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COMMUNICATION FROM SPAIN

Addendum

The following communication dated 19 April 1977 from the Permanent Representative of Spain to the United Nations addressed to the Chairman of the Committee on Contributions is submitted to the Committee for its consideration:

/Original: Spanish/

/19 April 1977/

"As a supplement to the information contained in Note No. 49 of 29 March 1977, addressed to the Secretary-General of the United Nations, I deem it appropriate to transmit to you the additional data and observations set out below with a view to assisting in a proper assessment of the present economic situation of Spain, an account of which will be given by the expert from the Ministry of Finance, Mr. Leoncio Fernández Maroto, and by the Secretary of Embassy, Mr. Yago Pico de Coaña.

The purpose of the additional information contained in this note is to supply the Committee on Contributions with further background material for an equitable determination of Spain's assessment according to its capacity to pay and in accordance with the provisions of paragraphs (b) and (c) of resolution 31/95 B (document A/RES/31/95 of 14 December 1976, p. 6), which provide for a review of the scale established for 1977 and lay down the basis on which the Committee is to draw up future scales.

All studies and appraisals of Spain's economic situation agree on the great difficulties and problems which that situation presents at this time.

. In the economic situation of Spain there are three major imbalances:

(a) External, evidenced by the deficit in the balance of payments, which reached a record figure of \$4,313 million in 1976 and threatens to be equally large or even larger in 1977;

(b) Internal, marked by the rise in prices and in the cost of living, which is reaching a very high level,

(c) Social, as shown by the unemployment figures, which have increased significantly.

This note must inevitably be limited to a summary of a number of points which affect capacity to pay, that being 'the fundamental criterion on which scales of assessment are based' (paragraph 1 of resolution 31/95 A of 14 December 1976).

1.A External trade problems and the balance of payments

Spain's economic situation in relation to the rest of the world has deteriorated considerably because of the increase in prices of imports caused mainly by the energy and commodity crisis. The growth of exports has not been satisfactory, and the statistics show that their ratio to the gross domestic product has not increased. As for imports, their behaviour has been the reverse of what is desirable, since, expressed as a percentage of the gross domestic product, they increased from 16 per cent in 1973 to 19.55 per cent in 1976. The inevitable result of this behaviour of exports and imports combined has been the record deficit in the current balance mentioned above, which represents 5.5 per cent of the gross domestic product.

Apart from the data given in the earlier note, which related exclusively to Spain, we consider it relevant to reproduce here a page from the OECD Economic Outlook of December 1976, a simple study of which will make it unnecessary for us to comment further on the disadvantageous relative position of Spain.

Table 22
Current Balances of major
OECD countries and
country groups
Seasonally adjusted
\$ billion

	1975	1976	1977	1975		1976		1977	
				I	II	I	II	I	II
Canada	-4.9	-4	-3½	-2.5	-2.3	-2.6	-1½	-1½	-1½
United States	11.7	-1½	-3	5.4	6.3	0.6	-2	-1½	-1½
Japan	-0.7	3½	0	0.9	-1.6	3.5	½	0	0
France	-0.1	-6	-3½	0.6	-0.7	-1.9	-4	-2½	-1½
Germany	3.9	4	5	3.3	0.6	2.3	1½	2½	2½
Italy	-0.6	-2½	½	0.1	-0.6	-1.9	-1	0	½
United Kingdom	-3.7	-3½	-1½	-1.9	-1.8	-1.1	-2½	-1	-½
Belgium-Luxembourg	0.3	½	½	0.5	-0.3	-0.2	½	0	0
Netherlands	1.6	2	2½	0.9	0.7	0.8	1½	1½	1½
Other EEC	-0.6	-2	-1½	-0.1	-0.4	-1.0	-½	-½	-1
Other North Europe	-4.2	-3½	-2½	-3.0	-1.2	-1.5	-2	-1½	-1½
Other OECD	-9.1	-9½	-9½	-5.1	-4.1	-4.6	-4½	-5	-4½
Total OECD	-6½	-22½	-17½	-1	-5½	-7½	-15	-10	-7½
<i>Memorandum item</i>									
EEC	½	-8½	1	3½	-2½	-3	-5½	-½	1½

Note: Detail may not add, due to rounding.

Table 23
Current balances of other OECD countries
\$ million

	Average 1964-1973	1974	1975	1976	1977
Australia	-655	-2 673	-669	-1 150	-1 500
Austria	-98	-471	-312	-1 150	-1 100
Denmark	-301	-910	-512	-1 650	-1 450
Finland	-170	-1 212	-2 175	-1 000	-1 200
Greece	-387	-1 238	-999	-900	-950
Iceland	-18	-155	-144	-55	-35
Ireland	-121	-708	-50	-200	-200
New Zealand	28	-1 587	-1 442	-900	-700
Norway	-158	-1 238	-2 481	-3 500	-2 750
Portugal	160	-829	-736	-1 150	-1 100
Spain	-5	-3 146	-3 477	-3 800	-3 200
Sweden	83	-936	-1 585	-1 600	-1 500
Switzerland	160	171	2 586	3 900	4 200
Turkey	-9	-634	-1 808	-1 450	-2 100

Table 42
Trade balances of major OECD
countries and country groups

Seasonally adjusted
\$ billion

	1975	1976	1977	1975		1976		1977	
				I	II	I	II	I	II
Canada	-0.5	1½	3	-0.5	0.1	0.1	1½	1½	1½
United States	9.0	-8½	-10½	4.7	4.3	-3.0	-5½	-5	-5½
Japan	5.0	10½	7½	3.6	1.4	6.4	3½	3½	3½
France	1.4	-4½	-2	1.6	-0.2	-1.1	-3½	-1½	-½
Germany	17.2	16½	19½	10.0	7.2	8.3	8½	9½	9½
Italy	-1.2	-3½	0	-0.3	-0.9	-2.1	-1½	-½	½
United Kingdom	-7.1	-6½	-5	-3.6	-3.5	-2.8	-4	-3	-2
Belgium-Luxembourg ^a	0.1	-¾	-½	0.5	-0.4	-0.4	-½	-½	-½
Netherlands	0.9	1½	2½	0.4	0.4	0.8	1	1	1½
Other EEC	-1.7	-3	-3	-0.7	-1.0	-1.6	-1½	-1½	-1½
Other North Europe	-4.8	-4	-2½	-3.3	-1.5	-1.9	-2	-1½	-1½
Other OECD	-12.9	-12½	-13	-7.2	-5.8	-6.0	-6½	-6½	-6½
Total OECD	5½	-13	-5	5	½	-3½	-9½	-4	-1
<i>Memorandum item</i> EEC	9½	0	11	8	1½	1½	-1½	5½	6½

a) OECD estimates, on a transactions basis
Note: Detail may not add due to rounding

Table 43
Trade balances
of other OECD countries
\$ million

	1974	1975	1976	1977
Australia	97	2 054	1 950	1 900
Austria	-1 420	-1 394	-2 350	-2 450
Denmark	-1 812	-1 292	-2 450	-2 200
Finland	-919	-1 657	-500	-650
Greece	-2 419	-2 434	-2 500	-2 750
Iceland	-148	-138	-45	25
Ireland	-956	-400	-600	-650
New Zealand	-992	-844	-250	0
Norway	-2 335	-2 855	-3 500	-2 400
Portugal	-2 002	-1 608	-1 750	-1 700
Spain	-7 054	-7 279	-7 250	-7 150
Sweden	606	743	1 100	1 600
Switzerland	-1 745	461	1 450	1 500
Turkey	-1 830	-2 818	-2 500	-3 250

1.B. Spain's external debt

The very marked increase in Spain's external indebtedness began in 1974, when the traditional deficit in the trade balance became a continuing feature of the current balance also. This can be seen very clearly from the following table of Spain's balance of payments, reproduced from the OECD Economic Survey of May 1976 (p. 18).

Balance of payments

\$ million

	<u>1973</u>	<u>1974</u>	<u>1975</u>
Exports fob	5,367	7,241	7,789
Imports fob	8,912	14,287	15,067
Trade balance	-3,545	-7,046	-7,273
Invisibles	4,103	3,778	3,801
of which: Tourism, net	2,878	2,865	3,095
Transfers, net	1,421	1,168	1,164
Current balance	558	-3,268	-3,477
Long-term capital	768	-1,737	1,846
Private	814	1,684	1,814
Official	-46	53	32
Basic balance	1,326	-1,531	-1,631
Short- and medium-capital errors and omissions	436	766	909
Balance of non-monetary transactions	1,762	-765	-722
Change in private Banks positions	-46	70	2
IMF credit	-	-	581
Change in reserves (decrease = -)	1,716	-695	-139

Sources: Ministry of Trade and Bank of Spain.

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We should like to supplement the above table with some later figures. In Note No. 49, the current balance deficits for the three years 1974-1976 were estimated as follows:

<u>Year</u>	<u>Deficit (millions of US dollars)</u>
1974	- 3,271
1975	- 3,542
1976	- 4,313
	-11,126
Total	-11,126

Losses of reserves during the same period were as follows:

<u>Year</u>	<u>Losses of reserves (millions of US dollars)</u>
1974	695
1975	139
1976	1,000 (provisional figure)
	1,834
Total	1,834

As capital inflows for the three-year period are estimated at approximately \$1.5 billion, if we deduct the total losses of reserves less those inflows, or \$3,334 million, from the three-year total deficit of the current balance, or \$11,126 million, we arrive at a figure of \$7,792 million, which logically represents the increase in debt during the three-year period.

According to estimates made by Revista Actualidad Económica (No. 994 of 5 April 1977), Spain's present external indebtedness is approximately \$11 billion. This figure is obtained by adding to \$5,252 million, the estimated figure for public debt at the end of 1976, an amount of \$4.5 billion is private external debt, which gives a figure of \$9,752 million; if to this one adds short-term indebtedness and transactions for December 1976, one arrives at the very rough figure of \$11 billion mentioned above. To give some idea of the financial burden which this represents, it may be noted that, assuming an interest rate of only 7.5 per cent per annum, the burden would be \$825 million, or the equivalent of, for example, 25 per cent of all earnings from tourism.

2. Rate of inflation

On this subject, it should be noted that the provisional figure of 242.3 for 1976 shown in the general cost-of-living index contained in Note No. 49 of 29 March 1977 not only represents an increase of 26.9 per cent over the preceding

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year, for which the figure was 190.9 but also means that 1976 ended with an exceptionally high rate of inflation. As regards prospects for the immediate future, the upward trend is at present continuing at an excessive pace, and in view of the fact that, according to figures provided by the Spanish National Institute of Statistics, hourly wages were continuing in September 1976 to increase at an annual rate of 30 per cent, the weekly bulletin Información Comercial Española, No. 1557 of 3 February 1977 (published by the Ministry of Commerce), states that 'the inflationary spiral will be difficult to halt at any time in the near future'. The Madrid periodical Actualidad Económica, No. 995 of 12 April 1977, states flatly (p. 17): 'At this rate, as eminent economists have already warned, by December we shall be seeing increases of about 30 per cent'.

In our view, the following table relating to the cost-of-living index, which is reproduced from the above-mentioned Información Comercial Española, speaks for itself:

GENERAL COST-OF-LIVING INDEX

	<u>Increase over preceding month</u>			
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
January	0.75	0.60	1.41	1.19
February	0.15	0.33	0.95	1.12
March	0.83	2.17	0.66	2.31
April	1.42	2.19	1.75	2.03
May	1.47	1.26	1.23	4.58
June	1.52	0.44	0.27	-0.62
July	1.11	1.38	1.17	0.62
August	1.63	1.66	1.56	0.84
September	1.74	1.57	1.59	1.88
October	1.57	1.07	-	1.38
November	0.13	2.76	0.76	1.87
December	1.08	1.37	1.56	1.04

Source: National Institute of Statistics.

3. Summary indication of Spain's present economic crisis

Because of its eloquence and its value as a summary statement, which were manifested spontaneously only a few days ago in a specialized publication (Actualidad Económica, No. 995 of 12 April 1977), we are reproducing here a table entitled 'The crisis of the Spanish economy: a balance-sheet', which appears below; also very meaningful in this respect are the statistics in the publication International Financial Statistics on loss of reserves and the trend in the exchange rate of the peseta, which was devalued in 1976.

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TABLE 1. THE CRISIS OF THE SPANISH ECONOMY: A BALANCE-SHEET

<p>1. Real terms of trade -0.25%</p>	$\left. \begin{array}{l} \text{Exports/GDP} \\ \text{Imports/GDP} \end{array} \right\} \begin{array}{l} /1973: 14.87 \\ /1976: 13.96 \\ /1973: 16.08 \\ /1976: 19.55 \end{array}$	$\left. \begin{array}{l} \text{Balance of payments, 1973: } 1.2 \\ \text{Goods and services/GDP, 1976: } -5.5 \end{array} \right\}$	<p>→ BALANCE OF PAYMENTS DEFICIT</p>
<p>2. Growth of private consumption 1973: 7.0 1976: 2.3</p>	<p>→ Growth of GDP: 1973: 8.4 1976: 1.7</p>	<p>maintenance of rates of growth in real incomes</p>	
<p>3. Prospective increases (93% rise in prices): (53% large increases)</p>	<p>demand for higher wages and better prices</p>		
<p>4. Increase in cost of labour:</p> <p>A. Increase in money wages: % salaries and wages in national income 1973: 51.3 1976: 57.3</p> <p>B. Cost of social security: % SS contributions in national income 1973: 8.5 1976: 9.4</p> <p>C. Increase in productivity: 1973: 6.4 1976: 1.9</p>	<p>6. Crisis of the surplus: % surplus in national income 1973: 40.2 1976: 33.3</p> <p>7. Decline in investments: Increase in gross capital formation 1973: 14.3 1976: -1.4</p>	<p>↑ INFLATION</p> <p>Increase in cost-of- living index (December/December): 1973: 14.2 1976: 19.8</p> <p>↓</p>	
<p>5. Decline in productivity of investments, 1964-1976: -3.31% annual average</p>	<p>Rate of increase in GDP: 1973: 8.4 1976: 1.7</p>		
<p>8. Variations in demand for labour</p>	<p>Cost of labour: Point 4: Decline in demand for labour → UNEMPLOYMENT</p> <p>Structure of production: -6.3% demand for labour 1973: 3.7 1976: 5.4</p>		

The information given in this note could be expanded if that is considered necessary.

We trust that the account given by the Spanish officials of the factors at present affecting Spain's relative capacity to pay will be taken into account in determining Spain's assessed contribution to the regular budget of the United Nations."
