

OECD  
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

SPAIN

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

APRIL 1980

## BASIC STATISTICS OF SPAIN

### THE LAND

Area (1 000 sq. km)	504.8	Major cities, 31.12.70 census, thousands inhabitants:	
Agricultural area (1 000 sq. km) 1978	275.8	Madrid	3 146
		Barcelona	1 745
		Valencia	654
		Sevilla	548

### THE PEOPLE

Population, 31.12.78, thousands	36 958	Civilian employment, 31.12.79, thousands	11 847
Number of inhabitants per sq. km	73	By sector (percentage):	
Net natural increase (1978, thousands)	343	Agriculture	19.5
Net migration (1978, thousands)	30	Industry	36.3
		of which: Construction	9.2
		Services	44.2

### PRODUCTION

Gross domestic product, 1978 (billion pesetas)	11 276	Gross domestic product at factor cost by origin, in 1978 (percentages):	
GDP per head, 1978 (US \$)	3 960	Agriculture	9
Gross fixed investment:		Industry and construction	36
Per cent of GDP (1978)	18	Services	55
Per head (US \$) (1978)	730		

### THE GENERAL GOVERNMENT

Public consumption, in 1978 (percentage of GDP)	11	Fiscal revenue, in 1977 (percentage of GDP)	25
Fixed investment in 1977 (percentage of gross fixed capital formation)	12	General government deficit, in 1978 (percentage of GDP)	2.9

### FOREIGN TRADE

Exports of goods and services, 1978 (billion US \$)	22.1	Imports of goods and services, 1978 (billion US \$)	21.0
Exports of goods and services as a percentage of GDP, 1978	15	Imports of goods and services as a percentage of GDP, 1978	14
Exports 1978, percentage of merchandise exports, customs basis:		Imports 1978, percentage of merchandise imports, customs basis:	
Foodstuffs	19.7	Foodstuffs	16.2
Consumer goods	27.8	Consumer goods	8.6
Raw materials and intermediate goods	33.9	Raw materials and intermediate goods	28.6
Capital goods	18.7	Fuel	28.4
		Capital goods	18.3

### THE CURRENCY

Monetary unit: Peseta	
	Currency units per US \$, average of daily figures:
	Year 1979
	February 1980
	67.15
	66.59

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

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# SPAIN

APRIL 1980

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;
- 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 March 1980.*

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Director of Information, OECD  
2, rue André-Pascal, 75775 PARIS CEDEX 16, France.

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## INTRODUCTION

Following the implementation of a comprehensive programme prepared in the second half of 1977, substantial progress was made until the end of 1978 in laying down the basis for resumption of more sustained expansion of output and employment; the rate of consumer price increases was significantly reduced and the situation on the external front improved remarkably. But, contrary to expectations, activity remained sluggish and unemployment rose in 1979, whereas demand in the major trading partners was relatively buoyant. In a context of accelerating price increases in the OECD area inflation decelerated little although import prices rose only moderately due to the appreciation of the peseta. The current external balance remained in surplus during most of last year.

Broad policy orientations for 1980 are contained in the Medium-Term Economic Programme presented by the Government in August last year. Given the significant slowdown expected in the growth of the world economy as a result of the deflationary impact of the upsurge in oil prices and the tightening of policies in most other Member countries, the international environment is likely to become less favourable. The domestic policy stance may be somewhat more expansionary than in 1979, but in view of the expected sharp deterioration in the terms of trade, there is a risk that the Spanish economy will continue in its present stagflationary trap while at the same time the balance of payments situation may weaken significantly.

Part I of the present Survey reviews recent trends in domestic developments and the balance of payments. Part II presents the short-term and longer-term economic goals of the authorities; it discusses recent demand management policies and describes some of the measures taken in employment, energy and industrial policies. Finally, Part III assesses short-term economic prospects and offers some concluding remarks on policy issues.

## I RECENT TRENDS

### *Overview of developments in 1979<sup>1</sup>*

Whereas one year ago official forecasts were for a 4  $\frac{3}{4}$  per cent year-on-year growth of real GDP in 1979 (and Secretariat forecasts not much lower), most recent estimates point to an increase of around 1  $\frac{1}{2}$  to 2 per cent. The year-on-year increase

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<sup>1</sup> No official national accounts are available yet for 1979 and the figures given in this Survey are, for a large part, tentative estimates by the Secretariat. The National Institute of Statistics has recently published revised series of national accounts extending back to 1964 the substantial revisions of data for the 1970s, which were published in 1977. The new series do not include separate accounts for the household and the corporate sectors, pending further studies. All the estimates for 1978 are presented as very provisional.

in consumer prices was 15  $\frac{3}{4}$  per cent, compared with an official forecast of 12-12  $\frac{1}{2}$  per cent. And, instead of stabilising, the unemployment rate rose further to more than 9 per cent of the labour force. Apart from pure forecasting errors, the discrepancy between the initial projections and the outcome may be partly attributed to the following factors. Higher oil import prices in the second half of the year contributed to raising domestic prices, thus dampening real domestic demand and probably also affected expectations. The marked shortfall in public investment, partly related to delayed approval of the budget by the Parliament as a result of the general elections in March, had an important influence on demand and output<sup>2</sup>. In spite of developments on the world oil market the growth of Spanish export markets proved stronger than expected, which, coupled with a better export performance, resulted in a more rapid expansion in export volume, which was apparently insufficient to arrest the downward trend of private productive investment. Import volume growth was also faster than anticipated. But while favourable developments in the terms of trade and a high level of invisible receipts kept the current account in sizeable surplus until the summer, a current deficit emerged in the late months of 1979 due partly to the increase in oil prices.

### *Demand and output*

The statistics available do not allow any precise quantitative assessment of recent trends in demand and output, especially of developments during the course of the year. Qualitative indications from business surveys (see Diagram 1) are for a progressive strengthening of demand in the course of 1978 which was partly reversed from the early months of last year. For 1979 as a whole, the most significant features of domestic demand trends were the continued fall in gross fixed investment for the fifth consecutive year, some pick-up in inventory formation and a moderate expansion of private consumption.

According to Secretariat estimates, total gross fixed investment fell marginally, despite a rise of around 3 per cent in public investment (including public enterprises). However, estimates of fixed investment for 1978 and 1979 are subject to large margins of error, partly related to the revision of the industrial production index (see below). But, various indicators suggest that construction investment fell: apparent consumption of cement fell by 6.3 per cent in the first eleven months of 1979 while employment in the construction sector declined by 5.6 per cent in 1979. In addition, according to surveys carried out by the Ministry of Industry on the level of activity in the construction sector, the percentage difference between the replies "increased" and "decreased" widened from -3.5 per cent in 1978 to -14.9 per cent in 1979. But it is difficult to judge the relative trends of housebuilding and other construction. (The latest separate estimates, on a national accounts basis, refer to the year 1977). Investment in machinery and equipment may have risen slightly in 1979. On a year-to-year comparison, registration of trucks rose by 2 per cent in 1979 and that of farm tractors fell by 5.4 per cent in the first eleven months of the year; the volume of capital goods imports rose by more than 10 per cent in the first eleven months of the year<sup>3</sup> and capacity utilisation in investment goods industries, excluding shipbuilding, was practically unchanged in the first three quarters of 1979.

2 In line with the budget proposals, gross capital formation by the public sector (including State enterprises) was expected to grow by around 12 per cent in volume. This assumed notably an early utilisation of the 104.5 billion pesetas contingency budget. In the event, public investment would seem to have grown by only 3 per cent in 1979. With a multiplier of around 2 over 18 months, the shortfall in public investment would be equivalent to a negative contribution of some  $\frac{1}{2}$  to  $\frac{3}{4}$  per cent to the growth of GDP in 1979. For more details see the paragraphs devoted to fiscal policy — Part III.

3 The rise was around 7 per cent excluding imports of aircraft.



Table 1 Demand and output<sup>1</sup>  
Percentage change, volume, annual rates

	1978 <sup>2</sup> Billion pesetas	Per cent of GDP	1970-75	1975-78	1976	1977	1978 <sup>3</sup>	1979		
								Actual <sup>4</sup>	Official forecast	Secretariat forecast
Private consumption	7 675	68.1	5.8	2.7	4.7	1.9	1.6	1.8	3.7	2½
Public consumption	1 189	10.5	6.1	4.8	5.3	3.7	5.5	5.0	6.0	6½
Gross fixed investment	2 079	18.4	5.7	-2.4	-2.0	-1.2	-4.0 <sup>5</sup>	-0.4	} 8.4	6½
Stockbuilding <sup>1</sup>	251	2.2	0.3	-0.4	0.1	-0.9	-0.2 <sup>3</sup>	0.4		
Total domestic demand	11 193	99.3	6.0	1.4	3.2	0.5	0.6	2.0	4.9	4
Exports	1 695	15.0	6.5	9.9	10.1	8.5	11.0	8.5	7.2	6
Imports	1 611	14.3	9.3	1.3	10.1	-4.7	-0.8	12.0	8.0	7
Foreign balance <sup>4</sup>	83	0.7	0.6	0.7	-0.3	2.1	1.9	-0.5	-0.1	—
GDP at market prices	11 276	100.0	5.5	2.7	3.0	2.6	2.5	1.5	4.8	4
GDP implicit deflator			12.3	20.0	16.7	22.7	20.8	15.9	12-12.5 <sup>4</sup>	14½
GDP at factor cost	10 699	94.9	5.9	3.0	3.3	2.9	2.8	1.7		
Primary sector	952	8.4	4.2	1.6	4.4	-4.2	5.0	-1.5		
Industry sector	2 981	26.4	7.3	3.1	3.5	3.9	2.1	2.0		
Construction sector	910	8.1	3.3	-3.3	-3.9	-1.1	-5.0	-5.0		
Tertiary sector	5 857	51.9	5.7	4.1	4.0	4.3	4.0	3.0		

1 The OECD system of national accounts.

2 Provisional official estimates.

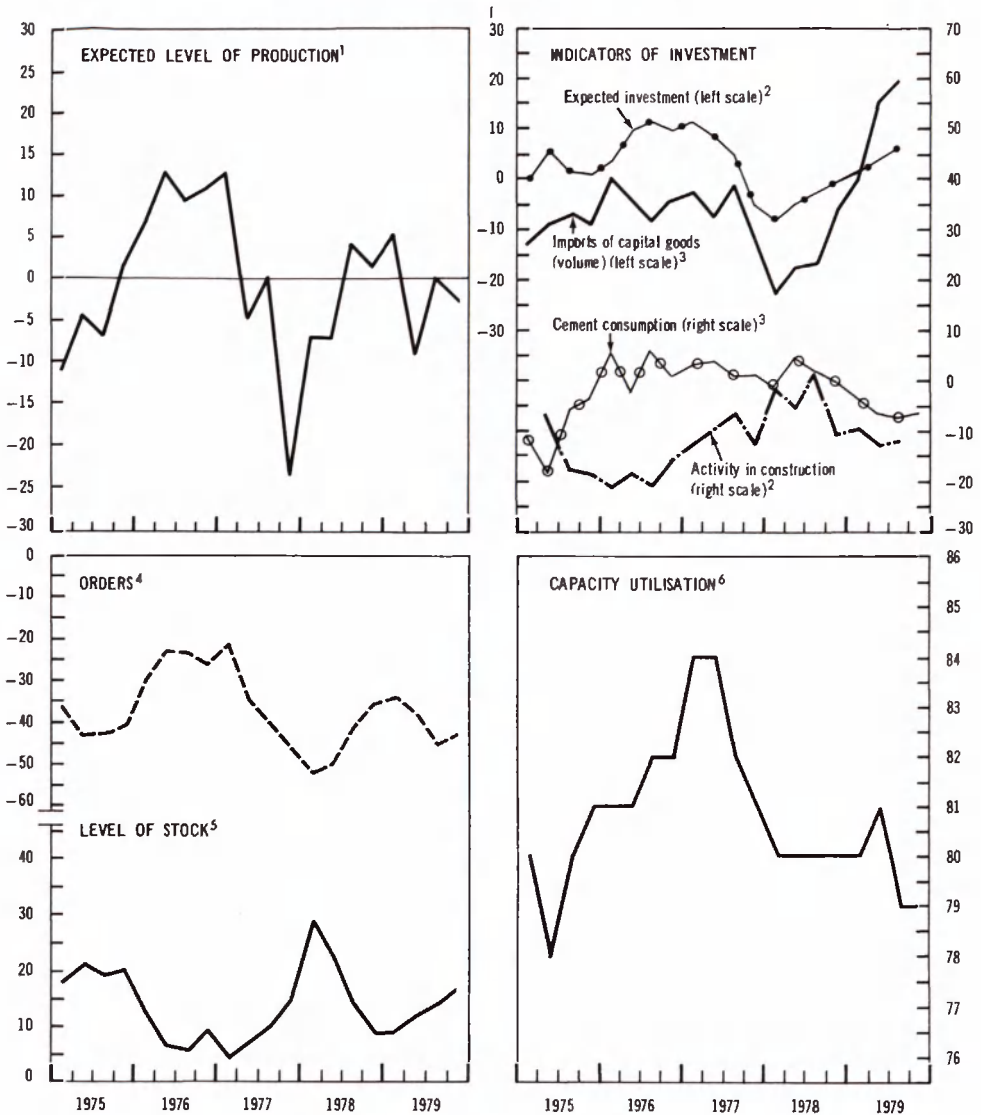
3 Secretariat estimates.

4 Changes as percentage of GDP in the previous period.

5 Consumer prices.

Source: National Statistics Institute.

Diagram 1 Indicators of economic activity



1 Seasonally adjusted data. Percentage difference between the replies "increase" and "decrease" for the level of production expected two to three months ahead.

2 Three-month moving average. Percentage difference between the replies "increase" and "decrease". Three-quarter moving average for activity in construction.

3 Percentage change from corresponding period of previous year.

4 Seasonally adjusted data. Percentage difference between the replies "strong" and "weak" for orders received.

5 Seasonally adjusted data. Percentage difference between the replies "higher than normal" and the sum of "lower than normal" and "none" for the level of stocks of final products.

6 Seasonally adjusted data.

Sources: Bank of Spain, *Statistical Bulletin*; Ministry of Industry, *Business surveys*.

The weakness of business fixed investment in recent years may be attributable to low rates of capacity utilisation, sluggish growth of demand and low profits. There are, however, no reliable statistics on corporate profits in Spain. The operating surplus according to national accounts definitions constitutes the only general indicator, but it includes incomes of the self-employed and statistical errors are probably large. The share of net operating surplus in net domestic income recovered somewhat in the two years to 1979. Given the likely trend decline in the income share of the self-employed, a phenomenon widely observed elsewhere, the rise in the share of net operating surplus could imply an appreciable recovery in the share of corporate profits<sup>4</sup>. Due to possibly large statistical errors no definite conclusions can be drawn, but some increase in the share of corporate profits would seem plausible judging from the development of costs and prices discussed below.

Capacity utilisation in industry would seem to have remained roughly unchanged in 1979, hovering around 80 per cent. As a result of a persistent decline in recent years, the estimated volume of non-residential fixed investment in 1979 amounted to only about 87 per cent of its 1974 level. Given the reduced level of investment, the expansion of capital stock, and thus capacity, should have slowed down also. An autonomous rebound of investment should normally be expected when the rate of expansion of capacity is reduced to sufficiently low levels relative to the rate of growth of demand. An important issue for both forecast and policy is, therefore, whether this point has been reached in Spain.

It is extremely difficult to analyse this problem in the absence of reliable statistics on either productive capacity or industrial production. Nevertheless, the experience of other Member countries since the first oil crisis in 1973/74 may shed some light on this issue. Table 2 shows the development of the share of non-residential fixed investment (excluding general government) in GDP or GNP since the beginning of the 1970s for several Member countries. The cyclical pattern of the investment share since 1974 differs among countries, reflecting, *inter alia*, an atypical cyclical position (as in Sweden or Finland), and the effects of energy-related investment (as in Canada, Norway and to some extent the United Kingdom). A recovery was observed in quite a few countries following a cyclical trough in 1975/1976, but in some cases it was short-lived. The Spanish case resembles more that of Japan and Italy where, due to the marked slowdown in medium-term growth rates, the downward adjustment of the capital stock lasted longer than in other countries. But whereas in both Japan and Italy a turning point seems to have been reached in 1978 with a recovery in the investment share in 1979, there was a further decline in Spain. It would, therefore, be of

4 In the 1979 OECD Survey (page 8) cyclically-adjusted trends were estimated for the shares of both net operating surplus and net corporate profit before tax in net domestic factor incomes. As noted, the revised national accounts do not give separate estimates of the latter but the estimates of net operating surplus have been extended back to 1964. A cyclically-adjusted trend in the share of net operating surplus has been re-estimated by the Secretariat using the revised data. As can be seen from the table below the results hardly differed from the earlier estimates except that the negative slope became slightly less steep and the Durbin-Watson statistic deteriorated somewhat.

Estimated coefficients in

	Time trend	Capacity utilisation	Adjusted R-square	Durbin-Watson statistic
a) Earlier estimate	-0.910 (-3.95)	0.519 (37.33)	0.998	1.744
b) New estimate	-0.720 (-6.12)	0.566 (42.38)	0.998	1.144

Table 2 Investment share in selected OECD countries<sup>1</sup>

	At current prices							At 1970 constant prices <sup>2</sup>							Ratio of minimum level since 1974 to average of 1970-73	
	Average 1970-73	1974	1975	1976	1977	1978	1979	Average 1970-73	1974	1975	1976	1977	1978	1979	Current prices	Constant prices
	United States	10.1	10.7	9.8	9.7	10.0	10.4	10.7	10.1	10.7	9.5	9.4	9.6	10.0	10.4	96.0
Japan	18.9	18.5	16.2	15.0	14.0	13.6	15.3	19.8	18.9	17.4	16.6	16.0	16.2	18.0	72.0	80.8
Germany	13.9	11.3	11.1	11.3	11.6	11.9	12.3	14.3	12.1	12.1	12.3	12.8	13.2	13.8	79.9	84.6
France	13.7	13.7	12.8	13.1	12.7	12.3	12.1	13.7	13.5	12.7	13.0	12.7	12.3	12.1	89.8	89.8
United Kingdom	9.0	9.7	9.0	9.0	9.8	10.4	10.2	8.9	9.2	8.4	8.1	8.7	9.1	9.8	100.0	91.0
Italy	12.7	14.4	13.0	12.8	12.7	12.3	12.4	12.5	12.8	11.2	11.1	11.1	10.7	10.8	88.3	88.3
Canada	13.0	13.6	14.8	13.7	13.7	13.6	14.2	13.2	14.2	15.1	14.2	14.1	13.8	14.6	—	—
Finland	16.6	18.0	19.5	17.3	15.8	13.0	..	17.7	18.2	19.5	17.6	15.7	13.1	13.5	78.3	74.0
Greece	10.8	10.6	9.4	9.8	10.7	10.1	..	10.3	10.1	8.7	9.0	9.6	8.8	..	87.0	84.5
Netherlands	14.2	12.5	11.6	10.4	11.8	12.0	12.1	13.3	12.5	11.6	10.4	11.9	12.3	12.1	73.2	78.2
Norway	18.6	20.8	24.0	26.3	26.8	21.0	..	18.5	20.2	22.0	25.4	24.7	18.8	17.2	—	—
Sweden	12.4	14.1	13.6	13.7	13.1	10.9	..	12.6	13.7	13.6	13.7	13.3	11.1	11.6	87.9	88.1
Spain	18.7	19.6	18.2	16.7	15.8	13.9	12.9	18.9	20.4	19.5	18.5	17.7	16.4	14.8	69.0	78.3

1 Share of non-residential fixed investment excluding general government in GDP/GNP except Spain for which total non-residential fixed investment was used.

2 1971 prices for Canada and 1972 prices for the United States.

Sources: OECD National Accounts and national sources.

some interest to see where the lowest levels since 1974 stand in relation to the 1970-1973 averages which might be considered as normal levels. (Last two columns of Table 2). The estimated percentages for Spain in 1979 (69 per cent in current prices and 78.3 per cent in constant prices) would appear to have reached the levels from which a recovery was observed in many OECD countries. This, together with the fact that in some sectors of industry utilization of capacity has already reached reasonably high levels<sup>5</sup> suggests that conditions have become more conducive to a revival of investment. It hardly needs to be added, however, that the timing as well as the speed of a recovery in fixed investment depend also on the expected growth of demand.

The Ministry of Industry business surveys on finished goods inventories and the sharp rise in imports of industrial raw materials suggest that there was some increase in inventory investment in 1979. The rise in stockbuilding was partly due to the need to reconstitute the level of stocks which had declined sharply over the previous two years. It may also have reflected some speculative elements related to the temporary reduction of import duties in April, anticipations of exchange rate movements and higher price increases in 1980; this was probably the case with regard to imported industrial raw materials and crude oil.

Since the revised national accounts do not provide separate estimates of household appropriation accounts in view of the lack of reliability of wage statistics, the actual growth of personal incomes remains very uncertain. According to tentative Secretariat estimates, household disposable income may have expanded by around 16 per cent in 1979<sup>6</sup>. Given a 15 ¼ per cent rise in the private consumption deflator, real private consumption would have grown by around ½ per cent, had the saving ratio been unchanged. Indicators of consumption, however, point to a rate of growth of the order of 1 ½ to 2 per cent<sup>7</sup>. This implies either that household disposable income has risen more than 16 per cent, a possibility that cannot be excluded, or that there was a decline in the saving rate. Two possible explanations for such a-typical saving behaviour in a context of high inflation and rising unemployment were already put forward in last year's Survey. One of them, emphasising the difficulties of adjusting to lower living standards, does not seem persuasive as the absolute decline in per capita consumption which was evident in the earlier estimates is not confirmed by the revised national accounts. Another explanation which attributes the decline in the saving ratio to changes in income distribution in favour of groups with a higher propensity to consume could be more plausible in view of the large increase in wages and social transfers.

Despite the apparent loss of price competitiveness in general and special factors affecting tourism receipts, exports of goods and services expanded by around 8 ½ per cent in volume<sup>8</sup>, probably due to weak domestic demand and some delayed effect of the earlier devaluation of the peseta. At the same time, imports of goods and services

5 These include mining, food, chemical and construction materials industries where the index of capacity utilisation ranged from 85 to 90 per cent in the third quarter of 1979.

6 This assumes, among other things, a 16.5 per cent increase in wages and salaries, an 18 per cent rise in property and entrepreneurial income and some net increase in the tax burden.

7 The Ministry of Industry business survey shows that the qualitative indicators of activity in consumer goods industry were somewhat better than in 1978 when private consumption grew by about 1½ per cent. There was also a marked increase in imports of consumer goods, 20.8 per cent in peseta terms, year to year in the first 10 months of 1979.

8 Merchandise exports on a customs basis are overestimated in 1979 due to a change in the recording procedure introduced in mid-April. Up to this date, the recording had been made at the time of actual embarkation, but under the new procedure exports are registered when merchandises arrive at the points of embarkation. However, pending the results of the official investigation currently under way, the degree of overestimation remains uncertain.

also rose rapidly (around 12 per cent in volume) reflecting the improved price competitiveness of imports and inventory accumulation, particularly of industrial raw materials.

On the supply side, value added by the farm sector may have declined by around 1½ per cent in 1979 following the unusually good harvest in 1978. Poor crops, particularly of beet, olives and barley, affected the production of grains and vegetables, but were offset to some extent by a rise in cattle production. Weak activity in the construction sector continued for the fifth consecutive year and output in this sector may have declined by around 5 per cent in 1979. In the tertiary sector value added rose probably by 3 per cent, or slightly less than in 1978, primarily due to the unsatisfactory performance of tourism. Trends in industrial production cannot be assessed easily because the new index, which is still provisional<sup>9</sup>, has been prepared using a method different from the earlier one. According to the revised index, the level of industrial production during the first eight months of 1979 remained unchanged over the same period of 1978. This seems difficult to reconcile with a 7.4 per cent rise in electricity consumption during the period, however, given the close association observed in the past between these two series. Judging from business surveys, the rate of growth in industrial value added can be tentatively estimated at around 2 per cent.

### *Employment and productivity*

During the high growth period in the 1960s and up to 1974, Spain recorded a pattern of sectoral shifts typical of rapidly industrialising economies, with the outflow of labour from agriculture absorbed by other sectors and emigration. These sectoral shifts contributed to a strong rise in overall output per person employed through rapidly rising "statistical" productivity within the primary sector itself and also by reducing the share of this sector, where the absolute level of productivity remained far lower than the average of the economy<sup>10</sup>. The marked slowdown in the rate of growth in the four years to 1978 has brought only a modest deceleration in productivity gains measured as GDP per person employed (see Table 3). The outflow of workers from agriculture accelerated at the very time when the non-farm business sector cut down employment. As a result, total numbers employed fell significantly, leading to a sharp rise in unemployment.

The situation in 1979 was characterised by a continuation of this trend. Total employment declined further by 2.4 per cent in 1979. The numbers employed in agriculture declined by more than 6 per cent, while, for the second year running, employment also fell markedly in industry and construction. Given a large negative carry-over from 1978, however, the reduction in the course of 1979 was smaller than implied by the annual average. Only in the service sector did employment increase

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9 The earlier indices, which were based on the data supplied by the statistical service of the now-dissolved "Sindicatos" (official unions at the time), have been discontinued since June 1978. Most of the new indices are based on the results of surveys conducted directly by the National Statistics Institute, and on information furnished by the Ministry of Industry. The aggregate indices are calculated by using value-added weights of national accounts in the base year 1972. The results of the recent industrial census are not yet reflected in either the new indices or the national accounts. The monthly indices available at present are not as comprehensive as the quarterly indices which are being prepared. In particular, the narrow coverage of investment goods industries could explain some of the anomalies in the new monthly indices such as a rapid rise (16.7 per cent at an annual rate between 1974 and 1978) in the production of general machinery during a period of falling fixed investment.

10 The level of value added per person employed in the primary sector was almost one-third of the national average in 1970 and less than half in 1978. The contribution of the latter effect to the rise in productivity amounted to 1 per cent on average in the 1965-1970 period and ¾ per cent in the 1975-78 period.

Table 3 **Employment and productivity<sup>1</sup>**  
Percentage change, annual rates

	Compo- sition	Medium-term trends <sup>2</sup>		Recent trends				
		1978	1970 1965	1978 1975	1976 <sup>3</sup>	1977 <sup>3</sup>	1978	1979
Total employment <sup>4</sup>	100.0	0.6	-1.4	-1.6	-0.7	-1.9	-2.4	
Agriculture	20.3	-2.7	-5.6	-7.7	-5.9	-3.0	-6.3	
Non-agriculture	79.7	2.3	-0.0	0.2	1.1	-1.3	-1.4	
Industry	27.7	1.8	-0.0	1.2	0.6	-1.8	-3.2	
Construction	9.7	2.8	-0.9	-1.7	2.6	-3.5	-5.6	
Services	42.3	2.5	0.2	0.0	1.0	-0.5	0.8	
Total productivity		5.9	4.5	5.0	3.6	4.8	4.2	
Agriculture		4.9	7.6	13.1	1.8	8.3	5.1	
Non-agriculture		4.7	3.2	2.9	2.6	4.0	3.5	
Industry		7.2	3.1	2.2	3.3	3.9	5.4	
Construction		4.0	-2.5	-2.2	-3.6	-1.6	0.6	
Services		3.4	3.9	4.0	3.2	4.5	2.2	

1 Value added by sector divided by number of persons employed.

2 Years chosen on the basis of cyclical comparability.

3 As there is a break in series in mid-1976, rates of increase in employment for 1976 and 1977 are estimated by the OECD Secretariat.

4 Excluding marginal workers.

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

marginally, thanks mainly to the creation of jobs in the public sector. Overall, productivity growth in 1979 is thus estimated to have been of the order of 4 ¼ per cent, or approximately in line with the trend since the mid-1970s. Productivity gains have decelerated in agriculture, due to less favourable crops, and in the service sector, mainly reflecting poor tourism performance.

After two years of virtual stability, the labour force decreased by ½ per cent in 1979. The overall participation rate continued to decline, with the historical downward trend of the male participation rate becoming steeper and the upward trend of the female participation rate tending to flatten. The rate for those under 19 years old declined significantly, probably because of extended schooling and the fact that young people may have been discouraged by the lack of employment opportunities. The rate for those above 55 years old also fell somewhat, partly influenced by the policy measures adopted to promote early retirement in certain sectors (see Part III). Despite the decline in the labour force, unemployment rose further albeit at a smaller rate than in 1978. In the fourth quarter of 1979, unemployed persons exceeded 1.3 million or approximately 10 ¼ per cent of the labour force.

In spite of the policy measures implemented, youth unemployment continued to rise rapidly in 1979. In the third quarter of the year the unemployment rate reached 29.5 per cent and 18.6 per cent, respectively, for age groups of 14-19 and 20-24 years old, or 4.8 and 0.4 percentage points more than in the corresponding quarter of 1978. Unemployment in the age group under 24 accounted for 59 per cent of total unemployment. There has been a strong upward trend in the duration of unemployment in general and for new job seekers in particular, around 90 per cent of whom are under 24 years old. Nearly 30 per cent of the new job seekers have been without jobs for over one year.

Table 4 Labour market trends<sup>1</sup>

	1974	1975	1976	1977	1978	1979	1979			
							Q1	Q2	Q3	Q4
Thousands										
Labour force <sup>2</sup>	13 135	13 091	13 041 <sup>3</sup>	13 055	13 062	12 991	12 992	12 930	13 006	13 035
Employment <sup>2</sup>	12 782	12 577	12 359 <sup>3</sup>	12 306	12 071	11 786	11 852	11 802	11 787	11 701
Unemployment	353	514	682 <sup>3</sup>	749	991	1 205	1 140	1 128	1 219	1 334
Per cent										
Participation rates										
Total	51.2	50.3	49.6	49.0	48.5	47.8	48.0	47.7	47.8	47.8
Men	76.9	75.9	75.2	74.1	72.9	71.9	72.2	71.8	71.9	71.8
Women	28.6	27.5	26.7	26.5	26.4	26.2	26.3	26.1	26.2	26.2
Unemployment rates										
Total	2.6	3.8	5.2	5.7	7.6	9.3	8.8	8.7	9.4	10.2
Men	2.6	3.9	5.0	5.5	7.0	8.7	8.2	8.3	8.8	9.6
Women	2.8	3.6	5.8	6.4	8.9	10.7	10.2	9.8	10.9	11.9
Percentage change from corresponding period of previous year										
Employment by sector <sup>4</sup>										
Agriculture	-3.9	-6.9	-6.1	-7.3	-3.5	-6.3	-6.8	-6.8	-6.5	-5.3
Industry	2.6	0.4	0.5	0.8	-2.1	-3.2	-8.1	-2.5	-3.1	-4.2
Construction	2.8	-2.3	-1.1	1.3	-3.5	-5.6	-6.9	-3.9	-5.5	-6.3
Services	2.4	0.4	0.3	1.0	-0.6	0.8	0.2	0.2	1.7	1.3

1 Statistics shown in this table are yearly averages and differ from those shown in Table B of Statistical Annex which are end-of-year figures.

2 These include the professional military but exclude those who are on compulsory military services and marginal workers.

3 Average for second half of 1976 was used due to a break in series in the third quarter of 1976.

4 See footnote 3 to Table 3.

Source: National Statistics Institute, *Labour Force Survey*.

Table 5 Duration of unemployment  
Percentage

Duration	1st quarter, 1978				1st quarter, 1979			
	Total	Less than 30 years old	30-44 years old	Over 45 years old	Total	Less than 30 years old	30-44 years old	Over 45 years old
Less than 1 month	6.9	5.8	8.6	9.9	5.2	4.5	6.8	6.4
1-3 months	21.3	21.4	24.1	18.2	19.1	17.3	22.9	22.5
3-6 months	23.3	24.0	22.8	20.6	21.5	21.8	22.2	19.7
6 months to 1 year	24.6	26.6	19.5	21.2	25.4	27.3	20.8	22.1
1-2 years	16.7	16.1	17.1	18.9	19.3	19.8	16.8	19.5
More than 2 years	5.3	4.4	5.3	8.8	8.3	7.9	9.2	9.0
Total <sup>1</sup>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1 Details may not add up to 100 per cent, due to non-classifiable replies.

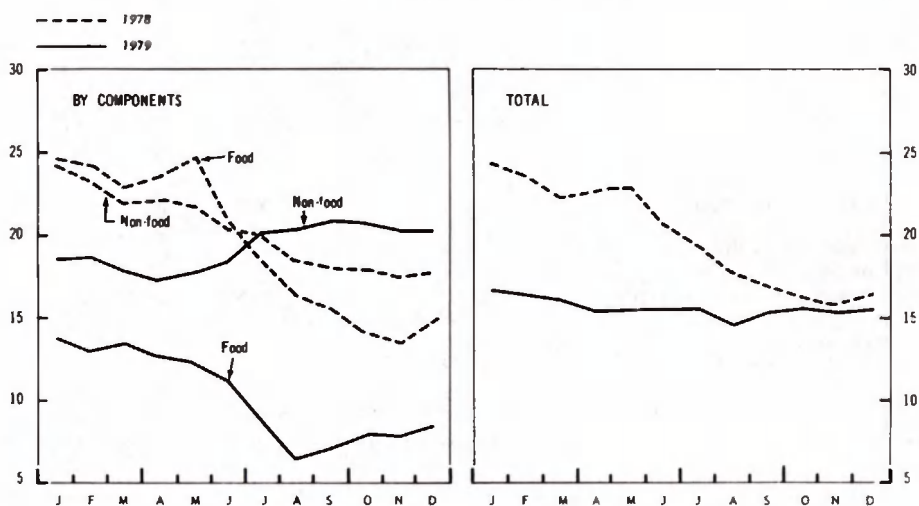
Source: National Statistics Institute.



### Prices, costs and incomes

The deceleration in consumer price increases amounted to a mere one percentage point in the course of 1979, compared with 10 points in 1978. The year-on-year increase in consumer prices, 15.7 per cent<sup>11</sup>, was significantly higher than the average rate for the OECD area (9.9 per cent). In view of accelerating inflation in most other Member countries, however, developments in the course of the year have tended to become more in line with those observed abroad. And in the six months to December, the rate of consumer price increase expressed at annual rate (15.9 per cent) was closer to that of the average of European Member countries (13.6 per cent). The overall price movement in the course of 1979 was a result of a sharp deceleration in food components and a significant acceleration in non-food elements, a pattern which can be observed at both the retail and wholesale price levels.

Diagram 2 Consumer price developments



Percentage change from corresponding month of previous year.

Source: National Statistics Institute. *Short-term Indicators*.

The growth in retail food prices was nearly halved in 1979 (11.5 per cent compared with more than 19 per cent in 1978) and the deceleration throughout the year was even more impressive, the year-on-year rise falling to around 8 per cent in the fourth quarter of 1979. This favourable development would seem largely ascribable to a sharp decline in prices of imported food products as the price of domestic farm products probably accelerated; indeed in the first 10 months of the year the wholesale price index for these products rose by 13.0 per cent over the corresponding period of 1978.

Year on year, non-food prices advanced by 19.1 per cent in 1979, or slightly less than in 1978, but the decelerating trend recorded since the end of 1977 was reversed in the second half of last year, with the year-to-year rate of increase reaching around

<sup>11</sup> The declared objective of the government was to limit the rise in consumer prices to 10 per cent over the 12 months to December 1979, implying a year-on-year increase in the range of 12-12½ per cent.

Table 6 **Price and wage trends**  
Percentage change from corresponding period of previous year

	Prices								
	1976	1977	1978	1979	Q1	1979			
					Q2	Q3	Q4		
Consumer prices	14.9	24.5	19.8	15.7	16.4	15.5	15.2	15.6	
Food	13.1	23.7	19.2	10.1	13.5	12.1	7.5	8.1	
Non-food	16.3	25.1	20.1	19.4	18.4	17.8	20.5	20.5	
Wholesale prices	15.3	17.0	14.0	11.3 <sup>1</sup>	11.1	11.6	11.1		
Food	15.0	15.8	14.9	11.2	13.1	12.6	7.9		
Non-food	15.8	18.9	12.8	11.4	8.5	10.2	15.5		
Average value of exports <sup>2</sup>	10.6	22.4	16.8	8.3	4.4	4.7	10.6	15.3	
Industrial products	7.9	20.4	16.0	4.7	4.6	4.8	5.6	3.4	
Average value of imports <sup>3</sup>	15.7	20.2	11.9	2.8	-4.2	-4.4	6.3	14.1	
Non-petroleum	12.9	19.9	14.0	-0.2	-1.5	-2.3	-0.6	3.6	
	Wages								
	1975	1976	1977	1978	1979				
Average increase in wage contracts	20.7	19.6	25.2	20.4	13.8 <sup>2</sup>				
Hourly earnings	28.9	30.7	22.3	25.0	25.6 <sup>1</sup>				
Daily pay in agriculture	16.7	25.3	28.3	26.7	18.3 <sup>1</sup>				
Salary cost per head in construction (including social security contributions)	20.1	28.8	30.6	25.1	18.8 <sup>4</sup>				

1 January-September.

2 Estimates by the Ministry of Economics; see also Table 9.

3 January-June.

4 January-August.

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

20 per cent in December. This development was influenced by the adjustment in energy prices decided upon in the wake of the sharp run-up in oil prices, but the non-food component of the index excluding energy products has also posted a sharp increase (around 18 per cent year on year). Given the large margin of slack in the economy, this development can hardly be ascribed to excess demand. In view of the moderating impact of import prices<sup>12</sup>, domestic inflationary pressures should have resulted mainly from the movements in wage costs and/or profit margins.

Information on wage developments remains unsatisfactory and somewhat contradictory. According to estimates made by the Ministry of Economics on the basis of a survey of negotiated wages, the total wage bill would have increased by 13.8 per cent in the first half of 1979 (over the corresponding period of 1978). At the time of writing actual developments in the second half of the year were not known and it was not possible to assess to what extent wages have been affected by the automatic across-the-board upward adjustment of 1.7 per cent recommended by the Government in

12 The sizeable appreciation of the peseta, (of the order of 9 per cent year-on-year on an effective basis) has had a dampening impact on import prices. According to tentative Secretariat estimates based on unit value indices provided by the Ministry of Economics, import prices excluding food and energy may have fallen slightly in 1979.

July, after the threshold level for wage re-negotiations was exceeded in June<sup>13</sup>. Partly based on the results of the above-mentioned survey, estimates by the Ministry of Economics point to an increase in the total wage bill (including social security contributions) of between 14 and 15 per cent. Such figures would imply a rise in unit labour costs in the non-agricultural sectors of the order of 11½ to 12½ per cent in 1979.

Calculations by the Bank of Spain suggest a somewhat more rapid increase in both the total wage bill and unit labour cost in the non-agricultural sectors, around 16½ and 14 per cent respectively. Estimates by the National Statistics Institute based on the movement in the index of hourly earnings for all industries except public services and agriculture<sup>14</sup> point to even higher figures, over 18 per cent for the wage bill and 16 per cent for unit labour costs. Overall, the latter may thus have advanced by anything between 12 and 16 per cent in 1979. Given an estimated nominal GDP growth of around 18 per cent (of which about 16 per cent for the implicit deflator) the trend of profits is therefore rather difficult to assess precisely; at worst the share of net operating surplus in GDP at market prices may have been of the same order as in 1978 (around 32 per cent) and at best it may have risen by some 1¼ percentage points to 33¼ per cent.

A significant improvement in the profit situation would seem at first rather at odds with a large degree of economic slack and a further appreciation of the peseta in 1979. One possible explanation, however, may be that in view of sluggish domestic demand conditions and more buoyant foreign markets, Spanish firms have tried to increase exports. Given their deteriorating labour cost position and the appreciation of the currency, this could only be achieved by squeezing profit margins on exports. And in order to offset this development, prices were raised more in the domestic markets where the competitive pressure is less than in foreign markets. This interpretation would be consistent with the fact that among non-food components of the consumer price index, traditional export items such as shoes tended to record above-average rates of increase in 1979. Implications of this hypothesis are twofold:

- i) the appreciation of the peseta has helped to reduce inflationary pressure but not as much as suggested by the movement of import prices;
- ii) to the extent that the increase in the profit margin alleviated financial difficulties of the companies, it may have prevented employment from declining further.

### *Balance of payments*

Following a large deficit in the four years to 1977, the current balance has probably recorded a surplus of around \$ 1.2 billion in 1979 or only slightly less than in 1978. The trade deficit widened somewhat but this was partly offset by an increase in the traditional surplus on invisibles largely reflecting a higher revenue from tourism. On a seasonally-adjusted basis, the large current account surplus registered in the first half of the year probably gave way to a small deficit in the second as a result of the

13 This clause called for a renegotiation of wage agreements in case the rise in the consumer price index were to exceed 6.5 per cent between December 1978 and June 1979.

14 In the first seven months of 1979, this index rose by 25.6 per cent over the corresponding period of 1978. Given that firms are now declaring more accurately the level of employees' salaries as a result not only of the tax reform but also due to the fact that social security benefits and notably unemployment allowances are based on actual wages paid, the percentage rate of increase derived from this index should be revised downwards. The extent of the adjustment, however, remains uncertain. To obtain the wage bill, besides numbers employed, estimates also have to be made on hours worked, and compensations not included in the hourly index, all calculations which in the case of Spain are still not very reliable.

Table 7 Balance of payments  
Transactions basis, \$ million

a) MEDIUM-TERM TRENDS							
	1970-73	1974	1975	1976	1977	1978	1979 <sup>1</sup>
Exports, fob	3 696	7 265	7 807	8 989	10 611	13 480	18 600
Imports, fob	6 030	14 334	15 195	16 316	16 831	17 505	23 560
Trade balance	-2 334	-7 069	-7 386	-7 327	-6 220	-4 024	-4 960
Services, net	1 923	2 679	2 755	1 891	2 619	3 974	4 430
of which: Tourism	2 131	2 875	3 096	2 679	3 486	4 917	5 420
Transfers, net	927	1 146	1 143	1 142	1 152	1 656	1 710
Current balance	516	-3 245	-3 488	-4 294	-2 449	1 606	1 180
Long-term capital	716	1 669	1 803	1 920	3 219	1 495	2 210
Private	761	1 616	1 788	1 350	1 960	1 956	2 680
Official	-45	53	15	570	1 259	-461	-440
Basic balance	1 232	-1 576	-1 685	-2 373	770	3 101	3 390
Short-term capital <sup>2</sup>	82	782	930	1 256	144	736	-20
Balance on non-monetary transactions	1 314	-793	-755	-1 117	914	3 837	3 370
Monetary transactions	3	-34	-70	86	231	-95	60
IMF oil facility	..	..	605	88	..	..	70
Change in official reserves	1 317	-781	-220	-943	1 145	3 743	3 500

b) RECENT TRENDS

	1978		1979	
	I	II	I	II
<i>Not seasonally adjusted</i>				
Exports, fob	6 476	7 004	8 780	9 820
Imports, fob	8 506	8 999	10 530	13 303
Trade balance	-2 030	-1 994	-1 750	-3 210
Services, net	1 180	2 794	1 960	2 470
of which: Tourism, net	1 715	3 203	2 292	3 128
Transfers, net	741	915	810	900
Current balance	-109	1 715	1 020	160
<i>Seasonally adjusted</i>				
Exports, fob	6 350	7 140	8 930	9 670
Imports, fob	8 210	9 300	10 280	13 280
Trade balance	-1 860	-2 160	-1 350	-3 610
Invisibles, net	2 370	3 250	3 200	2 940
Current balance	510	1 090	1 850	-670

1 Estimates by OECD Secretariat.

2 Including errors and omissions, and banks' internal foreign exchange accounts.

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

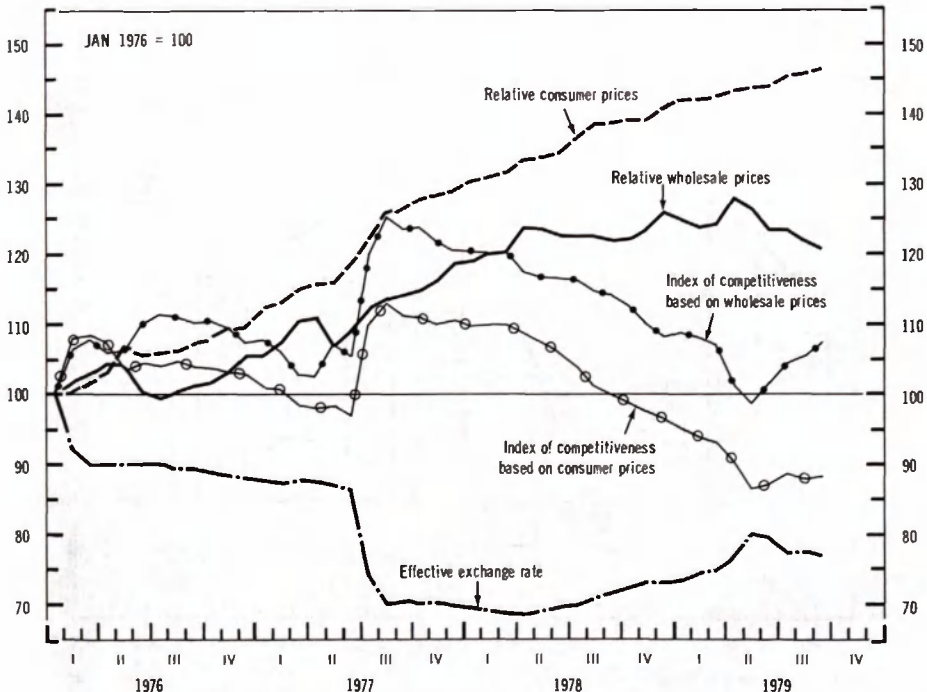
sharp increase in the oil bill and a levelling off in tourism receipts. Net inflow of long-term capital rose considerably reflecting enhanced interest of foreign enterprises to invest in Spain and a tightening of domestic monetary conditions. As a result, the peseta remained under strong upward pressure on the foreign exchange market and continued to appreciate up to mid-1979. But, with the progressive turnaround in the balance of payment situation and a change of policy by the Central Bank, the peseta has depreciated somewhat since the summer months.

The volume of merchandise exports has continued to expand rapidly in 1979 with a year-on-year growth estimated to have fallen within a 10 to 12 per cent range.<sup>15</sup>

15 See footnote 8.

Since, according to Secretariat calculations, export market growth for Spain remained relatively moderate, of the order of 6½ per cent, substantial gains of market shares were probably made by Spanish exporters. Such favourable export performance was probably largely influenced by depressed domestic market conditions (see Diagram 4). Although, as a result of rapidly rising relative labour costs and an appreciating currency, by mid-1979 Spain's competitive position had probably fallen back to its level before the July 1977 devaluation, the lagged impact of the earlier improvement in competitiveness may still to some extent have been felt in the course of 1979. Furthermore, as already noted, the rise in export prices may have been restrained by a squeeze in profit margins and productivity increases higher than in the sheltered sectors. By main commodity group, there was a particularly large increase during the first nine months of the year in the volume of capital goods exports, notably industrial machinery. The rise in consumer goods exports remained rather moderate due largely to stagnant shipments of footwear and textile goods, probably reflecting increasing competition from some of the newly industrialising countries. Shipments of food, raw materials and intermediate goods would also seem to have risen moderately in real terms. By region, and in peseta terms, shipments to the EEC and Latin America increased substantially while exports to the United States declined sharply. These developments are closely related to the commodity composition of exports to each region and the differential rates of appreciation of the peseta against major currencies.

Diagram 3 Price competitiveness<sup>1</sup>



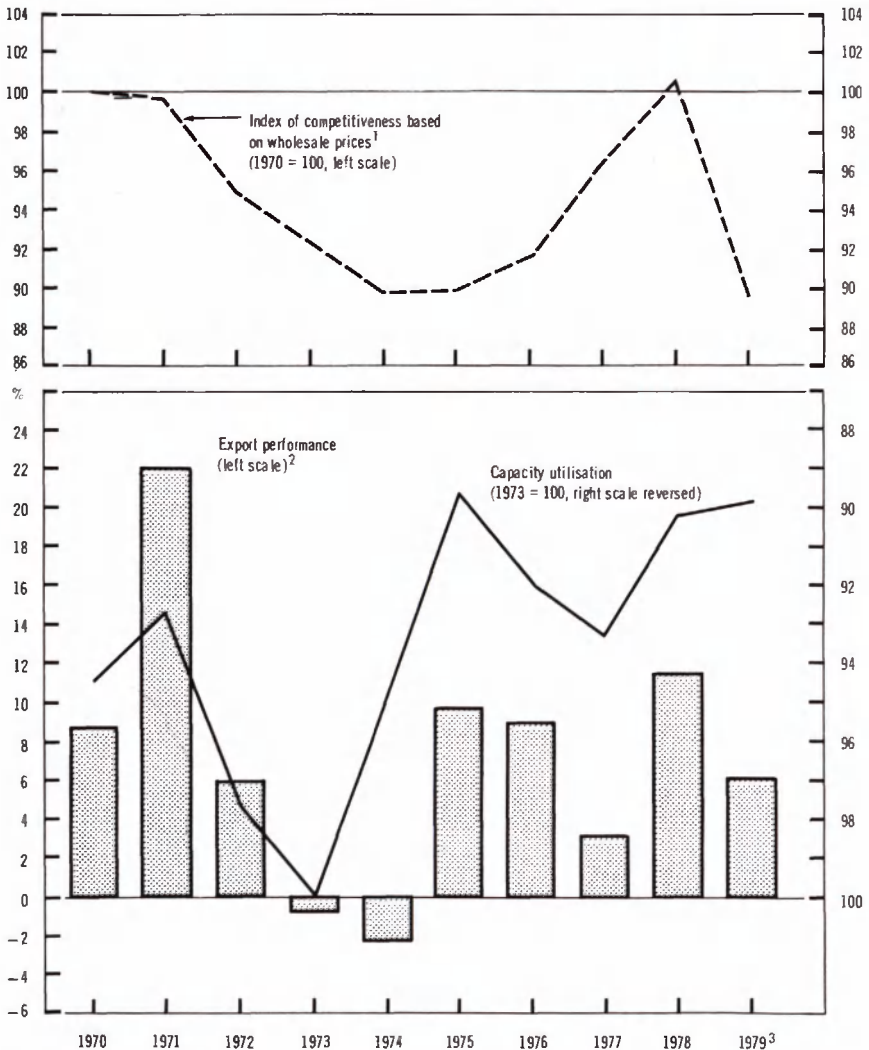
1 Relative prices are calculated as a ratio of prices in Spain to a trade-weighted average of prices in her 14 trading partners. Index of relative competitiveness is a product of relative prices and the effective exchange rate.

Sources: Bank of Spain, National Statistics Institute and OECD Secretariat.

The sharp decline in exports to the United States was attributable to a marked weakening of the competitive position due to the large appreciation of the peseta against the dollar. This was reflected in a significant fall in shipments of footwear and steel which account for nearly half of total Spanish exports to this market.

Following a decline in the two years to 1978, merchandise imports in volume rebounded strongly in 1979, in spite of the slowdown of total demand. For the year as

Diagram 4 Export performance



1 See footnote to Diagram 3.

2 Export performance is measured as a percentage difference between the volume growth rate of Spanish non-agricultural exports and that of the market.

3 January-September.

Sources: Bank of Spain, *Statistical Bulletin* and OECD Secretariat.

a whole, their rate of growth may have been of the order of 12 to 14 per cent. Stepped-up import liberalisation, reduction in quotas and reduced relative prices of imports due to both the appreciation of the peseta and temporary tariff cuts decided upon in April would seem to be largely responsible for this pick-up. Tight domestic credit conditions in the first half of the year also played a role. By major commodity group, purchases of consumer goods were particularly buoyant in the first nine months of the year, no doubt influenced by the liberalisation measures. Imports of energy products and primary and intermediate raw materials also expanded rapidly probably reflecting a replenishment of inventories which had been run down for the past several years. Capital goods imports rose markedly, partly due to purchase of aeroplanes.

Table 8 Foreign trade by commodity group

	Composition	Growth rates in peseta		
	1978	1977	1978	1979 <sup>1</sup>
<i>Exports</i>				
Total	100.0	32.9	29.2	20.4
Food	19.6	24.7	20.4	23.1
Consumer goods	27.8	42.0	32.4	15.2
Energy products	2.5	32.2	-12.8	-1.2
Intermediate products	31.4	38.2	41.7	20.6
Capital goods	18.7	23.6	24.0	28.0
<i>Imports</i>				
Total	100.0	15.4	6.0	11.7
Food	16.2	36.2	13.1	3.7
Consumer goods	8.5	26.0	9.5	18.8
Energy products	28.4	12.2	6.1	10.6
Intermediate products	28.6	10.9	3.2	18.0
Capital goods	18.3	9.6	2.9	7.7

<sup>1</sup> First three quarters over the corresponding period of last year.  
Source: Bank of Spain, *Statistical Bulletin*.

Overall, merchandise exports on a customs basis may have expanded in peseta terms by about 19 per cent in 1979.<sup>16</sup> The growth in imports was somewhat smaller, probably of the order of 16 per cent, but given the difference of level between exports and imports, the trade deficit on a transactions basis (fob/fob) rose again somewhat in 1979 to around \$5 billion, which followed a remarkable reduction in 1978. In the absence of reliable data the price-volume breakdown of merchandise trade has remained very uncertain in recent years. Tentative Secretariat estimates suggest that, in spite of a significant increase in the oil bill in the second half of the year, the deterioration in the trade balance can be ascribed to the volume development of trade, with the terms of trade actually exerting a positive influence in 1979. In that respect, the significant appreciation of the peseta vis-à-vis the dollar no doubt contributed to dampening the impact of the sharp rise in world oil prices. However, on a seasonally adjusted basis, the trade balance improved somewhat in the first half of the year, but deteriorated appreciably in the second, largely reflecting the marked increase in the oil import bill.

Table 9 Foreign trade prices  
Annual percentage change

	1975	1976	1977	1978	1979 <sup>1</sup>			
					Q1	Q2	Q3	Q4
<i>Merchandise exports</i>								
National account implicit deflator	7.4	13.1	19.2	14.3	..	..	..	..
Unit values								
National Statistics Institute	4.5	15.4	28.9	10.9	9.1	..	..	..
Ministry of Economics	..	10.6	22.4	16.8	4.4	4.7	10.6	15.3
<i>Merchandise imports</i>								
National account implicit deflator	6.5	15.0	22.2	7.4	..	..	..	..
Unit values								
National Statistics Institute	5.8	13.6	22.3	9.9	-5.7	..	..	..
Ministry of Economics	..	15.7	20.2	11.9	-4.2	-4.4	6.3	14.1

1 Compared with corresponding period of previous year.

Sources: National Statistics Institute and Ministry of Economics.

The traditional surplus on invisibles widened further by about \$½ billion in 1979, to around \$6 billion. As in 1979, the increase was largely accounted for by a rise in net tourism earnings (by around \$500 million). In dollar terms, net receipts rose significantly in the first half of the year but levelled off in the second, notably in the peak summer months. As the rise in dollar terms was mainly due to the appreciation of the peseta, the revenue in peseta terms increased only marginally, which in view of rapidly rising domestic prices implied a sizeable decline in real tourism activity.<sup>17</sup> Labour disputes in the tourism industry in the spring, terrorist activities in the summer months, and the deterioration of Spain's relative consumer prices (in a common currency) were probably the main factors responsible for sluggish tourism activity. Despite the significant appreciation of major European currencies against the dollar, and the non-negligible advance in wage incomes in host countries, net receipts on transfers are estimated to have risen only marginally in dollar terms, partly as a consequence of the sharp rise in 1978, but also due to an increase in the return flow of emigrant workers. The slowdown in the flow of remittances in the second half of the year

Table 10 Tourism performance<sup>1</sup>  
Percentage change from previous year

	1974	1975	1976	1977	1978 <sup>2</sup>	1979 <sup>2</sup>
Growth of tourist markets	-5.0	6.0	-1.0	5.7	5.2	-1½
Nights spent in Spain by foreign tourists	-8.5	8.5	-13.1	25.3	16.6	-3½
Losses (—) or gains (+) of market shares	-3.5	2.5	-12.1	19.6	11.4	-2½

1 Gains or losses of market shares have been measured by the difference between the percentage change in the recorded number of nights 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 eight areas of origin to thirteen 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 and Yugoslavia.

2 Provisional Secretariat estimates based on arrivals data.

Sources: OECD, *Tourism Policy and International Tourism in OECD Member Countries*, 1975, 1976, 1977, 1978 and 1979 and Bank of Spain, *Statistical Bulletin*; OECD Secretariat estimates.

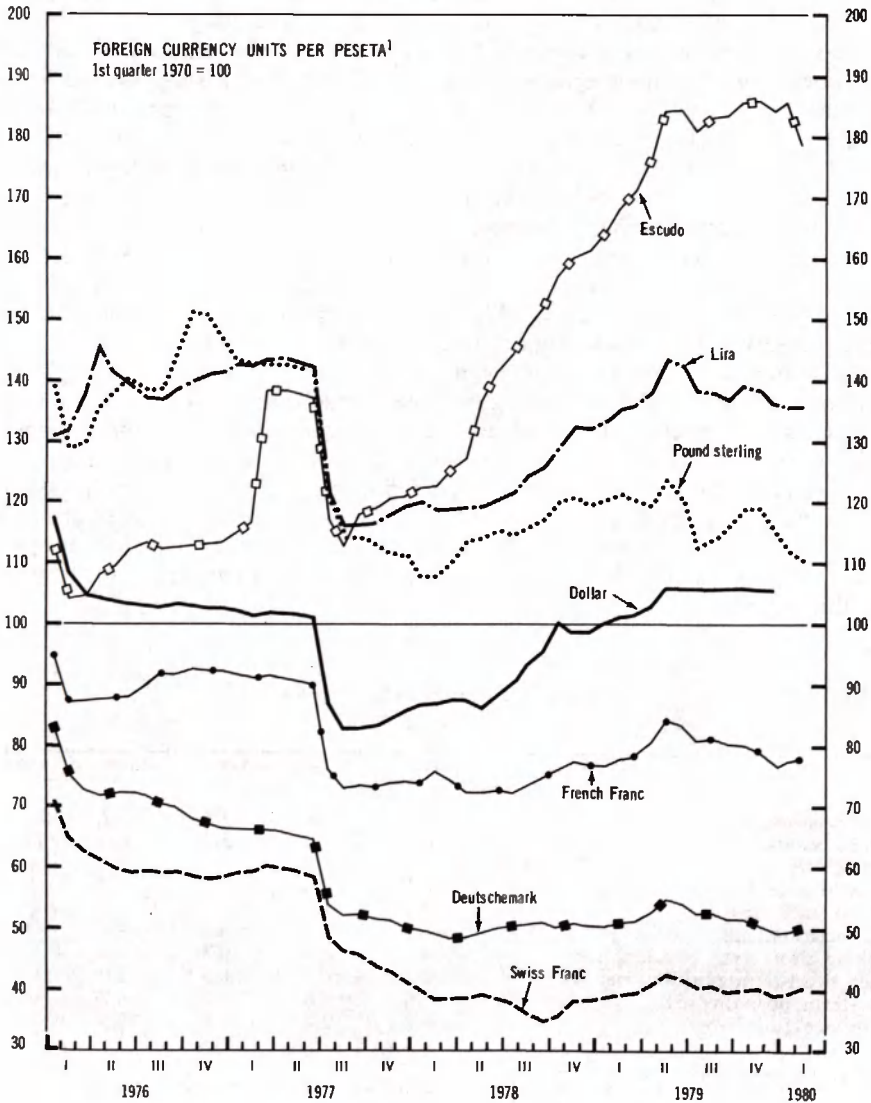
17 According to provisional estimates, the number of foreign visitors to Spain amounted to 38.9 million in 1979 or around 1 million less than in 1978.



may also have been related to expectations of a devaluation of the peseta. The traditional deficit on net investment income and royalty payments would seem to have widened by some \$250 million to around \$1.7 billion.

The balance on long-term capital movements is estimated to have recorded a net inflow of around \$2¼ billion over 1978 almost exclusively due to private capital movements. The sharp uptrend observed since 1977 in net inflows of both direct and portfolio investment continued in 1979, the latter being probably stimulated by interest rate differentials between domestic and foreign financial markets. In sharp contrast to

Diagram 5 Exchange rate developments



1 Monthly average of daily figures.

Source: OECD Secretariat.

the sluggishness of domestic investment activity, direct investment by non-residents has remained buoyant in recent years, contributing to some extent to the increase in exports notably in the case of the automobile industry. In 1979, foreign direct investment was active in financial services, wholesale trade, hotels and restaurants and the automobile industry. Net outflows of commercial credits were reduced substantially as a result of a marked decline in credit extended by residents to non-residents, while financial loans from abroad increased somewhat, developments which were undoubtedly related to the tightening of domestic monetary conditions. With a view to alleviating upward pressures on the exchange rate of the peseta and also securing the effectiveness of monetary restraint, a compulsory reserve requirement amounting to 25 per cent of non-commercial foreign loans was introduced in April 1979.<sup>18</sup> For the second year running, the balance on public long-term capital movements recorded a net outflow in 1979 partly reflecting advance debt repayments.

Following a net inflow of around \$0.7 billion in 1978 the balance on short-term capital movements (including errors and omissions) turned to a small net outflow in 1979. This turnaround may have been due to expectations of depreciation of the peseta in the latter half of the year. In all, the balance on non-monetary transactions is estimated to have registered a surplus of about \$3½ billion in 1979 or approximately of the same order as in 1978 (\$3.8 billion). The peseta remained under strong upward pressure on the foreign exchange market up to mid-1979 as most of the balance-of-payments surplus was concentrated in the first half of the year. Thus, the exchange rate continued to strengthen with an effective trade weighted appreciation of more than 13 per cent in the year to June 1979, and there was a further increase in foreign exchange reserves. *Vis-à-vis* major foreign currencies, the appreciation was particularly important against the dollar, amounting over the period to nearly 20 per cent, while it remained rather modest against the Deutschemark, the French franc and the Swiss franc. However, the trend has been reversed since the summer months, reflecting the weakening of the balance-of-payments position in the wake of the rapidly rising oil bill and the disappointing tourism performance, and a change of policy by the Central Bank. By the end of January 1980 the effective depreciation since end June 1979 amounted to 3¼ per cent. The depreciation took place against major European currencies, but the value of the peseta against the dollar has been kept virtually stable during this period.

Table 11 External debt situation  
End of period, \$ billion

	1974	1975	1976	1977	1978
Official position, net	5.9	4.9	3.3	3.2	7.4
Official assets	6.5	6.3	5.4	6.5	10.6
<i>of which:</i>					
Net reserves <sup>1</sup>	6.1	5.8	4.9	6.0	9.9
Official liabilities	0.6	1.4	2.1	3.3	3.2
Private position, net	-2.9	-4.3	-6.2	-8.6	-10.6
Banking short-term position, net	-0.1	-0.4	-0.8	-1.4	-1.2
Other short-term position, net	-0.2	-0.3	-0.3	-1.0	-1.2
Long-term position, net	-2.6	-3.6	-5.1	-6.2	-8.2
Debt service ratio <sup>2</sup>	0.2	2.4	6.6	10.9	16.2

1 Including gold valued at \$42.2 per ounce.

2 Net debt payments (interest and amortisation) as a percentage of exports of goods and services.

Source: Spanish submission to the Secretariat.

It should be noted that Spain's net external position is relatively favourable especially when viewed in relation to that of some other smaller Member countries. The net official position, which had deteriorated significantly in the three years to 1977 improved again substantially in the two following years, mainly reflecting the strengthening in the current balance. Given the marked increase in gross official reserves in 1979 (by around \$ 4 billion), the net official position may have exceeded \$ 10 billion by the end of the year. The net private position has continued to deteriorate since 1974, largely due to a rise in net long-term liabilities. Overall, net external debt outstanding is unlikely to have exceeded \$ 2 billion in 1979. However, the debt service ratio as measured by the percentage of exports of goods and services absorbed by interest and amortisation payments has risen rapidly in recent years to more than 16 per cent in 1978.

## II ECONOMIC POLICY

### *Official goals and policies*

As already noted, the main aim of policy in 1979 was to attain a significant acceleration in the growth of output and an improvement in labour market conditions, together with a further appreciable slowdown in the rate of inflation. Stimulus to activity was to be largely imparted by public investment, while the curtailment of inflation was to be achieved by wage restraint, higher productivity and control of the growth of the money supply. In view, however, of developments in the first half of the year and of the oil price hike, in August the official forecast was lowered to 2.5 per cent for GDP growth and raised to 13 - 14 per cent for inflation. One year ago, it was officially intended to speed up capital expenditure by committing a large part of the overall budget allocation during the first several months of the year ; and although, as a result of the March Parliamentary elections, approval of the budget was expected to be delayed until May, it was not thought that this would prejudice the operation of fiscal policy. In the event, the budget was approved in June and the execution of public works lagged considerably behind the initial plans, while the public sector deficit rose more than foreseen due to the increase in subsidies and transfers. Fiscal policy was on the whole expansionary, but probably did not impart as much stimulus as was envisaged initially. Although difficulties were experienced in controlling money supply during the first half of the year, due to the rise in both the public sector deficit and the external surplus, the monetary growth target was attained by the end of the year, with, however, a breakdown of nominal GDP growth between price developments and activity rather different from that initially envisaged.

Tax reforms drawn up in late 1977 have been progressively implemented, and the liberalisation of financial markets was advanced albeit at a reduced pace. Import liberalisation was stepped up and tariffs were reduced temporarily to check the rise in domestic prices through increased competition. Efforts were strengthened in the field of employment policy. The National Energy Plan was approved by Parliament and substantial adjustments were made to domestic energy prices to bring them more into line with international levels. Important restructuring plans were prepared for the shipbuilding and steel industries and partially implemented in 1979. Finally, an overall framework was provided for these various selective policy efforts through the presentation of a Medium-term Economic Programme.

Table 12 **Summary of policy objectives and results**  
Annual growth rates

	Initial objectives or forecasts for 1979	Revisions in summer 1979	Estimated Results
GDP volume	4.8%	2.5%	1½-2%
Consumer prices	12-12.5%	13-14%	15½%
Compensation of employees	11-14%	1.7% addition	14-18%
Import prices	10%		3½%
M3	17.5 ± 2%	19.5% for the second half	18.3%
Credit to the private sector	17.4%		17-17.5%
General government deficit (national accounts)	246 billion pesetas		358 billion pesetas
Current account surplus	\$1.8 billion		\$1.2 billion
General government fixed investment (nominal growth rate)	35.5%		17.5%

Sources: Ministry of Economics, Ministry of Finance and Bank of Spain.

This Programme announced in August 1979, unlike previous plans, contains only very few quantitative targets. It recapitulates instead the government's basic economic thinking and policy approach which has been expressed on various occasions since the Moncloa Pact of October 1977. It also identifies major changes in both the domestic and international environments to which the Spanish economy must adapt and lays out in broad terms how this adaptation ought to be made. The Programme contains selective lines of action to be taken in the coming few years but as most of these measures are described in the relevant sections below, only a broad outline of the Programme is provided in this section. Three main aims are put forward:

- given particularly large uncertainties in the years ahead, to attain a maximum degree of flexibility and adaptability to changing conditions through increasing reliance on competitive market forces;
- to allocate resources efficiently and to promote the transformation of the production system necessitated, in particular, by higher energy prices and increasing competition from the newly industrialising countries;
- to achieve a GDP growth of one to two percentage points above and a rate of inflation equal to the average of industrialised countries.<sup>19</sup>

Competitive stimuli to long-protected domestic markets are to be provided through import liberalisation and foreign direct investment. More flexible capital and financial markets are to be promoted by the progressive removal of the quantitative restrictions imposed on the banking sector, e.g. compulsory investment requirements and interest rate regulations. The improved pattern of resource allocation is to be attained mainly through the market mechanism, but the government may provide incentives to facilitate necessary adjustment in such cases as the restructuring of "crisis" sectors and energy saving. The stated macroeconomic objectives are to be attained by a close control of money supply, in line with nominal GDP growth, and a

<sup>19</sup> More specifically, the growth target varies between 3 and 5 per cent as the average growth of industrialised countries envisaged in the Programme is 2 to 3 per cent per year in the coming several years.

fiscal policy stance which should not entail such a level of deficit as to create problems in controlling money supply or interfere with private sector financing. Moreover, demand management policy is to be supported by a loose form of incomes policy: the government may suggest rates of increase in wages considered compatible with the given economic conditions, but collective bargaining should progressively take place in a more flexible market environment.

### *Fiscal policy*

In the initial 1979 budget total central government expenditure was to grow by 23 per cent with a higher rate planned for capital spending than for current expenditure. In order to moderate the rise in social security contributions a substantial increase (46 per cent) was envisaged in State transfers to the Social Security, in line with the declared medium-term objective of raising the State financing up to 20 per cent of the Social Security budget by 1983.<sup>20</sup> Excluding this item, current expenditure was to grow by 19.4 per cent. Together with a slightly slower rise in total revenue (21.8 per cent) than total expenditure the budget deficit was expected to reach 155 billion pesetas or some 42 billion pesetas more than in 1978. The Social Security budget for 1979 was formulated with the intention to reduce the cost impact to firms while limiting the erosion of the purchasing power of benefits. Contributions were projected to rise by 15.5 per cent over the estimated 1978 outturn, or roughly in line with the expected increase in the total wage bill. With a substantial growth in transfers received from the central government, total current revenue was to increase by 18.7 per cent and total expenditure by 14.2 per cent, implying a narrowing of the deficit.

As activity remained sluggish and employment declined further in the first several months of the year, the need to modify the initial 1979 budget became evident while it was still waiting for Parliamentary approval. Following a series of revisions, planned central government expenditure was raised further in the budget finally approved in June.<sup>21</sup> Capital expenditure was to rise by 33.8 per cent over the 1978 budget and current expenditure by 20.9 per cent. The central government budget deficit was expected to amount to 195 billion pesetas, of which 70 billion was to be financed by public debt issue, 22 billion by external borrowing and 103 billion by a recourse to the Bank of Spain. According to the estimates prepared jointly by the Ministry of Finance and the Bank of Spain, the planned deficit on a national accounts basis amounted to 246 billion pesetas or 1.8 per cent of GDP for general government, a decline of 1.1 points compared with the 1978 outturn. On this basis, fiscal policy was probably not as expansionary as suggested by the central government budget alone even taking into account the fact that the substantial rise in public investment should have had a high multiplier effect.

By the time the 1979 budget was approved the authorities became concerned with the rapid increase in the public sector deficit, which was estimated to reach 400 billion pesetas for the year as a whole. Accordingly, the government decided to curb current expenditure by some 100 billion pesetas as part of the revision to the entire economic policy programme for 1979.<sup>22</sup> In the event, according to provisional estimates, on a national accounts basis, general government total expenditure may have

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20 This terminal year was subsequently extended to 1984 mainly because of an additional State financing of unemployment benefits.

21 In particular, the contingency budget was increased by 24.5 billion pesetas of which 14.5 billion pesetas were for the investment programme. A current transfer of 7 billion pesetas to municipal governments and a capital transfer of 10 billion pesetas to public corporations were also added to the budget to help reconstitute their financial balances.

22 Of the 100 billion pesetas, 60 billion was to be saved by the central government, 25 billion by the Social Security and 15 billion by the local authorities.

Table 13 Central Government deficit and financing

	1978		1979			1980
	Approved budget <sup>1</sup>	Realization (cash basis)	Initial budget <sup>1</sup>	Approved budget <sup>1</sup>	Realization (cash basis)	Approved budget
Current expenditure	1 117	1 177.5	1 360	1 375.5	1 428.7	1 899.6
Capital expenditure <sup>2</sup>	356	319.2	452	476.5	342.2	513.0
Total expenditure	1 473	1 496.7	1 812	1 852	1 770.9	2 412.6
Total revenue	1 360	1 444.0	1 657	1 657	1 704.2	2 154.5
Difference between executions and orders		-20.1			-103.9	
Budget surplus/deficit		-72.8			-170.6	-258.1
Extra-budgetary and treasuring operations		-16.6			-53.4	
Overall deficit	-113	-89.4	-155	-195	-224.0	-258.1
Financial operations, net		-88.6			-20.8	-32.3
Borrowing requirement	113	177.0	155	195	244.8	290.4
Bank of Spain	40.7	105.7	63	103	145.2	170.4
External debt issues	32.3	32.3	22	22	4.8	20.0
Domestic debt issues	40.0	40.0	70	70	94.8	100.0

1 Excluding autonomous administrative bodies and financial operations.

2 Including Fondo de Acción Coyuntural.

Source: Ministry of Finance.

expanded by around 19 per cent, compared with 14 per cent in the approved budget. While the growth of total revenue was also somewhat greater than expected (20½ per cent against 18½ per cent), the actual general government deficit has probably reached around 360 billion pesetas or 2.7 per cent of GDP, a rise of nearly 1 percentage point compared with the 1979 approved budget.

Collection of both direct and indirect taxes was lower than envisaged in the budget. With regard to direct taxes this was mainly due to the weak outcome of the corporate tax, linked to lower levels of profit and to the fact that the tax was still being collected on the basis of the old tax system. In contrast, personal income tax receipts rose more than foreseen in the budget, reflecting adoption of the more progressive general personal income tax and stricter control of evasion.<sup>23</sup> The shortfall of indirect tax revenue resulted mainly from the reduction in customs duties which was not entirely offset by the higher-than-expected rise in the proceeds of luxury tax and sales tax. In all, the shortfall of general government tax revenue probably amounted to around 14 billion pesetas for direct taxes and 21 billion pesetas for indirect taxes. The rise in social security contributions was, however, larger than expected in the budget. This was mainly ascribable to the fact that the rate of base wage increases reported to the social security offices exceeded that assumed in the budget, in line with the tendency observed in recent years.<sup>24</sup>

Besides larger social security benefits, the higher-than-expected rise in general government current expenditure was due primarily to stepped up subsidies, current transfers and purchases of goods and services. Subsidies to enterprises also exceeded

23 For more details on the tax reform progressively carried out since the end of 1977, see the Annex on "Recent tax reform measures" in the April 1979 OECD Survey of Spain.

24 See the section on price and wage developments for a more detailed explanation of this phenomenon.

Table 14 **General Government account**  
On national account basis, billion pesetas

	1976	1977	1978	1979			1980
				(A) Budget	(B) Forecast results	(A) — (B)	Budget
<i>Revenue</i>	1 782.0	2 361.7	2 829.0	3 354.5	3 410.1	55.6	4 012.8
Direct taxes	339.0	448.3	610.0	758.5	744.3	-14.2	888.9
Indirect taxes	480.4	613.2	672.0	810.0	789.0	-21.0	959.6
Social Security contributions	729.3	1 000.4	1 200.0	1 354.2	1 438.1	73.9	1 653.0
Others	233.3	299.8	347.0	421.8	438.7	16.9	511.3
<i>Expenditure</i>	1 576.6	2 080.2	2 753.5	3 140.9	3 294.0	153.1	3 791.9
Wages and salaries	567.2	741.6	935.5	1 115.3	1 109.7	-5.6	1 327.0
Goods and services	199.8	242.4	297.5	361.8	378.5	16.8	436.8
Social Security benefits	657.1	874.2	1 231.5	1 343.8	1 443.7	99.9	1 609.0
Subsidies	94.7	130.2	169.0	171.0	200.0	29.0	227.6
Others	57.8	91.8	120.0	149.0	162.0	13.0	191.5
<i>Savings</i>	205.4	281.5	75.5	213.6	116.1	-97.5	220.9
<i>Consumption of fixed capital</i>	15.3	18.7	30.0	39.0	37.0	-2.0	54.5
<i>Capital expenditures</i>	242.8	354.9	438.0	498.5	510.9	12.4	575.7
Gross fixed capital formation	164.1	233.2	251.0	340.0	295.0	-45.0	358.0 <sup>1</sup>
Purchases of land	6.9	11.0	5.0	6.4	6.8	0.4	6.9
Capital transfers	71.8	110.7	182.0	152.1	208.1	57.0	210.8 <sup>1</sup>
<i>Deficit/surplus</i> (per cent of GDP)	-22.1 (-0.3)	-54.7 (-0.5)	-332.5 (-2.9)	-245.9 (-1.8)	-357.8 (-2.7)	-111.9 (-0.9)	-300.3 (-1.9)

1 Excluding the carry-over of a part of "Fondo de Acción Coyuntural" unutilized in 1979.  
Sources: Ministry of Finance, Bank of Spain and National Statistics Institute.

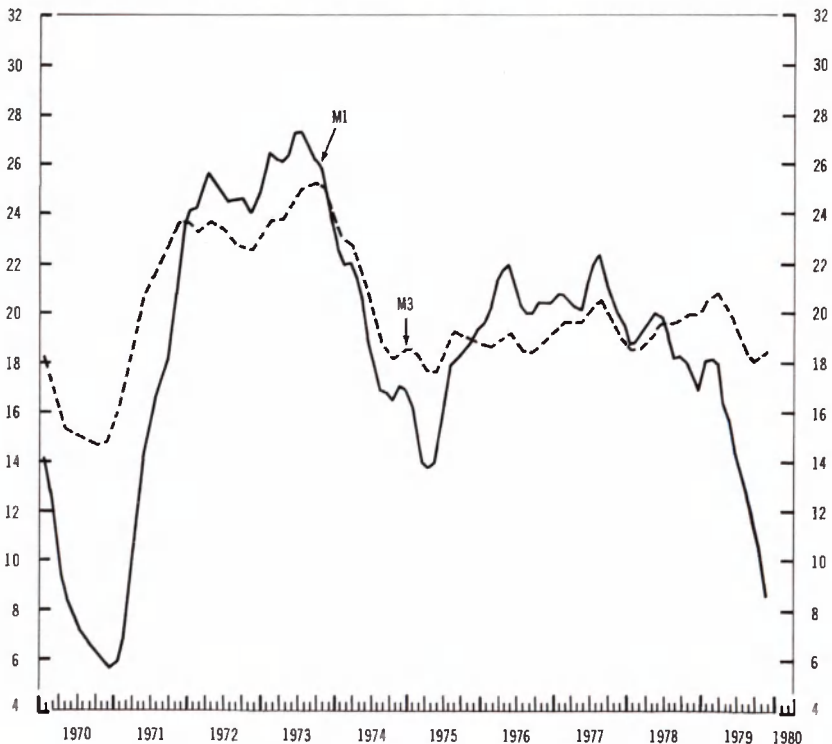
the amount foreseen in the budget, most of them being granted to public corporations. Excess purchases of goods and services took place in the budgets of the Social Security and local governments. Wages and salaries payments were lower than foreseen in the budget for the central government but higher for local governments. The unexpected rise in expenditure on social security benefits was probably due to the sharp increase in unemployment benefits and to a rise in pension payments. In all, general government net saving was probably 98 billion pesetas less than estimated in the 1979 budget.

Total capital spending was somewhat higher than in the budget, but this reflected substantially higher capital transfers and lower fixed investment. The negative demand impact of the shortfall in fixed investment was probably rather significant, and the positive effect of higher capital transfers rather modest as most of them were used to write off accumulated losses of public corporations. The effect of the latter may, however, become more important in the future should investment be undertaken by those companies which have received the transfers.

### Monetary policy

Monetary policy shifted from a rather restrictive stance in 1978 to an accommodating one in 1979. The target for the expansion of money supply (M3) was

Diagram 6 Main monetary aggregates<sup>1</sup>



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

Sources: Bank of Spain, *Statistical Bulletin* and OECD, *Main Economic Indicators*.



set at an annual rate of 17½ per cent in the fifteen months to December 1979<sup>25</sup>, with a somewhat higher rate (18 per cent) in the first half of the year than in the second. This implied a year-on-year rate of 18.4 per cent in 1979 or slightly less than in 1978 (19.3 per cent) but somewhat above the nominal GDP growth of 16½ to 17½ per cent initially envisaged by the government. Given the public sector deficit of around 200 billion pesetas and the overall external surplus of 1.8 billion dollars then forecast by the authorities, the attainment of the money supply target called for a rate of expansion of total domestic credit to the private sector of the order of 17½ per cent. Despite some difficulties encountered in controlling the growth of the money supply in the first half of 1979 and an upward revision of the M3 growth target to 19.5 per cent for the second half of the year, the initial monetary objectives appear to have been largely attained with the year-to-year growth of M3 estimated to have reached 19.1 per cent<sup>26</sup> in December 1979 and that of the credit to the private sector 17-17½ per cent.

The difficulties experienced in the first quarter of 1979 in regulating the expansion of money supply were mainly due to a greater-than-anticipated rise in both the external surplus and the public sector deficit. The growth of M3 accelerated from a seasonally adjusted annualised increase of 16.5 per cent in the fourth quarter of 1978 to 22.1 per cent in the first quarter of 1979. To some extent this was due to a vicious circle: the authorities' attempts to control M3 through a squeeze on bank credit led to greater borrowing from abroad, in turn intensifying the efforts to drain bank liquidity. A set of measures was thus taken in late April to reduce the net inflow of liquidity from the external sector and to curtail the supply of credit to the private sector. The

Table 15 **Monetary indicators**  
Percentage changes from end of previous period, seasonally adjusted annual rates

	Outstanding at end of 1979 Billion pesetas	1979 <sup>1</sup>	1979			
			Q1	Q2	Q3	Q4
Currency in circulation	1 039.8	15.2	24.4	3.1	5.5	9.8
Sight deposit	2 571.4	13.4	19.7	21.4	0.4	-4.4
M1	3 611.2	13.9	21.1	15.8	1.8	-0.5
Saving deposit	2 852.3	14.9	12.2	14.2	10.9	14.2
M2	6 463.5	14.3	17.0	15.1	5.8	5.9
Time deposit	4 025.0	28.7	31.7	29.1	24.9	43.4
M3: End of month	10 488.5	19.3	22.1	20.0	12.6	19.1
Daily average		19.7	21.8	19.3	16.6	16.6
Credit to private sector <sup>2</sup>	8 617.1	14.4	15.8	14.5	18.4	19.1
of which:						
Commercial banks <sup>3</sup>	6 229.3	13.0	14.7	15.2	19.7	21.1
Savings banks	1 650.1	16.9	16.9	7.6	15.2	11.4
Official credit	732.9	20.5	22.5	25.9	14.7	20.3

1 Annual average growth rate.

2 Includes small amounts of credit by the Bank of Spain.

3 Including Industrial Banks.

Source: Bank of Spain, *Statistical Bulletin*.

25 More precisely, the base for calculating the target growth of M3 is the average value over three months centering around September 1978. The target called for the maintenance of a cumulative seasonally adjusted annual rate of 17½ per cent with a 2 per cent margin on either side of the mid-point of the range. A seasonally adjusted moving average of average daily values of M3 is used to calculate the target.

26 Compared with the three month average centered around September 1978 on which the original target was based, the annualised growth rate of M3 was virtually on target.

peseta was allowed to float upwards and a non-interest-bearing deposit equivalent to 25 per cent of non-commercial loans received from abroad was made imperative. In addition, import liberalisation measures and temporary across-the-board cuts in tariff duties were implemented to cut down the current external surplus. The money supply growth, however, accelerated in June and July, following a temporary slowdown in May. The growth of M3 in the nine months to June nevertheless came just below the upper limit of the target, or 19.8 per cent at an annual rate.

In view of these developments, the authorities raised the M3 target for the second half of 1979 to 19½ per cent. However, thanks to a significant reduction in the balance of payments surplus and a moderation in public sector borrowing, the second half of the year saw a slowdown in the growth of M3 (17.2 per cent) and an acceleration in the expansion of credit to the private sector (about 20 per cent). The 25 per cent deposit requirement for non-commercial foreign loans was abolished in October.

The control of M3 in Spain is attained indirectly through the regulation of bank liquidity. In an attempt to offset the autonomous rise in the banking sector liquidity since late 1978 and also extend the list of monetary policy instruments, the Bank of Spain initiated in January a compulsory interest-bearing deposit as part of the required reserves of banks. The rate was initially set at 1 per cent of deposits but was raised subsequently to 2 per cent in March and further to 3 per cent in May. As regards traditional instruments, quotas for ordinary three-month rediscount were temporarily lowered by 50 billion pesetas between the last days of March and April, and the daily supply of credit through auction by the Bank was suspended between late June and early August.

As described in earlier Surveys the reform of the monetary and financing systems constituted one of the major structural measures included in the Moncloa Pact.<sup>27</sup> This aimed at strengthening the role of market forces by dismantling the complex system of government intervention and easing institutional rigidities. Monetary developments in 1979 illustrate, however, some of the problems that may be encountered in the transitional period to a more flexible market-oriented financial system. The 1977 deregulation of interest rates on deposits with over one year of maturity entailed a sizeable shift from saving deposits to time deposits, which is reflected in the faster growth of M3 than M2 in 1979. The squeeze on bank liquidity contributed to this development as the competition for funds among the banks resulted in a bidding up of interest rates on term deposits.<sup>28</sup> On the other hand, concern over the negative impact of the liquidity squeeze on medium-term financing led the authorities in late April to compel private banks to extend medium-term loans amounting to 1.8 per cent of their deposits; and it was decided to reduce the rate by which the investment coefficient<sup>29</sup> of savings banks was to be lowered from 0.25 percentage points every two months as originally planned, to 0.10 points.

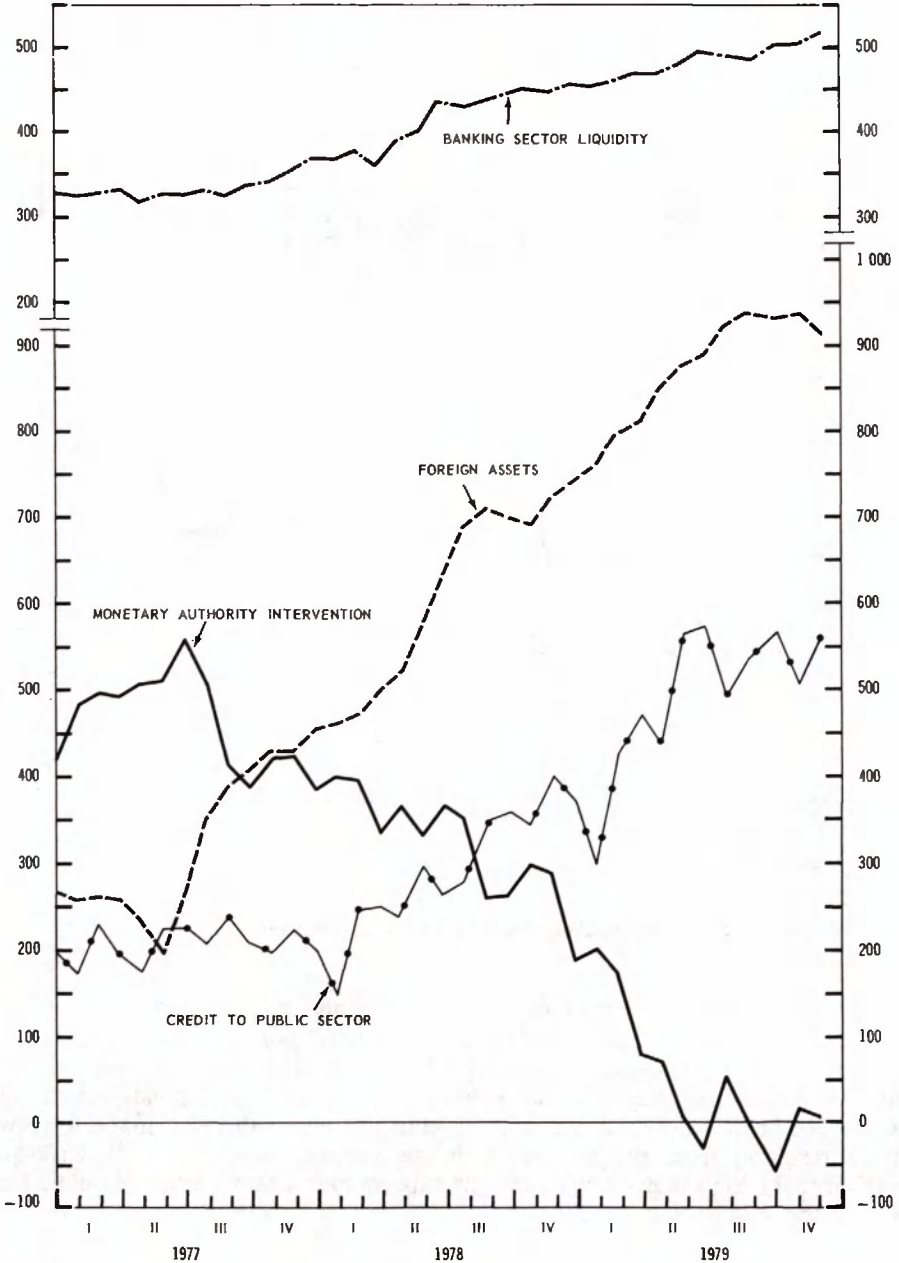
Unlike in 1978 when, for brief periods, the interbank rates exceeded 40 per cent, the pressure in the short-term money market remained relatively moderate throughout 1979. Apart from seasonal fluctuations the inter-bank rates remained below 20 per cent except in May when the series of tightening measures taken by the Bank of Spain

27 For more details see the OECD Survey of Spain published in June 1978.

28 According to a survey carried out by the Bank of Spain, the average interest rate on term deposits with a maturity of more than one year fluctuated around 10 per cent, whereas the legal rates were 3.75 per cent for saving deposits and 5.5 per cent and 6.5 per cent for term deposits with three-month and six-month maturity respectively.

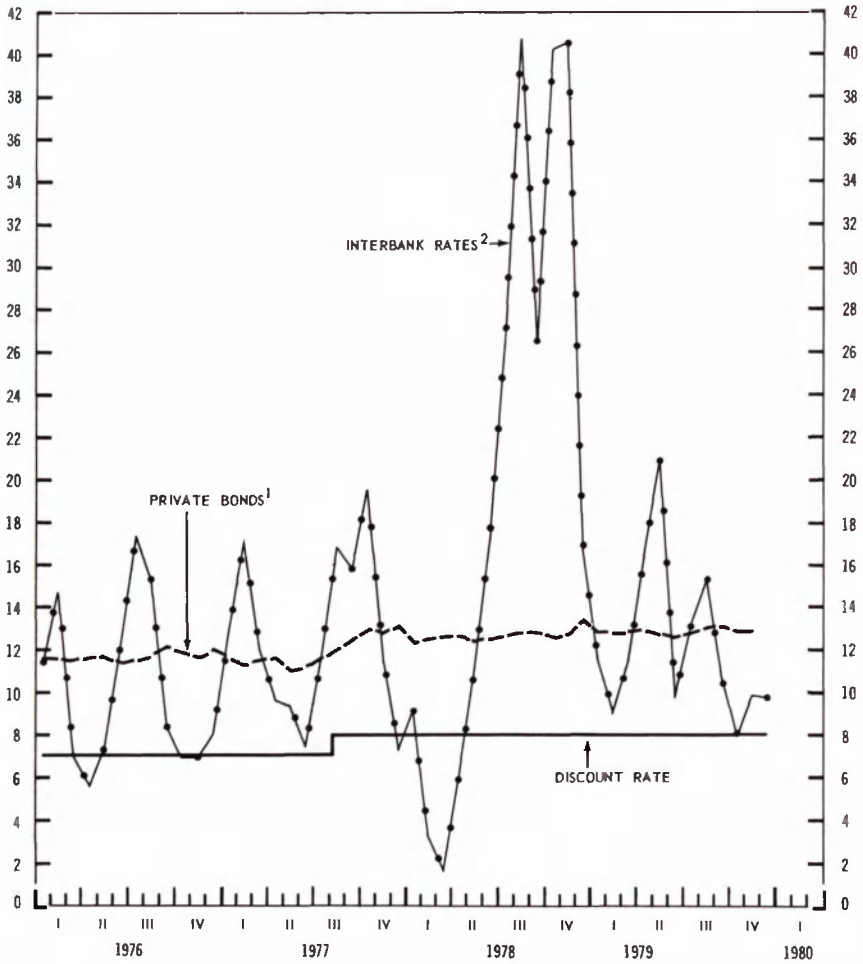
29 The commercial and savings banks are required to purchase government securities and grant subsidised credit to certain sectors (agriculture, construction, exports) in order to respect their "investment ratio". Between 1976 and 1979 this ratio was progressively reduced from 24.8 per cent of deposits to 22.5 per cent for commercial banks and from 69 per cent to 53.4 per cent for savings banks.

Diagram 7 Liquidity of the banking sector  
(billion peseta)



Source: Bank of Spain, Statistical Bulletin.

Diagram 8 Interest rates



1 Yield.

2 Daily rate.

Sources: Bank of Spain, *Statistical Bulletin and Supplement*.

caused a sudden fall in excess reserves. This relative calmness in 1979, notwithstanding the substantial draining of liquidity from the banking sector, was primarily due to the rapid adaptation of the banks' credit policy in response to the changes in their liquidity position. Interest rates on long-term bonds, on the other hand, rose in the course of the year, reflecting in part reduced demand for private bonds resulting from the slowdown in the rate of reduction in the investment coefficient for the savings banks and the expectation of large issues of public bonds later in the year.

### Price and wage policy

There was no basic change in the stance of price policy in 1979. Measures have been confined to checking excessive increases in food prices by means of releasing

State-owned stocks, and stimulating competition through import liberalisation and reductions in import duties. As noted earlier, energy prices were raised substantially and the government intends to make further adjustments in line with the general aims of its energy policy. With regard to wages, as may be recalled, the guidelines for 1978 were part of the programme endorsed by all the major political parties in the "Moncloa Pact" of October 1977, an agreement to which the social partners as such did not participate. In 1979 it was initially intended that wages should have been determined through collective bargaining, but in the absence of agreement between the social partners, a wage norm of 11-14 per cent was finally set by the government. As the rise in consumer prices between December 1978 and June 1979 exceeded the 6.5 per cent trigger level for renegotiation, an across-the-board upward adjustment of 1.7 per cent was suggested by the government. As noted earlier, the rise in wage costs to the companies was moderated by State transfers to the social security. No wage norms have been set by the government for 1980 and an agreement has already been reached between the Employers' Federation (CEE) and the General Workers Union (UGT, one of the two largest trade unions) providing for an increase in wages of between 11 and 16 per cent depending on conditions in individual enterprises. A renegotiation clause has been included with the trigger level of non-energy consumer price increases set at 6.75 per cent between December 1979 and June 1980.

### *Employment policy*

In view of deteriorating labour market conditions efforts to support employment have been strengthened in recent years. Measures taken in 1978, i.e. tax relief for new job-creating investment and recruitment incentives to promote employment of youths and recipients of unemployment benefits, have been extended into 1979. The number of persons eligible for the latter scheme exceeded 300 000 already in the first ten months of 1979, compared with 130 000 for the whole of 1978. In addition, three new measures were adopted in 1979. First, in order to create new jobs by penalising overtime work an additional social security tax of 14 per cent was imposed as from 1st April on incomes derived from overtime work.<sup>30</sup> Second, various additional incentives were given to investments in rural areas or in regions suffering from a particularly severe problem of unemployment as a result of the restructuring of the shipbuilding industry.<sup>31</sup> Finally, temporary employment by various local authorities (limited to a maximum period of 5 months) of recipients of unemployment benefits was to be promoted by financing the whole of unemployment benefits in the case of municipal governments and by exempting the payment of social security costs in the case of other local governments. Along with these measures, policy actions aimed at reducing the labour participation rate are under consideration. These include measures to raise progressively the rates of schooling (particularly in occupational training) for those between 14 and 16 years old and establishment of compulsory retirement age at 69.<sup>32</sup>

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30 This additional tax is shared between the employer, 12 per cent, and the employee, 2 per cent. The impact of this measure is, however, uncertain because of various possibilities for reorganising the work schedule.

31 9.5 billion pesetas were earmarked for this programme in the 1979 budget. The incentives provided were of three kinds. First, the company is given priority in obtaining official credits and a right for compulsory expropriation of land necessary for either construction or expansion of the plant. Secondly, up to 95 per cent of various transaction taxes and tariffs are exempted, and social security costs born by the company are reduced by 50 per cent in case of recruitment of workers previously employed in the shipyards. Thirdly, cash subsidies of up to 20 per cent of the value of fixed investment and 300 000 pesetas per permanent post created for the workers coming from the shipbuilding sector were to be granted to the company.

32 The average retirement age is at present around 65 years.

### *Energy policy*

Noticeable progress has been made in energy policy ; 14 months after its submission to Parliament the National Energy Plan was finally approved in July 1979 and virtually all domestic prices of energy have been raised to levels more in line with those prevailing in most other Member countries. Before proceeding to a more detailed explanation of these developments, a brief description of Spain's structure of energy supply and demand may be useful. As in other Member countries, substantial changes have taken place in the structure of energy supply since the early 1960s and up to the first oil crisis. The decline in the share of coal and the rise in that of petroleum were particularly pronounced compared with the OECD average. There was also a sizeable reduction in the share of hydroenergy, which nevertheless has remained an important supply source. These developments reflected both a high supply elasticity and a secular decline in the price of oil relative to other energy sources, and rapid economic growth through industrialisation which outpaced that in most other Member countries. Indeed, the proportion of industrial use in final energy consumption in Spain rose by nearly 10 percentage points between 1960 and 1974 to more than 50 per cent, among the highest in the OECD area, whereas the corresponding rise for the average of Member countries was only 1¾ points. Since the 1973/74 oil crisis this proportion has fallen somewhat both in Spain and for the OECD area as a whole in line with the slowdown in industrial activity.

Spain is one of the few OECD countries which saw an increase in energy consumption per unit of GDP after the first oil crisis. The energy intensity of value added, measured as a ratio of total primary energy requirement to GDP rose in Spain from 12.5 in 1974 to 13.5 in 1977, whereas the OECD average declined by 4 points to 13.2 in 1977 (calculations in constant 1970 prices and at 1970 exchange rates). This was probably not unrelated to the low level of energy prices in Spain by international standards.

Against this background, the National Energy Plan aims at reducing the dependence on imported energy, while securing sufficient supply to allow a GDP growth consistent with other policy objectives. This is to be achieved basically by appropriate upward adjustments in energy prices, public funding, both direct and indirect, to promote exploration and use of indigenous resources, and provision of incentives for energy conservation. According to the latest official long-term projections, assuming an annual real GDP growth of 5 per cent and a real energy price increase of 2 per cent per year, total primary energy requirement should grow at 5.2 per cent per annum between 1978 and 1985 and by 4.85 per cent in the second half of the 1980s. The share of imported energy (of which oil accounted for around 95 per cent in 1978) should be reduced from around 70 per cent in 1978 to below 60 per cent by 1990. Substantial increases in domestic production of nuclear energy, coal and oil are expected and some contribution from new energy sources, particularly solar and biomass, are planned. As the potential is nearly reached, the relative importance of hydroenergy will decline.

It should be noted that only the general framework of energy policy was so far approved by Parliament and implementation of the Plan will require further specific legislative action. However, significant adjustments of energy prices have already been made. The price of hard coal and lignite has been increased by 16 per cent, and prices of hydrocarbons have been raised twice during 1979 by 23 to 114 per cent, depending on the products ; an additional increase of 14-61 per cent has taken place in January 1980. Electricity prices have also been raised on the average by some 21 per cent in July and by a further 17 per cent in January. As a result of these upward revisions, energy prices in Spain have reached a level roughly comparable with the average of OECD countries.

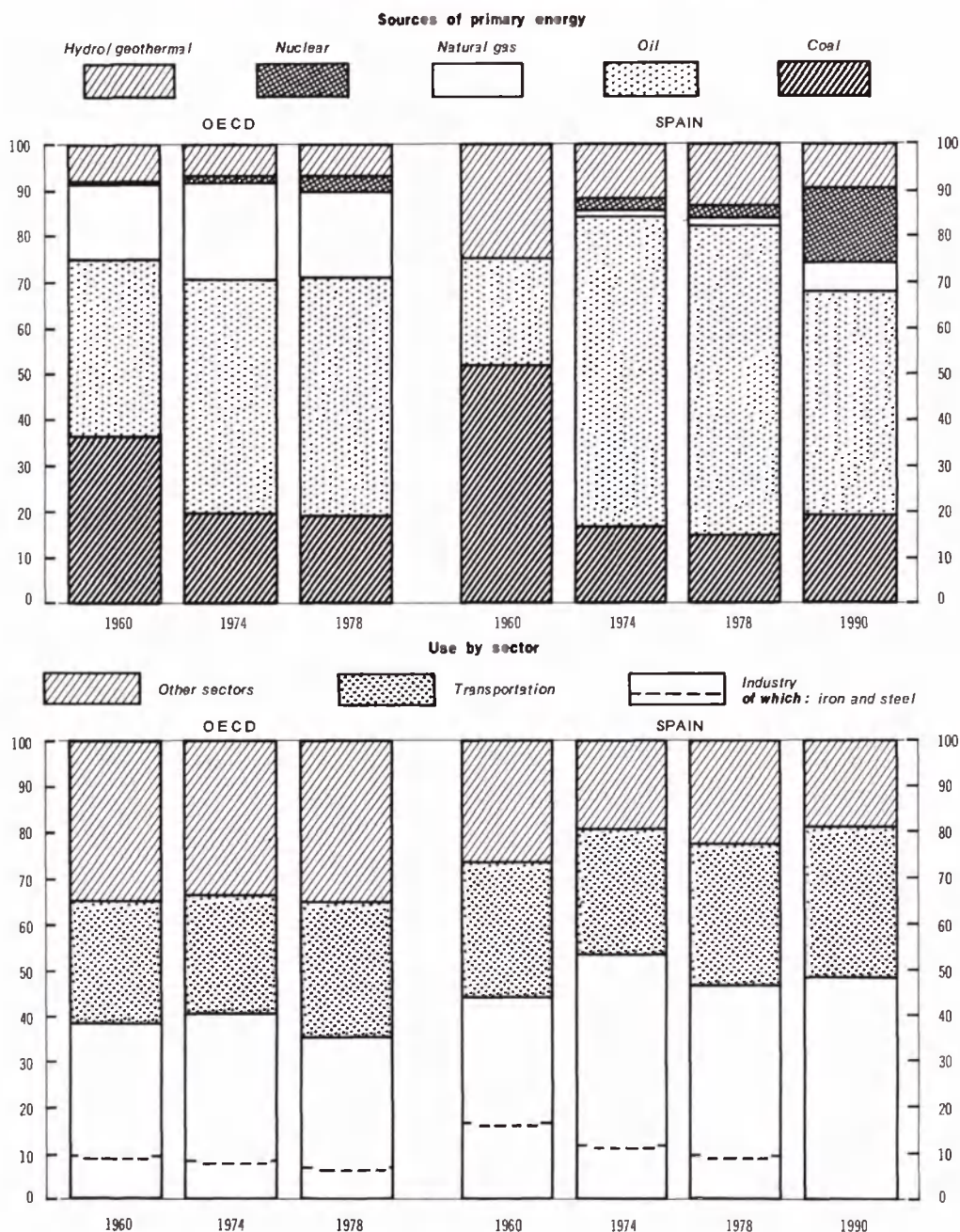
Table 16 Spanish energy balance, 1978  
Millions of metric tons oil equivalent

	Solid Fuels	Crude oil, oil products	Natural gas	Nuclear	Hydropower	Electricity	Total
Domestic production	9.43	0.98	—	1.80	9.75	—	21.96
Imports	2.58	51.69	1.46	—	—	0.15	53.88
Exports	-0.01	-2.64	—	—	—	-0.28	-2.92
Bunkers	—	-1.45	—	—	—	—	-1.45
Stock changes	-1.23	1.51	-0.02	—	—	—	0.26
Total primary energy requirements	10.77	48.09	1.44	1.80	9.75	-0.13	71.72
Electricity	-6.30	-6.24	-0.15	-1.80	-9.75	8.56	-15.69
Gas manufacture	—	-0.24	0.20	—	—	—	-0.03
Refineries	—	-3.02	-0.27	—	—	-0.07	-3.36
Energy sector and losses <sup>1</sup>	-0.68	0.38	-0.05	—	—	-1.47	-1.82
Total final consumption	3.79	38.97	1.18	—	—	6.89	50.82
Industry	3.50	14.06	0.78	—	—	4.36	22.70
Transportation	—	14.72	—	—	—	0.14	14.86
Other	0.28	7.76	0.41	—	—	2.39	10.84
Non-energy use	—	2.43	—	—	—	—	2.43

<sup>1</sup> Including statistical errors.

Source: IEA, *Energy Balances, 1976-1978* (forthcoming).

Diagram 9 Changes in the structure of energy supply and demand



Sources: International Energy Agency, *Energy Balances of OECD Countries* and Spanish submission to the OECD.



### Industrial policy

In the field of industrial policy major restructuring plans for the crisis-ridden sectors, notably shipbuilding and steel, have been prepared and partially implemented during 1979. In the shipbuilding sector employment has been curtailed by some 6 000 to 8 000 persons during the 3 years to 1979. A new plan covering the years 1980-1982 has been elaborated with a view to improving competitiveness. Thirty five per cent of existing capacity is to be scrapped, a further permanent reduction of some 8 000 jobs is to be implemented and, in order to increase productivity, the construction of marine engines will be dissociated from traditional shipbuilding activity. Moreover, given the changing pattern of world demand, it is intended to promote diversification into new activities such as construction of LPG carriers, drilling platforms, military vessels, etc. At the same time, efforts are to be directed towards improving technology, labour skills and marketing. It is also envisaged to scrap old ships and to steer domestic demand towards Spanish yards.

In the steel industry the problems are somewhat less serious than in shipbuilding; after a moderate decline in the two years to 1976, output was nearly back to its previous 1974 peak level by 1979.<sup>33</sup> Nevertheless, difficulties have been encountered in recent years, calling for a restructuring to be carried out in two stages: the financial conditions of the companies, which are running large losses at present, are to be improved over the 2 years to 1981, through scrapping capacity, curtailing financial charges and reducing employment by around 8 per cent, which together with higher productivity and moderate wage increases is expected to lead to a substantial reduction in wage costs. Secondly, after better financial conditions are attained, productivity is to be further increased through replacement of obsolete capacity. By 1985, wage costs are to be reduced to 19-20 per cent of gross sales from nearly 30 per cent in 1979 and the gross profit margin to be raised from 9 per cent to around 17-19 per cent.

With regard to other sectors, it is envisaged to restructure certain consumer goods industries (refrigerators, television sets, radios, etc.) but no concrete measures have as yet been taken. The measures should aim at raising productivity through increased specialisation of factories, the product range of which is currently considered too diversified. In the textile sector, restructuring has taken place over the last three years resulting in a marked improvement of the situation with most of the acute problems being solved, except in the wool industry.

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#### Percentage share of Spanish crude steel production

	1968	1973	1976	1977	1978
In Western Europe	3.5	6.0	6.7	7.2	6.9
In Western World <sup>1</sup>	1.4	2.2	2.4	2.5	2.4
In World total	1.0	1.5	1.6	1.7	1.6

<sup>1</sup> World excluding USSR and Eastern Europe, China and North Korea.  
Source: International Iron and Steel Institute.

### III SHORT-TERM PROSPECTS AND POLICY CONCLUSIONS

#### *Policy assumptions and external environment*

In 1980 the policy stance seems more conducive than in 1979 to a recovery of activity but the external environment is likely to be less favourable. The Bank of Spain intends to adopt an accommodating stance and since a deficit is foreseen in the current external balance, the public sector deficit should cause less difficulty in the control of money supply than in 1979. Although specific quantitative targets for monetary expansion have not yet been officially announced, public statements by the Economic Minister suggest that the growth targets for M3 and credit could be of the order of 18½ and 19 per cent, respectively.

With a stepped-up increase in public investment, fiscal policy should be more expansionary than in 1979. According to the 1980 budget approved last December, the general government deficit should be roughly the same in 1980 as in 1979, i.e. around 330 billion pesetas. This assumes that the unused part of the 1979 investment budget of some 30 billion pesetas will be fully utilised during 1980, implying that gross fixed capital formation of general government could expand by around 32 per cent in nominal terms (over the estimated outcome of 1979). It has been assumed by the Secretariat that the increase in general government investment would be around 12 per cent in volume. Revenue growth is envisaged to slow down from 20.5 per cent in 1979 to 17.7 per cent mainly due to moderate increases in social security contributions and other incomes. Direct taxation revenue should also rise less rapidly than in 1979 due to a decline in corporate income tax receipts. On the other hand, revenue from indirect taxation should increase more than in 1979, reflecting various transitory steps taken with a view to eventually introducing a value added tax. Despite the slowdown in the growth of revenue, net saving of general government is planned to increase as the rise in current expenditure is to decelerate even more (from 19.7 per cent to 15.2 per cent).

At the time of writing (mid-February 1980) prospects for the world economy and international trade are particularly uncertain. On the one hand, the large deflationary demand impact stemming from the massive increase in oil prices since mid-1979 and the tightening of policies in many Member countries is bound to affect the growth of demand in the OECD area negatively. Moreover, re-spending of the substantial increase in OPEC oil revenue will almost certainly remain limited at least in the short-term. On the other hand, activity in most countries was stronger in the second half of 1979 than expected a few months ago, reflecting a combination of factors linked to inflationary expectations, such as a decline in the household saving ratio, speculative inventory accumulation and more buoyant foreign trade. An unwinding of these temporary influences could normally be expected to take place but the timing is uncertain. It is, therefore, not at all excluded that activity in the OECD area may remain relatively sustained in the first half of 1980, followed by a marked weakening in the second half and possibly into 1981. In view of these various considerations, the growth of Spain's export markets is tentatively projected to slow down from 6½ per cent in 1979 to around 4 per cent in 1980. The average import price of oil is assumed to post a year-on-year rise of the order of 60 per cent, while the technical assumption of an unchanged effective exchange rate from its mid-February level implies only a very marginal depreciation compared with the average rate of 1979.

#### *Short-term outlook*

In spite of the expected strong rise in public investment and some sign of recovery of private investment, given the weakening of foreign demand, real GDP

growth is forecast to remain very moderate in 1980 (of the same order as in 1979, i.e. around 1¾ per cent). According to Secretariat forecasts, with no significant decrease in labour cost pressure and a sharp surge in import prices, the rate of inflation, as measured by consumer price increases, may be even slightly higher than in 1979. It should be noted, however, that the Government's aim is to lower the rate of increase in consumer prices to around 14 per cent. On the basis of wage contracts already agreed in the first two months of the year the authorities are rather confident that this target can be achieved. Unemployment could rise further, exceeding 11 per cent of the labour force by the end of the year. In view of the further erosion in the competitive position and the forecast large deterioration in the terms of trade the current balance may shift to a deficit of the order of \$2.7 billion.

Considerable uncertainty surrounds the outlook for wages. Given the tendency indicated by the agreement already signed between the Employers' Federation and the

Table 17 Short-term forecasts

a) DEMAND AND OUTPUT			
	1978 <sup>1</sup>	1979 <sup>2</sup>	1980 <sup>3</sup>
	Billion pesetas	Percentage change, volume	
Private consumption	7 675	1½	1
Public consumption	1 189	5	3½
Gross fixed capital formation	2 079	½	2½
Stockbuilding <sup>4</sup>	251	½	-½
Total domestic demand	11 193	2	1½
Exports of goods and services	1 695	8½	4
Imports of goods and services	1 611	12	3
Foreign balance <sup>4</sup>	83	-½	½
GDP at market prices	11 276	1½	1½
GDP deflator		16	15½
Private consumption deflator		15½	16½
Consumer price index		15½	17

b) BALANCE OF PAYMENTS			
		Percentage change	
Merchandise trade			
Exports, fob: Volume		11	4
Prices <sup>5</sup>		7½	11
Imports, fob: Volume		12	3
Prices <sup>5</sup>		3½	27
		\$ billion	
Balance of payments			
Trade balance		-4.9	-9½
Invisibles, net		6.1	6½
Current balance		1.2	-2½

1 Provisional official estimates.

2 Provisional Secretariat estimates.

3 Secretariat forecasts.

4 Change as percentage of previous year's GDP.

5 In pesetas.

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

General Workers Union (one of the two largest trade unions) the technical assumption made by the Secretariat is that the total wage bill will expand by around 16 per cent, with a marginally higher growth for household disposable income. With a projected rise in the private consumption deflator of the same order, real disposable income is forecast to remain approximately unchanged. Assuming a further decline in the savings ratio, in line with the trend in recent years, real private consumption may rise slightly. Public consumption growth is forecast to decelerate from 5 per cent in 1979 to 3½ per cent in 1980, based on budget forecasts.

As noted, general government gross fixed investment may rise by around 12 per cent in 1980. Business fixed investment is expected to recover moderately, posting an increase of around 2 per cent, as the downward adjustment of the stock of capital would seem to have been completed in certain industrial sub-sectors. In view of the rather sluggish expansion of total final demand and as a reaction to speculative inventory accumulation in 1979, stockbuilding may exert a slight negative contribution to the growth of activity in 1980.

The real external balance is unlikely to provide much stimulus to activity in 1980; on the contrary, in view of the sharp slowdown in the growth of export volume the dynamic impact on the rest of the economy may be somewhat weaker than in 1979. As noted, the expansion of Spanish export markets may decelerate to around 4 per cent this year. And although persistent weak domestic demand may constitute an incentive for selling abroad, in a context of exacerbated international competition the worsening relative cost performance may prevent new inroads into foreign markets from being made. The volume of merchandise exports is thus projected to increase by around 4 per cent, implying no gains of market shares. As the marked rebound in imports observed in 1979 was significantly influenced by speculative stockbuilding of raw materials, the trend of imports should weaken considerably in 1980. Given, however, the large carry-over from 1979 and the modest recovery of fixed investment, the year-on-year import volume growth may still be of the order of 3 per cent.

A substantial deterioration is expected in the terms of trade with import prices as measured by unit values increasing by some 27 per cent and export prices by around 11 per cent. Overall, the trade deficit (fob/fob) may rise from \$4.9 billion in 1979 to some \$9.5 billion in 1980. As the fall in real tourism activity last year was to some extent due to special factors, a modest recovery is expected in the number of foreign tourists visiting Spain in 1980. In dollar terms gross receipts may grow by roughly the same rate as in 1979, which, coupled with a significant deceleration in the increase of payments, may raise net tourism receipts to roughly \$6.5 billion. With some further albeit limited rise in net investment income and royalty payments, and a small increase in net transfers, the invisible balance may improve somewhat. As a result, the current account is forecast to shift from a surplus of \$1.2 billion in 1979 to a deficit of about \$2¼ billion in 1980.

According to Secretariat forecasts, with no significant moderation in wage increases and a sharp rise in import prices, inflationary pressures are unlikely to subside in 1980. Assuming some decline in the profit margin, as the companies should find it more difficult to raise profit margins when faced with a deterioration rather than an improvement in the terms of trade, the total demand deflator (covering both domestic demand and exports) is estimated to grow by some 16 per cent. However, the GDP implicit price deflator, which may be used as a measure of internal inflation since the effects of changing import prices are netted out, may increase by some 15¼ per cent, or slightly less than in 1979 (around 16 per cent).

The employment situation is forecast to deteriorate further during 1980. The decline in dependent employment in the non-agricultural sector is, however, expected to be somewhat smaller than in 1979, partly due to the stepping up of public works

and to the fact that the significant adjustment carried out in recent years within the business sector would seem to have brought the labour force more into line with medium-term requirements. Total dependent employment is forecast to decrease by 2.8 per cent in 1980, implying a deceleration in the course of the year. The number of self employed, on the other hand, may continue to rise moderately, so that total employment may decline by around 1 per cent. In all, assuming a marginal rise in the labour force in the course of the year the unemployment rate may reach a yearly average of around 10¾ per cent or 11¼ per cent by the end of the year.

### *Policy conclusions*

Substantial progress has been made in recent years towards creating the right institutional and socio-economic environment placing Spain in a better position to meet the challenges of the 1980s. Efforts have been made to open up the economy, with increased liberalisation of external trade and payments. An important tax reform was progressively carried out since the end of 1977 and greater use has been made of market mechanisms in allocating financial resources. A National Energy Plan was approved last year, aimed at reducing dependence on imported energy, and substantial adjustments have been made to domestic energy prices to bring them more into line with international levels. In the field of industrial policy, restructuring programmes for the crisis-ridden sectors, notably shipbuilding and steel, have been prepared and partially implemented so far. More recently a new Workers Statute has been approved by Parliament providing for greater labour mobility and more flexibility in wage negotiations.

A year ago, in view of the results obtained under the stabilisation programme introduced in the second half of 1977, the easing of the various constraints facing the Spanish economy was judged such as to allow some relaxation of demand management policies without jeopardizing the progress made towards restoring better balance in the economy. The official aim for 1979 was, therefore, to induce stronger expansion mainly through higher public investment while achieving a further deceleration in the rate of inflation. But although the world economy proved somewhat more buoyant than expected and Spanish exports increased again considerably, real GDP growth remained sluggish, of the order of 1½ to 2 per cent. There was a further fall in business fixed investment, a large rise in unemployment, and only little progress in reducing inflation in a context, however, of accelerating price increases in the rest of the OECD area.

Viewed in a somewhat longer-run perspective and in relation to developments in most other Member countries, the adjustment of the Spanish economy since the first oil shock of 1973/1974 has been difficult. The problems stemming from the less favourable international environment prevailing in recent years were compounded by specific domestic circumstances. Given the historical context, priority had to be given to fundamental institutional and political reforms, which on crucial occasions has complicated the management of the economy. This was notably the case in the early part of the period when it took two and a half years before policy could seriously come to grips with the imbalances that had developed in the wake of the 1973/1974 oil shock. Similarly, delayed approval of the 1979 budget as a result of the March parliamentary elections was partly responsible for the failure to implement the planned expansion of public investment. The uncertainties created by the various electoral consultations and other, well-known non-economic factors also probably had a detrimental impact on business anticipations and investment plans.

Among the purely economic factors that have increased the difficulties of adjustment in Spain there was, first, the mere size of the shift from a rapid to a modest rate

of growth with the consequent emergence of excess industrial capacity — a problem aggravated by the important weight of sectors like shipbuilding faced with worldwide problems. Other large sectors of Spanish industry met with increasing competition in export markets from newly industrialised developing countries. More generally, rigidities inherited from the protectionist policies of the past have compounded the problems raised by efforts to open up the economy in a period of slow growth. Moreover, Spain belonged to the group of “labour surplus” countries where the exodus of labour from the farm sector continued at a time when employment in manufacturing was falling and the previous migratory flows to more industrialised countries had reversed.

In spite of the significant results obtained since the “Moncloa Pact” of late 1977, there is no doubt that further progress is needed to restore better balance in the Spanish economy, notably on the internal side. There were signs of a deceleration of wage increases in the course of 1979, but unit labour costs have continued to be burdened by rising social security contributions despite considerable transfers from the Budget to the Social Security funds. As noted, important steps have already been taken to reform the financial system, but further liberalisation is desirable; the remaining controls on short-term interest rates and on the operations of financial intermediaries hamper the operation of both monetary and exchange rate policies and their adjustment to changing circumstances — resulting in swings in capital flows and destabilising the flow of bank credit to the private sector. Residential construction, which the authorities intended to support, is characteristic of another persistent difficulty in the formulation of economic policy: the authorities have only partial information on developments in this sector. As pointed out in previous OECD Surveys, the inadequate statistical basis creates serious problems for the conduct of policy and efforts for improvement need to be pursued vigorously. However, the different programmes currently being implemented can be expected to produce tangible results in the near future.

In 1980, due to the deflationary demand impact of the massive increase in oil prices and the tightening of fiscal and monetary policies in many Member countries, the international environment is likely to be less favourable than in 1979, with slower growth of world trade and stronger external inflationary pressure. Another year of sluggish growth, rising unemployment and persistently high inflation is thus in prospect. According to Secretariat forecasts, real GDP growth may be of the same order as in 1979, around  $1\frac{3}{4}$  per cent; consumer price increases could re-accelerate somewhat; and the unemployment rate may exceed  $10\frac{1}{2}$  per cent. Since the competitive edge provided by the 1977 devaluation would seem to have been largely eliminated by now, and in view of a higher oil bill, a sizeable trade deficit can be expected. In spite of continuing large invisibles receipts, the current account is likely to record a substantial albeit tolerable deficit.

For many reasons, Spain can ill afford a protracted period of stagflation. The question therefore arises as to what could be done to achieve some revival of output growth in 1980 to cope with the problem of unemployment, together with a more satisfactory cost and price performance. The Government's current strategy is to support activity through stepped up public investment, while relying on global monetary regulation and a strengthening of market forces to deal with the problem of inflation. The scope for more expansionary policies will necessarily remain limited until there are clear signs that the present risk of accelerating inflation can be averted. The stepping up of public investment foreseen in the 1980 budget would seem, however, to remain compatible with an appropriate stance of overall demand management. Even assuming full utilisation of the unused part of the 1979 investment budget, general government borrowing requirements may amount to around 2 per cent of

GDP in 1980, one of the lowest rates among Member countries, although this figure does not take account of potentially large financial operations of the public sector in support of sectors in special difficulties. The fact that part of the planned public investment concerns the energy sector is an additional reason for speedy implementation, which will depend significantly on improvements in administrative methods and better co-ordination between the various levels of Government. Special measures to encourage residential construction could also be envisaged, although the delays for obtaining concrete results are open to doubt.

The current account deficit forecast at present for 1980 should not constitute a serious constraint for demand management policies. It should be viewed in relation to the sizeable deficit forecast for the OECD area as a whole — the counterpart to the sharp rise in the OPEC surplus. Moreover, the autonomous inflows of private long-term capital and the substantial rise of net official reserves in recent years provide considerable room for manoeuvre on the external side. The more important constraint both for the short- and the medium-term is domestically generated inflation. Until the early 1970s, when the average growth of world trade was rapid and the gap between real wages in Spain and the more industrialised Member countries very substantial, unfavourable inflation differentials could be offset without major disruptions, except for occasional adjustments of the exchange rate, and Spanish industrial exports rose, on average, at a rapid rate. The situation may be very different during the next few years, when the expansion of world trade is expected to be more moderate and competition in world markets to become fiercer. Although Spanish industrial exports have continued to gain market shares in the recent period, they were helped by very weak domestic demand conditions; and as noted, they have met in certain sectors with increasing competition from newly industrialised countries. Better performance in respect of inflation and unit labour costs will probably be much more important than in the past.

Increases in wages and other nominal incomes far in excess of average productivity gains have been a major permanent cause of inflation. And recent developments suggest that maintenance of depressed domestic demand conditions is by itself of little avail in improving price and cost performance: a prolonged period of sluggish growth, an unemployment rate of over 9 per cent last year, and a moderate trend of import prices due partly to an appreciating exchange rate have led to a rather limited deceleration of wage increases. Although greater social consensus has been obtained in Spain over the last couple of years, experience in other countries shows that better economic performance was achieved where a larger degree of social consensus has prevailed. The Spanish authorities have abandoned the policy of setting quantitative norms for wage increases although they intend to provide general guidance about the orders of magnitude compatible with general economic equilibrium. It is an encouraging sign that some recent general agreements between the social partners show increasing understanding of economic realities in particular of the fact that the terms of trade deterioration due to the oil price rise implies a reduction in real national income, inevitable in the short term.

Moderation in nominal income developments is an essential but insufficient condition for liberating the Spanish economy from the present stagflation. Increased productivity and investment are equally necessary, as well as wide-ranging changes in the pattern of production in line with changed conditions in the structure of domestic and foreign demand. There are signs of an impending autonomous upturn of private productive investment which could more easily be encouraged by monetary and credit policy if wage cost pressures were to abate. Over the medium-term, implementation without undue delays of the official energy programme and of the planned reforms of

the financial system should help to improve both the material infrastructure and the institutional environment for more rapid, sustainable growth. There is scope for a much greater role to be played by market forces in the future, according to the official statements on medium-term policies. This should not imply a reduced role for the public sector, but only reliance on general methods of economic management, which are more efficient than detailed direct intervention and controls. The present unfavourable world economic outlook clouds the prospects for every Member country. Over the medium-term, however, the potential relative performance of the Spanish economy seems rather good if appropriate policies are applied.



*STATISTICAL ANNEX*

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Table A National accounts<sup>1</sup>  
Billion pesetas

	Current prices					1970 prices				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
<b>I EXPENDITURE</b>										
1 Private consumption	3 464.5	4 101.7	5 012.7	6 332.2	7 674.9	2 262.8	2 317.2	2 425.0	2 471.2	2 511.5
2 Government consumption	447.9	555.8	711.5	921.3	1 188.5	279.5	294.2	309.9	321.2	338.1
3 Gross fixed capital formation	1 258.5	1 400.3	1 577.7	1 898.3	2 078.8	818.2	786.3	770.7	761.7	731.2
(a) Construction	769.0	865.0	991.4	1 187.7	..	461.9	445.7	437.0	432.6	..
(b) Machinery and equipment	489.5	535.3	586.3	710.6	..	356.3	340.6	333.7	329.1	..
4 Changes in stocks	175.0	197.1	223.6	150.5	250.6	73.9	73.9	77.6	45.4	39.6
5 Exports of goods and services	735.8	800.7	1 014.7	1 322.6	1 694.8	484.7	477.7	525.8	570.4	632.4
6 less: Imports of goods and services	979.7	1 037.3	1 306.0	1 517.0	1 611.3	585.1	578.8	637.0	607.0	600.5
7 Gross domestic product at market prices	5 102.0	6 018.3	7 234.2	9 107.9	11 276.3	3 334.0	3 370.5	3 472.0	3 562.9	3 652.3
<b>II BY SECTOR</b>										
1 Agriculture, forestry and fishing	484.3	561.0	639.6	793.3	952.1	334.0	333.4	348.0	333.3	350.0
2 Industry	1 521.2	1 745.3	2 098.1	2 530.6	2 980.9	1 072.7	1 066.4	1 103.1	1 146.3	1 170.3
3 Construction	435.1	502.6	569.4	714.6	909.7	252.4	242.3	232.9	230.3	218.8
4 Services	2 355.9	2 874.1	3 541.4	4 586.3	5 856.8	1 482.0	1 540.3	1 602.6	1 671.1	1 738.0
5 GDP at factor cost	4 796.5	5 683.0	6 848.5	8 624.8	10 699.5	3 141.1	3 182.4	3 286.6	3 381.0	3 477.1

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

Source: National Institute of Statistics.

Table A National accounts (cont'd)  
Billion pesetas

	1973	1974	1975	1976	1977	1978
<b>III NATIONAL INCOME</b>						
1 Compensation of employees	2 139.9	2 654.5	3 235.0	3 922.5	4 962.0	6 134.2
of which: Wages and salaries	1 821.0	2 256.6	2 707.9	3 235.4	4 052.4	
Employers' contributions to social security	318.9	397.9	527.1	687.1	909.6	
2 Property and entrepreneurial income, net	1 353.2	1 707.2	1 899.6	2 249.5	2 800.2	3 510.0
Households and private non-profit institutions <sup>1</sup>	1 333.3	1 670.4	1 852.0	2 195.0	2 729.5	
Corporate and quasi-corporate enterprises, before tax						
General government	45.6	62.2	76.0	86.9	117.7	
less: Interest paid by general government	25.7	25.4	28.4	32.4	47.0	
3 NET NATIONAL INCOME AT FACTOR COST	3 493.1	4 361.7	5 134.6	6 172.0	7 762.2	9 644.2

1 Excluding interest on consumers' debt.  
Source: National Institute of Statistics.

Table B Labour force, employment and wages

	1976	1977	1978	1979			
				I	II	III	IV
1 LABOUR FORCE AND EMPLOYMENT <sup>1</sup> (thousands)							
1 Total labour force	13 675	13 719	13 643	13 589	13 497	13 578	13 482
2 Civilian labour force	13 248	13 276	13 185	13 142	13 045	13 127	13 181
3 Civilian employment	12 543	12 435	12 091	11 990	11 906	11 895	11 847
Agriculture	2 710	2 568	2 439	2 432	2 322	2 316	2 317
Industry	4 668	4 679	4 510	4 410	4 431	4 367	4 296
Other activities	5 166	5 188	5 142	5 147	5 153	5 212	5 234
4 Employees, total	8 757	8 728	8 489	8 454	8 352	8 282	8 225
5 Unemployment	704	841	1 095	1 152	1 140	1 232	1 334
2 WAGES <sup>2</sup> (% change over the same period a year earlier)							
1 Average hourly earnings	30.7	22.3	25.0	21.4	30.5	24.8	

1 End of period.

2 The survey on wages covers 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 to as to eliminate the impact of the July and December bonus payments and the reduction in hours worked in August.

Sources: National Institute of Statistics, Labour Force Survey and Survey on Wages.

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

	1974	1975	1976	1977
	1 GENERAL GOVERNMENT			
<b>CURRENT ACCOUNT</b>				
<i>Receipts</i>				
Gross operating surplus	22.1	25.5	29.5	35.7
Property income receivable	62.2	76.0	88.1	120.4
Indirect taxes	353.8	403.9	480.4	613.2
— on production	250.6	282.7	351.3	437.8
— on imports	103.2	121.2	129.1	175.4
Direct taxes on income and wealth	201.8	264.2	339.0	448.3
— of enterprises	117.6	150.8	191.8	233.1
— of households	84.2	113.4	147.2	215.2
Actual social contributions	420.3	564.1	729.3	1 000.4
Imputed social contributions	47.6	56.6	66.9	79.5
Miscellaneous current transfers	79.3	100.6	124.3	157.1
Total	1 187.1	1 490.9	1 857.5	2 454.6
<i>Disbursements</i>				
Final consumption expenditure	447.9	555.8	711.5	921.3
Property income payable	25.4	28.4	33.5	49.7
Subsidies	48.4	68.6	94.7	130.2
Social security benefits	437.1	558.2	723.9	953.7
Miscellaneous current transfers	48.2	62.9	83.2	121.3
Statistical discrepancy	3.7	3.8	5.3	-3.0
Gross saving	176.4	213.1	205.4	281.5
<b>CAPITAL ACCOUNT</b>				
<i>Receipts</i>				
Gross saving	176.4	213.1	205.4	281.5
Capital transfers	—	—	—	0.3
Capital taxes	12.2	14.8	15.4	18.4
Total	188.6	228.0	220.8	300.2
<i>Disbursements</i>				
Gross fixed capital formation	123.8	158.3	164.1	233.2
Net purchases of land and intangible assets	6.5	5.9	6.9	11.0
Capital transfers	48.9	61.2	71.8	110.7
Net lending (+) or net borrowing (—)	9.3	2.6	-22.1	-54.7

<sup>1</sup> These accounts are on a ESA (European system of integrated economic accounts) national accounts basis.

Source: National Institute of Statistics.

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

	1974	1975	1976	1977
<b>2 CENTRAL GOVERNMENT</b>				
1 Tax revenue	526.3	627.6	771.3	986.7
2 Property and entrepreneurial income (gross)	52.3	65.1	75.9	105.5
3 Current transfers	78.3	100.4	123.7	167.7
4 Total current revenue	656.9	793.1	970.9	1 259.9
5 Purchase of goods and services	325.7	393.6	482.8	632.1
6 Current transfers	89.9	96.6	118.8	155.3
7 Subsidies	43.4	62.3	84.4	119.6
8 Others	82.7	99.9	112.3	138.5
9 Total current expenditure	541.7	652.4	798.3	1 045.5
10 Gross saving	127.8	154.8	189.7	237.1
11 Capital taxes	9.0	10.5	11.1	13.6
12 Capital transfers	0.2	0.4	0.1	1.0
13 Total capital resources (10 to 12)	137.0	165.7	200.9	251.7
14 Gross fixed capital formation	74.9	92.5	95.4	139.9
15 Capital transfers	46.6	57.7	75.4	127.4
16 Others	3.5	3.2	2.7	6.4
17 Total capital expenditure (14 to 16)	125.0	153.4	173.5	273.7
18 Overall financial surplus (+) or deficit (—) (13 less 17)	12.0	12.3	27.4	-22.0

Source: National Institute of Statistics.

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

	1974	1975	1976	1977
<b>3 LOCAL GOVERNMENT</b>				
1 Tax revenue	78.2	98.6	118.4	159.2
2 Property and entrepreneurial income (gross)	4.5	4.9	5.9	7.5
3 Current transfers	12.0	11.9	11.0	11.6
4 Total current revenue	94.7	115.4	135.3	178.3
5 Purchase of goods and services	66.8	82.1	117.1	134.6
6 Current transfers	7.3	9.3	11.1	16.0
7 Others	8.9	11.5	17.2	20.6
8 Total current expenditure	83.0	102.9	145.4	171.2
9 Gross saving	16.7	18.8	-3.2	15.4
10 Capital taxes	3.2	4.3	4.3	4.7
11 Capital transfers	1.7	2.3	5.0	19.1
12 Total capital resources (9 to 11)	21.6	25.4	6.1	39.2
13 Gross fixed capital formation	32.7	43.9	47.7	64.8
14 Capital transfers	—	0.2	—	0.6
15 Others	2.9	2.5	4.3	4.2
16 Total capital expenditure (13 to 15)	35.6	46.6	52.0	69.6
17 Overall financial surplus (+) or deficit (—) (12 less 16)	-14.0	-21.2	-45.9	-30.4
<b>4 SOCIAL SECURITY INSTITUTIONS</b>				
1 Social security contributions	414.3	558.6	721.1	989.1
2 Transfers	30.5	21.6	23.1	18.3
3 Other current receipts	12.1	12.8	13.2	14.0
4 Total current receipts	456.9	593.0	757.4	1 021.4
5 Purchase of goods and services	55.4	80.0	111.7	154.6
6 Social security benefits	370.4	474.7	628.3	842.2
7 Current subsidies and transfers	—	—	8.8	2.7
8 Total current expenditure	425.8	554.7	748.8	999.5
9 Gross saving	35.6	43.3	13.6	25.9
10 Gross capital formation	16.3	22.1	21.0	28.3
11 Others	4.2	5.9	1.6	2.9
12 Total capital expenditure	20.5	28.0	22.6	31.2
13 Overall financial surplus (+) or deficit (—)	15.1	15.3	-9.0	-5.3

Source: National Institute of Statistics.



Table D Money and credit  
Billion pesetas

	1978				1979				Out- standing as at 31 Dec. 1979
	I	II	III	IV	I	II	III	IV	
<b>I CONSOLIDATED ACCOUNT OF THE BANKING SYSTEM<sup>1</sup> (quarterly changes)</b>									
<b>I Liabilities</b>									
1 Money supply (M1)	-125.1	210.8	53.7	327.6	-143.2	193.6	-30.6	276.4	3 611.2
2 Quasi-money	185.0	225.2	301.0	298.2	264.6	261.5	292.9	483.6	6 877.3
3 Total	59.9	436.0	354.7	625.8	121.4	455.1	262.3	760.0	10 488.5
4 Bonds	-3.5	1.1	0.3	7.8	-1.8	-0.2	0.4	11.8	248.9
Liabilities = Assets	56.4	437.1	355.0	633.6	119.6	454.9	262.7	771.8	10 737.4
<b>II Assets</b>									
5 Public sector	4.6	54.8	98.6	57.0	98.3	83.4	21.1	61.8	1 015.8
(a) Net advances to	2.1	56.8	86.1	68.6	41.9	99.7	7.3	60.2	768.9
(i) Central government	14.7	41.3	39.9	49.6	39.7	137.9	-47.7	26.3	487.2
(ii) Autonomous institutions <sup>2</sup>	-12.6	15.5	46.3	19.0	2.2	-38.2	55.0	33.9	281.7
(b) Purchase of government bonds	39.5	29.4	51.1	31.4	103.9	19.6	46.5	46.1	1 264.7
(c) less: Grants to official credit institutions	-37.0	-31.4	-38.6	-43.0	-47.5	-35.9	-32.7	-44.5	-1 017.8
6 Private sector	146.3	350.3	134.7	383.2	131.7	325.3	283.2	571.3	9 725.0
(a) Advances and bills discounted <sup>3</sup>	93.3	316.9	117.5	367.3	111.0	311.2	253.3	568.3	8 617.1
(b) Bonds and shares	53.0	33.4	17.2	15.9	20.7	14.1	29.9	3.0	1 107.9
7 External sector	26.2	107.2	133.1	-9.3	59.1	49.9	32.2	-93.4	185.5
8 Other assets and liabilities (net)	-120.7	-75.2	-11.4	202.7	-169.5	-3.7	-73.8	232.1	-188.9

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)

	1975	1976	1977	1978	1979
<b>2 BANK LIQUIDITY</b>					
<i>Changes, in billion pesetas:</i>					
1 Cash reserves	15.6	13.2	-3.1	54.1	236.6
2 Central bank credit received	26.5	183.8	-23.7	-109.0	32.2
3 Public securities	54.3	80.3	38.2	142.9	103.9
<i>Ratios to deposits; end of period, per cent:</i>					
1 Cash	7.8	6.9	5.9	6.0	8.8
2 Public securities	12.8	13.0	12.0	12.8	12.5
<b>3 OFFICIAL CREDIT INSTITUTIONS</b> (changes, in billion pesetas)					
<i>Assets:</i>					
1 Cash	2.0	9.5	21.4	-8.9	2.3
2 Credit to public sector	18.5	30.0	49.2	39.5	71.0
3 Credit to private sector	81.4	108.7	131.0	156.7	181.6
4 Total assets	101.9	148.2	201.6	187.3	254.9
<i>Liabilities:</i>					
5 Transfers from the Treasury	97.4	114.9	147.3	149.9	160.6
6 Advances from the banking system	—	15.0	10.0	2.5	24.0
7 Others (net)	4.5	18.3	44.3	34.9	70.3
8 Total liabilities	101.9	148.2	201.6	187.3	254.9
<b>4 CAPITAL MARKET</b>					
<i>Gross issues (billion pesetas):</i>					
1 Public securities	88.0	137.3	174.6	222.5	315.5
Treasury <sup>1</sup>	71.3	121.2	152.6	197.6	289.0
INI	16.7	16.1	22.0	24.9	26.5
2 Private securities	303.2	336.7	265.0	244.8	213.1
Bonds	155.0	181.2	174.3	132.4	110.3
Shares <sup>2</sup>	148.2	155.5	90.7	112.4	102.8
3 Total	391.2	474.0	439.6	467.3	528.6

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<sup>1</sup>  
Million dollars

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1 Imports (fob)	3 201	3 242	3 865	4 357	4 577	6 237	8 947	14 334	15 193	16 316	16 831	17 505
2 Exports (fob)	1 419	1 667	1 994	2 483	2 978	3 921	5 402	7 265	7 807	8 989	10 611	13 480
3 TRADE BALANCE	-1 782	-1 575	-1 871	-1 874	-1 599	-2 316	-3 545	-7 069	-7 386	-7 327	-6 220	-4 024
4 Services, net of which:	875	886	945	1 293	1 688	2 021	2 688	2 679	2 755	1 891	2 619	3 974
5 Tourism	1 111	1 112	1 195	1 543	1 878	2 230	2 872	2 869	3 096	2 679	3 486	4 917
6 Transfers, net	451	447	532	660	767	866	1 414	1 146	1 143	1 142	1 152	1 656
7 CURRENT BALANCE	-456	-242	-394	79	856	571	557	-3 244	-3 488	-4 294	-2 449	1 606
8 Private long-term capital	502	436	482	696	602	934	810	1 613	1 788	1 350	1 960	1 956
9 Official long-term capital	33	145	24	-27	-103	-3	-45	56	15	570	1 259	-461
10 Total long-term capital	535	581	506	669	499	931	765	1 669	1 803	1 920	3 219	1 495
11 BASIC BALANCE	79	339	112	748	1 355	1 502	1 322	-1 575	-1 685	-2 373	770	3 101
12 Short-term capital, errors and omissions <sup>2</sup>	-215	-268	-342	65	-98	-11	370	782	930	1 256	144	736
13 MONETARY MOVEMENTS (increase in assets = —)	136	-71	230	-813	-1 257	-1 491	-1 691	792	755	1 117	-914	-3 837
of which:												
14 Changes in reserves	144	-38	258	-854	-1 492	-1 623	-1 299	732	220	943	-1 145	-3 743

1 Transactions basis.

2 Including banks' local accounts in foreign currency.

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

Table F Foreign trade<sup>1</sup>  
Billion pesetas

	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
	1 IMPORTS, CIF					2 EXPORTS, FOB				
1 Agricultural and food products	139.5	156.9	158.4	214.1	242.4	101.1	100.6	134.3	168.2	202.9
2 Minerals	30.1	31.1	38.1	45.5		7.6	11.4	14.4	24.4	
3 Oil products	225.9	240.5	341.6	383.2	406.4	28.1	14.6	22.0	29.0	25.3
4 Chemicals, plastics and rubber	103.7	92.1	123.3	144.4	161.9	43.3	39.4	51.7	73.2	96.6
5 Skins and leather	8.4	10.1	14.8	19.6		9.6	9.9	13.0	16.3	
6 Wood and cork	20.2	13.4	21.4	25.4		6.9	6.6	8.1	11.7	
7 Pulp, paper and books	20.2	20.2	21.2	24.1		15.1	16.1	20.1	26.0	
8 Raw cotton, textiles and clothing	31.8	28.5	41.2	44.5	40.7	22.5	22.5	30.9	43.4	58.8
9 Glass and pottery	8.7	8.2	10.4	13.1		8.1	9.8	12.1	17.2	
10 Metals and metal products	78.4	82.3	99.0	94.1	85.4	38.0	55.2	79.0	102.9	158.3
11 Machinery and appliances	142.5	163.7	190.1	212.8	214.4	44.9	53.5	68.7	93.2	119.0
12 Transport equipment	37.2	32.2	41.2	43.4	53.4	45.5	58.5	73.6	103.7	135.2
<i>of which:</i> Cars, lorries and tractors	19.5	21.2	27.3	36.2	43.2	21.0	32.1	40.1	74.4	104.2
Aircraft (imports), ships (exports)	11.8	6.3	9.3	3.8	6.3	22.6	23.4	30.1	24.6	22.5
13 Other	42.4	53.0	69.7	86.3		37.9	43.4	55.6	66.1	
14 Total	889.0	932.2	1 170.4	1 350.5	1 431.5	408.6	441.5	583.5	775.3	1 001.6
15 Total <i>less</i> agricultural and food products	749.5	775.3	1 012.0	1 136.4	1 189.1	307.5	340.8	448.9	607.0	798.5

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

Source: Customs Office.

Table G Official foreign reserves  
Million dollars

	1975		1976		1977		1978		1979	
	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June	Dec.
1 Gold	602	602	602	602	606	610	610	613	613	617
2 Convertible currency	4 963	5 064	4 255	4 164	2 901	5 394	7 026	9 017	10 981	11 884
3 Net IMF position	—	—	—	—	—	—	108	168	165	163
4 Special drawing rights	156	146	129	110	83	58	136	124	224	252
5 Total foreign assets	5 722	5 813	4 986	4 876	3 590	6 062	7 879	9 922	11 983	12 916
6 less: Foreign liabilities	11	14	9	38	14	9	6	6	23	7
7 Official foreign reserves	5 711	5 799	4 977	4 838	3 576	6 053	7 873	9 916	11 960	12 909
<i>Pro memoria:</i>										
Non convertible currencies (net)	62	44	75	62	18	-9	13	18	37	9

Source: Bank of Spain.

**BASIC STATISTICS :**  
**INTERNATIONAL COMPARISONS**

BASIC STATISTICS: INTERNATIONAL COMPARISONS

		Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembour	Nether-	New Zealand	Norway	Portugal	Spain	Sweden	Switzer-	Turkey	United Kingdom	United States	Yugo-	
POPULATION		Mid-1978	Thousands	14 249	7 510	9 841	23 499	5 105	4 755	53 302	61 310	9 360	223	3 221	56 697 <sup>1</sup>	114 898	355	13 937	3 107	4 060	9 820	37 109	8 278	6 337	43 144	55 895	218 548	21 968	
	Inhabitants per sq. km	"	Number	2	90	323	2	119	16	97	247	71	2	46	188	304	137	412	12	13	107	74	18	153	55	229	23	86	
	Net average annual increase	Mid-1968 to Mid-1978	%	1.7	0.2	0.2	1.3	0.5	0.3	0.7	0.3	0.7	1.0	1.0	0.7	1.3	0.6	0.9	1.3	0.6	0.7	1.2	0.5	0.4	2.5	0.1	0.9	0.9	
EMPLOYMENT	Total civilian	1978	Thousands	5 975	3 015	3 711	9 972	2 414 <sup>22</sup>	2 074	20 921	24 679	(3 167) <sup>23</sup>	98 <sup>23</sup>	1 033	19 932	54 080	147 <sup>23</sup>	4 569	(1 204)	1 854	3 808	12 091	4 115	2 839	14 151 <sup>23</sup>	24 610	94 373	9 276 <sup>23</sup>	
	of which: Agriculture, forestry, fishing	"	% of total	6.4	10.9	3.2	5.7	9.1	12.3	9.1	6.5	(28.4)	13.7	22.2	15.5	11.7	5.9	6.2	(11.8)	8.7	30.7	20.2	6.1	8.4	55.8	2.7	3.7	36.8	
	Industry <sup>4</sup>	"	"	31.6	40.6	36.7	28.7	30.4	34.4	37.1	45.1	(30.3)	38.0	30.9	38.3	35.0	45.1	32.5	(34.1)	31.6	35.3	37.3	33.0	42.7	13.6	39.7	31.2	21.8	
	Other	"	"	62.0	48.5	60.1	65.6	60.5	53.3	53.8	48.4	(41.3)	48.3	46.9	46.2	53.3	49.0	61.3	(54.1)	59.7	34.0	42.5	60.9	48.9	30.6	57.6	65.1	41.4	
GROSS DOMESTIC PRODUCT at market prices		1978	US \$ billion <sup>11</sup>	110.2	58.1	96.1	206.0	55.5	32.2	470.5	639.2	31.4	2.1	12.2	237.0	980.4	3.4	130.5	18.0	39.7	18.3	147.2	87.2	84.4	48.7	308.2	2 098.6	47.1 <sup>15</sup>	
	Average annual volume growth <sup>6</sup>	1973 to 1978	%	2.6	2.8	2.2	3.4	1.7	1.7	2.9	1.9	3.6	2.6	3.7	2.1	3.7	0.7	2.4	0.6	4.5	2.4	3.1	1.2	-0.9	6.7	0.9	2.4	6.1	
	Per capita	1978	US \$ <sup>11</sup>	7 734	7 736	9 818	8 766	10 872	6 772	8 827	10 426	3 355	9 417	3 788	4 180	8 533	9 859	9 364	5 753	9 778	1 864	3 967	10 534	13 319	1 129	5 514	9 602	2 140	
GROSS FIXED CAPITAL FORMATION		1977	% of GDP	23.1	27.2	21.2	22.7	23.3	26.7	22.6	20.9	23.0 <sup>8</sup>	27.3	25.0	19.8	29.9	26.0	21.1	22.7 <sup>9</sup>	36.6	17.0 <sup>14</sup>	20.8	20.5	20.7	25.8	18.1	17.5	34.3	
	of which: Transport, machinery and equipment	"	"	7.4 <sup>10</sup>	10.6	6.4	7.6	7.4	10.3	9.3	8.6	8.4	7.6	13.3	8.5	13.8	9.2	8.6	..	13.3	5.5 <sup>14</sup>	..	8.5	6.9	..	9.0	7.3	..	
	Residential construction	"	"	4.6 <sup>10</sup>	..	7.1	6.0	7.7	6.9	6.9	5.9	7.1	5.8	11.7	5.5	6.9	6.6	5.8	..	4.9	2.8 <sup>14</sup>	..	4.2	..	3.7	3.3	4.8	..	
	Average annual volume growth <sup>6</sup>	1972 to 1977	%	1.0	2.1	2.9	4.5	-0.3	-0.2	1.5	-1.1	-1.4	4.9	1.8	-0.2	4.4	-0.8	0.9	..	8.1	-1.6 <sup>11</sup>	2.5	-0.4	-5.0	10.3	-0.6	0.3	7.1	
NATIONAL SAVINGS RATIO <sup>12</sup>		1977	% of GNP	18.3	24.6	21.7	21.3	18.8	27.2	23.4	24.2	19.9	27.1	17.0	22.1	32.2	39.4	23.5	23.6	23.2	11.0	19.8	16.7	26.5	17.2	20.3	17.7	35.2	
GENERAL GOVERNMENT		1977	% of GDP	16.3	17.3	17.3	20.3	23.9	20.4	14.9	20.0	15.9	11.2	18.6	13.7	19.1	15.0	18.3	18.7	18.7	14.2 <sup>14</sup>	10.3	28.5	12.9	14.5	20.8	18.4	17.4	
	Current expenditure on goods and services	"	"	9.6	20.6	22.0	12.4	15.8	14.5	24.8	19.5	11.6	..	13.3	22.7	9.2	29.3	30.9	..	24.6	15.8 <sup>14</sup>	12.7	24.4	15.3	9.2	15.3	11.6	..	
	Current transfer payments	"	"	25.9	43.0	41.8	36.4	47.7	43.5	42.2	43.5	29.4	..	35.6	37.4	24.5	53.9	54.0	..	51.2	28.3 <sup>14</sup>	26.7	60.9	34.3	21.6	40.5	32.0	43.1	
	Current revenue	"	"	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	
NET OFFICIAL DEVELOPMENT ASSISTANCE		1978	% of GNP	0.5	0.3	0.6	0.5	0.7	0.2	0.6	0.3	..	..	..	0.1	0.2	..	0.8	0.3	0.9	..	..	0.9	0.2	..	0.4	0.2	..	
INDICATORS OF LIVING STANDARDS	Private consumption per capita	1977	US \$ <sup>11</sup>	4 000	3 660	5 000	4 870	5 080	3 250	4 450	4 690	1 890	5 200	1 900	2 220	3 510	4 760	4 480	2 590 <sup>8</sup>	4 940	1 260	2 251	5 140	6 100	810	2 580	5 600	849	
	Passenger cars, per 1 000 inhabitants	1976	Number	366	243	279	388 <sup>20</sup>	265	218	300	308	55	298	175	283	163	367	273	383	253	107	148	350	281 <sup>20</sup>	11	255	505	80	
	Telephones, per 1 000 inhabitants	1977	"	395 <sup>14</sup>	304 <sup>14</sup>	313	596 <sup>14</sup>	493	409 <sup>14</sup>	293 <sup>14</sup>	374	238 <sup>14</sup>	411 <sup>14</sup>	163	285	408	522	422	515 <sup>14</sup>	366 <sup>14</sup>	118 <sup>14</sup>	239 <sup>14</sup>	689 <sup>14</sup>	634 <sup>14</sup>	28 <sup>14</sup>	415	718 <sup>14</sup>	71	
	Television sets, per 1 000 inhabitants	1977	"	274 <sup>20</sup>	247 <sup>20</sup>	286	411 <sup>20</sup>	338	306 <sup>20</sup>	268 <sup>20</sup>	308	126 <sup>20</sup>	234 <sup>20</sup>	193	224	235 <sup>20</sup>	257 <sup>10</sup>	279	259 <sup>20</sup>	255 <sup>20</sup>	65 <sup>20</sup>	184 <sup>20</sup>	352 <sup>20</sup>	273 <sup>20</sup>	12 <sup>14</sup>	324	571 <sup>18</sup>	161 <sup>14</sup>	
	Doctors, per 1 000 inhabitants	1976	"	1.4 <sup>12</sup>	2.2	2.0	1.7	1.9	1.5	2.0	2.0	2.1	1.6 <sup>10</sup>	1.2	2.2	1.2	1.1	1.7	1.3 <sup>20</sup>	1.8	1.2	1.8	1.7 <sup>20</sup>	1.9	0.6	1.3	1.6	1.4	
	Full-time school enrolment <sup>13</sup>	1977	% of age group	45.0	32.0	61.3 <sup>20</sup>	66.4 <sup>20</sup>	57.4	60.8 <sup>20</sup>	54.6	41.5	45.4 <sup>20</sup>	..	50.0 <sup>14</sup>	40.8 <sup>20</sup>	70.9	33.5 <sup>20</sup>	62.7	44.8	63.6	33.4 <sup>14</sup>	35.5 <sup>14</sup>	56.3 <sup>14</sup>	68.2 <sup>20</sup>	12.7 <sup>20</sup>	44.6 <sup>20</sup>	72.0 <sup>20</sup>	72.0 <sup>20</sup>	
	Infant mortality <sup>17</sup>	1977	Number	13.8 <sup>14</sup>	16.8	15.3 <sup>14</sup>	14.3 <sup>20</sup>	8.7	12.0	11.4	15.5	20.3	9.6	15.7	17.7	8.9	10.6	9.5	14.2	10.5 <sup>14</sup>	38.9 <sup>20</sup>	15.9	8.0	9.8	..	14.1	15.2 <sup>14</sup>	36.7 <sup>14</sup>	
WAGES AND PRICES		Average annual increase																											
	Hourly earnings in industry <sup>18</sup>	1973 to 1978	%	15.7	10.4	13.5	12.2	14.7	14.7	15.2	7.5	24.9	40.5	19.4	22.7	12.0	..	10.5	14.3	14.4	20.0 <sup>24</sup>	27.5	11.7	5.5	27.5 <sup>23</sup>	16.9	8.6	20.5	
	Consumer prices	"	%	12.8	6.9	9.2	9.2	11.0	13.8	10.7	4.8	15.5	39.8	15.3	17.0	11.3	7.9	7.8	9.5	19.8	18.8	10.3	4.1	30.0 <sup>23</sup>	16.1	8.0	17.4		
FOREIGN TRADE	Exports of goods, fob	1978	US \$ million <sup>11</sup>	14 364	12 132	44 808 <sup>7</sup>	46 152	11 844	8 556	76 464	142 092	3 336	648	5 676	55 956	97 543	—	50 016	3 751	10 044	2 436	13 059	21 720	23 364	2 280	71 676	143 664	5 668	
	As percentage of GDP	"	%	13.0	20.9	46.6	22.4	21.3	26.6	16.3	22.2	10.6	30.9	46.5	23.6	9.9	..	38.3	20.8	25.3	13.3	8.9	24.9	27.7	4.7	23.3	6.8	12.0	
	Average annual volume increase	1973 to 1978	%	2.8	6.5	3.1	3.5	3.4	2.7	5.3	3.8	9.5	8.0	8.9	8.2	9.2	..	2.5	2.9	7.2	3.2	10.3	-0.3	3.7	-4.6	4.8	3.7	1.4	
	Imports of goods, cif	1978	US \$ million <sup>11</sup>	14 016	15 972	48 360 <sup>7</sup>	43 560	14 760	7 848	81 684	120 672	7 560	684	7 116	56 364	79 344	—	52 872	3 870	11 424	5 172	18 664	20 496	23 652	4 548	78 588	173 292	9 983	
As percentage of GDP	"	%	12.7	27.5	50.3	21.1	26.6	24.4	17.4	18.9	24.1	32.6	58.3	23.8	8.1	..	40.5	21.5	28.8	28.3	12.7	23.5	28.0	9.3	25.5	8.3	21.2		
	Average annual volume increase	1973 to 1978	%	3.3	4.9	3.4	3.2	1.0	-2.0	4.4	4.3	1.4	2.8	4.8	0.8	-0.2	..	2.7	-3.0	3.0	5.7	0.5	0.5	1.8	1.0	1.4	4.8	3.7	
TOTAL OFFICIAL RESERVES <sup>25</sup>		End-1978	US \$ million	2 418	6 007	5 908 <sup>7</sup>	4 569	3 219	1 266	13 929	53 883	1 171	138	2 689	14 826	33 500	—	7 585	453	2 878	1 845	10 774	4 398	21 561	1 001	17 067	19 584	2 462	
	As percentage of imports of goods	In 1978	%	17.3	37.6	12.2	10.5	21.8	16.1	17.1	44.7	15.5	20.2	37.8	26.3	42.2	..	14.3	13.0	25.2	35.7	57.7	21.5	91.2	22.0	21.7	11.3	25.2	

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

8 Excluding ships operating overseas.  
9 Fiscal year: beginning April 1st.  
10 1973.  
11 At current prices and exchange rates.  
12  $\left[ \frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$   
13 1972.  
14 1976.

15 Children aged 15-19.  
16 1974.  
17 Deaths in first year per 1 000 live births.  
18 Figures are not strictly comparable due to differences in coverage.  
19 Private.  
20 1975.  
21 1971 to 1976.  
22 1977.  
23 1972 to 1977.

24 Hourly wage rate in industry and transportation in Lisbon.  
25 Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).  
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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