1991/1992

OECD ECONOMIC SURVEYS

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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Publié également en français.

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BASIC STATISTICS OF SPAIN

THE LAND

Area (thousand sq. km)	504.8	Major cities, 1991 census (thousand inhabitants):	
Agricultural area (thousand sq. km)	204.2	Madrid	2 910
		Barcelona	1 624
		Valencia	752
		Seville	659

THE PEOPLE

Population, 1st March 1991 (thousands)	38 426	Civilian employment, 1990 (thousands)	12 579
Number of inhabitants per sq. km	76	By sector (percentage):	
Net natural increase, 1991 (thousands)	115	Agriculture	11.8
Net migration, 1989 (thousands)	11	Industry	23.7
		Construction	9.7
		Services	54.8

PRODUCTION

Gross domestic product, 1990		Gross domestic product at factor	
(billion pesetas)	50 036	cost by origin, 1990 (per cent of total):	
Gross domestic product per head, 1990		Agriculture	5.5
(US $)	12 770	Industry	29.5
Gross fixed investment, 1990:		Construction	8.6
Per cent of GDP	24.6	Services	56.3
Per head (US $)	3 140		

THE GENERAL GOVERNMENT

Public consumption, 1990		Government revenue, 1990	
(per cent of GDP)	15.2	(per cent of GDP)	37.6
Fixed investment, 1990		General government deficit, 1990	
(per cent of gross fixed capital		(per cent of GDP)	4.0
formation)	20.3		

FOREIGN TRADE

Exports of goods and services, 1990:		Imports of goods and services in 1990:	
(billion US $)	84.5	(billion US $)	100.7
(per cent of GDP)	17.2	(per cent of GDP)	20.5
Exports as a percentage of total		Imports as a percentage of total	
merchandise exports, custom basis, 1990		merchandise imports, custom basis, 1990	
Foodstuffs	13.7	Foodstuffs	7.2
Raw materials	4.1	Raw materials	9.0
Fuels and lubricants	5.2	Fuels and lubricants	11.7
Capital goods	18.5	Capital goods	26.8
Consumer goods	33.6	Consumer good	23.4
Intermediate goods	25.0	Intermediate goods	21.9

THE CURRENCY

Monetary unit: Peseta		Currency units per US $,	
		average of daily figures:	
		Year 1991	103.9
		January 1992	100.1

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 16th January 1992.

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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 6th February 1992.

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The previous Survey of Spain was issued in December 1990.

Introduction

The growth of GDP slowed to 2½ per cent in 1991, the lowest rate since 1985, but still among the strongest in the OECD. The turn-around from a considerable increase in private fixed investment in previous years to a broad stagnation in 1991 was, as in the OECD area as a whole, the principal factor behind the weakening of growth. The widening slack was accompanied by an easing of inflation tensions, but, with the 12-month consumer price rise at 5.5 per cent in December 1991, the inflation differential *vis-à-vis* Spain's EMS partners has declined only slightly from 1¾ percentage points in 1988-89 to 1½ percentage points in 1991. As there was also less job creation, the rate of unemployment fell only slightly to 16.2 per cent in 1991 from 16.3 per cent a year earlier, compared with an annual decline of more than one percentage point in the previous four years. Despite the slower expansion of world trade, merchandise export growth was again buoyant and, together with an improvement in the terms of trade and a sizeable increase in transfers from the EC, led to a small decline in the current account deficit to some 3 per cent of GDP for 1991 as a whole. However, as in the previous few years, this deficit was considerably more than covered by capital inflows, so that foreign exchange reserves rose by almost $12 billion, for the second consecutive year, reaching $65 billion in December 1991.

The authorities' commitment to lowering inflation underlies the restrictive monetary policy stance since mid-1989. As inflation eased and the real economy weakened, interest rates declined during 1991, but nevertheless continued to be high in real terms, compared with past levels in Spain and with rates prevailing in its principal economic partners. This, together with the dynamism of the Spanish economy, explains the continuing strength of the peseta in the EMS in 1991. Fiscal policy, by contrast, was slightly expansionary in 1991, partly because of the failure to rein in regional governments' spending. The 1992 Budget of the

Central government envisages a less supportive fiscal stance, but because of weak cyclical conditions the deficit could again be higher than planned. Short-term prospects suggest an improvement in macroeconomic performance, with growth picking up and inflation slowing. However, the inflation/output split is likely to remain unsatisfactory, highlighting the need for greater wage moderation and for more determined action to improve the functioning of markets and to reduce structural distortions.

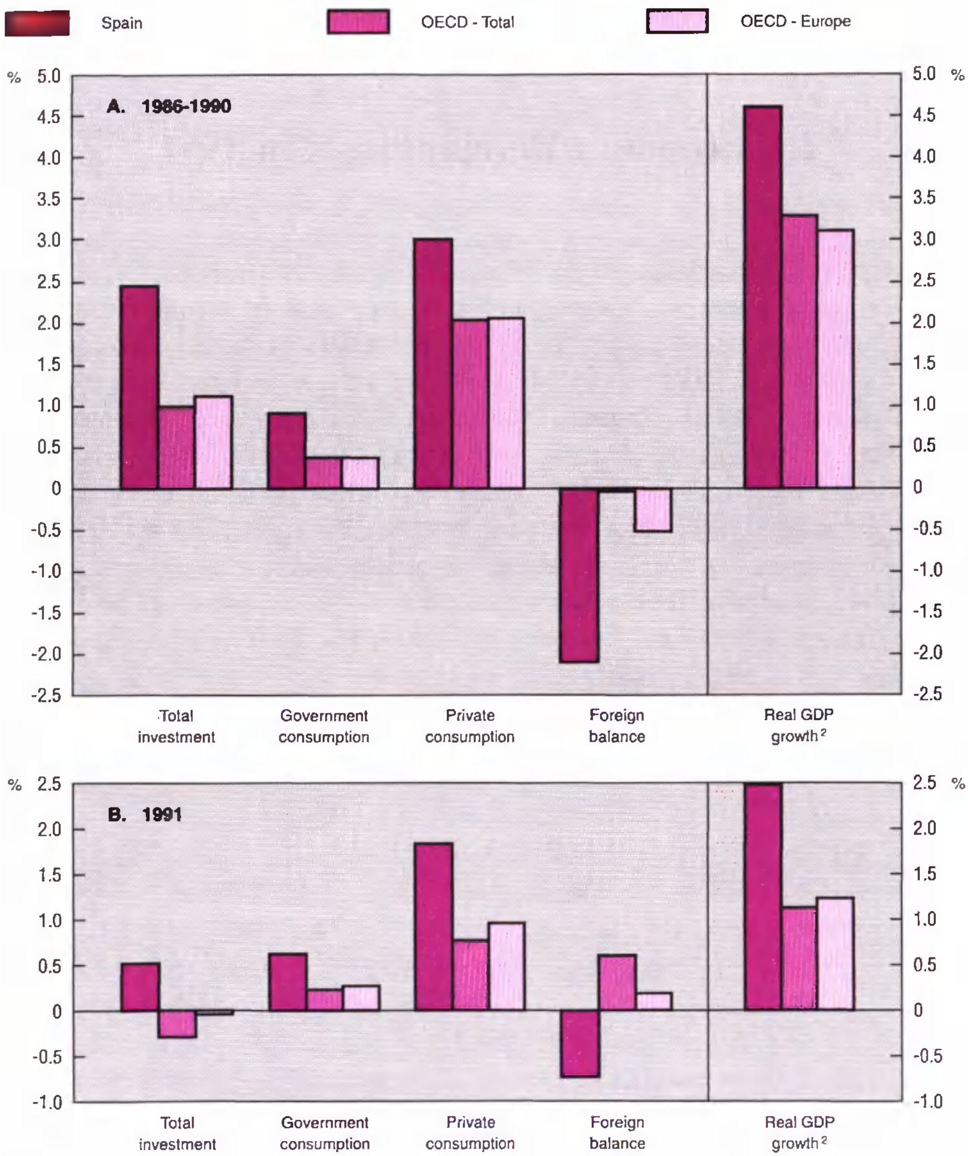
Part I of the present Survey reviews the performance of the Spanish economy in 1991. The macroeconomic policy stance and the fiscal and monetary measures of the last couple of years are discussed in Part II, which concludes with a presentation of the OECD short-term projections. Part III briefly examines some of the structural factors behind the continuing high budget deficits. Part IV analyses the inflation record, the large inflation differential *vis-à-vis* its principal EMS partners and the conjunctural and structural causes of the inflation-proneness of the Spanish economy. Conclusions are presented in Part V.

I. Economic developments in 1991

The recent slowdown of the Spanish economy has to be seen in the context of the impressive growth since 1985, led by investment, which increased by 74 per cent between 1985 and 1990 (twice the average increase for either the OECD total or OECD Europe) (Diagram 1). This remarkable expansion of investment not only gave a strong boost to actual GDP growth, but, by enhancing productive capacity, also raised the rate of growth of potential output to over 3 per cent in 1990 from about 2 per cent in 1985. The procyclical behaviour of government spending (the contribution of government consumption to GDP growth was more than double that of the OECD total) also amplified the expansionary phase of the cycle. However, by 1989 it had become evident that the economy was becoming overheated, not only because GDP growth was too rapid, but also because it was unbalanced, highlighted by an increase in domestic demand of 7½ per cent per annum since 1985.

Consumer prices rises accelerated from the beginning of 1989, further signalling that domestic demand was growing at an unsustainable pace. The policy stance was thereupon tightened. In 1991, its deflationary effects, as well as those of the Gulf crisis, reinforced the contractionary phase of the investment cycle, which is characterised in Spain by extreme variations. Private consumption, which generally holds better than investment in a downturn, and brisk exports continued to support activity in 1991. Likewise, general government final expenditure, though diminishing, continued to expand rapidly in 1991. The profile of overall activity seems to have shown little variation during 1991. After falling to about 2 ¾ per cent in the second half of 1990, the annual rate of growth of GDP seems to have fallen to less than 2½ per cent in the first half of 1991 before picking up to between 2½ and 2¾ per cent in the second half.

Diagram 1. **CONTRIBUTIONS TO CHANGES IN REAL GDP**[1]



1. Average annual contributions to change expressed as a per cent of real GDP/GNP.
2. Average annual percentage change.

Source: OECD estimates.

Trends in demand

The growth of household real disposable income was again robust in 1991 (almost 3 per cent), though down from over 5 per cent on average in the preceding three years. All principal household income categories experienced a slowdown in 1991 from the high rates of the previous years. The deceleration in the growth of the wage bill was exclusively due to slower job creation, while that of other incomes reflected a contraction of profits. Private consumption is estimated to have increased by 3 per cent as well (Table 1). Car purchases were especially weak, declining by about 10 per cent, following a 12 per cent fall in 1990. The downturn of the private-car cycle appears to have been exacerbated by the rising level of household debt and the desire of households to ease the

Table 1. **Demand and output**

Percentage change at annual rates

	GDP shares 1990	1988/1985	1989	1990	1991[1]
Private consumption	62.4	4.9	5.6	3.7	2.9
Government consumption	15.2	6.2	8.2	4.3	4.0
Gross fixed investment	24.6	12.6	13.8	6.9	2.7
Final domestic demand	102.3	6.6	7.8	4.6	3.0
Total domestic demand	103.4	7.0	7.8	4.7	3.1
Exports of goods and services	17.1	4.4	3.0	3.3	7.6
Imports of goods and services	20.5	16.3	17.2	7.8	8.9
Foreign balance[2]	–3.4	–2.1	–3.2	–1.3	–0.8
GDP at constant prices		4.9	4.7	3.7	2.5
GDP at current prices	100.0	13.2	12.0	11.3	9.5
Memorandum items:					
Gross fixed investment					
Private sector[3]	19.6	13.6	12.4	4.0	0.6
General government	5.0	8.2	21.0	20.9	10.9
Real household disposable income		4.1	4.3	5.6	2.7
Household saving ratio, net (per cent)		(6.1)	(4.1)	(5.9)	(5.7)

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

Source: Data submitted by national authorities and OECD estimates.

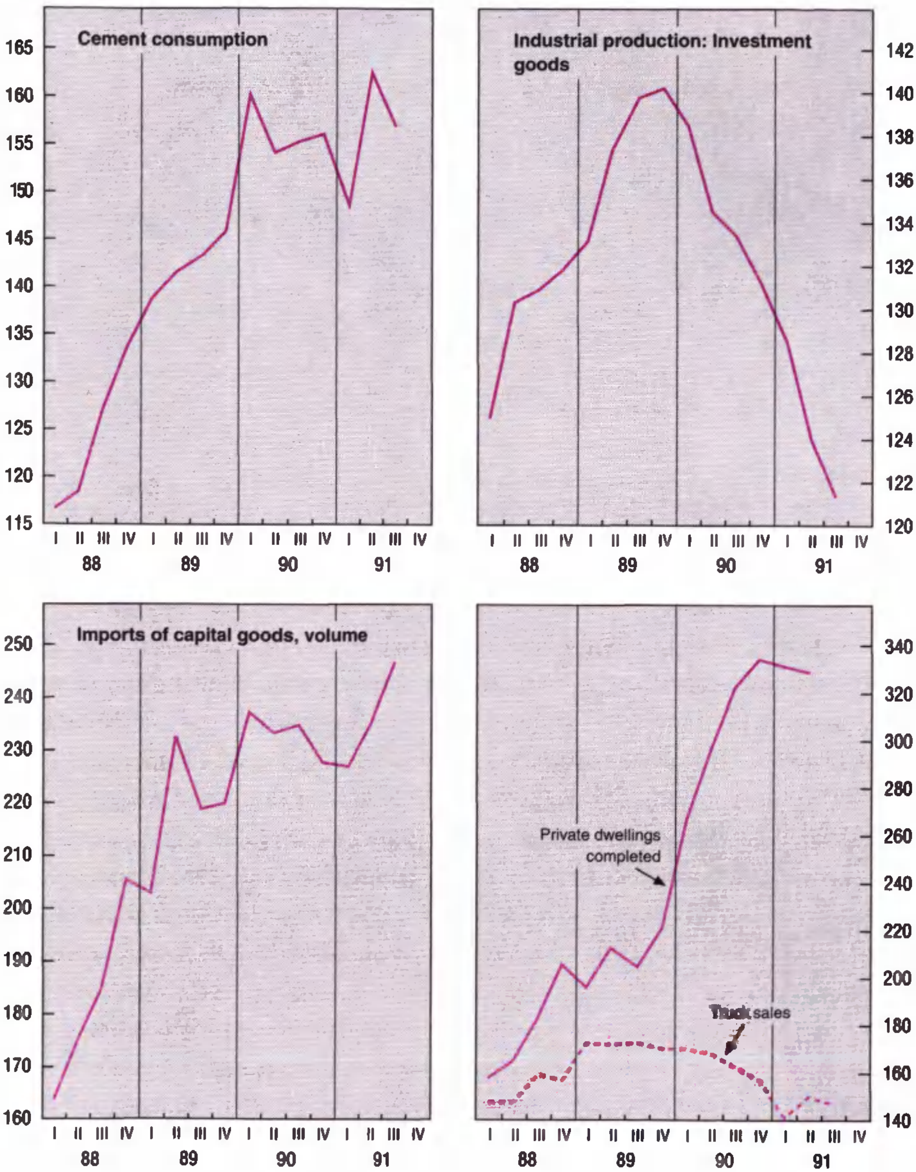
growing debt-servicing burden[1]. Furthermore, the growth of demand for other consumer goods became more moderate early in 1991.

Though decelerating, the growth of general government consumption remained strong in 1991, largely reflecting an increase in employment. But in contrast to 1990, when both the Central government and regional governments were responsible for the substantial expansion, in 1991 the increase was mainly due to the continuous upward trend in employment at the regional and local levels. The growth of general government investment in the first half of 1991, though slowing, was again very rapid (probably around 15 per cent). Following the July directives of the Central government to restrain investment expenditure, the increase in general government investment eased, so that for the year as a whole the increase is estimated at about 11 per cent.

The steep upward trend in the price of houses up to 1990, the rise in interest rates in 1989 and 1990 and reductions in tax relief for the acquisition of dwellings led to a marked fall in new housing starts in 1990 which continued in 1991, making for a cumulative fall of around one-third. As a result, residential investment declined in 1991, after five years of uninterrupted growth. Even before the Gulf crisis there were signs that business investment growth was losing the strong momentum of the previous four years (16 per cent per annum), largely reflecting the maturing of the investment cycle (Diagram 2). Many firms postponed their investment projects in view of less favourable sales prospects, cash flow difficulties, a squeeze on profits and falling self-financing ratios in 1991, for the second year running (Diagram 3). Total business investment probably was flat, or at best showed a small rise, in 1991 as a whole, but it still amounted to 15 per cent of GDP, placing Spain in the top range among OECD countries. It seems that investment by small-scale firms was particularly depressed because of their limited access to cheaper foreign finance, while investment by larger firms, especially multinational firms, appears to have fared better. Balance of payments data suggest a small growth of investment by foreign companies in 1991. In the context of the worsening international conjuncture and after a fivefold increase between 1985 and 1990, the continuing growth of foreign investment, though at a much slower pace than in previous years, is impressive and underlines foreigners' confidence in the Spanish economy.

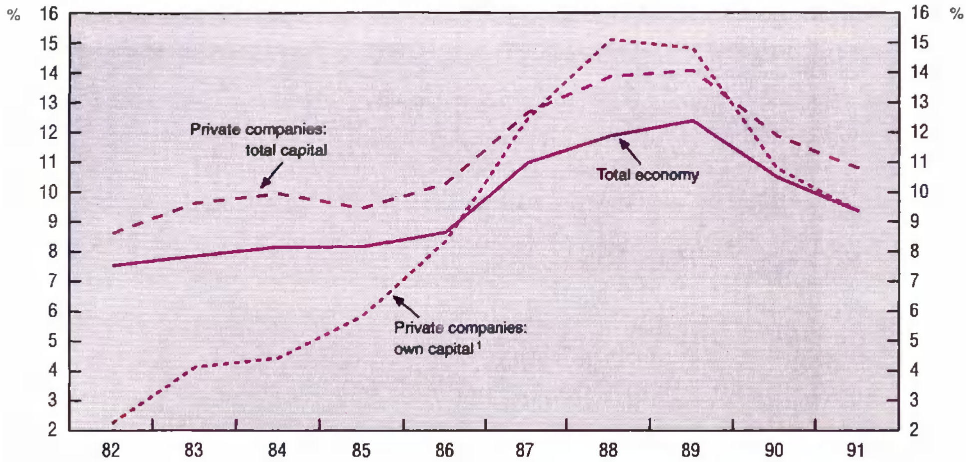
Including involuntary stockbuilding, the growth of domestic demand is estimated at almost 3 per cent in 1991, close to the rate of potential output growth

Diagram 2. **INVESTMENT INDICATORS**
1986 = 100, seasonally adjusted



Sources: Ministerio de Economía y Hacienda, *Síntesis Mensual* and OECD, *Main Economic Indicators.*

Diagram 3. **EVOLUTION OF THE RATE OF RETURN**



1. Equity plus reserves.
Sources: Bank of Spain, *Central de Balances,* 1989 and OECD estimates.

after six years of significantly faster expansion. The slower domestic demand growth was partly offset by a markedly smaller negative contribution of the real foreign balance, reflecting continuing strong export growth and a deceleration in import growth. Provisional estimates suggest that GDP grew by 2½ per cent in 1991, essentially accounted for by services and agriculture, while industrial output was stagnant.

Labour market developments

The slowdown in activity almost immediately affected the labour market. Towards the end of the summer of 1990 lay-offs picked up and recruitment slowed, with the result that total employment actually declined in the last quarter of 1990 and the first quarter of 1991. This quick response seems to be largely explained by labour hoarding in 1989 and early 1990, notably in industry[2]. The employment overhang is expected to limit job creation in the second half of 1991 too, so that total employment is likely to increase by about ½ per cent in 1991 as

Table 2. **The labour market**

Per cent change over previous year

	1987	1988	1989	1990	1990 Q4	1991 Q1-Q3	1991 Q3
Total labour force	2.4	1.6	1.3	1.4	0.8	0.3	0.7
Total employment	3.1	2.9	4.0	2.6	1.7	0.5	0.2
of which:							
Excluding agriculture	4.2	3.7	5.7	4.1	3.1	1.8	1.4
Employees	4.2	4.7	6.2	4.4	3.7	1.5	0.7
of which:							
Excluding agriculture	4.6	5.1	7.4	4.9	3.7	1.5	1.1
Participation rate (per cent)	(49.4)	(49.6)	(49.5)	(49.7)	(49.7)	(49.5)	(49.7)
Unemployment rate (per cent)	(20.5)	(19.5)	(17.3)	(16.3)	(16.1)	(16.1)	(16.4)
Recipients of unemployment benefits (per cent)[1]	(44.0)	(42.8)	(49.4)	(59.0)	(63.8)	(68.5)	(70.2)
Labour productivity, total[2,3]	2.1	2.1	0.6	1.1		2.1	
Business sector, excluding agriculture	-0.1	1.5	-0.1	-0.3		1.4	
of which:							
Manufacturing industry	0.1	2.3	0.1	-1.1		3.0	

1. As a per cent of total non-agricultural unemployed.
2. On the basis of GDP at factor cost.
3. Figures for 1991 are OECD estimates for 1991 as a whole.

Sources: INE; Ministerio de Economia y Hacienda, *Sintesis Mensual de Indicadores Económicos*, and Ministerio de Trabajo y Seguridad Social, *Boletín de Estadísticas Laborales*.

a whole, compared with 3 per cent a year during the preceding five years. To a large extent the slower employment growth in 1991 is due to a steeper trend-decline in the agricultural labour force, but job creation in the other sectors was also small compared with the preceding few years (Table 2).

The increase in dependent employment could be up to 1½ per cent thanks to the continuous strong growth in the general government, whereas in the private sector (including a few state-controlled firms) the increase may be just over 1 per cent, less than one-fourth the annual rate of increase after 1985. Job creation has been strong in services (notably in the financial and insurance sectors), followed by construction, whereas employment in industry shrank, with most of the important branches registering declines. In line with the trend in the second half of the 1980s, all jobs created in 1991 were occupied by non-permanent employees, so

Table 3. **Employment promotion programmes**

Thousands

	1986	1987	1988	1989	1990	1991 (Jan.-Oct.) Annual rate
Total hirings	3 020	3 449	3 712	4 327	5 159	5 018
Under employment promotion programmes	1 416	1 680	2 005	2 300	2 336	2 288
(Per cent of total hirings)	(46.9)	(48.7)	(54.0)	(53.2)	(45.3)	(45.6)
of which:						
Temporary contracts	537	667	862	1 100	1 170	855[2]
Part-time	179	222	291	356	412	321[2]
Training and apprenticeships	248	346	434	554	512	331[2]
Agreements with government agencies[1]	309	293	293	258	209	138[2]
Memorandum item:						
Total dismissals	404	326	306	216	334	350
Workers with temporary contracts per cent of total employees		(17)	(23)	(27)	(30)	(32)

1. 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.
2. January-September figures.

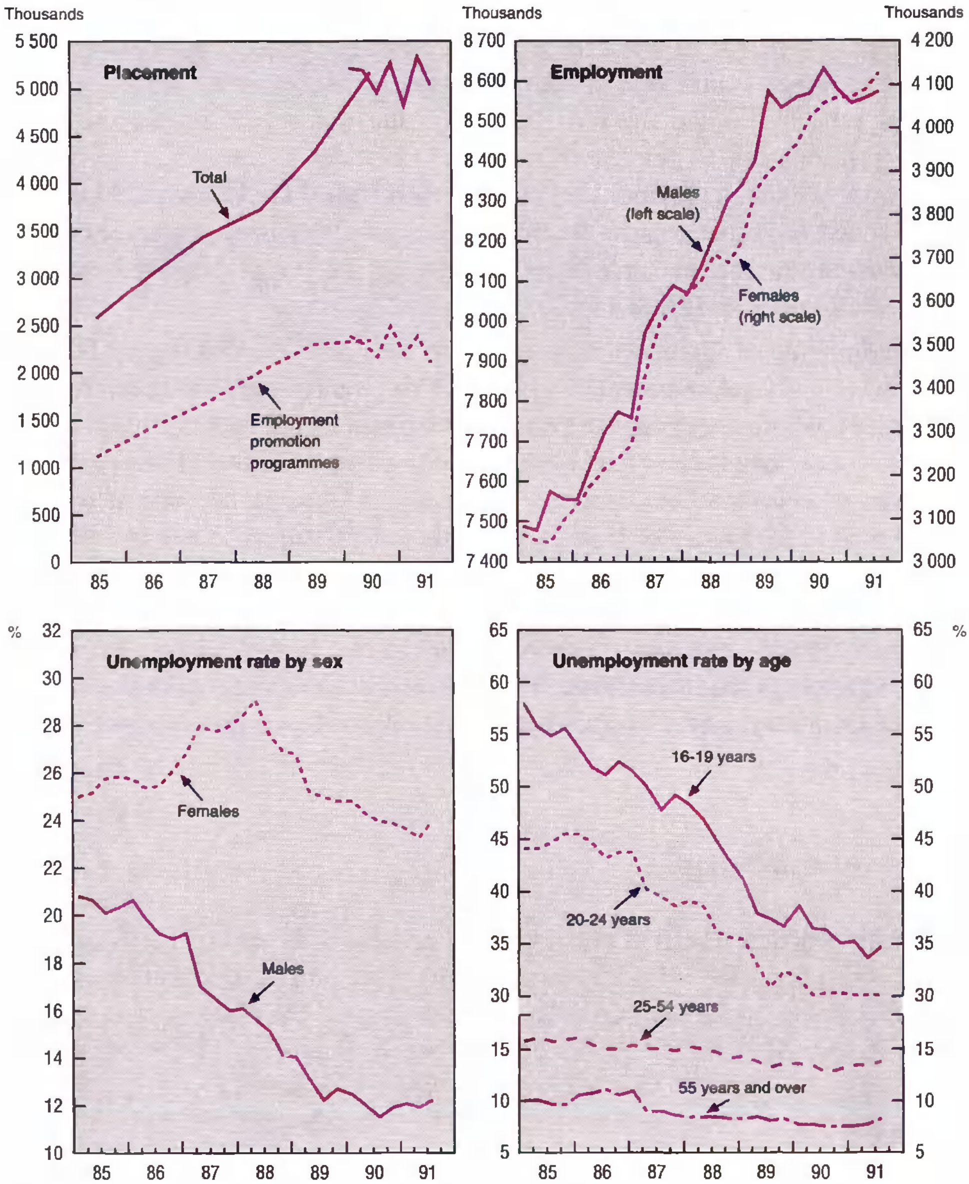
Sources: Ministerio de Trabajo y Seguridad Social, *Boletín de Estadísticas Laborales*, and Ministerio de Economia y Hacienda, *Síntesis Mensual de Indicadores Económicos*.

that their share in total dependent employment rose to 33 per cent in mid-1991 (Table 3). The proportion of hirings under the employment promotion programmes also increased slightly, underlining the easier labour market conditions.

The deceleration in employment was accompanied by an even more marked decline in the annual rate of growth of the labour force from 1½ per cent between 1985 and 1990 to barely ½ per cent in 1991, so that unemployment may have declined slightly. The moderate growth in the labour force is attributable both to demographic factors (broad stability in the number of people in the age group 16 to 19) and to the decline in the rate of participation by an estimated 0.2 percentage points for 1991, compared with a moderate upward trend between 1985 and 1990. The decline in participation rates in 1991 is explained both by longer studies and by the discouraged-worker effect[3].

The broad stability in the recorded unemployment rate in 1991 masks an underlying decline, as published figures not only exaggerate the actual level of unemployment, but also understate the slope of the downward trend, especially

Diagram 4. **EMPLOYMENT AND UNEMPLOYMENT TRENDS**



Note: Data before and after 1987 are not strictly comparable.
Sources: Ministerio de Trabajo y Seguridad Social, *Boletín de Estadísticas Laborales,* and Ministerio de Economía y Hacienda, *Síntesis Mensual.*

since 1990. Many people have always worked in the underground economy. Furthermore, the introduction of generous unemployment benefits after 1984 has induced many people to work for relatively short periods, mostly under temporary employment contracts, and then to become unemployed for longer periods. This is reflected in the marked increase in the number of people receiving benefits, from about 45 per cent of registered unemployed (excluding agriculture and people without a previous job) in the second half of the 1980s to 59 per cent in 1990 and to 70 per cent in the third quarter of 1991. Labour market experts consider that the real unemployment rate, taking account of disguised employment, is closer to 10-12 per cent.

Despite the small change in unemployment in 1991, its distribution became more even in several respects (Diagram 4). First, youth unemployment (16 to 24 age group), whose unemployment rate is three times higher than that of other age groups, continued to decline in 1991. Second, whereas the male unemployment rate was practically stable between 1990 and 1991, the female unemployment rate, which is double that of males, fell. Third, though still representing over one-half of total unemployment, long duration unemployment (job seekers for 12 months and over) decreased further in 1991. The decline was particularly important for job seekers over two years, though part of the explanation may be withdrawals from the labour force. Fourth, many of the regions with the highest rates of unemployment also recorded a small fall in their unemployment rate in 1991.

The slow disinflation

After reaching a high of slightly over 7 per cent at the end of 1989 and early 1990, consumer-price inflation started moderating, but the disinflation process was interrupted by the Gulf crisis in the summer of 1990. The rise in consumer prices quickened in the last quarter of 1990 largely as a result of increased energy prices, but the prices of other items also picked up towards the end of 1990 and the beginning of 1991, reflecting worsening inflation expectations and rising uncertainty world-wide during the Gulf crisis. The slow disinflation process resumed after the first quarter of 1991, bringing the twelve-month rise in consumer prices to 5.5 per cent in December 1991, down by one percentage point from a year earlier (Table 4)[4].

Table 4. **Prices**

Per cent change over previous year

	1987	1988	1989	1990	Dec. 1990	1991	Dec. 1991
Consumer prices	5.2	4.8	6.8	6.7	6.5	5.9	5.5
Food	5.0	3.7	7.7	6.5	5.3	3.5	3.2
Energy	–3.9	–0.6	2.6	8.2	11.3	7.4	1.6
Other industrial goods	6.3	4.9	4.0	4.3	4.8	4.9	4.7
Services	6.3	6.8	8.7	8.5	8.4	8.8	8.8
Underlying inflation	6.2	6.0	6.6	6.7	6.9	7.0	7.1
Industrial prices	0.8	3.0	4.2	2.2	2.3	1.6	0.7
Consumer goods	3.9	3.3	4.5	3.1	2.5	3.4	4.1
Capital goods	5.0	4.7	4.6	4.1	3.7	3.6	0.2
Intermediate goods	–2.4	2.2	3.8	0.9	1.8	–0.4	–2.3
Agricultural prices received by farmers	–2.7	3.3	7.5	0.7	4.3	0.5[2]	
Cost of construction	4.0	5.5	8.3	8.4	9.2	7.0[2]	
Labour	7.2	7.0	9.9	12.9	14.5	10.7	
Materials	0.3	4.2	7.2	5.0	5.5	2.5	
Import prices of goods	–2.2	–1.4	2.1	–2.7	–0.2	–2.2	–5.4
of which:							
Excluding energy	0.3	1.5	0.7	–4.0	–4.6	–1.9	–1.7
Memorandum item:							
GDP price deflator	5.8	5.7	7.0	7.3		6.8	

1. Provisional estimate based on 11-month data.

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

Nearly stable energy prices and moderate food price rises contributed importantly to the deceleration of inflation during 1991. However, underlying inflation (non-food and non-energy), though slightly lower than at the beginning of the year, has remained stubbornly high. This is exclusively due to strong price rises of services at around 8¾ per cent since 1989. Likewise, the annual rate of increase in prices of industrial goods, excluding energy, has remained practically stable since the autumn of 1990 at just under 5 per cent, with import prices exerting a strong dampening effect[5]. This is underlined by the continuing large differential between the rates of increase in the private consumption deflator and in the GDP price deflator.

Table 5. **Wages and labour costs**

Per cent change over previous year

	1987	1988	1989	1990	1991 [1]
Collective wage agreements	6.5	5.4	6.7	8.1	7.9
including impact of previous year's indexation clause	6.7	5.4	7.7	9.2	8.1
Basic hourly pay	8.3	7.9	8.0	9.2	8.9
Average earnings in industry	7.7	5.8	4.7	8.5	9.0
Compensation per employee [2]	7.0	6.4	5.6	7.6	8.0
Unit labour costs, business sector (excluding agriculture)	5.1	4.1	5.7	7.7	6.5
of which: Industry	7.7	3.5	4.7	9.7	5.8

1. Estimates for the year as a whole based on partial data for 1991.
2. The 1988 and 1989 figures are affected by a big increase in imputed social security contributions in 1988, mainly in the financial sector, followed by a negative growth in 1989. Excluding this, compensation per employee accelerated from a little over 5 per cent in 1988 to over 7 per cent in 1989.

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

The growth in compensation per employee in the private sector rose to over 8 per cent in 1991, largely due to the slowdown in recruitment of low wage categories, partly under the employment promotion programmes[6]. Moreover, labour unions hardened their attitude in wage negotiations, as they were more influenced by the inflation surge at the end of 1990 and early 1991 than by the marked weakening in employment creation, so that wage settlements in 1991 were only slightly lower than in 1990. Reflecting tight labour market conditions in construction, wage settlements and even more wage increases in this sector were again much higher than in the other sectors. Nonetheless, thanks to a pick up in productivity following two years of decline, the growth of unit labour costs in the business sector (excluding agriculture) decreased a little in 1991, but still remained above that of Spain's main trading partners. Particularly marked was the deceleration in the growth of unit labour costs in manufacturing by nearly 4 percentage points to 5¾ per cent in 1991, fully attributable to a pick up in productivity growth to 3 per cent in 1991 from –1¼ per cent in 1990 (0.4 between 1986 and 1990) (Table 5).

The increase in financial charges, reflecting high interest rates, coupled with weaker sales points to a small contraction in profit rates in the corporate sector in

1991, for the second year running, thereby easing pressures on prices. The decline was not evenly spread between sectors and branches, with export and import-competing sectors probably experiencing the sharpest falls. Despite the steep rise in relative unit labour costs, export prices of manufactures were practically stable in 1991, after falling a little in the previous year. Tourist companies were also affected by rising labour costs. By contrast, in a few sectors, principally construction, profits remained practically at the previous year's record level. In contrast to the corporate sector, incomes of self-employed artisans and professionals probably again rose rapidly in 1991, underpinning the fast rise in service prices.

Trade and balance of payments

The steep upward trend in the trade deficit tailed off in 1989, and it has since been stable at about Ptas. 3 trillion, but it has shrunk from 6.5 per cent of GDP in 1988 to about 5¾ per cent in 1991[7]. The sharp weakening in domestic demand, the considerable increase in export capacity associated with sizeable capital-productivity gains following the investment boom of the second half of the 1980s, and export promotion efforts again in 1991 outweighed the effects of the continuing deterioration in relative unit labour costs[8]. As a result, export volumes grew at about the same rate as imports (the respective annual growth rates were 6 per cent and 14 per cent between 1985 and 1989 and 12 per cent and 9 per cent in 1990), and sizeable gains in export market shares were recorded. Foreign multinational companies have contributed importantly to the export dynamism of the Spanish economy and they account for two-fifths of manufactured exports (multinationals take the first four places in the list of exporting firms). In particular, exports of motor cars boomed in 1991, thus partly compensating for shrinking domestic sales. It should, however, be noted that Spanish industrial firms are also gradually becoming more export-oriented, compared with defensive policies aimed at maintaining their market share in Spain during the first few years of EC membership. There was again a very rapid increase in exports to the EC, only partly explained by the surge in German imports. In contrast, export growth to other main markets was weak and exports to the US and Japan actually fell. The increase in exports was especially strong towards the end of 1990 and early 1991, but the pace of growth slowed thereafter.

Import growth in real terms slowed markedly at the beginning of 1991, but because of the carry-over from 1990, growth for 1991 as a whole could be about 10 per cent. Though declining from the high values of the second half of the 1980s, the apparent elasticity of demand for imports with respect to GDP of a little above 3 is very high, pointing to the still powerful EC-induced trade-creation effects and the important role of multinational companies in domestic

Table 6. **The current external account**

Cash basis, $ billion

	1987	1988	1989	1990	1991
Trade balance (fob/fob)	–11.4	–16.1	–24.5	–29.5	–31.7
Exports	33.2	39.6	41.2	51.0	55.2
Imports	44.6	55.8	65.6	80.5	86.9
Non-factor services, net	13.1	12.9	11.6	12.7	12.9
of which:					
Tourism	12.8	14.1	13.1	14.3	14.5
Credits excluding tourism	7.0	7.4	8.1	10.4	12.0
Debits excluding tourism	6.7	8.7	9.6	12.0	13.6
Net investment income	–2.9	–3.5	–3.1	–3.6	–4.2
Credit	3.0	4.1	6.3	8.8	12.5
Debit	5.9	7.6	9.4	12.5	16.7
Private transfers, net	2.2	2.5	2.8	3.2	7.0
Official transfers, net	0.3	1.2	1.6	1.6	
Invisible balance	12.7	13.1	12.9	13.9	15.7
Current balance	**1.2**	**–3.1**	**–11.6**	**–15.7**	**–16.0**
Memorandum items:					
Trade balance[1] in pesetas billion	–1 577	–2 102	–2 907	–3 006	
(per cent of GDP)	(–4.3)	(–5.2)	(–6.5)	(–6.0)	
Current balance[1] in pesetas billion	1	–438	–1 294	–1 723	
(per cent of GDP)	(0)	(–1.1)	(–2.9)	(–3.5)	
Per cent change					
Terms of trade, goods	(4.9)	(5.8)	(2.6)	(0.7)	(2.0)
of which:					
Excluding energy	(2.0)	(4.2)	(3.1)	(1.7)	(2.0)
Volume goods					
Exports	(7.6)	(7.0)	(4.7)	(12.2)	(10.5)
Imports	(26.0)	(18.5)	(16.8)	(9.2)	(10.9)

1. On a balance of payments basis adjusted by OECD.

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

production, especially the production of tradeables. This is also reflected in the growth rate of import volumes of semi-manufactures, which was the highest of all categories of imports in 1990 and 1991, followed by non-food consumer goods. Capital goods import volumes, affected by sluggish business investment, may show a small growth in 1991, after rising by 27 per cent per annum in the preceding four years.

The improving trend of the trade account in the last couple of years has been broadly offset by a deteriorating trend in the service and factor income account, though this is still in large surplus (Table 6). On the one hand, net factor income payments to foreigners, reflecting the sizeable foreign investments of recent years and the high rate of return on capital, as well as net payments abroad for other services (freight, insurance, royalties, commissions, etc.), have been growing at a fast pace since 1988. On the other hand, the steep upward trend in net tourist receipts came to a halt in 1988 and since then it has been reversed, reflecting both the rapid growth of expenditure by Spanish tourists abroad and roughly stable receipts from foreign tourists, though admittedly these remain at a high level ($ 19 billion). The significant increase in service prices in recent years has not been matched by an equally big improvement in the quality of services offered. This, combined with the appreciation of the peseta, has largely eroded the significant competitive edge in tourism that Spain enjoyed in the 1980s. After a disappointing start at the beginning of 1991 due to the Gulf crisis, net tourism receipts increased considerably in the high tourist season, probably also influenced by events in Yugoslavia, making for a small growth in net receipts in 1991 as a whole[9]. Including the sizeable growth of net transfers from abroad, mainly EC transfers, the invisible surplus is expected to have widened, so that the current account deficit is likely to have fallen, and even more so as a per cent of GDP.

Net long-term capital inflows rose further in 1991 from an already high level, so that the basic balance of payments should again remain in comfortable surplus (Table 7). However, in contrast to previous years when net private investment was the most important item, in 1991 borrowing both by the private sector (including financial capital) and by the public sector (mainly foreigners' purchases of government paper) surged, so that combined they largely exceeded net foreign investment. The latter, however, may still cover more than four-fifths of the current account deficit[10]. The sizeable increase in foreign purchases of

Table 7. **Capital account: balance of payments**

Cash basis, $ billion

	1987	1988	1989	1990	1991
Current balance	**1.2**	**–3.1**	**–11.6**	**–15.7**	**–16.0**
Net long-term capital inflows	9.6	10.0	17.2	19.3	32.5
of which:					
Private foreign investments from abroad	8.0	9.1	14.7	18.3	15.6
of which:					
Direct	2.6	4.5	5.7	10.7	8.8
Real estate	1.8	2.3	2.6	2.4	1.6
Portfolio	3.4	2.1	6.2	4.4	5.1
Private credits from abroad	2.1	3.7	0.9	1.4	6.2
Public sector, net	0.1	–0.8	3.3	3.7	14.9
Basic balance	10.8	6.9	5.6	3.6	16.5
Balance on non-monetary transactions[1]	10.5	5.5	2.0	1.0	10.8
Private monetary institutions, short-term capital	3.6	4.2	2.5	7.7	2.4
Change in official reserves (+ = increase)	14.2	9.7	4.5	8.7	13.2
Memorandum items:					
Gross external debt, end of period	30.1	32.8	34.8	45.0	51.0[2]
Official reserves, end of period	30.2	39.9	44.4	53.1	66.3

1. Including errors and omissions.
2. October.

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

government paper and in company borrowing from abroad is largely explained by the abolition of the 25 per cent withholding tax on the interest income of non-residents in January 1991 and of the 30 per cent obligatory deposit ratio for foreign loans in March 1991.

II. Macroeconomic policies and short-term prospects

The authorities, concerned about inflation tensions and the related risk of a marked weakening of potential output and employment growth over the medium-term, tightened the macroeconomic policy stance and took the peseta into the EMS in the summer of 1989. However, the tightening was mainly borne by monetary policy, with fiscal policy continuing to be expansionary overall. The measures succeeded in reversing the earlier disturbing trends, and the effects of the Gulf crisis further reinforced the deflationary forces, while the strength of the peseta was associated with tensions in the EMS in the early months of 1991.

Despite the growing slack, its effect on inflation was limited and the authorities continued to give priority to the anti-inflation drive: the policy stance therefore remained cautious at the beginning of 1991. First, the government rightly considers that, unless the inflation convergence with its EC partners is realised, Spain will not be in a position to reap the full growth dividend from its participation in the next phase of the European economic and monetary union. Second, the authorities were reluctant to relax the policy stance prematurely, as this could have given the wrong signal to the social partners at the beginning of the wage round. Third, given the uncertainties in world markets during and immediately after the Gulf War, a quick change of policy course might have affected foreign confidence, and the authorities preferred to err on the side of prudence. When the fears of a resurgence of inflation subsided and confidence recovered internationally after the Gulf War, monetary policy started gradually to be relaxed.

Moreover, as analysed below, the difficulties encountered with regard to debt management last year, the interdependence between interest rates and exchange rates reinforced in recent years after the sizeable inflows of foreign capital, and the internationalisation of the Spanish financial markets illustrate the extent to which monetary policy in Spain is now influenced by market sentiment.

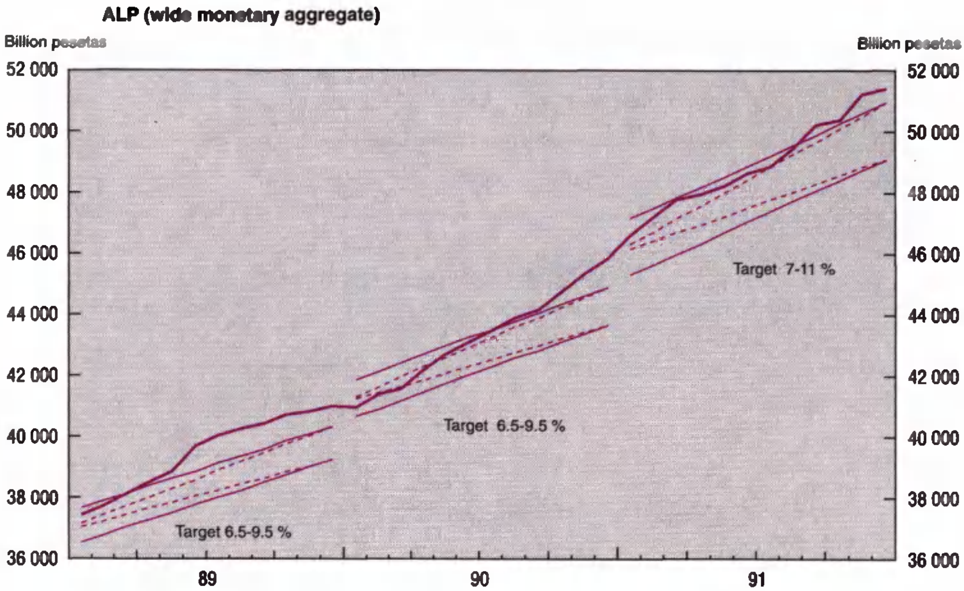
Thus, following the lifting of credit ceilings and the impediments on foreign financial capital in early 1991, as well as the abolition of controls on all capital movements as from 1992, monetary policy will have to operate through its impact on relative prices of financial assets, with expectations playing a much greater role. EMS membership and the associated increasing importance of exchange rate considerations has reinforced market-imposed constraints, but also underlines the need for a better balance between monetary and fiscal policies in order to arrest the shift of resources from the sectors exposed to foreign competition to the sheltered sectors. And, as has been the case in Spain in the last few years, the failure of fiscal policy to move in the same direction as monetary policy has necessitated a much greater tightening of monetary policy than would have been desirable from the standpoint of investment, as well as the strength of the tradeable sectors.

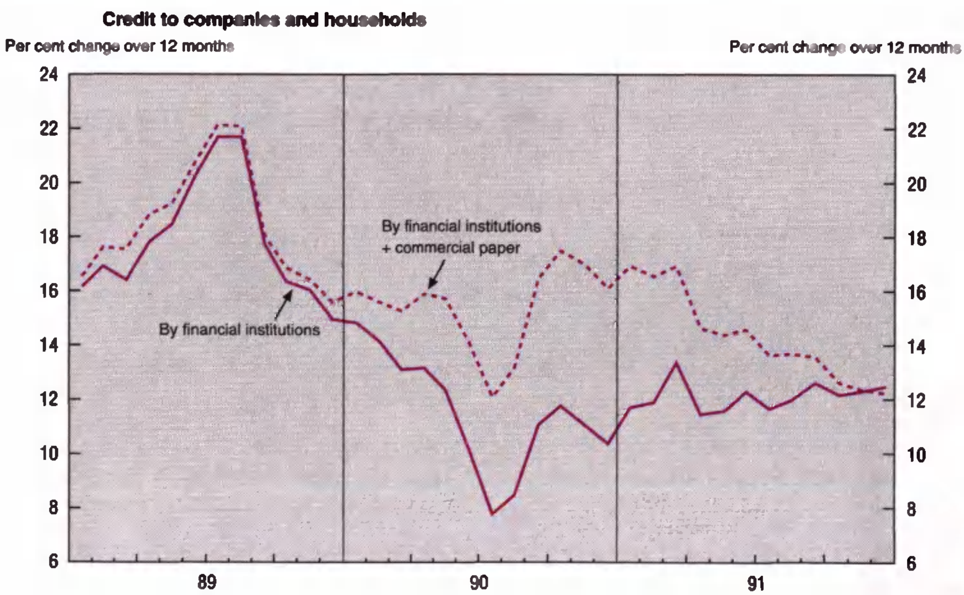
Monetary trends in 1991

Despite the tightening in the policy stance, liquidity continued to grow rapidly in 1990 – faster than nominal GDP growth – so that the official credit and monetary targets were again overshot. The ALP (the wide monetary aggregate) central growth target set for 1991 was higher than that of the two previous years (9 per cent and 8 per cent respectively) and the range wider (+ 2 percentage points compared with + 1.5 percentage points). The higher targets mainly reflected uncertainties concerning the effects of financial innovation and the expected reintermediation of financial flows following the lifting of the ceilings for bank credit expansion and the impact of the planned liberalisation of foreign exchange restrictions (Diagram 5). The annual rate of growth of bank credits to the private sector accelerated markedly to 23 per cent in the first quarter of 1991, largely because banks held back credit approvals in the last two months of 1990 waiting for the lifting of controls and less because of the switch from commercial paper to bank loans[11]. The ending of restrictions on foreign financial investments and on foreign borrowing (see Part I) also had a strong expansionary effect on money supply.

After the surge in the first quarter of 1991, the growth of the principal credit and monetary aggregates slowed considerably in the following nine months, so that for 1991 as a whole their rate of growth was just above the upper limit of the

Diagram 5. **CREDIT AND MONETARY EXPANSION**





Sources: Banco de España, *Informe Anual,* 1990 and OECD, *Main Economic Indicators.*

targets (Table 8). Notwithstanding the continuing high rate of expansion of the targeted monetary aggregates, overall domestic liquidity decelerated in 1991, reflecting first the marked slowdown in commercial paper issued by firms, which are no longer restricted in obtaining bank credit, and second the gradual withdrawal of regional government notes[12]. Moreover, the changes in the composition of ALP, which began in 1990, continued to some extent in 1991. Currency held

Table 8. **Monetary aggregates**

	1990	1988	1989	1990	1991 Nov.[1]
	Pesetas billion	Per cent change over previous year			
Currency	4 534	18.5	18.3	18.2	22.5
Sight deposits	9 580	17.5	13.2	30.9	10.1
M1	14 114	17.8	14.9	26.5	14.0
Savings deposits	8 153	12.7	7.0	5.2	10.7
Time deposits	12 551	2.7	10.1	9.7	18.7
M3	34 818	10.3	11.0	14.7	15.0
Government liabilities	10 097	13.6	37.4	12.4	9.0
of which:					
Repurchase agreements	7 964	22.4	31.7	8.8	2.9
Private-created liquid assets	1 462	15.2	–38.5	–31.6	–2.2
Other liquid assets	11 559	14.1	11.1	3.9	7.6
ALP[2]	**46 377**	**11.3**	**11.0**	**11.8**	**13.1**
ALP target		**8-11**	**6.5-9.5**	**6.5-9.5**	**7-11**
Net domestic credit to residents[3]	54 325	15.4	14.8	11.9	9.7
General government	17 585	12.0	12.0	15.2	4.4
Companies and households	36 740	17.1	16.2	10.4	12.1
Memorandum items:					Jan.-Dec.
ALP	45 270	11.1	10.8	11.3	12.1
ALP plus commercial paper	47 545	9.9	11.2	15.5	12.0
ALP plus commercial paper and regional government notes	48 795	10.1	13.6	13.9	
Domestic credit to households and companies	39 605	17.5	17.6	10.2	12.5
Domestic credit to households and companies plus commercial bills	41 294	15.9	18.1	14.9	12.3
GDP, current prices	50 087	11.2	12.1	11.2	9.5[4]

1. From November 1990 to November 1991.
2. ALP stands for "liquid assets in the hands of the public", which includes M3, Treasury Bills, repurchase operations with public paper, repurchase operations with private assets.
3. Bank and money market transactions only.
4. OECD estimate.

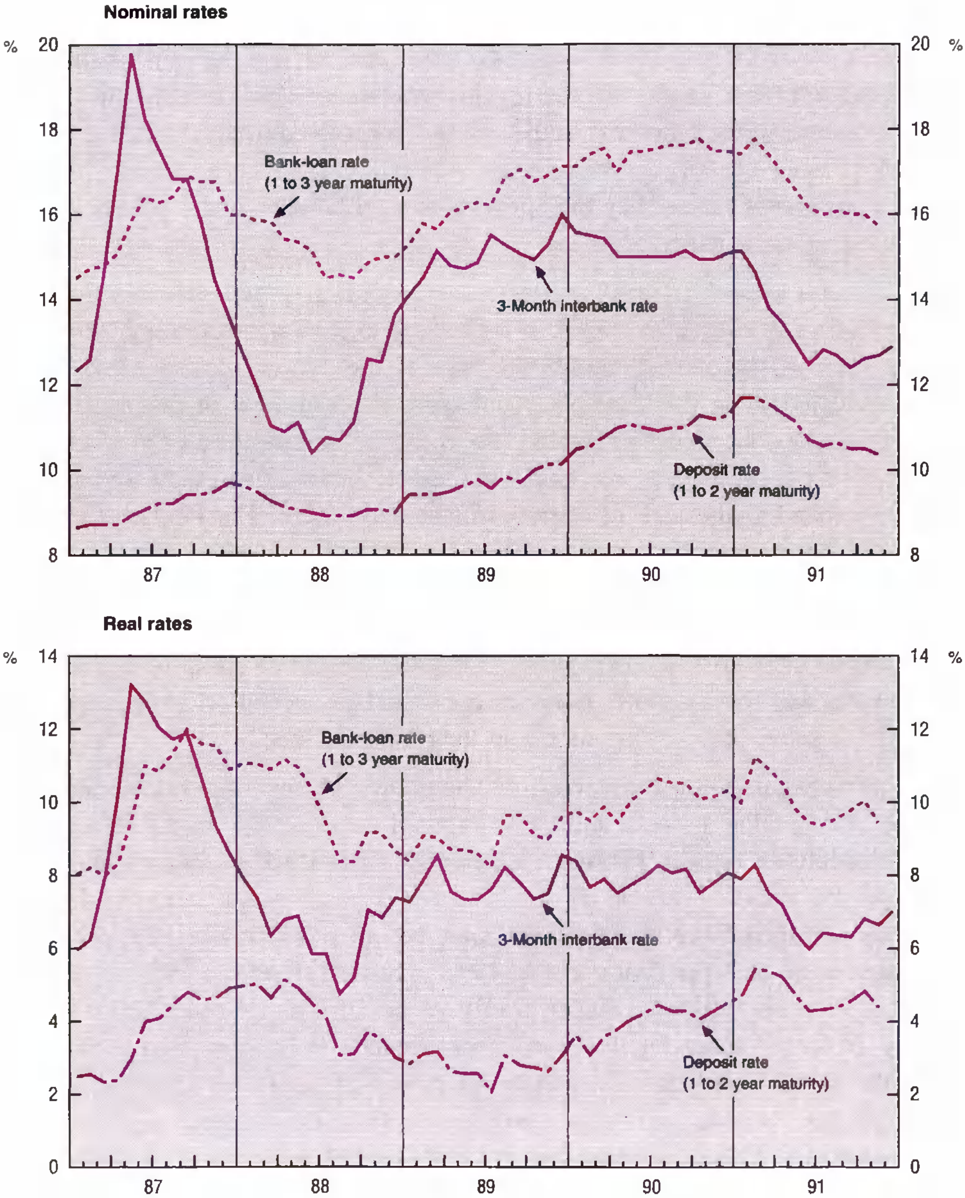
Source: Bank of Spain, *Boletín Estadístico.*

by the public has continued to grow fast. But the growth of sight deposits slowed in 1991 from the exceptionally high rate in 1990, when high-yield "super" current accounts were introduced for the first time. As a result, the difference in the rate of growth of M1 *vis-à-vis* M2 (time and saving deposits) narrowed considerably in the course of 1991. This was again accompanied by below average growth in the other less liquid assets incorporated in the ALP, due to the gradual phasing out of Treasury notes, which are used as a vehicle for tax evasion because of the secrecy they provide to their holders, and a contraction in private commercial paper.

The slow growth of bank credit to the general government (reflecting the growing share of the deficit financed by bonds) exerted a moderating effect on money supply. By contrast, credit expansion to the private sector picked up in 1991, thus remaining the principal counterpart of the growth of money supply. Notwithstanding the steepening trend, the changing composition of credit to the private sector suggests that, in contrast to previous years when credit was mainly used for expanding the scale of operations, demand for credit in 1991 was mainly related to firms' cash-flow difficulties due to insufficient sales. For the same reason, after the lifting of restrictions on capital movements, and also in order to take advantage of the lower interest rates in foreign markets, company borrowing from abroad grew briskly. On the other hand, the growth of credit to households for housing and for consumer durables continued to decelerate, reflecting their desire to improve their saving ratio and their balance sheet.

The weakening of activity, concern about the high cost of public sector debt and the falling inflation trend and the strength of the peseta in the ERM, led to a decline in interest rates in February/March 1991. The Bank of Spain's intervention rate (the marginal rate on its certificates of deposit) was lowered slightly in February and then more steeply up to June, before stabilising at 12½ per cent, compared with 14¾ per cent early in 1991. The decline in the interest rate on one-year Treasury bills was steeper, from 14½ per cent to just over 11½ per cent in June. However, reflecting the insufficient demand for Treasury bills at this low yield, the interest rate was subsequently raised and has remained at almost 12 per cent since last August, provoking a positive response by investors who resumed their purchases of Treasury bills.

Bank lending rates fell less steeply than the official interest rates (Diagram 6). Real interest rates for loans up to three years are still almost 10 per cent, Diagram 6. **INTEREST RATES**



Source: OECD, *Financial Statistics.*

marginally below the level at the end of 1990. The decline in bank lending rates has been limited by the increase in the effective interest on deposits, resulting from appreciable expansion of the high-yield "super" accounts, and by write-offs of bad debt. Banks responded to the squeeze on their interest-rate margin by keeping interest rates on private sector credit relatively high. The recent restructuring, including the mergers among commercial banks, savings banks and public sector banks, has so far had little effect on the high banking costs, which continue to be an important impediment to further reducing the interest rate margin[13].

Although, interest rates have been kept high to combat domestic inflation, this has also contributed to maintaining a strong peseta. Indeed, the peseta was on the whole the strongest currency in the ERM of the EMS during 1991, and at times it was at the upper limit, to some extent also reflecting weakness of other currencies due to unpredictable shifts in market sentiment not always determined by fundamentals. The strength of the peseta has also induced the authorities to announce (in the summer of 1991) the removal of all controls on outward capital movements as from January 1992, one year before the EC requirement[14].

Fiscal developments

The outturn in 1991

In line with the medium-term plans of 1988 for achieving a balanced budget by 1992, the central government budget of 1991 projected a marked decline in the deficit of 0.6 per cent of GDP allowing for the deferment of tax refunds from 1989 to 1990 (these deferments raised the deficit by ½ per cent of GDP in 1990)[15]. Given also that GDP was projected to grow less than its potential rate, the decline implied a distinct move towards restriction on a cyclically adjusted basis. This was expected to be achieved mainly by curbing expenditure. However, early in 1991 it became evident that the Budget plans could not be achieved, obliging the Central government to announce important expenditure cuts (Ptas. 300 billion) in July, mainly affecting investment, and to ask regional governments and local authorities to restrain their investment plans too. Despite the cuts, the central government deficit is likely to rise to 2½ per cent of GDP in 1991 (an increase of ½ percentage point adjusting for the deferment of the tax refunds), reflecting both tax shortfalls and expenditure overruns. Including expenditure overruns of regional governments, the general government deficit was over 4 per cent of GDP in 1991 (Table 9).

On the revenue side, personal income tax receipts are expected to attain budgeted levels largely due to higher wage increases than assumed and to fiscal drag. By contrast, the other two important tax categories – indirect taxes and corporate taxes – are likely to record significant shortfalls. The first is because of the shift in consumption away from goods carrying the high VAT rate, notably cars, and the second because of lower profits[16]. With regard to expenditure, most budget items recorded large overruns in 1991 and to some extent this indicates

Table 9. **General government accounts**

National accounts definitions, pesetas billion

	1988	1989	1990	1991[1]
Current revenue	14 583	17 160	18 874	20 945
Direct taxes	4 201	5 432	5 942	6 545
Households	3 156	3 859	4 170	4 855
Business	1 044	1 572	1 772	1 690
Indirect taxes	4 162	4 657	4 950	5 380
Social security contributions	5 028	5 762	6 497	7 200
Other	1 192	1 309	1 485	1 820
Current expenditure	14 264	16 297	18 385	20 619
Public consumption	5 924	6 831	7 610	8 429
of which:				
Wages and salaries	4 197	4 805	5 466	6 068
Social security benefits	5 567	6 277	7 312	8 360
Interest payments	1 343	1 560	1 769	2 120
Current transfers and other	1 430	1 629	1 694	1 710
Net saving	319	863	489	326
Gross saving	714	1 308	1 002	900
(% of GDP)	(1.8)	(2.9)	(2.0)	(1.6)
Fixed investment	1 541	1 998	2 464	2 844
Net capital transfer payments	473	567	542	416
Net lending(+) or net borrowing(–)	–1 300	–1 257	–2 004	–2 360
(% of GDP)	(–3.2)	(–2.8)	(–4.0)	(–4.3)
of which:				
Adjusted for the deferment of tax refunds (% of GDP)	(–3.2)	(–3.5)	(–3.6)	(–4.2)

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

unduly optimistic initial budget estimates. The increase in investment expenditure in the first seven months of 1991 was nearly twice as much as budgeted, not an unforseeable outcome given the doubling in value of public sector procurement bids between 1988 and 1990. Moreover, the pace of realisation of investment programmes seems to have been speeded up, in response to the lengthening of order books, and also many ministries and public agencies stepped up their investment projects in the first half of the year in order to forestall possible cuts later in the year. Following the July instructions aimed at curbing expenditure, the pace of investment growth slowed so that for 1991 as a whole fixed investment may attain budget limits. Interest payments are also likely to exceed budget estimates considerably, reflecting the high interest rates on public debt maturing in 1991, as well as the shift towards higher-yielding government paper.

There was also a marked increase in social expenditure in 1991, only partly explained by the slowdown in job creation. The significant growth in expenditure is also the result of the 1989-90 reforms, which considerably strengthened social protection. The rise in unemployment of temporary workers, together with the high rotation of this category of worker and the lengthening of unemployment spells in 1991, and some fraud led to a much larger increase in expenditure on unemployment than had been budgeted for. Expenditure on pensions also grew markedly in 1991, reflecting both the continuing high rate of increase in pensioners (2.6 per cent) and the upward adjustment of low pensions with the aim of bringing them to the statutory minimum wage level[17]. Furthermore, non-contributory pensions were introduced in 1991, and whereas the budget had estimated that there would be some 10 000 beneficiaries in the first year, the actual number is now expected to be considerably higher in spite of delays in examining the files of the candidates.

Despite the planned marked slowdown in the growth of expenditure, the budgets of regional government and local authorities for 1991 were again expansionary[18]. Even allowing for the devolution of certain responsibilities from central government to a few regional governments, expenditure by the latter was budgeted in 1991 to increase faster than GDP growth. In the event, expenditure by regional governments rose even faster than planned. In addition to the large infrastructure projects underway, in 1991 regional governments continued to extend their activities in the social protection, health and education areas, which typically have a high income elasticity of demand. Furthermore, recruitment by regional governments remained brisk. As a result, the combined deficit of regional governments and local authorities rose further to over 1½ per cent of GDP. In total, correcting for the distortion due to the deferment of tax refunds and for cyclical effects, the general government continued to support activity in 1991 (Diagram 7).

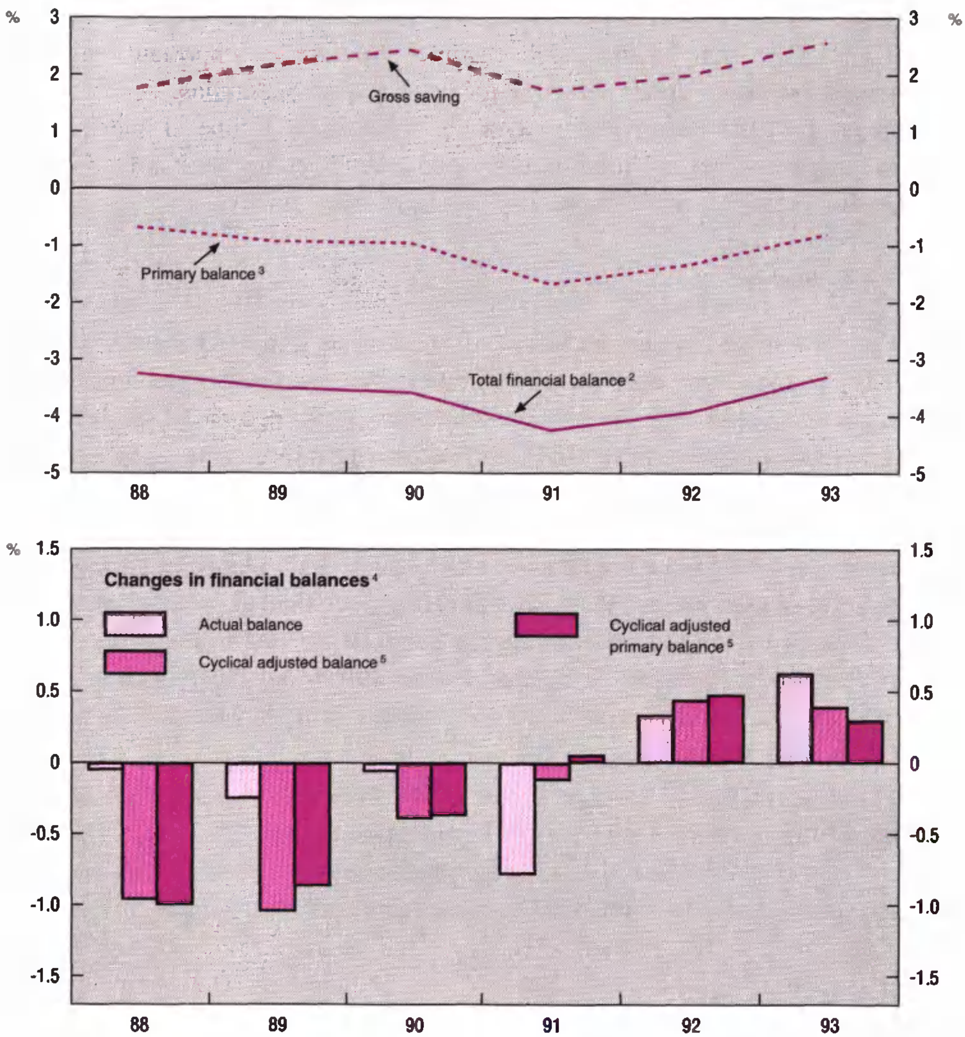
The financing of the central government deficit posed some problems in the first seven months of 1991. Whereas the deficit was rising, demand by residents for Treasury bills was weak. Market sentiment of residents seems to have been adversely influenced by the high inflation rates towards the end of 1990 and early 1991, as well as by falling yields. As a result, Bank of Spain advances to the Central government surged in the first half of 1991, thereby roughly offsetting the decline in the net issues of Treasury bills. In August the small pick up in Treasury bill rates coupled with improved inflation prospects led to a resurgence in demand for Treasury bills. This permitted the repayment of advances to the Bank of Spain, which was necessary given that under the law the outstanding debt with the Bank cannot be higher at the end of each year than the level recorded at the end of 1989[19]. The decline up to July in net purchases of short-term central government paper by residents was partly offset by the considerable increase in purchases of bonds.

In contrast to the attitude of domestic investors, foreign demand for central government paper was very strong from the beginning of the year, thus facilitating the funding of the deficit. Acquisitions by foreigners accounted for over two-thirds of the increase in total medium and long-term debt up to September. In addition to the abolition of the withholding tax on interest receipts of non-residents in January, the prospect of capital gains due to the expected fall in interest rates seems to have been a powerful motivation. However, even after the decline in interest rates between March and August, sales of government paper to foreigners, though less than in the first few months of 1991, continued to finance a relatively large part of the deficit, reflecting the positive interest rate differential *vis-à-vis* the DM and confidence in the peseta.

In order to reduce the high cost of financing the deficit, alleviate the tensions in the markets associated with the high intra-year refinancing rate of the debt and provide flexibility to deal with potential shocks, the Central government succeeded in diversifying both the sources of finance and financial instruments in 1991. The part of central government debt held by foreigners rose to an estimated

Diagram 7. **GENERAL GOVERNMENT FINANCIAL BALANCES AND FISCAL INDICATORS** [1]

Per cent of GDP



1. 1989 to 1991 figures are adjusted for tax deferment; 1991 to 1993 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.

10 per cent at the end of 1991 from 3.9 per cent a year earlier. Reflecting the successful sales of bonds as well as the phasing out of Treasury notes (a vehicle for tax avoidance, see below), the share of medium to longer-term debt increased from just over 30 per cent at the end of 1990 to probably over 40 per cent by the end of 1991. The more balanced debt-maturity structure has important long-term advantages, including greater efficacy for open-market operations, which can be set against the costs entailed in view of the prospective decline in interest rates over the medium-term, as inflation eases and a better policy mix shifts some of the demand management burden away from monetary policy.

The 1992 budget

The central government budget for 1992 projects a marked reduction in the deficit to almost 2 per cent of GDP, implying a significant tightening in the policy stance (Table 10). Budget consolidation is planned to be achieved by raising revenues in relation to GDP, with expenditure remaining at the level of 1991 (about 23 per cent of GDP). The 1992 Budget also incorporates the reforms in personal income taxation aimed at alleviating the tax burden and stimulating long-term savings by reducing taxes on capital gains and on popular saving plans which were announced in 1990. With regard to personal income taxation, the major changes are the reduction in the top marginal tax rate from 56 per cent to 53 per cent (to be lowered to 50 per cent in 1993) and the reduction in the effective tax rate for low-income couples filing a joint income-tax declaration rather than separate ones.

The Budget includes large increases in indirect tax rates, notably the increase in the standard VAT rate by 1 percentage point to 13 per cent, with a view in part to the prospective EC tax harmonisation. Likewise, taxes on oil products and tobacco are raised. On the other hand, the Central government announced towards the end of 1991 that VAT on cars will be lowered from 33 per cent to 28 per cent to approach the EC average. The unemployment contribution rate paid to the National Institute for Employment (INEM) will go up from 6.3 per cent to 7.3 per cent in order to finance steeply rising unemployment benefits. The indirect tax increases are expected to yield Ptas. 350 billion (0.6 per cent of GDP) compared with a small revenue loss from the lowering of VAT on cars. The relief in personal income taxation is estimated to cost more than Ptas. 300 billion, of which two-thirds is accounted for by the inflation

Table 10. **The State budget**[1]

Cash basis, pesetas billion

	1989	1990	1991		1992
			Budget	Outcome[2]	Budget
Total revenues	9 530	10 208	11 659	11 244	12 577
Direct taxes	4 655	4 992	5 835	5 540	6 265
of which:					
Households	3 300	3 464	4 089	4 094	4 640
Indirect taxes	3 777	4 021	4 384	4 243	4 846
of which:					
VAT	2 334	2 488	2 760	2 681	3 099
On oil	683	793	978	964	1 123
Transfers	534	564	684	471	672
Other revenues	564	631	757	989	794
Total expenditure	10 321	11 377	12 172	12 600	13 702
Consumption	2 279	2 478	2 648	2 737	2 763
of which:					
Wages and salaries	1 918	2 164	2 323	2 373	2 439
Goods and services	360	314	325	364	324
Current transfers	4 958	5 607	5 806	5 969	7 102
Interest payments	1 298	1 428	1 534	1 593	1 942
Fixed investment	801	896	1 085	1 028	913
Capital transfers	986	968	1 099	1 273	983
Budget balance	–792	–1 169	–513	–1 356	–1 125
Extra budgetary operations	17	–1	–	–11	
Net overall balance	–774	–1 170	–513	–1 368	–1 125
Financial operations, net[3]	–866	–815			
Borrowing requirement (– = deficit)	–1 640	–1 985		–1 980[4]	
Financing net:					
Short-term debt[5]	1 265	1 116		–750	
Medium and long-term debt	224	557		2 190	
Bank of Spain	239	–130		9	
Other	–88	442		531	
Domestic investors	1 339	1 605		310	
Foreign investors	301	380		1 670	
Memorandum items:					
(as a per cent of GDP)					
Net overall balance	–1.7	–2.3	–0.9	–2.5	–1.9
Borrowing requirement	–3.6	–4.0		–3.6	

1. On an administrative basis. The State budget is by far the largest part of the Central government budget, as it includes the subsidies to the Social Security System, which is part of the Central government.
2. Official estimates.
3. Net assets and statistical adjustments.
4. Provisional.
5. Short-term debt includes Treasury bills and Treasury notes.

Sources: Ministerio de Economia y Hacienda, *Presentaciòn de los Presupuestos Generales del Estado 1990*; Bank of Spain, *Boletin Estadistico, Cuentas Financieras de la Economia Espagñola (1981-1990)*; and OECD estimates.

induced fiscal drag. Despite the lower personal income tax rates, the 1992 Budget forecasts a significant increase in personal income tax receipts reflecting the expected widening of the tax base largely due to a reduction in tax evasion. Thanks to the increase in VAT and other excise duties a strong growth in indirect taxes is also budgeted for.

On the expenditure side the focus is on social and welfare expenditure, with a rate of growth forecast to be nearly double that of nominal GDP. Unemployment expenditure is budgeted to rise by about one-quarter, largely reflecting the rise in the coverage ratio and the rotation of temporary workers. Though somewhat slower, the increase in expenditure on pensions is also projected to be substantial (about 16 per cent), mainly due to the extension of non-contributory pensions to low-income people not affiliated to the social security system and to the continuing adjustment of low pensions. The Budget also provides for a continuing steep rise in interest payments reflecting the growing proportion of the public debt issued at market rates. The other major expenditure categories are planned to increase considerably slower than nominal GDP growth, while expenditure on infrastructure is planned to fall by about 12 per cent, partly as a result of the completion of major projects, some of which related to the Olympic Games and the Seville International Exhibition. Including cuts in other sectors, central government investment (including military spending) is budgeted to fall by 14 per cent (almost 20 per cent in real terms) and, by not replacing all retired personnel, a small reduction in the number of civil servants is envisaged. In contrast, the regional governments' and local authorities' budgets, with a rate of growth of expenditure of over 10 per cent, remain expansionary overall. The budgeted reductions in the deficits of the Central government and of a few regional governments seem to be ambitious, especially in view of the likely slower growth of activity than officially predicted for 1992 and the negative carry-over from 1991. All in all, some decline in the general government deficit may occur in 1992 (for the first time since 1986), but this is likely to be very small.

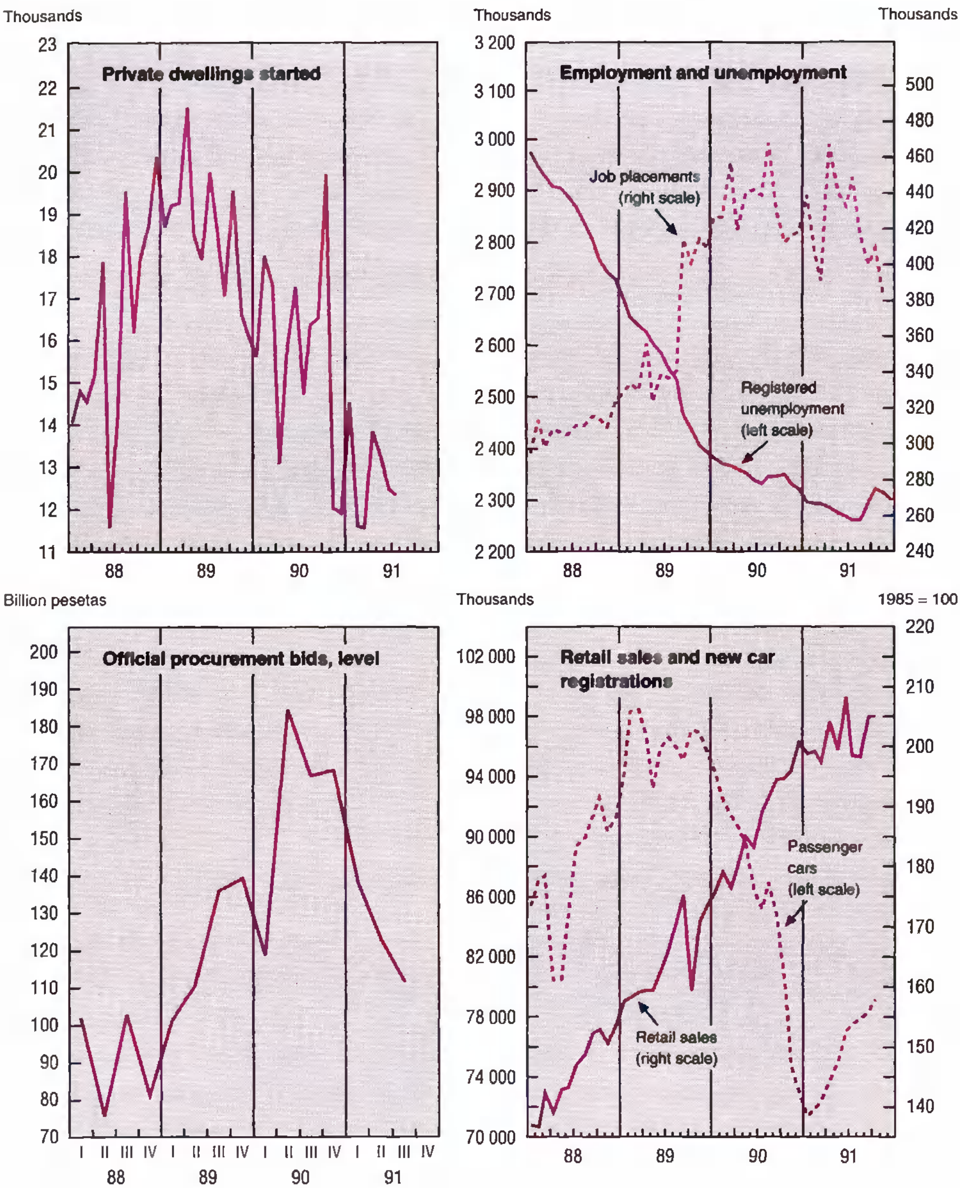
Short-term prospects

The trough of the cycle seems to have been reached in the first half of 1991. After falling steeply for more than a year, preliminary data show a modest pick up in housing starts and private car sales in the second half-year, but, on the other hand, foreign demand appears to have lost strength (Diagram 8). Weakening activity has also been reflected in a slight fall in inflation, despite the substantial wage increases during 1991. The projections for Spain indicate a roughly unchanged annual rate of growth of GDP at just less than 2¾ per cent in the first half of 1992, followed by an acceleration in the second half as demand in its principal EC partners strengthens and as business confidence is restored world-wide. Nonetheless, GDP growth through the year is likely to remain below the potential rate.

The thrust of macroeconomic policy is expected to have a slightly restrictive effect on demand in 1992 because monetary policy is assumed to remain tight overall[20]. However, this should not prevent a further small fall in interest rates if inflation eases and interest rates in the other EMS countries also fall a little. The 1992 central government Budget is set to be moderately restrictive. However, unless abuses in the social welfare area are curtailed, the generous unemployment benefits and pensions, coupled with weaker activity than predicted in the Budget, point to steeper growth in social expenditure than budgeted for[21]. Likewise, reflecting the proposed substantial pay increases for central government employees (about 7 per cent, as in 1991), government consumption could grow faster than the budgeted 4 per cent, unless substantial cuts in central government employment are made. In addition, the budgets of regional governments, most of which plan spending increases in excess of 10 per cent, are fairly expansionary on the whole. Accordingly, contrary to the Central government's objective of fiscal restraint (incorporated in the OECD projections), there is a risk that the general government may again provide support to activity in 1992.

Weaker labour market conditions should favour wage moderation, while cash flow difficulties are likely to strengthen firms' resistance to excessive wage claims. On the other hand, reflecting the impact of the increase in the net indirect tax rate (0.8 per cent), inflation could pick up in the first few months of 1992, stiffening labour union attitudes in the crucial early phases of the wage round. This could limit the fall in wage growth, which is assumed to be 7¼ per cent in 1992 (Table 11). The slower growth of wages would be reinforced by an acceleration in productivity, so that the increase in unit labour costs in the business sector, outside agriculture, may fall to 5 per cent in 1992, the lowest rate since 1988[22]. Likewise, profits are not expected to recover in the subdued business

Diagram 8. **CONJUNCTURAL INDICATORS**



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

Table 11. **Underlying assumptions for 1992 and 1993**

Per cent change over previous year

	1990	1991	1992[2]	1993[2]
		External sector		
OECD import price of crude oil ($ per barrel)	(21¼)	(18¾)	(19½)	(20)
Effective exchange rate of the peseta[1]	4	0	–0	0
Relative unit labour costs, manufacturing industry	6½	2¼	1¾	1
Import prices, total goods,	–2¾	–2¼	2½	3¼
of which: Energy	5¾	–4¾	3	3¼
Market growth of total goods	5¾	4	5½	6¾
Market growth of manufactures	6	4	6¼	7¾
		Domestic sector		
Average wage (business)	7½	8	7¼	6½
Labour force growth	1½	½	½	½
Short-term interest rates	15	13	10½	9¾
General government real fixed investment	20¾	11	6	3½

1. It is based on the technical assumptions that the exchange rate remains at its average level on 5th November 1991.
2. Embodied in the OECD *Economic Outlook,* December 1991.
Source: OECD estimates.

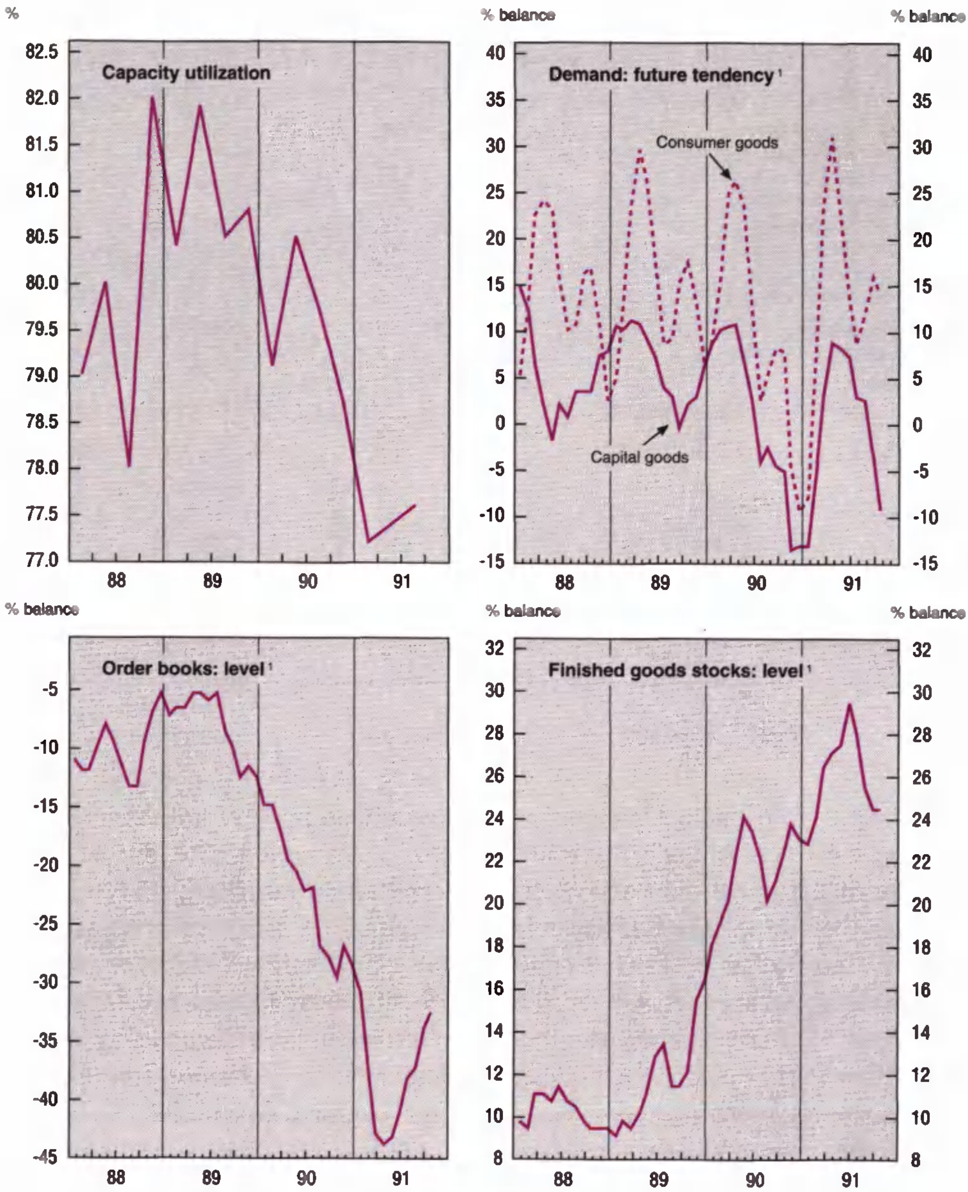
climate, and thus pressure on prices is likely to remain weak for the third year in succession. Though creeping up, after two years of decline, goods' import prices are again expected to have a damping effect on inflation. As a result, after the pick-up in the early part of 1992 (attributable to the indirect tax increases), consumer-price inflation could resume its downward trend, reaching almost 5 per cent at the end of 1992.

Real wage growth of almost 1½ per cent, rapid expansion in social security transfers and personal income tax relief should boost the growth of real household income to 3 per cent, leading to a comparable increase in private consumption. Though slowing, general government consumption and investment are projected to grow relatively rapidly, making them the principal sources of growth again in 1992. On the other hand, private investment may increase only a little. Residential investment may at best stabilise in 1992[23]. Given the usual implementation lags, the Central government's plans for increasing the supply of low cost housing over the medium-term will hardly affect the 1992 outcome, but should show up in a sharp revival in housebuilding in 1993 and beyond. Second, business investment is projected to increase, but only a little. Domestic demand in Spain is expected to continue to expand considerably faster over the medium-term than in its main economic partners, and Spain remains an attractive location for foreign investors. These two factors should outweigh the depressive effect of reduced self-financing ratios, high real interest rates, and the not very buoyant short-term outlook (Diagram 9). Total investment, including slower stockbuilding as firms react with a lag to the more moderate sales trend since 1991, is projected to grow by slightly less than 3 per cent in 1992, and total domestic demand by 3 per cent (Table 12).

Following the rapid growth in the preceding two years, a slowdown in merchandise export volumes is projected for 1992, despite the expected recovery in the external markets. The smaller export market gains in 1992 compared with the two previous years are explained by the fact that in those two years export growth was boosted by the marked weakening in domestic demand and the coming on stream of many new plants, which comfortably outweighed the trend-deterioration in relative unit labour costs. However, slower growth in exports of goods is expected to be outweighed by a sharp rise in tourism receipts, due to the Olympic Games and the Seville International Exhibition, making for a small deceleration in the growth of total export volumes. This, combined with more moderate import growth, reflecting the diminishing EC-induced trade-creation effects and growth in domestic demand slower than its potential rate, should reduce significantly the negative impact on output of the real foreign balance. Overall, for the second year running, GDP is expected to grow by less than 3 per cent in 1992.

Prompted by continuing strong growth in labour costs combined with tight cash-flow, and with a residual of overmanning left from labour hoarding in previous years, companies are likely to adjust their labour forces in 1992. But this may be more than offset by a less steep decline in agricultural employment and strong demand in labour-intensive tourist activities, making for growth in total employment of ¾ per cent[24]. On the assumption that the volatile participation rate does not increase significantly in 1992, the recorded unemployment rate is projected to fall somewhat.

Diagram 9. **BUSINESS SURVEYS**



1. Per cent, balance of replies.
Sources: Ministerio de Economía y Hacienda, *Sintesís Mensual,* and OECD, *Main Economic Indicators.*

Table 12. **Short-term prospects**

Per cent change over previous year

	OECD projections		
	1991	1992	1993
Private consumption	2.9	2.9	3.1
Government consumption	4.0	3.6	3.1
Gross fixed investment	2.7	2.9	4.8
Total domestic demand	3.0	3.0	3.5
Exports of goods and services	7.6	7.0	6.0
Imports of goods and services	8.9	6.9	5.9
Foreign balance[1]	–0.8	–0.4	–0.4
GDP at constant prices	2.5	2.8	3.3
GDP price deflator	6.8	5.9	5.0
Private consumption deflator	5.9	5.6	4.9
Memorandum items:			
Business sector, excluding agriculture			
Unit labour costs	6½	5	4½
Productivity	1½	2	1¾
Employment	½	¾	1
Unemployment rate (per cent)	(16)	(15¾)	(15¼)
Current external balance in US$ billion	(–16½)	(–16¼)	(–17½)
(per cent of GDP)	(–3)	(–2¾)	(–3)
Government net borrowing (per cent of GDP)	(4¼)	(4)	(3¼)

1. Contribution to growth of GDP.
Source: OECD estimates.

Despite merchandise exports growing faster than imports and the improvement in the terms of trade, the trade deficit is again projected to rise in 1992, because of the initial imbalance[25]. However, reflecting fast-rising tourism earnings and the upward trend in transfers, the deficit of the current external account may decline further in 1992. Long-term net capital inflows are likely to fall somewhat from the high 1991 levels. First, in 1991 capital imports were inflated by the once-off affect of the abolition of impediments to inward capital movements (see Part I). Second, the expected elimination of restrictions on Spanish capital exports would lead to somewhat greater outflows, despite the higher rate of return on financial assets and larger profit margins in Spain than in its principal EC partners. Third, financial retrenchment of many multinational companies world-wide and a switch in interest to central and eastern European countries suggest that foreign private investments in Spain may slow, but still remain relatively high by international standards. All in all, the basic balance of payments may remain in surplus, though probably smaller than in the previous few years.

On the assumption that the policy mix improves by way of a tightening of fiscal policy and the authorities succeed in curbing steep price rises in the service sectors, economic performance is projected to ameliorate further in 1993. GDP growth, also boosted by faster expansion in world trade, is projected to reach 3.3 per cent in 1993, about its potential rate. Faster growth is also expected to be accompanied by a better demand structure, as private investment and exports become the strongest components. The acceleration in growth should generate sufficient job creation to make a further small inroad into the still high unemployment, but the unemployment rate is likely to remain above the 15 per cent mark[26]. Wage moderation is expected to contribute to supporting the disinflation process and to bringing to a virtual halt the trend-deterioration in relative unit labour costs in 1993. This, together with a further rise in net transfers from abroad, should maintain the current external deficit roughly stable as a percentage of GDP in 1993[27].

The 1992 and 1993 Secretariat projections critically depend on the assumptions of wage moderation, greater emphasis on efficiency gains by companies and the curbing of excessive profit margins in service sectors. Indeed, the burden of restraint needs to be shifted towards the sheltered sectors, so that resources can be moved and profit margins widened in the sectors exposed to foreign competition, which are constrained by the practically fixed exchange rates under the EMS. This will require the rapid introduction of structural reforms (see Part IV), the tightening of expenditure controls and an increase in tax yields (see Part III), in line with the Central government's intentions. Furthermore, without a strong boost to labour productivity in the business sector (which excludes agriculture), the improvement in the performance of the real economy and of inflation is likely to remain modest[28]. Equally crucial is the assumption of a marked improvement in the business climate in Spain and in the OECD area as a whole. However, at the time of writing business confidence had not improved significantly and this, together with recent data indicating a much greater weakening in the labour market and high underlying inflation in the second half of 1991 suggests that the balance of risks regarding growth and job creation is on the downside and regarding inflation on the upside.

III. Public sector structural issues

General government financial consolidation

The relatively small size of the general government (spending is 42 per cent of GDP, roughly the same as the OECD total, but markedly lower than the average for OECD Europe), coupled with the downward trend of the public sector deficit in the 1980s – despite high and rising public investment – underlines the fiscal improvements achieved over this period. Notwithstanding the overall positive assessment for this period, worrying signs appeared towards the end of the decade, which were made more evident in the recent slowdown in activity. The fact that the general government deficit did not fall (it remained stable at 3¼ per cent of GDP) in the three years of brisk growth to 1989, together with the large overruns in the last couple of years, indicates structural rigidities that could affect the strong growth potential of the Spanish economy. The costs of financing the deficits, ultimately borne by the private sector, could weaken business sector conditions at a time when firms have to lighten their charges to face intensified competition in the unified EC market.

The relatively small rise in total government expenditure as a percentage of GDP between the mid-1980s and 1990 should not be taken as an indicator of future trends. First, after the boom, the return to a slower growth path means the end of the favourable cyclical effects. Second, the growing share of public debt financed at market interest rates makes for a continuing steep rise in financial costs, especially if there is a turnaround from a declining to a rising public debt/GDP ratio. Third, the need to remove bottlenecks to growth due to insufficient infrastructure and professional formation leaves little room for reducing investment in these areas more than currently planned[29]. Fourth, generous social welfare provisions were introduced in the last couple of years following agreements with the labour unions. These provisions, the first effects of which became obvious in 1991, create commitments for future years. This, combined with the high income elasticity of demand for social services provided by the public sector (e.g. health, social assistance and education) point to steep rises in expenditure over the long run.

Despite the above adverse factors, it should nonetheless be possible to stabilise the ratio of public expenditure to GDP over the medium term, especially if the inflation constraint on growth is removed. There are ample possibilities for achieving substantial budgetary savings and increasing cost-efficiency in many areas, where disturbing trends have come to the surface in the last couple of years.

First, decentralisation during the 1980s was accompanied by the creation of superimposed administrative layers entailing significant waste of human and other resources. In the last four years the transfer of responsibilities to the regional governments was associated with a sharp rise in employment in the latter (31 per cent or 100 000 persons). And whereas this normally should have been largely offset by a reduction at the central government level, employment in the latter actually increased somewhat over this period. As a result, general government employment recorded one of the highest, if not the highest, rate of growth in the OECD area (just over 5 per cent per annum between 1987 and 1991). As overmanning is more marked among administrative personnel, reducing it should not impair the provision of government services. This would, at the same time, help to reduce expenditure on goods and services.

Second, one of the main causes for the high deficits is expansionary policy by regional governments. Whereas the central government deficit has been on a downward trend since 1985 (the rise in 1991 is due mainly to cyclical factors), that of regional governments has been rising steeply, from 0.3 per cent of GDP in 1985 to just over 1½ per cent in 1991. Most of the regional expenditure can be justified on economic and social grounds, but there has also been considerable overspending on prestige projects, high salaries (they are often higher than the corresponding salaries in the Central government), immoderate recruitment and spending to placate local lobbies. Regional governments have large discretionary powers in spending matters and the statutory limit to deficit financing has proved to be ineffective. The law stipulates that debt-servicing costs (taking both amortisation of capital and interest payments) cannot exceed 25 per cent of revenues. However, with practically no debt in 1980 and with the possibility of postponing amortisation by rescheduling debt, many regional governments were able to incur big deficits during the 1980s, and are now approaching this legal limit, and one has actually exceeded it. The law regulating the financing of regional governments (LOFCA) covered the period 1987 to 1991. The new arrangements for the future, currently being discussed between the Central government and regional governments, ought to incorporate stricter spending and deficit limits, as well as a better realignment of salary levels. In order to strengthen financial discipline at the regional level, better co-ordination between the Central government and regional governments, as well as greater transparency of the latter's financial transactions, is needed, especially as there may be some further devolution of responsibilities to regions in the 1990s. The Central government has also announced that it will not bail out regions in financial difficulties and this should strengthen financial discipline.

Third, the recent amelioration of the social welfare system, coupled with a growing old age population, makes for the continuation of the upward trend in social expenditure in relation to GDP in the 1990s. And although at this stage it is almost impossible to change its direction, the authorities can curb the pace of expansion by achieving substantial economies and by improving cost-effectiveness. Pensions are expected to continue to rise rapidly over the medium-term, reflecting demographic factors and the recent institutional amelioration[30]. Whereas the current system of retirement and old age pensions is not overly generous when compared with other OECD countries, this is not the case for invalidity pensions and other disability expenditure. The budgetary cost of invalidity pensions is more than one-half of the expenditure on retirement pensions. These figures denote continuing fraud and great economies could be achieved in this area if stricter criteria and controls were applied. The same seems to be the case with regard to temporary disability (mostly accidents and maternity leave) reflected in an estimated increase of 41 per cent in public expenditure on this item in the two years to 1992. As mentioned above, there is also abusive use of the unemployment benefit system, which not only produces important distortions in labour markets but also entails considerable expense borne both by the business sector and the central government budget. Lastly, there is considerable room for increasing the cost-effectiveness of the National Health System[31].

Fourth, there is also considerable room for increasing tax revenues by widening the tax base through improved administration and enforcement. In spite of the progress made in the last few years, tax evasion is still widespread, mainly by entrepreneurs, professionals and other self-employed as well as by farmers[32]. For example, the declared average revenue of entrepreneurs was about 40 per cent below that of wage earners in 1990, an unrealistically low level. The authorities are examining ways of curbing tax evasion, and the 1992 Budget introduces stricter objective criteria for evaluating the taxable incomes of these categories, as well strengthening control mechanisms in order to curb VAT fraud. Furthermore, in order to ensure the smooth re-insertion into the open economy of the large sums illegally acquired in the past, the Central government announced that Treasury notes (with a 5.5 per cent interest and which are not declared to the tax authorities) can be converted in 1991 into a "Special Treasury debt" instrument (with a non-taxable 2 per cent interest rate and six-year maturity). The Treasury notes are planned to be phased out by the end of 1992. Likewise, tax evaders not in possession of Treasury notes could also regularise their fiscal situation without paying fines by investing in the "Special Treasury debt". At the end of December 1991 when this scheme was terminated Ptas. 1 trillion (2 per cent of GDP) were invested into this Special Treasury debt, of which three-quarters by converting Treasury notes.

Public sector firms

Financial assistance to public enterprises have always been an important expenditure item in Spain, and have on the whole been considerably larger than shown in the general government operating account, because part of the subsidies are in the form of increasing participation in the capital of the firms, credit and loan guarantees, which are below the line. Throughout the 1980s the authorities restructured and privatised many firms, with the result that the financial situation of INI (the National Institute of Industry, a public holding group which controls most of the public sector firms) improved markedly and, though INI as a whole continued to incur losses (before financial assistance), many firms became profitable by the turn of the decade. With the sharp growth in labour costs and weakening activity, the financial situation deteriorated in 1990 and especially in 1991, when the INI group again recorded losses (provisionally estimated at Ptas. 60-70 billion), despite the sizeable financial assistance of the Central government. The prospects for 1992 are not better. Despite this worsening overall trend, many companies of the INI group are continuing to record profits in 1991, but probably less than in comparable private sector firms.

The Central government has decided to split the INI group into two distinct parts, but overall control would still be exercised by INI. As from 1992 the profit making and viable firms, even though some of them may still be in the red in 1992, will be regrouped under INISA (INI company limited), while the other firms under INISE (INI state company). After providing limited financial assistance to launch INISA, all links between the state budget and INISA will be eliminated in 1993 so that the latter will have to operate on the same basis as a private holding group. There are also plans to augment the capital base of the INISA companies by issuing shares on the Stock Exchange or accepting outside participation, when this is deemed necessary. On the basis of the 1991 returns, INISA companies account for nearly 80 per cent of the total sales of INI and 57 per cent of total INI employment.

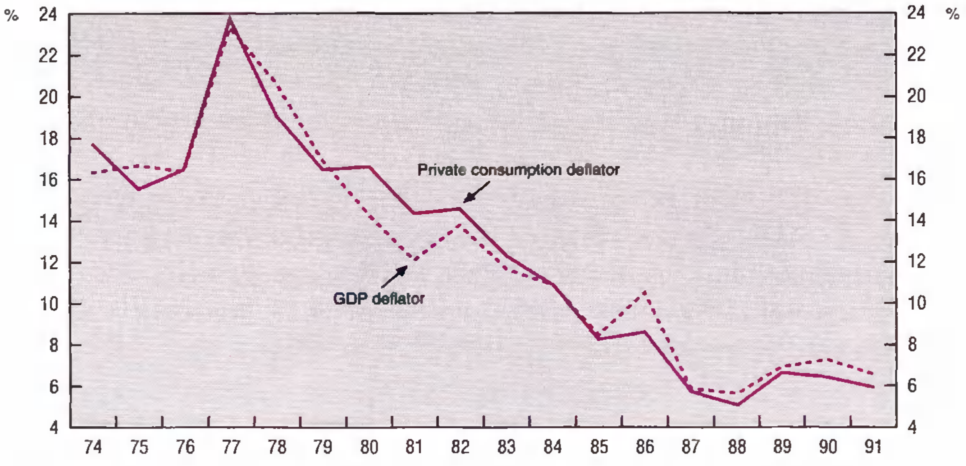
INISE will regroup the structural loss-making firms. First, some of the INISE companies will be sold to the private sector. Second, some others will be liquidated. Third, extensive restructuring is planned for the other companies, which will remain in the INISE group. HUNOSA (the mining company of the North), Santa Barbara (producing mainly military equipment), and a couple of shipbuilding and steel companies are the most important companies in the third category. These are likely to continue to receive central government subsidies, but at a diminishing rate as restructuring proceeds. HUNOSA, which receives the bulk of the subsidies, is the most difficult problem as its 18 000 workers are concentrated in Asturias, where the unemployment rate is among the highest in Spain. Likewise, Ensidesa, the biggest loss-making steel company, employs over 10 000 people in Asturias. The financial cost of maintaining HUNOSA in operation, as is the case for mining companies in other OECD European countries, is disproportionately high (estimated at just over 0.1 per cent of GDP). The income from sales covers little more than non-wage costs, with subsidies financing nine-tenths of the wage bill. Despite the heavy burden that the subsidies represent for the Budget and the economy as a whole, the Central government intends to proceed gradually in order to minimise the employment effects on the region.

In addition to the sizeable economies that can be obtained by modernising and rationalising the INI group, the Central government intends to partly privatise other public sector companies, following the successful example of Repsol, whose shares were over-subscribed by domestic and foreign investors. Partial privatisation of certain public sector financial institutions is also envisaged. The funds so raised could be used to reduce the central government debt.

IV. Inflation performance and structural rigidities

Spain's inflation performance has improved dramatically in the last 15 years. After peaking at 23 per cent in 1977 (the highest in the OECD after Iceland and Portugal) in the wake of the Franquist regime, inflation thereafter declined steadily, before stabilising at about 6 per cent from 1987 onwards (Diagram 10). However, inflation still remains relatively high, in terms of the GDP deflator some 2 percentage points above that of the OECD average and 1½ per cent above the EC average. This chapter seeks to throw some light on the

Diagram 10. **THE INFLATION RECORD**
Year-on-year percentage change



Source: OECD estimates.

Spanish inflation record and the factors behind it. Structural themes bearing on inflation will also be reviewed. The implications of the wide inflation differential *vis-à-vis* the EMS countries, especially in view of the next phase of the Economic and Monetary Union, are taken up in the Conclusions.

The anti-inflation strategy

The disinflation process up to 1987 was facilitated by the fact that Spain entered the 1980s with probably the largest degree of slack among OECD countries, which, moreover, continued to grow up to the mid-1980s. After remaining below the average of OECD Europe up to 1977, the rate of unemployment increased to 21 per cent in 1985, double the average for the OECD area and OECD Europe. During this period the authorities succeeded in establishing a consensus for gradually lowering inflation. The first nation-wide tripartite agreement was concluded in 1978, when a forward-looking wage indexation based on decelerating inflation targets was introduced. These agreements were discontinued in 1987 as labour unions, which were aspiring to large real wage advances during the recovery phase, considered the official inflation assumptions (to be incorporated in the wage agreements) too optimistic.

Besides efforts to preserve the social consensus for wage moderation, the Central government pursued a tight macroeconomic policy stance during the 1980s as well as structural adjustment to enhance supply responsiveness. Following the 1982 devaluation, monetary policy shifted towards restriction and has remained tight overall since then. The rate of expansion of the monetary base (M0) halved between 1981-85 and 1986-90. This went hand-in-hand with a significant change in the counterparts of M0. Whereas until 1985 monetary financing of public sector deficits was the main expansionary source of M0, the financing of the deficit had a contractionary effect between 1986 and 1990 (Table 13)[33]. Real interest rates, which turned negative towards the end of the 1970s, were on an upward trend in the ten years to 1990, with the result that they are now among the highest in the OECD (Diagram 11). In addition to exerting a direct damping effect on demand, high interest rates have been an important factor behind the sizeable appreciation of the peseta (by 10 per cent in nominal terms) during the second half of the 1980s, thus reinforcing the disinflationary effects of monetary policy. Entry into the EMS in 1989 further underpinned the

Table 13. **Monetary trends and the disinflation process**

Percentage change at annual rate

	1981-85	1986-90
Monetary base	25.5	11.2
of which:		
Public sector	12.6	–2.7
Other residents	7.6	3.6
External sector	5.4	10.3
ALP	15.2	12.2
GDP deflator	11.4	7.4

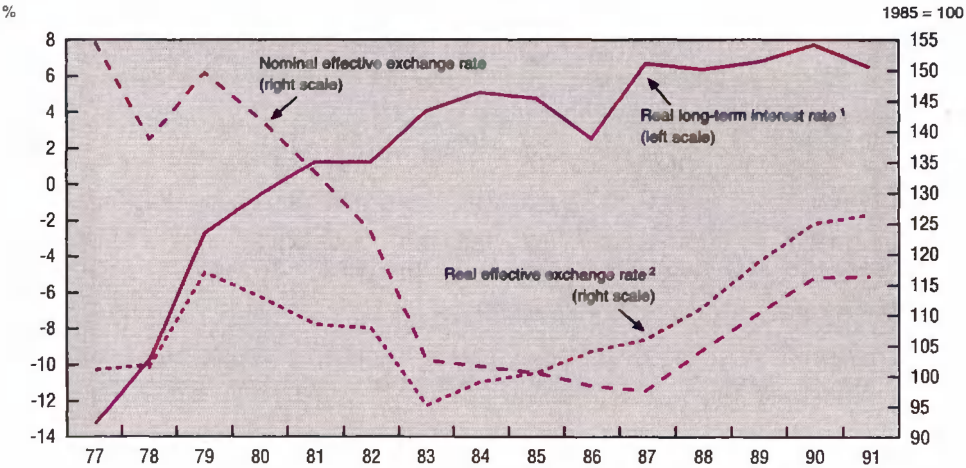
Source: Bank of Spain, *Boletín Estadístico.*

anti-inflation resolve of the authorities and favourably influenced inflation expectations.

By contrast, fiscal policy, which accompanied the disinflation process up to 1987, may have contributed to the stickiness of inflation since then. The marked increase in the general government deficit to 7 per cent of GDP over the six years to 1985 is mainly due to cyclical factors and the small fiscal easing could be justified given the size of economic slack. The subsequent rapid decline in the deficit up to 1987 is also mainly attributable to cyclical factors, but it has remained at about 3½ per cent of GDP since despite the rapid growth of activity and absorption of the slack by 1990[34]. Even though general government savings turned positive after 1987 and investment has been on a steep upward trend, thereby boosting productive potential, the high deficits of the last few years have no doubt contributed to excess demand in the economy in a period of strong autonomous domestic demand growth.

Between the end of the 1970s and the mid-1980s structural adjustment policies were focused on industrial restructuring, involving closure of capacity resulting in considerable redundancies. The Central government played an active role in this process and helped viable firms to modernise, thereby reducing costs. Since 1985, state subsidies both to public and private firms have been reduced somewhat and some loss-making firms were privatised. Following entry into the EC in 1986, trade barriers have been dismantled, opening up to competition the tradeable sectors, which were among the most protected in OECD Europe. In

Diagram 11. **EVOLUTION OF THE MONETARY POLICY**



1. Government bond yields.
2. Nominal effective exchange rate adjusted for relative changes in consumer prices.

Source: OECD estimates.

1984, for the first time, temporary work contracts were introduced and employers' social security contributions were also reduced for certain categories of workers. In addition to the direct impact on labour costs, these measures have important indirect disinflationary effects. They have stimulated the confidence of employers by considerably increasing the scope for adjusting the labour force to demand and supply shocks and have also reduced laying-off costs, which are excessive for permanent workers (see below). Improved labour market flexibility has also been an important factor behind the surge in foreign direct investment and the accompanying modernisation of large sectors of the Spanish economy since 1985.

Inflation trends and proximate causes

Concerted action for reducing inflation, highlighted by the wage agreements predicated on declining inflation, outweighed the inflationary effects of the second oil crisis in 1979 and of the devaluation of the peseta in 1982 (Table 14). As

Table 14. **Nation-wide wage agreements and inflation targets**

Percentage change at annual rate

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
National-pact targets											
from	13.0	11.0	9.0	9.5	6.5	5.5	7.2				
to	16.0	15.0	11.0	12.5	..	7.5	8.6				
Wage agreement	15.3	13.1	12.0	11.4	7.8	7.4	8.1	6.5	5.4	6.7	8.1
Inflation target [1]	14.5	14.0	12.5	12.0	8.0	7.0	8.0	5.0	3.0	3.0	5.7
outcome [1]	15.3	14.4	13.9	12.3	9.0	8.2	8.3	4.6	5.8	6.9	6.5
Memorandum item:											
Employers' offer								5.0	3.0	4.0	6.0
Unions' demand								8.0	6.0	8.0	9.0

1. December to December change in consumer price index.
Source: EPA and OECD.

a result, inflation fell gradually from the 1977 peak, reaching single digit figures in 1985. Influenced also by the world-wide disinflation and the oil price fall, the disinflation process continued up to 1988, when inflation bottomed-out at around 5½ per cent. Inflation crept up in the following year and has since fluctuated at around 6 to 7 per cent. Spain's gradualistic approach, combined with stronger disinflationary policies by its principal trading partners, resulted in a widening inflation differential *vis-à-vis* the OECD area and in particular *vis-à-vis* the EMS countries between 1980 and 1986. There was marked narrowing in 1987-88 and since then the inflation differential, measured by the GDP deflator, has been maintained at about 2 percentage points.

Cost-sources of inflation

The disaggregation of the GDP inflation rate among its main cost-components underlines the moderating influence of unit labour costs during most of the 1980s (Table 15). This favourable trend masks three different periods. First, in addition to the deceleration in wage increases, in line with the national wage pacts, there was a sharp rebound in productivity during the first half of the 1980s[35]. Second, between 1986 and 1988, in addition to moderate wage settlements, the substantial growth in the share of low paid temporary workers in total employment and the reduction in social security contributions for certain catego-

Table 15. **Cost-components of inflation**

	1981-83	1984-86	1987-88	1989	1990
GDP deflator[1]	12.5	10.0	5.7	7.0	7.3
of which:					
Unit labour costs[2]	6.0	2.9	1.9	2.1	3.2
Unit profits[2]	5.4	5.7	3.6	4.0	4.0
Indirect tax rate[2]	1.1	1.6	0.2	0.9	0.3
Memorandum items:					
Import price deflator[1]					
goods and services	21.4	0.3	0.7	2.4	–1.2
goods only	21.2	–1.2	–1.8	2.1	–2.7
Consumer-price deflator[1]	13.7	9.2	5.4	6.6	6.4

1. Percentage change at annual rate.
2. Percentage point contribution to GDP deflator at annual rate.
Source: OECD Analytical Databank and estimates; and Ministerio de Economía y Hacienda, *Apuntes y Documentos Economica, Economía Española Series Históricas.*

ries reduced the growth of the average compensation per employee to just over 6 per cent per annum[36]. It should, however, be noted that labour productivity growth also decelerated after 1985, thus partly compensating for the lower wage growth. Third, since 1989 the growth of unit labour costs has picked up, reflecting higher wage settlements, slower growth in the share of temporary workers in the workforce and virtually stagnant productivity.

Table 16. **Unit labour costs and profit margins**

Percentage change at annual rate

	1981-85			1986-90		
	Spain	EMS	Core-EMS[1]	Spain	EMS	Core-EMS
Wages	12.7	8.8	6.8	7.2	5.6	3.9
Productivity	3.5	2.2	2.1	1.7	2.0	2.2
Unit labour costs	9.0	6.5	4.6	5.4	3.5	1.7
Output prices	10.7	7.5	5.9	7.2	3.9	2.9
Profit margins	4.4	2.3	2.9	3.5	0.6	2.3

1. Core-EMS countries comprise Germany, France, Belgium, Denmark, Ireland, Luxembourg and the Netherlands.
Source: OECD estimates.

Profit margins expanded rapidly during most of the 1980s, admittedly starting from a very low level (Table 16). In addition to real labour cost moderation, business restructuring, especially during the first half of the 1980s, and the subsequent strong recovery in domestic demand underpinned the boom in profits (Table 16). However, it should be noted that in the tradeable sectors the increase in profits reflected the efficiency gains resulting from the renewal of capital stock and new investments rather than price increases. In 1989 after-tax net profits in Spain were just below those of the US and the Netherlands, but considerably above the average of the majority of OECD countries (Table 17). Profit margins peaked in 1989, but have since come down, contributing to an easing of inflationary pressures. Except for the introduction of VAT, which raised the price level by almost 2 per cent in 1986, the contribution of net indirect taxation to domestic inflation was relatively small in the 1980s as a whole.

Since 1985 the inflation performance measured by consumer prices is significantly better than that measured in terms of the GDP price deflator. Whereas up to 1985 import prices were rising faster than domestic costs, giving an additional twist to the inflationary spiral, since 1986 they have been exerting a strong damping effect. Thanks to the appreciation of the peseta the price of non-oil merchandise imports fell cumulatively by 4 per cent between 1985 and 1990, and

Table 17. **International comparison of profit rates around 1989 (manufacturing sector)**

Per cent of total sales

	after-tax net profit	net operating surplus
Spain	**4.7**	**6.5**
United States	5.7	7.2
Japan	1.7	5.2
Germany	2.3	3.3
France	3.6	6.8
Italy	2.7	6.5
United Kingdom	2.5	8.6
Belgium	2.2	4.8
Netherlands	5.2	5.4
Portugal	3.6	7.6

Source: Bank of Spain, *Central de Balances*, 1989.

including oil by 20 per cent. The reduction of external tariffs after joining the EC has reinforced the downward pressure on consumer prices, all the more so as the weight of imported goods in domestic demand also increased over this period. More generally, the opening of the Spanish market to foreign competition, coupled with the appreciation of the peseta, exerted a much stronger disinflationary effect than the mechanical calculations of the negative contribution of import prices would suggest (Table 15). Domestic producers have been forced to realign their prices progressively on those of their foreign competitors.

Sectoral sources of inflation

Aggregate price levels in catching-up countries generally are lower (using both current exchange rates and purchasing power parities) than in more advanced countries, and economic theory suggests that, in a context of fixed exchange rates (as is practically the case under the EMS), inflation in the former countries should be higher than inflation in the more advanced economies, provided there is convergence of productivity and efficiency levels[37]. For tradeables, purchasing power parities hold more closely and inflation rates typically do converge when there are no barriers to competition. By contrast, in most non-tradeable sectors prices are closely dependent on wages with neither foreign competition nor productivity gains playing a very large role. Accordingly, to the extent that productivity in tradeable sectors and real wage growth across the economy in catching-up countries usually exceed the corresponding growth rates in more advanced countries, inflation in non-tradeable sectors in the former countries is correspondingly higher than in the more advanced countries.

In the case of Spain, prices of tradeables have evolved in conformity with the above pattern, as illustrated by the striking convergence in the inflation rates between Spain and the EMS countries since 1986 (see prices of manufactures in Table 18). However, concerning non-tradeables, the theory explains only part of the Spanish inflation record in the 1980s. First, an international comparison of price levels in OECD countries shows that Spain's price level for services (which accounts for the bulk of the non-tradeables products) in 1985 was only a little below the EC average, when the rent component is excluded. Second, reflecting the considerably faster growth of prices of services in Spain, the gap *vis-à-vis* the EMS countries seems to have been largely absorbed by the end of the 1980s. Despite this, the steep upward inflation trend in services continued unabated at

Table 18. **Comparative consumer-price performance**

Percentage change at annual rate

	1981-85			1986-90		
	Spain	EMS	Core-EMS[2]	Spain	EMS	Core-EMS
Total	12.2	7.9	6.4	6.5	3.5	2.1
Food products	12.2	7.2	6.1	6.7	3.1	2.0
Manufacturing goods[1]	11.6	6.4	5.2	2.2	2.0	0.7
Services (excl. rent)	13.0	8.7	6.4	9.0	4.3	3.1

1. Producer prices.
2. Core-EMS countries comprise Germany, France, Belgium, Denmark, Ireland, Luxembourg and the Netherlands. The index for services less rent does not include Ireland and Luxembourg.

Source: OECD, *Main Economic Indicators.*

the beginning of the 1990s. The differential in the annual rate of inflation of services *vis-à-vis* the EMS countries was 4½ percentage points in the second half of the 1980s, and continued to be of the same order in 1991. This wide gap is considerably bigger than the above theory could predict on the basis of productivity and real wage growth differentials. As analysed below, the principal causes of Spanish inflation, associated with an abnormally large cumulative rise in the price of non-tradeables relative to tradeables, are to be found in the excessive domestic demand pressures up to 1990 and structural rigidities. These carry risks for the sustainability of the catch-up process.

Unbalanced growth and excessive demand pressures

The inflationary effects usually associated with a sharp pick-up in GDP growth were exacerbated by the fact that growth was domestically oriented. The annual rate of growth of domestic demand attained 7¼ per cent during the 1986-89 upswing, leading to overheating as unused capacity in many sectors was quickly taken up. The fact that the expansion of domestic demand was not evenly spread further exacerbated inflation pressures. First, the sharp rebound of investment (with an annual rate of growth of 13 per cent), supported by the surge in foreign capital inflows, caused major inflation strains in the construction sector. This sector's implicit-price deflator grew two-thirds faster than that of the rest of GDP over this period. Furthermore, asset-price increases quickened, exemplified by the near doubling of real estate prices in some big cities and coastal areas between 1986 and 1989. Second, the dramatic expansion of government consumption ($6\frac{1}{2}$ per cent per annum) augmented the pressure on resources while the slack was quickly absorbed by strong autonomous demand forces, thereby aggravating inflation tensions in labour and product markets. Third, the sizeable rise in household income during this period was accompanied by a shift in consumption patterns in favour of services. Demand for services grew twice as fast as total consumer demand, also contributing to the rapid increase in service prices (double that of manufactures) over this period[38]. However, the fact that even after the marked slowdown in activity since the second half of 1990 there has been no significant slowing of price rises in services, points to the institutional and micro rigidities affecting the Spanish economy.

Institutional and microeconomic rigidities

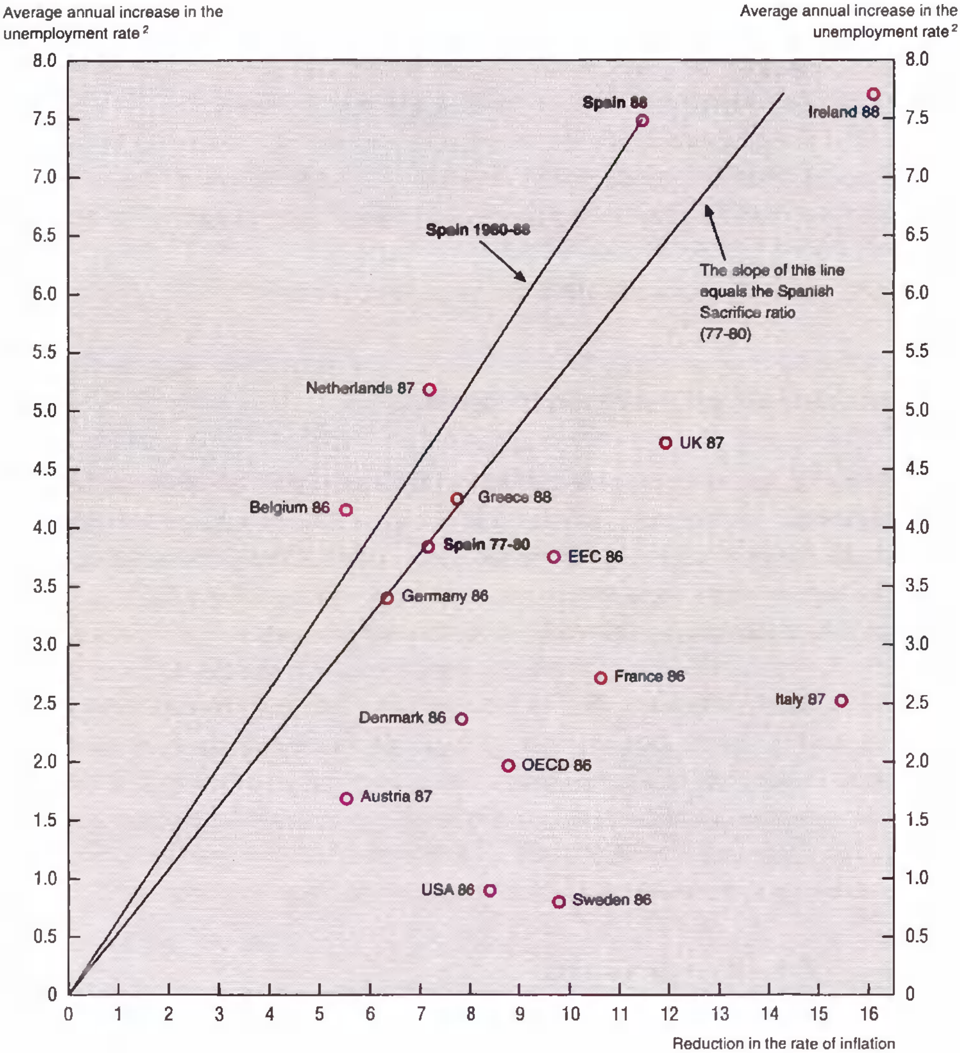
Extensive government intervention and the associated burdensome regulatory framework, corporatist attitudes and protection from foreign competition marked the Spanish economy up to the early 1980s. The economy has been changing rapidly since then; in particular, since Spain joined the EC the strong expansion has been associated with important transformations in the economic structure. However, traditions, practices, regulations and the institutional set-up have not adjusted sufficiently fast to the new more competitive economic environment, and it seems that this partly explains the persistence of inflation-proneness. In addition to the favourable impact on inflation, the elimination of structural rigidities should be an aim in itself, as it would help the Spanish economy to continue growing at a sufficiently rapid pace, to close the prosperity gap *vis-à-vis* its more industrialised EC partners over the longer-term.

Evidence of inflation-proneness

To begin with, without reference to rigidities of a structural kind, it seems difficult to understand why an economy with a rate of unemployment double that of OECD Europe in the 1980s has not succeeded in bringing inflation down faster. The analysis of sacrifice ratios over a long period provides further evidence of the inflation proneness of the Spanish economy (Diagram 12). The rise in unemployment or the loss of output necessary to bring inflation down by

Diagram 12. **SACRIFICE RATIOS, 1980-1988** [1]

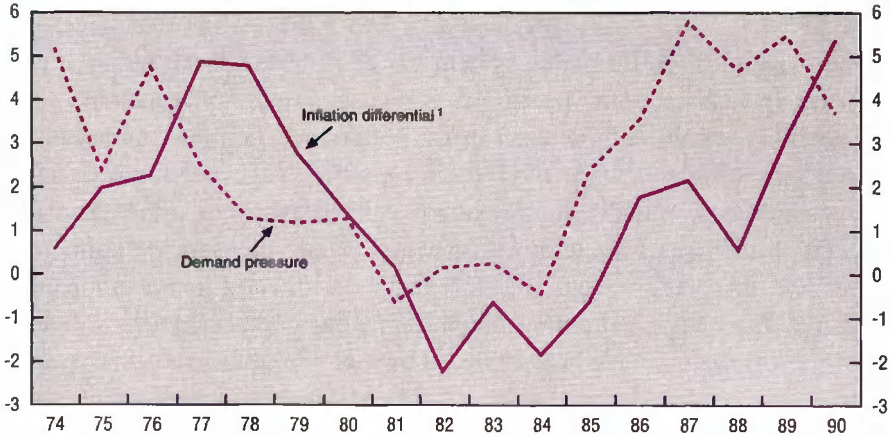
Percentage points



1. Changes in unemployment and inflation rates over the period 1980 to the year when inflation reached a trough, (indicated behind each country).
2. The increase in the unemployment rate over the disinflation period is computed as the average of the annual deviations of the actual unemployment rate from that observed in 1980, when the annual inflation rate peaked.

Source: OECD estimates.

Diagram 13. **SECTORAL INFLATION DIFFERENTIAL AND DEMAND PRESSURE**



1. Service vis-à-vis all industries.
Source: OECD estimates.

1 percentage point is twice as large in Spain as in the other big EMS countries. Allowing also for the fact that it is easier to reduce inflation (in terms of percentage points) in high inflation countries than in low inflation countries, the sacrifice ratio understates the unemployment/inflation trade-off in the case of Spain and overstates it in the case of low inflation countries, such as Germany. Econometric results also confirm the weak response of wages to unemployment[39].

Evidence of inflation-proneness is also to be found in the asymmetrical behaviour of service prices relative to industrial prices between the contractionary and expansionary phases of the cycle. In the former phase, as between 1980 and 1985, their rates of increase were broadly similar both in Spain and in its principal competitors. In the expansionary phase, unlike developments in the rest of the OECD, the rate of inflation in services (excluding rents) exceeded that of manufactures by almost 7 percentage points (Diagram 13)[40].

Wage formation and labour market rigidities

Wage-formation system

The existing wage formation system has contributed to the inflation proneness of the Spanish economy because it discourages both horizontal and vertical labour mobility within and between firms, sectors and regions. Influenced by a corporatist philosophy a very rigid framework for wage negotiations and for working conditions, called the "convenios colectivos", was established in the 1940s, the principal characteristics of which were the segmentation of the branches and the predominance of craft unions with rigid demarcation rules[41]. Even though the corporatist philosophy has long been discarded and many of the rigidities of this system have been replaced by more flexible arrangements in new collective agreements, especially in large firms, many aspects of the system continue to subsist, encumbering the functioning of the labour market.

Four thousand collective agreements (convenios) are signed each year, of which: 30 per cent at the sectoral level (affecting 60 per cent of workers), 60 per cent at the company level (affecting 10 per cent of workers) and the remainder at the national level. This "intermediate" wage-formation system as applied in Spain, lying between the centralised ones (found, for example, in the Nordic countries) and the decentralised ones (as in North America), seems to have strengthened inflation. For three-quarters of Spanish workers wage levels and working conditions in general are decided at the sectoral level. According to a study industry-specific or regional conditions play a limited role, although this is more true for big than for small firms[42]. The differences in wage levels between regions seem to be considerably more influenced by the differences in price levels than by unemployment conditions, suggesting that the variability of real wages is small. Nominal wages in Extremadura and Andalucia, with an unemployment rate more than twice as high as Navarra and Catalonia, are only about 15 per cent below those in the latter regions. At the other extreme, wages in La Rioja and Galicia are considerably below the national average despite their relatively very low unemployment rates.

Because most wage settlements are at the sectoral and national levels the agreed wage increases are often linear, irrespective of the wage level of the individual workers or categories of workers and irrespective of productivity considerations at the firm level. Furthermore, and perhaps inevitably in such a system, there are overlapping settlements, making for a strong inflation bias. Firms with healthy profits, as has been the case for the majority of firms since the mid-1980s, and/or desiring to raise efficiency by giving productivity-related premiums, usually grant higher wage increases than those fixed in the sectoral or national agreements. However, as there is pressure for similar wage rises in other less affluent firms, the ex-post wage growth, especially in periods of strong demand, is often much higher than collective wage settlements.

Wage indexation

The Spanish economy exhibits a high degree of inflation inertia, reflecting the important indexation elements in the system. The indexation is essentially backward-looking as expected prices incorporated in the wage agreements are mainly influenced by past price trends. In such a system, temporary rises in prices are quickly embedded in the general wage-price setting process, at the same time strengthening inflation expectations and thereby raising considerably the real cost of reducing inflation. The degree of indexation has increased in the last few years, as witnessed by the marked rise in the proportion of wage agreements including revision clauses. And as discussed below, the very high lay-off costs for permanent workers have also strengthened wage inflexibility.

The authorities tried, but with limited success, to make the system effectively forward-looking in 1988 and proposed very low inflation assumptions (3 per cent) to be used for wage agreements. Unions feared that such a system would entail temporary real income losses (due to a faster deceleration in wage growth than in price increases), which might be difficult to recuperate later. The subsequent overshooting of the inflation targets (partly caused by wage settlements higher than would have been consistent with the targets) eroded somewhat the credibility of the government's anti-inflation efforts. Labour unions also seemed to have been influenced by the lack of firmness in the public sector itself. Between 1986 and 1989 wage settlements in public enterprises were on the whole much higher than in the private sector. This, together with the significant wage drift in the Central government (mainly due to seniority and successive adjustments for certain categories) and big pay rises for regional government employees, has resulted in significant pay rises in the public sector, which have, to some extent, set the pace for the growing wage claims by private sector workers.

Costs related to the duality in labour markets

In addition to wages, firms have to bear other, less visible, labour-related costs that are passed on in higher prices. This essentially concerns permanent workers, which accounted for four-fifths of total workers in the second half of the 1980s (two-thirds in 1991). Dismissal costs for permanent workers are extremely high by international standards (Table 19)[43]. In the case of "economic" dismissals, the law provides for compensation, depending on the size of the firm, equivalent to 20 to 45 days' pay for each year worked, which given the low turnover of permanent workers, often represents up to two years of salary[44]. In reality, laying-off costs are even higher, given the tendency of employers to provide more generous compensation than stipulated by the law so as to avoid very long bureaucratic procedures (prior administrative authorisation for laying-off is required), court cases with an uncertain outcome and labour unrest liable to disrupt production.

In order to counterbalance the effects of the very rigid rules for permanent workers, the government introduced the possibility of fixed-term contracts in 1984. These can be renewed for six-month periods up to a maximum of three years. Not surprisingly these contracts have been very popular, contributing importantly to the sizeable net job creation of almost 2 million outside agriculture since 1985, but have also created important distortions. Employers, especially in small firms, are usually reluctant to transform temporary contracts into permanent ones. They prefer to lose trained workers rather than risk one day paying the high redundancy payments[45]. The associated turnover has detrimental effects on productivity both for the individual firm and for the economy as a whole, as skills acquired by temporary workers are lost if they move to a different job, as is often the case. Moreover, the high turnover of temporary contracts has raised frictional unemployment, the cost of which is borne by the whole economy. Last but not least, this duality of the labour market has exacerbated the insider-outsider division, with labour unions mainly concerned in obtaining high wage increases and providing protection for permanent workers, even if this is at the expense of job creation.

Limited labour mobility

Another important obstacle to the proper functioning of labour markets is the limited professional and regional mobility. The old labour legislation of the

Table 19. **International comparison of redundancy payments and dismissal costs**

	Prior administrative authorisation	Standard compensation (per year of service)	Maximum compensation	Maximum payments in case of unfair dismissal
Spain	**Yes**	**20 days**[1]	**1 year**	**3½ years**
Netherlands	yes	collective agreement	collective agreement	3 months or more
Germany	no	collective agreement	collective agreement	1 year
France	no	½ week	no maximum	6 months or more
U.K.	no	½ to 1½ weeks	30 weeks[2]	30 weeks[2]
Sweden	no	collective agreement	collective agreement	2½ years
Ireland	no	½ to 1½ weeks	30 weeks[2]	2 years
Austria	no	2 to 3 weeks		
Finland	no	prenotification-period[3]	prenotification-period	1½ year
Belgium	no	prenotification-period	6 months	6 months or more
Denmark	no	prenotification-period	3 months	39 weeks

1. For large companies the compensation is equivalent to 45 days, and the maximum is close to 2 years.
2. With a ceiling.
3. Includes delays prior to the collective redundancies (information and consultation with workers and or administration).
Source: *European Industrial Relations Review*, various issues.

Franquist regime, "ordenanzas laborales", still applies to many firms (between one-fourth and one-third), especially to small and medium-sized firms. On the basis of craft union principles, workers are supposed to do only specific jobs, limiting the scope of horizontal and vertical movement within the enterprise. This system produces important inefficiencies, lowering productivity and raising company costs considerably[46]. There are also important hindrances to regional mobility, buttressing labour costs not only in regions with excess demand for labour but, in certain cases, also in regions with excess labour supply. As discussed below, restrictive legislation concerning urban land use and rents has raised considerably the cost of housing for new tenants, thereby deterring geographical mobility, not only between regions but also between provinces in the same region. Another obstacle to mobility is the "empleo comunitario", applying to agricultural workers. There are as many as 290 000 people (20 per cent of agricultural employment) receiving minimum unemployment benefits throughout the year, provided that they are employed at least 90 days a year (the average work time was 137 days in 1990), mainly for seasonal work. This scheme, which applies only to Andalucia and Extremadura, by providing unemployment benefits over prolonged periods year after year to agricultural workers, discourages work effort and mobility, in turn putting upward pressure on costs[47]. Likewise, the high replacement ratio (unemployment benefits are 80 per cent of the last wage in the first six months and 70 per cent in the following six) not only reduces the supply and mobility of labour, but by leading to increases in social security contribution rates also directly raises labour costs.

Employment intermediation is also inefficient. Private employment offices, which play an important role in many OECD countries, are not allowed. At the same time, the official public employment offices (INEM) do not function as placement agencies, as they are overburdened with the distribution of unemployment benefits[48]. The control of the unemployed by INEM is also deficient. The unemployed, in principle, can refuse up to two job-offers, but in practice many more, given that the specifications of job-offers by INEM are often incomplete or because there is collusion by employers not to employ people not desiring to do the job offered. The inefficiency of INEM as a placement office is also reflected in the very low proportion (less than 10 per cent) of job vacancies filled directly by INEM, with the remaining filled directly by the firms.

Another impediment to labour mobility and to reducing production costs are the imperfections in the training and formation systems, despite the progress made since the mid-1980s. The impressive economic expansion over the last six years, coupled with the transformation of the production structure of the economy, has considerably increased demand for new skills requiring special training and relatively long studies, and, at the same time, has rendered many old skills obsolete. The system has not adapted sufficiently. The Central government has elaborated well-designed training programmes, with the help of the EC Social Fund. However, these are mainly administered by INEM, which, as in the case of placements, does not seem to have been successful. Moreover, the financial effort for training is also inadequate given the urgent needs in this area (in relation to GDP Spain spends less than half as much as the rest of OECD Europe) and recent surveys indicate that a growing proportion of firms are not satisfied with the training provided through official channels.

Imperfect competition and inadequate public services

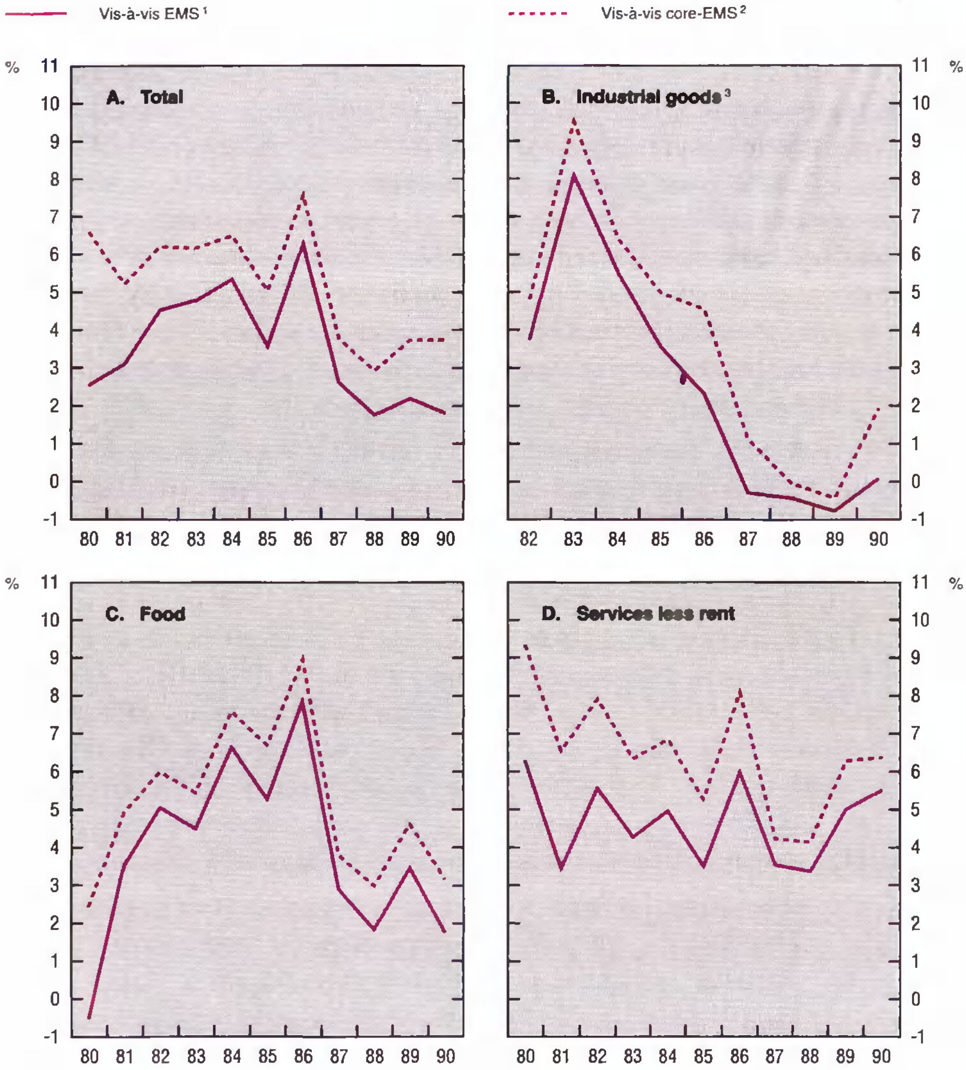
Competition policy

Competition in the goods markets has progressed considerably after the elimination of barriers since EC membership, and this is underlined by the convergence in inflation rates for goods between Spain and its principal trading partners. In services the situation is quite different; even for services open to foreign competition there are still strong oligopolistic elements[49]. Corporatist attitudes, anachronistic laws and regulations, market imperfections as well as inappropriate intervention and deficiencies in the services provided by the public sector have muffled competitive forces in other service sectors. These distortions have contributed to the steep upward trend in the price of services, making for a big differential *vis-à-vis* the EMS countries (Diagram 14).

The increase in the prices of transport (mainly due to the costs of private transport), health and medical services, private education, home repairs, restaurants and hotels, and domestic services has been considerably faster than the increase in the average price of services, making these a major factor behind the inflation stickiness in recent years. For restaurants, hotels and domestic services the rapid price advances are to some extent due to catch-up effects, as their prices were relatively low by EC standards during most of the 1980s. By contrast, the dramatic price rises in the other sectors seem to be the result of imperfect competition and insufficiencies in the provision of public services. Given that the average wage rises in these sectors were not significantly bigger than in the others, the rent-element in the income of professionals, small entrepreneurs and self-employed in these trades must have augmented appreciably over this period.

Collusive behaviour is common in the numerous professional organisations, "colegios profesionales", which have barriers to entry, apply strict rules to control their members and have great discretionary powers in fixing prices. Under a law passed in 1943, professional organisations can fix minimum prices. This is the case for private medicine, which combined with inefficiencies in public health services, has led to the price of hospitals and medical costs more than doubling since 1985. Insurance premiums also rose markedly over this period, reflecting in part the dominant position of insurance brokers in this market. The sizeable rise in the cost of house repairs (three-fourths since 1985) seems to owe more to restrictive practices due to cartelisation (as in the case of

Diagram 14. **INFLATION GAP BETWEEN SPAIN AND THE EMS COUNTRIES BY OUTPUT CATEGORIES**



1. Belgium, Luxembourg, Denmark, France, Germany, Ireland, Italy, Netherlands and United Kingdom except in the case of services less rent where Ireland, Luxembourg and United Kingdom are excluded.
2. Belgium, Luxembourg, Denmark, France, Germany, Ireland, Netherlands except in the case of services less rent where Ireland and Luxembourg are not included.
3. Producer Prices.

Source: OECD, *Main Economic Indicators.*

lifts) and to price guidelines of trade associations (e.g. electricians) and less to shortages of skilled personnel associated with the construction boom. Publishers were also fined for collusion in fixing the prices of school and university textbooks.

Pressed by the need to ameliorate the functioning of domestic markets and to comply with EC directives, the Central government introduced a new Competition Law in 1989, giving extended responsibilities to an independent Competition Court. Procedures can be initiated by individuals, associations, firms, and government administrations – and not only by central government, as was the case before. Furthermore, inspired by the EC competition policy, the law forbids agreements that may endanger competition including the abuse of dominant positions. The law also provides for controls over public aid and procurement bids. This is all the more necessary as regional governments and local authorities may be tempted to abuse their growing discretionary powers by privileging local companies. The law also gives to the Court the possibility of imposing heavy fines. Furthermore, the administration has set mechanisms for vetting mergers and acquisitions.

Despite the fact that the new policy has been functioning for only two years, the Court has dealt with a large number of cases. The new competition law has attracted wide public interest, and the media, for the first time, cover the cases brought before the Court. Most of the cases concern the service sectors (e.g. against banks for fixing certain commissions, against garages for fixing repair tariffs and profit margins on second-hand cars) and relatively few industries. In the beginning, the fines were relatively light, and were imposed essentially for pedagogic reasons, but more recently they have become heavier for dissuasive purposes; this situation can be compared with no fines imposed during the previous 25 years under the old competition law.

On the basis of the last few years' experience the Central government intends to improve competition policy further, and is favourably examining complaints regarding restrictive practices by liberal professions. Consumers' associations have been demanding the abolition of the minimum price fixed by "colegios profesionales". The Central government announced that in 1992 the insurance market will be deregulated, thereby abolishing the monopoly of insurance brokers, who are partly responsible for the high rises in insurance premiums in the last few years. These measures are expected to further reinforce the downward pressure on insurance premiums. The Central government recently announced the abolition of the monopoly of Telefonica on high value-added activities, including fax, mobile telephone services and transmission of data. The Central government is also concerned by the rising costs of public transport in urban areas, but it has limited powers in this field as, under the decentralisation, most of the responsibilities have been transferred to lower levels of government.

Inadequate public services

An important impediment to reducing costs at the national level has been the poor state of infrastructure and the inadequacies in public services. This explains the surge in public sector investment in recent years both by the central and lower levels of government. However, reflecting the long gestation periods of this type of investment, delays in the execution of the plans, combined with overlapping of some projects and the relatively high proportion of investment in a few specific ventures and regions (Catalonia for the Olympic games, Seville for the International Exhibition, and Madrid) the positive effects of infrastructure investment have been limited so far. However, the growth dividends should be more important in the future, all the more so when, after the completion of the above major projects, the distribution of investment is planned to be more evenly spread as between regions and activities.

As for public services, there are still important deficiencies, which largely explain consumers' shift in favour of private medicine and hospitals as well as of private education[50]. Taking advantage of the growing demand, the latter have increased their tariffs and fees considerably more than warranted by cost considerations. In addition, reflecting powerful wage-wage linkages, the incomes of doctors and other medical personnel in the public sector have been adjusted significantly in recent years. As in other OECD countries, strong cost pressures are expected to persist in these areas over the long run, and these can be moderated by promoting significant efficiency gains both in the public and private sectors.

Distortions in the property market

Antiquated laws and inappropriate policies have led to serious distortions in the housing and commercial property markets. Up to 1985 these markets were strictly regulated. Most rents were fixed and tenants could occupy the dwelling or commercial premise practically for as long as they wished and they could also pass this right to their descendants. It is not uncommon for the same dwelling or commercial premise to be occupied by the same family for up to three generations. In 1985 a decree was passed abolishing this servitude in the case of new leases, which thereupon could be of any duration. As a result there is now a dual market, with three-quarters of rented houses still under the old regime, where rents are extremely low. On the contrary, in the remaining non-protected segment rents are extremely high (the ratio of new to old rents exceeds 50 to 1 in certain urban areas). The same applies for commercial premises, but the protected segment probably is considerably smaller.

Another important obstacle for the proper functioning of the real estate market is the artificial shortages in the supply of urban land. Municipalities control the land and they restrict its supply so that urban land prices have remained high. This practice has marked the landscape of Spain, where the transition from the city to farm land is very abrupt, in contrast to most other countries, where buildings and farmland merge on the horizon.

The rent law and the shortage of urban land has manifold negative effects in the economic and social spheres. The artificial shortage of urban land evidently inflates rents and house prices and has adverse effects on welfare and impedes geographical mobility. Likewise, the duality of the market is not only the cause of great economic and social inequalities, but has also reduced supply of rented apartments, leading to a much higher level of rents and prices of buildings nation-wide[51]. First, rent controls over the years have resulted in a much smaller proportion of rented dwellings in the total housing stock than in most other OECD countries. Second, protected tenants have no incentive to move from expensive areas, which, combined with the limited availability of housing space, forces new tenants to bid for housing in less affluent areas, therefore giving a further push to rents in poorer districts too. Third, because the active population is mainly penalised by the high rents in the free market, they manage to recuperate part of this excessive rent in the form of higher wages, thus reinforcing the inflation process. The unjustified excessive protection of tenants in the one market has been matched by rather precarious conditions in the free market, as owners impose fairly short leases (nearly two-thirds of leases are of one year or less).

The Central government is preoccupied by this situation and has announced measures to lift the institutional bottlenecks which limit the supply of rented houses and urban land as well as to encourage the construction of social housing to alleviate the shortages, which penalise more low income categories. This is evident from the marked increase in the ratio of the price of older dwellings[52] to average household income, from 4¼ in 1985 to 5¾ in 1990, despite the substantial growth of incomes over this period. First, the Central government is trying to persuade municipalities to change their policy and is envisaging providing financial incentives to municipalities agreeing to co-operate and provide land for housing at reasonable prices. Second, changes in the rent laws both for dwellings and for commercial premises are planned, but deregulation is likely to be gradual given the government's concern not to provoke big social and economic disruptions. At the same time, the Central government is considering providing better protection to new lease holders. Third, in order to increase the supply of funds for housing the Central government intends to establish saving plans for house purchase, with very attractive terms, and also to provide adequate finance at low cost for social housing.

V. Conclusions

After the impressive growth performance in the second half of the 1980s the Spanish economy entered a phase of moderate expansion towards the end of 1990. The same forces, including cyclical factors and monetary policy tightening, which shaped recent economic developments elsewhere in the OECD, also brought about the marked deceleration in domestic demand in Spain in 1991, from the unsustainably high rates of the preceding three years. This was partly offset by the associated shift of resources to the external sector, so that in 1991 GDP continued to grow faster than in the OECD as a whole. Reacting rapidly to slower output growth and excessive wage claims, employment creation lost its strong momentum of the preceding five years, contributing to the levelling of the steep downward trend in the unemployment rate in 1991. As recognised by the authorities, a rebalancing of growth was necessary in order to moderate inflation and to stem the upward trend of the current external deficit, and a reversal of the earlier disturbing trends occurred in both these areas in 1991. Nonetheless, consumer-price inflation is still around 5½ per cent and underlying inflation between 6½ and 7 per cent.

Both 1991 and 1992 have to be seen as a phase of adjustment following the rapid growth in the preceding five years. After the increase in slack in these two years, GDP growth is projected by the Secretariat to pick up gradually to 3¼ per cent in 1993, about its potential rate. Further, but modest, disinflation gains and a small reduction in the current external deficit are also projected, aided in 1992 by the expected buoyancy in export earnings associated with the Seville International Exhibition and the Olympic Games. The better configuration of growth, led by investment and exports, should lead to a decline in unemployment, after the pause in 1991. However, these projections, which are somewhat less optimistic than the official ones, depend crucially on the revival in activity in Spain's main trading partners and, on the domestic front, on wage moderation and the arrest of rising public deficits in 1992 followed by a small reduction in 1993 – two areas where there is great uncertainty. Indeed there is a significant risk that these could veer off course: first, if unions again manage to secure high wage rises by taking advantage of the temporary pick-up in recorded inflation (due to the increase in indirect taxes) at the early stage of the 1992 wage round; and, second, if there are again delays in establishing efficient control mechanisms to strengthen financial discipline both at the central and lower government levels. Likewise, unfettered increases in services prices, as have occurred in the last few years, could jeopardise the projected improvements in inflation and in the real economy.

The consequences for competitiveness of relatively high inflation have been masked up to now by the effects of the remarkably rapid recovery and the fact that, starting from relatively low cost levels before joining the EC, Spain had a big initial competitive advantage. Furthermore, the sizeable domestic and foreign investments in the second half of the 1980s led to a substantial expansion in capacity and buttressed capital efficiency. Thus, despite the deterioration in relative unit labour costs, Spanish exports have outpaced market growth since 1985. This mitigated the impact of rapidly rising imports, and, together with record capital inflows, maintained the basic balance of payments in comfortable surplus over this period.

Domestic and international conditions have, however, changed since the mid-1980s. Six years of rapidly rising wages, coupled with the appreciation of the peseta, have considerably reduced the wide labour-cost margin that Spain enjoyed in the past. Overall profit rates, though still high compared with most of its competitors, have also shrunk, notably in tradeable activities. This, together, with less brisk foreign investment flows, would probably bring to an end the rising investment trend, entailing a slowdown in the rate of capacity expansion. Under these conditions, maintaining a sustainable rapid growth path, capable of making further inroads into the still-high unemployment, requires urgent action to contain inflation and to stop the trend-deterioration in external competitiveness. This is all the more evident as the cyclical downturn in the OECD area, the prospective abolition of intra-EC barriers, and the emergence of the new central and eastern European democracies presage a period of intensified price competition.

The convergence of inflation to the average of its EMS partners is an important medium-term objective of the Central government. However, without the concurrence of all the political, economic and social players, it will be difficult to achieve. The government itself has to set the right course, first, by maintaining a tight macroeconomic policy posture, and second, by taking sustained and effective action to eliminate the institutional and structural rigidities responsible for the inflation-proneness of the Spanish economy (reviewed in Part IV of the Survey). Improving inflation performance is also dependent on exposing to increased competition the professionals, small entrepreneurs and the self-employed in the protected sectors of the economy, who account for an important part of the inflation slippages in services in recent years. Greater labour market flexibility and union moderation would also contribute to slowing wage growth. Reversing the business sector's disappointing labour productivity trend during the second half of the 1980s is also the responsibility of the corporate sector. Indeed, without significant efficiency gains, companies will not be able to expand in the 1990s, thereby undermining their ability to create new jobs over the longer term.

A better policy-mix, depending more on fiscal restraint, would relieve monetary policy, which has borne alone the brunt of the anti-inflation drive in the last couple of years. This was reflected at times in a much higher level of interest rates than was desirable from the point of view of the real economy and external considerations. The negative influences of monetary tightening on investment and the tradeable sectors, through squeezing profits, and the accompanying shift of resources to sheltered low-productivity sectors affect the potential growth of the economy. Lower interest rates would also alleviate the sizeable debt-servicing costs both of the general government and of the economy as a whole, reflected in the substantial interest payments to foreigners, which contribute importantly to the current external deficit. Fiscal policy supporting the working of monetary policy is particularly necessary to meet the requirements of the European Economic and Monetary Union, which, together with the newly introduced freedom of capital movements, is expected to increase considerably the external constraint on monetary policy. In order to ameliorate the efficiency of monetary management in this more sophisticated environment, the authorities have introduced new financial instruments and succeeded in establishing a more balanced maturity structure of the public debt in the last couple of years. This should facilitate open market operations and make it easier for the authorities to influence inflation expectations and maintain stable exchange market conditions, in line with the obligations of EMS membership.

Budgetary overruns have been frequent in recent years, underlining in particular rigidities on the spending side which have maintained the general government deficit at nearly 4 per cent of GDP in the last couple of years. Overruns are likely to continue, not only because the broadening social coverage and the introduction of generous benefits since 1989, together with demographic factors, create future commitments, but also because the present system leaves too many possibilities for abuse and fraud. As experience in other OECD countries has shown, raising sufficient revenue to finance fast rising social expenditure will be extremely difficult, both from the political and economic point of view, especially in a period of moderate growth. As discussed in Part II, there is a big margin for reducing social expenditure without necessarily affecting the provision of social services to intended beneficiaries. In the pension area the problem is the very high proportion of invalidity pensions, pointing to the need for stricter eligibility criteria and better controls to reduce fraud. As for unemployment benefits, there is a need, first, to reorganise INEM (the national institute of employment) so as to increase its control-functions over the registered unemployed and to make it a more efficient placement agency for genuine job seekers; and, second, to increase considerably the duration of prior work giving the right to benefits and to introduce means-tests for large categories of workers, especially those doing seasonal work. The subsidies, under the "Empleo Comunitario", given to seasonal agricultural workers to keep them off the labour markets during the major part of the year discourages them from searching for employment and reduce mobility. This system needs to be reviewed. The Central government has announced that it is studying many of these problems and will introduce corrective measures.

Budgetary consolidation also requires more determined action to combat tax evasion, and the central administration has been moving in this direction. However, it usually takes time for such measures to produce their full effect. The 1992 Budget proposes the upgrading of objective criteria for evaluating taxable incomes of large categories of non-wage earners. It has also been announced that controls will become more numerous and results publicised. It is hoped that these measures will be implemented in full and that the public will become conscious of the adverse economic and social consequences of extensive evasion of personal income tax and VAT. At the end of 1991 the central and regional governments were still discussing the budgetary and financial arrangements regarding regional finances for the 1992-96 period. It is recognised that the finances of the Autonomous regions have to be controlled better and the duplication of personnel and activities eliminated. In addition to securing greater transparency, the Central government, in collaboration with the regional governments, should set stricter rules governing regional expenditure growth and deficit financing, as well as improving monitoring by establishing in addition automatically-triggered sanctions so as to prevent overruns. With the aim of curbing deficits, under existing arrangements debt servicing costs of regional governments cannot exceed 25 per cent of their total expenditure. However, this has proved not to be a binding constraint and it is preferable to replace it by a much lower ratio applying to interest payments and/or the level of indebtedness. Lenders and borrowers would also show greater discipline if the Central government made it clear that it would not bail out over-indebted regions.

It is also evident that the disinflation process has to be secured at least cost in terms of growth and this can be achieved only if, parallel to a tight overall macroeconomic policy stance, structural reforms are pursued. Indeed, if macroeconomic policies alone were to carry the burden of the anti-inflation drive, this would necessitate a considerable monetary and fiscal tightening, leading in turn to sizeable losses in output and employment that would be difficult to bear for an economy with a rate of unemployment of 16 per cent. As analysed in this and earlier Surveys, the Central government has introduced wide-ranging market-oriented reforms in many areas from the moment it came to power almost ten years ago. However, the challenges of the 1990s are different from those of the 1980s and many institutional arrangements have outlived their usefulness, so that the pace of reform has both to be speeded up and to be extended into new areas. Labour market rigidities have also been considerably reduced since the mid-1980s, but many problem-areas still exist. A major issue is labour-market duality, reflected in excessive protection for permanent workers alongside the flexibility of temporary workers. Redundancy payments for permanent workers are excessively high by international standards. Although these could be partly justified ten years ago when unemployment benefits and coverage were inadequate, the latter are now comparable to those of the advanced European industrial countries, so that when added to the very high redundancy payments effective unemployment benefits greatly outdistance those of Spain's main trading partners. In addition to lay-off costs, the Survey stresses the need to reduce the strong backward-looking indexation elements in wage formation, which contribute to the unusually low response of wages and inflation to unemployment. Labour has to become aware that wage moderation would not only generate greater employment creation, but would also bring down inflation without hindering real wage gains. Lastly, given the pace-setting role of many public sector collective agreements, both at the government and enterprise levels, it is imperative that wage settlements in the public sector moderate and the wide wage drift be curbed.

The Central government's policies for promoting greater labour mobility should be encouraged. Geographical mobility can be facilitated to a great extent by abolishing outdated rent laws and by inducing municipalities to stop restricting the supply of urban land. Indeed, housing shortages in many areas coupled with high prices are an unexpected feature in a country with one of the lowest population densities in Europe. The increasing emphasis on training should also reinforce vertical and horizontal mobility, but, as for housing policy, part of the responsibility for implementation rests with regional governments, which have to adapt the schemes to meet local conditions. The elimination of the last traces of the corporatist laws of the 1940s concerning wage categories and trade demarcation lines would also help to improve mobility.

The new Competition law is a major step forward, and both the Competition Court and the central administration have accomplished considerably more in the two years of their existence than was done in the previous quarter of a century. However, there are still important impediments to competition that the present competition policy arrangements barely touch. These are essentially the restrictive practices in services which have been largely responsible for the inflation stickiness of recent years. In order to increase competition in these sectors the right of the different "colegios professionales" to establish minimum prices, to impose barriers to entry or transfer from one corporation to another, etc. need to be changed. Moreover, attitudes and behaviour of professionals, craftsmen and other self-employed or small employers have to be made to change. However, as all of this will take time, the authorities could in the meantime initiate discussions with representative organisations, use the leverage of the administration and propose incentives, as well as sanctions, to force upon them a more responsible pricing behaviour. Likewise, improving cost-efficiency in public services (such as health and education) and utilities (notably transport) could moderate price increases in comparable private sector activities.

To sum up, the Central government succeeded in cooling off an overheated economy in 1991, but the disinflation process has been less pronounced than was officially expected or desirable, underlining once again the inflation-proneness of the Spanish economy. And although the short-term prospects point to a gradual pick-up in activity, the outcome may again fall short of expectations if prices are not better controlled and external competitiveness is eroded significantly further. In a medium-term perspective, the realisation of Spain's strong growth potential, capable of narrowing the still wide GDP gap *vis-à-vis* its EMS partners and reducing unemployment further, depends on improving inflation and budgetary performance. It is important that all economic agents be made aware of the stakes involved and act accordingly.

Notes and references

1. Household debt tripled between 1985 and 1990 compared with a rise of only 70 per cent in net household income.
2. This was reflected in an unusual decline in recorded labour productivity in the business sector, excluding agriculture, during a period of still rapid GDP growth (around 4.5 per cent) in 1989 and early 1990. Even allowing for measurement problems and compositional effects *(see OECD Survey of Spain, 1990/1991,* Part I, "Continuing strong employment growth"), which overstate the decline in recent years, the trend-productivity in business, excluding agriculture has been virtually flat since 1986.
3. Reflecting the rising participation of women, participation of the age group 25 to 55 continued to rise at almost the same rate as in the previous five years, whereas that of the younger age groups declined by around 1.5 percentage points and that of the older groups by 0.7 percentage points, suggesting that the discouraged worker effect was not the principal cause of the decline in the overall participation rate.
4. The inflation figures for 1991 as whole mask this improvement due to the distorting effects of energy prices in 1990 and the carry-over from 1990.
5. First, the prices of imported manufactured consumer goods have been broadly flat since 1988. Second, the prices of imported raw materials and semi-manufactures declined both in 1990 and 1991, permitting domestic producers to moderate their price rises in the face of strong domestic cost pressures.
6. Published data on wage settlements and wage growth should be used with caution, partly because of the significant change in the composition of employment. In recent years there have sometimes been big differences between the level of wage settlements and the average wage economy-wide, because of the marked increase in the proportion of temporary, part-time and other workers under the employment promotion programmes in total employment. Wages received by the latter categories are generally much lower than those of permanent workers, mainly because they are employed mostly in low skilled jobs and do not benefit from seniority and other premiums. Accordingly, the data presented in Table 5 do not purport to show exact levels and rates of change, but only orders of magnitude and direction of change.
7. Because of the big fluctuations in the value of the US dollar, balance of payments data shown in US dollars mask to a certain extent the improvement of the balance of payments after 1988. The US dollar depreciated by 16 per cent *vis-à-vis* the peseta in 1990, the changes both in 1989 and 1991 were relatively small.

8. Relative unit labour costs in manufacturing (relative export unit values of manufactures) rose by over one-quarter (less than one-fifth) between 1985 and 1990, and by 3/4 per cent (1 1/2 per cent) in 1991.

9. Due to the depreciation of the US dollar *vis-à-vis* the peseta, Table 6 exaggerates the 1991 increase. In pesetas the increase is smaller and the 1991 level of net tourism receipts is likely to remain below the 1988 peak.

10. Published figures show a small fall in net private foreign investments into Spain in 1991 due to a steep rise in Spanish investments abroad. Likewise, balance of payments data show a small decline in foreign direct investments (net of reimbursements) in 1991, but this seems to be exclusively due to the fact that in earlier years part of company borrowing from abroad was taking the form of direct capital inflows to avoid the 30 per cent obligatory deposit ratio on foreign loans (this ratio was abolished in March 1991).

11. The annual rate of growth of total domestic credit was 12 per cent in the first quarter of 1991, due to a contraction of net lending to the Central government (11.5 per cent, annual rate), reflecting the substantial amounts of public debt bought by non-residents.

12. In 1989, the Basque regional government issued low yielding short to medium-term debt (Pagarés Forales), which ensured secrecy for tax purposes (as is the case for Treasury notes issued by the Central government), and the proceeds of which were deposited in higher yielding bank accounts. Following agreement with the Central government these Notes were withdrawn on maturity.

13. It should be recalled that banks are obliged to hold (though diminishing over time in relation to liabilities) low-yield Bank of Spain certificates of deposits, which also limit their room for manoeuvre in the interest rate field. In March 1990 the 17 per cent compulsory reserve ratio with the Bank of Spain was replaced by a prudential 5 per cent cash reserve ratio. Banks were obliged to invest the released funds in Bank of Spain certificates of deposit (at a 6 per cent interest rate). These certificates, to be phased out between 1993 and 2000, are tradeable between banks and the Bank of Spain.

14. The only remaining restriction concerns exports of cash money in excess of Ptas. 5 million in order to prevent money laundering.

15. Excluding this distortion the central government deficit was budgeted to fall from 1.9 per cent of GDP in 1990 to 1 per cent in 1991.

16. In addition to the downward trend in profitability in the last couple of years, which affects the withholding taxes raised in 1991, there will be sizeable corporate tax refunds in the last quarter of 1991 pertaining to 1990. This is because withholding taxes applied in 1990 (normally calculated on the previous year's results) turned out to be considerably higher than warranted by the final profit situation in 1990 (on the basis of companies' balance sheets published in the first half of 1991).

17. The retirement and invalidity pensions for people over 64 years with one person in charge rose to 100.2 per cent of the minimum wage in 1991 from 88.8 per cent in 1987. Equally important have been the upward adjustments of the rest of the old age, widow and invalidity pensions.

18. Total regional government expenditure was budgeted to grow by 13.5 per cent in 1991 (22.5 per cent in the previous two years). The share of regional governments in total general

government expenditure was 11 per cent in 1986 and 15 per cent in 1990, while that of local authorities was 12 and 15 per cent respectively. The combined investment of these lower levels of government was 59 per cent of general government investment in 1990.

19. During the year Bank of Spain advances to the Central government can exceed this upper limit.

20. The ALP growth target range for 1992 is set at 8-11 per cent and M3 at 7-11 per cent, broadly the same as in 1991.

21. The macroeconomic assumptions incorporated in the 1992 Budget are: GDP growth accelerating to 3.3 per cent – roughly in line with potential – and mainly driven by private consumption and private investment, consumer-price inflation at 5.3 per cent consistent with wage growth of 6 per cent and an unemployment rate of 15.3 per cent.

22. On the assumption that unions have become sensitised to the unemployment problem, the Secretariat wage growth hypothesis is 7 ¼ per cent for 1992. If wage growth turns out to be higher, then, together with the increase in social security contribution rates, the growth in the compensation per employee will exceed 8 per cent. However, a stronger than assumed wage growth will likely lead to less employment creation, making for a faster growth in productivity than projected, thus largely offsetting the adverse impact of higher wage growth on unit labour costs.

23. The pick up in housing starts towards the middle of 1991 will show up in an increase in residential investment in the second half of 1992.

24. The annual rate of decline in self-employed in agriculture was 5 per cent during the 1980s and accelerated to 9¼ per cent in the two years to 1991, partly because of the bad harvest in 1989. The OECD assumes the gradual return to the longer-run trend rate of decline over the projection period, which explains the steeper growth in total employment in 1992. Non-agricultural employment is projected to rise by 1.3 per cent in 1992, down from 1.5 per cent in 1991.

25. The value of imports is 50 per cent above that of exports. Therefore, for the trade deficit to be reduced the rate of growth of export values must be at least 50 per cent higher than that of imports.

26. For the unemployment rate to fall below the 15 per cent mark the nominal wage and real wage growth have to rise respectively by about one and one-half percentage point slower in 1992 and 1993 on average than assumed in the above projections.

27. In 1993 the surplus of the combined service and factor income account is expected to shrink somewhat, reflecting the termination of the exceptional receipts related to the Olympic Games and the Seville International Exhibition.

28. It should be recalled that recorded labour productivity in the business sector, excluding agriculture and fisheries, was stagnant between 1985 and 1990. Even allowing for recording and measurement deficiencies, this implies that actual productivity rose probably by no more than 3-4 per cent cumulatively, which is nearly two-thirds below the growth in the OECD total.

29. Despite the cuts announced in July 1990 and the completion of the public works for the Olympic Games and the Seville International Exhibition, the authorities do not foresee a significant reduction in public investment in relation to GDP over the medium term.

30. As analysed in the Chapter on "Macroeconomic Policies" pension expenditure has been rising fast since 1989 and this trend is expected to continue over the medium term. The gradual realignment of pensions to the level of minimum wages is expected to increase the pension bill by about a further 3 per cent. The granting of non-contributory pensions to 400 000 people is estimated to cost an additional 1 per cent over 1992 and 1993.

31. See *OECD Survey of Spain, 1988/1989,* Part III, section on "Health care", and also Part IV of this document.

32. Efforts to curb tax evasion have started to bear fruit. On the basis of controls made in 1991, it was discovered that in 1990 for all non-wage categories the index of fraud, non-declared revenues as a per cent of declared revenues, was 88 per cent according to the Ministry of Finance. Admittedly, this figure exaggerates the extent of the fraud, as it is based on the controls made by tax inspectors, who normally concentrate on the most obvious cases.

33. Reflecting capital inflows, the external sector became the principal source of high-powered money creation between 1986 and 1990.

34. The cyclically adjusted general government deficit (the structural deficit) gradually increased from 2 per cent of GDP in 1987 to 4 per cent in 1991.

35. The sharp productivity advances during this period were not growth related, but mainly the result of massive redundancies associated with restructuring.

36. Wages of temporary employees are nearly one-fifth below those of permanent employees, mainly because they are employed in low-skill jobs and do not enjoy seniority and other premiums. It should be noted that the annual rate of growth of wages of permanent employees of all categories was over 8 per cent over this period, entailing a real increase of 2 per cent per annum.

37. A detailed exposition of this can be found in the seminal article of Balassa, B., "The purchasing-power parity doctrine: a reappraisal", *Journal of Political Economy,* Vol. 72, No. 6, December 1964.

38. The share of services (excluding housing) in private consumption at constant prices grew from 45 per cent in 1985 to 49.6 per cent in 1990, with the share of non-food goods remaining stable at 15.5 per cent.

39. The derived elasticity of 0.2 is one of the lowest in the OECD area, where the average elasticity is 0.5 to 0.6.

$W = P + 0.8\ PROD + 0.2\ UN \qquad R^2 = 0.85$

W = wages

PROD = productivity of labour

P = consumer price

UN = unemployment

40. After Australia this is the largest difference in the OECD, and contrasts with the relatively small difference in the EMS countries, which, with few exceptions, succeeded in reining in inflation over this period.

41. The economy was split into different branches, and employees and employers belonged to the same union (one for each branch), which was supposed to set wages and other working conditions. Moreover, within these branches there was an internal division of labour, as each employee belonged to one out of the five or six categories, with very strict description of the job and remuneration for each of these categories.

42. J. Andrés and J. Garcia *''Factores determinantes de los salarios. Evidence para la industria española''*,mimeo, Universidad de Valencia, January 1991.

43. This is also confirmed by the study of M. Emerson, ''Regulation or deregulation of the labour market: policy regimes for the recruitment and dismissal of employees in the industrialised countries''. *European Economic Review,* Vol. 32, No. 4, April 1988.

44. The average redundancy payment exceeded one year's wage in 1990, and over two year's wage for large companies.

45. This is stressed in the article of J. Segura et al., ''Analisis de la contratación tempora en España'', Ministerio de Trabajo y Seguridad Social, Madrid 1991.

46. See Novales et al., ''El paro en España', FEDEA, Madrid 1990, and Dolado J.J. et al., ''Spanish industrial unemployment: some explanatory facts'', *Economica,*53, 1986.

47. Reflecting the construction boom in Andalucia (mainly in seaside resorts and in Seville) demand for labour for construction work increased considerably in the last few years. However, as this was not met by the large pool of unemployed agricultural workers in Andulucia (who preferred to continue receiving the benefits under the Empleo Communitario), wages of construction workers rose very much in Andalucia, surpassing those in other, even more developed regions.

48. Together with Ireland, Spain is the country with the largest number of unemployed per staff member in employment offices (in 1988 there were 733 unemployed for each staff member, about seven times more than the average of the OECD countries having similar offices).

49. The first breach in the collusion in interest-rate fixing by banks was made a couple of years ago by the introduction of high-yielding super current accounts by one bank, forcing the other banks to follow, thus opening the way for greater competition, to the benefit of bank clients.

50. See for a succinct analysis of the problems related to public sector health and education in the *OECD Survey of Spain, 1988/1989,* ''Determinants and control of government expenditure''.

51. It should also be noted that the housing stock in the protected segment is not in good shape, as owners have no incentive to renovate. In the 1991 Census only just over one-third of respondents occupying a rented dwelling said that the dwelling was in good condition, and most of these probably were new lease holders. One-fourth of the tenants, almost all in the protected segment, replied that their dwelling was in a bad state.

52. Source: Mortgage Bank of Spain (BHE).

STATISTICAL ANNEX

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

Billion pesetas

	Current prices 1986	1987	1988	1989	1990	1986 prices 1986	1987	1988	1989	1990
I. Expenditure										
1. Private consumption	20 437.7	22 864.1	25 160.3	28 313.3	31 258.9	20 437.7	21 625.5	22 648.6	23 901.1	24 791.2
2. Government consumption	4 740.2	5 451.8	5 924.2	6 786.7	7 579.3	4 740.2	5 160.1	5 368.1	5 776.1	6 030.7
3. Gross fixed capital formation	6 296.8	7 510.5	9 053.2	10 791.4	12 235.3	6 296.8	7 177.4	8 182.0	9 303.7	9 931.1
4. Changes in stocks	162.0	258.4	474.6	599.3	659.4	162.0	244.0	425.7	505.0	549.0
5. Exports of goods and services	6 416.9	6 981.3	7 571.7	8 133.8	8 616.1	6 416.9	6 806.5	7 163.2	7 371.5	7 680.1
6. *less:* Imports of goods and services	5 729.7	6 941.5	8 023.6	9 603.6	10 261.6	5 729.7	6 887.0	7 874.7	9 213.7	9 960.1
7. Gross domestic product at market prices	32 324.0	36 124.6	40 160.4	45 021.0	50 087.4	32 324.0	34 126.5	35 912.8	37 643.7	39 021.9
II. Value added by sector										
1. Agriculture, forestry and fishing	1 815.1	1 970.4	2 138.8	2 194.4	2 285.2	1 815.1	2 040.3	2 123.9	1 977.4	2 032.7
2. Industry	9 427.0	10 238.1	11 230.4	12 111.6	12 811.5	9 427.0	9 844.2	10 279.3	10 632.7	10 806.3
3. Construction	2 102.6	2 484.4	3 002.6	3 731.5	4 524.8	2 102.6	2 277.4	2 525.3	2 871.2	3 169.8
4. Services	17 182.3	19 120.8	21 162.2	23 991.9	27 332.2	17 182.3	17 970.8	18 829.1	19 850.4	20 652.4
5. Net indirect taxes	1 797.0	2 310.9	2 626.4	2 991.6	3 133.7	1 797.0	1 993.8	2 155.2	2 312.0	2 360.7
6. Gross domestic product at market prices	32 324.0	36 124.6	40 160.4	45 021.0	50 087.4	32 324.0	34 126.5	35 912.8	37 643.7	39 021.9

	1985	1986	1987	1988	1989	1990
III. National income						
1. Compensation of employees	12 903.8	14 587.8	16 304.3	18 143.0	20 312.9	22 852.3
of which: Wages and salaries	10 021.5	11 210.5	12 540.2	13 842.7	..	..
Employers' contributions to social security	2 914.7	3 415.5	3 806.2	4 338.8	..	..
Net compensation from abroad	–32.4	–38.3	–42.0	–38.5	–38.1	–40.1
2. Gross operating surplus	13 314.7	14 917.1	16 700.5	18 757.8	20 904.1	23 155.0
Households and private non profit institutions	7 452.8	8 576.9	9 615.8	10 641.2	11 707.7	12 875.7
Corporate and quasi-corporate enterprises	5 572.9	6 018.3	6 729.6	7 721.2	8 733.6	9 759.3
General government	289.0	321.9	355.1	395.4	462.8	520.0
3. Consumption of fixed capital	3 587.5	3 857.9	4 165.0	4 565.4	4 995.8	5 476.6
4. Net national income at factor cost	22 631.0	25 647.0	28 839.8	32 335.4	36 221.2	40 530.7

Sources: INE, *Contabilidad Nacional,* 1991; and Banco de España, *Cuentas financieras,* 1991.

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

Billion pesetas

	1985	1986	1987	1988	1989	1990
1. Compensation of employees	12 936.2	14 626.1	16 346.3	18 181.4	20 351.0	22 892.4
2. Property and entrepreneurial income, gross	7 452.8	8 576.9	9 615.8	10 641.2	11 707.7	12 875.7
3. Other income from property	1 327.5	1 317.9	1 329.1	1 481.8	1 733.7	2 083.7
4. Current transfers	5 028.3	5 626.3	6 255.5	6 964.3	7 965.3	9 044.5
of which: Social security and social assistance benefits	4 273.7	4 767.7	5 289.5	5 883.4	6 686.5	7 618.8
5. Change in the actuarial reserves for pensions	47.0	168.1	154.6	319.8	182.3	132.8
6. Current receipts	26 791.8	30 315.3	33 701.3	37 588.5	41 940.0	47 029.1
7. Final consumption expenditure	18 080.0	20 437.7	22 864.1	25 160.3	28 313.3	31 258.9
8. Direct taxes on income and property	1 834.3	1 960.0	2 745.0	3 156.3	3 866.9	4 178.7
9. Current transfers	4 585.7	5 264.1	5 887.2	6 583.3	7 330.7	8 267.6
of which: Social security and social assistance contributions	3 390.8	3 908.8	4 420.5	4 812.0	5 523.8	6 352.8
10. Current disbursements	24 500.0	27 661.8	31 496.3	34 899.9	39 510.9	43 705.2
11. Disposable income (6-8-9)	20 371.8	23 091.2	25 069.1	27 848.9	30 742.4	34 582.8
12. Gross saving (11-7)	2 291.8	2 653.5	2 205.0	2 688.6	2 429.1	3 323.9
13. Saving rate, per cent (12/11)	11.2	11.5	8.8	9.7	7.9	9.6

Sources: INE, *Contabilidad Nacional*, 1991; and Banco de España, *Cuentas financieras*, 1991.

Table C. **Public sector accounts**

Billion pesetas

	1986	1987	1988	1989	1990
	1. General government				
Current account					
Receipts					
Gross operating surplus	321.9	355.2	395.0	445.0	513.0
Property income receivable	332.4	288.4	311.7	396.0	460.0
Indirect taxes	3 401.3	3 761.4	4 162.0	4 657.0	4 950.0
Direct taxes on income and wealth	2 655.0	3 708.9	4 200.7	5 431.0	5 942.0
Actual social contributions	3 794.4	4 269.6	4 677.1	5 368.6	6 061.5
Imputed social contributions	334.8	347.8	350.9	393.4	435.5
Miscellaneous current transfers	702.9	782.1	880.2	914.0	1 025.0
Total	11 542.7	13 513.4	14 977.6	17 605.0	19 387.0
Disbursements					
Final consumption expenditure	4 740.2	5 451.8	5 924.2	6 831.0	7 610.0
Property income payable	1 278.5	1 255.9	1 342.5	1 560.0	1 769.0
Subsidies	634.8	654.2	830.9	889.0	934.0
Social security benefits	4 512.0	4 990.4	5 567.2	6 277.0	7 312.0
Miscellaneous current transfers	519.2	544.9	599.0	740.0	760.0
Statistical discrepancy	19.8	16.2	0.0	0.0	0.0
Gross saving	–161.8	600.0	713.8	1 308.0	1 002.0
Capital account					
Receipts					
Gross saving	–161.8	600.0	713.8	1 308.0	1 002.0
Capital transfers	87.6	78.2	132.2	176.8	175.4
Capital taxes	60.5	72.4	99.5	90.0	87.6
Total	–13.7	750.6	945.6	1 574.8	1 265.0
Disbursements					
Gross fixed capital formation	1 129.5	1 189.1	1 476.0	1 975.0	2 429.0
Capital transfers	737.0	635.0	704.8	833.8	805.0
Net purchases of land and intangible assets	49.8	56.2	64.8	23.0	35.0
Net lending (+) or net borrowing (–)	–1 930.0	–1 129.7	–1 300.0	–1 257.0	–2 004.0
(Per cent o GDP)	(–6.0)	(–3.1)	(–3.2)	(–3.5)	(–3.6)

Sources: INE, *Contabilidad Nacional,* 1991; and Banco de España, *Cuentas finaciera,* 1991.

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

Billion pesetas

		1986	1987	1988	1989	1990
		2. Central government				
1.	Tax revenue	4 992.9	6 244.0	6 834.2	8 294.1	8 759.1
2.	Property and entrepreneurial income (gross)	275.1	213.0	221.0	281.5	324.9
3.	Current transfers	1 027.5	1 136.1	1 214.4	1 359.5	1 439.6
4.	Total current revenue	6 295.5	7 593.1	8 269.6	9 935.1	10 523.6
5.	Purchase of goods and services	2 181.4	2 488.3	2 559.8	2 840.1	3 112.6
6.	Current transfers	3 278.3	4 003.1	4 322.1	5 018.0	5 391.9
7.	Subsidies	446.5	410.7	529.0	533.9	550.7
8.	Others	1 136.2	1 082.0	1 152.4	1 317.3	1 449.6
9.	Total current expenditure	7 042.4	7 984.1	8 563.3	9 709.3	10 504.8
10.	Gross saving	–552.8	–182.6	–68.3	495.2	325.8
11.	Capital taxes	9.2	8.0	21.3	17.2	1.4
12.	Capital transfers	105.9	124.3	165.1	176.4	126.7
13.	Total capital resources (10 to 12)	–437.7	–50.3	118.1	688.8	453.9
14.	Gross fixed capital formation	330.1	384.2	484.3	615.5	848.8
15.	Net purchases of land and intangible assets	8.9	17.5	19	21.1	21.4
16.	Capital transfers	886.7	797.8	781.2	1 024.8	949.6
17.	Total capital expenditure (14 to 16)	1 225.7	1 199.5	1 284.5	1 661.4	1 819.8
18.	Overall financial surplus (+) or deficit (–) (13 less 17)	–1 663.4	–1 249.8	–1 166.4	–972.6	–1 365.9

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

Billion pesetas

	1986	1987	1988	1989	1990
	3. Territorial government[1]				
1. Tax revenue	1 063.3	1 226.2	1 504.6	1 763.4	2 078.0
2. Property and entrepreneurial income (gross)	45.1	53.0	61.9	75.1	94.5
3. Current transfers	1 246.1	1 649.2	1 814.9	1 996.9	2 200.0
4. Total current revenue	2 354.5	2 928.4	3 381.4	3 835.4	4 372.5
5. Purchase of goods and services	1 549.3	1 806.2	2 010.2	2 281.6	2 570.4
6. Current transfers	290.0	304.4	391.7	479.0	615.9
7. Other	292.7	369.8	434.0	493.9	620.0
8. Total current expenditure	2 132.0	2 480.4	2 835.9	3 254.5	3 806.3
9. Gross saving	310.4	550.7	666.5	717.1	716.4
10. Capital taxes	51.3	64.4	77.2	79.3	113.6
11. Capital transfers	301.1	297.9	278.6	411.6	517.4
12. Total capital resources (9 to 11)	662.8	913.0	1 022.3	1 208.0	1 347.4
13. Gross fixed capital formation	740.7	736.1	912.8	1 138.5	1 409.3
14. Net purchases of land and intangible assets	40.8	38.8	45.7	55.2	58.6
15. Capital transfers	123.8	133.9	204.2	298.9	347.6
16. Total capital expenditure (13 to 15)	905.3	908.8	1 162.7	1 492.6	1 815.5
17. Overall financial surplus (+) or deficit (–) (12 less 16)	–242.5	4.2	–140.4	–284.6	–468.1
	4. Social security institutions				
1. Social security contributions	3 755.4	4 220.8	4 629.4	5 261.8	6 045.6
2. Transfers	1 375.8	1 651.6	1 850.6	2 140.4	2 284.9
3. Other current receipts	57.9	35.0	69.4	60.0	88.5
4. Total current receipts	5 189.1	5 907.4	6 549.4	7 462.2	8 419.0
5. Purchase of goods and services	1 009.6	1 157.3	1 354.3	1 665.0	1 896.3
6. Social security benefits	4 017.2	4 446.6	4 989.9	5 656.6	6 471.1
7. Current subsidies and transfers	121.0	125.0	154.1	83.0	111.8
8. Total current expenditure	5 147.8	5 728.9	6 498.3	7 404.6	8 479.2
9. Gross saving	80.6	222.1	99.9	114.3	2.4
10. Gross capital formation	58.7	68.8	79.2	118.7	141.9
11. Others	55.4	51.3	52.6	7.3	2.1
12. Total capital expenditure	114.1	120.1	131.8	126.0	144.0
13. Total income from capital	9.4	5.1	27.5	38.6	58.8
14. Overall financial surplus (+) or deficit (–) (9 plus 13 less 12)	–24.1	107.1	–4.4	26.9	–82.8

1. Regional and local government.
Sources: INE, *Contabilidad nacional,* 1991; and, Banco de España, *Cuentas financieras,* 1991.

Table D. **Labour market**

	1984	1985	1986	1987	1988	1989	1990
	Thousands						
Civilian labour force[1]	13 734	13 839	14 071	14 407	14 633	14 819	15 020
Civilian employment[1]	10 966	10 870	11 111	11 452	11 781	12 258	12 579
Agriculture	2 016	1 975	1 784	1 728	1 694	1 598	1 486
Industry	2 746	2 653	2 697	2 764	2 804	2 898	2 978
Construction	831	790	849	932	1 021	1 134	1 220
Services	5 374	5 451	5 781	6 028	6 261	6 629	6 895
Employees, total	7 331	7 330	7 675	7 996	8 357	8 879	9 273
Unemployment	2 767	2 969	2 959	2 955	2 852	2 561	2 441
	Per cent						
Participation rate							
Total	49.1	48.7	48.9	49.4	49.6	49.5	49.7
Men	71.1	70.1	69.7	69.1	68.1	67.8	67.8
Women	29.2	29.3	30.0	31.5	32.5	32.8	33.4
Structure of the labour force according to education level							
Illiterate	3.2	2.3	1.9	1.9	1.8	1.7	1.5
Without studies	11.4	10.2	9.2	9.8	10.3	10.1	9.6
Primary degree	59.2	48.4	46.1	43.1	41.2	38.9	37.7
Secondary degree	22.9	34.8	38.0	40.4	41.7	43.8	45.6
University degree	3.3	4.4	4.8	4.8	4.9	5.4	5.6
Employment structure[2]							
Agriculture	18.4	18.2	16.1	15.1	14.4	13.0	11.8
Industry	25.0	24.4	24.3	24.1	23.8	23.6	23.7
Construction	7.6	7.3	7.6	8.1	8.7	9.3	9.7
Services	49.0	50.1	52.0	52.6	53.1	54.1	54.8
Unemployment[3]							
Total	20.1	21.5	21.0	20.5	19.5	17.3	16.3
Two years or more	7.4	8.7	9.1	11.1	10.9	9.8	8.6
Men	17.9	18.8	18.0	16.8	15.2	13.0	12.0
Women	25.0	27.2	27.4	28.0	27.7	25.4	24.2
Less than 25 years old	45.3	46.7	45.1	43.1	39.9	34.4	32.3
25-54 years old	14.1	15.7	15.3	15.0	14.7	13.7	13.1
Over 55 years old	7.6	8.2	9.0	8.9	8.4	8.2	7.6

1. These exclude those who are on compulsory service, but include the professional military as well as marginal workers.
2. Per cent of total employment.
3. Per cent of total labour force.

Sources: Ministerio de Economia y Hacienda, *Síntesis Mensual de Indicadores Económicos;* and Ministerio de Trabajo y Seguridad Social, *Boletin de Estadisticas Laborales.*

Table E. **Price and wage trends**

Percentage change at annual rate

	1984	1985	1986	1987	1988	1989	1990
	Prices						
Consumer prices	11.3	8.8	8.8	5.2	4.8	6.8	6.7
Food	12.6	9.5	10.6	5.0	3.7	7.7	6.5
Non-food	10.6	8.4	7.9	5.4	5.4	6.3	6.8
Energy	10.5	4.5	–6.3	–3.9	–0.6	2.6	8.2
Non-energy	11.4	9.1	9.9	5.8	5.1	7.0	6.6
Non-food and non-energy [1]	10.6	8.9	9.8	5.8	5.4	7.1	6.5
Industrial prices	12.2	8.0	0.9	0.8	3.0	4.2	2.2
Food	13.5	6.9	4.2	1.7	1.9	7.0	1.2
Non-food	10.0	7.7	5.6	4.8	4.0	3.5	4.0
Energy	8.4	8.8	–11.1	–7.0	0.5	2.9	5.5
Non-energy	12.9	7.8	3.1	2.1	3.3	4.4	1.7
Consumer goods	11.2	7.7	5.1	3.9	3.3	4.5	3.1
Investment goods	10.1	8.3	6.2	5.0	4.7	4.6	4.1
Intermediate goods	13.4	8.1	–3.1	–2.4	2.2	3.8	0.9
of which: excluding energy	15.6	7.7	0.2	–0.8	2.8	4.1	–0.6
Unit value of exports	12.3	6.7	–3.5	2.6	4.4	4.6	–2.0
Unit value of imports	11.2	2.3	–17.4	–2.2	–1.4	2.1	–2.7
Non-energy	12.1	2.5	–2.0	0.3	1.5	0.7	–4.0
	Wages						
Average increase in contractual wages	7.8	7.9	8.2	6.5	6.4	7.8	8.1
Monthly earnings per employee	9.9	9.3	10.9	7.8	7.5	6.6	8.9
Daily pay in agriculture	8.8	7.9	9.0	6.5	5.1	9.2	11.5
Salary cost per head in construction (including social security contributions)	10.6	7.3	9.4	7.3	7.0	9.9	13.0

1. Seasonal food and energy excluded.

Sources: Ministerio de Economia y Hacienda, *Sintesis Mensual de Indicatores,* 1991; and Ministerio de Trabajo y Seguridad Social, *Boletín de Estadisticas Laborale,* 1991.

Table F. Money and credit

Billions de pesetas

	1989	1990				1991	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	1. Monetary indicators *(quarterly changes)*						
M1	714.7	56.8	1 494.8	421.1	987.0	176.4	985.4
of which:							
Currency in circulation	324.2	–209.0	196.8	149.4	488.0	22.8	276.6
Sight deposits	456.9	192.3	1 297.9	271.8	499.0	153.6	708.8
Saving deposits	195.3	–306.6	146.8	164.7	395.7	–140.0	256.4
Time deposits	134.2	457.3	100.6	224.1	331.6	598.3	718.6
M3	1 044.3	207.5	1 742.1	810	1 714.3	634.7	1 960.5
Other liquid assets in the hands of the public	–140.8	–4.9	63.4	44.2	331.1	861.0	–749.5
ALP (liquid assets in the hands of the public)	903.5	202.6	1 805.5	854.2	2 045.4	1 495.7	1 211.0

	1985	1986	1987	1988	1989	1990
	2. Monetary indicators *(end of period, levels)*					
A. ALP (liquid assets in the hands of the public)	26 080	29 368	33 553	37 354	41 465	46 377
a) M1	6 327	7 152	8 238	9 707	11 155	14 114
of which: Currency in circulation	2 081	2 402	2 736	3 241	3 836	4 534
Sight deposits	4 246	4 750	5 502	6 466	7 319	9 580
b) M2	11 627	13 127	14 666	16 950	18 907	22 267
of which: Saving deposits	5 300	5 975	6 428	7 244	7 752	8 153
c) M3	22 135	23 001	24 781	27 343	30 344	34 818
of which: Time deposits	10 508	9 874	10 115	10 393	11 438	12 551
d) Other liquid assets in the hands of the public	3 944	6 367	8 772	10 011	11 121	11 558
B. Non-monetary liabilities	2 553	2 850	3 427	4 850	6 729	7 207
a) General government	1 266	1 268	1 418	1 767	2 803	2 699
b) Private sector	1 287	1 581	2 010	3 083	3 925	4 508
	3. Credit aggregates *(end of period, levels)*					
C. Internal credit	28 287	32 060	36 650	42 280	48 542	54 325
a) Credit to general government	8 694	10 718	12 183	13 639	15 270	17 585
of which: Bank credits	3 041	2 589	2 446	2 393	2 887	3 592
Securities	6 997	9 180	10 558	10 673	11 269	12 421
Money market credits	772	1 047	1 303	1 073	1 727	2 191
Other	–2 116	–2 098	–2 123	–499	–612	–619
b) Credit to private sector	18 907	20 723	23 895	28 122	32 861	36 365
of which: Bank credits	17 321	19 054	22 045	25 622	30 753	34 256
Securities	1 495	1 638	1 588	1 850	1 936	1 994
Money market credits	92	124	307	677	172	115
c) Credit to public enterprises	686	619	571	519	411	375
D. Credit to foreign sector	1 417	1 687	2 755	3 066	2 993	2 766

Source: Banco de España, *Boletín estadístico,* 1991.

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

Million dollars

	1983	1984	1985	1986	1987	1988	1989[3]	1990[3]
Imports (fob)	27 463	26 939	27 740	33 164	46 234	57 573	67 777	83 175
Exports (fob)	19 874	22 660	23 550	26 714	33 399	39 570	43 221	53 679
Trade balance	–7 589	–4 279	–4 190	–6 450	–12 835	–18 003	–24 556	–29 496
Invisibles, net	3 883	5 228	5 834	9 245	10 150	9 805	9 013	8 396
of which:								
Tourism	6 003	6 922	7 087	10 442	12 827	14 233	13 172	14 221
Investment income	–2 463	–2 395	–1 806	–1 997	–2 753	–3 522	–2 970	–3 786
Transfers, net	1 163	1 089	1 099	1 126	2 615	4 508	4 607	4 236
Current balance	–2 542	2 035	2 744	3 922	–70	–3 690	–10 935	–16 864
Private long-term capital	2 217	2 678	–1 274	489	9 301	10 324	16 451	17 225
Official long-term capital	994	469	–36	–2 131	–101	–875	503	1 673
Total long-term capital	3 211	3 147	–1 310	–1 642	9 200	9 449	16 954	18 898
Basic balance	669	5 182	1 434	2 280	9 130	5 759	6 019	2 034
Short-term capital[2]	356	515	107	134	1 855	456	–900	–898
Errors and omissions	–1 557	–2 091	–1 875	63	–1 294	–2 355	–2 609	–4 263
Monetary movements (increase in assets = –)	899	–3 076	1 305	–1 245	–12 430	–7 226	–4 121	–2 992
Changes in reserves (increase in reserves = –)	48	–4 795	2 213	–2 261	–12 888	–8 247	–4 868	–6 766

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

Sources: Ministerio de Industria, Comercio y Turismo, *Sector Exterior,* 1991; and OECD estimates.

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

1. By commodity

Billion pesetas

		1984	1985	1986	1987	1988[2]	1989	1990[3]
		1. Imports, cif						
1.	Live animals and related products	100.61	117.16	188.86	243.99	283.47	349.09	371.99
2.	Vegetables	308.47	274.39	285.18	248.93	260.79	276.39	289.61
3.	Oils and fats	17.89	19.92	21.77	23.74	25.34	34.81	28.93
4.	Food products, beverages and tobacco	144.18	152.56	168.28	201.61	257.46	276.81	311.29
5.	Mineral products	1 852.45	1 951.69	1 037.31	1 082.56	909.83	1 136.94	1 172.30
6.	Chemicals and related products	333.37	373.47	463.33	541.68	600.61	672.05	704.80
7.	Artificial plastic materials	119.13	137.21	179.28	220.94	256.01	313.63	355.13
8.	Leather, leather manufactures	57.41	68.32	73.14	98.50	103.60	107.76	94.65
9.	Cork and wood products	45.25	55.93	62.39	77.29	99.44	129.87	130.26
10.	Paper, articles of paper pulp	84.73	96.74	125.26	155.03	191.33	233.92	268.28
11.	Textile and related products	111.14	129.42	164.21	215.64	256.37	342.57	403.44
12.	Footwear, hat-making	6.45	8.50	12.34	17.85	23.89	24.51	31.86
13.	Mineral manufactures, plaster, glass	34.81	40.11	52.37	69.09	79.68	97.49	107.30
14.	Pearls, precious stones, jewellery	50.74	49.41	25.85	26.92	34.03	42.04	63.52
15.	Manufactures of metal	274.15	344.16	391.51	405.46	515.36	625.99	642.39
16.	Machinery and electrical machinery	658.81	775.11	979.22	1 335.95	1 769.53	2 091.37	2 208.18
17.	Transport equipment	226.00	275.44	413.99	688.50	956.64	1 180.63	1 210.44
18.	Optical instruments, photographic apparatus, sound equipment	174.47	200.77	261.60	309.83	258.28	308.48	359.01
19.	Arms and ammunition	0.99	1.40	2.18	1.90	2.63	3.04	4.45
20.	Furniture, toys, sporting goods	23.68	27.72	39.85	61.80	84.01	109.77	131.73
21.	Works of art, antiques	2.23	10.54	6.64	24.17	21.10	39.22	25.20
00.	Not classified	3.16	4.75	0.05				
	Total	4 630.12	5 114.71	4 954.60	6 051.38	6 989.40	8 396.38	8 914.76
		2. Exports, fob						
1.	Live animals and related products	48.69	55.05	58.42	70.75	89.40	100.79	113.28
2.	Vegetables	273.36	285.86	350.25	414.19	445.11	446.38	418.24
3.	Oils and fats	70.56	80.52	47.23	64.07	78.70	47.98	92.52
4.	Food products, beverages and tobacco	205.21	206.40	189.69	218.32	218.33	225.76	232.74
5.	Mineral products	429.65	457.56	300.69	322.18	256.51	298.73	320.00
6.	Chemicals and related products	241.71	282.54	253.33	299.19	318.90	327.48	343.07

7. Artificial plastic materials	138.46	158.12	154.71	186.47	223.52	238.13	256.72
8. Leather, leather manufactures	55.16	66.41	73.63	88.56	78.40	79.11	72.66
9. Cork and wood products	48.82	48.98	43.36	44.02	43.58	48.18	51.81
10. Paper, articles of paper pulp	114.40	123.32	126.00	144.90	156.16	160.88	161.46
11. Textile and related products	182.75	195.00	178.30	196.71	209.99	208.94	228.48
12. Footwear, hat-making	128.67	145.44	138.29	140.85	134.70	134.92	156.99
13. Mineral manufactures, plaster, glass	96.66	96.32	100.43	114.72	136.16	156.95	171.26
14. Pearls, precious stones, jewellery	49.66	36.10	27.73	27.36	27.01	29.16	28.57
15. Manufactures of metal	550.61	630.44	468.64	421.56	471.77	532.64	539.70
16. Machinery and electrical machinery	405.91	485.16	505.85	567.17	633.31	760.00	868.10
17. Transport equipment	596.17	628.09	664.51	749.32	926.01	1 092.45	1 320.46
18. Optical instruments, photographic apparatus, sound equipment	21.00	29.59	34.18	38.18	39.45	45.47	53.07
19. Arms and ammunition	5.87	6.29	5.07	6.11	9.74	7.21	7.85
20. Furniture, toys, sporting goods	56.36	61.32	68.00	80.32	106.96	115.32	123.97
21. Works of art, antiques	1.06	6.81	17.02	16.90	55.79	78.08	81.86
00. Not classified	22.71	23.43	10.56				
Total	3 743.45	4 108.75	3 815.89	4 211.85	4 659.50	5 134.56	5 642.81

1. Customs clearance basis
2. From 1988, new classification.
3. Provisional figures.

Source: Ministerio de Industria, Comercio y Turismo, *Sector exterior,* 1991.

Table H. **Foreign trade**[1] *(cont'd)*

2. By geographical area

Billion pesetas

	1984	1985	1986	1987	1988	1989	1990
				1. Imports, cif			
Total	4 630.1	5 115.7	4 954.6	6 051.4	6 989.4	8 396.4	8 914.7
OECD	2 504.9	2 894.3	3 562.7	4 482.8	5 434.4	6 543.4	7 026.3
of which:							
United States	519.1	556.1	488.3	501.3	627.6	762.7	744.8
Japan	142.2	174.0	243.8	271.3	358.9	401.6	395.2
Canada	22.1	21.3	19.4	26.5	30.6	41.2	44.4
EEC,total	1 582.8	1 870.1	2 502.3	3 300.1	3 969.2	4 790.1	5 300.6
of which:							
United Kingdom	281.0	329.9	382.4	424.6	497.7	549.0	638.1
France	398.0	471.3	586.6	773.4	942.3	1 157.1	1 307.3
Germany	458.4	538.1	749.4	973.8	1 130.1	1 369.2	1 463.0
Italy	195.2	233.0	359.7	533.2	673.7	835.0	905.6
Portugal	36.0	10.2	63.7	100.9	143.7	196.6	222.8
Non OECD countries	2 125.2	2 221.4	1 391.9	1 568.6	1 555.0	1 853.0	1 888.4
of which:							
Ex-COMECON	144.1	119.3	86.2	156.2	179.7	212.8	189.9
OPEP	1 118.7	1 037.8	553.3	572.3	466.4	625.3	640.6
Latin America	502.6	533.0	332.9	358.9	357.3	382.9	378.5
Other	359.8	531.3	419.5	481.2	551.6	632.0	679.4
				2. Exports, fob			
Total	3 743.5	4 108.8	3 815.9	4 211.8	4 659.5	5 134.5	5 642.8
OECD	2 569.5	2 890.5	2 952.4	3 352.6	3 785.0	4 206.8	4 655.1
of which:							
United States	355.6	408.0	348.7	342.3	367.3	385.5	328.9
Japan	58.5	53.5	42.4	46.3	55.0	63.2	64.3
Canada	36.7	42.0	43.2	44.2	54.1	45.0	35.8
EEC, total	1 903.2	2 139.2	2 296.6	2 680.9	3 055.9	3 432.8	3 910.4
of which:							
United Kingdom	336.1	348.5	336.2	398.1	455.4	516.6	507.2
France	555.9	636.9	686.7	784.6	864.0	1 000.6	1 173.1
Germany	351.5	391.5	446.0	500.3	560.9	616.3	756.0
Italy	222.4	288.2	302.7	380.1	448.2	484.9	603.8
Portugal	88.7	89.5	129.1	190.2	259.3	321.8	341.7
Non OECD countries	1 174.0	1 218.3	863.5	859.2	874.5	927.7	987.7
of which:							
Ex-COMECON	93.7	123.3	69.6	66.6	59.1	79.2	66.8
OPEP	339.7	295.9	210.0	189.4	210.9	202.0	195.1
Latin America	165.9	199.8	173.3	140.9	136.9	179.0	192.1
Other	574.7	599.3	410.6	462.3	467.6	467.5	533.7

1. Customs clearance basis.

Source: Ministerio de Industria, Commercio y Turismo, *Sector Exterior*, 1991.

Table I. **Foreign assets and liabilities**

Billion pesetas, end of period

	1986	1987	1988	1989	1990
Liabilities	9 164.1	10 388.4	12 500.0	15 201.7	19 760.6
Monetary institutions	3 804.9	4 152.1	4 904.9	5 769.7	7 903.1
Bank of Spain	55.4	49.1	92.7	87.8	50.7
Banking system	3 749.5	4 103.0	4 812.2	5 681.9	7 852.4
Government	493.7	559.8	689.8	959.5	1 320.3
Private sector	4 804.5	5 618.8	6 797.4	8 369.0	10 471.3
Assets	7 102.1	8 538.7	9 788.4	10 791.9	12 608.9
Monetary institutions	5 278.4	6 642.8	7 685.1	8 284.5	9 533.1
Bank of Spain	1 953.2	3 616.4	4 625.2	4 952.8	5 347.5
Banking system	3 325.2	3 026.4	3 059.9	3 331.7	4 185.6
Government	68.5	97.9	113.7	117.9	106.4
Private sector	1 045.7	1 072.0	1 216.3	1 462.0	1 961.4

Source: Banco de España, *Cuentas financieras,* 1991.

Table J. **Public sector**

	1980	1985	1989	1990
	Per cent of GDP			
A. Structure of government expenditure and tax receipts				
Expenditure, total	32.4	41.2	40.7	41.7
Current consumption	12.7	14.7	15.2	15.2
Transfers to households	14.2	16.0	15.6	16.1
Subsidies	2.1	2.4	2.0	1.9
Fixed investment	1.9	3.7	4.4	4.9
Other	1.5	4.4	3.9	3.6
Tax receipts, total	26.3	33.1	37.3	36.9
Income tax	7.0	8.5	12.1	11.9
of which:				
Personal income tax	5.3	6.5	8.6	8.4
Corporate profits tax	1.7	2.0	3.5	3.5
Social security contributions	12.7	15.1	14.8	15.0
Taxes on goods and services	6.6	9.5	10.4	9.9
Memorandum item:				
Net lending	–2.6	–6.9	–3.5	–3.6
	1979[1]	1985	1989	1990
	Per cent			
B. Taxation				
Personal income taxation				
Lowest marginal tax rate	15.0	8.0	25.0	25.0
Highest marginal tax rate	65.0	66.0	56.0	56.0
Number of brackets	28	34	16	16
Marginal income tax rate (for single average production worker)	17.0	33.0	27.0	27.0
Average income tax rate (for single average production worker)	11.0	10.4	10.4	10.9
Social security contributions				
Marginal contribution rate (for single average production worker)	37.3	36.6	36.3	36.2
of which:				
Employees' contribution rate	5.5	6.0	6.0	6.0
Employers' contribution rate	31.8	30.6	30.3	30.2
Corporate income tax rate	35.0	35.0	35.0	–
VAT standard rate	n.a.	n.a.	12.0	12.0

1. 1981 data for social security contributions.

Sources: OECD, *National accounts;* and *The tax/benefit position of production workers.*

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

	1981-85	1986	1987	1988	1989	1990
A. Production structure (current prices)[1]						
Agriculture	6.3	5.9	5.8	5.7	5.2	4.9
Manufacturing	31.0	30.9	30.3	29.9	28.8	27.3
Construction	7.4	6.9	7.3	8.0	8.9	9.6
Services	55.3	56.3	56.5	56.4	57.1	58.2
B. Production structure (1986 prices)[1]						
Agriculture	6.5	5.9	6.3	6.3	5.6	5.5
Manufacturing	30.3	30.9	30.6	30.5	30.1	29.5
Construction	8.1	6.9	7.1	7.5	8.1	8.6
Services	55.0	56.3	55.9	55.8	56.2	56.3
C. Productivity growth[2]						
Agriculture	4.1	0.6	13.9	5.6	–1.3	10.6
Manufacturing	4.5	3.9	0.1	2.3	0.1	–1.1
Construction	5.8	–1.3	–3.2	0.5	2.3	2.6
Services	1.6	–3.1	–1.5	–0.1	–0.5	0.0
D. Sectoral distribution of foreign direct investment projects[1]						
Manufacturing and mining	62.2	61.4	52.6	36.9	41.9	36.7
Trade and tourism	15.2	15.3	18.9	12.4	14.5	9.2
Financial sector	16.0	19.3	24.4	43.3	37.3	45.2
Others	6.6	4.0	4.1	7.4	6.3	8.9
E. Sectoral distribution of industrial employment[1]						
Basic metals	3.1	3.0	2.6	2.6	2.4	2.2
Non-metallic minerals	6.5	6.1	6.1	6.2	6.4	6.6
Chemicals	6.4	6.4	5.7	5.5	6.0	6.0
Metal products	10.9	11.1	11.7	12.1	12.3	11.8
Electrical machinery	8.3	7.8	8.0	8.0	8.4	9.1
Electronical machinery and equipment	2.6	3.3	3.1	3.3	3.1	3.2
Automobiles	5.4	6.0	6.1	6.1	6.1	6.4
Other transport equipment	4.2	3.5	3.3	3.4	3.2	2.9
Food, beverages and tobacco	14.7	15.4	15.1	15.0	14.9	14.7
Textiles and clothing	18.7	17.7	18.6	18.3	17.1	16.9
Others	19.1	19.9	19.8	19.6	20.1	20.0

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

Sources: Ministerio de Trabajo y Seguridad Social, *Boletin de Estadisticas Laborales;* Ministerio de Industria, Commercio y Turismo, *Sector Exterior* 1990; and, Banco de España, *Cuentas financieras,* 1991.

BASIC STATISTICS

BASIC STATISTICS:

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population																											
Total	Thousands	1989	16 833	7 624	9 938	26 248	5 132	4 964	56 160	61 990	10 033	253	3 515	57 525	123 120	378	14 849	3 343	4 227	10 337	38 888	8 493	6 723	55 255	57 236	248 762	23 690
Inhabitants per sq. km	Number	1989	2	91	326	3	119	15	102	249	76	2	50	191	326	145	364	12	13	112	77	19	163	71	234	27	93
Net average annual increase over previous 10 years	%	1989	1.5	0.1	0.1	1.0	0.0	0.4	0.5	0.1	0.5	1.1	0.4	0.2	0.6	0.4	0.6	0.6	0.4	0.5	0.5	0.2	0.6	2.4	0.2	1.0	0.8
Employment																											
Total civilian employment (TCE)[2]	Thousands	1989	7 725	3 342	3 670	12 486	2 610	2 460	21 484	27 208	3 671	140	1 077	20 833	61 280	181	6 065	1 461	2 014	4 377	12 260	4 466	3 518	16 771	26 457	117 342	..
Of which: Agriculture	% of TCE		5.5	8.0	2.8	4.3	5.7	8.9	6.4	3.7	25.3	10.0	15.1	9.3	7.6	3.3	4.7	10.3	6.6	19.0	13.0	3.6	5.6	50.1	2.1	2.9	..
Industry	% of TCE		26.5	37.0	28.5	25.7	27.4	30.9	30.1	39.8	27.5	30.7	28.4	32.4	34.3	31.5	26.5	25.4	25.3	35.3	32.9	29.4	35.1	20.5	29.4	26.7	..
Services	% of TCE		68.0	55.1	68.7	70.1	66.9	60.2	63.5	56.5	47.1	59.3	56.5	58.2	58.2	65.2	68.8	64.3	68.1	45.7	54.0	67.0	59.3	29.5	68.4	70.5	..
Gross domestic product (GDP)																											
At current prices and current exchange rates	Bill US $	1989	282.4	126.5	153.0	545.5	106.2	115.5	958.2	1 189.1	54.2	5.2	33.9	865.8	2 869.3	7.0	223.7	41.7	90.2	45.3	380.3	189.9	177.2	79.1	837.5	5 132.0	81.8
Per capita	US $		16 800	16 603	15 393	20 783	20 685	23 270	17 061	19 182	5 399	20 516	9 644	15 051	23 305	18 613	15 063	12 503	21 341	4 623	9 711	22 360	26 350	1 432	14 642	20 629	3 454
At current prices using current PPP's[3]	Bill US $	1989	240.4	102.1	135.0	506.7	74.9	74.6	818.0	929.0	72.8	4.0	31.6	799.7	1 934.4	6.5	203.6	38.2	69.4	72.1	401.2	131.7	119.0	247.4	820.6	5 132.0	..
Per capita	US $		14 304	13 407	13 587	19 305	14 594	15 030	14 565	14 985	7 253	15 870	8 984	13 902	15 712	17 192	13 709	11 446	16 422	7 360	10 244	15 511	17 699	4 481	14 345	20 629	..
Average annual volume growth over previous 5 years	%	1989	3.9	2.7	2.6	3.9	2.0	4.0	2.7	2.6	2.2	3.1	3.2	3.1	4.5	4.4	2.4	0.8	2.2	4.3	4.2	2.3	3.0	5.1	3.8	3.6	..
Gross fixed capital formation (GFCF)	% of GDP	1989	25.5	24.0	19.1	22.2	18.2	27.6	20.8	20.5	18.5	18.7	18.4	20.2	31.0	24.1	21.8	21.0	27.5	26.2	24.0	21.2	27.6	22.8	19.6	16.6	14.5
Of which: Machinery and equipment	% of GDP		10.7	10.2	9.5	7.5	8.0	10.9	9.3	9.3	8.0	5.1	9.9	10.6	13.0	10.9	10.6	10.5	9.4	9.8 (86)	8.5	9.6	9.5	11.7 (87)	9.4	7.8	..
Residential construction	% of GDP		5.4	4.7	4.1	7.4	4.2	7.7	5.1	5.3	4.6	4.3	3.6 (88)	4.8	6.1	4.3	5.5	4.9	4.1	4.8 (86)	4.9	5.2	18.1[9]	5.8 (87)	3.8	4.4	..
Average annual volume growth over previous 5 years	%	1989	6.1	4.6	7.5	8.1	3.5	6.3	5.3	3.5	1.3	1.6	0.5	4.1	8.1	7.8	5.7	3.2	0.2	8.9	11.1	6.5	6.7	4.6	6.9	3.9	..
Gross saving ratio[4]	% of GDP	1989	22.5	26.0	20.9	19.9	17.4	25.6	21.3	26.5	14.7	16.6	19.7	20.2	34.2	60.9	24.3	17.4	24.8	26.0	22.1	18.7	34.0	24.0	15.4	15.6	..
General government																											
Current expenditure on goods and services	% of GDP	1989	16.4	18.1	14.4	18.7	25.1	19.8	18.3	18.7	21.6	19.07	15.4	16.8	9.2	16.0	15.3	16.4	21.0	16.1	15.1	26.0	12.9	16.0	19.4	17.9	14.4
Current disbursements[5]	% of GDP	1989	32.1	44.9	53.3	41.6	56.0	35.1	46.2	41.6	47.7	32.1	49.9 (87)	47.1	25.6	45.0 (86)	51.7	..	50.9	40.4 (86)	35.5 (88)	57.3	29.9	..	37.6	34.6	..
Current receipts	% of GDP	1989	34.2	46.1	48.5	39.6	57.4	39.9	46.5	44.6	31.8	36.6	43.7 (87)	41.1	33.3	52.9 (86)	50.1	..	54.9	37.6 (86)	36.3 (88)	64.1	34.1	..	39.7	31.8	..
Net official development assistance	% of GNP	1989	0.38	0.23	0.43	0.43	0.88	0.57	0.75	0.41	0.07	0.04	0.16	0.39	0.32	0.26	0.97	0.23	1.05	0.18	0.06	0.88	0.33	..	0.31	0.17	..
Indicators of living standards																											
Private consumption per capita using current PPP's[3]	US $	1989	8 258	7 434	8 486	11 225	7 705	7 766	8 733	8 120	5 026	9 447	5 079	8 577	9 068	9 534	8 133	7 007	8 224	4 683	6 443	8 090	10 181	2 768	9 154	13 768	1 638*
Passenger cars, per 1 000 inhabitants	Number	1988	435 (87)	370	349	454 (86)	321	344	394	457	130	488	210 (87)	408	241	443	348	490	388	190 (87)	263	400	419	20 (83)	318	559	129 (87)
Telephones, per 1 000 inhabitants	Number	1987	550 (85)	525	478	780	864	617 (85)	608 (85)	650	413	525	265 (85)	488	555 (85)	425 (86)	639	697	622 (84)	202	396	890 (83)	856 (86)	91	524 (84)	650 (84)	154 (86)
Television sets, per 1 000 inhabitants	Number	1986	472	323	301	546	386	372	332	379	174	306	216	255	585	253	327	358	348	157	322	393	411	165	534	813	176
Doctors, per 1 000 inhabitants	Number	1989	2.3 (86)	2.1	3.3 (88)	2.2 (88)	2.7 (88)	2.0	2.6	3.0	3.2 (88)	2.7 (88)	1.5 (88)	1.3 (88)	1.6 (88)	1.9 (88)	2.4	1.9	2.5 (87)	2.8	3.7	3.1	2.9	0.8	1.4 (88)	2.3 (88)	1.8 (86)
Infant mortality per 1 000 live births	Number	1989	7.9	8.3	8.6	7.2 (88)	7.5	6.1 (88)	7.5	7.5	9.9	5.3	7.6	8.9	4.6	9.9	6.8	10.8 (88)	8.3 (88)	12.2	7.8	5.8	7.3	6.5 (88)	8.4	9.7	24.8 (88)
Wages and prices (average annual increase over previous 5 years)																											
Wages (earnings or rates according to availability)	%	1989	5.3	4.7	2.9	3.9	6.0	7.6	3.9	4.1	16.1	..	6.1	6.9	3.3	..	2.1	9.2	9.0	15.6	8.8	7.9	..	..	8.4	2.7	220.8
Consumer prices	%	1989	7.8	2.2	2.4	4.3	4.3	4.9	3.6	1.3	17.1	23.7	3.7	6.2	1.1	1.8	0.7	11.2	6.6	12.6	6.9	5.6	2.1	50.6	5.3	3.6	210.2
Foreign trade																											
Exports of goods, fob *	Mill US $	1989	37 191	32 448	100 081[7]	117 154	28 113	23 279	179 192	340 987	7 595	1 429	20 782	140 596	274 266	..[8]	107 760	8 883	27 145	12 722	43 408	51 592	51 683	11 557	153 121	363 811	13 363
As % of GDP	%		13.2	25.7	65.4	21.5	26.5	20.2	18.7	28.7	14.0	27.5	61.3	16.2	9.6	..	48.2	21.3	30.1	28.1	11.4	27.2	29.2	14.6	18.3	7.1	16.3
Average annual increase over previous 5 years	%		10.0	15.6	14.0	6.2	12.0	11.5	13.0	14.7	9.5	14.2	16.6	13.9	10.1	..	10.4	10.2	7.5	19.6	13.3	11.9	14.8	10.1	10.3	10.8	9.8
Imports of goods, cif *	Mill US $	1989	40 981	38 902	98 586[7]	114 288	26 721	24 537	186 159	269 403	16 200	1 407	17 490	152 910	209 763	..	104 224	8 822	23 630	18 842	70 971	49 113	58 464	15 793	197 806	473 211	14 802
As % of GDP	%		14.5	30.8	64.4	21	25.2	21.2	19.4	22.7	29.9	27.1	51.6	17.7	7.3	..	46.6	21.1	26.2	41.6	18.7	25.9	33.0	20.0	23.6	9.2	18.1
Average annual increase over previous 5 years	%		12.7	14.7	12.2	9.2	10.0	14.5	13.2	12.0	11.0	10.8	12.5	12.7	9.0	..	10.9	7.4	11.2	18.9	19.8	13.2	14.7	7.8	13.5	7.8	8.6
Total official reserves[6]	Mill SDR's	1989	10 486	6 543	8 192[7]	12 217	4 868	3 889	18 728	46 196	2 453	257	3 087	35 551	63 887	..	12 562	2 303	10 490	7 573	31 554	7 274	19 234	3 638	26 456	48 358	3 147
As ratio of average monthly imports of goods	ratio		3.1	2.0	1.0	1.3	2.2	1.9	1.2	2.1	1.8	2.2	2.1	2.8	3.7	..	1.4	3.1	5.3	4.8	5.3	1.8	3.9	2.8	1.6	1.2	2.6

* 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-residential construction.

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

EMPLOYMENT OPPORTUNITIES

Economics and Statistics Department, 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 Papers* 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 100 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 252 888 or FF 312 036 for Administrators (economists) and from FF 363 012 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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