

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

SPAIN

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JUNE 1978

BASIC STATISTICS OF SPAIN

THE LAND

| | | | |
|---------------------------------------|-------|--------------------------------|-------|
| Area (1 000 sq. km) | 504.8 | Major cities, 31.12.70 census, | |
| Agricultural area (1 000 sq. km) 1976 | 280.6 | thousands inhabitants: | |
| | | Madrid | 3 146 |
| | | Barcelona | 1 745 |
| | | Valencia | 654 |
| | | Sevilla | 548 |

THE PEOPLE

| | | | |
|----------------------------------|--------|----------------------------|--------|
| Population, 1.7.76, thousands | 36 240 | Civilian employment, 1977, | |
| Number of inhabitants per sq. km | 72 | thousands: | 12 468 |
| Net natural increase | | Agriculture | 2 606 |
| (1976, thousands) | 370 | Industry | 4 657 |
| Net migration (1976, thousands) | 59 | of which: Construction | 1 224 |
| | | Services | 5 205 |

PRODUCTION

| | | | |
|------------------------------|---------|---------------------------------------|----|
| Gross domestic product, 1977 | | Gross domestic product at factor cost | |
| (billion pesetas) | 8 782.9 | by origin, in 1977 (percentages): | |
| GDP per head, 1976 (US \$) | 2 890 | Agriculture | 9 |
| Gross fixed investment: | | Industry and construction | 38 |
| Per cent of GDP (1976) | 23 | Services | 53 |
| Per head (US \$) (1976) | 660 | | |

THE GENERAL GOVERNMENT

| | | | |
|-----------------------------|----|------------------------------------|----|
| Public consumption, in 1977 | | Fiscal revenue, in 1975 | |
| (percentage of GDP) | 10 | (percentage of GDP) | 23 |
| Fixed investment in 1975 | | Public debt (percentage of general | |
| (percentage of gross fixed | | government current revenue) 1.1.77 | 37 |
| capital formation) | 12 | | |

FOREIGN TRADE

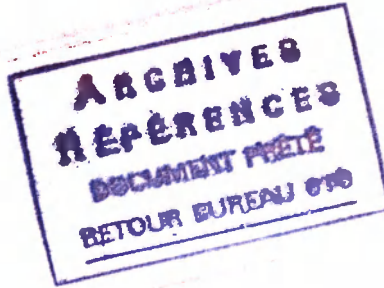
| | | | |
|-------------------------------------|------|-------------------------------------|------|
| Exports of goods and services, 1977 | | Imports of goods and services, 1977 | |
| (billion US \$) | 17.7 | (billion US \$) | 21.3 |
| Exports of goods and services as | | Imports of goods and services as | |
| a percentage of GDP, 1977 | 15 | a percentage of GDP, 1977 | 18 |
| Exports 1977, percentage of | | Imports 1977, percentage of | |
| exports of goods: | | imports of goods: | |
| Foodstuffs | 21 | Foodstuffs | 12 |
| Raw materials and semi-finished | | Fuel, raw materials and semi- | |
| products | 33 | finished products | 61 |
| Capital goods | 19 | Capital goods | 19 |
| Consumers' goods | 27 | Consumers' manufactures | 8 |

THE CURRENCY

| | | | |
|-----------------------|--|---------------------------|-------|
| Monetary unit: Peseta | | Currency units per US \$, | |
| | | average of daily figures: | |
| | | Year 1977 | 76.01 |
| | | April 1978 | 80.10 |

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

OECD ECONOMIC SURVEYS



SPAIN

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December 1960, which provides that the OECD shall promote policies designed:

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

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* * *

*The annual review of Spain
by the OECD Economic and Development Review
Committee took place on 3rd May, 1978.*

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INTRODUCTION

The Spanish economy has been characterised by slow growth, falling investment and a substantial increase of unemployment during the last few years—familiar features for many Member countries but which, in the case of Spain, stand in sharp contrast with the very rapid growth and industrialisation of the 1960's and early 1970's. Moreover, the rate of inflation has been one of the highest in the OECD area and the current external deficit increased sharply until the summer of 1977, before the devaluation of the peseta and other measures produced a remarkable improvement. These unfavourable developments reflected, to a large extent, the effects of the world recession and subsequent slow recovery. But domestic policies also did not come to grips with increasing disequilibria in the economy during a period when priority was accorded to fundamental institutional and political reforms. It was only after the parliamentary elections of June 1977—the first since the civil war of the 1930's—that the new Government elaborated a more coherent economic programme.

The more urgent task was to bring the balance of payments deficit under control and, as noted, considerable results have already been achieved partly through a reversal of speculative capital outflows. Internal stabilisation goals were given priority at the expense of accentuating the recessionary trends, notably through a more restrictive monetary policy. These objectives, including price and wage guidelines for 1978, were endorsed by all the significant political parties in the "Moncloa pact" of October 1977, which also spelt out a programme of basic economic and institutional reforms, some of which have already been initiated. On the basis of present policies, GDP growth in 1978 may be even lower than the 1.7 per cent average of the last three years and there are good reasons to expect a steady slowdown of the rate of inflation as well as a continuation of the reduction of the external deficit. But a further increase of the already high rate of unemployment seems ineluctable. The difficult problems of adjustment over the short and the medium term would, however, be eased if expansion in the major industrialised countries and the growth of world trade proved to be stronger than seems likely at present.

Part I of this Survey describes the main trends of the economy up to the end of 1977 and attempts to single out certain broad features of developments during the recent years which saw an intensification of internal and external disequilibria. Economic policies are discussed in Part II, in particular the objectives and instruments of the short-term programme approved last autumn and the initial measures of structural reform in the monetary and fiscal areas. The following section discusses the short-term prospects and Part IV concludes the Survey with certain considerations of economic policy.

I TRENDS IN RECENT YEARS - THE SLOWDOWN OF GROWTH AND THE ACCENTUATION OF DISEQUILIBRIA

Marked slowdown of growth

Like all OECD countries, Spain has experienced a very marked slowdown in its rate of growth since the oil crisis, largely due to changes in the international environment, but also connected with the uncertainties surrounding the domestic political situation. The turning point can be placed in 1974 although the year-on-year growth of GDP was still in excess of 5 per cent. In spite of short periods of recovery, the general trend has remained very weak thereafter. Thus, the annual rate of growth of GDP fell from just over 7 per cent on average between 1970 and 1973 to about 2.5 per cent between 1973 and 1976¹, a rate only slightly faster than that of the OECD area as a whole. In the past, Spain's growth was considerably more rapid than the OECD average. According to provisional national accounts estimates, volume GDP grew by only 2.4 per cent

Table 1 Demand and output¹
Percentage change, volume

| | 1976 billion pesetas | Per cent of GDP | 1962-70 | 1970-73 | 1973-76 | 1976 ² | 1977 ³ |
|------------------------------|----------------------------|-----------------------|---------|---------|---------|-------------------|---------------------|
| Private consumption | 4 868 | 69.6 | 6.4 | 6.9 | 3.1 | 2.8 | 0 |
| Public consumption | 720 | 10.3 | 5.7 | 6.3 | 6.2 | 5.5 | 4.5 |
| Gross fixed investment | 1 606 | 22.9 | 9.1 | 8.7 | 0.8 | -1.5 | (-1.7) ⁵ |
| Construction | 983 | 14.0 | 7.5 | 7.3 | -0.7 | -3.9 | -1.0 |
| Machinery and equipment | 623 | 8.9 | 10.8 | 10.9 | 2.9 | 1.7 | .. |
| Stockbuilding ⁴ | 102 | 1.5 | 0.0 | 0.4 | -0.3 | -0.4 | .. |
| Total domestic demand | 7 296 | 104.2 | 6.7 | 7.5 | 2.7 | 1.6 | 0.1 |
| Imports | 1 273 | 18.2 | 12.4 | 12.7 | 2.5 | 5.7 | -4.2 |
| Exports | 976 | 13.9 | 12.7 | 11.5 | 2.3 | 9.4 | 11.8 |
| Foreign balance ⁴ | -297 | -4.2 | -0.1 | -0.4 | -0.1 | 0.4 | 2.4 |
| GDP at market prices | 6 999 | 100.0 | 6.8 | 7.2 | 2.7 | 2.1 | 2.4 |
| GDP implicit price deflator | .. | .. | 6.4 | 9.2 | 16.2 | 16.0 | 22.5 |
| GDP at factor cost | 6 690 | 95.6 | 7.1 | 7.5 | 2.7 | 2.0 | 2.4 |
| Agriculture | 610 | 8.7 | 1.9 | 3.8 | 1.7 | 2.0 | -4.5 |
| Industry | 2 078 | 29.7 | 9.1 | 10.5 | 3.0 | 3.3 | 4.0 |
| Construction | 560 | 8.0 | 8.8 | 5.3 | -0.9 | -2.5 | -1.5 |
| Services | 3 442 | 49.2 | 7.8 | 6.8 | 3.3 | 1.8 | 3.2 |

1 In the OECD standardised accounts, the series show a marked break in 1970, cf. footnote 1.

2 Estimates.

3 Provisional estimates.

4 Changes as a percentage of GDP in the previous period.

5 Including change in stocks.

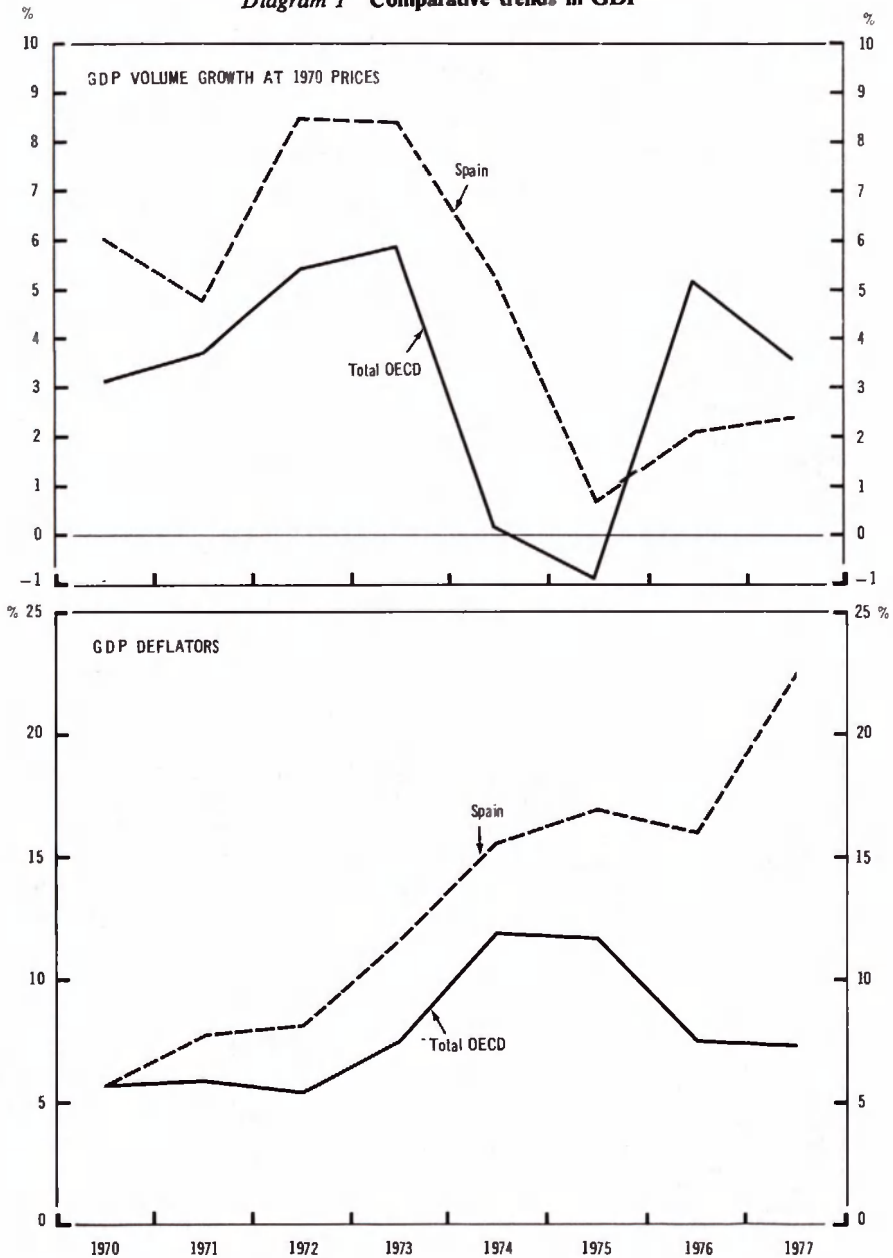
Sources: National Statistics Institute, *Spanish national accounts*; OECD, *National accounts*.

1 Spanish national accounts have been substantially revised as from 1970, so that the figures are not strictly comparable with those for earlier years. The estimate of GDP value for 1970 has been increased by 17 per cent and the breakdown of demand has been considerably modified. The figures mentioned in this Survey are based on a standardised OECD system. Spanish sources usually display national accounts according to the EEC definitions which, given the importance of foreign tourism in Spain, may introduce distortions into the trend of private consumption and may also considerably overstate the deficit on external transactions of goods and services.

in 1977, largely due to an improvement in the foreign balance. The figures for that year probably reflect more the underlying weakness of domestic demand than the effect of the stabilisation measures introduced last autumn.

All the components of domestic demand have contributed to the weakening of growth. Households' incomes have been eroded by mounting inflation and

Diagram 1 Comparative trends in GDP



Source : OECD Secretariat

increased tax pressure² and real disposable income increased by only 1.8 per cent between 1973 and 1976 (against 7.8 per cent from 1970 to 1973). In spite of a steady fall in the household savings ratio (from 13.9 per cent in 1973 to 9.8 per cent in 1976), growth of per capita private consumption declined from 5.8 per cent per annum between 1970 and 1973 to 2.3 per cent between 1973 and 1976 and, according to provisional data, was virtually nil in 1977. The declining capacity utilisation rates, the shrinking profit margins and possibly the political uncertainties caused investment to fall as from 1975, whereas previously it had been one of the mainstays of growth, having advanced from the early 1960s at a rate of nearly 9 per cent a year and accounting for 24.5 per cent of GDP in 1974. No breakdown between fixed capital formation and stockbuilding is available for 1977. However, according to Secretariat estimates, the fall in fixed investment might have been of the order of 3 per cent, with a sharper decline in machinery and plant. On the whole, fixed capital formation declined over the past three years by 6.5 per cent. The decrease appears to have been the same for both investment machinery and construction, though with a different time pattern. Finally, a downward adjustment of stocks has contributed to the slowing of activity, though stockbuilding did not actually become negative over the recent period, as happened in many other member countries; it nevertheless declined significantly, so that the level of stocks in 1976 was only slightly above that of 1970. On the other hand, it looks as if this trend was reversed in 1977 when stockbuilding made a positive contribution to growth. Only public consumption has continued to advance at a rapid rate and constitutes the main support to activity together with exports. Exports of goods and services in volume fell back slightly during the 1974-1975 recession and then recovered substantially in 1976 and 1977. On average, however, the rate of growth over the last four years (4.6 per cent) is considerably lower than it was previously.

The assessment of short-term trends of demand and output which, in the absence of quarterly national accounts, is based on a limited number of reliable indicators³ can only be approximate. It seems that, because of the large contribution made by the foreign balance, GDP growth showed a temporary acceleration during the first half of 1977 (about 4 per cent at an annual rate), but final domestic demand, which had recovered somewhat in the second half of 1976, probably remained flat. For the first time since the beginning of the 1970s, households' real disposable income showed no increase, notably because of considerably heavier tax pressure, and household's consumption appears to have levelled off. Capital formation showed a further decline, although less pronounced than in 1976. While the fall in investment in machinery and equipment probably became more marked, the downtrend in the construction sector was moderated by some stimulative measures introduced at the beginning of the year. Lastly, according to the qualitative information available, there seems to have been some positive stockbuilding of agricultural products and an involuntary build-up of stocks of finished products, which may have partly compensated the decrease in stocks

2 Trend of taxes and transfers as a percentage of households income:

| | 1970 | 1974 | 1975 | 1976 | 1977 |
|--|------|------|------|------|------|
| Transfers received | 10.5 | 10.8 | 11.4 | 12.0 | 12.0 |
| Income tax | 1.3 | 1.9 | 2.1 | 2.4 | 2.8 |
| Social security contributions | 9.1 | 10.3 | 11.5 | 12.0 | 12.8 |
| Net effect of transactions with government | +0.1 | -1.4 | -2.2 | -2.2 | -3.6 |

3 As stated in earlier Surveys, the index of industrial production is not very satisfactory. It was therefore decided to carry out an industrial census (the first for several decades) which will provide the necessary basic information in this area.

of imported goods. In the second half of the year, domestic demand and especially investment, probably showed a marked downturn which may have been more or less offset by the rapid growth of exports and, overall, GDP appears to have stagnated.

The rise of unemployment

At the beginning of the 1970s, the acceleration of the decline of the labour force in agriculture was compensated by a rapid increase in non-agricultural employment. Total employment was growing at a yearly rate of approximately 1 per cent¹. From 1975 onwards the slowdown in growth was accompanied by a significant downturn in employment which, by the middle of 1977, had fallen to much the same level as in 1970, whereas the total growth of GDP during the period was 35 per cent. Non-agricultural employment virtually stagnated, whereas over one million new jobs had been created between 1970 and 1974. Nonetheless, it seems from the trend of apparent labour productivity that, in many sectors, employment was only partially adjusted to production and that a considerable labour surplus was maintained in enterprises. In this connexion, it should be remembered that the legislation governing layoffs is still very restrictive.

The change of trend since 1974 has been particularly pronounced in construction, but also in services. Despite the deterioration in job opportunities, the rapid drift from the farm sector has continued. Thus, over a million workers have left agriculture since 1970, i.e. more than one-quarter of the agricultural labour force at that time. Agricultural employment is still relatively high nonetheless, since it accounts for close to 20 per cent of the total labour force, whereas the share of agriculture in GDP in 1977 was less than 9 per cent. As regards dependent employment, the rapid growth observed at the beginning of the 1970s apparently slowed down though remaining positive until 1976 and

Table 2 Employment and productivity

| | Structure of civilian employment in 1977 thousands | Percentage change, annual rate | | | | | |
|-----------------|--|--------------------------------|------------------|---------|---------------------------|------------------|---------|
| | | Employment ¹ | | | Productivity ² | | |
| | | 1960-70 | 1970-74 | 1974-77 | 1960-70 | 1970-74 | 1974-77 |
| Total | 12 468 | 0.7 | 0.9 | -1.1 | 7.0 | 6.0 | 2.9 |
| Agriculture | 2 606 | -2.8 | -4.9 | -4.5 | 6.0 | 9.4 | 3.3 |
| Non-farm sector | 9 862 | 2.7 | 3.1 ³ | 0.0 | 6.3 | 4.1 ³ | 2.1 |
| Industry | 3 433 | 2.2 | .. | -1.0 | 7.3 | .. | 3.3 |
| Construction | 1 224 | 2.7 | .. | -0.5 | 7.5 | .. | -2.4 |
| Services | 5 205 | 3.2 | .. | 1.1 | 4.8 | .. | 1.6 |

1 Number of persons employed, not allowing for number of hours worked.

2 Production defined as value added by sector.

3 As the classification of some categories was changed in 1977, the breakdown of non-farm employment is meaningless between 1970 and 1974.

Sources: National Statistics Institute, *Labour Force Survey* and Spanish national accounts; OECD, *National Accounts*.

4 It should be remembered that labour market statistics from 1960 are not entirely homogeneous. The estimates for 1960 are based on the results of the census, whereas the figures since 1964 are those of the National Statistics Institute Survey. The latter was substantially modified in 1972 and again in the third quarter of 1976. The distortions in the series can only partially be adjusted and the figures therefore need to be interpreted with great caution. Furthermore, as regards apparent labour productivity, that concept is probably not very meaningful in agriculture, where the fall in employment is essentially only a decrease in disguised unemployment.

probably levelled off in 1977. Thus, despite the recent slowdown, the share of dependent employment in the labour force has continued to increase. In 1970, dependent workers accounted for 64 per cent of total employment, against 60 per cent in 1960; in 1977, the share was above 70 per cent⁵.

The labour market situation was furthermore aggravated from 1974 onwards by the introduction of measures in the main host countries of Europe limiting the number of incoming foreign workers. The number of emigrant workers was estimated in 1974 at 575 000 (or about 3.5 per cent of the resident labour force that year). During the whole of the period 1974-1977 fewer than 100 000 persons left Spain (a figure comparable with that for 1973) and, although no reliable data on returns are available, net emigration may have been slightly negative⁶. However, the effects on unemployment of a halt in emigration, on the one hand, and of a fall in employment at home, on the other, were cushioned by a marked downturn in participation rates⁷ which resulted in an absolute decrease in the labour force. The very pronounced decline in respect of the male population under 25 clearly shows that this movement has a large cyclical component. The overall participation rate for women, which had risen very steeply at the beginning of the 1970s, fell slightly in 1975 and then levelled off, although the 20-54 year-old category showed a substantial advance. It is possible, in this connection, that more women are employed in marginal jobs in order to make up for the slowdown in households' real income. However, the available statistical information⁸ does not permit to quantify the cyclical factors and separate them from longer term movements, especially as regards inter-sectoral flows, schooling and income trends.

In spite of the fall in participation rates, unemployment has risen rapidly, from 3.4⁹ per cent of the labour force at the beginning of 1974 to 6.3 per cent at the end of 1977, i.e. 832 000 persons. In addition, there are more than 200 000 persons (or 1.6 per cent of the labour force) in marginal employment. There are wide inter-regional differences, according to the particular demographic and economic characteristics of each area, with an unemployment rate of over 12 per cent in Andalusia. The increase in unemployment has been particularly pronounced among young first-job seekers, who accounted for 41 per cent of the jobless during the fourth quarter of 1977 against 29 per cent in 1974. The general problem of youth unemployment is now particularly acute in Spain, given that nearly 60 per cent of the unemployed are under 25 years old and the unemployment rate for that same group is over 15 per cent. The unemployment rate for the male population aged over 25 is still under 4 per cent. Although it is expanding, the coverage of unemployment insurance is still partial. For example, young first job seekers do not receive benefits, whereas, in the other jobless categories, about 60 per cent receive allowances. In all, unemployment insurance applies to about one-third of the total number of unemployed.

5 The level of dependent employment is not obtained directly from the survey, but is estimated by INE.

6 According to the OECD's Continuous Reporting System on Migration (SOPEMI), about 180 000 persons returned to Spain during the period 1974-1976.

7 The overall rate for population aged over 14 declined from 52 per cent in 1974 to less than 49 per cent in 1977.

8 The definition of the labour force has been modified as from the third quarter of 1976 and breaks in series may be considerable in the case of certain categories.

9 Including temporarily unemployed workers.

Table 3 Labour-market

| | 1974 | 1975 | 1976 | 1977 | 1977 | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| | | | | | Q1 | Q2 | Q3 | Q4 |
| Thousands | | | | | | | | |
| Labour force | 13 481 | 13 375 | 13 287 | 13 196 | 13 154 | 13 130 | 13 223 | 13 273 |
| Total employment | 12 781 | 12 577 | 12 513 | 12 447 | 12 448 | 12 451 | 12 446 | 12 441 |
| of which: Marginal workers | 98 | 97 | 179 | 193 | 192 | 172 | 200 | 207 |
| Unemployment | 353 | 514 | 658 | 749 | 706 | 679 | 777 | 832 |
| of which: First-job seekers | 103 | 124 | 198 | 291 | 254 | 247 | 324 | 340 |
| Per cent | | | | | | | | |
| Labour force participation rates | 52.0 | 51.1 | 50.0 | 48.9 | 49.0 | 48.8 | 49.0 | 49.0 |
| Unemployment rate | 2.6 | 3.8 | 5.0 | 5.7 | 5.4 | 5.2 | 5.9 | 6.3 |
| Percentage change from corresponding period of previous year | | | | | | | | |
| Employment by sector ¹ | | | | | | | | |
| Agriculture | -4.0 | -6.9 | -3.4 | -4.6 | -2.7 | -4.3 | -6.7 | -4.8 |
| Industry | 2.6 | 0.4 | -1.2 | -1.7 | -4.0 | -2.8 | -0.2 | 0 |
| Construction | 2.8 | -2.3 | -1.3 | 0.9 | -1.9 | 0.7 | 3.0 | 2.1 |
| Services | 2.4 | 0.4 | 1.4 | 1.6 | 2.3 | 2.6 | 1.0 | 0.4 |

¹ Excluding marginal workers as from 1976.

Sources : National Statistics Institute: Labour Force Survey, *Avance*, excluding Ceuda and Melilla and workers living in communal dwellings.

The acceleration of inflation

While the weakening of demand and the rise in unemployment is consistent with the low-growth context of the OECD countries as a whole, Spain has experienced, in addition, a sharp acceleration of inflation quite above the average trend in Member countries. The annual rate of increase in consumer prices rose from an average of 7.3 per cent between 1963 and 1973 to nearly 17 per cent between 1974 and 1976, and reached approximately 25 per cent in 1977. As a result, Spain's relative position has deteriorated considerably. Import prices, which had been a moderating factor until 1973, contributed significantly to the acceleration of domestic inflation, with the rise in oil and raw material prices, but since 1975 they have risen more or less in line with GDP prices.

An important factor of inflation was probably the acceleration of wage costs. The average 22.5 per cent growth of the net total wage bill between 1974 and 1977 was even steeper than the already significant rate of increase recorded at the beginning of the 1970s. But it was accentuated at the level of production costs by much heavier social security contributions. Moreover, it is likely that the increase in direct taxation of wages (see Part II) contributed to this acceleration, wages being apparently often negotiated net of tax¹⁰. Up to 1973 the steep increase in wages was partly absorbed by productivity gains, but the slowdown in activity, which was not offset by a reduction in dependent employment, caused an upsurge in wage costs, which rose nearly twice as fast between 1974 and 1977 as in the previous three years. Owing to the weakness of demand, entrepreneurs were probably able to pass on to their prices only part of the increase in production costs and had to accept a narrowing of their profit margins. Thus, the upward movement of the GDP price deflator between 1974 and 1977 was slower than that of wage costs and import prices.

The rise in consumer prices was particularly steep in 1977, the effects of devaluation reinforcing the trend of domestic costs in the second half of the year. Food prices, though moving rather erratically, contributed very significantly to the increase in consumer prices, whereas in 1976 they had a rather restraining

Table 4 **Medium-term trend of prices and costs**
Percentage changes, annual rates

| | 1962-70 | 1970-73 | 1973-77 | 1974 | 1975 | 1976 | 1977 |
|--|---------|---------|---------|------|------|------|------|
| GDP implicit price deflator | 6.4 | 9.2 | 17.6 | 15.5 | 16.9 | 16.0 | 22.5 |
| Households' consumption price deflator | 6.6 | 9.1 | 18.9 | 17.8 | 16.1 | 17.5 | 24.2 |
| Export price deflator (goods and services) ¹ | 4.7 | 8.1 | 16.8 | 20.9 | 10.3 | 15.6 | 20.6 |
| Import price deflator (goods and services) ¹ | 4.8 | 6.6 | 22.7 | 44.3 | 8.6 | 17.9 | 22.8 |
| Wage costs ² | 7.5 | 11.6 | 20.6 | 17.7 | 20.7 | 20.0 | 24.0 |
| Gross operating surplus of enterprises | 11.3 | 14.3 | 17.9 | 21.9 | 13.5 | 12.8 | 23.8 |

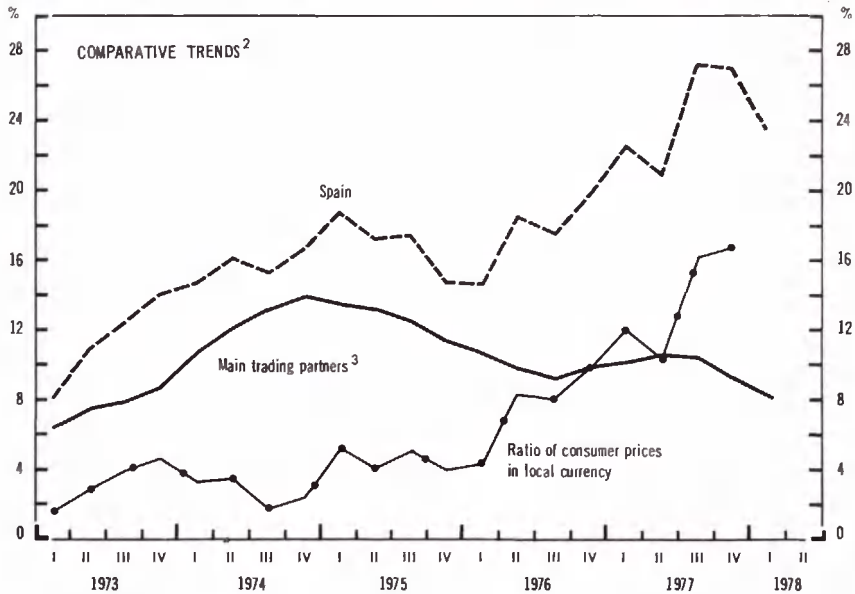
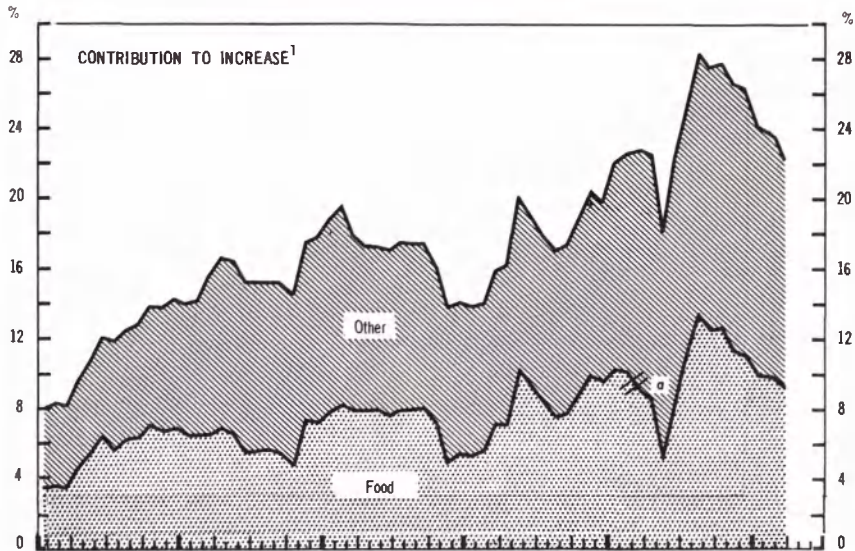
1 OECD standardised definition.

2 Total wage bill as percentage of GDP.

Sources: National Statistics Institute, *National accounts* and OECD, *National accounts*.

10 The personal income tax (IRTP) i.e. on wages, is a proportional tax deducted at source.

Diagram 2 Consumer prices



a New series as from January 1977. The weights of food in the old and new indices are 51.3 per cent and 40.5 per cent respectively.

1 Monthly changes over corresponding period of previous year.

2 Quarterly changes over corresponding period of previous year.

3 Weighted average of consumer prices in the following countries according to their 1976 share of exports: France 30.8%, Germany 23.2%, US 21.6%, UK 15.4%, Italy 8.9%.

Source: OECD Secretariat.

influence¹¹. After rising briskly in the early part of the year, food prices continued to mount very sharply in the summer, the steep rate of increase in producer prices being apparently compounded at the retail stage. Non-food prices rose substantially during the first nine months of 1977, decelerating slightly thereafter, despite the effects of the devaluation. While the rise in prices became steeper, hourly wage rates showed a more moderate trend, with the rate of increase falling from nearly 33 per cent in the second half of 1976, compared with the corresponding period of the previous year, to less than 19 per cent in the third quarter of 1977¹². This would mean that the purchasing power of wages declined appreciably in the course of the year, even though the wage rate is only partially representative of wage earnings as a whole¹³.

Table 5 Recent price trends

| | 1975 | 1976 | 1977 | 1977 | | | | 1978 Q1 |
|------------------------------------|--|------|------|--------|------|------|------|-------------------|
| | | | | Q1 | Q2 | Q3 | Q4 | |
| | Percentage change from corresponding period of previous year | | | | | | | |
| Wholesale prices | 12.6 | 15.3 | 17.1 | 16.1 | 14.5 | 19.7 | 18.1 | |
| Food | 13.9 | 15.0 | 15.8 | 15.4 | 13.2 | 20.0 | 15.7 | |
| Industrial products | 9.5 | 12.7 | 18.2 | 15.8 | 16.1 | 19.2 | 21.4 | |
| Prices paid to farmers | 15.6 | 10.6 | 21.9 | 7.2 | 15.0 | 43.2 | 21.4 | 17.9 ² |
| Consumer prices ¹ | 17.0 | 17.6 | 24.5 | 22.5 | 20.9 | 27.2 | 26.9 | 23.2 |
| Food | 17.0 | 18.7 | 23.6 | 24.3 | 18.1 | 30.7 | 28.9 | 23.9 |
| Average export values | .. | 18.5 | 21.5 | 14.8 | 15.9 | 26.9 | 29.2 | |
| Average import values | .. | 16.8 | 17.6 | 16.9 | 16.5 | 22.5 | 14.2 | |
| | Percentage change from previous quarter, annual rates | | | | | | | |
| Consumer prices, s.a. ³ | .. | .. | | (31.0) | 21.1 | 38.0 | 18.6 | 14.2 ³ |
| Food | .. | .. | | (32.1) | 13.4 | 61.2 | 14.4 | 9.9 ³ |
| Other | .. | .. | | (28.5) | 26.7 | 24.9 | 21.4 | |

1 New index from 1.1.77.

2 January-February.

3 Provisional estimates.

Sources: National Statistics Institut, *Short-term indicators*; Bank of Spain, *Statistical Bulletin*; Ministry of Commerce.

External disequilibrium

The very marked deterioration in the balance-of-payments situation during the last few years has been an increasing constraint on economic policy. From

11 It is difficult to compare consumer price trends in 1976 and 1977 because the index was changed at the beginning of 1977. The new consumer price index, 1976 = 100, is based on the "family budget" survey carried out in 1973-74. It covers a much larger number of items and gives a smaller weight to food products than the old 1968 base-year, cost-of-living index 1968 = 100 (40 per cent as against 50 per cent approximately). According to the Bank of Spain's calculations applying the new index of 1976, the trend of non-food prices in 1976 was approximately the same whichever index is used. On the other hand, there is a very wide divergence for food prices, which with the old index showed an increase of 20.7 per cent from January to December 1976, but one of only 13.2 per cent with the new index.

12 It should be pointed out that since the beginning of 1977, the National Statistics Institute has changed the method of calculating hourly wage rates so as to eliminate the impact of the July and December pay bonuses and to allow for the seasonal reduction in hours worked in August. These rates are obtained from quarterly surveys covering about 30 per cent of dependent employment. Hourly wage rates rose on average by 26.9 per cent in 1974, 30.6 per cent in 1975, 29.8 per cent in 1976 and 22 per cent for the first nine months of 1977.

13 On a national accounts basis, wages net of social security contributions showed a year-on-year increase of 25.3 per cent in 1977, representing a 0.9 per cent growth of purchasing power. In 1976, the nominal increase was 22 per cent and the real increase 3.8 per cent.

Table 6 Balance of payments
Transactions basis, \$ million

| a) MEDIUM TERM TRENDS | | | | | | |
|--------------------------------------|---------|---------|--------|--------|--------|--------|
| | 1970-73 | 1974-76 | 1974 | 1975 | 1976 | 1977 |
| Exports fob | 3 696 | 8 020 | 7 265 | 7 807 | 8 989 | 10 552 |
| Imports fob | 6 030 | 15 281 | 14 334 | 15 195 | 16 316 | 16 624 |
| Trade balance | -2 334 | -7 261 | -7 069 | -7 386 | -7 327 | -6 072 |
| Services, net | 1 923 | 2 441 | 2 679 | 2 755 | 1 891 | 2 418 |
| of which: Tourism | 2 131 | 2 885 | 2 869 | 3 096 | 2 679 | 3 440 |
| Private transfers, net | 932 | 1 158 | 1 154 | 1 162 | 1 158 | 1 150 |
| Official transfers, net | -5 | -14 | -8 | -19 | -16 | -8 |
| Current balance | 516 | -3 676 | -3 244 | -3 488 | -4 294 | -2 512 |
| Long-term capital | 716 | 1 798 | 1 669 | 1 803 | 1 921 | 3 219 |
| Private | 761 | 1 584 | 1 613 | 1 788 | 1 350 | 1 960 |
| Official | -45 | 214 | 56 | 15 | 570 | 1 259 |
| Basic balance | 1 232 | -1 878 | -1 575 | -1 685 | -2 373 | 707 |
| Short-term capital ¹ | 82 | 1 005 | 783 | 930 | 1 302 | 451 |
| Balance on non-monetary transactions | 1 314 | -873 | -792 | -755 | -1 071 | 1 158 |
| Monetary transactions | 3 | -6 | 60 | -70 | -10 | 645 |
| IMF credit | .. | 231 | .. | 605 | 88 | .. |
| Change in official reserves | 1 317 | -648 | -732 | -220 | -993 | 1 803 |

| b) RECENT TRENDS | | | | |
|-------------------------------------|--------|--------|--------|--------|
| | 1976 | | 1977 | |
| | I | II | I | II |
| Not seasonally adjusted | | | | |
| Exports fob | 4 332 | 4 637 | 5 488 | 5 064 |
| Imports fob | 7 956 | 8 360 | 8 664 | 7 960 |
| Trade balance | -3 604 | -3 723 | -3 176 | -2 896 |
| Services, net | 646 | 1 245 | 455 | 1 963 |
| of which: Tourism, net | 1 119 | 1 560 | 1 043 | 2 397 |
| Private and official transfers, net | 634 | 508 | 412 | 730 |
| Current balance | -2 324 | -1 970 | -2 309 | -203 |
| Seasonally adjusted | | | | |
| Exports, fob | 4 142 | 4 847 | 5 266 | 5 286 |
| Imports, fob | 7 657 | 8 659 | 8 307 | 8 317 |
| Trade balance | -3 515 | -3 812 | -3 041 | -3 031 |
| Current invisibles | 1 671 | 1 362 | 1 521 | 2 039 |
| Current balance | -1 844 | -2 450 | -1 520 | -992 |

¹ Including errors and omissions, and banks internal foreign exchange accounts.

Sources: Ministry of Trade and OECD Secretariat estimates.

1974 to 1976, the current account, which had been substantially in surplus between 1970 and 1973, recorded a widening deficit that averaged \$3.7 billion a year (approximately 3.8 per cent of GDP). This deficit did narrow slightly, but was still running at an annual rate of \$3 billion in the first half of 1977. The trade deficit, which had already begun to grow appreciably in 1972, rose considerably as from 1974, while the very substantial and hitherto growing surplus on invisibles started to decrease. As in most other Member countries the pronounced deterioration in the terms of trade in 1974 had an unfavourable impact on the trade balance. Furthermore, the world recession and the hesitant recovery that followed caused a slowdown in export market growth. There were also some specific factors that contributed to the general deterioration. Most notably, speculative behaviour in anticipation of a peseta devaluation seriously affected invisibles and private capital movements in the first half of 1977. The remarkable improvement

in the balance of payments during the second half of 1977, resulting in a reduction of the current deficit to \$2.5 billion for the year as a whole (compared with \$4.3 billion in 1976), is described in Part III of the Survey.

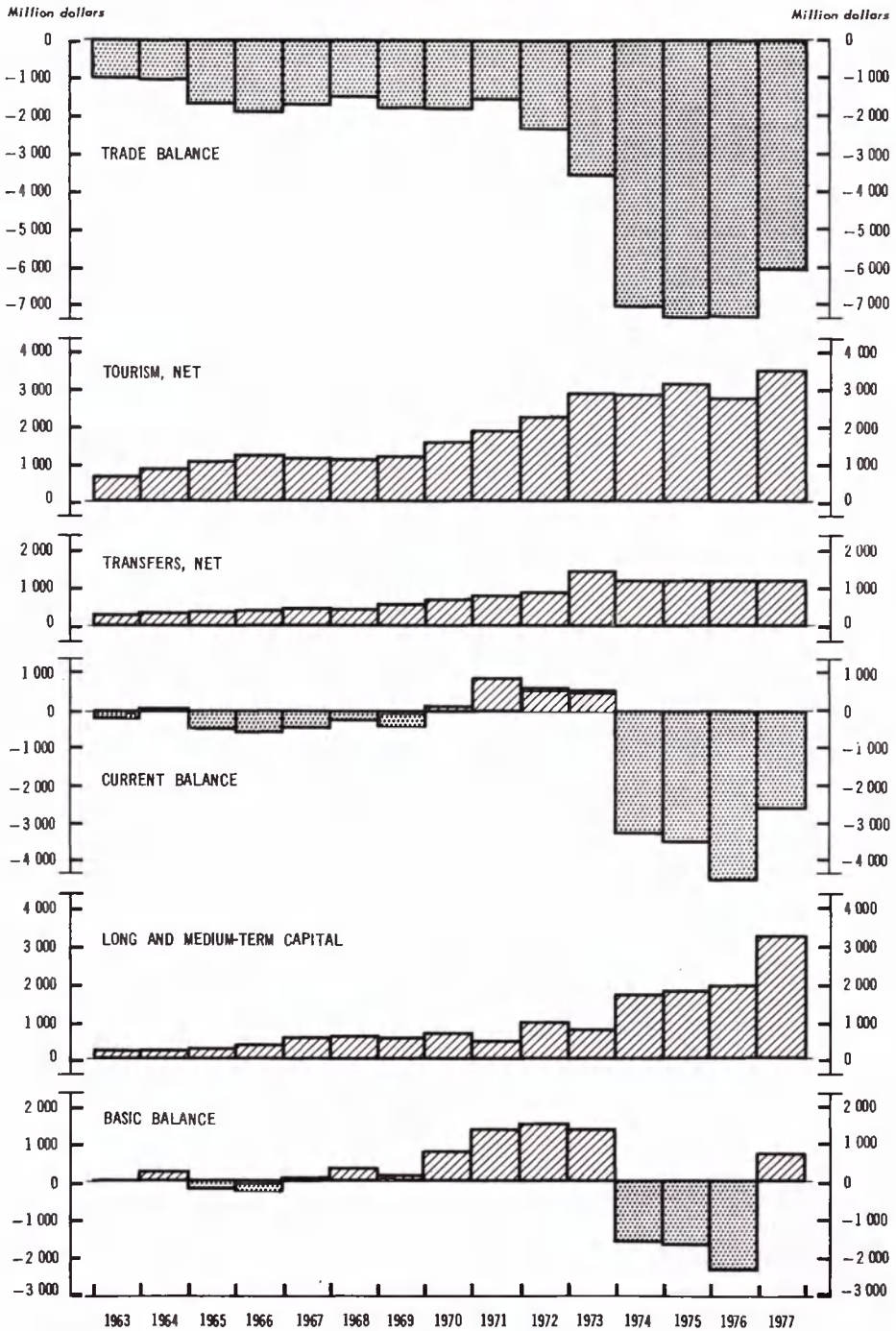
From 1974 to 1976, the considerable deficit on current account could be financed in part by a substantial growth of net inflows of long-term capital, essentially representing increased borrowing by the private and public sectors. A part of the large foreign exchange reserves accumulated up to 1973 was also used, and in 1975 a drawing was made on the IMF oil facility. As a result, the peseta's effective exchange rate held up quite well until the end of 1975. But in 1976 the peseta depreciated significantly and its relative stability in the first half of 1977, despite increasing pressures due to speculative factors, was achieved at the cost of heavy borrowing by the public sector and a considerable loss of reserves. Consequently, in July of last year the authorities decided on a substantial devaluation of the peseta, which was followed in the autumn by a general stabilisation plan that also aimed at restoring internal equilibrium.

Foreign trade

As far as can be judged, and disregarding the very short-term fluctuations described in earlier OECD surveys, volume exports grew during the three years to 1976 at a relatively high rate, though significantly lower than that recorded for the period 1970-1973 (9.5 and 13 per cent per year, on average respectively). Exports continued to rise in the first half of 1977 at a seasonally-adjusted annual rate of about 8 per cent. A deceleration in the growth of export markets for manufactured goods has in fact materialised due to the world recession and the rather modest and hesitant recovery that followed; moreover, the very large gains of market shares achieved in the past have tended to contract. This last trend itself seems due to a number of factors of which: first of all, keener international competition as a result of the slowdown in world trade and the weakening of domestic demand in most of the industrialised countries; secondly, a deterioration in Spain's cost competitiveness, which could not be fully offset by a narrowing of unit profit margins or by exchange rate variations.

Given the commodity breakdown of Spanish exports, there can be no doubt that the emergence of new competitors, mostly non-oil developing countries in Latin America and South-East Asia as well as East European countries, has hindered Spain's further penetration of world markets. Thus, in the case of textile goods, clothing and footwear, the proportion of OECD area imports from Spain has more or less levelled off, whereas it had risen steeply during the second half of the 1960s and the early 1970s, and the share of OECD imports of these products from new competitors has grown appreciably. As regards exports of iron and steel products and ships, Spain's performance on OECD markets has been a good deal better, but it is probable that competition on third markets has become much keener. Furthermore, Spanish industry has not undertaken the restructuring and accelerated redeployment of production that would have enabled it to strengthen its competitive position and adjust better to the changing pattern of world demand. Although declining, the still considerable inflow of foreign direct investment in recent years, strongly concentrated in export-oriented production facilities, has continued to have a favourable impact on Spain's exports. This has been the case, in particular, of projects carried out in the motor vehicle industry. There has also been a shift in the geographical pattern of exports. Sales to oil-producing countries have risen rapidly since 1974 and, although confined to a comparatively small number of products, now account for 11 per cent of Spain's total exports, a slightly higher percentage than for OECD countries as a whole. The proportion of exports to countries with centrally-planned economies is still small, but it too has been increasing and amounted to nearly 3 per cent in 1977.

Diagram 3 Structure of the balance of payments



Sources: Ministry of Trade and Secretariat estimates.

Table 7 Trend of foreign trade in volume
Annual percentage change

| | 1970-73 | 1973-76 | 1974 | 1975 | 1976 | 1977 | 1977 I ¹ | 1977 II ¹ |
|-------------------------------|---------|---------|------|------|------|------|---------------------|----------------------|
| Merchandise exports | | | | | | | | |
| National accounts | 13.3 | 5.9 | .. | .. | 14.0 | 11.5 | .. | .. |
| National Statistics Institute | 16.3 | 8.2 | 7.0 | 3.1 | 14.9 | 12.0 | 16.9 | 7.6 |
| Bank of Spain | 12.9 | 9.2 | 6.1 | 3.8 | 18.2 | .. | 17.4 | .. |
| Ministry of Trade | .. | .. | .. | .. | 13.2 | 13.1 | 13.4 | 12.8 |
| Merchandise imports | | | | | | | | |
| National accounts | 12.0 | 2.9 | 6.0 | -3.1 | 6.0 | -5.3 | .. | .. |
| National Statistics Institute | 11.9 | 4.2 | 3.0 | -0.8 | 10.5 | -6.3 | -4.5 | -8.3 |
| Bank of Spain | 11.6 | 2.8 | 2.7 | -3.2 | 9.1 | .. | -2.7 | .. |
| Ministry of Trade | .. | .. | .. | .. | 5.9 | -5.0 | -1.2 | -8.9 |

1 Compared with corresponding half of previous year.

Sources: National Statistics Institute and Bank of Spain.

Table 8 Trend and structure of OECD area imports
Percentages

| | 1962-64 | 1965-67 | 1968-70 | 1971-73 | 1974-76 |
|--|---------|---------|---------|---------|---------|
| Imports from Spain as a percentage of total OECD area imports | | | | | |
| Textiles (65) | 0.69 | 0.57 | 0.75 | 0.81 | 0.86 |
| Non-metallic mineral articles (66) | 0.27 | 0.22 | 0.38 | 0.73 | 0.97 |
| Iron and steel (67) | 0.42 | 0.30 | 0.51 | 1.24 | 1.32 |
| Metal manufactures (69) | 0.35 | 0.37 | 0.75 | 1.32 | 1.74 |
| Machinery and appliances (719) ¹ | 0.10 | 0.14 | 0.26 | 0.42 | 0.59 |
| Ships and boats (735) | 1.78 | 0.11 | 0.25 | 2.11 | 2.35 |
| Clothing (84) | 0.57 | 0.57 | 0.72 | 1.05 | 1.11 |
| Footwear (85) | 1.34 | 2.70 | 6.64 | 9.81 | 9.84 |
| Miscellaneous manufactured articles (89) | 0.64 | 0.84 | 0.74 | 1.12 | 1.41 |
| Total of products above | 0.51 | 0.46 | 0.73 | 1.24 | 1.43 |
| Total (0 + ... 9) | 0.82 | 0.78 | 0.84 | 1.04 | 0.98 |
| Imports from new competitors as a percentage of total OECD area imports² | | | | | |
| Textiles (65) | 4.75 | 5.79 | 5.97 | 8.16 | 10.06 |
| Non-metallic mineral articles (66) | 6.68 | 13.92 | 12.13 | 6.85 | 9.75 |
| Iron and steel (67) | 6.63 | 6.86 | 6.45 | 6.59 | 6.84 |
| Metal manufactures (69) | 1.72 | 2.39 | 2.99 | 4.29 | 5.65 |
| Machinery and appliances (719) ¹ | 0.54 | 0.70 | 0.88 | 1.29 | 1.74 |
| Ships and boats (735) | 2.79 | 3.54 | 6.78 | 9.22 | 7.25 |
| Clothing (84) | 17.69 | 20.39 | 25.19 | 33.02 | 37.80 |
| Footwear (85) | 10.43 | 11.46 | 11.83 | 18.96 | 26.03 |
| Miscellaneous manufactured articles (89) | 6.92 | 8.30 | 10.97 | 10.96 | 13.76 |
| Total of products above | 5.67 | 7.36 | 8.35 | 9.74 | 11.88 |
| Total (0 + ... 9) | 7.37 | 7.77 | 7.80 | 8.06 | 8.46 |

1 Including machine parts, but excluding electrical machinery and appliances.

2 The new competitors selected are the following: South Africa, Mexico, Brazil, Singapore, South Korea, Formosa, Hong Kong, Yugoslavia, Gibraltar, Malta, Cyprus, USSR, German Democratic Republic, Poland, Czechoslovakia, Hungary, Romania, Bulgaria.

Source: OECD, *Foreign Trade Statistics*.

The growth of merchandise imports in volume, while showing marked fluctuations from one year to another, was on the whole extremely slow from 1974 to 1976, averaging 3 per cent per year. This trend, which was closely linked with the marked slowdown in the growth of activity, was also caused by a decline in import elasticity to well below its average medium-term value¹⁴. Among the factors that may have had a negative influence on the propensity to import, the downward adjustment of stocks probably played a very significant role. It is likely, too, that the pronounced slowdown in gross fixed investment in capital goods was accompanied by a fall-off in major projects with a high import content, which had expanded rapidly up to 1973. Conversely, the drought, which limited the possibilities of hydroelectric energy production, caused a temporary increase in energy imports (18.6 per cent by volume) in 1976. More generally, the Government's policy with regard to energy prices¹⁵ has probably had something to do with the substantial increase in the propensity to import oil products during the last few years. In the first half of 1977, merchandise imports showed a substantial fall by nearly 3 per cent from the corresponding period of 1976 and by about 19 per cent at a seasonally adjusted annual rate, part of it due to a downturn in energy imports.

Although the price/volume breakdown is particularly uncertain, and results differ appreciably according to the statistical series used, it would seem that volume trade had a positive impact on the trade balance during the period under review. This was particularly the case in the first half of 1977, when imports fell as exports rose sharply. But this positive influence was not enough to offset the very pronounced negative effect of the trend in prices. The sharp deterioration in the terms of trade following the flare-up in raw material prices and the fourfold increase in oil prices at the end of 1973 continued, although at a slower pace, until the first half of 1977. In spite of steeply rising costs and the exchange rate movement, the increase in export prices was more moderate, which would suggest that Spanish exporters had to accept a substantial reduction in their profit margins in order to maintain their price competitiveness. In all, despite a sharp contraction relative to the second half of 1976, the trade deficit, which had averaged \$7.3 billion annually during the three years from 1974 to 1976, was still running at a seasonally adjusted annual rate of nearly \$6 billion in the first half of 1977.

Invisibles and current balance

The traditional surplus on invisibles, which had been growing rapidly up to 1973, started to narrow in 1974. The particularly marked reduction that occurred in 1976 became even more pronounced in the first half of 1977, as a result of speculative operations. The reversal of the trend of current invisibles has had a number of causes. First of all, net inflows on account of tourism stabilised at their record level of 1973 of approximately \$2.9 billion. This was due to a steady increase in spending by Spanish tourists abroad, which has now reached significant proportions, and to an appreciable slowdown in growth of earnings

14 Trend of import elasticity:

| | 1965-1970 | 1970-1973 | 1973-1976 |
|-----------------------|-----------|-----------|-----------|
| In relation to | | | |
| GDP | 1.29 | 1.66 | 1.08 |
| Industrial production | 1.09 | 1.14 | 0.97 |
| Total domestic demand | 1.48 | 1.64 | 1.21 |
| Total demand | 1.27 | 1.52 | 1.08 |

15 Except in the case of motor fuel, the rise in energy import prices fed through only very partially to the domestic market.

Table 9 Trade balance: price/volume breakdown
(fob/fob million pesetas)

| Contribution to aggregate change | 1973-74 | 1974-75 | 1975-76 | 1977 I |
|--|----------|---------|---------|--------------------------------|
| | | | | 1976 I at an annual rate |
| | | | | Reduction of deficit = + |
| On the basis of National Statistics | | | | |
| Institute price indices | | | | |
| Volume | 6 368 | 14 812 | -5 702 | 92 311 |
| Terms of trade | -207 117 | -32 384 | -60 502 | -58 790 |
| On the basis of Bank of Spain's | | | | |
| price indices | | | | |
| Volume | 5 103 | 29 155 | 15 968 | 83 082 |
| Terms of trade | -205 852 | -46 727 | -82 172 | -49 561 |
| Aggregate change | -200 749 | -17 572 | -66 204 | 33 521 |

Source: OECD Secretariat.

from foreign tourists. The number of tourists entering Spain¹⁶, which had risen continuously and very rapidly since the beginning of the 1960s to reach an all-time peak of 34.5 million in 1973, levelled off at about 30 million in the three years that followed. The average length of stay was also shorter than in the early 1960s and there was a fall in hotel occupancy rates. The Secretariat has made some very rough calculations based on statistics for the number of nights spent in all categories of accommodation, and these suggest that Spain sustained particularly large losses of tourism market shares in 1976, which may have been mostly due to the relative deterioration in price competitiveness of tourist services. In the first half of 1977 peseta earnings from tourism were about 6 per cent up from a year earlier, whereas the number of tourists increased by 11 per cent. But since the rise in consumer prices over the period was nearly 22 per cent, it is highly probable that the earnings from tourism, as recorded by balance-of-payments statistics based on currency purchases, were considerably underestimated, and that large sums of pesetas were purchased abroad.

Table 10 Tourism performance of Spain¹
Percentage change from previous year

| | 1974 | 1975 | 1976 |
|---|------|------|-------|
| Growth of tourist markets | -5.0 | 6.0 | 0.5 |
| Nights spent in Spain by foreign tourists | -8.5 | 8.5 | -16.0 |
| Loss (-) or gains (+) of market shares | -3.5 | 2.5 | -16.5 |

1 Gains or losses of market shares have been measured by the difference between the percentage change in the recorded number of nights spent in all categories of accommodation in Spain during a given year, and the growth which in theory would have occurred if Spain's share of the tourist flows from ten areas of origin to fourteen European countries of destination had remained constant. The areas of origin are the following: Germany, France, Belgium, United Kingdom, Netherlands, Italy, other OECD European countries and the rest of the world. The countries of destination are Switzerland, Germany, France, Italy, United Kingdom, Austria, Belgium, Netherlands, Denmark, Norway, Spain, Portugal, Greece and Yugoslavia.

Sources: OECD, *Tourism Policy and International Tourism in OECD Member countries, 1975, 1976, 1977*; Secretariat estimates.

16 Including Spaniards resident abroad.

Between 1974 and 1976, net transfers stabilised at about \$1 150 million, compared with the record figure of \$1 420 million in 1973. This was due essentially to the very marked slowdown in emigration, but given the trend of wages and exchange rates in the main countries receiving emigrant workers, it is probable that other factors also had a negative impact (political uncertainties, expectations of a peseta devaluation). This seems notably to have been the case in the first half of 1977, when receipts from private transfers were down by about 15 per cent (in peseta terms) from the corresponding period of 1976. The losses of reserves during the last few years and mounting external indebtedness have resulted in a very steep increase in net outflows on account of investment income, whilst the deficit in respect of technical co-operation costs and royalties has also widened considerably.

The deterioration on the current account during the last few years has also to be looked at in the context of relative levels of activity between Spain and its trading partners. From 1973 to 1976, GDP volume growth was more rapid in Spain (8 per cent over the whole period) than the average for Member countries (4½ per cent), weighted by the structure of Spanish exports. But the OECD area accounts for more than 60 per cent of Spain's total trade, which obviously had an all the more unfavourable impact on the trade balance, in that exports during that period represented no more than 53 per cent of the value of imports¹⁷. Furthermore, if transactions and settlements since 1974 are compared¹⁸, substantial divergences at the trade balance level appear only as from the first half of 1977, which can be explained by an unwinding of leads and lags due to general expectations of a peseta devaluation. As regards invisible transactions, most of which (especially tourism and transfers) are recorded on a settlements basis, it is probable that large capital outflows occurred as from the second half of 1976. In all, the current deficit on a transactions basis may have been running in the first half of 1977 at a seasonally-adjusted annual rate of \$3 billion. However, if the steep fall in oil imports during the period is taken into account, the improvement compared to the second half of 1976 was less marked than the comparison of figures in Table 6 would suggest.

Capital movements and exchange rates

The rising surplus on non-monetary capital movements between 1974 and 1976 made it possible to finance part of the increase in the current deficit. In spite of a downward trend in net inflows from direct investment and purchases of real estate, and despite the growing deficit of portfolio investment, there was a substantial increase in net long-term private capital inflows which partly reflected a rise

17 Because of this difference between the level of exports and that of imports, an identical percentage of change in both results in an increase in the trade deficit.

18 The respective trends of transactions and settlements since 1974 were as follows (unadjusted figures, billion pesetas):

| | 1974 | 1975 | 1976 | 1977 | 1977 I | 1977 II |
|--------------------|------|------|------|------|--------|---------|
| Transactions basis | | | | | | |
| Trade balance | -406 | -424 | -490 | -460 | -219 | -241 |
| Current invisibles | 220 | 224 | 203 | 284 | 60 | 224 |
| Current balance | -186 | -200 | -287 | -176 | -159 | -17 |
| Settlements basis | | | | | | |
| Trade balance | -433 | -415 | -490 | -525 | -292 | -233 |
| Current invisibles | 242 | 240 | 223 | 320 | 67 | 253 |
| Current balance | -191 | -175 | -267 | -205 | -225 | 20 |

in commercial credits, but above all a marked development of enterprises' indebtedness, notably in the form of financial loans. In 1976, some decline in net inflows of private capital was observed, but this trend was more than offset by public sector borrowing. During those three years, short-term capital movements (including errors and omissions) also registered a growing surplus which topped \$1.2 billion in 1976. During the first half of 1977, long-term borrowing by the private sector declined somewhat but public sector borrowing increased substantially. In all, Spain's total gross external indebtedness, most of it medium term, rose on a very large scale, from about \$3.5 billion at the time of the oil crisis to about \$13 billion at the end of 1977, of which nearly \$7.9 billion are either public debt or guaranteed by the Government.

Although substantial, the decline in the official foreign exchange reserves during the period 1974-1976 was under \$2 billion. But massive intervention of the Bank of Spain during the first half of 1977 in response to increased pressure on the exchange rate caused a further loss of \$1.2 billion, which brought the level of net reserves at end-June down to \$3.7 billion. The nominal effective exchange rate of the peseta¹⁹, which had appreciated slightly in 1974, depreciated only fractionally in 1975, with no major fluctuation vis-à-vis the dollar. After a devaluation against the dollar of about 10 per cent in February 1976, the peseta exchange rate continued to edge downwards until January 1977, but then held fairly firm until July, when it was devalued by about 20 per cent against the dollar.

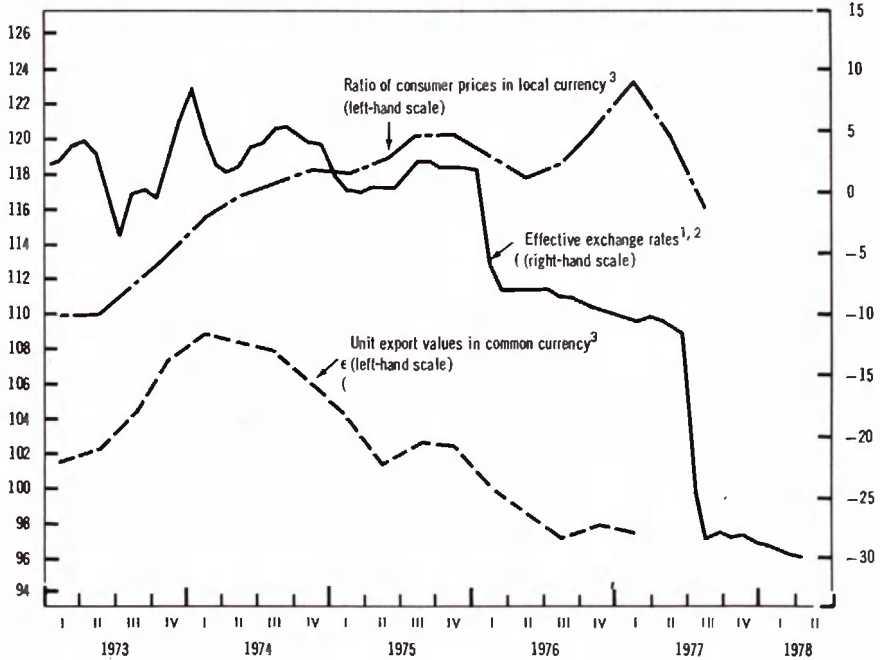
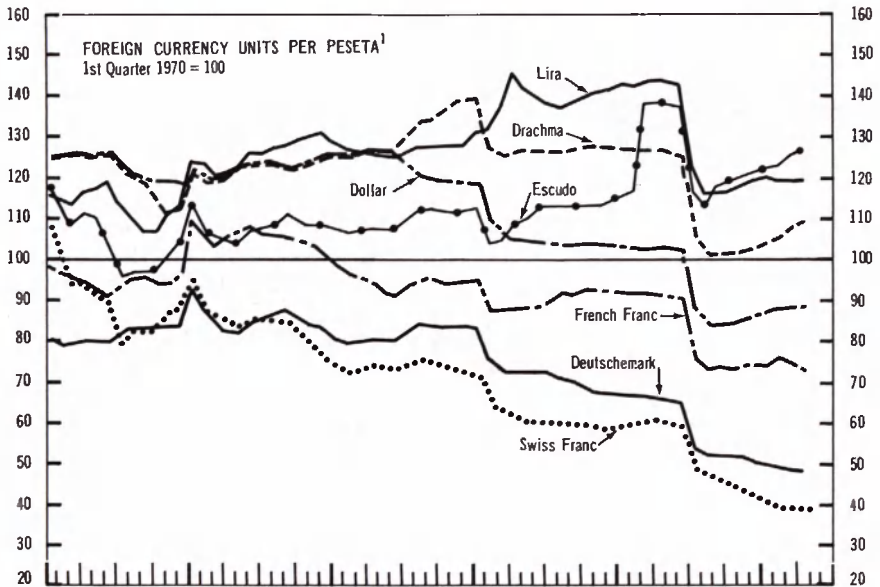
From the outbreak of the oil crisis up to the devaluation in July 1977, the nominal effective depreciation of the peseta was therefore relatively moderate, being of the order of 13.5 per cent²⁰, and much less than that of the currencies of a number of other Member countries which had also experienced a very marked deterioration in their balance-of-payments positions during the period. Given the very substantial rise in prices in Spain, the depreciation of the peseta was also smaller than purchasing power parity would seem to have warranted. Calculated from the trend of consumer prices, the effective real appreciation of the peseta²¹ since the end of 1973 was at about 5 per cent in 1975 and 1976 and reached about 11 per cent in the first half of 1977. Following the July devaluation, the real effective exchange rate fell back to its level of the third quarter of 1973. The trend of relative export prices for manufactured goods between Spain and its main competitors was very different, however. In peseta terms, these prices increased in 1974 and then declined progressively in 1975 and 1976, stabilising in the first half of 1977 at approximately their 1970 level. This suggests that Spanish exporters aligned themselves on world prices by deciding to narrow their unit profit margins, a situation which the July devaluation may have redressed to a large extent.

19 Calculated using a triple weighting in order to take account not only of the bilateral trade flow between Spain and its trading partners but also of competition on third markets.

20 Second quarter of 1977 compared with the fourth quarter of 1973.

21 Index of the nominal effective exchange rate multiplied by the index of relative consumer prices expressed in pesetas.

Diagram 4 Exchange rates of the peseta against selected currencies



- 1 Monthly average of daily figures.
- 2 Percentage change over 1970 Q 1.
- 3 Moving average over three quarters.

Source: OECD Secretariat.

II ECONOMIC POLICY - STABILISATION MEASURES AND STRUCTURAL REFORMS

Despite mounting disequilibria in respect of inflation, the external deficit and unemployment, economic policy up to the summer of 1977 was not very active, the authorities being more concerned with facilitating the political system's transition than with adjusting the economy. After a first phase (1974 and early 1975) in which they tried to neutralise the effects of the oil crisis on the economy, monetary policy was given a moderately restrictive stance, whilst fiscal policy on the whole remained neutral, apparently more on account of the specific characteristics of the Spanish public sector than because of any deliberate intention on the part of the authorities. Then, after the parliamentary election of June 1977, the Spanish authorities, in an attempt to halt the growth of the external deficit and the speculation against the peseta, decided to devalue the currency by 20 per cent in relation to the dollar and to reduce domestic liquidity growth. Finally, in October 1977, an agreement was concluded among the main political parties (Moncloa Pact) for a programme of restraint based on a markedly restrictive monetary policy and a curbing of wage costs, with fiscal policy designed to alleviate the employment effects of the austerity measures without imparting any positive stimulus to activity. Over and above this short-term austerity package, a list of desirable structural reforms was drawn up, with a timetable for their preparation extending to 1979. A number of economic measures are envisaged within this framework such as a fiscal reform, the improved supervision of public expenditure, a town planning and housing policy, a reform of the social security, monetary and financing systems, an agricultural and energy policy and a definition of the status of public enterprises. A reform of the education system is also planned. So far, work on these various reforms seems to be proceeding roughly according to schedule and some have already started to be implemented.

Monetary policy

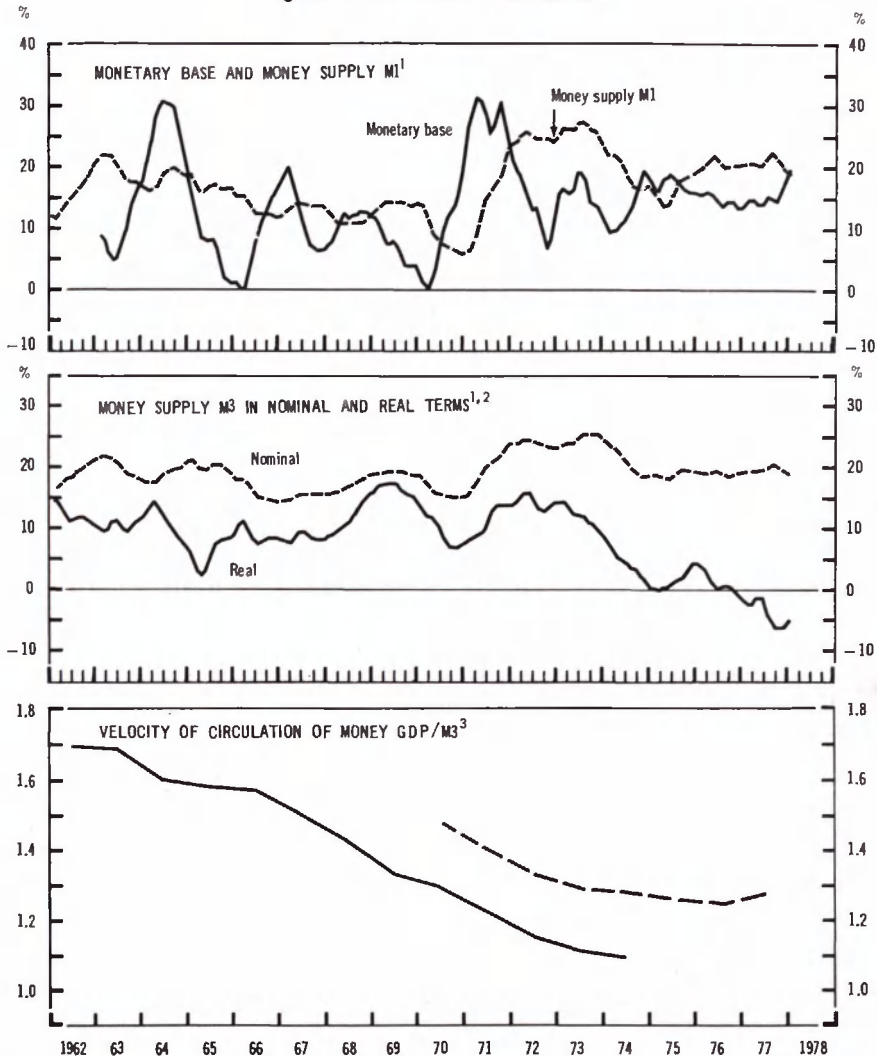
At the beginning of 1977, the monetary authorities set a 21 per cent growth target for the broadly defined money supply (M3), consistent with a 3 per cent volume growth of GDP and a 17 per cent rise in prices. In the first half of the year, this target was met, but with a more rapid value growth of GDP than foreseen. Then, as inflationary pressures mounted and the external deficit widened, it was decided, hand in hand with the peseta's devaluation in July, to reduce the growth rate of M3 to 17 per cent at the end of 1977 and to maintain this rate throughout 1978²². The effective adjustment seems to have been amplified, however, by the adoption of a more cautious credit policy by the banks and by a deterioration in the business climate. Accordingly, M3 growth weakened appreciably; on average it remained below target in the fourth quarter of 1977²³ and declined to less than 10 per cent at an annual rate in January 1978. However, the behaviour of banks and other economic agents seems to have changed and in February 1978 the growth of M3 picked up appreciably.

The main instrument used by the Bank of Spain to regulate the money supply

22 The M3 targets concern the seasonally adjusted series on a moving average base. Furthermore, the Bank of Spain allows itself a 2.5 per cent margin of fluctuation on either side of the target.

23 For the year as a whole, growth of M3 was 19.3 per cent (based on the monthly average of daily figures); given the growth of value GDP (25.5 per cent), this means that, for the first time in many years, the income velocity of money has increased.

Diagram 5 Main monetary aggregates



1 Three-month moving averages, percentage change over corresponding month of previous year.

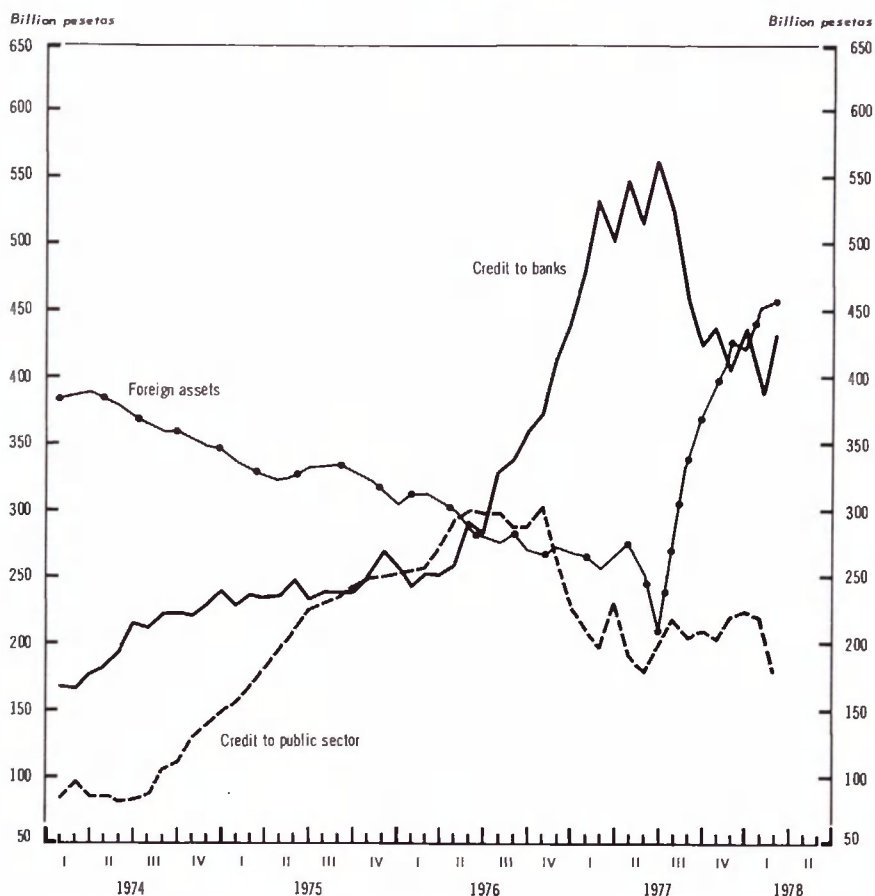
2 Deflated by the consumer price index.

3 Yearly average.

Sources: Bank of Spain annual report 1976; OECD Main Economic Indicators.

was once again the control of bank liquidity²⁴. In the first half of the year, the Bank endeavoured to offset the negative effect on liquidity of the widening

24 The money market, through which Central Bank credit is distributed to the banks, has become increasingly important in liquidity control. This credit, which was equivalent to no more than 10 per cent of rediscount facilities at the beginning of 1976, exceeded them by 40 per cent in July 1977. Similarly, in the second half of the year, the authorities left rediscount facilities virtually unchanged and concentrated almost all of the adjustment on credit to the banks. The procedures for allocating credit for purposes of liquidity control have been somewhat altered with the introduction of an auction system to supplement the earlier system of allocation in proportion to banks' capital.

Diagram 6 Monetary base¹

¹ Seasonally adjusted by the Secretariat.

Source: Bank of Spain, Statistical bulletin.

external deficit and the reduced liquidity requirements of the public sector by increasing short-term credit to the commercial banks and lowering their reserve ratio, in two stages, from 6.25 to 5.5 per cent. In the second half of the year, however, when the balance of payments had a positive effect on liquidity, credit to the banks was cut back very sharply, by nearly 80 per cent at an annual rate between July and October, whilst credit to the public sector remained unchanged. At the same time, expectations in connection with the prospective tax reform caused the public to increase their currency holdings very considerably in the third quarter and again at the beginning of 1978. In all, pressure on bank liquidity was very heavy and the banks' free reserves fell to an all-time low. This prompted the Bank of Spain to re-expand its credit facilities to the banks quite substantially as from the end of November.

After accelerating sharply in the first half of the year, bank credit to the private sector adjusted to the change in monetary policy and the slowdown in deposits caused by the public's increased preference for currency holdings. The rate of credit expansion fell from nearly 29 per cent in the first quarter to about 13 per

cent in the fourth. Despite the injection of liquidity by the Central Bank and the return to a substantial level of excess reserves, the slowdown in bank credit became more marked until January 1978 and was then followed in February by a moderate upturn. It seems that not only has the slackening of domestic demand and the growth of external financing caused demand for credit to weaken²⁵, but also that the banks are much more concerned than in the past about the solvency of borrowers. On the other hand, credit from the savings banks²⁶ continued to grow briskly (+24 per cent) despite a significant slowdown in deposits. Finally, credit from official institutions, which is governed more by administrative decisions than by business trends, increased slightly faster in the second half of the year than in the first. In aggregate, growth of credit to the private sector from all financial intermediaries was 26 per cent at an annual rate in the first half of the year, 16 per cent in the fourth quarter and only 11 per cent in January 1978. Credit to the public sector contracted significantly (-10 per cent on average in 1977), the increase in the budget deficit being partly offset by a reduction in the borrowing requirement of local authorities and public bodies and, above all, financed very largely by borrowing abroad.

The more restrictive stance of monetary policy was accompanied by a rise in interest rates which was accentuated by the introduction of measures to deregulate interest rates at over 12 months and a policy for raising the rates still fixed by the administration. Money market rates registered very considerable fluctuations linked with bank liquidity movements and accentuated by the absence of a secondary market. Call-money rates reached 20 per cent in October, fell back to 2 per cent in February and climbed back to 8 per cent in April. The Bank

Table 11 Monetary indicators
Percentage change from previous period, seasonally adjusted annual rates

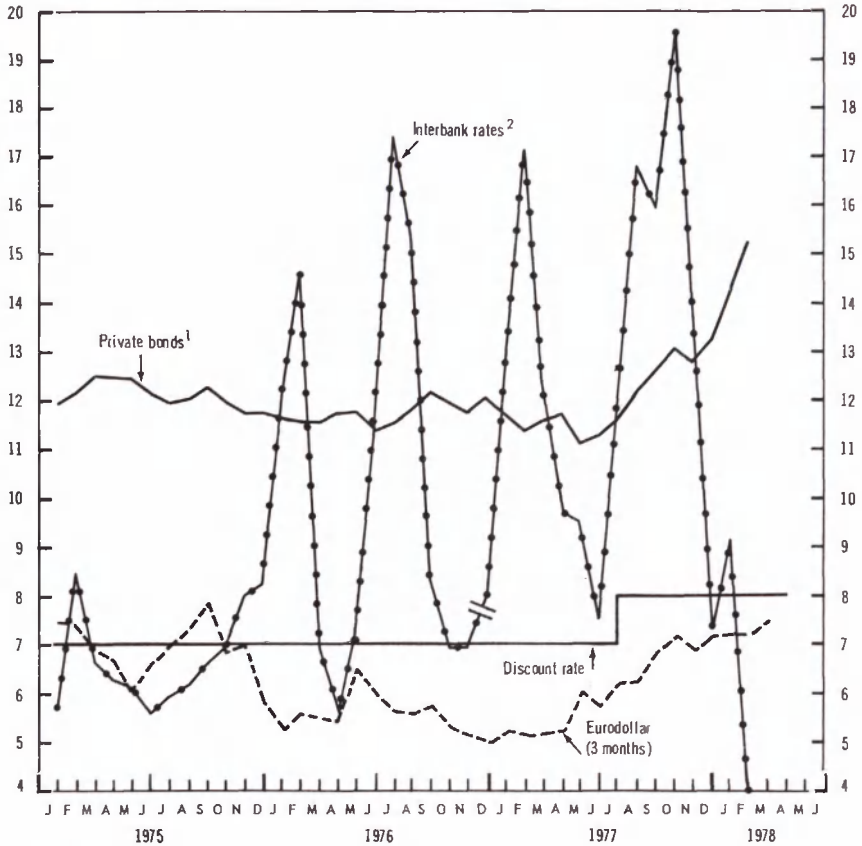
| | Outstanding at 31-12-77 billion of pesetas | 1976 Q4 | 1977 | | | |
|---------------------------------------|---|------------|-----------------------------|------|------|------|
| | | | Q1 | Q2 | Q3 | Q4 |
| Currency in circulation | 777.9 | 18.8 | 14.1 | 24.1 | 47.8 | 22.3 |
| Sight deposits | 2 070.1 | 22.4 | 19.2 | 20.2 | 21.1 | 7.5 |
| Money supply (M1) | 2 848.0 | 21.4 | 17.8 | 21.2 | 27.8 | 11.4 |
| Savings deposits | 2 169.1 | 26.0 | 21.3 | 16.9 | 20.6 | 9.2 |
| Time deposits | 2 420.6 | 15.5 | 18.0 | 20.4 | 18.4 | 21.2 |
| Money supply (M3) | 7 437.7 | 20.7 | 18.9 | 19.7 | 22.4 | 13.9 |
| Credit to private sector | 6 475.6 | 28.4 | 26.2 | 25.1 | 24.3 | 15.9 |
| of which: Banks | 4 793.6 | 27.8 | 26.4 | 26.0 | 24.4 | 12.6 |
| Savings banks | 1 184.5 | 27.4 | 24.5 | 24.5 | 22.0 | 24.2 |
| Official credit | 497.5 | 37.2 | 28.3 | 18.3 | 31.0 | 29.8 |
| | | | As a percentage of deposits | | | |
| Excess reserves of the banking system | | | | | | |
| Banks | | 0.22 | 0.14 | 0.20 | 0.13 | 0.16 |
| Savings banks | | 0.13 | 0.09 | 0.12 | 0.09 | 0.10 |

Source: Bank of Spain.

25 In addition, it would seem that a growing number of enterprises do not pay social security contributions, thereby reducing their borrowing requirements. However, the incidence of this phenomenon is very difficult to gauge.

26 The savings banks draw off one-third of deposits to supply nearly 20 per cent of total credit to the private sector.

Diagram 7 Interest rates



1 Yield.

2 Daily rate.

Sources : Bank of Spain, Statistical bulletin and supplement.

of Spain raised its discount rate from 7 to 8 per cent in July, which had an immediate effect on the related rates for certain transactions of the banks and those of the official credit institutions. The rates applied by those institutions now range from 8 to 11 per cent according to the type and duration of credit. At the same time, bank interest rates on credits and deposits of less than one year were raised by about 1 point²⁷. Furthermore interest rates at over twelve months, which have been progressively liberalised during the last few years, showed a steady upward trend and reached 9 to 9.5 per cent for deposits and 14 to 17 per cent for loans. After falling somewhat in the first half of 1977, the yield on bonds picked up in the second half, rising to over 13 per cent. Finally, compulsory deposits on convertible pesetas accounts have been suppressed as part of the liberalisation measures.

The downtrend in the stock market since 1975 became even more pronounced in 1977. In June, share prices dropped to 1970 levels and then registered a

27 These rates now range between 9 to 10.5 per cent and 3.75 to 6 per cent respectively.

further fall of 25 per cent in the second half-year. Over the whole year, the amount of new listed issues by non-financial companies fell by 26 per cent from the already depressed level of 1976. Bond issues fell by 5 per cent in the first half of the year²⁸, but recovered significantly in the second. Issues of public securities remained on average at their 1976 level, probably because of increased Treasury borrowing abroad, and only issues by the INI (National Industrial Institute) showed a substantial increase. In December 1977 and January 1978 issues of Government bonds showed a marked increase and should amount to 40 billion pesetas in 1978.

Fiscal policy

The initial Central Government budget for 1977, drawn up at the end of 1976, was designed to show a surplus and to have a moderately restrictive effect on activity, with revenue growing more rapidly than expenditure. But a programme of additional expenditure was adopted in February 1977 and the growth estimates for the main budgetary aggregates were revised, with the result that the "amended" budget drawn up by the Spanish experts in October seemed a good deal more expansionary. Compared with the initial forecasts for 1976, growth of expenditure and revenue was put at 48 and 32 per cent respectively, implying a deficit of over 100 billion pesetas, an exceptionally high figure for Spain (1.1 per cent of GDP). However, provisional outturn figures indicate that, while revenue did more or less reach the expected level, expenditure was considerably lower than foreseen in the "amended" budget, due to parliamentary delays which affected approval procedures. Overall, the budget deficit on a cash basis, excluding financial transactions, came to 53 billion pesetas (0.6 per cent of GDP), whereas in 1975 and 1976 the budget was close to equilibrium. These figures for the year as a whole cover two quite different periods, with expenditure accelerating rapidly in the first half of 1977 and slowing down in the second half. Thus, after showing a deficit of 70 billion pesetas during the first six months of the year²⁹, the budget registered a surplus in the second half-year, despite a slowdown in revenue receipts. However, over the year as a whole, the impact on activity is likely to have been limited, as in previous years.

The rapid growth of nominal incomes was accompanied by an acceleration in direct taxation revenue (31 per cent), and notably in tax on earned incomes deducted at source (IRTP) (50 per cent compared with 1976). The rise in indirect taxation revenue was much more moderate (21 per cent), so that its level was well below that expected, in spite of the introduction of a 10 per cent surtax on stamp duties in August 1976, and an exceptional 20 per cent surcharge on import duties on certain goods, with effect from October 1976. In all, the share of direct taxation in total tax revenue continued to increase, attaining 47 per cent in 1977, as against 40 per cent in 1974. IRTP revenue has grown particularly rapidly, rising from 15 per cent of total tax revenue in 1974 to 21 per cent in 1977.

Budget expenditure showed an increase of nearly 30 per cent. The extraordinary appropriations voted in the course of the year reached an exceptionally high level (150 billion pesetas), being equivalent to 16 per cent of the expenditure initially budgeted. According to the information available on disbursement authorisations under the main Central Government budget, current expenditure was up 23.5 per cent in value, with a 22 per cent increase in wages and purchases of goods and services, which represents virtually no change in real terms. The outturns for consumption expenditure in 1977 were thus well below the forecasts, in contrast to what

28 Compared with the first six months of 1976.

29 This swing, partly due to seasonal factors that are difficult to isolate, was exceptionally pronounced.

Table 12 Central government transactions
a) BUDGET ACCOUNTS AND TREASURY OPERATIONS

| | 1975 | 1976 | 1977 | 1975-76 | 1976-77 |
|---|-----------------|--------|---------|-------------------|---------|
| | Billion pesetas | | | Percentage change | |
| I Budgetary operations | | | | | |
| 1 Revenue ¹ | 678.3 | 807.7 | 1 024.3 | 19.1 | 26.8 |
| 1.1 Direct taxes | 246.4 | 315.1 | 414.3 | 27.9 | 31.5 |
| 1.2 Indirect taxes | 327.0 | 389.5 | 472.8 | 19.1 | 21.4 |
| 1.3 Other revenue | 104.9 | 103.1 | 137.2 | -1.7 | 33.1 |
| 2 Expenditure ¹ | 680.0 | 815.3 | 1 059.3 | 19.9 | 29.9 |
| 3 Budget balance | -1.7 | -7.6 | -35.0 | | |
| II Extra-budgetary operations | | | | | |
| 4 Revenue | 24.7 | 88.8 | 103.2 | 259.5 | 16.2 |
| 4.1 Annex budget | 14.9 | 46.4 | 53.9 | | |
| 4.2 Local authorities | 9.8 | 42.4 | 49.3 | | |
| 5 Expenditure | 40.1 | 98.8 | 115.9 | 146.4 | 17.3 |
| 5.1 Annex budget | 14.9 | 47.4 | 53.8 | | |
| 5.2 "Seccion Apendice" | 14.5 | 7.1 | 17.3 | | |
| 5.3 Local authorities | 10.7 | 44.3 | 44.8 | | |
| 6 Other net revenue (+) and expenditure (-) | 7.4 | 45.2 | -6.0 | | |
| 7 Extra-budgetary balance | -8.0 | 35.2 | -18.6 | | |
| III Total balance | -9.7 | 27.6 | -53.6 | | |
| IV Borrowing (+) and lending (-) | | | | | |
| 8 Bank of Spain ² | 60.3 | -56.8 | 16.0 | | |
| 9 Treasury issues of specie | — | — | — | | |
| 10 Change in financial assets | -7.9 | -7.8 | -18.6 | | |
| 11 Loans from abroad | 2.8 | 35.0 | 89.7 | | |
| 12 Treasury bonds ("cedulas") | 51.8 | 117.1 | 96.5 | | |
| 13 Less: Transfers to official lending institutions | -97.3 | -115.1 | -150.0 | | |
| 14 Public debt issue | — | — | 20.0 | | |

1 Excluding financial transactions.

2 Excluding autonomous bodies.

Source: Ministry of Finance.

occurred in 1976, when outturns and forecasts were very similar. The growth of capital expenditure was much more rapid (47 per cent) owing to a steep rise (65 per cent) in capital transfers, especially to public enterprises. The budget shortfall, to which transfers to the official lending institutions and cash advances to certain bodies like the FORPPA³⁰ or the INI must be added, was financed by heavy recourse to foreign borrowing (\$1.2 billion). Issues of special Treasury paper placed with the banking system ("cedulas") were substantially down on 1976 and only covered part of the transfers to the official lending institutions. Finally, Central Government indebtedness to the Bank of Spain increased slightly, whereas in 1976, Central Government had exercised a decidedly restrictive influence on liquidity creation.

Estimates of public sector operations on a national accounts basis are not yet available for 1977. However, according to provisional estimates of the Ministry of Finance, the public sector as a whole might have had an expansionary impact on activity, especially as regards the current account. Current savings

30 Fund for the orientation and regulation of agricultural products.

Table 12 Central government transactions
b) INITIAL FORECASTS OF BUDGET REVENUE AND EXPENDITURE

| | 1976 | 1977 ¹ | 1978 | 76-77 | 77-78 |
|---------------------------------|------------------|-------------------|---------|-------------------|-------|
| | Billions pesetas | | | Percentage change | |
| Revenue² | | | | | |
| Direct taxes | 287.5 | 406.7 | 567.2 | 41.5 | 38.4 |
| Indirect taxes | 394.7 | 475.3 | 590.2 | 20.4 | 24.2 |
| Total taxes | 682.2 | 882.0 | 1 157.4 | 29.3 | 31.2 |
| Other revenue | 101.2 | 150.0 | 203.7 | 48.2 | 35.8 |
| Total revenue | 783.4 | 1 032.0 | 1 361.1 | 31.7 | 31.9 |
| Expenditure² | | | | | |
| Wages and salaries | 343.4 | 503.0 | 610.4 | 46.5 | 21.4 |
| Purchases of goods and services | 49.7 | 61.8 | 77.7 | 24.3 | 25.7 |
| Subsidies and transfers | 183.4 | 299.7 | 397.2 | 63.4 | 32.5 |
| Interest on public debt | 8.6 | 11.8 | 19.9 | 37.2 | 68.6 |
| Total current expenditure | 585.1 | 876.3 | 1 105.2 | 49.8 | 26.1 |
| Direct investment | 87.4 | 116.3 | 132.5 | 33.1 | 13.9 |
| Capital transfers | 93.9 | 143.6 | 170.4 | 52.9 | 18.7 |
| Total capital expenditure | 181.3 | 259.9 | 302.9 | 43.4 | 16.5 |
| Total expenditure | 766.3 | 1 136.2 | 1 408.1 | 48.3 | 23.9 |
| Balance | +17.1 | -104.2 | -47.0 | | |

1 "Amended" budget.

2 Excluding financial transactions.

Source: Ministry of Finance.

as a percentage of GDP declined from 2.8 per cent in 1976 to 1.8 per cent in 1977, whereas the borrowing requirement amounted to 1 per cent of GDP, after being virtually nil in 1976. This development appears to be entirely attributable to central government operations which displayed a deficit of over 100 billion pesetas in 1977, against a substantial surplus in 1976. On the other hand, the deficit of the local administrations was strongly reduced and the social security institutions accounts posted a surplus, largely due to a marked increase in contributions (of the order of 50 per cent).

Fiscal policy for 1978 has been assigned three aims: to exercise a slightly restrictive demand impact, to restrain wage costs by holding down social security contributions and to lessen the effects of the stabilisation measures on employment. In line with the overall options laid down in the Moncloa Pact, the budgeted increase in revenue (32 per cent compared with the "amended" forecasts for 1977) is a good deal more rapid than the increase in expenditure (24 per cent). It should be pointed out, however, that in comparison with the provisional outturns for 1977, the growth rate for both expenditure and revenue is likely to be of the order of 30 per cent. The various fiscal measures will probably increase the tax burden by about 1 per cent of GDP, with revenue from direct taxation showing especially rapid growth so that it should, for the first time, reach the same level as indirect tax revenue. In this regard, it was decided, under the "emergency fiscal measures", to introduce an exceptional IRTP surtax on incomes in excess of 750 000 pesetas, to increase taxes on luxury goods and to create an exceptional tax on the wealth of individuals. Wealth tax liability starts at 4 million pesetas³¹, with a progressive tax rate ranging from 0.2 to 2 per cent for taxable wealth in excess of 2.5 billion pesetas. The combined effect of these various measures may

31 With abatements according to family status.

Table 13 Public sector on a national accounts basis
Initial forecasts

| | 1976 | 1977 ¹ | 1978 | 76-77 | 77-78 |
|-------------------------------|------------------|-------------------|---------|-------------------|-------|
| | Billions pesetas | | | Percentage change | |
| Current revenue | 1 518.0 | 2 146.8 | 2 531.3 | 41.4 | 17.9 |
| of which: Indirect taxes | 454.9 | 543.9 | 595.5 | 19.6 | 9.5 |
| Direct taxes | 327.7 | 453.0 | 541.2 | 38.2 | 19.5 |
| Social security contributions | 604.1 | 958.0 | 1 131.6 | 58.6 | 18.1 |
| Capital revenue ² | 37.2 | 43.2 | 169.5 | 16.1 | 292.4 |
| Current expenditure | 1 348.4 | 1 957.5 | 2 405.4 | 45.2 | 22.9 |
| of which: Goods and services | 266.0 | 334.4 | 408.5 | 25.7 | 22.2 |
| Wages and salaries | 534.5 | 764.0 | 922.8 | 42.9 | 20.8 |
| Welfare benefits | 413.2 | 613.4 | 806.6 | 48.5 | 31.5 |
| Current transfers | 76.0 | 124.6 | 145.5 | 63.9 | 16.8 |
| Other | 58.7 | 121.1 | 122.0 | 106.3 | — |
| Capital expenditure | 204.9 | 295.0 | 370.3 | 44.0 | 25.5 |
| of which: Direct investment | 152.3 | 204.4 | 271.1 | 34.2 | 32.6 |
| Capital transfers | 52.6 | 90.6 | 99.2 | 72.2 | 9.5 |
| Current balance | 169.6 | 189.3 | 125.9 | | |
| Total balance | 1.9 | -62.5 | -74.9 | | |

1 Amended budget.

2 Excluding financial transactions.

Source: Ministry of Finance.

be to increase revenue in 1978 by some 30 billion pesetas. Finally, in order to obtain more information on taxable incomes, an amnesty has been granted to persons regularising their situation on incomes earned in 1976, and on the whole, additional revenue might be of the order of 50 billion pesetas³².

As regards expenditure, Central Government consumption is budgeted to increase by 22 per cent. The rapid growth of transfers is mainly the result of the Central Government's contribution to social security. Lastly, capital expenditure is budgeted to rise a good deal slower than prices (14 per cent for direct investment and 19 per cent for transfers). But provision has been made for a short-term intervention fund of 40 billion pesetas for schoolbuilding. If this fund is actually used, capital expenditure will increase by 32 per cent. The deficit is estimated at 47 billion pesetas, excluding the short-term intervention fund, the authorised maximum for the budget deficit having been set at 73 billion pesetas under the Moncloa agreements. The shortfall would be financed mainly, as in 1977, by external borrowing up to 70 billion pesetas (\$830 million) and, as regards the short-term intervention fund, by a 20 billion pesetas public debt issue, recourse to the Bank of Spain being kept very limited. However, certain items of expenditure are probably underestimated. It is likely that, given the present difficulties in a number of public and private enterprises (the RENFE³³, the iron and steel industry and shipyards) the government will come under pressure to increase public transfers. Similarly, the budgeted subsidies to FORPA only cover part of its borrowing requirement. Given that the Spanish authorities have pledged themselves to limit recourse to "supplementary appropriations" to 1.5 per cent

32 The Spanish national railway company.

33 Furthermore, tax evasion has become a criminal offence and banks' secrecy rules have been waived in the case of fiscal inspection.

of the expenditure allowed for in the budget, this additional expenditure might have to be financed directly by the banking system.

Linked with the Central Government budget and almost of the same size overall, the Social Security budget was voted in Parliament for the first time. Growth of transfers is expected to remain rapid (30 per cent) as a result of increased pensions and enlarged unemployment insurance cover. But the modest budgeted growth in purchases of goods and services and the increase in Central Government transfers should enable the Social Security account to be close to equilibrium³⁴. Since the reform decided on in 1973, social security contributions have been increasing at a very much faster rate, overtaking wage growth and contributing significantly to the increase in wage costs. Thus, the share of social security contributions in the total wage bill has gone up from 16.3 per cent in 1970 to 19.5 per cent in 1976 and 20.6 per cent in 1977³⁵. In order to slow down this trend, it was decided that social security contributions would not be allowed to increase by more than 18 per cent in 1978³⁶, whereas the ceiling on total wage growth was set at 22 per cent. The resulting loss of social security revenue will be offset by a Central Government transfer. Broadly, the Spanish authorities intend to step up budget provisions for social security, which are currently among the lowest in OECD countries (4.3 per cent in 1975), to 8.2 per cent in 1978 and 20 per cent in 1983. As regards the unemployment problem, the Central Government is to contribute 60 billion pesetas to the Unemployment Insurance Fund so that its cover can be extended. Furthermore, reductions in social security contributions (—50 per cent) will be applied to earnings in temporary employment of persons on unemployment benefit and to new jobs of a maximum duration of two years for young first-job seekers. Tax rebates may also be given under certain conditions.

For the public sector as a whole, the forecasts on a national accounts basis are for a deficit of 75 billion pesetas (or about 0.8 per cent of GDP). Revenue is budgeted to increase by 24 per cent, while public consumption is expected to go up by 21.2 per cent in value (compared with the "amended" forecasts for 1977) and by about 2 per cent in volume terms, which would be the lowest rate of growth recorded since the beginning of the 1960s. Social benefits and especially subsidies, should slow down considerably, compared with 1977. Lastly, direct investment should advance at a brisk pace, whereas the increase in capital transfers should be less than 10 per cent. Generally speaking, however, in view of the differences between forecasts and outturns in 1977, it is difficult to assess accurately what impact the public sector will have on activity in 1978.

Prices and wages policy

The third part of the stabilisation programme is built around a prices and wages policy. According to the Moncloa agreements, the purchasing power of wages should remain flat in 1978 with a maximum year-on-year increase in

34 Provided that non-payment of contributions by employers, as was observed in 1977, does not become too large-scale.

35 In this regard, Spain occupies a roughly half-way position among OECD countries. Thus, the proportion of social security contributions in the total wage bill in 1976 was 29.4 per cent in Italy, 29.2 per cent in France, 25.1 per cent in Germany, 14.7 per cent in Switzerland, 11.9 per cent in the United States and 9.8 per cent in the United Kingdom.

36 It is planned to keep within this rate of increase by introducing a standard rate of contribution of 34.3 per cent for both basic and additional wages, the previous rates for which were 44.7 per cent and 27.5 per cent respectively, and by raising the maximum amount of the additional wage to 250 per cent of the basic wage. The aggregate change in social security contributions is, therefore, dependent on the structure of wages, about which there is little information available.

nominal wages of 20 per cent, including social security contributions, and a maximum increase of 22 per cent in total wages, including wage drift. Half the increase in the wage bill is to be distributed so as to give the lowest wage groups an increase in purchasing power. The wage norm is mandatory for public administration, enterprises in the public sector and enterprises receiving government subsidies. For the private sector it is only indicative, but government aid, whether fiscal or financial, will be withdrawn if the ceiling is exceeded. In addition, legislation on layoffs, which is currently very restrictive, will be made more flexible, and employers will be allowed to lay off up to 5 per cent of their workforce. However, a safeguard clause was inserted in case the increase in prices from December 1977 to June 1978 were to exceed 11.5 per cent. It should be remembered in this connection that when the Moncloa Pact was negotiated the authorities expected price increases to reach 30 per cent in the course of 1977. Lastly, in April 1978 the minimum monthly wage was raised to 16 400 pesetas³⁷, or 9 per cent above the previous figure set in October 1977 and 22 per cent up from the corresponding period of the previous year. The minimum wage affects only about 600 000 persons. But it is also the basis for calculating social security contributions and, in the absence of offsetting measures, the result of it being raised should be an increase in wage costs.

Regarding price policy, the objective is to bring down the increase in prices in the course of 1978 to 15 per cent, as against 26.4 per cent in 1977 and 19.8 per cent in 1976. The number of products for which price increases have to be approved by the government has been reduced, but, in exchange, the authorities are trying to encourage voluntary restraint by means of stabilisation agreements with enterprises. It is difficult to assess how the increases decided in March 1978 for the main agricultural products fit in with this policy. The increases (nearly 17 per cent on average) are among the highest recorded in recent years, but the prices involved are producer prices and, in some cases, intervention prices and not market prices. Lastly, there is still considerable uncertainty as to the policy to be applied in respect of public utility charges and administered prices³⁸, especially energy prices, which are substantially below those in most other OECD countries. Relative prices of oil products even declined in 1977 compared with the average for other goods and services.

Reform of the financial system

Of the various structural measures included in the Moncloa Pact, the most advanced are the reforms of the monetary, financial and fiscal systems. The reform of the monetary and financing systems, which was first announced in 1974, is intended to strengthen the role of market forces by dismantling the present complex system of government intervention and easing institutional rigidities. The first area of action concerns the regulation of the monetary base. In order to broaden the Central Bank's control over bank liquidity, it was decided in July 1977 to open the money market to savings banks, the intention being that from February 1978 onwards these should receive 30 per cent of the adjustment credits provided by the Bank of Spain, and should raise their reserve ratios progressively up to the level of commercial banks. From now on, savings banks are also authorised to conduct discount transactions. Furthermore, the techniques for allocating Central bank credit on the money market have been modified. The previous system of a fixed-rate distribution proportionately to banks' own capital

37 \$200 at current exchange rates.

38 In April, rail fares were raised by 22 per cent and tobacco prices by 30 to 50 per cent, according to product.

has been supplemented by a system of auction at a variable rate, which should give a better indication of pressures on bank liquidity. This set of measures should make it easier for the Bank of Spain to control the commercial and savings banks but, in view of the present timetable, some of them are unlikely to have any major impact before the end of 1978.

As regards the distribution of credit, the reform should make it possible to ease government controls considerably and to reduce the share of subsidised credits. The commercial and savings banks are required to purchase government securities³⁹ and grant subsidised credit to certain sectors (agriculture, construction, exports) in order to respect their "investment ratio" which, at the end of 1976, was set at 24.8 and 70 per cent of deposits of commercial and savings banks respectively⁴⁰. Further, the loans made by the official lending institutions at preferential interest rates are also reserved for certain sectors. Overall, a very considerable proportion of credit is allocated to a large extent independently of the operation of market rules. This is why it was decided to reduce the investment ratio of commercial and savings banks progressively. The investment ratio of saving banks was lowered to 63 per cent in July 1977 and should gradually be brought down to 35 per cent in 1983. The commercial banks' ratio should also decline until it reaches 21 per cent in 1980. Furthermore, the eligibility to some operations which come under the investment ratio have become automatic and not discretionary, and the Investment Committee has been suppressed⁴¹. In addition, the authorities intend gradually to oblige the official lending institutions to obtain 30 per cent of their financing on the market, and at the same time, to align their interest rates with market rates in respect of one-third of their lending. Lastly, so as to strengthen competition, foreign banks will soon be authorised to operate in Spain. At the same time, as stated earlier, interest rates have been progressively liberalised⁴², the most recent measure relating to rates at over twelve months. Rates on subsidised credit have also been substantially raised in order to reduce the gap between them and the market rate. Nevertheless, a certain selectivity is maintained, as regards both the rates and the distribution of credit. For one thing, the official credit institutions will have to lend to small businesses at preferential rates. For another, 50 per cent of bond purchases by savings banks and 75 per cent of their credit will have to be allocated to local administrations and enterprises. Lastly, it is also planned to modify the composition of the governing body of the Bank of Spain and the statutes of the official lending institutions and the savings banks and to create a mortgage market.

Reform of the tax system

The reform of the tax system has the dual objective of efficiency and equity. In its present form, Spanish taxation is markedly regressive. More than half of narrowly defined tax revenue derives from indirect taxation. So far as direct taxes are concerned, the share of tax on earned income of individuals⁴³, has increased very rapidly during the 1970s, and in 1977 accounted for 21 per cent of tax revenue. In addition, social security contributions (which represent 45 per cent of the public sector's total current revenue) probably help to aggravate this effect

39 These securities are for the most part used to finance the official lending institutions.

40 At the end of 1976, these operations amounted respectively to 17 and 62 per cent of total assets of commercial and savings banks.

41 This body used to decide which financial assets were to be included in the investment ratio.

42 It should, however, be pointed out that banks used partly to compensate for fixed rates by sometimes charging very high commissions.

43 The elasticity of direct taxes on households is relatively high, whereas that for corporate tax is one of the lowest among OECD countries.

inasmuch as there is a ceiling on wages liable for contributions. Furthermore, tax avoidance seems to be substantial, although it is impossible to gauge it quantitatively. Finally, the elasticity of taxes in relation to GDP is relatively low⁴⁴, below the average of OECD countries, and tax pressure, although increasing appreciably, is still not very high, the average for 1974-76 being 20.7 per cent against 33.9 per cent for the OECD area as a whole.

The government plans to remodel gradually and completely⁴⁵ the system of direct and indirect taxation. Direct taxation of households will consist of a single, progressive tax on the income of individuals, a tax on corporate income, a tax on capital and a tax on inherited wealth. The income tax rates, which are due to take effect in 1979, will be calculated in such a way as to ensure that the total amount of tax does not exceed 40 per cent of taxable income⁴⁶. In addition, a bill presented to Parliament provides for the introduction of a value added tax at a standard rate of 10 per cent (with a reduced rate of 5 per cent and a top rate of 30 per cent). Finally, the first draft of the reform of the company tax provides that the rate will be 18 per cent for savings banks and 33 per cent for joint stock companies.

III LATEST TRENDS AND SHORT-TERM PROSPECTS

Improvement in the external account

The improvement in the balance-of-payments situation is undoubtedly the most tangible result obtained since the cyclical adjustment programme was introduced. On a transactions basis, seasonally adjusted and partially adjusted for leads and lags, the current deficit was reduced to an actual rate of about \$1 billion in the second half of 1977, against \$1.5 billion during the first half of the year. Not seasonally adjusted the balance was close to equilibrium and, on a settlements basis, it showed a small surplus, whereas the deficit in the second half of 1976 had been more than \$2 billion. The trade deficit stabilised because of the virtually flat trend of exports and imports, while net current invisibles receipts started to increase appreciably. The currency's devaluation had in fact a very favourable impact on net earnings from tourism. Compared with the corresponding period of 1976, the number of foreign tourists in Spain went up by about 16 per cent during the second half of 1977, but their expenditure increased (in US dollar terms) by nearly 50 per cent. This figure further attests to the existence of disguised capital movements mentioned in Part I of the Survey—outflows in 1976 and during the first six months of 1977, and inflows during the second half of 1977. Over the whole of 1977 these movements probably balanced out to quite a large extent. In addition, the number of Spaniards going abroad slowed down markedly. Net inflows from private transfers picked up strongly (+43 per cent compared with the second half of 1976). In all, for the year as a whole, the current account deficit was brought down to \$2.5 billion, a very substantial reduction from the record figure of 1976 (\$4.3 billion). In spite of a large increase in the oil deficit, the trend of trade

44 A proportional tax on wages deducted at source, with two minimum deductible income levels.

45 The ceiling for income tax plus wealth tax is 50 per cent.

46 According to the bills presented to Parliament, fiscal reform should begin in 1979 with the exception of the value-added tax, the timetable for which has not yet been specified.

during the first two months of 1978 was favourable. The export/import ratio fob-cif was 65.2 per cent, against 60.8 per cent in the corresponding period of 1977. On a settlements basis, the current balance for the period January-February showed a slight surplus of \$6 million.

Net inflows of private capital also showed a substantial increase in the second half of 1977, both in respect of direct investment and of real estate purchases and portfolio investment. The peseta was subjected to upward pressures but the exchange rate, both against the dollar and in effective terms, hardly moved from August to December, and the Bank of Spain's interventions resulted in very rapid rebuilding of the net official foreign exchange reserves. At the end of 1977, these amounted to \$6.1 billion, about the same level as in 1974. At end-March, they had risen to \$7 billion, a figure comparable with the public sector or government-guaranteed debt, which was \$8 billion last December. At the end of March, the effective exchange rate of the peseta was the same as immediately following the currency's devaluation in July 1977.

Easing of inflationary pressures

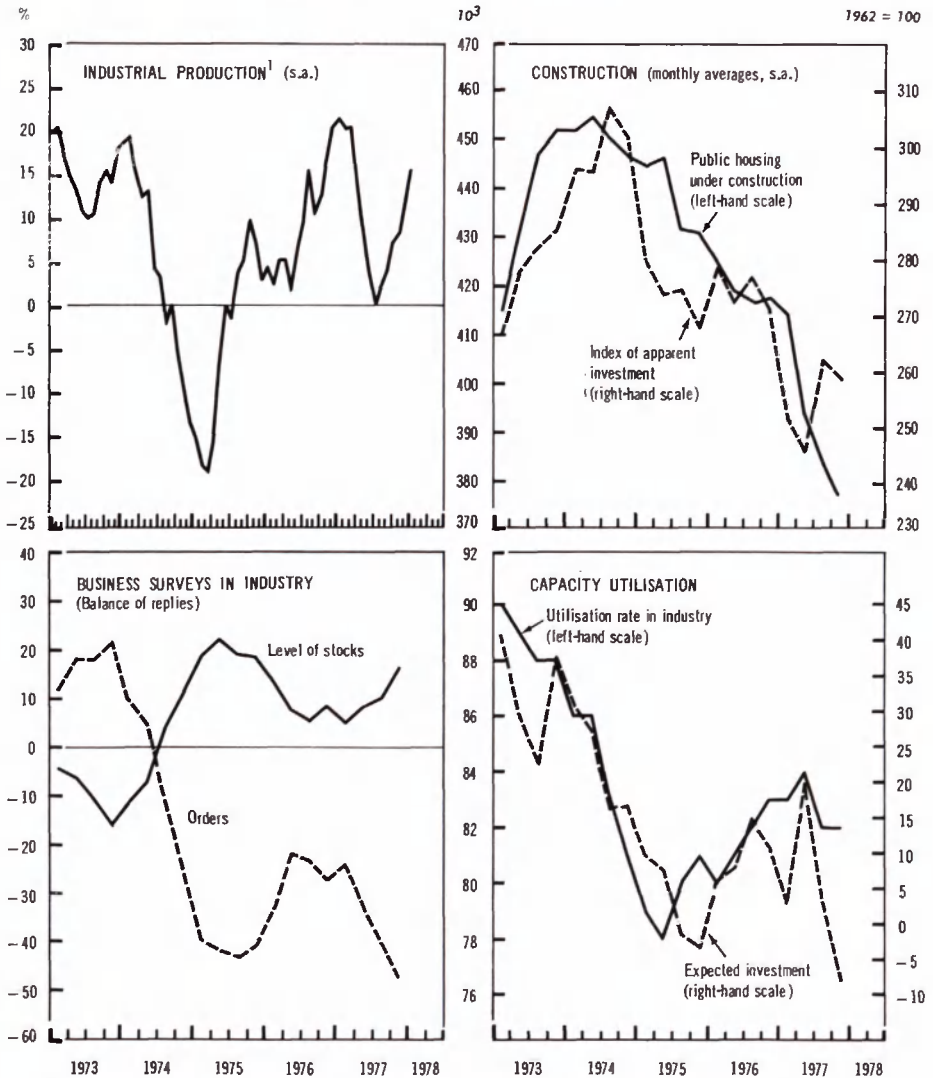
The upward movement of consumer prices has recently slowed considerably. During the six months to February 1978, the rate of increase came down to under 15 per cent, mainly owing to the particularly favourable trend of food prices in the fourth quarter of last year. In the first two months of 1978, the rise was 2.3 per cent, but the beginning of the year tends to be a seasonally favourable period. A process of deceleration has probably begun, but it is not easy to assess the underlying trend. As regards wages, there are no recent statistics, but some qualitative information is available in connexion with the recently renewed collective bargaining agreements. The number of collective contracts signed at the beginning of the year was small, with the trade union elections—the first since trade unions were legalised—causing delays in negotiations. But it seems that the agreements concluded so far are consistent, on the whole, with the norm laid down by the Moncloa pact (a 20 per cent increase in basic wages).

Output and demand

While progress has been achieved on the balance-of-payments and prices front, the deterioration in the business climate has become more pronounced. However, the trend seems more marked at the level of business surveys than as regards observed economic developments. Orders in industry had fallen to an all-time low at the end of 1977 and stocks built up rapidly to attain the same level as at the beginning of 1975. Production prospects seem nonetheless to indicate that the deterioration came to a halt at the beginning of 1978 and contracts in the construction sector have picked up somewhat. The index of industrial production began to turn up slightly in the fourth quarter; but this is not a reliable indicator and the moderate decline in the average rate of capacity utilisation from 84 per cent in the first half of the year to 82 per cent at the end of the year (seasonally adjusted) seems more indicative of the trend of industrial production. On the other hand, activity probably continued to advance in the service sector during the year, mainly because of the increase in tourism. The available indicators suggest, however, that domestic demand fell back appreciably in the second half of 1977. Department store sales in volume were down by about 5 per cent, at an annual rate, from the first half of the year and new car registrations by nearly 15 per cent. The index of apparent investment in machinery and equipment, which had already dropped appreciably at the beginning of the year, fell on

average more steeply in the second half. Only the index of construction expenditure showed a recovery, though remaining well below its level of a year earlier. Lastly, the trend of imports and stocks of finished goods suggest that the contribution of inventories to growth may have been marginally positive, probably because of involuntary stockbuilding. Overall, the decrease in domestic demand may have been of the order of 2.5 per cent, at an annual rate, giving a flat trend for the year as a whole, compared with the average of 1976. As stated earlier, this decrease was roughly offset by the positive contribution of the external sector.

Diagram 8 Indicators of economic activity



¹ Three-month moving averages, half-yearly changes at an annual rate.

Sources: Bank of Spain, Statistical Bulletin; Ministry of Industry Business Surveys; OECD Main Economic Indicators.

Short-term prospects

On the basis of present economic policy, domestic demand might show a slight decline in 1978. The downturn that occurred in the second half of 1977 seems likely to continue in the first half of this year, but there might be some rebound in the second half, mainly as a result of stronger private consumption. In the absence of precise information on the renewal of the collective bargaining agreements, it has been assumed that wages will increase year-on-year at roughly the same rate as prices. Given the carry-over of prices from 1977 into 1978, this assumption would mean a fall in the purchasing power of wages during the first six months of the year (compared with the corresponding period of the previous year) followed by an improvement during the second six months, due to the progressive deceleration in the rate of inflation. Transfer payments should continue to show a brisk growth owing, in particular, to the raising of pensions at the beginning of the year; but tax pressure could become somewhat stronger. Assuming that dependent employment will decline slightly and the rate of saving remains unchanged, private consumption in volume terms might stagnate in 1978 at the same annual average level as a year earlier. This forecast which is closely tied to the assumption made concerning the trend of real wages is, however, clouded by considerable uncertainty. In recent years, public consumption has been one of the key factors in boosting activity. The official growth target set for this aggregate for 1978 has been brought down to 2 per cent in volume. However, in view of the particularly marked inertia in this area, it seems unlikely that the slowdown will be so pronounced. The Secretariat has, therefore, assumed a growth figure of $3\frac{1}{2}$ per cent.

Gross fixed capital formation should again decline. But assuming that the contingency budget ("Fonds d'action conjoncturel") is brought into use, public construction programmes might offset the weakness of private sector demand and total investment in construction might be flat on the average in 1978. Productive investment in equipment, on the other hand, should continue to decline. It is unlikely, in view of the very considerable difficulties in certain sectors, notably iron and steel and shipbuilding, that these will increase investment in equipment. In addition, low capacity utilisation in industry, relatively depressed profits and sluggishness of demand prospects are all factors currently weighing on firms' investment decisions. Finally, it is probable that entrepreneurs will try to run down last year's involuntary build-up of stocks, at least during the first half of 1978. In all, the year-on-year volume decrease in total capital formation, including stockbuilding, could be about 4 per cent, as against a little less than 2 per cent the year before.

Only foreign demand is likely to have a positive impact on the economy. Given the current outlook for world trade, the growth of Spain's export markets could be of the order of 6 per cent in 1978. Since Spain's competitive edge was largely restored in the wake of the devaluation in July 1977 and in view of the weakness of domestic demand, it has been assumed that gains in market shares of about 3 per cent might be achieved, giving a 9 per cent volume increase in merchandise exports. This is admittedly not a particularly remarkable export performance by past standards, but keen international competition and the protectionist measures taken in respect of certain products will have an unfavourable impact. With domestic demand on the decline, imports are unlikely to show much increase. Since the balance on services should continue to show an improvement in volume terms, the foreign balance on a national accounts basis could make a positive contribution to GDP, which even so would probably grow by less than 1 per cent.

On the technical assumption of a stable peseta exchange rate, and given the

current prospects for world trade prices, especially as regards imports of oil and raw materials, the terms of trade might stabilise in 1978, after deteriorating appreciably in 1976 and 1977. Thus, the trade deficit in dollar terms could show a further improvement. Available information on tourism points to very favourable prospects; 1978 is expected to be a record year, with the number of incoming tourists exceeding the figure for 1973, and earnings in dollar terms might increase by more than 15 per cent. On the other hand, the debt burden will remain heavy, whilst emigrants' remittances are again likely to show only a modest increase because of the trend of migratory flows. All in all the improvement in the current balance should continue and the deficit could on a transactions basis be brought down to \$1.5 billion.

Inflationary pressures should abate progressively. The authorities have set themselves the target of reducing the increase in consumer prices to 15 per cent

Table 14 Forecasts for 1978

a) DEMAND AND OUTPUT

| | 1976 | 1977 ¹ 1978 ² | |
|--|-----------------|-------------------------------------|-----|
| | Billion pesetas | Percentage change, volume | |
| Private consumption | 4 868 | 0 | 0 |
| Public consumption | 720 | 4.5 | 3½ |
| Gross fixed capital formation | 1 708 | -1.7 | -4 |
| Total domestic demand | 7 296 | 0.1 | -½ |
| Exports of goods and services | 976 | 11.8 | 8½ |
| Imports of goods and services | 1 273 | -4.2 | 1 |
| Foreign balance ³ | -297 | 2.4 | 1 |
| GDP | 6 999 | 2.4 | ½ |
| GDP Price deflator | | 22.5 | 17½ |
| Consumer prices | | 24.6 | 18 |
| <i>Memorandum item: Breakdown of fixed capital formation⁴</i> | | | |
| Construction | 983 | -1.0 | 0 |
| Machinery and equipment | 623 | -5.0 | -5 |
| Change in stocks ⁵ | 102 | +0.2 | -½ |

b) BALANCE OF PAYMENTS

| | Percentage change | |
|-----------------------------|-------------------|-------------------|
| | 1977 ¹ | 1978 ² |
| Foreign trade (merchandise) | | |
| Exports fob: Volume | 13.4 | 9 |
| Prices ³ | 17.4 | 12½ |
| Imports fob: Volume | -5.6 | ½ |
| Prices ³ | 22.0 | 13 |
| | \$ billion | |
| Balance of payments | | |
| Trade balance | -7.3 | -6.1 |
| Invisibles, net | 3.0 | 3.6 |
| Current balance | -4.3 | -2.5 |

1 Provisional estimates.

2 Forecasts.

3 As percentage of GDP.

4 The breakdown of investment for 1977 is estimated by the Secretariat, except for construction.

5 In pesetas.

Sources: National Statistics Institute and Ministry of Trade; OECD Secretariat.

in the course of 1978, compared with 26.4 per cent in 1977. If the slowdown in wage costs takes hold, and with domestic demand remaining decidedly weak, the outturn could be more favourable than expected, assuming there is no sudden upsurge in food prices or public utility charges. Producer prices for certain agricultural goods were raised very substantially (by 17 per cent on average) in March 1977, but it is difficult to gauge the impact of this measure on consumer prices. The increase in consumer prices from December 1977 to December 1978 could be of the order of 14 per cent, giving a year-on-year rise of 18 per cent. But, as the price to be paid for the progress made in restoring equilibria, a sharp deterioration in the labour market may be expected. Even if entrepreneurs are forced to keep on surplus workers because of the legal restrictions against laying them off, the decline in the number of self-employed is likely to continue and total employment might fall by about 1 per cent. In addition, the difficulties of accommodating young first-job seekers are liable to get worse. All in all, despite the measures taken by the authorities, the increase in the number of jobless might be in excess of the 100 000 figure put forward by the authorities, unless the fall in participation rates becomes more pronounced. In 1978, the one million jobless mark could, therefore, be reached, i.e. an unemployment rate of 7 per cent of the labour force.

IV ECONOMIC POLICY ISSUES

In recent years Spain's internal and external disequilibria had increased to the point where the situation had clearly become unsustainable. The economic programme progressively introduced during the second half of 1977 by the Government formed after the June elections rightly gave priority to redressing the balance of payments and bringing inflation under control. This programme, which was initiated with a substantial devaluation of the peseta and a tightening of monetary policy, was broadened in the autumn under the agreements negotiated with the main political parties. In implementing the programme, the authorities had two basic aims:

- i) to bring down the current external deficit to about \$2.8 billion in 1978 and to under \$2 billion in 1979;
- ii) to reduce the annual rate of increase in consumer prices from nearly 30 per cent in 1977 (December to December) to 15 per cent in 1978 and to 10 per cent in 1979; in order to achieve this target, a norm of 22 per cent for the year-on-year growth of the total wage bill was set for 1978.

The progress made in restoring equilibrium has so far been substantial and a good deal more rapid than the authorities expected. The current balance of payments improved significantly in the second half of 1977 and during the first few months of 1978; and there was a large return flow of private autonomous capital. The official exchange reserves were substantially rebuilt and, by March 1978, they were of the same order as public external indebtedness plus the external debt guaranteed by the authorities (essentially medium term). It is probable that the current account target set by the authorities for 1979 will in fact be achieved in 1978. Apart from the somewhat erratic movement of food prices, fairly encouraging results were also obtained on the anti-inflation front. Since

November, the month-to-month increase in non-food prices has been of the order of 1 per cent, despite the effects of devaluation.

These results, although substantial, are still fragile and have been achieved at a quite considerable cost. The reversal of speculative behaviour has played an important role in bringing the current account closer to equilibrium, notably at the level of invisibles. But the trade deficit is still large, despite virtual stagnation of activity, and any strengthening of domestic demand would undoubtedly cause a rapid increase in imports. Inflationary expectations have not yet been entirely dispelled and the more moderate trend in prices is also due, in part, to the weakness of demand pressure and a probably excessive narrowing of firms' profit margins. The immediate social cost of the stabilisation programme must not be forgotten either; its success seems likely to depend on the stagnation of households' purchasing power in 1978, and there is reason to expect an appreciable rise in unemployment, which is already considerable.

The authorities therefore have to face particularly difficult policy choices. Owing to the sluggishness of the international environment, too long a period of domestic demand deflation would risk setting off a recessionary process with further serious consequences for employment, whilst too prolonged a decline in investment would compromise medium-term growth potential. On the other hand, although the present posture of policy is only moderately restrictive, any premature shift to an expansionary stance would be liable to have destabilising effects. But tangible and durable progress has to be made in restoring internal and external equilibrium if the Spanish economy is to return to more satisfactory and sustainable growth rates in the near future. In the context of a concerted economic policy approach on the part of OECD Member countries, there is little doubt that Spain should continue for some time to give priority to the stabilisation objective, but it might benefit from stimulatory measures taken by countries with a strong balance-of-payments position and a more satisfactory trend of prices.

It would not be inconsistent with the continuation of general restraint of domestic demand to make selective adjustments of policy in the next few months in order to prevent too large an increase in unemployment. Monetary policy is only moderately restrictive and there is no room in the short term for any substantial relaxation. Selective measures of fiscal policy, compatible as far as possible with medium-term goals, would seem preferable. Mobilisation of the conjunctural fund of the 1978 budget, as well as additional increases in public works, could help the employment situation, especially in regions where unemployment is much above the average. But such adjustments can only be of limited importance, as long as the price and wage spiral has not been broken.

As was already pointed out, the Moncloa agreement has made a major contribution to the restoration of overall financial equilibrium. It can, however, be argued in retrospect that the norms fixed last October for wage increases were excessive. On average they will probably be eroded by price increases and inflationary fiscal drag in 1978. And small firms are unlikely to be able to increase wages as much as allowed by the norm. Thus, while the purchasing power of the total wage bill may approximately stagnate, some of the lower-paid workers may fare worse than the average; and the value of financial savings of households will be amputated. In the present circumstances of the economy, the most important favourable development would be the conclusion of a new agreement aimed at some modest increase of real wages, especially for the lower paid, but with very much smaller increases of nominal wages and prices. The public authorities could facilitate acceptance of such a scheme by the two sides of industry in various ways—notably by increased transfers to low-income groups and even by postponement of necessary increases in public tariffs, except for energy prices where the balance of payments consideration is paramount. If such a consensus proved

to be possible, a gradual relaxation of demand management would seem feasible before the end of this year. Thus, the outlook for production and employment in 1979 could improve significantly. Spain is still a "labour surplus" country and can ill afford a very prolonged stagnation of activity. According to various estimates, for unemployment to start being reduced, GDP growth of 4.5 to 6.5 per cent would be needed in the next few years, depending on assumptions made about participation rates and productivity gains. Such rates of expansion would obviously depend on a favourable international environment, but are also conditioned by reasonable success in the fight against inflation.

In a climate of more buoyant economic activity it will probably be easier to make the necessary shifts of resources from declining sectors of industry to those faced with more favourable medium-term demand prospects and to reduce the excessive rigidity of labour market legislation. It may also be easier to continue with the implementation of the wide-ranging programme of economic reforms that was drawn up last year. The important reforms already approved concerning the financial intermediaries and the instruments of monetary and credit policy should, when fully implemented, allow a greater role to be played by market forces, reduce the past distortions in financial flows and interest rates and increase the effectiveness of policy measures. Basic reforms have also been initiated in the area of public finance aimed, in particular, at improved administrative and parliamentary control of revenue and expenditure of the public sector and at fundamental changes in the tax system. Earlier OECD Surveys have repeatedly stressed the need for reforms in this area. The share of public sector revenue in GDP is one of the lowest among Member countries. On the other hand, Spain is not the only country with a very small budget deficit and a very high rate of inflation. As elsewhere, it is the composition of public revenue and expenditure which poses the more important problems. One of the most serious is the sharp increase in social security contributions in recent years which, together with other policy measures, distorts relative factor costs against labour—a trend that needs to be urgently reversed in view of the magnitude of the employment problem. Among the other elements of the programme of reforms, the implementation of a long-term energy programme deserves a high degree of priority.

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STATISTICAL ANNEX

Table A National accounts¹
Billion pesetas

| | Current prices | | | | | 1970 prices | | | | |
|--|----------------|---------|---------|---------|----------------------|-------------|---------|---------|---------|--------------------|
| | 1973 | 1974 | 1975 | 1976 | 1977 | 1973 | 1974 | 1975 | 1976 | 1977 |
| I EXPENDITURE | | | | | | | | | | |
| 1 Consumers' expenditure | 2 737.8 | 3 409.5 | 4 033.4 | 4 868.7 | 6 062.7 | 2 112.8 | 2 229.2 | 2 269.7 | 2 333.4 | 2 332.3 |
| 2 Government current expenditure | 371.0 | 469.4 | 587.7 | 719.9 | 905.5 | 275.4 | 294.7 | 312.4 | 329.5 | 344.3 |
| 3 Gross domestic fixed asset formation | 976.1 | 1 258.5 | 1 425.9 | 1 605.6 | 1 999.8 ² | 767.2 | 818.2 | 798.5 | 786.7 | 821.3 ² |
| (a) Construction | 591.5 | 769.0 | 882.0 | 983.4 | 1 158.4 | 444.1 | 461.8 | 452.6 | 435.0 | 430.7 |
| (b) Machinery and equipment | 384.6 | 489.5 | 543.9 | 622.2 | | 323.1 | 356.4 | 345.9 | 351.7 | |
| 4 Changes in stocks | 90.6 | 140.4 | 112.6 | 102.1 | | 75.3 | 86.5 | 61.7 | 49.1 | |
| 5 Exports of goods and services | 592.2 | 709.1 | 771.7 | 976.1 | 1 314.5 | 469.6 | 465.1 | 459.0 | 502.2 | 561.1 |
| 6 <i>less:</i> Imports of goods and services | 638.8 | 965.0 | 1 021.6 | 1 273.0 | 1 499.6 | 527.3 | 551.9 | 537.7 | 568.2 | 544.9 |
| 7 Gross domestic product at market prices | 4 128.9 | 5 021.9 | 5 909.7 | 6 999.4 | 8 782.9 | 3 173.0 | 3 341.8 | 3 363.6 | 3 432.7 | 3 514.1 |
| II BY SECTOR | | | | | | | | | | |
| 1 Agriculture, forestry and fishing | 434.2 | 484.1 | 547.0 | 609.9 | 783.1 | 318.5 | 333.5 | 328.7 | 335.3 | 320.2 |
| 2 Industries | 1 217.4 | 1 524.1 | 1 768.4 | 2 077.8 | 2 518.3 | 1 008.7 | 1 070.8 | 1 066.4 | 1 101.6 | 1 147.8 |
| 3 Construction | 331.2 | 436.5 | 492.0 | 560.0 | 661.9 | 243.7 | 254.7 | 243.2 | 237.1 | 133.5 |
| 4 Services | 1 912.0 | 2 348.2 | 2 845.8 | 3 442.2 | 4 409.5 | 1 441.3 | 1 511.1 | 1 560.3 | 1 588.5 | 1 639.3 |
| 5 GDP at factor cost | 3 894.8 | 4 792.9 | 5 653.2 | 6 689.9 | 8 372.8 | 3 012.2 | 3 170.1 | 3 198.6 | 3 262.5 | 3 340.8 |

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

2 Including changes in stocks.

Source: National Institute of Statistics.

Table A National accounts (cont'd)
Billion pesetas

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---------|---------|---------|---------|---------|---------|
| III NATIONAL INCOME | | | | | | |
| 1 Compensation of employees | 1 753.8 | 2 136.6 | 2 649.5 | 3 218.9 | 3 943.2 | 5 007.8 |
| <i>of which:</i> Gross wages and salaries | 1 500.3 | 1 829.5 | 2 266.4 | 2 706.8 | 3 304.5 | |
| Employers' contributions to social security | 251.4 | 305.1 | 380.5 | 509.2 | 635.7 | |
| 2 Property and entrepreneurial income net | 1 190.6 | 1 436.9 | 1 746.1 | 1 941.5 | 2 188.0 | 2 710.7 |
| Households and private non-profit institutions ¹ | 942.1 | 1 121.3 | 1 375.7 | 1 525.7 | 1 714.0 | 2 091.0 |
| Corporate and quasi-corporate, before tax | 235.2 | 295.2 | 333.8 | 369.0 | 410.4 | |
| General government | 32.3 | 46.1 | 62.0 | 75.1 | 93.6 | 116.0 |
| <i>less:</i> Interest paid by general government | 19.0 | 25.7 | 25.4 | 28.3 | 30.0 | |
| 3 NET NATIONAL INCOME AT FACTOR COST | 2 944.4 | 3 573.5 | 4 395.6 | 5 160.4 | 6 131.2 | 7 718.5 |

¹ Excluding interest on consumers' debt.

Source: National Institute of Statistics.

Table B Employment and wages

| | 1974 | 1975 | 1976 | 1977 | | | |
|--|--------|--------|--------|--------|--------|--------|--------|
| | | | | I | II | III | IV |
| 1 EMPLOYMENT ¹ (thousands) | | | | | | | |
| 1 Labour force | 13 454 | 13 414 | 13 356 | 13 298 | 13 274 | 13 367 | 13 418 |
| 2 Employment | 13 019 | 12 789 | 12 650 | 12 585 | 12 588 | 12 582 | 12 577 |
| of which: Agriculture | 2 994 | 2 799 | 2 701 | 2 674 | 2 572 | 2 597 | 2 583 |
| Industry | 3 516 | 3 583 | 3 432 | 3 421 | 3 448 | 3 438 | 3 425 |
| Construction | 1 280 | 1 274 | 1 217 | 1 175 | 1 224 | 1 255 | 1 241 |
| Services | 5 229 | 5 133 | 5 300 | 5 315 | 5 344 | 5 292 | 5 328 |
| 3 Dependent employment | 8 862 | 8 962 | 8 952 | 8 909 | 8 975 | 8 956 | 8 949 |
| 4 Unemployed | 434 | 624 | 706 | 713 | 686 | 785 | 841 |
| 2 STATISTICS FROM THE QUARTERLY LABOUR EARNINGS SURVEYS ² | | | | | | | |
| <i>% change over the same period a year earlier</i> | | | | | | | |
| 1 Average hourly earnings | 26.9 | 30.6 | 29.8 | 26.7 | 20.7 | 18.7 | |

¹ End of period.

² These surveys cover about 2.9 million workers in the private non-farm sector out of a total of 6.7 million wage earners. As from 1976, the series has been revised so as to eliminate the impact of the July and December pay bonuses and the reduction in hours worked in August.

Sources: National Institute of Statistics, Quarterly Surveys of the labour force and earnings.

Table C Public sector accounts¹
Billion pesetas

| | 1973 | 1974 | 1975 ² | 1976 ³ |
|--|-------|---------|-------------------|-------------------|
| 1 GENERAL GOVERNMENT | | | | |
| DISTRIBUTION OF INCOME ACCOUNT | | | | |
| <i>Resources</i> | | | | |
| Gross operating surplus | 12.7 | 16.4 | 19.9 | 24.4 |
| Income from property and corporate enterprises | 46.1 | 61.9 | 75.1 | 93.6 |
| Taxes linked to production and imports | 328.6 | 354.7 | 412.4 | 493.0 |
| — linked to production | 277.0 | 301.4 | 350.8 | 421.3 |
| — linked to imports | 51.6 | 53.3 | 61.6 | 71.7 |
| Current taxes on income and wealth | 156.4 | 194.2 | 252.7 | 333.0 |
| — from enterprises | 90.4 | 109.3 | 137.5 | 177.5 |
| — from households | 66.0 | 84.9 | 115.1 | 155.5 |
| Actual social contributions | 333.7 | 418.0 | 562.0 | 702.4 |
| Imputed social contributions | 39.8 | 45.9 | 54.6 | 66.9 |
| Miscellaneous current transfers | 58.6 | 72.6 | 90.3 | 110.1 |
| Total | 975.9 | 1 163.6 | 1 467.0 | 1 823.5 |
| <i>Uses</i> | | | | |
| Public consumption | 371.0 | 469.4 | 587.7 | 719.9 |
| Income from property and corporate enterprises | 25.7 | 25.4 | 28.3 | 30.0 |
| Subsidies | 94.5 | 125.7 | 155.9 | 183.5 |
| Social benefits linked to actual social contributions | 277.1 | 330.7 | 422.7 | 533.8 |
| Social benefits linked to imputed social contributions | 39.8 | 45.9 | 54.6 | 66.9 |
| Other social benefits | 10.7 | 17.9 | 24.3 | 32.8 |
| Miscellaneous current transfers | 35.1 | 43.5 | 58.9 | 73.0 |
| Gross saving | 122.0 | 105.1 | 134.7 | 183.7 |
| CAPITAL ACCOUNT | | | | |
| <i>Resources</i> | | | | |
| Gross saving | 122.0 | 105.1 | 134.7 | 183.7 |
| Capital transfers | — | — | — | 0.1 |
| Capital taxes | 60.9 | 75.7 | 88.9 | 100.2 |
| Total | 182.9 | 180.8 | 223.6 | 284.0 |
| <i>Uses</i> | | | | |
| Gross fixed capital formation | 101.8 | 126.3 | 169.4 | 190.8 |
| Net purchases of land and intangible assets | 4.5 | 6.7 | 6.3 | 7.0 |
| Capital transfers | 34.7 | 44.3 | 55.1 | 63.1 |
| Net lending (+) or net borrowing (—) | 42.0 | 3.5 | —7.2 | 23.1 |

1 These accounts are on a SEC (European system of integrated economic accounts) national accounts basis.

2 Provisional.

3 Provisional estimates.

Source: National Institute of Statistics.

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

| | 1972 | 1973 | 1974 | 1975 |
|---|----------------------|-------|-------|-------|
| | 2 CENTRAL GOVERNMENT | | | |
| 1 Fiscal revenue | 378.1 | 465.0 | 524.4 | 633.5 |
| 2 From property and entrepreneurship | 24.4 | 37.2 | 52.3 | 65.0 |
| 3 Current transfers | 47.0 | 53.5 | 66.9 | 84.0 |
| 4 Total current revenue | 449.5 | 555.7 | 643.6 | 782.5 |
| 5 Goods and services | 192.6 | 237.4 | 286.6 | 345.6 |
| 6 Current transfers | 100.6 | 107.5 | 146.8 | 168.7 |
| 7 Subsidies | 77.2 | 91.0 | 120.9 | 149.5 |
| 8 Other | 16.4 | 22.5 | 21.4 | 23.2 |
| 9 Total current expenditure | 386.8 | 458.4 | 575.7 | 687.0 |
| 10 Saving (4 less 9) | 62.7 | 97.3 | 67.9 | 95.5 |
| 11 Capital taxes | 40.4 | 51.9 | 64.8 | 72.8 |
| 12 Capital transfers | — | — | 0.1 | 0.2 |
| 13 Total capital resources (10 to 12) | 103.1 | 149.2 | 132.8 | 168.5 |
| 14 Gross fixed capital formation | 59.4 | 62.1 | 73.3 | 90.9 |
| 15 Capital transfers | 33.5 | 35.7 | 45.3 | 56.7 |
| 16 Other | 2.1 | 2.9 | 3.5 | 3.2 |
| 17 Total capital uses (14 to 16) | 95.0 | 100.7 | 122.1 | 150.8 |
| 18 Overall financial surplus (+) or deficit (—) (13 less 17) | 8.1 | 48.5 | 10.7 | 17.7 |

Source: National Institute of Statistics.

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

| | 1972 | 1973 | 1974 | 1975 |
|---|-------|-------|-------|-------|
| 3 LOCAL GOVERNMENT | | | | |
| 1 Fiscal revenue | 51.6 | 58.8 | 69.4 | 85.6 |
| 2 From property and entrepreneurship | 3.2 | 4.1 | 4.5 | 4.9 |
| 3 Current transfers | 6.1 | 6.6 | 10.7 | 10.1 |
| 3.1 from central government budget | 4.6 | 4.8 | 8.4 | 7.4 |
| 4 Total current revenue (1 to 3) | 60.9 | 69.5 | 84.6 | 100.6 |
| 5 Goods and services | 38.7 | 43.8 | 60.6 | 74.2 |
| 6 Current transfers | 5.3 | 5.8 | 6.1 | 7.8 |
| 7 Other | 5.4 | 6.7 | 8.9 | 11.5 |
| 8 Total current expenditure (5 to 7) | 49.4 | 56.3 | 75.6 | 93.5 |
| 9 Saving (4 less 9) | 11.5 | 13.2 | 9.0 | 7.1 |
| 10 Capital taxes | 8.2 | 9.0 | 10.9 | 16.1 |
| 11 Capital transfers | 0.7 | 1.0 | 1.0 | 1.5 |
| 12 Total capital resources (9 to 11) | 20.4 | 23.2 | 20.9 | 24.7 |
| 13 Gross fixed capital formation | 21.8 | 26.6 | 32.0 | 43.1 |
| 14 Capital transfers | 0.1 | — | — | 0.2 |
| 15 Other | 1.2 | 1.5 | 2.9 | 2.6 |
| 16 Total capital uses (13 to 15) | 23.1 | 28.1 | 34.9 | 45.9 |
| 17 Overall financial surplus (+) or deficit (—) (12 less 16) | -2.7 | -4.9 | -14.0 | -21.2 |
| 4 SOCIAL SECURITY INSTITUTIONS | | | | |
| 1 Social security contributions | 264.1 | 331.0 | 414.9 | 558.1 |
| 2 Transfers | 20.2 | 24.1 | 37.9 | 31.3 |
| 3 Other current receipts | 7.9 | 8.9 | 9.8 | 10.4 |
| 4 Total current receipts | 292.2 | 364.0 | 462.6 | 599.8 |
| 5 Current expenditure on goods and services | 62.8 | 77.5 | 106.4 | 148.6 |
| 6 Benefits | 210.1 | 274.4 | 327.6 | 418.7 |
| 7 Current subsidies and transfers | 0.3 | 0.6 | 0.4 | 0.5 |
| 8 Total current expenditure | 273.2 | 352.5 | 434.4 | 567.8 |
| 9 Net current saving | 19.0 | 11.5 | 28.2 | 32.0 |
| 10 Gross investment | 9.8 | 13.2 | 21.1 | 35.4 |
| 11 Other | — | — | 0.3 | 0.4 |
| 12 Total capital uses | 9.8 | 13.2 | 21.4 | 35.9 |
| 13 Overall financial surplus (+) or deficit (—) | 9.2 | -1.7 | 6.8 | -3.8 |

Source: National Institute of Statistics.

Table D Money and credit
Billion pesetas

| | 1976 | | | | 1977 | | | | Out- standing as at 31 Dec. 1977 |
|---|-------|-------|-------|-------|--------|-------|-------|-------|---|
| | I | II | III | IV | I | II | III | IV | |
| 1 CONSOLIDATED ACCOUNT OF THE BANKING SYSTEM ¹ (quarterly changes) | | | | | | | | | |
| I Liabilities | | | | | | | | | |
| 1 Money supply | -94.5 | 132.7 | 59.9 | 310.4 | -113.8 | 154.1 | 104.6 | 318.4 | 2 847.9 |
| 2 Quasi-money | 122.3 | 113.7 | 163.7 | 207.4 | 159.3 | 144.2 | 206.3 | 197.8 | 4 589.7 |
| 3 Total | 27.8 | 246.4 | 223.6 | 517.8 | 45.5 | 298.3 | 310.9 | 516.2 | 7 437.6 |
| 4 Bonds | 12.9 | 10.0 | 3.6 | 12.3 | 8.5 | 9.6 | 1.7 | 8.5 | 233.1 |
| Liabilities=Assets | 40.7 | 256.4 | 227.2 | 530.1 | 54.0 | 307.9 | 312.6 | 524.7 | 7 670.7 |
| II Assets | | | | | | | | | |
| 5 Public sector | 20.3 | 45.7 | 10.2 | -50.4 | 5.8 | -19.2 | 20.8 | -1.5 | 536.0 |
| (a) Net advances to | 16.9 | 40.4 | 2.8 | -66.4 | -7.8 | -10.3 | 29.7 | 12.3 | 346.2 |
| (i) Central government | 24.5 | 19.2 | -21.0 | -64.6 | -5.2 | 49.6 | 5.9 | 9.1 | 185.6 |
| (ii) Autonomous institutions ² | -7.6 | 21.2 | 23.8 | -1.8 | -2.6 | -59.9 | 23.8 | 3.2 | 160.6 |
| (b) Purchase of government bonds | 25.4 | 31.2 | 40.1 | 48.2 | 46.3 | 16.7 | 24.6 | 41.6 | 897.2 |
| (c) <i>less</i> : Grants to official credit institutions | -22.0 | -28.1 | -32.7 | -32.2 | -32.7 | -25.6 | -33.5 | -55.4 | -707.2 |
| 6 Private sector | 157.8 | 299.0 | 215.0 | 480.7 | 243.0 | 385.6 | 274.2 | 433.6 | 7 399.1 |
| (a) Advances and bills discounted ³ | 114.4 | 256.7 | 177.6 | 451.9 | 206.4 | 342.6 | 250.4 | 402.1 | 6 478.4 |
| (b) Bonds and shares | 43.4 | 42.3 | 37.4 | 28.8 | 36.6 | 43.0 | 23.8 | 31.5 | 920.7 |
| 7 External sector | -58.4 | -49.0 | -1.9 | -36.4 | -32.3 | -70.1 | 54.2 | -9.4 | -95.0 |
| 8 Other assets and liabilities (net) | -79.0 | -39.3 | 3.9 | 136.2 | -162.5 | 11.6 | -36.6 | 102.0 | -169.4 |

1 Bank of Spain, commercial banks, industrial banks, saving banks and official credit institutions.

2 Including the Grain Agency.

3 Including the net interbank position.

Source: Bank of Spain.

Table D Money and credit (cont'd)

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|--|-------|-------|-------|-------|-------|
| 2 BANK LIQUIDITY | | | | | |
| <i>Changes, in billion pesetas:</i> | | | | | |
| 1 Cash reserves | 8.2 | 64.6 | 15.6 | 13.2 | -3.1 |
| 2 Central bank credit received | -11.7 | 80.7 | 26.5 | 183.8 | -23.7 |
| 3 Public securities | 12.8 | 28.8 | 54.3 | 80.3 | 38.2 |
| <i>Ratios to deposits; end of period, per cent</i> | | | | | |
| 1 Cash | 7.6 | 8.6 | 7.7 | 6.9 | 5.8 |
| 2 Public securities | 14.6 | 13.1 | 12.7 | 12.9 | 11.9 |
| 3 OFFICIAL CREDIT INSTITUTIONS (changes, in billion pesetas) | | | | | |
| <i>Assets:</i> | | | | | |
| 1 Cash | 0.3 | -2.1 | 2.0 | 9.5 | 21.4 |
| 2 Credit to public sector | 9.4 | 13.8 | 18.5 | 30.0 | 49.2 |
| 3 Credit to private sector | 17.4 | 48.7 | 81.4 | 108.7 | 131.0 |
| <i>Assets=Liabilities:</i> | 27.1 | 60.4 | 101.9 | 148.2 | 201.6 |
| 4 Transfers from the Treasury | 25.5 | 45.9 | 97.4 | 115.0 | 147.3 |
| 5 Advances from the banking system | — | — | — | 15.0 | 10.0 |
| 6 Other (net) | 1.6 | 14.5 | 4.5 | 18.2 | 44.3 |
| 4 CAPITAL MARKET | | | | | |
| <i>Gross issues (billion pesetas):</i> | | | | | |
| 1 Public securities | 24.8 | 42.2 | 88.0 | 137.3 | 174.6 |
| Treasury ¹ | 12.1 | 27.6 | 71.3 | 121.2 | 152.6 |
| INI | 12.7 | 14.6 | 16.7 | 16.1 | 22.0 |
| 2 Private securities | 233.7 | 273.5 | 303.2 | 337.0 | 264.2 |
| Bonds | 120.2 | 129.7 | 155.0 | 181.2 | 174.3 |
| Shares ² | 113.5 | 143.8 | 148.2 | 155.8 | 89.9 |
| 3 Total | 258.5 | 315.7 | 391.2 | 474.3 | 438.8 |

1 Excluding short-term bills.

2 Excluding issues of paid-up-shares.

Sources: Bank of Spain and National Institute of Statistics.

Table E Balance of payments
 Million dollars

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|--|--------|--------|--------|--------|--------|--------|
| 1 Imports (fob) | 6 237 | 8 947 | 14 334 | 15 193 | 16 316 | 16 624 |
| 2 Exports (fob) | 3 921 | 5 402 | 7 265 | 7 807 | 8 989 | 10 552 |
| 3 TRADE BALANCE | -2 316 | -3 545 | -7 069 | -7 386 | -7 327 | -6 072 |
| 4 Foreign travel | 2 230 | 2 872 | 2 869 | 3 096 | 2 679 | 3 440 |
| 5 Other services | -209 | -184 | -190 | -341 | -788 | -1 022 |
| 6 Workers' remittances | 599 | 913 | 858 | 970 | 1 158 | 1 150 |
| 7 Other private transfers | 276 | 508 | 296 | 192 | | |
| 8 Official transfers | -9 | -7 | -8 | -19 | -16 | -8 |
| 9 Total services and transfers (4 to 8) | 2 887 | 4 102 | 3 825 | 3 898 | 3 033 | 3 560 |
| 10 CURRENT BALANCE | 571 | 557 | -3 244 | -3 488 | -4 294 | -2 512 |
| 11 Private long-term capital | 934 | 810 | 1 613 | 1 788 | 1 351 | 1 960 |
| 12 Official long-term capital | -3 | -45 | 56 | 15 | 570 | 1 259 |
| 13 Total long-term capital | 931 | 765 | 1 669 | 1 803 | 1 921 | 3 219 |
| 14 BASIC BALANCE | 1 502 | 1 322 | -1 575 | -1 685 | -2 373 | 707 |
| 15 Short-term capital, errors and omissions ¹ | -11 | 370 | 783 | 930 | 1 302 | 451 |
| 16 MONETARY MOVEMENTS (increase in assets=—) of which: | -1 491 | -1 691 | 792 | 755 | 1 071 | -1 158 |
| 17 Changes in reserves | -1 623 | -1 299 | 732 | 220 | 993 | -1 803 |

1 Including banks' local accounts in foreign currency.

Sources: Ministry of Commerce, Bank of Spain and OECD Secretariat.

Table F Foreign trade
Billion pesetas

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|-----------|-------|-------|---------|---------|-----------|-------|-------|-------|-------|
| | 1 IMPORTS | | | | | 2 EXPORTS | | | | |
| 1 Agricultural and food products | 98.6 | 139.5 | 156.9 | 158.4 | 214.1 | 90.6 | 101.1 | 100.6 | 134.3 | 168.2 |
| 2 Minerals | 18.7 | 30.1 | 31.1 | 38.1 | 45.5 | 4.5 | 7.6 | 11.4 | 14.4 | 24.4 |
| 3 Oil products | 72.9 | 225.5 | 240.5 | 341.6 | 383.0 | 14.3 | 27.7 | 14.6 | 21.9 | 29.0 |
| 4 Chemicals, plastics and rubber | 69.2 | 103.7 | 92.1 | 123.3 | 144.4 | 22.9 | 43.3 | 39.4 | 51.7 | 73.2 |
| 5 Skins and leather | 9.8 | 8.4 | 10.1 | 14.8 | 19.6 | 7.5 | 9.6 | 9.9 | 13.0 | 16.3 |
| 6 Wood and cork | 15.6 | 20.2 | 13.4 | 21.4 | 25.4 | 5.3 | 6.9 | 6.6 | 8.1 | 11.7 |
| 7 Pulp, paper and books | 13.2 | 20.2 | 20.2 | 21.2 | 24.1 | 10.1 | 15.1 | 16.1 | 20.1 | 26.0 |
| 8 Raw cotton, textiles and clothing | 24.4 | 31.8 | 28.5 | 41.2 | 44.5 | 16.6 | 22.5 | 22.5 | 30.9 | 43.4 |
| 9 Glass and pottery | 6.9 | 8.7 | 8.2 | 10.4 | 13.1 | 5.4 | 8.1 | 9.8 | 12.1 | 17.2 |
| 10 Metals and metal products | 50.7 | 78.4 | 82.3 | 99.0 | 94.1 | 32.2 | 38.0 | 55.2 | 79.0 | 102.9 |
| 11 Machinery and appliances | 116.5 | 142.5 | 163.7 | 190.1 | 212.8 | 29.2 | 44.9 | 53.5 | 68.7 | 93.2 |
| 12 Transport equipment | 31.9 | 37.2 | 32.2 | 41.2 | 43.4 | 35.7 | 45.5 | 58.5 | 73.6 | 103.7 |
| <i>of which:</i> Cars, lorries and tractors | 17.2 | 19.5 | 21.2 | 27.3 | 36.2 | 16.7 | 21.0 | 32.1 | 40.1 | 74.4 |
| Aircraft (imports), ships (exports) | 11.7 | 11.8 | 6.3 | 9.3 | 3.8 | 16.1 | 22.6 | 23.4 | 30.1 | 24.6 |
| 13 Other | 33.1 | 42.5 | 53.0 | 68.7 | 86.4 | 28.4 | 37.7 | 43.0 | 55.4 | 66.0 |
| 14 Total | 561.5 | 888.7 | 932.2 | 1 169.4 | 1 350.4 | 302.7 | 408.0 | 441.1 | 583.2 | 775.2 |
| 15 Total <i>less</i> agricultural and food products | 462.9 | 749.2 | 775.3 | 1 011.0 | 1 136.3 | 212.1 | 306.9 | 340.8 | 448.9 | 607.0 |

Source: Customs Office.

Table G **Official foreign reserves**
Million dollars

| | 1973 | | 1974 | | 1975 | | 1976 | | 1977 | |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | June | Dec. | June | Dec. | June | Dec. | June | Dec. | June | Dec. |
| 1 Gold | 542 | 602 | 602 | 602 | 602 | 602 | 602 | 602 | 606 | 610 |
| 2 Convertible currency | 4 826 | 5 764 | 5 170 | 5 042 | 4 963 | 5 064 | 4 255 | 4 164 | 2 901 | 5 394 |
| 3 Net IMF position | 113 | 125 | 125 | 146 | — | — | — | — | — | — |
| 4 Special drawing rights | 140 | 155 | 156 | 162 | 156 | 146 | 129 | 110 | 83 | 58 |
| 5 Total foreign assets | 5 621 | 6 646 | 6 053 | 5 952 | 5 722 | 5 813 | 4 986 | 4 876 | 3 590 | 6 062 |
| 6 less: Foreign liabilities | 3 | 4 | 6 | 8 | 11 | 14 | 9 | 38 | 14 | 9 |
| 7 Official foreign reserves | 5 618 | 6 642 | 6 047 | 5 944 | 5 711 | 5 799 | 4 977 | 4 838 | 3 576 | 6 053 |
| <i>Pro memoria:</i> | | | | | | | | | | |
| Non convertible currencies (net) | 43 | 32 | 40 | 23 | 62 | 44 | 75 | 62 | 18 | -9 |

Source: Bank of Spain.

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

| | Reference period | Units | Australia | Austria | Belgium | Canada | Denmark | Finland | France | Germany | Greece | Iceland | Ireland | Italy | Japan | Luxembourg | Netherlands | New Zealand | Norway | Portugal | Spain | Sweden | Switzerland | Turkey | United Kingdom | United States | Yugoslavia ¹ |
|---|----------------------|-----------------------------|----------------------|--------------------|----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|----------------------|-------------|--------------------|--------------------|-------------------|-------------------------|
| POPULATION | Mid-1976 | Thousands | 13 916 | 7 510 | 9 818 | 23 143 | 5 073 | 4 729 | 52 921 | 61 513 | 9 165 | 220 | 3 162 | 56 157 ² | 112 768 | 357 | 13 770 | 3 116 | 4 027 | 9 664 | 35 970 | 8 219 | 6 346 | 41 162 | 56 001 | 215 118 | 21 560 |
| | » | Number | 2 | 90 | 322 | 2 | 118 | 16 | 96 | 247 | 69 | 2 | 45 | 186 | 299 | 138 | 407 | 12 | 12 | 109 | 71 | 20 | 154 | 52 | 230 | 23 | 83 |
| | Mid-1966 to Mid-1976 | % | 1.8 | 0.3 | 0.3 | 1.4 | 0.6 | 0.3 | 0.7 | 0.4 | 0.6 | 1.2 | 0.9 | 0.7 | 1.3 | 0.7 | 1.0 | 1.5 | 0.7 | 0.6 | 1.1 | 0.5 | 0.6 | 2.4 | 0.2 | 0.9 | (0.9) |
| EMPLOYMENT | 1976 | Thousands | 5 808 | 2 947 | 3 718 | 9 572 | 2 392 | 2 144 | 20 870 | 24 556 | (3 230) | 93 ²² | 1 021 | 18 930 | 52 710 | 147 | 4 542 | 1 206 | 1 789 | 3 088 | 12 535 | 4 088 | 2 676 | 14 710 | 24 425 | 87 485 | 8 887 ³ |
| | » | % of total | 6.4 | 12.4 | 3.4 | 5.9 | 9.3 | 13.9 | 10.8 | 7.1 | (34.3) | 15.1 ²² | 23.8 | 15.5 | 12.2 | 6.1 | 6.5 | 11.8 | 9.4 | 27.1 | 21.5 | 6.2 | 8.2 | 63.1 | 2.7 | 3.8 | 47.3 |
| | » | Industry ⁴ | 33.2 | 40.1 | 39.0 | 29.7 | 31.4 | 34.7 | 38.1 | 45.1 | (29.0) | 37.6 ²² | 29.8 | 43.5 | 35.8 | 46.3 | 33.7 | 34.2 | 33.1 | 36.3 | 37.1 | 35.4 | 43.9 | 15.5 | 40.0 | 28.7 | 21.1 |
| GROSS DOMESTIC PRODUCT at market prices | 1976 | US \$ billion ¹¹ | 94.12 | 40.62 | 65.91 | 194.60 | 38.53 | 28.14 | 346.76 | 445.91 | 22.04 | 1.45 | 7.93 | 170.77 | 555.06 | 2.24 | 89.52 | 12.86 | 31.30 | 15.74 | 104.62 | 74.22 | 56.29 | 41.06 | 219.18 | 1 702.02 | 32.56 ⁵ |
| | 1971 to 1976 | % | 3.5 | 3.9 | 3.1 | 4.6 | 2.3 | 3.8 | 4.1 | 2.4 | 4.8 | 3.8 | 2.9 | 3.2 | 5.1 | 1.9 | 3.5 | 3.5 | 4.8 | 4.3 | 4.9 | 2.5 | -0.4 | 7.4 | 1.8 | 2.9 | 5.1 |
| | 1976 | US \$ ¹¹ | 6 760 | 5 410 | 6 710 | 8 410 | 7 590 | 5 950 | 6 550 | 7 250 | 2 400 | 6 610 | 2 510 | 3 040 | 4 920 | 6 280 | 6 500 | 4 130 | 7 770 | 1 630 | 2 890 | 9 030 | 8 870 | 1 000 | 3 910 | 7 910 | 1 510 |
| GROSS FIXED CAPITAL FORMATION | 1976 | % of GDP | 23.7 ⁷ | 26.0 | 20.6 | 23.1 | 21.5 | 27.0 | 23.1 | 20.7 | 21.5 ⁸ | 29.5 | 24.5 | 20.3 | 29.6 | 28.2 | 19.7 | 25.2 ⁹ | 36.3 | 23.9 | 22.9 | 20.6 | 20.7 | 20.5 ²² | 19.2 | 16.2 | 34.2 |
| | » | Machinery and equipment | 7.4 ^{6a} | 10.5 | 5.2 | 7.6 | 9.2 | 10.5 | 8.4 | 8.4 | 8.4 | 6.0 | 9.6 ²² | 8.6 | 13.4 | 8.6 ²² | 8.1 | .. | 13.9 | 6.9 ²² | 8.9 | 8.7 | 6.7 | .. | 8.6 | 6.8 | 14.1 |
| | » | Residential construction | 5.0 ^{6a} | 5.2 | 6.7 | 6.4 | 5.4 | 6.5 | 7.2 | 5.8 | 5.8 | 6.4 | 6.2 ²² | 5.8 | 7.9 | 7.6 ²² | 5.0 | .. | 5.1 | 3.8 ²² | 6.2 ²² | 4.0 | .. | 3.7 ²² | 3.8 | 3.9 | 7.4 |
| AVERAGE ANNUAL VOLUME GROWTH ⁸ | 1971 to 1976 | % | 1.0 | 3.1 | 2.6 | 5.3 | 1.0 | 1.8 | 3.3 | -1.2 | -0.3 | 3.1 | 2.3 | 0.0 | 2.5 | 0.4 | -1.6 | .. | 7.3 | 5.8 | 6.3 | 1.2 | -4.4 | 11.7 | 0.0 | 4.8 | |
| | 1976 | % of GNP | 23.7 ⁷ 22 | 27.3 | 22.1 | 21.7 | 16.7 | 27.1 | 23.3 | 24.4 | 19.5 | 27.9 | 17.8 | 20.2 | 32.3 | 27.4 ²² | 24.5 | 20.6 ²² | 26.6 | 3.8 ²² | 19.8 | 20.6 | 26.3 | 17.7 ²² | 18.9 | 17.4 | 35.6 |
| | 1976 | % of GDP | 16.2 ⁷ | 16.5 | 17.9 | 20.1 | 24.2 | 19.7 | 14.7 | 20.4 | 15.3 | 9.9 | 19.5 | 14.0 | 10.9 | 15.5 | 18.3 | 18.4 ⁹ | 17.1 | 15.4 ²² | 10.3 | 25.6 | 13.4 | 11.3 ²² | 21.8 | 18.7 | 19.1 |
| GENERAL GOVERNMENT | 1976 | % of GDP | 10.4 ⁷ | 16.1 ²² | 21.4 | 12.1 | 17.5 | 14.4 | 24.1 | 19.1 | 10.9 | .. | 21.9 ²² | 22.1 | 9.2 | 26.2 ²² | 30.5 | .. | 23.7 | 9.1 ²² | 12.7 | 22.0 | 15.5 | 6.5 ²² | 15.2 | 11.8 | .. |
| | » | Current transfer payments | 32.6 ⁷ | 39.1 ²² | 35.5 | 36.8 | 46.5 | 44.8 | 42.4 | 42.2 | 29.4 | .. | 34.2 ²² | 36.5 | 23.6 | 50.6 ²² | 53.5 | .. | 50.1 | 24.7 ²² | 25.7 | 57.4 | 34.0 | 20.5 ²² | 40.6 | 31.5 | 42.2 |
| | 1976 | % of GNP | 0.4 | 0.1 | 0.5 | 0.5 | 0.6 | 0.2 | 0.6 | 0.3 | .. | .. | .. | 0.1 | 0.2 | .. | 0.8 | 0.4 | 0.7 | .. | .. | 0.8 | 0.2 | .. | 0.4 | 0.3 | .. |
| INDICATORS OF LIVING STANDARDS | 1976 | US \$ ¹¹ | 3 950 | 3 040 | 4 150 | 4 780 | 4 430 | 3 100 | 4 080 | 4 010 | 1 680 | 3 980 | 1 580 | 1 960 | 2 790 | 3 970 | 3 720 | 2 380 ⁹ | 4 280 | 1 230 | 2 010 | 4 830 | 5 590 | 633 ²² | 2 350 | 5 110 | 821 |
| | 1975 | Number | 368 | 229 | 266 | 374 ¹⁶ | 257 | 211 | 289 | 290 | 48 | 291 | 164 | 257 ¹⁶ | 154 | 391 | 249 | 373 | 237 | 97 | 136 | 336 | 278 | 8 ¹⁶ | 249 | 498 | 72 |
| | 1974 | » | 390 | 281 | 285 | 572 | 454 | 389 | 262 | 317 | 221 | 417 | 141 | 259 | 405 | 411 | 368 | 502 | 350 | 113 | 220 | 661 | 611 | 25 | 379 | 695 | 61 |
| TELEVISION SETS, per 1 000 inhabitants | 1974 | » | 227 ¹³ | 247 | 252 | 366 | 308 | 269 | 235 | 305 | 106 | 217 ¹⁰ | 178 | 213 | 233 | 257 | 259 | 304 ¹⁰ | 256 | 66 | 174 | 348 | 264 | 12 | 315 | 571 | 131 |
| | 1975 | » | 1.4 ¹³ | 2.1 | 1.9 | 1.7 | 1.6 ¹³ | 1.4 | 1.5 | 1.9 ¹⁶ | 2.0 | 1.6 ¹⁰ | 1.2 | 2.0 ¹⁶ | 1.2 ¹⁶ | 1.1 ¹⁶ | 1.6 | 1.3 | 1.7 | 1.3 | 1.6 | 1.6 ¹⁶ | 1.8 | 0.6 | 1.3 ¹⁶ | 1.6 ¹⁶ | 1.4 |
| | » | % of relevant age group | 39.7 | 15.9 ¹⁶ | 34.4 ¹⁶ | 49.8 ¹³ | 36.3 ¹⁶ | 24.5 | 31.4 ¹⁶ | 24.2 ¹⁶ | .. | .. | .. | 31.0 | 34.3 ¹⁶ | .. | 21.1 ¹⁶ | .. | 40.3 ¹⁶ | (9.8) ¹⁰ | 29.3 ¹⁰ | (31.1) ¹³ | .. | .. | 21.8 ¹⁶ | 43.2 | 16.6 |
| INFANT MORTALITY ¹⁷ | 1976 | Number | 16.1 ¹⁶ | 20.5 | 16.2 ¹⁶ | 15.0 ¹⁶ | 10.7 ¹⁶ | 10.3 ¹⁶ | 13.6 | 19.7 | 24.0 ¹⁶ | 11.4 ¹⁶ | 17.0 ¹⁶ | 20.7 | 10.0 | 14.8 | 10.3 | 16.0 | 10.5 ¹⁶ | 37.9 ¹⁶ | 12.1 | 8.3 | 10.7 | .. | 16.0 | 16.1 | 39.7 |
| | 1971 to 1976 | % | 16.4 | 12.5 | 16.4 | 11.9 | 16.7 | 17.9 | 15.4 | 8.9 | 20.8 | 34.0 ¹⁹ | 19.9 | 20.8 | 17.7 | .. | 13.2 | 11.9 | 14.6 | 16.3 ²⁰ | 20.8 | 13.4 | 7.5 | 23.6 ²⁰ | 17.0 | 7.8 | .. |
| | 1972 to 1977 | % | 13.1 | 7.7 | 9.7 | 8.9 | 10.8 | 14.5 | 10.3 | 5.7 | 16.1 | 34.7 | 16.1 | 16.5 | 12.9 | 8.6 | 8.7 | 13.0 | 9.4 | 16.9 ¹⁴ | 17.2 | 9.6 | 5.6 | 20.4 | 16.3 | 7.7 | 18.7 |
| FOREIGN TRADE | 1976 | US \$ million ¹¹ | 13 116 | 8 508 | 32 844 ²¹ | 38 628 | 9 108 | 6 342 | 55 812 | 102 036 | 2 544 | 396 | 3 312 | 36 924 | 67 224 | — | 38 748 | 2 780 | 7 920 | 1 812 | 8 724 | 18 444 | 14 844 | 1 960 | 46 260 | 114 996 | 4 556 |
| | » | As percentage of GDP | 14.1 | 21.1 | 48.9 | 20.4 | 23.8 | 22.3 | 16.1 | 22.5 | 11.5 | 28.3 | 42.5 | 22.6 | 12.2 | — | 43.9 | 22.4 | 25.7 | 11.5 | 8.5 | 25.0 | 26.2 | 5.1 | 21.3 | 6.8 | 13.9 |
| | 1971 to 1976 | % | 3.7 | 7.7 | 7.3 | 4.1 | 4.2 | 4.0 | 7.6 | 7.6 | 17.0 | .. | 6.6 | 6.9 | 10.1 | — | 7.0 | 2.3 | 8.4 | 2.6 | 11.2 | 3.1 | 4.8 | .. | 5.1 | 8.2 | 7.1 |
| IMPORTS OF GOODS, cif | 1976 | US \$ million ¹¹ | 11 196 | 11 520 | 35 352 ²¹ | 37 956 | 12 420 | 7 392 | 64 392 | 87 780 | 6 012 | 468 | 4 200 | 43 368 | 64 800 | — | 39 948 | 2 830 | 11 112 | 4 212 | 17 460 | 19 164 | 14 772 | 5 129 | 55 968 | 121 788 | 6 881 |
| | » | As percentage of GDP | 12.1 | 28.5 | 52.6 | 20.0 | 32.5 | 26.0 | 18.6 | 19.4 | 27.1 | 33.4 | 53.8 | 26.5 | 11.7 | — | 45.2 | 22.8 | 36.1 | 26.8 | 17.0 | 26.0 | 26.1 | 12.9 | 25.8 | 7.2 | 21.0 |
| | 1971 to 1976 | % | 5.6 | 8.4 | 6.7 | 8.4 | 5.4 | 4.1 | 8.6 | 6.5 | 6.7 | .. | 5.3 | 3.7 | 6.3 | — | 4.3 | 5.1 | 6.4 | 3.2 | 10.4 | 5.6 | 1.1 | .. | 5.0 | 4.7 | 2.5 |
| TOTAL OFFICIAL RESERVES | End-1977 | US \$ million | 2 384 | 4 244 | 5 761 ²¹ | 4 608 | 1 671 | 570 | 10 194 | 39 737 | 1 020 | 100 | 2 372 | 11 608 | 23 261 | — | 8 065 | 445 | 2 200 | 1 076 | 6 590 | 3 668 | 13 830 | 774 | 21 057 | 19 390 | 2 780 |
| | In 1977 | % | 19.5 | 29.9 | 14.3 ²¹ | 11.7 | 12.6 | 7.5 | 14.5 | 39.5 | .. | 16.3 | 44.0 | 32.8 | .. | .. | 17.7 | .. | .. | 37.1 | 18.2 | 77.2 | 13.5 | 33.1 | 13.1 | 28.8 | |

1 Partly from national sources.
2 Total resident population.
3 Private and socialised sector.
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5 Social product.
6 At constant prices.
6^a Private.

7 Fiscal year beginning July 1st.
8 Excluding ships operating overseas.
9 Fiscal year beginning April 1st.
10 1973.
11 At current prices and exchange rates.
12 $\frac{[GNP - (Priv. cons. + Pub. cons.)]}{GNP} \times 100$.

13 1972.
14 1971 to 1976.
15 Figures are not strictly comparable due to differences in coverage. For more details see "Educational Statistics Yearbook - Volume 1 (1974) and volume 2 (1975) - OECD, Paris".
16 1974.
17 Deaths in first year per 1 000 live births.
18 Figures are not strictly comparable due to differences in coverage.
19 1971 to 1975.

20 1970 to 1975.
21 Including Luxembourg.
22 1975.
NOTE: Figures within brackets are estimates by the OECD Secretariat.
Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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