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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CURRENT ECONOMIC POSITION  
AND PROSPECTS  
OF  
SPAIN  
(in four volumes)

VOLUME IV  
ANNEX III - PUBLIC FINANCE AND CAPITAL MARKET

December 8, 1966

Europe and Middle East Department

CURRENCY EQUIVALENTS

U. S. \$1	=	60 pesetas
1 peseta	=	U. S. cents 1.67
1 million pesetas	=	U. S. \$16,667
1 billion pesetas	=	U. S. \$16,666,667

ANNEX III - PUBLIC FINANCE AND CAPITAL MARKET

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## ANNEX III

### PUBLIC FINANCE AND CAPITAL MARKET

#### I. SCOPE AND TRANSACTIONS OF PUBLIC SECTOR

1. In Spain, two complications arise in defining the public sector and in identifying transactions between this sector and the rest of the economy. First, there exists a very large number of autonomous public or semi-public entities and enterprises outside the central or local administration. Secondly, there are no systematic data about actual transactions, not for this heterogeneous category of autonomous agencies, and not for central and local administration activities either. Both points were emphasized in the 1962 Bank Report; the situation has not improved markedly since.

#### Treasury Transactions

2. The most accurate piece of quantitative information that can be put together about public sector transactions is the statement of cash receipts and expenditures of the Treasury. (Table 1). This includes the results of the budgetary and extrabudgetary transactions of the central administration. The extrabudgetary transactions are foreign aid receipts and expenditures (annex budget), receipts and payments on account of local governments, other revenues and expenditures which are mainly treasury advances (anticipos), and capital market transactions for financing the official credit institutions.

3. The Central Government budget, narrowly defined (excluding extra-budgetary treasury transactions), was in balance or yielded surpluses until 1965 when a deficit occurred of 3.6 billion pesetas. If extra-budgetary revenues and expenditures are taken into account, the deficit for 1965 rises to 8.6 billion while 1964 also shows a deficit, of 1.1 billion. This difference is mainly due to "other income" and "other expenditures" in the treasury accounts, representing receipts and payments in advance of authorizations and not incorporated in the budget. The implications of these operations for budget administration and control are left for later discussions. The operations should be considered as part of the Government budget, in which case the growth of the deficit during the last two years becomes more marked.

4. Other major items among extra-budgetary transactions are the issue of investment bonds (cedulas para inversicnes) and the transfer of funds to the official credit institutions. From 1960 to 1963 the Treasury transferred funds amounting to about 6-8 billion pesetas per year to these institutions. Of a total of 28.8 billion pesetas transferred during these four years, only 9.5 billion were financed by the proceeds of investment bonds issued, the rest coming out of budget surpluses. In fact, during this period, the Government in addition to financing these transfers was even able to reduce its indebtedness to the Bank of Spain.

5. The years 1964 and 1965 present a completely different picture. The Treasury transfers to the official credit institutions jumped to 17.6 billion in 1964 and 24.7 billion in 1965 despite the occurrence of budget deficits. The financing of these transfers and deficits was secured mostly by the increasing issue of investment bonds (15 billion in 1964 and 27.5 billion in 1965) and by borrowing from the Bank of Spain (including the issue of metallic money).

6. Although the direct net borrowing in 1964 and 1965 by the Treasury from the Bank of Spain was not large when compared to the increase in the monetary liabilities of the Bank, the indirect effect of public sector financing on the money supply was quite significant. The large amounts of investment bonds were bought mostly by commercial and saving banks. Since these bonds are not automatically pledgeable or discountable at the Bank of Spain, the effect of this Government borrowing would be expected to be a redirection of bank credits to the public sector rather than an increase in money supply. However, statistics indicate that parallel with the sale of investment bonds to the private banks there occurred a heavy Bank of Spain lending to these banks. (See Section V of this Annex).

7. Data for the first eight months of 1966 indicate an improvement in the Treasury position compared to the same period of 1965, although recourse to the central bank remained necessary on a substantial scale. (Table 1). The seasonal budget surplus for eight months was smaller than in 1965 and larger transfers to official credit institutions were matched to a smaller amount by the issue of investment bonds. The big improvement was in "other income" and "other expenditures", 11 billion pesetas in total. In view of the important role of ad hoc decisions underlying the trend of various items (e.g., early in 1966 payments by the Treasury were temporarily delayed on a substantial scale) it is difficult to foresee trends in the near future.

Consolidated Account of Public Sector

8. A meaningful consolidation of the Treasury accounts with accounts of the autonomous bodies, local governments and public enterprises would necessitate not only data about their total revenues and expenditures, but also a classification of the accounts so that double counting could be avoided. This would require a clear indication of the transfers between the public entities as well as a distinction between intermediary and final income and expenditures. <sup>1/</sup> In the case of public enterprises and the social security system even information on actual totals is lacking. Data about autonomous agencies and local governments are limited to budgets and those about the Central Government to payment orders. Thus, at best, a consolidation was possible of the accounts of the Treasury with those of the local governments and the autonomous organizations. The result is given in Table 2.

9. The autonomous agencies incorporated in the consolidation include, in principle, all major public entities and enterprises with two important exceptions - The National Railways (Red Nacional de Ferrocarriles Espanoles: RENFE) and the social security scheme (Instituto Nacional de Prevision). In 1964, the number of entities listed as autonomous agencies was about 300. <sup>2/</sup> They range from big entities like the holding company of public enterprises INI (Instituto Nacional de Industria), the Housing Organization (Instituto Nacional de Vivienda), and the Resettlement Institute (Instituto Nacional de Colonizacion) on the one extreme, to numerous small charity organizations on the other. The main components of revenues and expenditures of 25 larger organizations which account for about 80 percent of the total are shown in Table 3.

10. Both this table and the account of total autonomous agencies in the consolidated figures should be interpreted with caution. The coverage of the institutions is relatively complete, while that of the transactions reported is not. It was not possible for the Mission to define the exact scope of Government involvement in numerous public enterprises and to assess to what extent the INI budget reported by the Ministry of Finance reflects the total. More obvious cases of omission are the activities of the National Wheat Service (Servicio Nacional del Trigo: SNT) and the Supply and Transport Commission (Comisaria de Abastecimientos y Transportes: CAT) two institutions

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<sup>1/</sup> E.g., sale proceeds of a public enterprise should not be considered a public revenue and added to tax revenue; nor should wages paid to a laborer in a public factory be called public consumption and aggregated with salaries paid to Government officials.

<sup>2/</sup> As reported in Informacion Estadistica, Ministry of Finance.

which are concerned with the regulation of trade in agricultural products. Borrowing by these institutions from the banking system, which amounted to substantial sums in recent years, is not shown at all in their budget data. The Bank of Spain extended credits totalling 3 billion pesetas in 1963 and 10 billion pesetas in 1964 to the Supply and Transport Commission, the latter contributing significantly to monetary expansion. In 1965, although CAT reduced its indebtedness to the Bank of Spain, SNT continued borrowing from the commercial banks. Since SNT paper was automatically rediscountable at the central bank, this agency was in the final analysis financed by the Bank of Spain (to an amount of 2.3 billion pesetas).

11. The two major types of local government in Spain are the municipalities (municipios), legally represented by town councils (ayuntamientos), and the provinces, legally represented by the provincial deputations (Diputaciones Provinciales). A little less than half of the expenditures by these entities are financed by taxes and duties of various kinds with the remainder being financed by other revenues and grants of the Central Government. A recently enacted law aims at reorganizing local government finances by simplifying the complicated system of tax shares and Treasury grants. According to this law, local governments will receive Treasury grants on the following basis:

- (a) 2.5% of the total yield of indirect taxes;
- (b) 20% of the yield of the turnover tax;
- (c) 90% of the tax on capital gains on real estate;
- (d) 90% of the urban property tax.

In addition, local governments are authorized to levy taxes on road transport and parking (on a uniform basis for the entire country), and special assessments to recover between 30 and 80% of the cost of public works and services.

12. In spite of the deficiencies in data, it can be concluded that the size of public sector financial activities in the total economy is relatively small. Current revenues of the total public sector (excluding social security and syndicates) amount to about 15-16% of GNP, and tax receipts to only 11%. Total public expenditures, even after including the substantial transfers financed by bond issues to the official credit institutions in 1964 and 1965, constitute no more than about 17-18% of GNP. On average, in terms of ratios to GNP, current expenditures equal about 11% and capital outlays about 5-6%. Transfers to official credit institutions rose in 1965 to 1.9%. (Table 4).

II. PUBLIC REVENUES

Overall View of Public Sector Revenues

13. Table 2 summarizes the trend in public sector revenues during 1963-65. Of total current revenues, approximately 75% is accounted for by the Central Government, 15% by the autonomous agencies and 10% by local governments. The proportion of total public sector revenues to GNP fell from 15.4% in 1963 to 15.1% in 1965. (Table 4).

14. The sources of revenues differ markedly from one level of government to another with taxes accounting for roughly 88% of central government income, 60% of local government income and 3% of the income of autonomous agencies. Income from fees, duties and property accounts for the bulk of the revenues of the autonomous agencies. Little is known, however, about the exact composition of these revenues. As for local governments, there is a definite tendency to eliminate the numerous fees and to assign to them shares of central government tax receipts. As a result of data limitations the description and comments that follow will be directed towards sources of revenue of the Central Government, particularly the internal tax system.

Trends in Central Government Revenues

15. Table 5 indicates the movement of Central Government revenue between 1961 and 1965 and the 1966 budget estimates. Total revenue exhibits considerable stability in relation to GNP, being approximately 11.5%. If tax revenue alone is considered, the proportion is similarly stable at around 10%. There is a slight but consistent decline in the share of direct taxes in total tax revenues from 34.9% in 1961 to 31.6% in 1965. In fact, with the exception of the tax on commercial and industrial enterprises, direct taxes have shown little or no elasticity with respect to GNP. Revenues from real estate taxes show the least flexibility, increasing by no more than about one-quarter over the period which in real terms means a sharp drop in yields.

GNP and Revenue from Selected Direct Taxes

	GNP	Income from Labor	Income from Capital	Individual Global Income	Business Income	Commercial Enterprise
1961	100.0	100.0	100.0	100.0	100.0	100.0
1962	114.9	112.8	109.7	117.1	111.9	143.1
1963	135.2	128.9	119.1	137.2	115.6	161.8
1964	152.6	141.4	132.5	159.2	121.9	185.4
1965	183.2	146.0	162.3	180.3	146.1	220.2

Sources: Table 5, Revised National Accounts 1958-64 and INE.

16. Indirect taxes exhibit substantial increases; identification of particular ones, however, is not always easy owing to the changes introduced by the 1964 tax reform. Two taxes, on luxury consumption and petroleum products, experienced pronounced increases during the period. In Table 5 they are included under internal excises. These figures undoubtedly reflect the sharp increase in automobile and gasoline consumption during the period.

Revenue from Taxes on Luxury Consumption  
and Petroleum Products

(billion pesetas)

	<u>Luxury</u>	<u>Petroleum</u>
1961	7.34	3.85
1962	8.48	4.82
1963	10.25	5.38
1964	13.35	6.07
1965	16.23	7.18

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Source: See Table 5

17. The turnover tax was introduced in July 1964, replacing a number of consumption taxes previously in existence, both at the central and local government levels; the sharp jump in revenue between 1964 and 1965 is, therefore, partly fictitious.

18. Another increasingly important source of revenue is the equalization or compensatory tax on imports. Introduced originally in 1960 its yield has been rising rapidly, reflecting increasing imports and, in 1965, rate changes as well.

Outline of the Tax System

19. The Spanish tax system has been subject to two major reforms in the last ten years. The first, in 1957, had as its principal objective to increase revenues through curbing evasion; the second, in June 1964, to simplify and rationalize the system and to make it a more powerful instrument of income redistribution and encouragement of private initiative.

Global Assessments (Evaluaciones Globales)

20. The weapon that the 1957 reform introduced in its fights against evasion was the system of global assessments to determine net income of enterprises and professionals. Taxpayers are grouped by branch of activity, and assessment boards are formed with national, provincial or local scope. The boards consist of representatives of the Treasury (Presidente and Ponencia) and of the taxpayers (Comisionistas). Their function is to arrive at a figure of net income for the group of taxpayers as a whole, and to agree on indexes or yardsticks (indices basicos y de correccion) to allocate the arrived at figure among different taxpayers. Sales volume, raw material consumption, number of employees, etc., are used to this effect.

21. Individual accounting for tax purposes was not prohibited and the taxpayer was given the opportunity to choose it instead of the global assessment. It was assumed, however, that the taxpayer accepted the latter unless he explicitly renounced it within given time limits. In practice very few taxpayers have chosen to declare on an individual basis.

22. The global assessment system succeeded in bringing about a large increase in tax revenues, "gathering into the tax net a large number of new taxpayers". 1/ It was expected that this formula would be a transitory arrangement, and that once the administration was strengthened and its records completed, the individual accounting system would be fully and exclusively reinstated. On the contrary, however, the 1964 reform not only continues the system but extends its use, with minor modifications, to the major new indirect tax, the turnover tax (impuesto sobre el trafico de empresas). The tax base is determined in this case by collective agreements (convenios colectivos), and no corrective measures are allowed for in cases of differences between agreed and actual figures. 2/ The global assessment system has been subjected to searching critiques by Spanish scholars and tax lawyers. 3/

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1/ IBRD, The Economic Development of Spain, 1962, p. 116. A short critique of the system is also provided.

2/ To some extent, agreements of this type were already in use for some consumption taxes.

3/ Since this was written, the Government has decided to reduce to some extent the application of the global assessment system. As a first step, the application to the turnover tax will be reduced by excluding a number of activities and enterprises with a turnover exceeding a certain minimum. The practical importance of this and possible further steps will depend on their administration.

### The 1964 Tax Reform

23. Prior to 1964, direct taxation consisted of a number of schedular taxes, with surtaxes applied to personal and business income. The 1964 law sanctions two taxes as the mainstays of the direct tax system: the individual income tax and the business income tax. Schedular taxes subsist with modifications but liabilities incurred under them are now credits against the two major ones. The inheritance tax completes the field of direct taxes which is as follows:

1. Business income tax.
2. Individual income tax.
3. Schedular taxes, credits against 1 and 2 (impuestos a cuenta):
  - a) Tax on agricultural property and income
  - b) Urban real estate tax
  - c) Tax on income from labor
  - d) Tax on income from capital
  - e) Industrial tax
4. Inheritance tax.

24. Simplification has been largest in the field of indirect taxes. Two major ones, the turnover tax (impuesto general sobre el trafico de empresas) and the property transfer tax (impuesto general sobre transmisiones patrimoniales) replace the vast number of consumption, stamp and transfer taxes previously in existence. Indirect taxes are as follows:

1. Turnover tax.
2. Tax on transfer of property.
3. Excise taxes:
  - a) On luxury items
  - b) Special taxes (alcohol, sugar, beer and soft drinks, petroleum, telephone, etc.)
4. Customs taxes:
  - a) Customs duties
  - b) Equalization taxes

25. Business Income Tax (Impuesto General sobre la Renta de las Sociedades y Demas Entidades Juridicas). A firm sometimes carries out activities in different agricultural, industrial or commercial fields. Profits in each field will then be taxed under the corresponding schedular tax (real estate, urban and rural, industrial and commercial tax, tax on income from capital). The business income tax is based on the sum of profits from all activities. The rate is 30% for corporations and 25% for partnerships. Amounts paid under the schedular taxes are

credits against the liability under the business income tax, and constitute the lower limit of this liability. There is a special surcharge of 4% on corporations, deductible from the corporation income tax base, which raises the effective corporate rate to 32.68%. 1/

26. The usual method of tax base determination is by global assessment. The law makes provision for accelerated depreciation, investment reserves, and loss carryover. Favorable treatment is granted to enterprises established in the polos de desarrollo, as well as for the merger of groups of companies into more economic units. Foreign subsidiaries pay tax on the profits realized in Spain. There are provisions for reducing or avoiding international double taxation for firms resident in Spain. The business income tax became effective as of the fiscal year ending December 31, 1964.

27. Tax on Individual Income (Impuesto General sobre la Renta de las Personas Físicas). The new individual income tax, effective beginning January 1, 1966, is designed as a genuine global income tax instead of a surtax. Under the repealed system, income not exceeding 100,000 pesetas was exempt, and any excess over that was taxed at progressive rates ranging from 2.5 to 44% on income exceeding 6,000,000 pesetas. Under the new system, credit will be given for schedular taxes paid. This implies careful attention to the design of the new rate scale; neither this, nor detailed provisions regarding exemptions and deductions have yet been enacted. 2/

28. There are two methods of calculating taxable income, the "direct" method based on declared gross income from all sources, and the "external signs" method, based on external indicators of wealth. If the latter yields an amount which exceeds declared income by more than 20%, tax is levied on presumed income.

#### Schedular Taxes

29. a. Tax on Agricultural Property and Income (Contribucion Territorial Rustica). The rural land tax is partly a property tax and partly a schedular tax on income from agricultural sources. A "fixed quota" (cuota fija) is levied on all properties with cadastral values exceeding 5,000 pesetas, and a proportional tax at the rate of 17.5% is levied on the profits of agricultural enterprises in excess of 100,000 pesetas. This proportional feature of the tax is the innovation introduced by the 1964 reform, and became effective on January 1, 1966.

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$$\frac{1}{100} \times \frac{96}{100} \times (30 + 4) = 32.68.$$

2/ On September 28, 1966 the Government decided to postpone implementation of this tax until 1967.

30. Net profits are again usually arrived at by agreements or evaluations of committees consisting of tax officials and taxpayers. Payment of the fixed quota is credited against the proportional tax liability. Exemption of up to 50% of the tax is allowed for funds invested in improvements or research activities to be directly applied to the land. Furthermore, exemption of up to 95% of the tax for a period of 10 years will be granted when small holdings are consolidated, under specified conditions, into a larger one and when dry land is converted to irrigated land. Apparently no substantial increase in revenues from the rural land tax is expected in the immediate future.

31. b. Urban Real Estate Tax (Contribucion Territorial Urbana). The 1964 reform did not introduce major changes in this tax. Subject to it are urban land and buildings, and the tax base is arrived at by applying a 4% return to the value that appears in municipal registers. The rate is 20%.

32. c. Tax on Income from Labor (Impuesto sobre los Rendimientos del Trabajo Personal). All income received as remuneration for personal services in excess of 60,000 pesetas is subject to this tax. There is a personal exemption of 40,000 pesetas and dependent allowances for four or more children, ranging from 125,000 pesetas to complete exemption. Manual laborers are exempt. Tax must be withheld and paid quarterly to the tax authorities at the following rates:

General rate	14%
Corporation directors	20%
Salesmen's commissions	7%
Living allowances and similar fringe benefits	5%

Persons engaged in independent professional practice are usually assessed under the global system, the overall amount being agreed upon between the tax authorities and the respective professional college or association.

33. d. Tax on Income from Capital (Impuesto sobre las Rentas del Capital). Subject to this tax are interest on private and public indebtedness, dividends and participation in profits of corporations and partnerships, and royalties. The main innovation introduced by the 1964 reform was to substitute a proportional rate of 15% applicable to dividends for the former progressive scale of 8 to 30%. Income from interest is taxed at 24%. The tax is withheld at the source, with the exception of interest on bank deposits, where bank secrecy might be considered violated.

34. e. Industrial Tax (Impuesto Industrial). Individuals, partnerships and corporations that engage in commercial and industrial activities are subject to this tax, which consists of two different levies. One is a licence fee (licencia fiscal), which varies according to the location, nature, and size of the activity in question. The other is a proportional tax on profits at the rate of 20%. Taxable profits are usually determined following the global assessment procedure.

35. Inheritance Tax (Impuesto General sobre las Sucesiones). The 1964 reform repealed the estate tax and readjusted somewhat the rates applicable to inheritances, which now range from 3 to 84% according to the amount and the relationship to the deceased. The new tax became effective July 1, 1964.

36. Turnover Tax (Impuesto General sobre el Trafico de las Empresas). After considerable debate over whether a value added or a gross sales tax were better suited to Spanish conditions, the latter was adopted and became effective July 1, 1964. Operations of all industrial, commercial and service enterprises are subject to the tax at the following rates:

Sales from manufacturers to wholesalers:	1.50%
Sales from manufacturers to retailers :	1.80%
Sales from wholesalers to retailers :	0.30%
For services rendered :	2.00%

Special rates apply to the operations  
and services of banks.

As of January 1, 1965, the various rates were increased by a municipal surcharge of one-third.

37. No tax is levied on retail or export sales. The amount of tax to be paid may be determined by agreement with the authorities. Although a number of taxes previously levied as stamp, sales and transfer taxes have been abolished and replaced by the turnover tax, this tax appears to represent a widening of the indirect tax base, and substantial increases in revenue may be expected in the next few years.

38. Tax on Transfer of Property (Impuesto sobre las Transmisiones Patrimoniales y Actos Juridicos Documentados). Transactions and transfers of goods not subject to the turnover tax, are subject to this tax, the base being in general the real value of the transaction or property being transferred, and the rate ranging from 1.10% for loans to 7.40% for real property. Also collected under this tax are the old stamp taxes on public documents.

39. The law also makes provision for the taxation of capital gains realized on the sale of real property purchased and held for more than three years. Adjustments are foreseen for changing price levels. The rates range from 17 to 25% depending on the length of the period the asset was held and the amount of the capital gain. This tax, however, has not yet become effective.

40. Excise Taxes. Few modifications of these taxes were introduced by the 1964 reform. As mentioned earlier, included here as excises are a number of so-called "special" taxes (sugar, beer, etc.) and "luxury" taxes. Some of the taxes are specific; in general, however, rates are ad valorem and applied to sale price. Gasoline is taxed at 6.25 pesetas per liter, bringing the retail price to 10 pesetas per liter or U.S. \$0.64 per gallon. Automobiles of up to 7 fiscal HP are taxed at 17.6%; those exceeding 7 HP at 22%. Used automobiles over three years old and of less than 8 HP are, however, exempted of the tax by the 1964 reform. Other luxury items are taxed at rates ranging from 6 to 22%. Payment for some excise taxes is made by manufacturers under collective agreements with the tax authorities. There is an annual registration fee for automobiles of more than 7 fiscal HP, progressive with respect to the number of HP.

41. Customs Taxes. The structure of customs duties was established in 1959; no modifications were introduced by the 1964 reform. Adjustments were made, however, in the equalization tax on imports (originally called tarifa fiscal and, since the reform, impuesto de compensacion de gravamenes interiores), first enacted in 1959.

42. The purpose of the equalization tax is to impose on imported goods levies equivalent to what these goods bear in the form of internal indirect taxes. The new rates, calculated on the basis of the tax changes introduced by the reform, particularly as regards the turnover tax, are higher than previous ones. They range from 1 to 16%, with a marked concentration in the 8-12% bracket.

43. Calculations of tax incidence of this type are always subject to a considerable margin of flexibility. In Spain, the peculiarities of the global assessment system make them more uncertain. Tax rebates at the same rates are granted to similar products exported.

#### Problems and Prospects

44. The Spanish tax system emerged from the 1964 reform considerably simplified and rationalized. It offers potential to produce increased revenues, mainly in the field of indirect taxes such as the turnover tax. Since liabilities under the global assessment system are undoubtedly below what individual declarations under the provisions of the law would produce, higher yields might be achieved from income taxes (business and professional income, agricultural income,

etc.) where the global assessment system is now employed. Here, however, the fiscal authorities face the potential danger of collective refusal of global assessment and the consequent strain on limited auditing resources.

45. Obvious improvements in practices could be introduced. For example, tax withheld from salaries and compensations is turned over to the Treasury every three months instead of currently.

46. From the point of view of equity and adequacy, the Spanish tax system falls short of what undoubtedly was the aim of the legislators. The progressive individual income tax is not applied in reality. Little, if any, effort is made to seek compliance and it appears that an excessive share of the burden falls on salaried employees subject to withholding. Compensations of high executives often escape even the proportional parts of the schedular tax through companies' under-reporting of true amounts. In fact, if a thorough look into the situation were possible, the personal income tax might well emerge as the most regressive feature of the whole Spanish tax system.

47. The 1964 reform not only sanctions the system of global assessments for the determination of taxable income of business enterprises and independent professionals, but expressly extends it to other areas, specifically the turnover tax and the tax on agricultural income. The use of global assessments is an ancient practice that does not adequately serve the demands of a modern economy. It deprives the tax system of its legal significance, distorts its impact on the process of economic decision making, and dampens the built-in flexibility features that it might possess. It makes crosschecking of tax returns among firms and among taxes impossible and in this way facilitates evasion, such as that of individual income tax. <sup>1/</sup>

48. No effective tax on property is still levied in Spain. Real estate taxes, particularly those on rural property, are insignificant in practice and little improvement is foreseen as a consequence of the tax reform.

49. In the reform of indirect taxes, the 1964 law decided in favor of a turnover tax and against a value-added tax in spite of the definite trend in Europe to shift from the former to the latter in the countries that are members of the European Economic Community, of which Spain aspires to be a part. This is, however, a relatively minor matter since the turnover tax in Spain does not fall on actual sales but on agreed-upon amounts between authorities and the taxpayers. Very likely if the tax adopted had been on value-added, the only practical consequence would have been that a higher rate would have had to be applied to a smaller base to collect the same amount of revenue.

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<sup>1/</sup> See also footnote 3 on page 7.

50. It seems desirable that the Spanish authorities at this time reconsider their previous pronouncement regarding the desirability of increasing the tax effort. If such increase should be decided upon, better administration and enforcement of the existing system, with perhaps tightening of property and capital gains taxes, would suffice to provide ample additional revenues.

51. Given the bases on which the Spanish tax system operates, little can be said regarding future revenue projections. The 1966 budget estimates do not appear unreasonable. Further judgment will have to depend on the experience with the new turnover taxes, and with the new individual income tax, whose implementation has now been postponed until 1967.

### III. PUBLIC EXPENDITURES

#### Public Expenditures and the Plan

52. The consolidated accounts of the public sector are at best rough approximations of general magnitudes; nevertheless, they serve to indicate the trends in the past few years. Both current and capital expenditures of the public sector appear to have increased at approximately the same rate as public revenues which in turn have remained a stable proportion of GNP. This tendency of the public sector to remain a stable proportion of GNP was not planned in the past nor is it anticipated for the future. Planned levels of expenditure implied a relative increase in the total size of the public sector. Plan targets have been upset by persistent increases in prices and, in 1965, by the reforms introduced in the civil service which necessitated substantial increases in salaries of civil servants.

53. The Plan lacks a systematic analysis of expected public revenues during the plan period 1964-1967 but it does set some targets for total public sector current and capital expenditures. Current expenditures are expected to grow at a maximum rate of 5 percent per annum and public investment at a rate of 10 percent per year after an initial increase of 15 percent from 1963 to 1964. The implication of these growth rates is, as shown in the table below, a relative increase in the size of public investment in relation to planned levels of GNP.

54. The targets imply an increase in the size of public expenditures from 16.2 percent of GNP in 1963 to 17.5 percent of GNP in 1967 with investment expenditures increasing from 47 percent to 53 percent of total public expenditures.

Public Expenditure Targets of the Plan  
and their Relationship to Planned Levels of GNP  
(billion pesetas and percentages)

	Growth Rate	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
GNP	6%	828.5	875.0	927.5	983.2	1,045.8
Current Expenditures (% of GNP)	5%	71.3 (8.6)	74.9 (8.6)	78.6 (8.5)	82.5 (8.4)	86.6 (8.3)
Public Investment (% of GNP)	10% <sup>a/</sup>	62.8 (7.6)	72.2 (8.3)	79.4 (8.6)	87.3 (8.9)	96.0 (9.2)

<sup>a/</sup> For 1963 the projected growth rate was 15 percent.

Source: Plan documents.

55. The meaning of these targets has been confused by the failure to distinguish clearly, in appraising actual performance under the Plan, between current and constant prices. The increase in actual current expenditures of about 14 percent per year is defended on the ground that if price changes are eliminated the rate of growth is much closer to the planned level of 5 percent - although still higher. On the other hand, not only are actual 1964 and 1965 public investment expenditures in current prices lower than the Plan investment targets - as follows from the Progress Reports on the Plan for 1964 and 1965 <sup>1/</sup> - but the budgets for 1966 and 1967 include the same investment sums as specified in the Plan prepared in 1962.

56. A further complication in interpreting and evaluating performance under the Plan is the lack of an explicit definition of the public sector. The multitude of public and semi-public institutions that exist make possible a number of definitions of the public sector, and as the Plan does not specify what is included and what is excluded from the public sector, a wide variety of interpretations is possible.

57. In spite of these problems an effort has been made in the accompanying table to compare plan targets and actual public expenditures. Actual developments in the public sector appear to have been opposite to those contemplated in the Plan: both the ratio of public expenditures to GNP and the share of public investment in total public expenditures appear to have declined.

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<sup>1/</sup> Memoria sobre la Ejecucion del Plan de Desarrollo Economico y Social for years 1964 and 1965; see Tables 5.3 - 5.5 in Statistical Appendix to Main Report.

Comparison of Plan Targets and Actual Public Expenditures  
(billion pesetas)

	1963		1964		1965	
	Plan		Plan		Plan	
	Base	Actual	Target	Actual	Target	Actual
GNP	828.5	962.5	875.0	1,030.1	927.5	1,111.3
Current Expenditures <sup>1/</sup>	71.3	87.9	74.9	95.0	78.6	100.8 <sup>2/</sup>
(% of GNP)	(8.6)	(9.1)	(8.6)	(9.2)	(8.5)	(9.1)
Investment Expenditures	62.8	58.4	71.0	59.3	78.1	62.0 <sup>2/</sup>
(% of GNP)	(7.6)	(6.1)	(8.1)	(5.8)	(8.4)	(5.6)

<sup>1/</sup> Excluding transfers.

<sup>2/</sup> Unclassified expenditures of 7.5 billion pesetas in 1965 have been distributed equally between current and investment expenditures.

Sources:

Plan base and targets:

GNP: Computed at 6% growth rate from figure given in Plan for 1963.

Current Expenditures: Computed at 5% growth rate from figure given in Plan for 1963.

Investment Expenditures: From Plan for each year.

Actuals:

GNP: Revised National Accounts 1958-64 and INE.

Current Expenditures and Investment Expenditures: From Table 2, reduced to 1963 prices by GNP implicit deflator. Investment expenditures include, in addition to capital expenditures in Table 2, transfers to RENFE in accordance with Plan definition.

Remuneration of Civil Servants

58. One of the factors resulting in a marked increase over planned targets in the level of current expenditures was the reform in the civil service, introduced in 1965. The need for a reform in the public pay system was strongly emphasized in the IBRD Report of 1962, where it was remarked that "the system for supplementing the basic salaries of civil servants by payments from funds accumulated by individual ministries in the course of their operations (e.g. by surcharging investment expenditures) may become incompatible with the policies for economic development".<sup>1/</sup> The reform legislation which came into effect in October 1965 brings a consolidation of salary payments in combination with general salary increases, aimed at placing civil service salaries at a level more competitive with that in the rest of the economy. Eighty percent of the contemplated increase became effective in October 1965 with the remaining 20 percent to be implemented over a period of four years. The increase in the total salary bill as a result of these changes is estimated at 91 percent. The net effect is, however, smaller as part of this increase will be offset by a reduction of expenditures in other accounts which formerly went for salary payments. The net impact is estimated to be an increase of about 43 percent.

<sup>1/</sup> IBRD, The Economic Development of Spain, p.8.

IV. FISCAL MANAGEMENT

59. The formal Spanish budgeting procedures involve the preparation of an annual budget every two years with the same budget, with minor modifications, expected to serve a second year. In practice the rapidly changing pace of events has meant that these modifications have not always been minor in their impact. The table below shows the persistent tendency for estimates to vary considerably from actual figures every other year.

Budgeted and Actual Revenues and Expenditures  
(in billions of current pesetas)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Budgeted Revenues	65.7	65.7	86.9	86.9	120.8	136.8
Actual Revenues	<u>72.7</u>	<u>81.1</u>	<u>94.9</u>	<u>109.1</u>	<u>125.8</u>	<u>149.5</u>
Difference	7.0	15.4	8.0	22.2	5.0	12.7
Difference over budget (%)	10.6	23.4	9.2	25.5	4.1	9.3
Budgeted Expenditures	65.6	69.0	86.8	104.7	121.0	136.8
Actual Expenditures	<u>67.0</u>	<u>74.5</u>	<u>88.8</u>	<u>109.2</u>	<u>124.6</u>	<u>152.7</u>
Difference	1.4	5.5	2.0	4.5	3.6	15.9
Difference over budget (%)	2.1	8.0	2.3	4.3	3.0	11.6

Source: Ministry of Finance.

60. In addition to the long time lag between budget preparation and liquidation of the budget two years later, the use of partial and ad hoc expenditure authorizations diminishes the usefulness of the budget as an instrument of planning and control. Legislation involving increases in expenditures is incorporated automatically into the budget without sufficient consideration being given to the financing of these expenditures. An outstanding example of this practice was the recently legislated increase in wage and salary payments to the civil service. In general budgeting practices are loose and a good deal of use is made of supplementary appropriations combined with too easy transfer of funds from one budget category to another (carry-overs). In recent years the practice of the Treasury in releasing funds in advance of new authorizations (anticipos de tesoreria) has further weakened the budget as a control mechanism.

61. Poor budgeting practices are also found in the rest of the public sector. The budgets of the autonomous agencies which together account for one-third of total public expenditures are subject to little centralized

direction and are approved on a piecemeal basis without sufficient regard to their overall impact on the financial position of the public sector. Long time lags also exist between submission of these budgets and their final approval. In April 1966, one-half of these budgets for fiscal 1966 still had not been approved. This state of affairs indicates the need for emphasizing again the recommendations for improvement in fiscal management contained in the 1962 IBRD Report.

62. The need for improved organization and accounting practices of the public sector was recognized in the formulation of the Plan. "In order to achieve greater efficiency in the coordinated action of the entire public sector, we will make a classification of the component organizations according to the nature of their activities, omitting those autonomous agencies whose functions can be absorbed by the central administration. We will also establish uniform systems of accounting within each category of organization (independent state agencies and local administration) which may permit proper formulation and publication of the aggregate accounts of the public sector."<sup>1/</sup> Little progress has been made in this direction.

63. In order to achieve a more efficient management of public funds such steps are necessary and without them any attempts to engage in effective planning exercises will be largely ineffective. Good accounting and meaningful classification of public sector activities are essential for efficient management.

64. The Mission strongly supports the intentions contained in the Plan to reorganize the institutional structure of the public sector so that many of the autonomous agencies which have functions of a "general service" nature are incorporated into the general budget. The remaining agencies which have an "enterprise" character should be unified in a framework which would allow enough flexibility in the decision making process but at the same time provide a means of coordination and control for general financial planning.

65. In addition to these institutional reforms steps should be taken to include all financial transactions of the Government within the framework of the budget. This would result in a clearer picture of public sector transactions in the economy as well as serve as a control mechanism. It would mean including in the budget the financing of such organizations as the National Wheat Service and the Supply and Transport Commission. A method should also be devised to include expenditures made against anticipated authorizations.

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<sup>1/</sup> Economic and Social Development Program for Spain, 1964-1967 (English version), page 41.

66. In order to aid the government in its decision making, steps should also be taken to speed up the flow of information. The results of the financial operations of the Central Government, local governments and autonomous agencies should be available without excessive delay and in a format that lends itself to economic analysis. Apart from its significance for planning and fiscal management, the current presentation of such data would be an important contribution to improving present national income estimates.

67. Greater care also needs to be taken in the incorporation of Plan targets into the budget. At present the link between the Plan and the budget is very weak and has led to such things as the planned public investment expenditures for 1964-1967 (which were made in 1962) being incorporated into the current budget without the necessary revisions for price changes.

## V. CAPITAL MARKET

68. The capital market in Spain, broadly defined, includes the banking system, the official credit institutions and the security exchanges. These organizations, separately or jointly, provide a channel for the flow of investible funds from savers to investors, thus exercising substantial influence over the allocation of resources.

### Supply of Funds

69. During each of the last five years, funds amounting to 14-15% of GNP were transferred via the banking system and the securities market. As illustrated in the table below and in Table 6, a large proportion of these resources (about three-fourths of the total) originated through liquidity creation (increase in currency and deposits). The consequent important implications for monetary management and stability are discussed in the Main Report. Liquid assets are examined in the context of this Annex as sources of funds for the capital market and not as determinants of the general level of spending in the economy.

Flow of Funds  
(percentages of GNP)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
<u>Sources of Funds</u>	<u>13.8</u>	<u>14.5</u>	<u>13.8</u>	<u>16.0</u>	<u>15.1</u>
Money	3.8	5.3	4.9	5.6	4.8
Time and Saving Deposits	5.6	6.3	5.6	7.3	6.2
Securities	3.9	3.4	4.2	3.8	4.6
Others	0.5	-0.5	-0.8	-0.7	-0.4
<u>Uses of Funds</u>	<u>13.8</u>	<u>14.5</u>	<u>13.8</u>	<u>16.0</u>	<u>15.1</u>
Public Sector	0.8	0.9	1.5	2.1	1.6
Official Credit Institutions	1.2	0.8	0.7	1.6	1.9
Private Sector	9.0	11.3	11.1	10.4	12.3
External Sector	2.8	1.4	0.5	1.8	-0.6

Sources: Table 6  
Revised National Accounts 1958-64 and INE.

70. From 1960 to 1965 there was a rapid expansion of the money supply. Currency in circulation increased by 109%, sight deposits by 122% and time and savings deposits by 258%.<sup>1/</sup> Currency plus deposits increases together amounted to approximately 10% of GNP. Direct voluntary savings, increased demand for cash balances as a result of economic growth and monetization, and forced savings resulting from the rise in prices, all contributed in varying degrees to this total expansion of the money supply.

71. Compared to the volume of funds generated by the banking system in the form of currency issue or deposits, the size of total funds provided in the security markets (through the purchase of shares and bonds by individuals and institutions outside the banking system) is small. Nevertheless, in relation to GNP, these issues average approximately 3.5-4.5%, which is not insignificant. These ratios may, however, be overestimated as new private issues are quoted only in gross values. No data have yet been collected relating to the amortization of private bonds or to the conversion or consolidation of outstanding shares into new ones.

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<sup>1/</sup> A meaningful classification of demand and savings deposits is particularly difficult in Spain: (a) most savings deposits are payable on demand; (b) while checks cannot be drawn on these deposits, this is not a significant distinction, as payment by check is not widely practiced.

### Demand for Funds

72. Public Sector. The public sector's share of funds generated in the capital market has been small. From 1961 to 1965, approximately 9-10% of funds passing through the capital market went to the public sector. Public bond issues to finance the private sector through the official credit institutions which showed a rapid rise in 1964 and 1965, are not included in this figure. If the definition of the public sector is broadened to include total funds administered by the State, the public sector's share rises to 23-24% for the last two years.

73. A major portion of government borrowing has been through the sale of bonds to banking institutions. Securities issued by the State prior to 1958 were automatically pledgeable with the Bank of Spain for 85 to 90% of their value. Because interest charged by the Bank of Spain on loans guaranteed by public bonds was equal to rates on the public debt (and at times even lower), these bonds were almost perfect substitutes for currency. In fact, as far as bank reserves were concerned, they were better than cash. Banks could maintain their liquidity and at the same time earn a return of about 4% on their reserves. Thus, bonds affected the money supply in the same way as an increase in base money (currency). The return on these bonds created a strong demand by banks. After 1957, pledgeable bonds were no longer issued, and the pledging rate was raised to about half a point above that of public bonds. Large amounts of the bonds nevertheless continued to be held by banks as part of their reserves.

74. After 1957 issues by the Treasury have been confined to investment bonds (cedulas para inversiones), which are not automatically pledgeable at the Bank of Spain. They are used to raise funds for the official credit institutions. Since they offer no attraction other than a return of 4-4.5% (see Table 9), their placement with banks has not been as automatic as that of pledgeable bonds. Regulation of asset portfolios was used by the Government to induce banks to hold investment bonds. Details of these regulations are discussed in paragraphs 86 and 87.

75. In addition to investment bonds, the Treasury has guaranteed bond issues by public enterprises through the Instituto Nacional de Industria (INI). Until 1963 there were also minor issues directly by some of the official credit institutions.<sup>1/</sup>

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<sup>1/</sup> Banking statistics do not show separately the kinds of public bonds (fondos publicos) held by banks. The Mission has estimated that of about 159 billion worth of public bonds held by banks at the end of 1965, more than half (82 billion) is automatically pledgeable paper, 43 billion are investment bonds and 34 billion are INI bonds. Almost all INI bonds are held by the savings banks.

Issues of Public Bonds  
(million pesetas)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Cedulas para Inversiones	1,000	474	5,000	15,000	27,506
INI Bonds	9,653	4,500	8,584	8,329	9,100
Official Credit Institutions	1,836	1,345	300	--	--
Total	<u>14,489</u>	<u>6,319</u>	<u>13,884</u>	<u>23,329</u>	<u>36,606</u>

Source: Bank of Spain, Boletin Estadistico

76. Data on the placement of public securities are given in Table 7. It indicates that more than 80% of public bonds issued in the last two years were absorbed by banks. Prior to 1965 saving banks took a larger share than commercial banks, but in 1965 the latter absorbed over one-half of total public bonds issued.

77. Private Sector. Private securities were mostly purchased by individuals and institutions outside the banking system (see Table 8). Recent years have witnessed a growing amount of private issues of both bonds and shares. More than half of these issues were made by public utilities (electricity, water, gas) and manufacturing industries. After 1963 bank issues also became important.

78. The increase in issues of private securities has taken place against the background of a sluggish market. The index of share price declined from a peak of 121.3 (1958=100) in 1957 to 87.1 in 1965. Within this general index, steel, chemicals and transport registered sharp declines, and banks a remarkable rise. Movements in yields indicate that price movements have been affected by factors other than profits, particularly in steel, transport and banks. The decline in quotations since 1957 can be attributed partially to the fact that 1957 was a peak year. In addition, the banking reform restricting the portfolio investments of banks, the tendency of non-residents to reduce total portfolio investments (since 1964), the attractiveness of investment in real estate and the taxation of dividends were factors influencing the market. The stockmarket has structural weaknesses, including poor information on the financial situation and results of many companies, lack of familiarity with the market on the part of the public at large and narrowness of the market.

79. Funds channeled from the capital market, broadly defined, to the private sector were largely in the form of bank credits. In 1965 credits to the private sector increased by 136 billion pesetas, more than twice the gross amount of issues of private securities. Commercial banks provided the largest portion of these credits, with the official credit institutions also playing an important role.

### Banking Reform

80. In 1962 and 1963 a number of changes were made in the financial organization of the economy in an attempt to provide a firmer foundation for implementing the Plan. The Bank of Spain, formerly a private bank fulfilling many of the functions of a central bank, was placed directly under government control and given in a more explicit form the task of carrying out monetary policy together with general supervision of the commercial banks. Measures were also taken to rationalize the sphere of operations of the commercial banks which had evolved as institutions combining short and long-term financing. This was done by requiring the commercial banks to separate their normal commercial banking functions from the longer term investment functions. The banks were obligated to choose between confining their activities to typical commercial banking operations or to transfer themselves into investment banks. This change was facilitated by removing some of the restrictions on entry into the banking field. As part of the reform of institutional arrangements, the various official credit institutions were placed under the control of the Institute for Medium and Long Term-Credit. This institution was also given certain regulatory powers with respect to the issue of new securities and the granting of long-term credits by the banking system.

81. As a result of these legislative changes all existing banks (except one, the Banco Urquijo) chose to retain their commercial banking functions, but to avoid the forced sale of their industrial portfolios a number of banks increased their capital or created new industrial banks to which they transferred part of their portfolio investment. Six of the largest banks formed their own industrial bank in spite of the limitation imposed by law that their ownership be restricted to 50%. Foreign financial institutions aided in the capitalization of some of the new investment banks. The initial result of the legislative changes has been a rapid growth of these institutions; nevertheless, their significance in the total financial system remains small with credits accounting for only 3% of total bank credits.

82. Saving Banks. The only change made in the institutional structure of the numerous saving banks was to centralize their control under one institution known as the Institute for Saving Banks. These banks (86 in number, with approximately 3400 branches throughout the country) obtain their resources largely from passbook deposits most of which are drawable on demand. Slightly higher interest rates than those paid on commercial bank deposits have resulted in a growth rate of deposits with these institutions twice that of checking deposits with the commercial banks. Sight deposits earn 2% interest (plus participation in a lottery) compared to

0.5% earned on checking deposits. <sup>1/</sup> Fifty percent of the resources of these institutions are legally required to be in the form of public bonds with much of the remainder directed towards sectors, such as agriculture, which are regarded as having high social priority. (Table 11).

83. Official Credit Institutions. Since 1958 the various independent official credit agencies operating in the medium and long-term market were loosely supervised by a committee known as the Committee for Medium and Long-Term Credit. The banking reform further centralized the control of these institutions by placing them directly under the Institute for Medium and Long-Term Credit. Since then, their major source of funds has been the proceeds of bonds issued by the Treasury. These resources are allocated at two levels; first, a part of the funds programmed for each year is earmarked by the Council of Ministers according to Plan priorities and second, the remainder is distributed among the institutions by the Institute for Medium and Long-Term Credit. For 1966, the Council of Ministers is expected to allocate 13.5 billion pesetas and the Institute 19.0 billion pesetas. The following table and Table 10 summarize the activities of these institutions.

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<sup>1/</sup> In September 1966 some steps were taken to encourage personal savings and strengthen the capital market. Among these measures are the following: (a) Rates of interest on bank deposits are raised progressively according to the term for deposits with a fixed term of at least 18 months; (b) Saving banks are entitled to set up and manage investment funds; (c) Saving banks are allowed to open security-investment accounts (cuentas de ahorro bursatil) and house-purchase accounts (cuentas de ahorro-vivienda); the latter can also be opened by commercial banks. Under these schemes regular savings are made by a participant to agreed amounts and at a bonus interest rate of 3% for security accounts and 4% for housing accounts. Once the agreed total of savings has been reached, it can be matched by a bank loan at an attractive rate to accelerate the purchase of the asset(s) desired. Loans to holders of security-investment accounts not subject to income tax have an additional favorable interest rate differential; (d) The income tax allowance previously given for stock purchases is extended to cover purchases of all recognized securities and raised from 20 to 25%; (e) Life insurance premiums become deductible as current expenses for income tax purposes; (f) A tax-free assets minimum (patrimonio) is established, the transmission of which to wife (or husband) and legitimate descendants upon death will also be tax exempt.

Resources and Credits of Official Credit Institutions  
(billion pesetas)

<u>Resources</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Capital and Reserves	1.2	1.4	0.7
Treasury Transfers	<u>7.3</u>	<u>17.6</u>	<u>24.7</u>
Total	<u>8.5</u>	<u>19.0</u>	<u>25.4</u>
 <u>Credits (Disbursed)</u>			
Agricultural Credit Bank	3.3	3.0	6.2
Construction Credit Bank	3.7	6.4	9.7
Mortgage Bank	1.7	1.9	1.8
Industrial Credit Bank	1.9	3.9	7.9
Local Credit Bank	0.7	2.7	1.4
Fisheries Credit	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
Total	<u>11.5</u>	<u>17.9</u>	<u>27.3</u>

Source: See Table 10

84. Other Changes. As part of the general reform of financial institutions several measures were also introduced to promote the development of stock exchanges. These measures allowed for the creation of new stock exchanges and at the same time provided for the creation of a regulatory body, the Stock Exchange Commission. Term operations were also permitted on the stock exchange. Other measures aimed at relaxing the restrictive nature of business legislation permitted the formation of open-end trusts. (The formation of closed-end trusts was made possible in 1958).

85. Impact of Changes. The impact of the various changes on the overall financial structure of the economy has been minor. A slight increase in loans and advances of a longer term nature has been achieved at the expense of the more general portfolio holdings of the commercial banks, some strengthening of the capital base of the banks has taken place and the degree of government control has been strengthened.

Allocation of Bank Funds

86. Statutory Banking Coefficients. Bank operations are regulated mainly by statutory banking coefficients and restrictions on rates of interest charged and paid. The balance sheet ratios summarized in Table 11 are intended less as a tool of monetary control - as in the case of conventional reserve ratios - than as a means of rationing credit according to set minimum standards. In addition to the investment ratio (investments in industrial securities/capital and reserves), the main distinguishing factor between commercial banks (max.1:1) and industrial banks (max.3:1), the two most significant ratios are the minimum liquidity ratio and the minimum public bonds ratio. The first (cash plus deposits

at the Bank of Spain plus public bonds/deposits), now 13% for commercial banks, serves the double purpose of securing some minimum liquid asset ratio for the banks and making it attractive for them to hold public securities. The latter incentive prevented banks from borrowing from the central bank by pledging all public bonds in their possession. This also would have deprived them of a 4% return on these liquid assets. In fact, after 1959, they even would have had to bear a cost of one-half percent, the difference between the pledging rate and the interest on public bonds for holding cash rather than bonds.

87. In 1965 a new ratio - a minimum public bonds/deposits ratio of 15%<sup>1/</sup> - was imposed on banks to ensure their subscription to large issues of investment bonds (see paragraph 74). This measure compelled the banks to buy more public bonds but permitted them to finance part of these purchases by borrowing from the Bank of Spain. Additional public assets increased the liquidity of the banks - since cedulas are included in the liquidity calculation - enabling them to borrow from the Bank of Spain by pledging previously held automatically pledgeable paper. This was possible because, while pledged public assets are not included in the numerator of the liquidity ratio, they still are included in the numerator of the public assets coefficient. Thus, an increase in bank holdings of public bonds was achieved at the cost of reducing their liquid reserves (cash and cash substitutes: pledgeable paper).

88. Interest Rates. Interest rates do not serve as an effective rationing device in Spain. Given the rate of price increase, real interest rates are low (see Table 12) or at times even negative. The highest lending rate is only 7.5% and the average rate is between 4.5 and 5.5%. The low lending rates are often defended on the ground that the interest paid on deposits is also kept low. Restrictions on deposit rates do not allow rates higher than 2.5% with the exception of industrial banks which are permitted to pay 4% on two-year deposits. These restrictions are in turn defended on the ground that savings should be discouraged from flowing to the money market (banks) and should flow instead to the capital market proper (the security exchanges).

89. Although there is some merit in this argument in view of the dangers of high dependence of industrial financing on bank credit, the Mission thinks that the line of argument can be reversed. The present policy of low interest rates makes the rational allocation of credit a difficult task and in order to introduce a greater degree of efficiency more reliance should be placed on market forces. Not only do low interest rates affect the allocation of savings but they also affect the amount of savings that will be forthcoming from the community. In an economy where

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<sup>1/</sup> The ratio was increased to 16% as of November 1, 1966.

saving opportunities are limited, deposits may be useful intangible assets to offer to people who are neither rich nor sophisticated enough to enter the security market. It may also be true, given the institutional structure of the Spanish financial community, that the banks will continue to be the most efficient channel for routing savings into investment.

90. In addition to low levels, there is the problem of heterogeneity of interest rates and conditions applicable to various kinds of credit transactions. Over the years this phenomenon has reached extraordinary proportions. No economic rationale seems to exist for many of the differences and a consolidation of rates appears overdue. 1/

91. Role of Official Credit Institutions. One of the major means for rationing credit has been the compulsory channeling of the banking system's resources into the official credit agencies. These transfers to the official agencies were particularly large in 1964 and 1965. From an economic point of view, the evaluation of this transfer depends on the efficiency of the official credit agencies relative to the private banks in allocating funds. In view of the experience in 1965, when a large portion of these transfers was ultimately financed by the central bank, extreme caution should be exercised to insure that the transfers do not become a continuing source of inflationary financing.

92. In 1965, funds allocated to official credit institutions constituted about 20% of the increase in the total resources of banks. At the time of this Mission's visit, only a tentative plan for public borrowing through investment bonds during 1966 was available. Investment bonds worth 28.5 billion pesetas are expected to be issued this year. This amount is expected to contribute to total financing by official credit institutions of 32.5 billion. Bonds in the amount of 8.5 billion pesetas were issued in March of this year and somewhat less than 0.4 billion during May-August; against this, 19.3 billion were channeled to official credit institutions. 2/

93. In the near future, the availability of credit in the Spanish economy will depend, to a large extent, on the rate of monetary expansion. To aim at an ever expanding volume of business for official credit institutions while pursuing a somewhat less expansionary monetary policy may diminish the availability of credit to the private sector. For this reason, this year's target of 28.5 billion in investment bond issues should be considered a maximum.

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1/ In September 1966, interest rates on loans by the official credit institutions (excepting agricultural loans) below 4.5% were raised to that level. See also footnote to paragraph 82.

2/ In April 1966, a continuous issue of investment bonds was started in unspecified amounts (emision abierta) for commercial banks, saving banks, insurance companies and other financial institutions, to arrive at a more regular placement of bonds and to meet continuing investment requirements. These cedulas have an amortization period of 10 years and the interest rate is 4.5%. The effects on public debt policy remain to be seen.

Table 1

Central Government Cash Receipts and Expenditures  
(billion pesetas)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	Jan. - Aug. <u>1965</u>	<u>1966</u>
<u>Revenues</u>									
Budget Revenues	63.2	72.7	81.1	95.0	109.0	125.8	119.5	96.0	119.1
Annex Budget Revenues	3.8	2.5	4.8	3.3	3.8	1.6	1.2	0.9	1.3
Collections for L.G. account	3.4	3.7	3.6	4.0	4.3	4.6	4.8	2.5	2.6
Other Income (net)	--	0.3	--	0.5	2.0	--	--	--	1.3
Total Revenue	70.4	79.2	89.5	102.8	119.1	132.0	155.5	101.4	124.3
<u>Expenditures</u>									
Budget Expenditures	59.8	67.1	74.0	88.8	109.2	124.6	153.1	91.7	115.6
Annex Budget Expenditures	3.2	3.0	4.1	4.2	4.0	2.3	1.9	1.3	1.1
Payments to L.G. account	3.3	3.5	3.7	3.7	1.5	4.0	4.2	4.1	4.7
Other Expenditures (net)	5.6	--	0.8	--	--	2.2	4.9	9.7	--
Total Expenditure	71.9	73.6	82.6	96.7	114.7	133.1	164.1	106.8	121.4
<u>Surplus (+) or deficit (-)</u>	-1.5	5.6	6.9	6.1	4.4	-1.1	-8.6	-5.4	2.9
<u>Transfers to Official Credit Institutions</u>	-3.4	-7.2	-8.6	-5.7	-7.3	-17.6	-24.7	-16.3	-19.3
<u>Total to be financed</u>	-4.9	-1.6	-1.7	0.4	-2.9	-18.7	-33.3	-21.7	-16.4
<u>Financing</u>									
Issue of Bonds	--	1.0	3.0	0.5	5.0	15.0	27.5	10.0	8.9
Borrowing from BOS	2.1	0.4	-1.7	-1.2	-3.2	2.5	4.6	11.1	6.9
Issue of Coins	2.7	0.3	0.4	0.4	1.2	1.2	1.2	0.6	0.6

Source: Bank of Spain, Boletín Estadístico, September 1966.

**TABLE 7**  
**PUBLIC SECTOR REVENUES AND EXPENDITURES**  
( 1963 - 1965 )

(Million Pesetas)	1963				1964				1965			
	Central Government	Autonomous Agencies	Local Governments	Total Consolidated	Central Government	Autonomous Agencies	Local Governments	Total Consolidated	Central Government	Autonomous Agencies	Local Governments	Total Consolidated
<b>I. Current Revenue</b>	<b>109 108</b>	<b>25 021</b>	<b>14 238</b>	<b>148 367</b>	<b>125 844</b>	<b>30 709</b>	<b>17 921</b>	<b>174 474</b>	<b>149 538</b>	<b>30 103</b>	<b>18 780</b>	<b>198 421</b>
Taxes	95 825	632	8 880	105 337	110 210	814	10 708	121 732	129 921	1 004	10 587	141 512
(Direct)	(31 837)	( 76)	(7 946)	(39 859)	(34 955)	( 81)	(9 654)	(44 690)	(41 047)	( 93)	(9 128)	(50 268)
(Indirect)	(63 988)	( 556)	( 934)	(65 478)	(75 255)	( 733)	(1 054)	(77 042)	(88 874)	( 911)	(1 459)	(91 244)
Other Income	13 283	24 389	5 358	43 030	35 634	29 895	7 213	52 742	79 617	29 099	8 193	56 909
(Fees and Duties)	( 5 317)	(11 874)	(3 783)	(21 494)	( 6 538)	(21 539)	(5 027)	(33 104)	(10 217)	(19 829)	(5 967)	(36 013)
(Interest Received)	( 2 317)	( 1 899)	( 66)	( 4 282)	( 2 025)	( 4 016)	( 26)	( 6 137)	( 2 558)	( 4 704)	( 103)	( 7 365)
(Income from Property)	( 4 323)	(10 816)	(1 196)	(16 135)	( 6 599)	( 4 340)	( 1 479)	(12 468)	( 6 345)	( 4 566)	(1 531)	(12 448)
(Other)	( 806)	--	( 313)	( 1 119)	( 472)	--	( 661)	( 1 133)	( 493)	--	( 590)	( 1 083)
<b>II. Current Expenditures</b>	<b>-68 344</b>	<b>-22 950</b>	<b>-14 988</b>	<b>-106 282</b>	<b>-75 070</b>	<b>-29 344</b>	<b>-18 812</b>	<b>-123 226</b>	<b>-87 740</b>	<b>-31 002</b>	<b>-20 480</b>	<b>-139 222</b>
Wages and Salaries	-33 630	- 9 660	- 8 380	- 51 670	-39 800	-17 198	-10 864	- 61 942	-49 768	-12 719	-11 294	- 73 781
Goods and Services	-13 073	- 5 760	- 5 154	- 23 987	-12 727	- 7 407	- 6 369	- 26 503	-13 965	- 8 127	- 7 501	- 29 593
Interest Paid	- 5 109	- 4 307	- 929	- 10 345	- 4 288	- 4 915	- 1 014	- 10 217	- 3 782	- 5 340	- 1 216	- 10 338
Others	- 1 035	- 572	- 281	- 1 888	- 412	- 823	- 325	- 1 560	- 313	- 424	- 210	- 937
Transfers	-15 497	- 2 651	- 244	- 18 392	-17 763	- 4 998	- 240	- 23 001	-19 212	- 4 402	- 259	- 24 573
<b>III. Public Savings</b>	<b>40 764</b>	<b>2 071</b>	<b>- 750</b>	<b>42 085</b>	<b>50 774</b>	<b>1 368</b>	<b>- 891</b>	<b>51 251</b>	<b>61 798</b>	<b>- 899</b>	<b>- 1 700</b>	<b>59 199</b>
<b>IV. Intra-System Transfers</b>	<b>-21 060</b>	<b>17 306</b>	<b>3 561</b>	<b>- 193</b>	<b>-26 211</b>	<b>22 811</b>	<b>3 019</b>	<b>- 303</b>	<b>-29 864</b>	<b>23 784</b>	<b>5 625</b>	<b>- 455</b>
<b>V. Utilization of Loans</b>	<b>--</b>	<b>11 132</b>	<b>526</b>	<b>11 658</b>	<b>- 2 000</b>	<b>10 381</b>	<b>2 485</b>	<b>10 966</b>	<b>- 1 255</b>	<b>12 020</b>	<b>1 152</b>	<b>11 417</b>
Borrowing	--	11 860	700	12 560	--	11 418	2 707	14 125	--	12 963	1 383	14 346
Amortization	--	- 728	- 174	- 902	- 2 000	- 1 037	- 122	- 3 159	- 1 755	- 943	- 231	- 2 929
<b>VI. Other Resources</b>	<b>--</b>	<b>2 876</b>	<b>108</b>	<b>2 984</b>	<b>--</b>	<b>1 205</b>	<b>103</b>	<b>1 308</b>	<b>--</b>	<b>2 869</b>	<b>121</b>	<b>2 990</b>
<b>VII. Capital Expenditures</b>	<b>-19 838</b>	<b>-30 935</b>	<b>- 2 905</b>	<b>- 53 678</b>	<b>-21 818</b>	<b>-12 699</b>	<b>- 5 201</b>	<b>- 39 718</b>	<b>-26 570</b>	<b>-35 538</b>	<b>- 4 371</b>	<b>- 66 479</b>
Direct Investments	-14 161	-18 653	- 2 883	- 35 697	-21 989	-21 588	- 5 196	- 48 773	-26 390	-23 082	- 4 361	- 53 833
Financial Investments	- 5 677	-12 282	- 22	- 17 981	751	-11 111	- 5	- 10 965	- 180	-12 456	- 10	- 12 646
<b>VIII. Discrepancy</b>	<b>- 99</b>	<b>- 1 900</b>	<b>- 369</b>	<b>- 2 368</b>	<b>1 257</b>	<b>- 829</b>	<b>- 531</b>	<b>- 103</b>	<b>- 7 130</b>	<b>- 1 123</b>	<b>- 559</b>	<b>- 8 820</b>
<b>IX. Extra-Budgetary Accounts</b>	<b>2 218</b>			<b>2 218</b>	<b>- 4 948</b>			<b>- 4 948</b>	<b>- 2 217</b>			<b>- 2 217</b>
Revenues	10 080			10 080	6 196			6 196	5 994			5 994
Expenditures	- 5 523			- 5 523	- 8 545			- 8 545	-11 012			- 11 012
Investments Bonds Issued	5 000			5 000	15 000			15 000	27 506			27 506
Transfers to Official Credit Inst.	- 7 339			- 7 339	-17 599			- 17 599	-24 705			- 24 705
<b>X. Surplus (+) or Deficit (-)</b>	<b>1 985</b>	<b>550</b>	<b>171</b>	<b>2 706</b>	<b>- 3 688</b>	<b>2 237</b>	<b>- 116</b>	<b>- 1 567</b>	<b>- 5 746</b>	<b>1 111</b>	<b>260</b>	<b>- 4 365</b>

**Source:** Central Government revenues: Ministry of Finance, *Resúmenes Estadísticos de Recaudación y Gastos*, December 1965.

Central Government expenditures, other accounts and Autonomous Agencies: 1963: Bank of Spain, *Informe sobre la Economía Española en 1964*, 1965: 1964 and 1965: from data provided by Ministry of Finance.

Local Governments: from data provided by Ministry of Finance.

Extrabudgetary transactions: from Bank of Spain, *Boletín Estadístico*, March 1966.

**Note:** The details of Central Government expenditures in the table are based not on actual cash payments, but on payment orders issued during the fiscal year. Furthermore, figures for 1963 and 1964 include the liquidation period until the end of March whereas values for 1965 are up to the end of December only. Therefore, these figures are only approximations of the actual expenditures. The actual cash receipts and payments for the Central Government budget are reported, in aggregate value only, in the Treasury accounts. The two sets of figures have been reconciled in the table above by the addition of a line for "discrepancies".

The figures for the Autonomous Agencies and the Local Governments are based on their revised budgets.

TABLE 3

Sector	Revenues					Expenditures				
	From Gov. (Caplt.)	Current Ex- penditures (Caplt.)								
1. Instituto Nacional de Industria	107.1	---	2,607.9	6,811.9	12,526.9	266.0	24.7	107.6	8,556.1	22,202.1
2. Instituto Nacional de la Altiplano	1,226.6	9,215.6	78.5	975.1	11,665.1	361.1	0.9	4,892.7	1,284.9	21,665.7
3. Instituto Nacional de Colonizacion	507.2	4,603.9	---	1,171.1	6,818.2	444.9	13.1	3,810.3	1,282.2	6,521.3
4.5. Ferrocarriles	4,035.6	---	0.7	4,036.1	4,071.2	3,495.8	10.0	0.7	---	3,996.0
5. Junta de Obras de Serenos de Puerto	2,057.3	1,030.2	---	10.5	3,128.0	1,226.6	68.7	1,432.9	30.8	2,953.9
6. Canal de Tazul II	1,198.6	270.0	---	426.2	2,295.1	153.7	1.2	1,876.6	188.8	2,293.9
7. Proyecto Nacional del Tingo	1,600.00	---	---	292.1	1,892.6	689.4	76.1	211.5	0.9	1,357.3
8. Establecimiento Forestal del Páramo	21.7	1,885.6	---	471.9	1,982.2	265.8	22.8	1,350.8	133.9	1,878.3
9. Junta de Tazul y Extensiones Paralelas	1,151.3	---	---	1,262.3	1,008.7	152.6	---	---	---	1,161.3
10. Junta Central de Construcciones Es- colares	385.6	397.6	---	49.4	1,032.8	9.6	---	1,003.5	---	1,032.9
11. Junta Central de Tazul	976.7	---	---	---	976.7	767.2	31.3	118.5	---	977.0
12. Gestion de Compra de Edificios de Vitró	---	---	---	876.0	876.0	0.7	---	853.6	---	861.3
13. Junta Central de Formacion Profesional Industrial	461.7	360.0	---	1.5	856.2	77.7	175.8	222.7	---	1,791.9
14. Gestion Nacional de Concentra- cion Parcelaria	332.1	488.5	---	27.0	843.6	181.0	---	561.5	1.0	843.5
15. Gestion Nacional de Abastecimien- tos y Transportes	50.8	---	---	723.6	781.4	344.2	31.6	315.4	0.6	781.6
16. Conferencias Hidrograficas	431.0	230.6	---	91.0	756.4	491.2	2.6	203.6	45.2	743.0
17. Junta de Tazul (Agricultura)	636.7	22.5	---	40.5	699.7	609.2	58.5	4.8	26.0	699.5
18. Corporacion Nacional Antipolucio- na de las Entendades del Tazul	31.6	639.1	---	24.0	694.5	478.3	0.5	15.0	---	694.5
19.53. Gestion de Enchamamiento	530.0	40.4	---	115.0	685.4	376.5	108.6	---	---	685.1
20. Gestion Nacional para la Gestion de Agua de Tazul	44.7	27.6	---	605.4	678.2	49.5	---	628.7	---	678.2
21. Gestion Central de Tazul	678.9	---	---	1.1	677.0	472.9	4.0	218.1	9.1	675.3
22. Gestion de Administracion de las Minas de Almaden y Arrazano	0.1	---	---	669.3	677.1	27.1	---	21.8	0.1	680.0
23. Gestion de Incentivos	205.4	190.5	---	280.0	675.9	197.7	5.0	484.3	---	686.0
24. Junta de Tazul (Industria)	611.0	---	---	611.0	611.0	318.8	250.8	---	---	569.3
25. Junta de Energia Nuclear	100.5	103.0	---	0.0	534.5	415.0	2.0	70.5	27.0	530.6
26. Otros	811.0	4,119.3	0.0	1,170.6	2,508.9	2,011.4	1,822.9	1,000.7	364.4	15,294.9
TOTAL	23,329.7	23,329.7	2,686.6	10,781.1	13,988.8	13,988.8	6,465.9	13,287.3	1,197.7	40,464.9

Source: Instituto Nacional de Estadística de Bolivia, 1961

Table 4

Public Revenues and Expenditures as Percentage of GNP

	<u>1963</u>				<u>1964</u>				<u>1965</u>			
	<u>C.G.</u>	<u>A.O.</u>	<u>L.G.</u>	<u>Consol- idated</u>	<u>C.G.</u>	<u>A.O.</u>	<u>L.G.</u>	<u>Consol- idated</u>	<u>C.G.</u>	<u>A.O.</u>	<u>L.G.</u>	<u>Consol- idated</u>
<u>Public Revenues</u>	<u>11.3</u>	<u>2.6</u>	<u>1.5</u>	<u>15.4</u>	<u>11.5</u>	<u>2.8</u>	<u>1.7</u>	<u>15.9</u>	<u>11.4</u>	<u>2.3</u>	<u>1.4</u>	<u>15.1</u>
Tax	10.0	0.1	0.9	11.0	10.2	0.1	1.0	11.2	10.0	0.1	0.8	10.9
Non-Tax	1.3	2.5	0.6	4.4	1.3	2.7	0.7	4.7	1.4	2.2	0.6	4.2
<u>Current Expenditures</u>	<u>-7.1</u>	<u>-2.4</u>	<u>-1.6</u>	<u>-11.0</u>	<u>-6.9</u>	<u>-2.7</u>	<u>-1.7</u>	<u>-11.3</u>	<u>-6.7</u>	<u>-2.4</u>	<u>-1.6</u>	<u>-10.6</u>
Wages and Salaries	-3.5	-1.0	-0.9	-5.4	-3.7	-1.0	-1.0	-5.7	-3.8	-1.0	-0.9	-5.7
Others	-3.6	-1.3	-0.7	-5.6	-3.2	-1.7	-0.7	-5.6	-2.9	-1.4	-0.7	-5.0
<u>Public Savings</u>	<u>4.2</u>	<u>0.2</u>	<u>-0.1</u>	<u>4.4</u>	<u>4.6</u>	<u>0.1</u>	<u>-0.1</u>	<u>4.6</u>	<u>4.6</u>	<u>-0.1</u>	<u>-0.1</u>	<u>4.4</u>
Transfers	-2.2	1.8	0.4	--	-2.5	2.1	0.4	--	-2.3	1.8	0.4	--
Capital Expenditures	-2.1	-3.2	-0.3	-5.6	-2.0	-3.0	-0.5	-5.6	-2.0	-2.7	-0.3	-5.1
Net Extrabudgetary Rev. or Exp.	0.6	--	--	0.6	-0.2	--	--	-0.2	-0.4	--	--	-0.4
To Official Credit Institutions	-0.8	--	--	-0.8	-1.6	--	--	-1.6	-1.9	--	--	-1.9
Other Resources and Discrepancy	--	--	--	--	0.2	-0.2	0.2	0.2	-0.4	--	--	-0.4
<u>Surplus (+) or Deficit (-)</u>	<u>-0.3</u>	<u>-1.2</u>	<u>--</u>	<u>-1.5</u>	<u>-1.5</u>	<u>-1.0</u>	<u>--</u>	<u>-2.5</u>	<u>-2.4</u>	<u>-1.0</u>	<u>--</u>	<u>-3.4</u>
Bonds Issued	0.5	1.2	--	1.7	1.2	1.0	--	2.2	2.0	1.0	--	3.0
Borrowing from BOS & Issue of Coins	-0.2	--	--	-0.2	0.3	--	--	0.3	0.4	--	--	0.4

Sources: Table 2 and Revised National Accounts 1958-64.

Table 5

Central Government Budget Revenue

(billion pesetas)

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
<u>Direct Taxes</u>	<u>25.58</u>	<u>29.28</u>	<u>31.84</u>	<u>34.95</u>	<u>41.05</u>	<u>43.10</u>
Rural and urban real estate	3.10	3.24	3.52	3.66	3.87	4.30
Income from labor	5.89	6.65	7.59	8.33	8.61	8.00
Income from capital	2.64	2.89	3.14	3.49	4.28	4.80
Business income	7.95	8.89	9.19	9.69	11.61	12.50
Commercial and industrial enterprises	2.49	3.56	4.03	4.62	5.48	6.20
Individual global income	1.02	1.20	1.40	1.63	1.84	1.60
Inheritance and estate	1.37	1.65	1.60	1.90	1.99	2.50
Other	1.12	1.20	1.37	1.63	3.37	3.20
<u>Indirect Taxes</u>	<u>47.76</u>	<u>55.17</u>	<u>63.99</u>	<u>75.25</u>	<u>88.87</u>	<u>102.10</u>
Transfer and stamp	9.53	10.53	13.05	14.21	9.88	11.30
Turnover	4.83	5.38	6.00	7.13	14.93	18.10
Internal excises	22.12	24.49	27.31	33.05	38.69	45.80
Customs duties	8.20	10.38	12.25	14.15	14.46	15.00
Equalization taxes on imports	2.31	3.69	4.48	5.47	9.60	11.50
Other	0.77	0.70	0.90	1.24	1.31	0.40
<u>Total Taxes</u>	<u>73.34</u>	<u>84.45</u>	<u>95.83</u>	<u>110.20</u>	<u>129.92</u>	<u>145.20</u>
Non-tax revenues	7.73	10.50	13.28	15.64	19.62	23.50
<u>Total Revenues</u>	<u>81.07</u>	<u>94.95</u>	<u>109.11</u>	<u>125.84</u>	<u>149.54</u>	<u>168.70</u>
(Per cent of GNP)	11.4	11.6	11.3	11.6	11.5	

Table 5 (continued)

Notes:

1. Figures for 1961-65 are actual, for 1966 the budget's.
2. The 1964 tax reform consolidated and altered a number of previously existing indirect taxes. Also, there are a number of taxes (luxury, special, tobacco and gasoline) which can be conveniently classified as excises. The grouping in the table has been made as follows:

- a. Transfer and stamp taxes include:

Transmisiones patrimoniales y actos juridicos documentados  
Derechos reales (inter vivos)  
Valores mobiliarios  
Efectos timbrados, a clasificar

- b. Turnover taxes include:

Trafico de empresas  
Sobre el Gasto

- c. Internal excises include:

Impuestos especiales  
Sobre el lujo  
Tabacos  
Petroleos

- d. "Other taxes" in each year represent predominantly collections of taxes due or accrued in prior years.

Sources: Ministry of Finance, Resumenes Estadisticos de Recaudacion y Pagos, December 1965.  
Budget, 1966.  
Revised National Accounts 1958-64 and INE.

Table 6

Sources and Uses of Funds

	1961		1962		1963		1964		1965	
	billion pesetas	%								
<u>Sources of Funds (increases in financial assets of public)</u>										
Money	27.4	28	43.4	37	46.8	35	60.4	35	62.1	31
Time and Saving Deposits	39.9	41	51.3	43	53.6	40	79.5	46	80.9	41
Securities	27.5	28	27.8	23	40.3	30	41.7	24	59.7	30
Miscellaneous	3.3	3	-3.9	-3	-7.7	-5	-8.1	-4	-5.4	-3
Total	98.1	100	118.6	100	133.1	100	173.5	100	197.3	100
<u>Uses of Funds (increases in financial liabilities of sectors)</u>										
Public Sector	5.9	6	7.6	6	14.3	11	23.0	13	20.4	10
(Credits)	(-)		(7.8)		(6.8)		(17.6)		(8.0)	
(Securities Issued)	(14.4)		(6.7)		(13.9)		(23.3)		(36.7)	
(Transfer to Official Credit Institutions (-) )	(-8.6)		(-6.9)		(-6.4)		(-17.9)		(-24.3)	
Private Sector	72.6	74	99.9	84	113.4	85	130.7	75	185.0	94
(Credits)	(53.6)		(76.8)		(77.0)		(95.9)		(135.8)	
(Securities)	(18.9)		(23.1)		(36.4)		(34.8)		(49.1)	
External Sector	19.7	20	11.1	9	5.4	4	19.8	11	-8.0	-4
Total	98.1	100	118.6	100	133.1	100	173.5	100	197.3	100

Note: Figures do not always add up to totals due to rounding.

Source: Bank of Spain, Informe sobre la Economía Española en 1964 and figures provided by Bank of Spain

Table 7

Issues by Public Sector and their Placement

(billion pesetas)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
A) Issues	6.7	13.9	23.3	36.6
B) Less Amortization	<u>2.5</u>	<u>2.5</u>	<u>2.6</u>	<u>2.7</u>
C) Net Issues	<u>4.2</u>	<u>11.4</u>	<u>20.7</u>	<u>33.9</u>
<hr/>				
Placement:				
D) Credit System	<u>2.3</u> (54 %)	<u>7.8</u> (69 %)	<u>17.0</u> (82 %)	<u>28.0</u> (83 %)
a) Bank of Spain and Official Credit Instit.	--	--	--	--
b) Banks	-2.2 (-51 %)	0.4 (3 %)	7.5 (36 %)	17.2 (51 %)
c) Saving Banks	4.4 (105 %)	7.4 (65 %)	9.5 (46 %)	10.9 (32 %)
E) Insurance Sector	<u>0.6</u> (15 %)	<u>3.2</u> (28 %)	<u>3.2</u> (15 %)	<u>3.2</u> <sup>1/</sup> (9 %)
a) Social Security System	0.4 (9 %)	2.5 (22 %)	2.5 (12 %)	
b) Private Insurance Companies	0.3 (6 %)	0.7 (6 %)	0.7 (3 %)	
F) Rest of the Market and Amortization <u>2/</u>	<u>1.3</u> (31 %)	<u>0.3</u> (3 %)	<u>0.5</u> (2 %)	<u>2.6</u> (8 %)

Note: Figures do not always add up to totals due to rounding.

1/ Figure for 1964.      2/ Residual.

Source: Bank of Spain.

Table 8

Private Issues and their Placement

(billion pesetas)

	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
A) Issues	<u>24.4</u>	<u>39.7</u>	<u>40.0</u>	<u>60.7</u>
a) Stocks	14.6	19.3	20.1	34.8
b) Bonds	9.7	20.4	19.9	25.9
<hr/>				
Placement:				
B) Credit System	<u>5.4</u> (22 %)	<u>12.3</u> (31 %)	<u>12.6</u> (32 %)	<u>11.6</u> (19 %)
a) Bank of Spain and Official Credit Instit.	-- (--)	0.4 (1 %)	0.3 (1 %)	0.6 (1 %)
b) Banks	1.0 (4 %)	0.5 (1 %)	2.7 (7 %)	2.0 (3 %)
c) Saving Banks	4.4 (18 %)	11.4 (29 %)	9.6 (24 %)	9.0 (15 %)
C) Insurance Sector	<u>1.5</u> (6 %)	<u>1.7</u> (4 %)	<u>3.3</u> (8 %)	<u>4.7</u> <sup>1/</sup> (8 %)
a) Social Security System	0.6 (3 %)	0.8 (2 %)	2.4 (6 %)	
b) Private Insurance Companies	0.8 (3 %)	0.9 (2 %)	0.9 (2 %)	
D) Rest of the Market and Amortization <sup>2/</sup>	<u>17.4</u> (72 %)	<u>25.7</u> (65 %)	<u>24.1</u> (60 %)	<u>45.6</u> (75 %)

Note: Figures do not always add up to totals due to rounding.

1/ Estimate.      2/ Residual.

Source: Bank of Spain.

Table 9

Issues of Investment Bonds

	<u>Amount</u> (million pesetas)	<u>Interest</u>	<u>Maturity</u>	<u>Destination</u>
<u>1959</u>	--	--	--	--
<u>1960</u>				
April	1,000	4%	30 months	Type A Banks
<u>1961</u>				
March	3,000	4.5%	10 years	Type B General
<u>1962</u>				
August	225	4%	10 years	Type C <u>1/</u>
September	49	4%	10 years	Type C <u>1/</u>
October	200	4%	10 years	Type C <u>1/</u>
<u>1963</u>				
December	5,000	4.5%	15 years	Type D General
<u>1964</u>				
June	5,000	4.5%	15 years	Type D General
November	6,700	4%	30 months	Type A Banks
December	3,300	4%	30 months	Type A Banks
<u>1965</u>				
February	10,000	4.5%	15 years	Type D General
October	6,000	4.5%	10 years	Type A Banks
December	11,506	4.5%	10 years	Type A Banks

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1/ Available for subscription by previous shareholders of official credit institutions.  
Source: Bank of Spain.

Table 10

Official Credit Institutions

(billion pesetas)

	<u>New Credits Approved</u>					<u>Credits Actually Used</u>				
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Agricultural Credit Bank	1.0	1.1	5.3	3.8	7.5	1.0	1.1	3.3	3.0	6.2
Construction Credit Bank	4.0	3.1	5.9	9.0	9.9	3.2	3.2	3.7	6.4	9.7
Housing	(1.6)	(1.9)	(1.9)	(4.1)	(3.7)					
Urban Services	(0.3)	(---)	(1.7)	(2.2)	(0.8)					
Shipbuilding	(2.0)	(1.5)	(2.8)	(2.0)	(2.9)					
Other	(0.1)	(-0.3)	(-0.5)	(0.7)	(2.5)					
Mortgage Bank	1.6	1.4	1.9	1.9	1.9	1.5	1.6	1.7	1.9	1.8
Industrial Credit Bank	1.0	0.4	1.9	6.8	10.6	1.0	0.4	1.9	3.9	7.9
of which: "Priority sectors" <u>1/</u>				(0.7)	(5.9)					
Export finance				(0.7)	(2.7)					
Local Credit Bank	1.0	1.3	0.6	3.2	2.6	0.8	0.4	0.7	2.7	1.4
Fisheries Credit	0.1	---	0.1	0.1	0.2	0.1	---	0.1	0.1	0.2
<u>Total</u>	<u>8.6</u>	<u>7.3</u>	<u>15.6</u>	<u>25.0</u>	<u>32.8</u>	<u>7.6</u>	<u>6.7</u>	<u>11.5</u>	<u>17.9</u>	<u>27.3</u>

Note: Some figures do not total due to rounding.

1/ Priority sectors, regional industrialization centers ("polos") and "accion concertada".

Sources: Instituto de Credito a Medio y Largo Plazo, Memorial del Credito Oficial, 1963, 1964 and 1965; Government Commission for Economic Affairs, Memoria sobre la Ejecucion del Plan de Desarrollo Economico y Social 1965; Ministry of Finance, Economia Financiera Espanola, No. 9.

Table 11

Statutory Banking Coefficients

Kind of Ratio	Numerator	Denominator	Commercial Banks	Industrial Banks	Saving Banks
Cash ratio	Cash on hand + balance on current account at B.O.S. + any credit available at B.O.S.	Total deposits + bonds issued		Min. 5%	
Liquidity ratio	Cash on hand + balance on current account at B.O.S. + any credit available at B.O.S. + public securities (unpledged) + bills automatically rediscountable on basis of special line of credit with B.O.S.	Total deposits + bonds issued	Min. 13%	Min. 10%	
Capital backing ratio	Capital + reserves	Total deposits + bonds issued		Min. 15%	
Investment ratio	Investments in industrial securities	Capital + reserves	Max. 100%	Max. 300%	
Public bonds ratio	Investments in public bonds	Total deposits	Min. 15% <u>1/</u>		Min. 50%
Social credit ratio	Credits for social purposes like agriculture, housing, fishing	Total deposits			Min. 20%

B.O.S. = Bank of Spain.

1/ As of November 1966, 16%.

Source: Bank of Spain.

Table 12

Rates of Interest

I.	<u>Bank of Spain</u>	
	Discount	5.0%
	Rediscount by banks	4.0%
	Credits guaranteed by:	
	Treasury bonds at 3%	5.0%
	Amortizable debt at 3 and 3.5% and perpetual debt	5.5%
	Other public Securities	6.0%
	Official credit	
	To Treasury	nil
	To SNT (National Wheat Service)	2.0%
	To INI (National Institute of Industry)	4.0%
II.	<u>Interest on Deposits (Maximum)</u>	
	Sight deposits	0.5%
	Saving deposits (1 month)	2.0%
	Time deposits: 3 months	2.0%
	6 months	2.5%
	1 year	3.0%
	2 years	4.0% (Industrial banks only)
III.	<u>Interest on Commercial Bank Loans</u>	
	With personal guarantee (advances)	5.5 - 7.4%
	Commercial discounts	5.4%
	With collateral of: goods	5.9%
	industrial securities	5.4%
	public securities	4.5 - 5.25%
	Various	4.5 - 5.5%
IV.	<u>Interest on Industrial Bank Loans</u>	
	2.5% above the cost of funds; at present 7.5%	
V.	<u>Interest on Saving Bank Loans</u>	
	For agriculture	5.0%
	For processing industry investments	5.0%
	For other industry investments	5.25%
	For real estate	5.5%

Table 12 (continued)

VI. Interest on Loans by Official Credit Institutions

Agricultural Credit Bank	2.75 - 3.75%
Construction Credit Bank	4.0 - 6.5%
Industrial Credit Bank	5.0 - 7.25%
Local Credit Bank	4.75 - 5.5%
Mortgage Bank	5.25 - 7.0%
Fisheries Credit	4.0 - 5.0%

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- Notes:
1. This list intends to give an impression of representative levels and diversity of interest rates. In fact, many more rates exist.
  2. In September 1966, the rates charged by official credit institutions below 4.5% were raised to that level and the way was opened for some increase in interest rates on deposits with savings banks.

Source: Bank of Spain.