Recent Developments in the Spanish Economy, Policy & Funding

November 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 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)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</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>1.5</td>
<td>1.2</td>
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<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>2.5</td>
<td>1.5</td>
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<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>2.0</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>1.8</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>
<td>2.3</td>
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<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>
<td>2.0</td>
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<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>2.0</td>
<td>1.8</td>
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### Other variables

<table>
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<tr>
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<th>2016</th>
<th>2017</th>
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<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>2020</th>
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</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>13.9</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>1.8</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>--</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>1.0</td>
<td>1.6</td>
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<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>-256</td>
<td>-283</td>
<td>--</td>
<td>-1.7</td>
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<tr>
<td>USD/E€ 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>1.11</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>1.1</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>62.2</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)*

- World: 3.0%
- United States: 2.4%
- Spain: 2.2%
- Advanced economies: 1.7%
- France: 1.2%
- United Kingdom: 1.2%
- Euro area: 1.2%
- Japan: 0.9%
- Germany: 0.5%
- Italy: 0.0%

Source: IMF, WEO October 2019.

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

- 1999: 102.8
- 2000: 122.5
- 2001: 125.1
- 2002: 129.7

Source: EUROSTAT.

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

Source: Instituto Nacional de Estadística.

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

- EU: 59%
- France: 52%
- Germany: 79%
- Greece: 42%
- Hungary: 71%
- Italy: 68%
- Poland: 71%
- Portugal: 69%

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)**

**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)*

**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.

![Graph of Loan-to-Deposits & Equity to Assets](image)

![Graph of Return on Equity](image)

![Graph of Harmonised NPL Ratio](image)

Source: Bank of Spain.
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.

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

Source: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.
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
Fiscal policy framework: 2019-2020 Draft Budgetary Plan

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

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<thead>
<tr>
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<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>
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<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>
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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>
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</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)

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

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 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.*

**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 €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*

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Issuance</th>
<th>Gross Issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>249.6</td>
<td>194.5</td>
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<tr>
<td>2013</td>
<td>238.6</td>
<td>180.7</td>
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<tr>
<td>2014</td>
<td>241.3</td>
<td>166.0</td>
</tr>
<tr>
<td>2015</td>
<td>236.8</td>
<td>151.4</td>
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<td>2016</td>
<td>221.4</td>
<td>136.8</td>
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<td>2017</td>
<td>233.9</td>
<td>122.2</td>
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<td>2018</td>
<td>213.0</td>
<td>107.4</td>
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<tr>
<td>2019</td>
<td>194.5</td>
<td>92.7</td>
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**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>
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<tr>
<td>Total Gross Issuance</td>
<td>212.964</td>
<td>194.525</td>
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<table>
<thead>
<tr>
<th>Medium- and Long-term</th>
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<tbody>
<tr>
<td>Gross Issuance</td>
<td>131.979</td>
<td>114.433</td>
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<tr>
<td>Amortisation</td>
<td>89.310</td>
<td>91.933</td>
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<tr>
<td>Net Issuance</td>
<td>42.669</td>
<td>22.500</td>
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<table>
<thead>
<tr>
<th>Letras del Tesoro</th>
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</thead>
<tbody>
<tr>
<td>Gross Issuance</td>
<td>80.984</td>
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<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 7.57 years

![Cost of Debt Outstanding and Cost at Issuance](chart1)

![Average Life of Debt Outstanding](chart2)

*Source: Secretaría General del Tesoro y Financiación Internacional.*

*As of 11/11/2019*
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.

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.
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.
Thank you for your attention

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