

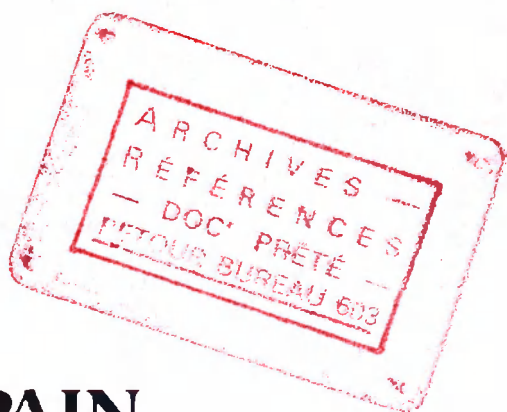
1987/1988

# OECD ECONOMIC SURVEYS

SPAIN



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## SPAIN

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## BASIC STATISTICS OF SPAIN

### THE LAND

Area (1 000 sq. km)	504.8	Major cities, 1981 census,	
Agricultural area (1 000 sq. km) 1985	204.2	thousands inhabitants:	
		Madrid	3 188
		Barcelona	1 755
		Valencia	752
		Seville	654

### THE PEOPLE

Population, 31-12-86, thousands	38 630	Civilian employment, 4th quarter 1986, thousands	14 018
Number of inhabitants per sq. km	77	By sector (percentage):	
Net natural increase (1984, thousands)	170	Agriculture	14.1
Migration (1984, thousands)	29	Industry	22.2
		Construction	8.8
		Services	54.9

### PRODUCTION

Gross domestic product, 1986 (billion pesetas)	32 085	Gross domestic product at factor cost by origin,	
GDP per head, (1986 US \$)	5 927	in 1986 (percentages):	
Gross fixed investment:		Agriculture	5
Per cent of GDP (1986)	19.7	Industry	30
Per head (US \$) 1986	1 165	Construction	7
		Services	58

### THE GENERAL GOVERNMENT

Public consumption, in 1986 (percentage of GDP)	13.8	Government revenue, in 1986 (percentage of GDP)	36.3
Fixed investment in 1986 (percentage of gross fixed capital formation)	16.6	General government deficit, in 1986 (percentage of GDP)	-5.5

### FOREIGN TRADE

Exports of goods and services, 1986 (billion US \$)	46.4	Imports of goods and services, 1986 (billion US \$)	43.4
Exports of goods and services as a percentage of GDP, 1986	20.2	Imports of goods and services as a percentage of GDP, 1986	18.9
Exports 1986, percentage of merchandise exports, customs basis:		Imports 1986, percentage of merchandise imports, customs basis:	
Foodstuffs	16.2	Foodstuffs	13.0
Raw materials	3.2	Raw materials	8.1
Fuels and lubricants	6.3	Fuels and lubricants	19.1
Capital goods	17.3	Capital goods	23.7
Consumer goods	31.2	Consumer goods	15.9
Intermediate goods	25.9	Intermediate goods	20.3

### THE CURRENCY

Monetary unit: Peseta		Currency units per US \$, average of daily figures:	
		Year 1986	140.0
		November 1987	113.5

*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 20th November 1987.*

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*After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 16th December 1987.*

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*The previous survey of Spain was issued in April 1986.*

## Introduction

Following a protracted period of sluggish growth with slow progress in winding down inflation during the late 1970s and the first half of the 1980s, the Spanish economy has since entered a phase of vigorous expansion of output and employment accompanied by a marked slowdown of inflation. Strong domestic demand pressure together with the dismantling of trade barriers under the EEC agreement have led to an unprecedented surge of imports while export growth, influenced by sluggish demand abroad has remained relatively weak. Despite the resulting marked fall in net export volume, the current balance-of-payments surplus increased in 1986 to some \$4 billion or 1¼ per cent of GDP and probably remained in surplus to the tune of \$1½ billion in 1987, thanks to continuing favourable terms-of-trade developments and growing invisible receipts. Moreover, due to huge inflows of foreign capital, mainly long-term, official exchange reserves rose to \$28½ billion by September 1987, more than twice the level of two years earlier and for the first time exceeding the level of external debt.

Economic policy has lent support to economic activity since 1985. Even so, powerful automatic stabilizers, the oil price fall and other specific factors have served to reduce the general government deficit by almost 1 per cent of GDP both in 1986 and 1987. Following a period of relatively easy monetary conditions, the stance of monetary policy was tightened in the spring of 1987 with real interest rates climbing to 10 per cent in September, a historical high. This has not, however, prevented an overshooting of the initial monetary targets. The 1988 Budget remains expansionary and a gradual decline in real interest rates is envisaged. The Government has made greater use of its leverage to speed up the de-escalation of pay rises in 1988 by fixing the increase of public sector pay at 4 per cent, compatible with an official inflation target of 3 per cent during 1988. Ongoing structural adjustment and favourable domestic demand prospects suggest continuing rapid growth of GDP for at least another year, making some further dent in the persistently high rate of unemployment. However, reflecting the rapid expansion of domestic demand, the current external account is expected to shift into deficit as from 1988.

Part I of this Survey reviews recent trends, economic policies and short-term prospects. As the review period covers the first two years of Spanish EEC



membership, balance-of-payments developments are discussed in more detail than in previous Surveys. Part II analyses the financial system and related aspects of monetary management. It also examines the effects of large public sector borrowing requirements in conjunction with the financial liberalisation measures since the early 1980s. Conclusions are presented in Part III.

## **I. Current developments**

Since Spain was last examined by the Economic and Development Review Committee in the Spring of 1986, the economic upswing has gathered more strength than forecast at that time. Both the rate of inflation and the general government deficit have developed broadly in line with earlier expectations, while the current external surplus has diminished faster than anticipated. The swing of fixed investment from a declining trend until 1984 to a rapid rise during the last three years contributed almost 60 per cent to GDP growth over this period. The rationalisation efforts of previous years, accompanied by sizeable labour shedding and wage moderation, served to bring profit rates back to levels conducive to boosting capacity-expanding and job-creating investment. Measures to enhance labour market flexibility and to alleviate the social security costs borne by employers as well as policies of industrial restructuring and the reorganisation of public enterprises under the control of the INI (including sales of assets to the private sector) have importantly contributed to improving the business climate. In addition, Spain's EEC entry – which has further enhanced growth prospects – and the availability of a large skilled industrial labour force at relatively low wage costs have induced sizeable net long-term capital inflows much of it in the form of direct investment, which in the first nine months of 1987 amounted to more than 3 per cent of GDP.

The behaviour of both import prices and import volumes has greatly helped to keep the economy on a sustainable growth path by damping inflationary pressure and maintaining a healthy balance-of-payments position. Import prices actually fell on average in 1986 and rose significantly less in 1987 than domestic prices. Competitive downward pressure on domestic inflation has also resulted from the strong increase of real imports accompanying rapidly rising domestic demand. The improvement of the terms of trade was instrumental in generating the sizeable current account surplus of 1986 and in preventing it from switching into deficit in 1987 in the face of rapidly growing volume imports. Thus, the effects of the first two years of EEC membership, while giving a strong boost to the economy and to volume imports, have been smoothly absorbed.

## Demand and output

The downturn of fixed investment, which began in the mid-1970s, continued up to 1984. Following some recovery in 1985, its level remained 7 per cent below that of 1980 and 15 per cent lower than ten years earlier. However, the trend of fixed investment steepened markedly in 1986 and 1987, led by an upsurge in the business sector. Indeed, between 1985 and 1987, the cumulative rise of business fixed asset formation may attain about 35 per cent, with greater buoyancy in transport equipment than in machinery and construction<sup>1</sup>. The relaxation of amortization rules in 1985, and, perhaps more importantly, the restoration of profit rates to pre-1974 peak levels seem to have played a crucial role. Excluding power-generating companies, the net rate of return<sup>2</sup> increased from 0.9 per cent in 1982 to around 5 per cent in 1986. These figures are strongly influenced by a number of loss-making companies in the public sector<sup>3</sup>. Indeed, profitability in the private sector (excluding power-generating companies) went up from 1.2 per cent in 1982 to over 10 per cent in 1986 with the upward trend continuing into 1987.

Table 1. Demand and output

	1986 Pesetas billion	1983	1984	1985	1986	1987 <sup>1</sup>
		Annual percentage change				
Private consumption	20 287	0.3	-0.5	1.8	3.8	4.6
Government consumption	4 477	3.9	2.9	4.4	7.1	6.0
Gross fixed investment	6 334	-2.5	-5.1	3.9	12.0	13.9
Final domestic demand	31 098	0.2	-1.0	2.6	5.9	6.8
Stockbuilding <sup>2</sup>	212	-0.3	0.5	0.1	0.3	-0.1
Total domestic demand	31 310	-0.1	-0.5	2.7	6.2	6.7
Exports	6 493	10.2	11.1	2.9	1.1	7.5
Imports	5 742	-0.6	-1.0	5.4	16.0	19.0
Foreign balance <sup>2</sup>	751	1.9	2.3	-0.3	-2.6	-2.2
GDP market prices	32 061	1.8	1.9	2.2	3.5	4.5
Agriculture	1 800	6.2	10.7	1.3	-9.0	6.0
Non-agricultural output	27 200	1.6	1.3	2.0	4.0	4.4
Industry	8 600	1.3	-0.4	2.0	4.0	4.5
Construction	1 900	0.1	-4.7	1.8	6.0	6.0
Services	16 700	1.8	2.5	2.0	4.4	4.3
GDP factor cost	29 000	1.9	1.9	2.0	3.1	4.6

1. OECD forecasts.

2. Contribution to the growth of GDP, change in volume as a per cent of the previous year's GDP.

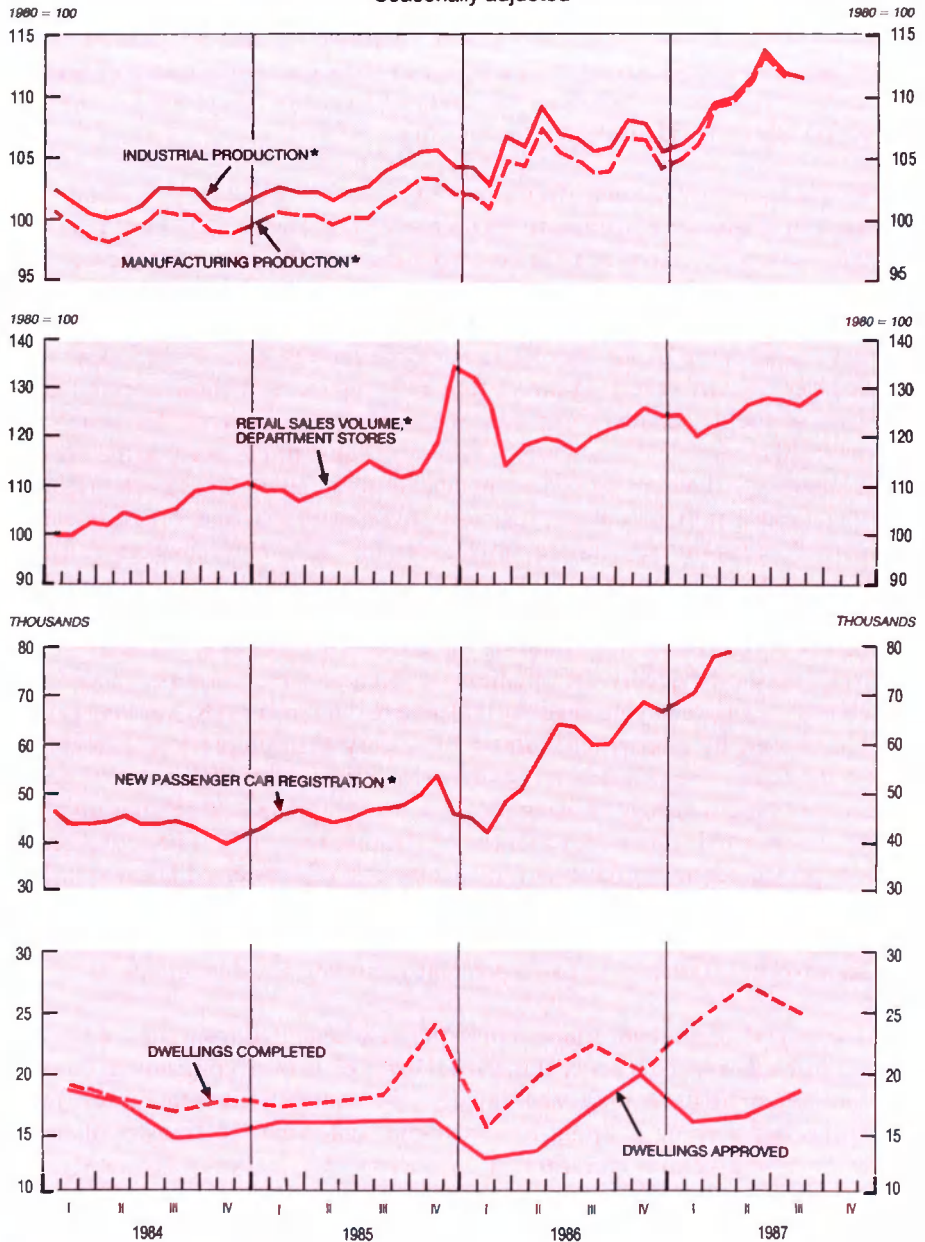
Sources: *National Accounts of Spain*, INE and data submitted to the OECD by the Ministry of Economy and Finance, Madrid.

The integration of Spain into the EEC has also stimulated business investment. Accompanying the progressive dismantling of protection, an industrial modernisation drive is under way, provoked by more intensive foreign competition. Foreign companies are increasingly including Spain in their global European strategy and have been shifting production lines from other EEC countries to Spain. The shift in production is most evident in the car industry.

Residential construction, after a prolonged period of decline, entailing housing shortages in many areas, began to recover in 1986. The annual rate of growth is estimated to have accelerated to almost 9 per cent in 1987, bringing the cumulative increase to around 15 per cent over the last couple of years, thus largely offsetting the fall during the first half of the 1980s. It should be noted, though, that many areas have not shared in this boom. Big cities and tourist centres seem to have been the main beneficiaries, in part reflecting direct foreign investment in these areas. The 1985 extension of fiscal incentives and liberalisation of rent controls for new tenants, accompanied by significant increases in rents and house prices, seem to have given the initial impetus to the housing boom. Significant fiscal advantages for housebuilding have favoured a shift of funds, previously invested in tax-free Treasury bills and commercial paper, to real estate investment in 1987. Houseowners can deduct interests up to Ptas 800 000 from taxable income and 15 per cent of capital repayments (up to 30 per cent of taxable incomes) for more than one dwelling per income tax declaration. After allowing for tax benefits, the effective interest paid is relatively small, especially for medium to high income earners. Indeed, many households have been paying negative effective real interest rates over long periods of time. Moreover, by international standards a very high proportion of housebuyers – over one-third – benefit from heavily subsidised credits due to very generous eligibility criteria for social housing. Social housing applies to dwellings up to 90 m<sup>2</sup> and for people with incomes 3½ times the legal minimum salary. The actualised value of the expected central government budgetary cost of subsidised housing in 1986 is estimated to be around Ptas 75 billion – interest rate subsidy Ptas 52 billion and low income family subsidy Ptas 23 billion – altogether worth some 5 per cent of total housing investment and close to 15 per cent including tax deductions.

The growth of total government investment accelerated from some 4 per cent in 1986 to probably around 8 per cent in 1987. However, central government investment does not seem to have increased rapidly. By contrast, investment by regional authorities has been on a strong upward trend, reflecting the transfer of responsibilities from the central government as well as the tendency for newly set up autonomous government agencies to invest in a multitude of small projects of local interest. As a result, the share of regional authorities in total general government investment seems to have risen from about 43 per cent in 1982 (1.3 per cent of GDP) to about 65 per cent (2½ per cent of GDP) in 1987.

Diagram 1. **CONJONCTURAL INDICATORS**  
Seasonally adjusted



\* Three month moving average.

Source: OECD, Main Economic Indicators.



After virtual stagnation between 1978 and 1985, real private consumption has picked up markedly, with the rate of increase probably attaining close to 4¾ per cent in 1987. Demand for durables has been particularly vigorous. New car registrations in the first five months of 1987 were almost 60 per cent up over a year earlier<sup>4</sup>. The buoyancy of consumer demand is fully explained by big increases of all household income components, though – not surprisingly at this phase of the cycle – the upward trend of non-wage incomes outside agriculture has been particularly steep. This may also explain the persistence of historically high household saving ratios at around 10½ per cent for the third consecutive year, compared with 7 per cent on average in the ten years to 1984 and a previous peak of 9¼ per cent in 1978.

Government consumption has been rising relatively fast since 1982, accelerating in 1986 and 1987 when it contributed nearly one-fourth to the cumulative growth of GDP. The increase is largely accounted for by public sector employment increases and significant increases in defence expenditure. The rise in government employment largely reflects genuine demand for social services (including education) and the central government's intention to remedy supply deficiencies in other public services. In line with the decentralisation process, new administrative posts have been created by regional authorities, notably in areas suffering from high unemployment.

Stockbuilding, a major contributor to growth in 1986, appears to have remained rather flat in 1987. Even so, the growth of total domestic demand may well attain a record rate of 6.7 per cent in 1987 after 6.2 per cent in 1986. This acceleration is expected to be only partly offset by a continuing strong negative contribution from the real foreign balance (2¼ per cent), permitting an increase in GDP of some 4½ per cent compared with 3½ per cent in 1986. On the output side, the acceleration is more or less fully accounted for by large fluctuations in agricultural output – a decline by 9 per cent in 1986 followed by an estimated 6 per cent increase in 1987. Non-agricultural GDP seems, in fact, to have grown by about the same rate of 4 to 4½ per cent in both years. Reflecting the investment boom, construction remained for the second year running the fastest growing sector, rising by about 1½ percentage points faster than GDP. Services also continued to increase relatively rapidly and despite falling mining output there was also an acceleration of industrial production. Reflecting the pattern of domestic demand, production of machinery and equipment increased markedly – over 13 per cent in the first eight months of 1987 over a year earlier. Production of consumer goods also grew strongly, whereas that of intermediate goods has increased at a slower pace since mid-1985 due to falling mining output and production of iron and steel.

## The labour market

The steep fall in the demand for labour, which had resulted in a cumulative decline of employment of almost one-fourth between 1976 and mid-1985, has since been sharply reversed<sup>5</sup>. Indeed, total employment increased by 2.4 per cent in 1986 and is expected to increase even faster in 1987<sup>6</sup>. The improved labour market situation has mainly been the result of rapid output growth. However, the Employment Promotion Programmes have also contributed<sup>7</sup>. The share in new hirings of persons recruited under the various programmes increased from an average of 25 per cent in the three years to 1984 to 41 per cent in 1985, 46 per cent in 1986 and probably further to 49 per cent in 1987. There are no studies as yet available on the net employment effect of the programmes. In view of the nature of the programmes and the apparent absence of major displacement effects of older by younger workers

Table 2. **Labour market**  
Annual percentage change

	1983 1980	1984	1985	1986	1987 <sup>1</sup>			
					Q1	Q2 <sup>2</sup>	Q2 <sup>3</sup>	Q3 <sup>3</sup>
						New survey		
Total labour force	1.2	0.6	0.8	1.8	2.2	3.7	3.9	4.6
Total employment	-1.2	-2.9	-0.9	2.4	3.0	4.6	5.1	5.8
<i>of which:</i>								
Excluding agriculture	-1.1	-2.7	-0.7	5.0	4.7		6.2	6.8
Employees	-1.4	-4.3	-0.1	4.7	4.5		3.7	4.1
<i>of which:</i>								
Excluding agriculture	-1.5	-4.0	-0.6	5.5	4.9		4.0	4.6
Unemployment rate (%)	(16.1)	(20.6)	(21.9)	(21.5)	(21.5)		(20.6)	(20.2)
Productivity total <sup>4</sup>	2.2	4.9	2.9	0.7		1.1 <sup>5</sup>		
Excluding agriculture	2.2	4.1	2.7	-0.9		0.4 <sup>5</sup>		
<i>of which:</i>								
Industry	4.1	3.4	5.7	1.9		1.8 <sup>5</sup>		
					Labour force	Employment	Unemployment	Unemployment rate
					Thousand			Per cent
<i>Memorandum item:</i>								
Q1 1987								
Old Survey		13 988		10 977		3 011		(21.5)
New Survey		14 023		11 031		2 992		(21.3)

1. A new labour force survey was introduced as from the second quarter of 1987.

2. In order to compare with earlier years, total labour force and total employment data for 1986 have been adjusted on the basis of the new definitions. Accordingly, this column shows the changes excluding level effects stemming from the changes in definitions.

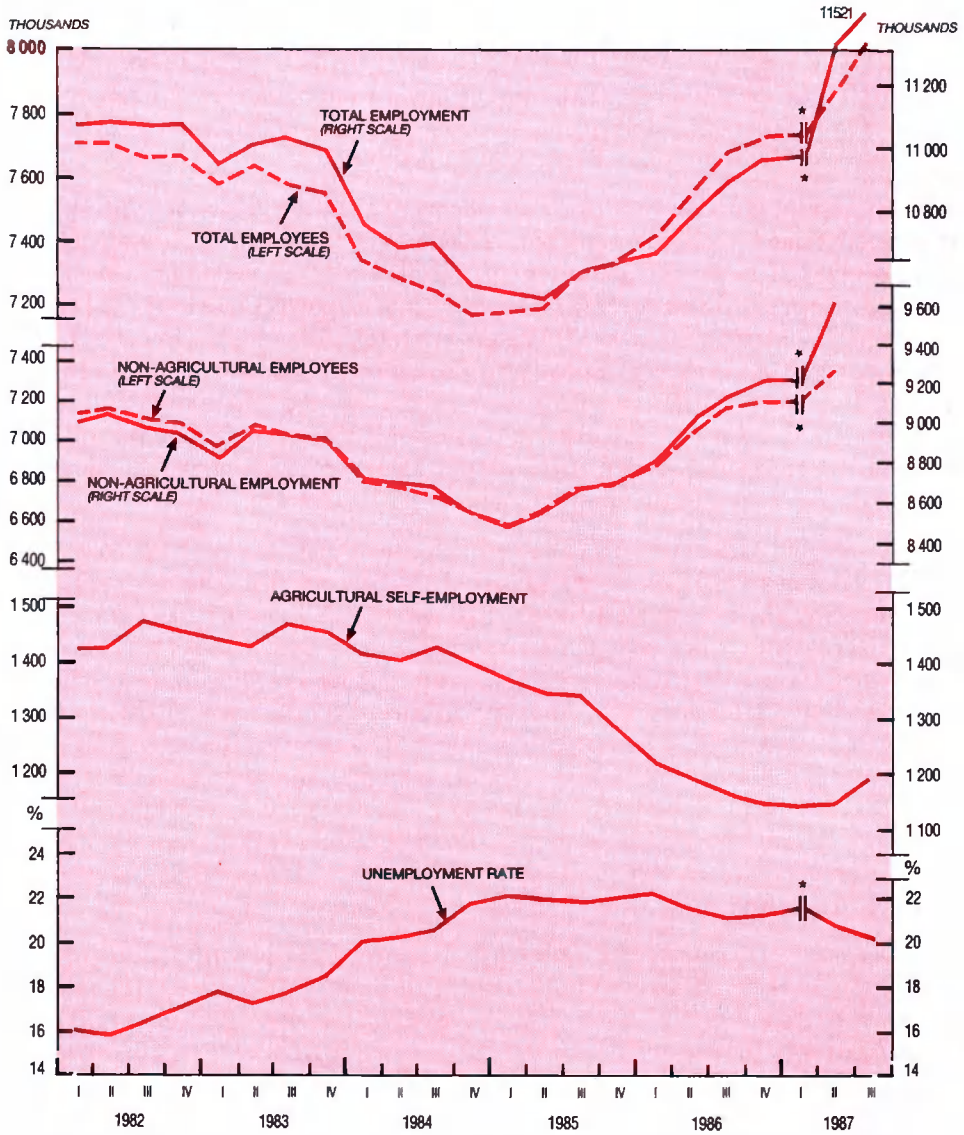
3. 1987 new Survey data compared with 1986 data based on the old Survey.

4. GDP at factor cost per employed, OECD estimates.

5. OECD estimate for the year as a whole.

Source: *Boletín de Estadísticas Laborales*, Ministerio de Trabajo y Seguridad Social, Madrid.

Diagram 2. RECENT LABOUR MARKET TRENDS



\* Break in the series in Q2 1987, due to a new definition.

Source: Estadísticas laborales, Ministerio de Trabajo y Seguridad Social.



(suggested by retirement trends), net employment creation has been fairly important. In addition, as already mentioned, general government employment has continued to increase vigorously, contributing nearly one-fourth to the growth of total employment in 1986 and somewhat less in 1987. Tentative estimates suggest, however, that even excluding the net effect of the Employment Promotion Programmes and the increase in government employment, total *non-agricultural* employment would still have increased by more than 2½ per cent in both years.

In contrast to 1986, 1987 saw a significant rise in the number of self-employed despite continued, though diminished, reductions of the farming population. To a large extent this increase is, however, the result of the new definitions which have extended the employment coverage. The number of employees rose by 4.7 per cent in 1986, the first increase since 1977. The growth rate in 1987 may turn out to be less than 4 per cent. As in the previous year, construction workers are expected to record by far the biggest rates of increase, followed by the private service sector. Employment in industry accelerated in the first half of 1987, reflecting the widening base of the economic expansion and the slowdown or completion of major labour-saving rationalisation programmes.

Indeed, industrial employment is estimated to have grown by about 2¾ per cent in 1987, implying a productivity growth of only 1¾ per cent. Total labour productivity advances have also been modest over the past two years – 1 per cent at an annual rate as compared with 3 per cent during the low-growth period 1980 to 1985. This apparent abnormal development reflects sizeable labour-shedding in the first half of the 1980s, especially in industry, but can in part also be related to compositional effects. Indeed, temporary and part-time employment increased on average by about 25 per cent in 1986 and 1987 and the number of trainees and apprentices by as much as 40 per cent. As available aggregate labour productivity measures neither allow for changes in average hours worked nor for “qualitative” changes in the workforce, the derived productivity growth for 1986 and 1987 overstates the extent of the true productivity slowdown.

Despite rapid employment growth the rate of unemployment declined only marginally, as the previous downward trend in the participation rate has been sharply reversed since the end of 1985. The increase in the participation rate is fully accounted for by the rise of the female participation rate from 27.9 per cent at the end of 1985 to 29.9 per cent in mid-1987. The male participation rate continued to decline over this period, though at a somewhat slower pace than during the first half of the 1980s. The extension of unemployment benefits as well as the fact that prior registration to labour exchange offices is necessary to become eligible for training schemes and other employment promotion programmes, have contributed to the rise of the recorded female labour force. In this context it should be noted that by international standards the participation rate of women is still very low and that the

pattern of expansion, initially concentrated on services, has been particularly conducive to the employment of women. The attraction of new types of jobs for women also explains why, despite strong employment growth, the rate of female unemployment continued to rise, attaining 28 per cent in mid-1987. The male unemployment rate, by contrast, has shown a steady fall since 1985 dropping below the 17 per cent mark. All male age groups recorded declines. Most notable was the decline for the age group 16 to 24, reflecting the "youth bias" of the Employment Promotions Programmes but also the greater mobility and adaptability of this age group.

### **The process of disinflation**

Real wage rigidity and the persistence of strong inflationary expectations may explain the relatively slow disinflationary process until 1984. Since then, inflationary pressures have eased considerably, but for several reasons the damping impact on the consumer price index was delayed until 1987. The introduction of VAT in January 1986, is estimated to have added about 2 percentage points to consumer prices. In addition, sharp rises in food prices in the summer of 1986 contributed to maintaining the increase in consumer prices at the same rate during 1986 as through 1985 (8½ per cent). During the first ten months of 1987, influenced by broadly stable food prices, the annual rate of consumer price inflation fell to about 4¾ per cent. Excluding VAT, energy and seasonal food, the year-on-year rate of consumer prices was down to around 6 per cent by early 1986 (from a roughly stable rate of 8½ per cent during the two previous years) and further to some 5½ per cent by the spring of 1987, without much change thereafter<sup>8</sup>. The sharp drop in the domestic component of inflation is clearly reflected in the reduced increase in the GDP price deflator from 8½ per cent on average in the two years to 1986 to an estimated 5½ per cent in 1987.

Consumers benefited from the fall in oil prices, but probably less so than in most other OECD countries, given the retention by the authorities of a sizeable part of the gain by raising oil-related taxes. The price of the energy component of the consumer price index dropped by nearly 10 per cent during 1986, directly (indirectly) contributing some ¾ percentage points (1 percentage point) to the decline of inflation. As the pass-through of the firming of oil prices during 1987 has also been very limited, energy prices continued to exert a damping effect on inflation for the second year in succession. In addition, the small effective appreciation of the peseta, the fall in non-oil raw material prices in 1986 and finally the greater weight of imported goods in the consumer basket (almost doubling in the two years to 1987) have also contributed to moderate inflation<sup>9</sup>.



Table 3. Prices  
Annual percentage change

	1983	1984	1985	1986	1986 Dec.	1987		
						June	Sept.	Oct.
National accounts price deflators								
GDP market prices	11.7	10.9	8.7	11.1		5.6 <sup>1</sup>		
Private consumption	12.4	10.6	8.3	8.9		5.4 <sup>1</sup>		
Consumer prices								
Total	12.2	11.3	8.8	8.8	8.3	4.9	4.4	4.7 <sup>2</sup>
of which:								
Excluding energy and seasonal food	12.3	10.8	8.8	9.9	9.9	5.6	5.5	5.6
Food, drinks and tobacco	10.7	12.6	9.5	10.6	10.6	4.3	3.0	3.5
Other	13.0	10.6	8.4	7.9	7.0	5.3	5.2	5.3
of which:								
Energy	16.1	10.5	4.5	-6.8	-9.0	-6.8	-4.1	-4.1
Industrial goods excluding energy	12.7	10.8	9.8	9.9	8.7	6.2	6.0	6.0
Services	13.3	11.0	8.0	9.1	8.8	6.1	6.2	6.3
Cost of construction	12.3	10.5	8.8	4.8	2.7	2.2		
Farmers								
Prices charged	9.2	9.7	3.8	10.4	7.4	3.2	-9.9	
Prices paid	17.9	13.2	4.4	2.7	0.3	-1.1	-1.0	
Effective exchange rate <sup>3</sup>	-16.7	-2.1	0.3	-0.9	1.3	-0.1	2.0	3.2 <sup>4</sup>
Spot exchange rate								
US dollars	-23.5	-10.7	-5.5	21.5	16.0	13.3	10.5	11.6 <sup>4</sup>
ECU	-15.7	0.7	-2.1	-6.0	-3.2	-4.6	-0.8	0.8 <sup>4</sup>

1. OECD estimates for 1987 as a whole.

2. The year-on-year rise in consumer prices was 4.7 per cent in November 1987.

3. Foreign currency per peseta.

4. In November the annual percentage changes *vis-à-vis* the US dollar and the ECU were respectively 19.7 and 0.8 giving an effective exchange appreciation of 4.6 per cent.

Sources: *National Accounts of Spain*, INE; *Boletín Estadístico*, Bank of Spain; *Síntesis Mensual de Indicadores Económicos*, Ministerio de Economía y Hacienda.

The advance of non-agricultural unit labour costs decelerated markedly in 1984 and, except for a temporary upsurge in 1986, has since then hovered around an annual rate of 6½ per cent. This apparent stickiness of cost inflation conceals two offsetting trends: the deceleration of average pay increases and a broadly matching slowdown in productivity advances. Wage settlements have remained at a rather high level since 1984. Indeed, the basic pay increase of 6.6 per cent agreed for 1987 is only 1 percentage point below the average level of wage settlements of the three previous years. Even so, the growth of earnings per employee has decelerated markedly from

Table 4. **Wages and labour costs**  
Annual percentage change

	1983	1984	1985	1986	1986 Dec.	1987		
						June	Aug.	Sept.
Total monthly earnings <sup>1</sup>	13.6	9.2	9.7	11.3	9.2			
In industry	13.0	8.4	11.0	12.0	9.4			
In construction	11.1	10.3	4.6	11.0	16.9			
In services	15.4	10.0	7.7	10.6	7.5			
Hourly ordinary earnings <sup>2</sup>	15.1	12.4	9.8	10.4	10.4	10.2	7.0	7.3
Monthly ordinary earnings <sup>2</sup>	13.7	10.0	9.4	10.9	10.1	7.5	7.1	7.8
Minimum wage rate per day	13.1	8.0	7.0	8.0	8.0	5.0		
Total compensation per employee <sup>3</sup>	14.5	11.8	9.5	7.8		6.7 <sup>4</sup>		
Collective agreements, basic pay	11.4	7.8	7.4	8.1	8.2	6.7	6.6	6.6
Unit labour costs <sup>3</sup> , total	11.6	6.6	6.4	7.0		5.5 <sup>4</sup>		
of which:								
Non-agricultural	11.0	7.3	6.6	8.8		6.2 <sup>4</sup>		
of which:								
Industry	9.3	7.3	4.1	6.2		5.0 <sup>4</sup>		

1. Including extraordinary earnings and excluding government.

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

3. Including social security contributions paid by employers, national accounts basis.

4. OECD estimates for 1987 as a whole.

5. Average compensation per employee divided by productivity growth, OECD estimate.

Sources: *Boletín Estadísticas Laborales*, Ministerio de Trabajo y Seguridad Social; *Síntesis Mensual de Indicadores Económicos*, Ministerio de Economía y Hacienda.

12 per cent in 1984 to probably some 6¾ per cent in 1987. The convergence of the growth rates between collectively agreed wages and average pay reflects more the changing structure of employment than the disappearance of wagedrift properly speaking, notably until 1986. Those having left the workforce have generally been relatively highly paid employees. By contrast, new hirings – exceeding quits, lay-offs and retirements by large margins – have largely consisted of young persons, temporary and part-time workers as well as apprentices and trainees under the Employment Promotion Programmes, all of them receiving relatively low wages. This compositional effect seems to explain the virtual disappearance of the economy-wide wagedrift. For those already employed, wagedrift is still important, though considerably less than in the last few years.

Reflecting a much higher-than-average growth of labour productivity, unit labour costs in manufacturing have increased over the last three years at a slower

pace than in the non-agricultural sector as a whole. Even so, industrial producer prices exhibited greater buoyancy than most other prices indicating substantial increases in profit margins. In other non-agricultural sectors the increase in profits has also been substantial. Excluding agriculture, the share of non-wage incomes jumped from an average of 42½ per cent of net national income in the four years to 1983 to almost 48¾ per cent in 1986. Allowing for the falling burden of financial charges, the improvement in profitability is even bigger than suggested by the relative rise of non-wage incomes.

## **Balance of payments**

Balance-of-payments developments over the past two years or so have been influenced by a number of important events, the cumulative impact of which is difficult to quantify, let alone to disentangle: first, Spain's accession to the EEC which has boosted trade with other EEC Members, notably on the import side, and has led to a surge of capital inflows; secondly, associated with EEC entry, a change in tariff barriers and border taxation which affected the time profile of imports and exports; finally, the fall of oil prices in 1986 which substantially reduced the import bill. In the following paragraphs an attempt is made to evaluate these effects. It is important to distinguish between short-run and longer-run effects. For most of the above events, notably the accession to EEC, only the initial results have shown up so far, providing little, if any, guidance for the assessment of the more lasting impact.

Due to the abolition of certain concealed export subsidies (in the form of fiscal rebates) following the introduction of VAT and the reduction of the interest rate subsidy on export credits applying to exports to the EEC on 1st January 1986, exports were brought forward in 1985. This partly explains the decline in volume exports in 1986, notably of manufactures by 10 per cent. Moreover, Spain suffered more than most other OECD countries from the reduction in imports by OPEC, COMECON and Latin American countries due to its relatively high share of exports in these markets<sup>10</sup>. The buoyancy of domestic demand seems to have diverted potential exports to the domestic market. There was a pick-up in volume exports early in 1987, partly led by food exports. The recovery of exports of manufactures has remained modest so far, pointing to a modest gain in export market shares<sup>11</sup>. Apart from the comparatively unfavourable cyclical position (buoyant demand at home and sluggishness in many export markets) and some deterioration of competitiveness (due to the continuing high rate of growth of domestic costs combined with a roughly stable effective exchange rate since mid-1985), deficiencies in export marketing (including the development of an adequate distribution network) may also have

Table 5. **Balance of payments**  
\$ billion

	1983	1984	1985	1986	1986	1987
					January to October	
					Transactions basis	Cash basis
Exports	19.9	22.6	23.6	26.6	22.3	27.2
Imports	27.5	26.9	27.7	32.8	26.2	36.0
Trade balance (f.o.b.)	-7.6	-4.3	-4.2	-6.3	-3.9	-8.8
Invisible receipts, total	14.5	15.6	16.6	24.3		
of which:						
Travel (tourism)	6.9	7.7	8.0	11.9	9.2 <sup>1</sup>	11.1 <sup>1</sup>
Transportation, insurance, freight	3.2	3.3	3.3	3.5		
Investment income	1.2	1.4	1.7	1.5		
Transfers	1.6	1.5	1.8	4.4	1.0 <sup>1</sup>	1.9 <sup>1</sup>
Invisible payments, total	9.4	9.3	9.7	13.9		
of which:						
Transportation, insurance, freight	2.2	2.2	2.1	2.2		
Travel (tourism)	0.9	0.8	1.0	1.5		
Investment income	3.6	3.8	3.5	3.5	1.7 <sup>1</sup>	2.1 <sup>1</sup>
Transfers	0.4	0.4	0.7	3.3		
Invisible surplus	5.1	6.3	6.9	10.4	9.2	11.4
Current account balance	-2.5	2.0	2.7	4.1	5.3	2.6
					Cash basis	
Current account balance	-3.5	1.1	1.6	5.0	5.3	2.6
Long-term capital, net	2.9	2.9	-2.9	-3.8	-3.2	8.0
of which:						
Private investment	1.4	1.7	1.9	4.2	3.6	7.4
of which:						
Foreign investment	1.6	2.0	2.5	5.1	4.2	8.0
of which:						
Direct	0.8	0.9	1.0	2.0		
Portfolio	0.0	0.2	0.5	1.7		
Real estate	0.8	0.9	0.9	1.4		
Credit and advances	1.5	1.2	-4.7	-8.0	-6.8	0.6
Short-term capital	0.5	1.5	-0.2	1.4	1.2	1.7
Other, including errors and omissions	-0.3	-0.9	-0.4	0.1	-0.1	-0.2
Change in reserves (+ = increase)	-0.3	4.5	-1.9	2.7	3.3	12.1
<b>Memorandum items:</b>						
Gross external debt, end of period	29.5	29.6	28.1	24.0	25.4	23.9 <sup>2</sup>
Official reserves, end of period	10.7	15.2	13.3	16.0	16.5	28.0

Note: Because of rounding, figures may not add.

1. Net figures for the first ten months.

2. June 1987.

Sources: *Balanza de Pagos de Espana*, Ministerio de Economía y Hacienda and *Boletín estadístico*, Banco de España.



contributed to the poor export performance. This also reflects the industrialisation process in which a number of industrial sectors have developed behind high protective walls catering for the home market, with exports as a residual activity.

The progressive revival of economic activity since the middle of 1985 has been accompanied by an unprecedented boom of imports. In 1986 and 1987, the volume of merchandise imports is estimated to have increased by an average annual rate of 19 per cent and imports of manufactures by over 30 per cent. In a large measure this unusually sharp increase may be seen as a return to the previous upward trend of the import/GDP ratio. Indeed, after rising by nearly 0.3 percentage points per annum in the ten years to 1980, the import share tended to fall for five consecutive years and in 1987 is estimated to be nearly 1½ percentage points above its long-term trend level<sup>12</sup>. The relative weakness of imports in the first half of the 1980s is closely related to the stagnation of demand. Inversely, a sharp recovery of activity, notably if led by domestic demand as in 1986 and 1987, has typically been associated with strong import leakages. Thus, demand growth might explain just over one-half of the volume increase in imports of manufactures between 1985 and 1987. Another part of the import surge could be related to improved price competitiveness of foreign suppliers. Indeed, prices of imported manufactures have fallen by 10 per cent relative to domestic producer prices, which on the basis of a price elasticity of demand of 0.8 could explain just less than one-fifth of the import growth. The remaining one-third might then be attributable to EEC effects<sup>13</sup>, which in turn could be divided into those resulting from agreed cuts of import duties and higher import quotas<sup>14</sup> and those flowing from other, less tangible, factors such as changing consumer tastes, emergence of new suppliers, etc<sup>15</sup>.

The EEC effects on exports are slower to materialise and are even more difficult to measure. To the extent that many multinational firms have shifted, or are shifting, lines of production to Spain, related initial imports of capital goods will be more than offset by subsequent exports. The effect of the gradual reduction by the EEC of the low effective average tariff (3 per cent) on Spanish manufactures has certainly been marginal. The increased attractiveness of the EEC market for Spanish exporters is, however, clearly witnessed by the fact that export performance in 1986 and in 1987 has been considerably better in EEC markets than elsewhere.

Over the longer-run, the net trade creation resulting from the integration into the EEC is expected to raise the still relatively low share of merchandise trade in GDP close to the average of the Community (25 per cent). In addition, as has already become evident, there will also be important trade diversion effects. In the agricultural sector a shift from the non-EEC to the EEC has taken place in 1986 and 1987, with the EEC import share in total Spanish food imports doubling since 1985 to 42 per cent in the first nine months of 1987. The corresponding export shares of food products are 56 per cent and 69 per cent. With regard to manufactures the changes



Table 6. Shifts in the structure of foreign trade

	1985	1980-84 Average	1985	1986	1987 Jan.- Sept.	1985	1980-84 Average	1985	1986	1987 Jan.- Sept.
	Exports					Imports				
Total merchandise trade	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EEC	52.3	49.2	52.3	60.3	63.3	36.8	32.2	36.8	50.3	54.4
Rest of OECD	18.3	15.4	18.3	17.3	15.8	20.1	20.8	20.1	21.4	18.9
Non-OECD	29.4	35.4	29.4	22.4	21.0	43.1	47.0	43.1	28.3	26.6
<i>of which:</i>										
Food <sup>1</sup>	14.9	100.0	100.0	100.0	100.0	10.7	100.0	100.0	100.0	100.0
EEC	8.4	57.7	56.3	63.3	68.5	2.4	19.6	22.0	37.8	41.5
Rest of OECD	3.4	18.3	22.8	20.6		3.5	41.9	33.2	24.8	
Non-OECD	3.1	24.0	20.9	16.1		4.8	38.4	44.8	37.4	
Manufactures <sup>2</sup>	72.8	100.0	100.0	100.0	100.0	44.1	100.0	100.0	100.0	100.0
EEC	36.7	46.2	50.4	59.9	63.4	28.5	63.1	64.7	67.3	70.7
Rest of OECD	12.9	15.2	17.7	16.3		12.4	29.9	28.1	25.2	
Non-OECD	23.2	38.6	31.9	23.8		3.2	7.0	7.2	7.5	
Export/Import coverage (%)						1986	1987 Jan.- Sept.	1986	1987 Jan.- Sept.	
						Annual percentage change, volume				
						Exports		Imports		
<i>Memorandum items:</i>										
Total merchandise trade		67.4	80.9	77.7	69.9	-4.4	8.6	16.2	27.0	
EEC		100.9	114.9	93.2	81.2	7.1	11.8	28.8	35.5	
Rest of OECD		53.3	73.8	62.6	58.2	-6.8	2.0	16.6	20.1	
Non-OECD		51.6	55.1	61.5	55.0	-23.4	5.2	5.2	18.6	
Food		109.5	113.1	96.4	108.5	-2.2	22.9	13.1	20.4	
EEC		293.0	289.2	161.6	178.9	7.5	33.5	39.5	42.4	
Rest of OECD		59.5	77.4	79.9		-10.6	9.6	-7.3	2.6	
Non-OECD		58.1	52.7	41.4		-19.2	0.7	15.2	13.8	
Manufactures		125.9	133.4	96.5	78.8	-9.7	5.5	29.7	34.7	
EEC		89.3	104.0	85.9	70.7	4.6	8.9	30.1	37.7	
Rest of OECD		63.5	83.7	62.4		-13.9	0.6	24.8	25.2	
Non-OECD		1091.7	593.8	305.9		-30.0	0.4	45.2	39.8	

1. Including processed food.

2. SITC 5 to 8.

Sources: *El Sector Exterior en 1986*, Ministerio de Economía y Hacienda, data submitted to the OECD by the Ministry of Economy and Finance, Madrid; *Foreign Trade by Commodities*, OECD, 1985.

are somewhat smaller but still very important. The EEC import share in value rose from 65 per cent in 1985 to 71 per cent in the first nine months of 1987. The magnitude of this increase is broadly what could have been expected given the integration process associated with a rapidly diminishing rate of protection and with "demonstration" effects biased in favour of the EEC. The big increase in the share of exports to the EEC from 50 per cent in 1985 of total manufactured exports to 63 per cent in the first nine months of 1987, exaggerates the trade diversion effects. It partly reflects the substantial cutbacks in imports by OPEC, COMECON and Latin American countries. Indeed, taking 1986 and 1987 as a whole, the volume growth of manufactured exports to the EEC remained moderate relative to market growth.

The fall in oil prices, which resulted in a balance-of-payments gain of \$3¼ billion in 1986, was more than offset by the swing of the non-energy trade balance from a surplus of \$3¼ billion in 1985 to a deficit of \$1¾ billion. With steeply rising imports, the non-energy deficit widened at about the same pace during 1987, which together with a somewhat bigger oil deficit is projected to produce a trade deficit of \$12½ billion for the year as a whole (4½ per cent of GDP compared with 2¾ per cent in 1986). This deterioration exclusively reflects volume changes more than compensating for the small improvement in the terms of trade. Whereas in the three years to 1985 the trade balance with the EEC was in surplus, it moved into deficit in 1986 which is expected to widen to 2 per cent of GDP in 1987. Higher invisible earnings from EEC countries should, however, provide a virtual offset.

After declining in real terms between 1978 and 1982, the total invisible surplus has been on a steep upward trend since then. In 1987 it is expected to reach 4¾ per cent of GDP (4 per cent in 1985). The improvement over the last few years is due to the buoyancy of tourism receipts and to a lesser extent to the declining trend of net investment income payments. The latter decreased from 1½ per cent of GDP in 1983-84 to ¾ per cent in 1987, reflecting both falling interest rates and the decrease of outstanding financial and commercial debt. By contrast, dividend and profit payments to abroad have increased over this period. Tourism has, however, remained the most important foreign exchange earner with receipts expected to reach about 4½ per cent of GDP in 1987. The other important invisible revenue item – emigrant remittances – has stagnated since 1983, reflecting sluggish income growth and a high unemployment rate in the EEC. In total, after three years of sizeable current balance-of-payments surpluses of around 1½ per cent of GDP, a major contraction to ½ per cent of GDP occurred in 1987.

The improvement of the capital account has been spectacular. Private foreign long-term net investment inflows may reach as much as \$9 billion in 1987, 3¼ per cent of GDP, following upon large inflows in both 1985 and 1986. Portfolio investment has been the fastest growing category, followed by direct business investment. Real estate investment experienced the least rapid growth, though rising

by about 15 per cent, annual rate, in the two years to 1987. The dramatic rise of net portfolio investment from \$500 million in 1985 to nearly \$5 billion annual rate in the first ten months of 1987 has been an important factor behind the buoyancy until October of the Madrid stock exchange. Despite some outflows in the last two months, net portfolio investment may amount to almost \$4 billion in 1987 as a whole, up from \$500 million in 1985. However, a substantial part of this is in reality direct business investment by foreign companies to acquire a controlling interest in Spanish companies or, through the issue of new shares, to increase the capital base of their own companies in Spain. In total, including part of portfolio investment, net foreign direct business investment may reach \$4 billion in 1987, a two-fold increase in two years. Metal products and machinery and equipment (including transport equipment) industries have been attracting the bulk of foreign direct investment over the last few years. The geographical distribution shows an increase in the share of EEC direct investment from about 48 per cent on average in the three years to 1985 to 65 per cent in 1986. The favourable balance of payments position, falling interest rates in Spain and rising profits explain the substantial private and public credit repayments since 1985. In 1986 net repayments to foreign creditors by companies amounted to \$3 billion and by the public sector to \$1½ billion. Influenced by rising domestic interest rates and the strong demand for credit for investment purposes, net repayments dried out in the second quarter of 1987 and provisional estimates indicate renewed net borrowing from abroad by business in the third quarter.

## **Economic policies**

Maintaining rapid growth to improve labour market conditions has ranked high among government priorities over the last few years. The comfortable balance-of-payments situation and the strong disinflationary impetus from abroad have removed important previous constraints on growth, permitting the pursuit of overall expansionary policies without jeopardising the adjustment process under way. However, the macroeconomic policy mix has changed during this period. In 1986, benefiting from the oil bonus, more emphasis was placed on reducing the budget deficit, while monetary policy remained broadly accommodating. In 1987, fiscal policy was broadly neutral or even slightly stimulative, whereas the monetary stance was tightened and the Government used more actively its leverage to moderate pay increases. The structural adjustment policies, initiated in 1983-84, were continued. Important progress has been made in reducing overmanning and improving the cash flow of public enterprises – and by increasing the scope of labour market policies – in enhancing the flexibility of the demand for and the supply of labour.

## *Fiscal policy*

The decline of the general government deficit (net lending) by some 1 percentage point of GDP in 1986 can be attributed to the retention by the Government of two-thirds (0.8 percentage points) of the windfall gain from the oil price fall and to automatic stabilizer effects (0.3 percentage points). Regarding the autonomous (regional) governments' budgets, 1986 was the last year of the transitory phase, during which the expenditure arising from the transfer of responsibilities from the

**Table 7. General government accounts**

National accounts definitions

Pesetas billion

	1984	1985	1986	1987 <sup>1</sup>
Current revenue	8 350	9 697	11 495	12 931
Direct taxes	2 055	2 374	2 681	3 412
Indirect taxes	2 302	2 727	3 566	3 810
Social security contributions	3 283	3 658	4 140	4 489
Other	710	938	1 108	1 220
Current expenditure	8 730	10 175	11 812	12 962
Public consumption	3 440	3 841	4 476	5 029
of which:				
Wages and salaries	2 634	2 935	3 352	3 720
Social security benefits	3 636	4 175	4 676	5 111
Investment income	534	991	1 319	1 316
Current transfers and other	1 120	1 168	1 341	1 506
Net saving	- 380	- 478	- 317	- 31
(% of GDP)	(- 1.5)	(- 1.7)	(- 1.0)	(- 0.0)
Consumption of fixed capital (receipts)	148	170	190	208
Fixed investment <sup>2</sup>	659	992	1 083	1 254
Net capital transfer payments	437	574	620	660
Net lending (+) or net borrowing (-)	- 1 328	- 1 874	- 1 830	- 1 737
(% of GDP)	(- 5.3)	(- 6.7)	(- 5.7)	(- 4.9)
<i>Memorandum items:</i>				
Changes in financial balances (% of GDP) <sup>3</sup>				
Actual	(- 0.7)	(- 1.4)	(+ 1.0)	(+ 0.8)
Built-in stabilizers	(- 0.3)	(- 0.4)	(+ 0.3)	(+ 0.8)
Structural budget balance, total	(- 0.4)	(- 1.0)	(+ 0.7)	(+ 0.0)
Structural budget balance adjusted for inflation	(- 0.3)	(- 1.0)	(+ 1.2)	(- 0.5)

*Note:* Because of rounding, figures may not add.

1. Estimates of the General Directorate of Forecasts and Conjuncture, Ministry of Economy and Finance.

2. Including purchase of land.

3. Changes in net lending; a positive sign indicates a move towards restriction (surplus) and a negative sign, a move towards expansion (deficit).

Sources: *Actuación Económica y Financiera de las Administraciones Públicas*, Ministerio de Economía y Hacienda and OECD estimates.



central to the autonomous governments were financed largely through state transfers based on *ad hoc* arrangements<sup>16</sup>. As from 1987 new definitive arrangements are in place, covering initially the period 1987-1991. The major part of the revenues (60 per cent) of the autonomous regions is now automatically transferred by the central government, which allocates a predetermined proportion of its tax receipts for this purpose. This "unconditional financing" will be shared among the regions on the basis of a weighting system, in which the population weight is 74 per cent and that of the area 15½ per cent. In addition, the central government ceded certain taxes, and the autonomous governments at their discretion levy other taxes, accounting respectively for about 17 per cent and 2½ per cent of their total revenues. Finally, the remaining 20 per cent is "conditional" financing (i.e. central government subsidies and grants, EEC transfers and sums from the Fund for Inter-territorial Compensation). The share of the autonomous regional governments in total central government tax revenues increased from 5½ per cent in 1979 to 11 per cent in 1986. Changing responsibilities on the expenditure side have been even more significant, with important long-term implications for fiscal policy and demand management. The share of the autonomous governments in total general government consumption rose from 0.3 per cent in 1980 to 15 per cent in 1986 and for fixed investments from 1.7 per cent to 32 per cent respectively. Including local authorities, the regional authorities' share stood at 28 per cent and 62 per cent respectively in 1986.

The initial 1987 Budget proposals embodied a further decline of both the central and the general government deficit by some ½ percentage point of GDP<sup>17</sup>, reducing the planned central government deficit on a cash basis to 4½ per cent of GDP. Some indirect tax rates were slightly increased and most personal income tax allowances were raised to take account of the projected inflation of 5 per cent during 1987. However, tax brackets and marginal tax rates remained unchanged, implying continuing fiscal drag. Moreover, it was decided that large companies would transfer every month to the tax authorities the taxes retained on wages and salaries (before the transfer took place every quarter), thus raising considerably personal tax receipts on a *cash* basis in 1987. In total, a relatively modest increase of general government revenue as a per cent of GDP was planned, as a major part of the envisaged cut in the deficit was expected to result from falling interest payments in the face of declining nominal interest rates. All other expenditure categories were projected to increase at about the same rate as or faster than nominal GDP.

In the event, expenditure and especially revenue, increased considerably faster than budgeted<sup>18</sup>. Owing to the unexpectedly strong expansion of activity and the drive against tax evasion both direct and indirect taxes exceeded their planned levels. In the 1988 Budget proposals (submitted to Parliament at the end of September 1987) the personal income tax brackets applying to 1987 incomes were raised by 5 per cent so as to eliminate fiscal drag resulting from inflation. Despite this adjustment personal income taxes collected by the central government are estimated



to rise on a cash basis to 6.4 per cent of GDP compared with the initial 1987 estimate of 5.2 per cent<sup>19</sup>. Similarly, company taxes seemed to have increased very rapidly. The faster-than-budgeted increase of direct taxes pushed the central government's tax/GNP ratio to 18¼ per cent compared with 17.4 per cent budgeted and 17 per cent recorded in 1986 (all on a cash basis).

The overruns of State expenditure were relatively limited in 1987. In the first ten months of the year, consumption expenditure exceeded the corresponding level of a year earlier by some 14 per cent, broadly in line with the Budget, but fixed investment is rising considerably less than plans. Finally, interest payments fell somewhat due to the fact that in the early part of the year the deficit was largely financed through virtually interest-free loans by the Bank of Spain and low-yield Treasury bills (see Part II). Even if there are no data on expenditure by regional authorities, some overruns seem also likely in this area. On the other hand, strong employment and income growth as well as falling inflation suggest that social security expenditure will be broadly in line with budget estimates. In total, general government expenditure may have risen by roughly 10 per cent, about the same rate as nominal GDP.

The 1987 general government deficit on a national accounts basis may show a decline to just under 5 per cent of GDP (0.8 percentage point below the 1986 level). The central government deficit may see a similar contraction to 4½ per cent of GDP, more than wholly accounted for by cyclical factors. Although developments in 1986-87 point to difficulties in containing expenditure, it should be noted that the ratio of general government expenditure to GDP is not particularly high by international standards (about one-fifth below that of OECD Europe and just about that of OECD total). However, given pressing social and infrastructural needs, the government share is expected to remain on an upward trend. Nevertheless, the speed at which this is happening – from 30 per cent of GDP in 1979 to 42½ per cent in 1987 – suggests that individual expenditure items should be better monitored and screened so as to keep expenditure, notably of regional and local governments within manageable levels over the medium term.

The 1988 Budget proposals are again expansionary with the discretionary fiscal stimulus estimated at ¼ to ½ per cent of GDP. However, because of built-in stabilizers, both the State deficit on a cash basis and the general government deficit on a national accounts basis are officially planned to be reduced by ¼ per cent of GDP. (The OECD projects no change). The revenue side incorporates the impact of a proposed reform of personal income taxation, involving substantial personal income tax reliefs<sup>20</sup>, with a total budgetary cost equivalent to ½ to ¾ per cent of GDP. These measures are designed to alleviate the tax burden of most income categories, except for the top categories with an income of more than Ptas 20 million (\$155 000) whose burden will increase somewhat. The low and medium-income categories are expected to benefit most. In 1988, almost 1 million low income earners will thus be exempted

Table 8. **State Budget and financing**  
Cash basis, pesetas billion

	1984	1985	1986	1987		1988	January-October	
				Budget	Pro- visionnal outcome <sup>1</sup>	Budget	1986	1987
Total revenues	3 903	4 437	5 699	6 360	6 915	7 296	4 757	5 827
Direct taxes	1 670	1 934	2 167	2 487	3 031	3 107	1 990	2 667
of which:								
Households	1 274	1 456	1 564	1 854	2 265	2 310	1 515	2 003
Enterprises	329	400	526	546	659	724	429	612
Indirect taxes	1 534	1 823	2 781	2 933	3 053	3 297	2 367	2 636
Transfers	184	188	209	560	465	427	199	287
Other taxes and revenues	515	492	542	380	366	465	201	237
Total expenditure	5 155	5 883	7 073	7 861	8 213	8 627	5 872	6 700
Current expenditure	3 931	4 814	5 534	6 601	6 595	7 153	4 533	5 201
Wages and salaries	1 119	1 294	1 392	1 591	1 572	1 733	1 098	1 230
Goods and services	176	191	186	232	193	265	140	185
Current transfers	2 266	2 555	2 991	3 886	3 881	4 163	2 425	2 972
Interest payments	370	774	965	892	949	992	870	814
Capital expenditure	966	1 163	825	1 260	848	1 474	637	737
Fixed investment	369	410	289	565	348	657	254	366
Capital transfers	597	753	536	695	500	817	383	371
Other	258	-94	714	—	770	—	702	762
Budget balance	-1 252	-1 446	-1 374	-1 501	-1 298	-1 331	-1 115	-873
Extra-budgetary operations	-88	-44	-72	—	-57	—	-10	-108
Net overall balance	-1 340	-1 490	-1 446	-1 501	-1 355	-1 331	-1 125	-981
Financial operations, net	-801	-395	-397	-143	-146	-165	-516	-277
Borrowing requirement	-2 141	-1 885	-1 843	-1 644	-1 501	-1 496	-1 641	-1 258
Financing net								
External debt	236	-293	-228				-2	-298
Bank of Spain	-659	442	-607				-695	-709
Domestic debt	2 364	1 736	2 678				2 338	2 265
	1984	1985	1986	1984	1985	1986		
	Net of intra-government transfers			Gross deficit				
<b>Memorandum item:</b>								
Deficit per cent of GDP								
(national accounts basis)								
General government	5.3	6.7	5.7	5.3	6.7	5.7		
State government	-1.3	0.0	-1.0	5.4	5.9	5.1		
Public entities and corporations	1.2	0.8	0.2	-0.1	-0.2	-0.1		
Social security	3.7	4.3	4.5	—	0.4	0.2		
Autonomous governments	2.0	1.5	2.1	0.3	0.4	0.3		
Local authorities	-0.4	—	—	-0.2	0.2	0.2		

Note: Because of rounding, figures may not add.

1. Official estimates.

Sources: Intervencion General; *Presentacion de los Presupuestos Generales del Estado 1988*, Ministerio de Economia y Hacienda; and OECD estimates.

from filing an income tax declaration, i.e. 14 per cent of total personal income tax declarations. For those with an income one-third below the economy-wide average wage and salary level the real disposable income gain will be  $7\frac{1}{2}$  per cent, for the average wage and salary earner 7 per cent and for those with ten times as high 2 per cent. The other important budgetary change is an adjustment of some VAT rates aimed at gradually harmonising them with those prevailing in the principal EEC countries. This together with an increase of alcohol and beer taxes is estimated to increase indirect tax revenues as a share of GDP by 0.2 per cent.

All expenditure items are budgeted to increase rapidly, so that total general government expenditure will continue growing relative to GDP. Expenditure by the autonomous governments is estimated to increase somewhat faster than that of the central government. Reflecting the need to improve significantly the economic and social infrastructure, fixed investment is again expected to grow faster than most other expenditure items. Similarly, capital transfers to both public and private sector companies are budgeted to increase markedly, reflecting structural adjustment efforts as well as higher transfers for housing and school buildings. Growing public debt and relatively high interest rates combined with a shift in favour of marketable securities for financing the public sector deficit explain the planned rapid growth (12 per cent) of interest payments in 1988. It is worth noting that after a marked fall of the non-interest general government deficit from a high of 4 per cent of GDP on average in 1983 and 1984 to  $\frac{3}{4}$  per cent of GDP in 1986, the likely outcome for 1987 and the 1988 Budget plan points to no further decline, underlining the difficulties in reducing the structural component of the deficit.

### *Monetary policy*

Contrary to 1986, when the initial monetary targets could broadly be met at falling interest rates<sup>21</sup>, monetary management proved to be more difficult in 1987, when an overshooting of targets took place in the context of sharply rising interest rates. Difficulties in forecasting and controlling the demand for monetary aggregates, large financial claims of the public sector and the unexpected strength of economic activity in general were at the root of these problems<sup>22</sup>.

For 1987 the authorities had set the growth target for ALP (the wide monetary aggregate) at 8 per cent with a margin of  $\pm 1.5$  percentage points, deemed consistent with an expected 3 per cent real GDP growth and 5 per cent consumer-price inflation through the year. Largely because of a planned increase in long-term bond financing with the non-bank public, domestic credit to the public sector was projected to grow at 10 per cent, about half the 1986 rate. This implied a rate of growth of  $7\frac{1}{2}$  per cent for private sector credit, somewhat less than in the previous year. Developments have markedly deviated from the original projections. From January to October ALP

advanced at a seasonally-adjusted annual rate of 14.3 per cent. At the same time, nominal interest rates, especially short-term rates, rose sharply. The Bank of Spain lending rate stood at about 17½ in September, some 6 points above its December level but 3 points below its peak in May. In real terms, the one-to-three-year banks' lending rate had risen by some 5 percentage points since the end of 1986 to around 11 per cent (real rate) in September, relatively high both by international and domestic standards.

Part of the difficulty experienced in 1987 originated in late 1986, when the authorities actively encouraged what, in retrospect, appears to have been an excessive reduction in interest rates, partly aimed at depreciating the peseta *vis-à-vis* EEC countries. In addition, expanding activity also led to a strong demand for credit, so

Table 9. **Monetary aggregates**  
Pesetas billion

	1984	1985	1986	1984	1985	1986	1987 September
	Pesetas billion			Annual percentage change			
Currency	1863	2081	2402	7.5	12.1	13.0	13.1
Sight deposits	3787	4246	4750	10.4	11.8	15.4	12.7
M1	5650	6327	7152	6.3	12.1	11.9	12.9
Savings deposits	4777	5300	5975	6.6	10.9	12.7	8.0
Time deposits	10559	10508	9874	17.2	-0.5	-7.0	4.9
M3-M1	15336	15808	15849	13.6	3.1	0.3	6.1
M3	20986	22135	23001	12.0	5.4	3.9	8.1
Treasury bills, total	714	2256	3646	175.9	216.0	61.6	39.6
Held by the public	390	686	960	-3.9	75.9	39.9	12.7
Repurchase agreements	324	1570	2686	—	384.9	71.1	49.9
Private-created liquid assets	1383	1681	2616	12.9	21.5	55.6	31.6
Other liquid assets	2097	3937	6262	28.6	87.7	59.1	36.3
ALP <sup>1</sup>	23083	26072	29263	13.3	12.9	12.2	13.9 <sup>2</sup>
Net domestic credit	24364	28195	32079	12.0	15.8	13.9	13.0
Public sector	6368	8669	11717	48.3	37.3	21.6	14.0
of which:							
State	5553	7574	9453	63.2	36.4	24.8	14.2
Private sector	17997	19527	21363	2.0	8.9	10.7	12.5
of which:							
Loans in peseta	15521	17286	19147	1.2	11.4	10.7	11.9
GDP at market value	25123	27854	32061	12.9	11.1	14.9	10.3 <sup>3</sup>

1. ALP stand for "liquid assets in the hands of the public", which include M3, Treasury Bills, repurchase operations with public assets, bank bonds, mortgage securities, bankers' acceptances, guaranteed commercial paper, liabilities on insurance operations, repurchase operations with private assets and Bank of Spain certificates (CRM) until 1984.

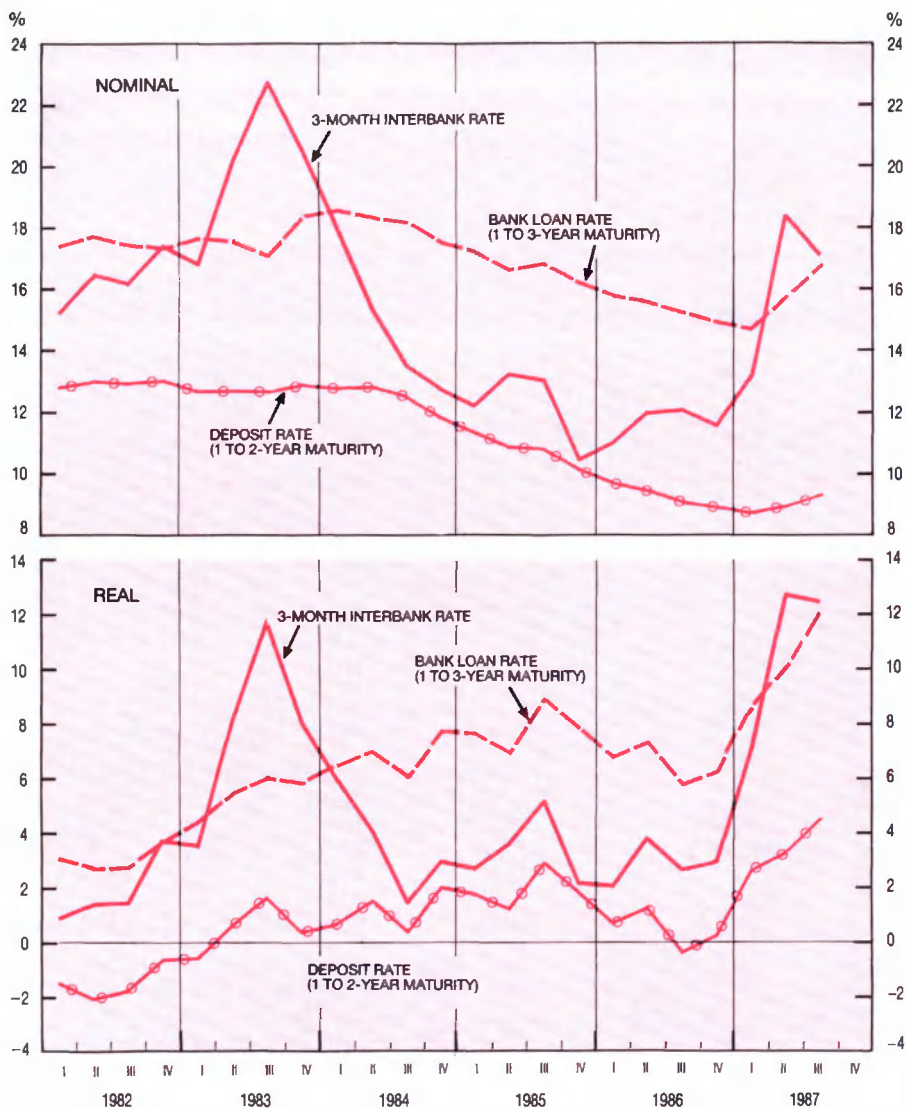
2. The November year-on-year increase was 14.3 per cent.

3. OECD estimate for 1987 as a whole.

Source: *Boletín estadístico*, Banco de España.



Diagram 3. **INTEREST RATES**



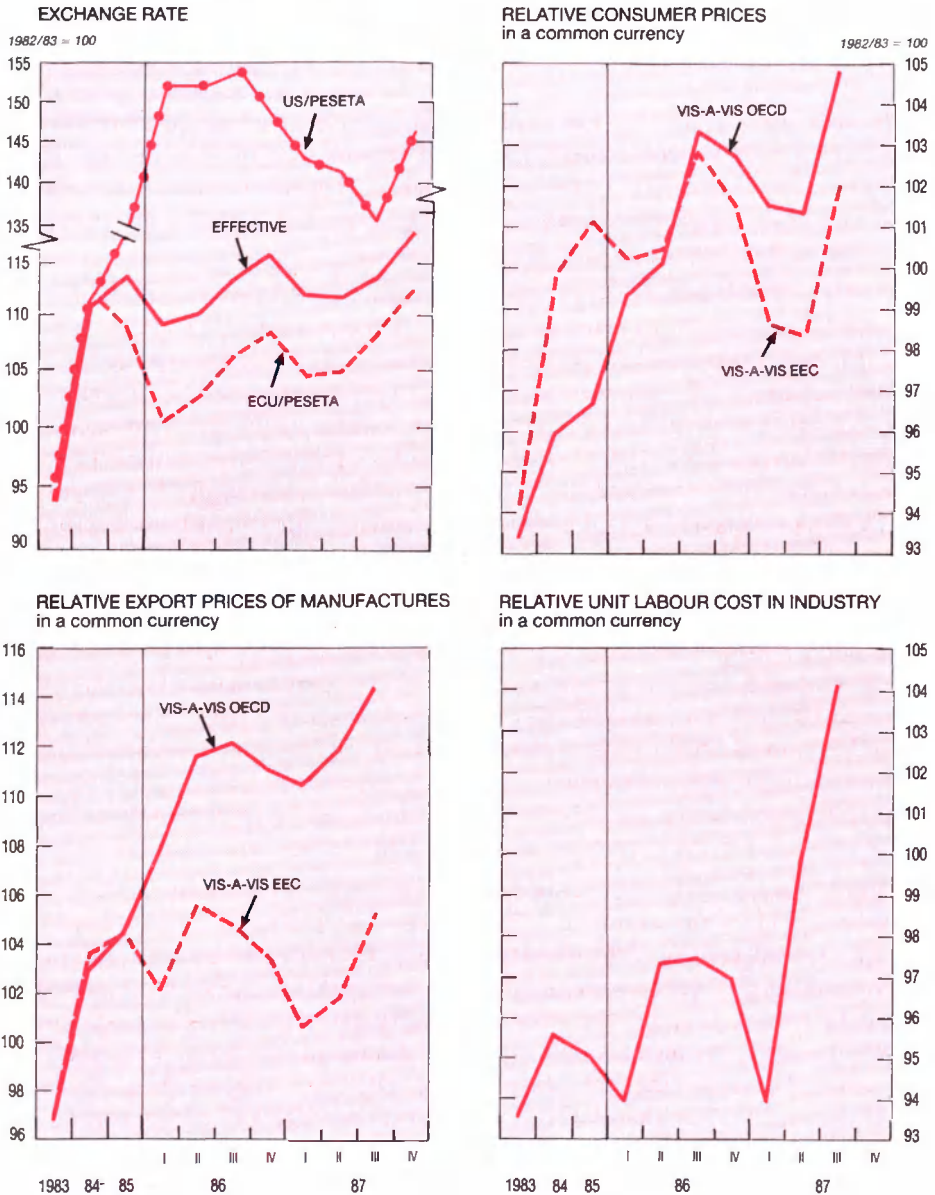
Source: OECD, *Financial Statistics*.

that in the year to December the growth of credit to the private sector reached 10.7 per cent, almost one-third more than the target. Mainly driven by consumer credit, the growth of private credit remained high in the first quarter of 1987, peaking at 22.6 per cent in February, with the growth of ALP amounting to almost 18 per cent. Attributing the overshooting mainly to changing seasonal factors, the authorities reacted gradually. The Bank of Spain intervention rates rose only slightly, while bank reserves were exceeding original targets and the peseta depreciated further *vis-à-vis* the EEC area – by 3.3 per cent over December-March, reflecting the concern of the authorities to maintain external cost/price competitiveness in the face of relatively strong increases of unit labour costs.

The Treasury's reluctance to finance the deficit at market rates through either Treasury bills or long-term bonds implied increasing recourse to the Bank of Spain. Thus, in January-April over 80 per cent of the State deficit was financed by the Bank, thereby increasing the monetary base and the potential for credit expansion. This induced a strong growth of ALP, reinforcing the effects stemming from the increase in official foreign exchange reserves. In mid-March the authorities tightened monetary conditions by raising the reserve-requirement ratio from 18 to 19 per cent and the Bank of Spain marginal intervention (lending) rate from 12½ in February to 15 per cent by the end of March<sup>23</sup>. Due to the absence of a well-developed market for government securities (see Part II), the interbank rate followed closely the rise in the central bank intervention rate. Continuing capital inflows, partly stimulated by the rise in interest rates, compounded the problems of monetary control, triggering off further rises of interest rates. In April the reserve-requirement ratio was raised further to 19.5 per cent, with the marginal intervention rate peaking at over 22 per cent in May. In addition, to stem short-term capital inflows the base for calculating reserve-requirements was extended to include convertible pesetas and the increment in net foreign-exchange liabilities<sup>24</sup>. Bank loan rates were responding, but not sufficiently to bring the expansion of private credit in line with original targets.

In the absence of a wider set of monetary instruments (see Part II, Accommodation in monetary targeting), it became clear that the trade off between higher interest rates and control of the monetary aggregates had deteriorated dramatically. At the same time, evidence was emerging that the initial targets for ALP might have significantly overestimated the decrease in money-velocity<sup>25</sup>. The impasse was resolved through the introduction of new instruments of control and, above all, acceptance of overshooting initial targets. The latter also reflected the accommodation of the much faster-than-forecast real growth of GDP (4½ per cent instead of 3 per cent). In May an automated book-entry system for the trading in long-term government bonds came into operation, greatly facilitating transactions and deepening the market, especially through bank repurchase sales with the public. In July, the authorities introduced a new short-term instrument, "Letras del Tesoro", which, as explained in Part II is not suitable like Treasury bills (Pagares del Tesoro)

Diagram 4. EXCHANGE RATE AND COMPETITIVENESS



Sources: Data submitted by the spanish authorities for all series except for exchange rates which are OECD estimates.

as a means of tax evasion and whose higher yield (15.5 per cent in June against 7½ per cent for Treasury bills) has ensured its acceptance amongst the public. Indeed, substantial sales of this new short-term paper and of long-term bonds at market rates during the summer months permitted repayment of central bank advances. Thus, at the end of September, the State's net debt to the Bank of Spain had been reduced by Ptas 355 billion compared with end-1986 levels. Above all, in a context of higher output growth than originally expected and falling inflation, the monetary authorities have progressively lessened the squeeze, focusing on a gradual decline of interest rates to levels more in line with underlying inflation.

After the stock exchange crash, the falling tendency of interest rates has been reinforced. The Bank of Spain's marginal intervention rate was lowered to about 14½ per cent in early November, down almost 3 percentage points in just over one month. This together with some relaxation in credit conditions contributed to reducing the interbank weekly rate, which is particularly sensitive to changes in liquidity in the economy as a whole, from 17½ per cent at the end of September to 14½ per cent in mid-November. The changes in commercial lending rates have, however, been less pronounced. Exchange rate policy also changed in the course of 1987. After resisting a revaluation of the peseta until the spring, leading to a sizeable accumulation of foreign exchange reserves, the authorities let the peseta appreciate during the second half of the year. Between April and end-November, the peseta appreciated by almost 8 per cent in effective terms. An effective appreciation did not only occur *vis-à-vis* the dollar area but also against the ECU (by 4 per cent during the same period compared with a depreciation of 6 per cent in the year to April 1987). This represents some shift in policy, which before had focused on broadly maintaining competitiveness *vis-à-vis* its EEC partners, even if this meant a marked deterioration *vis-à-vis* North America especially since the spring of 1985.

### *Structural policies*

When the last OECD Survey of Spain was published, a comprehensive industrial restructuring programme (mostly under the Law of July 1984) was under way, affecting both private and public sector companies<sup>26</sup>. The emphasis was placed on reducing capacity in declining industries and in modernising those economically viable. Given the concentration of declining industries in a few areas, the Government created ZURs (areas of urgent reindustrialisation)<sup>27</sup> so as to promote the establishment of new production units in these regions by providing fiscal advantages such as investment credits, subsidies and other assistance. In addition, extensive financial aid was given to persons affected by the restructuring, providing either generous redundancy payments combined with unemployment benefits (including early retirement) or retraining schemes under the Employment Promotion Fund (EPF). The EPF also helps redundant labour to find new jobs by offering subsidies for their



Table 10. Industrial restructuring programme

Sector	Reference period	Number of enterprises	Initial workforce	Target reduction		Reduction by 31.12.1986		
				Absolute numbers	% initial workforce	Actual	% of final reduction	% share in total actual reduction
Shipbuilding	1984-1987	29	37 347	13 105	35.1	13 166	100.5	20.5
Carbon-based steel	1981-1990	3	42 837	20 076	46.9	14 137	70.4	22.0
Speciality steel	1981-1988	11	13 744	8 728	63.5	4 981	57.1	7.8
Home appliances	1981-1987	18	23 869	12 961	54.3	11 928	92.0	18.6
Textiles	1982-1986	683	108 844	9 925	9.1	9 925	100.0	15.5
Standard-ITT	1984-1991	2	18 681	10 925	58.5	2 696	24.7	4.2
ERT (Group)	1984-1987	10	10 242	2 252	22.0	1 962	87.1	3.0
Electrical equipment	1982-1985	2	6 720	1 342	20.0	1 451	108.1	2.3
Electronic components <sup>1</sup>	1982-1985	17	3 744	1 544	41.2	1 430	92.6	2.2
Others	1982-1988	16	14 321	2 905	20.3	2 508	86.3	3.9
Total		791	280 349	83 763	29.9	64 184	76.6	100.0

1. Including electronic components for motor-cars.

Source: Data submitted to the OECD by the Ministry of Industry and Energy, Madrid.

employment. In addition, the Government has been pursuing policies to improve the economic situation of the companies controlled by the State-owned holding company INI<sup>28</sup> and of the State railways (mainly RENFE).

The scope of industrial restructuring under the 1984 Law has been enhanced since 1985. For a number of sectors the period of restructuring has been extended and bigger reductions in capacity and employment have been proposed. For example, in line with EEC policy, additional cuts in iron and steel production are now planned and in a number of sectors somewhat greater difficulties have developed than originally assumed. Moreover, new firms have joined the restructuring programmes. As a result, out of an original workforce of 280 000 the planned reduction of employment at the beginning of 1987 was estimated at about 83 763 persons i.e. 30 per cent of the workforce compared with an earlier planned 25½ per cent. By the end of 1986, 77 per cent of the envisaged cuts in the workforce were realised and in a number of sectors (e.g. shipbuilding, electronic components for motor cars) lay-offs exceeded those proposed under the restructuring plans. Moreover, in view of the worsening longer-run outlook for shipbuilding, additional reductions in capacity and employment may be envisaged in large shipyards. So far, early retirement accounted for about one-fourth of employment cuts with the remainder roughly equally divided between those who were covered by the EPF and those made permanently redundant. A very high proportion of those having joined the EPF have already been offered a job, mainly in the ZURs, where some 18 600 new jobs have been created, following approval for some 560 new projects in these areas. Moreover, except for the rapidly declining industries, in which the reduction of sales exceeded those of employment (e.g. shipbuilding), there has been a spectacular growth of productivity in most other sectors under industrial restructuring. As a result, the financial situation in almost all sectors has improved appreciably. Financial costs as a per cent of total sales have in many companies more than halved since 1984 with the cash flow position also improving considerably.

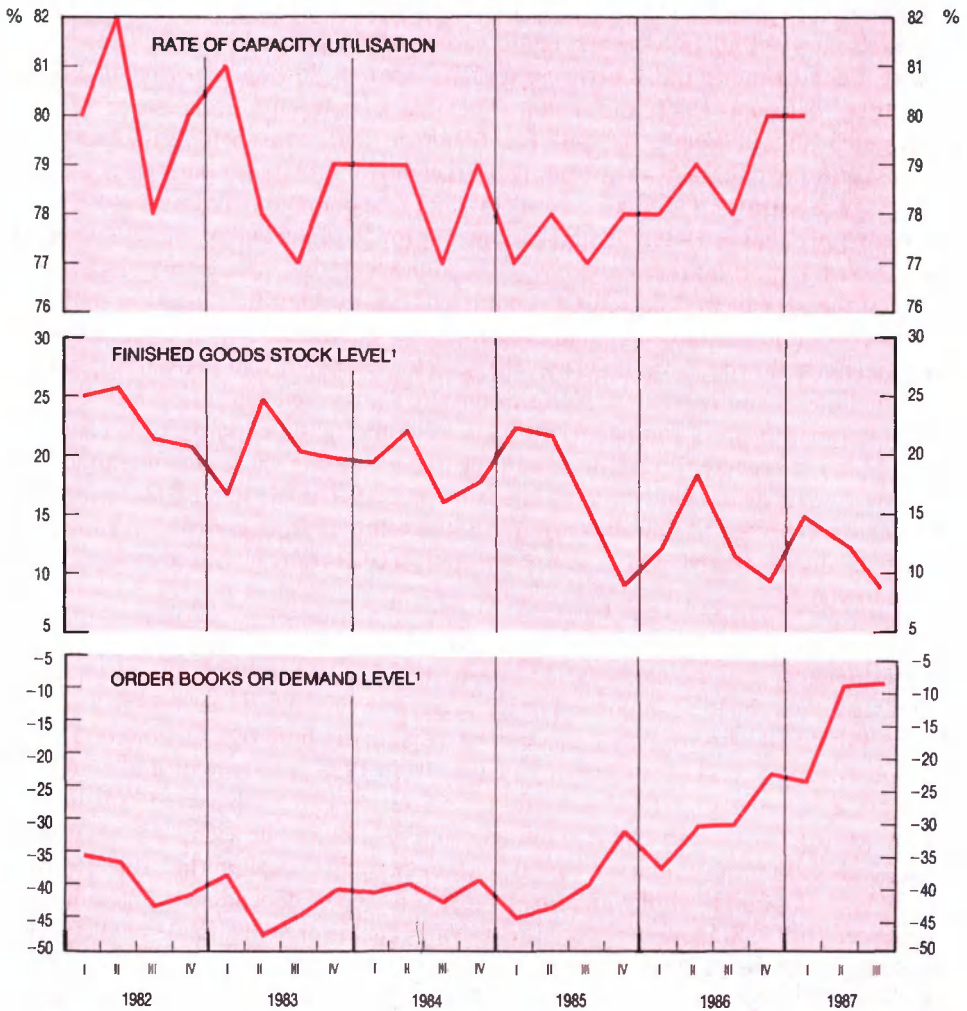
The reorganisation of enterprises under the control of INI has begun to bear fruit, though there is still some way before the overall position of INI can be considered satisfactory. In the three years to 1986 INI's losses halved to just over Ptas 100 billion (as a per cent of GDP from ¾ in 1983 to ½ in 1986 and to probably ¼ in 1987). Despite the conversion of some debt to equity, financial expenses as a per cent of total revenues remained broadly stable at 12 per cent, owing to a lower rate of capitalisation of financial expenses and an increased value of debt (as a result of restructuring of power utility assets). Excluding the latter, financial expenses decreased by 1½ per cent in relation to total revenues. The biggest success was Iberia (the national airline company) which, after incurring substantial net losses in previous years, recorded a small net profit in 1986. Reflecting rising sales, the overall situation continued to improve in 1987. The 1988 budget transfers to the INI are expected to be kept at the 1987 amount of Ptas 160 billion, implying some decrease in

real terms and pointing to a decline in the total losses of the INIs' companies. Apart from SEAT (sold to Volkswagen), INI sold 15 more companies to the private sector during the last eighteen months. These sales do not reflect a privatisation policy along the lines followed in other OECD countries over the last few years. They are rather the corollary of a new industrial strategy aimed at concentrating the activities of INI on certain industrial sectors only, thereby reaping the benefits of specialisation and economies of scale and meeting the challenge of increasing competition with larger EEC groups. Furthermore, in 1986 INI sold 40 per cent of its shares in GESA (a power utility) to industrial investors. This is the first operation of a new policy of disinvesting part of its shares through the stock exchange, but always keeping a majority interest in the companies concerned. With regard to RENFE (the state railways) the 1988 Budget provides for a big increase in State transfers to finance ambitious modernisation plans for its railway network.

### **Short-term prospects**

The basic forces shaping economic developments since the middle of 1985 can be expected to persist in 1988: on the domestic front broadly accommodating macro-policies (see section above on economic policies) and ongoing industrial adjustment, coupled with government action to moderate pay increases and, externally, sluggish growth in main export markets. Though projected to decline somewhat during 1988, historically high real interest rates may represent the only major domestic factor damping the growth of activity. Assuming a quick return to orderly conditions on international financial markets and reasonable exchange rate stability, the OECD projections are for continuing favourable developments in almost all areas<sup>29</sup>. Though likely to slow down, fixed investment is expected to remain the mainstay of the upswing, buoyed by high profits, favourable demand prospects and again by sizeable inflows of long-term foreign capital. In addition, the drastic reduction of unused capacity in some industrial branches should stimulate business investment. Housing starts have been rising rapidly (14 per cent up in the first half of 1987 over a year earlier), suggesting a sustained rate of construction activity during most of 1988. Continuing substantial increases in real household income, sizeable capital gains in the housing market and steep rent increases should also support strong growth of housing investment in 1988 and beyond. Offers for tender for government projects have risen by 14 per cent in the first nine months of 1987 over a year earlier, pointing together with the 1988 Budget proposals to continued buoyancy of government investment. Similarly, given the planned increase in expenditure for social services, education and security, general government consumption should remain a source of strength. All in all, government expenditure on goods and services may contribute just over one-fourth to the growth of GDP in 1988.

Diagram 5. **BUSINESS SURVEYS**



1. Difference between positive and negative replies regarding the deviation of stocks or orders from normal levels.

Source: OECD, *Main Economic Indicators*.



Given the generally favourable income and employment outlook, private consumption should continue to show rapid increases. All household income components are projected to post substantial real gains, which combined with income tax reliefs may well sustain the rate of increase of real disposable household income at almost 4 per cent for the fourth consecutive year, following a period of virtual stagnation between 1977 and 1984. The fast expansion of the stock of new apartments should boost demand for furniture and household appliances. By contrast, after two years of an unusually big increase of private car purchases, a pause of new car registrations seems likely. Total domestic demand may thus grow by just less than 5 per cent in 1988, the highest rate of growth projected by the OECD in the OECD area. Export market growth is foreseen to accelerate, though remaining more subdued than for most other OECD countries. This acceleration together with new lines of production coming on stream to supply foreign markets should combine with positive effects flowing from EEC membership to ensure a rather satisfactory rate of growth of merchandise exports. And this despite a projected continued deterioration in cost competitiveness and persistently strong domestic demand pressure. Accordingly, Spain is expected to continue gaining export market shares for manufactures by some 2 per cent in 1988<sup>30</sup>. Following rapid increases in 1986 and 1987, exports of services are expected to slow down somewhat in volume terms, contributing together with non-manufactured goods to a projected deceleration in the growth of total volume exports.

Fast growth of final expenditure, the EEC effects and worsening relative competitiveness can be expected to result again in substantial but diminishing increases in merchandise imports. The elasticity of total imports with respect to final demand should decline somewhat from its exceptionally high rate in 1986 and 1987, thus permitting real GDP to grow by nearly 3½ in 1988. In line with the pattern of demand, a vigorous growth of manufacturing output can be expected. Substantial output growth for the third year running, reinforced by public sector hirings and by policy-induced improvements in labour market flexibility, explain the projected high rate of growth of total employment by 2¼ per cent and of dependent employment by 2½ per cent in 1988. However, as in the previous couple of years, rising participation rates may keep the growth of the total labour force at 1¾ per cent compared with a trend-rate of 0.6 per cent between 1976 and 1985. Even so, there are good prospects for the unemployment rate to drop to the 20 per cent mark by the end of 1988.

The Government has set the norm for pay rises in 1988 at 4 per cent, anticipating an increase of consumer prices of 3 per cent during the year. This norm has been included in the 1988 Budget and is to be applied to central government employees. Similarly, social security and government pensions are budgeted to increase by about the same rate. The outcome for 1988 settlements is difficult to predict. On the one hand, the few wage agreements already concluded indicate relatively small deviations from the government's pay norms and employers appear more inclined to

Table 11. **The short-term outlook**  
Annual percentage change

	1987	1988	1989 <sup>1</sup>
	OECD projections		
Private consumption	4½	3½	3½
Government consumption	6	4½	3½
Gross fixed investment	14	8	6½
Total domestic demand	6½	4½	4
Exports of goods and services	7½	4½	4½
Imports of goods and services	19	10	7½
Foreign balance <sup>2</sup>	-2½	-1½	-½
GDP at constant prices	4½	3½	3½
Industrial production <sup>3</sup>	4½	4	3½
<i>Memorandum items:</i>			
Average earnings per employee, private sector	6½	5½	5
Real household income	4½	3½	2½
Unit labour costs, non-agriculture	6½	4½	4
Unit labour costs, manufacturing	5	4	3½
GDP price deflator	5½	4	3½
Consumer prices	5½	4½	3½
Total productivity	1	1½	1½
Total employment	3½	2½	2
Unemployment rate <sup>4</sup>	20½	20½	19½
General government net borrowing (- = deficit, per cent of GDP)	(-4.9)	(-4.9)	(-4.5)
Current external balance (US\$ billion) (Per cent of GDP)	(1½ ) (½ )	(-2) (-½ )	(-4) (-1)

1. Extrapolations of 1988 trends and assuming restrictive fiscal policy and further wage moderation.

2. Contribution to growth of GDP.

3. Value added.

4. New Labour Force Survey data.

Sources: OECD Secretariat estimates.

accept the norm this year as a basis for discussion than has been the case up to now. On the other hand, labour unions' wage claims and growing demand for labour, especially for skilled labour, may make it difficult to keep wages down to the 4 per cent guideline. Against this background, the Secretariat projections are for an average pay increase of 5½ per cent in 1988 as a whole. This, combined with a small acceleration in the growth of non-agricultural productivity, should lead to a

deceleration in the growth of non-agricultural unit labour costs to around 4¾ per cent. Given further cuts in tariffs and quotas, total imports should again exert a moderating influence on prices despite higher energy costs and a slight acceleration of inflation abroad. On the assumption that the increase in prices of the volatile food component will be relatively small, prospects are favourable for the rate of inflation to converge to the average rate for OECD Europe of about 4 per cent in 1988 as a whole. In line with past cyclical patterns, these projections imply a narrowing of profit margins and hence a deceleration in the growth of profits in 1988.

After doubling in 1987, the trade deficit is projected to rise by about one-half to \$18¾ billion (6 per cent of GDP) in 1988. Higher energy prices account for about 10 per cent of this increase. A large part of the deterioration of the trade balance should be offset by higher invisible receipts. Earnings from tourism should again grow significantly and some increase in private remittances also seems probable. Similarly, net transfers from the EEC should remain on an upward trend. On the other hand, after declining markedly in 1987, net investment income payments are likely to rise due to higher interest rates on foreign debt and growing dividend and profit payments entailed by the substantial foreign capital inflows of recent years. In total, the current account is projected to move back into deficit to the tune of \$2 billion in 1988 or ½ per cent of GDP. Given the relatively high returns on financial and real investments, Spain should continue to attract foreign long-term capital sufficient to maintain the basic balance of payments in surplus.

The OECD projections for 1989 represent little more than an extrapolation of prospective 1988 trends. It is assumed that the effective exchange rate will remain stable and that – after the substantial tax reliefs of 1988 – fiscal policy will be tightened somewhat while monetary conditions may ease further. Moreover, it seems reasonable to anticipate a decline of the inflow of foreign investment capital. On these expectations, the rate of growth of both total domestic demand and of GDP is projected to decelerate, though at 4 per cent and at somewhat less than 3½ per cent respectively, remaining above potential for the fourth consecutive year. If this projection is close to the mark, the unemployment rate can be expected to come down further. *On the assumption* that wage claims incorporate falling price expectations, the advance of consumer prices should moderate further. Reflecting continued differential growth in favour of Spain, the current account deficit is likely to increase, but at a projected level of 1 per cent of GDP would still remain within manageable limits.

## **II. Financial markets and monetary policy**

The progressive integration of Spain within the world economy, has called, and still calls, for fundamental changes in the economy, including the financial system and the conduct of monetary policy. A more competitive environment and the demands for financial discipline implicit in the acceptance of international monetary arrangements have been, and will continue to be, a major force shaping developments in the financial and monetary domains. The challenge of integration represents unique opportunities but also risks. Despite greater exposure to events abroad, it provides the opportunity for a leap forward in the process of economic development within a more stable environment. But the economy may be ill-prepared to take advantage of the potential for better allocation of resources or too weak to face an external shock. Thus, a study of the workings of the financial system and of the conduct of monetary policy appears particularly pertinent at this juncture<sup>31</sup>.

At the beginning of the 1970s, the Spanish financial system was highly regulated, with strict constraints on quantities, prices, and the number and admissible operations of institutions. Since then, the declared policy intention has been to reduce its compartmentalisation, to promote competition and to allow a greater role for the free interplay of market forces, both domestic and international. This objective has been pursued with differing degrees of determination and success. On the one hand, EEC entry and a comfortable balance-of-payments position have recently provided an important stimulus to a number of reforms, notably in the area of international capital flows and financial integration. On the other, the difficulty of reconciling relatively large budget deficits with low debt-servicing costs and an anti-inflationary monetary policy have acted as a serious brake on further liberalisation. The government financing requirements have also been at the root of problems in monetary management, both at the level of formulation and implementation of policy.

### **The financial system**

The Spanish economy saves and invests a proportion – around 20 per cent – of GDP, in line with the OECD average. A crucial development over the last decade has



been the growth of the financing needs of the general government. The general government deficit (cash basis), negligible until 1976, rose steadily to reach 7.3 per cent of GDP in 1985 before dropping below 6 per cent in 1986, one-third above the OECD average. The external sector, on the other hand, tended to be a net lender during the decade to 1983; i.e. the balance of payments showed a deficit on current account. Since then it has been a sizeable net borrower. The intermediation process is relatively undifferentiated, with banks exhibiting a particularly dominant position. Historically, as in Germany or Japan, banks have maintained very close links with the enterprise sector, playing a key role in the development of the economy. Independent capital markets, despite the fortunes, until very recently, of the stock exchange, are relatively thin<sup>32</sup>.

### *Non-financial sectors*

As Table 12 indicates, at the end of 1986 close to 80 per cent of the financial assets, and about 70 per cent of the liabilities, of the non-financial domestic sectors were held with credit institutions. Of these, banks (including the Bank of Spain) accounted for about 90 per cent of both assets and liabilities. The rest was essentially taken up by official credit institutions, government-controlled intermediaries specializing in long-term lending. Various forms of bank deposits and cash are therefore the dominant financial asset, accounting for some 60 per cent of total holdings. Despite the recent sharp increase, share capital is limited to about 12 per cent and negotiable long-term securities are of little significance, overshadowed by the rapid growth of short-term money-market instruments since 1981, mainly Treasury bills. Nevertheless, these do not absorb more than about 7 and 13 per cent of total financial assets and liabilities respectively. Foreign-exchange asset holdings are very small while foreign-exchange liabilities are somewhat less than 10 per cent, partly as a result of controls on international capital flows which have prevented lending but encouraged borrowing. Although since the mid-1970s there has been a tendency towards greater differentiation, the overall picture has not changed markedly.

The importance of banks within the financial system helps to explain why relatively liquid assets account for close to 80 per cent of the financial assets of households and non-financial enterprises. This proportion, not untypical of a number of OECD-Mediterranean countries, has remained practically unchanged over time (Table 13). Similarly, the narrowness of direct channels of finance is indicated by the fact that not much more than 10 per cent of assets and liabilities are intra-sectoral claims, basically in the form of share capital as private security issues are of negligible significance. Comparatively low self-financing ratios, reliance on credit institutions and the relatively small volumes of share finance imply high gearing ratios for

Table 12. **Financial assets and liabilities of non-financial domestic sectors<sup>1</sup>**

Percentage composition

	Assets				Liabilities			
	1975	1981	1986 <sup>2</sup>		1975	1981	1986 <sup>2</sup>	
			Same series	New series			Same series	New series
<i>By instrument</i>								
Cash and deposits <sup>3</sup>	76.9	78.1	67.5	58.6	0.3	0.3	0.9	0.8
Short-term securities	1.8	2.0	7.7	6.7	—	0.7	14.5	13.0
Long-term securities	2.4	2.1	4.6	4.0	15.9	13.9	16.8	15.1
Loans	6.7	7.8	7.8	6.8	62.9	64.5	48.0	42.9
Shares	8.4	4.5	5.3	12.5	7.5	4.8	6.4	13.1
Foreign exchange	0.9	1.4	2.2	1.9	8.7	13.7	9.0	8.0
Other	2.9	4.1	4.9	9.5	4.7	2.1	4.4	7.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Pesetas billion)	(7 057)	(18 989)	(41 192)	(47 414)	(7 426)	(21 361)	(45 993)	(51 404)
<i>Held against</i>								
Financial institutions	95.0	93.8	83.9	78.1	86.3	82.4	76.0	71.2
<i>of which:</i>								
Bank of Spain <sup>4</sup>	7.6	7.1	5.9	5.1	4.5	8.4	5.9	5.3
Banks	77.7	75.3	67.1	63.5	73.9	66.4	61.1	57.9
General government	0.9	2.5	5.8	5.1	1.5	0.9	4.2	3.8
Households and firms	3.2	2.3	8.3	15.1	2.4	3.4	8.4	14.8
Non-residents	0.9	1.4	2.0	1.7	9.8	13.3	11.4	10.2
<i>Memorandum item:</i>								
Per cent of GDP	117.3	111.8	128.7	148.1	123.4	125.7	143.7	160.6

1. Non-consolidated.

2. There is a break in the series in 1982. For previous years no data are available on the shares issued by households and non-financial firms which were held by the same sector. Similarly, for the same period the "other" item in the financial institutions' balance sheet is published essentially on a net rather than gross basis. To permit a historical comparison, the column labelled "same series" has been estimated on a similar basis to 1975 and 1981. The column labelled "new series", however, is more complete and gives a better picture of the present situation.

3. Including repurchase sales of short-term securities by financial institutions.

4. As an asset, essentially cash.

Sources: *Informe Anual*, Statistical Appendix, Banco de España, and OECD Secretariat estimates.

Table 13. **Financial assets and liabilities of households and non-financial enterprises<sup>1</sup>**  
Percentage composition

	Assets				Liabilities			
	1975	1981	1986 <sup>2</sup>		1975	1981	1986 <sup>2</sup>	
			Same series	New series			Same series	New series
<i>By instrument</i>								
Cash and sight deposits	30.6	26.7	20.6	17.5	—	—	—	—
Other deposits <sup>3</sup>	52.6	58.7	54.4	46.3	—	..	0.8	0.7
Short-term securities	2.0	2.2	9.0	7.7	—	0.7	2.4	2.0
Long-term securities	2.2	2.3	5.3	4.5	10.5	7.9	7.7	6.6
Loans	—	—	—	—	66.9	68.6	62.6	53.2
Shares	8.4	4.3	4.1	12.5	8.5	5.9	9.7	18.6
Foreign exchange	1.0	1.5	2.3	2.0	9.2	15.4	11.7	9.9
Other	3.2	4.3	4.3	9.5	4.9	1.5	5.1	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Pesetas billion)	(6 349)	(17 031)	(35 303)	(41 543)	(6 621)	(17 444)	(30 662)	(36 071)
<i>Held against</i>								
Financial institutions	96.2	94.3	86.9	79.8	86.0	82.4	73.5	67.1
<i>of which:</i>								
Bank of Spain <sup>4</sup>	8.4	7.9	6.8	5.8	2.9	1.9	1.1	0.9
Banks	84.5	82.7	75.1	69.8	76.1	73.8	62.8	57.2
General government	0.9	2.7	6.4	5.5	1.6	1.0	5.9	5.0
Households and firms	1.9	1.5	4.5	12.9	1.9	1.5	5.2	14.8
Non-residents	1.0	1.5	2.2	1.8	10.5	15.1	15.4	13.1
<i>Memorandum item:</i>								
Per cent of GDP	105.5	100.2	110.3	129.8	110.0	102.7	95.8	112.7

1. Non-consolidated.

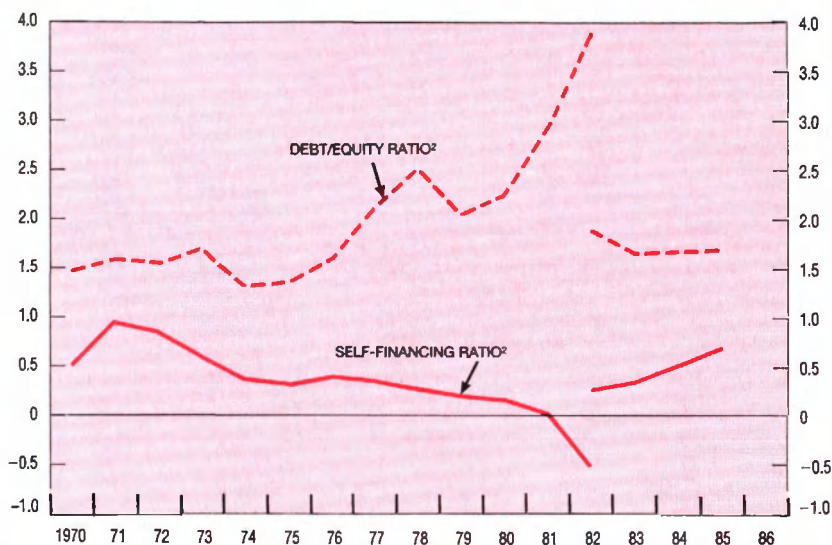
2. There is a break in the series in 1982. For previous years no data are available on the shares issued by households and non-financial firms which were held by the same sector. Similarly, for the same period the "other" item in the financial institutions' balance sheet is published essentially on a net rather than gross basis. To permit a historical comparison, the column labelled "same series" has been estimated on a similar basis to 1975 and 1981. The column labelled "new series", however, is more complete and gives a better picture of the present situation.

3. As an asset, it includes repurchase sales of short-term securities by financial institutions.

4. As an asset, essentially cash; as a liability, mainly Bank of Spain loans to public enterprises.

Sources: *Informe Anual*, Statistical Appendix, Banco de Espana, and OECD Secretariat estimates.

Diagram 6. **SELF FINANCING AND GEARING RATIOS:  
A SAMPLE OF FIRMS<sup>1</sup>**



1. There is a break in the series in 1982. More recent data are taken from a larger sample of firms. See Table 14 for the precise definitions.

2. For the precise definitions, see Table 14.

Sources: E. Gutiérrez and E. Fernández, *La empresa española y su financiación*, *Estudios Económicos*, N° 38, Banco de España, 1985; and data from the *Central de Balances* submitted by national authorities.

non-financial enterprises. Debt/equity ratios, based on a representative sample of firms (Table 14), tend to be high by international standards, though lower than in Germany or Japan. Reliance on debt finance increased from the mid-1970s until the mid-1980s but declined thereafter, mirroring the favourable profit situation of enterprises and the related attractiveness of equities (Diagram 6).

Since the mid-1970s, as a result of growing borrowing requirements, the government sector has become increasingly important in shaping the configuration of the financial system. From only 10 per cent of the total liabilities of non-financial domestic sectors, the government's liabilities increased to over 30 per cent by 1986 (Table 15). The rise of the asset share was much less marked but still significant, from 10 to 15 per cent. During the same period the *net* general government debt soared from 1½ per cent to about 30 per cent of GDP. About 16 per cent of the gross debt is held by the Bank of Spain, a similar proportion to that in 1975 but down from



Table 14. Self-financing and gearing ratios: an international comparison<sup>1</sup>

	1974-1979	1975	1980-1982	1980	1983-1985	
	Gearing	Self-financing	Gearing	Self-financing	Gearing <sup>2</sup>	Self-financing
United States	0.96	0.90	0.85	0.82	0.84	1.14 <sup>3</sup>
Japan	3.31	0.41	2.99	0.63	2.20	0.69 <sup>4</sup>
Germany	3.36	0.56	4.03	0.49	3.10	0.59 <sup>4</sup>
France	1.33	0.57	1.39	0.60	1.56 <sup>3</sup>	0.67
United Kingdom	1.38	0.51	1.13	0.74	1.10	1.18 <sup>4</sup>
Canada	1.22	0.77	1.25	0.72	1.11	0.99
Spain <sup>5</sup>	1.81	0.31	3.00	-0.12 <sup>6</sup>	1.66	0.52

1. The self-financing ratio of enterprises is defined as retained income gross of depreciation and provisions divided by investment in non-financial assets. The gearing ratio of enterprises is defined as gross liabilities excluding equity and trade credit divided by capital and reserves. Equity is at market prices except for France, Canada and Spain for which it is at book value.

2. Estimates.

3. 1983 only.

4. 1983-1984.

5. Data for 1983-1985 are taken from a larger sample of enterprises.

6. 1980-1982.

Sources: National balance-sheet data; OECD, *Financial Statistics*; OECD, *National Accounts Statistics*; E. Gutiérrez and E. Fernández, *La empresa española y su financiación*, *Estudios Económicos* No. 38, Banco de España, 1985; data submitted by national authorities and OECD Secretariat estimates.

Table 15. Financial assets and liabilities of general government

## Percentage composition

	Assets				Liabilities			
	1975	1981	1985	1986	1975	1981	1985	1986
<i>By instrument</i>								
Deposits	20.0	14.9	22.9	21.5	2.6	1.5	1.1	1.0
Short-term securities	..	..	..	..	0.0	0.8	38.9	38.9
Long-term securities	3.3	1.0	0.2	0.2	60.2	40.7	26.2	35.1
<i>of which:</i>								
Non-marketable	—	—	—	—	43.2	27.9	15.7	13.3
Loans	66.2	75.6	56.9	54.9	30.0	46.1	24.9	18.7
<i>of which:</i>								
To official credit institutions	62.5	72.5	43.7	41.4	—	—	—	—
Shares	9.6	7.4	11.0	13.5	—	—	—	—
Foreign exchange	—	—	—	—	4.2	5.8	6.1	3.6
Other	0.9	1.1	9.0	9.9	3.0	5.1	2.8	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Pesetas billion)	(709)	(1 958)	(5 468)	(5 870)	(805)	(3 917)	(13 111)	(15 333)
<i>Held against</i>								
Financial institutions	84.2	89.4	68.5	65.6	88.3	82.6	81.2	81.1
<i>of which:</i>								
Bank of Spain	2.8	3.5	2.1	1.7	17.7	37.2	21.7	15.7
Banks	17.4	11.6	20.3	19.1	55.6	33.4	53.1	59.4
General government	0.6	0.6	2.4	2.3	0.5	0.3	1.0	0.9
Households and firms	14.7	9.3	28.4	30.9	7.1	11.8	12.2	14.8
Non-residents	0.5	0.7	0.7	1.2	4.1	5.3	5.6	3.2
<i>Memorandum item:</i>								
Per cent of GDP	11.8	11.5	19.6	18.3	13.4	23.1	47.1	47.9

Sources: *Informe Anual*, Statistical Appendix, Banco de España, and OECD Secretariat estimates.

the 40 per cent peak of the early 1980s. Other financial intermediaries (mainly banks) hold some 60 per cent. After a marked fall until the end of the 1970s, the part of the debt in the form of securities has risen to almost 75 per cent, some 15 percentage points more than in the mid-1970s. Short-term securities (Treasury bills) now account for over half of the total, having experienced a spectacular growth after their introduction in 1981. The relative attractiveness of this instrument at times of high and variable inflation is obvious, but fiscal advantages and, more recently, compulsory requirements on banks are also partly responsible<sup>33</sup>. Although the recent decline of inflation did encourage a major once-and-for-all upsurge in new issues of long-term securities in 1985-1986, compulsory-investment requirements have been the main factor sustaining their share over the longer period<sup>34</sup>. The funds so obtained are then on-lent to official credit institutions.

### *Credit institutions*

The Bank of Spain has absorbed an increasing volume of government net liabilities. Their share in the Bank's assets has climbed from about 12 per cent to almost half between 1975 and 1985, dropping somewhat in 1986 (Table 16). This movement has been mirrored by a similar rise in net claims by financial intermediaries. A growing proportion of these are compulsory investments, reflecting

Table 16. **Balance sheet of the Bank Spain**  
Percentage composition

	Assets				Liabilities			
	1975	1981	1985	1986	1975	1981	1985	1986
General government	14.3	44.4	46.3	37.1	2.0	2.1	1.8	1.6
<i>of which:</i>								
Credits	13.8	41.6	35.4	24.2	—	—	—	—
Public sector enterprises	15.4	8.8	5.5	4.8	—	—	—	—
Financial institutions	26.9	14.4	15.9	22.2	33.5	50.4	60.1	59.1
<i>of which:</i>								
Short-term securities	—	—	—	—	0.1	12.9	1.5	..
Households and firms	1.6	0.4	0.2	0.2	53.7	41.1	34.4	37.2
Non-residents	35.3	35.3	27.7	29.7	4.4	1.3	0.8	0.7
Other	6.5	-3.5	4.4	6.0	6.4	5.1	2.9	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Pesetas billion)	(998)	(3 299)	(6 148)	(6 510)	(998)	(3 299)	(6 148)	(6 510)
<i>Memorandum item:</i>								
Per cent of banks' assets	14.5	15.9	15.3	14.8	14.5	15.9	15.3	14.8
Per cent of GDP	16.6	19.4	22.1	20.3	16.6	19.4	22.1	20.3

Sources: *Informe Anual*, Statistical Appendix, Banco de España, and OECD Secretariat estimates.

efforts to "sterilize" at low cost the impact of public sector deficits on credit and monetary expansion. Since a large fraction of central-bank credits to the government is in fact at zero interest rates, the central bank has incurred losses in the early 1980s<sup>35</sup>.

The consolidated assets of banks amount to some 90 per cent of those of all financial institutions (excluding the Bank of Spain) but to an even higher percentage once net liabilities of other intermediaries with banks are taken into account, notably official credit institutions. Banks also hold a sizeable share of the capital of other financial intermediaries. The degree of size-concentration of the sector is relatively high and has increased since 1980<sup>36</sup>. The seven largest banking groups, headed by the "big seven"<sup>37</sup>, hold over 80 per cent of total assets (including interbank claims), against 72 per cent in 1980.

At the end of 1986, there were 359 banks divided into three broad categories: 145 small *rural savings banks and cooperatives* holding only some 4 per cent of total assets and deposits (excluding interbank claims), 79 *savings banks* accounting for almost one-third and close to 40 per cent of assets and deposits respectively and the so-called "private banks"<sup>38</sup> which hold the lion's share of the banking business. The savings banks are non-profit making institutions<sup>39</sup>, though from the point of view of management little differentiates them from other banks. They have tended to attract the savings of small depositors, to lend less heavily to the industrial sector, to play a limited role in international transactions, to have a more regional orientation and to be subject to broader quantitative controls. Since the mid-1970s, the gradual move towards a less discriminating regulatory framework has been an important factor towards the marked reduction in their differentiation from other banks.

Thirty-four foreign banks operate in Spain. They have all been established after 1978, when new banking provisions were introduced, favouring and regulating the establishment of foreign institutions. Four other banks with a majority of foreign capital already existed before, but they operate under the same regulations as Spanish banks. The foreign banks' share in total bank assets has risen to some 7 per cent, against only 3 per cent in 1980. While still relatively low by international comparison, this figure underestimates the dynamic impact of foreign banks.

On the asset side of banks' balance sheets, the most notable development has been the decline in the share of households and firms – largely in the form of loans – by some 30 points since 1975 to around 45 per cent, mainly counter-balanced by a rise in the combined share of the government and the Bank of Spain to about one-third (Table 17). This rise largely took the form of compulsory deposits with the Central bank and Treasury bills. A growing proportion of these bills have in turn been sold to the public through repurchase agreements, mainly as a close substitute for other less attractive forms of deposits. On the liabilities' side, the share of

Table 17. **Balance sheet of Banks**  
Percentage composition

	Assets			Liabilities		
	1975	1981	1986	1975	1981	1986
<i>By instrument</i>						
Real <sup>1</sup>	2.8	4.4	3.0	4.7	6.4	7.7
Cash and deposit <sup>2</sup>	12.2	13.5	20.6	78.2	73.1	73.6
<i>of which:</i>						
Sight deposits	—	—	—	22.2	16.6	14.2
Repurchase agreements Bank of Spain	4.7	5.2	9.2	—	—	—
Short-term securities	1.3	3.2	11.4	3.3	1.9	4.2
Long-term securities	13.8	11.3	12.9	—	—	—
<i>of which:</i>						
Non-marketable	4.9	4.9	4.6	—	—	—
Loans	57.3	52.0	42.2	4.9	3.8	4.9
Shares	4.0	2.1	1.9	8.2	3.8	3.5
Foreign exchange <sup>3</sup>	5.2	12.3	9.5	5.7	12.9	8.6
Other <sup>4</sup>	3.4	1.2	-1.5	-5.0	-1.9	-2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
(Pesetas billion)	(8 648)	(20 727)	(43 848)	(8 648)	(20 727)	(43 848)
<i>Held against</i>						
Financial institutions	14.1	17.1	22.8	14.8	13.5	18.6
<i>of which:</i>						
Interbank	9.1	8.8	11.5	9.1	8.8	11.5
Bank of Spain	4.8	7.7	9.3	0.2	0.3	0.2
General government	6.5	6.3	22.2	1.3	1.1	2.7
Households and firms	73.2	62.1	44.3	77.9	67.9	64.7
Non-residents	3.4	10.1	7.7	5.7	12.9	8.7
Unclassified <sup>5</sup>	2.8	4.4	3.0	0.3	4.6	5.3
<i>Memorandum item:</i>						
Per cent of GDP	143.7	122.0	137.0	143.7	122.0	137.0

1. As a liability, it includes capital and reserves.

2. Including repurchase-agreement operations.

3. The values are approximate only, especially before 1984.

4. As an asset, net residual items. As a liability, valuation adjustment for shares. On a gross basis, the "other" item would also include some additional interbank transactions. There are no figures relating to those before 1982. The corresponding values for 1985 and 1986 were 2.8 per cent and 1.0 per cent of the balance sheet.

5. As an asset, real investments. As a liability, valuation adjustment plus capital and reserves, rounded.

Sources: *Informe Anual*, Statistical Appendix, Banco de España, and OECD Secretariat estimates.



non-interbank low-yield sight deposits in the total (including repurchase agreements) has fallen from almost half to about one-quarter.

Official credit institutions ("Crédito Oficial") are government-owned, specialising in long-term lending at below-market rates – mainly fixed – to various economic activities (construction and housing, agriculture, industry, shipping and fishing, exports and local authorities)<sup>40</sup>. They were created with the aim of complementing private initiative. By 1986, over 60 per cent of their cumulated finance had come from Treasury funds ("dotaciones") set aside in the annual Budget<sup>41</sup> (Table 18). This sum had in turn been largely collected through the issue of non-negotiable securities compulsorily held by banks, the rest being covered by Bank-of-Spain advances. The foreign and, even more so, the domestic market sectors had been used as residual, though increasingly important, sources of finance. Recently, measures have been taken to abolish the privileged financing channels.

Table 18. **Balance sheet of official credit institutions**  
Percentage composition

	Assets			Liabilities		
	1975	1981	1986	1975	1981	1986
Real assets <sup>1</sup>	0.5	0.3	0.7	0.9	3.7	5.6
Cash and deposits	2.1	2.6	6.5	2.6	4.1	13.4
Marketable securities	0.2	0.4	1.3	5.2	6.2	11.7
Loans to/from non-financial residents	82.6	76.2	66.2	88.4	76.7	61.5
of which:						
General government <sup>2</sup>	19.1	19.8	13.2	88.4	76.7	61.5
Households and firms	63.5	56.4	53.0	—	—	—
Loans to/from financial institutions	14.0	18.1	17.3	—	1.1	—
Non-residents	—	1.5	2.9	2.9	8.2	4.1
Other	0.6	0.9	5.1	—	—	3.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
(Pesetas billion)	(503)	(1 853)	(3 956)	(503)	(1 853)	(3 956)
Per cent of banks' assets	7.3	8.9	9.0	7.3	8.9	9.0
Per cent of GDP	8.4	10.9	12.4	8.4	10.9	12.4
<i>Memorandum items:</i>						
Funds from banks <sup>3</sup>	15.5	19.6	20.4	71.1	70.7	64.4
of which:						
Non-marketable securities	—	—	—	67.1	54.4	47.8
Net position vis-à-vis banks	-55.6	-51.1	-44.0			

1. Liabilities under this heading include capital and reserves.

2. Liabilities under this heading are the funds ("dotaciones") granted by the Treasury. Most of them are non-marketable securities placed with banks.

3. Estimate which includes deposits and non-negotiable securities only.

Sources: *Informe Anual*, Statistical Appendix, Banco de España, and OECD Secretariat estimates.

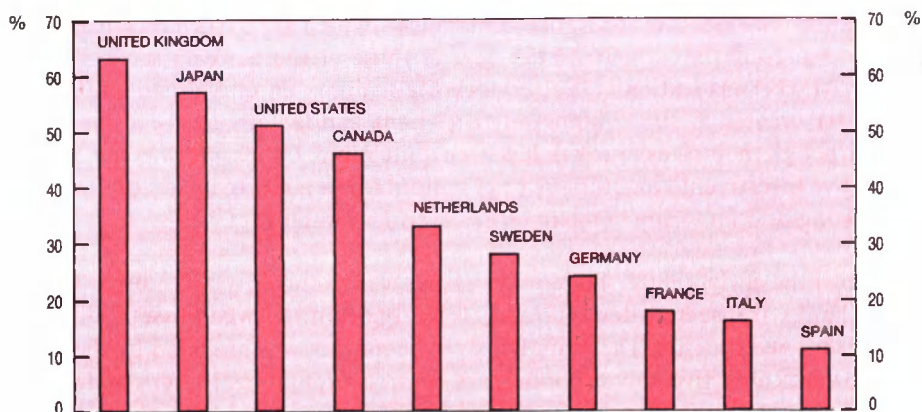
### *Other institutions and markets*

A number of other financial institutions exist, but they are of limited importance. The assets of insurance companies – which are in turn mostly owned by banks – represent only about 2½ per cent of those of the banking sector. Those of Money Market institutions (“Sociedades Mediadoras en el Mercado de Dinero”, SMMDs), created in 1981 and mainly with bank capital, amount to around 0.5 per cent, although their rate of growth has been quite rapid. Other intermediaries such as “collective investment” institutions (e.g. mutual funds), mortgage credit institutions and leasing and factoring companies are even less important.

Until the early 1980s, the money market was exclusively an interbank market where banks transacted deposits and, less importantly, other assets eligible for compulsory investments. The main boost to the market was provided by the move in 1974 towards an active policy of monetary control through restrictions on the supply of bank reserves<sup>42</sup>. The market remained rather limited until the arrival of foreign banks as demanders of funds<sup>43</sup>. Yet, its extension in significant amounts beyond the confines of the banking system was made possible only by the development of a Treasury bill market, especially in the form of sales to the public under repurchase agreements. Activity in this secondary market peaked in 1985 and further development largely depends on the willingness of the authorities to issue these securities at market rates (see Part I, Monetary policy). In April 1987, arrangements were put into place to activate a similar market in medium- and long-term debt. The primary and secondary market in short-term enterprise paper has remained relatively thin, although it has grown rapidly during the last couple of years.

The capitalised value of the shares quoted on the Spanish Stock Exchange at the end of 1986 was about 11 per cent of GDP, relatively low by international standards (Diagram 7). The value of transactions equalled some 40 per cent of the capitalised value, well up on the negligible amounts of the late 1970s and early 1980s which hovered around 2 per cent<sup>44</sup>. The share index almost trebled between 1984 and 1986, a performance second only to the Italian stock market. It continued to rise until last year's October crash. Nonetheless, this rise has been as much a sign of improved business prospects and related foreign capital inflows as of the underlying thinness of the market: at the end of 1986, only 312 enterprises were listed and about 60 per cent of the trading was in stock of banks, electrical utilities and Telefonica. A number of factors have hindered the development of the market<sup>45</sup>: the monopoly over transactions by small notary-brokers; the limitation of trading to 10-minute sessions per sector; the institutional fragmentation of the exchange into largely independent units in Madrid, Barcelona, Bilbao and Valencia; an antiquated settlement system and insufficient, although much increased, quality of information.

Diagram 7. **THE CAPITALISATION OF THE STOCK MARKET<sup>1</sup>:  
AN INTERNATIONAL COMPARISON 1986**  
Per cent of GDP



1. Market value of shares only.

Sources: Morgan Stanley, *Capital International Perspective*, and data submitted by the national authorities.

## Deregulation of financial markets

The extent and effectiveness of the process of deregulation initiated in the early 1970s can be considered, for convenience, with reference to three broad, though overlapping, types of regulations: structural/prudential, delimiting the sphere of action, and determining the number of intermediaries and their prudential minimum requirements; controls on interest rates; and controls on quantities with essentially allocative or monetary-policy objectives.

### *Structural/prudential regulations*

As from 1974, gradual steps have been taken towards a greater homogenisation of the admissible operations of financial institutions, reneging the strict distinctions drawn by the 1962 Banking Law. In 1974, industrial banks, which initially provided medium- and long-term finance (mainly to industry) were allowed to carry out the same operations as commercial banks. The same freedom was extended to savings banks in 1977, although they must allocate at least 50 per cent of their portfolio investments and three-quarters of their other investments to the region or area where they are located. Greater competition within the banking sector has also been

encouraged through a gradual liberalisation of controls on branch openings<sup>46</sup>. Foreign banks are still subject to a number of specific restrictions not applicable to their Spanish counterparts. These constraints may have hindered their development, notably the limitation on the share of funds obtainable on the domestic market<sup>47</sup> and on the number of branches. Since EEC accession, a plan has been put in place for the gradual phasing out of these constraints by 1992, at least for EEC banks.

Despite the blurring of distinctions between the activities of different banks, a unified set of prudential solvency ratios did not appear until 1985, the year in which the existing diverse regulations were rationalised and strengthened<sup>48</sup>. Their evolution has largely been a perhaps somewhat delayed response to the unfolding of the banking crisis of 1978-1983 (see below). In 1978, the very limited supervisory powers of the Bank of Spain were strengthened, one year after the creation of a Deposit Guarantee Fund with both public and banks' contributions<sup>49</sup>.

### *Controls on interest rates*

Until 1974, practically all interest rates in the financial system were regulated. Since then, a gradual process of liberalisation has taken place. The liberalisation started at the long-end of the maturity spectrum, lifting the ceiling on bank deposit and credit rates with over two-year and one-year original maturity in 1974 and 1977 respectively. It continued in 1981 with the abolition of the ceilings on banks' short-term (less than one-year) credit rates and on time deposits of between six-month and one-year original maturity (in excess of one million pesetas) and banks became obliged to make public the rates charged on their operations. Finally, in 1987 the remaining restrictions on short-term and sight deposits were lifted. This liberalisation process has largely spared the rates of those non-marketable assets included in the compulsory ratios of banks (see below), although some effort has been made to bring them closer to market levels. Similarly, during the whole period, the rates charged by official credit institutions have been regulated: either fixed or, after 1984, with a ceiling set as a lagged flexible mark-up on their cost of funds<sup>50</sup>.

The liberalisation process has no doubt reduced the distorting mechanisms of previous credit rationing and, above all, has increased the transparency of existing arrangements. Even so, it is arguable that the formal abolition of restrictions was to some extent at least simply a recognition of practices which *de facto* avoided the constraints. If credit rates were controlled until 1981, commissions were entirely free and no data exist on their evolution<sup>51</sup>. Similarly, payment of "extra-rates" ("extra-tipos") when deposit rates were controlled seems to have been frequent, although hard evidence remains scarce<sup>52</sup>. More recently, on the lead of foreign banks, a number of ingenious schemes had been devised to avoid restrictions on sight deposits<sup>53</sup>.



### *Controls on quantities*

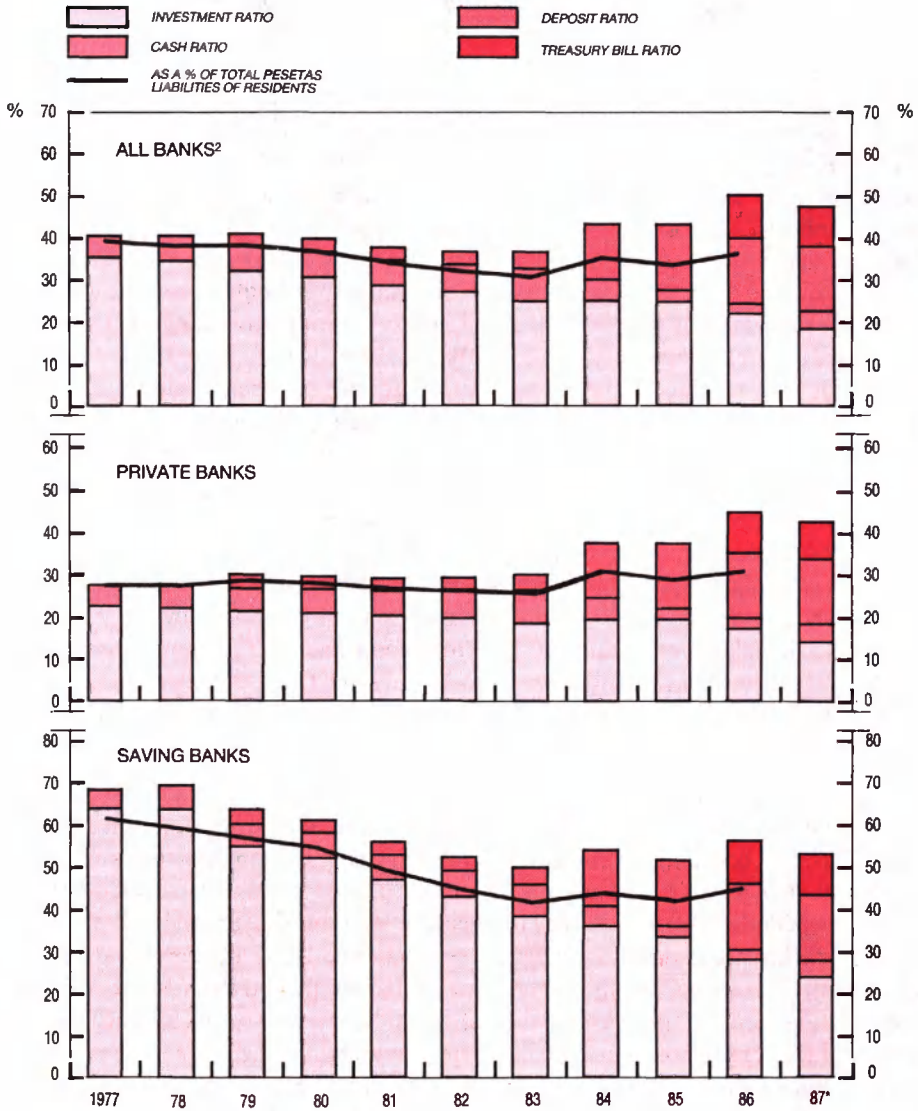
Looking separately at domestic transactions and international capital movements, it is clear that the pace of liberalisation has been uneven, being more perceptible in the second case, and tending to concentrate in recent years.

With regard to international capital flows, the general tendency has been to encourage inflows and discourage outflows, and to maintain restrictions on short-run transactions while taking a more liberal attitude towards long-term operations. The partial liberalisation of long-term foreign portfolio investment by Spanish residents in November 1986, following the liberalisation of foreign investment in Spain in 1985, represented a major step towards greater integration with international markets. Its timing was largely conditioned by the desire to limit an appreciation of the peseta and/or problems in domestic monetary control. Monetary-management difficulties seem to be the main reason inhibiting a lasting relaxation of restrictions on short-term capital movements<sup>54</sup>.

Direct quantity controls on domestic banks have been exercised through compulsory ratios defined in terms of "eligible liabilities" which, though changing somewhat over time, have tended to include most non-interbank peseta deposits. There are three kinds of ratios: *minimum reserve requirements*, either in the form of cash or of interest-bearing deposits with the Bank of Spain, at present set at 19.5 per cent<sup>55</sup>; a *Treasury-bill ratio*, introduced in 1984 but which did not become binding until towards the end of 1986, and whose present level is 10 per cent; a *minimum investment requirement* ("coeficiente de inversion") in the form of credits at regulated rates to various economic activities (exports, agriculture, housing, shipping, etc.), long-term low-yield securities ultimately issued by official credit institutions ("cédulas de inversion") and other securities issued by the public sector. In March 1987 the nominal level of this requirement was reduced from 13 to 1 per cent. However, as many of the assets in the later coefficient are long-term and are either transacted in extremely thin markets or non-marketable, the effective level remains higher, at about 6 per cent.

It is in relation to these quantity controls that the deregulation process appears to have been slowest, most likely a consequence of the growing financing needs of the public sector. As can be seen from Diagram 8, which traces the evolution of the effective compulsory ratios, there has been a tendency for the investment coefficient to decline, counter-balanced by a rise in the minimum reserve requirement. In 1986, the Treasury bill coefficient became binding. In early 1987 the level of the combined ratios was around 45 per cent, quite high by OECD standards, and comparable to that prevailing in the mid-1970s. Indeed, the process of homogenisation across private and saving banks has implied a sharp rise in the private banks' combined ratio – even if, at around 40 per cent, its value remains about 10 percentage points below that for savings banks.

Diagram 8. **COMPULSORY RATIOS OF BANKS**  
Per cent of eligible liabilities<sup>1</sup>



\* April-May figures.

1. Each ratio is calculated on the basis of the corresponding set of "eligible liabilities".

2. Excluding cooperatives.

Sources: Banco de España, *Boletín Estadístico*, data submitted by the national authorities and OECD Secretariat estimates.

## Some aspects of the efficiency of the system

### *Cost-efficiency, intermediation margins and competition*

Economic efficiency implies cost minimisation. In the case of financial activities, such a concept is particularly difficult to apply because of problems in quantifying financial "output". Normally, the volume of assets is taken as a proxy. On that basis, Table 19 suggests that Spanish banks perform relatively badly, though it has to be borne in mind that international comparisons are particularly hazardous in this area<sup>56</sup>, and that the results are to some extent biased against Spain because of higher inflation than in the rest of the OECD area. Operating costs in general, and staff costs in particular, are very high while labour productivity (measured by credits per employee) is relatively low. In addition, a number of indicators suggests that Spanish banks are over-branched, with excessively small and overstaffed offices. The number of inhabitants, volume of credits and employees per branch are significantly out of line with EEC experience, except for Denmark. Just as significantly, these relatively high "unit costs" have not prevented banks from enjoying sizeable intermediation margins. Again, except for Denmark, their net earnings margins are in fact the highest in the EEC. Moreover, despite the regulation of interest rates on part of their assets, the same is true of interest margins, suggesting that these controls have not had a serious effect on profitability and that their cost has largely been borne by bank clients. High profits in a context of relatively high costs are a symptom of monopolistic behaviour within the banking sector and of a monopolistic position of banks within the wider financial system. At the same time, the distribution of profits within the banking sector has remained rather uneven, with some smaller (mainly regional) banks being less profitable.

With respect to costs and margins, private and savings banks seem to have performed rather differently. The former, after a rapid deterioration until the end of the 1970s, succeeded in cutting costs by reducing employment, real average costs and the number of branches. This was in sharp contrast to earlier trends when, given ceilings on deposit rates, efforts to increase market shares were channeled into spatial, rather than price or product, competition. No such amelioration can be discerned for savings banks, with gains in labour productivity since 1981 being counterbalanced by increases in operational costs partly associated with their geographical expansion. During the same period, while the net earnings margin of private banks did not exhibit any marked trend, that of saving banks increased steadily against a background of a continuously rising market share – from around 15 per cent of deposits to over 40 per cent. Such growth which was partly encouraged by deregulation in favour of savings banks, is certainly welcome to the extent that it reflects a removal of barriers to competition within the banking sector. However, it is less comforting to note that it has been achieved in a context of rising real average

Table 19. Costs and margins in banking 1982-1984: an international comparison

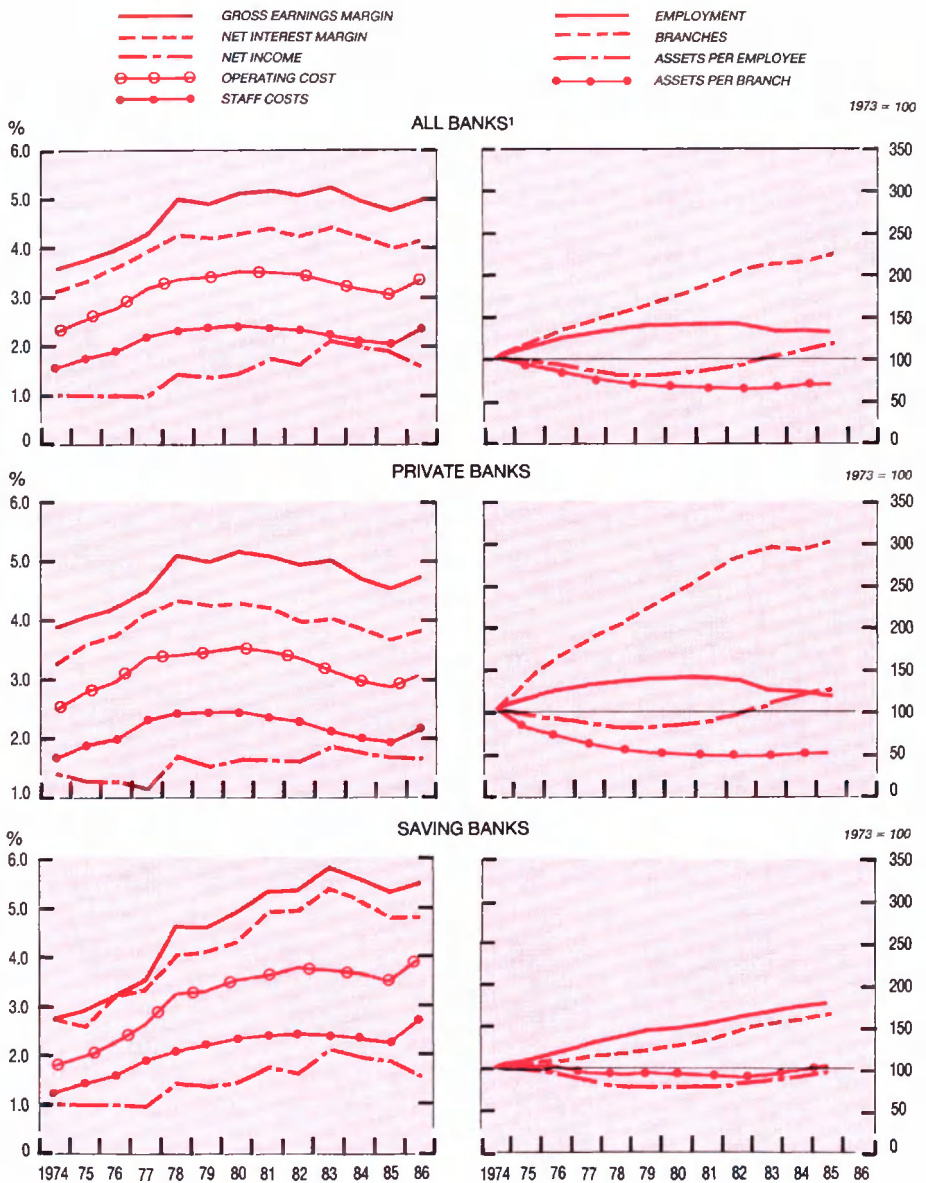
	Spain (private banks)	Spain (large banks)	Spain (savings banks)	Belgium	Denmark	France	Germany	Greece	Ireland	Italy	Nether- lands	Portugal	U.K.
	Per cent of average assets												
Gross earnings margin	5.03	5.73	5.67	2.10	6.38	3.14	3.46	3.35	5.09	4.39	3.01	3.34	4.81
Interest margin	4.06	4.68	5.25	1.64	5.70 <sup>1</sup>	2.65	2.56	1.91	4.21	3.14	2.29	2.05	3.14
Other income	0.96	1.07	0.41	0.47	0.68	0.48	0.89	1.44	0.88	1.24	0.72	1.29	1.67
Operating costs	3.26	3.61	3.74	1.74	3.02	2.14	2.15	2.53	3.38	2.93	1.89	2.10	3.34
Staff costs	2.20	2.49	2.43	1.07	1.99	1.41	1.47	2.05	2.28	2.10	1.25	1.53	2.07
Net earnings	1.76	2.23	1.92	0.36	3.36	1.00	1.30	0.82	1.71	1.46	1.12	1.23	1.46
<i>Memorandum items:</i>													
Inhabitants per branch (thousands)		2.3		2.7	2.2	5.5	9.9	8.1	5.1	10.0	5.9	8.8	3.8
Employees per branch		10.3		13.2	13.8	25.0	27.3	27.3	24.3	23.4	25.4	40.9	23.1
Credit per branch (thousands ECU)		5.3		23.8	8.2	27.0	31.2	9.6	22.8	14.2	32.0	11.9	25.4
Credit per employee (thousands ECU)		0.5		1.8	0.6	1.1	1.1	0.4	0.9	0.6	1.3	0.3	1.1

1. Biased by exceptionally high 1983 figure resulting from the way in which capital gains are treated.

Sources: *Bank Profitability* 1980-1984, OECD, Paris (1987); AEB, *Informe Anual*, 1987.



Diagram 9. **COSTS AND MARGINS IN SPANISH BANKING**



1. Excluding cooperatives.

Source: Data submitted by national authorities.

costs and without a reduction in intermediation margins for the banking system as a whole.

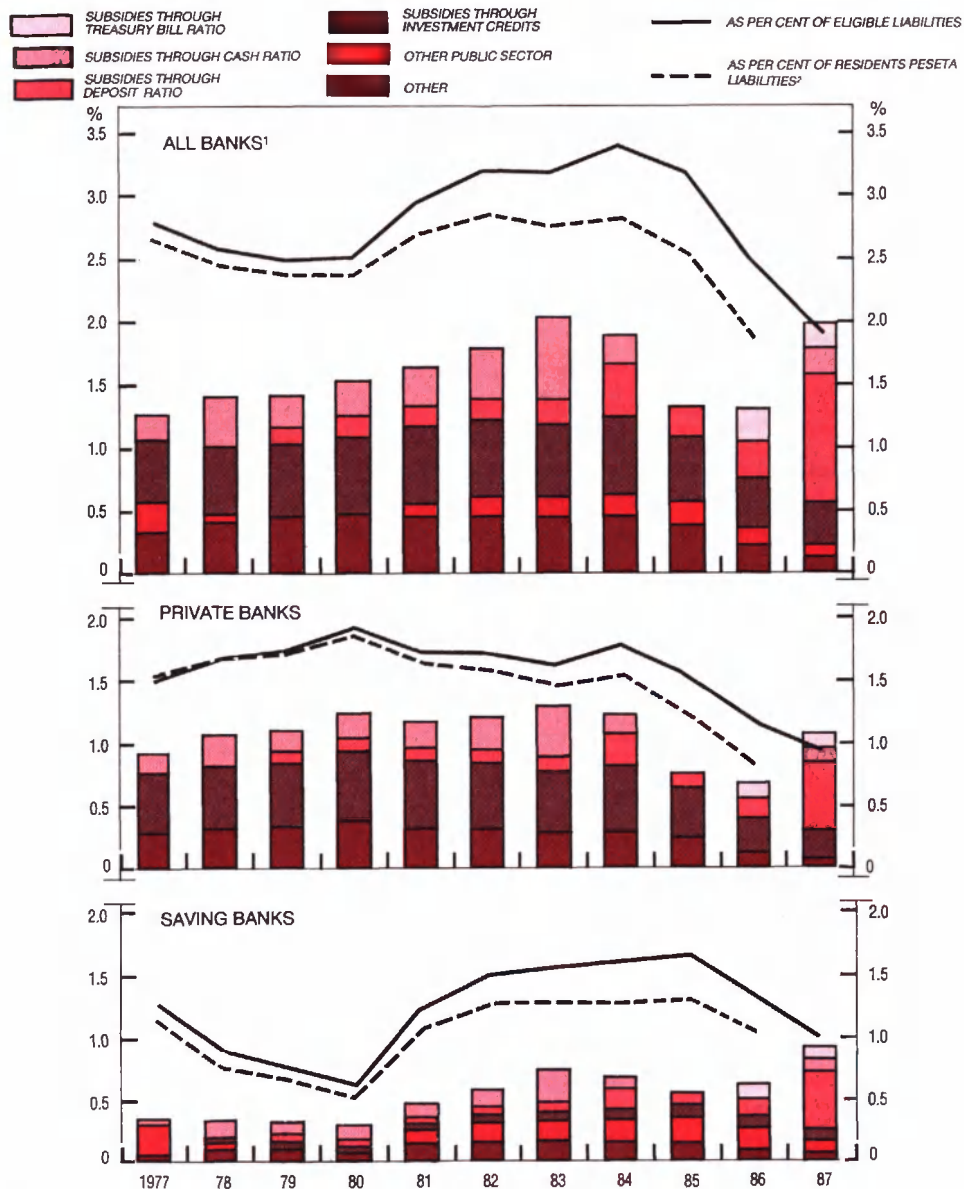
Though concentration in the banking sector is relatively high, this does not seem to have been the main obstacle to a more competitive environment. The recent full liberalisation of deposit rates, coupled with the presence of innovative foreign banks, should over the medium-term strengthen the competitive environment, especially if remaining discriminating regulations are abolished by 1992. Indeed, besides being the main promoters of the development of the interbank market – where existing regulations have led them to concentrate their fund-raising activities – foreign banks have been responsible for the introduction of new forms of deposits, corporate financing and capital market operations to the advantage of both lenders and borrowers.

The development of a competitive environment, combined with enhanced supervision, should considerably reduce the risk of financial instability, in sharp contrast to the 1978-1983 banking crisis. This crisis, which affected 51 banks (holding about 10 per cent of total bank deposits in 1983) and caused the loss of over 35 000 jobs, was precipitated by generalised difficulties in the industrial sector<sup>57</sup>. But above all, policy has also played a role: the launching of a liberalising process regarding new bank and branch openings in a context of controlled rates and without an adequate reinforcement of prudential regulations and supervision. Under those conditions, the sector became extremely exposed to a system-wide shock given the lack of expertise of newly-established banks, excessive risk concentration, dubious accounting practices, strong ownership links with enterprises and imprudent real investments, notably in new branches.

### *Compulsory ratios and concealed subsidies*

The system of compulsory ratios in combination with controlled interest rates subsidises the sectors whose debt instruments have been eligible for compliance. These sectors have benefited from greater access to credit at below-equilibrium rates. Relative to other forms of subsidisation, however, compulsory ratios involve a number of specific disadvantages. They lack transparency, in the sense that they are difficult to quantify. They tend to vary arbitrarily with market conditions, i.e. with the general level of interest rates. They reduce and, to the extent that they discriminate across institutions, distort the competitive forces in the system. Over time, they stunt the growth of the markets they intend to promote. As a result of these drawbacks, the level and evolution of the implicit subsidies and the associated side-effects may not fully correspond to the objectives of the policy maker, as witnessed by the Spanish case.

Diagram 10. **IMPLICIT SUBSIDIES THROUGH COMPULSORY RATIOS**  
Per cent of GDP



1. Excluding cooperatives.

2. Excluding interbank and Bank of Spain claims.

Sources: Banco de España, *Boletín Estadístico*; Banco de España, *Informe Anual*, Statistical Appendix; data submitted by national authorities and OECD Secretariat estimates.

In order to quantify accurately the value of the subsidies it would be necessary to know the *free* price configuration which would replicate the portfolio of compulsory investments. Such information, of course, is not available. A second-best, though admittedly rather crude, approximation consists in taking as the opportunity cost of mandatory investments a yield on comparable freely-held assets. On that basis, Diagram 10 illustrates a rough set of estimates of the evolution of the implicit subsidy. The estimates are probably more in the nature of ceilings on the true values (with significant margins of error) and capture the evolution of the subsidies better than their level<sup>58</sup>. They should accordingly be used with caution.

The results suggest that the *total* value of the subsidies was  $1\frac{1}{3}$  per cent of GDP at the end of 1986, similar to that in 1977, the first year in the sample, but below the peak of around 2 per cent in 1983-84. Despite the *reduction* of the investment ratio, the implicit subsidy tended to *increase* until 1984, as a result of a widening interest-rate differential mainly driven by inflation. In that year, the subsidy resulting from the investment ratio amounted to about  $\frac{3}{4}$  per cent of GDP, or equivalent to around 40 per cent of the current budget transfers to the business sector and one-fifth of the deficit. Similarly, despite the much more pronounced cut in the investment ratio of savings relative to private banks, the value of the subsidy channelled through them in 1986 as a percentage of eligible liabilities was barely different from that in 1977, whereas it was lower for private banks.

The "tax" on the economy through the reserve-requirement and the Treasury bill ratio (low or zero yielding assets) peaked in 1983 at a level close to 1 per cent of GDP, or around one-sixth of the budget deficit of the time. Despite the sharp increase in the reserve-requirement ratio in 1984 and the fact that the Treasury bill ratio became binding at the end of 1986, by then the "tax" had about halved. This resulted from the upward adjustment in the interest-bearing component of the reserve requirements and the general decline in market rates. The very tight monetary conditions of early 1987 should have led to a renewed significant increase, probably beyond the 1983 peak. While undoubtedly succeeding in reducing the cost of deficit-financing in the *short-run*, these constraints have negative implications for the *long-run* costs of deficits. They have hindered the development of the market in short-term government paper and had negative spill-over effects on the demand for longer-term securities. In addition, by disguising the true costs of deficits, they have lessened the pressure for their reduction. On the other hand, the failure to timely dismantle the investment requirement has tended to increase temporarily the negative side-effects of abolishing them as witnessed in early 1987. Indeed, given the non-existence of a well-developed long-term market, official credit institutions, deprived of their traditional source of finance, had to borrow at a much higher cost than otherwise would have been the case.

Despite the short-run difficulties, the virtual abolition of the investment requirement represents an important step towards a more transparent and efficient



system of subsidisation. The old instrument has been partially replaced by the payment of direct interest subsidies through the budget – notably for housing<sup>59</sup>. However, a number of drawbacks remain. Under the new system, the rates paid by the borrower and to the financial institution are fixed for the maturity of the loan. But while the former is decided initially by the Government and does not normally change from year to year, the latter is left to negotiations between the Government and the institution concerned. This implies that the subsidy rate on *new* loans varies with the average level of rates, insulating completely the ultimate borrower from market conditions. At the same time, in a period of disinflation, it makes the value of the subsidy on the *outstanding* stock of loans unresponsive to the fall in the cost of loans.

## **The conduct of monetary policy**

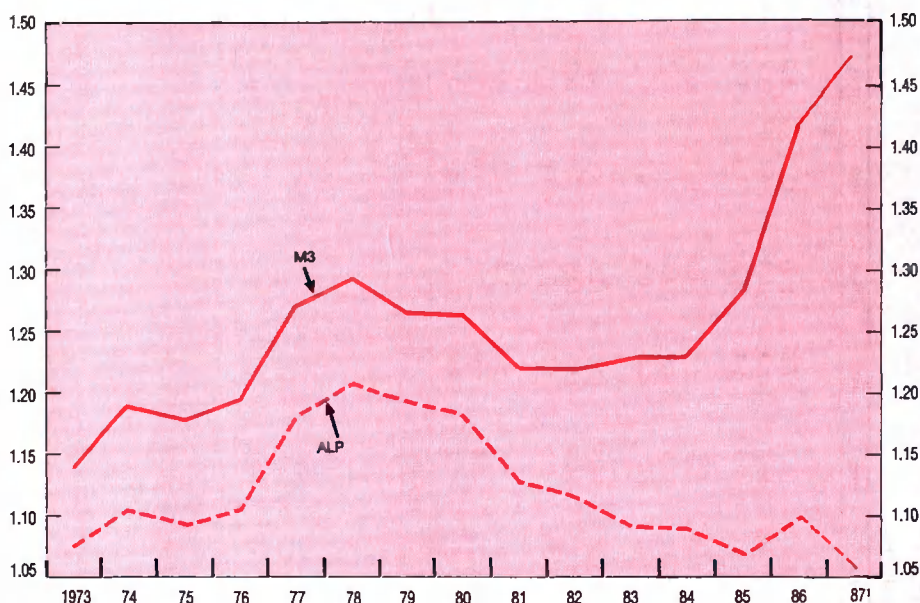
### *The basic framework*

Despite a number of modifications, the basic framework of monetary policy has remained unaltered ever since the adoption of an active policy, and with it, of monetary targeting, in 1973-1974. Given the ultimate goals for real output and inflation, the intermediate target has been defined in terms of a broad monetary aggregate controlled through the supply of bank reserves. This aggregate was first M3 (“disponibilidades liquidas”) – cash plus bank deposits – and, since 1982-83, ALP or liquid assets of the public (“Activos líquidos del publico”) <sup>60</sup>. The two aggregates are officially considered to reflect most accurately the degree of liquidity of the economy. Their difference has been dictated mainly by a process of largely spurious innovation away from bank deposits into new short-term bearer instruments which led to a sharp rise in the income-velocity of M3 (Diagram 11). Their targeting has been rationalised on the basis of their ability to constrain spending behaviour and of statistical regularities<sup>61</sup>. Targets have always been set so as to be consistent with the expected/desired real-income growth and inflation rate over one-year horizons. Except for 1974-1977, they have been defined as annual central paths with deviation ranges (at present  $\pm 1.5$  percentage points).

### *Accommodation in monetary targeting*

Annual inflation and real output objectives are set by the government in consultation with the Bank of Spain. Monetary targets are fixed for one-year periods, taking a gradualistic approach towards ultimate inflation goals. Thus, except for a couple of years, at the level of the *setting* of targets there has existed a significant degree of accommodation of built-in inflationary momentum. Monetary targeting

Diagram 11. **INCOME-VELOCITY OF MONETARY AGGREGATES**  
Ratios of GDP to end-of-period stocks



1. Provisional estimates.

Source: Data submitted by the national authorities.

has not actively been used to influence wage expectations since targets are announced only in winter, when key decisions regarding the forthcoming wage round have already been taken. Even so, wage settlements have tended to exceed the levels implicit in the original targets<sup>62</sup>.

Whatever the effective influence exercised by the Bank of Spain over the *setting* of the inflation objective and related monetary targets, the Bank is responsible for the *implementation* of the latter. However, decisions regarding the financing of the budget deficit taken by the Ministry of Economy and Finance may be at variance with initial intentions. In this case, the Bank of Spain may not be able or willing to take fully compensating action, though the Bank has shown a high degree of flexibility in the implementation of policies. As Table 20 suggests, there has been some tendency for both the intermediate target and nominal income to exceed the original mid-point targets, while still remaining within the rather wide tolerance range.

Table 20. **Monetary targets and outturns**  
Percentage changes

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
<b>Monetary aggregate<sup>1</sup></b>											
Target <sup>2</sup>	19.0	17.0	17.0	17.5	18.0	16.5	17.0	16.0	12.5	13.0	11.0
Outturn	18.8	19.4	19.2	19.7	17.4	16.2	18.4	16.4	14.4	13.2	11.4
Difference <sup>3</sup>	-0.2	2.4	2.2	2.2	-0.6	-0.3	1.4	0.4	1.9	0.2	0.4
<b>Nominal income<sup>4</sup></b>											
Projection <sup>5</sup>	15.9	—	20.6	18.9	17.3	16.0	14.5	14.2	10.4	10.7	10.4
Outturn	23.4	30.6	18.6	15.8	17.0	14.9	14.9	14.7	11.1	10.7	11.5
Difference <sup>3</sup>	7.5	—	-2.0	-3.1	-0.3	-1.1	0.4	0.5	0.7	—	1.1
<b>Inflation<sup>6</sup></b>											
Projection <sup>7</sup>	12.0	—	18.6	16.0	15.0	14.3	12.0	12.0	8.0	7.5	8.0
Outturn	19.8	26.4	16.5	15.6	15.2	14.4	13.9	12.3	9.0	8.2	8.3
Difference <sup>3</sup>	7.8	—	-2.1	-0.4	0.2	0.1	1.9	0.3	1.0	0.7	0.3
<b>Real GDP<sup>8</sup></b>											
Projection <sup>9</sup>	3.5	—	1.7	2.5	2.0	1.5	2.3	2.0	2.3	3.0	2.3
Outturn	3.0	3.3	1.8	0.2	0.2	0.4	0.9	2.1	2.0	2.3	3.3
Difference <sup>3</sup>	-0.5	—	0.1	-2.3	-0.5	-1.1	-1.4	0.1	-0.3	-0.7	1.0
	1976-1986 <sup>10</sup>			1976-1981 <sup>10</sup>			1982-1986				

**Memorandum items:**

**Cumulative deviations<sup>11</sup>**

Monetary target	9.6	2.8	6.6
Nominal income	3.2	0.7	2.6
Inflation	9.1	5.0	3.9
Real GDP	-5.6	-4.2	-1.3

*Note:* In order to make outcome figures comparable with targets, the former have not been adjusted to allow for important revisions at later dates, hence the small differences with data in Tables 1 and 9.

1. M3 until 1981, ALP since.

2. Central path. The deviation range was  $\pm 2.50$  percentage points in 1978,  $\pm 2.0$  points in 1979-1984 and has been  $\pm 1.5$  point since.

3. Outturn minus target/projection. Simple arithmetic difference.

4. Nominal income is here defined as real GDP times the consumer price index, which is the reference index for policy.

5. Central path, rounded. See notes on inflation and real GDP projections.

6. Consumer price index, December-on-December growth rates.

7. Central path, rounded. Except for 1976-1979, 1984 and 1986, the projections have included the following deviation ranges:  $\pm 0.5$  (1980, 1983 and 1985),  $\pm 0.75$  (1981) and  $\pm 1.0$  (1982).

8. GDP, 1980 prices for 1985-1986 and 1970 prices for the rest of the period.

9. Central path, rounded. Except for 1976-1979 and 1985, the projections have included the following deviation ranges:  $\pm 0.25$  (1984 and 1986),  $\pm 0.5$  (1980, 1981 and 1983) and  $\pm 0.75$  (1982).

10. 1977 is excluded since there are no inflation or real GDP projections.

11. Cumulated deviations of growth factors.

*Sources:* *Informe Anual*, Statistical Appendix, Banco de Espana; OECD, *Main Economic Indicators* and data submitted by national authorities.

Monetary policy tends to take wages as largely predetermined. Under these conditions, monetary contraction appears to impinge mainly on private output and employment<sup>63</sup>. Therefore, in a situation of high unemployment and of an apparent small response of wage claims to labour market slack, monetary restrictions are perceived as quite costly<sup>64</sup>. In addition, since 1978, public sector deficits have compounded the constraint on aggregate demand management policy. The focus on a wide monetary aggregate together with the underdevelopment of the long-term market for government securities has implied a very close linkage between control of the intermediate target and the supply of domestic credit to the private sector. Given a monetary target *a priori* compatible with a nominal income goal, an implicit domestic credit target is defined<sup>65</sup>. Thus, the higher the growth of the public sector component, the smaller the share of credit residually available to the private sector. It follows that an *overall* accommodating monetary policy could in fact imply a relatively *restrictive* stance for the private sector. In addition, the tendency for PSBRs to exceed the forecasts has implied compensating adjustments on private sector credit over and above initial projections. Indeed, since 1979, credit to the public sector has exceeded its initial forecast by about 8 percentage points per annum whereas total domestic credit has been kept in line with initial projections. As a result, while private credit in real terms was initially targeted to grow at about 2 per cent per annum, it in fact declined by an annual average close to 5 per cent (Diagram 12). Although no doubt external factors have contributed to this development, the constraints imposed

Table 21. Domestic credit: projections and outturns  
Percentage changes

	1979	1980	1981	1982	1983	1984	1985	1986
Domestic credit, total								
Projection	17.3	19.6	19.1	19.7	14.4	13.1	13.7	12.0
Outturn	17.5	19.4	19.4	19.7	15.8	11.9	15.8	13.9
Difference <sup>1</sup>	0.2	-0.2	0.3	0.0	1.4	-1.2	2.1	1.9
Domestic credit, public								
Projection	21.5	29.9	28.2	38.2	34.3	33.0	20.2	21.0
Outturn <sup>2</sup>	64.1	46.7	51.3	54.4	47.0	45.0 <sup>3</sup>	37.3	21.6
Difference <sup>1</sup>	42.6	16.8	23.1	16.2	12.7	12.0	17.1	0.6
Domestic credit, private								
Projection	16.9	18.3	17.8	16.5	10.1	7.6	11.0	7.5
Outturn <sup>2</sup>	14.9	17.2	16.3	15.2	10.3	4.3 <sup>3</sup>	7.4	10.7
Difference <sup>1</sup>	-2.0	-1.1	-1.5	-1.3	0.2	-3.3	-3.6	3.2

1. Outturn minus projection. Simple arithmetic difference.

2. Since 1982 the State has been taking over public enterprise debt. The figures in the table have been adjusted for this.

3. Adjusted for the Rumasa operation through which the State took over the debt of the group.

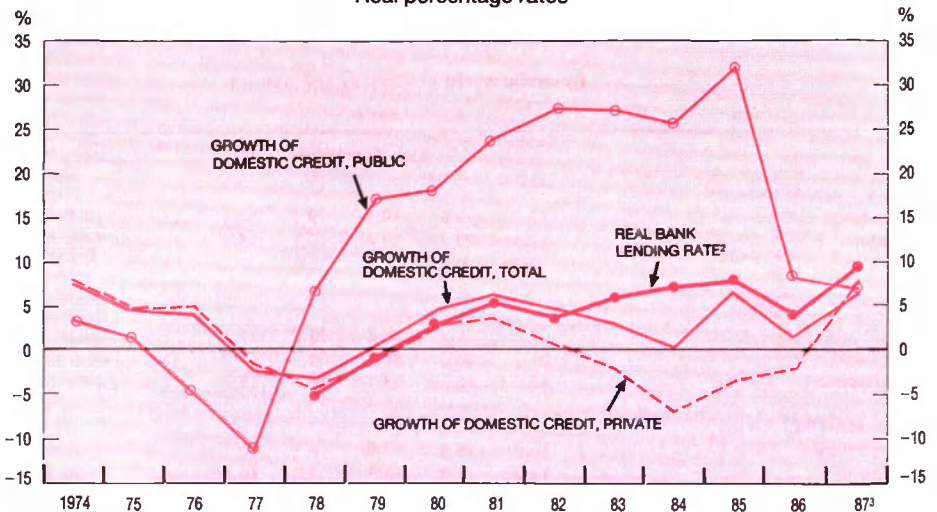
Sources: *Boletín Económico*, Sept. 1986, Banco de España; *Boletín Estadístico*, Banco de España, and data submitted by national authorities.



by government deficits on targeting are undeniable<sup>66</sup>. At the same time, it is difficult to assess the effective degree of restriction, given that expected low profitability and business uncertainty in the early 1980s must have reduced autonomously the demand for credit.

At times, upward pressure on the exchange rate has reinforced monetary accommodation. Except for the once-and-for-all devaluations (1976, 1977 and 1982), the authorities have tended to intervene in foreign exchange markets “leaning against the wind”, with the result that they have, on average, accumulated reserves when the real effective exchange rate was rising and vice-versa (Diagram 13)<sup>67</sup>. Restrictions on capital movements may have allowed some greater room for manœuvre in the very short run. However, when pressure on the exchange rate has been in the *upward* direction, domestic tightening and considerations of external competitiveness have come into conflict, especially since controls have tended to prevent outflows rather than discourage inflows<sup>68</sup>. This conflict was particularly acute in 1978-1979 and again since 1984. In both cases the current account was in surplus. In the former, the authorities were keen to maintain the competitiveness gains of the, probably excessive, 1977 devaluation; and in the latter, they feared an

Diagram 12. **DOMESTIC CREDIT AND INTEREST RATES**  
Real percentage rates<sup>1</sup>



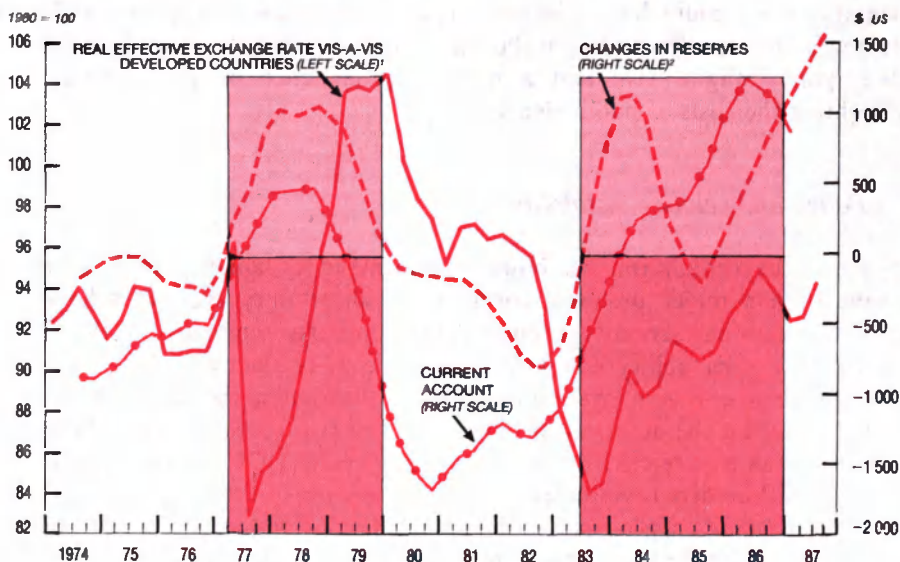
1. All magnitudes are deflated with the GDP deflator. For credit the rates refer to growth rates.

2. Free rate on one to three-year loans.

3. Provisional OECD estimates based on first nine months.

Source: Banco de España, *Boletín Económico*.

Diagram 13. **THE REAL EFFECTIVE EXCHANGE RATE, OFFICIAL RESERVES AND THE CURRENT ACCOUNT**



Note: Change in reserves and the current account figures are four quarters moving average.

1. Vis-à-vis the rest of the world and weighted by industrial producer prices.

2. Including authorized bank reserves as their short-term position has been closely determined by direct controls for most of the period.

Source: Banco de España, *Boletín Estadístico*.

erosion of competitiveness given the prospective and then actual entry into the EEC in 1986. Clearly, a smaller government deficit would have lessened short-run pressure on the exchange rate too, thereby reducing the conflict of goals.

Although it is relatively easy to discern the broadly accommodating nature of monetary policy, it is more difficult to assess to what extent a more restrictive stance would have improved the medium-run performance of the economy. It certainly would have if, as now apparently argued by the Bank, the expansionary effects of monetary policy are felt in the medium term essentially on prices, rather than on output<sup>69</sup>. The targeting experience may provide some *prima facie* support for this view. Output growth has, on average, been significantly below original forecasts, whereas inflation has considerably exceeded the initial objectives – not a very

surprising result given the wage-indexing mechanisms present in the system<sup>70</sup>. Through policy announcements and/or *ex-post* restrictions, a less accommodating monetary policy could have created a climate of greater wage moderation, by reducing both wage demands and the willingness to give in to them. In addition, a tighter policy might have had a restraining influence on public finances by highlighting the costs of public deficits.

### *Policy and velocity instability*

If over the medium run instability in the demand for liquidity would not appear to have been a major problem, considerable uncertainty over its behaviour in individual years has seriously hampered targeting. Two episodes are the clearest example of how instability was itself largely the by-product of policy. The first is related to the process of innovation which led to abandoning the M3 target in favour of ALP following the attempts of banks to avoid two kinds of taxes: the explicit withholding tax on interest from deposits introduced in 1977 and the implicit "tax" associated with reserve requirements and controlled deposit rates. Both of these had considerably increased as a result of inflation<sup>71</sup>. The innovation process thus took the form of the issue by banks of zero-coupon short-term securities, not subject to reserve requirement and withholding tax and, as such, excellent substitutes for bank deposits<sup>72</sup>. Had inflation been controlled more effectively, it is unlikely that the process would have gathered momentum. The second episode is the logical extension of the first. In order to reduce the proliferation of these new assets, in May 1985 the authorities decided to extend the 18 per cent withholding tax to all zero-coupon instruments, enforcing strict disclosure by banks of interest payments to individuals. Treasury bills were the only zero-coupon security excluded<sup>73</sup>. Accordingly, Treasury bills became the only asset suitable for tax evasion, thus boosting their demand significantly. But as the law allowed for a one-year transition period, considerable uncertainty about the extent of the shift in the demand for ALP as a result of the prospective portfolio reallocation continued in 1986<sup>74</sup>. It is indeed likely that underestimation of the fall in ALP demand as a result of the introduction of the tax has been partly responsible for the excessive accommodation of that year.

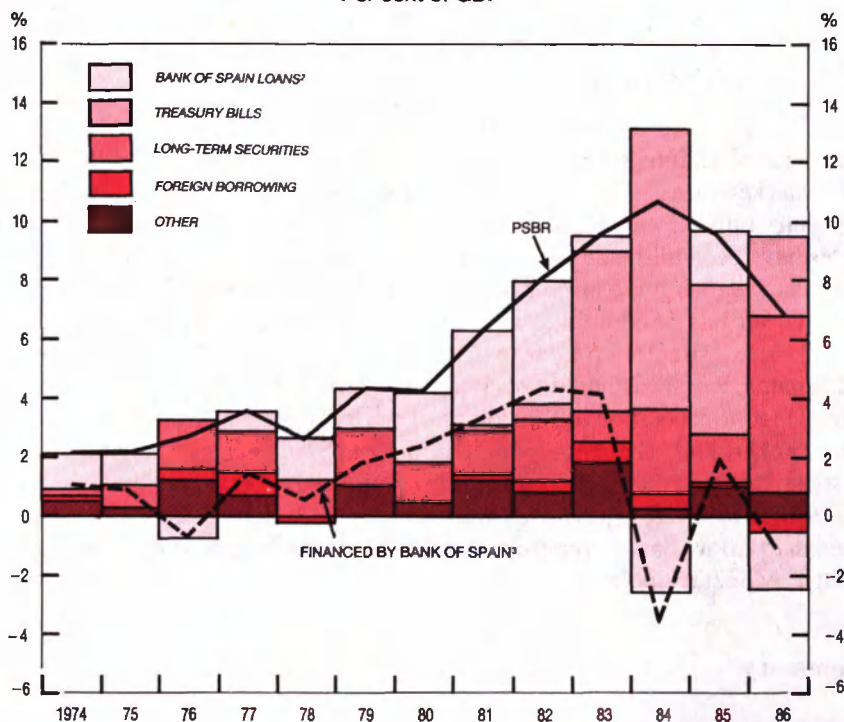
### *Problems of monetary control*

The broad strategy of monetary control has remained invariant since targets were introduced in the mid-1970s. Attention has focused on bank reserves – mainly cash and deposits with the Bank of Spain – for which a growth path is defined consistent with the desired trajectory of the intermediate target. The volume of bank reserves has been regulated through central-bank net lending to the banking sector<sup>75</sup>. While a number of technical, sometimes significant, changes have indeed taken place

during the period<sup>76</sup>, the most important problems are all related, directly or indirectly, to the size of public sector deficits and their financing methods.

The authorities have generally been reluctant to finance government deficits in significant amounts by bond issues i.e. with instruments excluded from the definition of the targeted monetary aggregate (see Part I, section on Monetary policy, paragraph 40). This reluctance has itself been partly the result of previous accommodating policies, which have contributed to high inflation and hence to high costs at the long end of the maturity spectrum. At the same time, it has implied that, by around 1979, the Central Bank had to become a *net borrower vis-à-vis* banks in order to maintain the growth of bank liquidity compatible with the monetary

Diagram 14. **THE FINANCING OF PSBR'S<sup>1</sup>**  
Per cent of GDP



1. Measured by the increase in gross liabilities of the general government.

2. Zero-interest loans.

3. Including coins.

Source: Banco de España, *Informe anual*, Statistical appendix.



objectives. This led to the introduction of the compulsory deposit ratio<sup>77</sup> so as to force banks to lend to the Bank of Spain at relatively low rates<sup>78</sup>. A more diversified financing strategy in the first place, therefore, would have partly reduced the need for compulsory ratios.

Despite the imposition of the deposit ratio, until early 1984 sterilization of the liquidity effect of budget deficits did require large issues of Bank of Spain's own short-term paper ("Certificados de Regulacion Monetaria"). As a large proportion of central bank assets are in the form of zero-interest loans to the Treasury, large losses were incurred by the Central Bank, thus obscuring the true financing costs of the deficit<sup>79</sup>. The issue of Treasury bills – in significant volumes since 1984 – as an alternative financial instrument for deficit financing seemed to provide a panacea for previous difficulties. As a short-term asset, that could be held by the non-bank public as an alternative to bank deposits, it proved to be relatively attractive at times of high inflation. Even so, some problems have remained. Given the inclusion of Treasury bills in ALP, any unexpected increases in the deficit financed through these bills would require compensating action to keep the supply of ALP on target<sup>80</sup>. Moreover, the volumes issued were insufficient to prevent another major increase in minimum reserve requirements in 1984.

The ultimate success of these new control methods depended crucially on the existence of an integrated Treasury bill market and, above all, on the willingness to pay market rates. However, the introduction of the 1985 tax law has made the Treasury bills the only financial asset providing a tax haven. Since then, Treasury bill rates have been pushed down *relative* to other yields to a level which is still attractive for tax evaders but too low for banks and the public at large. Under these conditions, the market has dried up and reserve requirements have had to be increased again, reverting to a situation similar to that prevailing before 1984. This in turn, has caused additional complications associated with heavy overshooting of interbank rates, following the relaxation of controls on short-term international capital flows. Against this background, the introduction in July 1987 of a new short-term government instrument ("Letras del Tesoro") to complement Treasury bills but subject to disclosure of interest payments must clearly be welcome<sup>81</sup>, as are recent arrangements to allow banks' repurchase sales of medium and long-term securities (see Part I, Monetary policy).

## Summary

Judged by its duration, the process of liberalisation of the financial system and the improvements in monetary management have, on the whole, been relatively slow. However, partly in response to the EEC challenge the pace of change has accelerated in recent years in line with the overall modernisation and structural adjustment

efforts in most sectors of the Spanish economy. As a result, the financial and monetary environment is now quite different from that of a few years ago. And this, despite serious difficulties resulting from the banking crisis (1977-1983) and the steeply growing financing needs of the public sector since 1980. The most important reforms introduced over the last few years are:

- i) Complete liberalisation of bank interest rates; the last restrictions were lifted in 1987;
- ii) The decision to lower the minimum investment requirement ratio (the proportion of total assets that banks are obliged to lend at preferential rates to industries of "public interest") from 13 per cent in early 1987 to 1 per cent by 1990;
- iii) An important relaxation of foreign exchange controls and restrictions on capital movements since 1985;
- iv) The gradual phasing out of restrictions concerning the establishment and operations of foreign banks;
- v) Slowly building up a more balanced structure of public sector debt by relying more on marketable long-term securities and Treasury bills at market interest rates and less on Bank of Spain zero interest rate advances and low-yielding Treasury bills bought by tax evaders;
- vi) Submission to Parliament of a draft law on the reorganisation of the stock exchange.

However, despite this achievement there is still need for further improvements in order to reach a level of efficiency in the financial and monetary spheres comparable to that of most OECD countries. However, continuing progress in this area depends crucially on further sizeable reductions of the PSBR to be accompanied by the abolition of most remaining compulsory ratios for financing the government deficit. Simultaneously, growing competition from foreign banks, especially in the most profitable activities, should help to modernise the banking system and reduce overall banking costs which are still high by international standards.

### III. Conclusions

Measured by standard macro performance indicators, the record of the Spanish economy over the past two years has been quite impressive: the growth of aggregate output and notably employment has accelerated sharply, making first dents in the very high rate of unemployment; the rate of inflation has been brought down closer to the OECD average and the balance-of-payments position has remained strong, despite a marked reduction in real net exports. Looking ahead, the outlook for the next couple of years is for continued above-potential growth, some further progress on the price stabilization front and maintenance of a relatively comfortable balance-of-payments situation given the likely persistence of sizeable long-term net capital inflows.

The improvement in the overall economic situation can be attributed to two major factors or events: first, tighter stance of financial policies in 1983-1984 and the adoption of a more realistic approach to industrial policy together with labour market flexibility measures have been instrumental in strengthening the financial position of all sectors of the economy, thereby setting the stage for the subsequent non-inflationary upswing; secondly, Spain's accession to the EEC has imparted important dynamic growth stimuli to the economy, while at the same time helping to keep inflationary pressure at bay. Indeed, cuts in customs duties and higher import quotas together with massive inflows of competitive foreign imports have in a large measure contributed to bringing down consumer price inflation to ambitious official targets. Similarly, EEC-induced substantial private long-term capital inflows have been one of the principal forces behind the sharp upturn in investment activity.

Despite the favourable record of the recent past and satisfactory short-term prospects, there are two, partly inter-related, features pertaining to the current economic upswing which give rise to concern:

- After three years of rapid economic growth (1986 to 1988), the general government deficit in terms of GDP is projected to stay within the 4 to 5 per cent range, indicating that apart from the windfall gain from the oil price fall, the structural deficit has not been reduced. It is obvious that in periods of strong overall demand growth, as experienced presently, budget deficits



directly crowd-out private demand, notably investment, while seriously limiting the scope for action in periods of weak activity;

- Despite continuing current account surpluses during the past three years, the real foreign balance deteriorated sharply and is projected to shrink further in 1988 and 1989. The cumulative decline of real net exports over the entire period could amount to as much as 7 per cent of 1986 GNP.

Given the steep fall of the current account surplus between 1986 and 1987 and the likely absence of major terms-of-trade gains in the years to come, a more balanced pattern of growth as between external and domestic sources will be required in the future if the sustainability of the recovery is not to be threatened by the eventual re-emergence of balance-of-payments constraints. EEC membership has increased the degree of openness of the economy, augmenting import penetration but also the scope for exporting. To seize the latter opportunity Spain's competitiveness has to be strengthened. To exploit its comparatively high growth potential, Spain will have to gain foreign market shares by diversifying its production and reducing relative prices. While maintaining a firm peseta policy and thereby a competitive environment, the present policies of moderating domestic cost pressures, stimulating productive investment and restructuring declining industries should contribute to shifting resources to the external sector. But to facilitate this shift, a more moderate growth of domestic demand will also be required.

In view of the continued high public sector borrowing requirement, it is essential that the steep rise of general government expenditure be curbed. Institutional provisions have to be made to ensure a more effective screening of both public investment projects and current expenditure, and more generally, assure better control over spending, notably subsidies and transfers. There is also scope for raising revenue. Tax increases should, however, as far as possible be sought through widening the tax base and improved tax collection rather than higher tax rates. Along with slower growth and a better structure of public expenditure, changes in the composition of taxation, including an overhaul of tax allowances, should therefore be considered as another major objective of budgetary policy.

The persistence of large public sector deficits has complicated monetary management in recent years. The Government's direct recourse to central bank financing has – notably at times of heavy foreign exchange inflows – recurrently led to excessive liquidity creation which subsequently had often to be withdrawn at high cost. High compulsory ratios which banks have to meet in the form of reserve requirements with the Bank of Spain and investment in Treasury bills are hampering the smooth functioning of financial markets, while at the same time obscuring the true cost of deficit spending. The control of monetary aggregates in the context of further liberalisation of financial markets calls for a flexible interest rate policy and acceptance by the authorities to pay market interest rates on the public debt.



As discussed in Part II, the financial markets are still beset by substantial rigidities despite appreciable deregulation and liberalisation measures taken in recent years. Most of the remaining deficiencies can be related to the lack of adequate instruments for effective monetary control and public debt management. The heavy dependence of the Government on the issue of low-yield Treasury bills (Pagares del Tesoro) – which is serving as a convenient vehicle for tax evasion – has posed particular problems. The introduction since last spring of a new kind of Treasury bill (Letras del Tesoro) at market rates and increased recourse by the Government to long-term bond issues, should help in developing more diversified markets while at the same time facilitating monetary control. The impact of these important reforms will be increasingly felt over the medium-term as the market for these instruments develops.

The dominant position of a few banks as well as relatively high cost and profit levels in financial intermediation suggest that there remains ample scope for creating a more competitive and innovative environment. The proposed gradual abolition of discriminatory controls against foreign banks, starting in the 1980s with EEC banks, is a welcome step in this direction. The draft legislation aimed at strengthening the stock exchange at the national level by increasing the quality of information and the number of institutions having direct access to the stock exchange should contribute to a better functioning of capital markets. The creation of new specialised institutions dealing in shares and securities and the objective to upgrade investment and pension funds should also help.

To sum up, macroeconomic performance has improved appreciably during the last few years and structural adjustment policies have begun to bear fruit. Spain benefited from the fall in oil prices and its entry into the EEC. However, sustaining a rate of growth sufficient to reduce the *per capita* GDP gap with the EEC partners and the high level of unemployment, requires a major shift of resources to the export and import-competing sectors of the economy. To step up the creation of viable jobs, a shift to more cautious budgetary policies would seem to be called for so as to maintain the present downward trend of inflation and interest rates and to bring the growth of domestic demand more in line with that of output.

## Notes and references

1. The increase in imports of machinery and equipment in volume terms was 14 per cent in 1985, 18 per cent in 1986 and 39 per cent in the first nine months of 1987 over a year earlier. The increase in domestic production of these categories was 7 per cent, 9½ per cent and 13 per cent respectively.
2. Profits before tax in per cent of own capital.
3. However, even these companies managed to reduce their net losses.
4. Car registrations were depressed in the first few months of 1986 due to advance purchases before the introduction of VAT on 1st January 1986. Actual registrations, therefore, overstate somewhat the relative strength of demand in 1987.
5. For details see OECD *Economic Survey of Spain*, April 1986, Part III, Labour Market Issues pp. 39 to 65.
6. A new Labour Force Survey was introduced in the second quarter of 1987 based on EEC and ILO recommendations. This Survey has extended the eligibility criteria for inclusion in the labour force. Under the new Survey in the first quarter of 1987 the labour force was 0.3 per cent and employment 0.5 per cent higher than under the previous one, whereas the number of unemployed was 0.6 per cent lower (implying that the present rate of unemployment is 0.2 per cent lower than according to previous methods of recording). Under this new Survey are classified as unemployed persons with a minimum period of active job search of 4 weeks (previously one week) and ready to take a job within a fortnight since the interview. The rates of growth of total employment for 1987 as a whole discussed in this section, are tentatively adjusted for such level effects. However, as there are no detailed data available for individual (un)employment categories, the estimated growth rates on a disaggregated basis are subject to some margin of error.
7. See OECD *Economic Survey of Spain*, April 1986, Annex I – Recent Social Policy Measures – pages 73 to 77. Since the Survey was published the authorities have extended both the scope and coverage of the labour employment measures, the most important new measures are the following:
  - i) In February 1986, introduction of a subsidy for internal migration for unemployed having a firm job contract in other areas (Ptas 1 700 per diem for travelling expenses and between Ptas 135 000 and 175 000 for installation and furniture removal);

- ii) In April 1986, early retirement benefits for persons not subject to reconversion plans were extended. The corresponding pension is fixed at 75 per cent of the average salary of the last six months, with 60 per cent of the cost borne by the employer and 40 per cent by the State;
  - iii) In March 1987, the coverage and period of assistance under the Fund for the Promotion of Employment for those in reconversion sectors not having found a job was extended (Maximum participation in the Fund three years and prolongation of two years for those over 55). The Fund guarantees earnings of 80 per cent of the gross salary during the last six months before joining the Fund.
8. It should be noted that the more recent deceleration of the underlying rate is largely due to non-seasonal food prices. Industrial prices excluding energy and service prices have been rising by about 6¼ per cent, annual rate, since December 1986.
  9. The mechanical disinflationary impact of lower non-energy import prices is estimated at 1½ percentage points in 1986 and ¼ percentage points in 1987.
  10. In 1986, the market growth for Spanish manufactures was 2 per cent compared with 4.2 per cent for OECD Europe.
  11. The estimated percentage loss of market shares for manufactures is 4 in 1985 and 12 in 1986, while the gain in 1987 may be at most 3.
  12. By following the previous long-term trend the merchandise import share (at 1980 prices) would have been at about 18¾ per cent in 1987, or 1½ percentage point less than the likely outcome. This difference, equivalent to one-third of the cumulated growth of volume imports since 1985, is broadly what is found as the EEC effect by applying previous trade elasticities.
  13. It should be recalled that these are rough estimates and, therefore, indicate only broad orders of magnitude.
  14. According to the EEC agreement, import duties are lowered by 10-15 per cent per year along with reductions of import quotas. (Before the accession the effective rate of protection was about 15 to 20 per cent).
  15. It should be noted that a significant part of the sharp increase in imports of machinery and equipment is self-financed by related capital inflows for direct and portfolio investment. Accordingly, whereas due to EEC effects the current account shows a marked deterioration, the basic balance of payments is considerably less affected.
  16. The general government is composed of the central government and of the regional authorities (territorial administrations). The former consists of the State, the Social Security System, and the Public Entities and Corporations, while the latter consists of the autonomous (regional) governments and of local authorities (corporations).
  17. In the 1987 Budget the appropriations were compared with the 1986 Budget forecasts and not with the likely outcome. In addition, major revisions of the general government accounts for 1986 and earlier years were made recently. The principal item was the incorporation in general government expenditure of interest and amortization payments of public enterprises sold to the private sector or still under public ownership, but whose financial liabilities were taken over by the central government. Under these conditions,

it is difficult to compare the *ex ante* impact of the 1987 Budget plans with 1987 results.

18. The revenue and expenditure estimates for 1987 are provisional, as they are partly based on data provided in the 1988 Budget and on a few other partial indicators.
19. The inflation adjustment of tax schedules applying to 1987 incomes will not have any significant effect on 1987 *cash* revenues. The final income tax declarations for each year are submitted to the tax authorities in the middle of the following year. Consequently, the tax refunds (resulting from the increase in tax brackets) will be made in the third quarter of 1988, depressing tax revenues on a cash basis in that year.
20. Most tax allowances are adjusted roughly in line with the projected inflation, the number of tax brackets are reduced from 34 to 16 combined with a more smooth progression of marginal tax rates. The top marginal tax rate is lowered from 66 per cent to 56 per cent. At the same time, the *maximum average rate* of 46 per cent is abolished and a zero marginal rate is introduced for taxable incomes up to Ptas. 600 000. Moreover, persons with less than Ptas 840 000 are not required to file income tax declarations (the previous limit was Ptas 500 000).
21. The achievement of the monetary targets in 1986 does not imply that the growth of liquidity in the economy as a whole was moderate. In 1986 there was a big increase in short-term commercial paper and zero-coupon certificates issued by financial institutions and companies, which are not all included in the official ALP target. Hence, ALP growth understated the growth of liquidity in the economy. In 1987, there was a move away from these papers to other assets included in the ALP, thus inflating the latter's rate of growth.
22. See Part II for an analysis of the effects of persistently large PSBR on monetary conditions.
23. The Bank of Spain has been reluctant to sell Treasury bills from its own portfolio at interest rates significantly different from the low (7½ per cent) rate offered by the Treasury. This, together with the absence of a well-developed market for government paper prompted the Bank of Spain to pass the burden of adjustment to the banks by raising the intervention rate and by mopping up part of their liquidity through raising the reserve-requirement ratio.
24. In addition, interest payments on deposits of convertible pesetas in excess of Ptas 10 million was prohibited. In June, limits were set on the spot foreign-exchange net indebtedness of banks. This was suppressed in the autumn.
25. The authorities have mainly attributed the overestimation of the GDP-ALP ratio to the unwillingness of the Treasury to finance the deficit through long-term bonds at going rates. In addition, the upward trend in the issue of commercial paper (not included in ALP) was reversed in 1987 as lenders became concerned with the solvency of some large enterprises. Moreover, rising real interest rates also inflated the growth of ALP because they stimulate foreign capital inflows and they encourage a shift towards assets included in the ALP.
26. See OECD *Economic Survey of Spain*, April 1986, pp. 32-37.



27. Sagunto, which is not legally speaking a ZUR, enjoys the same advantages and is, therefore, usually grouped together with ZURs.
28. Some of the INI companies are subject to restructuring under the Law of July 1984.
29. The OECD projections discussed in the present Survey are broadly in line with those presented in *Economic Outlook*, No. 42.
30. Exports of manufactures (volume) are projected by the OECD to increase by some 6 per cent and export markets by 4¼ per cent in 1988. Despite the 1987 and 1988 gains, Spain will have lost cumulatively 7 percentage points of export market shares since the average level of 1982-83.
31. A number of statistical shortcomings hamper the analysis. An assessment of the size and composition of investment, savings and financial flows is made difficult as available data does not separate households from non-financial enterprises. Similarly, the allocative efficiency of the system cannot be analysed fully without historical data relating to the distribution of credit to the various economic sectors – series which are available only since 1983. In addition, there exists little information on the distribution of bank loans and interest rates in terms of the size of the borrower – or, failing that, of the loan – which is vital for an assessment of the relative access to finance of small- and medium-sized enterprises. Important efforts are being made in these areas and it is to be hoped that they will soon obviate the present inadequacies.
32. Detailed descriptions of the financial system can be found in G. Gil, “Sistema financiero espanol”, *Estudios Economicos* No. 29, 4th edition, 1986; and in A. Cuervo, J.A. Parejo and L. Rodriguez, *Manual de Sistema financiero*, Ariel Economica, Barcelona, 1987.
33. Compulsory investments in Treasury bills were introduced in 1984, but it is not until the end of 1986 that they can be considered binding (see below).
34. Until 1983, all long-term security purchases were partly rebatable against income tax, provided the securities were held for at least three years. This provision hindered the development of a liquid market. In 1983, the government started issuing securities which did not benefit from this rebate. By 1986, 36 per cent of the stock of outstanding government long-term securities were non-rebatable. In 1987, the rebate was abolished. Until then, private security purchases could also be partly deducted from income tax.
35. These losses show up as reduced revenue in the general government accounts with a one-year lag.
36. The contrary would appear to have been true until then. See O. Fanjul and F. Maravall, “Estructura del mercado y crecimiento del sistema bancario espanol : un analisis de las tres ultimas décadas”, *Cuadernos Economicos* de I.C.E., No. 21, 1982.
37. The “big seven” are Banco Central, Banesto, Banco de Bilbao, Banco Hispano-Americano, Banco de Santander, Banco de Viscaya and Banco Popular.
38. Except for the External Bank of Spain (a quasi-public institution specialising in export finance) all other banks are indeed private.

39. These institutions are owned by depositors and general government bodies, the latter having a predominant role in the choice of the administrators of the bank.
40. The independent limited companies which make up the Crédito Oficial are the Banco de Crédito Agrícola, Banco Hipotecario de España, Banco de Crédito Industrial y Banco de Crédito Local. The export-financing activities of the External Bank of Spain are also considered part of those of official credit institutions. The Instituto de Crédito Oficial (ICO) is the institute in charge of supervision, co-ordination and control of the various specialised institutions to which it also channels the Treasury funds.
41. Technically, the funds are first transferred to the Official Credit Institute (ICO), which then in turn allocates them to the various institutions. Until 1984, this allocation was based on "credit authorisations" set by the Cabinet according to an *a priori* order of desiderata. Since then greater importance has been accorded to each institution's estimates of the demand for loanable funds.
42. Until then, the Bank of Spain lending rates were fixed and banks could borrow on demand. The fact that between 1974 and September 1977 Central Bank credits were distributed to banks in proportion to their deposits gave a further boost to the interbank market.
43. In 1980 these banks started issuing bank acceptances ("letras de cambio") which were then freely traded in the stock exchange. These issues peaked in 1982 and have now practically disappeared.
44. The rise in the ratio of the value of transactions to the capitalised value was in part associated with more stringent eligibility requirements, notably the disclosure of greater information and minima on the frequency and volume of transactions. As a result, the number of firms listed declined by over 60 per cent between 1977 and 1985, contributing to the reduction of the capitalised value as a percentage of GDP from around 11 per cent to about 6½ per cent. At the same time, however, transactions were thereby facilitated considerably. Trading in shares represents only a fraction of total trading in the stock exchange. In 1985, it accounted for only about one-quarter, against around one-tenth and two-thirds for fixed-interest and short-term securities respectively. Treasury bills represented no less than 98 per cent of trading in short-term securities, mostly in the form of repurchase-agreement contracts.
45. There exists also a second-tier market for small- and medium-sized enterprises which, unlike examples elsewhere, has not been successful.
46. The pace of liberalisation was partly conditioned by the 1977-1983 banking crisis. In 1974 the new branch openings were related to own resources, and the conditions made somewhat more stringent in 1976. In 1985 all restrictions were lifted, except for banks not meeting minimum legal requirements. This latter move had a limited impact on the system, however, given the excessive number of existing branches and the tendency towards its reduction.
47. For non-EEC banks this is equal to 40 per cent and for EEC banks it has been raised over the last two years to 60 per cent of the sum of their portfolio investments, credits to Spanish private and public entities, and of the assets eligible for the cash ratio (reserve requirements). On the other hand, foreign banks do benefit from certain regulatory

advantages such as less stringent solvency requirements and no restrictions on their foreign-exchange operations, except that of a non-negative net interest margin on such operations so as to prevent speculative activities. There are no restrictions on the asset side of these bank balance sheets (i.e. credits, investments, etc.).

48. Until then, there existed different minimum own funds/deposit ratios as well as separate and different restrictions on risk concentration for different institutions. Since 1985, the two types of regulations have been merged into a single coefficient ("coeficiente de Garantía") which varies, *inter alia*, with risk concentration and is related to the total and the composition of assets, rather than liabilities.
49. Between 1980 and 1981, besides acting as a deposit insurance institution, the Fund was allowed to take up losses, lend guarantees and acquire assets so as to play a greater role in the resolution of the banking crisis. Three different Funds for private, saving and cooperative banks exist. The contribution of the Bank of Spain is equal to the total contribution of banks which is set at 0.12 per cent of deposits (0.1 per cent for savings banks and cooperatives). Up to Pts. 1.5 million per depositor is thereby insured.
50. The mark-up is 1¼ per cent on the securities issued a year earlier. There is a floor of 11 per cent, although it is not quite clear what its function is.
51. In 1981 ceilings on commissions were introduced. They were lifted in 1985.
52. Comparisons of declared rates with those which can be inferred from the income statements of banks would in fact suggest little slippage, especially for saving banks. It is not clear, however, whether such comparisons are valid.
53. These essentially consist in investing idle current-account funds into short-term assets during non-working hours.
54. Short-term portfolio foreign investments by residents are restricted. There still exist restrictions on external borrowing. In addition to the temporary measures taken to stem short-term capital inflows in early 1987 (Part I), there have always been limits on the banks' net foreign-exchange position and on their ability to offset spot with forward positions. On the other hand, leads and lags connected with trade flows have never been regulated.
55. Interest-bearing deposits were introduced in 1979 as an instrument of monetary control separate from the cash ratio. They were formally integrated with it in 1984. The cash ratio was introduced in the 1960s, 1970 and 1972 for industrial, commercial and saving banks respectively. The levels were different and unified only in 1978 after a gradual convergence process.
56. The numerous pitfalls are described in OECD, *Costs and Margins in Banking*, 1980.
57. Most banks were rescued through the intervention of the Deposit Guarantee Fund, a number were absorbed by larger banks and one was liquidated. The crisis initially affected small banks but as from 1981 it spread to larger institutions (Catalana, Urgenjo, Rumasa). A detailed analysis of the crisis in English can be found in J. Revell, "Changes in Spanish Banking", *Institute of European Finance*, Banco de Viscaya, 1984.
58. The calculation of the subsidy is done by multiplying the stock of mandatory holdings by the difference between the own and opportunity- cost rate. As the rates on alternative



assets are biased upwards because of the existence of the constraint, to the extent that these assets are very good substitutes for those included in the ratios there will be an upward bias in the estimates. The margin of error may be relatively high. Note also that in the calculation of the subsidy through the cash ratio it was assumed that a declining portion of this stock would in any case have been held by banks. Such a proportion is assumed to be 3 per cent in 1975 and to decline by 0.1 percentage points each year.

59. This mechanism was applied in the past, but to a much smaller extent and it mainly concerned housing loans and foreign-exchange export loans (covered by the OECD consensus) not included in the coefficients.
60. M3 includes cash and sight, time and saving deposits. In addition to M3, ALP includes: Treasury bills, the repurchase operations with public assets, bank bonds, mortgage securities, banker acceptances, guaranteed commercial paper, liabilities in insurance operations, repurchase operations with private sector assets and, until 1984, Bank of Spain certificates (CRMs).
61. In the case of ALP, it is claimed that the demand function is broadly stable with unit long-run elasticity with respect to both real income and prices. See J.J. Dolado "La Estabilidad de la demanda de dinero en España (1974-1984)", *Boletín Económico*, Banco de España, September 1985. The justification for, and methods of, M3 and ALP targeting are discussed, respectively, in L.A. Rojo and J. Perez, "La Política Monetaria en España: objetivos e instrumentos", *Estudios Económicos* No. 10, Banco de España, 1977, and J. Aristegui and J. Perez "Recent Developments in the implementation of monetary policy", *Working paper No. 8411*, Banco de España, 1984.
62. See OECD, *Economic Surveys, Spain*, Paris, 1986, pp. 57-58.
63. This view can also be found in P. Martínez Mendez "El proceso de ajuste de la Economía española: 1973-1980", *Estudios Económicos* No. 23; Banco de España, 1981, and, more recently, in M. Rubio, speech of the Governor at the EEC on 16th April 1986, *Boletín Económico*, April 1986. Both authors stress the predetermined nature of wages.
64. See OECD, *Economic Surveys, Spain*, Paris, 1986, pp. 56-57.
65. In fact, the ratio of total domestic credit to ALP has remained remarkably stable over time, between 1.03 and 1.06 since 1980.
66. The desire to relax the constraint on the private sector, as long as other conditions appear to make it possible, probably lies behind attempts to reduce interest rates in late 1977, mid-1982, early 1985 and late 1986. These have generally been quickly followed by tightening.
67. This, however, need not have been the *explicit* policy aim. In fact, reference to the real effective exchange rate appears for the first time in the Annual Reports in 1983.
68. Between 1978 and 1981, however, the authorities imposed on banks a compulsory deposit against inflows of convertible pesetas. As described in Part I, severe controls were again introduced in 1987.
69. Statements to this effect can be found in the Annual Reports for 1983 (pp. 177 and 121); for 1985 (p. 33) and in M. Rubio *op. cit.*, p. 7.
70. See OECD, *Economic Survey, Spain*, Paris, 1986, pp. 57-58.



71. As the tax is defined on the nominal rather than on the real rate, for any given real rate, the effective tax rises with inflation. This is another form of fiscal drag, except that negative pre-tax returns can, and have, thereby been taxed.
72. This process had already started earlier with the issue of term deposits. In 1982, these deposits were included in the definition of eligible liabilities so as to prevent their expansion.
73. Another form of zero-coupon securities, so-called Afros, which are issued mainly by enterprises and not by banks, were made subject to a 45 per cent withholding tax on a rate which could not fall below a reference rate established by the State (at present 10 per cent). Given the penalty tax rate, there was no obligation to disclose the name of the buyer.
74. Those zero-coupon securities with 1-year maximum maturity issued before May 1985 were exempted from the new regulations.
75. A detailed description of the procedures can be found in: P. Martinez Mendez, "Monetary Control through the Monetary Base : The Spanish Experience", in BIS (ed), *"The Monetary Base Approach to Monetary Control"*, Basle, 1984 and, by the same author, "Changes in Money-Market Instruments and Procedures in Spain : Objectives and Implications", in a BIS study.
76. These include, notably, the progressive widening of lending forms and, especially since 1982, of borrowing instruments, including the extended use of repurchase agreements. See the articles quoted above for more details.
77. Specifically, the introduction of the ratio was accompanied by a broadly equivalent volume of lending from the Central Bank so as to effect subsequent reductions in bank reserves through the control of the flow of loan renewals.
78. The cost of free-market borrowing would indeed have been quite high given the thinness of monetary markets and, to a lesser extent, the existence of ceilings on deposit rates which implied significant overshooting of the inter-bank rate, the reference rate for such borrowing.
79. These losses were of the order of 0.1, 0.8 and 1.2 per cent of GDP in 1981, 1982 and 1983 respectively.
80. In addition, bank sales of Treasury bills to the public in the form of repurchase agreements are not subject to reserve requirements, implying the need for corrective action on the volume of bank reserves to maintain ALP on target. Information on such operations, however, is available on a daily basis so that corrections can in principle be carried out quite quickly. Portfolio shifts of this kind were quite important in 1985-1986 because of the 1985 tax law discussed in the text.
81. It is not really crucial for the instrument to be subject to withholding tax. What matters is if it can be used to avoid tax by hiding "black" funds.

## ***STATISTICAL ANNEX***

Table A. Main aggregates of national accounts<sup>1</sup>  
Billion pesetas

	Current prices					1980 prices				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
<b>I. Expenditure</b>										
1. Private consumption	13 143.3	14 808.1	16 312.2	17 985.3	20 341.0	10 038.5	10 072.8	10 025.5	10 206.8	10 615.1
2. Government consumption	2 619.5	3 090.9	3 448.3	3 841.6	4 421.0	2 061.0	2 141.3	2 203.3	2 271.6	2 407.9
3. Gross fixed capital formation	4 171.0	4 574.6	4 762.7	5 335.9	6 305.0	3 275.0	3 191.7	3 028.3	3 145.3	3 485.0
a) Construction	2 631.1	2 876.9	2 979.0	3 282.8	..	2 066.8	2 025.4	1 916.1	1 954.4	..
b) Machinery and equipment	1 539.9	1 697.7	1 783.7	2 053.1	..	1 208.2	1 166.3	1 112.2	1 190.9	..
4. Changes in stocks	-14.4	-104.4	37.7	56.9	264.0	-9.9	-59.1	18.8	28.5	124.0
5. Exports of goods and services	3 672.2	4 725.6	5 919.1	6 504.7	6 495.0	2 736.7	3 014.4	3 350.3	3 446.6	3 485.1
6. less: Imports of goods and services	4 024.3	4 860.1	5 359.7	5 870.9	5 741.0	2 745.4	2 728.5	2 701.2	2 845.8	3 271.8
7. Gross domestic product at market prices	19 567.3	22 234.7	25 121.3	27 853.5	32 005.0	15 355.9	15 633.2	15 925.0	16 282.1	16 768.0
<b>II. Value added by sector</b>										
1. Agriculture, forestry and fishing	1 225.9	1 370.2	1 631.9	1 733.7	1 803.0	956.9	1 016.6	1 125.6	1 140.7	1 038.0
2. Industry	5 888.4	6 741.3	7 619.4	8 515.7	9 827.0	4 526.5	4 599.8	4 637.6	4 735.1	4 900.0
3. Construction	1 527.9	1 631.7	1 710.0	1 886.1	2 199.0	1 315.3	1 316.6	1 254.2	1 276.8	1 353.0
4. Services	11 434.3	13 082.0	15 153.0	16 788.8	19 210.0	8 839.0	9 000.6	9 221.5	9 408.9	9 825.9
5. Gross domestic product at factor cost	20 076.5	22 825.2	26 114.3	28 924.3	33 039.0	15 637.7	15 933.6	16 238.9	16 561.5	17 116.9

Source: National Institute of Statistics.

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

	1981	1982	1983	1984	1985	1986
<b>III. National income</b>						
1. Compensation of employees	8 714.9	9 853.2	11 132.4	11 902.2	12 938.2	14 694.0
of which: Wages and salaries	6 679.2	7 529.8	8 464.6	9 101.9	..	..
Employers' contributions to social security	2 035.7	2 323.4	2 667.8	2 800.3	..	..
2. Property and entrepreneurial income, net	5 434.9	6 427.1	7 140.0	8 662.4	9 545.7	10 660.6
Households and private non-profit institutions <sup>1</sup>						
Corporate and quasi-corporate enterprises, before tax	5 348.0	6 327.7	7 123.3	8 920.0	10 208.7	11 629.6
General Government	222.5	289.9	307.1	251.7	327.9	349.7
less: Interest paid by general government	135.6	190.5	290.4	509.3	990.9	1 318.7
3. Net national income at factor cost	1 449.8	16 280.3	18 272.4	20 564.6	22 483.9	25 354.6

1. Excluding interest on consumers' debt.

Source: National Institute of Statistics.



Table B. **Income and outlay transactions of households<sup>1</sup>**

Billion pesetas

	1980	1981	1982	1983	1984	1985
1. Compensation of employees	7 797.5	8 734.4	9 877.4	11 162.3	11 933.6	12 969.7
2. Property and entrepreneurial income, net	3 948.4	4 433.4	5 195.6	5 886.2	6 751.1	..
3. Current transfers	2 227.2	2 779.1	3 221.7	3 740.9	4 186.3	..
4. <i>of which:</i> Social security and social assistance benefits	2 126.0	2 639.2	3 012.2	3 509.2	3 947.5	4 502.0
5. Change in the actuarial reserves for pensions	..	..	..	..	..	..
6. <i>Current receipts</i>	13 973.1	15 946.9	18 294.7	20 789.4	22 871.0	..
7. Final consumption expenditure	10 080.4	11 457.9	13 143.3	14 808.1	16 313.2	17 985.3
8. Direct taxes on income and property	799.3	925.9	981.5	1 313.9	1 604.0	..
9. Current transfers	2 200.1	2 519.4	2 889.1	3 339.1	3 591.6	..
10. <i>Of which:</i> Social security and social assistance contributions	1 769.2	2 036.0	2 323.7	2 666.8	2 800.7	..
11. <i>Current disbursements</i>	14 849.0	16 939.2	19 337.6	22 127.9	24 309.5	..
12. <i>Disposable income (6-8-9-10)</i>	10 974.4	12 501.9	14 424.5	16 135.4	17 675.8	..
13. <i>Gross saving</i>	894.0	1 044.0	1 281.2	1 327.3	1 362.6	..
14. <i>Saving rate (13/12)</i>	8.1	8.4	8.9	8.2	7.7	..

1. This account is presented on an ESA basis.

Sources: National Institute of Statistics and Bank of Spain.

Table C. **Public sector accounts<sup>1</sup>**  
Billion pesetas

	1982	1983	1984	1985	1986
<b>1. General government</b>					
<b>Current account</b>					
<i>Receipts</i>					
Gross operating surplus	105.6	126.6	148.1	170.3	190.9
Property income receivable	288.9	307.1	251.7	327.9	349.7
Indirect taxes	1 522.4	1 900.1	2 271.4	2 726.6	3 560.5
Direct taxes on income and wealth	1 332.6	1 748.1	2 085.6	2 373.9	2 675.4
Actual social contributions	2 381.4	2 787.3	3 011.0	3 338.9	3 790.7
Imputed social contributions	229.7	267.2	271.2	319.6	350.0
Miscellaneous current transfers	382.1	428.7	458.5	610.1	747.6
Total	6 242.6	7 565.1	8 497.5	9 867.3	11 664.8
<i>Disbursements</i>					
Final consumption expenditure	2 619.5	3 090.9	3 448.3	3 841.6	4 421.0
Property income payable	190.4	290.4	509.3	990.9	1 318.7
Subsidies	489.0	575.8	751.0	674.6	652.2
Social security benefits	2 747.5	3 232.1	3 606.2	4 174.8	4 677.4
Miscellaneous current transfers	291.2	355.2	400.8	478.7	639.8
Statistical discrepancy	6.9	9.6	8.9	14.7	57.0
Gross saving	-101.9	11.1	-227.0	-308.0	-101.3
<b>Capital account</b>					
<i>Receipts</i>					
Gross saving	-101.9	11.1	-227.0	-308.0	-101.3
Capital transfers	4.6	11.2	17.5	19.9	70.1
Capital taxes	32.4	34.2	45.7	55.3	72.6
Total	-64.9	56.5	-163.8	-232.8	41.4
<i>Disbursements</i>					
Gross fixed capital formation	574.5	607.7	722.0	942.5	1 048.0
Net purchases of land and intangible assets	27.2	24.3	37.9	49.5	54.0
Capital transfers	433.4	491.6	454.4	649.0	769.4
Net lending (+) or net borrowing (-)	-1 099.9	-1 067.1	-1 378.1	-1 873.8	-1 830.0
(Per cent of GDP)	(-5.5)	(-4.7)	(-5.3)	(-6.5)	(-5.5)

1. These accounts are on an ESA basis.

Source: National Institute of Statistics.

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

	1982	1983	1984	1985	1986
<b>2. Central government</b>					
1. Tax revenue	2 144.7	2 736.2	3 118.8	3 382.5	4 356.4
2. Property and entrepreneurial income (gross)	252.7	265.2	200.3	270.2	275.2
3. Current transfers	632.8	684.4	756.8	794.5	1 057.5
4. Total current revenue	3 030.2	3 685.8	4 075.9	4 447.2	5 689.1
5. Purchase of goods and services	1 512.5	1 703.7	1 740.8	1 845.5	2 089.3
6. Current transfers	1 422.6	1 582.7	1 837.2	1 873.1	2 608.8
7. Subsidies	421.5	484.8	633.6	522.5	436.8
8. Others	141.0	203.2	410.4	862.2	1 148.4
9. Total current expenditure	3 497.6	3 974.4	4 622.0	5 103.3	6 283.3
10. Gross saving <sup>1</sup>	-396.2	-206.5	-451.6	-547.2	-472.2
11. Capital taxes	20.1	23.6	15.5	12.0	7.6
12. Capital transfers	3.0	2.5	2.7	19.9	104.1
13. Total capital resources (10 to 12)	-373.1	-180.4	-433.4	-515.3	-360.5
14. Gross fixed capital formation	302.6	357.3	321.1	334.6	337.3
15. Capital transfers	451.5	512.3	607.6	766.5	911.6
16. Total capital expenditure (14 to 15)	754.1	869.6	928.7	1 101.1	1 248.9
17. Overall financial surplus (+) or deficit (-) (13 less 16)	-1 127.2	-1 050.0	-1 362.1	-1 616.4	-1 609.4

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).  
Source: National Institute of Statistics.

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

	1982	1983	1984	1985	1986
<b>3. Local government</b>					
1. Tax revenue	717.5	918.4	1 241.9	1 724.5	1 918.3
2. Property and entrepreneurial income (gross)	26.8	29.0	36.4	41.4	60.5
3. Current transfers	157.1	315.7	397.1	299.4	473.9
4. Total current revenue	901.4	1 263.1	1 675.4	2 065.3	2 452.7
5. Purchase of goods and services	585.1	803.4	1 059.6	1 198.0	1 408.7
6. Current transfers	123.8	158.8	251.9	330.9	413.1
7. Others	117.0	176.3	216.2	274.8	339.2
8. Total current expenditure	825.9	1 138.5	1 527.7	1 803.7	2 161.0
9. Gross saving	102.1	160.2	191.0	311.3	347.4
10. Capital taxes	12.4	10.5	30.1	43.3	65.0
11. Capital transfers	55.7	98.4	247.5	191.3	262.7
12. Total capital resources (9 to 11)	170.2	269.1	468.6	545.9	675.1
13. Gross fixed capital formation	260.2	239.8	399.7	609.5	704.4
14. Capital transfers	36.4	73.0	84.0	79.3	128.7
15. Total capital expenditure (13 to 14)	296.6	312.8	483.7	688.8	833.1
16. Overall financial surplus (+) or deficit (-) (12 less 15)	-126.4	-43.7	-15.1	-142.9	-158.0
<b>4. Social security institutions</b>					
1. Social security contributions	2 364.8	2 767.9	2 988.0	3 308.4	3 751.9
2. Transfers	828.1	770.0	957.9	1 117.9	1 382.2
3. Other current receipts	18.6	25.8	34.2	40.0	14.0
4. Total current receipts	3 211.5	3 563.7	3 980.1	4 466.3	5 148.1
5. Purchase of goods and services	521.9	583.9	647.9	797.8	923.0
6. Social security benefits	2 441.0	2 863.1	3 248.6	3 730.0	4 168.3
7. Current subsidies and transfers	64.4	68.1	60.2	22.5	46.5
8. Total current expenditure	3 027.3	3 515.1	3 956.7	4 550.3	5 137.8
9. Gross saving	192.2	57.5	33.6	-72.3	23.5
10. Gross capital formation	38.9	34.9	39.3	47.9	60.2
11. Others	0.3	0.5	0.4	0.3	35.2
12. Total capital expenditure	39.2	35.4	39.7	48.2	95.4
13. Total income from capital	0.9	4.4	4.9	5.9	9.3
14. Overall financial surplus (+) or deficit (-)	153.8	26.6	-1.2	-114.6	-62.6

Source: National Institute of Statistics.



Table D. Labour market trends

	1984	1985	1986	1986		1987 <sup>2</sup>	
				Q3	Q4	Q1	Q2
	Thousands						
Civilian labour force <sup>1</sup>	13 437	13 542	13 781	13 799	13 905	13 988	14 266
Civilian employment <sup>1</sup>	10 668	10 480	10 732	10 887	10 961	10 977	11 330
Agriculture	1 965	1 926	1 741	1 706	1 705	1 714	1 723
Industry	2 681	2 589	2 632	2 634	2 662	2 659	2 756
Construction	809	770	827	861	877	875	914
Services	5 213	5 286	5 621	5 685	5 718	5 729	5 937
Employees, total	7 310	7 309	7 653	7 739	7 800	7 805	7 877
Unemployment	2 769	2 971	2 961	2 913	2 944	3 011	2 937
	Per cent						
Participation rate, total	47.6	47.4	47.7	47.7	47.9	48.0	48.8
Men	69.3	68.6	68.5	68.5	68.5	68.4	67.8
Women	27.6	27.6	28.3	28.4	28.7	29.2	31.0
Unemployment rate, total	20.6	21.9	21.5	21.1	21.2	21.5	20.6
Men	19.4	20.5	19.7	19.2	19.0	19.2	17.0
Women	23.4	25.4	25.6	25.4	26.0	26.7	27.9
Less than 25 years old	47.0	48.5	46.9	45.8	46.5	46.2	43.4
25-54 years old	14.2	15.8	15.3	14.9	14.9	15.3	14.9
Over 55 years old	9.2	9.8	10.7	11.1	10.5	10.9	8.9

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

2. From Q2 1987 a new labour survey was introduced. Data with earlier periods are not strictly comparable.

Source: National Institute of Statistics.

Table E. Price and wage trends<sup>1</sup>  
Percentage change, annual rate

	Prices							
	1983	1984	1985	1986	1986 Q4	Q1	1987 Q2	Q3
Consumer prices	12.2	11.3	8.8	8.8	8.6	6.1	5.7	4.6
Food	10.7	12.6	9.5	10.6	11.7	7.6	6.2	3.4
Non-food	13.0	10.6	8.4	7.9	7.1	5.3	5.4	5.3
Energy	16.2	10.5	4.5	-6.2	-9.1	-7.7	-4.1	-4.2
Non-energy	11.9	11.4	9.1	9.9	9.8	7.0	6.3	5.1
Non-food and non-energy	12.6	10.6	8.9	9.4	8.9	6.6	6.3	6.2
Industrial prices	14.0	12.2	8.0	0.9	-1.0	-0.3	0.2	..
Food	11.2	13.5	6.9	4.1	3.7	2.9	2.4	..
Non-food	13.7	10.0	8.1	5.6	5.4	5.0	5.5	..
Investment goods	13.1	10.1	8.3	6.2	5.4	5.4	5.0	..
Consumer goods	12.9	11.2	7.7	5.1	4.6	4.5	4.5	..
Intermediate goods	15.0	13.4	8.0	-3.1	-6.2	-4.9	-4.0	..
of which: energy	19.0	8.4	8.8	-11.1	-17.9	-12.4	-10.1	..
Unit value of exports	18.2	12.5	7.3	-3.3	-2.8	-0.3	3.6	6.4
Unit value of imports	20.7	10.1	2.4	-17.3	-16.5	-11.0	-1.6	13.3
Non-energy	23.2	12.0	2.8	-1.8	-1.3	1.8	1.1	1.2

	Wages					
	1982	1983	1984	1985	1986	
Average increase in contractual wages		12.0	11.4	7.8	7.4	8.1
Monthly earnings per employee		14.0	13.7	9.9	9.3	10.9
Daily pay in agriculture		9.3	9.0	8.8	9.2	8.0
Salary cost per head in construction (including social security contributions)		13.4	12.2	10.6	7.3	9.4

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.

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

Table F. **Money and credit**  
Billion pesetas

	Q1	Q2	1986 Q3	Q4	Q1	1987 Q2	Q3
<b>1. Monetary indicators (quarterly changes)</b>							
M1 (narrow money supply)	-49.6	285.2	355.5	455.5	-280.2	..	..
<i>of which:</i>							
Currency in circulation	187.2	-43.1	288.5	115.0	-79.9	..	..
Sight deposits	-236.8	328.3	37.0	340.5	-200.3	..	..
Savings deposits	65.9	-202.6	-235.5	-360.7	258.6	..	..
Time deposits	-385.8	-432.5	787.6	622.6	-37.4	..	..
M3 (broad money aggregate)	-369.5	-349.9	907.6	717.4	-59.0	414.1	..
Other liquid assets in the hands of the public	1 084.1	1 137.5	-346.6	243.6	729.0	361.9	..
<i>of which:</i>							
Credit system liabilities	272.1	120.5	235.4	272.0	494.5	..	..
Treasury Bills	812.0	1 017.0	-582.0	-28.4	234.5	..	..
ALP (liquid assets in the hands of the public)	714.5	787.6	561.0	961.0	670.0	776.0	..

Source: Bank of Spain.

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

	1981	1982	1983	1984	1985	1986
<b>2. Bank liquidity</b>						
Changes, in billion pesetas						
1. Cash reserves <sup>1</sup>	49.4	126.2	152.3	173.4	-14.8	-88.0
2. Central bank credit received	80.5	126.9	187.6	298.8	-111.4	384.6
3. Public securities	132.0	126.7	83.8	2 136.9	834.4	1 331.1
Ratios to deposits: end of period, per cent						
1. Cash	5.2	6.1	7.0	16.5	16.9	16.9
2. Public securities	12.4	13.2	13.5	31.3	40.9	56.1
<b>3. Official credit institutions (changes, in billion pesetas)</b>						
<i>Assets</i>						
1. Cash	8.7	-1.4	30.0	23.4	-42.9	2.3
2. Credit to public sector	35.9	10.2	10.0	4.3	67.7	57.3
3. Credit to private sector	251.9	211.4	243.1	227.7	202.8	172.1
4. Total assets	296.5	220.2	283.1	255.4	227.6	231.7
<i>Liabilities</i>						
5. Transfers from Treasury	229.9	262.3	284.4	263.6	165.6	26.7
6. Advances from the banking system	62.1	97.2	94.4	172.3	148.7	38.8
7. Others (net)	4.5	-139.3	-95.7	-180.5	-86.7	166.2
8. Total liabilities	296.5	220.2	283.1	255.4	227.6	231.7
<b>4. Capital market</b>						
Gross issue (billion pesetas)						
1. Public securities	297.1	396.8	322.3	970.0	617.0	2 199.3
Central Administration	248.5	337.8	295.6	926.3	540.6	2 068.9
Regional and local authorities	48.6	59.0	26.7	43.7	76.4	130.4
2. Private securities <sup>2</sup>	332.4	414.2	425.3	740.3	822.0	956.2
Bonds	198.7	298.9	246.1	470.8	446.7	546.0
Shares	133.7	115.3	179.2	269.5	375.3	410.2
3. Total	629.5	811.0	747.6	1 710.3	1 439.0	3 155.5

1. Because of a break in the series, data from 1984 are not strictly comparable with earlier years.

2. Private non-financial enterprises.

Sources: Bank of Spain and National Institute of Statistics.



Table G. **Balance of payments<sup>1</sup>**  
 Million dollars

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. Imports (fob)	15 193	16 137	16 812	17 505	24 022	32 306	31 102	30 579	27 463	26 939	27 740	32 826
2. Exports (fob)	7 807	8 990	10 612	13 480	18 352	20 581	21 064	21 321	19 873	22 660	23 551	26 570
3. <b>Trade Balance</b>	-7 386	-7 147	-6 200	-4 025	-5 670	-11 725	-10 038	-9 258	-7 590	-4 279	-4 189	-6 256
4. Services, net of which:	2 755	1 891	2 622	4 001	5 014	4 489	3 531	3 430	3 883	5 226	5 834	9 262
5. Tourism	3 096	2 690	3 486	4 917	5 558	5 720	5 709	6 122	5 942	6 882	7 141	10 545
6. Transfers, net	1 143	1 142	1 414	1 656	1 782	2 048	1 697	1 580	1 208	1 188	1 372	1 494
7. <b>Current balance</b>	-3 488	-4 294	-2 164	1 633	1 126	-5 188	-4 817	-4 242	-2 542	2 035	2 744	4 102
8. Private long-term capital	1 788	1 447	1 746	2 113	2 835	4 020	3 537	788	2 217	2 678	-1 311	566
9. Official long-term capital	15	570	1 277	-395	382	174	633	992	994	469	-35	-2 118
10. Total long-term capital	1 803	2 017	3 023	1 718	3 217	4 194	4 170	1 780	3 211	3 147	-1 346	-1 552
11. <b>Basic balance</b>	-1 685	-2 277	859	3 351	4 343	-994	-647	-2 462	669	5 182	1 398	2 550
12. Short-term capital, errors and omissions <sup>2</sup>	930	1 204	287	507	-830	445	-577	-791	-1 359	-2 246	-2 465	2 686
13. <b>Monetary movements</b> (increase in assets = -)	755	10 712	-1 146	-3 857	-3 512	548	634	3 122	42	-4 795	2 212	-1 123
14. Changes in reserves	120	953	-1 180	-3 883	-3 101	758	1 010	3 486	-61	-4 767	2 181	..

1. Transactions basis.

2. Including banks' local accounts in foreign currency.

Sources: Ministry of Economy and Commerce.

Table H. Foreign trade<sup>1</sup>

## 1. By commodity

Billion pesetas

	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
	1. Imports, cif					2. Exports, fob				
1. Agricultural and food products	434.2	543.6	571.2	563.3	637.4	370.7	458.1	597.7	628.8	614.2
2. Minerals	78.9	93.4	110.9	111.0	..	75.6	81.5	82.5	70.8	..
3. Oil products	1 376.4	1 671.3	1 741.6	1 807.9	..	159.9	252.1	335.0	383.5	..
4. Chemicals, plastics and rubber	307.2	382.6	452.4	509.0	569.5	218.7	282.8	381.4	438.9	326.5
5. Skins and leather	29.3	33.4	57.4	68.2	..	35.3	40.9	55.2	66.4	..
6. Wood and cork	31.5	41.5	45.3	55.7	..	31.3	39.7	48.7	48.9	..
7. Pulp, paper and books	63.5	65.7	84.7	96.7	..	86.3	95.3	114.4	124.7	..
8. Raw cotton, textiles and clothing	78.3	100.9	111.0	129.0	116.8	102.4	135.8	183.2	195.0	167.2
9. Glass and pottery	27.4	32.2	34.8	39.9	..	56.3	77.9	96.7	96.3	..
10. Metals and metal products	213.8	224.4	274.1	344.0	..	360.2	423.2	550.9	630.4	..
11. Machinery and appliances	462.7	545.4	658.7	772.8	..	297.7	296.4	406.3	484.6	..
12. Transport equipment	163.9	179.4	226.0	275.2	333.8	322.0	446.0	596.1	626.8	585.3
of which: Cars, lorries and tractors	119.7	155.1	192.5	235.3	..	245.8	349.5	463.4	534.9	..
Aircraft (imports), ships (exports)	34.0	18.3	25.9	28.2	..	49.4	73.0	98.2	70.0	..
13. Other	206.1	262.7	260.9	300.5	..	143.8	208.9	282.6	309.0	..
14. Total	3 473.2	4 176.5	4 629.0	5 073.2	4 890.7	2 260.2	2 838.6	3 730.7	4 104.1	3 800.1
15. Total less agricultural and food products	3 039.0	3 632.9	4 057.8	4 509.9	4 253.3	1 889.5	2 380.5	3 133.0	3 475.3	3 185.9

<sup>1</sup>. Customs clearance basis.

Source: Ministry of Economy and Commerce.

Table H. Foreign trade<sup>1</sup> (cont'd)

## 2. By geographical area

Billion pesetas

	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
	1. Imports, cif					2. Exports, fob				
EEC, total	1 087.7	1 348.9	1 547.5	1 828.4	2 458.1	1 036.9	1 370.6	1 853.3	2 055.2	2 294.3
of which										
United Kingdom	171.1	256.7	281.1	329.6	377.7	161.0	219.9	343.0	351.3	355.4
France	277.5	344.3	398.0	471.1	571.4	370.2	448.7	566.6	636.4	682.9
Germany	328.9	366.1	458.7	537.4	736.1	185.6	260.2	361.8	393.1	445.5
Italy	155.6	180.9	195.3	232.7	356.9	127.3	150.8	225.6	289.5	302.3
COMECOM	94.5	124.1	144.1	184.2	128.1	48.3	74.2	93.9	195.8	101.8
Other European countries	183.9	230.3	251.2	284.4	252.6	175.6	212.5	313.7	336.6	179.7
United States	482.0	495.5	519.3	553.0	482.7	145.5	206.6	361.1	408.6	351.0
Canada	20.9	23.6	22.2	21.3	19.2	15.2	20.6	36.9	42.1	43.0
Other American countries	371.6	509.4	543.5	582.7	345.3	226.1	183.3	209.9	245.1	206.9
Japan	110.6	139.9	141.8	172.8	241.6	28.3	43.5	58.9	53.5	42.7
Near-East	661.0	685.1	699.4	588.0	382.6	179.2	216.2	243.2	230.8	100.6
Rest of the world	481.9	643.3	782.2	879.7	599.8	420.3	531.7	644.1	578.5	523.2
Total	3 473.2	4 176.5	4 629.0	5 073.2	4 890.8	2 260.2	2 838.6	3 778.1	4 104.1	3 800.2

1. Customs clearance basis.

Source: Ministry of Economy and Commerce.

Table I. **Foreign assets and liabilities**  
Outstanding at end of period, pesetas

	1983	1984	1985	1986
<b>Liabilities</b>	8 204.7	9 682.7	9 117.5	9 051.7
Monetary institutions	3 438.0	4 091.2	3 618.4	3 773.9
Bank of Spain	(-)	(-)	(-)	(-)
Banking system	3 438.0	4 091.2	3 618.4	3 773.9
Government	587.8	770.2	737.9	495.5
Private sector	4 192.7	4 817.3	4 741.5	4 766.7
Foreign investments	754.1	940.6	1 185.8	1 698.8
<b>Assets</b>	4 406.8	6 010.7	5 748.6	6 038.4
Monetary institutions	3 804.8	5 242.2	4 913.2	5 215.6
Bank of Spain	1 234.8	2 089.7	1 702.8	1 932.5
Banking system	2 570.0	3 152.5	3 210.4	3 283.1
Government	20.5	23.3	26.3	55.4
Private sector	580.3	745.7	809.1	762.5
Investments abroad	512.9	603.4	610.2	603.9

Source: Bank of Spain.



***BASIC STATISTICS :  
INTERNATIONAL COMPARISONS***

## BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period <sup>1</sup>	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
<b>Population</b>																											
Total	Thousands	1985	15 752	7 555	9 857	25 379	5 113	4 901	55 162	61 015	9 950	243	3 562	57 128	120 754	366	14 484	3 279	4 148	10 230	38 602	8 350	6 530	49 870	56 618	239 283	23 120
Inhabitants per sq.km	Number		2	90	323	3	119	14	101	245	75	2	51	190	324	141	427	12	13	111	76	19	158	64	231	26	89
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.1	0.1	0.4	0.5	-0.1	1.0	1.1	1.2	0.3	0.8	0.1	0.6	0.6	0.3	0.6	0.8	0.2	0.2	2.1	0.1	1.0	0.8
<b>Employment</b>																											
Total civilian employment (TCE) <sup>2</sup>	Thousands	1985	6 676	3 235	35 607	11 311	2 522	2 427	20 916	25 011	3 588	114 (84)	1 056 (84)	20 509	58 070	160	5 083	1 329	2 012	4 029	10 623	4 299	3 171	15 213	24 089	107 150	..
of which: Agriculture	% of TCE		6.2	9.0	2.9	5.2	6.7	11.5	7.6	5.5	28.9	10.6	16.0	11.2	8.8	4.2	4.9	11.1	7.2	23.2	17.6	4.8	6.6	57.3	2.6	3.1	..
Industry	% of TCE		27.7	38.1	29.7	25.5	28.1	31.9	32.0	41.0	27.3	36.8	28.9	33.6	34.9	33.4	28.1	32.4	27.8	35.3	31.8	29.9	37.7	17.6	32.4	28.0	..
Services	% of TCE		66.1	52.9	67.4	69.3	65.2	56.6	60.4	53.5	43.8	52.6	55.1	55.2	56.3	62.4	67.0	56.5	65.0	41.5	50.6	65.3	55.7	25.1	65.0	68.9	..
<b>Gross domestic product (GDP)</b>																											
At current prices and current exchange rates	Billion US\$	1985	155.1	66.1	79.1	346.0	57.9	54.0	510.3	625.0	32.8	2.7	18.2	358.7	1 327.9	3.6	125.0	21.9	57.9	20.7	164.2	100.2	92.7	52.7	449.7	3 946.6	43.5 (84)
Per capita	US\$		9 847	8 743	8 022	13 635	11 319	11 024	9 251	10 243	3 294	10 958	5 123	6 278	10 977	9 745	8 628	6 722	13 960	2 032	4 255	12 006	14 195	1 057	7 943	16 494	1 896 (84)
At current prices using current PPP's <sup>3</sup>	Billion US\$	1984	..	85.7	119.7	382.2	68.0	59.6	694.7	811.6	62.3	..	27.6	575.1	1 468.4	5.3	168.9	..	63.6	50.9	317.8	..	..	..	625.2	3 634.6	..
Per capita	US\$		..	11 345	12 150	15 198	13 311	12 217	12 643	13 265	6 296	..	7 795	10 093	12 235	14 385	11 710	..	15 367	5 021	8 279	..	..	..	11 068	15 356	..
Average annual volume growth over previous 5 years	%	1985	3.0	1.6	0.6	2.6	2.3	2.6	1.1	1.3	1.0	0.7	1.8	0.9	3.9	2.4	0.7	3.3	3.1	1.0	1.4	1.8	1.3	4.9	1.9	2.4	..
<b>Gross fixed capital formation (GFCF)</b>	% of GDP	1985	24.4	22.3	15.9	19.6	18.5	23.4	18.9	19.5	19.0	21.5	20.9	18.2	27.5	20.2	18.6	25.4	21.7	21.8	19.1	19.1	23.8	19.8	17.2	18.6	21.9 (4)
of which: Machinery and equipment	% of GDP		10.4 (84)	9.6	5.3 (84)	6.6	8.6	8.8	9.4	8.4	7.9	5.8 (84)	11.0 (84)	7.9	10.1 (84)	8.9 (82)	8.1 (84)	12.3 (84)	6.3	13.7 (81)	6.1 (83)	9.1	8.0	9.1 (82)	8.1 (84)	8.4	..
Residential construction	% of GDP		5.4 (84)	4.6	3.2	5.4	4.3	6.2	4.7	5.5	4.0	4.8	5.6 (83)	4.7	5.0 (84)	4.7 (82)	5.0 (84)	4.3 (84)	4.1	7.1 (81)	5.2 (82)	4.1	15.8 <sup>9</sup>	2.6 (82)	3.7 (84)	4.8	..
Average annual volume growth over previous 5 years	%	1984	1.9	-0.5	-4.0	0.9	2.1	2.6	-0.1	-1.3	-2.8	-1.0	-1.9	0.3	2.7	-2.8	-1.0	6.6	-1.2	-4.5	-1.4	1.2	2.7	4.9	2.1	5.0	..
<b>Gross saving ratio<sup>4</sup></b>	% of GDP	1985	20.1	24.4	15.9	19.0	14.9	23.7	18.0	22.2	12.2	16.3	18.1	17.7	31.4	65.3	24.1	20.9	30.0	23.1	21.0	17.8	30.0	18.7	19.2	16.5	..
<b>General government</b>																											
Current expenditure on goods and services	% of GDP	1985	16.7	18.7	17.3	20.1	25.3	20.2	16.3	19.9	19.9	18.0	19.1	19.5	9.8	15.6	16.3	16.4	18.6	14.2	14.0	27.4	13.2	8.5	21.1	18.3	14.0 (84)
Current disbursements <sup>5</sup>	% of GDP	1985	33.4 (84)	44.9 (84)	52.3	43.3 (84)	56.7	37.6	49.4	43.4	43.2	26.4 (84)	51.5 (83)	51.9	27.1 (84)	47.8 (82)	55.9 (84)	..	44.0	37.5 (81)	32.3 (82)	59.6	30.9	..	44.8 (84)	35.3	..
Current receipts	% of GDP	1985	34.1 (84)	47.0 (84)	46.5	39.9 (84)	57.0	40.6	48.5	45.4	34.6	34.8 (84)	43.6 (83)	44.1	30.3 (84)	53.0 (82)	54.3 (84)	..	56.1	33.2 (81)	31.2 (82)	59.8	34.4	..	42.8 (84)	31.1	..
<b>Net official development assistance</b>	% of GNP	1984	0.46	0.28	0.56	0.50	0.85	0.36	0.77	0.45	..	..	..	0.33	0.35	..	1.02	0.25	1.02	..	..	0.80	0.30	..	0.33	0.24	..
<b>Indicators of living standards</b>																											
Private consumption per capita using current PPP's <sup>3</sup>	US\$	1984	6 742 *	6 490	7 637	8 484	6 826	6 287	8 009	7 274	4 118	6 335 *	4 338	6 254	6 751	8 540	7 270	4 041 *	6 624	3 076	5 456	5 821 *	8 755 *	759 *	6 535	10 214	966 *
Passenger cars, per 1 000 inhabitants	Number	1985	..	306 (81)	335 (84)	421 (82)	293	316	360 (83)	424	108 (83)	431	206 (83)	355 (84)	221 (83)	414	341	455	367	135 (82)	240	377	402	18 (82)	312 (83)	473 (84)	121 (83)
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)	414 (83)	664 (83)	783	615	541 (83)	621	336 (83)	525 (83)	235 (83)	448 (84)	535 (83)	404 (84)	410 (86)	646	622 (84)	166 (83)	369	890 (83)	1 299	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	Number	1985	..	300 (81)	303 (84)	471 (80)	392	380	297 (80)	372	158 (80)	303	181 (80)	244 (84)	250 (80)	336 (83)	317 (86)	291	330	140 (80)	256 (82)	390	329	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	Number	1985	..	1.7 (82)	2.8 (84)	1.8 (82)	2.5 (84)	2.1	2.1 (82)	2.5 (84)	2.8 (83)	2.4 (84)	1.3 (82)	3.6 (82)	1.3 (82)	1.7 (84)	2.2 (84)	2.4	2.2	1.8 (82)	3.3	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.3 (83)	1.6 (82)
Infant mortality per 1 000 live births	Number	1985	9.2 (84)	11.0	9.4	9.1 (83)	7.9	6.3	6.9	9.1	14.1	5.7	8.9	10.9	5.9 (84)	9.0	9.6 (86)	10.8	8.4	17.8	7.0 (84)	6.8	6.9	..	9.4	10.6 (84)	31.7 (83)
<b>Wages and prices (average annual increase over previous 5 years)</b>																											
Wages (earnings or rates according to availability)	%	1986	7.7	5.0	4.4	5.5	6.2	10.2 (85)	8.7	3.7	25.1 (85)	..	12.0 (85)	12.6	3.9	..	3.3	10.3 (85)	9.2 (85)	19.2 (85)	15.0 (85)	8.0	..	..	9.1	4.0	..
Consumer prices	%	1986	8.2	3.8	5.7	5.8	6.3	6.9	7.4	2.6	20.4	42.4	9.0	11.3	1.8	5.3	2.9	11.6	7.8	21.5	11.1	7.4	3.1	37.2	5.5	3.8	56.3
<b>Foreign trade</b>																											
Exports of goods, fob*	Million US\$	1986	22 536	22 428	68 652 <sup>7</sup>	86 664	21 216	16 296	119 268	242 400	5 640	1 092	12 636	97 476	210 804	.. <sup>8</sup>	80 580	5 837	18 240	7 188	27 132	37 200	37 248	7 908 (85)	107 016	217 308	7 188
as % of GDP	%		14.5	33.9	86.8	25.0	36.6	30.2	23.4	38.8	17.2	40.4	69.4	27.2	15.9	..	64.5	26.7	31.5	34.7	16.5	37.1	40.2	15.0	23.8	5.5	16.5
average annual increase over previous 5 years	%		0.7	7.3	4.4	4.2	5.8	3.1	3.3	6.7	5.6	3.9	10.0	5.2	6.8	..	3.3	0.7	0.3	11.7	5.8	5.4	6.7	23.5	0.7	-1.4	-3.1
Imports of goods, cif*	Million US\$	1986	23 916	26 724	68 544 <sup>7</sup>	81 312	22 824	15 300	128 760	189 684	11 340	1 116	11 616	99 972	127 668	..	75 420	6 156	20 292	9 444	34 920	32 484	40 860	11			

- \* At current prices and exchange rates.  
1. Unless otherwise stated.  
2. According to the definitions used in OECD Labour force Statistics.  
3. PPP's = Purchasing Power Parities.  
4. Gross saving = Gross national disposable income minus Private and Government consumption.  
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.  
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.  
7. Including Luxembourg.  
8. Included in Belgium.  
9. Including non-residential construction.

Sources:  
Population and Employment: OECD Labour Force Statistics.  
GDP, GFCF, and General Government: OECD National Accounts, Vol. I and OECD Economic Outlook, Historical Statistics.  
Indicators of living standards: Miscellaneous national publications.  
Wages and Prices: OECD Main Economic Indicators.  
Foreign trade: OECD Monthly Foreign Trade Statistics, series A.  
Total official reserves: IMF International Financial Statistics.

## EMPLOYMENT OPPORTUNITIES

*Economics and Statistics Department*

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