

# CONFIDENTIAL

## SAVING TELEGRAM

BY BAG

From: MADRID

CONFIDENTIAL [CULL]

To: FCO telegram No. 4 Saving of 26 August 1982 RFI Saving to UKREP Brussels, UKDEL NATO, Dept of Trade.

### THE SPANISH ECONOMY

The summer holiday season has occasioned little movement in the economy since our savingram no. 3 to FCO of 17 July. In a near-deserted Madrid the absence of government ministers has scarcely been noticed, since their presence is scarcely noticed either. Lack of direction is a particular current feature of the economy. When ministers return they are likely to be more interested in running for office in the general elections expected this autumn than in running the country.

2. Half-yearly figures now published show that, as expected, GDP growth in 1982 is running at some 2 percent. The OECD had forecast 2.5 percent. The Spanish government had spoken of 3 percent. There appears little early prospect of improvement.

#### 3. External Trade.

Exports continue buoyant and Spanish companies continue to win attractive export contracts, including, recently, ships and armoured vehicles for the Egyptian armed forces worth some US \$1400 million. In the first quarter of 1982 Spanish exports grew by 23 percent in US dollars compared with the same period of 1981. Although this rate of growth will be difficult to maintain there is justifiable optimism that an overall 10 percent export growth for 1982 is feasible. Imports, suffering from continuing slack demand, grew in the same period by only 3 percent. If the trend in exports is maintained the hopes of a reduction in the visible trade deficit at year-end should be realised, with a fall to US \$9,100 million compared with US \$11,800 million in 1981.

#### 4. Balance of Payments.

Tourist earnings are still running at a record level and some US \$6,200 million is expected in receipts for 1982 from the 43 million visitors expected (although only some 24 million are estimated to be tourists rather than merely passing through). The World Cup accounted for no more than some 300,000 visitors and, on provisional figures, their expenditure may have just covered Spain's costs in hosting the event.

CONFIDENTIAL

/ 5.

# CONFIDENTIAL

## 5. Investment.

Incoming foreign investment in 1981 declined by some 28 per cent in dollar terms compared with 1980 and is thought to be decreasing further in 1982. It remains substantial, however, and overseas companies still consider that the advantages of investing outweigh the disadvantages, particularly with an eye to eventual Spanish accession to the European Communities.

6. Spanish private investment abroad through the purchase of hard currency bonds had taken on increased significance in the early half of this year and was running at the rate of some US \$18 million a month. But this has now been suspended with the aim of preventing a flight of capital overseas in advance of a probable Socialist victory in the general election (although it is unlikely that any Socialist government will find itself with much room for radical initiatives). The authorities insist that this implies no brake on liberalisation.

## 7. Reserves.

Spain's foreign exchange and gold reserves rose in July to US \$13,145 million, an increase of US \$250 million. There was, however, a net loss in the first months of 1982 of some US \$2000 million, which was somewhat obscured by the up-valuing of the gold reserves in December 1981 to current market prices.

## 8. Inflation.

The rate of inflation at the end of July was running at 15.3 percent. It is not expected to fall significantly, if at all. Food prices are increasing at almost 18 percent and petrol prices, having been held down during the summer, are expected to be increased shortly. The main trade union organisations are asking for a cost of living adjustment of 3.1 percent on top of the consumer price index figure. Although many Spanish businessmen believe that their workers are prepared to accept the continuing decline in real wages rather than join the 15 percent of the working population which is unemployed (19 percent in Andalusia alone), pressure is likely to grow among workers for an improvement in their wages as well as job security. This could be a major problem for an incoming Socialist government.

## 9. Conclusion.

The Spanish economy is unlikely to show any significant change from its current torpor until after the general election. The Socialist opposition is expected to emerge as the leading party with most voters hoping that this will mean some slight improvement for the better and a change from what, perhaps unjustly, is seen to be an increasingly divided and indecisive administration. The risk of unattainable expectations is evident and, as foreshadowed in the Ambassador's

**CONFIDENTIAL**

despatch of 22 July, is recognised by Socialist party  
leaders.

MAUD

FINANCIAL  
SED

**CONFIDENTIAL**