

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)									
	2016	2017	2018	2019	Q1	Q2	Q3	Q4	2020
Private consumption expenditure	2.7	3.0	1.8	1.1	1.1	0.8	1.4	1.2	1.2
General Government consumption expenditure	1.0	1.0	1.9	2.2	2.3	2.2	2.2	2.2	1.5
Gross Fixed Capital Formation	2.4	5.9	5.3	1.9	4.7	0.9	2.4	-0.3	3.0
National Demand (Contribution to GDP Growth)	2.0	3.0	2.6	1.5	2.0	1.2	1.8	1.2	1.6
Exports of goods and services	5.4	5.6	2.2	2.3	0.4	2.1	3.0	3.7	2.3
Imports of goods and services	2.6	6.6	3.3	1.2	-0.1	-0.2	3.1	2.1	2.0
External demand (Contribution to GDP Growth)	1.0	-0.1	-0.3	0.4	0.2	0.8	0.1	0.6	0.2
Gross Domestic Product	3.0	2.9	2.4	2.0	2.2	2.0	1.9	1.8	1.8

Other variables									
	2016	2017	2018	2019	Q1	Q2	Q3	Q4	2020
Unemployment rate (in % of Active Population)	19.6	17.2	15.3	14.1	14.7	14.0	13.9	13.8	12.3
Full-time Equiv. Employment (YoY Growth)	2.8	2.8	2.5	2.3	2.7	2.5	1.8	2.0	2.0
Net lending(+)/borrowing(-) with RoW (% of GDP)	3.4	2.9	2.4	2.3	2.1	2.2	2.1	--	2.1
Private Consumption deflator (YoY Growth)	0.2	1.6	1.5	1.2	1.3	1.7	0.9	0.9	1.6
Headline Balance General Gov't (in % of GDP)*	-4.3	-3.0	-2.5	-2.0	-2.59	-2.86	-2.78	--	-1.7
USD/€ exchange rate	1.1	1.1	1.2	1.12	1.14	1.12	1.11	1.11	1.13
Euro Area GDP growth (YoY growth)	1.9	2.7	1.9	1.2	1.4	1.2	1.2	1.0	1.2
Oil prices (Brent, USD/barrel)	43.3	54.3	70.9	64.8	63.1	69.7	62.2	64.4	60.2

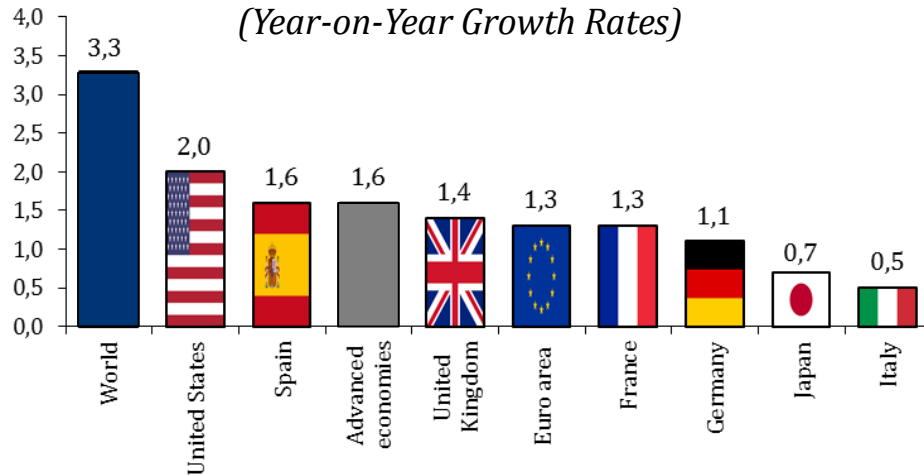
* Including Financial Sector One-Offs

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.

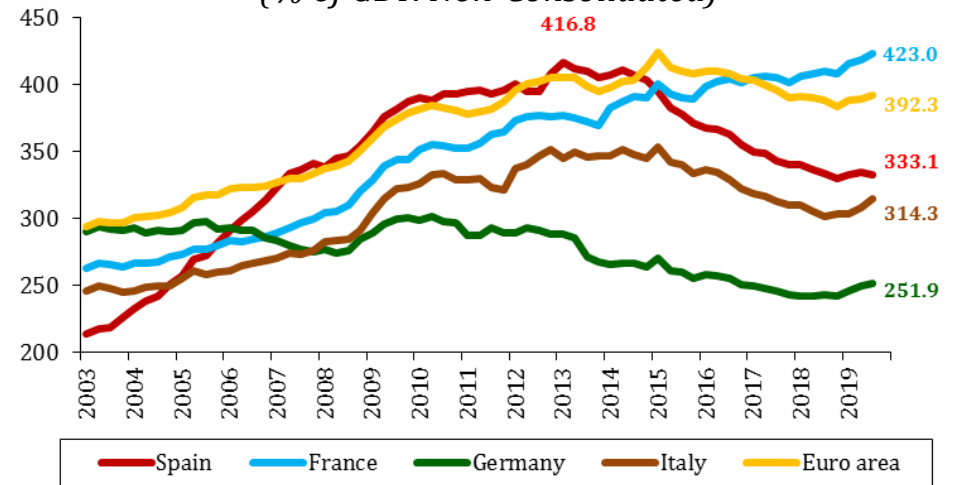
Solid growth prospects coupled with continued deleveraging

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



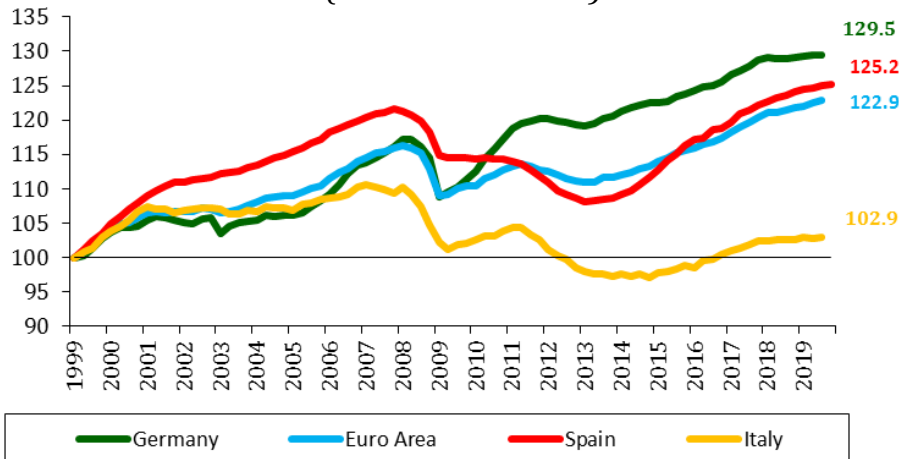
Source: IMF. WEO January 2020.

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



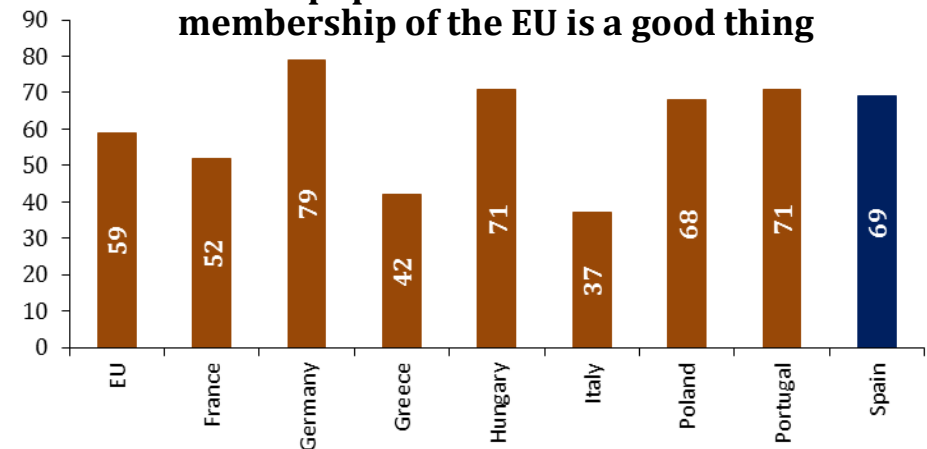
Source: EUROSTAT.

Per capita GDP Volume
(Index 1999=100)



Source: EUROSTAT.

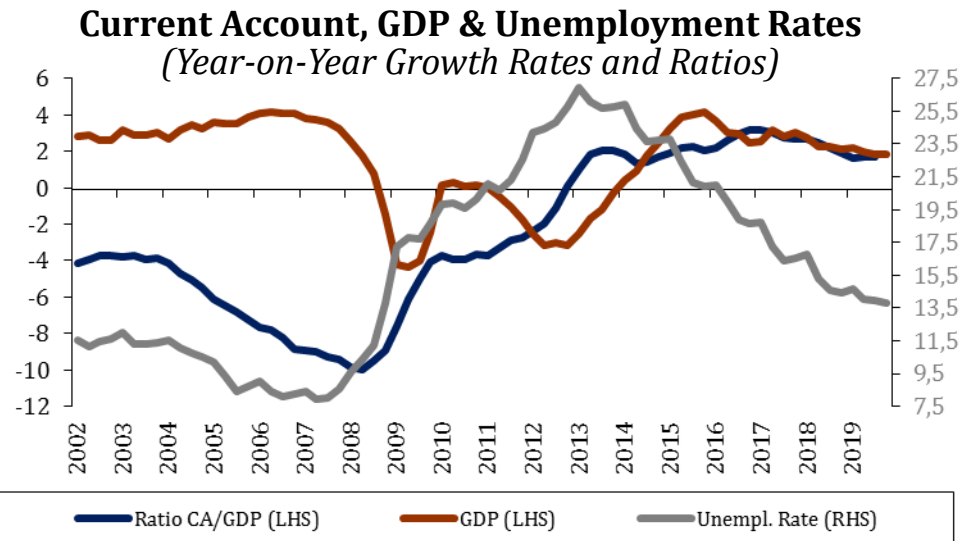
% of population that thinks that membership of the EU is a good thing



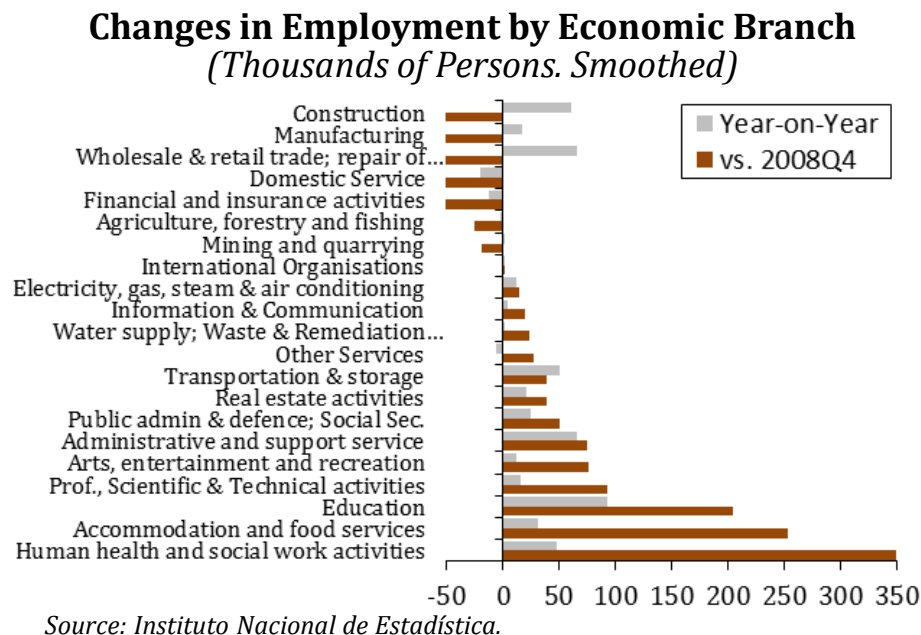
Source: EUROSTAT, October 2019.

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



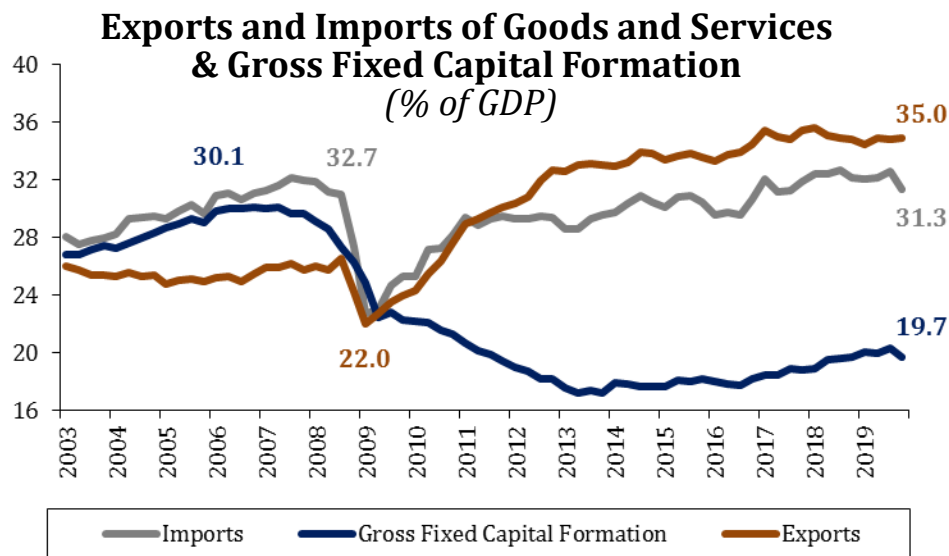
Source: Instituto Nacional de Estadística and Bank of Spain.



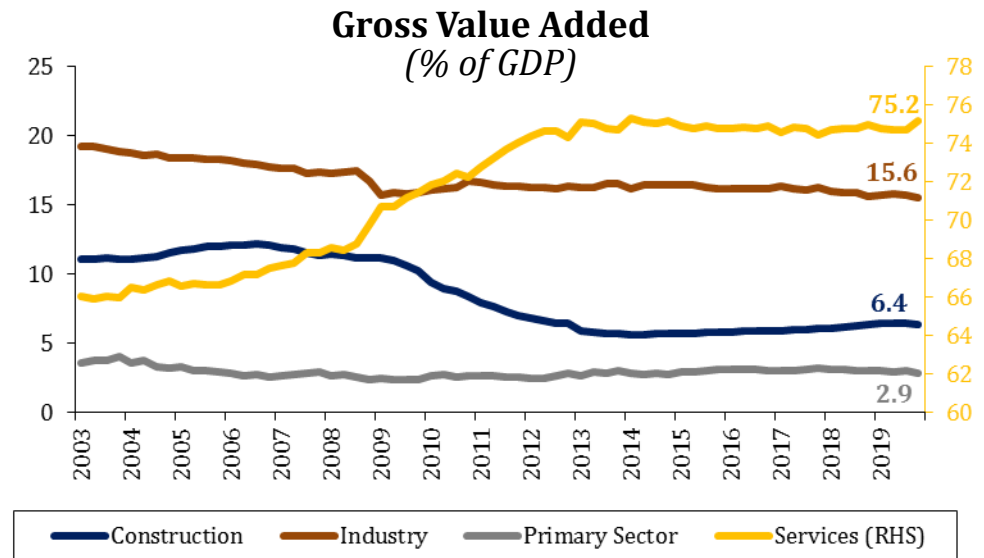
Source: Instituto Nacional de Estadística.

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



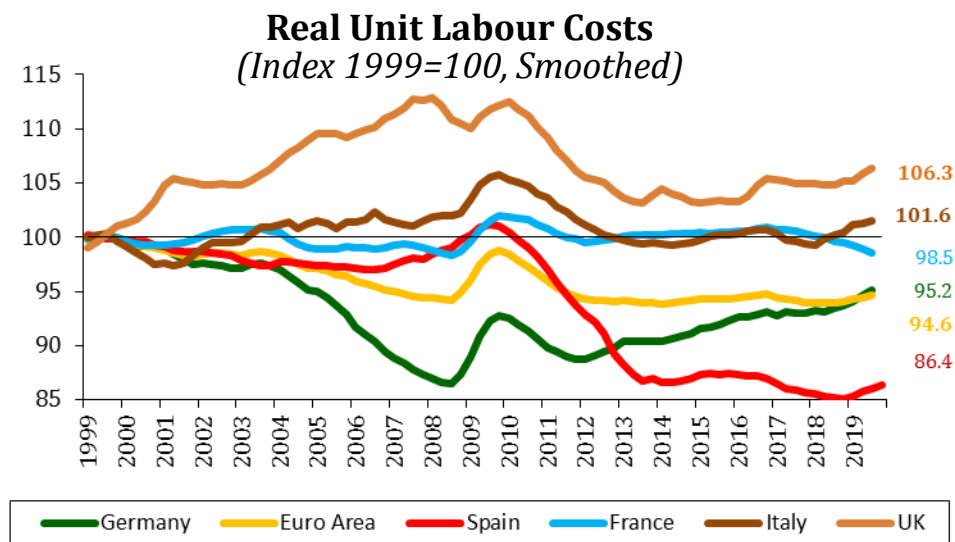
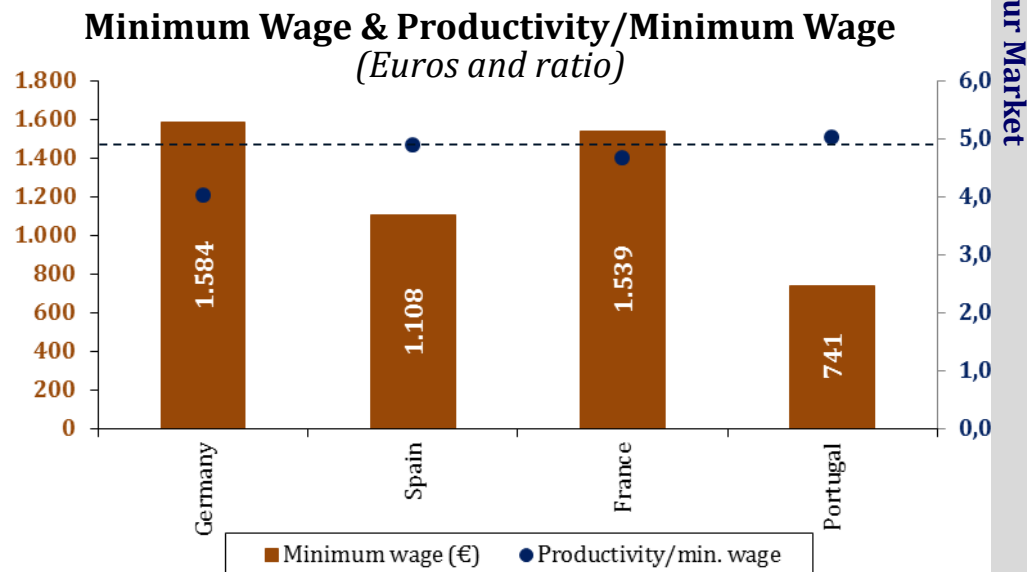
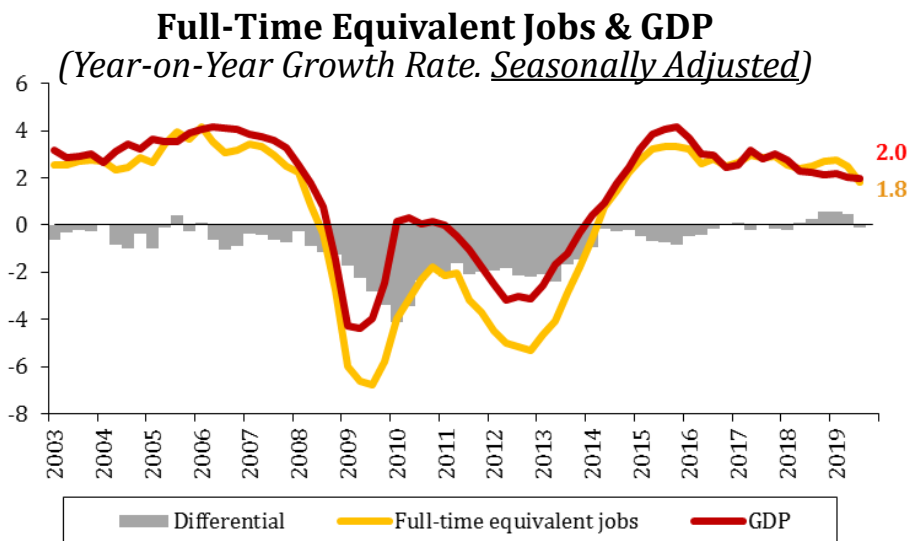
Source: Instituto Nacional de Estadística.



Source: Instituto Nacional de Estadística.

Focus on job creation, but also on job quality

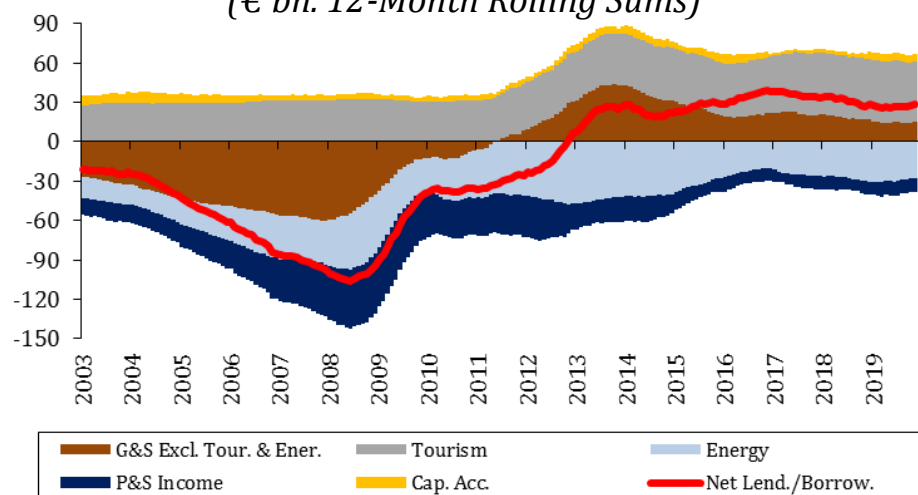
- ▶ Minimum wage competitive with regards to our peers despite recent increase
- ▶ Less growth needed to generate employment: in fact, employment has been growing above GDP for five quarters
- ▶ Outstanding internal devaluation from 2010 onwards



Improved competitiveness relevant for an increasingly open economy

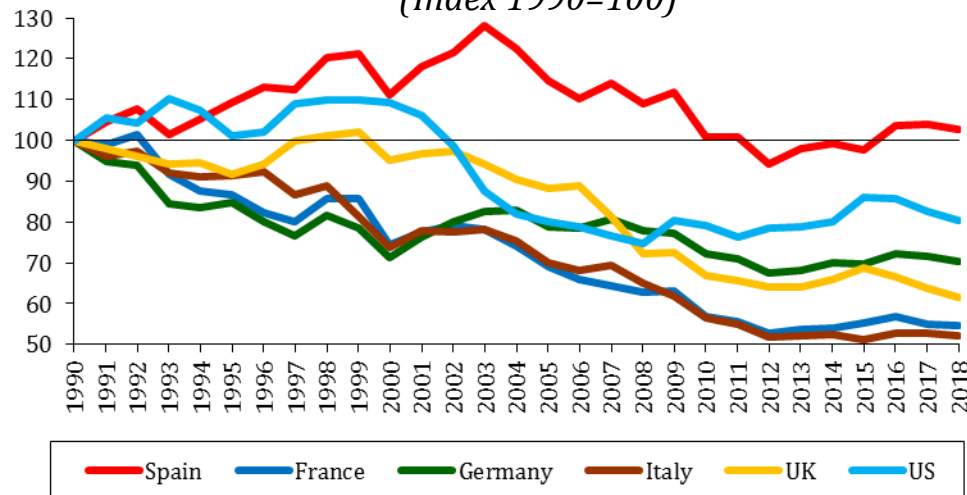
- ▶ Spain's share of the world total exports has remained steady since 1990, despite the irruption of the developing economies
- ▶ Balance of payments' goods & services balance in surplus since 2012
- ▶ Spain's degree of openness has increased by +10pp since the crisis

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



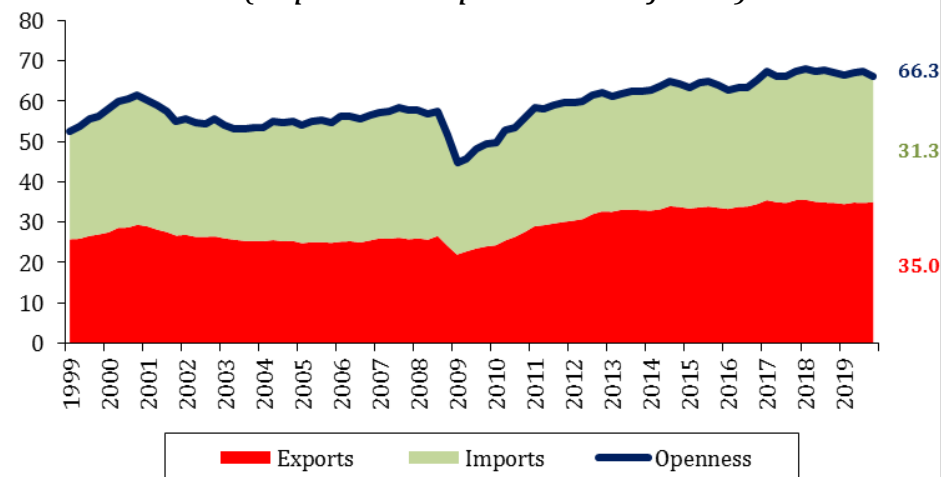
Source: Instituto Nacional de Estadística and Bank of Spain.

World Export Shares (Index 1990=100)



Source: World Bank.

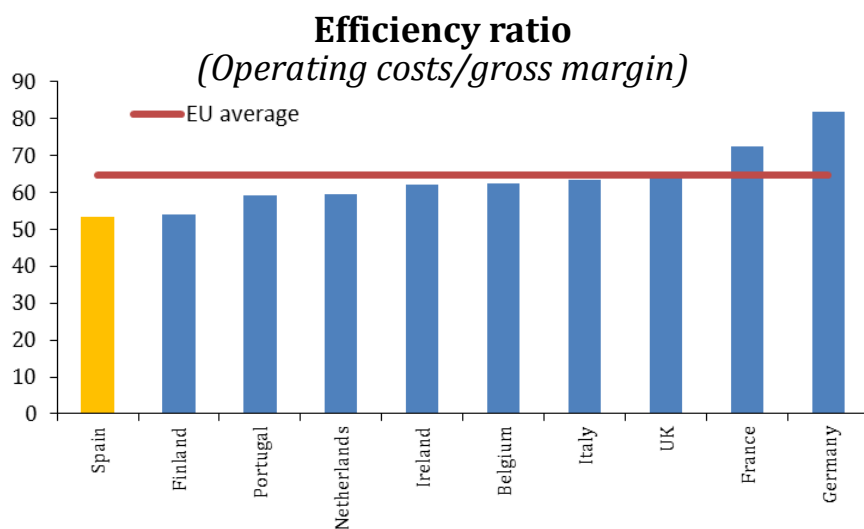
Degree of Openness (Exports & Imports as % of GDP)



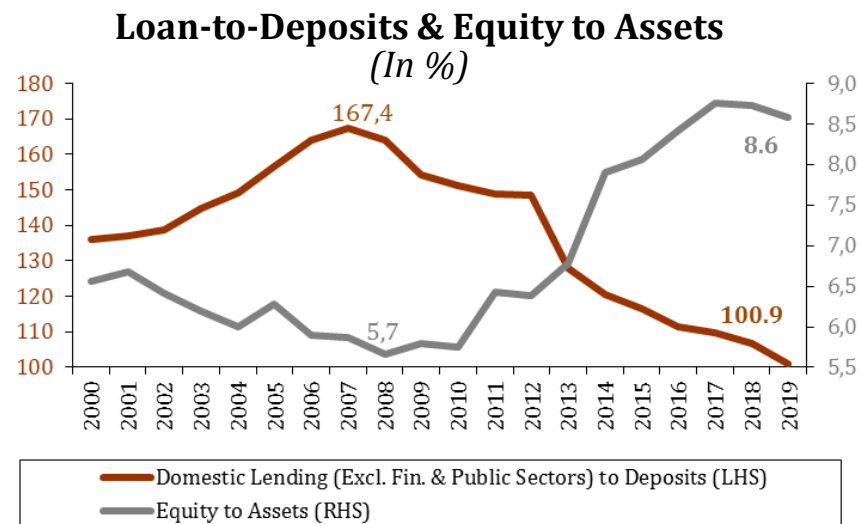
Source: EUROSTAT.

Banking sector adjustment

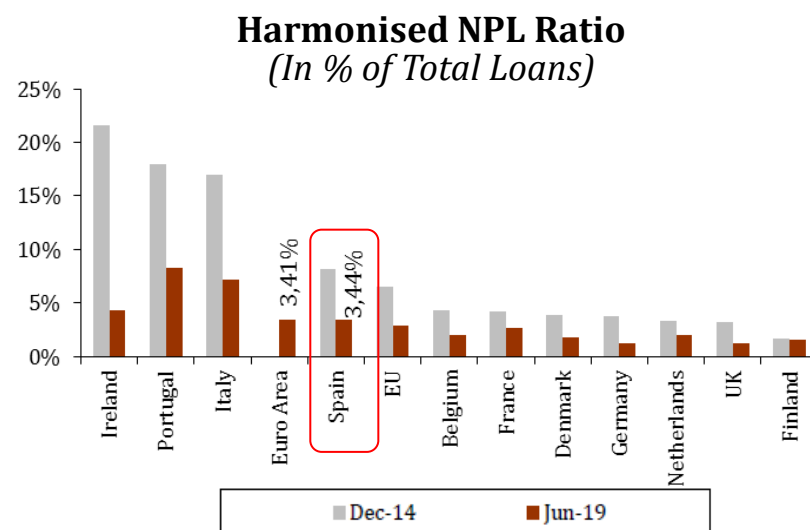
- ▶ Adjustment of the banking sector:
 - ❑ Downsizing & loss recognition
 - ❑ Enhanced capitalisation and profitability
- ▶ Strong improvement in NPLs: harmonised NPL ratio in line with Euro Area average
- ▶ EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- ▶ Establishment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



Source: EBA. Risk Dashboard Interactive Tool.



Source: Bank of Spain.

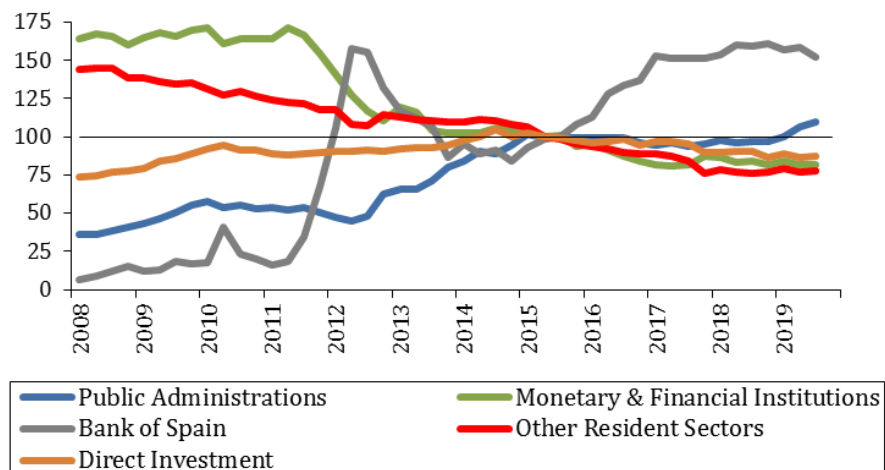


Source: EBA. Risk Dashboard Interactive Tool.

Continued national deleveraging

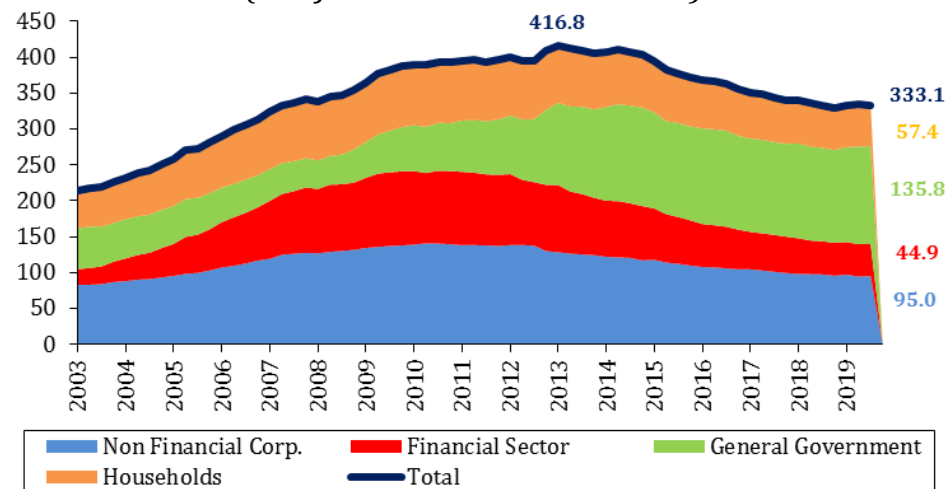
- ▶ Total debt has decreased by +20%, and is now almost 60pp of GDP below the Euro area average
- ▶ Bank of Spain the only source of added “leverage”: a consequence of monetary policy
- ▶ Deleveraging, coupled with the reduction in funding costs, is allowing to devote more resources to productive activities

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



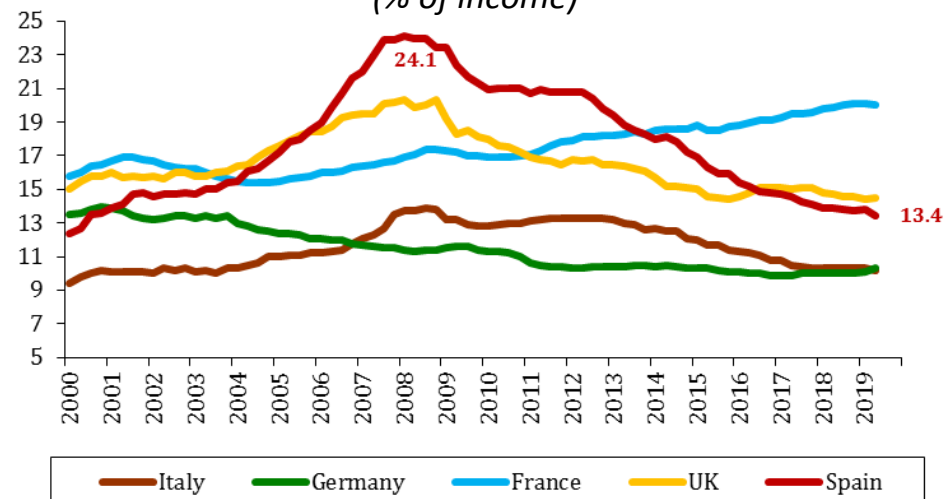
Source: Bank of Spain.

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



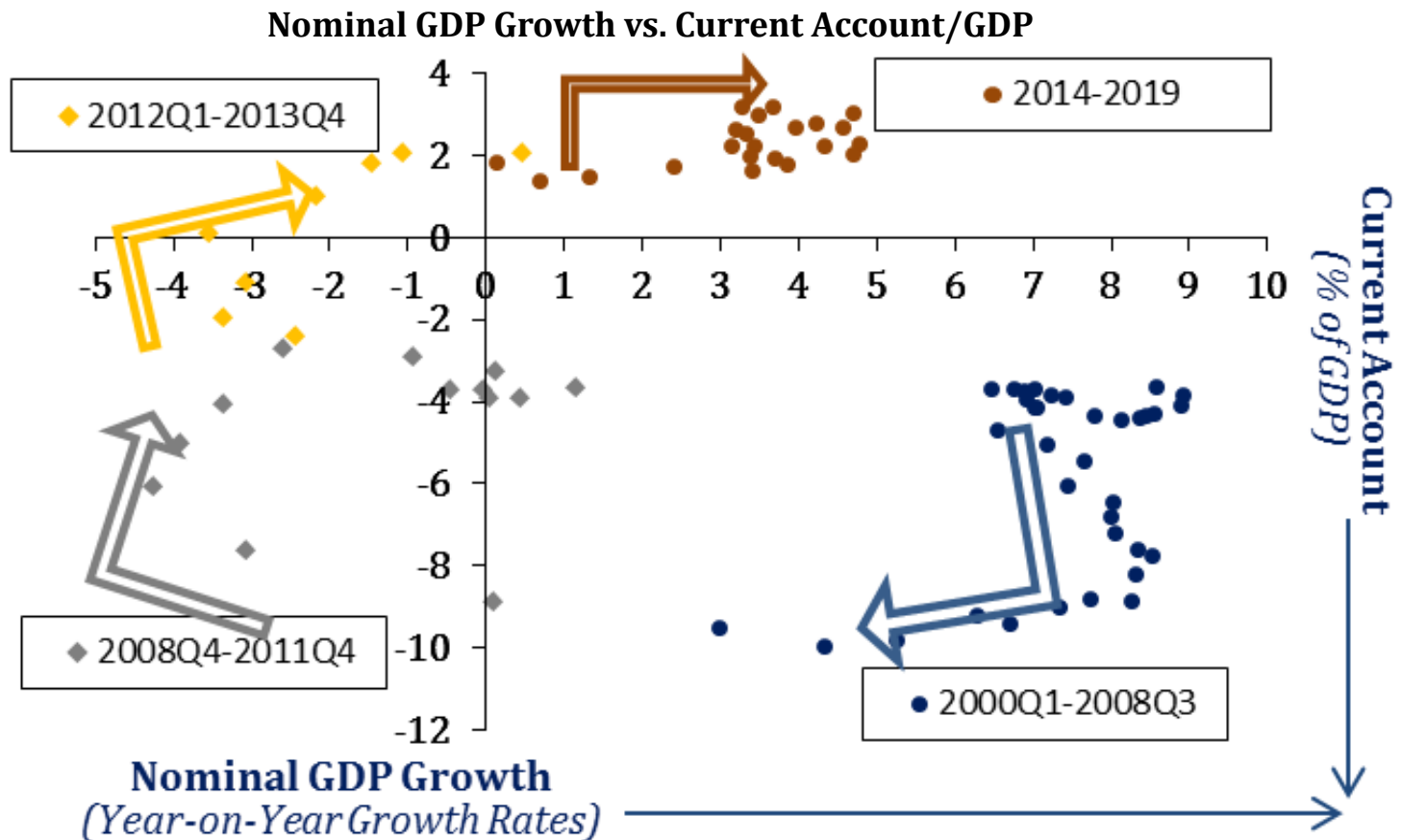
Sources: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.

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.

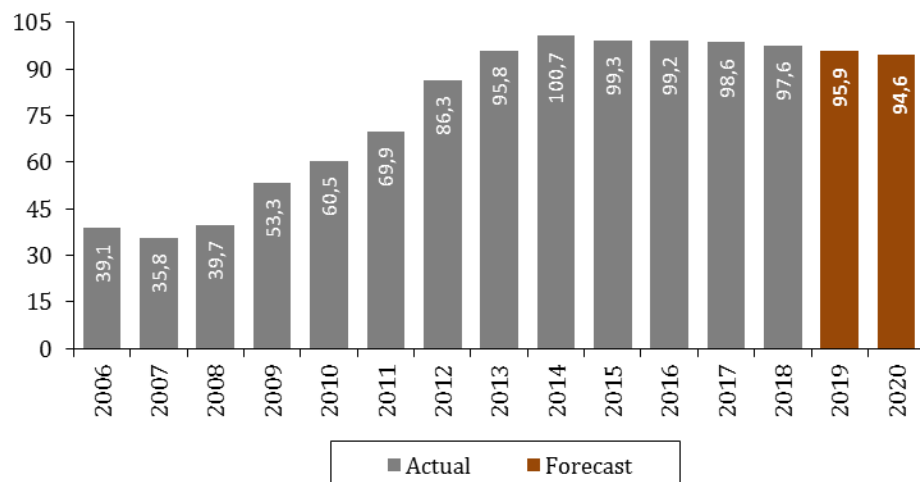
Fiscal policy framework: 2019-2020 Draft Budgetary Plan

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
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.

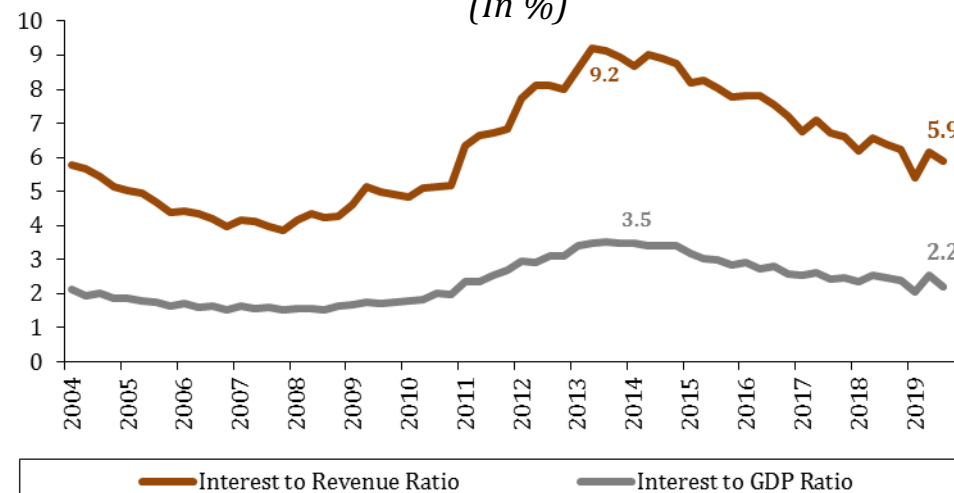
General Government Debt. EDP
(% of GDP)



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.

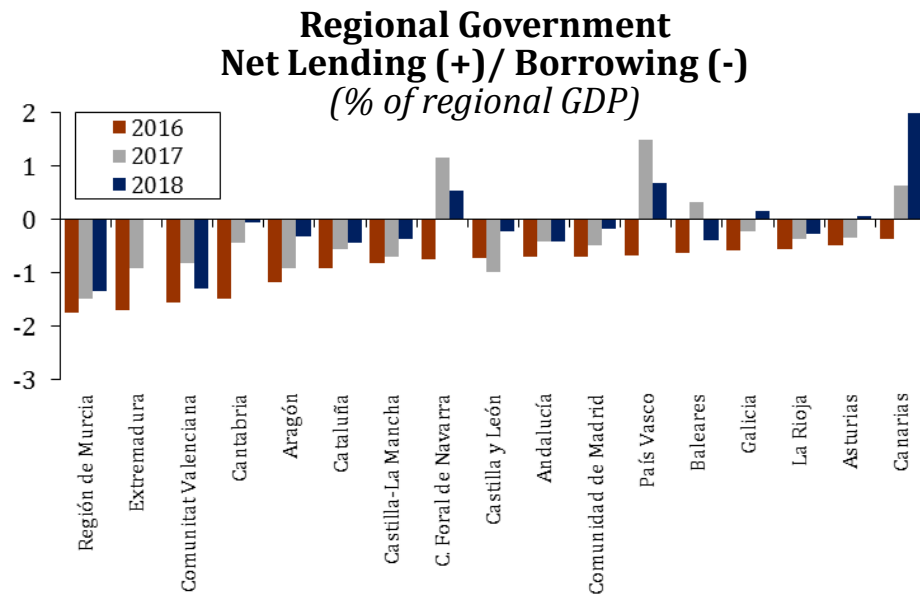
General Government Interest-to-Revenue and Interest-to-GDP Ratios
(In %)



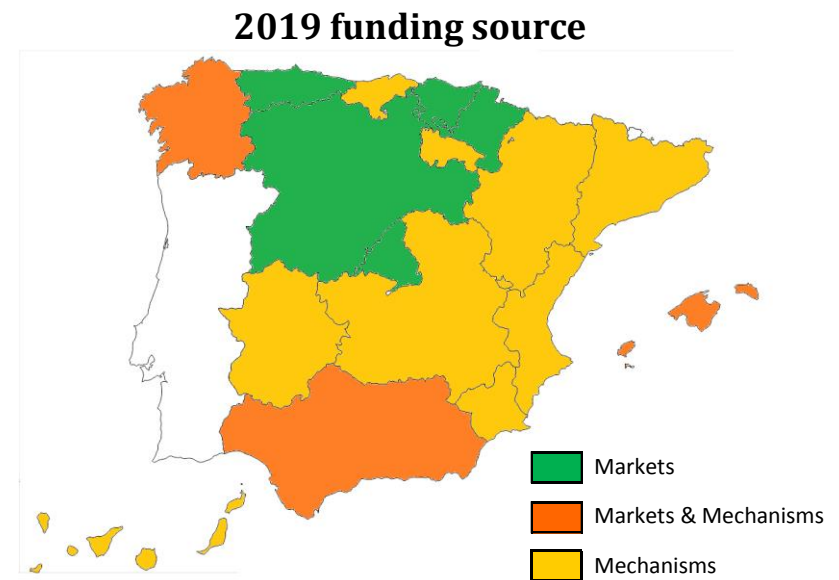
Source: Ministerio de Economía y Empresa.

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



Source: Ministerio de Hacienda.



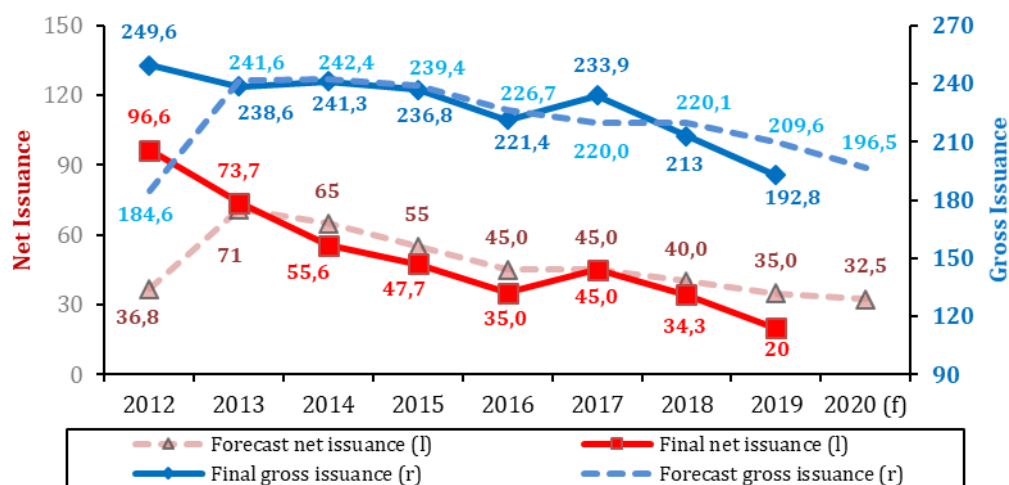
Source: Ministerio de Hacienda.

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

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



Source: Secretaría General del Tesoro y Financiación Internacional.


(In billion euros and in effective terms)	Forecast 2019	End 2019	Forecast 2020
Total Net Issuance	35,000	19,960	32,500
Total Gross Issuance	209,526	192,814	196,504
Medium- and Long-term			
Gross Issuance ¹	126,933	114,000	117,469
Amortisation ¹	91,933	91,933	84,969
Net Issuance ¹	35,000	22,067	32,500
Letras del Tesoro			
Gross Issuance	82,592	78,814	79,035
Amortisation	82,592	80,921	79,035
Net Issuance	0	-2,107	0

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



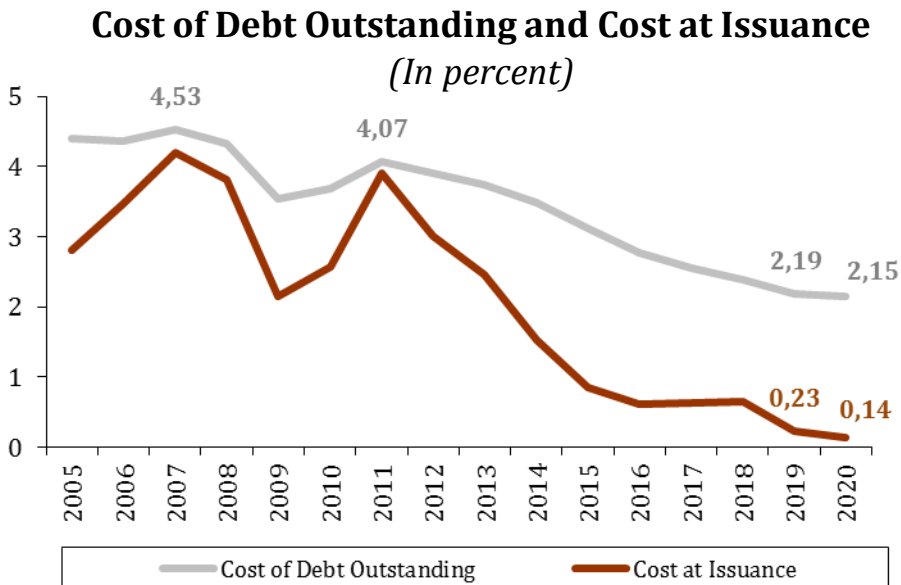
Objective: Decarbonization of the Spanish economy in 2050
- ▶ Estimated economic impact: It is estimated to generate over 230 billion euros of investments over the following decade, 47 of which would come from the Public Sector (State, regions, EU) and part of it will be financed through Green Bonds

Main features of the Spanish Green Bond

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

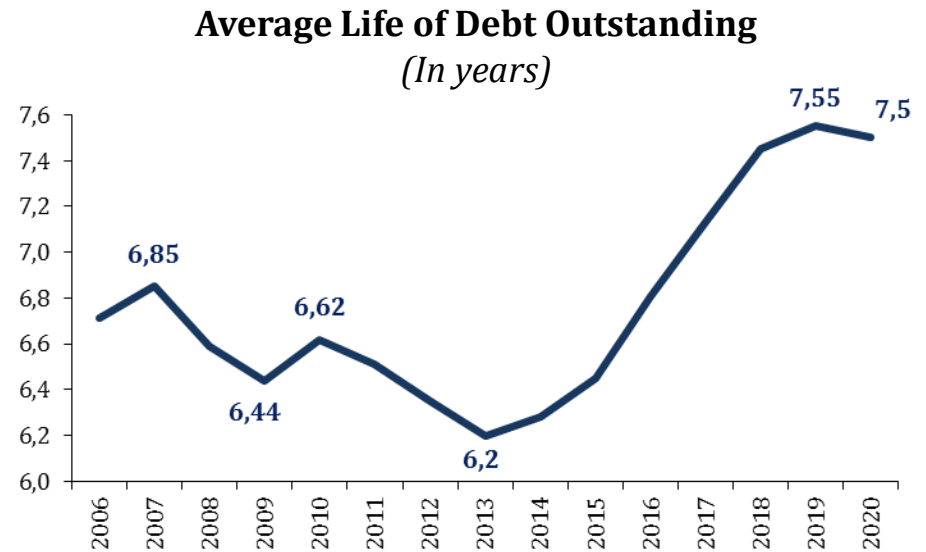
Cost and life of debt: a longer portfolio at historically low rates

- ▶ 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



Source: Secretaría General del Tesoro y Financiación Internacional.

*As of 05/02/2020

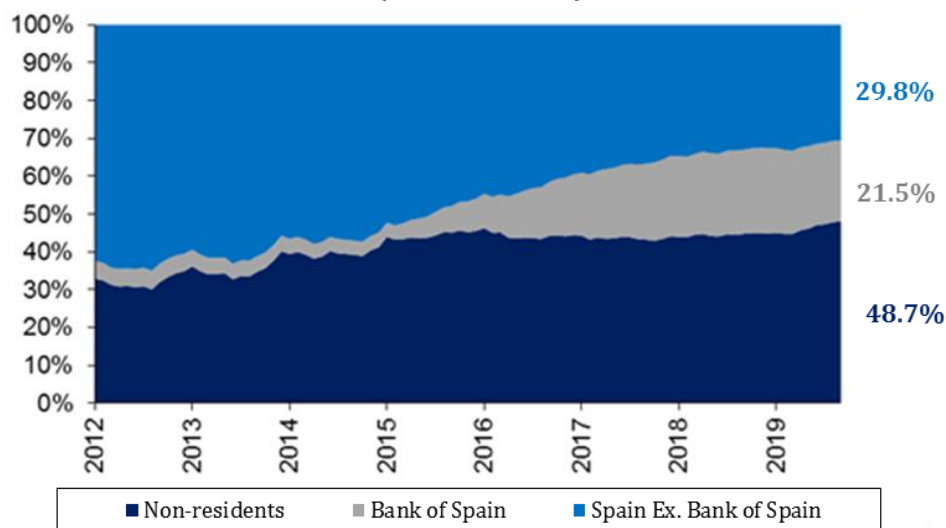


Source: Secretaría General del Tesoro y Financiación Internacional.

Recent trends in investor base

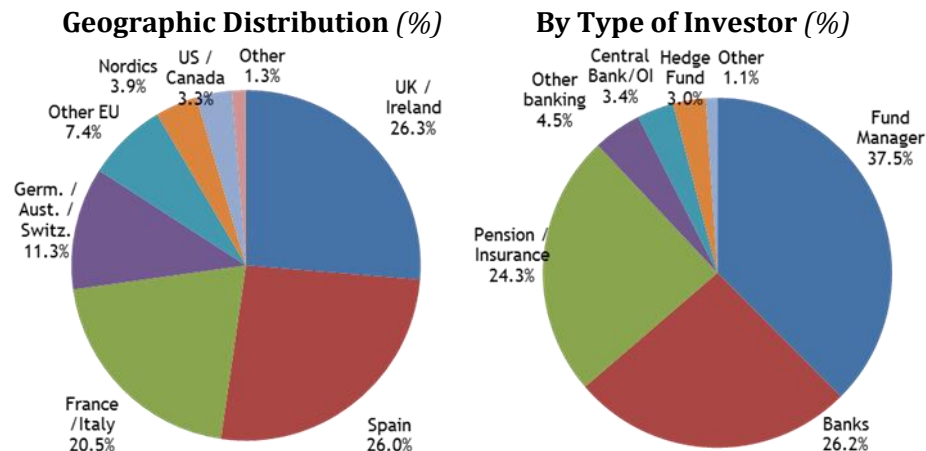
- ▶ Bank of Spain PSPP holdings at 21.5%
- ▶ Spanish banks have reduced absolute and relative holdings of Spanish bonds, and now represent 14.8% of total holdings
- ▶ Non-residents up to 48.7% of total holdings, with new regions, notably Asia, stepping in

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

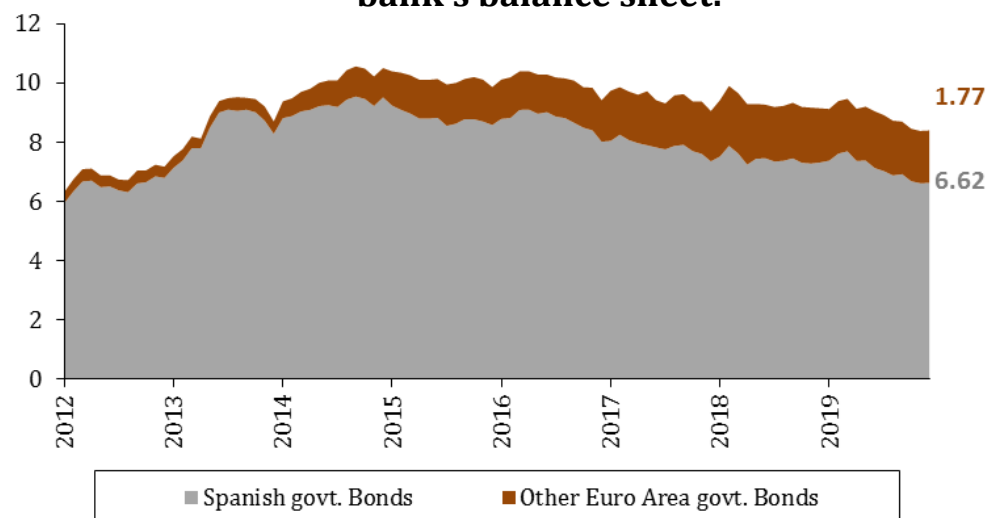


Source: Bank of Spain.
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

January New 10 Year Reference - Apr. 2030



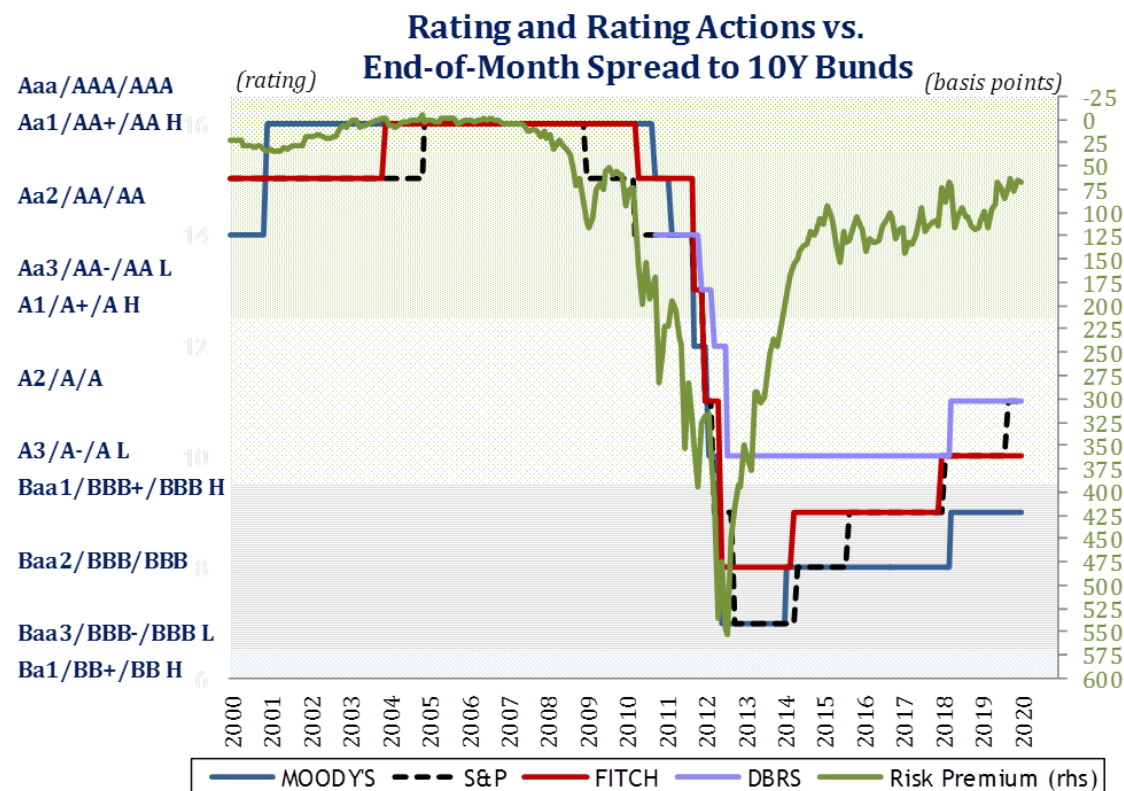
Government bond holdings as % of Spanish bank's balance sheet.



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)



Announced Rating Dates in 2020

	Fitch	S&P	DBRS	Moody's
January				
February				
March		20	6	20
April				
May				
June	12			
July				
August				
September		18	4	18
October				
November				
December	11			

Source: Ministerio de Economía y Empresa.

Thank you for your attention

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