Recent Developments in the Spanish Economy, Policy & Funding

October 2019
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The Spanish economy will maintain a robust growth path: after growing at a rate of 2.4% in 2018, GDP is expected to expand by 2.1% in 2019.

National deleveraging is progressing, by combining growth with a current account surplus:
- Debt-to-GDP ratio fell by 2.1pp in 2014-2017, and will fall by 3.9pp in 2017-2020, to 94.6%. By end 2019 it will be 95.9%, falling by 1.7pp, faster than envisaged in the Stability Programme Update.
- Impressive private deleveraging: non-financial private sector debt of 152.4%, 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 to 2% in 2019 and to 1.7% in 2020.
- 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)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1</th>
<th>Q2</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption expenditure</td>
<td>2.7</td>
<td>3.0</td>
<td>1.8</td>
<td>0.9</td>
<td>1.0</td>
<td>0.6</td>
<td>1.2</td>
</tr>
<tr>
<td>General Government consumption expenditure</td>
<td>1.0</td>
<td>1.0</td>
<td>1.9</td>
<td>2.0</td>
<td>2.2</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td>2.4</td>
<td>5.9</td>
<td>5.3</td>
<td>3.1</td>
<td>4.8</td>
<td>1.0</td>
<td>3.0</td>
</tr>
<tr>
<td>National Demand (Contribution to GDP Growth)</td>
<td>2.0</td>
<td>3.0</td>
<td>2.6</td>
<td>1.5</td>
<td>1.9</td>
<td>1.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>5.4</td>
<td>5.6</td>
<td>2.2</td>
<td>1.7</td>
<td>0.3</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>2.6</td>
<td>6.6</td>
<td>3.3</td>
<td>0.1</td>
<td>-0.4</td>
<td>-0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>External demand (Contribution to GDP Growth)</td>
<td>1.0</td>
<td>-0.1</td>
<td>-0.3</td>
<td>0.6</td>
<td>0.2</td>
<td>1.0</td>
<td>0.2</td>
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<tr>
<td>Gross Domestic Product</td>
<td>3.0</td>
<td>2.9</td>
<td>2.4</td>
<td>2.1</td>
<td>2.2</td>
<td>2.0</td>
<td>1.8</td>
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</table>

### Other variables

<table>
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<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1</th>
<th>Q2</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<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>14.0</td>
<td>12.3</td>
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<tr>
<td>Full-time Equiv. Employment (YoY Growth)</td>
<td>2.8</td>
<td>2.8</td>
<td>2.5</td>
<td>2.3</td>
<td>2.7</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Net lending(+)borrowing(-) with RoW (% of GDP)</td>
<td>3.4</td>
<td>2.9</td>
<td>2.4</td>
<td>2.3</td>
<td>2.1</td>
<td>2.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Private Consumption deflator (YoY Growth)</td>
<td>0.2</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1.3</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Headline Balance General Gov’t (in % of GDP)*</td>
<td>-4.3</td>
<td>-3.0</td>
<td>-2.5</td>
<td>-2.0</td>
<td>-2.56</td>
<td>2.83</td>
<td>-1.7</td>
</tr>
<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>1.12</td>
<td>1.13</td>
</tr>
<tr>
<td>Euro Area GDP growth (YoY growth)</td>
<td>1.9</td>
<td>2.7</td>
<td>1.9</td>
<td>1.1</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Oil prices (Brent, USD/barrel)</td>
<td>43.3</td>
<td>54.3</td>
<td>70.9</td>
<td>64.3</td>
<td>63.1</td>
<td>69.7</td>
<td>60.2</td>
</tr>
</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 2020 Draft Budgetary Plan released in October.
Economic sentiment

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

**Per capita GDP Volume**
*(Index 1999=100)*

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

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

*Source: IMF, WEO October 2019.*

*Source: Instituto Nacional de Estadística.*

*Source: EUROSTAT.*
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)

Gross Value Added (% of GDP)

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

- Unemployment down to 13.8%, from a maximum of 26.3% in 2013
- Over 2.5 million jobs created since 2014, equivalent to more than 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

Source: EUROSTAT.

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

Source: Instituto Nacional de Estadística.

Total, Private and Public Sector Employees
(Year-on-Year Growth Rates)

Source: EUROSTAT.

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

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

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**Loan-to-Deposits & Equity to Assets**

(In %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Lending (Excl. Fin. &amp; Public Sectors) to Deposits (LHS)</th>
<th>Equity to Assets (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>180</td>
<td>10.0</td>
</tr>
<tr>
<td>2009</td>
<td>170</td>
<td>10.0</td>
</tr>
<tr>
<td>2010</td>
<td>160</td>
<td>10.0</td>
</tr>
<tr>
<td>2011</td>
<td>150</td>
<td>10.0</td>
</tr>
<tr>
<td>2012</td>
<td>140</td>
<td>10.0</td>
</tr>
<tr>
<td>2013</td>
<td>130</td>
<td>10.0</td>
</tr>
<tr>
<td>2014</td>
<td>120</td>
<td>10.0</td>
</tr>
<tr>
<td>2015</td>
<td>110</td>
<td>10.0</td>
</tr>
<tr>
<td>2016</td>
<td>100</td>
<td>10.0</td>
</tr>
<tr>
<td>2017</td>
<td>90</td>
<td>10.0</td>
</tr>
<tr>
<td>2018</td>
<td>80</td>
<td>10.0</td>
</tr>
<tr>
<td>2019</td>
<td>70</td>
<td>10.0</td>
</tr>
</tbody>
</table>

**Return on Equity**

- **Spain**: 8.57%

**Harmonised NPL Ratio**

(In % of Total Loans)

- **Spain**: 3.62%
Deleveraging process

- Total debt has decreased by 88.5pp of GDP, and private sector debt by 65.4pp of GDP.
- Households & nonfinancial corporations’ leverage now below Euro Area average.
- Bank of Spain the only source of added “leverage”: a consequence of monetary policy.

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

Source: Bank of Spain.

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

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

**Total Economy Debt Dynamics (% of GDP. Non-Consolidated)**

Source: EUROSTAT.
Result: persistent growth with current account surplus

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
Fiscal policy framework: 2019-2020 Draft Budgetary Plan

Net Lending(+) / Borrowing. (% of GDP)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>-8,09</td>
<td>-4,88</td>
<td>-3,60</td>
<td>-2,66</td>
<td>-2,52</td>
<td>-1,81</td>
<td>-1,32</td>
<td>-0,5</td>
<td></td>
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<tr>
<td>Autonomous Regions</td>
<td>-2,00</td>
<td>-1,60</td>
<td>-1,81</td>
<td>-1,75</td>
<td>-0,85</td>
<td>-0,36</td>
<td>-0,28</td>
<td>-0,3</td>
<td></td>
</tr>
<tr>
<td>Local Governments</td>
<td>0,32</td>
<td>0,56</td>
<td>0,53</td>
<td>0,43</td>
<td>0,63</td>
<td>0,59</td>
<td>0,51</td>
<td>0,0</td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>-0,97</td>
<td>-1,11</td>
<td>-1,03</td>
<td>-1,19</td>
<td>-1,56</td>
<td>-1,44</td>
<td>-1,44</td>
<td>-1,2</td>
<td></td>
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<tr>
<td>General Government</td>
<td>-10,74</td>
<td>-7,04</td>
<td>-5,92</td>
<td>-5,18</td>
<td>-4,31</td>
<td>-3,02</td>
<td>-2,54</td>
<td>-2,0</td>
<td>-1,7</td>
</tr>
</tbody>
</table>

Source: Ministerio de Hacienda.
2019-2020 are the projections contained in the 2020 Draft Budgetary Plan released in October 2019.

General Government Debt. EDP.

(%) of GDP

Source: Bank of Spain and Ministerio de Economía y Empresa.
2019-2020 are the projections contained in the 2020 Draft Budgetary Plan released in October 2019.

General Government Interest-to-Revenue and Interest-to-GDP Ratios

(In %)

Source: Ministerio de Economía y Empresa.
General Government Interests follow a cyclical trend, as they depend on the number of bonds maturing each quarter.
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.
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 €20 bn, the lowest since 2007 and 42.9% below the January target
- Total issuance up to October 15th: €163.0 bn, 84.5% of the funding programme
  - Medium- and long-term: €99.3 bn (86.8%), and
  - Short-term (Letras del Tesoro): €63.6 bn (81.1%)

**The Treasury’s Funding Programmes since 2012**

*(In € bn)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Issuance</th>
<th>Net Issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>249.6</td>
<td>96.6</td>
</tr>
<tr>
<td>2013</td>
<td>238.6</td>
<td>73.7</td>
</tr>
<tr>
<td>2014</td>
<td>241.3</td>
<td>55.6</td>
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<tr>
<td>2015</td>
<td>236.8</td>
<td>47.7</td>
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<tr>
<td>2016</td>
<td>221.4</td>
<td>45</td>
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<tr>
<td>2017</td>
<td>233.9</td>
<td>45</td>
</tr>
<tr>
<td>2018</td>
<td>213.0</td>
<td>40</td>
</tr>
<tr>
<td>2019</td>
<td>194.5</td>
<td>20</td>
</tr>
</tbody>
</table>

**Funding Programme in 2019**

<table>
<thead>
<tr>
<th>(In billion euros and in effective terms)</th>
<th>End 2018</th>
<th>Forecast 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Issuance</td>
<td>34.277</td>
<td>20.000</td>
</tr>
<tr>
<td>Total Gross Issuance</td>
<td>212.964</td>
<td>194.525</td>
</tr>
<tr>
<td><strong>Medium- and Long-term</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Issuance</td>
<td>131.979</td>
<td>114.433</td>
</tr>
<tr>
<td>Amortisation</td>
<td>89.310</td>
<td>91.933</td>
</tr>
<tr>
<td>Net Issuance</td>
<td>42.669</td>
<td>22.500</td>
</tr>
<tr>
<td><strong>Letras del Tesoro</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Issuance</td>
<td>80.984</td>
<td>80.092</td>
</tr>
<tr>
<td>Amortisation</td>
<td>89.377</td>
<td>82.592</td>
</tr>
<tr>
<td>Net Issuance</td>
<td>-8.393</td>
<td>-2.500</td>
</tr>
</tbody>
</table>

*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 (2.35%) and cost at issuance (0.33%)
- Since 2013 average life of debt outstanding has increased from 6.20 to 7.52 years

*As of 17/10/2019

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

- Bank of Spain PSPP holdings at 21.3%
- Spanish banks have reduced absolute and relative holdings of Spanish bonds, and now represent 15.4% of total holdings
- Non-residents up to 46.7% of total holdings, with new regions, notably Asia, stepping in

Holdings of Letras & Bonos and Obligaciones del Estado

(%. Structure)

Source: Bank of Spain.

June New 10 Year Reference - Oct. 2029

Geographic Distribution (%)

By Type of Investor (%)

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

Source: ECB.
/> Expecting more foreign investors after recent upgrades: A positive outlook (DBRS), A stable 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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