Recent Developments in the Spanish Economy, Policy & Funding

February 2020
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**Highlights**

- The Spanish economy is showing a robust growth, well above its peers: GDP grew by 2.0% in 2019 and is expected to expand by 1.8% in 2020.

- Increased competitiveness leads to a more balanced growth: both internal and external demand are engines of GDP growth.

- Continued national deleveraging: total leverage in Spain is now at 333% of GDP, 83pp of GDP below its 2013 level and well below the Euro area average of 392%.

- Fiscal consolidation a core aim of the Government:
  - General Government deficit brought down to 2% of GDP in 2019.
  - Acceleration of the Debt-to-GDP ratio reduction rhythm: it closed 2019 at around 96%, which implies a reduction of ca 1.5pp, more than envisaged in the Stability Programme.
  - 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)

<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>Q4</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>1.1</td>
<td>1.1</td>
<td>0.8</td>
<td>1.4</td>
<td>1.2</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>2.2</td>
<td>2.3</td>
<td>2.2</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>1.9</td>
<td>4.7</td>
<td>0.9</td>
<td>2.4</td>
<td>-0.3</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>2.0</td>
<td>1.2</td>
<td>1.8</td>
<td>1.2</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>2.3</td>
<td>0.4</td>
<td>2.1</td>
<td>3.0</td>
<td>3.7</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>1.2</td>
<td>0.1</td>
<td>-0.2</td>
<td>3.1</td>
<td>2.1</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>0.4</td>
<td>0.2</td>
<td>0.8</td>
<td>0.1</td>
<td>0.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>3.0</td>
<td>2.9</td>
<td>2.4</td>
<td>2.0</td>
<td>2.2</td>
<td>2.0</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
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</table>

### Other variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</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>14.1</td>
<td>14.7</td>
<td>14.0</td>
<td>13.9</td>
<td>13.8</td>
<td>12.3</td>
</tr>
<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>
<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>
<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>1.2</td>
<td>1.3</td>
<td>1.7</td>
<td>0.9</td>
<td>0.9</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>-2.59</td>
<td>-2.86</td>
<td>-2.78</td>
<td>--</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>1.12</td>
<td>1.14</td>
<td>1.12</td>
<td>1.11</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>1.2</td>
<td>1.4</td>
<td>1.2</td>
<td>1.2</td>
<td>1.0</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>64.8</td>
<td>63.1</td>
<td>69.7</td>
<td>62.2</td>
<td>64.4</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.
Solid growth prospects coupled with continued deleveraging

**IMF Growth Forecasts for 2020**
(*Year-on-Year Growth Rates*)

- **World**: 3.3%
- **United States**: 2.0%
- **Spain**: 1.6%
- **Advanced economies**: 1.6%
- **United Kingdom**: 1.4%
- **Euro area**: 1.3%
- **France**: 1.3%
- **Germany**: 1.1%
- **Japan**: 0.7%
- **Italy**: 0.5%


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

- **Spain**: 423.0%
- **France**: 392.3%
- **Germany**: 333.1%
- **Italy**: 314.3%
- **Euro area**: 251.9%

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

Weight of 20 Major Export Products in Merchandise Exports

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Weight Last 12 Months</th>
<th>Weight in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicles</td>
<td>13.6%</td>
<td></td>
</tr>
<tr>
<td>Refined Oil &amp; Gas Product</td>
<td>5.8%</td>
<td></td>
</tr>
<tr>
<td>Agricultural Products</td>
<td>5.4%</td>
<td></td>
</tr>
<tr>
<td>Metallic &amp; Non-Metallic Products</td>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>Other Non-Metallic Products</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>Basic Chemicals &amp; Parts &amp; Equip.</td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td>Other Chemicals &amp; Equip.</td>
<td>3.3%</td>
<td></td>
</tr>
<tr>
<td>Parts &amp; Fittings &amp; Motor Vehicles</td>
<td>3.3%</td>
<td></td>
</tr>
<tr>
<td>Metallic Products &amp; Equip.</td>
<td>3.2%</td>
<td></td>
</tr>
<tr>
<td>Other Goods</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td>Electric Equipment &amp; Equip.</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td>Aircraft &amp; Spacecraft</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>Meat &amp; Meat Products</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>Plastic</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>Leather &amp; Footwear</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>Textile Products</td>
<td>1.1%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministerio de Economía y Empresa.
Growth Prospects

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

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

Gross Value Added (% of GDP)

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
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

Source: Instituto Nacional de Estadística and Bank of Spain.
Banking sector adjustment

- Adjustment of the banking sector:
  - Downsizing & loss recognition
  - Enhanced capitalisation and profitability
- Strong improvement in NPLs: harmonised NPL ratio in line with 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.
Continued national deleveraging

- Total debt has decreased by +20%, and is now almost 60pp 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*)

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

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

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

Sources: BIS.
Result: persistent and more balanced growth with current account surplus

Nominal GDP Growth vs. Current Account/GDP

Source: Instituto Nacional de Estadística and Bank of Spain.
Fiscal Consolidation

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>
<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>
</tr>
<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>0,0</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>
</tr>
<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.
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 2020

- Conservative funding programme for 2020, given the favourable financing conditions and the various external uncertainties
- Net issuance forecasted at €32.5 bn in 2020; to be attained through the issuance of medium and long-term instruments
- Expected issuance of the Spanish Treasury’s inaugural green bond

**Funding Programme in 2020**

<table>
<thead>
<tr>
<th>(In billion euros and in effective terms)</th>
<th>Forecast 2019</th>
<th>End 2019</th>
<th>Forecast 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Issuance</td>
<td>35,000</td>
<td>19,960</td>
<td>32,500</td>
</tr>
<tr>
<td>Total Gross Issuance</td>
<td>209,526</td>
<td>192,814</td>
<td>196,504</td>
</tr>
<tr>
<td><strong>Medium- and Long-term</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Issuance</td>
<td>126,933</td>
<td>114,000</td>
<td>117,469</td>
</tr>
<tr>
<td>Amortisation</td>
<td>91,933</td>
<td>91,933</td>
<td>84,969</td>
</tr>
<tr>
<td>Net Issuance</td>
<td>35,000</td>
<td>22,067</td>
<td>32,500</td>
</tr>
<tr>
<td><strong>Letras del Tesoro</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Issuance</td>
<td>82,592</td>
<td>78,814</td>
<td>79,035</td>
</tr>
<tr>
<td>Amortisation</td>
<td>82,592</td>
<td>80,921</td>
<td>79,035</td>
</tr>
<tr>
<td>Net Issuance</td>
<td>0</td>
<td>-2,107</td>
<td>0</td>
</tr>
</tbody>
</table>

1 Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

Source: Secretaría General del Tesoro y Financiación Internacional.
Spanish Green Bond

- Spain is fully committed to the environmental and sustainability agenda. The Government supports:
  - The United Nations 2015 Paris Agreement and Sustainable Development Goals
  - The EU 2030 climate and energy framework

- At a national level, the Spanish government presented in February an ambitious package of measures:
  - Spain’s National Energy and Climate Plan (NECPs) 2021-2030
  - The Bill on Climate Change and energy transition
  - Strategy on Fair Transition

- Estimated economic impact: It is estimated to generate over 230 billion euros of investments over the following decade, 47 of which would come from the Public Sector (State, regions, EU) and part of it will be financed through Green Bonds

**Main features of the Spanish Green Bond**

- **When**: Second half of 2020
- **Maturity**: Possibly 20 years → Long term commitment
- **Size**: First issuance through benchmark syndication. Regular taps thereafter, until a minimum outstanding amount of around €10bn.
- **How**: Liquid benchmark embedded in the curve
- **Format**: Best EU standards

Objective: Decarbonization of the Spanish economy in 2050
Cost and life of debt: a longer portfolio at historically low rates

- Historic lows in average cost of debt outstanding (2.15%) and cost at issuance (0.14%)
- Since 2013 average life of debt outstanding has increased from 6.20 to 7.50 years

Cost of Debt Outstanding and Cost at Issuance
(In percent)

Average Life of Debt Outstanding
(In years)

Source: Secretaría General del Tesoro y Financiación Internacional.

*As of 05/02/2020
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 14.8% of total holdings
- Non-residents up to 48.7% of total holdings, with new regions, notably Asia, stepping in

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

January New 10 Year Reference - Apr. 2030

Geographic Distribution (%)

By Type of Investor (%)

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

Source: Bank of Spain.
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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