

for individuals and firms resident in Spain. Since June 1989, the peseta has been integrated with the European Monetary System, and in September of the same year was pegged against the ECU (European Currency Unit), (Figure 3). The peseta maintains its role as the strongest currency in the exchange rate mechanism of the European Monetary System and in early 1992 came close to the maximum allowable appreciation limits.

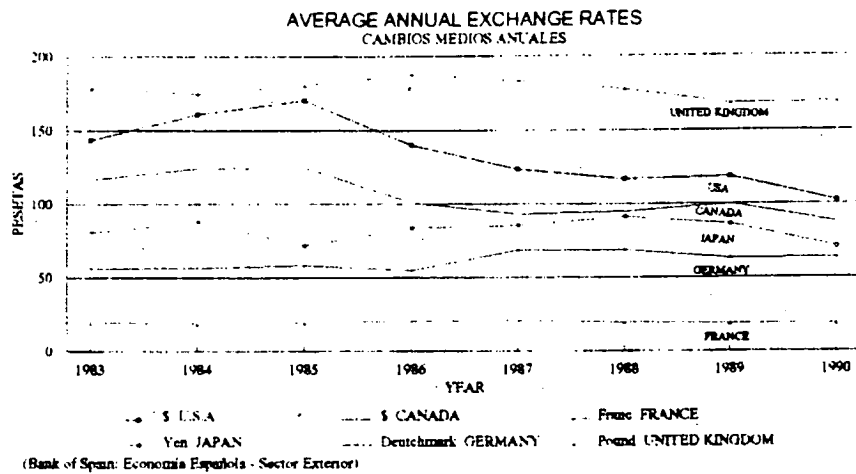


FIGURE 3

1. INDUSTRY

Industry accounts for 35.4 % of Spain's GDP. The leading industries are motor vehicles (the world's sixth largest car exporter), steel, chemicals, machine tools, shoes, leather goods, clothing and rubber products. The principal imports in 1991 were petroleum and petroleum products, machinery, electrical equipment, vehicles, and chemicals. Industrial productivity levels are one of the reasons for the present 15.6% unemployment, and has been a major source of concern for recent governments. Spanish companies have undertaken widespread restructuring and modernization programs including cross-border mergers and acquisitions since its membership in the EC in 1986. The country is a net importer of energy particularly oil which meets 52 % of the country's energy requirements. The main destinations of foreign investment in 1991 were Madrid and Catalonia.

Although the labour-cost differential have to a certain extent diminished (See Table 1), Spain still has substantially lower costs than most European countries and North America.