per cent (against 21 per cent in 1964 and 22 per cent in 1963). A new influence, however, was the contractive monetary impact of the balance of payments deficit (—7.7 billion pesetas, against an expansionary effect of 21.4 billion in 1964).

The liabilities (deposits plus cash bonds) of commercial and industrial banks—the main element of the banking system—increased by 18 per cent in 1965, a rate similar to that of previous years. As seen in Table 8B their cash reserves declined slightly, against substantial increases in 1964 and 1965. The changed impact of the foreign and public sectors produced a drain of bank liquidity of 21.3 billion pesetas in 1965 (against an increase of 14.0 billion in the previous year). Banks were forced to have recourse to central bank credit by a similar amount (against net reimbursements in 1964) in order to maintain their cash position. Thus, bank credit expansion took place in 1965 at the expense of a reduction in the cash ratio, while in the previous two years it had been financed by increased cash reserves, with no large impact on reserve ratios.

The trend of lending by the official credit institutions (Table 8C) was similarly expansionary. Lending to the private sector increased by 30 per cent. Credit to the public sector, on the contrary, slowed down slightly. The financing of such lending operations falls almost entirely upon the Government, and its budgetary implications have been referred to above. A special credit by the Bank of Spain (2.7 billion pesetas) at the end of 1965 marked a departure in the financing of such credit. The growth in total credit by these institutions in 1965 (private and public, including unused margins) is partly explained by a rapid expansion of advances to agriculture (subsidised), shipbuilding and industry. Credit to housing, an important (though not exactly known) fraction of the total, seems to have slowed down. This may have been a result of restrictive measures taken in June 1965 (mainly an increase to 5.5 per cent in rates for some categories of loans—an increase extended in December to all

loans for residential construction). But strong expansionary pressures resulted from credit for exports, "priority sectors" and "polos de desarrollo" (pilot development areas).

TABLE 8. MONEY AND CREDIT
A. CONSOLIDATED ACCOUNT OF THE BANKING SYSTEM¹

Annual changes. In billion pesetas.

	1962	1963	1964	1965
A. LIABILITIES :				
1. Money supply	43.0	41.9	60.3	62.3
2. Quasi-money	50.8	51.8	77.5	82.6
3. TOTAL (including foreign exchange deposits) ...	94.3	95.5	139.9	144.7
4. Cash bonds	—	1.5	3.4	5.2
5. Other liabilities and assets (net)	1.0	1.5	—1.4	5.1
LIABILITIES=ASSETS.....	95.3	98.5	141.9	155.0
B. ASSETS :				
6. <i>Public sector</i>	5.5	11.6	29.1	37.2
a) Net advances	3.3	3.8	12.1	9.2
to i) Central Government.....	(—0.7)	(—2.5)	(2.2)	(5.4)
ii) Wheat agency (SNT)	(3.9)	(2.3)	(—3.2)	(4.3)
iii) Other autonomous institutions	(0.7)	(2.2)	(11.8)	(—3.6)
iv) Official credit institutions	(—0.7)	(1.8)	(1.3)	(3.1)
b) Purchases of Government and INI bonds ³ ...	2.2	7.8	17.0	28.0
7. <i>Private sector</i>	75.0	76.9	91.4	125.5
a) Advances and bills discounted	65.5	60.7	70.5	118.1
b) Bonds and shares	5.3	10.6	11.0	13.9
c) Unspecified ²	4.2	5.6	9.9	—6.5
8. <i>External sector</i>	14.8	10.0	21.4	—7.7
a) Net official reserves.....	11.1	5.4	19.8	—8.1
b) Counterpart funds.....	3.7	4.6	1.6	0.4

1. Bank of Spain, Commercial Banks, Industrial Banks and Savings Banks.

2. A breakdown between the two categories is not available.

3. Balance of the account "banks and bankers" of the commercial banks. It consists mainly of net balances on banks' agents in small towns, which in turn reflect credits granted by such agents to the private sector. The change in 1965 over the previous years is explained by a decision of the authorities to restrict such activities, which has resulted in a transfer of the agents' assets to the parent banks. An unknown amount of net balances with foreign banks is also included here.

Source: Bank of Spain, Boletín Estadístico.

Private security issues reached a record level in 1965 (see Statistical Annex). Contrary to the two previous years, when shares and bonds had accounted for half of the total, share issues absorbed a much higher proportion. The absolute volume of purchases by the banking system increased, but the growth of purchases by non-banks was significant. Public issues also increased rapidly. Share and bond prices changed little, though a slight downward trend occurred.

TABLE 8. MONEY AND CREDIT (Continued)
B. FACTORS AFFECTING THE CASH RESERVES OF COMMERCIAL BANKS¹
Changes in the balance sheet of the Bank of Spain

In billion pesetas.

	1961	1962	1963	1964	1965	FIRST FOUR MONTHS	
						1965	1966
1. Foreign sector	21.1	14.6	10.0	21.3	— 7.9	— 2.3	—13.0
2. Public sector ²	— 6.4	2.3	0.1	12.2	4.0	1.7	4.7
3. Currency in the hands of the public ^{2,3}	— 9.1	—14.4	—15.0	—19.3	—19.5	1.1	0.7
4. Other ⁴	— 2.6	— 6.4	5.4	— 0.2	2.1	2.0	— 0.1
5. TOTAL (1 to 4)	3.0	— 3.9	0.5	14.0	—21.3	2.5	— 7.7
6. Credit by the Bank of Spain to the commercial banks ⁵ ..	1.9	4.3	8.4	— 5.3	20.4	— 7.8	0.5
7. (= 5 + 6) Change (increase = +) in cash reserves of commercial banks	4.9	0.4	9.0	8.7	— 0.9	— 5.4	— 7.2
8. Cash ratio at end-year ⁶ ..	10.2%	9.9%	11.0%	10.5%	8.5%	8.9% ⁷	7.2% ⁷

1. Including industrial banks.
2. Adjusted for changes in metallic coin in circulation.
3. Including cash holdings of other financial institutions.
4. Net balance of accounts of private sector, of credit institutions other than commercial banks and sundry items.
5. Includes unused credit margins with the Bank of Spain ("Disponible").
6. Average of November, December and January of the following year. Ratio of cash assets to deposits plus cash bonds outstanding.
7. April.

Source: Bank of Spain. Boletín Estadístico.

Table 8D contains estimates of the volume of external financing of the private sector from all these sources. The increase in total credit was substantial last year—some 190 billion pesetas, compared to 120 billion in 1964 and 107 billion in 1964. In view of this important acceleration, the authorities took some measures of restraint. Interest rates for lombard credits ("pignoracion") by the Bank of Spain were increased by 0.5 per cent in November 1965. At the turn of the year, a number of restrictive steps were taken.

- a) In mid-January a directive was sent to banks and savings banks asking them to limit credit expansion in 1966 to 17 per cent over the balance outstanding as at the end of 1965.
- b) The rediscount ceilings of banks with the Bank of Spain were frozen at their prevailing level. The apparent level of unused margins (some 15.0 billion at the end 1965) was much lower if account is taken of the amounts of special bills blocked through the liquidity ratio.
- c) A ceiling of 28.5 billion pesetas was placed on new actual disbursements by official credit institutions in 1966 (including disbursements on credit granted in previous years).

TABLE 8. MONEY AND CREDIT (Continued)
C. OFFICIAL CREDIT INSTITUTIONS

Annual Changes. In billion pesetas.

	1962	1963	1964	1965
A. ASSETS :				
1. Cash	0.2	-4.7	-1.6	-0.2
2. Credit to public sector ¹	0.5	1.6	5.9	1.5
3. Credit to private sector ¹	7.1	10.7	15.5	25.7
ASSETS=LIABILITIES	7.8	7.6	19.8	27.0
B. LIABILITIES :				
4. Advances from Government	5.8	7.3	17.6	24.7
5. Advances from banking system	—	—	-0.1	2.6
6. Bonds issued	0.5	—	-0.4	-0.4
7. Other (net)	1.5	0.3	2.7	0.1
Pro mem:				
8. Credit granted but not yet used	0.8	0.4	10.8	4.4
C. CREDITS GRANTED ² BY INSTITUTIONS :				
9. Bank of Agricultural Credit	1.1	3.3	5.7	6.4
10. Bank of Credit for "Construction"	3.1	4.0	10.9	9.9
of which: Housebuilding	(1.8)	(1.9)	(4.1)	(3.7)
Shipbuilding	(1.5)	(2.0)	(2.8)	(2.9)
11. Mortgage Bank	1.4	1.9	1.9	1.9
12. Bank for Industrial Credit	0.4	1.9	6.8	10.6
of which: "Priority sectors" ³	—	—	(0.7)	(5.9)
Export finance	—	—	(0.7)	(2.7)
13. Bank of Credit to Local Authorities	1.3	0.6	3.2	2.6
14. Other	0.0	0.3	0.2	0.2
15. TOTAL	7.3	12.0	28.7	31.6

1. Credits used, plus interest and repayments due and some small amounts of securities.

2. Including amounts not yet used. Line 15 is approximately equal to the sum of lines 2, 3 and 8, the difference being explained by the additional items mentioned in footnote¹.

3. Priority sectors, growth centers ("polos") and "accion concertada."

Sources: Bank of Spain Boletín Estadístico;
Ministerio de Hacienda, Economía Financiera;
ICMLP, Annual Report.

The evolution of monetary variables during the first two months of 1966 showed little change from that prevailing in 1965. But by March, the point had been reached where, with bank liquidity close to its minimum level, the automatic restrictive impact of the fall in international reserves began to influence bank lending. As shown in Table 8B the commercial banks' cash reserves declined considerably up to April, despite the fact that the banks were unable to make their seasonal reimbursement of credit to the Bank of Spain. Bank deposits decreased by 8.4 billion pesetas in this period, compared with an increase of 3.5 billion in the first four months of 1965. Although credit from savings banks and the official credit institutions continued to expand appreciably and private security

TABLE 8. MONEY AND CREDIT (Continued)

D. EXTERNAL FINANCE OF THE PRIVATE SECTOR

Annual changes. In billion pesetas.

	1961	1962	1963	1964	1965
1. Banking system.....	43.6	65.7	61.1	70.4	118.1
a) Commercial banks' credit ¹	(40.3)	(59.6)	(48.4)	(57.3)	(101.2)
b) Savings banks' credit	(3.3)	(6.1)	(12.7)	(13.1)	(16.9)
2. Official credit institutions.....	6.7	7.1	10.7	15.5	25.7
3. Issues of bonds and shares ²	18.5	22.8	35.4	33.9	48.6
4. TOTAL	68.8	95.6	107.2	119.8	192.4
<i>Pro mem:</i>					
5. Issues of the INI	9.6	4.9	8.6	8.3	9.1
6. Financing of government stocks of agricultural products ³	-0.3	4.9	5.5	7.9	0.0

1. Excluding the item „banks and bankers” and including small amounts of credit by the Bank of Spain.

2. Excluding the banks' issues of cash bonds and capital stock (effective value) and issues by investment trusts. Amounts for 1965 are partly estimated.

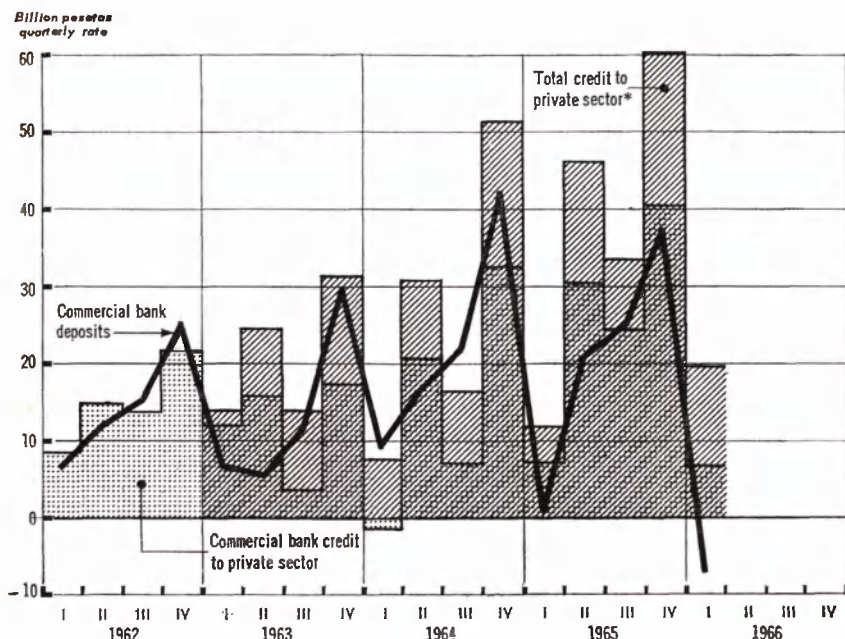
3. Credit of the banking system to the main official agencies in charge of holding stocks of agricultural products.

Source: Bank of Spain, Annual Report and Boletín Estadístico.

issues remained considerable, increasingly, demand for credit seems to have been left unsatisfied, as central bank credit became a major source of bank funds and the monetary authorities adopted a more cautious lending policy. Loan rates of the Bank of Spain for lombard credits were increased twice (by 0.5 points each time) in the course of March, though the rediscount rate has not been modified. Bank credit to the private sector increased by 12 billion pesetas during the first four months of 1966 (against an increase of 18 billion a year earlier) and the deceleration was particularly pronounced in April. This led the monetary authorities to take measures for easing the banks' position (e.g. lowering the liquidity ratio for industrial banks and changes in rediscount ceilings) their aim being to prevent either an unduly large expansion or abrupt stagnation of credit to the private sector during the rest of the year.

Recent developments and the likely trends in 1966 (analysed later) have placed monetary policy in the forefront. But certain obstacles have impeded in the past appropriate use of this instrument. The priority given to cheap financing of both government requirements and those of large portions of the private sector has made it difficult to pursue a sufficiently flexible monetary policy. A widespread and complex system of direct regulations has been set up. But since such interventions were, to a large extent, intended to protect the artificially low structure of interest rates from market pressures, they have proved unsuitable as instruments for short-

Diagram 3. CREDIT TO THE PRIVATE SECTOR AND COMMERCIAL BANK DEPOSITS
QUARTERLY CHANGES



* By the banking system and the official credit institutions.

Source: Bank of Spain.

run policy. In the most recent period, however, credit policy has started departing somewhat from the traditional practices.

The structure of interest rates in Spain is characterised both by its complexity and its rigidity. Table VI in the Annex summarizes the main interest rates prevailing. The cornerstone of the structure is the nominal and effective yield of government securities. Cheap government financing has been achieved, without sufficient regard for monetary implications, through the various legal minimum ratios of government securities to deposits (or other liabilities) applied to all kinds of financial intermediaries¹.

1. The ratios are at present : Commercial banks, 15 per cent of deposits ; savings banks, 50 per cent of deposits ; private insurance companies, 30 per cent of reserves ; social security institutions 50 per cent of reserves. In the case of commercial banks the inclusion of government bonds in the calculation of the liquidity ratio also has a bearing on the problem.

In recent years, this demand has exceeded the supply of new government bonds (the bulk of all outstanding government marketable bonds is held by financial intermediaries) leading to a rarified market and to effective yields below the already rather modest coupon rates. This policy has made easier the spread of similar practices to the financing of the private sector. Legal maximum deposit rates (applicable to both commercial and savings banks) are comparatively low and have not been changed since 1939. Similar arrangements, ratified by legal provisions, establish minimum lending rates. Occasional changes in such rates have been made, though not necessarily related to short-run economic developments. A recent law (March 1966) also introduced maximum lending rates. Specially favourable rates apply to certain types of export financing and of medium term credit, through a system of bills automatically rediscountable with the Bank of Spain.

The table in the Annex provides only a rough picture of the lending rates of official credit institutions, given the great variety of special credit lines and the wide assortment of conditions. Lending rates are as a rule below 6 per cent. Modifications have been rare and dictated by reasons other than conjunctural. But the recent changes in rates of loans for housebuilding indicate a new approach by the authorities. Competition in the field of new bond issues is also reduced by the policy of fixing a ceiling to the net yield for the subscriber (private issues of bonds are subject to prior official authorisation). This ceiling has been 6.25 per cent since mid-1962; but significant tax exemptions have resulted in considerable reductions in the cost of issue to firms. Interest rates have become largely irrelevant as a measure of trends in the liquidity situation of the economy.

Given the fact that commercial banks—and to a lesser extent, savings banks—are substantially indebted to the Bank of Spain, changes in the lending policy of the central bank (lombard credits with government securities as collateral, and rediscount of commercial bills) would seem to be the most appropriate instrument of monetary policy for Spain, providing a readily available means of influencing bank reserves. In the past, practically no use was made of this possibility. The main instrument of monetary policy in recent years has been a legal liquidity ratio (13 per cent of deposits since May 1963). It covers cash assets, unused credit margins, automatically rediscountable commercial bills, automatically pledgeable government securities issued prior to 1959 (one of the functions of the ratio is precisely to block these two types of easily monetizable assets) and ordinary government bonds. The liquidity ratio therefore sets a limit to the more readily available forms of access to central bank credit. But the sizeable increase in the last two years in the banks' portfolio of government bonds (not automatically convertible into cash, but included in the definition of "liquid assets") has freed corresponding amounts of monetizable assets, and thus facilitated access of the banks to the central bank. Such access would not be a serious obstacle to active

monetary policy if the interest rate weapon was used. But until recently, no clear intention to resort to this weapon was apparent. As a result, rediscount ceilings were introduced some years ago ; they have been ineffective, however, as long as substantial unused margins have existed. The measures taken by the monetary authorities in recent months represent, therefore, a distinct change of attitude and constitute promising steps towards a more active and flexible credit policy.

g) *Balance of payments*

1965 saw a moderate overall deficit in the balance of payments, thus ending the steady accumulation of reserves prevailing since the stabilisation programme. The deficit has become considerable in recent months. By far the most important cause of the reversal was the substantial widening of the trade deficit, which was only partly offset by improved earnings from invisibles and by higher capital receipts. The steep increase of total imports (34 per cent) reflects in part the restriction of food imports in 1964 and their subsequent re-expansion. But the rise in other imports (31 per cent, after an increase of 22 per cent in 1964) clearly indicates the strong pull of domestic demand.

The year 1963 seems an appropriate basis for comparison, both for statistical reasons¹ and because it was a period of approximate demand and supply equilibrium. The subsequent development of broad categories of imports and their relative contributions to the total increase are shown in Table 9 (see also the Statistical Annex). The direct effects on imports of the investment boom and of the lack of adaptation of agricultural production to present needs are evident. But the rise in the general group of raw materials and semi-finished products represented one half of the total increase from 1963 to 1965. Inside this category, there was a sharp increase of iron and steel imports—caused by the heavy demand for investment and for consumers' durables, but also, more recently, by stockbuilding. The growth of the remaining items in this category (excluding petroleum products) was more than double the rate of increase of industrial production. This is not by itself conclusive evidence of excessive stockbuilding, given the emergence of specific bottlenecks as demand presses against resources, and the important changes in the pattern and technology of production in a period of rapid growth. There is more reason to believe that stock accumulation became excessive during recent months, but the growth of final demand must still be the predominant factor.

Total exports were practically stationary last year, owing to a 9 per cent decline in agricultural products from the particularly high level of

1. At that time there was a considerable improvement of customs statistics, which previously understated the value of imports (Cf. the 1964 OECD Survey, pp. 26-28).

TABLE 9. THE TREND OF IMPORTS

Million dollars.

	1963	1964	1965	% SHARES IN 1965	INCREASES FROM 1963 TO 1965			JANUARY-MAY		
					\$ MIL.	% INCREASE	% SHARES IN TOTAL INCREASE	1964	1965	1966
1. Food products	415	388	573	19	158	38	15	162	210	310
2. Raw materials and semi-finished goods.....	924	1.108	1.459	49	535	58	50	430	586	748
<i>of which:</i>										
a) Petroleum products	213	251	270	9	56	26	5	100	112	118
b) Iron and steel	127	158	295	10	168	132	16	54	112	...
c) Other	583	698	894	30	311	53	19	276	362	...
3. Machinery and equipment	530	633	824	27	294	55	28	257*	310*	434
4. Consumers' manufactures	90	130	164	5	75	83	7	37	61	93
5. TOTAL	1.959	2.260	3.020	100	1.062	54	100	886	1.167	1.585

Sources: Customs statistics and Ministry of Commerce.

1964. Non-food exports increased by 13 per cent, continuing the progress begun in 1963, but including raw materials and semi-processed non-food products they still hardly accounted for 50 per cent of the total. There is no doubt great potential for expanding manufactured exports, but durable results will be difficult to achieve under conditions of excessive domestic demand. Important gains in industrial exports are now more necessary than ever. Spain has become, for the first time in modern economic history, a net importer of food, and it is doubtful whether this situation can easily be changed in the near future.

Net earnings from invisibles and unilateral transfers (mainly workers' remittances from abroad) showed further considerable increases in 1965. In particular, net receipts from tourism exceeded \$1 billion and were approximately equal to the total value of exports. But the substantial widening of the trade deficit (to some \$2 billion on a customs basis and

TABLE 10. BALANCE OF PAYMENTS

In million dollars.

	1962	1963	1964	1965 ¹
1. Imports (f.o.b.)	1,438	1,799	2,076	2,778
2. Exports (f.o.b.)	800	786	1,005	1,019
3. TRADE BALANCE	— 638	—1,013	—1,071	—1,759
4. Foreign travel	466	611	852	1,027
5. Other services	1	— 42	— 70	— 115
6. Workers' remittances	146	195	238	— 298
7. Other private transfers	63	56	79	60
8. Official transfers	12	7	4	2
9. Total services and transfers (4 to 8)	688	827	1,103	1,272
10. CURRENT BALANCE	50	— 186	32	— 487
11. Direct investment	39	67	78	116
12. Portfolio investment	48	87	72	53
13. Eximbank and Development Loan Fund.	35	19	20	20
14. Other private capital	— 17	41	98	133
15. Official capital movements	13	5	— 14	— 14
16. BALANCE OF CAPITAL MOVEMENTS NON-MONETARY SECTORS	118	219	254	308
17. Errors and omissions	35	72	42	48
18. Monetary movements	— 203	— 105	— 328	131
<i>of which:</i>				
19. Changes in reserves (increase = —)	— 144	— 85	— 313	139
20. Operations with IMF.	— 15	— 17	— 53	— 35
21. Liabilities in pesetas to US. Govt.	— 48	— 58	— 17	— 11
22. Other official	— 15	13	18	8
23. Convertible peseta accounts	19	42	37	30

1. Provisional estimates.

Source: Ministry of Commerce.

to about \$1.7 billion on an imports f.o.b. basis) resulted in a current account deficit of the order of \$500 million. An important inflow of capital (and a sharp increase of direct investment in particular) limited the decrease in foreign official assets to \$105 million. At the end of the year these amounted to \$1.409 million (including the net IMF position of \$141 million).

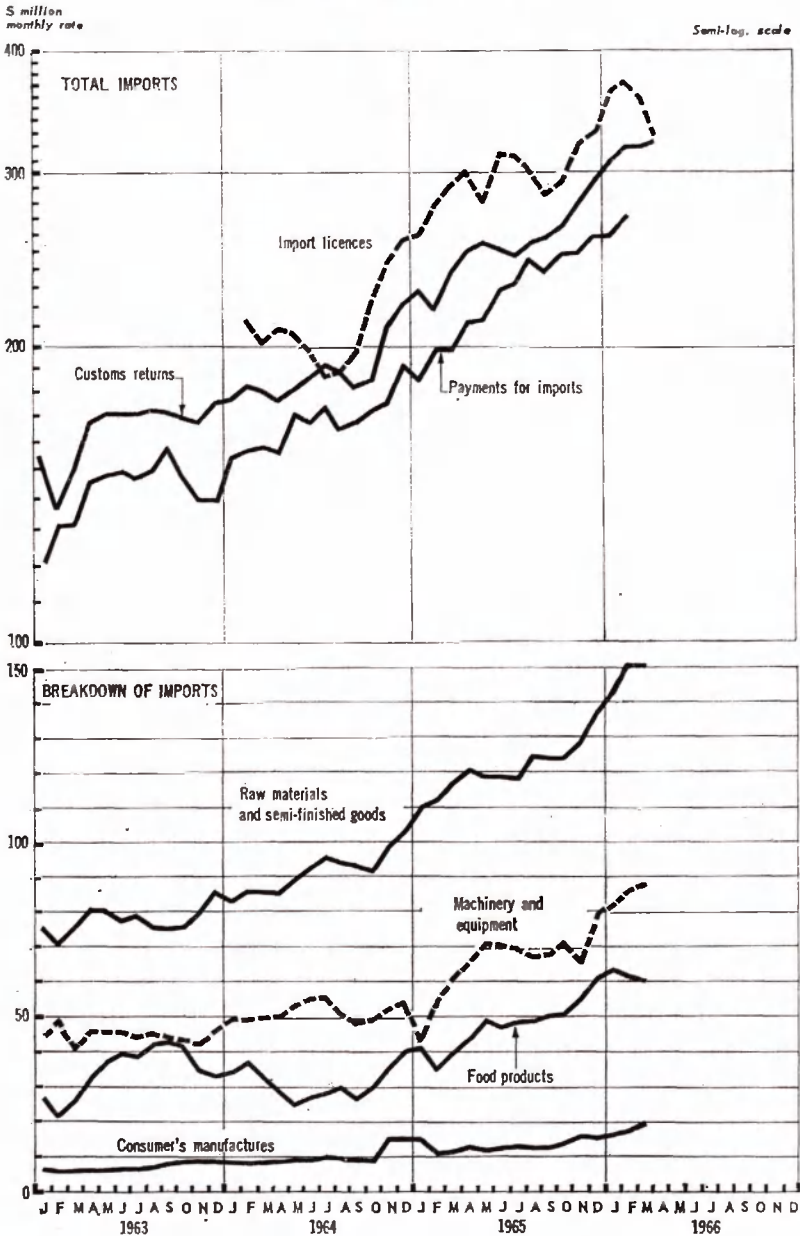
Last year's deficit was mainly concentrated in the last few months, when the rise of imports tended to accelerate. And in the first five months of 1966 imports were substantially higher (+34 per cent) than in January-May 1965. The growth of imports, however, slowed down in the most recent period (see Diagram) and it seems likely that certain categories of imports may decrease in the next few months. Food imports may decline, given the prospect of favourable harvests : the recent exceptionally high imports of iron and steel¹ are likely to diminish following a considerable increase of "anti-dumping duties" in March, which brought the level of protection up to between 40 and 60 per cent of the c.i.f. price for many important products ; and imports of certain other commodities may have been swollen by inventory accumulation. But so long as the recent buoyancy of final domestic demand persists, a considerable rise of total imports must be expected for the year as a whole (if imports were stabilized at their recent level, the increase for 1966 as a whole would be about 25 per cent). The rise of exports between the first five months of 1965 and 1966 was also substantial (33 per cent). It was partly due to a pronounced recovery of agricultural exports. In addition, non-agricultural exports have continued their satisfactory performance (excluding ships they were 26 per cent higher than in January-May 1965). But even a very considerable rise of exports for the year as a whole would only have a limited impact on the trade deficit, since imports are roughly three times as high. Receipts from services and on capital account have probably remained high so far this year. In spite of certain speculative movements the fall in official reserves during the first quarter (by \$144 million excluding a gold payment of \$25 million to the IMF linked to the increase of the quota) was only about 30 per cent of the trade deficit on a cash basis. The loss of foreign reserves became much smaller in the second quarter (\$73 million) owing partly to the seasonal increase of invisible earnings. At the end of June official gross reserves stood at \$1.192 million (gold and convertible currencies \$1.026 million and net IMF position \$166 million).

1. Largely by the sales organisation of the Spanish iron and steel industry itself.

Diagram 4. FOREIGN TRADE

A. IMPORTS

Three-months moving averages

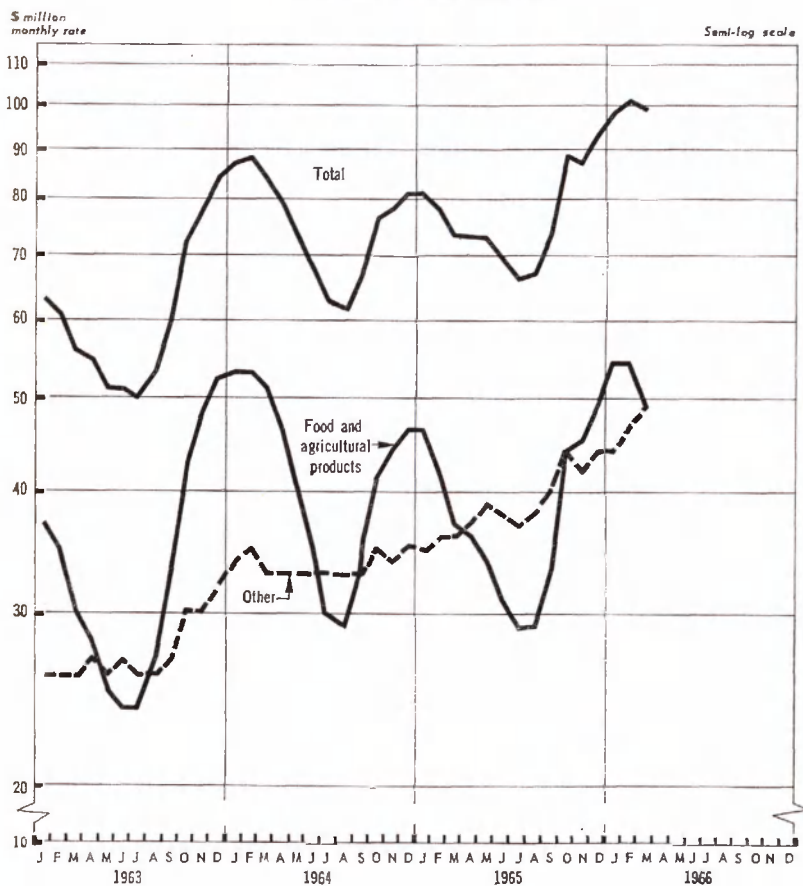


Sources: Spanish customs returns and Ministry of Commerce.

Diagram 4. FOREIGN TRADE (Continued)

B. EXPORTS

Five-months moving averages



Sources: Spanish customs returns and Ministry of Commerce.

II. PROSPECTS AND POLICY ISSUES

a) *Short-term prospects*

All the main factors of domestic demand remain strongly expansionary. And the likely increase of exports this year, although extremely desirable from both the short and the long-term points of view, will also represent an additional claim on national resources ; even if it were only achieved as a result of better harvests, the rise of farmers' incomes would stimulate demand. The essential immediate objective of policy must be to moderate the expansion of domestic demand and to restore an overall balance between demand and supply.

For the moment, there are no signs of existing trends being reversed. If excessive stockbuilding abated, pressures would be somewhat eased. But this would be of secondary importance as long as final demand remained buoyant. In the absence of special measures, domestic demand would receive an additional stimulus from the considerable expansion of public expenditure which the initial Budget plans seemed to imply.

On the balance of payments, a significant increase of the current account deficit seems probable in 1966, even though there may be a slowing-down of certain types of imports. If the capital inflow remains of the order enjoyed in recent years, the overall deficit should be well within the possibilities afforded by the level of foreign reserves. Nevertheless, the deterioration of the external balance is the direct reflection of undesirable trends inside Spain, and if these were not curbed the balance of payments problem would sooner or later assume major proportions.

b) *Policy measures and autonomous factors*

The present state of the economy calls, clearly, for speedy and determined action by the authorities. But the policy instruments need to be chosen carefully in the light of the evolving situation. The anti-inflationary measures described in the 1965 OECD Survey have been complemented in recent months, and the authorities are understood to be considering further action. Since the most important result so far achieved—the deceleration of price increases—was largely the result of more liberal import policies, the authorities intend to maintain substantial food import programmes in 1966. Furthermore, a new liberalisation list was published in February covering certain categories of industrial goods (paper products, certain chemicals, some items of clothing, etc.). It will be essential to persevere in this direction and to avoid protective measures (as in the recent case of steel products) which—apart from their possible influence on prices—could encourage anticipatory stockbuilding in other sectors. It will also be necessary to avoid any further increases in import levies on food products

(and in guaranteed farm prices) of which there have recently been a few cases.

Apart from import policy, the principal decisions taken by the authorities in 1965 to moderate the excessive growth of certain types of demand proved slow to produce their effects (housebuilding) or, in the case of public expenditure restraints, ineffectual. The acceleration, during 1965 and early 1966, of domestic demand means that, whereas rather limited measures may have been sufficient a year ago, more determined intervention is now required. Faced with probability that expenditure this year might considerably exceed budget estimates, the authorities started taking action since December. Their general aim is :

- a) to limit as far as possible the increase of current expenditure ;
 - b) to review the priorities for capital expenditure, setting in the meantime temporary ceilings on new commitments ;
 - c) to avoid significant extrabudgetary payments by the Treasury.
- Certain tax increases have also been imposed, but their additional yield is modest.

These new decisions are in the right direction, but their implementation (as indicated by the figures for the first five months in page 23 above) seems rather slow. Since the increase forecast for government wage and salary payments¹ is larger than the excess of total budgeted expenditure over the actual out-turn of 1965, approximate realisation of the budget estimates implies that all other expenditure would remain practically at last year's level. But carry-overs and supplementary credits are boosting expenditure. It seems therefore that basic policy decisions will be needed if a substantial excess of expenditure over the budgeted amounts is to be avoided. Significant reductions of current expenditure can probably only be achieved by limiting current transfers and subsidies to autonomous bodies and local administrations. One of the factors underlying the current deficits which the State budget has to cover is the very low level of prices charged by many public services ; they have risen only very slowly compared to the substantial increase of the general level of prices and wages over the last few years. This state of affairs, clearly, cannot be allowed to last for long ; but upward revisions create difficult problems of timing, especially in a period when the Government is making efforts to stabilise the cost of living. However, artificial restraint of public charges is a weapon of limited utility.

Important savings might be feasible in the field of capital transfers from the budget. There is an immediate case for reducing subsidies and loans for housebuilding, and for preparing, for the future, an overhaul of the present system which would limit State financial support to housebuild-

1. The 1966 estimates are lower than originally planned, since it was decided last autumn to spread out in time a part of the salary increases.

ding for the lowest income groups. But while all possible efforts should be made to avoid cuts in official investment programmes, it will probably be necessary to postpone the start of certain public works. The arguments in favour of such a decision go beyond the problem of budget balance. Heavy additional calls on the construction sector need to be prevented, because capacity in this sector is still overloaded. Adjustments in the level of public sector expenditure have an essential role to play in the attainment of financial equilibrium if the need for restrictive monetary and credit policies is to be reduced. But if efforts to restrain the growth of public expenditure do not yield sufficient results there would seem no alternative to raising tax rates.

The appropriate role, under present conditions, of monetary policy is complex to assess. The objective of the policy measures of late 1965 and early 1966 was to avoid an unduly large expansion of total credit, and to encourage credit for exports and investment at the expense of consumers' credit, housebuilding and stock accumulation. The shift intended was clearly desirable. But the more difficult question for policy is whether too little rather than too much bank credit might be available in the near future. The recent fall in external reserves has reduced bank liquidity, leading to an appreciable slowing down in the growth of bank credit. Some measures taken by the authorities in May, together with the seasonal improvement in the balance of payments, seem to have eased the pressure on the commercial banks. But after the summer, the external deficit might again exert an important contractionary impact. Moreover, if efforts to contain public expenditure are successful, official intervention may be needed to offset, in part, the liquidity effects of the external deficit. Flexibility of monetary and credit policy, and quick adaptation to changing circumstances, is more than ever necessary.

Certain general principles for credit policy can be formulated :

- a) If financial equilibrium is to be re-established, it would be ill-advised completely to prevent the external deficit from exercising its automatic contractionary impact on liquidity. Such an adjustment will inevitably involve difficulties ; but the authorities should intervene only if these assume major proportions.
- b) There is a particularly strong case, in present circumstances, for using interest rate policy much more than in the past. This applies both to the general level of rates, which should be unpegged, and to existing distortions—notably unreasonably low rates charged by the official credit institutions—which need to be corrected.
- c) The limit set by the Government to the expansion of credit by the official institutions seems appropriate and should be respected.
- d) Credit and budgetary policy should be co-ordinated as closely as possible. This is necessary, first, in the technical sense of current management and steps have recently been taken to reinforce

such co-ordination. But it is also necessary from the more basic point of view of the choice between possible uses of national resources.

There is, indeed, at present a risk that the combined effect of autonomous market forces and the specific policies so far applied will be to place most of the burden of adjustment on private productive investment, if the public sector is allowed to expand its absorption of resources considerably. This would mean that industrial investment, which generally yields quicker returns, would be slowed down, while public expenditure (not only the more important and urgent public investment projects) expanded significantly. The more immediate overall productivity gains would thus be smaller, and this would eventually require more drastic measures of general restraint. And if an important absolute contraction of private investment were to occur, it might prove difficult, subsequently, to stimulate it after the secondary effects on employment and incomes had materialised. But postponement of some public investment projects would not entail comparable dangers for the future. Their implementation when demand pressures have subsided should not be difficult.

III. CONCLUSIONS

The process of rapid growth and transformation experienced by the Spanish economy in recent years continued in 1965. With both consumption and investment demand expanding fast, the growth of the national product exceeded the high average rate set in the 1964-67 Development Plan. The boom in industrial investment continued, enabling substantial improvements in productivity and industrial structure. Moreover, important programmes of public investment in recent years have gradually been modernising the transport system and other basic facilities. But the process of development has been accompanied by increasing internal disequilibrium. Strong pressure of demand on available resources has led to a marked rise in the price level since 1964 and to a widening of the foreign trade deficit, which resulted, last year, in the first overall balance of payments deficit since the successful stabilisation programme of 1959.

The inflation developed because insufficient action was taken, when demand began to approach capacity level, to prevent excesses in particular sectors. And when full employment conditions are being achieved such pressures spread out through the economy. The Development Plan had not only set, as an objective, considerable increases in both public and private investment, but had spelt out certain constraints (e.g. on the rate of increase of public consumption and on the volume of resources to be devoted to housebuilding) in the interest of financial equilibrium. The

constraints have not been applied. And inflation was also generated by the 1964 price support measures for farm products. These pushed up the cost of living and intensified the price-wage spiral in a labour market which was tightening both because of expanding activity and emigration.

Certain measures taken in 1965—notably the more liberal import policies—slowed down the increase of prices. But steps to moderate the housebuilding boom have not so far produced very significant results. Until recently, credit by both the banking system and the official credit institutions continued to expand very fast. Above all, last year saw a very substantial rise of public expenditure. In order to cope with the mounting pressure of demand, the Government took further decisions last December—described in pages 26 and 38 of the present survey. It was recognised that the growth of public expenditure would have to be substantially reduced in 1966. Measures were taken to prevent an expansion of bank credit this year above a fixed maximum. And a ceiling was placed on new disbursements by official credit institutions.

The picture in the early months of 1966 was of very strong private consumption and investment trends and of rising imports widening the external deficit. Moreover, the prospect was for further substantial increases of public expenditure unless special steps to restrain them were applied rather soon. On the other hand, the authorities' measures to stop commercial bank credit from rising excessively were reinforced by the erosion of bank liquidity resulting from the decrease of foreign reserves and the trend of advances flattened out.

In 1965 rather moderate selective action might have been sufficient to check the inflation. But today the pressure of demand is such as to require further demand restraint rather urgently. The basic issue is how to restore general financial equilibrium as soon as possible with the least possible damage to the process of economic development. The authorities dispose of two principal methods of action likely to yield quick results : they can either take steps to prevent a new substantial rise of public expenditure ; or they could allow the adjustment to take place eventually through the autonomous market mechanism of an increasing external deficit, a resultant squeeze on credit to the private sector and a decline in private productive investment.

In present circumstances it seems essential that the public sector should bear the brunt of the adjustment. Current expenditure and transfers subsidising consumption are largely responsible for the steeply rising trend of public expenditure, thus reducing the share of national resources available for total productive investment. From a short-term point of view, the beneficial effects of public investment on overall productivity are, as a rule, spread over time, whereas a high rate of industrial investment yields much quicker productivity gains. Moreover, if the less urgent public investment projects were postponed now they could easily be implemented later on.

But if private investment were to decline considerably, it may prove difficult to re-stimulate it quickly in the future ; such a development would lead to a period of recession with highly undesirable consequences, particularly in respect of the long-term development of the Spanish economy. Therefore, both long and short-term considerations point to the need to restrict the growth of public expenditure. But the desirable cuts in current expenditure are unlikely to produce a sufficient effect, given existing commitments for large salary increases ; accordingly it will be necessary to reduce less essential transfers from the budget and to postpone less urgent public investment projects. The objective must be to reduce the growth of demand for goods and services generated by the public sector and not simply to limit the increase in the flow of cash payments. If, notwithstanding, a budget deficit seems likely, a prompt increase in tax rates would be called for, because a significant deficit (on top of the transfers to the official credit institutions) is clearly undesirable given the present conditions of domestic demand.

If the steps already taken to contain the growth of public expenditure are reinforced promptly by more substantial measures, it would still be possible, and compatible with general equilibrium, to avoid very tight credit policies. In such circumstances, the objective should be not to neutralise completely the contractionary effects of the external deficit, but to prevent the full impact of the deficit being borne by the private sector. In fact, the monetary authorities intervened recently to prevent an excessive deceleration of bank credit, while maintaining the objective of a slower credit expansion in 1966. Recourse to interest rate variations—and correction of the existing distortions in relative rates—is an important ingredient if, as is highly desirable, monetary policy is to become a more flexible instrument of adjustment.

The foreign trade gap is already uncomfortably large and the external deficit for 1966 is likely to be considerable in the absence of a radical change in the trend of domestic demand. The late spring and summer months are seasonally very favourable for the balance of payments and for the trend of food prices ; a temporary seasonal improvement, however, should not be allowed to distract attention from the underlying problem of the balance of payments. But any artificial reduction of imports would only serve to intensify the strains on the price level, and it is of primary importance that the Government perseveres in the direction of liberal import policies, attacking the cause of the inflation (excessive demand) and not the symptom (the foreign deficit). At the same time it is of crucial importance for the stabilisation of prices that no further increases should take place in guaranteed and support prices of farm products. Official reserves are sufficient to absorb a temporary deficit and to provide time (but not a very long time) for demand management to have its effect.

While the foreign deficit results, very largely, from cyclical factors, more permanent elements also underlie it. Because of slow progress in

meeting the rising demand for "high-income food" from domestic sources, Spain has now become a net importer rather than, as traditionally, a large exporter of agricultural and food commodities. It will be essential to re-orientate agricultural policies so as to stimulate increased production on a sound economic basis of the types of food items which correspond to the changing pattern of demand, at the expense of some of the traditional crops. But at the same time, such a situation makes it even more necessary to expand industrial exports and avoid the risk of their being hindered by excessive domestic demand pull.

The progress of the Spanish economy since the general re-orientation of economic policy in 1959 has been considerable. Productive capacity and living standards have risen remarkably, and the underlying situation of the balance of payments contrasts strikingly with that of the 1950's. But these achievements would seriously be jeopardized if further drift into inflation were permitted. If corrective action, and in particular the decision to slow down the growth of public expenditure is vigorously and promptly put into effect, the benefits will far outweigh any temporary difficulties linked to a slowing-down of the rate of expansion. Sufficiently strong corrective action applied without undue delay should enable equilibrium to be restored rather quickly, without serious interruption of economic development. But failure to apply appropriate measures in time will certainly reduce Spain's ability to maintain a high but balanced rate of growth in the years ahead. Inadequate action could sacrifice much of the very real and important progress made since 1959.

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STATISTICAL ANNEX

TABLE I. AGRICULTURAL PRODUCTION

		UNIT OR BASE	1956-60	1961-65	1963	1964	1965 ¹
			AVERAGES				
1. Index of final total agricultural production ²		1953—1954=100	112.8	139.3	154.3	139.6	141.1
2. Index of final vegetable agricultural production		"	113.6	129.7	144.7	122.3	127.8
3. Index of final livestock production		"	110.6	157.3	172.3	171.8	166.3
4. Wheat		'000 metric tons	4,358	4,266	4,860	3,976	4,250
5. Barley		"	1,772	1,959	2,070	1,927	1,891
6. Rye		"	488	384	423	346	346
7. Oats		"	493	442	466	390	346
8. Rice		"	379	385	399	398	344
9. Maize		"	874	1,103	1,171	1,203	1,155
10. Potatoes		"	4,784	4,479	5,075	4,254	3,997
11. Tomatoes		"	981	1,266 ³	1,290	1,300	....
12. Wine		'000 hectolitres	19,381	* 26,243	25,836	* 34,175	26,214
13. Sugar beet		'000 metric tons	3,145	3,584	2,750	3,331	3,830
14. Cotton		"	157	281	285	225	242
15. Olive oil		"	385	348	638	110	314
16. Oranges		"	1,118	1,605	1,815	1,622	1,629
17. Total meat		"	499	751	811	850	772
of which: 18. Beef and veal		"	141	186	172	225	190
19. Mutton		"	88	116	114	117	140
20. Pork		"	233	272	327	317	232
21. Poultry		"	...	122 ⁵	128	141	147
22. Milk		Million litres	3,207	3,650	3,732	3,770	3,838
23. Eggs		Million dozen	262	489	579	531	526
24. Fish landings		Thousand tons	...	953 ³	946	1,020	...

1. Provisional.

2. For human consumption.

3. 1961-64 average.

Sources: "Anuario Estadístico" and Ministry of Agriculture.

TABLE II. MINING AND MANUFACTURING PRODUCTION

	UNIT	1958	1962	1963	1964	1965 ¹
1. Soft coal	Million tons	11.3	10.0	10.2	9.5	10.4
2. Anthracite	"	3.1	2.6	2.8	2.7	2.8
3. Iron ore	"	5.0	5.8	5.2	5.1	5.7
4. Pyrites	"	2.0	2.2	2.0	2.3	2.4
5. Cast iron and ferro-alloys	"	1.3	2.1	1.9	1.9	2.3
6. Steel	"	1.6	2.3	2.8	3.2	3.5
7. Copper	'000 tons	42.7	45.9	44.7	57.1	59.9
8. Lead	"	69.8	71.7	62.1	58.0	56.2
9. Aluminium	"	16.1	44.7	46.3	49.6	52.9
10. Sulphuric acid ²	Million tons	1.1	1.2	1.5	1.7	1.8
11. Cement	"	4.8	6.7	7.1	8.1	10.0
12. Paper and cardboard	'000 tons	321.0	371.0	513.4	554.9	632.6
13. Cotton yarn	"	76.0	90.8	83.3	112.2	115.6
14. Cotton fabrics	"	45.2	72.1	67.9	100.9	104.2
15. Woollen yarn	"	14.1	15.7	17.3	29.0	31.8
16. Woollen fabrics	"	11.1	9.9	11.1	22.0	23.0
17. Rayon and viscose	"	49.5	56.4	60.5	61.9	54.5
18. Refrigerators ³	In thousands	—	61	243	295	409
19. Washing-machines ³	"	—	122	227	320	440
20. Radio sets ³	"	—	322	541	576	616
21. Television sets ³	"	—	161	315	439	527
22. Bicycles	"	159*	160	186	171	151
23. Motor-cycles	"	145	144	178	179	175
24. Motor-cars	"	32.6	67.3*	79.4	119.5	159.2
25. Lorries	"	7.6	40.0	48.1	59.9	73.5
26. Tractors	"	2.0	9.1	13.3	12.8	13.9
27. Merchant shipping ⁴	'000 tons	145.0	142.0	188.4	219.6	306.3
28. Electrical power	Billion kWh	16.4	22.9	25.9	29.5	31.7

1. Provisional figures.

2. Not including output of superphosphates factories.

3. Figures not on a comparable basis.

4. Tonnage launched.

Sources: "Anuario Estadístico" and Ministry of Industry.

TABLE III. EMPLOYMENT AND EMIGRATION

	1962	1963	1964	1965	1964				1965				1966
					I	II	III	IV	I	II	III	IV	
A. INDICES OF EMPLOYMENT (1961=100) :													
1. Employment in industry (excluding construction) ¹	104.8	106.1	108.9	111.8	107.3	107.8	109.5	111.0	108.6	111.4	112.5	114.8	115.7
2. Employment in manufacturing ¹ ...	106.7	105.9	109.0	112.2	107.3	107.8	109.7	111.3	108.9	111.6	112.9	115.3	116.4
3. Employment in construction ²	108.4	114.2	125.7	136.2									
B. TOTAL REGISTERED UNEMPLOYMENT. <i>In thousands</i>	98.5	99.6	129.6	147.1	118.1	115.8	128.9	155.9	171.2	136.1	132.1	148.9	
1. Agriculture and fishing	33.6	32.5	42.5	...	33.1	27.5	44.6	64.8	69.2	44.4	45.6	...	
2. Construction	18.5	15.1	25.4	...	25.1	27.0	22.5	27.4	31.9	25.4	22.1	...	
3. Industry and services	46.4	52.0	61.7	...	59.9	61.3	61.8	63.7	70.1	66.3	64.4	...	
C. TOTAL GROSS EMIGRATION. <i>In thousands</i>	186.1	203.0	227.0 ⁴										
1. Europe	149.9	180.0	216.0										
2. America	32.0	22.4	...										
3. Other	4.2	0.6	...										

1. Indices of the Institute of Statistics; revised series as from January 1963.

2. Elaboration by the OECD Secretariat of data given in the annual reports of the Ministry of Industry.

3. It is doubtful to what extent these figures reflect real trends or changes in the rate of registration.

4. Secretariat estimate.

Sources: National Institute of Statistics; annual report of the Ministry of Industry, and Ministry of Labour.

TABLE IV. HOURLY EARNINGS

	ANNUAL AVERAGES <i>In pesetas</i>			% ANNUAL INCREASES	
	1963	1964	1965	1964	1965
1. Coal mining :					
a) Skilled workers (foremen, etc.)	29.24	33.82	44.47	15.7	31.5
b) Semi-skilled workers.....	20.11	23.60	32.60	17.4	38.1
2. Food, drink and tobacco :					
a) Skilled workers (foremen, etc.)	17.34	21.89	24.82	26.2	13.4
b) Other skilled workers	14.63	18.42	20.96	25.9	13.8
c) Semi-skilled workers	14.53	16.42	18.49	13.0	12.6
3. Textiles :					
a) Skilled workers	15.11	18.43	20.90	22.0	13.4
b) Semi-skilled workers.....	14.86	16.07	18.92	8.1	17.7
4. Clothing and footwear :					
a) Skilled workers	14.33	15.25	17.55	6.4	15.1
b) Semi-skilled workers.....	12.99	14.87	16.64	14.5	11.9
5. Paper :					
a) Skilled workers	16.54	18.31	20.98	10.7	14.6
b) Semi-skilled workers.....	15.24	16.86	18.76	10.6	11.3
6. Chemicals :					
a) Skilled workers	17.19	19.38	23.05	12.7	18.9
b) Semi-skilled workers.....	16.37	18.46	21.41	12.8	16.0
7. Metal, engineering and transport industries :					
a) Skilled workers	17.44	18.99	22.20	8.9	16.9
b) Semi-skilled workers.....	16.82	20.26	23.21	20.5	14.6
8. Commerce :					
a) Skilled workers	12.72	15.35	17.49	20.7	13.9
b) Semi-skilled workers.....	12.27	13.61	15.72	10.9	15.5
9. Construction :					
a) Skilled workers	13.42	14.86	17.34	10.7	16.7
b) Semi-skilled workers.....	11.79	12.68	14.88	7.5	17.4
c) Unskilled workers	11.22	12.17	13.90	8.5	14.2

Source: Quarterly sample surveys of the National Institute of Statistics.

TABLE V. MONEY AND CREDIT

Quarterly changes. In billion pesetas.

	1963	1964				1965				1966	OUTSTAND- ING AS AT 31-3-66
	IV	I	II	III	IV	I	II	III	IV	I	
a) CONSOLIDATED ACCOUNT OF THE BANKING SYSTEM ¹											
A. LIABILITIES :											
1. Money supply	29.7	-3.4	15.1	18.9	29.7	-13.8	20.9	17.2	38.1	-17.9	422.2
2. Quasi-money	15.4	16.8	12.1	17.7	30.9	17.9	14.3	25.0	25.4	18.6	505.6
3. Total (including foreign exchange deposits)....	45.2	14.5	26.9	36.7	61.8	4.1	34.6	42.3	63.8	0.7	933.6
4. Bank bonds	1.5	0.8	0.5	1.7	0.5	1.0	0.6	1.2	2.5	2.2	12.3
5. Other (net)	-4.1	4.5	1.7	1.8	-9.5	9.5	-2.1	5.0	-7.6	11.7	36.3
LIABILITIES=ASSETS	42.6	19.8	29.1	40.2	52.8	14.6	33.1	48.5	58.7	14.6	982.2
B. ASSETS :											
6. Public sector	10.9	9.2	—	16.0	3.9	8.3	-4.0	17.5	15.3	12.4	248.6
a) Net advances to	7.1	8.5	-3.2	13.4	-6.7	2.5	-4.1	16.3	-5.5	6.7	63.4
i) Central Government	(1.1)	(4.0)	(-5.2)	(5.0)	(-1.6)	(4.4)	(1.9)	(6.5)	(-7.3)	(3.7)	(23.2)
ii) Autonomous institutions ²	(3.3)	(3.7)	(3.7)	(7.3)	(-6.1)	(-1.6)	(-5.1)	(7.9)	(-0.5)	(3.0)	(34.7)
iii) Official credit institutions	(2.7)	(0.8)	(-1.7)	(1.1)	(1.0)	(-0.3)	(-0.9)	(1.9)	(2.3)	(—)	(5.5)
b) Purchase of Government and INI bonds ..	3.8	0.6	3.2	2.6	10.6	5.8	0.1	1.3	20.7	5.7	(185.3)
7. Private sector	29.0	6.1	26.4	13.3	45.7	7.6	39.3	28.6	50.0	14.2	662.6
a) Credits ³	26.6	3.8	22.9	10.7	42.9	5.9	35.9	26.6	43.3	10.8	591.6
b) Bonds and shares	2.4	2.3	3.4	2.6	2.8	1.7	3.4	2.0	6.8	3.4	71.0
8. External sector	2.7	4.5	2.7	10.9	3.2	-1.3	-2.2	2.4	-6.6	-12.0	71.0
C. THE LIQUIDITY OF COMMERCIAL BANKS :											
Changes (<i>In billion pesetas</i>):											
Cash reserves	2.2	4.3	-2.5	9.5	-2.6	-1.2	-4.9	8.9	-3.6	-2.7	45.4
Central bank credit received	2.7	-11.3	0.5	-2.1	4.6	-5.1	3.4	7.7	14.6	-0.2	66.3
Ratios to total deposits ⁴ (<i>Per cent</i>) :											
Cash reserves	10.3	11.1	10.1	11.7	10.2	10.0	8.5	9.9	8.6	8.2	—
Liquid assets	15.8	18.3	17.9	20.0	18.1	18.5	16.4	17.0	17.0	16.4	—
Central bank credit received	14.0	10.9	10.3	9.3	9.5	8.4	8.8	9.8	11.7	11.9	—

b) OFFICIAL CREDIT INSTITUTIONS

A. ASSETS :											
1. Cash	-3.2	-0.9	1.8	-1.3	-1.2	0.4	1.0	-2.2	0.5	-0.4	1.482
2. Credit to public sector ⁵	0.7	0.8	0.6	1.4	3.2	0.7	-1.8	0.9	1.7	0.5	20.787
3. Credit to private sector ⁵	2.1	2.7	4.1	2.9	5.8	3.9	6.7	4.9	10.2	5.7	117.203
ASSETS=LIABILITIES	-0.4	2.6	6.5	3.0	7.8	5.0	5.9	3.6	12.4	5.8	139.472
B. LIABILITIES :											
4. Transfers from the Treasury	0.9	2.4	6.6	3.0	5.6	5.0	8.0	3.5	7.9	8.5	103.430
5. Advances from the banking system	0.1	-0.1	—	-0.1	—	-0.1	-0.2	0.1	2.6	-0.6	6.215
6. Other (net) ⁶	-1.4	0.3	-0.1	0.1	2.2	0.1	-1.9	—	1.9	-2.1	29.827
Pro mem :											
Credits granted and not yet used	0.1	3.6	2.6	1.2	2.3	1.5	4.3	—	-1.4	1.1	22.805

1. Bank of Spain, Commercial Banks, Industrial Banks and Saving Banks.
2. Including the Wheat Agency.
3. Including the net interbank position. See note 3 to Table 8A in text.
4. At end of quarter.
5. Credits used, plus interest and reimbursements due and some small amounts of securities.
6. Including bonds.

Source: Bank of Spain, Boletín Estadístico.

c) CAPITAL MARKET

	1963	1964				1965				1966
	IV	I	II	III	IV	I	II	III	IV	I
A. ISSUES (Quarterly figures in billion pesetas) :										
1. Public securities ¹	7.1	2.0	5.7	2.7	13.0	11.5	1.5	2.0	21.6	11.0
Central Government	5.0	—	5.0	—	10.0	10.0	—	—	17.5	8.5
INI	2.1	2.0	0.7	2.7	3.0	1.5	1.5	2.0	4.1	2.5
2. Private securities ¹	12.0	8.7	13.2	5.2	12.9	11.7	18.4	8.6	22.0	14.1
Bonds	6.1	5.0	8.6	1.2	5.1	4.3	10.0	2.0	9.6	8.7
Shares	5.9	3.7	4.6	4.0	7.8	7.4	8.4	6.6	12.4	5.4
B. PRICE INDICES (1958=100 ; last month of each quarter) :										
1. Shares	98.2	95.0	92.6	91.9	90.7	87.8	83.2	88.5	87.0	84.2
2. Private bonds	122.0	124.9	123.7	122.8	122.5	122.4	123.3	122.2	122.0	120.1
3. Public bonds	107.2	109.7	107.7	107.7	110.1	108.4	107.0	108.8	108.3	107.6

1. The amounts purchased by the banking system (net of reimbursements appear in lines 6b and 7b, respectively, of Table V a)

Source: Bank of Spain, Boletín Estadístico.

TABLE VI. THE STRUCTURE OF INTEREST RATES

GOVERNMENT BONDS :

Investment bonds : Nominal	4.5
Yield on subscription ¹	4.5
Market yield of 4% perpetual ²	3.20

BANK OF SPAIN :

Advances to Treasury	nil
to National Wheat Service	2.0
to INI.	4.0
to "Comisaria de Abastecimientos" ³ .....	..
Loans to banks :	
Lombard credits ⁴	5.0/6.0
Ordinary rediscount	4.0/4.6 ⁴
Special rediscount ⁵	4.6

DEPOSIT RATES OF COMMERCIAL AND SAVINGS BANKS⁶

Sight deposits	0.5
Saving deposits (up to 1 month)	2.0
Time deposits : up to 6 months	2.5
up to 1 year	3.0
up to 2 years ⁷	4.0
Cash bonds (nominal) ^{1 7}	4.75
Non-resident deposits in pesetas	3.75

LENDING RATES OF COMMERCIAL BANKS :

Ordinary discount	5.0/5.4 ⁴
Special discount ⁵	4.5/5.5 ⁸
Advances	5.5/7.4
Medium term loans ⁷	7.5

PRIVATE BOND ISSUES :

Effective yield to subscriber ²	6.25
Cost to firms ⁹	8.60

OFFICIAL CREDIT INSTITUTIONS¹⁰ :

		Maximum duration (years)
Small agricultural loans	2.75/3.25	5/12
Large agricultural loans	3.75/5.9	4/12
Subsidized housing	5.5	15
Shipbuilding	4/5.5	10/20
Non-subsidized housing	6.5/7	5/15
General industrial loans	5.6/5.9	8
Export credits	5.0	
Loans to local authorities : long-term	5.25/5.5	5/30
short-term	4/4.75	1/5
Loans to fisheries	4.0	5/20

1. Exempt of all taxes, including income tax.
2. Net of taxes, but not of income tax.
3. With government bonds as collateral ; rates charged are different for various types of government bonds, and in general are lower for bonds with lower coupon rates.
4. For commercial and financial bills respectively.
5. Automatically rediscountable bills for the financing of exports (up to five years) and domestic sales of investment goods (up to three years).
6. Exempt of coupon tax.
7. Industrial banks only.
8. For export credits and investment credits respectively.
9. Assuming no tax exemption whatsoever and including underwriting and other costs.
10. There are in fact some fifty different credit lines, with different interest rates, maximum durations and other conditions. Only the main categories are included here.

Sources : Bank of Spain and Institute for Medium and Long-term Credit.

TABLE VII. FOREIGN TRADE

In million dollars.

	1961	1962	1963	1964	1965	JANUARY-MAY		
						1964	1965	1966
a) IMPORTS								
1. Agricultural and food products	246	316	449	422	622	173	237	331
2. Minerals	39	46	59	76	108	30	42	185
3. Oil products	178	247	248	287	302	112	130	175
4. Chemicals, plastics and rubber	135	180	220	261	330	111	137	18
5. Skins, leather and footwear.....	9	21	26	27	31	12	11	21
6. Wood and cork	17	25	32	38	57	11	15	21
7. Pulp, paper and books	29	35	46	55	63	22	27	33
8. Raw cotton, textiles and clothing	89	103	88	113	136	49	54	90
9. Glass and pottery	6	9	17	23	30	10	11	18
10. Metals and metal products	84	152	186	237	422	82	164	219
11. Machinery and appliances	167	286	431	551	696	220	266	371
12. Transport equipment	73	112	100	90	112	38	39	55
<i>Of which: Cars, lorries and tractors</i>	51	69	68	66	74	25	29	...
Aircraft	18	31	18	9	6	8	1	...
13. Other.....	21	36	53	80	115	26	42	69
14. TOTAL.....	1,092	1,570	1,955	2,260	3,020	896	1,175	1,585
15. Total less agricultural and food products.	846	1,254	1,506	1,838	2,398	723	938	1,254
b) EXPORTS								
1. Agricultural and food products	391	418	389	516	469	253	194	245
2. Minerals	35	28	27	33	31	13	12	30
3. Oil products	42	45	46	48	33	14	12	34
4. Chemicals, plastics and rubber	34	36	37	57	85	23	32	11
5. Skins, leather and footwear.....	16	17	18	18	17	7	6	16
6. Wood and cork	21	21	19	27	28	11	11	16
7. Pulp, paper and books	19	21	24	30	20	6	7	16
8. Raw cotton, textiles and clothing	58	39	51	53	62	24	23	26
9. Metals and metal products	58	40	44	55	57	24	21	24
10. Machinery and appliances	22	25	26	41	53	15	19	25
11. Transport equipment	4	28	39	42	43	15	12	40
<i>of which: Ships</i>	2	24	27	28	19	7	2	...
12. Other.....	11	16	16	35	47	14	19	24
13. TOTAL.....	710	734	736	955	967	419	368	491
14. Total less agricultural and food products.	319	316	347	439	498	166	174	246

Source: "Estadística del Comercio Exterior".—Dirección General de Aduanas.

TABLE VIII. OFFICIAL FOREIGN RESERVES

In million dollars.

	1961	1962	1963	1964		1965		1966
	DECEMBER			JUNE	DEC.	JUNE	DEC.	JUNE
1. Gold and convertible currencies	863	1,007	1,093	1,191	1,407	1,311	1,268	1,026
2. Net IMF position	23	38	54	74	107	141	141	166
3. Total (1 + 2)	886	1,045	1,147	1,265	1,514	1,452	1,409	1,192

Source: Bank of Spain.

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