

Press Conference held by Rodrigo Rato on the 1997 budget (Madrid, 27 September 1996)


Caption: On 27 September 1996, Rodrigo Rato, Spanish Finance Minister, holds a press conference during which he outlines the state’s financial outlook for 1997 and sets out the measures to stabilise the budget so that Spain may participate in the third stage of Economic and Monetary Union (EMU).

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Press Conference held by the Second Deputy Prime Minister and Minister for Economic Affairs and Finance, Rodrigo Rato; the State Secretary for Finance, Juan Costa; the State Secretary for the Budget and Public Spending, José Folgado; and the State Secretary for Economic Affairs, Cristóbal Montoro, following the meeting of the Council of Ministers (Madrid, 27 September 1996)

Mr Rodríguez: — Good morning, once again. I am here purely as a guest, to give you the floor, if you will, and the Second Deputy Prime Minister and Minister for Economic Affairs and Finance will give a presentation of the budget approved today. Just to remind you, there will be a further briefing on Monday to explain the budget in greater detail.

Deputy Prime Minister: — Good morning. Thank you very much for coming.

The Government has approved the referral to Parliament of the General State Budget Act for 1997 which, as the State Secretary for Communications has said, will be put before Parliament on Monday morning. Although we shall have fuller details on some matters at that time, I should like to make a few comments on the Act and the macroeconomic framework which accompanies it.

The Act provides for an increase in overall expenditure of 1.7 %. As you are aware, that implies that there is a very important difference between the forecast for the increase in expenditure and the forecast for inflation. Public spending in Spain in 1997 will grow less than prices, but without adversely affecting social benefits: pensions will be updated, and investment in public health will be maintained, as will the budgetary and extra-budgetary investment package, thus keeping the rate of State infrastructure creation as it is.

The budget, therefore, gives the Spanish people what they want, namely a budget which ensures economic growth while reducing inflationary pressures and allowing interest rates to fall; a budget which maintains social cohesion; moreover, a budget which develops and modernises the Spanish infrastructure through budgetary and extra-budgetary investment.

The budget, as I have already said, will grow by 1.7 % under the Budget Act — I have a copy here, it is, as usual, an extensive Act, and it includes some significant changes compared to previous Acts on which I should like to comment.

The first and greatest change is in control measures. The Act involves a considerable increase in the control of public spending, in addition to the measures under the Budgetary Discipline Act of which you are already aware.

The first measure on which I should like to comment is the disappearance and replacement of the notorious Article 10, with the result that aggregate committed appropriations, in other words the amount of money allocated as the fiscal year proceeds, cannot exceed aggregate adopted appropriations. Put simply, we are ruling out financial transactions, extraordinary appropriations — they will have to be brought to the attention of and debated by Parliament; additional appropriations — they, too, will have to be brought to the attention of and adopted by Parliament; and flows which are the result of previous revenue. This last measure will also be subject to periodic scrutiny by the Council of Ministers so that, to use the wording of the Act, the Council of Ministers can take the appropriate decisions at intervals so as to ensure compliance with this provision — in other words, it will not be possible for committed appropriations to exceed adopted appropriations — and to ensure compliance with the objectives inherent in our European commitments.

At the same time, credit capitalisation will be restricted to a few limited instances. In simple terms, this involves carry-over from European Community revenue, from the Tous Dam, from compensation commitments for the Tous Dam; the carry-over from Section 32, namely the funding of regional or local authorities; the Armed Forces' presence in Bosnia and expropriations committed last year, 1996, on which some credits for 1996 remain, but have not been exhausted.

The surplus from established entitlements, in other words the increase in revenue, will be used to reduce the deficit unless they involve credit funding or credit flows as provided for in the Act.

The number of extendable credits is being cut from 50 to 21.

To these important measures must be added the salary freeze for all high-ranking officials, office and manual staff in all Government departments and public sector bodies at national, autonomous and local levels, and on all payments to public sector undertakings which receive an operating subsidy, i.e. businesses which are making losses.

Public sector vacancies will be restricted to a maximum of 25 % of the staff turnover rate.

These are important measures to control expenditure in the Act which, as I said, are in addition to those set out in the Budgetary Discipline Act which I presented to you a fortnight ago.

Growth in revenue will be one tenth below nominal growth, in other words, 5.98–5.99 % or, in round figures, 6 %. I have to say that the revenue forecast includes a forecast which is 50 billion lower than the previous Government's in respect of revenue from privatisations. This is an important point, because it demonstrates the rigour of the budget; we are not using figures from privatisation to balance our revenue budget: instead, we have a responsible, rigorous revenues policy.

That is what the Act essentially contains; it obviously includes an updating of pensions, and covers other issues which we shall be able to discuss today and, more particularly, next Monday when the Act goes before Parliament, a procedure familiar to you all.

I should now like to comment on the macroeconomic framework, a copy of which has been distributed to you all. The macroeconomic framework has the following features ...

Hasn't it been distributed? Well, I shall comment on it nevertheless, but I assure you that it will be distributed before you leave. What's more, we shall let you have it for nothing! There's no charge for the macroeconomic framework.

National private consumption is expected to rise from 2.1 % in 1996 to 2.7 % in 1997. As you have seen, we are experiencing growth of approximately two tenths per quarter; the information available to us shows that the rate is increasing during the third quarter and, therefore, that this is a wholly reasonable prospect. Public consumption will fall by 0.3 %. Gross fixed-capital formation will grow by 6.5 %. National demand as a whole will grow by 3.2 %, and there will be a negative contribution from the external sector of 0.2 %. The growth in Gross Domestic Product will, therefore, be 3 %.

As regards the CPI, the Government forecast for December to December is 2.6 %; where labour market trends are concerned, we anticipate an increase of 0.6 % in the working population; an increase of 2 % in employment, implying 240 000 new jobs; and a reduction of 1.1 % in unemployment. Therefore, in a year when there will be an increase in the labour force, i.e. there will be more Spaniards looking for work, there will be fewer people unemployed, and this will be as a result of the jobs that have been created.

That's an overall picture of the most significant parts of the macroeconomic framework; we shall be pleased to answer any questions you may care to put to us.

Q: — I have several questions that I'd like to put to you. First, on investment, by what percentage is investment falling in the budget? Do you think that private businesses, and private capital, will participate as the other element of the joint undertakings and companies which will be formed during this financial year?

Please could you also give us some information on revenue. Apart from the 6 % growth in revenue that you mentioned, what will the breakdown be for the major taxes?

In relation to consumption, an increase of 2.7 % is forecast. Bearing in mind that there is to be a freeze on officials' salaries, isn't that a somewhat optimistic expectation?

Deputy Prime Minister: — As regards investment, budgetary capital operations are falling by 7.3 % but extra-budgetary transactions offset the decrease. The budget anticipates that 85 % of the investment is to be made using budgetary funds and 15 % with extra-budgetary funds. The point that I'm making is that private capital will have a role to play in the extra-budgetary funds, but the Government anticipates that receipts from privatisations will have a significant role in ensuring that the rate at which public investment is created will be maintained compared to 1996, because that is what the Government wants from the point of view both of budgetary investment and of use of the resources available as a result of privatisations. Of course, we shall have to add to this the role played by the private sector as regards the co-funding of operations. But, in our calculations on maintaining investor effort, we are not putting a figure on what private sector contributions may be; they will be added to the investor effort.

In your second question, you asked me about revenue. As I have said, revenue overall will increase by 5.97 %. Direct taxes will grow by 7.08 % and indirect taxes by 8.2 %; that figure includes revenue from tax increases on tobacco and alcohol as well as the change in the tax treatment of insurance, which will be to indirect taxation, as set out in this Budget; the improvement in direct taxation will be reflected in the next budget, and will grow by 8.2 %.

As regards consumption, we understand that job creation and falling inflation encourage growth in purchasing power. The sacrifice made by officials, public sector workers and private sector workers in subsidised industries is unquestionably one which we value; we understand, too, that it is a sacrifice, but we are also in a climate of falling prices, and that makes this type of sacrifice less stressful, or less difficult than in previous financial years when a similar measure was taken.

Q: — I should like to ask several questions. Can't you give us before Monday, today, the revenue forecast figures — the round figure, not the percentage, and the figure for expenditure? Then, when you mention that the accounts have to be balanced, we always say that revenue — I don't know if this has changed, it's what I've understood to be the case to date — would grow by 400 billion and the cut in expenditure would be some 800 000. So 400 billion, if I've understood correctly, through privatisation, 50 000 less than previously, that would be 250 billion; and I should like to know if up to 400 billion ...

Deputy Prime Minister: — No. Let me explain: expenditure is going up by 307 billion; aggregate non-financial expenditure, total expenditure, is 18 099 billion pesetas; and total revenue is 16 090 billion pesetas. Therefore the forecast deficit is 2 008 billion pesetas.

I should point out that, since we have budgeted that expenditure on interest for 1997 amounts to 3 459 billion pesetas, there is a primary surplus of 1 459 billion pesetas. I think that it is very good news for Spanish society that the State's performance in investment and current expenditure is in surplus; the debt burden from previous financial years means that there obviously has to be a deficit effort, but the deficit is less than the debt would imply.

I should also like to point out that Chapter II is falling by 9.8 % and that, therefore, there has been a very considerable adjustment in the performance of the Government in expenditure on goods and services by Government departments, something which will require considerable tightening of belts for State activities.

Q: — Three very specific questions. First, will the rate of personal income tax be cut? Secondly, what will be the increase in the overall fiscal burden, or is it going to stay the same or fall? And, thirdly, what will be the increase in expenditure in terms of the consolidated budget, in other words, including social security, independent bodies, public authorities, etc?

Deputy Prime Minister: — The personal rate of income tax will be cut. If GDP grows by 6 % and total non-financial revenue grows by 5.97 %, the overall fiscal burden will fall by three tenths of a per cent.

As far as overall expenditure is concerned, on Monday we shall set out the overall picture for all expenditure not made by the central Government.

Q: — I should like to put three very specific questions to you. The 1.1 % fall in unemployment, on what total figure for the unemployed is that based? Secondly, receipts of 250 billion through privatisations does not mean that the Government will sell for that figure but that it has been able to use what the French call 'creative accounting', or is it incorrect to say that 'creative accounting' has been employed to adjust the budget using methods ..., well, by financially engineering the accounts? Thirdly, on corporation tax: is it to be changed in terms of deductions, or in any other respect, so as to offset the fiscal expenditure involved in the fall in capital gains, which Mr Barea put at 180 billion?

Deputy Prime Minister. — First, employment. The number of thousands of people unemployed at the end of 1996, according to the forecast, will be 3 527 000, and at the end of 1997, 3 383 000; in other words, there will be just over one hundred thousand fewer unemployed; to that figure we must add the fact that the working population will increase by 0.6 %. Therefore, this represents a significant increase in the working population, it will be larger than this year, and larger than last year and, at the same time, there will be a considerable fall in unemployment.

Secondly, there has been no creative accounting whatsoever. The only thing that we are doing is, under European Community rules, considering where to put the total sum from privatisations which we can earmark for investment through state businesses which receive or which are able to receive public revenue. In that regard, I would draw your attention to the difference in how privatisations are used; privatisations that were applied to the budget occurred in 1995 and 1996, for example the privatisation of REPSOL. They were used to fund the budget in general, that is to say, they were used to fund current expenditure because of falling investment. We are using privatisation for investment, but we are not using any accounting methods which are alien to current budget accounting.

If what you're doing is comparing the situation with the use of France Telecom pension funds, there is a significant difference here, I believe.

And your third question. Indeed, in 1995 a Companies Act was adopted, the effects of which resulted in a significant fall in receipts from corporation tax. I would just like to mention, for the political debate which I always find interesting — this is something you can pass on — that corporation tax affects businesses and is a direct tax. I'm just mentioning that because, recently, we have been hearing politicians here and there saying that cutting taxes on businesses amounted to helping your friends and that cuts should always be made in indirect taxes. Remember that, in December 1995, another government was in power, and it will be interesting to see whether they continue to use this type of argument in the political debate.

Indeed, according to our forecast, the fall in receipts from corporation tax will be some 130 billion as a result of those measures. I should point out that we support those measures — I am not criticising them; I am merely describing them. So, naturally, the Government has taken decisions which enable those measures to be maintained and which, at the same time, ensure revenue to the State which is consistent with reducing the public deficit.

Q: — I should like to know if you can tell us now what new charges are being brought in among the variations in the budget. Today, Mr Cuevas had the impression that there was going to be an increase in one of the contribution rates for entrepreneurs.

Also, are there discrepancies between the Economic Affairs Department and the Labour Department on the agreement reached with the unions?

Deputy Prime Minister: — New charges? They were the ones in the Act. I'll just go through the new charges set out in the Accompanying Act: Ministry of the Interior, a charge for issuing the document under cover of which category A, B and C gaming machines are put into circulation, nationwide; the charge was provided for in the 1996 Act but, as you are aware, it was not passed by Parliament — the Act, I mean, not the charge. The

Ministry of Economic Affairs and Finance is introducing a new charge for land accreditation, charges for land registration. The Ministry of Education and Culture is introducing a charge for reviewing cinematographic and other audiovisual films. The Ministry of Internal Development is introducing a port security charge. Those are the new charges which are to be introduced.

Indeed, the Government is going to introduce a charge in this budget on Spanish *sociedades anónimas* [limited companies] and therefore on businesses; a deficit-reduction charge. Accordingly, the Government has raised deductions — not the fiscal burden, deductions, for 1997 from 15 to 18 % for small and medium-sized undertakings, which will have a choice of two systems: one which I shall mention now and one later. You know that deductions on corporation tax can be applied to corporation tax which has already been paid, to actual earnings from the previous year or to estimated current earnings. The Government is raising deductions on companies which choose the previous financial year method from 15 % to 18 %, and on companies which choose the current financial year method from 20 %, where it was, to 25 %; but the latter method will be compulsory for all companies with a turnover of more than one billion pesetas.

We believe that we are asking Spanish businesses to make a big financial effort at a time when there are unquestionably other tax set-offs available, and we believe that this is a balanced effort which forms part of the package of efforts that we are asking society as a whole to make in the budget; I repeat, it is not an increase in taxes, it is an increase in payments on account.

I said deductions. My mistake, I should have said payments on account.

Thirdly, there is no disparity between what was agreed by the Delegated Committee, which I have the honour to chair, and what the Minister for Labour, obviously, agreed with the unions. It is the implementation of the 'Toledo Pact' which the Government supports and which the Government considers to be a positive step both in consolidating a system of social guarantees and in the reasonable, gradual development which our pensions system must undergo.

Q: — Having defined the holes that you inherited, made pacts and launched all the observation balloons you've launched, I shall just apologise in advance for bringing the presentation of the budget statement down to a more populist level; but I think that it would be of interest to know whether the Government is in a position to make a commitment to the people that there will be no new increases other than those to which you have been referring.

What are the Spanish people going to have to pay more for this year, specifically? In other words, shall we or shall we not have to pay more for prescriptions, for roads, for water? This is precisely the nub of the issue for family breadwinners with families to look after; they want to know what they should be doing on the home economics front over the next year. You, very reasonably, are giving us a very technical view, but I think that people would like to know what it is that is going to cost them more; and whether you, from now on, are going to stop giving us any more nasty shocks by saying that other things are going to go up.

Deputy Prime Minister: — People will not be paying more in income tax, which is not going up; they will not be paying more in value added tax, which is not going up.

People will be paying less for petrol in real terms because the charge levied on petrol is not being updated, with the exception of one highly polluting type where the increase was requested by the Ministry of Industry, unleaded 98, which is being updated. But, with regard to all other petrol types, which I would say accounts for most, or 99 % of petrol, not only are charges not going up, they are not even being updated; therefore, people will pay less in real terms in 1997 for petrol.

People will see a change in taxation on their insurance policies, from direct to indirect taxation, and there will be the new charges to which I referred earlier. At present, the Government has no plans to revise the taxation rates other than in the cases to which I have just referred. Smokers and those who drink alcohol will have to pay more as a result of the need to pay for the hidden deficit of 1995.

As for decisions taken by the Health Committee with regard to the new funding model for health, that will, obviously, be an issue for debate, but, at the moment, it is not one under discussion by Government; it is an issue for what we hope will be calm and sober debate between the parliamentary groups and the people in charge of the national health system.

Q: — Going back to the previous issue on which you commented, the increase in the percentages of payments on account for business, how much revenue do you think it will earn you?

Then, if unleaded 98 petrol — is it leaded or unleaded ...?

Deputy Prime Minister: — Unleaded.

Q: — But what kind of petrol is it? Is it the normal stuff, or ...?

Deputy Prime Minister: Yes it is. It's a pollutant ...

Mr Costa: — Unleaded 98 petrol is a type of petrol which, to date, has been taxed in the same way as unleaded 95; yet unleaded 98 petrol contains chemical components and additives which make it almost as polluting as ordinary four-star, but it is still taxed at a lower rate than four-star.

The Government, for obvious reasons, takes the view that it is better to maintain, encourage or favour the consumption of unleaded 95 petrol for purely environmental reasons. That is why the tax on unleaded 98 petrol is being updated, to reduce the differential with ordinary four-star.

Q: — Revenue from the increase in the percentage of payments on account, that's one thing. Also, so as to be able to assess and understand this budget a little better, I should like to know what will happen to the 1996 budget. We don't know whether the percentages and figures that you have given us should be compared with the budget carried-over, or the budget carried-over minus the first cut, or the budget carried-over minus the second cut. What, precisely, is the starting figure? — and the same point for revenue. As regards revenue, has the figure for revenue for 1996 been revised downwards or not? Or are you sticking with the figures given in the carried-over budget?

I should also like to know ... The information given about the budget referred to an increase in expenditure of 2.6 %; you were saying just now that, finally, you have settled on 1.7 %. What's been going on in the meantime? Did you think that revenue was going to be higher? Were the holes that you found bigger than you had initially thought? What was it that happened to make you lower the figure for growth in expenditure so much?

I should also like to know the basis for your comment that private investment will grow at just over 6 % next year when the figure for the last quarter, the last quarter for which the figure is available, shows a fall and at a time when company profits for the year are falling. What grounds are there for that particular figure for growth in investment in the budget?

Mr Rodríguez: — I'm sorry. This is free, gratis but not an exclusive and there are lots of questions.

Q: — Spanish Television. What will be the consequences of the fact that subsidy is restricted to 15 billion pesetas and past debts are not recognised?

Deputy Prime Minister: — On the expenditure budget, would you explain the basis for it?

Mr Folgado: — Indeed, this is an atypical year as far as the basis of comparison for the 1997 budget goes because there is no approved budget for 1996; there is, however, a legal basis, the carried-over budget, i.e. the 1995 budget. In reality, however, for practical operational reasons, the basis used, the 1996 base provision, is the carried-over budget with initial adjustments; not adjustments resulting from implementing the budget, just initial adjustments.

So, what are those adjustments? On the one hand, a Royal Decree-Law on the non-availability of 850 810 million and, on the other hand, a Royal Decree-Law on extraordinary credits because there was an increase in officials' salaries, pensions and another group of increases. There was an adjustment because of that; some other adjustments also had to be made; among them, the ones which stand out are the forecast increase in financial expenditure which this tax year was extremely significant compared to the previous one, at about 300 billion.

That is the make-up of what you could call the 1996 budget baseline. Obviously, no adjustments are being made any more in the implementation of the budget. By way of example, the non-availability of 200 billion of 10 May is no longer being used to adjust the budget baseline; the only thing that's going on is that the initial adjustment components are being used to project the budget for the financial year, but without the amendments which arise during the financial year itself. That's the budget baseline for 1996.

Mr Costa: — As far as revenue for 1996 is concerned, the reasons given by the State Secretary for the Budget are also valid here. One of the reasons why the Government approved a non-availability measure for the 200 billion pesetas was because it had a forecast for an income assessment which was slightly lower than the one for the initial budget proposed by the Government and which ultimately was not adopted for 1996. At the current time, revenue is behaving in line with government forecasts, it is behaving positively, and the only very minor adjustments which may be made are to unify the figures to accrue returns in one month or another. But the reality is that the forecast for revenue for 1996 is such that the deficit objectives will be achieved.

Mr Montoro: — As far as gross fixed-capital formation in our economy is concerned, investment, it is to be hoped that there will be a recovery next year. The recovery is relatively moderate; we would hope to go from growth of 3.1 % in 1996 to growth next year of 6.5 % overall. I described this as the consequence, first of the recovery in consumption and the increase in domestic demand, as this is what the majority of the industrial fabric of medium-sized and small firms are hoping for — as their demand depends on domestic demand; this is consistent with the greater growth in demand which we are anticipating and which we are sure that we shall then achieve next year for the reasons given by the Deputy Prime Minister.

Moreover, as regards the funding of that investment, which would appear to be your underlying concern, it should be noted that interest rates are currently experiencing a very significant fall. The funding of the economy is, therefore, improving, but over the long term. The fall in interest rates that we are seeing is very important for funding our businesses and for funding consumption — sustainable consumption, the consumption of durable goods. To this, we must also add the fact that we anticipate that, next year, costs of production in our economy, in other words business costs, will be contained; this will enable there to be a recovery in profit margins, which will be earmarked for greater investment. To that end, the Government is actively working to ensure that those costs which are under its control are not only contained next year but actually fall, thus enabling us to encourage the roots of more positive expectations of economic recovery to take hold, with investment being the driving force.

There is a particular sector of investment which we also expect to behave better next year, namely building investment. We anticipate that, for next year, the economic year will be better, provided that the budget includes sufficient elements to stimulate construction; the construction of dwellings will also be stimulated by the fall in long-term interest rates and by the fall in the cost of mortgages which are essential if millions of Spaniards are to be able to buy their own home.

Deputy Prime Minister: — There was a question on why spending is growing by 1.7 %. To ensure fulfilment of the objective of reducing the public deficit to 2.5 % in national accounting terms.

Television. The Government's position is well known: the Government has decided not to take on any more appropriations in this budget; therefore, the structural commitments agreed by the Government with regard to independent bodies will also be our responsibility; the Government, however, has decided not to take on any debt in this budget, and that clearly shows that we want the operation of public sector businesses or of bodies dependent on the public sector to move in the direction of normality and efficiency.

Q: — I didn't understand the State Secretary for the Treasury when he said that the forecast for revenue was in line with the Government forecast. Does that mean in line with the current Government forecast rather than in line with the budget that the Congress did not approve? One of the uncertain aspects of it is, as was the case for last year's budget, the potential danger that the situation may be one where there is a somewhat over-optimistic forecast of State revenue based on economic growth which then does not materialise. What would happen were that to prove to be the case? Would there be further cuts?

Secondly, I should like to ask you what the estimate is for additional revenue through the increase in deductions on account from businesses and which structural reforms accompanying the budget the Government would rate most highly.

Mr Costa: — What I have said is that the Government adopted a non-availability agreement in respect of 200 billion pesetas. The macroeconomic framework which the previous Government presented for the draft 1996 budget was one which forecast higher growth rates in GDP and higher growth in inflation than the Government forecast for that year. This forced us to take the view that the figure for revenue growth would remain below the figures set out by the previous Government in the initial budget for 1996. At the moment the figures are being worked out in line with the Government forecasts and, therefore, are below the figures set out in the initial budget for 1996.

As regards the budget for 1997, the Government has not made any overoptimistic estimates in its forecast for revenue growth; quite the reverse, it has made a realistic forecast, has budgeted realistically for the development and behaviour of revenue from the various taxes for 1997. We are, therefore, absolutely convinced that the 1997 budget will work out in line with the revenue forecasts given in the initial budget.

In relation to the question you raised on the increase in revenue which might result from our raising companies' payments on account, that will depend to some extent on the choices made by companies, specifically small and medium-sized companies, which are being allowed that choice so as to simplify matters and make it easier for them to comply with their fiscal obligations. However, the Government considers that the increase in the percentage of the payment on account could produce additional revenue of about 100 billion pesetas.

Q: — I wanted to ask you whether you consider that this budget makes a fall in interest rates possible, whether that is how you see it. What is the spread by which interest rates could fall over the coming year?

Next, on another issue, are the special taxes on alcohol and tobacco to be updated? Will they be updated on top of the increase imposed this year?

Finally, on prescriptions, you have deferred to future decisions to be taken by the Congress Health Committee. However, from the point of view of the budget, and also of its implementation, in the event that the Health Committee agreed that it was appropriate to impose a charge x, such as one hundred pesetas per prescription, would the Government be willing, in 1997, to implement that decision and, therefore, benefit from a source of revenue which I am not sure is covered in the budget?

Deputy Prime Minister: — As regards interest rates, we have already said clearly that our best contribution to a fall in interest rates would be to present an austerity budget which meets the objectives which the Spanish people want to see met, and that is what we have done.

As you are aware, the decision on monetary policy is not in our hands. Accordingly, the task of the Government is to contribute to the creation of conditions which provide an element of stability in the economy through its budgetary policy and structural reforms. There was a question on structural reforms which hasn't been answered, and I should like to answer it.

Secondly, on special taxes, there has been no updating of the taxes on alcohol and tobacco; they were updated only a few months ago. Accordingly, it was felt that they should not be updated in the 1997 financial year.

As for health funding, I want to stress that, with regard to the public health system, the previous Government had reached an agreement with the Autonomous Communities as regards funding for 1994, 1995, 1996 and 1997. I also wish to point out that the very people with responsibility for the economy in the previous Government acknowledged, before they left office — and this is something I have to say, very ... almost as they were leaving, they acknowledged that there were shortcomings in the funding system. They did not take any measures when they said it, but they acknowledged that there were shortcomings in funding.

We have taken measures costing between 70 and 75 billion pesetas to improve public health funding; to ensure that public health will not suffer through poor funding in terms of what the people receive, in the quality that they receive. These measures are based on an implied saving for the public health system in the form of no increase in salaries and wages and on the agreements entered into by the Government with drugs manufacturers and distributors.

That is, then, an initial contribution which this Government is making to the public health system, and the measures that I have described have no adverse effect on the public deficit; quite the reverse, in fact they improve funding of the public health system, among other things, because similar measures taken in the past had always reverted to the public health system. Admittedly, that is perfectly reasonable. To put it another way, take the funding of a municipality in an Autonomous Community, if its expenditure is not increased by an increase its officials' salaries, then that increase does not revert to central Government; there is no reason why the same thing shouldn't happen in the national health system either. It's a logical thing to do, it's what happened in 1994, and it's what will happen in 1997.

I would also point to the agreements with the drugs manufacturers or distributors which have been made in times past, or in previous years. We are seeking to improve the terms of those agreements, because they also form part of the funding system for the national health system.

From now on, the situation is as follows: the Government has introduced some savings into the system which are to the benefit of the way in which it is funded and which, therefore, increase its funding. In that respect, we could say that public health will grow in 1997 by 6 %, or an increase of 70 billion.

As far as the legal aspects are concerned, the public funding system for health, or public health funding, expires on 31 December 1997. However, given the acknowledgements made by the previous Government before it left office, it would appear reasonable for there to be a possibility of perhaps bringing the expiry date forward. In any event, it would appear reasonable, as a consequence of the commitments given in the Investiture Debate, for the Health Committee or the Health Subcommittee to study the situation as it currently stands and the future of the funding system. It is at that point that decisions will be taken on the future of the funding system.

What there is no doubt about is that, from the political point of view and from the Government's point of view, public health has to provide services to the people, and those services are not the subject of any cut by this Government; quite the reverse, we want to guarantee those services and we have done so already by improving funding by 70 billion. The Government will not in any way anticipate the decisions to be made as a result of the debate in Parliament, nor will it raise these issues before time, because we are of the view that that would be a mistake on our part, as well as interference in a debate which we want to proceed as soberly as possible, seeking the broadest possible consensus.

As regards the question on structural reforms raised earlier, I believe that the structural reforms that are important at this juncture are the ones which result in reductions either in inflationary costs or inflationary pressures on the economy, thereby ensuring that competition can operate properly and that costs fall. In that regard, I should like to state that the Government, which has engineered and negotiated the fall in energy costs, will be keeping a very close eye on how that fall in energy costs is achieved and also that the Competition Department of this Ministry will, through the Competition Court, be using the powers conferred on it by law to ensure that pressures on costs do not come about in breach of the rules on competition.

At the same time, we have also clearly stated that it is our intention to improve the performance of the public sector by introducing competition and by introducing co-funding in one section of infrastructure creation. The co-funding is already included in the measures set out in the Accompanying Act and will be one aspect of what modernising the future of infrastructure in Spain must entail.

Another matter that we are carrying forward in our programme and about which there can be no dispute is that, from the taxation point of view, we have already put in train tax reforms which benefit savings by individuals and by small and medium-sized traders, and we shall continue along that path. A committee has been set up in the Ministry to review commercial taxation as well as structural reforms which affect direct taxation, and we hope that it will bear fruit in the coming months.

I also want to say that the budget also includes, for the second year running, a 15 % cut in the modules for flat-rate taxpayers which are, in the main, small and medium-sized businesses.

Q: — If you don't mind, I wanted to know exactly the reasons why you think that the 1997 budget is credible. In my opinion, freezing civil servants' pay, well, I'm not sure if it can be done indefinitely.

The 100 billion pesetas to which the State Secretary for Finance referred as advance receipts in corporation tax may well become a rebate of a greater amount to those firms the following year when their deductions rise.

In short, I am not exactly clear how the expenditure budget has been internally restructured to give only a 1.7 % increase in spending if social benefits and services are staying the same, there is a 6 % increase in health spending, etc. I don't really know if spending, which is being severely cut this year, will rise dramatically in subsequent years and bring budgetary pressures to bear which cannot be anticipated at this point in time. That's one thing.

The other thing that I should like to know is what exactly the situation with the four Maastricht criteria will be at the end of 1997; what does the Government think? What will be the situation with the public deficit, exactly? What will the figures for average and long-term interest rates and public debt over GDP inflation be for the year?

Deputy Prime Minister: — On credibility, I would like to begin by saying that the first measure that we took with regard to the budget was to increase control of it; therefore, in that regard, both the measures that we took in May and the Control Act, as well as the measures on which I have commented to you today, ensure that opportunities to use the budget arbitrarily have been radically cut back and that opportunities which did exist to hide expenditure have disappeared.

Secondly, the Government is going to make significant savings as a result of the fight against fraud and, to that end, we have introduced measures in the Accompanying Act which cover fraud in incapacity for work, unemployment insurance and the use of medicines; we are going to implement these as key measures.

In order to ensure the reduction, in Chapter II, of 9.8 %, the Government will set out a new public procurement policy which will be implemented by the Ministry of Economic Affairs and Finance and the various Ministries immediately, precisely in order to ensure compliance with it. There is no question that we shall have slightly more leeway when we begin working on the 1998 budget than we have had for the 1997 budget, but the intention will still be for the containment of expenditure to be something which carries on over time.

I would remind you that the agreements, currently in embryonic form but which are clearly pointing toward a stability pact, show that this is the budgetary policy for the future and that we must persevere with it.

As for the taxation measures for 1998, you know that I came to talk to you today about 1997. I understand that the wish to look ahead is ..., but please give me some time, at least until Monday, before we start talking about taxation for 1998. I think that it will be a most interesting topic but, if you really want to know, we are at the moment thoroughly focused on the taxes for 1997 and on ensuring, first, that they do not lead to increases in

fiscal pressure; secondly, that they do not lead to increases in overall taxation or the tax burden on Spanish families; and, thirdly, that they do not adversely affect the way in which the economy recovers, and yet that they distribute the burden over sectors which, we believe, are currently in a position to absorb it.

I would also point out that, if this budget contributes to a cut in inflation and in interest rates, then it will represent an extraordinarily positive element in the reduction in public spending. I have already said that, at the moment, the public deficit is very much lower than expenditure on interest.

As for the Maastricht criteria, the public deficit will be 3 %, public debt is falling, and inflation from December to December will be 2.6 %.

Q: — Some very specific questions; specifically, what will be the correction coefficient for inflation which will be applied to capital gains in the coming year? Secondly, is there going to be an increase in contributions and deductions for pension plans and pension funds? Thirdly, could you confirm something about the charge on insurance, will it apply to all classes of risk, what branches of risk will be excluded, if any? Also, there was talk of a 10 % exemption on life assurance; will that be the actual percentage, and on what classes of insurance? Then there is the deduction from and exemption of inheritance tax payments, also in life assurance; I should like to know the conditions which this branch of insurance will be required to fulfil.

Mr Costa: — I get the feeling that we shall have clarified everything today; there's going to be practically nothing left for us to talk about on Monday.

As far as updating coefficients are concerned, they form a table which is given in the draft budget in the chapter on tax rules; the table sets out inflation in terms of an index of industrial prices which has been produced since 1983. In other words, it's a table, there are several coefficients, they set out the industrial price index since 1983, I'm afraid I don't know them by heart.

As for pension plans and pension funds, as you are all aware, there is currently a subcommittee in the Lower House of Parliament which is studying the taxation of retirement saving. In view of that, the Government is not going to introduce any measure related to retirement saving before it has heard the conclusions of the Subcommittee meeting in the House. After hearing those conclusions, the Government will, of course, incorporate any measures which are necessary to improve the tax treatment of retirement saving and, therefore, to encourage this type of long-term saving.

The tax on insurance premiums will be set at 4 % and will be levied on the insurance of risk, not on life assurance, and there will be one exempt category, transport insurance. Transport will be exempt, but, as a general rule, this is a tax which will affect all types of risk insurance.

In relation to your final question, the deduction will be 10 %, and it will apply to life assurance savings contracts which have a fixed term of ten years. All ten-year life assurance savings policies concluded by tax payers will qualify for the deduction with the exception of one very specific exemption which is very strictly defined but which escapes me for the moment.

Deputy Prime Minister: — Thank you very much.