FOR AGENDA

SM/97/76

CONTAINS CONFIDENTIAL
INFORMATION

March 5, 1997

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Spain—Recent Economic Developments and Selected Issues**

This paper provides background information to the staff report on the 1997 Article IV consultation discussions with Spain, which was circulated as SM/97/63 on February 26, 1997.

Mr. J. Franks (ext. 38968), Mr. Mauro (ext. 37712), or Mr. Scacciavillani (ext. 36364) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, March 13, 1997; and to the European Commission (EC), the Economic Commission for Latin America and the Caribbean (ECLAC), the Food and Agriculture Organization (FAO), and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

SPAIN

Recent Economic Developments and Selected Issues

Prepared by a staff team consisting of Jeffrey Franks,
Paolo Mauro, and Fabio Scacciavillani (all EU1)

Approved by European I Department

March 4, 1997

Contents | Page

Text Boxes

Tables

Charts

Statistical Appendix Tables

Spain: Basic Data

Area	504,800 square kilometers
Population 1995	39.2 million
Labor force 1995	15.6 million
GDP per capita (in thousands of pesetas)	Ptas 1,780 (US$14,275)

Use and supply of resources (1995)	In billions of pesetas	In percent
Private consumption	43,223.6	61.9
Public consumption	11,590.5	16.6
Fixed investment	14,402.4	20.6
Stockbuilding	298.6	0.4
Gross domestic expenditure	69,515.1	99.6
Exports of goods and services	16,509.5	23.7
Imports of goods and services	16,245.7	23.3
Gross domestic product	69,778.9	100.0

Selected economic indicators (annual percentage change)	1993	1994	1995
Real domestic demand	-4.3	1.2	3.1
Real GDP at market prices	-1.2	2.1	2.8
Unit labor costs in manufacturing	4.8	-2.8	-1.2
Consumer prices (period average)	4.6	4.7	4.7
Consumer prices (end-of-period)	4.9	4.3	4.3
Unemployment rate (period average)	22.7	24.2	22.9
Public sector accounts (as percent of GDP)			
General government			
Current revenue	41.3	40.4	39.2
Current expenditure	43.6	42.8	41.5
Capital expenditure (net)	5.0	4.4	4.6
Overall balance (Maastricht definition) 1/	-7.4	-6.2	-6.6
Balance of payments (transactions basis; in billions of pesetas)			
Trade balance	-1,897	-1,967	-2,201
Net invisibles	1,202	1,054	2,358
Current account balance	-695	-913	157
(as percent of GDP)	-1.1	-1.4	0.2

Exchange rate per U.S. dollar 131.28 on December 31, 1996

Sources: Data provided by the Spanish authorities; and Fund staff estimates.

1/ Figures do not add up because of statistical adjustment to obtain the overall balance on a Maastricht basis.

I. Recent Economic Developments

A. Output and Employment

Overview

1. After several years of relatively buoyant growth, Spain's economy went into recession in late 1992 and through 1993, but recovered rapidly in 1994 and early 1995. Toward the end of 1995 there was a renewed slowdown, though less marked than in other European countries, followed by a gradual acceleration during 1996. Over the three-year period 1994–96, GDP growth averaged 2.4 percent a year. The recession of 1992–93 marked an important turning point, as it was associated with significant shedding of permanent workers and a sharp hike in unemployment that was already high as a result of structural factors and rigid labor markets. With the labor market reforms effected in *1994* and a notable moderation of wages in the wake of the recession-induced jump in unemployment, employment growth picked up relatively strongly in 1995 and 1996. Wage moderation, as well as tight monetary policies, facilitated a noticeable reduction of inflation, with consumer prices slowing to a rate of 2.9 percent (year-on-year) by end-January 1997, from rates of about 6 percent a year at the beginning of the decade.

Output

2. A sizable external contribution to growth mitigated the recession of 1992–93, and spurred the recovery of 1994. The strong performance of the **external sector** reflected not only the weakness of domestic demand, but also the effects of the improvement in competitiveness brought about by the large devaluations of the peseta that took place in 1992–93. After mid-1994, domestic demand became the primary source of growth, with the external contribution turning slightly negative even though exports continued rising strongly despite only a modest growth in the rest of Europe. The favorable prospects for exports may also underlie the pickup of equipment investment in 1995 and 1996, while import growth remained relatively subdued despite the incipient recovery in domestic demand (Tables 1–3).[1]

3. **Private consumption** has grown relatively slowly in recent years reflecting the effects of increased unemployment and wage moderation on real disposable income and a slight increase in the personal saving ratio (Tables 4–5).

4. The process of fiscal adjustment in the effort to undertake convergence with the Maastricht criteria resulted in a negative impulse from the public sector in 1994–96, with low **public consumption** growth and declines in real **public investment**. However, the fiscal adjustment facilitated a major decline in long-term interest rates in the second half of 1996, which spurred the recovery in private investment, particularly in equipment.

---

[1]Table numbers in Chapter I refer to Statistical Appendix Tables.

5. **Gross fixed capital formation** in equipment, after a sharp fall in 1992–93, has grown strongly since then, with a brief pause in the second half of 1995 related in part to a tightening of monetary policies. The strong performance of equipment investment in recent years was also based on a considerable improvement in the profitability of enterprises. By contrast, investment in construction remained weak, particularly in 1996, in part reflecting the effects of cuts in public investment.

6. **On the supply side**, agricultural production declined sharply in 1994 and 1995, owing to drought conditions, but recovered in 1996 with abundant rainfall, which led to an agricultural contribution to growth of about ½ percent of GDP in that year. Output in industry (excluding construction), slowed down after the first quarter of 1995, and declined in the first three quarters of 1996. Output of the construction sector mirrored the behavior of industrial production with a lag of one to two quarters. While there were signs of a recovery in industry toward the end of 1996, as of mid-February 1997 there were few indications of a turnaround in the construction sector. Growth in services remained fairly stable at about 2½ percent a year since mid-1994 (Tables 6–7).

Prices

7. After declining steadily from over 7 percent in 1989 to slightly below 5 percent in 1993, little further progress in lowering inflation took place until mid-1995—partly because of temporary factors such as a VAT increase (by 1 percent in early 1995) and the effects of the drought. Since that time, however, inflation has fallen sharply to 2.9 percent (year-on-year) at end-January 1996, the lowest rate in two decades, helped by tight monetary policy, wage moderation, and subdued import prices (Table 8). Wage moderation played a particularly key role especially in the labor-intensive services sector, where the rate of price increases had traditionally been higher than in the rest of the economy.

Employment, unemployment, and wages

8. Over the last two decades, Spain has experienced a long-term upward trend in unemployment owing to a number of structural factors, including a sharp decline in labor demand by the agricultural sector and mature industries (such as coal, steel, shipbuilding, electrical appliances, and textiles), rapid increase in the working-age population and of the female participation rate, and relatively rigid labor markets. The recession of 1992-93 was accompanied by a further sharp rise in unemployment to over 24 percent of the labor force in 1994.[2] Despite the subsequent economic recovery, the unemployment rate was still close to 22 percent at end-1996 (Table 9). The large-scale shedding of permanent workers in 1993 and

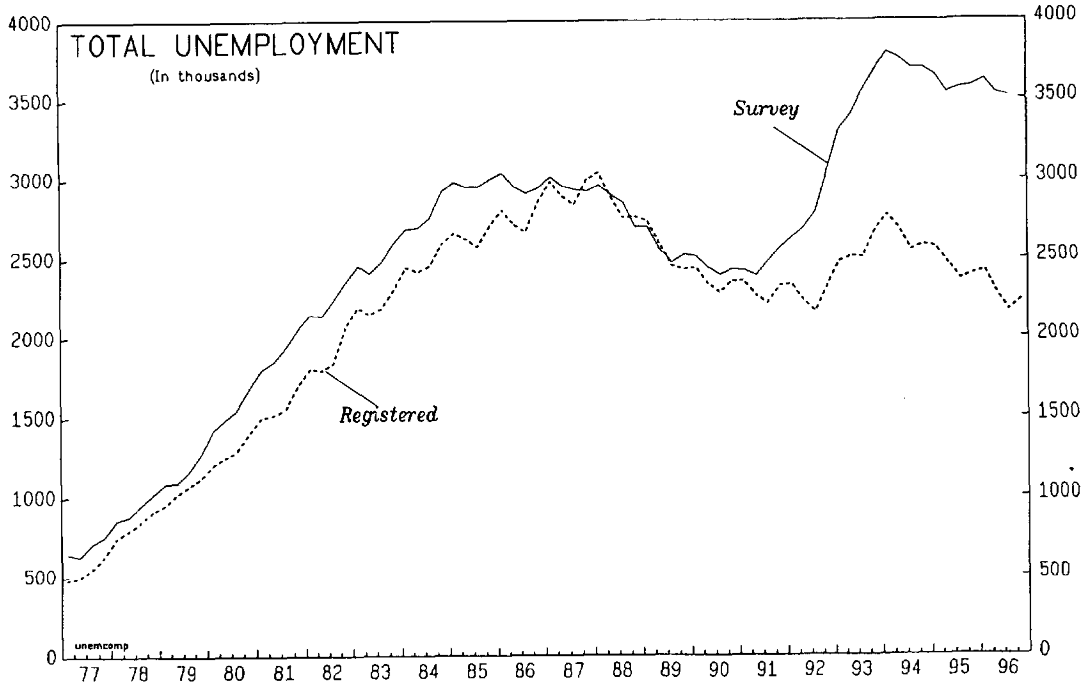
---

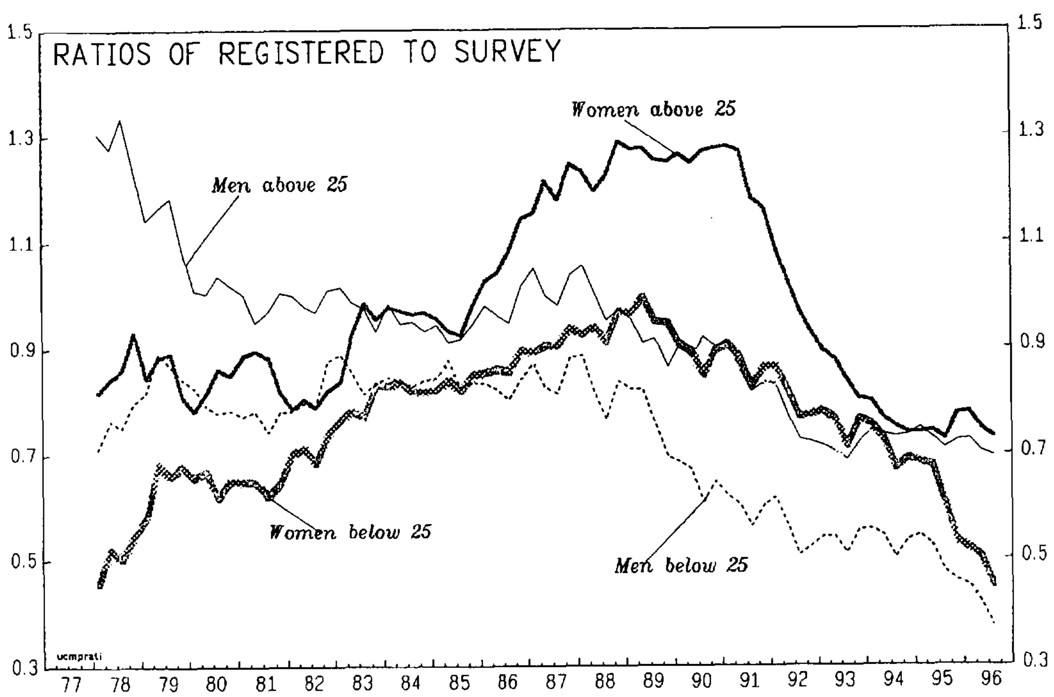
[2]According to the unemployment survey. Registered unemployment reached 17 percent in 1994, and declined to below 14 percent in the last quarter of 1996 (Chart I.1–I.2). While the discrepancy between survey-based and registered unemployment raises questions about the exact magnitude of the problem, it is clear that unemployment in Spain is still well above that of any other industrial country.

Chart I.1

SPAIN

COMPARISON OF SURVEY AND REGISTERED UNEMPLOYMENT





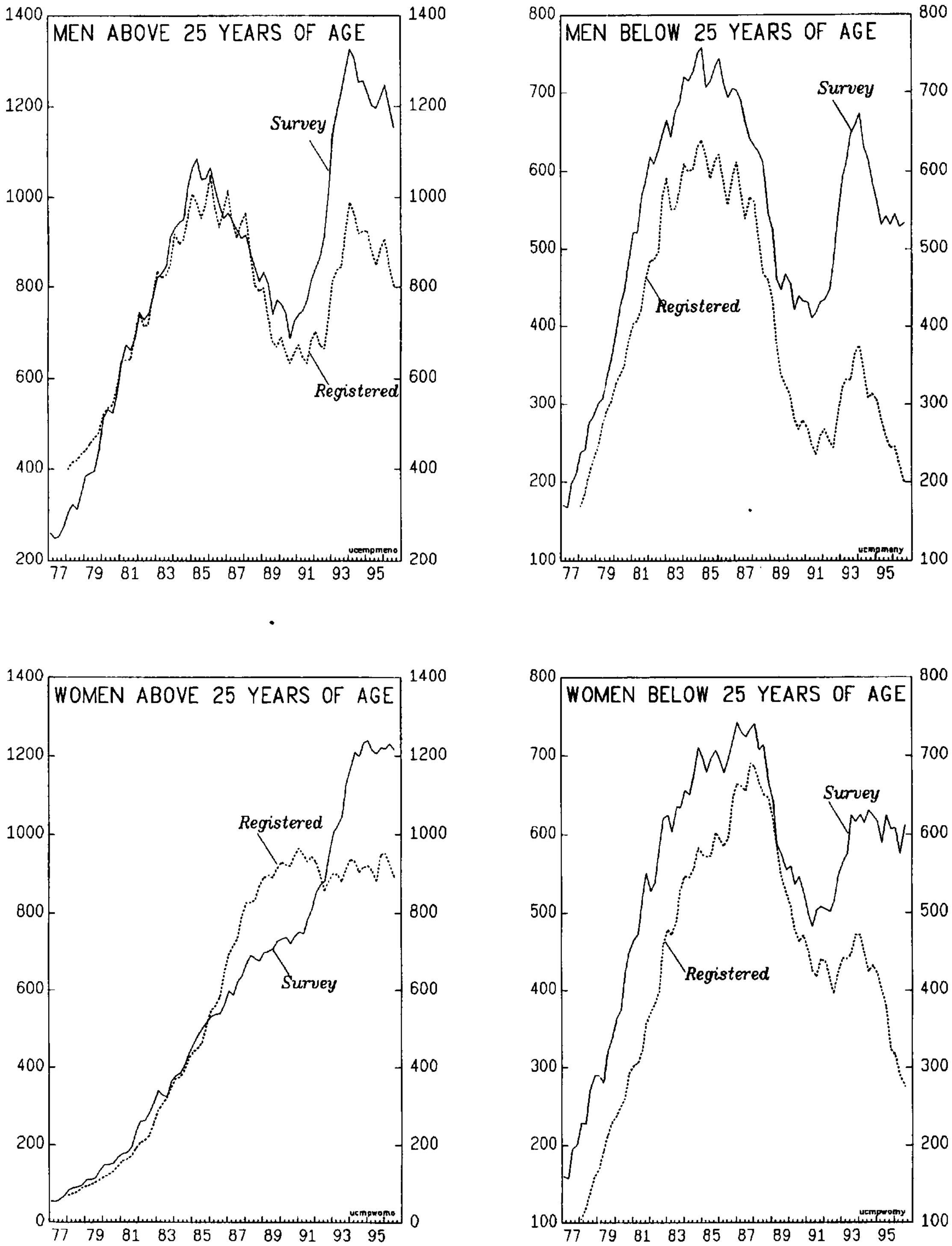
Source: Ministry of Economy and Finance, and INE.

Chart I.2

SPAIN

COMPARISON OF SURVEY AND REGISTERED UNEMPLOYMENT

(In thousands)



Source: Ministry of Economy and Finance, and INE.

the labor market reforms effected in 1994 (see Box I.1 and SM/95/25, 2/6/95) led to a marked change in wage-setting behavior. Wage restraint in the public sector (wages were frozen in 1994 and adjusted by officially projected inflation in 1995 and 1996) also helped to change the behavior of the private sector. In 1994–95, permanent workers obtained modest real wage increases only through wage-drift, while temporary workers experienced sharp declines in their real wages. Partly as a result of this relative moderation, employment creation since 1995 has been faster than in previous cycles, though still not enough to make a major dent in unemployment (Tables 10–12).

9. Ever since the use of temporary contracts was liberalized in the early 1980s, the Spanish labor market has been characterized by a sharp and growing dualism between permanent workers, protected by high firing costs, and temporary workers. The labor market reforms of 1994 were partly directed at curbing the use of temporary contracts while reducing effective firing costs by including "economic" reasons among the acceptable causes for "justified" dismissals. However, this does not seem to have been specified with sufficient clarity, as the courts have continued to rule that dismissals are unjustified in the large majority of cases, entitling workers to generous compensation. As a result, dualism has persisted: the share of temporary employment in total wage earners, which amounted to about 30 percent in 1990, rose steadily to a peak of 35 percent in 1995, and was still 34 percent in the third quarter of 1996.

10. Net employment creation in the last two years consisted almost entirely of new jobs in services, while the declining trend of employment in agriculture showed little sign of abating, and employment in industry remained about unchanged. Nonsalaried employment stagnated, and there has been a marked increase in part-time employment, which contributed about a fifth of the overall employment growth over the last two years.[3]

11. Among the jobless, the share of the long-term unemployed rose sharply from 49 percent in 1993 to 57 percent in 1995 (a lagged effect of the 1993 recession), decreasing only slightly in 1996. Unemployment continues to be higher among women (with an unemployment rate of 29.6 percent in the third quarter of 1996), and youth (50.2 percent of youth between the ages of 16–19, and 38.7 percent between the ages of 20–24). It also displays wide variations among regions (Table III.3).

12. An agreement between the employers' association and the trade unions to reduce days lost to strikes by submitting labor disputes to independent arbitration resulted in significantly lower strike activity in 1996.

---

[3]In interpreting the employment figures reported in the tables it is necessary to bear in mind that INE has revised the sample weighting in its labor force survey to bring it in line with the results of the 1991 census. These revisions were phased in over 6 quarterly rounds of the survey, ending in the second quarter of 1996. INE has estimated that the revisions resulted in an increase in reported employment of 25,000 per round, or a cumulative 1½ percent.

Box I.1: Labor Market Reforms of 1993–94

- To facilitate hiring: abolition of the monopoly over job placement held by the National Employment Institute (INEM); authorization of private nonprofit employment agencies; legalization of temporary employment firms; introduction of new apprenticeship contracts.

- To reduce effective dismissal costs: expansion of the acceptable reasons for (less costly) "justified" dismissals to include "economic" reasons.

- To facilitate functional and geographic mobility: replacement of the antiquated "Labor Ordinances" (*Ordenanzas Laborales)* with collective bargaining arrangements on workplace practices.

- To decentralize the bargaining process: introduction of clauses that permit firms to opt out of the sectoral level collective bargaining agreements, with union agreement.

- Unemployment benefits: requirements for eligibility were tightened; duration and generosity reduced.

- Measures were also introduced to encourage part-time employment and to restrict the use of temporary contracts.

B. Public Sector

13. Since the fiscal deficit peaked at 7.4 percent of GDP in 1993 during the last recession, there has been substantial, if uneven, progress on fiscal consolidation. The deficit narrowed to 6.2 percent of GDP in 1994, despite moderate economic growth. For 1995, initial estimates of a deficit of 5.8 percent of GDP had to be revised upward to 6.6 percent of GDP in the wake of additional spending attributable to 1995 discovered in June 1996; this revision meant that little net progress had been made during 1994–95 toward the Maastricht deficit target of 3 percent of GDP until 1996 (Table 13). The structural balance actually deteriorated between 1993 and 1995, climbing from under 3 percent of GDP to over 5 percent. By contrast, preliminary data on the fiscal outturn in 1996 show a sharp drop in the deficit to 4.4 percent of GDP, with the structural balance improving by 1.9 percent of GDP. For 1997, the government's budget targets a 3 percent of GDP deficit to enable Spain to participate in the first group of countries in stage 3 of the European Monetary Union.

Expenditure performance, 1994-95

14. The disappointing outturn in 1995 did not mean that nothing had been achieved in controlling government spending. Public consumption was reduced by 1 percent of GDP, with a public sector wage freeze in 1994 and wage hikes lower than the rate of inflation in 1995, while spending of goods and services contracted in 1995 (Table 14). Social benefits spending

also fell by 1.1 percent of GDP, due almost entirely to reductions in payments of unemployment benefits, as the effects of reforms in unemployment compensation began to take effect, and unemployment began to decline from the cyclical peak reached in early 1994. In contrast, interest payments on the government debt rose in 1995, reflecting the sharp rise in the debt to GDP ratio and higher interest rates stemming from the restrictive monetary policy followed by the Bank of Spain. Investment spending fell in 1994, and was slated to fall even more sharply in 1995, but much of the hidden expenditure discovered in 1996 and attributed to 1995 involved investment projects and capital transfers which boosted the revised total. This included fixed investment undertaken under provisions for "emergency" spending, that was neither budgeted nor recorded until 1996, capital transfers to public enterprises, and EU fines to dairy farmers for overproduction of milk that were covered by the government.

Revenue performance, 1994-95

15. Much of the fiscal deterioration in 1995 came from the income side, where current revenues fell from 41.3 percent of GDP in 1993 to only 39.2 percent of GDP in 1995. This drop had several causes. The recession certainly had some effect on corporate income tax receipts attributable to lower profits during and immediately after the recession. Other factors also played a role. Even as employment recovered, revenues from social contributions declined due to the fact that many of the new jobs created were part-time and apprenticeship contracts with special low contribution rates. In addition, the contribution rate was cut by 1 percentage point in 1995 in a bid to lower labor costs. Real wages also declined, which contributed to a drop in personal income tax revenue as a share of GDP. Regarding indirect taxes, the economic growth attained in 1995 (2.7 percent) came in spite of weak private consumption, which grew by only 1.6 percent, and depressed VAT revenues. The elimination of most remaining border controls as part of the single European market initiative also seems to have affected tariff revenues, as the authorities had to adjust their control and monitoring systems for non-EU imports entering via the rest of Europe. Only an increase of 1 percent in the basic VAT rate implemented in 1995 (to make up for the lower social contribution rate) prevented an even sharper drop in indirect taxes. Nontax revenues declined somewhat in 1995 despite a sharp increase in capital transfers from the EU as the poor performance of publicly owned enterprises affected current revenues from dividends.

Fiscal outturn for 1996

16. Since the 1996 budget was not approved by Parliament, fiscal policy for 1996 was governed by a rollover of the 1995 budget, modified by several decrees which permitted higher expenditure on entitlement programs and debt servicing.[4] The rollover budget continued the previous strategy of relying on expenditure cuts for the bulk of the fiscal consolidation, with the expectation that continued economic recovery would produce a rebound in revenues. Public sector wage increases were held to the level of expected inflation, and sharp cuts were to be imposed on goods and services spending, especially on public

---

[4]The defeat of the budget occurred because the minority Socialist government had lost the support of regional parties, leading to general elections which were held in March 1996.

investment. Social spending was to decline further due to continued reductions in outlays for unemployment compensation, along with expenditure controls to hold health care spending constant as a share of GDP.

17. In the event, economic growth was not as robust as had been foreseen, and the new government (which took office in May) was forced to take additional measures to assure compliance with the 4.4 percent of GDP deficit target. Expenditure cuts amounting to 0.25 percent of GDP were imposed, along with hikes in excise taxes on alcohol and tobacco which yielded around 0.1 percent of GDP. While full data on the fiscal outturn for 1996 are not yet available, preliminary estimates suggest that the deficit target was attained, representing a major improvement over 1995.

18. This fiscal consolidation was achieved on the basis of expenditure cuts in the central government and the regional and local authorities (Tables 19 through 24). Tax revenues remained somewhat weak, recovering by 0.3 percent of GDP from their depressed 1995 levels, as VAT and corporate income tax intake rose while personal income tax revenues and social contributions remained constant as a share of GDP. The central government appears to have overperformed on its target mainly by slashing public investment which fell from 5.8 percent of GDP to 4.4 percent of GDP. The sharp drop in interest rates which occurred during 1996 also improved the outturn on a national accounts basis, as the interest bill came in below its projected level. Public consumption overshot its target, but still fell by 0.3 percent of GDP. The overperformance by the central government compensated for some slippage by the social security system, which exceeded its deficit target for the second consecutive year (by an estimated 0.2 percent of GDP).

The 1997 budget

19. The 1997 budget follows the same fiscal consolidation strategy used in 1996 of sharp cuts in spending. Public consumption is to be reduced by 0.7 percent of GDP, 0.5 percent of which is slated to come from a wage freeze throughout the public sector and hiring restrictions to reduce public employment. Goods and services spending is also budgeted to fall sharply, with cuts imposed on everything from supplies and travel to maintenance and office rental payments. Social contributions are slated to fall by 0.3 percent of GDP reflecting further savings in unemployment payments and modest projected growth rates for pensions and health care spending. Finally, savings of nearly ½ percent of GDP are expected from additional cuts in public investment spending, although some of these cuts (around 0.1 percent of GDP) are to be supplanted by increased private participation in public investment projects, and others (another 0.1 percent of GDP) are accounting changes which effectively postpone payments on some infrastructure investment 2-3 years into the future.

20. On the revenue side, a new tax was introduced on insurance policies with an expected yield of 0.1 percent of GDP. A slight additional boost will be received from the full-year effect of the increase in excise taxes introduced in August 1996. These measures, together with the revenue effects of an improvement in the growth rate of private consumption anticipated in 1997, are expected to boost general government revenues by 0.2-0.3 percent of GDP, while

nontax revenue will decline somewhat due to lower interest revenues and reduced dividends from public enterprises resulting from the government's accelerated privatization program.

Public sector debt

21. Public sector indebtedness climbed sharply as a result of the large deficits run since 1993. Overall debt on a Maastricht basis rose from 48 percent of GDP in 1992 to 65.3 percent in 1995, and 69.3 percent of GDP in 1996. Two factors pushed indebtedness up strongly during the latter year despite a reduction in the fiscal deficit. Additional debt of nearly 1 percent of GDP was issued to liquidate the hidden spending undertaken in 1995 but not discovered until 1996. Also, the government appears to have increased deposits in the Bank of Spain during 1996 by more than 1 percent of GDP, financed by additional debt issues. These deposits, while raising gross indebtedness, obviously represent no increase in the net debt of the public sector (Tables 15, 16, and 18).

22. During 1995 and 1996, the share of public debt issued in foreign currency has remained roughly constant; it rose from 7.3 percent of total central government obligations in 1993 to 7.9 percent in 1995 before declining again to 7.5 percent in late 1996. The share of peseta debt held by foreigners stood at 12¼ percent in 1996, roughly the same level as in 1995. The average maturity of central government debt has lengthened steadily in recent years, from 1 year in 1990 to 3.2 years in 1995 and 1996. This reflects a deliberate strategy by the Treasury to make increased use of longer-term debt instruments, and (in 1995 and 1996) to take advantage of favorable developments in long-term rates, as inflationary expectations declined and expectations strengthened of Spain's participation among the first group of countries in the European single currency.

C. Monetary and Exchange Rate Developments

Monetary stance

23. Since late 1994, the Bank of Spain's monetary policy has been focused on lowering inflation to a target of below 3 percent in 1997 and 2 percent in 1998 (announced in December 1996). In line with these objectives, the Bank maintained relatively tight policies in 1995 and 1996, though it eased them somewhat in the second half of that year, as evidenced by an index of monetary conditions based upon estimated real interest rates and the real effective exchange rate (Chart I.3). In 1995, it raised its 10-day repurchase rate (its major policy variable) by a cumulative 130 basis points, in contrast to the Bundesbank, which lowered its key repurchase rate by almost 100 basis points in that year. As inflationary pressures began to abate, the Bank of Spain reduced its repurchase rate by 325 basis points in stages, from 9.25 percent in December 1995 to 6 percent in February 1997, a larger cumulative cut than in ERM partner countries. Even so, the repurchase rate as of February 1997 was still 300 basis points above that of Germany and about 3 percentage points above Spanish inflation.

Monetary aggregates

24. After a steady acceleration from early 1993 to mid-1995 to about 11 percent (year-on-year), the growth rate of ALP (*activos líquidos en manos del público*), the monetary aggregate most closely monitored by the Bank of Spain, fell to around 6 percent in the last few months of 1996 and early 1997 (Tables 26–28). By comparison, nominal GDP expanded by 8.1 percent in 1995 and an estimated 6 percent in 1996, evidencing some instability in the relationship between broad monetary aggregates and nominal spending. The sharp deceleration in ALP in the first part of 1996 can be attributed in part to a shift of assets (especially, time deposits at banks) toward holdings in mutual funds.

25. Developments in domestic credit to households and firms have been consistent with the recent evolution of aggregate demand, displaying a slowdown in the second half of 1995 and a moderate recovery in 1996, though credit growth slowed again somewhat in the third quarter.

Exchange rates

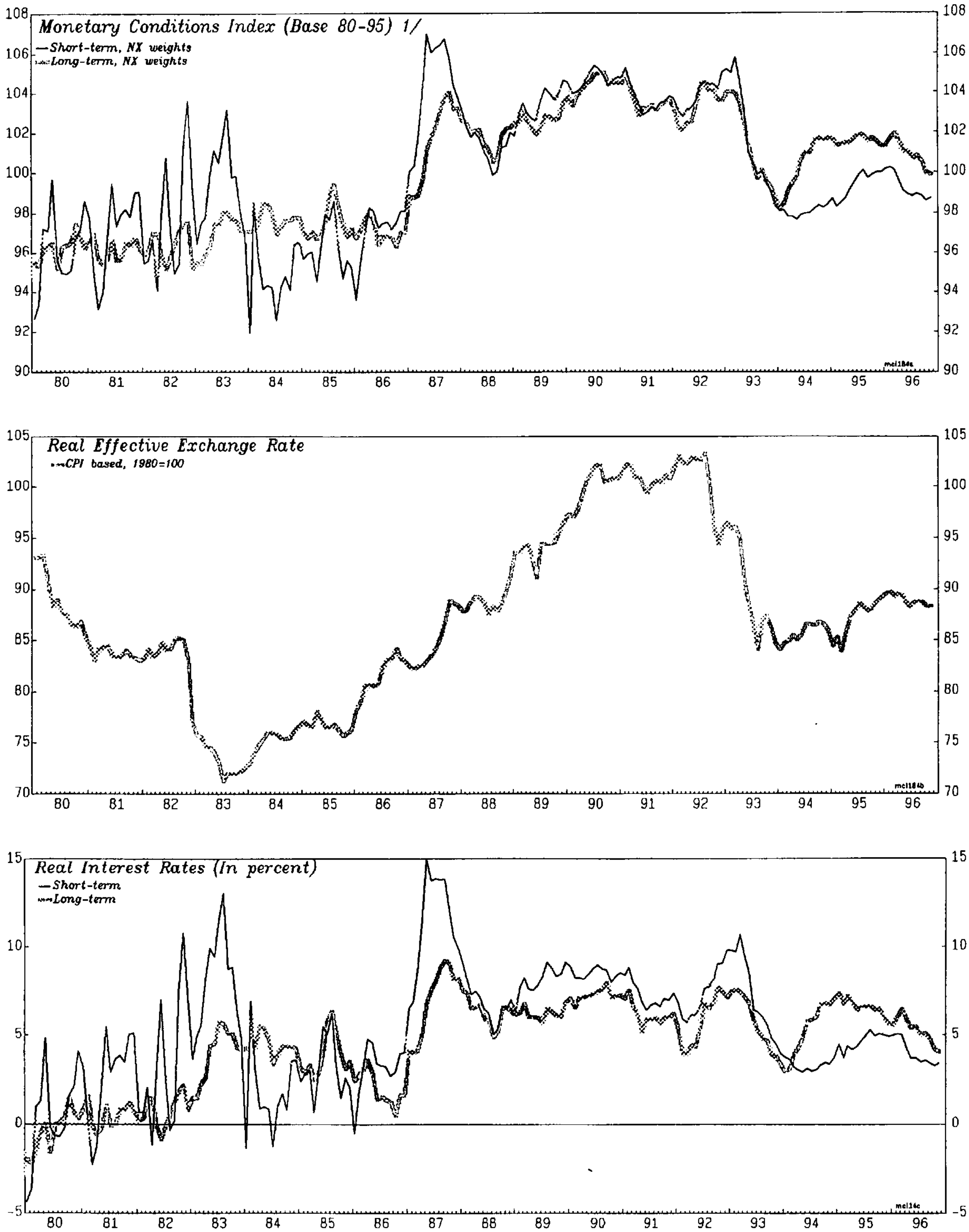
26. For a few years after joining the ERM in 1989, Spain maintained the peseta relatively close to its central rate, resulting in a steady real appreciation. This was followed by a crisis in 1992–93, when the peseta was devalued three times and the fluctuation bands were widened (in August 1993). As a result of these developments, the nominal effective exchange rate vis-à-vis other industrial countries depreciated (by more than 20 percent) between mid-1992 and end-1994. A new period of turbulence erupted in early 1995, and the peseta's central parity within the ERM was lowered by a further 7 percent in March; however, this was quickly overcome, and within a couple of months the peseta had returned to its pre-March values, and has remained broadly stable since then, as the central bank maintained the currency within a narrow range of 83–85 pesetas per deutsche mark throughout the second half of 1995 and 1996. Throughout 1996, the peseta was subject to upward pressures as relatively high interest rates attracted large capital inflows, and the Bank of Spain's official foreign reserves rose to US$65.3 billion at end-January 1997, from US$36.4 billion in April 1995 (Table 31).

Financial markets

27. Long-term interest rates, which had risen strongly during 1994 and the first half of 1995, have declined sharply since then both in absolute terms as well as relative to other countries. This favorable trend resulted from the improvement in inflationary expectations and the progress made on fiscal adjustment in 1996, which was seen as increasing the likelihood of early EMU participation. Ten-year bond yields declined from a peak of over 12 percent in the spring of 1995 to 6.5 percent in mid-February 1997, and the differential with Germany dropped from 500 basis points in late 1995 to about 100 basis points in mid-February 1997. By that time, the 10-year bond yield differential vis-à-vis the three best inflation performers in the EU had also declined to less than 100 basis points (Table 29).

Chart I.3

SPAIN
MONETARY CONDITIONS



Sources: WEO, INS, and other RES databases; and staff estimates.

1/ The monetary conditions index is a weighted average of the real effective exchange rate (REER) and the real interest rate. The weight of the REER is a three-year moving average of the ratio of exports of goods and services to GDP. Real interest rate are nominal rates minus CPI inflation from a year ago.

28. Correspondingly, the shape of the yield curve has changed significantly since end-1995, when it had been flat with high interest rates at all maturities; by mid-February 1997, the yield curve displayed a more normal shape, with short-term rates significantly lower than long-term rates. At the same time, it was sharply inverted for maturities of up to two years, as markets appeared to expect the Bank of Spain to reduce short rates further in the relatively near future.

29. The Spanish stock market has experienced a boom over the last year. The return on the IBEX was 40 percent in 1996 (and almost 50 percent in the year through mid-February 1997), and compared favorably not only with its own historical performance (Table 30), but also with that of other countries. Even so, the price to earnings ratio amounted to 17.6 at end-January 1997, still somewhat below the EU average of 19.9.

The banking sector

30. During the last decade, the profitability of Spanish banks has compared favorably with that of France and Germany. It declined somewhat in 1994, but recovered in 1995 and the first three quarters of 1996, as a narrowing of net interest margins was more than offset by an increase in income from financial transactions, a reduction in operating expenses, and a diminished need for write-downs and allowances to special reserves (see below). The difficulties affecting Banesto in 1994 did not have a systemic impact on the system, in part because Spanish banks have traditionally been highly capitalized. Since that time, Banesto has been restructured under the tutelage of Banco Santander and has returned to profitability.

D. The External Sector

The current account and its components

31. The boost to exports of goods and services stemming from the sharp devaluation of 1993–94, combined with the weakening of domestic demand after 1992, resulted in a marked turnaround in the external current account, which shifted from a deficit of 3.7 percent of GDP in 1992 to surpluses of 0.2 percent of GDP in 1995 and 0.5 percent of GDP in 1996 (Table 32). Exports of goods and services performed strongly throughout the period, particularly tourism whose surplus is large enough to offset the deficits in merchandise trade and in other services (see also Table 34).

32. The trade deficit shrank from 3.2 percent of GDP in 1995 to 2.3 percent of GDP in 1996, the lowest in many years, as **merchandise exports** grew by 13 percent, considerably faster than the growth of Spain's markets, repeating the experience of every year since the major devaluation of the peseta in 1993. All types of exports grew strongly (Table 36) with car components (28.5 percent) and investment goods (20 percent) the fastest growing sectors. Higher exports of food products (11.0 percent) reflected the recovery in agricultural output after the drought.

33. **Merchandise imports** reached 20 percent of GDP in 1996, a level slightly higher than in 1995, with food imports contracting as the drought came to an end, and a significant slowdown in imports of intermediate goods, while imports of investment goods, certain consumer durables (such as cars and motorcycles) and energy products grew strongly (Table 36).

34. The **geographic distribution of trade** has undergone some significant changes since 1992 (Table 37). The share of exports to industrialized countries has slowly decreased, while the share of exports to developing countries, particularly Latin America, has increased. The share of export to the EU, after a sizable drop in 1993, has almost recovered its pre-devaluation level, with higher shares of exports going to Germany and Italy. The geographical distribution of imports remained fairly stable, with the only noteworthy feature an increase of imports from Latin America from 2.8 percent of the total in 1992 to 3.2 percent in 1996.

35. In 1996 the surplus on **services** increased to 3.4 percent of GDP, an outcome largely attributable to the tourist sector—which accounts for about 3/5 of total service earnings—where receipts increased by 4.5 percent. The deficit in **factor income** deteriorated sharply in 1996 to 1 percent of GDP from 0.7 percent in 1995, with both the government and the nonfinancial private sector experiencing declines. **Current transfers** had been exceptionally high in 1995 because of a catch up of some delayed official transfers from the EU, but dropped by 40 percent in 1996 to around their long term average (Table 32).

The capital and financial accounts

36. Large inflows of private capital, attracted by relatively high interest rates in Spain, led to a considerable increase in central bank foreign exchange reserves during 1996, as the Bank maintained the peseta at close to the central rate under the EMU. In contrast to 1995 when direct investment inflows greatly exceeded outflows, direct investment flows were almost offsetting in 1996. Financial investment inflows almost tripled with respect to 1995 while Spanish financial investment abroad decreased slightly after a large outflow registered in 1995.

Competitiveness and the real exchange rate

37. The devaluations in 1993-94 led to a sizable improvement in external competitiveness: the **real effective exchange rate** index, based on ULC relative to the industrialized countries (Table 38), increased by a cumulative 26 percent over the period 1993–95, although in the first half of 1996 this index was virtually flat. Reflecting this pattern, Spain's market share expanded by a cumulative 32 percent in 1993–94, and by a further 2.4 percent in the first half of 1996 (Table 38). The market penetration achieved in the aftermath of the devaluation appears to be permanent, as the Spanish export sector has been expanding its market shares despite sluggish demand growth in its main trading partner countries.

II. A NOTE ON INFLATION TARGETING[5]

Introduction

38. Spain's monetary policy has been shaped in large part by its membership since 1989 of the Exchange Rate Mechanism (ERM) of the European Monetary System. Nevertheless, the framework of policy has evolved considerably, particularly following legislation passed in June 1994, which granted greater autonomy to the Bank of Spain and stipulated that the primary objective of monetary policy was price stability (Box II.1).

39. In November 1994, the Bank of Spain abandoned the use of intermediate targets for monetary aggregates[6] and shifted to directly targeting inflation. This move was also prompted by technical considerations. As in other industrial countries experiencing financial liberalization and innovation, the relationship between monetary aggregates and nominal spending had gradually become less predictable. Consequently the monetary aggregates that had served the role of indirect targets since the 1970s were downgraded to the role of information variables. The new autonomy law assigned the central bank to pursue price stability within a framework of transparency and accountability, two advantages often attributed to the inflation targeting approach.

40. In line with this directive, the Bank of Spain has announced its medium-term inflation targets in the context of the Governor's periodic appearances before Parliament, and has published them regularly in its *Economic Bulletin* and in its (bi-annual) *Inflation Report*, first issued in March 1995, in which it explains its evaluation of inflationary pressures and the criteria underlying its policy decisions.

41. The first medium-term target, announced in November 1994, was for year-on-year inflation, as measured by the consumer price index, to be running steadily below 3 percent during 1997; consistent with that objective, it noted that inflation should be between 3.5 percent and 4 percent in the first months of 1996. In March 1996, the Bank added that the aim would be to draw close to the 3 percent inflation level at the start of 1997; and in December 1996 it announced that it envisaged inflation declining to 2.5 percent (year-on-year) by end-1997, and set a new target of 2 percent for 1998.

---

[5]Prepared by Paolo Mauro.

[6]Monetary policy was defined mainly in terms of M3 between 1978 and 1984 and in terms of liquid assets held by the public (*activos líquidos en manos del público*, ALP, whose definition was broadened on three occasions) between 1984 and 1994. Intermediate targets on these broad monetary aggregates were used in an attempt to maintain the peseta within the bands of the ERM and to keep inflation low.

Box II.1. Law of Autonomy of the Bank of Spain

In June 1994, the Bank of Spain was granted the degree of autonomy required by the Treaty on European Union for the establishment of the European System of Central Banks. The following are among the more salient provisions of the new law (*Ley 13/1994, de 1 de Junio, de Autonomía del Banco de España, Boletín Oficial del Estado*):

Objective

- The Bank defines and implements monetary policy with the primary objective of achieving price stability.

Independence

- The Treasury is not allowed to run overdrafts on its account with the Bank, and the Bank may not acquire directly from the Treasury any securities issued by it, although it may conduct operations in the public debt market.

- The Governor and Deputy Governor are appointed for a nonrenewable term of six years.

Transparency and Accountability

- At least once a year, and whenever significant changes occur, the Bank makes public the general objective of its monetary policy and the procedures that it plans to use in its implementation.

- The Bank regularly informs Parliament and the Government of its objectives and the implementation of monetary policy, and reports, as relevant, on the obstacles to the maintenance of price stability it encounters.

Exchange Rate Policy

- The exchange rate system and the parity for the peseta against other currencies are adopted by the government, following consultation with the Bank, and compatible with the objective of price stability. The Bank is responsible for implementing exchange-rate policy.

42. In order to form its views on the inflation outlook, the Bank of Spain uses a number of indicators, which include: (a) monetary aggregates, among which ALP is the most closely monitored (the growth rate of ALP which is seen as compatible with the 3 percent inflation objective for 1997 is 8 percent); (b) the various components of the CPI, other price indices, labor costs and corporate margins; (c) demand pressures; (d) fiscal policy (most of the recent

interest rate cuts took place in the context of the announcement of fiscal measures by the Government); and (e) indicators of inflation expectations, such as the yield curve and interest rate differentials vis-à-vis other countries.

Specific features of inflation targeting in Spain

43. Inflation targeting in Spain is linked with the convergence process for entry into EMU. Thus the medium-term objective of inflation below 3 percent in 1997 was designed to be consistent with achievement of the Maastricht inflation criterion. Similarly, the objective of 2 percent inflation in 1998 was designed to bring Spanish inflation close to that of the "core" EMU countries. At the same time, Spain is also committed to maintaining a stable peseta within the ERM bands, with the aim of locking it as of January 1, 1999 prior to adopting the euro. Both inflation and the exchange rate are equally important toward EMU participation, though the considerable width of the ERM bands gives some degree of freedom.

44. The pursuit of stable exchange rates may be interpreted as a policy intended to contribute to controlling inflation. The Bank of Spain has explained that, while the recent ERM crises have shown that interest rate changes may sometimes be ineffective and perhaps even counterproductive in situations of high tension on the foreign exchange markets, persistent tendencies for the currency to depreciate could generate inflationary pressures, and would therefore require a tightening of monetary policy. In this sense, the exchange rate could be viewed as an intermediate target in the control of inflation.

45. Nevertheless, the presence of two targets raises the well-known issue of how they could be reconciled in the event of a shock that made it difficult to attain them both at the same time. In other words, the simultaneous presence of a target for the nominal exchange rate and for inflation implies the existence of a target for the real exchange rate, which in the long run cannot be controlled through nominal variables only. In this respect, the Spanish case differs from several of the countries that have adopted inflation targeting which do not have a specific exchange rate target.[7]

46. There are other differences between the way that Spain implements the inflation targeting approach compared with other countries. For example, New Zealand and the United Kingdom provide quantified projections for inflation, whereas the Bank of Spain only presents its general views on the inflation outlook in its *Inflation Report* and in the Governor's periodic appearances before Parliament. Also, countries such as Canada and New Zealand have chosen to target underlying inflation, while Spain targets the CPI, which is logical given that this is the same index used to evaluate the Maastricht convergence criteria. Since the target is a medium-term one, this distinction may be of limited practical significance, and in any case,

---

[7]New Zealand (since 1990), Canada (since 1991), the United Kingdom (since 1992), Finland (since 1993), Sweden (since 1993), and Australia (since 1994). The Spanish case bears some resemblance to that of Israel, which has also announced inflation targets (since 1991) while being committed to maintaining the exchange rate within a pre-announced band.

when evaluating the inflation outlook, the Bank of Spain always distinguishes temporary and more durable inflationary pressures.

Inflation performance and credibility of the targets

47. The 3½–4 percent target for the first months of 1996 was met, as inflation declined from 4.3 percent (year-on-year) at end-1994 to 2.9 percent in January 1997—already below the 3 percent target for 1997 (Chart II.1). While the new framework may have played a role in bringing down inflation, it would be difficult to claim that the results to date can be attributed entirely to inflation targeting per se. Inflation has fallen in most industrial countries—including many that did not announce targets—over the last few years. Nevertheless, inflation targeting may have contributed to the slowdown in prices through its effects on expectations.

48. The inflation targeting approach in a strict sense can be described as "a monetary framework under which policy decisions are guided by expected future inflation relative to an announced inflation target", or, in other words, "inflation *forecast* targeting", i.e., with the central bank's inflation forecast as an intermediate target.[8] In this framework, the central bank would cut interest rates when forecast inflation is above target and raise them when forecast inflation is below target.

49. Measures of expectations are notoriously subject to difficulties, but a reasonable proxy for expected inflation could be the consensus forecasts produced by a number of professional agencies. Until late 1996, the average private forecast for 1997 inflation was consistently above 3 percent, indicating that a majority of forecasters did not find the target fully credible (Chart II.2). The difference was particularly striking in the case of the average private forecast for the first half of 1997, which amounted to 3.8 percent at the beginning of 1996.

50. Between end-1994 and late 1995, the Bank of Spain raised its key repurchase rate by a cumulative 130 basis points, revealing that its forecast inflation for 1997 was above 3 percent, as was the average private forecast. Between December 1995 and January 1997, the Bank of Spain lowered interest rates in stages by a cumulative 325 basis points, evidencing that its forecast for 1997 had fallen below 3 percent. By contrast, the average private forecast remained above 3 percent, particularly in the first half of 1996, when several interest rate cuts took place.[9] Clearly, the Bank of Spain was more optimistic than private forecasters on achieving its targets as only in the last months of 1996 did private forecasters seem to become

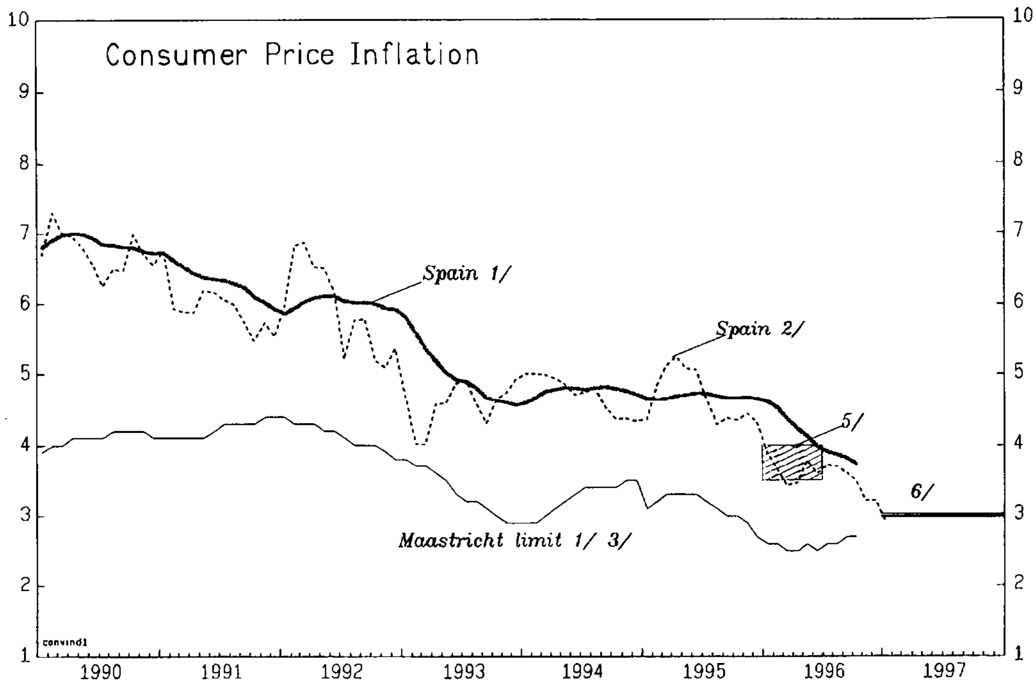
---

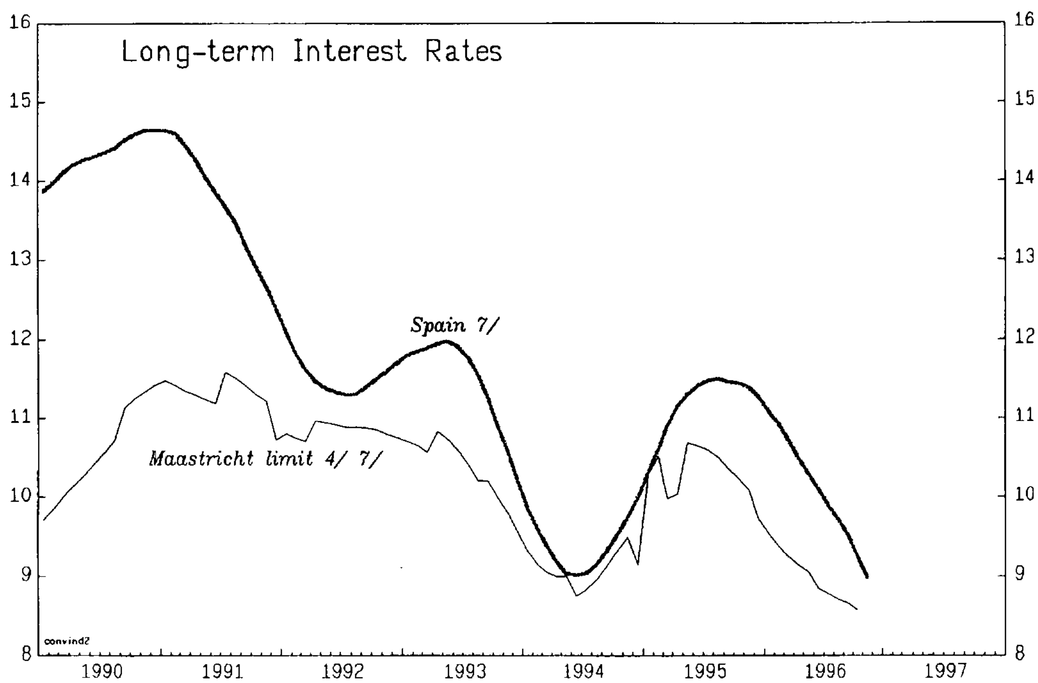
[8]The Bank of Spain has not committed itself explicitly to this framework, but has stressed that the lags with which monetary policy affects prices imply that it needs to evaluate the risk of future inflationary pressures and react to them in anticipation.

[9]Chart II.2 uses the average inflation consensus forecasts, and shows the forecast for 1995, 1996, and 1997 inflation and for year-on-year inflation in the first half of 1997, produced at the various dates indicated on the horizontal axis. Arrows indicate the dates of interest rate hikes or cuts of the 10-day repurchase rate by the Bank of Spain.

Chart II.1

SPAIN
CONVERGENCE INDICATORS



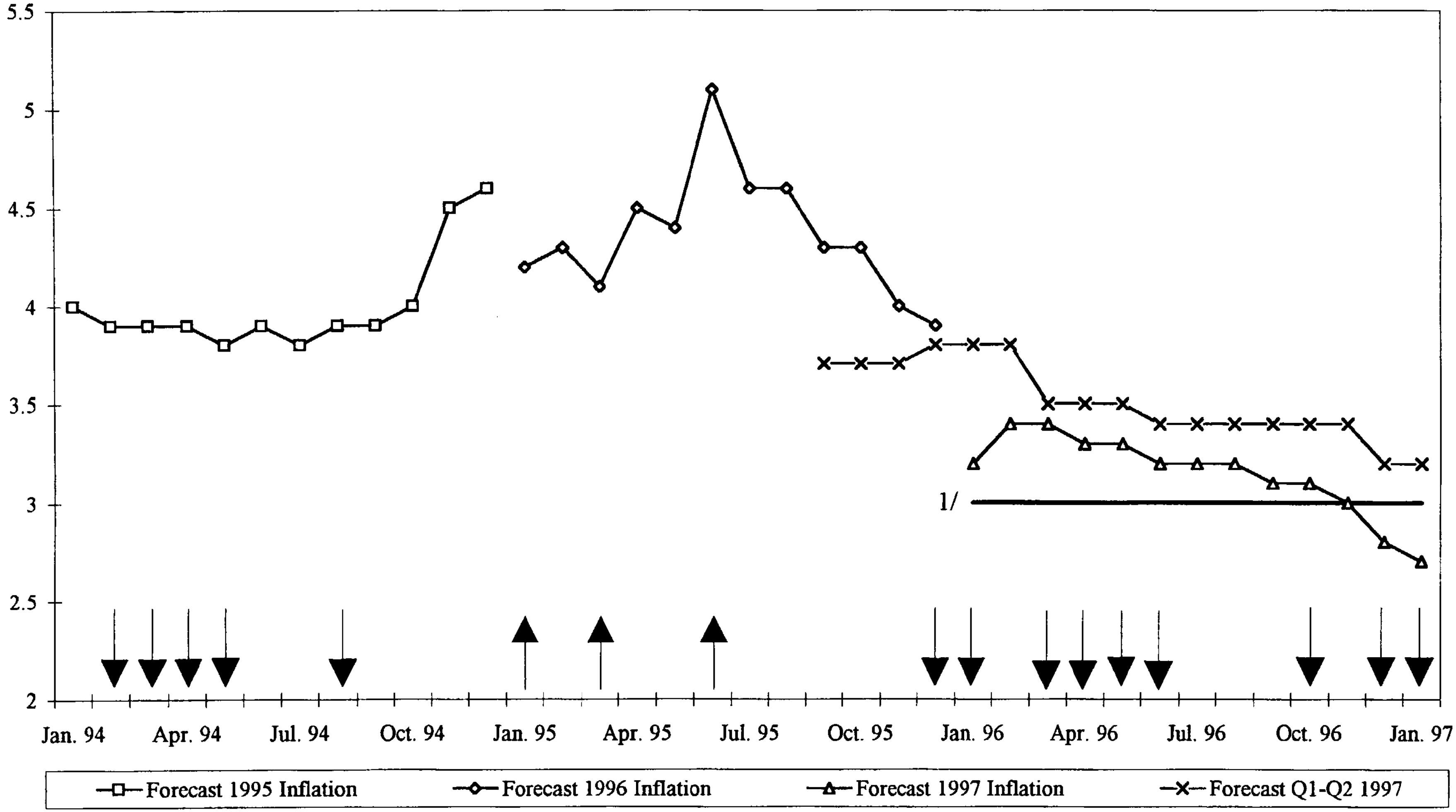


Source: Bank of Spain.

1/ Computed using 12-month average CPI.
2/ Year-on-year inflation.
3/ Average inflation in the three best performing countries, plus 1.5 percent.
4/ Average interest rate in the same three countries, plus 2 percent.
5/ Target range of 3.5-4 percent inflation announced in November 1994 for the first six months of 1996.
6/ Target ceiling of 3 percent inflation announced in November 1994 for 1997.
7/ Average over the last 12 months.

Chart II.2

SPAIN
CONSENSUS INFLATION FORECASTS AND INTEREST RATE CHANGES, 1994-97



Source: Bank of Spain and Consensus Forecasts.
Arrows indicate interest rate hikes or cuts by the Bank of Spain.

1/ 3 percent target ceiling for 1997.

convinced that the 1997 target would be met, confirming the enhanced credibility of the Bank with the markets.

51. It could be argued that the interest rate cuts that took place in early 1996, when the consensus forecast on inflation was well above the 3 percent target, might have been prompted in part by upward pressures on the peseta.[10] This would indicate that inflation *forecast* targeting was implemented in a somewhat eclectic manner, in the sense that considerations about the exchange rate occasionally prevailed over a simple comparison between forecast and target inflation in guiding Spanish monetary policy. Overall, however, the experience of 1996 confirms that the Bank of Spain over time built up its credibility and came to convince outside forecasters of its commitment to its inflation target, and the associated improvement in inflationary expectations contributed to the marked decline in long-term interest rates.

III. Fiscal Decentralization in Spain[11]

A. Introduction

52. At the time of General Franco's death in 1975, Spain was extremely centralized: the share of the central government in total government expenditure was about 90 percent, with the local governments providing the remaining 10 percent of total expenditure.[12] The regions were established under the 1978 Constitution. Since then, Spain has experienced one of the most rapid increases in fiscal decentralization among industrial countries. By the early 1990s, the share of central government expenditure in total government expenditure had fallen to 70 percent—close to the average for industrial countries—and the regional governments had become responsible for almost 20 percent of total government expenditure, while the local governments' share had remained almost unchanged at a little over 10 percent (Table III.1).

53. Over the past two decades, fiscal decentralization mostly took the form of additional spending powers for the regional governments, with their revenue-raising responsibilities lagging behind. The regions gradually gained control over the provision of education, health, and social services, while most of their revenues continued to consist of transfers from the central government and the social security administration. This low degree of "fiscal co-responsibility" by the regions results in an inherent tendency for them to overspend, because while they have a mandate to provide government services, they do not play a commensurate role in raising revenue and can therefore avoid the political costs associated with tax collection (Monasterio et al., 1995, and Pastor, 1993). Not surprisingly, this has at times led to problems, notably in the early 1990s, when relatively large regional deficits

---

[10] Foreign reserves began to accumulate very strongly after January 1996 as the peseta was maintained within a narrow range close to its central parities within the ERM.

[11] Prepared by Paolo Mauro.

[12] Consolidated central government expenditure, including social security.

Table III.1. Share of Central Government Expenditure in Total Government Expenditure in Selected Countries 1/

	1972	1976	1980	1984	1987	1990	1993
	(In percent of total government expenditure)						
Federal countries 2/							
Australia	60	61	60	60	60	57	58
Austria	68	67	68	69	69	69	68
Canada	42	42	42	44	43	43	42
Germany	54	57	56	59	58	59	58
United States	53	56	58	59	57	56	54
Average	55	57	57	58	57	57	56
Unitary countries 3/							
Denmark	55	52	53	58	55	56	57
France	84	83	84	84	83	82	82
Ireland	73	74	74	76	76	77	76
Netherlands	74	74	75	75	72	77	75
Norway	64	65	69	70	69	69	69
Sweden	59	61	62	64	64	64	67
United Kingdom	69	73	75	75	75	75	77
Average	68	69	70	72	71	71	72
Spain 2/	91	89	89	82	77	70	70
Memorandum items:							
Spain: Regional government expenditure	0	0	0	7	11	17	18
Spain: Local government expenditure	9	11	10	11	12	13	11

Source: *Government Finance Statistics Yearbook*, International Monetary Fund; and staff estimates.

1/ Total expenditure and lending minus repayments; consolidated central government (including social security) as a ratio of consolidated central government plus state, region or province governments, plus local governments.

2/ Countries that report state/regional/provincial data separately to the GFS.

3/ Countries that do not report state/regional/provincial data separately to the GFS.

emerged against the background of a rapidly increasing share of regional expenditure in total public spending: in 1991, the regional government deficit rose to 1½ percent of GDP and the deficit as a proportion of expenditure amounted to almost twice as much in the regions as it did in the central government (Table III.2).

54. The issue of fiscal decentralization gained renewed prominence in Spain in 1996 because it constituted a critical part of the agreement whereby the minority government gained the support of the regional parties in Parliament, and because of the establishment of a new five-year regional financing plan, which includes measures intended to increase the regions' fiscal co-responsibility. The main innovation is that, beginning in 1997, the regional governments will be able to set the rates and deductions on ceded taxes[13] and, more important, on 15 percent (30 percent from 1998) of their own region's personal income tax base. As a result, the regions have gained additional control over their fiscal policies.

55. The importance of fiscal discipline in the regions is highlighted by Spain's commitment to comply with the fiscal requirements for its participation in the European Monetary Union (EMU) from January 1999. In recent years, the debts and deficits of subnational authorities have been contained through a number of mechanisms, the most important of which has been a multi-year agreement (adopted in March 1992 and revised in June 1994) setting out a framework for fiscal adjustment as part of the overall Maastricht Convergence Program of the Spanish government. Its implementation has been coordinated through the *Consejo de Política Fiscal y Financiera* (CPFF), which consists of the Minister of Economy and Finance, the Minister of Public Administration, and the representatives of the various regions. The CPFF sets the debt and deficit targets for each level of government (central, regional, and local) and subsequently for individual subnational authorities, including for each region, within the Convergence Program framework. Since 1994, the regional governments as a whole have broadly respected the agreements undertaken within the CPFF. Nevertheless, to avoid potential "free rider" problems,[14] the CPFF is discussing potential ways of reinforcing its coordination and monitoring activities, including through the establishment of a domestic "Stability Pact" among the regions (somewhat similar to the Stability Pact among EMU countries) which might include sanctions for noncompliance.

56. This chapter describes the process of fiscal decentralization in Spain and the current system by which the regions are financed, and highlights the need for improved coordination and monitoring to ensure fiscal discipline, particularly in light of the obligations related to participation in the European currency union.

---

[13] For details, see Section C.

[14] Each subnational authority, being relatively small, might fail to take into account the fact that by running a deficit it would contribute to the general government deficit, thereby making it more difficult for Spain to participate in EMU (and maintaining borrowing costs high for all authorities).

Table III.2. Spain: Deficit and Debt by Level of Government 1/

	1982	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Deficit by level of government						(In billions of pesetas)						
General	-1100	-1957	-1930	-1130	-1306	-1259	-2054	-2685	-2437	-4540	-4478	-4293
Central 2/	-1127	-1701	-1664	-1250	-1173	-985	-1445	-1365	-1351	-3694	-3330	-3161
Regional	-36	-108	-165	23	-109	-259	-401	-772	-603	-673	-639	-558
Local	-91	-74	-77	-10	-19	-105	-109	-126	-75	-90	-61	-60
Social security	154	-74	-24	107	-5	90	-99	-422	-408	-83	-448	-514
						(In percent of GDP)						
General	-5.62	-6.94	-5.97	-3.13	-3.25	-2.80	-4.10	-4.89	-4.12	-7.45	-6.93	-6.16
Central 2/	-5.76	-6.03	-5.15	-3.46	-2.92	-2.19	-2.88	-2.49	-2.29	-6.07	-5.15	-4.53
Regional	-0.18	-0.38	-0.51	0.06	-0.27	-0.57	-0.80	-1.41	-1.02	-1.10	-0.99	-0.80
Local	-0.47	-0.26	-0.24	-0.03	-0.05	-0.23	-0.22	-0.23	-0.13	-0.15	-0.09	-0.09
Social security	0.79	-0.26	-0.07	0.30	-0.01	0.20	-0.20	-0.77	-0.69	-0.14	-0.69	-0.74
						(In percent of expenditure)						
General	-14.91	-16.29	-14.17	-7.63	-7.92	-6.57	-9.38	-10.80	-8.90	-15.04	-14.43	-13.24
Central 2/	-25.58	-24.37	-20.12	-13.61	-11.91	-8.66	-11.63	-10.03	-8.96	-20.96	-18.91	-17.10
Regional	-12.59	-8.42	-10.46	1.26	-4.97	-9.44	-11.94	-19.01	-13.78	-14.41	-13.30	-11.02
Local	-9.97	-4.86	-4.65	-0.55	-0.90	-4.17	-3.66	-3.80	-2.10	-2.42	-1.63	-1.49
Social security	5.02	-1.60	-0.46	1.83	-0.08	1.19	-1.14	-4.18	-3.52	-0.66	-3.42	-3.80
Debt by level of government						(In billions of pesetas)						
General	5278	12335	14582	16430	16759	19448	22601	25168	28572	36855	40787	45876
Central 2/	4623	11357	13238	14994	15023	16595	19402	21089	23798	31155	34217	38493
Regional	35	210	332	373	425	629	945	1467	2119	2764	3464	3999
Local	615	697	962	1064	1287	2224	2129	2287	2355	2645	2810	2984
Social security	4	71	50	-1	24	0	125	325	300	291	296	400
						(In percent of GDP)						
General	26.97	43.74	45.11	45.46	41.73	43.18	45.07	45.82	48.36	60.51	63.12	65.80
Central 2/	23.63	40.27	40.95	41.48	37.41	36.84	38.69	38.39	40.28	51.15	52.95	55.21
Regional	0.18	0.74	1.03	1.03	1.06	1.40	1.88	2.67	3.59	4.54	5.36	5.74
Local	3.14	2.47	2.98	2.94	3.20	4.94	4.25	4.16	3.99	4.34	4.35	4.28
Social security	0.02	0.25	0.15	0.00	0.06	0.00	0.25	0.59	0.51	0.48	0.46	0.57

Source: Bank of Spain, *Cuentas Financieras* and *Boletin Estadistico* .

1/ On a national accounts basis, before discovery of 1995 overruns.
2/ Including the State and the central government agencies.

B. Decentralization and Adjustment

The Spanish regions

57. Under the 1978 Constitution, 17 regions (listed in Table III.3) were established, with varying degrees of autonomy related to historical factors and the status that each region chose to adopt at the time the Constitution was signed. There are 15 common regime regions (*Comunidades Autónomas de Régimen Común*) and 2 special regime regions (*Comunidades Autónomas de Régimen Foral*). The former, which operate under the regular financing arrangements described in Section C, are split into two groups: (a) Article 151 regions (Andalucía, the Canary Islands, Catalonia, Galicia, and Valencia), which chose to acquire more quickly the control over expenditure on education (around 40 percent of their total expenditure) and health (30 percent), in addition to "ordinary expenditures" (*competencias comunes*), which include social services, arts and culture, and infrastructure such as roads and sewage (the remaining 30 percent); and (b) Article 143 regions (Aragón, Asturias, Baleares, Cantabria, Castilla-La Mancha, Castilla-León, Extremadura, Madrid, Murcia, and La Rioja), which chose a slower path toward assuming greater control over spending: until recently they only controlled ordinary expenditures, but over the last few years they have gradually taken over the mandate to provide education.[15]

58. The two regions under special regimes (the Basque Country and Navarra) are the most independent, for historical reasons. They are regulated by charters that grant them direct control over a large number of taxes (*impuestos concertados*), and pay to the central government an amount (*cupo*) that is intended to cover the cost of services provided by the central government. Traditionally, the charter regions have had powers not only over the collection of a number of taxes that are regulated and collected by the State in common regime regions, but also over setting their rates and conditions. They are currently the only regions with the mandate to collect VAT, "special taxes" (*impuestos especiales*), i.e., excise taxes on tobacco, alcoholic beverages and gasoline, and corporate income taxes, and with some degree of control over corporate income tax rates.

Decentralization of expenditure responsibilities to the regions

59. The process of decentralization of expenditure responsibilities to the regions has taken place in the context of an increase in the overall size of the public sector. Current expenditure (on a national accounts basis, excluding transfers within the general government) by the regions rose from 1 percent of GDP in 1982 to 4½ percent in 1995; over the same period, expenditure by the social security system also increased significantly, from 15 percent of GDP to 19 percent of GDP, while local government expenditure and central government expenditure rose only by slightly more than ½ percent of GDP each, resulting in an increase in current expenditure by the general government from 32½ percent of GDP in 1982 to over

---

[15] All regions had acquired control over university education by end-1996. The transfer of all remaining education responsibilities is envisaged for 1997.

Table III.3. Spanish Regions

	Population (1991 Census) (share of total)	Gross Domestic Product (share of total in 1994)	Per Capita GDP (ratio of national average)	Unemployment rate (Q2 1996)	Debt / regional GDP (end-1995)
Common regime regions					
			(In percent)		
Article 151 regions					
Andalucia	17.9	13.5	75.1	32.4	7.4
Canary Islands	3.9	3.7	95.8	21.7	4.4
Catalonia	15.6	19.2	122.9	18.6	7.2
Galicia	7.0	5.5	77.8	19.0	8.7
Valencia	10.0	9.8	98.5	21.5	6.1
Article 143 regions					
Aragon	3.1	3.4	110.3	15.2	4.6
Asturias	2.8	2.5	89.8	22.2	3.7
Balearic Islands	1.8	2.5	137.5	13.8	2.6
Cantabria	1.4	1.3	97.2	24.5	3.8
Castilla-Leon	6.6	6.0	91.4	20.2	3.1
Castilla-La Mancha	4.3	3.6	84.1	20.0	3.0
Extremadura	2.7	1.9	69.3	30.2	5.5
Madrid	12.8	16.0	125.0	20.5	3.8
Murcia	2.7	2.5	90.9	24.2	5.2
La Rioja	0.7	0.8	112.8	14.5	4.1
Special regime regions					
Basque Country	5.4	6.3	115.7	21.5	6.7
Navarra	1.3	1.6	120.2	11.0	11.7
Spain total	100.0	100.0	100.0	22.3	5.7

Sources: *Boletin Estadistico*, Bank of Spain; and Instituto National de Estadistica.

41 percent in 1995 (Table III.4). Similarly, the number of public employees in the regions rose to more than 630,000 in 1996, while total employment in the public administration increased from slightly more than a million in the late 1970s to 1,970,000 in 1995. While much of the rapid growth in employment by the regions took place in the early and mid-1980s, this pattern persisted in recent years, with public employment rising approximately by 180,000 between 1988 and 1996 in the regions, by 130,000 in the local governments, by 50,000 in the central government (including social security, armed forces, security forces, justice, and universities) (Table III.5). While the growth of public spending as a share of GDP cannot be specifically attributed to the increased role of the regions,[16] it is interesting to note that the devolution of spending powers to the regional governments was not accompanied by a corresponding reduction in central government current expenditure.[17]

60. In general, increases in the size of the public sector do not necessarily result in a commensurate improvement in the efficiency of public services (Tanzi and Schuknecht, 1995). At the same time, simply observing that the expansion of the role of the regions has coincided with further growth of the overall public sector does not in itself prove duplication of services. Nevertheless, OECD (1993) points out that regional government employment per inhabitant is higher in the regions with low per capita incomes and high unemployment, suggesting that perhaps some regional governments increased the number of their employees as a way of making jobs available in a context of high unemployment.

The role of the regions in fiscal adjustment

61. As already noted, the process of decentralization of expenditures to the regions seems at times to have put a strain on the general government's finances, notably in the late 1980s and at the beginning of the 1990s, when the deficit of the regional governments reached relatively high levels (peaking at 1½ percent of GDP in 1991), against the background of a sharply increasing share of regional expenditure in total public spending and relatively high investment spending by the regions.[18] Since that time, regions have displayed a greater degree of fiscal responsibility, particularly since 1994. The targets of the original 1992 Convergence Program were missed by the regional governments (as well as by other levels of government). The 1994 revised fiscal consolidation agreement envisaged a reduction of the general government deficit by 3.7 percent of GDP between 1994 and 1997, of which 0.7 percentage

---

[16] Public spending as a share of GDP rose sharply in many other countries (a well-known empirical regularity—see, for example, Tanzi and Schuknecht, 1995), including several that did not undertake decentralization.

[17] By contrast, the small reduction in capital expenditure observed in the early 1990s was undertaken particularly at the central government level (Table III.4).

[18] The share of the regions in general government current expenditures on a national accounts basis rose from 8 percent in 1985 to 11 percent in 1991. The increase in the role of the regions was even more noticeable in the domain of public investment, with their share rising from about one-fifth in 1985 to over one-third in 1991.

Table III.4. Spain: Revenue and Expenditure by Level of Government 1/

	1982	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
						(in percent of GDP)						
General Government												
Current revenue 2/	31.91	35.23	35.71	37.41	37.27	39.08	38.91	39.59	41.38	41.30	40.30	39.22
Current spending 2/	32.43	36.61	36.21	35.75	35.50	36.18	37.14	38.84	40.70	43.55	42.65	41.35
Capital revenue	0.19	0.42	0.46	0.42	0.56	0.68	0.65	0.78	0.82	0.81	0.79	1.12
Capital expenditure	5.29	5.98	5.93	5.20	5.58	6.38	6.51	6.42	5.63	6.01	5.38	5.14
Overall balance	-5.62	-6.94	-5.97	-3.13	-3.25	-2.80	-4.10	-4.89	-4.12	-7.45	-6.93	-6.16
Central Government 3/												
Current revenue	16.64	18.61	20.08	21.59	21.16	22.65	21.62	22.00	23.00	22.66	21.84	21.50
of which: transfers within general govt.	0.43	0.39	0.35	0.28	0.34	0.36	0.40	0.39	0.32	0.39	0.27	0.32
Current spending	18.66	20.89	21.79	22.09	21.33	21.61	21.22	21.52	22.47	25.22	24.81	24.19
of which: transfers within general govt.	5.32	6.55	7.56	8.57	8.40	8.72	8.48	8.68	9.53	10.67	10.50	10.28
Capital revenue	0.12	0.11	0.36	0.36	0.45	0.41	0.27	0.30	0.22	0.21	0.26	0.48
Capital expenditure	3.85	3.86	3.79	3.32	3.20	3.64	3.55	3.26	3.03	3.72	2.45	2.32
Overall balance	-5.76	-6.03	-5.15	-3.46	-2.92	-2.19	-2.88	-2.49	-2.29	-6.07	-5.15	-4.53
Regional Government												
Current revenue	1.20	3.33	3.51	4.31	4.53	4.69	4.95	5.07	5.42	5.72	5.69	5.62
of which: transfers within general govt.	0.57	2.01	2.47	3.17	3.15	3.19	3.12	3.24	3.66	3.91	3.80	3.62
Current spending	1.04	3.02	3.24	3.50	3.65	3.94	4.33	4.80	5.01	5.29	5.18	5.11
of which: transfers within general govt.	0.07	0.08	0.07	0.07	0.18	0.26	0.31	0.50	0.43	0.41	0.45	0.46
Capital revenue	0.08	0.84	0.86	0.79	0.65	0.83	0.95	0.92	0.96	0.84	0.76	0.85
Capital expenditure	0.42	1.53	1.64	1.54	1.81	2.15	2.37	2.60	2.40	2.38	2.26	2.16
Overall balance	-0.18	-0.38	-0.51	0.06	-0.27	-0.57	-0.80	-1.41	-1.02	-1.10	-0.99	-0.80
Local Government												
Current revenue	3.87	4.79	4.51	4.64	4.80	4.87	5.14	5.27	5.47	5.50	5.30	5.28
of which: transfers within general govt.	1.05	1.22	1.51	1.58	1.57	1.68	1.70	1.78	1.88	1.79	1.83	1.93
Current spending	3.52	4.09	3.82	3.90	3.99	4.12	4.35	4.65	4.82	4.85	4.56	4.59
of which: transfers within general govt.	0.56	0.67	0.71	0.74	0.83	0.85	0.84	0.87	0.85	0.87	0.80	0.78
Capital revenue	0.33	0.35	0.38	0.34	0.39	0.49	0.58	0.54	0.46	0.47	0.39	0.40
Capital expenditure	1.14	1.32	1.31	1.11	1.24	1.47	1.59	1.38	1.24	1.26	1.22	1.19
Overall balance	-0.47	-0.26	-0.24	-0.03	-0.05	-0.23	-0.22	-0.23	-0.13	-0.15	-0.09	-0.09
Social Security												
Current revenue	16.46	16.06	16.18	16.47	16.43	16.89	16.97	17.44	18.44	19.54	19.41	18.50
of which: transfers within general govt.	4.20	3.94	4.23	4.55	4.59	4.79	4.56	4.79	5.09	6.04	6.02	5.82
Current spending	15.48	16.17	15.93	15.85	16.18	16.53	17.03	18.06	19.36	20.32	20.03	19.15
of which: transfers within general govt.	0.32	0.26	0.23	0.21	0.23	0.19	0.15	0.15	0.15	0.17	0.18	0.17
Capital revenue	0.01	0.02	0.03	0.01	0.07	0.12	0.18	0.16	0.49	0.91	0.15	0.14
Capital expenditure	0.20	0.18	0.35	0.33	0.33	0.28	0.32	-0.32	0.27	0.27	0.22	0.23
Overall balance	0.79	-0.27	-0.07	0.30	-0.01	0.20	-0.20	-0.77	-0.69	-0.14	-0.69	-0.74

Source: Bank of Spain, *Cuentas Financieras*.

1/ On a national accounts basis, before discovery of 1995 overruns.
2/ Excluding transfers within the general government.
3/ Including the State and the central government agencies.

Table III.5. Spain: Employees in the Public Administration, by Level of Government

	1988	1989	1990	1991	1992	1993	1994	1995	1996 1/
					(In thousands)				
State 1/	592	623	638	597	608	610	609	608	589
Regions	454	514	537	593	593	612	626	620	637
Local authorities	297	334	356	375	366	367	371	425	425
Other 2/	273	276	275	278	296	302	319	328	321
Total	1,616	1,747	1,805	1,843	1,864	1,892	1,926	1,981	1,971
					(In percent of public administration employment)				
State 1/	36.6	35.6	35.3	32.4	32.6	32.3	31.6	30.7	29.9
Regions	28.1	29.4	29.7	32.2	31.8	32.4	32.5	31.3	32.3
Local authorities	18.4	19.1	19.7	20.3	19.7	19.4	19.3	21.5	21.6
Other 2/	16.9	15.8	15.2	15.1	15.9	16.0	16.6	16.6	16.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Economy and Finance, Boletin estadistico del Registro Central de Personal.

1/ Including social security.
2/ Armed forces, security forces, justice, and universities.

points was to come from the territorial governments (Table III.6). Thus far, the regions and the local governments appear to have broadly complied with the revised Convergence Program, and have made a notable contribution to the overall adjustment effort.

62. The importance of the role of the regional governments in Spain's efforts to meet the EMU requirements is also apparent when observing recent trends in the debt of the regions. The debt of the regional governments as a share of GDP increased from about 2 percent of GDP in 1990 to near 6 percent in 1995, while the local authorities' debt remained stable as a share of GDP, and the central government's debt increased from almost 40 percent of GDP to 55 percent over the same period (Table III.2). From 1997, the regions will acquire considerable powers over the setting of tax rates, with potentially significant implications for the general government deficit. The next sections describe the regional financing system and recent changes in that domain.

Table III.6. Deficit and Public Debt, 1993–97

(In percent of GDP)

	1993	1994	1995	1996	1997
General government, deficit	7.3	6.7	5.9	4.4	3.0
Central government	6.1	5.7	5.1	3.8	2.7
State	5.8	5.0	4.6	3.5	2.5
Social security and administrative autonomous agencies	0.3	0.7	0.5	0.3	0.2
Regional and local governments	1.2	1.0	0.8	0.6	0.3

Source: *Actualización del programa de convergencia*, Ministerio de Economía y Hacienda, 1994.

C. Sources of Finance for the Subnational Authorities

The basic blocks of the system

63. A large part of the regions' resources comes from their share in central government revenues (participation in State receipts) (Table III.7), but the regions also collect directly the so-called "ceded taxes" (mainly on property), whose rates and conditions were set by the central government until this year, as well as quantitatively unimportant own taxes, fees, and fines, over which they have almost full control. In addition, they can borrow directly from the

Table III.7. Spain: Sources of Finance for the Regions, 1986-94

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1994 share of total (in percent)	1994 (In percent of GDP)
	(In billions of pesetas)										
Total Sources of Finance 1/	1,834	2,154	2,908	3,218	4,210	5,193	5,834	6,133	6,608	100.0	10.2
1. Conditional	885	885	1,311	1,415	1,516	1,865	2,288	2,326	2,591	39.2	4.0
(i) Interterritorial Compensation Fund	159	125	140	197	120	129	129	129	129	1.9	0.2
(ii) Grants from the EU					87	142	173	312	401	6.1	0.6
(iii) Investment grants from the State 2/	84	52	80	82	103	115	150	106	89	1.3	0.1
(iv) Other grants and transfers from the State	248	256	270	278	271	261	307	144	122	1.8	0.2
(v) INSALUD and INSERSO (health)	395	453	820	857	935	1,218	1,530	1,635	1,851	28.0	2.9
2. Unconditional	876	1,251	1,508	1,730	2,294	2,590	2,971	3,134	3,492	52.9	5.4
(i) Participation of the regions in State revenue 3/	456	714	779	859	1,123	1,265	1,516	1,686	1,813	27.4	2.8
(ii) Own taxes and surcharges on State taxes	12	27	28	30	43	49	64	85	91	1.4	0.1
(iii) Taxes collected (but not set) by the regions	407	510	701	841	1,059	1,191	1,309	1,280	1,558	23.6	2.4
Common regime regions	240	286	420	497	648	700	745	722	930	14.1	1.4
Ceded taxes	212	254	384	457	598	645	685	659	788	11.9	1.2
Taxes for transferred responsibilities	28	32	36	41	50	55	59	64	142	2.1	0.2
Forum regime regions (*tributos concertados*)	167	225	281	344	411	491	565	557	627	9.5	1.0
(iv) Other transfers 4/					69	85	82	83	31	0.5	0.0
3. Borrowing	73	17	89	74	400	738	576	674	525	7.9	0.8
Memorandum item:											
Nominal gross domestic product	32,324	36,144	40,159	45,044	50,145	54,927	59,105	60,934	64,699		

Source: Ministerio de Economia y Hacienda, *Informe sobre la Financiacion de las Comunidades Autonomas* and *Desarrollo del Proceso Autonomico en el Periodo 1986-1989.*

1/ Excluding Participation of the local authorities in State revenue, which is merely channeled through the regions.
2/ *Convenios de Inversion* and *Contratos-Programa.*
3/ Includes transitory compensation in 1990-91.
4/ Transfers to the *Comunidades Autonomas Uniprovinciales* and for *Coste Efectivo.*

markets subject to certain conditions (see below). The regions also receive capital transfers from the central government (including through the Interterritorial Compensation Fund) and the EU, and transfers from the social security system for health and social services. Overall resources available to the regions in 1994 amounted to about 10 percent of GDP (of which almost 1 percentage point consisted of borrowing), having gradually increased from 6 percent of GDP in 1986. The composition of these resources has remained broadly unchanged in recent years, though the regions have used borrowing somewhat more extensively in the 1990s, and the importance of the EU funds in total capital transfers has gradually increased. This section describes in further detail the resources available to the regions, distinguishing between conditional resources, which can only be spent on specific items (typically health or public infrastructure) and unconditional ones.

Conditional resources

- Transfers for investment, including through the Interterritorial Compensatory Fund (which makes capital transfers to the regions for the financing of infrastructure projects to regions whose per capita incomes are below the national average, and EU funds (such as the European Regional Development Fund).

- Transfers from the social security system to the regions for the financing of health (INSALUD—*Instituto Nacional de la Salud*)[19] and social programs (INSERSO—*Instituto Nacional de Servicios Sociales*).

Unconditional resources

- Participation in State receipts (*Participación en los ingresos del Estado*—PIE), which is a given share of overall tax revenue collected by the central government.[20] For each

---

[19] About 60 percent of health expenditure in Spain is financed from contributions, with the remainder coming from general revenue channeled by the central government to the social security system in the form of transfers. The social security, through INSALUD, finances the health care services managed by both central and regional authorities. The amounts to be transferred to the regions have been subjected to bargaining every year between central government and regional authorities. Actual expenditure has often been above budgeted transfers, leading to large debts, which were subsequently written off by the central government. These problems prompted the authorities to achieve a multi-year (1994–97) agreement with the regions, establishing that accrued health expenditure should grow at the same rate of GDP. The health financing system and its prospects are discussed in detail by Levy (1995).

[20] More precisely, the PIE evolves in line with "structurally adjusted total tax revenue" (*Impuestos Tributarios Ajustados Estructuralmente*, ITAE), i.e., the sum of all direct and indirect taxes, social security contributions, and unemployment benefit contributions, of the State.

region, this share is determined at the beginning of every five-year period,[21] on the basis of "distributive" variables (population, area, geographical dispersion and—for the islands—distance from the mainland) and "redistributive" variables (per capita income and "fiscal effort"),[22] with a view to ensuring that all regions are able to provide their citizens with minimum standards of services.

- Ceded taxes (*tributos cedidos*) and taxes for transferred responsibilities (*tasas afectas a los servicios traspasados*), whose rates were traditionally set by the central government but whose collection is undertaken by the regions. These include taxes on inheritances and donations, wealth, property transactions, legal acts, and gambling. From this year, ceded taxes also include a portion of personal income taxes, and the regions contribute to setting their rates and deductions (see below).

- Regional governments' property income, and own taxes, fees and fines, set and collected by the regions themselves (only 1 percent of total sources of finance in 1994).

- The special regime regions collect a wide range of taxes (*tributos concertados*), including, in addition to those collected by the common regime regions, the value-added tax, and personal and corporate income taxes.

Borrowing

- Borrowing by the regions is subject to various legal constraints: (a) the regions must obtain the Central Administration's approval for all bond issues, and all liabilities in foreign currency, although bonds issued by the regional governments are not guaranteed by the central government; (b) short-term borrowing (with maturities of less than a year) can only be incurred to cover temporary liquidity needs; (c) long-term debt (with maturities of more than one year) can only be issued to finance investment expenditures; and (d) debt service cannot be higher than 25 percent of a region's current revenues, but this limit has been exceeded at times with no apparent penalties (Monasterio et. al., 1995).

Changes in the PIE: participation in personal income tax revenue

64. Beginning in 1994, the PIE was changed so that it would consist of two components. The first part amounted to 15 percent of personal income tax (*Impuesto sobre la Renta de las Personas Fisicas*—IRPF) revenue collected in the region. The second part continued to be a share of overall State tax revenue; its initial amount (for 1994) was determined in such a way that total resources for each region were the same as they would have been under the previous

---

[21] Thus far, 1987–91, 1992–96, and 1997–2001. At the beginning of each new five-year arrangement, the shares of the PIE for each region were determined in such a way that all regions obtained more resources with the new financing system than with the previous one.

[22] The weights attributed to the various variables are reported in Piñero Campos (1996).

system.[23] The main consequence of this innovation was to increase the share of a region's resources that would depend on its own economic performance, though its primary motivation was to prepare the ground for additional co-responsibility in the domain of personal income taxes, which was introduced with the agreement for 1997–2001.

The agreement for regional financing in 1997-2001

65. Until this year, fiscal co-responsibility was confined to the *collection* of ceded taxes (and, quantitatively much less important, to the setting and collection of own taxes and fees). The recent agreement[24] for 1997–2001 constitutes a major innovation, in that for the first time it allows the regions, within limits, to set the rates and deductions over ceded taxes and a portion of the personal income tax base. **In 1997**, under the new agreement, an additional 15 percent of the IRPF has been ceded to the regions, on which they have powers to vary the rates within a ±1/5 range of the rate set by the central government for the national IRPF. This new "regional personal income tax" is effectively a ceded tax. From now on, tax declarations by Spanish citizens for the IRPF will distinguish between a central government IRPF and a regional government IRPF. To illustrate how the new system operates, it may be useful to consider the case of Ptas 100 that under the previous system would have been subject to a personal income tax rate of—for instance—40 percent (Table III.8).

66. For 1997, the PIE has three components: (i) the new regional personal income tax, amounting to 15±3 percent of IRPF revenue that would have been collected in the region under the previous system; (ii) the 15 percent of regional IRPF revenue already available in 1994–96, which is transferred to the regions but over which they have no rights to vary the rates; and (iii) the remainder, which was set in such a way that the total resources to each region in 1997 are the same as they would have been under the previous system, and which from now on will simply be a proportion of overall revenue. For the richer regions, IRPF revenue collected on its own residents' incomes can amount to more than half of total resources from PIE and taxes, but this proportion will be somewhat smaller for regions with lower per capita incomes.

67. **From 1998** (or, more precisely, from the time when the regions assume full responsibilities over education), the regions will be able to set the rates also on block (ii). In other words, while in 1997 the regions have the right to set the rates on 15 percent of the personal income tax base and will simply receive another 15 percent of the personal income tax revenue collected in the region, from 1998 they will gain the right to set the rates on the full 30 percent of the personal income tax base that has been ceded to them. From 1998, the PIE will therefore consist of two components: the first will be the regional personal income

[23] For the following years, total PIE resources for the regions would be determined by the evolution of IRPF collected in the region and overall State tax revenue, according to their respective weights in 1994 financing.

[24] The agreement applies only to the 15 common regime regions, 3 of which have not yet accepted it.

tax amounting to 30±6 percent of the regional IRPF revenue that would have been collected under the 1993 system; and the remainder will continue to evolve in line with overall state tax revenue.

Table III.8: Decentralization of Income Taxes—A Numerical Example

Until 1993	1994–96	1997	1998–2001
	15 percent of personal income tax revenue to the regions, no setting of rates (b).	15 percent of personal income tax revenue to the regions, no setting of rates (b); and 15 percent of personal income tax base to the regions, with setting of rates (c).	30 percent of personal income tax base to the regions, with setting of rates (c).
(a) Ptas 40 to the central government	(a) Ptas 34 to the central government (b) Ptas 6 to the region	(a) Ptas 28 to the central government (b) Ptas 6 to the region (c) Ptas 6±1.2 to the region	(a) Ptas 28 to the central government (c) Ptas 12±2.4 to the region

(a) National personal income tax.
(b) Participation of the region in personal income tax revenue collected in the region.
(c) Regional personal income tax, the exact tax rate to be determined by the individual region within a ±1/5 range of the national rate, as indicated.

The system of guarantees

68. In order to protect the regions against possible revenue shortfalls arising from regional shocks, the new system for 1997–2001 includes a set of guarantees that—loosely speaking—compensate the region if its income growth falls below the national average. (Of course, revenue shortfalls arising from a region's decision to cut tax rates will not be covered.) There are three guarantees, which operate sequentially, as follows.

(1) *If Spain's nominal GDP grows more slowly than IRPF collection at the national level, and* a region's IRPF collection grows more slowly than Spain's nominal GDP, the central government will make transfers to the region to cover any difference. If Spain's nominal GDP grows *faster* than IRPF collection at the national level, but the rate of growth of a given region's IRPF collection falls below 90 percent of the rate of growth of IRPF collection for all regions, then the central government will make transfers to the region to compensate it for the difference (up to 90 percent of the average growth of IRPF collection for all regions).

(2) If the growth of a region's total resources (including those from IRPF, PIE, ceded taxes, and other taxes, and those obtained under the first guarantee) falls below 90 percent of the

growth of total resources of all regions, then the central government will make transfers to compensate it for the difference (up to 90 percent of the average growth of total resources for all regions).

Transfers arising from guarantees (1) and (2) will be made each year by the central government to the regions affected by a slowdown, with the regions paying back the transfers in subsequent years to the extent that their revenues grow faster than average.

(3) After 1998, there will be a third guarantee: should the *level* of per capita resources obtained by a given region fall below 90 percent of the national average, there will be transfers from the central government to compensate the region for the difference (up to 90 percent of the national level).[25]

Transfers arising from this last guarantee will be made at the end of the five-year period.

69. The first two guarantees represent an attempt to protect a region in case its economic performance falls below the national average, whether as a result of short-run fluctuations deriving from region-specific shocks, or as a result of a lower-than-average long-run growth rate. The third guarantee seems to be more closely related to the principles of solidarity among the regions and sufficiency of the resources for the services to be provided, but can also be interpreted as a further safeguard against persistently slow growth in a given region.

70. In sum, the current strategy for decentralization of revenue responsibilities is (a) to let the regions set the rates of ceded taxes and a portion of personal income tax; and (b) to increase the share of a region's finances that depends on its own personal income tax collection.[26] Because the regions are being given more "co-responsibility", additional coordination and monitoring will be needed in order to achieve fiscal adjustment at the general government level. As a result of the regions' higher dependence on their own economic performance, there will be more variation in their individual resources, though mitigated to a significant extent by the system of guarantees. The next section focuses on the issue of coordination and monitoring, while Section E addresses the question of the potential variability of resources.

D. Coordination and Monitoring Issues

71. The strategy of decentralizing revenue-raising powers to the regions is predicated on the grounds that it will make them more responsible in their decisions over expenditure. Under the

[25] Only a couple of regions have per capita resources slightly below 90 percent of the national average at this time.

[26] The choice to decentralize direct taxation rather than indirect taxation implies a less homogeneous degree of fiscal co-responsibility, because richer regions collect more personal income taxes than the poorer ones. Also, revenues are less stable, because consumption tends to fall less than income in the event of a temporary economic slowdown.

new system, should a region wish to spend more, it would be able to increase taxation on its own residents, bearing the associated political costs.[27] The central government will continue to plan and coordinate macroeconomic policy, including through the CPFF's debt and deficit targets, while the regions would be able within limits to choose the expenditure levels and the tax burden consistent with those targets: regions wishing to provide more services could tax their residents more heavily, and vice versa. However, the viability of this framework rests on the assumption that the regions are faced with a hard budget constraint, i.e., that they are unable to obtain bail-outs from the central government and that they comply with the debt and deficit agreements established in the CPFF.

72. A number of arrangements can help ensure that the regions do not pose a threat to the overall process of fiscal adjustment. As already noted, existing legislation imposes constraints on borrowing, and the CPFF plays a major role in coordinating and monitoring the regions' policies.

Limits on borrowing and market discipline

73. The legal constraints on borrowing by Spain's regional and local governments while fairly comprehensive when compared with those of other countries (Ter-Minassian, 1996), on their own do not guarantee success in the process of fiscal adjustment.[28] Looking at the various subnational authorities in Spain, there is no obvious relationship between the degree of control over borrowing policies and debt/GDP ratios.[29] Also, it remains unclear whether the legal limits on borrowing by the regions are truly binding, and whether in practice there are penalties in case a region does not comply with them. On a number of occasions, the central government denied permission to issue new bonds or borrow in foreign currency to regions that had exceeded the legal 25 percent ratio between debt service and current revenues, or the deficit and debt limits set by the CPFF to comply with the Convergence Program.

---

[27] At present, it is not expected that the regions will make early use of their recently acquired control over tax rates.

[28] Lane (1993) shows that countries with stricter rules on lower-level governments do not generally have more appropriate fiscal policies. Of course, the lack of correlation between stricter rules and better fiscal outcomes could result from the fact that those countries that experience the most severe fiscal problems are likely to attempt to solve them by imposing controls.

[29] The widely diverging experiences of the two charter regions, which have the greatest freedom in the management of their public finances, is particularly informative in this respect, with Navarra displaying the largest increase in the debt/GDP ratio among Spanish regions over the last five years and the Basque Country remaining close to the national average. Similarly, the debt of cities with over 500,000 inhabitants (whose budgets are larger than those of several regions) has grown rather slowly, in spite of the absence of explicit limits on it.

Nevertheless, it is not clear whether the affected regions had difficulty in continuing to borrow in domestic currency from the banking system.[30]

74. Some moderating influence on borrowing by the regions may also come from the discipline imposed upon them by financial markets, which may be effective if capital markets are open, information on the borrower's liabilities is readily available, no bail-out is anticipated, and the borrower responds to market signals (Lane, 1993). These conditions seem to be met: Spain's capital markets are open; the Bank of Spain regularly publishes information on the debt of the various regional governments, though data on their expenditures, receipts, and deficits is not as timely; the central government does not guarantee bonds issued by the regions; and the regions' borrowing policies seem to respond to changes in market conditions. However, market discipline on its own is unlikely to be sufficient to induce sound fiscal behavior, and intensified coordination and monitoring at the level of the CPFF is likely to remain a crucial element in ensuring that the general government deficit remains within the agreed limits.[31]

Convergence agreements and the CPFF

75. In addition to the legal limits, borrowing policies at the subnational level are subordinated to the overall economic policy objectives of the government under the Maastricht Convergence Program, with the coordination taking place within the CPFF. Consistent with that framework, the CPFF sets four-year programs for the debts and deficits of each region, which are signed and monitored on a bilateral basis between the central government and the individual region. For approval of any bond issue, the regions have to present to the central government an annual borrowing plan in line with the agreed program. Compliance with the targets is required at the end of the year. The fact that the spirit of the exercise is to contain the *end-of-the-year* deficit is helpful, as recent contributions have suggested that end-of-the-year targets are more effective disciplining devices than beginning-

---

[30] In June 1996, only about 34 percent of the debt of the regions was in bonds, the bulk of the remainder being made up of bank loans. At the same time, the share of bonds in new borrowing is high, implying that the reliance on bank loans is decreasing, and some regions—particularly the larger ones—have well-developed regional bond markets. Three regions (Andalucía, Catalonia and Valencia) hold regular public auctions for their bonds, organized under the same system as those of the Spanish Treasury. About a third of the regions are rated by international rating agencies.

[31] After all, the recognition that sole reliance on market discipline failed to prevent the emergence of large debts in a number of European countries is exactly what motivated the inclusion of fiscal criteria in the Maastricht agreements and the Stability Pact among EMU participants.

of-the-year constraints.[32] However, there are (at this point) no penalties for missing the targets.

76. Information on recent and prospective developments in the finances of the various subnational governments during the course of the year is relatively scarce and it would seem desirable to increase its transparency and dissemination.[33] One indicator on the fiscal performance of the regions, the stock of debt of the territorial authorities (including the debt for each region), is published monthly by the Bank of Spain and is available on a timely basis, but is still insufficient for thorough monitoring, for two reasons. First, information on the agreed debt targets for each region is not available to the public. Second, in practice the change in the stock of debt is only an approximation of the deficit. The regions are currently required to submit preliminary deficit and debt outturns to the CPFF twice a year, but a table with the outturn for all individual regions, compared with the targets under the Convergence Plan, has never been published. The CPFF is currently discussing the possibility of increasing the frequency (possibly to quarterly) with which the regions provide debt and deficit data to the central government to monitor compliance with the agreed targets, an obviously welcome step. Timely provision of similar statistical information to the general public may also be useful, as it would enable public opinion to be mobilized to ensure that the regional governments comply with the agreements.

77. Moral suasion in the context of the convergence program agreements appears to be a somewhat more binding source of fiscal restraint than the legal borrowing limits, but the evidence on the effectiveness of the debt and deficit reduction agreements also remains somewhat mixed. On the one hand, after the introduction of the Convergence Program regional government debt growth declined, and in 1995, with one exception, all regions apparently maintained their debts within the agreed ceilings (Grupo Analistas, 1996). On the other hand, Monasterio (1996) shows that in recent years there has been considerable variation in the experiences of the 17 regions, with several regions increasing their debt sharply even after the introduction of the Convergence Program (and some even exceeding the limit on the debt service to current revenues ratio, apparently with no penalties).

---

[32] There has recently been considerable interest in whether formal fiscal constraints on the fiscal policies of subnational authorities are effective in bringing about lower deficits. Using data on the U.S. states, Bohn and Inman (1996) find that *end-of-the-year* statutory and constitutional balanced budget requirements are more binding than *beginning-of-the-year* requirements. In other words, the requirement for a governor to *submit* or for the state legislature to *pass* a balanced budget, or even for a state to *carry over* an ex-post deficit into the next year are less effective than a requirement to eliminate a deficit *by the end of the year*.

[33] The desirability of transparency and dissemination of data on the finances of subnational authorities is discussed by Ter-Minassian (1996) with reference to a wide range of countries.

A "Stability Pact" among the regions?

78. In the context of the CPFF, the Spanish authorities are discussing the possibility of undertaking a domestic "Stability Pact" among the regions, in order to ensure compliance with the fiscal requirements implied by participation in EMU. This would help strengthen the existing coordination of policies among the various branches of government and among the regions. Increased incentives for compliance with the agreements, perhaps through the introduction of penalties for deviations, would also play a useful role. One aspect to be considered in such a pact is whether sufficient allowance is made for the possibility of adverse shocks to output, in order to avoid rendering the regions' fiscal policies excessively procyclical. The next section describes the variability of incomes in the Spanish regions and concludes that the new system of guarantees will probably provide adequate protection in case of lower-than-average income growth.

E. The Variability of Regional Incomes

79. With the transfer of an increased share of the personal income tax to the regional governments, a larger proportion of a region's finances has come to depend directly upon that region's economic performance. As a result, a region's resources will be subject to higher variation, both because of short-run fluctuations from year to year in income growth compared with those of the country as a whole, and because a given region may have a lower (or higher) income growth rate than the national average over a period of several years. As already noted, a system of guarantees has been set up to serve a risk-pooling role among the regions and help avoid an undesirable increase in the procyclicality of their fiscal policies.

Shocks and the need for guarantees

80. The need for the introduction of a mechanism to protect the regions from variation in their resources becomes very apparent when (i) the variability of deficits in the Spanish regions is compared with that in the EU countries, where cyclical effects were considered sufficiently large to warrant the inclusion of an "escape clause" in the Stability Pact among EMU participants;[34] and (ii) the variability of resources in the Spanish regions under the previous system is compared with that of the new system.

Spanish regions and EU countries

81. While the elasticity of expenditures with respect to income is probably somewhat lower in the Spanish regions than in the EU countries, mostly because the regions are not responsible for the provision of unemployment benefits, the elasticity of revenues with respect to income will be considerable in the regions, as in several cases more than one half of their resources now consists of personal income taxes collected from residents.

---

[34] The consequences of EMU on the EU countries' ability to engage in stabilization policy using fiscal variables have been discussed extensively in recent literature. For example, see Masson (1996).

82. The variability of output in the Spanish regions is relatively high. Over 1981–94, the standard deviation of the real income growth rate of the typical Spanish region[35] amounted to 4.0, twice as large as that for the typical EU country (Table III.9).[36] Similarly, the standard deviation of the difference between regional and overall Spanish growth amounts to 3.1 for the typical Spanish region, while the standard deviation of the difference between national and overall EU growth amounts to 1.5 for the typical EU country (Table III.10).[37] Based upon both of these criteria, the variability of real output growth in the Spanish regions is considerably higher than that in the EU countries, implying a greater need for protection in the former than in the latter. These findings suggest that the introduction of a mechanism to protect the regions from output shocks was warranted.

Variation in resources under the previous and new systems

83. The past experience of regional growth compared with national GDP growth provides an indication of the increased volatility of the regions' resources resulting from the new financing system, as well as of the order of magnitude and likely frequency of the transfers involved in the system of guarantees. The standard deviation of regional GDP differs considerably among regions, but is typically almost twice as large as that of national GDP (Table III.11).[38] In several regions, over half of their resources derive from regional personal income tax revenue. Thus, without guarantees the new system would imply a significant increase in the volatility of their resources.

84. During 1981–94, in a typical year, 6 out of the 17 regions (5 out of the 15 common regime regions) had growth rates lower than the national growth rate by more than one-tenth, which provides an indication of the likely frequency of the transfers associated with the system

---

[35] Value-added data are used for the Spanish regions since GDP data are available only for a shorter sample period. As only nominal value-added data are available for the regions, real growth rates are obtained using national value-added deflator inflation.

[36] The logic of this first comparison follows from the escape clause included in the Stability Pact adopted by the EU countries, where penalties for exceeding the deficit limit do not apply in case a country's real GDP growth falls below a given minimum level. Penalties for exceeding the 3 percent deficit limit (amounting to 0.2 percent of GDP plus an additional 0.1 percent for each percentage point above the limit, up to a maximum of 0.5 percent of GDP) are automatically waived in case a country's real GDP declines by 2 percent in one year, and may be waived in case it declines by 0.75–2 percent.

[37] This second comparison is close in spirit to the system of guarantees adopted as part of the Spanish regions' financing arrangements, which relates to the growth rate of a region compared to the national average.

[38] Table III.11 is based upon nominal (rather than real) GDP because (a) this is the variable that is specified in the guarantees and (b) nominal GDP determines tax revenue collection.

Table III.9. European Union Countries and Spanish Regions: Real Output Growth, 1981-1994 (in percent)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average 1981-1994	Standard Deviation 1981-1994
Country 1/																
Austria	-0.3	1.1	2.0	1.4	2.5	1.2	1.7	4.1	3.8	4.3	2.8	2.0	0.4	3.0	2.1	1.4
Belgium	-1.0	1.5	0.5	2.2	0.8	1.4	2.0	4.9	3.4	3.4	2.2	1.8	-1.6	2.2	1.7	1.7
Denmark	-0.9	3.0	2.5	4.4	4.3	3.6	0.3	1.2	0.6	1.4	1.3	0.2	1.5	4.4	2.0	1.7
Finland	1.9	3.2	2.7	3.0	3.4	2.4	4.1	4.9	5.7	0.0	-7.1	-3.6	-1.2	4.4	1.7	3.5
France	1.2	2.5	0.7	1.3	1.9	2.5	2.3	4.4	4.3	2.5	0.8	1.2	-1.3	2.8	1.9	1.5
Germany	0.1	-0.9	1.8	2.8	2.0	2.3	1.5	3.7	3.6	5.7	5.0	2.2	-1.1	2.9	2.3	2.0
Greece	0.1	-0.5	0.8	2.8	3.1	1.6	-0.5	5.4	3.8	0.0	3.1	0.4	-1.0	1.5	1.5	1.9
Ireland	3.3	2.3	-0.2	4.3	3.1	3.7	4.7	4.3	6.1	8.0	2.1	4.0	3.1	6.5	3.9	2.0
Italy	0.6	0.2	1.0	2.7	2.6	2.9	3.1	4.1	2.9	2.1	1.2	0.7	-1.2	2.2	1.8	1.4
Luxembourg	0.8	1.0	1.9	4.7	3.2	7.5	3.8	10.2	9.9	3.4	5.4	5.8	8.5	4.1	5.0	3.1
Netherlands	-0.5	-1.2	1.7	3.3	3.1	2.8	1.4	2.6	4.7	4.1	2.3	2.0	0.2	2.7	2.1	1.7
Portugal	1.3	2.1	-0.2	-1.8	3.0	4.1	5.1	4.0	5.7	4.0	2.2	1.7	-1.2	0.7	2.2	2.3
Spain	-0.3	1.3	2.2	1.5	2.6	3.2	5.6	5.2	4.7	3.7	2.3	0.7	-1.2	2.1	2.4	2.0
Sweden	0.0	1.0	1.8	4.0	1.9	2.3	3.1	2.3	2.4	1.4	-1.1	-1.4	-2.2	2.6	1.3	1.8
United Kingdom	-1.3	1.7	3.7	2.3	3.8	4.3	4.8	5.0	2.2	0.4	-2.0	-0.5	2.1	3.9	2.2	2.3
European Union	0.1	0.8	1.7	2.3	2.5	2.9	2.9	4.2	3.5	3.0	1.6	1.0	-0.5	2.8	2.1	1.3
																Average of Standard Deviation, EU Countries:
																2.0
Region 2/																
Andalucia	-0.7	2.7	3.3	1.2	6.3	2.9	6.7	4.6	3.7	8.2	2.8	-0.7	-1.5	1.8	3.0	2.9
Canary Islands	1.1	1.5	6.1	-1.8	-0.7	7.1	8.1	8.0	0.8	2.2	2.1	3.6	0.9	3.3	3.0	3.2
Catalonia	-2.0	-1.1	1.3	2.6	0.2	5.3	6.3	6.7	7.1	3.7	2.3	1.3	-1.4	2.9	2.5	3.0
Galicia	2.5	2.5	-0.9	1.7	1.4	1.9	4.0	6.1	4.0	0.6	2.0	0.4	-0.8	1.8	2.0	1.9
Valencia	3.1	-2.5	3.5	2.6	3.3	0.9	5.3	4.0	4.7	5.3	2.4	0.5	-2.0	2.0	2.4	2.4
Aragon	-3.7	2.7	6.4	3.0	0.1	1.8	4.3	8.8	4.6	2.2	1.9	-0.5	-1.8	1.8	2.3	3.2
Asturias	-0.5	5.4	-1.5	-0.1	6.0	1.0	-0.5	3.8	4.2	0.2	0.5	2.2	-1.2	1.4	1.5	2.5
Balearic Islands	4.6	3.9	4.8	4.2	11.8	0.2	5.4	5.1	2.1	6.2	4.0	2.2	0.4	3.2	4.1	2.8
Cantabria	3.1	-2.5	1.7	0.4	-2.6	-0.9	4.7	10.1	6.7	0.0	0.0	1.8	-1.8	3.0	1.7	3.6
Castilla-Leon	-4.8	6.3	3.0	2.7	4.4	0.5	4.1	3.7	2.5	0.6	1.4	0.1	1.5	1.2	1.9	2.6
Castilla-La Mancha	-3.0	0.2	1.4	1.6	10.4	-0.7	9.7	7.6	5.7	3.9	2.1	0.9	-3.8	1.1	2.6	4.3
Extremadura	-3.2	2.0	0.6	23.3	4.8	-2.9	7.4	9.6	0.8	4.2	3.6	1.0	-1.5	1.0	3.6	6.7
Madrid	0.2	2.9	3.3	0.1	0.7	8.6	6.7	4.6	5.7	5.7	2.5	1.2	0.3	1.9	3.2	2.7
Murcia	-5.6	3.3	10.0	1.2	-0.7	9.3	4.8	2.7	5.6	8.0	1.5	0.0	-2.0	2.1	2.9	4.4
La Rioja	16.4	3.3	1.7	1.5	0.2	-2.4	-3.7	5.4	4.8	3.8	1.8	2.5	-0.9	5.8	2.9	4.8
Basque Country	1.5	1.1	0.1	-4.3	4.2	3.9	2.3	2.4	6.1	1.9	3.3	-1.3	-0.9	3.1	1.7	2.6
Navarra	2.1	-2.9	-0.5	0.1	1.0	1.5	10.9	1.9	9.1	-0.4	2.1	-1.4	-3.1	2.2	1.6	4.0
Total Spain	-0.2	1.4	2.5	1.5	2.8	3.6	5.6	5.3	4.9	4.1	2.3	0.6	-1.0	2.2	2.5	2.0
																Average of Standard Deviation, Spanish Regions:
																4.0

Sources: *World Economic Outlook* database, IMF; and *Contabilidad Regional de Espana*, Instituto National de Estadistica.

1/ Real GDP growth.
2/ Nominal growth rates of value added minus national gross value added deflator inflation.

Table III.10. European Union Countries and Spanish Regions: Real Output Growth, Deviations from EU and Spanish Average, 1981-94 (in percent)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Average 1981-1994	Standard Deviation 1981-1994
Country 1/																
Austria	-0.4	0.2	0.3	-1.0	-0.1	-1.7	-1.3	-0.1	0.3	1.2	1.2	1.1	0.9	0.2	0.1	0.9
Belgium	-1.1	0.7	-1.2	-0.1	-1.7	-1.5	-0.9	0.7	-0.2	0.3	0.6	0.8	-1.1	-0.6	-0.4	0.9
Denmark	-1.0	2.2	0.8	2.1	1.8	0.8	-2.6	-3.0	-3.0	-1.6	-0.2	-0.8	2.0	1.6	-0.1	1.9
Finland	1.8	2.4	1.0	0.7	0.8	-0.5	1.2	0.7	2.1	-3.0	-8.7	-4.5	-0.7	1.6	-0.4	3.1
France	1.1	1.7	-1.0	-1.0	-0.7	-0.4	-0.7	0.2	0.8	-0.5	-0.8	0.2	-0.8	0.0	-0.1	0.8
Germany	0.0	-1.8	0.0	0.5	-0.5	-0.5	-1.4	-0.5	0.1	2.7	3.4	1.2	-0.6	0.1	0.2	1.4
Greece	0.0	-1.4	-0.9	0.4	0.6	-1.3	-3.4	1.1	0.3	-3.0	1.5	-0.6	-0.5	-1.3	-0.6	1.4
Ireland	3.2	1.4	-2.0	2.0	0.6	0.8	1.7	0.1	2.6	5.0	0.5	3.0	3.6	3.7	1.9	1.8
Italy	0.4	-0.6	-0.7	0.4	0.1	0.0	0.2	-0.1	-0.6	-0.9	-0.4	-0.3	-0.7	-0.6	-0.3	0.4
Luxembourg	0.7	0.2	0.2	2.4	0.6	4.7	0.8	6.0	6.3	0.4	3.8	4.8	9.0	1.3	2.9	2.8
Netherlands	-0.6	-2.0	0.0	1.0	0.6	-0.1	-1.5	-1.6	1.2	1.1	0.7	1.0	0.7	-0.1	0.0	1.1
Portugal	1.2	1.2	-1.9	-4.1	0.5	1.3	2.2	-0.2	2.2	1.0	0.6	0.7	-0.7	-2.1	0.1	1.8
Spain	-0.4	0.4	0.5	-0.8	0.1	0.3	2.7	0.9	1.2	0.7	0.7	-0.3	-0.7	-0.7	0.3	0.9
Sweden	-0.1	0.2	0.0	1.7	-0.6	-0.6	0.2	-2.0	-1.2	-1.6	-2.7	-2.4	-1.7	-0.2	-0.8	1.2
United Kingdom	-1.4	0.9	2.0	0.0	1.2	1.4	1.9	0.8	-1.4	-2.6	-3.5	-1.5	2.6	1.1	0.1	1.9
																Average of Standard Deviation, EU Countries:
																1.5
Region 2/																
Andalucia	-0.5	1.4	0.8	-0.3	3.5	-0.6	1.1	-0.6	-1.2	4.0	0.5	-1.3	-0.5	-0.4	0.6	1.7
Canary Islands	1.3	0.1	3.6	-3.2	-3.6	3.5	2.5	2.7	-4.1	-1.9	-0.2	2.9	1.9	1.1	0.3	2.9
Catalonia	-1.7	-2.4	-1.2	1.2	-2.6	1.8	0.7	1.5	2.1	-0.4	0.0	0.7	-0.4	0.7	0.0	1.6
Galicia	2.7	1.2	-3.4	0.3	-1.4	-1.6	-1.6	0.8	-1.0	-3.5	-0.3	-0.2	0.2	-0.4	-0.7	1.8
Valencia	3.3	-3.8	1.1	1.2	0.4	-2.7	-0.3	-1.2	-0.2	1.1	0.1	-0.2	-1.0	-0.2	-0.1	1.9
Aragon	-3.5	1.4	3.9	1.5	-2.7	-1.8	-1.3	3.5	-0.3	-2.0	-0.4	-1.2	-0.8	-0.4	-0.2	2.4
Asturias	-0.3	4.0	-4.0	-1.6	3.2	-2.5	-6.1	-1.5	-0.7	-4.0	-1.9	1.5	-0.2	-0.8	-1.1	3.0
Balearic Islands	4.8	2.5	2.4	2.7	9.0	-3.4	-0.2	-0.2	-2.9	2.0	1.7	1.5	1.4	0.9	1.7	3.3
Cantabria	3.4	-3.8	-0.8	-1.1	-5.4	-4.5	-0.9	4.9	1.8	-4.1	-2.3	1.1	-0.8	0.8	-1.0	3.3
Castilla-Leon	-4.6	4.9	0.5	1.3	1.6	-3.1	-1.5	-1.5	-2.5	-3.5	-1.0	-0.6	2.5	-1.0	-0.8	2.6
Castilla-La Mancha	-2.8	-1.1	-1.1	0.1	7.6	-4.3	4.1	2.3	0.7	-0.3	-0.3	0.2	-2.8	-1.1	0.4	3.1
Extremadura	-3.0	0.7	-1.8	21.8	2.0	-6.5	1.8	4.3	-4.1	0.1	1.2	0.4	-0.5	-1.2	1.4	7.1
Madrid	0.4	1.5	0.8	-1.4	-2.1	5.1	1.1	-0.7	0.8	1.6	0.1	0.6	1.2	-0.3	0.6	1.8
Murcia	-5.4	1.9	7.5	-0.3	-3.5	5.7	-0.8	-2.5	0.7	3.9	-0.8	-0.6	-1.1	-0.1	0.5	3.8
La Rioja	16.7	2.0	-0.7	0.0	-2.6	-6.0	-9.3	0.1	-0.1	-0.3	-0.6	1.9	0.0	3.6	0.1	6.1
Basque Country	1.8	-0.3	-2.4	-5.8	1.4	0.4	-3.3	-2.9	1.1	-2.2	0.9	-1.9	0.1	0.9	-1.1	2.3
Navarra	2.3	-4.2	-3.0	-1.4	-1.8	-2.1	5.3	-3.4	4.2	-4.5	-0.2	-2.1	-2.1	0.0	-0.9	3.2
																Average of Standard Deviation, Spanish Regions:
																3.1

Sources: *World Economic Outlook* database, IMF; and *Contabilidad Regional de Espana*, Instituto National de Estadistica.

1/ Deviation of real GDP growth rate from the EU average.

2/ Deviation of real growth rate of value added (computed as nominal growth rate of value added minus national gross value added deflator inflation) from the Spanish average.

Table III.11. Spanish Regions: Growth Rate of Gross Valued Added at Market Prices (in percent)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1981-94 Average	1981-94 Standard Deviation	Autocorrelation Coefficient 1/
Region																	
Andalucia	11.7	16.4	14.8	12.6	13.8	13.4	11.9	10.3	10.8	15.9	10.1	5.9	3.5	5.4	11.2	3.9	0.75
Canary Islands	13.5	15.1	17.5	9.7	6.8	17.5	13.3	13.7	7.9	9.9	9.4	10.1	5.9	6.9	11.2	3.9	0.29
Catalonia	10.5	12.6	12.7	14.1	7.7	15.8	11.6	12.4	14.1	11.4	9.6	7.8	3.7	6.5	10.8	3.4	0.40
Galicia	14.9	16.2	10.6	13.2	9.0	12.4	9.2	11.7	11.0	8.3	9.3	7.0	4.2	5.4	10.2	3.4	0.60
Valencia	15.6	11.2	15.0	14.1	10.8	11.4	10.5	9.7	11.8	13.0	9.7	7.0	3.0	5.6	10.6	3.5	0.68
Aragon	8.7	16.4	17.8	14.5	7.6	12.3	9.6	14.5	11.7	9.9	9.2	6.0	3.2	5.4	10.5	4.3	0.57
Asturias	12.0	19.0	10.0	11.3	13.6	11.5	4.8	9.5	11.3	7.9	7.7	8.7	3.8	4.9	9.7	4.0	0.37
Balearic Islands	17.1	17.5	16.3	15.6	19.3	10.7	10.6	10.8	9.1	13.9	11.3	8.7	5.4	6.7	12.4	4.3	0.70
Cantabria	15.6	11.2	13.1	11.9	4.9	9.5	10.0	15.8	13.8	7.7	7.3	8.3	3.2	6.6	9.9	3.9	0.38
Castilla-Leon	7.7	19.9	14.4	14.2	12.0	10.9	9.3	9.4	9.5	8.3	8.6	6.6	6.5	4.8	10.1	3.9	0.50
Castilla-La Mancha	9.4	13.9	12.8	13.1	17.9	9.7	14.9	13.2	12.7	11.5	9.3	7.4	1.2	4.7	10.9	4.3	0.60
Extremadura	9.2	15.7	12.1	34.8	12.4	7.5	12.6	15.3	7.9	11.9	10.8	7.5	3.5	4.6	11.9	7.5	0.13
Madrid	12.7	16.5	14.7	11.5	8.3	19.1	11.9	10.3	12.8	13.4	9.7	7.7	5.3	5.5	11.4	4.0	0.39
Murcia	6.8	16.9	21.4	12.7	6.9	19.8	10.0	8.4	12.7	15.7	8.8	6.5	3.0	5.6	11.1	5.6	0.22
La Rioja	28.9	17.0	13.2	13.0	7.7	8.0	1.5	11.1	11.9	11.5	9.0	9.0	4.1	9.4	11.1	6.4	0.35
Basque Country	14.0	14.7	11.6	7.1	11.7	14.4	7.5	8.1	13.1	9.6	10.5	5.2	4.1	6.7	9.9	3.5	0.38
Navarra	14.6	10.8	10.9	11.6	8.6	11.9	16.1	7.6	16.2	7.3	9.4	5.1	1.9	5.8	9.8	4.2	0.21
Total Spain	12.2	15.0	13.9	12.9	10.4	14.0	10.8	10.9	12.0	11.8	9.6	7.2	4.0	5.8	10.8	3.2	0.82
Growth rate of Gross Valued Added at Market prices, as a ratio of the National Growth Rate (in percent) 2/																	
Andalucia	-4.1	9.0	6.1	-2.2	33.5	-4.6	10.2	-5.6	-9.9	34.2	4.9	-18.2	-12.5	-6.3	4.4	16.0	-0.11
Canary Islands	10.7	0.7	25.7	-25.1	-34.4	25.1	23.1	24.9	-34.0	-16.0	-2.6	41.2	46.6	19.7	3.3	25.9	0.26
Catalonia	-14.0	-16.3	-8.8	9.1	-25.5	12.7	6.9	13.6	17.8	-3.3	-0.4	9.6	-9.6	11.6	0.1	13.8	-0.04
Galicia	22.2	7.8	-24.2	2.0	-13.3	-11.7	-15.0	7.3	-8.0	-29.7	-3.1	-2.8	4.5	-6.3	-5.7	14.5	-0.04
Valencia	27.4	-25.5	7.7	9.0	4.2	-19.0	-2.8	-11.1	-1.7	9.7	1.0	-2.6	-25.7	-3.9	-0.3	14.0	-0.27
Aragon	-28.7	9.0	28.0	11.8	-26.2	-12.5	-11.8	32.4	-2.8	-16.6	-4.6	-16.3	-20.6	-7.1	-3.2	19.8	0.12
Asturias	-2.1	26.7	-28.5	-12.5	30.9	-18.2	-56.0	-13.3	-6.0	-33.5	-19.5	21.6	-5.0	-14.6	-9.2	25.7	-0.04
Balearic Islands	39.5	16.6	16.9	20.9	86.6	-23.9	-2.3	-1.4	-23.8	17.3	17.7	21.5	33.6	16.4	15.5	29.3	-0.07
Cantabria	27.4	-25.6	-5.8	-8.1	-52.2	-31.9	-7.9	44.4	15.2	-34.8	-24.4	15.5	-20.8	13.8	-7.4	28.5	0.05
Castilla-Leon	-37.4	32.7	3.5	9.7	15.7	-22.2	-14.1	-13.8	-20.5	-30.0	-10.3	-8.3	61.1	-17.2	-7.9	20.1	-0.12
Castilla-La Mancha	-22.7	-7.6	-8.0	1.1	73.4	-30.7	38.0	21.0	6.1	-2.3	-3.0	3.3	-70.0	-18.9	5.7	27.8	-0.08
Extremadura	-24.4	4.4	-13.3	168.9	19.6	-46.4	16.8	39.4	-34.0	1.0	12.6	5.3	-12.6	-20.0	12.5	54.9	-0.08
Madrid	3.5	10.0	5.7	-10.9	-19.9	36.2	9.8	-6.3	6.4	13.5	1.4	8.2	30.4	-4.6	4.8	13.9	-0.20
Murcia	-44.0	12.9	53.7	-2.0	-33.7	40.9	-7.8	-23.3	6.0	33.0	-8.6	-8.8	-26.4	-2.6	1.5	29.6	-0.12
La Rioja	136.5	13.1	-5.2	0.3	-25.3	-42.6	-85.7	1.1	-1.2	-2.4	-5.9	26.3	1.2	62.4	0.7	51.7	0.22
Basque Country	14.4	-1.9	-17.0	-44.7	13.4	2.5	-30.9	-26.3	9.5	-19.0	9.5	-26.8	1.4	16.1	-9.8	20.1	-0.21
Navarra	19.2	-28.3	-21.5	-10.6	-17.2	-14.9	49.2	-30.7	34.9	-38.5	-2.1	-28.9	-52.5	0.7	-7.4	27.8	-0.39
Number of regions having growth below the national average by more than 10 percent	6	4	5	5	9	11	6	6	4	8	3	4	8	4	5.9		

Sources: *Contabilidad Regional de Espana*, Instituto National de Estadistica.

1/ Coefficient of regression of growth rate on one lag of the growth rate, over 1981-94 sample.

2/ Bold figures highlight instances in which a region had growth below the national average by more than 10 percent in consecutive years.

of guarantees. The smaller regions, which have less diversified economies, were more likely to have GDP growth rates considerably below (or above) the national average in a given year. But also the larger regions experienced GDP growth more than one-tenth below the national average: for example, Catalonia in 1981–82 and 1985, Madrid in 1984–85, and Andalucía in 1992–93. Shocks can be large, but they do not usually persist for very long: the autocorrelation of the difference between the GDP growth of each individual region and Spain's GDP growth expressed as a proportion of Spain's GDP growth varies between +0.26 (for the Canary Islands) and -0.39 (for Navarra) and is not far from zero in most cases. Considering again instances in which a region's GDP growth was more than 10 percent below the national average, only about one-third took place in consecutive years (with the most durable period occurring in Castilla-León in 1987–91).[39] While adverse shocks are usually overcome fairly quickly, three regions had average growth rates more than one-tenth lower (though none significantly lower in a statistical sense, in part because the sample period is short) than that of Spain as a whole.

Magnitude and timing of the transfers under the guarantees

85. Under some simplifying assumptions, it is possible to provide a rough estimate of the transfers that the central government would have to make in compliance with the guarantees, for example, when a region's IRPF collection falls below 90 percent of the rate of growth of IRPF collection for all regions. In a "bad year" (with the ratio of income growth to the national average two standard deviations below its mean), Castilla y León's IRPF collection would only grow by 3 percent (half of the national average). To bring the growth rate of its IRPF collection to only one-tenth below the national average, the central government would have to make a transfer of about Ptas 2 billion (slightly more than 1 percent of that region's total unconditional resources). Such amounts are a trivial proportion of national GDP, but can be considerable when viewed as a share of the region's resources. The extent to which the region's IRPF collection remains uninsured is minimal, and since this is the most significant source of cyclical effects in the deficit under the new system, the guarantees seem to provide sufficient protection against shocks.

86. As output shocks are usually overcome relatively quickly and the compensatory transfers can amount to a considerable portion of the region's resources, it will be important to ensure that the transfers are made on a timely basis. In fact, were additional resources to be made available once a recovery is already under way, the regions' fiscal policies would be rendered more procyclical. Under current plans, it is envisaged that the central government will compensate the regions for lower-than-average IRPF growth every year, presumably after the end of the year. However, it may be desirable to compute the transfers arising from the guarantees as part of the fiscal revenue *of the year of the slowdown that originated them*. As a result, the fiscal balance of the region affected by the adverse shock would improve (by the amount of the transfers) in that year. Similarly, the transfers should be subtracted from the debt of the region when evaluating compliance with the targets for that year.

---

[39] Bold figures in Table III.11 indicate instances in which a region had growth below the national average by more than 10 percent in consecutive years.

F. Conclusions

87. Over the past two decades, Spain has undertaken a rapid process of fiscal decentralization, initially concentrating on the transfer of spending powers to the regions and, more recently, including the decentralization of responsibilities over the collection of revenue. With the new financing system for 1997–2001, for the first time the regions are allowed to set rates and deductions over ceded taxes and a significant portion of the personal income tax base. Increased co-responsibility of the regions in tax collection is likely to have some positive aspects: under the new system, if a region wishes to increase its spending, it will now have the ability to ask its own citizens for additional taxes, bearing the related political costs. However, this co-responsibility will function only if the regions are subject to a hard budget constraint and cannot make recourse to borrowing—an option they have used extensively in the past—to finance tax cuts or additional expenditures. It is clear that the increased degree of fiscal decentralization poses a number of challenges, particularly against the background of the fiscal requirements for EMU participation. Spain will need to reinforce existing mechanisms for the monitoring and coordination of regional government deficits to ensure that these requirements can be met at the general government level. To that end, while ultimately there is no substitute for responsible behavior by the regional governments, a "Stability Pact" among regions can help. In addition, timely publication of the deficit and debt targets and corresponding outturns for the various regions could help mobilize public opinion to ensure that the regional authorities fulfill their agreed roles in the process of fiscal adjustment.

88. Under the more decentralized arrangements that are being established, a region's resources will depend on its residents' income to a greater extent than was the case in the past. The system of compensatory transfers for lower-than-average revenue collection serves a useful risk-pooling function and provides substantial insurance against regional shocks. For it to be fully effective, however, it will be important to ensure that the transfers are made in a timely fashion, and that they are computed as part of a region's revenues during the year when the economic slowdown takes place.

References

Banco de España, *Financial Accounts of the Spanish Economy*, various issues.

Bohn, Henning and Robert P. Inman, 1996, "Balanced Budget Rules and Public Deficits: Evidence from the U.S. States," NBER Working Paper No. 5533, April.

Grupo Analistas, 1996, "El Mercado de Deuda Autonómica: Situación y Perspectivas," *Cuadernos de Información Económica*, No. 113-114, Agosto-Septiembre, 72-76.

Lane, Timothy, 1993, "Market Discipline," *IMF Staff Papers*, March.

Levy, Joaquim, 1995, "The Spanish Social Security: Prospects of the Pension and Health-Care Systems," IMF Working Paper No. 95/73, July.

Masson, Paul R., 1996, "Fiscal Dimensions of EMU," IMF Paper on Policy Analysis and Assessment No. 96/7, June.

Ministerio de Economia y Hacienda, *Informe sobre la Financiación de las Comunidades Autónomas*, Secretaría de Estado de Hacienda, Dirección General de Coordinación con las Haciendas Territoriales, Madrid, various issues.

Monasterio Escudero, Carlos, 1996, "Los Límites al Endeudamiento de los Gobiernos Subcentrales: Teoría y Evidencia para el Caso Español," *Papeles de Economia Española*, No. 67, 275-285.

Monasterio Escudero, Carlos, Francisco Pérez García, José V. Sevilla Segura, and Joaquim Solé Villanova, 1995, *Informe sobre el Actual Sistema de Financiación Autonómica y Sus Problemas*, Instituto de Estudios Fiscales, Madrid.

Organization for Economic Co-operation and Development, 1993, "Regionalisation and Regional Development", in *Economic Survey of Spain*, Paris.

Pastor, Gonzalo, 1993, "Fiscal Decentralization in Spain," in *Spain: Converging with the European Community*, Occasional Paper No. 101, February, International Monetary Fund.

Piñero Campos, José Maria, 1996, "El sistema de financiación de las Comunidades Autónomas españolas de régimen común 1980-1996," *Boletín Económico de ICE*, No. 2057, July 1-7, 11-25.

Tanzi, Vito, 1996, "Fiscal Federalism and Decentralization: A Review of Some Efficiency and Macroeconomic Aspects," *Annual World Bank Conference on Development Economics 1995*, 295-316.

Tanzi, Vito, and Ludger Schuknecht, "The Growth of Government and the Reform of the State in Industrial Countries," IMF Working Paper No. 95/130, December 1995.

Ter-Minassian, Teresa, 1996, "Borrowing by Subnational Governments: Issues and Selected International Experiences," IMF Paper on Policy Analysis and Assessment, No. 96/4, April.

IV. Structural Reforms in the Utilities Sector[40]

A. Introduction

89. The new Spanish government, which came to office in the spring of 1996, gave impetus to a series of structural reforms which aim to introduce **more competition in heavily regulated spheres** of the Spanish economy, and are designed to comply with the guidelines and the timetables established by EU directives. However, in many aspects the reforms go further than strictly required. This paper reviews the liberalization process in the telecommunications, electricity, and gas sectors and considers some of its likely effects.

90. The government's plan entails the sale of all remaining stakes in partially privatized companies, thereby completing a process initiated several years ago. It also promotes the entry in the market of new operators, with a new regulatory framework to prevent collusive behavior and the abuse of dominant positions. These efforts put Spain ahead of many other European countries on the liberalization and demonopolization of the economy.

91. It is likely that over the next few years, as the innovations yield their effects, the utilities sectors will display the typical characteristics of imperfect duopolies. The degree of imperfection will be determined by the extent to which the regulatory bodies will implement the spirit of the reforms, i.e. on their resolve to counter the inevitable pressures exerted by established firms to defend their market dominance.

B. Telecommunications

92. In Spain the utilities sectors—as in most continental European countries—are dominated by large public or recently privatized companies. In the **telecommunications** sector the monopolist, Telefónica de España, until recently was a public enterprise but the last remaining state holdings were sold off at the end of February 1997. Telefónica is still in charge of development and maintenance of the network, retailing, local phone service, data transmission, international connections, etc. However, in the area of cellular phone services a second operator, Airtel, has been licensed and is competing with Telefónica Servicios Móviles, a subsidiary of Telefónica.

93. In the telecommunications sector the new policy framework[41] covers four broad areas: (1) completion of the privatization of Telefónica with the placement on the market of the last 20.94 percent government holding;[42] (2) the new legal framework of the telephone and cable

---

[40]Prepared by Fabio Scacciavillani.

[41]The government is currently drafting a general legal framework for the entire sector, Ley General de Telecommunicaciones, which will specify the details of the new regime.

[42] Of which 18.2 percent will be sold directly to investors while the rest is kept in the green
(continued...)

sector—in accordance with EU directives—so to ensure the access of new operators into various telecommunications domains; (3) regulatory changes for the transition period before full liberalization; and (4) the establishment of a regulatory authority (Comisión del Mercado de las Telecomunicaciones) in charge of ensuring the fair treatment of providers as well as consumers, the right of access to the network, and the enforcement of competitiveness rules.

94. **Telefónica** is Spain's largest enterprise by market capitalization (Ptas 2.8 trillion), number of employees (more than 80,000), investments (Ptas 677 billion in 1996) and revenues (Ptas 1.7 trillion in 1995 and Ptas 2 trillion estimated for 1996). In part as a result of its recent international acquisitions and alliances—notably in Latin America—by some parameters it ranks among the ten largest telephone companies in the world. The forthcoming sale of the last *tranche* of Telefónica owned by the government constitutes the largest operation in the history of the Spanish financial markets, amounting to more than Ptas 600 billion, of which 42 percent is directed to foreign investors.

95. At completion of this sale the government will retain only a symbolic 0.11 percent in Telefónica. However, it will reserve the prerogative to **authorize or block the strategic choices** of Telefónica for ten years, using the powers granted to it under the March 1995 law (Régimen Juridico de Enajenación de Participationes Públicas en Determinadas Empresas). This was encompassed in a decree of January 1997 establishing that prior authorization is required for the merging or the breakup of Telefónica and its cellular phone subsidiary, the sale of subsidiaries or infrastructures (buildings, cabling, switches, satellites etc.), and participation in international ventures or consortia. Also, the acquisition of stakes exceeding 10 percent of capital requires government approval and, in any case, the voting rights of a shareholder cannot exceed 10 percent no matter how large its stake. In other words, through this decree the possibility of hostile takeovers is precluded and in practice the current share holding structure dominated by three banks, BBV, la Caixa and Argentaria (each with a 5 percent share) is safeguarded for ten years.

96. The government has also decided to accelerate compliance with the EU directives on full liberalization of the telecommunication sector, waiving the five-year transition period that it had been granted. Under a decree issued on June 7, 1996 the rights of a new operator to access the network is guaranteed. The emergence of a fully competitive environment is envisaged from December 1, 1998 when all domestic and EU operators who have obtained a government license, will gain access to the network. The access of competitors from outside the EU has been recently negotiated in the context of the general WTO agreement on telecommunications.

97. The most likely contenders to enter the business are the cable TV companies that currently operate on the basis of a geographical concession. Telefónica will be obliged to provide access to all licensed operators and every operator in turn will guarantee that its

---

[42](...continued)
shoe (i.e., sold only if demand conditions are favorable) and retail fidelity bonus to reward long term investments.

network is interconnected with all the others. Prices of telecom services will be completely freed as from December 1, 1998 with the government setting a maximum rate until then.

98. As a step to pave the way to the liberalized market, the government in October 1996 awarded Retevisión, the state television signal transmission agency, a license to provide basic telephone services in competition with Telefónica. Retevisión was selected because it already owns a nationwide fiber optic network, in addition to microwaves and satellite transmission systems that are available for voice and data transmission. However, it needs to rely on the existing telephone wires—owned and managed by Telefónica—for the final link to residential and business units. The government also is considering auctioning a third license on January 1998.

99. As part of the agreement, Retevisión will remain a state agency and retain the government licenses for television transmission and telephone services, but it will transfer its assets, network, infrastructure, and operations to a newly created company Retevisión SA, to be privatized in May 1997. Once this is completed, users will be able to choose their long distance telephone carrier.

100. It is likely that Retevisión will initially market its services to large customers, possibly with an emphasis on data transmission and infra-enterprise networks, while individual consumer services will be available only in major cities. Over the next five years, however, it plans a Ptas 240 billion investment to improve and upgrade its network, so to mount a broader challenge to Telefónica. In any case the demonopolization seems already to be producing some effects: on February 1, 1997, Telefónica cut rates for international calls by 9 percent (and an additional 7 percent announced for the summer) and those for domestic interprovincial calls by 5 percent (and an additional 5 percent in the summer).

101. According to the June 7, 1996 decree, the regulatory authority will be set up as a unit of the Ministry of Economy with members appointed by the government for a six-year term. Its main responsibilities will be the determination of prices and the resolution of conflicts among operators and between operators and consumers. It will also be able to impose administrative sanctions on operators that do not respect the general rule of interconnectability. The authority will exert far-reaching influence on the development of the network by establishing the priorities in the expansion of the infrastructure and devising the cost-sharing arrangements to charge the phone companies for the investment projects.

C. Electricity

102. The electricity sector has a **more complex structure**. The national electric grid is managed and operated by Red Electrica de España (REE) a company nationalized in 1983 that, at least formally, is independent of the producers. A large company, Endesa, where the government owns a two-thirds share, accounts for 31.2 percent of total production; two other large companies, Iberdrola and Hidrocantábrico are private, and account for 27.5 percent and 5.6 percent of the production, respectively, mostly from hydroelectric power. Another 8–9 percent of production is covered by industrial auto producers, mainly through

cogeneration. The rest of the market is divided among ten other sizable companies, all publicly owned.

103. The basic reform law of the electric industry (Ley de Reordinación del Sector Eléctrico) was approved in December 1994. Its stated goal is "... to encourage greater dynamism based on the most effective principles of competition" and is envisaged the creation of a system where power producers would sell electricity directly to large consumers. A year later, another law established a system of competitive bidding to select new generating plants and created an independent regulatory agency, Comisión del Sistema Eléctrico (CSEN) to oversee the sector. The CSEN currently operates mostly as a consultative agency in critical areas like price determination. Finally, in December 1996, a so called *protocolo electrico* was signed between the government and the largest electric enterprises concerning the determination of prices and the market structure, and the transition to a complete market system over the next ten years.

104. In the *protocolo* the **price setting mechanism** was designed to allow companies to recover fixed costs according to a formula and to absorb subsidies to domestic coal, over a 10-year period until full deregulation. During this transition period existing producers will be allowed to **surcharge consumers for a total of Ptas 1.98 trillion**, (equivalent to 2.7 percent of 1996 GDP and roughly 10 percent of the companies' revenues over ten years) as a compensation for stranded costs (*costes hundidos* or *de ineficiencia*) and for the purchase of domestic coal at prices above those prevailing on international markets. In essence the surcharge covers the financial burden of technologically obsolete plants built over the years as result of government directives including the nuclear moratorium. These costs will be calculated as the difference between the revenues in the current regulated regime and those realized in a competitive environment.

105. About 80 percent of the Ptas 1.98 trillion has been already allocated in quotas for each company, of which Ptas 200 billion will compensate the companies for coal purchases. The remaining 20 percent will be apportioned every year on the basis of each company's financial situation and the technology of its energy sources.

106. Notwithstanding these arrangements, during the transition period the **maximum** price is to decrease on average (i.e., considering both domestic and industrial users) by 3 percent in 1997,[43] 2 percent in 1998 and by 1 percent in each subsequent year until 2001. The maximum price for the period 2002–08 will be established in 2001. At the end of the ten-year transition period, the price of electricity will be set in a spot market similar to the system used in California where producers offer quantities and prices of electricity by half-hour blocks, and consumers place their bids, with demand and supply schedules determining the market clearing price for each half-hour slot.

[43]Electricity rates for small enterprises will drop by 6 percent from 1997.

107. The changes in the **market structure** focus on four areas:

(i) The electricity sector will be separated into four basic activities: production, transportation, distribution, and sales. The electric companies will be required to split their production and distribution activities into juridically separate units, so that the natural monopoly in distribution will not be used as a means to impose market dominance in production or sales.

(ii) The introduction of a competitive market will proceed by stages. Large industrial users, i.e., those utilizing more than 20 GWh (GWh=1 million watts/hour) per year, will be allowed to choose their supplier starting in 1998, to those consuming more than 9 GWh from 2000, and 5 GWh from 2001. Smaller businesses—the bulk of Spanish enterprises—and households will need to wait until 2008.

(iii) The spot market will be operated by Operador del Mercado—a company juridically distinct from REE—which will execute the transactions, while REE would concentrate on the maintenance and the development of the grid. Probably nonelectric government companies will own a controlling stake of Operador de Mercado, while REE, in order to guarantee better coordination, will be a minority shareholder. There will probably be the same kind of restrictions as in Telefónica on achieving, directly or indirectly, a dominant position in REE.

(iv) The subsidy received by the coal mines through the requirement on the electric companies to buy domestic coal will be phased out, although the *protocolo* leaves this thorny issue to a future negotiation between the trade unions and the electric companies. The *protocolo* establishes that at least 15 percent of Spain's electricity output will be generated from coal (in 1994 it was 37.2 percent), guaranteeing that a subsidy to national coal mines is maintained at least until 2005.

D. Gas

108. The **gas sector** is dominated by large firms that *de facto* operate in a monopoly regime, with the Ministry of Energy fixing on a monthly basis (yearly for domestic users) a maximum price. Natural gas is distributed by a single company, Gas Natural (now a subsidiary of the partially privatized Repsol group) that owns the pipeline grid and is extending it to cover most of the country to market additional supplies from the Maghreb. The distribution of propane and butane, demonopolized in 1991, is still dominated by Repsol Butano S.A., but some plants for transport and storing are owned also by Compañia Logistica de Hidrocarburos SA (CLH) and Distribudora Industrial SA (DISA). Access to the national pipeline grid (Red Nacional de Gasoductos) is in theory open to any producers, but in practice all the natural gas in Spain is sold by Gas Natural (under long-term contracts with suppliers), while no independent firms operate in the liquid gas business.

109. The reforms in the gas sector have been inspired by the same principles as in the electricity and telecommunications sectors, i.e., privatization and opening to competition. In recent years the government has sold **majority stakes** in all the leading firms. The most recent

operation in December was the successful sale of the residual 3.8 percent portion of Gas Natural to both domestic and foreign institutional investors in a 60–40 percent split. The main shareholder in Gas Natural is now the formerly state-owned Repsol oil group, in which the government still has a 10 percent stake. The state also owns 9 percent of Enagas, the wholesale gas operator. All of these residual holdings are expected to be sold off in the near future.

110. The Decree of June 7, 1996 grants the **right of access for all licensed operators to the transport and regasification infrastructures** forming the national network (Red National de Gasoductos) under equal conditions. This right will be enforced by the Ministry of Energy with the power to impose sanctions on violators. The maximum price for the use of the network will be fixed by a commission (Comisión Delegada para Asuntos Económicos) based on a proposal by the Ministry of Industry and Energy, which should ensure that the users are charged for both variable and fixed costs. The conditions of access will be transparent, objective, and nondiscriminatory and apply to firms with a license to sell either fuel oil or liquid gas. To obtain a license, industrial enterprises seeking to use liquid gas infrastructures (propane and butane) must consume a minimum of 50,000 metric tons of fuel oil per year, 25,000 metric tons of kerosene per year, or 15,000 metric tons of liquid gas per year.

E. The Reforms in the Context of the European Experience

111. The liberalization of the **telecommunications** sector in Spain is in a much more advanced phase than in most continental EU countries both in terms of the legislative framework and the degree of privatization. In Germany and France the authorities have passed legislation to comply with EU directives, but only recently have conferred licenses to new operators that will be allowed to start providing services only as from 1998. Italy is even further behind this process.

112. Spain is also far ahead of Germany, France and Italy in the privatization of telecommunications and telephone services. In Germany the sale of Deutsche Telekom started in November 1996 with the placement on the market of an initial 20 percent stake, with about 76 percent still in public hands. In France the privatization of France Telecom, recently transformed from a public service into a limited liability company, will begin in April 1997 when an initial 20 percent *tranche* will be marketed by a consortium of banks. In Italy, the decision on the privatization of STET is still pending. Thus, apart from the United Kingdom, Spain is the only major European country where the main telecommunication company has already been fully privatized, even though the state will retain veto powers on strategic decisions for ten years.

113. The reforms of the utilities sector represent a major advance in the liberalization of the Spanish economy. Nevertheless the scope of their effects will depend on a **number of issues** that still have not been completely addressed. The future shape of the Spanish telecommunications market is likely to be determined by the interconnection price structure and the scale of the challenge to Telefónica by new entrants. The interconnection price structure is an issue that has not been fully resolved in the EU legislation nor in Spain. A draft

Interconnection Directive adopted by the EU Commission in July 1995 establishes the right and the obligation to **negotiate** interconnection and binds firms with market powers to meet all **reasonable** requests (see Urbano and others (1996)). High interconnection prices could derail the entire liberalization plan, given the cost structure of telephone services. The management of Retevisión for example estimates that interconnection fees will absorb about 50 percent of its revenues. But the pricing must also take into account the need for increased capacity that will be required to allow a reduction of prices and the entry of new competitors over the long run.

114. Some economists estimate that ten years from now Telefónica will still retain over 90 percent of the basic phone users, accounting for 60 percent of its revenues. But it is always hard to make predictions when the fundamental rules of the game have been completely revised and new technologies and services become available. By way of comparison, in the United Kingdom at the outset of the liberalization process, only one company, Mercury, was competing with British Telecom, but since 1991 the number of operators has risen to around 160. This is due in part to the emergence of companies offering a combination of telephone services and cable TV in a single contract.

115. The **electricity sector** has traditionally constituted a sensitive issue for most European governments and the discussion over liberalization was translated into an EU directive only in June 1996 with implementation due to take place over the next few years. The directive establishes that initially only large users (those consuming more than 40 GWh per year) will be allowed to choose their supplier. Three years later (presumably in 2000) the limit will be lowered to 20 GWh per year and three years thereafter to 9 GWh, which according to the estimates in IEA (1996) represents a cumulative one-third of the EU market. In implementing this framework, Spain is clearly far ahead of Germany, France, and Italy.

116. The calculation of the stranded costs was a controversial issue, as consumers are being called on to amortize the fixed cost of technologically obsolete plants. Also, the ten-year transition period under the *protocolo* is rather long. Only 300 users will have the freedom to choose their provider in 1998, about 1,000 in the year 2000, and probably 2,500 in 2002. But these large consumers often already enjoyed preferential rates in the current system. Finally imports, allowed from 1998, will be fully liberalized only in 2005. An earlier deadline could have introduced more competition and induced domestic firms to renovate their plants sooner.

117. In the **gas sector** Spain has displayed a more market-oriented approach than its major EU partners. In general, across continental Europe measures to liberalize the sector are proceeding at an extremely slow pace, if at all. In practice, Germany is the only country where some competition is emerging: Wintershall, a subsidiary of the chemical giant BASF, is building new pipelines and successfully attracting new and existing customers thanks to a joint venture with the Russian monopoly Gazprom.

118. The gas sector has some features that distinguish it from other utilities. The supply is highly geographically concentrated in North Africa, which adds a political dimension and risks of instability. Also, the transmission system is extremely rigid, in the sense that its load factor

is high and few alternate routes exist to transport gas between any two locations. These factors make it unlikely that the liberalization of the sector in Spain will lead to drastic changes in a relatively short period. This is because there is little flexibility on the supply side, which is governed by long-term take-or-pay contracts with state-owned companies of foreign countries. In the United States, the liberalization of the gas sector was accomplished by declaring void all contracts with a take-or-pay clause, but in the Spanish case it would be much more difficult to repudiate commitments taken with foreign governments. Also, the degree of liberalization is relatively limited. According to the estimates of the Tribunal de Defensa de la Competencia, users with annual consumption in excess of the threshold established in the decree are almost exclusively a few electric plants with 300 MW installed capacity working at least 15–16 hours a day, or at least 19–20 hours per day in case of 300 MW combined cycle plants.

F. Conclusions

119. Privatization is not an end in itself, but a means to ensure that economic decisions are decentralized and incentive-based, that the abuse of a legally enforced dominant positions does not thwart economic freedom, and that new entrants can successfully challenge established concerns. In short, it should promote a system of checks and balances, so that particular interests do not unduly prevail over the general public welfare and that resources are priced by the market. Ownership structure is a relevant factor here.

120. Since utilities are among the largest companies in Spain there are very few national private establishments with the financial resources to compete for the control of a large utility company. As a result the big private banks—two of which, the Banco Bilbao Viscaya (BBV) and Banco Santander hold a preeminent position—have played a central role in all the main privatizations. The BBV, with the support of La Caixa (a savings bank with a commanding position in Cataluña) is already the major shareholder in Telefónica, Repsol[44] (including Gas Natural), Iberdrola, Hidrocantabrico, and several regional water suppliers. Banco Santander—with the support of Banesto and Banco Central Hispano (BCH)—has an influence on Airtel (the second cellular phone operator), Cableuropa, Cepsa (an oil company), Endesa and its subsidiaries,[45] and has also expressed an interest in the privatization of Retevisión. Although this concentration might in part be justified by synergies (for example, Endesa has its own nationwide communication network which could be merged with that of Retevisión), the direct involvement of banks in the management of industrial companies raises a number of issues.

---

[44] The new president of Repsol appointed by the government is the largest shareholder of the BBV and a member of its board.

[45] In November 1996 Endesa launched a public offer for 75 percent of the shares in Sevillana and Fecsa, two electric companies in which it owned a majority stake, in a move that raised criticism for its effects on the electric sector before the regulatory reform. The Stock Exchange commission also intervened in the matter imposing a fine on Endesa for violation of the law on security exchange.

121. It might be preferable to achieve a greater decentralization of ownership by targeting more actively foreign investors who can also bring know-how and managerial competence. Also, the rights of minority shareholders should be protected by strict disclosure laws and statutory qualified majorities on critical decisions, especially the election of the Board of Directors. Finally, the interest of the general public should be defended by a strong anti-trust agency and regulatory bodies independent of the companies and free of political interference. On these counts Spain has still some progress to make, although the groundwork for a correct relationship between the public and private interest has been laid.

122. The new regulatory framework devised by the Spanish authorities represents a major improvement over the past regime of state-owned monopolies and heavy government involvement. The regulation of the privatized utilities sector is still at an early stage. Several areas where further action is required are already apparent. The regulatory framework needs to be finalized and aspects of pricing and access to the telephone network and the gas pipeline infrastructure need to be settled. The outcome will depend crucially on the commitment that *regulatory bodies will display in facilitating the access of new providers, and the zeal with* which they pursue the goal of a market-oriented environment by confronting vested interests and political interferences.

REFERENCES

Arentsen, M.J. and R.W. Künneke, 1996, "Economic Organization and Liberalization of the Electricity Industry" *Energy Policy*, Vol. 24, No. 6, pp.541-552.

Cervigni, G., 1996, "The European Union's Policy on the Electricity and Natural Gas Industries", *Rivista di Politica Economica*.

Golombeck, R., E. Gjelsvik, and K.E. Resendahl, 1995, "Effects of Liberalizing the Natural Gas Markets in Western Europe", *The Energy Journal*, Vol. 16.

Grout, P.A., "Promoting the Superhighway: Telecommunications regulation in Europe," *Economic Policy*, April 1996.

International Energy Agency, "Energy Policies of IEA Countries 1996 Review", Paris, France, 1996.

International Energy Agency, "Energy Policies of IEA Countries - Spain 1996", Paris, France, 1996.

Urbano, A., G. Olcina, and Y. Tauman, "Capacity and Access Pricing Strategies: an Argument for the Liberalization of the Telecommunication Infrastructure," FEDEA Documento de Trabajo 96-26.

Table 1. Spain: Demand and Output, 1990-95

	1993	1994	1995	1986-90	1991-95	1991	1992	1993	1994	1995
	In billions of pesetas at current prices			Avg. percent cng. at constant prices		Year-on-year percent changes at constant prices				
Consumption	49,175.8	51,637.5	54,814.1	5.0	1.4	3.4	2.6	-1.3	0.6	1.5
Private	38,475.3	40,674.6	43,223.6	4.7	1.1	2.9	2.2	-2.2	0.9	1.5
Public	10,700.5	10,962.9	11,590.5	6.6	2.6	5.6	4.0	2.4	-0.3	1.3
Gross investment	12,098.0	12,956.5	14,701.0	12.4	-0.9	1.1	-3.9	-14.1	3.4	9.0
Fixed capital formation	12,092.0	12,766.9	14,402.4	11.6	-0.7	1.6	-4.4	-10.6	1.8	8.2
Change in stocks 1/	6.0	189.6	298.6	0.2	-0.1	-0.1	0.1	-1.0	0.4	0.2
Total domestic demand	63,099.8	66,754.2	72,163.5	6.2	6.3	2.9	1.0	-4.2	1.1	3.2
Exports of goods and services	11,840.8	14,437.5	16,509.5	3.9	9.7	7.9	7.4	8.5	16.7	8.2
Aggregate demand	74,940.6	81,191.8	88,673.0	5.9	7.5	4.1	2.2	-4.4	3.2	4.4
Imports of goods and services	12,180.3	14,332.7	16,245.7	14.8	6.2	9.0	6.9	-5.2	11.4	8.8
Gross domestic product	60,934.3	64,698.8	69,778.9	4.5	1.3	2.3	0.7	-1.2	2.1	2.8
Percentage change in:										
GDP at current prices	3.1	6.2	7.9	12.2	6.9	9.5	7.6	3.1	6.2	7.9
GDP deflator	4.3	4.0	4.9	7.4	5.4	7.1	6.9	4.3	4.0	4.9
Memorandum items:										
Decomposition of fixed capital formation by:										
Sectors:										
Construction	8,281.9	8,722.1	9,730.9	11.3	0.3	3.9	-4.4	-6.5	1.6	6.8
Machinery and equipment	3,810.1	4,044.7	4,671.5	12.3	-2.1	-1.9	-4.4	-17.2	2.0	11.0
Agents:										
Private fixed investment	9,497.3	10,275.8	12,036.4	11.6	0.5	1.7	-2.4	-13.4	4.1	12.2
Public fixed investment	2,594.7	2,491.1	2,366.0	12.0	-5.2	1.3	-13.0	2.3	-7.3	-9.1

Source: Ministry of Economy and Finance.

1/ Changes at constant prices in stockbuilding are expressed in percent of real GDP in the previous period.

Table 2. Spain: Quarterly Evolution of GDP, 1994-96

(Year-on-year percentage change at constant prices)

	1994				1995				1996		
	I	II	III	IV	I	II	III	IV	I	II	III
Consumption	-0.3	0.5	1.0	1.3	1.4	1.5	1.5	1.5	1.5	1.6	1.8
Private	-0.4	0.7	1.4	1.7	1.7	1.6	1.5	1.4	1.6	1.8	2.0
Public	0.1	-0.5	-0.6	-0.2	0.7	1.3	1.7	1.7	1.4	1.1	0.9
Gross investment	-3.3	2.1	6.2	9.0	10.2	10.7	9.1	6.2	4.3	2.1	0.6
Fixed capital formation	-2.9	0.4	3.4	6.3	8.6	9.9	8.7	5.8	3.4	1.1	-0.4
Change in stocks 1/	0.2	0.3	0.5	0.5	0.5	0.5	0.6	0.6	0.7	0.8	0.8
Total domestic demand	-0.9	0.8	2.1	2.9	3.3	3.5	3.1	2.5	2.1	1.7	1.5
Exports of goods and services	16.6	17.8	17.2	15.2	11.5	8.6	7.2	5.7	6.7	8.3	9.4
Aggregate demand	2.2	4.0	5.0	5.3	5.0	4.5	4.0	3.2	3.1	3.2	3.2
Import of goods and services	6.2	11.5	13.9	13.8	11.4	9.4	8.2	6.5	6.7	7.0	6.6
Gross domestic product	1.1	1.9	2.5	3.0	3.1	3.1	2.7	2.2	2.0	2.0	2.2
GDP deflator	4.0	4.0	3.8	4.0	4.5	5.1	5.2	4.9	4.2	3.4	2.8
Memorandum items:											
Fixed capital formation by sector:											
Construction	-2.2	0.9	3.3	4.7	5.9	7.8	7.9	5.6	2.5	-2.0	-5.3
Machinery and equipment	-4.2	-0.4	3.6	9.2	13.8	13.9	10.2	6.3	5.1	6.4	8.4

Source: Ministry of Economy and Finance.

1/ Changes at constant prices in stockbuilding are expressed in percent of real GDP in the previous period.

Table 3. Spain: Contribution to the Growth of Real Aggregate Demand, 1988-95

	1988	1989	1990	1991	1992	1993	1994	1995
				(In percent)				
Private consumption	2.5	2.8	1.8	1.4	1.1	-1.1	0.4	0.7
Public consumption	0.5	1.0	0.8	0.7	0.5	0.3	-0.0	0.2
Private fixed investment	1.9	1.8	0.7	0.3	-0.4	-2.0	0.5	1.6
Public fixed investment	0.4	0.7	0.6	0.0	-0.5	0.1	-0.2	-0.3
Final domestic demand	5.3	6.3	3.9	2.4	0.7	-2.7	0.7	2.3
Total domestic demand	5.6	5.8	3.5	2.3	0.9	-3.3	1.3	-0.1
Exports	0.8	0.5	0.5	1.2	1.2	1.4	3.1	1.7
Memorandum items :								
				(Percent change)				
Aggregate demand	6.7	7.0	4.5	3.6	2.1	-2.1	4.0	4.2
Gross domestic product	5.2	4.7	3.7	2.3	0.7	-1.2	2.1	2.8

Sources: Ministry of Economy and Finance and staff calculations.

Table 4. Spain: Factors Accounting for Growth in Private Consumption, 1990-95 1/

	Real private consumption	Total employment	Real earned income per worker	Net Direct taxes per worker 2/	Real disposable income per worker	Change in personal savings rate
	(Average of period percentage change)					
1990	3.6	2.6	3.9	1.8	3.9	2.2
1991	2.9	0.2	4.0	1.9	4.2	1.1
1992	2.2	-1.9	2.7	10.6	1.9	-1.9
1993	-2.2	-4.3	3.7	-10.0	5.2	2.8
1994	0.9	-0.9	-0.7	-2.9	-0.5	-1.9
1995	1.5	2.7	-0.0	-10.7	1.0	1.7

Source: Staff calculations on data from the Ministry of Economy and Finance and *Cuentas Financieras*, Bank of Spain.

1/ Income includes those of households and unincorporated business.

2/ Direct taxes plus social security contribution minus transfers received.

Table 5. Spain: Household Disposable Income, 1989-95

	1989	1990	1991	1992	1993	1994	1995
	(In billions of pesetas)						
Disposable income	30,964	34,977	38,780	41,279	43,973	45,479	49,242
Changes in percent in nominal terms	10.9	13.0	10.9	6.4	6.5	3.4	8.3
Changes in percent in real terms	4.2	6.5	4.5	0.0	1.0	-1.4	3.6
Wage income	20,442	23,284	25,788	27,673	28,310	28,982	30,562
share of income	66.0	66.6	66.5	67.0	64.4	63.7	62.1
Nonwage income	13,734	15,315	16,924	18,131	19,796	20,671	22,711
share of income	44.4	43.8	43.6	43.9	45.0	45.5	46.1
Social and current transfers	6,949	7,990	9,216	10,423	11,461	11,623	12,197
share of income	22.4	22.8	23.8	25.3	26.1	25.6	24.8
Direct taxes	3,859	4,297	4,963	5,750	5,742	5,896	6,185
share of income	12.5	12.3	12.8	13.9	13.1	13.0	12.6
Social security contributions	6,357	7,315	8,185	9,198	9,852	9,901	10,043
share of income	20.5	20.9	21.1	22.3	22.4	21.8	20.4
Private consumption	28,367	31,303	34,269	37,277	38,475	40,675	43,224
Gross savings	2,569	3,674	4,511	4,002	5,498	4,804	6,018
Savings ratio 1/	8.3	10.5	11.6	9.7	12.5	10.6	12.2

Source: Ministry of Economy and Finance.

1/ Gross savings in percent of disposable income.

Table 6. Spain: GDP by Sectors, 1988-95

	1988	1989	1990	1991	1992	1993	1994	1995
	(Changes in percent)							
Real GDP at market prices	5.2	4.7	3.7	2.3	0.7	-1.2	2.1	2.8
Agriculture and fishing	3.3	-6.6	3.1	-0.3	-1.4	-0.4	-10.1	-13.2
Industrial	4.5	3.6	2.0	1.4	-0.0	-3.1	4.5	4.8
of which:								
Manufacturing	2.9	0.5	-0.9	0.7	2.2	-2.2	5.6	4.1
Construction	10.1	13.5	10.2	3.0	-5.4	-5.5	1.6	6.7
Services	4.8	5.2	4.0	2.7	2.1	0.8	2.2	2.7
of which:								
Market	4.3	4.6	3.1	2.1	1.8	0.9	2.9	2.9
Nonmarket	6.1	6.9	6.8	4.8	3.0	0.8	0.3	2.1
	(Share of GDP at market prices)							
Agriculture and fishing	5.8	5.2	5.2	5.0	4.9	5.0	4.4	3.7
Industrial	28.7	28.4	28.0	27.7	27.5	27.0	27.6	28.2
of which:								
Manufacturing	21.8	20.9	19.9	19.6	19.9	19.7	20.4	20.6
Construction	7.0	7.6	8.0	8.1	7.6	7.3	7.2	7.5
Services	52.4	52.7	52.8	53.0	53.8	54.9	54.9	54.9
of which:								
Market	40.1	40.1	39.8	39.8	40.2	41.0	41.3	41.4
Nonmarket	12.3	12.6	12.9	13.3	13.6	13.8	13.6	13.5

Sources: INE and Ministry of Economy and Finance.

Table 7. Spain: Production Indicators, 1990-95

	1990	1991	1992	1993	1994	1995	1995				
							I	II	III	IV	I
						(Changes in percent over same period of previous year)					
Industrial production											
Total	0.0	-0.7	-2.9	-4.7	7.3	4.7	10.3	5.7	2.7	0.1	-2.5
Manufacturing sector	-0.3	-1.1	-3.5	-4.9	8.7	5.6	12.6	6.7	3.6	-0.3	-3.8
By destination:											
Intermediate goods	-0.8	-1.0	-2.5	-4.4	7.4	4.5	9.9	6.2	2.6	-0.6	-1.7
Consumption goods	2.5	2.1	-2.4	-4.1	7.2	1.6	7.7	1.8	-0.5	-2.4	-4.9
Investment goods	-4.2	-9.7	-4.7	-7.5	7.6	14.2	19.6	15.6	13.3	9.2	0.9
Housing starts	-16.1	-14.8	3.3	-6.4	19.2	29.5	41.1	39.7	33.6	9.2	-9.0
Commercial vehicles production	-8.0	-17.7	6.8	-20.9	20.5	19.7	40.5	23.9	12.5	3.4	9.8
Automobile production	2.5	5.6	1.0	-16.0	21.3	7.3	20.7	7.8	12.9	-9.2	-4.1
							(In percent of total capacity)				
Memorandum item:											
Capacity utilization 1/	79.6	76.7	73.4	70.7	75.1	78.1	78.7	78.1	77.8	77.6	76.1

Sources: Bank of Spain, Statistical Bulletin; Ministry of Economy and Finance, Sintesis Mensual de Indicadores Economicos

1/ Industrial sector excluding construction.

Table 8. Spain: Prices, 1991-96

	1991	1992	1993	1994	1995	1995 I	II	III	IV	1996 I
	(Average of period: percent change)					(End of period: annual percent				
Consumer prices	5.9	5.9	4.6	4.7	4.7	5.1	5.1	4.4	4.3	3.4
Food products	3.5	3.7	1.1	5.7	5.3	6.8	6.0	4.6	4.5	2.7
Non-food products	5.4	4.9	5.1	3.5	3.9	3.6	4.0	4.0	4.0	3.6
Of which:										
Energy	7.6	6.7	7.5	3.6	3.5	4.7	3.5	2.8	3.0	1.6
Other Industrial	5.0	4.5	4.6	3.5	3.9	3.3	4.2	4.2	4.2	4.0
Services	8.8	8.8	7.5	5.4	5.1	5.5	5.4	4.7	4.5	3.9
Underlying inflation 1/	6.4	6.8	5.6	4.6	4.9	4.8	5.2	4.9	4.8	4.2
Industrial prices	1.5	1.4	2.4	4.3	6.4	7.1	7.1	6.6	4.4	1.9
By destination:										
Consumer goods	3.5	2.9	3.4	4.4	5.0	4.8	5.2	5.4	5.1	4.2
Investment goods	3.5	2.3	1.3	1.8	4.2	4.5	4.5	4.4	3.3	2.6
Intermediate goods	-0.7	-0.2	1.8	4.8	8.3	10.0	9.5	8.4	4.2	-0.3
Of which: Energy	3.3	2.3	3.6	3.0	2.0	3.2	1.8	1.3	1.4	0.9
Memorandum items:										
GDP deflator	7.1	6.9	4.3	4.0	4.9	4.7	5.0	5.2	4.9	4.1
Private consumption deflator	6.4	6.4	5.6	4.8	4.7	4.7	4.9	4.7	4.4	3.9
Inflation differentials with respect to:										
EU	0.8	1.5	1.0	1.7	1.6	1.9	1.8	1.2	1.2	0.7
Three best EU	3.0	3.6	3.2	2.7	3.5	3.3	3.3	2.9	3.1	2.4

Source: Bank of Spain, Statistical Bulletin

1/ Underlying inflation is measured by excluding energy and the unprocessed food groups from the total CPI.

Table 9. Spain: Population and Unemployment, 1991-96 1/

	1991	1992	1993	1994	1995	1996 Q3
	(In thousands)					
Population over 16 years of age	30,690	30,990	31,272	31,569	31,880	32,155
(Annual growth rate)	0.9	1.0	0.9	0.9	1.0	0.7
Economically active population	15,073	15,155	15,319	15,468	15,625	16,040
(Annual growth rate)	0.4	0.5	1.1	1.0	1.0	2.1
Employment	12,609	12,366	11,838	11,730	12,042	12,524
(Annual growth rate)	0.2	-1.9	-4.3	-0.9	2.7	3.2
Unemployed	2,464	2,789	3,481	3,738	3,584	3,514
Unemployment rate	16.3	18.4	22.7	24.2	22.9	21.9
Labor force participation rate: Total	49.1	48.9	49.0	49.0	49.0	49.9
Male	65.8	64.7	64.3	63.3	62.7	63.4
Female	33.6	34.2	34.8	35.6	36.2	37.2
Memorandum items:						
Beneficiaries of unemployment benefits (in percent of):						
Registered unemployed 2/	52.0	63.3	67.3	57.8	50.7	50.8
Unemployed net of agriculture 2/	69.0	80.4	82.7	70.8	62.8	63.8
All unemployed 3/	57.8	58.5	55.4	47.0	40.7	37.2

Source: INE, Labor Force Survey; and Ministry of Economy and Finance, and Sinterests de Indicadores Economicos.

1/ Annual averages.

2/ Excludes assistance to temporary agricultural workers.

3/ Includes assistance to temporary agricultural workers.

Table 10. Spain: Contribution to Total Employment Growth by Sectors and Categories, 1991-96

	1991	1992	1993	1994	1995	1996 I	1996 II	1996 III
	(Period-to-period percentage change)							
Dependent employees								
by professional category	1.1	-3.2	-4.3	-0.7	3.7	0.2	2.0	1.9
contribution to total growth	0.8	-2.4	-3.2	-0.5	2.7	0.2	1.5	1.4
Public								
by professional category	2.0	0.8	-2.4	-2.7	3.1	2.0	3.7	0.5
contribution to total growth	0.3	0.1	-0.4	-0.5	0.5	0.4	0.7	0.1
Private								
by professional category	0.8	-4.3	-4.9	-0.0	3.9	-0.3	1.5	2.4
contribution to total growth	0.5	-2.5	-2.7	-0.0	2.2	-0.2	0.8	1.4
Full time								
by type of employment	1.2	-4.0	-5.1	-1.4	2.9	0.2	1.8	2.4
contribution to total growth	0.8	-2.8	-3.5	-1.0	2.0	0.1	1.2	1.7
Part time								
by type of employment	-1.4	15.9	10.3	10.7	15.4	0.8	4.5	-4.2
contribution to total growth	-0.0	0.5	0.4	0.5	0.7	0.0	0.3	-0.2
Permanent contracts								
by type of contract	-1.8	-4.8	-2.6	-2.9	2.0	1.3	2.3	1.2
contribution to total growth	-0.9	-2.4	-1.3	-1.4	1.0	0.6	1.1	0.6
Temporary contracts								
by type of contract	7.6	0.3	-7.7	3.9	7.0	-1.8	1.3	3.4
contribution to total growth	1.7	0.1	-1.9	0.9	1.7	-0.5	0.3	0.9
Non-salaried								
by professional category	-2.1	1.6	-4.2	-1.5	-0.2	0.4	-0.4	0.2
contribution to total growth	-0.5	0.4	-1.1	-0.4	-0.0	0.1	-0.1	0.0
Of which:								
Self-employed								
by professional category	-3.3	0.5	-2.5	-0.2	0.1	-0.3	0.2	0.1
contribution to total growth	-0.5	0.1	-0.4	-0.0	0.0	-0.1	0.0	0.0
Total	0.2	-1.9	-4.3	-0.9	2.7	0.3	1.4	1.5

Sources: Bank of Spain, Statistical Bulletin.

Table 11. Spain: Employment by Sectors, 1989-96

	1989	1990	1991	1992	1993	1994	1995	1996 I	1996 II	1996 III
	(Period-to-period percentage change)									
Agriculture										
by sector	-5.7	-7.0	-9.5	-6.9	-4.4	-3.9	-3.9	4.8	-5.5	-1.0
contribution to total growth	-0.8	-0.9	-1.1	-0.7	-0.4	-0.4	-0.4	0.4	-0.5	-0.1
Industry										
by sector	3.3	2.8	-3.0	-3.0	-9.3	-2.6	0.5	-1.2	0.4	2.3
contribution to total growth	0.8	0.7	-0.7	-0.7	-2.1	-0.6	0.1	-0.2	0.1	0.5
Construction										
by sector	11.1	7.6	4.3	-6.1	-9.0	-2.7	7.2	-2.1	3.4	4.2
contribution to total growth	1.0	0.7	0.4	-0.6	-0.9	-0.3	0.6	-0.2	0.3	0.4
Services										
by sector	6.0	4.0	3.0	0.2	-1.5	0.5	3.8	0.4	2.4	1.1
contribution to total growth	3.2	2.2	1.6	0.1	-0.9	0.3	2.3	0.3	1.5	0.7
Total	4.1	2.6	0.2	-1.9	-4.3	-0.9	2.7	0.3	1.4	1.5

Sources: Bank of Spain, Statistical Bulletin.

Table 12. Spain: Indicators of Labor Costs, 1990-96

	1990	1991	1992	1993	1994	1995	1996 I	1996 II
	(Year-on-year percentage changes)							
Contractual wage increases (In percent) 1/	8.3	8.0	7.3	5.5	3.6	4.0	3.8	3.8
Net wages per employee 2/								
Nominal	8.5	7.6	7.5	6.4	4.7	1.0	4.3	4.6
Real 3/	1.8	1.7	1.6	1.8	0.0	-3.7	0.6	1.0
Unit labor costs 4/	7.9	7.4	7.9	3.6	0.0	1.6	...	...
Average compensation per employee 4/	9.1	9.6	10.8	6.9	3.1	1.7	...	...
Productivity per worker	1.1	2.0	2.7	3.2	3.1	0.1	-0.6	-0.6
GDP	3.7	2.3	0.7	-1.2	2.1	2.8	2.0	2.0
Total employment 5/	2.6	0.2	-1.9	-4.3	-0.9	2.7	2.6	2.6
Dependent Employment	4.4	1.1	-3.2	-4.3	-0.7	3.7	3.1	3.2
Unit labor costs in manufacturing	9.7	5.9	7.1	4.8	-2.8	-1.2	5.4	4.4
Value added in manufacturing	2.4	0.9	-0.2	-3.5	4.7	6.0	-1.4	-1.6
Employment in manufacturing	3.4	-1.2	-3.2	-5.2	-2.1	1.2	-0.7	-1.2
Average compensation in manufacturing	8.7	8.2	10.4	6.7	3.9	3.5	4.7	4.0

Sources: Bank of Spain, Statistical Bulletin; and Ministry of Economy and Finance.

1/ Based on collective wage agreements.

2/ Excluding social security contributions; data from the wage survey by INE, excluding agriculture.

3/ Deflated by the consumer price index.

4/ National accounts definitions.

5/ Data on employment are those from the Encuesta de Poblacion Activa (EPA).

Table 13. Spain: General Government – Overall Balances, 1990–96 1/

(In percent of GDP)

	1990	1991	1992	1993	1994	1995	1996 2/
General government	–4.1	–4.9	–4.1	–7.3	–6.8	–7.0	–4.5
Central government 3/	–2.9	–2.2	–2.2	–5.9	–5.1	–5.2	–3.3
Territorial governments 4/	–0.9	–1.6	–1.1	–1.2	–1.0	–0.8	–0.6
Social security system 5/	–0.2	–0.8	–0.7	–0.1	–0.7	–0.7	–0.6
General Government (Maastricht definition)	–4.1	–4.9	–4.1	–7.4	–6.2	–6.6	–4.4

Sources: Bank of Spain, Cuentas Financieras; and Ministry of Economy and Finance.

1/ Deficit (–); national accounts basis.
2/ Staff estimate.
3/ Includes state and central government autonomous organizations.
4/ Regional and local governments.
5/ Includes INEM.

Table 14. Spain: General Government Nonfinancial Operations, 1990–1996 1/

	1990	1991	1992	1993	1994	1995	1996 Estimated
	(percent of GDP)						
Current revenues	38.9	39.6	41.4	41.3	40.4	39.2	39.4
Indirect taxes	9.9	9.8	10.3	9.6	10.2	10.1	10.3
Direct taxes on income and wealth	12.0	12.0	12.4	12.0	11.5	11.4	11.6
Social security contributions	13.0	13.2	14.0	14.2	14.1	13.3	13.3
Other current revenues	3.9	4.5	4.6	5.5	4.6	4.4	4.3
Current spending	37.1	38.9	40.8	43.6	42.8	41.5	40.5
Public consumption	15.6	16.2	17.1	17.6	17.0	16.6	16.4
Current transfers	14.4	15.2	16.1	16.9	16.5	15.8	15.7
Interest payments	3.7	3.9	4.2	5.2	5.1	5.4	5.0
Subsidies	1.9	1.8	1.7	2.0	2.0	1.9	1.8
Other current expenditures	1.5	1.7	1.6	1.9	2.1	1.8	1.7
Current balance (deficit –)	1.8	0.8	0.7	–2.3	–2.4	–2.4	–1.1
Capital transfer revenue and taxes	0.6	0.8	0.8	0.9	1.0	1.1	1.0
Gross fixed capital formation	4.9	4.8	4.1	4.1	3.8	3.6	2.9
Capital transfer spending	1.5	1.5	1.4	1.8	1.5	2.1	1.4
Other capital	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Primary balance (deficit –)	–0.4	–1.0	0.1	–2.2	–1.7	–1.6	0.4
Overall balance (deficit –)	–4.1	–4.9	–4.1	–7.3	–6.8	–7.0	–4.5
Overall Balance (Maastricht Definition)	–4.1	–4.9	–4.1	–7.4	–6.2	–6.6	–4.4

Sources: Bank of Spain, Ministry of Economy and staff estimates.

1/ National accounts basis.

Table 15. Spain: General Government Financing, 1989–1995

	1989	1990	1991	1992	1993	1994	1995
				(In billions of pesetas)			
Net change in liabilities	3025.2	3785.0	3268.0	3969.0	7583.0	4507.0	5696.0
Loans from financial institutions	257.0	1853.0	1144.0	493.0	350.0	568.0	512.0
of which: Bank of Spain	215.0	1242.7	159.9	−100.0	−31.4	−39.3	36.0
Short–term securities	2173.0	797.0	−1037.0	−92.0	101.0	953.0	116.0
Bonds	320.0	763.0	2301.0	1756.0	7112.0	1975.0	4427.0
Nonnegotiable securities	−27.6	−30.2	152.1	818.9	−47.5	−51.1	−54.0
Loans in foreign currency	65.0	54.0	−5.0	215.0	242.0	464.0	287.0
Foreign currency loans from residents	18.0	24.0	−2.0	−4.0	59.0	13.0	12.0
Direct loans from abroad	47.0	30.0	−3.0	219.0	183.0	451.0	275.0
Other 1/	237.8	348.2	712.9	778.1	−174.5	598.1	408.0
				(In percent of GDP)			
Net change in liabilities	6.7	7.5	6.0	6.7	12.5	7.0	8.2
Loans from financial institutions	0.6	3.7	2.1	0.8	0.6	0.9	0.7
of which: Bank of Spain	0.5	2.5	0.3	−0.2	−0.1	−0.1	0.1
Short–term securities	4.8	1.6	−1.9	−0.2	0.2	1.5	0.2
Bonds	0.7	1.5	4.2	3.0	11.7	3.1	6.3
Nonnegotiable securities	−0.1	−0.1	0.3	1.4	−0.1	−0.1	−0.1
Loans in foreign currency	0.1	0.1	−0.0	0.4	0.4	0.7	0.4
Foreign currency loans from residents	0.0	0.0	−0.0	−0.0	0.1	0.0	0.0
Direct loans from abroad	0.1	0.1	−0.0	0.4	0.3	0.7	0.4
Other 1/	0.5	0.7	1.3	1.3	−0.3	0.9	0.6
Memorandum items:							
General government balance	−1259.2	−1963.1	−2699.1	−2473.1	−4563.9	−4406.8	−4895.0
Of which: State	−974.0	−1431.5	−1231.8	−1313.7	−3601.5	−3276.5	−3625.9
Change in deposits at the Bank of Spain	−0.4	1209.6	−58.0	39.2	2270.8	−1335.8	−306.0

Source: Bank of Spain, Cuentas Financieras.

1/ Includes changes in cash and deposit balances.

Table 16. Spain: General Government Financing by Debt Holder, 1989–1995 1/

	1989	1990	1991	1992	1993	1994	1995
			(In billions of pesetas)				
Net financing	3025.2	3785.0	3268.0	3969.0	7583.0	4507.0	5696.0
Resident	2662.3	3375.0	1482.0	3430.0	1825.0	6920.0	3344.0
of which: in foreign currency	18.0	24.0	−2.0	−4.0	59.0	13.0	12.0
Nonresident	362.9	410.0	1786.0	539.0	5758.0	−2413.0	2352.0
of which: in pesetas	315.9	380.0	1789.0	320.0	5575.0	−2864.0	2077.0
			(In percent of GDP)				
Total outstanding debt	48.9	50.8	51.8	55.0	66.8	69.9	72.7
Resident	46.7	48.1	46.1	48.4	49.8	57.7	58.5
of which: in foreign currency	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Nonresident	2.2	2.7	5.7	6.6	17.0	12.2	14.3
of which: in pesetas	1.7	2.2	5.3	5.7	15.6	10.3	12.2
Debt according to Maastricht criteria	43.2	45.1	45.8	48.4	60.5	63.2	65.7

Source: Bank of Spain, Cuentas Financieras.

1/ Not computed according to Maastricht definition.

Table 17. Spain: State Nonfinancial Operations, 1990–1995

National accounts basis

	1990	1991	1992	1993	1994	1995
	(In percent of GDP)					
Current Revenue	20.4	20.7	21.7	21.4	20.5	20.2
Indirect taxes	7.4	7.3	7.7	6.9	7.5	7.5
Taxes on income and wealth	10.2	10.2	10.7	10.1	9.7	9.7
Social security taxes	0.9	0.9	1.0	1.1	1.0	1.0
Other current revenues	1.9	2.2	2.4	3.3	2.3	2.1
Current expenditure	19.9	20.2	21.2	23.8	23.5	23.0
Public consumption	5.3	5.3	5.2	5.5	5.1	5.2
Current transfers	10.4	10.8	11.9	13.2	13.1	12.6
Interest payments	3.1	3.2	3.3	4.1	4.2	4.4
Subsidies	1.1	0.9	0.8	1.0	1.0	0.8
Current balance (deficit –)	0.5	0.5	0.5	–2.5	–2.9	–2.8
Net capital transfers	–2.0	–1.6	–1.8	–2.4	–1.1	–1.3
Gross fixed capital formation	1.3	1.2	1.0	1.1	1.1	1.1
Primary balance (deficit –)	0.3	0.9	1.0	–1.8	–0.9	–0.8
Overall balance (deficit –)	–2.9	–2.2	–2.2	–5.9	–5.1	–5.2
Net lending 1/	0.9	–0.1	1.8	0.2	0.1	0.3
Borrowing requirement (–)	–3.8	–2.1	–4.0	–6.2	–5.2	–5.5

Sources: Bank of Spain; Intervencion General de Administracion del Estado; Ministry of Economy and Finance.

1/ Net lending is defined as net financing (change in assets minus change in liabilities) minus the nonfinancial balance.

Table 18. Spain: State Financing, 1990–1995

	1990	1991	1992	1993	1994	1995
			(In billions of pesetas)			
Net change in liabilities	3230.0	1617.0	2635.0	6949.0	3111.0	4405.0
Loans from financial institutions	1207.0	20.0	43.8	76.8	219.6	171.0
of which: Bank of Spain	1117.7	−40.0	−31.2	−31.4	−39.3	39.0
Short–term securities	1128.0	−776.0	205.0	152.0	968.0	92.0
Bonds	772.0	2289.0	1534.0	6680.0	1595.0	4046.0
Nonnegotiable securities	−30.2	152.1	654.8	−47.5	−51.1	−54.0
Direct loans from abroad	−5.0	−11.0	103.0	78.0	266.0	138.0
Other 1/	158.2	−57.1	94.4	9.7	113.5	12.0
			(In percent of GDP)			
Total liabilities	40.9	40.3	42.3	52.8	54.6	56.7
Loans from financial institutions	4.2	3.9	3.7	3.7	3.9	3.8
Of which: Bank of Spain	4.0	3.6	3.3	3.1	2.9	2.6
Short–term securities	22.2	18.9	18.0	17.7	18.2	17.0
Bonds	11.1	14.3	16.1	27.1	28.1	31.6
Nonnegotiable securities	0.5	0.7	1.8	1.7	1.5	1.3
Direct loans from abroad	0.3	0.2	0.4	0.6	1.0	1.0
Other	2.6	2.3	2.3	2.1	2.0	2.0
Memorandum items:						
General government balance	−1963.1	−2699.1	−2473.1	−4563.9	−4406.8	−4895.0
Of which: State	−1231.8	−1313.7	−3601.5	−3625.9	−2550.0	−2597.5

Source: Bank of Spain, Cuentas Financieras.

1/ Includes changes in cash and deposit balances.

Table 19. Spain: Recent State Operations-- National Accounts Basis 1/

(In billions of pesetas)

	1995 Jan.-Oct.	1996 Jan.-Oct.	Percentage Change
Revenues	11,685.2	12,629.6	8.1
Taxes on income and wealth	5,815.8	6,185.8	6.4
Indirect taxes	4,484.5	4,914.0	9.6
VAT	2,774.8	3,098.0	11.6
Import taxes	3.0	0.4	-86.7
Other production taxes	1,706.7	1,815.6	6.4
Social insurance contributions	563.7	591.1	4.9
Dividends and interest revenues	269.4	404.4	50.1
Capital revenue	213.1	201.2	-5.6
Other revenues	338.7	333.1	-1.7
Expenditure	14,168.4	14,409.7	1.7
Public consumption	2,549.9	2,672.9	4.8
Wages and salaries	2,169.6	2,277.8	5.0
Goods and services	380.3	395.1	3.9
Interest payments	2,521.3	2,728.2	8.2
Subsidies	427.8	455.9	6.6
Current transfers	6,849.8	6,827.4	-0.3
Other current expenditures	735.6	675.7	-8.1
Capital expenditures	1,084.0	1,049.6	-3.2
Cash Balance	(2,483.2)	(1,780.1)	-28.3

Source: Ministry of Economy and Finance, Sintesis Mensual de Indicadores Economicos.

1/ Cumulative amounts for the year.

Table 20. Spain: Details of Recent State Operations—— Transactions Basis 1/

(In billions of pesetas)

	1995	Overall 2/		Net 2/	
		1996	Percent	1996	Percent
	Jan.–Dec.	Jan.–Dec.	Change	Jan.–Dec.	Change
Revenues	14,077.2	14,629.6	3.9	14,629.6	3.9
Taxes on income and wealth	6,598.1	6,750.0	2.3	6,750.0	2.3
Personal income tax	5,208.9	5,249.2	0.8	5,249.2	0.8
Corporate income tax	1,263.7	1,373.0	8.6	1,373.0	8.6
Other direct taxes	125.5	127.8	1.8	127.8	1.8
Indirect taxes	5,467.8	5,812.9	6.3	5,812.9	6.3
VAT	3,380.7	3,618.3	7.0	3,618.3	7.0
Excise taxes	1,911.6	2,053.9	7.4	2,053.9	7.4
Other indirect taxes	175.5	140.7	−19.8	140.7	−19.8
Fees and other income	337.9	419.4	24.1	419.4	24.1
Capital income	878.8	930.8	5.9	930.8	5.9
Current transfers	398.3	319.8	−19.7	319.8	−19.7
Capital transfers	369.1	335.5	−9.1	335.5	−9.1
Unclassified income	27.2	61.2	125.0	61.2	125.0
Expenditure	17,227.8	18,312.9	6.3	17,709.6	2.8
Current expenditures	15,359.6	16,555.4	7.8	15,983.5	4.1
Wages and salaries	2,813.0	2,977.8	5.9	2,932.8	4.3
Goods and services	404.3	398.8	−1.4	371.8	−8.0
Interest payments	3,021.2	3,525.0	16.7	3,377.7	11.8
Current transfers	9,121.1	9,653.8	5.8	9,301.2	2.0
Capital expenditures	1,910.5	1,758.3	−8.0	1,726.9	−9.6
Investment	977.4	938.2	−4.0	938.2	−4.0
Capital transfers	933.1	820.1	−12.1	788.7	−15.5
Unclassified	−42.3	−0.8	−98.1	−0.8	−98.1
Cash Balance	−3150.6	−3683.3	16.9	−3080.0	−2.2

Source: Intervencion General de la Administracion del Estado.

1/ Cumulative amounts for the year.
2/ The Overall column includes cash allocations in 1996 to cover additional expenditures for 1995. The Net column subtracts out these expenditures.

Table 21. Spain: State Recent Financing Operations, 1993–96

(In billions of pesetas)

	1993	1994	1995	1996
Securities	6437.0	2417.2	3834.5	2992.0
Short–term	202.0	989.2	35.5	–61.0
Long–term	6298.0	1437.0	3764.0	3154.0
Other 1/	–63.0	–9.0	35.0	–101.0
Loans in pesetas	18.9	189.7	152.0	214.0
of which: Bank of Spain	–31.4	–39.3	–39.3	–39.0
Loans in foreign currency	468.5	432.9	495.5	216.0
of which: from residents	131.1	129.3	122.6	...
Memorandum item:				
Change in deposits at the Bank of Spain	2173.0	–1357.8	–282.6	968.0

Source: Bank of Spain, Statistical Bulletin.

1/ Includes nonnegotiable seurities and the assumption by the government of nongovernment securities.

Table 22. Spain: Nonfinancial Operations of the Social Security System, 1990–95 1/

(In percent of GDP)

	1990	1991	1992	1993	1994	1995
Current revenues	17.0	17.5	18.5	19.5	19.4	18.5
Social security contributions	12.1	12.2	12.9	13.1	13.0	12.3
Transfers from the government	4.6	4.8	5.1	6.0	6.0	5.8
Other current revenues	0.3	0.4	0.4	0.4	0.5	0.4
Current spending	17.0	18.1	19.4	20.3	20.1	19.1
Consumption	3.8	4.0	4.6	4.7	4.6	4.3
Social security benefits	12.9	13.7	14.4	15.3	15.0	14.4
Other spending	0.3	0.3	0.3	0.3	0.4	0.4
Gross saving	−0.1	−0.6	−0.9	−0.8	−0.6	−0.6
Net capital transfers	0.2	0.1	0.5	0.9	0.1	0.1
Gross fixed capital formation	0.3	0.3	0.2	0.2	0.2	0.2
Overall balance	−0.2	−0.8	−0.7	−0.1	−0.7	−0.7

Source: Bank of Spain, Cuentas Financieras.

1/ National accounts basis.

Table 23. Spain: Social Security System-- Recent Operations 1/

(In billions of pesetas)

	1995 Jan.-Aug.	1996 Jan.-Aug.	Percentage Change
Revenue	6,682.4	7,124.1	6.6
Contributions	4,523.9	4,740.3	4.8
Transfers from the State	2,042.6	2,271.0	11.2
Other	115.9	112.8	-2.7
Expenditure	7,155.8	7,667.0	7.1
By activity:			
Wages and salaries	524.8	533.2	1.6
Goods and services	272.0	283.4	4.2
Benefits 2/	6,328.3	6,829.5	7.9
Other	30.7	20.9	-31.9
By type of benefit:			
Economic	4,537.9	4,898.5	7.9
Pensions	4,099.1	4,434.7	8.2
Temporary disability	312.0	313.4	0.4
Other economic benefits	126.8	150.4	18.6
Social	106.7	120.9	13.3
Health (inc. administrative costs)	2511.2	2647.6	5.4
Overall balance	-473.4	-542.9	14.7

Source: Ministry of Economy and Finance, Sintesis Mensual de Indicadores Economicos.

1/ Transactions basis. Excludes unemployment benefits.
2/ Includes social security transfers to regional governments.

Table 24. Spain: Nonfinancial Operations of Territorial Governments, 1990–95 1/

	1990	1991	1992	1993	1994	1995
	(In percent of GDP)					
Current revenue	9.5	9.7	10.2	10.5	10.2	10.2
Indirect taxes	2.5	2.5	2.7	2.7	2.7	2.6
Direct taxes	1.9	1.8	1.8	1.9	1.9	1.8
Transfers from the State	4.2	4.3	4.8	5.0	4.9	4.8
Other current revenues	0.9	0.9	0.9	0.9	0.8	1.0
Current expenditure	8.1	8.8	9.1	9.4	9.0	8.9
Public consumption	5.6	6.0	6.3	6.3	6.1	6.1
Current transfers	1.2	1.3	1.2	1.2	1.1	1.2
Interest payments	0.6	0.7	0.9	1.0	0.9	0.9
Other current spending	0.7	0.8	0.8	0.9	0.9	0.7
Current balance	1.4	0.9	1.1	1.1	1.2	1.2
Net capital transfers	0.6	0.5	0.4	0.2	0.0	0.0
Gross fixed capital formation	2.9	3.0	2.6	2.5	2.3	2.1
Primary balance (deficit –)	–0.3	–0.9	–0.2	–0.2	–0.1	0.1
Overall balance (deficit –)	–0.9	–1.6	–1.1	–1.2	–1.0	–0.8
Memorandum item:						
Borrowing (–) requirement	1.0	1.6	1.1	1.3	1.1	0.9

Source: Bank of Spain, Cuentas Financieras.

1/ National accounts basis. Territorial governments include regional governments and municipalities.

Table 25. Spain: Financial Relations with the EC, 1991-96

	1991	1992	1993	1994	1995	1996
	(In billions of pesetas)					
Transfers from the EC to Spain						
Total	934.8	975.3	1129.5	1150.2	1754.0	1652.0
Current	444.4	477.4	606.9	705.9	749.7	656.0
Capital	490.4	497.9	522.6	444.3	1004.3	996.0
Transfers from Spain to the EC						
Total	545.8	647.8	740.6	803.4	615.9	739.0
Balance	389.0	327.5	388.9	346.8	1138.1	913.0
As percent of GDP	0.7	0.6	0.6	0.5	1.6	1.2

Source: Bank of Spain, Statistical Bulletin.

Table 26. Spain: Monetary Survey, 1991-96
(Stocks: in billions of pesetas; end of period)

	1991	1992	1993	1994	1995	1996 Nov.
A1. Net foreign assets	3,746.6	3,960.9	10,437.7	7,127.2	8,999.3	8,834.0
Bank of Spain	6,684.6	5,551.8	6,085.9	5,728.2	4,499.4	7,371.0
Other monetary institutions	-2,938.1	-1,590.9	4,351.8	1,399.0	4,499.9	1,463.0
A2. Total domestic credit	61,721.5	65,493.9	66,614.3	74,324.4	79,500.5	84,136.0
Credit to general government	18,391.4	19,363.9	19,520.4	25,700.8	27,713.5	29,204.0
of which:						
Loans	4,771.4	5,470.3	3,633.0	5,623.2	6,467.2	5,278.0
Securities	10,885.6	10,633.5	11,833.6	15,738.4	17,320.9	17,925.0
Money market credits	3,625.2	4,234.2	5,107.9	5,472.6	5,062.3	6,780.0
(-) Provisions made to ICO	890.8	974.0	1,054.0	1,133.4	1,136.9	779.0
Credit to private sector	43,330.1	46,130.0	47,093.9	48,623.5	51,787.0	54,932.0
A3. Other items (net)	-4,296.3	-5,696.7	-7,353.1	-7,270.3	-7,572.0	-8,453.0
L. Total assets (L =L1 + L2 = A1 +A2 +A3)	61,171.7	63,758.1	69,698.9	74,181.3	80,927.9	84,517.0
L1. Liquid assets held by the public (ALP)	56,439.2	59,383.0	65,371.3	69,951.3	76,419.8	80,021.0
M3	51,777.9	54,237.5	59,260.7	63,675.8	70,439.4	72,243.0
M2	25,797.5	25,690.3	26,966.7	28,753.4	29,637.5	30,523.0
M1	15,898.8	15,631.3	16,180.5	17,337.6	17,887.8	18,317.0
Other components of ALP 1/	4,661.3	5,145.5	6,110.6	6,275.5	5,980.4	7,778.0
L.2 Other nonmonetary liabilities of the Private sector	1,844.7	1,382.6	1,247.7	1,298.1	1,350.3	1,429.0
L.3 Other nonmonetary liabilities of the Public sector	2,887.9	2,992.4	3,079.9	2,932.0	3,157.7	3,067.0
Memorandum items:						
Credit to general government Inclusive of provisions made to ICO	19,282.2	20,337.9	20,574.4	26,834.2	28,850.4	29,983.0
Monetary base	7,717.4	7,752.6	7,791.4	8,593.9	8,929.7	8,922.0
of which: commercial bank reserves	1,646.0	1,246.1	802.3	936.8	862.4	758.0

Source: Bank of Spain, Statistical Bulletin.

1/ Includes short-term government securities and repurchase operations with public and private papers.

Table 27. Spain: Monetary Survey, 1991-96
(Stocks: year-over-year percentage change)

	1991	1992	1993	1994	1995	1996 Nov.
A1. Net foreign assets	47.5	5.7	163.5	-31.7	26.3	8.1
Bank of Spain	26.2	-16.9	9.6	-5.9	-21.5	59.0
Other monetary institutions	-6.6	45.9	373.5	-67.9	221.7	41.4
A2. Total domestic credit	8.7	6.1	1.7	11.6	7.0	6.6
Credit to general government	1.6	5.3	0.8	31.7	7.8	5.1
of which:						
Loans	32.7	14.6	-33.6	54.8	15.0	-16.1
Securities	-14.2	-2.3	11.3	33.0	10.1	3.0
Money market credits	33.8	16.8	20.6	7.1	-7.5	29.9
(-) Provisions made to ICO	-0.1	9.3	8.2	7.5	0.3	-31.5
Credit to private sector	12.0	6.5	2.1	3.2	6.5	7.3
A3. Other items (net)	-3.7	-32.6	-29.1	1.1	-4.1	-4.9
L. Total assets (L = L1 + L2 = A1 +A2 +A3)	10.8	4.2	9.3	6.4	9.1	6.9
L1. Liquid assets held by the public (ALP)	11.4	5.2	10.1	7.0	9.2	7.2
M3	10.9	4.8	9.3	7.5	10.6	5.5
M2	12.0	-0.4	5.0	6.6	3.1	7.4
M1	12.3	-1.7	3.5	7.2	3.2	7.3
Other components of ALP 1/	16.5	10.4	18.8	2.7	-4.7	26.8
L.2 Other nonmonetary liabilities of the Private sector	1.5	-25.0	-9.8	4.0	4.0	9.3
L.3 Other nonmonetary liabilities of the Public sector	7.0	3.6	2.9	-4.8	7.7	-2.7
Memorandum items:						
Credit to general government inclusive of provisions made to ICO	1.5	5.5	1.2	30.4	7.5	3.9
Monetary base	22.0	0.5	0.5	10.3	3.9	2.0
of which: Commercial bank reserves	22.6	-24.3	-35.6	16.8	-7.9	-27.6

Source: Bank of Spain, Statistical Bulletin.

1/ Includes short-term government securities and repurchase operations with public and private papers.

Table 28. Spain: Monetary Aggregates, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Nov.
	(In billions of pesetas; end of period)						
ALP2	52,722	58,204	61,137	66,699	70,994	77,323	80,859
ALP	50,686	56,439	59,383	65,371	69,951	76,420	80,021
M3	46,686	51,778	54,238	59,261	63,676	70,439	72,243
M2	23,037	25,798	25,690	26,967	28,753	29,638	30,523
M1	14,163	15,899	15,631	16,181	17,338	17,888	18,317
Currency in circulation	4,533	5,607	6,025	6,509	7,164	7,535	7,643
Demand deposits	9,630	10,292	9,607	9,672	10,173	10,353	10,674
Saving deposits	8,874	9,899	10,059	10,786	11,416	11,750	12,206
Time deposits	13,868	15,970	17,829	20,620	22,181	24,749	24,623
Other components of M3	9,781	10,010	10,718	11,674	12,741	16,053	17,097
Other components of ALP	4,000	4,661	5,145	6,111	6,275	5,980	7,778
Commercial paper	2,036	1,764	1,754	1,328	1,043	903	838
	(Year-over-year percentage change)						
ALP2	14.2	10.4	5.0	9.1	6.4	8.9	7.1
ALP	11.9	11.4	5.2	10.1	7.0	9.2	7.3
M3	13.5	10.9	4.8	9.3	7.5	10.6	5.5
M2	17.5	12.0	-0.4	5.0	6.6	3.1	7.4
M1	19.4	12.3	-1.7	3.5	7.2	3.2	7.3
Currency in circulation	18.2	23.7	7.4	8.0	10.1	5.2	6.3
Demand deposits	20.0	6.9	-6.7	0.7	5.2	1.8	8.0
Saving deposits	14.5	11.5	1.6	7.2	5.8	2.9	7.7
Time deposits	10.5	15.2	11.6	15.7	7.6	11.6	-0.0
Other components of M3	9.1	2.3	7.1	8.9	9.1	26.0	10.8
Other components of ALP	-3.5	16.5	10.4	18.8	2.7	-4.7	26.8
Commercial paper	128.4	-13.4	-0.6	-24.3	-21.5	-13.4	-9.2
Memorandum items:							
Velocity of circulation: 1/							
ALP2	0.95	0.94	0.97	0.91	0.91	0.90	0.91
ALP	0.99	0.97	1.00	0.93	0.92	0.91	0.92
M3	1.07	1.06	1.09	1.03	1.02	0.99	1.02

Source: Bank of Spain, Statistical Bulletin.

1/ Annual GDP; end of period monetary aggregate.

Table 29. Spain: Main Interest Rates, 1991-96

	1991	1992	1993	1994	1995	1996	1995			
							I	II	III	IV
	(Period averages in percent)									
Interbank market										
Bank of Spain overnight intervention rate	13.3	12.9	11.8	7.9	8.9	7.6	8.2	8.8	9.3	9
Bank of Spain 10-day intervention rate	13.2	12.8	11.3	7.8	8.8	7.6	8.1	8.8	9.2	9
1-month interbank rate	13.3	13.3	12.2	7.9	9.2	7.6	8.6	9.1	9.5	9
3-month interbank rate	13.2	13.3	11.7	8.0	9.4	7.5	9.0	9.5	9.5	9
Commercial banks										
Prime rate	14.0	13.5	12.7	10.0	10.2	9.4	10.0	10.2	10.4	10
1-3 years commercial credits	16.5	15.9	14.6	10.9	11.3	9.6	11.2	11.4	11.6	11
Demand deposits	9.6	8.3	7.4	5.1	5.1	4.3	5.0	5.0	5.1	5
1-2 years deposits	10.9	10.1	9.3	6.8	8.3	6.1	8.2	8.5	8.4	8
Government securities 1/										
1 year Treasury bills	12.3	12.1	10.5	7.9	9.7	7.2	9.7	10.0	9.8	9
3 years government bonds	12.6	12.6	10.2	9.3	10.9	7.7	11.6	11.4	10.7	9
10 years government bonds	11.4	11.7	10.2	9.9	11.2	8.8	11.8	11.6	11.0	10

Source: Bank of Spain, Statistical Bulletin.

1/ Secondary markets.

Table 30. Spain: Financial Markets Developments, 1991-96

(In billions of pesetas)

	1991	1992	1993	1994	1995	I
Net issues of obligations:						
General government	1,039.4	1,176.3	6,743.9	2,737.4	4,134.2	1,268.0
Central government 1/	1,288.6	1,299.0	6,499.9	2,426.4	3,799.2	1,172.7
Short-term	-749.1	180.5	201.9	989.2	35.5	-284.7
Medium to long-term	2,037.7	1,118.5	6,298.0	1,437.2	3,763.8	1,457.4
Credit institutions	170.1	-18.3	486.9	340.7	277.0	44.7
Other resident sectors	272.0	170.5	240.9	-97.3	-187.9	-36.2
Net issues of commercial paper	-264.7	-6.6	-397.6	-353.9	-171.2	-9.7
Net issues of equities:						
Credit institutions	406.4	82.5	170.3	375.3	96.0	24.8
Other resident sectors	407.5	566.5	363.6	562.5	641.0	37.6
Nonfinancial institutions	359.3	557.7	351.0	551.0	613.4	33.3
Indices of activity in secondary markets:						
Stock exchange: turnover/capitalization ratio (%)	38.8	44.8	42.0	60.3	46.7	19.5
Madrid stock exchange price index (1985=100)	265.6	230.5	270.8	314.6	296.1	339.2
Memorandum item:			(As a share of GDP)			
Net debt outstanding (period average) of:						
General government	32.2	30.7	35.9	41.8	44.2	45.9
Central government	30.5	29.5	34.7	40.1	42.1	43.7
Short-term debt	18.5	15.4	15.4	15.9	17.0	15.6
Medium-and long-term debt	12.0	14.2	19.3	24.3	25.1	28.1
Stock exchange capitalization	22.2	16.8	25.5	23.5	24.6	24.6

Source: Bank of Spain, Statistical Bulletin.

1/ Excludes nonmarketable bonds.

Table 31. Spain: Exchange Rate Indicators, 1991-96

	1991	1992	1993	1994	1995	1996	1996				
							MAY	JUN	JUL	AUG	SEP
							(Period averages)				
Nominal											
Peseta/US dollar	103.9	102.4	127.2	134.0	124.7	126.6	128.0	128.8	127.0	125.7	127.0
Peseta/deutsche mark	62.6	65.6	76.9	82.6	87.0	84.2	83.5	84.3	84.5	84.8	84.3
Peseta/ECU	128.6	132.3	148.7	158.5	161.2	158.6	157.2	159.6	159.6	159.5	159.8
							(Index 1990=100)				
Nominal Effective Exchange Rates											
vs. Developed Countries	100.2	98.0	86.6	80.8	80.3	80.9	81.1	80.3	80.5	80.6	80.6
vs. EU Countries	100.8	98.2	88.8	83.1	82.0	82.2	76.4	75.7	75.6	75.5	75.8
vs. EMS Narrow Band	101.0	96.6	83.0	76.9	73.5	75.2	75.7	75.0	74.9	74.8	75.2
							(Index 1990=100)				
Real Effective Exchange Rates 1/											
vs. Developed Countries	101.5	101.2	90.6	86.3	87.5	89.4	89.6	88.6	88.9	89.2	89.2
vs. EU Countries	102.0	101.1	92.4	88.2	88.7	90.2	90.7	89.4	89.6	89.9	90.0
vs. EMS Narrow Band	103.5	101.2	88.0	83.6	82.1	85.5	86.1	85.2	85.0	85.3	85.8
							(Index 1990=100)				
Real Effective Exchange Rates 2											
vs. Developed Countries	100.1	100.9	89.0	81.3	78.4	80.4	80.2	79.5	...	...	...
vs. EU Countries	100.4	100.5	90.6	83.1	79.2	80.7	80.7	79.8	...	...	...
vs. EMS Narrow Band	102.2	100.1	85.0	78.2	73.1	85.4	76.6	76.0	...	...	...

Source: Bank of Spain.

1/ Based on CPI indices, average through November.

2/ Based on unit labor costs in manufacturing, average through June.

Table 32. Spain: Profit and Loss Account of the Banking System 1/

	Banks			Savings banks		
	1993	1994	1995	1993	1994	1995
Net interest margin						
(percent of total assets)	2.94	2.60	2.27	3.88	3.70	3.49
(percent of own funds)	44.47	41.39	37.36	67.12	64.39	60.17
Gross interest margin						
(percent of total assets)	3.87	3.16	2.99	4.46	4.20	4.04
(percent of own funds)	58.59	50.23	49.33	77.15	73.18	69.71
Operating margin						
(percent of total assets)	1.64	1.08	1.01	1.68	1.51	1.46
(percent of own funds)	24.85	17.18	16.61	28.99	26.36	25.09
Pre-tax income						
(percent of total assets)	1.06	0.72	0.72	0.97	0.92	0.98
(percent of own funds)	16.05	11.46	11.95	16.71	16.06	16.93

Source: Bank of Spain, *Annual Report*.

1/ Excluding Banesto.

Table 33. Spain: Balance of Payments, 1991-96

	1991	1992	1993	1994	1995	1996
	(Transaction basis; in billions of pesetas)					
Current account	-2,054	-2,161	-695	-913	158	361
Goods	-3,159	-3,088	-1,897	-1,967	-2,201	-1,747
Exports	6,225	6,757	7,876	9,889	11,540	13,060
Imports	-9,384	-9,846	-9,773	-11,856	-13,741	-14,873
Services	1,257	1,272	1,436	1,951	2,215	2,519
Income	-445	-588	-448	-1,095	-497	-774
Current transfers	293	243	214	198	640	362
Capital account	330	358	386	347	737	746
Financial account	1,832	2,411	525	735	-127	-581
Spanish investment abroad 1/	-707	-501	-1,207	-775	-511	-1,021
Foreign investment in Spain 1/	3,570	2,623	8,043	-1,355	3,374	1,074
Other Spanish investment abroad 2/	-727	-4,109	-9,402	1,325	-4,687	265
Other foreign investment in Spain 2/	1,186	2,620	2,517	1,533	843	2,172
Changes in reserves	-1,489	1,778	574	7	856	-3,071
Errors and omissions	-108	-608	-216	-169	-768	-713

Source: Bank of Spain, Boletín estadístico.

1/ Including foreign direct investment and marketable securities.

2/ Including loans, deposits, and repurchase operations.

Table 34. Spain: Balance of Payments, 1991-96

	1991	1992	1993	1994	1995	1996
	(Transaction basis; in billions of U.S. dollars)					
Current account	-19.7	-21.2	-5.8	-6.8	1.2	3.6
Goods	-30.3	-30.4	-15.0	-14.8	-17.7	-13.1
Exports	60.2	65.8	62.1	74.0	92.7	94.1
Imports	-90.5	-96.2	-77.0	-88.8	-110.4	-107.2
Services	11.9	12.7	11.1	14.7	17.9	18.9
Income	-4.2	-5.8	-3.6	-8.2	-4.0	-5.4
Current transfers	2.9	2.3	1.6	1.5	5.1	3.2
Capital account	3.2	3.5	2.9	2.6	6.0	5.1
Financial account	17.7	23.6	4.6	5.5	-1.0	-4.8
Spanish investment abroad 1/	-6.9	-5.1	-9.5	-5.7	-4.2	-6.8
Foreign investment in Spain 1/	35.1	25.2	63.7	-10.1	27.6	13.7
Other Spanish investment abroad 2/	-7.6	-39.8	-74.6	9.2	-37.5	-10.5
Other foreign investment in Spain 2/	11.4	26.0	20.1	12.0	6.5	21.3
Changes in reserves	-14.4	17.4	4.9	-0.0	6.5	-22.5
Errors and omissions	-1.2	-5.9	-1.7	-1.2	-6.2	-4.0

Source: Bank of Spain, Boletin estadistico.

1/ Including foreign direct investment and marketable securities.

2/ Including loans, deposits, and repurchase operations.

Table 35. Spain: Current Account Balance, 1991-96

	1991	1992	1993	1994	1995	1996 1/
	(Transaction basis; in billions of pesetas)					
Merchandise, net	-3,159.3	-3,088.5	-1,896.7	-1,966.7	-2,200.6	-1,488.9
Receipts	6,224.7	6,757.3	7,876.5	9,889.1	11,540.4	9,354.9
Payments	9,383.9	9,845.7	9,773.2	11,855.8	13,741.0	10,843.8
Services, net	1,257.3	1,272.0	1,435.7	1,951.1	2,215.3	1,953.5
Tourism and travel	1,517.8	1,699.1	1,911.5	2,322.2	2,605.9	2,192.4
Receipts	1,991.1	2,265.1	2,514.1	2,875.4	3,161.0	2,671.9
Payments	473.4	566.0	602.7	553.2	555.1	479.5
Other services	-260.4	-427.1	-475.8	-371.1	-390.5	-239.0
Receipts	1,055.2	1,181.9	1,424.7	1,670.8	1,813.5	1,550.7
Payments	1,315.6	1,609.0	1,900.5	2,041.9	2,204.1	1,789.7
Income, net	-445.0	-587.6	-447.6	-1,094.7	-496.6	-623.6
Investment income	-467.3	-610.1	-447.2	-1,095.6	-496.0	-621.7
Receipts	1,109.2	1,417.7	1,490.9	1,148.4	1,646.3	1,271.4
Payments	1,576.5	2,027.9	1,938.1	2,243.9	2,142.3	1,893.2
Labor income	22.3	22.5	-0.4	0.9	-0.6	-1.9
Receipts	23.6	24.7	14.2	13.9	19.5	16.0
Payments	1.2	2.2	14.6	13.1	20.1	17.9
Transfers	293.0	242.6	213.6	197.8	639.7	343.0
Private remittances, net	203.3	245.0	202.5	229.9	269.6	201.4
Official transfers, net	89.6	-2.3	11.1	-32.2	370.1	141.6
	(As percent of GDP)					
Memorandum items:						
Current account balance	-3.7	-3.7	-1.1	-1.4	0.2	0.3
Merchandises	-5.8	-5.2	-3.1	-3.0	-3.2	-2.7
Services	2.3	2.2	2.4	3.0	3.2	3.6
Tourism	2.8	2.9	3.1	3.6	3.7	4.0
Income	-0.8	-1.0	-0.7	-1.7	-0.7	-1.1

Source: Bank of Spain, Boletín Estadístico.

1/ January-September.

Table 36. Spain: External Trade, 1991-96 1/

	1991	1992	1993	1994	1995	1996 2/
	(Percentage change; unless otherwise indicated)					
Exports, f.o.b. (total in billions of pesetas)	6,225.7	6,605.7	7,754.6	9,796.3	11,423.1	12,726.0
Value	10.3	6.1	17.4	26.3	16.6	10.8
Unit price	-0.9	1.0	5.1	4.3	6.5	2.0
Volume	11.3	4.9	11.7	21.2	9.7	8.7
Exports, f.o.b. (nonenergy; in billions of pesetas)	5,948.4	6,417.5	7,534.8	9,589.3	11,236.3	12,386.1
Value	10.8	7.9	17.4	27.3	17.2	9.6
Unit price	-1.4	1.5	4.7	4.3	6.3	1.7
Volume	12.3	6.1	12.0	22.0	10.4	7.9
Exports, f.o.b. (manufactured final goods; in billions of pesetas)	2,527.4	2,809.0	3,243.1	4,149.3	4,790.9	5,298.8
Value	13.5	11.1	15.5	27.9	15.5	9.8
Unit price	4.7	3.7	6.8	2.3	1.7	1.7
Volume	8.5	7.0	7.8	24.9	13.8	8.3
Imports, c.i.f. (total in billions of pesetas)	9,672.1	10,205.0	10,131.0	12,348.7	14,318.3	15,241.8
Value	8.5	5.5	-0.7	21.9	15.9	5.5
Unit price	-2.6	-1.2	5.1	5.9	4.4	1.8
Volume	11.5	6.8	-5.7	15.2	11.0	3.6
Imports, c.i.f. (nonenergy; in billions of pesetas)	8,625.3	9,180.8	9,029.6	11,190.7	13,130.5	13,870.8
Value	9.4	6.4	-1.6	23.9	17.3	4.7
Unit price	-2.7	-0.1	4.3	6.3	4.4	0.8
Volume	12.5	6.6	-5.8	16.7	12.4	3.8
Imports, c.i.f. (energy in billions of pesetas)	1,046.8	1,024.2	1,101.4	1,158.0	1,187.7	1,371.0
Value	1.3	-2.2	7.5	5.1	2.6	14.6
Unit price	-5.3	-10.1	11.0	3.1	4.2	12.9
Volume	6.6	8.6	-4.2	3.2	-1.3	1.6
Trade balance (in billions of pesetas)	-3,446.5	-3,599.3	-2,376.4	-2,552.4	-2,895.2	-2,515.7
Memorandum items						
Exports, f.o.b. (in billions of US$)	62.1	58.5	55.3	74.0	93.2	100.0
Imports, c.i.f. (in billions of US$)	96.5	90.4	72.2	93.3	116.9	119.8
Real total domestic demand in Spain	2.7	1.0	-3.9	1.5	-0.1	--
Market growth 3/	6.0	5.9	-0.7	8.3	6.3	5.8
MERM effective exchange rate	2.2	0.8	-9.7	-8.0	-1.6	...

Sources: Ministry of Economy and Finance, Sintesis Mensual de Indicadores Economicos; and staff estimates.

1/ Based on customs statistics.
2/ January-November.
3/ Calculated on the basis of the movement in non-oil import volumes of Spain's major trading partners.

Table 37. Spain: Trade Composition by Products, 1991-96 1/

	1991	1992	1993	1994	1995	1996 2/
Net	(In billions of pesetas)					
Consumer goods	145.7	-103.1	385.2	919.5	1,377.7	1,516.5
Food	64.8	64.0	189.1	254.6	323.3	517.4
Other consumer goods	80.9	-167.1	196.1	665.0	1,054.4	999.1
Intermediate goods	-2,422.2	-2,595.4	-2,269.1	-2,839.2	-3,488.4	-3,248.0
Capital goods	-1,170.0	-900.8	-492.5	-632.7	-784.5	-784.2
Exports	(Percent change; unless otherwise indicated)					
Consumer goods (in billions of pesetas)	2,487.6	2,743.1	3,210.2	4,137.0	4,820.1	5,236.7
Value	16.0	10.3	17.0	28.9	16.5	7.4
Price	4.7	3.5	7.1	4.8	6.0	1.6
Volume	10.6	6.7	9.2	22.8	10.2	5.8
Food (in billions of pesetas)	747.0	838.6	1,013.2	1,258.4	1,455.2	1,637.7
Value	14.2	12.3	20.8	24.2	15.6	11.8
Price	5.6	1.1	3.1	6.0	10.8	6.1
Volume	7.4	11.7	16.6	17.3	4.1	4.8
Other consumer goods (in billions of pesetas)	1,740.6	1,904.5	2,197.0	2,878.6	3,364.9	3,599.0
Value	16.7	9.4	15.4	31.0	16.9	5.6
Price	4.2	4.6	8.8	4.1	3.7	-0.6
Volume	12.0	4.5	5.8	25.5	13.0	6.2
Intermediary goods (in billions of pesetas)	2,922.0	2,937.7	3,464.5	4,350.1	5,147.8	5,755.6
Value	7.1	0.5	17.9	25.6	18.3	11.4
Price	-7.2	-1.3	3.8	5.5	9.6	1.0
Volume	15.6	1.7	13.6	19.1	8.0	10.2
Investment goods (in billions of pesetas)	816.1	924.9	1,079.9	1,309.3	1,455.2	1,733.7
Value	6.0	13.3	16.8	21.2	11.1	19.9
Price	5.9	1.5	3.7	-2.2	-1.9	7.6
Volume	0.3	11.4	12.5	23.6	13.6	12.2
Imports	(Percent change; unless otherwise indicated)					
Consumer goods (in billions of pesetas)	2,341.9	2,846.2	2,825.0	3,217.5	3,442.4	3,720.2
Value	19.7	21.5	-0.7	13.9	7.0	7.2
Price	2.7	1.1	6.4	2.9	2.2	2.0
Volume	16.5	20.4	-6.8	10.9	4.5	5.1
Food (in billions of pesetas)	682.2	774.6	824.1	1,003.8	1,131.9	1,120.3
Value	23.5	13.6	6.4	21.8	12.8	-1.7
Price	6.4	3.2	2.3	5.1	5.1	0.9
Volume	15.8	10.2	3.4	16.3	7.4	-2.5
Other consumer goods (in billions of pesetas)	1,659.7	2,071.6	2,000.9	2,213.7	2,310.6	2,599.9
Value	18.2	24.8	-3.4	10.6	4.4	11.6
Price	1.3	0.2	7.9	2.2	0.8	2.6
Volume	16.7	24.6	-10.6	8.6	3.2	8.7
Intermediate goods (in billions of pesetas)	5,344.2	5,533.1	5,733.6	7,189.3	8,636.2	9,003.7
Value	5.0	3.5	3.6	25.4	20.1	3.4
Price	-6.1	-3.2	3.8	8.1	5.5	1.5
Volume	12.0	6.8	-0.2	16.0	13.9	1.8
Investment goods (in billions of pesetas)	1,986.1	1,825.7	1,572.4	1,942.0	2,239.6	2,517.9
Value	6.2	-8.1	-13.9	23.5	15.3	11.1
Price	1.1	1.7	9.2	2.9	3.8	2.3
Volume	5.1	-9.3	-21.2	19.9	11.0	8.6

Source: Ministry of Economy and Finance, Sintesis Mensual de Indicadores Economicos.

1/ Based on customs statistics.
2/ January-November.

Table 38. Spain: Direction of Trade, 1991-96

	1991	1992	1993	1994	1995	1996 1/
			(In billions of pesetas)			
Export						
World Total	6,225.7	6,605.7	7,754.6	9,796.3	11,423.1	11,763.1
OECD	5,179.8	5,535.5	6,230.7	8,019.2	9,350.4	9,513.9
(Percentage of total)	83.2	83.8	80.3	81.9	81.9	80.9
United States	305.8	315.3	372.7	481.9	472.2	492.7
Japan	61.4	61.6	71.9	131.7	157.1	140.6
EC	4,548.7	4,845.9	5,348.1	6,917.2	8,264.6	8,433.7
(Percentage of total)	73.1	73.4	69.0	70.6	72.3	71.7
France	1,244.4	1,335.0	1,465.6	1,971.2	2,345.8	2,389.4
Germany	992.6	1,036.5	1,132.6	1,390.4	1,760.1	1,719.6
Italy	706.7	719.4	704.4	902.2	1,045.3	1,038.6
Portugal	410.4	496.5	563.2	762.6	951.1	1,013.6
Developing countries	759.8	868.5	1,261.6	1,475.4	1,709.2	1,747.7
(Percentage of total)	12.2	13.1	16.3	15.1	15.0	14.9
OPEC	215.4	231.9	307.0	305.5	338.0	314.0
Latin America	145.4	195.8	304.7	404.2	541.3	619.7
Others	286.0	201.7	262.3	301.7	363.5	501.4
Import						
World Total	9,672.1	10,205.0	10,131.0	12,348.7	14,318.3	14,106.3
OECD	7,753.8	8,203.4	8,000.2	9,779.9	11,364.6	11,183.2
(Percentage of total)	80.2	80.4	79.0	79.2	79.4	79.3
United States	770.5	755.0	739.2	901.0	919.1	903.3
Japan	451.5	475.6	434.5	440.0	472.7	398.6
EC	6,091.6	6,485.7	6,308.0	7,915.4	9,362.5	9,317.1
(Percentage of total)	63.0	63.6	62.3	64.1	65.4	66.0
France	1,467.7	1,619.3	1,700.1	2,155.7	2,454.9	2,522.1
Germany	1,565.5	1,673.7	1,514.9	1,803.7	2,189.6	2,077.5
Italy	971.7	1,003.1	856.4	1,104.5	1,310.0	1,343.5
Portugal	263.3	275.8	268.7	343.2	421.6	413.4
Developing countries	1,694.4	1,756.3	1,787.4	2,188.4	2,495.0	2,524.1
(Percentage of total)	17.5	17.2	17.6	17.7	17.4	17.9
OPEC	679.3	586.2	590.9	738.8	789.1	876.7
Latin America	282.0	294.7	316.2	400.2	472.6	449.3
Others	223.9	245.3	343.4	380.5	458.6	399.0
Net						
World Total	-3,446.5	-3,599.3	-2,376.4	-2,552.4	-2,895.2	-2,343.2
OECD	-2,574.0	-2,668.0	-1,769.5	-1,760.7	-2,014.3	-1,669.3
United States	-464.6	-439.7	-366.4	-419.2	-446.8	-410.6
Japan	-390.1	-414.0	-362.7	-308.3	-315.7	-257.9
EC	-1,542.9	-1,639.9	-959.9	-998.2	-1,098.0	-883.4
France	-223.4	-284.2	-234.5	-184.5	-109.0	-132.7
Germany	-572.9	-637.1	-382.2	-413.3	-429.4	-357.9
Italy	-265.0	-283.6	-152.0	-202.4	-264.8	-304.9
Portugal	147.2	220.7	294.5	419.4	529.6	600.2
Developing countries	-934.6	-887.8	-525.8	-713.0	-785.8	-776.4
OPEC	-463.9	-354.3	-283.9	-433.3	-451.1	-562.7
Latin America	-136.6	-98.9	-11.6	4.0	68.7	170.4

Source: Ministry of Economy and Finance.

1/ January-November.

Table 39. Spain: Selected Indicators of Export Performance, 1990-96

	1990	1991	1992	1993	1994	1995	1996
	(Annual percentage changes; unless otherwise indicated)						
Market growth 2/	6.5	6.0	5.9	-0.7	8.3	6.3	5.8
Export growth 3/							
Total	13.0	12.3	6.1	12.0	22.0	10.4	8.3
Industry	16.1	8.5	7.0	7.8	24.9	13.8	10.5
Market share	6.1	5.9	0.3	12.8	12.7	3.9	2.4
Tourist arrivals (in thousands)	52,044.1	53,495.0	55,330.7	57,263.3	61,428.0	63,255.0	...
(Annual percentage change)	-3.7	2.8	3.4	3.5	7.3	3.0	...
Indices of real effective exchange rate:							
based on export prices relative to:							
Industrial countries	0.7	-1.7	-0.6	-9.3	-4.9	2.3	3.3
EU countries	-1.6	-1.2	-1.3	-7.8	-4.9	1.2	2.7
EMS narrow band	-1.9	-0.5	-2.5	-8.9	-5.7	0.3	4.9
based on ULC in manufacturing relative to:							
Industrial Countries	9.2	0.1	0.8	-11.8	-8.6	-3.6	1.3
EU countries	6.6	0.5	0.1	-9.9	-8.2	-4.7	0.2
EMS narrow band	6.8	2.3	-2.1	-15.1	-8.0	-6.6	1.0
Memorandum items:							
Exchange rates							
Pesetas per U.S. dollar	101.9	103.9	102.4	127.2	134.0	124.7	126.3
(Percentage change)	-13.9	1.9	-1.5	24.3	5.3	-6.9	-3.1
Pesetas per deutsche mark	63.1	62.6	65.6	76.9	82.6	87.0	84.2
(Percentage change)	0.1	-0.7	4.7	17.2	7.4	5.4	-0.9

Sources: Bank of Spain; IMF, World Economic Outlook, and staff estimates.

1/ January-June.

2/ Calculated on the basis of the growth of non-oil import volumes of Spain's major trading partners.

3/ Non-oil exports.

Table 40. Spain: Official Development Assistance, 1990-96

(Disbursements in millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996
Official development assistance	958.7	1,259.6	1,531.0	1,302.3	1,263.9	1,506.5	1,280.5
Technical and cultural assistance	180.2	198.9	207.5	173.1	141.5	283.0 1/	...
Food and emergency aid	23.0	16.6	18.0	12.2	6.9	--	
Concessional credits	376.8	516.8	795.7	745.4	597.4	641.4	...
Contributions to international organizations	378.7	527.3	509.8	368.5	451.1	582.2	...
Debt relief	--	--	--	3.2	67.0	--	--
Memorandum items:							
Official development assistance as percentage of GDP	0.20	0.24	0.27	0.28	0.26	0.28	0.20
Exchange rate pesetas/U.S. dollar	102.2	104.1	102.4	128.0	133.9	124.7	125.0

Sources: Ministry of Economy and Finance, Informacion Commercial Espanola; and data provided the Spanish authorities.

1/ Includes food and emergency aid.