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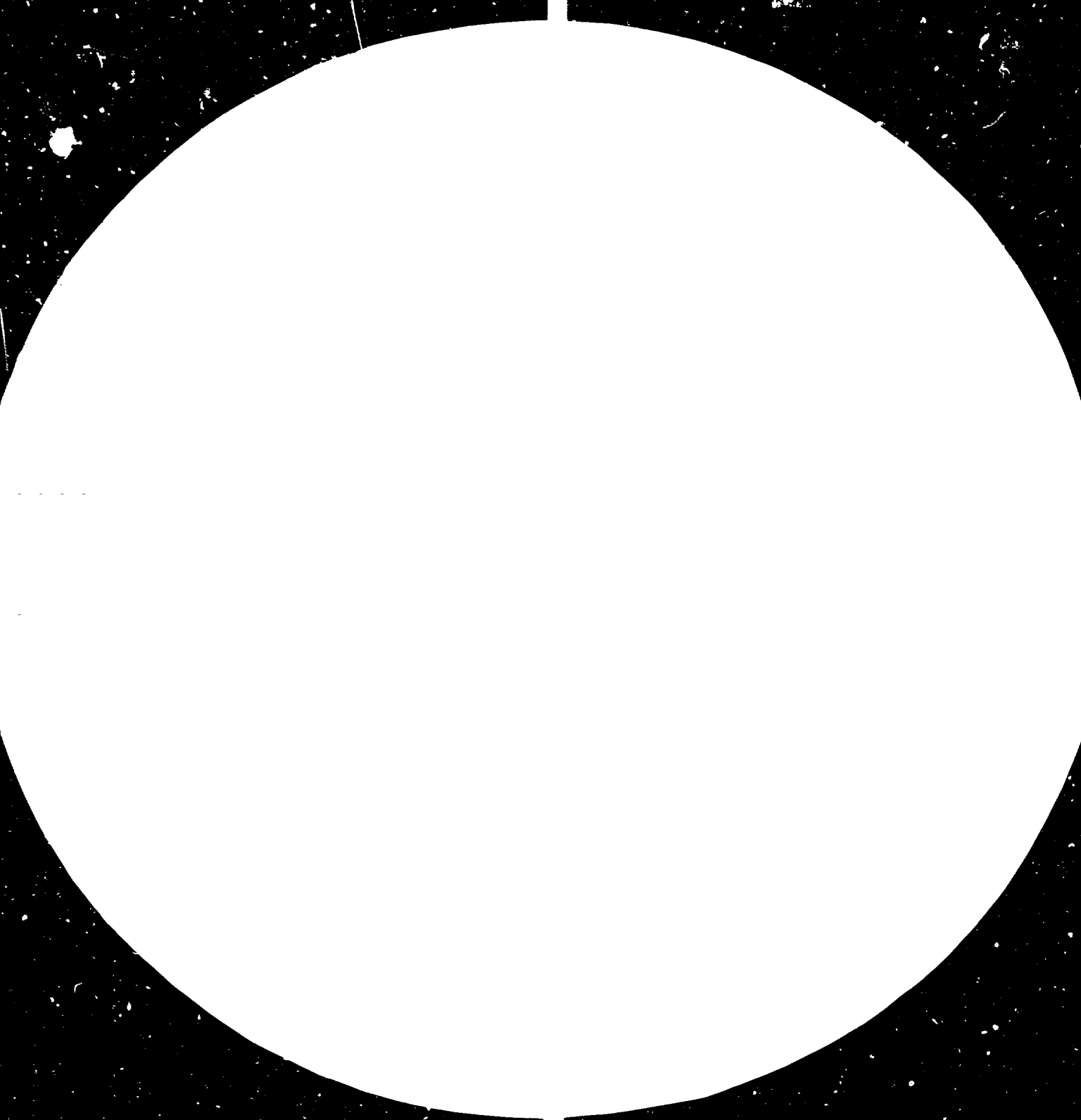
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2.8



3.2



3.6



4.0



4.5



5.0

When using this chart, the resolution of the system is determined by the number of the first pattern that is not resolved. For example, if the patterns 1.0, 1.1, 1.25, and 1.4 are resolved, the resolution of the system is 1.4.

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INFORMATION PAPER

A CASE STUDY OF INDUSTRIAL DEVELOPMENT FINANCING:

SPAIN \* .

By

The Spanish Ministry of Industry and Energy

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\* The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been translated from an unedited original.

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## INTRODUCTION

This paper seeks to draw together the most typical features of Spanish experience in the field of industrial development financing, in anticipation of the presentation at the advisory meeting to be convened by UNIDO in Madrid next October.

The information paper consists of two parts. The first includes a review of the evolution of Spain's industrial economy from 1960 onwards, and a short description of the impact of the oil crisis on it, drawing particular attention to the role of the public sector, and the external environment. The second part is concerned solely with the financial aspects, emphasising both the development of internal financing mechanisms and the contribution of external resources, whether as investments or loans.

The document is accompanied by an annex with thirty one tables and related index, which contain the statistical information on which the paper is based.

## 1. THE SPANISH ECONOMIC DEVELOPMENT PROCESS

During the period 1960-75 the Spanish economy experienced a long spell of economic expansion, which led to a substantial rise in the people's standard of living and profound structural changes in the economic system. In this section the most typical features of the development process are set out, with emphasis on those aspects which have had a significant influence on the management of our economy: on the one hand, the state, both as the prime mover of the industrialisation policy and in its direct intervention in production activities, and, on the other hand, the international economic environment, which was largely favourable to Spanish growth.

### 1.1. Basic features of Spain's economic development

A general review is given here of Spain's economic development, in order to trace out the path the system has followed, to pinpoint the successes achieved, and to identify the options taken. Firstly, there is a brief reference to the position before take-off; then an exposition of the basic features of industrial and economic development during the period 1960-1975; and finally an explanation of the reverses suffered as a result of the international economic crisis.

#### Historical background

Until 1960, the Spanish economy - based on unproductive agriculture and a low level of industrialisation - developed within a framework of limited exposure to the outside world and a high level of state intervention, and it achieved only modest rates of growth and product diversification. The choice of self-sufficiency in 1940 was an expression of fundamentally nationalistic sentiments, although largely resulting from the international situation: in the first place, the world war, and when that ended, the state of isolation imposed on our country.

The policy of self-sufficiency manifested itself externally, in a strengthening of protectionism: to already traditionally high tariff barriers severe quantitative restrictions were added (import quotas and licences, exchange control, etc.) which closed off the domestic market from foreign competition. Internally, an industrialisation policy aimed at achieving self-sufficiency, particularly in essential goods and those connected with national defence. To this

end the direct initiative of the public sector was harnessed, with the creation of the Instituto Nacional de Industria, (I.N.I.), and various measures to supervise and control private activity were introduced. These regulated the setting up, expansion and resiting of factories. the distribution of raw materials, and prices. The concept of an "industry of national importance" was introduced, by means of which benefits were granted to certain industrial sectors and firms.

It is worth mentioning, as an example of the results achieved during this period, that the income level reached immediately before the civil war was not passed again until 1952, and that the average annual level of increase in industrial production in the 40's was 3.5%. At this stage, industrial growth came up against the narrowness of the home market, and was throttled by the shortage of basic raw materials (cement, steel and non-ferrous metals).

The self-sufficiency policy began to weaken from 1951 onwards, when the stagnation of the 40's gave place to a modest increase in national income (a mean of 3% in the period 1950-58) and an increase in the rate of growth of manufactured goods. All the same, the economic development of this period was characterised by the appearance of significant imbalances, and in particular strong inflationary pressures. These led to the introduction of the 1959 Stabilisation Plan, which sought to bring elements of order and stability into the system, to open up the economy to the outside world, and to lay foundations for subsequent sustained economic growth.



Changes carried out in the period 1960-1975

The historical background having been outlined, the main changes that took place in the Spanish economy will now be described, and specifically those that occurred in the industrial sector during the long period which began at the start of the 60's and came to an end in 1975, at which time the serious effects of the oil crisis were already being felt but, as yet, had not been possible to overcome.

The intensified process of transformation of the standard of living of the Spanish people, which in only 15 years went from subsistence to what might be described as widespread wellbeing, was a result of the phase of explosive growth that was experienced by the fundamental variables in the system. As examples and indicators of this sustained development, the following may be quoted:

- . In the period 1960-75, Gross Domestic Product increased in real terms at a cumulative annual rate of 7%. This rate of expansion over such a long period has no precedent in Spain's economic history, and is one of the highest achieved, in both industrialised and developing countries.
  
- . At the same time, per capita income increased at an annual rate of 5.3%. In 1960, Spanish per capita income was 28.7% of the French, and 50% of the Italian figure. 15 years later, the ratios were 40.5% and 78% respectively.

- . The development process depended on a considerable level of investment, and the rates of increase in Gross Fixed Capital Formation were notably higher than those in most OECD countries. The rate of investment rose from less than a sixth, to a quarter of GDP. In the period 1965-70, the GFCF/GDP ratio was 23.9% in Spain, compared with an average of 21.6% in the OECD. Industrial investment grew at 15% annual rate.
  
- . In 1960, the total of imports and exports was equivalent to 15% of GDP, and in 1975 was up to 30%. During the period under review, imports multiplied nine times, and exports seven and a half times. Particularly noteworthy is the growth of industrial exports (20% per annum in real terms), over a period during which they increased from 50% to 80% of total sales abroad.
  
- . The relative share of GDP of the different sectors of activity changed considerably. In constant peseta values, agriculture went down from a fifth in 1960 to a tenth in 1975. On the other hand, industry's share rose significantly, since at the beginning of this period it contributed 30% of GDP and at the end of the period about 40%.
  
- . The industrial product multiplied 3.5 times, in real terms, during this period, equivalent to an annual increase of 8.7%, a rate which was only surpassed - and that by a small margin - by the impressive advance of the Japanese industrial economy. Except for the two years 1967 and 1971 the annual growth rate was always above 6%. During the four year period 1961-65, the industrial

product grew at an average annual rate of 12.5%. This is explained by the low level of industrialization from which it started, and the high level of under-utilisation of production capacity.

- . The number of persons employed in the different sectors of industry grew steadily, at an average rate of 100,000 jobs a year. The relative importance of industrial employment grew remarkably, from 31.5% in 1960 to 36.5% in 1975, whilst the primary sector fell from 41.7% to 26.2% during the same period.

The high expansion rates registered by industry in the 60's and middle 70's led to significant structural modifications with notable changes in the composition of industrial production, in the nature of the products, and in the demarcations between sectors.

With regard to the changes in the composition of industrial production, the following are significant:

- Increased importance of manufacturing industry as a whole, which in the mid 70's amounted to more than 75% of the gross added value generated by the secondary sector.
- Growing importance of the basic industries of iron and steel making, electrical equipment, ship building, cars and car parts, chemicals and petroleum derivatives.
- Appreciable decrease in the relative share of extraction industries and of the so-called traditional sectors, such as food and drink, textiles, timber, etc.

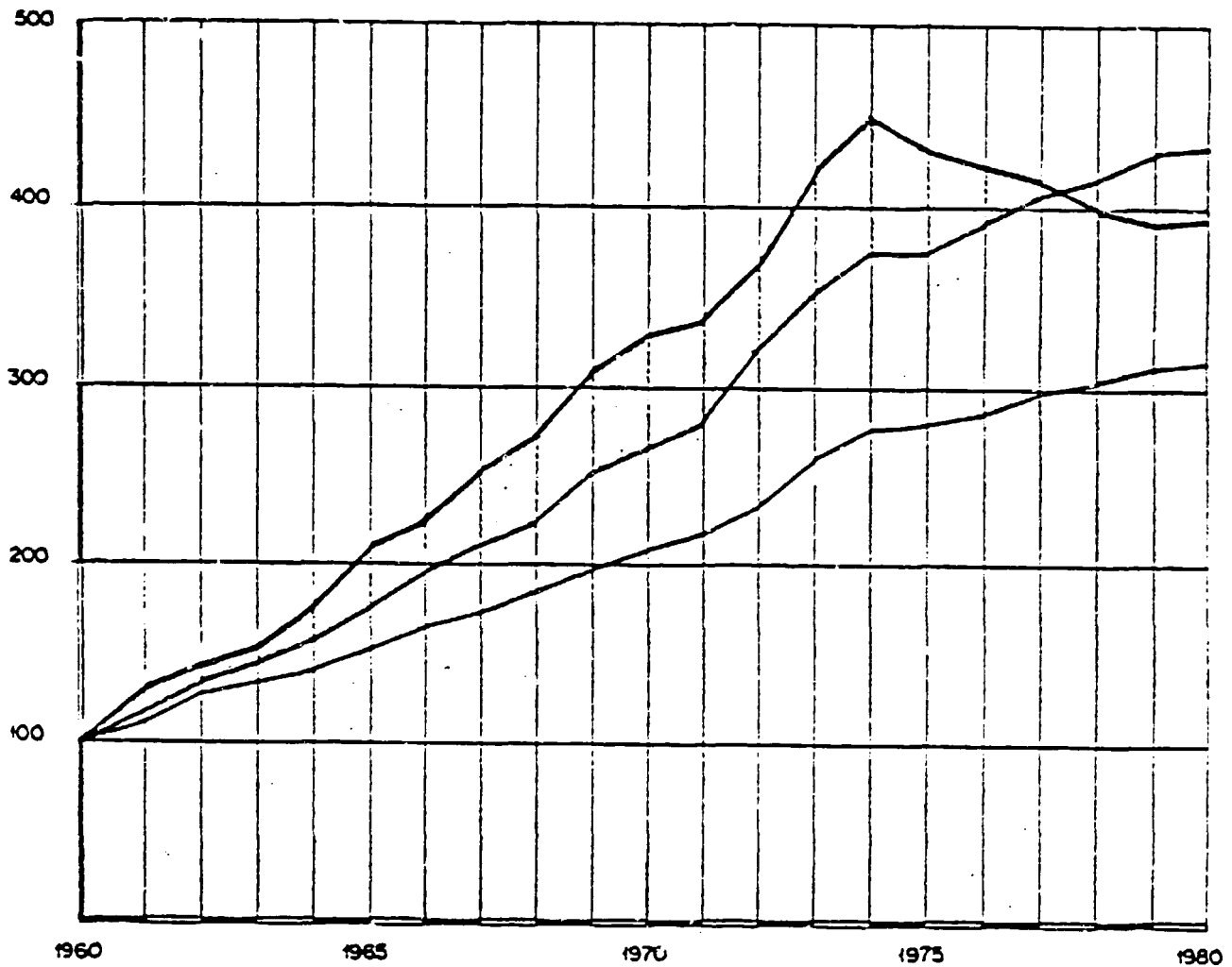
Industrial development was concentrated in those sectors of activity having a more complex production structure - but still without the adequate development of key sectors - and in these sectors production methods changed, and the capital required per unit of production increased. The following aspects stand out, in this situation:

- . A considerable increase in the requirements for intermediate goods, to satisfy ultimate consumer demand.
- . A growing use of inputs from the chemical, energy, metal and machinery sectors.
- . A comprehensive substitution process as between the different inputs, amongst which the following are particularly important:
  - traditional materials by chemical
  - coal by oil and electricity
  - natural textiles by artificial and synthetic fibres.
- . A widespread fall in the relative need for labour, particularly marked in the power, chemicals, steel industry, and the manufacture of machinery, together with a notable increase in the growing need for capital throughout the economy.

With reference to this last point, the significant increase in productivity of the labour force must be stressed. It is shown by the fact that the labour input to achieve a given production objective decreased at the rate of 6.3% per year. However, although Spanish industrial development has been capital-intensive, it has not been so to the same extent as the western economy as a whole; this is particularly remarkable when one takes into account that,

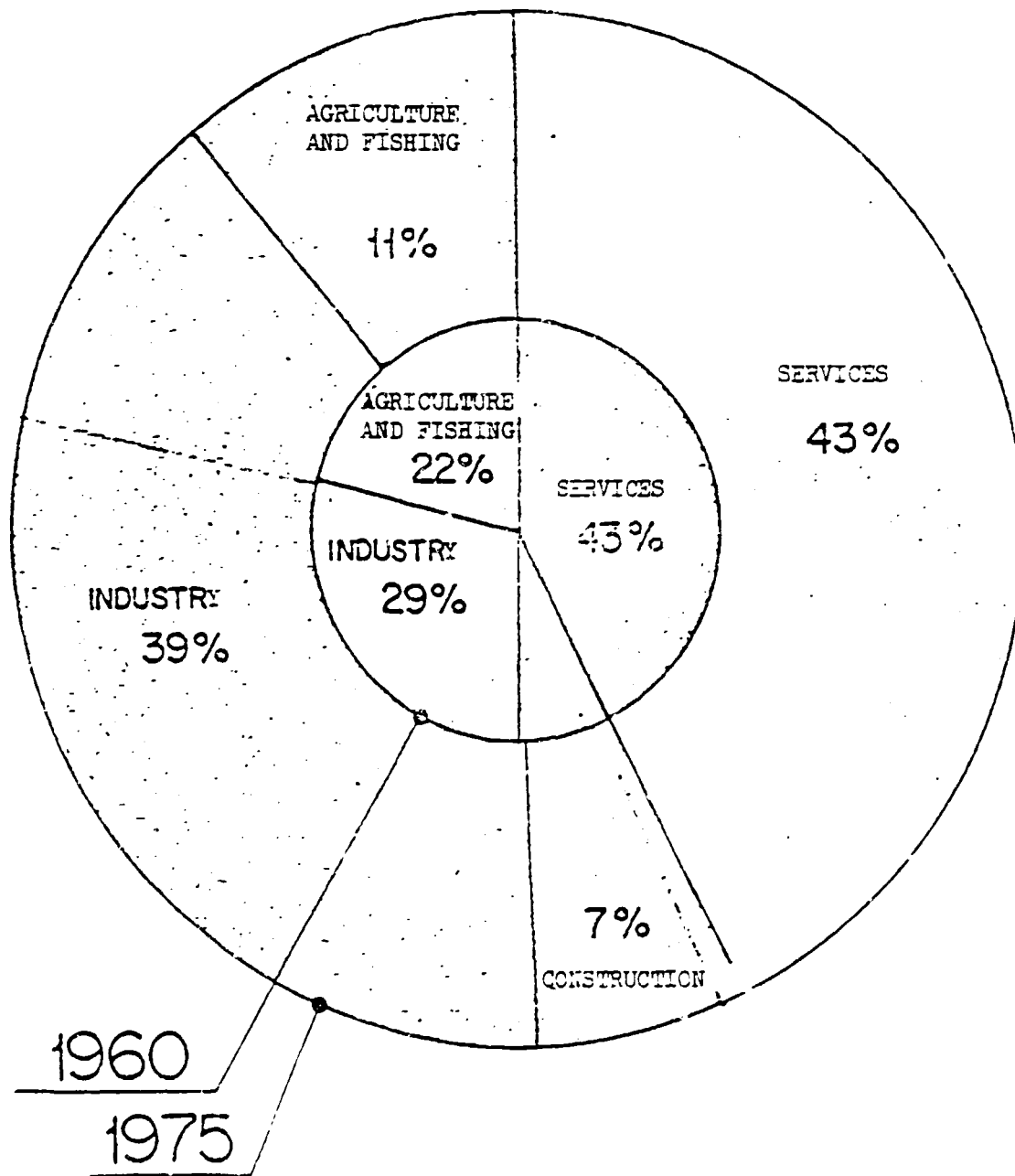
DEVELOPMENT OF GROSS DOMESTIC PRODUCT  
INDUSTRIAL PRODUCTION AND GROSS FORMATION OF CAPITAL IN  
REAL TERMS

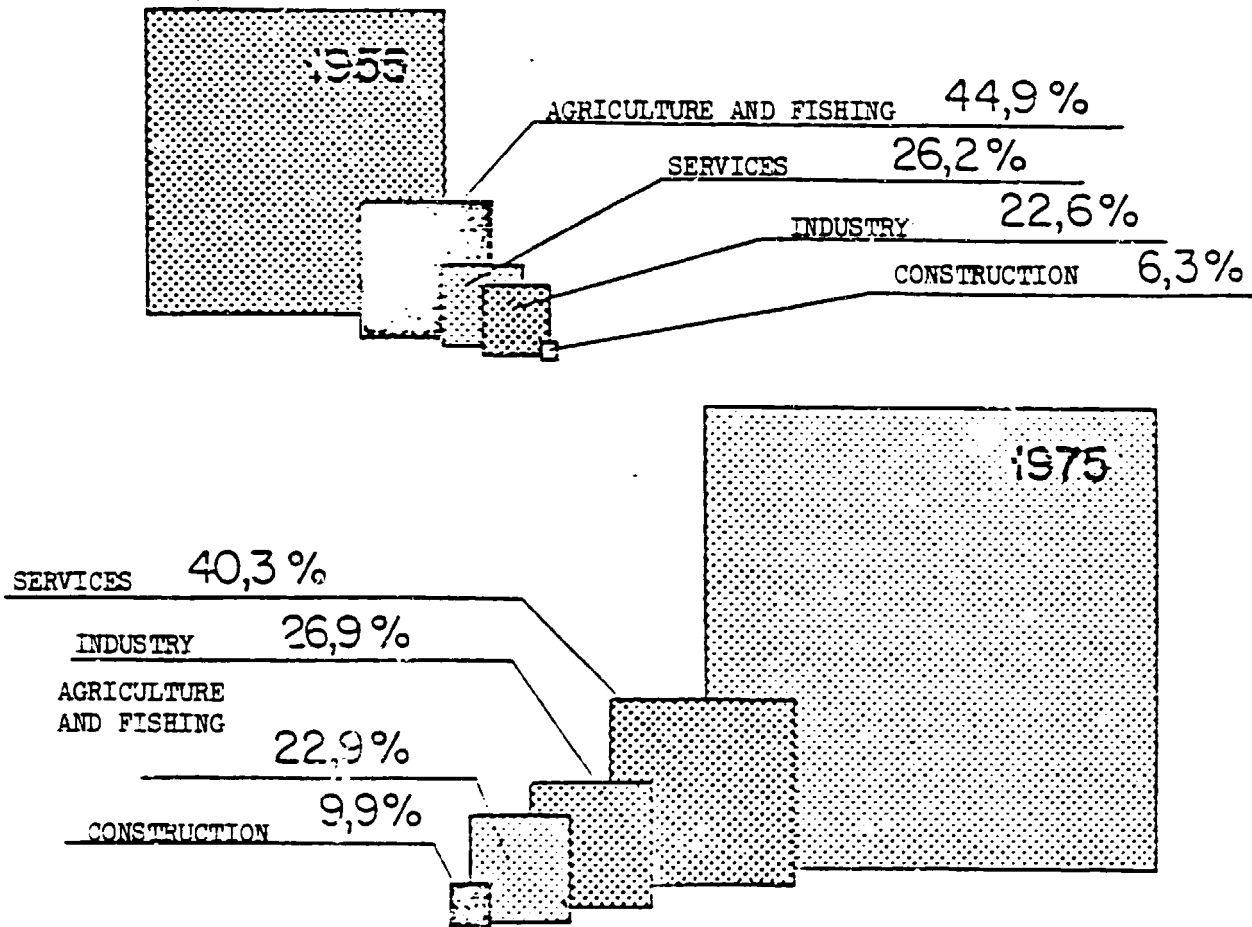
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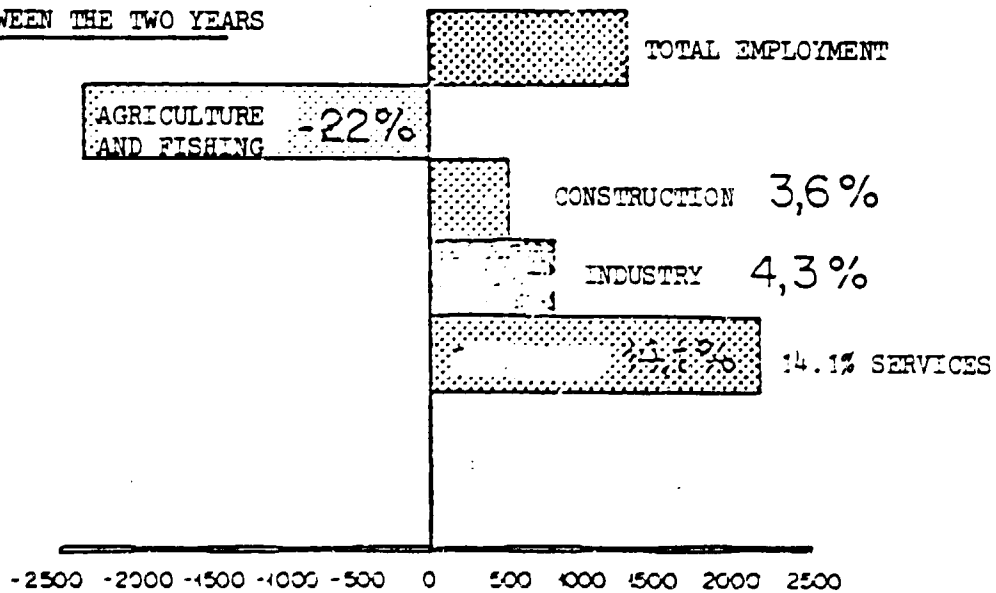
————— GROSS DOMESTIC PRODUCT  
————— INDUSTRIAL PRODUCTION  
————— GROSS FORMATION OF FIXED CAPITAL

STRUCTURE OF GROSS DOMESTIC PRODUCT

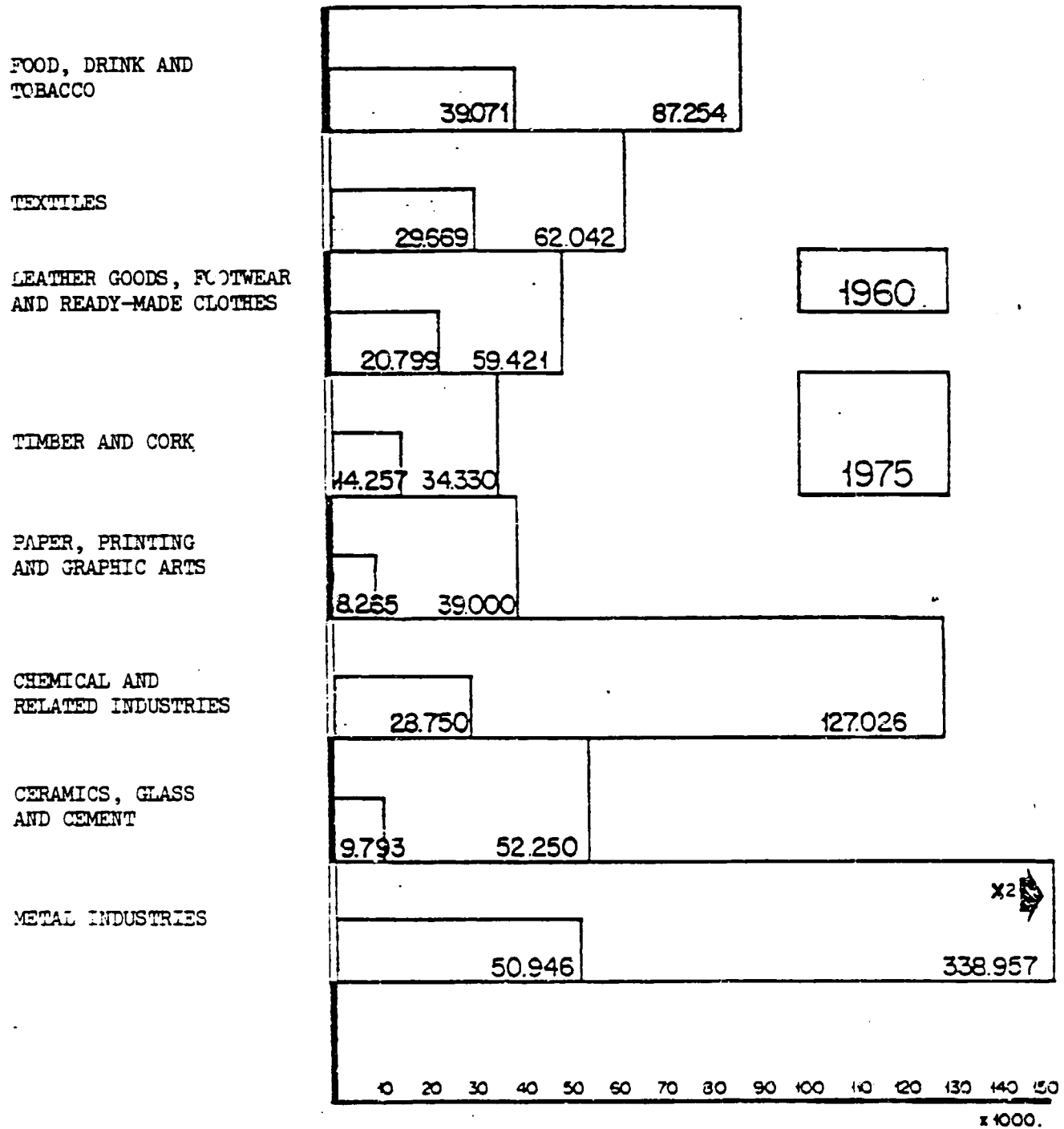




DIFFERENCE BETWEEN THE TWO YEARS  
(1955/1975)



LABOUR DISTRIBUTION IN SPAIN



INDUSTRIAL INCOME BY SECTOR 1960 1975.  
(IN MILLIONS OF 1964 PESETAS)



as compared with the OECD average, there has been a lower investment per employee in the Spanish economy, and a greater number of employees per unit of value added. In general, Spain has used less capital-intensive technology than other OECD countries, making relatively greater use of labour inputs, which it had in plentiful supply, because of the existence of an abundant reserve of under-employed manpower in the farming sector, and the high potential of women of active age who had not yet entered the labour market. This, together with the low standard of living of the population in the early years of development, resulted in a fairly modest level of wages, which helped to produce high rates of return on capital invested and encourage new ventures.

#### The effect of the crisis

The oil crisis which began in 1973 unleashed an era of depression throughout the whole world economy, and affected, although belatedly, the Spanish economy. The effects of recession have been felt more severely in Spain than in other Western countries because inflation rates, unemployment levels and changes in the balance of trade, have all been higher than in those countries as a whole. The following statistics illustrate this:

- . The rate of growth of GDP, which reached an average 7% in the period 1970-74, fell to 2.1% in 1975-80, and 0.3% in 1981.
- . The Formation of Gross Capital began falling sharply in 1974.

While from 1970 to 1974 it had grown to 9.1% per annum, from 1974 until 1980 it fell at an average rate of 2%. Gross investment fell from 25% of gross disposable national income in 1973 to 19% in 1980.

- . The increase in average annual industrial output went from 9.4% in 1970-74 to growth rates of less than 1%. The fall was particularly steep in basic industries and those employing a large workforce (steelmaking, shipbuilding, cars, textiles, building, etc.).
- . The fall in employment has been spectacular: 1,400,000 jobs disappeared between 1975 and 1980. As a result the unemployment rate, which remained at less than 3% during the development stage, is now about 14% of the active population.

The above indicates clearly the profound effects of the energy crisis on Spain's social and economic condition. Mention must also be made of the appearance of serious imbalance in the balance of payments - to which we shall refer later - and to severe inflationary tendencies: the retail price index suffered a 24.5% increase in 1977.

Factors to be mentioned which caused this increased weakness of the Spanish economy - besides the delay in economic policy making, resulting from a political transition occurring simultaneously - were a high degree of dependence on crude petroleum products, inferior technology, low productivity levels, and a pattern of industry sectors that was vulnerable in the face of changing labour divisions world-wide: sufficient specialisation had yet to be

achieved in advanced technology industries, while low and intermediate technology industries found themselves increasingly in competition with developing countries.

1.2. The State's role: policy options and direct involvement of the public sector.

As previously mentioned, the period before Spain's economic boom was marked by a pronounced policy of self-sufficiency, based on a high level of protection, and the harnessing of direct public enterprise - through the Instituto Nacional de Industria - in order to create an industrial base that was virtually non-existent in the 40's. INI's strategy was to enter those sectors of industrial activity which produced import-substitution goods, behind a protectionist screen. This is how the presence of the public sector can be explained in a variety of activities without regard to cost, often quite unconnected with the use of raw materials, and in a way seldom found in other countries. The chosen option of self-sufficiency brought with it costs which the private sector could not be expected to carry, so that the state had to underwrite the choice that had been made.

Industrial policy in the development stage

The self-sufficiency model having served its purpose, from 1960 onwards the route chosen was to open up to the outside world - still maintaining a high degree of protectionism - and to strengthen, at home, market mechanisms. Industrial policy embarked upon Development Plans which were binding for the public sector and indicative for the private sector. This was carried out by using target figures for overall and sector growth, publication of general guidelines for action, and by giving incentives as a stimulus. Thus the government sought to modernise and expand the country's basic infrastructure (communications, equipment, etc.)

in order to establish a framework suitable for the development of private enterprise; thus extensive public investment programmes were put in motion which amounted overall to a third of all investment during the development stage.

In the industrial field, the intervention of the public sector was based on setting up subsidiaries through which it entered those industries where the low rates of return or long periods of capital repayment made them unattractive to the private sector. To this end, INI's criteria for involvement were:

- . Inadequacy of private initiative
- . The need to prevent practices restrictive to competition
- . The strengthening of critical national industries and those connected with defence.

During the development stage, public enterprise began to diversify, following a strategy of moving into product areas outside the field of international competition, at a time when its participation in profitable export industries was in called into question.

In industry, measures were taken under the development plans to increase the size of enterprises by amalgamation, using incentives; and at modernising and restructuring, by means of joint action plans.

These consisted of agreements between the government and private firms under which the latter were granted specific benefits tied to the achievement of objectives, in such matters as production, employment, technology and exports. Public policy showed a preference for the steelmaking, shipbuilding, capital goods, footwear and preserved foods industries, even though it did not deliberately follow a particular line of specialisation.

Finally, special attention must be drawn to the overwhelming preoccupation in the planning policy with promotion of industrial exports, by means of a wide range of tax and financial incentives, with the purpose of increasing Spain's ability to buy raw materials and capital goods in international markets, without putting at risk the balance of payments. It is interesting to highlight the difference here between the stages of self-sufficiency and of development: in the former, import substitution was stressed, and in the latter, priority was given to encouragement of exports.

Even though opinions differ on the development plans and industrial policy of this period, it is generally agreed that, despite disparities between plan and execution, indicative planning played an important role in creating an environment of growth which inspired the emergence of entrepreneurial initiatives. The joint action policy was also relatively successful, it must be noted. Negative factors, which became important with the onset of the oil crisis, were the maintenance of protectionism, and the privileged treatment of certain industries and firms, which

resulted in a lack of competitiveness.

The response to the oil crisis

The fact that the economic crisis coincided with the political changes that took place in Spain in the period 1973-77, had a significant effect in delaying the adoption of measures to deal with the cost increases in fuel products and, in a word, to cope with the phase of acute depression which seized the world economy at that time.

The energy crisis affected every part of the Spanish economy, since domestic production of fuels, estimated as 33% in 1981, was low and dependence on energy imports, especially petroleum, was high. This all led to a significant effect on the balance of trade and payments, cost inflation, economic stagnation and unemployment.

Spain's oil imports cost her 64,000 million pesetas in 1973, equivalent to 11.4% of total imports and 21% of exports. In 1980, payments for oil imports had risen to 845,000 million pesetas, equivalent to 34.5% of total Spanish imports and 56.6%

of exports. In analysing this increase, it has to be borne in mind that over the period 1973-81, the share of oil in Spain's primary energy supply fell from 66.7% in 1973 to 61.4% in 1981.

The second oil crisis, in 1979/80, when there was a new leap upwards in crude prices, resulted in a change in the balance on current account, from a surplus of 134,436 million pesetas in 1978 to a deficit of 381,537 million in 1980. In the latter year, oil import payments exceeded considerably the income from tourism.

Although delayed, Spain set in motion an energy policy to deal with this crisis following the increase in cost of petroleum products which was enshrined in the National Energy Plan (PEN), proposed by the government and approved by the Spanish Parliament in July 1979.

The Plan's main objectives are:

- Decrease in dependence on petroleum. Preferential and maximum use of national energy resources, especially coal.
- Encouragement for the saving and conservation of energy through its rational use, based on a pricing policy to cover



the true costs of supply

- An increase in the level of security and economy in energy supplies, to which end PEN has opted for diversification of supply sources and preferential use of those which involve lower expenditure of foreign exchange.

#### Industrial Rehabilitation Policy

It seems appropriate to comment briefly on the industrial rehabilitation policy, since legislation for this is very recent, namely 1981, and has its background and motivation in the period now being reviewed.

The Western economic crisis has taken on in Spain particular features due to the delayed industrialisation, the characteristics of which were the indiscriminate creation of industries to supply a market of unsatisfied needs, plus a strong protectionism, lack of competitiveness, retarded technology, high wage costs, unsuitable organization and inadequate financial institutions.

To these shortcomings must be added others arising from the latest crisis, the sharp increase in raw materials costs, a major

slump in demand, and the lack of market resilience.

These structural shortcomings were not evident during the periods of expansion, but their effects began to be felt as a result of the crisis, making it necessary to find solutions which would allow adjustments to the economy. The industrial rehabilitation policy which is now in operation is a response to these essential adjustments.

Fundamentally, industrial rehabilitation entails pursuing certain objectives in an attempt to resolve the critical situation facing particular industries, and takes the form of the following certain courses of action:

- An improvement in the competitive position of Spanish industries in international markets and, consequently, a reduction in production costs to levels analogous to those of competing countries.
- Capitalisation of enterprises and resultant reduction in financial costs.
- Technological development and investment designed to offer the better quality goods required by international markets.
- Support for and special attention to product marketing, both at home and abroad.

To meet these objectives, a legislative framework was created to embrace the necessary measures, in the fields of finance, taxation and labour. These measures are of a temporary and exceptional nature, their application is limited to certain industries, and in no case do they provide for an increase in the output of the industries involved.

To sum up, the industrial rehabilitation policy which Spain is at present following, takes the form of a collection of measures which should allow a sector of industry to recover competitiveness in a free and unprotected market.

With regard to INI, in the depressed stage of the Spanish economy, a process of tidying up and rationalising public enterprise is being followed, in order to reduce the huge losses in the state sector, which in Spain are particularly large. Relevant statistics show that INI's enterprises produced 3.5% of GDP and employed 7% of the industrial workforce in 1980, in which year they absorbed 35% of industrial investment, and produced 15% of total exports.

#### Main guidelines of current industrial policy

The process of liberalisation in the Spanish economy began in the industrial field in 1967, and reached its climax in 1980,

with the Royal Decree on industrial liberalisation, which encourages the setting up, expansion and resiting of industries, with some exceptions based on public economic interest and national defence.

An industrial policy has been developed in parallel to tackle the challenges which industry faces, and is currently based on the following guidelines:

- a) Development of the National Energy Plan, previously referred to.
- b) Continuation of the industrial rehabilitation process, the main guidelines of which have already been described.
- c) Legislative support for innovation and technological development, at present in preparation; collaboration agreements between firms and official research institutes; a new law on patents; and, lastly, the strengthening of CDTI (Centre for Technological and Industrial Development), an autonomous body coming under the Ministry of Industry and Energy, which funds and encourages innovative projects and technological developments, all with the aim of improving the competitiveness of Spanish industry.
- d) Support for small and medium sized firms.

The agent for this is IMPI (Institute for Small and Medium Industrial Firms), an autonomous body attached to the Ministry of Industry and Energy which, in collaboration with different government agencies concerned with small and middle-sized firms, carries out tasks related to the training and improvement of management, provides technical and advisory services, supplies finance at special rates, and, finally, takes shareholdings in such private companies as mutual assurance societies and those in the service sector.

1.3. The external scene

The Spanish economic development process cannot be understood without reference to our international relationships. Spain's economic expansion was fortunate to coincide with a cycle of expansion in the western economy as a whole which, after it had overcome the effects of the second world war, underwent a period of sustained growth until the oil crisis. The effects of western prosperity on the Spanish economy may be summarized as follows:

- . Absorption of surplus Spanish labour by the European economies, which had a double effect: on the one hand it reduced unemployment problems in the Spanish economy, and on the other tended to stabilise the balance of payments on current account, because of the liberal flow of remittances from emigrants, which swelled the credit side of the balance.
- . Receipt by Spain of large flows of tourists, resulting from the growing demand for leisure arising from increased living standards in Europe, with consequent positive effects in the balance on services, and the spin-off in the construction and hotel industries.
- . Absorption by Europe of a significant amount of Spanish goods with resultant effects on the level of our exports.
- . Receipt by Spain of financial and technological surpluses from other western economies, which were converted into increases in production, employment and productivity

within the Spanish economic system, and provide some compensation, in the form of long-term investment, for the deficits on current account in the balance of payments.

The factors listed above had their repercussions on Spain's balance of payments, the main features of which are as follows:

The Spanish economy has a permanent and growing deficit on its visible imports account - a figure which has been particularly serious during the oil crisis.

Credits on invisibles (services and transfers) largely compensated, during the period of economic growth, for the continuous deficits in the visible balance. Nevertheless, since the economic crisis, the inadequacy of these compensating elements has become apparent.

Net entries of long-term capital frequently give rise to a surplus in the overall balance during the period of growth, and in the period 1975-1980, years of surplus and deficit alternate.

Finally, it should be pointed out that during the period of development, external factors in general were an obstacle to Spanish economic growth, and this despite the favourable balances from services - in respect of tourism - and from transfers - emigrants' remittances - (see table 5 in the Annex) which still

failed in some years to avert current account deficits, only being balanced by receipts of long-term capital. The situation significantly worsened during the economic crisis, because of the huge bill for petroleum products, which necessitated a large measure of foreign borrowing.

#### External trade

As has already been pointed out, the trade deficit has been a constant element of Spain's economic evolution, and it has worsened with the increase in oil prices.

It has been so despite our considerable export effort and a simultaneous change in the structure of sales abroad. Between 1961 and 1980, exports multiplied 35 times because of industrial development and the increase in demand of the western economies, which are our major customers (\*). The rate of increase in the export of manufactured goods since 1960 has been over 15%, and the proportion of industrial exports in the total has risen from 50 to 80% in the past 20 years, which represented a considerable improvement in real trade relations up till 1973 (+14%), but thereafter it deteriorated by 25%. It must be stressed that Spanish exports have grown faster than world demand, despite increased competition from newly industrialised countries and the high internal inflation rate. The weakness of the home market has helped to build up the propensity to export.

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(\*) Previously, export credits had been given a special discount service provided by the Bank of Spain



Imports, for their part, increased 37 times in the period 1961-80 as a result of the growing requirements for raw materials, intermediate products, capital goods and energy. Spanish imports continued to be linked to the growth of GDP until the crisis occurred, when they registered a persistent fall, as a result of the inflexibility of the Spanish economy in the face of the rise of petroleum prices. Oil at present forms a third of the total import bill; our energy imports cost the equivalent of 50% of our export earnings.

Nevertheless the cover rate of exports to imports has gone from an average 41.5% in the period 1960-65 to a mean of 62.6% in 1976-80.

#### Foreign trade policies

The department of economics decided on two basic options:

- A strong policy encouraging exports.
- The maintenance of high levels of protection for the domestic market against foreign competition.

As regards imports, the policy of more openness, started in 1960, became a progressive liberalisation of trade with a

reduction in quantitative restrictions and those governing the scope of state and general trade; however the import tariffs laid down in 1960 were clearly protectionist, although they were gradually eased. (\*)

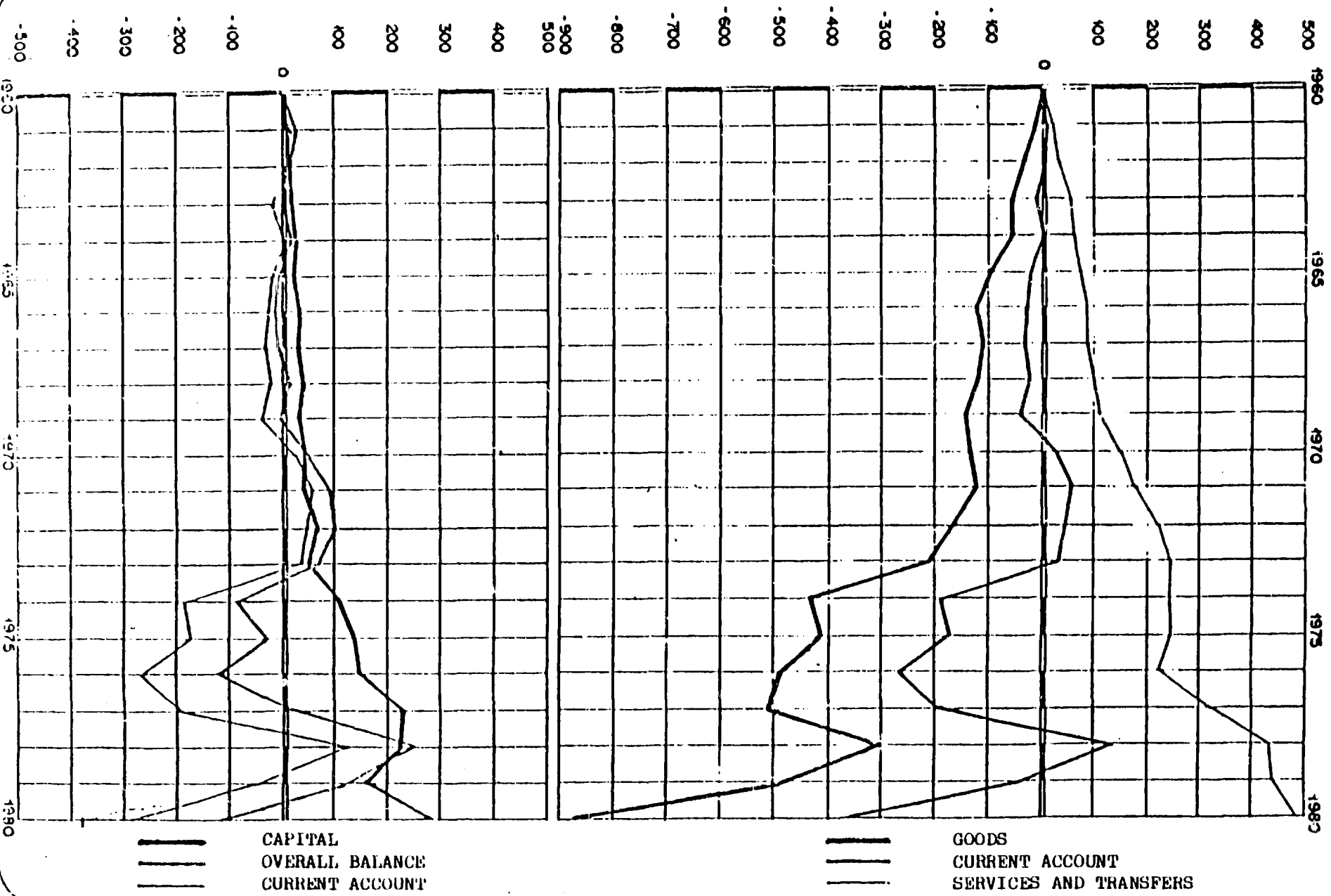
The level of protection of the Spanish economy against foreign competition has been the subject of conflicting views, along traditional lines: against the barriers put up to protect take-off of our industry, it has been pointed out that they slowed up development of our export sales, and propped up a number of inefficient activities which the appearance of the economic crisis highlighted.

Finally, a brief reference to exchange control policy is appropriate. The exchange rate established by the Stabilisation Plan of 1959 (60 pesetas to the dollar) held until 1967 (when it was fixed at 70 pesetas to the dollar), because of inflationary tendencies and the desire to keep the trade deficit down. There followed a process of revaluation which coincided with a fall in the value of the dollar, although there was a devaluation in relation to the currencies of other industrialised countries. Later it was decided to float within limits controlled by interventions on the part of the Bank of Spain, which maintained the peseta at a relatively high level during a period of imbalance in current account. Then in 1977 there was a devaluation of 20% (87 pesetas to the dollar). This was possibly excessive but it did help to limit the trade deficit.

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(\*) The arithmetic mean of the tariff went from 24.35% in 1960 to 17.11% in 1970.

DEVELOPMENT OF THE BALANCE OF PAYMENTS AND ITS  
PRINCIPAL COMPONENTS IN MILLIONS OF PESETAS.



||| CAPITAL  
||| OVERALL BALANCE  
||| CURRENT ACCOUNT

||| GOODS  
||| CURRENT ACCOUNT  
||| SERVICES AND TRANSFERS

### The escape valve of emigration

Despite the Spanish economy's spectacular growth, the system could not absorb the increase in the active population and the surplus of agricultural labour. Despite this, there were no unemployment problems thanks to the growth of demand for labour in the developed European countries, which welcomed a considerable migration of Spanish workers. Let us note here that the body of workers abroad at the beginning of the 70's has been put at 7% of the active Spanish population.

This situation is reflected in the balance of payments, with the well-known growth of credits from emigrants' remittances, which helped build up generous credit balances in transfer payments. In the overall period 1961-73 the positive balance of transfer payments (mostly emigrants' remittances) liquidated 30% of the commercial deficit.

During the crisis, the loss of job opportunities in European countries put a stop to emigration, and led to the return of great numbers of Spanish workers which brought down the hitherto growing rate of increase of the positive balance of transfer payments. Thus, during the period 1975-1980 it only managed to cover one fifth of the commercial deficit.

### The expansion of tourism

The considerable increase in the standard of living of the countries of Western Europe generated a large demand for tourism and travel, and Spain absorbed a significant share of this. The number of tourists entering Spain rose from 1.5 million in 1960 to 6.1 million in 1975. In the following years the rate of growth decelerated, although the figure for tourists entering Spain now stands at

about 40 million.

In parallel, the net income in foreign currency from tourism rose from 178,200 million dollars in 1960 to 4,124 million in 1980. Between 1961 and 1973, the foreign currency from tourism covered approximately four fifths of the trade deficit, and in 1979 it reached a figure similar to the commercial trade deficit.

Tourism has been the determining factor in the continuing surpluses in the balance of services, although this positive balance has been narrowing over the past 20 years as a result of the growing deficit in the investment income account. This has increased by five times in the past five years, as a result of the considerable indebtedness of the Spanish economy, and the increase in interest rates.

The flow of tourists has also had an impact on the construction industry, which has a considerable follow-on effect, and the hotel industry. In this respect, it is worth noting that the number of hotel places rose from 80,000 in 1950 to 1,400,000 in 1975.

From the time that Spanish tourism began to take off, its role in balancing the trade deficit has been regarded with apprehension, in view of its possible instability. Experience has shown that it has played a decisive role in avoiding imbalance of payments, which would have seriously compromised development. Spain's specialisation in middle to lower bracket tourism has been criticised, but one may question whether such a substantial return would have been obtained if an alternative had been chosen. In fact, Spain, on the basis of its proximity to Europe, its natural advantages, and its relatively cheap prices, was able to satisfy the demands of wide stratas of European population, who during this period were achieving higher standards of living.

The contribution of foreign capital

Although this is analysed in the chapter on external financing of our economy, it is worth giving advance mention here of the major role played by long-term capital inflows. These inflows, which resulted in overall balance of payment surpluses, were a factor in the build-up of Spain's financial status, and enabled high rates of investment to be sustained. Until the crisis, it consisted almost entirely of investment of capital in firms; but in recent years financing by means of international loans has been added to this, thus covering the gap in the balance of current account.

## 2. DEVELOPMENT FINANCE

Spanish economic development was possible as a result of a high level of internal savings which generated an abundance of finance channelled mainly through private banks. This was accompanied by a significant overseas contribution, mostly in the form of direct investment and, during the crisis, of loans obtained on the foreign market.

As regards the former, the national level of savings during the growth years was maintained at about a quarter of GDP, higher than the OECD average. The high level of savings by the public sector was the main contributor to this performance until the beginning of the 70's, but in recent years it has steadily fallen away. As for external funding, the share of foreign capital has amounted to no more than about 10% of total finance in the private sector.

There is a table in the annex which gives details of funding in the private sector since 1971, financial enterprises apart. Unfortunately Spanish national statistics do not include this information for earlier years, and thus it is not possible to provide a comprehensive set of figures.

It shows clearly that internal finance covered 90% of the total funding in the private sector up to the 1975 crisis, and that external finance reached a peak of 14% in the year of the crisis.

### 2.1. The channelling of internal finance

The Spanish financial system today is made up of the credit system - Bank of Spain, the commercial, industrial and foreign banking sectors, savings banks, and government credit - together

with a range of intermediaries which include credit cooperatives, rural banks, hire purchase organizations, holding companies, investment trusts, insurance companies, leasing and factoring companies, broking companies in the money market and the recently set up building societies. In addition, regional development companies exist, which are bodies for promoting local industrial enterprise in backward regions.

It should be borne in mind that foreign banking involvement was not authorised until 1978 so that, although it has grown up very rapidly, during the period under consideration it either did not exist or its influence was still insignificant.

Share issues have formed a proportion varying between 18 and 35% of total external funding in the private sector, but with a clear tendency to decrease since 1976. The fall in the importance of the stock market is even more marked if shares traded by the banking sector and savings banks are excluded from those considered above.

The funding of the Spanish economy has been supported basically by the credit system, and above all by private banking, in the face of relatively small new share issues. This fact, together with the importance of groups having privileged finance, and the government's heavy involvement in the credit system, are key characteristics of our financial system.

An examination of financial policy reveals a constant preoccupation with the channelling of resources towards particular activities, facilitating long-term finance, correcting the inflationary effects of financial mechanisms and, most recently, liberalising the conditions under which the system functions.



The evolution of funding systems

The period of self-sufficiency was characterized by the application of a permissive monetary policy, with little control over the system's liquidity. At this stage the financing of the Exchequer by means of automatically discountable public debt played a major role, so that the Bank of Spain was obliged to create all liquidity needed by the economy, the stock market was prevented from acquiring public share issues and the market from obtaining short-term public debt. At the same time, with the liquidity coming from the discounting of public funds, the private sector funded company requirements, and thus the role of the stock market was reduced.

The mixed character banking sector would lend for a maximum term of ninety days, but credit lines were continually renewed, so that this system did in fact provide medium and long term finance for business. The restrictions of the capital market led to a large flow of funds into private accounts, thus creating a large amount of liquidity, which more than covered the requirements of short-term credit and provided substantial surpluses for long-term business. During this stage the banks consolidated their grip on an industry which had an inadequate capacity for internal financing, and could only with difficulty go to the capital market.

Interest rates were subject to strict limits: maximum borrowing and minimum lending limits had the effect of restricting competition, and this led to a widespread illegal use of interest surcharges. This control of interest rates was of course connected with the structure of deposits in the banking system. In 1960 current accounts made up 53% of the total, savings accounts 31% and term accounts only 16%. These proportions changed over time, as the structure in 1980 was 33 - 17 - 50% respectively.

Between 1957 and 1958 the issue of discountable debt was stopped and attempts were made to coordinate government credit as foundations for the Stabilization Plan of 1959 and, from 1960 on, banks were authorised to give loans for more than 90 day periods. Nevertheless at the beginning of the 70's there was an awareness that the financial instruments were inadequate for the needs of medium and long-term investment, because of the excessive power of the banking sector over industry, and the lack of control of the monetary base. Hence the Fundamental Law for Control of Credit and Banking emerged, which sought to strengthen the Bank of Spain's supervision and control of the banks, and improvements in the machinery for medium and long-term financing were suggested, by means of strengthening the specialised agencies dealing in medium and long-term credit: government credit organisations, savings banks and the newly created industrial banks.

The introduction of industrial banking was one of the innovations of the reform, and aimed at encouraging initiatives and supplying medium and long term finance. In order to help industrial banks to acquire resources, they were authorised to issue deposit certificates (for two years or more) and savings bonds (for 5-10 years), but the low interest rates (4 and 5% respectively) were an obstacle to their being placed with private investors. So it was then decided to include them in the investment quotas of the savings banks, and in this way industrial banks were able to place their issues almost automatically, until this privilege ended in 1974. This was a hard blow for the industrial banks, although rates on their bonds were freed so as to facilitate their being taken up. Until then the industrial banking sector has boomed, its share of private sector funding having reached 12% in 1974.

However, there was soon a movement to regulate both types of banks in the same way. Thus in 1974 commercial banks were allowed to lend for periods in excess of 18 months, so long as such credits did not exceed a quarter of the total loans issued, and likewise the restrictions on the commercial operations of industrial banks were reduced.

From 1974 onwards, there was a slow and gradual liberalisation of the financial system, with the object of moving closer to the market with respect to the allocation of resources. Freedom in interest rates was allowed for loans of more than one year, and an attempt was made to reduce the size of privileged groups, and their interest rates were brought closer to market rates. For instance, the operation of government credit was brought more in line with market conditions, and foreign banks were allowed to operate.

#### The distribution of finance between the different bodies

As mentioned, the preponderant position of the private banks is notable: they contributed two-thirds of the total funding provided by the credit-issuing system. Of this the industrial banks provided about 15%.

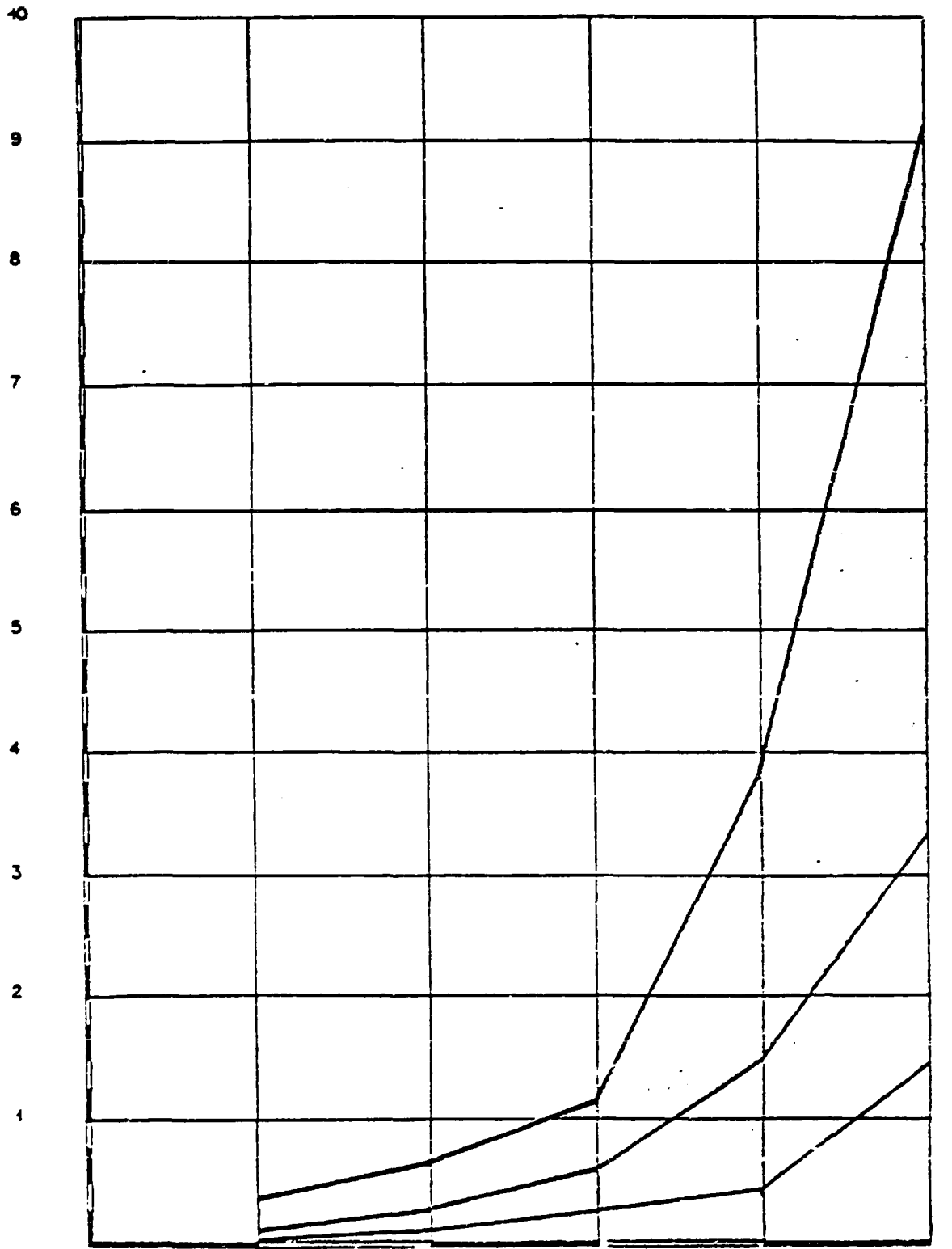
Within the total funding the make-up as between share and loan capital is very distinct between banks and savings banks. In the former credits and loans predominate (more than four fifths), while in the savings banks there is a large proportion of shares (more than half), because they were obliged to invest more than a third of their resources in public funds, INI shares, the national telephone company, electricity companies, etc. Despite this the loan-making activity of the savings banks has increased.

FUNDING THE ECONOMY  
(SHARES AND LOANS)

x 1000



PRIVATE BANKS SAVINGS BANKS OFFICIAL CREDIT



YEAR →

Credit for the private sector is 71% from private banks, as against 18% from savings banks and 11% from government sources.

It can be deduced from the above that most of the funding of the private sector has been through banks, which has also been the source most used by industry in general. Although banks are obliged to make certain quotas of investment, the proportions of their funds available for free use is much higher than the savings banks', which are much more restricted in how they utilise their resources. In any case the high level of government controlled finance is noteworthy, and this highlights the use that has been made of the financial system as an instrument to direct economic activity.

In the stock market, a distinction must be made between public and private issues, reference being made here to the latter, without including those of the financial institutions.

Private sector issues may be classified as:

- Issues of money market bonds, which include letters of credit negotiable on the stock exchange and other types, which represent a real novelty in the Spanish system.
- Issue of fixed interest bonds. As already mentioned, these were unimportant until 1960 but then boomed, although they were essentially absorbed by the privileged funding groups which will be described later. Since the crisis their growth halted in 1973-1974, recovered in 1976 and 1977, and fell again in 1978.

- Issue of variable interest bonds. The issue of ordinary shares had traditionally been much greater than debentures, until the crisis reversed their relative attractions, in 1976 - that is, somewhat later.

The total of these issues amounted to 20-25% of the funding of the private sector.

#### Privileged funding

Privileged funding groups are justified by the need to encourage the development of certain sectors or activities, the features of which are that they need a great deal of investment and/or they are considered of vital importance to the economy as a whole. So the privileged groups are an essential tool in the management of Spanish industrial development. Even though they were started with the object of ensuring finance for particular economic sectors or agencies, they constituted a real privilege for those who received this type of financing, insofar as interest rates considerably lower than those in the market-place were eventually established.

The total cost of privileged funding rose from 202,000 million pesetas in 1962 to somewhat over 4 billion in 1979, an increase of 20 times. In fixed terms, the increase has been greater than the rate of growth of the economy, increasing on a rising curve. Over the whole period 1962-1975, the savings banks have been the main source of funds (39%), followed by private banking (29%), government credit (23%) and the Bank of Spain (9%).

In 1962 privileged funding amounted to 36% of the resources outside the credit system, rising to a maximum in 1969. At present it amounts to 37%.

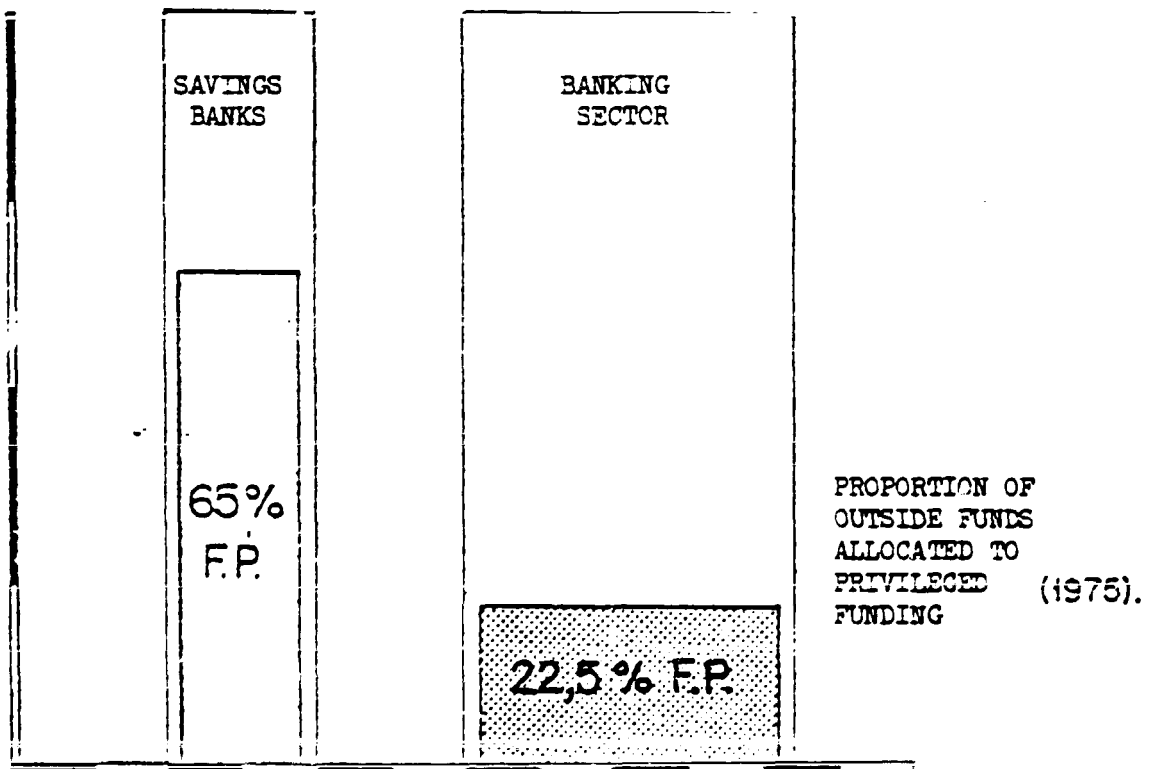
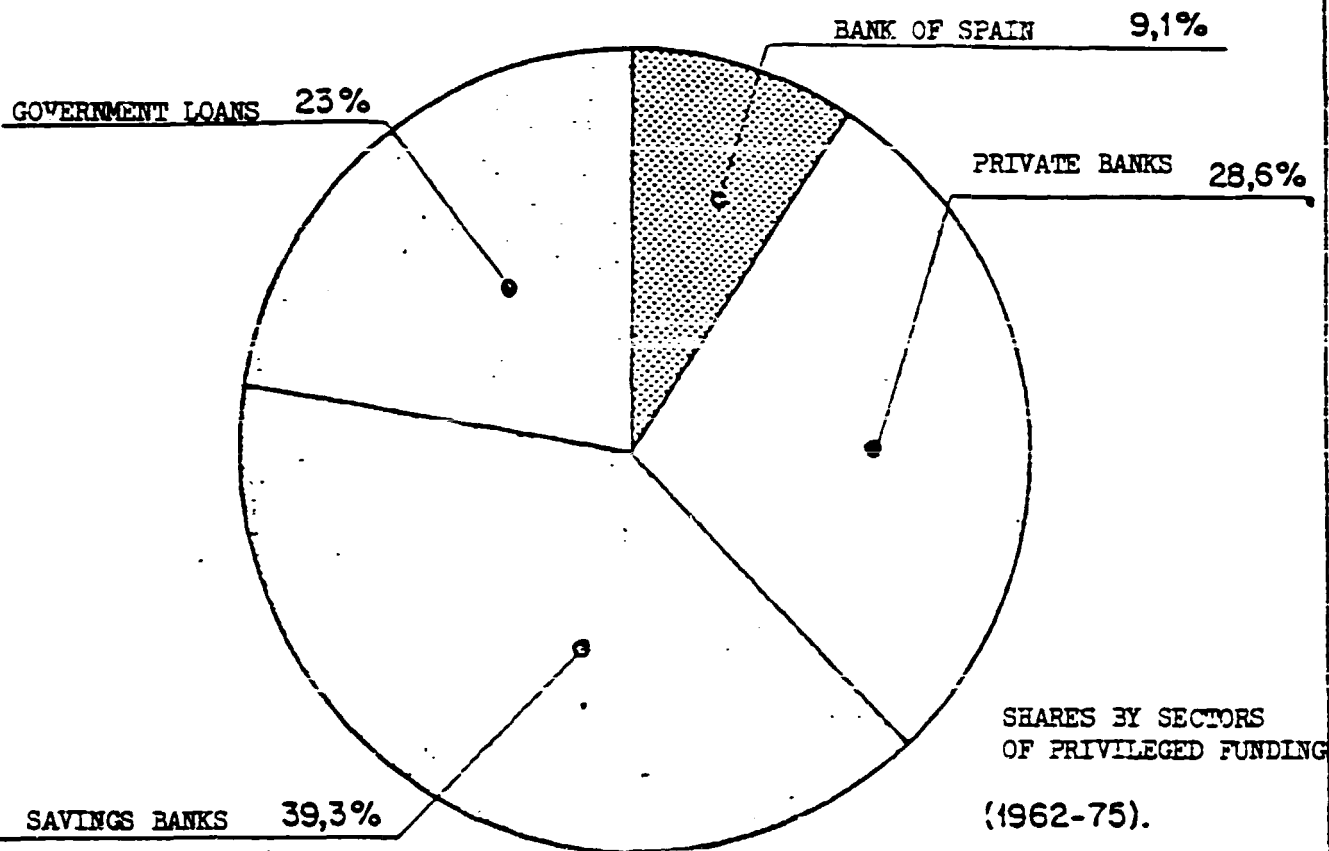
As is shown in the corresponding table in the annex, privileged funding is carried out by the Bank of Spain, the banking sector, savings banks and government credit through various mechanisms, and has undergone changes during the past 20 years.

It was begun when machinery was set up to facilitate the cheap, if not free, funding of firstly the Exchequer's deficits and then its stock issues, and later those of certain public bodies. Financing was the responsibility of the Bank of Spain in the first place; then of the banks through the issue of discountable debt as previously explained, which was later replaced by an obligation to keep a quota of the deposits of third parties covered by public investments, a similar obligation to that already imposed on savings banks.

Privileged finance for the private sector appeared in early 1960 when the possibility was established of banks automatically rediscounting with the Bank of Spain loans granted under certain, always favourable, conditions to sectors or activities authorised by the government. In 1971 this system was replaced by today's obligation on the banking sector to direct 5% of its deposits into the financing of shipbuilding and other capital goods and 3% to exports. Banks also have to allocate 13% of their deposits to acquiring Treasury bills, the proceeds of which the Treasury uses to finance official credits.

However, in the early 60's the situation at the Treasury was such that it had no need of new issues to be placed with the savings banks, and so, instead of reducing their quota of public funds, they were authorised to use their quotas to buy the stock of public and private companies as directed by the government. These acquisitions, together with their obligation to allocate

THE STRUCTURE BY SECTORS OF CONTRIBUTIONS TO PRIVILEGED FUNDING





a part of their funds to loans for specific activities - construction of community housing, agriculture, etc. now make up the privileged financing activities by the savings banks.

Government credit will now be analysed.

As mentioned, the philosophy of privileged groups has been widely opposed, because it involves disguised subsidies and the artificial maintenance of certain activities. There is a tendency today to replace this system with quotas for loans of over three years, with freedom in interest rates, and without stipulation as regards sectors benefiting.

#### Government credit

The Official Credit Agencies (EOC)\* perform an important role as suppliers of funding for investments of local bodies, housing, agriculture, industry and other sectors. Their objectives, defined in 1971, were to give priority to activities included in the development plans, direct their operations towards medium and long term loans, whilst supporting the needs of medium and small firms, which had traditionally lacked support.

The basic source of finance for the EOC's derives from endowments by the Official Credit Institute, most of which comes from the Treasury, which in its turn receives funds from the obligatory placing of bills for investments by the private credit system at interest rates below those of the market.

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\* Banco de Crédito Local, Banco Hipotecario, Banco de Crédito a la Construcción, Banco de Crédito Agrícola, Crédito Social Pesquero, Banco de Crédito Industrial and export credit through the Banco Exterior.

Examination of the operation of government credit raises the same questions as in the case of the privileged groups, and so has led to a change in its courses of action:

- . Selecting credit operations on the basis of project profitability.
- . Securing the EOC's financial stability by limiting the application of low interest rates in credit operations.
- . And, of late, obtaining an increasing proportion of its resources in the home and foreign markets under competitive conditions, which raises the cost of funding, and reduces the gap between its credit operations and those of the market.

Its importance in the credit system lies in the fact that, although it only constitutes a little over 10% of the private sector credit, as more than 90% of its operations are medium or long term - averaging more than 8 years - it is one of the main investment finance channels.

#### The problems of the public accounts deficit

From 1976 onwards, the public sector economy went into deficit, which grew from 22,000 million pesetas in that year to 400,000 million in 1980, as a result of the state's absorption of the socio-economic costs of the crisis (support for firms, unemployment subsidies, etc.).

Thus while until the 70's the public sector generated considerable savings, the growth of current expenditure over revenue has resulted in the almost total disappearance of public reserves.

Spain's problem is in absolute terms less than that of other similar countries, since our deficit is 3.4% of GDP. It is serious because it has only recently appeared and is rapidly growing (it was 1.9% in 1979). Funding this deficit in an inflationary economy with a large deficit in the balance of payments poses a series of difficulties.

Covering the deficit has been done in small measure by foreign finance, by internal issues of public debt to a certain value, and above all by credit from the Bank of Spain, which has been forced to run liquidity down by placing bonds with the banking system. This policy has led to a reduction of funding of the private sector, and its becoming more expensive, in parallel with the effects produced in international markets.

#### Current trends in the financial system

At the beginning of paragraph 2.1. it was explained that the recent course of Spanish financial policy has been towards liberalisation of the system.

Since the Stabilisation Plan of 1959, the Spanish economy began a process of progressive opening up to the outside world, which is evident both from the importance of imports and exports of goods and services in GDP (10% in 1959 and over 30% in 1980) and from certain features of financial transactions, although in the latter case liberalisation was delayed. Thus the crisis, followed by the public sector deficit, and the balance of payments deficit with its connected need for greater external finance, together with the need for a more rigorous allocation of economic, financial and physical resources, has led to the requirement to liberalise further the financial system in order to adapt its development to the evolution of the international money market.

Liberalisation of the financial system began timidly in 1974 and was strengthened in 1977 and 1981. The trends are towards:

- bringing money interest rates closer to market rates
- reducing the outflow of resources into sectors and activities decided by the government - by reducing the quotas referred to above
- opening up the market to greater competition.

These objectives have been put into operation in the following ways:

Liberalisation of lending and borrowing rates, except for sums under 1,000,000 for a period of under 6 months; liberalisation and revision of the standards for setting up banks and savings banks; abolition of regulations to define the operations of commercial and industrial banks, thus leaving them to specialize as they think fit; authorising savings banks to undertake other kinds of banking activities; widening the fields of action of cooperatives and rural credit banks; regulating the foreign banking sector (there were 3 foreign banks in 1974 and 23 in 1980); widening the money market so that all kinds of financial institutions, and not only banks, have access to it; gradual reduction of obligatory quotas for investments and specially regulated credit; creation of the Deposit Guarantee Fund for banks and savings banks; new forms of issue of public debt at market rates of interest; reform of the stock market with new regulations about financial information, orders and applications, market presentation, stock exchange contract letters, etc.

## 2.2. External finance

In the past 20 years the Spanish economy has received an increasing flow of external finance, in the form of investments and loans, which has formed a substantial addition to internal financial resources, contributed to the rapid economic development of the country and, over certain periods(\*), to covering deficits in the balance of payments on current account. An idea of the magnitude of this phenomenon can be gained from the fact that about a fifth of the outside resources used in our economy have been of foreign origin. As for their impact on the balance of payments, they notably raised foreign reserves during the 1959-62 period of surplus on current account; in 1962-69, when there was a deficit on current account, they compensated it, with increases; and in 1970-73, with new surpluses of the current balance, they gave a further lift to the reserves. Only in the period 1974-77 was there a fall in the reserves, although they remained at a high level.

As for the proportion of investments to loans, until 1974 the former were much larger, but the situation changed in the second half of the 70's, when credits considerably exceeded investments. In fact, from 1960 to 1974 net investment totalled 335,000 million pesetas, as against 225,000 million in loans. In 1975-1980, the reverse applied, when investments were 400,000 million and loans rose to 800,000 million because of efforts to attract foreign

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(\*) In fact, in the middle 60's and middle 70's.

funds, in order to deal with the effects of the petroleum crisis.

Investments in property (\*)

The 1959 Stabilisation Plan involved a radical reform of the legislation on the entry of foreign capital, and favoured the acquisition of foreign technological and financial resources; although the general norm in this respect became less permissive, the favourable attitude of the Spanish government to the penetration of foreign capital in our country must not be forgotten, for it has had profound effects on our economic activity.

Basically, the objectives of the liberalising measures were:

- . To raise the ability of the system to create capital, by adding foreign contributions to that available from domestic sources.
- . To increase the rates of investment and thus to achieve higher levels of production and employment.
- . To introduce more advanced production techniques, and increase firms' productivity.
- . To achieve equilibrium in the balance of payments, by compensating the chronic deficit on current account with positive figures in the capital account, and also to reduce the former by raising export potential.

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(\*) Direct investments, portfolio investments, investments in real estate, and other forms of investment.

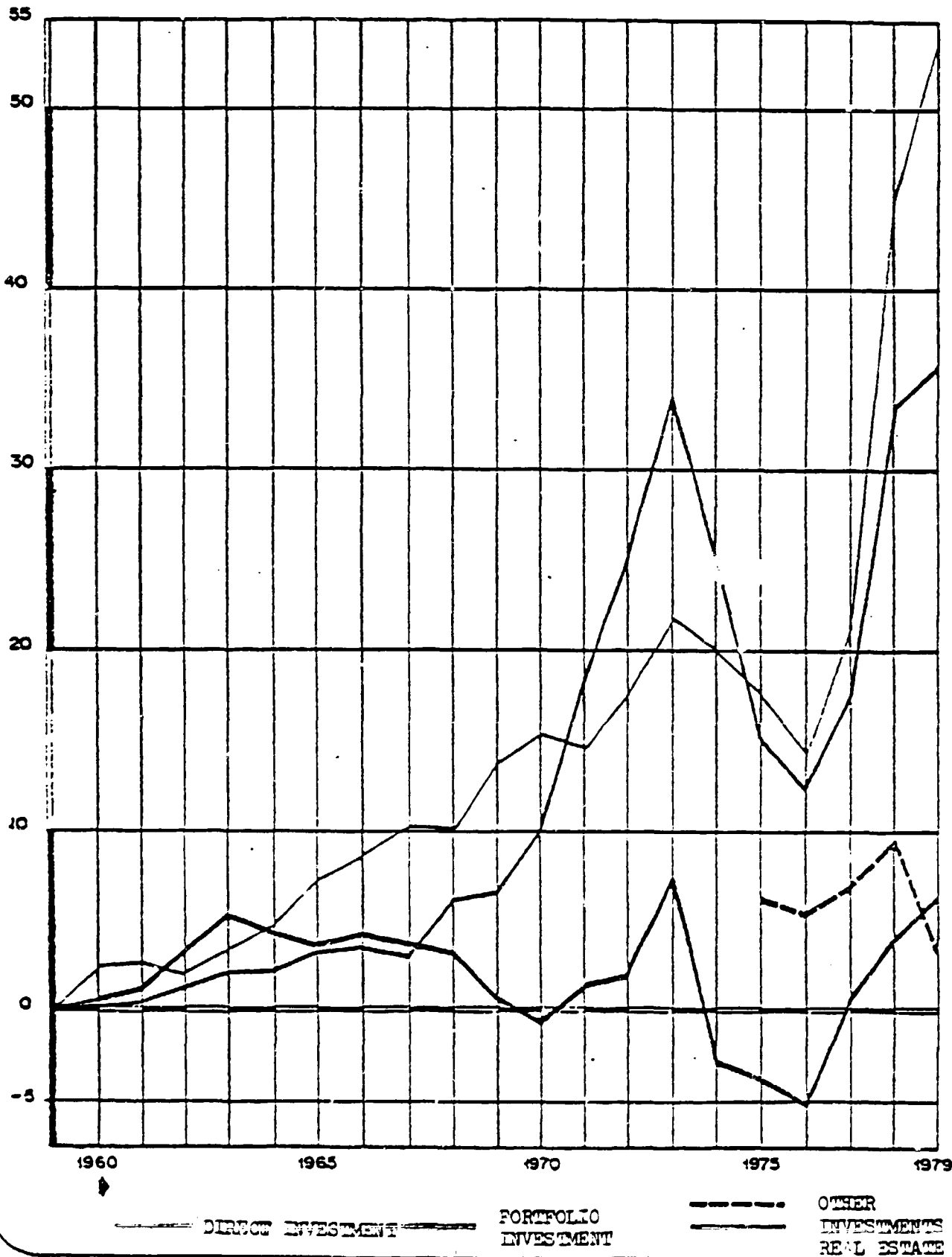
The principal measures of liberalisation introduced were:

- . Total freedom of foreign investment, without discrimination or restrictions, up to 50% of company capital. Investments exceeding this ratio had to be submitted for prior approval by the Council of Ministers; from 1963 to 1973 there were no restrictions in most sectors. Enterprises connected with defence, the media and public services were excluded.
- . Guaranteed transfer of profits into foreign exchange, without any kind of limitation.
- . Possibility of disinvestment, with authorisation for conversion and transfer of capital invested, together with any capital gains.
- . Access to internal credit: firms having less than 25% foreign capital were not limited in this respect; if foreign participation exceeded 25%, they were allowed to obtain medium and long term credit up to 50% of their capital; to exceed this proportion, the government required an equal percentage of foreign credits to be obtained.

This legal framework, together with other factors such as the country's political stability, the existence of a large market protected against foreign competition, the generous tax regime,

FOREIGN INVESTMENT IN PROPERTY

x1000





and the low level of wages, led to an expansion of foreign investment, coinciding with a period of technological and financial surplus in the advanced western economies.

Between 1960 and 1979, investment in property totalled 635,000 million pesetas, of which 312,500 was direct investment, 258,000 million in real estate, and the rest in portfolio investment.

Direct investment played a very important part in Spanish economic development, as is evidenced by the fact that 21% of the total income generated by industry is estimated as attributable to foreign capital. Real estate investment has been massive and growing, linked to the development of tourism and the construction boom.

The weakest component of foreign investment comprises portfolio investment, which is largely speculative in profile and has reflected the relationship between share levels on our stock market and those on the world markets. Thus when external markets are moving upwards, foreign capital does not come to the Spanish markets, and when there are large rises in Spain, disinvestment follows. Foreign investment has remained at about 5% of the total business on the Spanish stock exchanges, concentrated in the sectors of banking (30%), electricals (20%), real estate (16%), vehicles and steels and other metals.

Foreign capital penetration

Direct foreign investment was concentrated on the most dynamic sectors of the Spanish economy, in particular the chemical industry and transport equipment. Over the whole period 1960-75, 31.4% of investment went to the manufacture of transport equipment, 18% to the chemical industry, 8.4% to commerce, 9.2% to machinery and 6.6% to foodstuffs.

According to a study of companies with capital exceeding 2 million pesetas, companies with foreign capital employ 47% of the workforce and produce 55% of sales.

The industries listed below employ more than 30% of foreign capital:

- . Office machinery and computers (73.3%)
- . Cars and engine manufacturing (66.9%)
- . Paints and dyes (66.4%)
- . Machinery and tractors (59.7%)
- . Rubber processing (46.8%)
- . Photographic material (41.3%)
- . Soap and cosmetics (41.7%)
- . Organic chemicals (38.4%)

- . Car parts (35.2%)
- . Dairy products (35.5%)
- . Petrochemical based products (31.3%)

In sum, the industries of greatest technological penetration are the most dynamic, profitable and productive, and have the greatest technological content. In fact, foreign investment has contributed to raise the productivity of firms and improve their management. The presence of foreign capital in Spain is further illustrated by the following statistics for 1973: of the 300 largest multinationals, 209 have subsidiaries in Spain, 173 of them for production and 36 for marketing, while 166 have technology transfer contracts.

#### Foreign investment and the balance of payments

The expansion of economic activity, linked with foreign investment, has produced an absolute increase in export capacity. It has been pointed out that firms with foreign capital participation have their export potential limited by restrictions imposed by parent companies, in line with the multinational practice of market division, whilst at the same time having a greater propensity to import because of their connection with international supply networks. Even if these factors operate in practice, it has to be recognised that foreign market penetration is facilitated by means of multinationals' commercial networks. According to

recent research, companies with foreign participation export more than those without, but they also import to a greater extent, and their commercial balance is thus negative. From the behaviour of foreign subsidiaries in this respect it allows one to suspect that they are more directed towards strongly protected local markets, thereby contributing to import substitution, than they are to using Spain as an export base. Hence, in 1974, multinational firms which had established themselves in our country were obliged to fulfil certain minimum export requirements, equal at least to the average of the industrial sector to which they belonged. Negotiations with the large foreign firms that wished to set up in Spain such as FORD, GENERAL MOTORS, etc. have been conducted along these lines.

Another relevant factor concerning the balance of payments is the growing amount of net payments abroad for technical assistance and patents; the negative balance on this item rose from a thousand million pesetas in 1961 to 27,000 million in 1979. In this respect, it is noteworthy that in the mid-70's these negative balances exceeded the receipts from direct investments. Furthermore, payments of dividends and for technical assistance rose from 20% to 55% of the receipts of private long term capital between 1960 and 1978.

Summary of the effects of foreign investment

Foreign investment has contributed to raising the productivity of firms, modernising machinery, and improving management and working conditions. In fact, the most productive industries and those of most rapid growth have been those where foreign capital has come in. This has made a decisive contribution to the balance of payments, even though payments of dividends and for technical assistance have reached very high levels, and the commercial balance of foreign subsidiaries is in deficit.

Foreign investment has been a means of introducing advanced techniques, although a negative aspect of this has been the high level of technological dependence produced in our economy, as is shown by the fact that payments for patents and technical assistance amount to half the total expenditure on technology. It is worth stressing that in 1970 Spain acquired 7,000 patents. This is connected with the very low rate of expenditure on research and development - 0.3% of GDP. So Spain's character as a very dependent country must be underlined, with few sources of energy, a low level of technology, and one whose basic industries (chemicals, pharmaceuticals) depend to a great extent on the multinationals.

Finally, the high degree of foreign penetration in certain key sectors involves a great dependence on foreign decision-making, which limits the level of freedom in our industrial policy. Hence the need to make a real effort in the field of research and development.

#### Foreign debt

Foreign indebtedness is a relatively recent phenomenon of the Spanish economy, and has only become of importance through the oil crisis. In 1973 the foreign debt was 3,500 million dollars, half the amount of reserves plus exports of goods and services. Even if it arose but lately, it is also true that recourse to foreign credits has grown spectacularly, increasing by seven times between 1973 and 1980, while GDP only increased 2.5 times. This was due to the necessity to compensate for the worsening of the real rate of exchange, which led to a large imbalance in current foreign business.

The expansion of the international money markets favoured foreign funding of the Spanish economy in 1975-77. The need for public deficit financing and the currency restrictions which accompanied the 1977 devaluation, increased the recourse to foreign markets. The process was checked in 1978 when the growth in the current account deficit was interrupted, and it surged forward again with the second oil crisis of 1979 and continued in 1980.

Recourse to the international financial markets during the oil crisis was started by the public sector as a result of the appearance of a budget deficit, and the need to fund the losses of the enterprises of INI. The private sector's recourse abroad continued to increase (56% in 1981), and the reduction of the privileged funding groups and the traditional narrowness of the capital market contributed to this.

In 1981 the private sector took up 58% of the foreign debt, concentrated in a fairly small number of firms, prominent amongst which were electricals and motorway concessionaires.

A characteristic of the Spanish debt is that it has been obtained from private financial organisations, at market rates (90% of the total debt). Foreign public capital has played a relatively modest role; in this respect, note may be taken that the World Bank's contributions during the development period were limited. Over a period of 15 years (1963-1977) the World Bank lent Spain 478 million dollars, for a total of 12 projects. This scanty contribution was due to Spain's delay in turning to the IBRD for help, and this prevented our country from benefiting during a period of great need for infrastructures, and of weak industrialisation.

Another important aspect of our foreign debt is the long loan periods, which are progressively increasing (half is for 5 or more years), and their concentration in floating rate loans (85% of the total) which has led to their rapidly becoming more expensive: the average interest rate rose from 6.7% in 1973 to 13.6% in 1981.

It is appropriate to consider how heavily its foreign debt weighs upon the Spanish economy, and its consequences for our level of external solvency. Although a high level of indebtedness exists, the situation cannot be called in any way dangerous. Compared with other countries the ratio of interest payments to exports has not reached a high level: 12.6% in 1980 compared with 16.3% for Portugal, 41% for Mexico, 25.8% for Turkey, 17.2% for Great Britain. The following indicators lead to similar conclusions:

- a) Total debt servicing/GNP
- b) Total debt servicing/Exports
- c) Reserves/Credit taken up

The figures for these ratios are acceptable and do not threaten our solvency. The first of them has reached a value of 2 for Spain, compared with 5.7 for Brazil, 5.6 for Mexico and 3.8 for Greece. The second is 11.9, much lower than the 20% limit which the World Bank uses to judge a country's situation. Finally the ratio of reserves to credit taken up is 97.7 in Spain, a very comfortable figure.

All this is confirmed by analysing Spain's position in the international ranking of borrowers and its position in relation to the international banking community. In the ranking published by EUROMONEY in October 1981, Spain is placed (at number 20) in the first category of borrowers in terms of risk, out of seven categories listed; nevertheless, the high current propensity of the Spanish economy to borrow abroad causes a slight hardening of the spreads.

In sum, the high level of recourse to external funding by the Spanish economy must be stressed, and also the role of this in balancing the deficit during the oil crisis, without compromising our external solvency. All the same, it would seem prudent to slow down the rate of increase of indebtedness, and to adjust the Spanish economy more firmly to the new international conditions.



A N N E X

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30. Spain's foreign debt.
31. Foreign debt of borrowers.

1. DEVELOPMENT OF GROSS DOMESTIC PRODUCT, INDUSTRIAL OUTPUT  
AND GROSS FIXED CAPITAL FORMATION IN REAL TERMS  
(Index 1960 = 100)

YEAR	Gross Domestic Product	Industrial Output	Gross Fixed Capital Formation
1960	100	100	100
1961	112	116	125
1962	123	127	140
1963	132	141	155
1964	139	158	178
1965	149	177	207
1966	162	198	227
1967	171	210	256
1968	182	221	278
1969	197	251	309
1970	209	263	328
1971	219	280	319
1972	238	320	369
1973	259	351	422
1974	275	376	450
1975	278	376	432
1976	286	389	423
1977	293	404	418
1978	302	415	399
1979	307	429	392
1980	312	433	397

Source: Research services of the Bank of Bilbao

2. AVERAGE RATES OF GROWTH OF GDP AND GROSS FIXED CAPITAL FORMATION  
IN SPAIN AND THE OECD

	GROSS DOMESTIC PRODUCT				GROSS FIXED CAPITAL FORMATION			
	1961-65	1965-70	1970-75	1975-80	1961-65	1965-70	1970-75	1975-80
Spain	10.3	7.5	6.1	2.1	19.0	7.1	6.0	-1.9
OECD	5.7	4.9	3.0	2.4	8.6	5.2	1.3	0.7

Source: Spanish Confederation of Savings Banks

3. DEVELOPMENT OF POPULATION, EMPLOYMENT AND PER CAPITA INCOME  
IN 1970-1980 (real percentage change)

CATEGORY \ YEARS	1970-1974 annual cumulative rate	1975	1977	1979	1980
Overall population	1.01	1.04	1.19	0.9	0.9
Population at work	1.2	1.4	-0.1	-1.9	-3.3
Per capita income	5.9	-0.7	1.7	-0.4	-0.5

(\* ) estimate

4. DISTRIBUTION OF GDP BY PRODUCT SECTORS

	Agriculture and fishing	Industry	Construction	Services
Structure at constant 1964 prices as a percentage of GDP				
Year 1955	22.10	25.96	6.69	45.25
Year 1960	22.34	28.72	5.48	43.46
Year 1965	16.31	34.12	6.57	43.00
Year 1970	13.75	36.33	7.40	42.52
Year 1975	11.49	38.90	6.50	43.11
Year 1980	10.28	34.06	4.99	50.67

Source: Bank of Bilbao: National income of Spain and its distribution by provinces.

5. DEVELOPMENT OF GDP AT CONSTANT PRICES

(annual rate of growth)

1955-80

	Agriculture and fishing	Industry	Construction	Services	TOTAL
1955-1975	2.44	8.01	5.69	5.59	5.84
1955-1960	2.57	4.44	-1.64	1.52	2.35
1960-1965	1.65	12.04	12.23	8.02	8.25
1965-1970	3.41	8.36	9.59	6.77	7.01
1970-1975	2.12	7.31	3.13	6.14	5.85
1975-1980	2.27	2.20	-2.54	2.60	2.13

Source: Bank of Bilbao



6. DEVELOPMENT OF INVESTMENTS PRODUCTIVITY IN OECD COUNTRIES (\*)

Countries	I/GDP (1970-74)	Marginal relationship of capital to output	Investment productivity	GDP per capita in \$ (1974)
Canada	0.22	4.32	0.23	6,464
USA	0.17	5.83	0.17	6,598
Japan	0.36	6.32	0.16	4,152
Australia	0.28	5.53	0.18	5,877
Belgium	0.21	4.45	0.22	4,388
Denmark	0.22	7.80	0.13	6,026
Finland	0.26	5.40	0.19	4,712
France	0.25	5.11	0.20	5,061
Germany	0.26	8.89	0.11	6,195
Greece	0.25	5.59	0.18	2,139
Iceland	0.30	5.45	0.18	6,280
Ireland	0.23	6.86	0.15	2,180
Italy	0.20	5.77	0.17	2,706
Luxembourg	0.26	6.53	0.15	5,987
Netherlands	0.24	6.24	0.16	5,109
Norway	0.30	7.32	0.14	5,847
Portugal	0.19	2.88	0.35	1,507
SPAIN	0.22	4.44	0.23	2,090
Sweden	0.22	8.11	0.12	6,878
Switzerland	0.29	9.81	0.10	7,340
Turkey	0.18	2.70	0.37	748
United Kingdom	0.18	6.62	0.15	3,371
AVERAGE	0.24	6.00	0.18	4,621

(\*) Economic Compendium. Spanish Confederation of Savings Banks.

7. EMPLOYMENT PER UNIT OF OUTPUT AND INVESTMENT PER EMPLOYEE

1965-1974

	Number of employees per million dollars of value added	Average annual investment per employee (thousands of 1970 dollars per person)
OECD average	62	-
EEC average	71	-
Italy	88	1.7
Greece	96	2.4
Spain	112	1.3
United Kingdom	128	1.4
Portugal	161	0.7

Source: Información Comercial Española

8. DEVELOPMENT OF THE RETAIL PRICE INDEX  
(percentage annual increase)

<u>YEARS</u>	<u>Rate of increase (%)</u>
1960	1.6
1961	2.0
1962	5.7
1963	8.7
1964	6.9
1965	13.2
1966	6.2
1967	6.5
1968	4.9
1969	2.3
1970	5.6
1971	8.3
1972	8.3
1973	11.4
1974	15.6
1975	17.0
1976	17.6
1977	24.4
1978	19.7
1979	15.6
1980	15.5

Source: I.N.E.

9. DISTRIBUTION OF THE WORK FORCE IN SPAIN

YEAR	TOTAL EMPLOYMENT		AGRICULTURE AND FISHING		CONSTRUCTION		INDUSTRY		SERVICES	
	<u>Thousands</u>	<u>%</u>	<u>Thousands</u>	<u>%</u>	<u>Thousands</u>	<u>%</u>	<u>Thousands</u>	<u>%</u>	<u>Thousands</u>	<u>%</u>
1955	11,964.3	100	5,372.0	44.9	754.4	6.3	2,700.6	22.6	3,137.3	26.2
1960	11,640.9	100	4,855.8	41.7	797.0	6.8	2,874.4	24.7	3,117.7	26.8
1975	13,351.2	100	3,059.0	22.9	1,315.5	9.9	3,593.2	26.9	5,383.5	40.3
1980	11,376.0	100	2,135.5	18.8	1,024.6	9.0	3,103.3	27.3	5,112.6	44.9
	- 588.3		-3,236.5		+ 270.2		+ 402.7		+1,975.3	

Source: Bank of Bilbao

10. DEVELOPMENT OF THE APPARENT PRODUCTIVITY OF LABOUR INPUT  
 (Cumulative rates of annual increase)

	Agriculture and fishing	Industry	Construction	Services	GENERAL
1960-1964	6.18	12.09	8.77	5.53	8.07
1964-1971	4.84	7.11	4.56	3.45	5.86
1971-1975	6.69	7.12	1.93	3.94	5.88
1975-1980	7.58	5.27	1.23	2.49	4.36

Source: Bank of Bilbao

11. INFLATION AND UNEMPLOYMENT IN THE SPANISH ECONOMY  
(1977-1980)

Index	Years			
	1977	1978	1979	1980
Retail price index (% annual change)	24.5	19.8	15.7	15.5
Price index related to GDP (% annual change)	22.8	20.0	16.7	12.9
Registered unemployed (in thousands of persons)	662	908	1,130	1,416
Unemployed as a percentage of active population	5.0	6.9	8.6	11.0
Unemployed in industry as a percentage of its active population	5.1	6.7	8.0	10.4

Source: I.N.E. and I.N.E.M.

12. DEVELOPMENT OF PRODUCTION OF A RANGE OF INDUSTRIAL GOODS

(thousands of tonnes)

Product	1960	1980	Growth factor (1960-1980)
Steel	1,919	12,553	9.8
Cement	5,234	28,009	8.7
Fertilisers	417	2,273	8.8
Paper pulp	292	1,945(*)	10.5
Paper and cardboard	341	2,186(*)	10.3
Sulphuric acid	1,132	2,950(*)	4.9
Petroleum distillate	5,825	48,822	11.2
Electricity (million kWh)	18,614	110,553	9.3
Motor cars (thousands)	39	1,025	17.8
Ships (GRT)	167	558	6.2
Television receivers (thousands)	39	1,110	18.2
Washing machines (thousands)	77	898	13.1

(\*) 1979

13. SUMMARY OF THE MAIN ACTIVITIES OF THE ENTERPRISES IN WHICH INI PARTICIPATES  
 COMPARED WITH TOTALS FOR SPAIN (1980)

<u>Products</u>	<u>Units</u>	<u>INI</u>	<u>INI as a percentage of national totals</u>
<b>Mineral energy:</b>			
Coal	Thousands t.	5,198	58.9
Lignite	Thousands t.	13,100	87.5
Anthracite	Thousands t.	140	3.6
<b>Electrical energy:</b>			
Hydroelectricity	GWh	3,257	10.6
Conventional thermo- electricity	GWh.	23,184	30.9
Nuclear thermoelectricity	GWh.	790	15.2
Distilled crude oil	Thousands t.	18,349	37.6
Gasification of LNG	Thousands t.	16,861	100.0
Distribution of LPG	Thousands t.	2,408	100.0
<b>Chemicals, petrochemicals and fertilizers:</b>			
Ethylene	Thousands t.	553	78.3
Propylene	Thousands t.	188	65.7
Polyethylene (LD)	Thousands t.	163	45.7
Polyethylene (HD)	Thousands t.	51	40.5
Synthetic rubber	Thousands t.	65	100.0
Acrylonitrile	Thousands t.	65	100.0
Ammonia	Thousands t.	343	38.0
Nitric fertilizers	Thousands t.	1,157	42.2
Chemical wood pulp	Thousands t.	417	35.6
Man-made fibres	Thousands t.	20	52.8
Potassium chloride	Thousands t.	228	34.6
<b>Steelmaking:</b>			
Steel	Thousands t.	5,345.8	42.2
<b>Aluminium:</b>			
Metal	Thousands t.	265.3	68.6
Sheet	Thousands t.	43.1	50.7
<b>Shipbuilding:</b>			
Ships laid down	Thousands GRT	518.3	90.6
Ships handed over	Thousands GRT	417.8	82.3
<b>Vehicles and tyres:</b>			
Motor cars	Thousands units	293.5	28.5
Industrial vehicles	Thousands units	25.9	45.3
Tyres	Millions units	23.1	58.2
<b>Aircraft construction:</b>			
Aircraft built	Units	50.0	100.0
<b>Foodstuffs:</b>			
Treated milk	Thousands t.	430.0	16.8
Tomato paste	Thousands t.	9.5	22.1
Tinned meats	Thousands t.	10.4	21.8

Source: R. Tamames. Estructura Económica de España



14. OUTPUTS AND EMPLOYMENT IN SECTORS WHERE INDUSTRIAL REHABILITATION HAS TAKEN PLACE (1980)

SECTOR \ CATEGORIES	Number of firms	Value of output (10 <sup>9</sup> ptas)	Number employed	Reduction in number employed over 3 years
Integrated steelmaking	3	195	43,000	9,000
Special steels	7	70	21,400	6,600
Shipbuilding	29	90	40,000	8,000
Large yards	2	60	25,000	5,000
Small yards	27	30	15,000	3,000
Textiles	7,210	746	420,000	40,000
Domestic electrical appliances	13	77	23,000	6,000
Portable electrical equipment	2	20	7,416	1,620
<b>T O T A L</b>	<b>7,264</b>	<b>1,198</b>	<b>554,816</b>	<b>71,220</b>

Source: Ministry of Industry

15. DEVELOPMENT OF THE BALANCE OF PAYMENTS AND  
(millions of pesetas)

(Source: Registro de Caja del B. España)

Years	Goods (1)	Services (2)	Transfers (3)
1961	11,468	17,314	8,055
1962	- 31,927	24,860	10,451
1963	- 56,090	36,964	11,299
1964	- 59,556	51,371	11,784
1965	-101,351	58,888	17,844
1966	-125,619	59,241	29,486
1967	-115,932	53,151	27,500
1968	-120,522	68,066	31,110
1969	-147,055	74,062	38,424
1970	-135,343	105,644	45,939
1971	-124,326	131,765	53,746
1972	-177,573	159,916	62,710
1973	-208,317	167,505	73,811
1974	-432,973	176,107	65,870
1975	-411,469	174,394	65,641
1976	-489,160	146,561	76,426
1977	-515,365	230,910	89,821
1978	-302,966	326,528	110,874
1979	-490,472	344,940	101,433
1980	-878,142	353,170	143,437

ITS PRINCIPAL COMPONENTS

Balance of current account (4)=(1) +(2)+(3)	Long term capital (5)	Overall balance (6) = (4)+(5)
13,901	7,163	21,064
3,384	7,516	10,900
- 7,827	12,485	4,658
3,599	15,784	19,383
-24,619	11,770	- 12,849
-36,892	26,699	- 10,193
-35,281	27,976	- 7,305
-21,346	36,824	15,478
-34,569	30,036	- 4,533
16,240	39,318	55,558
61,185	32,058	93,243
45,053	56,940	101,993
32,999	42,739	75,738
-190,996	101,719	- 89,277
-171,433	137,164	- 34,267
-266,176	140,843	-125,331
-195,176	219,155	23,979
134,436	121,936	256,369
- 44,098	168,536	124,436
-381,537	273,923	-107,905

16. COMPOSITION OF FOREIGN TRADE (%)

	Exports 1961
Agricultural products and foodstuffs	55.2
Mineral products	10.9
Chemicals and plastics	5.0
Textiles	7.4
Footwear	0.7
Metals and derived manufacturing	8.2
Machinery and electrical equipment	3.1
Transport material	0.5
Other	9.0
TOTAL	100.0

Source: Documents on the Spanish Economy No.  
J. Requeijo

	Imports	
1980	1961	1980
18.5	22.5	12.9
7.0	19.9	41.1
10.3	12.3	9.5
4.9	8.1	2.5
2.9	-	0.2
16.3	7.7	6.5
12.9	15.3	12.5
13.3	6.6	4.6
13.9	7.6	10.2
100.0	100.0	100.0

12. "The Spanish foreign deficit, an overall view"

17. RECENT TRENDS OF SOME INDICATORS IN SPANISH FOREIGN TRADE (1976-1980)

	1976	1977	1978	1979	1980
Balance of trade (10. <sup>6</sup> US\$)	-7,327	-6,200	-411	-5,670	-11,461
Total cover (%)	49.9	57	70.0	71.7	60.9
Total cover excluding petroleum (%)	66.2	75.6	93.6	99.0	93.5
Petroleum imports/exports of goods (%)	51.4	43.8	35.6	35.9	54.1
Value of the peseta as a function of relative prices (%)	6.6	15.2	11.7	5.3	2.7

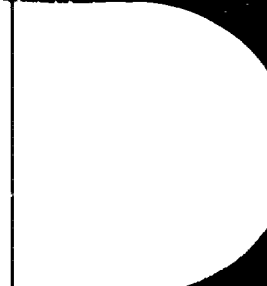
Source: Directorate General of Customs, and other calculations

18. FUNDING THE PRIVATE SECTOR (in thousands of millions of pesetas)<sup>(1)</sup>

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1980</u>
Issue of stock	104.4	123.6	157.0	162.4	198.2	242.6
. (money markets)	(-)	(-)	(-)	(-)	(-)	(27.5)
. (fixed interest)	(43.8)	(50.9)	(68.7)	(69.4)	(92.3)	(114.9)
. (variable interest)	(60.6)	(72.7)	(88.3)	(93.0)	(105.9)	(100.2)
Loans from the credit system	249.3	277.1	639.7	752.6	795.6	1,562.2
. (Bank of Spain)	(-21.0)	(-0.4)	(7.8)	(24.1)	(34.2)	(32.0)
. (Banking sector)	(207.3)	(364.0)	(510.4)	(554.5)	(567.1)	(1,136.0)
. (Savings Banks)	(54.7)	(68.2)	(105.7)	(139.6)	(138.6)	(261.2)
. (Government Credits)	(8.3)	(-4.7)	(15.8)	(34.4)	(55.7)	(133.0)
Public administration loans	0.7	1.8	4.9	5.3	3.9	14.4
Cooperative loans	7.1	11.1	17.8	19.4	3.9	64.9
<u>Total internal finance</u>	<u>361.5</u>	<u>553.6</u>	<u>819.4</u>	<u>936.7</u>	<u>1,001.6</u>	<u>1,084.1</u>
External finance	41.7	57.0	70.2	97.9	141.0	304.0
Unclassified	46.0	32.7	58.4	80.9	84.9	79.9
<b>Total</b>	<b>449.2</b>	<b>653.3</b>	<b>948.0</b>	<b>1,118.5</b>	<b>1,227.5</b>	<b>2,268.0</b>

(1) Excluding financial enterprises

Source: Memoranda by the Bank of Spain in 1981.





19. PORTFOLIO OF SHARES AND LOANS

(thousands of millions of pesetas)

YEAR	TOTAL		PRIVATE BANKING SECTOR		SAVINGS BANKS		GOVERNMENT CREDIT	
	<u>Thousands millions</u>	<u>%</u>	<u>Thousands millions</u>	<u>%</u>	<u>Thousands millions</u>	<u>%</u>	<u>Thousands millions</u>	<u>%</u>
1960	378.4	100	259.1	68.5	73.6	19.5	45.7	12.0
1965	911.1	100	600.2	65.9	202.2	22.2	108.7	11.9
1970	2,092.6	100	1,343.6	64.2	529.9	25.3	219.1	10.5
1975	5,627.4	100	3,819.7	67.9	1,436.4	25.5	371.3	6.6
1980	13,532.3	100	8,763.2	64.8	3,282.6	24.2	1,486.5	11.0

Source: Bank of Spain statistical bulletin.

20. PRIVATE SECTOR CREDIT

YEAR	Total		Private banking sector		Savings banks		Government credit	
	Thousands millions	%	Thousands millions	%	Thousands millions	%	Thousands millions	%
1965	665.6	100	484.8	72.8	72.1	10.8	108.7	16.3
1970	1,509.7	100	1,042.1	69.0	248.5	16.5	219.1	14.5
1975	3,196.2	100	3,196.2	74.1	745.3	17.3	371.3	8.6
1980	10,582.0	100	7,530.8	71.2	1,911.3	18.1	1,139.9	10.7

Source: Bank of Spain.

21. DISTRIBUTION OF PRIVATE DEPOSITS WITH SAVINGS BANKS AND THE BANKING SECTOR

YEAR	PRIVATE BANKING SECTOR						SAVINGS BANKS					
	Current a/c	%	Savings a/c	%	Time deposits	%	Current a/c	%	Savings a/c	%	Time deposits	%
1960	122,412	53	73,176	31	38,110	16	5,495	7	54,544	68	19,497	25
1965	273,875	49	185,354	34	93,440	17	15,899	7	158,991	72	46,315	21
1970	477,862	41	322,369	28	354,225	31	40,821	7	322,966	56	211,860	37
1975	1,277,282	40	726,476	23	1,155,092	37	158,792	10	781,520	50	30,639	40
1980	2,375,907	33	1,232,155	17	3,621,345	50	424,057	11	1,908,877	50	1,458,773	39

Source: Bank of Spain Statistical Bulletins

22. THE CREDIT SYSTEM

FINANCIALLY PRIVILEGED GROUPS

(Percentages of resources from outside the system)

YEAR	NET TOTAL	NET TOTAL excl. Bank of Spain credit to the public sector	BANK OF SPAIN	PRIVATE BANKING SECTOR	SAVINGS BANKS	GOVERNMENT CREDIT
1962	35.7	30.4	6.0	11.9	13.1	12.7
1963	35.3	31.0	5.0	11.0	14.5	12.8
1964	34.8	29.3	5.9	10.1	14.7	12.8
1965	35.4	30.6	5.2	10.8	15.5	13.8
1966	38.0	32.5	5.9	12.0	16.6	15.2
1967	40.5	34.1	6.7	12.9	17.8	15.6
1968	43.6	37.6	6.3	14.7	19.9	15.5
1969	45.5	39.4	6.3	15.4	21.6	15.0
1970	45.2	39.8	5.6	15.5	22.3	13.7
1971	42.6	39.0	3.7	15.8	21.6	11.9
1972	39.7	37.6	2.2	15.2	21.2	10.2
1973	37.2	35.0	2.3	13.8	20.2	8.9
1974	38.2	34.8	3.8	14.1	19.1	8.8
1975	38.6	33.9	5.3	14.0	18.2	9.4
1976	38.5	35.0	4.1	14.7	18.5	9.9
1977	37.9	34.9	4.7	14.2	17.0	11.1
1978	37.4	33.0	5.3	13.9	16.2	11.5
1979	37.7	32.4	6.5	13.4	15.0	12.2

23. NET RECEIPTS OF LONG TERM CAPITAL

(millions of pesetas)

<u>YEAR</u>	<u>Private investment of capital in property*</u>	<u>Private investment of capital in loans</u>	<u>Public capital</u>
1960	2,957.4	6,648.6	1,458.0
1961	3,467.4	10,444.8	1,687.8
1962	5,461.8	2,295.6	1,346.4
1963	9,476.4	4,690.2	1,357.2
1964	11,155.8	5,394.6	24.0
<b>TOTAL 1960-64</b>	<b><u>32,518.8</u></b>	<b><u>29,473.8</u></b>	<b><u>5,873.4</u></b>
1965	14,183.4	7,708.4	535.2
1966	14,821.8	9,418.8	3,014.4
1967	17,813.8	14,395.1	2,601.9
1968	19,855.5	13,983.2	10,291.4
1969	22,201.2	14,100.6	1,878.8
<b>TOTAL 1965-69</b>	<b><u>88,875.7</u></b>	<b><u>59,606.1</u></b>	<b><u>18,321.7</u></b>
1970	24,687.6	30,448.0	- 2.1
1971	34,157.9	16,316.3	833.3
1972	45,463.7	23,474.3	973.6
1973	65,061.8	5,295.1	755.2
1974	44,199.0	59,729.6	5,823.1
<b>TOTAL 1970-74</b>	<b><u>213,570.0</u></b>	<b><u>135,263.3</u></b>	<b><u>6,383.1</u></b>
1975	35,021.1	91,226.4	1,784.2
1976	26,104.0	105,899.4	42,274.3
1977	47,804.2	124,163.6	92,818.6
1978	92,022.4	129,240.4	11,249.6
1979	100,487.9	125,264.5	23,066.3
<b>TOTAL 1975-79</b>	<b><u>301,439.6</u></b>	<b><u>575,794.3</u></b>	<b><u>171,157.0</u></b>

\* Sum of direct investments, portfolio investments and real estate investments.

Source: "The internationalism of the Spanish firm"

24. NET INVESTMENTS IN PROPERTY

(millions pesetas)

<u>Year</u>	<u>Direct investments</u>	<u>Investments in real estate</u>	<u>Portfolio investments</u>	<u>Others (*)</u>
1960	2,175.0	19.2	763.2	-
1961	2,248.2	91.2	1,128.0	-
1962	1,431.6	962.4	3,067.8	-
1963	2,706.6	1,554.6	5,215.2	-
1964	4,756.8	2,276.2	4,120.8	-
1960-64	<u>13,318.2</u>	<u>4,905.6</u>	<u>14,295.0</u>	-
1965	7,351.2	3,553.8	3,278.4	-
1966	8,052.0	3,258.6	3,511.2	-
1967	11,310.7	3,106.8	3,396.3	-
1968	10,670.0	6,328.0	2,857.4	-
1969	14,031.5	7,455.0	714.7	-
1965-69	<u>51,415.4</u>	<u>23,702.2</u>	<u>13,758.0</u>	-
1970	15,513.4	10,059.7	- 885.5	-
1971	14,096.6	18,277.7	1,783.6	-
1972	17,761.4	25,459.7	2,242.6	-
1973	23,504.5	34,170.3	7,387.0	-
1974	20,655.2	26,987.8	-3,441.3	-
1970-74	<u>91,531.1</u>	<u>114,955.2</u>	<u>7,086.4</u>	-
1975	17,627.0	15,670.5	-4,031.5	5,755.1
1976	14,673.7	12,114.8	-5,768.8	5,084.3
1977	23,083.7	17,244.8	701.8	6,733.9
1978	46,465.6	33,012.0	3,723.8	9,221.5
1979	54,384.5	36,803.5	6,655.3	2,644.6
1975-79	<u>156,234.5</u>	<u>114,845.6</u>	<u>880.6</u>	<u>29,439.4</u>

(\*) Until 1974, this was divided between direct and portfolio.

25. THE TECHNOLOGICAL BALANCE OF PAYMENTS: TECHNICAL ASSISTANCE, PATENTS,  
ROYALTY AND TRADEMARK PAYMENTS  
(Values in millions of pesetas)

YEAR	RECEIPTS	PAYMENTS	BALANCE	YEAR	RECEIPTS	PAYMENTS	BALANCE
1960	561	1,147.8	-1,901.7	1970	1,119.3	9,363.9	- 8,244.6
1961	174.6	1,305	-1,130.4	1971	1,179.5	10,845.1	- 9,665.6
1962	304.2	1,403.4	-1,099.2	1972	1,332.7	12,808.1	-11,475.4
1963	666.6	1,879.2	-1,212.6	1973	1,678.1	15,201	-13,522.9
1964	364.8	2,409.6	-1,648.8	1974	2,081	18,150.8	-16,069.8
1965	270.6	508.2	- 237.6	1975	2,886.7	17,298.6	-14,411.9
1966	397.2	5,816.4	-5,419.2	1976	4,063	31,236.1	-27,173.1
1967	481.7	6,688	-6,206.3	1977	4,480.7	28,689.9	-24,209.2
1968	798	7,649.8	-6,851.8	1978	5,559.1	30,457	-24,897.9
1969	642.6	9,308.6	-8,666.0	1979	7,641.9	34,698.2	-27,056.3
				1980	10,873.1	44,393.2	-33,520.1

Source: Spanish balance of payments. Ministry of Commerce.

26. FOREIGN RESERVES  
(millions of dollars)

<u>YEARS</u>	<u>Total reserves</u>
1961	891.8
1962	1,067.3
1963	1,158.2
1964	1,508.1
1965	1,395.7
1966	1,214.8
1967	1,090.1
1968	1,151.1
1969	886.5
1970	1,791.9
1971	3,233.5
1972	5,006.2
1973	6,799.5
1974	6,025.3
1975	5,905.4
1976	4,952.1
1977	6,132.4
1978	10,015.4
1979	13,116.6
1980	12,358.1

Source: Bank of Spain



27. DISTRIBUTION BY LEVEL OF FOREIGN PARTICIPATION IN FIRMS DOMICILED IN SPAIN, WITH PAID-UP OR NOMINAL CAPITAL OF OVER 2 MILLION PESETAS

	A Without foreign capital	B With up to 25% foreign capital	C With 25-50% foreign capital	D With a majority foreign shareholding	TOTAL
<u>Companies investigated</u>					
- Number	49,514	2,656	1,953	1,623	55,746
- Percentage	88.8	4.8	3.5	29.0	100.0
<u>Paid-up Capital</u>					
- Million pesetas	1,146.97	1,182.68	111.42	171	2,612.04
- Percentage	43.9	45.3	4.3	6.5	100.0
<u>Participation of foreign capital</u>					
- As a percentage of paid-up capital	-	2.52	38.74	85.34	8.37
- As a percentage of nominal capital	-	3.23	38.89	84.51	9.46
<u>Sales</u>					
- Million pesetas	3,912.31	3,028.89	243.35	375.55	4,989.13
- Percentage	45.4	35.2	4.9	7.5	100.0
<u>Purchases</u>					
- Million pesetas	2,532.46	1,136.45	382.89	609.05	4,660.85
- Percentage	54.3	24.4	8.2	13.1	100.0
<u>Labour costs</u>					
- Million pesetas	816.11	457.06	129.98	255.07	1,658.22
- Percentage	49.2	27.6	7.8	15.4	100.0
<u>Employees</u>					
- Thousands	1,426	768	179	298	2,671
- Percentage	53.2	28.8	6.7	11.1	100.0

26. COMMERCIAL BALANCE OF COMPANIES WITH PAID UP OR NOMINAL CAPITAL OF OVER 2 MILLION PESETAS (1977)

	COMPANIES INVESTIGATED		EXPORTS (1)		IMPORTS (2)		Imports excl. petroleum refining sector (3) (percentage)	COVER RATE	
	Number	%	Million pesetas	%	Million pesetas	%		(1)/(2)	(1)/(3)
A. With no foreign capital	49,514	98.8	285.97	48.9	256.39	24.9	35.4	1.12	1.13
B. With less than 25% foreign capital	2,656	4.8	120.89	20.7	456.90	44.3	25.7	0.26	0.66
C. With 25-50% foreign capital	1,953	3.5	54.87	9.4	136.57	13.2	13.5	0.40	0.57
D. With a majority foreign shareholding	1,623	2.9	122.96	21.0	181.54	17.6	25.4	0.68	0.68
TOTAL	55,746	100.0	584.70	100.0	1,031.37	100.0	100.0	0.57	-
C + D	3,576	6.4	177.83	30.4	318.11	30.8	38.9	-	-

Source: Información Comercial Española

29. FINANCIAL RESOURCES OBTAINED FROM ABROAD: ISSUE OF MEDIUM AND LONG TERM BANK BONDS AND LOANS

(Millions of dollars)

	1976	1977	1978	1979	1980
France	3,726.8	3,668.3	3,668.3	4,836.4	4,354.2
Greece	437.8	217.0	555.0	945.0	1,191.2
Italy	2,890.0	745.4	2,901.6	3,713.0	7,564.1
Portugal	182.2	137.0	614.7	811.0	736.0
Spain	1,134.4	2,222.5	2,543.0	4,211.1	4,986.9
United Kingdom	5,987.8	3,938.9	6,199.7	3,227.4	3,541.9
Mexico	50.0	-	341.6	363.0	381.7
Brazil	1,630.0	3,403.3	5,856.6	7,233.7	5,594.8

Source: "OECD Financial Statistics"

30. SPAIN'S FOREIGN DEBTS  
(millions of dollars)

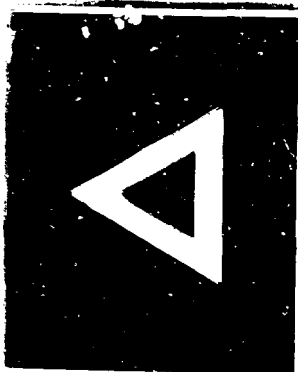
	1973	1974	1975	1976
Active debts	3,490	5,028	8,454	11,241
Servicing debts	1,006	836	1,669	2,020

1977	1978	1979	1980
15,126	17,425	19,497	23,719
2,932	5,661	55,584	4,468

31. FOREIGN DEBT OF BORROWERS

	<u>1975</u>
	<u>millions \$</u>
<u>Public Sector</u>	<u>3,918</u>
. INI and its enterprises	1,617
. State	1,180
. State railways	723
. Official credit agency	213
. Others	185
<u>Private Sector</u>	<u>4,536</u>
. With Government guarantee	775
. Without Government guarantee	3,761
TOTAL	8,454 =====

Source: Información Comercial Española



1981

<u>%</u>	<u>millions \$</u>	<u>%</u>
46.3	11,414	42.0
19.1	5,695	20.9
14.0	2,311	8.5
8.6	1,600	5.9
2.5	1,630	6.0
2.1	178	0.7
<u>53.7</u>	<u>15,791</u>	<u>58.0</u>
9.2	1,822	6.7
44.5	13,969	51.3
100.0	27,205	100.0
=====	=====	=====