



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

February 2016

1. The Funding Programme in 2015 & 2016 forecast

1.1 The Funding Programme for 2016

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1.2 Main Execution highlights

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2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

The Treasury's Funding Programme for 2016

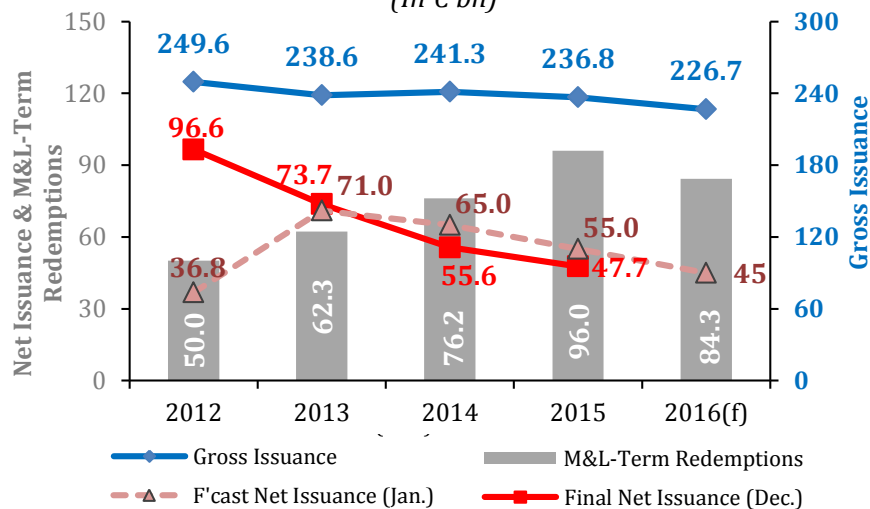
- ▶ Including Letras, the Spanish Treasury has issued €45.4 bn so far in 2016
- ▶ Up to February 29th the Spanish Treasury has funded €26.9 bn, a 21.5% of the expected amount of the regular medium- and long-term gross issuance, and €18.5 bn, a 18.2% of Letras

(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

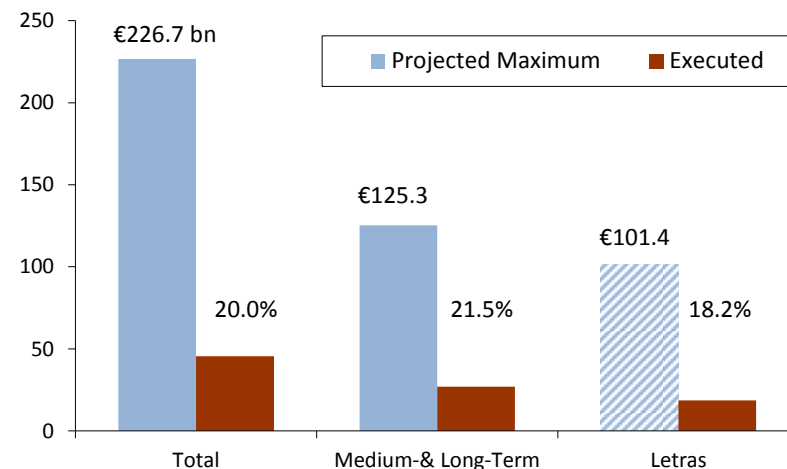
The Treasury's Funding Programmes Since 2012

(In € bn)



Funding Programme in 2016

(Gross issuance, € bn, February 29th 2016)



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

The Treasury's Funding Programme for 2016

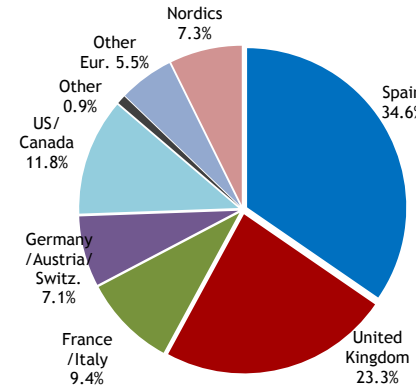
- ▶ The Treasury will cover most of the funding needs of Regions and Local Governments
- ▶ The bulk of the funding programme to be executed via auctions of Letras, Bonos & Obligaciones
 - ❑ The first auction of each month the Treasury may include EA inflation-indexed bonds
- ▶ Issuance via syndications
- ▶ 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

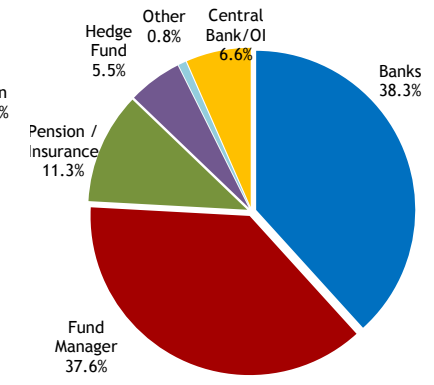
- ▶ In January 2016, the Spanish Treasury has launched its first syndicated transaction of the year. The new €9bn 10 year benchmark issue (due 30 April 2026) has a 1.95% coupon and was priced at a spread of 105 bps over mid swaps implying a reoffer price of 99.672.
- ▶ More than 370 orders were placed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

JANUARY - NEW 10 YEAR REFERENCE. APR. 2026

Geographic Distribution (%)



By Type of Investor (%)

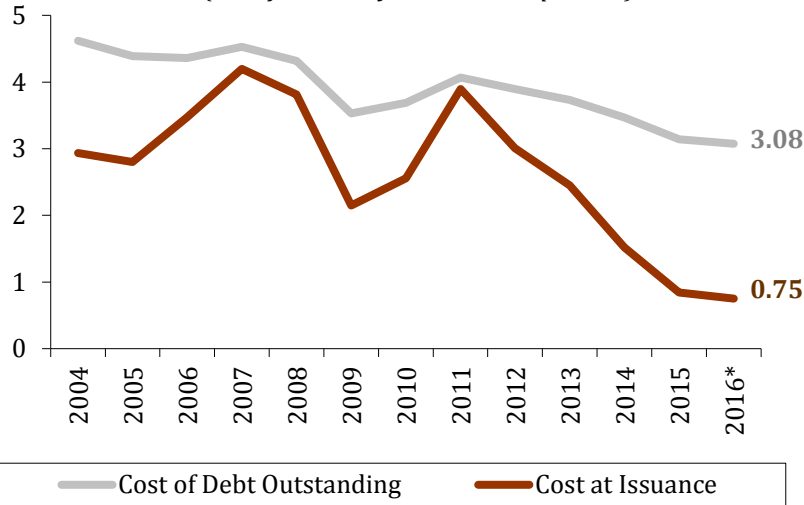


[Link to Data](#)

Cost and life of debt: longer tenors at historically low rates

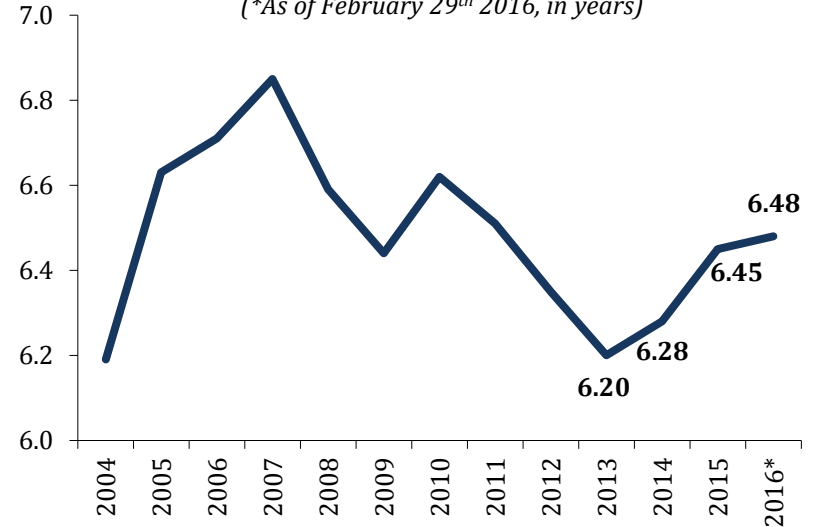
Cost of Debt Outstanding and Cost at Issuance

(*As of February 29th 2016, in percent)



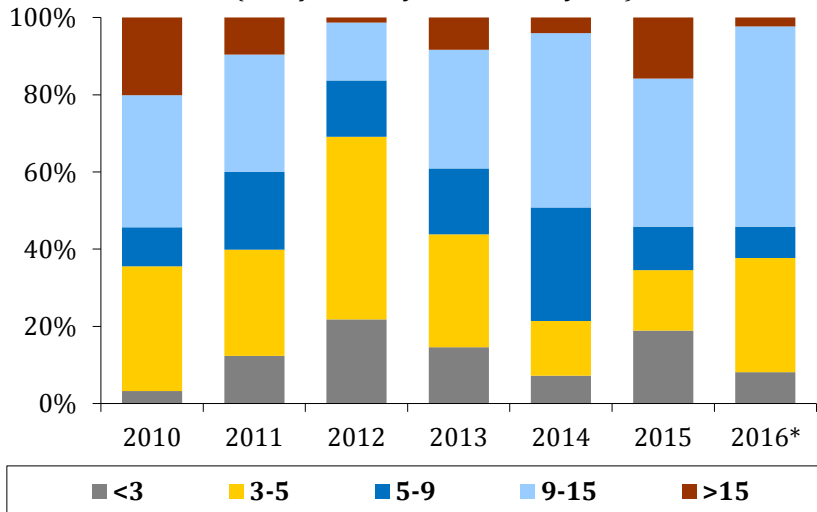
Average Life of Debt Outstanding

(*As of February 29th 2016, in years)



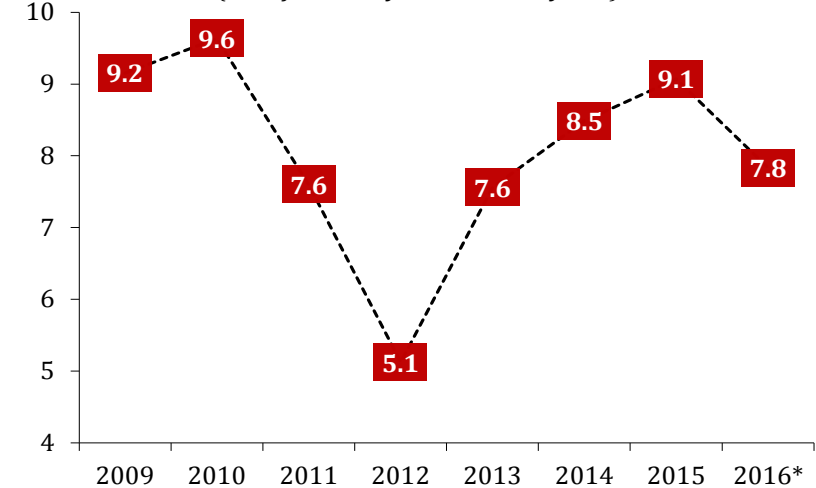
Marginal Life at Issuance of Bonos and Obligaciones

(*As of February 29th 2016, in years)



Average Life at Issuance of Bonos and Obligaciones

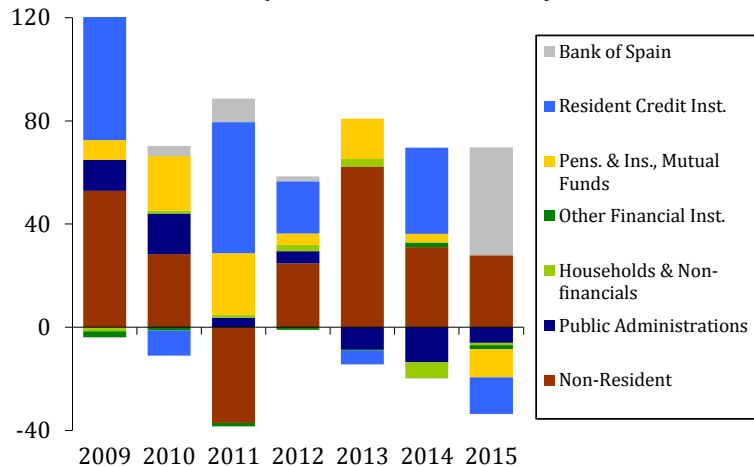
(*As of February 29th 2016, in years)



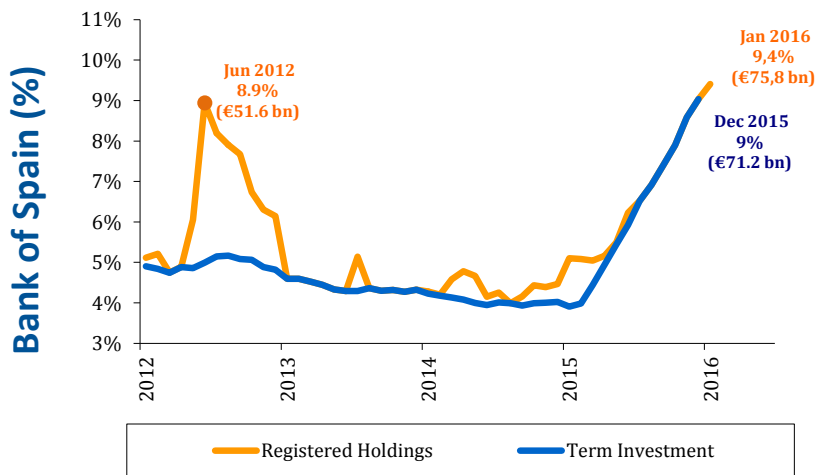
Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

Recent trends in investor base

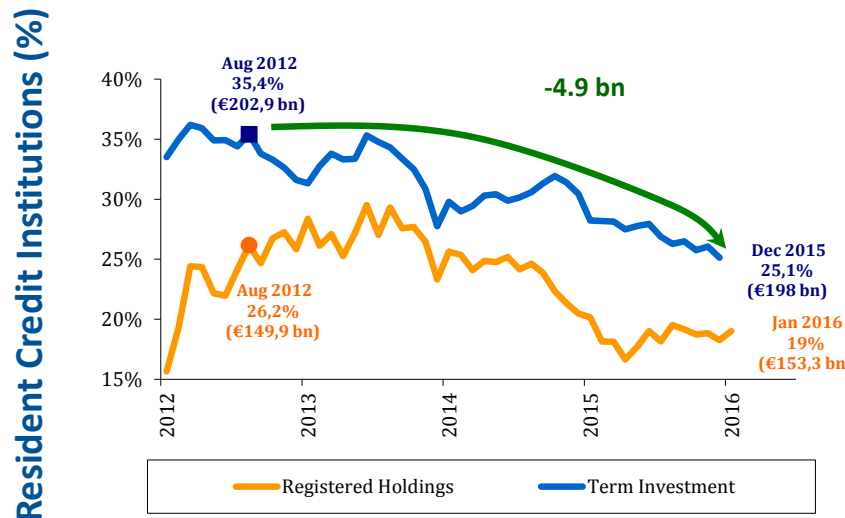
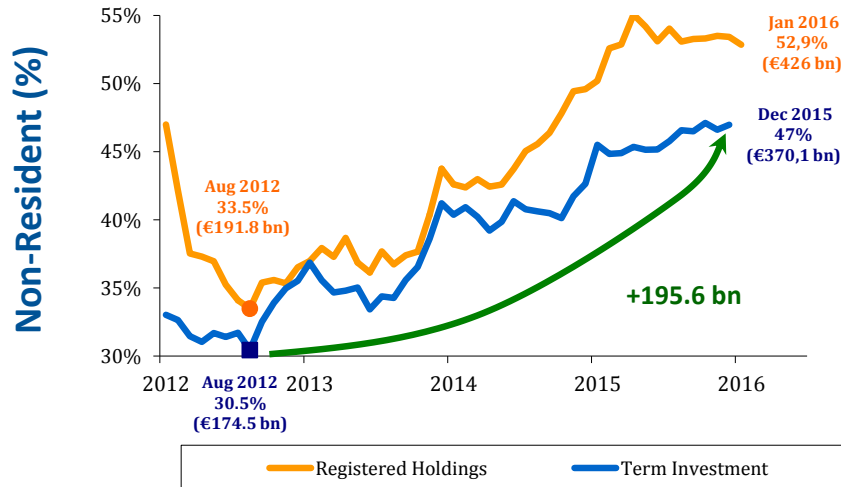
Change in Term Investment by Investor Type
(Term Investment. € bn)



2015: Year-on-year change.



Holdings of Unstripped Government Debt

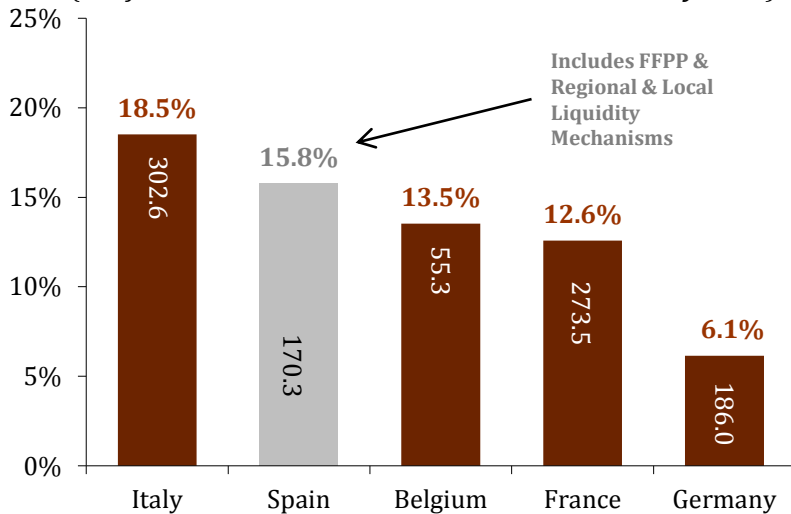


Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

Prudent debt management

- ▶ Redemption dates of medium- and long-term bonds (mainly January, April, July and October) are accommodated to match the dates of biggest inflows of tax revenues
- ▶ Excess liquidity is lent in the money market each month through weekly, bi-monthly and monthly repo auctions

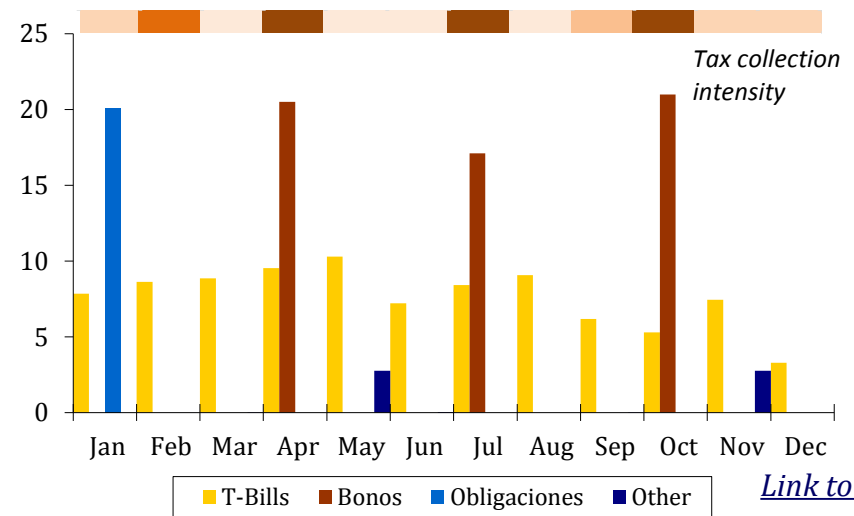
Relative Redemptions of Central Governments
(% of estimated 2015 GDP. March 2016 to February 2017)



Sources: Secretaría General del Tesoro y Política Financiera for Spain, 31st data for Italy (Feb16-Jan17), and Bloomberg for other countries.

[Link to Data](#)

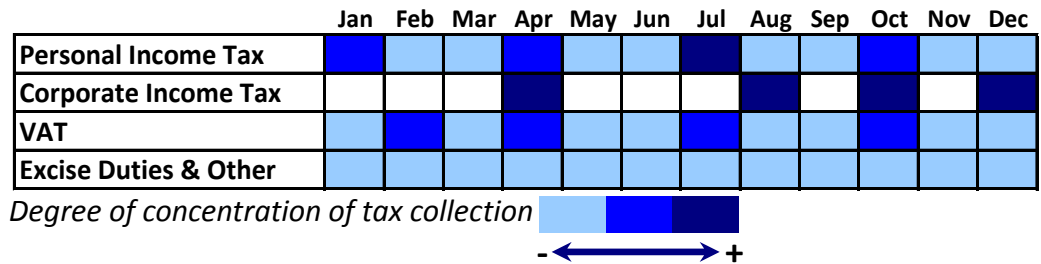
Monthly Maturity Structure in 2016
as of February 29th 2016
(€ bn)



Source: Secretaría General del Tesoro y Política Financiera.

[Link to Data](#)

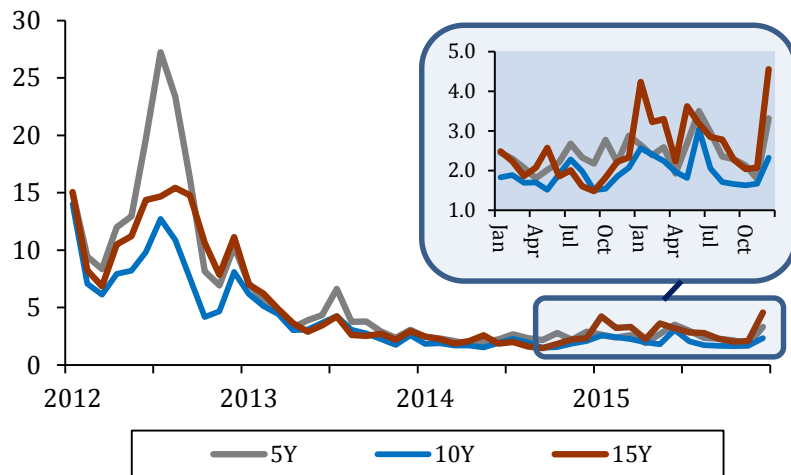
Administrative Distribution of Tax Collection



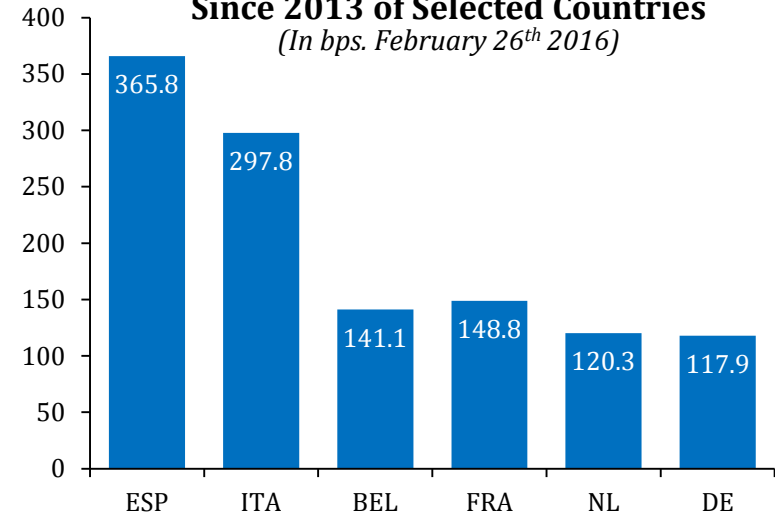
A more liquid debt market despite spread tightening

- ▶ 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

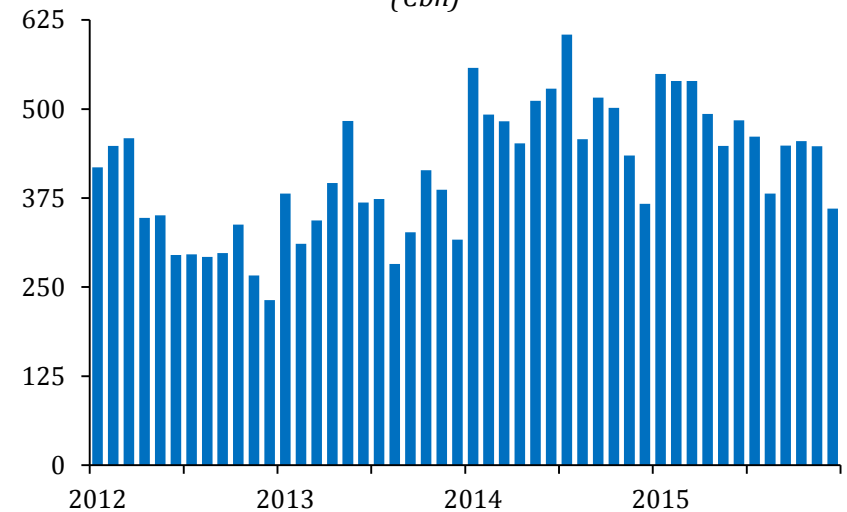
Bid-Ask Spreads of Government Bonds
(In bps. December 31st 2015)



Reduction in Yield Level of 10 Year Government Bonds Since 2013 of Selected Countries
(In bps. February 26th 2016)

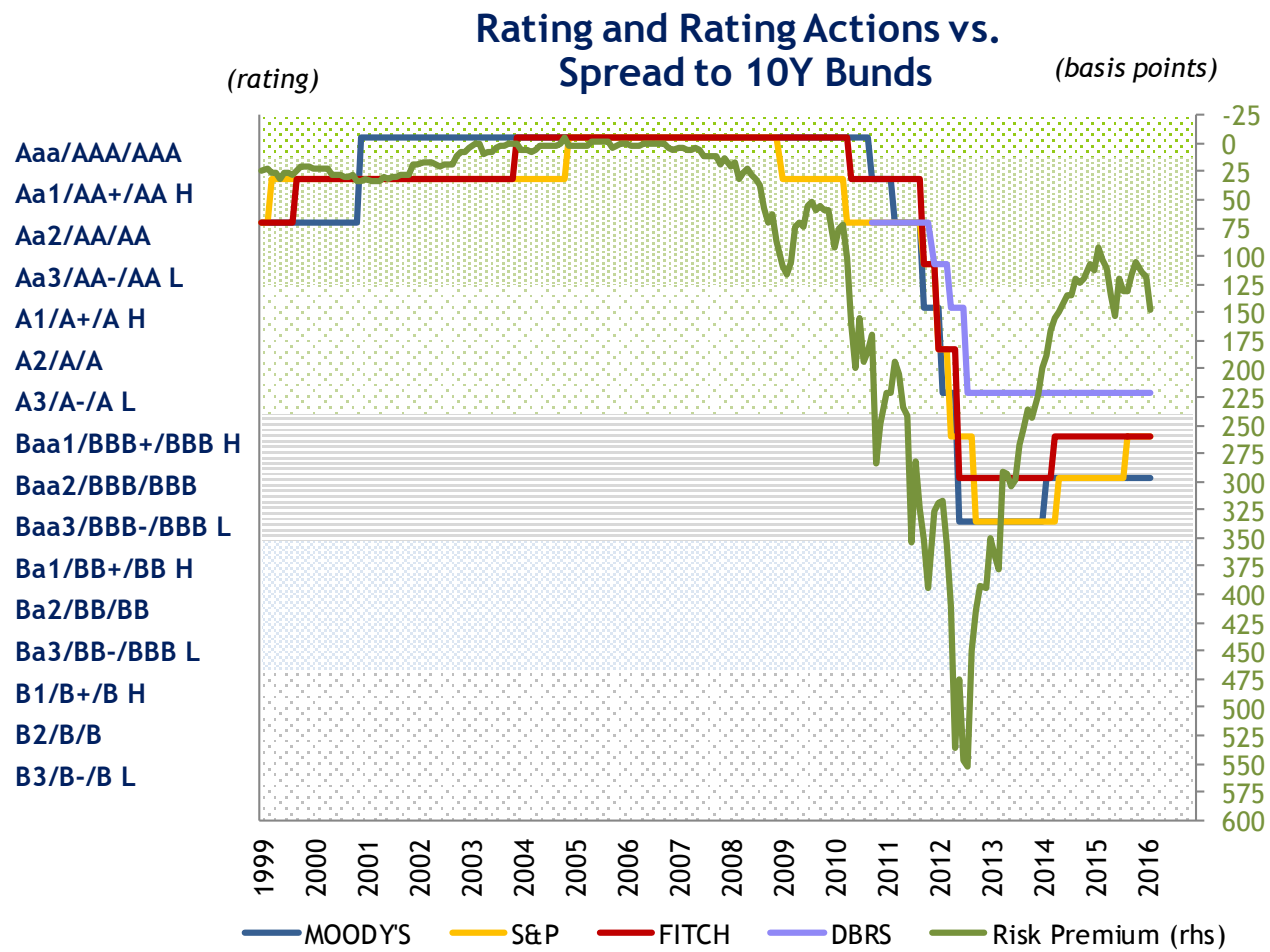


Turnover Bonos & Obligaciones
(€bn)



[Link to Data](#)

Evolution of Ratings



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				

[Link to Data](#)

1. The Funding Programme in 2015 & 2016 forecast

2. Transformation of Spain's growth model

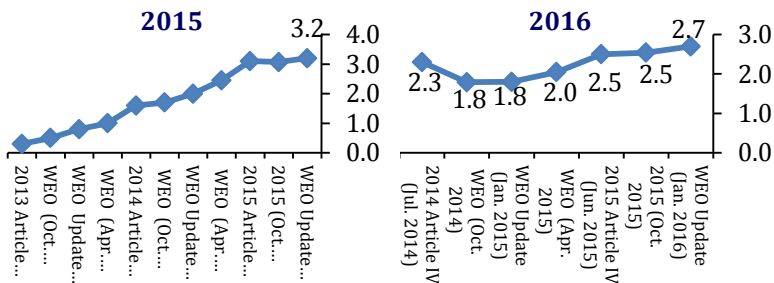
1.1 Recent macroeconomic trends	Page 11-13
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3. Spanish Economic Policy & Reforms

Spain is growing consistently and in a balanced way

- ▶ Spain's growth forecasts have been revised upwards by most analysts
- ▶ Growth driven primarily by investment, followed by private consumption
- ▶ Unlike previous expansions, growth consistent with external surplus
- ▶ 958,800 more employees than in end-2013

Revisions to IMF GDP Forecasts for 2015 & 2016
(Year-on-Year Growth Rates)



Macroeconomic scenario (YoY growth rates in percent)									
	2014	2015					2016	2017	2018
		Full year	Q1	Q2	Q3	Q4			
Private consumption expenditure	1.2	3.1	2.5	2.9	3.5	3.5	3.0	2.7	2.5
General Government consumption expenditure	0.0	2.7	1.5	2.5	3.0	3.7	0.3	1.0	1.5
Gross Fixed Capital Formation	3.5	6.4	6.1	6.3	6.7	6.4	5.6	5.6	5.5
National Demand*	1.6	3.7	3.1	3.4	4.1	4.1	2.9	2.9	2.9
Exports of goods and services	5.1	5.4	5.8	6.0	4.5	5.3	6.0	5.8	5.7
Imports of goods and services	6.4	7.5	7.6	7.4	7.2	7.7	6.4	6.3	6.2
External demand*	-0.2	-0.5	-0.4	-0.2	-0.7	-0.6	0.1	0.0	0.0
Gross Domestic Product	1.4	3.2	2.7	3.2	3.4	3.5	3.0	2.9	2.9

Other macroeconomic variables									
	2014	2015					2016	2017	2018
		Full year	Q1	Q2	Q3	Q4			
Unemployment rate (in %)	24.4	22.1	23.8	22.4	21.2	20.9	19.7	17.6	15.5
Full-time Equiv. Employment (YoY Growth)	1.1	3.0	2.9	2.9	3.1	3.0	3.0	2.9	2.9
Net lending(+)/borrowing(-) with RoW (% of GDP)	1.6	1.5	1.7	2.0	2.2	--	1.6	1.4	1.3
GDP deflator (YoY Growth)	-0.4	0.6	0.5	0.5	0.7	0.7	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
		Full year	Q1	Q2	Q3	Q4			
USD/€ exchange rate	1.3	1.1	1.13	1.11	1.11	1.10	1.1	1.1	1.1
Euro Area GDP growth (YoY growth)	0.9	1.5	1.3	1.6	1.6	1.5	1.9	2.1	2.2
Oil prices (Brent, USD/barrel)	99.4	58.7	64.6	67.9	55.4	47.1	68.8	68.8	68.8

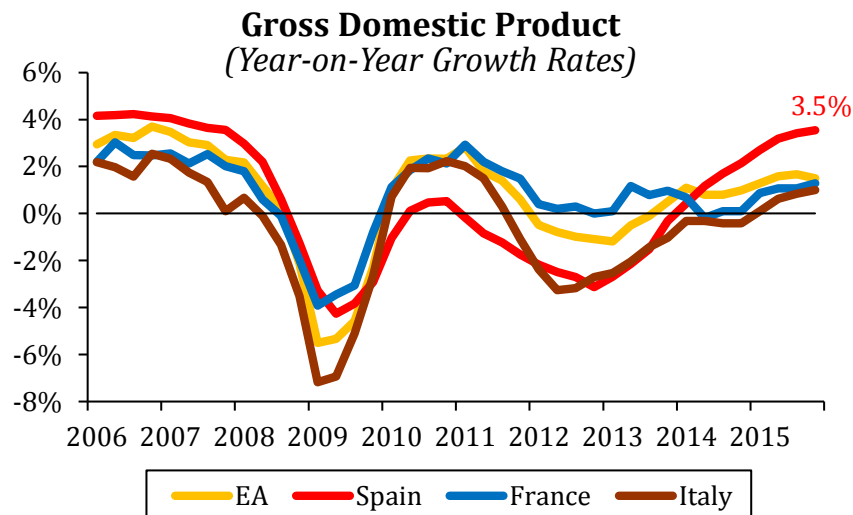
Sources: Ministerio de Economía y Competitividad, OECD, IMF and European Commission.

[Link to Data](#)

* Contributions to GDP in p.p.

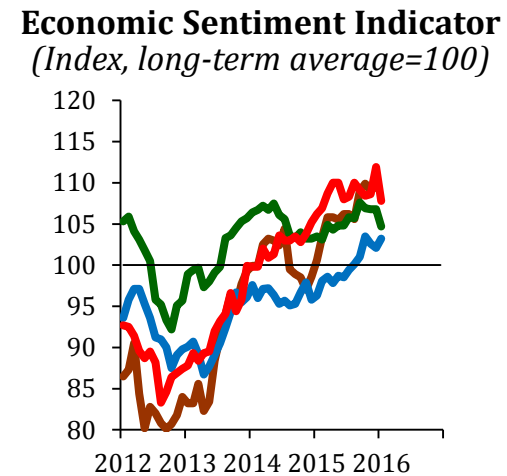
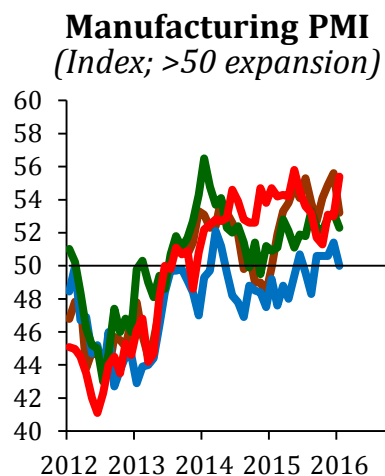
Growth is less vulnerable to international volatility

- ▶ 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.

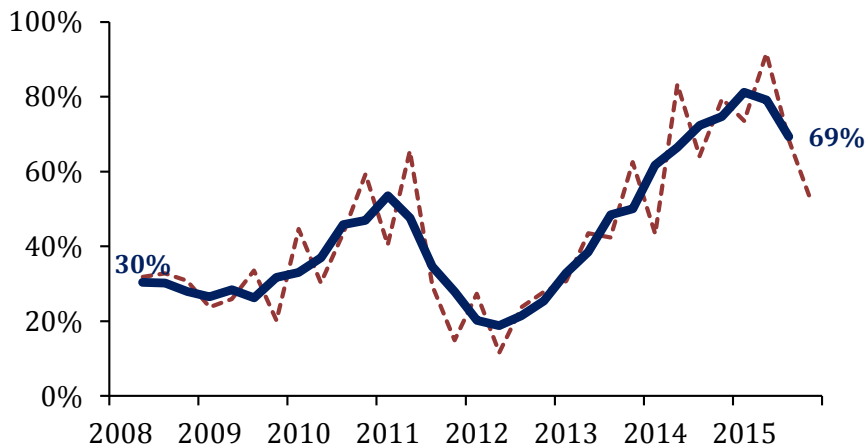
[Link to Data](#)

Recent macroeconomic data and trends

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

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

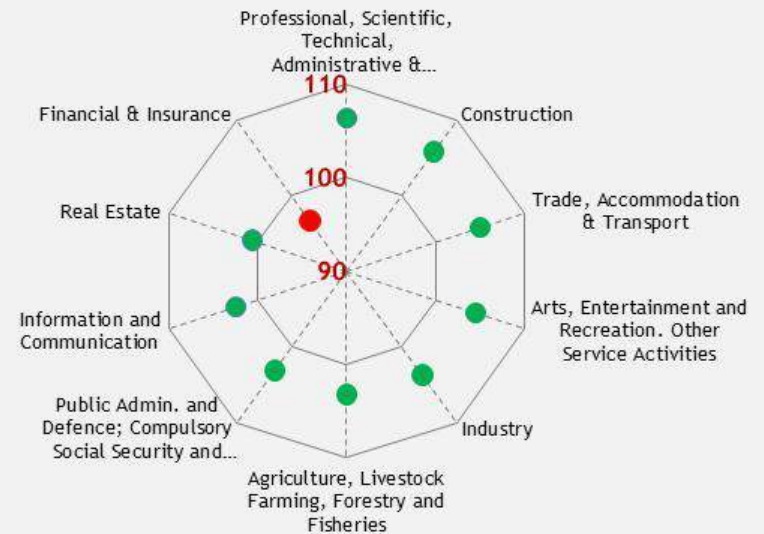
Weighted Average Percentage of Branches of Economic Activity with Positive QoQ Employment Growth



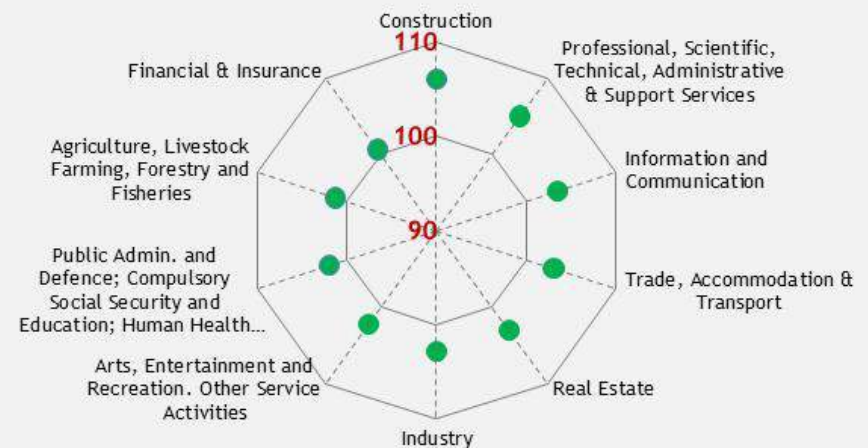
Source: National Statistics Institute.

[Link to Data](#)

Gross Value Added. 2014=100

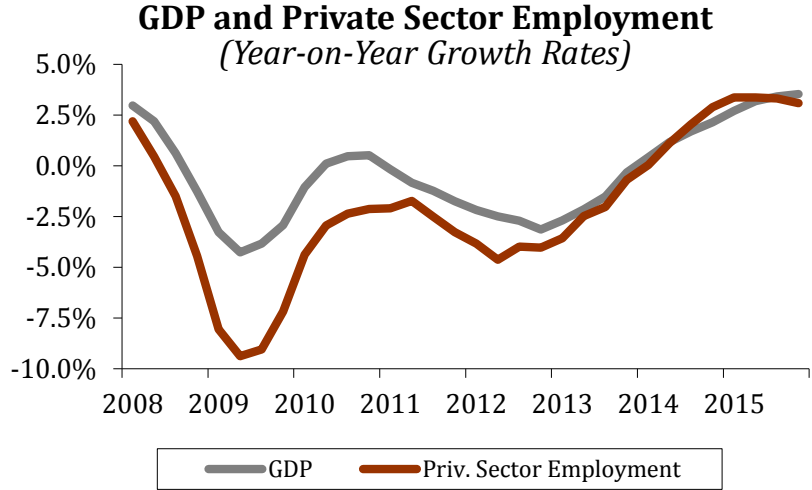


Full-Time Equivalent Employment. 2014=100



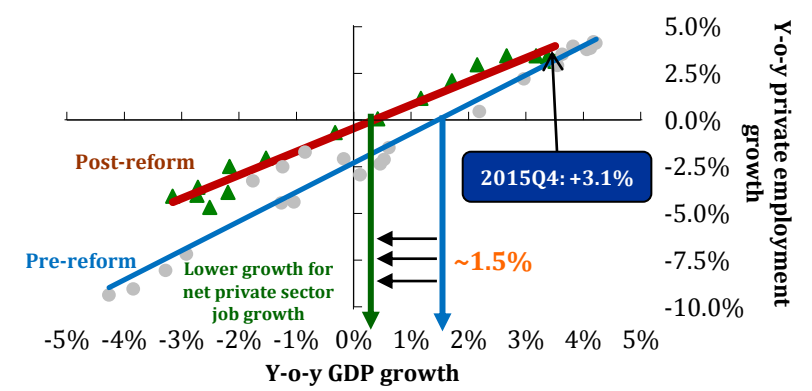
Labour market reform: a change in labour dynamics

► GDP and employment growing at the same pace

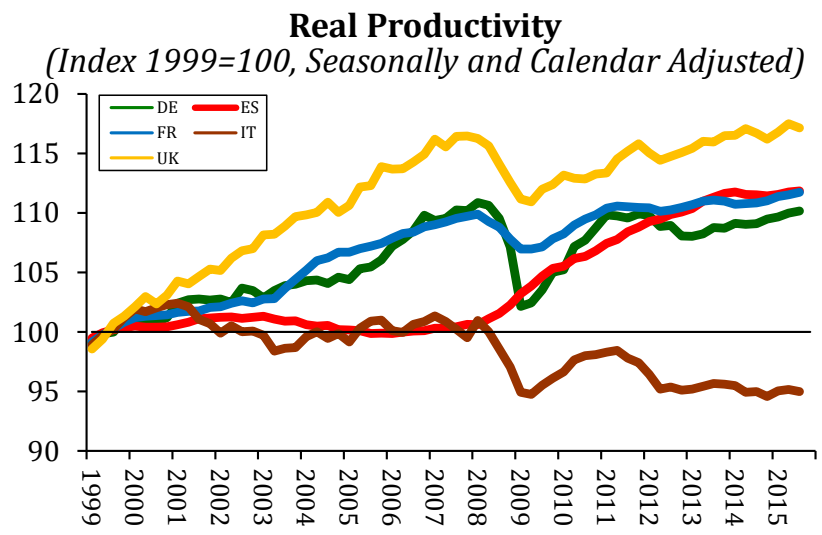


Source: National Statistics Institute. [Link to Data](#)

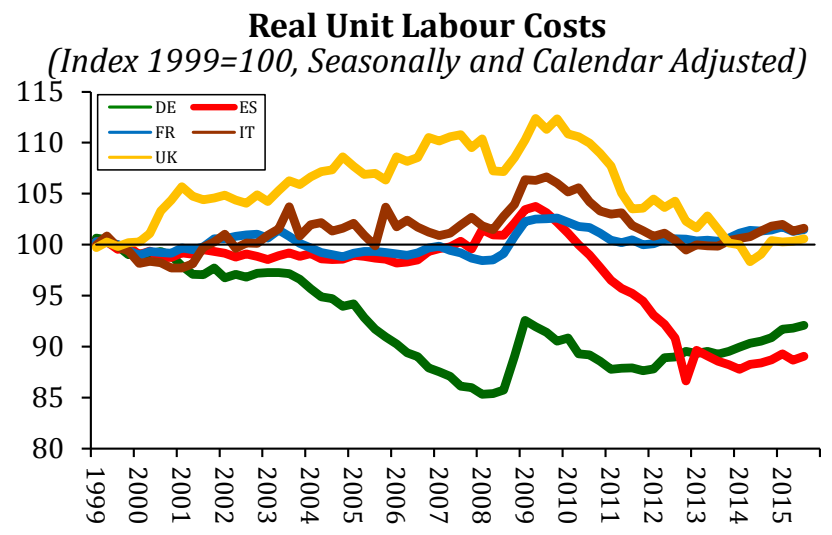
Growth Required for Private Employment Creation (Quarterly Data, Seasonally and Calendar Adjusted)



Source: National Statistics Institute. [Link to Data](#)



Source: Eurostat. [Link to Data](#)



[Link to Data](#)

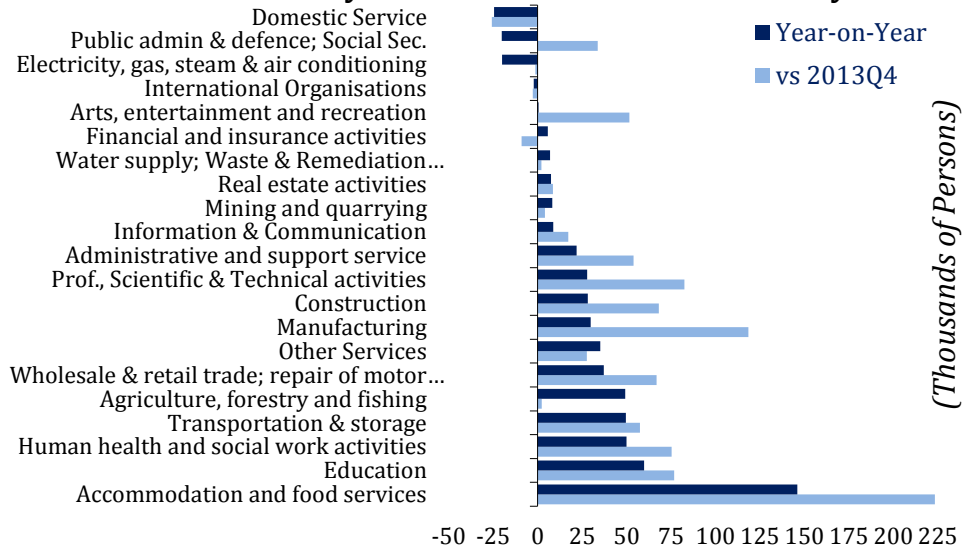
Spain is the main contributor to employment creation in the Euro Area

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

The structural transformation of the labour market

Labour Force Survey, 2015Q4

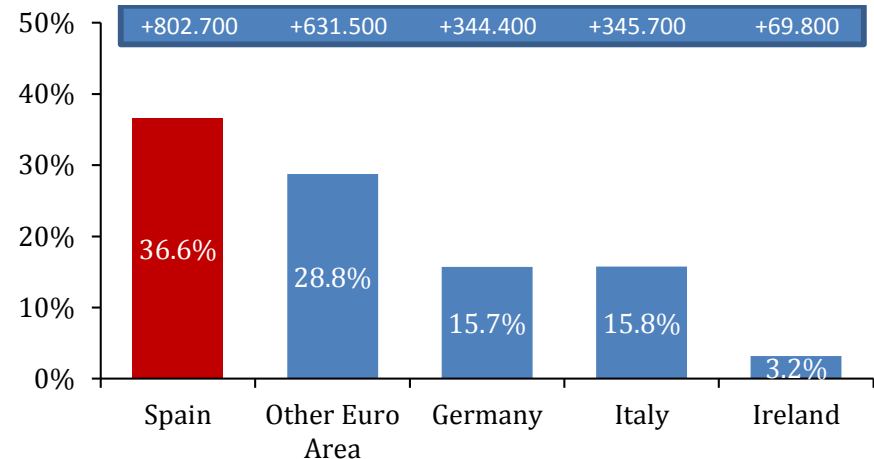
Breakdown by Branches of Economic Activity



Source: National Statistics Institute.

[Link to Data](#)

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

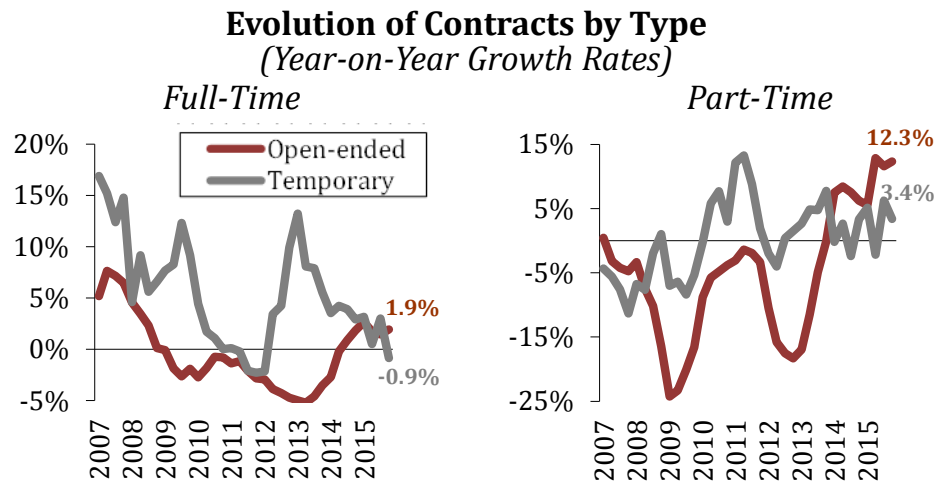


Source: OECD.

[Link to Data](#)

Declining structural unemployment

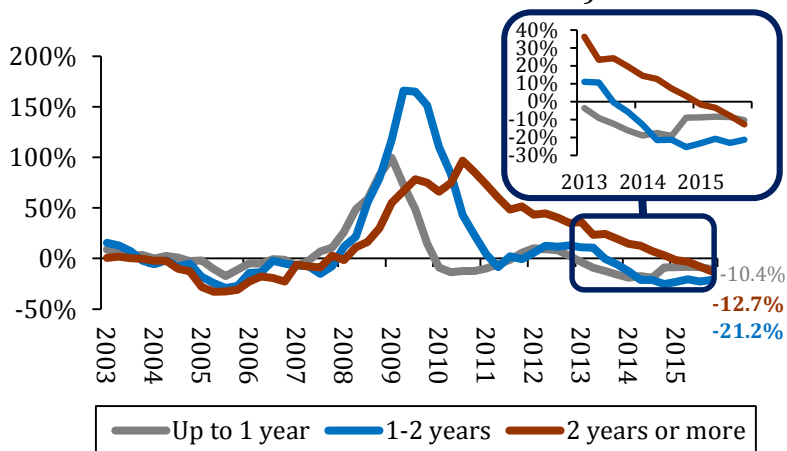
- ▶ Structural unemployment falling since 2014
- ▶ Strong recovery in open-ended contracts since 2014H2
- ▶ Less reliance on temporary contracts, more on part-time contracts than in the previous decade



Source: National Statistics Institute.

[Link to Data](#)

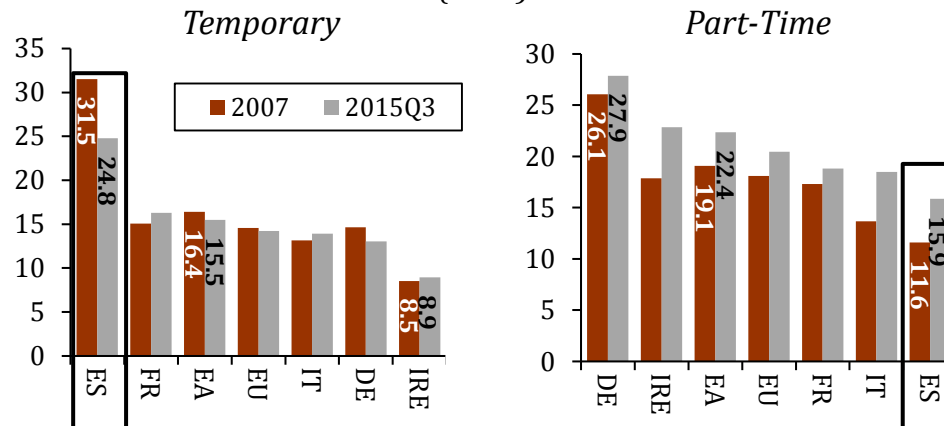
Structural Unemployment (Unemployment pool by time unemployed, Year-on-Year Growth Rates)



Source: National Statistics Institute and Eurostat.

[Link to Data](#)

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

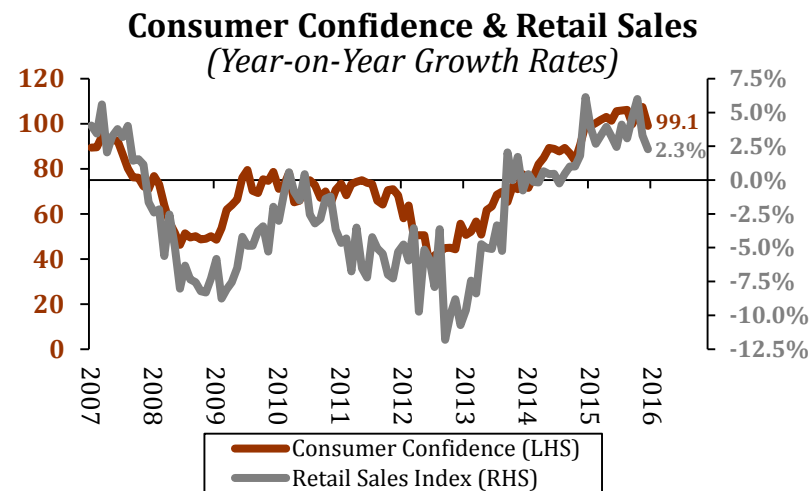


Source: National Statistics Institute and Eurostat.

[Link to Data](#)

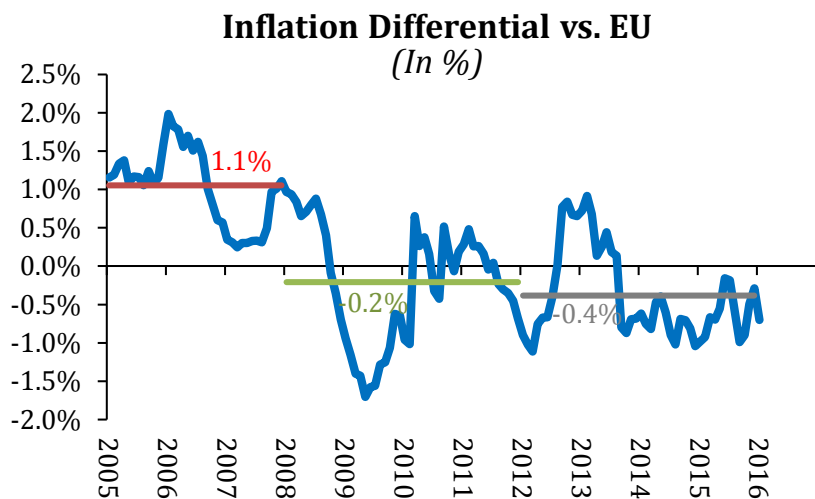
Consumer confidence back to early 2007 levels

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



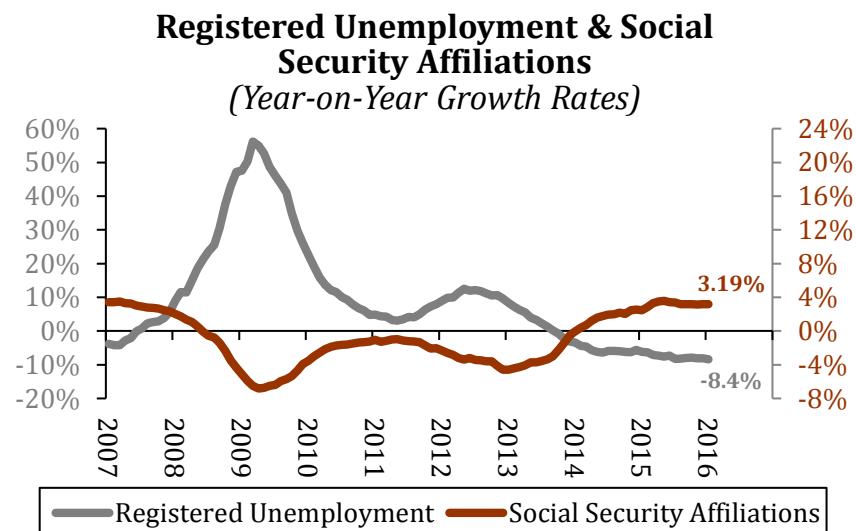
Source: Ministerio de Economía y Competitividad.

[Link to data](#)



Source: Ministerio de Economía y Competitividad.

[Link to Data](#)



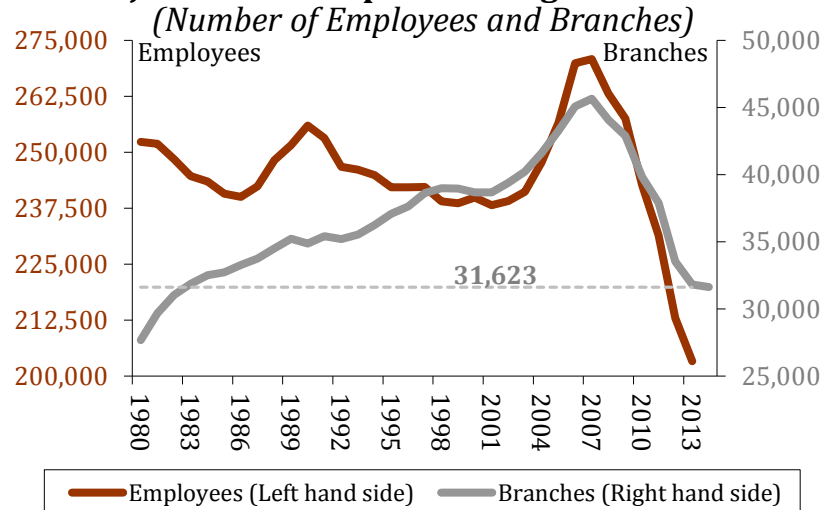
Source: Ministerio de Economía y Competitividad.

[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

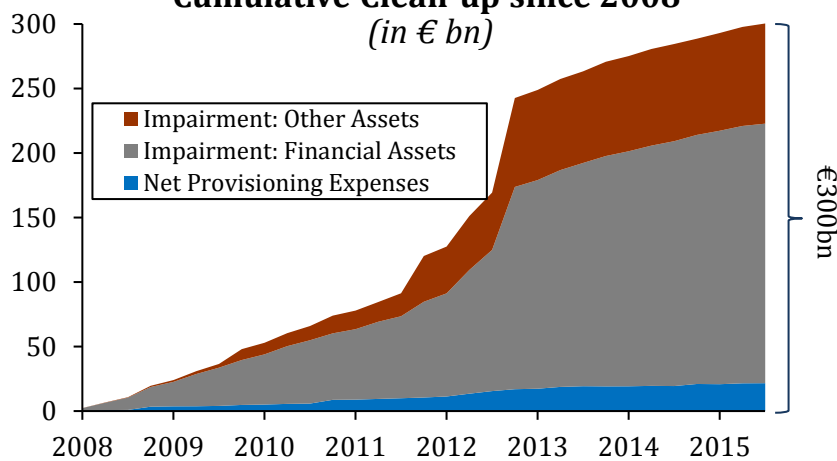
Adjustment in Deposit Taking Institutions



Source: Bank of Spain.

[Link to Data](#)

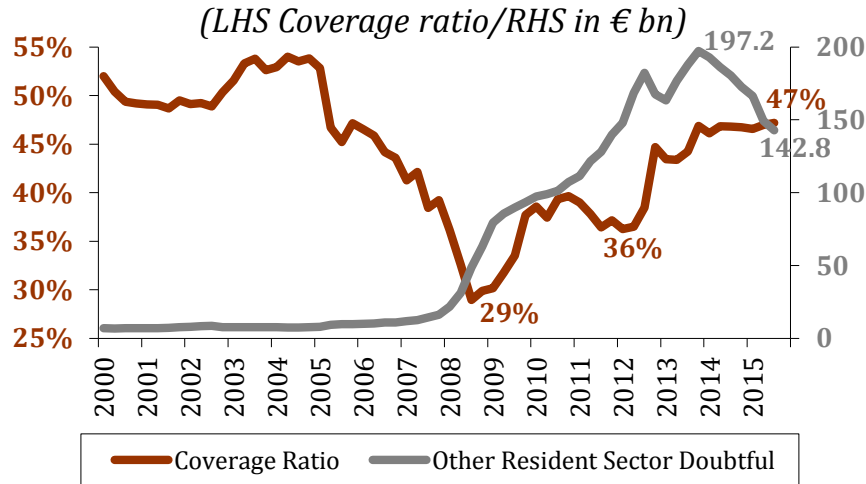
Credit Institutions. Cumulative Clean-up since 2008
(in € bn)



Source: Bank of Spain.

[Link to Data](#)

Doubtful Loans. Other Resident Sector



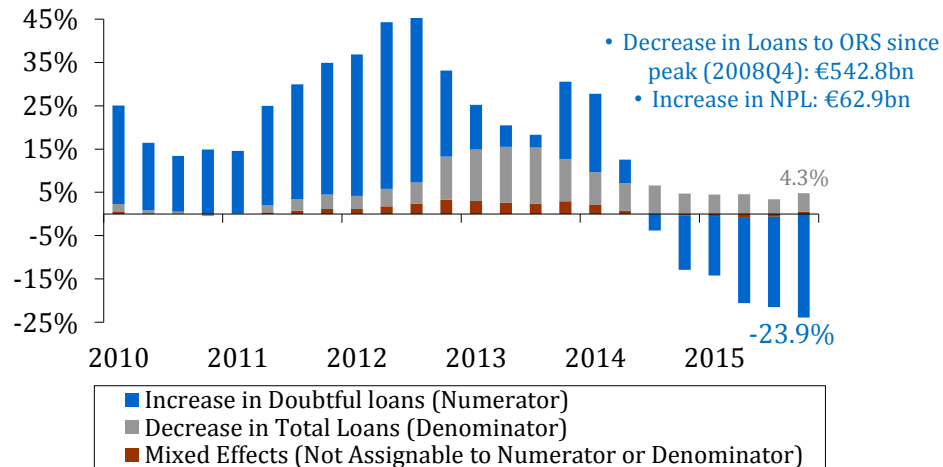
Source: Bank of Spain.

[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 declining steadily: -23.9% yoy in Q4 2015
- ▶ Improving equity-to-asset ratio and funding gap

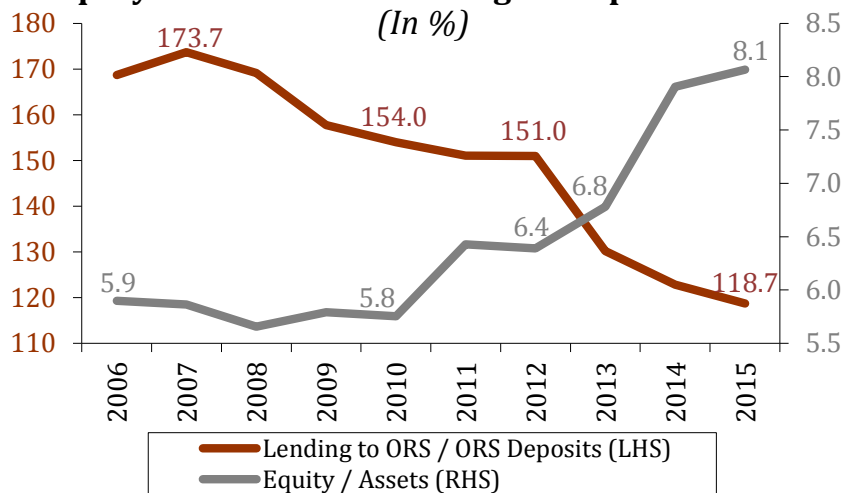
Breakdown of Year-on-Year Growth Rate of NPL Ratio into its Components



Source: Bank of Spain.

[Link to Data](#)

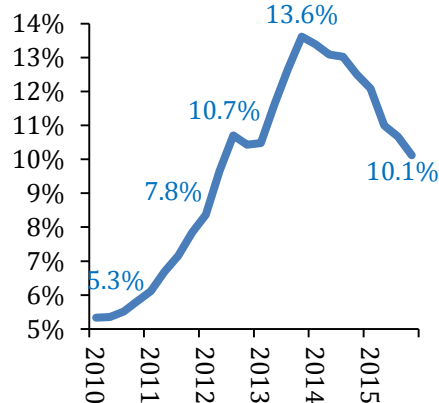
Equity-to-Assets and Lending-to-Deposits Ratio (In %)



Source: Bank of Spain.

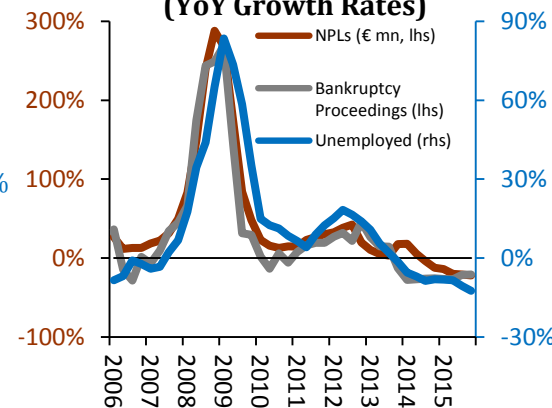
[Link to Data](#)

NPL Ratio



Sources: Bank of Spain and National Statistics Institute.

NPLs, Unemployment & Bankruptcy Proceedings (YoY Growth Rates)

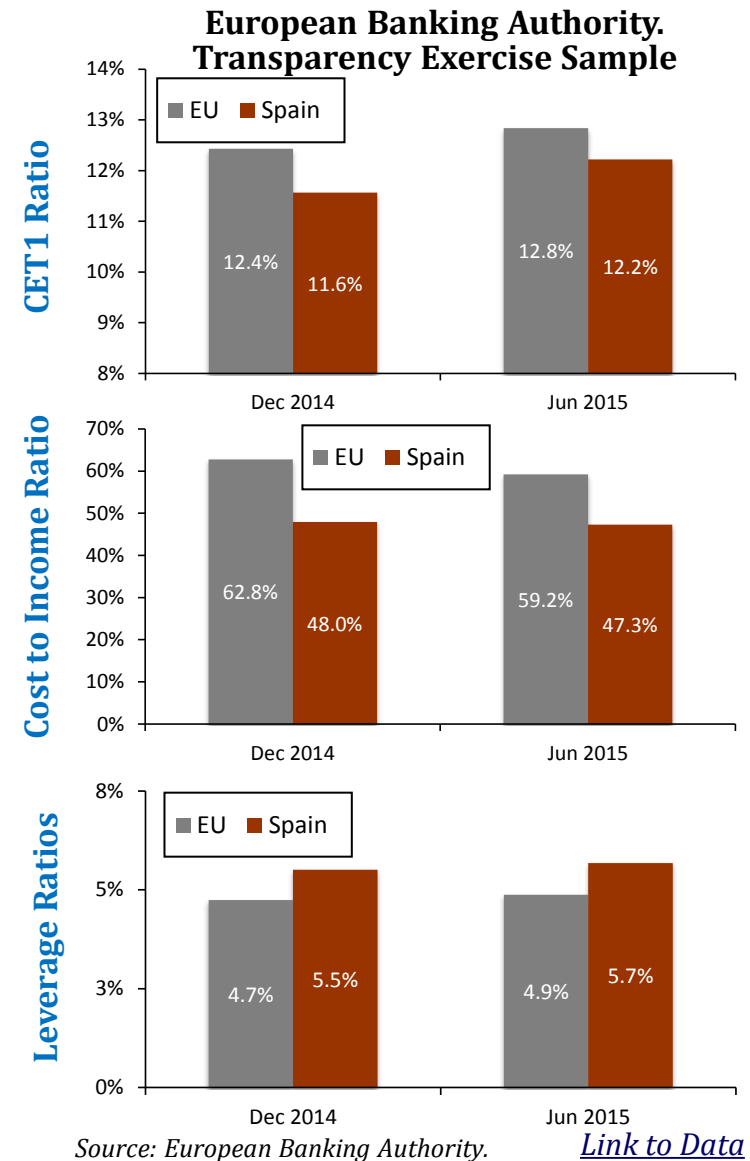
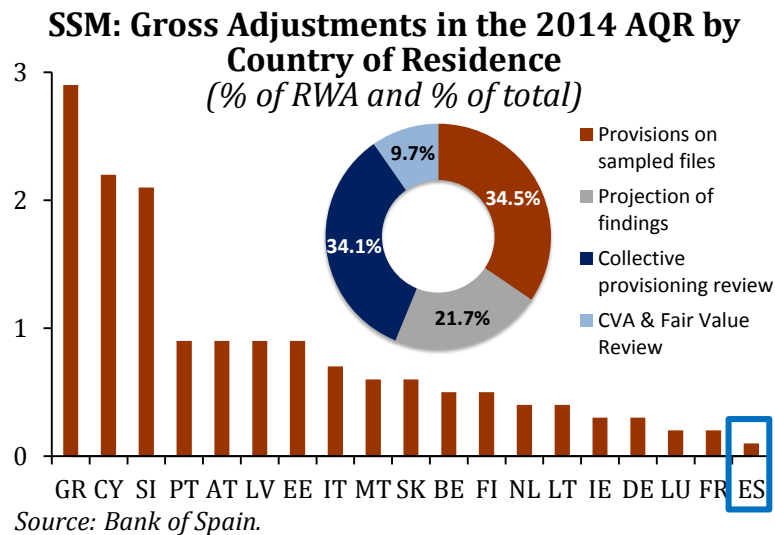


[Link to Data](#)

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%)

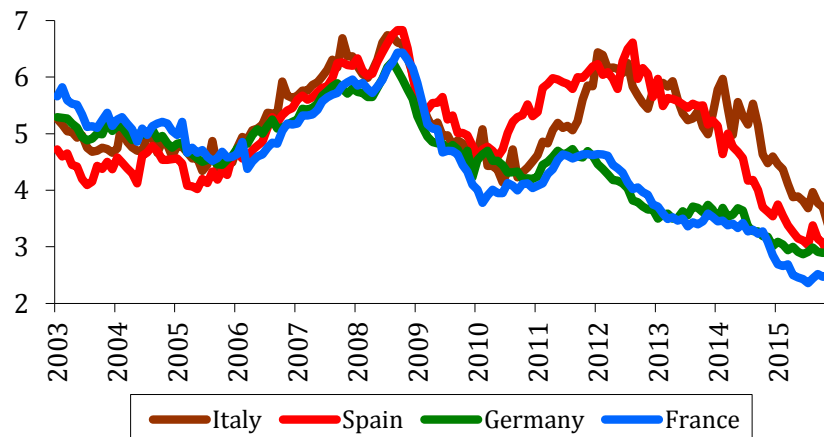
The adjustment of the financial sector



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

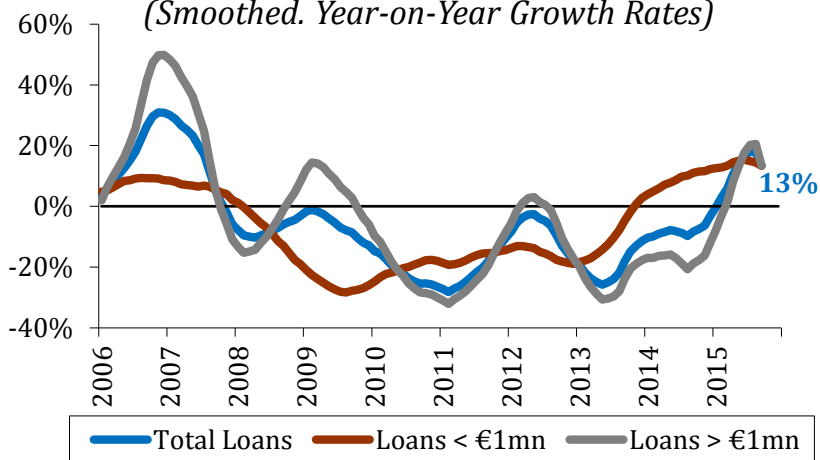
Lending Rates of New Loans to Non-Financial Corporations
(%. Maturity 1-5 Years and up to €1 mn)



Source: ECB.

[Link to Data](#)

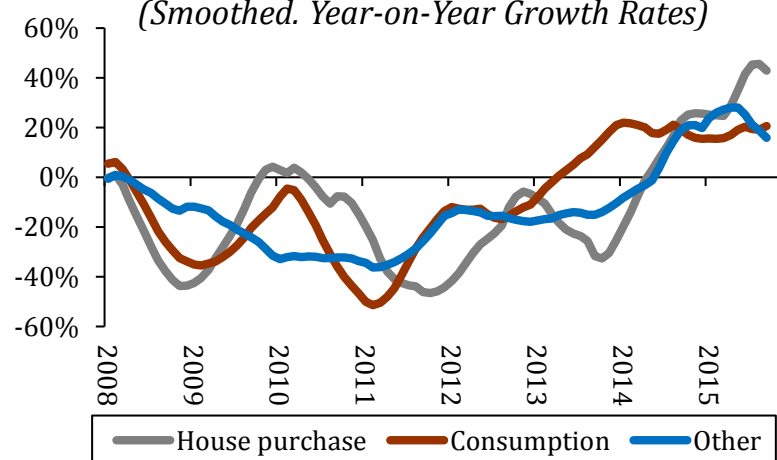
New Loans to Non-Financial Firms
(Smoothed. Year-on-Year Growth Rates)



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](#)

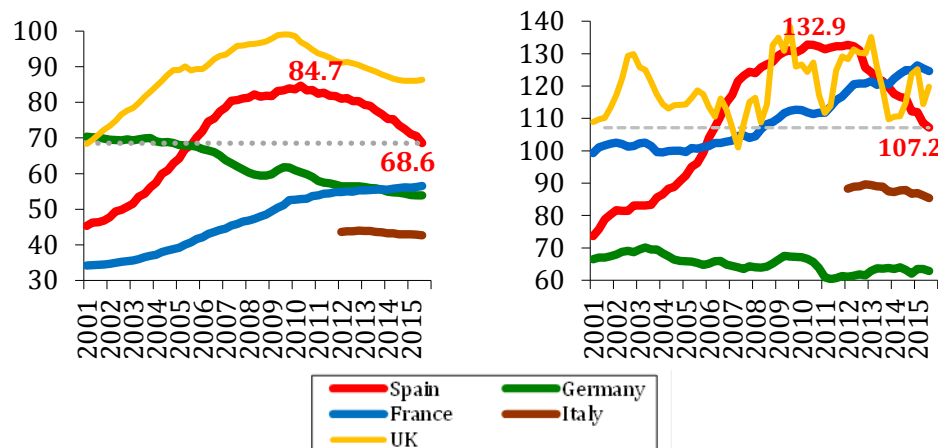
But private sector deleveraging continues

▶ Since 2010Q2 the private sector has deleveraged by more than €465 bn

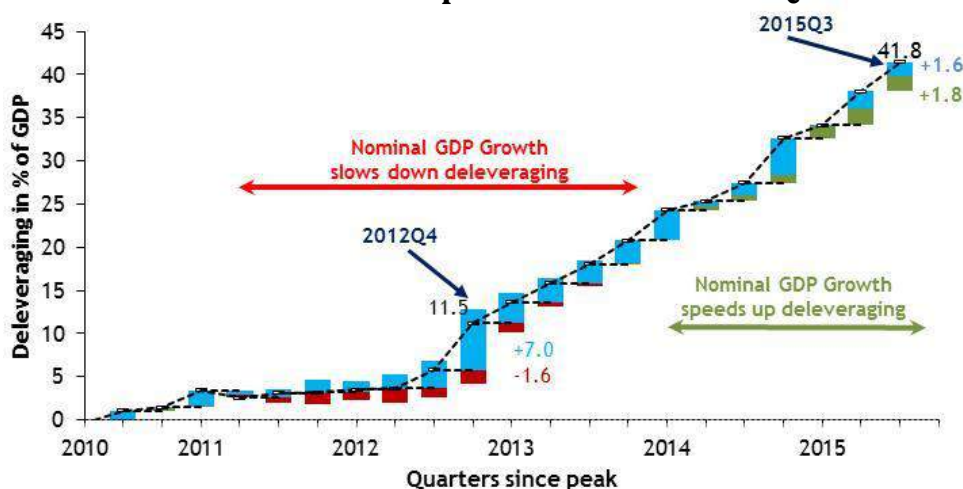
- ▣ Firms by €286.0 bn
- ▣ Households by €179.2 bn

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

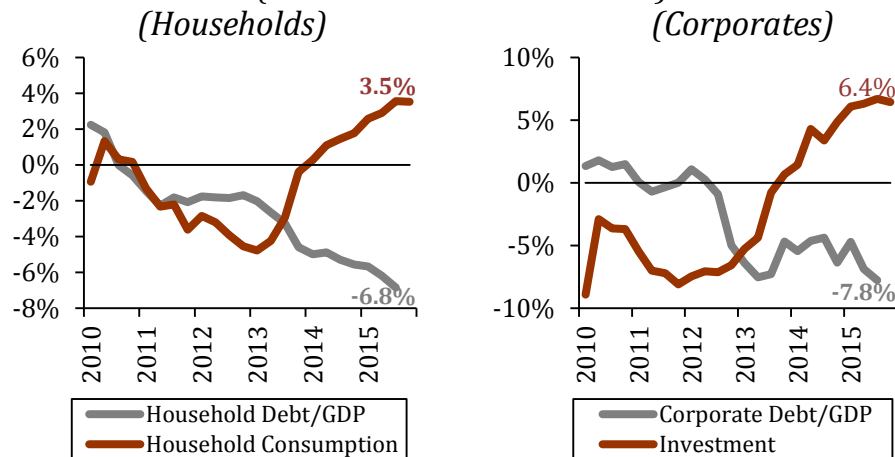
Debt to GDP Ratios of Households and Non-Financial Corporations
(Households) (% of GDP) (Corporates)



Deleveraging of Households and Non-Financial Corporations since 2010Q2



Debt to GDP vs. Consumption & Investment
(Year-on-Year Growth Rates)

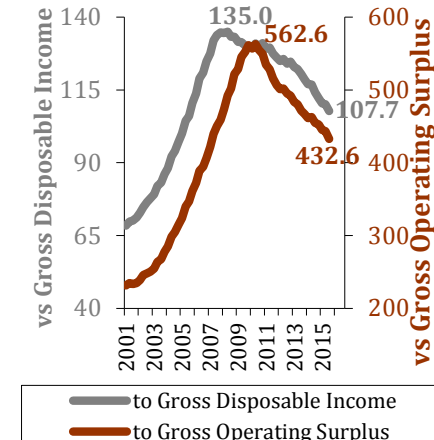
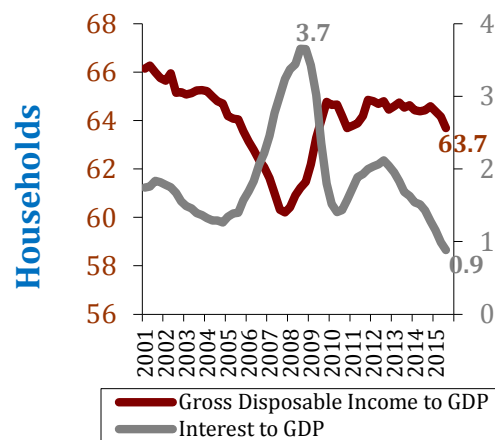
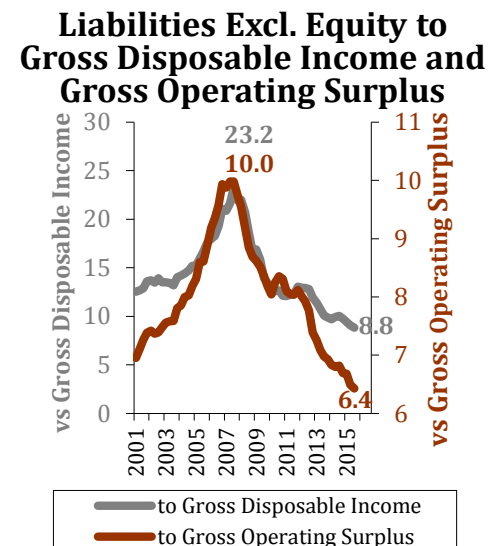
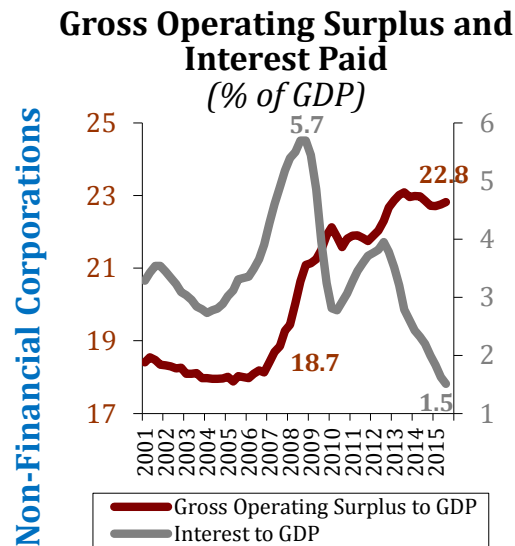


Source: ECB, Bank of Spain and National Statistics Institute.

[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



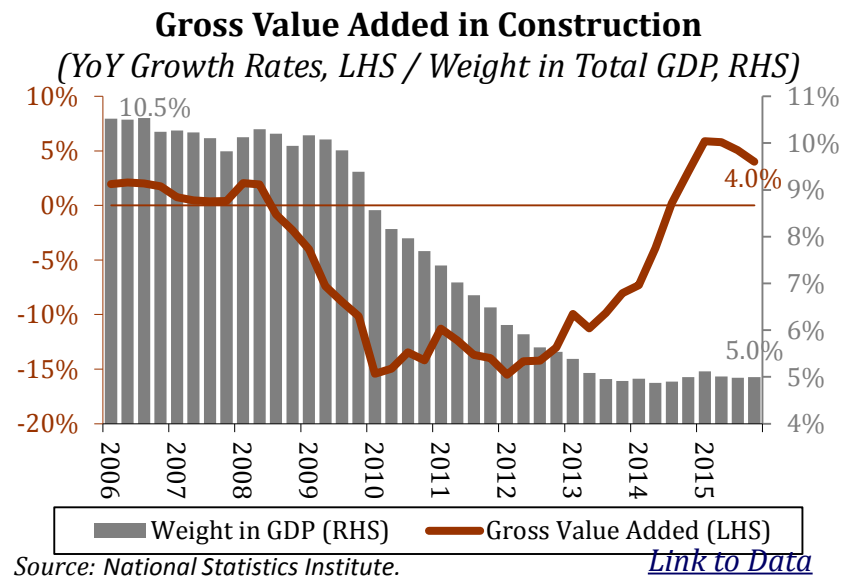
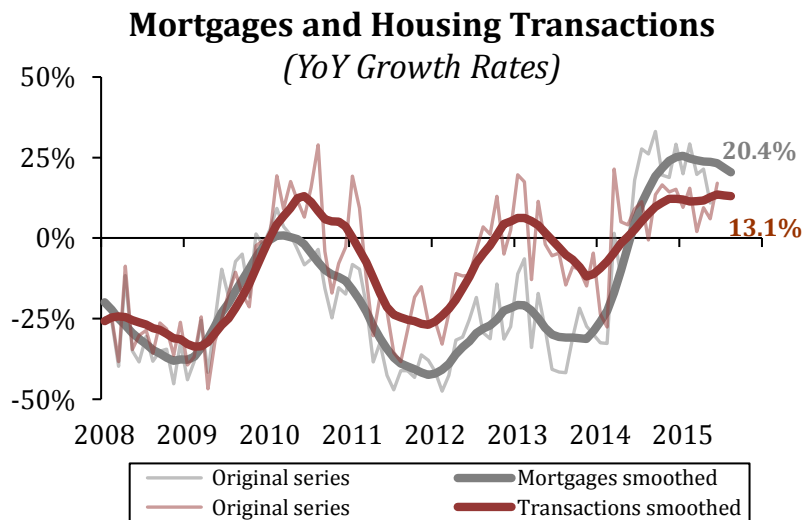
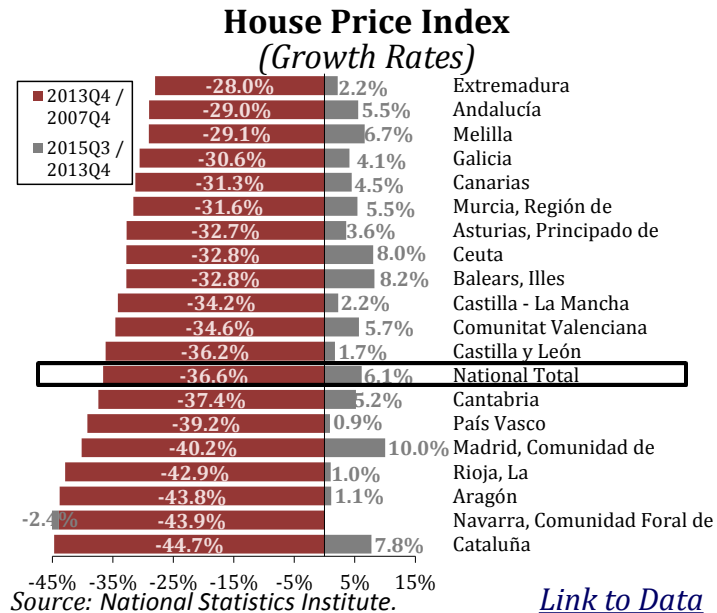
Source: National Statistics Institute and Bank of Spain.

[Link to Data](#)

New credit flows consistent with deleveraging

Spain's construction sector is beginning to recover

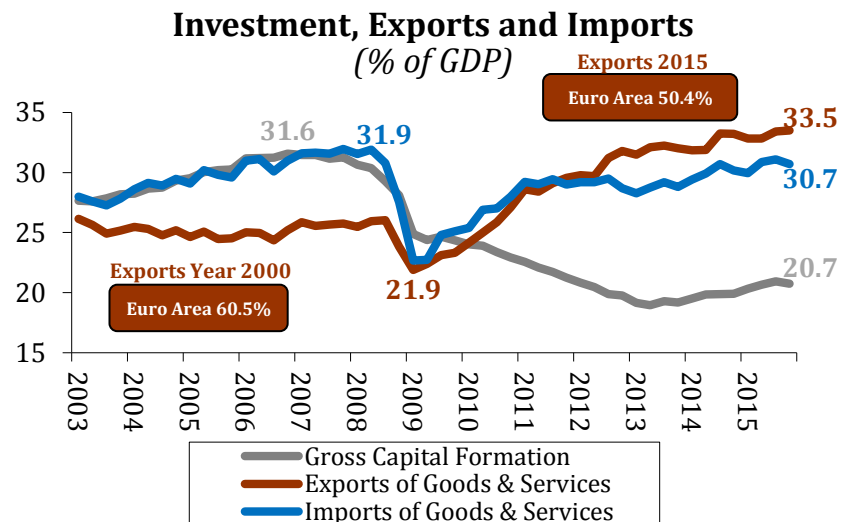
- ▶ Prices bottomed-out around mid-2014, and have shown a moderate upward trend
- ▶ Gradual recovery in mortgages, new loans and residential transactions since 2013
- ▶ Gross value added generated by the construction sector is expanding since 2014Q2, for the first time since 2008



Positive price developments in the construction sector

External sector: from net borrower to net lender

- ▶ The weight of exports in GDP has increased from 21.9% in 2009Q1 to 33.5% by 2015Q4, in line with the evolution in the number of exporting firms
- ▶ Investment around Eurozone average
- ▶ Third consecutive yearly Current Account Surplus (2.08% of GDP), supported by falling oil prices



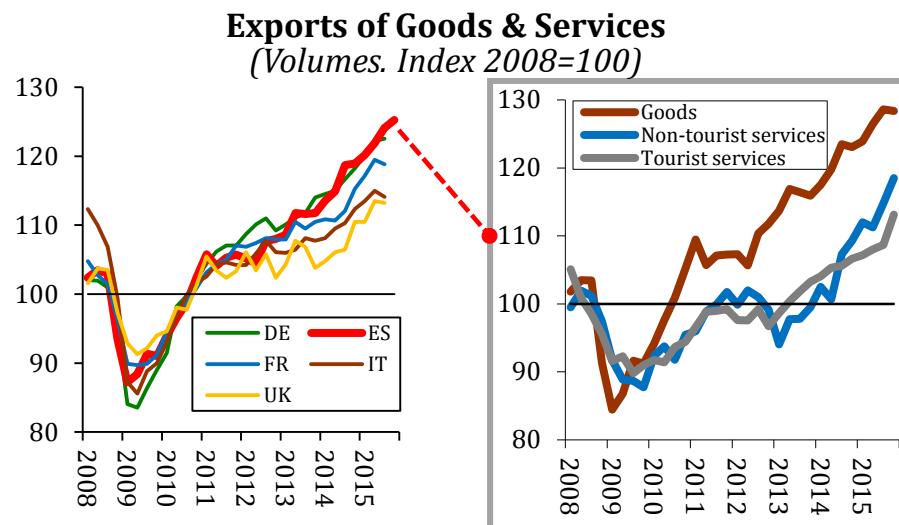
Source: National Statistics Institute.

[Link to Data](#)



Source: ICEX.

[Link to Data](#)

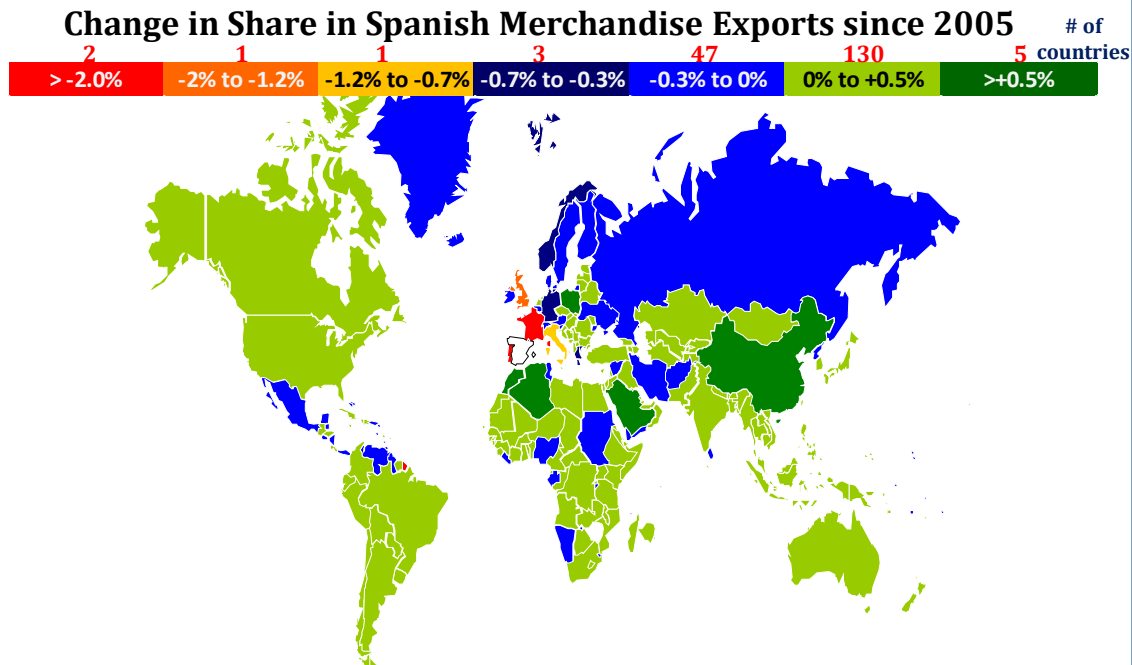


Source: Eurostat and National Statistics Institute.

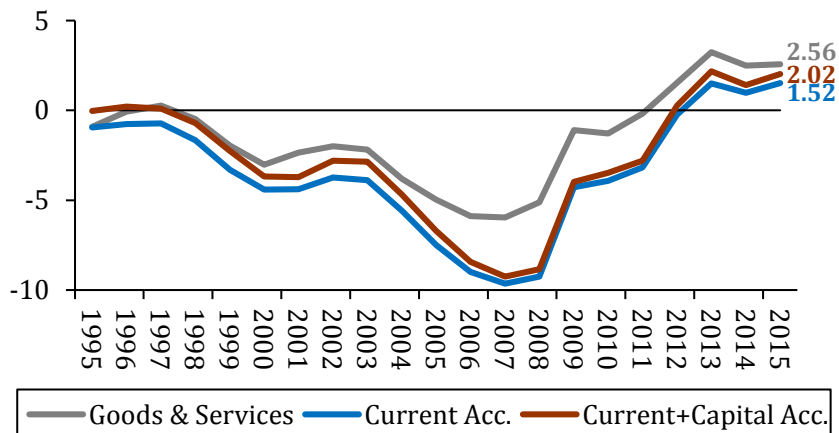
[Link to Data](#)

Exports are more widely diversified

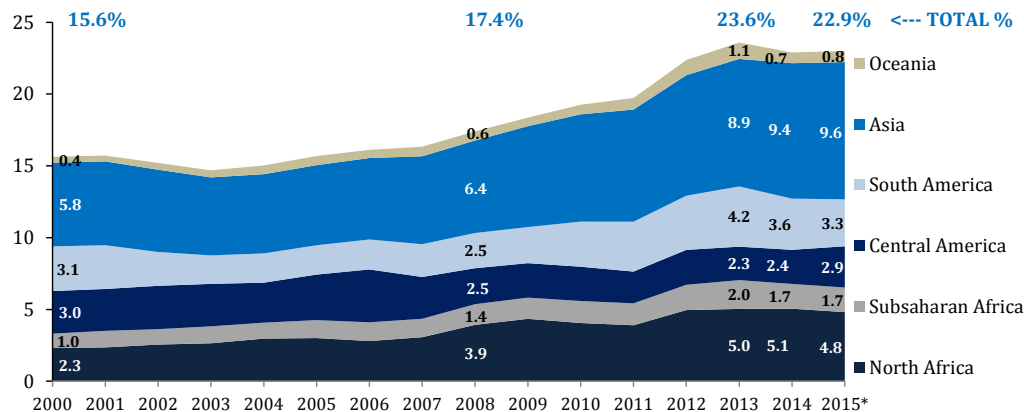
- ▶ Spain is diversifying its export base:
 - ❑ Increasing market share in Africa & Middle East, Asia, North & South America
 - ❑ Decreasing market share to EU, Venezuela, Central America, parts of southern Asia
- ▶ Merchandise trade to the Euro Area represents 50.4% in 2015 vs. 60.5% in the year 2000



Current Account Balance
(% of GDP)



Weights of Faster Growing Economies in Total Merchandise Exports



Source: Bank of Spain.

[Link to Data](#)

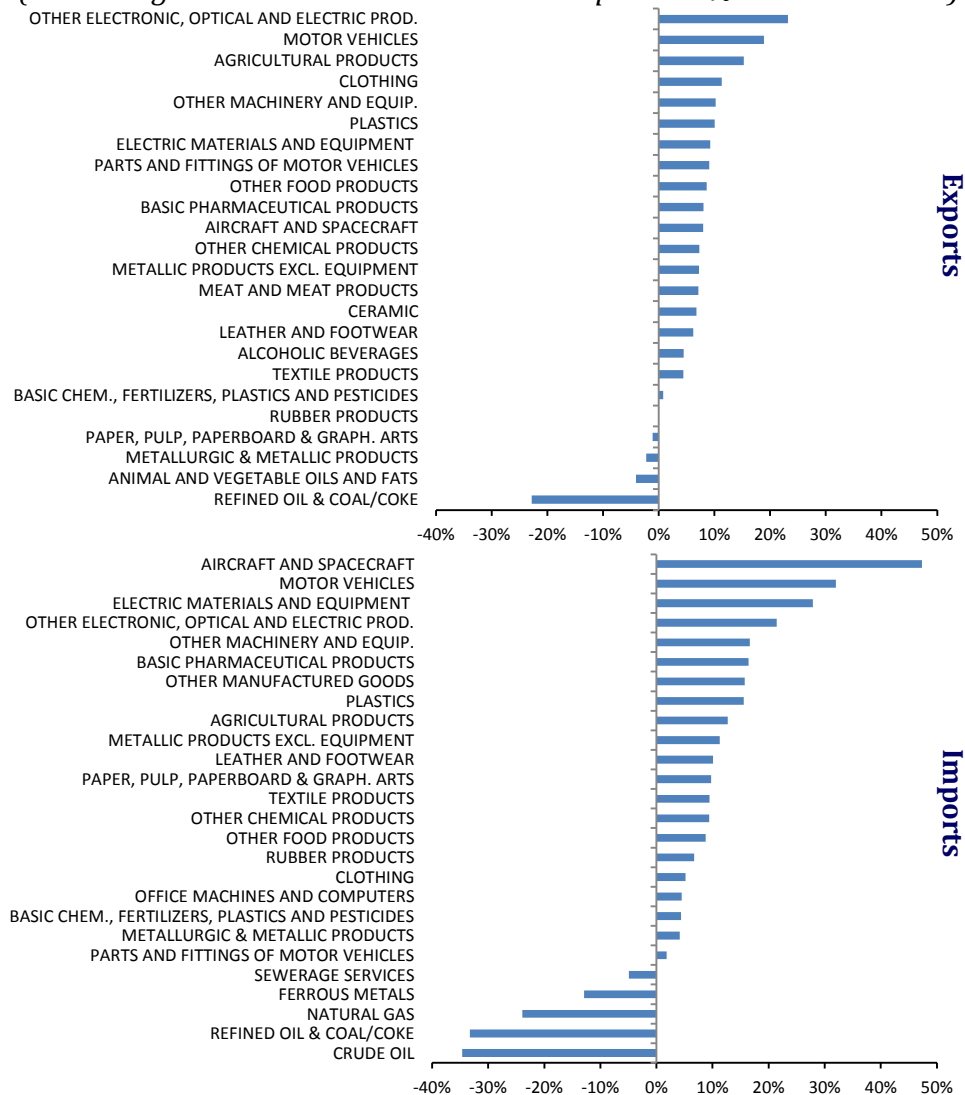
Source: Datacomex.

[Link to Data](#)

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

- ▶ Exports of consumption goods are expanding in line with demand from Europe and north America. Exports of capital goods are recovering their previous growth trend
- ▶ Increasing imports of capital and intermediate goods (excluding energy imports) reflect an expansion in the gross value added of the manufacturing sector; motor vehicles, electric and electronic products as well as machinery and pharmaceutical products

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

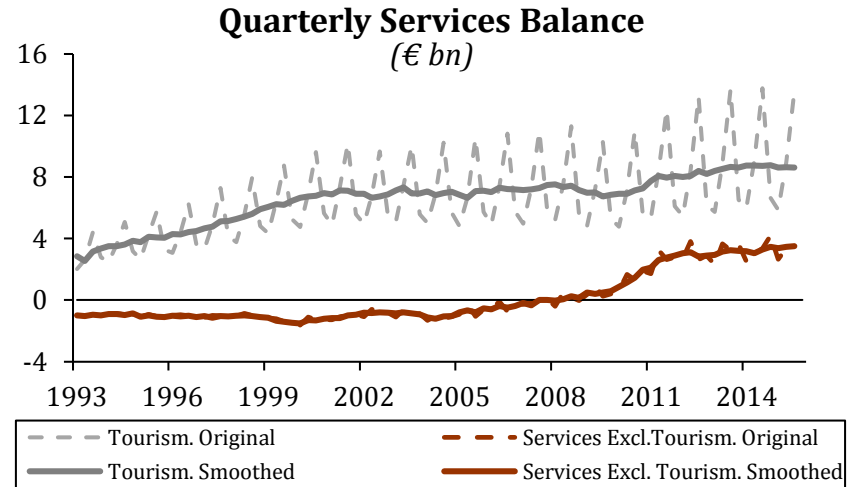


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

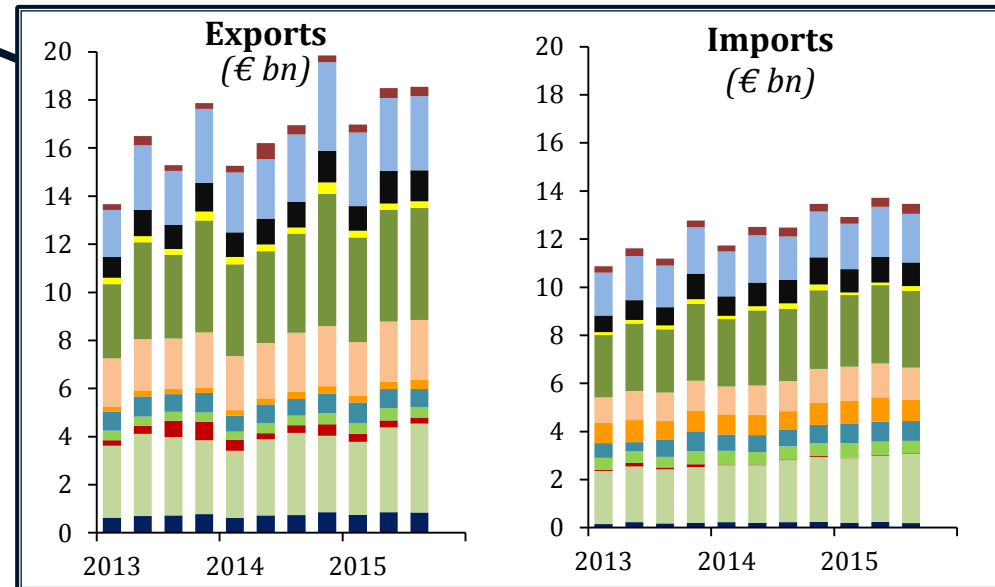
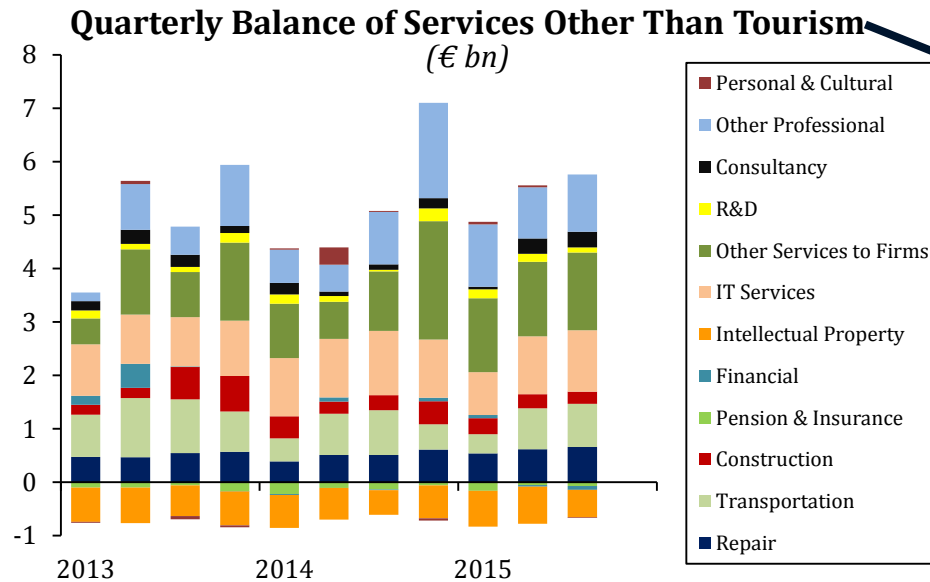
Services exports expand the CA surplus

- ▶ 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](#)

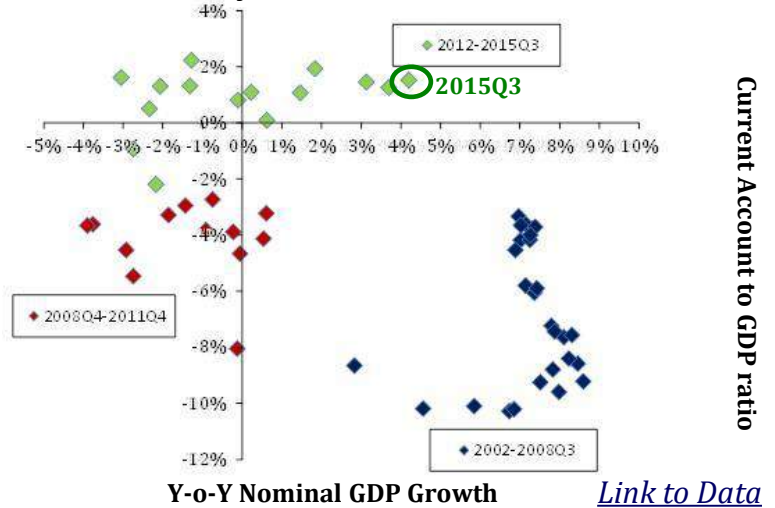


From net borrower to net lender

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](#)

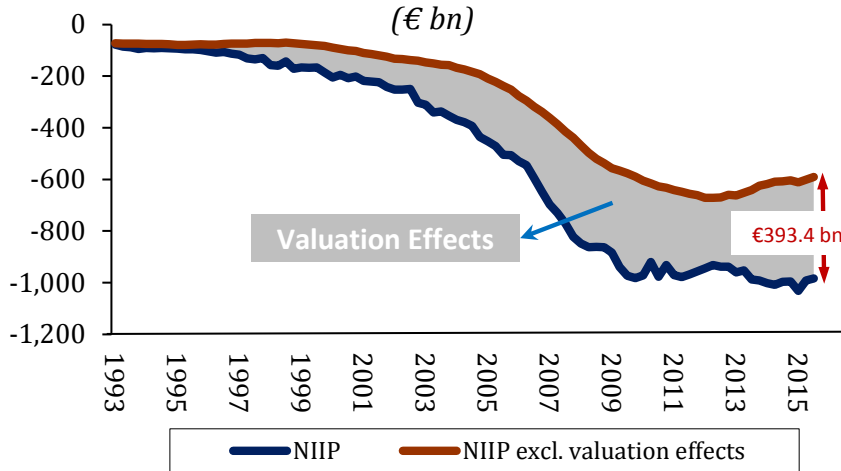
Net International Investment Position Scenarios for 2024 as a Function of Current Account & GDP

		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%			
	3.0%	NIIP at -50% of GDP		
	4.0%			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

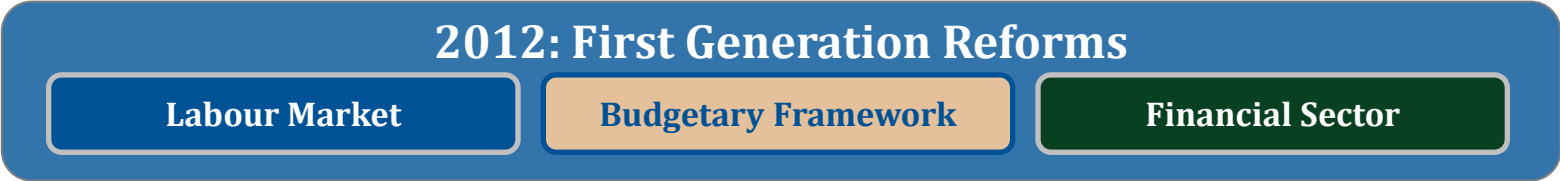
2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

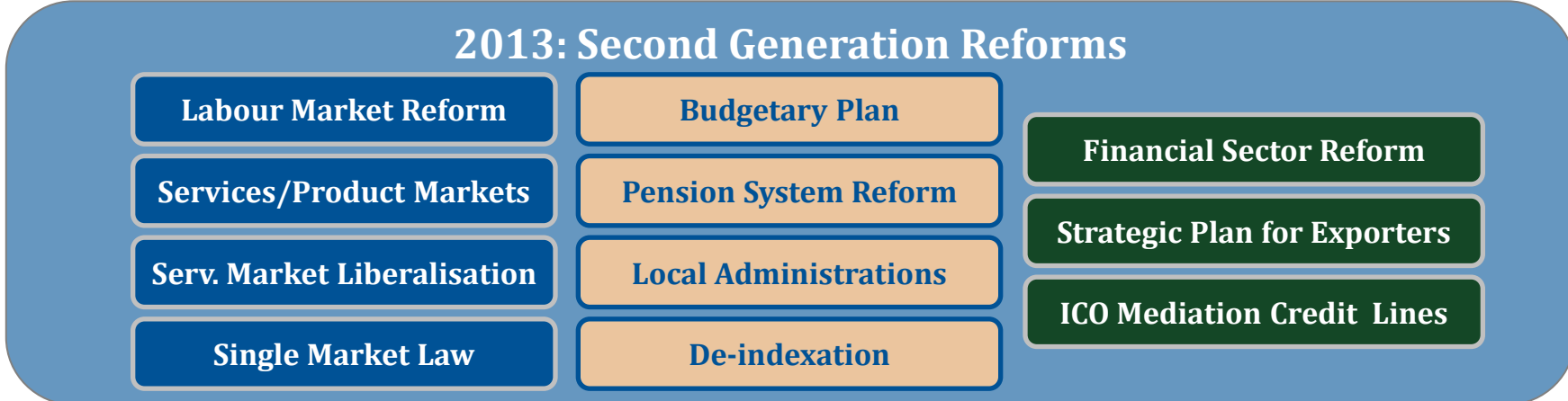
2.1 Reform Policies 2012-2015	Page 31-39
2.2 The 2016 Central Government Budget Law	Page 40
2.3 Debt to GDP dynamics	Page 41
2.4 Budgetary Execution in 2015	Page 42

Four years of structural reforms

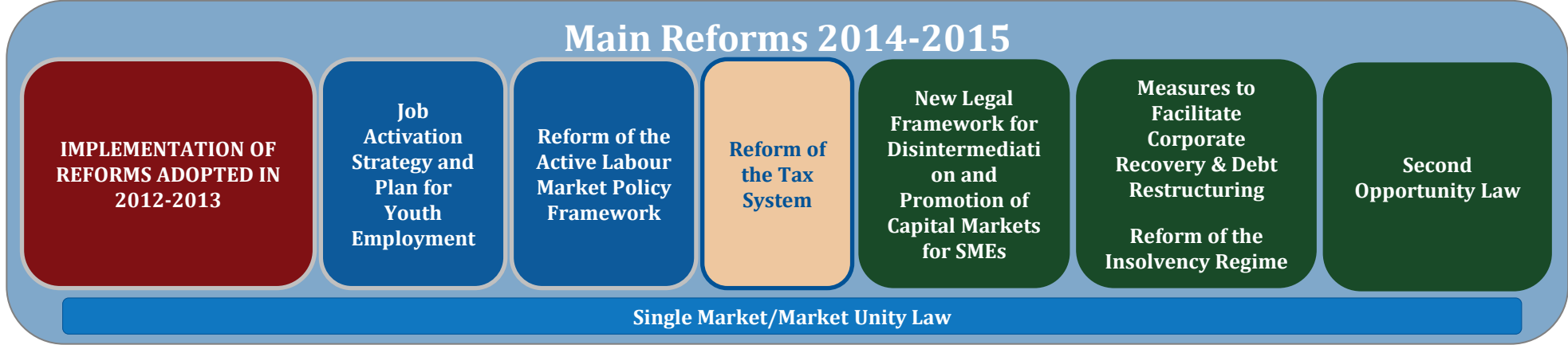
2012: First Generation Reforms



2013: Second Generation Reforms



Main Reforms 2014-2015



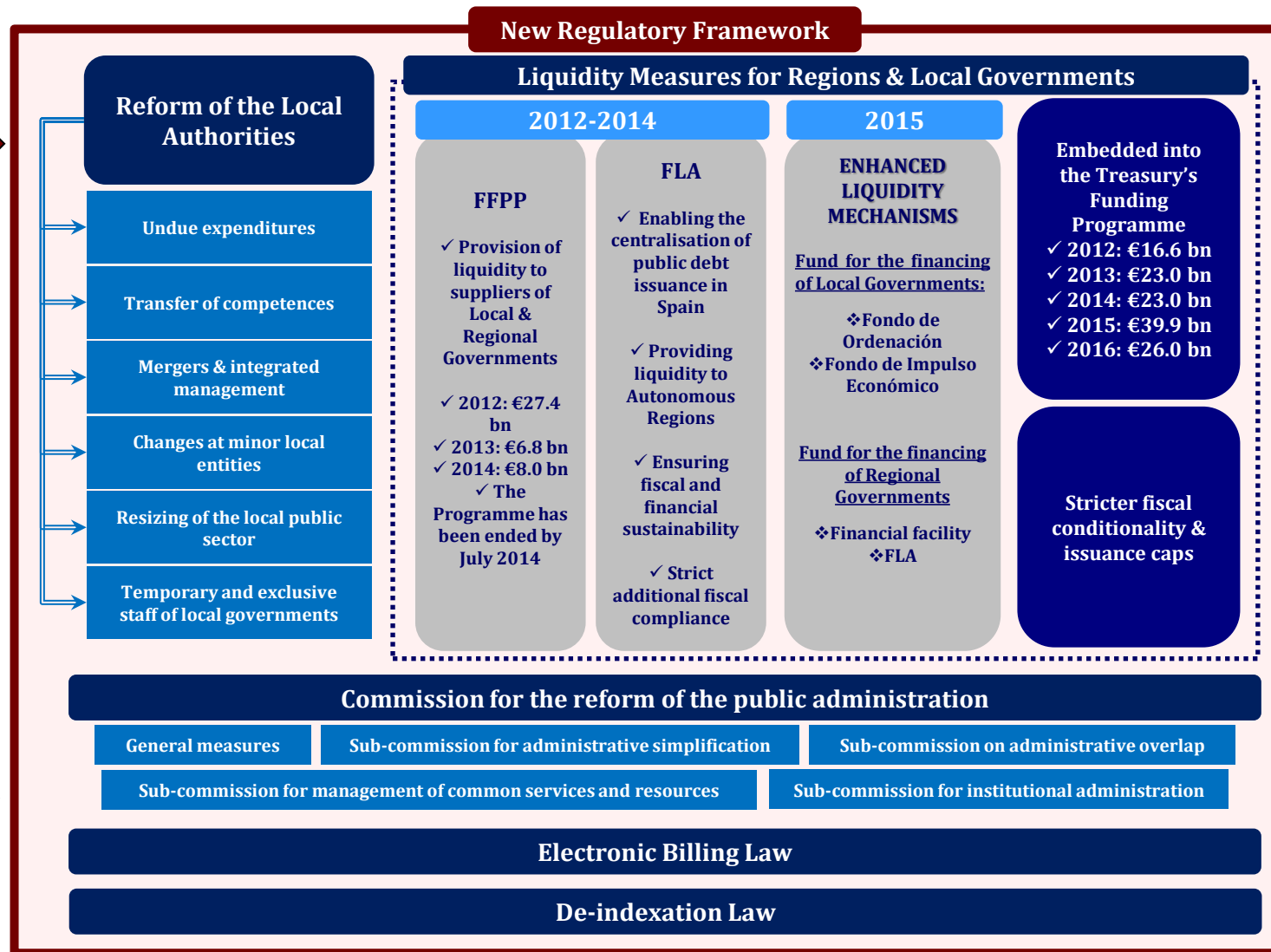
- Economic Structural Reforms
- Public Sector Reforms
- Financial Sector Reforms

[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 2016 the Treasury will provide Regions and Local Governments funding for up to €26.0 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	GDP (Weight in national GDP)	Liquidity assistance (€ bn) (2012-2015)	FFPP (€ bn)	TOTAL (€ bn)	% of total disbursements
Catalonia	18.9%	37.1	6.5	43.5	30.4
Madrid	18.8%	1.8	1.3	3.2	2.2
Andalusia	13.4%	15.1	5.0	20.0	14.0
Valencia	9.4%	21.8	7.5	29.3	20.4
Galicia	5.2%	1.6	0.0	1.6	1.1
Castile and Leon	5.0%	2.1	1.1	3.1	2.2
Canary Islands	3.9%	3.6	0.3	3.9	2.7
Castile - La Mancha	3.5%	4.8	4.0	8.8	6.1
Aragon	3.2%	1.5	0.5	2.0	1.4
Murcia	2.6%	3.7	1.8	5.4	3.8
Balearic Islands	2.5%	3.8	1.3	5.1	3.5
Asturias	2.0%	1.4	0.2	1.6	1.1
Extremadura	1.6%	0.9	0.4	1.3	0.9
Cantabria	1.1%	1.3	0.3	1.6	1.1
La Rioja	0.7%	0.3	0.1	0.3	0.2
Local Governments		1.0	11.6	12.6	8.8

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

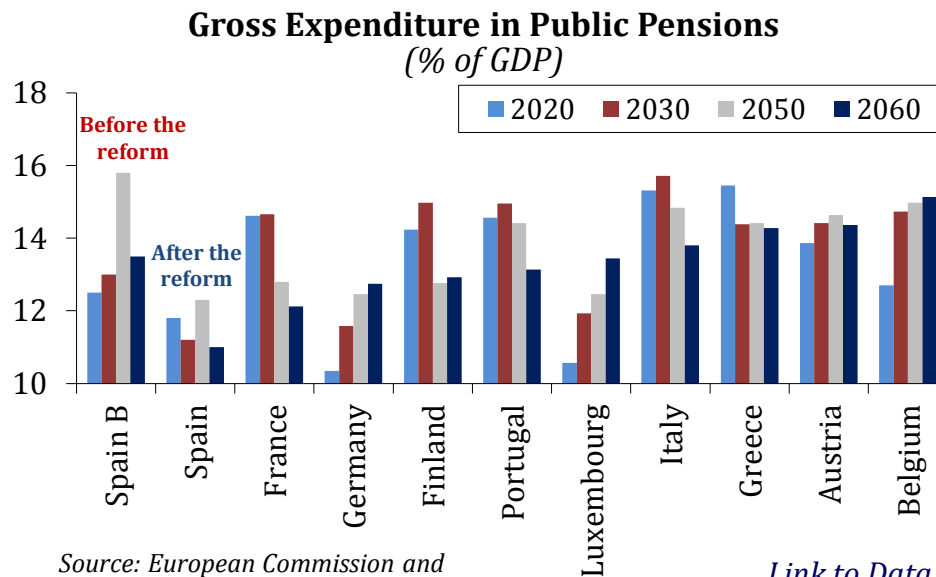
Changes to Personal Income Tax	Changes to Tax on Capital	Changes to Corporate Income Tax	VAT	Fight Against Tax Fraud	R&D and cultural investment
► Reduction in number of tranches and rates in two years	► Lower rates in two years and more progressive	► Reduced general rate: from 30% to 25% in two years (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")		► New rules on the localisation of assets; taxing at destination of electronic, telecommunications and radio-television services when the addressee is a private individual	
► Limits to exemptions to severance payments in case of unjustified dismissal	► Capital gains generated in less than 12 months no longer penalised		► Update and simplification of depreciation tables		► Administrative assessment in evidence of tax fraud
► Tax deductions for house rental: - Elimination for new rentals (Expenditure side) - Lower tax deductions for house rentals (Income side)	► New savings instrument: savings or insurance schemes maintained longer than five years ('Cuenta Ahorro 5'): exempt from capital gains tax	► No deductibility of equity securities impairments extended to fixed income portfolios and fixed assets		► Tax assessment cases are extended to smuggling offenses	► 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)
► Lower tax withholding for professional and self-employed workers with incomes below €15,000	► Limit for deductible contributions linked to pension plans lowered to €8,000/year		► 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	► Better precision in the indirect assessment regime	
► Limits to simplified method ('Modulos') to certain professional activities	► Better fiscal treatment in case of assets received in lieu of payment if affected by preference shares	► Incentives for cultural activities			

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



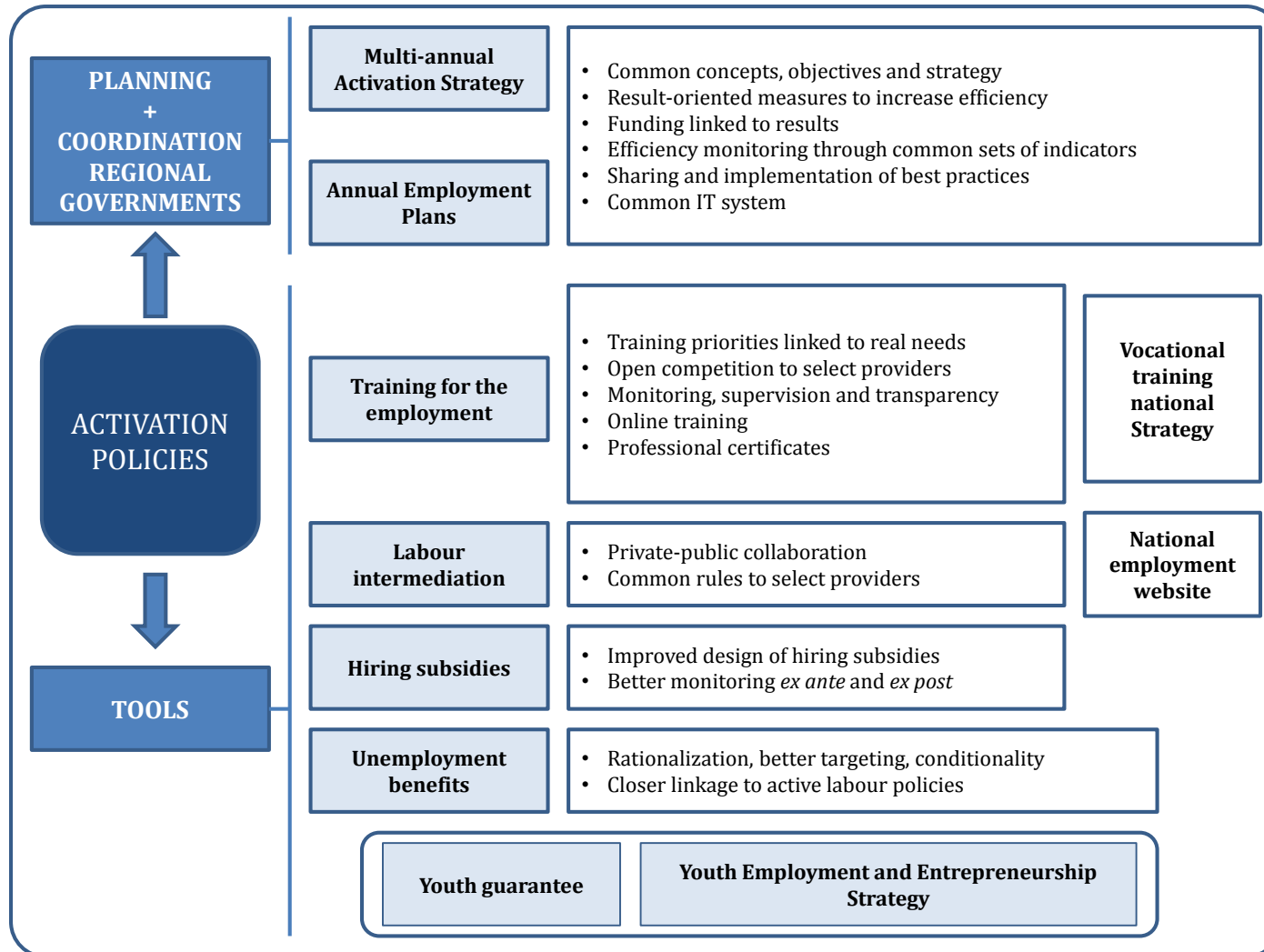
The labour market reform addresses Spain's most important imbalance

► 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 	<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 	<ul style="list-style-type: none"> ① 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 ② 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 ③ Flexible regulation of telework ④ Part-time contract: increased flexibility, allowing overtime
<ul style="list-style-type: none"> → Move beyond the model of indexing salaries and wages 	<ul style="list-style-type: none"> → Clear and objective regulatory framework of fair dismissals 	<ul style="list-style-type: none"> → Clear and objective regulatory framework of fair dismissals 	
<ul style="list-style-type: none"> → Balanced regulatory framework in line with economic circumstances 	<ul style="list-style-type: none"> ① Classification of workers based on skills not on professional occupations ② Simplification of rules for the reallocation of workers ③ Streamlining the adoption of significant changes in working conditions ④ Furloughs/Time-reductions if legitimate financial, productive or organisational reasons exist ⑤ Distribution of working-time 	<ul style="list-style-type: none"> ① Severance pay for unfair dismissal down to 33days/Max 24months of salary vs. 45days/Max 42 months ② Clarification of fair dismissal causes (20days/Max 12 Mo) ③ Removal of administrative authorisation for collective layoffs ④ Elimination of procedural salaries ⑤ Fair dismissals for economic causes of civil servants ⑥ Streamlining of dismissals based on absenteeism 	
<ul style="list-style-type: none"> ① Opting out from higher-level agreements ② Priority of company-level agreements ③ Limiting the statutory extension rule of expired agreements up to one year (unlimited before) 			

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

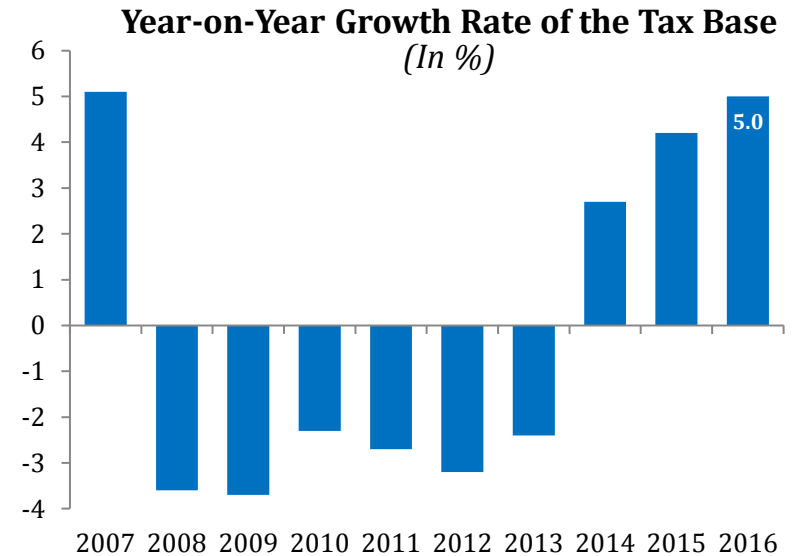
Enhancing out-of-court agreements	Simplification of in-court insolvency procedures	Re-designing the judicial administration
<p>Second Opportunity/Fresh Start Mechanism for individuals and firms</p>	<p>Facilitating the split and sale of separated production units</p>	<p>Classification and register of insolvency administrators according to their past experience</p>
<p>Promotion of refinancing agreements</p>	<p>Adjustment of real-state guarantees</p>	<p>Designation of the insolvency administration rests on automatic process, instead of judicial appointment</p>
<p>Simplification of Collective Refinancing Agreements</p>	<p>Quorum requirement to pass the draft agreement depends now on the nature of the measures to be agreed</p>	<p>Creation of a list of functions that the judicial administrator is able to perform in order to provide more clarity and legal certainty</p>
<p><i>Specific measures</i></p> <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 	<p>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</p>	

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.

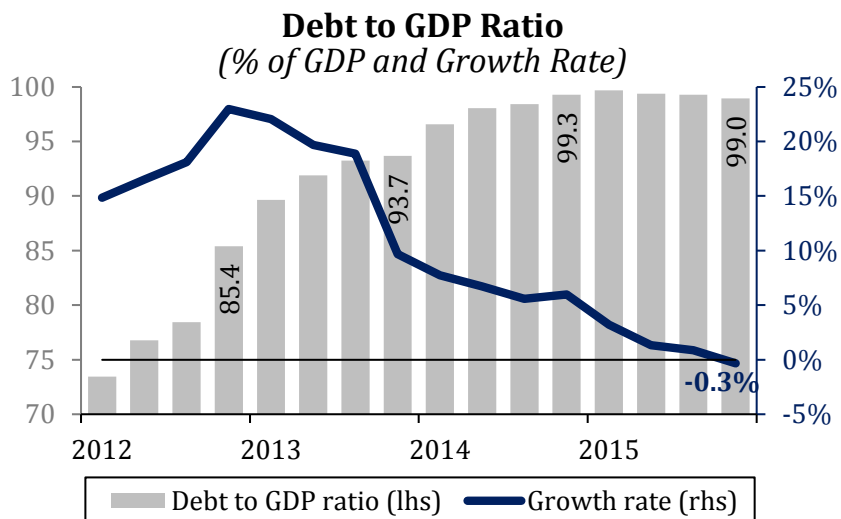


[Link to Data](#)

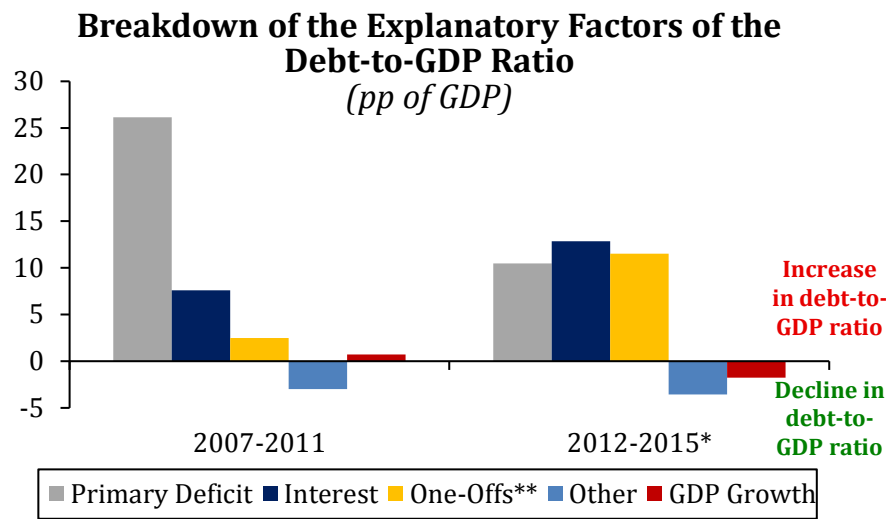


Debt to GDP peaked in 2014

- ▶ According to provisional estimates, in 2015 the Debt to GDP ratio declined to 98.95% vs. 99.3% in 2014. This is the first year-on-year reduction in the ratio since 2007
- ▶ Debt to GDP ratio began to decelerate in 2013, peaked in 2015Q1 and began to fall in 2015Q4



Source: Ministerio de Economía y Competitividad. [Link to data](#)



Source: Ministerio de Economía y Competitividad.

* Provisional estimates

** One-Off factors include: impact of financial sector recapitalisation, Loans to Portugal, Ireland and Greece (EFSF), Fund for the Payments to Suppliers (FFPP), Electric Tariff Deficit (FADE)

Budgetary execution in 2015

Monthly budgetary execution highlights:

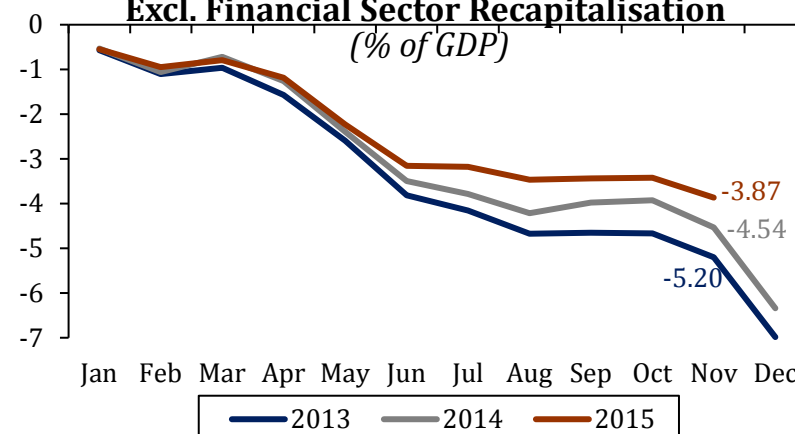
☐ Central Government (**November** 2015 data): deficit €24.8 bn vs. €33.3 bn by November 2014

- 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 (**November** 2015 data): deficit reached €14.2 bn vs. €14.0 bn by November 2014

☐ Social Security Administrations (**November** 2015 data): the Social Security posted a deficit of €3.0 bn vs. €0.7 bn up to November 2014

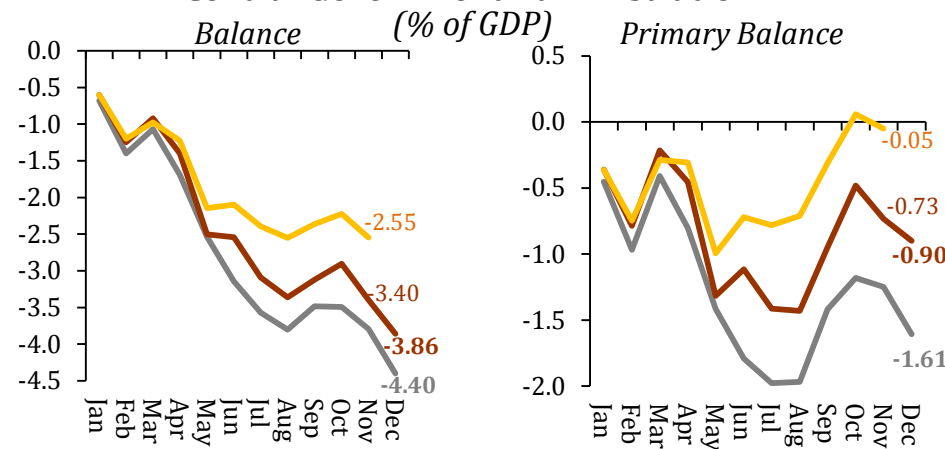
Deficit of Central & Regional Governments and Social Security Administrations. (Excl. Local Governments) Excl. Financial Sector Recapitalisation



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



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Thank you for your attention

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