

Funding Programme for 2017 & Economic Policy

April 2017

Disclaimer

This presentation material has been prepared by the Spanish Treasury and is updated on a regular basis. We reserve all rights.

This document is for information purposes only. Nothing in this presentation material constitutes, or forms part of, any offer or invitation to underwrite, subscribe or otherwise acquire or dispose of Spanish Government debt. It is provided for information purposes only and it is not intended to provide the basis for any credit or any other third party evaluation of that debt. While the Spanish Treasury applies its best efforts to include accurate information and the information herein is believed to be reliable, it makes no representation or warranty as to the accuracy or completeness of such information.

Distribution of information contained in this presentation material may be forbidden or limited by legislation of some jurisdictions. ACCESS IS DENIED TO PERSONS TO WHOM THESE RESTRICTIONS IN SUCH JURISDICTIONS APPLY AND GRANTED ONLY TO JURISDICTIONS IN WHICH THE DISTRIBUTION OF THIS INFORMATION IS NOT LEGALLY LIMITED.

The information contained on this website does not constitute an offer for sale in the United States of America. The securities described have not been, and will not be, registered under the US Securities Act of 1933, as amended, or with any securities regulatory authority of any state or other jurisdiction in the United States of America and may not be offered or sold, directly or indirectly, into the United States of America unless the securities are so registered or an exemption from the registration requirements is available.

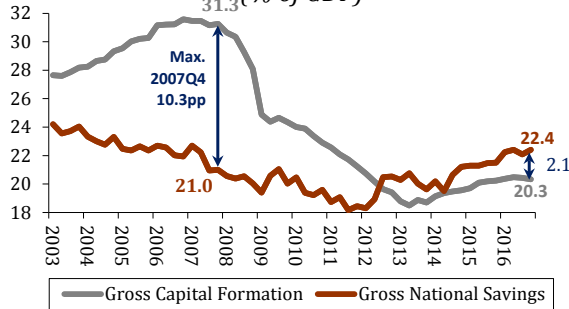
Each person is required to inform himself accordingly and to comply with applicable restrictions. The Treasury of the Kingdom of Spain is by no means liable for any such infringement.

As a consequence of the previous information, you confirm that you are not a resident of the United States of America or of any jurisdiction in which the distribution of this information is legally limited and that you will not distribute any of the information and documents contained hereon to any person resident in the United States of America or in any jurisdiction in which the distribution of this information is legally limited. None of the information displayed or in connection with the presentation material is an offer of securities for sales in the United States of America.

Highlights: Correction of imbalances

DOMESTIC IMBALANCES

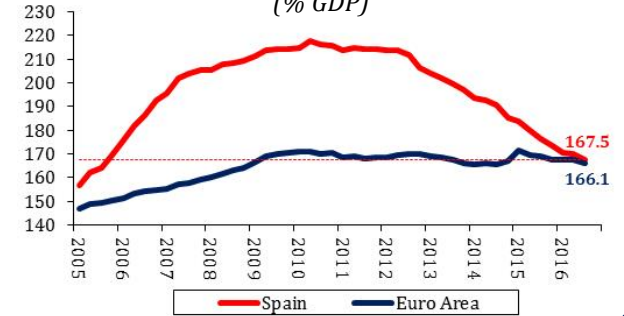
Investment-Savings Gap
(% of GDP)



Unemployment Rate

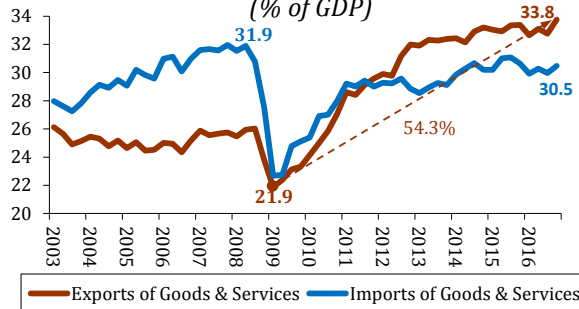


Private Sector Debt-to-GDP Ratio
(% GDP)

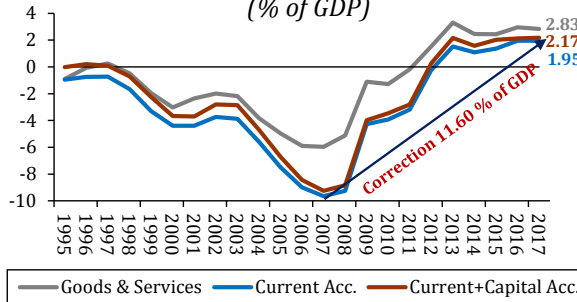


EXTERNAL SECTOR

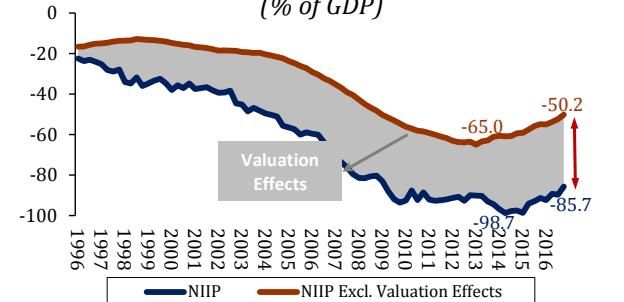
Exports and Imports
(% of GDP)



Current Account
(% of GDP)

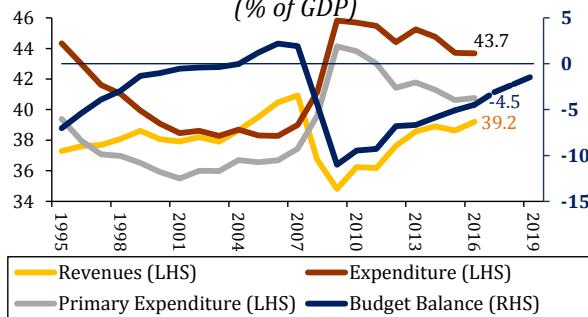


Net International Investment Position
(% of GDP)

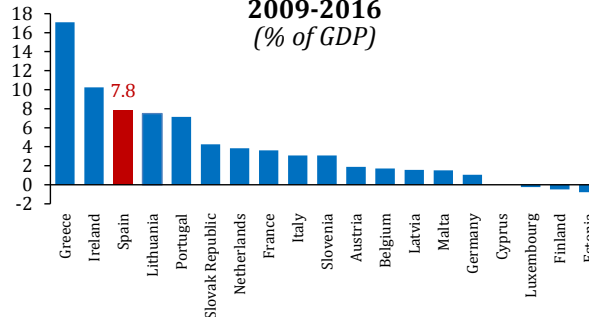


PUBLIC SECTOR

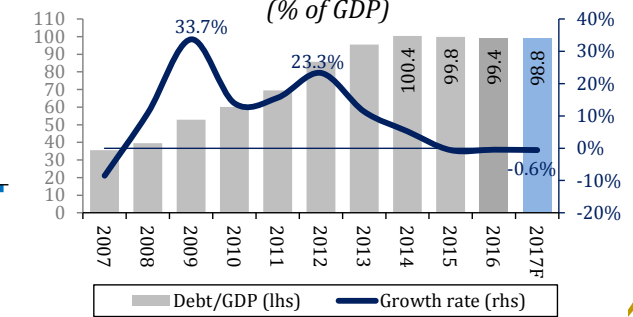
Budget Balance
(% of GDP)



Reduction in the Structural Deficit
2009-2016
(% of GDP)



Debt-to-GDP of the General Government
(% of GDP)



1. The Treasury's Funding Programme

The Funding Programme in 2017

Page 4-11

2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

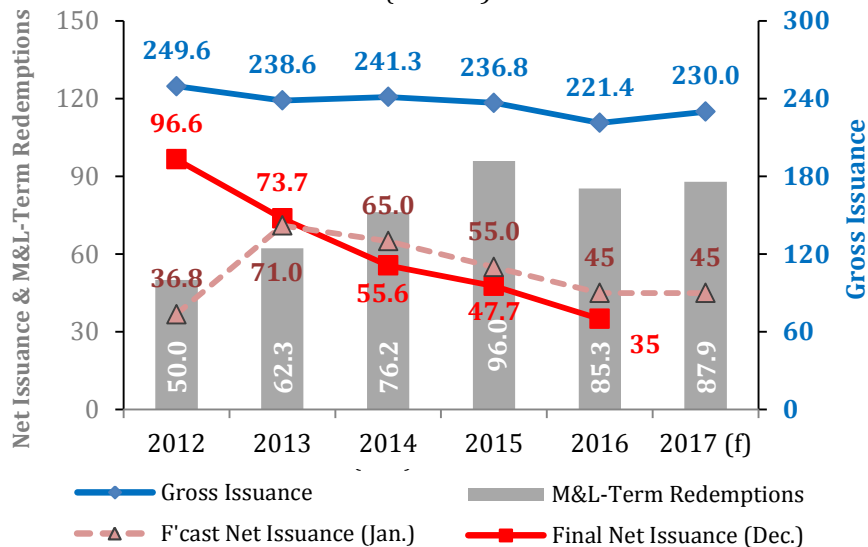
The Treasury's Funding Programme in 2017

- ▶ Net issuance of €45 bn in 2017; revised programme includes €10 bn loan to Social Security
- ▶ Total issuance up to March 31st: €65.5 bn (28.5% of the funding programme), of which €42.0 bn (31.6%) medium- and long-term instruments, and €23.4 bn (24.1%) in Letras del Tesoro

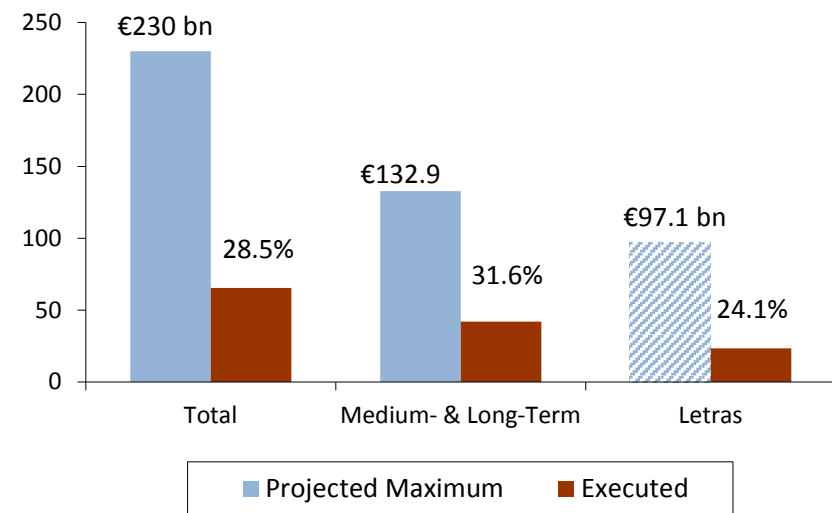
(In billion euros and in effective terms)	Forecast Strategy 2017	Revised April 2017
Total Net Issuance	35.000	45.000
Total Gross Issuance	220.017	230.017
Medium- and Long-term		
Gross Issuance ¹	122.904	132.904
Amortisation ¹	87.904	87.904
Net Issuance ¹	35.000	45.000
Letras del Tesoro		
Gross Issuance	97.113	97.113
Amortisation	97.113	97.113
Net Issuance	0.000	0.000

¹ Includes debt in other currencies, Bonos y Obligaciones, loans and assumed debts.

The Treasury's Funding Programmes Since 2012
(In € bn)



Funding Programme in 2017
(Gross issuance, € bn, March 31st 2017)

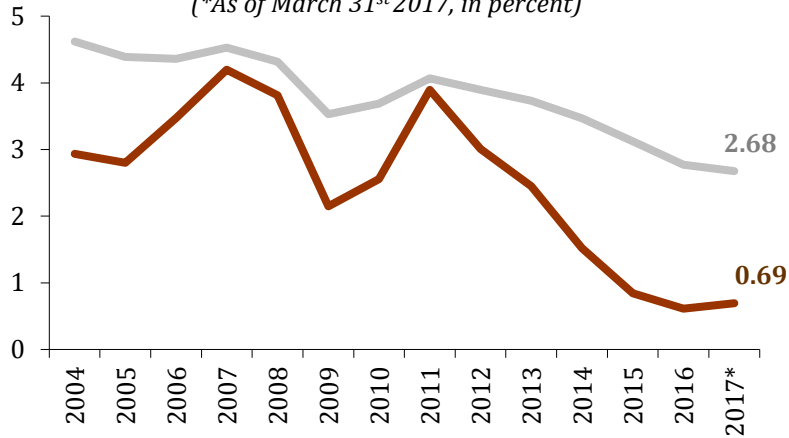


Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

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

Cost of Debt Outstanding and Cost at Issuance

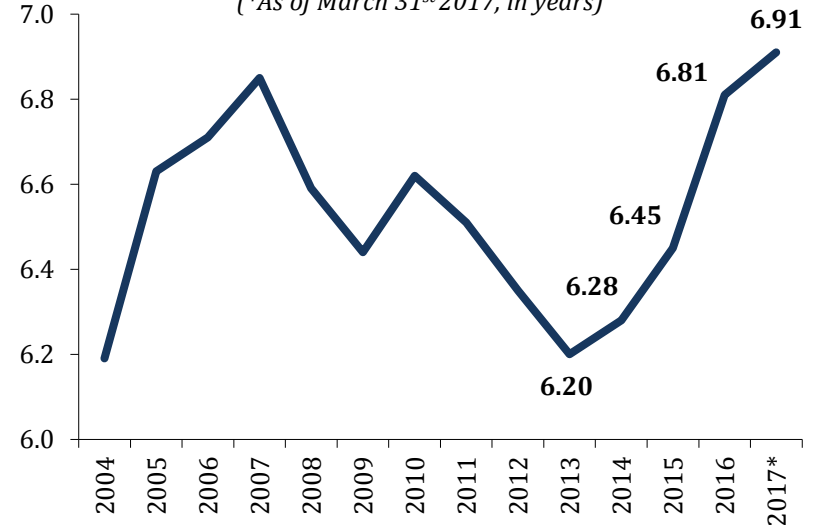
(*As of March 31st 2017, in percent)



— Cost of Debt Outstanding — Cost at Issuance

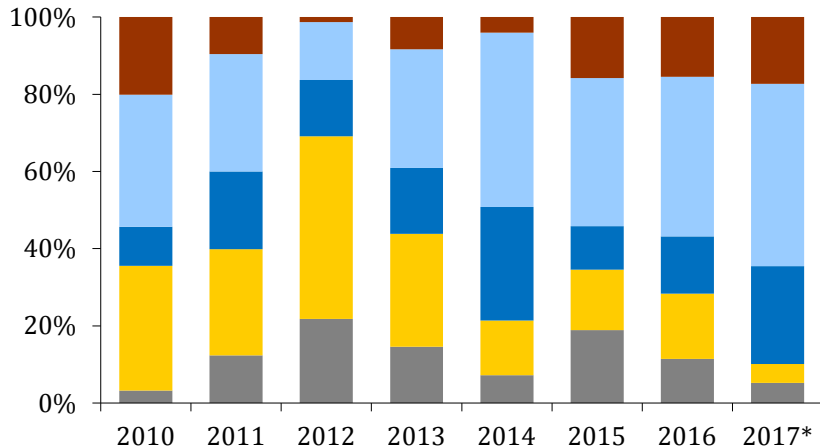
Average Life of Debt Outstanding

(*As of March 31st 2017, in years)



Marginal Life at Issuance of Bonos and Obligaciones

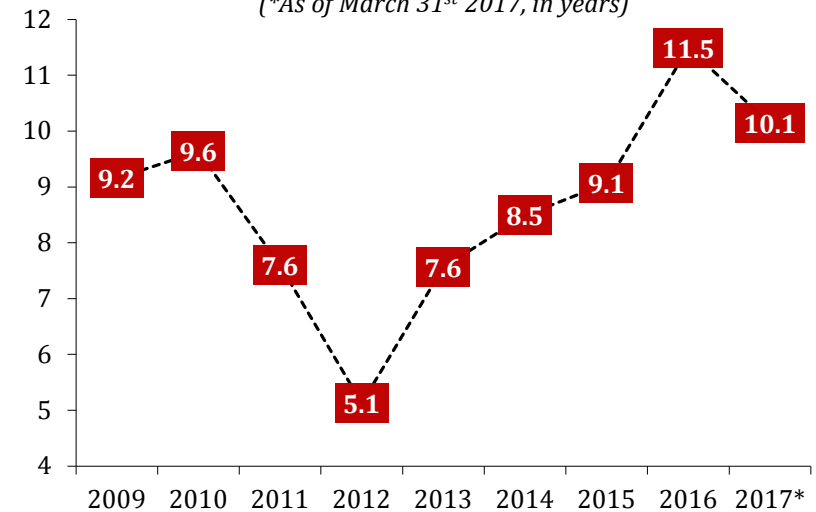
(*As of March 31st 2017, in years)



■ <3 ■ 3-5 ■ 5-9 ■ 9-15 ■ >15

Average Life at Issuance of Bonos and Obligaciones

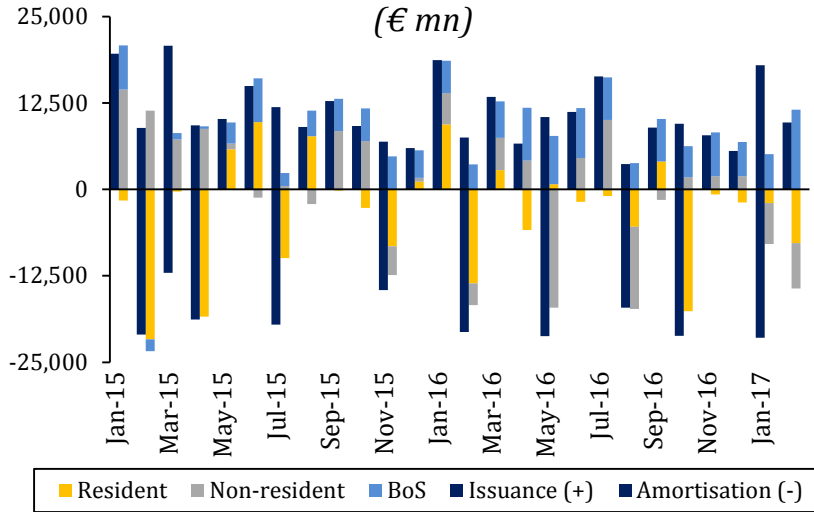
(*As of March 31st 2017, in years)



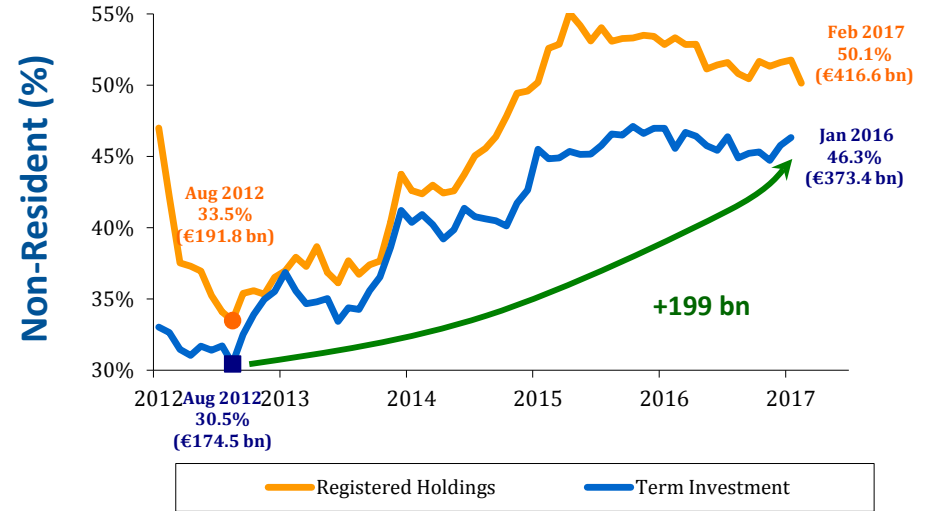
Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

Recent trends in investor base (I)

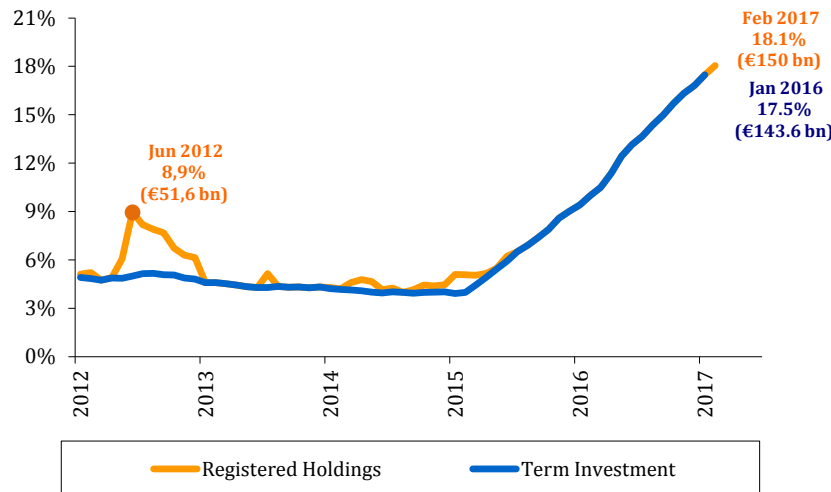
Issuance & Amortisation Flows and Changes in Holdings of Bonos y Obligaciones del Estado (€ mn)



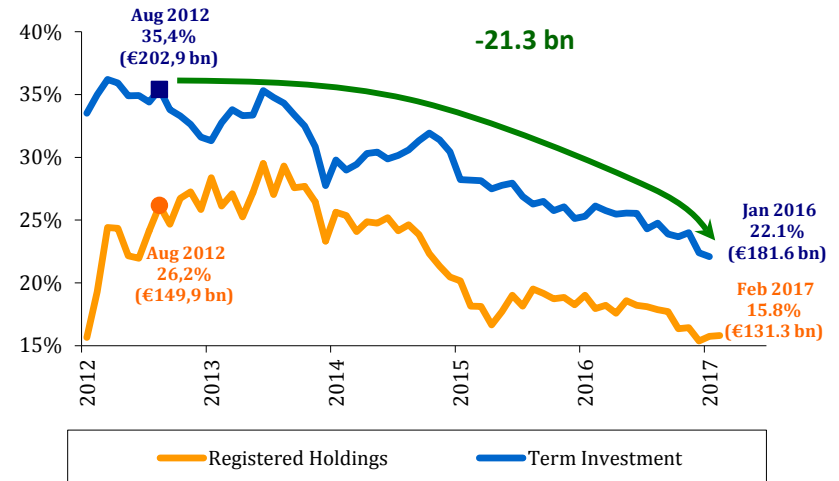
Holdings of Unstripped Government Debt



Bank of Spain (%)



Resident Credit Institutions (%)

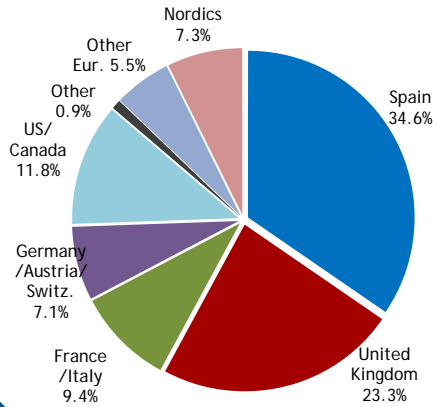


Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

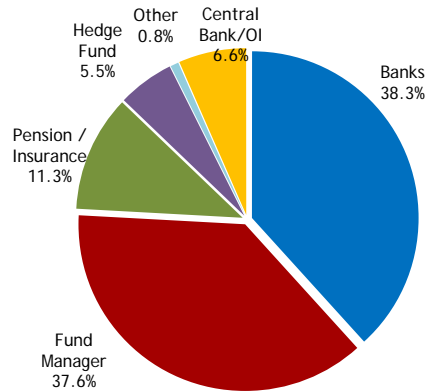
Syndicated issuance in 2016

JANUARY - NEW 10 YEAR REFERENCE. APR. 2026

Geographic Distribution (%)

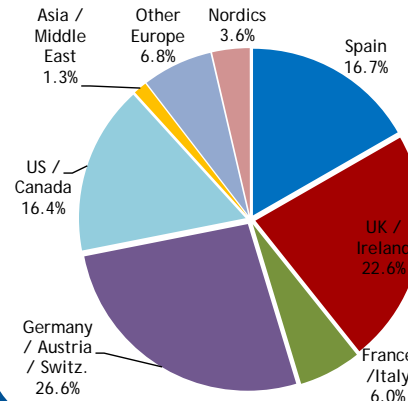


By Type of Investor (%)

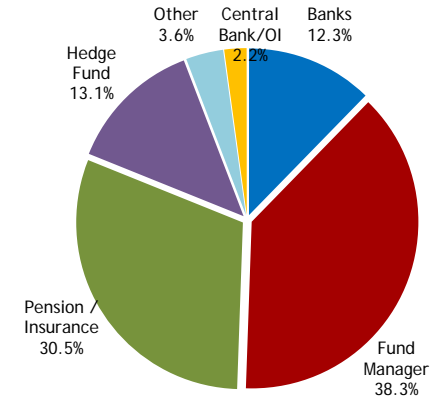


MAY - NEW 50 YEAR REFERENCE. JULY 2066

Geographic Distribution (%)

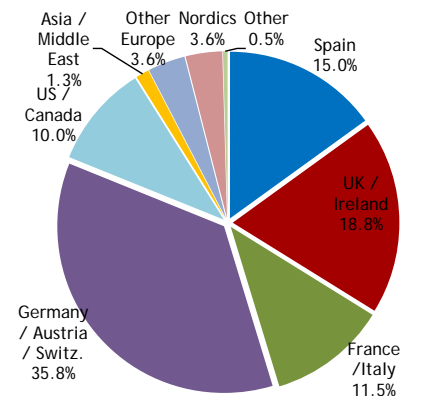


By Type of Investor (%)

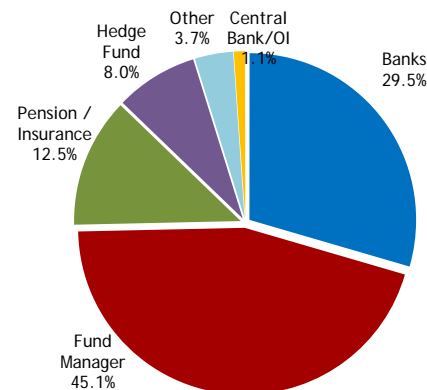


MARCH - NEW 30 YEAR REFERENCE. OCT. 2046

Geographic Distribution (%)

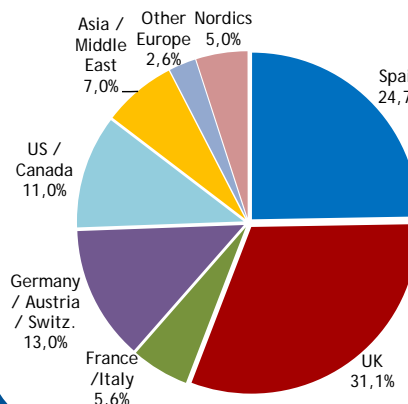


By Type of Investor (%)

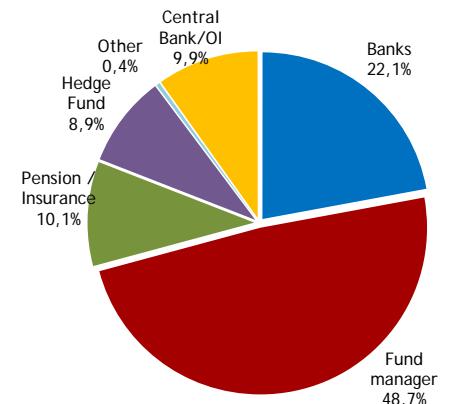


JULY - NEW 10 YEAR REFERENCE. OCTOBER 2026

Geographic Distribution (%)



By Type of Investor (%)



[Link to Data](#)

Syndicated issuance in 2017

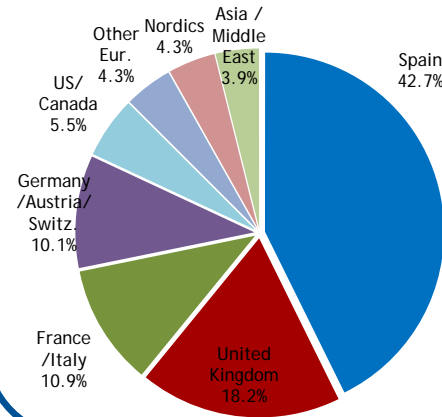
► In January 2017, the Spanish Treasury has launched its first syndicated transaction of the year. The new €9bn 10-year benchmark issue (due 30 April 2027) has a 1.50% coupon and was priced at a spread of 77 bps over mid swaps, implying a reoffer yield of 1.575%. More than 220 orders were placed in the transaction with a final book size of over EUR 34 billion

► In February a new benchmark in the 15-year segment, its second syndicated nominal Obligaciones del Estado in 2017 was priced at a spread of 120 bps over mid swaps, implying a reoffer yield of 2.392%

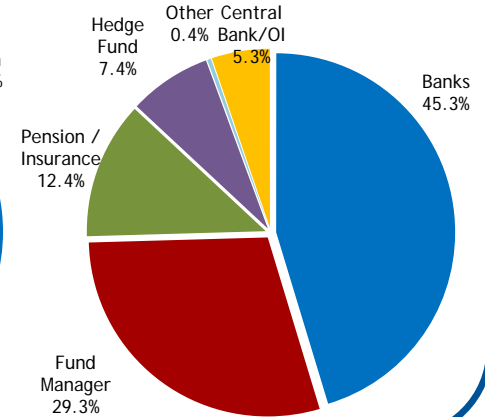
► The new €5bn 15-year benchmark due 30 July 2033 pays an annual coupon of 2.35%

JANUARY - NEW 10 YEAR REFERENCE. APR. 2027

Geographic Distribution (%)

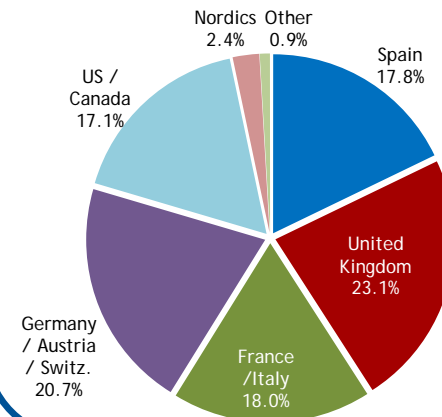


By Type of Investor (%)

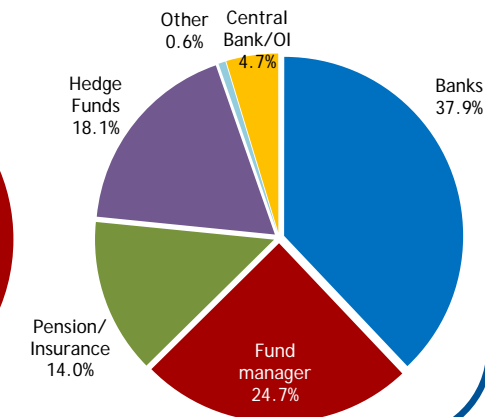


FEBRUARY - NEW 15 YEAR REFERENCE. JUL. 2033

Geographic Distribution (%)



By Type of Investor (%)

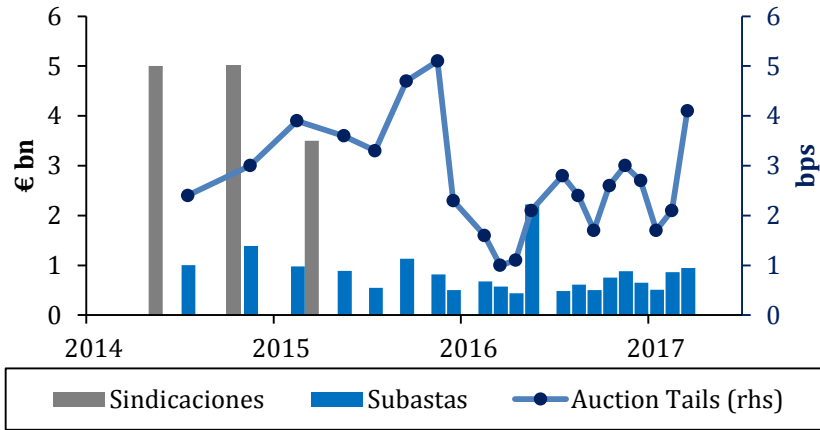


[Link to Data](#)

Spain's Euro inflation-linked programme

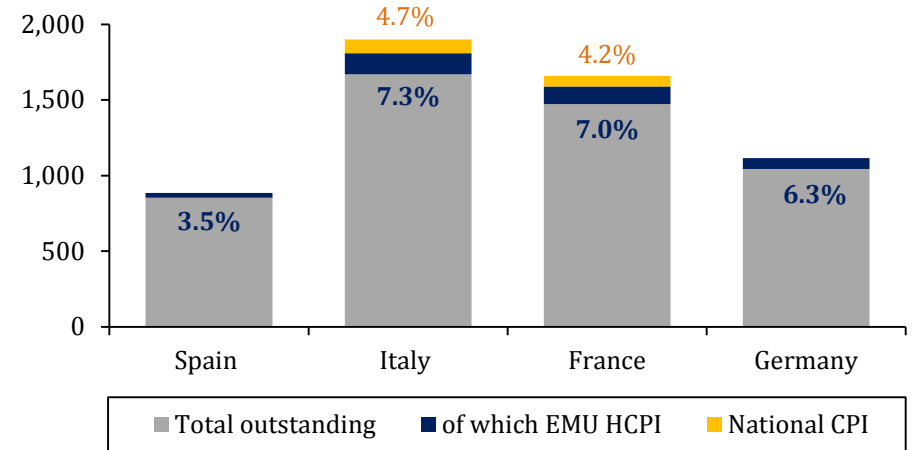
Spanish Linker Supply, Auctions & Syndications

(As of March 31st 2017, € bn lhs and bps rhs)



Share of Inflation-Linked Bonds in Total Outstanding

(As of March 31st 2017, € bn & percent)



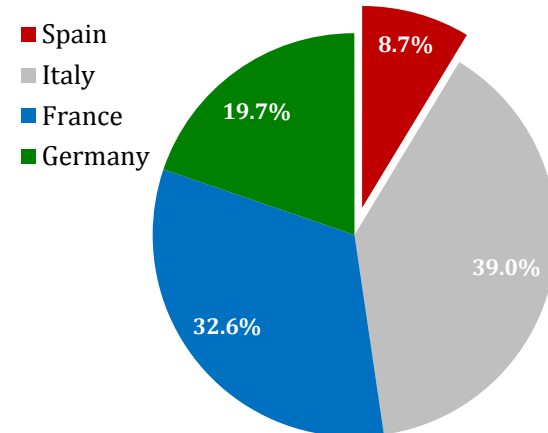
Outstanding Inflation-Linked Bonos and Obligaciones

(As of March 31st 2017, € mn)

Bonos and Obligaciones del Estado indexed to European inflation			
Reference index	Harmonised index of consumer prices excluding tobacco for the Eurozone		
Reference	Maturity		Outstanding amount* (mn€)
	Date	Years	
SPGB €i 0.55%	11/30/2019	2.67	9,650.3
SPGB €i 0.30%	11/30/2021	4.67	3,932.8
SPGB €i 1.8%	11/30/2024	7.67	11,873.9
SPGB €i 1%	11/30/2030	13.67	5,544.9
			31,002.0

Total Outstanding € Inflation Debt - breakdown by issuer

(As of March 31st 2017, Percent)

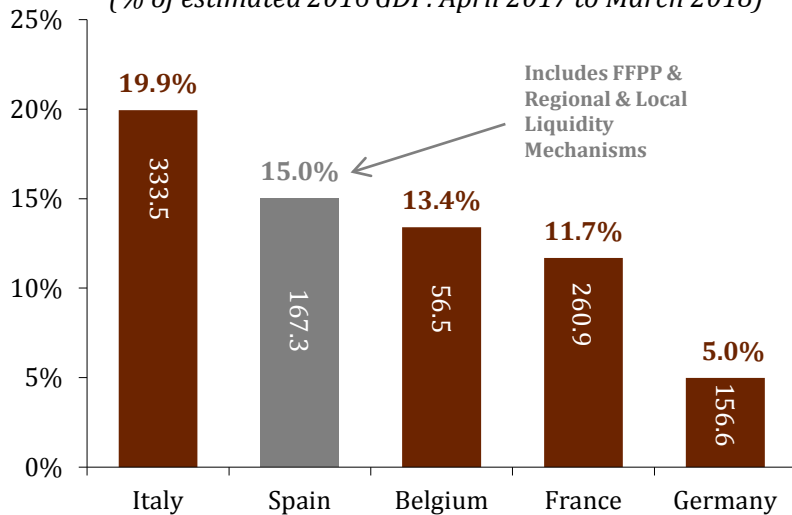


Prudent debt management

- ▶ 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 repo auctions

Relative Redemptions of Central Governments

(% of estimated 2016 GDP. April 2017 to March 2018)

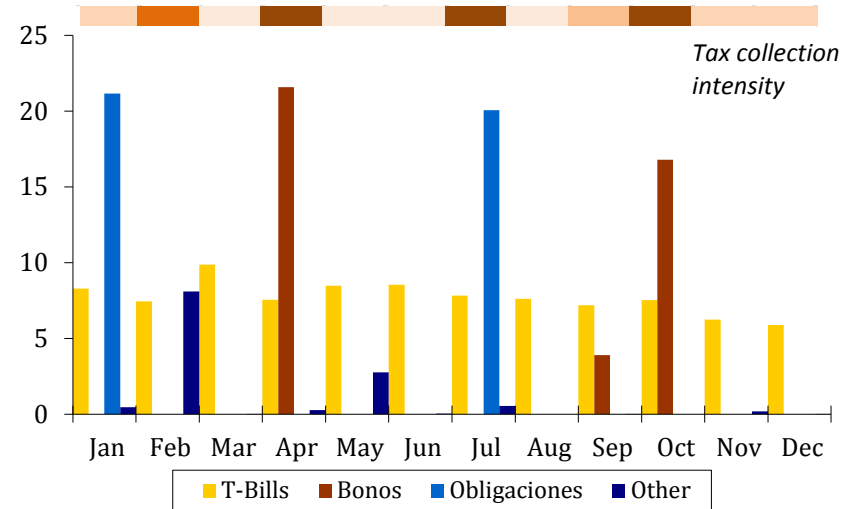


Sources: Secretaría General del Tesoro y Política Financiera for Spain, data for Italy (Feb17-Jan18), and Bloomberg for other countries.

[Link to Data](#)

Monthly Maturity Structure in 2017

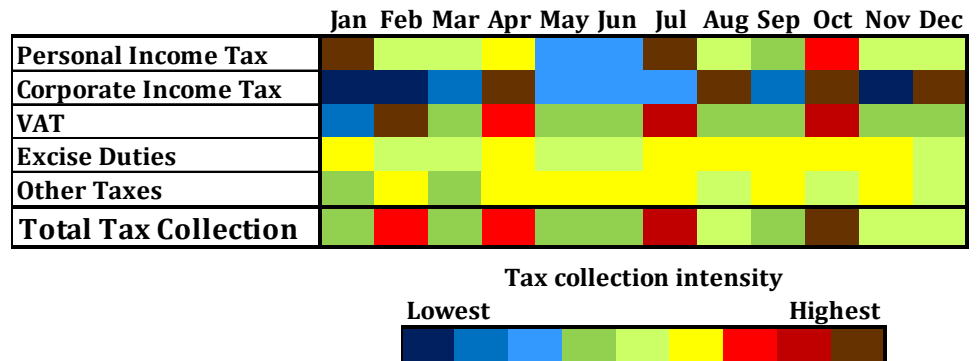
(as of March 31st 2017, € bn)



Source: Secretaría General del Tesoro y Política Financiera.

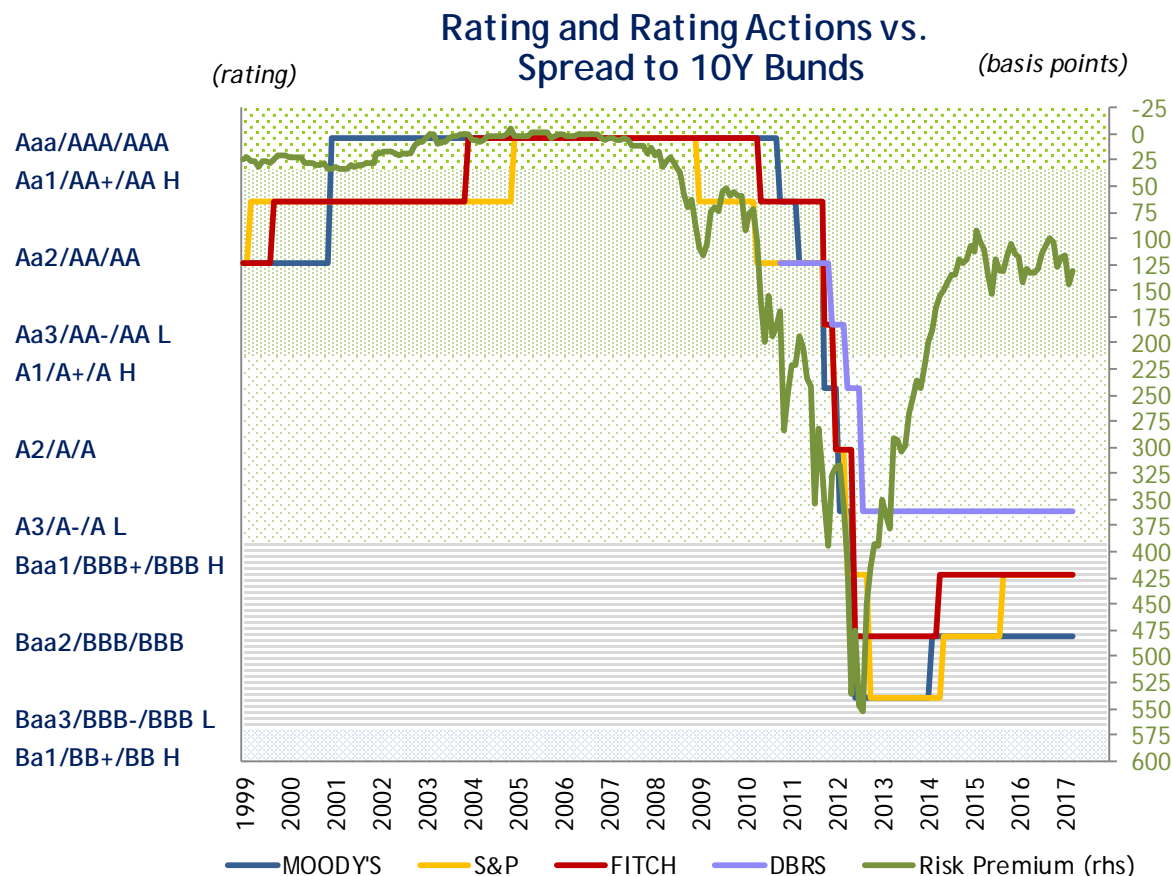
[Link to Data](#)

Administrative Distribution of Tax Collection



[Link to Data](#)

Evolution of Ratings



[Link to Data](#)

Announced Rating Dates in 2017

	DBRS	Fitch	S&P	Moody's
January		27		
February				17
March			31	
April			7	
May				
June				30
July		21		
August				
September			29	
October			6	20
November				
December				

1. The Funding Programme in 2016

2. Transformation of Spain's growth model

1.1 Recent macroeconomic trends	Page 13-14
1.2 The structural transformation of the labour market	Page 15-17
1.3 Trends in Inflation	Page 18
1.4 The adjustment of the financial sector	Page 19-20
1.5 New credit flows consistent with deleveraging	Page 21-22
1.6 Positive developments in the construction sector	Page 23
1.7 From net borrower to net lender	Page 24-28

3. Spanish Economic Policy & Reforms

Macroeconomic scenario 2017

- ▶ Upward revision to contribution to growth of external demand: fifth year in a row of CA surplus
- ▶ Unemployment rate forecast to decline to 16.6% by 2017Q4

Macroeconomic scenario (YoY growth rates in percent)							
	2015	2016					2017
		Average	Q1	Q2	Q3	Q4	
Private consumption expenditure	2.9	3.2	3.6	3.4	3.0	3.0	2.6
General Government consumption expenditure	2.0	0.8	1.7	0.7	0.8	0.0	0.8
Gross Fixed Capital Formation	6.0	3.1	4.3	3.4	2.6	2.2	2.6
National Demand*	3.3	2.8	3.5	2.9	2.5	2.2	2.1
Exports of goods and services	4.9	4.4	3.8	6.5	2.9	4.4	5.1
Imports of goods and services	5.6	3.3	4.5	5.4	1.0	2.3	4.3
External demand*	-0.1	0.4	-0.1	0.5	0.7	0.8	0.4
Gross Domestic Product	3.2	3.2	3.4	3.4	3.2	3.0	2.5

(* Contributions to GDP in p.p)

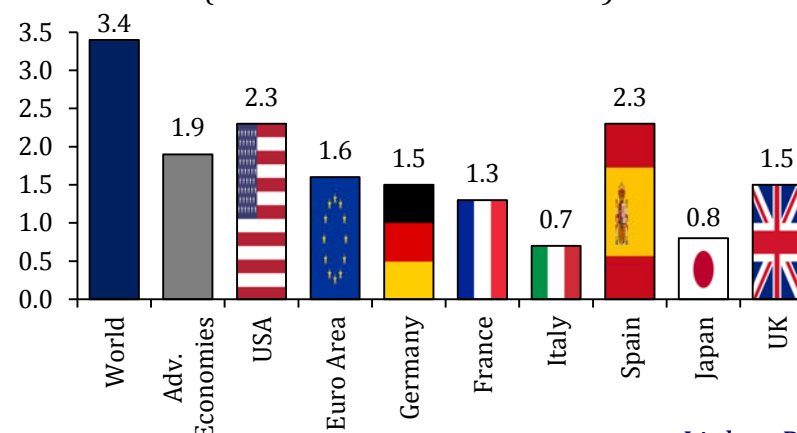
Other macroeconomic variables							
	2015	2016					2017
		Average	Q1	Q2	Q3	Q4	
Unemployment rate (in %)	22.1	19.6	21.0	20.0	18.9	18.6	17.5
Full-time Equiv. Employment (YoY Growth)	3.0	2.9	3.1	2.7	2.9	2.7	2.5
Net lending(+)/borrowing(-) with RoW (% of GDP)	2.0	2.4	2.0	2.4	2.3	--	2.3
GDP deflator (YoY Growth)	0.6	0.3	0.0	0.4	0.2	0.6	1.5
Deficit Excl. Financial Sector One-Offs (in % of GDP)*	5.08	4.3	0.7	2.9	2.6	4.3	3.1

Underlying assumptions							
	2015	2016					2017
		Average	Q1	Q2	Q3	Q4	
USD/€ exchange rate	1.1	1.1	1.10	1.13	1.12	1.08	1.10
Euro Area GDP growth (YoY growth)	1.6	1.7	1.6	1.6	1.7	1.7	1.6
Oil prices (Brent, USD/barrel)	52.2	44.8	--	--	--	--	56.4

Source: Ministerio de Economía, Industria y Competitividad.

[Link to Data](#)

Growth Forecasts for 2017. International Monetary Fund (Year-on-Year Growth Rates)

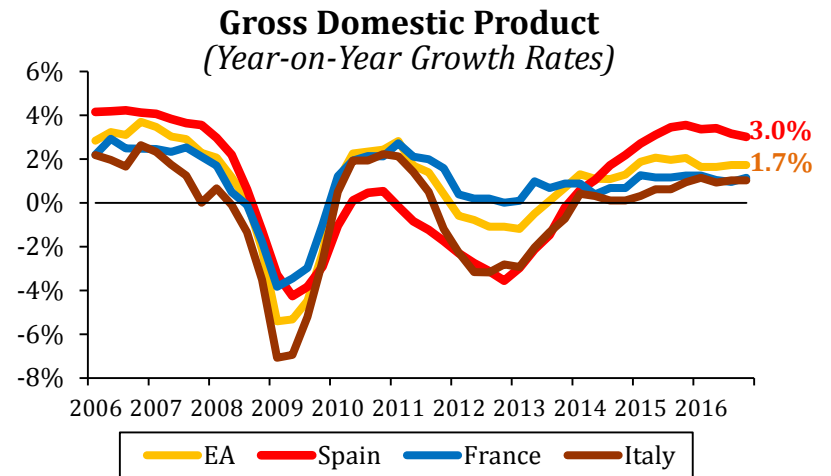


Source: IMF.

[Link to Data](#)

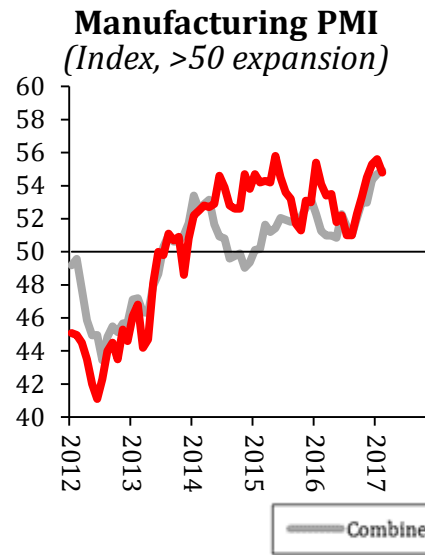
Growth is less vulnerable to volatility

- ▶ Spain set to be one of the fastest growing large advanced economies in 2017
- ▶ Positive tailwinds shared across the Euro Area (i.e., weaker exchange rate, low interest rates, improved credit conditions)
- ▶ The positive effects of structural reforms explain the differential improvement

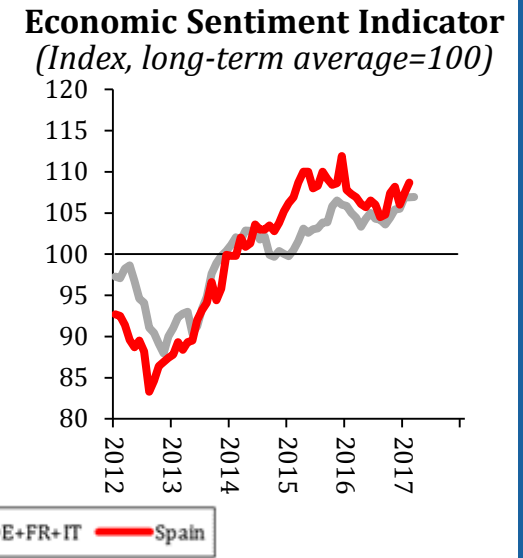


Source: Eurostat.

[Link to Data](#)



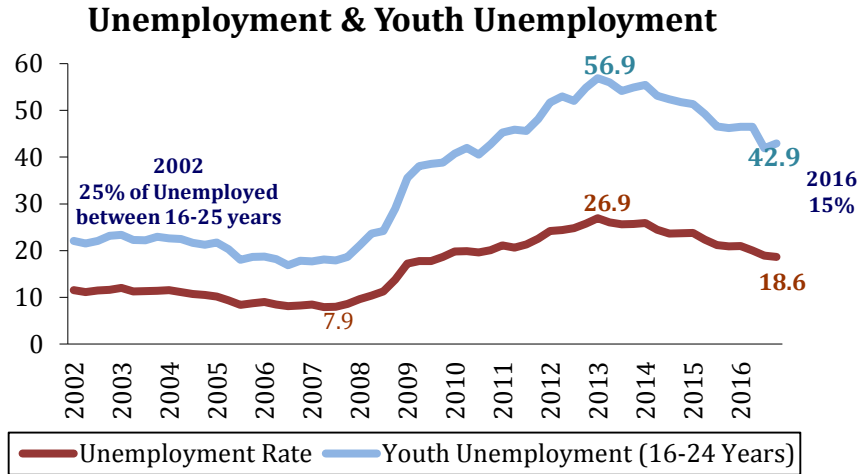
Sources: Bloomberg & Eurostat.



[Link to Data](#)

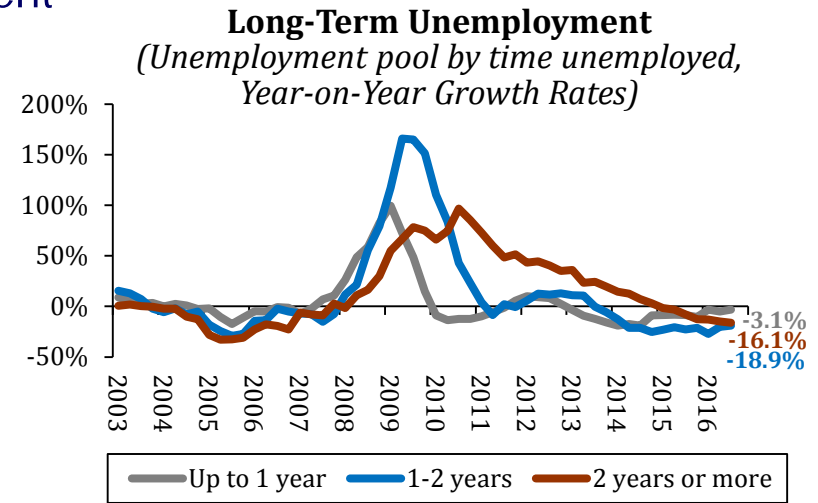
Labour market reform: a change in labour dynamics

► Progressive correction of long-term unemployment



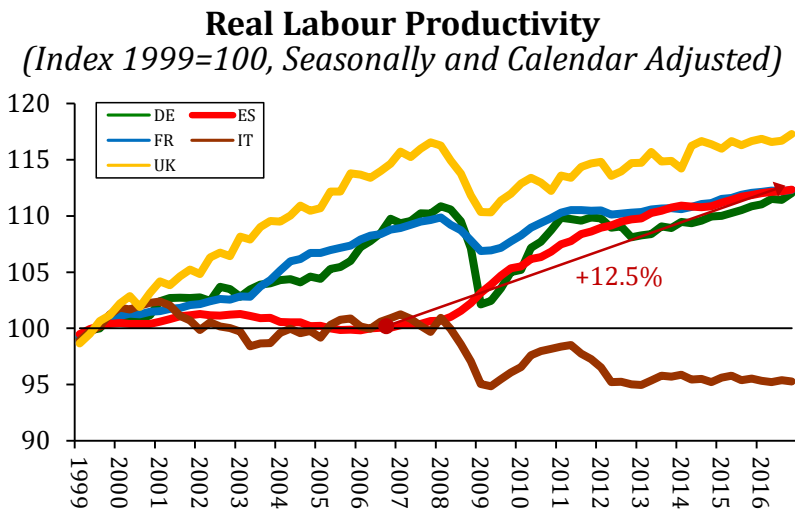
Source: National Statistics Institute.

[Link to Data](#)

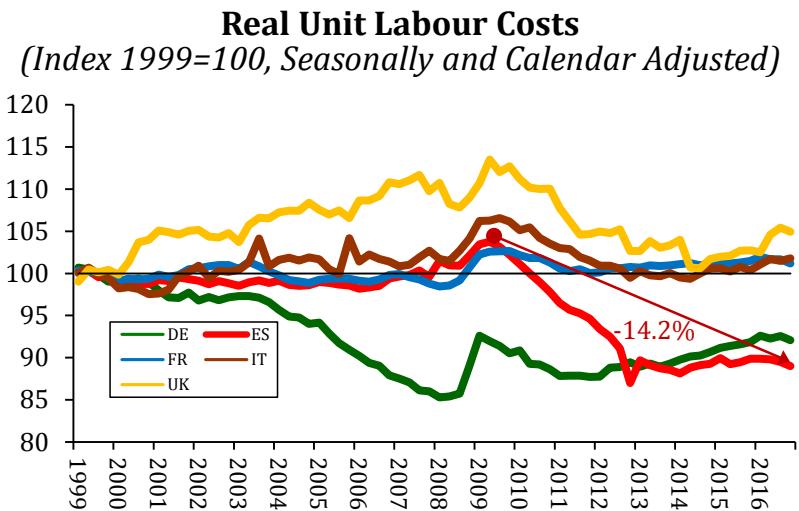


Source: National Statistics Institute and Eurostat.

[Link to Data](#)



Source: Eurostat.

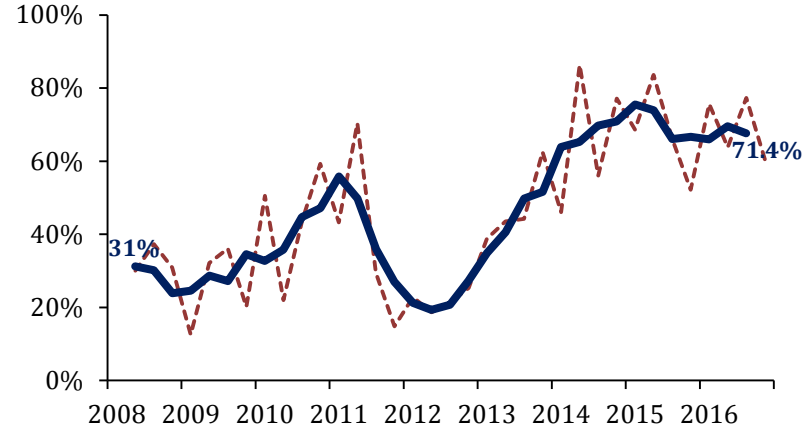


[Link to Data](#)

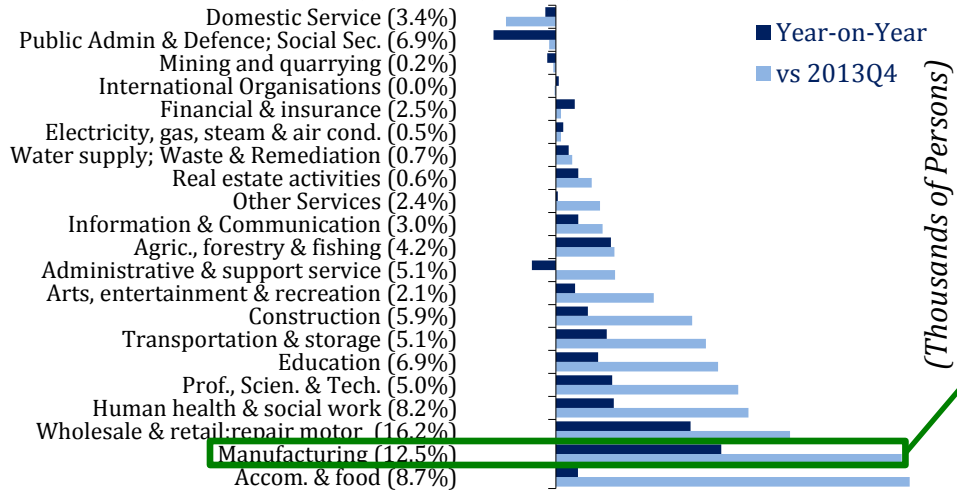
Growth is widely distributed across sectors

- ▶ Over the last three years employment has increased by more than 1.3 million persons, in over 70% of all economic branches
- ▶ In the last year employment growth has been widespread across sectors and especially intense in manufacturing and wholesale & retail trade

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

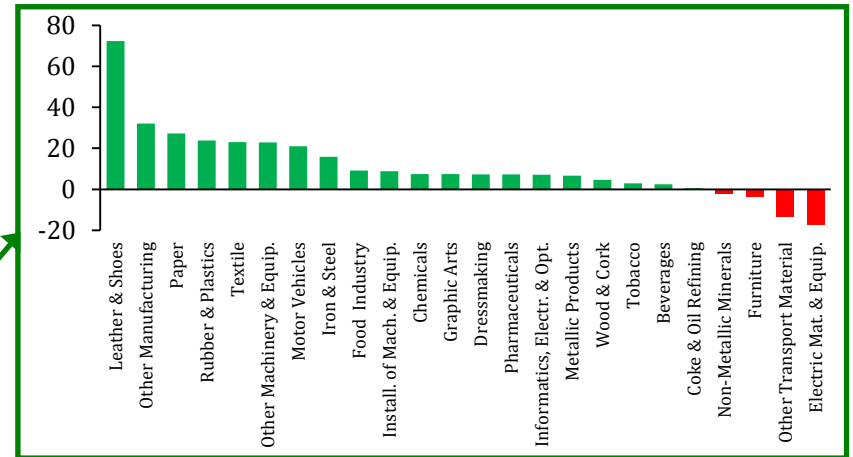


Labour Force Survey, 2016Q4
Breakdown by Branches of Economic Activity.
(Weights in Parenthesis)



Source: National Statistics Institute.

Employment Growth in Manufacturing Branches Since 2013Q4
(In Percent)

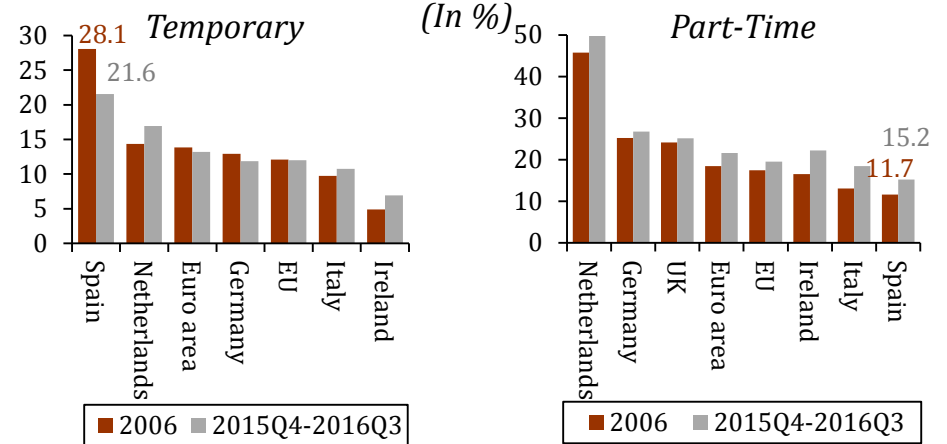


[Link to Data](#)

Changing employment patterns strengthen confidence

- ▶ Less reliance on temporary contracts, more open-ended & part-time contracts
- ▶ Previously discouraged workers re-engaging the labour force
- ▶ Higher job security and lower unemployment boosts confidence and consumption

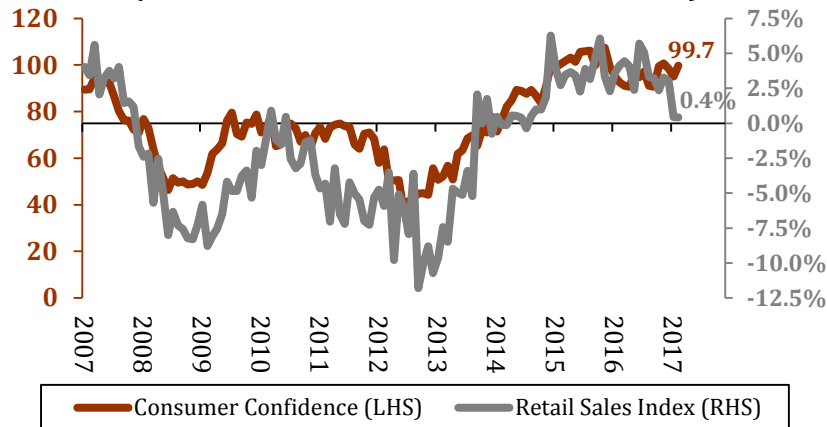
Share of Temporary and Part-Time Contracts in Total Employment



Source: National Statistics Institute and Eurostat.

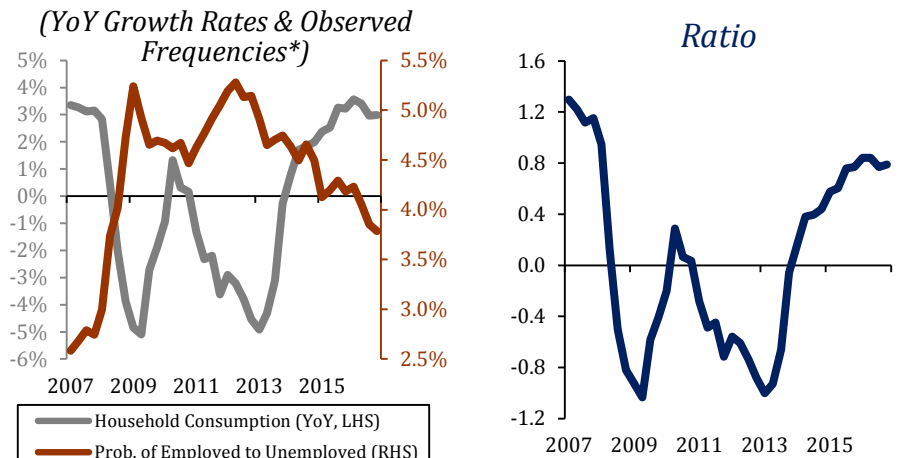
[Link to Data](#)

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



Source: Ministerio de Economía, Industria y Competitividad. [Link to data](#)

Consumption & Transition from Employment to Unemployment



Source: National Statistics Institute.

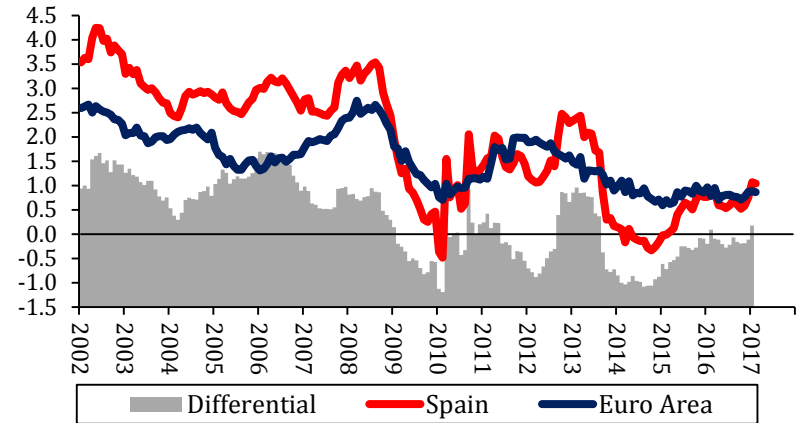
* Frequency of becoming unemployed in a given quarter of a person who was employed in the previous quarter.

[Link to Data](#)

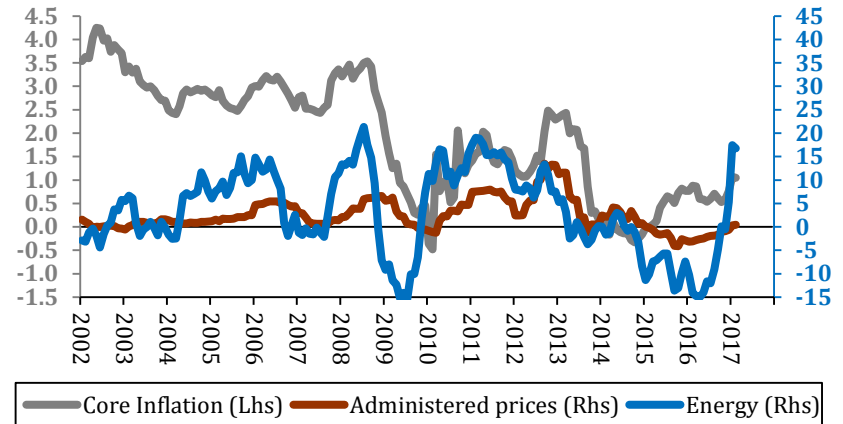
Positive core inflation and favourable inflation differential

- ▶ Positive core inflation, and favourable inflation differential vs. main trading partners, support cost-competitiveness
- ▶ Recent inflationary pressures linked to impact from base effects in energy prices. Expected to recede in 2017
- ▶ Inflation linked to administered prices to remain subdued due to the reforms implemented in 2013 ("*De-indexation Law*")

Core Inflation and Inflation Differential vs. EU
(In %, Year-on-Year Growth Rates)



Sub-Components in Spanish HICP
(In %, Year-on-Year Growth Rates)

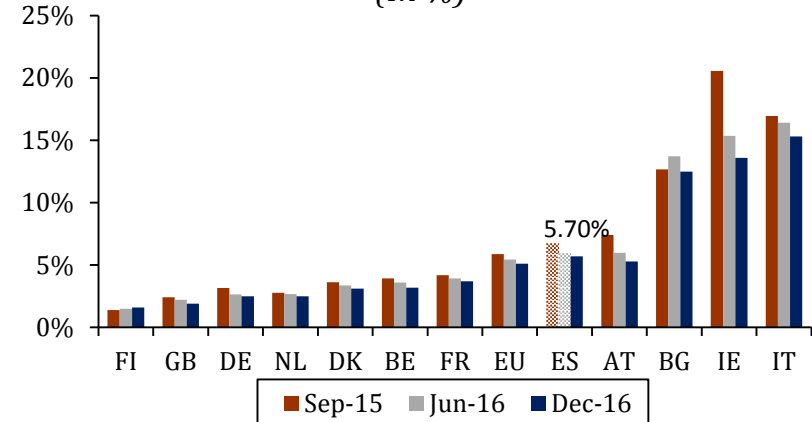


Source: Ministerio de Economía, Industria y Competitividad. [Link to Data](#)

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 approximately 46% by 2016Q4
- ▶ Banks have cleaned up impaired assets by approx. €300 bn in 2012

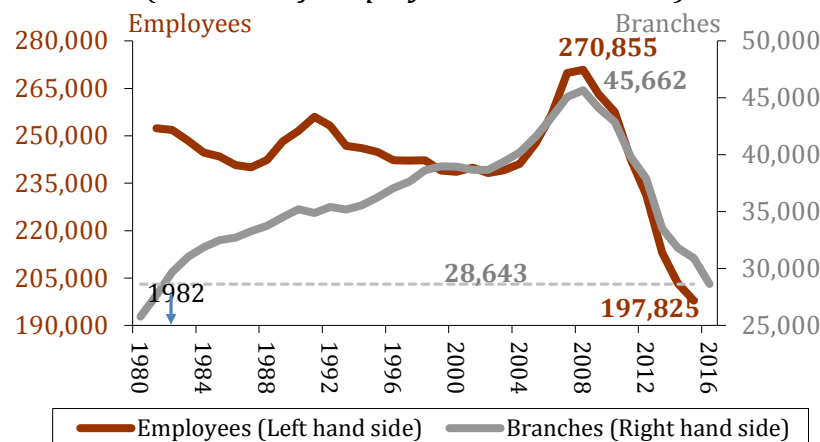
Harmonised Non-Performing Exposure Ratios (In %)



Source: EBA.

[Link to Data](#)

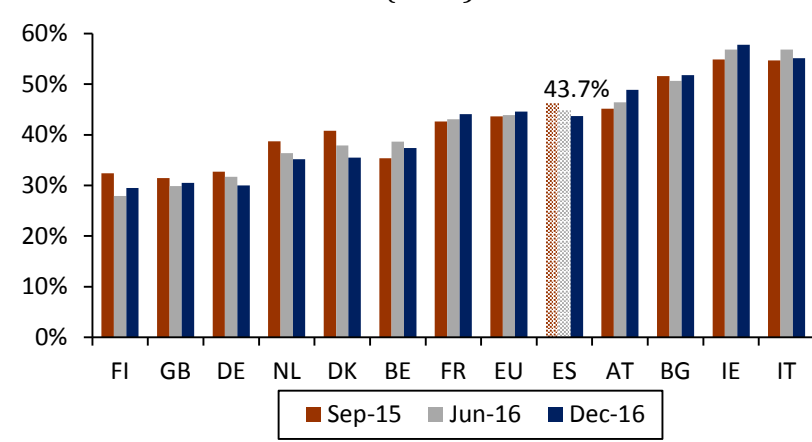
Adjustment in Deposit Taking Institutions (Number of Employees and Branches)



Source: Bank of Spain.

[Link to Data](#)

Harmonised Non-Performing Coverage Ratio (In %)



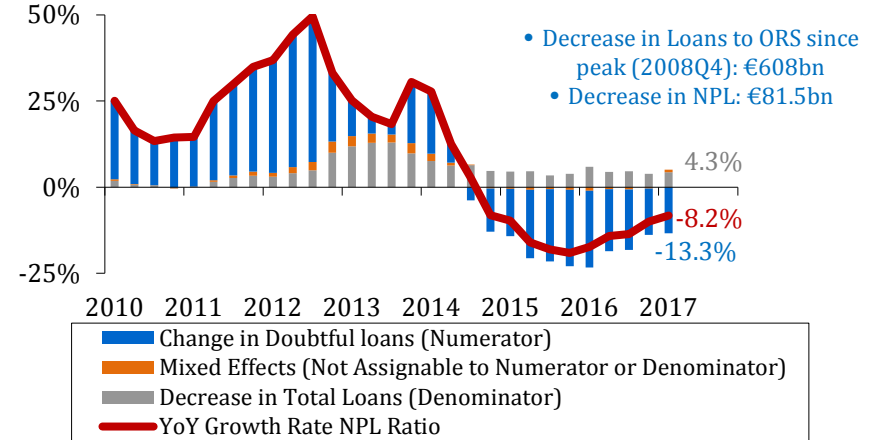
Sources: EBA.

[Link to Data](#)

Adjustment and recapitalisation of the financial system (II)

- ▶ Nominal doubtful loans declining -8.2% yoy in January
- ▶ Further improvement of the equity-to-asset ratio & funding gap
- ▶ Positive feedback loops between unemployment reduction, bankruptcy proceedings and NPLs

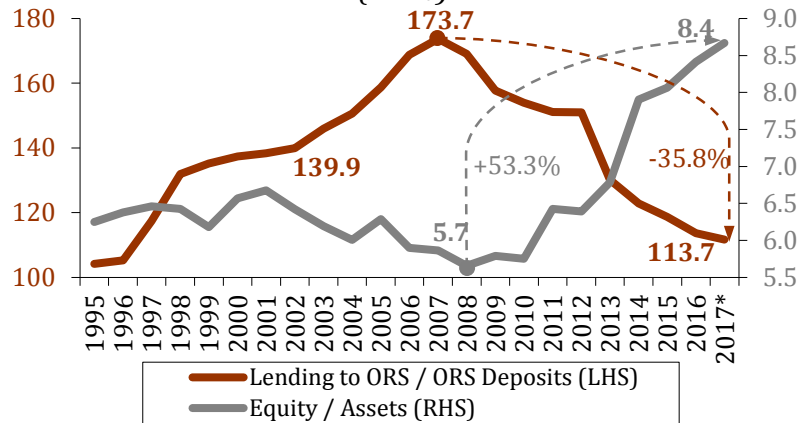
Breakdown of Year-on-Year Growth Rate of NPL Ratio (National Exposures) into its Components



Source: Bank of Spain.

[Link to Data](#)

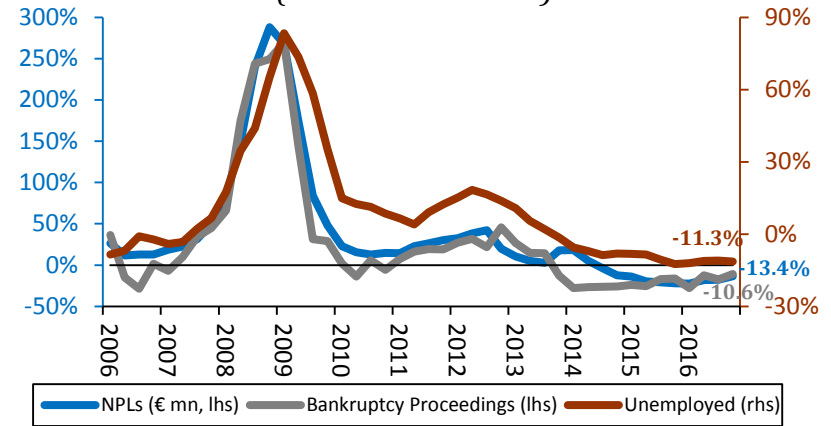
Equity-to-Assets and Lending-to-Deposits Ratio (In %)



Source: Bank of Spain.

[Link to Data](#)

NPLs, Unemployment & Bankruptcy Proceedings (YoY Growth Rates)



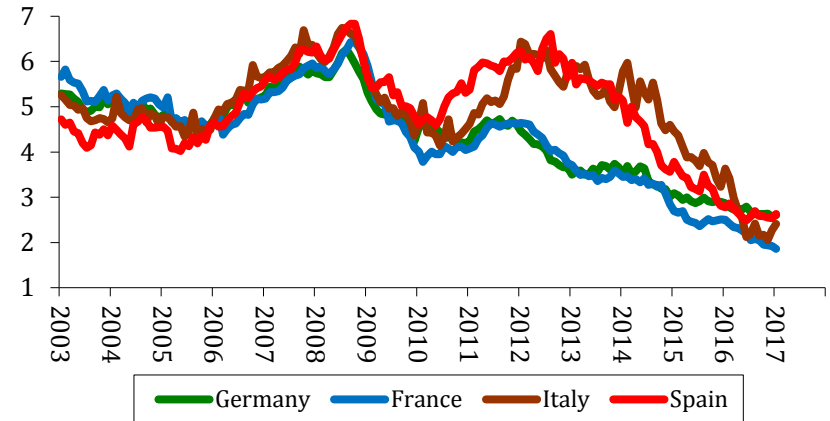
Sources: Bank of Spain and National Statistics Institute.

[Link to Data](#)

Increasing new loans to households & changes in corporate finance

- ▶ Interest rates have converged in the Euro Area
- ▶ New loans to SMEs (less than €1 million) are growing since mid-2013. New loan operations for more than €1mn have been declining in 2016 vs. 2015
- ▶ Deleveraging has modified the composition of liabilities in the private sector: fewer loans, more equity

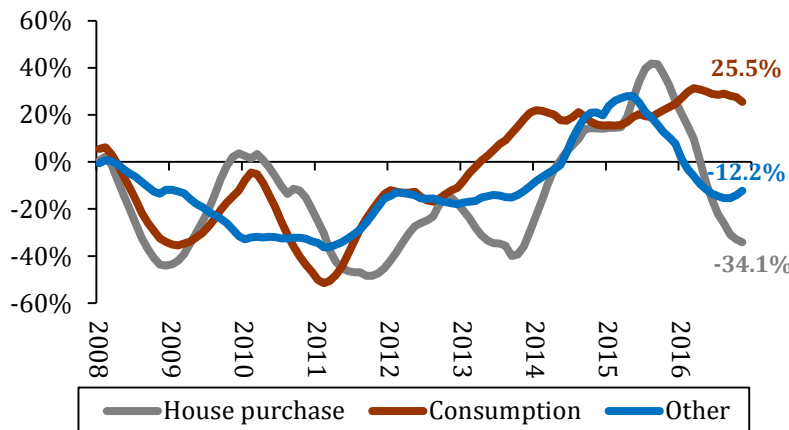
Lending Rates of New Loans to Non-Financial Corporations
(%. Maturity 1-5 Years and up to €1 mn)



Source: ECB.

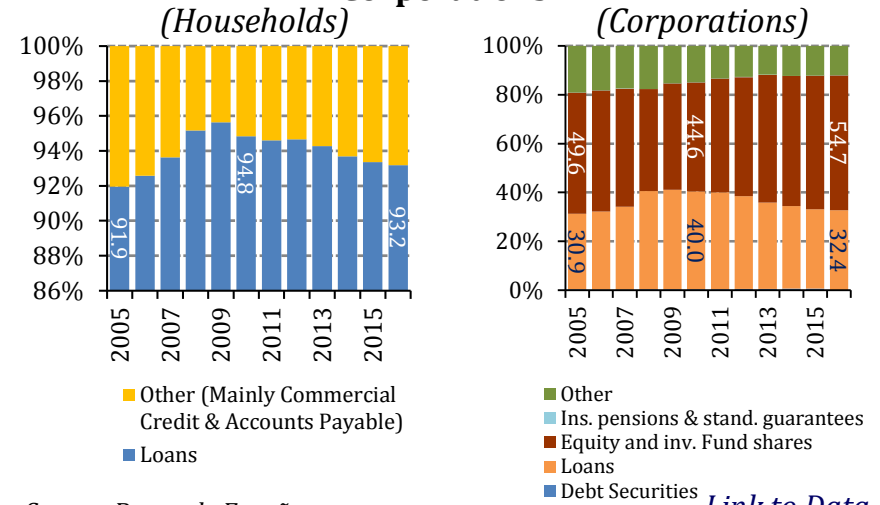
[Link to Data](#)

New Loans to Households. By Type of Loan
(Smoothed. Year-on-Year Growth Rates)



Source: Ministerio de Economía, Industria y Competitividad. [Link to Data](#)

Liability Structure of Households & Non-financial Corporations



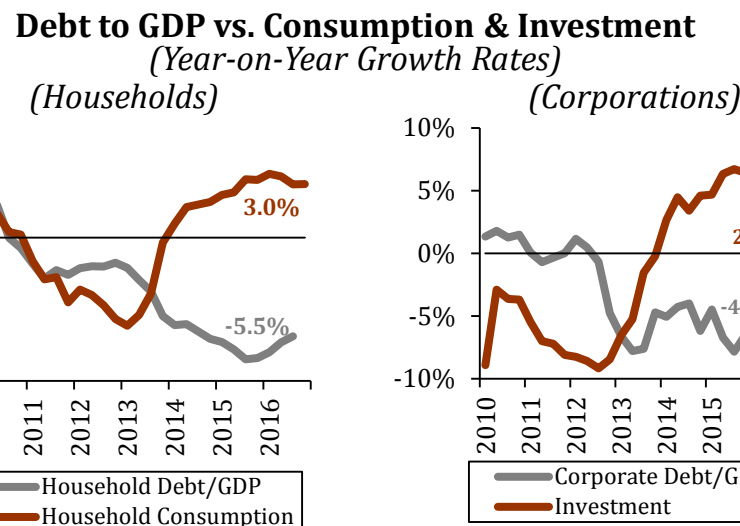
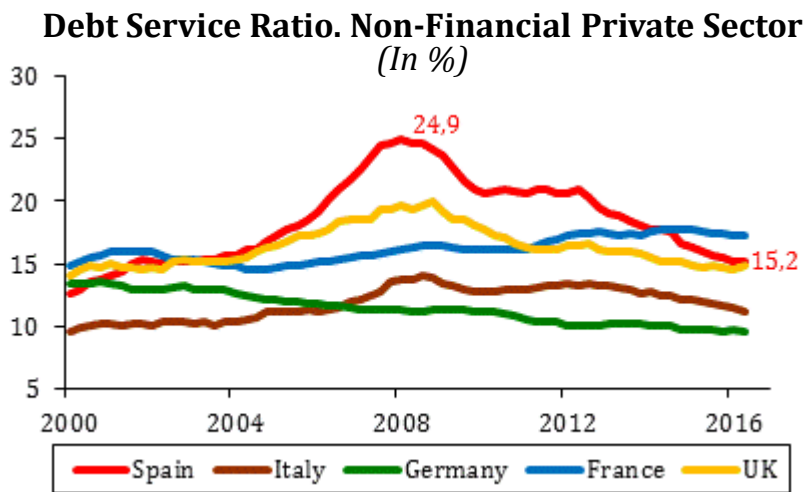
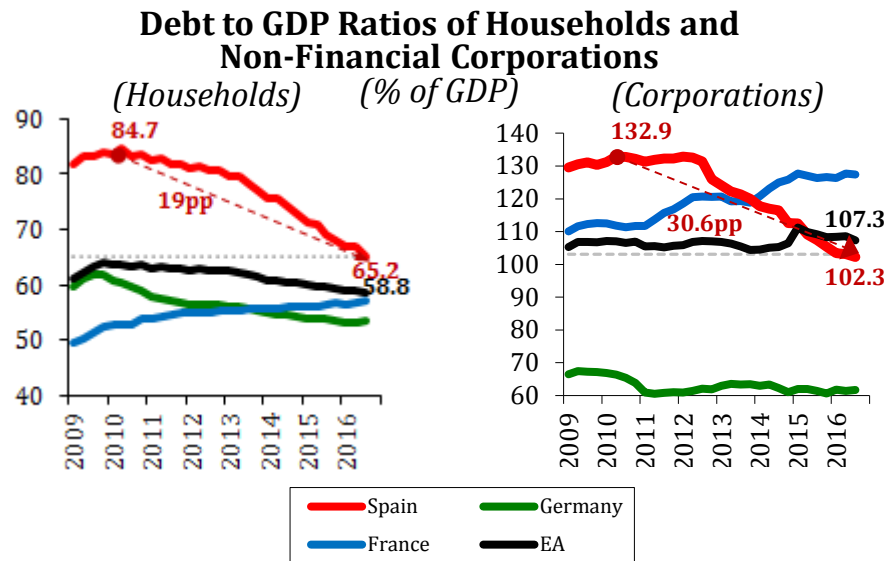
Source: Banco de España.

[Link to Data](#)

New credit flows consistent with deleveraging

Private sector deleveraging continues

- ▶ Corporate indebtedness has fallen below Euro Area Average
- ▶ Since 2010Q2 the private sector has deleveraged by €497.2 bn, of which firms by €303.6 bn and Households by €193.6 bn
- ▶ Confidence and economic stability makes private-sector deleveraging compatible with growth in private consumption and investment



Source: Bank for International Settlements.

[Link to Data](#)

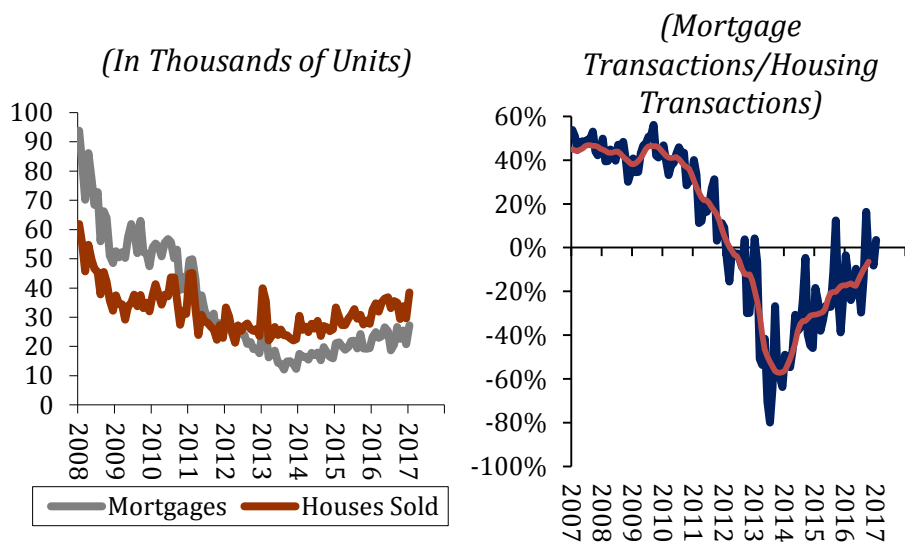
Source: ECB, Bank of Spain and National Statistics Institute.

[Link to Data](#)

Spain's construction sector is beginning to recover

- ▶ Prices bottomed out around mid-2014, and have shown a moderate upward trend
- ▶ Gradual recovery in mortgages, new loans and residential transactions since 2013
- ▶ Gross value added generated by the construction sector is expanding since 2015

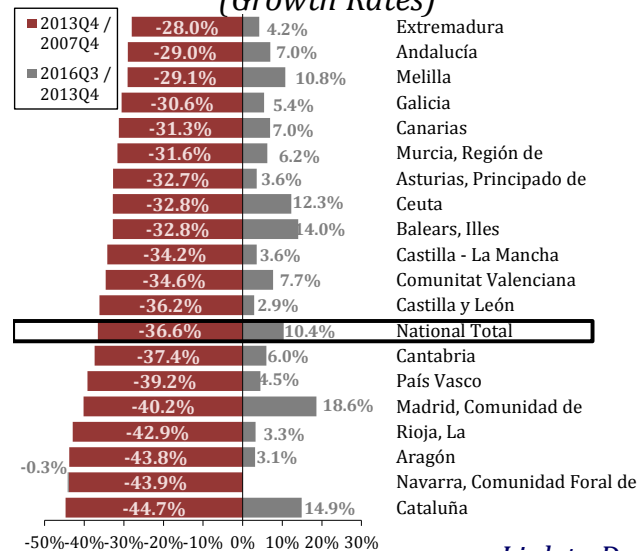
Mortgages and Housing Transactions



Source: National Statistics Institute.

[Link to Data](#)

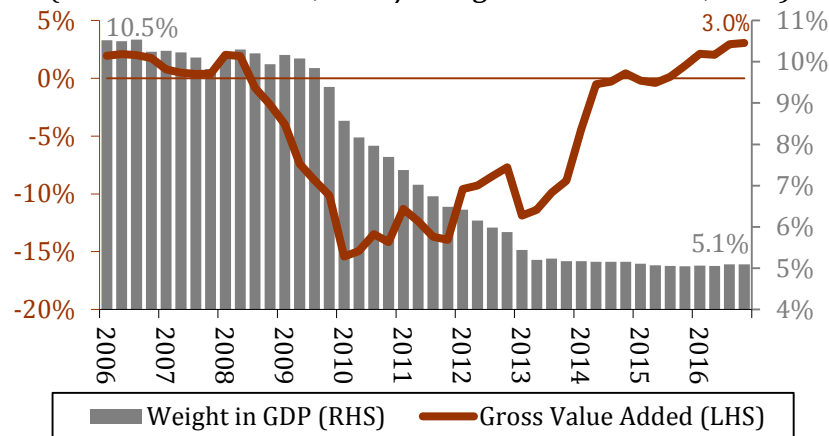
House Price Index (Growth Rates)



Source: National Statistics Institute.

[Link to Data](#)

Gross Value Added in Construction (YoY Growth Rates, LHS / Weight in Total GDP, RHS)



Source: National Statistics Institute.

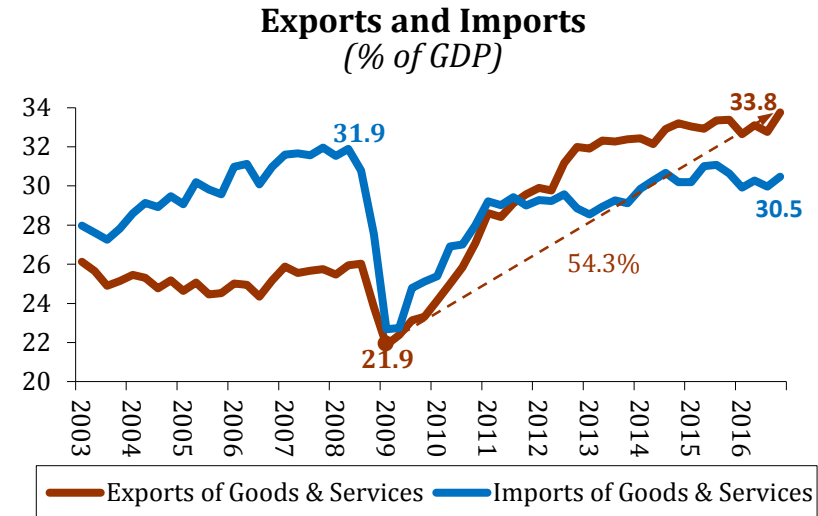
[Link to Data](#)

External sector: from net borrower to net lender

▶ The weight of exports of goods & services in GDP has increased from 21.9% in 2009Q1 to 33.8% by 2016Q4

- ▣ Exports of Goods +54.3%
- ▣ Exports of non-tourism services +34.7%
- ▣ Tourism +33.5%

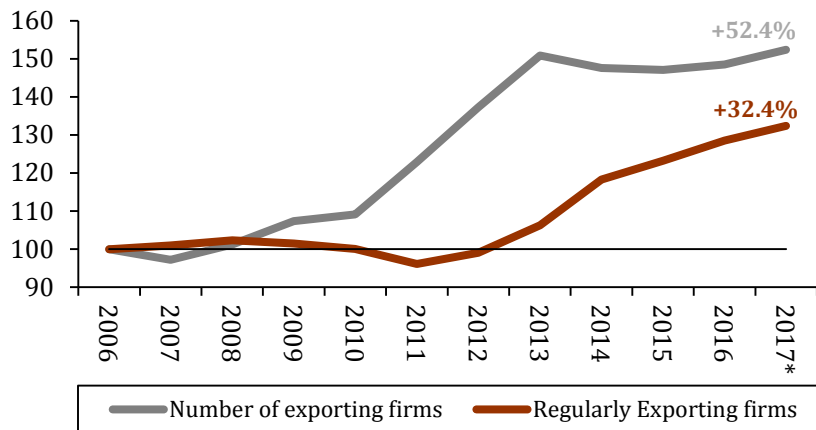
▶ This trend has been feasible due to Spanish firms' increased propensity to export



Source: National Statistics Institute.

[Link to Data](#)

Spanish Exporting Firms
(Index 2006=100)

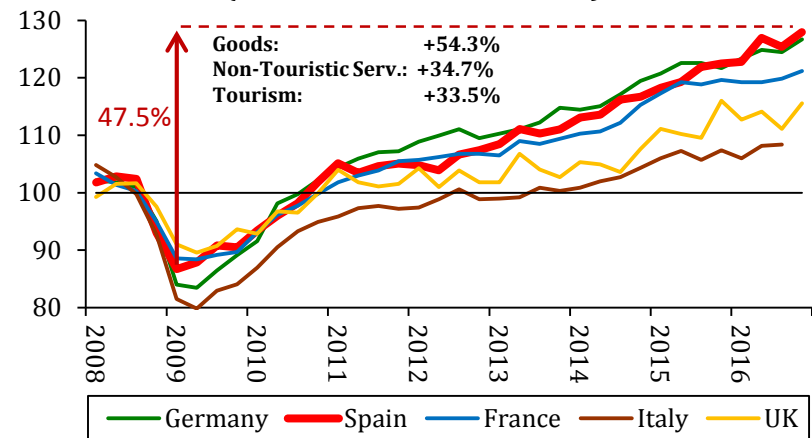


Source: ICEX.

* Up to January 2017.

[Link to Data](#)

Exports of Goods & Services
(Volume Index. 2008=100)



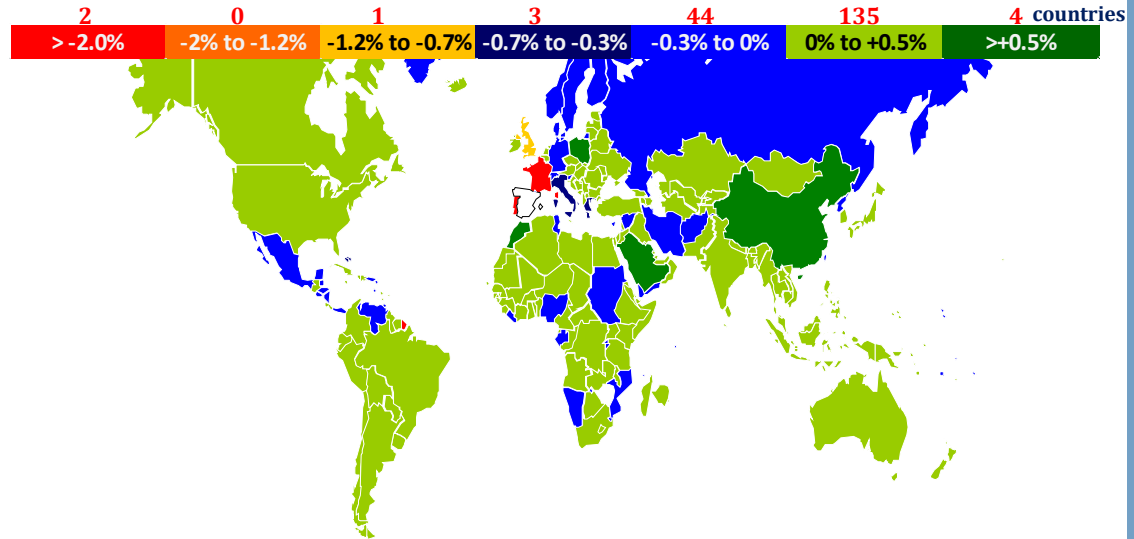
Source: Eurostat and National Statistics Institute.

[Link to Data](#)

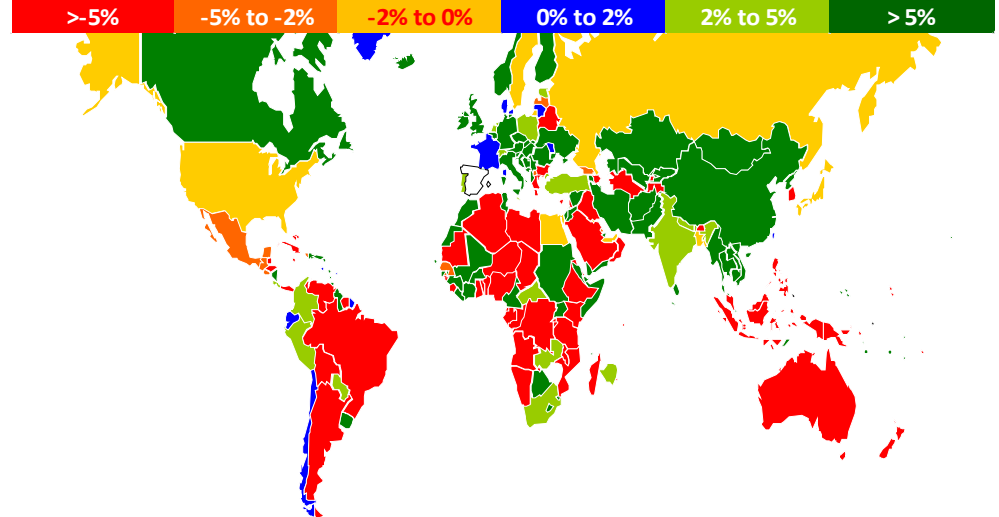
Exports are more widely diversified

- ▶ Spain is diversifying its export base:
 - ❑ Increasing market share in Africa & Middle East, Asia, North & South America
 - ❑ Decreasing market share of EU, Venezuela, Central America, parts of southern Asia
- ▶ Despite the advance of exports by BRICs, Spain is the single major EA Member to maintain its share in world exports since the 1990s

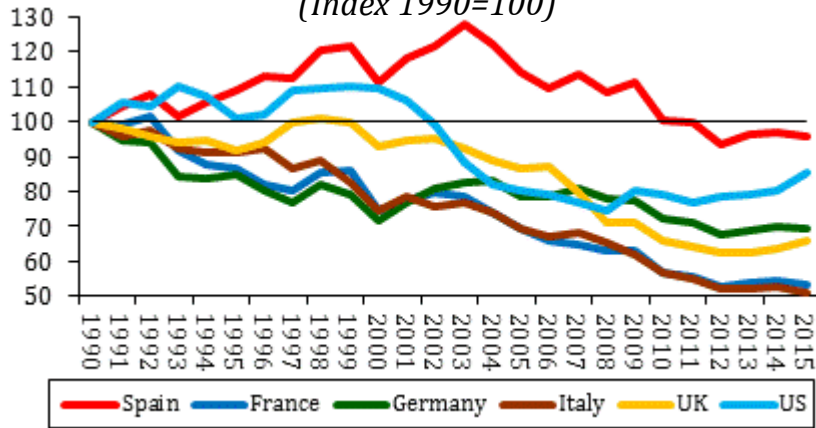
Change in Share in Spanish Merchandise Exports since 2005



Most Recent Year-on-Year Growth Rates of Merchandise Exports



Relative Changes in World Export Shares (Index 1990=100)



Source: IMF.

[Link to Data](#)

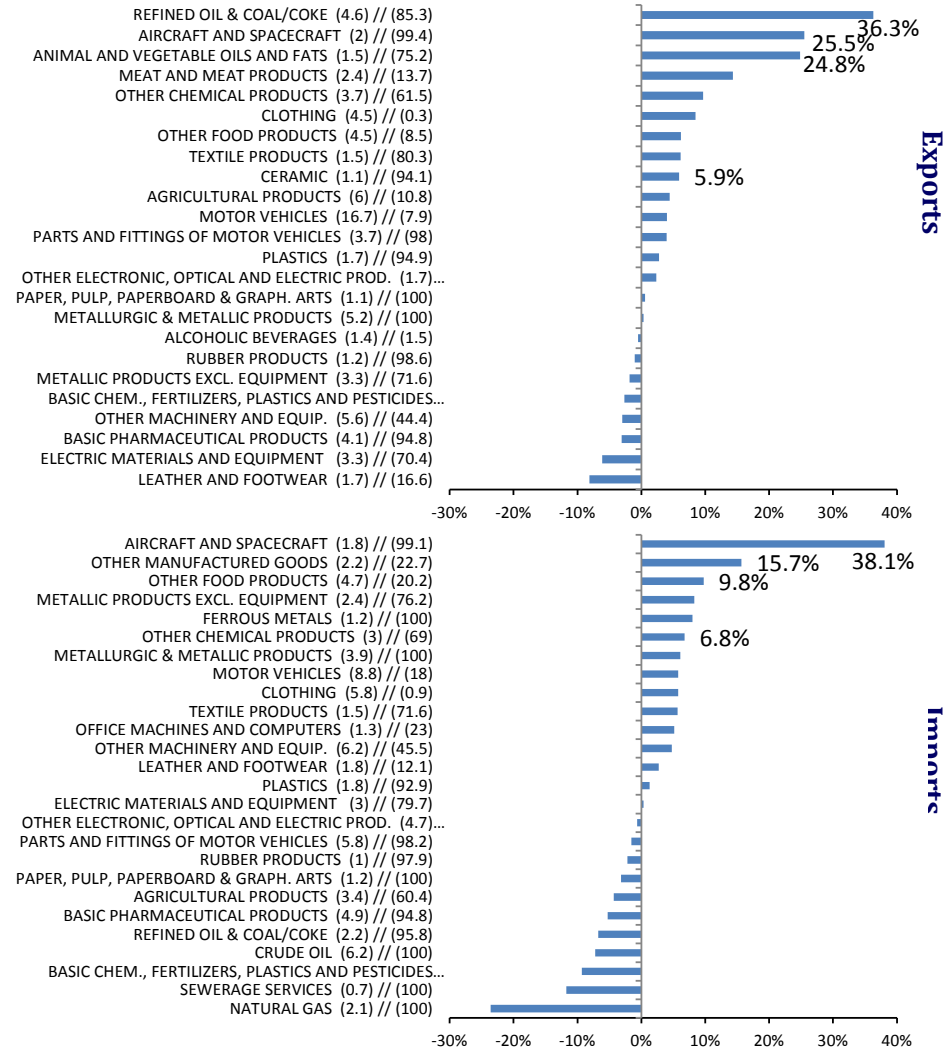
Source: Datacomex.

[Link to Data](#)

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

- ▶ Exports of consumption goods are expanding in line with demand from Europe and north America. Exports of capital & consumption goods are recovering
- ▶ Increasing imports of capital and intermediate goods (excluding energy imports); motor vehicles, electric and electronic products as well as machinery and pharmaceutical products

Main Export and Import Products (YoY Growth)
*(With Weight in Total 2013 Merchandise Exports >1%.
 Smoothed data. In Brackets Share and % of Intermediate Goods)*

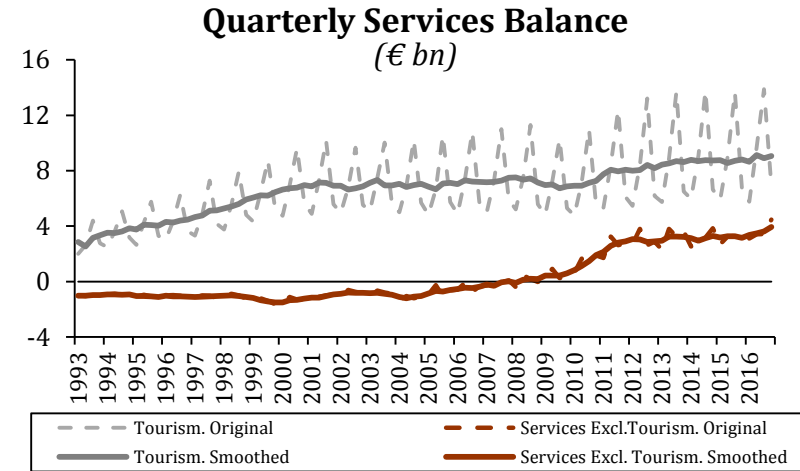


Source: Ministerio de Economía, Industria y Competitividad.

[Link to Data](#)

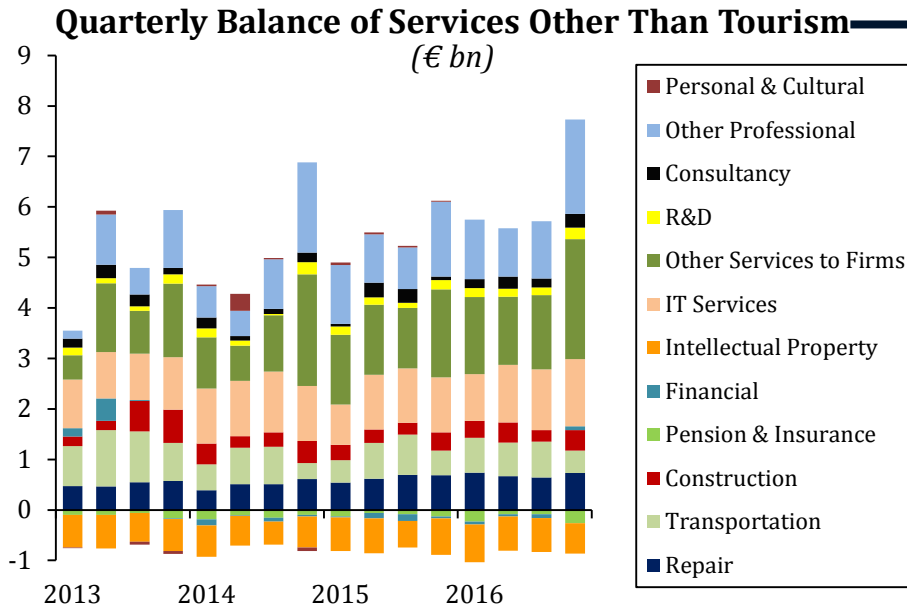
Services exports expand the CA surplus

- ▶ Tourism services are reaching historical highs
- ▶ Most importantly, exports of services other than tourism (exports of services to firms, consultancy & other professional services, IT-related services, etc.) are expanding at high growth rates

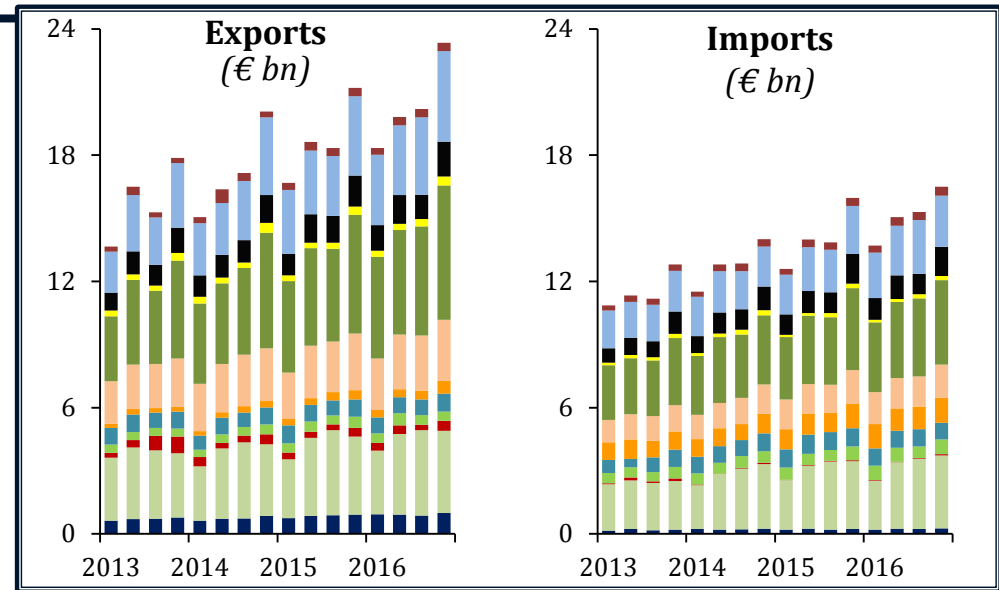


Source: Bank of Spain.

[Link to Data](#)



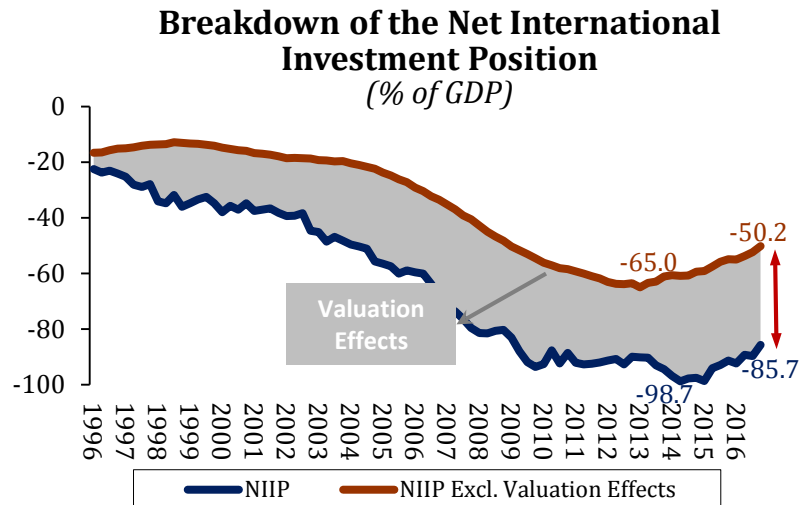
Source: Bank of Spain.



[Link to Data](#)

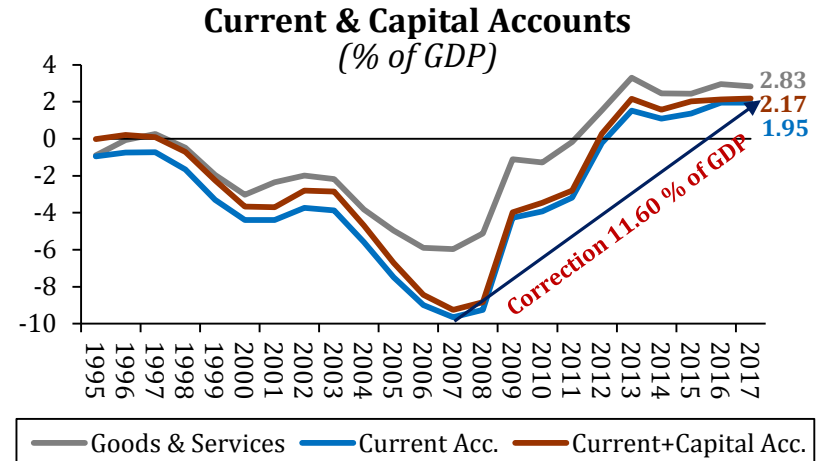
Net International Investment Position in the context of growth & CA surplus

- ▶ GDP growth is not linked to current account deficits as in previous growth cycles
- ▶ The NIIP, once excluding valuation effects, has declined by 14.8pp since 2013
- ▶ According to the European Commission, assuming nominal GDP growth and current account balance at current levels, the NIIP may fall to -50% of GDP by 2024



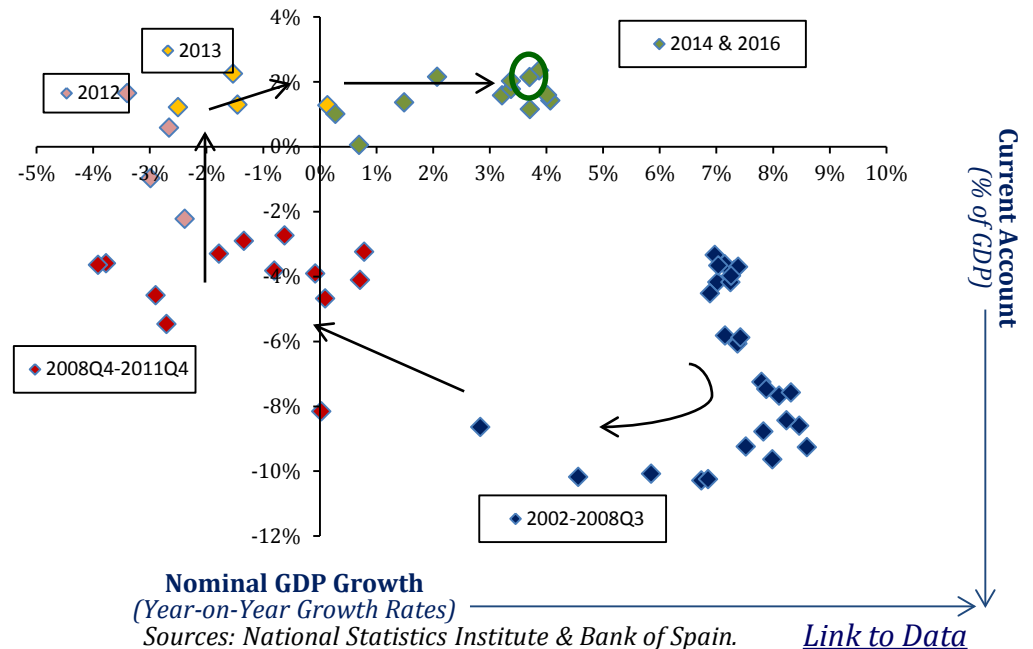
Source: Bank of Spain.

[Link to Data](#)



Source: Bank of Spain.

[Link to Data](#)



Sources: National Statistics Institute & Bank of Spain.

[Link to Data](#)

1. The Funding Programme in 2016

2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

2.1 Deficit reduction 2016-2019

Page 30

2.2 Debt to GDP dynamics

Page 31

2.3 Budgetary Execution in 2017

Page 32

2.4 Fiscal Adjustment measures adopted

Page 33

2.4 Reform Policies

Page 34-42

General Government deficit in 2016

- ▶ The General Government's budget balance in 2016 declined to 4.33% of GDP, down from 5.08% in the previous year, in line with EU Council Recommendations
- ▶ Headline deficit (including financial sector one-offs worth 0.21% of GDP) reached 4.54% of GDP:
 - ❑ Regional governments managed to halve their deficit; 11 out of 17 regions complied
 - ❑ Local Governments achieved surplus of 0.6%

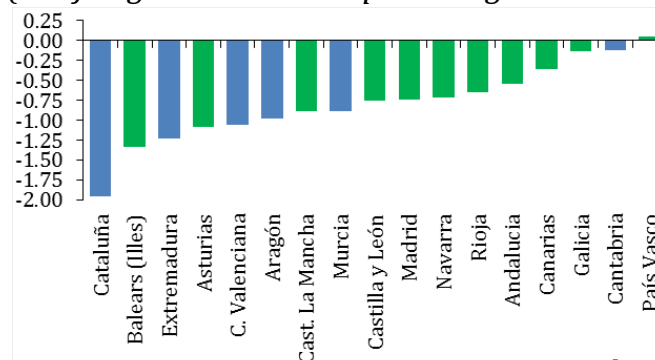
Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central Government	-9.2	-5.5	-5.4	-4.3	-4.5	-3.6	-2.6	-2.52	-1.1	-0.7	-0.3
Autonomous Regions	-2.0	-3.2	-3.4	-1.9	-1.6	-1.8	-1.7	-0.82	-0.6	-0.3	0.0
Local Governments	-0.5	-0.5	-0.4	0.3	0.6	0.5	0.5	0.64	0.0	0.0	0.0
Social Security Administrations	0.7	-0.2	-0.1	-1.0	-1.1	-1.0	-1.2	-1.62	-1.4	-1.2	-1.0
General Government	-11.0	-9.5	-9.3	-6.8	-6.7	-5.9	-5.1	-4.33	-3.1	-2.2	-1.3

Source: Ministerio de Hacienda y Función Pública.

* 2010 & 2011 net of the effects of the Regional Settlement System

[Link to data](#)

Deficit Reduction of Regional Governments (% of Regional GDP. Compliant regions in Green)



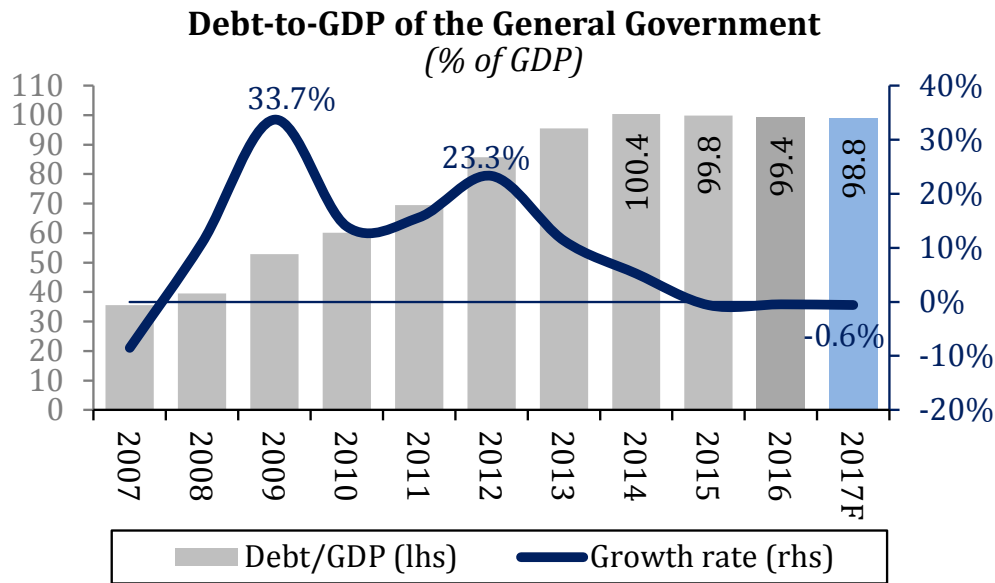
[Link to draft budget 2017](#)



Source: Ministerio de Hacienda y Función Pública. [Link to data](#)

Debt to GDP dynamics

- ▶ Declining trend in the debt/GDP ratio since 2014, where it reached a peak of 100.4%
- ▶ 2016 concluded with a renewed decrease in connection with lower deficit and higher nominal growth
- ▶ This trend will continue into 2017; debt to GDP estimated at end-2017 98.8%



Source: Bank of Spain

[Link to data](#)

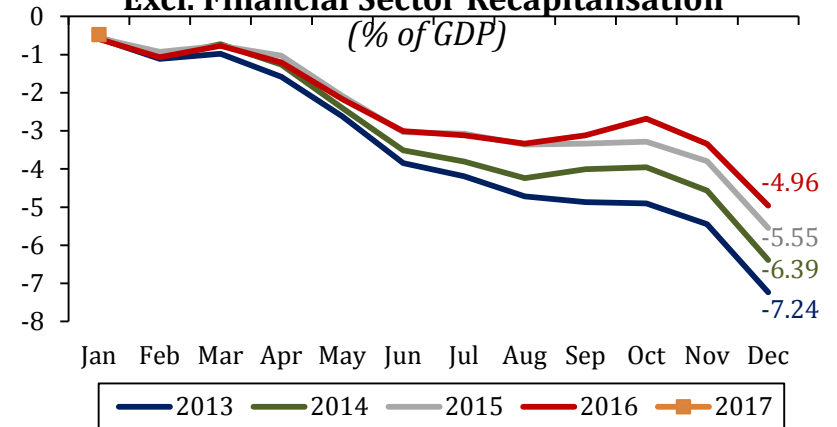
Budgetary execution in 2017

Deficit of the General government excluding Local Governments closed at 4.96% (vs -5.55% in 2015)

Monthly budgetary execution highlights (January 2017 data):

- ❑ Central Government: deficit €5.8 bn vs. €6.7 bn by January 2016
- ❑ Regional Governments: deficit reached €1.1 bn, stable vs. January 2016
- ❑ Social Security Administrations: the Social Security posted a surplus of €1.3 bn vs. €1.1 in January 2016

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



Source: IGAE.

[Link to Data](#)

Fiscal Adjustment measures adopted

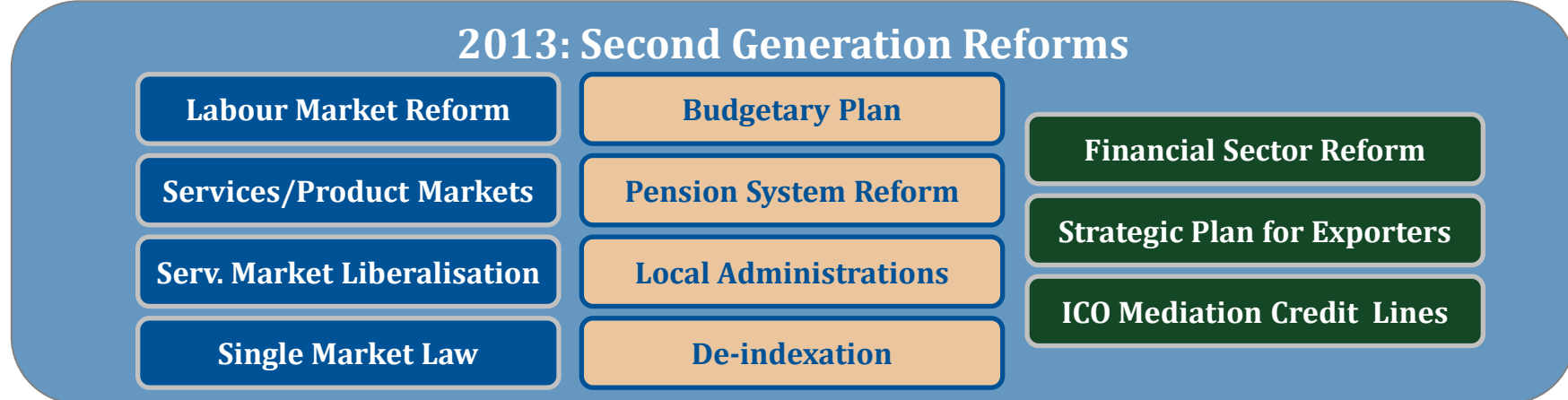
- ▶ New deficit path for 2016 to 2019, with additional one-off and structural measures adopted on Dec 2nd 2016:
 - Total income adjustment by €7.5 bn in 2017:
 - Corporate Income Tax (Limits on Negative Tax Bases, reversal of impairment losses, full exemption of negative capital gains)
 - Increase in Excise duties on tobacco and alcoholic beverages. Introduction of a tax on sugary drinks
 - Increased environmental taxation
 - New real-time VAT settlement system for firms with monthly settlement as from July 2017 (covering 80% of the VAT collection)
 - Fight against tax fraud (Limit to cash payments to €1,000, tax deferments of unpaid VAT, etc.)
 - Reinforcement of CORA Measures for efficiency in public administration
 - Maximum contributions to the Social Security to be discussed in *Pacto de Toledo* Forum
- ▶ Until the approval of a new budget law, the 2016 Budgets have been automatically extended into 2017. To match 2016 execution, the Central Government has adopted non-availability agreements (budgetary sequestration, preventing disbursements of approved budget appropriations)

Four years of structural reforms

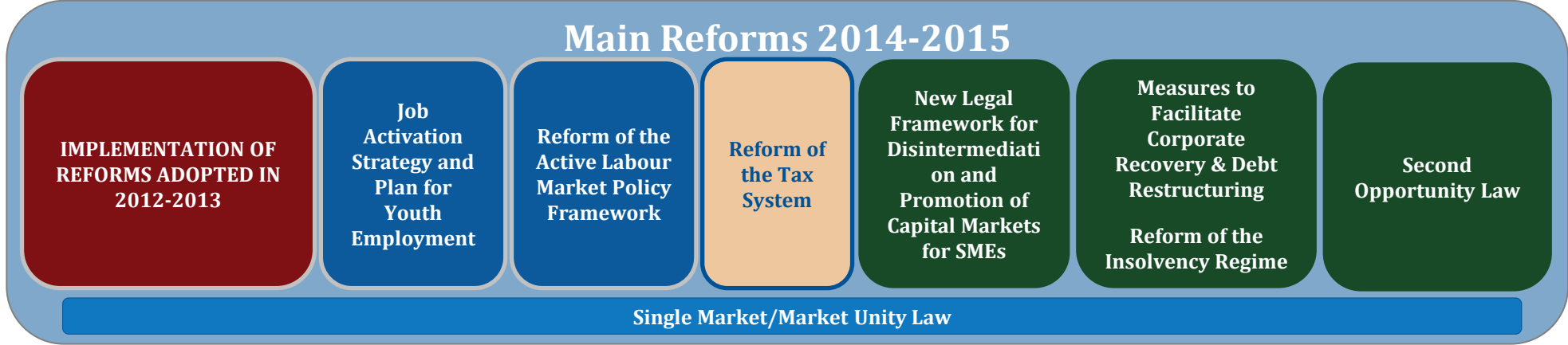
2012: First Generation Reforms



2013: Second Generation Reforms



Main Reforms 2014-2015



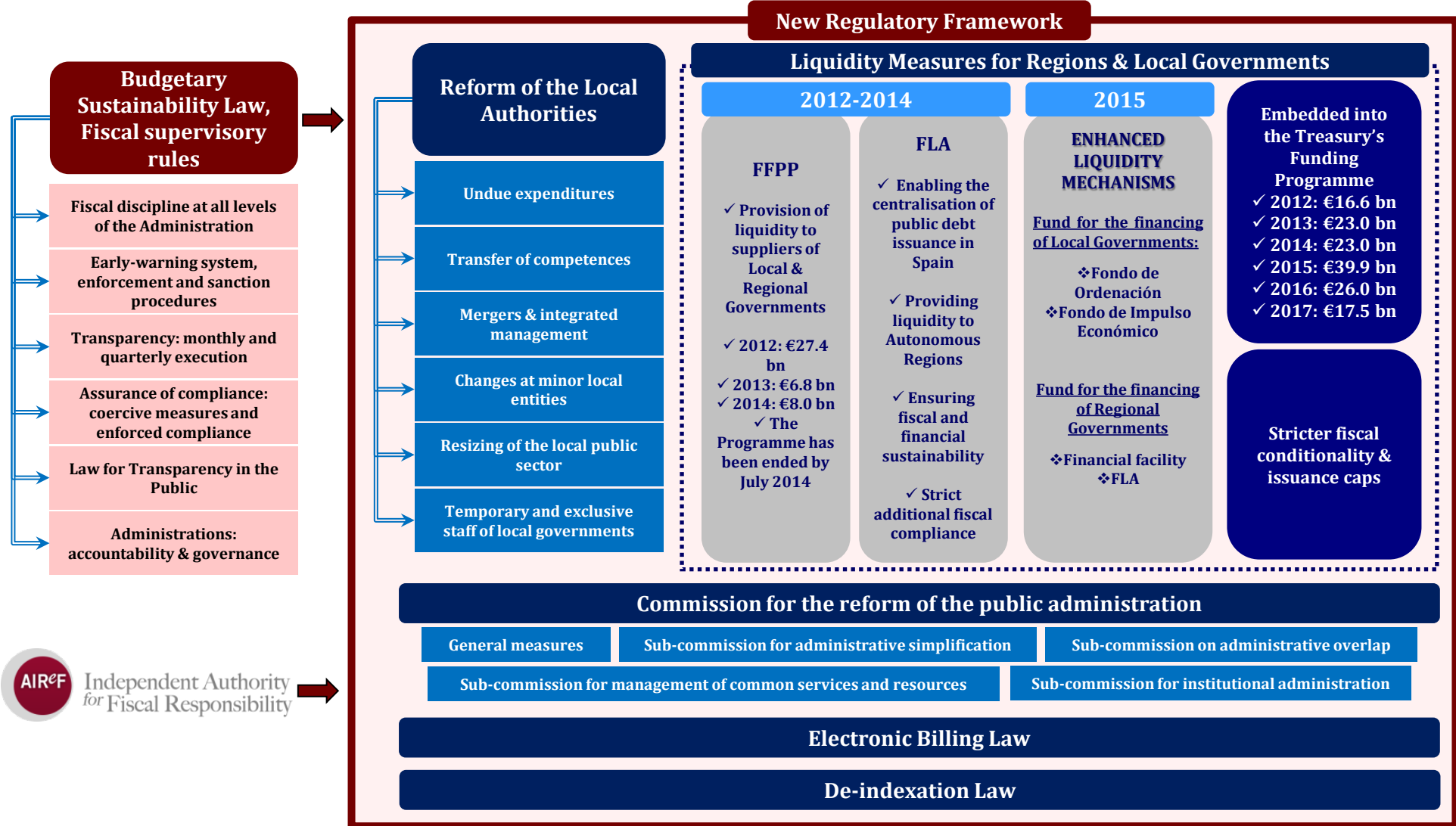
- Economic Structural Reforms
- Public Sector Reforms
- Financial Sector Reforms

[Links to detailed presentations describing the Reform Agenda](#)

Balance Reforms. Three years in Government
OECD: CORA Reforms

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 etc
- ▶ 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 2016 the Treasury provided Regions and Local Governments funding for up to €26.0 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	GDP (Weight in national GDP)	Total Liquidity Measures € mn (2012-2016)	% in total Liquidity Measures
Cataluña	19.0%	62,952.4	31.0%
C. Valenciana	9.4%	47,853.0	23.6%
Andalucía	13.4%	30,416.1	15.0%
Cast. La Mancha	3.4%	12,888.1	6.4%
Balears (Illes)	2.5%	8,448.7	4.2%
Murcia	2.6%	8,201.6	4.0%
Canarias	3.8%	6,029.3	3.0%
Galicia	5.2%	4,913.5	2.4%
Madrid	18.9%	4,728.8	2.3%
Castilla y León	5.0%	4,394.9	2.2%
Aragón	3.1%	3,705.4	1.8%
Extremadura	1.6%	2,795.0	1.4%
Cantabria	1.1%	2,432.6	1.2%
Asturias	2.0%	2,341.8	1.2%
Rioja	0.7%	685.6	0.3%
País Vasco	6.2%	0.0	0.0%
Navarra	1.7%	0.0	0.0%
TOTAL € mn		202,786.8	

The 2015 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

► Dec 2016 measures have eliminated inefficiencies

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
<ul style="list-style-type: none"> ► Reduction in number of tranches and rates in two years 	<ul style="list-style-type: none"> ► Lower rates in two years and more progressive 	<ul style="list-style-type: none"> ► Reduced general rate: from 30% to 25% in two years (reduced rate for new firms 15%) 	<ul style="list-style-type: none"> ► Health care products VAT rate adapted to ECC regulations: <ul style="list-style-type: none"> - Intermediate products for drug development, medical instruments and equipment, medical devices and pharmaceutical products 	<ul style="list-style-type: none"> ► Lists of defaulters to be published 	<ul style="list-style-type: none"> ► 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
<ul style="list-style-type: none"> ► Modification of personal income allowance: <ul style="list-style-type: none"> - Higher personal income minima - Family tax deductions: enabling negative tax rates for large families and with dependent persons with serious disabilities 	<ul style="list-style-type: none"> ► Elimination of tax deduction for dividends 	<ul style="list-style-type: none"> ► In the case of the financial sector kept at 30% (out for credit cooperatives and "Cajas Rurales") 		<ul style="list-style-type: none"> ► Annual publication of tax havens 	
<ul style="list-style-type: none"> ► Limits to exemptions to severance payments in case of unjustified dismissal 	<ul style="list-style-type: none"> ► Capital gains generated in less than 12 months no longer penalised 		<ul style="list-style-type: none"> ► Update and simplification of depreciation tables 	<ul style="list-style-type: none"> ► Administrative assessment in evidence of tax fraud 	<ul style="list-style-type: none"> ► 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 ● New deductions (favouring the deleveraging process): <ul style="list-style-type: none"> - Capitalisation reserves. 10% of corporate income deductible if incorporated into reserves. - Equalisation reserve for SMEs ● Limits to the financial expenditure deductions (favouring the deleveraging process, reduced to 30% of gross operating profit)
<ul style="list-style-type: none"> ► Tax deductions for house rental: <ul style="list-style-type: none"> - Elimination for new rentals (Expenditure side) - Lower tax deductions for house rentals (Income side) 	<ul style="list-style-type: none"> ► New savings instrument: savings or insurance schemes maintained longer than five years ("Cuenta Ahorro 5"): exempt from capital gains tax 	<ul style="list-style-type: none"> ► No deductibility of equity securities impairments extended to fixed income portfolios and fixed assets 		<ul style="list-style-type: none"> ► Tax assessment cases are extended to smuggling offenses 	
<ul style="list-style-type: none"> ► Lower tax withholding for professional and self-employed workers with incomes below €15,000 	<ul style="list-style-type: none"> ► Limit for deductible contributions linked to pension plans lowered to €8,000/year 		<ul style="list-style-type: none"> ► 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 	<ul style="list-style-type: none"> ► Interruption of the limitation period of related tax obligations 	<ul style="list-style-type: none"> ► Incentives for cultural activities
<ul style="list-style-type: none"> ► Limits to simplified method ("Modulos") to certain professional activities 	<ul style="list-style-type: none"> ► Better fiscal treatment in case of assets received in lieu of payment if affected by preference shares 				

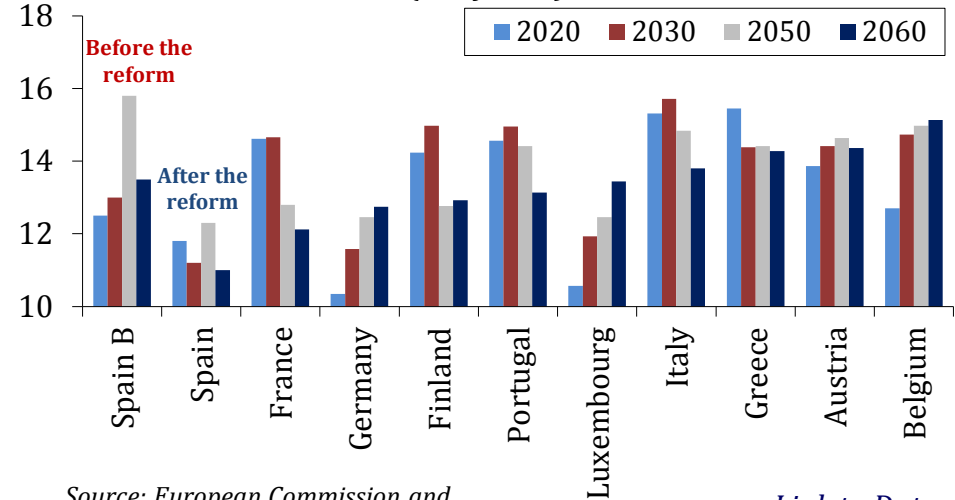
The Pension System reform reduces the impact of population ageing

► 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, Industria y Competitividad

[Link to Data](#)

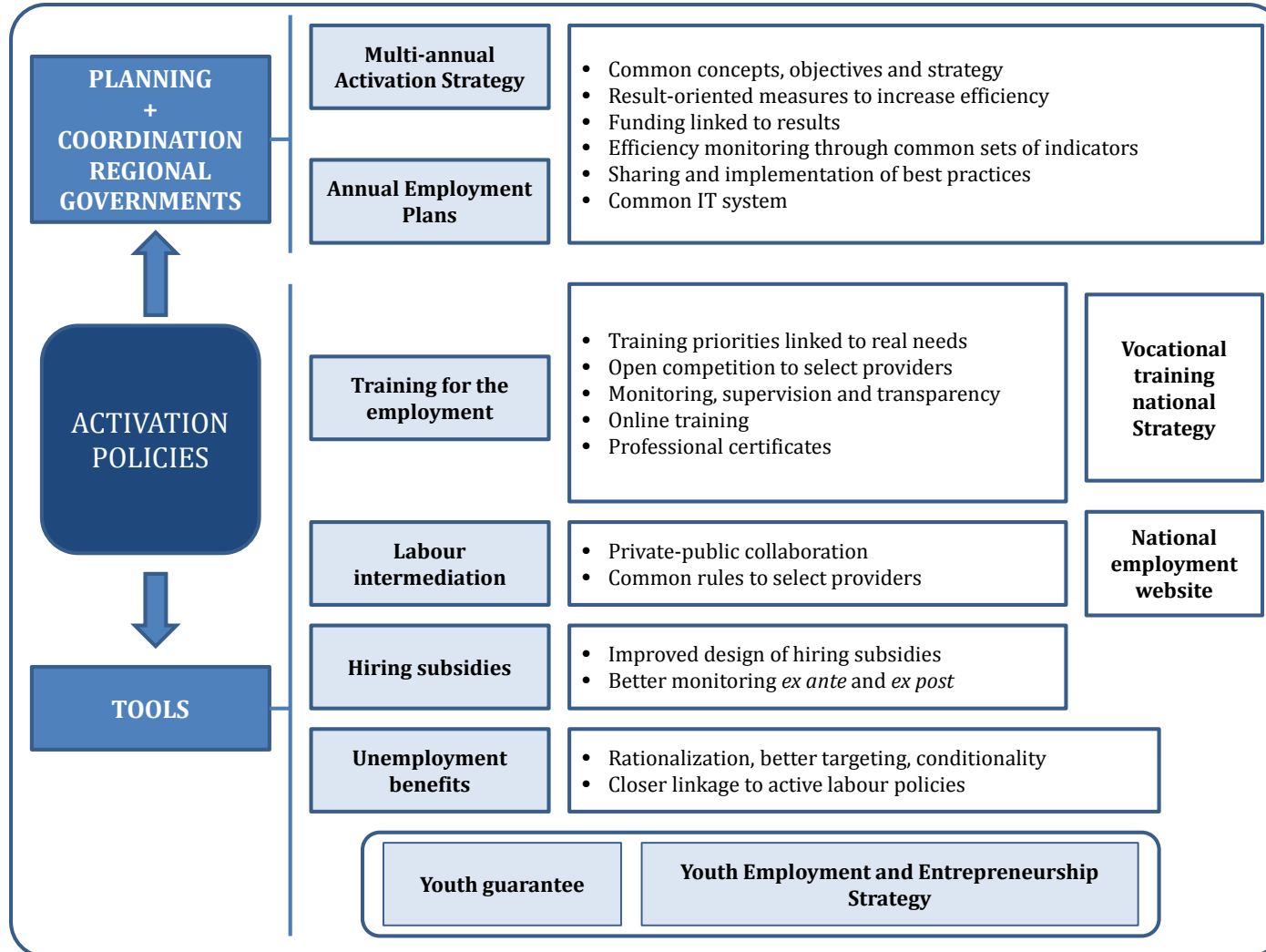
The labour market reform addresses Spain's most important imbalance

► 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"> 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"> → 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 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) 			

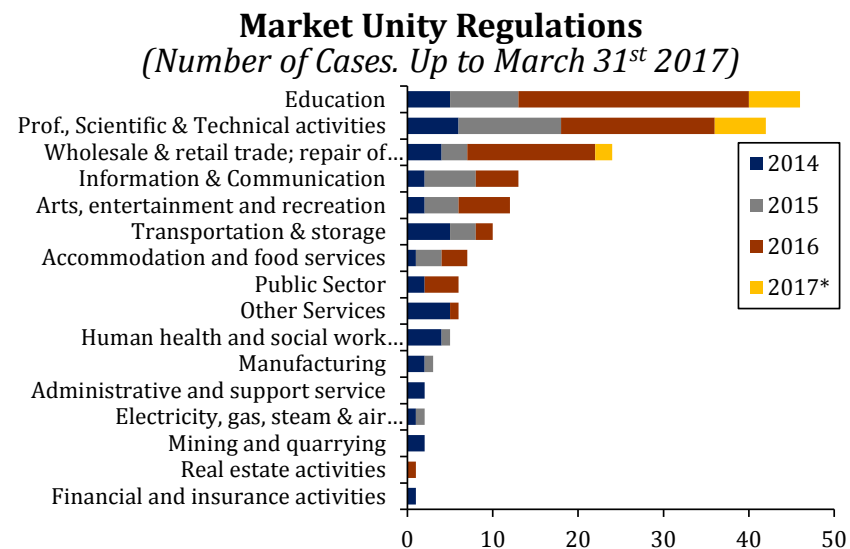
Activation policies & fight against unemployment

► 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
- ▶ Establishing a more favourable regulatory framework in order to improve competitiveness and to foster investment and economic growth. Main areas:
 - 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%



Source: Ministerio de Economía, Industria y Competitividad [Link to Data](#)

Reform of the insolvency law

- ▶ The reform aims at increasing efficiency and legal certainty in insolvency procedures by ensuring that:
 - ▶ Non-viable debts are resolved
 - ▶ Viable debts are repaid and companies are able to continue with their activity

INSOLVENCY LAW REFORM

Enhancing out-of-court agreements	Simplification of in-court insolvency procedures	Re-designing the judicial administration
Second Opportunity/Fresh Start Mechanism for individuals and firms	Facilitating the split and sale of separated production units	Classification and register of insolvency administrators according to their past experience
Promotion of refinancing agreements	Adjustment of real estate guarantees	Designation of the insolvency administration rests on automatic process, instead of judicial appointment
Simplification of Collective Refinancing Agreements	Quorum requirement to pass the draft agreement depends now on the nature of the measures to be agreed	Creation of a list of functions that the judicial administrator is able to perform in order to provide more clarity and legal certainty
<p><i>Specific measures</i></p> <ul style="list-style-type: none"> -Certainty while negotiating: interruption of enforcement measures up to conclusion of arrangements (4 months) -Flexibility on the content of the agreement and by extension of agreements to dissenting creditors 	Liquidation phase: more capacities attached to judges in order to sell a productive unit, even if the offered price is lower, as long as future viability of the firm is ensured	

More and updated information on the Spanish economy



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

[Click here to download all spreadsheets](#)

Thank you for your attention

Emma Navarro Aguilera – General Secretary of the Treasury and Financial Policy
SecretariaGeneral@tesoro.mineco.es

Carlos San Basilio Pardo – Director General of the Treasury
directortesoro@tesoro.mineco.es

Pablo de Ramón-Laca – Head of Funding and Debt Management
SecretariaDeuda@tesoro.mineco.es

Leandro Navarro
lnavarro@tesoro.mineco.es

Rosa Moral
rmmoral@tesoro.mineco.es

José Miguel Ramos
jmramos@tesoro.mineco.es

Mercedes Abascal
mabascal@tesoro.mineco.es

Manuel Blanco
mblanco@tesoro.mineco.es

For more information please contact:

Phone: 34 91 209 95 29/30/31/32 - Fax:34 91 209 97 10

Reuters: TESORO

Bloomberg: TESO

Internet: www.tesoro.es

For more information on recent developments:

www.thespanisheconomy.com