

OECD
ECONOMIC SURVEYS
1983-1984

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

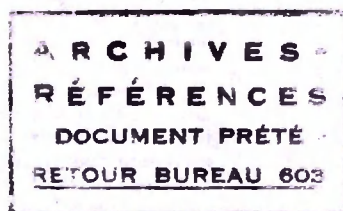
SPAIN

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MAY 1984



OECD ECONOMIC SURVEYS



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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BASIC STATISTICS OF SPAIN

THE LAND

Area (1 000 sq. km)	504.8	Major cities, 1981 census, thousands inhabitants:	
Agricultural area (1 000 sq. km) 1978	275.8	Madrid	3 188
		Barcelona	1 755
		Valencia	752
		Seville	654

THE PEOPLE

Population, 31-12-81, thousands	37 746	Civilian employment, 3rd quarter 1983, thousands	10 818
Number of inhabitants per sq. km	75	By sector (percentage):	
Net natural increase (1982, thousands)	227	Agriculture	17.9
Migration (1982, thousands)	23	Industry	33.9
		of which: Construction	8.6
		Services	48.2

PRODUCTION

Gross domestic product, 1982 (billion pesetas)	19 911	Gross domestic product at factor cost by origin, in 1982 (percentages):	
GDP per head, (1982 US \$)	4 778	Agriculture	6
Gross fixed investment:		Industry and construction	36
Per cent of GDP (1982)	20	Services	58
Per head (US \$) 1982	935		

THE GENERAL GOVERNMENT

Public consumption, in 1982 (percentage of GDP)	11.9	Fiscal revenue, in 1982 (percentage of GDP)	15.2
Fixed investment in 1982 (percentage of gross fixed capital formation)	10.1	General government deficit, in 1982 (percentage of GDP)	-5.7

FOREIGN TRADE

Exports of goods and services, 1982 (billion US \$)	33.1	Imports of goods and services, 1982 (billion US \$)	36.2
Exports of goods and services as a percentage of GDP, 1982	18.3	Imports of goods and services as a percentage of GDP, 1982	20.0
Exports 1982, percentage of merchandise exports, customs basis:		Imports 1982, percentage of merchandise imports, customs basis:	
Foodstuffs	16.0	Foodstuffs	9.3
Raw materials	2.8	Raw materials	10.5
Fuels and lubricants	7.1	Fuels and lubricants	39.7
Capital goods	18.5	Capital goods	17.6
Other manufactures	55.6	Other manufactures	22.9

THE CURRENCY

Monetary unit: Peseta		Currency units per US \$, average of daily figures:	
		Year 1983	143.5
		May 1984	152.8

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Spain by the Economic and Development Review Committee on 11th April 1984.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 30th April 1984.

INTRODUCTION

The impact of the international recession and the persistence of large domestic macro-economic imbalances left Spain with a difficult economic situation at the end of 1982¹. Activity remained very weak; unemployment – at 17 per cent of the labour force – was high and rising; inflation was still hovering around 14 per cent – more than double the OECD average; and the current external deficit amounted to more than 2½ per cent of GDP accompanied by a substantial reduction in reserves. The financial position of the public sector had also become a matter of concern, with the General Government deficit rising to 6 per cent of GDP reflecting both cyclical and structural factors. In spite of the progress made in earlier years in reducing structural weaknesses, the economy was still suffering from widespread rigidities in the productive structure, the labour market and the financial system.

The task of the Government that took office after the October 1982 elections was therefore not an easy one. Given the nature of the problems besetting the Spanish economy, a medium-term strategy aimed at laying the foundations for sustained recovery of output and employment was adopted. The immediate policy objective for 1983 was to secure a significant reduction of inflation and an improvement in the current external balance. To this end, the peseta was devalued in December 1982, monetary policy was considerably tightened and efforts were made to contain the budget deficit at its 1982 level. In the event, policy objectives were broadly attained in 1983. Activity picked up somewhat, helped by a better international environment. Domestic cost pressures eased and, in spite of the inflationary impact of the large depreciation of the peseta, the rise in consumer prices abated. There was also a substantial reduction in the current external deficit to less than 1½ per cent of GDP. But the strengthening of activity was too modest to prevent a further deterioration in labour market conditions. 1984 must be viewed as another year of adjustment, with a further tightening of monetary policy and continued fiscal restriction; strict wage norms are being enforced in the public sector. A more determined attitude towards positive adjustment has been adopted, with efforts made to implement restructuring plans and to increase labour market flexibility. Provided these policies are maintained, continued progress in the fight against inflation should be made this year, and the current external position should improve further. However, growth may remain moderate and unemployment may not stabilize before 1985.

As background to the policies adopted by the new Government, Part I of the present Survey analyses briefly developments in the Spanish economy since the mid-1970s, focusing on the emergence of large imbalances. Part II describes the policy measures introduced since the end of 1982, reviews economic trends in 1983 and assesses short-term prospects. Within the framework of the authorities' medium-term strategy, Part III tries to identify some of the conditions for better performance, dealing mainly with issues related to inflation and income shares, labour market rigidities, the public sector deficit and industrial restructuring.

I. UNDERLYING IMBALANCES 1975-1982

The adjustment task following the change in world economic conditions since the mid-1970s has been greater in Spain than in many other countries. Large economic imbalances have emerged as reflected in the persistence of stagflationary trends, a deterioration of the trade-off between unemployment and the current external position, a distortion of the pattern of income shares, and an inappropriate allocation of resources. These developments went hand in hand with a marked fall in the national saving rate, to which the deterioration of the public sector financial position contributed importantly.

Stagflationary trends

The positive growth edge typically enjoyed by Spain in the past was not maintained after the first oil shock. From 1974 to 1982, real GDP growth amounted to 1½ per cent a year on average, compared with 2.2 per cent for the OECD area, and 1.8 per cent for European Member countries. The performance worsened in the 4 years to 1982, with economic growth falling to 0.8 per cent, about half a percentage point below the rates for both the OECD area

Table 1. Economic performance since the first oil crisis
Annual percentage change

	1982 1974	1979	1980	1981	1982	1982 1974	1979	1980	1981	1982
	GDP					Industrial output ¹				
Spain	1½	½	1½	½	1½	½	-½	-	-	-½
OECD Europe	1½	3½	1½	-	½	½	3½	½	-2	-1½
OECD Total	2½	3½	1½	2	-½	1½	4	-	½	-½
	Fixed investment					Productivity in industry ¹				
Spain	-2	-4½	1½	1	-2	3½	4	4½	4½	5
OECD Europe	0	3	2	-3½	-2	2½	3½	1	1½	2½
OECD Total	1½	3½	-½	½	-3½	3	2½	½	2½	5½
	Employment, total					Unemployment rate ² (% of total labour force)				
Spain	-2½	-2½	-4	-3½	-1½	(8½)	(8½)	(11½)	(14)	(16)
OECD Europe	0	½	½	-1	-½	(6½)	(5½)	(6)	(7½)	(9½)
OECD Total	½	1½	½	½	-½	(5½)	(5)	(5½)	(6½)	(8½)
	Consumer prices					Unit labour costs in manufacturing ³				
Spain	17½	15½	15½	14½	14½	19	19	11	12½	9
OECD Europe	11½	10½	14	12½	10½	10½	7½	12½	10	8½
OECD Total	9½	9½	12½	10½	7½	8½	6½	10½	8½	8½
	General government expenditure (% of GDP m.p.)					General government deficit (% of GDP m.p.)				
Spain	(30)	(30½)	(32½)	(34½)	(36½)	(2)	(1½)	(2)	(3½)	(6)
OECD Europe	(46½)	(45½)	(46½)	(48½)	(50)	(3½)	(3½)	(3½)	(4½)	(4½)
OECD Total	(38½)	(38½)	(40½)	(39½)	(41½)	(2½)	(1½)	(2½)	(2½)	(4½)

1. Value added in industry including construction.

2. OECD estimates of standardized unemployment rate.

3. Including mining for Spain.

Note: The figures for 1982 are provisional.

Sources: Banco de España, *Informe Anual*; INE, *National Accounts of Spain*; OECD Historical Statistics, 1960-81; direct communication to the OECD and OECD estimates.

and OECD Europe. Growth in manufacturing output (including mining) decelerated to an annual rate of 1 per cent in the eight years to 1982, about one-tenth of the previous longer-term trend and significantly less than generally elsewhere. Between the mid-1970s and 1982, output from construction, traditionally a very important source of dynamism, posted a cumulative fall of nearly 20 per cent. Agricultural production virtually stagnated. Services was the only sector where activity continued to expand at a relatively sustained pace, albeit slower than in the past. This was largely due to a strong expansion in general government services (4½ per cent annual rate).

Weak output growth was accompanied by persistently strong inflationary pressures. The traditional inflation differential against Spain widened significantly in the second half of the 1970s, with consumer prices rising on average by 19 per cent – more than double the rate for the OECD area. After peaking at 24.5 per cent in 1977, reflecting both domestic and external factors, consumer price increases abated significantly up to 1979. But progress in curbing inflation was slow in the following three years, and in 1982 consumer prices still rose by 14½ per cent, nearly twice the OECD rate and 4 percentage points more than the European average. The inflationary spiral was initially fed by the sharp rise in unit labour costs, (around 21 per cent on average in the four years to 1978) and marked increases in import prices in the wake of the substantial depreciation of the peseta. Despite a significant deceleration in the growth of unit labour costs as from 1979, pressure on prices remained relatively strong in recent years because of the delayed adjustment of energy prices, continued marked increases in import prices and higher indirect taxes.

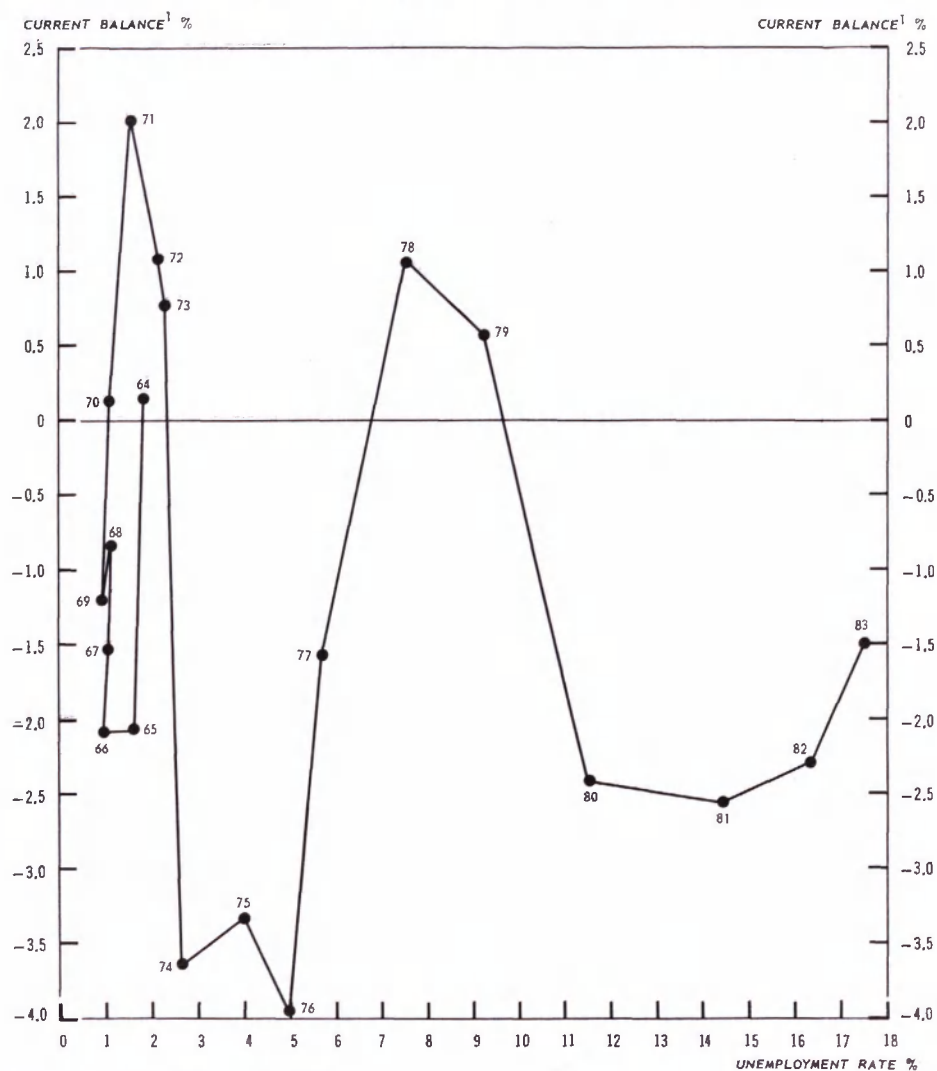
Unemployment/current account trade-off

These developments went hand in hand with a dramatic deterioration of labour market conditions and a weakening of the current external position. Unemployment rose from 3¼ per cent of the labour force in 1975 to 16¼ per cent in 1982, the highest rate in the OECD area. This trend was exclusively due to a sharp fall in employment. Indeed, the labour force declined marginally despite a reversal of migratory flows, whereas it had grown slightly during the previous decade². The ratio of those employed to the working age population fell by nearly 12 percentage points to 40 per cent in 1982, by far the largest drop in the OECD area and one of the lowest percentages among Member countries.

Agricultural employment continued to decline. But from 1974 to 1982 non-agricultural employment was also reduced by 10 per cent, whereas in the OECD area and in European Member countries it rose by 9 per cent and 2 per cent respectively. The labour shake-out was massive in the construction sector (25 per cent) and in industry (23 per cent). The decrease in manufacturing employment accelerated over the three years to 1982³, reflecting the stagnation of industrial output, substitution of capital for labour⁴ and a change in labour market regulations. The high rate of bankruptcies and the rapid reduction in the number of small entrepreneurs suggests that private industry and small firms were particularly affected. Over-manning in larger enterprises remained more important partly because of the delayed implementation of restructuring schemes in certain sectors such as iron and steel and shipbuilding, employment in these sectors being supported through heavy state subsidisation. In spite of continued growth in public sector employment up to 1982, total employment in services levelled off after 1977, influenced by a small decline in private sector employment. The counterpart of these trends was a relatively rapid growth in non-agricultural productivity reflecting more, however, the closure of small and medium-sized firms with relatively low productivity, than genuine productivity increases in individual enterprises.

The deterioration of labour market conditions has also been reflected in the longer duration of unemployment. The percentage of persons unemployed for one year or more

Diagram 1. Unemployment-current account trade-off



1. Current external balance per cent of GDP.

Source: OECD Secrétariat.

reached 49 per cent of total unemployment at the end of 1982 compared with 17 per cent in 1975. Youth unemployment has become a particularly acute problem – in fact one of the severest among Member countries. Following rapid increases since the mid-1970s, unemployment for the less than 19 and the 20-24 year olds reached 48.5 per cent and 33.9 per cent respectively by the end of 1982. Unemployment in the age group under 25 accounted for nearly 55 per cent of total unemployment. The increase in unemployment was particularly marked for first job seekers and was much more rapid for women than for men. The

unemployment rate was much higher than the national average, in certain regions, exceeding 21 per cent in Andalucia and Cataluna. It is probable, however, that the hardships of unemployment were alleviated by the rapid development of the underground economy.

In spite of much slower growth and rising unemployment the current external position was substantially weaker after 1973 than typically in the past⁵. With the exception of the two years 1978-79 (when a substantial surplus was recorded), a large deficit prevailed throughout the period. In the three years to 1982 it amounted to 2½ per cent of GDP. This was due to the steep rise in the net energy import bill in the wake of the two oil shocks of the 1970s and the shrinking invisible surplus after 1979. The non-energy balance improved indeed considerably throughout the period, shifting into a small surplus after 1980. This trend essentially reflected a big rise in net merchandise export volumes equivalent to around 7 per cent of GDP in the eight years to 1982⁶. The non-energy terms of trade deterioration was indeed limited. Spanish exports of manufactures made substantial gains of market shares. The commodity composition was favourable up to 1978 but became unfavourable thereafter, whereas the regional pattern of exports appears to have exerted a slight positive impact. Up to 1980,

Table 2. Trade balance and oil shocks
Customs statistics, \$ billion

	1973	1974	1975	1976	1977	1978
First oil shock						
Total merchandise						
Exports	5.2	7.1	7.7	8.7	10.2	13.1
Imports	9.7	15.4	16.2	17.5	17.8	18.7
Trade balance	-4.5	-8.3	-8.5	-8.8	-7.6	-5.6
Fuels and lubricants ¹						
Exports	0.2	0.5	0.3	0.3	0.4	0.3
Imports	1.2	3.9	4.2	5.1	5.0	5.3
Trade balance	-1.0	-3.4	-3.9	-4.8	-4.6	-5.0
Other commodities						
Exports	5.0	6.6	7.4	8.4	9.8	12.8
Imports	8.4	11.5	12.1	12.4	12.8	13.4
Trade balance	-3.4	-4.9	-4.6	-4.0	-3.0	-0.6
	1979	1980	1981	1982	1983 ²	
Second oil shock						
Total merchandise						
Exports	18.2	20.3	20.3	20.5	19.8	
Imports	25.4	33.7	32.1	31.5	29.2	
Trade balance	-7.2	-13.4	-11.8	-11.0	-9.4	
Fuels and lubricants ¹						
Exports	0.4	0.8	1.1	1.4	2.1	
Imports	7.7	13.1	13.6	12.5	14.7	
Trade balance	-7.3	-12.3	-12.6	-11.0	-12.6	
Other commodities						
Exports	17.8	19.5	19.3	19.1	17.7	
Imports	17.7	20.6	18.5	19.0	14.5	
Trade balance	0.1	-1.1	0.8	0.1	3.2	

1. SITC 3.

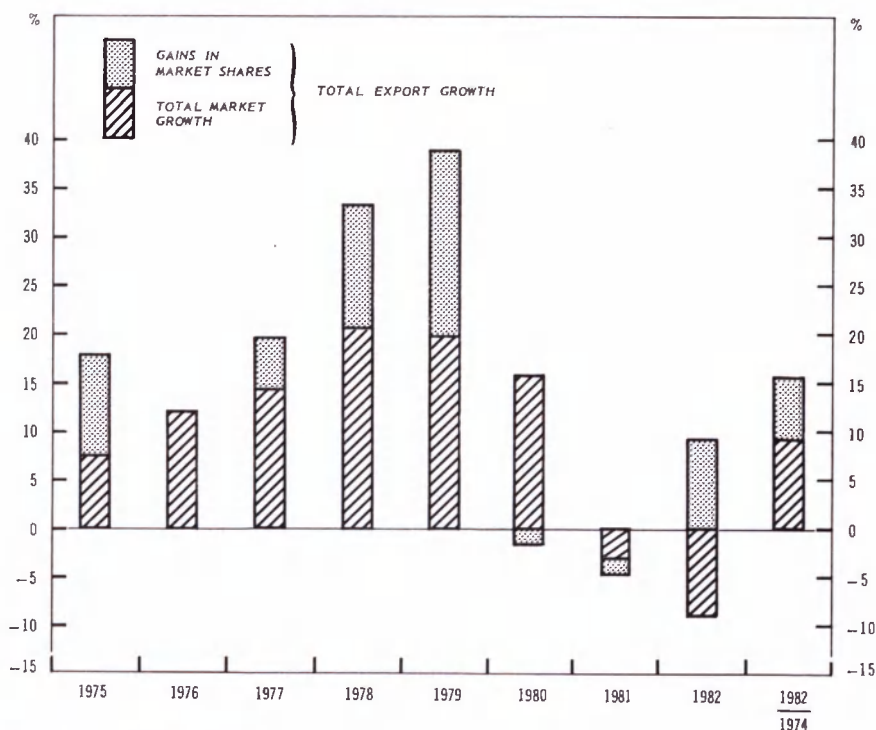
2. Provisional.

Note: Because of rounding the figures may not add up.

however, Spain's relative unit labour costs expressed in a common currency rose considerably more than relative export prices, suggesting that export penetration could be maintained only at the expense of a profit squeeze. Moreover, the considerable weakness of domestic demand relative to that of other OECD countries probably played an important role in boosting Spanish exports, while exerting a dampening impact on imports. Export performance was also positively influenced by the large export capacity that came on stream in the mid-1970s, following the earlier investment wave. Furthermore, in a number of sectors (e.g. the motor-car industry) foreign investment attracted by important incentives, a relatively large domestic market and prospects of adhesion of Spain to the EEC was tied up with the obligation to export a large proportion of output. Newly-established firms were therefore essentially export-oriented. Overall, the underlying trade account position was even less favourable during the period than suggested by the actual deficit.

In Spain, a relatively large trade deficit was traditionally covered by a substantial surplus on net invisibles. Since the mid-1970s, however, net invisible receipts fell appreciably in relation to both GDP and total merchandise exports⁷. The decline, influenced by cyclical as well as structural factors, was particularly marked between 1975 and 1977 and after 1980. Tourist receipts weakened, which, coupled with rising expenditures abroad by Spanish residents, led to a fall of about 1½ per cent of GDP in net tourism earnings on average since 1974. The decrease in emigrant remittances and other private transfers was also relatively

Diagram 2. Export performance of manufactures¹



1. SITC 5-8, in value terms (US \$).

Source: OECD Secretariat.

large (by around ½ per cent of GDP), reflecting the squeeze on personal incomes abroad and the reversal of migratory flows. After rising moderately in the second half of the 1970s, net payments on dividends, interests and profits tended to accelerate in subsequent years, reaching some 1½ per cent of GDP in 1982. This was due to higher real interest rates and the growing external debt. In spite of a substantial rise, from 5½ per cent of GDP in 1972 to 16 per cent in 1982, outstanding external debt was still not particularly high by international standards. Debt servicing ratio, at 20 per cent in 1982, remained also within manageable limits.

Income shares and resource allocation

Real wage developments since the early 1970s have been incompatible with the maintenance of unchanged relative income shares and employment. Between 1974 and 1977 labour's share of net national income rose by 3½ percentage points as real wage increases outstripped productivity growth adjusted for terms of trade developments. Since, in view of prevailing employment practices, labour input underwent only a limited adjustment, profits were severely squeezed. After 1977, labour's share tended to decline slightly with a corresponding small improvement in profits. Real wage advances slowed down substantially after 1978 to below productivity increases. But the small correction of income shares was essentially attributable to the marked shedding of labour during the period, with dependent employment falling in the five years to 1982 by 12.5 per cent. This is illustrated by the fact that the real labour cost gap⁸ calculated on the basis of actual employment and productivity trends had been significantly reduced by 1982, whereas the gap on the basis of constant employment levels remained very large.

Partly related to these developments, resource allocation has been unsatisfactory. From 1974 to 1982 the share of consumption in GDP rose by nearly 5 percentage points, of which more than 3 percentage points were accounted for by government consumption. In marked

Table 3. Allocation of resources and income distribution

	1973	1974	1977-78	1981	1982 ¹	1983 ²
	% of GDP at market prices					
Consumption	76.2	76.9	79.2	81.4	81.8	81.5
Private	67.6	67.9	69.0	69.8	69.8	69.2
Public	8.6	8.8	10.2	11.6	12.0	12.3
Fixed investment	23.6	24.7	20.5	20.3	19.5	18.9
Stockbuilding	1.3	3.4	1.0	0.4	0.4	0.4
Total domestic demand	101.1	104.8	100.7	102.1	101.7	100.8
Exports	14.4	14.4	14.8	17.3	18.3	20.5
Imports	15.5	19.2	15.5	19.4	20.0	21.3
	% of net national disposable income at factor cost ³					
Compensation of employees	61.3	60.9	64.3	64.2	63.6	63.3
of which :						
Employers' contributions	9.1	9.1	11.9	13.2	13.1	13.0
Net of employers' contributions	52.2	51.8	52.4	51.0	50.6	50.3
Property and self-employment income	38.7	39.1	35.7	35.8	36.4	36.7

1. Provisional.

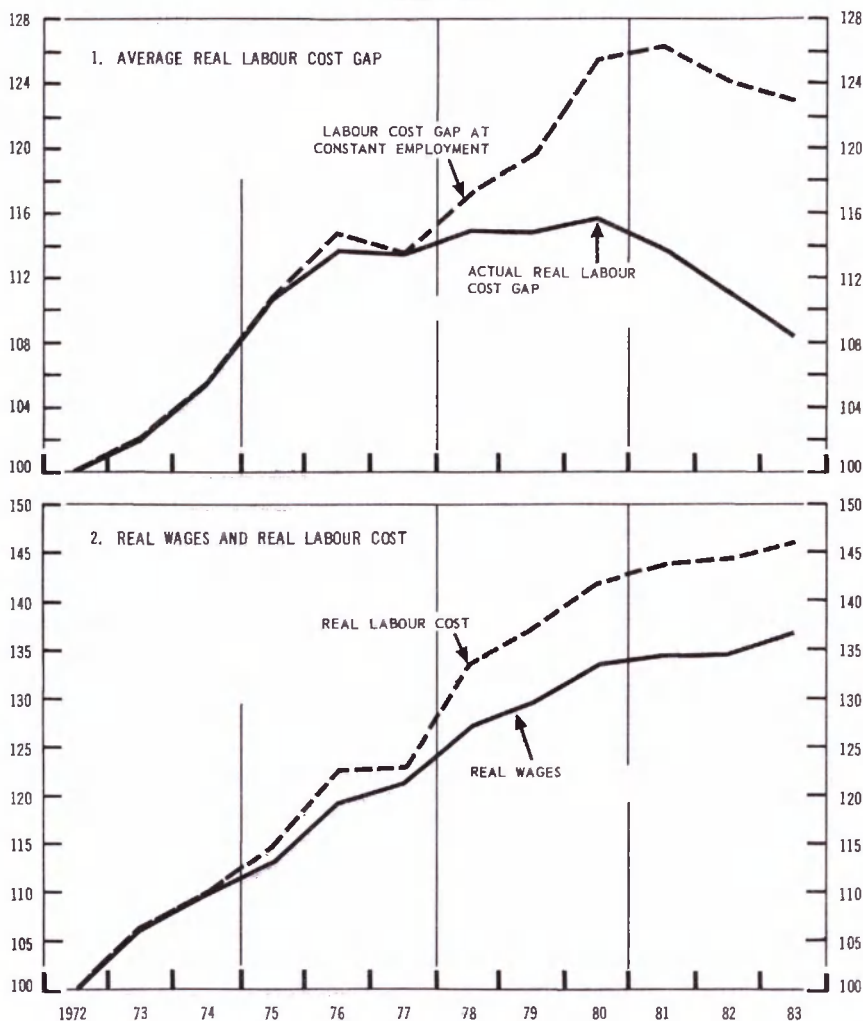
2. Estimates.

3. GDP at factor cost less consumption of fixed capital plus net wages and salaries, investment income and current transfers from abroad.

Sources : INE, *National Accounts of Spain* ; Bank of Spain and OECD estimates.

contrast, the share of gross fixed investment fell by 6 percentage points. Particularly relevant from the point of view of potential growth was the 4½ percentage point decline in the share of non-residential investment. Although there are no accurate indicators of the trend in private non-residential fixed investment, it may be noted that the volume of capital outlays in

Diagram 3. Real labour cost gap^{1, 2}
1972 = 100



1. Real labour cost is compensation per employee (average earnings plus social security contributions paid by employers) divided by the private consumption price deflator, whereas real wages are calculated on the basis of average earnings only. Actual real labour cost gap is the difference between the growth in real labour cost per employee and productivity growth adjusted for terms of trade changes. Real labour cost gap at constant employment is based on the assumption that employment remained constant since 1975.
2. Non-agricultural sector only.

Source: OECD Secretariat.

machinery and equipment (including transport equipment) fell by 11 per cent between 1974 and 1982. This, combined with accelerated scrapping because of technological and economic obsolescence, has probably led to a significant decline in the net capital stock in recent years. As analysed in greater detail in earlier OECD Surveys, the decline in the investment share was closely related to the marked slowdown in the medium-term growth rate of the Spanish economy. But the severe profit squeeze and poor business confidence have also played an important role. The only positive development has been the steady and substantial increase in the share of exports of goods and services from 14½ per cent of GDP in 1974 to 18½ per cent in 1982, whereas the share of imports rose by only 1 percentage point to 20¼ per cent.

Saving/investment balances and the public sector

The decline in national savings, as a percent of national disposable income⁹, was even greater than the fall in the investment share. The gross saving rate indeed fell from 24¼ per cent in 1974 to 17¾ per cent in 1982, or around 3 percentage points below the OECD total and 1¼ percentage points below that of OECD Europe. The deterioration was mainly due to developments in the household sector and to changes in the general government saving position. Household savings decreased from 9 per cent of national disposable income in 1974 to 6 per cent in the early 1980s, before rising to just over 7 per cent in 1982. There was a similar decline in relation to household disposable income reflecting the increasing share of social security benefits in household income and possibly also the shift towards low income categories with a lower-than-average propensity to save.

Table 4. National savings and investment

	1973	1974	1977-78	1981	1982 ¹	1983 ²
	% of national disposable income ³					
National savings	25.0	24.3	21.0	18.1	17.8	17.8
External financing	-0.6	3.4	0.4	2.5	2.2	1.6
Total investment	24.4	27.7	21.4	20.6	20.0	19.3
of which :						
Fixed investment	23.2	24.3	20.4	19.6	19.3	18.9
Non-residential	17.4	18.2	15.1	14.0	13.6	13.6
Net fixed investment ⁴	15.1	15.9	11.7	11.2	9.6	8.1
National savings, total	25.0	24.3	21.0	18.1	17.8	17.8
General government	3.5	2.6	1.2	0.7	-1.3	-1.1
Bank of Spain	0.3	0.4	0.1	-0.1	-0.8	-1.3
Financial institutions	0.6	0.5	0.9	1.8	1.9	1.9
Households	8.9	8.9	7.0	6.0	7.4	6.6
Enterprises	11.7	11.9	11.7	9.7	10.6	11.7
Memorandum items : (percentage of GDP)						
National savings	25.4	24.6	21.0	18.8	17.7	17.7
Fixed investment	23.6	24.7	20.5	20.3	19.5	18.8

1. Provisional.

2. Estimates.

3. National disposable income at market prices is calculated by taking GDP at market prices plus net salary and property income abroad and plus net current transfers from abroad. The difference between national disposable income and GDP is fairly small, about 1 % on average over this period.

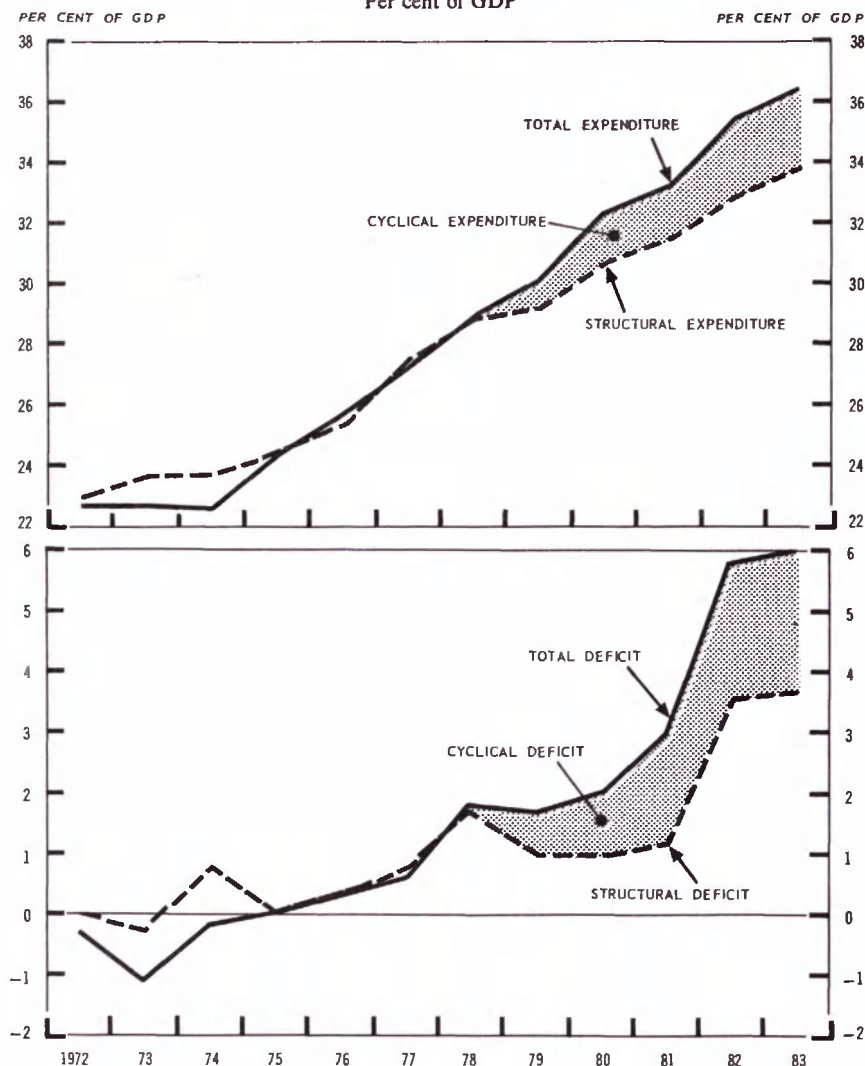
4. Gross fixed investment less capital consumption.

Note : Figures may not add up exactly because of rounding.

Sources : INE, *National Accounts of Spain* ; Bank of Spain, *Annual Report 1982* and OECD estimates.

But the principal factor behind the decline in the national saving rate was the swing in the general government position from a positive saving rate of about 3½ per cent of national disposable income in 1973-1974, to dissaving to the tune of 1½ per cent in 1982. If the Bank of Spain's operations are taken into account, the turnaround was even larger (from +4 per cent to -2½ per cent). Furthermore, part of what is classified as capital transfers was probably used by public enterprises and corporations to finance current expenditure suggesting that total dissaving was even greater than indicated by actual figures. General government current revenue increased from about 22¼ per cent of GDP in 1974 to 30 per cent in 1982. In spite of

Diagram 4. Structural and cyclical budget deficit
Per cent of GDP



Source: OECD Secretariat.

this increase – among the fastest in Member countries – in 1982 this ratio was still one of the lowest in the OECD area. The rapid growth in current revenues was principally due to the rise in households' income tax receipts and to social security contributions, whose share in GDP rose during the period by 2½ per cent and 4½ per cent respectively. Current expenditure growth outstripped that of revenue largely because of the dramatic increase in social security benefits (at an annual rate of 27¼ per cent in nominal terms and 8¾ per cent in real terms). General government consumption also grew significantly in real terms (4½ per cent annual rate)¹⁰ reflecting the rapid increase in the number of public sector employees. The rise in interest payments was particularly fast (28 per cent annual rate) but their share in total expenditure was still relatively small in 1982 (3 per cent).

With capital outlays growing faster than current expenditure (notably after 1979) the deterioration of the overall balance of the general government was even greater than that of saving. This was essentially due to a marked increase in capital transfers whose share in GDP rose by 1½ percentage points during the period. As a result, the general government financial position (before financial transactions) shifted from a small surplus in the mid-1970s to a deficit of almost 6 per cent of GDP in 1982. The cyclical component largely associated with rising economic slack and growing outlays for unemployment compensation is estimated to have amounted to 2¼ percentage points, the structural component accounting for the rest (3¾ percentage points). The structural shortfall on the revenue side was essentially related to tax evasion and avoidance. Most of the increase in the structural deficit was therefore accounted for by higher spending. Improvements in the coverage of pensions and higher benefits¹¹, together with the fast growth in current subsidies and capital transfers were largely responsible for the structural expenditure overrun. The rise in pensions was also the major factor behind the growing deficit of the social security system to around 4½ per cent of GDP in 1982 (excluding central government transfers). Local authorities and regional government deficits remained fairly small, less than ½ per cent of GDP. The widening Central Government deficit was exclusively due to intergovernmental transfers, and to current as well as capital transfers to both public and private enterprises. In 1982, the latter amounted to around 4½ per cent of GDP reflecting the substantial losses incurred in important sectors of the economy.

Overall considerations

By international standards, Spain's macro-economic performance from the mid-1970s and into the early 1980s has therefore been disappointing. But the origin and nature of the difficulties besetting the Spanish economy are clearly complex relating to both economic and non-economic factors¹². As in many other countries, the deterioration of the international environment has entailed less favourable terms of trade developments, slower growth of markets for merchandise exports and tourism and a marked reversal of international migratory flows.

However, the negative impact of the new international environment has been compounded by various structural features of the economy, deep-rooted behavioural patterns of economic agents and inadequate policy responses.

- Spain's dependence on imported energy (and particularly oil) was exceptionally high in the early 1970s, while the merchandise export base was still fairly narrow¹³. Furthermore, the weight of sectors suffering from worldwide excess capacity and/or faced with increasing competition from newly industrialized developing countries was relatively large¹⁴. The reliance on the world tourism market was also greater than generally elsewhere.

- The construction sector, which in any case would have lost momentum with the progressive elimination of housing shortages in the seventies, has been hard-hit by the slowdown in tourism activity and the end of the earlier massive population movement to the urban centres¹⁵.
- Spain belonged to the group of labour surplus countries in which the share of the working age population employed in agriculture was still very important in the early 1970s (about 14½ per cent). The outflow of labour force from agriculture has therefore continued until recently, at a time when industrial employment fell dramatically and migratory flows turned around.

Behavioural patterns of economic agents have been slow to adjust to new conditions in part because the economic system inherited from the old régime was rigid and protected and therefore not very conducive to adjustment.

- In spite of increasing labour market slack, a greater degree of social consensus for moderation and a significant deceleration over the last few years, real wage increases have until recently remained incompatible with domestic equilibrium conditions. This may to a large extent be attributed to labour market rigidities¹⁶, entrenched expectations inherited from the high growth period and strong union pressures in a changed political and social environment.
- The excessive protection of the domestic market, the proliferation of subsidies and transfers to enterprises in difficulty as well as rigidities in the credit and financial markets have hindered the operation of market forces and therefore structural transformation of industry.
- The uncertainty generated by the many elections and by other well-known non-economic factors have also had a harmful influence on firms' expectations and investment plans.

But insufficient policy responses have also contributed to delaying the adjustment process, complicating economic management and adversely affecting expectations.

- Given past legacies, priority was initially given to fundamental institutional and political reforms and economic policy was rather passive. It was only after the autumn of 1977 and the signing of the "Moncloa Pact" that a comprehensive stabilization plan was introduced with a view to correcting the disequilibria that had appeared after the first oil shock. However, the medium-term efficiency of demand management has been limited. In a situation where the government's control over the budget and capital movements remained imperfect, monetary policy targets and exchange rate objectives were at times difficult to reconcile. The 1978-1979 appreciation of the peseta being a case in point. Over the last few years, monetary policy has remained the primary instrument of short-term management. In the event, however, the monetary stance was broadly accommodating. Against the background of a depressed international environment, a rapidly growing public sector deficit and persisting cost pressures, the approach followed failed to reverse the stagflationary trends.
- Besides raising production costs, the rapid increase in the burden of social security contributions until recently has tended to distort relative factor costs, thus altering the relationship between output growth and employment.
- Spain was slow to take measures to reduce external energy dependence. Domestic energy prices were not raised significantly before mid-1979 and considerable delays were encountered in drawing up and implementing an overall medium-term energy

programme. As a result, and contrary to developments in many other Member countries, up to 1981 the growth in energy requirements outstripped that of GDP.

- In spite of various restructuring plans, no substantial concrete measures were taken in the crisis-depressed sectors, a development long overdue given the vulnerability of the country's industrial structure.

However, this does not mean that no progress had been made by 1982 in correcting structural imbalances. Indeed, the process of redressing distorted relative income shares and factor prices had started. Labour market flexibility had also increased somewhat, rigidities in money and financial markets had been partially removed, and the high dependence on imported energy reduced¹⁷. But in spite of non-negligible steps in the right direction, progress had remained insufficient to cope with the challenges of the 1980s. Furthermore, the growing public sector deficit had become a matter of concern, because of its implications for resource allocation and the problems it created for monetary management. The need to deal with the serious problems of the social security system, to strengthen the financial situation of public enterprises and to embark on the long overdue process of industrial restructuring had also become more urgent. Given the poor conjunctural situation prevailing at the time (weak growth, very high unemployment, relatively high inflation, large current account deficit and a substantial loss of foreign exchange reserves) the Government that took office after the October 1982 election was therefore faced with a difficult task.

II. ECONOMIC POLICIES, RECENT TRENDS AND SHORT-TERM PROSPECTS

The overall strategy

The new government's strategy was set in a medium-term perspective. 1983 was mainly viewed as a year of adjustment in which progress was to be made on inflation and the current external balance, essentially through a significant tightening of the stance of monetary policy and efforts to contain the public sector deficit. The target rate of economic growth was around 2 per cent; inflation was to fall to 12 per cent by year-end and the current account deficit to be reduced to around US \$3 billion.

- To improve external competitiveness, on 6th December 1982 the Spanish peseta was devalued by 8 per cent vis-à-vis the US dollar.
- The central target rate of growth of broad money (M3) in 1983 was reduced by 3 percentage points to 13 per cent¹⁸. Similarly the target rate of growth of the wider monetary aggregate ALP (liquid assets in the hands of the public) was reduced to 15½-16 per cent from 18.6 per cent in 1982.
- The initial budget for 1983 envisaged a cash deficit of the Central Government of Ptas 1 294 billion, consistent with the aim of containing the overall deficit of the General Government to around 6 per cent of GDP on a national accounts basis.
- The authorities also recognized the importance of achieving a substantial moderation in wages increases in the public administration and public enterprises, the objective being to secure a settlement at the lower end of the band established in the nationwide wage agreement concluded by the social partners in the private sector. The Government's broad objective here was to maintain the purchasing power of wages.

In the event, these policy objectives were broadly achieved. In spite of some difficulties in the course of the year, the monetary targets were met and the general government deficit was contained at around 6 per cent of GDP. The other policy targets in terms of real growth, inflation and the current external account were also attained, but unemployment continued to increase.

Policy objectives for 1984 call for a further tightening of monetary policy with M3 targeted to grow by 10.5 per cent¹⁹ during the year and liquid assets in the hands of the public (ALP) by 12.5 per cent. The 1984 budget aims at reducing the general government deficit by ½ per cent of GDP to 5½ per cent. With regard to incomes policy objectives, a norm of 6½ per cent for pay increases in 1984 was announced. This norm – compulsory for the public sector (General Government and public enterprises) – is expected to set the pace for wage agreements in the private sector. Furthermore, within the framework of a medium-term strategy aimed at structural adjustment of the economy, restructuring plans have been drawn up for various industrial sectors (mainly steel and shipbuilding) and first decisions have already been taken. There are also plans to reform the social security system and to correct the financial position of public enterprises. These are part of a broader objective of bringing down the public sector deficit to some 3.3 per cent of GDP by 1986.

Monetary policy

Monetary policy in Spain has traditionally been the main instrument of demand management, although in recent years significant changes have taken place in the framework within which policy has operated. Control over the monetary aggregates has been sought through the regulation of bank reserves. In order to keep bank reserves on a path consistent with desired M3 growth, which has been the main intermediate target since 1973, the Bank of Spain either supplies funds in the form of loans or else drains funds from the market by placing short-term certificates of monetary regulation (CRMs) or government paper (Pagarés del Tesoro) with private banks and other authorised financial intermediaries. In this process, money market interest rates have been allowed to fluctuate widely. The Bank of Spain has tried, however, to prevent the emergence of an excessive differential between domestic and international interest rates, with a view to avoiding undesired capital movements.

Monetary developments during 1983 were uneven and wide fluctuations of the main monetary aggregates were registered, influenced by domestic financial tensions stemming from the financing of the public sector deficit and by external developments. The usual difficulties of monetary management were compounded by attempts to control both M3 and the wider monetary aggregate ALPs. During the first quarter of the year, the growth in both M3 and ALP exceeded targets, with rates of increase of approximately 14 per cent and 19 per cent respectively. The main factor behind this trend was the rapid growth in non-monetary liquid financial assets in the hands of the public, notably short-term treasury bills, bankers' acceptances, and commercial paper²⁰. The marked easing in domestic credit markets was accompanied by a weakening of the exchange rate, the peseta depreciating by 6 per cent in effective terms in the four months to April. Heavy intervention by the Bank of Spain also led to reserve losses of \$1.6 billion during the period. The M3 growth target was therefore adjusted downwards to 12 per cent for the rest of the year. During the second quarter, the supply of liquid assets to the banks was sharply reduced and the level of compulsory deposits with the Bank of Spain raised by 1 percentage point in April to 4 per cent of total deposits. Interbank interest rates were allowed to rise to approximately 20 per cent in order to stem pressures on the exchange rate.

This move towards restriction led to an offsetting reaction within the banking system, namely a speeding-up of the creation of non-monetary very liquid assets such as banks'

Table 5. Monetary aggregates

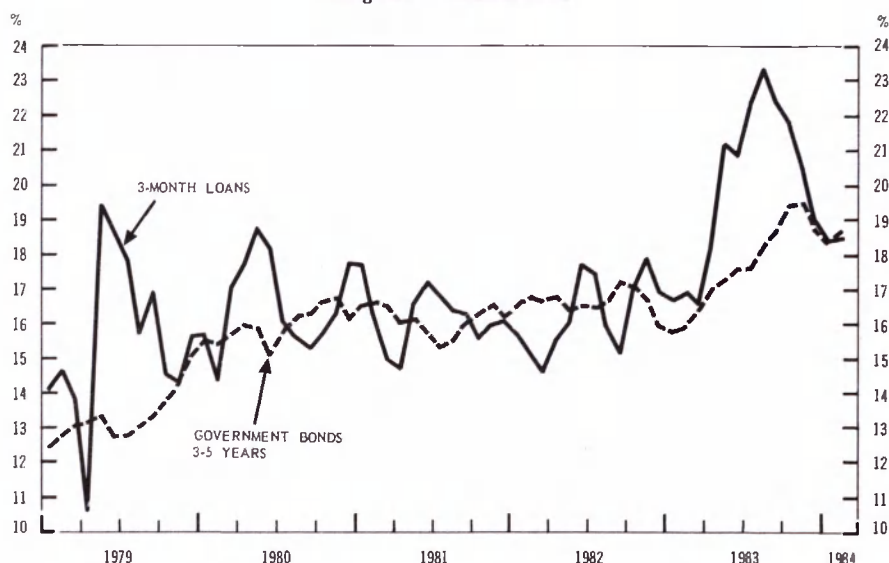
	1979	1980	1981 Outcome	1982	1983	1984 Target
	Billion pesetas, end of year					
M3, money supply broadly defined	10 422	12 156	14 290	16 605	18 712	20 583
M1	3 545	4 015	4 520	4 833	4 678	
Currency	1 040	1 186	1 335	1 533	1 543	
Sight deposits	2 505	2 829	3 185	3 300	3 135	
Saving deposits	2 884	3 175	3 495	3 822	4 017	
Time deposits	3 993	4 996	6 055	7 361	8 526	
Other liquid assets	206	297	489	931	1 549	2 211
Treasury bills			1	59	360	
Bank of Spain certificates			25	18	70	—
Privately-created liquid assets			463	854	1 119	—
Total ALP ¹	10 628	12 453	14 779	17 536	20 261	22 794
Net domestic credit	10 741	12 917	15 862	18 703	21 534	24 357
Public sector credit	1 016	1 404	2 404	3 275	4 678	6 220
Private sector credit	9 725	11 513	13 298	15 428	16 856	18 137
	Percentage change					
M1	8.7	13.3	12.6	6.9	-3.3	
M3	18.0	16.6	17.6	16.2	12.7	10
Other liquid assets	145.6	44.2	64.6	90.4	66.4	42.7
Total ALP	17.5	17.2	18.7	18.6	15.5	12.5
Net domestic credit	17.2	20.3	22.8	17.9	15.2	13.1
Public	35.3	38.2	71.2	36.2	42.8	33.0
Private	15.6	18.4	16.4	15.2	9.3	7.6
GDP market prices, value	16.9	15.6	14.1	14.9	14.0	

1. ALP stands for « liquid assets in the hands of the public », which include M3, mortgage securities, Treasury bills (Pagarés del Tesoro), banker's acceptances, commercial paper and Bank of Spain certificates (CRM).

commercial paper and bankers' acceptances. As a result, ALP grew at an annual rate of almost 18 per cent in both April and May, while M3 decelerated to around 12 per cent during the period. In fact, the reduced supply of reserve assets by the Bank of Spain led to significant increases in interbank interest rates, which in turn reinforced the process of asset substitution and creation of non-monetary liquid assets. Monetary policy was therefore rather accommodating when measured in terms of ALP, although apparently tight in terms of M3. As a result of the difficulties encountered in monetary control, pressures against the exchange rate built up by early June, leading to both losses of foreign exchange reserves and a further depreciation of the peseta. A more drastic turn towards restriction took place in the early summer, when the growth target for M3 was adjusted downwards to 10 per cent and when the banking system was requested to stop the creation of those non-monetary liquid assets not included in M3. This episode of monetary tightening coincided with increases in both private and public credit demands. This led in turn to upward pressure on domestic interest rates, a firming-up of the peseta exchange rate and important capital inflows.

This new tension in domestic credit markets brought to the fore the growing difficulties of monetary management in a context of sizeable public sector deficits. In August, the monetary

Diagram 5. Interest rates

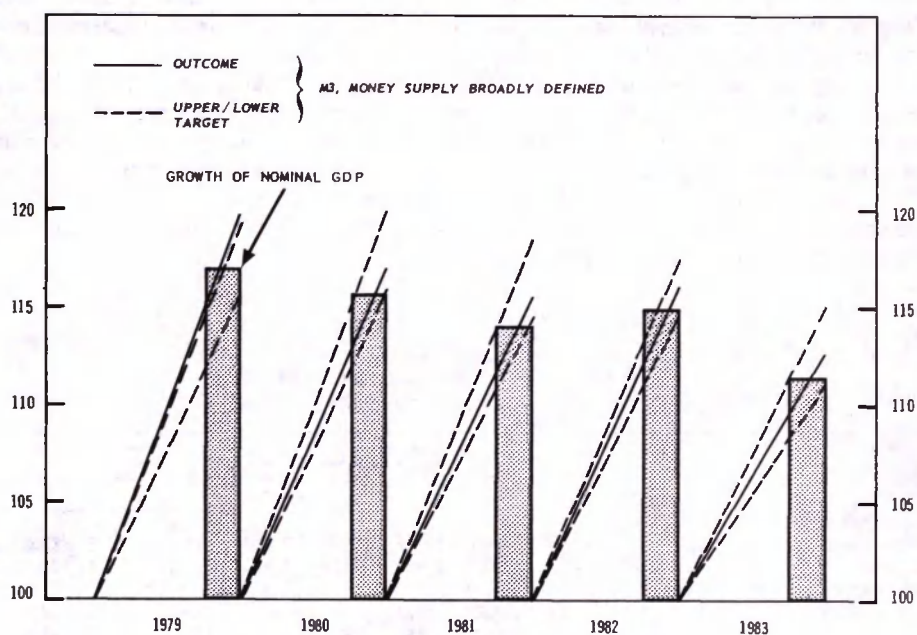


Source: OECD Secretariat.

authorities, increasingly reluctant to pay even higher interest rates on their sales of very short-term assets²¹ sharply increased their supply of bank reserves. To partially offset such an expansionary move, compulsory reserve requirements of private banks were raised by one percentage point. As a result, domestic credit market conditions eased substantially in the last four months of the year, with private and public claims to liquidity being met at still high, but decreasing interest rates. In spite of these developments, monetary targets for 1983 were met with M3 growing at an annual rate of 12.7 per cent (below the 13 per cent target) and liquid assets in the hands of the public (ALP) by 15.5 per cent. The net emission of non-monetary liquid assets (ALPs not included in M3) was limited to 620 billion pesetas, instead of the 650 billion forecast at the beginning of the year.

Real interest rates were substantially higher than in 1982. In a context of declining inflation, nominal rates of return in private bond markets increased by 2.5 percentage points to approximately 20¼ per cent. The returns on public debt also rose considerably to an average rate of 18.6 per cent at year's end. Short-term rates displayed wider fluctuations, reflecting the conflicting monetary and fiscal policy influences. The three months rate for Bank of Spain certificates reached a maximum of 23 per cent in August before falling down steadily to 18 per cent in December. Medium- and long-term rates charged to private enterprises were also affected with real rates reaching 6 to 8 per cent in the second half of the year. Domestic credit expansion was slightly lower than targeted (15.0 per cent instead of 15.5 per cent). This was partly due to smaller-than-expected losses of foreign exchange reserves and to a slower rate of private monetary asset creation by the banking system – a trend influenced by the *de facto* ban imposed on the placement of these assets since August. Private sector financing expanded by only 9¼ per cent instead of 11.2 per cent as initially projected and its share in total credit expansion fell from 70 per cent in 1982 to 50 per cent in 1983, with a corresponding increase in the share of public sector financing.

Diagram 6. Monetary targets and outcome



Source: OECD Secretariat.

The Bank of Spain's initial monetary programme for 1984 is based on the assumption of an increase in nominal GDP of 10-11 per cent. Consistent with these projections, M3 is targeted to grow by 10.5 per cent. Given the very high weight that net sales of short-term treasury bill (Pagarés del Tesoro) will play in the financing of the 1984 public sector deficit, this implies an increase in the private sector's holdings of liquid assets (ALPs) of 12.5-13.0 per cent. On the assumption that the current external deficit will be limited to \$2.0 billion, the attainment of the monetary target will require that domestic credit expansion be no greater than 13.1 per cent. In view of the budgeted financial requirements of the public sector, slightly above 1.4 trillion pesetas, credit to the public sector will have to grow by 32.5 per cent (or ten percentage points less than in 1983). As a result, private sector financing is targeted to grow by only 7.6 per cent, implying a non-negligible deceleration from 1983 and a further decline in real terms.

Fiscal policy

Fiscal developments in 1983 were affected by several special factors. Due to the national election of October 1982, approval of the 1983 budget was postponed until July 1983. This meant that the 1982 budget was automatically extended for seven months with, during the period, a dampening effect on expenditures²². A second factor that affected fiscal outturns, in both 1982 and 1983, was the process of clarification of the actual financial position of some public entities. This process, aimed at halting the practice of accepting unrecorded deficits (especially those incurred by the Social Security System), led to a steep increase in budgetary

transfers in 1982 and a substantial widening of the overall budget deficit. Further steps were taken in February 1983 with the presentation to Parliament of an extraordinary budget totalling 660 billion pesetas, of which only about half corresponded to additional expenditure to be disbursed in 1983 and 1984. The rest covered past deficits of various public entities which had already generated cash outlays. Since regularisation of hidden deficits has led to the presentation of more realistic initial fiscal projections, large overruns in expenditures which were recorded in the past should be avoided. Besides changes in the accounting procedures, the ongoing process of regional and local decentralisation also involves the transfer of some spending functions, notably in the field of education, along with greater tax-collecting responsibilities. This process, expected to be completed by 1985, may introduce further important complications in budgetary statistics.

Table 6. General government accounts
National accounts definitions

	Billion pesetas					Percentage change			
	1980	1981	1982	1983	1984 Budget	1981	1982	1983	1984
Current revenue	4 546	5 306	5 903	6 909	7 903	16.7	11.2	17.0	14.4
Direct taxes	1 070	1 238	1 305	1 578	1 894	15.7	5.4	20.9	20.0
<i>of which :</i>									
Households	722	788	923	1 141		9.0	17.2	23.6	—
Enterprises	348	451	382	437		29.6	-15.2	14.4	—
Indirect taxes	981	1 223	1 488	1 791	2 279	24.7	21.6	20.4	27.2
Social security contributions	1 991	2 287	2 491	2 869	3 101	14.8	8.9	15.2	8.1
Other	504	558	619	671	629	10.7	10.9	8.4	-6.3
Current expenditure	4 435	5 255	6 221	7 271	8 245	18.5	18.4	16.9	13.4
Public consumption	1 750	2 013	2 411	2 772	3 036	15.0	19.8	15.0	9.5
<i>of which :</i>									
Wages and salaries	1 387	1 625	1 868	2 156	2 350	17.2	14.9	15.4	9.0
Social security benefits	2 083	2 555	3 012	3 324	3 726	22.6	17.9	10.4	12.1
Investment income	117	128	182	338	426	9.0	42.3	86.1	26.0
Current transfers and other	485	560	617	837	1 057	15.3	10.3	35.6	26.3
Net saving	110	51	-319	-362	-342				
(% GDP)	(0.7)	(0.3)	(-1.6)	(-1.4)	(-1.4)				
Capital revenue	102	125	142	169	236	22.6	13.5	19.3	39.6
Consumption of fixed capital	69	83	95	115	131	20.2	14.1	21.2	13.9
Capital transfers received and other	33	42	47	54	105	27.6	12.5	15.4	94.4
Capital expenditure	517	699	960	1 157	1 270	35.1	37.4	20.5	9.8
Gross fixed capital formation ¹	285	378	499	595	688	32.9	31.9	19.2	15.6
Capital transfers paid	232	320	461	562	582				
Deficit	-305	-523	-1 137	-1 350	-1 376				
(% of GDP)	(-2.0)	(-3.0)	(-5.7)	(-6.0)	(-5.5)				
<i>of which :</i>									
(Social Security ² deficit % of GDP)	(-2.1)	(-3.1)	(-4.1)	(-4½) ³					

1. Including purchase of land.

2. Excluding central government transfers to social security funds.

3. Provisional.

Note : Because of rounding figures may not add up.

Source : Direct communication to the OECD.

A tentative assessment of the fiscal stance suggests that the demand impact of the general government transactions was slightly restrictive in 1983. The overall deficit on a national accounts basis, rose to 1350 billion pesetas but remained approximately unchanged in relation to GDP (around 6 per cent). Public consumption growth decelerated from 19.8 per cent in 1982 to 15 per cent in 1983, implying a sharp slowdown in real terms (from 6 per cent to 4 per cent). General government employment continued to expand by around 3½ per cent but purchases of goods and services slowed down considerably. The rise in investment decelerated in real terms from 13.9 per cent in 1982 to 4.8 per cent in 1983. This stood in marked contrast to developments over the last few years when public spending had been deliberately reoriented towards investment, with a view to supporting activity. Overall the direct contribution of public expenditure on goods and services (including investment) to GDP growth declined from around 1 per cent in 1982 to 0.4 per cent in 1983. The positive impact on households' disposable income of the redistribution effect of government transactions (social security contributions and benefits) was also smaller in 1983 (0.9 per cent) than in 1982 (1.6 per cent)²³. Fiscal pressure as measured by the ratio of taxes to GDP rose by 1.5 per cent, reflecting increases in the rates of selected indirect taxes, a modification of the schedule of withholdings for personal income tax, reductions in exemptions for various direct taxes as well as a greater effort to reduce evasion.

Fiscal policy objectives for 1984 are to be viewed in the light of the medium-term fiscal strategy aimed at steady reduction of the public sector deficit over the next few years. General government current expenditure (on a national accounts basis) is projected to grow by 13.4 per cent in nominal terms compared with 16.9 per cent in 1983. This moderation is expected to come mainly from a marked deceleration of wage increases in the public administration and a substantial slowdown in the growth of current transfers. Capital spending is to expand by only 9.8 per cent – a much smaller rate than in previous years, reflecting essentially a dramatic reduction in the growth of capital transfers. Gross fixed capital formation is indeed budgeted to grow by 15.6 per cent implying a rise in volume terms of around 6 per cent. Current revenue is expected to rise by some 14½ per cent or somewhat less than in 1983 (17 per cent), as a result mainly of a substantial slowdown in the growth of social security contributions. Direct tax receipts are anticipated to rise only slightly less than in 1983, whereas revenue from indirect taxes should increase substantially more (27.2 per cent against 20.4 per cent). The general government deficit is projected to increase by only 26 billion pesetas to 1 376 billion, falling in relation to GDP from 6 per cent in 1983 to 5½ per cent in 1984. The demand impact of government transactions should therefore be slightly deflationary this year.

The deficit of the State budget (on a cash basis) is projected to reach 1330 billion pesetas, slightly more than that initially budgeted for 1983 but around 160 billion pesetas less than the actual outturn for last year. Assessment of trends in revenue and expenditure is made difficult by changes in accounting procedures that have taken place over the last two years and which should result in a reduction of the difference between initial budget projections and actual outcome. Nevertheless, budget plans for 1984 would seem to point to a deceleration in the growth of total expenditure, mainly reflecting a marked slowdown in public consumption. Transfers and subsidies are expected to remain the most dynamic element behind expenditure growth. With regard to financing of the deficit, the trend towards a reduction in the direct resort to the Bank of Spain and greater reliance on sales of public debt on the domestic financial market should continue. It is planned to issue 411 billion pesetas of medium and long term debt in 1984, of which 75 billion on external markets. Net sales of 450 billion pesetas of short-term treasury bills (*Pagarés del Tesoro*) are also contemplated. The rest (470 billion pesetas) should be financed by the Bank of Spain.

Table 7. State budget and financing

Cash basis

	Billion pesetas						Percentage change				
	1980	1981	1982	1983	1983	1984	1981	1982	1983	1984 ¹	1984 ²
	Outcome				Budget		Outcome			Budget	
Total revenue	1 940	2 318	2 636	3 277	3 402	4 069	19.5	13.7	24.3	24.2	19.6
Tax receipts	1 679	1 921	2 162	2 745	2 826	3 458	14.4	12.5	27.0	26.0	22.4
Direct taxes	908	991	1 159	1 431	1 535	1 807	9.1	17.0	23.5	26.3	17.7
of which :											
Households	800	800	937	1 142	1 244	1 487	0.0	17.1	21.9	30.2	19.5
Enterprises	108	191	222	289	291	320	76.9	16.2	30.2	10.7	10.0
Indirect taxes	771	930	1 003	1 314	1 291	1 651	20.6	7.8	31.0	25.6	27.9
Other	261	397	474	532	576	611	52.1	19.4	12.0	14.8	6.1
Total expenditure	2 369	2 795	3 695	4 567	4 337	5 116	18.0	32.2	23.6	12.0	18.0
Current expenditure	1 853	2 159	2 839	3 559	3 319	3 957	16.5	31.5	25.4	11.2	19.2
Wages and salaries	885	1 017	1 073	1 189	1 259	1 225	14.9	5.5	10.8	3.0	2.7
Goods and services	125	123	151	170	171	184	-1.6	22.8	12.6	8.2	7.6
Current transfers	813	982	1 536	2 025	1 700	2 257	20.8	56.4	31.8	11.5	32.8
Other	30	37	79	175	188	291	23.3	113.5	121.5	66.3	54.8
Capital expenditure	516	636	856	1 008	1 018	1 159	23.3	34.6	17.6	15.0	13.9
Fixed investment	172	227	290	438	409	452	32.0	27.8	51.0	3.2	10.5
Capital transfers ³	344	409	566	570	609	707	18.9	38.4	0.7	24.0	16.1
Other adjustment items ⁴	114	99	122	120	-	-	-13.2	23.2	-1.6		
Budget balance	-315	-377	- 937	-1 168	- 935	-1 047					
Extra-budgetary operations	- 70	-108	- 130	- 63		-					
Net overall balance	-385	-485	-1 067	-1 231		-					
Financial operations, net ⁵	- 10	-127	- 53	- 264	- 176	- 284					
Borrowing requirement (-)	-395	-612	-1 120	-1 495	-1 111	-1 331					
Financing :											
Bank of Spain	345	454	808	268	81	470					
External debt issues, net	- 19	41	106	146	140	75					
Domestic debt issues, net	69	117	206	1 081	890	786					

1. Calculated over the 1983 outturns.

2. Calculated over the initial 1983 budget.

3. Including a small amount of residuals carried over from the preceding budgets.

4. Including the difference between actual payments and orders as well as residuals carried over from the preceding budgets but not any particular accounts.

5. Including a small amount of new minting coins.

Source : Ministry of Finance.

Developments in 1983 were broadly in line with initial expectations. Activity strengthened somewhat, with real GDP expanding by around 2¼ per cent and industrial value added by 2¾ per cent. This was primarily due to a strong increase in net exports of goods and services²⁴. Domestic demand remained weak, reflecting the continued fall in gross fixed capital formation and the marked deceleration in public consumption growth. The strengthening of activity was too modest to prevent a further increase in unemployment to 17.7 per cent of the labour force on average for the year, one of the highest rates among OECD Member countries. Inflation abated somewhat, consumer price increases falling from 1982 to 1983 by 2.2 percentage points to 12.2 per cent. The price differential with the rest of the OECD area remained, however, substantial. Finally, the current external position improved considerably with a narrowing of the deficit to \$2.5 billion, nearly half that registered in 1982.

Private consumption is estimated to have risen in 1983 by around ¾ per cent in volume. Households' real disposable income increased slightly, largely due to continuing rapid growth of social benefits (nearly 16 per cent) and some recovery in income from property and entrepreneurship. The wage and salary bill fell again in real terms due to a decline in dependent employment and rising taxes. Because of wage increases, resulting from the triggering of the revision clause provided under the ANE²⁵ and accelerated social security receipts and tax refunds²⁶ at the end of 1982, private consumption was more buoyant in the first half of 1983 than in the second.

The decline in gross fixed capital formation was again due to the private sector. On the contrary, though slower than in the previous two years, the growth in public sector investment was fairly strong (5 per cent) and largely concentrated on construction and public works. Residential construction remained on a downward trend falling by around 6.5 per cent. Depressed demand conditions for housing reflected structural and cyclical factors, notably the squeeze of real disposable income and uncertain employment prospects. Excess capacity associated with a low level of profits, uncertain demand prospects, tight credit conditions and high real interest rates explain the decline in business investment, especially in machinery and equipment²⁷.

Total employment continued to decline in 1983, albeit at a slower rate (1 per cent) than in 1982. This was exclusively due to the fact that, in marked contrast to past developments, employment in agriculture stabilized. Since labour supply in agriculture remains excessive, this development may be explained by the high unemployment prevailing in urban areas and the social and economic protection provided by the family nexus in rural areas. Employment in the private non-agricultural sectors posted a decrease of 2¾ per cent, with an even greater decline in dependent employment (3¾ per cent). For the first time since 1979, the number of employers and self-employed (excluding agriculture) rose somewhat in 1983. Unemployment continued to edge upwards but at a slower rate than in the previous five years, affecting some 2.4 million persons by the end of the year or around 18¼ per cent of the labour force. The aggravation of unemployment conditions (in terms of duration and the age and sex composition) was also more moderate than in previous years. Productivity growth, notably in industry (at 5½ per cent) continued to remain very high both by national and international standards. But whereas in previous years productivity gains mainly reflected labour shedding, in 1983 the contribution from rising output was a little more than half.

Inflation fell by 1.8 percentage points in the course of the year to 12.2 per cent in December, a greater reduction than on average in the OECD area (1.2 percentage points). This movement was influenced by a smaller increase in energy prices, but the rise in non-food,

Table 8. Demand and output

	1982 Pesetas billion	1978	1979	1980	1981	1982 ¹	1983 ²
		Annual percentage change					
Private consumption	13 893	1.3	1.2	1.3	-0.9	0.5	0.7
Government consumption	2 396	5.5	4.2	4.4	1.5	6.3	4.1
Gross fixed investment	3 894	-2.3	-4.5	1.3	1.0	-2.0	-1.5
Final domestic demand	20 183	1.0	0.3	1.6	-0.3	0.7	0.6
Stockbuilding ³	73	-1.4	1.0	0.8	-1.9	0.0	0.0
Total domestic demand	20 256	-0.5	1.3	2.4	-2.1	0.7	0.6
Exports	3 636	10.7	6.4	0.6	6.9	7.1	7.6
Goods	2 392	11.8	12.8	1.8	6.8	7.8	
Services	1 244	8.7	-5.5	-2.0	7.2	5.6	
Imports	3 980	-0.7	11.5	3.8	-2.8	4.5	-0.6
Goods	3 545	-1.6	11.5	1.0	-5.6	3.7	
Services	435	6.6	11.3	24.8	14.0	8.5	
Foreign balance ³	-344	1.7	-0.9	-0.6	1.7	0.5	1.7
Error of estimate ³		0.6	-0.3	-0.3	0.7	0.0	
GDP market prices	19 912	1.8	0.2	1.5	0.2	1.2	2.2
Agriculture	1 213	6.7	-4.1	8.8	-10.4	1.3	3.5
Non-agricultural output	17 670	2.0	0.6	0.7	0.8	1.2	2.0
Energy, electricity and water		4.5	5.5	6.0	4.0	-0.7	2.7
Mining and manufacturing		1.7	-0.8	-0.3	0.0		
Construction	1 436	-4.7	-3.6	-1.7	-2.5	2.9	-1.0
Services	10 965	3.0	1.7	1.2	1.4	2.2	1.9
of which :							
Public Administration		5.0	4.5	4.1	3.5		
Owner occupied dwellings		1.0	2.5	2.0	2.2		
GDP factor cost	18 883	2.5	0.2	1.5	-0.4	1.2	2.1
<i>Memorandum items :</i>							
Fixed investment, total		-2.3	-4.5	1.3	1.0	-2.0	-1.5
Housing		-6.0	-7.6	-2.0	-2.8	-5.5	-1.8
Other construction		0.3	-1.8	0.3	-2.2	4.3	
Transport equipment		-7.0	-6.5	-1.0	0.9	-6.6	-1.0
Machinery and other equipment		-0.5	-4.6	6.0	7.1	-5.6	
Public sector		-19.0	-19.7	2.7	9.5	19.9	4.8
Private sector		0.0	-2.8	1.2	0.2	-3.8	-2.4

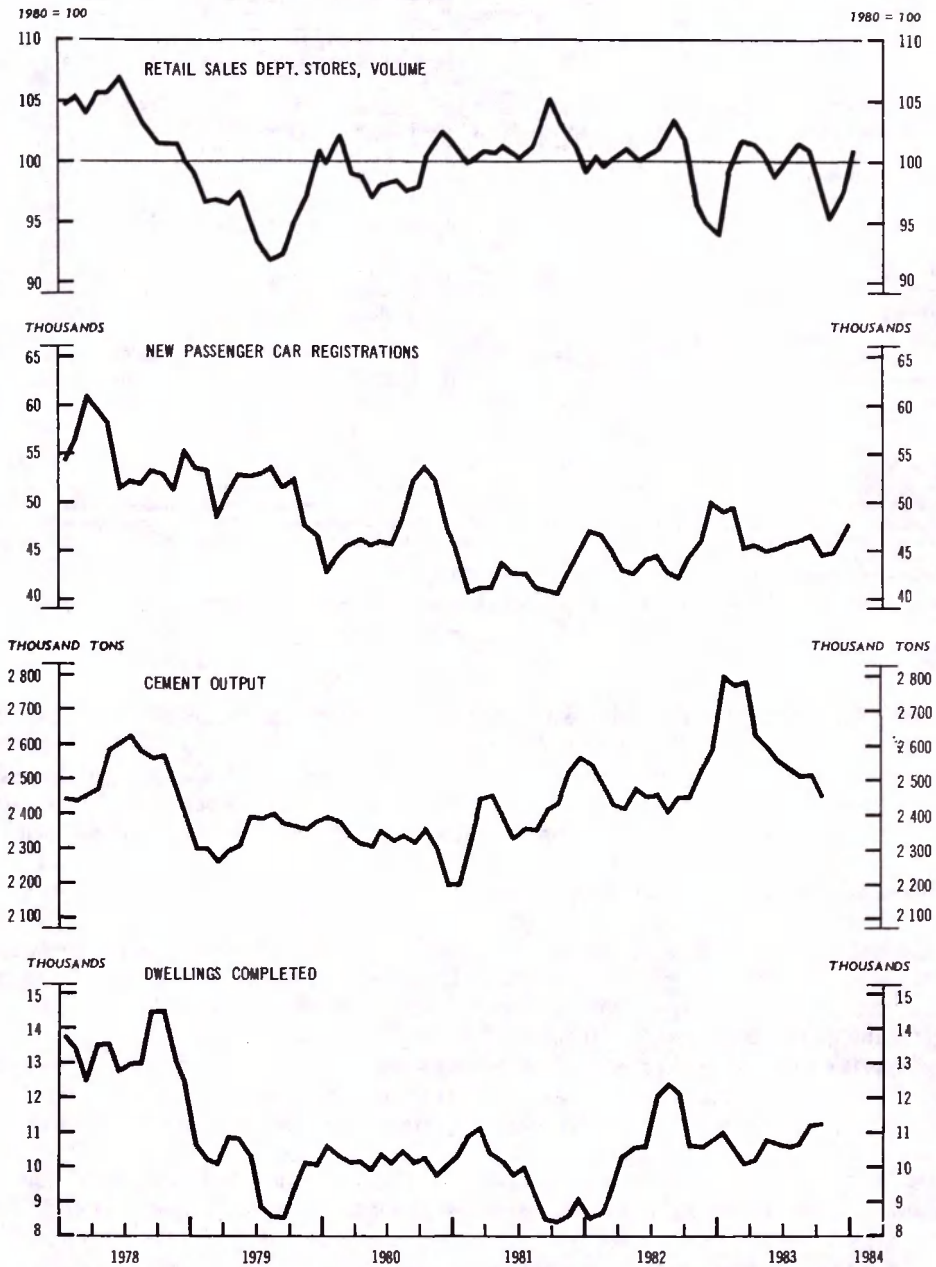
1. Provisional.

2. Estimates.

3. Contribution to GDP, change in volume between actual and previous year as a per cent of GDP of the previous year.

Sources : INE, *Contabilidad Nacional de España* ; and direct communication to the OECD.

Diagram 7. Conjonctural indicators
Seasonally adjusted



Source: OECD Secretariat.

Table 9. Household appropriation account

	1977	1983	1978	1979	1980	1981	1982	1983
	Pesetas billion		Annual percentage change					
Compensation of employees	5 051	11 626	22.6	16.6	13.5	13.1	12.2	11.7
of which :								
Employers' contributions	1 075	2 916	28.6	21.3	17.9	13.2	14.0	14.3
Net wages and salaries	3 976	8 710	21.0	15.3	12.2	13.1	11.6	10.9
Profits and self-employment income	2 220	5 708	21.4	17.1	20.3	11.1	18.0	14.7
Social Security benefits	990	3 692	40.8	27.2	23.0	21.5	20.2	16.0
Transfers and changes in pension reserves, net	73	247	24.7	-41.8	34.0	122.5	39.9	11.8
Total income	8 334	21 273	24.5	17.6	16.7	14.4	15.3	13.3
Direct taxes	231	1 059	63.2	35.8	44.3	6.6	9.9	22.3
Social security contributions	1 125	3 078	29.3	21.6	17.2	15.1	12.6	14.5
Disposable income	6 978	17 136	22.4	16.2	15.2	14.8	16.0	12.5
Consumers' expenditure	6 374	15 709	20.8	17.5	17.1	14.0	14.9	13.1
Saving	604	1 427	39.1	3.6	-4.8	24.3	32.8	4.5
(Saving rate)			(9.8)	(8.8)	(7.2)	(7.8)	(8.8)	(8.3)
Real disposable income			2.7	0.0	-0.4	-0.4	1.5	0.4

Note : The household account in 1982 and 1983 was distorted. Because of advanced tax refunds and social security payments made at the end of 1982 the disposable income was some 180 billion pesetas higher than otherwise would have been the case. The figures above have been adjusted for these exceptional changes. The original figures give a percentage rise in disposable income of 16.6 per cent in 1982 and 15 per cent in 1983 and a saving rate of 9.2 per cent and 8.3 per cent respectively.

Source : National Accounts of Spain and direct communication to the OECD.

non-energy component of the index which represents a better indication of underlying price pressures also decelerated by 1.3 percentage points to around 12.5 per cent. In spite of these more favourable trends, the rate of inflation remained significantly higher than in the rest of the OECD area (5.3 per cent), European Member countries (8.1 per cent) or EEC countries (6.9 per cent). According to Bank of Spain calculations, the contribution of import prices to the rise in overall consumer prices increased, reflecting the marked advance in import prices (21 per cent) in the wake of the depreciation of the peseta. The contributions of food prices and indirect taxes were somewhat smaller than in 1982. About half of the increase in overall costs is estimated to have resulted from the movement of unit labour cost (around 6 percentage points compared with 6½ percentage points in 1982), with profit margins remaining broadly unchanged. Compensation per employee for the overall economy grew by about 13½ per cent in 1983 and unit labour cost by 10 per cent.

Exports expanded again rapidly in 1983 as manufactures continued to make important gains of market shares both in volume and value (in US dollars). This was, however, partly due to the coming on stream of a large car manufacturing plant principally designed for exports. Shipments of other manufactures and semi-finished goods, notably of machinery, were much less buoyant because of the decline in demand from Latin America. Reflecting weak domestic demand, total merchandise imports fell slightly in both volume and value (in US dollars). Non-energy imports may have declined in volume by as much as 4 per cent, a trend largely offset by a rise in energy imports²⁸. Overall, the substantial rise in net export volumes was partly compensated by a deterioration in the terms of trade induced by the depreciation of the peseta and a moderate pricing behaviour by exporters. Measured in US dollars, exports to the

Table 10. Labour market

	1982 million	1979	1980	1981	1982	1983 ¹	1982 Q4	1983 Q4
		Annual percentage change						
Total population	37.83	0.9	0.8	0.7	0.7			
Active population (% of population)	26.98	0.7 (70.4)	0.9 (70.6)	1.0 (70.9)	1.1 (71.2)	1.1	1.3	1.0
Labour force (% of total population) (% of active population)	13.00	-0.4 (34.8) (49.3)	-0.2 (34.4) (48.7)	0.1 (34.1) (48.2)	1.0 (34.4) (48.2)	0.9 (48.1)	1.4 (48.3)	0.8 (48.2)
Civilian employment, total (% of active population)	10.88	-2.1 (45.0)	-3.3 (43.1)	-3.2 (41.3)	-1.2 (40.3)	-0.9 (39.5)	-0.6 (40.6)	-0.8 (39.3)
Agriculture	1.96	-6.1	-7.0	-6.1	-2.7	-0.2	0.1	-2.2
Industry	2.80	-2.8	-3.8	-4.4	-5.5	-2.3	-4.4	-1.3
Construction	0.93	-5.5	-6.9	-7.5	-1.5	-2.8	-3.6	-3.0
Services	5.19	0.9	-0.6	-0.3	1.9	0.0	1.9	0.3
Employees	7.61	-2.4	-3.4	-3.2	-0.8	-1.4	-0.3	-1.7
Private sector	6.00	-3.3	-5.0	-4.4	-2.1	-3.5	-2.1	-4.3
Public sector ²	1.61	1.7	3.5	1.7	4.7	6.4	6.7	7.9
of which :								
General government	1.03	1.0	4.1	1.6	4.1	3.5		
Employers and self-employed	2.34	-0.7	-1.8	-2.8	-2.0	1.4	-0.4	1.9
Unpaid family workers	0.84	-3.8	-5.1	-2.6	-3.1	-2.9	-3.1	-0.7
Unemployment (% of labour force)	2.12	22.9 (8.7)	32.2 (11.5)	24.7 (14.4)	14.6 (16.3)	10.3 (17.8)	(17.1)	(18.4)
Male (% of labour force)		(8.2)	(11.0)	(13.6)	(15.1)	(16.5)	(15.6)	(17.1)
Female (% of labour force)		(9.8)	(12.9)	(16.3)	(19.0)	(20.9)	(20.3)	(21.4)
Working hours, per week		42.4	42.0	41.4	41.1	40.3	40.8	39.8
Working hours non-agric., per week		42.2	41.8	41.2	40.9	40.1	40.6	39.6

1. Provisional.

2. Including public enterprises.

Sources : Banco de España, *Boletín Estadístico* ; INE ; Ministerio de Trabajo y Seguridad Social, *Estadísticas Laborales*.

OECD area increased slightly, suggesting an appreciable rise in volume, notably to the United States. Exports to OPEC and notably to Latin America (the next most important markets) posted a marked decline, implying an appreciable fall in volume. With imports rising less than exports the trade balance improved substantially, the deficit falling from \$9.2 billion in 1982 to \$7.4 billion in 1983.

The surplus on invisibles (in US dollars) narrowed somewhat in 1983, as rising net receipts on services were more than offset by a reduction in transfers. The balance on invisibles was affected by the fact that a high share of receipts comes from EEC countries whereas an important proportion of payments is made in dollars. As a result of the appreciation of the dollar vis-à-vis ECU currencies, net earnings from tourism and emigrant remittances fell. The latter were also negatively influenced by increasing unemployment and wage moderation in major European countries, and, possibly also, by adverse exchange rate expectations. Despite the further increase in outstanding external debt (two-thirds of which are denominated in dollars) the deficit of the balance on capital income declined somewhat, probably due to the

Table 11. Prices

	1979	1980	1981	1982	1983	1982 Dec.	1983 Dec.	1984 March
	Annual percentage change							
National accounts price deflators								
GDP factor cost	16.4	13.9	13.6	13.8	11.8			
GDP market prices	16.7	13.9	13.8	13.6	11.9			
Private consumption	16.2	15.7	15.3	14.3	12.1			
Merchandise exports	5.5	19.9	20.8	12.2	19.0			
Merchandise imports	7.1	40.5	29.1	13.0	21.0			
Consumer prices								
Total	15.7	15.5	14.6	14.4	12.1	14.0	12.2	12.0
Food, drinks and tobacco	10.1	9.1	13.6	15.0	10.7	13.0	12.7	13.1
All other items excl. food, etc.	19.4	19.5	15.1	14.0	13.0	14.6	11.9	11.3
Housing	19.0	21.2	17.6	13.7	9.7	13.2	9.3	9.3
Energy	13.9	46.2	32.4	10.6	16.1	20.9	8.7	9.3
Other industrial goods ¹	20.0	18.8	12.4	13.1	12.8	13.4	12.0	11.2
Services	18.6	17.2	15.6	16.1	13.2	15.1	12.5	13.3
Relative price of energy	-1.7	28.0	16.7	-3.6	3.8	6.6	-3.4	-2.6
Industrial producer prices								
Total	14.6	17.4	15.6	12.4	14.0	10.6	14.3	
Energy	12.2	39.9	39.0	12.6	19.0	20.3	12.6	
Other	14.8	14.8	12.3	12.3	13.1	11.7	14.6	
Investment goods	15.8	13.6	14.2	12.7	13.1	13.1	12.6	
Consumer goods	14.1	14.5	11.0	12.4	12.8	13.2	12.7	
Intermediate goods	14.5	20.8	19.4	11.0	15.0	13.8	15.7	
Effective exchange rate	8.8	-6.7	-9.0	-7.4	-18.6	-14.7	-12.6	-5.9
Spot exchange rate, US\$	14.2	-6.4	-22.3	-16.0	-23.5	-23.2	-20.3	-10.8
ECU		-7.6	-3.1	-3.9	-16.0	-12.4	-7.4	-2.7

1. Excluding food, beverages, tobacco and energy.

Sources: INE, *National Accounts of Spain*; Banco de España, *Boletín Estadístico*; and OECD estimates.

Table 12. Wages and labour costs

	1979	1980	1981	1982	1983	1982 Q4	1983 Q4
	Annual percentage change						
Monthly ordinary earnings ¹	22.5	16.1	15.4	14.0	13.5	12.4	13.8
Hourly ordinary earnings ¹	23.3	18.5	19.0	15.4	15.1	16.1	15.5
Total average earnings per month	18.0	16.2	15.5	13.5	13.5		
In agriculture	17.3	13.1	11.9	9.3	9.0	6.2	12.0
In industry ²	22.2	16.0	15.4	13.5	13.3		
Total labour costs ²	19.8	17.8	17.4	13.6	13.6		
Minimum wage rate per day	17.1	13.7	13.6	14.2		11.0	
Collective agreements, basic earnings	14.1	15.3	13.0	11.9	11.5	11.2	10.5
Labour costs in construction	17.7	18.6	15.1	13.4	12.3	13.2	11.5
Unit labour cost ³ , Total	16.6	12.5	12.4	10.8	10.0		
of which:							
Private non-agricultural	19.2	13.2	11.4	11.2	9.6		
of which:							
Industry	18.5	11.9	10.6	7.8	7.2		
Services	n.a.	18.1	13.0	16.0	11.6		

1. Excluding extraordinary earnings, such as premium received at the end of the year. Excluding government (INE).

2. Including Social Security contributions paid by employers.

3. Banco de España, *Informe Anual 1982*, and direct communication to the OECD.

Source: Direct communication to the OECD.

Table 13. **Current external account**Transactions basis
\$ billion

	1978	1979	1980	1981	1982	1983
Exports	13.5	18.4	20.6	21.0	21.3	20.8
Imports	17.5	24.0	32.3	31.1	30.5	28.2
Trade deficit (f.o.b.)	4.0	5.7	11.7	10.1	9.2	7.4
Invisible receipts, total	10.8	13.7	15.7	15.4	15.3	14.3
of which :						
Travel (tourism)	5.5	6.5	6.9	6.7	7.1	6.8
Transportation, insurance, freight	1.7	2.5	3.0	3.0	2.8	2.8
Investment income	0.6	1.3	1.5	1.8	1.7	1.1
Transfers	1.9	2.1	2.4	2.0	1.8	1.5
Invisible payments, total	5.1	7.0	9.1	10.2	10.3	9.4
of which :						
Transportation, insurance, freight	1.3	1.6	2.4	2.5	2.3	2.2
Travel (tourism)	0.6	0.9	1.2	1.0	1.0	0.9
Investment income	1.7	2.3	3.1	4.2	4.1	3.5
Invisible surplus	5.7	6.8	6.5	5.1	5.0	4.9
Current account balance	1.6	1.1	-5.2	-5.0	-4.2	-2.5
Basic balance	3.3	4.3	-1.0	-0.7	-2.4	0.5
<i>Memorandum items :</i>						
Trade balance excluding fuels and lubricants	0.7	1.3	-0.1	1.8	1.3	2.0
Current account balance, excluding fuels and lubricants	6.4	8.1	6.4	7.0	6.3	6.9
Net tourist receipts	4.9	5.6	5.7	5.7	6.1	5.9
Net transfers	1.7	1.8	2.0	1.7	1.6	1.2
Net investment income	-1.1	-1.0	-1.5	-2.5	-2.4	-2.4
Net transport, insurance and freight	0.5	0.9	0.7	0.6	0.5	0.6
Trade balance (% of GDP)	(-2.7)	(-2.9)	(-5.5)	(-5.4)	(-5.1)	(-4.7)
Current account balance (% of GDP)	(1.1)	(0.6)	(-2.6)	(-2.7)	(-2.3)	(-1.6)
<i>Cash basis</i>						
Current account balance	1.8	-0.7	-5.8	-5.9	-5.4	-3.4
Long-term capital	1.5	3.0	4.2	4.3	1.8	3.1
Private	2.0	2.7	4.0	3.7	0.5	2.0
Public	-0.5	0.3	0.2	0.6	1.3	1.1
Basic balance	3.3	2.3	-1.6	-1.6	-3.6	-0.3
Total official reserves	10.0	13.1	12.4	15.3	11.5	11.2
of which :						
Foreign exchange reserves	9.1	12.1	11.1	10.3	7.4	7.0

Source : *Balanza de Pagos de España* and direct communication to the OECD.

reduction in international interest rates. Overall, the current account deficit decreased by just over \$1½ billion to \$2½ billion on a transactions basis, and to slightly less than \$3½ billion on a settlement basis. The current external deficit was largely financed by net direct investment inflows and net credits, so that the decline in official reserves was limited to \$300 million compared with \$3.1 billion in 1982. Outstanding external debt continued to edge upwards, reaching nearly \$30 billion by the end of the year or some 18½ per cent of GDP. Debt servicing was maintained at around 20 per cent of exports of goods and services²⁹. Following the 8 per cent devaluation against the dollar in early December 1982 the peseta has continued to depreciate steadily in 1983, falling in the 12 months to end-December by 20½ per cent vis-à-vis the dollar and by 12½ per cent in effective terms.

The short-term outlook

The continued tight stance of demand management policy should exert a deflationary impact on domestic demand in 1984. Since the already high contribution of net exports to growth is not expected to increase further, real GDP may rise by approximately 2 per cent. Downward pressures on wages in the face of very high unemployment and difficult financial conditions in many companies may lead to a substantial slowdown in the increase in private sector average earnings in 1984. Given the enforcement of strict wage norms (6½ per cent) and allowing for some drift, earnings in the public sector may rise by about 7 per cent. Overall, average earnings for the economy as a whole may grow by around 8½ per cent with unit labour costs rising at about 6 per cent, or the lowest rate since 1970. Based on the technical assumption of unchanged exchange rates at their early March level, the peseta should depreciate much less on average than in 1983³⁰. With smaller import price increases, the rise in consumer prices may decelerate to a year-on-year rate of around 10 per cent in 1984. The GDP implicit price deflator may grow slightly less (by around 9½ per cent) reflecting the slower rise in government pay and in the price of capital goods.

Largely because of the decline in the real wage and salary bill (reflecting both a slight reduction in real compensation per employee and the continued fall in dependent employment) and the steep rise in personal income tax and employees' social security contributions, households' real disposable income is estimated to decrease slightly in 1984. However, with the saving rate likely to fall somewhat the level of private consumption may

Table 14. **The short-term outlook**
OECD forecast
Percentage change

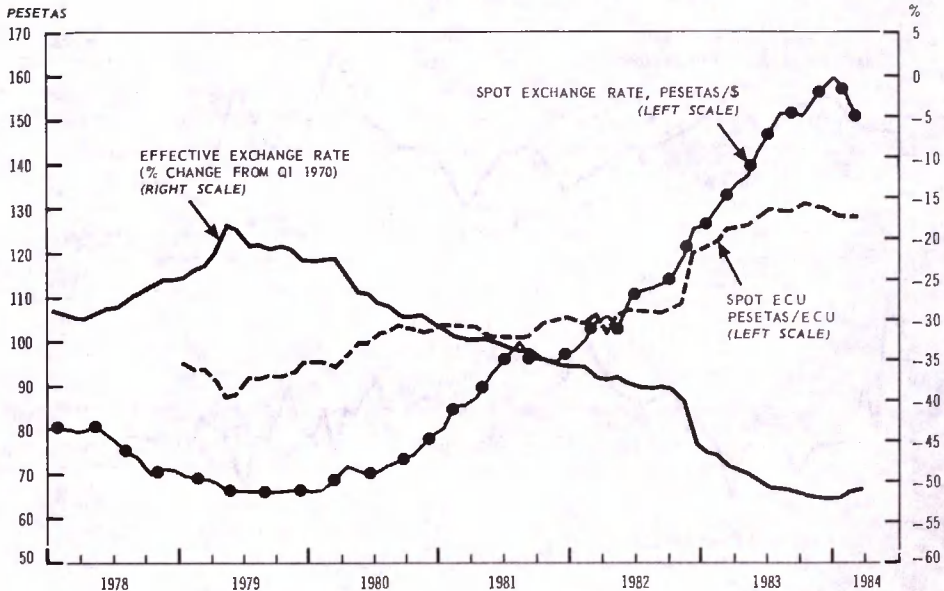
	1983	1984	1985
Changes in volume (1970 prices)			
Private consumption	0.7	0.0	1.0
Government consumption	4.1	2.7	2.4
Gross fixed investment	-1.5	0.0	2.4
Final domestic demand	0.6	0.3	1.4
Stockbuilding ¹	0.0	0.3	0.2
Total domestic demand	0.6	0.5	1.6
Exports of goods and services	7.6	10.0	7.2
Imports of goods and services	-0.6	3.5	3.5
Foreign balance ¹	1.7	1.5	1.0
GDP at constant prices	2.2	2.0	2.5
GDP price deflator	11.9	9.5	7.5
GDP at current prices	14.4	11.7	10.2
Memorandum items :			
Consumer price index	12.1	10.0	7.6
Industrial production ²	2.7	2.5	3.0
Total employment	-1.0	-0.6	0.0
Unemployment rate	17.9	19.4	19.9
Current balance (billion US \$)	(-2½)	(-½)	(0)

1. Contribution to growth of GDP.

2. Value added.

Source : Direct communication to the OECD and OECD estimates.

Diagram 8. Exchange rates

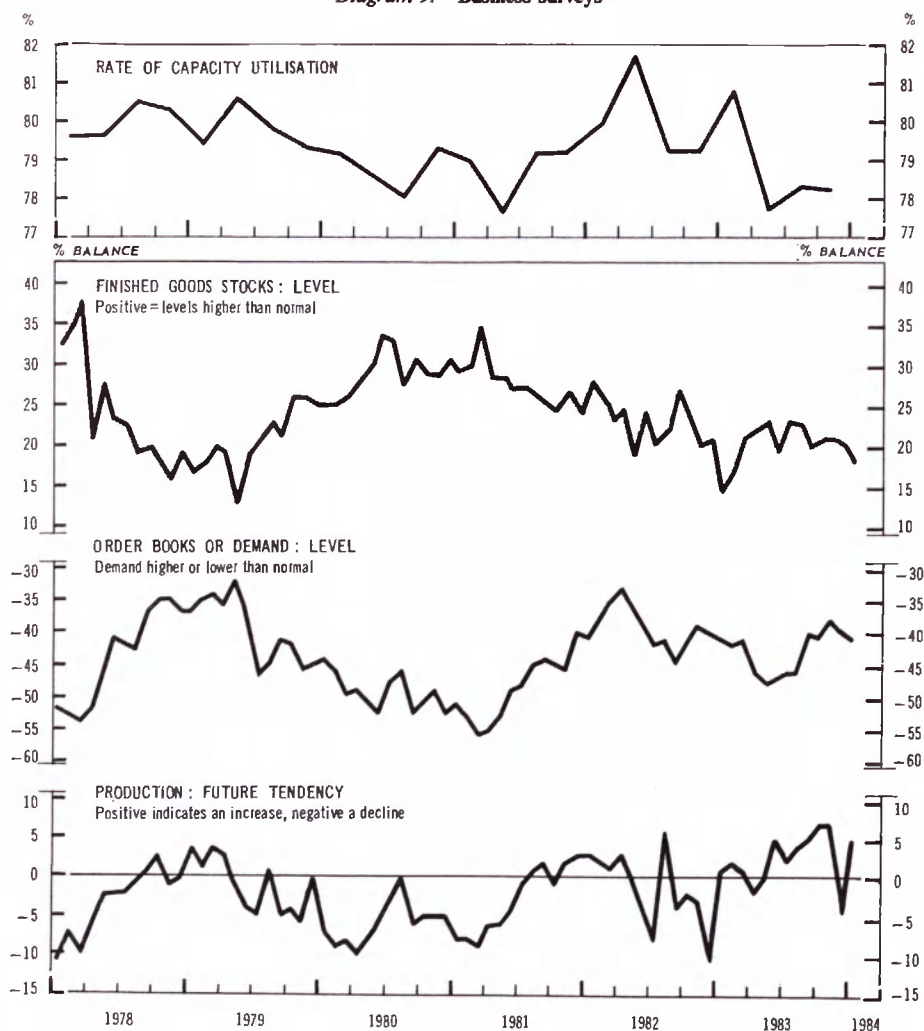


Source: OECD Secretariat.

remain broadly unchanged in volume terms. In line with budget estimates, government consumption is projected to rise by about $2\frac{3}{4}$ per cent, – a trend largely accounted for by a rise in employment. As in 1983, government investment is planned to continue to grow rapidly. Private investment is predicted to decline for the third year running. The factors which have been negatively influencing private residential investment in previous years are expected to continue to operate, all the more since a shift towards buying cheaper renovated housing instead of new apartments seems to be taking place. Private housing starts in 1983 were about 10 per cent lower than a year earlier while total housing starts had fallen by around 7 per cent. Weak domestic demand prospects and historically high real interest rates should further depress total private sector business investment. However, performance is expected to be uneven among sectors and firms. Investment is forecast to fall substantially in sectors with large excess capacity (especially in the public sector) while in others, notably in exporting sectors, capital spending may rise. The decline in private sector business investment is suggested by the significant reduction in order books for capital goods since the second quarter of 1983. Assuming some increase in stockbuilding total domestic demand is projected to grow by around $\frac{1}{2}$ per cent in 1984.

With continued rapid growth in exports, industrial production is predicted to rise by $2\frac{1}{2}$ per cent or somewhat faster than real GDP. The decline in construction activity is also expected to lose momentum supported by the growth in public works. Though slower than in previous years, productivity growth is projected to remain relatively strong reflecting both the expected rise in output and a further fall in employment partly related to the implementation of restructuring plans. As agricultural employment may also fall marginally for the second year in succession, the decline in total employment may be limited to around $\frac{3}{4}$ per cent. Unemployment may continue to edge upwards, although at a slower pace than earlier, reaching 19½ per cent of the labour force on average for the year.

Diagram 9. Business surveys



Note: The lower three graphs indicate the balance of replies of entrepreneurs.

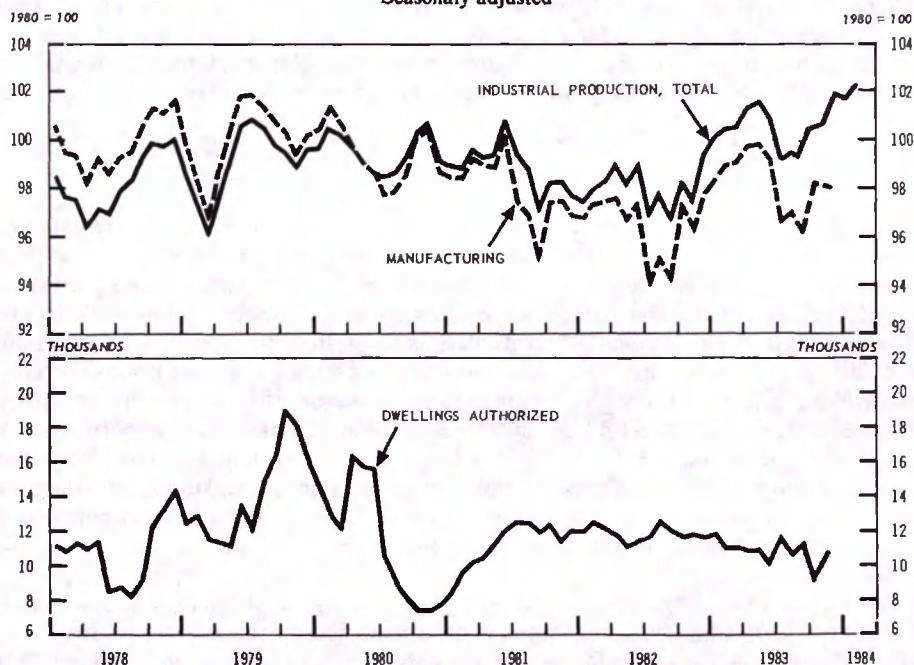
Source: OECD Secretariat.

In line with stronger market growth, merchandise export volumes are expected to rise faster than last year. Following a marked surge in 1983, car exports should register a more normal rate of increase. Despite sluggish private consumption and weak business fixed investment, the increase in merchandise import volumes is expected to be of the order of 3 per cent. The improvement in the real trade balance may be partly offset by a small deterioration in the terms of trade consistent with the objective of improving competitiveness. The trade deficit is therefore predicted to decrease further. After a decline in 1983, net earnings from tourism may resume an upward trend but emigrant remittances are likely to continue to fall,

reflecting the persisting economic constraints faced by emigrants. The balance on capital income may also deteriorate further. Overall the current account deficit may fall to around \$½ billion (or less than ½ per cent of GDP compared with 2¾ per cent in 1981). Since net private long-term capital inflows (direct business and real estate investment) are likely to remain substantial, the basic balance of payments will be again in surplus. There is even a risk that high real interest rates in Spain may lead to substantial inflows of short-term capital. This may in turn put upward pressures on the exchange rate and seriously complicate the task of monetary management.

Developments in 1985 remain at this stage uncertain. Much will obviously depend on the international environment and on progress made this year in correcting underlying imbalances. A further decline in the budget deficit in line with official policy objectives would create more room for an increase in the share of new credit to the private sector and a reduction in interest rates. Similarly, a reduction in the real wage gap would lead to an improvement in the financial position of the company sector. Although a further fall in the budget deficit in 1985 may have a negative demand impact, this should be partly compensated by an increase in business investment and by better prospects for private residential investment. Overall, an upturn in fixed investment is projected for 1985. The negative impact on households' income of rising taxes and slower growth in the wage bill is also expected to be more than offset by a fall in the saving rate (due to the wealth effects arising from the projected decline in inflation) so that private consumption may post a modest increase. Total domestic demand is therefore projected to grow by about ½ per cent next year. With external

Diagram 10. Production indicators
Seasonally adjusted



Source: OECD Secretariat.

competitiveness remaining approximately unchanged and domestic demand relatively weak, further gains of export market shares are likely to be made. As import growth is forecast to remain moderate, net exports should rise again significantly. Real GDP may thus grow by up to 2½ per cent and industrial production by about 3 per cent. On the assumption that both official guidelines and the general economic climate will lead to a further deceleration in the growth of average earnings to 7 per cent, inflation may fall to about 7½ per cent on average for the year. Stronger GDP growth and a further narrowing of the real wage gap should bring the decline in employment to an end in 1985, so that unemployment may stabilize at about 19¼ per cent in the course of the year.

III. CONDITIONS FOR BETTER ECONOMIC PERFORMANCE

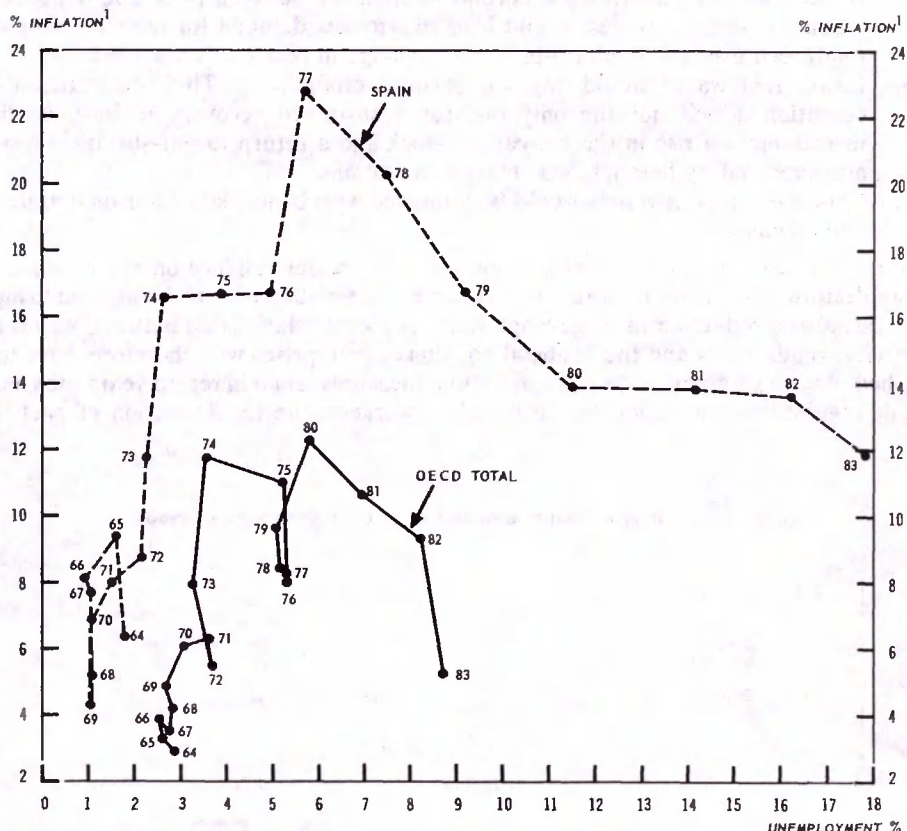
The task of restoring more balanced non-inflationary growth will not be an easy one. As in other Member countries, much will obviously depend on the international environment. In Spain's case, however, economic performance cannot improve significantly if underlying domestic imbalances are not corrected. Both macro and micro adjustments are therefore necessary. Although important measures have already been taken the bulk of adjustment still lies ahead. The authorities are aiming over the next few years at a steady reduction in the rate of inflation, a strengthening of the current account position and restoration of higher growth. This is expected to be accompanied by a better pattern of resource allocation and an improvement in labour market conditions. These objectives are encompassed in the 1983-86 indicative Medium-term economic programme³¹ which will provide a macro-economic framework of reference for the formulation of policies. In this context, a number of relevant issues will be briefly dealt with below, namely problems relating to inflation and resource allocation, the public sector deficit, financial rigidities, industrial restructuring and lack of labour market flexibility.

Inflation and resource allocation

Bringing inflation under control must remain a key policy objective. Since in Spain's case inflation is mainly cost-push, wage moderation is a prerequisite for bringing down the rate of price increases. This is necessary not only to maintain the country's external competitiveness, but also to further correct the pattern of income shares, promote a better allocation of resources and support employment. Admittedly, as suggested by recent years' experience, flexible exchange rate policy may play a useful role in offsetting cost and price differentials vis-à-vis trading partners. Over the medium-term, however, this process is not optimal. Currency depreciation tends to fuel the inflationary spiral through rising import prices and inflationary expectations; by alleviating the need for adjustment, it tends to hamper rationalization efforts by enterprises. It also contributes to a weakening of companies' financial position by increasing debt servicing cost on their foreign debt. Maintaining external competitiveness through a moderation of domestic costs would, therefore, be more appropriate.

In the immediate future, given the role of pacesetter that can be played by the public sector, it is important that the strict wage norms announced by the authorities for 1984 be adhered to. Contracts signed so far in certain public enterprises are encouraging. Wage increases in the private sector will also have to slow down substantially if the official target of

Diagram 11. Unemployment-inflation trade-off



1. Inflation is measured by the implicit price deflator of GDP at market prices.

Source: OECD Secretariat.

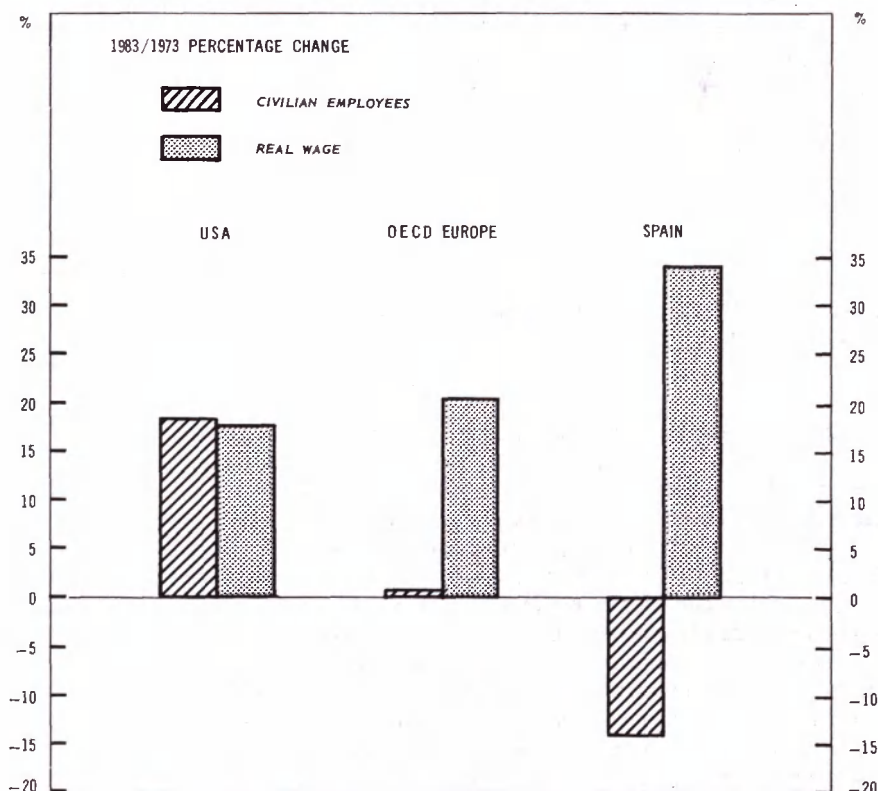
bringing inflation down to around 8 per cent by the end of the year is to be attained. This year, wage settlements will be conducted in a framework of decentralized bargaining at the individual branch or enterprise level. In principle, slack labour market conditions and poor profitability of many enterprises should exert a dampening impact on wages. A main problem however is that wages are not responsive enough to labour market conditions. Although unemployment exceeds 19 cent of the labour force it affects largely young people, women, those on marginal occupations and in small firms, all categories with weak trade union affiliation. Until recently, workers in public enterprises and some private firms benefiting from State subsidies have enjoyed relative security of employment. Furthermore, because of the high financial cost of dismissals and the lengthy administrative procedures involved, profitable firms that might have been willing to increase employment may prefer to grant higher pay (including overtime pay) to existing employees instead of recruiting new ones.

In present circumstances, a marked moderation of nominal wage increases implying a decline in real wages is clearly needed. This would stimulate employment in various ways.

- a) In the short run, assuming a normal relationship between price and demand for labour, lower real wages should lead to stronger demand for labour – a process reinforced over the medium-term by a change in relative factor prices.
- b) Lower real wages would improve business profitability. This constitutes a key condition, albeit not the only one for a sustained recovery in business fixed investment – a rise in the net capital stock and a return to self-sustained growth accompanied by better labour market conditions.
- c) External competitiveness would be improved with beneficial effects on output and employment.

Removal of existing labour market rigidities and greater reliance on market forces is therefore desirable. This will require not only increased flexibility in the hiring and firing of workers but also a reduction in wage-wage links. A closer relationship between wages and productivity trends, skills and the financial position of enterprises will, therefore, have to be established. Although going in the right direction, measures taken in recent years such as the easing of regulations governing the dismissal of workers, the regularisation of part-time

Diagram 12. International comparisons of real wage/employment trends



Source: OECD Secretariat.

employment and the introduction of fixed-term contracts remain insufficient. An important problem is the high cost of dismissing workers, with actual redundancy payments being much higher than statutory ones³². New measures are currently envisaged by the authorities to ease dismissal costs for small firms through State subsidisation. A modification of the Workers' Statute is also contemplated with a view to removing all the restrictive conditions currently surrounding part-time employment and fixed-term contracts³³. These measures should promote labour demand by small and medium-sized firms as well as employment of youth and women. More generally, greater labour market flexibility also requires increased professional and geographical mobility. Achieving this will necessitate, among other things, more extensive vocational training and a reform of legislation governing the determination of rents.

The problem of non-wage labour costs will also have to be tackled. The inappropriate structure of taxation characterised by an excessive reliance on payroll taxes (social security contributions) penalises labour-intensive activities. Moreover, owing to the existing ceilings on the contributory base for social security contributions and to lower tax rates on overtime, the system discriminates against enterprises paying lower wages, making also more attractive the resort to overtime than to new recruitment. Measures have already been taken in recent years to remedy this situation, but it is particularly important that the planned reforms of social security financing actually take place.

The public sector

Reducing the public sector deficit in line with official objectives is necessary to support the fight against inflation and to avoid a crowding out of private investment through restriction of domestic credit and high interest rates. It also constitutes a prerequisite for the needed reduction of distortions in the Spanish financial system. This will require both a slowdown in the growth of public expenditure and some increase in the tax burden which, at some 28 per cent of GDP in 1983, remains among the lowest in Member countries. This increase is expected to be achieved through a broadening of the tax base and a reduction of tax evasion. But further progress towards a more balanced tax structure will also have to be made if the excessive burden of social security contributions on labour cost is to be reduced. In 1983, revenue from the latter still amounted to around 45 per cent of total tax receipts – the highest proportion among OECD Member countries. Curbing the growth in public sector expenditure will call notably for a comprehensive reform of the social security system, reduction in support schemes to public and private enterprises, and control of the budgetary implications of the ongoing process of regional decentralization.

Over the last few years, the Social Security system has become a major burden on public sector finances. From 1977 to 1983 social benefits grew by around 28 per cent a year, with their share in GDP widening by around 5 percentage points to about 15½ per cent. As the share of contributions remained virtually unchanged, the deficit (excluding State transfers) rose to some 4½ per cent of GDP. Pensions were the most dynamic element behind the sharp expansion of social security benefits, increasing by approximately 29 per cent a year³⁴. All types of pensions, retirement, disability and survivors have contributed to this marked increase. Unemployment compensations have also become increasingly important. The upsurge in retirement pensions can be traced to the redistribution policies pursued in the later part of the 1970s, demographic factors (i.e. the gradual ageing of the population), the maturing of the pension system and the drive towards early retirement induced by deteriorating labour market conditions³⁵. But the number of disability pensions has also risen at an exceptional pace (around 10 per cent a year) as the social security system was used to

Table 15. Social Security accounts

	1980	1981	1982	1983	1984	1981	1982	1983	1984
	Billion pesetas				Budget	Annual percentage change			
Total revenue	1 787.6	2 057.8	2 406.8	2 787.4	3 104.7	15.1	17.0	15.8	11.4
Contributions	1 597.9	1 769.0	1 971.7	2 254.2	2 427.9	10.7	11.5	14.3	7.7
Employers	1 247.4	1 381.6	1 523.5	1 704.0	1 790.1	10.8	10.3	11.8	5.1
Employees	244.9	268.9	303.3	353.0	397.3	9.8	12.8	16.3	12.5
Independent workers	97.5	110.2	135.5	184.4	219.0	13.0	23.0	36.1	18.8
Other	8.1	8.3	9.4	12.8	20.6	2.5	13.3	36.2	60.9
State transfers	169.4	228.1	361.7	484.0	625.6	34.7	58.6	33.8	29.3
Other	20.3	60.7	73.4	49.1	51.2	199.0	20.9	-38.2	4.3
Total expenditure ¹	1 734.2	2 050.2	2 436.5	2 785.5	3 104.7	18.2	18.8	14.3	11.5
Wages and salaries	294.5	343.6	387.2	441.3	503.2	16.7	12.7	14.0	14.0
Purchase of goods and services	194.8	201.4	253.5	227.1	296.1	3.4	25.9	9.3	6.9
Transfers, total	1 217.8	1 471.9	1 749.2	1 964.5	2 244.4	20.9	18.8	12.3	14.2
of which :									
Pensions	882.5	1 106.9	1 317.8	1 575.0	1 813.7	25.4	19.1	19.5	15.2
Medical prescriptions	110.5	123.3	150.2	180.0	150.6	11.6	21.8	19.8	-16.0
Other current expenditure	0.2	—	—	3.5	1.1	—	—	—	—
Investment	21.0	25.6	35.3	39.8	44.6	21.9	37.9	12.7	12.1
Balance	53.4	7.6	-29.7	1.9	—	—	—	—	—
of which :									
Excluding state transfers	-116.0	-220.5	-391.4	-484.0	-625.6				
Memorandum items :									
% share in total contributions :									
Employers	78.1	78.1	77.2	76.6	73.7				
Employees	15.3	15.2	15.4	15.5	16.4				
Independent workers	6.1	6.2	6.9	7.3	9.1				
Other	0.5	0.5	0.5	0.6	0.8				
Unemployment benefits (INEM)	338.3	463.4	508.3	511.6	642.9	37.0	9.7	0.6	25.7

1. Excluding unemployment benefits (INEM).

Source : Direct communication to the OECD.

circumvent the restrictive labour legislation concerning workers' dismissals. As a result of these developments, the ratio of recipients to contributors in the pension system rose from 37 per cent in 1977 to around 46 per cent in 1983.

Mirroring the fall in employment³⁶, unemployment compensations rose from 77 billion pesetas in 1977 to around 512 billion in 1983 or from 0.8 per cent of GDP to around 2¼ per cent. This trend reflected both a rise in the average benefit per person and the increasing number of recipients. The growth in unemployment benefits would have been even higher if eligibility requirements had not been tightened in the Basic Law on Employment introduced in October 1980³⁷. Other social benefits (i.e. health care, and supplementary income payments) remained approximately unchanged in relation to GDP. Recently, however, sick leave compensation has tended to rise rapidly as employers have increasingly resorted to sick leave to ease overmanning problems in enterprises³⁸.

As noted earlier, by adding to labour costs, excessive social security taxes in Spain are still exerting a negative impact on demand for labour. In the second half of the 1970s, total social security contributions grew very rapidly (on average by 30 per cent a year) with their share in GDP rising by 3.8 percentage points to 12 per cent by 1979. Given the measures taken in 1979 and 1980³⁹, this share fell slightly in the two years to 1982. The share of

contributions in current revenues of the social security agencies decreased, however, significantly. The counterpart of this decline was a rise in State transfers to the social security system from 8.3 per cent of total revenue in 1980 to 15.4 per cent in 1982. In 1983, an attempt was made to reduce rates while increasing revenue by raising the contributory base. Rates for employers were reduced by 1.5 percentage points to 25.8 per cent, while those for wage earners remained unchanged. Since payroll tax rates for unemployment insurance rose again, albeit less than in previous years, total contribution rates fell by only 0.7 per cent. A further reduction of 1 percentage point is budgeted for 1984 together with a new upward adjustment in the contributory base⁴⁰. This reduction will exclusively benefit employers so as to help moderate labour costs. The share of contributions is planned to be brought down to 78.2 per cent of current revenues, while that of State transfers should rise to slightly more than 20 per cent.

Table 16. Social security contributions
Percentages

	1980	1981	1982	1983	1984
Contribution rates	34.0	33.1	32.1	30.6	29.1
of employers	28.9	28.1	27.3	25.8	24.3
of employees	5.1	5.0	4.8	4.8	4.8
Payroll tax rate for unemployment	3.4	4.0	5.2	5.8	6.3
of employers	2.9	3.5	4.5	4.8	5.2
of employees	0.5	0.5	0.7	1.0	1.1
Other contribution rates of employers	1.3	1.3	1.1	1.3	1.3
Total contribution rates	38.7	38.4	38.4	37.7	36.7
Employers	33.0	32.8	32.8	31.8	30.8
Employees	5.7	5.6	5.6	5.9	5.9
Percentage of total social security current revenues					
Contributions	89.4	87.0	83.2	80.8	78.2
State transfers	9.5	10.7	15.4	17.7	20.2

Source : Resumen de Presupuestos de la Seguridad Social 1984.

The need for a reform of the social security system has now been recognised for a number of years. As noted, urgent measures have already been taken in line with the recommendation of the special commission set up in 1981⁴¹. However, the complexity of the system, the projected rapid growth in expenditure under unchanged legislation and the still unbalanced structure of revenue, clearly call for a more extensive reform. Government plans have not yet been finalised but the broad lines of the contemplated changes are known. On the expenditure side, an important aim is to curb the growth in disability pensions through stricter medical controls, a tightening of eligibility criteria⁴², introduction of taxation and standardization of benefits⁴³.

With regard to retirement pensions, it is envisaged to introduce a three level system, starting with a non-contributory general minimum level of protection fully financed by the State. A second level would be financed by both employers' and employees' contributions, as well as by growing state transfers. As it is intended to lower the average level of pensions in relation to the last earned wages, a third level of protection will be made available on a

voluntary basis. This will be financed through the creation of both private and mutualist pension funds. Given the projected significant rise in the number of pensioners, due to demographic trends and the spread of early retirement induced by industrial restructuring, the reform contemplates a lowering of the average level of benefits. Additional savings in social expenditure are expected from measures envisaged in the area of health. Purchases of medical services outside the network of social security managed hospitals will be discouraged. In 1983 the latter accounted for only 30 per cent of medical assistance expenditure incurred by the social security system. Efforts will also be made to moderate the growth in pharmaceutical expenses.

On the revenue side the policy of reducing contribution rates while broadening the contributory base will be pursued, together with an increase in State transfers. The latter share in total current revenue of the social security system should be progressively raised from 20.2 per cent in 1984 to 25-26 per cent in 1986. The introduction of the value-added tax⁴⁴ should lead to a substantial increase in tax revenue thus allowing the financing of increased State transfers. Since VAT will represent a more efficient and income-elastic form of taxation than the existing turnover tax, tax receipts are expected to be raised by some 2 percentage points of GDP, of which 1.2 percentage points will be used to reduce the burden of social security contributions on labour costs.

Scaling down budgetary support to enterprises in difficulty has also become essential. This can only be achieved if government's plans for industrial restructuring and for correcting the financial position of public enterprises non-engaged in the manufacturing sector are actually implemented. Losses in public enterprises have increased very rapidly in recent years, rising from some 32 billion pesetas in 1977 to around 312 billion in 1983 or 1½ per cent of GDP. The reasons for such a deterioration range from delayed adjustment in certain industrial sectors faced with worldwide structural problems, to excessive wage increases, inadequate pricing policies, overmanning, wrong investment decisions and poor management. In 1983 losses of enterprises grouped under the State holding INI reached around 150 billion pesetas, with particularly large operating deficits for ENSIDESA (steel mills) AESA (shipyards) IBERIA (national airlines) and SEAT (motor vehicles). But, by far the largest deficit was run by RENFE, the national railways company, with losses amounting to around 180 billion pesetas.

The deteriorating financial position of public enterprises has put an increasing burden on public finances. From 1977 to 1982 current budgetary transfers to public enterprises have been increased fivefold, reaching 220 billion pesetas or nearly half of total current transfers to enterprises. Capital transfers, which in a context of protracted weak financial position were partly used to cover current losses also rose very rapidly. Altogether current and capital transfers to public enterprises amounted to 527 billion pesetas in 1982, or to almost 50 per cent of the net borrowing requirement of the General Government. Given the frequent resource to both official credit – including Bank of Spain financing – and private borrowing (domestic and external) a measure of the additional financial pressure put by public enterprises on the rest of the economy is given by their net borrowing requirement. In 1982, the latter reached 592.8 billion pesetas or around 3 per cent of GDP. Apart from public enterprises operating in crisis-ridden sectors and which fall under industrial restructuring plans, three-year programmes ("contratos programas") will be negotiated between the government and other enterprises. Measures for reducing loans will probably encompass real wage reductions, adjustment of the labour force, and in some cases a reduction in the scale of their operations as well as higher fees or charges.

The finances of local authorities and regional autonomies will also have to be kept under control if the growth in public sector expenditure is to moderate. As suggested by experience in

Table 17. **Profits and losses of public enterprises¹**

Billion pesetas

	1977	1978	1979	1980	1981	1982	1983
INI total	-25.7	-56.4	-78.3	-108.8	-106.7	-137.1	-149.8
of which :							
AHM	—	-6.6	-6.9	-7.8	-8.8	-8.9	-9.3
ENSIDESA	-10.9	-12.2	-5.7	-15.6	-20.9	-20.8	-26.9
HUNOSA	-10.1	-14.9	-19.0	-18.4	-5.1	-5.2	-9.6
ASTANO	-0.6	-2.3	-7.2	-6.1	-2.8	-4.5	-5.0
AESA	-1.9	-0.6	-8.9	-29.4	-23.4	-19.9	-27.3
IBERIA	0.2	0.8	-2.6	-6.7	-3.6	-8.1	-23.7
SEAT	0.4	-10.4	-15.1	-20.5	-20.2	-23.6	-33.4
INH total	4.9	4.3	3.9	7.8	1.1	3.6	-1.1
of which :							
ENAGAS			0.2	0.2	-8.1	-9.1	-7.4
D.G. Patrimonio	21.1	17.1	25.0	22.8	15.4	15.2	17.6
of which :							
C. TELEFONICA	15.9	18.6	21.8	23.8	23.9	26.5	27.6
Other State enterprises	-32.7	-41.3	-53.3	-71.9	-84.3	-134.0	-178.9
of which :							
RENFE	-30.2	-37.9	-49.3	-67.3	-79.8	-129.0	-173.1
FEVE	-2.4	-3.3	-4.1	-4.8	-4.7	-5.6	-6.3
Total public enterprises	-32.3	-76.2	-102.6	-150.2	-174.4	-252.2	-312.3

1. The public enterprises referred to above are in the following sectors : AHM and ENSIDESA (iron and steel) ; HUNOSA (coal mining) ; ASTANO and AESA (shipbuilding) ; IBERIA (national airline company) ; SEAT (motor vehicles) ; ENAGAS (gas distribution) ; RENFE and FEVE (railways). INI stands for Instituto Nacional de Industria and INH for Instituto Nacional de Hidrocarburos.

Source : Programa Economico a Medio Plazo ; Empresas Publicas 1984.

Table 18. **Budgetary transfers to public enterprises**

Billion pesetas

	1977	1978	1979	1980	1981	1982
Total transfers to public enterprises ¹	128.2	68.4	222.4	309.9	355.6	527.0
of which :						
current	46.1	63.4	93.0	137.1	141.4	218.4
capital	82.1	5.0	129.4	172.8	214.2	308.6
Net borrowing requirement of public enterprises ^{2,3}	186.1	215.3	336.6	473.1	623.9	592.8
Memorandum items :						
% share of current transfers to public enterprise in total current transfers to enterprises	35.4	29.7	41.8	49.0	48.0	n.a.

1. Transfers to public enterprises have been estimated on commitment and cash bases and, therefore, are not fully consistent with some series published in the national accounts.

2. Excluding Servicios Comerciales del Estado and Organismos Autonomos Industriales y Comerciales.

3. Most total government transfers to public enterprises are classified as revenues. Excluding these transfers the net borrowing requirements would have been considerably higher than shown here.

Source : Programa Economico Medio Plazo. Empresas Publicas.

some other Member countries, the current process of regional and local decentralization⁴⁵ carries the risk of leading to some duplication of functions between the various levels of government and therefore to rapid growth in public employment. Incentive measures have already been taken to encourage the transfer of Central Government employees to regional and local governments⁴⁶ but further steps may be needed. More generally, means of controlling more efficiently their expenditure and their recourse to borrowing will have to be found, while their revenue-raising capacity will also probably have to be increased.

Financial rigidities

Efforts had been made in recent years to liberalise the Spanish financial system resulting in much greater flexibility of interest rates, a reduction in legal reserve and investment coefficients of financial intermediaries and increased competition for funds. However, despite more reliance on market mechanisms to allocate financial resources the degree of regulation in the early 1980s remained excessive. More recently, against the background of large and rising budget deficits, the process of liberalisation has suffered a setback. Large budget deficit coupled with a move towards market-oriented financing methods, was indeed bound to have wide-ranging effects on financial market conditions. The need to finance the deficit through domestic debt sales encouraged the general government to act as a direct issuer, seeking funds in all segments and maturities of the domestic market. On the other hand, the burden of legal reserve coefficients and increased competition led private banks to innovate in both asset and liability management. As a result, new instruments both private and public made it possible for borrowers (notably the government) to negotiate directly with private lenders (both banks and the non-banking public). But in a context of restrictive monetary policy, competition for funds between the public and the private sectors bid up interest rates to levels judged excessive by the monetary authorities. By mid-1983, the earlier experience of liberalisation was therefore brought to an end.

As noted in Part II, besides "voluntary" agreements by private banks to suspend issuing and dealing in non-monetary assets, existing regulations on compulsory reserve requirements were extensively reformed and changes in investment coefficients announced. These measures set the stage for a much more regulated financial market, where allocation of funds will be subordinated to the borrowing needs of the public sector. Under the new regulation (*Ley del Coeficiente de Caja*), the compulsory reserve ratio can be legally set up to a maximum of 20 per cent of eligible assets compared with 7.75 per cent since August 1983⁴⁷. On the asset side of financial intermediaries, investment coefficients are at present set at 21 per cent of eligible liabilities for commercial banks, and at 25 per cent for savings associations⁴⁸. A new law will be sent to Parliament before the summer, allowing for the compulsory absorption of a higher share of short-term treasury bills by the banking system. The incorporation of a 10 per cent tranche for short-term treasury bills coupled with an increase in the coefficient for commercial banks up to 25 per cent, could bring the total investment coefficient to 35 per cent of eligible liabilities.

Industrial restructuring

Industrial restructuring has been lagging considerably behind. The first comprehensive effort was made in 1981 with the passage of the law of Industrial Reconversion which consolidated various industrial programmes which had existed for a number of years. Eleven industrial sectors were declared eligible for the benefits of the Reconversion law. These included notably home appliances, specialty as well as carbon-based steel, shipbuilding, textiles, footwear and automobile industry parts. In the event, however, not many concrete

measures were taken and at the beginning of 1983 the new government decided to re-examine the method of conducting industrial restructuring. An act on Reconversion and Reindustrialisation was subsequently issued in November, complementing in many respects the previous law.

The new law based on the recommendations of the 1983 White Paper on Reindustrialisation, deals with four main issues: the selection of the right instruments for implementing industrial policy objectives, the problem of labour force cuts, the regional aspects and the financial cost of reconversions. The approach continues to be essentially voluntary, being based on a tripartite collaboration between the authorities, employers and employees. The sectors and sub-sectors covered are basically the same as in the previous law⁴⁹. The main problem for nearly all sectors is excess capacity and how to phase it out, given notably the concentration of ailing enterprises in three regions, namely, the Basque country, Galicia and Asturias. With regard to electronics, however, the proposed employment reduction is very small, the aim being to expand this sector with emphasis put on the need to reduce its large external deficit and to promote high technology activities. Commissions for Control are being set up to approve and monitor the various reconversion plans. Reconversion Corporations are also expected to be formed in some sectors by groups of small- to medium-sized firms in order to co-ordinate their procurement and marketing activities, research and organisation, with a view to preparing eventual mergers.

The reconversion plans envisage a reduction in employment by some 63,500 workers, around 10 per cent of total employment in the sectors concerned and 3 per cent of total manufacturing employment. Employment cuts in a few sectors will be considerable (between one-third and one half of total employment in iron and steel and shipbuilding). Moreover, for Asturias, Cantabria and the Basque country the proposed cuts amount to over 5 per cent of the industrial labour force (in the last two areas the unemployment rate is considerably above the national average). A small proportion of workers will be encouraged to accept early retirement, while the remainder will have the choice of:

- either receiving a redundancy indemnity and unemployment allowances;

Table 19. Industrial restructuring

	Total employment Dec. 83	Estimated employment losses, 1984-86	
		Total	of which : Early retirement
1. Iron and steel	70 100	12 545	6 669
2. Shipbuilding	41 400	17 368	6 114
3. Textiles and clothing	400 000	11 900	4 280
4. Home appliances	19 400	5 314	1 466
5. Electrical equipments	15 000	3 100	1 389
6. Telecommunications	17 000	3 200	876
7. Electrical parts (cars)	5 000	460	50
8. Paper	20 400	1 500	330
9. Machine-tool	8 300	2 000	560
10. Fertilizers	10 000	1 180	380
11. Shoemaking	50 000	3 100	839
12. Other	9 688	1 836	404
Total	666 288	63 503	23 357

Source : Ministry of Industry : White Paper on Reindustrialisation, and direct communication to the OECD.

- or by surrendering their indemnity, joining a Fund for the Promotion of Employment for up to three years. During this period, they will receive unemployment compensation and learn new skills, while the Fund will try to find a new job for them by offering a subsidy to enterprises ready to employ them.

Moreover, the authorities envisage setting up Zones of Urgent Re-industrialisation in regions or localities particularly affected by reconversions. Fiscal incentives, privileged financing and transfers from the Fund of part of the workers' indemnities are expected to encourage the establishment of firms in these zones and employment of laid-off workers. In some areas, a number of firms have already applied under this scheme. Firms joining the reconversion schemes may also benefit from preferential financing to bolster technological innovation and capital deepening investment.

The financial cost of restructuring has not yet been made public. Although it may be expected to be high in the early phases, there should be an important net saving over the medium-term. Whether the concomitant release of resources will be channelled to investment will depend importantly on the macro-economic environment, business behaviour and the reduction of rigidities in product, financial and labour markets. Greater emphasis is also laid on the promotion of small- to medium-sized enterprises (SMEs). Their share in production and employment is large, and although they have been particularly hard hit by the weakness of activity their potential for development is expected to be greater than that of large enterprises. Under the guidance of the Institute for the Small and Medium Industrial Enterprises new instruments are being developed including an extension of financial guarantees and facilities, programmes for improving management, preferential tax treatment, an easing of labour market regulations and access to technological innovation. Finally, in order to bolster Spain's weak infrastructure in scientific and technical research it is planned to increase public resources devoted to research, technological development and innovation and to co-ordinate the efforts of the various institutions involved. In addition, restructuring of other public enterprises outside manufacturing is currently under examination.

Further energy conservation is also needed. Energy requirements rose by nearly one-third between 1973 and 1979 to 75.2 MTOE (million tons of oil equivalent) in the latter year. A broad stabilization took place thereafter resulting in some decline in the average elasticity with respect to GDP and industrial production (excluding construction) to 0.8 and 1.2 respectively in the four years to 1983. This trend was more influenced by the sluggishness of activity and some technical correction than by genuine conservation and energy-saving measures. Indeed the 1979 Energy Plan had only a limited impact due to changes in world and domestic energy conditions, delays in increasing energy prices and lack of more comprehensive measures. The new 1984-92 Energy Plan approved by the government⁵⁰ places the emphasis on:

- reducing import dependency and increasing diversification of imported energy mainly by raising the share of gas. The target is to increase the share of domestic energy supply from 36 per cent in 1982 to 48 per cent of total energy supply by 1992;
- improving the efficiency of energy consumption by extensive saving and energy conservation programmes. Energy consumption per unit of GDP is forecast to decline by 7¾ per cent in the ten years to 1992;
- scaling down investment programmes in order to reduce excess capacity in the years ahead, notably in electricity generation⁵¹ and in oil refining.

The main instruments envisaged to achieve these goals are a realistic pricing policy, financial and tax incentives for energy saving and conservation and structural reforms.

IV. CONCLUSIONS

Over the last year or so, important measures have been adopted by the authorities to correct the large macro-economic imbalances that had built up since the mid-1970s. Short-term demand management policy has been set within the framework of a medium-term strategy aimed at coming to grips with the many structural problems besetting the economy. Immediate priority has been given to the fight against inflation and the correction of the large current account deficit. To this end, monetary policy has been substantially tightened, efforts have been made to reduce the large public sector deficit and strict wage norms have been enforced in the public sector. A more determined approach has also been adopted to tackle the structural problems at their source. The ways and means of conducting industrial reconversion have been re-examined and some concrete steps have already been taken. Some measures have been introduced to curb the rapid growth in social benefits and promote a more appropriate tax structure. More ambitious reforms of social security, the tax system as well as public enterprises (not covered by industrial restructuring schemes) are also currently under preparation. Finally, measures are planned to increase labour market flexibility.

Encouraging results have already been achieved. Inflation, although still much higher than in the OECD area, has abated appreciably, the current external deficit has been substantially reduced and the explosive rise of the public sector deficit halted. Wage increases have also moderated, but not by enough to lead to a significant improvement in profits. In spite of the restrictive short-term demand impact of policies, activity strengthened somewhat last year, spurred by rapidly rising net exports in the wake of the improving international environment and large gains of market shares. But the fall in employment has continued, albeit at a slower pace than earlier. Provided the current international upswing is sustained and the present course of policy firmly adhered to, economic performance should continue to improve over the next eighteen months or so. Further progress should be made on the inflation and the external fronts, while the public sector deficit may fall a little in relation to GDP. A more satisfactory pattern of income shares and resource allocation may start to emerge, and as profits improve, private productive investment may progressively strengthen. However, labour market prospects may remain bleak: the unemployment rate may reach a record 19¾ per cent by the end of 1984, before stabilizing at this very high level during 1985.

There is, however, no viable alternative to the strategy currently pursued by the authorities for laying the foundation for sustained recovery of output and employment over the medium term. In spite of the progress already made in correcting imbalances, the bulk of the adjustment still lies ahead. Until inflation comes down to more acceptable levels, demand management policy will have to remain restrictive. At this stage, tight monetary policy is appropriate and the shift towards fiscal restraint necessary. But the various policy objectives may not be easy to reconcile. In particular, it is important that the budget deficit be contained within the targeted limit. Otherwise, given the strong planned deceleration in the growth of monetary aggregates, overruns in the budget would lead to an excessive restriction of credit to the private sector, with undue pressure on interest rates and risks of unwanted capital movements and appreciation of the exchange rate. A greater-than-expected improvement in the current external position could entail similar consequences. Monetary policy should therefore continue to be implemented in a flexible way with attention also being paid to developments on the real side of the economy.

To be fully effective, the tight stance of policies must be supported by efforts to contain the growth in labour costs. Prolonged wage moderation is indeed crucial for preserving external competitiveness, promoting an adequate pattern of resource allocation and restoring

a higher level of employment. The firm stand adopted by the authorities for wage increases in the public sector is welcome and contracts signed so far in certain public enterprises are encouraging. It is to be hoped that, in a context of decentralised bargaining, beneficial demonstration effects will be exerted on private sector wages. A main problem is that wage formation is seriously out of line with the needs of the economy. Unemployment – at more than 19 per cent of the labour force – is now the most serious social and economic problem in Spain. Nevertheless, even at this level of excess supply of labour, inflation is running at an annual rate of about 12 per cent and real wages have not fallen yet. Malfunctioning of the labour market is a problem in many Member countries, but in the average OECD country the rise in real wages stopped when unemployment had reached a much lower level than in Spain. A policy aimed at a rise in employment strong enough to reduce unemployment must therefore improve wage formation. Greater labour market flexibility is clearly needed not only for wage moderation but also to ensure a closer relationship between wages and productivity trends, skills and the financial position of enterprises. It is therefore important, as intended by the authorities, that the existing set of restrictive labour regulations, in particular those governing the hiring and firing of workers, be substantially relaxed. The problem of excessive non-wage labour costs will also have to be tackled within the framework of a major restructuring of government finances. This implies further reduction of social security contributions and an early introduction of VAT, a step in any case required in view of the prospect of Spain joining the EEC.

While there is scope for increasing the tax burden through a broadening of the tax base, higher rates and better administration and enforcement, the brunt of fiscal adjustment over the medium term will have to be borne by expenditure. Restriction of public spending is indeed required to achieve the official objective of reducing the general government deficit to around 3¼ per cent of GDP by 1986. This is necessary to support the fight against inflation and promote a better pattern of resource allocation by avoiding excessive claims on financial resources and upward pressure on interest rates. Failure to reduce the borrowing needs of the public sector would seriously jeopardize the desirable goal of gradually liberalising the Spanish financial system, thereby enhancing the role of market forces in allocating financial resources. Ultimately, attainment of the official budgetary objectives will be highly dependent on successful implementation of the various structural reforms currently underway or envisaged; in particular, the burden posed by the growth of social expenditures and the rising transfers and subsidies, mostly to loss-making public enterprises, represents a major problem. The fact that these reforms will necessarily take time to show their effects adds urgency to their rapid implementation.

There is no doubt that a major overhaul of the social security system is needed, especially to curb the rapid growth in pension payments and to control health expenditures. More generally, unless benefits are brought more closely in line with what the collectivity can afford and the recipients contribute, social protection could eventually be seriously compromised. The issue of loss-making public enterprises is also a fundamental one, not only because of the burden put on public finances but also in view of detrimental effects on resource allocation. Although losses are directly financed by State transfers, it must be realized that the final cost is borne by the more dynamic and efficient firms in the private sector through taxation, higher interest rates and “crowding out” in financial markets. These considerations underline the need for a determined implementation of industrial reconversion plans. It is to be hoped that, in spite of the difficulties involved, the firmness of purpose demonstrated so far by the authorities will be maintained. The critical financial position of other public enterprises not covered by industrial restructuring schemes is also a matter of concern, and calls for rapid action. This will have to encompass a wide array of measures ranging from a reduction of

overmanning and increased managerial efficiency to, in some cases, a smaller scale of operations and more realistic prices. The budgetary implications of the ongoing process of regional decentralization will also have to be kept under control if the difficult but necessary task of reducing the public sector deficit is to be successfully completed.

For too many years, Spain has pursued a defensive strategy aimed at sheltering the existing structure of activity and employment from the deep changes affecting the world economy. There are many reasons for this, but the fact remains that the approach followed has not prevented the continued deterioration of the country's macro-economic performance. The point has been reached where structural adjustment can no longer be avoided or deferred. This is now clearly recognized by the Spanish authorities. Their efforts to tackle underlying imbalances by restoring greater flexibility of the economic system and improving its efficiency, imply temporary sacrifices of living standards but are the only way of ensuring the return to sustainable medium-term growth of output and employment and the gradual solution of the present acute unemployment problem.

NOTES AND REFERENCES

1. The last OECD Economic Survey of Spain was published in May 1982.
2. The small acceleration in the rate of growth of the population of working age was more than offset by a reduction in participation rates.
3. Over the period employment fell at an average annual rate of 5 per cent compared with 3 per cent between 1974 and 1979.
4. The national accounts implicit price deflator for fixed investment in machinery and equipment rose at an annual rate of 15 per cent between 1974 and 1982 compared with 20 per cent for compensation per employee in the non-agricultural sectors.
5. Since the late 1950s and up to the first oil shock the current external account was on average broadly balanced, with even a surplus to the tune of 1½ per cent of GDP in the four years to 1973.
6. Exports of manufactures were the most dynamic element rising from 66 per cent of non-oil exports in 1973-74 to 75 per cent in 1981-82.
7. Net invisible receipts fell from 5½ per cent of GDP in the decade to 1973 to some 3¼ per cent in the eight years to 1982, and in relation to total merchandise exports from 84 per cent to 37 per cent.
8. References in the text to real labour cost and real labour cost gap apply only to non-agricultural sectors as a whole. Real labour cost gap is the difference between real compensation per employee (average earnings plus social security contributions paid by employers divided by the private consumption deflator) and productivity adjusted for terms of trade changes. The actual labour cost gap was of the order of 10 per cent whereas at constant 1975 employment levels it was close to 24 per cent.
9. GDP at market prices plus net factor incomes and net transfers from abroad.
10. The ratios of social security payments and government consumption to GDP rose from 8½ per cent and 8¾ per cent in 1974 to 15¼ per cent and 12¼ per cent in 1982 respectively.
11. Pensions per pensioner grew in real terms at an annual rate of 20 per cent in the eight years to 1982.
12. These factors have been analysed in some detail in earlier OECD Economic Surveys, in particular the May 1981 and May 1982 Surveys.
13. Merchandise exports amounted to only 9 per cent of GDP in 1974 about one-third less than the ratio for the OECD area and 60 per cent of that for OECD Europe.
14. In 1972 steel, shipbuilding, textiles, clothing and leather (including footwear) accounted for almost 28 per cent of total industrial production, a much higher proportion than in most other Member countries.
15. In 1974, the share of construction in GDP was 8½ per cent compared with around 7 per cent for OECD Europe and just over 6 per cent for total OECD. The share of dependent employment in construction in total dependent employment was 12½ per cent, the highest ratio in the OECD.
16. Up to 1980 dismissals of workers were allowed only in cases of bankruptcy or near bankruptcy. Since then, however, measures have been taken to increase somewhat the flexibility of the work-force.
17. Following implementation of the National Energy Plan of 1979, domestic energy prices have risen considerably in recent years, leading to a decline in the average elasticity of energy consumption to GDP. This combined with some fall in the dollar price of oil led for the first time to a decline in the value of net energy imports in 1982 – a trend accentuated by a rundown on oil stocks towards the end of the year.
18. A two percentage point band on either side of the central target was allowed, to provide an element of flexibility in monetary management.

19. This is the lower end of a 10½-14½ band.
20. The inflationary environment of recent years coupled with a complex system of regulations on banks' liabilities, assets and interest rates encouraged financial innovations. For example, banks promoted the use of some existing financial instruments not subject to coefficient requirements such as bank bonds and cash certificates. They also started to issue new fixed-interest-rate liabilities exempt from legal coefficients, such as mortgage securities. Other ways to evade administrative regulations on interest rates and maturities were found through temporary assignment of assets under repurchase agreements. Finally, the banks strengthened their role as commission and insurance agents in placing financial assets issued by general government and private enterprises. As a result of these developments demand for M3 has become unstable.
21. Mainly Certificados de Regulacion Monetaria (CRMs) and Pagarés del Tesoro, which are the two short-term public debt instruments recently introduced.
22. Indirect tax rates were raised in December 1982 in advance of the 1983 Budget.
23. Social security benefits rose slightly less in 1983 (16 per cent) than in 1982 (20.2 per cent). Pensions were adjusted upwards but steps were taken to tighten the eligibility requirements for certain types of pensions, notably disability. As a result of measures taken in 1982 to reduce the length of the period of eligibility for unemployment benefits, the coverage of the unemployment compensation scheme also declined somewhat.
24. The contribution to growth of the external sector is estimated to have been of the order of 1¼ per cent of GDP compared with ½ per cent in 1982.
25. The wage agreement concluded in 1982 under the National Agreement on Employment (ANE) provided for an adjustment in salary increases if the rate of inflation exceeded 6 per cent in the first half of the year. The revision clause was triggered in the second half, resulting in an estimated increase in the average salary of about 1.2 per cent in the final months of the year.
26. About 80 billion pesetas of social security payments and tax refunds normally due in early 1983 were brought forward to late 1982. Because these changes affect the rate of growth of households' income between 1982 and 1983, Table 9 has been adjusted accordingly. Without this adjustment household income would have risen by 15.8 per cent (instead of 15.1 per cent shown in Table 9) in 1982 and 11.9 per cent (13.1 per cent) respectively in 1983. The corresponding saving rates would have been 9.2 per cent (8.7 per cent) in 1982 and 8.3 per cent (8.8 per cent) in 1983.
27. Investment in transport equipment may have risen a little, notably in road transport equipment. Provisional figures show a fall in total investment in machinery and equipment (including transport equipment) of around 1 per cent in 1983. The decline in private sector investment in machinery seems to have been substantially greater.
28. In anticipation of a fall in the price of oil, oil stocks had been depleted towards the end of 1982 and were replenished in 1983.
29. Interest payments accounted for roughly one half of this ratio.
30. The technical assumption results in an average depreciation of 4.3 per cent in 1984 compared with 23½ per cent in 1983.
31. In the base scenario, assuming a 2½ per cent growth in the OECD area, Spain's real GDP would rise by 2¼ per cent on average in the four years to 1986, accelerating to 3½ per cent by the end of the period. Growth would be led by net exports and gross fixed capital formation. By 1986 inflation would fall to 6 per cent and the unemployment rate to 15¼ per cent. In a somewhat more optimistic scenario based on the assumptions of a 2¼ per cent growth in the OECD area, Spain's real GDP would rise by 3¼ per cent, with unemployment declining to 12.9 per cent by the end of the period. Both scenarios assume a decline of 0.5 per cent a year in the real wage per employed person.
32. According to statutory lay-off rules, workers are entitled to redundancy payments equivalent to 20 days of salary per year of service, up to a maximum allowance of one year. In practice, actual payments are about three times higher, amounting to around 3 million pesetas for the typical worker in manufacturing.
33. Non-renewable fixed-term contracts will be offered with a duration of 6 months to 3 years.
34. Given, however, their very low starting level, average retirement pensions amounted to only 70 per cent of the minimum wage in 1983.
35. The surge in the pension bill reflected both the increase in the number of pensions (about 5 per cent a year) and the improvement in benefits (nearly 23 per cent a year). In real terms, average monthly pensions rose by approximately 4.5 per cent each year.
36. Only the formerly employed are entitled to unemployment compensation.

37. Whereas under the old scheme six months of employment gave entitlement to up to 18 months of benefits, the new regulation made the duration as well as the amount of benefits a function of the length of previous employment during which Social Security contributions were paid. The maximum period of benefit was, however, maintained at 18 months. As a result, reflecting also the increased duration of unemployment the percentage of registered unemployed receiving unemployment benefits fell from 46.3 per cent in 1980 to 22.8 per cent at the end of 1982 (or from 58.3 per cent to 30.7 per cent excluding new entrants).
38. For workers on sick leave, wages are paid by the Social Security.
39. Within the framework of the Medium-Term Economic Programme presented in August 1979, it was decided to reduce contribution rates and to raise transfers from the State budget.
40. Through a rise in the maximum ceiling greater than wage increases.
41. The Commission was appointed under the National Employment Agreement (ANE) of June 1981, to make recommendations for a comprehensive reform of the system.
42. The reform aims at preventing the cumulation of pensions and discontinuing disability benefits for those who take paid-up employment.
43. Whereas benefits for disability pensions are based on salaries during the latest months of employment, for retirement pensions they depend on the best 24 months of the last seven years of employment.
44. The date of the introduction of VAT has not yet been fixed.
45. The legal and administrative framework of the decentralisation process was provided by the Law for the widening and harmonization of the Autonomous Process (LOAPA) of 30th June, 1982.
46. These measures include financial incentives, the possibility for non-established personnel to become permanent civil servants, and a reduction in the standard retirement age. Appropriations for transferred personnel have risen from 96.4 billion pesetas in the 1983 budget to 225.5 billion pesetas in the 1984 budget.
47. The actual level was set at 18 per cent as from end of February 1984. The initial 5 per cent tranche is interest-free while the 13 per cent tranche is remunerated at a 13.5 per cent annual interest rate.
48. The investment coefficient forces private banks and saving associations to allocate part of their portfolio to certain kinds of government securities, export credit and special regulated loans.
49. In certain sectors such as iron and steel and shipbuilding the share of public enterprises is predominant.
50. Still pending for approval by the Parliament.
51. Nuclear plants are projected to provide 12 per cent of total primary energy by 1992, the conventional thermal power plants 25 per cent and hydro plants 11 per cent.

STATISTICAL ANNEX

Table A. Main aggregates of national accounts¹

Billion pesetas

	Current prices					1970 prices				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
I. Expenditure										
1. Private consumption	8 078.6	9 427.7	11 021.9	12 630.9	14 576.4	2 635.2	2 640.4	2 663.0	2 651.0	2 674.9
2. Government consumption	1 169.3	1 425.7	1 749.9	2 013.0	2 369.6	340.4	354.8	370.3	375.7	399.5
3. Gross fixed capital formation	2 236.9	2 481.2	2 943.5	3 512.2	3 896.0	750.9	717.3	726.9	733.9	719.4
a) Construction	1 433.0	1 649.6	1 959.4	2 304.2	..	423.8	407.4	405.4	395.8	..
b) Machinery and equipment	803.1	831.6	984.1	1 208.0	..	327.1	309.9	321.5	338.1	..
4. Changes in stocks	42.9	152.4	278.9	57.8	72.8	11.2	36.1	56.1	9.1	10.1
5. Exports of goods and services	1 273.8	1 510.3	1 838.8	2 367.2	2 838.4	496.0	555.3	564.0	600.8	641.6
6. less: Imports of goods and services	1 570.0	1 866.8	2 646.9	3 257.9	3 841.9	582.8	646.0	666.1	647.2	676.9
7. Gross domestic product at market prices	11 230.6	13 130.5	15 185.1	17 322.5	19 911.4	3 650.9	3 657.9	3 714.2	3 723.3	3 768.6
II. Value added by sector										
1. Agriculture, forestry and fishing	959.9	989.9	1 072.1	1 039.8	1 212.8	355.3	340.9	371.0	332.4	336.8
2. Industry	3 148.7	3 614.3	4 154.9	4 737.8	5 268.4	1 177.7	1 176.4	1 180.9	1 186.8	1 178.5
3. Construction	842.0	984.3	1 117.1	1 227.7	1 436.5	217.5	209.7	206.2	200.9	206.8
4. Services	5 800.2	6 940.6	8 140.0	9 388.2	10 965.3	1 722.5	1 751.4	1 771.7	1 797.2	1 837.6
5. Gross domestic product at factor cost	10 750.8	12 529.0	14 484.1	16 393.5	18 883.0	3 472.9	3 478.3	3 529.8	3 517.4	3 559.8

1. In 1977 the National Statistics Institute (INE) carried out a general revision of the Spanish national accounting system. The base year was changed from 1964 to 1970 and so were the accounting methods. In the new base, the level of GDP has been revised upwards by about 17 per cent. Private consumption and gross fixed capital formation have been adjusted upwards considerably, whilst public consumption, exports and imports have been revised downwards. The new accounts integrate general government transactions more closely and reflect the improvements made to the Spanish Statistical system. The figures mentioned here are based on a standardised OECD system, while Spanish sources usually display national accounts according to definitions very similar to those of ESA (European system of integrated economic accounts).

Source: National Institute of Statistics.

Table A. Main aggregates of national accounts (cont'd)

Billion pesetas

	1977	1978	1979	1980	1981	1982 ¹
III. National income						
1. Compensation of employees	5 051.3	6 195.3	7 222.9	8 185.3	9 275.0	..
<i>of which:</i> Wages and salaries	4 137.5	5 015.1	5 790.8	6 537.0	7 367.2	..
Employers' contributions to social security	913.7	1 180.2	1 432.1	1 648.3	1 907.8	..
2. Property and entrepreneurial income, net	2 777.2	3 490.8	4 033.6	4 757.8	5 182.6	6 226.4
Households and private non-profit institutions ²	2 706.9	3 425.4	3 973.5	4 668.8	5 079.2	..
Corporate and quasi-corporate enterprises, before tax						..
General Government	117.3	127.7	140.9	206.1	231.0	..
<i>less:</i> Interest paid by general government	47.0	62.3	80.8	117.1	127.6	..
3. Net national income at factor cost	7 828.5	9 686.1	11 256.5	12 943.1	14 457.6	16 630.8

1. Provisional estimates.

2. Excluding interest on consumers' debt.

Source: National Institute of Statistics.

Table B. **Income and outlay transactions of households¹**

Billion pesetas

	1977	1978	1979	1980	1981	1982
1. Compensation of employees	5 051.3	6 195.3	7 222.9	8 185.3	9 275.0	10 403.4
2. Property and entrepreneurial income, net	2 219.5	2 694.1	3 155.3	3 781.2	4 217.3	4 976.4
3. Social security and social assistance benefits	990.0	1 394.0	1 773.3	2 162.9	2 647.6	3 182.4
4. Current transfers	235.3	281.1	320.3	371.4	434.3	..
5. Change in the actuarial reserves for pensions	8.5	7.6	9.8	11.9	18.0	..
6. <i>Current receipts</i>	8 504.6	10 572.1	12 481.6	14 512.7	16 592.2	..
7. Final consumption expenditure	6 374.2	7 702.1	9 053.5	10 605.5	12 093.9	13 898.5
8. Direct taxes on income and property	231.4	376.7	497.8	722.3	787.6	866.4
9. Social security and social assistance contributions	1 125.0	1 454.8	1 769.3	2 073.9	2 387.7	2 688.6
10. Current transfers	170.2	198.0	264.6	269.0	293.7	..
11. <i>Current disbursements</i>	7 900.8	9 731.6	11 585.2	13 670.7	15 562.9	..
12. <i>Disposable income (6-8-9-10)</i>	6 978.0	8 542.6	9 949.9	11 447.5	13 123.2	15 228.5
13. <i>Gross saving</i>	603.8	840.4	896.4	842.1	1 029.2	1 330.0
14. <i>Saving rate (13/12)</i>	8.7	9.8	9.0	7.4	7.8	8.7

¹ This account is presented on an ESA basis.

Source: National Institute of Statistics.

Table C. Public sector accounts¹
Billion pesetas

	1978	1979	1980	1981	1982
1. General government					
Current account					
<i>Receipts</i>					
Gross operating surplus	44.9	55.6	69.2	83.2	94.9
Property income receivable	131.3	145.9	212.1	238.6	307.0
Indirect taxes	693.4	824.0	980.9	1 223.4	1 429.8
- on production	521.4	628.6	731.9	950.0	
- on importations	172.0	195.5	249.0	273.4	
Direct taxes on income and wealth	619.6	794.0	1 070.0	1 238.2	1 344.0
- of enterprises	271.0	319.6	390.1	499.5	
- of households	348.6	474.4	679.9	738.7	
Actual social contributions	1 300.0	1 583.2	1 815.2	2 093.3	2 385.4
Imputed social contributions	109.6	133.8	176.1	193.2	263.1
Miscellaneous current transfers	192.3	249.3	291.4	319.2	355.6
Total	3 091.1	3 785.8	4 614.9	5 389.1	6 179.9
<i>Disbursements</i>					
Final consumption expenditure	1 169.3	1 425.7	1 749.9	2 013.0	2 413.9
Property income payable	65.9	85.8	123.1	135.2	188.8
Subsidies	213.6	222.5	279.9	294.4	514.7
Social security benefits	1 345.7	1 715.6	2 083.0	2 555.0	2 930.8
Miscellaneous current transfers	145.1	190.0	204.8	251.6	305.0
Statistical discrepancy	-0.5	-3.0	-5.2	6.3	
Gross saving	152.0	149.3	179.4	133.7	173.4
Capital account					
<i>Receipts</i>					
Gross saving	152.0	149.3	179.4	133.7	173.4
Capital transfers	-	0.5	4.4	4.8	4.7
Capital taxes	21.5	24.0	28.2	36.8	46.3
Total	173.5	173.8	212.0	175.3	122.5
<i>Disbursements</i>					
Gross fixed capital formation	234.5	226.3	276.7	353.6	587.8
Net purchases of land and intangible assets	6.8	7.3	8.0	24.8	
Capital transfers	128.7	157.7	232.4	320.3	433.4
Net lending (+) or net borrowing (-)	-196.6	-217.7	-305.1	-523.3	1 143.6
(Per cent of GDP)	(-1.8)	(-1.7)	(-2.0)	(-3.0)	(-5.7)

1. These accounts are on an ESA basis.
Source: National Institute of Statistics.

Table C. Public sector accounts (cont'd)
Billion pesetas

	1978	1979	1980	1981	1982
2. Central government					
1. Tax revenue	1 225.0	1 518.2	1 885.4	2 169.2	2 303.0
2. Property and entrepreneurial income (gross)	114.3	122.6	191.9	210.3	321.2
3. Current transfers	205.5	264.5	278.0	331.0	395.4
4. Total current revenue	1 544.8	1 905.3	2 355.3	2 710.5	3 019.6
5. Purchase of goods and services	799.3	979.8	1 184.4	1 312.6	1 516.0
6. Current transfers	253.7	337.6	497.0	668.3	1 132.1
7. Subsidies	204.5	197.3	253.2	266.9	389.7
8. Others	204.8	257.9	356.5	372.8	436.7
9. Total current expenditure	1 462.3	1 772.6	2 291.1	2 620.6	3 474.5
10. Gross saving ¹	112.2	169.1	109.3	145.8	-454.8
11. Capital taxes	15.9	18.9	19.0	22.0	21.3
12. Capital transfers	0.1	0.7	1.0	2.5	2.9
13. Total capital resources (10 to 12)	128.2	188.7	129.3	170.3	-430.6
14. Gross fixed capital formation	145.4	142.1	170.8	219.7	288.8 ²
15. Capital transfers	134.4	167.4	257.7	345.5	451.5
16. Others	5.4	5.1	4.6	6.5	-
17. Total capital expenditure (14 to 16)	285.2	314.6	433.1	571.7	740.3
18. Overall financial surplus (+) or deficit (-) (13 less 17)	-157.0	-126.0	-303.9	-401.4	-1 170.9

1. Total current revenue less expenditure (4-9) equals net savings, to which consumption of fixed capital (not shown separately) is added to arrive at gross saving (10).

2. Including net purchases of land.

Source: National Institute of Statistics.

Table C. Public sector accounts (cont'd)
Billion pesetas

	1978	1979	1980	1981	1982
3. Local government					
1. Tax revenue	200.5	237.4	371.5	527.3	724.5
2. Property and entrepreneurial income (gross)	8.6	12.9	9.0	14.0	61.1
3. Current transfers	14.0	16.1	34.8	49.3	91.8
4. Total current revenue	223.1	266.4	415.3	590.6	877.4
5. Purchase of goods and services	174.8	224.6	294.4	395.2	523.8
6. Current transfers	20.5	29.2	32.6	91.1	94.5
7. Others	20.0	39.6	56.2	59.3	177.1
8. Total current expenditure	215.3	293.4	383.2	545.6	795.4
9. Gross saving	18.0	-13.7	48.4	65.1	92.0
10. Capital taxes	5.6	5.1	9.1	14.8	25.0
11. Capital transfers	5.4	9.6	35.3	40.1	55.7
12. Total capital resources (9 to 11)	29.0	1.0	92.8	120.0	162.7
13. Gross fixed capital formation	69.3	66.9	84.0	106.7	260.2 ¹
14. Capital transfers	-	0.2	6.8	13.3	36.4
15. Others	1.4	2.4	3.4	18.2	-
16. Total capital expenditure (13 to 15)	70.7	69.5	94.2	138.2	296.6
17. Overall financial surplus (+) or deficit (-) (12 less 16)	-41.7	-68.5	-1.3	-18.3	-133.9
4. Social security institutions					
1. Social security contributions	1 289.5	1 570.2	1 776.3	2 042.3	2 374.5
2. Transfers	89.8	131.1	290.6	419.4	824.3
3. Other current receipts	17.0	20.5	21.9	23.6	29.9
4. Total current receipts	1 396.3	1 721.8	2 088.8	2 485.3	3 228.7
5. Purchase of goods and services	195.2	221.3	271.0	305.3	374.2
6. Social security benefits	1 179.9	1 509.6	1 798.6	2 251.0	2 583.3
7. Current subsidies and transfers	3.5	5.0	8.5	7.5	81.8
8. Total current expenditure	1 378.6	1 735.9	2 078.1	2 563.8	3 039.3
9. Gross saving	21.3	-9.0	16.6	-70.9	189.4 ¹
10. Gross capital formation	19.6	17.3	21.6	26.3	38.8
11. Others	-	-0.1	-	0.1	0.3
12. Total capital expenditure	19.6	17.2	21.6	26.4	39.1
13. Overall financial surplus (+) or deficit (-)	+1.7	-26.2	-5.0	-97.3	+150.3

1. Including net purchases of land.
Source: National Institute of Statistics.

Table D. Labour market trends

	1981	1982	1983	1983			
				Q1	Q2	Q3	Q4
	Thousands						
Civilian labour force ¹	12 865	13 000	13 122	13 065	13 060	13 153	13 210
Civilian employment ¹	11 017	10 882	10 786	10 745	10 804	10 818	10 776
Agriculture	2 011	1 957	1 953	1 992	1 992	1 953	1 944
Industry	2 963	2 799	2 733	2 731	2 751	2 729	2 721
Construction	946	932	905	876	927	928	888
Services	5 097	5 195	5 195	5 146	5 204	5 208	5 223
Employees, total	7 711	7 650	7 543	7 542	7 583	7 532	7 513
Unemployment	1 848	2 118	2 336	2 320	2 256	2 335	2 434
	Per cent						
Participation rate, total	48.2	48.2	48.1	48.1	48.0	48.2	48.2
Men	71.5	70.9	70.1	70.3	70.0	70.1	70.0
Women	26.8	27.3	27.8	27.7	27.7	27.9	28.1
Unemployment rate, total	14.4	16.3	17.8	17.8	17.3	17.8	18.4
Men	13.6	15.1	16.5	16.3	16.0	16.5	17.1
Women	16.2	19.0	20.9	21.1	20.3	20.8	21.4
Less than 25 years old	35.2	39.2	42.6	42.5	41.7	42.8	43.4
25-54 years old	9.1	10.5	11.8	11.7	11.5	11.6	12.4
Over 55 years old	5.6	6.4	6.8	6.9	6.2	6.7	7.4

1. These exclude those who are on compulsory military service, but include the professional military as well as marginal workers.

Source: National Institute of Statistics.

Table E. Price and wage trends¹
Percentage change, annual rate

	Prices							
	1980	1981	1982	1983	Q1	Q2	1983 Q3	Q4
Consumer prices	15.6	14.5	14.4	12.1	16.4	10.0	8.5	15.2
Food	9.1	13.6	15.0	10.7	12.2	6.9	9.2	19.6
Non-food	19.5	15.1	14.1	13.0	18.3	12.0	7.9	12.8
Industrial prices	17.4	15.6	12.4	14.0	27.1	12.3		
Food	8.9	14.7	13.7		11.3	7.1		
Non-food	18.8	15.8	11.9		29.6	13.1		
Unit value of exports			12.5	17.3	21.8	18.6	23.1	13.7
Non-food								
Unit value of imports			12.8	21.7	32.6	14.3	20.8	26.0
Non-energy								

	Wages						
	1979	1980	1981	1982	1983		
Average increase in contractual wages			14.1	15.3	13.0	12.0	11.5
Monthly earnings per employee			27.4	16.2	15.4 ²	14.0	
Daily pay in agriculture			17.4	13.2	11.9	9.3	
Salary cost per head in construction (including social security contributions)			17.7	18.6	15.1	13.4	

1. For consumer and industrial prices, the figures represent percentage changes from the immediately preceding quarter at seasonally adjusted annual rates. Growth rates for export and import unit values are calculated over the corresponding quarter of the previous year, since seasonally adjusted data are not available.

2. As from 1980 the index is slightly different because of a change in presentation by the INE.

Sources: Bank of Spain, National Institute of Statistics and Ministry of Economy and Commerce.

Table F. Money and credit
Billion pesetas

	Q2	1982 Q3	Q4	Q1	Q2	1983 Q3	Q4
1. Monetary indicators (quarterly changes)							
M1 (narrow money supply)	248.4	63.4	264.7	-172.0	62.8	11.0	412.8
Of which:							
Currency in circulation	69.9	35.4	178.1	28.1	1.3	26.0	108.5
Sight deposits	178.5	28.0	86.6	-200.1	61.5	-14.9	304.3
Savings deposits	93.1	163.5	173.6	-26.3	65.3	192.5	199.3
Time deposits	318.2	293.2	231.1	320.1	189.0	365.4	441.5
M3 (broad money aggregate)	659.7	520.2	669.4	121.8	317.1	568.9	1 053.6
Other liquid assets in the hands of the public	82.8	76.1	162.0	271.8	249.7	10.8	84.8
Of which:							
Credit system liabilities	8.7	-6.3	15.3	23.0	39.5	56.8	-24.9
Treasury Bills	10.1	22.0	41.7	120.8	68.3	27.6	109.7
ALP (liquid assets in the hands of the public)	742.5	596.3	831.4	393.6	566.8	597.7	1 138.4

Source: Bank of Spain.

Table F. Money and credit (cont'd)
Billion pesetas

	1978	1979	1980	1981	1982 ¹	1983
2. Bank liquidity						
<i>Changes, in billion pesetas:</i>						
1. Cash reserves	54.1	236.6	77.5	50.2	124.9	137.7
2. Central bank credit received	-109.0	32.2	13.7	80.5	126.9	187.6
3. Public securities	142.9	103.9	105.4	132.0	126.7	83.8
<i>Ratios to deposits; end of period, per cent:</i>						
1. Cash	6.0	8.8	8.5	7.9	7.8	8.1
2. Public securities	12.8	12.5	11.9	11.8	12.2	11.8
3. Official credit institutions (changes, in billion pesetas)						
<i>Assets:</i>						
1. Cash	-8.9	2.3	8.8	8.7	1.4	30.0
2. Credit to public sector	39.5	71.0	42.2	35.9	10.2	10.0
3. Credit to private sector	156.7	181.6	190.8	251.9	211.4	243.1
4. Total assets	187.3	254.9	241.8	296.5	220.2	283.1
<i>Liabilities:</i>						
5. Transfers from the Treasury	149.9	160.6	175.1	229.9	262.3	284.4
6. Advances from the banking system	2.5	24.0	-2.9	53.8	88.3	75.0
7. Others (net)	34.9	70.3	69.6	46.8	-130.4	-76.3
8. Total liabilities	187.3	254.9	241.8	296.5	220.2	283.1
4. Capital market						
<i>Gross issues (billion pesetas):</i>						
1. Public securities	222.5	315.5	271.5	281.2	368.3	327.3
Treasury ²	197.6	289.0	243.4	248.5	337.8	295.6
INI	24.9	26.5	28.1	32.7	30.9	31.7
2. Private securities	244.8	211.0	305.2	373.5	377.2	397.5
Bonds	132.4	108.2	183.5	222.9	261.9	219.2
Shares ³	112.4	102.8	121.7	150.6	115.3	178.3
3. Total	467.3	526.5	576.7	654.7	745.5	724.8

1. Because of a break in the series, data after 1981 are not strictly comparable with earlier years.

2. Excluding short-term bills.

3. Excluding issues of paid-up shares.

Sources: Bank of Spain and National Institute of Statistics.

Table G. Balance of payments¹

Million dollars

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 ³	1982	1983 ³
1. Imports (fob)	6 237	8 947	14 334	15 193	16 317	16 812	17 505	24 022	32 306	31 086	30 513	28 334
2. Exports (fob)	3 921	5 402	7 265	7 807	8 990	10 612	13 480	18 352	20 581	20 971	21 332	20 833
3. Trade Balance	-2 316	-3 545	-7 069	-7 386	-7 327	-6 200	-4 024	-5 671	-11 725	-10 115	-9 181	-7 402
4. Services, net of which:	2 021	2 688	2 679	2 755	1 891	2 622	4 001	5 014	4 489	3 443	3 383	3 698
5. Tourism	2 230	2 872	2 869	3 096	2 690	3 486	4 917	5 558	5 720	5 709	6 122	5 942
6. Transfers, net	866	1 414	1 146	1 143	1 142	1 414	1 656	1 782	2 048	1 692	1 581	1 171
7. Current balance	571	557	-3 244	-3 488	-4 294	-2 164	1 633	1 126	-5 188	-4 981	-4 217	-2 533
8. Private long-term capital	934	810	1 613	1 788	1 447	1 746	2 113	2 835	4 020	3 598	763	2 072
9. Official long-term capital	-3	-45	56	15	570	1 277	-395	382	174	639	1 009	961
10. Total long-term capital	931	765	1 669	1 803	2 018	3 023	1 718	3 216	4 194	4 236	1 773	3 033
11. Basic balance	1 502	1 322	-1 575	-1 685	-2 276	858	3 351	4 342	-993	-744	-2 444	499
12. Short-term capital, errors and omissions ²	-11	370	782	930	1 204	287	507	-830	445	-577	-711	-940
13. Monetary movements (increase in assets = -) of which:	-1 491	-1 691	792	755	1 071	-1 146	-3 857	-3 512	548	1 322	3 155	440
14. Changes in reserves	-1 730	-1 793	774	120	953	-1 180	-3 883	-3 101	758	757	3 121	301

1. Transactions basis.

2. Including banks' local accounts in foreign currency.

3. Provisional.

Sources: Ministry of Economy and Commerce; OECD Secretariat.

Table H. Foreign trade¹

1. By commodity

Billion pesetas

	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
	1. Imports, cif					2. Exports, fob				
1. Agricultural and food products	259.6	314.9	364.2	434.2	543.6	254.1	275.7	356.8	370.7	458.1
2. Minerals	49.8	63.7	73.0	78.9	93.4	35.2	45.6	64.9	75.6	81.5
3. Oil products	515.0	942.6	1 258.8	1 376.4	1 671.3	26.4	58.9	99.1	159.9	252.1
4. Chemicals, plastics and rubber	196.5	232.4	274.1	307.2	382.6	124.6	153.4	186.1	218.7	282.8
5. Skins and leather	28.3	19.9	26.6	29.3	33.4	24.5	30.0	34.6	35.3	40.9
6. Wood and cork	28.9	39.9	30.2	31.5	41.5	16.8	23.1	26.0	31.3	39.7
7. Pulp, paper and books	31.7	42.5	47.9	63.5	65.7	45.8	59.7	72.3	86.3	95.3
8. Raw cotton, textiles and clothing	50.1	62.1	64.1	78.3	100.9	63.9	73.4	96.4	102.4	135.8
9. Glass and pottery	18.9	23.2	23.5	27.4	32.2	24.8	39.0	52.6	56.3	77.9
10. Metals and metal products	113.8	158.0	165.4	213.8	224.4	194.7	243.4	295.2	360.2	423.2
11. Machinery and appliances	233.7	307.4	359.4	462.7	545.4	154.1	192.0	244.9	297.7	296.4
12. Transport equipment	78.6	113.7	134.3	163.9	179.4	166.4	198.4	231.0	322.0	446.0
of which: Cars, lorries and tractors	58.3	84.7	83.7	119.7	155.1	124.9	163.5	177.4	245.8	349.5
Aircraft (imports), ships (exports)	15.0	21.8	42.7	34.0	18.3	31.5	18.9	32.2	49.4	73.0
13. Other	99.1	130.3	148.9	206.1	262.7	90.1	100.6	128.5	143.8	208.9
14. Total	1 704.0	2 450.6	2 970.4	3 473.2	4 176.5	1 221.4	1 493.2	1 888.4	2 260.2	2 838.6
15. Total less agricultural and food products	1 444.4	2 135.7	2 606.2	3 039.0	3 632.9	957.3	1 275.5	1 531.6	1 889.5	2 380.5

¹. Customs clearance basis.

Source: Ministry of Economy and Commerce.

Table H. Foreign trade¹ (cont'd)

2. By geographical area
Billion pesetas

	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
	1. Imports, cif					2. Exports, fob				
EEC, total	606.2	755.5	861.9	1 087.7	1 348.9	586.2	739.6	812.3	1 036.9	1 370.6
of which										
United Kingdom	87.8	115.1	132.9	171.1	256.7	87.6	105.3	130.6	161.0	219.9
France	164.7	202.4	237.6	277.5	344.3	197.0	246.6	270.6	370.2	448.7
Germany	163.2	200.8	241.5	328.9	366.1	126.2	152.9	163.3	185.6	260.2
Italy	90.1	120.9	118.4	155.6	180.9	78.8	116.7	108.0	127.3	150.8
COMECOM	37.9	55.2	78.0	94.5	124.1	36.7	39.1	73.0	48.3	74.2
Other European countries	98.8	112.4	133.9	183.9	230.3	127.6	143.6	153.6	175.6	212.5
United States	211.7	318.8	412.4	482.0	495.5	85.1	79.4	126.9	145.5	206.6
Canada	15.9	19.4	20.6	20.9	23.6	10.4	10.6	16.6	15.2	20.6
Other American countries	152.5	255.0	354.3	371.6	509.4	136.7	159.1	197.7	226.1	183.3
Japan	39.9	60.5	79.4	110.6	139.9	24.6	19.2	30.0	28.3	43.5
Near-East	288.1	530.8	614.1	661.0	685.1	49.8	100.1	150.9	179.2	216.2
Rest of the world	253.0	343.1	415.8	461.0	619.7	188.0	218.5	327.4	405.3	511.1
Total	1 704.0	2 450.6	2 970.4	3 473.2	4 176.5	1 221.4	1 493.2	1 888.4	2 260.2	2 838.6

1. Customs clearance basis.

Source: Ministry of Economy and Commerce.

Table I. Foreign assets and liabilities
Outstanding at end of period, \$ billion

	1980	1981	1982	1983
Liabilities	49.7	55.9	52.0	50.5
Monetary institutions	22.8	26.5	21.7	19.9
Bank of Spain ¹	(0.3)	(0.2)	(-)	(-)
Banking system ^{1,3}	(22.5)	(26.3)	(21.7)	(19.9)
Government	1.7	2.2	2.8	3.6
Private sector²	25.2	27.2	27.5	27.0
Foreign investments ²	(5.4)	(5.4)	(5.2)	(4.9)
Assets	33.9	40.5	32.4	30.9
Monetary institutions	30.5	37.2	29.0	27.0
Bank of Spain ¹	(12.3)	(15.2)	(11.0)	(10.7)
Banking system ^{1,3}	(18.2)	(22.0)	(18.0)	(16.3)
Government	-	-	-	-
Private sector²	1.7	1.6	1.7	1.5
Investments abroad ²	(0.9)	(1.0)	(1.2)	(1.1)
Other	1.7	1.7	1.7	2.4

1. Balance-sheet data.

2. Estimate obtained by adding up balance of payments flows from 1969 onwards.

3. Up to 1981 operations of foreign branches of Spanish banks are included. From this date onwards only resident institutions are included.

Source: Bank of Spain. Data in U.S. \$ have been valued at end-of-period exchange rates.

BASIC STATISTICS :
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

				Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxem- bourg	Nether- lands	New Zealand	Norway	Portugal	Spain	Sweden	Switzer- land	Turkey	United Kingdom	United States	Yugo- slavia ¹
POPULATION	Total	Mid-1981	Thousands	14 923	7 508	9 852	24 365	5 122	4 800	53 963	61 682	9 730	231	3 443	56 502 ²	117 660	366	14 247	3 176	4 100	9 970	37 654	8 324	6 429	45 747	56 020	229 849	22 520		
	Inhabitants per sq. km of land area	»	Number	2	89	323	2	119	14	98	248	74	2	49	118	316	141	346	12	13	108	75	19	156	59	230	25	87		
	Net average annual increase	Mid-1971 to Mid-1981	%	1.3	0.1	0.2	1.2	0.3	0.4	0.5	0.1	1.0	1.2	1.5	0.5	1.1	0.6	0.8	1.0	0.5	1.1	1.0	0.3	0.2	2.3	0.1	1.0	0.9		
EMPLOYMENT	Total civilian	1981	Thousands	6 364	3 276	3 669	10 933	2 369	2 234	20 959	25 588	3 529	107	1 136	20 623	55 810	160	4 922	1 265	1 932	3 969	10 931	4 225	3 054	14 668	23 819	100 397	9 690 ³		
	of which: Agriculture	»	% of total	6.5	8.8	3.0	5.5	7.3	11.1	8.6	5.5	30.7	11.7	17.7	13.4	10.0	5.6	5.0	11.2	8.5	26.7	18.2	5.6	7.0	60.1	2.6	3.5	33.8		
	Industry ⁴	»	»	30.6	39.5	33.4	28.3	29.3	34.8	35.9	43.5	29.0	37.4	31.7	37.5	35.3	38.1	30.2	32.6	29.8	37.5	35.2	31.3	39.3	16.4	35.7	30.1	22.3		
	Other	»	»	62.8	51.7	63.6	66.2	63.3	54.1	56.2	51.0	40.3	50.9	50.6	49.1	54.7	56.3	64.8	56.1	61.7	36.8	46.6	63.1	53.7	23.5	61.7	66.4	41.9		
GROSS DOMESTIC PRODUCT	in purchasers' values	1981	US \$ billion ¹¹	160.7	66.5	95.1	284.3	58.1	49.1	569.4	683.2	36.7	2.9	16.7	350.2	1 129.5	3.9	140.5	25.0 ⁹	57.1	23.8	186.1	122.4	94.5	57.6	497.8	2 906.3	67.8 ¹⁰		
	Average annual volume growth ⁶	1976 to 1981	%	2.7	2.6	1.5	2.8	1.3	3.5	2.3	2.5	2.9	4.0	3.8	2.6	4.6	1.8	1.4	0.2	3.6	4.0	1.4	1.0	2.4	2.0	0.5	2.8	..		
	Per capita	1981	US \$ ¹¹	10 763	8 842	9 651	11 741	11 350	10 238	10 552	11 076	3 769	12 791	4 855	6 123	9 606	10 566	9 861	7 957	13 937	2 398	4 938	13 505	14 778	1 262	8 886	12 647	3 034 ¹⁰		
GROSS FIXED CAPITAL FORMATION		1981	% of GDP	24.9	24.9	17.9	23.7	15.7	24.3	21.2	22.0	21.0 ⁸	25.9	29.8	20.3	31.0	23.3	19.0	20.6	27.2	31.3	20.1	19.3	24.2	19.9	15.9	17.9	31.0 ¹⁰		
	of which: Transport, machinery and equipment	»	»	12.4	11.7	5.8	8.7	6.4	9.8	9.3	8.3	8.0	7.5	12.7 ¹⁰	8.5	10.5	9.2 ¹⁰	7.3	7.8 ¹⁰	9.1	13.8	6.5 ¹⁰	7.8	7.6	8.7 ¹⁰	8.1	8.1	..		
	Residential construction	»	»	4.8 ¹⁰	..	3.9	4.8	4.0	6.3	6.1	6.6	6.0	4.7	6.6 ¹⁰	5.6	6.3	5.5 ¹⁰	5.5	3.6 ¹⁰	4.5	7.8	5.5 ¹⁰	4.6	16.6	2.7 ¹⁰	2.1	3.6	7.2 ¹⁰		
	Average annual volume growth ⁶	1976 to 1981	%	3.8	0.9	-2.6	3.0	-6.6	0.0	0.9	3.0	0.2	3.1	6.4	2.8	4.5	2.2	-0.4	-3.4	0.2	6.6	-1.2	-1.4	5.1	-2.4	-1.9	3.3	5.7 ¹⁰		
GROSS SAVING RATIO ¹²		1981	% of GDP	21.5 ¹⁰	24.5	12.9	21.4	12.3	24.2	19.4	20.8	22.8	22.3	15.0	18.9	31.9	47.8	20.0	20.7 ⁹	29.8	22.7	18.0	16.0	28.7	20.3	17.3	18.9	37.0 ¹⁰		
GENERAL GOVERNMENT																														
Current expenditure on goods and services		1981	% of GDP	17.1	18.4	19.0	19.5	27.7	19.1	15.8	20.7	17.9	11.8	22.0	18.1	10.1	17.5	17.9	17.4 ⁹	19.0	14.9	11.8	29.3	12.5	12.6	22.3	18.1	16.9 ¹⁰		
Current disbursements ¹³		»	»	31.1 ¹⁰	44.0	52.7	38.4	55.1	35.2	45.7	44.3	36.0	25.0 ¹⁰	48.3 ¹⁰	46.1	26.5	51.6 ¹⁰	55.8	..	44.6	30.9 ¹⁴	29.4 ¹⁰	60.3	28.1	..	44.6	34.2	..		
Current receipts		»	»	34.4 ¹⁰	47.4	44.0	38.7	51.2	39.4	46.1	44.6	30.4	34.0 ¹⁰	41.7 ¹⁰	38.7	29.3	57.3 ¹⁰	55.9	..	52.5	28.1 ¹⁴	30.0 ¹⁰	59.0	32.6	..	43.4	33.7	..		
NET OFFICIAL DEVELOPMENT ASSISTANCE		1982	% of GNP	0.57	0.53	0.60	0.42	0.77	0.30	0.75	0.48	0.20	0.24	0.29	..	1.08	0.28	0.99	1.02	0.25	..	0.38	0.27	..		
INDICATORS OF LIVING STANDARDS																														
Private consumption per capita		1981	US \$ ¹¹	6 431	4 977	6 354	6 518	6 385	5 583	6 856	6 270	2 555	7 934	3 099	3 831	5 550	6 393	5 979	4 748	6 609	1 668	3 449	7 091	9 244	885	5 382	8 085	1 580 ¹⁰		
Passenger cars, per 1 000 inhabitants		1978	Number	475	272	302	410 ²²	219	235	327	346	79	339	194	300	185	423	288	395	282	118	178	345	324	14	262	526	85		
Telephones, per 1 000 inhabitants		1981	»	489 ²⁶	421	387	694	675	522	498	488	302	475 ²⁶	208	364	502	547 ²³	539	560	485	149	329	828	751	39 ²³	507	789	71 ²³		
Television sets, per 1 000 inhabitants		1980	»	378	296 ²⁹	395 ²⁹	471	368 ²⁹	322 ²⁹	354	337 ²⁹	156 ²⁹	275 ²⁹	225 ²³	386	539	245 ²³	296 ²⁹	278	292 ²⁹	141	252	381 ²⁹	314 ²⁹	75 ²⁹	404	624	192 ²⁹		
Doctors, per 1 000 inhabitants		1981	%	1.9	1.6 ²⁸	2.6	1.6	2.2 ²⁶	2.0	2.2 ²⁶	2.3	2.3 ²⁸	2.3	1.2 ¹⁴	3.1 ²⁸	1.3 ²⁶	1.7 ²⁸	1.9	1.6	2.0	1.9 ²⁸	2.6	2.2 ²⁸	1.6	0.6	1.3	2.0 ²⁸	1.3 ²⁸		
Full-time school enrolment ¹⁵		1980	%	86	74	89	89	87 ²⁵	90	85	79 ³⁰	81 ²⁹	83 ¹⁴	93	73	91	69	94	81	94 ²⁵	55 ²⁵	87 ²⁵	86	..	37 ²⁵	82 ²⁵	100 ³⁰	83		
Infant mortality ¹⁷		1982	Number	10.0 ²⁸	12.8	11.7 ²⁸	9.6 ²⁸	8.1 ²⁸	6.5 ²⁸	9.6 ²⁸	11.6 ²⁸	15.6 ²⁸	6.0 ²⁸	10.6 ²⁸	13.2	7.1 ²⁸	11.0 ²⁸	8.1	11.8	7.5 ²⁸	26.0 ²⁸	10.3 ²⁸	6.8	7.6 ²⁸	131.0 ²⁷	11.8 ²⁸	11.2	30.7 ²⁸		
WAGES AND PRICES																														
Hourly earnings in manufacturing		Average annual increase	%	10.2	6.3	8.1	9.9	10.4	11.0	14.2	5.4	26.3	49.9	16.3	19.6	6.2	6.2 ³¹	4.8	16.7	8.3	19.3	20.5	8.7	4.4	..	13.4	8.4	25.4		
Consumer prices		1977 to 1982	%	9.6	5.2	6.4	10.3	10.8	9.6	11.7	4.7	20.3	49.4	15.2	16.8	4.6	6.2	5.5	14.9	9.7	21.0	16.0	10.3	4.2	56.5	12.0	9.8	27.3		
FOREIGN TRADE																														
Exports of goods, fob		1982	US \$ million ¹¹	22 152	15 648	52 404 ⁷	68 412	15 312	13 068	92 352	175 452	4 284	684	8 088	73 380	138 252	..	66 228	5 551	17 544	4 176	20 568	26 736	25 932	5 772	97 224	212 280	8 364		
As percentage of GDP		»	%	14.01	23.36	60.58 ⁷	23.52	27.20	26.89	17.13	26.60	11.42	26.31	46.22	21.28	13.02	..	48.27	..	31.27	17.92	11.48	27.31	27.04	10.99	20.63	7.02	13.46 ²⁸		
Average annual volume increase		1977 to 1982	%	2.32 ²⁸	5.48	2.60 ⁷	0.08	5.83	5.25	3.54	4.57	2.59	..	6.83	3.07	4.77	..	2.21	3.66	6.40	..	7.57 ²⁸	3.52	1.85	14.25	1.55	2.91	..		
Imports of goods, cif		1982	US \$ million ¹¹																											

1. Partly from national sources.
2. Total resident population.
3. Private and socialised sector.
4. According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5. Social product.
6. At constant prices.
7. Including Luxembourg.
8. Excluding ships operating overseas.
9. Fiscal year beginning 1st April.
10. Fiscal year beginning 1st July.

11. At current prices and exchange rates.
12. Gross saving = Gross national disposable income minus private and government consumption.
13. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
14. 1976.
15. Gross enrolment rates in secondary schools.
16. 1974.
17. Deaths in first year per 1 000 live births.
18. Figures are not strictly comparable due to differences in coverage.
19. 1978.

20. 1975.
21. 1972.
22. 1977.
23. 1979.
24. Gold included in reserves is valued at 35 SDR per ounce (see IMF, *International Financial Statistics*, series Total Reserves).
25. 1976 to 1980.
26. 1980.
27. 1975 to 1980.
28. 1981.
29. Licences issued.

30. Primary and secondary schools.
 31. 1976 to 1981.
 32. 1977 to 1980.
 33. 1977 to 1979.
- Note: Figures within brackets are estimates by the OECD Secretariat.
- Sources: Common to all subjects and countries: OECD: *Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A)*; Statistical Office of the European Communities, *Basic Statistics of the Community*; IMF, *International Financial Statistics*; UN, *Statistical Yearbook*.
- National sources have also been used when data are not available according to standard international

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