

Economic Policy & Funding Programme for 2018

February 2018

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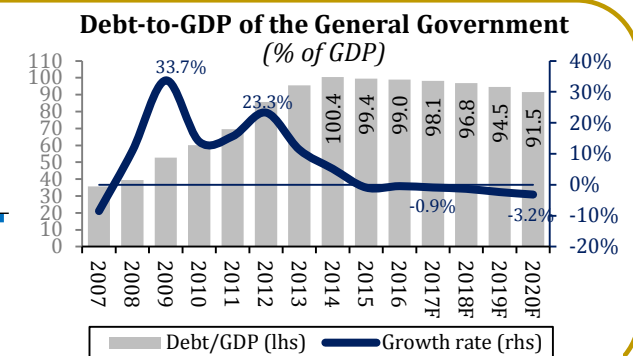
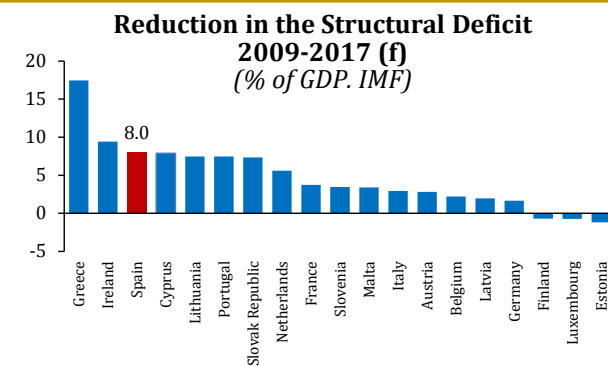
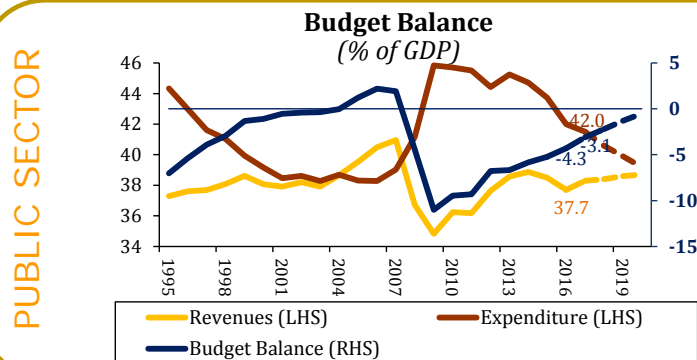
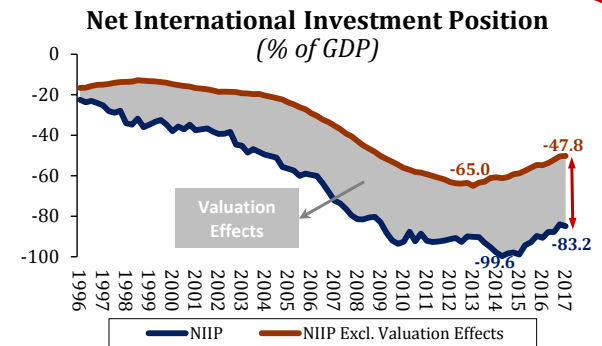
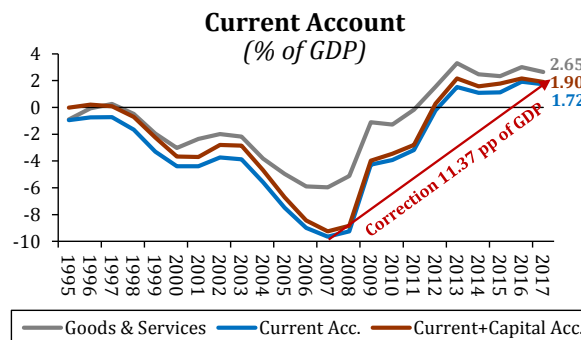
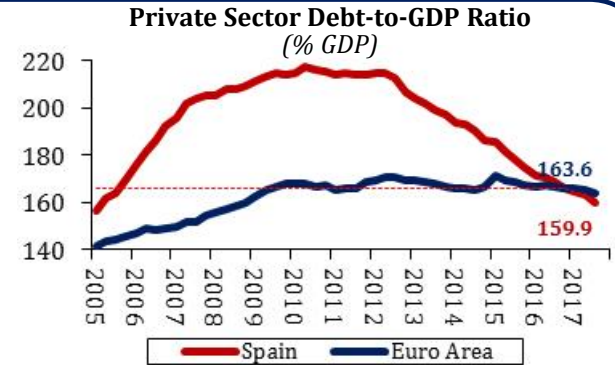
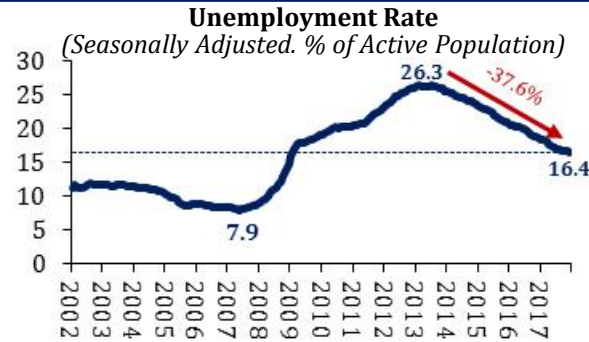
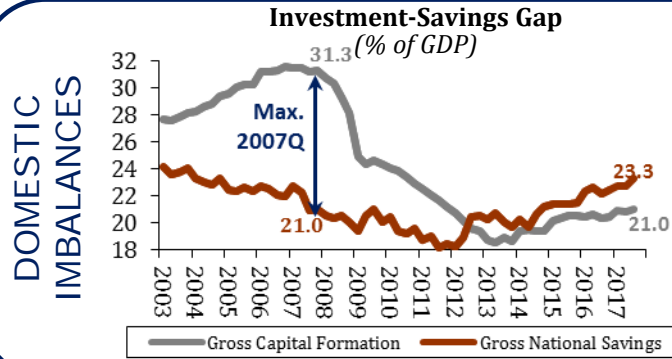
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Highlights: Correction of imbalances



1. Transformation of Spain's growth model

1.1 Recent macroeconomic trends	Page 4-5
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2. Spanish Economic Policy & Reforms

3. The Funding Programme in 2018

Macroeconomic scenario 2016-2018

- ▶ Strengthening of balance sheet clean-up in the private sector & CA surplus
- ▶ Unemployment rate forecast to decline to 15.5% by 2018

Macroeconomic scenario (YoY growth rates in percent)							
	2016	2017					2018
		Forecast	Q1	Q2	Q3	Q4	
Private consumption expenditure	3.0	2.5	2.3	2.5	2.4	--	1.8
General Government consumption expenditure	0.8	0.9	0.7	1.1	1.0	--	0.7
Gross Fixed Capital Formation	3.3	4.2	4.8	3.8	5.4	--	3.4
National Demand*	2.5	2.4	2.4	2.3	2.7	--	1.8
Exports of goods and services	4.8	6.2	6.5	4.4	4.9	--	5.1
Imports of goods and services	2.7	4.4	4.9	2.3	4.0	--	4.1
External demand*	0.7	0.7	0.7	0.8	0.4	--	0.5
Gross Domestic Product	3.3	3.1	3.0	3.1	3.1	3.1	2.3

Other macroeconomic variables							
	2016	2017					2018
		Forecast	Q1	Q2	Q3	Q4	
Unemployment rate (In %)	19.6	17.2	18.8	17.2	16.4	16.5	15.5
Full-time Equiv. Employment (YoY Growth)	3.0	2.9	2.6	2.9	2.9	--	2.4
Net lending(+)/borrowing(-) with RoW (% of GDP)**	2.1	1.8	2.1	2.0	2.0	--	1.7
Private Consumption deflator (YoY Growth)	-0.1	2.0	2.3	1.9	1.4	--	1.6
Headline Balance General Gov't (in % of GDP)**	-4.51	3.0	-4.15	-3.64	-3.10	--	2.2

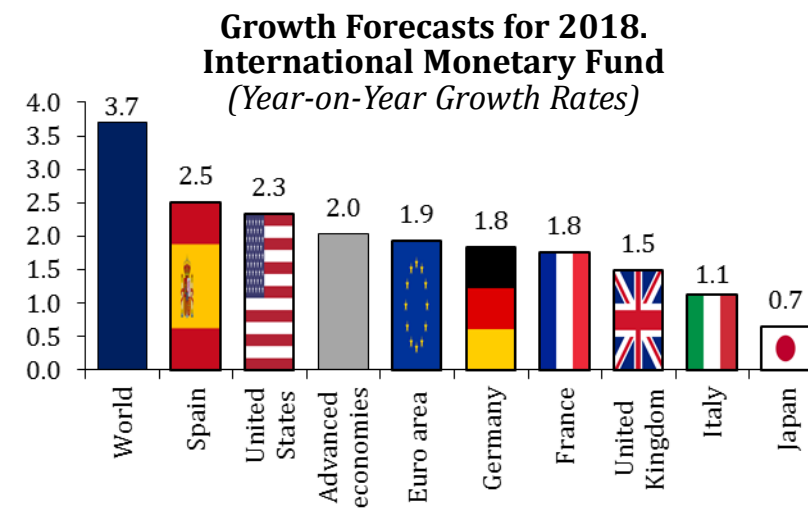
Underlying assumptions							
	2016	2017					2018
		Forecast	Q1	Q2	Q3	Q4	
USD/€ exchange rate	1.1	1.13	1.06	1.10	1.17	1.18	1.20
Euro Area GDP growth (YoY growth)	1.8	2.2	2.1	2.4	2.6	--	1.8
Oil prices (Brent, USD/barrel)	43.3	54.3	53.4	49.3	52.5	61.9	54.8

(* Contributions to GDP in p.p

(**) Rolling-year basis

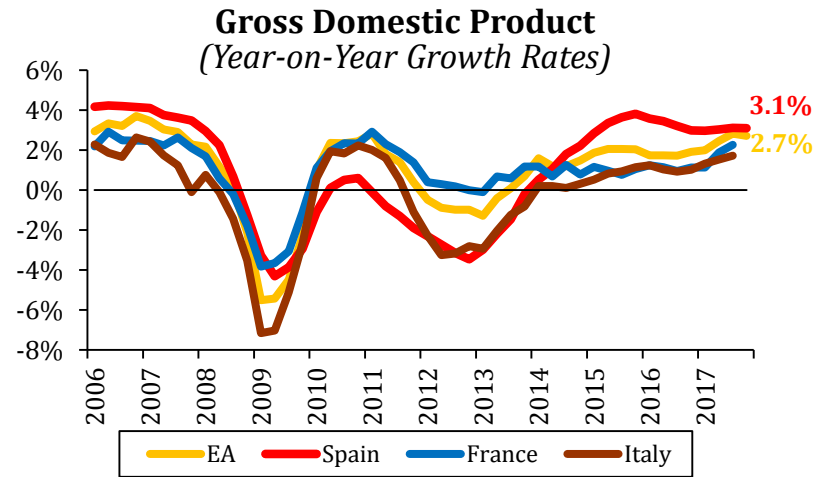
Source: Ministerio de Economía, Industria y Competitividad.

[Link to Data](#)



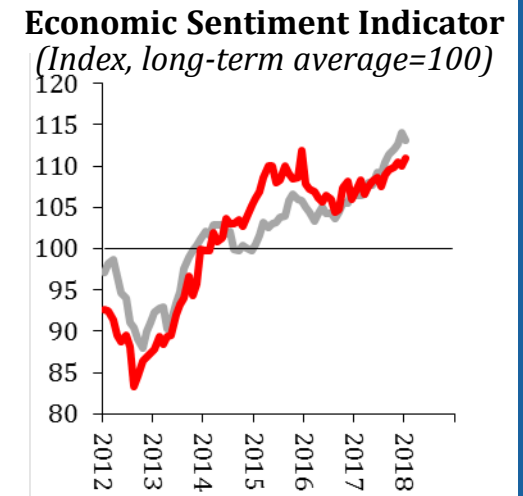
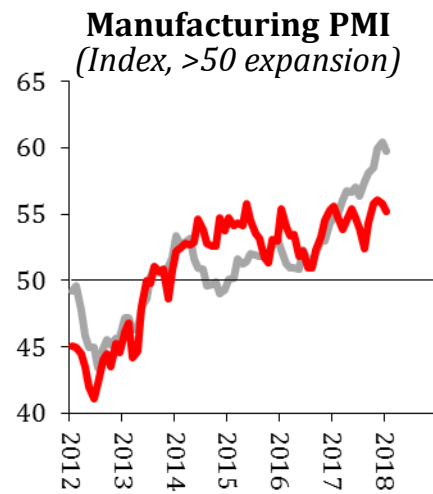
Growth is less vulnerable to volatility

- ▶ Spain set to be one of the fastest growing large advanced economies in 2017 & 2018
- ▶ Positive tailwinds shared across the Euro Area (i.e., low interest rates & improved credit conditions)
- ▶ The positive effects of structural reforms explain the differential improvement



Source: Eurostat.

[Link to Data](#)

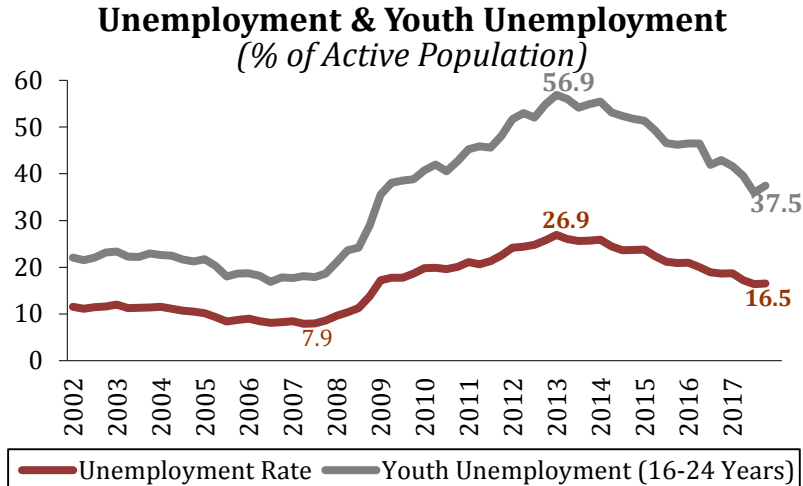


Sources: Bloomberg & Eurostat.

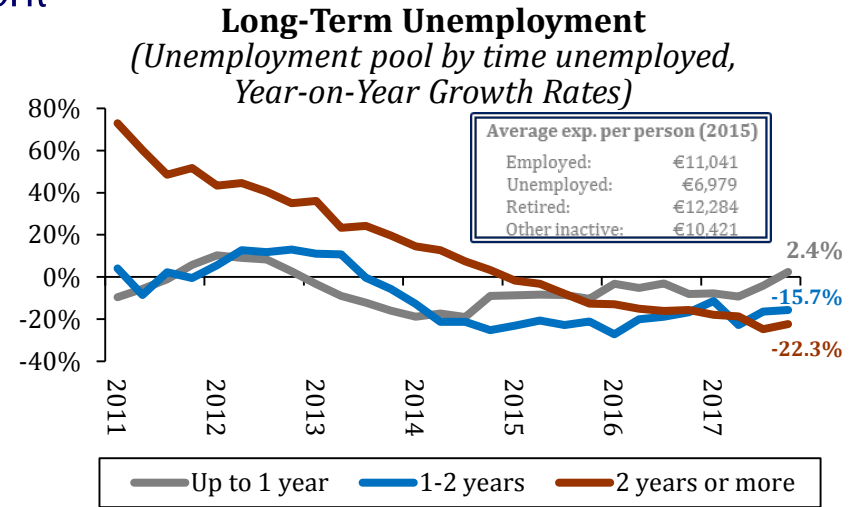
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Labour market reform: a change in labour dynamics

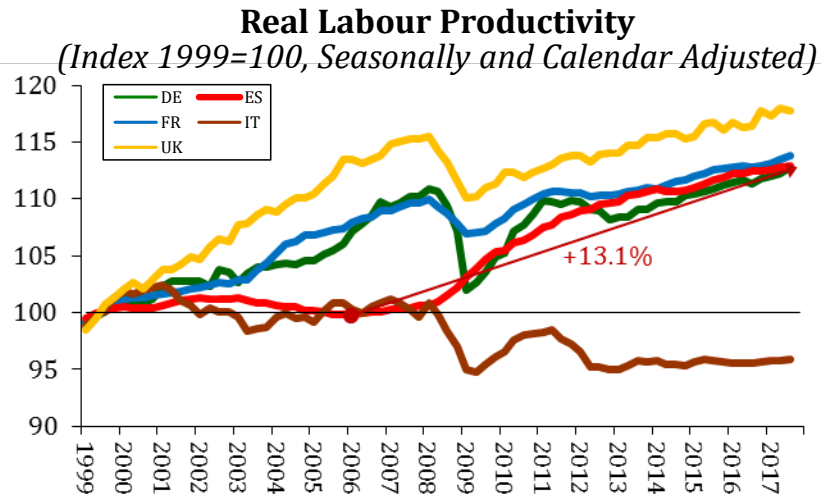
► Progressive correction of long-term unemployment



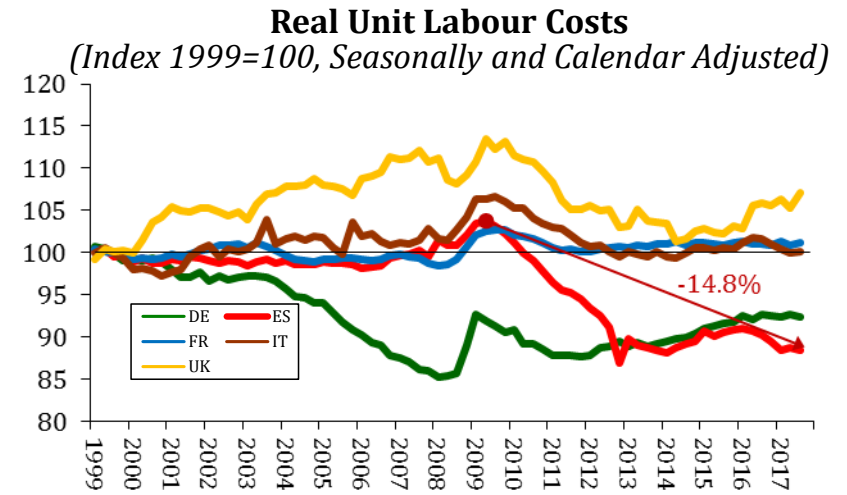
Source: National Statistics Institute. [Link to Data](#)



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



Source: Eurostat.



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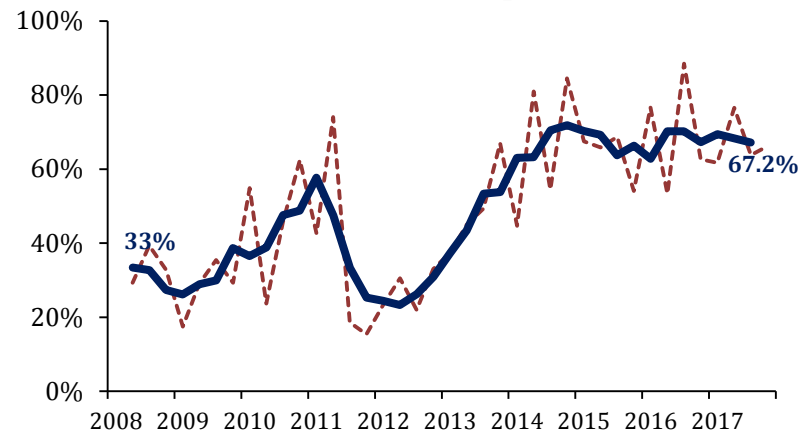
Monthly employment report



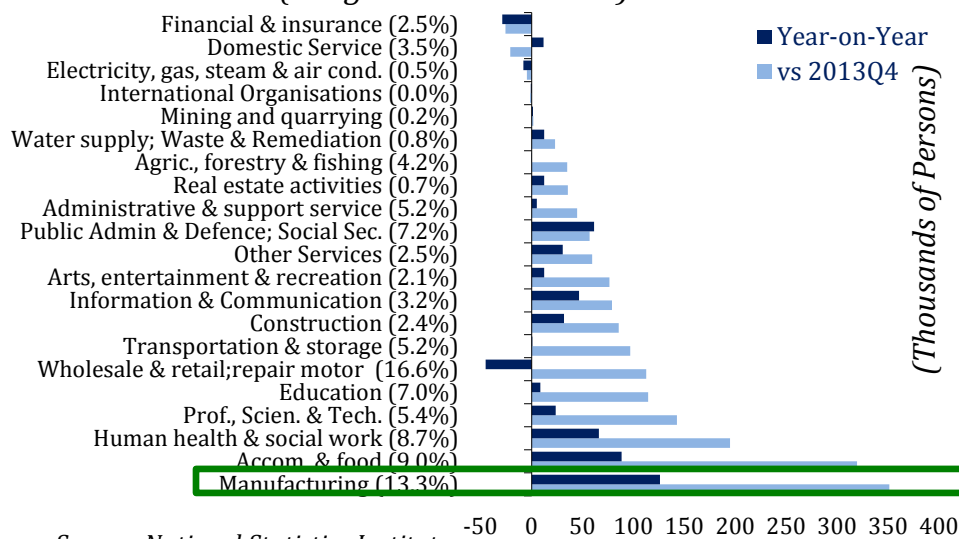
Growth is widely distributed across sectors

- ▶ Since 2013Q4 employment has increased by almost 1.8 million persons
- ▶ In the last year employment growth has been widespread across sectors and especially intense in manufacturing and wholesale & retail trade (approx. 70% of all branches expanding)

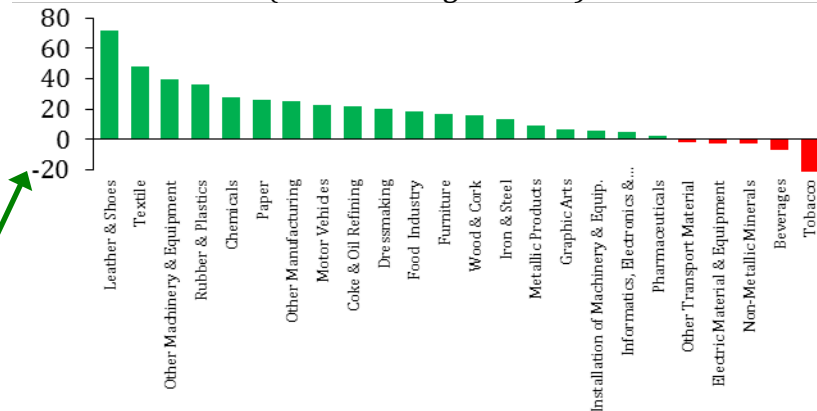
Weighted Average Percentage of Branches of Economic Activity with Positive QoQ Employment Growth



Labour Force Survey, 2017Q2
Breakdown by Branches of Economic Activity.
(Weights in Parenthesis)



Employment Growth in Manufacturing Branches Since 2013Q4
(In Percentage Points)



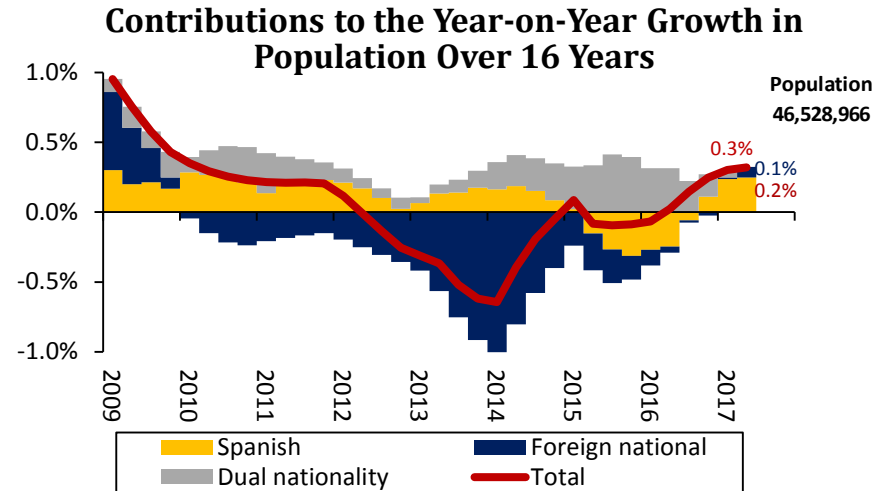
[Link to Data](#)

Source: National Statistics Institute.

Population trends

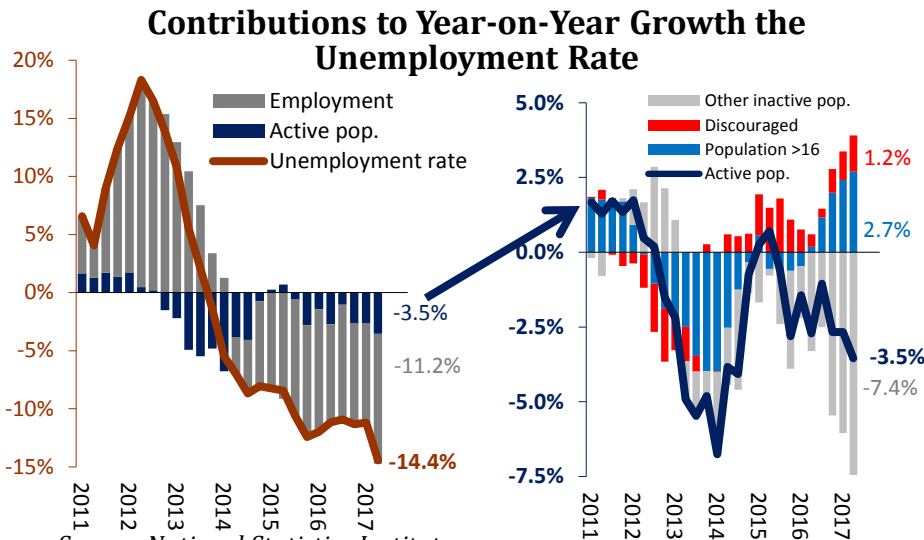
► Population expanding again on positive net immigration flows since 2016

- Foreign population stabilising after several years of emigration
- Spanish nationals close to balanced migration flows



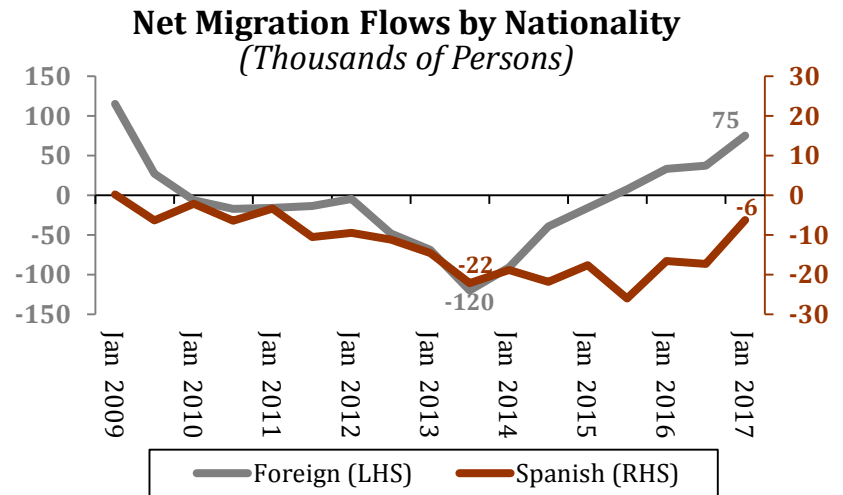
Source: National Statistics Institute.

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Source: National Statistics Institute.

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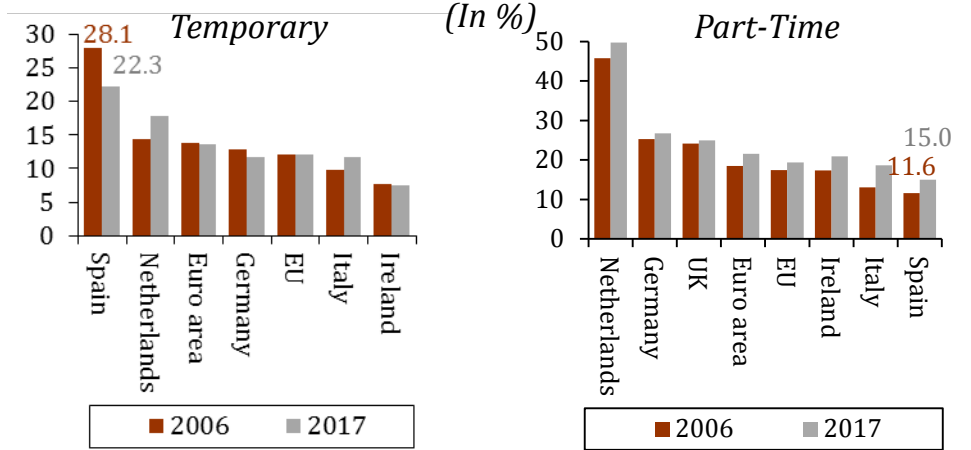
Source: National Statistics Institute.

[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

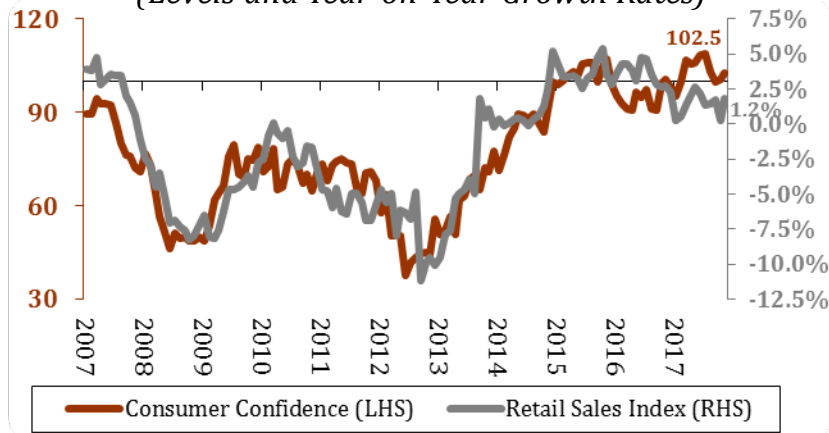
Share of Temporary and Part-Time Contracts in Total Employment (In %)



Source: National Statistics Institute and Eurostat.

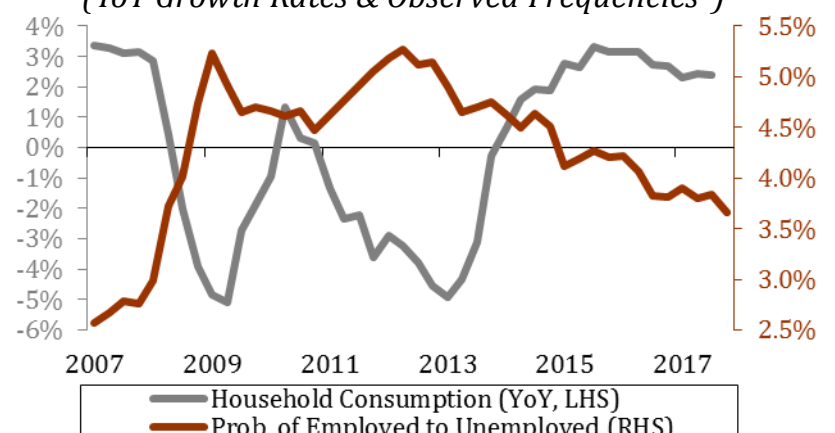
[Link to Data](#)

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 (YoY Growth Rates & Observed Frequencies*)



Source: National Statistics Institute.

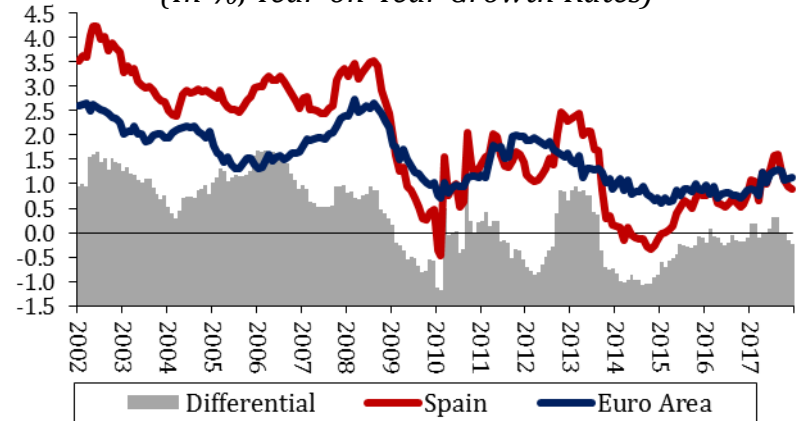
[Link to Data](#)

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

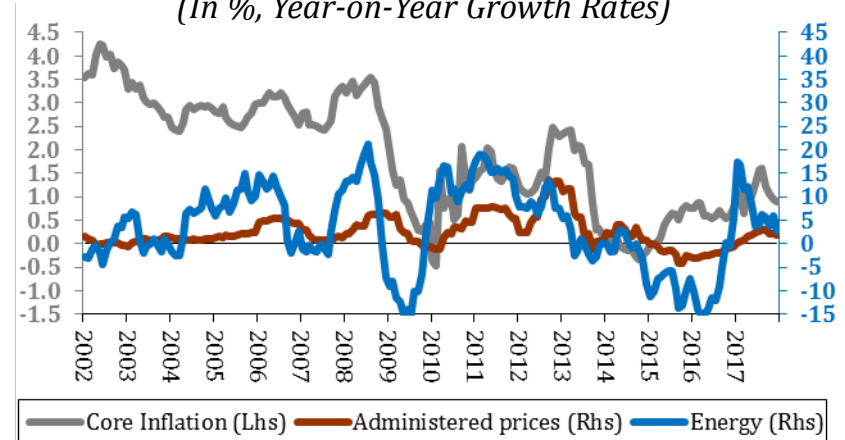
Positive core inflation and favourable inflation differential

- ▶ Positive core inflation, and favourable inflation differential vs. main trading partners, support cost-competitiveness
- ▶ 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)

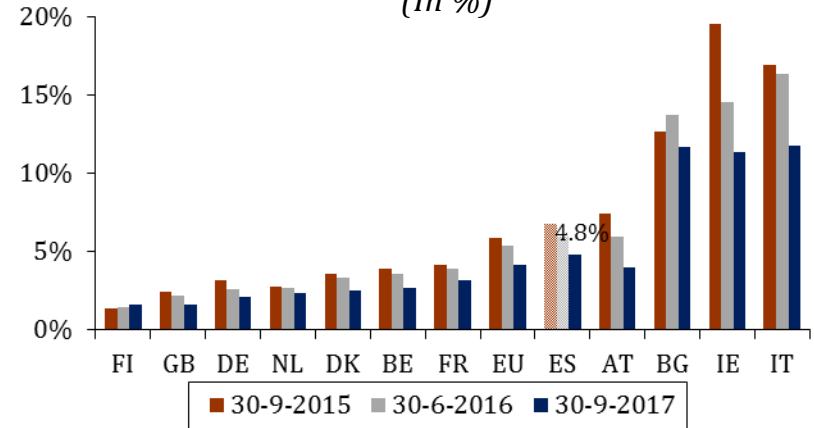


Source: Ministerio de Economía, Industria y Competitividad. [Link to Data](#)

Adjustment and recapitalisation of the financial system (I)

- ▶ Spain's financial sector is now leaner, more efficient and better capitalised
- ▶ Better prepared for NPLs through better coverage of doubtful exposures
- ▶ Further improvement of the equity-to-asset ratio & funding gap

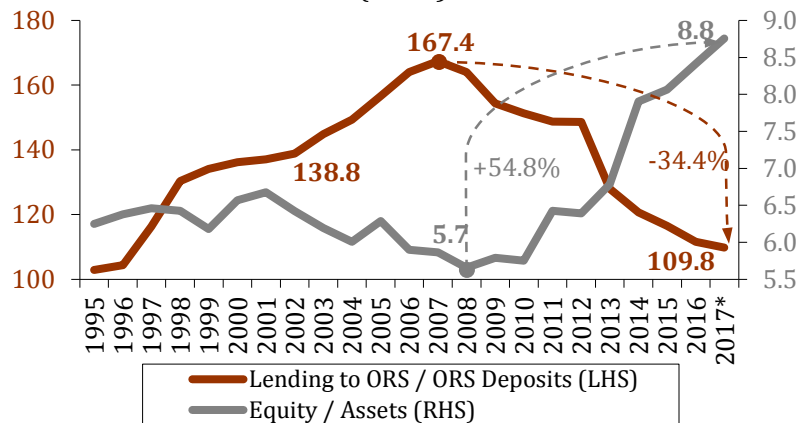
Harmonised Non-Performing Exposure Ratios (In %)



Source: EBA.

[Link to Data](#)

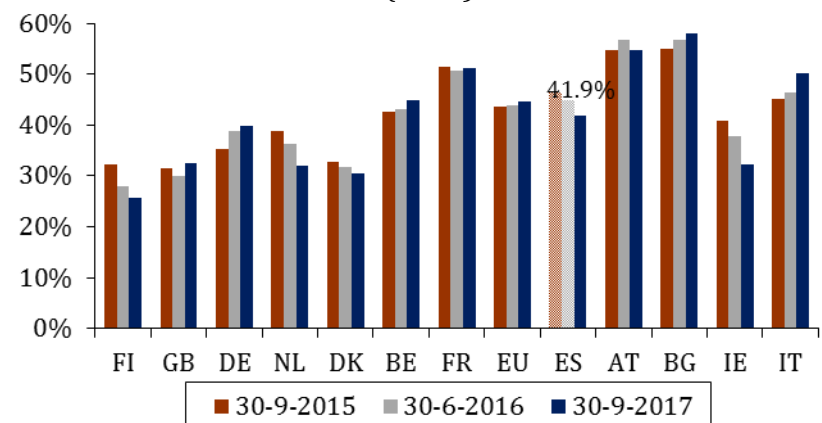
Equity-to-Assets and Lending-to-Deposits Ratio (In %)



Source: Bank of Spain.
* Up to November 2017

[Link to Data](#)

Harmonised Non-Performing Coverage Ratio (In %)



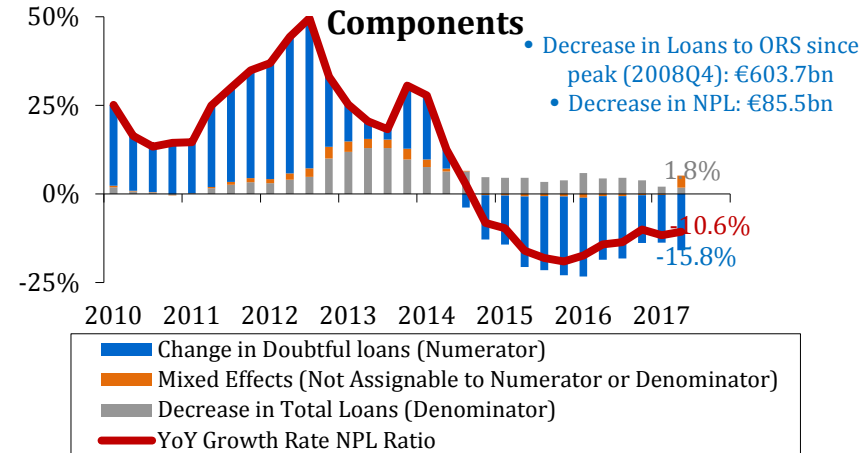
Sources: EBA.

[Link to Data](#)

Adjustment and recapitalisation of the financial system (II)

- ▶ Private resident sectors' doubtful loans declining -7.4% yoy in May 2017
- ▶ Positive feedback loops between unemployment reduction, bankruptcy proceedings and NPLs

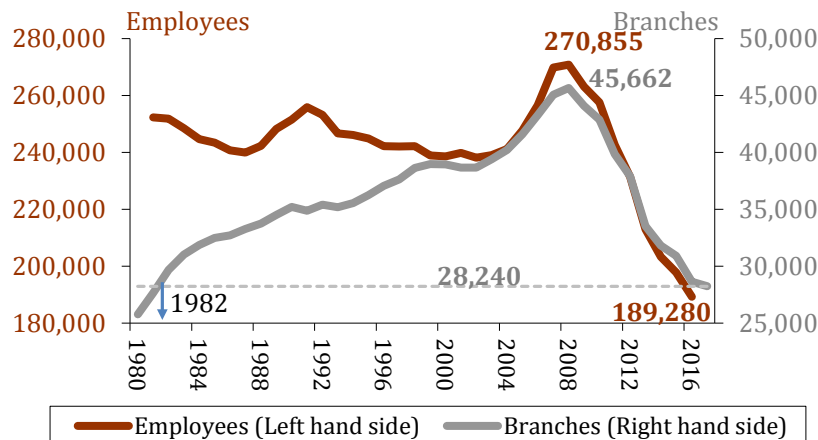
Breakdown of Year-on-Year Growth Rate of NPL Ratio of the Private Resident Sector into its Components



Source: Bank of Spain.

[Link to Data](#)

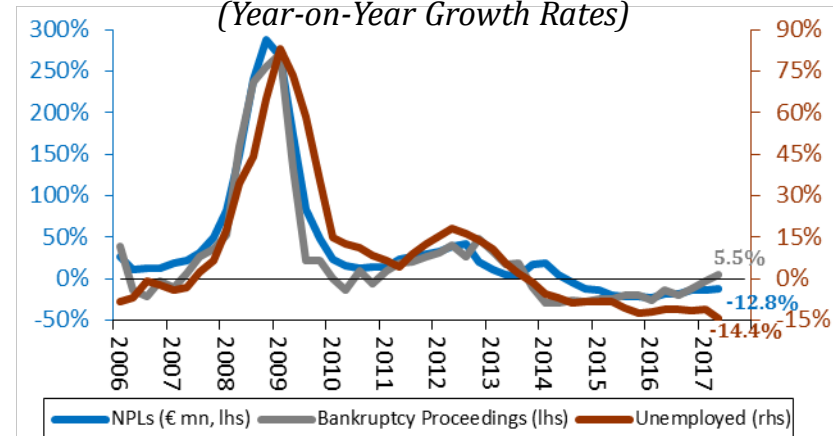
Adjustment in Deposit Taking Institutions (Number of Employees and Branches)



Source: Bank of Spain.

[Link to Data](#)

NPLs of the Private Resident Sector, Unemployment & Bankruptcy Proceedings (Year-on-Year Growth Rates)



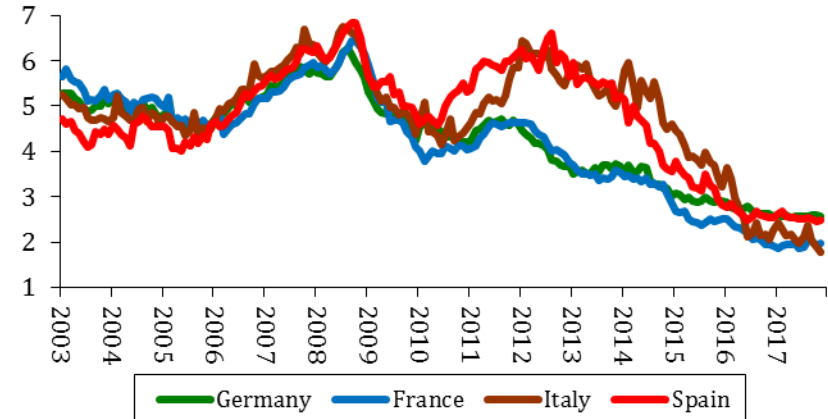
Sources: Bank of Spain and National Statistics Institute.

[Link to Data](#)

New loans to households & changes in corporate finance

- ▶ Interest rates have converged in the Euro Area
- ▶ New loans to SMEs are growing
- ▶ Deleveraging has modified the composition of liabilities in the private sector: proportionally fewer loans & more equity

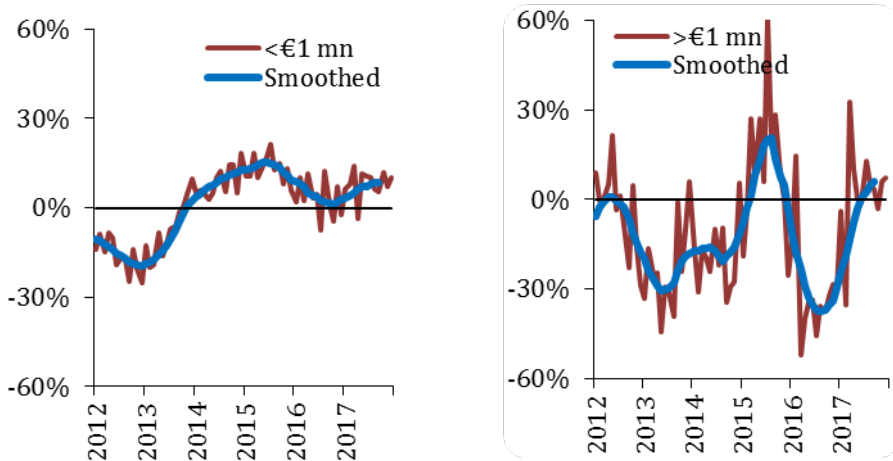
Lending Rates of New Loans to Non-Financial Corporations
(%. Maturity 1-5 Years and up to €1 mn)



Source: ECB.

[Link to Data](#)

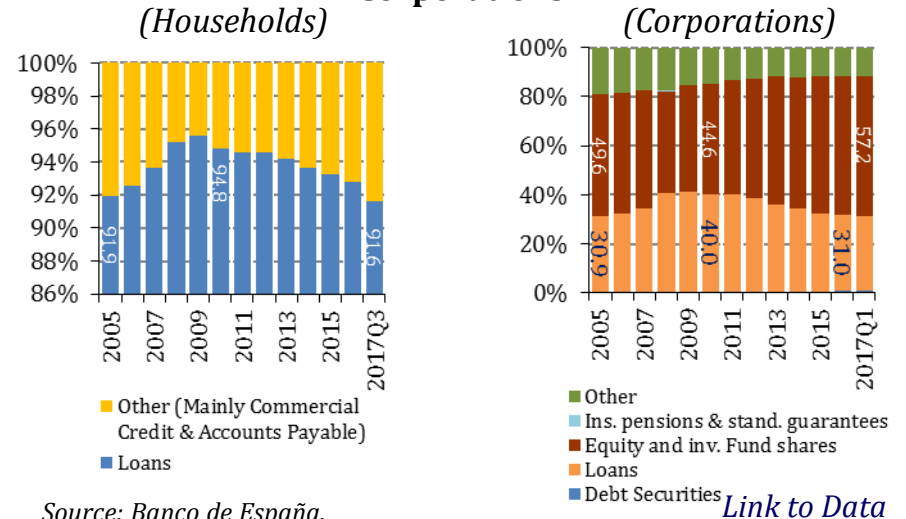
New Loans Non-Financial Corporates
(Smoothed. Year-on-Year Growth Rates)



Source: Banco de España.

[Link to Data](#)

Liability Structure of Households & Non-financial Corporations



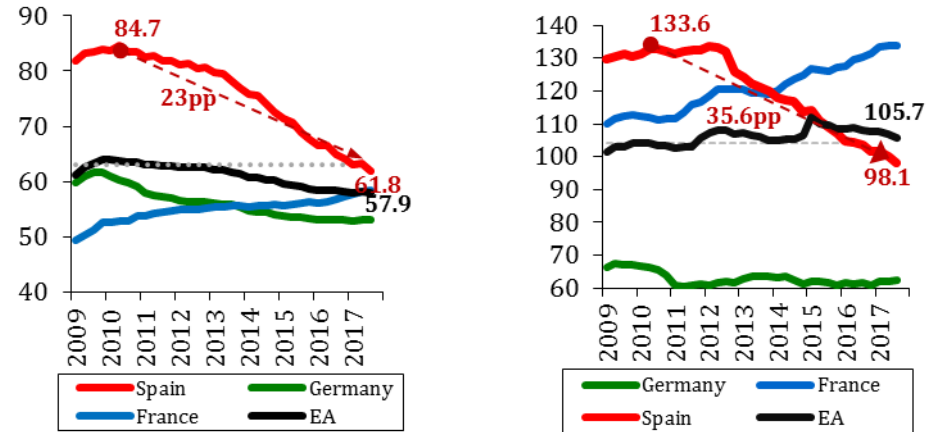
Source: Banco de España.

[Link to Data](#)

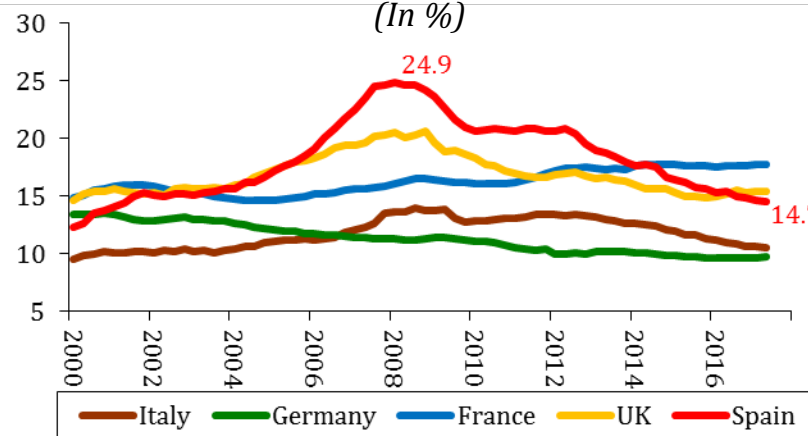
Private sector deleveraging continues

- ▶ Corporate indebtedness below Euro Area Average (98.1% of GDP vs. 105.7%)
- ▶ Since 2010Q2 the private sector has deleveraged by €507 bn; firms by €305 bn and Households by €202 bn
- ▶ Job creation makes private-sector deleveraging compatible with growth in private consumption and investment

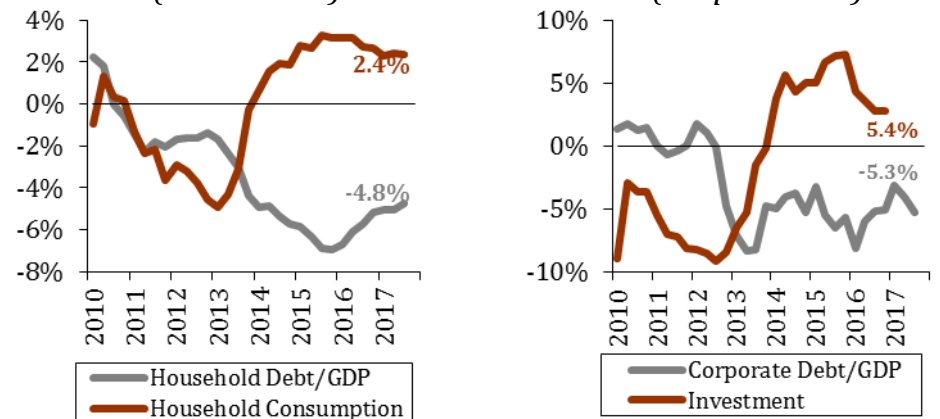
Debt to GDP Ratios of Households and Non-Financial Corporations
 (Households) (% of GDP) (Corporations)



Debt Service Ratio Non-Financial Private Sector
 (In %)



Debt to GDP vs. Consumption & Investment
 (Year-on-Year Growth Rates) (Households) (Corporations)



Source: Bank for International Settlements.

[Link to Data](#)

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

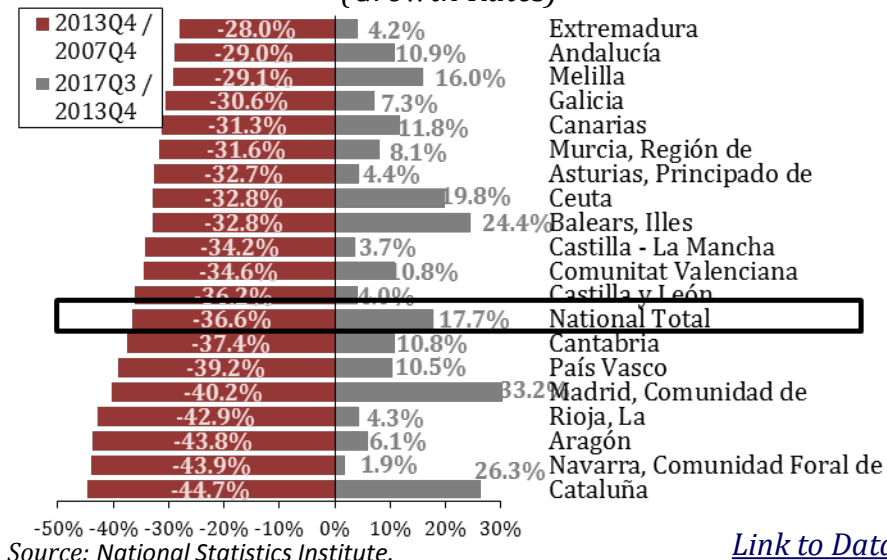
[Link to Data](#)

Spain's construction sector is beginning to recover

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

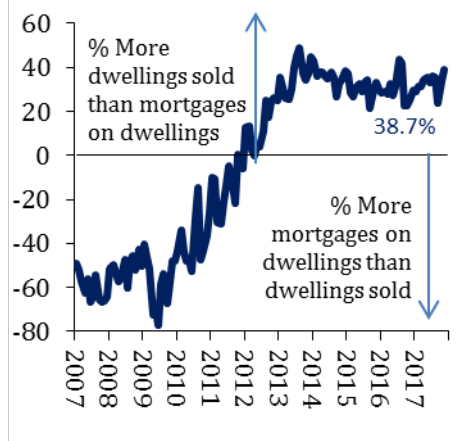
Positive developments in the construction sector

House Price Index (Growth Rates)

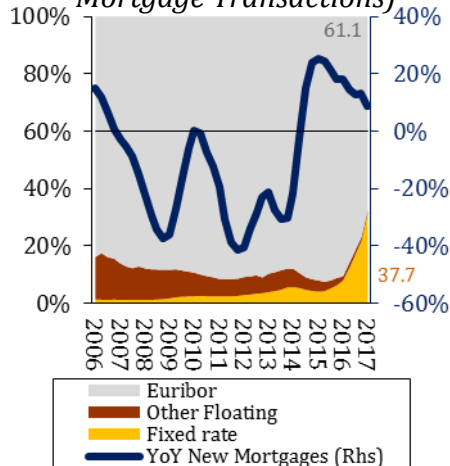


Mortgages and Housing Transactions

(Mortgage Transactions/Housing Transactions)



(Type of References used in Mortgage Transactions)

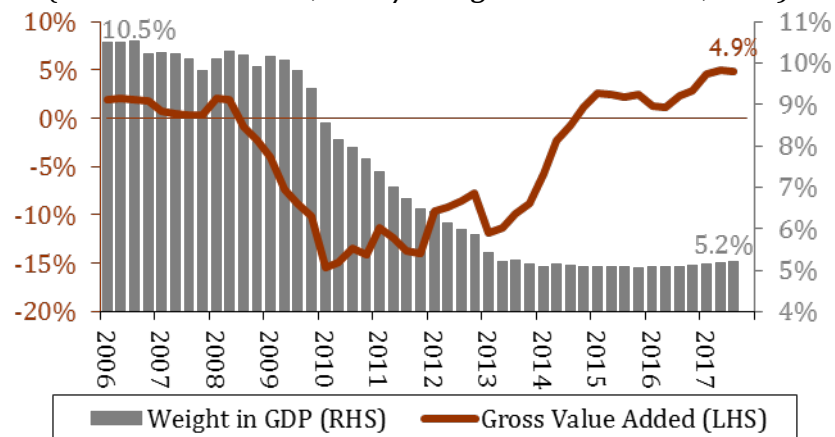


Source: National Statistics Institute.

[Link to Data](#)

Gross Value Added in Construction

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



Source: National Statistics Institute.

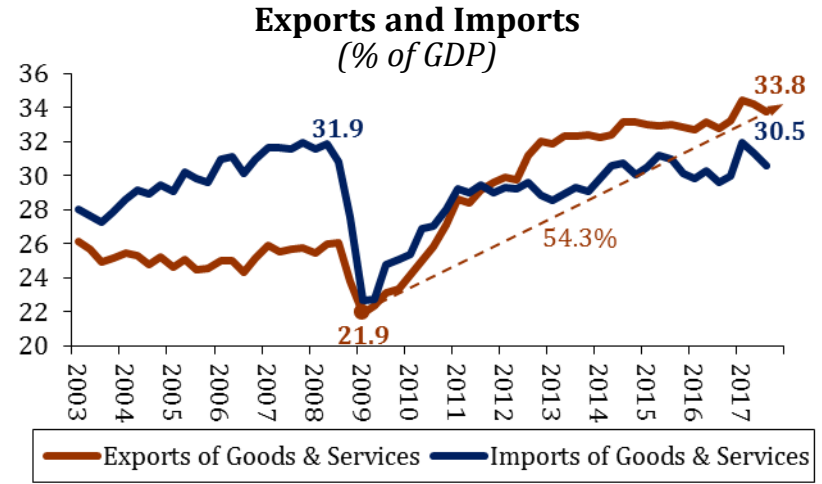
[Link to Data](#)

External sector: from net borrower to net lender

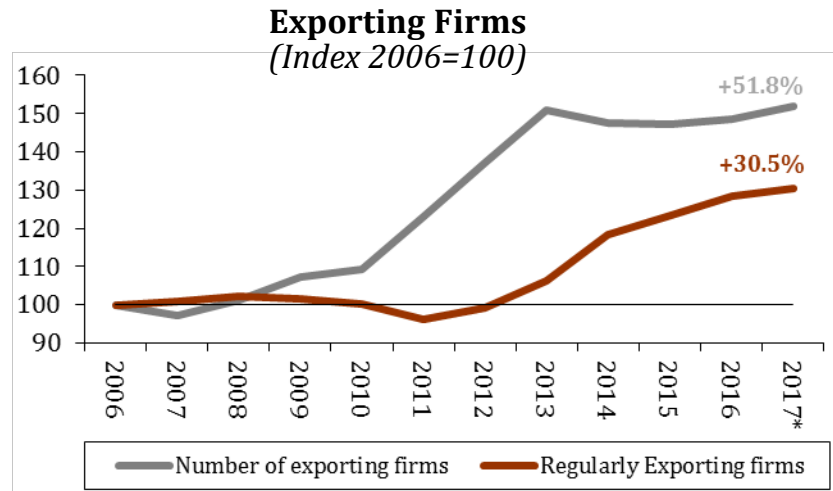
▶ The weight of exports of goods & services in GDP has increased from 21.9% in 2009Q1 to 33.8% by 2017Q3

- ❑ Exports of Goods +58.9%
- ❑ Exports of non-tourism services +32.8%
- ❑ Tourism +43.9%

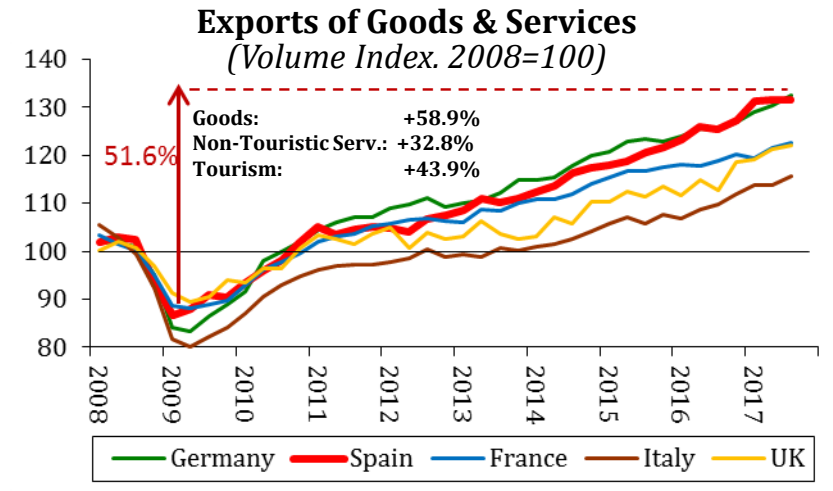
▶ This trend has been feasible due to Spanish firms' increased propensity to export



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



Source: ICEX. [Link to Data](#)
* Up to November 2017.



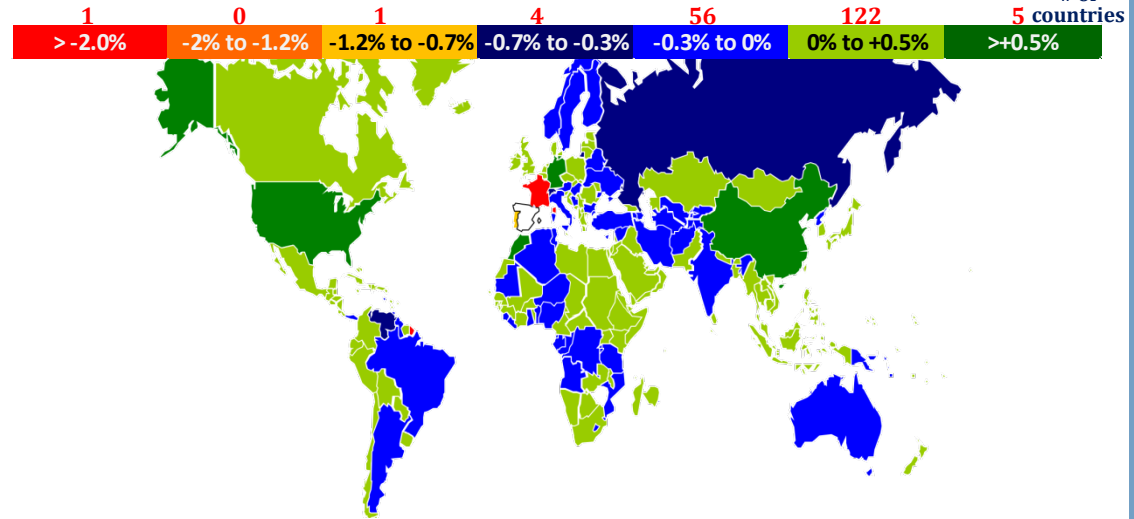
Source: Eurostat and National Statistics Institute. [Link to Data](#)

From net borrower to net lender

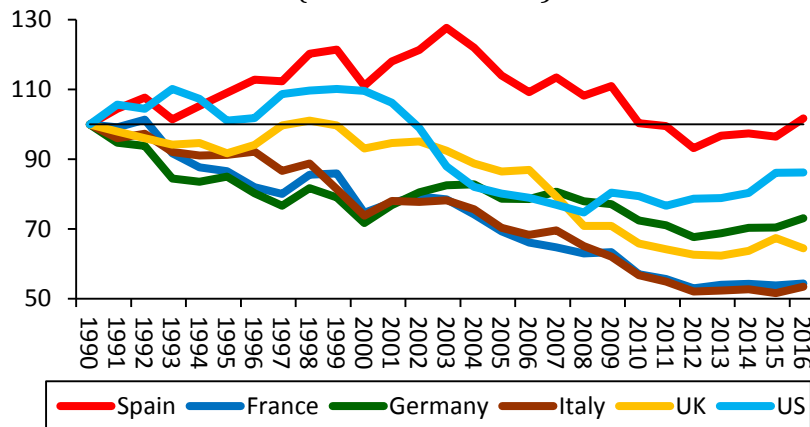
Exports are more widely diversified

- ▶ Spain continues diversifying its export base:
 - ☐ Increasing market share of Eastern Europe, Africa & Asia, North America
 - ☐ Decreasing market share of some Southern American countries & Russia
- ▶ Spain is the single major EA Member to increase its share in world merchandise exports since the 1990s

Change in Share in Spanish Merchandise Exports since 2005

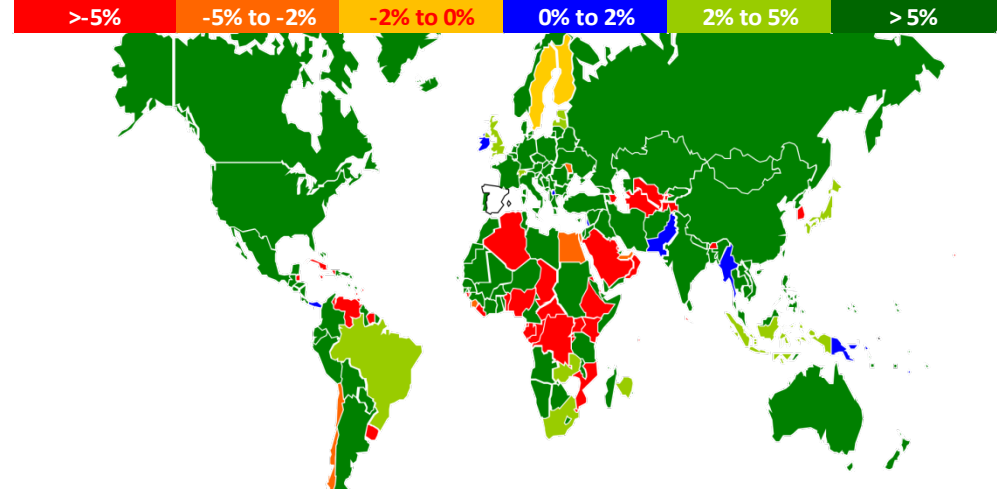


Relative Changes in World Export Shares (Index 1990=100)



Source: IMF.

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



[Link to Data](#)

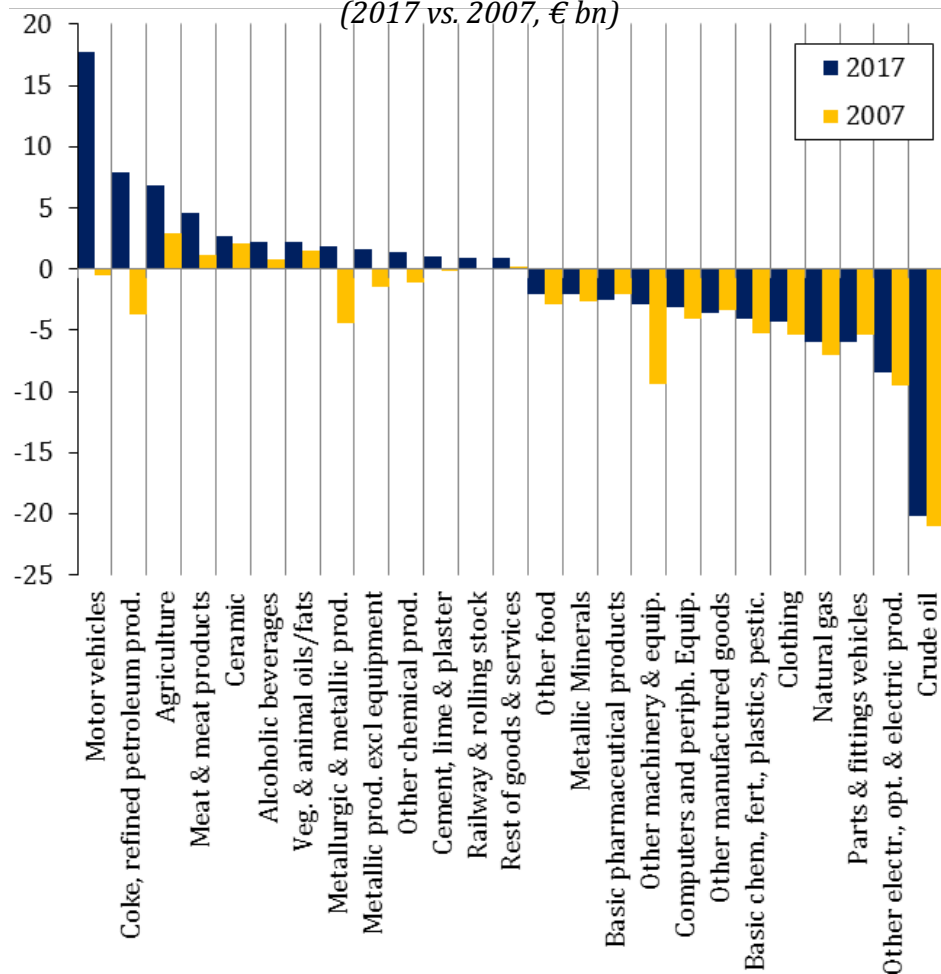
Source: Datacomex.

[Link to Data](#)

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

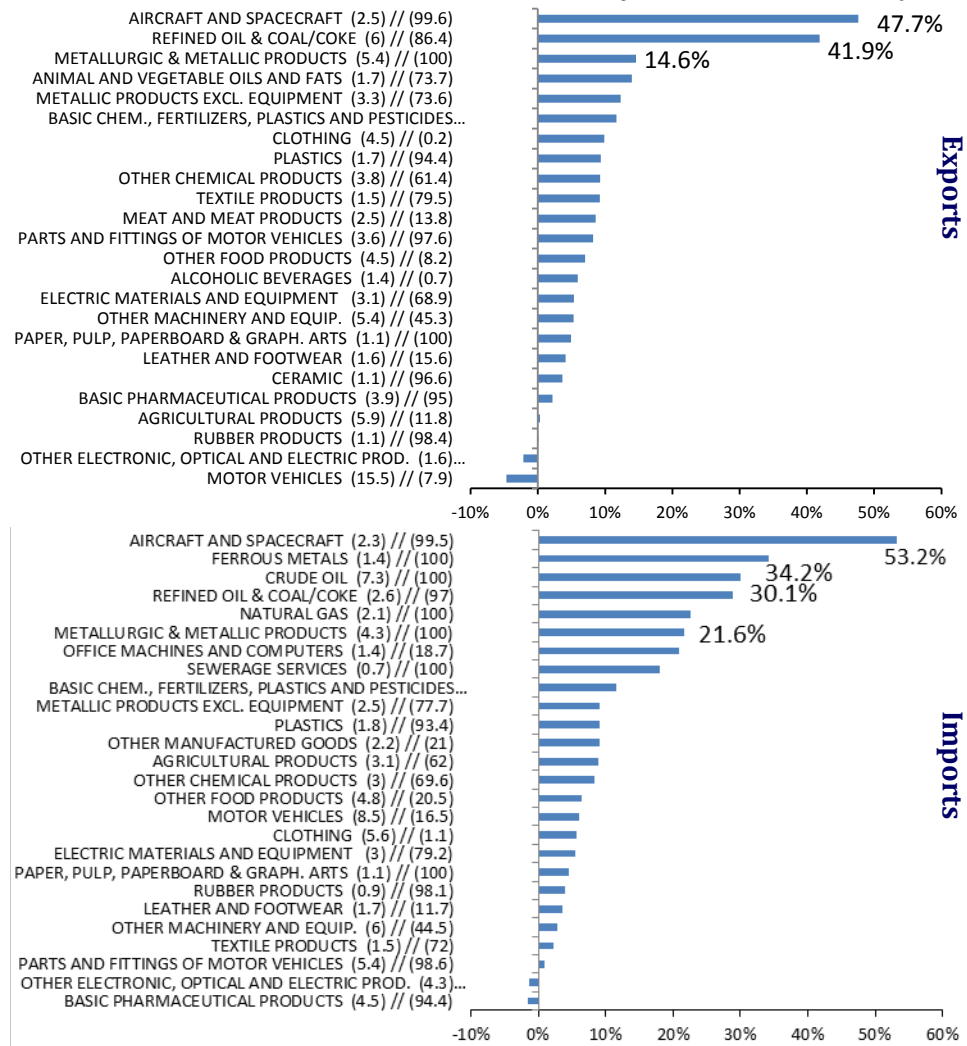
From net borrower to net lender

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)

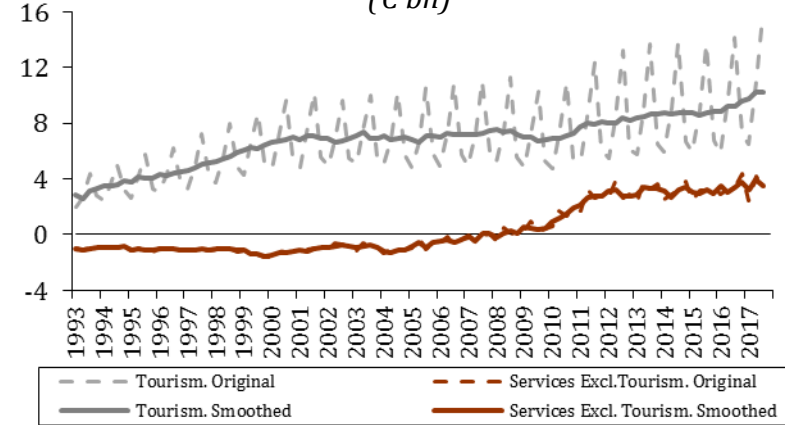


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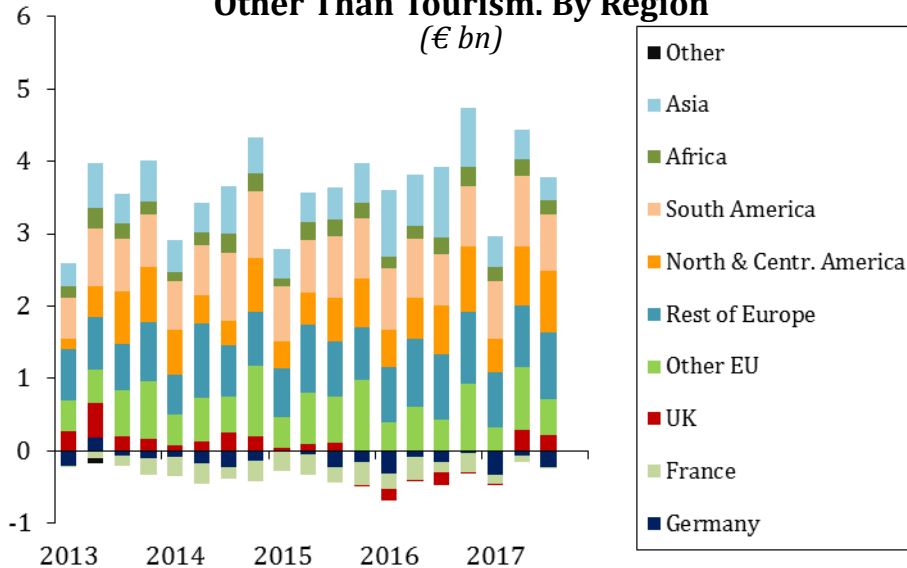
Services exports expand the CA surplus

- ▶ 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

Quarterly Services Balance (€ bn)

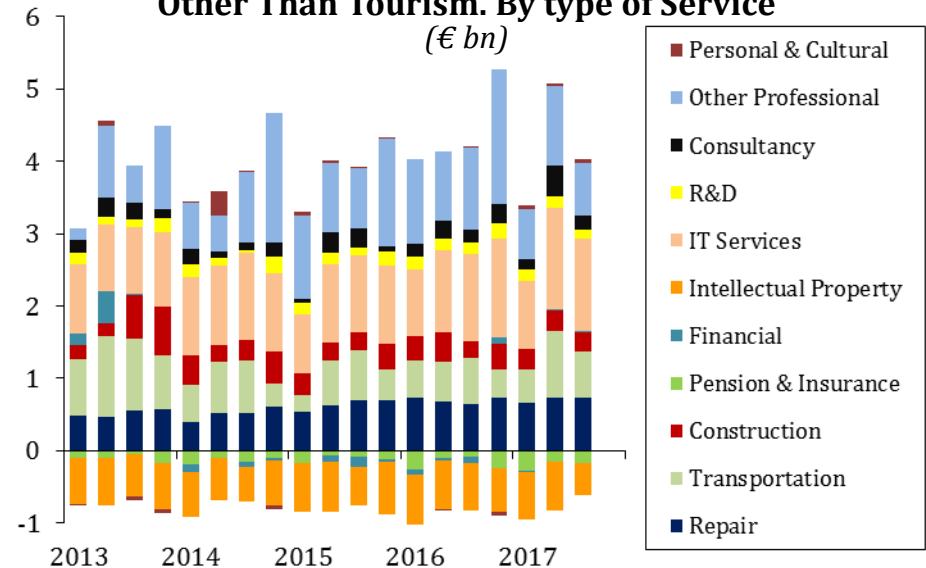


Quarterly Services Balance Other Than Tourism. By Region (€ bn)



Source: Bank of Spain.

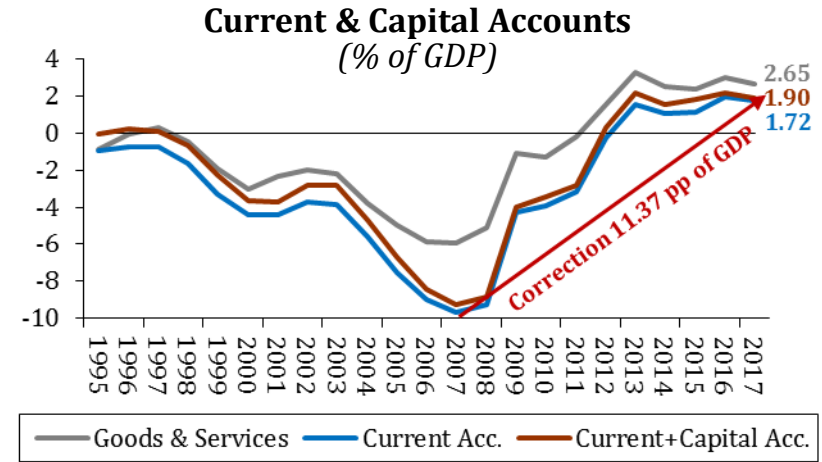
Quarterly Services Balance Other Than Tourism. By type of Service (€ bn)



[Link to Data](#)

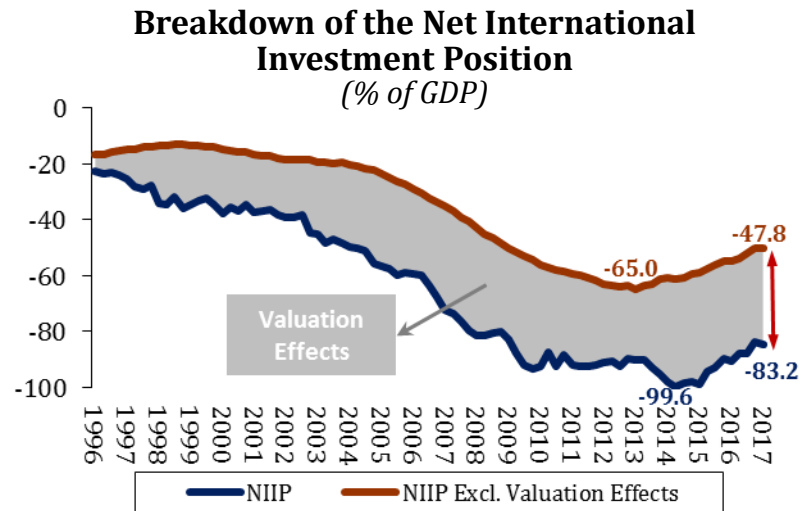
Net International Investment Position in the context of growth & CA surplus

- ▶ GDP growth is not linked to current account deficits as in previous growth cycles
- ▶ The NIIP, once excluding valuation effects, has declined by 17.2pp 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



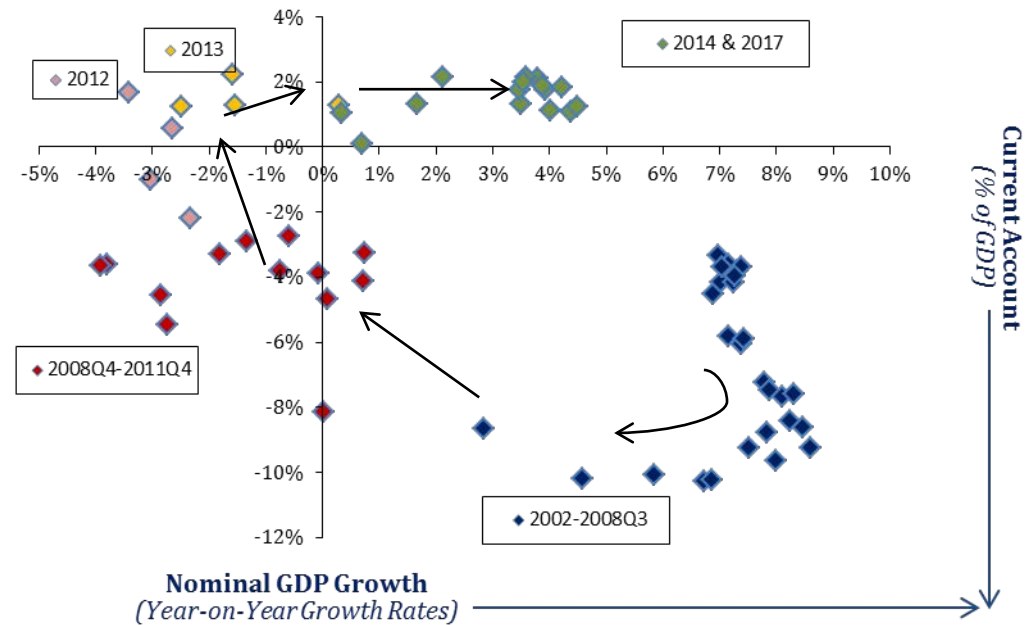
Source: Bank of Spain.

[Link to Data](#)



Source: Bank of Spain.

[Link to Data](#)



Nominal GDP Growth (Year-on-Year Growth Rates)

Sources: National Statistics Institute & Bank of Spain.

[Link to Data](#)

1. Transformation of Spain's growth model

2. Spanish Economic Policy & Reforms

2.1 General Government deficit in 2016

Page 22

2.2 Fiscal Projections for 2017-2020

Page 23

2.3 Budgetary Execution in 2017

Page 24

2.4 Reform Policies

Page 25-33

3. The Funding Programme in 2018

General Government deficit in 2016

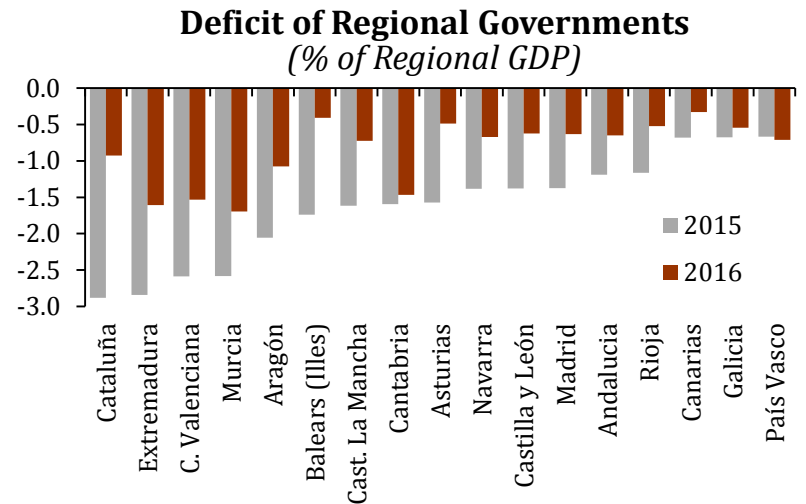
- ▶ The General Government’s budget balance in 2016 declined to 4.33% of GDP, down from 5.08% in the previous year, in line with EU Council Recommendations
- ▶ Headline deficit (including financial sector one-offs worth 0.21% of GDP) reached 4.51% of GDP:
 - ❑ Regional governments managed to halve their deficit; 11 out of 17 regions complied
 - ❑ Local Governments achieved surplus of 0.61%

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
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

Source: Ministerio de Hacienda y Función Pública.

* 2011 net of the effects of the Regional Settlement System

[Link to data](#)



Source: Ministerio de Hacienda y Función Pública.

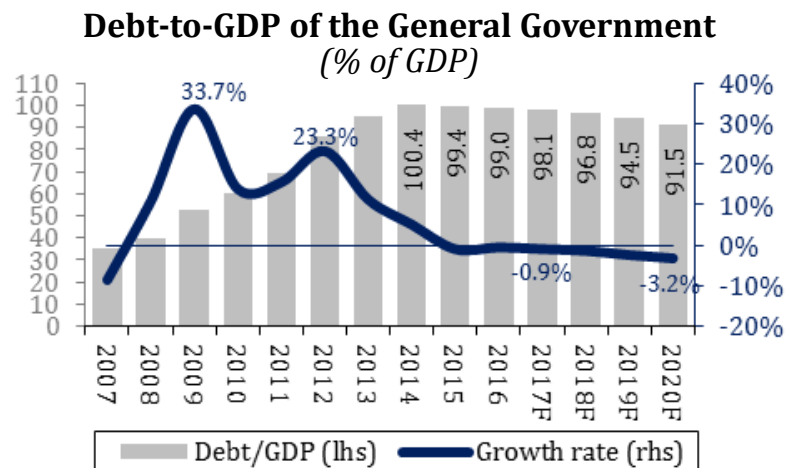
[Link to data](#)

Fiscal Projections for 2017-2020

- ▶ Primary surplus to be 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 of 98.1%

Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)					
	2016	2017	2018	2019	2020
Central Government	-2.48	-1.0	-0.8	-0.3	0.0
Autonomous Regions	-0.84	-0.6	-0.4	-0.1	0.0
Local Governments	0.61	0.0	0.0	0.0	0.0
Social Security Administrations	-1.59	-1.4	-1.1	-0.9	-0.5
General Government	-4.29	-3.0	-2.3	-1.3	-0.5

Source: Ministerio de Economía, Industria y Competitividad



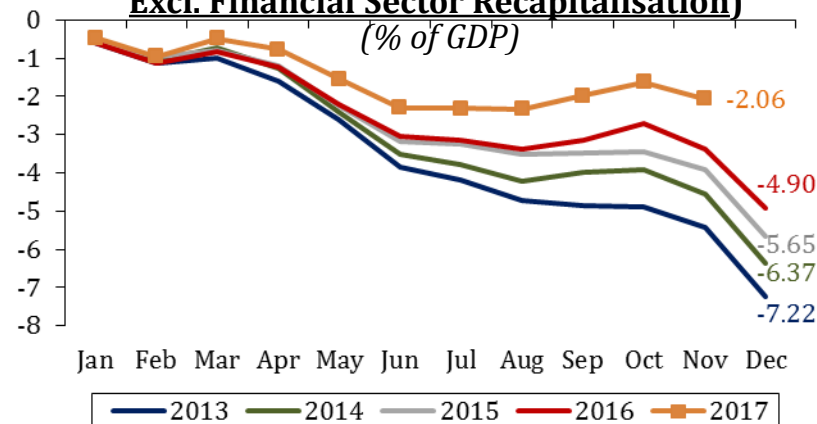
[Link to data](#)

Budgetary execution in 2017

► Monthly budgetary execution highlights (November 2017 data):

- ❑ Central Government: deficit €17.7 bn vs. €28.2 bn by Nov.. 2016
- ❑ Regional Governments: reached a surplus of €1.3 bn vs. deficit €4.8 bn up to Nov. 2016
- ❑ Social Security Administrations: the Social Security posted a deficit of €8.1 bn vs. €7.2 in Nov. 2016

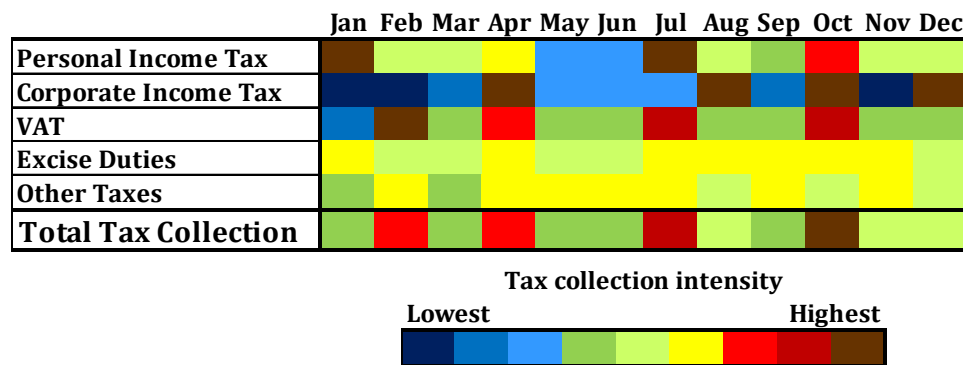
Deficit of Central & Regional Governments and Social Security Administrations. (Excl. Local Governments & Excl. Financial Sector Recapitalisation)



Source: IGAE.

[Link to Data](#)

Administrative Distribution of Tax Collection



[Link to Data](#)

Reforms in 2017 and 2018

Self-employment

- Reducing administrative and economic burden
- Broadening of tax incentives to entrepreneurship
- Broadening retirement scheme for entrepreneurs
 - Balancing working- and family-life

Education

- State, Social and Political Pact for the Education

Public Accounts

- Spending Review

Employment

- Activation Strategy for Employment 2017-2020
- Portfolio of Common Services of the Autonomous Communities
- Framework Agreement for Collaboration with Private Employment Agencies
- Law reforming the vocational training system for employment
- Strategy for Youth Entrepreneurship and Employment
- Joint Action Program for the Long-term Unemployed
- Agreement to improve the quality of employment and to reduce temporality in Public Administrations

Supervision

- Independent Authority for the Protection of Savers and Financial Investors
- Independent supervisor for insurance and pension funds
- Strengthening of the stock market supervisor with new powers in the fields of accounting and auditing
- Development of internal market for financial services ; enhancement of efficiency and transparency of mortgages and real estate credit

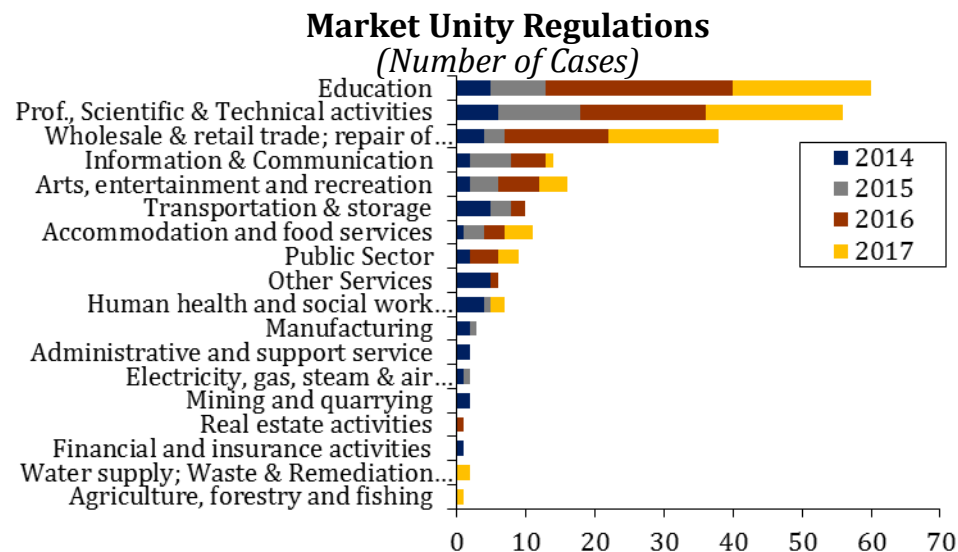
Science & Environmental Protection

- Medium and long-term framework consistent with the Paris Agreement and the European framework on climate and energy
- State Plan for Science and Technology and Innovation 2017-2020 and the Science Pact

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**



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	
	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	
2012	Asset quality review & stress tests	MoU
	Law 9/2012 recovery and resolution of financial institutions	
	Recapitalisation & restructuring Transfer of assets to SAREB for recapitalised banks	
2013		

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	
2015-2017	
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	
New legal regime to strengthen credit cooperatives	

Structural Reforms 2012-2015

2012: First Generation Reforms

Labour Market

Budgetary Framework

Financial Sector

2013: Second Generation Reforms

Labour Market Reform

Budgetary Plan

Financial Sector Reform

Services/Product Markets

Pension System Reform

Strategic Plan for Exporters

Serv. Market Liberalisation

Local Administrations

ICO Mediation Credit Lines

Single Market Law

De-indexation

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

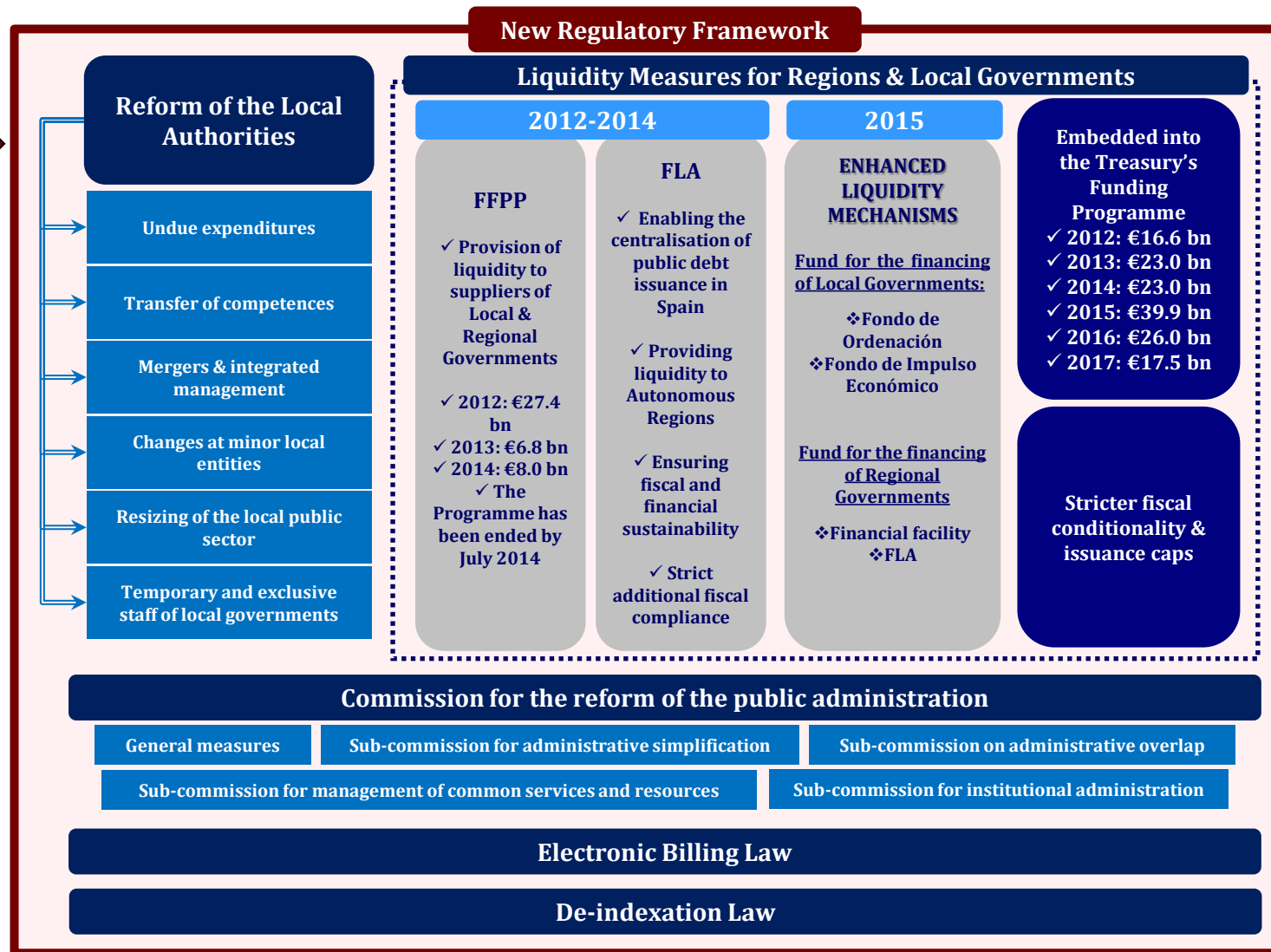
- Economic Structural Reforms
- Public Sector Reforms
- Financial Sector Reforms

[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



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 was assumed by the Spanish Treasury

	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	✓					✓	

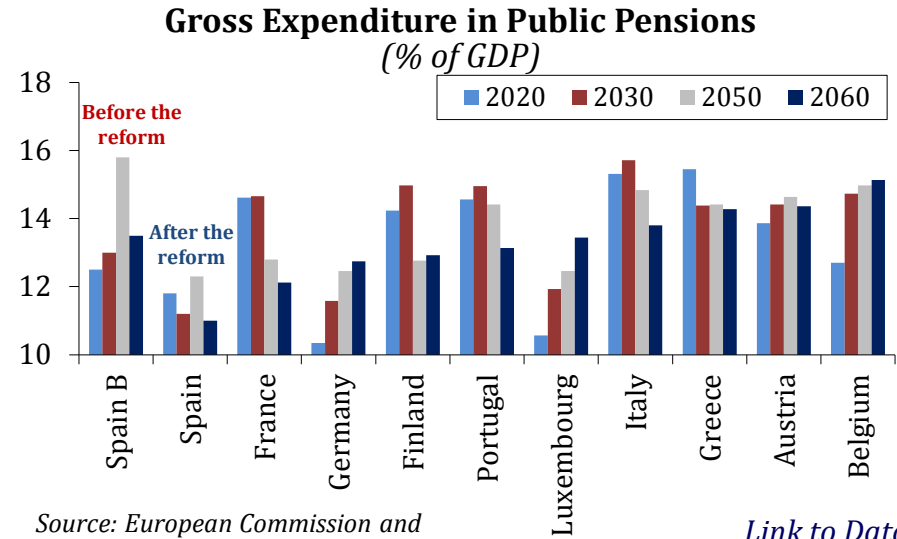
Autonomous Community	GDP (Weight in national GDP)	Total Liquidity Measures € mn (2012-2017)	% in total Liquidity Measures
CATALUÑA	19.0%	70,910	30.6%
C. VALENCIANA	9.4%	53,757	23.2%
ANDALUCIA	13.3%	35,050	15.1%
CAST. LA MANCHA	3.4%	14,735	6.4%
BALEARS (ILLES)	2.6%	9,745	4.2%
MURCIA	2.6%	9,666	4.2%
GALICIA	3.8%	7,044	3.0%
CANARIAS	5.2%	6,816	2.9%
CASTILLA - LEON	18.9%	5,007	2.2%
MADRID	5.0%	4,729	2.0%
ARAGON	3.1%	4,635	2.0%
EXTREMADURA	1.6%	3,356	1.4%
CANTABRIA	1.1%	2,960	1.3%
ASTURIAS	1.9%	2,692	1.2%
RIOJA (LA)	0.7%	686	0.3%
PAIS VASCO	6.2%	0	0.0%
NAVARRA	1.7%	0	0.0%
TOTAL € mn		231,786	

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

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 style="text-align: center;"><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	

1. Transformation of Spain's growth model

2. Spanish Economic Policy & Reforms

3. The Treasury's Funding Programme

The Funding Programme in 2018

Page 35-40

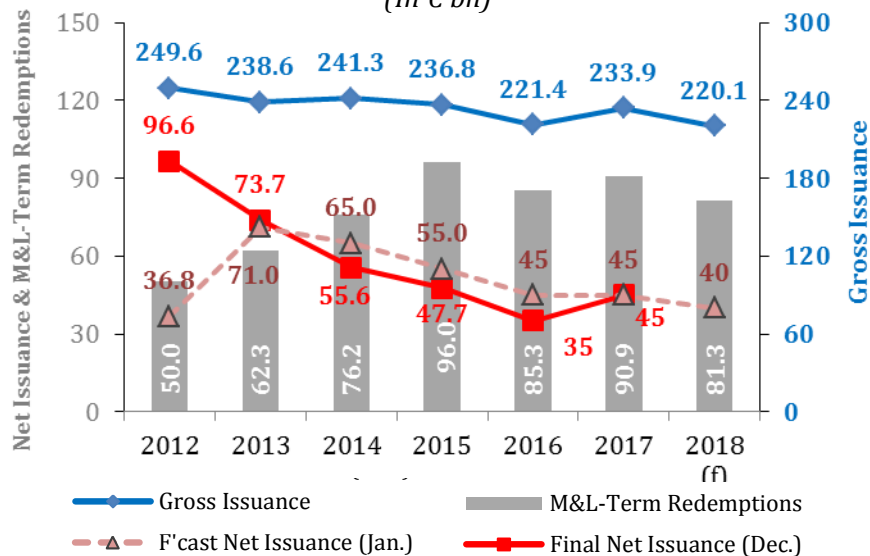
The Treasury's Funding Programme in 2018

- ▶ Net issuance of €40 bn in 2018; programme includes €15 bn loan to Social Security
- ▶ Total issuance up to January 31st: €26.7 bn (12.1% of the funding programme), of which €20.5 bn (16.2%) medium- and long-term instruments and €6.2 bn (6.6%) in Letras del Tesoro

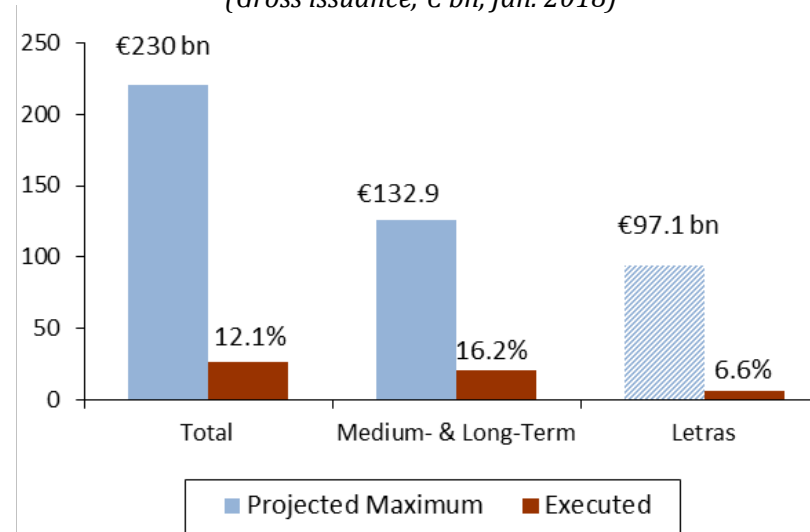
(In billion euros and in effective terms)	End 2017	Forecast 2018
Total Net Issuance	45.031	40.000
Total Gross Issuance	233.900	220.145
Medium- and Long-term		
Gross Issuance ¹	139.462	126.310
Amortisation ¹	90.903	81.310
Net Issuance ¹	48.559	45.000
Letras del Tesoro		
Gross Issuance	94.439	93.835
Amortisation	97.966	98.835
Net Issuance	-3.528	-5.000

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 2018
(Gross issuance, € bn, Jan. 2018)

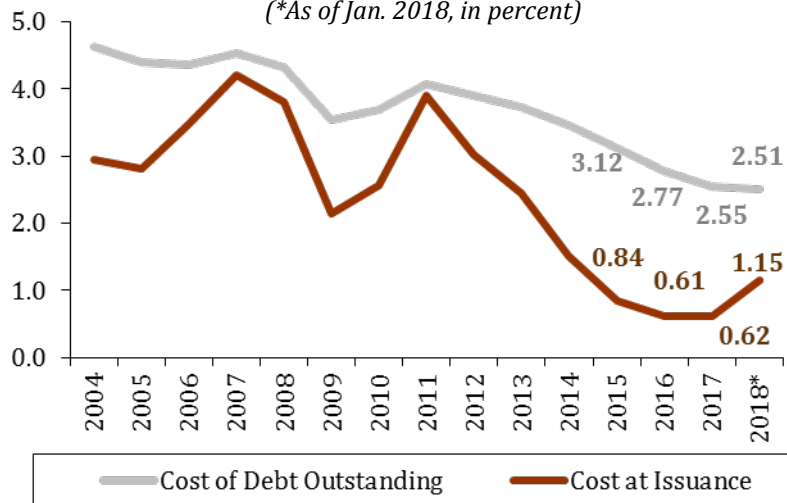


Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

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

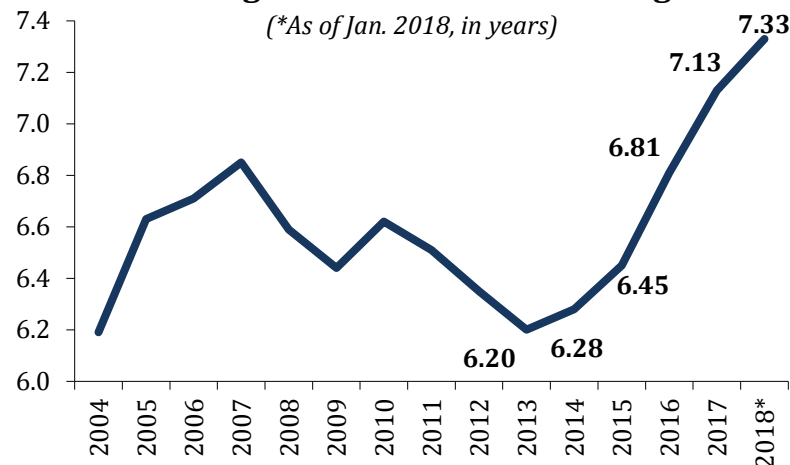
Cost of Debt Outstanding and Cost at Issuance

(*As of Jan. 2018, in percent)



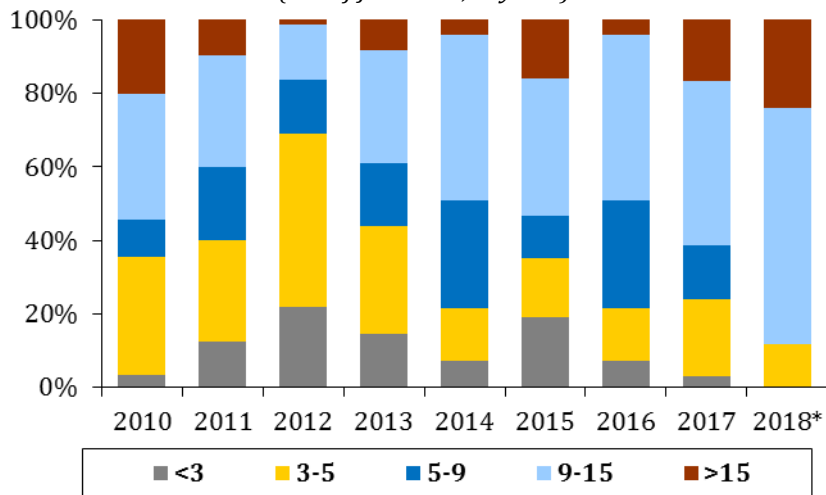
Average Life of Debt Outstanding

(*As of Jan. 2018, in years)



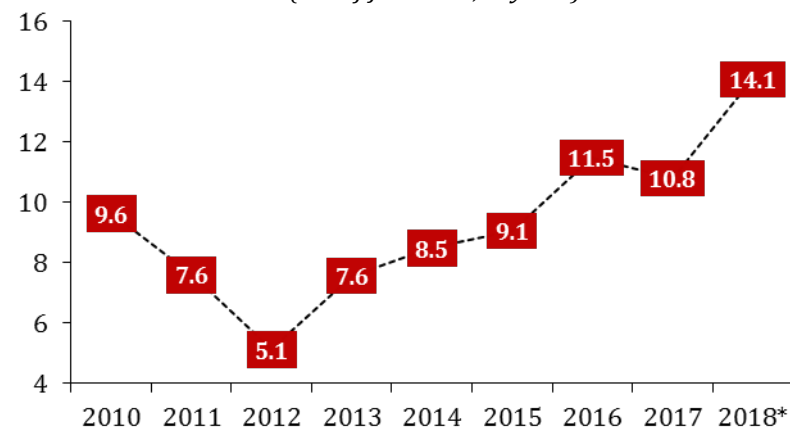
Marginal Life at Issuance of Bonos and Obligaciones

(*As of Jan. 2018, in years)



Average Life at Issuance of Bonos and Obligaciones

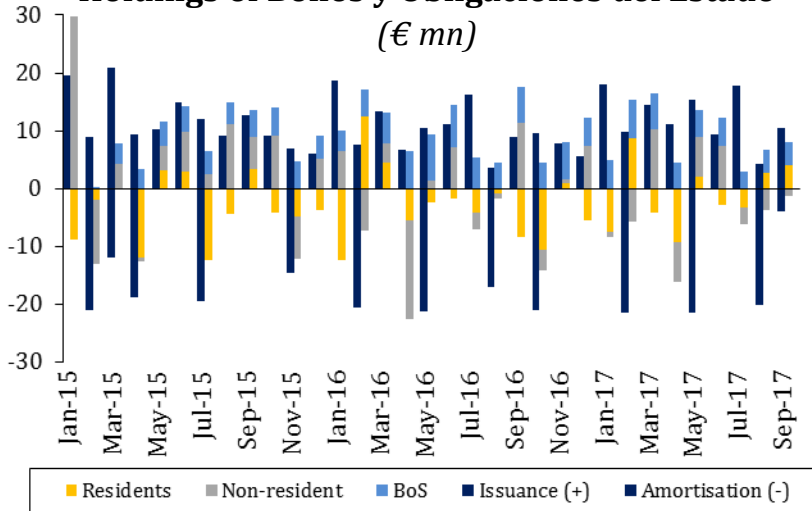
(*As of Jan. 2018, in years)



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

Recent trends in investor base

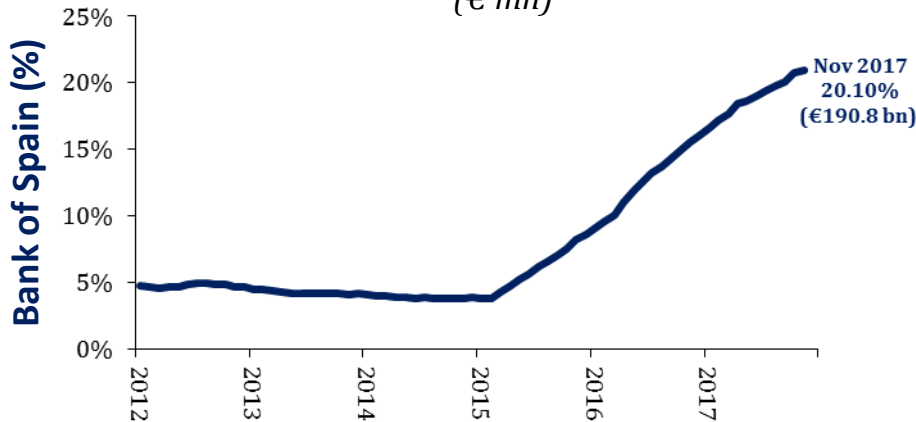
Issuance & Amortisation Flows and Changes in Holdings of Bonos y Obligaciones del Estado
(€ mn)



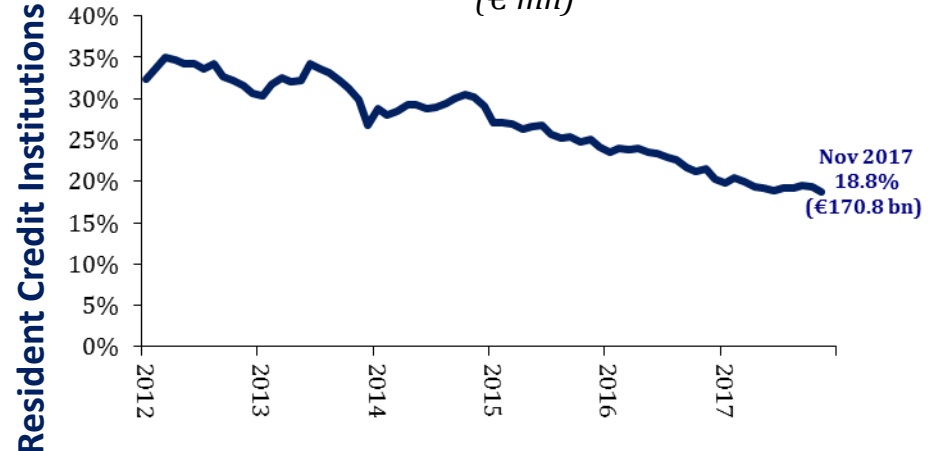
Holdings of Letras & Bonos and Obligaciones del Estado
(€ mn)



Holdings of Letras & Bonos and Obligaciones del Estado
(€ mn)



Holdings of Letras & Bonos and Obligaciones del Estado
(€ mn)



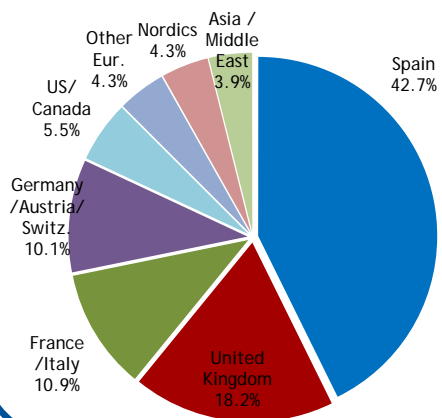
Source: Bank of Spain.
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

[Link to Data](#)

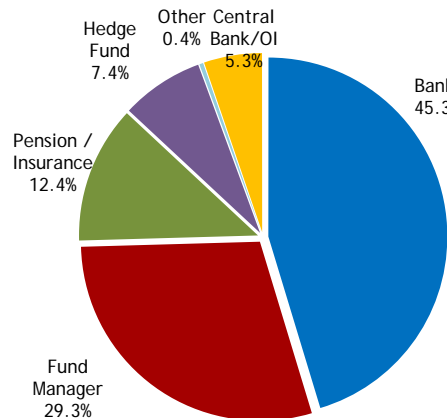
Syndicated issuance in 2017

JANUARY - NEW 10 YEAR REFERENCE. APR. 2027

Geographic Distribution (%)

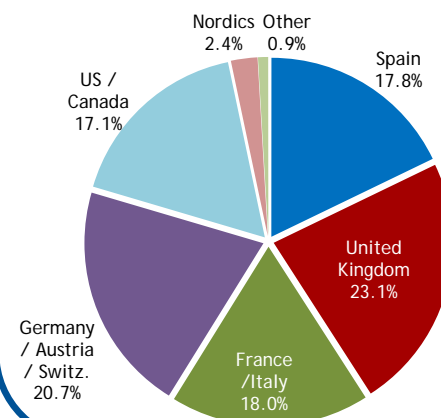


By Type of Investor (%)

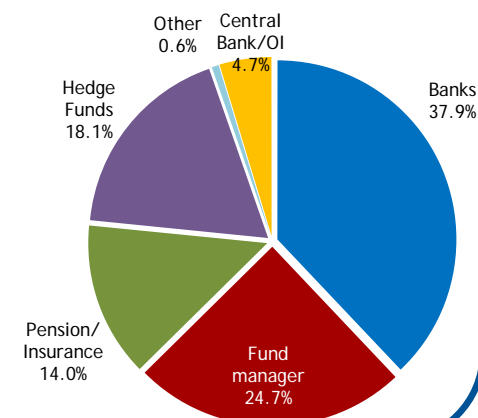


FEBRUARY - NEW 15 YEAR REFERENCE. JUL. 2033

Geographic Distribution (%)



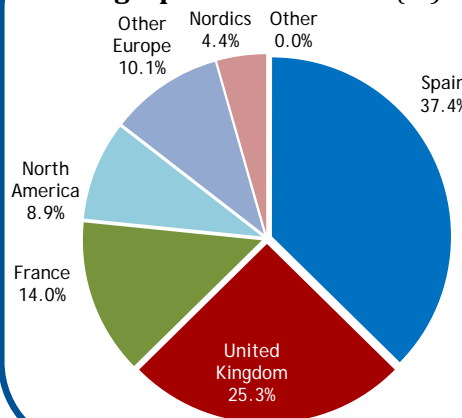
By Type of Investor (%)



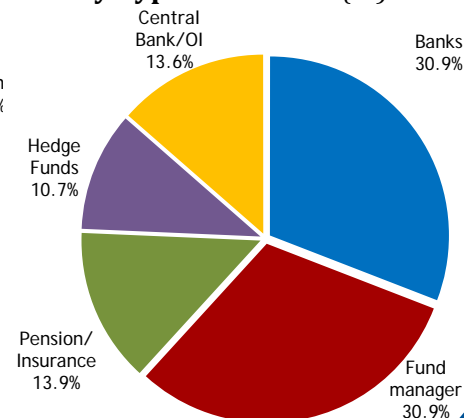
APRIL - NEW 10 YEAR EURO AREA

INFLATION-LINKED REFERENCE. NOVEMBER 2027

Geographic Distribution (%)

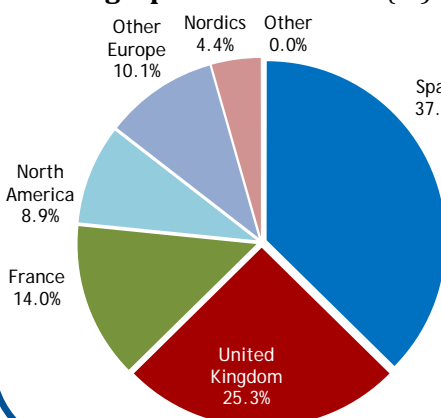


By Type of Investor (%)

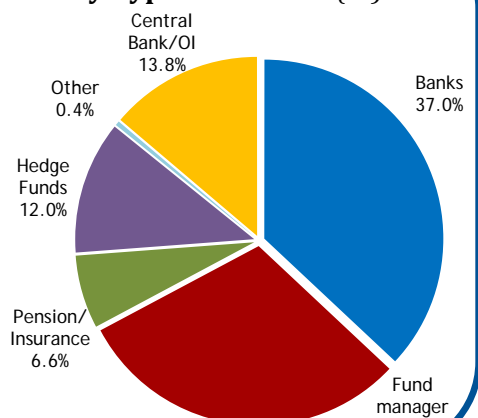


JUNE- NEW 10 YEAR REFERENCE. OCT 2027

Geographic Distribution (%)



By Type of Investor (%)



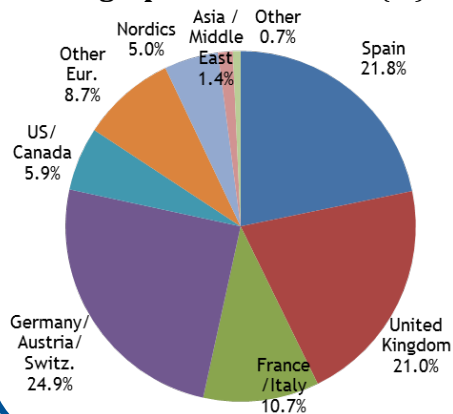
[Link to Data](#)

Syndicated issuance in 2018

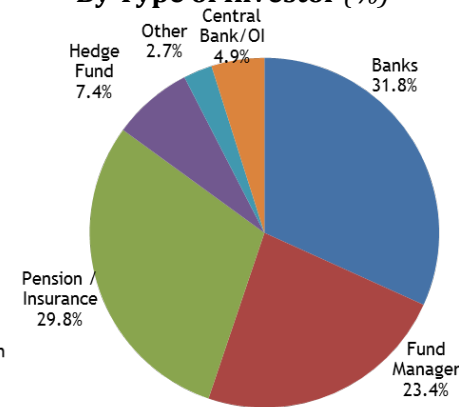
- ▶ Final orderbook closed in excess of €43 bn (including €6.25 bn of JLM interest)
- ▶ The high-quality and diversification of the investor base allowed to set the transaction size at €10 bn
- ▶ This is the largest ever order book in the history of Spanish government bond syndications.

JANUARY - NEW 10 YEAR REFERENCE. APR. 2028

Geographic Distribution (%)



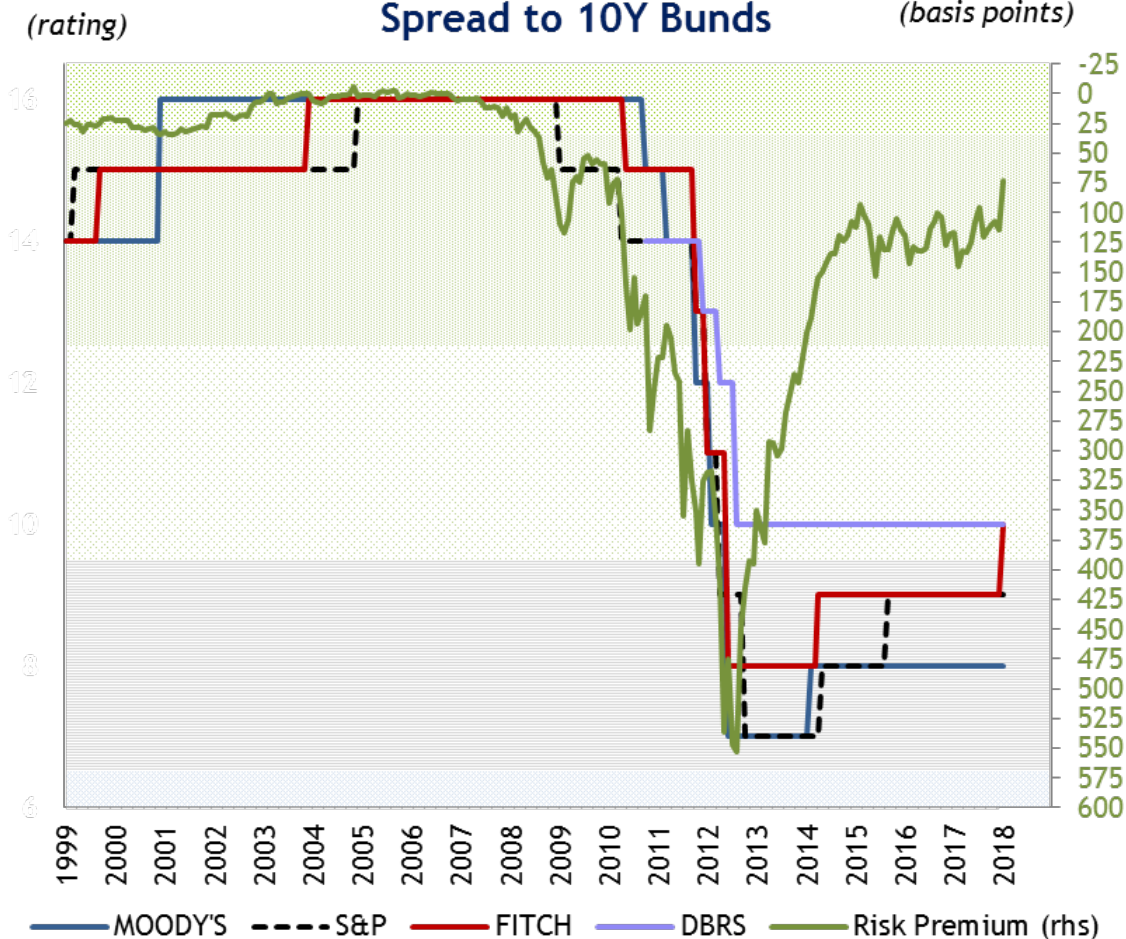
By Type of Investor (%)



[Link to Data](#)

Evolution of Ratings

Rating and Rating Actions vs. Spread to 10Y Bunds



Announced Rating Dates in 2018

	Fitch	S&P	DBRS	Moody's
January	19			
February				
March		23		
April			6	13
May				
June				
July	13			
August				
September		21	28	
October				5
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.



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



Ministry for the Economy, Industry and Competitiveness
Includes the latest economic forecasts and reports as well as a database with over 21,000 short-term and long-term indicators and macroeconomic aggregates.



Central de Información de las Administraciones Públicas
Contains all relevant information on the economic & financial activity of the public administrations (Budgetary execution, Budgets and planning, civil servants, etc.).



Bank Spain
Compiles and provides monetary, banking and financial statistics, interest rates, balance of payments. Also contains useful tools for statistical analysis of time series data, among other features.



AIREF
The purpose of the Independent Authority for Fiscal Responsibility (AIReF, as it is known in Spanish) is to oversee the sustainability of public finances as a means for ensuring economic growth and the wellbeing of Spanish society in the medium and long-term.



Thank you for your attention

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