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GOBIERNO DE ESPAÑA

MINISTERIO DE ECONOMÍA, INDUSTRIA Y COMPETITIVIDAD

Economic Policy & Funding Programme for 2017

May 2017

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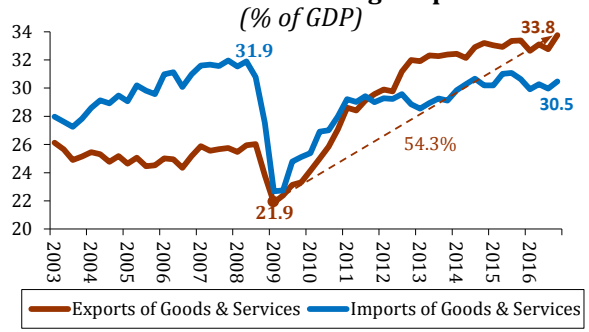
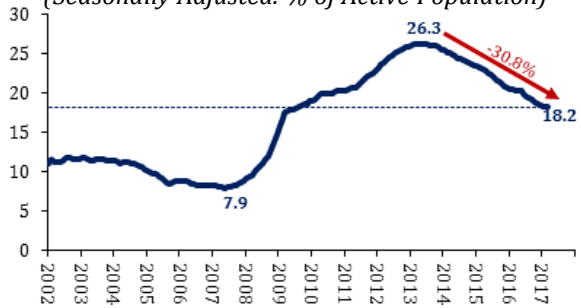
Highlights: Correction of imbalances

DOMESTIC IMBALANCES

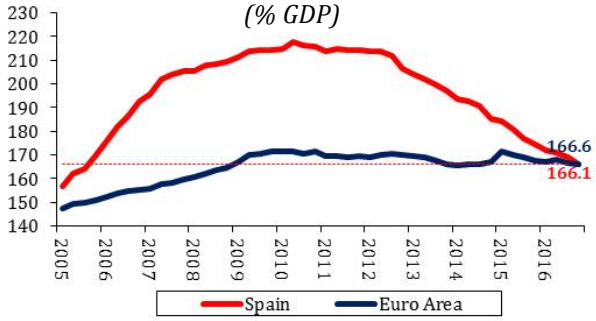
Investment-Savings Gap
(% of GDP)



Unemployment Rate
(Seasonally Adjusted. % of Active Population)

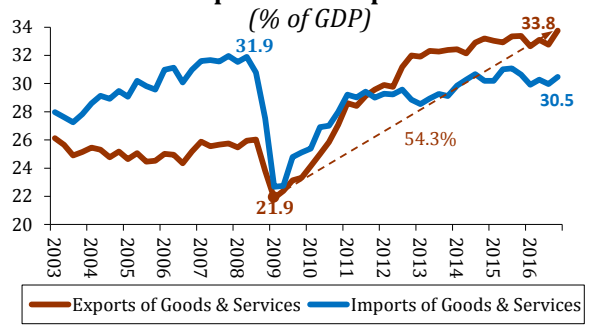


Private Sector Debt-to-GDP Ratio
(% GDP)

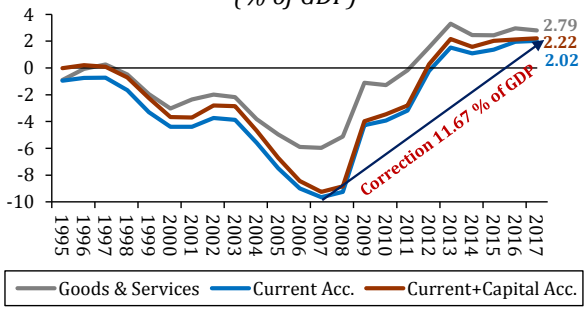


EXTERNAL SECTOR

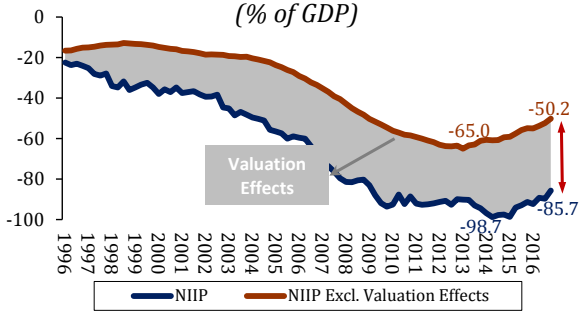
Exports and Imports
(% of GDP)



Current Account
(% of GDP)

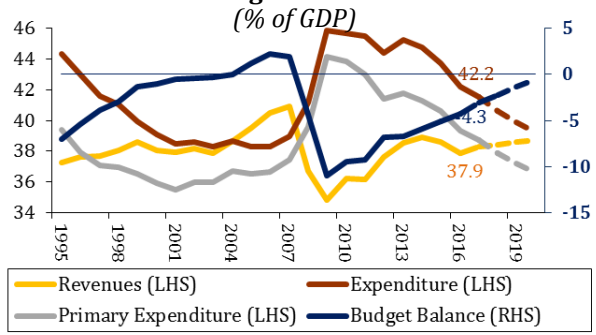


Net International Investment Position
(% of GDP)

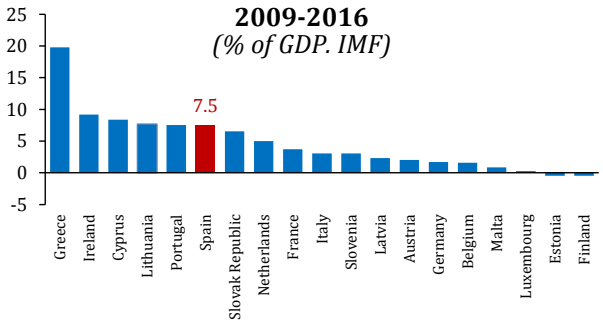


PUBLIC SECTOR

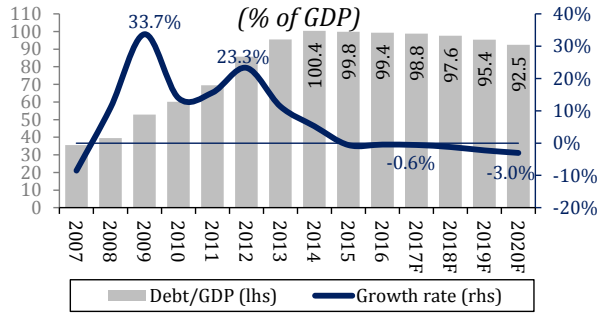
Budget Balance
(% of GDP)



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



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



1. Transformation of Spain's growth model

1.1 Recent macroeconomic trends	Page 4-5
1.2 The structural transformation of the labour market	Page 6-8
1.3 Trends in Inflation	Page 9
1.4 The adjustment of the financial sector	Page 10-11
1.5 New credit flows consistent with deleveraging	Page 12-13
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1.7 From net borrower to net lender	Page 15-19

2. Spanish Economic Policy & Reforms

3. The Funding Programme in 2017

Macroeconomic scenario 2017-2020

- Strengthening of balance sheet clean-up in the private sector & CA surplus
- Unemployment rate forecast to decline to 11.9% by 2020

Macroeconomic scenario (YoY growth rates in percent)	2015	2016	2017 Forecast	2017 Q1	2018	2019	2020
Private consumption expenditure	2.9	3.2	2.6	--	2.4	2.3	2.2
General Government consumption expenditure	2.0	0.8	0.8	--	0.7	0.7	0.7
Gross Fixed Capital Formation	6.0	3.1	2.8	--	2.6	3.3	3.5
National Demand*	**3.3**	**2.8**	**2.2**	**--**	**2.1**	**2.1**	**2.1**
Exports of goods and services	4.9	4.4	5.5	--	4.9	4.7	4.5
Imports of goods and services	5.6	3.3	4.3	--	4.1	4.2	4.1
External demand*	**-0.1**	**0.4**	**0.5**	**--**	**0.4**	**0.3**	**0.3**
Gross Domestic Product	**3.2**	**3.2**	**2.7**	**3.0**	**2.5**	**2.4**	**2.4**

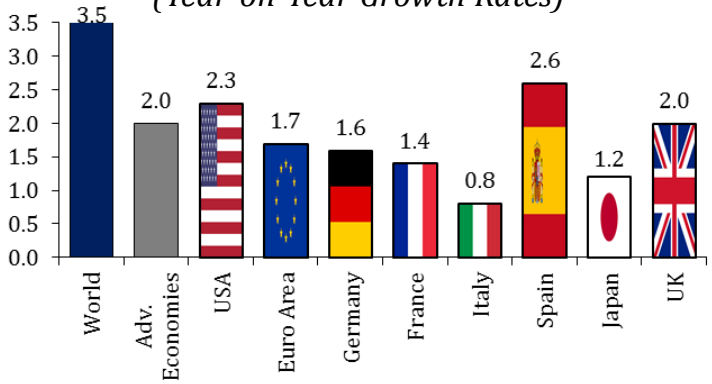
(*) Contributions to GDP in p.p

Other macroeconomic variables	2015	2016	2017 Forecast	2017 Q1	2018	2019	2020
Unemployment rate (in %)	22.1	19.6	17.5	18.75	15.6	13.7	11.9
Full-time Equiv. Employment (YoY Growth)	3.0	2.9	2.5	--	2.4	2.3	2.3
Net lending(+)/borrowing(-) with RoW (% of GDP)	2.0	2.0	2.0	--	1.9	1.8	1.7
GDP deflator (YoY Growth)	0.6	0.3	1.5	--	1.6	1.7	1.7
Deficit Excl. Financial Sector One-Offs (in % of GDP)*	5.08	4.33	3.0	--	2.2	1.3	0.5

Underlying assumptions	2015	2016	2017 Forecast	2017 Q1	2018	2019	2020
USD/€ exchange rate	1.1	1.1	1.10	1.06	1.10	1.10	1.10
Euro Area GDP growth (YoY growth)	1.6	1.8	1.7	--	1.8	1.8	1.8
Oil prices (Brent, USD/barrel)	52.2	44.8	53.5	54.6	53.2	53.2	53.2

Source: Ministerio de Economía, Industria y Competitividad. Link to Data

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



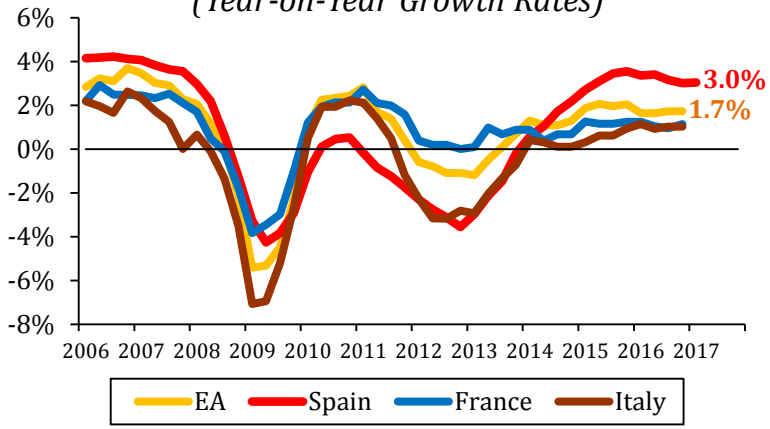
Source: IMF. Link to Data

Sensibility Analysis, Interest and Oil Prices	2017	2018	2019	2020
10-Year Interest Rate	**1.7**	**2.1**	**2.5**	**2.8**
Effect of 120bps increase on:				
GDP (Volume, in pp)	-0.8	-0.5	-0.8	-1.0
Deficit	0.4	0.3	0.4	0.5
Brent (Dollar per barrel)	**53.5**	**53.2**	**53.2**	**53.2**
Effect of 6€/barrel increase on:				
GDP (Volume, in pp)	-0.3	-0.4	-0.5	-0.5
Deficit	0.2	0.2	0.2	0.2

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

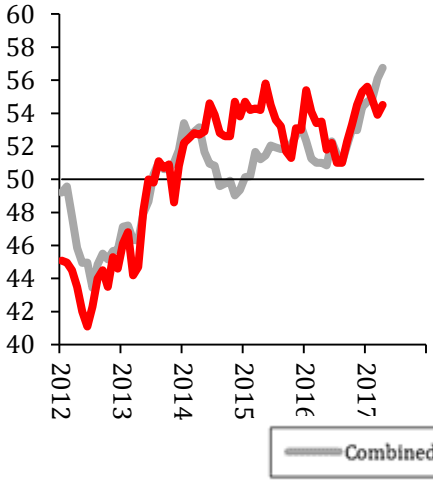
Gross Domestic Product
(Year-on-Year Growth Rates)



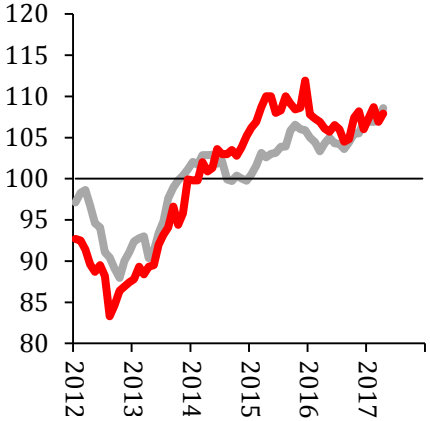
Source: Eurostat.

Link to Data

Manufacturing PMI
(Index, >50 expansion)



Economic Sentiment Indicator
(Index, long-term average=100)



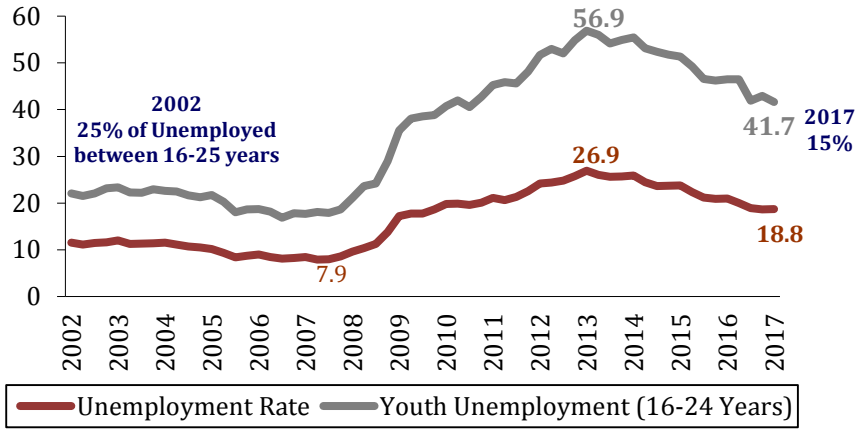
Sources: Bloomberg & Eurostat.

Link to Data

Labour market reform: a change in labour dynamics

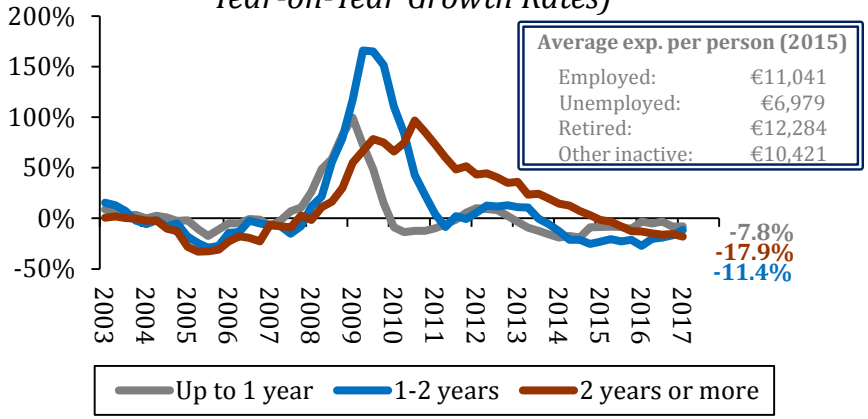
Progressive correction of long-term unemployment

Unemployment & Youth Unemployment



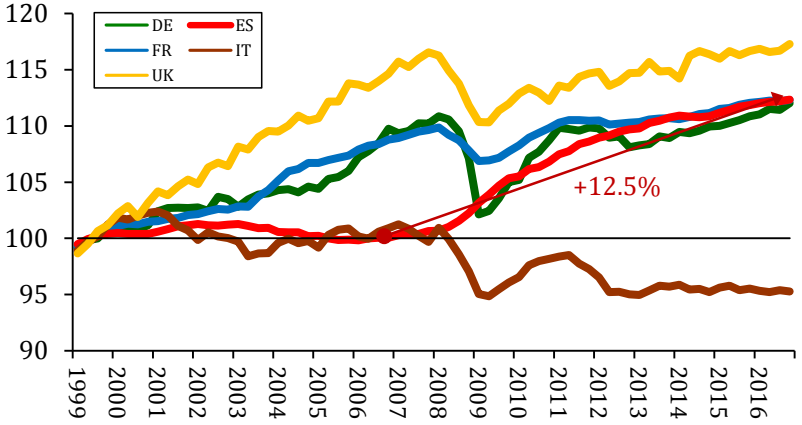
Source: National Statistics Institute. Link to Data

Long-Term Unemployment
(Unemployment pool by time unemployed, Year-on-Year Growth Rates)



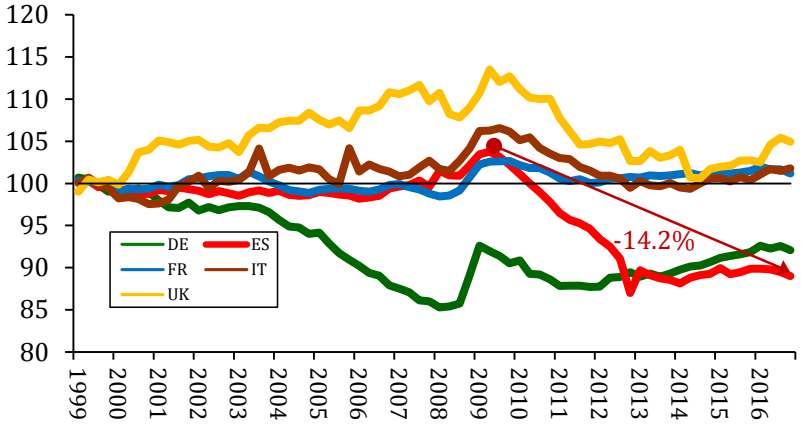
Source: National Statistics Institute and Eurostat. Link to Data

Real Labour Productivity
(Index 1999=100, Seasonally and Calendar Adjusted)



Source: Eurostat.

Real Unit Labour Costs
(Index 1999=100, Seasonally and Calendar Adjusted)

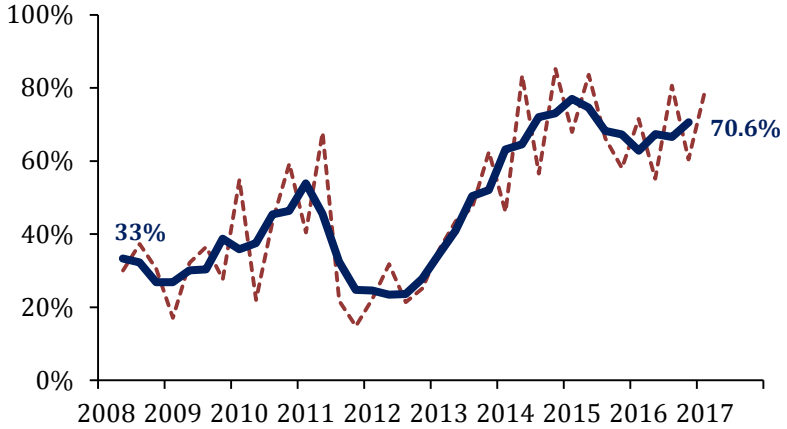


Link to Data

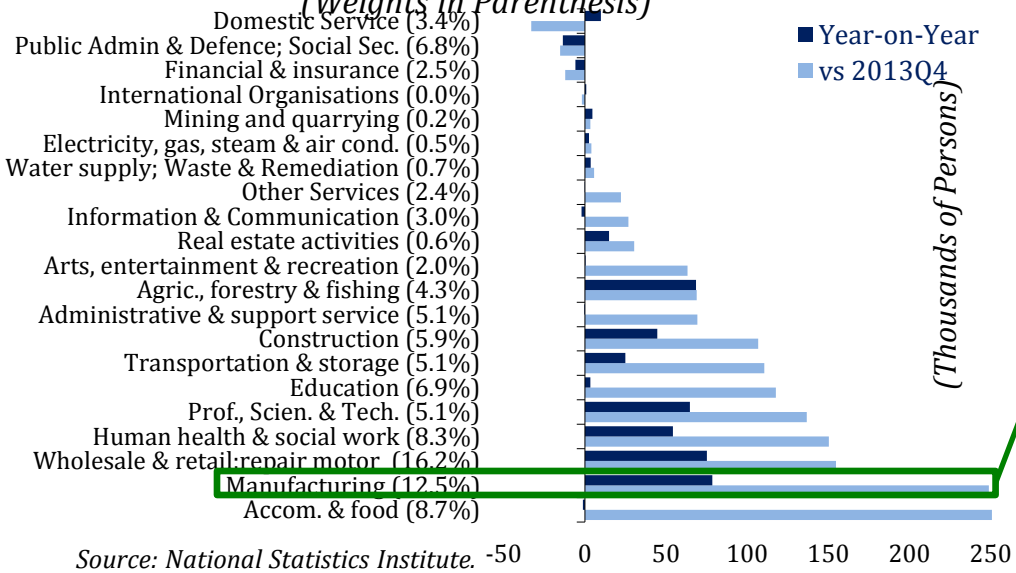
Growth is widely distributed across sectors

- Since 2013Q4 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

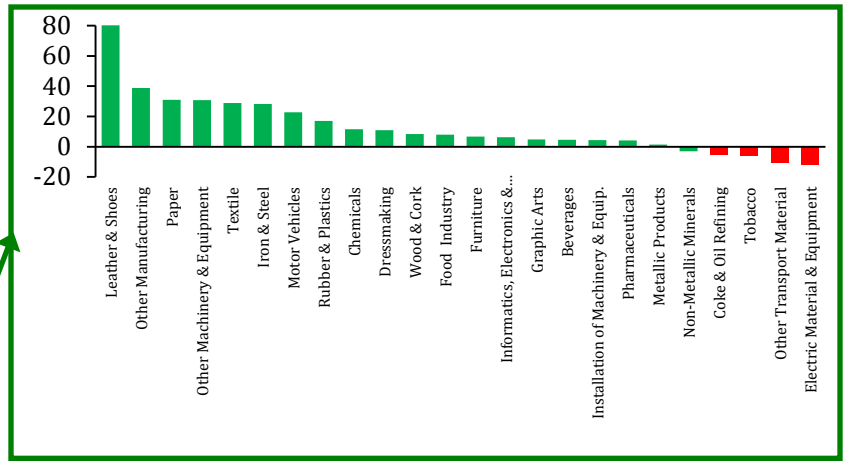


Labour Force Survey, 2017Q1
Breakdown by Branches of Economic Activity.
(Weights in Parenthesis)



Source: National Statistics Institute.

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

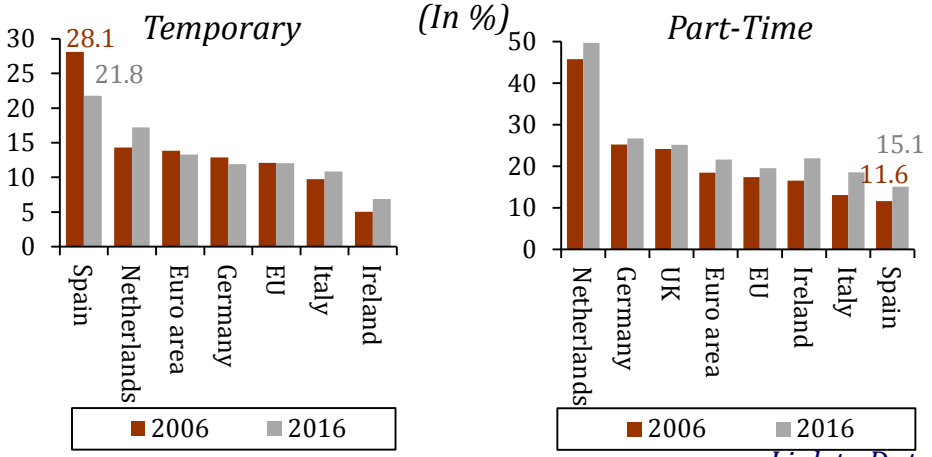


Link to Data

Changing employment patterns strengthen confidence

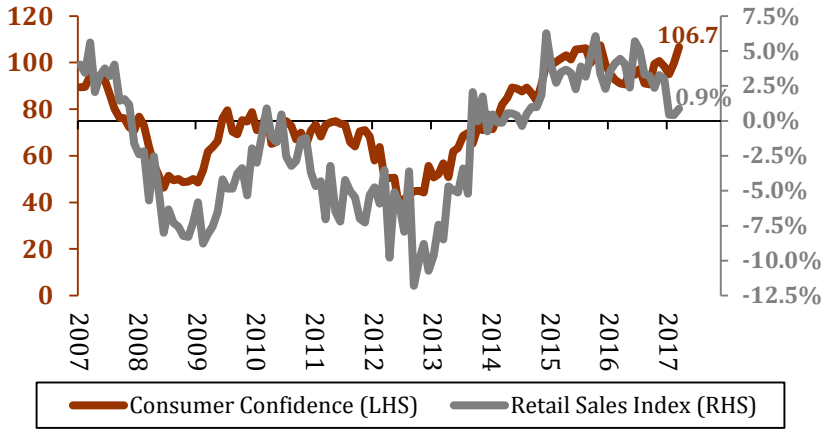
- Less reliance on temporary contracts, more open-ended & part-time contracts
- Previously discouraged workers re-engaging the labour force
- Higher job security and lower unemployment boosts confidence and consumption

Share of Temporary and Part-Time Contracts in Total Employment
(In %)



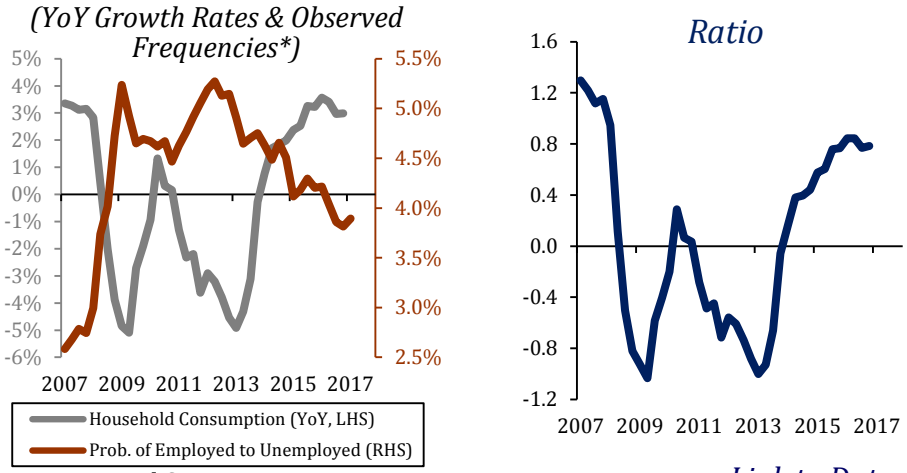
Source: National Statistics Institute and Eurostat. Link to Data

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



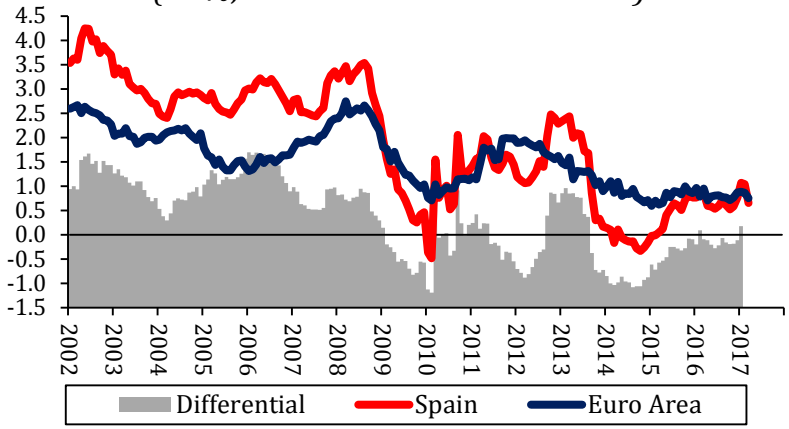
Source: National Statistics Institute. Link to Data

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

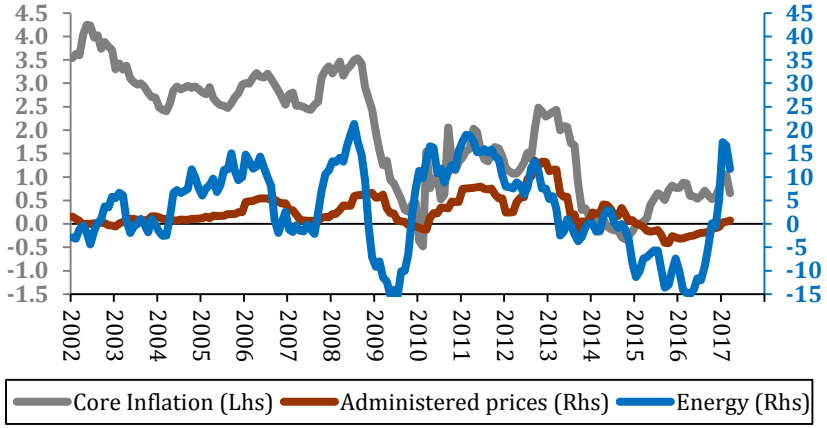
Positive core inflation and favourable inflation differential

- 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)

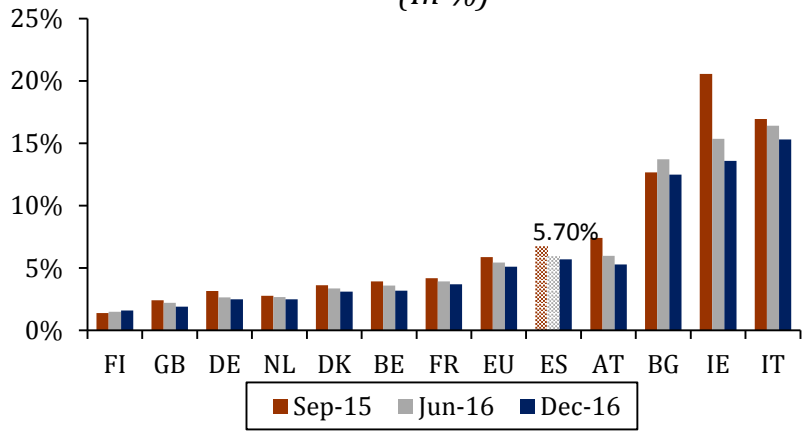


Source: Ministerio de Economía, Industria y Competitividad. Link to Data

Adjustment and recapitalisation of the financial system (I)

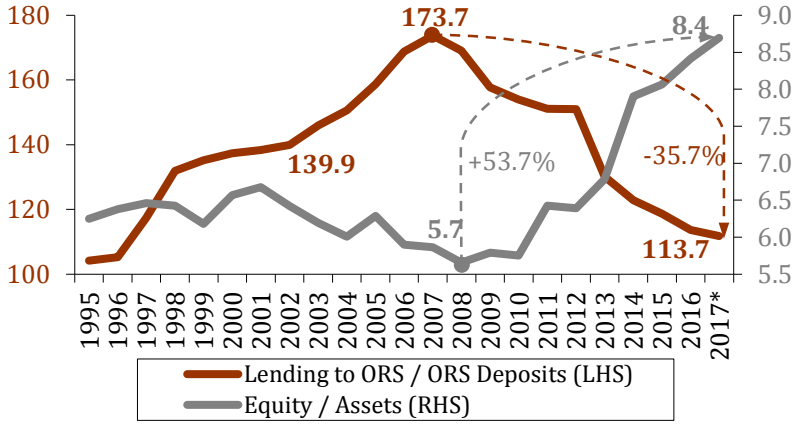
- Spain's financial sector is now leaner, more efficient and better capitalised
- Better prepared for NPLs: Coverage ratio of doubtful loans to Households and Corporates has increased from 29% in 2008Q3 to approximately 46% by 2016Q4
- Further improvement of the equity-to-asset ratio & funding gap

Harmonised Non-Performing Exposure Ratios
(In %)



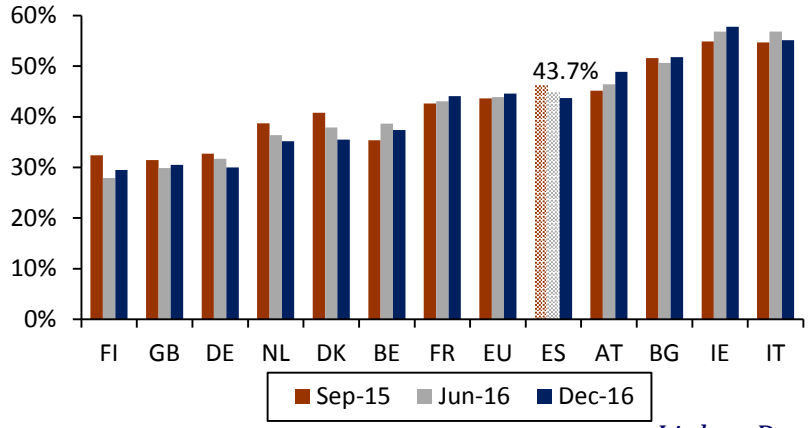
Source: EBA. Link to Data

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



Source: Bank of Spain. Link to Data

Harmonised Non-Performing Coverage Ratio
(In %)

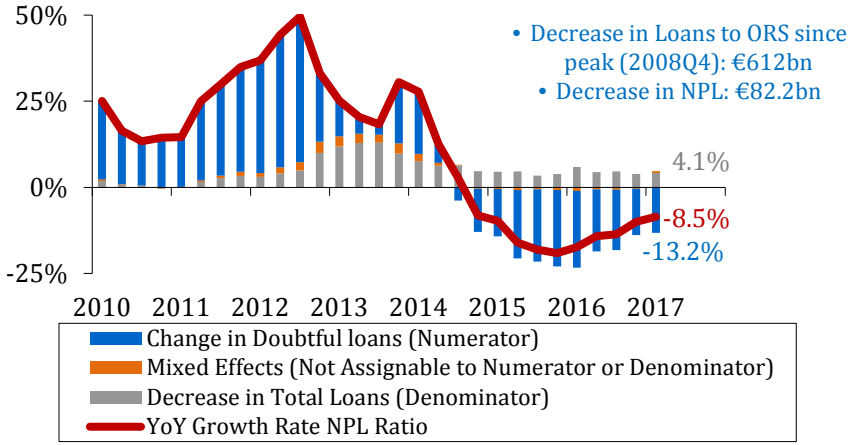


Sources: EBA. Link to Data

Adjustment and recapitalisation of the financial system (II)

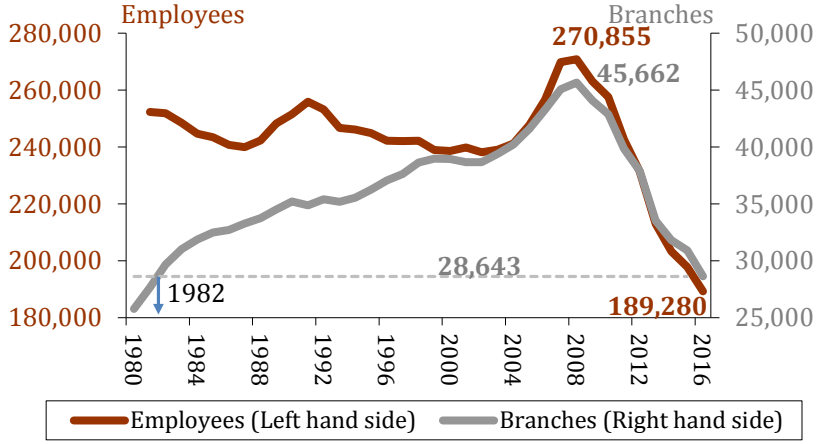
- Private resident sectors' doubtful loans declining -8.5% yoy in February
- Positive feedback loops between unemployment reduction, bankruptcy proceedings and NPLs

Breakdown of Year-on-Year Growth Rate of NPL Ratio (Private Resident Sector) into its Components



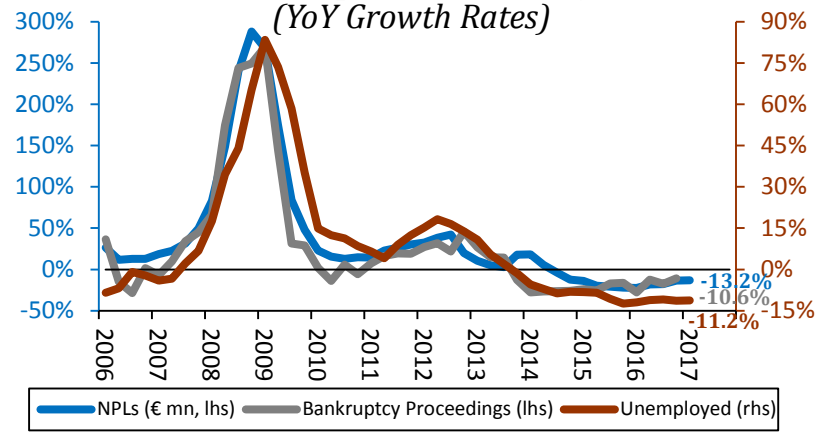
Source: Bank of Spain. Link to Data

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



Source: Bank of Spain. Link to Data

NPLs of the Private Resident Sector, Unemployment & Bankruptcy Proceedings
(YoY Growth Rates)

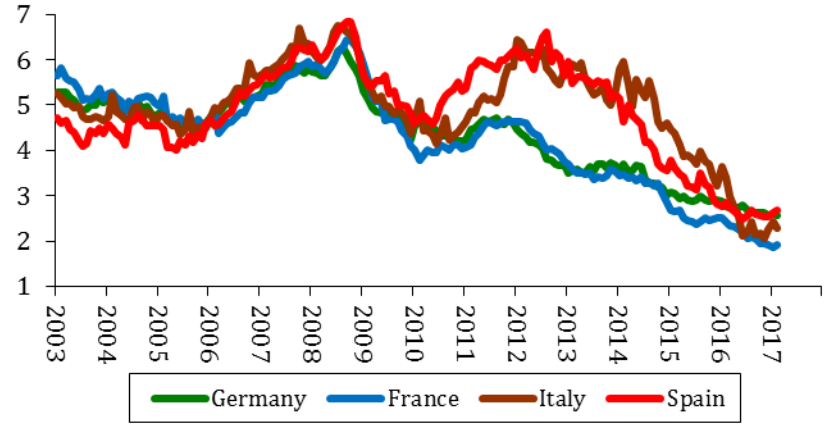


Sources: Bank of Spain and National Statistics Institute. Link to Data

New loans to households & changes in corporate finance

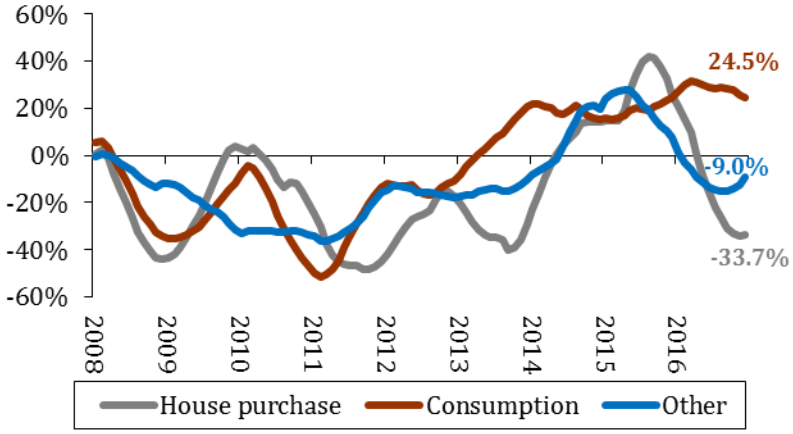
- Interest rates have converged in the Euro Area
- New loans to SMEs (less than €1 million) are growing since mid-2013
- Deleveraging has modified the composition of liabilities in the private sector: fewer loans, more equity

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



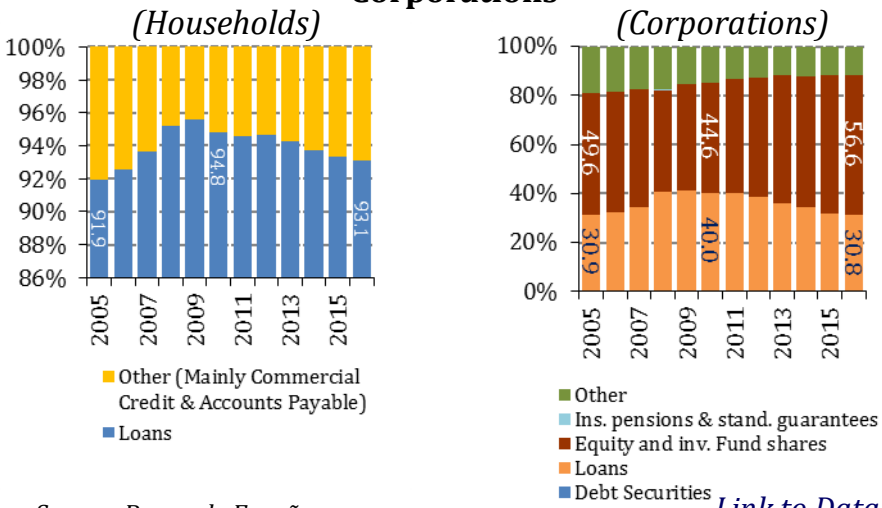
Source: ECB. Link to Data

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

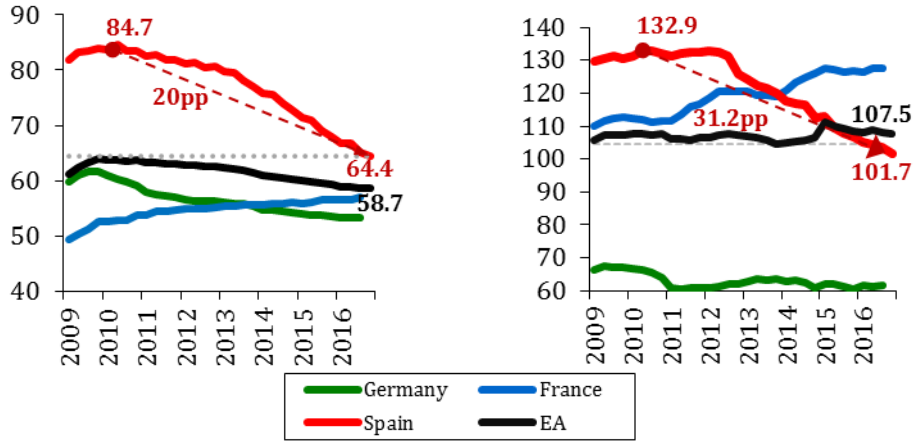
New credit flows consistent with deleveraging

Private sector deleveraging continues

- Corporate indebtedness below Euro Area Average (101.7% of GDP vs. 107.5%)
- Since 2010Q2 the private sector has deleveraged by €497 bn; firms by €300.5 bn and Households by €196.5 bn
- Confidence and economic stability makes private-sector deleveraging compatible with growth in private consumption and investment

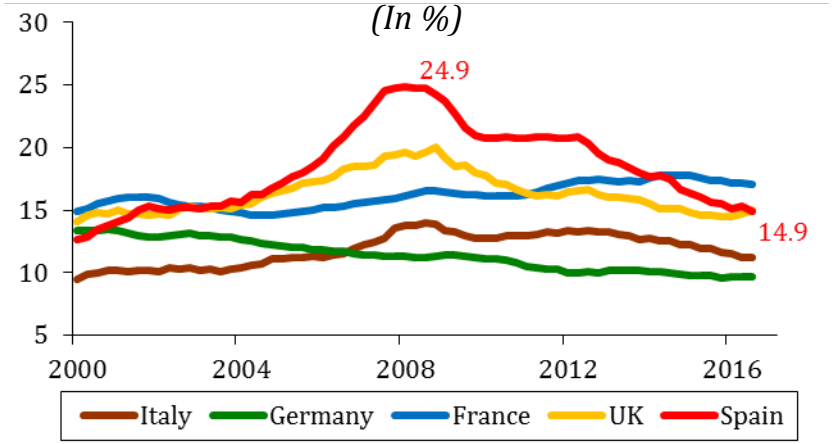
Debt to GDP Ratios of Households and Non-Financial Corporations

(Households) (% of GDP) (Corporations)



Debt Service Ratio Non-Financial Private Sector

(In %)

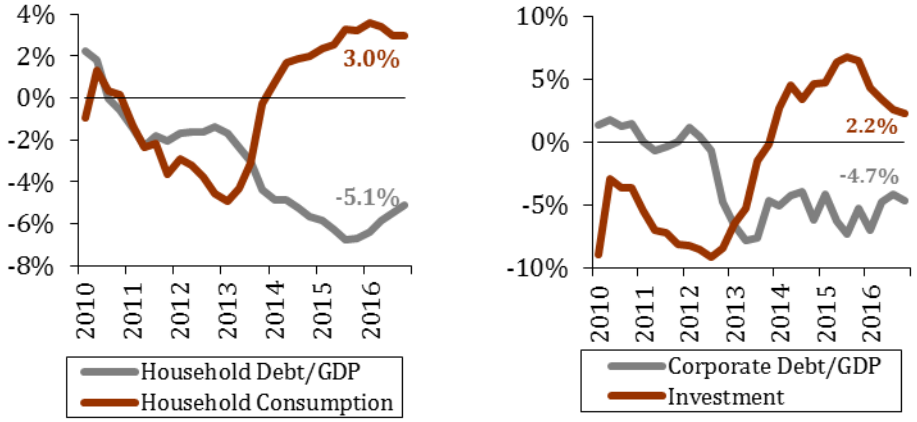


Source: Bank for International Settlements. Link to Data

Debt to GDP vs. Consumption & Investment

(Year-on-Year Growth Rates)

(Households) (Corporations)



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

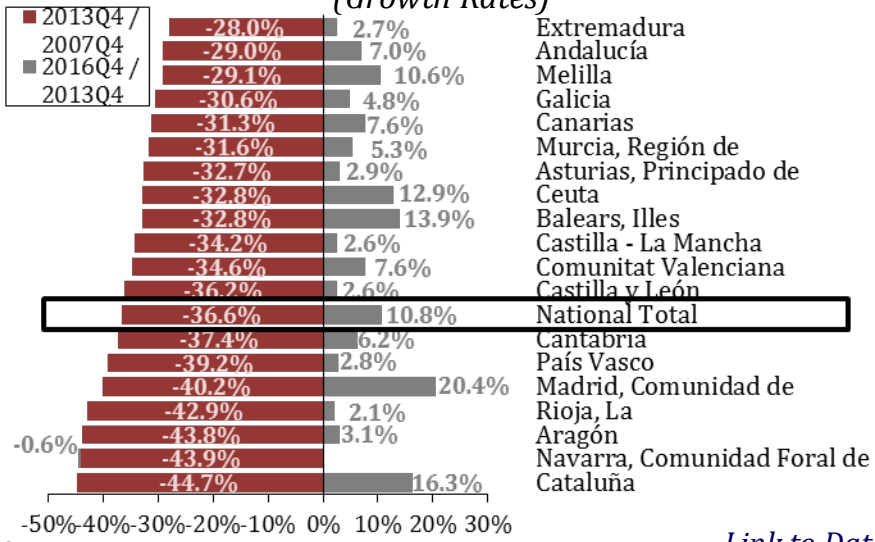
New credit flows consistent with deleveraging

Spain's construction sector is beginning to recover

- Prices bottomed out around mid-2014, and have shown a moderate upward trend
- Gradual recovery in housing transactions since 2013; increasingly fixed-rate
- Gross value added generated by the construction sector is expanding since 2015

House Price Index

(Growth Rates)

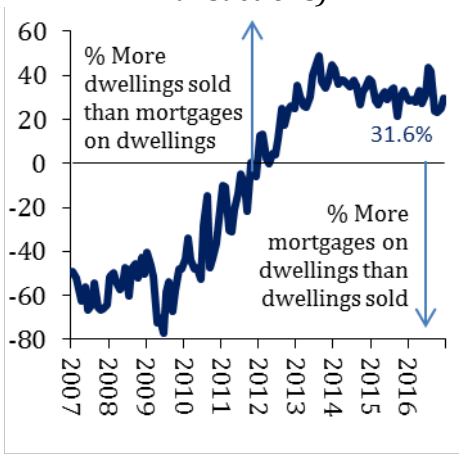


Source: National Statistics Institute.

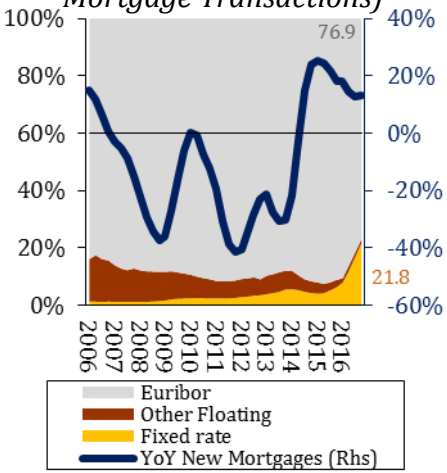
Link to Data

Mortgages and Housing Transactions

(Mortgage Transactions/Housing Transactions)



(Type of References used in Mortgage Transactions)

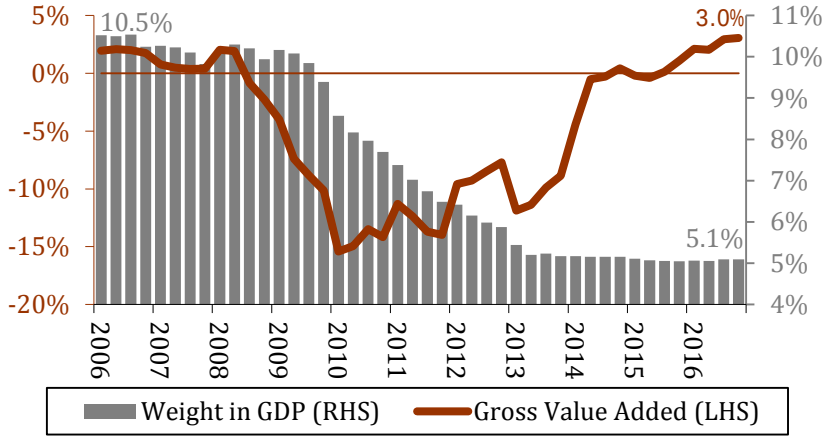


Source: National Statistics Institute.

Link to Data

Gross Value Added in Construction

(YoY Growth Rates, LHS / Weight in Total GDP, RHS)

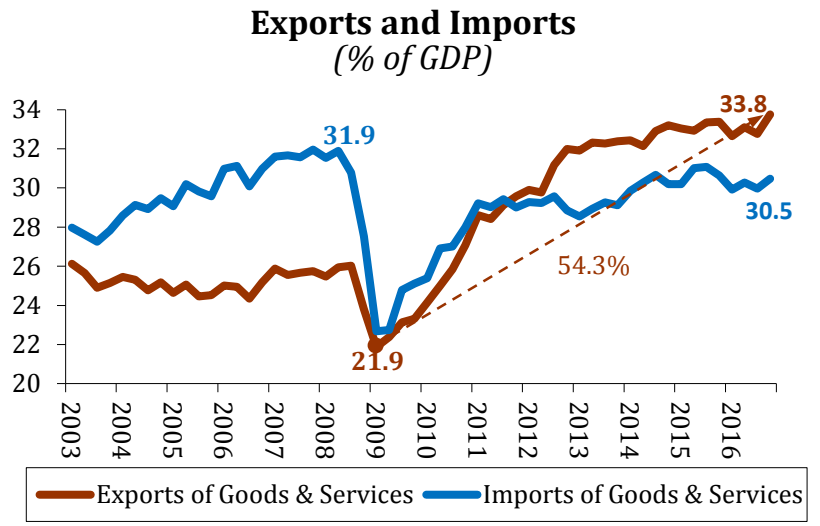


Source: National Statistics Institute.

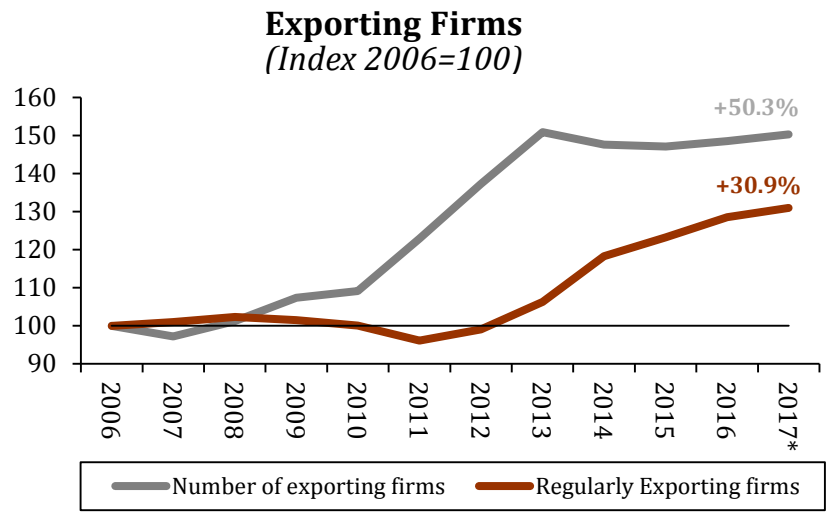
Link to Data

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 3.8% 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

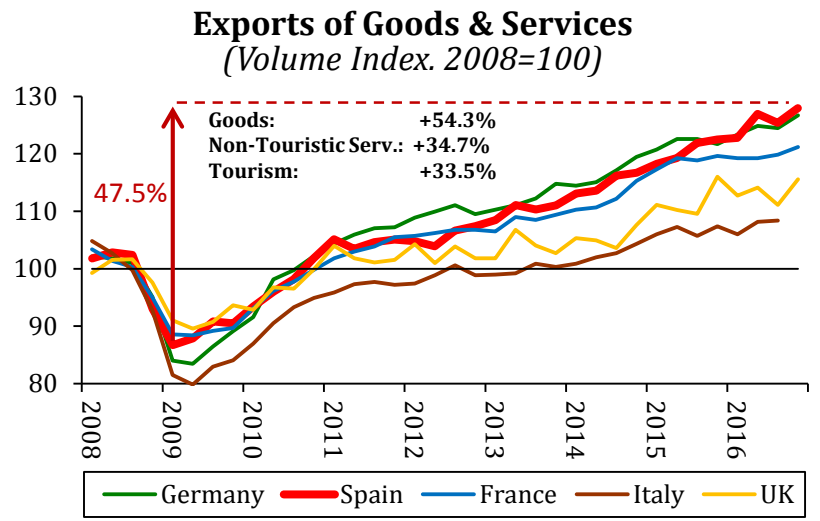


Source: National Statistics Institute. Link to Data



Source: ICEX.
** Up to February 2017.*

Link to Data

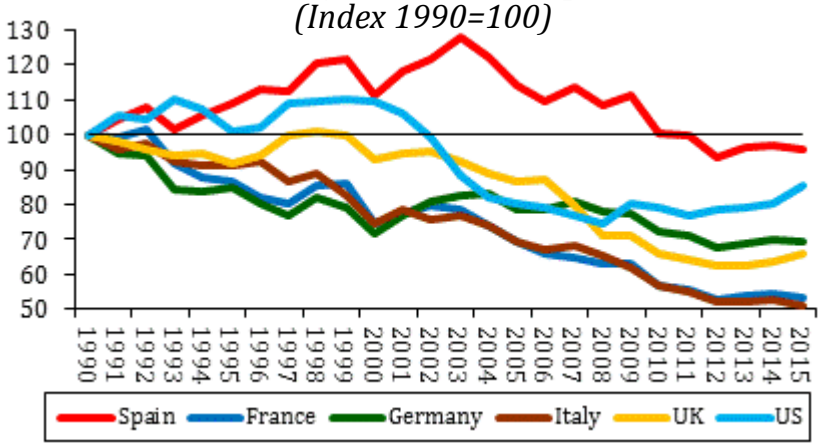


Source: Eurostat and National Statistics Institute. Link to Data

Exports are more widely diversified

- Spain continues diversifying its export base:
  - Increasing market share of Eastern Europe, Africa & Asia, North & South America
  - Decreasing market share of EU countries (excl. Poland, Eastern Europe) & Central America
- Despite the advance of exports by BRICs, Spain is the single major EA Member to maintain its share in world exports since the 1990s

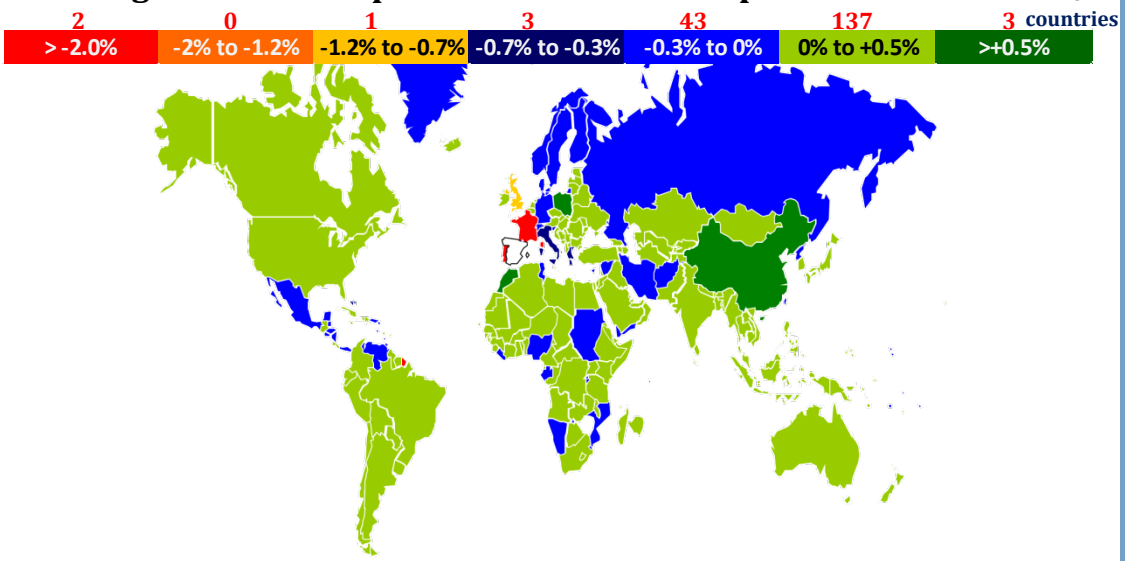
Relative Changes in World Export Shares
(Index 1990=100)



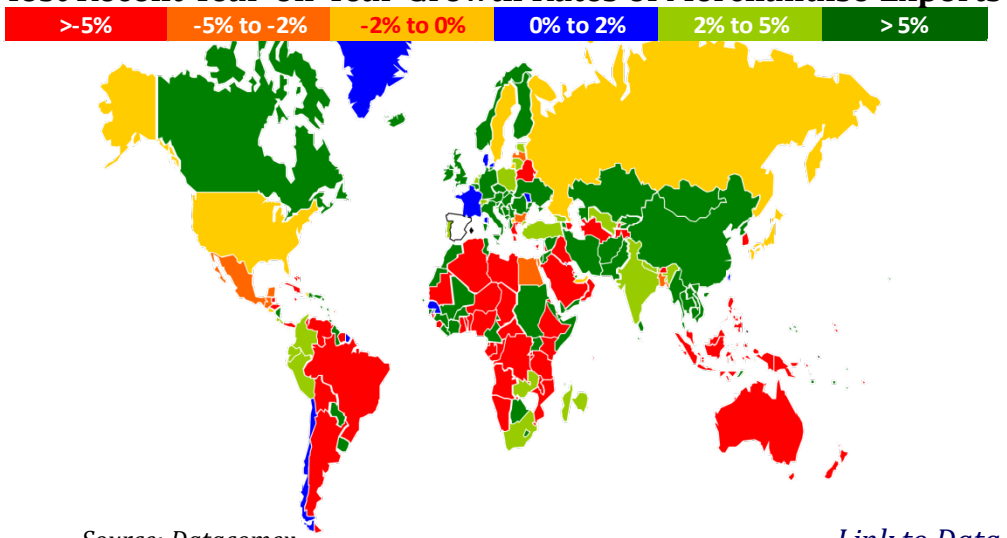
Source: IMF.

Link to Data

Change in Share in Spanish Merchandise Exports since 2005



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



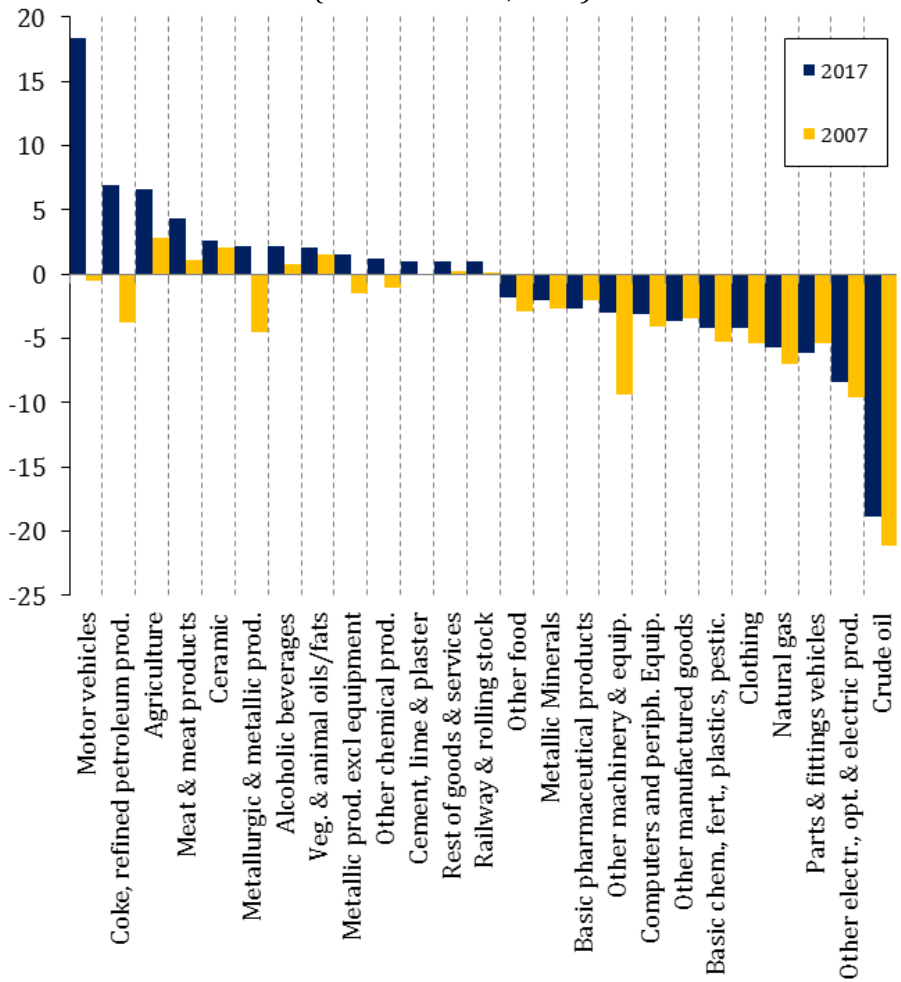
Source: Datacomex.

Link to Data

From net borrower to net lender

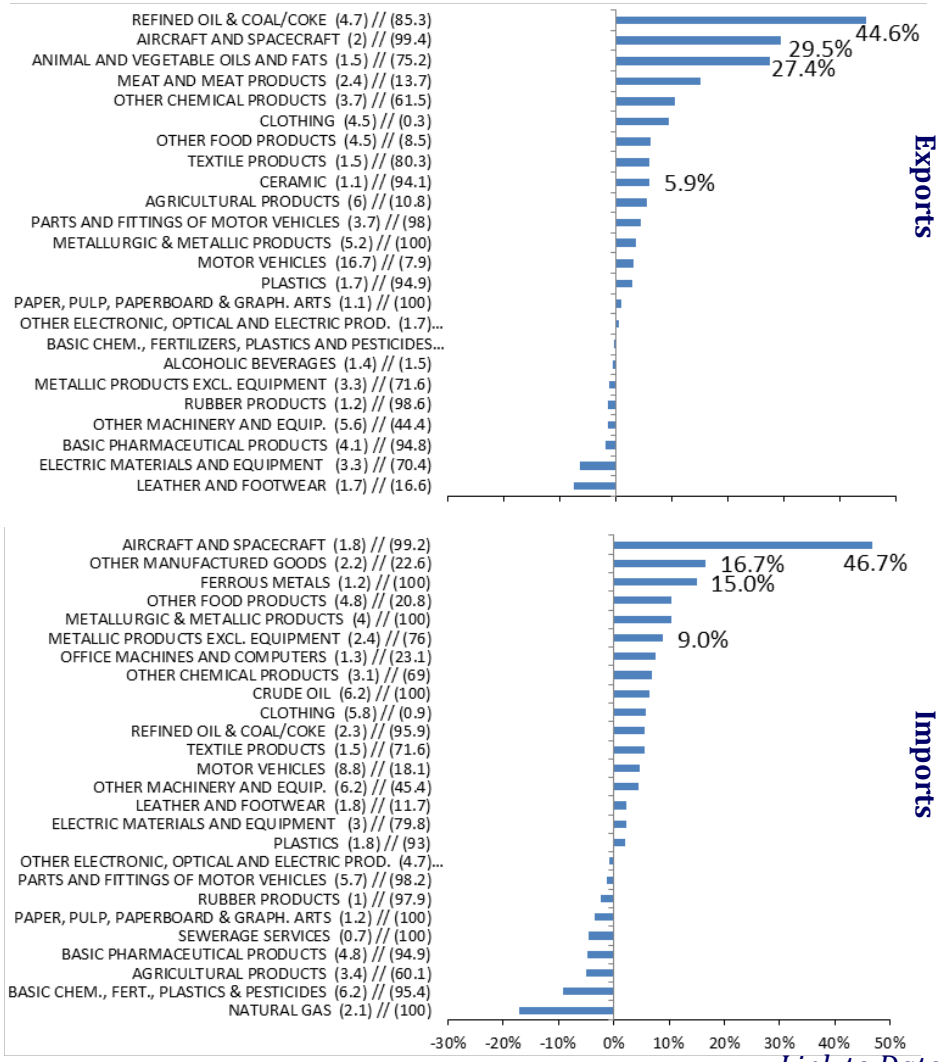
Imports are now increasing for investment and for re-export activities

Balance by Type of Merchandise
(2017 vs. 2007, € bn)



Source: Ministerio de Economía, Industria y Competitividad.

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

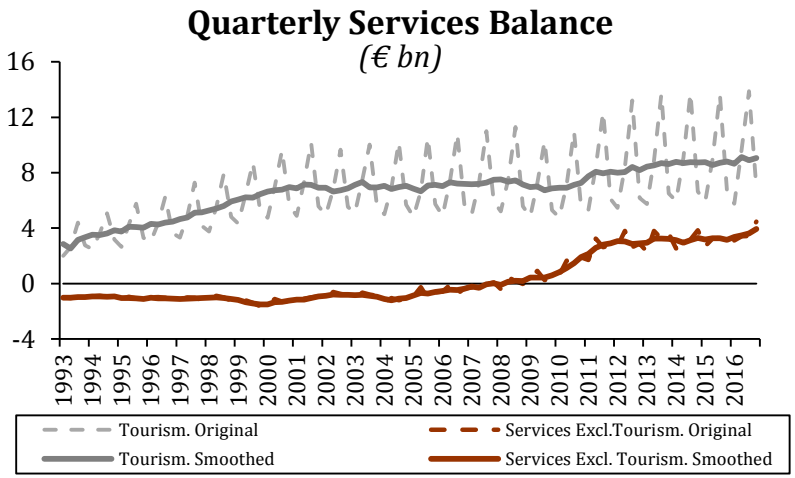


Link to Data

From net borrower to net lender

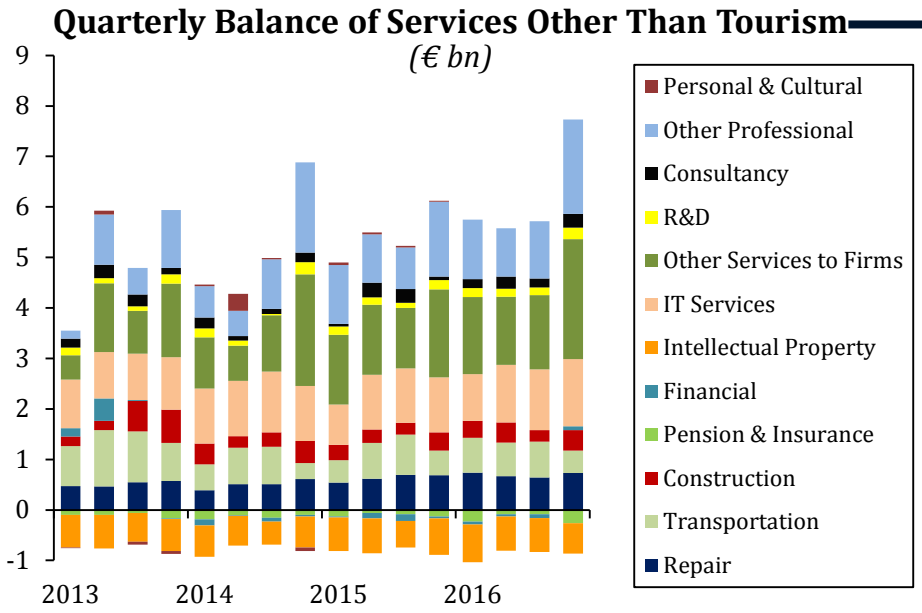
Services exports expand the CA surplus

- Tourism services are reaching historical highs
- 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

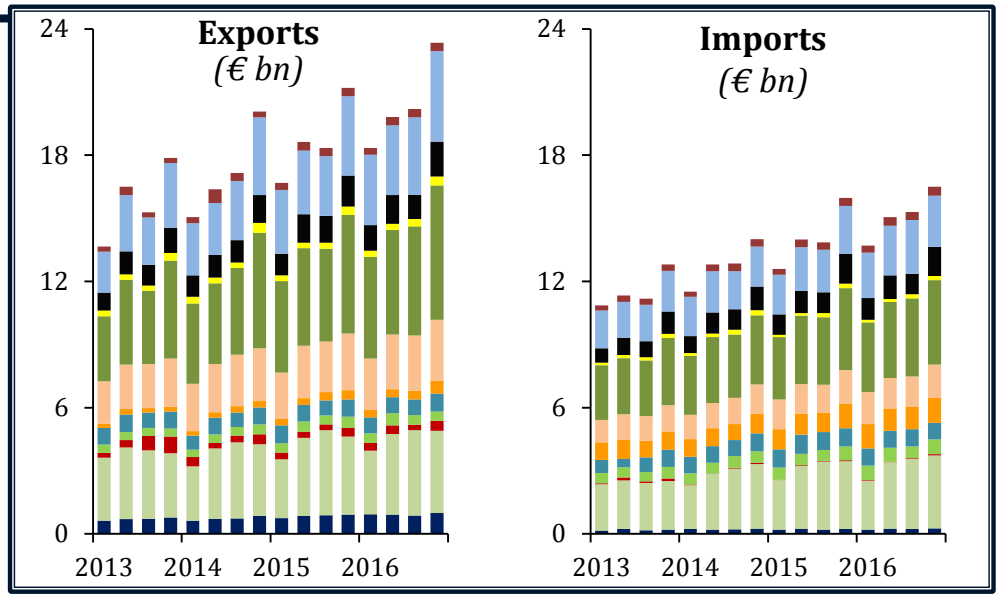


Source: Bank of Spain.

Link to Data



Source: Bank of Spain.

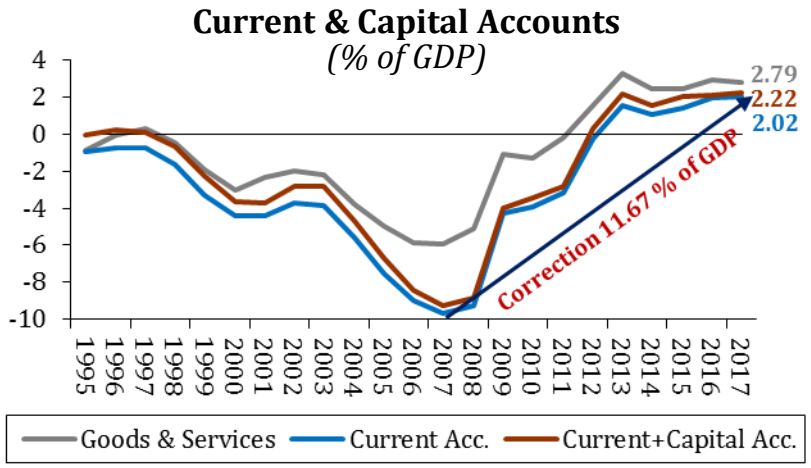


Link to Data

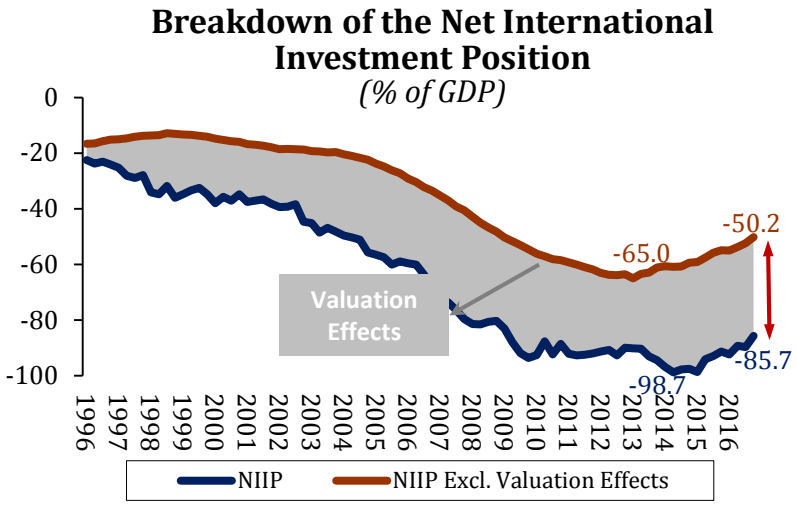
From net borrower to net lender

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

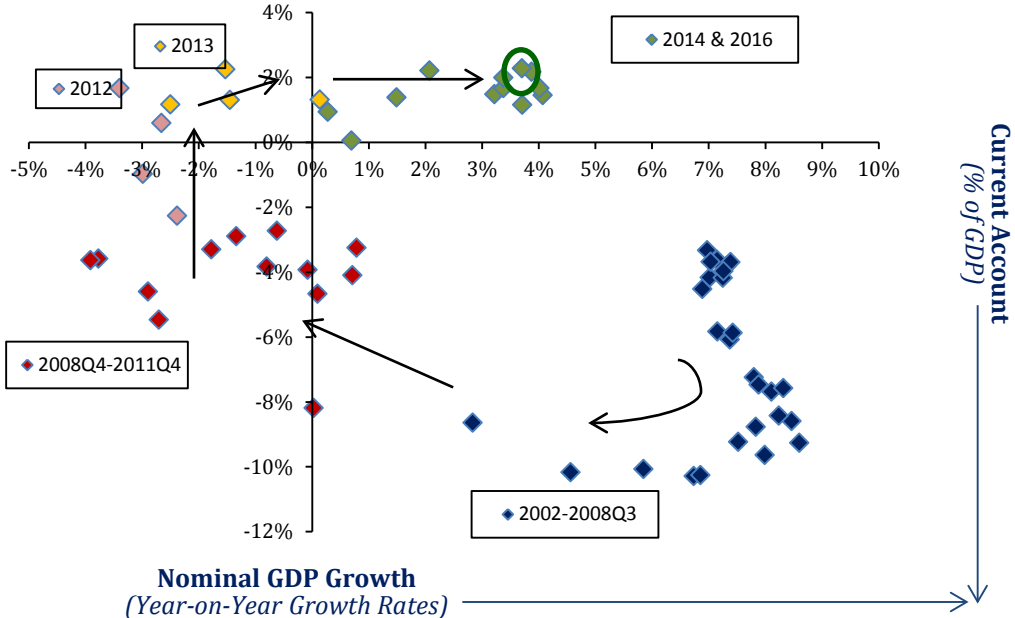
- GDP growth is not linked to current account deficits as in previous growth cycles
- The NIIP, once excluding valuation effects, has declined by 14.8pp since 2013
- According to the European Commission, assuming nominal GDP growth and current account balance at current levels, the NIIP may fall to -50%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

From net borrower to net lender

1. Transformation of Spain's growth model

2. Spanish Economic Policy & Reforms

2.1 General Government deficit in 2016	Page 21
2.2 Fiscal Projections for 2017-2020	Page 22
2.3 Budgetary Execution in 2017	Page 23
2.4 Reform Policies	Page 24-33

3. The Funding Programme in 2017

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%

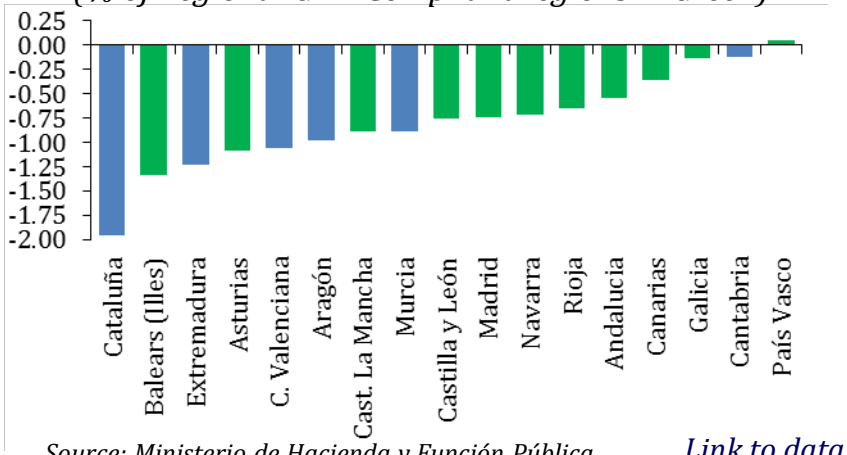
Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)	2011	2012	2013	2014	2015	2016
Central Government	-5.4	-4.3	-4.5	-3.6	-2.6	-2.52
Autonomous Regions	-3.4	-1.9	-1.6	-1.8	-1.7	-0.82
Local Governments	-0.4	0.3	0.6	0.5	0.5	0.64
Social Security Administrations	-0.1	-1.0	-1.1	-1.0	-1.2	-1.62
General Government	-9.3	-6.8	-6.7	-5.9	-5.1	-4.33

Memorandum items	2011	2012	2013	2014	2015	2016
Interest Expenditure	2.5	3.0	3.5	3.5	3.1	2.82
Financial Sector One-offs	0.33	3.68	0.32	0.13	0.05	0.21
Total Expenditure	45.5	44.4	45.3	44.8	43.7	42.2
Total Revenue	36.2	37.6	38.6	38.9	38.6	37.9

Source: Ministerio de Hacienda y Función Pública.
** 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)



Source: Ministerio de Hacienda y Función Pública.

Link to data

Fiscal Projections for 2017-2020

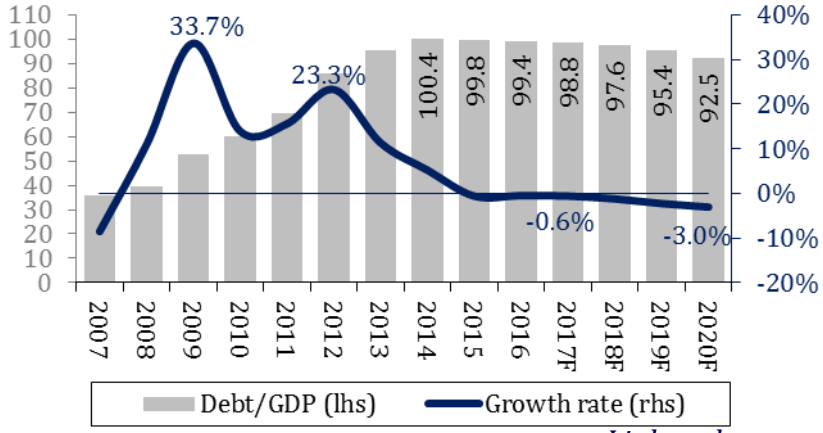
- Primary surplus achieved in 2018. Deficit reduction due primarily to:
  - Control of public expenditure growth by expenditure rule (requiring primary expenditure growth excl. cyclical factors to grow below medium-term GDP growth reference rate
  - Lower impact of unemployment benefits linked to more positive labour market stance
  - Progressive impact of 2011-2013 pension reforms (effective retirement age, sustainability factor)
- Declining trend in the debt/GDP ratio since 2014, where it reached a peak of 100.4%; debt to GDP estimated at end-2017 98.8%

Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)	2016	2017	2018	2019	2020
Central Government	-2.52	-1.0	-0.7	-0.3	0.0
Autonomous Regions	-0.82	-0.6	-0.3	0.0	0.0
Local Governments	0.64	0.0	0.0	0.0	0.0
Social Security Administrations	-1.62	-1.4	-1.2	-1.0	-0.5
General Government	**-4.33**	**-3.0**	**-2.2**	**-1.3**	**-0.5**

Memorandum items	2016	2017	2018	2019	2020
Interest Expenditure	2.82	2.8	2.7	2.7	2.6
Financial Sector One-offs	0.21	0.1	0.0	0.0	0.0
Total Expenditure	42.2	41.5	40.6	39.9	39.2
Total Revenue	37.9	38.3	38.4	38.6	38.7

Source: Ministerio de Economía, Industria y Competitividad

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



Link to data

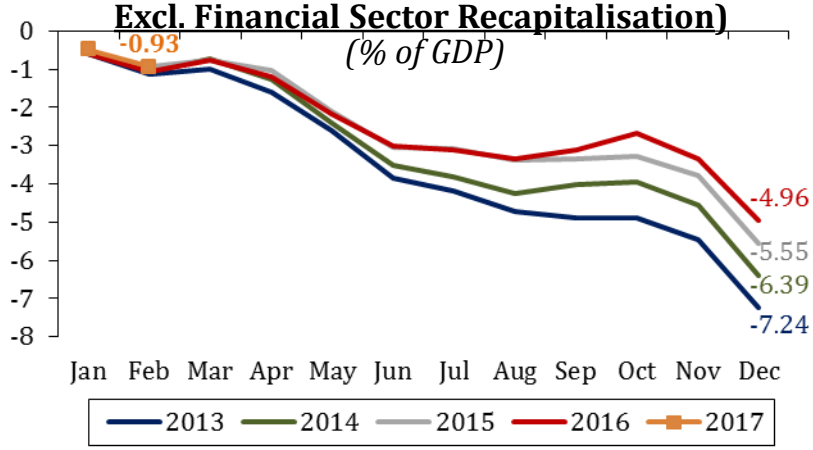
Budgetary execution in 2017

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

Four years of structural reforms

2012: First Generation Reforms

- Labour Market
- Budgetary Framework
- Financial Sector

2013: Second Generation Reforms

- Labour Market Reform
- Services/Product Markets
- Serv. Market Liberalisation
- Single Market Law
- Budgetary Plan
- Pension System Reform
- Local Administrations
- De-indexation
- Financial Sector Reform
- Strategic Plan for Exporters
- ICO Mediation Credit Lines

Main Reforms 2014-2015

- IMPLEMENTATION OF REFORMS ADOPTED IN 2012-2013
- Job Activation Strategy and Plan for Youth Employment
- Reform of the Active Labour Market Policy Framework
- Reform of the Tax System
- New Legal Framework for Disintermediation and Promotion of Capital Markets for SMEs
- Measures to Facilitate Corporate Recovery & Debt Restructuring
- Reform of the Insolvency Regime
- Second Opportunity Law

Single Market/Market Unity Law

- 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

Budgetary Sustainability Law, Fiscal supervisory rules

- Fiscal discipline at all levels of the Administration
- Early-warning system, enforcement and sanction procedures
- Transparency: monthly and quarterly execution
- Assurance of compliance: coercive measures and enforced compliance
- Law for Transparency in the Public
- Administrations: accountability & governance

AIReF Independent Authority for Fiscal Responsibility

New Regulatory Framework

Reform of the Local Authorities

- Undue expenditures
- Transfer of competences
- Mergers & integrated management
- Changes at minor local entities
- Resizing of the local public sector
- Temporary and exclusive staff of local governments

Liquidity Measures for Regions & Local Governments

2012-2014

FFPP

✓ Provision of liquidity to suppliers of Local & Regional Governments

✓ 2012: €27.4 bn
✓ 2013: €6.8 bn
✓ 2014: €8.0 bn
✓ The Programme has been ended by July 2014

FLA

✓ Enabling the centralisation of public debt issuance in Spain

✓ Providing liquidity to Autonomous Regions

✓ Ensuring fiscal and financial sustainability

✓ Strict additional fiscal compliance

2015

ENHANCED LIQUIDITY MECHANISMS

Fund for the financing of Local Governments:

❖Fondo de Ordenación
❖Fondo de Impulso Económico

Fund for the financing of Regional Governments

❖Financial facility
❖FLA

Embedded into the Treasury's Funding Programme

✓ 2012: €16.6 bn
✓ 2013: €23.0 bn
✓ 2014: €23.0 bn
✓ 2015: €39.9 bn
✓ 2016: €26.0 bn
✓ 2017: €17.5 bn

Stricter fiscal conditionality & issuance caps

Commission for the reform of the public administration

- General measures
- Sub-commission for administrative simplification
- Sub-commission on administrative overlap
- Sub-commission for management of common services and resources
- Sub-commission for institutional administration

Electronic Billing Law

De-indexation Law

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%
Andalucia	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	

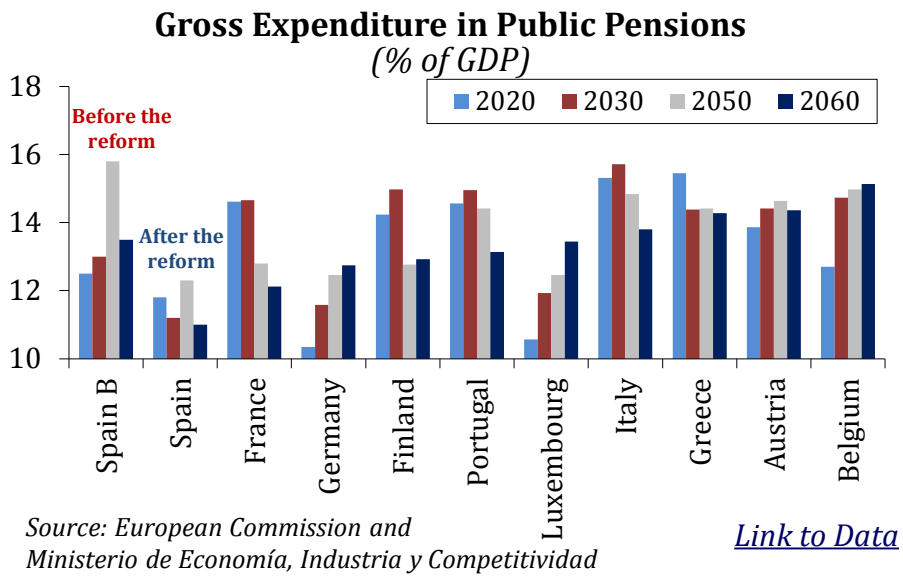
The 2015 tax reform: modernising the tax system

- 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
► 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	► In the case of the financial sector kept at 30% (out for credit cooperatives and "Cajas Rurales)		► Annual publication of tax havens	
	► Capital gains generated in less than 12 months no longer penalised			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 form 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 ● Deductions eliminated: - Environmental investments - Expenses for vocational training - Reinvestment of extraordinary benefits ● New deductions (favouring the deleveraging process): - Capitalisation reserves. 10% of corporate income deducible 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)
► Tax deductions for house rental: - Elimination for new rentals (Expenditure side) - Lower tax deductions for house rentals (Income side)				► Tax assessment cases are extended to smuggling offenses	
				► Better precision in the indirect assessment regime	
► Lower tax withholding for professional and self-employed workers with incomes below €15,000	► Limit for deductible contributions linked to pension plans lowered to €8,000/year	► No deductibility of equity securities impairments extended to fixed income portfolios and fixed assets		► Interruption of the limitation period of related tax obligations	► Incentives for cultural activities
► Limits to simplified method ('Modulos') to certain professional activities	► 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			

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 old age-pensions



Source: European Commission and Ministerio de Economía, Industria y Competitividad

Link to Data

Year	Statutory retirement age	Minimum contribution period for retirement at 65 years
2013	65 years and 1 month	35 years and 3 months
2014	65 years and 2 months	35 years and 6 months
2015	65 years and 3 months	35 years and 9 months
2016	65 years and 4 months	36 years
2017	65 years and 5 months	36 years and 3 months
2018	65 years and 6 months	36 years and 6 months
2019	65 years and 8 months	36 years and 9 months
2020	65 years and 10 months	37 years
2021	66 years	37 years and 3 months
2022	66 years and 2 months	37 years and 6 months
2023	66 years and 4 months	37 years and 9 months
2024	66 years and 6 months	38 years
2025	66 years and 8 months	38 years and 3 months
2026	66 years and 10 months	38 years and 3 months
2027+	67 years	38 years and 6 months

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

➡ Dynamic bargaining more responsive to the needs of businesses and workers

➡ Move beyond the model of indexing salaries and wages

➡ Balanced regulatory framework in line with economic circumstances

❶ Opting out from higher-level agreements
❷ Priority of company-level agreements
❸ Limiting the statutory extension rule of expired agreements up to one year (unlimited before)

Internal Flexibility of Firms

➡ Avoiding lay-offs: rigidity fostered job cuts as a means of adjusting to economic changes
➡ Lack of flexibility avoided innovation and gains in competitiveness

❶ Classification of workers based on skills not on professional occupations
❷ Simplification of rules for the reallocation of workers
❸ Streamlining the adoption of significant changes in working conditions
❹ Furloughs/Time-reductions if legitimate financial, productive or organisational reasons exist
❺ Distribution of working-time

External Flexibility of Firms

➡ Reduction of severance pay for unfair dismissals

➡ Clear and objective regulatory framework of fair dismissals

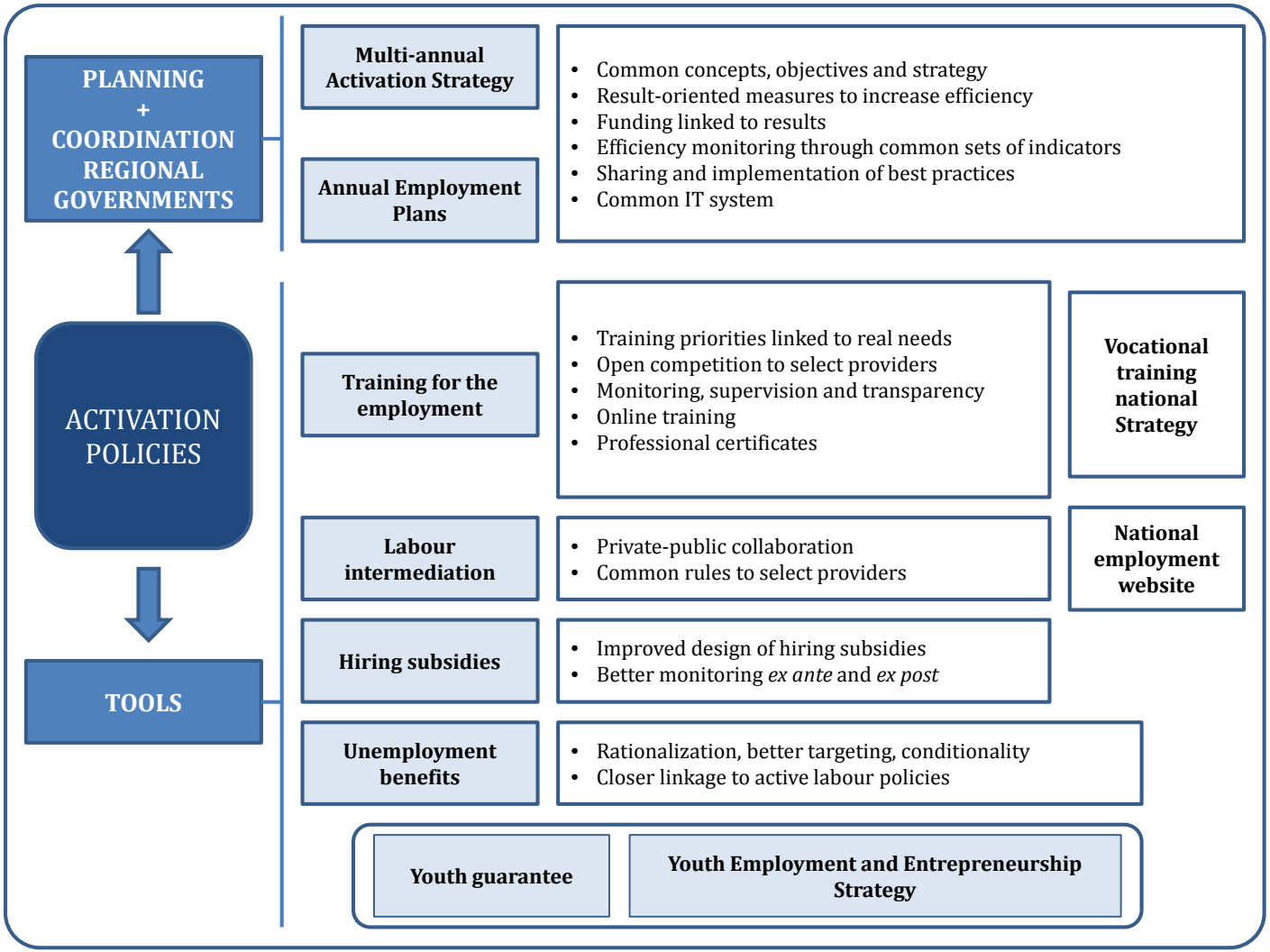
❶ Severance pay for unfair dismissal down to 33days/Max 24months of salary vs. 45days/Max 42 months
❷ Clarification of fair dismissal causes (20days/Max 12 Mo)
❸ Removal of administrative authorisation for collective layoffs
❹ Elimination of procedural salaries
❺ Fair dismissals for economic causes of civil servants
❻ Streamlining of dismissals based on absenteeism

Contracts

❶ 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
❷ 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
❸ Flexible regulation of telework
❹ Part-time contract: increased flexibility, allowing overtime

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%

Regulatory Rationalisation

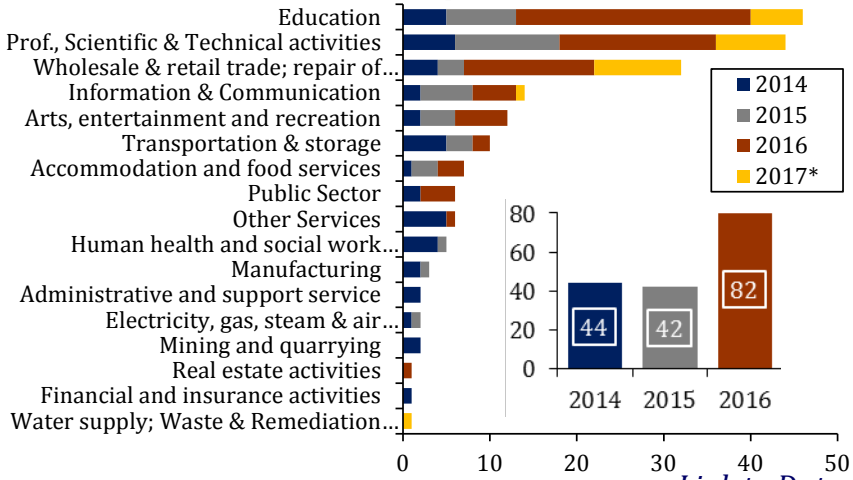
Economic Operators

National Competition Commission

Agency For the Evaluation of Public Policies

Market Unity Regulations

(Number of Cases. Up to May 5th 2017)



Source: Ministerio de Economía, Industria y Competitividad Link to Data

Financial sector reform

- The financial sector reforms aim at addressing the three main problems of corporate financing: the recovery in financing of viable projects, resolving the dependency on banking credit and reducing the (declining) differential cost of Spanish SMEs

Initial steps: 2009-Mid 2013

2009-2011

FROB I

Reform of the Legal Framework of Cajas

Integration of Cajas via "*Institutional Protection Schemes*" and Capital Injections/Asset Protection Schemes

2012

FROB II

Clean-up of Balances (I) €50bn in additional capital and provisions

Clean-up of Balances (II) €29 bn in additional provisions to cover possible migrations into NPLs

Asset quality review & stress tests

Law 9/2012 recovery and resolution of financial institutions

2013

Recapitalisation & restructuring

Transfer of assets to SAREB for recapitalised banks

MoU

End 2013 and 2014

Law 26/2013 of savings banks and banking foundations

MoU

Law 14/2013 Internationalisation bonds & cedulas: support to exporting entrepreneurs

RD-Law 11/2014 financial sector solvency and supervision

Venture capital companies and closed-end collective investment schemes

Law 17/2014 Reform of the Insolvency regime (I): pre-insolvency proceedings; refinancing and restructuring of corporate debt

Reform of the Insolvency regime (II): broader scope of insolvency regime & revision of in-court debt restructuring procedures

2015-2016

RD-Law 1/2015 Second Chance Act

Law 11/2015 Transposition of the Banking Recovery and Resolution Directive

Circular 4/2016 (Bank of Spain)

RD-Law 1/2017 Urgent measures for the protection of consumers

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
Specific measures -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	

1. Transformation of Spain's growth model

2. Spanish Economic Policy & Reforms

3. The Treasury's Funding Programme

The Funding Programme in 2017 Page 35-42

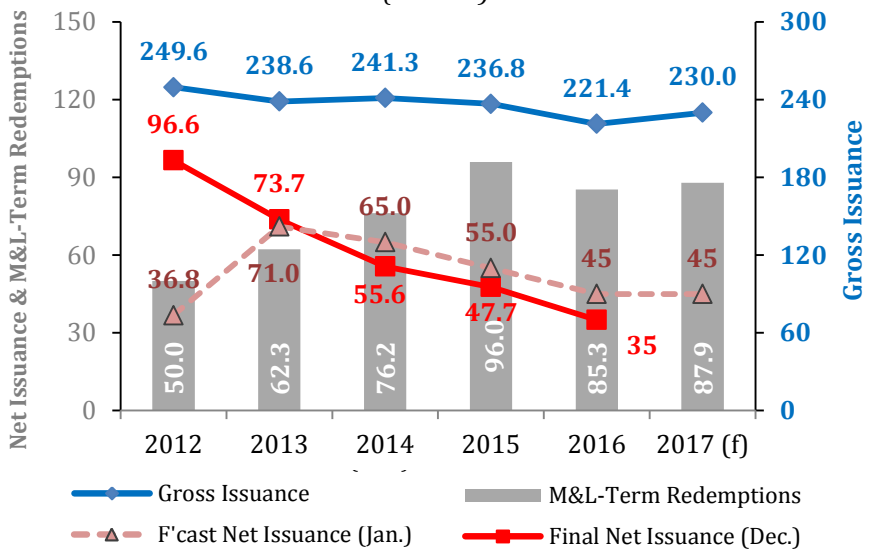
The Treasury's Funding Programme in 2017

- Net issuance of €45 bn in 2017; revised programme includes €10 bn loan to Social Security
- Total issuance up to April 30th: €87.8 bn (38.2% of the funding programme), of which €58.2 bn (43.8%) medium- and long-term instruments, and €29.6 bn (30.5%) in Letras del Tesoro

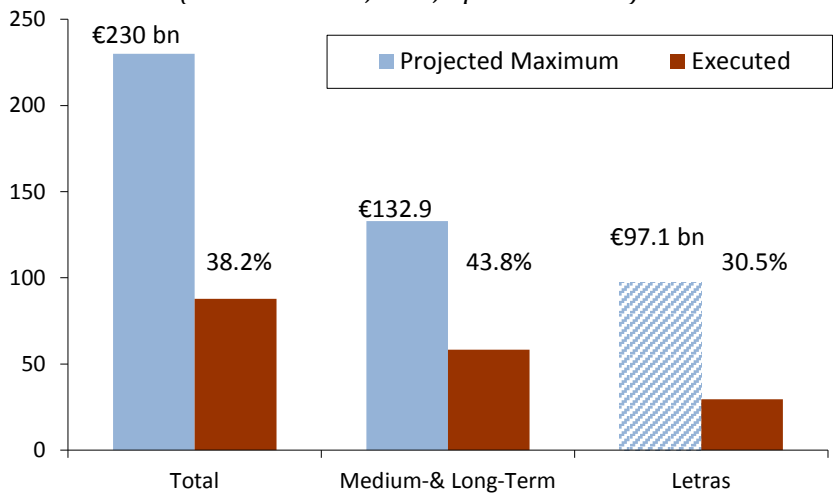
(In billon euros and in effective terms)	Forecast Strategy 2017	Revised April 2017
Total Net Issuance	**35.000**	**45.000**
Total Gross Issuance	**220.017**	**230.017**
Medium- and Long-term		
Gross Issuance [1]	122.904	132.904
Amortisation [1]	87.904	87.904
Net Issuance [1]	35.000	45.000
Letras del 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, April 30th 2017)

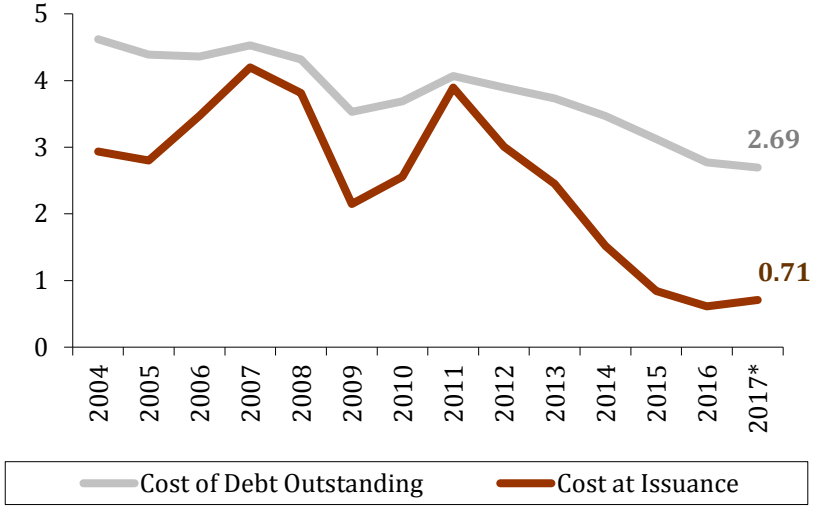


Source: Secretaría General del Tesoro y Política Financiera. Link to Data

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

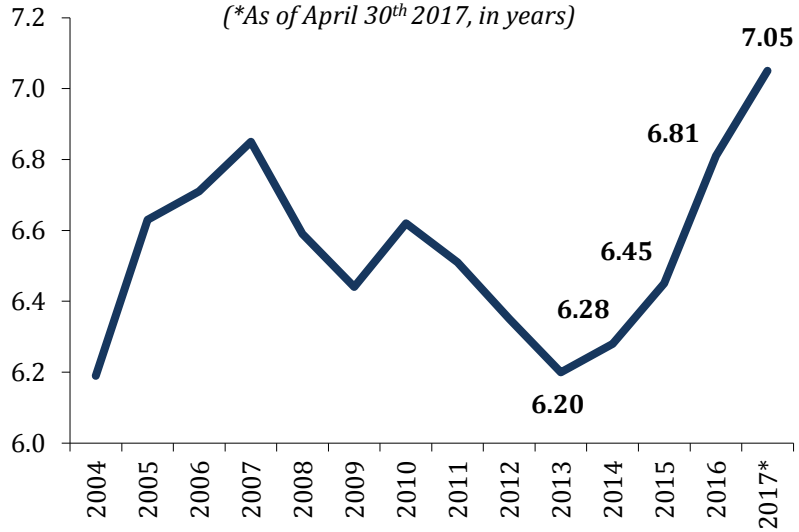
Cost of Debt Outstanding and Cost at Issuance

*(*As of April 30th 2017, in percent)*



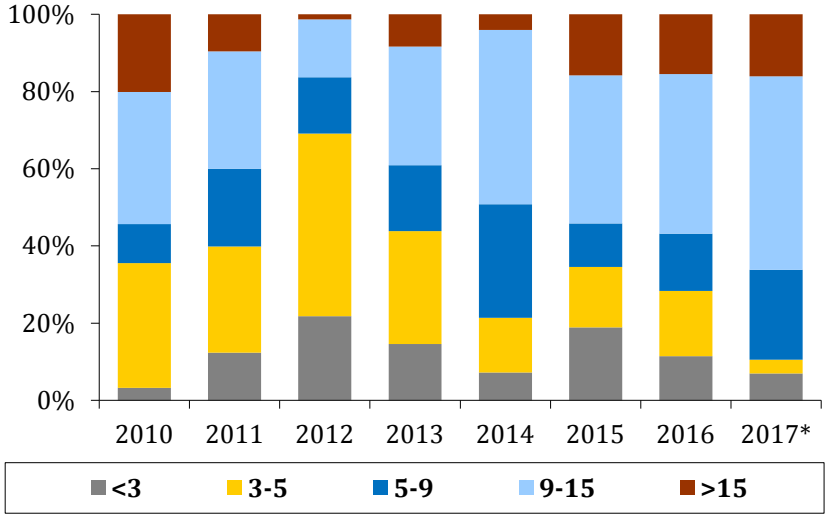
Average Life of Debt Outstanding

*(*As of April 30th 2017, in years)*



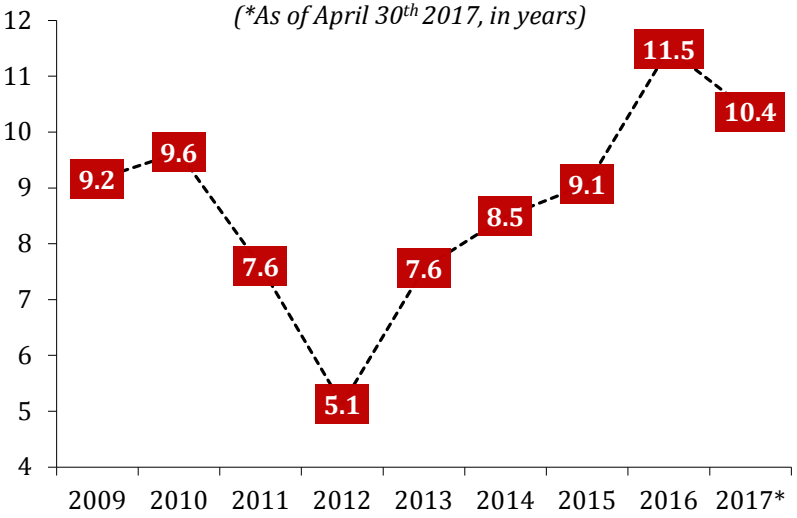
Marginal Life at Issuance of Bonos and Obligaciones

*(*As of April 30th 2017, in years)*



Average Life at Issuance of Bonos and Obligaciones

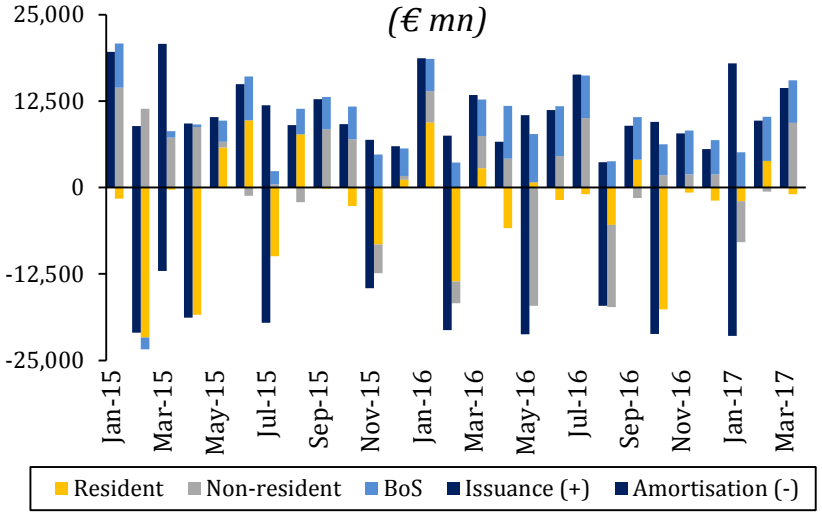
*(*As of April 30th 2017, in years)*



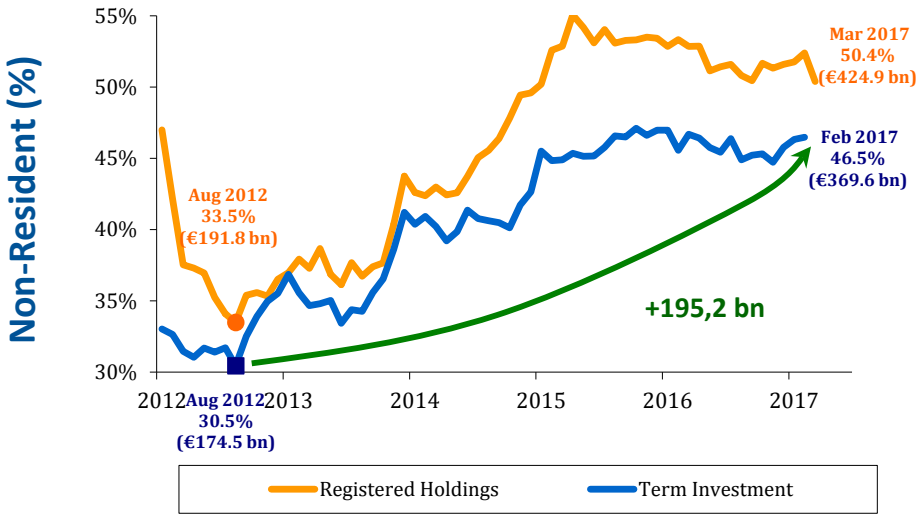
Source: Secretaría General del Tesoro y Política Financiera. Link to Data

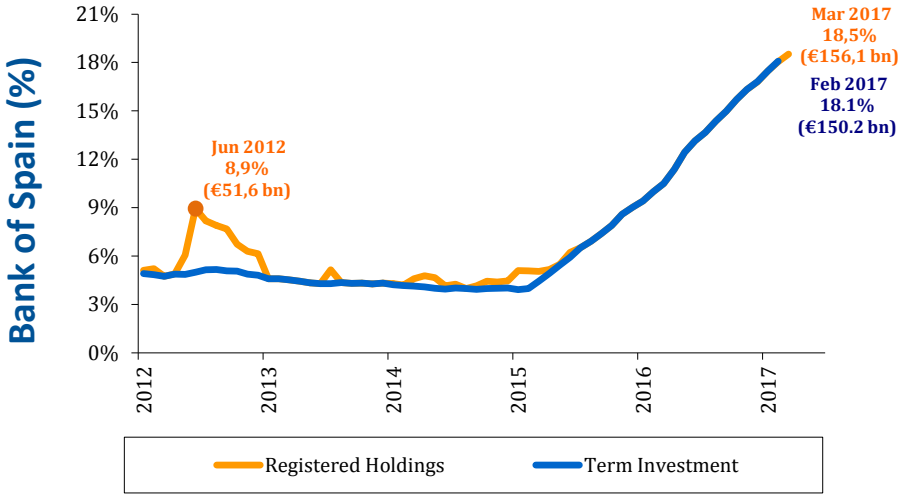
Recent trends in investor base (I)

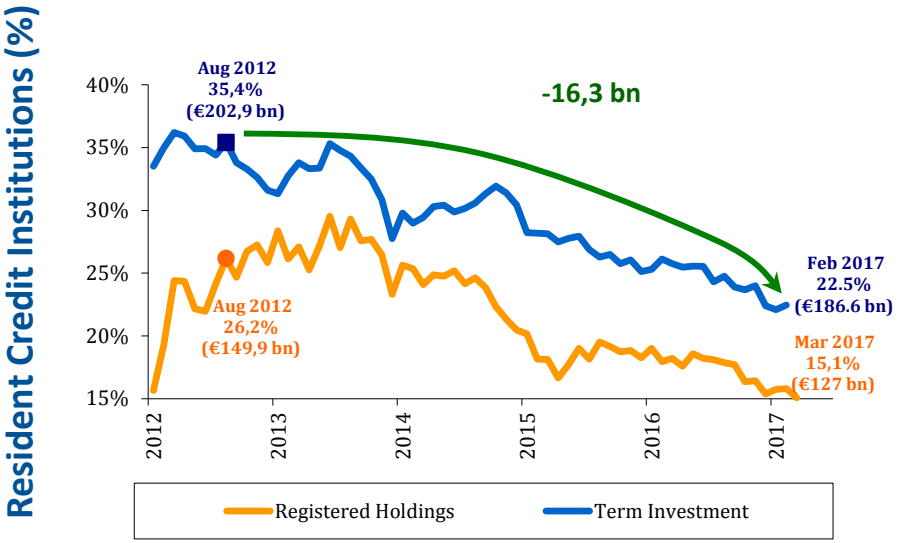
Issuance & Amortisation Flows and Changes in Holdings of Bonos y Obligaciones del Estado



Holdings of Unstripped Government Debt





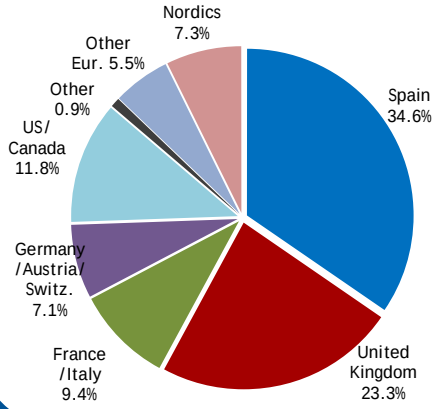


Source: Secretaría General del Tesoro y Política Financiera. *Link to Data*

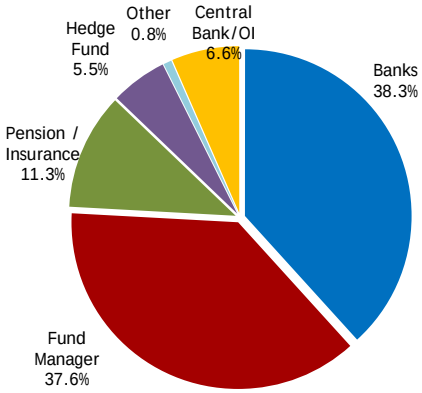
Syndicated issuance in 2016

JANUARY - NEW 10 YEAR REFERENCE. APR. 2026

Geographic Distribution *(%)*

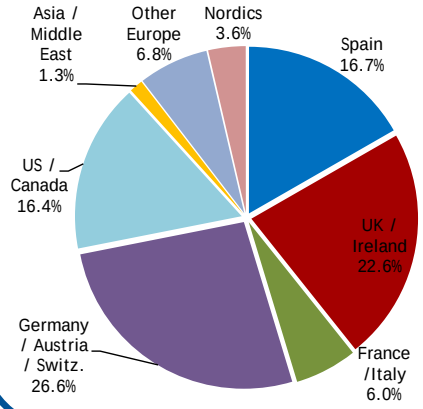


By Type of Investor *(%)*

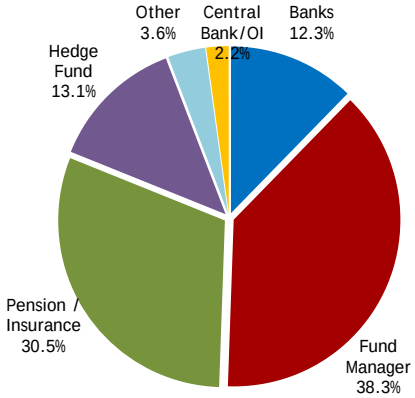


MAY - NEW 50 YEAR REFERENCE. JULY 2066

Geographic Distribution *(%)*

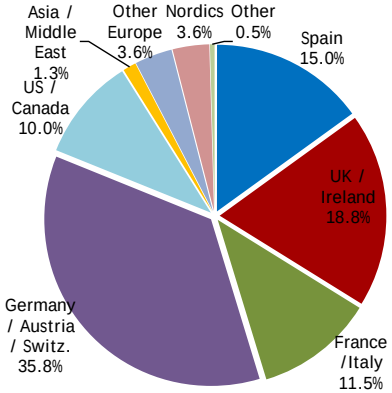


By Type of Investor *(%)*

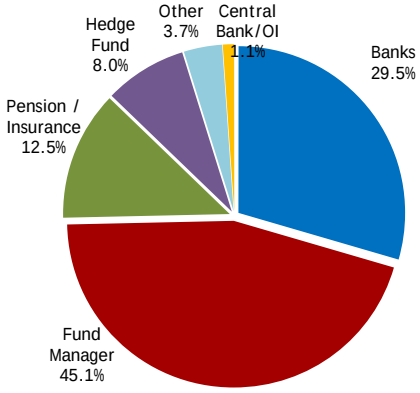


MARCH - NEW 30 YEAR REFERENCE. OCT. 2046

Geographic Distribution *(%)*

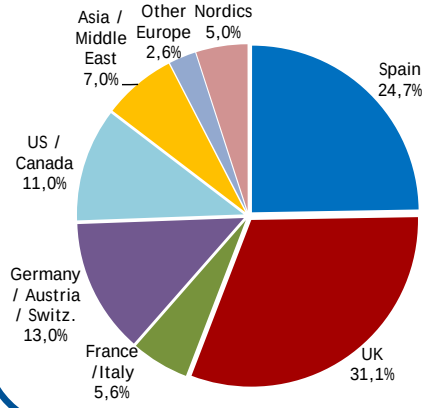


By Type of Investor *(%)*

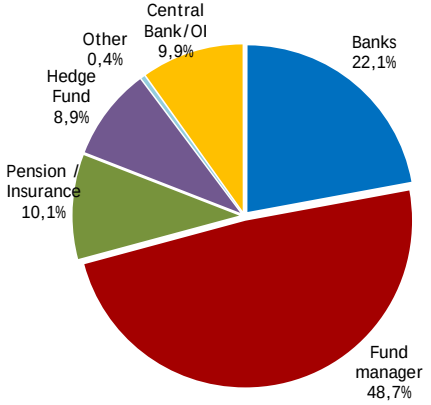


JULY - NEW 10 YEAR REFERENCE. OCTOBER 2026

Geographic Distribution *(%)*



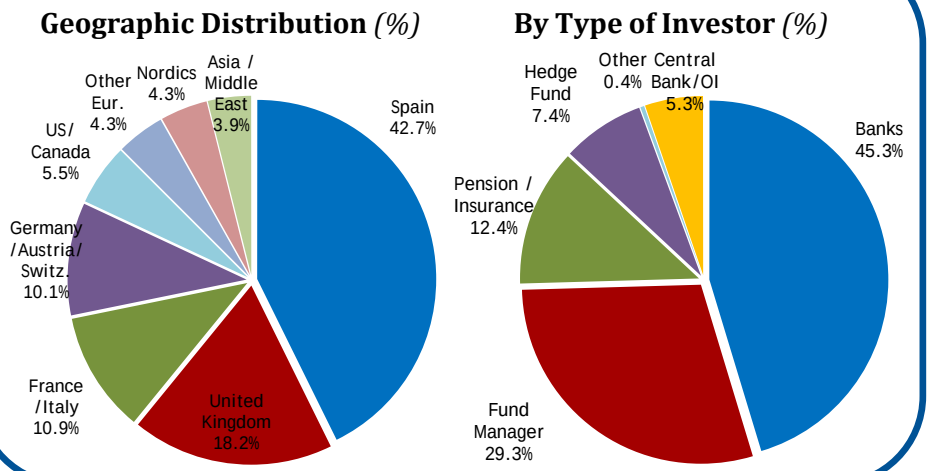
By Type of Investor *(%)*



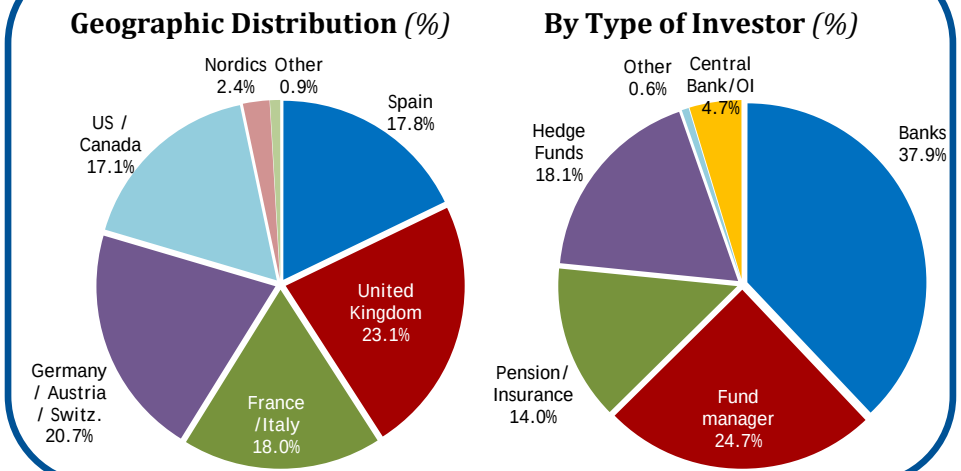
Link to Data

Syndicated issuance in 2017

JANUARY - NEW 10 YEAR REFERENCE. APR. 2027

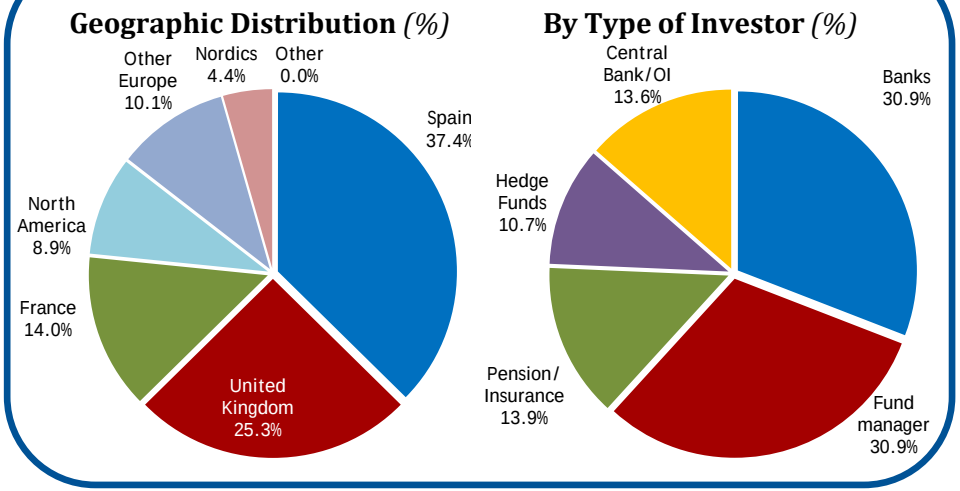


FEBRUARY - NEW 15 YEAR REFERENCE. JUL. 2033



- In April, a new 10-year benchmark linked to Euro Area Harmonised Index Consumer Price HICP (ex Tobacco) was priced with a spread of 96bps through the 1.50% SPGB April 2027 equivalent to a real yield of 0.733%
- Due 30 November 2027, the EUR 5 billion 10-year benchmark issue carries a 0.65% annual coupon

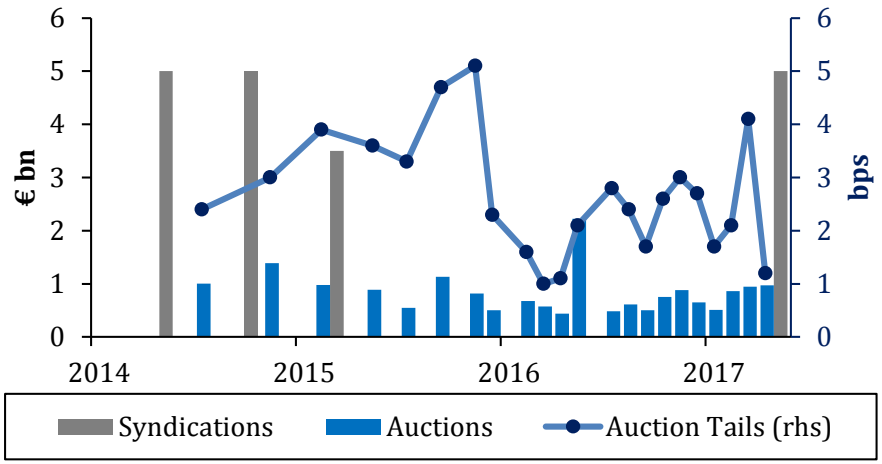
APRIL - NEW 10 YEAR EURO AREA INFLATION-LINKED REFERENCE. NOVEMBER 2027



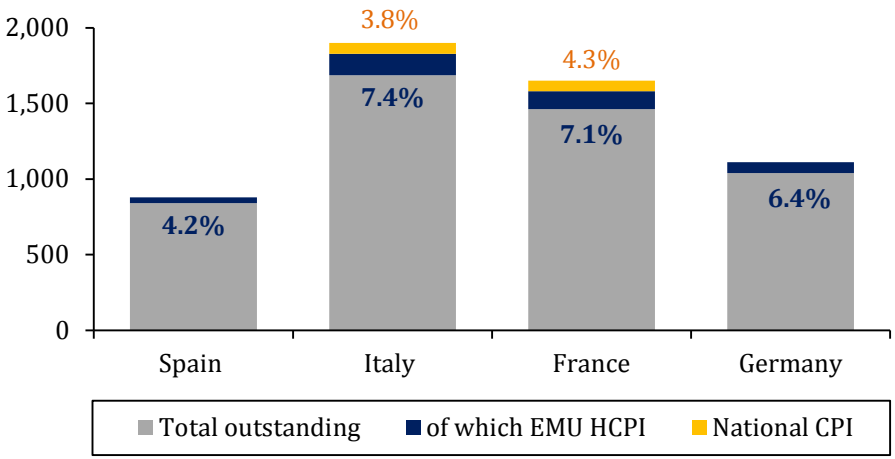
Link to Data

Spain's Euro inflation-linked programme

Spanish Linker Supply, Auctions & Syndications
(As of May 4th 2017, € bn lhs and bps rhs)



Share of Inflation-Linked Bonds in Total Outstanding
(As of May 4th 2017, € bn & percent)

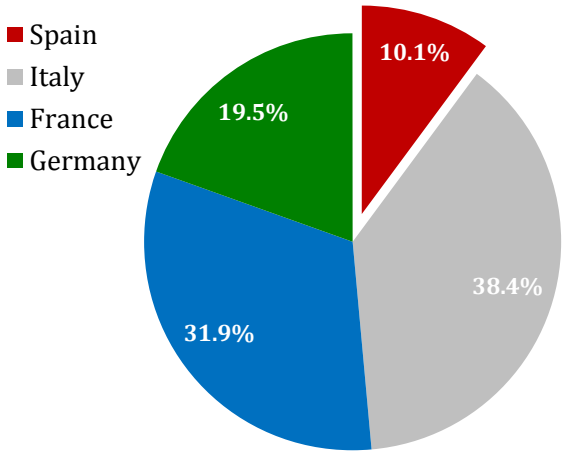


Outstanding Inflation-Linked Bonos and Obligaciones
(As of May 4th 2017, € mn)

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	2,57	9.682,9
SPGB €i 0.30%	11/30/2021	4,57	3.946,1
SPGB €i 1.80%	11/30/2024	7,57	12.891,6
SPGB €i 0.65%	11/30/2027	10,57	5.016,1
SPGB €i 1.00%	11/30/2030	13,57	5.563,6
			37.100,2

(*) Updated on the last day of the month with the corresponding indexation coefficient.

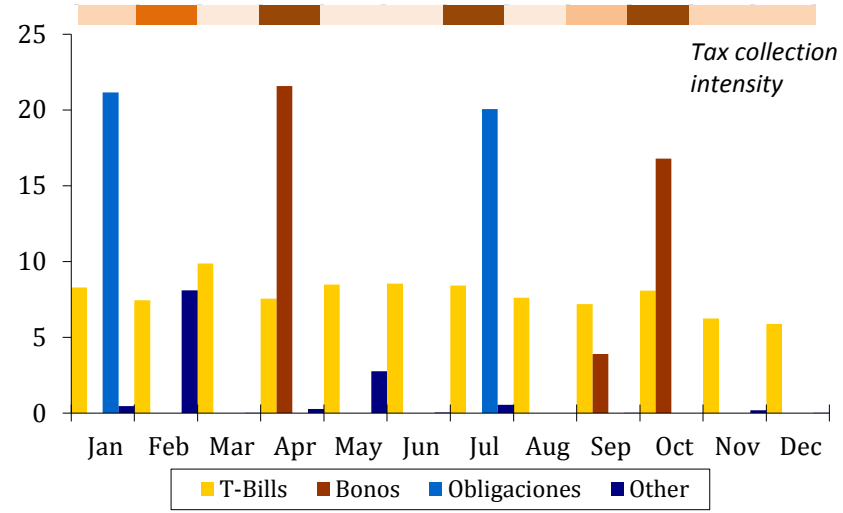
Total Outstanding € Inflation Debt - breakdown by issuer
(As of May 4th 2017, Percent)



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

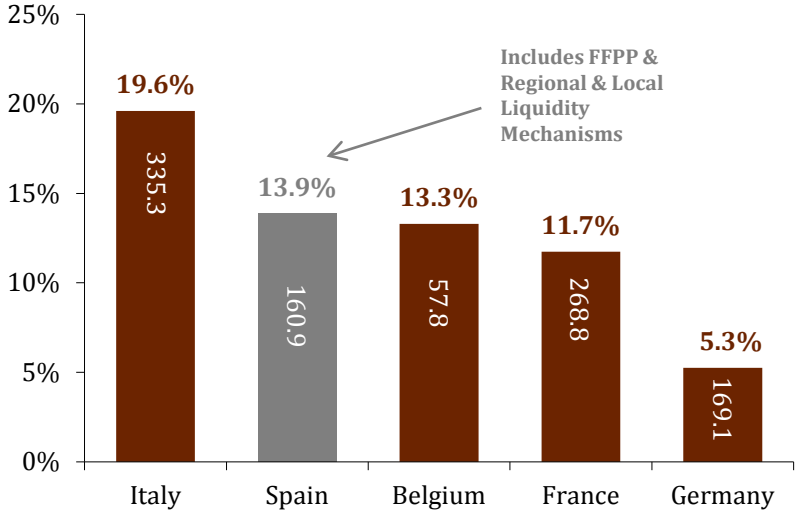
Monthly Maturity Structure in 2017
(as of April 30th 2017, € bn)



Source: Secretaría General del Tesoro y Política Financiera.

Link to Data

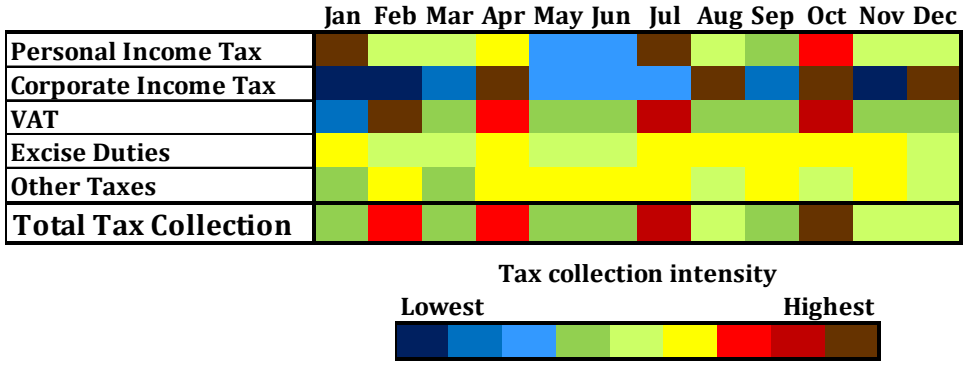
Relative Redemptions of Central Governments
(% of estimated 2017 GDP. May 2017 to April 2018)



Sources: Secretaría General del Tesoro y Política Financiera for Spain, data for Italy (Apr17-Mar18), and Bloomberg for other countries.

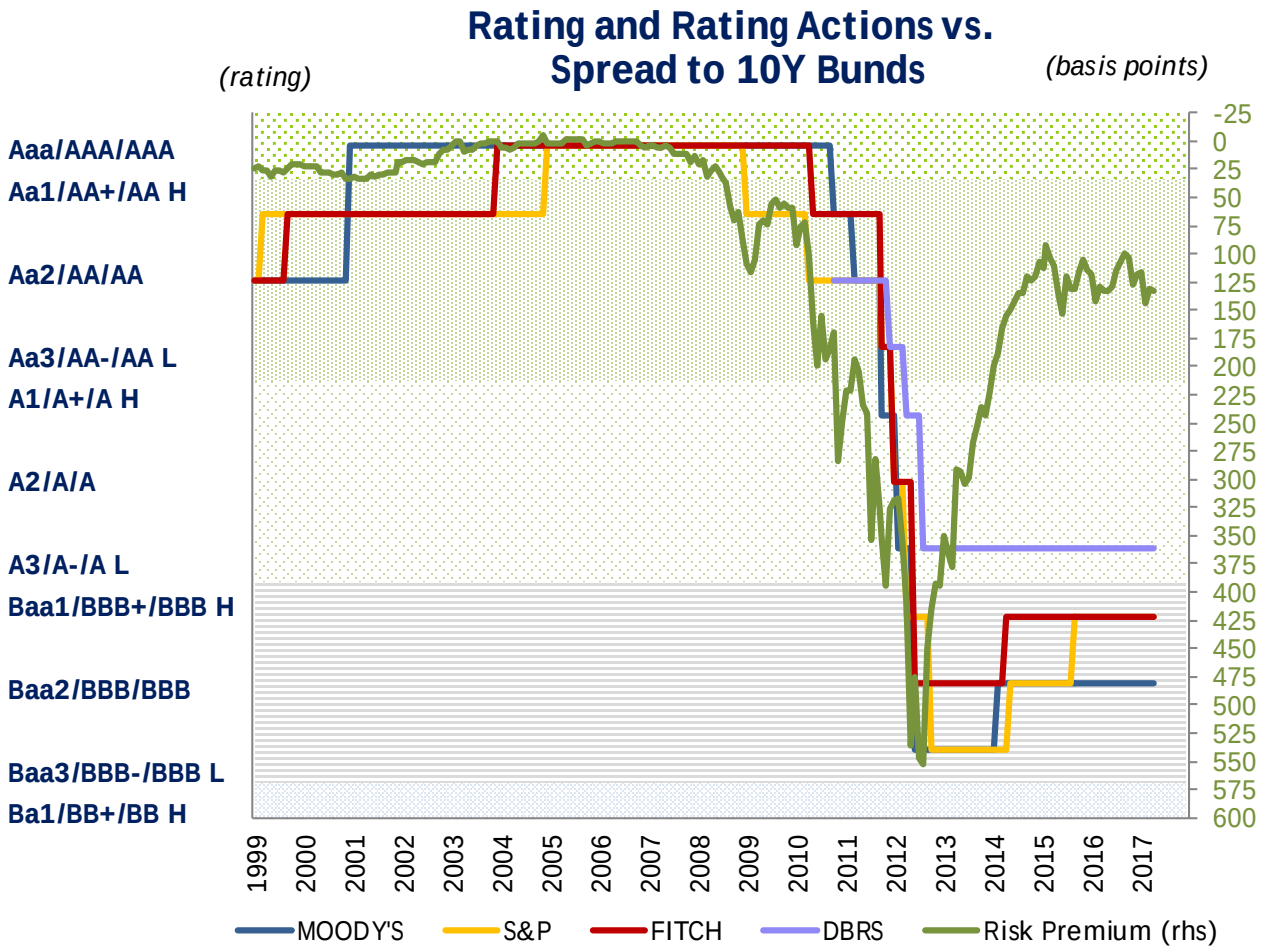
Link to Data

Administrative Distribution of Tax Collection



Link to Data

Evolution of Ratings



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				

Link to Data

More and updated information on the Spanish economy

For spreadsheets click on 'Link to Data'

Click here to download all spreadsheets

National Statistics Institute
Includes all relevant short-term and structural statistics generated by the National Statistics Authorities.

Instituto Nacional de Estadística

The Spanish Economy
Contains a collection of relevant reports on economic outlook, public finances, public debt, the financial sector and reform initiatives.

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Thank you for your attention

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