

# Recent Developments in the Spanish Economy, Policy & Funding

December 2019

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## Highlights

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- ▶ The Spanish economy will maintain a robust growth, well above its peers: GDP is expected to expand by 2.1% in 2019 and by 1.8% in 2020
- ▶ Increased competitiveness leads to a more balanced growth: both internal and external demand are now engines of GDP growth
- ▶ Continued national deleveraging: total leverage in Spain is now at 334% of GDP, well below the Euro area average of 389% and almost 83pp of GDP below its 2013 level
- ▶ Fiscal consolidation a core aim of the Government:
  - ❑ General Government deficit target of 2% of GDP for 2019
  - ❑ Debt-to-GDP ratio of around 96% by end 2019, which implies a reduction of ca 1.5pp, more than envisaged in the Stability Programme. In 2017-2020 Debt-to-GDP ratio will fall by 4.0pp, against a reduction of 2.1pp in 2014-2017
  - ❑ Strong pro-European sentiment underpins adjustment resolve
- ▶ Gradual widening, deepening, improvement of Spain's investor base

# Macroeconomic scenario 2019-2020

Macroeconomic scenario (YoY growth rates in percent)								
	2016	2017	2018	2019	2020			2020
					Q1	Q2	Q3	
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	2020			2020
					Q1	Q2	Q3	
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	1.2	1.2
Oil prices (Brent, USD/barrel)	43.3	54.3	70.9	64.3	63.1	69.7	62.2	60.2

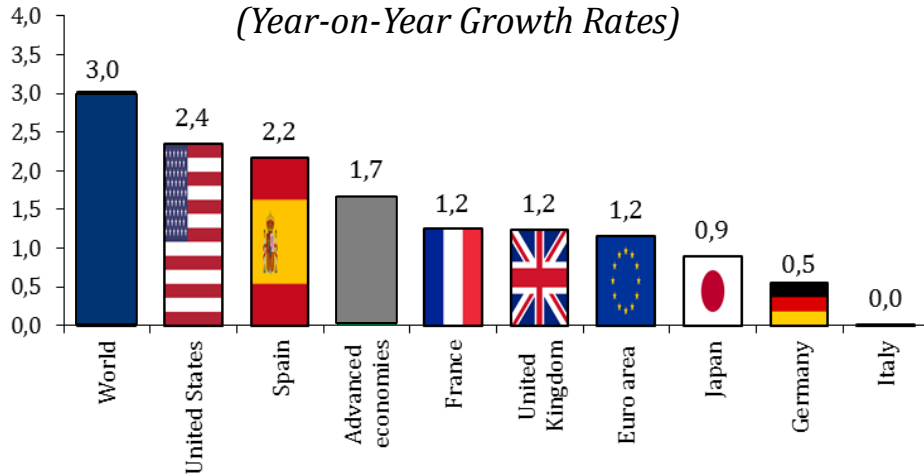
\* Including Financial Sector One-Offs

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.

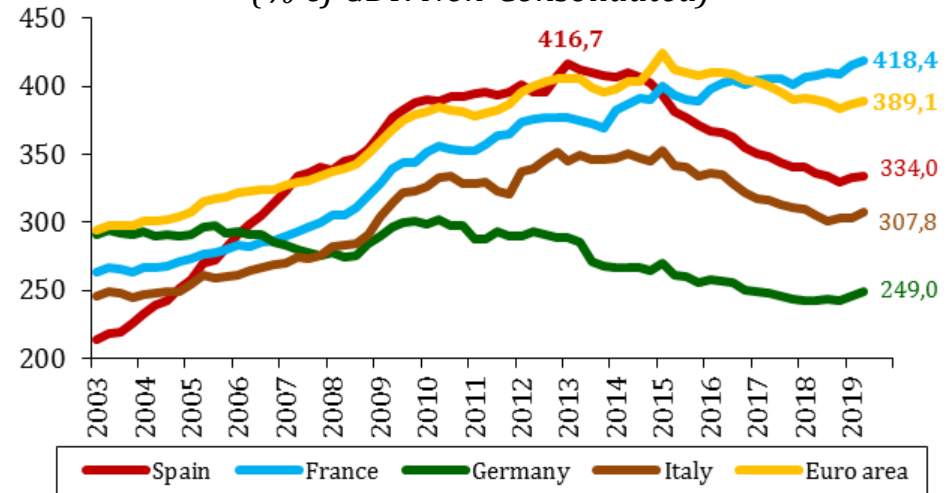
# Solid growth prospects coupled with continued deleveraging

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



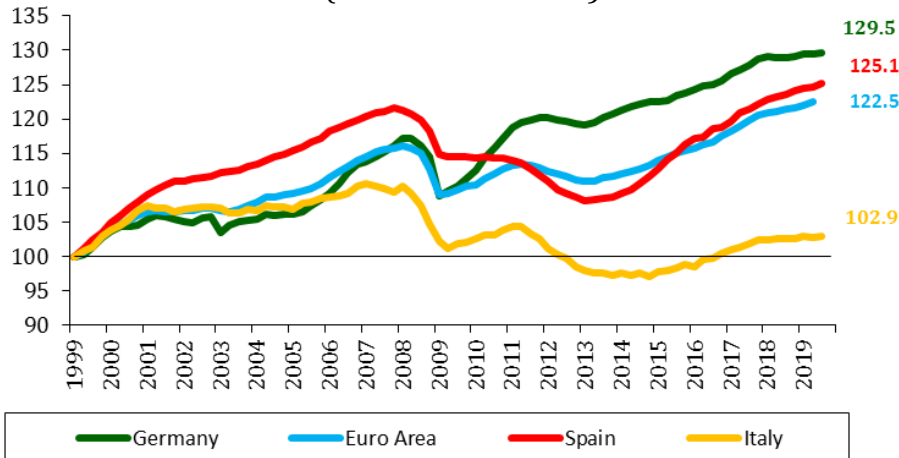
Source: IMF. WEO October 2019.

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



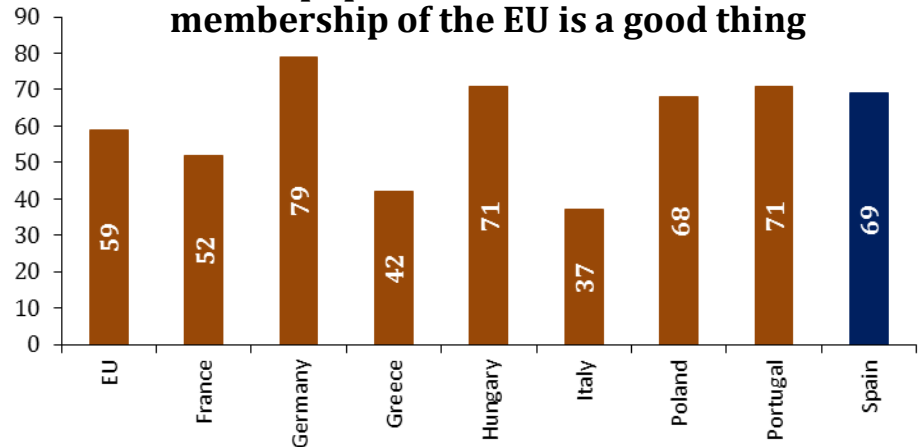
Source: EUROSTAT.

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



Source: EUROSTAT.

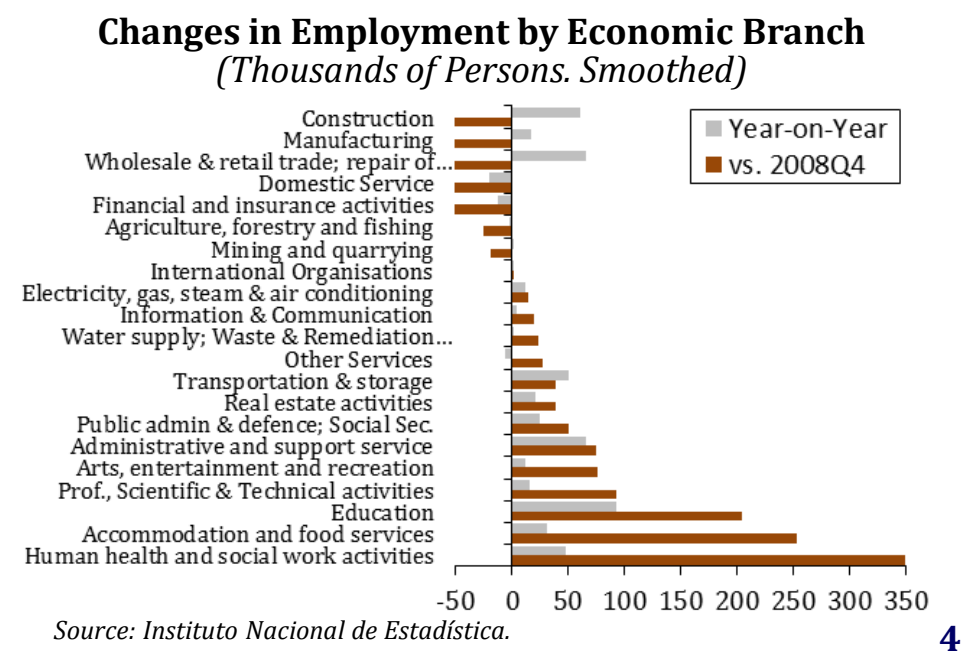
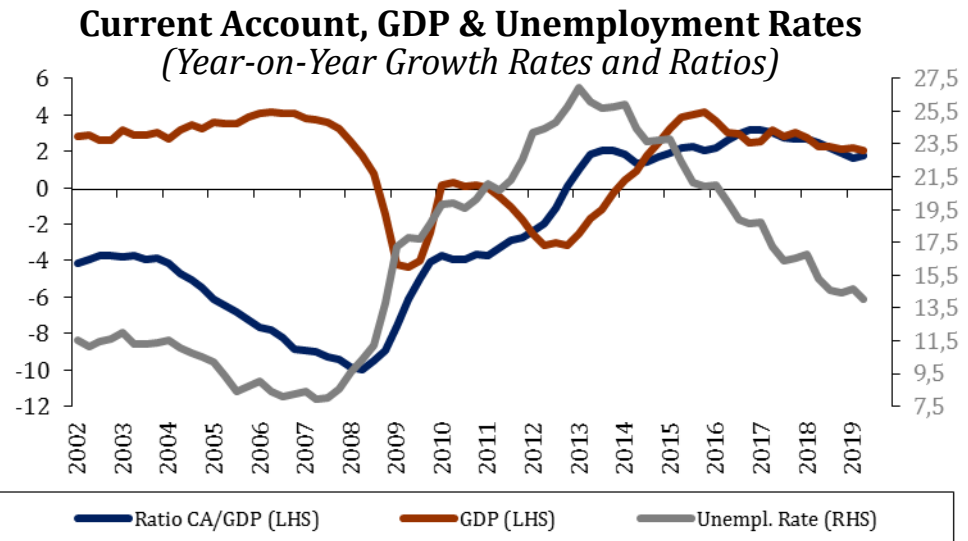
**% of population that thinks that membership of the EU is a good thing**



Source: EUROSTAT, October 2019.

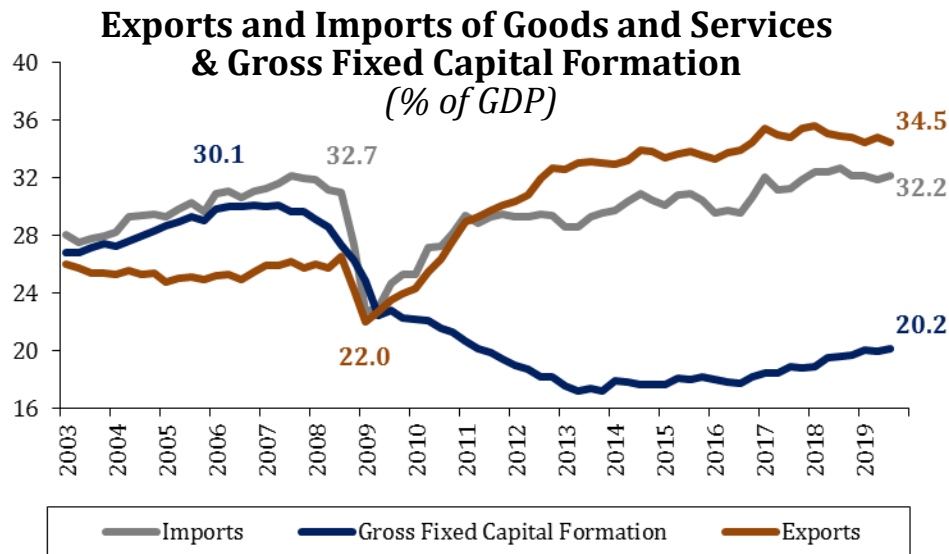
## More balanced growth pattern

- ▶ Two engines of growth & better diversified productive sector
- ▶ Current account surplus since 2013
- ▶ Good behavior of exports in the context of trade tensions

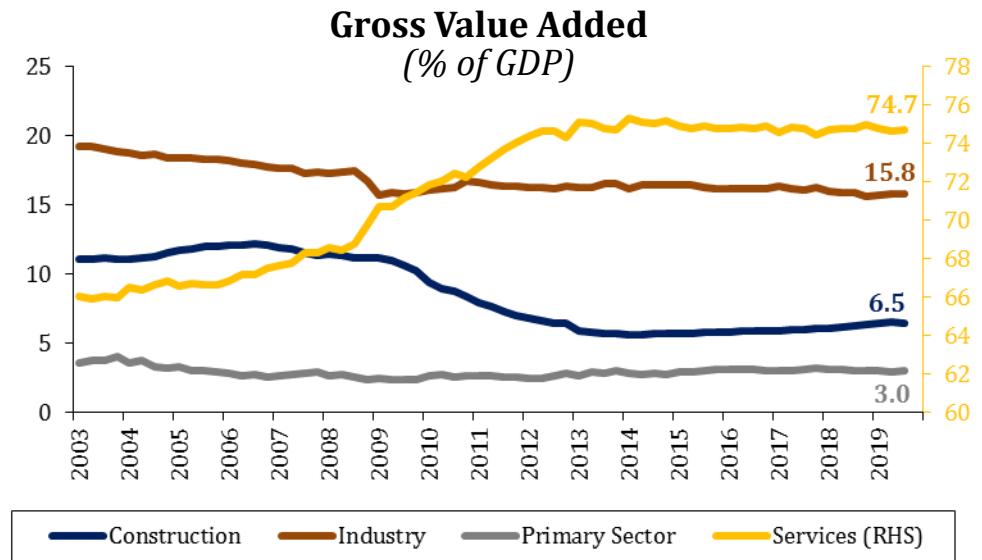


# Rebalancing of the productive sector results in a more resilient economy

- ▶ Reduced weight of construction sector and higher weight of services sector, which is showing more resilient than manufacturing
- ▶ Economic sentiment indicator above Euro area and historical average
- ▶ Strong investment growth converging to Euro Area average



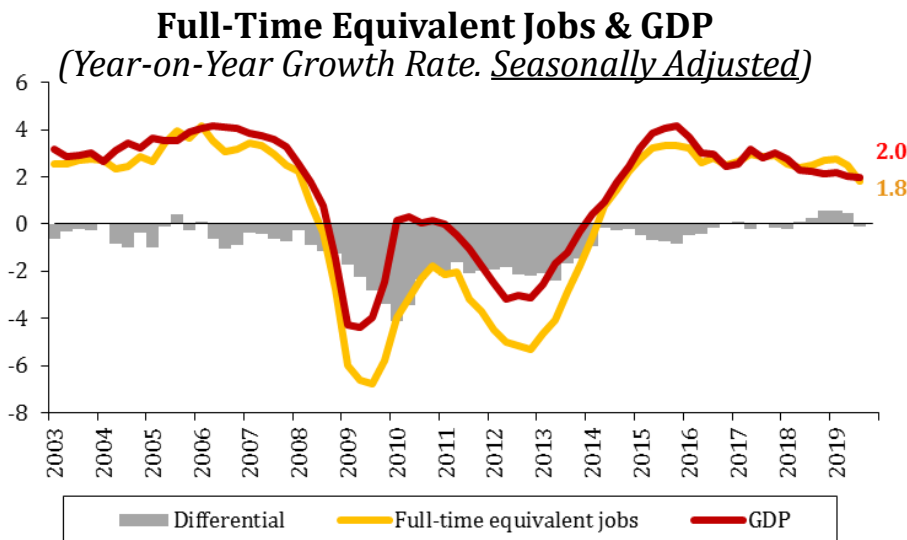
Source: Instituto Nacional de Estadística.



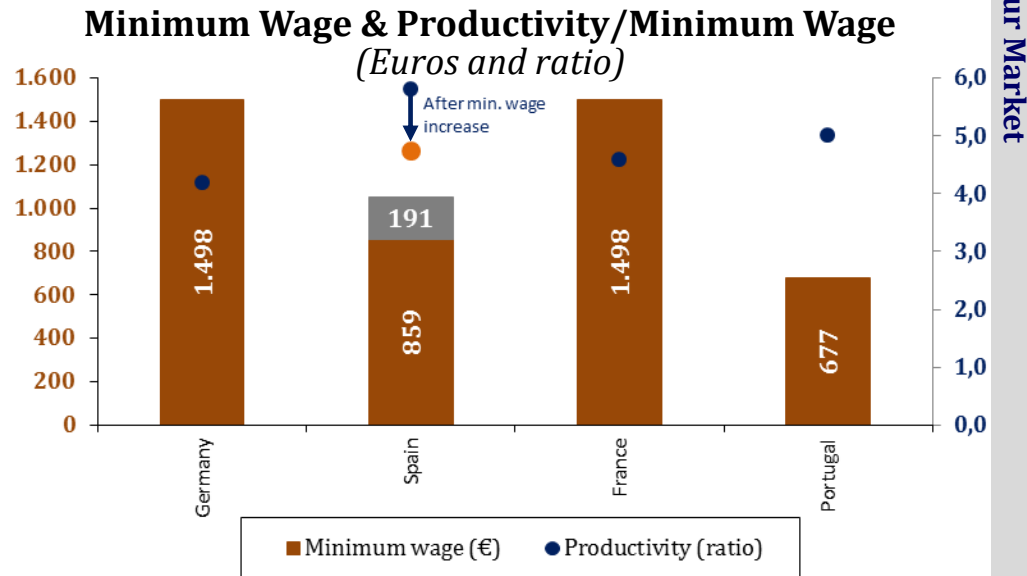
Source: Instituto Nacional de Estadística.

## Focus on job creation, but also on job quality

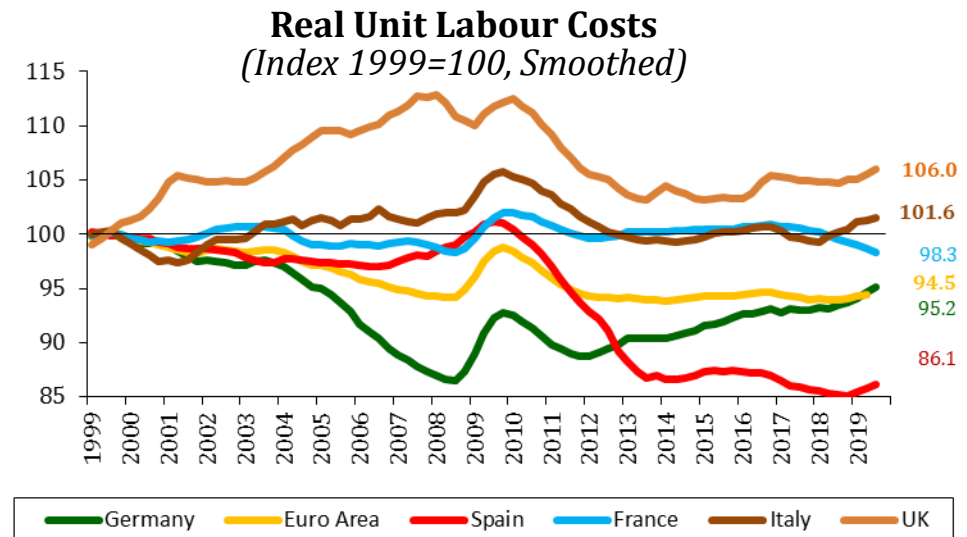
- ▶ Minimum wage competitive with regards to our peers despite recent increase
- ▶ Less growth needed to generate employment: in fact, employment has been growing above GDP for five quarters
- ▶ Outstanding internal devaluation from 2010 onwards



Source: Instituto Nacional de Estadística.



Source: EUROSTAT.



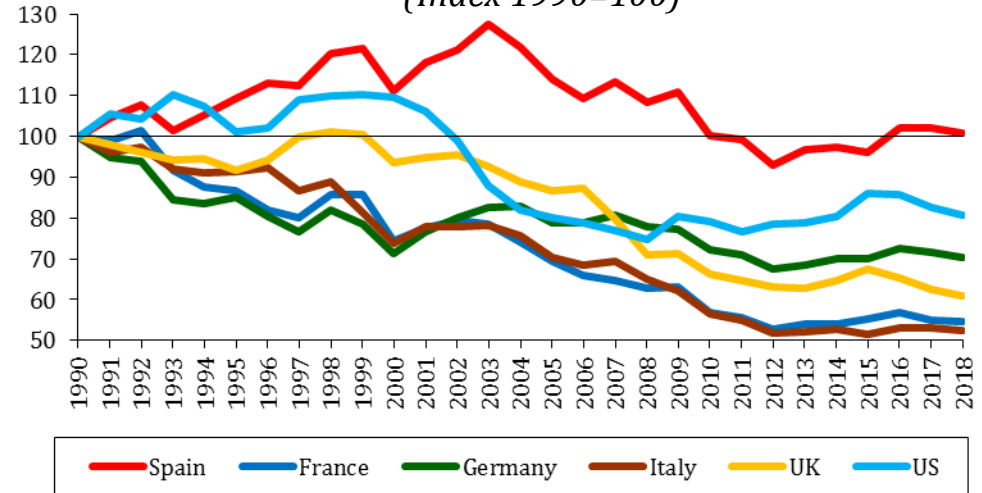
Source: EUROSTAT.



# Improved competitiveness relevant for an increasingly open economy

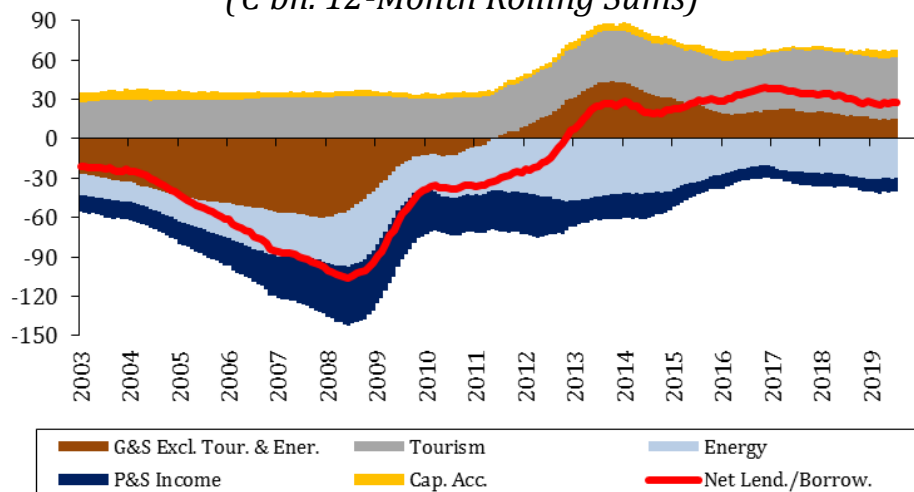
- ▶ Spain's share of the world total exports has remained steady since 1990, despite the irruption of the developing economies
- ▶ Balance of payments' goods & services balance in surplus since 2012
- ▶ Spain's degree of openness has increased by +10pp since the crisis

**World Export Shares**  
(Index 1990=100)



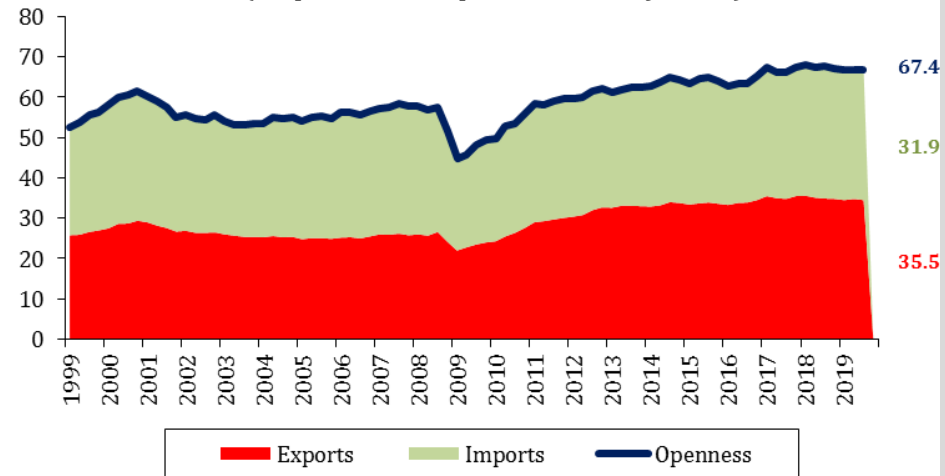
Source: World Bank.

**Breakdown of the Current Account & Capital Account**  
(€ bn. 12-Month Rolling Sums)



Source: Instituto Nacional de Estadística and Bank of Spain.

**Degree of Openness**  
(Exports & Imports as % of GDP)

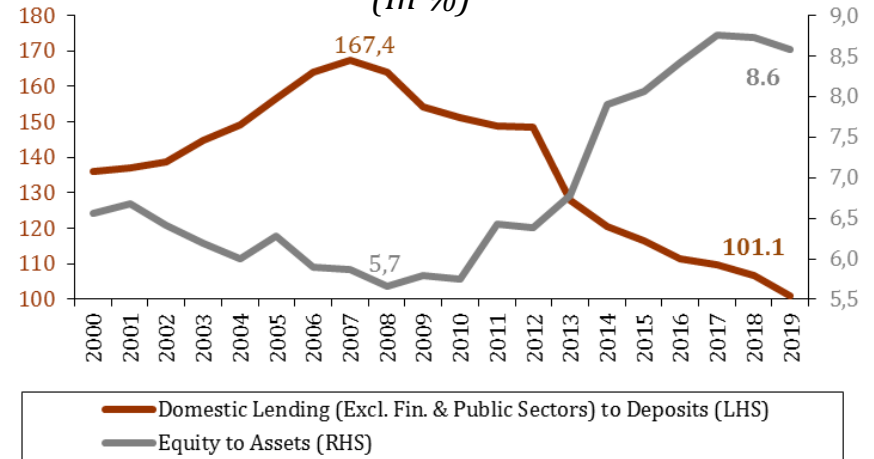


Source: EUROSTAT.

# Banking sector adjustment

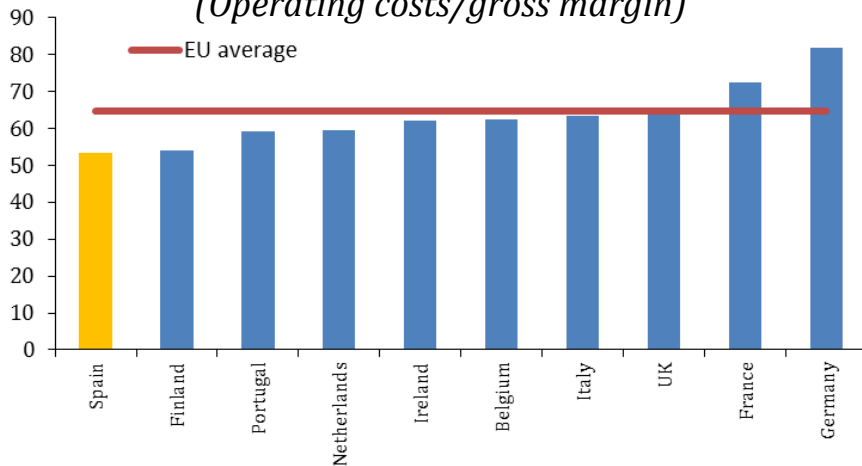
- ▶ Adjustment of the banking sector:
  - ☐ Downsizing & loss recognition
  - ☐ Enhanced capitalisation and profitability
- ▶ Strong improvement in NPLs: harmonised NPL ratio below Euro Area average
- ▶ EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- ▶ Establishment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

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



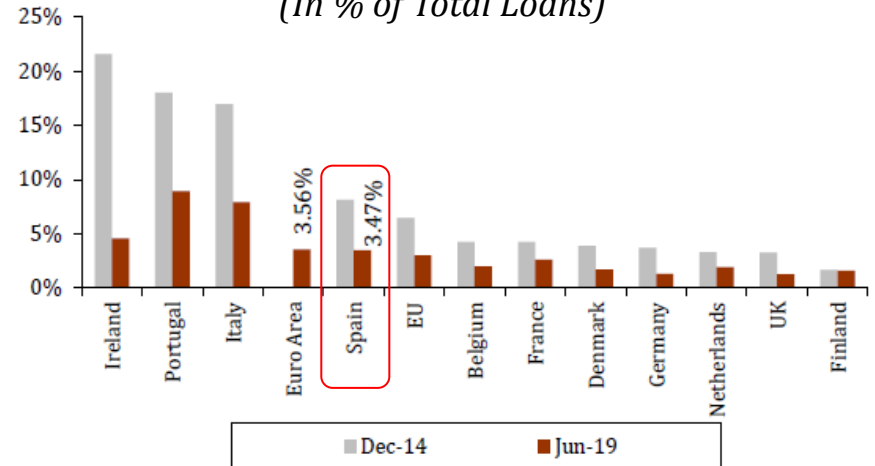
Source: Bank of Spain.

**Efficiency ratio**  
(Operating costs/gross margin)



Source: EBA. Risk Dashboard Interactive Tool.

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

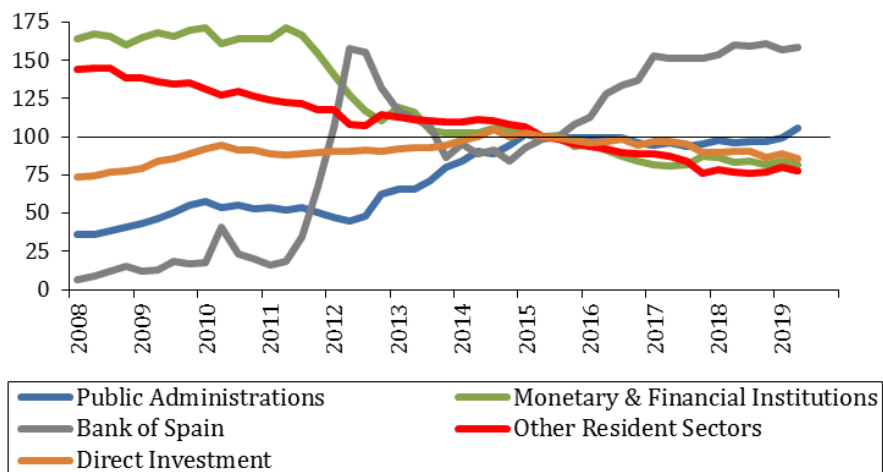


Source: EBA. Risk Dashboard Interactive Tool.

## Continued national deleveraging

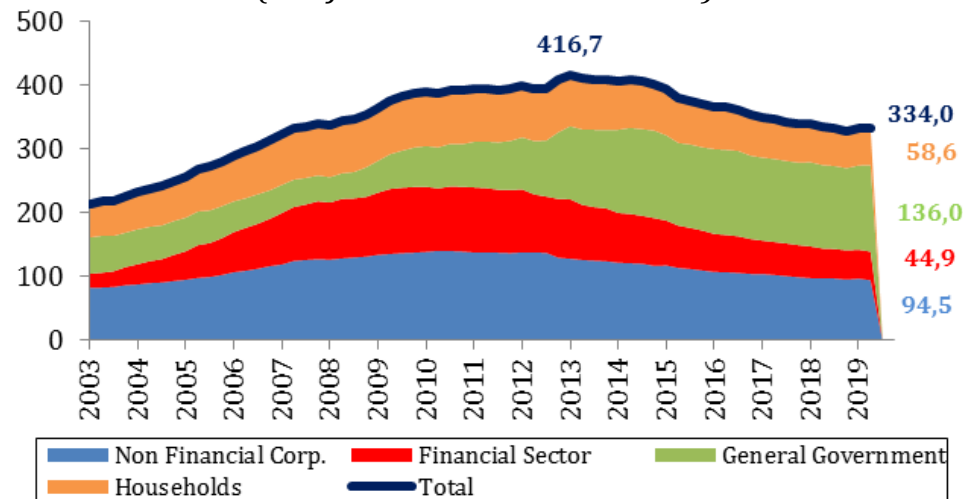
- ▶ Total debt has decreased by +20%, and is now more than 40pp of GDP below the Euro area average
- ▶ Bank of Spain the only source of added “leverage”: a consequence of monetary policy
- ▶ Deleveraging, coupled with the reduction in funding costs, is allowing to devote more resources to productive activities

**Gross External Debt by Debtor Sub-Sector**  
(Index. 2015=100)



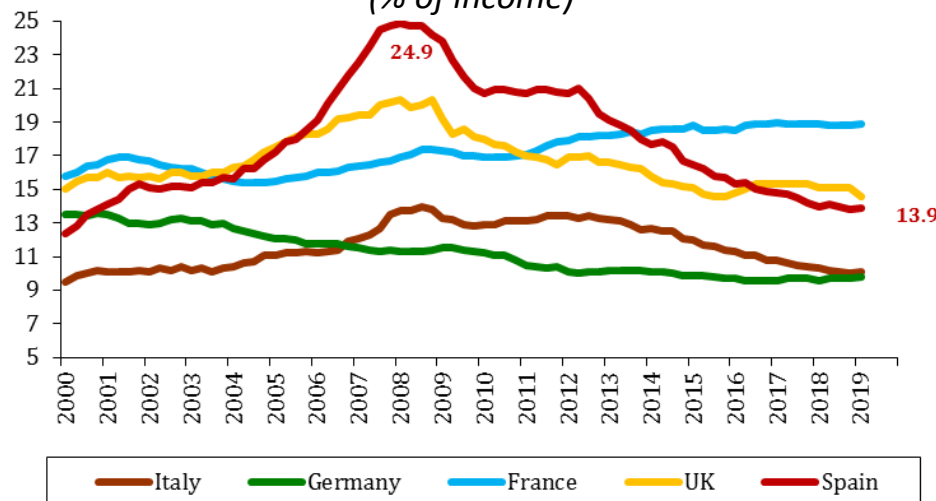
Source: Bank of Spain.

**Total Economy Debt Dynamics by Debtor Sub-Sector**  
(% of GDP. Non-Consolidated)



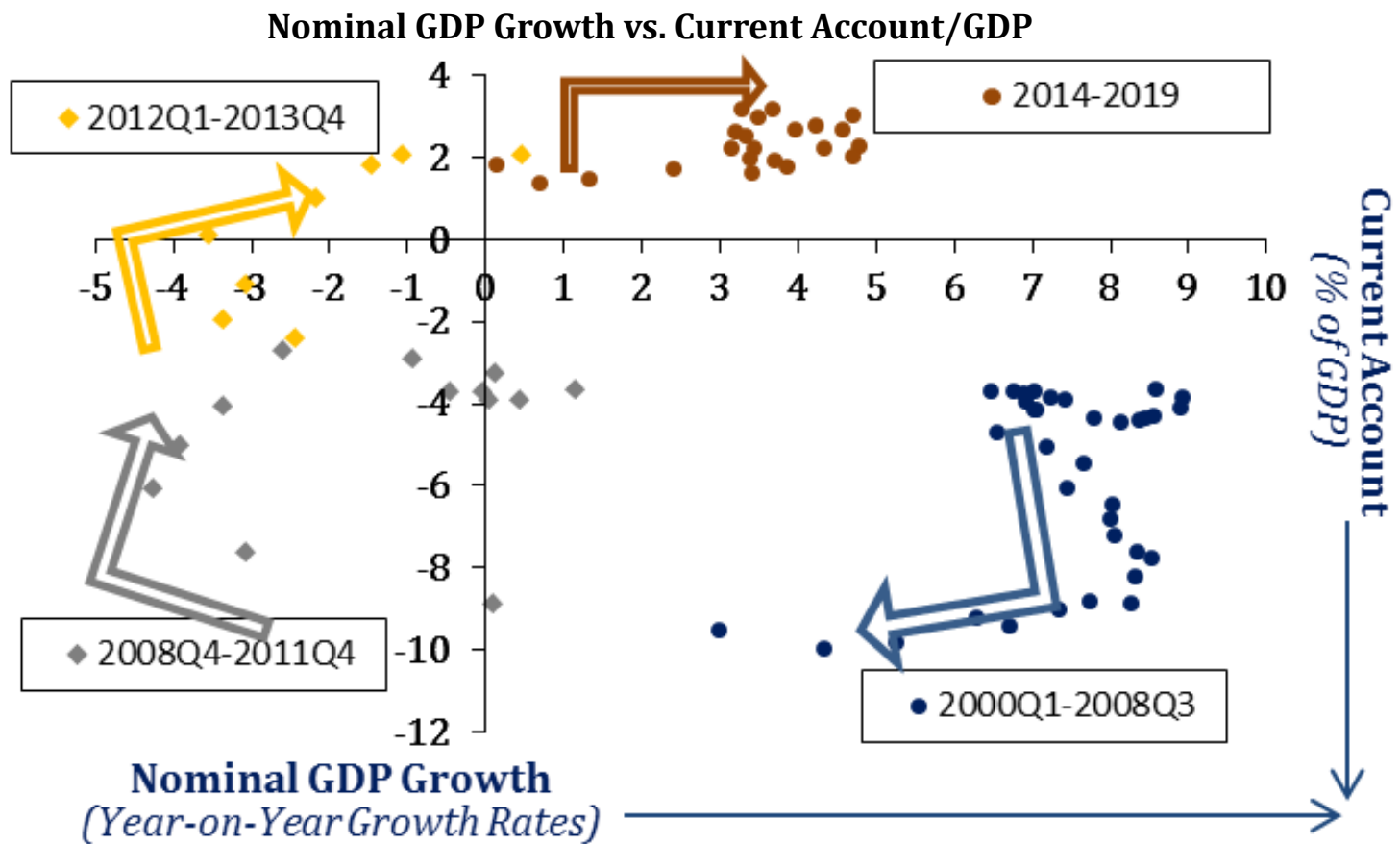
Sources: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.

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



Sources: BIS.

# Result: persistent and more balanced growth with current account surplus



Source: Instituto Nacional de Estadística and Bank of Spain.

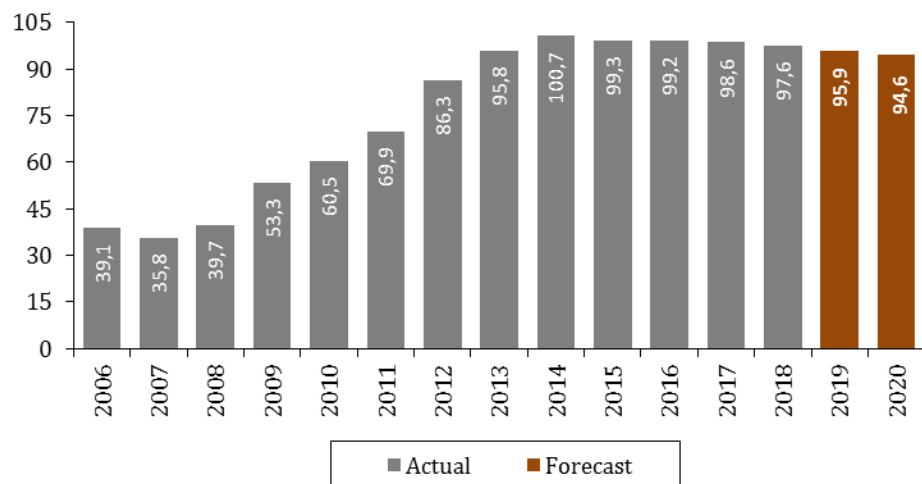
# Fiscal policy framework: 2019-2020 Draft Budgetary Plan

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	
<b>General Government</b>	<b>-10,74</b>	<b>-7,04</b>	<b>-5,92</b>	<b>-5,18</b>	<b>-4,31</b>	<b>-3,02</b>	<b>-2,54</b>	<b>-2,0</b>	<b>-1,7</b>

Source: Ministerio de Hacienda.

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

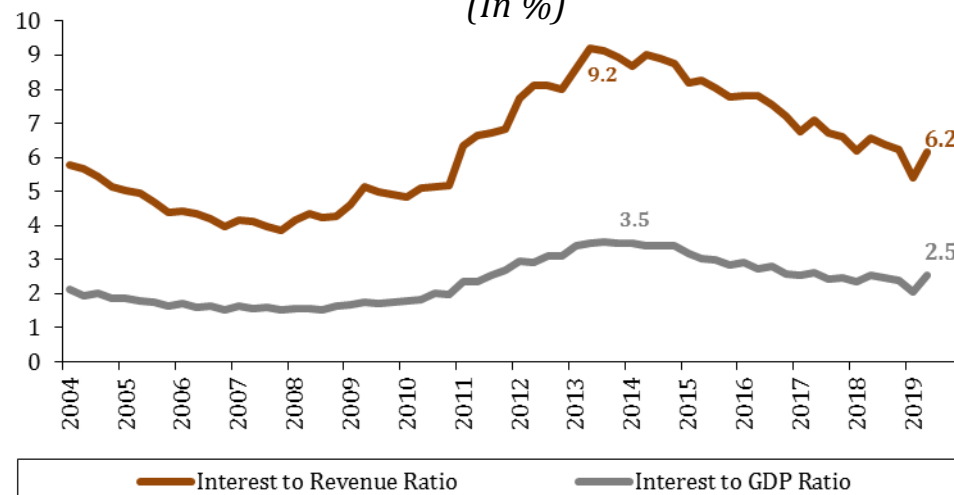
### General Government Debt. EDP (% of GDP)



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 %)



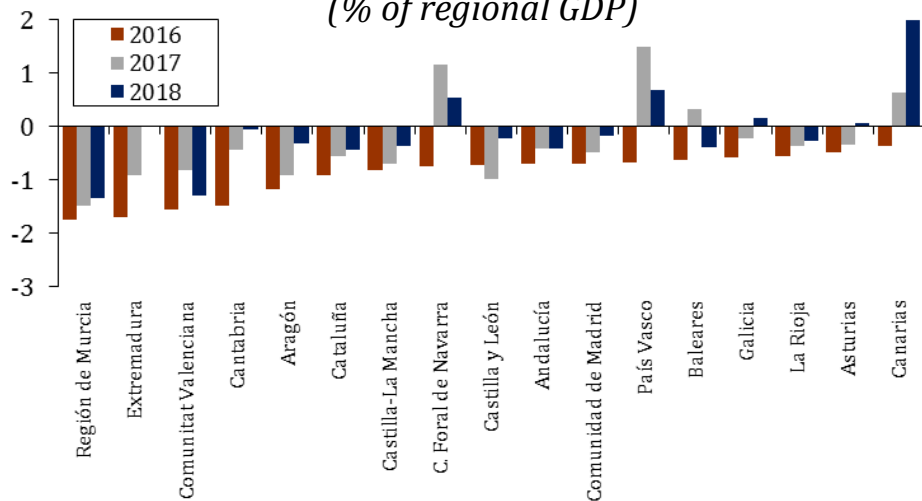
Source: Ministerio de Economía y Empresa.

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

# Fiscal policy framework: Regional Finances

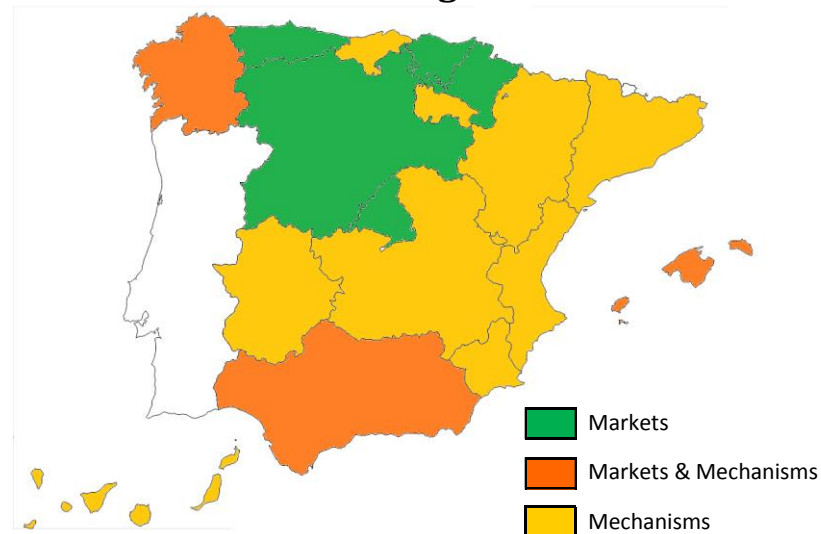
- ▶ Continued fiscal consolidation of the regions leading to the gradual and conditional recovery of their financial autonomy
- ▶ Several regions already funding themselves fully in the markets
- ▶ Backstop mechanisms will be kept in place under certain conditions

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



Source: Ministerio de Hacienda.

**2019 funding source**

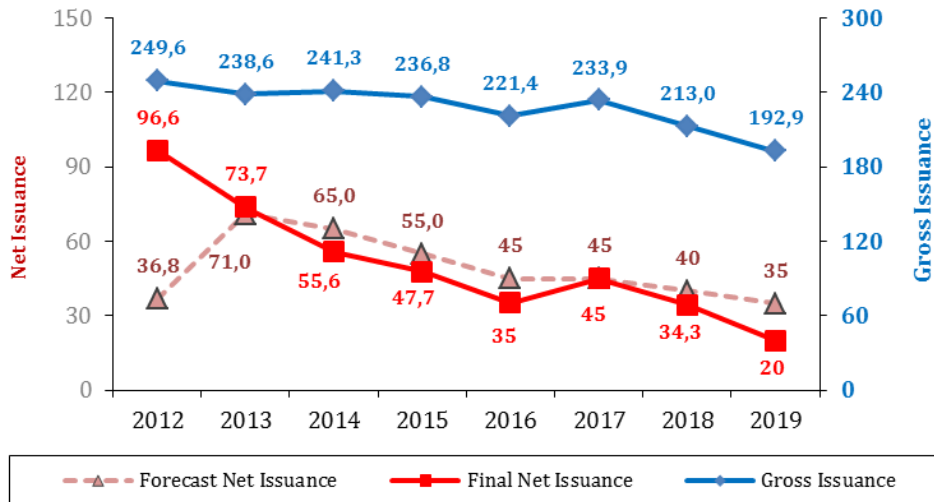


Source: Ministerio de Hacienda.

# 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
- ▶ Year-end issuance: €192.8 bn, 100% of the funding programme
- ▶ Medium- and long-term: €114.0 bn (100%), and
- ▶ Short-term (Letras del Tesoro): €78.8 bn (100%)

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



Source: Secretaría General del Tesoro y Financiación Internacional.

**Funding Programme in 2019**

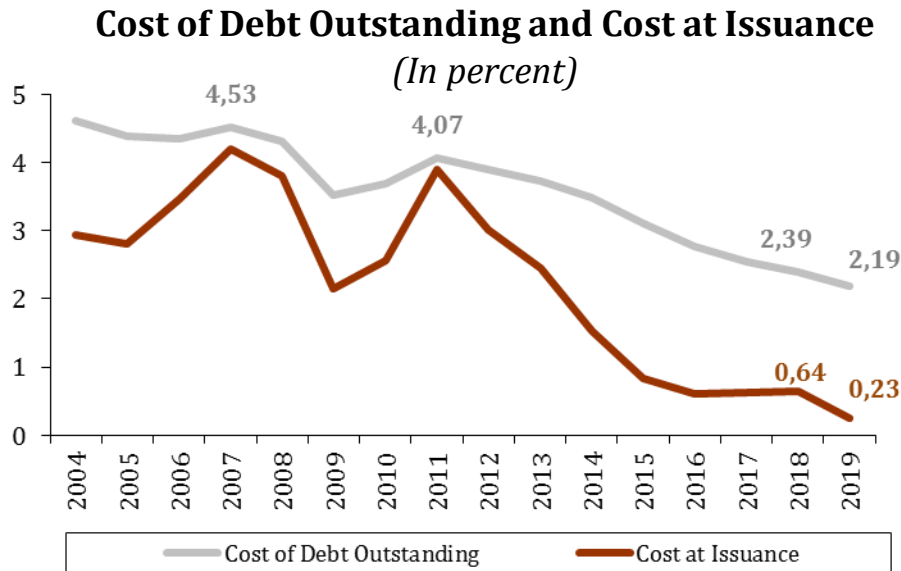
(In billion euros and in effective terms)	End 2018	End 2019
<b>Total Net Issuance</b>	<b>34,277</b>	<b>19,960</b>
<b>Total Gross Issuance</b>	<b>212,964</b>	<b>192,814</b>
<i>Medium- and Long-term</i>		
Gross Issuance <sup>1</sup>	131,979	114,000
Amortisation <sup>1</sup>	89,310	91,933
Net Issuance <sup>1</sup>	42,669	22,067
<i>Letras del Tesoro</i>		
Gross Issuance	80,984	78,814
Amortisation	89,377	80,921
Net Issuance	-8,393	-2,107

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

Source: Secretaría General del Tesoro y Financiación Internacional.

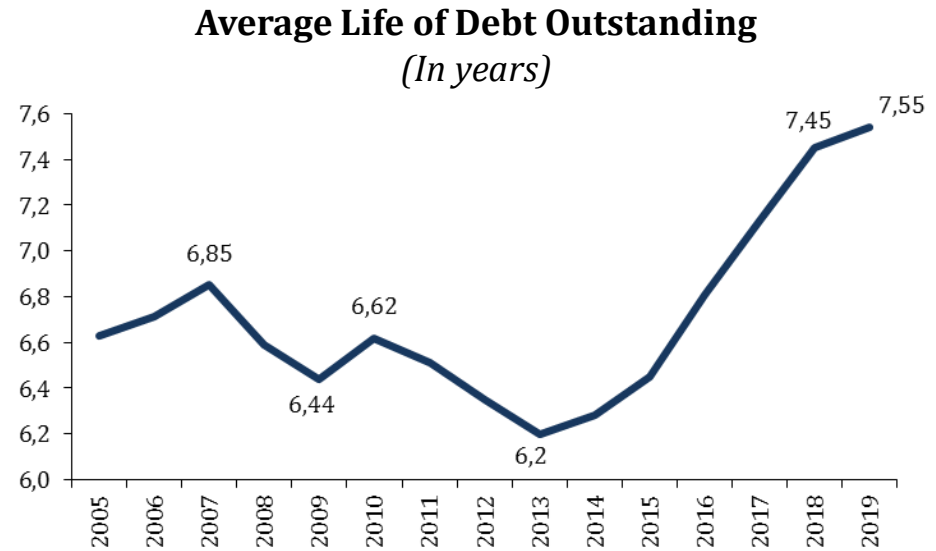
## Cost and life of debt: a longer portfolio at historically low rates

- ▶ Historic lows in average cost of debt outstanding (2.19%) and cost at issuance (0.23%)
- ▶ Since 2013 average life of debt outstanding has increased from 6.20 to 7.55 years



Source: Secretaría General del Tesoro y Financiación Internacional.

\*As of 19/12/2019



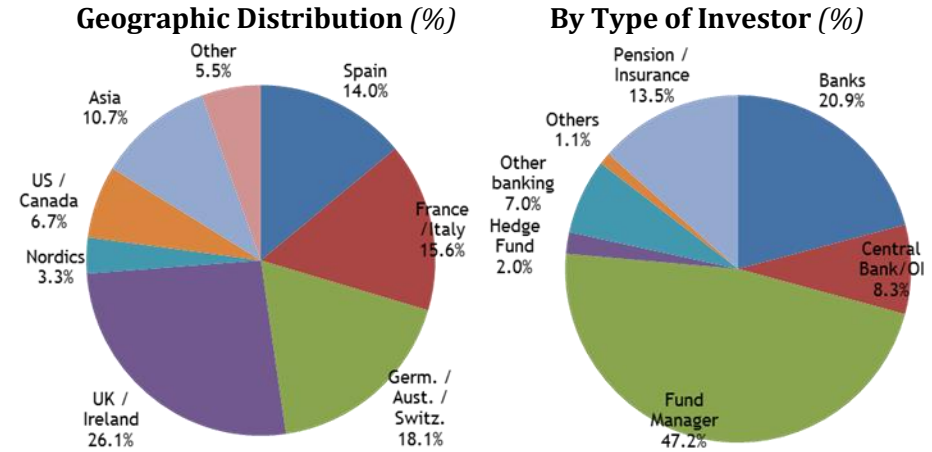
Source: Secretaría General del Tesoro y Financiación Internacional.



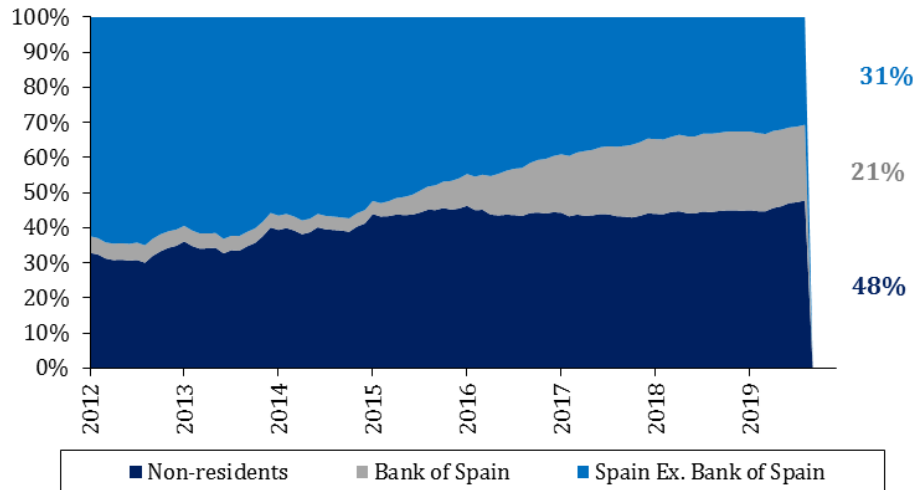
## Recent trends in investor base

- ▶ 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

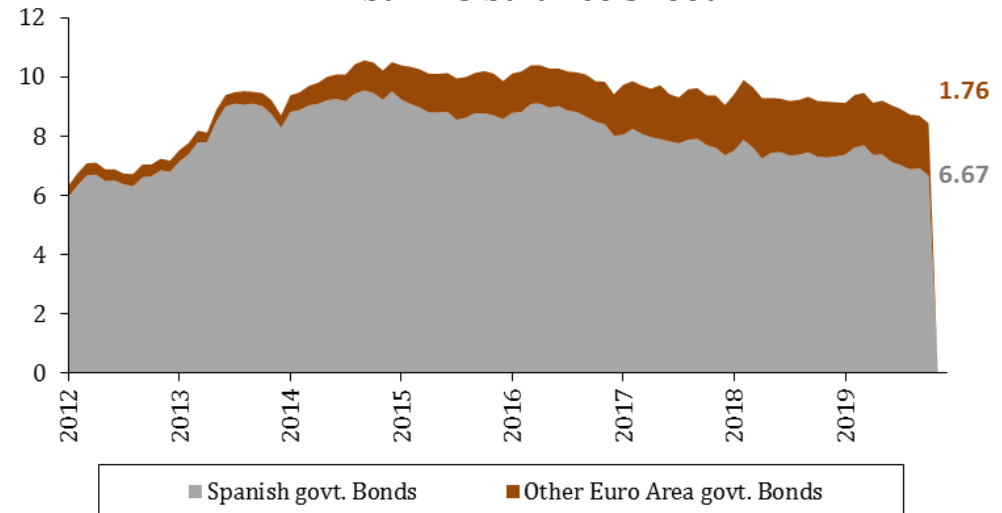
### June New 10 Year Reference - Oct. 2029



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



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

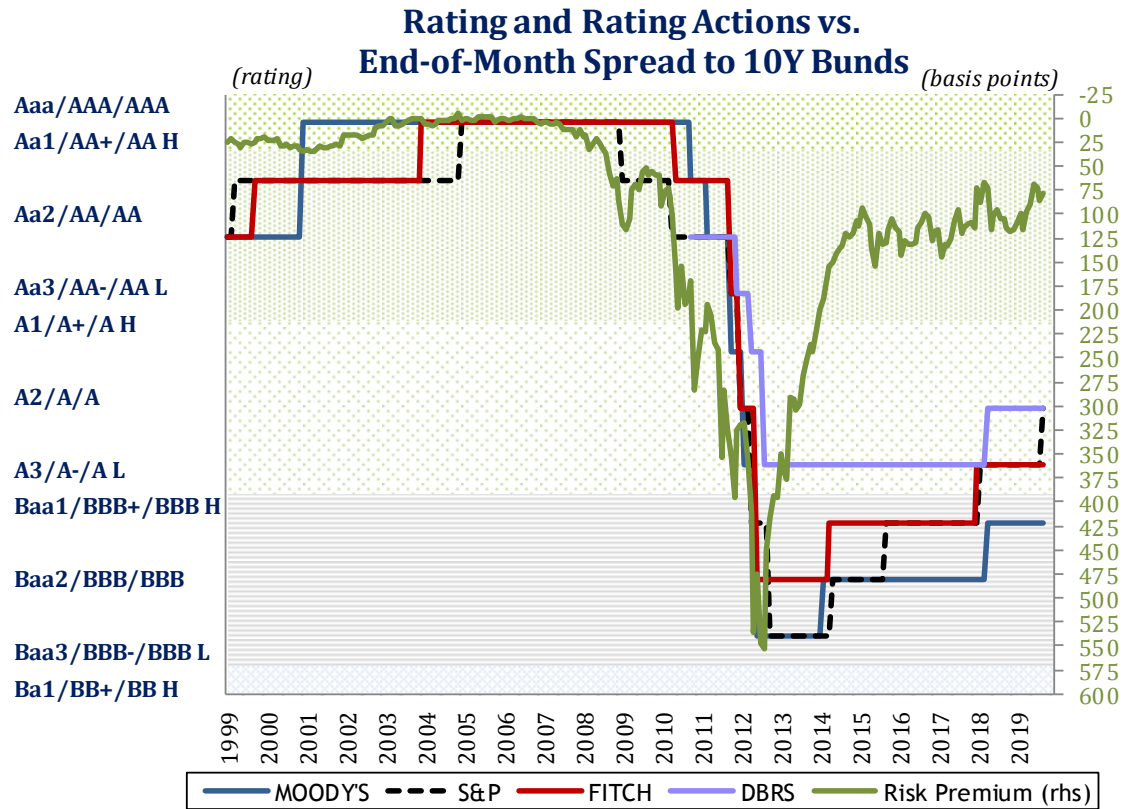


Source: Bank of Spain.  
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

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)



**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			

Source: Ministerio de Economía y Empresa.

## Thank you for your attention

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