



GOBIERNO
DE ESPAÑA

MINISTERIO
DE ECONOMÍA
Y COMPETITIVIDAD

The Kingdom of Spain: Funding Programme for 2016 & Economic Policy

January 2016

1. The Funding Programme in 2015 & 2016 forecast

1.1 Main highlights of the Funding Programme in 2015

Page 2-6

1.2 The Funding Programme for 2016

Page 7-10

2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

Execution of the 2015 Funding Programme

- ▶ Lower gross and net funding requirements 2015 than initially expected:
 - ❑ €7.3 bn downward in net issuance
 - ❑ €3 bn lower gross issuance of medium- and long-term bonds
 - ❑ Pre-amortisation of €4 bn of the ESM Loan for the recapitalisation of the Spanish financial sector

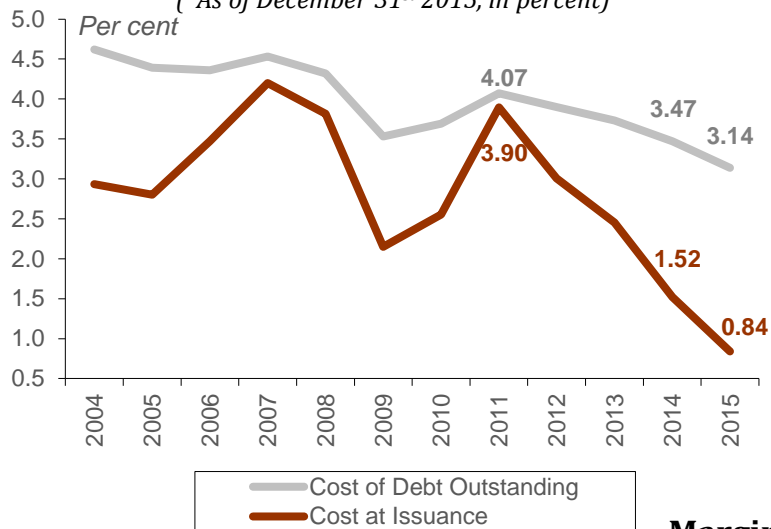
<i>(In billion euros and in effective terms)</i>	End 2014	Forecast Strategy 2015 (January 2015)	End 2015
Total Net Issuance	55.641	55.000	47.717
Total Gross Issuance	241.333	239.370	236.817
<i>Medium- and Long-term</i>			
<i>Gross Issuance</i> ¹	142.230	141.997	139.000
<i>Amortisation</i> ¹	76.176	91.997	95.997
<i>Net Issuance</i> ¹	66.054	50.000	43.003
<i>Letras del Tesoro</i>			
<i>Gross Issuance</i>	99.103	97.373	97.816
<i>Amortisation</i>	109.516	92.373	93.103
<i>Net Issuance</i>	-10.413	5.000	4.713

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

Main highlights of the Programme in 2015: Cost and life of debt outstanding

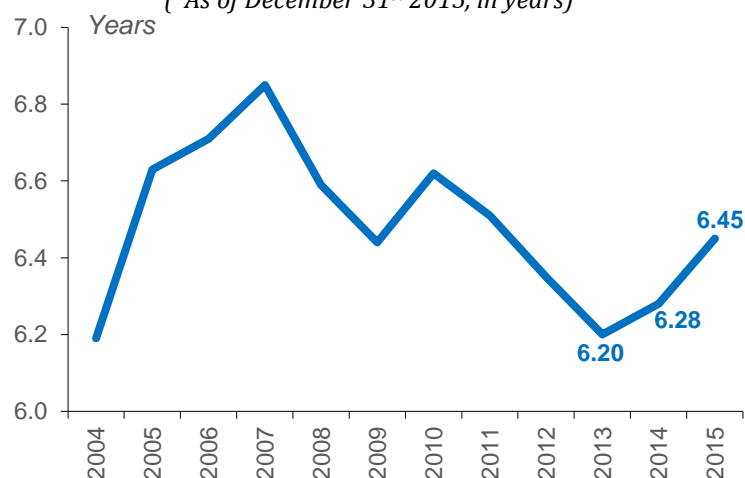
Cost of Debt Outstanding and Cost at Issuance

(*As of December 31st 2015, in percent)



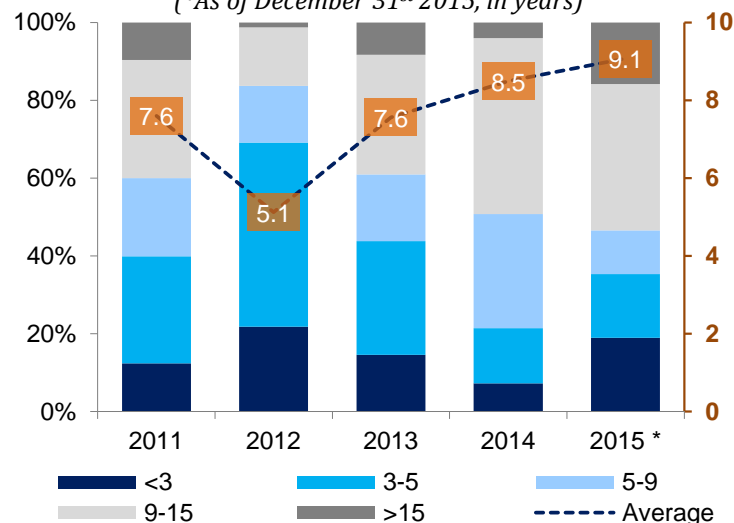
Average Life of Debt Outstanding

(*As of December 31st 2015, in years)



Marginal Life at Issuance of Bonos and Obligaciones by Tenor

(*As of December 31st 2015, in years)



Source: Secretaría General del Tesoro y Política Financiera.

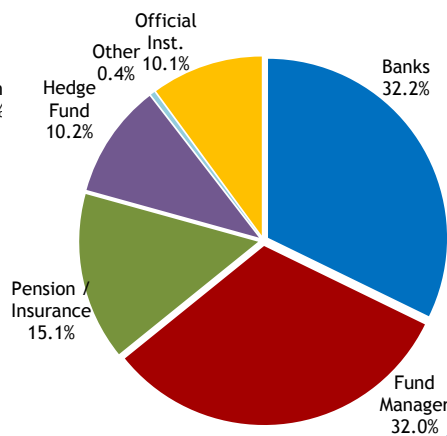
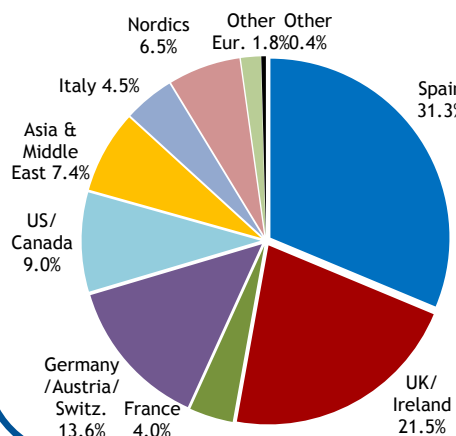
[Data](#)

Syndicated issuance in 2015

JANUARY - NEW 10 YEAR REFERENCE. APRIL 2025

Geographic Distribution (%)

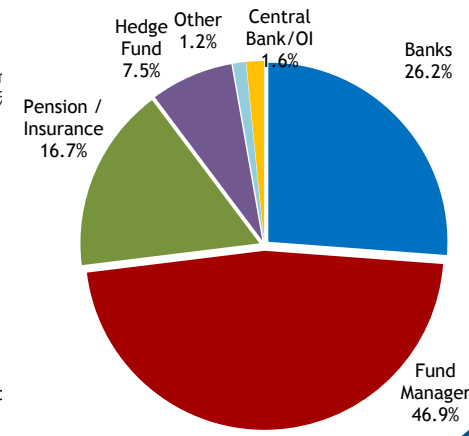
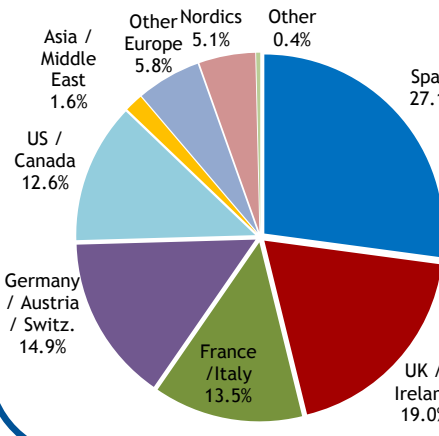
By Type of Investor (%)



FEBRUARY - NEW 15 YEAR REFERENCE. JULY 2030

Geographic Distribution (%)

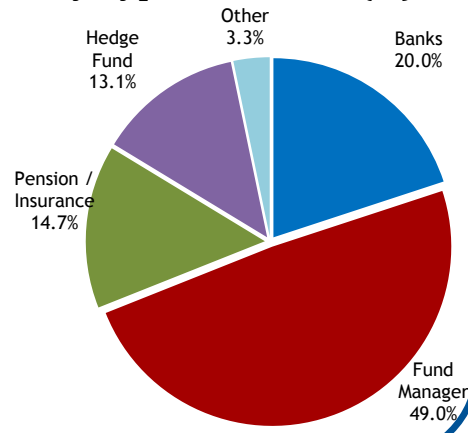
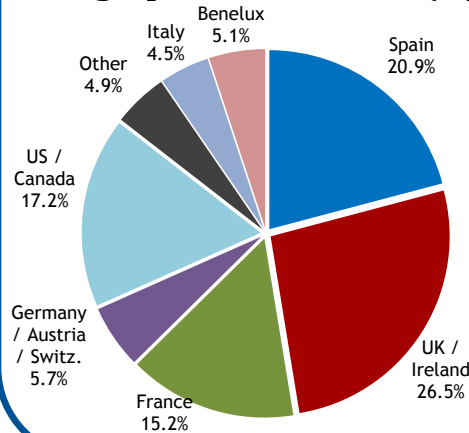
By Type of Investor (%)



MARCH - NEW 15 YEAR EA INFLATION-LINKED REFERENCE. NOVEMBER 2030

Geographic Distribution (%)

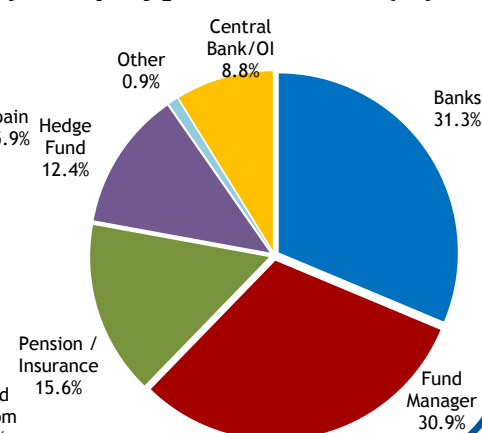
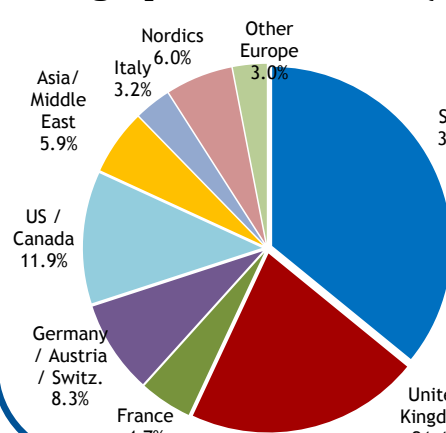
By Type of Investor (%)



JUNE - NEW 10 YEAR REFERENCE. OCT. 2025

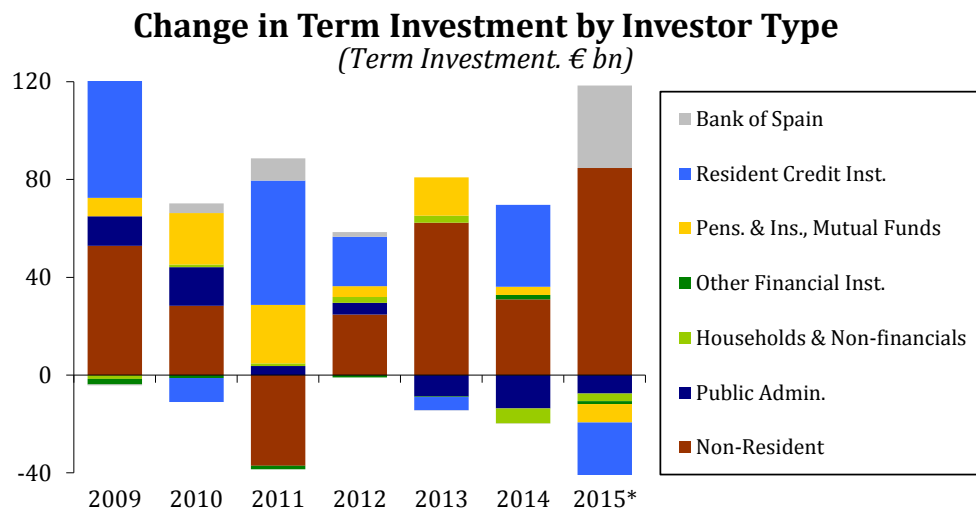
Geographic Distribution (%)

By Type of Investor (%)

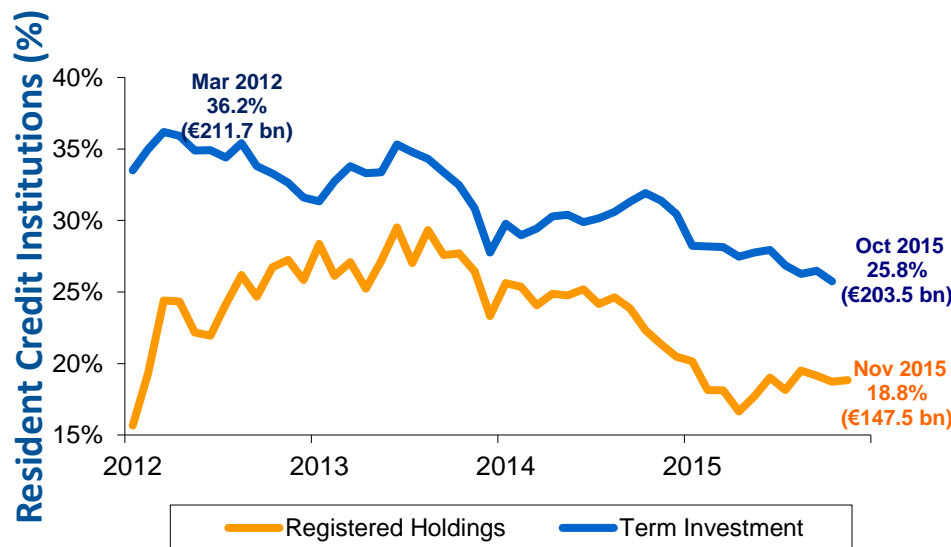
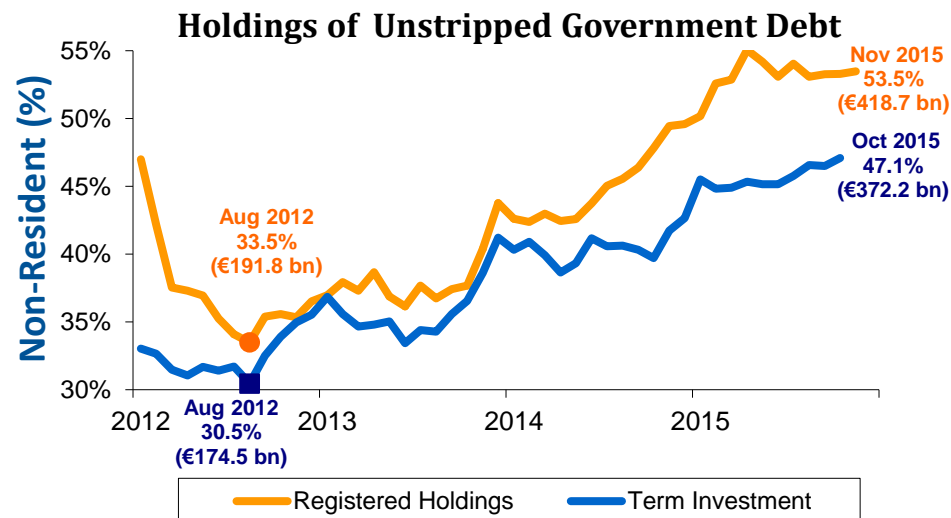
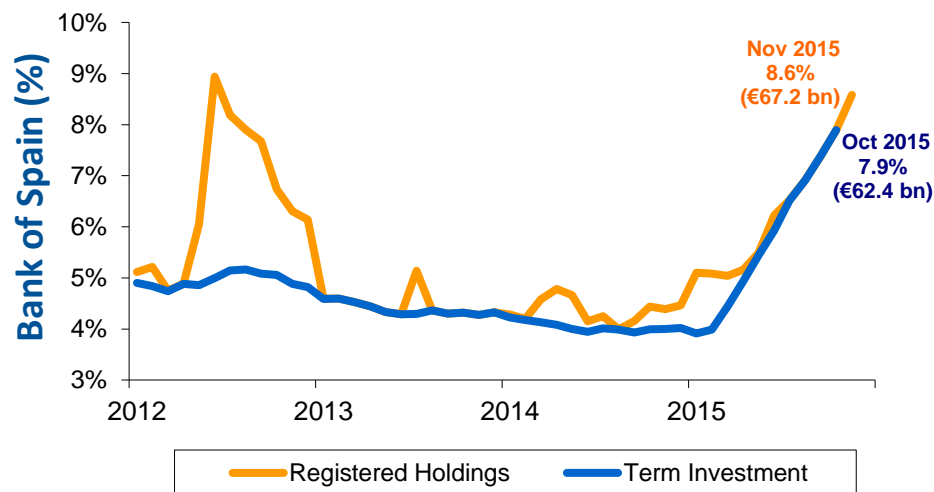


[Link to Data](#)

Recent trends in investor base



* 2015: Year-on-year change. October 2014 to October 2015.

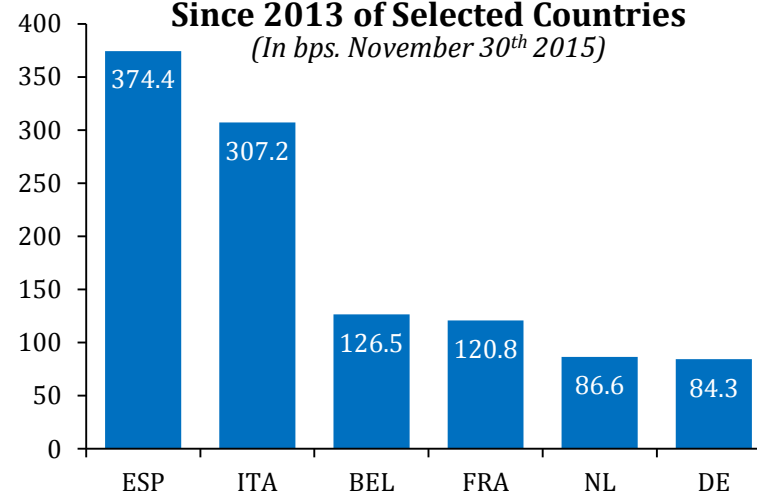


Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

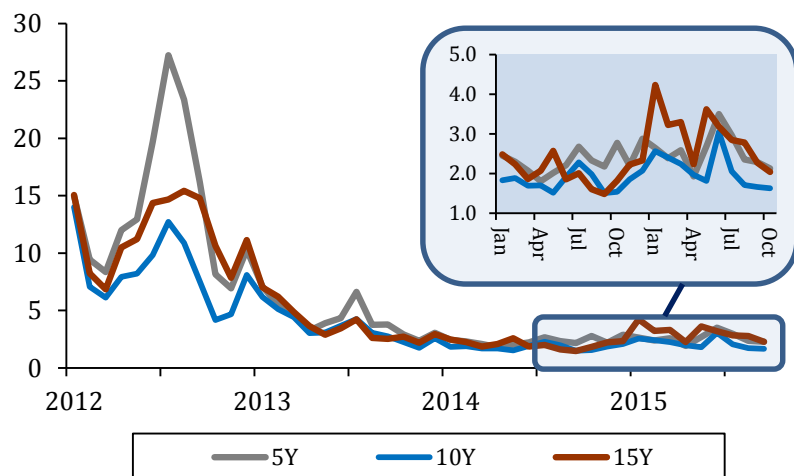
A more liquid debt market despite spread tightening

- Significant tightening in sovereign spreads
- Rates have stabilised for longer periods, enabling more efficient investment decisions by market agents, rendering liquidity in secondary markets a key factor

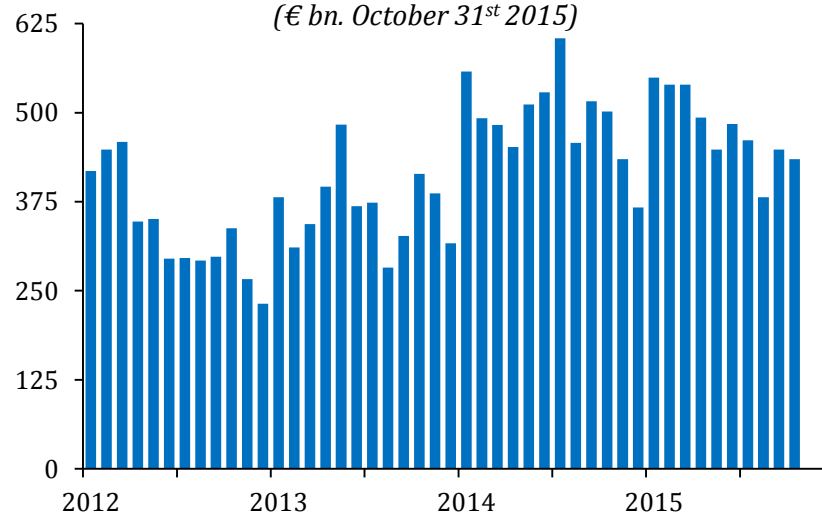
Reduction in Yield Level of 10 Year Government Bonds Since 2013 of Selected Countries
(In bps. November 30th 2015)



Bid-Ask Spreads of Government Bonds
(In bps. October 31st 2015)



Turnover of Bonos and Obligaciones
(€ bn. October 31st 2015)



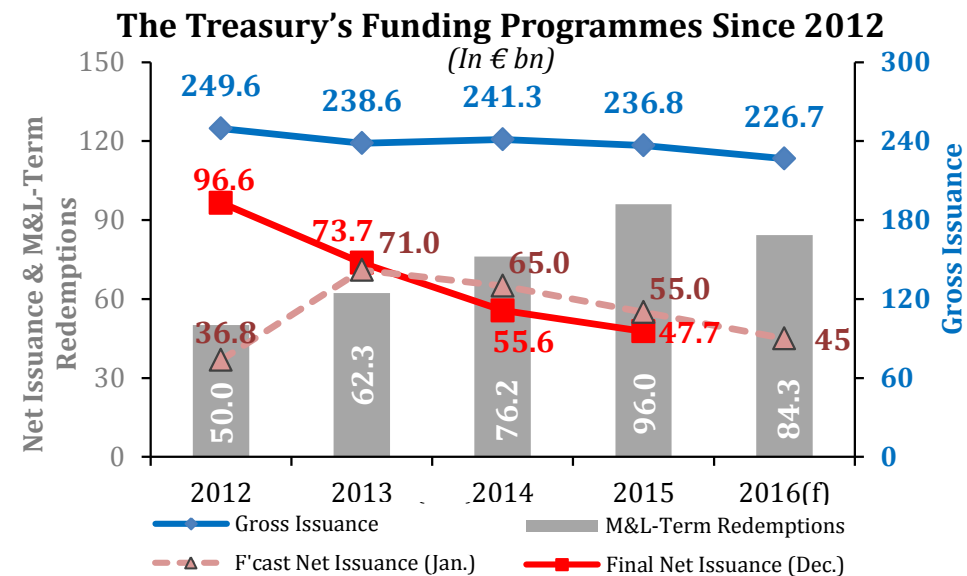
[Link to Data](#)

The Treasury's Funding Programme for 2016

- Net issuance projected for 2016 below 2015
 - ❑ Lower deficit of the Central Government & Regions
 - ❑ As since 2012 regional liquidity support mechanisms embedded in issuance programme

(In billion euros and in effective terms)	End 2015	Forecast 2016 (January 2016)
Total Net Issuance	47.717	45.000
Total Gross Issuance	236.817	226.694
Medium- and Long-term		
Gross Issuance ¹	139.000	125.301
Amortisation ¹	95.997	84.301
Net Issuance ¹	43.003	41.000
Letras del Tesoro		
Gross Issuance	97.816	101.393
Amortisation	93.103	97.392
Net Issuance	4.713	4.000

¹ Includes debt in other currencies, Bonos y Obligaciones, loans and assumed



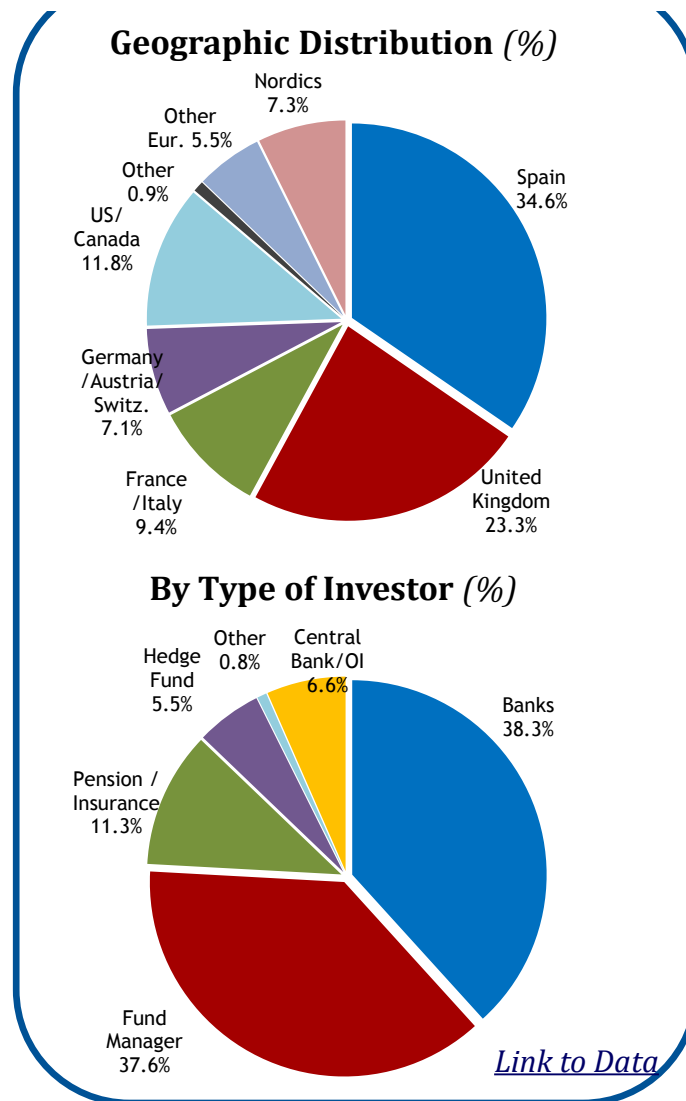
The Treasury's Funding Programme for 2016

- ▶ The Treasury will cover most of the funding needs of Regions and Local Governments
- ▶ The bulk of the funding programme to be executed via auctions of Letras, Bonos & Obligaciones
 - ❑ The first auction of each month the Treasury may include EA inflation-indexed bonds
- ▶ Issuance via syndications
- ▶ The Treasury is open to the issuance of alternative instruments
 - ❑ Medium Term Notes in currency other than the Euro
 - ❑ Private Placements via the Primary Dealer's Group: efficiency, size & diversification of the investor base
 - ❑ As in previous years, possibility of special auctions

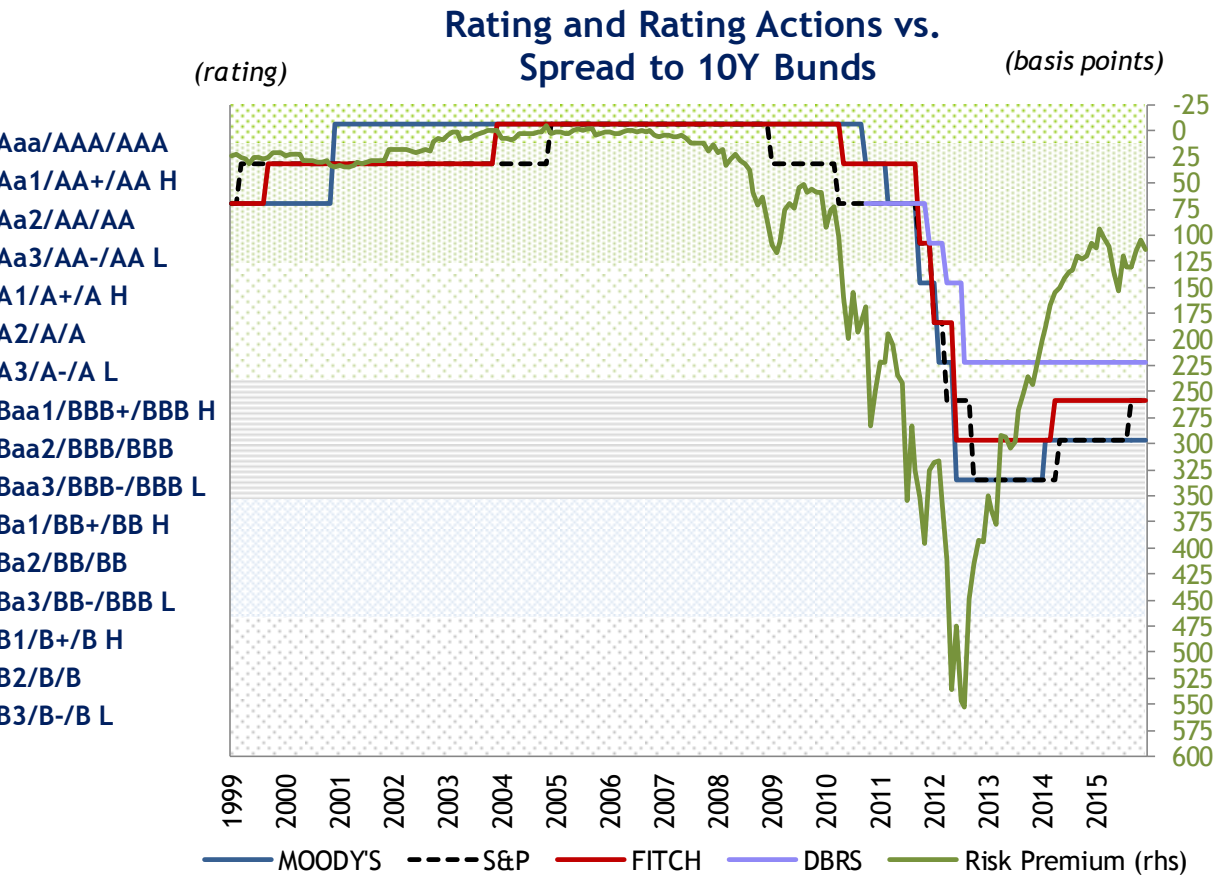
Syndicated issuance in 2016

- In January 2016, the Spanish Treasury has launched its first syndicated transaction of the year
- The new €9bn 10 year benchmark issue (due 30 April 2026) has a 1.95% coupon and was priced at a spread of 105 bps over mid swaps implying a reoffer price of 99.672
- More than 370 orders were placed in the transaction with a final book size of over EUR 29 billion (including €4.05bn from lead-managers)

JANUARY - NEW 10 YEAR REFERENCE. APRIL 2026



Evolution of Ratings



[Link to Data](#)

Announced Rating dates

	DBRS	Fitch	S&P	Moody's
January		29		
February				19
March				
April	8		1	
May				
June				17
July		29		
August				
September			30	
October	7			14
November				
December				

1. The Funding Programme in 2015 & 2016 forecast

2. Transformation of Spain's growth model

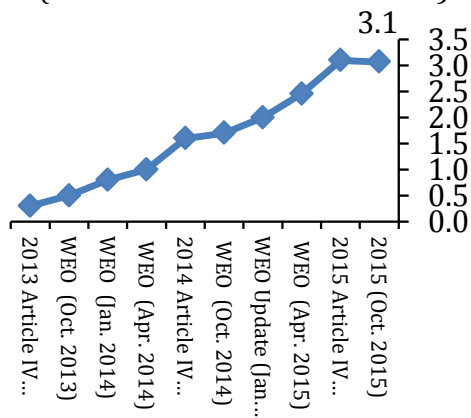
1.1 Recent macroeconomic trends	Page 12-14
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1.3 Consumer confidence back to 2007 levels	Page 18
1.4 The adjustment of the financial sector	Page 19-21
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1.7 From net borrower to net lender	Page 26-30

3. Spanish Economic Policy & Reforms

Spain is growing consistently and in a balanced way

- Spain's growth forecasts have been revised upwards by most analysts. Consensus forecast for 2015 above 3%
- Growth driven primarily by investment, followed by private consumption
- Unlike previous expansions, growth consistent with external surplus
- 818,700 more employees than in end-2013

Revisions to IMF GDP Forecasts for 2015
(Year-on-Year Growth Rates)



Macroeconomic scenario (YoY growth rates in percent)								
	2014	2015				2016	2017	2018
		Forecast	Q1	Q2	Q3			
Private consumption expenditure	1.2	3.4	2.4	2.9	3.4	3.0	2.7	2.5
General Government consumption expenditure	0.0	0.1	1.3	2.1	3.0	0.3	1.0	1.5
Gross Fixed Capital Formation	3.5	6.4	6.0	6.3	6.5	5.6	5.6	5.5
National Demand*	1.6	3.3	2.9	3.3	3.9	2.9	2.9	2.9
Exports of goods and services	5.1	5.5	5.9	6.2	5.6	6.0	5.8	5.7
Imports of goods and services	6.4	6.0	7.2	7.0	7.7	6.4	6.3	6.2
External demand*	-0.2	0.0	-0.2	-0.1	-0.5	0.1	0.0	0.0
Gross Domestic Product	1.4	3.3	2.7	3.2	3.4	3.0	2.9	2.9

Other macroeconomic variables								
	2014	2015				2016	2017	2018
		Forecast	Q1	Q2	Q3			
Unemployment rate (in %)	24.4	22.0	23.8	22.4	21.2	19.7	17.6	15.5
Full-time Equiv. Employment (YoY Growth)	1.1	3.0	2.9	3.0	3.1	3.0	2.9	2.9
Net lending(+)/borrowing(-) with RoW (% of GDP)	1.6	1.5	1.7	2.0	--	1.6	1.4	1.3
GDP deflator (YoY Growth)	-0.4	0.5	0.5	0.5	0.8	1.1	1.4	1.6
Deficit Excl. Financial Sector One-Offs (in % of GDP)	-5.78	-4.2	-0.68	-2.95	-3.10	-2.8	-1.4	-0.3

Underlying assumptions								
	2014	2015				2016	2017	2018
		Forecast	Q1	Q2	Q3			
USD/€ exchange rate	1.3	1.1	1.13	1.11	1.11	1.1	1.1	1.1
Euro Area GDP growth (YoY growth)	0.9	1.5	1.3	1.6	1.6	1.9	2.1	2.2
Oil prices (Brent, USD/barrel)	99.4	61.5	62.3	66.7	52.9	68.8	68.8	68.8

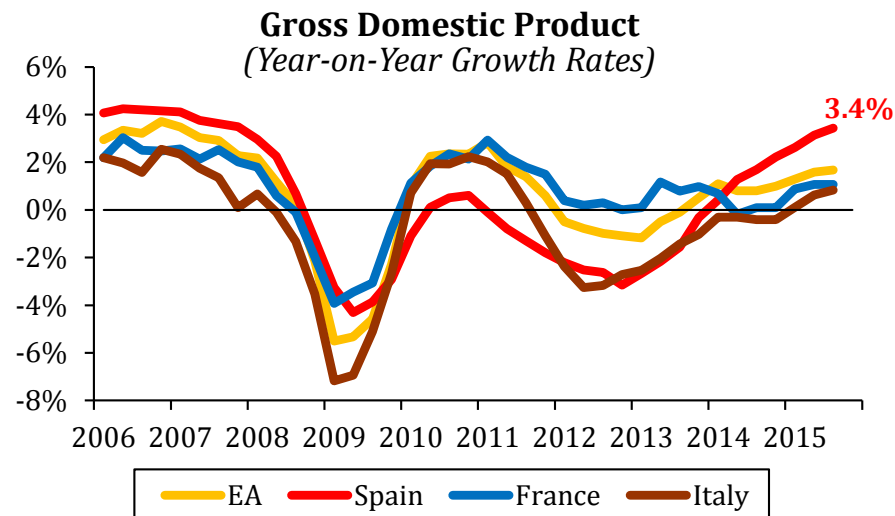
Sources: Ministerio de Economía y Competitividad, OECD, IMF and European Commission.

* Contributions to GDP in p.p.

[Link to Data](#)

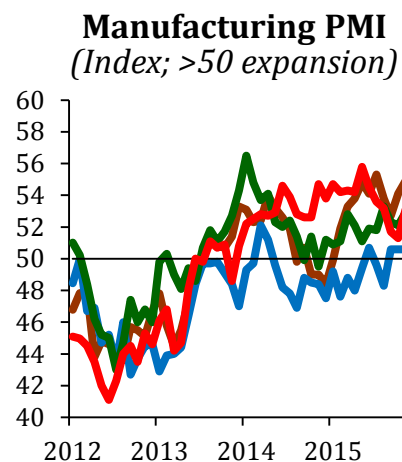
Growth is less vulnerable to international volatility

- ▶ The Spanish economy is growing twice as fast as the Euro Area
- ▶ Positive tailwinds shared across the Euro Area: low oil prices, weaker exchange rate, low interest rates, improved credit conditions, neutral fiscal conditions
- ▶ The positive effects of structural reforms explain the differential improvement



Source: Eurostat.

[Link to Data](#)



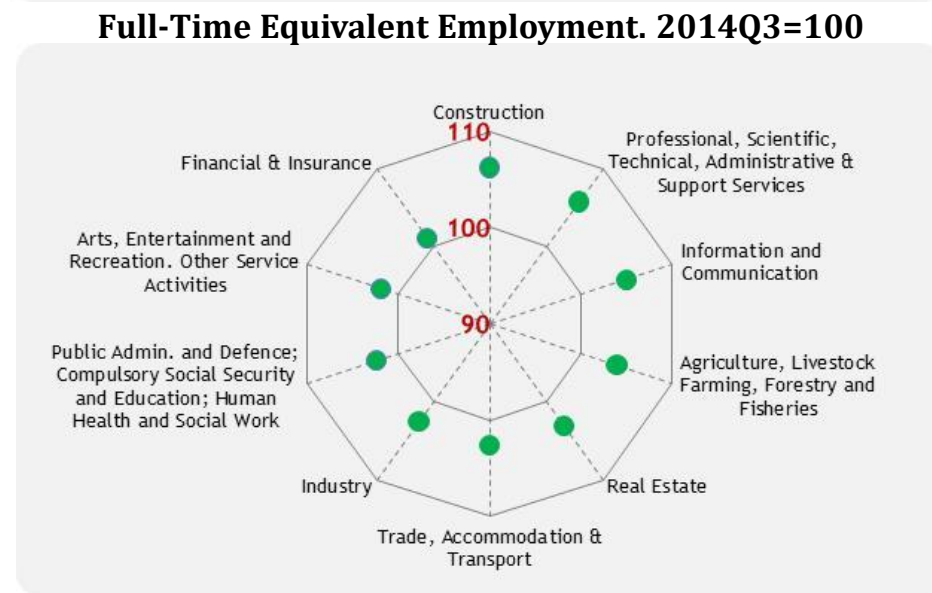
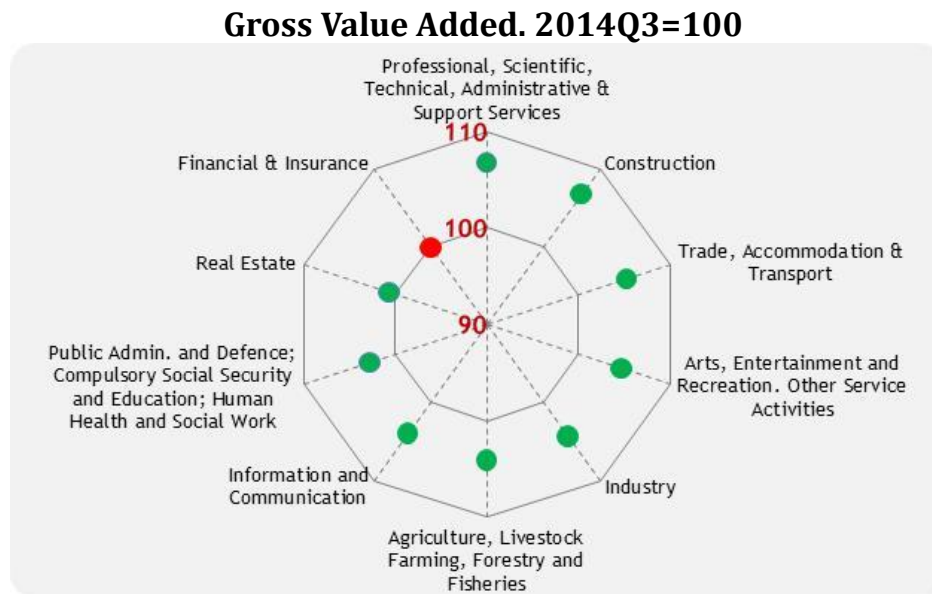
Sources: Bloomberg & Eurostat.

[Link to Data](#)

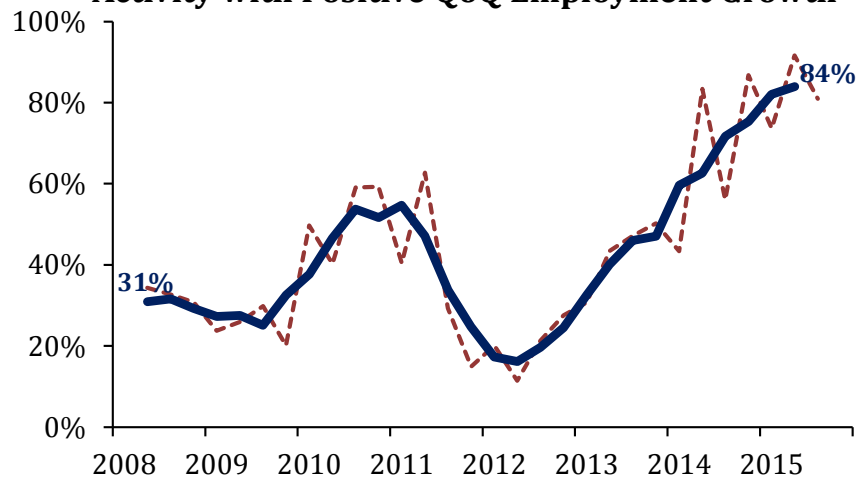
Recent macroeconomic data and trends

► The economic recovery is wide-spread in terms of gross value added and employment:

- Recent pick-up in construction and real estate spurred by lower indebtedness and favourable price dynamics
- Professional & Technical services, industry and trade supported by gains in external competitiveness and structural reforms



Weighted Average Percentage of Branches of Economic Activity with Positive QoQ Employment Growth

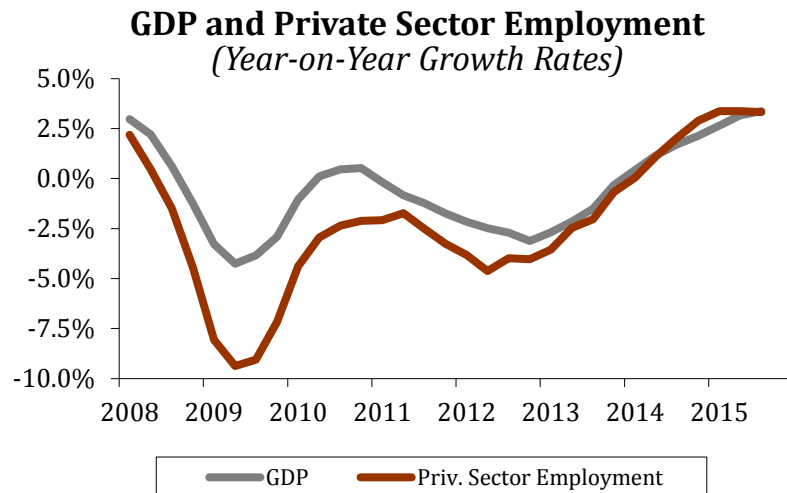


Source: National Statistics Institute.

[Link to Data](#)

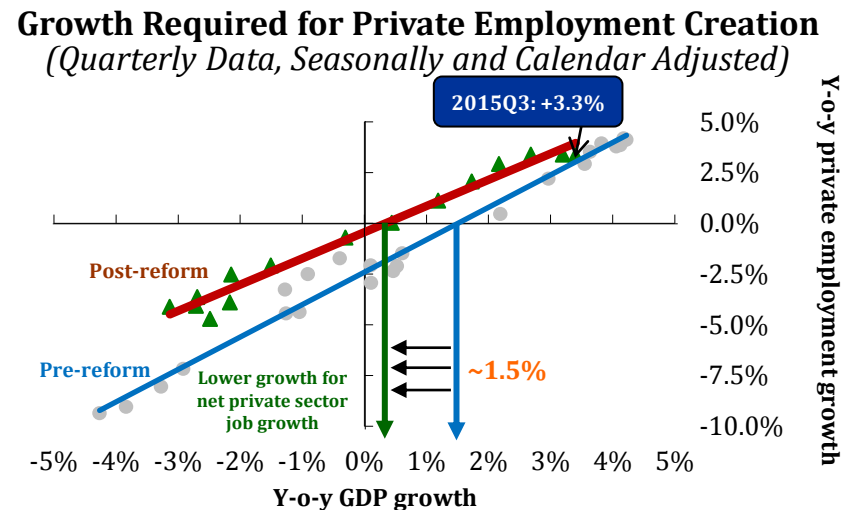
Labour market reform: a change in labour dynamics

► GDP and employment growing at the same pace



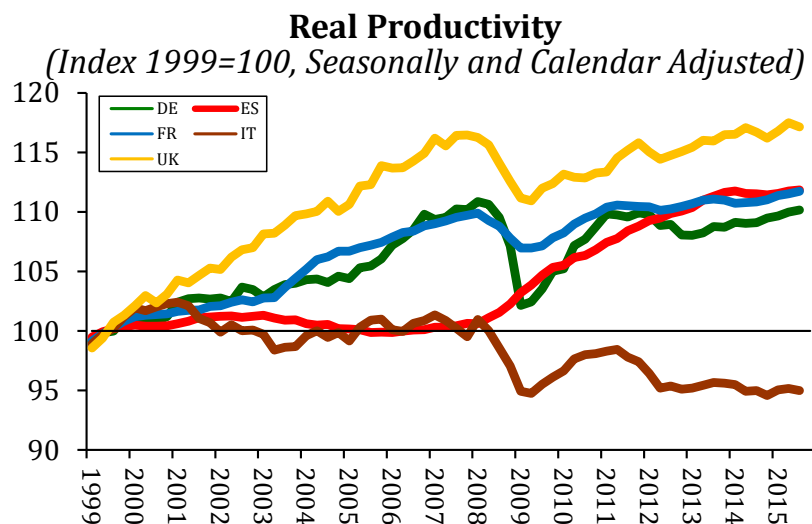
Source: National Statistics Institute.

[Link to Data](#)



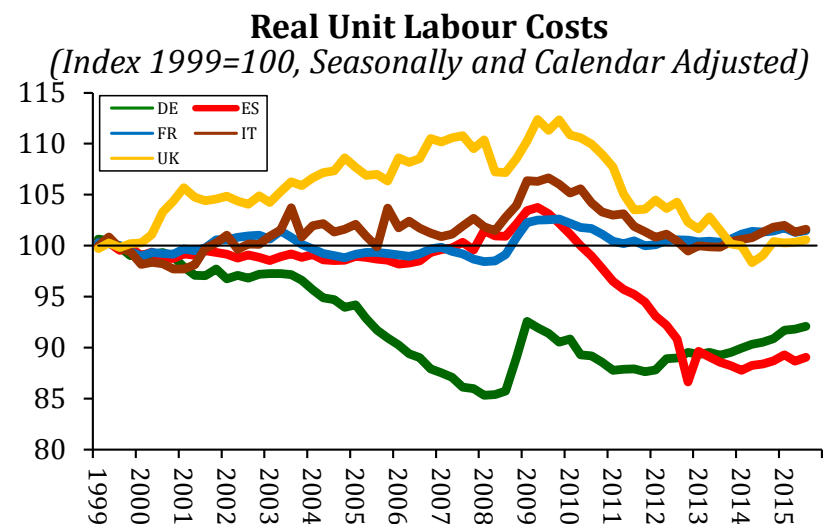
Source: National Statistics Institute.

[Link to Data](#)



Source: Eurostat.

[Link to Data](#)

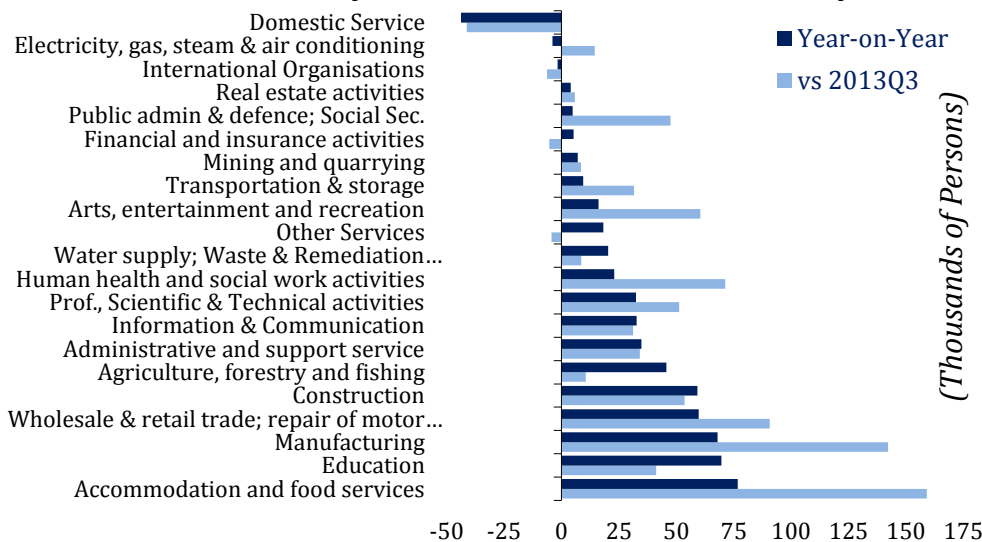


[Link to Data](#)

Spain is the main contributor to employment creation in the Euro Area

- ▶ Spain has generated 36.6% of all the employment created in the Euro Area since 2014
- ▶ Employment generated across a broad array of sectors

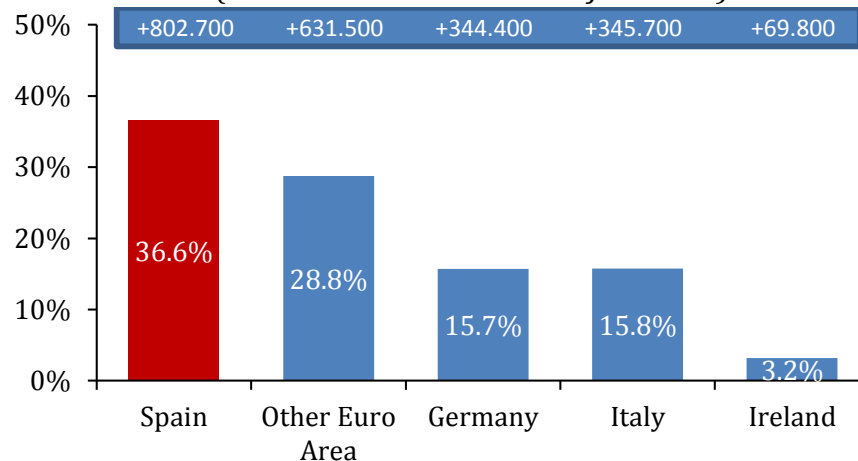
Labour Force Survey, 2015Q3
Breakdown by Branches of Economic Activity



Source: National Statistics Institute.

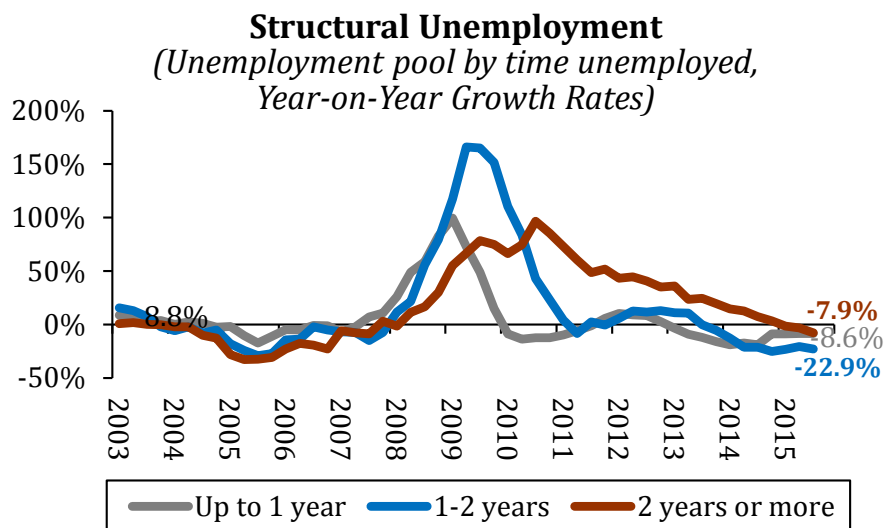
[Link to Data](#)

Share in Employment Creation in the Euro Area 2014Q1 to 2015Q3
(Percent and Thousands of Persons)



Declining structural unemployment

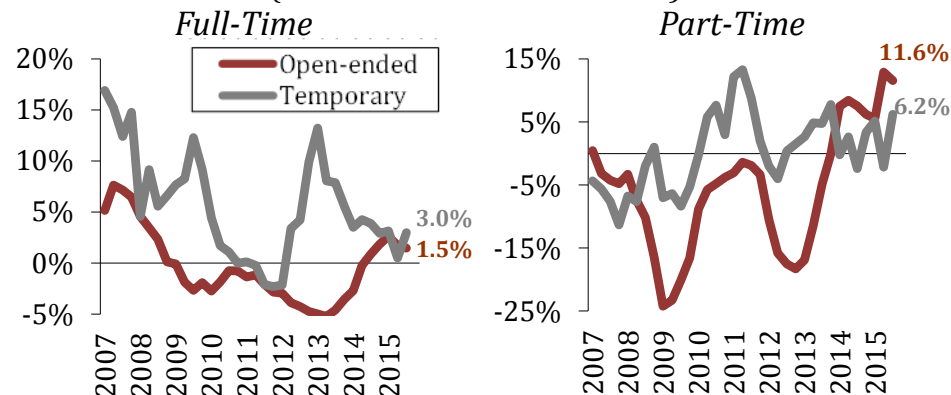
- ▶ Structural unemployment falling since 2014
- ▶ Recovery in full-time open-ended contracts since 2014H2
- ▶ Less reliance on temporary contracts, more on part-time contracts than in the previous decade



Source: National Statistics Institute and Eurostat.

[Link to Data](#)

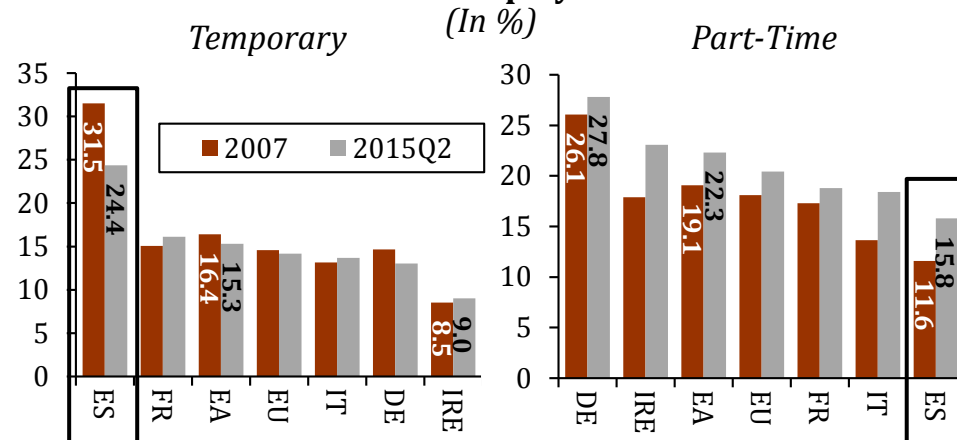
Evolution of Contracts by Type
(Year-on-Year Growth Rates)



Source: National Statistics Institute.

[Link to Data](#)

Share of Temporary and Part-Time Contracts in Total Employment
(In %)



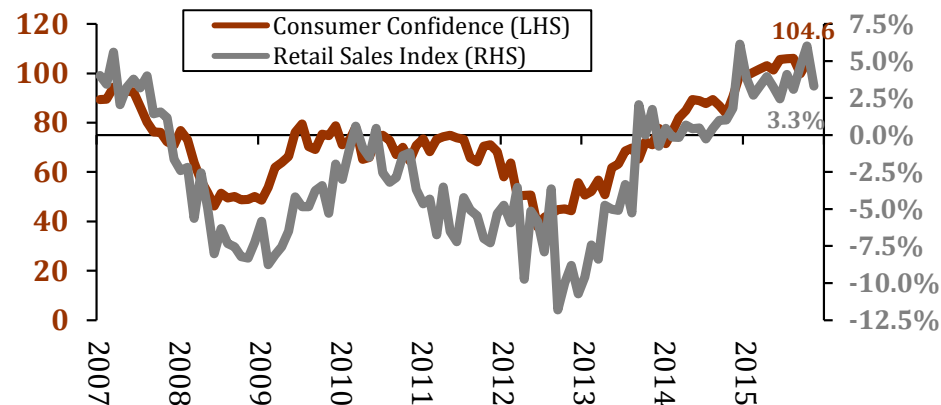
Source: National Statistics Institute and Eurostat.

[Link to Data](#)

Consumer confidence back to early 2007 levels

- ▶ Consumer confidence above 2007 levels
- ▶ Retail sales accelerating despite low inflation, spurred by employment creation
- ▶ Core inflation is starting to recover, but the favourable inflation differential vs. the European Union remains

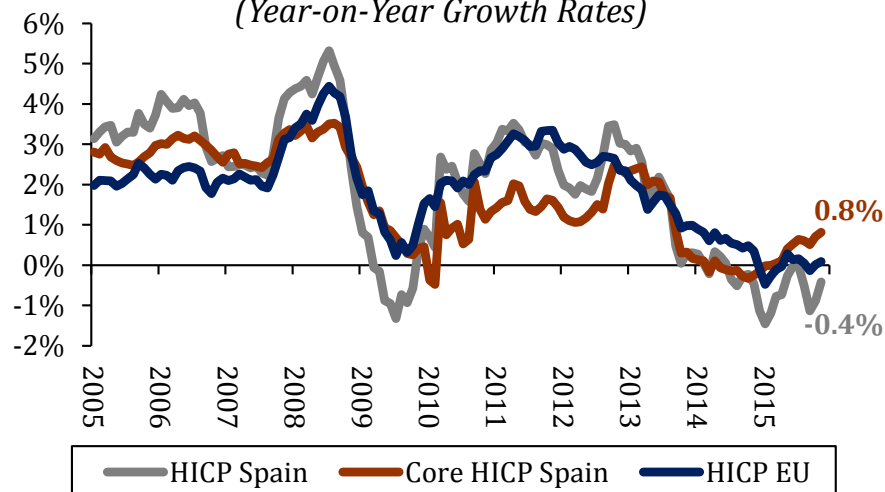
Consumer Confidence & Retail Sales
(Year-on-Year Growth Rates)



Source: Ministerio de Economía y Competitividad.

[Link to data](#)

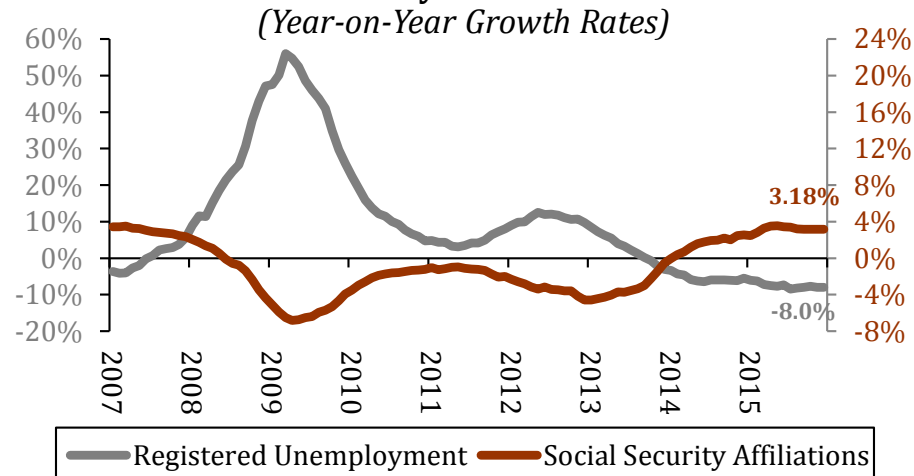
HICP & HICP Excl. Energy and Processed Food
(Year-on-Year Growth Rates)



Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

Registered Unemployment & Social Security Affiliations
(Year-on-Year Growth Rates)



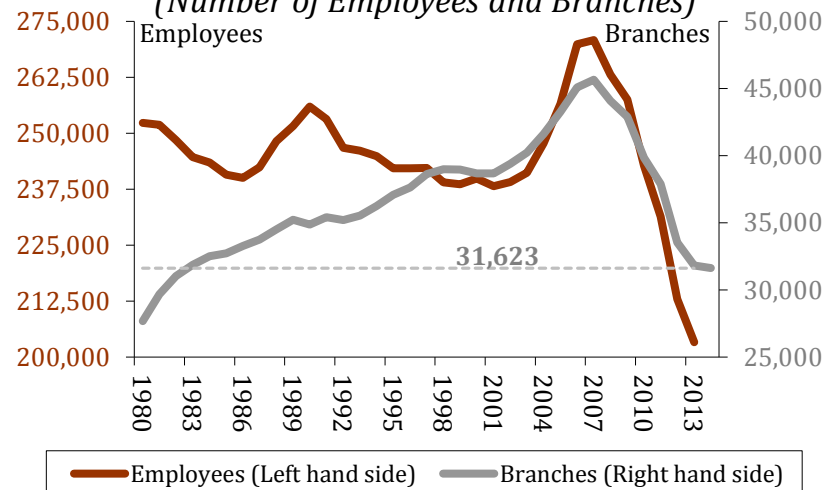
Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

Adjustment and recapitalisation of the financial system (I)

- Spain's financial sector is now leaner, more efficient and better capitalised
- Better prepared for NPLs: Coverage ratio of doubtful loans to Households and Corporates has increased from 29% in 2008Q3 to 47% by 2015Q3
- Banks' have already cleaned up cumulative losses of €300 bn up to 2015Q3

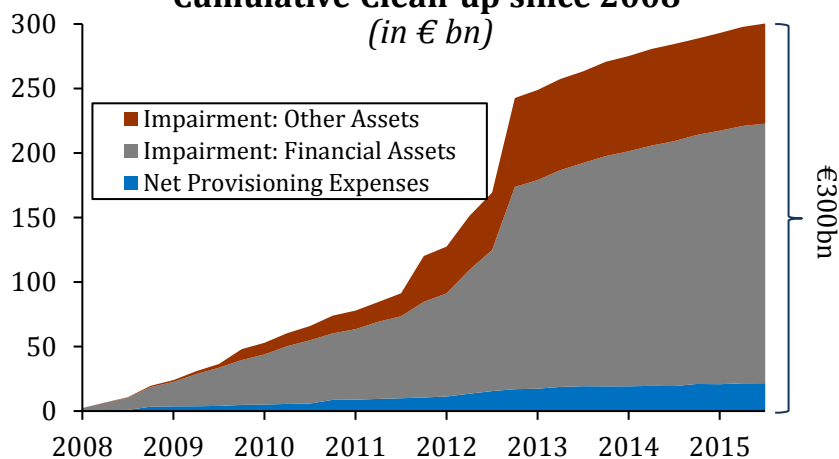
Adjustment in Deposit Taking Institutions
(Number of Employees and Branches)



Source: Bank of Spain.

[Link to Data](#)

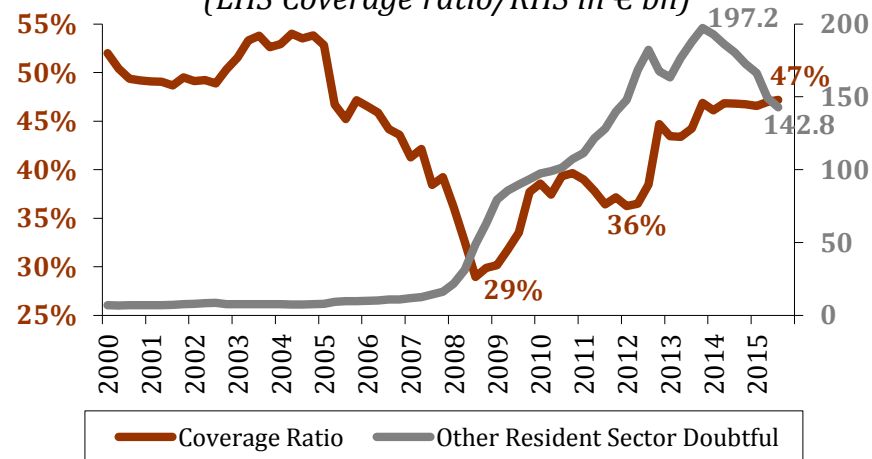
Credit Institutions. Cumulative Clean-up since 2008
(in € bn)



Source: Bank of Spain.

[Link to Data](#)

Doubtful Loans. Other Resident Sector
(LHS Coverage ratio/RHS in € bn)



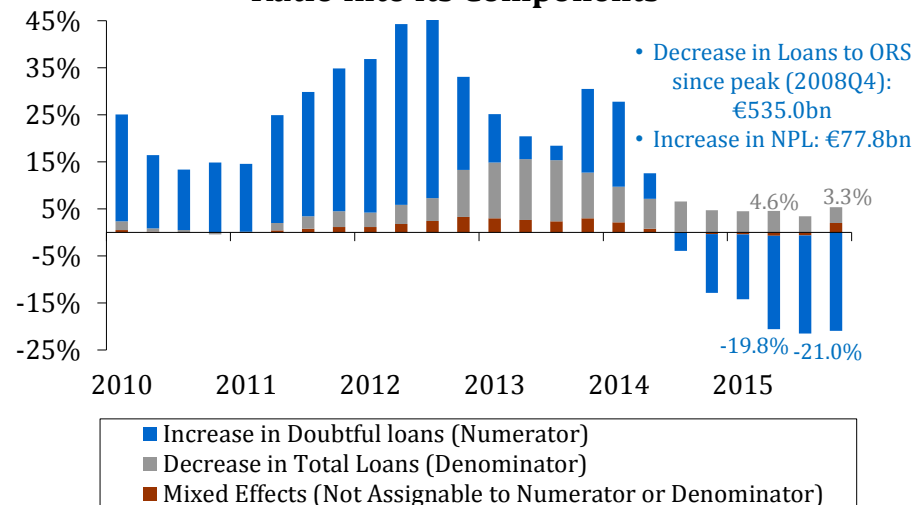
Source: Bank of Spain.

[Link to Data](#)

Adjustment and recapitalisation of the financial system (II)

- More transparency: more, better and harmonised information provided by banks
- Harmonised disclosure now in restructured and refinanced loans, NPLs, asset quality across asset classes, concentration by sector, etc.
- Doubtful loans: falling 21.0% yoy in Oct. 2015
- Improving equity-to-asset ratio and funding gap

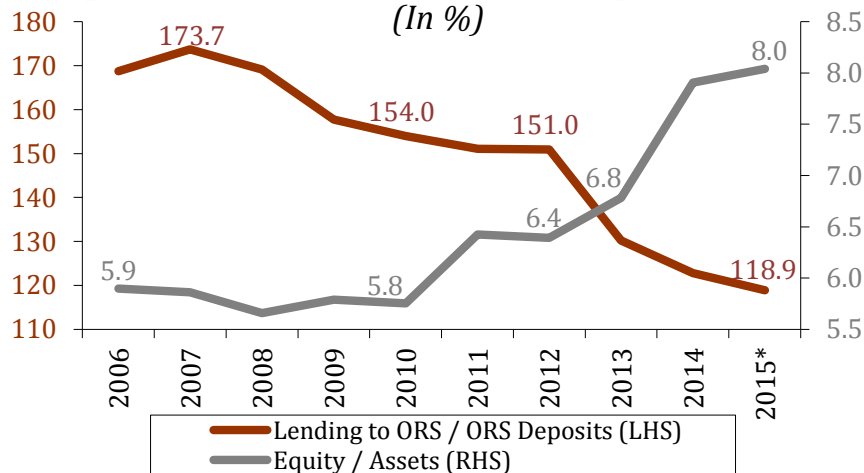
Breakdown of Year-on-Year Growth Rate of NPL Ratio into its Components



Source: Bank of Spain.

[Link to Data](#)

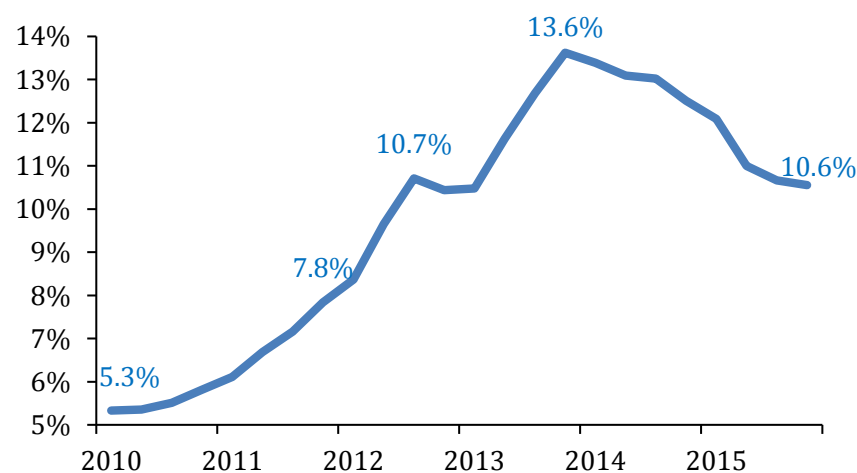
Equity-to-Assets and Lending-to-Deposits Ratios (In %)



Source: Bank of Spain.

[Link to Data](#)

NPL Ratio



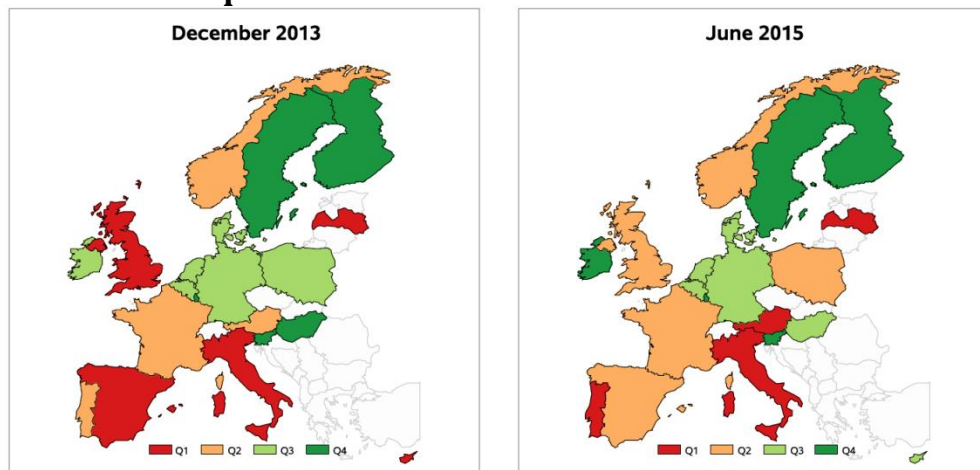
Source: Bank of Spain.

[Link to Data](#)

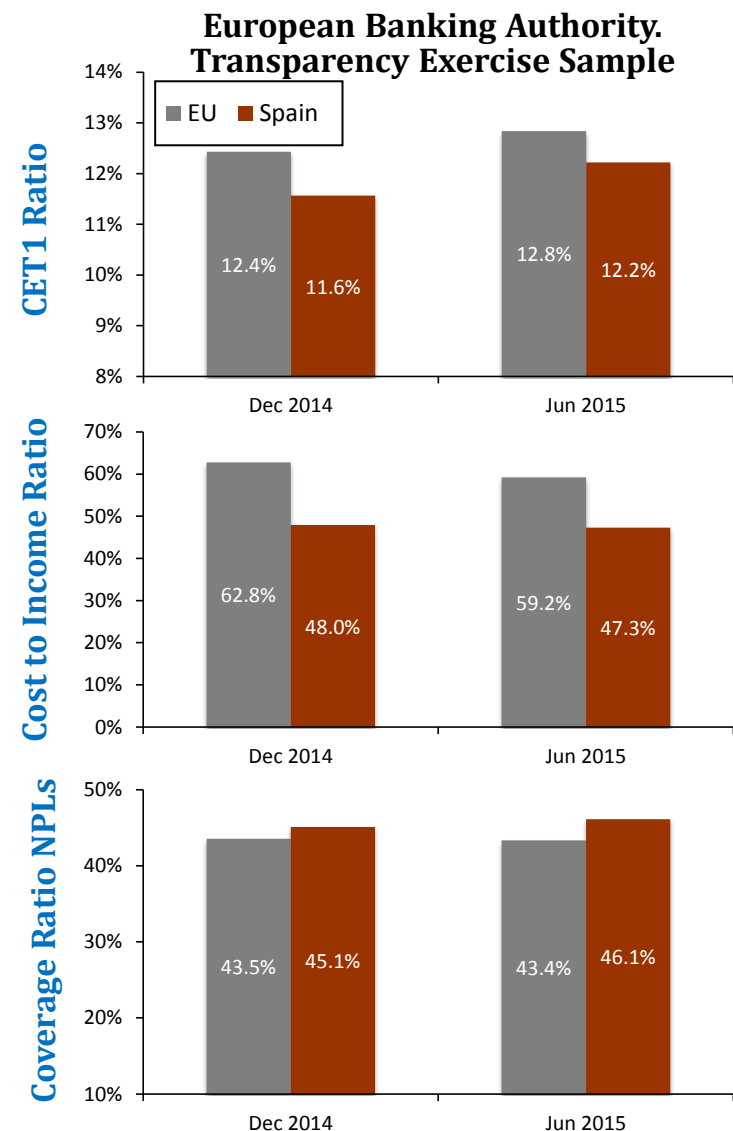
Adjustment and recapitalisation of the financial system (III)

- Positive evolution of main capitalisation, NPL coverage ratios, cost-to-income & leverage ratio, etc. in a EU-wide context
- Enhanced and regular transparency to be complemented with 2016 stress test exercise. Enhanced and regular transparency to be complemented with 2016 stress test exercise. Under the 2015 EBA Transparency Exercise, the sample of banks in the case of Spain (90% of percentage of total leverage exposures) has been much broader than the EU average (67%)

Evolution of CET1 ratio by country of banks (December 2013 - June 2015): relative position and allocation to quartiles of CET1 ratios distribution



Source: European Banking Authority.



Source: European Banking Authority.

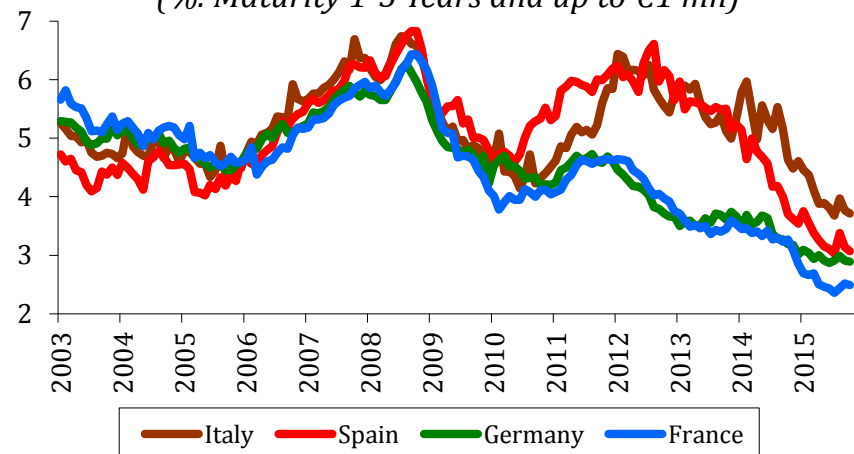
[Link to Data](#)

Increasing new loans to households & corporates

- ▶ Interest rates converging towards Euro Area levels
- ▶ New loans to SMEs (less than €1 million) are growing since mid-2013, loans to larger corporates also recovering strongly since early 2015
- ▶ Consumer loans have been growing since 2013; loans for house purchase have been growing since January 2014

Lending Rates of New Loans to Non-Financial Corporations

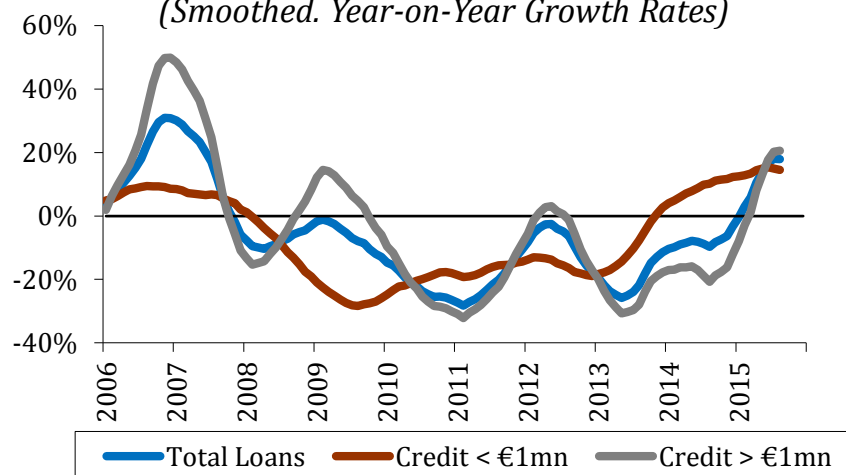
(%. Maturity 1-5 Years and up to €1 mn)



Source: ECB.

[Link to Data](#)

New Loans to Non-Financial Firms (Smoothed. Year-on-Year Growth Rates)

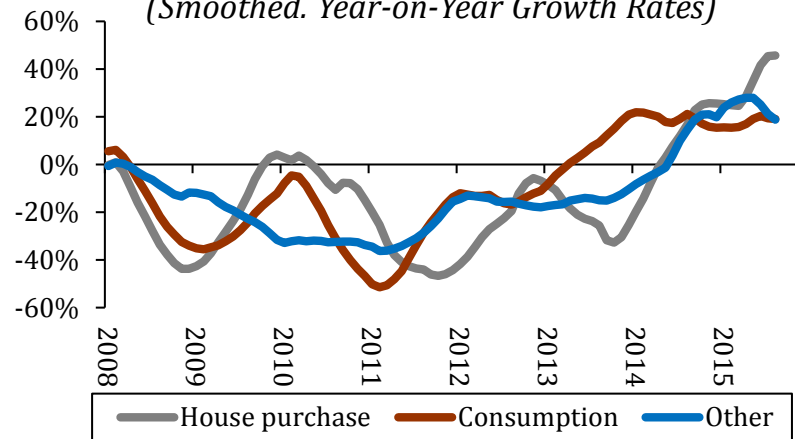


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

New Loans to Households By Type of Loan

(Smoothed. Year-on-Year Growth Rates)



Source: Ministerio de Economía y Competitividad.

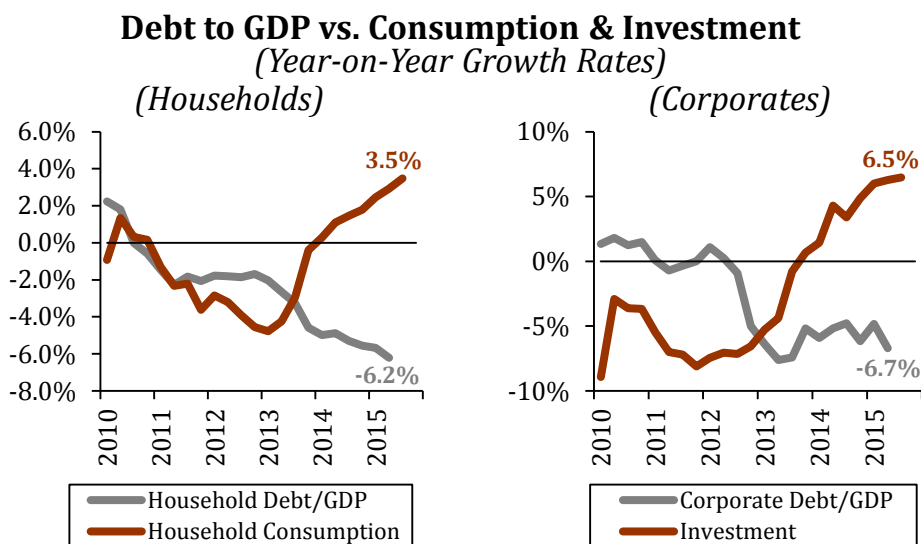
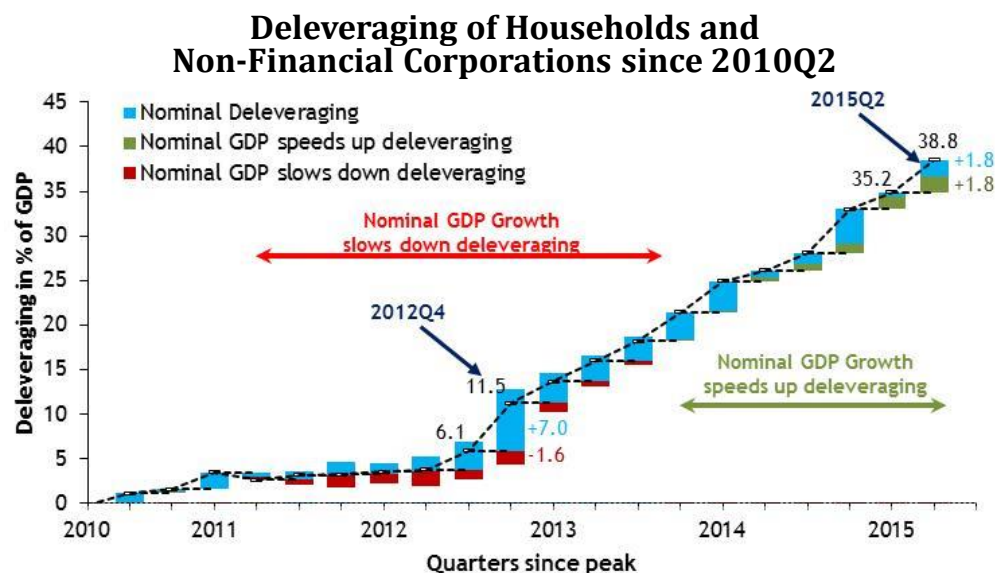
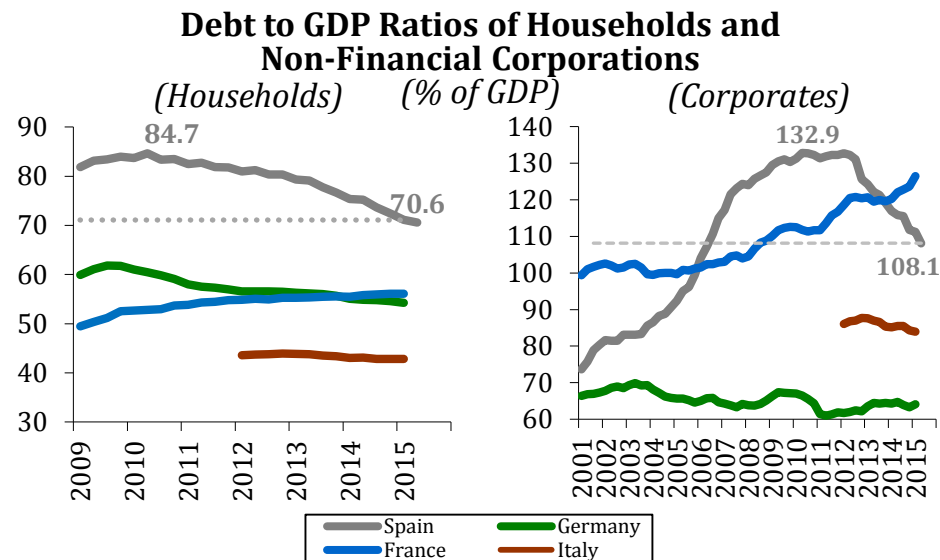
[Link to Data](#)

But private sector deleveraging continues

► Since 2010Q2 the private sector has deleveraged by more than €453 bn by paying down debt, not through inflation:

- ▣ Firms by €287.5 bn
- ▣ Households by €165.6 bn

► Confidence in economic stability makes private-sector deleveraging compatible with growth in consumption and investment



Source: ECB, Bank of Spain and National Statistics Institute.

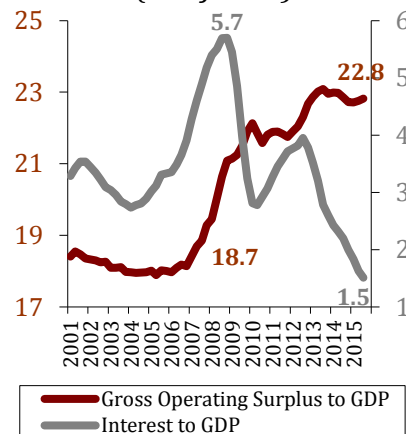
[Link to Data](#)

Scenarios for corporate and household debt

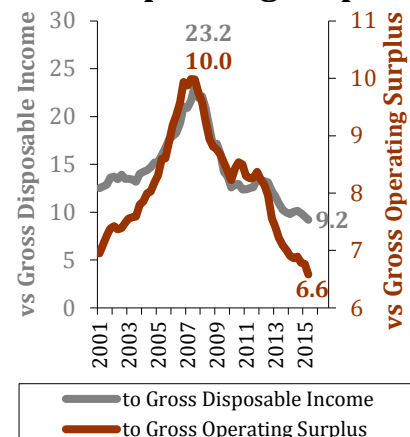
- Firms are generating savings and reducing their debt levels.
- Sounder cash-flows: Higher operating surpluses to face liabilities, lower interest burden
- Mortgage debt expected to amortise quickly

Non-Financial Corporations

Gross Operating Surplus and Interest Paid (% of GDP)

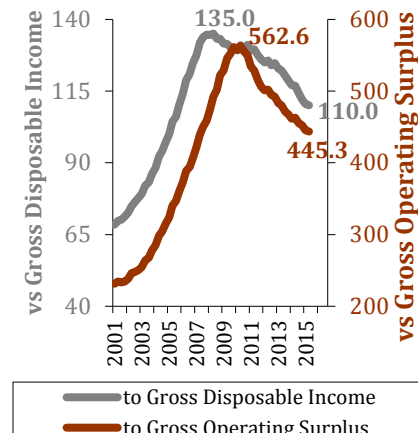
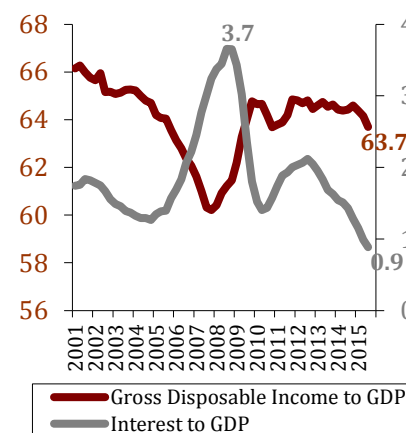


Liabilities Excl. Equity to Gross Disposable Income and Gross Operating Surplus



[Link to Data](#)

Households

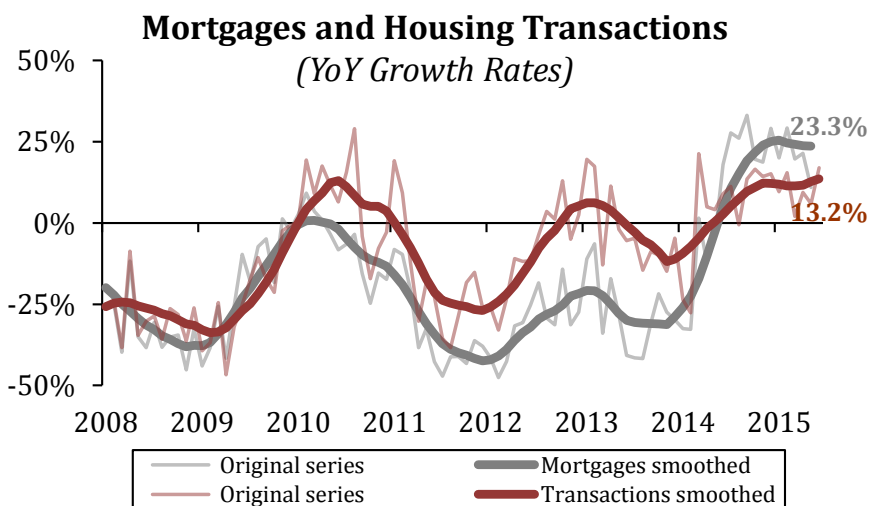


[Link to Data](#)

Source: National Statistics Institute and Bank of Spain.

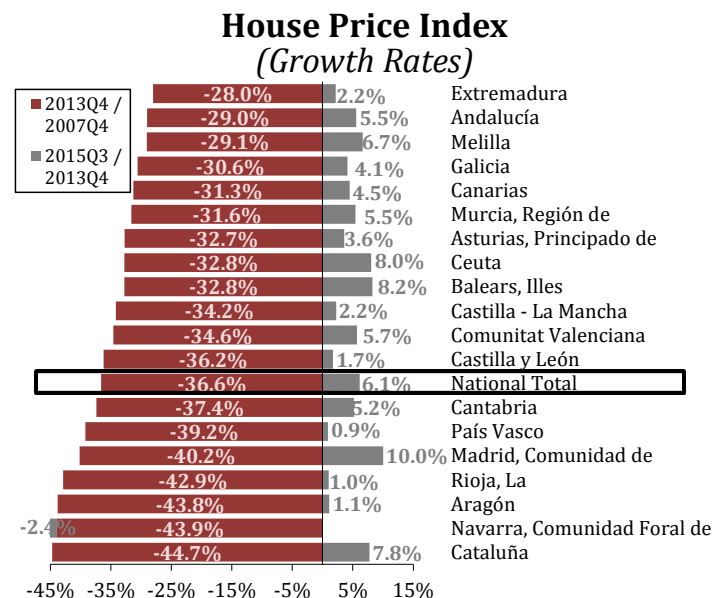
Spain's construction sector is beginning to recover

- Prices bottomed-out around mid-2014, and have shown a moderate upward trend
- Gradual recovery in mortgages, new loans and residential transactions since 2013
- Gross value added generated by the construction sector is expanding since 2014Q2, for the first time since 2008



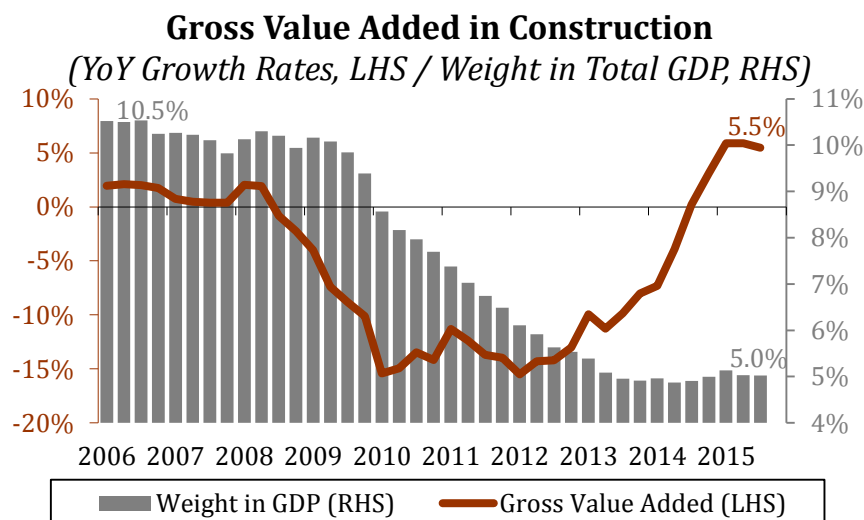
Source: National Statistics Institute.

[Link to Data](#)



Source: National Statistics Institute.

[Link to Data](#)

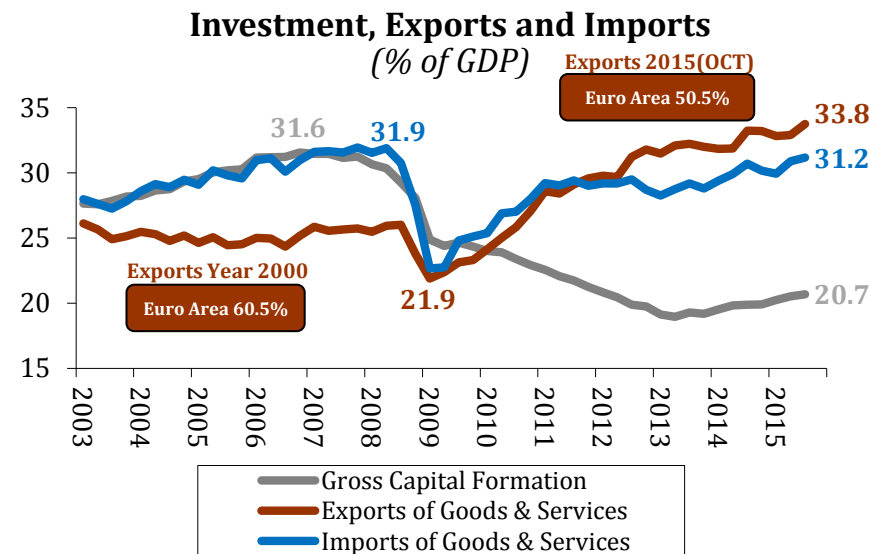


Source: National Statistics Institute.

[Link to Data](#)

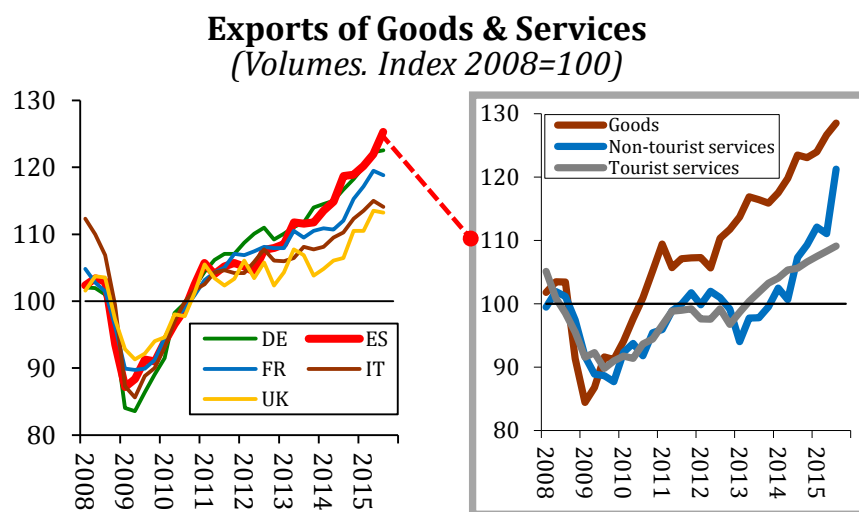
External sector: from net borrower to net lender

- ▶ The weight of exports in GDP has increased from 21.9% in 2009Q1 to 33.8% by 2015Q3
- ▶ Investment around Eurozone average
- ▶ Third consecutive yearly Current Account Surplus (2.08% of GDP), supported by falling oil prices



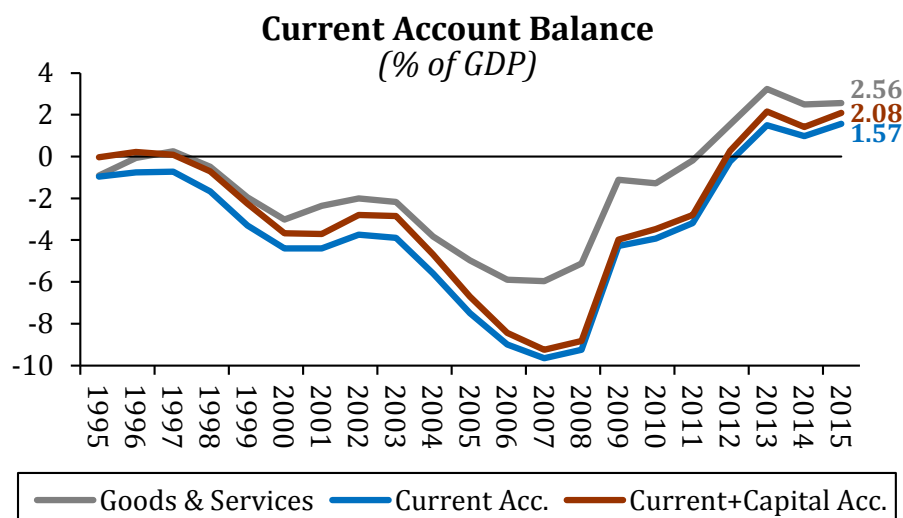
Source: National Statistics Institute.

[Link to Data](#)



Source: Eurostat and National Statistics Institute.

[Link to Data](#)

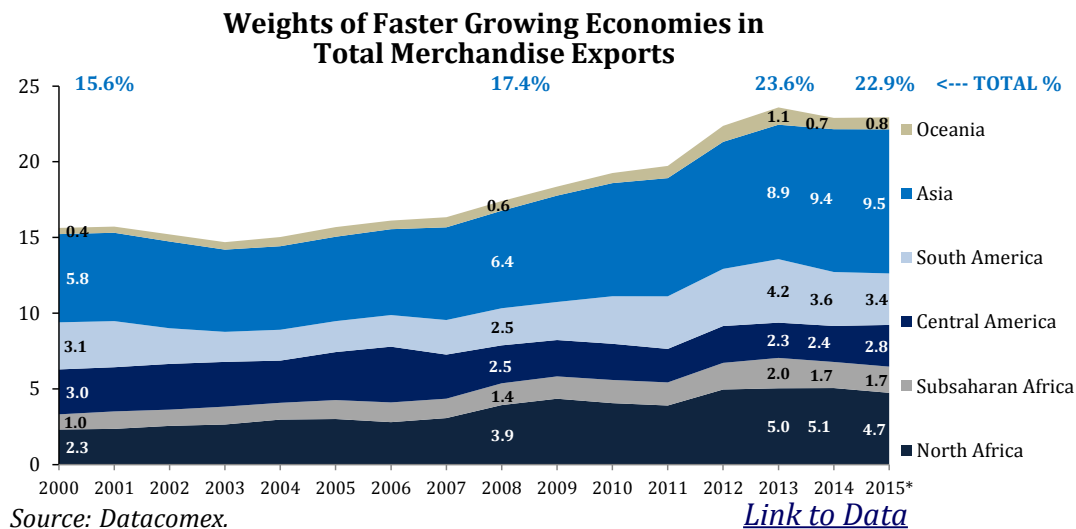
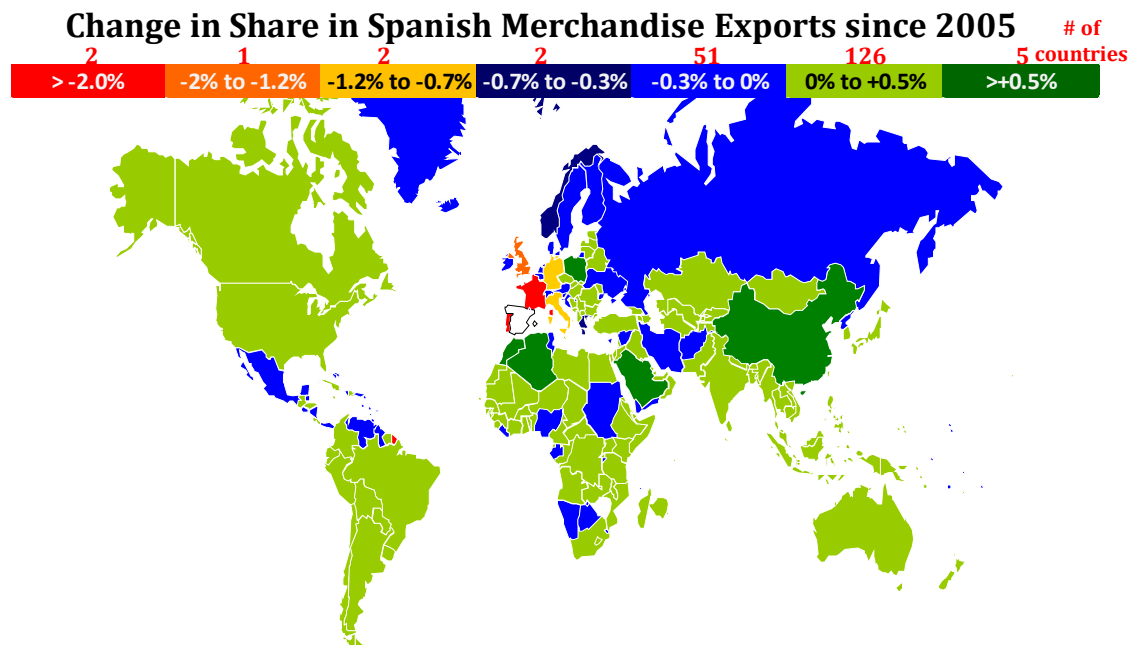


Source: Bank of Spain.

[Link to Data](#)

Exports are more widely diversified

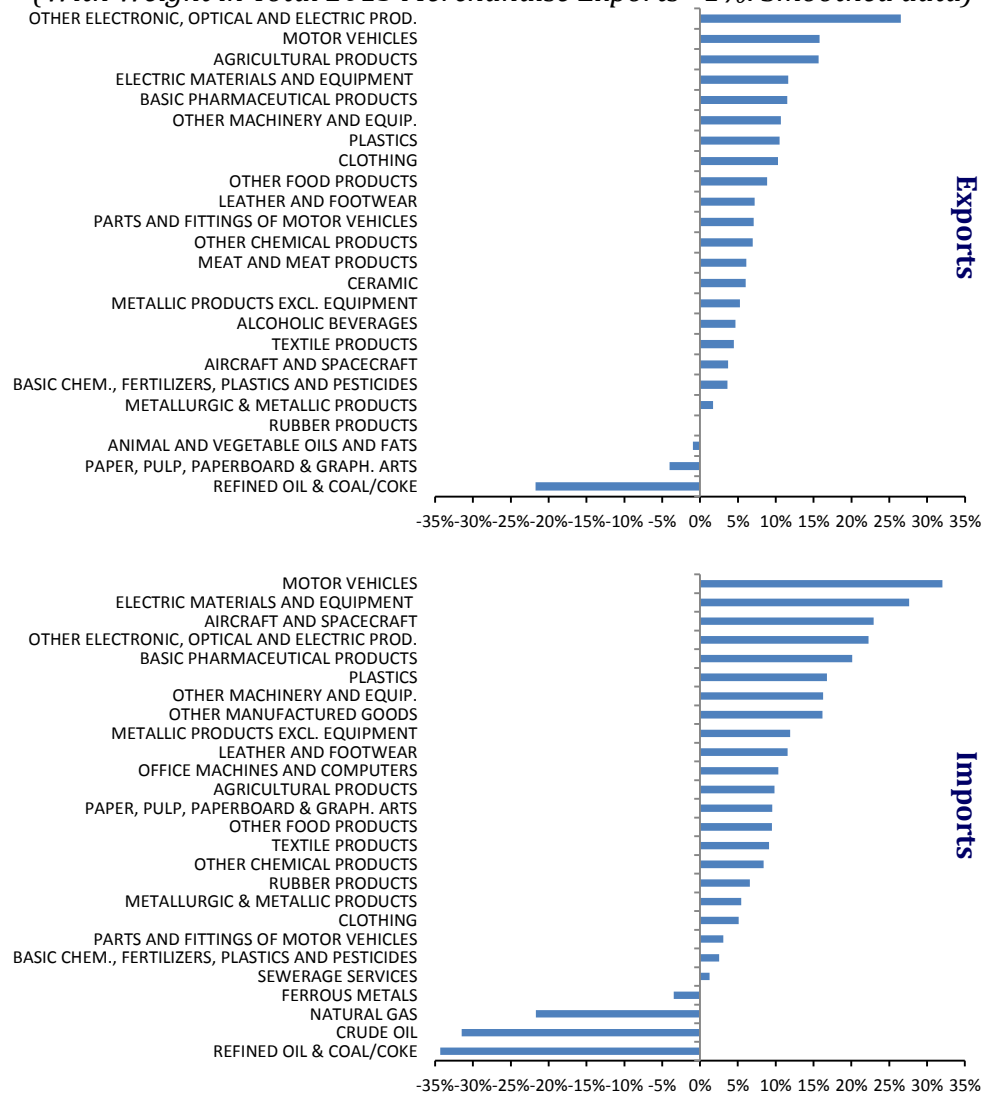
- ▶ Spain is diversifying its export base:
 - Increasing market share in Africa & Middle East, Asia, North & South America
 - Decreasing market share to EU, Venezuela, Central America, parts of southern Asia
- ▶ Merchandise trade to the Euro Area represents 50.5% up to October 2015 vs. 60.5% in the year 2000



Imports are now increasing for investment and for re-export activities

- ▶ Exports of goods are increasing in capital-intensive sectors: pharmaceutical, optical and electronic products, motor vehicles, machinery and equipment
- ▶ Imports of goods reflect the need to replenish the capital base in exporting sectors: vehicles for professional use, electric material and equipment, heavy machinery etc.

Main Export and Import Products (YoY Growth)
(With Weight in Total 2013 Merchandise Exports >1%. Smoothed data)

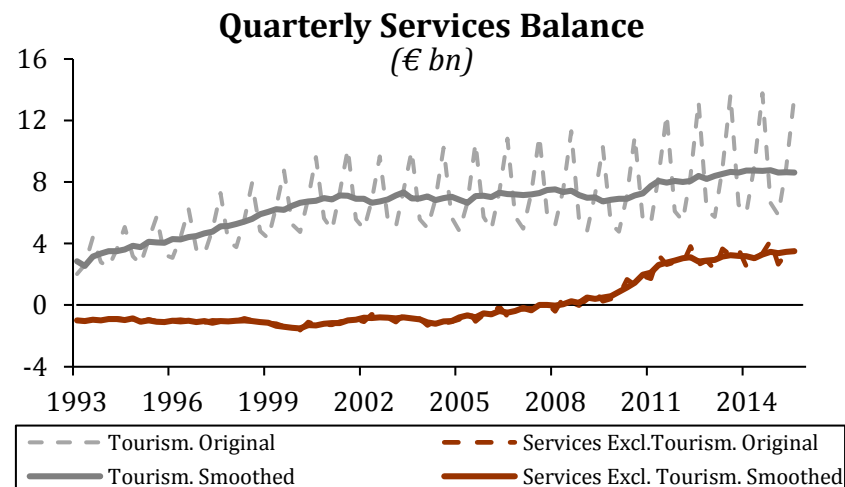


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

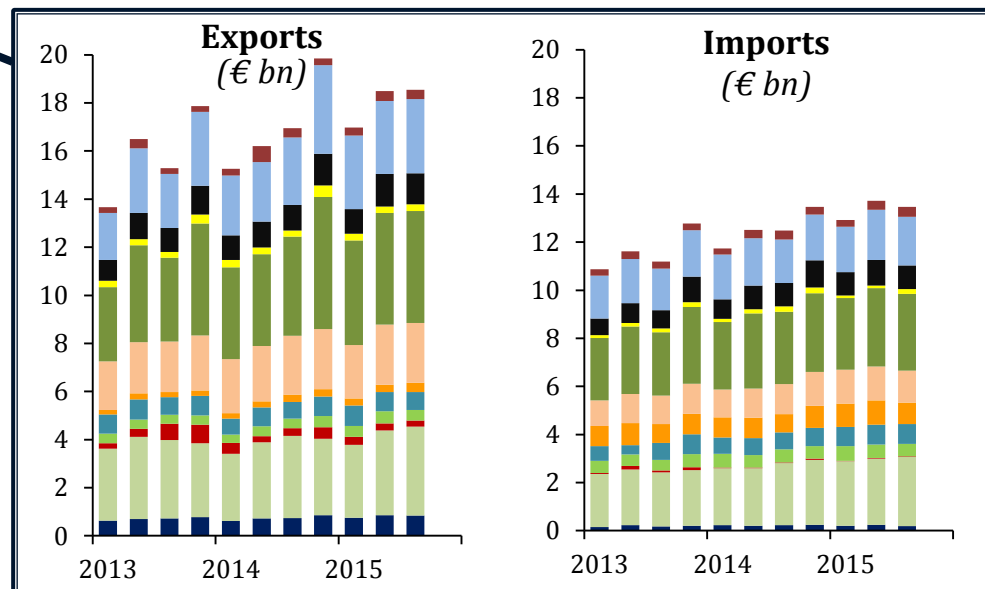
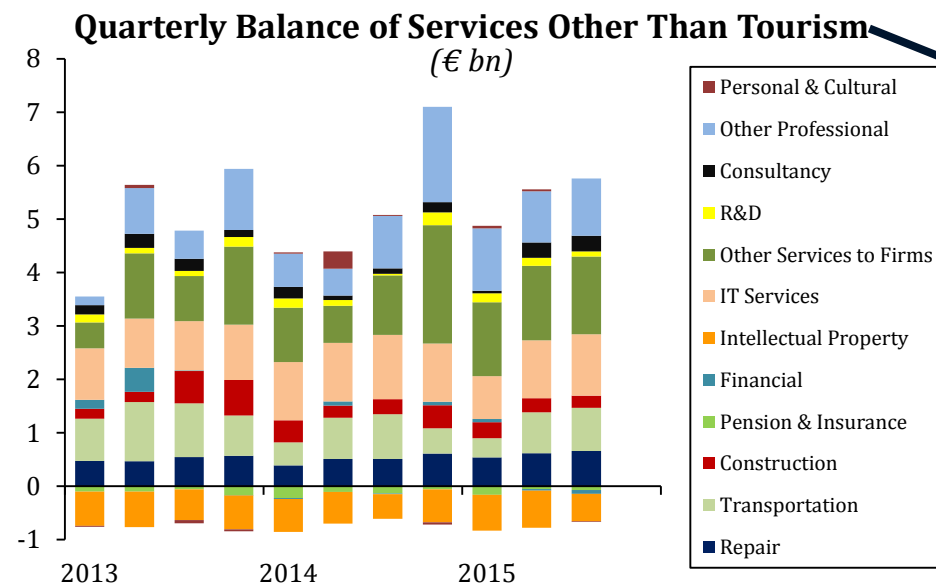
Services exports expand the CA surplus

- ▶ Tourism services are reaching historical highs
- ▶ Most importantly, exports of services other than tourism (exports of services to firms, other professional services, IT-related services, etc.) are expanding at notable growth rates



Source: Ministerio de Economía y Competitividad.

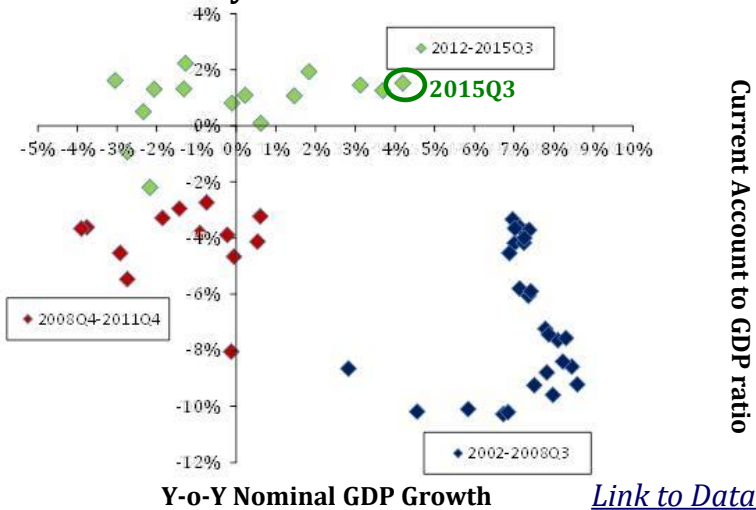
[Link to Data](#)



Net International Investment Position in the context of growth & CA surplus

- ▶ GDP growth is not linked to current account deficits as in previous growth cycles
- ▶ The small increase in Net International Investment Position (NIIP) since 2013 is the result of positive economic trends, and is linked to valuation effects
- ▶ Assuming nominal GDP growth and current account balance at current levels the NIIP would fall to -50% of GDP by 2024

Current Account Dynamics vs. Nominal GDP Growth



[Link to Data](#)

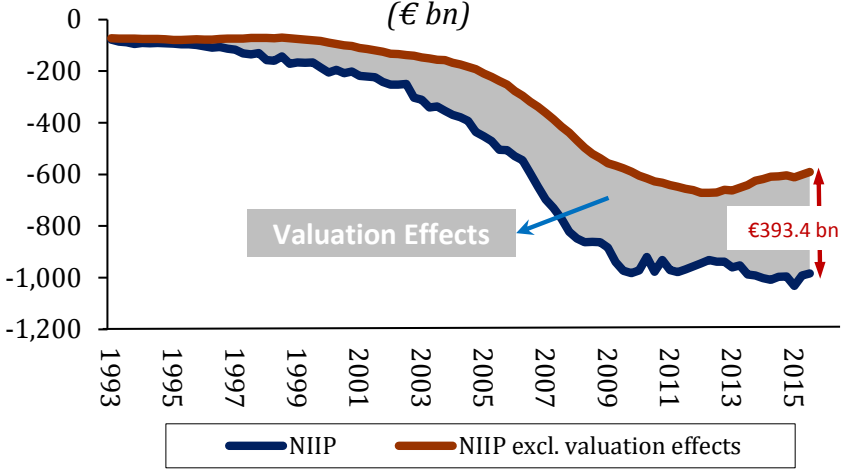
Net International Investment Position Scenarios for 2024 as a Function of Current Account & GDP

		Nominal GDP Growth		
		2.0%	3.9%	5.0%
Current Account % of GDP	-4.6%	NIIP Increases	NIIP Increases	NIIP Stabilises
	-3.7%	NIIP Increases	NIIP Stabilises	
	-2.2%	NIIP Increases		NIIP at -75% of GDP
	-1.9%	NIIP Stabilises		
	-1.3%		NIIP at -75% of GDP	
	0.3%	NIIP at -75% of GDP		
	0.9%		NIIP at -50% of GDP	NIIP at -50% of GDP
	1.7%		NIIP at -50% of GDP	
	3.0%	NIIP at -50% of GDP		
	4.0%		NIIP at -25% of GDP	NIIP at -25% of GDP
	4.6%		NIIP at -25% of GDP	
	5.7%	NIIP at -25% of GDP		

Source: European Commission calculations.

[Link to Data](#)

Breakdown of the Net International Investment Position (€ bn)



Source: Bank of Spain.

[Link to Data](#)

1. The Funding Programme in 2015 & 2016 forecast

2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

2.1 Reform Policies 2012-2015

Page 32-40

2.2 The 2016 Central Government Budget Law

Page 41

2.4 Budgetary Execution in 2015

Page 42

Four years of structural reforms

2012: First Generation Reforms

Labour Market

Budgetary Framework

Financial Sector

2013: Second Generation Reforms

Labour Market Reform

Budgetary Plan

Financial Sector Reform

Services/Product Markets

Pension System Reform

Strategic Plan for Exporters

Serv. Market Liberalisation

Local Administrations

ICO Mediation Credit Lines

Single Market Law

De-indexation

Main Reforms 2014-2015

IMPLEMENTATION OF
REFORMS ADOPTED IN
2012-2013

Job
Activation
Strategy and
Plan for
Youth
Employment

Reform of the
Active Labour
Market Policy
Framework

Reform of
the Tax
System

New Legal
Framework for
Disintermediation and
Promotion of
Capital Markets
for SMEs

Measures to
Facilitate
Corporate
Recovery & Debt
Restructuring

Reform of the
Insolvency Regime

Second
Opportunity Law

Single Market/Market Unity Law

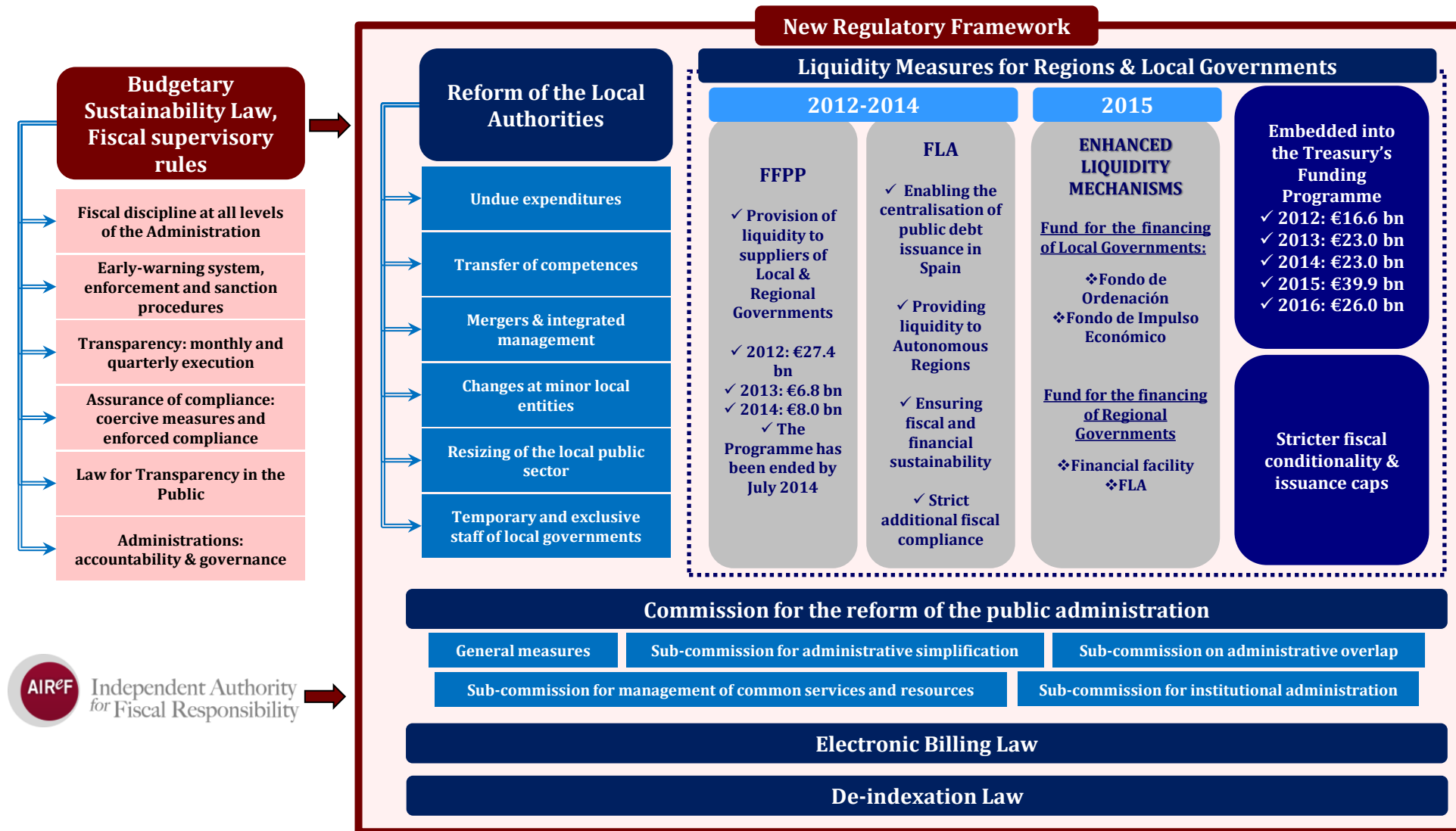
- Economic Structural Reforms
- Public Sector Reforms
- Financial Sector Reforms

Links to detailed presentations
describing the Reform Agenda

*Balance Reforms. Three years in
Government*
OECD: CORA Reforms

The reform of the public administrations (I)

► The reform of the public sector builds on the structural reform process initiated in 2012



The reform of the public administrations (II)

- ▶ A highly devolved system of regional and local competencies, more than elsewhere in Europe
- ▶ Together with the resources provided by the Regional Financing System, regions have access to region-specific taxes, transfers from the General State Budgets, EU Funds...
- ▶ Since 2012 two auxiliary Funds were established by the Central Government → FLA and FFPP
- ▶ “Fund to Finance Supplier Payments” (FFPP) aimed at paying the territorial administrations (both regions and municipalities) for outstanding invoices and, hence, regularising the arrears. This Fund was extinguished in July 2014. The outstanding debt has been assumed by the Spanish Treasury
- ▶ In 2015 the Treasury will have provided liquidity to Regions and Local Governments for up to €39.9 bn

	Spain	Austria	Germany	Italy	Italy	France	Belgium
	17 Autonomous Communities	9 Bundesländer	16 Bundesländer	5 Special Statute Regions	15 Regions Ordinary Statute	26 Regions	3 Regions 2 Com. Ling
Education	✓	✓	✓	✓		✓	✓
Health	✓	✓	✓	✓	✓		✓
Transport	✓	✓	✓	✓	✓	✓	
Economy	✓	✓	✓	✓	✓	✓	
Justice	✓	✓	✓				
Universities	✓		✓				
Police	✓		✓				
Infrastructures	✓	✓	✓	✓			
Environment	✓	✓		✓		✓	
Housing	✓	✓		✓	✓		
Local Entities	✓	✓		✓			
Culture	✓					✓	✓
Tourism	✓					✓	
Employment	✓					✓	
Social Services	✓						

Autonomous Community	FLA (€ bn) (2012-2014)	FFPP (€ bn)	TOTAL
Catalonia	25.4	6.6	32.0
Valencia	13.0	7.6	20.6
Andalusia	11.4	5.0	16.4
Castile - La Mancha	3.5	4.0	7.5
Murcia	2.5	1.8	4.3
Balearic Islands	2.6	1.3	4.0
Canary Islands	2.6	0.3	2.9
Madrid		1.3	1.3
Cantabria	0.8	0.3	1.1
Castile and Leon		1.1	1.1
Asturias	0.8	0.2	1.0
Extremadura		0.4	0.6
Aragon		0.5	0.5
La Rioja		0.1	0.1
Local Governments		11.6	11.6

Tax reform: modernising the tax system

► The Government's draft law was presented on June 20th 2014

► Aims at reducing taxation on labour, to strengthen competitiveness, to promote saving and investment, and modernise Personal and Corporate Income tax

► Reinforcement of the fight against tax fraud

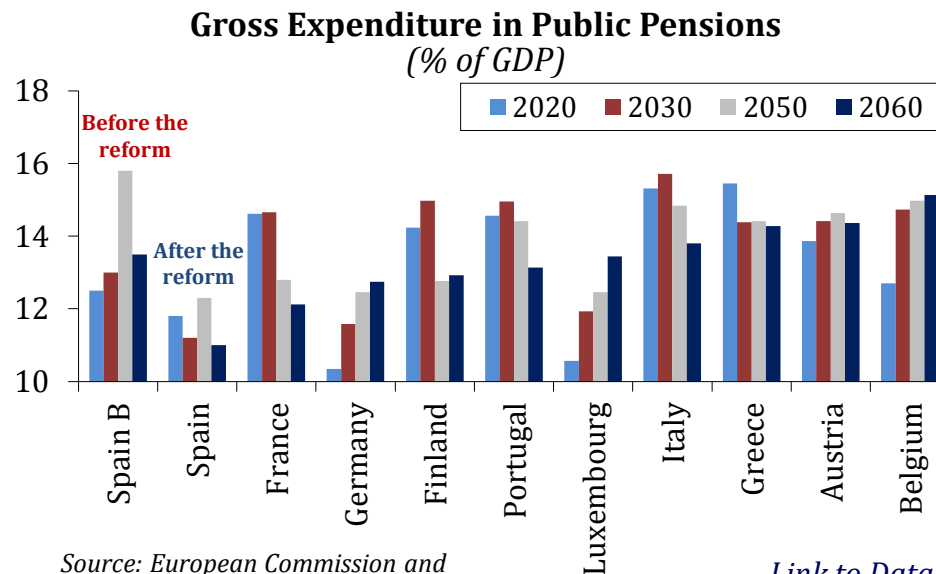
Changes to Personal Income Tax	Changes to Tax on Capital	Changes to Corporate Income Tax	VAT	Fight Against Tax Fraud	R&D and cultural investment
► Reduction in number of tranches and rates in two years	► Lower rates in two years and more progressive	► Reduced general rate: from 30% to 25% in two years (reduced rate for new firms 15%)	► Health care products VAT rate adapted to ECC regulations: -Intermediate products for drug development, medical instruments and equipment, medical devices and pharmaceutical products	► Lists of defaulters to be published	► Extension of partial exemption (85%) of the tax on electricity. Exemptions extended to all productive processes in which the costs of electricity exceeds 50% of production costs
► Modification of personal income allowance: - Higher personal income minima - Family tax deductions: enabling negative tax rates for large families and with dependent persons with serious disabilities	► Elimination of tax deduction for dividends	► In the case of the financial sector kept at 30% (out for credit cooperatives and "Cajas Rurales)		► Annual publication of tax havens	
	► Capital gains generated in less than 12 months no longer penalised			Tax audit process: New deadlines and suspension of Statutes of Limitation in specific situations	
► Limits to exemptions to severance payments in case of unjustified dismissal	► New savings instrument: savings or insurance schemes maintained longer than five years ('Cuenta Ahorro 5'): exempt form capital gains tax	► Update and simplification of depreciation tables	► New rules on the localisation of assets; taxing at destination of electronic, telecommunications and radio-television services when the addressee is a private individual	► Administrative assessment in evidence of tax fraud	► Substitution of deductions in CIT ● Deductions eliminated: - Environmental investments - Expenses for vocational training - Reinvestment of extraordinary benefits ● New deductions (favouring the deleveraging process): - Capitalisation reserves. 10% of corporate income deductible if incorporated into reserves. - Equalisation reserve for SMEs ● Limits to the financial expenditure deductions (favouring the deleveraging process, reduced to 30% of gross operating profit)
► Tax deductions for house rental: - Elimination for new rentals (Expenditure side) - Lower tax deductions for house rentals (Income side)				► Tax assessment cases are extended to smuggling offenses	
► Lower tax withholding for professional and self-employed workers with incomes below €15,000				► Better precision in the indirect assessment regime	
► Limits to simplified method ('Modulos') to certain professional activities	► Limit for deductible contributions linked to pension plans lowered to €8,000/year	► No deductibility of equity securities impairments extended to fixed income portfolios and fixed assets	► Interruption of the limitation period of related tax obligations	► Incentives for cultural activities	
► Better fiscal treatment in case of assets received in lieu of payment if affected by preference shares	► Limit to offset tax losses: 50%/25% depending on revenue in 2015; 60% in 2016 and 70% from 2017 onwards. ► To maintain income from the CIT, in 2015 previous measures maintained				

The Pension System reform reduces the impact of population ageing

► In December 2013, the Pension System Reform was approved. It introduced two factors to which pensions will be linked:

- ❑ A yearly update factor which links pensions to the financial situation of the pension system, to the number of pensioners and to the average pension
- ❑ A life expectancy factor as from 2019, which will be evaluated every 5 years

► Projections towards 2030-2060 point towards a stabilisation in gross expenditure in public pensions



Source: European Commission and
Ministerio de Economía y Competitividad

[Link to Data](#)

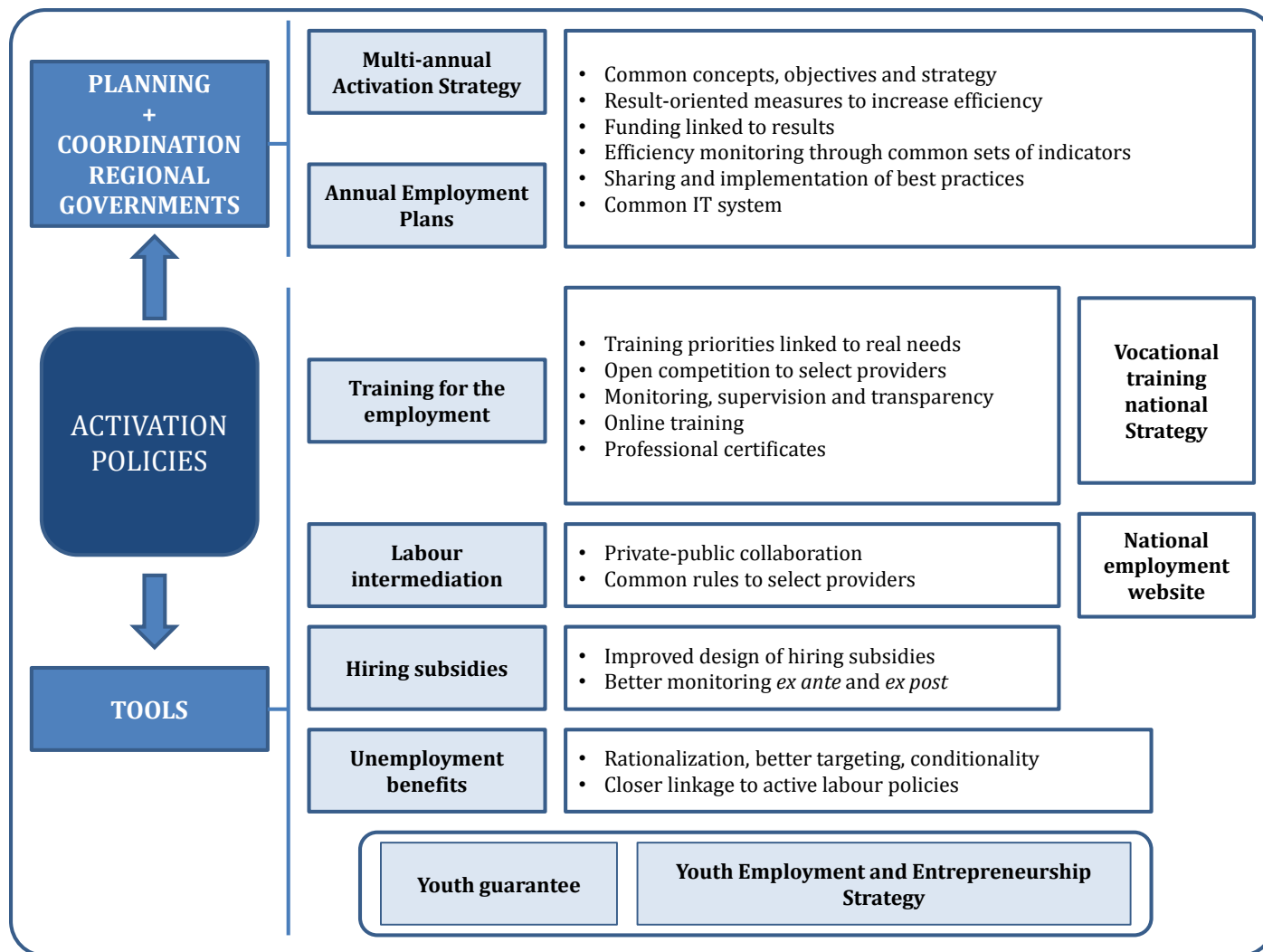
The labour market reform addresses Spain's most important imbalance

► The labour market reform tackles the main shortcomings of the Spanish labour market: high structural unemployment, high youth unemployment, duality, high employment volatility and wage indexation which limit gains in competitiveness

Collective Bargaining	Internal Flexibility of Firms	External Flexibility of Firms	Contracts
<ul style="list-style-type: none"> → Dynamic bargaining more responsive to the needs of businesses and workers → Move beyond the model of indexing salaries and wages → Balanced regulatory framework in line with economic circumstances 	<ul style="list-style-type: none"> → Avoiding lay-offs: rigidity fostered job cuts as a means of adjusting to economic changes → Lack of flexibility avoided innovation and gains in competitiveness 	<ul style="list-style-type: none"> → Reduction of severance pay for unfair dismissals → Clear and objective regulatory framework of fair dismissals 	
<ol style="list-style-type: none"> Opting out from higher-level agreements Priority of company-level agreements Limiting the statutory extension rule of expired agreements up to one year (unlimited before) 	<ol style="list-style-type: none"> Classification of workers based on skills not on professional occupations Simplification of rules for the reallocation of workers Streamlining the adoption of significant changes in working conditions Furloughs/Time-reductions if legitimate financial, productive or organisational reasons exist Distribution of working-time 	<ol style="list-style-type: none"> Severance pay for unfair dismissal down to 33days/Max 24months of salary vs. 45days/Max 42 months Clarification of fair dismissal causes (20days/Max 12 Mo) Removal of administrative authorisation for collective layoffs Elimination of procedural salaries Fair dismissals for economic causes of civil servants Streamlining of dismissals based on absenteeism 	<ol style="list-style-type: none"> Crisis contract: new contract for entrepreneurs aimed at small businesses. It has a one-year trial period. Tied to employment tax breaks and fiscal tax credit, specially for hiring young workers. Breaks and credits are designed to limit the dead-weight effect Training and skill building: deep regulatory modifications to provide a structural change and develop a dual training system that allows a balance of training and work Flexible regulation of telework Part-time contract: increased flexibility, allowing overtime

Activation policies & fight against unemployment

► Activation policies complement the labor reform. Spain has reformed its public employment services and launching new tools to fight against unemployment



A Single Market in Spain: the Law for the Guarantee of Market Unity

- ▶ The Market Unity Law establishes uniform principles and regulations in order to guarantee the single market in Spain, via regulatory cooperation among public administrations, involving the private sector
- ▶ Its main objective is to establish a more favourable regulatory framework in order to improve competitiveness and to foster investment and economic growth. Main areas of work:
 - ☐ Technical specifications & labelling of products
 - ☐ Licences for self-employed in each region
 - ☐ Public tender operations
 - ☐ Commercial distribution: differences in licensing, opening hours, especial sales, etc.
- ▶ Initial impact estimates foresee an impact on long-term GDP (10 years) growth estimates of 1.52%

Regulatory Rationalisation

Central Govt Administration: 184 regulations identified → 100 adapted
 Regional Administrations: 450 regulations identified → 85 adapted & 64 in progress

National Competition Commission

6 regulations under study

Economic Operators

123 Cases of conflict have been presented by economic operators; 79 finalised

Agency For the Evaluation of Public Policies

Will analyse and publish results in 2016

Reform of the insolvency law

- ▶ The reform aims at increasing efficiency and legal certainty in insolvency procedures by ensuring that:
 - ▶ Non-viable debts are resolved
 - ▶ Viable debts are repaid and companies are able to continue with their activity

INSOLVENCY LAW REFORM

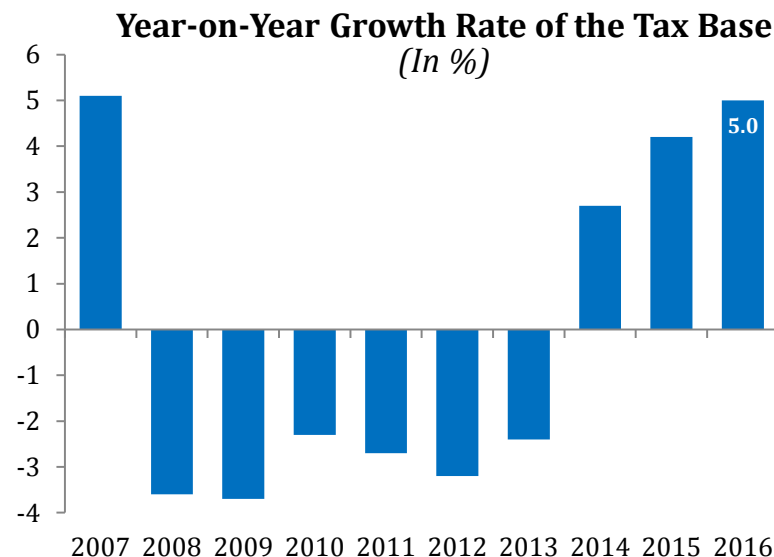
Enhancing out-of-court agreements	Simplification of in-court insolvency procedures	Re-designing the judicial administration
Second Opportunity/Fresh Start Mechanism for individuals and firms	Facilitating the split and sale of separated production units	Classification and register of insolvency administrators according to their past experience
Promotion of refinancing agreements	Adjustment of real-state guarantees	Designation of the insolvency administration rests on automatic process, instead of judicial appointment
Simplification of Collective Refinancing Agreements	Quorum requirement to pass the draft agreement depends now on the nature of the measures to be agreed	Creation of a list of functions that the judicial administrator is able to perform in order to provide more clarity and legal certainty
<i>Specific measures</i> <ul style="list-style-type: none"> -Certainty while negotiating: interruption of enforcement measures up to conclusion of arrangements (4 months) -Flexibility on the content of the agreement and by extension of agreements to dissenting creditors 	Liquidation phase: more capacities attached to judges in order to sell a productive unit, even if the offered price is lower, as long as future viability of the firm is ensured	

Central Government Budget Law for 2016

- ▶ 2015 & 2016 deficit targets of 4.2% and 2.8%, respectively, in line with Council Recommendations
- ▶ Spain is expected to graduate from the corrective arm of the Excessive Deficit Protocol in 2016
- ▶ Tax base to expand at 5% YoY → tax collection to grow by 6.2% YoY

Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)					
	2014	2015	2016	2017	2018
Central Government	-3.56	-2.9	-2.2	-1.1	-0.2
Autonomous Regions	-1.75	-0.7	-0.3	-0.1	0.0
Local Governments	0.57	0.0	0.0	0.0	0.0
Social Security Administrations	-1.04	-0.6	-0.3	-0.2	-0.1
General Government	-5.78	-4.2	-2.8	-1.4	-0.3

Source: Ministerio de Hacienda y Administraciones Públicas.



[Link to Data](#)

Scan QR code
for Budget
(Spanish)



Budgetary execution in 2015

Monthly budgetary execution highlights:

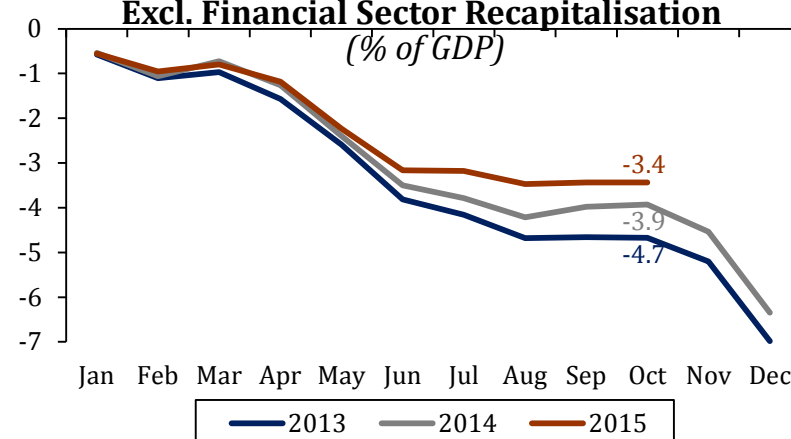
❑ Central Government (**October** 2015 data): deficit €21.9 bn vs. €28.1 bn by October 2014

- Central Govt. Administration (**November** 2015 data): deficit €27.5 bn vs. €35.4 bn in November 2014; primary deficit of €0.5bn, vs. €7.6 bn by November 2014

❑ Regional Governments (**October** 2015 data): deficit reached €12.6 bn vs. €13.4 bn by October 2014

❑ Social Security Administrations (**October** 2015 data): the Social Security posted a deficit of €2.7 bn vs. €0.2 bn up to October 2014

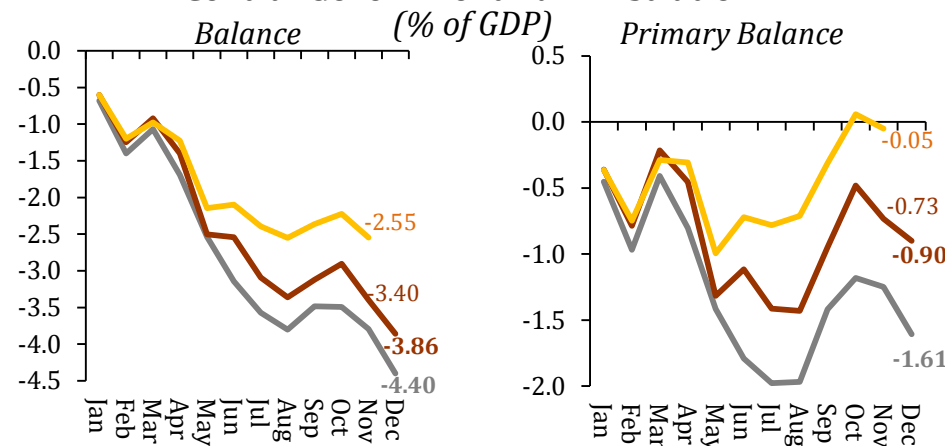
Deficit of Central & Regional Governments and Social Security Administrations. (Excl. Local Governments) Excl. Financial Sector Recapitalisation
(% of GDP)



Source: IGAE.

[Link to Data](#)

Breakdown of the Budget Balance of the Central Government Administration



Source: IGAE.

Up to October 2015

[Link to Data](#)

More and updated information on the Spanish economy



For spreadsheets click on 'Data'

[Click here to download all spreadsheets](#)

Thank you for your attention

Rosa María Sánchez-Yebra Alonso – General Secretary of the Treasury and Financial Policy
SecretariaGeneral@tesoro.mineco.es

José María Fernández Rodríguez – Director General of the Treasury
directortesoro@tesoro.mineco.es

Pablo de Ramón-Laca – Head of Funding and Debt Management
SecretariaDeuda@tesoro.mineco.es

Leandro Navarro
lnavarro@tesoro.mineco.es

Julio Poyo-Guerrero
jmpoyo@tesoro.mineco.es

José Miguel Ramos
jmramos@tesoro.mineco.es

Teresa Morales
tmorales@tesoro.mineco.es

For more information please contact:

Phone: 34 91 209 95 29/30/31/32 - Fax: 34 91 209 97 10

Reuters: TESORO

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