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SPAIN

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BASIC STATISTICS OF SPAIN

THE LAND

Area (1000 sq. km)	504.8
Agricultural area (1000 sq. km), 1985	204.2

Major cities, 1981 census, thousands inhabitants:	
Madrid	3138
Barcelona	1755
Valencia	752
Seville	654

THE PEOPLE

Population, 31–12–89, thousands	39241
Number of inhabithants per sq. km	78
Net natural increase (1987,thousands)	112
Migration (1987, thousands)	52

Civilian employment, 1989, thousands,	12258
By sector (percentage):	
Agriculture	13.0
Industry	23.6
Construction	9.3
Services	54.1

PRODUCTION

Gross domestic product, 1989 (billion pesetas)	44872
GDP per head (1989 US $)	9658
Gross fixed investment:	
Per cent of GDP (1989)	23.8
Per head (US $) 1989	2297

Gross domestic product at factor cost by origin in 1989 (as per cent):	
Agriculture	5
Industry	29
Construction	10
Services	56

THE GENERAL GOVERNMENT

Public consumption, in 1989 (percentage of GDP)	14.2
Fixed investment in 1989 (percentage of gross fixed capital formation)	14.0

Government revenue, in 1989 (percentage of GDP)	38.8
General government deficit, in 1989 (percentage of GDP)	–2.6

FOREIGN TRADE

Exports of goods and services, (1989, billion US $)	37.0
Exports of goods and services as percentage of GDP, 1989	18.9
Exports percentage of merchandise exports, custom basis, 1989	
Foddstuffs	14.0
Raw materials	5.8
Fuels and lubricants	5.3
Capital goods	17.6
Consumer goods	31.1
Intermediate goods	26.2

Imports of goods of services, (1989, billion US $)	59.5
Imports of goods and services as percentage of GDP, 1989	21.9
Imports percentage of merchandise imports, custom basis, 1989	
Foodstuffs	6.7
Raw materials	10.5
Fuels and lubricants	11.8
Capital goods	26.7
Consumer goods	22.5
Intermediate goods	21.7

THE CURRENCY

Monetary unit: Peseta

Currency units per US $, average of daily figures:	
Year 1989	118.4
October 1990	95.7

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

This Survey is based on the Secretariat's study prepared for the annual review of Spain by the Economic and Development Review Committee on 23th November 1990.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 10th December 1990.

•

The previous Survey of Spain was issued in May 1989.

Introduction

When Spain was last reviewed by the Economic and Development Review Committee in April 1989 the economy was in a stage of overheating. Output, advancing at annual rates of some 5 per cent, was clearly growing faster than capacity, while domestic demand was expanding at rates of 7 to 8 per cent. Not surprisingly therefore, inflation, already running at higher rates than in most other EC countries, was tending to accelerate and the current balance of payments was in a sizeable deficit of some $10 billion at an annual rate ($2^3/_4$ per cent of GDP) with a clear upward tendency. As in the previous two years, monetary policy was seen to be appropriately tight with real interest rates remaining at historically high levels, thereby contributing to an unprecedented real appreciation of the peseta in terms of unit labour costs of more than 25 per cent since 1985. By contrast, the budgetary stance was considered too loose.

In June 1989, the authorities decided to participate in the exchange rate mechanism of the European Monetary System. This decision was to contain the upward pressure on the exchange rate while at the same time making the Government's anti-inflation policy targets more credible. By joining the ERM the room for monetary manoeuvre has been reduced, while the use of fiscal policy to restrain the expansion of domestic demand continued to be hindered by strong claims on public spending in the field of social and economic infrastructure and difficulties in controlling expenditure appropriations once voted. Moreover, in conditions of persistent excess demand the Government's influence in moderating the rise in nominal incomes and prices was limited. Hence in July 1989, the monetary authorities resorted to the imposition of credit ceilings and raised their intervention rate. And with a view to cooling off the economy budget plans for 1990 were tightened and more stringent budget implementation rules introduced.

Under the impact of these measures but also reflecting a natural maturing of the upswing, the upward trend of economic activity has become less steep since the second half of 1989. The growth rate of real GDP has probably dropped from about 5 per cent in 1989 to around 3½ per cent in 1990; consumer-price inflation, after peaking in mid-1989 has gradually decelerated to around 6.5 per cent by September 1990 and the current balance-of-payments deficit has been contained at about $15 billion, more than covered by net capital inflows. The destabilising consequences of the Gulf crisis for prices and foreign demand involve the risk of further retarding the return of the Spanish economy to a more sustainable path of growth. On present trends and policy announcements output growth is expected to slow down while inflation and the current external deficit will peak in early 1991 before resuming its downward trend.

The present Survey seeks to explain in Part I why despite a marked slowdown of domestic demand growth the upward pressure on prices remains strong and the trade deficit has not shrunk. After reviewing in Part II the measures taken to cool the overheated economy and to restore a path of balanced growth, Part III discusses the chances of maintaining economic growth sufficiently strong to permit further inroads to be made into the still high rate of unemployment while at the same time ensuring a reduction of the current external deficit and a resumption of the earlier disinflation process which had come to a halt in 1988. Part IV focuses on the role of Spanish EC membership in explaining the big leap forward Spain has made since 1986 in reducing its per capita income gap *vis-à-vis* other EC members (from 71 per cent of the EC average in 1985 to 78 per cent in 1990). The analysis also includes an assessment of what appear essentially to be temporary adjustment costs associated with the catching-up and integration process. The main findings of the Survey together with some policy considerations are presented in the Conclusions.

I. The maturing post-1985 upswing

The strong upturn in activity, which started in late 1985, continued unabated up to the middle of 1989. During this period the economy grew by more than 5 per cent per annum, leading to a marked fall in unemployment from a peak rate of 22 per cent in 1985 to just over 16½ per cent in mid-1989. While the strength and profile of the upswing statistically mirrors in large measure the extent and long duration of the preceding downturn of the economy, the vigour of the expansionary phase cannot be explained without reference to the structural reforms undertaken in the first half of the 1980s and the positive effects of EC entry since 1986. With a new dynamism instilled into the Spanish economy, investment was the fastest growing component, bolstered by huge foreign capital inflows.

The strength of the output response to the rapid rise of demand owes much to the industrial restructuring undertaken since the late 1970s and the 1984-1985 labour-market reforms which greatly enhanced the firms' scope to adjust their labour force to changing demand and cost conditions. In addition, a high degree of real wage restraint exercised by trade unions has permitted profitability to rise sharply from the depressed levels of the first half of the 1980s (see Part IV) which in turn has assisted the upturn in investment. Together with enhanced growth expectations after Spain's EC entry, the various supply-side improvements have stimulated foreign capital inflows, notably foreign direct investment (Table 1) which may have contributed as much as 40 to 50 per cent to the growth of total business investment since 1985[1].

Besides business investment public consumption and investment, reflecting the need to ameliorate public services, social security and the economic infrastructure, have also constituted important autonomous sources of demand expansion, pushing real domestic demand growth to over 7½ per cent a year on average in the four years to mid-1989. Given the strength and the persistence of a largely domestic-demand oriented upturn and of capital inflows, it was not surprising to see a build-up of inflation pressure and the current external balance swinging into a rapidly-increasing deficit. Considering high inflation and the related continuing weakening

Table 1. **Gross capital formation and its financing**

Per cent of GDP

	1982-84	1985-86	1987	1988	1989	1990[1]
Savings	19.2	21.0	21.9	22.7	22.5	23.0
Gross capital formation	20.0	19.3	21.8	23.8	25.4	26.4
Of which:						
Business fixed investment	12.1	11.3	13.1	14.1	14.7	15.1
Current external transactions	–0.8	1.7	0.1	–1.1	–2.9	–3.4
Basic balance of payments	0.8	0.9	3.2	1.7	1.6	0.8
Private foreign investment, net	1.1	1.9	2.8	2.7	3.9	
Of which: Direct[2]	1.0	1.2	1.6	2.2	2.6	
Memorandum items:						
Net profit rate[3]						
All firms[4]	0.8	4.3	9.2	12.1		
Of which: Private (excluding electricity and water)	5.0	10.9	17.4	20.5		
Business sector: (annual percentage change)						
Capital stock	3.0	3.0	3.8	4.1	4.2	4.5
Potential output	2.5	2.7	3.3	3.4	3.4	3.6

1. OECD estimates.
2. Business direct, real estate and one-fourth of portfolio investment assumed to be used for expanding capacity.
3. Rate of return before taxes on own capital.
4. Based on a sample of nearly 4,000 firms in all sectors.

Sources: Bank of Spain, Central de Balances; Bank of Spain, *Boletín Estadístico* and OECD estimates.

of international competitiveness as incompatible with sustainable fast output and employment growth, the authorities began to tighten policies progressively as from the end of 1988. These measures have succeeded in cooling the economy, with private domestic demand growth in particular slowing considerably. However, given the typically lagged responses in employment, price and wage developments, the upward pressure on unit labour costs intensified further in 1990 which, together with the recent oil price shock, will result in a worsening of the output/inflation split for 1990 as a whole.

Domestic demand led growth

The growth of household disposable income was broadly the same in both 1989 and 1990. The prospective decline in the rate of growth of social security benefits and other non-wage income (due to depressed agricultural income) in 1990 will most likely be offset by a markedly slower growth in income taxes (see Part II). However, private consumption has slowed down considerably, resulting in a likely rise in the saving ratio from its low 1989 level (Table 2). Three, partially related factors account for the weaker consumer propensity. Firstly, reflecting the boom in residential investment and consumer durables in previous years, the financial liabilities of households increased sharply during the four years to mid-1989 from 75 per cent to 92 per cent of disposable income. Secondly, credit restrictions and the rise in interest rates seem to have particularly affected credit to households. Thirdly, following four years of buoyancy there has been a certain temporary saturation of demand. This is particularly true for cars whose registrations more than doubled over this period, so that the decline in 1990 (about 10 per cent) may put registrations back to more sustainable levels.

Most government sub-sectors and expenditure categories contributed to the deceleration in general government consumption in 1990 from previous high rates.

Table 2. **Demand and output**

Per cent change over previous year

	GDP shares 1989	1987/1985	1988	1989	1990[1]
Private consumption	62.7	4.5	6.0	5.4	3.7
Government consumption	14.8	7.3	4.1	5.6	4.2
Gross fixed investment	24.0	12.3	14.2	13.7	8.6
Final domestic demand	101.5	6.5	7.5	7.4	5.0
Total domestic demand	103.0	7.3	7.7	7.7	4.9
Exports of goods and services	18.5	3.6	7.5	5.2	3.8
Imports of goods and services	21.4	19.6	18.9	16.0	9.0
Foreign balance[2]	-2.9	-2.7	-2.7	-3.0	-1.7
GDP at constant prices		4.5	5.2	5.1	3.5
GDP at current prices	100.0	13.2	11.8	12.5	11.3
Memorandum items:					
Gross fixed investment					
Private sector[3]	19.5	14.2	13.1	12.4	7.2
General government	4.5	3.9	19.8	20.2	15.0
Real household income		4.0	6.0	4.5	4.3
Household saving ratio (per cent)		(7.9)	(7.6)	(6.8)	(7.3)

1. OECD projections.
2. Contribution to growth of GDP.
3. Including companies under state control.

Source: Data submitted by national authorities and OECD estimates.

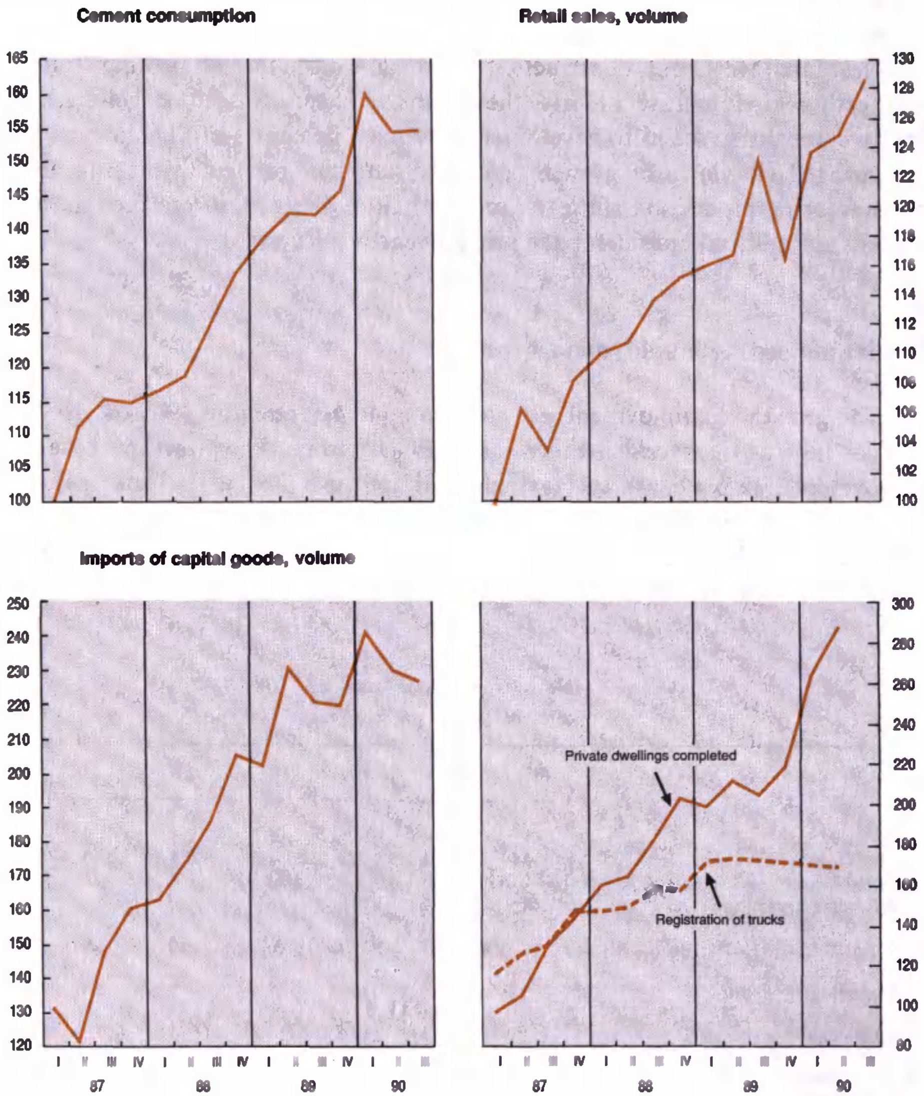
Recruitment by both the central and the regional governments (Autonomías) seems to have moderated and, current expenditure on goods and non-wage services has also decelerated. General government investment, with a rate of growth of around 15 per cent (down from an average rate of 20 per cent in the previous two years), continued to be the fastest growing domestic demand component. After increasing by some 30 per cent per annum in the previous two years, public sector procurement bids rose by almost 42 per cent in the first eight months of 1990. Contrary to earlier trends, the increase in 1990 mainly reflected a higher volume of public works undertaken by the central government, highlighting the priority given to the modernisation of infrastructure.

There seems to have been a marked slowdown in residential investment in 1990, probably in response to three factors (Diagram 1). Firstly, the steep rise in the price of houses since 1986, especially in a few big cities and some tourist resorts, combined with credit restrictions and the steep rise in interest rates since mid-1989 to damp demand for new houses, as witnessed by the fall in private housing orders since the end of 1989 (one-fourth down in the twelve months to July 1990). Secondly, there has been some reduction of tax relief for residential investment in the last few years. And, thirdly, these two factors have been reinforced by the downward trend (since 1985) in government-supported housing, which has brought total housing starts in 1990 back to the average level of the mid-1980s.

Despite increasing signs of hesitation since the second half of 1989, business investment should remain on a rising trend for 1990 as a whole, thereby bringing the cumulative volume increase since the 1985 trough to almost 100 per cent. Unlike in previous years when fixed capital formation in all sub-sectors was buoyant, investment in transport equipment seems to have declined in 1990. The rising cost of credit and the difficulties, notably of small firms, to obtain loans have led to a curtailment of investment plans. In addition, the steep upward trend of long-term capital inflows, which so far have lent strong support to the investment boom, has levelled off in 1990[2]. The damping influence from falling capacity utilisation rates and slightly reduced profit margins seems to have been small since profits have remained at comfortably high levels and the demand outlook was of late still rather bullish.

Total domestic demand is estimated to grow by around 5 per cent in 1990, compared with 7.5 per cent in the previous three years. Reflecting a decline in tourism, the growth of exports of goods and services also slowed. However, as the deceleration in import growth seems to have been even stronger, the negative contribution to output growth from the real foreign balance is likely to turn out

Diagram 1. **INVESTMENT INDICATORS**
1986 = 100, seasonally adjusted



Source: Ministerio de Economía y Hacienda, *Síntesis Mensual.*

considerably smaller in 1990. GDP is expected to show a rise of about 3½ per cent, i.e. close to its estimated potential rate consistent with stable inflation, but down from an average of over 5 per cent between 1986 and 1989. With GDP growth still falling considerably short of that of domestic demand, sheltered sectors have continued to grow much faster than exposed sectors. Influenced by the buoyancy in infrastructure investment, construction has remained the fastest-growing sector for the fourth year running. Similarly, the expansion of service sectors sheltered from foreign competition seems to have remained strong. By contrast, all indicators point to a marked slowdown of growth of service activities related to tourism and of manufacturing production since the second half of 1989. A severe drought again affected agricultural output for the second year in succession.

Continuing strong employment growth

The growth of employment was stepped up to 4 per cent in 1989, nearly three times as high as the average recorded in OECD Europe. The growth in dependent employment (6.2 per cent) was particularly impressive (Table 3). Though slowing, employment continued to grow rapidly in the first half of 1990, led again by dependent employment. Reflecting output developments, the moderation is expected to be more marked in the second half, limiting the growth of dependent

Table 3. **The labour market**

Per cent change over previous year

	1986	1987	1988	1989	1989 Q4	1990 Q2	1990 Q3
Total labour force	1.7	2.4	1.6	1.3	2.1	1.7	1.0
Total employment	2.2	3.1	2.9	4.0	4.1	3.0	1.9
Of which:							
Excluding agriculture	4.9	4.2	3.7	5.7	6.0	4.4	3.7
Employees	4.7	4.2	4.7	6.2	6.0	4.9	3.8
Of which:							
Excluding agriculture	5.5	4.6	5.1	7.4	7.4	5.4	
Unemployment rate (per cent)	(21.0)	(20.5)	(19.5)	(17.3)	(16.9)	(16.3)	(15.9)
Labour productivity, total	1.0	2.4	2.0	0.8	..	1.0	
Excluding agriculture	–0.7	1.0	1.5	–0.5	..		
Of which:							
Manufacturing industry.	3.9	2.5	2.7	0.6	..		

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

Table 4. **Employment promotion programmes**

Thousands

	1984	1986	1987	1988	1989	1990 (January-October) Annual rate
Total hirings	1 830	3 020	3 449	3 712	4 309	4 230
Under employment promotion programmes	500	1 416	1 680	2 005	2 290	1 920
(Per cent of total hirings)	(27.4)	(46.9)	(48.7)	(54.0)	(53.3)	(45.4)
Of which:						
Temporary contracts	235	537	667	862	1 100	
Part-time	48	179	222	291	356	
Training and apprenticeships	41	248	346	434	554	
Youth employment[1]	–	104	119			
Agreements with government agencies[2]	101	309	293	293	258	
Memorandum item:						
Workers with temporary contracts (per cent of total employees)			(17)	(23)	(27)	(28)

1. Under 26 years of age.
2. Agreements between the National Institute of Employment (INEM) and government agencies, mainly local authorities and autonomous regions for employing (mainly in construction) registered unemployed persons.

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

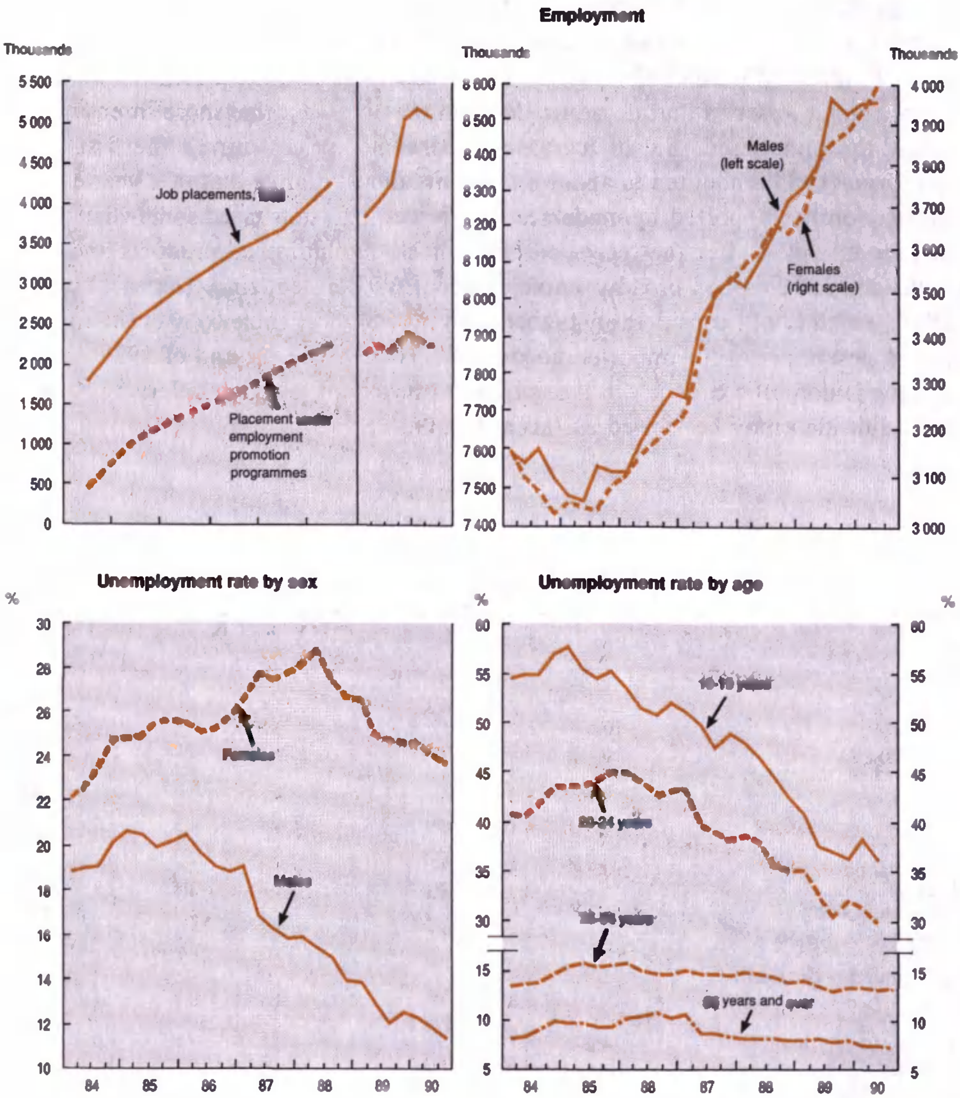
employment probably to less than 4 per cent in 1990 as a whole. In line with longer-term trends, the number of self-employed and employers is likely to decline at an annual rate of between 1 and 1.5 per cent, reflecting reduced numbers of agricultural production units and broad stability in other sectors. As in 1989, employment in construction will probably show an increase of more than twice as much as the rest of the economy and the expansion of government employment appears to have kept pace with that in the private sector, reflecting the growing needs in education and health.

Along with the sharp rise of employment in recent years facilitated by less rigid labour-market regulations, important changes have taken place both with respect to qualification levels and the nature of employment contracts. Between 1984 and the middle of 1989 recruitment under the various employment promotion schemes (including fixed-term and part-time work and apprenticeship) accounted for most of the increase in placements. Their share in total placements rose from 24 per cent in 1984 to 56 per cent in mid-1989, before falling to 44 per cent in the third quarter of 1990 (Table 4). The share of newly recruited low-skilled workers has been high, though most recent data may indicate the beginning of a more favourable trend. With regard to temporary workers, their share in total dependent employment rose from around 5 per cent in the mid-1980s to 29 per cent by the end of 1989. Since then all indicators show broad stability. An indicator pointing to a structural improvement in the labour market is the continuing rise in the share of those with more than primary education: from 38 per cent in 1985 to 49 per cent in 1989 and probably more than 51 per cent in 1990.

Although the creation of new jobs has had a positive impact on labour supply, unemployment has declined rapidly, though more recently at a diminishing pace. A particularly encouraging feature has been the continuing sharp decline in unemployment of heads of households. Notwithstanding a pick-up in the overall participation rate there have also been further declines in youth unemployment as well as in the share of long-term unemployment (one year or more). Even so, the rate of youth unemployment is still three times higher than for other age groups and long-duration unemployment still accounts for more than one-half of the total (Diagram 2). In addition to "hysteresis" effects, which over time reduce the probability that long-term unemployed will find a job, the degree of sectoral and skill mismatches between demand and supply of labour seems to be higher and geographical mobility lower than in countries with more efficient labour markets. However, the fact that in regions with high rates of joblessness the decline in unemployment has been less than the average points not only to low vertical and horizontal mobility of labour but also to insufficient capital mobility, leading to a concentration of investment in larger cities and a few industrial areas.

The rapid growth in employment in the past two years has been accompanied by a marked slowdown in productivity growth to about 1 per cent, per annum, almost half the rate in OECD Europe. Viewed against both the need and scope for Spain to catch up with productivity levels in more advanced industrial countries, the slow productivity growth may at first sight seem difficult to understand, especially after allowing for the considerable increase in capital deepening investment in recent years. One important explanation certainly lies in the changing composition of the work-force and the measurement of productivity in man years. As already discussed, most of the increase in employment since the upturn in 1986 consists of temporary and part-time workers as well as apprenticeships under the various employment promotion schemes established in 1984. Indeed, a large proportion of these additions to the employed labour force consists of unskilled workers and people working fewer hours than permanent workers. It also seems that many people previously working in registered establishments without being officially registered are now included in the official labour force[3].

Diagram 2. **EMPLOYMENT AND UNEMPLOYMENT TRENDS**



Note: Data before and after 1987 are not strictly comparable.
Source: Ministerio de Trabajo y Seguridad Social.

Inflation stickiness

Under the combined impact of falling oil prices, world-wide disinflation and an appreciating peseta, inflation, as measured by the rise in consumer prices, reached a low in mid-1988. Since then it has been creeping up as the moderating influence from abroad lessened and domestic demand pressures became more intense. As a result the annualised rate of increase of consumer prices during the first seven months of 1989 amounted to about 8 per cent, almost double that of a year earlier. Subsequently, supported by moderate food prices, inflation eased somewhat before picking up again after the recent oil price shock. Excluding oil products and food, inflation has remained broadly stable at about 6½ per cent since the early part of 1989, which is still considerably higher than in 1987-88 (Table 5). Considering the fall in peseta prices for imported goods and services since the end of 1989 and the decline in domestic capacity utilisation rates, the extent to which inflation pressures have subsided may be viewed as rather small.

Table 5. **Prices**

Per cent change over previous year

	1986	1987	1988	1989	July 1989	December 1989	August 1990	October 1990
Consumer prices	8.8	5.2	4.8	6.8	7.4	6.9	6.5	7.0
Food	10.6	5.0	3.7	7.7	9.2	7.5	6.2	6.1
Energy	–6.3	–3.9	–0.6	2.5	6.2	6.2	5.1	14.3
Other industrial goods	9.8	6.3	4.8	4.0	3.7	3.7	4.3	4.6
Services	9.1	6.3	6.8	8.6	8.6	8.8	8.5	8.5
Underlying inflation	9.4	6.1	4.9	6.6	6.5	6.6	6.7	6.6
Industrial prices	0.9	0.8	3.0	4.0	4.4	3.6	1.3	2.0[1]
Consumer goods	5.1	3.9	3.3	4.5	4.4	4.6	2.8	3.0
Capital goods	6.2	5.0	4.7	4.6	4.3	4.9	3.5	3.5
Intermediate goods	–3.1	–2.4	2.2	3.8	4.3	2.4	–0.5	0.8
Agricultural prices received by farmers	8.8	–2.8	3.3	7.5	8.3	0.8	0.1	
Cost of construction	4.8	4.1	5.5	8.3	9.5	8.6	8.0	
Labour	9.4	7.3	7.0	9.9	10.4	12.1	13.9	
Materials	–0.1	0.4	4.2	7.2	9.4	5.5	3.3	
Import prices goods	–17.4	–2.2	–1.4	1.8	1.3	2.9	–3.8[1]	
Of which:								
Excluding energy	–2.0	0.3	1.5	0.4	0.0	0.2	–6.7	

1. September 1990 over September 1989.

Source: *Síntesis Mensual de Indicadores Económicos*, Ministerio de Economía y Hacienda and *Boletín Estadístico*, Bank of Spain.

Table 6. **Wages and labour costs**

Per cent change over previous year

	1986	1987	1988	1989	1990[1]
Collective wage agreements	8.2	6.5	6.4	7.8	8.1
Basic hourly pay	10.4	8.3	8.0	8.0	9.1
Average earnings in industry	10.9	7.7	5.9	5.6	7.9
Compensation per employee (national accounts basis)	8.2	7.5	6.0	6.5	8.3
Government	8.4	7.6	6.0	7.0	8.1
Private[2]	8.2	7.5	6.0	6.3	8.3
Wage[3], private sector	9.1	6.5	5.0	7.6	8.4
Unit labour costs, total private sector	7.0	5.0	4.0	5.1	7.0
of which: Industry	6.6	5.0	3.4	5.0	6.5

1. Estimates for the year as a whole based on partial data for 1990.
2. Private sector including companies owned or controlled by government.
3. Excluding employers' social security contributions.

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

Inflation in most sheltered sectors continued to edge up, bringing the annual rate of increase of the price of services, excluding rent, up to more than 9 per cent during the first eight months of 1990. By contrast, the rise in consumer prices of industrial goods, excluding energy, has stabilised at an annual rate of around 4 per cent since the second half of 1989. Import competition has remained an important factor in curbing the advance of industrial prices. Indeed, owing to the effective appreciation of the peseta, the price of imports of finished manufactures is unlikely to show any significant rise in 1990 as a whole, and prices of semi-manufactures may even decline.

By contrast, all indicators point to a build-up of domestic inflation in virtually all major sectors, with the possible exception of agriculture. The rise of unit labour costs has steadily steepened since 1988, exceeding 7 per cent in the business sector in 1990 (Table 6). Productivity growth in both 1989 and 1990 was considerably below the longer-term trend rate. While this was matched by corresponding wage moderation in 1989, wage increases are expected to work out at close to 8 per cent in 1990, the highest rate since 1985. In addition to some retroactive pay rises owing to indexation clauses in many of the 1989 settlements, collective agreements in

1990 were more generous, reflecting growing labour union militancy on the one hand and comfortable profits at the beginning of the year on the other hand. The increase in the average real wage of permanent workers is likely to reach almost 2 per cent in 1990, about 0.7 percentage point higher than in 1989[4]. Judging by the steep trend of prices, profits in the service sector seem to have remained buoyant. By contrast, the stronger growth in unit labour costs, rising financial charges and slower demand growth appear to have entailed some squeeze of profit margins in industry.

The current external balance and its financing

Following a marked worsening in 1989, the increase of the current external deficit slowed considerably in the first ten months of 1990 (Table 7). The trade deficit stabilised at the high level attained in the second half of 1989. At the same time, the previous steep upward trend in net invisible receipts came to a halt in the first half of 1989 and gave way to a small decline in 1990. Without the oil shock the current external deficit would probably have settled at less than 3½ per cent of GDP in 1990, about the same as the level reached in the second half of 1989. The oil price hike is likely to add about 0.3 of a percentage point. Despite higher oil prices, the terms of trade are expected to improve in 1990, partly offsetting the deterioration of the real foreign balance. The improvement of the terms of trade is largely attributable to the effective appreciation of the peseta of about 4 per cent in 1990. With persistently strong inflows of short and long-term capital in excess of the current deficit, the peseta has been kept near the top of its ERM band since mid-1989, therefore gaining strength by the fall in the value of the US dollar *vis-a-vis* the ECU. At the same time there was a further rise in official exchange reserves from $44 billion at the end of 1989 to $52.5 billion in October 1990.

The volume growth of merchandise exports has been broadly stable at around 7½ per cent per annum since 1987. Continuing fast growth of manufactures permitted Spain to recuperate export market shares losses incurred in 1987 and 1988. The deceleration of domestic demand growth appears to have been a key factor behind the improved export performance and has also led to a marked slowdown in volume import growth to less than 10 per cent in 1990 (from about 18 per cent in the two previous years). Cuts of more than half in growth rates are likely to be registered for capital goods and non-food consumer goods. Despite this more favourable trend, import penetration in both areas has probably increased further in 1990, albeit at a much slower pace.

Table 7. **Balance of payments**

Cash basis, $ billion

	1986	1987	1988	1989	January-October 1989	January-October 1990
Trade balance (fob/fob)	–5.6	–11.4	–16.1	–24.5	–19.8	–23.8
Exports	26.8	33.2	39.6	41.2	34.4	42.0
Imports	32.4	44.6	55.8	65.6	54.1	65.8
Non-factor services, net	11.5	13.1	12.9	11.6	9.9	9.1
Of which:						
Tourism	10.5	12.8	14.1	13.1	11.8	11.7
Credits excluding tourism	6.3	7.0	7.4	8.1	4.4	5.2
Debits excluding tourism	5.2	6.7	8.7	9.6	6.3	7.8
Net investment income	–2.0	–2.9	–3.5	–3.1	–2.8	–3.0
Credit	3.0	3.0	4.1	6.3	4.9	6.8
Debit	5.0	5.9	7.6	9.4	7.7	9.8
Private transfers, net	1.5	2.3	3.0	3.2	2.4	3.3
Official transfers, net	–0.4	0.2	1.3	1.4	1.2	1.6
Invisible balance	10.6	12.7	13.0	12.9	11.5	12.3
Current balance	**5.0**	**1.3**	**–3.1**	**–11.6**	**–8.4**	**–11.6**
Net long-term capital inflows	1.9	9.6	10.1	17.2	11.4	14.5
Of which:						
Private foreign investments from abroad	5.2	8.0	9.5	14.6	11.7	14.2
Direct	2.0	2.6	4.7	5.9	4.5	7.6
Real estate	1.4	1.8	2.3	2.6	2.1	2.1
Portfolio	1.7	3.4	2.1	6.2	5.0	3.8
Private credits from abroad	–3.8	2.3	3.1	0.9	0.8	1.1
Basic balance	3.4	10.9	7.0	5.6	6.4	2.9
Balance on mon-monetary transactions[1]	3.1	11.6	5.9	2.4	4.9	4.5
Private monetary institutions, short-term capital	–0.2	2.6	3.6	2.2	1.2	5.2
Change in official reserves (+ = increase)	2.7	14.2	9.7	4.5	5.4	7.8
Memorandum items:						
Gross external debt, end of period	24.1	30.1	32.8	34.8	–	–
Official reserves, end of period	16.0	30.2	39.9	44.4	45.3	52.2
Per cent change						
Terms of trade, goods	(16.8)	(4.9)	(5.9)	(2.6)		(0.5)
Of which:						
Excluding energy	(5.1)	(2.0)	(4.2)	(3.3)		(1.3)
Volume goods						
Exports	(-4.0)	(7.6)	(7.0)	(7.4)		(9.6)
Imports	(16.7)	(26.0)	(18.5)	(18.1)		(9.0)

1. Including errors and omissions.

Sources: *Boletín Estadístico*, Bank of Spain, and *Síntesis Mensual de Indicadores Económicos*, Ministerio de Economía y Hacienda.

After rapid growth up to 1987, net exports of services and factor income have since been on a downward trend. This is mainly explained by the contraction of net tourism receipts and steeply rising royalty payments and commissions. Earnings from tourism have been affected by the decline in Mediterranean tourism in general and the substantial increase in Spanish service prices in particular, while expenditure on foreign travel has been boosted by rising living standards at home[5]. The upward trend in net payments for a number of services can be explained both by the increase in foreign investment and the modernisation of Spanish firms, relying heavily on the technical know-how of more advanced countries. Moreover, restrictions on royalty payments abroad were lifted in 1987. The contraction of the surplus on services and factor income in 1990 is again expected to be largely offset by rising net transfers both from the EC and by the private sector.

The widening current-account deficit is likely to be more than covered by net long-term capital inflows, so that the basic balance may remain in surplus. Foreign private investment is expected to continue growing in 1990, as the increase in business direct investment more than offsets the decline in portfolio and real estate investment. Long-term borrowing from abroad may also show an increase reflecting high interest rates and credit restrictions. As regards capital exports, the liberalisation of capital controls and the growing need felt by Spanish firms to establish themselves abroad can be expected to result in a further sharp rise of Spanish investment abroad and of commercial export credits. Including a prospective contraction in public sector capital imports, total long-term capital net inflows may be reduced somewhat, but still remain substantial. The wide interest-rate differential in Spain's favour has continued to attract short-term capital and has contributed to a further steep increase in official reserves.

Since joining the EC in 1986, Spain has enjoyed a vote of confidence from the international community in the form of sizeable foreign investment flows. This investment has meant that the growing current-account deficit was financed without resort to foreign loans. Net foreign investment reached a peak of 4 per cent of GDP (or $15 billion) in 1989. However, as shown in Table 7, portfolio flows, a major component of the net foreign investment, vary greatly and rough estimates suggest that about half of net portfolio flows may be unstable in the sense that they are more dependent on relative rates of interest and expectations of share price and exchange rate movements than on relative rates of profits. Looking ahead, it is also important to realise that the steep upward trend in net private direct and real estate investment may not continue for much longer and that the rising foreign debt has to be serviced. As foreign projects come on stream there will be growing profit repatriation; and Spanish firms and households are increasingly emerging as actual and potential investors abroad – a trend which will be reinforced after the lifting of virtually all foreign-exchange controls by 1992. Moreover, as it is to be expected, the big labour-cost advantage enjoyed by Spain in the past is gradually being eroded and this should increasingly bear on foreign investment decisions. Finally, the opening of the Eastern European markets, while stimulating exports, may well deflect some investment from Spain. Accordingly, it would not be prudent in the medium term to count to the same extent as in recent years on net foreign investments and capital inflows[6].

II. Economic policies and structural adjustment

While during the first three years of the economic recovery (1986-1988) the rapid growth of output and employment was consistent with external balance and disinflation this has ceased to be the case in more recent years. Consequently there has been a gradual shift of policies since late 1988 from an initially strongly supportive and subsequently accommodative stance to an increasingly restrictive posture. A series of restrictive fiscal and monetary measures were taken during 1989 and the implementation of both budget and credit policies has been further tightened in 1990. The authorities' goals have been to bring the rate of inflation down to the average of ERM participants and to reverse the upward trend of the current account deficit. These objectives should however be achieved without interrupting the process of absorbing excessive labour market slack.

In seeking to bring about a successful "soft landing" of the economy the authorities have been confronted and hindered by a number of constraints. As to monetary management, the decision to enter the ERM has increased the credibility of the anti-inflationary resolve of the government but it has also by the nature of the arrangement greatly reduced the Bank of Spain's ability to pursue an independent interest-rate policy. As regards fiscal policy, the tax burden on wage incomes is generally felt to be excessively high and the possibilities of raising taxes on other incomes are limited without a major overhaul of the tax system and a reduction of the still high level of tax evasion and fraud. Likewise on the expenditure side, the scope for containing growth seems limited as lack of adequate public infrastructure is hampering private initiative to expanding output and employment and as the high rate of unemployment calls for increases rather than cuts in spending on labour-market measures and disadvantaged groups of society. This constraint may be viewed as all the more important in that during the years of strong growth and unbalanced vertical and horizontal income developments tensions have built up which carry the risk of weakening social consensus and hence public support for stabilisation measures and financial consolidation efforts.

Monetary policy

The monetary policy stance was tightened in mid-1989 in response to excessive monetary growth and clear signs of overheating[7]. A ceiling on bank credit expansion to the private sector was imposed, the minimum reserve ratio was raised and measures were taken to restrict the use of substitutes for bank deposits not subject to the minimum reserve ratio (e.g. participations in loans and insurance premiums) and used by banks to circumvent liquidity controls[8]. The official intervention rate was also raised. These measures and extraordinary income tax receipts (see below) led to a marked deceleration in the growth of monetary aggregates during the last five months of 1989 (Table 8). In particular, the growth of bank credit to the private sector fell to 12 per cent, annual rate, from 22 per cent during the preceding seven months, with credit to households largely accounting for the slowdown.

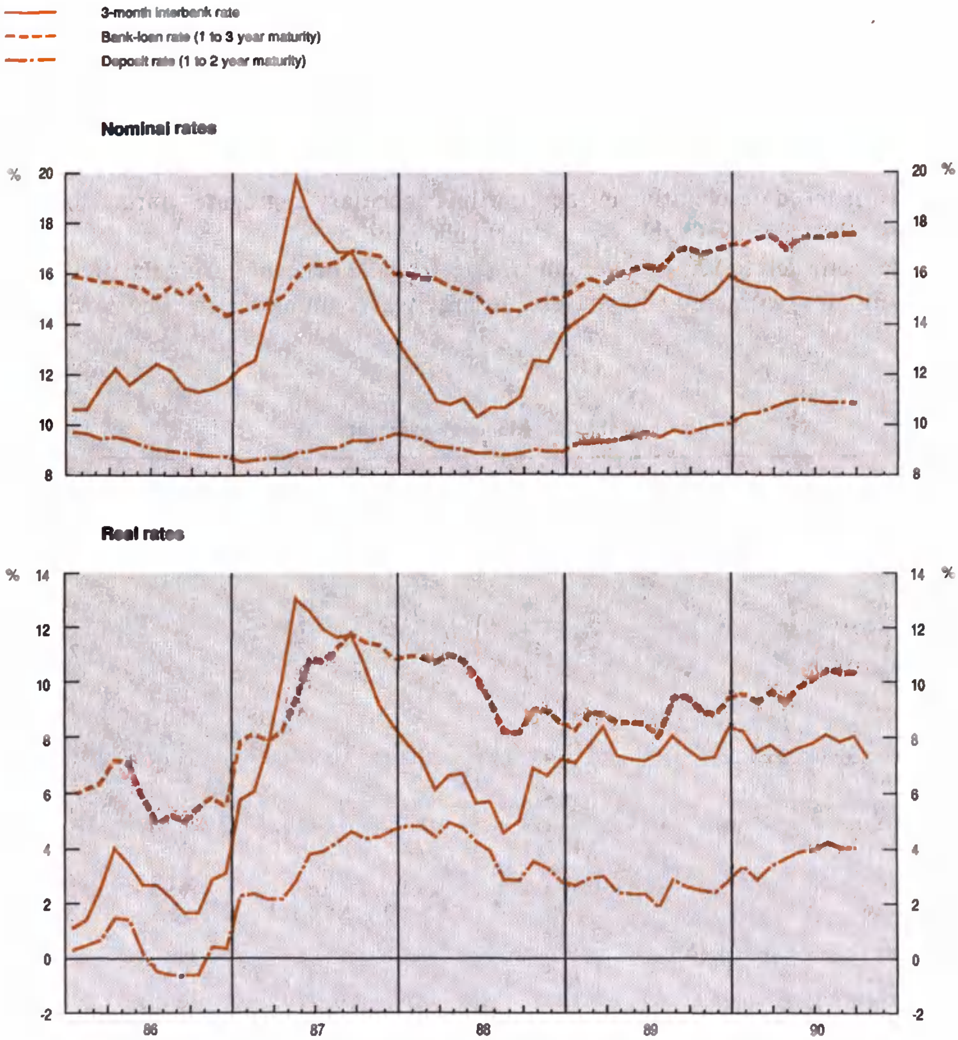
Table 8. **Monetary aggregates**

	1989	1987	1988	1989	October 1990
	Pesetas billion	Per cent change over previous year			
Currency	3 836	13.9	18.5	18.3	13.9
Sight deposits	7 319	15.8	17.5	13.1	33.2
M1	11 155	15.1	17.8	14.9	25.9
Savings deposits	7 752	7.6	12.7	7.0	3.0
Time deposits	11 438	2.4	2.7	10.1	8.4
M3	30 344	7.7	10.3	11.0	13.1
Government liabilities	8 952	52.2	16.4	38.7	10.2
Of which:					
Repurchase agreements	7 286	61.2	26.4	33.1	
Private-created liquid assets	2 117	18.5	10.3	–40.4	–42.3
Other liquid assets	11 069	37.8	14.2	10.6	–1.7
ALP [1]	**41 413**	**14.2**	**11.3**	**10.9**	**9.0**
ALP, target		**6.5-9.5**	**8.0-11.0**	**6.5-9.5**	**6.5-9.5**
Net domestic credit to residents[2]	48 542	14.3	15.4	14.8	12.2
General government	15 269	13.7	11.9	11.8	12.9
Companies and households	33 273	14.6	17.0	16.2	12.0
GDP at market value	44 871	11.8	11.7	12.5	11.3[3]

1. ALP stands for "liquid assets in the hands of the public", which includes M3, Treasury Bills, repurchase operations with public assets, bank bonds, mortgage securities, bankers' acceptances, guaranteed commercial paper, liabilities on insurance operations, repurchase operations with private assets.
2. Bank and money market transactions only.
3. OECD estimate.

Source: Boletín Estadístico, Bank of Spain.

Diagram 3. **INTEREST RATES**



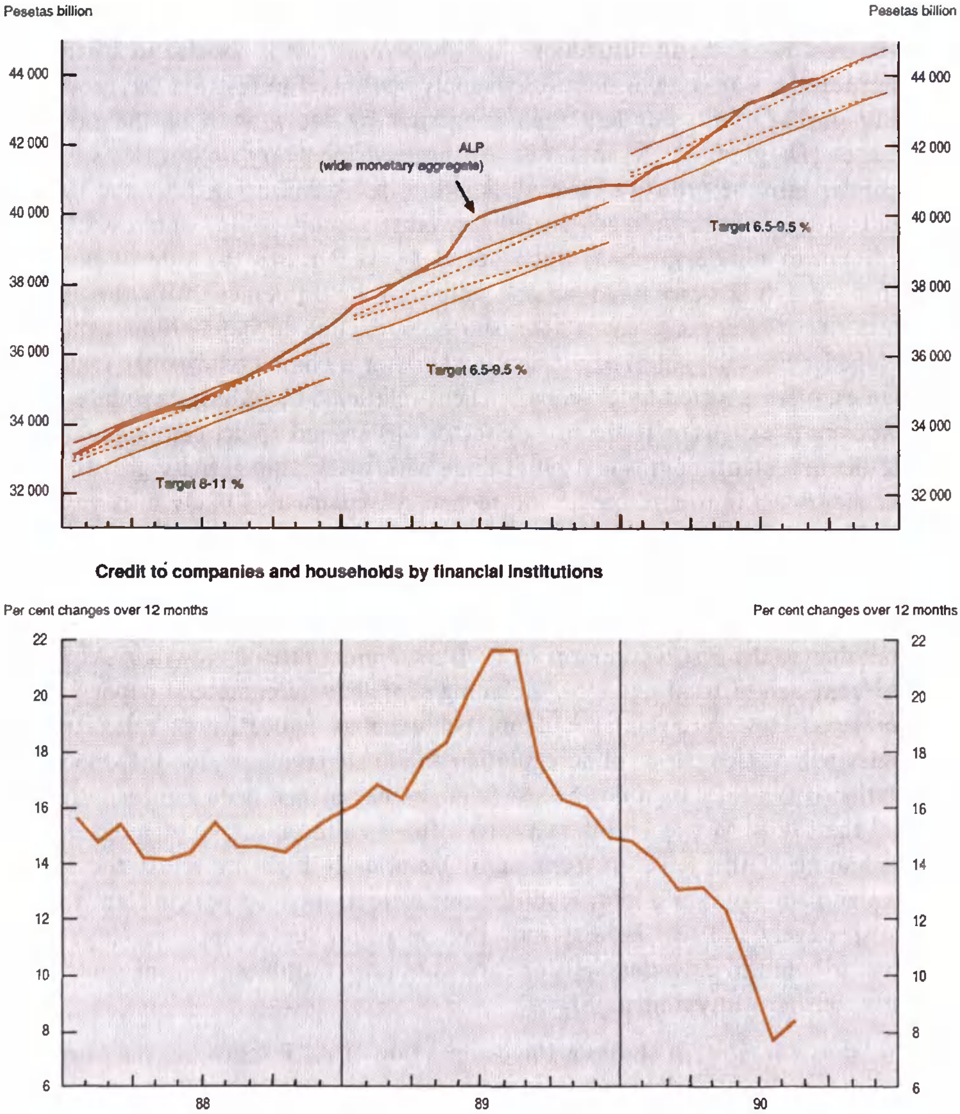
Source: OECD, *Financial Statistics*.

The monetary policy stance has remained restrictive in 1990. The target for the growth of ALP remained unchanged (at 6½ to 9½ per cent) and the ceiling for credit expansion to the private sector was fixed at 10 per cent. Commercial lending rates continued to edge upwards during the first eight months of 1990 (Diagram 3). High interest rates, credit restrictions and the swing from a positive to a negative effect of foreign transactions on money supply continued to restrain the growth of liquidity during 1990, but less than suggested by the growth of the targeted aggregates (Diagram 4). As in 1989, the targeted monetary aggregates substantially understate the growth of overall liquidity in 1990. During 1989 the Basque regional government had already issued very large amounts of low-interest Charter notes (Pagarés Forales), which when added to ALP raises the rate of liquidity growth by nearly 2 percentage points[9]. Following an agreement with the central government net issues of Charter notes started to decline during 1990, but this was outweighed by a substantial expansion of short-term commercial paper issued by companies, often assisted by close bank-client relations. Including these bills, total domestic credit expansion to the private sector was around 15 per cent, annual rate, during the first eight months of 1990. In line with weakening activity growth some further slowdown in overall credit and monetary expansion is likely to have taken place during the remainder of the year.

The time profile of ALP growth during 1990 was distorted by disintermediation in the first quarter and a bunching of tax reimbursements in the early spring[10]. In total, during the first ten months of 1990 the annual rate of growth of ALP was 9.5 per cent and of total liquidity, including short-term commercial paper, nearly 13 per cent. However, this should not be taken as indicative of relaxation of monetary policy. In a period of deregulation and financial innovation the velocity of circulation is typically on a downward trend, as has indeed been the case through most of the 1980s. Moreover, interest rates, after an almost uninterrupted rise since the beginning of the year, are running at historically high levels. At the end of September short and long-term lending rates were around 16 per cent and 18 per cent respectively and real activity indicators leave no doubt that these high rates have contributed to curb demand for cars, consumer durables, housing and, more recently, business investment.

1990 saw important shifts in the composition of ALP following the introduction of high-yield "super" current accounts (see below, Structural Policies) and the intensification of competition for bank deposits. In addition to high interest rates, different advantages were provided to the holders of these accounts, so that the effective yield on demand deposits amounted to almost 11 per cent in mid-1990, about 40 per cent higher than seven months earlier. This led to a shift from less

Diagram 4. **CREDIT AND MONETARY EXPANSION**



Sources: OECD, *Main Economic Indicators;* Banco de España, *Informe Annual,* 1989.

liquid assets to demand deposits, reflected in an annual rate of growth of 38 per cent for M1 during the first half 1990 and of 17 per cent for M3 (compared with 10 per cent during 1989). The counterpart was virtual stagnation of other less liquid assets included in ALP as well as a decline in certain financial assets not included in the ALP aggregate.

The incorporation of the peseta in the ERM responded both to short and long-term considerations[11]. By increasing the credibility of stabilisation policies it has eased the difficulties in restoring simultaneously better external and internal financial balance. The reconciliation of the external objective of maintaining the exchange rate broadly stable and the domestic objective of combating inflation had become increasingly difficult in 1988 and the first half of 1989. Reflecting high and rising interest rates and expectations of continuing appreciation, substantial short-term capital inflows exerted strong upward pressure on the peseta. After the peseta joined the ERM speculative flows in anticipation of an appreciation have largely subsided. The appreciation of the peseta *vis-à-vis* other EC currencies stopped but high interest rate differentials have until recently kept the peseta close to the top of its fluctuation band. While participation in the ERM is reducing the room of manoeuvre for monetary policy on a national level, it is equally relevant to note that by joining a low-inflation currency zone there is less need for an independent monetary policy given increased competitive pressure from abroad and positive effects on confidence and expectations.

Slow fiscal consolidation

The 1989 and 1990 Budgets and outcome

Both on the revenue and expenditure sides the 1989 and 1990 central government budgets included few discretionary measures[12]. Based on ambitious inflation targets the increases in tax allowances and bands were relatively small in 1989 and 1990, so that higher-than-assumed inflation has translated into fiscal drag. On the expenditure side, the budgets were for big increases in investment (around 35 per cent for each year), but other spending was expected to grow at about the same rate as nominal GDP. However, in line with past experience, the growth of expenditure was considerably faster than budgeted in 1989[13]. In addition to expenditure overruns, the decision of the Constitutional Court (February 1989) allowing spouses to file separate tax returns was expected to strain government finances

Table 9. **General government accounts**

National accounts definitions, pesetas billion

	1987	1988	1989	1990[1]
Current revenue	13 138	14 596	17 161	18 873
Direct taxes	3 700	4 129	5 342	5 852
Households	2 529	3 077	3 792	4 039
Business	1 172	1 052	1 550	1 814
Indirect taxes	3 756	4 192	4 709	4 991
Social security contributions	4 608	5 052	5 737	6 482
Other	1 074	1 223	1 373	1 547
Current expenditure	12 533	13 835	15 751	17 414
Public consumption	4 946	5 408	6 181	6 795
Of which:				
Wages and salaries	3 752	4 206	4 766	5 353
Social security benefits	5 125	5 633	6 450	7 172
Interest payments	1 256	1 343	1 546	1 808
Current transfers and other	1 226	1 451	1 574	1 639
Gross saving	585	761	1 410	1 459
(% of GDP)	(1.6)	(1.9)	(3.1)	(2.9)
Fixed investment	1 245	1 570	1 990	2 450
Net capital transfer payments	483	452	600	627
Net lending (+) or net borrowing (-)	–1 144	–1 262	–1 180	–1 617
(% of GDP)	(-3.2)	(-3.2)	(-2.7)	(-3.2)

Note: Because of rounding figures may not add up to total.
1. OECD estimates.
Sources: Data submitted by national authorities, OECD *National Accounts* and OECD estimates.

further. This as well as the need to contain rapidly mounting inflation led the central government to introduce revenue raising measures in the middle of 1989. The withholding tax on personal income from financial investments was raised from 20 to 25 per cent, the collection of company taxes was speeded up and personal income tax reimbursements due in November 1989 were postponed to early 1990.

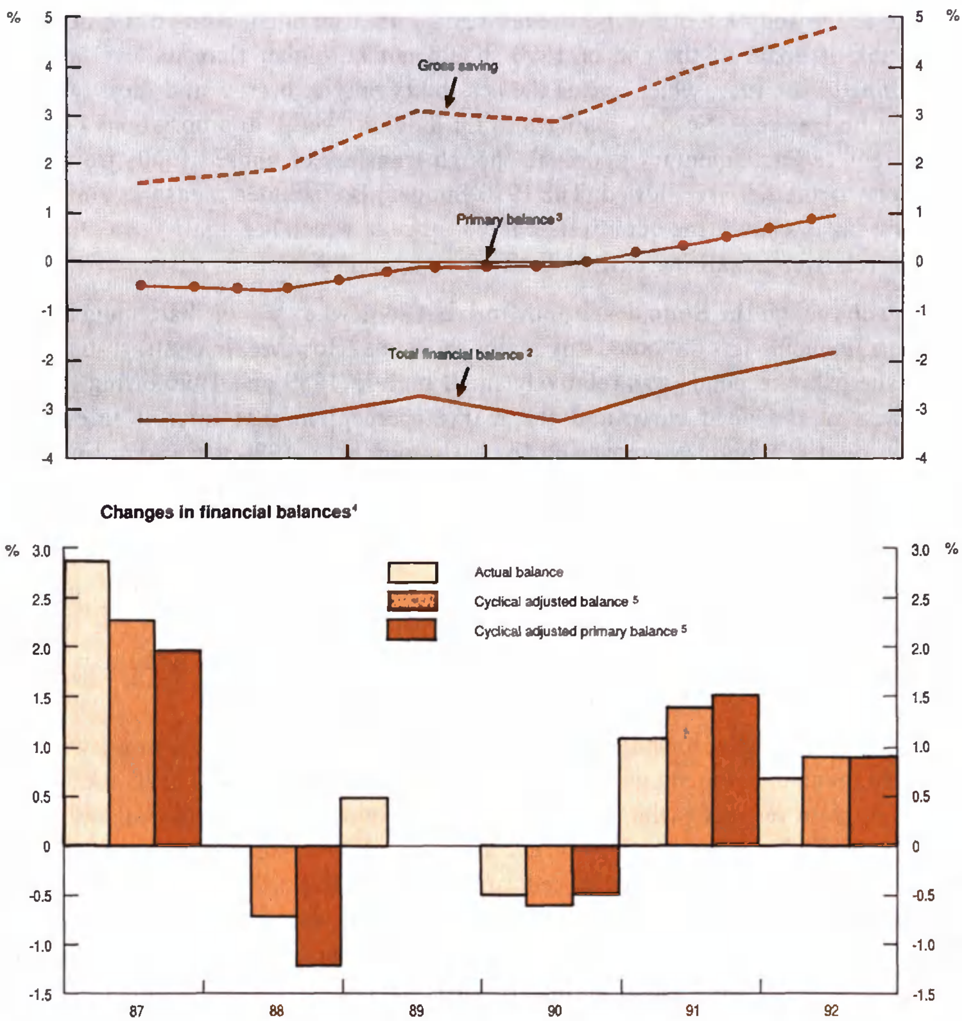
The extra revenue, nearly 0.6 per cent of GDP, brought the general government deficit down to about 2.7 per cent of GDP in 1989 (Table 9). Inversely, the delayed tax reimbursements have raised the deficit to an estimated 3.2 per cent of GDP in 1990. Adjusting for this, the deficit actually shrunk from 3.3 per cent of GDP in 1989 to an estimated 2.6 per cent of GDP in 1990. The decrease of the general government adjusted deficit over the two years to 1990 is more than explained by the fall in the deficit of the central government. The combined deficit of the regional (autonomías) and local governments seems to have increased. The improvement of the central government budget position is attributable to the fact that, for the first time since 1985, there were no expenditure overruns in 1990 thanks to the adoption of two new measures[14]. First, the outstanding State debt to the Bank of Spain at the end of 1990 should not be higher than its level at the beginning of the year, which leaves the possibility only to borrow and repay within a given budget year. Second, changes to the Budget overall appropriations henceforth require Parliamentary approval, though transfers of unused funds from one category to another are allowed. The 1990 Budget also included measures aimed at curbing tax evasion[15], the quantitative importance of which has again been attested by the relatively small increase in VAT receipts in 1990.

Even though the State deficit may turn out somewhat higher than budgeted in 1990 its financing has not posed any major problems. However, in contrast to 1988, the issue of State bonds was relatively small both in 1989 and 1990 owing to the steepness of the yield curve and the market perception that interest rates will remain relatively high. Moreover, in the early months of 1990 the authorities had some difficulties in selling Treasury bills, but demand picked up subsequently following an increase in interest rates. These developments underline the importance of competitive changes which are taking place in the Spanish financial market (see below). They have been supported by the abolition of the reserve requirements, which for a long time had provided cheap finance to the public sector. Henceforth, interest rates on government paper will have to be kept more in line with rates on competing assets.

The general government financial deficit on a cash basis seems now likely to show as much of a widening in 1990 ($\frac{1}{2}$ per cent in terms of GDP) as its reduction in 1989. However this easing of the fiscal policy stance is more apparent than real (Diagram 5). Indeed, adjusting for the above-mentioned postponement of income tax reimbursement (worth 0.6 per cent of GDP) from late 1989 to early 1990 turns the picture completely around. If furthermore the figures are adjusted for cyclical deviations of tax revenue and social benefits from underlying trend values the thrust of fiscal policy appears clearly to have been toward restraint in 1990 after two years of supportive policies. Arguably, there was even an improvement in the overall financial and wealth position of the government sector between 1987 and 1989 when the current expenditure to nominal GDP ratio was kept broadly stable at $35\frac{3}{4}$ per cent whilst the investment and saving ratio increased markedly[16]. Another indicator of budgetary consolidation is the debt/GDP ratio which, after peaking in 1987, has since then been on a gentle downward trend.

Diagram 5. **GENERAL GOVERNMENT FINANCIAL BALANCES AND FISCAL INDICATORS**[1]

Per cent of GDP



1. 1990 to 1992 are based on OECD projections.
2. Net lending national accounts basis.
3. Net lending - Net interest payments.
4. A positive sign indicates higher surpluses or lower deficits.
5. In per cent of potential GDP.

Sources: OECD, *National Accounts* and estimates.

Compared with other OECD European countries both current spending and debt/GDP ratios still look fairly modest. Also, current and more forward-looking fiscal policy projections seem to be sustainable as they point to further, though modest, falls in the debt/GDP ratio over the medium term[17]. It may also be noted in this context that public investment tends to exceed the (declining) deficit by a large and increasing margin. Hence the growth dividends from these investments should further improve fiscal prospects over the medium-term. Moreover, after the completion of major infrastructure projects for the Olympic Games in Barcelona and the World Fair in Seville, both taking place in 1992, government investment is likely to fall considerably from its current high levels, thereby helping to achieve the government medium-term target of a balanced budget.

The 1991 Budget

At the end of September the central government presented to the Cortes a restrictive central government budget for 1991 (Table 10). In order to keep spending more closely in line with initial proposals, Parliament can no longer raise expenditure appropriations during the budget year by more than 5 per cent unless based on a new law. The main assumptions underlying the Budget are GDP growth of 2.9 per cent; employment growth 2 per cent and GDP price inflation 5.8 per cent. The cash deficit is budgeted to decline from 2.1 per cent of GDP in 1990 to 0.9 per cent in 1991. However, adjusting for the delayed tax reimbursements the decline is only 0.6 percentage points of GDP. Except for an increase in taxes on oil, there are no other significant tax changes incorporated in the Budget. Overall revenue estimates imply a stable tax burden.

An important slowdown in central government expenditure is budgeted, making for a steep fall in the ratio of central government expenditure to GDP, largely reflecting important cuts in defence spending and subsidies. Expenditure on social welfare (except for pensions), unemployment and interest payments is projected to grow considerably more slowly than GDP. By contrast, the rate of growth of all the other categories is planned to increase markedly faster than GDP, notably spending on infrastructure, health and education. Despite the fact that some projects have been shelved and the realisation of others has been stretched over time, a 10 per cent increase is forecast for investment.

Even though some of the parameters on which the 1991 Budget is based are difficult to predict in the current uncertain international environment, the Budget seems to be ambitious and, as has often been the case, the deficit may turn out to be higher than planned. Sizeable economies on unemployment benefits and for

Table 10. **The State budget**

Cash basis, pesetas billion

	1987	1988	1989	1990		1991
				Budget	Outcome[1]	Budget
Total revenues	7 030	7 912	9 539	10 562	10 325	11 660
Direct taxes	3 156	3 518	4 655	4 880	5 040	5 835
Of which:						
Households	2 283	2 585	3 267	3 279	3 491	3 545
Indirect taxes	3 159	3 513	3 778	4 413	4 042	4 384
Transfers	285	408	534	593	632	684
Other revenues	430	473	572	676	611	757
Total expenditure	8 318	9 082	10 314	11 418	11 394	12 159
Consumption	1 887	2 027	2 261	2 462		2 656
of which:						
Wages and salaries	1 585	1 730	1 920	2 130		2 326
Goods and services	302	297	341	332		330
Current transfers	4 134	4 305	5 060	5 435		5 794
Interest payments	994	1 166	1 326	1 455		1 533
Fixed investment	601	656	790	1 045		1 086
Capital transfers	695	947	991	1 018		1 089
Other	7	0	0			
Budget balance	–1 288	–1 170	–775	–856	–1 069	–499
Extra budgetary operations	–46	–21	–115			
Net overall balance[2]	–1 334	–1 191	–890	–856	–1 069	
Financial operations, net	–87	–250	–292	–1 276	–131	–1 269
Borrowing requirement (– = deficit)	–1 421	–1 441	–1 182	–2 132	–1 200	–1 768
Financing net:						
Short-term debt[3]	1 725	916	1 079			
Medium and long-term debt	298	948	277			
Bank of Spain	–274	–284	239			
Other	–328	–139	–413			

1. Official estimates.
2. (– indicates a deficit, i.e. net borrowing).
3. Short-term debt includes Treasury bills and Treasury notes.

Sources: Intervención General; Presentación de los Presupuestos Generales del Estado 1990, Ministerio de Economía y Hacienda and OECD estimates.

employment promotion in a year of a marked deceleration in the downward unemployment trend are not easily realisable. Inflation may turn out to be higher than allowed for in the Budget and employment creation lower so that both the number of pensioners and the average pension assumed in the Budget risk being on the low side. With greater reliance on competitive markets for financing the deficit, interest payments may also rise more than predicted. On the other hand, there seem to be better prospects now for the regional authorities to adopt restrictive measures in 1991 (as exhorted by the central government) and thus to reverse the upward trend of their combined deficit. In total, the general government deficit is projected by the Secretariat to fall to 2.4 per cent of GDP in 1991. This implies considerable fiscal tightening, including a contraction of the cyclically-adjusted deficit by 1¼ per cent of GDP on a cash basis (or by ¾ per cent if adjusted for the postponement of 1989 tax reimbursements).

Structural adjustment

Financial liberalisation

The expected intensification of competition in financial markets after 1992, especially by foreign institutions, has provided an important stimulus to financial deregulation and reforms in recent years[18]. Most administrative impediments to more competition between banks have been lifted and financial institutions are restructuring themselves to improve efficiency. After the liberalisation of interest rates in 1987, the most important reform was the abolition of the 17 per cent compulsory reserve ratio in March 1990 and its replacement by a prudential 5 per cent (non-interest bearing) cash reserve deposited with the Bank of Spain. This measure reduced the cost of deposits of Spanish banks, bringing them more closely in line with those of most other EC countries. In order to drain the liquidity released by this reduction the cash ratio applies to new liabilities only and financial institutions are obliged to invest any released funds in interest-bearing (6 per cent) certificates of deposit issued by the Bank of Spain. These certificates are tradeable with the Bank of Spain and between institutions which are subject to the reserve requirement. According to present plans the certificates will be gradually withdrawn between 1993 and 2000.

These measures have served to further competition in financial markets. In the summer of 1989 one big bank started offering high interest rates and other advantages on current "super accounts" and succeeded in attracting a considerable volume of deposits at the expense of its competitors[19]. In the first few months of 1990 most other banks gradually introduced similar schemes so as to arrest losses in their market shares, thereby effectively bringing to an end the collusion on interest rates which existed after the 1987 liberalisation of interest rates. Competition for new deposits has been intensified after the reduction of the reserve requirement to 5 per cent since the cost of new deposits is considerably smaller than for outstanding deposits.

The imposition of credit ceilings since the second half of 1989 is a step backwards in the liberalisation process. Their introduction in the context of Spain's accession to the ERM served to underline, however, the authorities' determination to continue a rigorous anti-inflation policy and was also instrumental in breaking the trend of rapid monetary growth. Even so, with the ceilings applying to individual banks they weaken competition and entail a variety of distortions in financial markets as well as in the real economy. Moreover, the impact of these administrative measures is fairly small over the medium term since financial institutions usually and quickly find ways to circumvent controls. In addition, as the surge in commercial bills in 1990 suggests, financial disintermediation increases *pari passu* with the contraction of financial intermediation so that overall credit expansion is little affected. Credit restrictions operating through the price mechanism not only have less distortive but also more permanent effects on monetary aggregates as they affect the demand for money and for goods and services at the same time. The authorities have announced that the ceilings will be lifted if the growth of monetary aggregates decelerates further by the end of 1990.

The banking sector is undergoing a process of rationalisation and transformation. In line with EC commitments, restrictions on foreign banks are gradually being lifted[20], pushing Spanish banks to seek to increase efficiency so as to prevent losses of shares in lucrative segments of the market. Even though Spanish banks enjoy high profits and sound equity and reserve positions, they are not particularly cost-efficient by international comparison. The overall cost/asset ratio, intermediation margins and the branch per inhabitants ratio are among the highest in the OECD area. Supported by the authorities, restructuring started in 1988 with the merger of four of the seven big commercial banks into two different banking groups[21]. Mergers between the 80 savings banks have also taken place. In the 1990s competition not only between commercial banks but also between the latter and savings banks is bound to increase. The extension of activities into new areas, which were hitherto the domain of non-bank financial intermediaries (e.g. insurance companies), and the establishment of new institutions (e.g. trust funds) will contribute to the creation of a more competitive environment, eventually leading to a marked reduction in the average cost of borrowing.

After the 1988 Law on the Stock Exchange a number of changes have taken place regarding both the institutional set up and operations. Co-ordination between the three biggest Stock Exchanges (Madrid, Barcelona and Bilbao) has improved; the National Stock Market Commission has been created with great regulatory powers; the monopoly of the Stock Exchange agents has been abolished and access has been opened to other financial intermediaries. Rules regarding operations and solvency of the latter have also been established. Efficiency and transparency has increased, but the authorities plan to move further in this direction and a new law is being prepared requiring more information about important equity transactions.

Monetary management has been affected by the unfavourable term structure of public debt and the limited number of institutions operating in the market. Accordingly, important changes are also envisaged in this area. Currently, most government bonds are purchased by banks, which subsequently sell them to individuals at low interest rates through repurchase agreements, so that long-term debt is effectively converted to very short-term instruments. The authorities are planning to start issuing regularly bonds with a maturity of five years or more both in pesetas and in ECUs and are taking steps to encourage the private sector to buy these bonds directly. The commission of 1½ per cent given to subscribers of bonds, but effectively appropriated by banks, will be abolished, permitting a corresponding increase in interest rates, so as to make them more attractive. Measures, including fiscal incentives, are being studied so as to encourage the creation of investment (trust) funds specialising in government bonds and of a secondary market for government bonds. The marketability of the new Bank of Spain certificates of deposit held by banks (following the abolition of the reserve ratio) should also increase the authorities' leverage in financial markets. These changes reflect the preoccupation of the authorities in the face of the growing number of financial instruments and related increases in overall liquidity, calling for more sophisticated monetary management techniques, essentially based on open market operations.

Competition policies

The entry to the EC has given a new drive to competition policy. A new competition law was adopted and a special Competition Court with extended responsibilities established in 1989. The Court is independent of government control; it can initiate procedures on its own and cases can be brought to it by firms or any citizen. Despite its short existence the Court has already proved its effectiveness: it has examined a large number of cases and has imposed 40 fines (including for collusion by banks in setting commissions and in the setting of private medical fees) compared with only one sanction recorded during the previous quarter of a century under the old arrangements. There is still, however, considerable room for improving competition, in particular in services where entry barriers are notoriously high for certain professions and in transportation.

The distribution network for petrol was until recently practically a monopoly controlled by one state company (Campsa). Following EC directives this market is gradually opening up and a number of foreign and domestic oil companies have been setting up petrol stations and also becoming increasingly involved at the wholesale level. The market is planned to be completely free by 1992, but Campsa is likely to retain its dominant position much longer. In 1990 the Government stopped fixing petrol prices, leaving it to companies and petrol stations to set prices, though still subject to a ceiling on the basis of oil prices in international markets.

Industrial and energy policies

The programmes for industrial reconversion and for the ZURs (zones for urgent reindustrialisation of depressed areas), initiated in the early 1980s, have been terminated. After a slimming process many firms under the first programme are now recording profits. The ZURs had less success both because the costs for job creation were relatively high and because the number of jobs created fell short of targets, though the authorities still expect some benefits to come. The emphasis is now increasingly placed on regional development with the assistance from the EC, which also finances part of certain projects from the Regional Development Fund (Table 11).

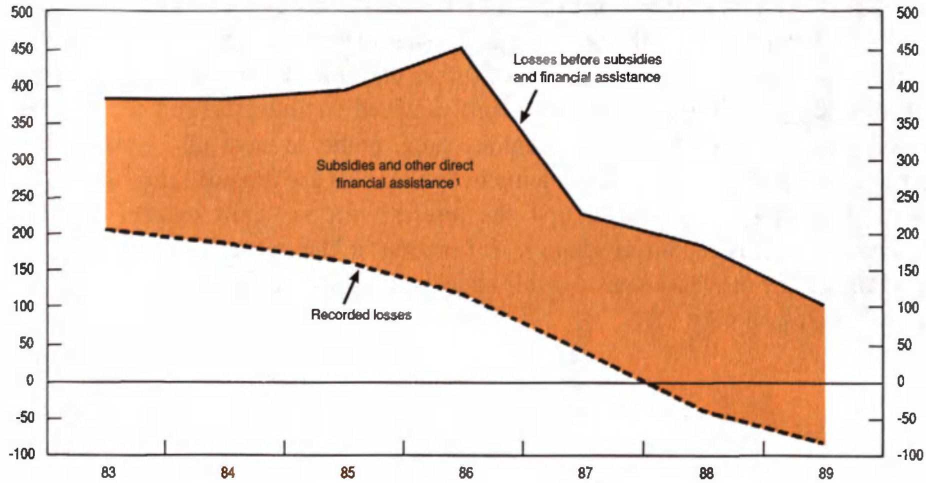
A key objective of the industrial strategy has been the improvement of efficiency of public enterprises. In 1989, the INI, which is a public holding company with majority participations in many industrial and services companies, announced a profit for the second consecutive year. After many years of losses this new positive trend suggests continuing adjustment by the INI group, supported by a favourable economic environment. However, it should be noted that recorded profits also continue to include substantial elements of financial assistance (Diagram 6). The State has traditionally provided three kinds of direct financial support: operating subsidies, capital transfers and assumption of INI debt, which reduces both interest

Table 11. **Regional incentives (1990)**

Programme	Subsidies (bill. pesetas)	Employment created	Subsidy/job created (average wage = 100)
Industrial decline[1]	19.0	10 785	147
Economic promotion[1]	5.4	875	514
Urgent reindustrialisation	49.3	14 739	334

1. Figures refer to the year 1988.
Source: Ministerio de Industria.

Diagram 6. **LOSSES OF THE INI GROUP**
Pesetas billion



1. Direct subsidies to HUNOSA, capital transfers and assumption by the State of INI debt.
Sources: INI and OECD estimates.

payments and debt-amortisation of the INI group. The State budget provides figures for capital transfers and amortisation of INI debt by the State and there is partial information regarding operating subsidies, but there are no data regarding the amount of interest payments on INI debt that is assumed by the State. When these implicit subsidies are subtracted from the profit figures, the INI group continues to record big, though diminishing, losses, largely reflecting the losses in shipbuilding, some heavy engineering companies and mining.

In the last few years many companies of the INI group were sold to the private sector, including some incurring big losses. In addition, the capital of some companies of the INI group as well as of other state companies has been opened to the public, which has shown keen interest to buy shares of profitable state-controlled companies. In 1989, INI sold some companies to the private sector but also acquired participations in companies. On balance these operations led to a reduction in the number of firms of the INI group.

Since the middle 1980s energy consumption has increased at only a slightly slower rate than GDP. Moreover, the composition of energy supply continues to be unfavourable, highlighted by the very high oil dependency ratio, one-third higher than the average for OECD Europe. The National Energy Plan, 1990-1995, seeks to reduce this ratio by shifting to gas and using renewable sources of energy more intensively. Incentives for energy substitution and information about the possibilities of energy saving and switching are provided to industry and the transport sector. Moreover, in 1989 an ingenious programme to save oil in housing was introduced. Energy-saving investments by households are financed through a public loan, which has two features: first the interest rate is below market rates, and second the loan is repaid gradually, in function of the energy that is saved. This programme has met with considerable success. For 1991 it was also decided to raise indirect taxes on oil.

Labour market policies

The introduction of temporary (fixed-term) contracts and subsidisation of new recruitments under the 1984-85 labour market laws was intended to compensate for the rigid rules governing permanent contracts[22]. These programmes have produced very positive results in terms of job creation, "explaining" at least statistically the appreciable increase in dependent employment over the last five years. However, this has led to the creation of a dual labour market, with the larger segment consisting of workers being heavily protected and the smaller segment enjoying less income and job security. This duality is gradually establishing a growing wedge between these two parts of the market with an incentive for employers to hire new people rather than transforming temporary contracts into indefinite ones. Redundancy payments for temporary workers are twelve days of pay per year of work. By contrast, redundancy payments for permanent workers are comparatively high in Spain – 45 days' salary per year of work (36 for small firms) with a maximum of 42 months – and act as a deterrent to increasing employment while at the same time exacerbating the insider-outsider problem in wage negotiations with negative effects on motivation and productivity in the protected segment. Moreover, the segmentation leads to much higher job turnover of "temporary" workers than is desirable on economic and social grounds. In the past, excessive redundancy payments could to some extent be justified by inadequate unemployment benefit coverage. However, considerable progress has been made in this area in the last few years as both the proportion of unemployed receiving unemployment and other social benefits and also the average benefit level have increased appreciably.

In 1985-86, the Central government introduced a professional formation programme (FIP), aimed at reducing mismatches in the labour market. In 1988, a special supervisory body (also under the responsibility of the Ministry of Labour) was created for the monitoring of the FIP. Surveys carried out by this body show that even though financial resources devoted to the FIP have substantially increased, the results achieved so far have been disappointing. In 1989, only half of the trainees found a job on termination of their courses. Moreover people continue to be trained for professions for which there is excess supply in the labour market, pointing to slow adjustment of the system to the needs of the economy. The more positive experience with "workshop schools", which are managed at the level of regions and municipalities, suggests that a decentralisation of the training system might significantly improve the results of FIP. Decentralisation would also strengthen the ties between training schools and enterprises, a key factor behind the success of similar programmes in other OECD countries.

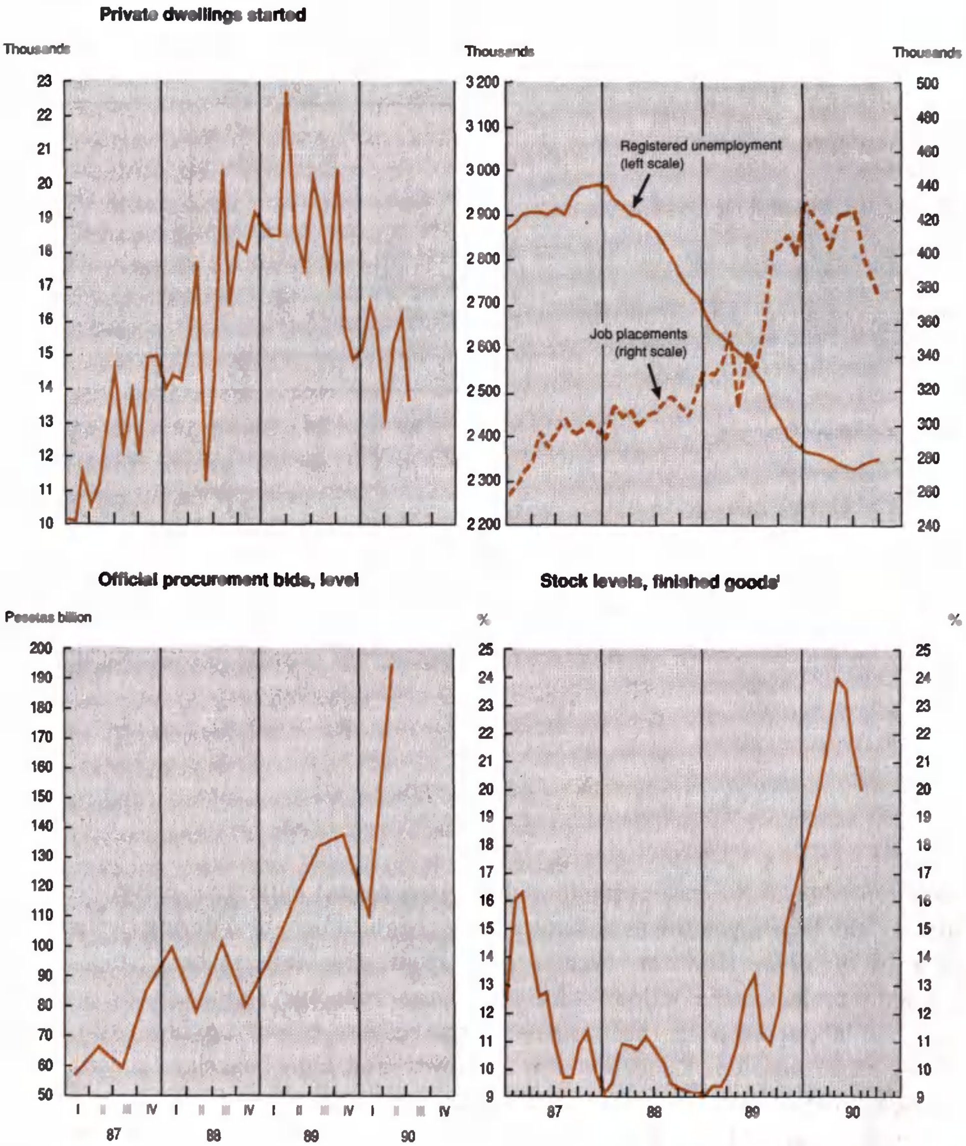
III. The short-term outlook

1990 may have marked a departure from previous unbalanced domestic-led growth (Diagram 7). After four years of strong expansion virtually all indicators suggest that the economy is settling on a more moderate path of growth associated with a better balance between sheltered and exposed sectors. However, the recent oil shock has negatively affected the economic environment. With Spain's oil dependence higher than generally elsewhere, both the inflationary price and the deflationary demand impact are likely to be greater than in OECD Europe on average. On the other hand, the growth of Spanish export markets has kept up well in 1990 and the present outlook is for a continuation of a rather robust market expansion (Table 12).

On present plans and announcements the overall stance of budget policy can be expected to tighten considerably in 1991. Both the central and regional governments may, however, find it difficult to implement all expenditure targets. However, expenditure overruns which may occur are likely to be largely offset by a stronger-than-assumed fiscal drag. The general government deficit is projected to decline by just less than 1 percentage point of GDP, with households expected to bear most of the contractionary effect[23]. Monetary policy is assumed to remain restrictive during most of 1991, with conditions possibly easing somewhat in the course of the year as inflation pressures diminish.

Wage earners seem prepared to bear part of the oil-price-induced loss in disposable real national income and the resistance of employers to big pay increases may also strengthen in the face of prospective greater cash-flow difficulties. The 1991 wage settlements can therefore be expected to be more moderate than in 1990 but the slowing in the advance of earnings is unlikely to be as pronounced as postulated and assumed by the Government in its 1991 Budget[24] and this for essentially three reasons. First, the reversal of the upward trend in the share of low-skilled workers in total recruitment means that average pay will be lowered less than in previous years. Second, many collective agreements in 1990 include indexation clauses that will boost average pay in 1991. Thirdly, the temporary surge of

Diagram 7. **CONJUNCTURAL INDICATORS**



1. Per cent, balance of replies.
Source: Ministerio de Economía y Hacienda, *Síntesis Mensual.*

Table 12. **Underlying assumptions for 1991 and 1992**

Per cent change over previous year

	1989	1990	Central hypothesis[2] 1991	Central hypothesis[2] 1992	Wage moderation scenario 1991	Wage moderation scenario 1992
	External sector					
OECD import price of crude oil ($ per barrel)	(16.5)	(21.8)	(28.3)	(29.3)	(28.3)	(29.3)
Effective appreciation of the peseta[1]	4.4	4.0	1.1	0.1	1.1	0.1
Import prices, total,	3.6	1.5	4.3	3.2	4.3	3.2
Of which: Energy	14.5	13.3	18.6	4.4	18.6	4.4
Market growth of total goods	7.1	6.3	5.9	6.7	5.9	6.7
Market growth of manufactures	8.6	7.0	6.8	7.6	6.8	7.6
	Domestic sector					
Compensation per employee	**6.5**	**8.3**	**7.4**	**6.9**	**6.0**	**6.0**
Labour force growth	1.3	1.4	1.0	0.8	1.0	0.8
Short-term interest rates	15.0	15.2	14.8	13.5	13.6	12.8
General government real fixed investment	20.2	15.0	10.0	9.0	10.0	9.0

1. It is based on the technical assumptions that the exchange rate remains at its average level on 5th November 1990.
2. Embodied in the OECD *Economic Outlook*, December 1990.
Source: OECD estimates.

inflation (due to the pass-through of higher oil prices) cannot be prevented from having any bearing on the pace-setting wage claims to be tabled during the first few months of 1991. However, even if wage moderation fails to be as marked as officially projected the outlook is for a significant reduction in the upward pressure on unit labour costs in the business sector because labour productivity can be expected to pick up. Reflecting slower growth and high financial charges profit margins may shrink somewhat, reinforcing the cost-moderating influence on the GDP price deflator. Although the year-on-year increase in consumer prices is expected to remain stable at 6¾ per cent largely due to the effect of higher oil prices, this effect is felt mainly in the first half, and the annualised rate of inflation during the second half may fall to 6¼ per cent (Table 13).

With average real wage and employment increases likely to decline and income tax reimbursements falling back to more normal levels the growth of real household disposable income may drop to below 2 per cent in 1991 from an average of about 4½ per cent in the previous six years. Even so, private consumption, bolstered by a fall in the saving ratio, should continue to lend strong support to growth. On present budget plans the growth of both government consumption and public investment can be expected to moderate though in view of large investment projects under way the rate of expansion of capital expenditure may not drop much below 10 per cent. By contrast, the growth of private investment is likely to be more than halved in 1991. As foreshadowed by falling housing starts, residential investment, after four years of strong expansion, may reach a peak in the early part of the year and decline thereafter. With high activity levels already reached and influenced by high interest rates and more moderate foreign long-term capital inflows, the growth of business investment may well drop to 4 per cent, compared with nearly 14 per cent on average in the five years to 1990.

Table 13. **Short-term prospects**

Per cent change over previous year

		OECD projections			
	1990	1991	1992	1991	1992
		Central hypothesis		Wage moderation scenario	
Private consumption	3.7	2.6	2.6	2.5	2.5
Government consumption	4.2	3.0	2.8	3.0	2.8
Gross fixed investment	8.6	4.3	4.2	4.2	4.4
Total domestic demand	4.9	3.1	3.0	3.0	3.0
Exports of goods and services	3.8	5.6	7.0	5.9	7.8
Imports of goods and services	9.0	6.4	6.1	6.2	5.9
Foreign balance[1]	–1.7	–0.7	–0.3	–0.6	–0.1
GDP at constant prices	3.5	2.7	3.0	2.7	3.2
Memorandum items:					
GDP price deflator	7.5	6.6	6.0	5.8	5.2
Private consumption deflator	6.8	6.7	5.9	6.0	5.2
Employment	2.4	1.3	1.0	1.5	1.3
Unemployment rate (%)	(16.2)	(16.0)	(15.8)	(15.8)	(15.4)
Gains in market shares, manufactures	1.4	1.4	1.2	1.7	1.9
Current external balance in US$ billion	(–16.8)	(–22.2)	(–23.1)	(–22.0)	(–22.0)
(per cent of GDP)	(–3.4)	(–3.8)	(–3.6)	(–3.8)	(–3.5)
Government net borrowing (% of GDP)	(3.2)	(2.4)	(1.8)	(2.4)	(1.6)

1. Contribution to growth of GDP.
2. Embodied in the OECD *Economic Outlook*, December 1990.
Source: OECD estimates.

Real total domestic demand is projected to decelerate to 3 per cent. The damping impact on output is, however, likely to be partly offset by a smaller drain from the real foreign balance, permitting GDP to grow by close to 2¾ per cent in 1991 or more than half a percentage point below its estimated potential rate. In line with output trends, new demand for labour is also expected to slacken. As 1989 and 1990 appear to have seen some labour hoarding, the growth of dependent employment in the private sector could drop to about 2 per cent, after rates of almost 5 per cent during the previous five years. Reflecting the budget priority to expand education and health services, government employment should continue to increase rapidly, though less than in earlier years. Allowing for a prospective further contraction in agricultural employment, total employment may grow by about 1½ per cent in 1991, only slightly faster than labour supply.

The reduction of domestic demand pressure will be strongly felt on merchandise import volumes which are projected to grow by no more than 6½ per cent after some 9 per cent in 1990 and 18 per cent in 1989. Exports, on the other hand, should benefit from the weakening business cycle at home, compensating for the continuing deterioration in cost and price competitiveness. As a result and supported by increasing productive capacity, the growth of merchandise export volumes is expected to remain at around the 7½ per cent rate recorded between 1986 and 1990. Nonetheless, reflecting level differences in exports and imports, the trade deficit in real terms is projected to increase[25]. In addition, for the first time since the mid-1980s, the terms of trade are expected to deteriorate (exclusively on account of oil prices). Higher oil prices are estimated to boost the trade deficit by almost 0.7 per cent of GDP with more than two-thirds of the increase occurring in 1991.

After two years of disappointing results for the tourism industry a modest pick-up could well take place in 1991. This together with rising transfers should outweigh the growing net factor income payments to abroad as well as expenditure for other services. In all, this should make for a small increase in the invisible surplus. In total, the current external deficit is projected to increase to some 3.8 per cent of GDP in 1991, which, excluding oil, would represent no significant change since the second half of 1989.

Looking further ahead and assuming a continuation of determined restrictive policies, notably on the fiscal side, progress in returning to a non-inflationary path of growth consistent with external balance should become more visible. The projected deceleration of domestic demand makes for a better balanced growth pattern which in turn should help to ease inflation pressure further. By the end of 1992 the increase in consumer prices could fall below 5½ per cent, annual rate, and the current-account deficit to some 3¼ per cent of GDP. The inflation differential *vis-a-vis* the EC countries as measured by the implicit price deflator of private consumption is projected to narrow by more than half (compared with 1989-90) to close to 1 percentage point by the end of 1992. Reflecting falling interest rates, rising profits and more stable demand prospects, the growth of business investment might reaccelerate to 5 per cent, thereby helping to maintain the growth of potential output at around 3½ per cent and to make further inroads into still high unemployment.

There are risks and uncertainties attached to the above projections apart from those associated with the oil market situation. The behaviour of regional governments is difficult to predict, in particular the extent to which they will follow the central government's recommendations to consolidate their budget positions. The response of monetary policy to a higher-than-projected deficit may be further tightening with negative consequences for business investment and job creation. In addition, Spanish export markets and foreign capital inflows may be affected more than allowed for in the projection by recessionary tendencies in some important trading countries and related spill-over effects. All in all the balance of risks regarding activity would therefore seem to be on the downside.

There is also much uncertainty regarding wage formation in 1991. The Secretariat outlook is for stronger wage push than assumed in the 1991 Budget. However, given the Government's exhortation for wage moderation, the employers' resistance to wage increases exceeding the official guidelines may well be greater than allowed for in the projections. Moreover, trade unions concerned about the deterioration in external competitiveness may agree to bear a larger share of the oil-price-induced loss of real national income. If this turned out to be the case, the inflation and employment outlook would improve. As shown in Table 13, *nominal* wage moderation would not only dampen inflation in the first year but would also favourably influence the outcome for employment while positive effects on output might be retarded by no more than one year. It is also relevant to note that as early as the second year de-escalation of nominal wage growth stops translating into lower real wage growth. However, it is only when looking beyond the two first years of the simulation period that the full extent of positive dynamic effects on real and financial performance indicators would show up.

IV. The impact of EC membership on Spain's economy

The eventual integration of Spain into the European Economic Community became a stated official objective not long after its creation in 1958. In 1962 the Government asked for an opening of exploratory talks. In 1970, a Preferential Agreement with the EEC was concluded, whereby trade barriers against Spanish exports were substantially reduced and restrictions on imports from EEC countries somewhat relaxed. In the late 1970s formal negotiations for full membership started. With the treaty of accession, signed in June 1985, Spain became a full member of the European Community as from 1st January 1986.

Table 14. **Indicators of Spain's relative size and living standards in 1985**

	Spain	European Community
GDP (billion ECUs)	216	3 340
Population (millions)	38.5	321.6
Imports (billion ECUs)	45	982
Living standards[1]		
Private consumption per capita (PPPs)	72	100
Private cars per capita	76	100
Telephones per capita	45	100
Motorways per capita	59	100
Doctors per capita	120	100

	1960	1975	1985	1989
Memorandum item:				
GDP per capita[2]	25	53	39	56

1. EC average equals 100.
2. At current prices and exchange rates; OECD average equals 100.
Source: OECD *National Accounts* and Eurostat.

By joining the EC, Spain gained virtually unrestricted access to a market that was fifteen times larger in terms of purchasing power than its own. For the other member states the most apparent economic advantage of Spain's accession was its obligation to dismantle its high import barriers. The opportunities for expanding the market for both consumer goods and investment goods were abundant: Spanish residents represent an eighth of the EC population and their capital endowment, including consumer durables, is much lower than the EC average (Table 14). Spain with its traditional trade links to Latin America, with a good part of its industrial labour force well-trained and employable at significantly lower costs than in most other EC countries held the promise for investors of offering high rates of return on newly-installed capital and technically-advanced equipment.

In many respects economic developments have been even better than predicted by the most zealous supporters of EC entry. Over the past five years Spain has enjoyed the highest, investment-led, output growth in the OECD area, following upon a decade of poor economic performance when the unemployment rate rose dramatically from 3.5 per cent in 1975 to an historical peak of 22 per cent in 1985. An interesting question to which this special chapter seeks to provide elements of an answer is to what extent Spain's great leap forward are attributable to the EC accession. This question cannot, however, be addressed properly without making due allowance for the effects of the stabilisation and supply-side policies pursued during the whole of the 1980s.

The preparatory phase

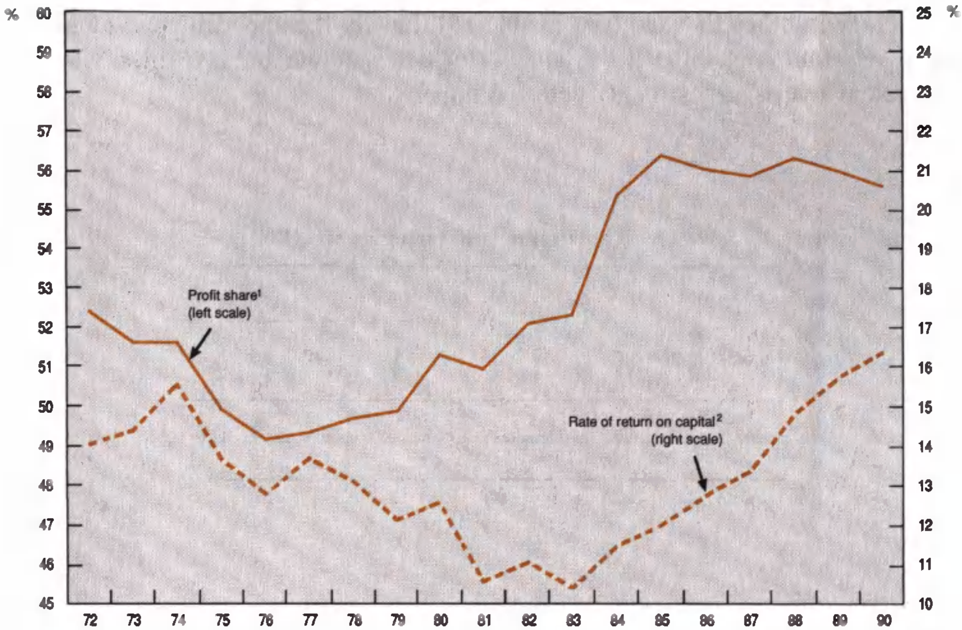
At the turn of the 1970s, Spain faced one of the deepest crises of its modern history: economic activity was severely depressed, entailing an interruption in the rapid catch-up process in living standards experienced until the mid-1970s, and employment was on a steep downturn. The factors behind these trends were essentially structural in nature. Reflecting rigid hiring and lay-off rules inherited from the old regime, adjustments in employment to desired levels were extremely costly. During the 1960s, this did not pose any major problems to employers as wages were kept low and adapted to compensate for demand shocks. With the advent of democracy workers' influence upon wage determination strengthened and strong claims for an enlargement of the Social Security net were put forward. As a result wage and non-wage labour costs increased rapidly in the second half of the 1970s, which, in a context of low employment elasticity and the two OPEC oil-price shocks, entailed a marked squeeze on profits and the closure of many firms. Investment fell sharply, explaining the lack of adaptation to higher energy prices and new patterns of world demand. In 1977, shipping, steel, textiles and other ailing (and largely subsidised) sectors occupied a large share of industrial output, complicating the task of paving the way for Spain's EC entry.

Although previous governments had started to tackle these problems, it was not before the advent of the Socialist government in 1982 that the most decisive measures were implemented. The Government's objective was to lay the foundations for sustainable fast growth, by encouraging wage moderation and introducing market-oriented reforms. The task of the Socialist government was facilitated by the co-operative attitude of the UGT, one of the most powerful unions, which at that time was ideologically close to the ruling party.

With the establishment of a new framework for wage determination in 1978, a less inflation-prone environment had been created. In this new framework, wages were negotiated on the basis of an ambitious official inflation target, serving to reduce the extent of direct wage-price linkages. Between 1982 and 1985, nominal wage gains abated strongly, implying *ex post* stability in real terms. Also, during this period the inflation differential *vis-à-vis* the EC average was gradually brought down to three points, from ten points in the second half of the 1970s. The industrial reconversion programme, implemented from 1983, included measures to restore profitability in ailing sectors. The programme combined employment cut-backs and public support to renew an obsolete capital stock. Realisation of the employment targets entailed a marked recovery in productivity in these sectors. The combination of wage moderation and higher labour productivity led to a marked recovery in rates of return on capital in business (Diagram 8).

Another important reform was the introduction in 1984 of fixed-term employment contracts, permitting short-term recruitments and part-time employment, and promoting on-the-job training schemes. These measures, while encouraging new hirings including previously long-term unemployed people, have helped improve the adaptability of *new* recruitments to shifts in supply and demand conditions. As noted in Part II, flexibility in the labour market has been essentially confined to new fixed-term hirings, as the rules governing lay-offs and other aspects of permanent contracts have remained virtually unchanged. First positive results were recorded in 1984-85, when investment recovered significantly and job creation exceeded employment losses for the first time in a decade. Even so, on the eve of Spain's EC entry the number of unemployed people was still 2½ million higher than in 1975 and the level of output and investment remained depressed.

Diagram 8. **INDICATORS OF PROFITABILITY**



1. Gross operating surplus as a per cent of business sector value added.
2. Gross operating surplus as a per cent of capital stock (business sector).
Source: OECD, *Analytical Data Base.*

Accession to EC and the integration process

A relatively closed and protected economy prior to EC entry

Before joining the EC, the Spanish economy was one of the most protected in OECD Europe with a share of foreign trade in GDP of around 15 per cent, which is a third less than the EC average. The low level of imports may be explained by three factors. First, customs duties represented on average 6 per cent of non-oil imports. Second, turnover taxes were lower on domestically-produced goods, tantamount to an implicit tariff on imported goods of around 8 per cent. Combined with the "explicit" tariff this meant an average protection rate three times higher than on average in other EC countries (Table 15). Finally the application of quotas on about one fourth of imported products (including automobiles, textiles, clothing and colour televisions) strongly deterred imports.

Table 15. **The effective tariff protection rate (1985)**[1]

	Spain	Common external tariff
Nominal protection	15.1	4.9
Effective protection	24.7	4.1

1. Excluding quotas.
Source: A. Calatrava, El sector exterior ante la Unión Aduanera, ICE, No. 2027, March 1986.

The low level of exports is more difficult to explain. Following the 1970 Preferential Agreement, tariffs imposed by EC countries on Spanish products were reduced to a low level of 3 per cent and quantitative restrictions on Spanish exports were only occasionally applied and for brief periods. Moreover, the low tariff barrier was more than offset by generous rebates to exporters of turnover taxes. It is therefore arguable that the low level of exports was to some extent an unintended consequence of import restrictions and the induced import substitution. The relatively high correlation between protection rates and "revealed comparative advantage" suggests that by hampering specialisation trade measures have strongly influenced the structure of exports and imports[26]. As a result the average size of industrial establishments remained small. Indeed, in 1985, 80 per cent of Spanish manufacturing workers were employed in firms with fewer than ten workers, and the average number of workers per manufacturing plant was only thirteen. Moreover, protection had hampered intra-industry trade, thereby also negatively affecting the desired increase in the economy's orientation towards exports.

Liberalisation of trade flows and related shifts in trade patterns

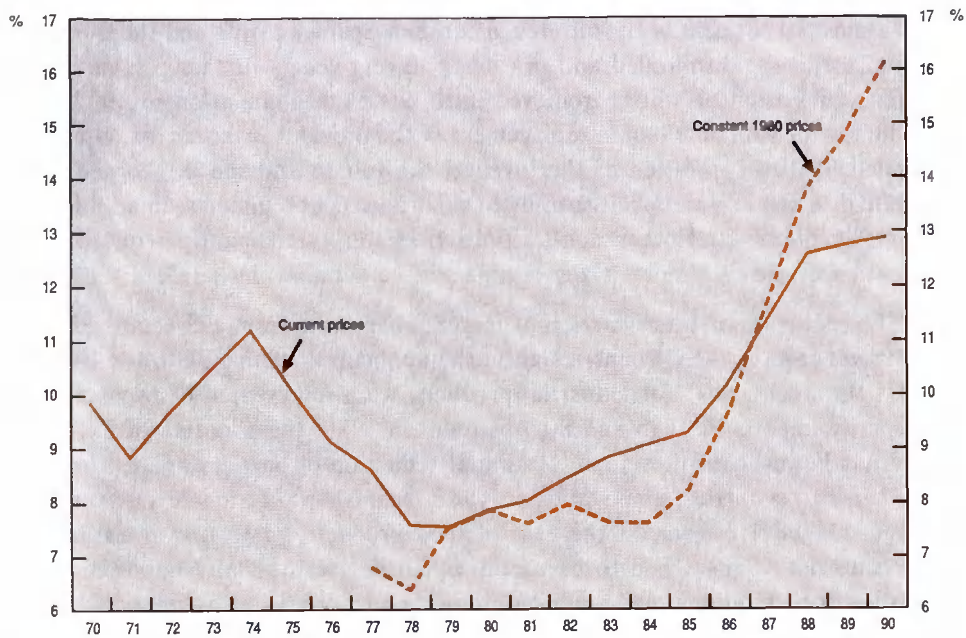
Liberalisation of foreign trade flows has proceeded fast since EC entry, resulting in a dramatic fall in protection rates, except for food products. In the first three years almost 40 per cent of the difference between Spanish tariffs and the Common external tariff was dismantled and in each following year a further portion of the difference has been or will be removed until complete elimination in 1992. The introduction of VAT in 1986, in replacement of the previous turnover tax, automatically led to the suppression of the turnover-tax rebate and specific border taxes which had served as an implicit subsidy to exports or tax on imports. In addition, in early 1986 quotas and other non-tariff barriers were significantly reduced. Full application of the EC import trade regime will be achieved by 1992.

The reduction of trade barriers is larger for imports from EC countries than for imports from non-EC countries given the application of the EC trade barriers against third countries. For industrial products, wich represented 68.6 per cent of non-energy imports in 1985 and 80.5 per cent in 1989, the adoption of EC trade policy has however resulted in a substantial reduction of barriers against imports from non-EC countries, since prior to 1986 Spanish protection levels were, on average, higher. However, in the case of food products, protection rates against third countries' imports had to be raised. Spain has traditionally imported seeds and other food products, not produced domestically, from Latin-American countries and the United States, but the application of the Common Agricultural Policy has resulted in a big increase of tariffs on food imports from these countries. In 1985 food imports from non-EC countries represented 78 per cent of total food imports and 16.5 per cent of total non-energy imports. By 1989 the two shares had fallen to 55 and 12.1 per cent respectively.

The combined effect of a progressive lowering of import barriers and a sustained vigorous expansion of aggregate demand has been a sharp rise in import penetration ratios (Diagram 9). Prior to EC entry the value of total non-oil imports of goods had been hovering around 10 per cent of GDP. Thereafter, led by imports of manufactures this ratio has gone up by as much as 5 percentage points. The imported share of apparent consumption of manufactured products increased from 15.1 per cent in 1985 to 21.5 per cent in 1989. In volume terms the rise in import penetration has been even more pronounced reflecting the comparatively very small increases in import prices.

There are several factors which have contributed to the rapid and strong trade creation effects on the import side. The quantitatively most important one has probably been the shift in the composition of demand in favour of fixed investment

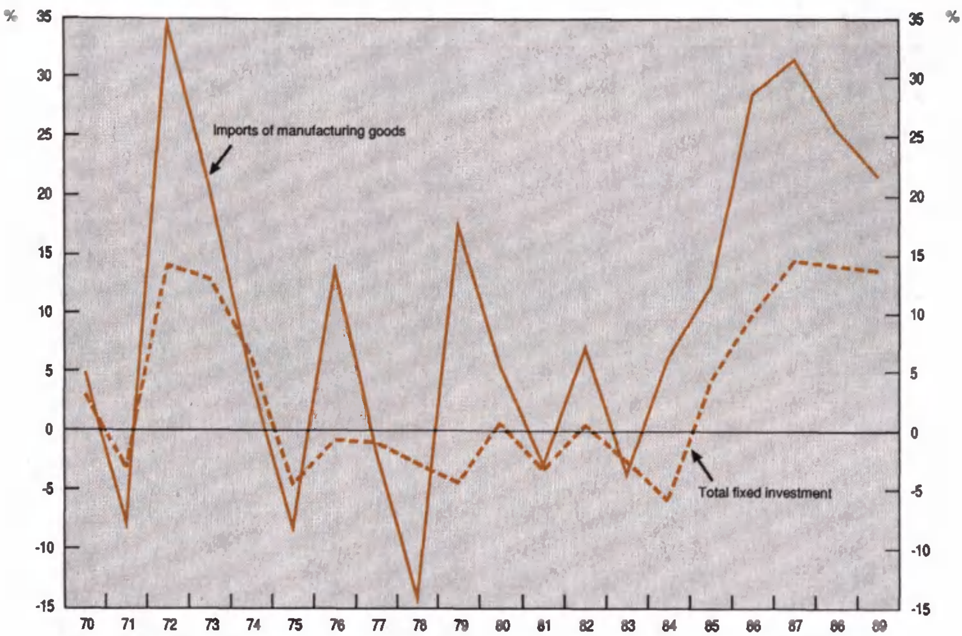
Diagram 9. **IMPORT PENETRATION OF GOODS**
Per cent of aggregate demand



Source: OECD, *National Accounts.*

which in the case of Spain has a particularly high import content (Diagram 10). Another import-stimulating factor has been the removal of quantitative import restrictions. Estimates based on the comparison between the growth rate for imports of goods subject to quantitative restrictions before EC entry and that for imports of goods not affected by those restrictions suggest that the removal of non-tariff barriers could explain as much as a fourth of the 1986-88 increase in import volumes. The real exchange rate appreciation of the peseta after 1985 (Diagram 11) has also boosted import penetration, "explaining" perhaps a fifth of its

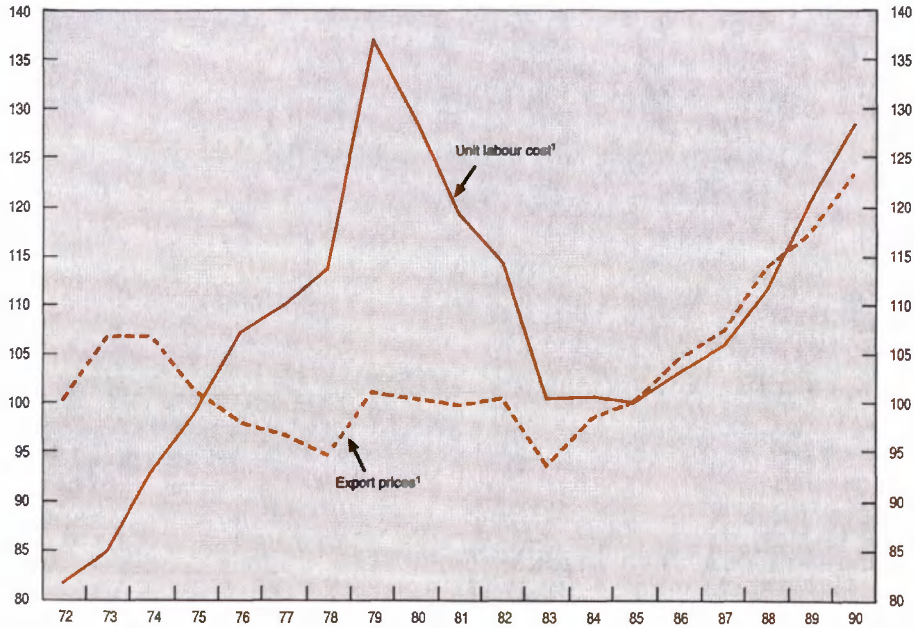
Diagram 10. **IMPORTS AND INVESTMENT GROWTH**



Source: OECD, *Analytical Data Base.*

rise according to a recent study[27]. The relative price of imported goods has also been lowered by the elimination of import tariffs and other fiscal charges but given their relatively low starting level and their only gradual removal the explanatory power of this factor is comparatively small. In the context of this "factor accounting" exercise it is interesting to note that available quantitative analysis of Spain's import behaviour after joining the EC suggests that the trend elasticity of imports with respect to total demand does not seem to have altered much from its relatively low pre-EC entry level of 1.5.

Diagram 11. **INDICATORS OF INTERNATIONAL COMPETITIVENESS**
1985 = 100



1. Relative to main trading partner countries, in common currency.
Source: OECD, *Analytical Data Base.*

As to exports, EC tariffs and non-tariff barriers against Spanish products have also been substantially reduced or completely eliminated. However restrictions on Spanish exports of fruits, vegetables and fats, which are the strongest sectors of Spanish agriculture and accounted for about 7.5 per cent of total non-energy exports in 1989, remain very high and will not be fully lifted before 1996.

Trade liberalisation has translated into a dramatic change in the regional and product composition of Spanish trade, and substantial trade creation effects (Tables 16 and 17). Non-oil imports from EC countries but also from third countries have increased faster than demand. This suggests that trade diversion effects

Table 16. **Geographical composition of Spanish non-energy trade**

	Imports		Exports	
	1985	1989	1985	1989
Total non-energy trade (goods)	100	100	100	100
EC	53.9	63.6	51.8	68.3
United States	14.9	9.8	9.5	6.6
OECD	82.1	86.5	70.3	82.6
Latin America	7.0	3.4	4.2	3.2
Rest of world	10.9	10.1	25.5	14.2
Food trade	100	100	100	100
EC	22.0	45.5	56.3	68.2
United States	28.1	14.4	9.1	6.4
OECD	55.2	65.1	79.1	86.5
Latin America	29.2	16.7	1.4	1.3
Rest of world	15.6	18.2	19.5	12.2
Manufacturing trade	100	100	100	100
EC	65.4	68.4	50.2	68.5
United States	12.5	9.1	9.9	6.9
OECD	93.1	91.7	68.0	82.0
Latin America	1.2	0.9	5.0	3.8
Rest of world	5.7	7.4	27.0	14.2

Source: Secretaría de Estado de Comercio.

Table 17. **Product composition of Spanish non-energy trade**

	Exports		Imports	
	1985	1989	1985	1989
Total goods				
Food	16.4	16.6	16.5	12.1
Raw materials	3.2	4.2	14.8	7.4
Semi-manufactures	31.7	25.4	22.8	22.1
Equipment goods	18.3	21.3	27.9	33.1
Automobiles	13.9	18.4	8.0	12.1
Manufacturing consumer goods	15.8	13.7	8.9	13.0
Other	0.6	0.3	1.0	0.2
Total	100	100	100	100
Manufacturing goods				
Labour intensive	17.9	15.1	9.9	12.3
Scale intensive	64.6	63.9	49.3	48.8
Differentiated and high-tech	17.5	21.0	40.8	38.9
Total	100	100	100	100

Sources: Secretaría de Estado de Comercio and OECD estimates.

have been limited on average although imports from EC countries have of course grown faster. Consequently, the share of EC countries in total Spanish non-oil imports has increased from one-half prior to accession to more than two-thirds in 1989. This is essentially due to the increase in the food import share from the Community, which has doubled at the expense of food imports from third countries. In the case of food products, there is evidence of trade diversion effects which not only dominate trade-creation effects but also imply that Spain is now importing food from more expensive suppliers.

Liberalisation of capital flows and EC structural funds

Restrictions on capital inflows have traditionally been light in Spain. A year before EC entry, remaining restrictions on foreign direct business and real-estate investment were fully lifted, except for operations in a few sectors (defence, media, communications and air transport). Most controls on foreign portfolio acquisitions have been suppressed. Recently, the authorities imposed restrictions on Spanish firms' borrowing abroad so as to reduce the upward pressures on the peseta. As

Table 18. **Official transfers between Spain and the EC**

Billion pesetas

	1986	1987	1988	1989
Payments to the EC	110.9	137.4	223.0	304.7
Value-added tax	83.6	88.0	138.3	171.1
Import duties	26.4	54.5	57.3	118.1
Other	0.9	–5.1	27.4	15.5
EC transfers to Spain	102.5	175.7	382.4	468.3
FEOGA - Guarantee[1]	37.9	87.3	259.1	248.4
FEOGA - Guidance[2]	–	2.3	5.9	26.4
FEDER[3]	40.5	48.3	69.6	115.7
FSE[4]	13.9	37.6	38.7	64.3
Other	0.2	0.2	9.1	13.6
Balance	–8.4	38.3	159.4	162.6

1. Agricultural support.
2. Agricultural fund.
3. Regional fund.
4. Social fund.

Source: Direct submission by the Spanish authorities.

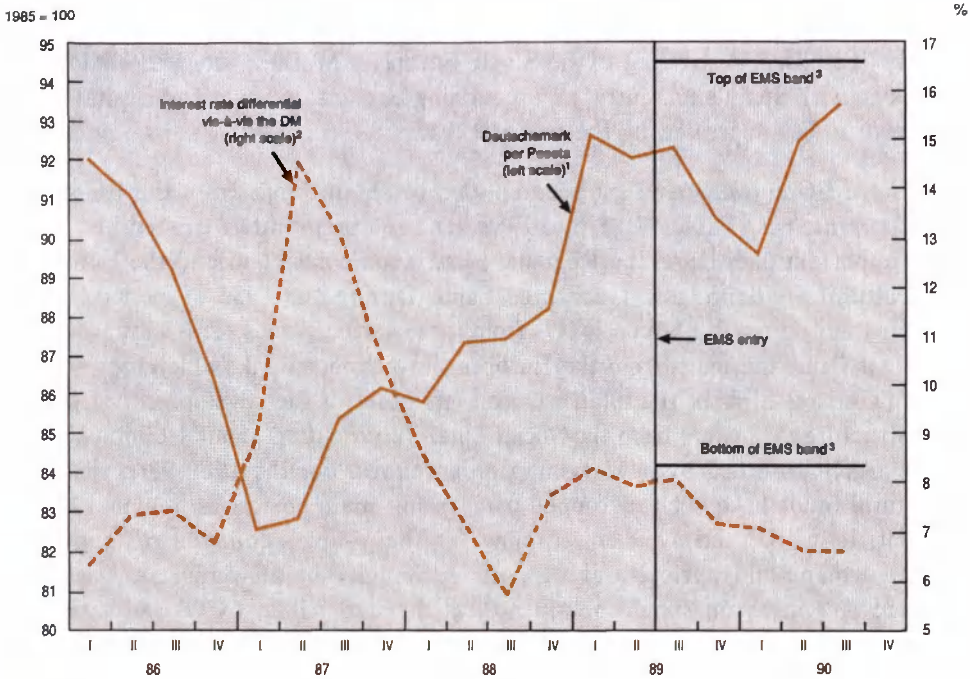
regards capital outflows, severe controls have long been applied. In response to favourable balance-of-payments developments, restrictions on real-estate and business capital outflows have been removed, ahead of the schedule agreed in the Treaty of Accession. Transactions on foreign stock exchanges have also been largely liberalised. According to the Single European Market Act, whose adoption coincided with Spain's EC entry, any remaining barriers on trade and capital flows will have to be suppressed by the end of 1992.

Since EC entry, Spain has been entitled to obtain funds from the EC structural programmes (Table 18). Up to 1988, ten such programmes existed, the three most important ones being the Regional Fund, the Social Fund and the European Agricultural Guidance and Guarantee Fund. During the 1986-88 period, Spain obtained more than 3.5 billion ECUs from these various funds. Transfers from the Regional Fund and loans from the European Investment Bank, which represented more than two-thirds of the total, were mainly used for the development of public infrastructure. Transfers from the Social Fund, representing about 1 billion ECUs, were largely absorbed by new training programmes. For the 1989-93 period, the structural funds have been regrouped to serve five main objectives: regional development, industrial reconversion, training for the young, reduction of long-term unemployment and agricultural support. Although not all budgets have been adopted as yet, Spain should obtain no less than 10 billion ECUs (adjusted for inflation) over the period to 1993.

EMS entry

The liberal regime governing capital inflows and outflows, combined with EC structural inflows, have contributed to the appreciation of the peseta since EC entry. In June 1989, the authorities decided to integrate the peseta in the exchange-rate mechanism of the EMS, with a wider fluctuation-band of 6 per cent, compared with the normal margin of 2.25 per cent. Given the large interest-rate differential prevailing at that time, participation in the EMS provided a further exchange-rate guarantee, thus making financial (and real) investments in Spain highly attractive. In order to counteract the resulting upward pressures on the peseta, the authorities have intervened in the exchange-rate markets, at times in support of the Deutschemark, and interest rate differentials *vis-à-vis* all other EMS currencies have been reduced. Even so, the peseta has remained the strongest currency within the EMS (Diagram 12).

Diagram 12. **EXCHANGE RATES AND INTEREST RATE DIFFERENTIALS**



1. 1985 = 100.
2. 3-month interbank rate.
3. Refers to the fluctuation-band of Peseta vis-à-vis Deutschemark. The central parity is 65 Pesetas = 1 DM.
Source: OECD, *Financial Statistics.*

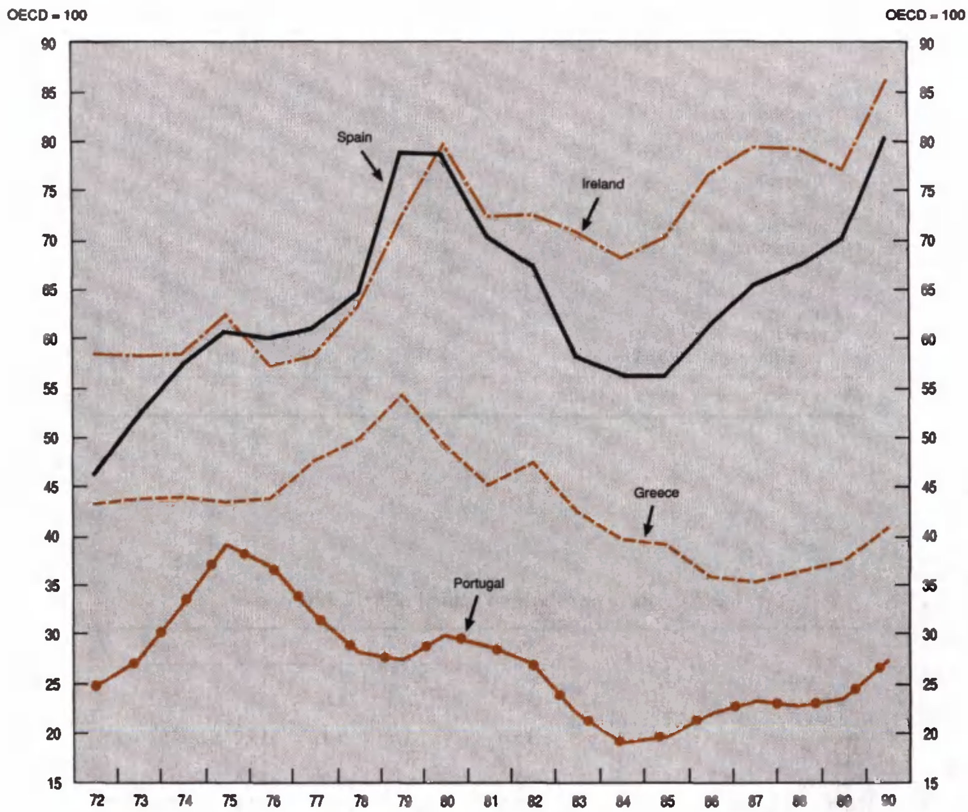
The demand shock

The EC-related investment boom

A salient feature of the first five years of Spain's EC membership has been the strength of the investment boom. The volume of investment, which had declined by a fifth in the ten years to 1984, has since nearly doubled. The upswing has been shared by all sectors and types of investment with business investment in machinery and equipment ranking first. Business surveys point to rationalisation and the introduction of new technologies as the main motives for investment. This suggests that the productivity gains which can be expected to result from the recent investment boom are potentially high.

Whatever the proximate cause of investment, improvement in profitability is normally the most important ultimate determinant. Helped by favourable terms-of-trade developments and wage moderation, profitability has recently regained

Diagram 13. **INTERNATIONAL COMPARISON OF GROSS LABOUR COSTS**[1]



1. Gross compensation per employee at current US Dollars.
Sources: OECD, *National Accounts* and estimates.

pre-1973 levels, thereby exceeding the real cost of capital by wide margins. However, econometric evidence suggests that the recovery of investment has been significantly stronger than "normal" relationships would have indicated. The unexplained difference may in large measure be attributable to the strength of foreign direct investments. Indeed, international comparisons of gross wage levels (in common currency) and gross profit rates show that Spain is well placed to attract foreign capital (Diagram 13). This is why Spain has traditionally attracted large

Table 19. **Country of origin of foreign direct investment projects**

Per cent of total

	1984-85	1986-89
EC countries	38.4	52.0
Of which:		
Netherlands	7.3	16.5
United Kingdom	7.5	10.1
France	8.2	9.4
Germany	10.5	8.7
United States	18.4	4.9
Foreign companies in Spain	12.9	25.3
Other countries	30.3	17.8
Total	100	100
Memorandum item:		
Cumulated foreign direct investment in billion US$	3.3	26.5

Source: Secretaría de Estado de Comercio.

Table 20. **Rate of return on capital of U.S. firms abroad**

	1985	1986	1987	1988	Average
Spain	**14.1**	**17.3**	**39.8**	**34.2**	**26.3**
World	15.0	15.7	19.3	15.2	16.3
EC	21.6	21.6	25.6	14.7	20.9
Portugal	22.2	32.4	26.9	32.9	28.6
Italy	19.5	39.8	25.8	12.4	24.4
Greece	–8.5	–82.2	30.1	35.0	–6.4

Source: U.S. Department of Commerce.

amounts of foreign capital. The greater buoyancy since 1986 owes much to the reduced political risks of investing in Spain after EC entry but may also reflect a positive response of foreign investors to the reduction of labour-market rigidities and a good social climate. Moreover, the decision by European countries to establish an integrated EC market by 1992 has encouraged a relocation of investment projects within European countries. This is confirmed by the fact that EC countries have been the main suppliers of foreign direct investment (Table 19). U.S. investors, mainly through their subsidiaries in Spain, have also been stimulated by the high rate of return on capital (Table 20) and the prospective of the 1992 single European market.

The bulk of capital inflows has been accounted for by business investment and portfolio acquisitions. Since purchases of up to 20 per cent of a firm are classified as portfolio investment, part of these capital inflows may also be business operations by nature. According to business surveys, foreign direct investment has substantially increased in virtually all sectors, even in those most affected by the real appreciation of the peseta (Table 21). The financial sector has been the main beneficiary, with its share in total foreign direct investment doubling since 1985.

Analysis of foreign direct investment in manufacturing shows that foreign investment has been concentrated in scale-intensive (car production, food, paper, chemicals) and in technologically-advanced industries (machinery and equipment). In these branches of industry, both exports and imports have increased faster than on average, with branch-specific trade balances deteriorating comparatively less. Moreover, output and productivity have grown significantly faster than elsewhere in the economy.

Excessively low and falling households' saving propensity

International comparisons of saving and investment behaviour show that there are no significant differences between the net borrowing position of non-financial enterprises in Spain and in other OECD countries. By contrast, it appears that between 1985 and 1989 the net lending capacity of Spanish households has fallen by more than three points to around 1½ per cent of households' income, a rather low level by international standards (Table 22). Both the fall in the saving propensity of households and the rise in housing investment have contributed.

The low and falling saving ratio of Spanish households may be explained by several factors. First, the rapid expansion of the economy and the favourable "wealth" effects have probably favoured expectations of higher and secured

Table 21. **Sectoral distribution of foreign direct investment projects**

Billion pesetas[1]

	1980-84	1985	1986	1987	1988	1989
Manufacturing and mining	98 (63.4)	177 (63.3)	246 (61.4)	382 (52.6)	311 (36.9)	522 (41.9)
Trade and tourism	25 (16.2)	39 (14.0)	62 (15.3)	138 (18.9)	104 (12.4)	180 (14.4)
Financial sector	21 (13.7)	50 (17.8)	77 (19.3)	177 (24.4)	365 (43.3)	466 (37.4)
Others	10 (6.5)	14 (4.9)	16 (4.0)	29 (4.1)	63 (7.4)	79 (6.3)
Total	154	280	401	727	843	1 247
Memorandum items:						
Total foreign direct investment:						
In billion US dollars	1.3	1.6	2.9	5.9	7.2	10.5
Per cent of GDP	0.7	1.0	1.3	2.0	2.1	2.8
Per cent of business fixed investment	4.3	6.5	8.0	11.7	11.4	14.2

1. Per cent of total in brackets.

Source: Secretaría de Estado de Comercio.

Table 22. **Net lending position of households**[1]

	1985	1988	Difference
Spain	5.2	1.4[2]	-3.8
United States	2.6	2.5	-0.1
Japan	13.0	12.3	-0.7
Germany	9.7	10.7	+1.0
France	5.1	2.5	-2.6
Italy	10.5	9.5[3]	-1.0
United Kingdom	3.3	-3.8	-7.1

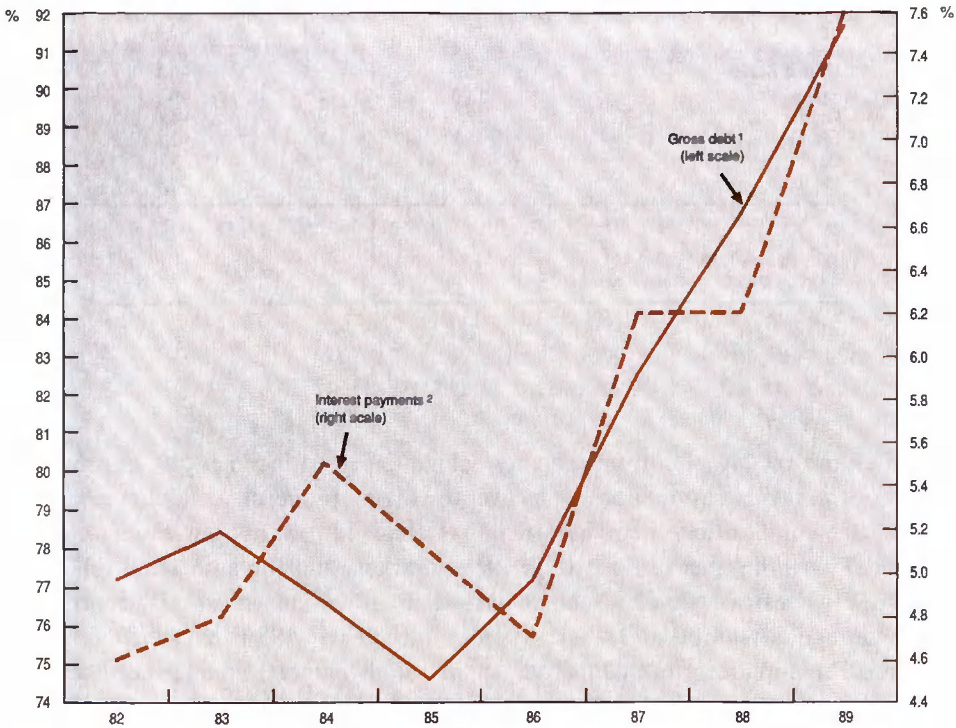
1. Net lending capacity of households as a per cent of households' income.
2. Refers to 1989.
3. Refers to 1987.

Source: OECD, National Accounts.

incomes and the lag of current incomes behind expected incomes has translated in a fall of the saving ratio. Second, the average saving propensity may have declined as the age composition of wage earners has changed towards low saving younger people. Third, the liberalisation of financial markets and the associated relaxation of liquidity constraints on households has – as in other countries – also contributed to encourage consumption. Hence, whereas in the early 1980s households' savings covered three-quarters of acquisitions of real and financial assets, the proportion has fallen to about a third. Households' indebtedness has correspondingly increased (Diagram 14).

On the household expenditure side, certain aspects of the tax system may have contributed to the rapid increase of housing investment at the expense of financial savings. There is a 15 per cent tax credit for the purchase of a principal house (up to 1989 the tax relief applied also to secondary houses), the effect of which on housing demand has been only partly nullified recently by the rapid relative increase in house prices. Moreover, although both the imputed rent for owner-occupied houses and earnings from financial savings should, in principle, be included in the tax base, the imputed rent, if declared at all, is usually highly undervalued. By contrast, it is much more difficult to escape taxation on revenues from financial placements. Given that the supply of houses has been relatively inelastic to changes of demand (partly due to the existence of bottlenecks) the favourable tax treatment of housing has not only depressed financial savings but has also translated into high inflation of house prices. To the extent that house-owners feel better off, this may also have fuelled consumption.

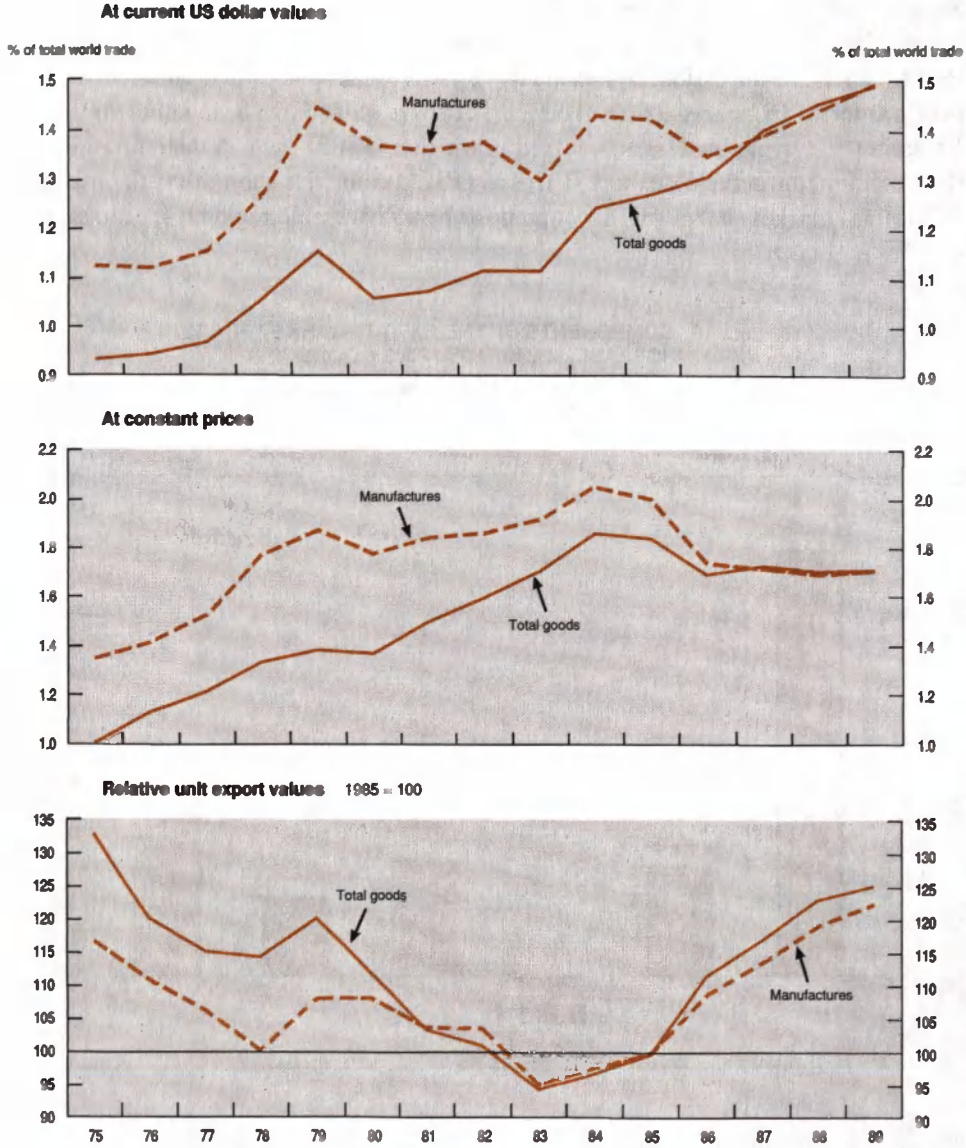
Diagram 14. **HOUSEHOLDS' INDEBTEDNESS AND INTEREST CHARGES**



1. Gross financial liabilities, as a per cent of household income.
2. Interest payments on gross financial liabilities as a per cent of household income.
Source: Bank of Spain, *Cuentas financerias de la economía española,* Madrid, 1990.

The first set of factors depressing households' savings is not amenable to policy change. However, some of the factors can be expected to weaken or even to be reversed. Thus, the prospective slowdown of the economy should bring income expectations more in line with actual developments. More importantly, the stimulatory effects of financial liberalisation on consumption will peter out as more and more households begin repaying their loans. Much will depend on the extent to which existing discriminations in the tax system against financial savings and in favour of residential investment are removed by future tax reforms.

Diagram 15. **EXPORT MARKET SHARES IN WORLD TRADE**



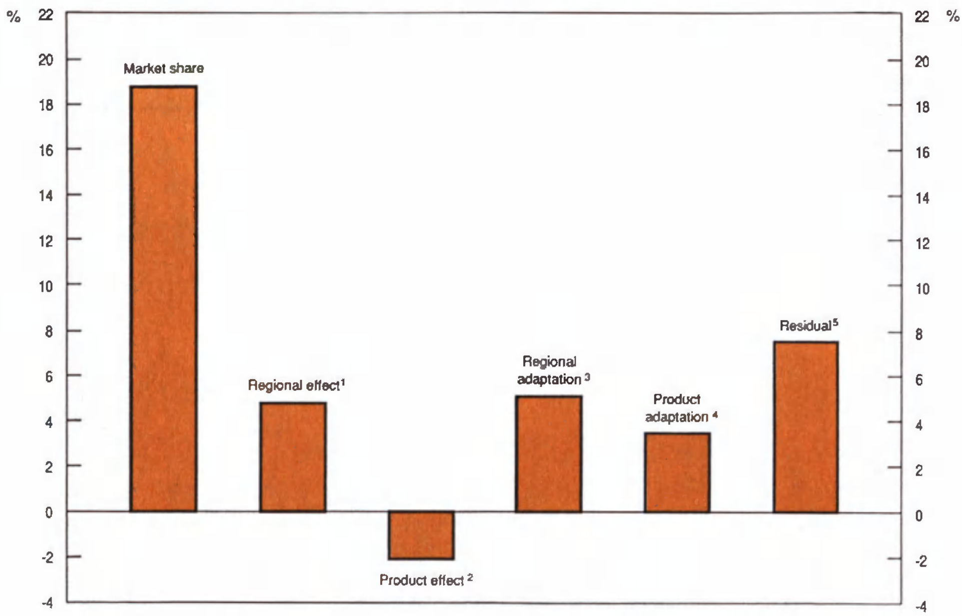
Source: OECD, *Analytical Data Base.*

Positive adjustment of the export sector to new demand patterns

World trade has expanded vigorously over the past five years. The response of Spanish exports looks rather different in nominal and in volume terms (Diagram 15). Market shares were gained in value terms but lost slightly in volume terms. Since EC accession, Spanish exporters have increased their share abroad in nominal terms by nearly a fifth. The market share gains have been concentrated in EC countries, while big losses occurred in the non-OECD area. A decomposition of the rise in manufacturing export shares in OECD countries shows that the increase in nominal market shares was accounted for by a favourable regional specialisation,

Diagram 16. **COMPONENTS OF THE EXPORT MARKET SHARE INCREASE, MANUFACTURING GOODS**

1985-89 percentage change



1. Change in the export market share that would have occurred in the absence of shifts in the regional orientation of exports.
2. Change in the export market share that would have occurred in the absence of shifts in the product composition of exports.
3. Change in the export market share induced by the shifts in the regional orientation of exports.
4. Change in the export market share induced by the shifts in the product composition of exports.
5. Reflects "pure" market share effects (competitiveness, structural factors).

Source: OECD estimates.

a positive adaptation of the export activities towards both fast-growing products and markets and a residual factor which includes improved quality and marketing efforts (Diagram 16).

In volume terms Spain has broadly maintained market shares since EC entry. The apparent weakness of exports in the year of EC entry is partly related to the fact that in anticipation of the introduction of the VAT system exporters tried to advance export declarations so as to benefit from the implicit subsidy element included in the former tax rebate. As a result there was some over-recording of exports in 1985 (and under-recording in 1986). The rapid increase in domestic demand and accompanying losses of international competitiveness explain why real exports have not done better after 1986. Overall, since EC entry the steady loss of competitiveness has adversely affected real export market shares, but favourable supply effects combined with shifts in the product composition towards exports with higher unit values have resulted in big terms-of-trade gains and permitted the value of exports to grow faster than world trade.

The supply recovery

The investment boom, efficiency gains and stronger labour supply have boosted actual and potential output growth since the mid-1980s (Table 23). The labour force has been strengthened by marked increases in the still-low participation rates of women. The positive effect on the labour force arising from changes in womens' attitudes towards seeking gainful employment has outweighed the damping impact of longer schooling and university attendance on male participation rates.

The steep increase of investment has contributed to the recovery of supply through two main channels. First, the massive installation of new equipment has exceeded by far the scrapping of old plant capacity. Second, with replacement investments and additions to the capital stock embodying new technologies, important rationalisation and efficiency gains have been possible. In these respects foreign investment seems to have played a particularly important role. Indeed, as noted earlier, industries in which the presence of foreign investors has increased strongly have enjoyed faster-than-average productivity growth. Shifts in the composition of industrial output may have also resulted in improved aggregate efficiency as output has tended to grow faster in high-tech-intensive sectors where productivity levels are typically above average.

Overall, total factor productivity is estimated to have increased by $1\frac{1}{2}$ percentage points per annum since 1985 which is slightly faster than before (Table 23). This contrasts with the marked deceleration in strong labour productivity advances in most sectors, including industry. This apparent paradox is partly explained by the fact that labour productivity growth prior to 1985 was to a large extent the result of a fast process of capital-for-labour substitution and a massive squeezing out of labour and capital in low productivity sectors and enterprises. It is estimated that during the five years to 1985, total factor productivity, which nets out the substitution effect, grew by 1.2 per cent, only one-third the "apparent" labour productivity growth. Following the moderation of wage demands and the strong recovery of demand for goods and marketable services, the pressure to economise on labour has become less strong. The growing share of part-time jobs, by reducing the average number of hours worked, is another factor that has made for lower labour productivity gains (if measured in man-years rather than in man-hours). The number of part-time jobs, which was negligible before the introduction of the new types of contracts, represented some 8 per cent of total new hirings in 1989, and a fifth if on-the-job trainees (who also tend to work shorter hours) are added.

As shifts in the structure of output have not been matched by corresponding quality changes in the supply of labour, skill shortages in certain markets have

Table 23. **The supply response (business-sector)**

Average annual growth rates, in per cent

	1980-85	1985-89
Actual output	1.1	4.4
Potential output	2.5	3.5
Capital stock	3.2	3.9
Labour force[1]	0.8	1.2
Labour productivity, actual	3.4	1.7
Total factor productivity	1.2	1.4
	1985	1989
Memorandum items:		
Participation rates[2]:		
Total	57.5	59.9
Males	80.2	79.0
Females	34.9	40.7

1. Not adjusted for the changes in the equilibrium unemployment rate.
2. As a share of the relevant population of working age.
Sources: OECD, *Labour force statistics*; OECD, *Analytical Database* and OECD estimates.

Table 24. **Labour market mismatch**

	1985	1986	1987	1988	1989
Unfilled job vacancies					
Thousands	113	147	161	190	201
Per cent of total "open" vacancies	20	24	25	26	27
Percentage of firms that introduce new techniques	–	–	30	46	62
Percentage of firms for which labour force is insufficiently qualified	–	–	–	–	66

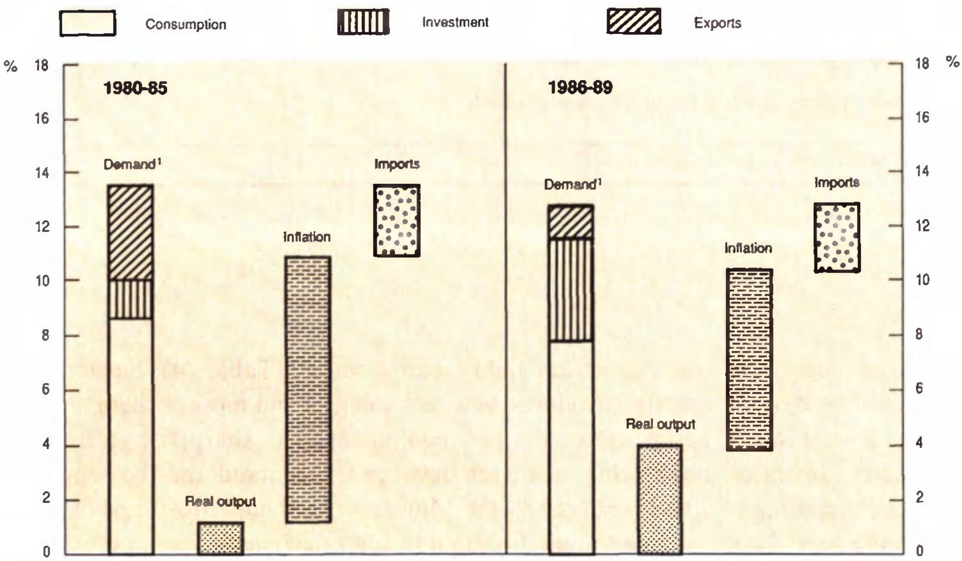
Source: Ministerio de Trabajo y Seguridad Social.

occurred, negatively affecting actual and potential output (Table 24). Seventy per cent of firms have reportedly introduced new technologies and most of them need to hire people to make better use of the new equipment. The sharp rise in unfilled vacancies illustrates the growing mismatch between the demand and the supply of labour. According to a recent survey by the Ministry of Labour, two-thirds of firms stress the need for improving the qualification of both new employees and existing ones. This suggests that the growth dividend which Spain could have drawn from its EC membership would have been even greater than has actually been the case if the response of the supply of labour to the new demand and production structure had been more flexible.

Internal and external financial balance

As can be seen from Diagram 17, the average annual growth rate of aggregate nominal demand during the 1986-1989 boom period came close to that of the preceding five year period of stabilisation and consolidation policies. However there were important differences both with respect to the composition of demand and the supply response. The post-1985 period saw a much better mix between consumption and investment expenditure and a much better output-inflation split. The reduced price impact of a given rise of nominal demand reflects not only greater output responsiveness but also a considerable leakage into imports which shifted

Diagram 17. **SUPPLY AND PRICE RESPONSES TO AGGREGATE DEMAND GROWTH**
Average annual growth rates, in per cent

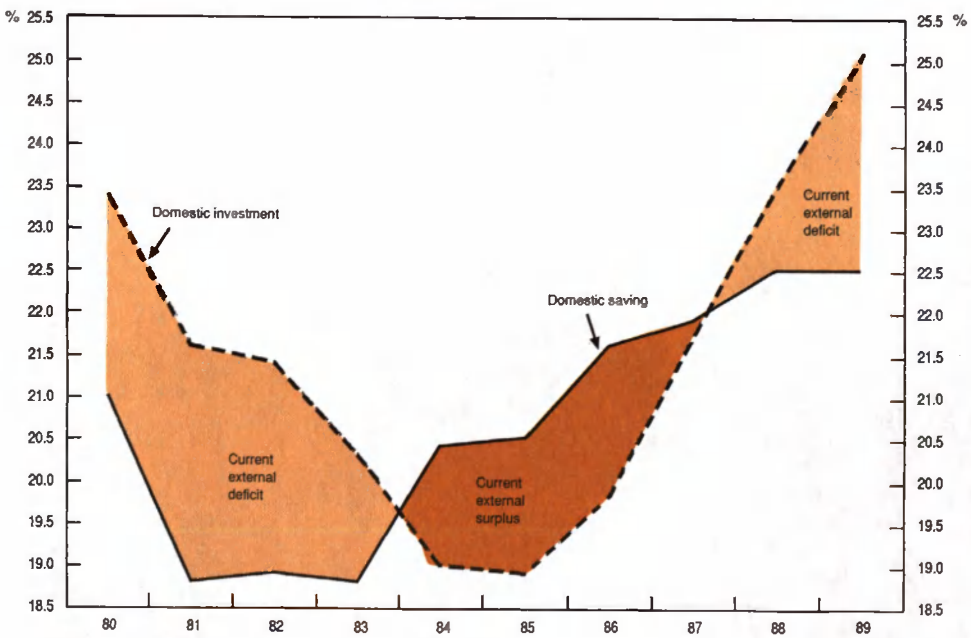


1. Nominal aggregate demand.
Source: OECD, *Analytical Data Base.*

the contribution of the nominal foreign balance to GDP growth from a positive to a negative sign of almost equal size. The deterioration in the non-oil trade balance (by nearly 7 per cent between 1985 and 1989) has been only partly offset by the favourable impact of the 1986 fall in oil prices. Moreover, as discussed in Part I, net tourism receipts have been eroded by the deterioration in price competitiveness and other factors. Therefore, despite the sharp rise in public-transfer receipts (mainly coming from the EC structural funds) the invisible surplus has narrowed, thereby pushing the external balance further into deficit.

Given the very different cyclical position and policy environment at the beginning of the two historical episodes compared in Diagram 18 and given furthermore that EC membership was not the only exogenous factor distinguishing the two periods, it is difficult to say what the quantitative contribution of Spain's EC entry has been to changing the overall performance of the economy. However, the various observations and considerations presented above do allow a number of qualitative conclusions to be drawn. Firstly, the accession of Spain to the EC led to sizeable welfare gains, as big trade creation effects in industry have outweighed trade diversion for agricultural imports. Furthermore, EC-related effects have given a huge stimulus not only to aggregate demand but also to actual and potential real GDP. The latter has resulted mainly via a marked strengthening of investment activity and faster dissemination of technical progress. Secondly, the opening of domestic markets to foreign competitors together with positive supply-side effects flowing from high rates of investment activity have reduced the inflation proneness of the country. Thirdly, the opening of domestic markets to foreign investors and the sharp, partially EC-related, reversal of the earlier long-term

Diagram 18. **SAVING, INVESTMENT AND THE CURRENT ACCOUNT BALANCE**
Per cent of national disposable income



Source: Bank of Spain.

downward trend of rates of return on capital (see Diagram 8 above) have turned Spain into an attractive country for international capital inflows. Fourthly, the real appreciation of the peseta and the accompanying swing of the current external balance from surplus to deficit must therefore in part be seen as a natural consequence of EC membership. Fifthly, a greater reliance on fiscal policy as a means of containing excessive pressure on resources would have attenuated the negative post EC-entry effect on international competitiveness and the extent to which the foreign balance has actually deteriorated. Finally, the greater integration of Spain in the European economy favours specialisation and economies of scale. The benefits from this process will naturally be all the bigger, the greater the flexibility of production factors to adapt to changing demand requirements. Particularly important would seem to be efforts on the part of the authorities, enterprises and individuals to improve the skills of the labour force.

V. Conclusions

During the second half of the 1980s Spain has enjoyed one of the strongest expansions of GDP and employment in the OECD area. As underlined in the summary paragraph of the preceding chapter, the EC-entry of Spain has in various ways greatly contributed to this impressive performance. However, with unsustainably rapid domestic demand-led growth continuing virtually unabated through 1988 and most of 1989 severe excess-demand conditions developed, reversing the previous process of disinflation and pushing the current external balance deeper into deficit. A worrying feature has been the continuance of the rapid deterioration in cost and price competitiveness, which is eroding the relative profitability of exports and investment, on which the future of the Spanish economy crucially depends to realise its growth potential, to continue to reduce unemployment and to narrow the gap in living standards with main EC partners.

In response to the emerging macroeconomic imbalances the stance of monetary policy began to be tightened towards the end of 1988 while budgetary developments continued to lend strong support to demand as a consequence of considerable expenditure overruns and difficulties to reduce tax evasion and fraud. However, in mid-1989, when the need both to cool down the overheated economy and to arrest the steady rise of the effective exchange rate had become more evident and pressing, a series of fiscal and monetary measures of restraint were taken. Moreover, in order to underline the authorities' credibility and commitment to a firm and sustained course of anti-inflationary policy, the peseta was brought into the Exchange Rate Mechanism of the European Monetary System. By creating a more stable policy and economic environment, the decision to join the ERM immediately discouraged speculative capital inflows and helped to narrow the wide interest rate differentials *vis-à-vis* Spain's EMS partners while at the same time damping inflation expectations.

Helped by a natural maturing of the economic upswing, the tightening of monetary conditions and less demand-supportive budgetary developments resulted in a significant slowdown of domestic demand with real GDP growth coming close to its potential rate, so that – prior to the Gulf crisis – the rise of both underlying inflation and of the current external deficit were seemingly being arrested. However, the sharp increase in oil prices since the summer has brought this still-hesitant unfolding of a "soft landing" scenario to a halt. According to the central OECD projection, presented in Part III along with a moderate-wage-increase variant, consumer-price inflation can be expected to remain broadly unchanged between 1989 and 1991 and the current external deficit to continue to rise in 1991, notwithstanding a deceleration of GDP growth to somewhat below its potential rate. For 1992 a modest improvement is projected on the assumption that present policies will be continued and that the spot oil prices will settle down somewhat below $30 per barrel. With inflation remaining higher than in main EC trading partner countries, albeit with diminishing differentials during the projection period, and with the current external deficit probably above its long-run sustainable level, this outlook cannot but call for a continuation of tight policies.

For the rebalancing process to succeed two essential conditions must be met: first, the flow of new capital and labour resources towards domestically-oriented sectors of the economy has to be reduced and second, the output capacity of export and import-competing sectors of the economy has to be enhanced. In order to reduce future claims on resources by the "sheltered" sectors, domestic demand growth has to be slowed down below the expansion of potential GDP; and to enable existing and new firms in the "exposed" sector to attract additional resources, relative income and employment prospects must, in this sector, improve. For the latter to happen, the real appreciation of the peseta in terms of unit labour costs in common currency, which has been occurring since 1985, should come to a halt.

Bringing both domestic demand and cost inflation under control is essential to maintain a favourable business climate. Spain traditionally has been a capital importer and, as analysed in Part IV, foreign investments by supplementing domestic savings and diffusing new technologies, have been instrumental in sustaining fast output growth and in permitting big employment gains to be realised. However, market sentiment could change if Spain's international competitiveness in cost terms and more generally were further eroded. In this situation not only might the financing of the deficit pose problems, but less abundant foreign investments would negatively affect potential growth.

An important policy prerequisite for creating the necessary conditions for desirable relative price and resource shifts is a much stronger dependence than hitherto on fiscal restraint, coupled with continued efforts to remove supply-side rigidities. In recent years monetary policy has carried the brunt of stabilisation policies and has approached its limits as evidenced by the strength of the peseta within the EMS, and by the resort to credit ceilings and controls on capital inflows as a means to contain liquidity growth. Direct credit restrictions will need to be lifted before long as they cause distortions in the allocation of financial resources and as their effectiveness tends to diminish over time. Moreover, direct controls run counter to the spirit of the EMS and will, in any case, have to be removed by 1993. The scope for higher interest rates is limited by exchange-rate considerations, but even if there were scope for higher rates they would unduly hit investment rather than consumption.

Fiscal policy started to be tightened in the latter half of 1989 but not enough so far to have much of a restrictive impact on activity and inflation. If the impact on the budget balance on a cash basis of delayed tax reimbursements from late 1989 to early 1990 is evened out and the effects of cyclical variations are corrected for, the adjusted general government deficit will probably have been reduced by a quarter of a per cent of GDP in 1990 and will, according to OECD projections, shrink by about one percentage point of GDP in 1991. It is true that given strong claims on the Government to increase expenditure on education, health, labour-market programmes and public infrastructure the planned cut in the overall government deficit represents a commendable effort, notably on the part of the central authorities. However, in view of the size of the rebalancing problem, the Government should pursue budget consolidation with determination beyond 1991, even though some relief on public spending can be expected after the completion of important infrastructure projects associated with the 1992 Olympic Games and the Seville International Fair. There would in particular seem scope for cuts in subsidies and other financial aid, notably to public sector companies. Likewise, important budget economies could be made by curbing the growth of public-sector employment through general measures of restraint and more efficient use of the existing workforce.

Along with the reduction of the public sector deficit efforts to reform the tax/transfer system and to improve the structure of public expenditure should be continued both on economic efficiency and social equity grounds. As regards the composition of spending a major increase in the share of investment at the expense of consumption has already been achieved, going hand in hand with a conspicuous rise in government gross saving. On the tax side, the most immediate need would appear to be a reduction in fraud and tax evasion which not only deprives the Government of important revenues but also has an uneven incidence on people's after-tax incomes. The reduction of certain tax rebates, in particular for the purchase of dwellings, would also help to raise additional revenue, while stimulating household financial savings. In a recent White Paper on a personal income and wealth tax reform, plans are announced for alleviating certain taxes so as to bring them in line with those in other major EC countries. However, before having successfully tackled the problem of tax evasion it may be difficult to envisage the introduction of reforms that would lower taxes, notably in favour of categories where the incidence of tax evasion is high and where the main beneficiaries of tax breaks can be found.

Whether Spain will be able to return to a strong non-inflationary growth path that is consistent with a gradual absorption of excessive labour-market slack and a sound foreign balance depends of course not only on the Government. The social partners have also an important role to play in order to ensure that production remains competitive and profitable and that Spain remains an attractive place for both domestic and foreign investors. The partial liberalisation of labour markets has been important in this respect. However, by leaving unaltered the rigid rules governing permanent contracts, dual features in the labour market have been reinforced. This has begun to affect social consensus but has also prevented the full realisation of potentially high investment-induced productivity gains. In the protected segment of the labour market, motivation and labour efficiency must have suffered and in the less protected one the high job turnover has no doubt entailed losses of efficiency. It would therefore seem a matter of some urgency to reduce the existing excessive degree of market segmentation, notably by lowering the very high redundancy payments for lay-offs of permanent workers. At the same time, the government should more effectively than hitherto monitor the application of temporary contract rules. Moreover, in order to draw maximum benefits from technical progress embodied in new capital, a better match between training programmes and the needs of the economy would seem desirable.

The Gulf crisis has strengthened the need for consensus-based wage developments. Given Spain's high oil dependency ratio the higher oil price has reduced real disposable national income by as much as $^3/_4$ per cent, a cut in income which ought be shared by all income categories. It is therefore important and also in line with government policy that, along with more determined energy conservation measures, higher oil prices are passed on to final consumers. However, the effect on consumer prices should not be allowed to give rise to an upward twist to the price-wage spiral. The 1991 wage negotiations will provide the first real test of whether a futile and economically-detrimental income distribution struggle can be avoided. Given the weight of wages in national income it is clear that a moderation of *nominal* wage claims towards a terms-of-trade-adjusted trend rate of productivity will have to be a key element in the resumption of a process of disinflation. Indeed, as argued and demonstrated in Part III, close adherence of wage settlements to the government objective of 5.8 per cent in 1991 would not only reinforce the process of disinflation but by boosting potential output and employment growth over the medium-term would also generate positive dynamic effects in the real economy. However, for this to happen, other income categories should also exercise restraint, notably those operating in protected or uncompetitive markets. This would seem particularly true for many liberal professions and self-employed people who have enjoyed high income growth during the boom period. A strengthening of competition policy in goods and labour markets would greatly help to reduce rental elements in personal income developments.

To sum up, the policy stance has been tightened since mid-1989. Developments up to August 1990 suggested that, with somewhat greater restraint on the fiscal side the economy could perhaps have been put on a steady path towards disinflation and lower current external deficits. However, the Gulf crisis has increased the cost of adjustment and made more evident the need to stop the trend deterioration in relative unit labour costs. Given market imperfections the combined deflationary demand effect of higher oil prices and restrictive policies will inevitably create slack in certain sectors of the economy. However, the greater the fiscal contribution to the adjustment and rebalancing process and the more pronounced the *ex ante* income moderation, the faster will be the return to sustainable high growth. Without a high degree of social cohesion the impressive economic performance during the second half of the 1980s would not have been realised. It is therefore important that all players in the economy be aware of this and act accordingly.

Notes and references

1. For a quantitative analysis of the macroeconomic effects of foreign investment see *OECD Economic Survey of Spain 1988/1989*, Annex I.
2. Foreign direct and real estate investment as well as the part of portfolio inflows ultimately channelled to investment may stabilise at around \$10 billion in 1990, nearly 15 per cent of business investment.
3. The important social security and tax advantages offered to employers for increasing their work-force (under the employment promotion programmes) have induced employers to declare workers who were previously working without being officially registered.
4. Changes in the average compensation per employee is not a reliable indicator of wage developments in recent years as it has been influenced by compositional effects. First, the growing proportion of low-paid new recruits (including those under the employment promotion programmes) in the workforce has depressed the average level of pay. This effect has lost some of its importance in 1990. Second, big changes in the calculation basis for social security contribution as well as changes in accounting and statistical rules, notably the inclusion of small enterprises in the sample surveys, have made for relatively big divergence in the rates of growth of compensation per employee and of measured average wages.
5. The figures in US dollars understate the decline in net tourism receipts due to the appreciation of the peseta *vis-a-vis* the US dollar. In pesetas the decline was 13 per cent in the first eight months of 1990 over a year earlier.
6. Excluding the interest-sensitive component of the portfolio inflow, the "sustainable" part of the current external deficit appears to be around 2½ per cent of GDP.
7. During the first half of 1989 the annualised rate of growth of ALP (the wide monetary aggregate) reached 15 per cent and credit expansion to the private sector 22 per cent compared with the monetary programme's targets of 6½ to 9½ per cent and around 11½ per cent respectively.
8. In July 1989 a 13 per cent credit ceiling applying to all banks was fixed for the second half of 1989. The minimum reserve ratio was raised by 1 percentage point to 19 per cent of eligible liabilities, consisting of an interest bearing part (11½ per cent with a rate of interest of 7¾ per cent) and a non-interest rate bearing part (7½ per cent). At the end of January 1990 the remunerated part was reduced to 9½ per cent, lowering the reserve ratio to 17 per cent with an average yield of 4⅓ per cent.

9. These notes are similar to Treasury notes (Pagarés del Tesoro) issued by the central government. They serve as a vehicle for tax evasion (the banks are not obliged to declare their holders). The interest rate on Treasury notes has been stable at 5.5 per cent since late 1988 compared with 14.5 per cent for Treasury bills during most of 1990. The funds collected by the Basque authorities were mostly deposited at high interest rate accounts.
10. Following some difficulties in selling Treasury bills and bonds in the early months of the year, their interest rates were subsequently raised, leading to an increase in demand for them, at the expense of commercial paper not included in the ALP. The steep rise of interest rates on demand deposits also triggered a shift from non-bank to bank assets held by the private sector in the second quarter.
11. In June 1989 the peseta joined the ERM with a wide fluctuation band of 6 per cent and its parity was set at 132.889 pesetas = 1 ECU.
12. The prices of oil and derivatives were raised with the aim of bringing them close to the EC average, correspondingly raising central government income from property and entrepreneurship. For the same reason, excise taxes on tobacco products were raised in 1990. The harmonisation of the maximum contributory bases of the different social security regimes in 1990 is also expected to yield some extra revenues.
13. This overrun is not related to the Government's decision after talks with labour unions to spend an extra ½ per cent of GDP to raise unemployment benefits, pensions and wages on top of the 1989 budget appropriations already voted by Parliament. This extra spending was decided to be offset by cuts in other expenditure items.
14. The *OECD Survey of Spain 1988/1989* included a special chapter on public sector finances (Part III "Pattern and consequences of public sector growth"). This chapter examined the serious problem of expenditure overruns, calling for the establishment of efficient controlling mechanisms.
15. Despite considerable efforts to combat tax evasion in recent years, results have not yet met expectations. In 1989 parallel to the increase in the withholding tax on interest income from banks to 25 per cent, the withholding tax was extended to cover interest income from new financial instruments used by banks, such as "repos" with Treasury bills, "primas únicas" etc. The authorities also asked financial institutions, which had promoted primas únicas to help their clients to evade taxes (nominally an insurance scheme but with similar characteristics as bank deposits) to pay withholding taxes related to 1987 and 1988 primas únicas. The 1990 Budget also introduced a provision requiring all taxpayers to use their fiscal identification number in their financial transactions.
16. The cumulative change in the cyclically adjusted deficit between 1987 and 1990, one indicator of the expansionary thrust of discretionary measures, amounted to 1.3 per cent of GDP. However, this was more than offset by the increase in the general government saving ratio from 1 per cent of GDP to 2.5 per cent of GDP over the same period, which is often also used as an indicator of fiscal retrenchment. Likewise, the primary balance turned around from a negative figure in 1987 to a small positive value in 1990.

17. See *OECD Economic Outlook, no 47*, June 1990, the chapter on "Monetary and Fiscal Policies".
18. For a succinct analysis of the Spanish financial system and monetary policy see *OECD Economic Survey of Spain, 1987/88*, Part II "Financial markets and monetary policy".
19. Current account deposits with the Santander Bank, which first introduced the new accounts grew by 75 per cent (Pta 282 billion) between August and December 1989. The current account deposits of the other big banks increased by Pta 37 billion on average over the same period.
20. Foreign banks (except those established up to 1978) were not allowed to have more than three branches. In 1991 they are allowed to set up one more and in 1992 two more before most restrictions are lifted in 1993 in line with the EC common banking rules. Moreover, the obligation on banks that only up to 40 per cent of their loans to residents can be financed with domestic liabilities is gradually being relaxed, with the limit attaining 90 per cent in 1992.
21. The big seven private commercial banks were Banco Central, Banesto, Banco de Bilbao, Banco Hispano-Americano, Banco de Santander, Banco de Vizcaya and Banco Popular. The Banco de Bilbao and Banco de Vizcaya formed the Banco Bilbao-Vizcaya (BBV). There are also a big number of saving banks (collecting one-half of total deposits), but only a few have a size sufficiently large to be able to mount important credit operations on their own. Two of the largest ones merged in 1990. The rest channels a large part of their funds through the interbank market or deposit them with commercial banks.
22. See *OECD Economic Survey of Spain 1985/86*, Chapter III "Labour market issues".
23. This decline is somewhat weaker than shown for the 1991 Budget of the Central Government. The central government Budget forecasts a decline in the central government deficit from 2.1 per cent of GDP (1.5 per cent adjusted for the delay in tax reimbursements) in 1990 to 0.9 per cent of GDP in 1991.
24. An alternative "wage moderation scenario" based on a simulation of the OECD Interlink model is discussed at the end of this Part and shown in Table 13 together with the OECD central projection.
25. Imports are about 60 per cent higher than exports. For the trade deficit to be reduced the rate of growth of imports has to be more than 60 per cent below that for exports.
26. See Viñals, J., "The EC-cum 1992 effect", mimeo, Bank of Spain.
27. Fernandez Guerrero, I. and Sebastian, M.: "El sector exterior y la incorporación de España a la CEE", Ministerio de Economía y Hacienda, September 1989.

Annex I

Chronology of main economic events

1989

January

Banks' compulsory reserve ratio is raised by 1.5 percentage points to 18 per cent of total eligible liabilities.

A non-remunerated deposit placed with Bank of Spain, equivalent to 30 per cent of credits in foreign currency by banks is imposed. Banks are also obliged to deposit with Bank of Spain the equivalent of 20 per cent of the increase in their foreign exchange position occurred since February 1989.

February

The Constitutional Court declares unconstitutional the former obligation to cumulate family income for tax purposes.

The interest rate on one-year Treasury bills and the Bank of Spain intervention rate are raised by ½ percentage point and 1 percentage point respectively.

March

The interest rate on one-year Treasury bills is raised by 0.45 of a percentage point.

Income from Treasury bills held by non-residents is made subject to the withholding tax of 20 per cent.

The government adopts a training programme, supported by the European Social Fund.

April

The interest rate on one-year Treasury bills is raised by ½ of a percentage point.

Quotations in the four stock markets are unified.

May

Supplementary cuts in the State expenditure budget for 1989 worth Ptas 115 billion are approved and payments of the corporate tax pertaining to the year 1989 are advanced.

A rise in social expenditure of Ptas 170 billion and an equivalent cut in other budget appropriations are decided.

June

The peseta is incorporated into the European Monetary System with a fluctuation band of 6 per cent and a central parity *vis-à-vis* the ECU of Ptas 132.889.

The interest rate on one-year Treasury bills is reduced by 0.13 of a percentage point.

Most restrictions on the issue of securities by non-residents are suppressed.

July

The Bank of Spain intervention rate is raised by 0.75 of a percentage point.

Banks' compulsory reserve ratio is raised by 1 percentage point to 19 per cent.

The withholding tax on financial income is increased by 5 percentage points to 25 per cent.

A ceiling on the expansion of credit to the private sector in 1989 is introduced, so as to bring the annual increase in the credit aggregate to 13 per cent by end-1989.

Following the decision of the Constitutional Court, the tax law is amended. Accordingly, spouses are henceforth allowed to file separate returns.

Bank credits to non-residents in convertible pesetas, up to a maximum of 25 per cent of total non-convertible credit outstanding in the previous month, no longer require prior administrative authorisation.

September

The health-care coverage is increased, entailing a cost estimated at Ptas 28 billion.

Each resident is allowed to open one account in ECUs with Spanish banks.

October

Mortgage credits to non-residents in convertible pesetas, up to a maximum of 25 per cent of total non-convertible credit outstanding in the previous month, are liberalised.

November

The obligatory deposit equivalent to 20 per cent of the increase in banks' foreign exchange position is abolished.

December

The 1990 target band for ALP (wide monetary aggregate) is fixed at 6.5 to 9.5 per cent. The ceiling on banks' credit expansion to the private sector is fixed at 10 per cent.

Banks' compulsory reserve ratio is reduced by two points to 17 per cent.

Reflecting procedural delays for the 1990 Budget, the 1989 budget is prorogated into 1990, except for public wages, pensions and tax brackets which are increased by 5 per cent compared with the 1989 budget.

1990

January

Unions and the Government agree on an increase in pensions averaging 10 per cent and on a full compensation (to civil servants and pensioners) for the overshooting in 1989 inflation targets.

February

The Treasury raises the interest on one-year Treasury bills by ½ of a percentage point.

The banks' compulsory reserve ratio is reduced from 17 per cent to 5 per cent. The funds corresponding to the reduction by 12 per cent are placed in the form of Bank of Spain certificate of deposits with a 6 per cent interest rate.

March

The interest rate on one-year Treasury bills is raised by 0.3 of a percentage point.

June

The State budget for 1990 is voted. Non-financial expenditures and revenues are budgeted to grow at 9.5 per cent and 10.7 per cent respectively. The State deficit is expected to decline to 500 pesetas billion, or 0.9 per cent of GDP. The rules governing the budget implementation are changed so as to limit expenditure overruns.

The most salient features of the State budget are the following:

- Expenditure on goods and services and subsidies are budgeted to fall in nominal terms;
- Investment for the replacement and extension of infrastructure equipment is planned to increased by 16.8 per cent and 38.8 per cent respectively;
- Indirect taxes are expected to grow by 16.8 per cent;
- The deficit is budgeted at Ptas 856 billion, or 1.7 per cent of GDP.

August

The government raises maximum petrol prices by 5.9 per cent.

September

It is officially estimated that fiscal fraud and evasion on VAT attains 26 per cent of owed VAT payments.

The government raises maximum petrol prices by 8.1 per cent.

October

The government adopts the State budget for 1991, including a rise in State expenditure and revenues by 6.5 per cent and 10.4 per cent respectively.

The government declares that special bank accounts are used as a shelter for around Ptas 200 billion coming from tax evasion and fraud.

After the adoption of the Budget, Parliament can no longer raise expenditure appropriations during the budget year by more than 5 per cent unless based on a new law.

STATISTICAL ANNEX

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Table A. **Main aggregates of national accounts**

Billion pesetas

	Current prices					1980 prices				
	1985	1986	1987	1988	1989	1985	1986	1987	1988	1989
I. Expenditure										
1. Private consumption	18 137.7	20 435.7	22 696.1	25 277.2	28 439.3	10 273.3	10 644.1	11 216.9	11 833.9	12 529.9
2. Government consumption	3 906.6	4 470.0	5 159.2	5 648.0	6 378.2	2 305.5	2 437.5	2 656.9	2 766.9	2 921.9
3. Gross fixed capital formation	5 275.6	6 124.0	7 386.1	8 891.8	10 673.8	3 131.4	3 444.2	3 947.6	4 508.2	5 105.3
4. Changes in stocks	–34.9	208.0	406.0	538.4	736.5	–19.4	126.5	239.6	300.8	384.1
5. Exports of goods and services	6 518.7	6 475.9	7 023.9	7 741.4	8 462.7	3 460.4	3 505.0	3 710.7	3 987.6	4 194.8
6. *less:* Imports of goods and services	5 914.8	5 766.1	6 956.7	8 182.4	9 819.0	2 868.4	3 341.0	4 023.0	4 783.6	5 548.1
7. Gross domestic product at market prices	27 888.9	31 947.5	35 714.6	39 914.4	44 871.5	16 282.8	16 816.3	17 748.7	18 663.8	19 587.9
II. Value added by sector										
1. Agriculture, forestry and fishing	1 744.4	1 814.5	1 941.5	2 105.9	2 223.8	1 138.4	1 034.9	1 134.2	1 176.2	1 129.2
2. Industry	8 492.8	10 321.7	11 034.4	12 084.2	13 147.4	4 747.0	5 013.5	5 267.6	5 488.8	5 708.4
3. Construction	1 806.1	2 226.6	2 860.0	3 593.9	4 472.2	1 263.2	1 338.1	1 477.5	1 662.2	1 868.3
4. Services	15 845.6	17 584.7	19 878.7	22 130.4	25 028.1	9 134.2	9 429.8	9 869.4	10 336.6	10 882.0
5. Gross domestic product at market prices	27 888.9	31 947.5	35 714.6	39 914.4	44 871.5	16 282.8	16 816.3	17 748.7	18 663.8	19 587.9

	1984	1985	1986	1987	1988	1989
III. National income						
1. Compensation of employees	11 876.2	12 891.0	14 600.4	16 354.4	18 195.5	20 576.2
of which: Wages and salaries	9 100.2	9 757.5	10 998.8	..	..	..
Employers' contributions to social security	2 805.3	3 165.1	3 638.4	..	..	..
Net compensation from abroad	–31.3	–31.5	–36.9	–40.5	–37.0	–39.1
2. Gross operating surplus	11 667.3	13 049.6	14 540.8	16 229.8	18 346.3	20 424.0
Households and private non profit institutions	6 905.0	7 696.2	8 481.2	9 621.2	10 979.0	12 126.8
Corporate and quasi-corporate enterprises	4 614.2	5 184.6	5 865.1	6 396.0	7 127.3	8 028.4
General government	148.1	168.8	194.5	212.6	240.0	268.8
3. Consumption of fixed capital	3 029.6	3 349.2	3 626.5	3 943.3	4 450.0	4 959.8
4. Net national income at factor cost	20 513.9	22 591.4	25 514.7	28 640.9	32 091.8	36 040.4

Source: INE, National Accounts, Madrid 1990.

Table B. **Income and outlay transactions of households**
Billion pesetas

		1984	1985	1986	1987	1988	1989
1.	Compensation of employees	11 907.5	12 922.5	14 637.2	16 394.9	18 232.5	20 615.3
2.	Property and entrepreneurial income, brut	6 905.0	7 696.2	8 481.2	9 621.2	10 979.0	12 126.8
3.	Other income from property	632.4	919.4	1 051.7	980.2	1 185.0	1 333.0
4.	Current transfers	4 550.2	5 200.2	5 865.0	6 371.5	7 015.1	8 050.0
	of which: Social security and social assistance benefits	3 947.5	4 480.1	5 026.6	5 555.9	6 110.3	6 979.9
5.	Change in the actuarial reserves for pensions	15.3	47.0	132.0	148.7	324.0	266.3
6.	Current receipts	24 010.4	26 785.3	30 167.2	33 516.5	37 735.6	42 391.4
7.	Final consumption expenditure	16 370.0	18 137.7	20 435.7	22 696.1	25 277.2	28 439.4
8.	Direct taxes on income and property	1 604.0	1 822.4	1 952.1	2 528.5	3 076.8	3 792.3
9.	Current transfers	3 981.0	4 468.6	5 176.9	5 642.5	6 391.6	7 083.2
	of which: Social security and social assistance contributions	3 057.4	3 384.8	3 855.0	4 335.6	4 792.1	5 517.2
10.	Current disbursements	21 955.0	24 428.7	27 564.7	30 867.1	34 745.6	39 314.9
11.	Disposable income (6-8-9)	18 425.4	20 494.3	23 038.2	25 345.5	28 267.2	31 515.9
12.	Gross saving (11-7)	2 055.4	2 356.7	2 602.5	2 649.4	2 990.0	3 076.5
13.	Saving rate, per cent (12/11)	11.2	11.5	11.3	10.5	10.6	9.8

Source: INE, *National accounts,* Madrid 1990.

Table C. **Public sector accounts**
Billion pesetas

	1985	1986	1987	1988	1989
			1. General government		
Current account					
Receipts					
Gross operating surplus	168.9	194.6	212.6	240.0	268.8
Property income receivable	324.6	332.6	289.7	303.8	381.9
Indirect taxes	2 686.9	3 411.5	3 756.4	4 191.5	4 708.8
Direct taxes on income and wealth	2 378.3	2 638.0	3 700.0	4 128.5	5 342.4
Actual social contributions	3 340.5	3 794.4	4 258.5	4 697.7	5 354.8
Imputed social contributions	319.9	347.7	349.2	354.1	381.7
Miscellaneous current transfers	564.0	665.0	783.8	920.7	991.3
Total	9 783.1	11 383.8	13 350.2	14 836.3	17 429.7
Disbursements					
Final consumption expenditure	3 906.6	4 470.0	5 159.2	5 648.0	6 378.2
Property income payable	899.9	1 202.0	1 255.9	1 343.3	1 546.3
Subsidies	738.7	663.7	637.4	784.0	817.8
Social security benefits	4 151.0	4 655.4	5 124.7	5 633.0	6 449.9
Miscellaneous current transfers	461.9	525.2	576.0	650.4	771.3
Statistical discrepancy	14.1	21.7	12.5	16.5	56.8
Gross saving	–389.1	–154.2	584.5	761.1	1 409.4
Capital account					
Receipts					
Gross saving	–389.1	–154.2	584.5	761.1	1 409.4
Capital transfers	59.8	87.7	78.3	127.5	190.6
Capital taxes	58.4	60.5	72.4	99.0	96.5
Total	–270.9	–6.0	735.2	987.6	1 696.5
Disbursements					
Gross fixed capital formation	994.6	1 135.3	1 189.1	1 503.0	1 913.6
Net purchases of land and intangible assets	50.4	43.9	56.3	67.4	76.3
Capital transfers	640.6	754.4	633.9	678.9	875.0
Net lending (+) or net borrowing (-)	–1 956.5	–1 939.6	–1 144.1	–1 261.7	–1 168.4
(Per cent of GDP)	(-7.0)	(-6.1)	(-3.2)	(-3.2)	(-2.6)

Source: National Institute of Statistics.

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

	1985	1986	1987	1988	1989
			2. Central government		
1. Tax revenue	3 944.8	5 021.3	6 279.0	6 850.9	8 352.1
2. Property and entreprneurial income (gross)	266.0	275.2	213.0	220.0	281.6
3. Current transfers	855.5	936.2	1 087.0	1 210.5	1 343.0
4. Total current revenue	5 066.3	6 232.7	7 579.0	8 281.4	9 976.7
5. Purchase of goods and services	1 872.5	2 096.9	2 391.2	2 461.9	2 714.8
6. Current transfers	2 602.9	3 225.6	4 019.5	4 367.8	5 103.8
7. Subsidies	561.2	506.8	394.8	491.6	469.0
8. Others	776.1	1 059.7	1 082.1	1 153.9	1 318.8
9. Total current expenditure	5 812.7	6 889.0	7 887.6	8 475.2	9 606.4
10. Gross saving[1]	–643.5	–546.6	–188.8	–58.5	519.0
11. Capital taxes	12.5	9.2	8.1	21.2	17.2
12. Capital transfers	18.5	106.0	124.3	167.6	176.0
13. Total capital resources (10 to 12)	–612.5	–431.4	–56.4	130.3	712.2
14. Gross fixed capital formation	325.2	336.0	384.2	476.7	619.8
15. Capital transfers	745.9	904.0	797.8	787.4	1 016.6
16. Total capital expenditure (14 to 15)	1 071.1	1 240.0	1 182.0	1 264.1	1 636.4
17. Overall financial surplus (+) or deficit (-) (13 *less* 16)	–1 683.6	–1 671.4	–1 238.4	–1 133.8	–924.2

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

	1985	1986	1987	1988	1989
	3. Territorial government[1]				
1. Tax revenue	1 130.2	1 067.2	1 226.2	1 516.5	1 757.4
2. Property and entrepreneurial income (gross)	45.4	45.2	53.0	61.5	75.1
3. Current transfers	915.7	1 204.7	1 582.8	1 741.0	1 988.2
4. Total current revenue	2 091.3	2 317.1	2 862.0	3 319.0	3 820.7
5. Purchase of goods and services	1 310.6	1 534.5	1 718.2	1 929.2	2 235.4
6. Current transfers	260.2	259.5	304.4	393.0	468.3
7. Others	290.3	285.6	368.8	428.6	497.2
8. Total current expenditure	1 861.1	2 079.6	2 391.4	2 750.8	3 200.9
9. Gross saving	284.5	310.5	550.4	658.3	722.8
10. Capital taxes	45.9	51.3	64.3	77.8	79.3
11. Capital transfers	254.4	301.1	297.9	299.2	416.4
12. Total capital resources (9 to 11)	584.8	662.9	912.6	1 035.3	1 218.5
13. Gross fixed capital formation	653.2	781.5	774.9	969.9	1 200.7
14. Capital transfers	113.0	123.8	133.8	203.7	306.5
15. Total capital expenditure (13 to 14)	766.2	905.3	908.7	1 173.6	1 507.2
16. Overall financial surplus (+) or deficit (-) (12 *less* 15)	–181.4	–242.4	3.9	–138.3	–288.7
	4. Social security institutions				
1. Social security contributions	3 310.0	3 755.4	4 209.7	4 650.3	5 296.4
2. Transfers	1 118.5	1 375.7	1 653.1	1 847.2	2 144.1
3. Other current receipts	33.8	22.7	38.0	33.8	32.5
4. Total current receipts	4 462.3	5 153.8	5 900.8	6 531.3	7 473.0
5. Purchase of goods and services	723.6	838.6	1 049.8	1 256.9	1 428.0
6. Social security benefits	3 692.8	4 147.6	4 580.8	5 057.6	5 799.0
7. Current subsidies and transfers	87.9	97.5	60.3	70.0	95.4
8. Total current expenditure	4 504.3	5 083.7	5 690.9	6 384.5	7 322.4
9. Gross saving	–30.3	82.0	222.9	161.4	167.7
10. Gross capital formation	49.5	58.7	68.8	106.8	152.9
11. Others	0.8	55.4	51.3	51.1	0.7
12. Total capital expenditure	50.3	114.1	120.1	157.9	153.6
13. Total income from capital	6.0	9.4	5.1	24.0	47.0
14. Overall financial surplus (+) or deficit (-) (9 *plus* 13 *less* 12)	–74.6	–22.7	107.9	27.5	61.1

1. Regional and local government.
Source: Bank of Spain, *Informe Anual, Madrid 1990.*

Table D. **Labour market trends**

	1983	1984	1985	1986	1987	1988	1989
				Thousands			
Civilian labour force[1]	13 656	13 734	13 839	14 071	14 407	14 633	14 819
Civilian employment[1]	11 170	10 966	10 870	11 111	11 452	11 781	12 258
Agriculture	2 090	2 016	1975	1 784	1 728	1 694	1 598
Industry	2 817	2 746	2 653	2 697	2 764	2 804	2 898
Construction	898	831	790	849	932	1 021	1 134
Services	5 365	5 374	5 451	5 781	6 028	6 261	6 629
Employees,total	7 539	7 331	7 330	7 675	7 996	8 357	8 879
Unemployment	2 486	2 767	2 969	2 959	2 955	2 852	2 561
				Per cent			
Participation rate, total	49.5	49.1	48.7	48.9	49.4	49.6	49.5
Men	72.0	71.1	70.1	69.7	69.1	68.1	67.8
Women	29.3	29.2	29.3	30.0	31.5	32.5	32.8
Unemployment rate, total	18.2	20.1	21.5	21.0	20.5	19.5	17.3
Men	16.2	17.9	18.8	18.0	16.8	15.2	13.0
Women	22.6	25.0	27.2	27.4	28.0	27.7	25.4
Less than 25 years old	41.8	45.3	46.7	45.1	43.1	39.9	34.4
25-54 years old	12.5	14.1	15.7	15.3	15.0	14.7	13.7
Over 55 years old	6.3	7.6	8.2	9.0	8.9	8.4	8.2

1. These exclude those who are on compulsory service, but include the professional military as well as marginal workers.
2. Because of a change in the methodology from 1987 data are not strictly comparable with earlier years.
Source: Ministry of Labour and Social Security.

Table E. **Price and wage trends**
Percentage change,annual rate

	1983	1984	1985	1986	1987	1988	1989
	Prices						
Consumer prices	12.2	11.3	8.8	8.8	5.2	4.8	6.8
Food	10.7	12.6	9.5	10.6	5.0	3.7	7.7
Non-food	13.0	10.6	8.4	7.9	5.4	5.4	6.3
Energy	16.2	10.5	4.5	–6.2	–3.9	–0.6	2.5
Non-energy	11.9	11.4	9.1	9.9	5.8	5.1	7.0
Non-food and non-energy	12.6	10.6	8.9	9.8	5.8	5.4	7.1
Industrial prices	14.0	12.2	8.0	0.9	0.8	3.0	4.2
Food	11.2	13.5	6.9	4.2	1.7	1.9	7.0
Non-food	13.7	10.0	7.7	5.6	4.8	4.0	3.5
Investment goods	13.1	10.1	8.3	6.2	5.0	4.7	4.6
Consumer goods	12.9	11.2	7.7	5.1	3.9	3.3	4.5
Intermediate goods	15.0	13.4	8.1	–3.1	–2.4	2.2	3.8
of which: Energy	19.0	8.4	8.8	–11.1	–7.0	0.5	2.9
Unit value of exports	18.5	12.3	6.7	–3.5	2.6	4.4	4.5
Unit value of imports	20.7	11.2	2.3	–17.4	–2.2	–1.4	1.8
Non-energy	23.2	12.1	2.5	–2.0	0.3	1.5	0.4
	Wages						
Average increase in contractual wages	11.4	7.8	7.9	8.2	6.5	6.4	7.7
Monthly earnings per employee	13.7	9.9	9.3	10.9	7.8	7.5	6.6
Daily pay in agriculture	9.0	8.8	7.9	9.0	6.5	5.1	9.2
Salary cost per head in construction (including social security contributions)	12.2	10.6	7.3	9.4	7.3	7.0	9.9

Sources: Bank of Spain, *Boletin Estadistico* and Ministry of Economy and Commerce, *Sintesis Mensual de Indicatores Economicos.*

Table F. **Money and credit**

Billion pesetas

	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2
	1. Monetary indicator (quarterly changes)						
M1	571.9	–107.0	744.9	95.6	714.7	56.8	1 494.8
Of which:							
Currency in circulation	304.0	–64.1	250.3	115.1	324.2	–209.0	256.0
Sight deposits	302.0	–68.1	493.5	–28.6	456.9	192.3	1 297.9
Saving deposits	427.1	–134.2	273.9	173.1	195.3	–306.6	146.8
Time deposits	17.9	356.5	146.4	407.7	134.2	457.3	100.6
M3	1 016.8	115.3	1 165.2	676.3	1 044.3	207.5	1 742.1
Other liquid assets in the hands of the public	229.1	1 188.8	–495.3	96.6	–140.8	–4.9	34.3
ALP (liquid assets in the hands of the public)	1 245.9	1 304.1	669.9	772.9	903.5	202.6	1 776.6

	1984	1985	1986	1987	1988	1989
	2. Monetary indicators (end of period, levels)					
A. ALP (liquid assets in the hands of the public)	23 083	26 072	29 362	33 547	37 351	41 413
a) M1	5 650	6 327	7 152	8 238	9 707	11 155
Of which: Currency in circulation	1 862	2 081	2 402	2 736	3 241	3 836
Sight deposits	3 788	4 246	4 750	5 502	6 466	7 319
b) M2	10 427	11 627	13 127	14 666	16 950	18 907
Of which: Saving deposits	4 777	5 300	5 975	6 428	7 244	7 752
c) M3	20 986	22 135	23 001	24 781	27 343	30 344
Of which: Time deposits	10 559	10 508	9 874	10 115	10 393	11 438
d) Other liquid assets in the hands of the public	2 098	3 937	6 361	8 766	10 008	11 069
B. Non-monetary liabilities	2 123	2 554	2 832	3 429	4 851	6 722
a) General government	1 157	1 266	1 269	1 419	1 776	2 817
b) Private sector	966	1 288	1 563	2 010	3 075	3 905
	3. Credit aggregates (end of period, levels)					
C. Internal credit	24 635	28 287	32 060	36 650	42 280	48 542
a) Credit to general government	6 401	8 694	10 718	12 183	13 638	15 269
Of which: Bank credits	2 369	3 041	2 592	2 446	2 393	2 887
Securities	5 605	6 997	9 180	10 558	10 672	11 268
Money market credits	464	772	1 047	1 303	1 073	1 727
Other	–2 037	–2 116	–2 101	–2 124	–500	–613
b) Credit to private sector	17 644	18 907	20 723	23 895	28 121	32 861
Of which: Bank credits	15 912	17 299	19 054	22 045	25 622	30 753
Securities	1 614	1 516	1 638	1 588	1 850	1 936
Money market credits	118	92	31	262	649	172
c) Credit to public enterprises	590	686	619	571	520	412
D. Credit to foreign sector	1 251	1 417	1 687	2 755	3 066	2 993

Source: Bank of Spain.

Table G. **Balance of payments**[1]
Million dollars

	1982	1983	1984	1985	1986	1987	1988[3]	1989[3]
Imports (fob)	30 579	27 463	26 939	27 740	33 164	46 234	57 573	67 777
Exports (fob)	21 321	19 874	22 660	23 550	26 714	33 399	39 570	43 221
Trade Balance	–9 258	–7 589	–4 279	–4 190	–6 450	–12 835	–18 003	–24 556
Services, net	3 430	3 883	5 228	5 834	9 245	10 150	9 805	9 013
of which: Tourism	6 153	6 003	6 922	7 087	10 442	12 827	14 233	13 172
Investment income	–2 328	–2 463	–2 395	–1 806	–1 997	–2 753	–3 522	–2 970
Transfers, net	1 585	1 163	1 089	1 099	1 126	2 615	4 508	4 607
Current balance	–4 242	–2 542	2 035	2 744	3 922	–70	–3 690	–10 935
Private long-term capital	788	2 217	2 678	–1 274	489	9 301	10 324	16 451
Official long-term capital	992	994	469	–36	–2 131	–101	–875	503
Total long-term capital	1 780	3 211	3 147	–1 310	–1 642	9 200	9 449	16 954
Basic balance	–2 462	669	5 182	1 434	2 280	9 130	5 759	6 019
Short-term capital[2]	743	356	515	107	134	1 855	456	–900
Monetary movements (increase in assets=-)	3 672	899	–3 076	1 305	–1 245	–12 430	–7 226	–3 905
Changes in reserves (increase in reserves=-)	3 274	48	–4 795	2 213	–2 261	–12 888	–8 247	–4 868
Errors and omissions	–1 218	–1 557	–2 091	–1 875	63	–1 294	–2 355	–2 609

1. Transactions basis.
2. Including bank's local accounts in foreign currency.
3. Provisional.

Source: Ministry of Economy and Commerce.

Table H. **Foreign trade**[1]

1. By commodity
Billion pesetas

	1982	1983	1984	1985	1986	1987	1988[2]	1989[2]
				1. Imports, cif				
1. Live animals and related products	84.74	86.19	100.61	117.16	188.86	243.99	283.47	350.23
2. Vegetables	259.51	324.38	308.47	274.39	285.18	248.93	260.79	275.87
3. Oils and fats	11.08	12.63	17.89	19.92	21.77	23.74	25.34	34.84
4. Food products, beverages and tobacco	78.84	120.54	144.18	152.56	168.28	201.61	257.46	276.66
5. Mineral products	1 455.34	1 764.66	1 852.45	1 951.69	1 037.31	1 082.56	909.83	1 139.60
6. Chemicals and related products	230.21	283.33	333.37	373.47	463.33	541.68	600.61	705.22
7. Artificial plastics materials	76.99	98.67	119.13	137.21	179.28	220.94	256.01	315.60
8. Leather, leather manufactures	29.33	33.68	57.41	68.32	73.14	98.50	103.60	108.01
9. Cork and wood products	31.54	41.53	45.25	55.93	62.39	77.29	99.44	129.62
10. Ruper, articles of paper pulp	63.54	65.72	84.73	96.74	125.26	155.03	191.33	234.29
11. Textile and related products	78.47	101.00	111.14	129.42	164.21	215.64	256.37	346.49
12. Footwear, hat-making	5.38	6.58	6.45	8.50	12.34	17.85	23.89	24.57
13. Mineral manufactures, plaster, glass	27.37	32.23	34.81	40.11	52.37	69.09	79.68	97.70
14. Pearls, precious stones, jewellery	42.99	58.39	50.74	49.41	25.85	26.92	298.12	41.89
15. Manufactures of metal	213.82	223.99	274.15	344.16	391.51	405.46	251.27	630.42
16. Machinery and electrical machinery	462.82	545.58	658.81	775.11	979.22	1 335.95	1 769.53	2 104.73
17. Transport equipment	163.86	179.42	226.00	275.44	413.99	688.50	956.64	1 181.70
18. Optical instruments, photographic apparatus, sound equipment	133.99	171.79	174.47	200.77	261.60	309.83	258.28	308.07
19. Arms and ammunition	2.02	1.49	0.99	1.40	2.18	1.90	2.63	3.04
20. Furniture, toys, sporting goods	21.04	23.31	23.68	27.72	39.85	61.80	98.97	110.64
21. Works of art, antiques	1.92	1.92	2.23	10.54	6.64	24.17	6.16	39.16
00. Not classified			3.16	4.75	0.05			
Total	3 474.79	4 177.02	4 626.96	5 109.96	4 954.55	6 051.38	6 989.42	8 458.35
				2. Exports, fob				
1. Live animals and related products	31.82	41.36	48.69	55.05	58.42	70.75	89.40	122.40
2. Vegetables	179.82	209.65	273.36	285.86	350.25	414.19	445.11	451.51
3. Oils and fats	31.51	45.73	70.56	80.52	47.23	64.07	78.70	48.15
4. Food products, beverages and tobacco	126.19	162.29	205.21	206.40	189.69	218.32	218.33	232.94
5. Mineral products	238.77	344.94	429.65	457.56	300.69	322.18	256.52	328.46
6. Chemicals and related products	138.05	181.28	241.71	282.54	253.33	299.19	318.90	336.27
7. Artificial plastics materials	78.02	101.34	138.46	158.12	154.71	186.47	223.52	242.86
8. Leather, leather manufactures	35.33	40.92	55.16	66.41	73.63	88.56	78.40	79.53
9. Cork and wood products	30.78	40.47	48.82	48.98	43.36	44.02	43.58	48.47

10.	Ruper, articles of paper pulp	85.24	95.26	114.40	123.32	126.00	144.90	156.16	170.10
11.	Textile and related products	102.32	135.71	182.75	195.00	178.30	196.71	209.99	212.08
12.	Footwear, hat-making	67.32	91.74	128.67	145.44	138.29	140.85	134.70	136.59
13.	Mineral manufactures, plaster, glass	56.02	77.87	96.66	96.32	100.43	114.72	136.16	157.87
14.	Pearls, precious stones, jewellery	21.41	49.41	49.66	36.10	27.73	27.36	240.42	29.03
15.	Manufactures of metal	343.95	419.34	550.61	630.44	468.64	421.56	258.35	538.07
16.	Machinery and electrical machinery	287.29	295.57	405.91	485.16	505.85	567.17	633.31	775.99
17.	Transport equipment	320.72	445.95	596.17	628.09	664.51	749.32	926.01	1 109.79
18.	Optical instruments, photographic apparatus, sound equipment	16.72	19.71	21.00	29.59	34.18	38.18	39.45	45.69
19.	Arms and ammunition	6.95	4.48	5.87	6.29	5.07	6.11	9.74	7.29
20.	Furniture, toys, sporting goods	33.47	42.18	56.36	61.32	68.00	80.32	110.80	115.74
21.	Works of art, antiques	2.23	1.51	1.06	6.81	17.02	16.90	51.95	68.89
00.	Not classified			22.71	23.41	9.47			
	Total	2 233.94	2 846.71	3 720.74	4 085.32	3 805.33	4 211.85	4 659.50	5 257.72

1. Customs clearance basis.
2. From 1988, new classification.

Source: Ministry of Economy and Commerce, Bal.

Table H. **Foreign trade**[1]

2. By geographical area

Billion pesetas

	1983	1984	1985	1986	1987	1988	1989
	1. Import, cif						
Total	4 177.0	4 630.1	5 115.7	4 954.6	6 051.4	6 989.4	8 458.4
OECD	2 251.5	2 504.9	2 894.3	3 562.7	4 482.8	5 434.4	6 573.8
Of which:							
United States	495.5	519.1	556.1	488.3	501.3	627.6	765.3
Japan	140.5	142.2	174.0	243.8	271.3	358.9	404.8
Canada	23.6	22.1	21.3	19.4	26.5	30.6	40.9
EEC, total	1 373.2	1 582.8	1 870.1	2 502.3	3 300.1	3 969.2	4 828.4
Of which:							
United States	256.7	281.0	329.9	382.4	424.6	497.7	549.4
France	343.8	398.0	471.3	586.6	773.4	942.3	1 155.5
Germany	366.3	458.4	538.1	749.4	973.8	1 130.1	1 359.0
Italy	180.9	195.2	233.0	359.7	533.2	673.7	881.7
Portugal	24.6	36.0	10.2	63.7	100.9	143.7	196.7
Non OECD countries	1 925.5	2 125.2	2 221.4	1 391.9	1 568.6	1 555.0	1 884.6
Of which:							
COMECON	124.1	144.1	119.3	86.2	156.2	179.7	212.9
OPEC	1 038.0	1 118.7	1 037.8	553.3	572.3	466.4	626.2
Latin America	470.5	502.6	533.0	332.9	358.9	357.3	389.2
Other	292.9	359.8	531.3	419.5	481.2	551.6	656.3
	2. Exports, fob						
Total	2 846.7	3 743.5	4 108.8	3 815.9	4 211.8	4 659.5	5 257.6
OECD	1 846.7	2 569.5	2 890.5	2 952.4	3 352.6	3 785.0	4 277.1
Of which:							
United States	206.7	355.6	408.0	348.7	342.3	367.3	387.4
Japan	43.6	58.5	53.5	42.4	46.3	55.0	71.9
Canada	22.2	36.7	42.0	43.2	44.2	54.1	44.9
EEC, total	1 420.8	1 903.2	2 139.2	2 296.6	2 680.9	3 055.9	3 509.8
Of which:							
United States	220.6	336.1	348.5	336.2	398.1	455.4	524.2
France	445.5	555.9	636.9	686.7	784.6	864.0	1 024.6
Germany	259.6	351.5	391.5	446.0	500.3	560.9	623.6
Italy	150.6	222.4	288.2	302.7	380.1	448.2	508.1
Portugal	54.4	88.7	89.5	129.1	190.2	259.3	327.6
Non OECD countries	1 000.0	1 174.0	1 218.3	863.5	859.2	874.5	980.5
Of which:							
COMECON	74.3	93.7	123.3	69.6	66.6	59.1	80.9
OPEC	394.8	339.7	295.9	210.0	189.4	210.9	202.5
Latin America	150.9	165.9	199.8	173.3	140.9	136.9	188.1
Other	380.0	574.7	599.3	410.6	462.3	467.6	509.0

1. Customs basis.

Source: Ministry of Economy and Commerce.

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

	1985	1986	1987	1988	1989
Liabilities	9 167.0	9 159.8	10 377.4	12 447.8	15 162.5
Monetary institutions	3 619.8	3 797.6	4 138.6	4 875.1	5 728.8
Bank of Spain	46.8	47.5	45.8	45.6	43.1
Banking system	3 573.0	3 750.1	4 092.8	4 829.5	5 685.7
Government	735.4	492.2	557.7	686.7	958.1
Private sector	4 767.7	4 811.9	5 632.2	6 831.1	8 409.8
Assets	4 406.1	6 011.1	5 748.9	6 034.7	7 271.8
Monetary institutions	4 959.1	5 325.9	6 711.7	7 748.4	8 390.1
Bank of Spain	1 714.9	1 945.5	3 613.2	4 578.2	4 908.4
Banking system	3 244.2	3 380.4	3 098.5	3 170.2	3 481.7
Government	38.4	68.5	97.9	113.7	117.9
Private sector	860.7	831.2	711.8	911.5	1 156.1

Source: Bank of Spain.

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STRUCTURAL ANNEX

Table J. **Labour market**

	1975	1980	1985	1989
Labour supply				
Participation rate[1]				
Total	62.4	59.6	55.0	56.1
Men	91.0	87.6	83.0	81.1
Women	33.8	33.8	34.8	41.3
Structure of the labour force according to education level[2]				
Illiterate	4.1	3.2	2.3	1.7
Without studies	12.9	11.4	10.2	10.8
Primary degree	62.6	59.2	48.4	38.6
Secondary degree	17.6	22.9	34.8	43.5
University degree	2.7	3.3	4.4	5.4
Employment structure[3]				
Agriculture	22.1	19.2	18.2	13.0
Industry	38.3	36.2	31.9	32.9
Services	39.7	44.7	49.9	54.0
Unemployment[2]				
Total	4.3	11.5	21.5	17.3
Two years or more	..	2.1	8.7	9.6

1. Per cent of population of working age.
2. Per cent of total labour force.
3. Per cent of total employment.

Source: Ministry of Labour and Social Security.

Table K. **Public sector**

	1975	1980	1985	1989
	Per cent of GDP			
A. Structure of government expenditure and tax receipts				
Expenditure, total	24.6	32.4	41.5	40.9
Current consumption	10.1	12.7	14.0	14.2
Transfers to households	9.8	14.2	16.6	16.2
Subsidies	1.3	2.1	2.6	1.9
Fixed investment	2.7	1.9	3.7	4.4
Other	0.7	1.5	4.5	4.2
Tax receipts, total	19.8	26.3	33.1	36.8
Income tax	4.3	7.0	8.5	11.9
Of which: Personal income tax	2.1	5.3	6.5	8.5
Corporate profits tax	2.2	1.7	2.0	3.5
Social security contributions	8.6	12.7	14.9	14.4
Taxes on goods and services	6.9	6.6	9.6	10.5
Memorandum item:				
Net lending	-0.5	-2.6	-7.0	-2.8

	1979[1]	1985	1988
	Per cent		
B. Taxation			
Personal income taxation			
Lowest marginal tax rate	15.0	8.0	25.0
Highest marginal tax rate	65.0	66.0	56.0
Number of brackets	28.0	34.0	16.0
Marginal income tax rate (for single average production worker)	17.0	33.0	27.0
Average income tax rate (for single average production worker)	11.0	12.0	11.0
Social security contributions			
Marginal contribution rate (for single average production worker)	33.1	28.8	28.8
Of which: Employees' contribution rate	5.0	4.8	4.8
Employers' contribution rate	28.1	24.0	24.0
Corporate income tax rate	35.0	35.0	35.0
VAT standard rate	n.a.	n.a.	12.0

1. 1981 data for social security contributions.
Sources: OECD, *National accounts* and OECD, *The tax/benefit position of production workers.*

Table L. **Production structure and performance indicators**

	1980-84	1985	1986	1987	1988	1989
A. Production structure (current prices)[1]						
Agriculture	6.6	6.4	5.8	5.5	5.4	5.0
Manufacturing	30.9	31.1	32.8	31.4	30.8	29.7
Construction	7.8	6.6	7.1	8.1	9.1	10.1
Services	54.8	55.9	54.4	55.0	54.7	55.1
B. Production structure (1980 prices)[1]						
Agriculture	6.7	7.1	6.3	6.5	6.4	5.9
Manufacturing	30.2	29.6	30.3	30.2	30.0	29.7
Construction	8.5	7.9	8.1	8.5	9.1	9.7
Services	54.6	55.4	55.3	54.8	54.5	54.7
C. Productivity growth[2]						
Agriculture	5.9	5.2	0.6	10.8	5.4	1.8
Manufacturing	4.1	5.7	3.9	0.6	2.2	..
Construction	5.4	7.4	−1.3	−1.3	2.3	..
Services	1.6	1.1	−3.1	−2.0	−0.1	−0.6
D. Sectoral distribution of foreign direct investment projects[1]						
Manufacturing and mining	63.4	63.3	61.4	52.6	36.9	41.9
Trade and tourism	16.2	14.0	15.3	18.9	12.4	14.4
Financial sector	13.7	17.8	19.3	24.4	43.3	37.4
Others	6.5	4.9	4.0	4.1	7.4	6.3
E. Sectoral distribution of industrial employment[1]						
Basic metals	3.1	3.2	3.0	2.6	2.6	2.4
Non-metallic minerals	6.6	6.0	6.1	6.1	6.2	6.4
Chemicals	6.4	6.4	6.4	5.7	5.5	6.0
Metal products	11.0	10.8	11.1	11.7	12.1	12.3
Electrical machinery	8.4	8.1	7.8	8.0	8.0	8.4
Electronical machinery and equipment	2.5	3.0	3.3	3.1	3.3	3.1
Automobiles	5.3	5.9	6.0	6.1	6.1	6.1
Other transport equipment	4.3	3.7	3.5	3.3	3.4	3.2
Food, beverages and tobacco	14.4	16.1	15.4	15.1	15.0	14.9
Textiles and clothing	18.9	18.0	17.7	18.6	18.3	17.1
Others	19.2	18.8	19.9	19.8	19.6	20.1

1. Per cent of total.
2. Sectoral production/sectoral employment.

Sources: Ministry of Labour and social security; Bank of Spain, Informe annual; OECD, *Labour Force Statistics.*

BASIC STATISTICS:

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France
Population									
Total	Thousands	1988	16 538	7 596	9 879	25 950	5 130	4 947	55 873
Inhabitants per sq.km	Number	1988	2	91	324	3	119	15	102
Net average annual increase over previous 10 years	%	1987	1.4	0.0	0.0	1.0	0.1	0.4	0.4
Employment									
Total civilian employment (TCE)[2]	Thousands	1988	7 366	3 310	3 660 (87)	12 245	2 660	2 420	21 179
of which: Agriculture	% of TCE		5.9	8.1	2.7	4.5	5.8	9.8	6.8
Industry	% of TCE		26.4	37.4	28.0	25.6	27.2	30.6	30.3
Services	% of TCE		67.8	54.5	69.3	69.8	67.1	59.6	62.9
Gross domestic product (GDP)									
At current prices and current exchange rates	Bill US $	1988	247.0	127.2	150.0	484.6	107.6	105.3	949.9
Per capita	US $		14 937	16 748	15 180	18 675	20 926	21 287	17 002
At current prices using current PPP's[3]	Bill US $	1988	221.3	94.8	124.5	477.8	70.2	68.1	758.6
Per capita	US $		13 383	12 482	12 599	18 413	13 655	13 772	13 577
Average annual volume growth over previous 5 years	%	1988	4.5	2.2	2.2	4.7	2.3	3.5	2.2
Gross fixed capital formation (GFCF)	% of GDP	1988	25.0	23.5	17.8	22.0	18.4	25.0	20.1
of which: Machinery and equipment	% of GDP		12.1	9.9	8.0	7.5	7.5	10.1	8.8
Residential construction	% of GDP		5.9	4.9	4.1	7.3	4.2	6.5	5.2
Average annual volume growth over previous 5 years	%	1988	6.1	3.8	5.4	8.3	5.6	3.1	3.0
Gross saving ratio[4]	% of GDP	1988	22.4	25.2	19.3	20.4	16.0	23.8	20.5
General government									
Current expenditure on goods and services	% of GDP	1988	17.4	18.4	15.3	18.8	25.8	20.2	18.6
Current disbursements[5]	% of GDP	1988	32.0	45.8	49.0	41.7	57.3	35.9	46.9
Current receipts	% of GDP	1988	34.3	46.8	44.3	40.4	59.5	40.3	47.1
Net official development assistance	% of GNP	1988	0.41	0.21	0.44	0.48	0.88	0.55	0.73
Indicators of living standards									
Private consumption per capita using current PPP's	US $	1988	7 703	6 952	7 951	10 666	7 283	7 353	8 198
Passenger cars, per 1 000 inhabitants	Number	1988	497 (85)	370	349	454 (86)	321	344	394
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)	414 (83)	664	783	615	614
Television sets, per 1 000 inhabitants	Number	1985	..	300 (81)	303 (84)	471 (80)	392	370 (86)	394 (86)
Doctors, per 1 000 inhabitants	Number	1985	..	1.7 (82)	2.8 (84)	1.8 (82)	2.5 (84)	2.3 (86)	2.2 (86)
Infant mortality, per 1 000 live births	Number	1985	9.2 (84)	11.0	9.4	9.1 (83)	7.9	5.8 (86)	7.0 (86)
Wages and prices (average annual increase over previous 5 years)									
Wages (earnings or rates according to availability	%	1988	5.3	4.5	2.7	3.8	6.0	7.9	4.8
Consumer prices	%	1988	7.1	2.8	3.0	4.2	4.6	5.1	4.3
Foreign trade									
Exports of goods, fob*	Mill US $	1988	32 852	31 044	92 124[7]	111 600	27 108	22 176	167 508
As % of GDP	%		13.3	24.4	58.8	23.0	25.2	21.1	17.6
Average annual increase over previous 5 years	%		10.3	15.0	12.1	8.7	11.0	12.1	12.0
Imports of goods, cif*	Mill US $	1988	33 276	36 564	92 436[7]	106 512	25 920	21 972	173 016
As % of GDP	%		13.4	28.7	59.0	22.0	24.1	20.9	18.2
Average annual increase over previous 5 years	%		12.4	13.5	10.8	11.6	9.7	11.3	11.3
Total official reserves[6]	Mill SDR's	1988	10 105	5 475	6 935[7]	11 437	8 000	4 733	18 849
As ratio of average monthly imports of goods	ratio		3.6	1.8	0.9	1.3	3.7	2.6	1.3

	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands
Population								
Total	61 451	10 016	250	3 538	57 441	122 610	375	14 760
Inhabitants per sq.km	247	76	2	50	191	329	144	396
Net average annual increase over previous 10 years	0.0	0.7	1.0	0.8	0.3	0.7	0.3	0.6
Employment								
Total civilian employment (TCE)[2]	26 825	3 598 (87)	135	1 078	20 937	60 110	174	5 934
of which: Agriculture	4.0	26.6	10.4	15.4	9.8	7.9	3.4	4.8
Industry	39.8	27.2	31.1	27.8	32.4	34.1	31.6	26.4
Services	56.1	46.2	58.5	56.8	57.7	58.0	65.0	68.8
Gross domestic product (GDP)								
At current prices and current exchange rates	1 201.8	52.5	5.9	32.5	828.9	2 848.9	6.6	228.3
Per capita	19 581	5 244	24 031	9 182	14 430	23 235	17 592	15 461
At current prices using current PPP's[3]	867.5	67.9	4.0	28.8	744.4	1 751.5	5.8	189.1
Per capita	14 134	6 786	16 087	8 131	12 960	14 285	15 528	12 807
Average annual volume growth over previous 5 years	2.5	2.1	4.4	3.0	3.0	4.5	4.1	2.3
Gross fixed capital formation (GFCF)	19.9	17.4	18.8	17.0	19.9	30.5	24.2	21.4
of which: Machinery and equipment	8.8	7.1	5.8	9.6	10.0	11.7	10.5	10.3
Residential construction	5.2	4.7	4.0	3.7 (87)	5.0	6.3	4.4	5.7
Average annual volume growth over previous 5 years	2.4	−1.3	5.3	−2.6	3.8	7.9	6.0	6.0
Gross saving ratio[4]	24.6	16.7	16.2	18.0	20.7	33.5	58.8	23.5
General government								
Current expenditure on goods and services	19.5	20.6	18.6	16.7	17.2	9.4	17.0	15.7
Current disbursements[5]	43.1	45.7	30.5	50.0 (87)	46.1	26.8	46.2 (86)	53.3
Current receipts	43.7	35.1	35.7	43.8 (87)	39.9	34.3	54.2 (86)	52.2
Net official development assistance	0.39	..	0.05	0.20	0.37	0.31	0.10	0.98
Indicators of living standards								
Private consumption per capita using current PPP's	7 747	4 652	9 968	4 708	7 930	8 192	8 873	7 615
Passenger cars, per 1 000 inhabitants	457	130	488	201 (86)	408	241	443	348
Telephones, per 1 000 inhabitants	641 (86)	373	525 (83)	235 (83)	448	535 (83)	425 (86)	410 (86)
Television sets, per 1 000 inhabitants	377 (86)	158 (80)	303	181 (80)	244	250 (80)	336 (83)	317 (86)
Doctors, per 1 000 inhabitants	2.8 (87)	2.8 (83)	2.4 (84)	1.3 (82)	3.6	1.3 (82)	1.9 (86)	2.2 (84)
Infant mortality, per 1 000 live births	9.1	14.1	5.7	8.9	10.9	5.9 (84)	9.0	9.6 (86)
Wages and prices (average annual increase over previous 5 years)								
Wages (earnings or rates according to availability	3.8	17.2	..	6.4	7.9	2.9	..	2.0
Consumer prices	1.2	18.1	25.7	4.6	7.1	1.1	2.3	1.0
Foreign trade								
Exports of goods, fob*	323 244	5 484	1 416	18 576	128 484	264 864	..[8]	103 056
As % of GDP	26.9	10.4	23.8	57.2	15.5	9.3	..	45.1
Average annual increase over previous 5 years	13.8	6.6	13.7	16.6	12.1	12.5	..	9.8
Imports of goods, cif*	250 332	12 408	1 584	15 444	138 588	187 668	..	99 288
As % of GDP	20.8	23.6	26.7	47.5	16.7	6.6	..	43.5
Average annual increase over previous 5 years	10.4	7.6	14.1	11.0	11.5	8.3	..	10.4
Total official reserves[6]	43 486	2 690	216	3 780	25 798	71 879	..	11 945
As ratio of average monthly imports of goods	2.1	2.6	1.6	2.9	2.2	4.6	..	1.4

	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population										
Total	3 326	4 209	10 305	38 996	8 436	6 672	53 969	57 065	246 329	23 560
Inhabitants per sq.km	12	13	112	77	19	161	69	233	26	92
Net average annual increase over previous 10 years	0.5	0.3	0.5	0.7	0.2	0.5	2.2	0.1	1.0	0.8
Employment										
Total civilian employment (TCE)[2]	1 503	2 079	4 280	11 780	4 399	3 481	16 550	25 555	114 968	..
of which: Agriculture	10.4	6.4	20.7	14.4	3.8	5.7	50.6	2.3	2.9	..
Industry	26.0	26.4	35.1	32.5	29.5	35.1	20.4	29.8	26.9	..
Services	63.6	67.1	44.2	53.1	66.7	59.2	29.0	68.0	70.2	..
Gross domestic product (GDP)										
At current prices and current exchange rates	41.8	89.4	41.7	340.1	181.8	183.7	70.7	822.8	4 817.8	62.8
Per capita	12 568	21 241	4 265	8 722	21 546	27 581	1 305	14 413	19 558	2 664
At current prices using current PPP's[3]	36.5	67.0	65.9	363.6	124.4	110.8	235.6	765.1	4 817.8	..
Per capita	10 972	15 916	6 737	9 325	14 743	16 641	4 348	13 402	19 558	..
Average annual volume growth over previous 5 years	1.8	3.4	2.7	3.6	2.7	2.7	6.0	3.6	4.4	..
Gross fixed capital formation (GFCF)	19.7	29.1	26.8	22.5	19.7	26.6	24.0	19.2	17.1	17.2
of which: Machinery and equipment	8.8	9.0	9.8 (86)	7.8 (87)	8.9	9.3	9.3 (85)	9.3	7.9	..
Residential construction	4.3	5.0	4.8 (86)	4.1 (87)	4.8	17.3[9]	3.3 (85)	4.0	4.8	..
Average annual volume growth over previous 5 years	0.0	3.1	3.2	7.1	5.6	6.3	6.3	7.2	6.8	..
Gross saving ratio[4]	17.0	22.7	25.3	22.7	18.2	32.8	26.0	16.4	15.2	..
General government										
Current expenditure on goods and services	17.1	21.0	16.0	14.3	26.0	12.8	8.8	19.9	18.3	14.2
Current disbursements[5]	..	49.7	40.4 (86)	36.1 (86)	57.2	30.4	..	41.2 (87)	34.8	..
Current receipts	..	55.1	37.6 (86)	35.0 (86)	61.9	34.8	..	40.7 (87)	31.5	..
Net official development assistance	0.27	1.10	0.08	0.06	0.88	0.32	..	0.30	0.20	..
Indicators of living standards										
Private consumption per capita using current PPP's	6 830	8 426	4 387	5 872	7 821	9 756	2 817	8 456	12 999	1 333*
Passenger cars, per 1 000 inhabitants	490	388	135 (82)	263	400	419	18 (82)	318	559	121 (83)
Telephones, per 1 000 inhabitants	646	622 (84)	166 (83)	381	890 (83)	1 334	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	291	346 (86)	140 (80)	256 (82)	390	337	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	2.4	2.2	1.8 (82)	3.4 (86)	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.0 (85)	1.6 (82)
Infant mortality, per 1 000 live births	10.8	8.5 (86)	17.8	7.0 (84)	6.8	6.9	..	9.4	10.4 (86)	31.7 (83)
Wages and prices (average annual increase over previous 5 years)										
Wages (earnings or rates according to availability	8.9	9.4	16.4	9.3	8.0	..	..	8.4	2.8	96.5
Consumer prices	11.3	6.9	15.6	7.8	5.9	2.1	47.8	4.7	3.5	101.3
Foreign trade										
Exports of goods, fob*	8 784	22 452	10 476	40 236	49 764	50 448	11 604	144 540	322 428	12 598
As % of GDP	21.0	25.1	25.1	11.8	27.4	27.5	16.4	17.6	6.7	20.0
Average annual increase over previous 5 years	10.2	4.6	18.0	15.3	12.6	14.5	15.2	9.5	9.9	9.5
Imports of goods, cif*	7 320	23 088	15 744	60 432	45 792	56 388	14 412	189 012	440 952	13 154
As % of GDP	17.5	25.8	37.8	17.8	25.2	30.7	20.4	23.0	9.2	21.0
Average annual increase over previous 5 years	6.5	11.4	14.2	15.8	11.9	14.1	8.9	13.7	11.3	6.0
Total official reserves[6]	2 132	9 510	3 810	27 550	6 310	17 985	1 758	32 773	27 305	1 774
As ratio of average monthly imports of goods	3.5	4.9	2.9	5.5	1.7	3.8	1.5	2.1	0.7	1.6

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

SOURCES: Population and Employment: OECD *Labour Force Statistics.*
GDP, GFCF, and General Government: OECD National Accounts, Vol. I and OECD Economic Outlook, Historical Statistics.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators.*

EMPLOYMENT OPPORTUNITIES

Economics and Statistics Department, OECD

The Economics and Statistics Department of the OECD offers challenging and rewarding opportunities to economists interested in applied policy analysis in an international environment. The Department's concerns extend across the entire field of economic policy analysis, both macroeconomic and microeconomic, and it is also responsible for the collection, processing and dissemination of a wide range of internationally consistent statistics. On the economic side, its main task is to provide, for discussion by committees of senior officials from Member countries, documents and papers dealing with current policy concerns. Within this programme of work, three major responsibilities are:

- To prepare regular surveys of the economies of individual Member countries;
- To issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- To analyse specific policy issues in a medium-term context for the OECD as a whole, and to a lesser extent for the non-OECD countries.

The documents prepared for these purposes, together with much of the Department's other economic work and its statistical output, appear in published form in the *OECD Economic Outlook, OECD Economic Surveys, OECD Economic Studies,* the Department's Working Paper series, and an extensive list of statistical publications.

The Department maintains a world econometric model, INTERLINK, which plays an important role in the preparation of the policy analyses and twice-yearly projections. The availability of extensive cross-country data bases and good computer resources facilitates comparative empirical analysis, much of which is incorporated into the model.

The Department is made up of about 90 professional economists and statisticians from a variety of backgrounds from all Member countries. Most projects are done by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange; and all professional staff have the opportunity to contribute actively to the programme of work.

Skills ESD is looking for

a) Solid competence in using the tools of both microeconomic and macroeconomic theory to answer policy questions. In our experience this requires the equivalent of a PhD in economics or substantial relevant professional experience to compensate for a lower degree.

b) Solid knowledge of economic statistics and quantitative methods; this includes how to identify data, estimate structural relationships, apply and interpret basic techniques of time series analysis, and test hypotheses. It is essential to be able to interpret results sensibly in an economic policy context.

c) A keen interest in and knowledge of policy issues, economic developments and their political/social contexts.

d) Interest and experience in analysing questions posed by policy-makers and presenting the results to them effectively and judiciously. Thus, work experience in government agencies or policy research institutions is an advantage.

e) The ability to write clearly, effectively, and to the point. The OECD is a bilingual organisation with French and English as the official languages. Candidates must have excellent knowledge of one of these languages, and some knowledge of the other. Knowledge of other languages might also be an advantage for certain posts.

f) For some posts, expertise in a particular area may be important, but a successful candidate can expect to be asked to contribute in a broader range of topics relevant to the work of the Department. Thus, except in rare cases, the Department does not recruit narrow specialists.

g) The Department works on a tight time schedule and strict deadlines. Moreover, much of the work in the Department is carried out in small groups of economists. Thus, the ability to work with other economists from a variety of professional backgrounds, and to produce work on time is important.

General Information

The salary for recruits depends on educational and professional background but positions carry a basic salary from FF 232 476 or FF 286 848 for Administrators (economists) and from FF 334 584 for Principal Administrators (senior economists). This may be supplemented by expatriation and/or family allowances, depending on nationality, residence and family situation. Initial appointments are for a fixed term of two to three years.

Vacancies are open to candidates from OECD Member countries. The Organisation seeks to maintain an appropriate balance between female and male staff and among nationals from Member countries.

For further information on employment opportunities in the Economics and Statistics Department, contact:

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