

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

November 9, 1965
~~December 21, 1965~~

The Spanish "Miracle": Growth and Change
in the Spanish Economy, 1959-65

20 pages

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1959-1965

The surprisingly favorable changes in Spanish economic conditions in the past six years have received little attention outside Spain itself. Retarded for more than a generation by depression, civil war, world conflict, isolation, and ill-chosen policies, the Spanish economy has acquired new strength and dynamism because of important policy revisions dating from 1959. Broadly, these can be described as a reorientation away from controls toward greater reliance on market forces.

Since these policy shifts began to occur, Spain's growth rate has doubled and has averaged nearly 9 per cent per year. This rate compares favorably with "miracle" growth rates in postwar Germany and Italy, but the use of the word "miracle" seems particularly apt in the case of Spain because attitudes adopted were very different from those of the past. Within the economy, the pattern of Spanish output has become rapidly more industrial in character, and industries producing automobiles and other highly-finished manufactures have taken on importance there for the first time.

These developments have been, to a large extent, in response to decisions permitting a rising inflow of badly-needed imports. To obtain the much higher foreign exchange accruals required by this policy, the currency was devalued and foreign investment was encouraged; Spain has also had the good fortune of being able to help satisfy growing Western European demands for tourist travel and for manpower. The degree

to which the Spanish economy has been "opened up" since 1958 is exemplified by a rise of 3-1/2 times in the dollar value of Spain's exchanges of goods and services with the rest of the world, and by the growth of private foreign investment in Spain from virtually nothing to \$300 million per year.

Rapid growth of domestic output has been accompanied by the reappearance of substantial inflationary pressures since 1962. Nevertheless, Spain's external financial position has been greatly strengthened: official reserves have risen from \$60 million to \$1,500 million, U.S. aid has been terminated, and Spain now has access to World Bank loans to help finance the development program begun in 1964.

Causes and consequences of the 1959 decisions

Economic difficulties that reached crisis proportions in the late 1950's led to the policy shifts of recent years. Extremely severe import restrictions were a major weak point in the Spanish economy in the postwar years. In part, the restrictions were a deliberate attempt to speed up industrialization by a heavy dose of autarky; in part, they were required for balance of payments reasons. The exchange rate of the peseta did not allow Spain to compete effectively in export markets or in the increasingly important market for tourists. Bilateralism in Spanish trading arrangements, and a system of multiple exchange rates, added their own distortions.

However, serious reconsideration of Spanish trade policies did not begin until after Spain began to suffer from a rapid acceleration of domestic inflationary pressures in 1955-58, caused essentially by deficits in the public sector. In consequence, there were large

deficits in the balance of payments in the late 1950's, and by early 1959 Spain's official reserves of gold and foreign exchange were almost gone.

Coincident with the deterioration of the external financial position were some internal political shifts that brought officials with more liberal outlooks to the top rungs in Spain's economic ministries. A stabilization program was drawn up, with the aid of IMF and OECD advisers, and made effective in July 1959.^{1/} It provided for curbs on official and private spending; a devaluation of the peseta, with a unified exchange rate of 60 pesetas per dollar;^{2/} and a liberalization of imports to counteract inflationary pressures and permit a much-needed improvement in resource allocation.

This set of measures caused foreign exchange receipts to soar in the next 18 months. Export receipts (dollar values) rose 50 per cent from 1957-58 (annual average) to 1960. Between the two periods, the number of foreign visitors to Spain increased 90 per cent; the official exchange receipts from foreign travel rose by four times as the black market disappeared overnight. There was also a reflow of Spanish capital from abroad. The international accounts for 1960, in fact,

^{1/} Spain became a member of the International Monetary Fund in September 1958 and a member of the OECD (then OEEC) in July 1959.

^{2/} Previously, a basic rate of 42 pesetas per dollar was applied to many imports and exports. However, under the multiple exchange rate system, exporters received rates ranging from 31 to 50 Pts. per dollar, and many imports were bought at a rate of 52.5 Pts. (In a few cases, some import rates were higher still.) The amount of devaluation ranged from 17 to 52 per cent for exports, and was 13 or 30 per cent for most imports.

closed with a large surplus, although this was partly a reflection of a temporary downturn in domestic demand and imports. (See Table 1.)

The liberalization and growth of imports

A lifting of import restrictions over a very wide range of commodities in 1959-65 has taken place, and has been possible because the initial gains in foreign exchange accruals resulting from the devaluation were followed by further large increases derived from a rising stream of tourists, a heavy flow of Spanish workers to other Western European countries, and burgeoning foreign investment in Spain. The dollar value of Spanish imports rose 225 per cent (3.25 times) from 1957-58 (annual average) to January-June 1965 (seasonally-adjusted annual rate). The rapidity of this increase reflects both liberalization (removal or easing of license requirements) and the strong growth of domestic output and money incomes; from 1957-58 to 1964, GNP rose 54 per cent in real terms and 97 per cent in money terms.

Imports of equipment goods and other manufactures have been in the vanguard of the expansion of total imports. This group rose 380 per cent in value from 1957-58 to January-June 1965 (unadjusted annual rate), and its share in total imports increased from 40 to nearly 60 per cent. (See Table 2.) The rise in imports of equipment goods has centered on machinery and electrical equipment; imports of vehicles have been kept at low levels by high tariffs and severe quantitative restrictions. Iron and steel mill products and chemicals have been the other major manufactured goods imported in rapidly growing volume.

Table 1. Spain: Balance of Payments, 1957-58 and 1960-65
(In millions of U.S. dollars)

	Annual Average				1964 ^{1/}	1965 ^{2/}
	1957-1958	1960	1961	1962			1963
Imports f.o.b. (payments basis)	839	705	1,052	1,451	1,802	1,235
Exports (payments basis)	492	746	759	800	786	560
Trade balance	-347	41	-293	-655	-1,016	-675
Gross foreign travel receipts	74	297	385	513	679	415
Other services (net)	20	-43	-34	-43	-106	-21
Emigrant remittances	) 36	48	106	148	201	162
Other private transfers	)	7	8	6	-9)
Capital-private sector:						
Eximbank and DLF loans (net)	2	23	41	35	19)
Other foreign capital	) 12	) 82	) 151	) 133	193	) 147
Spanish capital	)	)	)	)	57)
Capital-public sector ^{3/}	-2	-5	-9	-14	-19	-57
Errors and omissions	41	-49	-76	30	73	--
Surplus or deficit (-) ^{3/}	-167	401	279	153	72	-103
U.S. aid and counterpart funds	105	70	49	-6	-21	--
Monetary movements (-=increase)	62	-471	-328	-147	-51	103
Gold	37	-110	-139	-130	-127	-164
Official convertible foreign exchange	11	-233	-182	-14	45	260
IMF accounts	-10	-13	-50	-15	-17	-34
Commercial banks' peseta liabilities	) 24	) -115	22	19	38	) 41
Other official accounts	)	)	21	-7	10)

^{1/} Provisional.

^{2/} These data cover only movements of foreign exchange, and exclude transactions in pesetas; they are not fully comparable with the annual data. The allocation of monthly exchange movements to components of the balance of payments was made significantly more accurate beginning in 1965.

^{3/} Before U.S. aid and counterpart funds.

Sources: For 1957-58 and 1960-63, International Monetary Fund, Balance of Payments Yearbook; for 1964, Spanish Ministry of Commerce; for 1965, Instituto Español de Moneda Extranjera.

Table 2. Spain: Foreign Trade, 1957-58 and 1960-65
(in millions of U.S. dollars)

	Annual average				Year		First Half	
	1957-58	1960	1961	1962	1963	1964	1964	1965
<u>Imports c.i.f.</u>								
Food, beverages, and tobacco	101	75	189	226	346	363	178	211
Raw materials, fuels, and lubricants	419	330	438	583	566	614	297	371
Manufactures:	347	321	465	761	1,044	1,267	610	832
equipment goods	184	167	251	419	561	674	332	401
chemicals	67	73	103	135	173)))
iron and steel	46	35	41	83	110	) 593	) 278	) 431
other manufactures	50	46	70	124	200)))
Total imports: unadjusted	867	722	1,092	1,570	1,955	2,259	1,084	1,415
seasonally adjusted,								
at annual rate							2,148	2,826
<u>Exports</u>								
Oranges and tangerines	49	104	93	116	74	137	101	n.a.
Olive oil	17	71	67	44	48	57	36	n.a.
Other commodities	414	550	549	576	614	761	347	n.a.
Total exports: unadjusted	480	725	709	736	736	955	484	437
seasonally adjusted,							930	840
at annual rate								

Sources: For 1957-58 and 1960, United Nations, Yearbook of International Trade Statistics and Bank of Spain, Boletín Estadístico; for 1961-65, Instituto Nacional de Estadística, Anuario Estadístico de España; Bank of Spain, Boletín Estadístico; International Monetary Fund, International Financial Statistics; OECD, Main Economic Indicators.

By contrast, the growth in imports of raw materials, fuels and lubricants has approximately paralleled the expansion of internal economic activity. Even in 1961-62 (a good while after liberalization had begun and after internal demand in Spain had again become strong), these imports were only 20 per cent more than in 1957-58, a rise slightly less than that in real GNP. It had been widely said that the level of Spanish output in the late 1950's was depressed by shortages of raw materials, but in fact these appear to have been limited so far as the economy's aggregate requirements of raw materials were concerned.

The pace of the annual rise in imports slackened off from 51 and 44 per cent in 1961 and 1962 to 26 per cent in 1963 and 15 per cent in 1964. This slowing was partly an outgrowth of the process of liberalization itself; but there was also some toning down of the program of removing import restrictions in the interests of protecting domestic producers. More recently, however, imports in the first half of 1965 advanced sharply to 30 per cent above a year earlier, under the impetus of a new round of liberalization measures begun in November 1964 to dampen down a renewed outburst of inflationary pressures.

Despite the progress made so far in freeing Spanish imports, some sectors of Spanish industry and agriculture continue to be protected in significant degree by quantitative restrictions and State trading arrangements. The location and extent of this protection is difficult to appraise. In its annual review of the Spanish economy, in mid-1965, however, the OECD recommended that Spain take new steps to lift import restrictions, both as an anti-inflation device and to move

further down the road of integrating the Spanish and other European economies. These remaining quantitative restrictions are in addition to tariff protection which is high by current Western European standards.

The acceleration of domestic growth

Spain's GNP at constant prices increased an average of 9.1 per cent a year in the four years 1960-63; in 1964, very poor crops caused the rate to drop back to 7.5 per cent (provisional). Over the five years 1960-64, value added in industry (in real terms) rose by an average of 11-1/2 per cent a year, while in services the growth rate averaged 10 per cent yearly. (See Table 3.) Rapid growth of industrial production continued through the first eight months of 1965, when output averaged nearly 10 per cent higher than a year earlier.

The average growth rate of real GNP in 1960-64 was more than twice as great as in the preceding five years, 1955-59.^{3/} In both industry and services, the growth of output in 1960-64 was about three times faster than it had been in 1955-59. However, in agriculture the pace of output not only failed to pick up but in fact slowed down, and this has been a cause of difficulties for the economy.

Investment productivity rises sharply

An increase in the productivity of Spanish investment expenditures is the major explanation of the acceleration of the rate of output growth. In the years 1955-59, total investment

^{3/} National accounts have not been made for years before 1954. The national accounts statistics used here have become publicly available only in the last year, and provide the first measurement of the expansion of total economic activity of recent years.

1/

Table 3. Spain: Gross National Product by Sector of Origin, 1954-1964
(Values in billions of pesetas)

Values, selected years	At current prices		At 1958 prices	
	1954	1959	1954	1959
Value added by:				
agriculture	79	142	109	139
industry	101	174	139	170
tertiary activities	134	219	186	215
Gross domestic product at factor cost	314	535	434	524
				801
Indirect taxes, subsidies, net foreign incomes	23	45	32	44
GNP at market prices	337	580	466	568
				866

I. Annual percentage increases at constant (1958) prices

Value added by:	1955	1956	1957	1958	1959
agriculture	-0.5	9.1	5.7	5.8	5.3
industry	8.1	8.7	3.7	5.8	-5.1
tertiary activities	3.1	7.7	2.3	4.7	-3.5
GNP at market prices	4.4	9.1	3.4	4.7	-1.1
Value added by:	1960	1961	1962	1963	1964
agriculture	2.7	2.2	7.5	10.3	-7.2
industry	6.6	14.2	10.1	13.3	12.4
tertiary activities	5.2	11.4	10.7	12.6	10.7
GNP at market prices	5.4	9.7	9.7	11.7	7.5

1/ Data for 1964 are provisional.

Source: Ministerio de Hacienda, Contabilidad Nacional de España (as reproduced in Información Comercial pañola for March 1965).

outlays (at constant prices) amounted to 4.9 times the sum of the annual increases in real GNP which occurred during this period. For the period 1960-64, however, this capital-output ratio was only 2.7.

(See Table 4.)

The reduction of nearly 50 per cent in this capital-output ratio coincides with the increased availability of imports. Import liberalization, therefore, seems to have raised the productivity of Spanish investment in two important ways: (a) competition forced Spanish producers to increase their efficiency; and (b) the influx of imports greatly raised the productiveness of Spain's stock of equipment. The role occupied by imports of machinery and other equipment goods in total Spanish investment became much larger after import liberalization began. In real terms, total gross investment in the years 1960-64 was 62 per cent more than it was in the years 1955-59, but imports of equipment goods in 1960-64 (valued in dollars at current prices) were 2.3 times more than in 1955-59. (The degree of price rise in these items was not large enough to detract from the vividness of this comparison.)

Other policy changes in Spain, in addition to increasing the freedom to import, have been made in recent years to improve resource allocation. From the end of the Civil War until 1962, every investment decision required governmental approval: no new productive capacity could be established, and no existing installations could be modified, without official sanction. This regulation was (belatedly) liberalized in 1962 and abolished in early 1963, except for investment in certain

Table 4. Spain: GNP, Investment, and Savings, 1955-1964
(billions of pesetas; at constant (1958) prices)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1960	
	-59										-64	
I. GNP and investment												
1. GNP (market prices)	2,709	487	531	549	575	568	599	657	721	805	866	3,647
2. Increase in GNP	102	21	44	18	26	-7	31	58	64	84	61	297
3. Total investment (private) ^{1/} (public)	503 (434) (69)	87 75 12	99 86 13	106 93 13	111 96 15	100 84 16	97 81 16	131 110 21	176 154 22	202 175 27	208 178 30	814 (698) (116)
4. Capital/output ratio (3/2)	4.9											2.7
5. Investment rate (3/1)	.19	.18	.19	.19	.19	.18	.16	.20	.24	.25	.24	.22

II. Savings, by sector

Enterprises: depreciation and profits ^{1/}	58	63	67	73	69	69	74	83	92	n.a. ^{3/}	101
Government	10	9	13	27	27	27	33	39	38	n.a.	44
Households	17	21	18	4	1	1	10	17	42	n.a.	60
Other	<u>1</u>	<u>1</u>	<u>6</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>n.a.</u>	<u>---</u>
Gross capital formation	85	94	103	105	98	98	119	142	171	n.a.	205
Net foreign investment in Spain ^{2/}	2	5	3	6	2	2	-22	-11	4	n.a.	3
Gross domestic capital formation	87	99	106	111	100	100	97	131	176	202	208

^{1/} Includes enterprises owned by the Instituto Nacional de Industria (INI), a government holding company.

^{2/} Balance of payments on current transactions. A positive figure means a deficit in Spain's balance on current transactions.

^{3/} Not available to author at time of writing.

Source: Ministerio de Hacienda, Contabilidad Nacional de España.

sectors (principally public utilities, mining, shipyards, petroleum, drugs, fats and oils, and military equipment).

In addition, foreign investment was officially discouraged and was of negligible volume before 1959; since then, it has been actively encouraged and has increased rapidly. A significant share of this flow has been in direct investment which certainly has brought more than a mere addition to resources. For decades, Spanish entrepreneurs had extremely limited acquaintance with business practices in other (and more economically advanced) countries, so that the accompanying additions to "know-how" have also been of importance.

Investment rate increases

A higher investment rate has been another contributory factor in the stepping up of growth. Gross investment averaged 19 per cent of GNP in the years 1955-58. After dipping in 1959 and 1960 because of the stabilization program, it rose sharply to 24 or 25 per cent of GNP in each of the years 1962 through 1964. Investment outlays in 1962-64 by enterprises (private and nationalized) show about the same proportionate increase over 1955-58 as does investment by the government.

Private investment incentives were sharpened by the profit prospects opened up by import liberalization and the removal of controls and red tape on investment outlays. Government financial policy has also contributed to maintenance of high private investment demand, for aggregate demand in the economy has been kept buoyant since 1961 by balance of payments surpluses, abundant bank credit,

increasing loan extensions by the official credit institutions (which lend largely to the private sector), and more recently by rising outlays by the public sector. The Economic and Social Development Plan should also be mentioned in this context. Preparations for the Development Plan, which covers the years 1964-67 and which is Spain's first comprehensive development program, were begun in early 1962 and were accompanied with much publicity. A mission from the World Bank helped to lay the groundwork for the Plan, and the Plan's target of a 6 per cent average annual growth in real GNP over the period is consonant with the World Bank's own assessment of Spain's possibilities. Private investment has been spurred by expectation of a high national growth rate reflecting the government's own strong desire to develop Spain with the aid of highly-respected outside advice.

The change in the official attitude towards enterprise investment by the public sector has been another development with favorable effects on the inducement to invest. In 1941, the government created INI (the National Institute of Industry), a holding company, to industrialize Spain by launching enterprises in those lines where private industry was unwilling or unable to venture. INI enterprises, now numbering over 50, are found in practically every important branch of Spanish industry; in many sectors, INI companies play a leading role.^{4/}

^{4/} Companies wholly or partly owned by INI include Spain's largest steel company (ENSIDESA, a recipient of several U.S. Eximbank loans); the most important automobile manufacturing company (S.E.A.T., maker of the "Spanish Fiat"); two of Spain's four petroleum refining companies; one of the major producers of heavy trucks (Pegaso); the Spanish airline (Iberia), several of the largest electric power companies, a number of shipyards, one of the major chemical companies, and enterprises in mining, the engineering industries, aircraft construction, textiles, food processing, telecommunications, and even banking.

The degree of industrialization which Spain has so far managed to achieve indisputably owes much to INI initiatives, but INI has long been a target for criticism on two points. Many INI companies could be established only with the aid of a high degree of protection from foreign competition. In addition, according to critics including the World Bank's mission, private investment in Spain was adversely affected by various aspects of INI operations. INI companies were given highly preferential treatment in such forms as important tax exemptions and reductions of tariffs on imported materials and equipment, in addition to other advantages in obtaining investment funds. Moreover, INI enjoyed much autonomy and expanded in a way which kept the private sector overly in doubt as to where and when it might expect to face INI competition. In the past two years, the government has moved to place INI under close control, has required it to disclose its investment plans well in advance, and has modified laws on preferential treatment in industry in a way which suggests that competition will be fairer in the future. The resignation in 1963 of the man who was INI's president since its founding serves as an indication of the changed status of INI.

The rise in the savings rate has been largely concentrated in personal saving which, before the stabilization program, was adversely affected by inflation. Personal saving as a percentage of GNP rose from an average of 2 per cent in 1955-59 to 4 per cent in 1960-64; during the latter period it rose to 7 per cent in 1964.

Industrial production changes character

From 1958 to 1964, total Spanish industrial production (excluding construction) rose by nearly 70 per cent. Small increases in 1959 and 1960 (the difficult years of stabilization) were followed by a 60 per cent rise over the four years 1961-64. Output in January-August of 1965 was up almost 10 per cent over the same months of 1964.

In this period of rapid over-all growth, wide differentials from sector to sector have caused considerable shifts in the structure of Spanish industrial output. Production has actually declined in the extractive industries; increases in demands for coal and iron ore have been met by imports. Production increases in the food industries and textile industries have been only one-half as fast as the rise in over-all production. Above-average increases have occurred in the metal, chemical, and oil refining industries, and particularly in the metal manufacturing industries. Rising output of machinery and other equipment goods has reflected the investment boom; production of automobiles and other consumer durables has also increased very fast and taken on importance for the total economy. Passenger auto production, which totalled 118,000 units in 1964, is expected to reach 150,000 in 1965; the Spanish Ministry of Industry recently predicted that output would climb to 500,000 cars by 1967. The Spanish passenger-automobile industry is largely Spanish capital, but has been based on foreign technology. Production has consisted almost exclusively of Spanish versions of Italian (Fiat) and French (Renault and Citroen) models, but in July 1965 a joint venture of the Chrysler Corporation and the Barreiros company (truck and engine manufacturers) began production of Dodge automobiles in Spain.

Table 5. Spain: Industrial Production, 1958-1965 ^{1/}
(excluding construction; 1960 = 100)

	1958	1960	1961	1962	1963	1964	Jan.-Aug.	
							1964	1965
Extractive industries (8.1)	104	100	104	99	97	95	93	100
Electricity and gas (6.5)	88	100	112	120	138	156	156	175
Food, beverages, tobacco (18.5)	89	100	102	110	116	130	122	128
Textiles (19.0)	104	100	110	117	126	132	130	127
Chemicals; petroleum and coal products (11.5)	85	100	112	129	152	169	165	183
of which: petroleum products	96	100	114	139	153	181	174	198
Basic metals (6.8)	87	100	139	139	151	173	170	203
Metal manufactures (21.3)	96	100	127	142	172	223	215	253
of which: automobiles	82	100	133	169	193	311	279	368
Other manufactures (23.0)	<u>100</u>	<u>100</u>	<u>120</u>	<u>139</u>	<u>150</u>	<u>170</u>	<u>168</u>	<u>177</u>
General index (100.0)	95.	100	115	126	140	161	156	171

^{1/} The numbers in parenthesis are weights; they are based on value added in 1958.

Source: Instituto Nacional de Estadística, Anuario Estadístico de España (for 1958-62) and Indicadores Económicos (for 1963-65).

Paying for imports: tourism, emigration, and foreign investment

One of the more unusual aspects of the Spanish situation has been the strengthening of the foreign position despite rapid growth and the surge of imports. The balance of payments was in surplus in each of the years 1960-64, and only a modest deficit will be recorded in 1965. Spain built up its official reserves from \$66 million at the end of 1958 to \$1,518 million at the end of 1964; they have since declined to \$1,477 million by October 1965. New allotments of U.S. aid and surplus food sales to Spain were ended in June 1961; these transactions had averaged over \$100 million yearly in 1957-58. (In 1963-64, Spain made small net outpayments on transactions relating to U.S.-owned peseta funds.) Spain hopes for substantial credits from the World Bank in connection with the development plan: three loans totalling \$138 million have already been received from the World Bank, in 1963-65, for the modernization and expansion of roads, railroads, and ports.

Spain has paid for rising imports, and simultaneously reconstituted its reserves, mainly with receipts from tourism, the remittances sent back from Spanish workers abroad, and an inflow of foreign capital. After their initial post-devaluation surge in 1959-60, commodity exports have been on the disappointing side. Exports were stagnant in 1961-63; they experienced a sharp rise in 1964, but then fell back. In the first half of 1965, exports ran at a seasonally-adjusted annual rate only 16 per cent higher than in 1960.

Gross receipts from foreign travel of \$919 million in 1964 were 3.1 times greater than in 1960, and the second largest of any European country except Italy (\$1,035 million). The rise in receipts

from 1960 to 1964 was faster than the increase of 2.4 times in the number of foreign visitors: the average expenditure per visitor increased about 6 per cent yearly. The annual increases from 1961 to 1964 were of course smaller than the big upsurges in 1959-60 produced by devaluation. But, over this period, they showed no tendency to slow down; annual increases between 1961 and 1964 were, in order, 29, 33, 32, and 34 per cent. The rapidity of the rise in Spanish foreign travel receipts in these years greatly exceeded that in all other major European tourist countries, clearly indicating that the effects of the 1959 devaluation in pulling tourists to Spain were not all concentrated in the 18 months after the event.

Emigrant remittances rose from \$48 million in 1960 to \$238 million in 1964, as large-scale emigration raised the number of Spanish workers abroad. In 1960, when internal labor demand slackened in the wake of the stabilization program, gross emigration increased sharply to about 75,000 workers. The strong demand for labor in other countries of Western Europe caused further increases to over 200,000 in 1963; the 1964 figure was probably about 235,000. Net emigration (for which precise data for recent years are lacking) has not been greatly less than gross emigration: the 1962 figures show gross emigration of 186,000 and net emigration of 143,000. From 1960 on, the great bulk of the emigration has been to Western Europe, notably France, Germany and Switzerland, while the "traditional" emigration to the Americas has declined even in absolute numbers (to 22,000 on a gross basis in 1963).

Private foreign investment in Spain, which averaged \$12 million yearly in 1957-58, trended upward to \$213 million in 1963 and then to \$299 million in 1964 (inclusive of \$20 million of Export-Import Bank loans to Spanish enterprises). The inflow remained at around this rate in the first half of 1965. It has taken a wide variety of forms. By type, the annual averages in 1963-64 were, in order of importance: (1) portfolio investment, \$79 million; (2) direct investment (excluding residential buildings), \$60 million; (3) hotels, apartment buildings, and other residences, \$32 million (being foreign investment in the Spanish tourist boom); (4) loans to Spanish enterprises, \$31 million; (5) commercial credits, \$22 million; (6) Export-Import Bank loans, \$20 million; and (7) advances against ships under construction, \$14 million. Eximbank loans, averaging \$30 million yearly in 1960-64, have been mainly to electric power companies but have also included loans to government-owned and private steel companies. Since the 1959 stabilization program, there has been a substantial reflow of Spanish capital from abroad, amounting recently to \$57 million in 1963 and to a similar figure in 1964.

Foreign capital has been drawn to Spain not only by the profit prospects which have accompanied growth, but also by changes in Spanish attitudes and regulations. Prior to July 1959, foreign investment was officially discouraged by regulations limiting foreign participation in Spanish enterprises (generally to 25 per cent) and by severe exchange control regulations on the transfer abroad of earnings and invested capital. A new foreign investment law, effective in

July 1959, raised to 50 per cent the general limitation on foreign ownership of Spanish companies, and the exchange controls were soon thereafter modified in favor of foreign investors. Since the spring of 1963, the transfer of earnings and capital relative to all foreign investment made since July 1959 has been free of any limitations.^{5/}

Since that time also, foreigners have been permitted, with some exception, to own up to 100 per cent of the capital of Spanish companies.

^{5/} In 1965, the few remaining restrictions relative to investments made before July 1959 were removed.