DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/85/248
Correction 1

CONTAINS CONFIDENTIAL INFORMATION

September 20, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Spain - Staff Report for the 1985 Article IV Consultation

The following corrections have been made in SM/85/248 (8/27/85):

Page 2a, Chart 1, upper panel: for "General government savings/Private savings" read "General government dissavings/Private savings"

Page 4, Table 1, last line, column 1: for "71.5" read "70.5"

Page 5, first full para., lines 14 and 15: for "some 2 percentage points" read "about 1 percentage point"

Page 11, first full para., line 3: add "1/" after "except equity issues"
line 9: for "aggregates are" read "aggregates and interest rates are"
Add footnote 1 at bottom of page

Page 13, Table 4, column 2, line 2: for "105.5 (1984)" read "100.0 (1970)"

Page 30, para. VIII, line 10: for "9.7 percent" read "12.2 percent"

Page 33, Table 33, Scenario B: insert line "Interest payments 9.0...3.4" under line "Amortization 15.0...8.2"

Corrected pages are attached.

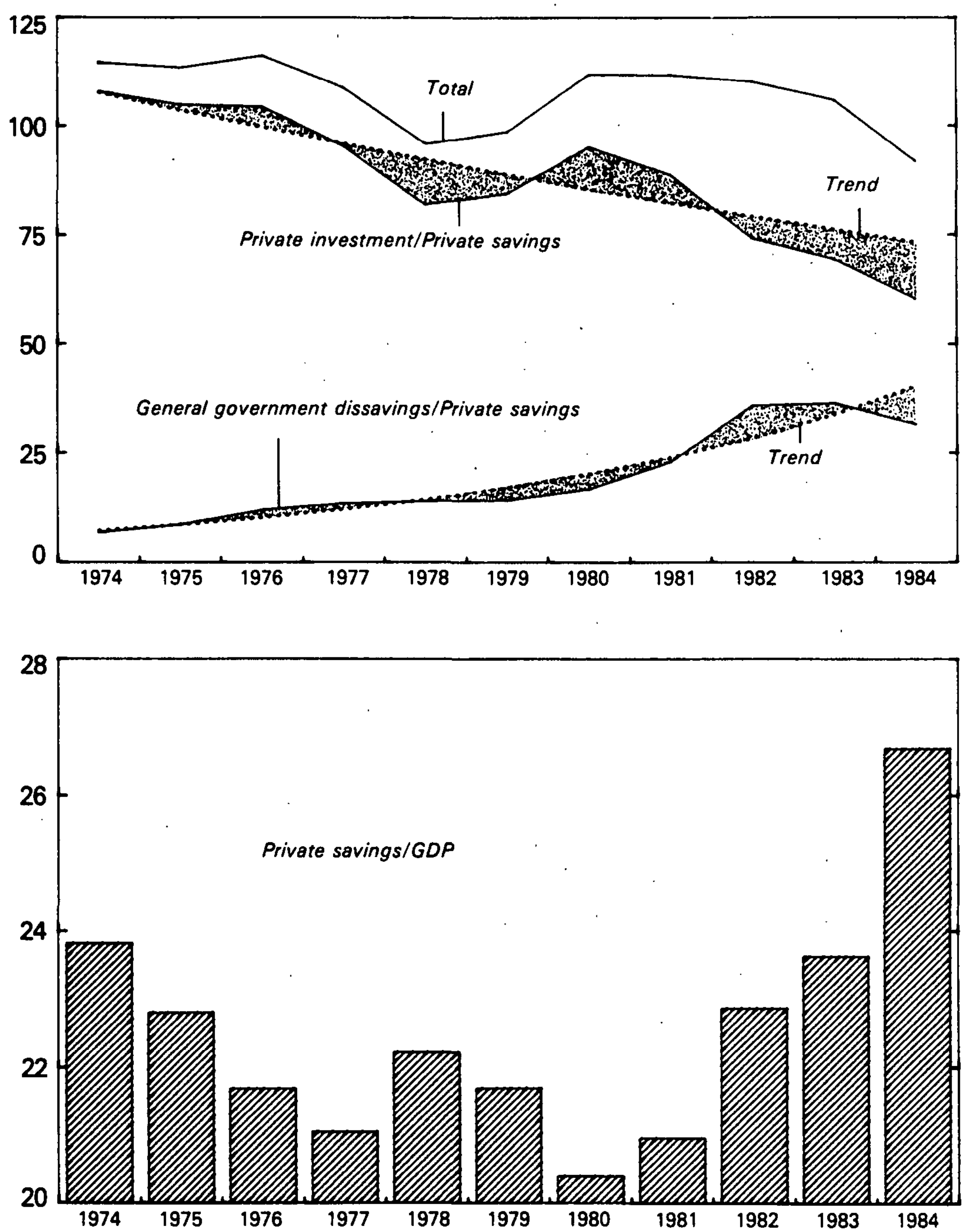
Att: (7)

Other Distribution:
Department Heads

CHART 1

SPAIN

INVESTMENT, PRIVATE AND PUBLIC SAVINGS[1], 1974-1984



Source: Bank of Spain, *Annual Report* and *Statistical Appendix*.
[1]Private sector includes public enterprises.
Note: The total in the upper panel equals the sum of the two ratios and, therefore, the ratio of the external current account balance to private savings with an excess over 100 indicating a deficit.

it materialized at higher levels of both revenue and expenditure than had been programmed--a disturbing development, particularly if this pattern were to be carried forward.

Although the structure of the improvement in the deficit was not quite as desired, the outcome for 1984 indicates that the seemingly inexorable trend toward an ever-higher absorption of private savings by the public sector may not only have been broken, but actually have turned around (Chart 1). This is particularly important, given that the recorded upward trend of savings, especially in 1984, does not imply a genuinely higher propensity to save, but rather continued nonspending on investment. The associated low credit demand allowed the expansion of the central monetary target, liquid assets in the hands of the public (ALP), to remain within its range, albeit at the upper limit, despite the fact that the overall balance of payments moved into a surplus of about US$4 1/2 billion instead of into balance, as projected. Buoyed by the virtually exponential rise in exports of almost 18 percent in real terms, real GDP rose by 2 1/4 percent as projected, although all components of private domestic demand, and investment in particular, continued to decline (Chart 2).

The unbalanced growth of demand explains in part why, despite the positive performance with respect to the major policy targets set for 1984, the central policy objective, i.e., an improvement in the employment situation, was not achieved. The main impediments to a rise in demand for labor, however, remained structural. Thus, overall employment continued to shrink and the measured unemployment rate rose to exceed 20 percent (Chart 3).

The continued steep fall in private investment 1/ and associated labor shedding, suggest that the rationalization process that enterprises have been engaged in for several years still has not run its course. Although profitability rose significantly in 1984, and has been improving continuously since 1980, the previous erosion had been so large that, by 1984, profit shares in industry still were well below their 1970 level (Table 1). Moreover, profit shares in industry remained some 40 percent below those registered in the economy as a whole, compared to almost parity in the period until the early 1970s. Thus, it may not be surprising that the double impetus provided in 1984 by an actual fall in real wages per employee and a sizable reduction in interest rates went largely to bolster enterprise balance sheets rather than to increase investment.

1/ Investment expenditures under the industrial reconversion program--which are publicly financed--accounted for an estimated 10 percent of investment activity in 1984, indicating that private investment expenditures may have fallen by 8 percent in real terms.

SM/85/248
Corrected: 9/19/85

Table 1. Spain: Changes in Profitability in Industry
Profit Shares in Value-Added 1970-84

(In percent)

	Labor Share	Profit Share
1970	55.9	44.1
1975	69.2	30.8
1977	79.4	20.6
1979	86.0	14.0
1980	83.6	16.4
1981	81.4	18.6
1982	78.2	21.8
1983	73.3	26.7
1984	70.5	29.5

Source: Bank of Spain.

As the restructuring of enterprise balance sheets continued and inventories were depleted, in part in conjunction with unexpectedly high export demand, the external financing needs of private enterprises diminished. Accordingly, the public sector was able to absorb over 90 percent of domestic credit expansion without overt signs of pressure in domestic financial markets. The fact that interest rates could decline in the process lends support to the view that the absence of effective private credit demand was largely voluntary. Still, a significant part of credit demand was crowded out of the peseta into foreign currency markets, as the credit needs of the enlarged public sector, i.e., including the public enterprises, exceeded domestic credit expansion by 15 percent (Chart 4).

Increased recourse to foreign financing together with the much better than expected performance of the external current account balance made control of liquidity increasingly difficult. Early in the year, in the face of a growing external surplus that threatened the authorities' monetary targets and inflation objectives, the authorities moved to stabilize the exchange rate of the peseta. Subsequently, however, as domestic credit conditions eased, they appeared to steer a middle course, which by end-year left the peseta in real effective terms, almost 5 percent above its end-1983 level in spite of a rise of US$4.6 billion in net official reserves (Chart 5). The incentives to borrow abroad created early in 1984 by domestic credit conditions and the external exchange and interest rate constellation thus swung in the opposite direction later in the year. The end result was that the level of external debt outstanding at end-1984 was little changed from that of the previous year. However, the maturity structure was improved as part of the debt was refinanced at better terms. Debt service payments, reflecting the increase in amortization payments associated with prepayments and refinancing of debt, rose from 20 percent of exports of goods and services in 1983 to 24 percent in 1984.

2. Developments in and prospects for 1985

For 1985, the authorities seek to consolidate and extend the gains achieved in 1984. Accordingly, they targeted a further reduction of the public sector borrowing requirement to the equivalent of 5.1 percent of GDP, a fall in the rate of inflation to 7 percent through the year (consistent with a year-over-year increase of about 8 percent), stability in real wages, and a current account surplus of US$2 billion. To support the policy of wage moderation, a nationwide agreement covering 1985 and 1986 was reached according to which wages are to remain about stable in real terms. Under this accord, wage awards for 1985 were to range from 5 1/2 to 7 1/2 percent in the private sector and public sector wage increases were to be held to 6 1/2 percent. Monetary policy was to continue to support the deceleration of the inflation rate. Accordingly, the target growth for ALP (within a plus/minus 1.5 percentage band), was set at 13 percent, i.e, about 1 percentage point below the actual outcome in 1984. But if the actual outturn for 1985 were to tend toward the upper limit of the target range, as in 1984, monetary policy, in fact, would be more accommodative than in previous years.

Developments so far in 1985 suggest that the general targets set for the year may have been too optimistic. Policies were formulated initially on the basis of a 3 percent volume growth of GDP with the foreign balance contributing about 1 percentage point. But the erosion of external competitiveness through the appreciation of the real effective exchange rate, coupled with shortfalls in growth of foreign markets, has kept export performance rather below expectations. Accordingly, the foreign sectors' contribution to overall growth could well be negative in 1985, especially with reviving import demand.

With private consumption demand depressed in early 1985, the authorities released the equivalent of 0.5 percent of GDP of purchasing power by reducing income tax withholding rates. At the same time, the growth projection for GDP was scaled down to 2 percent, consistent with a volume increase in private consumption demand of 1 percent and a more significant revival of investment demand, largely concentrated in expenditures for equipment. An incipient upturn of private investment seemed indicated by increases both in domestic production and imports of capital goods.

Wage contracts concluded so far in 1985 have tended toward the upper range of the agreed band, so that including wage drift, wages may rise by perhaps 9 percent. Such an increase would imply some rise in real wages if the inflation target is achieved. However, it appears that inflation may be running at least 1 percentage point above target and, indeed, an 8 percent inflation rate through the year is now the working assumption of the authorities. In contrast with developments in 1984, the current account surplus is not likely to create a dilemma situation for the monetary authorities. The constellation of exchange and interest rates in the first half of 1985 created an incentive for repaying foreign debt and refinancing in pesetas. As a result, foreign exchange reserves at the Bank of Spain were no longer under upward pressure. Nevertheless, ALP began to exceed its target band in early 1985 and has remained outside the upper limit despite some increase in interest rates. The fiscal target, however, could well materialize even though economic growth will be lower than assumed in the budget, mainly because the improvement slated for 1985 is minimal in view of the overachievement of the fiscal target in 1984.

IV. Policy Discussions

1. Overview

It would seem that the basis has been laid toward a reduction of the fundamental disequilibria in the economy. The signs of an incipient revival of domestic demand, essential to halt the erosion of employment opportunities, appear to reflect the contribution structural policy measures have made to a basic change in public attitudes and to an increase in confidence.

However, the disequilibria in the economy appear to be so deep-seated that policy efforts so far may have been able only to stabilize the adverse trends of the past decade toward destruction of employment opportunities and excessive absorption of financial and real resources by the public sector. This is being fully recognized by the Government, which has taken care to emphasize that the recent changes on the economic side of the Cabinet do not portend any change in the priorities given to addressing the structural economic problems. This is considered even more important in view of Spain's accession to the EC, the terms of which will begin to be implemented as of January 1, 1986 and which will bring new opportunities, but also new adjustment requirements.

2. Fiscal policy

As noted in the previous staff report (SM/84/172), adequate control of the fiscal situation depends, in turn, largely on the ability to bring transfer payments under control. This essentially means that both the social security system and the public enterprises need to be put on a self-sustaining course and that the panoply of special incentives, subsidies and other budget supports, particularly to the enterprise sector, needs to be rationalized. In the view of the authorities, the level of consumption expenditures, at just over 12 percent of GDP, the banking sector and partly the heavy regulatory requirements, which pre-assign a large part of banking assets. The latter alone is estimated to raise transformation margins by some 3 percentage points. The Government has announced that the level of preassignment of bank assets will be reduced by about one half by 1990. However, debt management needs in the past have conflicted with progress toward liberalization of the banking system, so that realization of further steps likely will be dependent upon the achievement of the fiscal targets. Deregulation of the banking sector also has tended to run against the preference of the Spanish banks themselves to maintain the status quo. But this attitude is becoming less viable in view of the competition from foreign banks, which will rise further with accession to the EC.

In May 1985, the authorities broadened the withholding tax on income for financial assets to include practically all types of assets, except equity issues 1/ and Treasury bills, and applied a 45 percent rate to securities issued at discount in bearer form. These changes in the fiscal treatment of financial assets is likely to have marked effects on portfolio structures. In particular, Treasury bills--as intended--are likely to have become relatively more attractive. However, this may complicate the exercise of monetary policy yet more, first because recent and prospective developments in the monetary aggregates and in interest rates are likely to be more difficult to interpret as induced portfolio shifts take place and, second, because possible conflicts between the market rate of Treasury bills and the desired intervention rate may become more pronounced.

4. Labor market and industrial policies

a. Labor market

The reasons for the intractability of the employment problem in Spain, i.e., the high cost of both employing and laying off labor, have been discussed in previous reports. In support of their wage policy, the authorities actively negotiated a tripartite national Social and Economic Agreement (AES) covering 1985 and 1986. Such an agreement was considered necessary to forge a consensus not only for the Government's policy of wage moderation, but also to gain support for structural labor market policies and for the reform of the social security system. The authorities held that no further reduction in real wages was necessary and, that from 1985 onward, it would suffice to hold wage levels stable in real terms. Their view was based on the large increases in profits registered in recent years and the good export performance of 1984, which attested to a comfortable competitive situation. However, as shown in Table 1, profit shares are still well below the levels of the early 1970s and, the rise of real hourly earnings in Spain, despite its progressive deceleration, has continued to outpace that in other high-unemployment countries (with the exception of the United Kingdom) (Tables 1 and 3).

1/ The fiscal treatment of dividends -- which continue to be subject to witholding -- was not affected by the new tax law.

Table 3. Spain and Selected European Countries: Employment Trends, 1975-84

	1975-79	1979-82	1980	1981	1982	1983	1984
	Percentage change in total employment						
Spain	-1.5	-2.3	-3.1	-3.1	-1.2	-0.9	-1.9
OECD-Europe	0.3	-0.4	0.5	-1.0	-0.7	-0.8	0.5
Low unemployment countries							
Austria	0.9	1.5	0.6	0.7	-1.1	-1.1	0.1
Greece	1.1	0.4	0.9	0.7	-1.1	0.3	-1/2
Norway	2.3	1.3	2.3	0.9	0.7	0.6	0.5
Sweden	0.7	0.3	1.2	-0.2	-0.1	0.1	0.7
High unemployment countries							
Belgium	0.1	-1.1	-0.1	-2.0	-1.2	-0.8	--
Denmark	1.1	-0.8	0.6	-3.6	0.6	0.3	1 1/4
Italy	0.9	0.5	1.5	0.4	-0.2	0.3	0.4
Netherlands	1.0	1.0	3.1	0.6	-0.4	-1.9	-1/4
United Kingdom	0.3	-2.1	-0.5	-4.1	-1.9	-0.6	1.4
Other countries							
France	0.5	-0.2	--	-0.8	0.1	-0.8	-1.0
Germany	0.2	-0.5	1.0	-0.8	-1.8	-1.6	-0.2
Portugal	0.6	0.9	2.0	1.3	0.5	-1.9	-2 1/2

	Long-term unemployment (12 months and over) share in total unemployment				
	1979	1980	1981	1982	1983
Spain	27.5	34.7	43.6	49.4	53.8
Low unemployment countries					
Austria	8.6	9.2	6.5	5.6	10.3
Norway	3.0	2.0	3.0	3.0	7.0
Sweden	6.8	5.5	6.0	8.4	10.1
High unemployment countries					
Belgium	58.0	57.9	52.4	59.5	62.8
Netherlands	27.1	25.9	22.0	31.6	43.7
United Kingdom	24.5	19.0	21.6	33.3	36.2
Other countries					
France	30.3	32.6	32.5	39.8	42.7
Germany	19.9	17.0	16.2	21.2	29.6

	Real hourly earnings in manufacturing (percentage changes per annum)			
	1973-79	1979-82	1983	1984
Spain	7.7	2.6	2.2	1.3
OECD-Europe	3.8	0.4	0.3	-0.4
Low unemployment countries				
Austria	3.7	0.3	1.2	-0.7
Greece	6.9	4.7	-1.4	4.8
Norway	3.6	-1.6	--	4.4
Sweden	1.2	-2.1	-0.9	1.5
High unemployment countries				
Belgium	3.5	1.4	-3.5	-1.4
Denmark	3.0	-1.1	--	-1.4
Italy	8.5	1.3	0.2	0.1
Netherlands	2.1	-1.5	-0.1	-1.9
United Kingdom	1.4	-1.3	4.2	3.6
Other countries				
France	3.7	1.8	1.5	0.7
Germany	2.4	-0.1	--	--
Portugal	...	...	-7.4	-10.1

Sources: *OECD*; and Spanish authorities.

Although the rise in Spanish wages has been mitigated by relatively large increases in productivity, EC Commission estimates put the level of productivity in Spain still at some 25 percent below the EC average. Further, labor shares in real value added in Spain had risen more since 1970, and by 1984 retreated less, than elsewhere in Europe (Table 4). Moreover, the rise in productivity may have been the result of the rise in real wages rather than the cause thereof, as enterprises were forced to cut back their labor force and upgrade their capital stock to stem the erosion of profits.

Table 4. Spain and Selected Industrial Countries: Evolution of Labor Shares in Value Added in Constant Prices, 1970-84

(Index: 1970 = 100)

	Period High	Period Low	1984
Spain	154.2 (1979)	100.0 (1970)	126.3
High unemployment countries			
Belgium	114.1 (1975)	100.0 (1970)	105.5
Denmark	103.5 (1979)	84.9 (1984)	84.9
Italy	109.7 (1975)	94.1 (1980)	96.1
Netherlands	115.7 (1980)	97.5 (1984)	97.5
United Kingdom	110.5 (1980)	97.5 (1973)	99.5
Other countries			
France	111.3 (1975)	100.0 (1970)	103.3
Germany	112.5 (1981)	100.0 (1970)	104.6
Norway	122.2 (1978)	100.0 (1970)	116.8
Sweden	117.7 (1977)	92.3 (1984)	92.3
Switzerland	115.9 (1975)	98.9 (1984)	98.9
Japan	135.4 (1974)	100.0 (1970)	130.3

Sources: OECD; Fund staff; and Spanish authorities.

The staff took the view that this evidence points to the need for a more ambitious incomes policy than had been formulated, in particular because the AES reintroduced provisions for indexation of contract rates. This is a particularly negative development in view of the increasingly apparent difficulties the Bank of Spain is encountering in controlling the growth of liquidity and because the shift toward higher indirect taxation adds to the measured inflation rate. The success in increasing turnover tax collections may itself have contributed to the recent adverse shift in inflation expectations to the extent that these taxes have been shifted forward into prices. 1/ Anticipation of the implementation of the VAT in early 1986, which is estimated to raise the CPI by at least 2 percentage points, may play a role as well. The authorities, so far, have not considered the possibility of offsetting these effects by encouraging the social partners to agree to exclude the effects of discretionary tax measures from wage adjustments, nor have they formulated such a policy for the public sector.

The authorities noted that in a recent survey ranking the impediments to taking on more labor, the heavy burden of social security costs was cited most frequently, followed by the cost of layoffs. They had taken measures to reduce the gap between wage payments and total labor costs as noted above. But employers' contributions, at 21 percent of total labor costs, have remained the highest in Europe after France, although the social security schemes as such are, if anything, less generous than in some other European countries. The high share of social security in total labor costs results from the fact that the lion's share of social security costs--83 percent--falls on employers, while in the rest of Europe the typical cost distribution is 60/40.

The authorities have shifted the focus of changes in the social security contribution scale away from across-the-board to selective rate cuts in order to create greater employment incentives for particular segments of the labor force. Thus, there are special incentive schemes, inter alia, for the hiring of the young, the inexperienced, the long-term unemployed, those over 45 years of age, those affected by the industrial reconversion scheme, and for the conversion of temporary work contracts into permanent ones. The authorities were not quite clear about the total cost to the system involved in the adoption of these incentive schemes, as many were not mutually exclusive. The staff, acknowledging the logic of employing scarce budgetary funds in areas where they are estimated to have the greatest leverage, took the view that the institution of such a plethora of special incentives has large drawbacks, among which the loss of transparency on the cost side and the further fragmentation of an already fragmented labor market are not the least.

The authorities explained that from 1987 on it was their intention to effect general rate cuts for social security in conjunction with increases in the VAT. They estimated that a 2 percentage point increase in the VAT could finance a 5 percentage point cut in social security rates. The mission noted that, to the extent that the incentive schemes foreshadowed the final rate structure desired by the authorities, they could be defensible. However, shifting a part of the burden of financing social security to the general tax system--in particular to indirect taxes--could be successful only if the wage negotiation process did not preempt the room created by the lowering of contribution rates, a questionable proviso. The authorities further argued that especially

1/ In 1984 increases in indirect taxation may have added 1.2 percentage points to the 8.8 percent rise in the value-added deflator.

Fund Relations with Spain

(As at end-July 1985; in millions of SDRs)

I. Membership status

Spain became a member of the Fund in 1958. Spain continues to avail itself of the transitional arrangements in Section 2 of Article XIV of the Articles of Agreement.

A. Financial Relations

II. General department

(a) Quota: SDR 1,286 million.

(b) Total Fund holdings of pesetas: SDR 907.8 million (70.6 percent of quota).

(c) Fund credit: none.

(d) Reserve tranche position: SDR 378.2 million.

(e) Current operational budget: the Spanish peseta is included in the current budget to the amount of SDR 39.3 million on the transfer side, of which SDR 17.4 million has been used. On the receipt side the amount in the budget is SDR 17.8 million, none of which has been used so far.

(f) Lending to the Fund (in millions of SDRs): Spain is not a participant.

III. Stand-by or extended arrangements and special facilities

A one-year stand-by arrangement in the enlarged first credit tranche, equivalent to SDR 143.2 million, was approved in February 1978, but was not drawn upon. In February 1978, Spain purchased its whole entitlement (SDR 572.1 million) under the oil facility, and a further SDR 98.8 million under the compensatory financing facility.

IV. SDR department

(a) Net cumulative allocation: SDR 298.8 million.

(b) Holdings: SDR 207.48 million, or 69.5 percent of net cumulative allocation.

(c) Current designation plan: the peseta is included in the current plan for a maximum amount of SDR 29.4 million, of which SDR 15.0 million has been used.

V. Administered accounts

Not applicable.

VI. Overdue obligations to the Fund

None.

B. Nonfinancial Relations

VIII. Exchange rate arrangements

Spain has maintained a managed float of the peseta since 1974. The exchange rate has weakened since the second half of 1979, as the external position deteriorated. Between the second quarter of 1979 and the third quarter of 1982 the peseta depreciated by 40.7 percent with respect to the U.S. dollar and by 21.4 percent in nominal effective terms, but only by 13.4 percent in real terms. On December 6, 1982 the peseta was devalued by 8 percent with respect to the dollar in response to intense speculative pressures. In real effective terms, the exchange rate is estimated to have depreciated by about 12.2 percent in 1983. The real exchange rate is estimated to have appreciated by 3.5 percent in 1984 and by 2.0 percent during the first two quarters of 1985.

IX. The last Article IV consultation was concluded at EBM/84/126 (8/10/84), at which time the following decision was taken:

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Spain, in light of the 1984 Article IV consultation with Spain conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Spain continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Spain is on a 12-month consultation cycle.

Spain: Illustrative Medium-Term External Debt Projections, 1986-90

	1984	1985	1986	1987	1988	1989	1990
Scenario A							
Assumptions							
Current account balance							
(In millions of US$)	2,069	1,848	1,213	672	599	593	578
(In percent of GDP)	1.3	1.1	0.7	0.4	0.3	0.3	0.2
Interest rates	10.9	9.5	8.5	8.5	7.5	7.5	7.5
Main results							
Ratios to exports of goods and services							
Debt service	24.0	22.8	17.1	15.8	13.8	10.8	10.9
Amortization	15.0	15.25	11.1	10.6	9.7	7.3	8.0
Interest payments	9.0	7.6	5.9	5.2	4.0	3.4	2.9
Ratios to GDP							
Outstanding debt	18.3	15.8	13.8	12.2	10.6	9.0	7.5
Interest payments	2.0	1.6	1.2	1.1	0.8	0.7	0.6
Exports of goods and services	22.1	20.6	20.6	20.6	20.7	20.8	21.0
Scenario A-1							
Assumptions							
Current account balance							
(In millions of US$)	2,069	1,848	937	387	311	300	282
(In percent of GDP)	1.3	1.1	0.5	0.2	0.2	0.1	0.1
Interest rates	10.9	9.5	9.5	9.5	8.5	8.5	8.5
Main results							
Ratios to exports of goods and services							
Debt service	24.0	22.8	17.8	16.6	14.5	11.5	11.7
Amortization	15.0	15.2	11.1	10.6	9.7	7.3	8.5
Interest payments	9.0	7.6	6.7	5.9	4.7	4.1	3.5
Ratios to GDP							
Outstanding debt	18.3	15.8	14.0	12.5	11.0	9.6	8.1
Interest payments	2.0	1.6	1.4	1.2	1.0	0.9	0.7
Exports of goods and services	22.1	20.6	20.6	20.6	20.7	20.8	21.0
Scenario B							
Assumptions							
Current account balance							
(In millions of US$)	2,069	1,848	1,213	672	--	-600	-1,200
(In percent of GDP)	1.3	1.1	0.7	0.4	--	-0.3	-0.5
Interest rates	10.9	9.5	8.5	7.5	7.5	7.5	7.5
Main results							
Ratios to exports of goods and services							
Debt service	24.0	22.8	17.1	15.8	13.9	11.2	11.6
Amortization	15.0	15.2	11.1	10.6	9.8	7.4	8.2
Interest payments	9.0	7.6	6.0	5.3	4.2	3.7	3.4
Ratios to GDP							
Outstanding debt	18.3	15.8	13.8	12.2	10.9	9.8	9.1
Interest payments	2.0	1.6	1.2	1.1	0.8	0.8	0.7
Exports of goods and services	22.1	20.6	20.6	20.6	20.5	20.5	20.6
Scenario C							
Assumptions							
Current account balance							
(In millions of US$)	2,069	1,848	776	-1,051	-948	-929	-942
(In percent of GDP)	1.3	1.1	0.4	-0.5	-0.5	-0.4	-0.4
Interest rates	10.9	9.5	8.5	7.5	7.5	7.5	7.5
Main results							
Ratios to exports of goods and services							
Debt service	24.0	22.8	16.8	15.8	14.1	11.4	12.1
Amortization	15.0	15.25	10.8	10.3	9.5	7.2	8.2
Interest payments	9.0	7.6	5.9	5.4	4.5	4.1	3.8
Ratios to GDP							
Outstanding debt	18.3	15.8	14.1	13.3	12.4	11.4	10.4
Interest payments	2.0	1.6	1.2	1.1	0.9	0.9	0.8
Exports of goods and services	22.1	20.7	20.7	20.7	20.7	20.7	20.7

Sources: Bank of Spain; and staff estimates.

1/ Covers all medium- and long-term borrowing, including the borrowing done through resident banks.

Note: For all the scenarios other main assumptions are: (a) real GDP growth is assumed to be 2.3 percent in 1985 and 3 percent per annum for the 1986-90 period; (b) In scenario A, exports of goods and services are adversely affected in 1986 by the elimination of the subsidy element in the export tax rebates, but the rate of increase recovers steadily thereafter; in scenario B, they recover but at a slower rate; in scenario C they are held at a constant 20.7 percent of GDP; in scenario A and B imports of goods and services rise sharply in 1986 and 1987, but their rate of growth slows down in 1988-90; in scenario C imports of goods and services represent 18.8 percent of GDP in 1985, 19.8 percent in 1986 and 20.8 percent in 1987-90; (c) net transfers are US$350 million in 1985, US$600 million in 1986-87, US$650 million in 1988 and US$700 million in 1989-90; (d) net direct investment grows by 10 percent annually; (e) a net short-term capital outflow of US$1.3 billion per year (f) amortization payments on new debt are based on the assumption of a four-year grace period and four equal payments in the following four years; and (g) official reserves are held constant, implying a decline in the reserve/import ratio over the period.

Spain - Statistical Issues

1. Outstanding statistical issues

a. Monetary accounts

The Bureau of Statistics is in the process of implementing in IFS the recommendations of a technical assistance mission in money and banking statistics. The major changes from the existing presentation include: (a) improvements in the classification of assets and liabilities, as a result of the new bank returns adopted by Spain's financial institutions; and (b) expanded coverage of financial institutions in the deposit money banks' sector to cover not only the private banks and savings banks but also the credit cooperatives and money market intermediaries (SMMD's).

b. Government finance

The 1984 GFS Yearbook includes data through 1981 in the derivation and statistical tables for the consolidated central government and in the statistical tables for regional and local governments. The corresponding 1982 data were delivered last March by Ms. Mateos from the Ministry of Finance (a participant in the 1985 GFS course). Queries regarding these data were discussed and a reply to these queries as well as 1983 data are expected.

c. General economic data

A major revision in the compilation of trade volume and unit value indices has been underway for some time, although the updating of previously computed indices was discontinued after 1979.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Spain in the July 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banco de Espana, which during the past year have been provided on a timely basis.