

ECONOMIC SURVEYS BY THE OECD



MAY 1962

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
PARIS

I-22/C7P3

SPAIN

BASIS STATISTICS

THE LAND

Area (1,000 sq. km)	504.7	Major cities (1960):	(thousands of inhabitants)
Agricultural area (1,000 sq. km)	209.0	Madrid	1,986
		Barcelona	1,516
		Valencia	575
		Sevilla	454

THE PEOPLE

Population (1960) (thousands)	30,128	Total labour force (1957)	(thousands) 11,700
Number of inhabitants per sq. km (1960)	60	— in agriculture	5,200
Net natural increase (average 1955-59) (thousands)	352	— in industry	2,600
Net rate of increase per 1,000 inhabitants (average 1955-59)	12.0	— in other	3,900

PRODUCTION

Gross national product, 1958 (million pesetas)	549,247	Gross Domestic Product at factor cost by origin in 1960	
G.N.P. per head, 1958 (U.S.S.)	300	— Agriculture	27 %
Share of national production in the supply of food stuff	95 %	— Industry and construction	31 %
		— Other	42 %

GOVERNMENT

Public consumption in 1958 (percentage of G.N.P.)	9	Current government revenues in 1958 (percentage of G.N.P.)	15
Public investment in 1958 (percentage of total investment)	17	Internal public debt (percentage of Central Government current revenues)	193

LIVING STANDARDS

Consumption of energy per head in 1959 (O.E.E.C. average = 100)	36	Number of radio sets per 1,000 inhabitants in 1958	83
Steel consumption per head in 1959 (O.E.E.C. average = 100)	29	Number of private cars per 1,000 inhabitants in 1957	6
		Number of telephones per 1,000 inhabitants in 1959	54
		Illiteracy rate in 1950	14 %

FOREIGN TRADE

EXPORTS		IMPORTS	
Exports of goods and services, including income payments from the rest of the world as a percentage of the G.N.P. (average 1955-57)	6	Imports of good and services, including payments to the rest of the world as a percentage of the G.N.P. (average 1955-1957)	8
Exportations en 1961 (percentage of total exports):		Imports in 1961 (percentage of total imports):	
— Foodstuffs	44	— Raw materials	17
— Raw materials	24	— Foodstuffs	40
— Manufactured products	31	— Manufactured products	43

THE CURRENCY

Monetary unit: peseta.

Currency units per U.S. \$: 60.

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1962

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The Organisation for Economic Co-operation and Development was set up under a Convention signed in Paris on 14th December 1960 by the Member countries of the Organisation for European Economic Co-operation and by Canada and the United States. This Convention provides that the O.E.C.D. shall promote policies designed :

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

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

The Members of O.E.C.D. are: Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

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CONTENTS

Introduction	5
I. THE CURRENT ECONOMIC SITUATION	6
Demand and total production	6
Agriculture	6
Industry and building	7
Employment	8
Wages	10
Prices	10
Money and credit	12
Public finance	15
Balance of payments	17
Foreign trade	17
Services and private transfers	17
Movement of capital and reserves	20
II. RECENT DEVELOPMENTS IN PUBLIC POLICY .	22
Short-term policies	22
Long-term plans and policies	24
Economic statistics	26
III. SOME LONG-TERM ECONOMIC PROBLEMS	26
A retrospect	27
The present scene	28
The range of problems	29
The external sector	30
IV. CONCLUSIONS AND RECOMMENDATIONS	31
STATISTICAL ANNEX	37

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SPAIN

1. The stabilisation measures taken in the summer of 1959 were followed by a period of stagnation of demand and output in 1960. The recovery during the following year was very gradual, and it is only in the last months of 1961 that the movement of re-expansion has accelerated. The prospects at the beginning of 1962 are for an appreciable further increase of internal demand, due to a considerable rise in public expenditure as well as to a probable increase in private effective demand. Provided that appropriate measures of policy are taken in time, these developments should not endanger internal financial stability, which has been maintained up to the present. There are indeed important margins on the side of the balance of payments, which continues to yield surpluses despite the fact that exports have remained approximately stable while imports have increased considerably; the level of external reserves is particularly high, representing about nine months' imports.

2. Apart from the immediate problem of combining a high level of economic activity with the maintenance of financial stability, the Spanish authorities are faced with certain fundamental issues of economic policy. Although the basic option made in 1959 to give a preponderant role to domestic and international market forces was followed by important measures in certain fields - for instance, import liberalisation - in some others the reforms consistent with the new general direction of policy have not so far been carried out. In February 1962, the Government asked for the opening of negotiations with a view to Spain's association with, and ultimate full membership of the European Economic Community. This important decision, the logical sequel to the policy initiated by the Stabilisation Programme, opens up prospects of very considerable economic progress in Spain; but, at the same time, it calls for early action to correct a number of structural defects in the country's economy and to help forward the process of industrial development. The implications of integration with the main European markets must be taken fully into account both in the preparation of the Spanish long-term development plan, which is to start now, and in the other domains of public policy.

1. THE CURRENT ECONOMIC SITUATION

Demand and total production

3. The recovery of demand which started in the autumn of 1960 gained strength in 1961. Whilst, in 1960, external demand had been essential in sustaining the level of economic activity, the progressive recovery of internal demand was the striking feature of 1961. The process of expansion started with a rise in the level of stocks, which had fallen appreciably following the stabilisation measures of July 1959. Later, there seems to have been a substantial increase in fixed investment. The most significant proof of this recovery of fixed investment and stocks is the trend of imports, which have increased steadily since September 1960, and the very strong demand for credit. True, the growth of imports is partly due to purchases of agricultural products to make up for the shortcomings of domestic production, but the increase in imports of raw materials and capital goods was also considerable. Like imports, the demand for credit has been more dynamic since the end of 1960. Private consumption was the second factor of expansion. Longer working hours and some partial wage increases have helped to raise workers' income, and the remittance by Spaniards working abroad of a part of their wages must also have helped appreciably to increase domestic demand. Finally, the effects of the bad cereals harvest were offset by the higher price of wheat and by more satisfactory results with other crops, so that agricultural incomes showed some increase from 1960 to 1961. The rise in public expenditure (excluding the financing of credit institutions) represented only a small part of the increase in total expenditure in 1961, and its distribution during the year has greatly lessened its expansionary effects; a big part of it has been concentrated in the last months of 1961, so that for a considerable part of the year the public sector did not contribute towards expansion. External demand for goods and services, which already represents an appreciable fraction of overall demand, increased very little in 1961 because of the stagnation of exports. The increase in overall demand was partly met by increased imports so that the increase in volume of domestic output of goods and services was probably no more than 3 to 4 per cent and thus - taking into account the 1960 recession - not substantially in excess of the 1959 level. This moderate rate of growth of total output in 1961 as a whole was partly due to a not very favourable agricultural year, but also to the rather slow recovery of industrial production; the latter should be linked, first, to the fact that internal demand attained a high level only towards the end of the year, and second to certain structural and institutional rigidities which limit the elasticity of industrial output.

Agriculture

4. The poor wheat harvest for the second consecutive year limited the rise in total agricultural production to 4.9 per cent

in 1961, after a 1.3 per cent drop in 1960. Production of wheat was only 3.4 million tons last year as against 3.5 million tons in 1960 and 4.5 million tons in 1959. Production of rice and olives has also fallen. The other agricultural products made appreciable progress, especially cotton, beetroot and potatoes. Output of exports, especially oranges, has also increased appreciably. Milk production rose by 7.8 per cent in 1961 but meat production increased by only 2.8 per cent. Agricultural prices having risen, the increase in the current value of total agricultural production in 1961 is estimated by the Ministry of Agriculture at 8.2 per cent.

Table 1. INDICES OF INDUSTRIAL PRODUCTION

(Monthly averages: 1958 = 100)

	1959	1960	1961
1. Food	108.1	116.2	117.5
2. Drink	100.8	103.0	121.2
3. Tobacco	99.2	102.9	107.3
4. Wood and cork	89.2	86.0	101.5
5. Pulp and paper	101.6	107.8	114.0
6. Leather and footwear	94.8	101.0	104.5
7. Textiles	94.7	99.1	108.2
8. Coal-mining	91.5	91.0	93.1
9. Minerals mining	98.2	99.2	119.9
10. Basic metals	117.6	113.4	127.6
11. Machinery and appliances ..	85.6	75.9	91.0
12. Transport equipment	115.5	128.9	164.7
13. Chemical products	109.4	118.0	123.3
14. Coal and petroleum products	105.0	107.9	109.1
15. Cement	108.8	108.3	123.1
16. Glass, clay, etc.	90.6	95.5	97.7
17. Electricity	108.9	117.7	130.4

SOURCE: Statistical Service of the Syndicate Organisation.

Industry and building

5. The present state of industrial statistics makes it difficult to estimate the increase in output. According to the Ministry

for Industry, the value at constant prices of industrial output increased by only 5.6 per cent in 1961, which would represent an increase of only 2.5 per cent compared with 1959. However, the physical series for the major industrial products and the indices of production by industries drawn up by the Syndicate Organisation suggest that the trend of output in 1961 was more favourable. On the other hand, the indices show that in a few industries, especially engineering, the level of output in 1961 was still lower than in 1958. The iron and steel, engineering, mining and cement industries showed a relatively high rate of expansion in 1961. Among the industries with striking increases reference may be made to steel, where the gain was 21 per cent, and motor cars, where it was 30 per cent. Production of electricity rose by 11.6 per cent in 1961 compared with an average of 6.4 per cent in 1959 and 1960, and 12.3 per cent in 1958. There were also notable increases in the production of electrical household appliances. Shipyards received some important foreign orders and thus maintained a high level of activity. Textile production rose by 9 per cent. Despite advances for some products, especially nitrogenous fertilizers, production of chemicals rose by only 4 per cent.

6. The level of activity in housebuilding seems to have been higher in 1961 than in 1960, while remaining below the peak reached in 1958 (when speculative building had contributed to an exceptionally high level of construction). Budgetary appropriations for housing (which finance some 30 per cent of all housebuilding) increased by 773 million pesetas in 1961 (+ 12 per cent), but the rise in actual expenditure was slight. The rate of activity in public works was probably higher in 1961 than 1960, especially for roadbuilding and road improvements.

Employment

7. Despite the rise in output, the index of industrial employment remained approximately stable in 1961 and its trend in the closing months of the year did not indicate an improvement in this situation. However, the number of hours worked per person employed showed an increase in several industries. Gains in industrial productivity were very marked in 1960 and 1961, especially in the mining, cement, paper and chemical industries. The number of officially registered unemployed rose from an average of 114,000 in 1960 to 125,000 in 1961, partly because of the increase in agricultural unemployment. It is, however, possible that the rise in the number of registered unemployed exaggerates the real increase in 1961 since the extension of unemployment allowances provides an additional incentive for registration. The average number of workers receiving unemployment benefit was only 21,000. A considerable number of industrial workers sought jobs abroad; the number of workers who emigrated to Germany, Switzerland and the Netherlands

Table 2. INDICES OF INDUSTRIAL EMPLOYMENT
(1958 = 100)

	NUMBERS EMPLOYED		TOTAL HOURS WORKED	
	1960	1961	1960	1961
1. Food processing	98	94	96	94
2. Textiles	94	92	91	94
3. Leather and footwear	92	91	89	89
4. Pulp and paper	89	89	94	94
5. Coal-mining	91	89	90	87
6. Basic metals	112	112	111	112
7. Machinery and appliances	84	83	80	83
8. Chemicals	103	103	101	107
9. Cement	88	85	96	88
10. TOTAL (including other industries)	94	93	..	..

SOURCE: Statistical Service of the Syndicate Organisation and O.C.Y.P.E.

Table 3. REGISTERED UNEMPLOYED

In thousands

	1960	1961	1960				1961				1962
			1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr
1. Agriculture and fishing	35.0	42.6	34.5	24.4	31.3	49.8	45.7	34.0	37.6	56.2	52.1
2. Construction	28.8	30.3	29.8	29.1	26.3	30.2	35.9	31.8	27.1	26.7	26.7
3. Industry and services	50.6	51.7	47.4	51.1	51.7	52.4	53.6	52.2	50.8	50.3	50.7
4. TOTAL	114.4	124.6	111.7	104.6	109.3	132.4	135.4	118.0	115.5	133.2	129.5

SOURCE: Ministry of Labour.

in 1961 is put at 32,000; 27,000 went to Germany compared with 11,500 in 1960. On the other hand, net emigration to the western hemisphere fell last year to only about 10,000, due to a large return movement. The composition of the two main currents of emigration is quite different; industrial workers probably represent a small proportion of emigrants to American countries. It must be pointed out that the various manpower statistics referred to do not seem to give an entirely consistent picture of labour trends, if account is also taken of the increase in the active population. Moreover, it might be inferred from the data concerning social insurance contributions that a significant increase in non-agricultural employment has taken place last year. One thing at least seems certain, namely that the figure of registered unemployed is still much below the probable real number of unemployed.

Wages

8. A number of wage increases occurred in 1961, mostly in the second half of the year as a result of new collective agreements, which concerned about 800,000 workers. With the increase in hours worked and the higher wages in several industries, the index of weekly earnings in industry rose between 1960 and 1961 by about 7 per cent at current prices and by 5 per cent in real terms. Labour costs per unit of output fell from 100.5 in 1960 (1958 = 100) to 97.0 in 1961. In agriculture, according to official estimates, the percentage of the wage bill in the net value of agricultural output fell slightly in 1961, probably as a result of the decline in hired employment for cereals harvesting.

Prices

9. Since the beginning of last summer the index of wholesale prices has increased somewhat. In December 1961 it rose to 151.3 (1955 = 100), as against 147.4 in June 1961 and 147.7 in December 1960. The average rise in wholesale prices was 2.7 per cent in 1961 as against 2.1 per cent in 1960 and 2.2 per cent in 1959. The main item responsible for the movement of wholesale prices was agricultural produce which rose by 5.1 per cent in 1961. The price of wheat was raised early last season from 5.0 to 5.5 pesetas per kilo to lessen the effects of the bad harvest on agricultural incomes. Industrial prices rose by 1.8 per cent in 1961, and this increase appears somewhat excessive for a year in which production was gradually recovering and there was a considerable fall in labour costs. In fact the trend of prices seems to point to certain rigidities, which are hampering a normal development of production and prices. The cost of living index fell somewhat during most of the year but by last January it had again regained the level of January 1961.

Table 4. INDUSTRIAL WAGE INDICES

(1958 = 100)

	AT CURRENT PRICES				AT 1958 PRICES			
	EARNINGS		TOTAL WAGE BILL		EARNINGS		TOTAL WAGE BILL	
	1960	1961	1960	1961	1960	1961	1960	1961
1. Food processing	108.8	115.0	107.2	108.6	100.2	103.8	98.7	98.0
2. Textiles	110.8	123.5	104.5	113.5	102.1	111.4	96.2	102.4
3. Leather and footwear ...	102.8	108.4	94.4	99.1	94.6	97.8	86.9	89.4
4. Pulp and paper	132.5	159.2	117.7	142.2	117.4	143.6	108.3	128.3
5. Coal-mining	113.6	120.8	102.9	107.7	104.6	109.1	94.8	97.2
6. Basic metals	112.6	121.6	125.7	135.7	83.5	109.6	93.2	122.4
7. Machinery and appliances	93.3	101.2	78.1	84.3	85.9	91.2	71.9	76.0
8. Chemicals	114.5	124.9	117.6	129.2	105.4	112.7	108.3	116.6
9. Cement	125.7	144.1	110.0	122.7	115.7	130.1	101.3	110.7
10. TOTAL (including other industries)	109.0	117.2	102.9	109.6	100.4	105.8	94.8	98.9

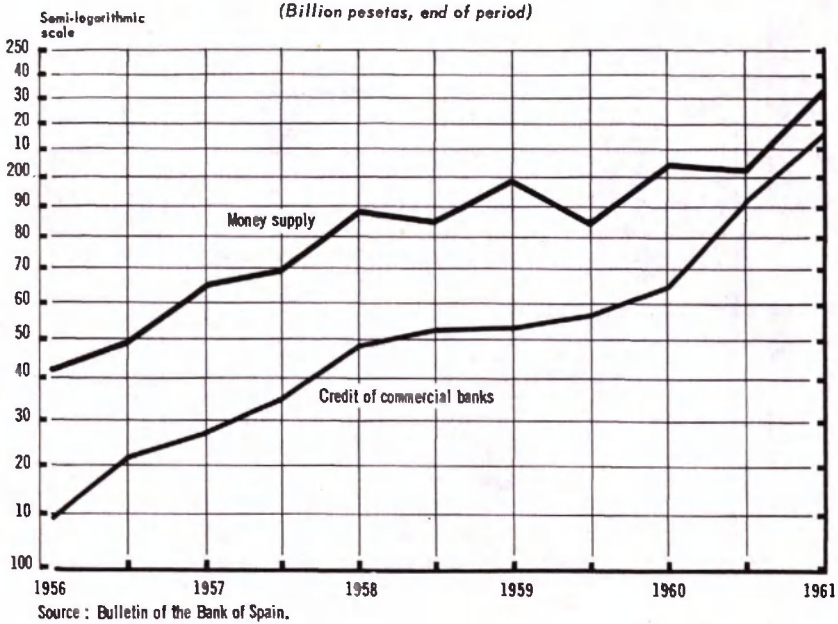
SOURCE: Statistical Service of the Syndicate Organisation. For the total: O.C.Y.P.E.

Money and Credit

10. The expansion of the money supply which began in the second half of 1960 continued very rapidly throughout 1961 so that by December its level was 14 per cent above that of December 1960. The increase in time deposits has been smaller than in 1960; but it should be borne in mind that in 1960 the fall in the rate of interest on sight deposits had caused an important switch from sight to time deposits. The rate of growth of the private sector's liquid assets (sight and time deposits) was 16 per cent in 1961. The greater demand for liquidity, due to renewed economic activity, accounts only partially for this trend, which seems to have been also due to the inadequate opportunities for investing savings on the capital market. The growth of bank credit, which increased by 24 per cent between 1960 and 1961, has been the main factor in the expansion of the private sector's liquidity, and the credit boom has even accelerated since the end of last summer. The demand for credit is linked primarily to the financing of stocks (of foreign as well as national products); but an increase in demand of this magnitude cannot be explained unless the recovery of fixed investment was financed temporarily through bank credit. It is also possible that delays in Treasury payments to suppliers of the public sector (often due to rigidities in administrative procedure of the spending departments) have influenced the demand for credit. The external surplus also helped to increase liquidity in 1961, though to a lesser extent than in the previous year. On the other hand, the whole of the public sector (including official credit institutions, autonomous agencies and the Wheat Service) played a contractionary role during the first eleven months of the year. The very large volume of payments made in December restored the situation. Nonetheless, by the end of the year, net advances by the Bank of Spain to the public sector had fallen by 8 million pesetas compared with the end of 1960; the main factor in this development has been the decline in the net debt balances of autonomous public organisations and official credit institutions.

11. The credit boom and the absorption of liquidity by the public sector led to a substantial reduction in the liquidity of the commercial banks. During the first half of the year the expansion of their advances and industrial portfolio amounted to 16.1 billion pesetas, compared with an increase in deposits of only 9 billion pesetas. The banks were thus compelled to borrow from the Bank of Spain against pledged public securities. In spite of this, their ratio of cash holdings to deposits fell from 10.7 per cent in June 1960 to 7.8 per cent in June and July 1961. The absence of statutory reserve requirements makes it easy to understand why the Banks prefer to work with lower cash ratios rather than forego interest on public securities pledged with the Bank of Spain. In June 1961, discount rate was reduced from 5.75 to 5.00 per cent and the rediscount rate for commercial paper from 4.60 to 4.00 per cent. But the rate for borrowing against pledged public securities was

Diagram 1
CREDIT AND MONEY SUPPLY



left unchanged at 4.50 per cent. One of the authorities' objectices was to provide an incentive for the development of commercial rediscount operations, but the volume of such rediscount continued to be slight throughout the year. By the end of the year, the increase in deposits following the acceleration of Treasury payments enabled the commercial banks to reduce their borrowing from the Bank of Spain and to increase their cash ratio to 10.9 per cent in December 1961.

12. Public issues increased considerably in 1961, the most important instances being issues of "investment bonds" and the issues of the I.N.I. (National Institute for Industry). Despite this expansion the volume of public issues was not sufficient to satisfy demand. The savings banks, which took 60 per cent of the public issues because of their statutory obligation to purchase public securities amounting to 65 per cent of the increase in their deposits, were compelled to increase their liquid funds by 3.5 billion pesetas. Private issues increased also in 1961 and slightly exceeded the 1957 peak level. The revival on the Stock Exchange was very marked; last December the index of share prices stood at 139.2 (1953 = 100) as against 107.6 in December 1960. Purchases of securities by foreigners in 1961, which are estimated to total 1.7 billion pesetas, undoubtedly contributed to the upward trend. However, as might be seen

Table 5. MONEY AND CREDIT

Billions of pesetas. Changes during the period indicated

	1958	1959	1960	1961	1959		1960		1961	
					1st half	2nd half	1st half	2nd half	1st half	2nd half
MONEY SUPPLY	+23.8	+ 9.2	+ 2.8	+24.0	- 4.3	+13.5	-14.6	+17.4	- 2.9	+26.9
Currency	+ 6.2	+ 2.8	+ 5.1	+ 8.6	- 1.5	+ 4.3	- 1.1	+ 6.2	-	+ 8.6
Sight Deposits	+17.6	+ 6.4	- 2.3	+15.4	- 2.8	+ 9.2	-13.5	+11.2	- 2.9	+18.3
QUASI MONEY	+15.7	+12.4	+49.3	+40.6	+ 4.4	+ 8.0	+28.3	+21.0	+17.5	+23.1
With Commercial banks	+ 7.1	+ 5.9	+35.2	+24.2	+ 2.6	+ 3.3	+22.4	+12.9	+11.9	+12.2
With Savings banks	+ 8.6	+ 6.5	+14.1	+16.4	+ 1.8	+ 4.7	+ 5.9	+ 8.1	+ 5.6	+10.8
IMPORT DEPOSITS	-	+ 2.3	- 2.2	- 0.1	-	+ 2.3	- 1.6	- 0.6	- 0.1	-
TOTAL	+39.5	+23.9	+49.9	+64.5	+ 0.1	+23.8	+12.1	+37.8	+14.4	+50.1
I. BALANCE OF PAYMENTS	- 6.2	+ 9.9	+23.8	+20.9	- 0.7	+10.6	+14.9	+ 8.9	+10.2	+10.7
I.E.M.E.	- 2.2	+ 9.7	+25.5	+19.4	- 0.1	+ 9.8	+14.7	+10.8	+ 9.2	+10.2
Counterpart Funds	- 4.0	+ 0.2	- 1.7	+ 1.5	- 0.6	+ 0.8	+ 0.2	- 1.9	+ 1.0	+ 0.5
II. PUBLIC SECTOR	+15.8	+ 9.8	+ 3.0	+ 0.4	- 1.1	+10.9	- 4.6	+ 7.6	-10.7	+11.1
a) Net Advances from Bank of Spain	+11.0	+ 3.7	- 4.5	- 8.0	- 4.2	+ 7.9	- 7.9	+ 3.4	-14.7	+ 6.7
Central Government	+ 0.7	+ 4.7	+ 0.6	- 0.3	- 1.0	+ 5.7	- 2.8	+ 3.4	- 8.9	+ 8.6
Public Agencies	+ 7.8	+ 0.5	- 0.1	- 4.5	+ 0.9	- 0.4	- 0.7	+ 0.6	- 2.7	- 1.8
Official Credit Institutions	+ 0.3	- 0.6	- 0.3	- 3.8	- 0.3	- 0.3	- 0.5	+ 0.2	- 1.0	- 2.8
National Wheat Service	+ 2.2	- 0.9	- 4.7	+ 0.6	- 3.8	+ 2.9	- 3.9	- 0.8	- 2.1	+ 2.7
b) Public Debt Financing	+ 4.8	+ 6.1	+ 7.5	+ 8.4	+ 3.1	+ 3.0	+ 3.3	+ 4.2	+ 4.0	+ 4.4
Bank of Spain	- 1.8	- 3.4	-12.3	+ 1.8	+ 2.7	- 6.1	- 8.2	- 4.1	+ 5.8	- 4.0
Commercial Banks	+ 3.4	+ 5.4	+11.7	- 2.3	- 0.7	+ 6.1	+ 7.8	+ 3.9	- 5.7	+ 3.4
Savings Banks	+ 3.2	+ 4.1	+ 8.1	+ 8.9	+ 1.1	+ 3.0	+ 3.7	+ 4.4	+ 3.9	+ 5.0
III. PRIVATE SECTOR	+30.9	+ 7.3	+25.4	+46.0	+ 4.9	+ 2.4	+ 4.4	+21.0	+16.9	+29.1
a) Advances and Loans	+27.5	+ 5.8	+23.0	+44.1	+ 4.5	+ 1.3	+ 3.0	+20.0	+15.8	+28.3
Bank of Spain	+ 2.5	- 1.1	- 1.5	- 1.0	- 0.1	- 1.0	- 1.8	+ 0.3	- 1.1	+ 0.1
Commercial Banks	+21.4	+ 5.0	+22.2	+41.7	+ 3.7	+ 1.3	+ 3.6	+18.6	+15.5	+26.2
Savings Banks	+ 3.6	+ 1.9	+ 2.3	+ 3.4	+ 0.9	+ 1.0	+ 1.2	+ 1.1	+ 1.4	+ 2.0
b) Industrial Securities	+ 3.4	+ 1.5	+ 2.4	+ 1.9	+ 0.4	+ 1.1	+ 1.4	+ 1.0	+ 1.1	+ 0.8
Commercial Banks	+ 2.1	+ 2.2	+ 1.2	+ 1.1	+ 0.9	+ 1.3	+ 0.7	+ 0.5	+ 0.6	+ 0.5
Savings Banks	+ 1.3	- 0.7	+ 1.2	+ 0.8	- 0.5	- 0.2	+ 0.7	+ 0.5	+ 0.5	+ 0.3
IV. OTHER ITEMS	- 1.1	- 3.1	- 2.2	- 2.9	- 3.1	-	- 2.6	+ 0.4	- 2.0	- 0.9

SOURCE: Bank of Spain.

from the index of Stock Exchange dealings and the volume of private issues, demand by the private sector remains rather weak.

Public Finance

13. The expansionary impact of the public sector in 1961 was not as strong as expected when the budget was being prepared. The total deficit (total expenditure minus budget revenue) had been put at that time at 17.7 billion pesetas. However, the very sharp increase in budgetary revenue cut this figure back to only 14.8 billion pesetas, despite the increase decided during the year in budgetary and extrabudgetary expenditure, especially of the financing of official credit institutions. The rise of 16 per cent in tax yield in 1961 was mainly due to indirect taxes; their yield increased by 7.7 billion pesetas, of which 3.9 billion represented import duties and countervailing taxes. Indirect taxes accounted in 1961 for 59 per cent of budgetary revenue. On the expenditure side, the largest increases were in current budgetary expenditure, capital expenditure having slightly diminished. The funds for financing the official credit institutions and expenditure financed from American aid (mostly on investment) increased appreciably. The figures for the year as a whole do not, however, give a clear picture of the part played by the public sector in the course of the year. First, a quarter of the total expenditure in 1961 (24.4 billion pesetas) was only effected last December, while the budgetary revenue received in that month amounted to only 9.0 billion pesetas. Secondly, a part of the sums paid by the Treasury to the official credit institutions was not used by them; their current accounts with the Bank of Spain increased in fact by 3.1 billion pesetas in 1961.

14. The 1962 budget is distinctly expansionary. The increase in total expenditure of 15 billion pesetas compared with last year (18.5 billion compared with the 1961 estimates) will only be met to the extent of 5.8 billion pesetas through increased budgetary revenue (compared with the initial 1961 estimates, budgetary receipts will increase by 12.2 billion pesetas). Recourse to the capital market and drawing on the counterpart funds of American aid will thus amount in 1962 to 18 billion and 6 billion respectively, as against 14.2 and 4.8 billion respectively in 1961. It is possible, however, that the 7 per cent increase in tax yield expected for 1962 may in practice be exceeded, despite a number of tax reductions introduced last December (including a raising of the tax-free earned income allowance from 18,000 pesetas a year to 25,000 pesetas). 25 per cent of the rise in budgetary expenditure represent increased appropriations to the Defence Departments and the Ministry of the Interior, while expenditure on public works, retirement pensions and education will also increase substantially. The new expenditure on civil investment planned

Table 6. THE FINANCES OF THE PUBLIC SECTOR

In billion pesetas

	1958	1959	1960	1961 (FORECASTS)	1961	1962 (FORECASTS)	1962 1st QUARTER
REVENUE:							
1. Budget revenue	55.7	63.2	72.7	74.7	81.1	86.9	21.8
of which:							
2. Direct taxes	20.9	21.8	23.5	20.8	25.9	28.8	
3. Indirect taxes	30.4	33.5	40.1	38.8	47.8	48.8	
4. United States aid counterpart funds	1.2	3.8	2.5	5.0	4.8	6.0	1.3
5. TOTAL REVENUE	56.8	67.0	75.2	79.7	85.9	92.9	23.1
EXPENDITURE:							
6. Current budget expenditure .....	..	42.1	48.8	54.3	56.4	65.4	
of which:							
7. Defence	11.0	11.1	13.3	13.6	13.9	17.5	
8. Investment budget expenditure ¹⁾	17.6	18.3	18.2	17.5	21.3	
9. Total budget expenditure (6+8)	54.1	59.7	67.1	72.5	73.9	86.7	16.5
10. Current budget balance (1-6) .....	..	+21.1	+23.9	+20.4	+24.7	+21.5	
11. Total budget balance (1-9)	+ 1.6	+ 3.5	+ 5.6	+ 2.2	+ 7.2	+ 0.2	+ 5.3
12. Expenditure financed with United States aid counterpart funds ..	1.2	3.8	2.5	4.0	4.1	5.0	
13. National Institute for Industry (I. N. I.)	7.8	7.1	7.1	7.1	7.1	7.1	
14. Official Credit Institutions	6.1	5.3	7.7	7.5	10.3	10.8	
15. Others ²⁾	4.8	1.5	1.6	1.3	0.5	1.3	
16. TOTAL EXPENDITURE	74.0	77.4	86.0	92.4	95.9	110.9	18.6
17. TOTAL BALANCE (5-16)	-17.1	-10.4	-10.8	-12.7	-10.0	-18.0	+ 4.5
financed by:							
18. Public debt	8.1	7.9	11.1	12.7	14.2	18.0	0.3
19. Bank of Spain	9.0	2.5	- 0.3	-	- 4.2	-	- 4.8

1) Civilian Investments.

2) For 1960 only, includes finance of Railways and Housebuilding.

SOURCE: Information supplied by the Spanish authorities.

for 1962 represents 30 per cent of the increase in budget expenditure.

Balance of payments

15. The increase in invisible earnings and private long-term capital inflow largely offset the deterioration in the trade balance of some \$330 million in 1961. The overall surplus of the balance of payments last year totalled some \$370 million, compared with \$460 million in 1960. The rapid rise in imports was largely due to purchases of agricultural produce from abroad to meet the insufficiencies of domestic crops and the recovery of internal demand. The balance of payments prospects for 1962 are distinctly favourable. Even allowing for stagnation or a slight fall in exports in 1962 (a most unlikely assumption, unless there is a very bad harvest) and a considerable rise in imports, the balance of payments will probably show a further surplus in 1962.

Foreign trade

16. The value of imports has been rising very rapidly since the autumn of 1960. Their average monthly rate last year was \$91 million (on the basis of customs returns) compared to \$60 million in 1960. The increase in volume has probably been larger in view of the downward trend shown by average import prices in the first half of last year. More than one third of the rise in imports between 1960 and 1961 was due to purchases of foodstuffs. The increase in the imports of cotton and machinery accounted each for about 13 per cent of the additional imports; transport equipment (mainly automobiles) and chemicals have also progressed appreciably.

17. The export boom which started after the Stabilisation Programme did not continue in 1961, when the average monthly value of exports (\$59 million) was slightly lower than in 1960. Some items - among others, capital goods - showed increases last year, but exports of steel products and ores fell sharply, because of the contraction of external demand and the recovery of internal activity; exports of olive oil were also lower than in 1960. The volume of citrus fruit exports in October-December 1961 was 17 per cent higher than in the corresponding period of 1960. Average export prices evolved unfavourably in the first three quarters of 1961, leading to a worsening of the terms of trade.

Services and private transfers

18. Net receipts from tourism increased by \$84 million in 1961. Expenditure on tourism abroad by residents, though still very modest, doubled in comparison to 1960. The number of tourists entering Spain during 1961 exceeded by 26.9 per cent

Table 7. BALANCE OF PAYMENTS

In million dollars

	1959	1960	1961
1. Imports (f.o.b.)	758.5	688.1	1 037.9
2. Exports (f.o.b.)	523.3	745.2	759.2
3. TRADE BALANCE	-235.3	+ 57.1	-278.7
4. Travel abroad	138.4	246.5	330.5
5. Other services	- 4.3	- 0.4	5.1
6. Private transfers	39.6	57.6	118.0
7. BALANCE OF CURRENT TRANSACTIONS	- 61.5	+360.8	+174.9
8. Long-term private capital	43.6	106.5	191.2
9. Long-term public capital and transfers	87.3	52.1	67.5
10. Balance of long-term capital movements and public transfers ..	+130.9	+158.6	+258.7
11. BASIC BALANCE	+ 69.4	+519.4	+433.6
12. Errors and omissions	+ 0.3	- 59.6	- 62.7
13. Monetary movements	- 69.7	-459.8	-370.9
of which:			
14. Operations with I. M. F. and E. M. F.	+ 74.0	- 12.5	- 74.0
15. Changes in reserves (increase = -) ¹⁾	-145.9	-341.3	-323.1
16. Changes in U.S. Government account in pesetas at the Bank of Spain	+ 13.0	+ 11.0	- 26.7
17. Others	- 10.8	-117.0	+ 52.9 ²⁾

1) Gold and convertible foreign exchange.

2) Including \$22.3 ml. equivalent of convertible peseta accounts.

SOURCE: Ministry of Commerce.

Table 8. FOREIGN TRADE

In million dollars

	IMPORTS		EXPORTS	
	1960	1961	1960	1961
1. Agricultural and food products	110	246	394	391
2. Minerals	26	19	31	21
3. Oil products	150	178	44	42
4. Chemicals	101	135	37	35
5. Pulp and paper	23	29	14	19
6. Raw cotton, textiles and clothing	41	89	57	58
7. Metals and metal products	63	84	91	58
8. Machinery and appliances	120	167	10	22
9. Transport equipment	42	73	4	4
10. Other	45	72	42	60
11. TOTAL	721	1 092	726	710

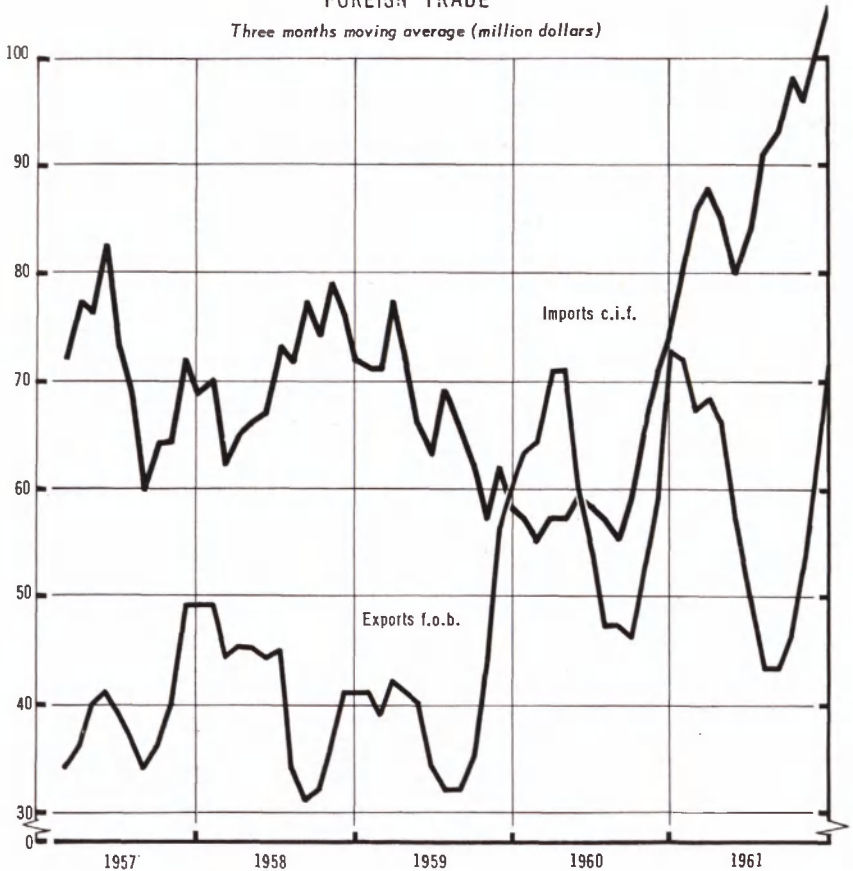
SOURCE: "Estadística del Comercio Exterior de España".

the figure for 1960. The flow of workers emigrating to other Member countries, especially France, Germany and Switzerland, led to an increase of \$60 million in private transfers.

Movement of capital and reserves

19. The net inflow of private capital increased considerably last year - from \$106 to \$191 million. Part of the rise was due to loans by the Eximbank and the Development Loan Fund, which attained \$41 million (on a net basis) compared to \$24 million in 1960. Moreover, new commercial credits* exceeded

Diagram 2
FOREIGN TRADE
Three months moving average (million dollars)



Source : O.E.C.D. Trade Statistics.

* This item includes all commercial credits, whether long or short-term; separate estimates for the latter are not available.

Diagram 3
FOREIGN TRADE
(*\$ million*)

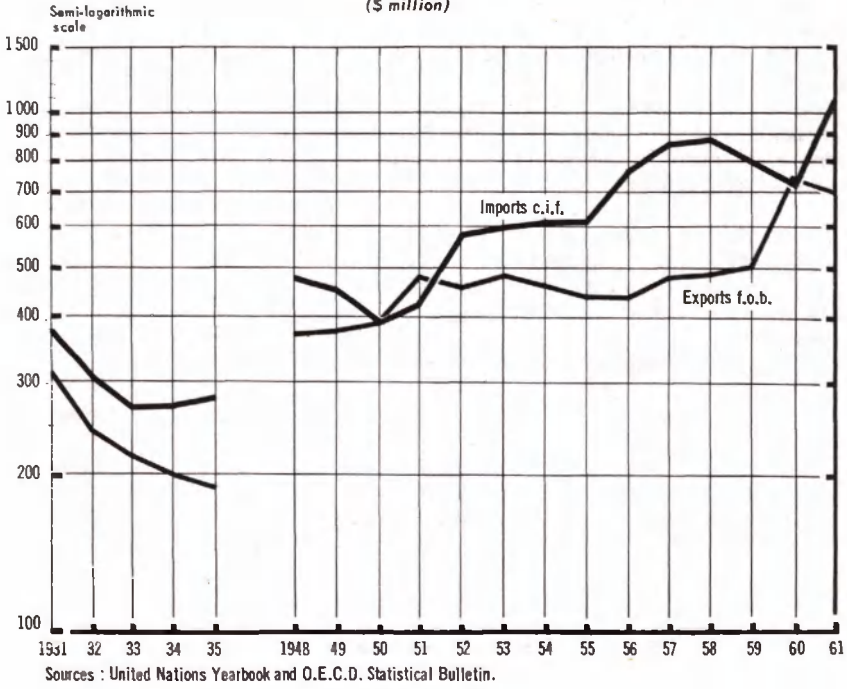
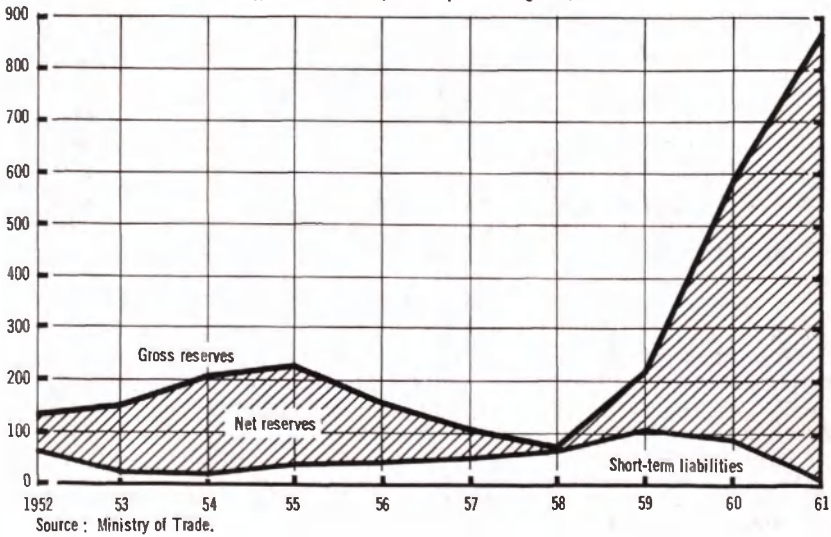


Diagram 4
TREND OF EXTERNAL RESERVES
(*Million dollars, end of periode figures*)



reimbursements in 1961 by \$29 million, whereas in each of the two previous years there had been a small net outflow on this account. Recorded direct investment remained approximately stable at \$37 million. Lastly, it is estimated that purchases of securities on the Stock Exchange with funds coming from abroad amounted to some \$30 million. Although the new appropriations made in 1961 under the United States Economic Aid Act and the Agricultural Surpluses Act were considerably lower, imports financed from these sources remained at the same level as in 1960 (\$97 million).

20. Holdings of gold and convertible currencies increased by \$323 million in 1961 and amounted to \$863 million at the end of the year. In addition, Spain repaid during the first half of 1961 \$74 million to the International Monetary Fund and to the European Fund, thus fully reimbursing the drawings made under the Stabilisation Programme. The authorities have tried to reduce to the minimum the surplus on bilateral accounts which fell from \$49 million in December 1960 to \$6 million in December 1961. On the other hand, short-term commitments were reduced by \$12 million in 1961. Finally, the balance in pesetas of the United States government's account with the Bank of Spain (where part of the peseta equivalent of imports financed with American aid is entered), fell by \$27 million.

II. RECENT DEVELOPMENTS IN PUBLIC POLICY

Short-term policies

21. The Spanish authorities continued in 1961 to seek an adequate recovery of economic activity. The measures taken in the field of credit (e.g. reduction of discount rate) and the guidance presumably given to the commercial banks must have contributed to the considerable increase of bank credit. But, as was mentioned in para. 13 above, the public sector did not have a significant expansionist impact on the economy until the last month of the year. There was the usual concentration in time of budgetary expenditures (which the authorities hope to diminish in the future by some new provisions) and the delays in the effective utilisation of approved credits were considerable; on the other hand, budgetary receipts were much higher than foreseen. As a result, the boost to internal demand through public expenditure which the authorities had rightly decided to provide in 1960 and 1961 has only partly taken place and will become substantial only with the implementation of the 1962 Budget, i. e. at a time when private demand will probably also be more buoyant.

22. In order to deal with a possible situation of excessive demand in the future, the authorities have certain instruments

at their disposal - e.g. the decree of December 1960 empowering the Minister of Finance to fix obligatory deposits of the commercial banks with the Bank of Spain. But new arrangements may be worked out, based on the "Banking Reform" law which was recently approved by the Cortes. This law stipulates, inter alia, that the Bank of Spain will be nationalised and will eventually acquire authority over the Foreign Exchange Institute (I.E.M.E.) which depends at present from the Ministry of Commerce. As regards monetary and credit control the law merely lays down general objectives and principles. When these principles are translated in due course into concrete instruments of policy, it is to be hoped that the central monetary authorities will dispose of effective powers to control the liquidity of the banking system. One essential element should be the possibility of varying interest rates (including the rate for pledging of securities and those of public issues) and the readiness to use this weapon when appropriate.

23. Certain other means of economic policy are available to deal with the problem of rising costs and prices, which may well emerge before full capacity levels of output are achieved. The only important new measure taken recently with a favourable influence on costs and prices was the progressive abolition of quantitative restrictions on private imports. Statistics of import licenses and declarations for 1961 show that 43 per cent of their total value represented liberalised imports, 19 per cent imports subject to global quotas, 18 per cent bilateral trade and 20 per cent state trading. After the sixth list of liberalisation, published early this year, the percentage of free imports calculated on this basis should be of the order of 50 per cent. Thus, leaving aside state trading, there are still considerable margins for further abolition of import quotas. On the other hand, there have been no significant reductions of the existing high tariffs and additional import duties.

24. In the course of 1961 there was no significant progress towards dismantling the all-embracing system of direct controls on industrial investment, employment, etc., as was decided in principle in 1959. It is true that the various authorisations required have often been granted in a much more liberal manner; and it is reasonable to suppose that in certain cases the existing regulations are not fully applied in practice.* Nevertheless, the elimination of excessive administrative controls, many of which are mere remnants of quite different circumstances, would almost certainly enhance the powers of industry to adapt itself, with beneficial effects on the level of costs and prices.

* For instance, all industrial investment worth more than 2 million pesetas (i.e. \$33,000) needs prior authorisation; but permission is legally required, however low the value of the investment, if it implies imports of raw materials or equipment from abroad. It is doubtful whether applications are in fact submitted for very small outlays.

25. Last summer, an act was approved extending the present system of unemployment allowances to large categories of industrial workers not previously covered. This extension, however, is only expected to be applied in practice in April 1962. Among other measures of internal economic policy, a law was passed last December providing for the revaluation of companies' assets - a necessary arrangement after the severe price inflation of the fifties; this should from now on allow realistic calculations of depreciation allowances, profits, etc.

26. In the field of foreign trade and payments, apart from the progressive liberalisation of imports, external convertibility of the peseta was established in July 1961. Last year, transactions and transfers on invisible account were freed to a degree comparable to that achieved by the majority of Member countries. In 1962, two successive legislative decrees have granted to foreign investments (both direct and portfolio) made after July 1959 full transferability covering the initial amount invested, accrued income and capital appreciation. With these measures all limitations on capital imports have been abolished, except for the need for prior authorisation in cases where foreign investment implies acquisition of more than 50 per cent of the capital of Spanish companies. But in many cases the general controls on investment constitute obstacles as important in practice as the specific controls on foreign capital.

Long-term plans and policies

27. During the period under review certain steps were taken to prepare solutions to a number of basic, long-term economic problems. There has, first, been an official declaration of the intention to apply measures for modifying the structure of agricultural holdings; but until now the plans concerning this fundamental feature of the Spanish economy have not been made public, except for a bill, which aims at preventing further subdivision, through inheritance, of small holdings.

28. The problem of medium and long-term credit and that of the structure of financial institutions are dealt with in the "Banking Reform" law mentioned above. The law provides for the re-organisation of the official credit institutions. * A central Institute of Medium and Long-term Credit, replacing the present Committee of the same name, will co-ordinate their activities and allocate to them funds derived from Treasury advances or from the issue of Government investment bonds. The savings banks will be authorised to expand their loans to agriculture and to small firms (at present they are lending the bulk of their resources to the state-owned I.N.I. enterprises, according to

* These are the Industrial Credit, Mortgage and Local Credit banks, which will be nationalised, and the Credit Institutes for National Reconstruction, Agriculture and Fishing.

their obligation referred to in para. 12 and given the fact that there have been no recent issues of public debt). Various measures are foreseen for modifying the existing prevalence of mixed banking and arriving at institutionally separate deposit banks. Freedom to establish new banks is also provided. The expansion of the capital market and the development of instalment credit are to be promoted by a number of means. The lines of action envisaged by the authorities in respect of the various important problems treated in general terms in the "basic law" will become clearer when the relevant decrees of application are issued.

29. For the preparation of the long-term Economic Development Plan, a "Planning Commissioner" who will report to the Committee of Ministers on Economic Affairs, has recently been appointed. The managing board of O.C.Y.P.E. * will serve as the collective organ of co-ordination at official level between the various departments and official bodies. A number of commissions are foreseen for each sector of economic activity (comprising officials, experts and representatives from the branches concerned) as well as horizontal committees on finance, commerce, manpower, etc. The elaboration of the plan will no doubt require considerable time, though an important contribution to this work is expected soon, in the shape of the report and recommendations of the World Bank mission which visited Spain last year.

30. Irrespective of the overall development plan, two 15-year plans - for roads and housebuilding - have already been prepared by the Ministries concerned; both contain concrete investment and financial programmes for the period 1962-1965, and both have received official approval in principle. Their basic assumptions will, of course, have to be re-examined and their consistency with other sectoral programmes ensured in the course of elaboration of the general plan. But on condition that such a re-examination is carried out in due course, the early formulation of these plans may prove useful in the sense that they provide a concrete basis for confrontation with the results of the programming work of other services.

31. The decision of February 1962 to seek negotiations with the European Economic Community, aiming at Spain's association and ultimate complete integration with the E.E.C. marks a very important development in the Spanish Government's general economic policy. It constitutes official recognition of the fact that Spain could not afford to remain isolated from the movement towards economic integration in Europe, when some 40 per cent of her exports are directed to the E.E.C. countries and about two-thirds to the European Member countries of

* "Bureau of Economic Co-ordination and Programming" within the Ministry of the "Presidency of the Government".

O.E.C.D. taken together. The prospect of so decisive a further step towards opening-up the Spanish economy has far-reaching implications for economic policy in many fields.

Economic Statistics

32. One indispensable pre-requisite for the elaboration of appropriate policies, lies in having adequate and up-to-date economic statistics. Some progress has been made in the period under review, notably the new indices of output, employment and earnings for various branches of industry. Nevertheless, Spanish economic statistics in many fields are still in need of great improvement. National accounts on the international standardised system are available only up to 1958; the monthly general index of industrial production is still based on 1929-1931 weights; the coverage of statistics on dwellings completed is insufficient; and information on fixed investment and stocks is very scanty. As the authorities steer the economy in the near future close to capacity levels, they will have to resort to more flexible adjustments of policy. This will require accurate and rapid quantitative information. And the work of long-term programming cannot, of course, proceed very far with deficient basic statistics.

III. SOME LONG-TERM ECONOMIC PROBLEMS

33. With the return of economic activity to normal levels and with favourable short-term prospects for the balance of payments, the Spanish authorities are now likely to concentrate their efforts on the long-term problems of the economy. The high and sustainable rate of economic development, which they seek in principle to bring about, and the progressive integration with the European market which is an official policy objective, will doubtless imply major transformations in Spain's economic structures and institutions as well as important modifications of policies. The very complex problems involved should be clarified by the forthcoming report of the International Bank, while the work of the recently established planning services may be expected, in due course, to provide a concrete and detailed basis for the formulation of a coherent development policy. The following paragraphs are simply intended to recall some features of the Spanish economy and to indicate certain fields in which more detailed analysis and action on the part of the authorities seem to be required as a matter of priority.

*A retrospect**

34. The structural difficulties of the Spanish economy were aggravated by the destruction of the civil war and the economic conditions created by the second world war and its immediate aftermath, so that in many sectors production did not return to its pre-civil-war level until after 1950. Spain was not among the recipients of Marshall aid and did not participate in the early stages of European economic co-operation through the O.E.E.C., which was characterised by the establishment of largely multilateral and liberalised systems of international trade and payments. This fact was an important contributory cause of the autarkic direction of economic policy throughout the fifties.

35. A significant rate of growth was achieved from 1950 to 1958, when the average annual increase of the gross national product in real terms was of the order of 5 per cent. During the first half of this period, the rate of increase was higher and prices were relatively stable. But since 1954, although United States aid provided additional external financing, an increasingly rapid expansion of public and private investment induced a severe inflation and a rapid deterioration in the balance of payments, which resulted in the virtual depletion of foreign exchange reserves by the middle of 1959. The stabilisation measures taken at that time arrested the process of inflation and resulted in a spectacular improvement of the balance of payments; but they also caused a certain recession in economic activity, followed by a period of rather mild and gradual recuperation.

36. Thus, the relatively rapid expansion of the fifties was made at the price of an inevitable subsequent stagnation. But some special features of this expansion were, perhaps, of even greater importance from a long-term point of view. Set against a number of very positive achievements (e.g. considerable expansion in electricity, iron and steel, chemicals and metal-working industries) there were certain negative results. Distortions in relative costs and prices were introduced by multiple exchange rates, bilateral foreign trade and strict licensing of imports, allocation of raw materials, detailed controls on prices, industrial investment and employment, and special exemptions for certain firms (mainly State-owned). As a result, a considerable amount of investment has taken place along less economic lines and this constitutes a difficult problem at present. Second, the pull of excessive internal demand, coupled with measures which often discouraged exports, led to a relative stagnation of exports during a period

* For a description of the broad economic developments and of the process of inflation during the fifties, see the Organisation's report "Economic Conditions in Spain, 1958". For an analysis of the 1959 Stabilisation Programme and of the results of its application, see the reports on Spain published in 1960 and 1961.

in which those of the majority of Member countries expanded considerably. Third, inadequate investment in agricultural improvements, transport and general overheads has aggravated certain basic difficulties of the economy while progress in modernising the country's economic institutions has been slow.

The present scene

37. Spain has, at present, many of the essential characteristics of an under-developed economy. She has, however, definitely passed the early stages of the development process and also has certain special advantages which could facilitate the rapid realisation of her considerable long-term growth potential. Per caput gross national product is one of the lowest in Western Europe. Some 45 per cent of the labour force is engaged in agriculture, where yields of staple products are often very low and investment insufficient. The system of land tenure is antiquated, very large holdings co-existing with peasant farming on minute plots. In industry, there are in some sectors a number of quite large firms (some of which are controlled either by the few principal banks or by the I.N.I. State-owned holding) but also a multitude of small units with obsolete equipment and almost handicraft methods of production; sectoral studies have underlined the striking absence of medium-sized firms. Certain branches of industry survive only because of a very high degree of protection. The distributive system is outdated and the transport network is in urgent need of improvement. The composition of exports has not changed significantly during the last thirty years: food products and minerals still account for about two-thirds of their total value. Parts of the financial institutional structure do not correspond to modern requirements and there are very important gaps in the provision of medium and long-term credit. Thus the relatively high rate of savings, which reflects the pattern of income distribution, is not readily channelled into the more productive types of investment. A further impediment to the development of investment is constituted by certain restrictive regulations and some methods of administrative direction of the economy, dating from the inflationary period of the fifties.

38. On the other hand, there exists already in the country a considerable industrial basis, relatively concentrated in space and diversified in nature, which is able to draw immediately on manpower with industrial experience and subsequently on the great labour reserves of the countryside. Besides this fundamental factor, the Spanish economy has other features facilitating rapid growth: variety of natural resources; geographical proximity and important economic links with the major European markets; a flourishing tourist trade, which is not only a valuable support to the balance of payments, but also a potent force for economic expansion in many provinces; an appreciable flow of emigrants' and workers' remittances; and, given appropriate policies, the possibility of attracting large amounts of

foreign capital in productive investment. Regular budget surpluses on current account, the tendency towards a high rate of savings and the recently attained internal financial stability also represent considerable initial assets for an economic development drive.

The range of problems

39. The foregoing illustrates the wide range and magnitude of the structural re-adjustments required if the Spanish economy is to enter a phase of rapid and sustainable growth. For example, in agriculture alone there is a number of major problems to be tackled simultaneously: the considerable stepping-up of investment which is called for cannot be dissociated from extensive measures aiming both at the consolidation of small holdings and the breaking-up of large estates; nor can an adequate increase of investment in machinery, livestock, etc. occur without an expansion of medium and long-term agricultural credit, which in turn implies an overhaul of present institutional arrangements; the effort to increase agricultural productivity must, naturally, be accompanied by measures to improve the marketing and distribution of agricultural produce; moreover, the broad composition of agricultural output to be aimed at should emerge from long-term programming work, which would also take into account prospective developments in other Member countries; yet it is extremely probable that the conclusions of such programming would differ widely from the patterns promoted by present price policies and production controls, which are sometimes characteristic of a siege economy.*

40. In several branches of manufacturing, the large number of firms with very low productive efficiency means that, unless major schemes of rationalisation and modernisation are carried out under public auspices, the resistance of sectoral interests and the social difficulties of re-adjustment will probably thwart significant progress over a wide area. The authorities will also have to deal with the effects of monopolistic structures in a number of industries. Moreover, an essential part of a policy of industrial development should be the adoption of rational economic criteria for the operation of the state-owned enterprises, and this will probably imply modifications in present production patterns and investment plans.

41. It is evident from these few examples that both new policies and considerable structural reforms are called for in numerous fields; thus a question of relative priorities arises, which can only be answered when the elaboration of the development plan is sufficiently advanced. Progress with the planning work is, in a sense, the first priority; such progress may

* For instance, there is still an obligation on farmers throughout the country to devote a certain acreage to cereals, regardless of comparative costs and yields.

help, moreover, in the near future to bring about a convergence and increased compatibility of the current economic policies followed by the various departments and official services. There is, however, one category of economic problems which seems to merit particular attention at an early stage, namely those connected with Spain's foreign trade and payments.

The external sector

42. The experience of recent years, during a phase of economic history when even countries with much vaster internal markets and more diversified resources are finding great advantage in a considerable expansion of their foreign trade, has proved conclusively that satisfactory rates of growth and economic isolation are incompatible for Spain. This consideration lies at the basis of the new orientation of the Government's economic policy. The fact that the movement towards an "open economy" has been longer delayed in Spain than in most other Member countries means that the changeover has now to be more rapid, in order to avoid a further deterioration of the country's relative position in the European and World markets. The difficult problems of adaptation which will inevitably arise must therefore be studied and solutions must be prepared as soon as possible.

43. Issues of foreign trade policy lie at the very core of the general development problems. Rapid growth will, of course, require a considerable increase of imports, many of which will compete with the products of local industries. At present, high tariffs and import restrictions protect each of these industries taken separately; but they increase considerably the average level of industrial costs, they help to keep in existence inefficient firms and they greatly hinder the expansion of Spanish exports, both by raising their costs and by attracting towards the protected home market potential exports of manufactures. These effects will become more acute as internal demand expands again and, unless corrective measures are taken in time, the net result may be considerable increases in domestic costs and prices as well as a deterioration of the trade balance. Accordingly, one of the first objectives of overall economic planning should be the elaboration of a more rational protective policy. Some degree of protection will clearly be needed over a period of time, but, unlike the absolute protectionism of the fifties, the new policy should be selective and based on the general interests of the economy. Legitimate preoccupation with actual or prospective international negotiations should not be allowed to delay the formulation of such a policy of reduced and selective protection which is in Spain's own economic interest.

44. The surplus on invisible account and the likely inflow of foreign long-term capital cannot be sufficient in the long run to finance the rise in imports that will accompany rapid growth;

an expansion of Spanish exports will be essential. This is precisely the field where there has been the least progress over a long period. The total value of exports in 1960, after a spectacular improvement caused by the stabilisation measures, amounted to \$725 million; but their volume was probably not very different from that of the late twenties.* The fact that exports remained at about the same rate in 1961 as in 1960, although there was no important change in foreign market conditions but simply a return of domestic demand to normal levels, is sufficient to underline the difficulties in the way of export growth and the relative urgency of measures to promote it. On the other hand, the composition of exports reflects the prolonged isolation of the Spanish economy and the policies followed in the fifties. The share of food products and minerals on total exports being still excessive, Spain continues to suffer from the world market trend of deteriorating terms of trade for primary products; even more important, Spanish industry, apart from rare exceptions, is still not benefiting from the stimulus and the opportunities of expansion which its insertion into larger and more competitive foreign markets would provide.

45. It is beyond reasonable doubt that without decisive action for the promotion and diversification of exports, economic development will hardly materialise. The main obstacles and difficulties are probably not those pertaining especially to the actual or potential export sectors, but rather the low average productivity of the Spanish economy in general. From a practical point of view, however, it would be a great mistake to wait for the preparation of general plans on all major economic problems before significant steps are taken for the promotion of exports. On the contrary, the successes and failures of such measures, and the lessons from the performance of Spanish agriculture and industry in foreign markets, will throw light on the measures required to cope with the more intractable general problems of the Spanish economy. One of the immediate tasks of the authorities should be to initiate a thorough economic and market analysis of past trends and future prospects in the principal export sectors. These studies should cover both the traditional export commodities and such new groups of products as at first sight appear to constitute potential competitive exports. The assessment in a number of concrete cases of promising lines of expansion, and of the present obstacles and difficulties, will form an indispensable basis for taking the policy measures which are urgently required.

IV. CONCLUSIONS AND RECOMMENDATIONS

46. After the stagnation of economic activity in 1960 and gradual recovery in the course of last year, total output and intern-

* There is some uncertainty about the significance of foreign trade statistics covering the period preceding the World depression; therefore, exact comparisons cannot be made with a sufficient degree of confidence.

al demand have been expanding more rapidly during the last few months, while prices have remained relatively stable. The balance of payments remains in surplus, despite a considerable growth of imports in 1961 and the stability of exports since the spring of that year. External reserves are very large and continue to increase. Thus, as a result of the new economic policy initiated with the Stabilisation Programme of 1959, the Spanish economy is now entering a phase of expansion in generally satisfactory internal and external financial conditions - a situation which had not occurred for a great number of years.

47. The prospects for 1962 are of a further important growth of internal demand. The new budget provides for a much greater rise in expenditure than in revenue, which will practically eliminate the surplus of the ordinary budget and increase considerably the overall deficit of the public sector. Consumers' expenditure is also likely to expand and private investment demand will probably continue its recent rising trend, which has followed a prolonged period of relative stagnation. A significant part of the increase in domestic demand will almost certainly be met by a further expansion of imports. But this, even assuming no rise in exports, should at most lead to a modest deficit in the current balance of payments in 1962, because of the important structural surplus on invisibles and private transfers. Taking account of a probable continuation of the capital inflow, external reserves should increase again, although by a smaller amount than in the last two years.

48. As regards domestic supply, there are no indications of any important bottlenecks developing in the near future. Moreover although industrial fixed capital cannot have increased very much since 1958, given the intervening period of low investment, there are strong reasons to believe that actual industrial output in 1958 was much lower than potential output. This was due to the effect of raw material shortages (linked to severe import restrictions and speculative stock-building) and, more generally, to the wasteful rigidities and distortions induced by the inflation and the economic policies of that period. The mere disappearance of these factors has already caused appreciable increases in industrial productivity and there are still important capacity margins in many sectors.

49. Thus the decision of the authorities to continue with expansionist measures in the current year seems justified, the more so as the alternative policy of acquiescing in further appreciable increases of external reserves would have been indefensible, having regard to Spain's low average income and need for economic development. Nevertheless, it is essential that the Government disposes of a full range of efficient instruments for the prompt suppression of any future excess of demand, so that a high level of activity can be maintained without endangering internal financial stability.

50. This means that the principles of monetary and credit management included in the "Banking Reform" law should be translated as soon as possible into operating rules and put into practice. The control of the banks' liquidity is not a matter to be dealt with only at moments of crisis, but may need frequent adjustments and flexible policies, including positive intervention to vary the level of interest rates. As regards the anti-cyclical role of public finance, the experience of the last two years shows the need for improvements. The excessive seasonal concentration of expenditure, the great delays between the approval and actual use of allocations and the lag between tax yields (except those of customs duties) and fluctuations of economic activity, have much restricted the expansionary impact of public finance during the recent period of low demand; the converse might well happen in future, when private demand is at a high level. This situation calls for a study of administrative and fiscal reforms. Consideration might be given, inter alia, to the creation of short-term public debt, which would not only serve to even out the Treasury's cash operations, but could also be useful for monetary management. Another, indispensable requirement for effective anticyclical policy is an improvement in the quality and promptness of economic statistical reporting.

51. The Spanish authorities have to consider not only the problem of global equilibrium between demand and supply, but also the likelihood of strains on costs and prices which may arise before the economy attains full capacity levels, as a result of the existing economic and institutional distortions and rigidities. In this respect, there are certain openings for Government action that would have a rapid and important effect on the level of costs and prices and, also, far-reaching beneficial results in the longer run. First, the remaining quantitative restrictions on private imports could largely be abolished in the near future. In the second place, some clearly excessive or especially undesirable tariffs could be reduced or eliminated at an early stage. In this field, however, the fundamental requirement is the elaboration of a tariff policy, conceived as an instrument of the Government's development policy. A degree of tariff protection will probably be needed for a number of industries, the growth of which is to be promoted; but it would not be logical to maintain at the same time appreciable tariffs on these industries' inputs. In a more general sense, the broad objective of industrialisation implies that, as a rule, tariffs on raw materials, semi-finished products and most equipment goods should be nil or very low.

52. Another possibility of early Government action on these lines concerns the many detailed controls of production and employment, which could be considerably reduced. In particular, the requirement of prior authorisation for new industrial investment (and even for replacement of plant and machinery) could be abolished for the great majority of cases; or, at least,

the present very low limit of 2 million pesetas could be raised substantially. Furthermore, the recent liberalisation of foreign investment could be completed by measures aiming at attracting direct foreign investment in certain industries - for example export industries. The adoption of the kind of measures suggested in this and the preceding paragraph would not raise any major economic difficulty, and would help considerably to keep prices down during a period of expansion; moreover, such measures would yield longer-term benefits by stimulating competition, encouraging investment and increasing the mobility and efficiency of the factors of production. Action in these directions would also enable Spain to benefit fully from the advantages conferred by the co-existence of ample labour reserves and an already established industry which still has big margins for relatively easy productivity increases.

53. Beyond the task of the simultaneous achievement of high levels of production and employment and the safeguarding of internal financial stability, present circumstances raise certain basic issues of long-term economic policy. Both internal and external economic conditions are now particularly favourable for launching a policy of rapid economic development. But the structural defects of the country's economy, and the results of unbalanced development in the past, require determined action by the authorities to carry out extensive reforms of economic structures and institutions. The Government is already preparing action in certain fields, for example in the field of medium and long-term credit; certain other examples of the kind of reforms required have been suggested in general terms in the present report. When the recently established Planning Services have made sufficient progress in preparing the overall development plan, benefiting from the forthcoming recommendations of the International Bank, the formulation of coherent and co-ordinated long-term economic policies will be greatly facilitated. It is to be hoped that the long-term planning work will proceed in a satisfactory way as quickly as possible.

54. However, some time will inevitably elapse before the Development Plan is prepared and effectively put into application; and, meanwhile, there is a great need both for stepping-up the total rate of productive investment and for directing it as far as possible along desirable lines. Consequently, the authorities should consider the possibility of adopting an interim investment scheme. This should involve certain decisions on priorities for investment to be carried out by the public sector, but could be also accompanied by measures of economic policy for promoting the growth of private industrial investment and, more particularly, the modernisation of manufacturing plant and equipment.

55. A fundamental issue of general economic policy is the degree to which the Spanish economy should be integrated with

the major western markets. Experience has proved conclusively that rapid and sustainable growth in Spain is incompatible with autarkic economic policies. The new orientation of official policy since the Stabilisation Programme stems from that experience, and the recent decision to seek negotiations with the European Economic Community is a confirmation of the trend towards an open economy. This process of integration, which will require an important measure of understanding and co-operation on the part of the industrialised countries, must be prepared by adequate action on the Spanish side. The early formulation of a rational tariff policy, implying no more than a reasonably low and selective protection of domestic industries, the detailed study of export potentialities, and the adoption of measures to promote the expansion and diversification of Spanish exports have undoubtedly the highest priorities in this respect.

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STATISTICAL ANNEX

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Table I. AGRICULTURAL PRODUCTION

	UNIT OR BASE	1931/1935	1951/1955	1956	1957	1958	1959	1960	1961
1. Index of net total agricultural production ¹⁾	1953-1957 = 100	-	99.6 ²⁾	98.5	103.9	108.3	110.1	116.8	118.0
2. Index of vegetable agricultural production	1931-1935 = 100	100.0	107.2	109.4	113.2	113.0	124.3	117.0	119.5
3. Index of livestock production	1953-1957 = 100	-	98.4 ²⁾	100.4	104.2	106.7	106.7	111.1	121.9
4. Wheat	thousand metric tons	3,582	4,031	4,196	4,900	4,540	4,635	3,520	3,250
5. Rice	" " "	269	358	384	388	380	386	361	335
6. Maize	" " "	666	665	714	771	916	959	1,012	1,060
7. Potatoes	" " "	3,890	4,019	4,307	3,954	4,292	4,588	4,620	4,805
8. Tomatoes	" " "	700	816	818	870	962	1,195	1,148	1,200
9. Wine	thousand hectolitres	18,820	18,360	21,140	17,400	19,800	17,280	21,260	22,000
10. Beet	thousand metric tons	2,150	2,615	2,743	2,285	3,207	3,919	3,572	3,700
11. Cotton	" " "	4	63	148	106	121	190	220	320
12. Olives	" " "		362	396	311	314	440	464	340
13. Oranges	" " "	1,044	1,178	488	1,183	1,078	1,442	1,399	1,477
14. Meat	" " "	283 ³⁾	400	455	468	484	516	572	582
15. Milk	thousand hectolitres	..	3,012	3,225	3,362	3,189	3,071	3,185	3,500
16. Fish ⁴⁾	thousand metric tons	355 ⁵⁾	584	668	694	720	751	850	724

1) For human consumption.

2) 1963-1966.

3) 1959.

4) Landings.

5) 1931-1934.

SOURCES: "Anuario de Estadística" and information supplied by the Spanish authorities.

Table II. MINING AND MANUFACTURING PRODUCTION

	UNIT	1928	1931/1935	1941/1945	1953	1954	1955	1956	1957	1958	1959	1960	1961 ¹⁾
1. Soft coal	million metric tons	6.7	6.8	8.4	10.3	10.4	10.4	10.6	11.1	11.3	10.9	11.3	11.2
2. Anthracite .....	" " "	..	..	1.4	1.9	2.0	2.0	2.3	2.8	3.1	2.6	2.5	2.6
3. Iron ore	" " "	2.7 ²⁾	1.1 ²⁾	2.1	3.0	3.1	3.7	4.4	5.4	5.0	4.8	4.9	6.1
4. Pyrites	" " "	3.6	2.2	0.4	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.1	2.2
5. Electrical power	million kWh	2.4	2.9	4.4	10.1	10.5	11.9	13.7	14.5	16.4	17.4	18.6	20.8
6. Cast iron and ferro-alloys	thousand metric tons	563	387	550	828	900	996	948	996	1,344	1,704	1,949	2 200
7. Steel	" " "	777	585	606	897	1,100	1,213	1,243	1,346	1,651	1,823	1,911	2,330
8. Copper	" " "	28	17	18	17	18	21	26	28	30	35	38	34
9. Lead	" " "	131	89	38	49	56	81	59	63	70	68	71	82
10. Aluminium	" " "	1	1	1	4	5	10	14	15	16	21	30	33
11. Sulphuric acid ³⁾	" " "	179	158	149	760	935	900	991	980	1,072	1,161	1,117	1,023
12. Cement	" " "	1,543	1,458	1,771	2,773	3,323	3,752	3,999	4,483	4,817	5,220	5,224	6,108
13. Cotton yarn .....	" " "	..	..	62	72	72	75	80	84	76	72	80	88
14. Cotton fabrics .....	" " "	..	..	47	52	46	46	47	48	54	56	58	..
15. Woolen yarn .....	" " "	..	..	15	14	12	13	14	14	14	12	12	16
16. Woolen fabrics .....	" " "	..	..	..	..	..	..	6.1	5.9	6.5	5.3	5.0	..
17. Rayon fibre	" " "	0.5	2	6	12	12	14	15	16	16	14	15	17
18. Bicycles	in thousands	..	..	100	117	146	167	175	188	186	161	162	184
19. Motorcycles	"	-	-	..	34	46	69	86	128	153	108	84	100
20. Motor cars	"	-	-	-	1	6	16	22	30	33	38	39	51
21. Tractors	"	-	-	-	-	-	0.9	0.8	1.5	1.4	3.1	9.1	12
22. Merchant shipping ⁴⁾	thousand metric tons	12	20	17	46	50	73	94	109	145	112	158	140

1) Provisional figures.

2) Metal content.

3) Not including output of superphosphates factories.

4) Tonnage launched.

SOURCE: O.E.C.D. General Statistics and industrial statistics and information supplied by the Spanish authorities.

Table III. TREND OF PRICES

	BASE	1959	1960	1961	1960				1961			
					1st Qtr	2nd Qtr	3th Qtr	4th Qtr	1st Qtr	2nd Qtr	3th Qtr	4th Qtr
WHOLESALE PRICES												
1. General index ..	1955=100	142.3	145.2	149.0	143.3	144.3	146.6	146.8	148.9	149.1	148.1	150.7
2. Agricultural products	"	144.2	146.9	154.6	142.1	144.9	149.6	149.6	155.5	156.3	150.9	155.7
3. Industrial products	"	139.8	141.8	143.6	142.4	141.1	142.1	143.0	143.6	144.2	144.4	144.3
COST OF LIVING												
4. General index ..	1958=100		(108.6)	111.4					111.5	110.8	110.4	112.2
5. Food	"			110.2					111.0	109.5	108.8	111.4
6. Clothing	"			109.0					108.7	108.7	109.0	110.0
7. Rent	"			104.6					103.8	103.8	103.9	107.1

Table IV. MONEY AND CREDIT

In billion pesetas

	1958		1959		1960		1961			
	1st Half	2nd Half	1st Half	2nd Half	1st Half	2nd Half	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
I. MONEY (end of period)										
1. Note circulation	61.8	68.0	68.6	70.9	69.8	76.0	75.1	76.0	81.7	84.8
2. Sight deposits	107.6	121.7	118.9	128.0	115.3	127.7	122.1	125.4	132.4	147.7
3. Money supply (1 + 2)	169.4	189.7	185.5	198.9	185.1	203.7	197.2	201.4	214.1	232.5
4. Time deposits with the commercial banks	67.4	69.8	72.0	75.3	67.9	111.3	117.9	122.5	127.1	134.9
5. Time deposits with the savings banks	54.4	59.8	61.6	66.1	72.4	80.4	83.7	86.3	91.4	..
6. Compulsory importers' deposits	-	-	-	2.3	0.7	0.1	-	-	-	-
II. CREDIT (end of period unless otherwise specified)										
1. Advances by the Bank of Spain to the public sector:										
a) Treasury and autonomous institutions	9.7	15.1	13.8	17.6	13.9	17.3	15.2	7.0	5.8	13.1
b) International institutions	0.7	0.7	0.7	9.4	0.4	2.8	2.8	3.7	3.7	3.8
2. Advances by the Bank of Spain to the S.N.T. and re-discount by the S.N.T. (National Wheat Service)	6.3	10.6	6.8	9.7	5.9	5.0	3.4	2.9	5.7	5.7
3. Issues of government securities (monthly average - net increase in the period in question)	0.6	0.8	0.8	0.6	0.9	0.9	1.2	0.7	0.6	1.7
4. Advances by the banking system (Bank of Spain and commercial banks) to the private sector	137.5	152.6	156.6	157.8	161.3	179.4	186.9	190.9	204.2	220.6
5. Re-discount by the commercial banks with the Bank of Spain	4.6	5.7	5.3	4.5	2.8	3.6	2.9	3.1	2.8	3.4
6. Portfolio of commercial banks:										
a) Government securities	57.7	59.4	61.3	60.6	60.9	61.0	61.3	61.3	61.3	61.1
b) Private securities	16.3	17.4	18.3	19.6	20.3	20.7	21.0	21.3	21.7	21.7
7. Government securities used as collateral to obtain loans from the Bank of Spain by the commercial banks	43.0	47.3	48.3	45.9	39.5	37.8	37.3	38.0	41.6	42.9
of which: credits actually used	26.9	29.1	31.7	24.9	17.4	13.5	15.9	19.6	19.2	15.8
8. Issues of private securities (monthly average - net increase in the period in question)	1.7	1.4	1.9	1.3	1.6	1.5	1.4	2.1	1.0	2.0
9. Liquidity ratios of credit institutions (%)	8.1	9.1	7.5	10.6	10.7	11.0	9.3	7.8	8.9	10.9
10. Re-discount rate (%)	4.0	4.0	4.0	5.0	4.6	4.8	4.6	4.0	4.0	4.0
11. Share price index (1953 = 100)	129.0	133.4	113.3	98.2	104.5	107.6	117.3	124.6	138.4	139.2

SOURCE: Bank of Spain, "Servicio de Estudios", "Boletín Estadístico".

Table V. OFFICIAL GOLD AND FOREIGN EXCHANGE HOLDINGS

Million U.S. dollars - end of period

	1958	1959		1960		1961		1962
		1st half	2nd half	1st half	2nd half	1st half	2nd half	April
1. Gold and convertible currencies	65	63	199	405	541	661	863	940
2. Bilateral accounts, including non-convertible banknotes	- 31	- 31	18	37	49	31	6	16
3. International Monetary Fund drawings	-	-	- 50	- 50	- 50	-	-	-
4. European Fund (E.M.A.) drawings	-	-	- 24	- 24	- 24	-	-	-
5. American banks	- 12	- 12	-	-	-	-	-	-
6. Funded multilateral debts	-	-	- 21	- 12	- 10	- 5	- 3	- 1
7. Other short-term credits	- 20	- 24	- 14	- 8	- 6			
8. Net official reserves	2	- 4	108	348	500	687	866	955

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