



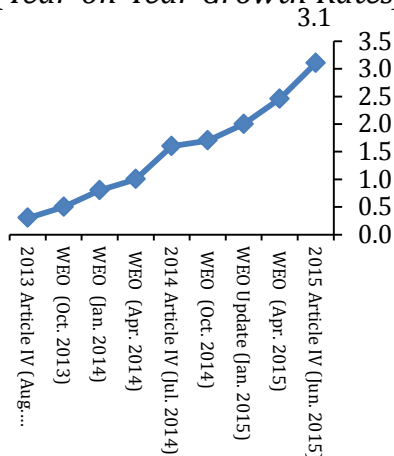
The Kingdom of Spain: Economic Policy & Funding

October 2015

Spain is growing consistently and in a balanced way

- ▶ Spain's growth forecasts have been revised upwards by most analysts. Consensus forecast for 2015 above 3%
- ▶ Growth driven primarily by investment, followed by private consumption
- ▶ Unlike previous expansions, growth consistent with external surplus
- ▶ 757,000 more employees than in end-2013

Revisions to IMF GDP Forecasts for 2015
(Year-on-Year Growth Rates)



Macroeconomic scenario (YoY growth rates in percent)							
	2014	2015		2016	2017	2018	
		Forecast	Q1				Q2
Private consumption expenditure	1.2	3.4	3.5	3.5	3.0	2.7	2.5
General Government consumption expenditure	0.0	0.1	0.2	1.0	0.3	1.0	1.5
Gross Fixed Capital Formation	3.5	6.4	6.1	6.1	5.6	5.6	5.5
National Demand*	1.6	3.3	3.1	3.3	2.9	2.9	2.9
Exports of goods and services	5.1	5.5	5.0	6.0	6.0	5.8	5.7
Imports of goods and services	6.4	6.0	7.0	7.2	6.4	6.3	6.2
External demand*	-0.2	0.0	-0.4	-0.2	0.1	0.0	0.0
Gross Domestic Product	1.4	3.3	2.7	3.1	3.0	2.9	2.9

Other macroeconomic variables							
	2014	2015		2016	2017	2018	
		Forecast	Q1				Q2
Unemployment rate (in %)	24.4	22.0	23.8	22.4	19.7	17.6	15.5
Full-time Equiv. Employment (YoY Growth)	1.2	3.0	2.8	2.9	3.0	2.9	2.9
Net lending(+)/borrowing(-) with RoW (% of GDP)	1.0	1.5	--	--	1.6	1.4	1.3
GDP deflator (YoY Growth)	-0.5	0.5	0.5	0.6	1.1	1.4	1.6
Deficit Excl. Financial Sector One-Offs (in % of GDP)	-5.7	-4.2	-0.65	--	-2.8	-1.4	-0.3

Underlying assumptions							
	2014	2015		2016	2017	2018	
		Forecast	Q1				Q2
USD/€ exchange rate	1.3	1.1	1.07	1.11	1.1	1.1	1.1
Euro Area GDP growth (YoY growth)	0.9	1.5	1.0	1.2	1.9	2.1	2.2
Oil prices (Brent, USD/barrel)	99.4	61.5	55.1	63.6	68.8	68.8	68.8

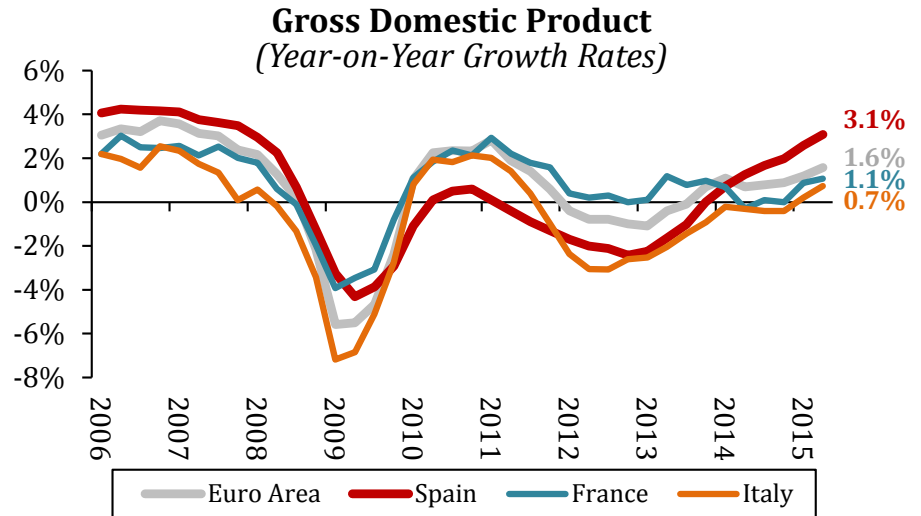
Sources: Ministerio de Economía y Competitividad, OECD, IMF and European Commission.

* Contributions to GDP in p.p.

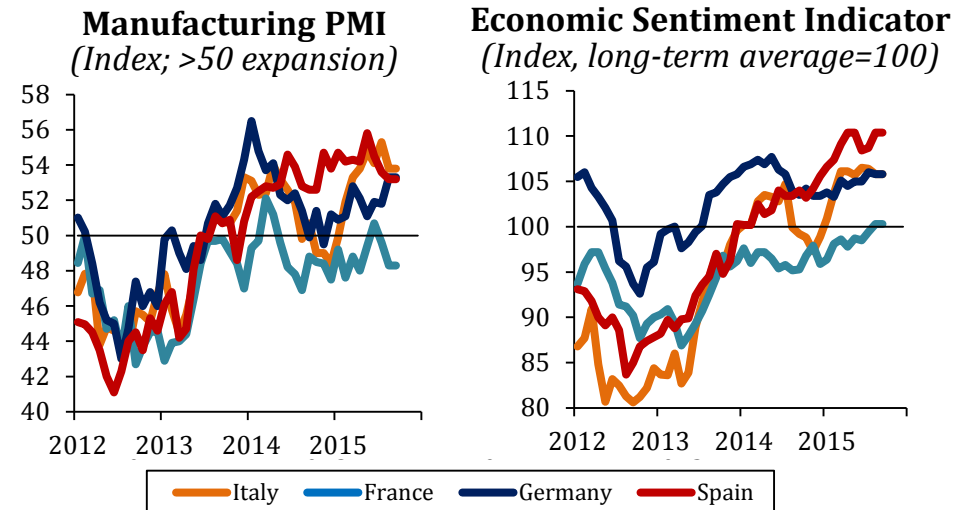
[Link to Data](#)

Growth is less vulnerable to international volatility

- ▶ The Spanish economy is growing twice as fast as the Euro Area
- ▶ Positive tailwinds shared across the Euro Area: low oil prices, weaker exchange rate, low interest rates, improved credit conditions, neutral fiscal conditions
- ▶ The positive effects of structural reforms explain the differential improvement



Source: Eurostat.



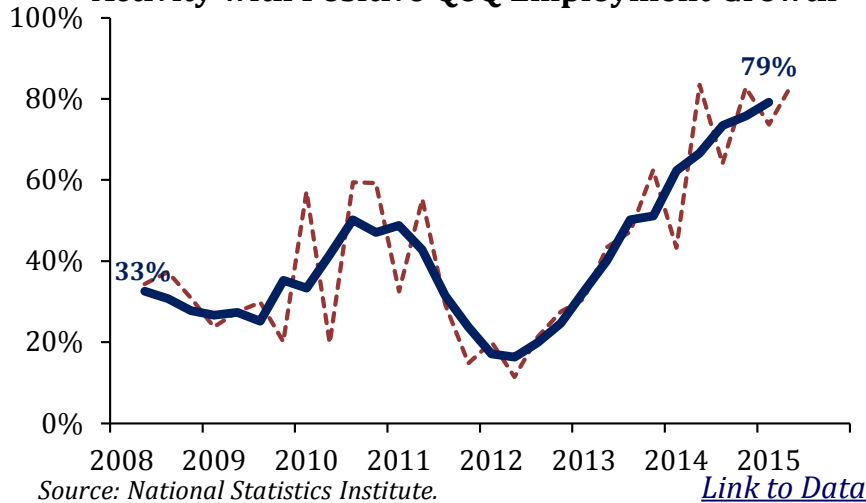
Sources: Bloomberg & Eurostat.

Recent macroeconomic data and trends

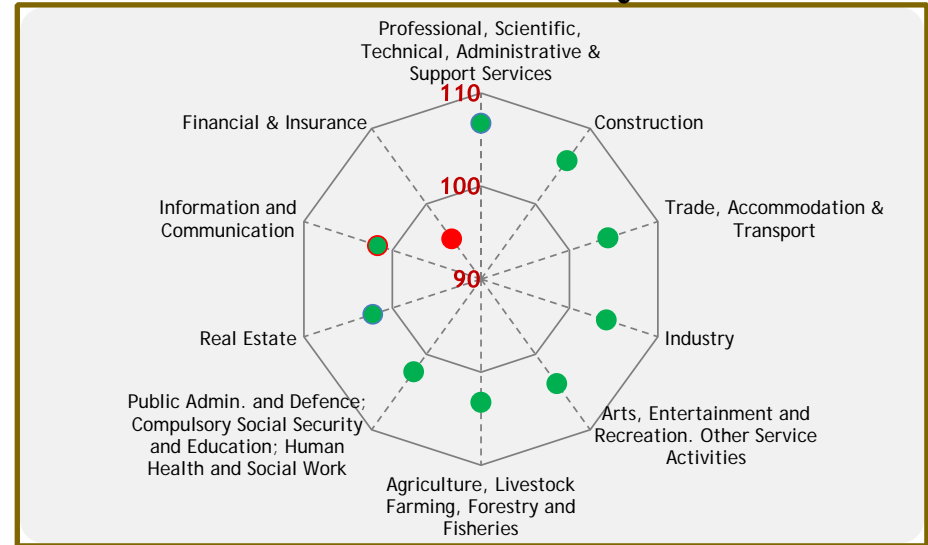
► The economic recovery is wide-spread in terms of gross value added and employment:

- ❑ Recent pick-up in construction and real estate spurred by lower indebtedness and favourable price dynamics
- ❑ Professional & Technical services, industry and trade supported by gains in external competitiveness and structural reforms

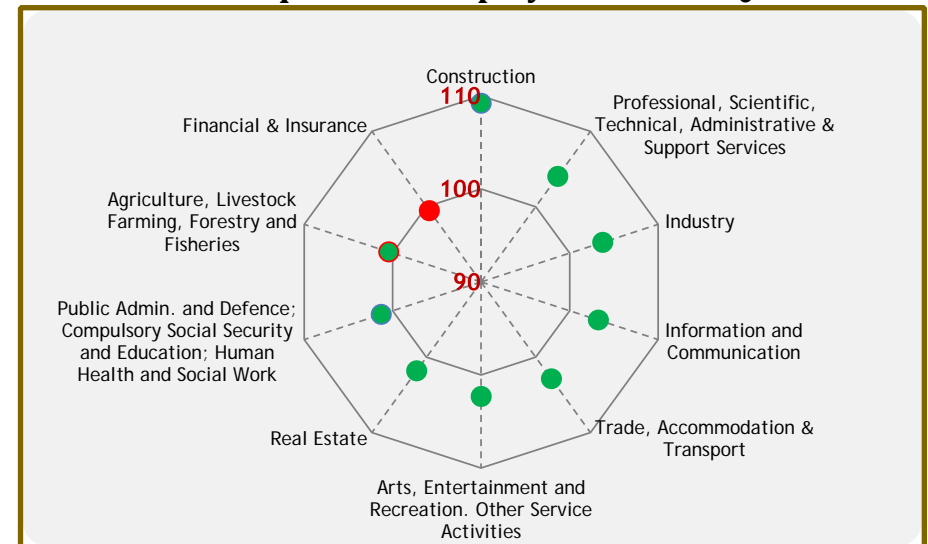
Weighted Average Percentage of Branches of Economic Activity with Positive QoQ Employment Growth



Gross Value Added. 2014Q2=100



Full-Time Equivalent Employment. 2014Q2=100



1. Transformation of Spain's growth model

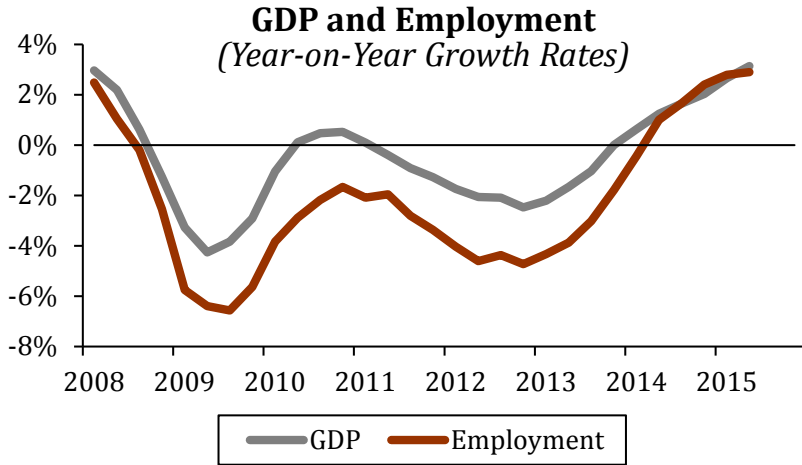
1.1 The structural transformation of the labour market	Page 5-7
1.2 Consumer confidence back to 2007 levels	Page 8
1.3 The adjustment of the financial sector	Page 9-10
1.4 New credit flows consistent with deleveraging	Page 11-13
1.5 Positive price developments in the construction sector	Page 14
1.6 From net borrower to net lender	Page 15-18

2. Spanish Economic Policy & Reforms

3. The Funding Programme of the Spanish Treasury

Labour market reform: a change in labour dynamics

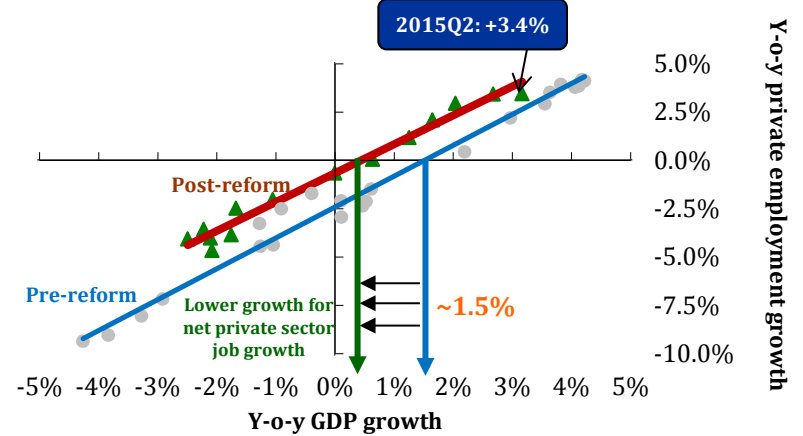
► GDP and employment growing at the same pace



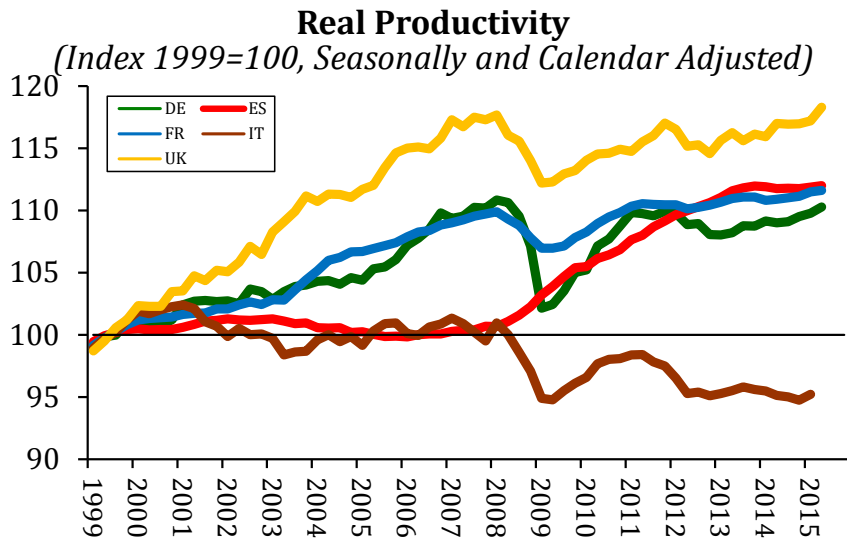
Source: National Statistics Institute.

Growth Required for Private Employment Creation

(Quarterly Data, Seasonally and Calendar Adjusted)

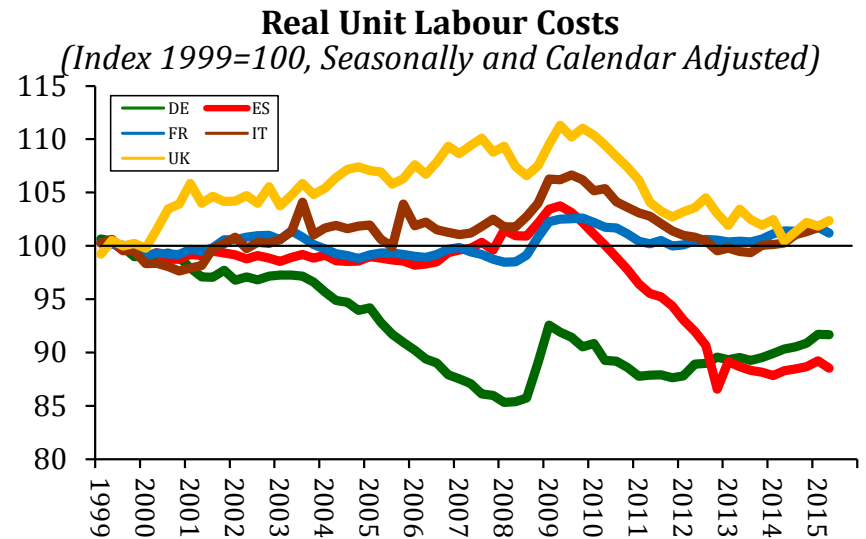


[Link to Data](#)



Source: Eurostat.

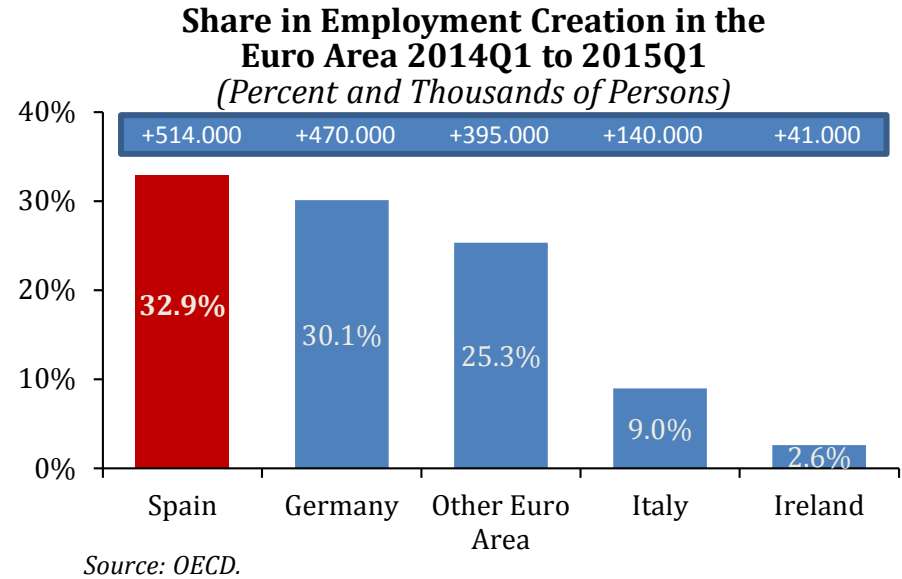
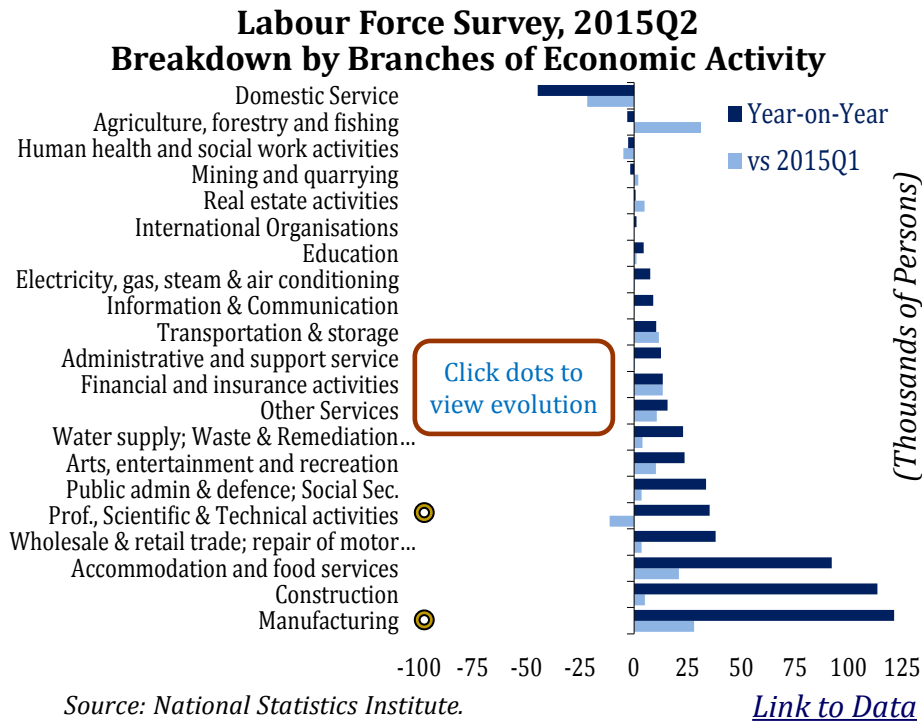
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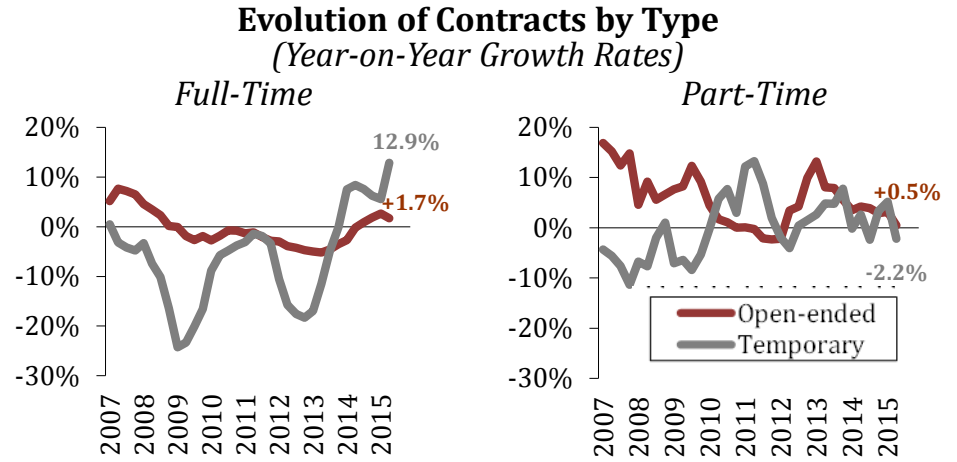
Spain is the main contributor to employment creation in the Euro Area

- ▶ Spain has generated 32.9% of all the employment created in the Euro Area since 2014
- ▶ Employment generated across a broad array of sectors

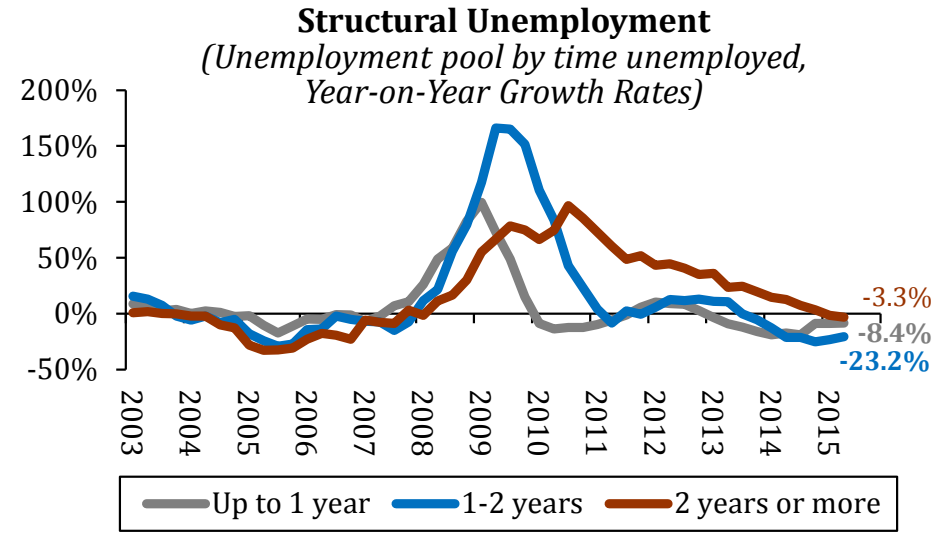


Declining structural unemployment

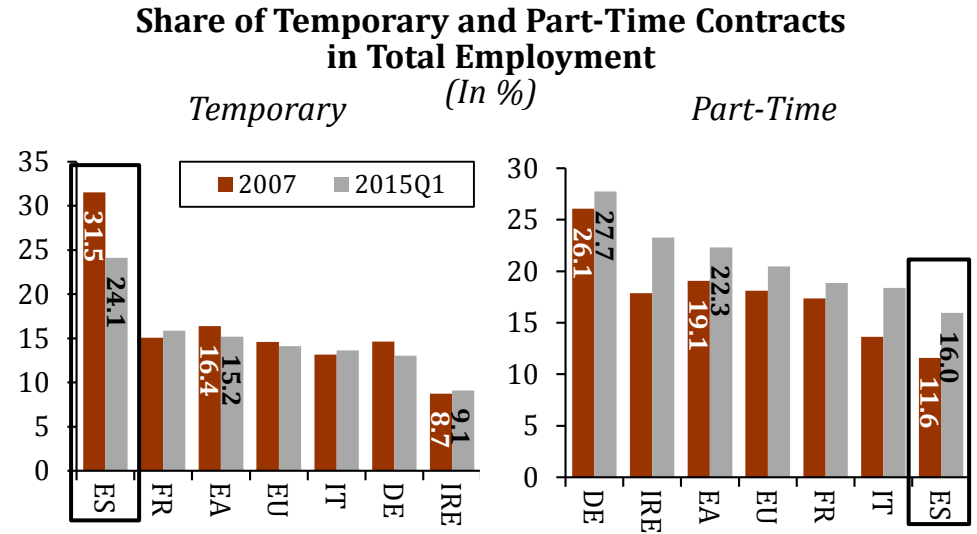
- ▶ Structural unemployment falling since 2014
- ▶ Recovery in full-time open-ended contracts since 2014H2
- ▶ Less reliance on temporary contracts, more on part-time contracts than in the previous decade



Source: National Statistics Institute and Eurostat. [Link to Data](#)



Source: National Statistics Institute and Eurostat. [Link to Data](#)



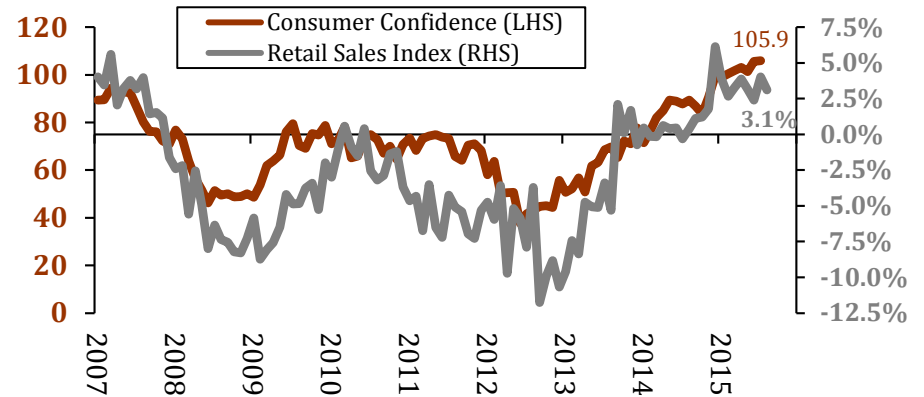
Source: National Statistics Institute and Eurostat. [Link to Data](#)

The structural transformation of the labour market

Consumer confidence back to early 2007 levels

- ▶ Consumer confidence back to 2007 levels
- ▶ Retail sales accelerating despite low inflation, spurred by employment creation
- ▶ Core inflation is starting to recover, but the favourable inflation differential vs. the European Union remains

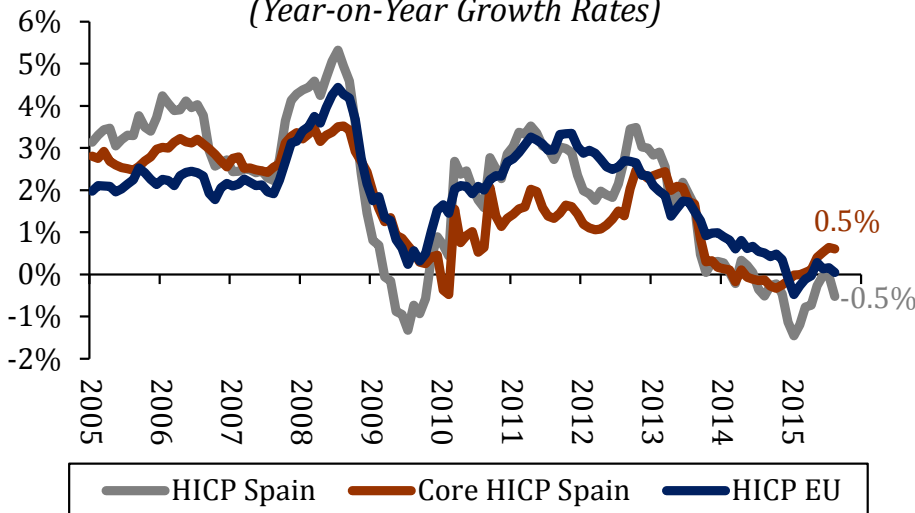
Consumer Confidence & Retail Sales
(Year-on-Year Growth Rates)



Source: Ministerio de Economía y Competitividad.

[Link to data](#)

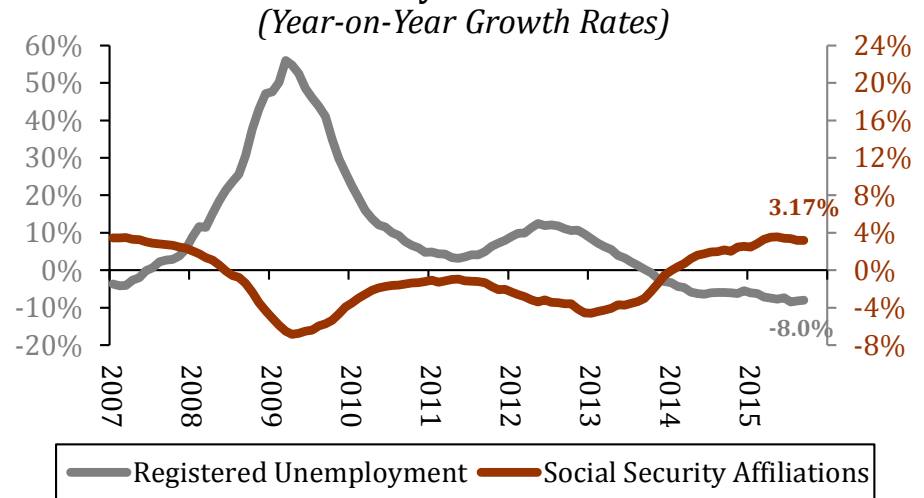
HICP & HICP Excl. Energy and Processed Food
(Year-on-Year Growth Rates)



Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

Registered Unemployment & Social Security Affiliations
(Year-on-Year Growth Rates)

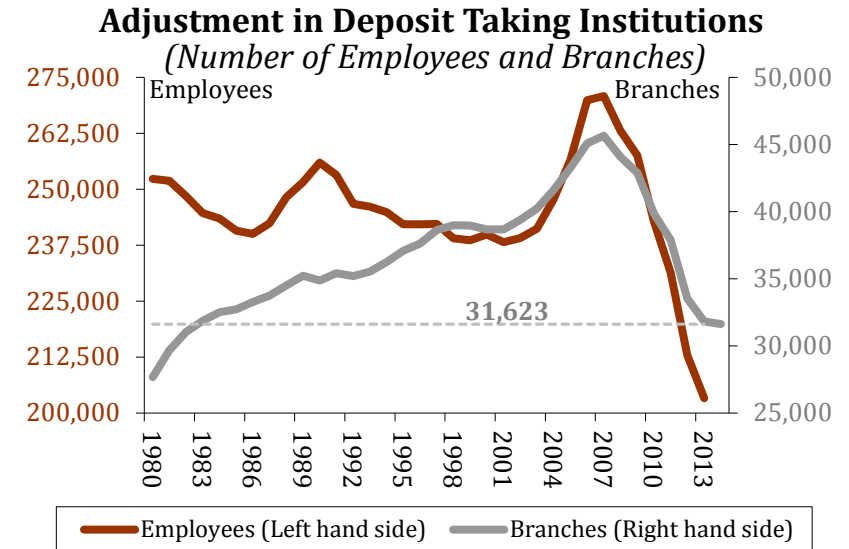


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

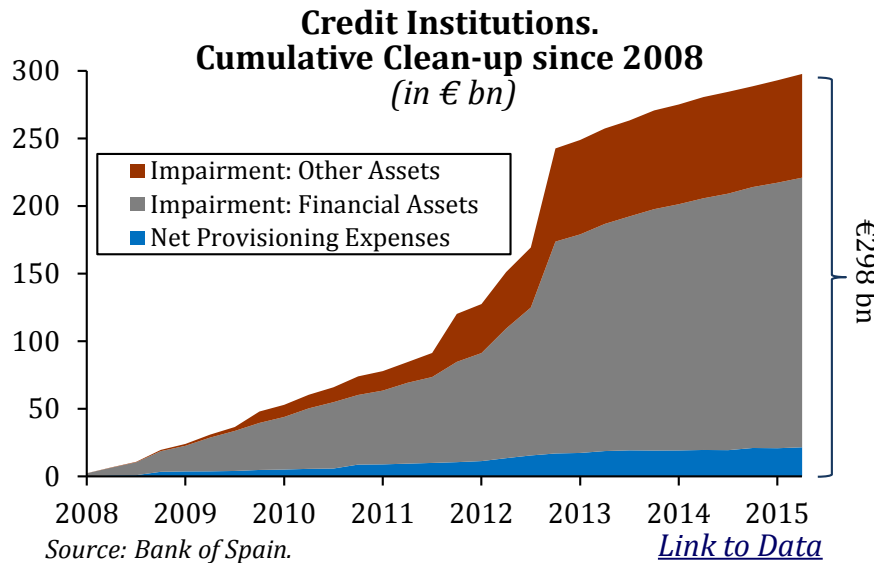
Adjustment and recapitalisation of the financial system (I)

- ▶ Spain's financial sector is now leaner, more efficient and better capitalised
- ▶ Better prepared for NPLs: Coverage ratio of doubtful loans to Households and Corporates has increased from 29% in 2008Q3 to 47% by 2015Q2
- ▶ Banks' have already cleaned up cumulative losses of €298 bn up to 2015Q2



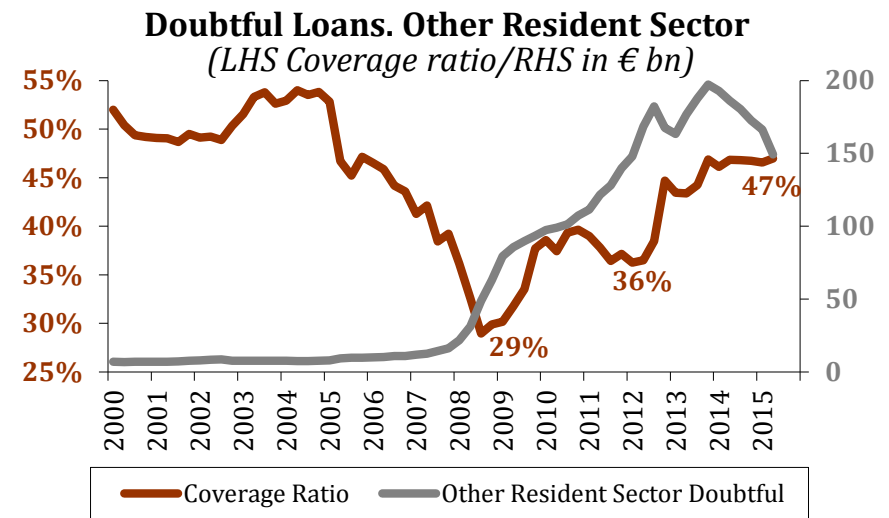
Source: Bank of Spain.

[Link to Data](#)



Source: Bank of Spain.

[Link to Data](#)



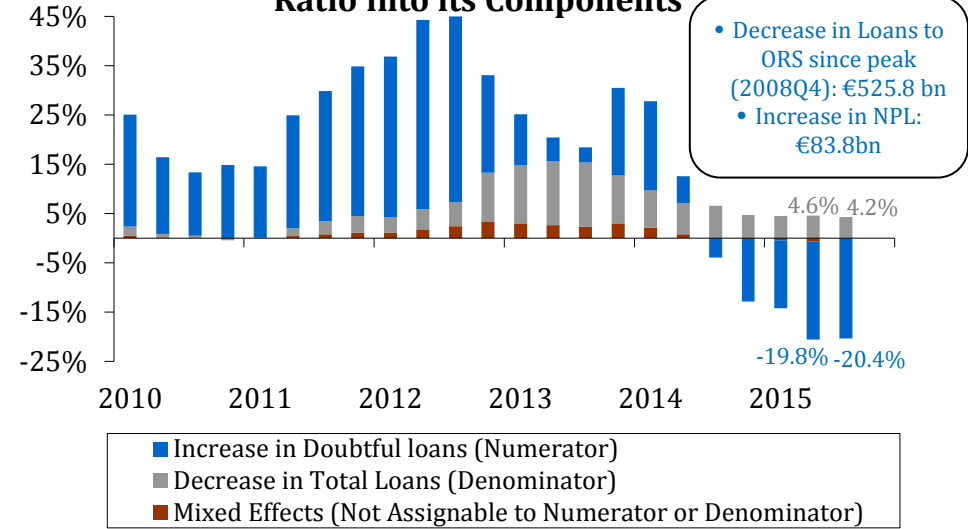
Source: Bank of Spain.

[Link to Data](#)

Adjustment and recapitalisation of the financial system (II)

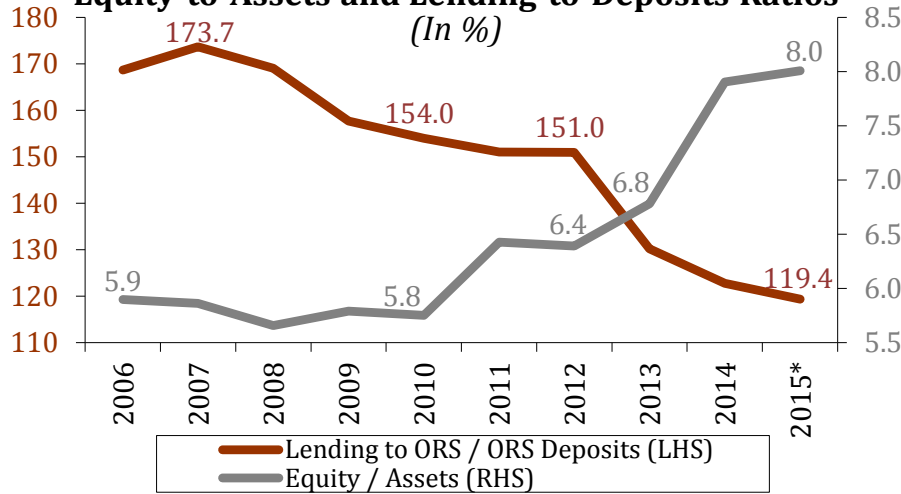
- ▶ More transparency: more, better and harmonised information provided by banks
- ▶ Harmonised disclosure now in restructured and refinanced loans, NPLs, asset quality across asset classes, concentration by sector, etc.
- ▶ Doubtful loans: falling 20.4% yoy in July 2015
- ▶ Improving equity-to-asset ratio and funding gap

Breakdown of Year-on-Year Growth Rate of NPL Ratio into its Components



Source: Bank of Spain.

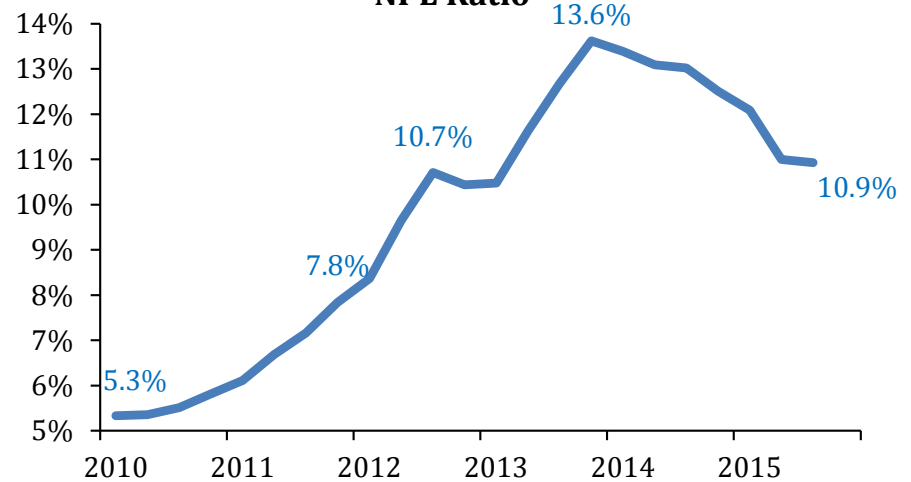
Equity-to-Assets and Lending-to-Deposits Ratios (In %)



Source: Bank of Spain.

[Link to Data](#)

NPL Ratio



Source: Bank of Spain.

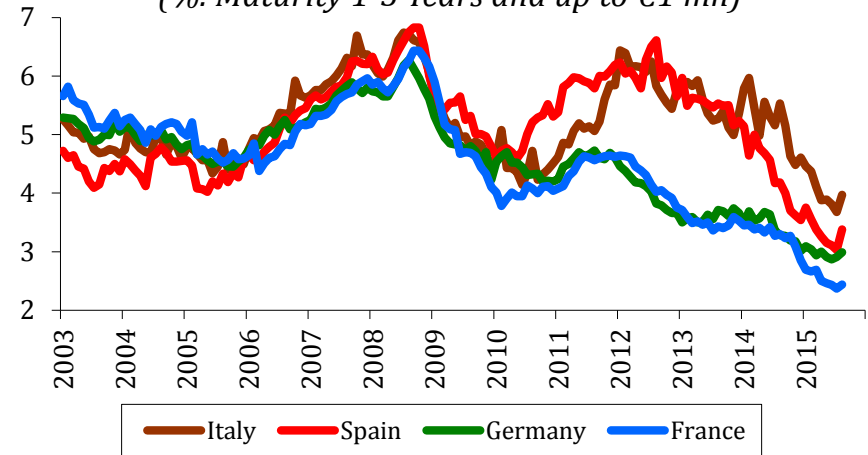
[Link to Data](#)

Increasing new credit flows to households & corporates

- ▶ Interest rates converging towards Euro Area levels
- ▶ New loans to SMEs (less than €1 million) are growing since mid-2013, loans to larger corporates also recovering strongly since early 2015
- ▶ Consumer loans have been growing since 2013; loans for house purchase have been growing since January 2014

Lending Rates of New Loans to Non-Financial Corporations

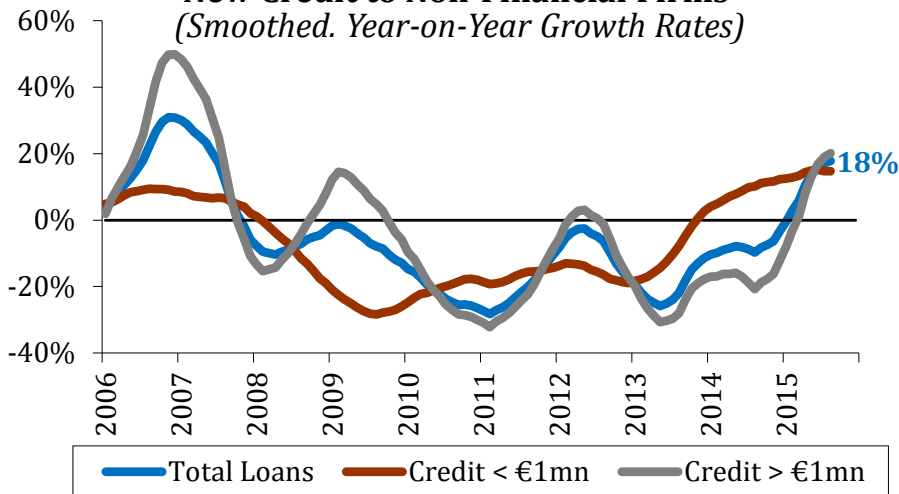
(%. Maturity 1-5 Years and up to €1 mn)



Source: ECB.

[Link to Data](#)

New Credit to Non-Financial Firms
(Smoothed. Year-on-Year Growth Rates)

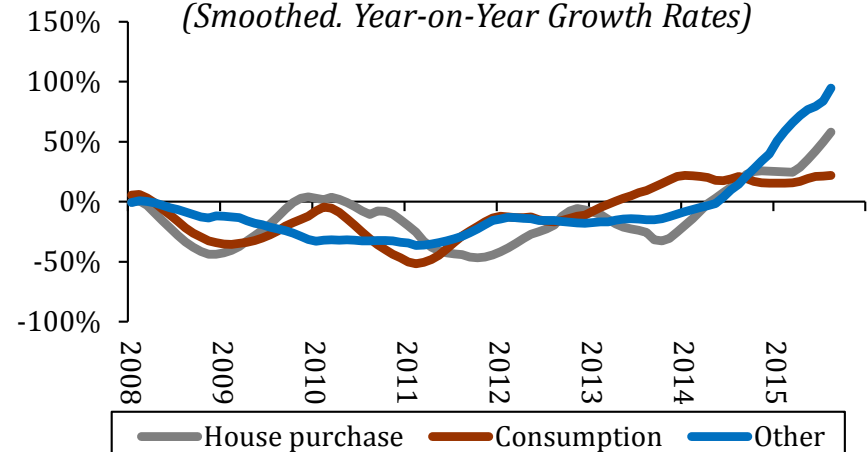


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

New Credit Flows to Households
By Type of Loan

(Smoothed. Year-on-Year Growth Rates)



Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

New credit flows consistent with deleveraging

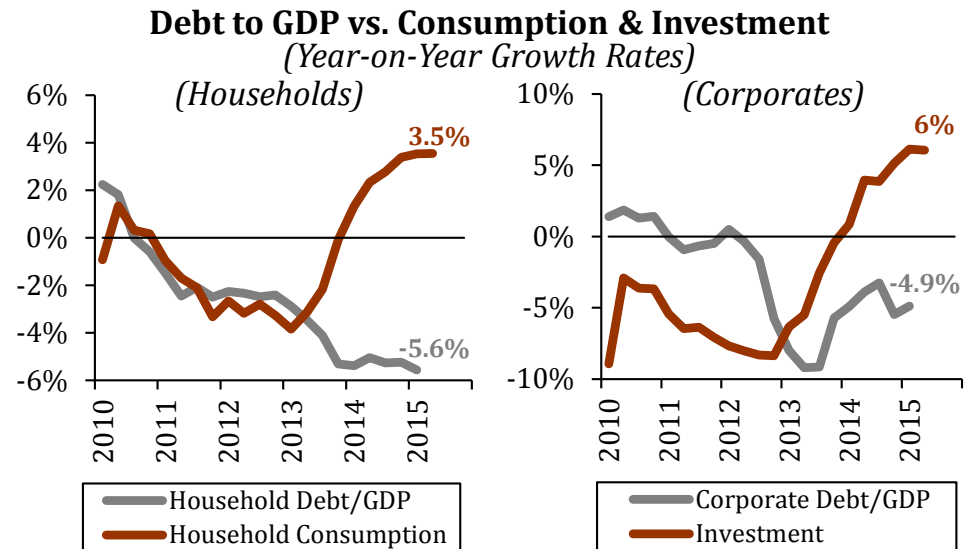
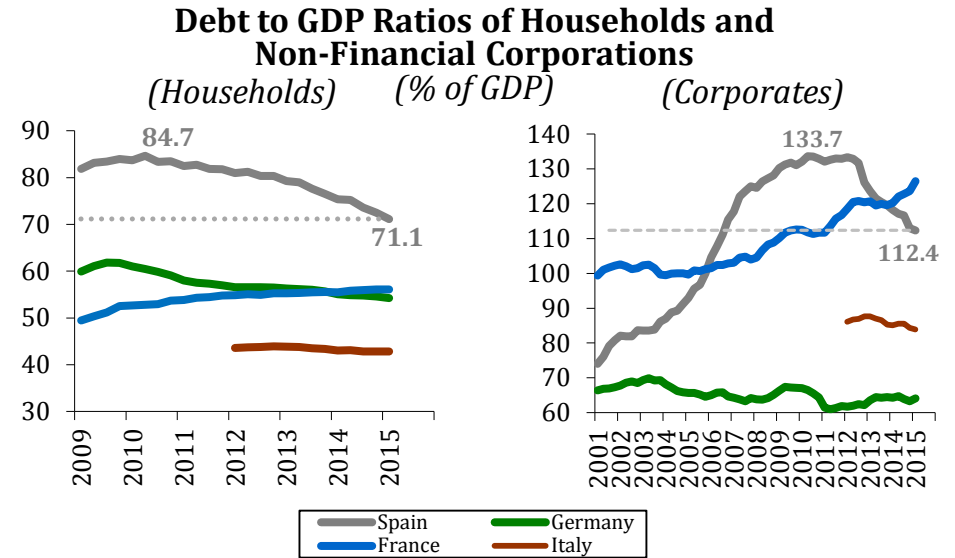
But private sector deleveraging continues

▶ Since 2010Q2 the private sector has deleveraged by more than €429 bn by paying down debt, not through inflation:

- ▣ Firms by €262.7 bn
- ▣ Households by €167.2 bn

▶ Debt-to-GDP ratios of households and corporations declining by 5pp per year

▶ Confidence in economic stability makes private-sector deleveraging compatible with growth in consumption and investment



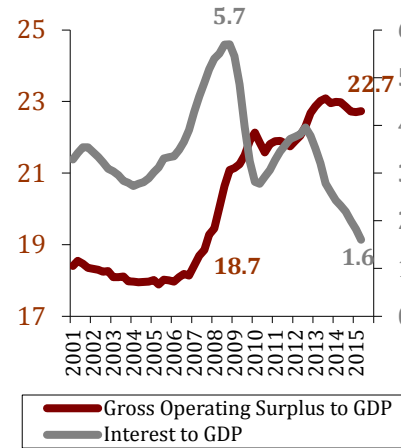
Source: ECB, Bank of Spain and National Statistics Institute.

[Link to Data](#)

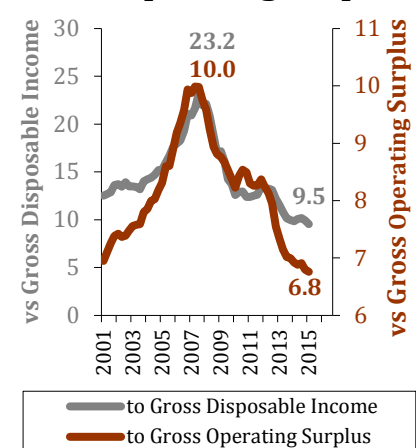
Scenarios for corporate and household debt

- ▶ Firms are generating savings and reducing their debt levels.
- ▶ Sounder cash-flows: Higher operating surpluses to face liabilities, lower interest burden
- ▶ Mortgage debt expected to amortise quickly
 - ❑ By 2018 the Household Debt/GDP ratio will be in line with the current ratios of Germany or France
 - ❑ By 2020-2023 the existing mortgage stock would be halved vs. today's levels

Gross Operating Surplus and Interest Paid (% of GDP)



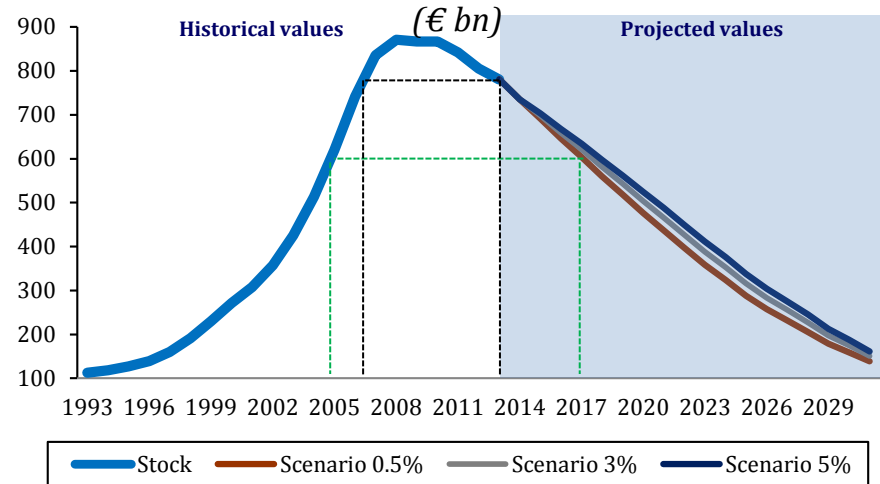
Liabilities Excl. Equity to Gross Disposable Income and Gross Operating Surplus



Source: National Statistics Institute and Bank of Spain.

[Link to Data](#)

Deleveraging Scenarios of Mortgage Debt at Different Interest Rates and with no New Flow

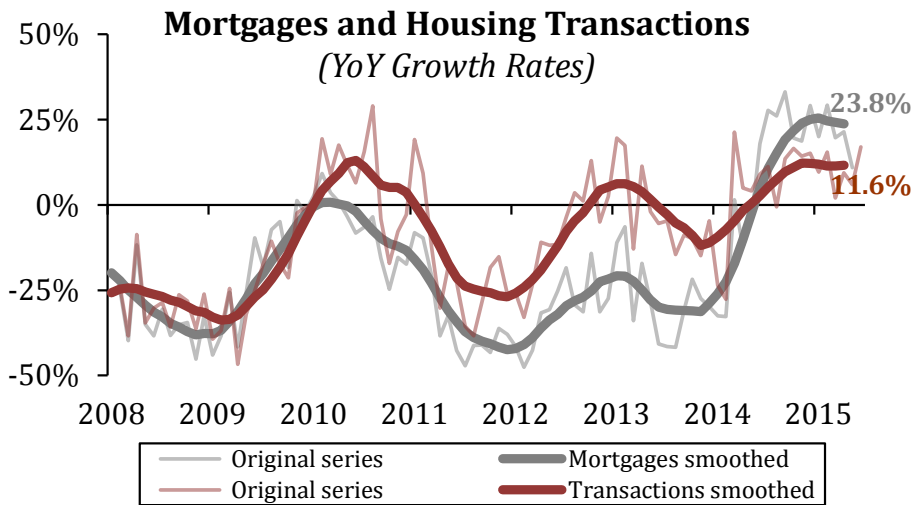


Source: Santander GBM Research.

New credit flows consistent with deleveraging

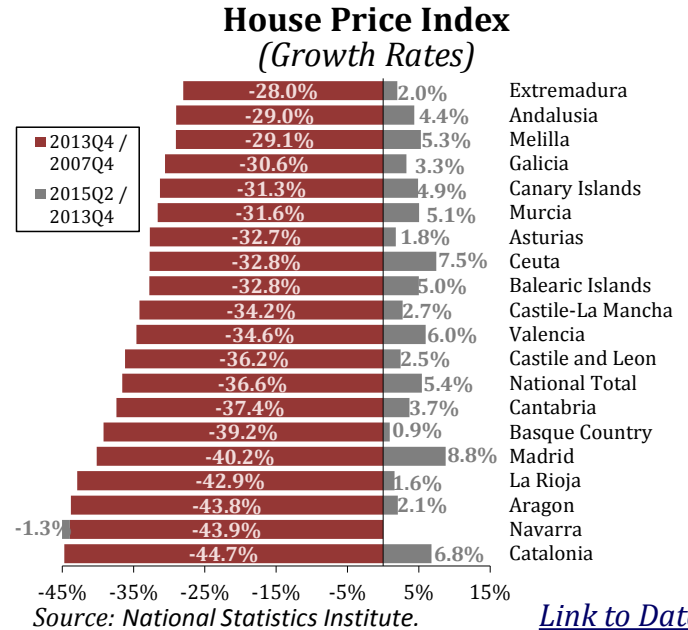
Spain's construction sector is beginning to recover

- ▶ Gradual recovery in mortgages, new loans and residential transactions since 2013
- ▶ Gross value added generated by the construction sector is expanding since 2014Q2, for the first time since 2008
- ▶ Prices bottomed-out around mid-2014, and have shown a moderate upward trend



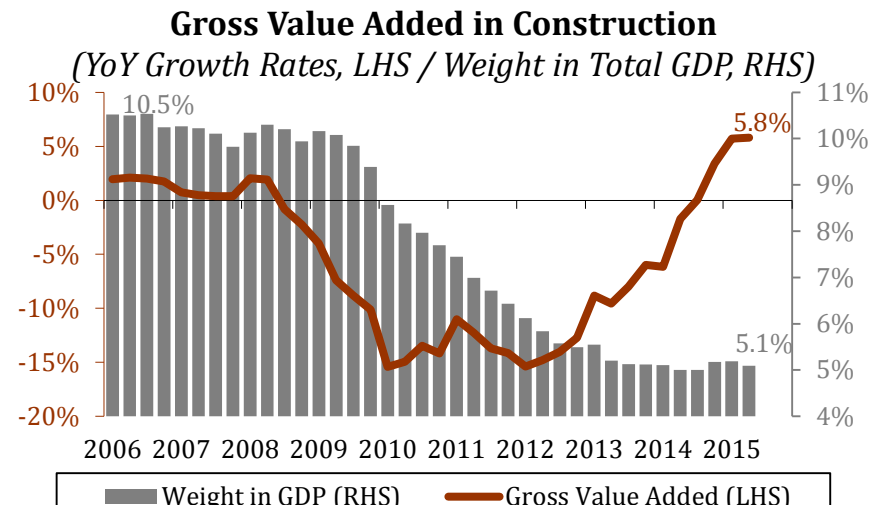
Source: National Statistics Institute.

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Source: National Statistics Institute.

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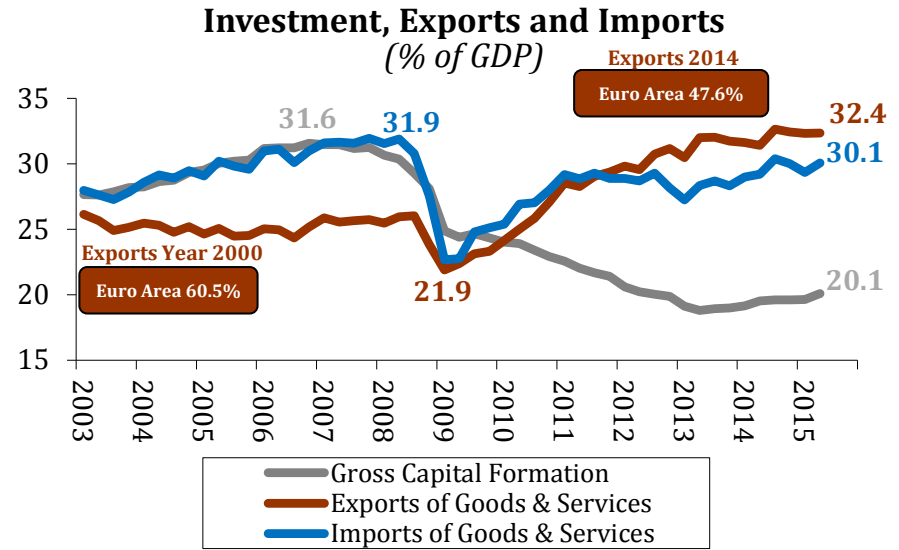


Source: National Statistics Institute.

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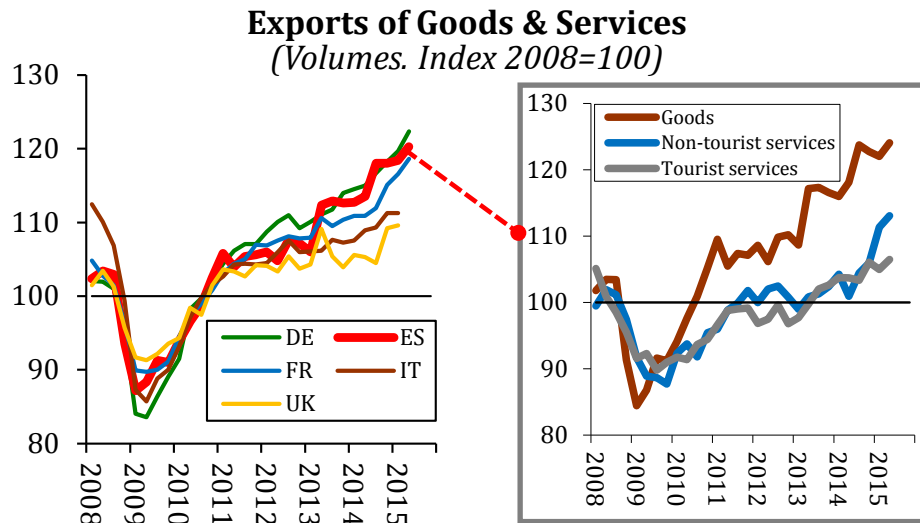
External sector: from net borrower to net lender

- ▶ The weight of exports in GDP has increased from 21.9% in 2009Q1 to 32.4% by 2015Q2
- ▶ Investment converging to Eurozone average (20% of GDP)
- ▶ Third consecutive yearly Current Account Surplus (1.5% of GDP), supported by falling oil prices and accelerating real goods exports (+6.0% YoY in 2015Q2 vs. a global decline of -0.3% YoY)



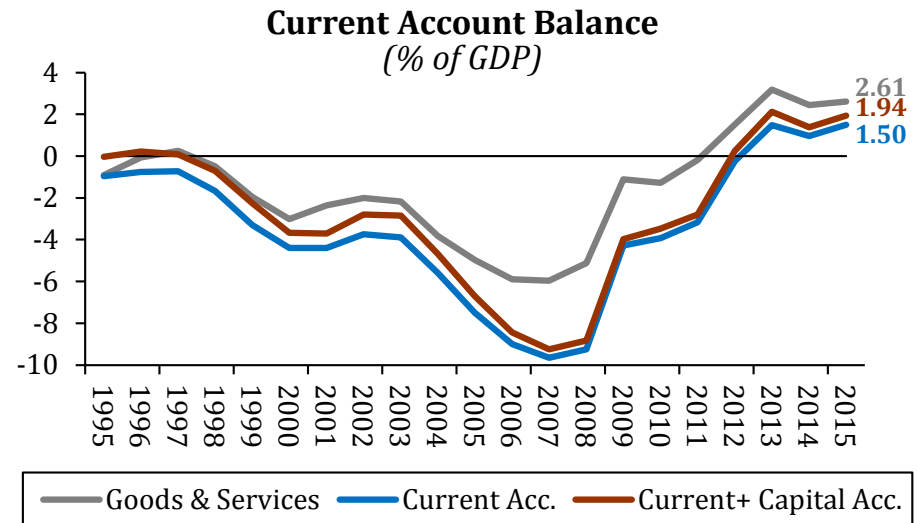
Source: National Statistics Institute.

[Link to Data](#)



Source: Eurostat and National Statistics Institute.

[Link to Data](#)



Source: Bank of Spain.

[Link to Data](#)

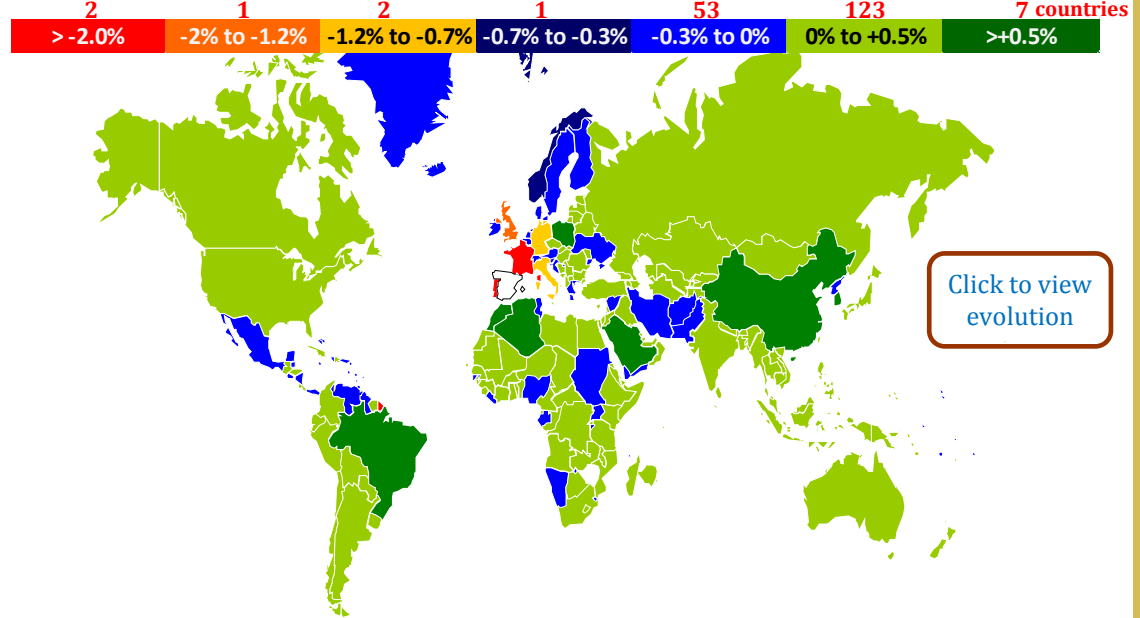
From net borrower to net lender

Exports are more widely diversified

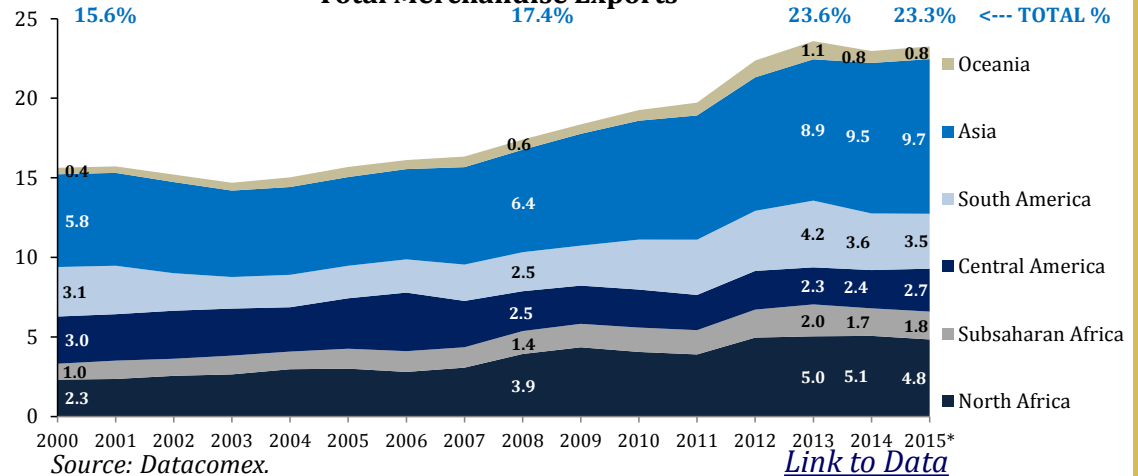
- ▶ Spain is diversifying its export base:
 - ❑ Increasing market share in Africa & Middle East, Asia, North & South America, Oceania
 - ❑ Decreasing market share to EU, Venezuela, Central America, parts of southern Asia

- ▶ Merchandise trade to the Euro Area represents 50.4% in July 2015 vs. 60.5% in the year 2000

Change in Share in Spanish Merchandise Exports since 2005



Weights of Faster Growing Economies in Total Merchandise Exports

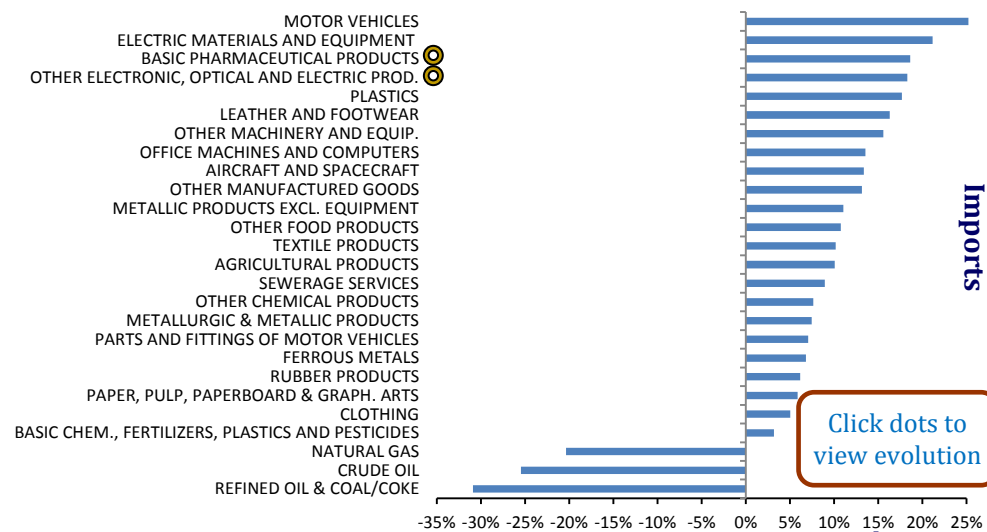
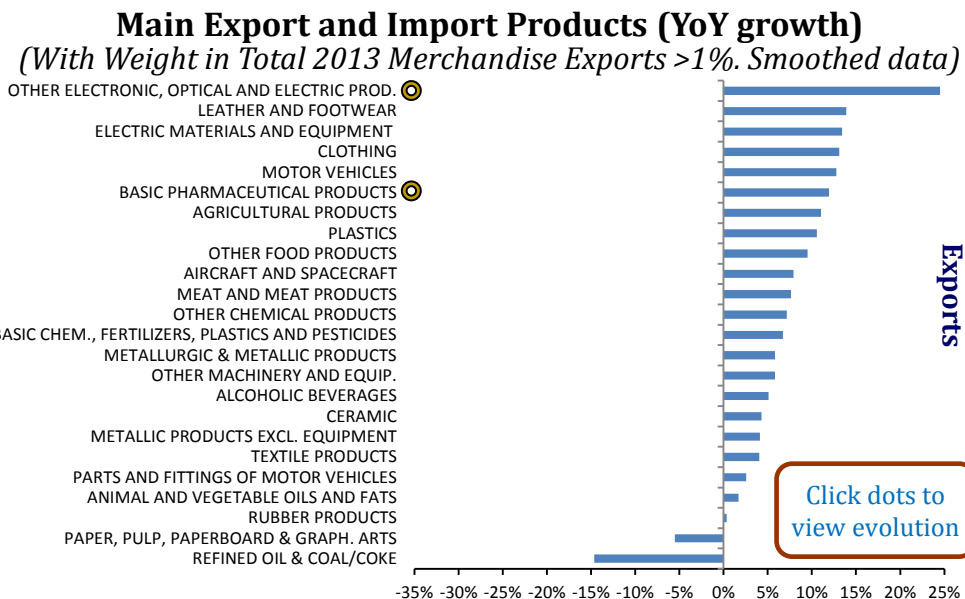


From net borrower to net lender

Imports are now increasing for investment and for re-export activities

- ▶ Exports of goods are increasing in capital-intensive sectors: pharmaceutical, optical and electronic products, motor vehicles, machinery and equipment
- ▶ Imports of goods reflect the need to replenish the capital base in exporting sectors: vehicles for professional use, electric material and equipment, heavy machinery etc.

From net borrower to net lender



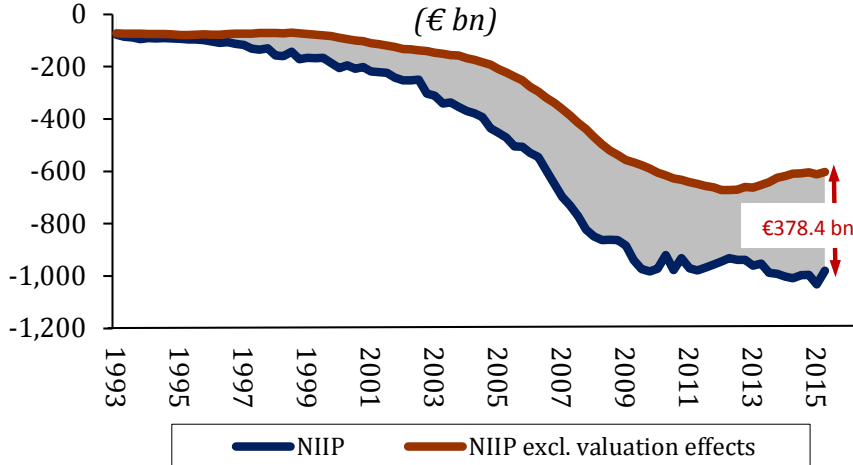
Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

Net International Investment Position in the context of growth & CA surplus

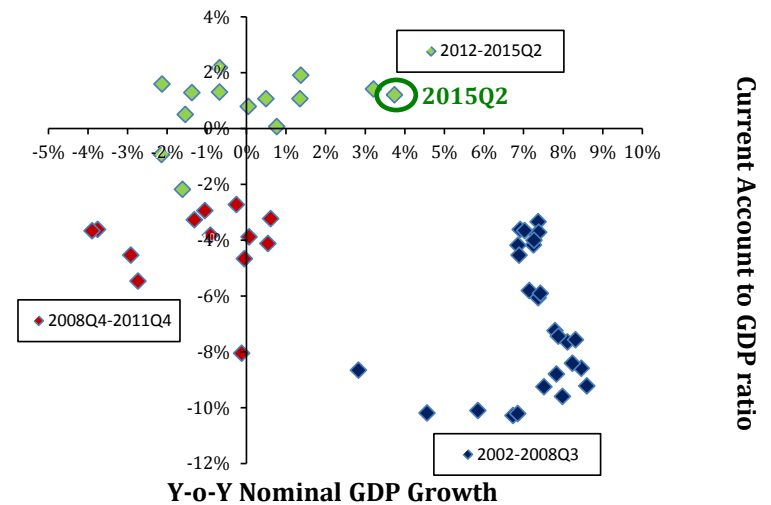
- ▶ GDP growth is not linked to current account deficits as in previous growth cycles
- ▶ The small increase in Net International Investment Position (NIIP) since 2013 is the result of positive economic trends, and is linked to valuation effects
- ▶ Assuming nominal GDP growth and current account balance at current levels the NIIP would fall to -50% of GDP by 2024

Breakdown of the Net International Investment Position (€ bn)



Source: Bank of Spain.

Current Account Dynamics vs. Nominal GDP Growth



Net International Investment Position Scenarios for 2024 as a Function of Current Account & GDP

		Nominal GDP Growth		
		2.0%	3.9%	5.0%
Current Account % of GDP	-4.6%	NIIP Increases	NIIP Increases	NIIP Stabilises
	-3.7%	NIIP Increases	NIIP Stabilises	
	-2.2%	NIIP Increases		NIIP at -75% of GDP
	-1.9%	NIIP Stabilises		
	-1.3%		NIIP at -75% of GDP	
	0.3%	NIIP at -75% of GDP		
	0.9%		NIIP at -50% of GDP	NIIP at -50% of GDP
	1.7%		NIIP at -50% of GDP	
	3.0%	NIIP at -50% of GDP		
	4.0%			NIIP at -25% of GDP
4.6%		NIIP at -25% of GDP		
5.7%	NIIP at -25% of GDP			

Source: European Commission calculations.

1. Transformation of Spain's Growth Model

2. Spanish Economic Policy

2.1 Reform Policies 2012-2015	Page 20-29
2.2 The 2016 Central Government Budget Law	Page 30
2.3 Debt to GDP dynamics to stabilise in 2015	Page 31
2.4 Budgetary Execution in 2015	Page 32

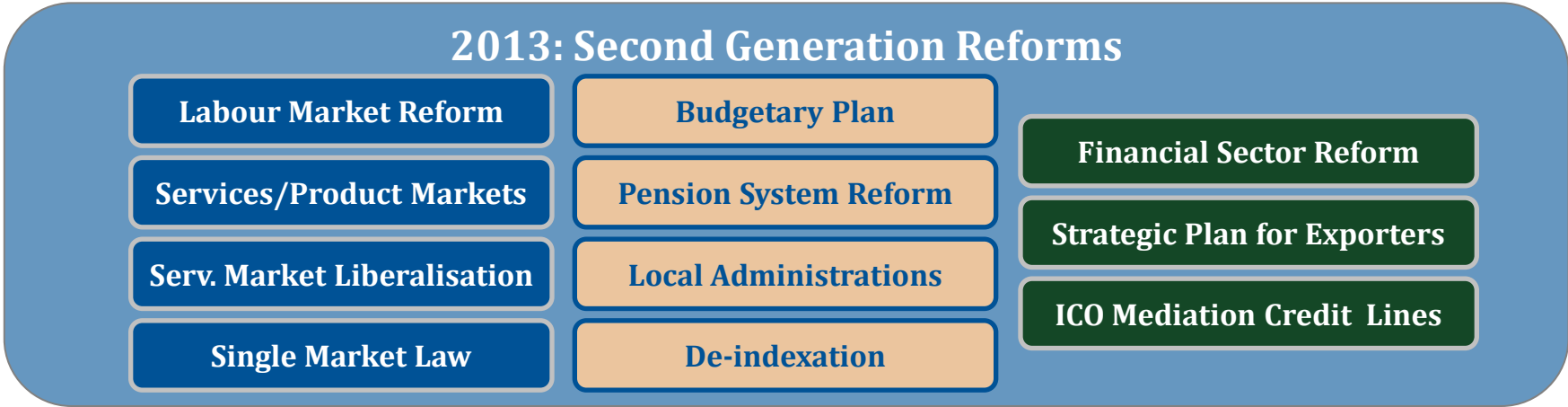
3. The Funding Programme of the Spanish Treasury

Four years of structural reforms

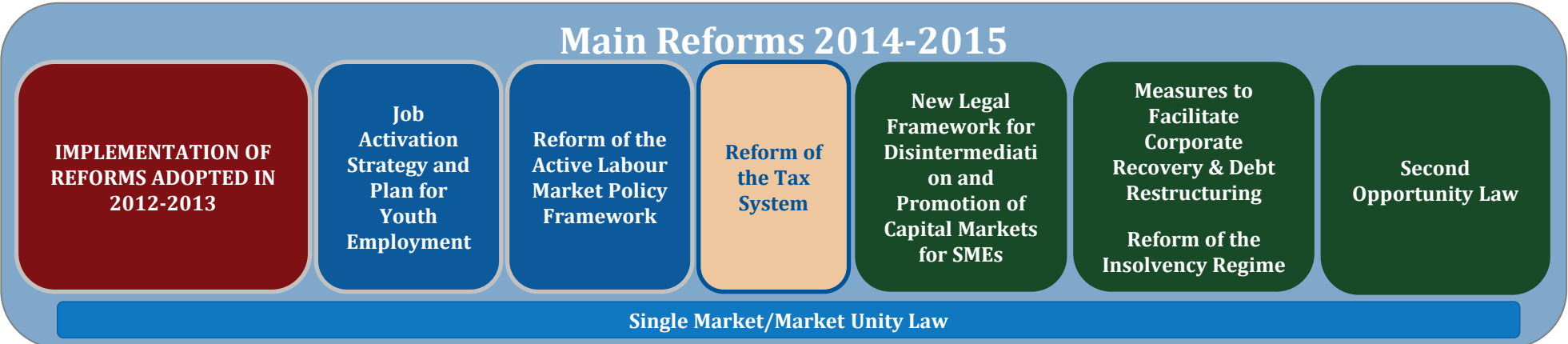
2012: First Generation Reforms



2013: Second Generation Reforms



Main Reforms 2014-2015



- Economic Structural Reforms
- Public Sector Reforms
- Financial Sector Reforms

Links to detailed presentations describing the Reform Agenda

Balance Reforms. Three years in Government

OECD: CORA Reforms

Country Specific Recommendations. June 2014 - March 2015 (I)

Fiscal Budget

1. Reinforce the budget strategy	→ 2015 Budgetary Plan and Fiscal Reform
2. Structural reforms to increase adjustment capacity	→ De-indexation Law
3. Structural Adjustment towards MTO	→ Frontloading of structural effort since 2012
4. Operational Independent Fiscal Authority	→ AlReF operational since 2014
5. Budgetary preventive, corrective and enforcement measures	→ Economic & Financing Plans 2014-2015 // Publication of average payment periods to suppliers
6. Systematic Review of Expenditure	→ Working Group for the Permanent Public Expenditure Rationalisation // CORA Group
7. Rationalisation of Pharmaceutical Expenditure	→ Framework Agreement for Centralised Purchases // Revision of reference prices & improvement in e-administration
8. Reform of the Tax System	→ Approved in 2014, in place since January 1 st 2015 (See slide 24)
9. Reduce tax wedge	→ Social Security contributions' flat rate up to 2015Q1. From 2015Q2 minimum exempt of €500 for permanent hiring
10. Fight against tax evasion	→ Forthcoming CIT Regulation and General Tax Law

Public Administrations

1. Implementation of recommendations of the Committee for the Reform of the Public Administrations	→ High degree of completion. 58% compliance, 129 measures implemented, 93 in execution. Estimated savings in the period 2012-2015: €37,620 mn
2. Transparency in administrative decisions & control mechanisms	→ Transparency law // Draft Organic Law on the Control of Political Parties
3. Monitoring of fight against shadow economy & undeclared work	→ Tax reform // Periodical data on fight against undeclared work // New Law on Labour Inspection to enhance surveillance
4. Adopting pending reforms on the judiciary structure and judicial map; ensuring swift implementation of adopted reforms	→ Draft Law on Voluntary Jurisdiction in Parliament, modifying division of tasks among courts // Reform of the Organic Law of the General Council of the Judiciary Reform of the Code of Civil & Criminal Procedure

Social Inclusion & Poverty

1. Assess and implement National Action Plan on Social Inclusion	→ Specific Projects via the FEAD & EFPC. Spanish FEAD Programme adopted in Dec 2014 // National Strategy for Homeless 2015-2020
2. Administrative coordination between employment and social services	→ Social Inclusion Network establishing protocol for coordination and roadmap for most vulnerable social groups // Assessment of current Basic Income model
3. Targeting of family support mechanisms and quality services	→ 2014 Agreement with employers associations and unions on social inclusion // Roadmap of social and unemployment benefits // New incentives under fiscal reform

Sector Specific Reforms

1. Elimination of the electricity tariff deficit	→ Diverse regulations tackle electricity & gas tariff deficits, especially Law 24/2013
2. Addressing insolvent toll motorways	→ Limitation of contingent liabilities arising from concession contracts & modification of insolvency procedures
3. Independent council to assess major infrastructure projects	→ Council members to be appointed from academia & stakeholders
4. Ensuring effective competition in freight & passenger transport	→ Initial licenses (7 years) partially open up competition in rail transport. After expiry corridor Madrid-Valencia-Alicante-Murcia-Castellon fully opened to competition

Financial Market Reforms

1. Reform of the savings banks	→ Public Hearing of Draft Circular on Savings Banks and Banking Foundations & Development of Corporate Governance
2. Promotion of sustained strong capitalisation of banks and monitoring of SAREB	→ Primary Legislation in place since 2014. Finalisation of the implementation of CRD & Solvency decree in 2015
3. Measures to widen SMEs access to finance	→ Bill on Corporate Financing in last stages of Parliamentary approval // Law on Venture Capital Entities in force // Fond-ICO Global
4. Modifications in the Corporate Insolvency Framework	→ 2014 Reform on the Insolvency and pre-Insolvency proceedings // Further insolvency and tender regulation in H12015

Country Specific Recommendations are published every spring, following months of analysis by the Commission. They focus on what can realistically be achieved in the next 12-18 months in line with the Europe 2020 strategy, the EU's long-term growth and jobs plan

Country Specific Recommendations. June 2014 - March 2015 (II)

Labour Market

1. Reducing labour market segmentation	→ Social Security contributions' flat rate up to 2015Q1. From 2015Q2 minimum exempt of €500 for permanent hiring
2. Regular monitoring of labour market reforms	→ Monitoring shared with EU Commission//ECB//IMF/OECD/ILO
3. Promote real wage adjustment	→ Collective Agreement for Collective Negotiation 2012-2014 supported by 2012 Reform
4. Strengthen linkage between job search and unemployment benefits	→ Extraordinary Activation Programme for long-term unemployed. Conditionality criteria extended to existing subsidies
5. Enhancement of effectiveness and targeting of active labour market policies	→ New active labour market policies // National Youth Guarantee System // Common Catalogue of Employment Services
6. Coordination of training and education	→ Training for the Employment System in force in 2015 // OECD Skills Project // Basic Vocational Education and Training
7. Modernising Public Employment Services	→ 2015 Activation Strategy and Extraordinary Activation Programme for long-term Unemployed
8. Public-private cooperation in recruitment	→ Framework agreement complemented by modifications to private recruitment and interim agencies' legislation
9. Support labour mobility via Single Job Search Web	→ New national Web for employment and self-employment

Youth Unemployment

1. Implementation and evaluation of Youth Entrepreneurship and Employment Strategy	→ National Youth Guarantee System. By Sept 2014 already 33,000 persons registrations
2. Increase outreach of job-offers & apprenticeships + traineeships to non-registered unemployed	→ Temporary hiring incentives extended up to June-2016 // Reinforcement of incentives for apprenticeships & traineeships
3. Reduce early school drop-out	→ In force since 2014.
4. Increased labour market relevance of vocational education and training	→ LOMCE // New Basic Vocational Training // Reform of Intermediate Vocational Training // Evaluation of education and training curricula // Dual vocational training pilot projects

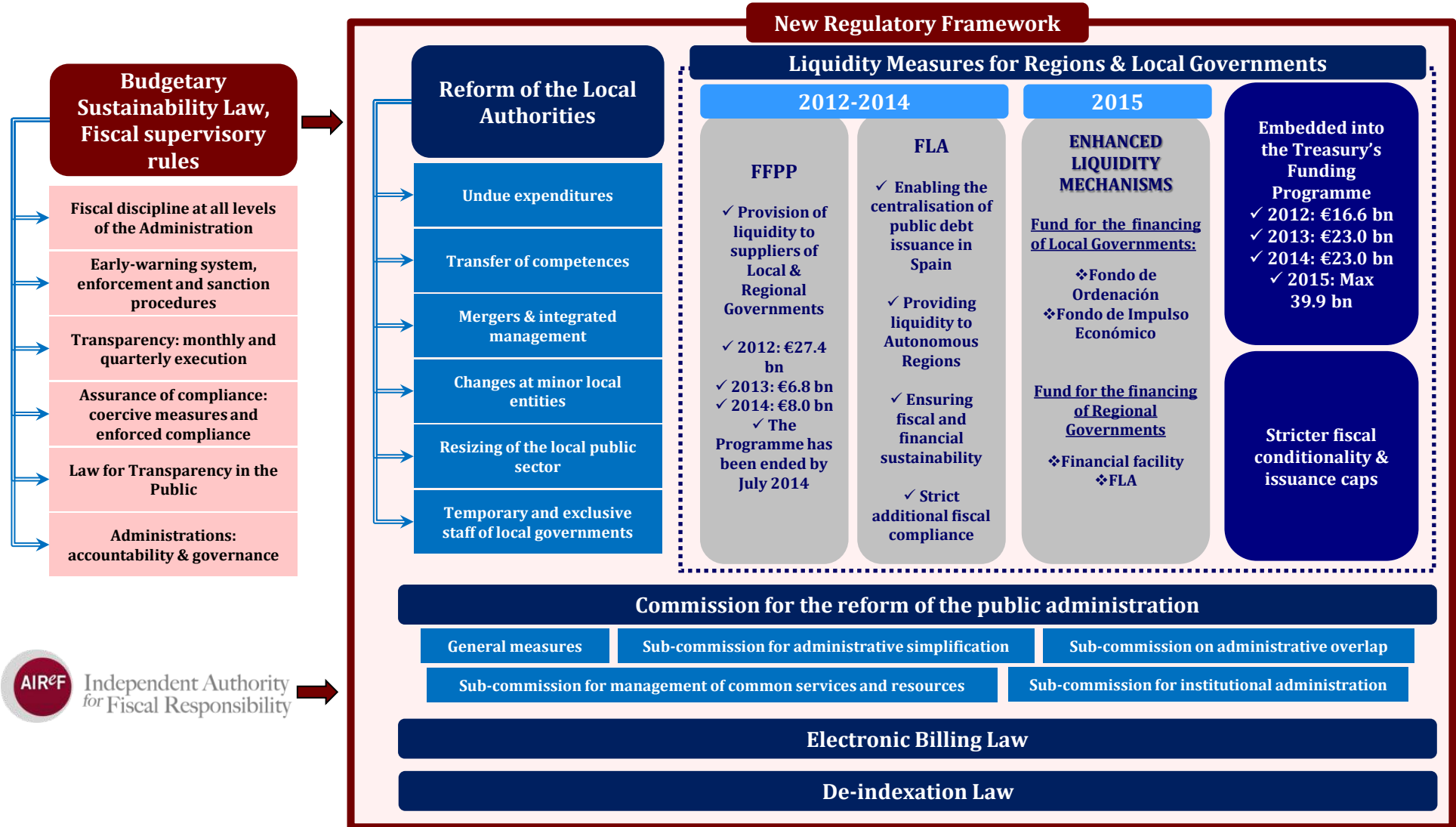
Goods & Services

1. Swift implementation of Market Unity Law	→ <u>A Screening process:</u> ● Central Government; adaptation of 80+ regulations (retail trade, temporary employment agencies, etc.). Further 100 expected to be amended ● Regional screening +400 regulations to be amended <u>B. Single Market Council</u> created in Jan 2015
2. Reduction of time, cost and number of procedures for business creation	→ Entrepreneurship Law. Subnational Doing Business Report conducted by the Worldbank expected by end-2015
3. Revision of existing regional planning regulations	→ Ammendment of Law on Retail Trade // reduction of deadlines for license concessions and introduction of tacit approval principle
4. Identification of new funding sources for the National Strategy for Science, Technology and Innovation and making the State Research Agency operational	→ Plan to Improve Growth, Competitiveness and Efficiency includes, among others, financial instruments managed by ICO, CDTI and public-private projects // Increase in 2015 R&I budget allocation by 4.8%

Country Specific Recommendations are published every spring, following months of analysis by the Commission. They focus on what can realistically be achieved in the next 12-18 months in line with the Europe 2020 strategy, the EU's long-term growth and jobs plan

The reform of the public administrations (I)

► The reform of the public sector builds on the structural reform process initiated in 2012



The reform of the public administrations (II)

- ▶ A highly devolved system of regional and local competencies, more than elsewhere in Europe
- ▶ Together with the resources provided by the Regional Financing System, regions have access to region-specific taxes, transfers from the General State Budgets, EU Funds...
- ▶ Since 2012 two auxiliary Funds were established by the Central Government → FLA and FFPP
- ▶ “Fund to Finance Supplier Payments” (FFPP) aimed at paying the territorial administrations (both regions and municipalities) for outstanding invoices and, hence, regularising the arrears. This Fund was extinguished in July 2014. The outstanding debt has been assumed by the Spanish Treasury
- ▶ In 2015 the Treasury will have provided liquidity to Regions and Local Governments for up to €39.9 bn

	Spain	Austria	Germany	Italy	Italy	France	Belgium
	17 Autonomous Communities	9 Bundesländer	16 Bundesländer	5 Special Statute Regions	15 Regions Ordinary Statute	26 Regions	3 Regions 2 Com. Ling
Education	✓	✓	✓	✓		✓	✓
Health	✓	✓	✓	✓	✓		✓
Transport	✓	✓	✓	✓	✓	✓	
Economy	✓	✓	✓	✓	✓	✓	
Justice	✓	✓	✓				
Universities	✓		✓				
Police	✓		✓				
Infrastructures	✓	✓	✓	✓			
Environment	✓	✓		✓		✓	
Housing	✓	✓		✓	✓		
Local Entities	✓	✓		✓			
Culture	✓					✓	✓
Tourism	✓					✓	
Employment	✓					✓	
Social Services	✓						

Autonomous Community	FLA (€ bn) (2012-2014)	FFPP (€ bn)	TOTAL
Catalonia	25.4	6.6	32.0
Valencia	13.0	7.6	20.6
Andalusia	11.4	5.0	16.4
Castile - La Mancha	3.5	4.0	7.5
Murcia	2.5	1.8	4.3
Balearic Islands	2.6	1.3	4.0
Canary Islands	2.6	0.3	2.9
Madrid		1.3	1.3
Cantabria	0.8	0.3	1.1
Castile and Leon		1.1	1.1
Asturias	0.8	0.2	1.0
Extremadura		0.4	0.6
Aragon		0.5	0.5
La Rioja		0.1	0.1
Local Governments		11.6	11.6

Tax reform: modernising the tax system

- ▶ The Government's draft law was presented on June 20th 2014
- ▶ Aims at reducing taxation on labour, to strengthen competitiveness, to promote saving and investment, and modernise Personal and Corporate Income tax
- ▶ Reinforcement of the fight against tax fraud

Changes to Personal Income Tax	Changes to Tax on Capital	Changes to Corporate Income Tax	VAT	Fight Against Tax Fraud	R&D and cultural investment
▶ Reduction in number of tranches and rates in two years	▶ Lower rates in two years and more progressive	▶ Reduced general rate: from 30% to 25% in two years (reduced rate for new firms 15%)	▶ Health care products VAT rate adapted to ECC regulations: - Intermediate products for drug development, medical instruments and equipment, medical devices and pharmaceutical products	▶ Lists of defaulters to be published	▶ Extension of partial exemption (85%) of the tax on electricity. Exemptions extended to all productive processes in which the costs of electricity exceeds 50% of production costs
▶ Modification of personal income allowance: - Higher personal income minima - Family tax deductions: enabling negative tax rates for large families and with dependent persons with serious disabilities	▶ Elimination of tax deduction for dividends ▶ Capital gains generated in less than 12 months no longer penalised	▶ In the case of the financial sector kept at 30% (out for credit cooperatives and "Cajas Rurales")		Tax audit process: New deadlines and suspension of Statutes of Limitation in specific situations	
▶ Limits to exemptions to severance payments in case of unjustified dismissal	▶ New savings instrument: savings or insurance schemes maintained longer than five years ('Cuenta Ahorro 5'): exempt from capital gains tax	▶ Update and simplification of depreciation tables	▶ New rules on the localisation of assets; taxing at destination of electronic, telecommunications and radio-television services when the addressee is a private individual	▶ Administrative assessment in evidence of tax fraud	▶ Substitution of deductions in CIT <ul style="list-style-type: none"> ● Deductions eliminated: <ul style="list-style-type: none"> - Environmental investments - Expenses for vocational training - Reinvestment of extraordinary benefits <ul style="list-style-type: none"> ● New deductions (favouring the deleveraging process): - Capitalisation reserves. 10% of corporate income deductible if incorporated into reserves. <ul style="list-style-type: none"> - Equalisation reserve for SMEs ● Limits to the financial expenditure deductions (favouring the deleveraging process, reduced to 30% of gross operating profit)
▶ Tax deductions for house rental: - Elimination for new rentals (Expenditure side) - Lower tax deductions for house rentals (Income side)				▶ Limit for deductible contributions linked to pension plans lowered to €8,000/year	
▶ Lower tax withholding for professional and self-employed workers with incomes below €15,000	▶ Better fiscal treatment in case of assets received in lieu of payment if affected by preference shares	▶ Limit to offset tax losses: 50%/25% depending on revenue in 2015; 60% in 2016 and 70% from 2017 onwards. ▶ To maintain income from the CIT, in 2015 previous measures maintained		▶ Better precision in the indirect assessment regime	
▶ Limits to simplified method ('Modulos') to certain professional activities				▶ Interruption of the limitation period of related tax obligations	

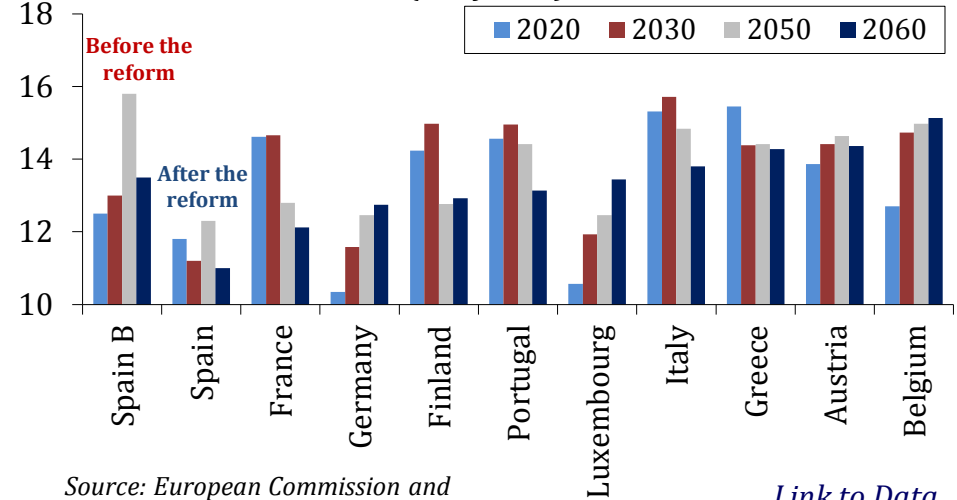
The Pension System reform reduces the impact of population ageing

► In December 2013, the Pension System Reform was approved. It introduced two factors to which pensions will be linked:

- ❑ A yearly update factor which links pensions to the financial situation of the pension system, to the number of pensioners and to the average pension
- ❑ A life expectancy factor as from 2019, which will be evaluated every 5 years

► Projections towards 2030-2060 point towards a stabilisation in gross expenditure in public pensions

Gross Expenditure in Public Pensions
(% of GDP)



Source: European Commission and Ministerio de Economía y Competitividad

[Link to Data](#)

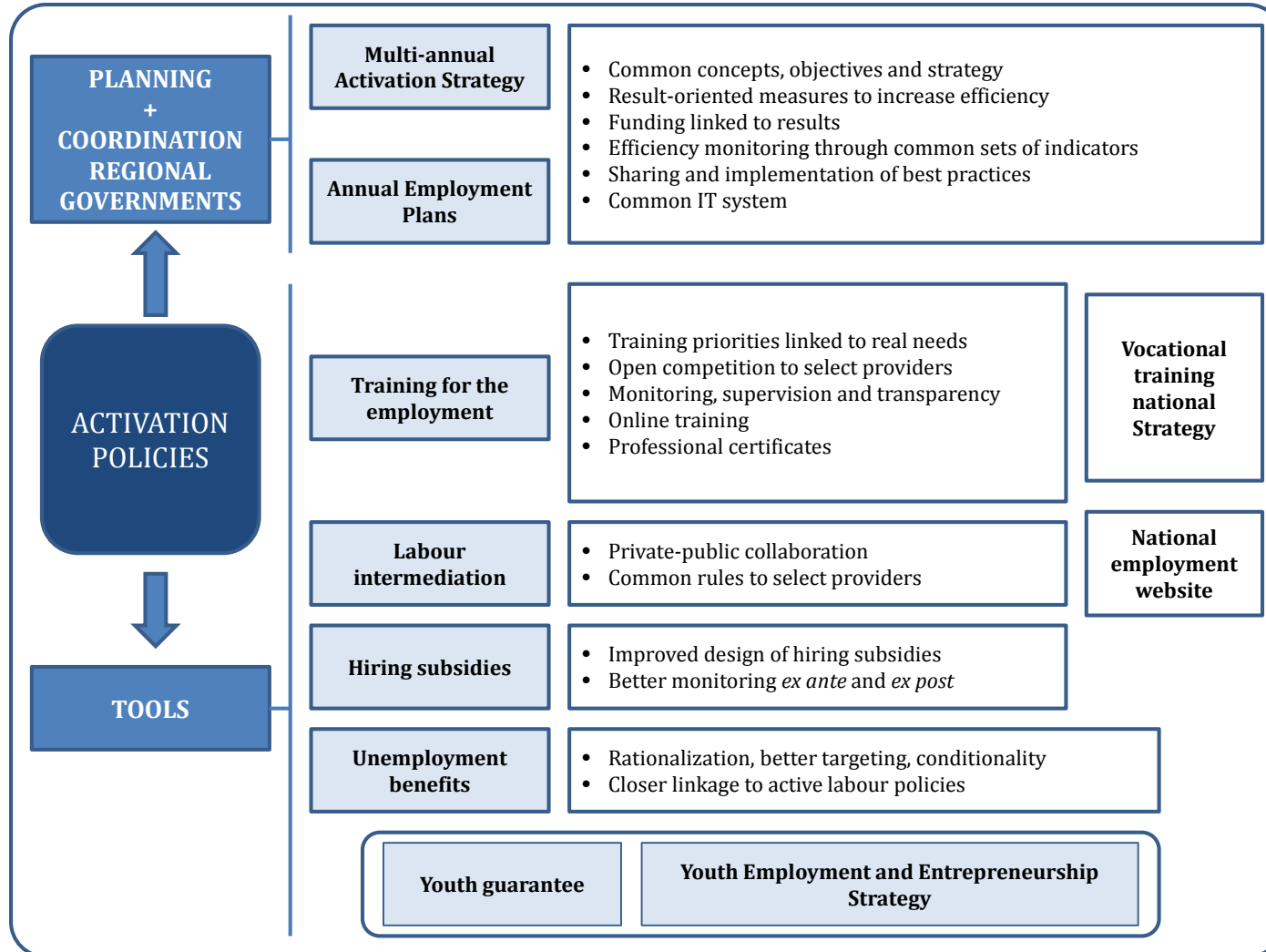
The labour market reform addresses Spain's most important imbalance

► The labour market reform tackles the main shortcomings of the Spanish labour market: high structural unemployment, high youth unemployment, duality, high employment volatility and wage indexation which limit gains in competitiveness

Collective Bargaining	Internal Flexibility of Firms	External Flexibility of Firms	Contracts
<ul style="list-style-type: none"> → Dynamic bargaining more responsive to the needs of businesses and workers 	<ul style="list-style-type: none"> → Avoiding lay-offs: rigidity fostered job cuts as a means of adjusting to economic changes → Lack of flexibility avoided innovation and gains in competitiveness 	<ul style="list-style-type: none"> → Reduction of severance pay for unfair dismissals 	<ul style="list-style-type: none"> ① Crisis contract: new contract for entrepreneurs aimed at small businesses. It has a one-year trial period. Tied to employment tax breaks and fiscal tax credit, specially for hiring young workers. Breaks and credits are designed to limit the dead-weight effect ② Training and skill building: deep regulatory modifications to provide a structural change and develop a dual training system that allows a balance of training and work ③ Flexible regulation of telework ④ Part-time contract: increased flexibility, allowing overtime
<ul style="list-style-type: none"> → Move beyond the model of indexing salaries and wages 	<ul style="list-style-type: none"> → Clear and objective regulatory framework of fair dismissals 	<ul style="list-style-type: none"> → Clear and objective regulatory framework of fair dismissals 	
<ul style="list-style-type: none"> → Balanced regulatory framework in line with economic circumstances 	<ul style="list-style-type: none"> ① Classification of workers based on skills not on professional occupations ② Simplification of rules for the reallocation of workers ③ Streamlining the adoption of significant changes in working conditions ④ Furloughs/Time-reductions if legitimate financial, productive or organisational reasons exist ⑤ Distribution of working-time 	<ul style="list-style-type: none"> ① Severance pay for unfair dismissal down to 33days/Max 24months of salary vs. 45days/Max 42 months ② Clarification of fair dismissal causes (20days/Max 12 Mo) ③ Removal of administrative authorisation for collective layoffs ④ Elimination of procedural salaries ⑤ Fair dismissals for economic causes of civil servants ⑥ Streamlining of dismissals based on absenteeism 	
<ul style="list-style-type: none"> ① Opting out from higher-level agreements ② Priority of company-level agreements ③ Limiting the statutory extension rule of expired agreements up to one year (unlimited before) 			

Activation policies & fight against unemployment

► Activation policies complement the labor reform. Spain has reformed its public employment services and launching new tools to fight against unemployment



A Single Market in Spain: the Law for the Guarantee of Market Unity

- ▶ The Market Unity Law establishes uniform principles and regulations in order to guarantee the single market in Spain, via regulatory cooperation among public administrations, involving the private sector
- ▶ Its main objective is to establish a more favourable regulatory framework in order to improve competitiveness and to foster investment and economic growth. Main areas of work:
 - Technical specifications & labelling of products
 - Licences for self-employed in each region
 - Public tender operations
 - Commercial distribution: differences in licensing, opening hours, especial sales, etc.
- ▶ Initial impact estimates foresee an impact on long-term GDP (10 years) growth estimates of 1.52%

Regulatory Rationalisation

Central Govt Administration: 184 regulations identified → 100 adapted
Regional Administrations: 450 regulations identified → 85 adapted & 64 in progress

National Competition Commission

6 regulations under study

Economic Operators

123 Cases of conflict have been presented by economic operators; 79 finalised

Agency For the Evaluation of Public Policies

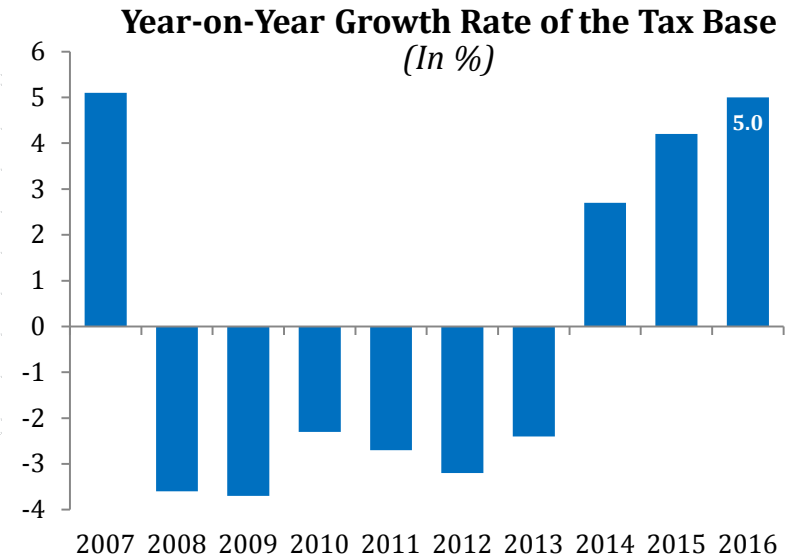
Will analyse and publish results in 2016

Central Government Budget Law for 2016

- ▶ 2015 & 2016 deficit targets of 4.2% and 2.8%, respectively, in line with Council Recommendations
- ▶ Spain is expected to graduate from the corrective arm of the Excessive Deficit Protocol in 2016.
- ▶ Tax base to expand at 5% YoY → tax collection to grow by 6.2% YoY

Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)					
	2014	2015	2016	2017	2018
Central Government	-3.56	-2.9	-2.2	-1.1	-0.2
Autonomous Regions	-1.75	-0.7	-0.3	-0.1	0.0
Local Governments	0.57	0.0	0.0	0.0	0.0
Social Security Administrations	-1.04	-0.6	-0.3	-0.2	-0.1
General Government	-5.78	-4.2	-2.8	-1.4	-0.3

Source: Ministerio de Hacienda y Administraciones Públicas.

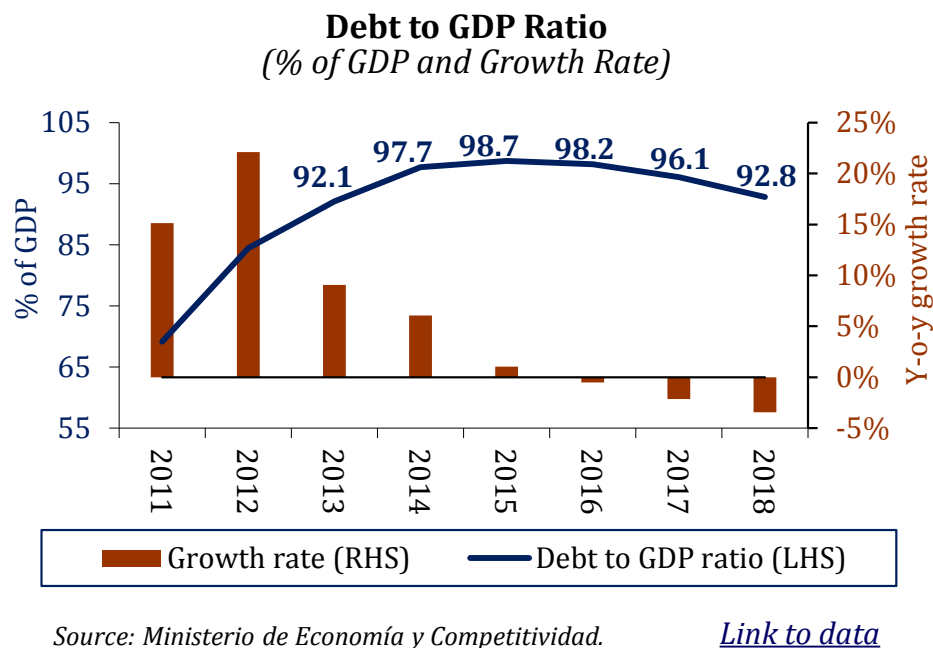
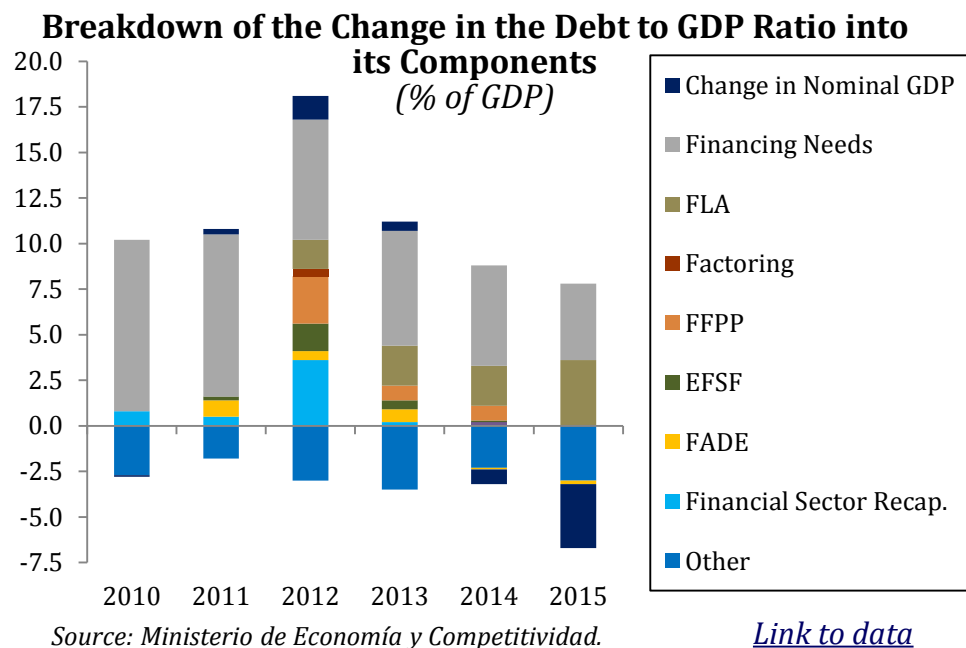


[Link to Data](#)



Debt-to-GDP path 2015-2018: debt to peak below 100% in 2015

- ▶ Debt to GDP ratio set to peak in 2015 at 98.7%. In 2016 the positive primary balance and nominal GDP growth will cause the ratio to fall below 98.2% of GDP
- ▶ At the end of the forecast horizon, under the baseline scenario, the ratio would progressively fall to 92.8% of GDP



Budgetary execution in 2015

Monthly budgetary execution highlights:

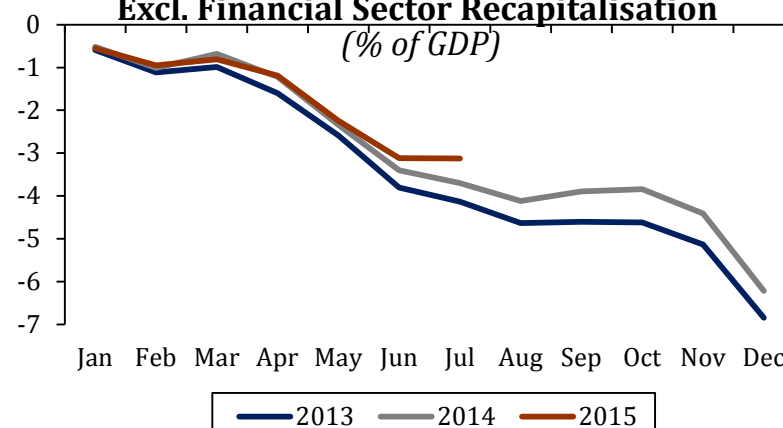
❑ Central Government (July 2015 data): deficit €23.7 bn vs. €29.7 bn by July 2014

- Central Govt. Administration (August 2015 data): deficit €27.3 bn vs. €35.1 bn in August 2014; primary deficit has decreased to €7.4bn, vs. a primary deficit of €15.1 bn by August 2014

❑ Regional Governments (July 2015 data): deficit reached €7.9 bn vs. €9.4 bn by July 2014

❑ Social Security Administrations (July 2015 data): the Social Security posted a deficit of €2.2 bn vs. €0.3 bn by July 2014

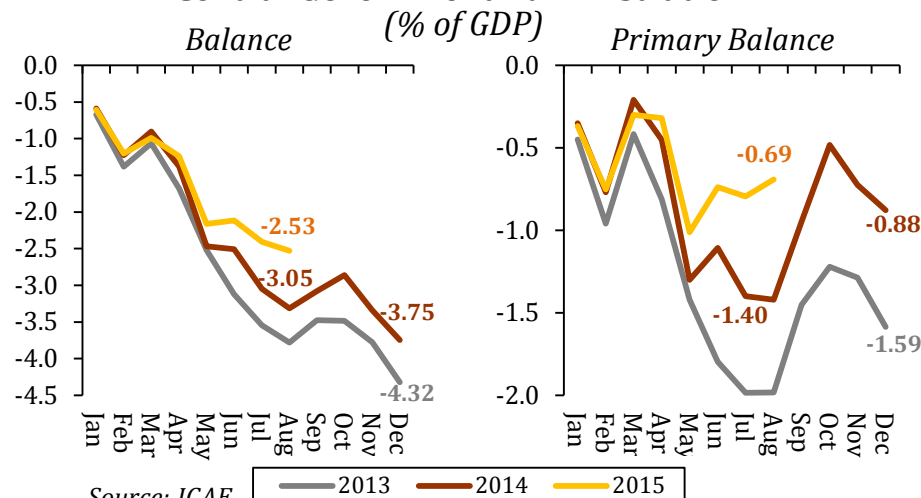
Deficit of Central & Regional Governments and Social Security Administrations. (Excl. Local Governments) Excl. Financial Sector Recapitalisation



Source: IGAE.

[Link to Data](#)

Breakdown of the Budget Balance of the Central Government Administration



Source: IGAE.

Up to July 2015

[Link to Data](#)

1. Transformation of Spain's Growth Model

2. Spanish Economic Policy

3. The Funding Programme of the Spanish Treasury

3.1 The Treasury's Programme for 2015

Page 35

3.2 Execution Highlights

Page 36-42

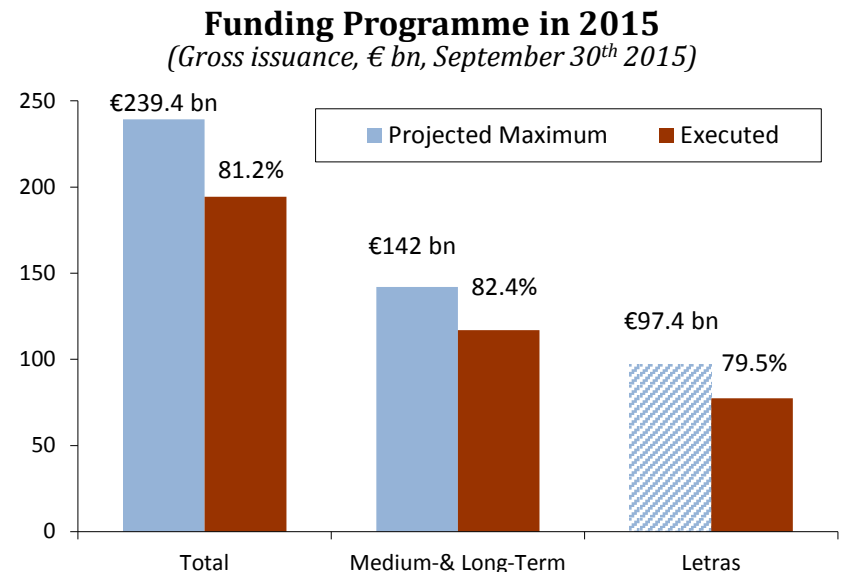
The Treasury's Funding Programme for 2015

- ▶ The revised funding target is 51 billion euros. This target includes the enhanced liquidity mechanisms for Regions & Local Governments put in place in 2015
- ▶ Including Letras, the Spanish Treasury has issued €194.4 bn so far in 2015
- ▶ Up to September 30th the Spanish Treasury has funded €117 bn, a 82.4% of the expected amount of the regular medium- and long-term gross issuance, and €77.4 bn, a 79.5% of Letras

<i>(billion euros, in effective terms)</i>	<i>September 2015</i>
Total Net Issuance	51.0
Total Gross Issuance^{1,2}	239.4
Medium- and Long-Term²	
Gross Issuance	142.0
Net Issuance	46.0
Letras del Tesoro	
Forecast Gross Issuance ¹	97.4
Net Issuance	5.0

1 Redemptions of Letras, and therefore also gross issuance, will depend on the Letras issuance strategy in 2015

2 Includes debt in other currencies, Bonos & Obligaciones, and assumed debts

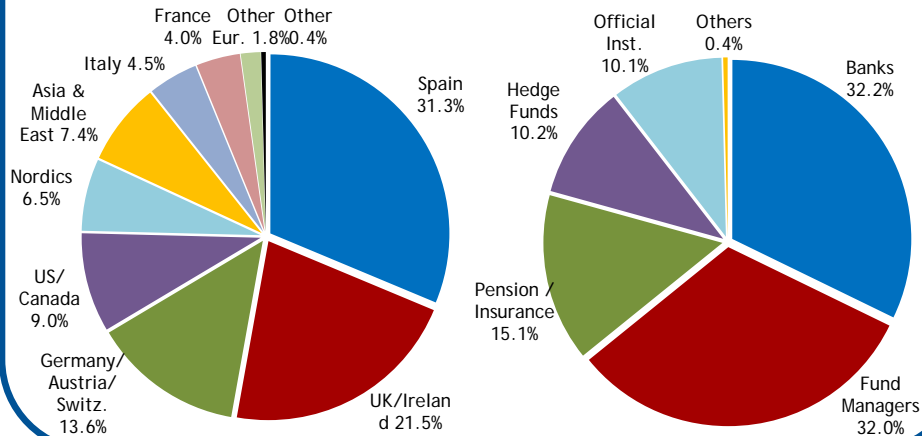


[Link to Data](#)

Syndicated issuance in 2015

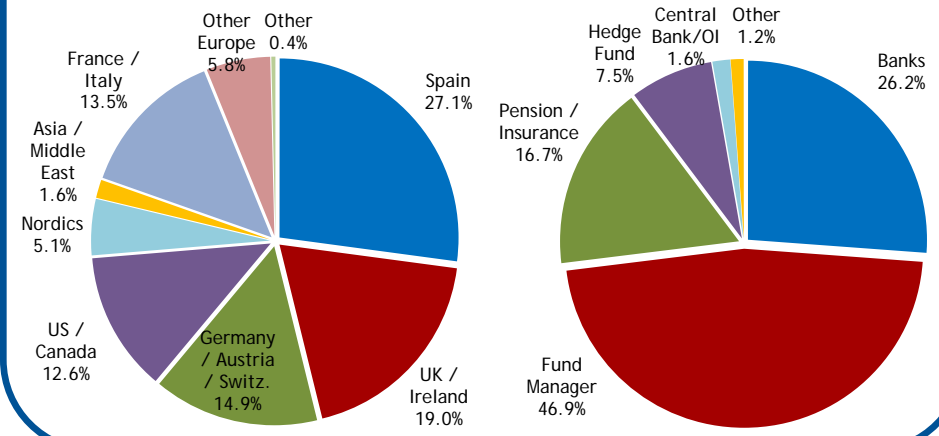
JANUARY - NEW 10 YEAR REFERENCE. APRIL 2025

Geographic Distribution (%) By Type of Investor (%)



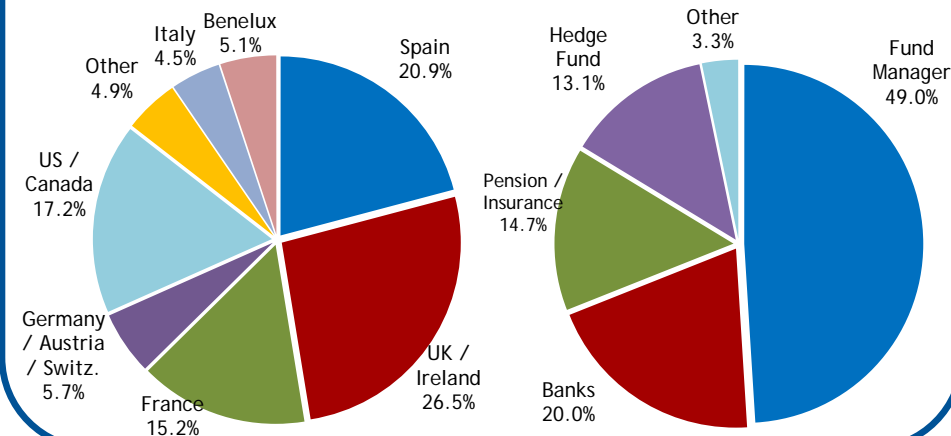
FEBRUARY - NEW 15 YEAR REFERENCE. JULY 2030

Geographic Distribution (%) By Type of Investor (%)



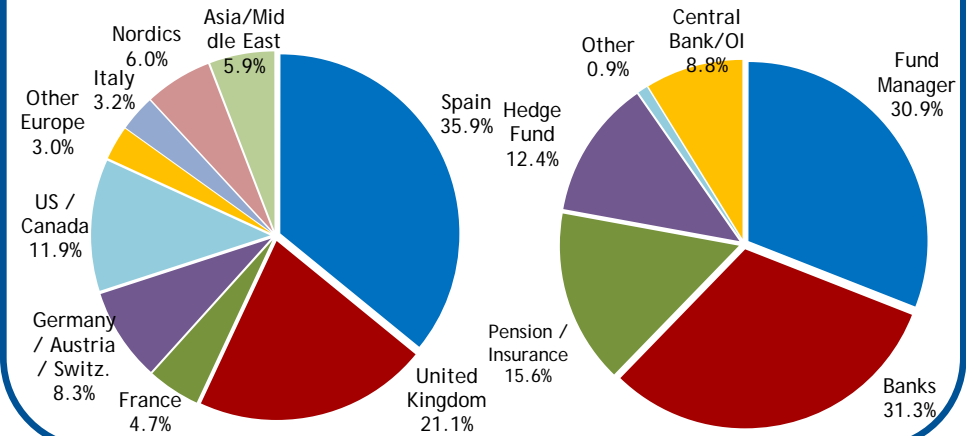
MARCH - NEW 15 YEAR EA INFLATION-LINKED REFERENCE. NOVEMBER 2030

Geographic Distribution (%) By Type of Investor (%)



JUNE- NEW 10 YEAR REFERENCE. OCT. 2025

Geographic Distribution (%) By Type of Investor (%)

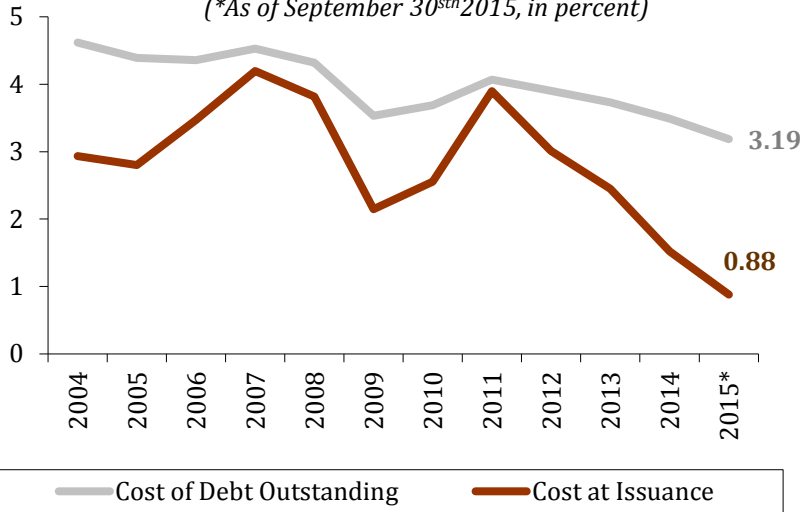


[Link to Data](#)

Cost and life of debt: longer tenors at historically low rates

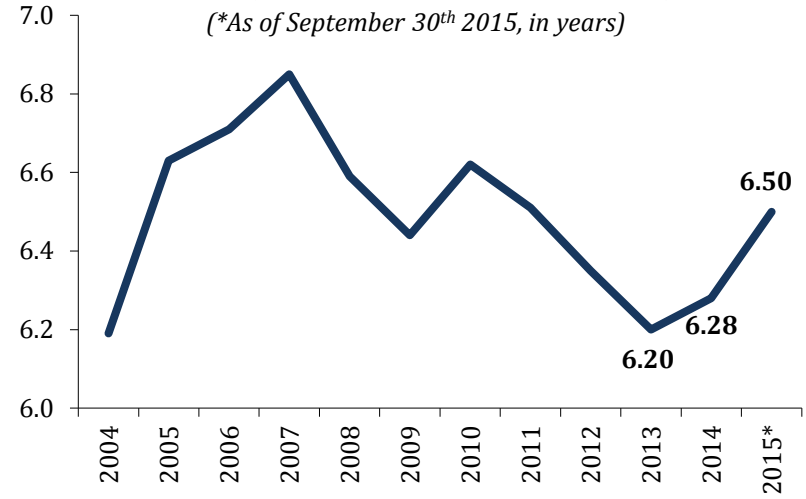
Cost of Debt Outstanding and Cost at Issuance

(*As of September 30th 2015, in percent)



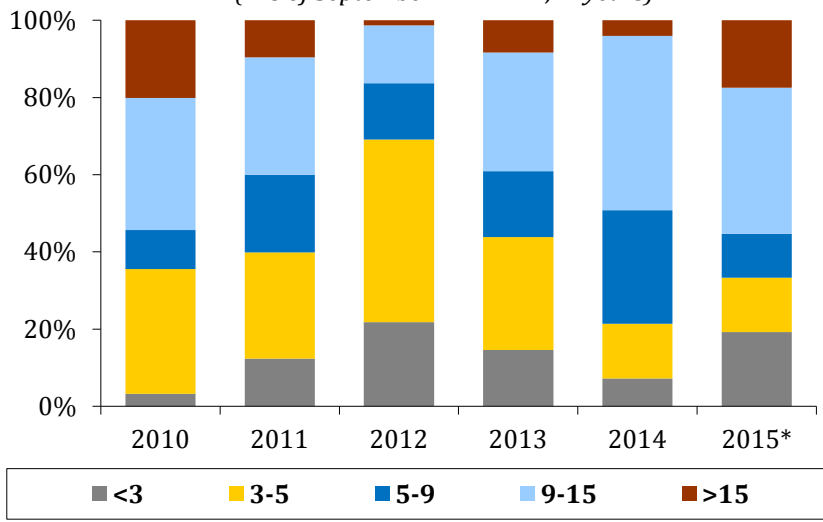
Average Life of Debt Outstanding

(*As of September 30th 2015, in years)



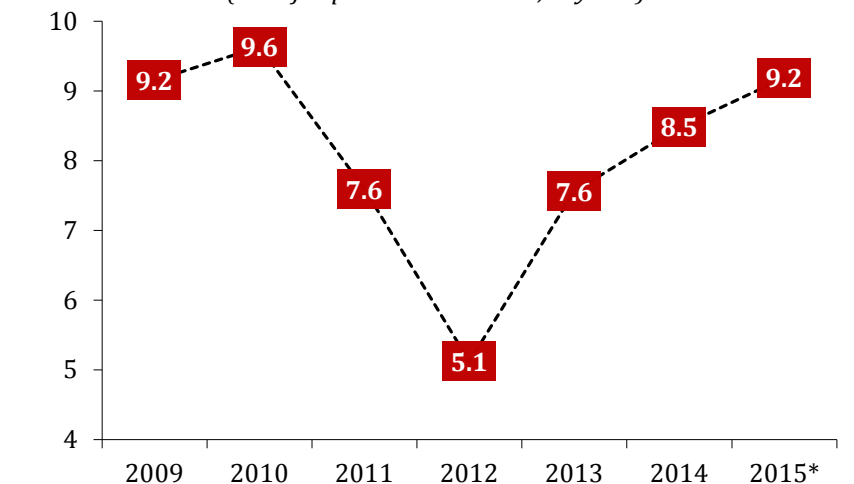
Marginal Life at Issuance of Bonos and Obligaciones

(*As of September 30th 2015, in years)



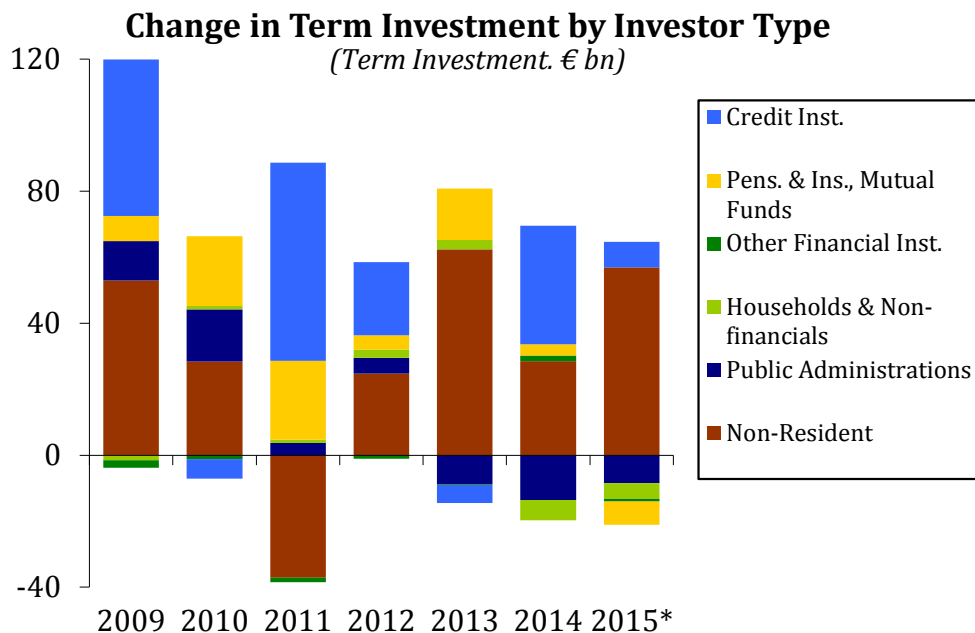
Average Life at Issuance of Bonos and Obligaciones

(*As of September 30th 2015, in years)



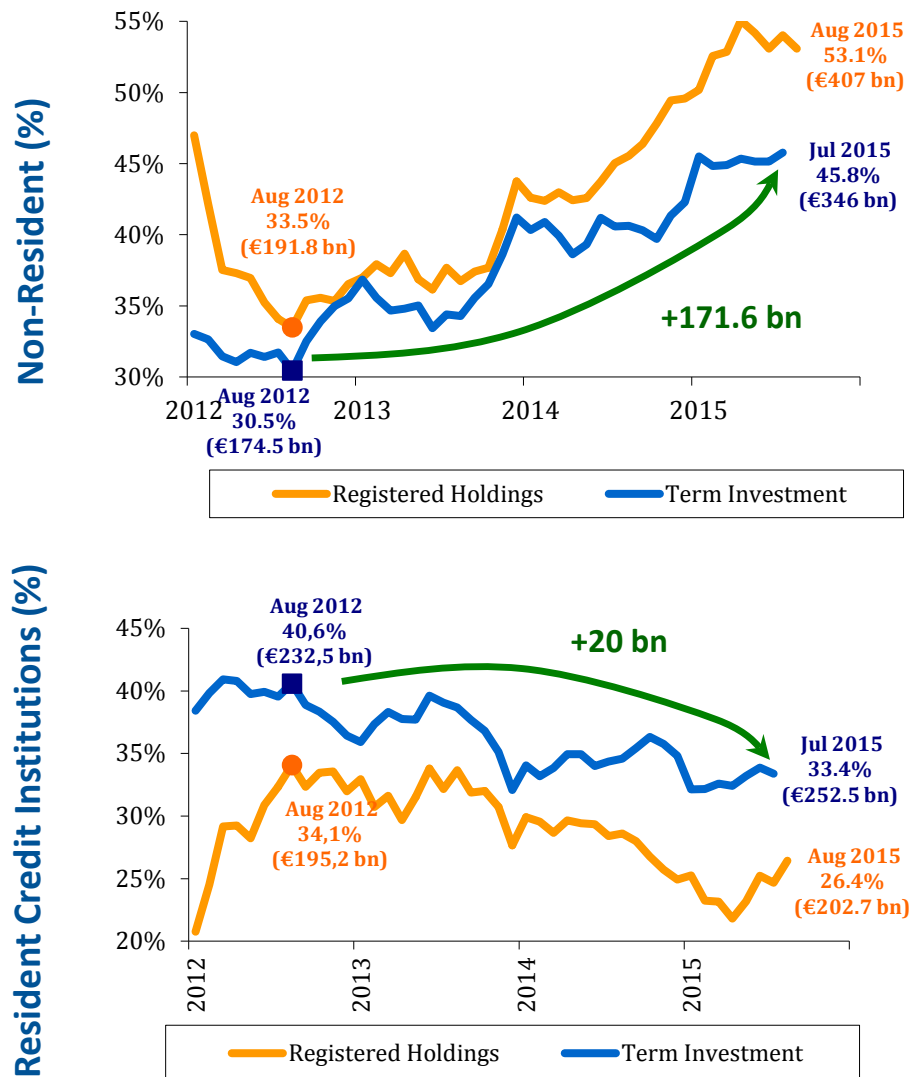
Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

Recent trends in investor base



Source: Secretaría General del Tesoro y Política Financiera.
 * 2015: Year-on-year change. August 2014 to July 2015.

Holdings of Unstripped Government Debt



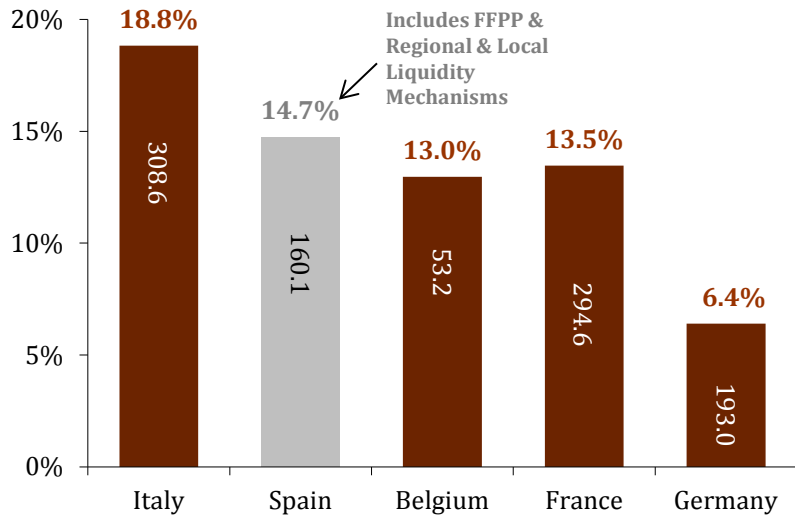
[Link to Data](#)

Prudent debt management

- ▶ Redemption dates of medium- and long-term bonds (mainly January, April, July and October) are accommodated to match the dates of biggest inflows of tax revenues
- ▶ Excess liquidity is lent in the money market each month through weekly, bi-monthly and monthly repo auctions

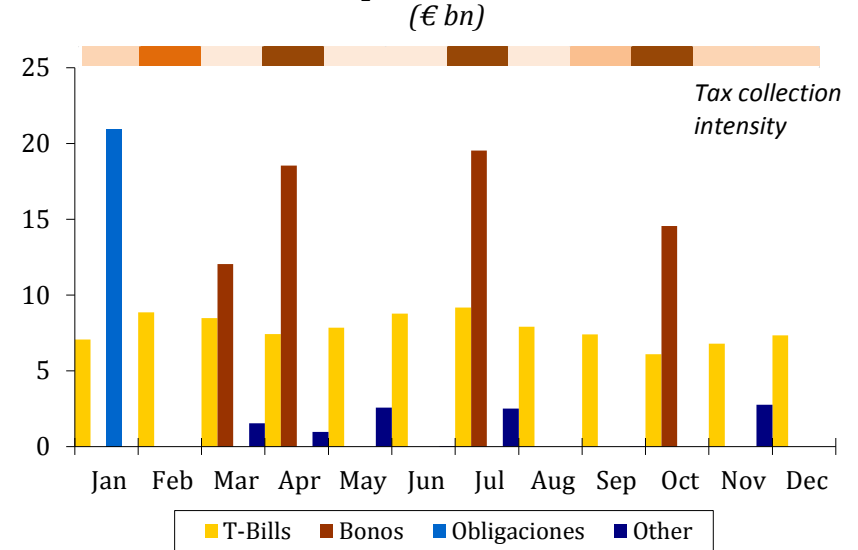
Relative Redemptions of Central Governments

(% of estimated 2015 GDP. October 2015 to September 2016)



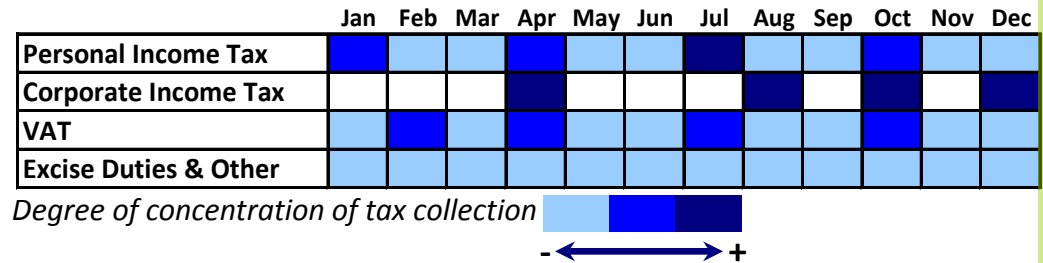
Sources: Secretaría General del Tesoro y Política Financiera for Spain, August 31st data for Italy, and Bloomberg for other countries. [Link to Data](#)

Monthly Maturity Structure in 2015 as of September 30th 2015



Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

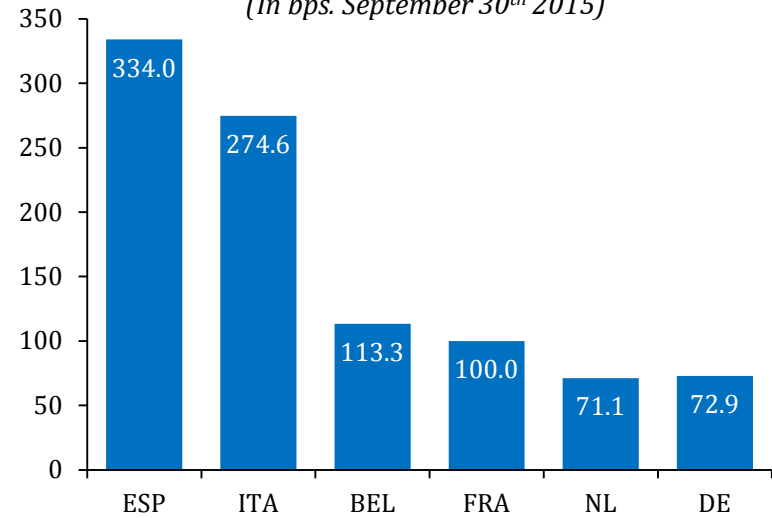
Administrative Distribution of Tax Collection



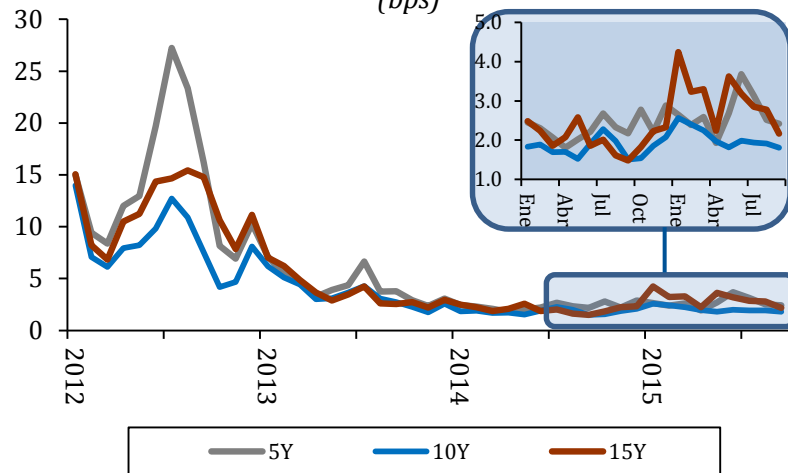
A more liquid debt market despite spread tightening

- ▶ Significant tightening in sovereign spreads
- ▶ Rates have stabilised for longer periods, enabling more efficient investment decisions by market agents, rendering liquidity in secondary markets a key factor

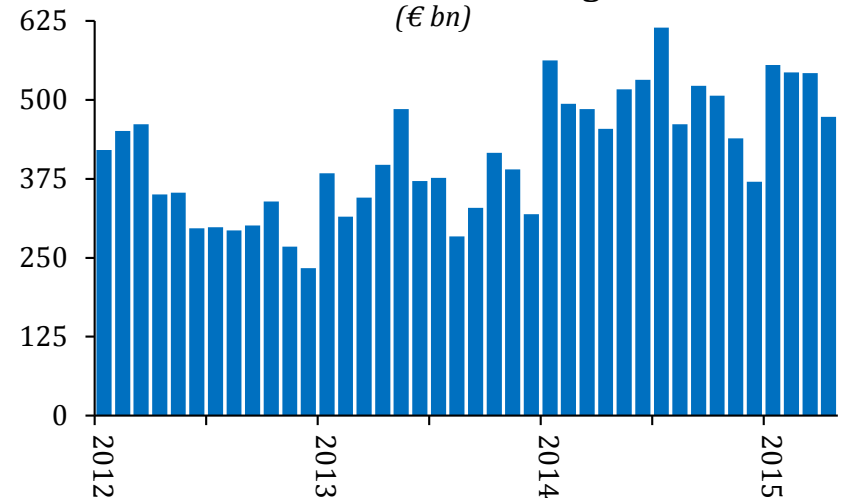
Reduction in Yield Level of 10 Year Government Bonds Since 2013 of Selected Countries
(In bps. September 30th 2015)



Bid-Ask Spreads of Government Bonds
(bps)



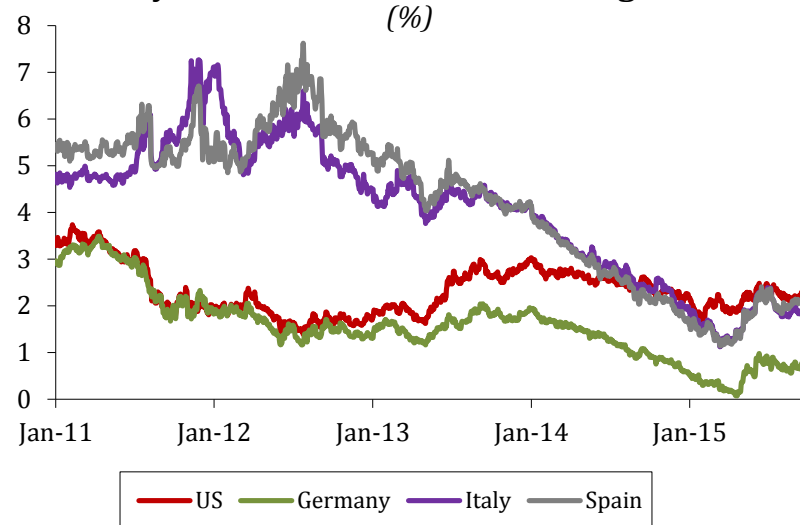
Turnover of Bonos and Obligaciones
(€ bn)



Interest rate volatility has diminished

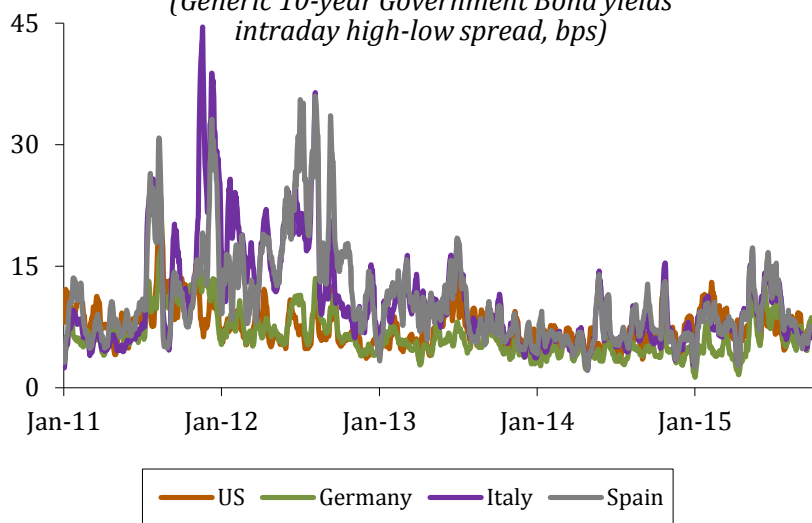
- ▶ Significant tightening in sovereign spreads
- ▶ Rates have stabilised for longer periods, enabling more efficient investment decisions by market agents

Generic 10-year Government Bond Average Yield Levels (%)



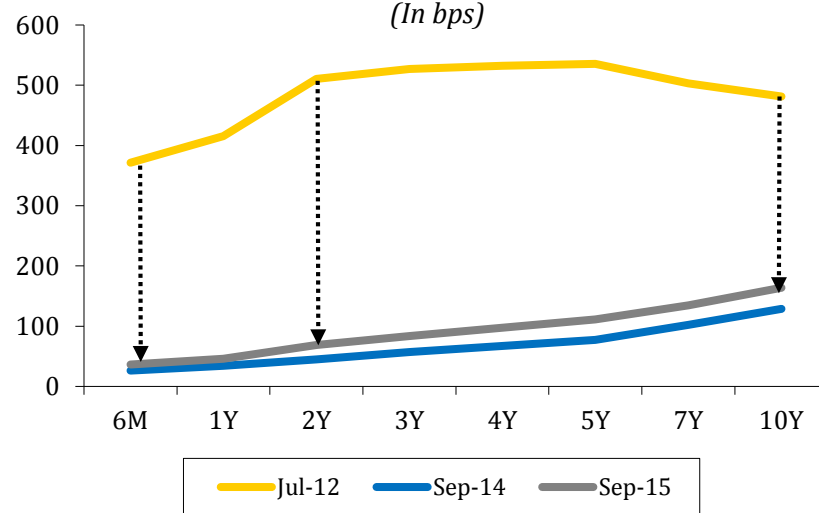
Intraday Yield Range, 10-Day Rolling Average

(Generic 10-year Government Bond yields intraday high-low spread, bps)



Spain CDS Curves

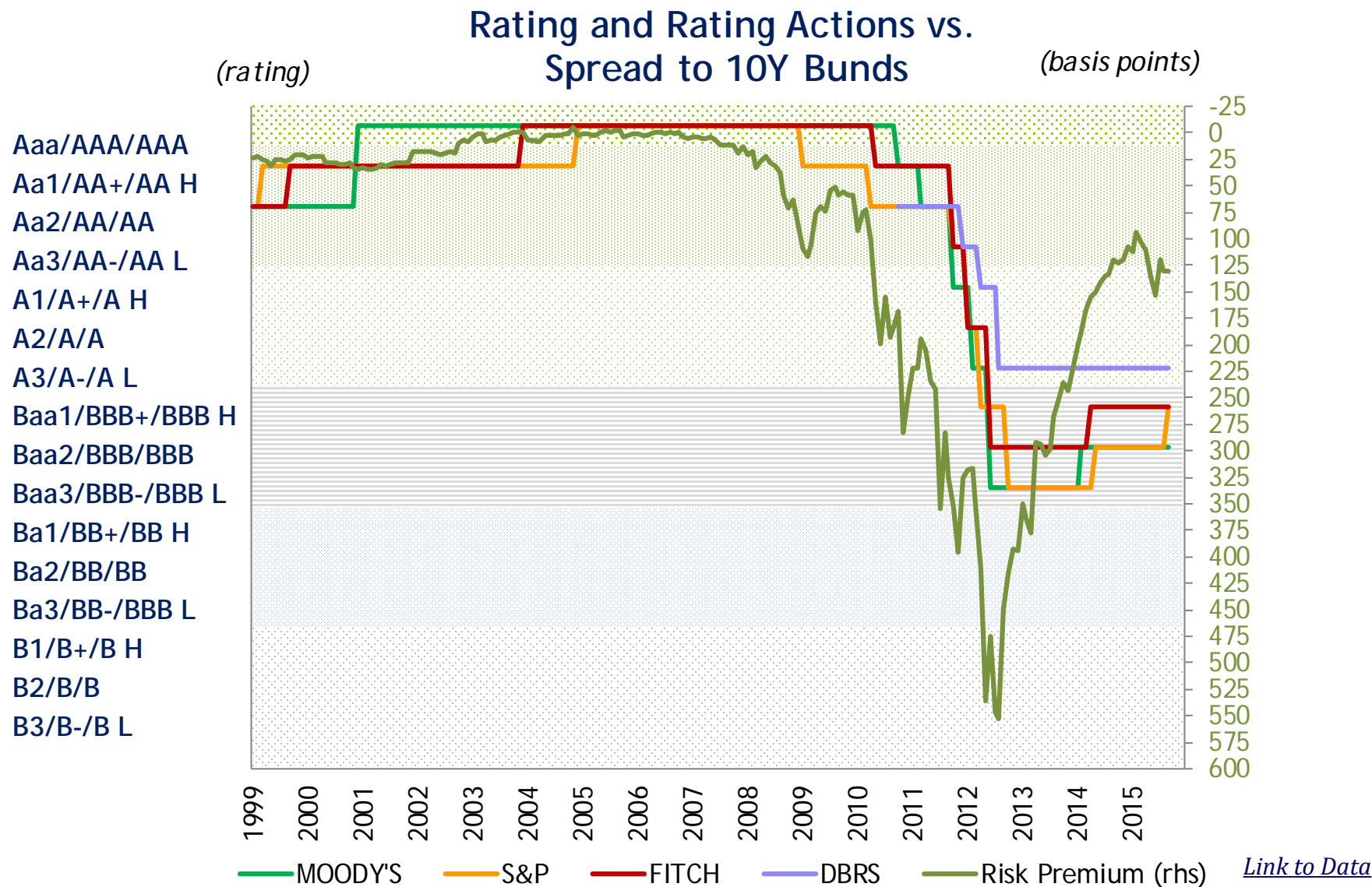
(In bps)



Source: Bloomberg.

[Link to Data](#)

Evolution of Ratings



More and updated information on the Spanish economy



[For spreadsheets click on 'Data'](#)

[Click here to download all spreadsheets](#)

Thank you for your attention

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