## **Contents**

	rage
Preface	vii
I. Introduction	ı
II. Opening Up of the Spanish Economy in the Context of EC Integration  Michel Galy	2
Transition to an Open Economy, 1950-85 Autarky Economic Transition, 1960-73 Oil Crises Spur Transition to Democracy and Structural Reform Integration into the EC Overview of Main Macroeconomic Developments Impact on Trade and Capital Flows Impact on Inflation Structural Reforms and EC Integration Restructuring and Privatization of Publicly Owned Companies Conclusion	2 2 2 3 6 6 7 9 10 10
III. Financial Liberalization in Spain  Gonzalo Pastor	13
Deregulation of the Banking System Interest Rates Limits to Entry Limits to Branching Segmentation of Institutions Capital Adequacy Investment Coefficients Reserve Requirements Effects of Financial Liberalization Other Aspects of Financial Liberalization Financial Deepening Capital Allocation Bank Concentration Bank Mergers Competition from Foreign Banks Conclusion Appendix: Budgetary Costs of Regulatory Harmonization Box 1. Chronology of Financial Deregulation in Spain, 1969-90	13 13 14 15 15 15 15 17 17 18 19 20 20 2

	Page
IV. External Constraints on Monetary Management  Michel Galy	23
Intervention and Sterilization	23
Intervention and Sterilization in Spain, 1980–89	25
Foreign Exchange Regulations	25
Effectiveness of Capital Controls	26
Conclusion	27
Appendix: A Measure of Foreign Exchange Market Efficiency:	
The Case of the Spanish Peseta	28
V. Personal Income Tax Reform Gonzalo Pastor	30
The Rationale for the Reform	20
Main Changes in Tax Legislation	30 31
Individual Income Taxation	31
Taxation of Capital Income	32
Issues in the Spanish Tax Reform	34
VI. Fiscal Decentralization in Spain	36
Gonzalo Pastor	
The Size and Scope of Regional Governments	36
Instruments of Regional Authority Finance	38
Regional Authorities' Own Taxes and Fees	38
Tax Sharing	38
General Grants	38
Conditional Grants	40
The Interterritorial Compensatory Fund	41
Analysis of the Process of Fiscal Decentralization	42
Accountability	42
Accountability Equity Between Regions	43
Macroeconomic Effects	43
Conclusion	44
Appendix: Analytical Framework of the New System of General Grants	45
Systemic Restriction	47
Financial Arrangements of Individual Regional Governments	47 47
Assigned Revenues	47
Assigned Expenditures	47
Regional Government's Net Financing from the State	47
Regional Government's Total Financing	48
The Redistributive Criteria	48
Appendix Sectoral Aspects of Price Rigidities in Spain Thierry Pujol	49
Sectoral Price and Cost Indicators During the 1980s	49
Import Prices and Domestic Prices	49
Domestic Costs and Output Prices	50
Econometric Analysis of Price and Cost Developments	52
A Simple Model of Price Setting	52
The Results	52
Conclusion	54

Bibliogr	aphy	Page 55
Tables		
Section		
11. 1. 2. 3.	Tariffs and Indirect Taxes on Imports Changes in Spain's Commercial Protection Since EC Membership Energy Balance	4 8 11
111. 4. 5. 6. 7. 8. 9.	EC: Income and Cost Margins of Largest Banks in 1989 Indicators of the Biggest Banks in the EC During 1987-88 International Comparisons of Output and Cost in Banking Indices of Absolute Concentration of Private Commercial Banks Indices of Absolute Concentration of Banking System Estimation of Budgetary Gain from Banks' Reserve Requirements and Investment Coefficients	16 16 17 19 19
IV. 10. 11. 12.	Long-Term Capital Flows Estimates for the Period May 1986–January 1990 Estimates for the Period Q3–1980 to Q3–1989	26 28 28
<b>V.</b> 13. 14. 15.	International Comparison of Marginal Tax Rates for Personal Income Taxation Income Tax Rate Schedule for 1992 Capital Income Taxation in the EC as of March 1990	32 33 34
<b>VI.</b> 16. 17. 18.	Participation of Different Levels of Government in Total Public Sector Expenditure Participation of Central Government Expenditure in Total Public Sector Expenditure in Selected Countries Total Revenue of Regional Governments	37 37 39
20. 21. 22. 23.	Total CPI and Its Services Component in Selected European Countries, 1985–89 Consumption Prices Sectoral GDP Deflators Import Prices Sectoral Price and Cost Developments	49 50 51 51
Charts		
Section 1. 1. 2. 3.	Growth, Inflation, External Current Account, and Unemployment Rate Fiscal Indicators Inflation	3 4 7
III. 4. 5.	Size of Financial Markets Gross Fixed Private Investment	17 18

			Page
IV.	6.	Three-Month Euro Rate and Domestic Interest Rate	27
V.	7.	International Comparisons of Effective Rates for Personal Income Tax, 1987	31

The following symbols have been used throughout this paper:

- ... to indicate that data are not available;
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist;
- between years or months (e.g., 1991-92 or January-June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1991/92) to indicate a crop or fiscal (financial) year.
- "Billion" means a thousand million.

Minor discrepancies between constituent figures and totals are due to rounding.

The term "country," as used in this paper, does not in all cases refer to a territorial entity that is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.