Recent Developments in the Spanish Economy, Policy & Funding
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The Spanish economy will maintain a robust growth path: after growing at a rate of 2.6% in 2018, GDP is expected to expand by 2.2% in 2019.

National deleveraging is progressing, by combining growth with a current account surplus:
- Ambitious public debt reduction: Debt-to-GDP ratio in 2018 of 97.1%, down from 98.1%, and expected to close 2019 at 95.8%.
- Impressive private deleveraging: private sector debt of 152.1%, below the Euro Area average and down from 217.8% in 2010.

Strong pro-European sentiment underpins adjustment resolve:
- Commitment to the Stability and Growth Pact: General Government deficit in 2018 of 2.5%, below the 3% EU reference value, and expected to be reduced in 2019 to 2%.
- Structural reforms: Macroprudential Authority, Agenda for Change under implementation.
- Measures to address unemployment, intergenerational equity, climate change and inequality (economic, territorial and gender) essential for long-term sustainability.

Gradual widening, deepening, improvement of Spain’s investor base.
Macroeconomic scenario 2019-2022

### Macroeconomic scenario (YoY growth rates in percent)

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<td>Private consumption expenditure</td>
<td>2.9</td>
<td>2.5</td>
<td>2.3</td>
<td>1.9</td>
<td>1.4</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
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<td>General Government consumption expenditure</td>
<td>1.0</td>
<td>1.9</td>
<td>2.1</td>
<td>1.9</td>
<td>2.0</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
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<tr>
<td>Gross Fixed Capital Formation</td>
<td>2.9</td>
<td>4.8</td>
<td>5.3</td>
<td>4.0</td>
<td>4.7</td>
<td>3.5</td>
<td>3.3</td>
<td>3.1</td>
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<td>National Demand (Contribution to GDP Growth)</td>
<td>2.4</td>
<td>2.9</td>
<td>2.9</td>
<td>2.3</td>
<td>2.2</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
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<tr>
<td>Exports of goods and services</td>
<td>5.2</td>
<td>5.2</td>
<td>2.3</td>
<td>2.7</td>
<td>-0.5</td>
<td>2.8</td>
<td>2.7</td>
<td>2.6</td>
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<tr>
<td>Imports of goods and services</td>
<td>2.9</td>
<td>5.6</td>
<td>3.5</td>
<td>3.1</td>
<td>-1.2</td>
<td>2.9</td>
<td>2.8</td>
<td>2.7</td>
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<td>External demand (Contribution to GDP Growth)</td>
<td>0.8</td>
<td>0.1</td>
<td>-0.3</td>
<td>-0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Gross Domestic Product</td>
<td>3.2</td>
<td>3.0</td>
<td>2.6</td>
<td>2.2</td>
<td>2.4</td>
<td>1.9</td>
<td>1.8</td>
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### Other variables

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<tr>
<td>Unemployment rate (in % of Active Population)</td>
<td>19.6</td>
<td>17.2</td>
<td>15.3</td>
<td>13.8</td>
<td>14.7</td>
<td>12.3</td>
<td>11.0</td>
<td>9.9</td>
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<td>Full-time Equiv. Employment (YoY Growth)</td>
<td>3.0</td>
<td>2.9</td>
<td>2.5</td>
<td>2.1</td>
<td>2.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
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<tr>
<td>Net lending(+)/borrowing(-) with RoW (% of GDP)</td>
<td>2.4</td>
<td>2.2</td>
<td>1.5</td>
<td>1.2</td>
<td>--</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
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<tr>
<td>Private Consumption deflator (YoY Growth)</td>
<td>0.0</td>
<td>1.6</td>
<td>1.6</td>
<td>1.2</td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Headline Balance General Gov’t (in % of GDP)*</td>
<td>-4.5</td>
<td>-3.1</td>
<td>-2.5</td>
<td>-2.0</td>
<td>--</td>
<td>-1.1</td>
<td>-0.4</td>
<td>0.0</td>
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<tr>
<td>USD/€ exchange rate</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.13</td>
<td>1.14</td>
<td>1.13</td>
<td>1.13</td>
<td>1.13</td>
</tr>
<tr>
<td>Euro Area GDP growth (YoY growth)</td>
<td>1.9</td>
<td>2.5</td>
<td>1.8</td>
<td>1.2</td>
<td>1.2</td>
<td>1.6</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Oil prices (Brent, USD/barrel)</td>
<td>43.3</td>
<td>54.3</td>
<td>70.9</td>
<td>68.9</td>
<td>63.1</td>
<td>67.6</td>
<td>65.0</td>
<td>65.0</td>
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</tbody>
</table>

* Including Financial Sector One-Offs
Sources: Ministerio de Economía y Empresa and Ministerio de Hacienda.
Shaded areas are realisations. In white, forecasts contained in the 2019 Stability Programme released in April.
Economic sentiment

IMF Growth Forecasts for 2019
(Year-on-Year Growth Rates)

Source: IMF, WEO April 2019.

GDP Growth in the Euro Area
(Year-on-Year Growth Rates)

Source: Instituto Nacional de Estadística.

Per capita GDP Volume
(Index 1999=100)

Source: EUROSTAT.

% of population that thinks that membership of the EU is a good thing

Spain’s growth pattern

- Current account surplus and net lending capacity vis-à-vis rest of the world
- Subdued inflation and strong job creation
- Rebalancing of weight of construction sector and higher weight of services sector
- Strong investment growth converging to Euro Area average

**Exports and Imports of Goods and Services & Gross Fixed Capital Formation (% of GDP)**

- Source: Instituto Nacional de Estadística.

**Gross Value Added (% of GDP)**

- Source: Instituto Nacional de Estadística.
A recovery intensive in labour creation

- Unemployment down to 14.0%, from a maximum of 26.3% in 2013
- 2.5 million jobs created since 2014, equivalent to over 25% of the total employment generated in the Euro Area
- Falling unemployment fuels internal demand
- Measures to increase job quality in order to fight inequality, foster stability & human capital

Minimum Wage, Total Employees & Salary Cost
(Average Year-on-Year Growth Rates)

Minimum Wage & Productivity/Minimum Wage
(Euros and ratio)

Real Unit Labour Costs
(Index 1999=100, Smoothed)

Source: EUROSTAT.
Banking sector adjustment

- Adjustment of the banking sector:
  - Downsizing & loss recognition
  - Enhanced capitalisation and profitability
- Strong improvement in NPLs: harmonised NPL ratio below Euro Area average
- EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- Establishment of Macroprudential Authority

Return on Equity

Harmonised NPL Ratio
(In % of Total Loans)

Source: EBA. Risk Dashboard Interactive Tool.
Private deleveraging

- Since 2010Q2, private sector debt has decreased by 65.7pp of GDP
- Households & nonfinancial corporations’ leverage now below Euro Area average
- Private debt service ratio significantly lower
- Bank of Spain the only source of added “leverage”: a consequence of monetary policy

**Gross External Debt, By Debtor Sub-Sector (% GDP)**

**Non-Financial Private Sector Debt Service Ratio (% of income)**

Source: Bank of Spain.

**Private Sector Debt Dynamics (% of GDP, Non-Consolidated)**

Source: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.

Source: BIS.

**NOTE:** The gross external debt position equals total IIP liabilities excluding all equity (equity shares and other equity) and investment fund shares and financial derivatives and employee stock options.
Result: persistent growth with current account surplus

Nominal GDP Growth vs. Current Account/GDP

Source: Instituto Nacional de Estadística and Bank of Spain.
Structural Reform: Agenda for Change built around 7 pillars

1. **Education and Human Capital**
   - Improve educational competences and fight against school failure
   - Adjust education to the requirements of the labour market

2. **Ecological Transition**
   - Aimed at reducing greenhouse gas emissions by one third and having renewable energies account for 70% of the electricity system by 2030

3. **Scientific and Technological Advancement**
   - Foster public and private investment in R&D
   - Promote knowledge and innovation in order to boost productivity and competitiveness

4. **Efficient and Fair Labour Market**
   - Reduce the existing duality in the labour market
   - Guarantee the long-term sustainability of the Social Security system

5. **Inequality and Welfare State**
   - Fight against poverty and, more specifically, child poverty
   - Tackle the gender gap

6. **Public Sector Efficiency**
   - Modernize the judicial administration
   - Improve public expenditure efficiency

7. **Taxation**
   - Adapt the fiscal system to make it more fair and balanced
   - Adjust it to the new economic activities and to the new sources of income and wealth

### General Government Debt. EDP. (% of GDP)

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<tbody>
<tr>
<td>Central Government</td>
<td>-7.94</td>
<td>-4.84</td>
<td>-3.68</td>
<td>-2.76</td>
<td>-2.65</td>
<td>-1.89</td>
<td>-1.36</td>
<td>-0.5</td>
<td>-0.1</td>
<td>0.0</td>
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<tr>
<td>Autonomous Regions</td>
<td>-1.87</td>
<td>-1.58</td>
<td>-1.78</td>
<td>-1.73</td>
<td>-0.86</td>
<td>-0.36</td>
<td>-0.23</td>
<td>-0.3</td>
<td>-0.1</td>
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<tr>
<td>Local Governments</td>
<td>0.32</td>
<td>0.55</td>
<td>0.53</td>
<td>0.42</td>
<td>0.62</td>
<td>0.61</td>
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<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Social Security</td>
<td>-0.98</td>
<td>-1.13</td>
<td>-1.04</td>
<td>-1.21</td>
<td>-1.58</td>
<td>-1.44</td>
<td>-1.41</td>
<td>-1.2</td>
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<td>General Government</td>
<td>-10.47</td>
<td>-6.99</td>
<td>-5.97</td>
<td>-5.27</td>
<td>-4.47</td>
<td>-3.08</td>
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**Forecast**

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<th>2020</th>
<th>2021</th>
<th>2022</th>
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<td>-0.1</td>
<td>0.0</td>
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<tr>
<td>Autonomous Regions</td>
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<td>-0.1</td>
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<tr>
<td>Local Governments</td>
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<tr>
<td>Social Security</td>
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<td>-0.9</td>
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<tr>
<td>General Government</td>
<td>-2.0</td>
<td>-1.1</td>
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<td>0.0</td>
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**Source:** Ministerio de Hacienda.

*2019-2022 are the projections contained in the 2019 Stability Programme released in April 2019.*

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### General Government Interest-to-Revenue and Interest-to-GDP Ratios (In %)

**Source:** Ministerio de Economía y Empresa.

*2019-2022 are the projections contained in the 2019 Stability Programme released in April 2019.*
Fiscal policy framework: Regional Finances

- Continued fiscal consolidation of the regions leading to the gradual and conditional recovery of their financial autonomy
- Several regions already funding themselves fully in the markets
- Backstop mechanisms will be kept in place under certain conditions

**Regional Government Net Lending (+)/ Borrowing (-) (% of regional GDP)**

Source: Ministerio de Hacienda.

**2019 funding source**

Source: Ministerio de Hacienda.
The Treasury’s funding programme in 2019

- The Government’s commitment to fiscal consolidation has allowed to review the total net issuance in 2019 down to €30 bn
- Total issuance up to May 14th: €85.4 bn, 41.7% of the funding programme
  - Medium- and long-term: €55.7 bn (45.7%), and
  - Short-term (Letras del Tesoro): €29.6 bn (35.9%)

### Funding Programme in 2019

<table>
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<tr>
<th>(In billion euros and in effective terms)</th>
<th>End 2018</th>
<th>Forecast 2019</th>
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<tr>
<td>Total Net Issuance</td>
<td>34,277</td>
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<td>Total Gross Issuance</td>
<td>212,964</td>
<td>204,525</td>
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<td><strong>Medium- and Long-term</strong></td>
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<tr>
<td>Gross Issuance</td>
<td>131,979</td>
<td>121,933</td>
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<tr>
<td>Amortisation</td>
<td>89,310</td>
<td>91,933</td>
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<td>Net Issuance</td>
<td>42,669</td>
<td>30,000</td>
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<td><strong>Letras del Tesoro</strong></td>
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<tr>
<td>Gross Issuance</td>
<td>80,984</td>
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<tr>
<td>Amortisation</td>
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<tr>
<td>Net Issuance</td>
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*Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

Source: Secretaría General del Tesoro y Financiación Internacional.
Cost and life of debt: a longer portfolio at historically low rates

- Historic lows in average cost of debt outstanding (2.38%) and cost at issuance (0.54%)
- Since 2013 average life of debt outstanding has increased from 6.20 to 7.55 years

*As of 16/05/2019

Source: Secretaría General del Tesoro y Financiación Internacional.
Recent trends in investor base

- Bank of Spain PSPP holdings up to 22.2%
- Spanish banks have reduced absolute and relative holdings of Spanish bonds
- Non-residents remain at 45% of total holdings, with new regions, notably Asia, stepping in

Holdings of Letras & Bonos and Obligaciones del Estado (% Structure)

Source: Bank of Spain.

January New 10 Year Reference - Apr. 2029

Geographic Distribution (%)

By Type of Investor (%)

Government bond holdings as % of Spanish bank's balance sheet.

Source: ECB.
Ratings

- Expecting more foreign investors after recent upgrades: A stable outlook (DBRS), A-positive outlook (S&P), A-stable outlook (Fitch), Baa1 stable (Moody’s)

Source: Ministerio de Economía y Empresa.
Thank you for your attention

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