

**THE WORLD BANK GROUP ARCHIVES**

**PUBLIC DISCLOSURE AUTHORIZED**

Folder Title: Contacts with member countries: Spain - Correspondence 02

Folder ID: 1771182

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 28, 2013

To cite materials from this archival folder, please follow the following format:  
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK  
Washington, D.C.

© 2012 International Bank for Reconstruction and Development / International Development Association or  
The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

**PUBLIC DISCLOSURE AUTHORIZED**

McNamara files

Contacts  
Spain (1975-1978)

The World Bank Group  
**Archives**



1771182

A1993-012 Other #: 16

209352B

Contacts with member countries: Spain - Correspondence 02

**DECLASSIFIED**  
WBG Archives



## OFFICE MEMORANDUM

DECLASSIFIED

MAY 09 2013

WBG ARCHIVES

DATE: March 21 1978

CONFIDENTIAL

TO: MEMORANDUM FOR THE RECORD

FROM: Martijn Paijmans J

SUBJECT: SPAIN: Meeting of Minister of Finance with Mr. McNamara

On March 20, 1978 Sr. Ordonez, Minister of Finance, visited Mr. McNamara accompanied by Sr. Jose Barea Tejeiro and Mr. Martin Fernandez, Alternate Executive Director. Messrs. Koch Weser and Paijmans were also present.

The Minister explained that the Spanish Government was now able to govern with a majority in Parliament, and has thus become more effective; substantial efforts were being made to have a peaceful and democratic climate prevail in the country. The degree of openness in Spain, he said, was remarkable.

Spain supported Mr. McNamara on the capital increase issue. A tax reform was now being prepared which should considerably improve the position of public finance in Spain and thus the Minister hoped, would allow Spain to contribute its share.

The Minister mentioned that if the US Congress would succeed in bringing human rights limitations to bear upon the international financial institutions he expected that some problems might be triggered in Spain. He was in full agreement with Mr. McNamara, who expressed as his view that the Bank as a development agency could, and in fact was, active in the human rights field in terms of filling needs for nutrition, health, education, etc., but that it could not become embroiled in the civil rights arena for which it lacked information, competence, and criteria. Mr. McNamara expressed the expectation that some circles in the US might also start seeing the human rights problem in these terms insofar as the international institutions are concerned. The Minister firmly stated his support for Mr. McNamara's position and indicated that his Government had not been subject to any outside pressure on this point.

The same was not the case with respect to World Bank salaries; he strongly felt, however, that salaries should not be reduced but rather increased to enable Spain to have a contingent of its nationals on the staff. In this area also the Minister firmly supported Mr. McNamara's position which the latter explained as the need for a salary structure determined by the professional requirements of the Bank and not one which would be determined by political considerations of one member.

The Minister mentioned his agreement to the \$2 million Special Program and hoped that it could be accommodated in this year's budget of Spain. He also reported that all administrative requirements for the Industrial Research Project had been met.

cc: Mr. McNamara's office (2 copies)  
Mr. Benjenk o/r  
Mr. Kaji





## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: September 5, 1975

FROM: Norman Horsley, Chief, EMLD C

SUBJECT: Governor for Spain's Meeting with  
Mr. McNamara: Annual Meeting, 1975

1. Mr. Jose Luis Geron Ayuso, Minister of Commerce and Governor in the Bank for Spain, met with Mr. McNamara on September 3, 1975. The Minister was accompanied by Mr. Juan Antonio Garcia Diez, Technical Secretary General, Ministry of Commerce and Temporary Alternate Governor, Mr. Manuel Guasch Molino, Chief of Cabinet of the Minister of Commerce, and Mr. German Calvillo, Alternate Executive Director. Messrs. Benjenk, Wapenhans, Paijmans, Burmester, and Horsley attended the meeting.
2. The Minister announced that Spain was prepared to participate in the Third Window, but the amount and form of the contribution were not yet known. The amount would depend upon what other countries were prepared to do, would not exceed \$5 million and would be made known to the Bank before the end of the year. Mr. McNamara expressed his appreciation and offered to send a staff member to Spain to help work out the details. 1/ He said that he was anxious for arrangements for the Third Window to be completed so that the facilities could be used as soon as possible.
3. After referring to the good relations that Spain enjoyed with the Bank, and to the progress being made with the Agricultural and Industrial Research project, the Minister noted that Spain now seemed to be in a position where it was not entitled to further Bank lending. He said that, while he had no projects to propose for Bank financing, he wanted to retain the right to request Bank lending. Mr. McNamara replied that this was not a matter on which he wanted to take a final decision at this time. He outlined the difficulties which limited Bank lending, and which affected high income countries especially. The Minister emphasized that he had no specific proposals in mind, but merely wanted to leave open the possibility of Bank lending for special projects in the future.
4. In connection with the proposed selective increase in capital subscriptions, the Minister said that Spain wished to keep its present share of votes in the Bank. Mr. McNamara recognized that this was a difficult problem. However, he was anxious to first obtain approval in principle to the selective

---

1/ At a later meeting between Messrs. Calvillo, Goodman, and Horsley, it was agreed that someone from Mr. Cargill's office would visit Madrid in October.

September 5, 1975

increases and only then attempt to deal with the difficulties of detail such as the one raised by Spain. He assured the Minister that this matter would be added to the list of problems to be dealt with and that he would take into account the point of view expressed by the Minister.

NHorsley/llj

Cleared with and cc: Mr. Paijmans

cc: Messrs. Knapp, Benjenk, Cargill, Wapenhans, Wyatt, Goodman,  
Burmester (2), Kaji, Schrenk



Biographical Sketches

José Luis Ceron Ayuso:

Minister of Commerce since March, 1975. Previously Under Secretary for Economic Policy in the Ministry of Finance, he was born in 1924. He is a lawyer and was a member of the diplomatic service. He has also been Deputy Director General for Relations with the European Economic Community and Vice President of the Spanish delegation for negotiations with the European Common Market.

Juan Antonio García Díez:

Technical Secretary General, Ministry of Commerce. He has over-all responsibility for liaison between the Government and the Bank and is the Bank's chief operational contact.

Luis Angel Rojo:

Director General, Banco de España (Alternate Governor). He is also a professor of economic theory at the University of Madrid and author of several books on economics.

EMIDC  
August 27, 1975

14.



## OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 16, 1976

FROM: Martijn J.W.M. Paijmans, Director, EMENA I *P*SUBJECT: SPAIN - Meeting between Mr. McNamara and the Finance Minister

1. On June 15, 1976 Mr. McNamara received H.E. Juan Miguel Villar-Mir, Spain's Minister of Finance. Mr. Calvillo and I were present.

2. The Minister first reflected on the fruitful cooperation that exists between the Bank and his country and expressed his Government's appreciation of the constructive way in which the Bank has always been willing to cooperate with Spain. He then handed Mr. McNamara an Aide-Memoire (copy attached) to discuss with the President.

Operations

3. The Minister reviewed past Bank operations in Spain and noted his Government's understanding that because of scarcity of resources the Bank would have to "graduate" Spain. He expressed hope that the Bank would however be willing to continue to provide technical assistance as he had found that interaction with the Bank was thought-provocative and one of the most effective means by which the Bank could assist its member countries. Mr. McNamara explained to be quite prepared to talk with the Government to see what type of technical assistance would indeed be needed if and when the Government would be ready to discuss the matter. He mentioned that the Bank might, however, have to ask for reimbursement of incremental cost of technical assistance.

IDA

5. The Minister touched upon Spain's support for IDA and Mr. McNamara reacted that Spain's effort was excellent and set an example for other countries.

IFC

6. The Minister made the statement that Spain was ready to accept more IFC investment in the private sector. Until now the Corporation had not undertaken much activity in Spain and he felt there was a great area for cooperation and need for assistance. Mr. McNamara explained that the scarcity of resources faced by the Bank also applied to IFC, and he gave a detailed explanation of lending operations procedures between the Corporation and the Bank. The conclusion had to be, said Mr. McNamara, that the rules applying to the allocation of scarce Bank resources would have to apply equally to the Corporation's operations. The Minister explained that what Spain was seeking was not so much the transfer of resources but rather the umbrella and stimulus that came with IFC participation. Mr. McNamara said he fully understood the Minister's concern and request



June 16, 1976

and that he would give the matter his attention. However, he did not see an immediate answer nor could he hold out much hope for the immediate future. The structure of the Bank's capital and general capital increase were briefly touched upon.

#### Procurement

7. The Minister mentioned that in spite of Spain's long standing membership in our Institutions, procurement under Bank loans and IDA credits had remained extremely small [the actual figure is \$119 million]. The Minister explained that his Government and he understood perfectly that the Bank could not interfere in the procurement question and that this was not his request. He asked, however, for advice. Mr. McNamara responded that we might be able to do something. He cited a case raised by Canada sometime ago and how the Bank had addressed the issue and, indeed, had been able to help that Government by an analysis which showed that Canadian bids often were not competitive, and that Canadian industry and the Government were not sufficiently organized to stimulate successful bidding. Mr. McNamara added he would be willing to have procurement staff from the Bank meet with the Spanish authorities to try to determine why the Spanish procurement experience has not been sufficiently successful and how any specific problems or shortcoming might be addressed. Mr. McNamara asked me to raise this matter with Mr. Baum to see how we could organize a Bank response along the lines indicated. The Minister was very appreciative of the offer.

#### Recruitment of Spanish Nationals

8. The Minister mentioned his Government's concern about the small number of Spanish nationals working in the Bank while stating his appreciation of the recent effort by Personnel Department in this respect. He elaborated that the high growth rate of the Spanish economy, and consequently its own needs, was the reason why Spain did not have any significant number of senior and experienced staff to offer. However, well trained young people were in the market and he would welcome an effort to bring qualified juniors to the Bank. Mr. McNamara responded that although the Bank did not have national quotas, he was anxious to get a broad representation of the membership among its staff and he promised the Minister that special attention would be paid to this issue. He asked me to bring this matter to the attention of Mr. Chadenet.

#### Housing

9. The Minister referred to the discussions his colleague for housing, Minister Francesco Lozano, had on June 2 with Mr. Knapp and Bank staff. He said that Spain would indeed like to have Bank experts working with Spanish experts in this field. Mr. McNamara reacted that we had only very few experts ourselves as we are building up our own expertise in this area and that we might not be able to respond to the Minister's request in the fashion requested. Mr. McNamara said that the Bank was preparing a response to Minister Lozano following upon his visit, and he agreed that to the extent possible the Bank would be happy to cooperate with Spain and to gain knowledge together with the Spanish authorities in this new activity.



June 16, 1976

10. After his discussion with Mr. McNamara, the Minister again brought up with me the issue of assistance to the Spanish plans in the regional/urban field, emphasizing the importance his Government attaches to developing experience in this area together with the Bank.

Bank Borrowing

11. Mr. McNamara brought up the subject of participation by Spain's Central Bank in IBRD borrowing through the mechanism of our two-year bond issues. He explained the significant investment value of IBRD bonds and mentioned that in his view Spain, which has substantial reserves, had invested a relatively small amount in these instruments. He handed the Minister a copy of the memorandum on the forthcoming Two-Year Bond Issue (Attachment to Mr. Goodman's memorandum of June 9, 1976).

Attachment

cc: Mr. McNamara's office (2)

Messrs. Knapp

von Hoffmann

Cargill

Goodman

Wapenhans

Knox

Horsley

Kaji

Chadenet

R.A. Clarke

Baum

Jaycox

MPaijmans:gg/sap

AIDE-MEMOIRE

Meeting of the Minister of Finance of Spain,  
D. Juan Miguel Villar Mir  
and  
the President of the World Bank  
Mr. Robert S. McNamara

June 15, 1976

1. Since 1958 the Bank and Spain have maintained a fruitful and cooperative relationship and there is no doubt that the World Bank has succeeded in helping the country in the difficult years of the development take-off and in the implementation of the basic economic objectives.

Amounts lent by the Bank (\$398 million), starting in 1964 with the Roads Project, have had a tremendous impact on the Spanish development strategy. But what may be the most important achievement of the Bank in our country, has been the institutional building effect of the five loans (\$328 million) made for the transportation sector (highways, railways and ports) and the improvement of a very deficient infrastructure that did not permit a full development process in the 50's.

During the last 5 years, the Bank changed its lending strategy towards Spain, concentrating its efforts in the agricultural sector, with two loans for livestock development and agricultural research, and two loans in the field of education, that after negotiations between the parties involved had to be canceled.

2. Given the impressive and fast development of the Spanish economy in the last decade, the Bank notified informally the Government of Spain two years ago, that the country had to be graduated from the lending program in the near future in order to permit a more appropriate channeling of the Bank's scarce resources to countries with acute development needs.

As a result of this graduation, only one more loan is contemplated for Spain in FY 1977. This last loan will benefit the implementation of Industrial and Agricultural research in our country. We hope that the Bank and Spain will solve the few remaining conflicting points prior to negotiations and will reach an agreement in a very short term, so that negotiations of this loan could take place as soon as possible and that it could be presented to the Board at the beginning of FY 1977.

The Spanish Government is aware of the difficulty of distributing limited funds for so many urgent needs, and understands the reasons underlying the graduation of the country. Nevertheless, the continuous cooperation between the Bank and Spain for more than 15 years should not stop. We think that the Bank can and should continue providing the technical expertise that Spain still needs in some areas, not in the form of financial transfers but in the form of technical assistance and cooperation.

3. Spain is a member of IDA since 1960 and has been a Part II contributor in the Third and Fourth Replenishments. Spain has supported IDA in the past and considers to continue to support future replenishments of resources, contributing in accordance with its possibilities and the situation of its Balance of Payments in the future.

4. IFC has made investments in four Spanish enterprises totaling \$18.8 million. IFC does not have any new projects under consideration in Spain.

We understand that Spain should be graduated from the lending program of the Bank but we believe that IFC should for some years to come, still be active in our country, given the different characteristics of IFC investments and IBRD loans.

Spain is ready to accept more IFC investments in its private sector and we consider that the Corporation has not done a real effort to identify interesting investment opportunities in our country so far. The promotional activities of IFC in Spain in the past have been, to say the least, useless and it seems advisable at this point to encourage new efforts from IFC in that respect.



5. Two last points remain important in the Bank-Spain relationship. First, the Spanish share of procurement under IBRD loans and IDA credits remain, over the years, extremely small. Although we understand that Management cannot and should not interfere in procurement matters, we are really worried about the problem and we are trying to inform our export firms of the importance of reaching the developing world.

Our second concern is the small number of Spanish nationals working in the World Bank. In that respect we certainly welcome the efforts of the Personnel Department in recent months to promote the interest of highly qualified Spanish engineers and economists to work in Washington. Nevertheless, we consider this effort should continue over the years until an appropriate level of representation is achieved.

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
THROUGH: Mr. J. Burke Knapp, SVP, Operations  
FROM: Martijn J.W.M. Paijmans, Acting RVP, EMN

DATE: June 11, 1976

SUBJECT: SPAIN: Visit of the Finance Minister, His Excellency Juan Miguel Villar-Mir

1. You have agreed to meet with His Excellency Juan Miguel Villar-Mir, Spain's Minister of Finance, at 5:30 p.m. on Tuesday, June 15, 1976. A biographical sketch is attached (Annex I). I will be available to attend.
2. A copy of the economic and political sections of the briefing provided to you in connection with your recent meeting with His Majesty King Juan Carlos is attached (Annex II). A copy of my memorandum to you, dated June 3, 1976, reporting on Mr. Knapp's recent meeting with Spain's Minister of Housing is also attached (Annex III). The purpose of this memorandum is to highlight issues concerning current Bank activity in Spain and the Bank's future relationship with Spain.
3. Since 1963 the Bank has made 11 loans to Spain, two of which, for education, were subsequently cancelled except for \$0.5 million, which had already been disbursed. Total loans (less cancellations) amount to \$398.4 million of which approximately \$330 million is outstanding and \$83 million undisbursed. (Summary Statement of Bank loans is attached --Annex IV). One further loan of \$25 million for industrial and agricultural research is proposed. The project was appraised in December 1975 and the draft Appraisal Report prepared. In April this year we were advised that the Government was reconsidering the scope of the agricultural research component and particularly the local currency requirements. A Bank mission visited Spain in May to discuss these issues. The details of the project content and various proposals being considered is detailed in Attachment 1. While we are prepared to consider financing a reduced agricultural research component, the outstanding issues to be resolved pertain to continuation of technical assistance and support for research activities commenced under the first Agricultural Research project, as opposed to initiating a greater number of new activities within the limitations of local and foreign financing availability. You may wish to emphasize the need to resolve these issues quickly and remind the Minister that the proposed research loan is the last loan Spain can expect to receive.
4. Spain's future relationship with the Bank should be as a contributor to IDA, a possible lender of funds to the Bank, and a beneficiary of procurement under Bank/IDA lending operations. Spain's GNP per capita at market prices for 1974 was \$1,960 <sup>1/</sup> and foreign exchange reserves at the end of 1975 were estimated at approximately \$6 billion, representing four to five months' imports. Total contributions to IDA, in current US dollars, amount to

<sup>1/</sup> World Bank Atlas 1975.



June 11, 1976

\$28.7 million, including \$13.5 million under the Fourth Replenishment. While Spain has been a regular supporter of the Bank's two-year Central Bank bonds, current holdings are only \$10 million, including \$3 million of the latest issue due March 15, 1978. This is clearly a very low figure for a country holding over \$6 billion in foreign reserves. Mr. Goodman has submitted a memorandum, dated June 9, 1976, containing specific proposals for ways in which Spain could increase its contribution to Bank Group funding. (Copy attached--Attachment 2).

5. The total value of goods and services, procured from Spain and financed by Bank/IDA operations cumulative through the end of 1975, was \$119 million (Bank--\$113 million and IDA--\$6 million). Of this amount, about two-thirds was for electrical and communications equipment and about 10 percent for mechanical equipment. While this total is lower than might be expected, it is significant that 95 percent of this procurement from Spain has taken place over the last nine years and is showing an increasing trend. It is reasonable to assume that Spain's growing industrial capacity combined with a more-intensive export drive could result in an increased participation by Spanish industry in Bank Group financed projects.

Attachments

FPovey/11j

Cleared with and cc: Mr. Horsley, Mr. Kaji



SPAIN

Proposed Industrial and  
Agricultural Research Project

1. The project was appraised in December 1975. A loan of about \$25 million is contemplated.

Industrial Research Component

2. Agreement has been reached with Government on the industrial research component which is aimed at strengthening Spain's research, development and engineering (RD&E) of new industrial products and processes. In the past, Spain has relied almost exclusively on imported technology through foreign investment and financing. In 1974, payments by Spanish industry for licenses, royalties, and technical assistance amounted to \$316 million whereas income received for similar services was only \$36 million. Notwithstanding this disparity, Spain's expenditure on RD&E amounted to only about 0.3 percent of GNP (\$280 million), well below what might be expected of a country at Spain's level of per capita income. There is not now any systematic program or institution for stimulating and supporting industrial RD&E.

3. The proposed project would provide for the establishment of a new RD&E unit within the Ministry of Industry which in close collaboration with private industry would survey available technology and resources, select product areas for investigation and commission and supervise RD&E studies and pilot plant operations intended to lead to commercially-viable new products. Most of the contract work is expected to be carried out by private industry and, initially, preference would be given to electronics, food processing and mechanical engineering industries. After the initial two years it is expected that an autonomous organization would be established outside the Ministry of Industry. Private industry would hold at least half the positions on the Board of Directors. Based upon an average of nine projects per year, the program is expected to cost \$33 million, including \$16 million foreign exchange, over the first five years. It is proposed that this five-year cost would be financed by a direct Government grant, which would include the \$15 million industrial portion of the proposed loan. It is expected that this program could become self-sustaining after eight years and the proposed Bank loan and the contribution of the Government should therefore be regarded as seed money to create the institutional base and launch the program. The ultimate profitability would, of course, depend on the success ratio, and the response from entrepreneurs will be a vital factor in this respect.

Agricultural Research Component

4. The agricultural component, which was agreed at the time of appraisal with the Ministry of Agriculture and the National Agricultural Research Institute (INIA), an autonomous organization ascribed to the Ministry of Agriculture, would strengthen the research capabilities and consolidate the achievements of the six national commodity research programs started under

the first Agricultural Research Project (Loan No. 768-SP) and add three new ones--African swine fever, fast growing pulpwood and sugarbeet. The estimated cost of the agricultural component is \$82 million, including about \$18 million foreign exchange, to which the proposed loan would contribute about \$10 million.

5. The first project, a pilot project, has resulted in the reorganization and strengthening of the institutional arrangements for agricultural research and in the reorientation of INIA's applied research program from a discipline to a commodity approach. Several technical achievements have already been derived from the program but progress has been hampered of late by the lack of budgetary support by the Government which will require to be rectified before we can proceed with the second project.

6. With the change in Government in December 1975, subsequent to appraisal, the components and general direction of the proposed project have been modified, resulting in a request for substantial scaling-down of the agricultural component. It appears that Government wants to reduce the project to a total cost of \$26 million, with a foreign exchange cost of \$13 million to be financed by the Bank. While the Bank is willing to review any modifications that might be proposed by INIA, it is unlikely to be able to accept a proposal to drop the technical assistance component of some programs started under the first project, as seems to be implicit in the Government proposal.

7. A representative of INIA is arriving in Washington on Monday, June 14, 1976, with detailed proposals. We shall review these proposals for the revised project and attempt to agree on a package which ensures the continuing of research programs already initiated and accommodates such additional elements as are justified and can be fitted within the local and foreign financing available. It is possible that the Government may decide to eliminate the agricultural component altogether. If the Government does decide to withdraw this component and provides assurances of continued budgetary support for the ongoing Agricultural Research Project, we propose to proceed with a reduced loan (about \$15 million) for the industrial component.

EMIDC  
June 11, 1976



## OFFICE MEMORANDUM JUN 10 1976

TO: Mr. Robert S. McNamara

DATE: June 9, 1976

FROM: Raymond J. Goodman *RJG*SUBJECT: Spain: Visit of Finance Minister

In connection with your discussions next week with the Spanish Finance Minister you may wish to have the following facts in mind concerning Spain's financial support of IDA and the Bank.

IDA

At the recent meeting in Helsinki on IDA 5 the Spanish Deputy (Mr. Luis Velasco) endorsed the threshold figure of \$2.4 billion a year for the traditional donors. Pointing out that this meant an increase of 60% over the amount of the 4th Replenishment, he said ".....I might tell you that my country will take part in this Fifth Replenishment, and that it will do its best to maintain the contribution made to the Fourth Replenishment. I mean this in real terms, accepting the threshold of 60 percent or the one finally agreed by all the countries taking part in this Fifth Replenishment".

Spain's contribution to the Fourth Replenishment was \$13.3 million (about 750 million pesetas), representing 0.3% of the contributions by the traditional donors. Maintaining this share in the Fifth Replenishment would mean a Spanish contribution of about \$21 million at the threshold total of \$7.2 billion, or about \$22 million if the traditional donors agree to contribute a total of \$7.5 billion. (Since the peseta has depreciated against the dollar since Nairobi, this would mean an approximate doubling of the Spanish contribution in local currency.) Early in May William Clark had reported, in connection with his attendance at the UNCTAD IV meeting, that Spain was thinking in terms of a contribution to IDA 5 of approximately \$20 million. Peter Cargill is inclined to accept this and not press for a higher contribution.

Investment in Bank Bonds

Spain's first contribution to the Bank's Two Year Issues was in October of 1960 in an amount of \$1,400,000. Subsequent to their first purchase, they have subscribed to 23 issues out of 26 offerings with the largest subscription being ~~\$10,000,000~~ in October of 1964. Their present holdings aggregate \$10,000,000 in the four outstanding issues. The amount maturing in September 1976 is \$3,000,000.

Considering the size of Spain's international reserves (\$5.9 billion at the end of March) these are very small holdings and you might suggest to the Minister that he point out to his Central Bank the advantages to them and to us of a substantial increase. Italy, for example, despite its parlous condition, holds a total of \$32.7 million of the last four issues, Belgium over \$55 million, and Yugoslavia \$24 million in addition to the recent special issue of \$50 million. The Spanish Central Bank might well be asked to take up \$10 to \$15 million of each of the next four issues, and maintain total holdings of \$40 to \$60 million so long as their reserves do not fall substantially below the present level. We would also of course be pleased to arrange a special placement with the Spanish Central Bank on the model



- 2 -

of our recent placement with the Yugoslav Central Bank.

Attached is a statement we prepared at the time of our last Central Bank issue, which you may wish to hand to the Minister.

cc: Messrs. Knapp  
Cargill  
Diamond/Vibert  
Rotberg  
Povey ✓

RJGoodman/rf

Biographical Sketch

D. Juan Miguel VILLAR MIR  
Vice President for Economic Affairs and  
Minister of Finance  
Spain

Born Madrid - September 30, 1931

Married, 3 children

Graduated in Law and Engineering

Economic Development Institute former participant  
(General Projects Course, 1963)

Has held the following positions in the Government and in  
private firms:

Government: Deputy Director of Ports, Ministry of Public Works  
Director General of Employment, Ministry of Labor

Private: President of Carbonífera del Sur (coal), Empresa  
Nacional de Celulosa (cellulose), Aplicaciones del  
Acetileno, S.A. (acetylene), Cementos de CINCA (cement),  
Hidro-Nitro Española.

From 1970 up to his appointment as Minister of Finance in December 1975,  
Mr. Villar Mir was President of Altos Hornos de Vizcaya and Altos  
Hornos del Mediterraneo (steel).

--Represented the Ministry of Public Works in a number of inter-  
ministerial commissions and international conferences and  
negotiations, specially in the field of transportation.

Office of the Executive Director  
June 11, 1976

ECONOMIC DEVELOPMENTSPast Trends

1. Spain's economic achievements in the past have been considerable. Since the beginning of the 1960's, Spain has averaged high rates of economic growth and has doubled its per capita income. In 1974 GNP reached \$73.3 billion (at 1974 prices and exchange rates), or about \$2,300 per capita. Output in 1965-74 grew at an average annual rate of 6.3 percent; as population was increasing by only 1.1 percent, per capita growth averaged 5.2 percent. Indirect measures generally indicate that this rapid growth has been accompanied by improvements in the distribution of income.
2. This rapid progress resulted from a combination of appropriate internal economic policies and a favorable external economic environment. Beginning at the end of the 1950's, economic policies based on autarkic objectives and detailed administrative controls were progressively replaced by policies based upon an outward orientation and economic liberalization. Spain's geographical location put it in a favorable position to benefit (through tourists coming to Spain and workers going abroad as well as through trade) from the prosperity in Northern Europe. More often than not, Spain had surpluses rather than deficits in the current account of the balance of payments. The inflow of foreign capital, supplemented by a cumulative current account surplus of \$430 million in 1960-73, went to build international reserves; which reached \$6.8 billion by the end of 1973, a level at the time exceeded only by Germany and Switzerland within Western Europe.
3. This era also saw a massive transfer of labor out of agricultural activities. In 1960 about 42 percent of the labor force was in the agricultural sector, by 1965 the figure was down to 34 percent and by 1974 it had fallen to 23 percent. The exodus of workers, in combination with the introduction of more modern techniques, permitted productivity per agricultural worker to rise at 7.6 percent per annum in 1965-74, as compared with 5.9 percent in industry and 2.2 percent in services. Unemployment in non-agricultural activities never exceeded 2 percent in 1966-74, and was below 1.5 percent for most of the period, although underemployment continued to exist. The possibility of migration to Northern Europe helped keep unemployment low throughout the period.
4. Spain's output of manufactured goods tripled between 1964 and 1974. Steel production grew from 3.2 to 11.5 million tons while cement output rose from 8.2 to 23.7 million tons. Approximately 350,000 housing units have been built annually in the last few years. The rapid change that has characterized both production and living standards is suggested by the growth in output of consumer's durables between 1960 and 1974.
5. The rapid growth in output has required high levels of savings and investment. During the last decade investment expenditures have amounted to about 24 percent of GNP and, until 1974, national savings were of equal magnitude.



The banking system and capital markets have played the dominant role in mobilizing and allocating savings.

6. Over the last fifteen years Spain has benefitted greatly from its outward oriented policies, its natural resources and relative price structure and its closeness to the Northern European markets. Earnings from merchandise exports and tourism rose from \$1.0 billion in 1960 to \$8.3 billion in 1973. During the same period merchandise imports rose from \$0.7 billion to \$8.9 billion. Exports and imports of goods and non-factor services were each less than 10 percent of GNP in 1960, but both increased to about 14 percent by 1973. At the beginning of the period the leading exports were fruits, vegetables and olive oil, but Spain's export list is now dominated by manufactured goods. Transport equipment (including ships), iron and steel, and shoes as well as both mechanical equipment and electrical equipment compete with or surpass the traditional products in importance. There were 34.6 million tourists in 1973, practically one visitor for every resident of Spain. Further to adding \$3.2 billion to foreign exchange earnings, tourism was a major source of employment. During the three year period 1971-73 Spain had a cumulative current account surplus of almost \$2 billion even though merchandise imports increased by \$4.3 billion.

#### Developments in 1974, 1975 and Early 1976

7. The external sector, which contributed so much to Spain's rapid growth in the previous period, became a source of major problems in 1974 and 1975 as the high cost of oil and "stagflation" in Western Europe and North America made their influence felt on the Spanish economy. Exports of goods and non-factor services practically stagnated in real terms in both 1974 and 1975. The cost of imported petroleum products which represent 70 percent of Spain's total energy supplies, rose from \$796 million in 1973 to \$2,885 million in 1974; an increase of over \$2.0 billion or 2.7 percent of GNP, after taking volume changes into account.

8. In 1974 Spain's GNP growth slowed to 4.7 percent and appears to have maintained this level in 1975. These results were achieved at the cost of current account deficits of \$3.3 billion in 1974 and \$3.5 billion in 1975 (compared to the surplus of \$557 million in 1973). Estimated unemployment in industrial and service activities rose from 130 thousand in December 1973 to 207 thousand in December 1974 and 324 thousand in December 1975. While still only slightly above 3 percent of the non-agricultural labor force, this is a relatively high rate for Spain.

9. In addition to "imported inflation", there have been cost-push elements. Workers have tried to maintain the past upward trend in real wages while firms have frequently sought to improve profits by price increases in excess of the rise in unit costs. In addition, the central government budget deficit reached about 2.2 percent of GNP in both 1974 and 1975 (compared to 0.5 percent in 1973) which resulted in some deficit financing via monetary expansion. The cost of living increased 17.9 percent during 1974 and 14.1 percent during 1975 while the increase in wholesale prices was 17.2 percent and 11.6 percent respectively. A modest upturn in the economy is expected



in the second half of this year, although Spain's recovery will probably lag behind that of Northern Europe in the upward phase just as it did in the downward phase of the present cycle.

10. Business attitudes have been affected and economic management made more complex by recent political developments. Following the death of General Franco, Spain has entered a difficult period of political "decompression". While the changes are being welcomed by practically all elements of the society, they are also being accompanied by substantial labor unrest and a great deal of uncertainty in the business and financial community.

11. At present the economic authorities are attempting the difficult task of stimulating the economy while keeping inflation under control. In early February the peseta was devalued by about 10 percent. At the end of the month measures were announced both to control price increases and stimulate investment. The prices of basic foods are to be subject to a special "vigilance" and to be subsidized if necessary; rents are to be held at their 1975 levels. Dividend payments are also to be limited to last year's nominal level. An attitude of moderation was requested regarding wage and salary incomes, but no specific measures or guidelines were announced. (As recent wage agreements in the private sector have involved increases on the order of 20 to 22 percent, they have become an important factor in the inflationary spiral). Measures to stimulate investment include incentives for reinvestment of profits, a continuing expansion of credit from the official credit agencies, and assurances of adequate credit from all sources. The authorities have apparently concluded that, despite the large balance of payments deficits and comparatively high rates of inflation, in the present circumstances a more vigorous stabilization effort would be undesirable.

#### Future Prospects

12. Clearly the overriding problem at present is the political "decompression" that is underway. Competition for leadership in the labor movement has added militancy to the wage demands and created widespread tension and unrest. The uncertainties prevailing have adversely affected the financial business community's propensity to invest.

13. Over the long run the economy should resume growth with increases in output and consumption approximating those of the Northern European countries. This trend would be further strengthened if and when Spain is admitted to full membership in the European Economic Community. Despite the strong efforts of the present government, this is not expected to occur before the early 1980's.

14. Spain's present efforts to strengthen its institutions in the political and social areas will be assisted by the economic base that has been established over the past 15 years. Spain has the capacity to expand exports by the additional amount needed (2.5 percent--3.0 percent of GNP) to pay for its imported energy requirements, has ample international reserves and established the creditworthiness to minimize the balance of payments constraints on growth during the transition period. At the end of 1975 foreign exchange reserves amounted to slightly over \$6.0 billion, representing 4-5 months imports.



POLITICAL SITUATION

(EXTRACT: Paragraphs 5-9 of Briefing Memorandum,  
dated May 28, 1976 to Mr. McNamara)

1. Despite the presence of strong rightist forces determined to maintain the political structure as under Franco, the death of the General in November 1975 brought great expectations for the liberalization of the political regime both in Spain and internationally. The advocates of liberalization, which include the centrist Christian Democratic Party, the Socialists and Communists have recently formed an Alliance called the new Democratic Coordination Front which constitutes the "opposition" to the right-wing Franco forces which dominate the Cortes (Parliament). With the support of many of the Catholic clergy, and moderates generally, the reformists forces advocate free trade unions, legalization of political parties, greater regional autonomy, including use of local languages in schools (of particular importance to the Basques in the industrial north and to the Catalans in Catalonia), amnesty for political prisoners, extensions of popular participation in electing Parliament, removal of censorship, etc. The defenders of the status quo oppose political relaxation generally, and will accept only minor changes made at a snail's pace. Their strength lies in the existing Parliament (Cortes) and particularly in the Council of the Realm, which was created by Franco to advise on constitutional changes and select candidates for the Premiership. The attitude of the army could also be an important, though undetermined factor. In spite of assurances that the Army would not become involved in politics it is to be noted that many top military officers belong to the old guard of the Franco Regime.

2. During the past six months there has been considerable unrest and pressure, aimed at speeding up the slow pace of reform. This has resulted in strikes and protests by labor unions. During early May, 100,000 Madrid workers were on strike, and demonstrations in the Basque region and Barcelona resulted in some bloodshed. The Minister of the Interior, Manuel Fraga Iwbarne, has carried out firmly the Government's policy of avoiding left-wing revolution and right-wing immobility, by resisting terrorism, separatism and communism. Newspapers are much freer in their comments and investigations than previously and some anti-Franco intellectuals in exile for 30 years have returned.

3. Early in May, Prime Minister Carlos Arias Navarro announced the Government's proposed program for constitutional and political reform. It provides for:

- (i) Parliament including a lower house (Congress) elected by universal, direct, and secret suffrage, and an upper house (Senate), which would be mainly appointed;
- (ii) a new branch of the Supreme Court specifically charged with protecting constitutional rights;
- (iii) liberalization of the laws governing trade unions; and
- (iv) lowering of the legal age of succession to the throne from 33 to 18 years.



There will be a national referendum on these constitutional reforms this coming October and a general election in the Spring of 1977. The public reaction to the Prime Minister's proposals was however, lukewarm and the Christian Democratic leader, Gil Robles, characterized it as "a chat full of platitudes". The first draft of the electoral law is due to be presented to the present Parliament by July 15. Press reports indicate that the draft law, which has not been released officially, contains provisions that would make it difficult for any of the opposition political parties to consider taking part in the elections; namely, procedures that would ensure that the Senate, sure to be controlled by former Franco supporters, would have effective veto on the actions of the theoretically more representative Lower House or Congress, including the right to nominate a Prime Minister. Other proposed reforms include the reduction of restrictions on public meetings and political parties, the revision of the anti-terrorist law, the granting of limited autonomy to Catalonia and the establishment of a committee to study the possible creation of a special administration for the four Catalan provinces of Barcelona, Gerona, Lerida and Tarragone. The draft legislation on public meetings scheduled to be debated in Parliament this week may provide the forum for a formal battle between the conservative and reformist forces.

4. In the controversy on the pace of reform King Juan Carlos is emerging as supporting the liberals. He has supported the idea of the constitutional referendum, including an Act of Succession, and was reportedly in favor of holding the parliamentary elections as early as this Fall. In a recent speech he said that the monarchy must participate in the guidance and promotion of the political and social currents in the country, the first public acknowledgement that the King should play an active political role. The King's father, Don Juan, who has never renounced his claim to the throne, met with the King recently and is said to have advocated a vigorous political role. The King and the Cabinet, a number of whom are more in favor of liberalization than the Prime Minister, have a delicate task of maintaining a balance between the pressures for reform from the political left, conservatism from the right and separatism from the regional factions. It has been reported that the King would have liked to have replaced Prime Minister Navarro before departing on his trip to the U.S., but it now appears that a Government reshuffle is unlikely to occur until afterwards.

5. The attached clippings from the Financial Times of May 24 and May 25, 1976 on recent political developments may be of interest.

Attachments

EMDC

May 28, 1976



PRESS CLIPPING SHEET

| ROUTING LIST      | ROOM | FROM  | COUNTRY              | FILE            |
|-------------------|------|---|----------------------|-----------------|
| 1.                |      | Gautam S. Kaji  | SPAIN                |                 |
| 2.                |      | One of the following <b>MUST BE CHECKED</b><br>before returning the attached clipping<br>to Research Files:<br><br>RETAIN 6 MONTHS <input type="checkbox"/><br><br>RETAIN 1 YEAR <input type="checkbox"/><br><br>RETAIN (SPECIFY) _____ YEARS<br><br>DISCARD <input type="checkbox"/> | SOURCE               | FINANCIAL TIMES |
| 3.                |      |   | DATE                 |                 |
| 4.                |      |   | Monday, May 24, 1976 |                 |
| 5.                |      |   |                      |                 |
| 6. RESEARCH FILES |      |   |                      |                 |

OVERSEAS NEWS

# Carlos and Arias at loggerheads over reform plan

BY ROGER MATTHEWS

MADRID, May 23.

THE FORMAL battle between the conservatives and reformists within the Spanish regime opens in Madrid this week amid signs that King Juan Carlos is being forced increasingly to descend into the political arena.

On Tuesday the Cortes (Parliament), which acted as a channel of approval for General Franco's decisions, begins to debate the first of the Government's still incomplete reform proposals—that affecting the right of Spaniards to meet and demonstrate. As the draft law allows considerable room for Government discretion the 24 hours of debate provided for the proposals are not expected to be especially acrimonious.

Those Cortes members totally opposed to the reforms are expected to mount their main attack at a later date, although the President of the Cortes, Senor Fernandez Miranda thinks that less than a third of the deputies are prepared to vote against even the most controversial proposals.

The King, who has been alarmed at the slow pace of reform and is especially worried about the attitude of his Prime Minister Carlos Arias is understood to be willing to have talks with political leaders further to the left following his contacts in the past fortnight with more centrist parties.

Senor Arias appears still unwilling to talk with the opposition, a factor which has

undoubtedly prompted the King's recent initiative. Don Juan, the King's father who has never renounced his claim to the throne, is understood to have urged his son to adopt a more vigorous political role during talks between the two men on Friday.

Although the King would have liked to have replaced Senor Arias before his trip to the U.S. early next month it now appears that a Government reshuffle is going to have to wait.

The PM is known to be at loggerheads again with Senor Arelliza, the Foreign Minister—who would probably be the King's choice for Premier—over a speech made last week by a senior member of the Foreign Office. Senor Arias wants the man, who is head of the Africa section, sacked for a critical reference to General Franco, something which Senor Arelliza has adamantly refused to do.

Another sign of the levels of dissension within the Government is that there is still no agreement over what next Sunday's annual military parade should be called. Traditionally the Victory Parade, to mark the success of General Franco's forces in the civil war, there had been a move within the Government to have it retitled The Day of the Armed Forces. Moderate observers here believe that it would be a political error for the King to preside over a parade that emphasises the country's historical divisions.

PRESS CLIPPING SHEET

| ROUTING LIST      | ROOM | FROM   | COUNTRY                    | FILE |  |
|-------------------|------|--|----------------------------|------|--|
| 1.                |      | Cautam S. Kaji   | SPAIN                      |      |  |
| 2.                |      | One of the following MUST BE CHECKED<br>before returning the attached clipping<br>to Research Files: | FINANCIAL TIMES            |      |  |
| 3.                |      |  |                            |      | RETAIN 6 MONTHS <input type="checkbox"/> |
| 4.                |      |  |                            |      | RETAIN 1 YEAR <input type="checkbox"/>   |
| 5.                |      |  |                            |      | RETAIN (SPECIFY) _____ YEARS             |
| 6. RESEARCH FILES |      | DISCARD <input type="checkbox"/>   | DATE Tuesday, May 25, 1976 |      |  |

# Spanish Government bid to win reform backing

BY ROGER MATTHEWS

MADRID, May 25.

WITH THE headline "good morning reform" a Madrid newspaper to-day ushered in the start of the process by which the Spanish Government is seeking approval from the right-wing dominated Cortes (Parliament) for the first part of its political reform proposals.

As the debate began in the Cortes on changes to the law affecting the right to hold meetings and demonstrations — limited to 24 hours because of the Government's professed need for urgency — three left-wing leaders were being released on bail from Carabanchel jail to which they had been committed on charges of plotting to change the form of Government. Despite the seriousness of the charges, which carry jail sentences on conviction of between 20 and 30 years, bail was fixed at a mere £800.

The three men, Marcelino Camacho, who is Spain's best known working class leader, Nazario Aquado of the Spanish Workers Party (PTE) and Javier Alvarez Dorronsoro of the Communist Movement of Spain

(MCE) had been committed for trial following their participation in a broad left wing and centralist alliance pledged to bring about radical democratic changes. A fourth man arrested with them, Antonio Garcia Trevijano has not so far been permitted bail. The decision to charge just these four men, despite pleas from other political leaders in the so-called Democratic Co-ordination to be allowed the same punishment, was seen as a ploy by Senator Manuel Fraga, the Interior Minister, to drive a wedge between what he sees as the Communist and non-Communist elements in the Alliance.

But with King Juan Carlos having decided that he should participate more actively in politics, at least to the extent of listening to more moderate opposition leaders, this tactic may now have been shelved temporarily. At least one of the politicians the King has seen in the past fortnight is believed to have stressed the necessity of dropping charges against the four members of the Alliance.

Simultaneously alarm is growing within more liberal elements close to the regime about the first draft of the electoral law, the key piece of reformist legislation which is due to be presented by July 15.

Although there is still plenty of time for discussion and amendment it now seems clear that the Government is proposing that not only will both Houses of Parliament in the new bi-cameral system have roughly equal rights but that the selection of a Prime Minister will continue to depend on a three man list forwarded by the heavily Conservative Council of the Realm to King Juan Carlos.

According to sources who have seen the draft law, it is more than enough to ensure that none of the political parties in the Opposition would consider taking part in the elections under such conditions.

They claim that the Upper House or Senate, is sure to be controlled by former supporters of General Franco due to the electoral procedures being proposed and that this House will have an effective veto on the

actions of the provisionally more representative Lower House or Congress. Additionally there seems to be no provision for the majority group in the Lower House having the right to nominate a Prime Minister.

Four of the political associations formed during the lifetime of General Franco have now agreed on an alliance to contest the elections, provisionally planned for 12 months time, and appear confident that they will capture a significant number of seats.

The country's simmering labour troubles exacerbated by a further 2 per cent rise in the official cost of living index for last month, brought fresh clashes between striking building workers and riot police in the northern town of Santander to-day. Several people were arrested and others injured as police charged the demonstrating workers. At least 13,000 building workers in the town are on strike for higher pay.



Mr. Robert S. McNamara, President  
 DUGH: Mr. J. Burke Knapp, SVP, Operations  
 Martijn J.W.M. Paijmans, Acting RVP, EMN

June 3, 1976

Your Meeting with His Majesty King Juan Carlos I of Spain--Supplementary Briefing on Mr. Knapp's Meeting with the Spanish Minister of Housing

1. As stated in paragraph 2 of my memorandum of May 28, 1976, Mr. Knapp met with the Spanish Minister of Housing on June 2. The Minister informed us that his Ministry was planning to undertake an overall spatial planning exercise which would focus on the questions of social and economic disparities between the regions as well as between the urban and rural areas in Spain. He emphasized that the current political and social environment in Spain has highlighted the urgent need to address these questions and develop a plan of action which would involve the local political forces and to the extent possible the population at large in their respective regions. To this end, they plan to embark on a program for preparation of what they term "Territorial Master Plans of Coordination" which would be generated at the regional level under the guidance of small technical teams appointed by the Ministry of Housing which would liaise with, and coordinate the activities of, the regional administrations of the various operating ministries. Such "Territorial Master Plans" which would take into account local sentiment and aspirations would be fitted into a comprehensive national plan which has as its main objectives the establishment of land use guidelines which would ensure optimum utilization of natural resources, and generate economic and social development which would reduce inter-regional differences, would provide uniform levels of public services and reduce, but not eliminate, internal migration. The Spaniards readily recognize that a number of these objectives are not fully compatible and that there are trade-offs involved.
2. The Minister of Housing further pointed out that the experience gained and the methodology developed in the carrying out of such an exercise in Spain might have great relevance for other countries, particularly those in Latin America.
3. His purpose in meeting with the Bank was to inform us of Spain's plans and programs in this respect, ascertain Bank's interest in such an exercise and possibilities of subsequent applications to other countries and finally to determine the Bank's willingness and capacity for collaborating with the Spanish Government in this exercise.
4. We briefed the Minister on the Bank's increasing awareness of the need for spatial planning not purely in the physical planning sense but with greater focus on social and economic considerations which would, among other issues, address questions of rapid urbanization and migration. We were indeed deeply interested in the Spanish program as defined by the Minister and, in fact, commended them for such farsighted thinking. We had, however, not

June 3, 1976

yet developed adequate experience and expertise in this area which would permit us to offer, with any sense of confidence, any ready-made plans and programs which had been tried and tested out in other countries. Our experience to date with similar exercises in a number of countries including Mexico and Malaysia, was not comparable to the action-oriented macro-planning at the regional levels envisaged in the Spanish proposals. We did, however, know of a number of people who had done some specialized work in the area and in addition there were various people on staff of the Bank who, while lacking an overall view, did possess specialized experience in particular facets of such work. We felt that further consideration within the Bank would be necessary to translate our mutual good intentions into practical steps which might be taken in terms of any collaboration. We undertook to take an inventory within the Bank to collate the experience gathered and ascertain the expertise available. We promised to write to the Minister with some further thoughts on this matter within the course of the next month.

CKaji/llj

cc: Messrs. Knox, Jaycox, Horsley, Venkateswaran



BANK OPERATIONS

I. STATEMENT OF BANK LOANS (as at March 31, 1976)

| <u>Number</u>   | <u>Year</u> | <u>Purpose</u>       | US\$ million  |                    |
|---|-------------|----------------------|---------------|--------------------|
|   |             |                      | <u>Bank</u>   | <u>Undisbursed</u> |
| 360-SP  | 1963        | Roads                | 32.2          | -                  |
| 387-SP  | 1964        | Railways I           | 65.0          | -                  |
| 429-SP  | 1965        | Ports                | 40.0          | -                  |
| 507-SP  | 1967        | Railways II          | 50.0          | -                  |
| 633-SP  | 1969        | Livestock I          | 25.0          | -                  |
| 699-SP  | 1970        | Education I          | 0.5           | /1                 |
| 768-SP  | 1971        | Agriculture Research | 12.7          | 7.2                |
| 772-SP  | 1971        | Railways III         | 90.0          | 0.2                |
| 832-SP  | 1972        | Education II         | -             | /1                 |
| 884-SP  | 1973        | Ports II             | 50.0          | 43.3               |
| 1141-SP   | 1975        | Livestock II         | 33.0          | 33.0               |
| Total (less cancellation)<br>of which has been repaid |             |                      | 398.4<br>68.6 |                    |
| Total now outstanding                                 |             |                      | 329.8         |                    |
| Total undisbursed                                     |             |                      |               | <u>83.7</u>        |

1/ Original loan amounts were Loan No. 699-SP--\$12 million, Loan No. 832-SP \$50 million

Roads. The highway loan of 1963 which financed road improvements also provided for a pilot maintenance program as a first step towards developing a nation-wide maintenance system.

Railways. The autonomous State Railways (RENFE) has been transformed from an obsolete enterprise into a modern and efficient railway system now comparing favorably with other European railways. A performance audit of the Railways loans (December 1974) by the Operations Evaluation Department notes the good results achieved by RENFE and attributes them to RENFE's internal efficiency, the suitability of the Bank's approach and its sustained and timely attention, the quality of the consultants' work and the rapid growth of the Spanish economy, which facilitated absorption of personnel eliminated from RENFE and maintained total demand for transport services.

Ports. The Bank loan brought about major institutional and financial changes, especially with respect to financial viability, port administration and the preparation of port development plans.

Livestock. The first project was designed to help Spain meet its increasing meat deficit through transfer of improved livestock production technology and the setting up of a special organization, the Livestock Development Agency. The second project is to reinforce and expand the application of technological innovations, including the establishment of legume-based pastures and consolidation of the Livestock Development Agency which has developed an effective staff and a successful approach to local farmers.

Education. During the implementation of the two loans, there were frequent changes in the leadership of the Education Ministry, and significant uncertainty concerning the Government's intention to implement the education reform program adopted by the Government in 1970. Due to the growing pressure on the Government to build more basic education schools, combined with increased construction costs, the Government decided it would not follow the standards of student accommodation envisaged in the projects, but instead would significantly reduce the resources devoted to pre-technical training. In the Bank's judgement, improvement in this field was a key element in the education reform and the Bank did not accept the revisions proposed in the project by the Government. At the request of the Government the undisbursed balance of these loans amounting to \$61.5 million was cancelled on March 25, 1975.

Agriculture Research. This was the first project of this type undertaken by the Bank. Execution was delayed by a time-consuming reorganization of INIA during which the Government's financial and administrative support for the project was inadequate. Following the appointment of a new director for INIA in April 1974 support for the concept of commodity-oriented research became much stronger and project implementation improved considerably. However, it appears that in recent months difficulties have again arisen due to lack of adequate financing. This problem is under discussion with the Government to ensure a satisfactory resolution prior to proceeding with the processing of a second loan for agricultural research.

## II. CONTRIBUTION TO I.D.A.

Spain's total contribution to IDA, expressed in current US dollars, is \$28.7 million, including \$13.5 million under the Fourth Replenishment.

## III. PARTICIPATION IN TWO-YEAR BONDS

Since 1971 Spain has been a regular supporter of the Bank's two-year Central Bank issues and currently holds \$10 million, including \$3 million of the latest issue due March 15, 1978.



15

MEMORANDUM FOR THE RECORD

Meeting with Mr. Fernandez-Ordonez, Spanish Minister of Finance, March 20, 1978

Present: Messrs. McNamara, Fernandez-Ordonez, Barea, Martin-Fernandez and Paijmans

Mr. Fernandez-Ordonez said that he was satisfied with the results of the French election. Spain was now one of the most democratic countries in Europe. The system worked, although there were still many problems the young democracy had to face. He had carried out a tax reform which led to markedly increased revenues. Spain supported the proposed general capital increase of the Bank. With regard to the human rights issue, the left in Spain would support Bank actions against Latin American dictatorships on human rights grounds. Mr. McNamara enquired whether the Spanish left would still support civil rights actions by the Bank if countries such as Colombia and Mexico opposed such action. Mr. Fernandez-Ordonez replied that they would, but that the position of other Latin American countries on the human rights issue was important for the internal discussion in Spain. Mr. McNamara said that, as a long-run solution, the Bank could support human rights by focusing on the economic rights aspects. This argument could be used in Spain. The U.S. Executive branch had second thoughts about using IFIs as instruments for their human rights policy. There was movement in the direction of limiting the human rights policy to bilateral dealings with governments.

Mr. Fernandez-Ordonez said that the Spanish Government was in favor of not reducing salaries of Bank staff. Otherwise, Spaniards could not be attracted to the Bank in sufficient numbers. Mr. McNamara said that the staff was not willing to have politics enter into the salary discussion.

CKW  
March 22, 1978



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President  
THROUGH: Mr. J. Burke Knapp, SVP, Operations  
FROM: Martijn J.W.M. Paijmans, Acting RVP, EMN

DATE: March 17, 1978

SUBJECT: SPAIN: Your Meeting with The Honorable Francisco Fernandez Ordonez,  
Minister of Finance of Spain

I understand you have agreed to meet with Sr. Ordonez at 6 p.m. on Monday, March 20, 1978. The following is provided as background information which may be useful to you for the purpose of that meeting.

1. Biographical

Sr. Ordonez, appointed Minister of Finance in 1976, is a career civil servant. He has served almost entirely in the Ministry of Finance in a series of important positions including that of Secretary General Tecnico which is the highest career post in the Ministry.

2. Bank Operations in Spain

Beginning in 1963 the Bank has made twelve loans to Spain, totalling \$478.7 million; three for railways, two for ports, one for highways, two for livestock development, one for agricultural research, one for industrial research and development and two for education, both of which were cancelled in March 1975 at the request of the Government.

As at January 31, 1978 the net total outstanding to the Bank was \$296.4 million of which about \$60 million was undisbursed.

3. Status of Ongoing Projects

There are only 3 ongoing projects at the present time; Agricultural Research, Ports II and Livestock II. Although each of these 3 projects suffered some delays from the political transition and some financial constraints due to the recession, they are all now progressing satisfactorily.

4. Research Development and Engineering Loan, No. 1425-SP

This \$18 million loan, our final lending operation to Spain, was approved on May 17, 1977 but is not yet effective. The final date for effectiveness has been postponed twice and is currently March 31, 1978. The delays have resulted almost entirely from a series of changes in personnel both in the Cabinet and at higher civil servant levels. The remaining conditions of effectiveness still to be met are the establishment of a unit within the Ministry of Industry to administer the project (CEDETI), the promulgation of regulations to govern the functions and responsibilities of CEDETI and the appointment of a General Manager, satisfactory to the Bank. We are informed that the establishment of CEDETI has been approved by the Council of Ministers and gazetted. The regulations governing CEDETI are scheduled

for consideration by the Council of Ministers on Friday, March 17, and the appointment of the General Manager, who has already been nominated and is satisfactory to the Bank, will follow this approval. In view of the Holy Week holidays in Spain gazetting and transmitting the documentation may be delayed, thus requiring a further short extension of the terminal effectiveness date for beyond March 31.

You may wish to inform the Minister that while the delay in getting this project effective is regrettable it is nevertheless understandable in the circumstances. You may also wish to inform the Minister that the Bank considers this to be a very important project both for Spain and from the fact that it is the first project of its kind entered into by the Bank. Several countries have already indicated an interest in replicating it and its results will be followed with great interest. We should express the hope that the Spanish Government will give its full support to the implementation of the project and they can be assured of the continuing interest and cooperation of the Bank.

#### 5. Co-financing

In mid-1977 the Spanish authorities approached the Bank seeking advice as to how they might join the Bank/IDA in co-financing of projects under a foreign assistance program which they were proposing to establish. We have had several meetings with Spanish authorities on this but no concrete proposals have evolved since Spain has not yet established specific institutional channels, and it has been difficult to narrow down the Spanish interest in the context of specific countries and sectors in which they are interested. Additionally, it is likely that the funds will be tied to Spanish procurement and so far we have received no indication of the specific goods and services in which Spanish industry is regarded as competitive. We have been given to understand that the Spanish authorities are working on a short list of countries to which they would wish to give priority for possible co-financing operations with the Bank and the matter will be further pursued when these proposals are received.

#### 6. Request for EDI Assistance

Spain has been having informal talks with EDI about the possibility of obtaining EDI assistance through the establishment of a series of general project courses for senior officials of the various ministries concerned with investments. EDI has informed Spain that it would be willing to collaborate with training institutions in Spain and arrangements have been made for EDI staff to visit Spain in September of this year.

#### 7. Two-Year Bond Issues

Spain was allocated \$2 million of the recent issue due March 15, 1980 and now holds a total of \$18.5 million against the 4 outstanding issues.



## 8. Economic Trends

The Spanish economy experienced a period of severe adjustments in the wake of the increase in oil prices and the political changes which the country experienced since 1974. This reflected in balance of payments problems, high inflation rate, stagnating or low economic growth rate and unemployment.

Spain is highly dependent on imported crude oil for its energy requirement. With the rise in oil prices, the value of its crude oil imports increased from \$1.1 billion in 1973 to \$4.4 billion in 1976 and an estimated \$5 billion in 1977. The economic recession in Western Europe also adversely affected invisible receipts on account of tourism and workers' remittances resulting in a widening current account deficit to \$4.3 billion in 1976.

A wage, oil and other costs of production/price spiral fueled by large monetary expansion dominated until the adoption of the stabilization package in the Fall of 1977. The cost of living is estimated to have increased by 59 percent and wages by 83 percent between 1973 and 1976, and the business labor relations was marked by turmoil and prevalence of labor disputes.

Encouraging developments occurred in mid-1977. The peseta was devalued by 25 percent in July and the Government prepared an emergency economic adjustment program which accorded the highest priority to reducing inflation. Based on consultation between businessmen and trade unions, an economic pact which addressed the country's economic problems was agreed to in October by the Government and the opposition. The agreement was comprehensive establishing for 1978 limits on permissible price and wage increases (20 percent), monetary expansion (17 percent) and restraining budgetary expenditures to about the previous year's level in real terms. The package also included provisions for tax reforms aimed to reduce wide income differentials and tax evasion as well as to reduce social security obligations. The proceeds from higher taxes were to be directed to higher pension and unemployment compensation.

The devaluation of the peseta as well as the recovery of European demand and tourism helped contain the current account deficit to \$2.5 billion in 1977 (as compared to initial estimate of \$5.0 billion for the year and a deficit of \$4.3 billion in 1976). The GNP growth rate is, however, estimated at about 2 percent, inflation rate 26 percent and unemployment rate of 4.5 percent.

The country was able to borrow in the international capital markets to cover its large deficits. Foreign debt thus increased from \$3.7 billion in 1973 to an estimated \$12 billion in 1977, but foreign exchange reserves increased by \$1.2 billion in 1977 to a total of \$6.6 billion by the end of the year.

According to early 1978 accounts, the negative impact of the stabilization package, especially the tight credit and monetary policy, are already being felt. There are reportedly a growing number of firms forced into bankruptcy, and a number of financially troubled small banks being taken over by the Central Bank, stagnation of industrial production, greater under-utilization of capacity, larger unemployment (approaching 7 percent) and growing social and political unrest. /1

#### Spain/IMF Relations

The IMF granted Spain in February 1978 two credit tranches of \$175 million under standby agreement and \$125 million under its compensatory financing facility. The mild conditions attached to the first loan are seen to reflect IMF's satisfaction with the stabilization package adopted by Spain in the second half of 1977. An IMF mission visited Spain at the end of 1977 and judged the economic stabilization Plan as satisfactory.

#### Spain/EEC Relations

In July 1977 the Spanish Government notified the EEC Commission of its intention to apply for membership in the Economic Communities.

Uncertainty still prevails, however, with respect to the renegotiation of the 1970 trade agreement with the EEC which ran out at the end of 1977. While the Europeans want a full renegotiation involving further tariff reductions (in view of Spain's candidacy for accession to the Common Market) the Spanish effectively prefer the present accord to remain in force. Although discussion was supposed to start December 23, 1977 they were postponed to a still unscheduled date.

---

1/ At the end of February Mr. Suarez removed from office Mr. Enrique F. Quintana, Deputy Prime Minister for Economic Affairs and four other economic ministers. The move and the new appointees, however, do not appear to satisfy either rightish or leftists groups.