

# Recent Developments in the Spanish Economy, Policy & Funding

October 2019

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## Highlights

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

Other variables							
	2016	2017	2018	2019	Q1	Q2	2020
Unemployment rate (in % of Active Population)	19.6	17.2	15.3	13.8	14.7	14.0	12.3
Full-time Equiv. Employment (YoY Growth)	2.8	2.8	2.5	2.3	2.7	2.5	2.0
Net lending(+)/borrowing(-) with RoW (% of GDP)	3.4	2.9	2.4	2.3	2.1	2.2	2.1
Private Consumption deflator (YoY Growth)	0.2	1.6	1.5	1.5	1.3	1.8	1.6
Headline Balance General Gov't (in % of GDP)*	-4.3	-3.0	-2.5	-2.0	-2.56	-2.83	-1.7
USD/€ exchange rate	1.1	1.1	1.2	1.13	1.14	1.12	1.13
Euro Area GDP growth (YoY growth)	1.9	2.7	1.9	1.1	1.3	1.2	1.2
Oil prices (Brent, USD/barrel)	43.3	54.3	70.9	64.3	63.1	69.7	60.2

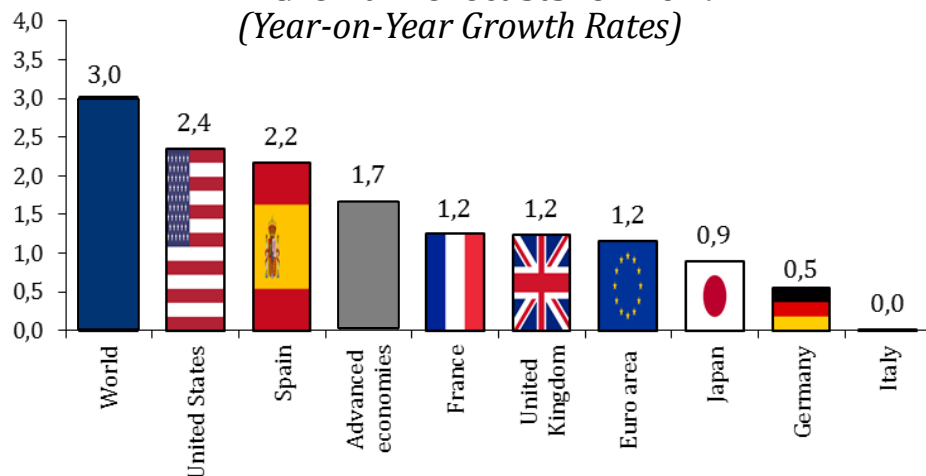
\* Including Financial Sector One-Offs

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.

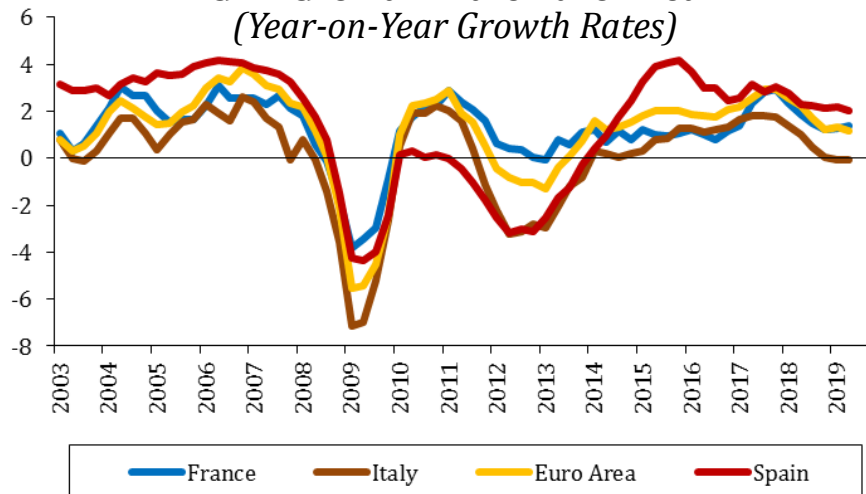
# Economic sentiment

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



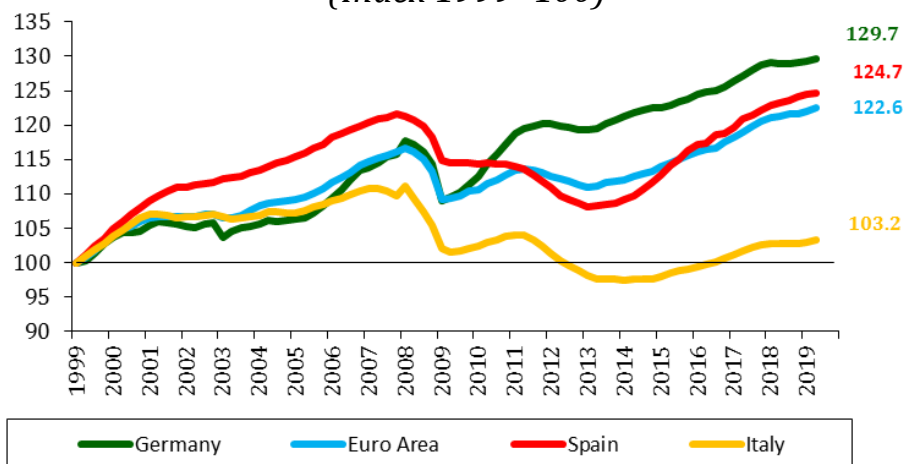
Source: IMF. WEO October 2019.

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



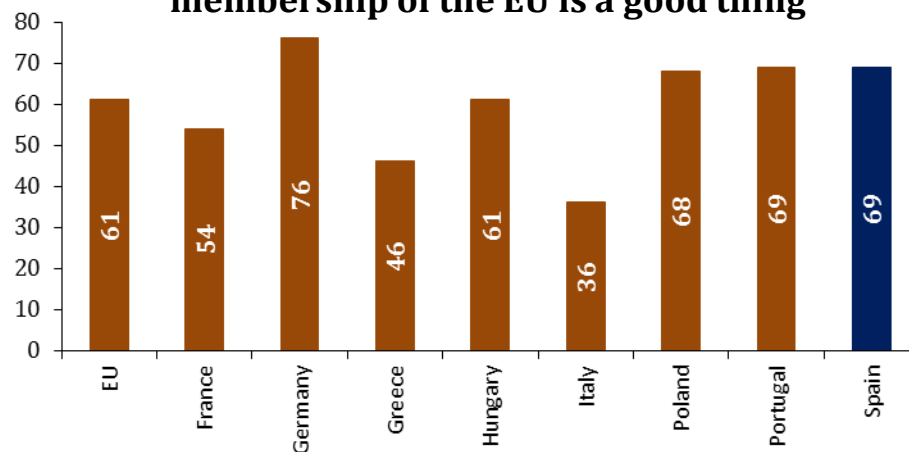
Source: Instituto Nacional de Estadística.

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



Source: EUROSTAT.

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

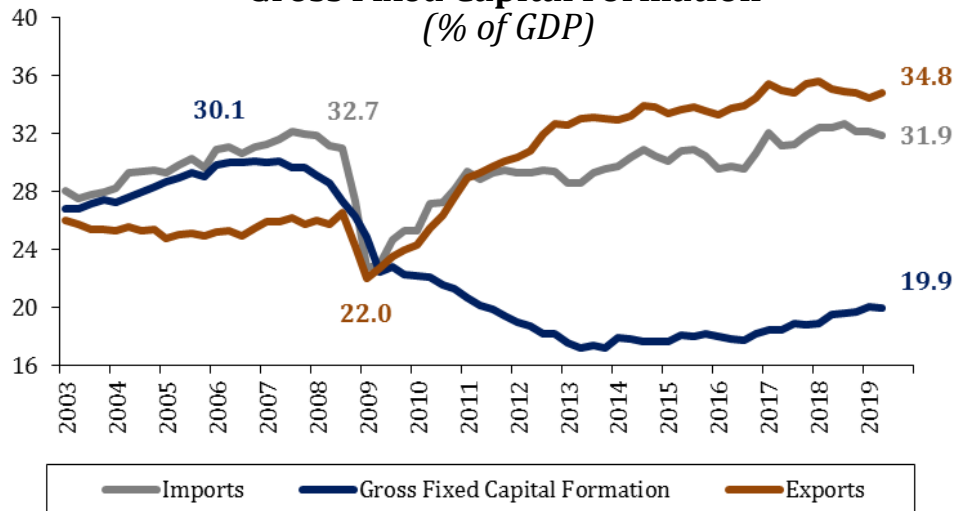


Source: EUROSTAT, March 2019.

## Spain's growth pattern

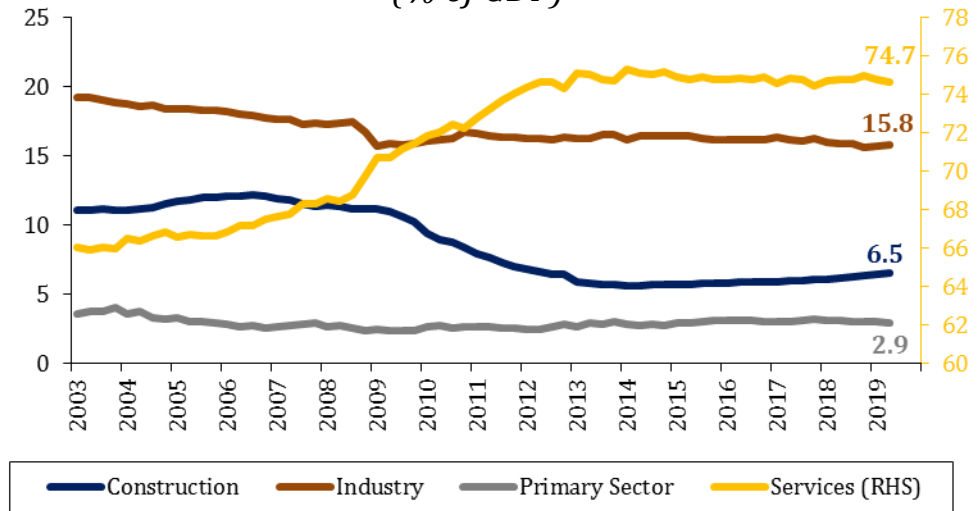
- ▶ Current account surplus and net lending capacity vis-à-vis rest of the world
- ▶ Subdued inflation and strong job creation
- ▶ Rebalancing of weight of construction sector and higher weight of services sector
- ▶ Strong investment growth converging to Euro Area average

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



Source: Instituto Nacional de Estadística.

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

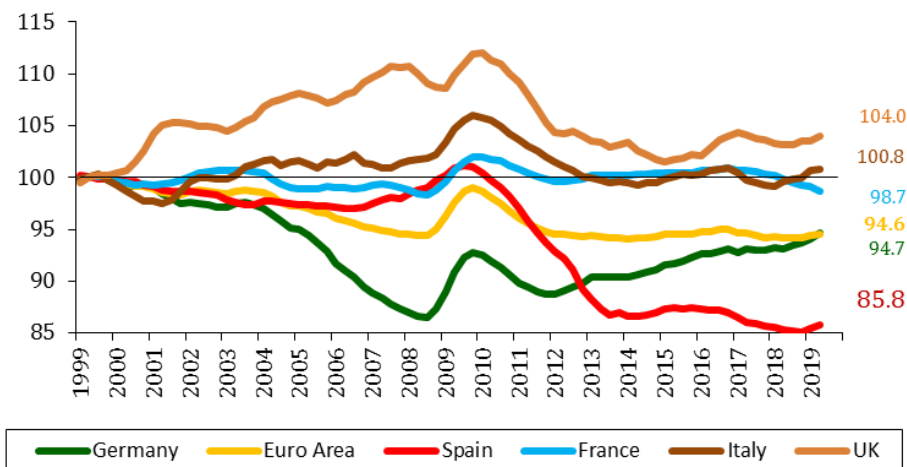


Source: Instituto Nacional de Estadística.

## A recovery intensive in labour creation

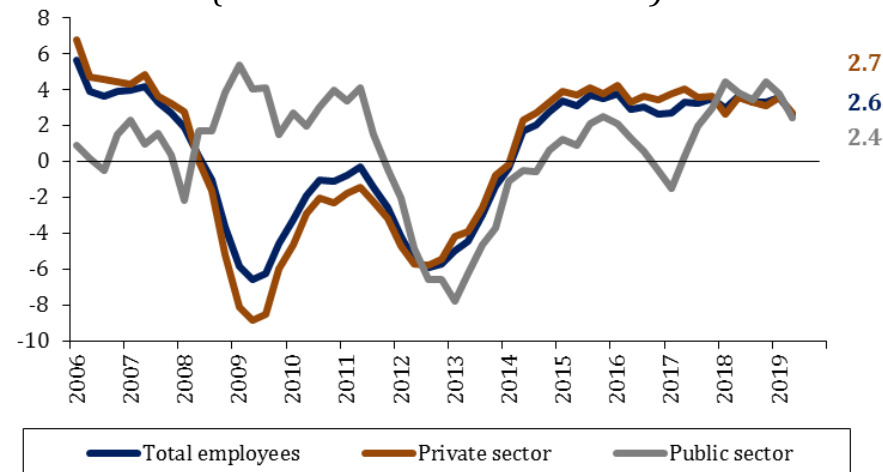
- ▶ Unemployment down to 13.8%, from a maximum of 26.3% in 2013
- ▶ Over 2.5 million jobs created since 2014, equivalent to more than 25% of the total employment generated in the Euro Area
- ▶ Falling unemployment fuels internal demand
- ▶ Measures to increase job quality in order to fight inequality, foster stability & human capital

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



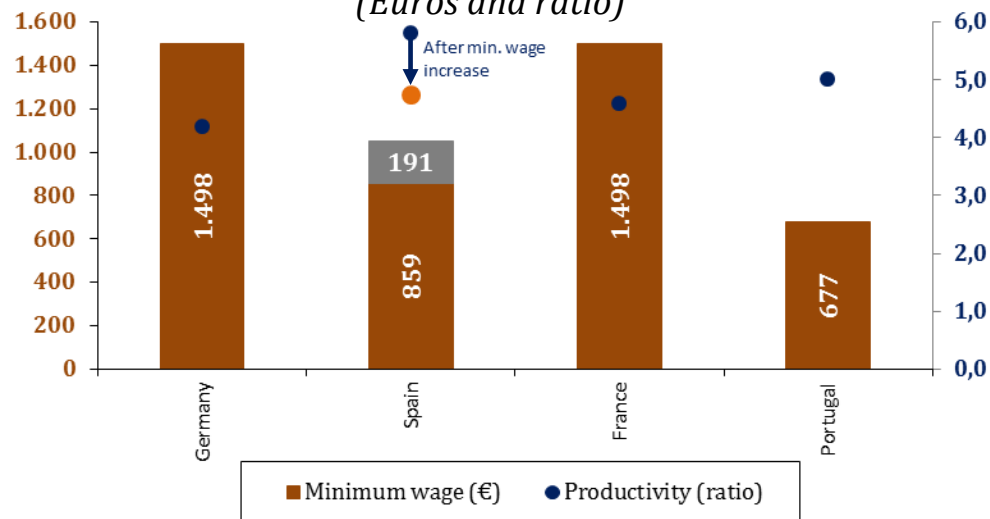
Source: EUROSTAT.

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



Source: Instituto Nacional de Estadística.

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

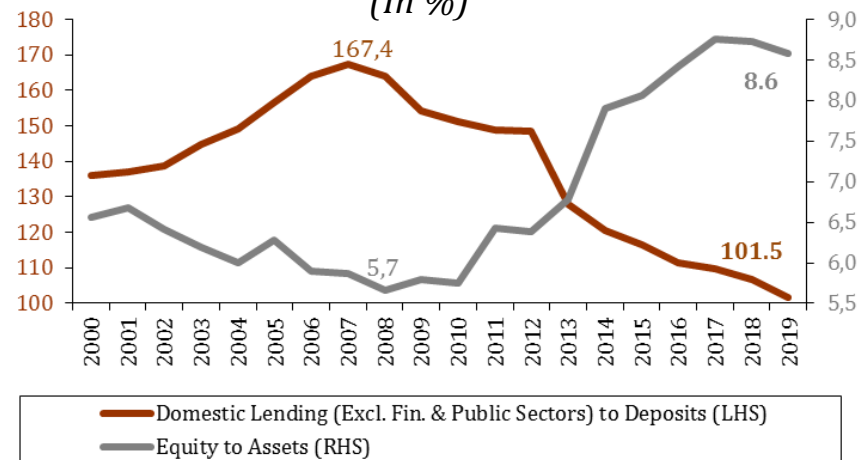


Source: EUROSTAT.

## Banking sector adjustment

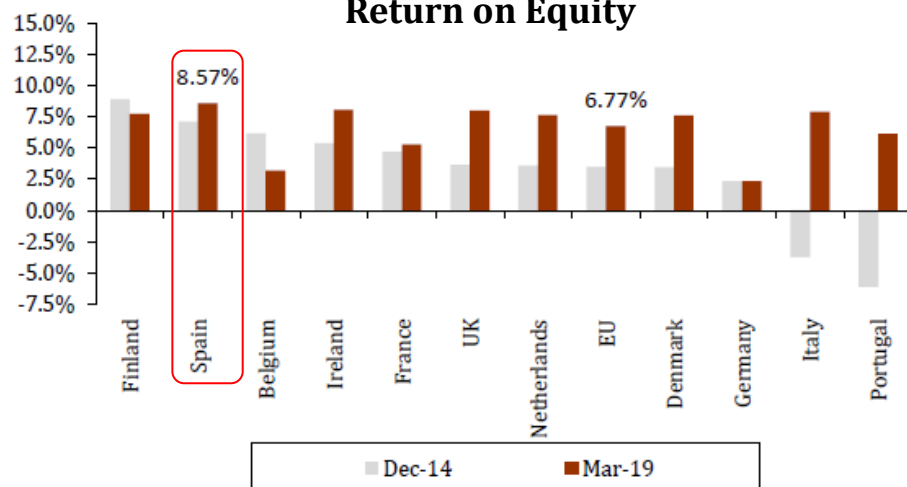
- ▶ Adjustment of the banking sector:
  - ❑ Downsizing & loss recognition
  - ❑ Enhanced capitalisation and profitability
- ▶ Strong improvement in NPLs: harmonised NPL ratio below Euro Area average
- ▶ EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- ▶ Establishment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

**Loan-to-Deposits & Equity to Assets**  
(In %)



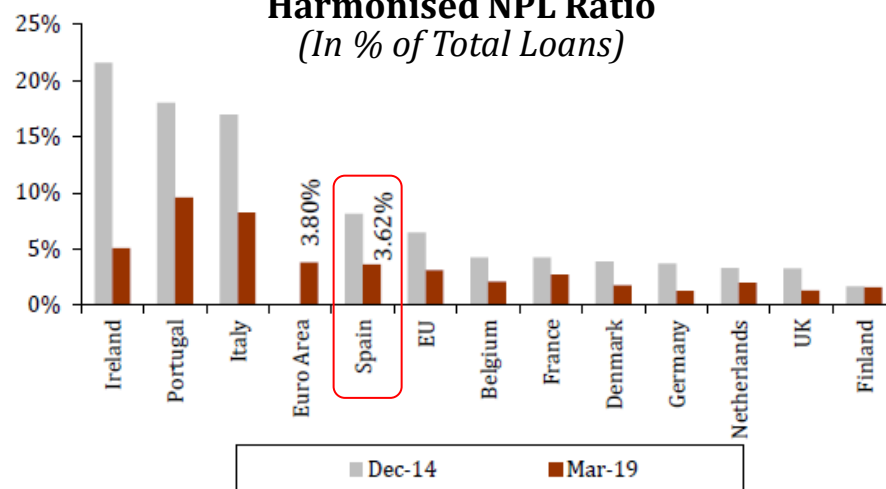
Source: Bank of Spain.

**Return on Equity**



Source: EBA. Risk Dashboard Interactive Tool.

**Harmonised NPL Ratio**  
(In % of Total Loans)



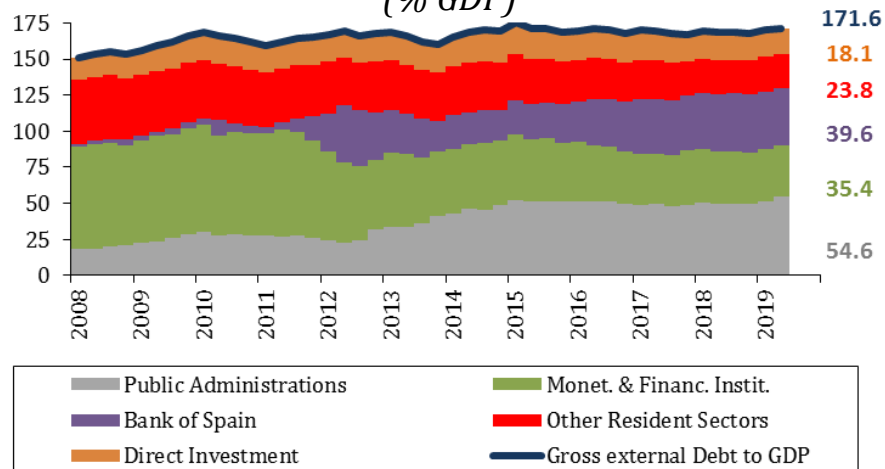
Source: EBA. Risk Dashboard Interactive Tool.



## 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

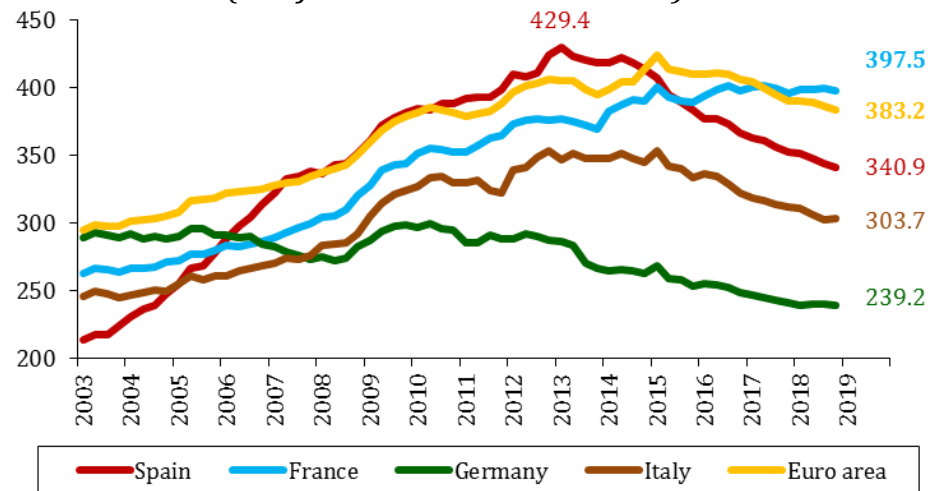
**Gross External Debt. By Debtor Sub-Sector**  
(% GDP)



Source: Bank of Spain.

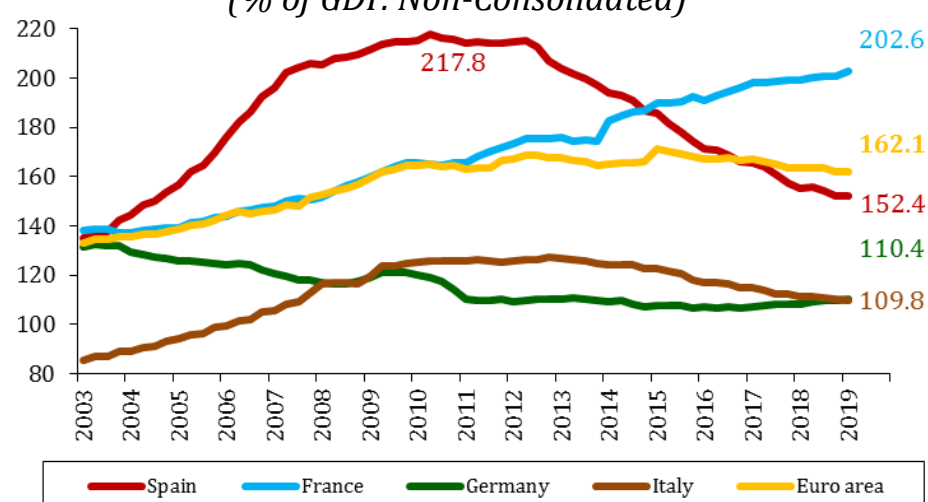
NOTE: The gross external debt position equals total IIP liabilities excluding all equity (equity shares and other equity) and investment fund shares and financial derivatives and employee stock options.

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



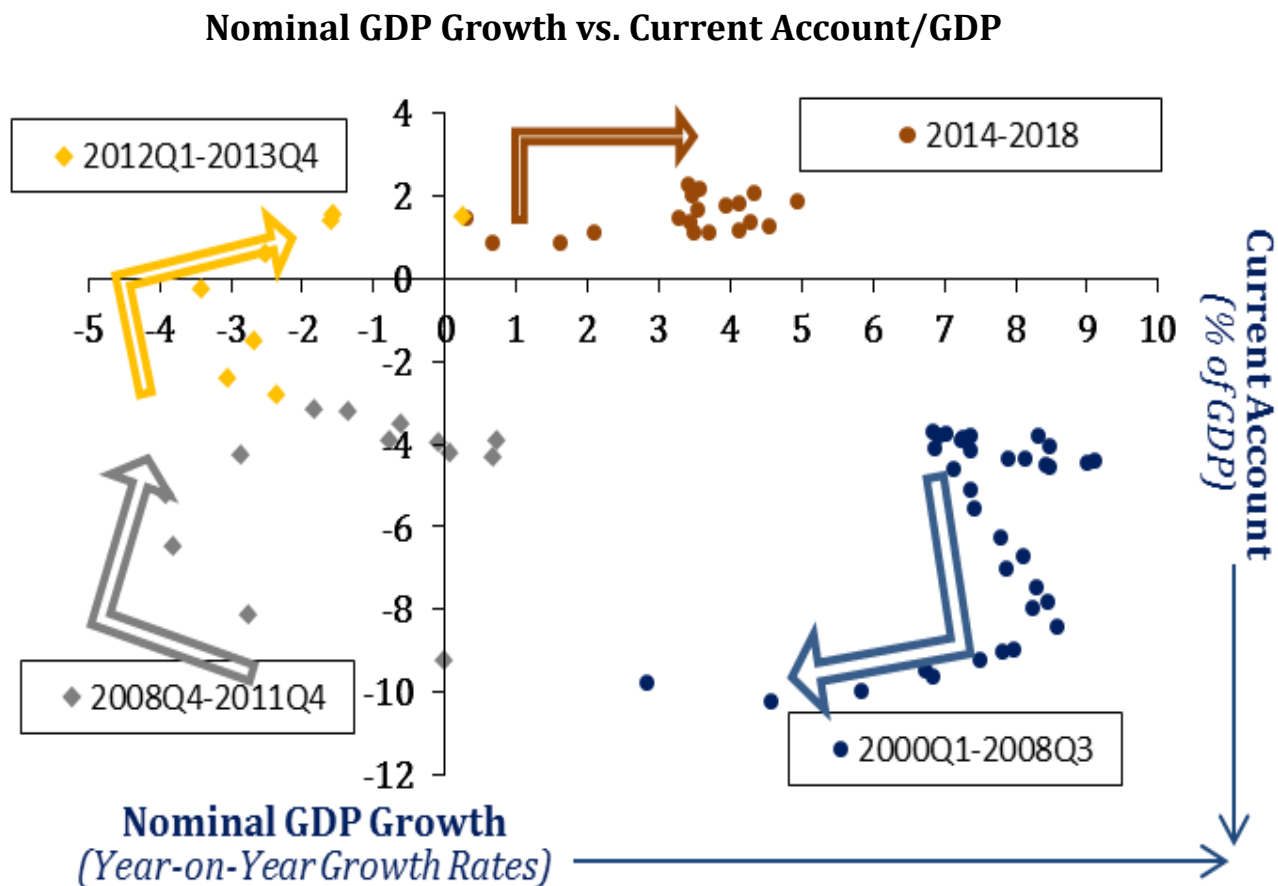
Source: EUROSTAT.

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



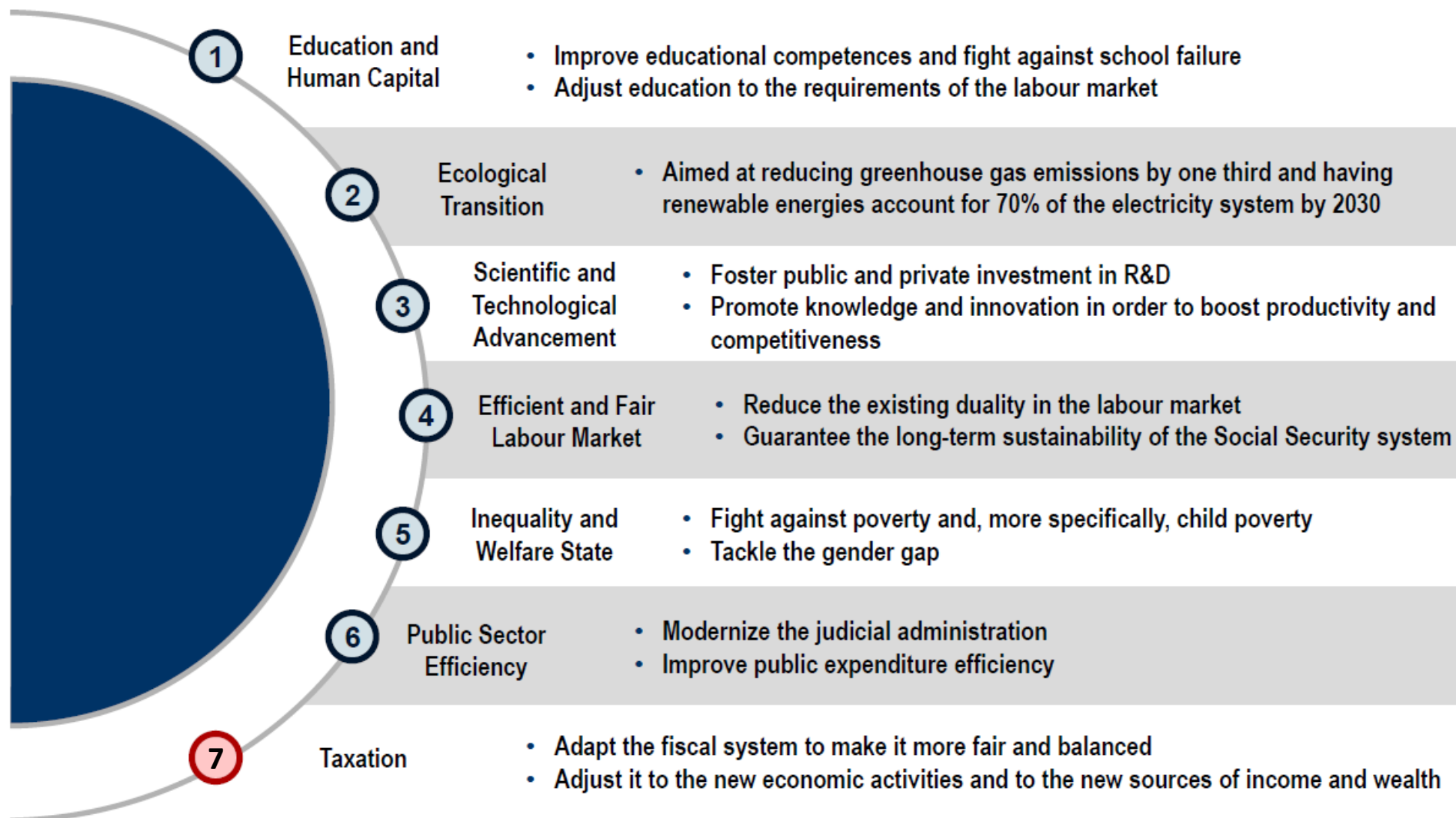
Sources: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.

## 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

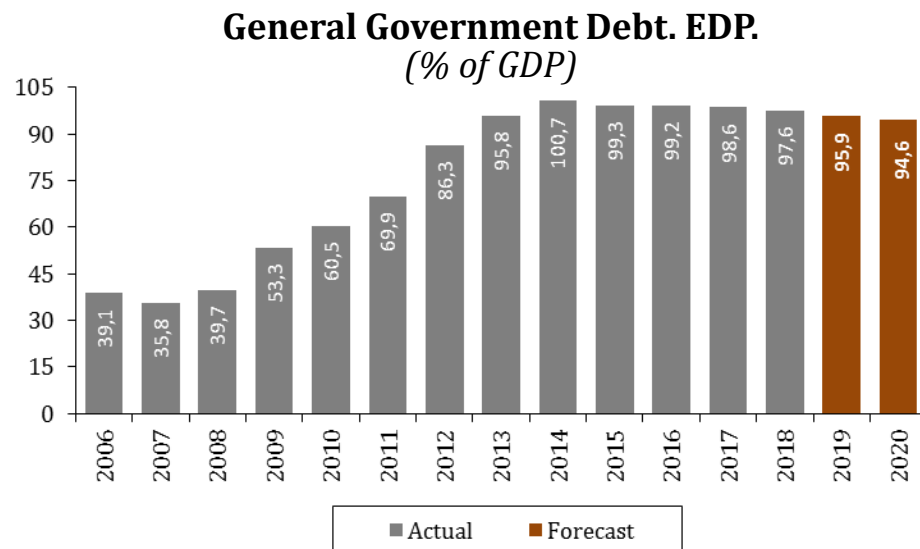


# Fiscal policy framework: 2019-2020 Draft Budgetary Plan

Net Lending(+)/Borrowing. (% of GDP)								
	2012	2013	2014	2015	2016	2017	2018	Forecast
								2019 2020
Central Government	-8,09	-4,88	-3,60	-2,66	-2,52	-1,81	-1,32	-0,5
Autonomous Regions	-2,00	-1,60	-1,81	-1,75	-0,85	-0,36	-0,28	-0,3
Local Governments	0,32	0,56	0,53	0,43	0,63	0,59	0,51	0,0
Social Security	-0,97	-1,11	-1,03	-1,19	-1,56	-1,44	-1,44	-1,2
General Government	-10,74	-7,04	-5,92	-5,18	-4,31	-3,02	-2,54	-2,0 -1,7

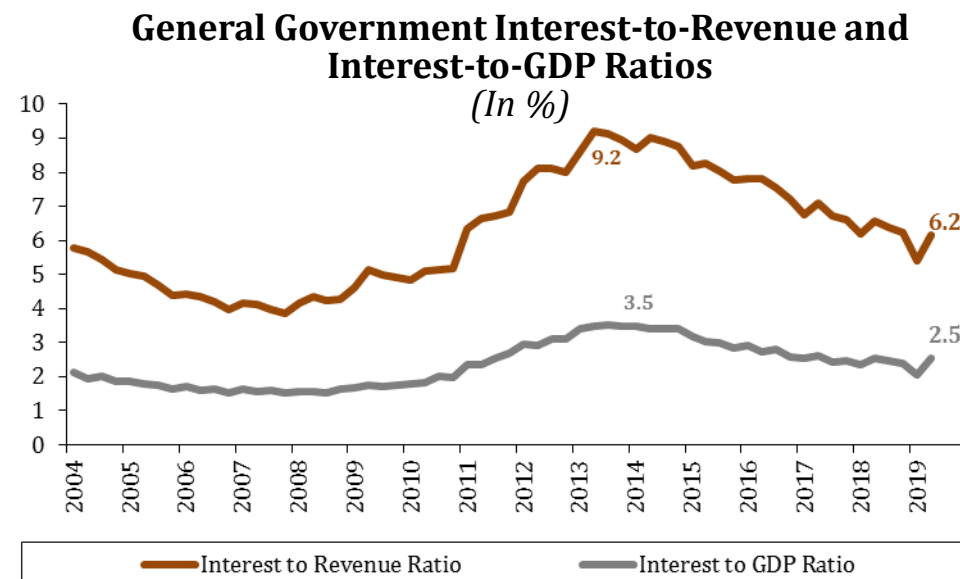
Source: Ministerio de Hacienda.

2019-2020 are the projections contained in the 2020 Draft Budgetary Plan released in October 2019.



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.

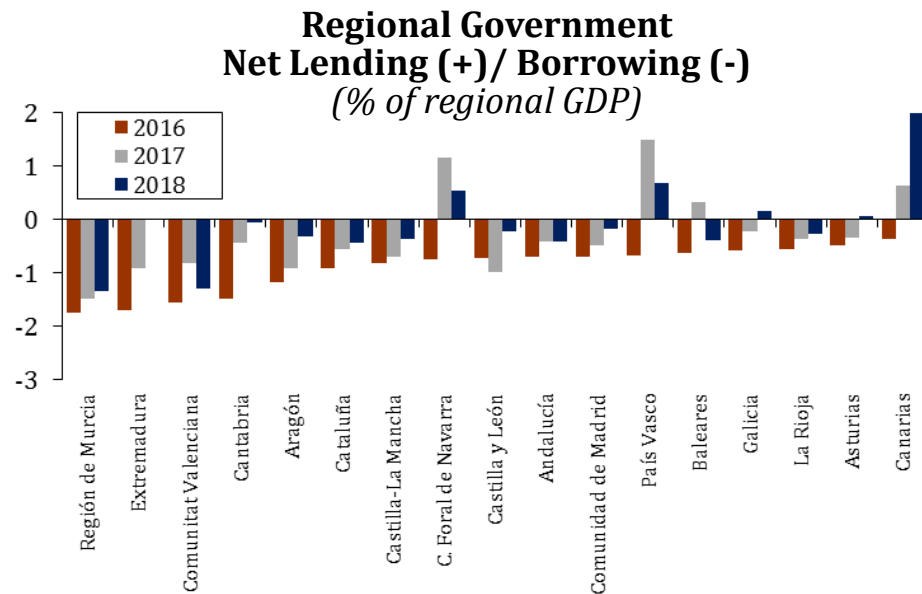


Source: Ministerio de Economía y Empresa.

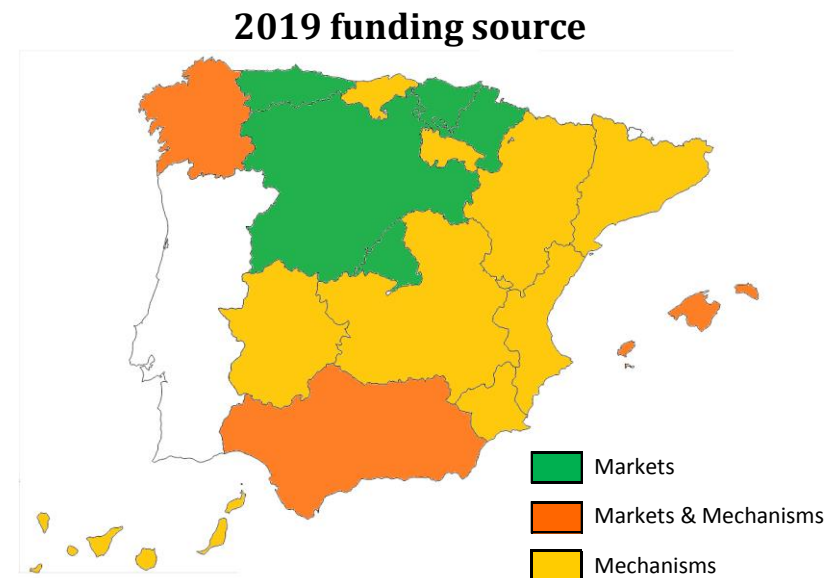
General Government Interests follow a cyclical trend, as they depend on the number of bonds maturing each quarter.

## 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



Source: Ministerio de Hacienda.



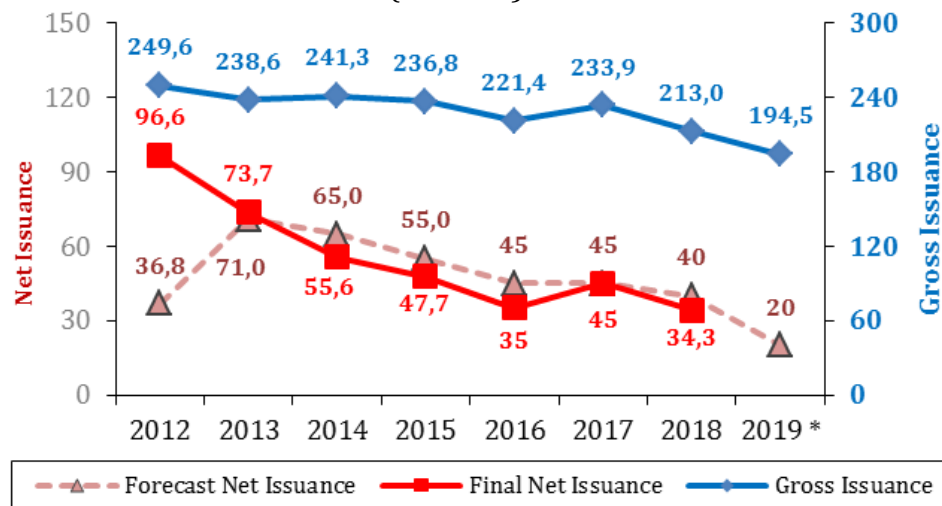
Source: Ministerio de Hacienda.

## 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%)

### Funding Programme in 2019

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



Source: Secretaría General del Tesoro y Financiación Internacional.

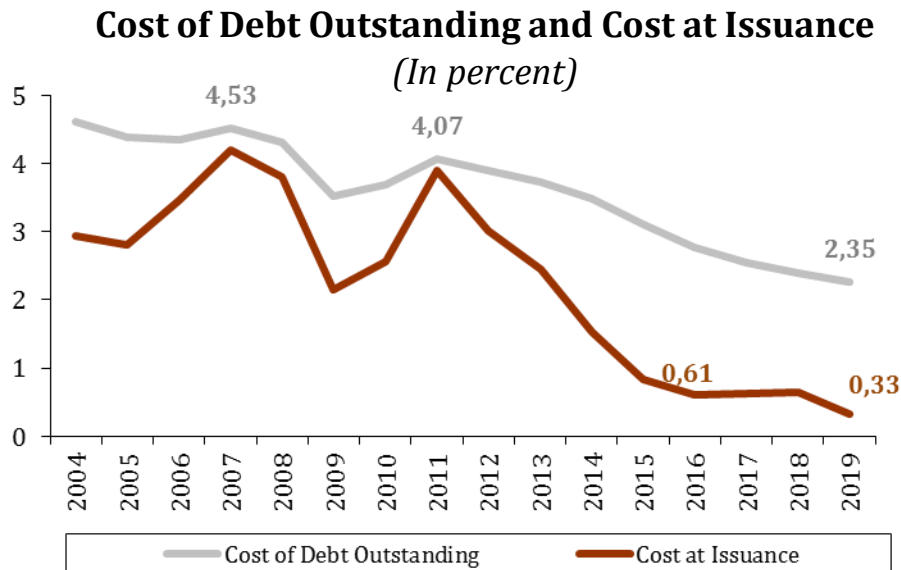
(In billion euros and in effective terms)	End 2018	Forecast 2019
<b>Total Net Issuance</b>	<b>34.277</b>	<b>20.000</b>
<b>Total Gross Issuance</b>	<b>212.964</b>	<b>194.525</b>
<b>Medium- and Long-term</b>		
Gross Issuance <sup>1</sup>	131.979	114.433
Amortisation <sup>1</sup>	89.310	91.933
Net Issuance <sup>1</sup>	42.669	22.500
<b>Letras del Tesoro</b>		
Gross Issuance	80.984	80.092
Amortisation	89.377	82.592
Net Issuance	-8.393	-2.500

<sup>1</sup> Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

Source: Secretaría General del Tesoro y Financiación Internacional.

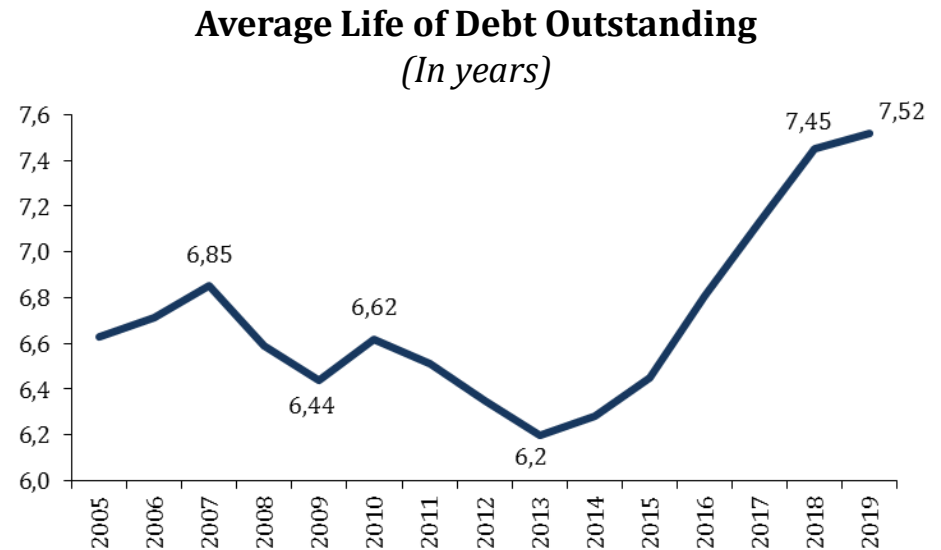
## Cost and life of debt: a longer portfolio at historically low rates

- ▶ 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



Source: Secretaría General del Tesoro y Financiación Internacional.

\*As of 17/10/2019

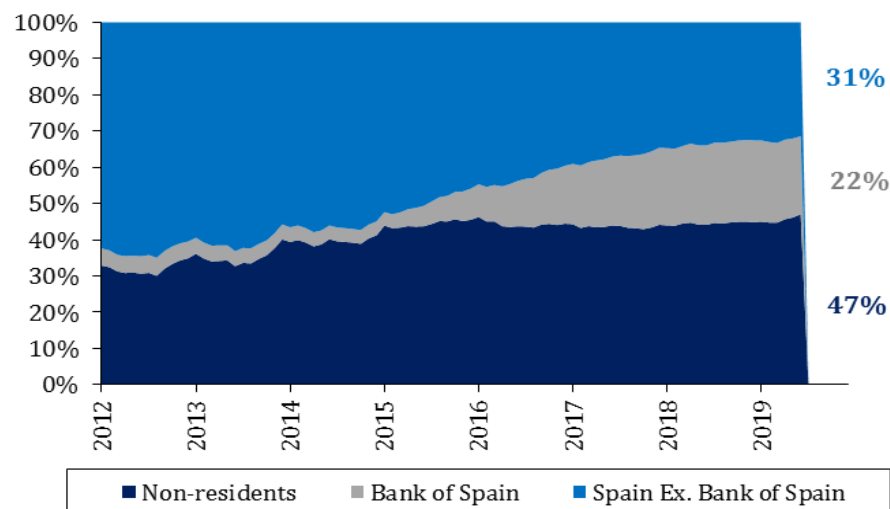


Source: Secretaría General del Tesoro y Financiación Internacional.

## Recent trends in investor base

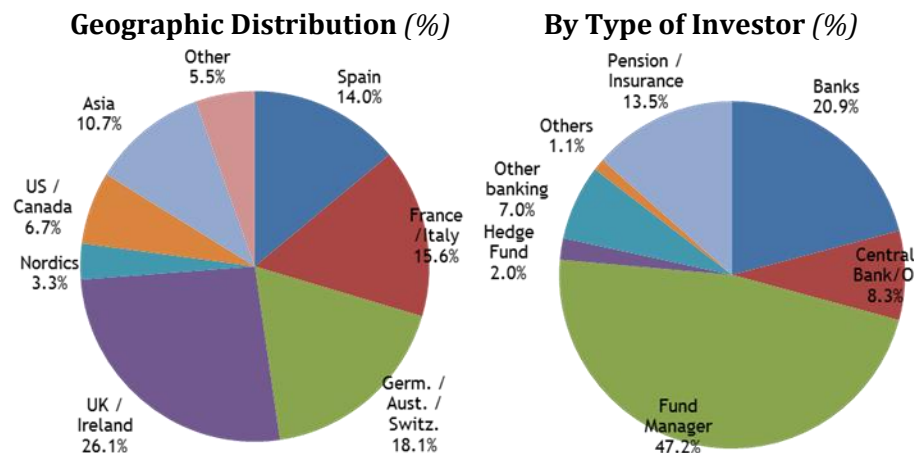
- ▶ Bank of Spain PSPP holdings at 21.3%
- ▶ Spanish banks have reduced absolute and relative holdings of Spanish bonds, and now represent 15.4% of total holdings
- ▶ Non-residents up to 46,7% of total holdings, with new regions, notably Asia, stepping in

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

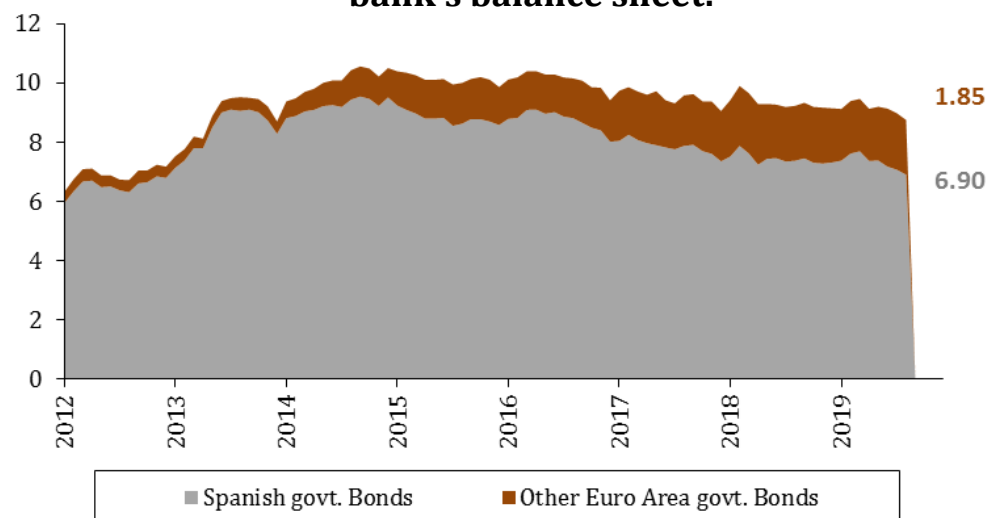


Source: Bank of Spain.  
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

### June New 10 Year Reference - Oct. 2029



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

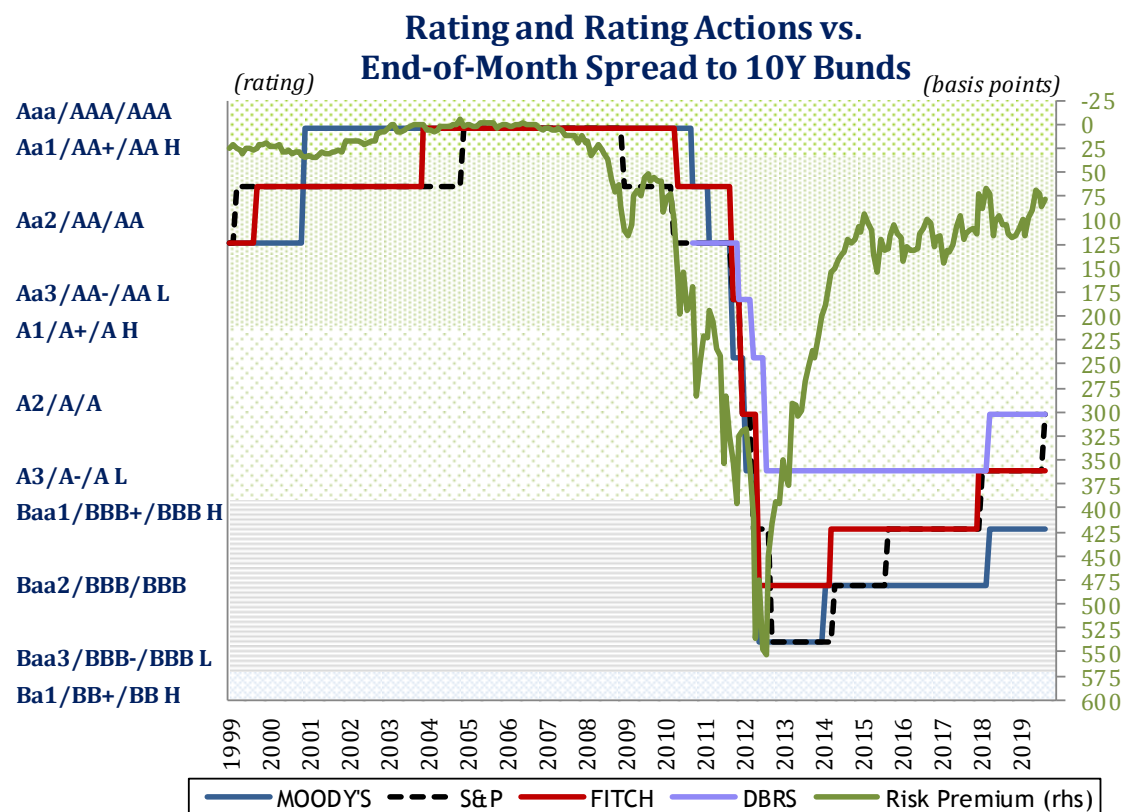


Source: ECB.



# Ratings

- ▶ 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.

**Announced Rating Dates in 2019.**

	Fitch	S&P	DBRS	Moody's
January	11			
February				
March		22	22	
April				
May				24
June	21			
July				
August				
September		20	20	
October				
November				15
December	13			

## Thank you for your attention

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