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OECD  
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

SPAIN

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1969

## BASIC STATISTICS OF SPAIN

### THE LAND

Area (1 000 sq. km)	504.7	Major cities (1967; thousands of inhabitants):	
Agricultural area (1 000 sq. km)	203.3	Madrid	2 765
		Barcelona	1 761
		Valencia	500
		Sevilla	489

### THE PEOPLE

Population (1967 thousands)	32 140	Total labour force (1967 in thousands)	12 572
Number of inhabitants per sq. km (1967)	64	<i>of which:</i>	
Net natural increase (1967 thousands)	398	In agriculture	3 690
Net rate of increase per 1 000 inhabitants (1967)	12.4	In industry	3 502
Net emigration (average 1965-67, thousands)	7	In construction	1 065
		In services	4 315

### PRODUCTION

Gross national product 1967 (billion pesetas)	1 617	Gross domestic product at factor cost by origin in 1967 (percentages):	
GNP per head, 1967 (US \$)	850	Agriculture	16
Gross fixed investment (1967) per cent of GNP	21	Industry and construction	35
per head (US \$)	177	Services	49

### THE GOVERNMENT

Public consumption in 1967 (percentage of GNP)	10	Current revenue of central government in 1967 (percentage of GNP)	13
Public investment (central government) in 1967 (percentage of total investment)	9	Internal public debt (percentage of central government current revenue in 1967)	88

### LIVING STANDARDS

Electricity, final consumption (kWh per head) in 1967	976	Numbers per 1 000 inhabitants (1967):	
Calories per head, per day (1967)	3 100	Television sets	108
Annual meat consumption (kg per head, 1967)	37	Private cars	41
		Telephones	99

### FOREIGN TRADE

Exports of goods and services as a percentage of GNP (average 1966-67)	12	Imports of goods and services as a percentage of GNP (average 1966-67)	15
Exports (average 1966-67, percentage of total exports): Foodstuffs	50	Imports (average 1966-67, percentage of total imports): Foodstuffs	17
Raw materials and semi-finished products	23	Fuel, raw materials and semi-finished products	50
Capital goods	14	Capital goods	26
Consumers' manufactures	13	Consumers' manufactures	7

### THE CURRENCY

Monetary unit: peseta		Currency units per US \$ (as from November 1967)	70
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# SPAIN

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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

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

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

*The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.*

This document was approved  
by the Economic and Development Review Committee  
in January 1969.

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## INTRODUCTION

After several years of rapid expansion of output, accompanied by inflationary pressures and a deterioration of the current balance of payments, the year 1967 saw a marked slowing-down of the rate of growth and a decrease in the volume of productive investment. But private and public consumption both continued to rise strongly and the price-wage spiral was unabated. Although the foreign trade gap was reduced, the current external deficit remained considerable and reserve losses were significant.

In November 1967 the peseta was devalued in line with sterling, by 14.3 per cent, so as to shift resources from the home economy to the foreign sector. And measures were taken to restrain both private and public consumption and to encourage business fixed investment, while ensuring a satisfactory degree of price stability. Data so far available for 1968 indicate an important improvement in the balance of payments and relatively moderate price increases. A recovery of economic activity seems to have started, but there are no clear signs yet of a revival of productive investment.

The recovery is likely to accelerate in 1969 and the authorities have recently announced measures to ensure an orderly development of prices and wages costs. The prospects for the current balance of payments are relatively favourable, allowing for the expected deceleration of world trade. The devaluation and the policy measures have started to adjust the internal and external disequilibria, but prudent demand management policies seem essential in order to ensure the full success of the devaluation strategy and to lay the ground for an increased efficiency of the economy as a whole, as aimed at in the second Development Plan.

Part I of the present Survey, after recalling some general features of the earlier period of rapid growth, describes the changes in economic trends that occurred in 1967 and the policy measures taken at the time of the devaluation. Part II outlines subsequent developments up to the late months of 1968. The prospects for 1969 and certain issues of economic policy are discussed in Part III, which also incorporates a brief summary of the main objectives of the Second Development Plan, and a final section contains the conclusions.

## I THE 1967 ADJUSTMENT AND THE DEVALUATION

### *Some aspects of earlier developments*

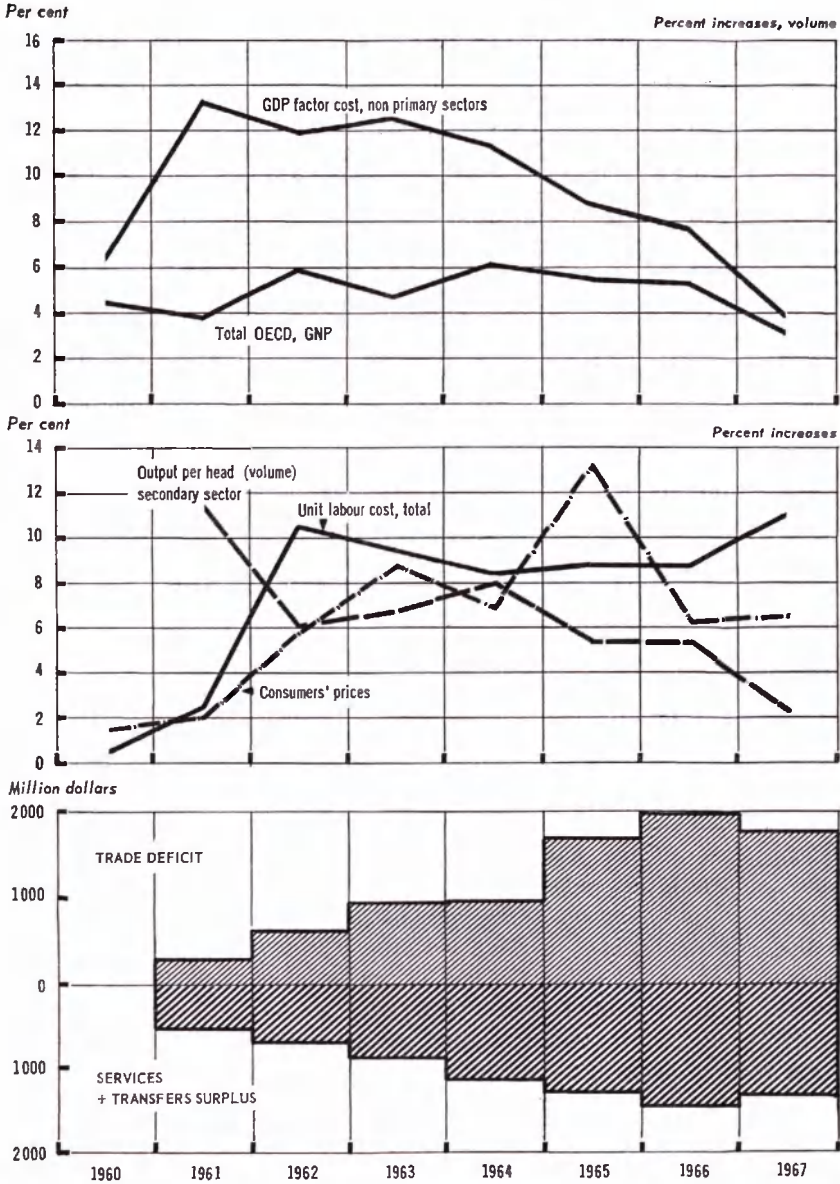
After the Stabilization Programme of July 1959, the Spanish economy entered a period of unprecedented fast and steady expansion which came to a halt at the beginning of 1967. Between 1959 and 1966 real output can be estimated to have grown at an average annual rate of over 7.5 per cent, with industrial production rising at 11 per cent. Private consumption expanded fast and average living standards improved substantially. But fixed capital formation was by far the strongest demand component leading steadily to the expansion and attained an average rate of growth of almost 15 per cent in real terms; and the share of gross investment in machinery and equipment rose from about 7.5 per cent in 1959 to more than 11.5 per cent, which is among the highest of OECD countries. On the contrary, exports of merchandise lagged considerably behind until the more recent period and expanded by roughly 7 per cent per year in volume between 1960 and 1966 (total OECD imports were rising on the average at about 10 per cent in volume in the same period). Thus the share of exports of merchandise in GNP, which was roughly 7.5 per cent in 1960 (it was among the lowest of OECD countries) fell to only 5.3 per cent in 1966. On the other hand, tourism receipts surged ahead at such a rate that from being equivalent to 3 per cent of GNP and accounting for just over a fourth of total exports of goods and services in 1960, they had reached practically the same level as merchandise exports at the end of the period, i.e. 5.2 per cent of GNP. With imports of merchandise rising between 1960 and 1966 at an annual rate of 30 per cent in value, the foreign balance underwent a steady deterioration. In 1966 the deficit on goods and services amounted to almost 4 per cent of GNP, as compared with the exceptional surplus of nearly 3 per cent in 1960—a year when the initial effects of the stabilization measures on domestic demand and the 1959 devaluation has produced a spectacular improvement of the external account. But in the following six-year period, the rise of domestic demand in real terms exceeded on average that of output by over 1 per cent of GNP per year, so that the foreign balance on goods and services deteriorated by about \$200 million per year. This deterioration was more than offset up to 1964 by net inflows of current transfers and long-term capital such as to allow a substantial build-up of foreign exchange reserves. But in 1965 the first overall deficit appeared and the loss of reserves accelerated in 1966.

This fast rate of expansion was accompanied by progressively stronger price increases, in spite of a growing foreign deficit on goods and services after 1962. Between 1960 and 1966 the GNP price deflator rose probably by nearly 6.5 per cent per year on the average, against 4.5 per cent for the



Spain

Diagram 1 Growth and Imbalances of the Spanish Economy, 1960-1967



Sources: National Accounts 1964-1967, INE; Annual Report, 1968. Bank of Spain and Secretariat estimates.

total of OECD European countries combined. Thus, there has been a progressive deterioration of Spain's competitive position after the 1959 devaluation. One of the main reasons for the price rises was undoubtedly the substantial increase in guaranteed prices of agricultural products. This was reflected in food prices which rose sharply in 1965 (by 15 per cent) and by 7 per cent on the average in this period as a whole against 3.5 per cent in OECD European countries combined. However, productivity increased strongly during this period of rapid industrialisation and increasing integration of the economy into world markets. Agricultural output rose on the average by roughly 3.5 per cent per year and output per head by about 6.5 per cent, reflecting the large net outflow of manpower (corresponding to an average yearly decrease of 3 per cent). The productivity gains of the non-agricultural sector were also considerable, output per employed person rose by about 7 per cent per year with an increase in labour input estimated at more than 3.5 per cent per year. There was, however, a falling trend: between 1960 and 1963 output per head increased by almost 9 per cent per year, but the rate fell to 5.5 per cent in the period 1963-1966. As the total wage bill (including social security contributions) was rising by just over 16.5 per cent per year, and with a slight acceleration in the more recent period, labour costs must have eroded substantially the financial situation of business. This contributed to the slowdown of investment as soon as credit restrictions were introduced at the beginning of 1966.

Both fiscal and monetary policies during this period were, on the whole, expansionary. Thus, general government current expenditure on goods and services increased by two and a half times at current prices, slightly faster than GNP, but at the end of the period accounted for just 9.5 per cent of GNP which is still low when compared with other OECD countries of a similar level of GNP per capita. As total taxes (excluding social security contributions) increased at much the same rate (and represented in 1966, at 10.5 per cent of GNP, a relatively much lower taxation ratio than in those same countries), the budget could be closed on the whole with significant surpluses. But these were more than offset by the growing deficits incurred in the extra-budgetary operations of the public sector financed by the Treasury. Monetary policy allowed money supply to rise between 1960 and 1966 at an annual rate of almost 16 per cent per year and total liquidity by nearly 18 per cent. Credits granted by commercial banks to the private sector rose on average by nearly 21 per cent per year, and those supplied by the saving banks and other credit institutions increased still faster, by more than 23 per cent per year.

If the Spanish economy could sustain such a strong expansion during this six-year span under such inflationary conditions—most likely conducive at the end of the period to inefficient resource allocation and thereby to further cost increases—the reason was that between 1960 and 1966 gross

foreign exchange receipts from tourism, current transfers and long-term capital surged up from nearly \$600 million to roughly \$2.2 billion. This was probably the result of the conjunction of the growing prosperity of OECD countries, whose combined GNP rose in volume by more than 5 per cent on average in this period, and the increasing integration of Spain into the world economy after years of partial isolation.

In the latter part of this period, certain measures were taken by the authorities to combat inflationary pressures. Apart from the above-mentioned credit restrictions (which were reversed later on), the volume of state-supported housebuilding was reduced and efforts were made to limit the rise of budget expenditure, resulting partly in a relative slowing-down of public investment. Some of these measures have contributed to the levelling-out of activity in 1967, but autonomous adjustments have probably played a considerable role. Most important was the weakening of business investment already in 1966. This can partly be explained by reference to the previous exceptionally high level and by general business uncertainty about the trend of economic policies, but mainly by rising unit costs and the difficulty to raise wholesale prices of manufactures in the face of competition from imports. With a certain timelag, the decline of business investment and the simultaneous weakening of house-building activity produced deflationary effects on dependent employment and incomes. On the other hand, the continuing sharp rise of consumer prices eroded much of the wage increases which remained considerable throughout 1967.

### *Main trends in 1967*

The pace of expansion fell sharply in the first months of 1967, and despite a brief recovery in the middle of the year it is most likely that the level of GNP at the end of 1967 was only fractionally higher than a year earlier. For the year as a whole, the rate of growth of GDP in real terms slowed down to about 3.5 per cent, compared with nearly 8 per cent in 1966 and 7.5 per cent in 1965.

The national accounts estimates for demand, output and income illustrate, in broad terms, economic developments for 1967. Any interpretation should, however, be made with caution, as it would seem that some of the underlying statistics are subject to wide margins of error<sup>1</sup>. The most

1 The need to improve economic statistics has been stressed in earlier OECD Surveys on Spain. During recent years considerable progress has been made in various fields but new efforts are still required in important areas. House-building statistics, for instance, are in need of a radical overhaul. Statistics of employment and wages—where certain improvements have been made and others are still feasible—are inherently more difficult to establish in an economy in the process of rapid transformation, and should be used with caution. Moreover, current labor cost statistics in industry are sometimes revised considerably.

significant fact was a 5 per cent fall in real terms of investment in machinery and equipment as compared with 1966. According to the statistics of imports of capital goods by categories, this fall is most likely to have been bigger for manufacturing industry. Investment in residential construction also fell substantially, by more than 10 per cent in real terms. Consumers' expenditure was the most dynamic element of domestic demand: it rose, in real terms, by 6.4 per cent, nearly twice as fast as GNP. This should be attributed to the rapid rise in compensation of employees (by 15 per cent following a rise of 18 per cent in 1966) but also to a probable fall in the saving ratio, as the increase in the liquidity propensity of the personal sector would seem to indicate. Public consumption continued to expand rapidly and even accelerated with respect to 1966 both in volume and in nominal terms. In this last respect, the impact of the public sector on the overall price rise (as measured by the GNP price deflator) because of substantial salary increases, has been considerable. On the other hand, exports of goods and services rose only moderately: though commodity exports continued to increase at a satisfactory rate, gross receipts from tourism (which are of the same order of magnitude as merchandise exports) were affected by the weak trend of economic activity in the rest of western Europe and showed a decline of just over 6 per cent compared with 1966. However, since imports of goods and services fell slightly, the deficit on goods and services, which had shown a deterioration of 3 per cent and 1 per cent of GNP in 1965 and 1966 respectively, was reduced by about 0.5 per cent of GNP (though the foreign trade balance improved at the rate of 1 per cent of GNP).

Table 1 National Accounts  
(a) Supply and Use of Resources

	Billion pesetas		% increases value		% increases volume	
	1966	1967	1966	1967	1966	1967
1 Private consumption	1 012.9	1 142.2	14.2	12.8	7.4	6.4
2 Public consumption	133.4	160.4	18.8	20.3	2.7	4.5
3 Fixed investment	334.8	339.7	13.6	1.4	11.1	-0.5
4 Changes in stock	55.0	30.1	..	..	..	..
5 Exports, goods and services	175.3	181.3	20.5	3.5	14.6	1.4
6 Imports, goods and services	234.0	237.2	19.4	1.4	14.8	-2.0
7 GNP at market prices	1 477.4	1 616.5	14.8	9.4	8.1	3.2
<i>As percentages of GNP</i>						
(a) Fixed investment	22.7	21.0				
(b) External deficit on goods and services	4.0	3.5				

Source : National Institute of Statistics



Spain

Table 1 National Accounts  
(b) The growth of demand and its effects  
Annual increases in billion pesetas

	1965	% shares	1966	% shares	1967	% shares
<i>At current prices</i>						
1 Private consumption	143.8		125.9		129.3	
2 Public consumption	18.1		21.2		27.0	
3 Total consumption	161.9	70	147.1	74	156.3	115
4 Fixed investment	49.9	} 30	40.1	} 26	4.9	} -15
5 Differences in stock accumulation	20.8		11.3		-24.9	
6 Domestic demand	232.6	100	198.5	100	136.3	100
7 Foreign balance on goods and services	-33.6	14	-8.1	4	2.8	-2
8 GNP	199.0		190.4		139.1	
9 GNP volume	78.2	34	94.4	48	40.4	30
10 Effect of price increases (= 8-9)	120.8	52	96.0	48	98.7	72

Source : National Institute of Statistics.

The developments of the main components of demand and their impact on output, prices and the foreign balance are summarized in Table 1b. The main feature that emerges from the table is the growing imbalance in the allocation of resources in the last few years, which culminated in 1967 when the increase in total consumption accounted for virtually the whole increment of final domestic demand (i.e. excluding stock variations). At the same time, the growth of fixed investment represented a progressively smaller share of the increase in domestic demand. The persistence of the same price rise as in 1966, despite a slower expansion of domestic demand, may be partly linked to the differing trends of consumption and investment; it seems relevant in this context that the degree of protection against competing imports is far greater for consumption goods than for producer goods.

On the production side, a remarkable feature of 1967 was the abrupt end of the expansion of industrial production in the first quarter, after seven years of steady and rapid increases. For 1967 as a whole, the rise was reduced to less than 3 per cent, and in the last quarter production was nearly 1 per cent lower than a year earlier. Agricultural output rose moderately, by just over 3 per cent, following the strong recovery of 1966. The favourable development in the adaptation of output to demand which seems to have started in 1966 continued. Thus, meat production rose by more than 12 per cent, whereas vegetable produce fell by 2 per cent.

Total employment in industry and construction increased in 1967 by about 1.5 per cent (as against 4.1 per cent in 1966) according to the estimates of the Ministry of Industry. But according to current indicators, employ-



Table 2 Industrial Origin of Gross Domestic Product

	1967		% volume increases			% increases of implied prices		
	Bil. pesetas	% shares	1965	1966	1967	1965	1966	1967
1 Agriculture, forestry and fishing	246.6	16.4	1.9	7.6	2.4	13.2	3.9	-0.1
2 Secondary sector	521.9	34.7	9.5	9.3	4.0	4.2	3.0	2.8
<i>of which :</i>								
- manufacturing	397.2	26.4	9.3	10.1	4.1	4.0	2.9	2.7
- construction	78.3	5.2	9.6	6.9	4.8	6.2	4.1	4.9
3 Services	734.1	48.9	8.4	6.7	4.0	13.1	9.8	9.7
4 GDP at factor cost	1 502.6	100.0	7.6	7.9	3.7	9.8	6.2	5.6

Source : National Institute of Statistics; partly provisional data.

ment in manufacturing and mining stopped increasing already at the beginning of 1967, and was at the end of the year more than 1.5 per cent below the level of end-1966. Officially registered unemployment rose by 23 000 persons on a yearly average, but by the end of 1967 it reached almost 180 000, showing an increase of about 50 000 compared to a year earlier. According to estimates of the Ministry of Labour, total unemployment, registered or not, was in the region of 250 000, i.e. roughly 2 per cent of the labour force. But the increase was partly due to the return of emigrant workers.

Wages continued to rise sharply throughout 1967, though at a somewhat smaller rate than in the previous year. According to the quarterly surveys of the Institute of Statistics<sup>1</sup> average hourly earnings increased by 15.7 per cent for the year as a whole, after a 17 per cent rise in 1966. The increase between the fourth quarters of 1966 and 1967 was 14.9 per cent as compared with a rise of more than 19 per cent twelve months earlier. Consumer prices continued to rise strongly, and even faster than in 1966. The general index rose by 6.4 per cent on a yearly average, and by 7.2 per cent over the twelve months to November. In 1966 the corresponding rises were 6.2 per cent and 5.2 per cent respectively.

According to provisional and partial figures the public sector, using the standardized national accounts definition, continued to play in 1967 a significant expansionary role as in the previous years. This resulted, on the one hand, from rising public demand for goods and services on current and capital account, and on the other hand, from a fall in the saving ratio which went down to 17 per cent of total revenue after being as much as 25 per cent in 1966. The detailed public sector accounts for 1967 are not yet available, because of institutional changes<sup>2</sup> which involve significant revisions in the recording of both the public sector and the private sector parts of the accounts. Judging from the budget outcome<sup>3</sup>, there was some improvement in central government finances, partly offset by a deterioration in those of autonomous bodies. Thus the budget surplus of about 4 billion pesetas was more than offset by the rising deficit of agricultural marketing agencies which increased their financial needs by more than 12.5 billion pesetas. But the slowdown of the increase in budget expenditure shown in Table 5 below was partly apparent. Allowing for the incorporation in the budget

1 These surveys are based on a sample of establishments with more than 10 employees in industry, banking, insurance companies and trade. Total employment in the branches surveyed is 2.9 million. The number of wage and salary earners outside agriculture is put at 6.9 million for 1967.

2 Family allowances—which account for about 9 per cent of compensation of employees—were up to 1967 paid directly by employers to employees as a supplement to wages and salaries. As from that year they will be treated as employers' contributions to Social Security which will make the payments to households as transfers.

3 Apart from other important differences of coverage and definitions, the budget out-turn is on a cash basis, whereas the accounts based on national accounts concepts are on a transactions basis.

Table 3 **Public Sector Accounts**  
(National accounts concepts)  
(a) Current saving and overall deficit  
*Million pesetas*

		1964	1965	1966
I	<b>NET CURRENT SAVING</b>			
	1 Central government	39 992	43 748	54 427
	2 Central autonomous institutions	434	1 229	—674
	3 Total Central Government	40 426	44 977	53 753
	4 Local government	1 083	2 596	6 569
	5 Social security institutions	9 663	9 879	4 406
	6 Total General Government	51 172	57 452	64 728
14	<b>Public current saving as per cent of GNP</b>	4.8	4.5	4.4
II	<b>OVERALL FINANCIAL SURPLUS (+) OR DEFICIT (—)</b>			
	1 Central government	+2 081	—487	+1 067
	2 Central autonomous institutions	—725	+348	+352
	3 Total Central Government	+1 356	—139	+1 419
	4 Local government	—1 832	—1 420	+1 389
	5 Social security institutions	+8 269	+7 806	+2 087
	6 Total General Government	+7 794	+6 247	+4 896
	<b>Overall financial surplus as per cent of GNP</b>	0.7	0.5	0.3

*Source:* Ministry of Finance: "Public Sector Accounts 1964-1966".

Table 3 **Public Sector Accounts**  
**(b) General Government**  
*Million pesetas*

	1964	1965	1966	% increases	
				1965	1966
1 Direct taxes	47 781	54 064	62 899	13.1	16.3
2 Indirect taxes	86 699	105 252	127 707	21.4	21.3
3 Social Security contributions	43 567	48 946	51 671	12.3	5.6
4 Other current receipts	14 184	17 701	17 320	24.8	-2.2
5 Total current revenue	192 231	225 963	259 597	17.5	14.9
6 Current expenditure on goods and services	94 084	112 210	133 359	19.3	18.8
7 Current subsidies and transfers	46 975	56 302	61 510	19.9	9.3
8 Total current expenditure	141 059	168 512	194 869	19.5	15.6
9 Net current saving (5—8)	51 172	57 451	64 728	..	..
10 Capital account receipts	4 790	4 742	5 665	-1.0	19.5
11 Less Gross investment	31 430	36 802	46 473	17.1	26.3
12 Less Capital transfers	16 738	19 144	19 025	14.4	-0.6
13 Overall financial surplus (+) or deficit (-)	+7 794	+6 247	+4 895	..	..

Source : Ministry of Finance: "Public Sector Accounts 1964-1966".

of certain salary payments (and of the corresponding revenue) started in 1966, the real de-celeration was less marked.

After the short lived but apparently rather effective tightening of monetary policy in late 1965 and early 1966 there has been no basic change, until the measures of November 1967. Easy monetary policies continued to be applied and the liquidity base of the banking institutions remained practically stable. Total liquidity (money plus quasi-money) rose in 1967 by more than 16 per cent (compared with 11.5 per cent in 1966). In line with this expansion, the volume of external financing to the private sector rose to 196 billion pesetas from 173 billion in 1966, i.e. roughly at the same rate as 1964, about 17.3 per cent. Commercial banks again reduced their relative share in total funds made available to the private sector and the saving banks increased their credits not only faster than the average of all institutions but also faster than the year before.

The external deficit on current account was still relatively high in 1967—roughly \$460 million, equivalent to just over 1.5 per cent of GNP—but showed an improvement of about \$100 million over 1966. The balance of payments would have presented in 1967 a basic surplus of some \$75 million, as compared with a basic deficit of \$220 million in 1966. Nevertheless the net outflow of short-term capital (included in errors and omissions) attained such a level as to convert this surplus into a net overall deficit of about \$140 million. The loss of convertible foreign reserves amounted to \$154 million (including the use of the credit tranche position with the IMF in January 1967), compared with a loss of \$204 million in 1966. The improvement in the current deficit was the result of a substantial reduction (by \$211 million) of the trade deficit, which was still, however, of the order of \$1.8 billion. The improvement on trade account more than offset a deterioration in the invisibles balance of about \$110 million. In 1967, imports were 3 per cent lower than in 1966, reflecting undoubtedly the marked slowdown of economic activity. Total exports increased by 10 per cent after an increase of 30 per cent the year before. Food exports rose by 14 per cent and non-food exports by 8 per cent. But if petroleum products (which nearly doubled) and transport equipment (which fell by nearly half) are excluded, the rest of non-food exports increased by 15 per cent, after a rise of 27 per cent in 1966.

The situation at the end of 1967 can be summarized as one of near-stagnation of economic activity, with rising unemployment and relatively strong pressures on the price level. Though the halt in expansion was accompanied by a shift of resources to the external sector equivalent to nearly 0.5 per cent of GNP, the loss of foreign reserves was still considerable. Confronted with such an unbalanced situation and with the devaluation of sterling and other currencies in November 1967, the Spanish authorities



opted to devalue the peseta as the best possible way of restoring equilibrium and putting the economy on a more sound basis for further expansion.

*The Devaluation and accompanying measures*

On the 19th November, 1967, the peseta was devalued in the same proportion as the pound sterling, i.e. by 14.3 per cent. Thus the rate of exchange for one US dollar rose from 60 to 70 pesetas. The devaluation was accompanied by a series of measures intended to shift resources from both public and private consumption to fixed investment and exports. The main policy measures were as follows:

- (i) In order to limit the rise of general government current expenditure, the pending increase of public salaries and pensions was frozen until the 31st December 1968. Nevertheless no change was made in either the Public Investment Programme of the Development Plan or the appropriations made for investment under the General Budget of Central Government.
- (ii) Private consumption was to be restrained by imposing a personal income freeze and by fiscal measures. Thus, labour and non-labour personal incomes were to be kept, until 31st December, 1968, at the level of 18th November, 1967, except those wage increases due to bonuses for productivity increases or seniority. The Administration was authorized to raise up to 50 per cent the rates of the sales tax<sup>1</sup> (but eventually this facility has not been used). The external indices used for assessing income tax were modified, and measures were announced to restrain tax evasion. On the other hand, the extension of the tax on labour income to manual workers was postponed up to 1st January, 1969. Finally, the initial payments on hire-purchase were increased by 5 percentage points and new limits were set at between 25 per cent and 35 per cent of the final purchase price.
- (iii) To stimulate investment, depreciation allowances of enterprises for tax purposes were increased, and so were the tax benefits linked to funds created by enterprises for investment purposes. Likewise the increase in Social Security contributions previously decided was postponed until July 1968. On the other hand, a transitory surtax was introduced for the year 1968 of 10 per cent on the "fiscal" profits of enterprises in excess of 6 per cent of

<sup>1</sup> This sales tax (Impuesto sobre el lujo) covers such items as beverages, consumers' durables, canned food, some services and all luxury good.

their "fiscal" capital; and the scope of individual<sup>1</sup> assessment of tax liabilities of enterprises was extended. The repayment period of loans for purchases of equipment goods made in 1968 was changed from three to five years. And in order to support house-building activity the programme for State-supported dwellings was expanded.

- (iv) In order to limit price increases despite the impact of the devaluation, extensive price controls were introduced. Domestic prices in general, and rates of public sector services in particular, were to be stabilized in principle until the end of 1968. Exceptions were to be admitted for goods and services directly affected by the higher cost of imports and by increases in indirect taxes. To help counteract excessive price increases of essential goods resulting from the devaluation, the Administration was authorized to spend up to 5.3 billion pesetas to subsidize imports of staple foodstuffs. Moreover, customs duties and border tax adjustments were reduced for several categories of imports—e.g. foodstuffs, chemicals, textiles and leather, but the scope of import liberalisation was not extended. On the other hand, special temporary levies were imposed on certain agricultural exports.
- (v) On this occasion the pattern of controlled interest rates has been amended. The Bank of Spain's re-discount rate for commercial paper was raised from 4.0 to 4.5 per cent and several other rates were similarly raised by half a point. On the other hand, while the maximum interest on demand deposits was unchanged, the rate on time deposits was increased by a full percentage point and other measures were taken to encourage personal savings.

## II ECONOMIC DEVELOPMENTS IN 1968

In the early months of 1968 the pace of economic activity showed signs of recovery which were reinforced up to the autumn. The pattern of demand behind this trend was practically the same as in 1967, with the external sector accounting probably for a bigger share of total demand. Private productive investment does not seem to have picked up yet, but its dampening effect on total domestic demand is being offset by rising private and public consumption and probably some recovery in residential construction. Prices

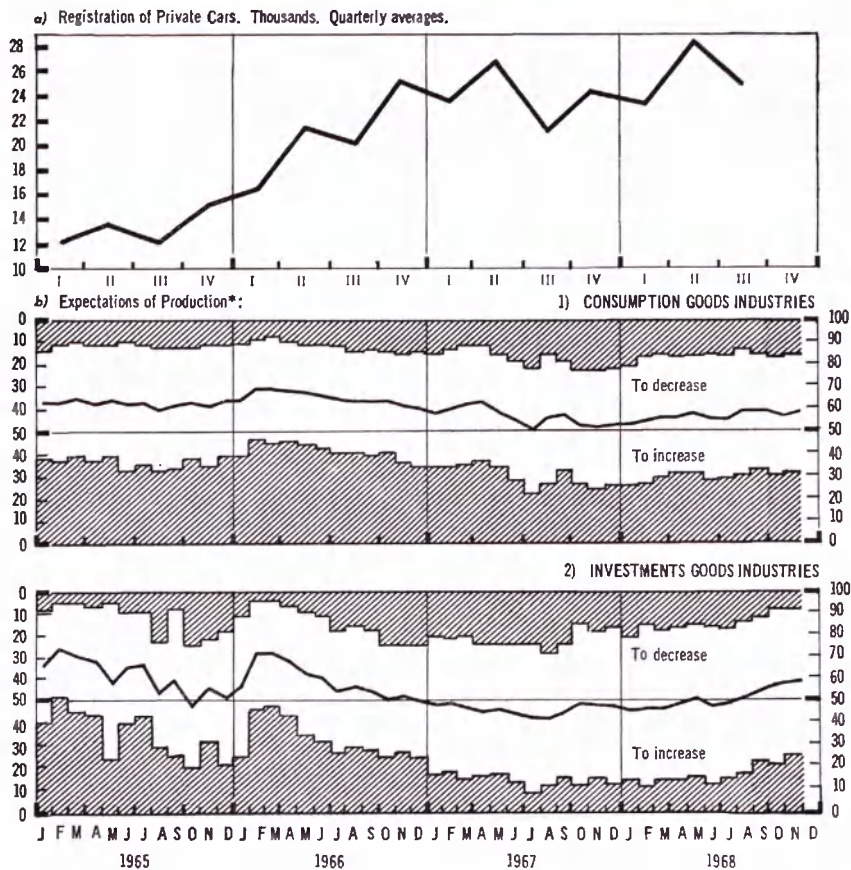
<sup>1</sup> The Spanish tax laws allow the "global assessment" of certain direct and indirect taxes for each professional or business category. See the 1966 OECD Survey, page 20.

remained relatively stable, and there has been up to November some gain in reserves as compared with a significant loss in 1967.

*Demand and output*

There are no official indicators of expenditure in private productive investment, but the figures for imports of machinery and equipment, and domestic production of investment goods can give an idea of the evolution of investment. Thus, in the period January-November imports of machinery and equipment for industry had fallen 12 per cent below the already depressed level of the same period in 1967. On the other hand, the index of production of equipment goods shows a rise of nearly 9 per cent in January-October of this year, as compared with the same period in 1967. These divergent trends can probably be explained partly by some import substitution due to the devaluation, but mainly by the big increase in exports of capital goods (excluding transport equipment): by nearly 40 per cent on January-November over the same period in 1967. As regards public investment the figures for the two first quarters fell below those of similar periods of 1967, both in contracts awarded and in investment carried out. Investment in residential construction should have recovered from the low level of the previous year. The number of provisional approvals of subsidised dwellings in the first nine months of 1968 was more than 80 per cent higher than in the same period a year earlier. But employment in construction increased by just over a half of 1 per cent between the same two periods. The indicators available for private consumption show some deceleration as compared with 1967, but the rises were still significant and there would seem to be an acceleration of the trend in recent months. Thus, the registration of new cars in January-November was over 8 per cent higher than in 1967, but it was more than 10 per cent higher in the three month period September to November. This general picture of recovery seems to be borne out by recent business surveys. Thus, the deterioration of orders in industry which has already started in 1966 and became more pronounced in the course of 1967 had virtually stopped by the end of that year. As from March 1968 a significant improvement started, which has continued up to November. On the whole, it would seem that, in real terms, private domestic demand (excluding changes in stocks) rose less fast in 1968 than the year before, but may have picked up more in recent months.

Diagram 2 Current Indicators of Consumption and Investment



\* Percentage of replies stating "increasing" or "decreasing" expectations. The central line in both diagrams shows the addition of the percentage of "increasing" expectations plus half of the "no change" expectations.

Sources: National Institute of Statistics, Indicadores de Coyuntura, and Ministry of Industry, Industrial Surveys.

On the output side, the new index of industrial production<sup>1</sup> shows that the recovery has continued all along the year and has probably accelerated in late summer. The average of the index for the period January-November

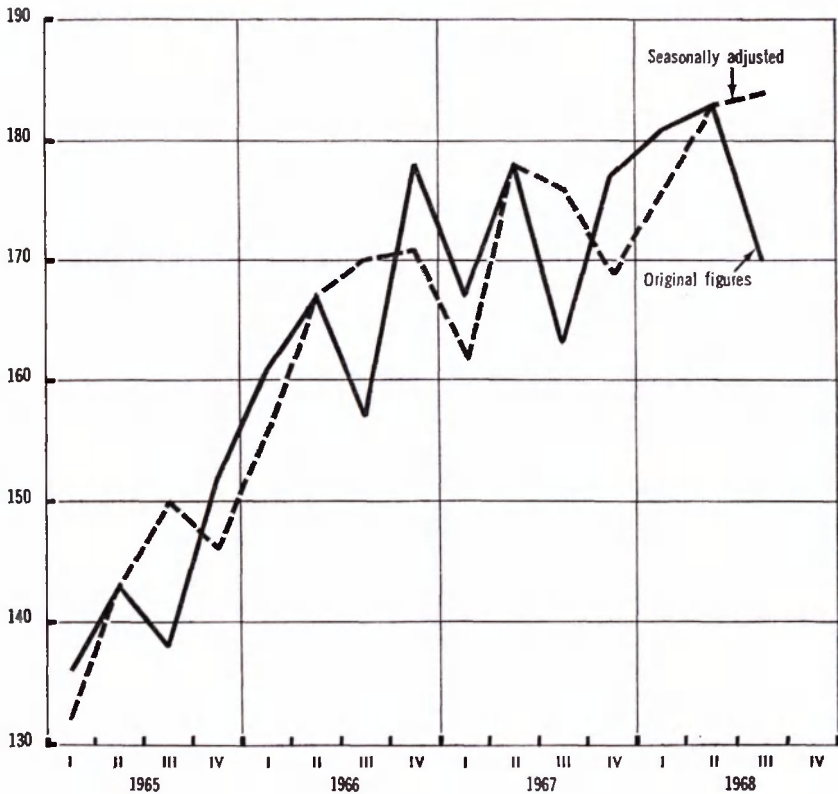
1 The National Institute of Statistics (INE) has just produced a new index of industrial production ["Sistemas de números índices de la producción industrial (Base 1962) Madrid 1968] with 1962 as base year, which replaces the old index based on 1958. The industry coverage is the same in the two indexes for the monthly figures, but the new index will include also construction in the annual series.



*Spain*

was nearly 7 per cent higher than a year earlier, as compared with a rise of just over 3 per cent in 1967 as a whole. The lack of seasonally adjusted figures<sup>1</sup> for the new series does not allow a proper assessment of the underlying trend but by comparing the second and third quarters of this year with those of 1967 (when industrial production showed a brief revival) the percentage increases of the index—roughly 3 per cent and 5 per cent respectively—would seem to indicate an acceleration in the upward trend.

Diagram 3 **General Index of Industrial Production<sup>1</sup>**  
Quarterly averages, 1962 = 100



1 New series.

Source: National Institute of Statistics (INE)

1 The line shown in Diagram 3 is a rough estimate made by the Secretariat on the basis of the seasonal factors of the old index.



According to preliminary estimates, 1968 has been a good agricultural year. The rise of total output was significantly higher than in 1967, which can be considered an average year. Moreover, the favourable trend of product composition seems to have continued and even accelerated. Thus, whereas wheat production fell by 2.2 per cent (with acreage falling by about 8 per cent) the crops of fodder grain rose markedly: barley by nearly 40 per cent and maize by over 25 per cent; in both cases the gains in yields were significant as acreage rose by 36 per cent and 7.5 per cent respectively. The shift from wheat to secondary grains was partly due to changes in relative support prices. On the other hand the already excessive acreage devoted to wine production increased by more than 4 per cent. According to preliminary estimates, olive-oil production is likely to show an increase of the order of 50 per cent but the crop of citrus fruit will probably show an appreciable fall—roughly 20 per cent. Total meat production rose by only 3.5 per cent in the first eight months of the year (over the same period in 1967), but beef and veal increased by some 14 per cent. There were also signs of continuing improvement in the methods of production e.g. increases in the first eight months of 7.3 per cent and 11 per cent respectively in the number of tractors registered and the consumption of fertilizers.

#### *Employment, prices and wages*

The effects on employment and unemployment of the recovery are still relatively small, due to the time-lag between the recovery of output and its effect on the demand for labour. The level of industrial employment for the average of the first nine months of the year was 1 per cent below that of the corresponding period of 1967. But whereas between January and September of that year employment had fallen at an annual rate of 2 per cent, the fall was limited to less than 1 per cent (annual rate) during the same period of 1968. The effect of the recovery was more noticeable in hours worked in industry. The average level for the first nine months was still 2 per cent below the corresponding period of 1967, but between January and September average hours worked fell by over 2.5 per cent as compared with a fall of more than 5.5 per cent in the same period of 1967. Employment in construction (as measured by the number of workers registered in the Provident Fund of the construction industry) rose by 5.5 per cent in 1967 as a whole, but the increase had virtually stopped in mid-year. As mentioned already, the rise between the first nine months of 1967 and 1968 was just over a half of 1 per cent, but after a strong upsurge up to early summer the figures for later months fell below the levels of a year earlier. Registered unemployment (seasonally adjusted) went on rising up to February 1968 and then levelled out and even marked a fall. In October (latest figure available) the number of unemployed persons was at the level of end 1967 (seasonally adjusted).

## *Spain*

The general index of the cost of living has been practically stable in 1968. The rise from November 1967 to November last has been only 2.2 per cent. The index for food has risen at about the same rate, and the index for clothing remained virtually stable. This price stability is the more remarkable after the devaluation, the impact of which may be estimated to raise the GNP deflator by about 2 percentage points (after making allowance for the subsidies on imports of staple food products mentioned above). The extensive price controls imposed in November 1967 have certainly played a role, but there is no doubt that their effectiveness was enhanced by the growing slack of the economy. The index of wholesale prices, after a seasonal rise in the first months of the year, shows an increase in the same period of only 1.8 per cent. Industrial prices have been stable during the year, but agricultural wholesale prices showed a rising tendency, notably those of fodder grains, and cattle for slaughtering.

Wage rises could be expected to have slowed down substantially after the income freeze of last November. However, official statistics available do not bear out fully this impression; thus the rise in labour cost per hour in manufacturing between November 1967 and September of this year was still 14.6 per cent compared with 19.1 per cent a year earlier. The last surveys of the Institute of Statistics show an increase in average hourly earnings of 10.3 per cent and 9.5 per cent in the first and second quarters of this year over the corresponding quarters of 1967, as against rises of 16.4 per cent and 15.6 per cent twelve months earlier. According to the official wage indices of the Ministry of Agriculture, the rise between January and October for farm hands was 7.9 per cent, compared with only 4.9 per cent in the same period of 1967. This difference can be explained by the increased need for labour entailed by the better harvests of 1968 and the continuing fall in agricultural employment, suggested by the decrease in the number of workers registered with the Farmers' Pension Fund. The reasons for the apparently undiminished exodus from the land are not clear (emigration statistics are not yet available for 1968).

### *Public Finance*

The budget for 1968 was adopted with considerable delay in the month of April because of the November measures, which affected both the revenue and expenditure initially forecast for 1968. Budget revenue was estimated to rise by 11.5 per cent over the out-turn of 1967 (and to reach 237.8 billion pesetas) as compared with a rise of 15.1 per cent in 1967. Tax revenue was estimated to rise faster (by 14 per cent) and faster than in the previous year (12.4 per cent). In particular, indirect taxes were expected to rise by 17.4 per cent. The latest statistics available show a considerable slowdown

Table 4 **Prices and Wages**  
Percentage increases

	Weights	Annual Increases				Year to November		
		Average 1960 to 1967	1965	1966	1967	1966	1967	1968
<b>A WHOLESALE PRICES:</b>								
1 General index	100	4.0	10.1	2.6	0.5	1.4	0.4	1.8
<i>of which:</i>								
2 Food, drink and tobacco "Special Groups"	52	5.5	15.7	3.1	0.3	1.2	-0.1	2.6
3 Agricultural products	34	5.4	15.5	4.4	-0.9	3.0	-2.2	2.5
4 Processed agricultural products	12	4.4	8.4	-0.4	4.6	-0.1	6.5	0.5
5 Industrial products	30	1.9	3.1	1.9	1.3	1.9	1.4	0.6
<b>B COST OF LIVING:</b>								
1 General index	100	6.8	13.2	6.2	6.4	5.2	7.2	2.2
2 Food	55	6.7	15.8	4.5	3.8	3.2	4.8	2.2
3 Clothing and footwear	14	8.9	12.6	9.7	11.5	9.9	10.3	0.5
4 Rent	5	6.0	10.5	7.9	8.8	6.5	11.5	1.6
5 Household expenses	8	4.9	7.1	4.1	4.4	3.0	5.5	1.2
6 Other goods and services	18	6.6	8.9	9.7	10.5	8.3	11.8	3.8
<b>C WAGES:</b>								
1 Hourly labour costs in manufacturing:								
(a) Institute of Statistics		15.0	15.5	17.6	12.2	16.3 <sup>2</sup>	19.1 <sup>2</sup>	14.6 <sup>2</sup>
(b) Ministry of Industry		15.2 <sup>1</sup>	14.4	15.9	11.5			
2 Hourly earnings in construction		14.4 <sup>1</sup>	14.8	12.1	14.0			
3 Agricultural wages			10.9	14.7	11.0			

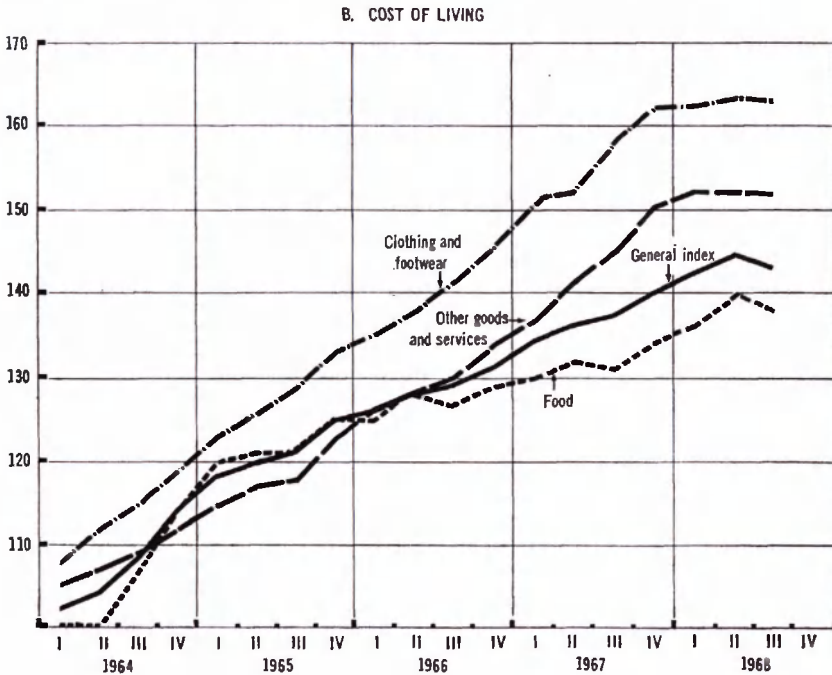
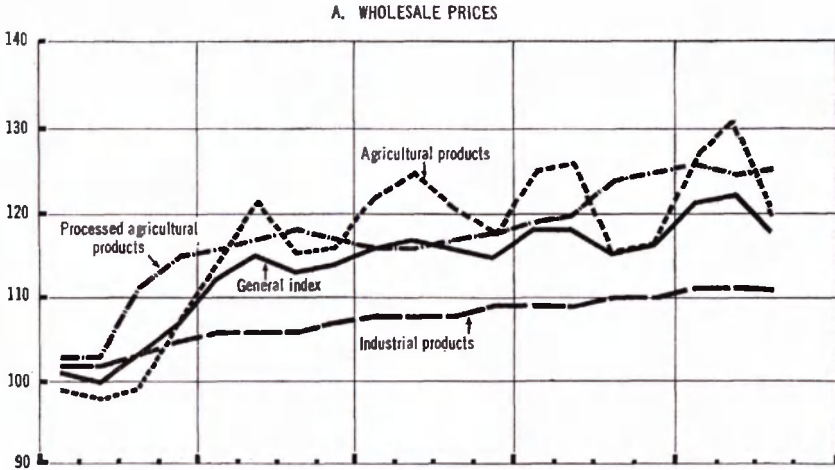
1 Average 1961 to 1967.

2 Last November to September.

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

Spain

Diagram 4 Price Indices  
Quarterly averages, 1963 = 100



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



in budget revenue, which increased by only 8.1 per cent in January-November over the same period in 1967. And up to June, tax revenue rose only by 5.3 per cent over the same period of 1967—less than half the rate estimated in the Budget. As regards expenditure, the initial estimates were modified as a result of the November measures. Current expenditure was reduced by roughly 6 billion pesetas, primarily because of the postponement of the 5 per cent rise of civil servants' salaries and pensions due for 1968 (to be implemented in 1969), but there was additional expenditure of 5.3 billion for the import subsidies mentioned earlier. Compared with the 1967 outturn, total budget expenditure was estimated to rise by 14 per cent (against 13 per cent in 1967) and to reach 237.8 billion pesetas. But whereas current expenditure was estimated to rise by a little over 9 per cent expenditure for investment should rise by more than 14.5 per cent and will account for nearly 30 per cent of total expenditure. For January-November, budgetary outlays show a rise of 15.1 per cent over the same period in 1967. As a result of the above trends of budget revenue and expenditure, there was up to November a record deficit of 12.5 billion pesetas, compared with a surplus of 0.4 billion in the same period of 1967. However, extra-budgetary operations showed a somewhat higher surplus than a year earlier. Treasury issues exceeded the transfers to official credit institutions, (the opposite had been true in the same period of 1967) and the Treasury received a loan from abroad of 4.2 billion pesetas (\$60 million). Accordingly, despite the deterioration in the overall balance—6.3 billion pesetas—the Treasury's recourse to the Bank of Spain, decreased by 8.6 billion pesetas up to November.

### *Money and credit*

The main feature of the monetary evolution in the first ten months of the year has been the increasing expansion of total liquidity (money supply plus quasi-money). At the beginning of the year, the annual rate of expansion was 16.5 per cent—already relatively high given the slow growth of economic activity; it has been steadily rising since then, and was 20.3 per cent in October (over October 1967). This strong expansion conceals, however, different trends of its two components: whereas the expansion of money supply (currency in circulation plus sight deposits) slowed down from an annual rate of 15.3 per cent at the turn of the year to some 12 per cent all along the first ten months of 1968, saving and time deposits have been expanding with marked acceleration from an annual rate of 17 per cent at the end of 1967 to nearly 24 per cent in October of last year. In particular, time deposits were in October some 55 per cent higher than a year earlier, as compared with roughly 12 per cent in November 1967. This extraordinary increase in liquid saving may be explained partly by the shift from notes, sight deposits and saving deposits into time deposits induced by the 1 per cent



**Table 5 | Public Finance**  
**(a) Budget accounts and Treasury operations**  
*Billion pesetas*

	1963	1964	1965	1966		1967		1968	January-November		
	Actual			Fore- cast	Actual	Fore- cast	Actual	Fore- cast	1966	1967	1968
<b>REVENUE:</b>											
1 Budget revenue	109.0	125.8	149.6	168.7	185.3	204.3	213.3	237.8	159.8	183.9	198.8
of which : 2 Tax revenue	96.3	110.5	130.2	145.3	156.9	175.1	176.3	202.2	143.7	162.6	—
3 Other receipts	12.7	15.3	19.4	23.4	28.4	29.2	37.0	35.6	16.1	21.3	—
4 Annexed budget <sup>2</sup>	3.8	1.6	1.6	...	2.6	2.0	1.9	1.5	1.8	1.8	0.7
5 TOTAL REVENUE	112.8	127.4	151.2	168.7	187.9	206.3	215.2	239.3	161.6	185.7	199.5
<b>EXPENDITURE:</b>											
6 Budget expenditure <sup>1</sup>	108.4	125.1	152.7	168.7	185.4	204.3	209.3	237.8	158.6	183.5	211.4
7 (= 1 — 6) Budget balance	+0.5	+0.7	-3.1	—	-0.1	—	+4.0	-1.5	+1.2	+0.4	-12.6
8 Annexed budget <sup>2</sup>	4.0	1.7	1.9	...	2.1	2.0	2.3	1.8	1.8	2.0	1.3
9 On account of local bodies, net	-2.7	-0.6	-0.5	...	0.2	2.5	3.7	0.4	3.1	3.2	-1.1
10 Other expenditure, net <sup>3</sup>	-0.1	0.7	4.6	...	-0.2	...	-0.6	...	-11.5	-10.4	-13.2
11 TOTAL EXPENDITURE	109.7	126.9	158.7	168.7	187.5	206.3	214.7	240.0	152.0	178.3	198.4
12 (= 5 — 11) TOTAL BALANCE (equals total borrowing and lending)	+3.1	+0.5	-7.5	—	0.4	—	+0.5	-0.7	9.6	7.4	1.1
<b>Borrowing (+) and lending (—)</b>											
13 Loans from abroad											4.2
14 Treasury issues, net	5.0	15.0	27.6	28.5	24.4	30.0	27.8	29.0	16.0	21.6	30.3
15 Less : Transfers to official credit institutions	-4.9	-17.6	-24.7	-28.5	-28.4	-30.0	-27.7	-32.5	-25.2	-24.3	-27.0
16 Recourse to the Bank of Spain	-3.2	2.1	4.6	...	3.5	...	-0.6	...	-0.4 <sup>4</sup>	-4.7 <sup>4</sup>	-8.6 <sup>4</sup>
17 (12 + 15) TOTAL BALANCE PLUS TRANSFERS	-1.8	-17.1	-32.2	-28.5	-28.0	-30.0	-27.2	-33.2	-15.6	-16.9	-25.9

- 1 Including the "Sección Apéndice".  
2 Miscellaneous revenue and expenditure not included in the main budget.  
3 Residual item corresponding to the net balance of extra-budgetary cash operations of the Treasury.  
4 According to the Ministry of Finance; preceding figures, according to the Bank of Spain.
- Source : Ministry of Finance.

Table 5 **Public Finance**  
 (b) Budget revenue and expenditure  
*Billion pesetas*

Budget Chapters	1963	1964	1965	1966		1967		1968		
	Actual			Forecast	Actual	Forecast	Actual	Forecast	Actual <sup>4</sup>	
<b>A. REVENUE:</b>										
1	Direct taxes	32.1	35.2	41.3	43.1	49.0	53.0	56.6	61.7	..
2	Indirect taxes	64.2	75.3	88.9	102.2	107.9	122.1	119.7	140.5	..
	Total taxes	96.3	110.5	130.2	145.3	156.9	175.1	176.4	202.2	192.9
	Other revenue	12.7	15.3	19.4	23.4 <sup>1</sup>	28.4 <sup>1</sup>	28.9	36.9	35.6	45.6
	<b>TOTAL REVENUE</b>	<b>109.0</b>	<b>125.8</b>	<b>149.6</b>	<b>168.7</b>	<b>185.3</b>	<b>204.0</b>	<b>213.3</b>	<b>237.8</b>	<b>238.5</b>
<b>B. EXPENDITURE:</b>										
1	Wages, salaries, pensions	33.6	39.6	48.6	68.8 <sup>1</sup>	67.7 <sup>1</sup>	92.2	87.5	99.8	..
2+3	Supplies and maintenance	13.2	13.7	15.3	15.6	18.0	16.5	18.0	15.7	..
4	Current subsidies and transfers	21.1	24.4	26.1	23.4	33.0	34.5	38.0	39.8	..
5	Public debt interest	5.1	4.7	4.6	5.0	4.8	5.0	3.4	5.4	..
	<b>Total current expenditure</b>	<b>73.0</b>	<b>82.4</b>	<b>94.6</b>	<b>112.8</b>	<b>123.5</b>	<b>148.2</b>	<b>146.9</b>	<b>160.7</b>	<b>161.2</b>
6	Direct investment	14.2	19.0	28.4	25.4	31.1	25.5	34.4	38.2	..
	<i>of which:</i> Public works	(7.8)	(11.8)	(14.6)	(13.0)	(17.1)	(13.0)	(20.3)	(21.8)	..
	Education	(1.0)	(1.1)	(1.8)	(2.9)	(2.0)	(2.9)	(2.8)	(4.4)	..
	Defence <sup>2</sup>	(3.8)	(3.7)	(4.9)	(4.6)	(5.4)	(4.6)	(6.1)	(6.3)	..
	Local Government <sup>3</sup>	(1.4)	(1.6)	(1.4)	(2.0)	(1.7)	(2.0)	(1.7)	(2.7)	..
8	Capital transfers	15.4	21.0	22.9	25.3	27.0	25.3	27.9	33.5	..
	<b>Total investment + capital transfers</b>	<b>29.6</b>	<b>40.0</b>	<b>51.3</b>	<b>50.7</b>	<b>58.1</b>	<b>50.8</b>	<b>62.3</b>	<b>71.7</b>	<b>72.3</b>
7	Amortisation of public debt and other financial trans- actions	5.7	2.8	3.5	5.2	3.5	5.3	3.9	5.7	5.0
	"Sección Apéndice"	0.1	-0.1	3.3	—	0.3	—	-3.8	—	3.5
	<b>TOTAL EXPENDITURE</b>	<b>108.4</b>	<b>125.1</b>	<b>152.7</b>	<b>168.7</b>	<b>185.4</b>	<b>204.3</b>	<b>209.3</b>	<b>237.8</b>	<b>242.0</b>

1 Including about 6.5 billions of special taxes which used to cover part of civil service salaries, incorporated in both the revenue and the expenditure sides of the budget.

2 Including airports.

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

4 Preliminary estimate.

Source: Ministry of Finance.

increase in interest rates on the latter category, introduced in November 1967. It might reflect a change in the preferences of households for this kind of financial investment as against investment in real assets, such as residential construction. And the stagnation, or even decline, of fixed investment by small business might also have been conducive to these changes in the monetary variables.

All the sectors contributed to this monetary evolution in the year up to October roughly at the same rate as a year earlier, except the external sector which shifted from a negative impact of 5.3 billion pesetas in the first ten months of 1967 to a positive one of 3.0 billion last year. Claims on the public sector increased by 49.9 billion pesetas<sup>1</sup> (as compared with 41.8 billion in 1967) i.e. by 14.7 per cent in the year up to October, and those on the private sector increased by 114.9 billion pesetas (against 92.7 billion a year earlier) i.e. by 12.8 per cent, slightly faster than the 12.2 per cent rise in the same period of 1967. Commercial bank credit to the private sector followed roughly the same development and rose by 12 per cent (seasonally adjusted) in the year up to October as compared with 11.3 per cent a year earlier. It should be mentioned here that special lines of credit, enjoying guaranteed re-discount by the Bank of Spain, continued to show a fast expansion. As a result of the above trends, bank liquidity tended to increase. The legal liquidity coefficient in September was 20 per cent of deposits compared with 18.5 per cent a year earlier. In fact, the banks purchased increased amounts of government bonds in order to conform to the obligatory ratio of such bond holdings which was raised progressively to 21 per cent. An estimate of the real liquidity of commercial banks, taking account of cash, of credit lines and unused re-discount margins with the Bank of Spain and of the assets earmarked for the various legal obligations, gives a figure of 10.7 per cent of deposits in October, compared to 7.6 per cent a year earlier.

The volume of external financing to the private sector in the first ten months of 1968 rose strongly, as compared with the same period of the two previous years. The increase was particularly marked in credits from saving banks (which account now for nearly 17 per cent of total financing as compared with 12 per cent in 1967), and the issue of bonds and shares which amounted to 65 billion, against some 50 billion in January-October 1967. But part of this increase represents the issue of paid-up shares in connection with the revaluation of assets by enterprises.

<sup>1</sup> Part of this increase is a loan to the organisation financing the electricity sector (OFILE). The amount disposed of up to now is 5 billion.

**Table 6 Money and Credit**  
**(a) Consolidated Account of the Banking System<sup>1</sup>**  
*Annual and ten-months' changes, in billion pesetas*

	1964	1965	1966	1967	January-October	
					1967	1968
<b>A. LIABILITIES:</b>						
1 Money supply	60.3	62.3	50.9	74.3	32.7	18.5
2 Quasi-money	77.5	82.6	79.1	96.3	71.0	125.8
3 TOTAL (including foreign exchange deposits)	139.9	143.2	130.7	174.5	105.6	144.0
4 Cash bonds	3.4	5.2	3.1	3.0	2.0	3.8
5 Other liabilities and assets (net)	-1.4	5.2	13.6	5.7	21.6	20.0
<b>LIABILITIES = ASSETS</b>	<b>141.9</b>	<b>153.6</b>	<b>147.4</b>	<b>183.2</b>	<b>129.2</b>	<b>167.8</b>
<b>B. ASSETS:</b>						
6 Public sector	29.1	37.2	47.4	55.1	41.8	49.9
(a) Net advances to	12.1	9.2	19.5	16.5	15.0	16.7
(i) Central Government	(2.2)	(5.4)	(9.8)	(4.7)	(6.5)	(7.0)
(ii) Wheat agency (SNC)	(-3.2)	(4.3)	(4.2)	(4.4)	(4.2)	(3.7)
(iii) Other autonomous institutions	(11.8)	(-3.6)	(2.6)	(6.7)	(6.4)	(6.3)
(iv) Official credit institutions	(1.3)	(3.1)	(3.0)	(0.7)	(-2.0)	(-0.2)
(b) Purchases of Government and INI bonds <sup>2</sup>	17.0	28.0	27.9	38.6	26.8	33.2
7 Private sector	91.4	124.1	112.4	131.5	92.7	114.9
(a) Advances and bills discounted	70.5	116.7	86.3	101.9	68.4	91.1
(b) Bonds and shares	11.0	13.9	20.0	26.4	23.0	21.0
(c) Unspecified	9.9	-6.5	6.1	3.2	1.3	2.8
8 External sector	21.4	-7.7	-12.4	-3.4	-5.3	3.0
(a) Net official reserves	19.8	-8.2	-12.6	8.4	4.5	3.1
(b) Counterpart funds and IMF account	1.6	0.5	0.2	-11.8	-9.8	-0.2

1 Bank of Spain, commercial banks, industrial banks and savings banks.

2 A breakdown between the two categories is not available.

Source : Bank of Spain.

**Table 6 Money and Credit**  
**(b) External Finance of the Private Sector**  
*Annual increases, in billion pesetas*

	1964	1965	1966	1967	January-October		
					1966	1967	1968
1 Banking system, credit	70.4	118.1	86.3	101.9	60.4	68.7	91.0
(a) Commercial banks <sup>1</sup>	(57.3)	(101.2)	(67.9)	(77.4)	(45.0)	(50.7)	(61.6)
(b) Savings banks	(13.1)	(16.9)	(18.4)	(24.5)	(15.4)	(18.0)	(29.4)
2 Official credit institutions	15.5	25.7	27.9	25.7	22.4	18.4	21.2
3 Issues of bonds and shares <sup>2</sup>	33.9	51.3	58.5	68.7	45.8	50.5	65.1
4 Total	119.8	195.0	172.8	196.3	128.6	137.6	177.3
Pro mem.:							
5 Issues of the INI	8.3	9.1	9.0	9.0	6.0	7.9	7.9
6 Financing of official agencies holding stocks of agricultural products	7.6	0.8	9.0	12.3	3.3	12.7	6.5

1 Excluding the item "banks and bankers" (item 7c of the preceding table) and including direct credit by the Bank of Spain.

2 Excluding issues by the banks.

Source : Bank of Spain.



*Balance of payments*

Due to the slackening of domestic demand, the buoyancy of world trade, but undoubtedly also to the effects of the devaluation, the balance of payments improved considerably in 1968. The trade deficit, as measured by customs returns (imports cif) improved by \$180 million between January-November 1967 and 1968 (the improvement for 1967 as a whole had been of the order of \$230 million). Total imports in the same period were about level with the first eleven months of 1967, but started recovering last summer after falling steadily for about two years. The average for September-November was over 11 per cent higher compared to a year earlier. The commodity break-down available up to November shows important decreases for the eleven months in all categories except for petroleum products and raw materials and semi-manufactures (excluding iron and steel) which rose by 35 per cent and 6 per cent respectively. Imports of machinery and equipment were 10 per cent below the level of a year earlier, and those of food and agricultural products fell by 11 per cent (reflecting the record crops of fodder grains). Exports increased by 14.0 per cent in January-November 1968 over the corresponding period of 1967 following increases of 30 per cent and 10.4 per cent in 1966 and 1967 respectively. The trend has been rising all along the year: the percentage increases (seasonally adjusted) in the first three quarters of 1968 over similar periods of the previous year were 9.6, 15.1 and 17.6 respectively. The performance of exports is still more marked if food products—which fell by 11 per cent—are taken aside. The rest of exports rose by over 30 per cent in the period January-October, or by 28 per cent if transport equipment and petroleum products are excluded. The bulk of this increase can be explained by the rise of exports of manufactures to developed areas: between January-October 1967 and 1968 sales to OECD-Europe rose by 24 per cent and to the United States by nearly 50 per cent.

According to statistics on a cash basis, net invisible receipts up to September amounted to about \$1 105 million, compared with \$1 055 million in the first nine months of 1967. Gross receipts from tourism (\$940 million) show an increase of nearly 7 per cent over a year earlier, which seems very high in view of the devaluation and the moderate rise in Spanish prices. But there are great difficulties in the classification of foreign exchange receipts (notably as between tourism, workers' remittances and returning emigrants' savings). Before more detailed figures become available, the volume and price effects of devaluation in this sector cannot be assessed. Workers' remittances, according to the same statistics decreased by about 7.5 per cent (to \$330 million). The simultaneous improvement of foreign trade and invisibles reduced the current account deficit (cash basis) from \$400 million in January-September 1967 to just over \$200 million in the first nine months of 1968. At the same time the inflow of long-term capital rose from

*Spain*

\$326 million to \$400 million, the increase representing partly higher public borrowing abroad. Taking account of adjustment items, there was an overall surplus on non-monetary transactions of just over \$100 million compared to a deficit of \$70 million a year earlier. Official reserves, after a further small fall in November stood at \$1 109 million, compared to \$1 031 million in November 1967, just after the devaluation.

**Table 7 Balance of Payments**  
*Million dollars*

	1963	1964	1965	1966	1967 <sup>1</sup>
1 Imports (f.o.b.)	1 799	2 076	2 778	3 300	3 200
2 Exports (f.o.b.)	786	1 005	1 019	1 308	1 419
3 TRADE BALANCE	-1 013	-1 071	-1 759	-1 992	-1 781
4 Foreign travel	611	852	1 027	1 202	1 110
5 Other services	-42	-70	-114	-193	-244
6 Workers' remittances	195	238	298	345	320
7 Other private transfers	56	79	60	72	125
8 Official transfers	7	4	2	2	5
9 Total services and transfers (4 to 8)	827	1 103	1 273	1 428	1 316
10 CURRENT BALANCE	-186	32	-486	-564	-465
11 Direct investment	67	78	116	129	186
12 Portfolio investment	87	72	53	55	50
13 Real estate purchases	26	38	59	54	52
14 Eximbank and Development Loan Fund	19	20	20	27	60
15 Commercial credits	8	13	22	-30	9
16 Other private capital	7	47	52	68	151
17 Official capital movements	5	-14	-14	41	32
18 BALANCE OF CAPITAL MOVEMENTS NON-MONETARY SECTORS	219	254	308	344	540
19 ERRORS and omissions	72	42	47	33	-213
20 Monetary movements (increase in assets = -)	-105	-328	131	187	138
<i>of which :</i>					
21 Changes in reserves	-85	-313	139	227	-12
22 IMF position	-17	-53	-35	-25	166
23 Liabilities in pesetas to US Government	-58	-17	-11	-5	-
24 Clearing balances and other official	13	18	8	-23	-29
25 Convertible peseta accounts	42	37	30	13	13

<sup>1</sup> Provisional estimates.

Source : Ministry of Commerce.

Table 8 **Foreign Trade**  
(a) Imports  
Million dollars

	1963	1964	1965	1966	1967	January-November	
						1967	1968
1 Food products <sup>1</sup>	417	394	581	681	658	600	550
2 Fuel and lubricants	248	287	303	347	427	372	490
<i>of which :</i>							
Petroleum products	212	246	259	301	379	324	432
3 Raw materials and semi-finished goods	662	819	1 152	1 349	1 170	1 086	1 113
<i>of which :</i>							
Iron and steel	127	158	295	268	226	211	180
4 Machinery and equipment	519	626	809	981	978	911	822
<i>of which :</i>							
for industry	336	462	593	732	659	615	538
for transport	41	32	52	50	115	106	101
5 Consumers' manufactures <sup>2</sup>	109	133	174	233	254	233	222
6 TOTAL	1 955	2 259	3 019	3 591	3 484	3 202	3 197

1 Including oil and fats.

2 Including private cars.

Source : Customs returns; economic classification with adjustments by the Secretariat.

Table 8 **Foreign Trade**  
 (b) Exports  
 Million dollars

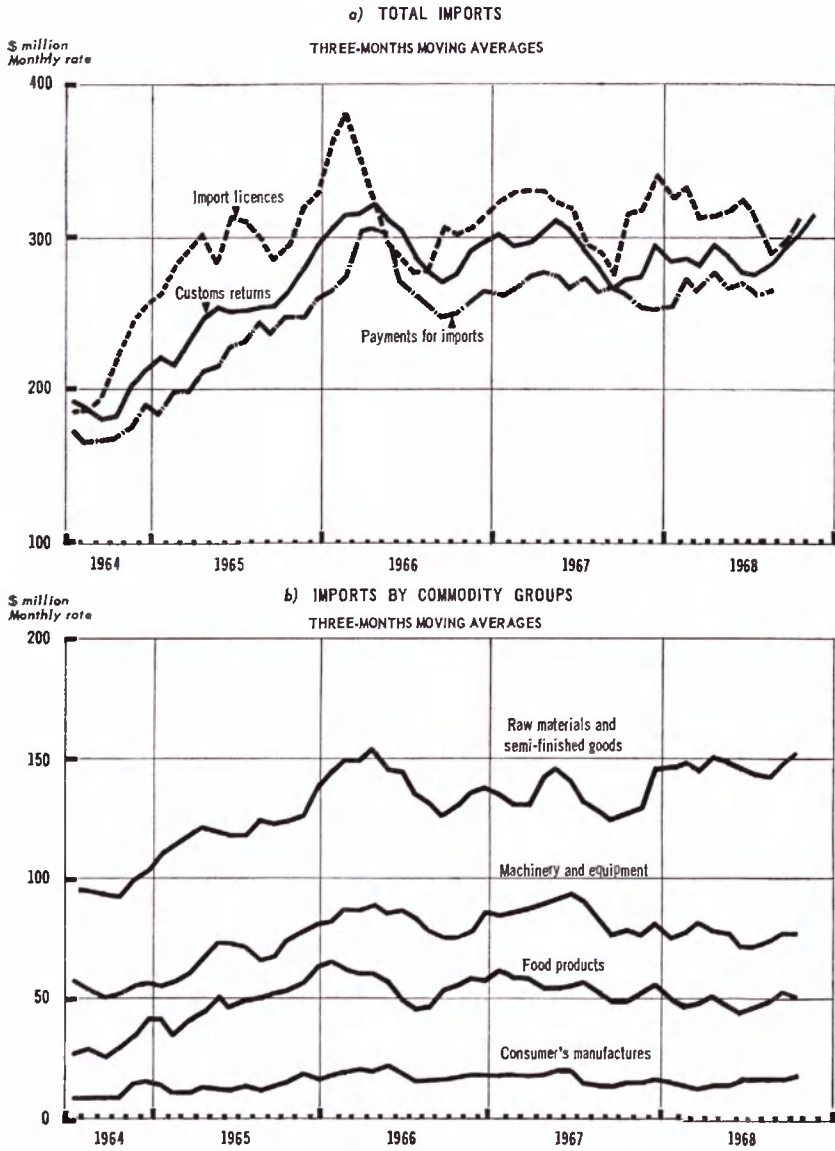
	1963	1964	1965	1966	1967	January-November	
						1967	1968
1 Food products <sup>1</sup>	374	505	457	546	621	539	482
2 Fuel and lubricants	43	48	38	56	80	67	123
<i>of which :</i>							
Petroleum products	41	35	31	30	62	51	107
3 Raw materials and semi-finished goods	170	204	225	246	279	254	316
4 Machinery and equipment	58	81	95	199	170	148	207
<i>of which :</i>							
for transport	31	37	34	106	45	39	57
5 Consumers' manufactures <sup>2</sup>	90	117	152	205	233	214	269
6 TOTAL	735	955	967	1 253	1 384	1 222	1 397

1 Including oil and fats.

2 Including private cars.

Source : Customs returns; economic classification with adjustments by the Secretariat.

Diagram 5 Foreign Trade



Sources: Spanish customs returns and Ministry of Commerce.



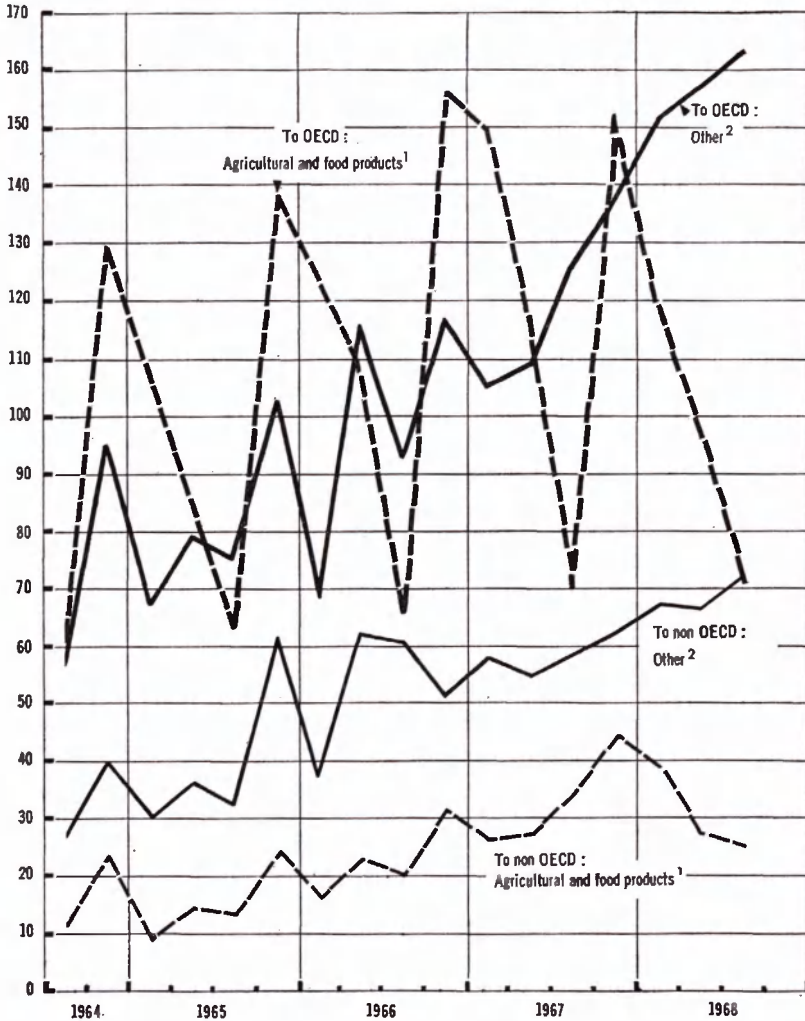
Spain

Diagram 5 (Cont'd) Foreign Trade

c) EXPORTS BY COMMODITY GROUPS

QUARTERLY FIGURES

Million dollars



<sup>1</sup> SITC sections 0.1 and 4.

<sup>2</sup> Excluding ships.

Sources: OECD, Foreign Trade Statistics, Series B.

The above trends of merchandise trade and net receipts from services will result probably in a shift of resources from the home economy to the external sector of between 1.5 and 2 per cent of GNP in real terms in 1968 as a whole (after a shift of 0.5 per cent of GNP in 1967). Domestic demand (excluding stock changes) is not likely to rise by more than 3 per cent in volume (compared with 4.5 per cent in 1967). This slowing down of domestic demand would be due partly to the continuing stagnation of fixed investment, a small rise of investment in construction being offset by a further fall of productive investment. The rise of total consumption would also slow down considerably, but would still exceed the rise of total domestic demand. In particular private consumption could still mark a gain of roughly 4 per cent in real terms, despite a probable rise of the order of 5 per cent of consumer prices for 1968 as a whole (as compared with 6.2 per cent in 1967). If, as it is normal in the present phase of the cycle, and has been evidenced by the falling imports up to recently, stockbuilding, especially of non-agricultural stocks, slows down and accounts for a smaller share of GNP than in 1967, total output should rise in 1968 roughly at the same rate as in 1967 or fractionally higher.

### III PROSPECTS AND POLICY ISSUES

By the end of 1968—after nearly two years of markedly slower growth and following the devaluation and other policy measures—the pressure of domestic demand had diminished considerably and both the current balance of payments and the trend of prices showed an important improvement. The principal problem for economic policy in 1969 is to ensure a more satisfactory rate of growth without sacrificing the progress achieved towards internal and external financial equilibrium.

Undoubtedly a certain degree of slack exists at present in the economy. The average rate of growth of real output in the last two years—about 4 to 4.5 per cent—has been lower than what could be considered as the most likely potential rate of expansion of the Spanish economy in the medium term, roughly 6 per cent (which is distinctly less than the average rate achieved over the last eight years). But such an aggregative approach may disguise the real problems, particularly in the case of an economy still in the process of fundamental transformation. On the one hand, the recent level of unemployment, though high by past Spanish standards, looks less high if compared to that prevailing in certain other countries of Western Europe. More important is the fact that as in other countries in a similar situation only part of the unused plant capacity is likely to consist of modern equip-

ment which could be operated economically in conditions of a sufficient degree of international competition. On the other hand, however, the potential resources of the Spanish economy in the long term are still very substantial. The feasible rationalisation of agricultural and industrial production could release important manpower resources, which—with the consequent large productivity gains—would push up the potential rate of growth.

Accordingly, the sustainable rate of growth depends very much on the pattern of output and on the composition of the additional demand from now on, which in turn will be influenced by general economic policy. At the present juncture, economic policy should aim both at raising the propensity to save in the economy and at shifting the resources thus available to the external sector and to investment. If this is achieved, it will not only facilitate the maintenance of overall equilibrium in the next year or so; it will also lead to higher productivity gains in the medium term, especially if it is accompanied by policies of increased integration into world markets, and could thus result in higher rates of growth without the inflationary pressures of the recent past, which led inevitably to interruption of the process of rapid growth.

#### *Prospects for demand and output*

The statistics so far available suggest that the downward phase of adjustment has probably come to an end during the early months of 1968. An upswing of total demand and output seems to have started, but the general trend is difficult to assess, both because of the divergent trends of different demand components which can be expected at this phase of the cycle, and because of certain inadequacies of current statistics. The clearest development is the continuing strong rise of commodity exports (more than 13 per cent higher in dollar values in October–November than in the same period of 1967) helped by the booming conditions of world trade, the effects of the devaluation and the state of domestic demand. But total internal demand seems also to have gathered some strength by the autumn. The most important general indicator is the stabilisation of imports last summer—after a more or less continuous decline for over two years—and their upswing in the most recent period. The average of October—November (seasonally adjusted) was 4 per cent higher than the previous all-time peak of the first quarter 1966.

Other indicators seem to confirm the underlying upward trend of the economy. As mentioned earlier there were signs of improvement in the employment situation in the summer, and the recovery of industrial production, apparently interrupted in mid-summer, surged ahead in September when it achieved a level 6.5 per cent higher than a year earlier,

and was for the average of September–November almost 11 per cent above the corresponding period of 1967. Business surveys show a reversal in the earlier deterioration of orders and stocks of finished products from last spring up to November. The favourable crops of 1968 can be expected to boost private incomes and demand during the last months of the year and in early 1969.

Though there is at present considerable uncertainty about the likely trends of demand and output in 1969, the more probable development seems to be an acceleration of the recovery of economic activity, sustained to a larger extent than in 1968 by an expansion of domestic demand. The progress of commodity exports may continue, but it could hardly fail to show a marked, if partly temporary, deceleration. The expansion of world trade is, for well-known reasons, particularly difficult to forecast at present, but is likely to be less vigorous than in 1968. And the boost to Spanish exports provided by the initial effects of the devaluation and the relative weakness of home demand should have partly exhausted itself next year. A stabilisation of exports throughout 1969 at their recent high level would still give an appreciable year-to-year increase. More important, the underlying potential increase of Spanish exports of manufactures seems substantial, as evidenced by the satisfactory progress started long before the devaluation. Provided excessive demand and cost pressures are avoided, they may well continue to gain market shares abroad and thus limit the impact on Spain of possible reductions of import demand in certain major countries. On the other hand, if the recovery of economic activity is confirmed, imports could rise again considerably—and indeed rather fast if there is a revival of industrial investment. Therefore, foreign trade can be expected at best to have no net expansionary impact next year, compared to a net impact in volume terms of over 1.5 per cent of GNP in 1968. At present it is hardly possible to judge whether some additional stimulus could be expected from exports of services in 1969.

As regards internal demand, it seems probable that public consumption will increase appreciably, at least in nominal terms. Judging from the level of outstanding licences for State-supported dwellings, housebuilding activity should continue to expand<sup>1</sup>. And any appreciable recovery of final domestic demand should lead to rather substantial re-stocking, given the probable running-down of non-agricultural stocks in the course of 1968. But the prospects for productive fixed investment and, to some extent, for private consumption are somewhat uncertain.

Excluding agriculture where further increases of investment may be expected, the rest of private productive investment—especially in industry—

1 The unsatisfactory state of construction statistics makes difficult not only the assessment of current trends but even a quantitative description of past developments.



## *Spain*

may not start recovering significantly before unused capacity margins are reduced. Public investment is more likely to increase in 1969 given the volume of approved projects, but the lack of recent data about rates of implementation, and of detailed forecasts for next year, does not permit firm judgements. It is recalled that despite the large increases foreseen in the 1968 budget, actual investment expenditure decreased in the first half of the year.

On present evidence, the growth of private consumption in real terms is likely to accelerate in 1969, without however attaining the very high rates of a few years ago. Higher farm incomes, salary increases in the public sector and higher transfer payments will boost household incomes and expenditure. The recent increases of certain indirect taxes and the extension of income tax to manual workers in 1969 are likely to offset these expansionary influences only to a small extent. With regard to the more important variable, namely the wage bill in the non-agricultural private sector, there were already signs of an improvement in the employment situation last summer. Numbers employed in industry may not rise significantly during the initial phase of an upswing in production, especially since the labour laws limit the possibilities of dismissing workers in periods of weak demand. But average hours worked should continue increasing, with a more than proportionate effect on weakly earnings. Because of the end of the income freeze in October 1968, wage rates could be expected to rise somewhat faster next year, though the uncertainties about the trend in the course of 1968 make the situation rather obscure. Taking account also of the probable trend of prices, the volume of consumers' expenditure seems on balance likely to rise faster in 1969.

### *The outlook for the balance of payments*

As already stated, it is difficult to envisage an improvement of the trade deficit in 1969 in the case of a clear recovery of output and investment, however large the potential improvement may be in the longer run. Despite their recent big increase, exports still represent only about half the cif value of imports, and would therefore need to rise twice as fast for the deficit to remain constant. The likely development of net invisible receipts is very difficult to forecast at present. The expected different trends of personal incomes and demand in certain big European countries, and the French exchange control measures, will have opposite influence on both tourism receipts and workers' remittances to Spain. On the whole, if price developments continue to be moderate, the current account may only show a small, and largely temporary, deterioration next year, even with a certain quickening of the growth of domestic demand.



### *Current economic policies*

In view of the uncertain prospects for foreign demand and the doubtful trend recently of certain domestic demand components, a close watch of the rate of expansion of total internal demand seems to be called for, and prudent economic management should aim primarily at preventing eventually an unduly rapid expansion, especially for consumption. Such rapid expansion may not create tensions in the next few months, given the existing slack, but if allowed to gain momentum might endanger later on the success of the devaluation strategy.

### *Budget policy*

Budget and fiscal policies will naturally be important in this respect. According to preliminary estimates total budget outlays are forecast to increase by 30 billion pesetas in 1969, i.e. about 12.5 per cent over the out-turn for 1968 as compared with an increase of 12 per cent last year over the out-turn for 1967. Appropriations for both current and capital expenditure have been increased by 15.0 billion pesetas each, but they might be on the low side for current expenditure when compared with the increase in appropriations for 1968 (13.8 billion pesetas) and the expenditure commitments for 1969: e.g. salary increases after the end of the incomes freeze proposed the extension to local authority employees of central government salary scales and increased transfer payments. It seems doubtful that the growth of tax revenue (allowing for the proposed rise in the rates of sales tax on some current consumption items<sup>1</sup>) will be sufficient to prevent a reduction of current government saving. If the planned increases of public investment materialise, the overall deficit may turn out to be larger than in 1968. But whereas in 1968 the budget deficit provided a useful support to the level of economic activity, a possibly larger deficit in 1969—when private demand is likely to be more buoyant—would be contrary to the requirements of global economic equilibrium. It would, indeed, have been acceptable—and desirable from a longer-term point of view—to have achieved in 1968 a somewhat greater expansionary impact, through an acceleration of urgently needed public investment projects. Likewise, it would be unfortunate if, later on in 1969 or the following year, reduced government savings were to lead to a curtailment of public works, as happened in an earlier period.

### *Price and income policies*

New decisions were taken recently in the field of income and price policies: the wage freeze<sup>2</sup> was removed on 1st October instead of 1st January

1 Tobacco, alcoholic beverages, consumers' durables and some services.

1969 as foreseen initially; the minimum daily wage rate will be raised in January by 6.2 per cent (to 102 pesetas); a guideline was fixed for wage settlements in 1969—maximum rise of 5.9 per cent; and the government announced its intention of limiting price increases to 2 per cent<sup>1</sup>. In any case, it probably implies the continuation of extensive price controls.

There are possible conflicts of economic policy objectives in this field. If the scope of price controls extends much beyond a few essential commodities and if it is unduly prolonged, it risks creating distortions in the allocation of productive resources and hampering the flexible adaptation of supply to the changing pattern of demand. Moreover, if subsidies, controls and other measures reduce the price effects of the devaluation significantly, the intended shift of resources is inevitably not fully realised. On the other hand, the end of the wage freeze—which could not reasonably be maintained for very long—creates the risk of a renewed price-wage spiral. Given the paramount need to avoid the re-appearance of inflationary expectations, continued resort to exceptional measures seems, on balance, justified for a certain time in order to safeguard price stability. Over the longer run, however, such methods are much less efficient in promoting stable prices and an orderly development of wages than general economic policies—e.g. appropriate demand management through fiscal and credit policies, measures to raise agricultural productivity and further liberalisation of imports.

### *Monetary and Credit policies*

In the coming few months credit policy may be called on to play an important role in ensuring internal and external equilibrium. The present rather high liquidity of the banking system represents a potential large increase of credit, which it will be necessary to keep within reasonable limits. But the relative fragmentation of control over the various financial institutions (commercial and industrial banks, savings banks and official credit institutions) creates serious problems for an efficiently co-ordinated overall policy. Moreover, the continuing proliferation of special categories of credit enjoying automatically guaranteed rediscount by the Bank of Spain reduces the scope for intervention by the monetary authorities.

Problems may also conceivably arise connected with international movements of short-term capital. Certain types of interest rates may need to be adjusted upwards significantly to more realistic levels in order to avoid an undesirable outflow of funds. It should be recalled that the last few years' rapid expansion of Spain's international trade and payments has led to closer and more complex links with foreign financial and money markets.

1 Including all cost increases and any eventual rise in indirect taxes.

These short-term problems, however, are linked with certain basic features of the credit and capital market scene. As outlined in earlier OECD Surveys<sup>1</sup>, the priority given traditionally to cheap financing of both government requirements and of large portions of the private sector has resulted in a complex and rigid pattern of controlled interest rates, generally kept at artificially low levels. This system has hindered the application of effective credit policies and has created significant distortions in the supply and use of medium and long-term funds. Some recent government decisions constitute welcome departures from earlier practice, namely the increases of interest rates in November 1967 mentioned above and the issue of government bonds in 1968 at 5.5 per cent—a full point higher than the traditional rate. The present time seems propitious, however, for a more general overhaul of the credit and capital market arrangements, aimed inter alia at giving a larger role to market forces than in the past.

### *The Second Development Plan 1968-1971*

Spain started her medium-term programming with the First Development Plan 1964-1967. To continue this planning process a second plan for 1968-1971 had been prepared in 1967, but the devaluation of the peseta made it necessary to revise some of the basic assumptions incorporated in the draft. It was, therefore, decided to prolong the validity of the law approving the first plan until the work of revision would be completed, but to incorporate already in the 1968 budget the public investment programme foreseen in the draft second plan for that year. The revised second plan and the accompanying draft legislation were submitted to the Cortes in December 1968. (When the OECD Committee responsible for the present Survey examined the economic situation of Spain it disposed of only general and preliminary information on this subject.)

While following the same general line of the economic programming of the first plan—both as to its ultimate objectives and method of elaboration—the Second Development Plan presents some features of its own. First, it contains in several cases an appraisal of actual developments in the period 1964-1967, compared to the projections of the first plan, and attempts to draw the lessons of experience for future action. Second, it intends to be more selective in its objectives and, in particular, pays special attention to education and agriculture. There are also certain innovations, e.g. the beginning of projections of financial flows, and, in order to improve the co-ordination of short-term economic policy and medium-term objectives, the establishment of “warning lights” which should indicate when the

1 See in particular the 1966 Survey, pages 28 to 31.



deviations between the current trends and the plan targets become excessive. The more selective approach to the planning process, and the attention given to the need to co-ordinate execution of the plan with the needs of short-term economic policy, mark important steps forward from the first plan. And to help achieve consistency between the aims of the plan in respect of demand, output and employment on the one hand and the need for stable prices on the other, an incomes guideline is laid down, linking the course of wages with that of productivity.

The Plan aims at an average annual rate of growth of the gross national product of 5.5 per cent in real terms in the period 1968-1971, accompanied by an annual rise of the overall GNP price deflator of 2.7 per cent per year. Output per employed person for the whole economy is assumed to rise at an annual rate of 3.9 per cent; this would imply the creation of one million new jobs outside agriculture, whereas some 420 000 persons would leave the agricultural sector. Total employment would rise, then, in line with the labour force by 1.25 per cent per year, as the unemployment ratio is expected to be at the end of the plan period, about the same as at the beginning, i.e. 2 per cent of the labour force, under the assumption that the net migratory movement would be nil. As stated in the plan documents, the strategy of the Plan will mainly be directed towards eliminating the obstacles to growth in the Spanish economy, e.g. the low productivity of the economic system; the big foreign trade deficit; inadequate capital equipment in certain industries, linked to the great number of small enterprises; insufficient investment in agriculture; and the deficient functioning of the financial system. On the other hand, the draft plan points to certain factors which should help the economy to keep a relatively high rate of growth— notably the considerable reserves of manpower in agriculture; the extension of the domestic market as the purchasing power of consumers increases; the big investment effort of the last five to six years; and the marked improvement in the basic infrastructure. On the whole, it is stated that the Second Plan will give more emphasis to the economic allocation of resources and the need to increase the competitiveness of the economy, whereas the main purpose of the first Plan was the full utilization of available resources.

Detailed plans are outlined for the "priority sectors". For instance, with regard to education it is intended to nearly double the number of students in the 11 to 14 years age groups; to increase substantially the attendance in higher education and technical schools; and to devote 11 per cent of public investment to education, compared with 7 per cent in the first Plan. In agriculture, total output is expected to rise by 2.7 per cent per annum, but the pattern of production is expected to improve considerably, allowing a stabilization of food imports at the 1967 level. Re-organisation and modernisation are stated to be the main objective for industry. How-

ever, the growth expected in this sector (6.7 per cent per annum) assumes a yearly rise in output per employed person of only 3.9 per cent—less than during the last few years. But industry (including construction) is expected to account for a lower share of total investment than in the past. For services, a similar reduction is assumed for productivity gains.

With respect to employment and wages, the draft Plan announces future measures to increase the mobility of labour and to raise the level of unemployment benefits. It lays down the principle that wage increases should not exceed productivity gains. And states that the minimum wage rate will be revised annually in accordance with the rise in the cost-of-living.

The expected allocation of resources during the plan period is shown in Table 9. The projections take account in principle of the lower rate of growth in 1968; they imply, for the three years 1969-1971, an average rate of growth in real terms of around 6 per cent for GNP, 10 per cent for imports and 9-10 per cent for exports of goods and services. Compared with the previous four years, the forecasts for the period 1968-1971 as a whole show a slower growth of GNP and a rather marked shift in the use of resources from consumption (particularly private consumption) into net exports. This implies a significant increase in the ratio of total saving of the economy (from 20.7 per cent of GNP in 1967 to 22.3 per cent in 1971). The document does not provide sufficient details on how the public sector is going to contribute to the expected increase of national saving. With regard to the projections of gross fixed investment, no break-down is given between housebuilding, other construction and machinery and equipment.

The foreign balance on goods and services is expected to improve in the four-year span by nearly 2 per cent of GNP in real terms. In fact, such a shift has probably taken place in 1968, so that later on the foreign balance should—according to the projections—deteriorate again. But the deterioration would be much smaller than in the preceding four years: allowing for transfers, the current deficit would increase by \$75 million, compared with \$500 million in the earlier period. This relative improvement takes into account the devaluation effect and is mainly the result of an expected lower elasticity of imports (1.2 against 1.9 in 1964-1967) particularly for agricultural produce and equipment goods. This projection would seem difficult to be realized at the same time as other explicit assumptions (e.g. relative price stability and lower progress of productivity). But the Plan document does not give detailed projections for foreign trade and the balance of payments, except for tourist receipts, which are expected to rise by 13 per cent per year (in pesetas and at current prices); allowing for the devaluation effect in 1968 and for domestic price rises, this means an approximate volume increase of 5.5 per cent per annum. One of the objectives of the Plan is an increase in official reserves during the four-year period. Indeed the increase implied



Table 9 Projections of Expenditure, Output and Employment 1968-1971  
(a) Expenditure

	Average annual volume change %			1967 (Current prices)		1971 (1967 prices)	
	1964-1967		1968-1971	Billion pesetas	%	Billion pesetas	%
	Projections I Plan	Actual	Projections II Plan				
Consumption	5.5	6.0	4.4	1 302.6	80.6	1 545	77.2
(a) Private	5.5	6.0	4.5	1 142.2	70.7	1 362	68.0
(b) Public	5.0	5.3	3.4	160.4	9.9	183	9.2
Gross fixed asset formation	9.0	10.2	7.6	339.7	21.0	457	22.8
Change in stocks	..	..	..	30.1	1.9	27	1.4
Exports goods and services	10.5	11.2	11.8	181.3	11.2	283	14.1
Less : Imports goods and services	9.0	12.1	6.8	237.2	-14.7	309	-15.4
Foreign balance on goods and services	-0.29 <sup>1</sup>	-0.67 <sup>1</sup>	0.47 <sup>1</sup>	-55.9	-3.5	-26	-1.3
GNP at market prices	6.0	6.3	5.5	1 616.5	100	2 003	100
GNP price deflator	..	6.9	2.7	..	..	..	..

1 Percentage point contribution to GNP change.

Source : I Plan 1964-1967 and II Draft Plan 1968-1971 and National Accounts INE.

(b) Output and employment

	Annual rate of change % (volume)			1967		1971
	1964-1967		1968-1971	(Current prices)		(1967 prices)
	Projections I Plan <sup>1</sup>	Actual	Projections II Plan	Billion pesetas	%	%
<i>(i) Output</i>						
Agriculture	2.9	-0.8	2.7	246.6	16.4	14.9
Industry	8.6	8.8	6.7	521.9	34.8	36.7
Services	6.0	7.4	5.0	733.4	48.8	48.4
GDP at factor cost	6.0	6.3	5.2	1 501.9	100.0	100.0
<i>(ii) Employment</i>				(thousands)		
Agriculture	-1.5	-3.9	-3.0	3 583	29.1	24.5
Industry	2.9	3.0	2.7	4 451	36.1	38.3
Services	2.2	3.8	3.0	4 286	34.8	37.2
Total	0.9	0.9	1.3	12 320	100.0	100.0
Output per employed person	5.1	5.4	3.9			

1 For employment 1962-1967.

*Spain*

by the balance of payments projections is rather substantial; but, given the inevitable uncertainty as to any forecast of capital inflows, it should not be regarded as a quantitative goal in the same sense as the targets for output, employment, etc.

Table 10 **Basic Balance of Payments 1968-1971**  
*Million dollars*

	Average 1966-1967	Projections			
		1968	1969	1970	1971
Goods and services, net	—949	—650	—695	—740	—785
Transfers, net	434	350	370	390	410
Current balance	—515	—300	—325	—350	—375
Long-term capital, net	442	400	425	450	500

*Source* : II Draft Development Plan 1968-1971.

The quantitative projections of the Plan document are sometimes difficult to interpret. One important reason is probably the fact that there are still uncertainties about the full effects of the devaluation; indeed, the draft Plan envisages the need for further revisions. Nevertheless, the present set of forecasts throws sufficient light on the difficult problems confronting the policy-planners. A central place in any development plan belongs to the programme for public finance. The forecast for a much slower growth of public current expenditure on goods and services in real terms is unlikely to be realized at the same time as the exceptionally large increases foreseen for expenditure on education and welfare services. Moreover, given the rise forecast for current expenditure on goods and services, total current expenditure could only fail to increase sharply if there were important changes of policy concerning current subsidies and transfers; these represent about one-third of government current expenditure and have been rising quite fast in recent years. Fiscal revenue is expected to rise by 12 per cent per annum, but public saving may not rise sufficiently to finance the expected growth of public investment (by 13 per cent a year in value, excluding capital transfers to the private sector). No small efforts will be needed to prevent an inflationary impact of the public sector.

Among other problems of general policy which the projections of the Plan illustrate, the following could be mentioned: the aim of relative price stability, despite a slower increase of productivity, implies appropriate use of fiscal and monetary policies for demand management; the expected slowing-down in the growth of private consumption, despite a higher increase of total employment, should have important implications for tax

policy; and the objective of keeping within limits the external current deficit depends on an improved overall performance of the economy. The Plan outlines several policy measures which may be expected to contribute to higher economic efficiency. *Inter alia*, it announces important changes in the functioning of the financial market and an overhaul of the interest rate structure. Rapid and steady growth of the Spanish economy in the next few years will largely depend on the degree and speed of application of economic policies of this type.

#### IV CONCLUSIONS

The marked slowing-down of expansion in 1967, following a long period of steady and rapid growth, was mainly caused by the interruption of the earlier investment boom. The slackening of investment led to a reduction of the trade deficit, but the loss of reserves continued. With wages and prices still rising strongly in spite of a deterioration in the employment situation, the Spanish authorities decided in November to devalue the peseta in line with sterling. They also took a series of important measures designed to ensure the success of the devaluation.

These decisions have helped to bring about in 1968 an important improvement in the current balance of payments and a relative stabilisation of prices. Official reserves also rose again up to November. The slow pace of growth, however, has persisted during most of the year. Since last summer there are signs of a moderate recovery of domestic demand and of a certain improvement in the employment situation. But private productive investment remained depressed until very recently.

The prospects for 1969 are for a certain acceleration of the upswing, without serious strains on the price level given the probably important slack in the economy. The outlook for the balance of payments is also relatively favourable although—with the expected strengthening of domestic demand and slower growth of world trade than in 1968—a new improvement on current account seems unlikely. The main task of economic policy at present is to ensure a return to higher rates of growth while preventing the emergence of internal and external imbalances, which inevitably arrested the process of expansion in 1967. This will require a shift in the allocation of resources so that the present slack in the economy is taken up largely by a further expansion of commodity exports and productive investment. Such an objective makes it necessary to apply prudent budgetary and credit policies. The substantial increases officially forecast for budgetary outlays,

both current and capital point to the need for sufficient fiscal measures in order to prevent an unduly large overall deficit. In 1968, the budget deficit was a stabilising factor, due to the weakness of private domestic demand. But if the recovery is confirmed in 1969, the public sector's expansionary impact should be reduced for the sake of global economic equilibrium.

The need to avoid the re-appearance of a price-wage spiral has led the authorities to fix maximum rates of wage increases (after the end of the wage freeze introduced at the time of the devaluation) and to continue special subsidies and price controls in order to keep price rises within narrow limits. These measures seem justified in present circumstances, but are unlikely to be very efficient in the longer-run. More permanent results in terms of price stability and orderly progress of wages can be ensured—once this transitory period will be over—, by avoiding excessive demand pressures in the future, while taking measures to raise average productivity in agriculture and industry and proceeding to further liberalisation of imports.

With the recent revision of the 1968-1971 Development Plan, the time seems propitious for adjusting current economic policies closer to longer-term objectives than has been possible in the past under conditions of inflationary pressure. One example is the need to review the system of regulating the pattern of interest rates and controlling both short and long-term financial flows. It would be advisable to follow up certain recent departures from traditional practice by a general overhaul of arrangements which seem ill-adapted to the economy's present needs.

More generally, the policies outlined in the Plan are much more important than the quantitative forecasts which, as in other countries, attract most attention. Certain developments during the last two or three years—for instance some welcome changes in the pattern of agricultural production or the strong rise of industrial exports to competitive markets initiated long before the devaluation—point to the effectiveness of appropriate policy changes and to the underlying substantial growth capacity of the Spanish economy.



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*STATISTICAL ANNEX*

Table A Agricultural Production

	Unit or base	1961-65 Averages	1965	1966	1967 <sup>1</sup>	
<i>Indices :</i>						
1	Final total agricultural production	1953/54 = 100	139.3	141.1	154.9	162.2
2	Final vegetable agricultural production	—	129.7	127.8	139.2	136.3
3	Final livestock production	—	157.3	166.3	186.6	209.2
4	Wheat	Thousand tons	4 266	4 715	4 876	5 598
5	Barley	—	1 959	1 891	2 006	2 632
6	Rye	—	384	349	357	309
7	Oats	—	442	370	418	443
8	Rice	—	385	350	385	367
9	Maize	—	1 103	1 142	1 162	1 224
10	Potatoes	—	4 479	4 090	4 423	4 197
11	Tomatoes	—	1 300	1 330	1 323	1 221
12	Wine	Thousand hl	26 243	27 011	32 125	23 578
13	Sugar beet	Thousand tons	3 584	3 664	4 055	4 287
14	Cotton	—	281	240	269	198
15	Olive oil	—	348	314	462	273
16	Oranges	—	1 605	1 692	2 129	1 947
17	Total meat	—	751	764	944	1 058
	of which :					
	18 Beef and veal	—	186	177	198	215
	19 Mutton	—	116	122	121	122
	20 Pork	—	272	266	367	417
	21 Poultry	—	122	147	213	257
22	Milk	Million litres	3 650	3 993	4 552	5 052
23	Eggs	Million dozen	489	535	555	570
24	Fish landings	Thousand tons	986	1 121	1 120	1 420

1 Provisional.

Source : "Anuario Estadístico" and Ministry of Agriculture.

Table B Mining and Manufacturing Production

	Unit	1958	1963	1965	1966	1967 <sup>1</sup>
1 Soft coal	Million tons	11.3	10.2	10.2	10.1	9.8
2 Anthracite	—	3.1	2.8	2.8	2.7	2.9
3 Iron ore	—	5.0	5.2	5.8	4.9	5.2
4 Pyrites	—	2.0	2.0	2.4	2.4	2.2
5 Cast iron	—	1.3	1.9	2.3	2.1	2.7
6 Steel	—	1.6	2.8	3.5	3.8	4.3
7 Copper	Thousand tons	42.7	44.7	58.7	62.8	71.8
8 Lead	—	69.8	62.1	53.8	65.9	52.1
9 Aluminium	—	16.1	46.3	53.3	63.7	80.5
10 Sulphuric acid <sup>2</sup>	Million tons	1.1	1.5	1.6	1.8	1.9
11 Cement	—	4.8	7.1	9.8	11.8	13.3
12 Paper and cardboard	Thousand tons	321.0	513.4	657.9	842.7	920.4
13 Cotton yarn	—	76.0	83.3	106.2	131.9	131.9
14 Cotton fabrics	—	45.2	67.9	101.0	119.5	130.6
15 Woollen yarn	—	14.1	17.3	31.0	31.7	31.8
16 Woollen fabrics	—	11.1	11.1	22.5	26.6	26.4
17 Rayon and viscose	—	49.5	60.5	55.8	49.1	43.4
18 Refrigerators	In thousands	—	243	372	372	229
19 Washing machines	—	—	227	320	310	300
20 Radio sets	—	—	541	446	475	277
21 Television sets	—	—	315	554	464	551
22 Bicycles	—	159	186	151	145	177
23 Motor-cycles	—	145	178	175	182	157
24 Motor-cars	—	32.6	79.2	155.0	249.4	275.0
25 Lorries	—	7.6	48.1	73.9	92.3	89.3
26 Tractors	—	2.0	13.1	13.1	17.4	19.6
27 Merchant shipping <sup>3</sup>	Thousand tons	145.0	188.4	278.4	343.1	389.8
28 Electrical power	Billion kWh	16.4	25.9	31.7	37.7	41.2

1 Provisional figures.

2 Not including output of superphosphates factories.

3 Tonnage launched.

Source: "Anuario Estadístico" and Ministry of Industry.

Table C

	1965	1966	1967
1 In industry (excluding construction)	112.7	116.9	116.6
2 In manufacturing	114.5	119.0	119.0
1 Agriculture and fishing	54.3	...	41.2
2 Construction	26.1	...	31.2
3 Industry and services	66.7	...	74.0
4 Total	147.1	123.2	146.4

Source : National Institute of Statistics. — Monthly Bulletin and Indicadores Economicos.

### 3 TOTAL LABOUR FORCE (in thousands)

	Annual changes			Situation at end 1967	
	1965	1966	1967	%	
Agriculture	—205	—139	—106	3.690	29.4
Industry	96	98	53	3.502	27.8
Construction	67	31	43	1.066	8.5
Services	121	138	180	4.315	34.3
Total	80	128	169	12.572	100.0



## Employment

1966		1967				1968		
III	IV	I	II	III	IV	I	II	III
<b>1 INDICES OF EMPLOYMENT (1960 = 100)</b>								
117.3	118.1	117.1	116.7	116.3	116.4	115.8	115.5	115.5
119.4	120.3	119.4	119.0	118.6	118.8	118.2	117.9	118.0
<b>2 REGISTERED UNEMPLOYMENT (in thousands)</b>								
28.4	...	44.5	34.6	34.4	51.2	67.4		
17.2	...	28.0	29.8	30.0	36.9	47.0		
60.7	...	67.9	68.5	74.2	85.3	97.5		
106.3	123.3	140.3	133.0	138.7	173.4	211.9	176.8	166.6

## 4 EMIGRATION (in thousands)

	1964 <sup>1</sup>	1965	1966	1967
1 Departures to Europe	182.8	181.3	130.7	59.9
<i>of which to:</i> France	69.6	55.9	42.6	26.8
Germany	47.4	65.1	38.6	3.9
Switzerland	49.1	28.1	30.7	26.6
2 Returns from Europe	99.0	120.7	131.7	85.9
<i>of which from:</i> France	40.6	29.9	18.4	1.8
Germany	25.9	33.5	60.3	43.9
Switzerland	27.1	31.0	31.3	27.9
3 Net emigration to Europe	83.8	60.6	-1.0	-26.0
4 Net emigration overseas	-1.4	-4.3	-4.0	-4.7

1 Excluding migration to the United Kingdom.

Source: Ministry of Labour.

Table D Hourly Earnings

	% Shares in Employment 1966 <sup>1</sup>	Annual Averages (in pesetas)			% Annual increases	
		1965	1966	1967	1966	1967
1 Coal mining:						
(a) Skilled workers (1st cat.)	35	44.46	52.26	58.76	17.5	12.4
(b) Skilled workers (2nd and 3rd cat.)	16	32.60	38.60	42.99	18.4	11.4
(c) Semi-skilled workers	21	29.80	36.02	42.00	20.9	16.6
(d) Unskilled workers	13	24.97	28.32	32.43	13.4	14.5
2 Food, drink, tobacco:						
(a) Skilled workers (1st cat.)	17	24.82	27.77	32.52	11.9	17.1
(b) Skilled workers (2nd and 3rd cat.)	20	20.96	23.13	26.88	10.4	16.2
(c) Semi-skilled workers	18	18.49	21.51	24.56	16.3	14.2
(d) Unskilled workers	17	15.92	17.88	20.48	12.3	14.5
3 Textiles:						
(a) Skilled workers (1st cat.)	27	26.17	30.64	35.88	17.1	17.1
(b) Skilled workers (2nd and 3rd cat.)	40	20.90	23.60	27.73	12.9	17.5
4 Clothing and footwear:						
(a) Skilled workers (1st cat.)	24	21.50	23.81	26.71	10.7	12.2
(b) Skilled workers (2nd and 3rd cat.)	26	17.55	20.48	21.96	16.7	7.2
(c) Semi-skilled workers	15	16.64	18.94	20.58	13.8	8.7
5 Paper:						
(a) Skilled workers (1st cat.)	12	26.17	31.20	35.14	19.2	12.6
(b) Skilled workers (2nd and 3rd cat.)	29	20.98	25.05	28.48	19.4	13.7
(c) Semi-skilled workers	26	18.75	22.22	25.22	18.5	13.5
6 Chemicals:						
(a) Skilled workers (1st cat.)	13	26.54	30.37	34.24	14.4	12.7
(b) Skilled workers (2nd and 3rd cat.)	16	23.05	25.96	29.97	12.6	15.4
(c) Semi-skilled workers	27	21.41	24.65	27.11	15.1	10.0
7 Basic metals, engineering and means of transport:						
(a) Skilled workers (1st cat.)	14	26.67	31.39	34.87	17.7	11.1
(b) Skilled workers (2nd and 3rd cat.)	18	22.20	26.55	29.41	19.6	10.8
(c) Semi-skilled workers	31	23.21	27.28	30.60	17.5	12.2
8 Construction:						
(a) Skilled workers (1st cat.)	21	20.28	23.59	27.76	16.3	11.7
(b) Skilled workers (2nd and 3rd cat.)	16	17.34	19.71	23.29	13.7	18.2
(c) Unskilled workers	36	13.90	15.40	17.94	10.8	16.5
9 Commerce:						
(a) Office workers	37	24.97	30.46	34.22	22.0	12.3
(b) Skilled workers (1st cat.)	14	20.74	23.97	27.03	15.6	12.8
(c) Skilled workers (2nd and 3rd cat.)	10	17.49	20.22	24.14	15.6	19.4

1 Percentages of each category of workers in total employment in each sector.

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

Table E **Fiscal Receipts**  
(Billion pesetas)

	1963	1964	1965	1966		1967		1968
	Actual	Actual	Actual	Forecast	Actual	Forecast	Actual	Forecast
<b>I DIRECT TAXES</b>								
1 Tax on income from agricultural property	1.4	1.4	1.4	1.1	1.0	} 4.3	0.9	} 5.5
2 Tax on income from urban property	2.2	2.3	2.6	3.2	2.9		3.3	
3 Tax on salaries and professional earnings	7.6	8.3	8.7	8.0	12.2	12.1	14.1	14.5
4 Tax on income from capital	3.1	3.5	4.4	4.8	4.8	5.2	5.5	5.5
5 Corporation tax	9.2	9.7	13.5	14.2	16.4	18.5	18.7	20.7
6 Tax on business licenses and on personal profits	4.0	4.6	6.0	6.2	6.5	7.6	7.5	8.5
7 Surtax on personal incomes	1.4	1.6	2.0	1.6	2.1	2.1	2.5	3.0
8 Inheritance and estate tax	1.6	1.9	2.2	2.3	2.2	1.9	2.5	2.3
9 Other	1.4	1.6	0.5	1.7	1.0	1.2	1.6	1.7
<b>TOTAL DIRECT TAXES</b>	<b>31.8</b>	<b>34.9</b>	<b>41.3</b>	<b>43.1</b>	<b>49.1</b>	<b>53.0</b>	<b>56.6</b>	<b>61.7</b>
<b>II INDIRECT TAXES</b>								
1 Custom duties and fiscal duties on imports	16.8	19.8	24.1	26.6	29.5	32.0	26.5	30.2
2 General tax on expenditure <sup>1</sup>	15.1	17.3	26.2	34.6	31.5	35.4	37.6	44.6
3 Luxury taxes	10.4	13.3	16.4	16.7	20.7	24.3	24.7	29.0
4 Fiscal monopolies	7.9	9.6	10.9	12.5	14.1	15.8	17.4	21.2
5 Transaction taxes and stamp duties	13.0	14.2	9.9	11.0	11.2	13.0	12.9	14.9
6 Other	0.8	1.0	1.4	0.7	0.9	0.5	0.6	0.6
<b>TOTAL INDIRECT TAXES</b>	<b>64.0</b>	<b>75.2</b>	<b>88.9</b>	<b>102.1</b>	<b>107.9</b>	<b>121.0</b>	<b>119.7</b>	<b>140.5</b>
<b>TOTAL TAXES</b>	<b>95.8</b>	<b>110.1</b>	<b>130.2</b>	<b>145.2</b>	<b>157.0</b>	<b>174.0</b>	<b>176.3</b>	<b>202.2</b>

1 It includes the special taxes on expenditure and, after 1964, it includes also the new general turnover tax.

Source: Ministry of Finance.

Table F Public Sector Accounts  
(National accounts concepts)

1 LOCAL GOVERNMENT (*Million pesetas*)

	1964	1965	1966
<i>Current revenue</i>			
1 Fiscal Revenue	11 610	11 302	11 364
2 From property and entrepreneurship	860	974	2 355
3 Current transfers	4 646	7 821	11 390
3.1 — from Central Government budget	(4 272)	(6 938)	(10 460)
4 Other	694	735	970
5 <i>Total current revenue (1 to 4)</i>	17 810	20 832	26 079
<i>Current expenditure</i>			
6 Goods and services	14 128	15 324	17 351
7 Current transfers	593	408	619
8 Other	2 006	2 504	1 540
9 <i>Total current expenditure (6 to 8)</i>	16 727	18 236	19 510
10 Saving (5 less 9)	1 083	2 596	6 569
11 Capital taxes	2 186	2 502	2 672
12 Capital transfers	315	231	293
13 <i>Total current resources (10 to 12)</i>	3 584	5 329	9 534
14 Gross fixed capital formation	6 548	7 613	8 395
15 Capital transfers	66	509	558
16 Other	-1 198	-1 373	-808
17 <i>Total capital uses (14 to 16)</i>	5 416	6 749	8 145
Overall financial surplus (+) or deficit (-) (13 less 17)	-1 832	-1 420	+1 389

Source : Ministry of Finance: "Public Sector Accounts 1964-1966".

2 SOCIAL SECURITY INSTITUTIONS (*Million pesetas*)

	1964	1965	1966	% increases	
				1965	1966
1 Social security contributions	43 567	48 946	51 671	12.3	5.6
2 Transfers	1 119	1 111	1 172	-0.8	5.5
3 Other current receipts	2 266	2 378	2 718	4.9	14.3
4 <i>Total capital receipts</i>	46 952	52 435	55 561	11.7	6.0
5 Current expenditure on goods and services	14 439	17 842	21 043	23.6	17.9
6 Benefits	21 565	24 697	29 226	14.5	18.3
7 Current subsidies and transfers	1 285	377	886	-70.7	135.0
8 <i>Total current expenditure</i>	37 289	42 556	51 155	14.1	20.2
9 Net current saving	9 663	9 879	4 406		
10 Gross investment	1 393	2 072	2 319	48.7	11.9
11 Overall financial surplus (+) or deficit (-)	8 270	7 807	2 087		

Source : Ministry of Finance: "Public Sector Accounts 1964-1966".

**Table G Money and Credit**  
**I CONSOLIDATED ACCOUNT OF THE BANKING SYSTEM<sup>1</sup>**  
 Quarterly changes. In billion pesetas

	1966		1967				1968			Outstanding as at 31.10
	III	IV	I	II	III	IV	I	II	III	
<b>I Liabilities</b>										
1 Money supply	17.1	40.9	-12.3	21.2	21.0	44.4	-29.3	22.3	17.9	583.7
2 Quasi-money	22.4	28.3	20.0	14.0	28.0	34.2	40.3	29.2	42.6	788.2
3 Total (including foreign exchange deposits)	39.9	69.4	8.2	35.7	49.8	80.9	9.9	51.7	61.1	1 382.0
4 Bank bonds	0.5	-0.2	0.4	1.3	0.2	1.0	1.1	1.8	0.3	20.0
5 Other (net)	6.9	-3.5	14.4	1.7	3.8	14.0	14.1	-1.1	12.2	64.3
<i>Liabilities = Assets</i>	47.3	65.7	23.0	38.7	53.8	67.9	25.1	52.4	73.6	1 466.3
<b>II Assets</b>										
6 Public sector	17.8	20.8	13.5	1.0	22.5	18.2	19.3	4.1	25.7	388.7
(a) Net advances to	15.4	2.9	8.9	-10.5	14.9	3.2	13.9	-6.1	11.0	109.4
(i) Central Government	6.7	-2.6	7.9	-12.3	11.6	-2.4	13.0	-6.4	1.9	44.1
(ii) Autonomous Institutions <sup>3</sup>	8.2	4.1	2.8	-0.5	4.3	4.6	2.2	-0.2	8.0	59.4
(iii) Official credit Institutions	0.5	1.4	-1.8	2.3	-0.9	1.0	-1.3	0.4	1.1	5.8
(b) Purchase of Government and INI bonds	2.4	17.9	4.6	11.5	7.5	15.0	5.4	10.2	14.7	279.3
7 Private sector	23.5	47.8	17.7	40.1	23.6	50.2	15.9	41.3	39.8	1 007.3
(a) Credits <sup>3</sup>	18.8	38.7	10.2	31.2	19.1	44.6	10.6	32.3	31.3	872.2
(b) Bonds and shares <sup>4</sup>	4.7	9.0	7.4	8.9	4.5	5.6	5.3	9.1	8.5	135.1
8 External sector	5.9	-3.0	-8.1	-2.4	7.7	-0.5	-10.1	7.0	8.1	70.3

1 Bank of Spain, commercial banks, industrial banks and saving banks.

2 Including the Wheat Agency.

3 Including the net interbank position.

4 Figures affected as from December 1966 by the revaluation of assets.

Source: Bank of Spain.



Table G Money and Credit (continued)

	1965	1966	1967	January-October <sup>6</sup>		
				1966	1967	1968
<b>2 BANK LIQUIDITY</b>						
<i>Changes, in billion pesetas :</i>						
1 Cash reserves	-0.8	2.0	3.5	-3.3	2.3	6.9
2 Central bank credit received	20.6	25.4	15.7	15.7	4.9	-6.4
3 Public securities	17.2	21.4	26.7	10.7	16.6	27.8
4 Private securities <sup>2</sup>	5.6	5.6	10.6	3.8	10.4	4.4
<i>Ratios to deposits ; end of period, per cent <sup>6</sup>:</i>						
1 Cash reserves <sup>1</sup>	8.1	7.7	7.3	9.3	7.7	6.8
2 Liquid assets <sup>1</sup>	16.1	17.9	18.1	17.3	18.5	20.0
3 Public securities	14.8	16.7	18.2	15.1	17.8	19.7
<b>3 OFFICIAL CREDIT INSTITUTIONS</b>						
<i>Changes, in billion pesetas</i>						
<b>ASSETS:</b>						
1 Cash	-0.2	0.1	—	0.4	0.5	0.5
2 Credit to public sector <sup>3</sup>	2.7	4.0	4.5	2.9	3.8	4.6
3 Credit to private sector <sup>3</sup>	25.7	27.9	25.7	21.8	18.4	21.2
<b>ASSETS = LIABILITIES</b>	<b>28.2</b>	<b>32.0</b>	<b>30.2</b>	<b>25.1</b>	<b>22.7</b>	<b>26.3</b>
4 Transfers from the Treasury	24.7	28.3	27.7	23.3	22.3	23.5
5 Advances from the banking system	2.6	0.2	-0.2	0.4	-1.6	0.7
6 Other (net) <sup>4</sup>	0.9	3.5	2.7	1.4	2.0	2.1
<b>4 CAPITAL MARKET</b>						
<b>GROSS ISSUES (billion pesetas):</b>						
1 Public securities	36.6	31.6	48.4	21.2	26.7	35.8
<i>of which :</i> Treasury	27.5	24.4	37.8 <sup>5</sup>	15.2	18.8	27.9
INI	9.1	7.1	10.6	6.0	7.9	7.9
2 Private securities	60.7	66.3	75.3	53.4	55.3	74.9
<i>of which :</i> Bonds	25.8	26.2	28.7	24.6	24.3	35.7
Shares	34.8	40.1	46.6	28.8	31.0	39.2
3 Total	97.3	97.9	123.7	74.6	82.0	110.7
<b>PRICE INDICES (1958 = 100, end of period):</b>						
1 Shares	87.0	78.4	73.5	78.7	74.7	80.0
2 Private bonds	122.0	118.9	115.5	119.0	115.1	112.0
3 Public bonds	108.3	111.9	116.2	108.9	112.5	112.9
<b>YIELDS (per cent, end of period):</b>						
1 Private bonds	5.29	5.56	5.73	5.70	5.75	5.78
2 Treasury investment bonds (cedulas)	4.34	4.42	4.37	4.41	4.40	4.43

1 Commercial banks only.

2 Cf. note 5 to Table G (1).

3 Credit used, plus interest and reimbursements due and some small amounts of securities.

4 Including bonds.

5 Net Treasury issues amounted to 26.6 billion.

6 For the ratios to deposits, January-September.

Source : Bank of Spain.

Table H Foreign Trade  
1 IMPORTS  
(Million dollars)

	1965	1966	1967	January-October		
				1966	1967	1968
1 Agricultural and food products	621	722	699	596	577	532
2 Minerals	108	114	88	98	75	82
3 Oil products	303	347	428	284	332	442
4 Chemicals, plastics and rubber	330	388	383	323	325	355
5 Skins and leather	31	41	39	34	34	33
6 Wood and cork	56	63	66	46	55	56
7 Pulp, paper and books	63	83	80	68	67	70
8 Raw cotton, textiles and clothing	135	200	170	167	147	139
9 Glass and pottery	30	43	39	36	32	28
10 Metals and metal products	421	454	368	390	311	303
11 Machinery and appliances	696	853	792	711	672	580
12 Transport equipment	112	133	195	110	158	153
<i>of which :</i> Cars, lorries and tractors	74	101	99	86	85	66
Aircraft	6	6	73	5	52	71
13 Other	113	150	143	126	120	110
14 Total	3 019	3 591	3 490	2 989	2 905	2 883
15 Total less agricultural and food products	2 398	2 869	2 791	2 393	2 328	2 351

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

2 EXPORTS BY GROUPS OF PRODUCTS AND DESTINATION  
Annual and quarterly figures (Million dollars)

	To OECD countries				To non-OECD countries				General Total <sup>2</sup>
	Agr. Prod. <sup>1</sup>	Ships	Other	Total	Agr. Prod. <sup>1</sup>	Ships	Other	Total	
1963	341.6	17.0	209.6	568.2	40.8	9.7	97.8	148.3	735.3
1964	442.1	14.8	287.6	744.5	62.0	13.5	123.9	199.4	954.4
1965	395.8	2.5	323.2	721.5	59.9	20.0	160.2	240.1	966.5
1966	455.4	1.6	393.1	850.1	90.1	90.2	209.9	390.2	1 253.6
1967	488.6	1.0	476.8	966.4	131.9	38.6	233.4	403.9	1 384.1
1966: 1st qtr.	122.9	—	68.9	191.8	16.3	—	36.8	53.1	247.5
2nd qtr.	109.9	1.5	115.5	226.9	22.9	34.8	62.0	119.7	349.7
3rd qtr.	65.2	0.1	91.6	156.9	20.4	23.4	60.6	104.4	265.1
4th qtr.	157.4	—	117.1	274.5	30.5	32.0	50.5	113.0	391.3
1967: 1st qtr.	150.3	0.5	104.5	255.3	26.1	5.3	57.7	89.1	347.6
2nd qtr.	116.4	0.2	109.1	225.7	27.4	6.1	54.8	88.3	317.0
3rd qtr.	69.9	0.1	125.1	195.1	34.0	7.2	58.9	100.1	299.7
4th qtr.	152.0	0.2	138.1	290.3	44.4	20.0	62.0	126.4	419.8
1968: 1st qtr.	120.7	0.2	152.2	273.1	38.9	3.0	66.6	108.5	385.2
2nd qtr.	95.8	0.6	156.5	252.9	26.2	18.0	66.0	110.2	365.6
3rd qtr.	71.3	0.9	161.1	233.3	24.7	19.0	73.7	17.4	353.3

1 SITC sections 0, 1 and 4.

2 Including unspecified.

Source: OECD, Foreign Trade Statistics, Series B.

Table I **Official Foreign Reserves**  
In million dollars

	1963	1964	1965	1966		1967		1968	
	December			June	Dec.	June	Dec.	June	Oct.
1 Gold	573	616	810	785	785	784	785	785	785
2 Convertible currencies	520	791	458	241	254	205	264	174	331
3 Total (1 + 2)	1 093	1 407	1 268	1 026	1 039	990	1 049	958	1 115
4 Net IMF position	54	106	141	166	166	—	—	—	—
5 Total (3 + 4)	1 147	1 513	1 409	1 192	1 205	990	1 049	958	1 115
<i>Pro memoria:</i> Non-convertible currencies (net)	11	—	—	—	9	31	41	56	46

Source: Bank of Spain.

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