

# Recent Developments in the Spanish Economy, Policy & Funding

November 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 4.0pp 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 153.1%, below the Euro Area average and down from 226.4% 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 2019-2020

| Macroeconomic scenario (YoY growth rates in percent) |            |             |             |            |            |            |            |            |
|--|------------|-------------|-------------|------------|------------|------------|------------|------------|
|  | 2016       | 2017        | 2018        | 2019       | Q1         | Q2         | Q3         | 2020       |
| Private consumption expenditure                      | 2.7        | 3.0         | 1.8         | 0.9        | 1.0        | 0.6        | 1.5        | 1.2        |
| General Government consumption expenditure           | 1.0        | 1.0         | 1.9         | 2.0        | 2.2        | 2.2        | 2.5        | 1.5        |
| Gross Fixed Capital Formation                        | 2.4        | 5.9         | 5.3         | 3.1        | 4.8        | 1.0        | 2.0        | 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>1.8</b> | <b>1.6</b> |
| Exports of goods and services                        | 5.4        | 5.6         | 2.2         | 1.7        | 0.3        | 2.2        | 2.3        | 2.3        |
| Imports of goods and services                        | 2.6        | 6.6         | 3.3         | 0.1        | -0.4       | -0.7       | 2.0        | 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>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>2.0</b> | <b>1.8</b> |

| Other variables                                 |      |      |      |      |       |       |      |      |
|---|------|------|------|------|-------|-------|------|------|
|   | 2016 | 2017 | 2018 | 2019 | Q1    | Q2    | Q3   | 2020 |
| Unemployment rate (in % of Active Population)   | 19.6 | 17.2 | 15.3 | 13.8 | 14.7  | 14.0  | 13.9 | 12.3 |
| Full-time Equiv. Employment (YoY Growth)        | 2.8  | 2.8  | 2.5  | 2.3  | 2.7   | 2.5   | 1.8  | 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   | 1.0  | 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  | 1.11 | 1.13 |
| Euro Area GDP growth (YoY growth)               | 1.9  | 2.7  | 1.9  | 1.1  | 1.3   | 1.2   | 1.1  | 1.2  |
| Oil prices (Brent, USD/barrel)                  | 43.3 | 54.3 | 70.9 | 64.3 | 63.1  | 69.7  | 62.2 | 60.2 |

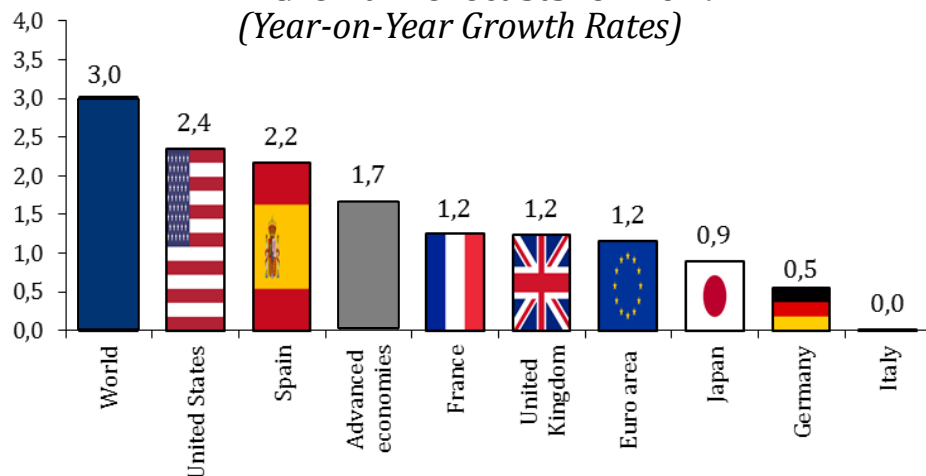
\* Including Financial Sector One-Offs

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.

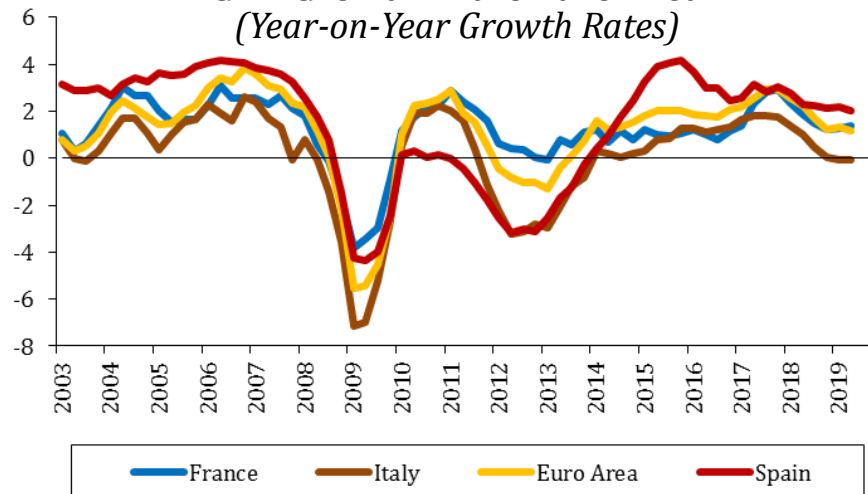
# Economic sentiment

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



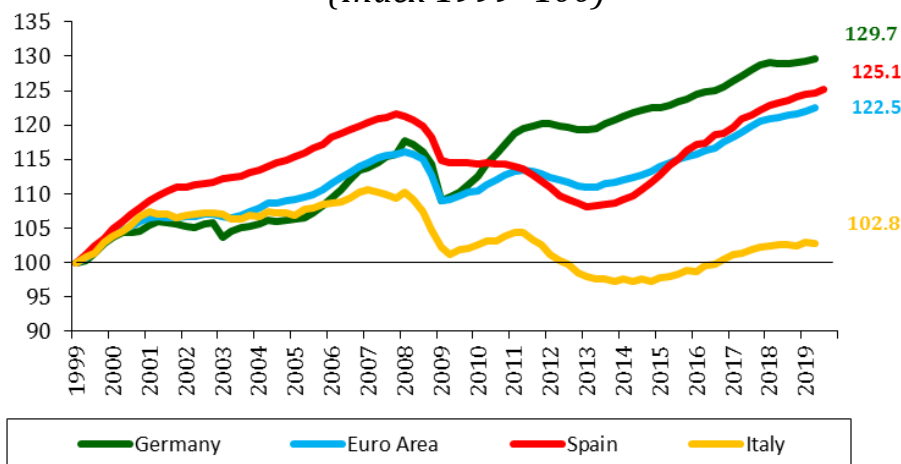
Source: IMF. WEO October 2019.

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



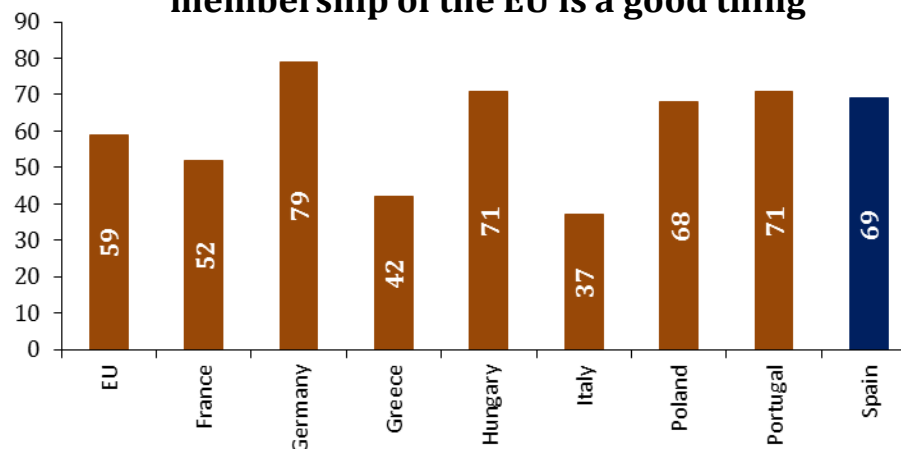
Source: Instituto Nacional de Estadística.

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



Source: EUROSTAT.

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

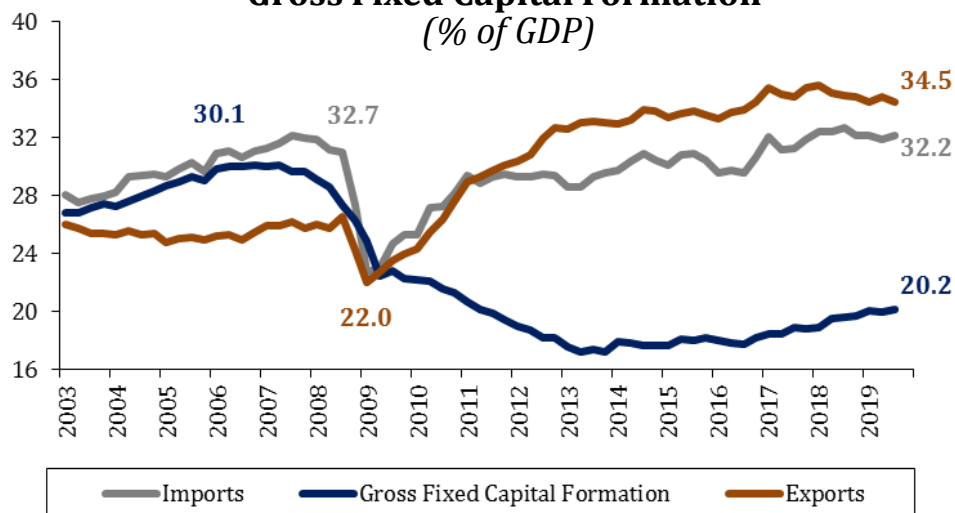


Source: EUROSTAT, October 2019.

## Spain's growth pattern

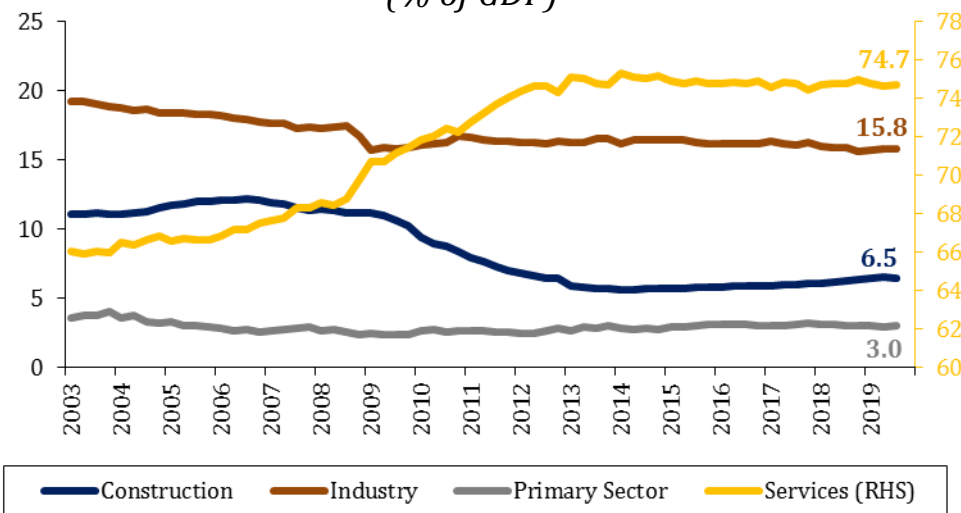
- ▶ Current account surplus and net lending capacity vis-à-vis rest of the world
- ▶ Subdued inflation and strong job creation
- ▶ Rebalancing of weight of construction sector and higher weight of services sector
- ▶ Strong investment growth converging to Euro Area average

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



Source: Instituto Nacional de Estadística.

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

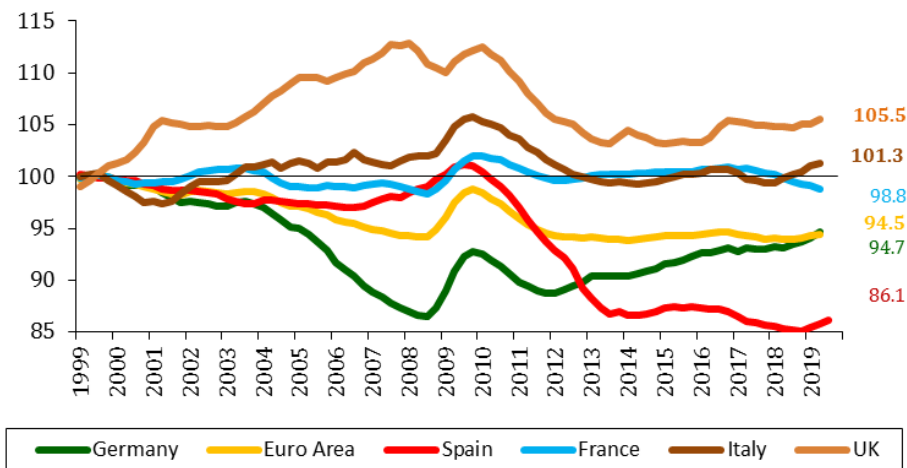


Source: Instituto Nacional de Estadística.

## A recovery intensive in labour creation

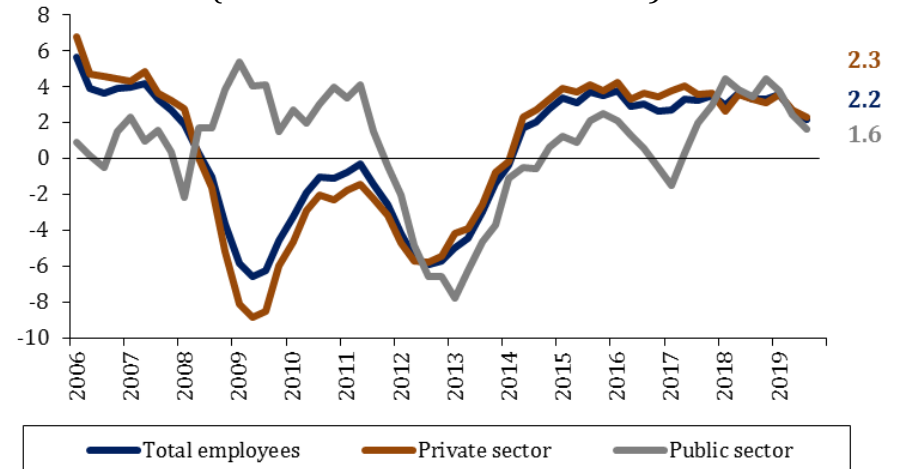
- ▶ Unemployment down to 13.9%, from a maximum of 26.3% in 2013
- ▶ Over 2.5 million jobs created since 2014, equivalent to more than 25% of the total employment generated in the Euro Area
- ▶ Falling unemployment fuels internal demand
- ▶ Measures to increase job quality in order to fight inequality, foster stability & human capital

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



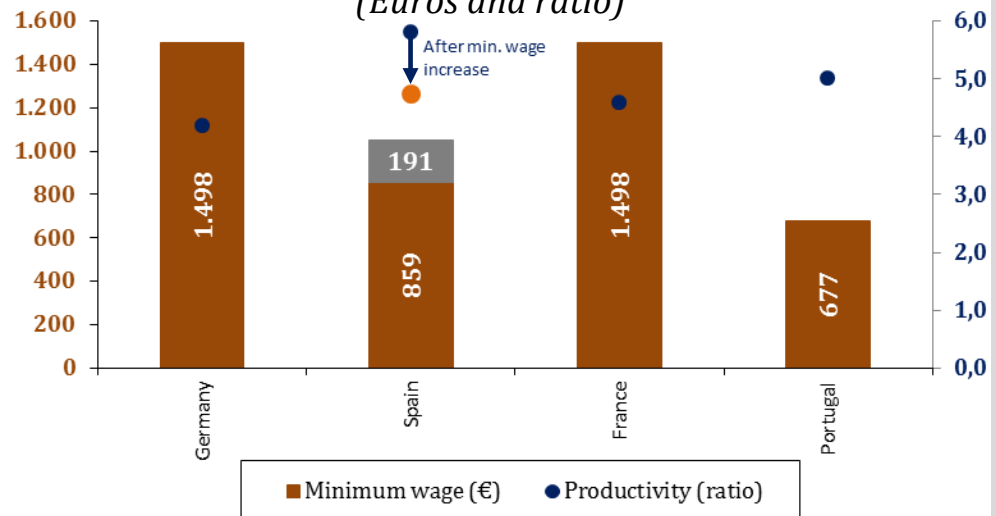
Source: EUROSTAT.

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



Source: Instituto Nacional de Estadística.

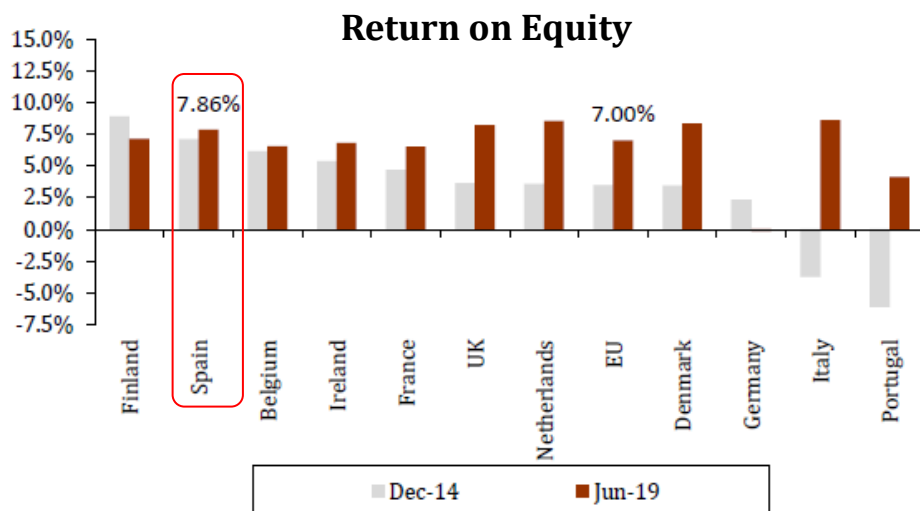
**Minimum Wage & Productivity/Minimum Wage**  
(Euros and ratio)



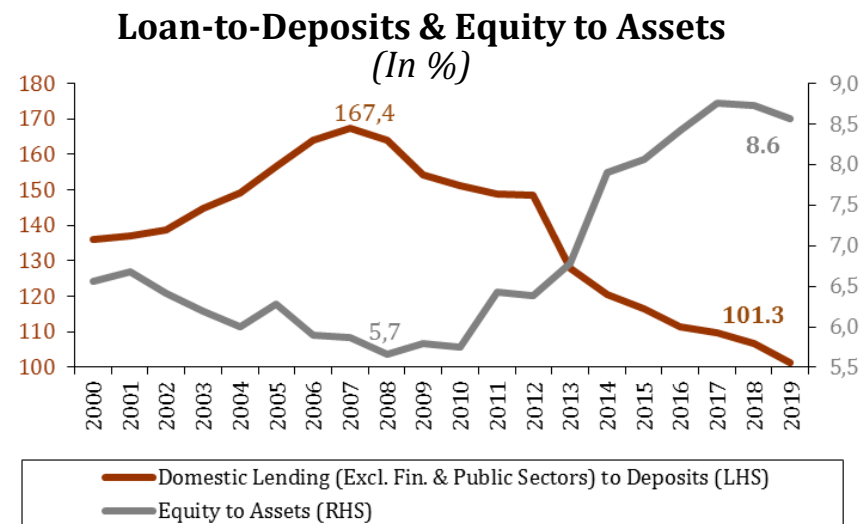
Source: EUROSTAT.

## Banking sector adjustment

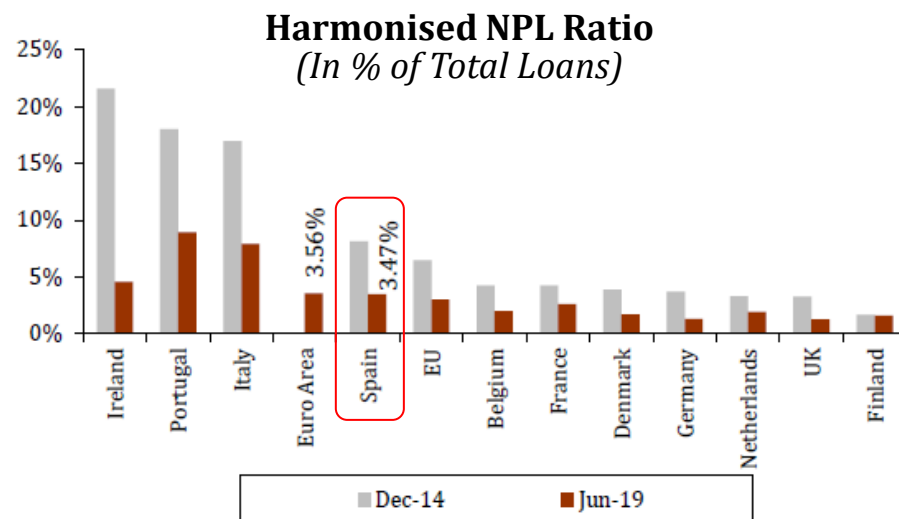
- ▶ Adjustment of the banking sector:
  - ❑ Downsizing & loss recognition
  - ❑ Enhanced capitalisation and profitability
- ▶ Strong improvement in NPLs: harmonised NPL ratio below Euro Area average
- ▶ EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- ▶ Establishment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



Source: EBA. Risk Dashboard Interactive Tool.



Source: Bank of Spain.



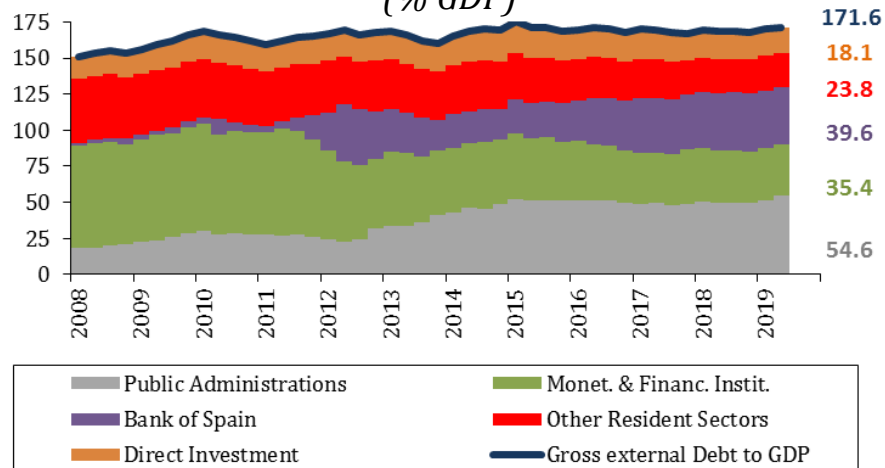
Source: EBA. Risk Dashboard Interactive Tool.



## Deleveraging process

- ▶ Total debt has decreased by 82.7pp of GDP, and private sector debt by 73.3pp 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

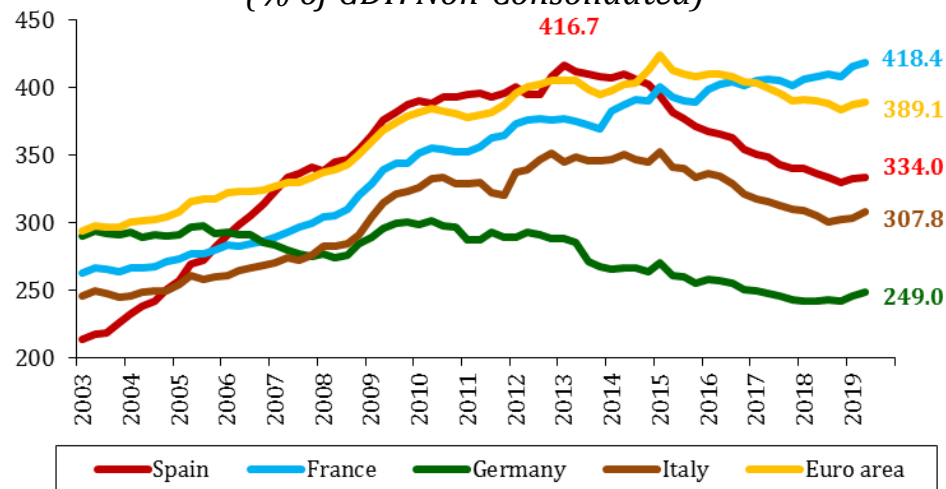
**Gross External Debt. By Debtor Sub-Sector**  
(% GDP)



Source: Bank of Spain.

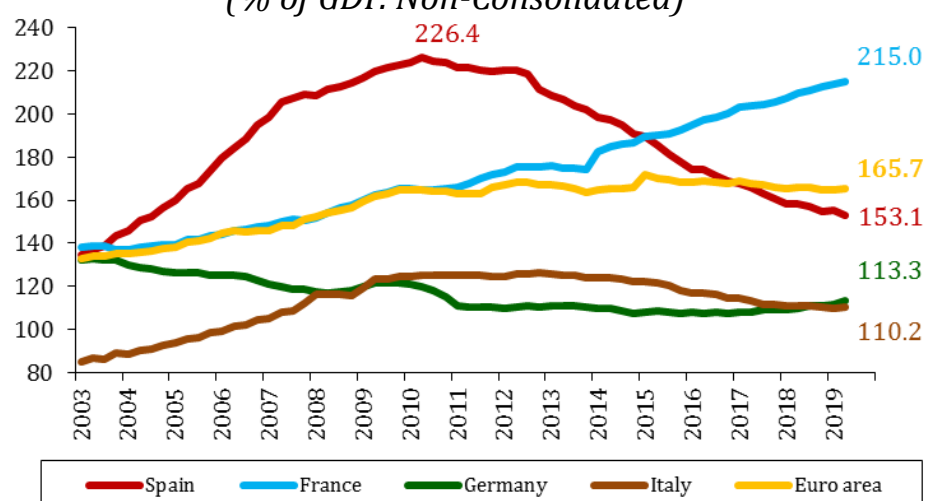
NOTE: The gross external debt position equals total IIP liabilities excluding all equity (equity shares and other equity) and investment fund shares and financial derivatives and employee stock options.

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



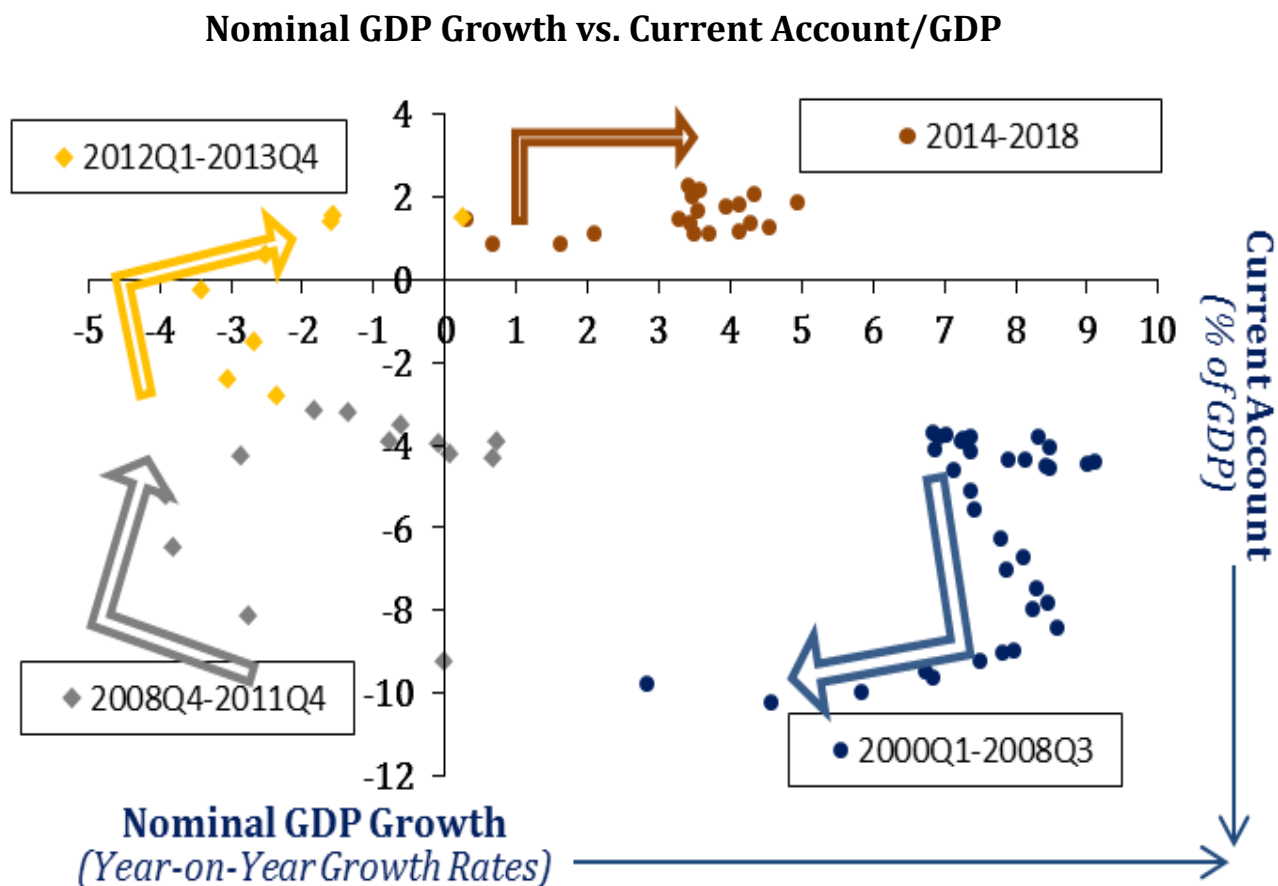
Source: EUROSTAT.

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



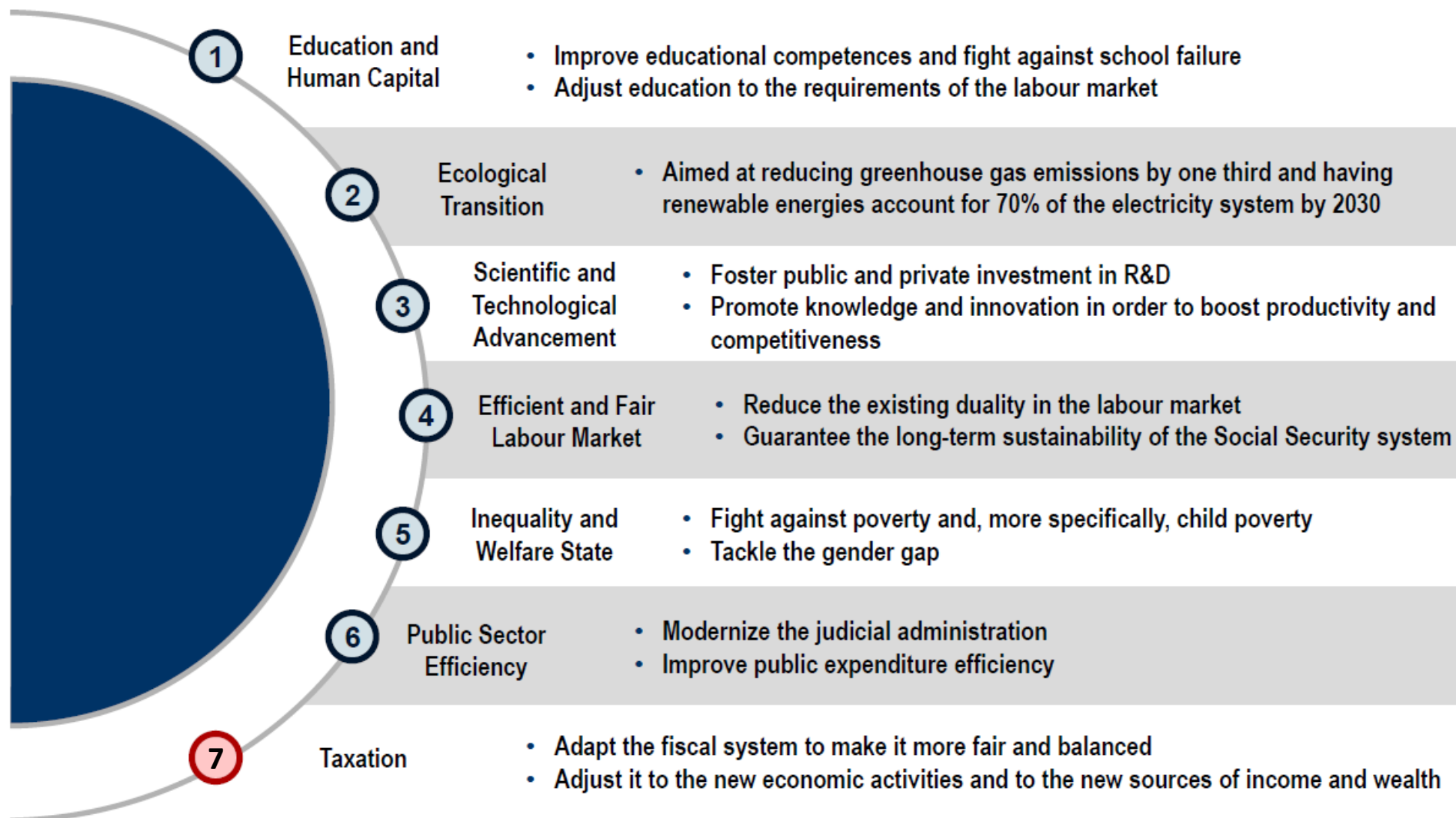
Sources: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.

## 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

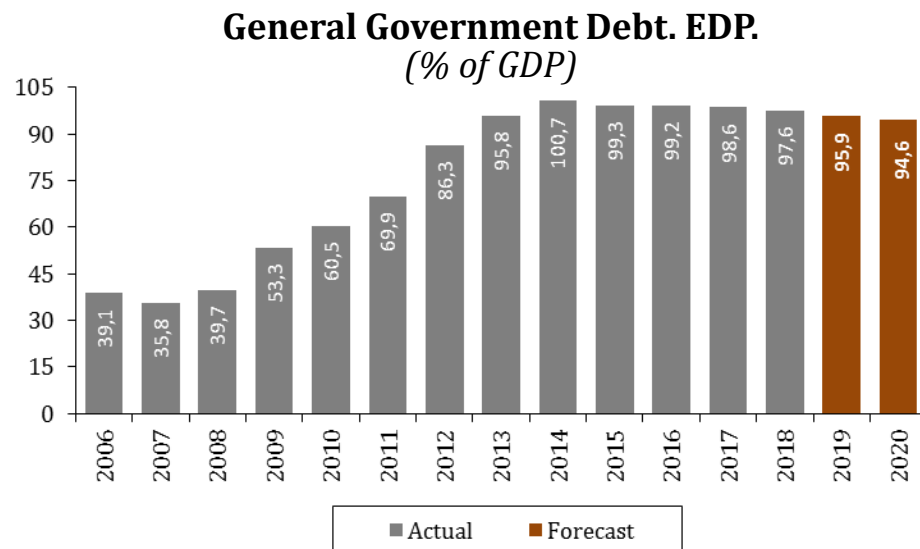


# Fiscal policy framework: 2019-2020 Draft Budgetary Plan

| 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 |

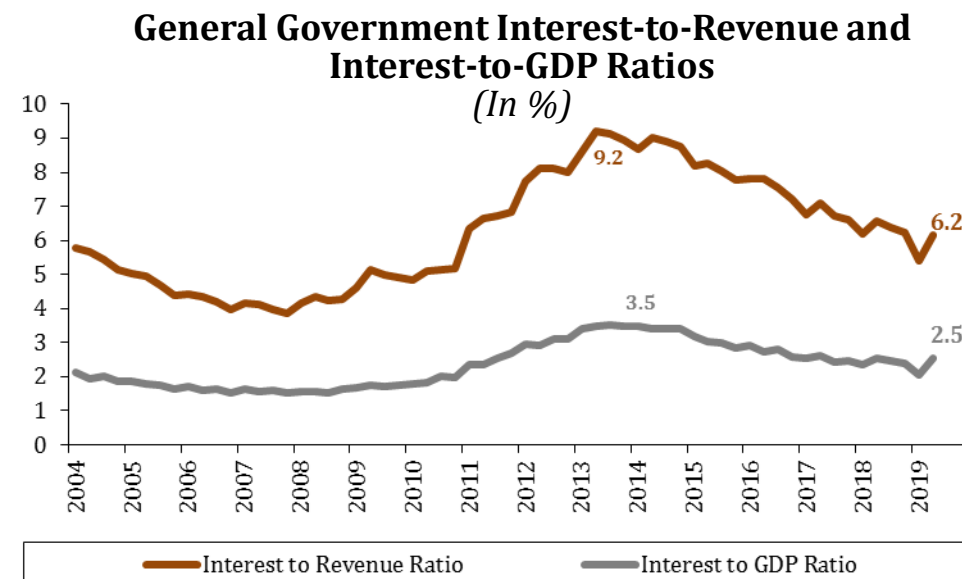
Source: Ministerio de Hacienda.

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.

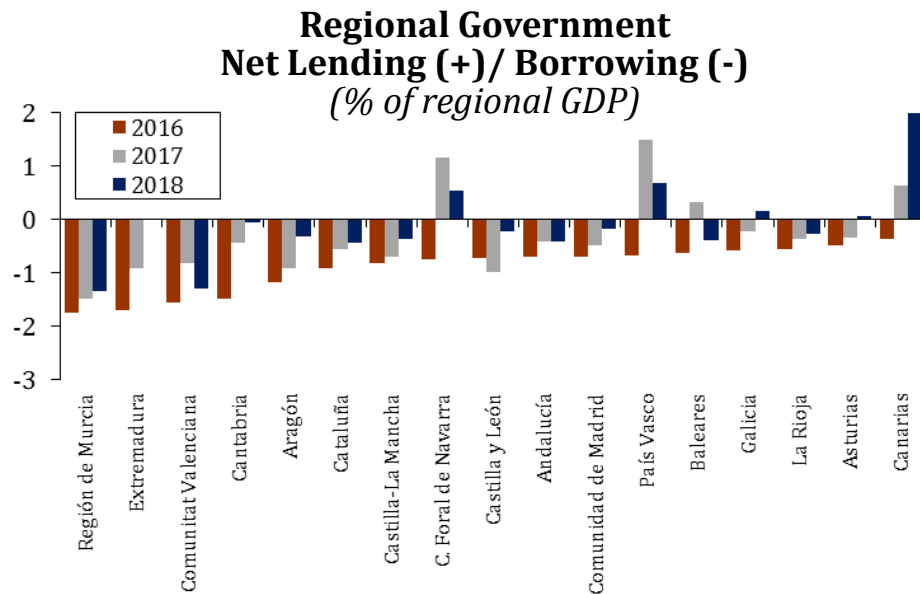


Source: Ministerio de Economía y Empresa.

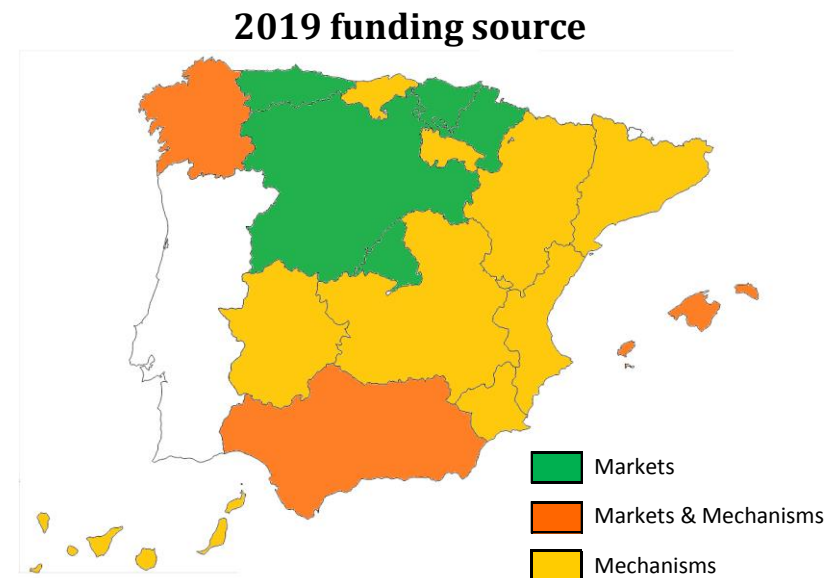
General Government Interests follow a cyclical trend, as they depend on the number of bonds maturing each quarter.

## 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.



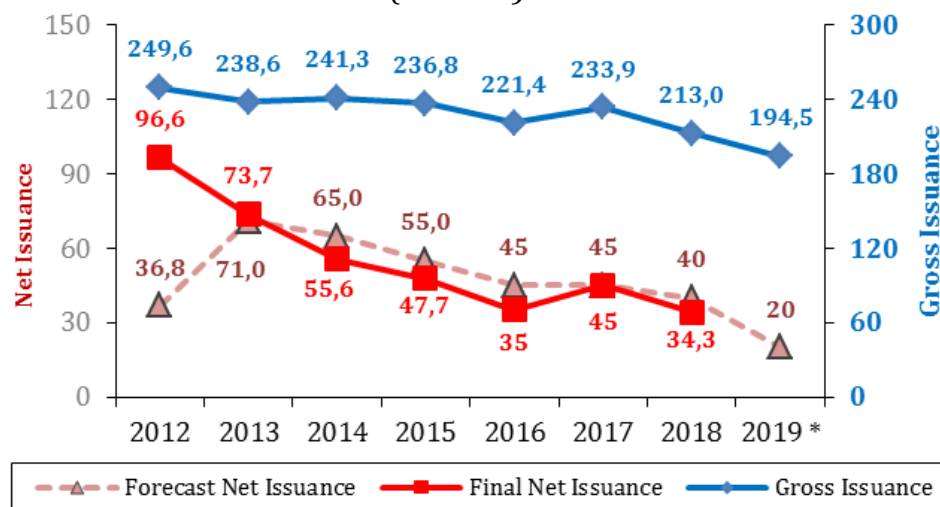
Source: Ministerio de Hacienda.

## 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 31st: €166.0 bn, 86.1% of the funding programme
  - ▶ Medium- and long-term: €102.4 bn (89.4%), and
  - ▶ Short-term (Letras del Tesoro): €63.7 bn (81.2%)

### Funding Programme in 2019

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



Source: Secretaría General del Tesoro y Financiación Internacional.

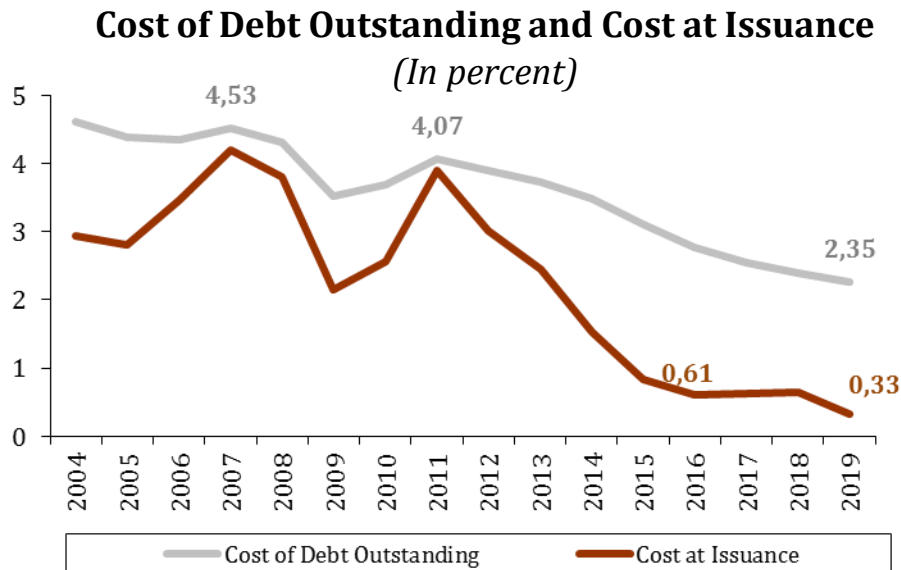
| (In billion euros and in effective terms) | End 2018       | Forecast 2019  |
|---|----------------|----------------|
| <b>Total Net Issuance</b>                 | <b>34.277</b>  | <b>20.000</b>  |
| <b>Total Gross Issuance</b>               | <b>212.964</b> | <b>194.525</b> |
| <b>Medium- and Long-term</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.

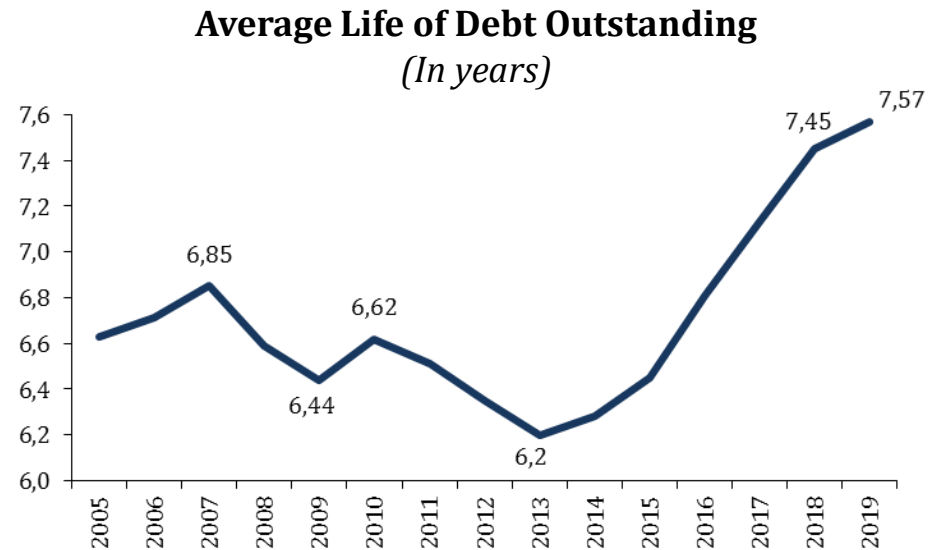
## Cost and life of debt: a longer portfolio at historically low rates

- ▶ 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 7.57 years



Source: Secretaría General del Tesoro y Financiación Internacional.

\*As of 11/11/2019

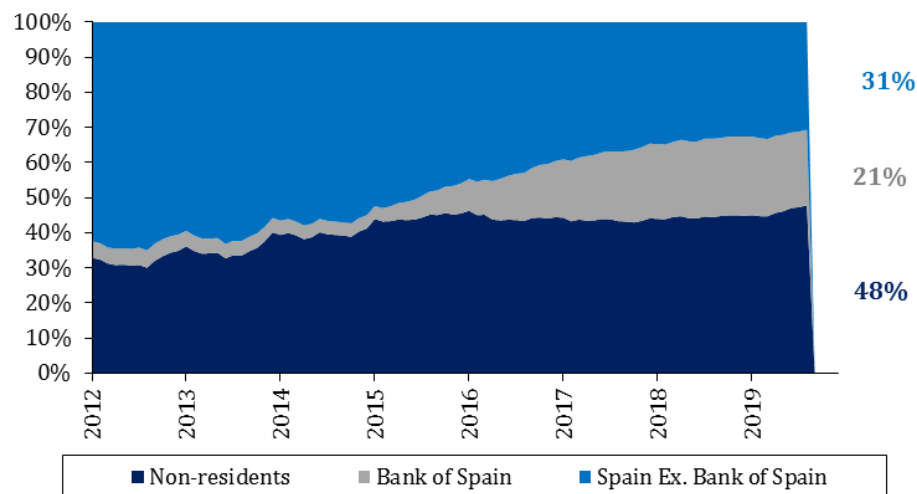


Source: Secretaría General del Tesoro y Financiación Internacional.

## Recent trends in investor base

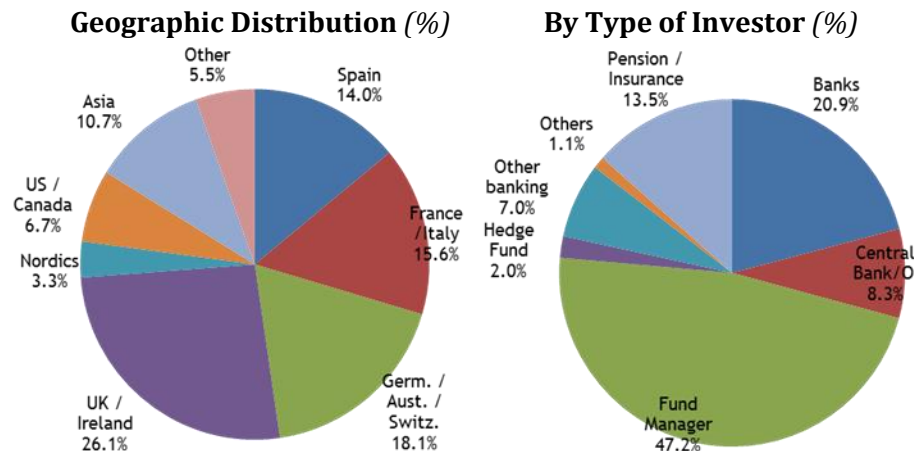
- ▶ Bank of Spain PSPP holdings at 21.5%
- ▶ Spanish banks have reduced absolute and relative holdings of Spanish bonds, and now represent 15.2% of total holdings
- ▶ Non-residents up to 47.8% of total holdings, with new regions, notably Asia, stepping in

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

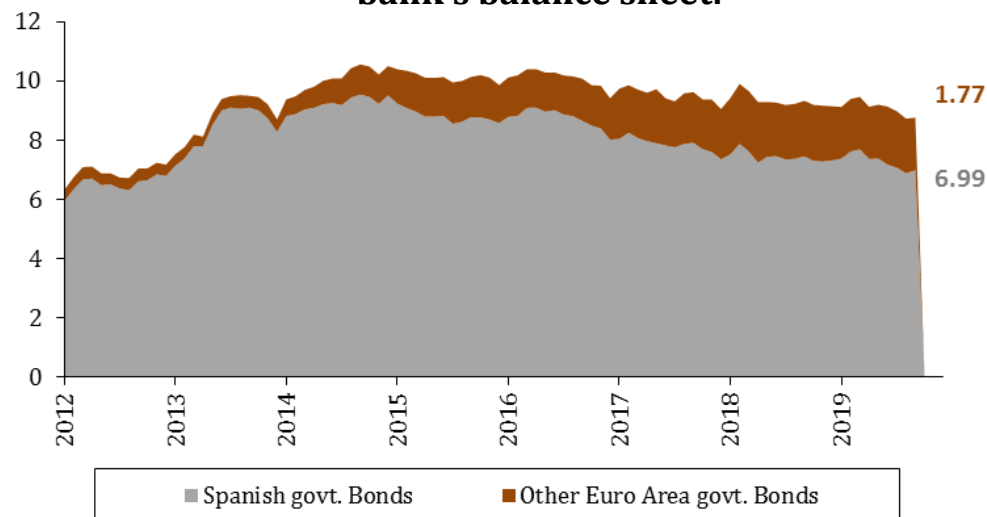


Source: Bank of Spain.  
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

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



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

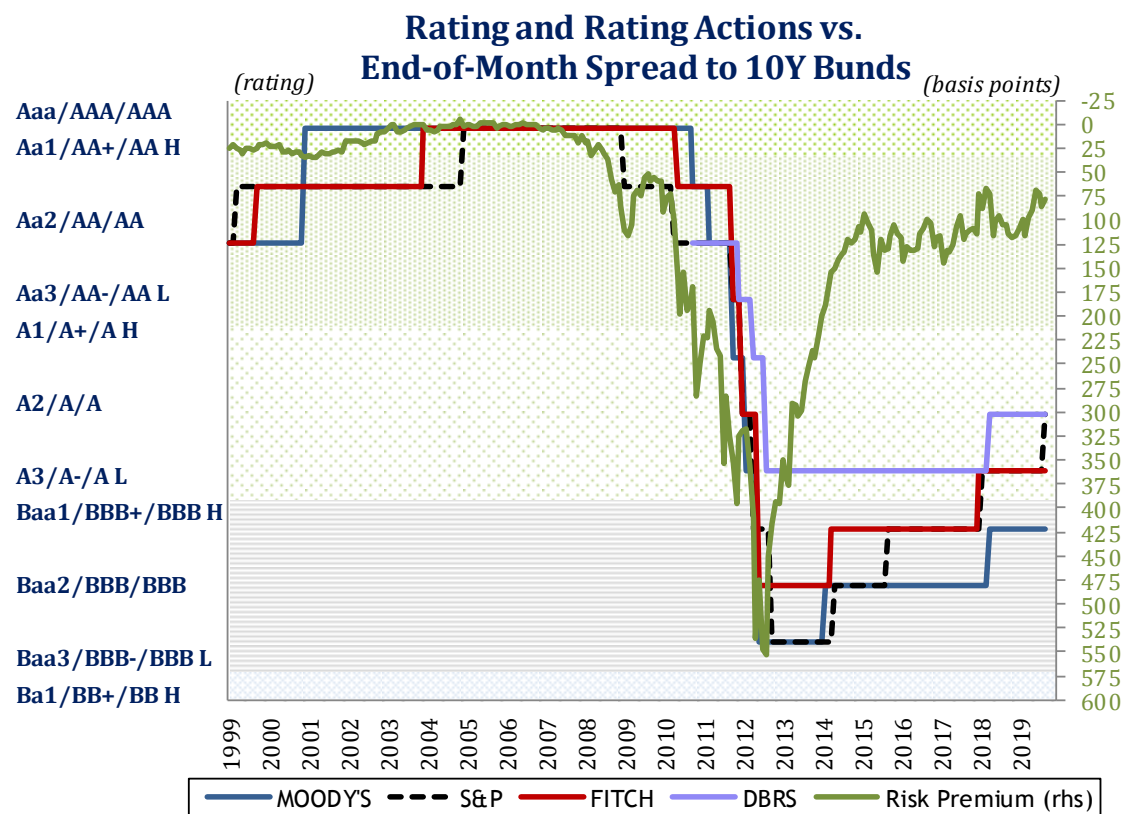


Source: ECB.



# 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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