GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments
Restrictions

1966 CONSULTATIONS WITH SPAIN

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with Spain on 18 February 1966

1. The Government of Spain has consulted the Fund under Article XIV, Section 4, of the Fund Agreement, concerning the further retention of its transitional arrangements.

2. The Spanish economy continued to grow very rapidly in 1965. Important advances were made in industry and services, and agriculture recovered from the setback of 1964. The growth of the economy led to a further substantial increase in the level of employment and absorbed much of the large-scale migration from the land; in certain sectors shortages of labor became apparent. The Government continued to foster the establishment of industries in less industrialized areas and it increased the incentives for the modernization of industry. The Spanish authorities have adopted policies which have maintained economic growth at a high level for a number of years.

3. Growth has, however, been accompanied by a wage-price spiral which has led to excessive demand pressure, reflected in rapid price increases and in the emergence of an over-all balance of payments deficit in 1965 for the first time since 1958. The Fund feels that the swift implementation of fiscal and monetary restraint is required to restore internal and external equilibrium in the near future, thus providing the basis for further sound and rapid growth. In framing these policies efforts should be made to minimize the undesirable effects on the growth of investment. The Fund therefore welcomes the measures taken by the Spanish Government to curb excessive credit expansion and to curtail the growth of the public sector deficit.

4. The Fund notes that there has been further progress in reducing import restrictions and discrimination, and welcomes the determination of the Spanish authorities not to tighten the restrictive system as a means of reducing the balance of payments deficit. At the same time the Fund welcomes the progress made by Spain in the liberalization of the restrictive system and encourages the Spanish authorities to make further progress in this direction and to reduce and eliminate as soon as feasible their reliance on bilateralism.

5. In concluding the 1965 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Spain.