



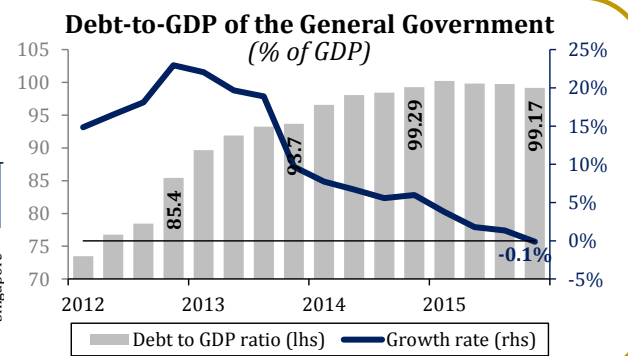
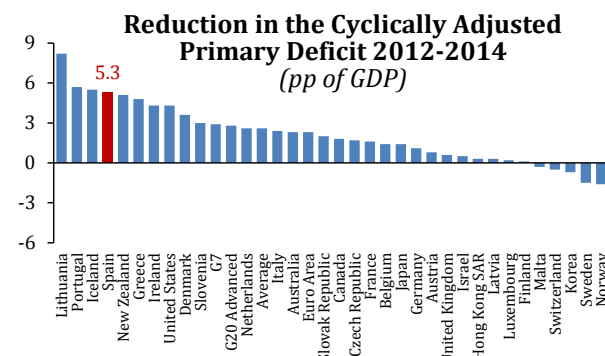
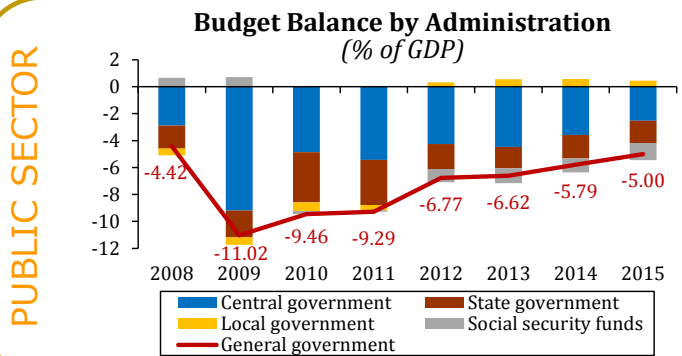
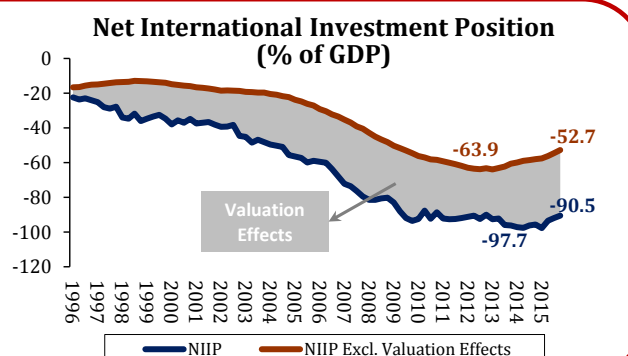
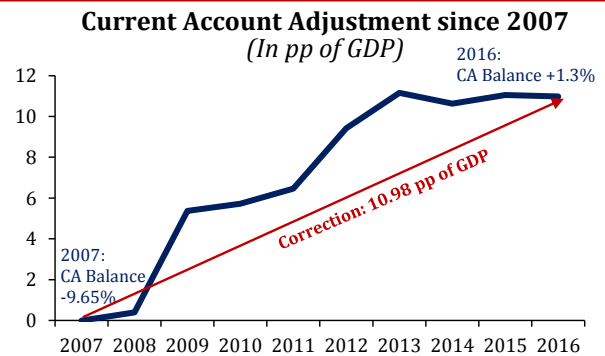
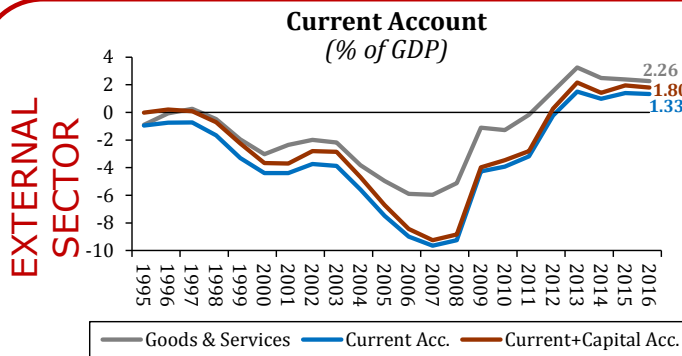
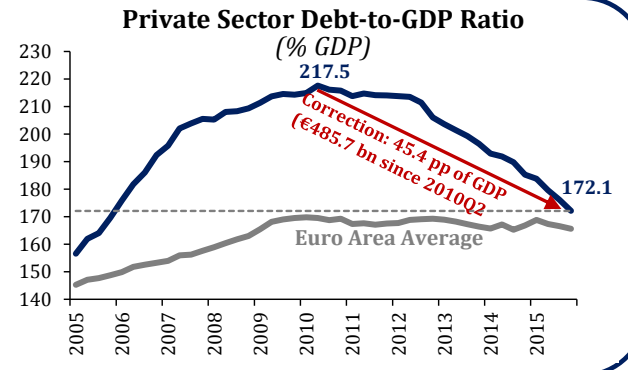
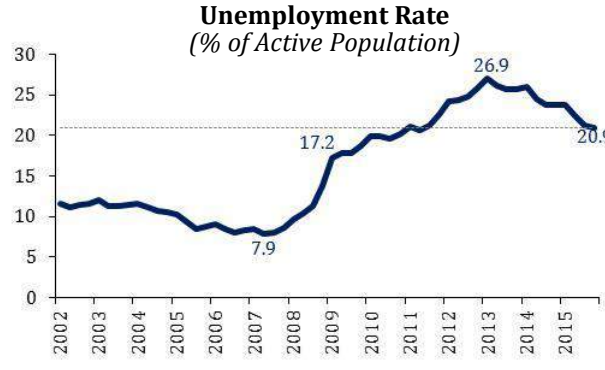
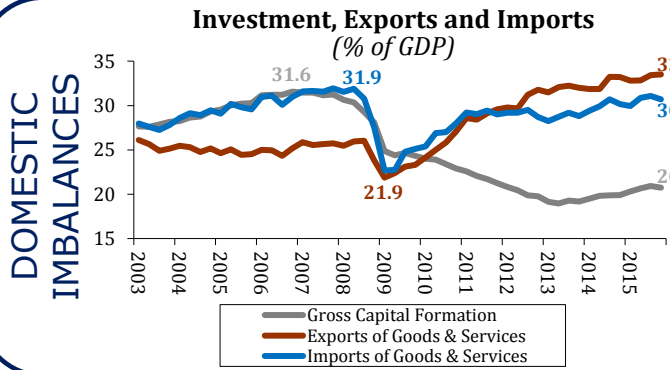
The Kingdom of Spain: Funding Programme for 2016 & Economic Policy

April 2016

Highlights

- ▶ Reduction of the net issuance of the Spanish Treasury to €40 bn
- ▶ Balanced economic growth underpinned by far-reaching structural reforms; joint private and public deleveraging compatible with investment & consumption growth:
 - More than 42% of employment generated in the Euro Area since 2014 created in Spain; reduction of structural unemployment supports consumer confidence
 - Broad-based expansion across all economic sectors
- ▶ Thanks to a more competitive economy, growth consistent with current account surplus and gradual rebalancing of the net international investment position
- ▶ Tailwinds to growth: negative inflation, tax reform and reduced energy bill enhance disposable income dynamics
- ▶ Debt-to-GDP ratio of the General Government peaked in 2014, projected downward trend; measures adopted to reinforce commitment to fiscal consolidation

Correction of imbalances



1. The Funding Programme in 2015 & 2016 forecast

1.1 The Funding Programme for 2016

Page 4-5

1.2 Main Execution highlights

Page 6-12

2. Transformation of Spain's growth model

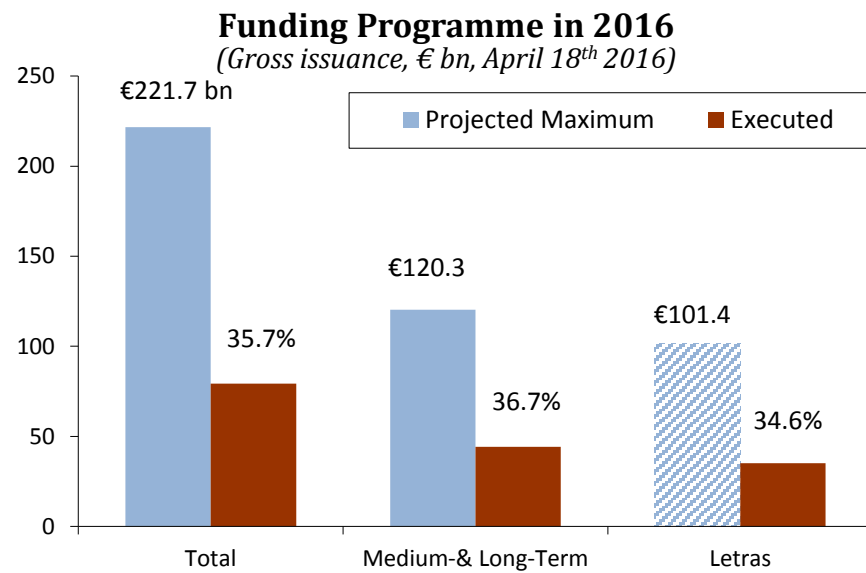
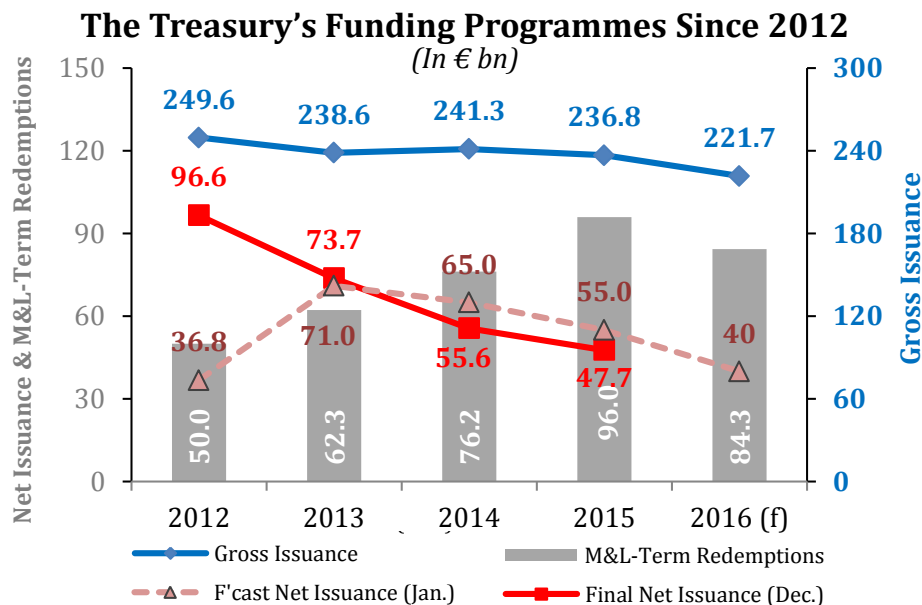
3. Spanish Economic Policy & Reforms

The Treasury's Funding Programme for 2016

- ▶ Net issuance to €40 bn, less than half than in 2012
- ▶ Total issuance so far €79.2 bn (35.7% of the funding programme), of which €44.2 bn medium- and long-term gross instruments (36.7%), and €35.1 bn of Letras (34.6%)

(In billion euros and in effective terms)	End 2015	Forecast 2016
Total Net Issuance	47.717	40.000
Total Gross Issuance	236.817	221.694
<i>Medium- and Long-term</i>		
Gross Issuance ¹	139.000	120.301
Amortisation ¹	95.997	84.301
Net Issuance ¹	43.003	36.000
<i>Letras del Tesoro</i>		
Gross Issuance	97.816	101.393
Amortisation	93.103	97.393
Net Issuance	4.713	4.000

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



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

The Treasury's Funding Programme for 2016

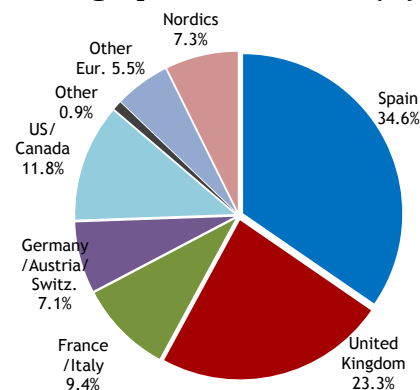
- ▶ The Treasury will cover most of the funding needs of Regions and Local Governments
- ▶ The bulk of the funding programme to be executed via auctions of Letras, Bonos & Obligaciones
 - ❑ The first auction of each month the Treasury may include EA inflation-indexed bonds
- ▶ Issuance via syndications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

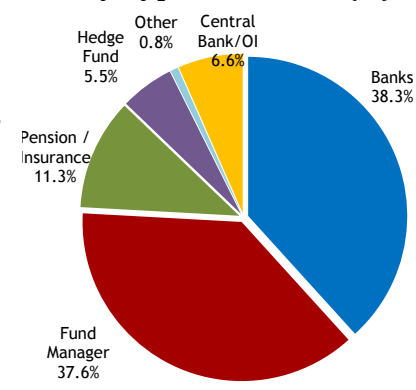
- ▶ In January 2016, the Spanish Treasury has launched its first syndicated transaction of the year. The new €9bn 10-year benchmark issue (due 30 April 2026) has a 1.95% coupon and was priced at a spread of 105 bps over mid swaps implying a reoffer price of 99.672
- ▶ In March 2016, the Spanish Treasury has launched a new €5bn 30-year benchmark issue (due 31 October 2046) with 308 accounts participating in the transaction and a high quality final order book close to EUR 14 billion
- ▶ The new SPGB 30-year benchmark has a 2.90% coupon and was finally priced with a reoffer yield of 2.954% and a reoffer price of 98.931% at a spread of 185 bps over mid swaps

JANUARY - NEW 10 YEAR REFERENCE. APR. 2026

Geographic Distribution (%)

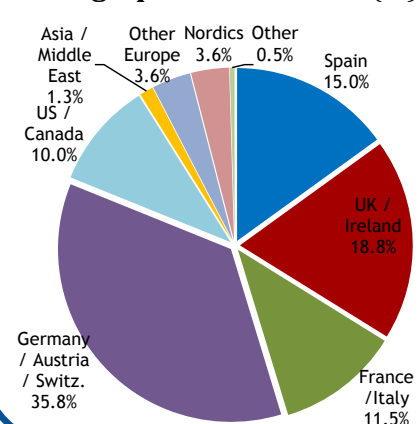


By Type of Investor (%)

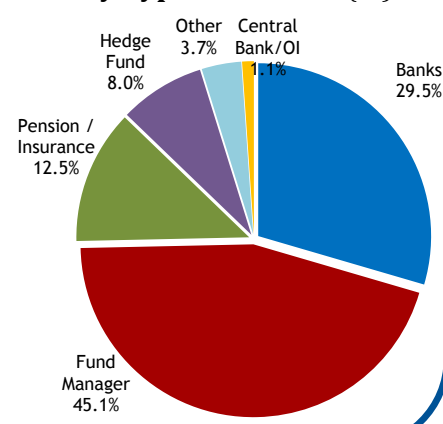


MARCH - NEW 30 YEAR REFERENCE. OCT. 2046

Geographic Distribution (%)



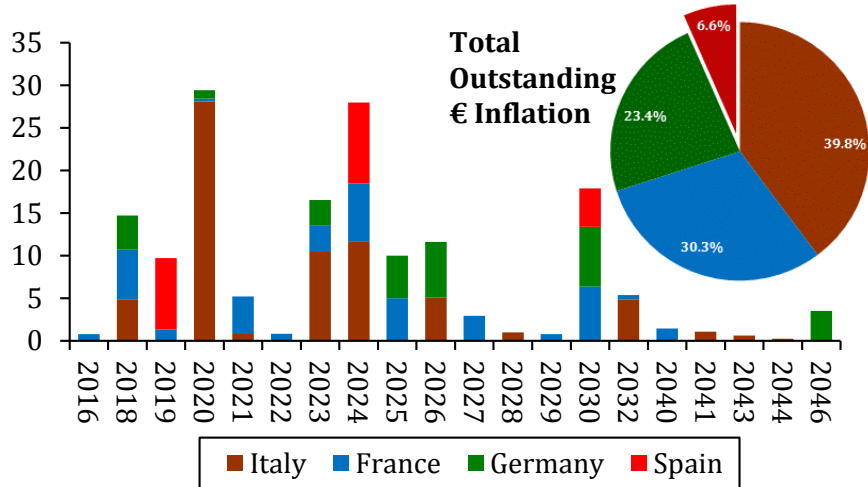
By Type of Investor (%)



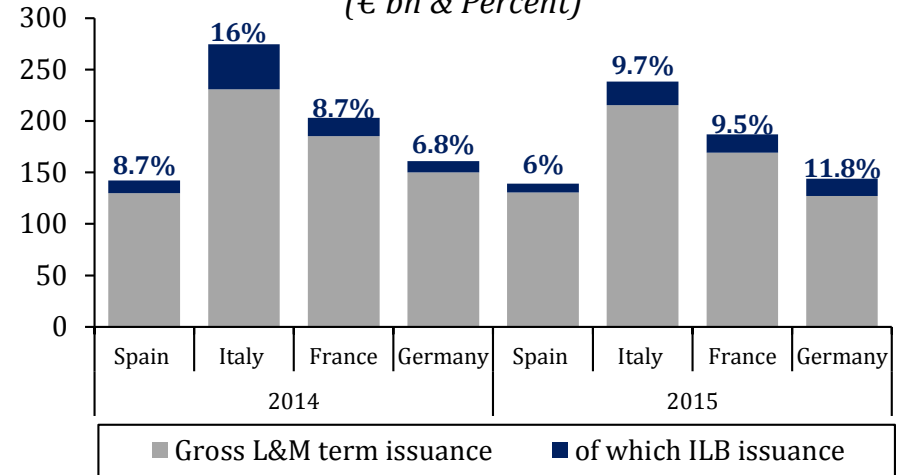
[Link to Data](#)

Spain's Euro inflation-linked programme

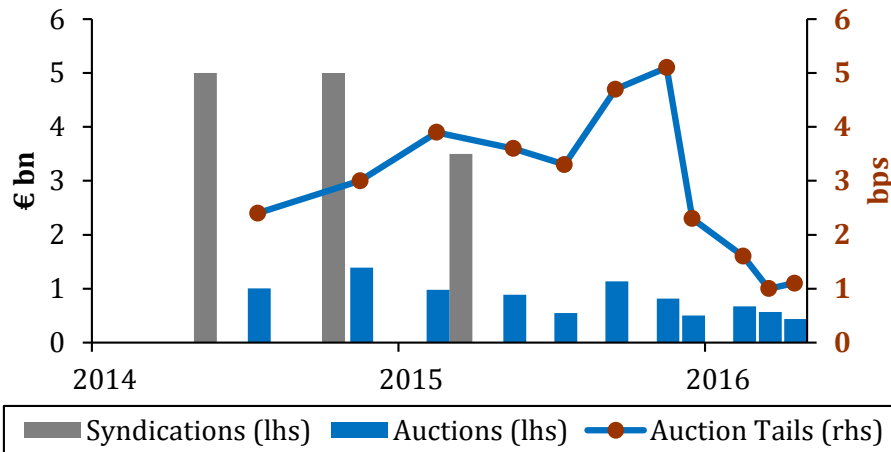
ILB Supply Since 2014 by Maturity. Breakdown by Issuer
(€bn. EMU HIPC and National IPC-Linked)



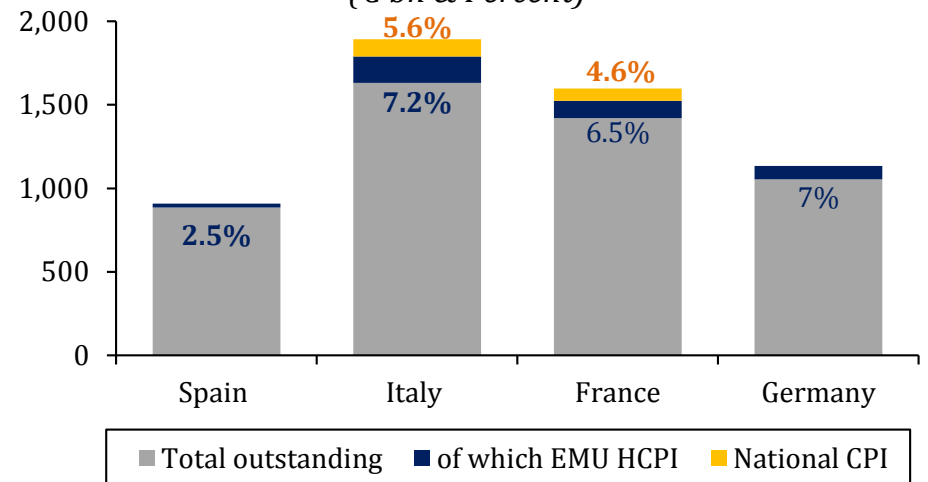
Share of Total Inflation-Linked Bond Issuance in Medium- & Long-Term Issuance
(€ bn & Percent)



Spanish Linker Supply, Auctions & Syndications
(€ bn lhs and bps rhs)



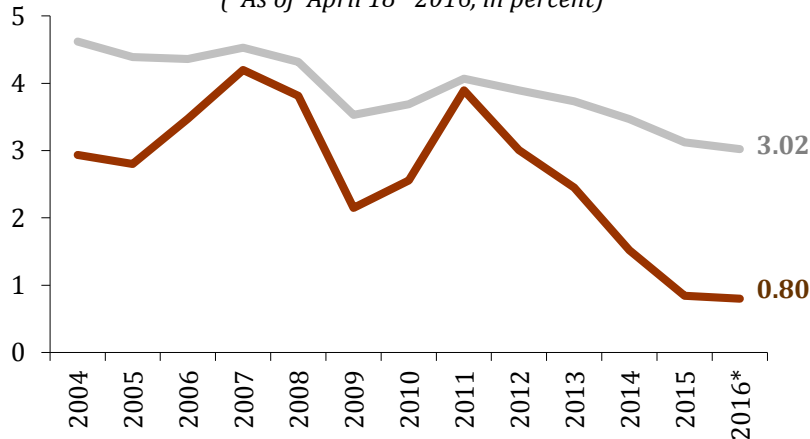
Share of Inflation-Linked Bonds in Total Outstanding
(€ bn & Percent)



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

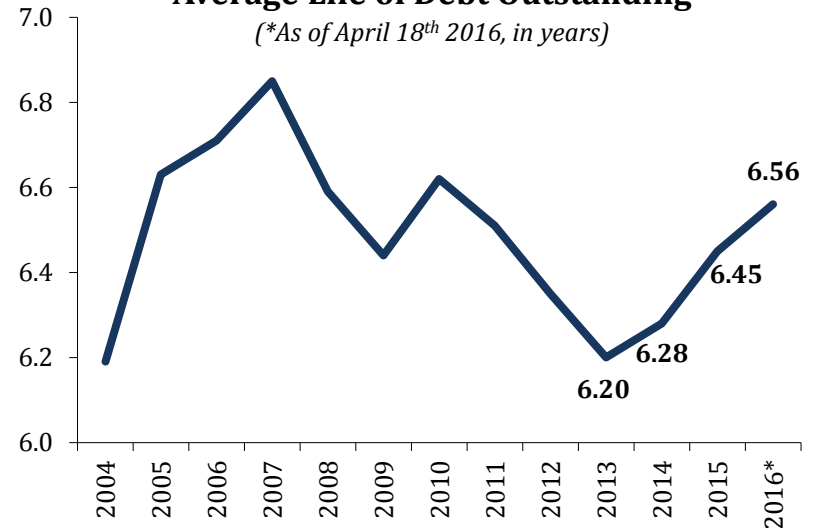
Cost of Debt Outstanding and Cost at Issuance

(*As of April 18th 2016, in percent)



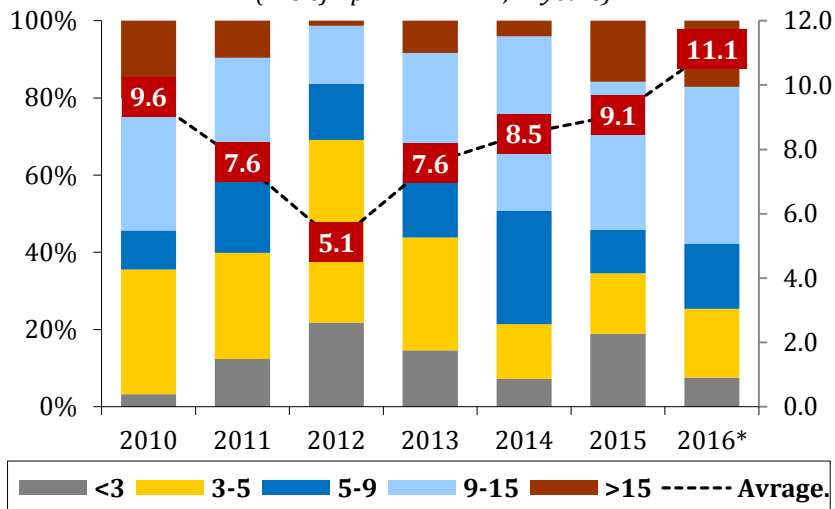
Average Life of Debt Outstanding

(*As of April 18th 2016, in years)

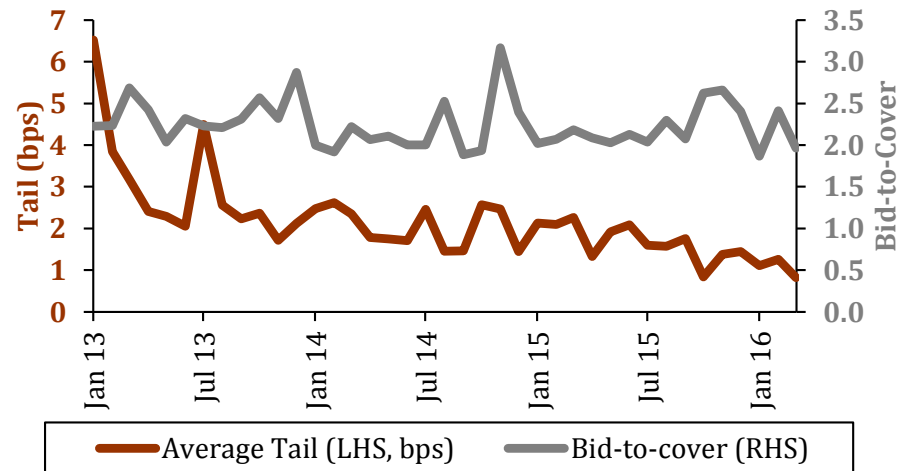


Marginal Life and Average Life at Issuance of Bonos and Obligaciones

(*As of April 18th 2016, in years)



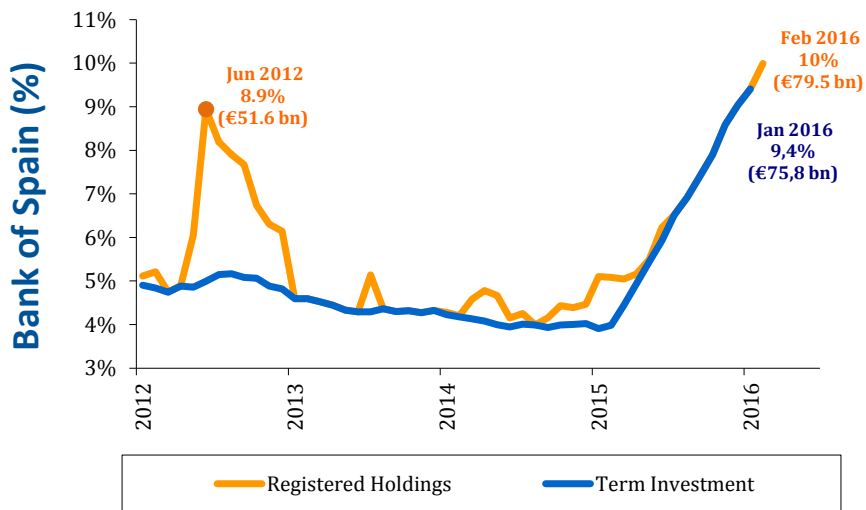
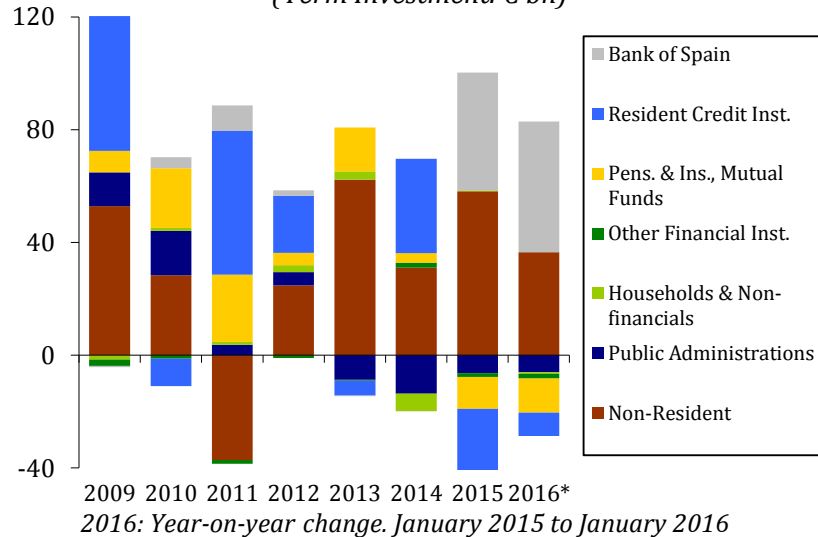
Average Tails at Auctions & Bid-to-Cover at Medium- and Long-Term Auctions



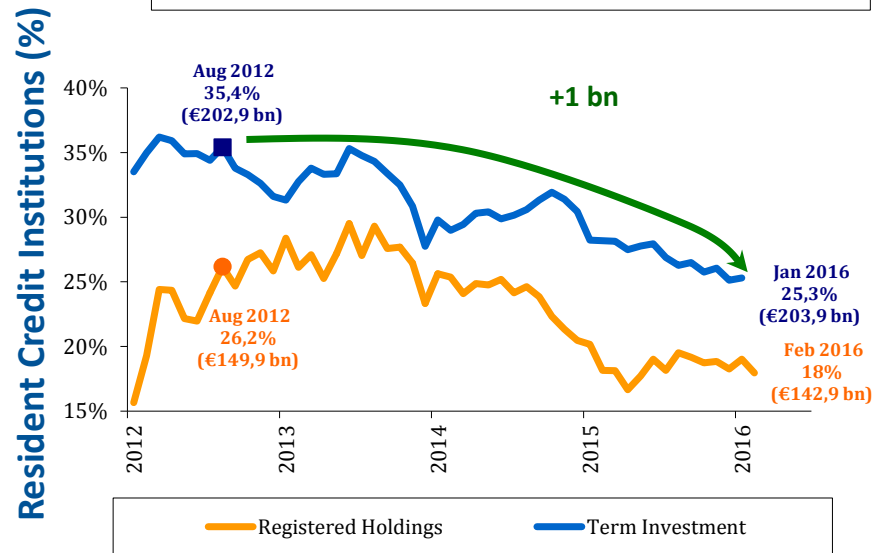
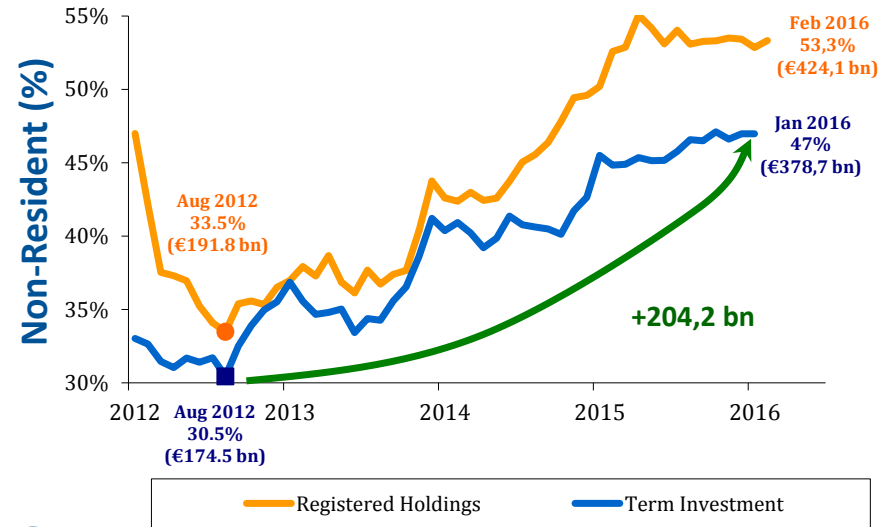
Source: Secretaría General del Tesoro y Política Financiera. [Link to Data](#)

Recent trends in investor base

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



Holdings of Unstripped Government Debt

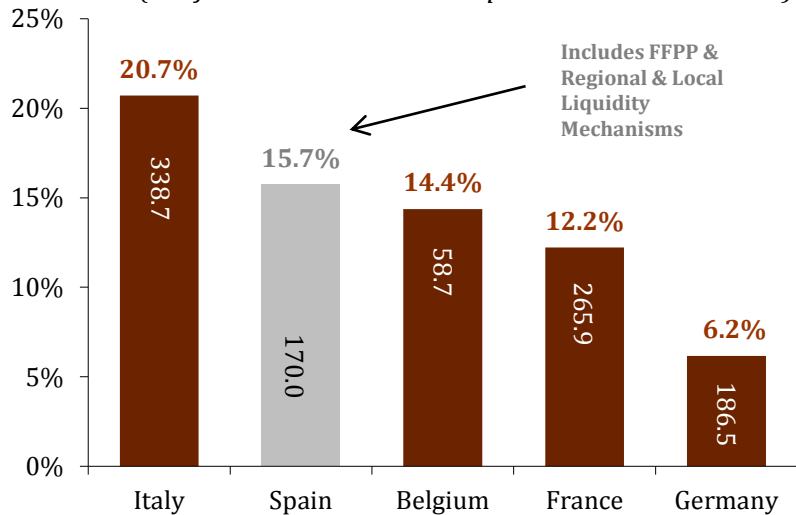


Source: Secretaria General del Tesoro y Política Financiera. [LINK TO DATA](#)

Prudent debt management

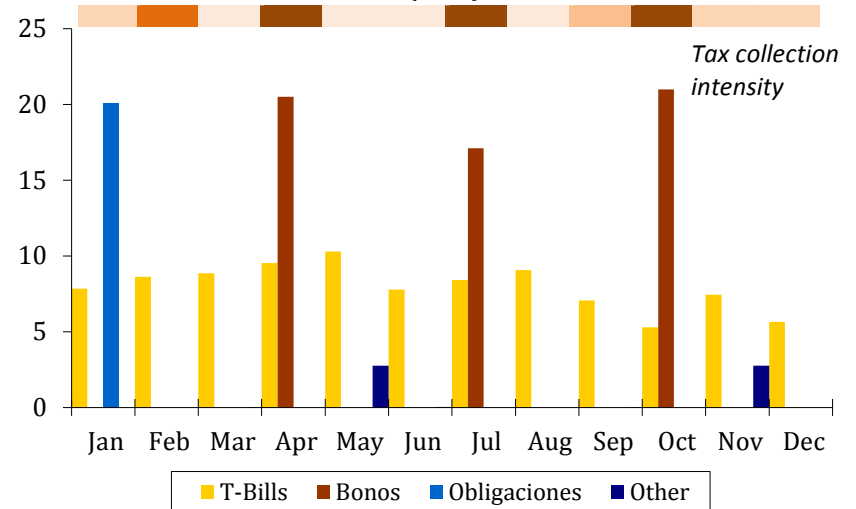
- ▶ Redemption dates of medium- and long-term bonds (mainly January, April, July and October) are accommodated to match the dates of biggest inflows of tax revenues
- ▶ Excess liquidity is lent in the money market each month through weekly, bi-monthly and monthly repo auctions

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



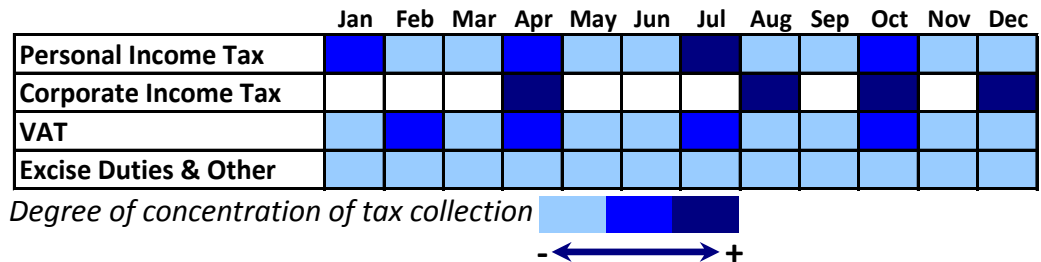
Sources: *Secretaría General del Tesoro y Política Financiera* for Spain, 29th data for Italy (Mar16-Feb17), and *Bloomberg* for other countries. [Link to Data](#)

Monthly Maturity Structure in 2016
as of March 31st 2016
(€ bn)



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

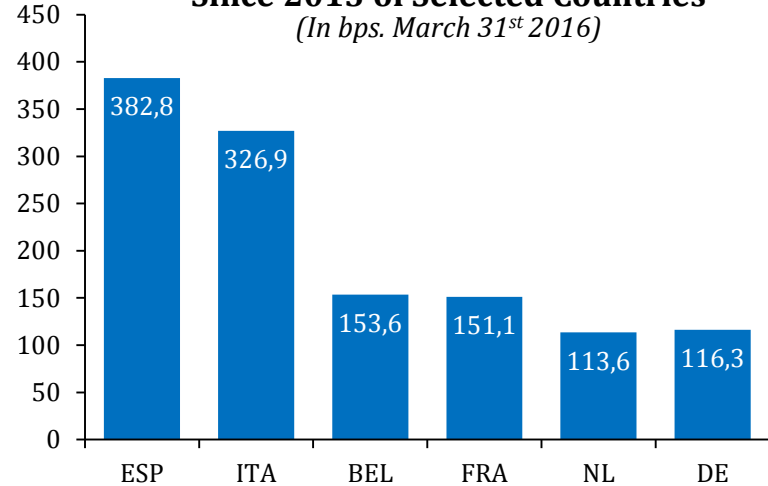
Administrative Distribution of Tax Collection



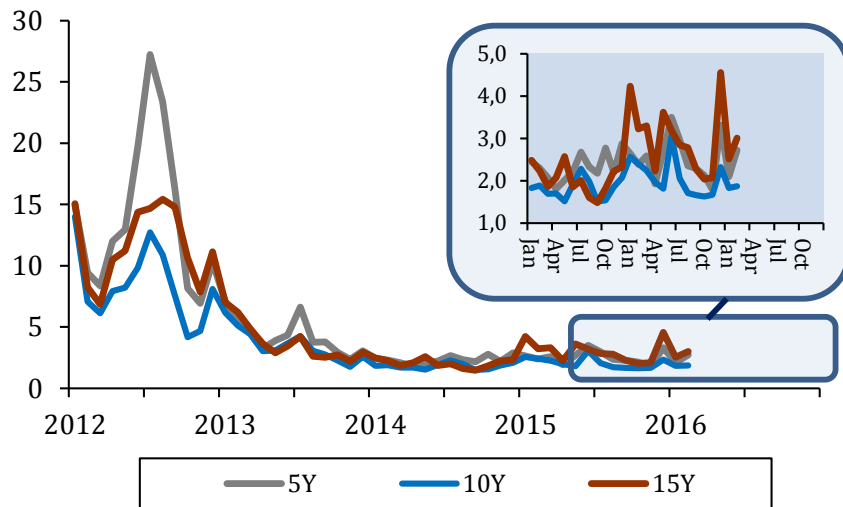
A more liquid debt market despite spread tightening

- ▶ 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

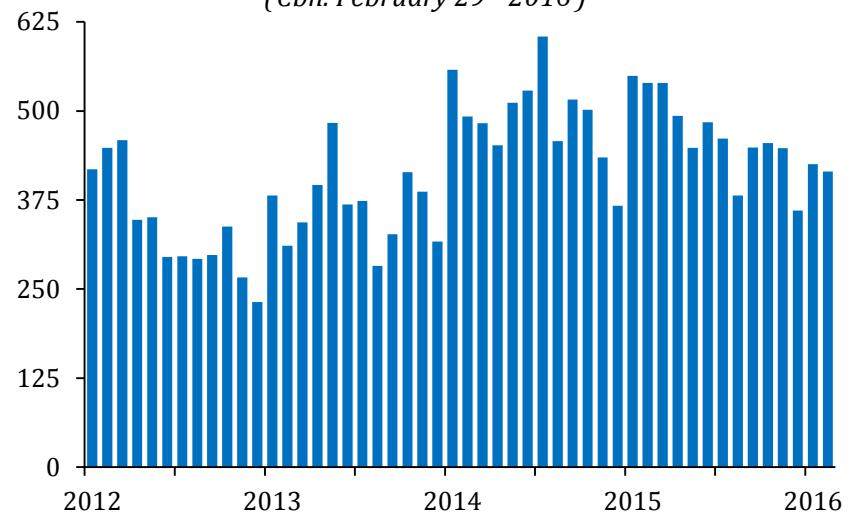
Reduction in Yield Level of 10 Year Government Bonds Since 2013 of Selected Countries
(In bps. March 31st 2016)



Bid-Ask Spreads of Government Bonds
(In bps. February 29th 2016)

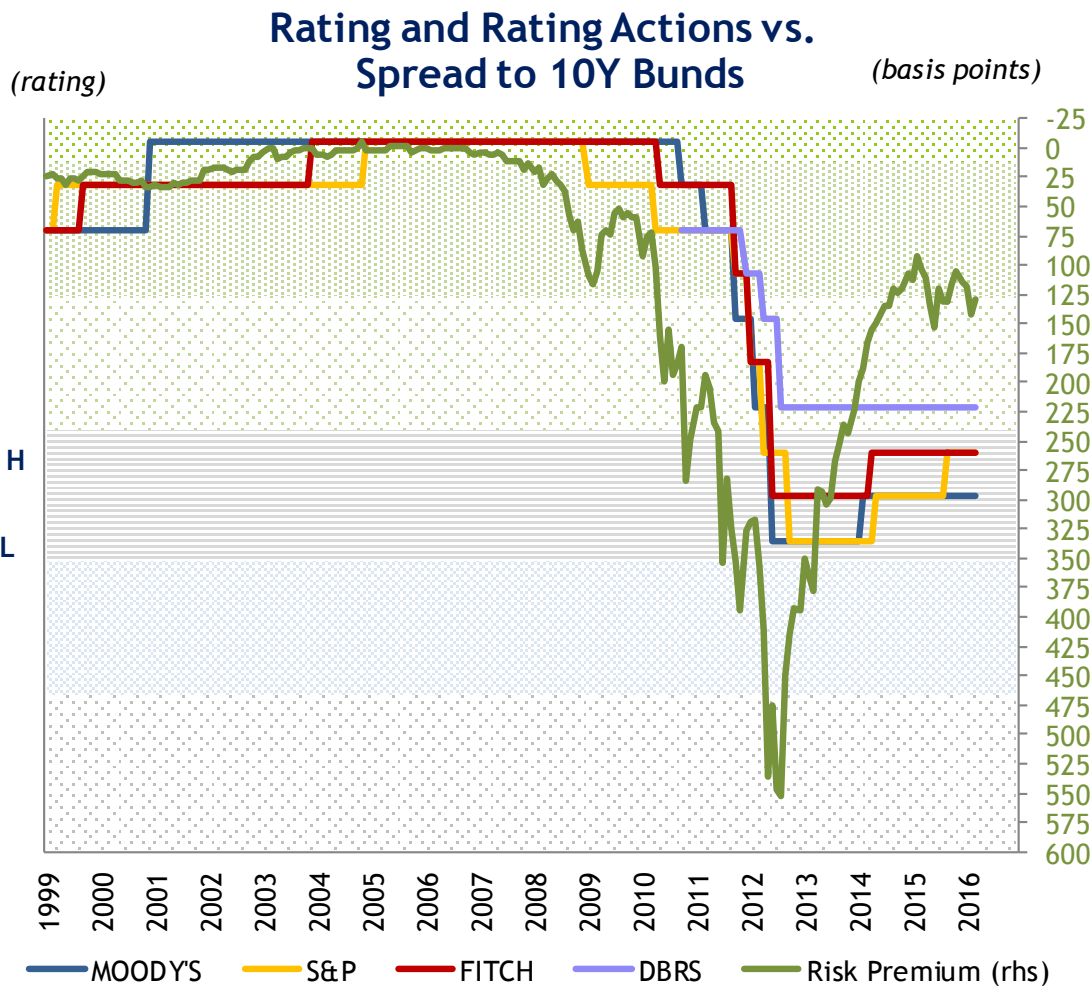


Turnover Bonos & Obligaciones
(€bn. February 29th 2016)



[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

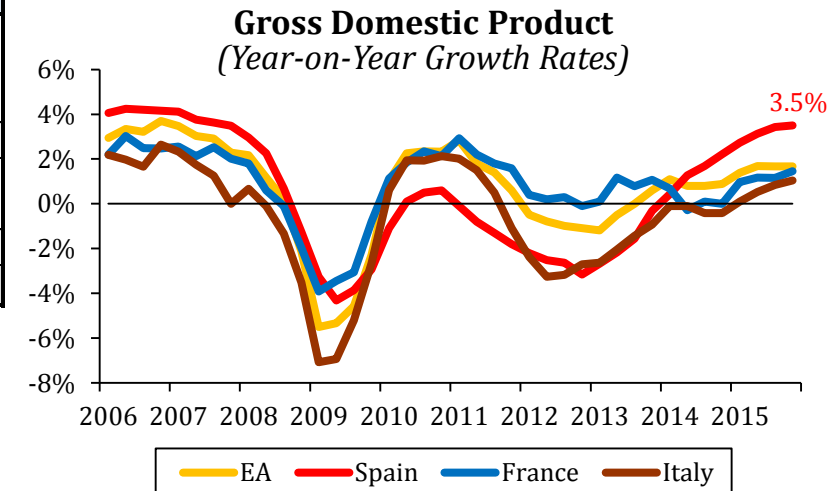
1.1 Recent macroeconomic trends	Page 14-16
1.2 The structural transformation of the labour market	Page 17-19
1.3 Consumer confidence back to 2007 levels	Page 20
1.4 The adjustment of the financial sector	Page 21-23
1.5 New credit flows consistent with deleveraging	Page 24-26
1.6 Positive price developments in the construction sector	Page 27
1.7 From net borrower to net lender	Page 28-32

3. Spanish Economic Policy & Reforms

Spain is growing consistently and in a balanced way

- ▶ Spain grew twice as fast as the Euro Area in 2015
- ▶ Growth driven primarily by investment, followed by private consumption
- ▶ 958,800 more employees than in end-2013

Macroeconomic scenario (YoY growth rates in percent)								
	2014	2015					2016	2017
		Full year	Q1	Q2	Q3	Q4		
Private consumption expenditure	1.2	3.1	2.5	2.9	3.5	3.5		
General Government consumption expenditure	0.0	2.7	1.5	2.5	3.0	3.7		
Gross Fixed Capital Formation	3.5	6.4	6.1	6.3	6.7	6.4		
National Demand*	1.6	3.7	3.1	3.4	4.1	4.1		
Exports of goods and services	5.1	5.4	5.8	6.0	4.5	5.3		
Imports of goods and services	6.4	7.5	7.6	7.4	7.2	7.7		
External demand*	-0.2	-0.5	-0.4	-0.2	-0.7	-0.6		
Gross Domestic Product	1.4	3.2	2.7	3.2	3.4	3.5	2.7**	2.4**



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

Other macroeconomic variables							
	2014	2015					
		Full year	Q1	Q2	Q3	Q4	
Unemployment rate (in %)	24.4	22.1	23.8	22.4	21.2	20.9	
Full-time Equiv. Employment (YoY Growth)	1.1	3.0	2.9	2.9	3.1	3.0	
Net lending(+)/borrowing(-) with RoW (% of GDP)	1.6	1.5	1.7	2.0	2.2	--	
GDP deflator (YoY Growth)	-0.4	0.6	0.5	0.5	0.7	0.7	
Deficit Excl. Financial Sector One-Offs (in % of GDP)	-5.78	-4.2	-0.72	-2.87	-3.05	-5.00	

Source: Ministerio de Economía y Competitividad.

* Contributions to GDP in p.p.

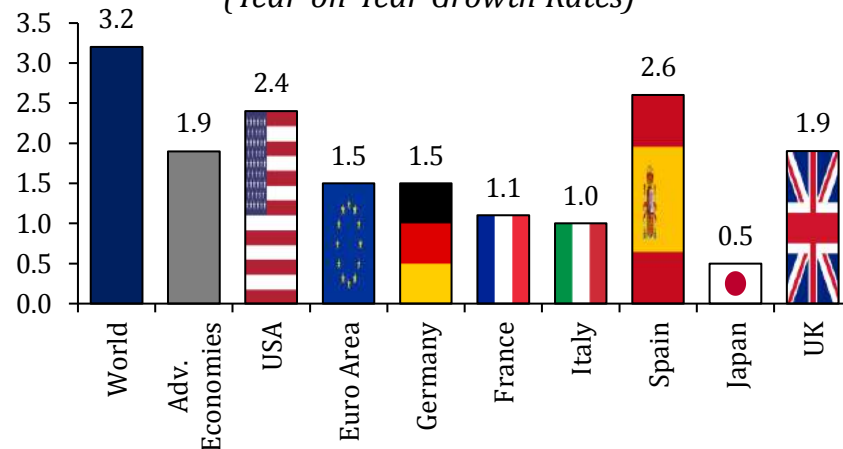
** Forecasts for 2016-2019 to be released on April 29th

[Link to Data](#)

Growth is less vulnerable to international volatility

- ▶ Spain set to be the fastest growing advanced economy in 2016
- ▶ 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
- ▶ Advance estimates for 2016Q1: 0.7% QoQ
→ growth momentum maintained

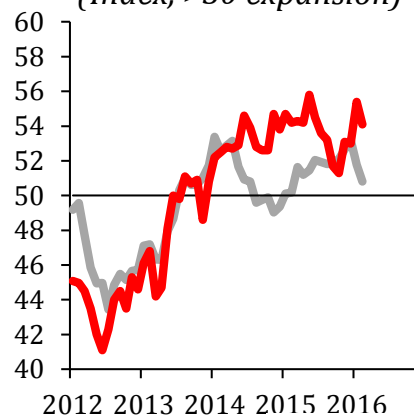
Growth Forecasts for 2016. International Monetary Fund
(Year-on-Year Growth Rates)



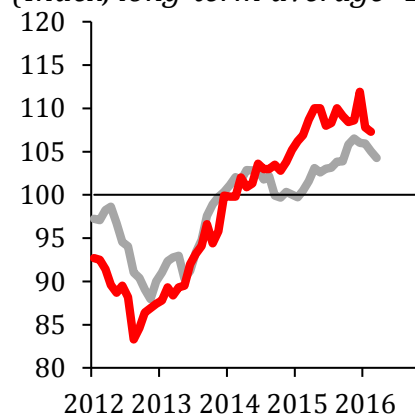
Source: IMF.

[Link to Data](#)

Manufacturing PMI
(Index, >50 expansion)



Economic Sentiment Indicator
(Index, long-term average=100)



— Combined DE+FR+IT — Spain

Sources: Bloomberg & Eurostat.

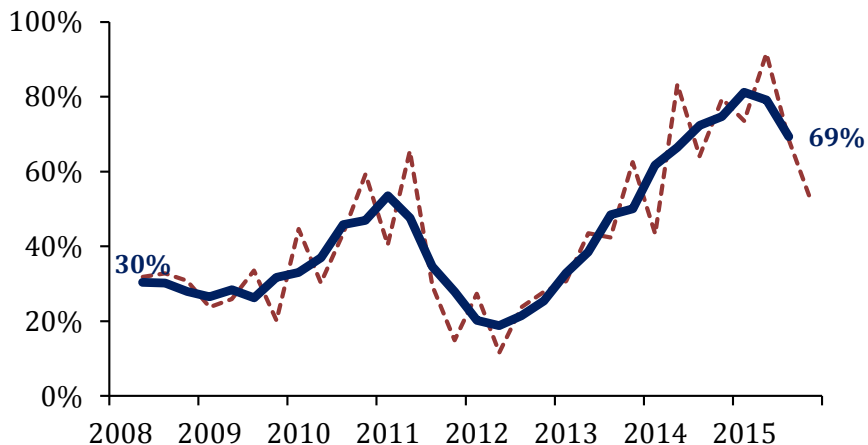
[Link to Data](#)

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

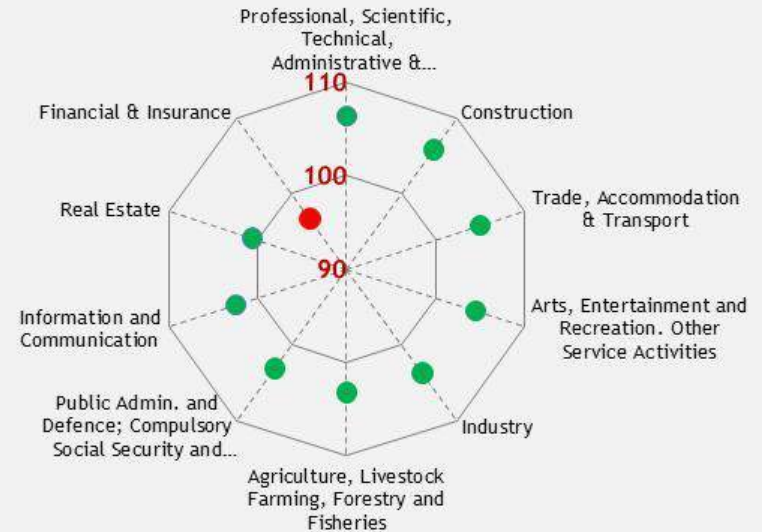
Weighted Average Percentage of Branches of Economic Activity with Positive QoQ Employment Growth



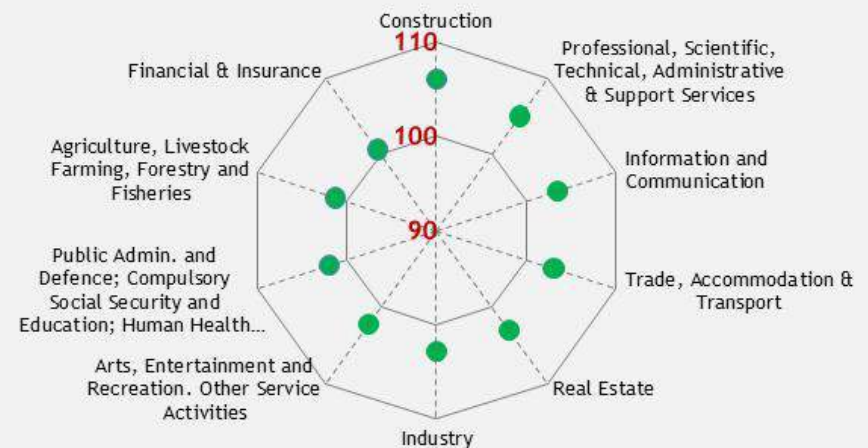
Source: National Statistics Institute.

[Link to Data](#)

Gross Value Added. 2014=100

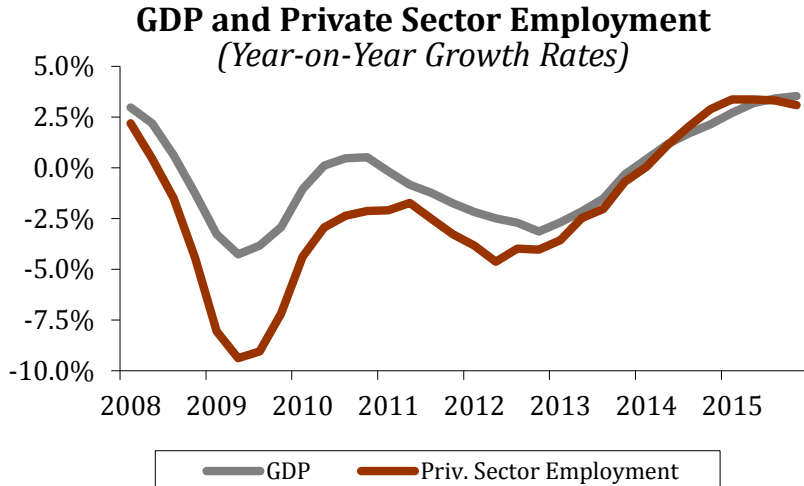


Full-Time Equivalent Employment. 2014=100



Labour market reform: a change in labour dynamics

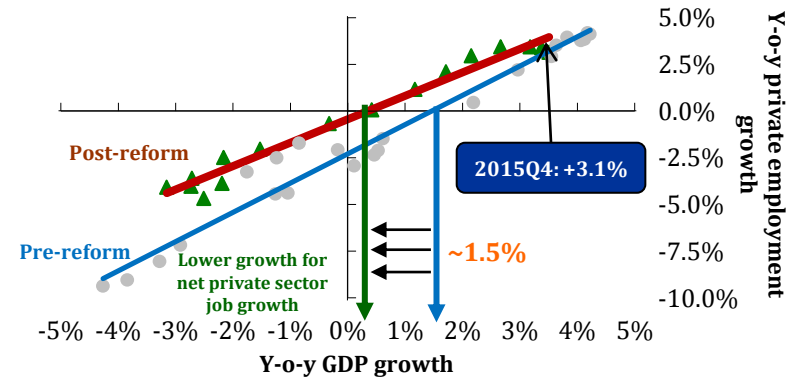
► GDP and employment growing at the same pace



Source: National Statistics Institute.

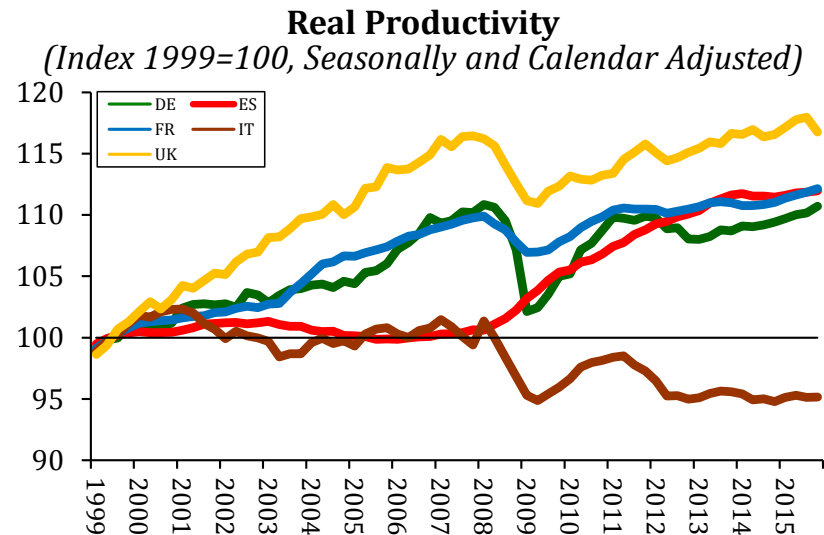
[Link to Data](#)

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



Source: National Statistics Institute.

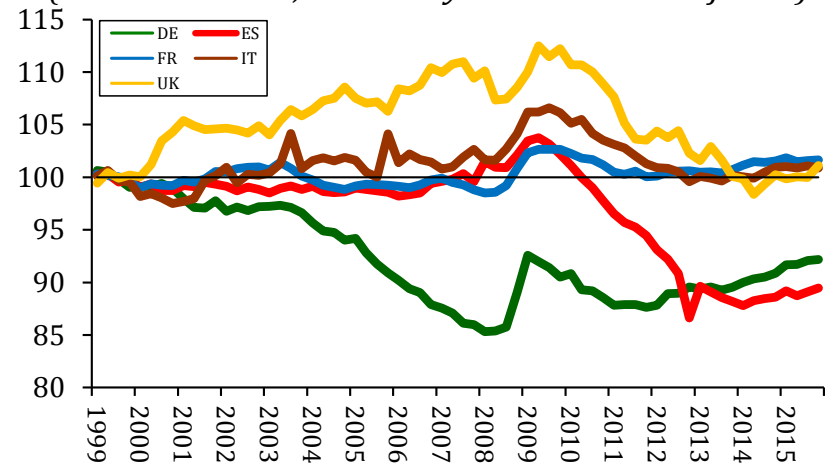
[Link to Data](#)



Source: Eurostat.

[Link to Data](#)

Real Unit Labour Costs (Index 1999=100, Seasonally and Calendar Adjusted)

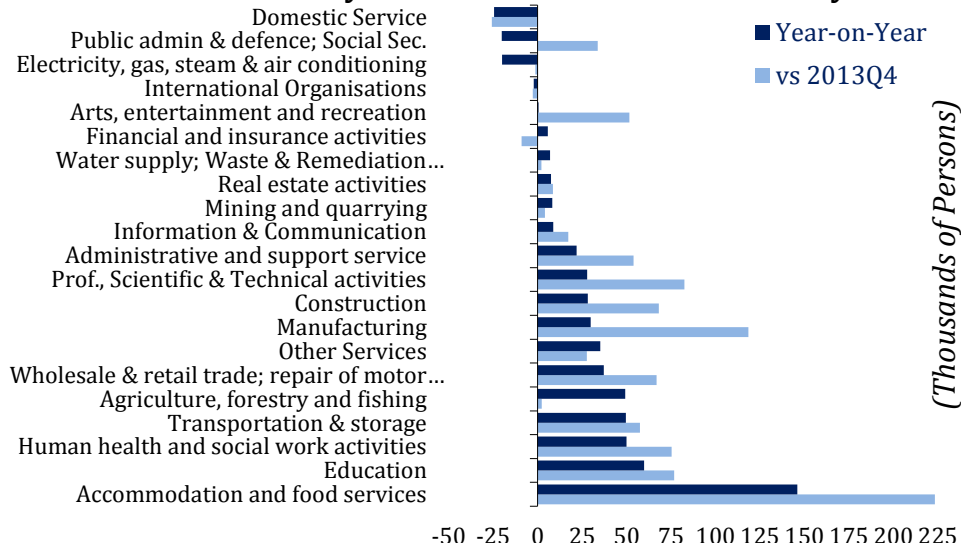


[Link to Data](#)

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

- ▶ Spain has generated 42.8% of all the employment created in the Euro Area since 2014
- ▶ Employment generated across a broad array of sectors

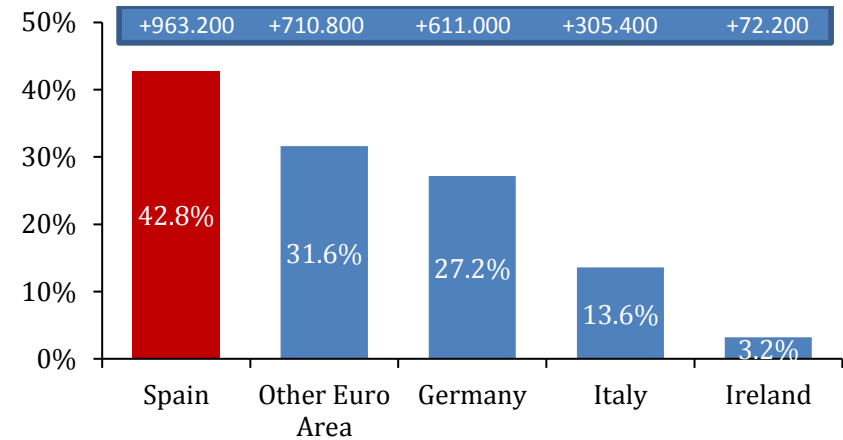
**Labour Force Survey, 2015Q4
Breakdown by Branches of Economic Activity**



Source: National Statistics Institute.

[Link to Data](#)

**Share in Employment Creation in the Euro Area 2014Q1 to 2015Q4
(Percent and Thousands of Persons)**

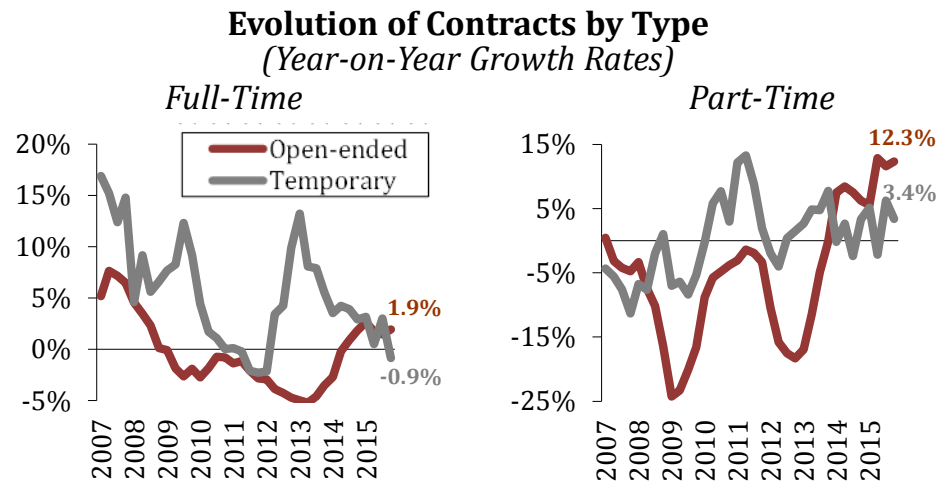


Source: OECD.

[Link to Data](#)

Declining structural unemployment

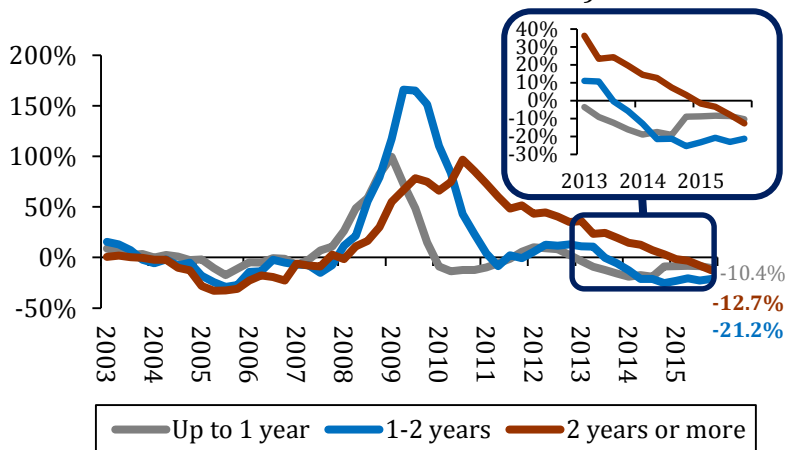
- ▶ Structural unemployment falling since 2014
- ▶ Strong recovery in open-ended contracts since 2014H2
- ▶ Less reliance on temporary contracts, more on part-time contracts than in the previous decade



Source: National Statistics Institute.

[Link to Data](#)

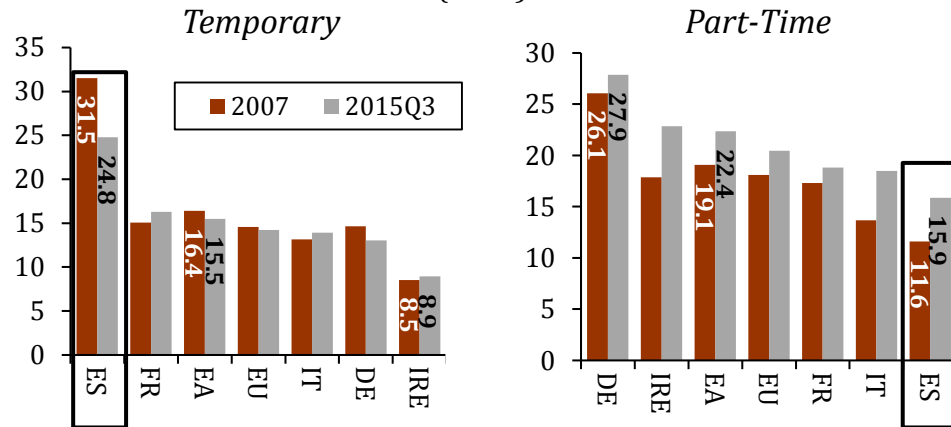
Structural Unemployment (Unemployment pool by time unemployed, Year-on-Year Growth Rates)



Source: National Statistics Institute and Eurostat.

[Link to Data](#)

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

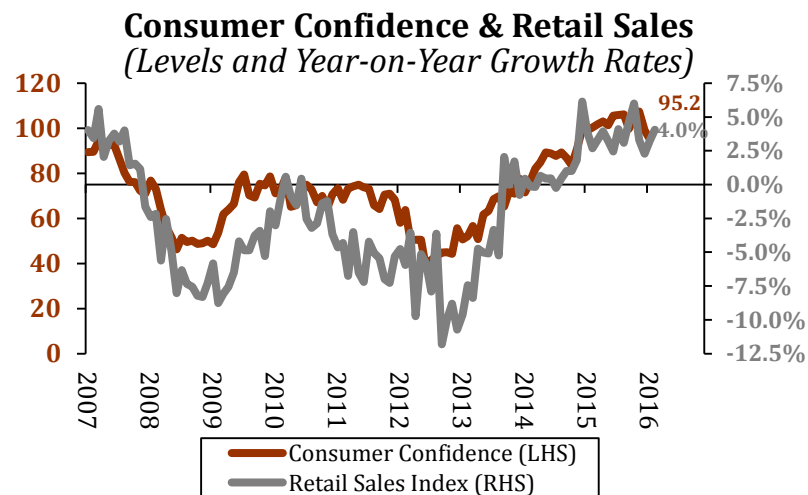


Source: National Statistics Institute and Eurostat.

[Link to Data](#)

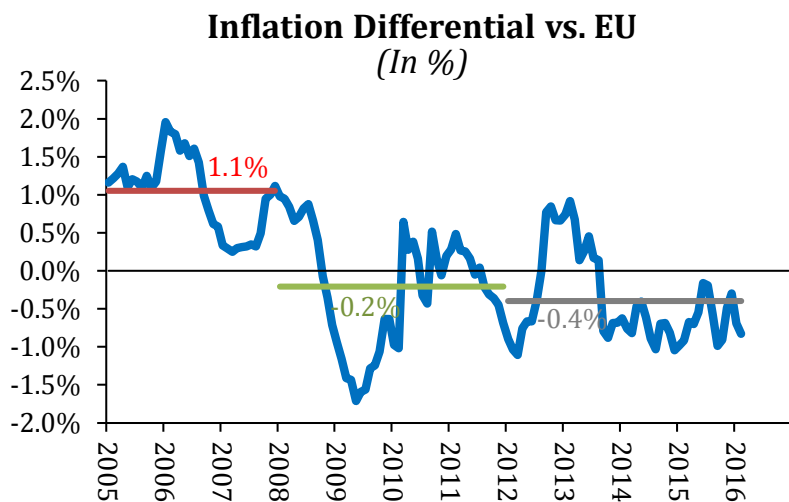
Consumer confidence back to early 2007 levels

- ▶ 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



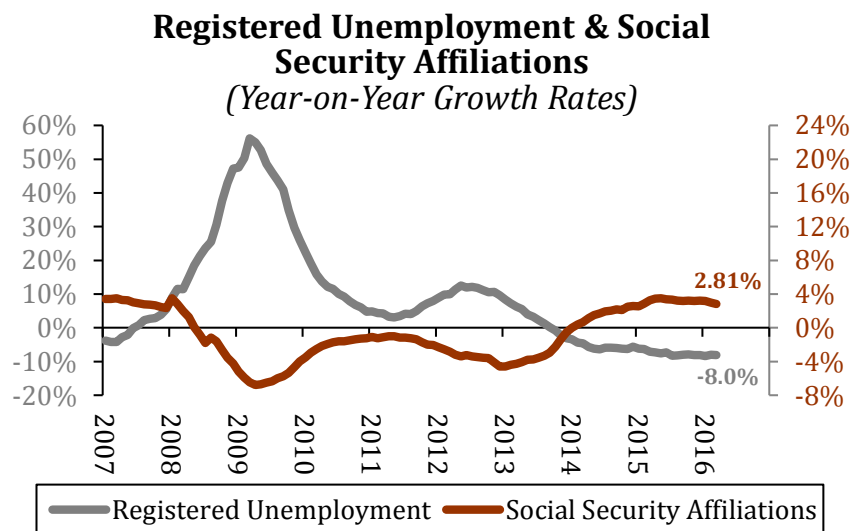
Source: Ministerio de Economía y Competitividad.

[Link to data](#)



Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

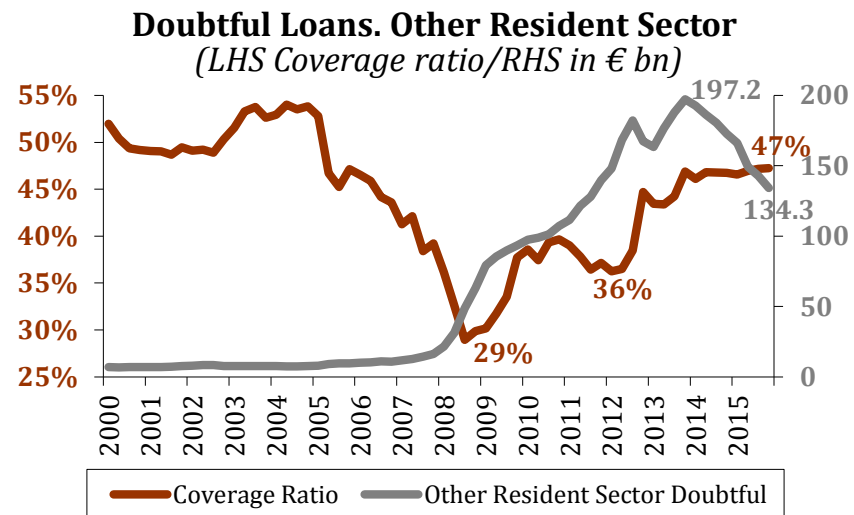


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

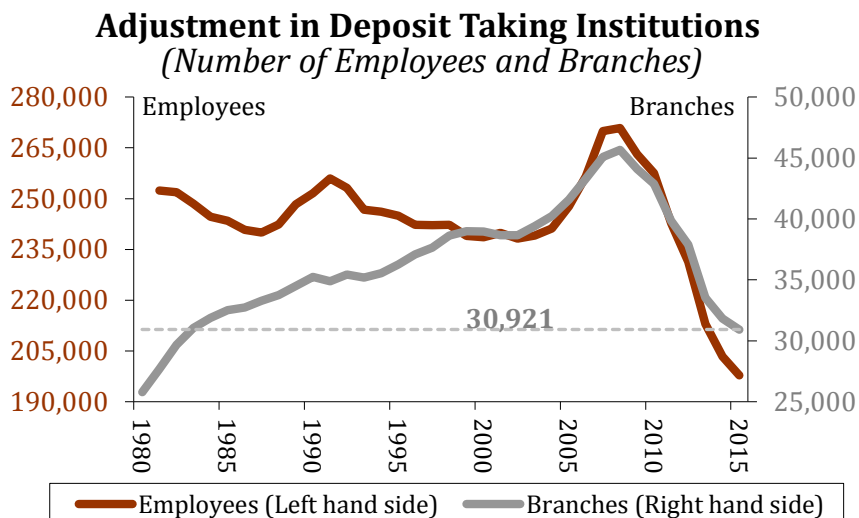
Adjustment and recapitalisation of the financial system (I)

- ▶ 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 2015Q4
- ▶ Banks' cleaned up impaired assets by approx. €300 bn in 2012



Source: Bank of Spain.

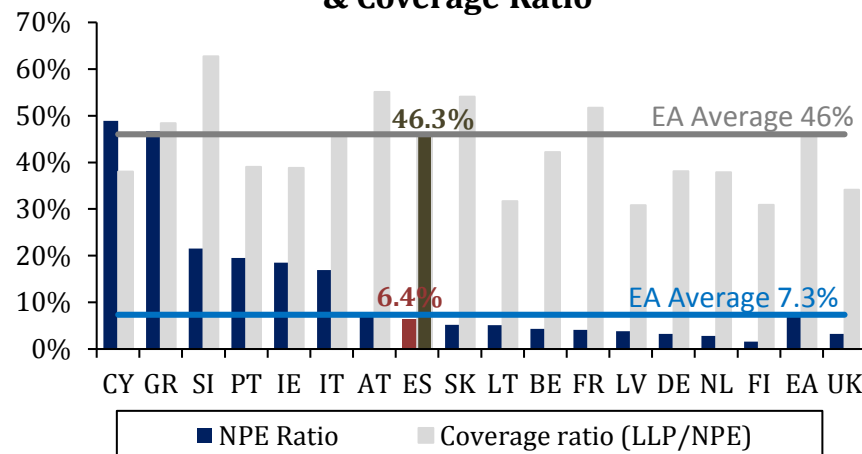
[Link to Data](#)



Source: Bank of Spain.

[Link to Data](#)

Harmonised Non-Performing Exposures Ratios & Coverage Ratio



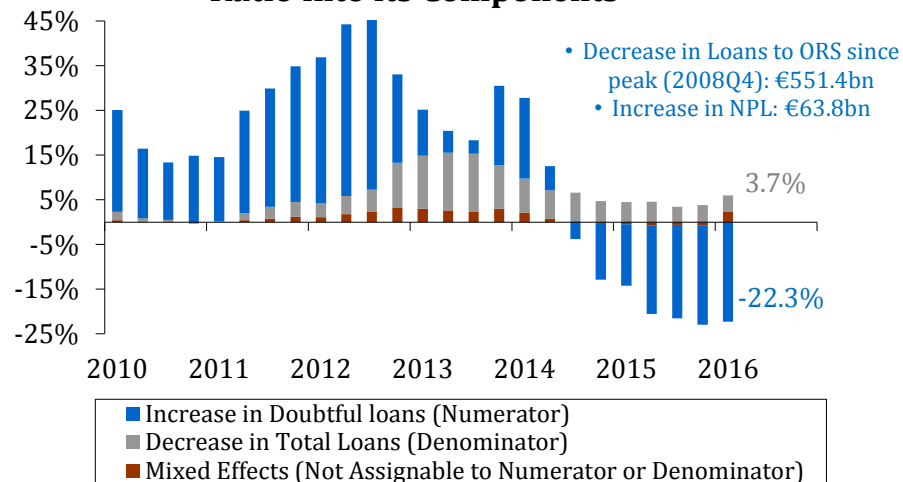
Sources: ECB.

[Link to Data](#)

Adjustment and recapitalisation of the financial system (II)

- ▶ Harmonised disclosure now in restructured and refinanced loans, NPLs, asset quality across asset classes, concentration by sector, etc.
- ▶ Doubtful loans declining steadily: -22.3% yoy in January 2016
- ▶ Improving equity-to-asset ratio and funding gap

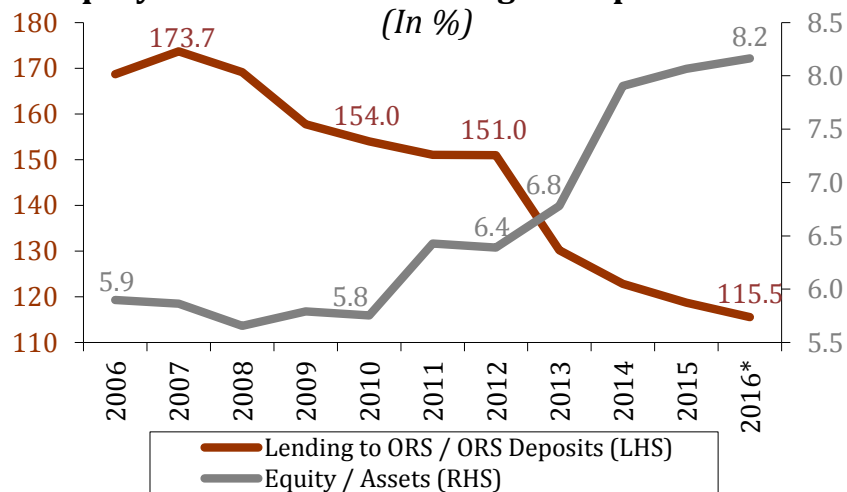
Breakdown of Year-on-Year Growth Rate of NPL Ratio into its Components



Source: Bank of Spain.

[Link to Data](#)

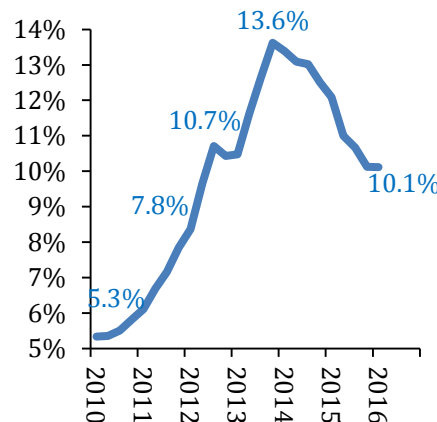
Equity-to-Assets and Lending-to-Deposits Ratio (In %)



Source: Bank of Spain.

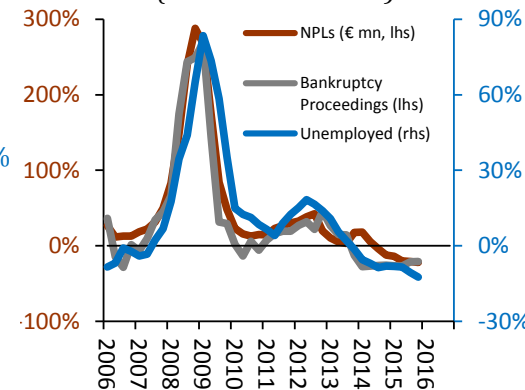
[Link to Data](#)

NPL Ratio



Sources: Bank of Spain and National Statistics Institute.

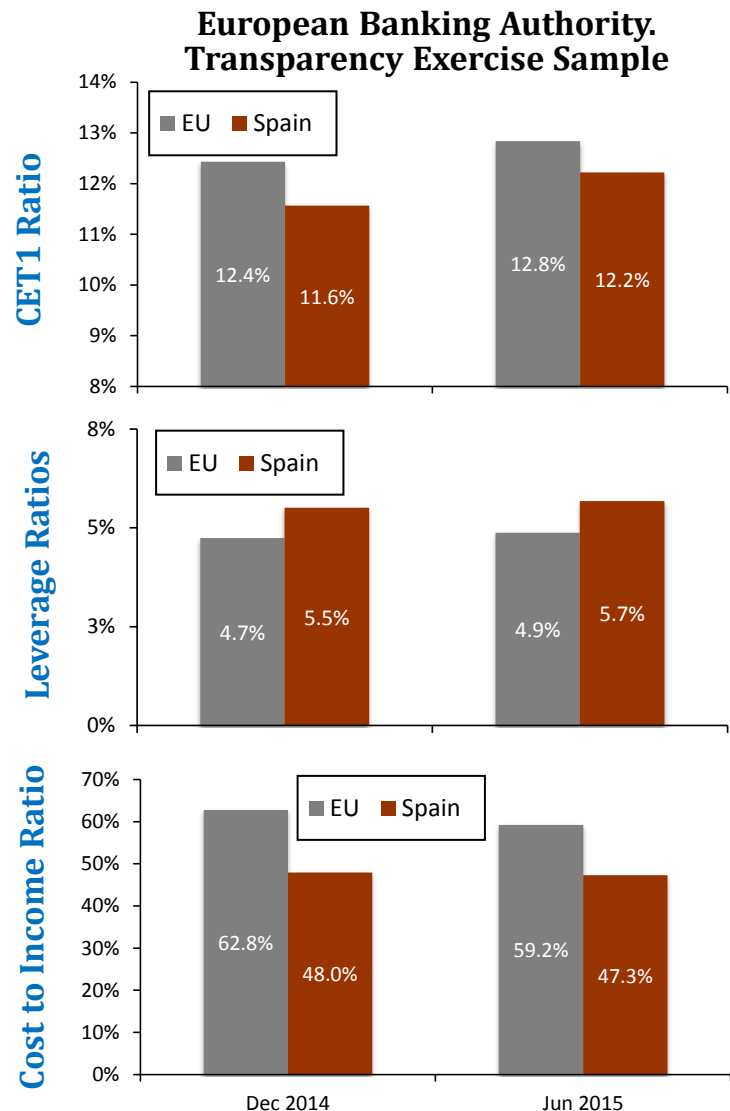
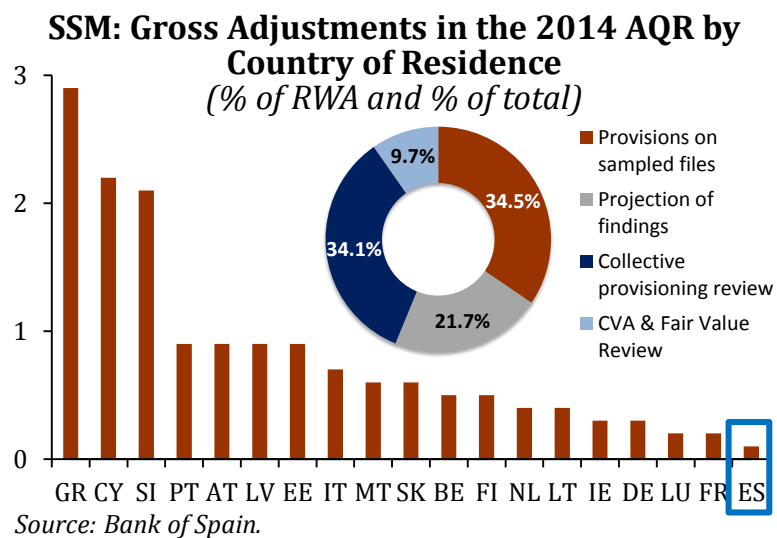
NPLs, Unemployment & Bankruptcy Proceedings (YoY Growth Rates)



[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. 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%)

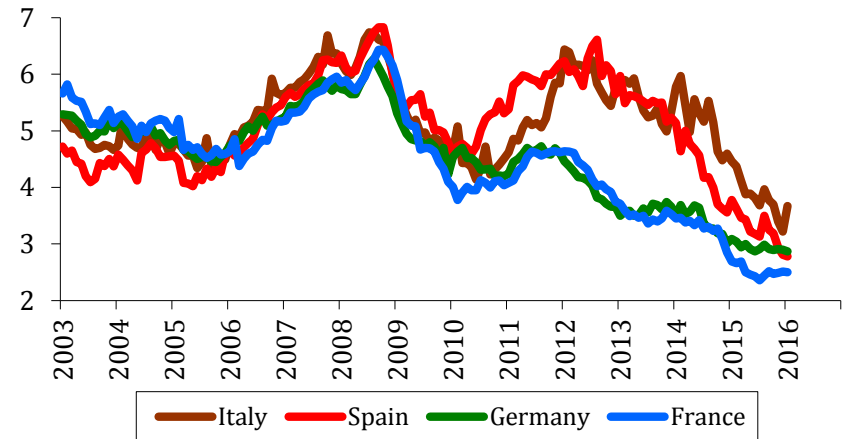


Source: European Banking Authority. [Link to Data](#)

Increasing new loans to households & corporates

- ▶ Interest rates have converged in the Euro Area
- ▶ 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

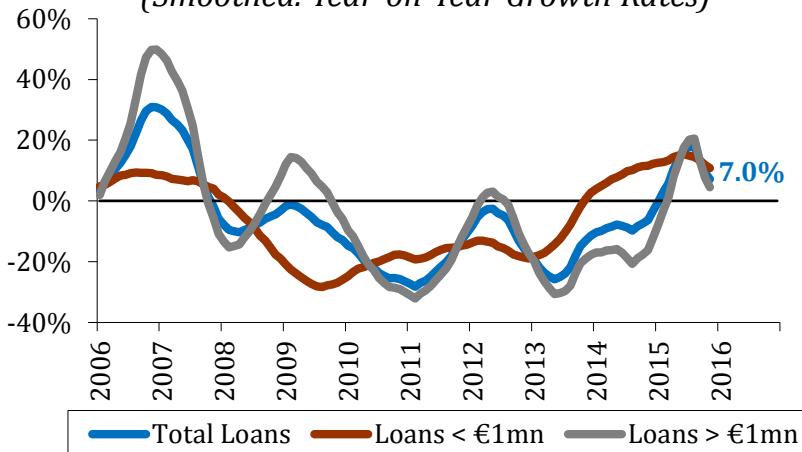
Lending Rates of New Loans to Non-Financial Corporations
(%. Maturity 1-5 Years and up to €1 mn)



Source: ECB.

[Link to Data](#)

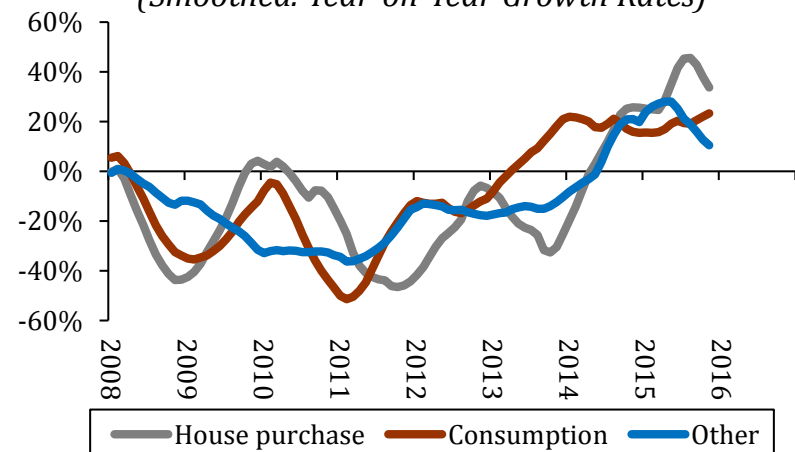
New Loans to Non-Financial Firms
(Smoothed. Year-on-Year Growth Rates)



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](#)

New credit flows consistent with deleveraging

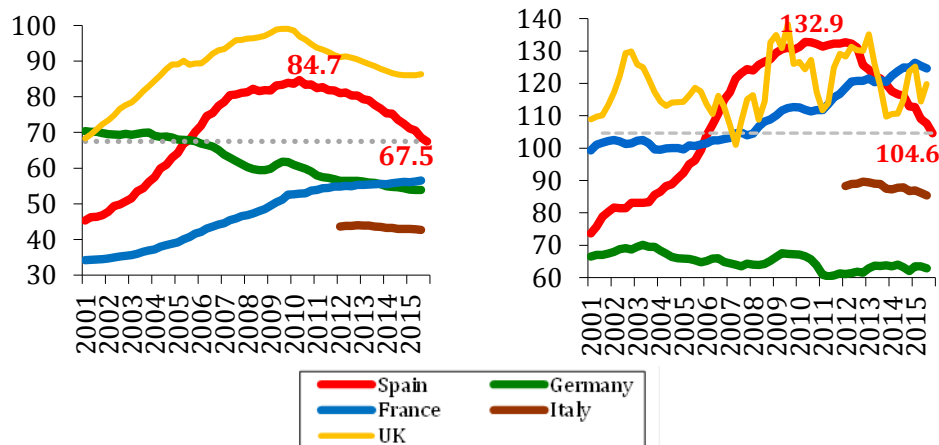
And private sector deleveraging continues

▶ Since 2010Q2 the private sector has deleveraged by more than €485 bn

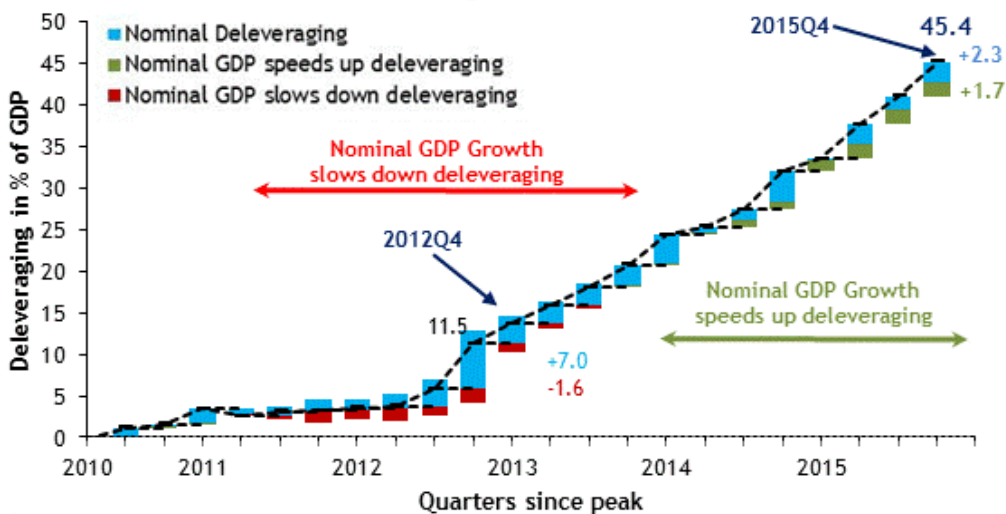
- ▣ Firms by €302.0 bn
- ▣ Households by €183.0 bn

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

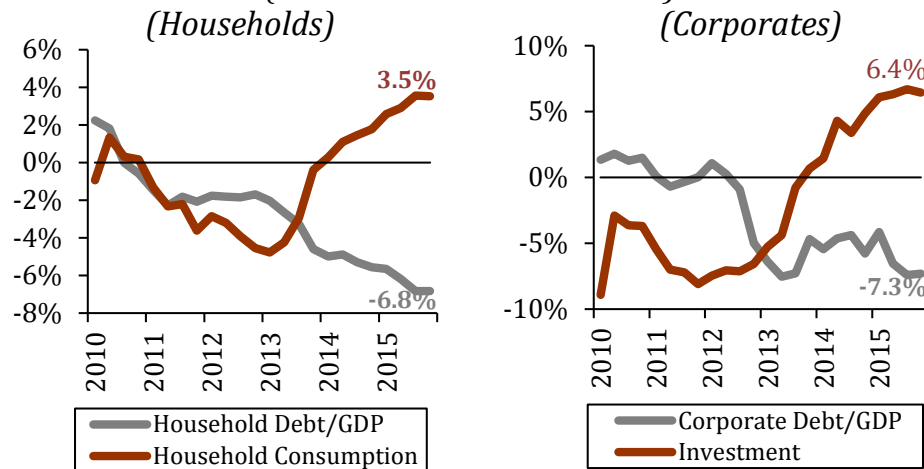
Debt to GDP Ratios of Households and Non-Financial Corporations
(Households) (% of GDP) (Corporates)



Deleveraging of Households and Non-Financial Corporations since 2010Q2



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

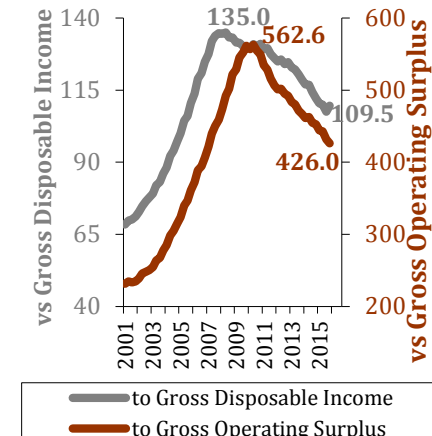
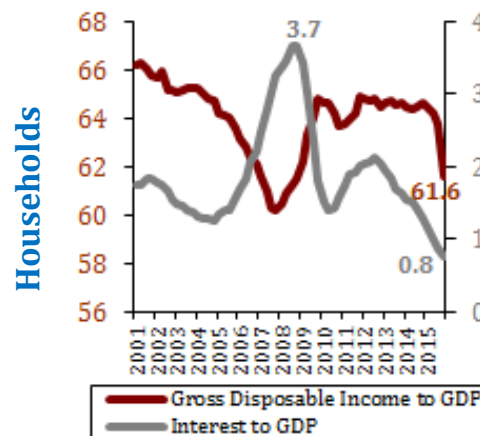
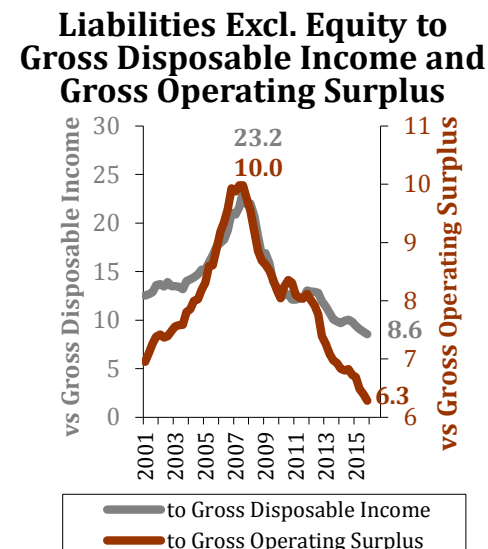
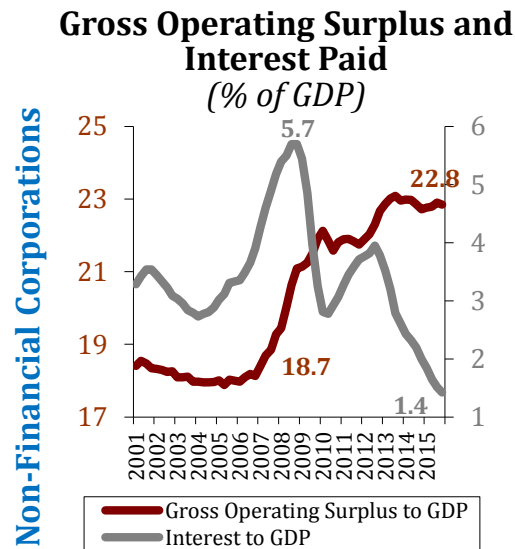


Source: ECB, Bank of Spain and National Statistics Institute.

[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

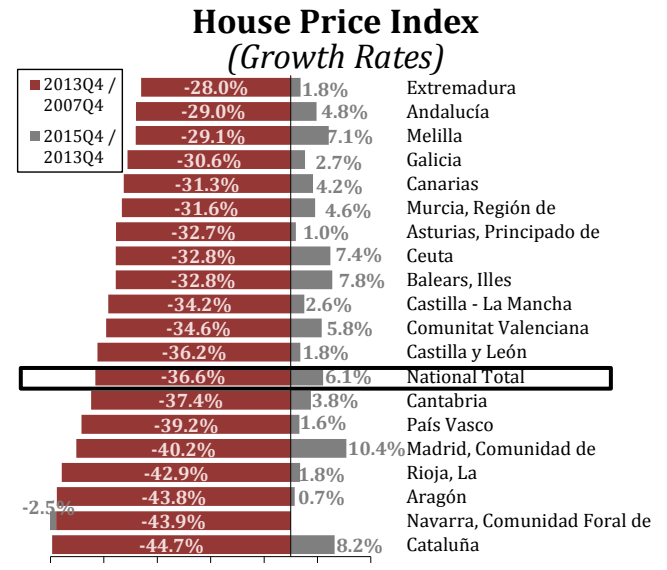


Source: National Statistics Institute and Bank of Spain.

[Link to Data](#)

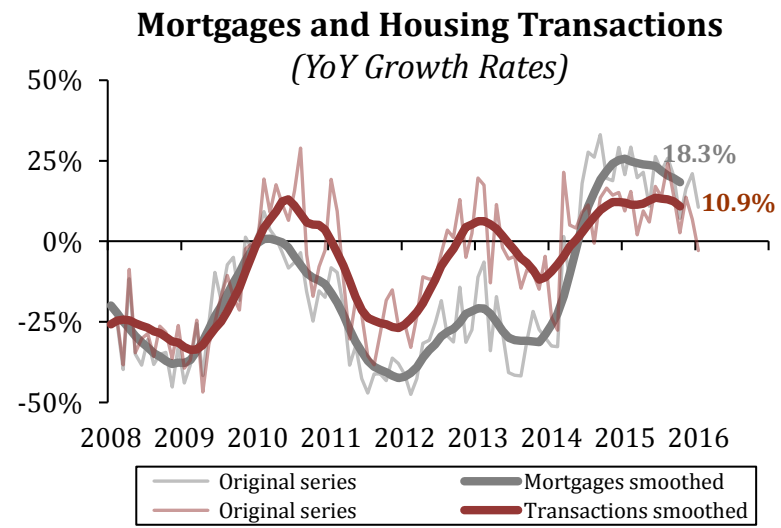
Spain's construction sector is beginning to recover

- ▶ 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



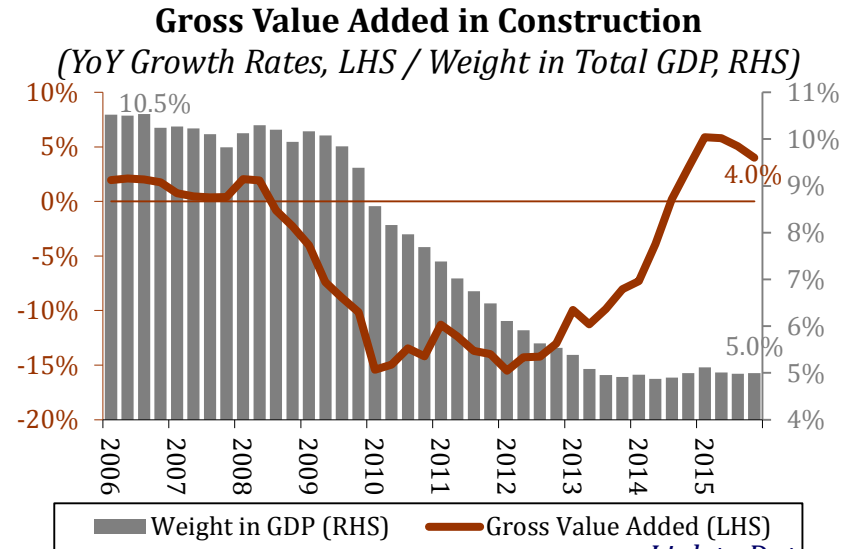
Source: National Statistics Institute.

[Link to Data](#)



Source: National Statistics Institute.

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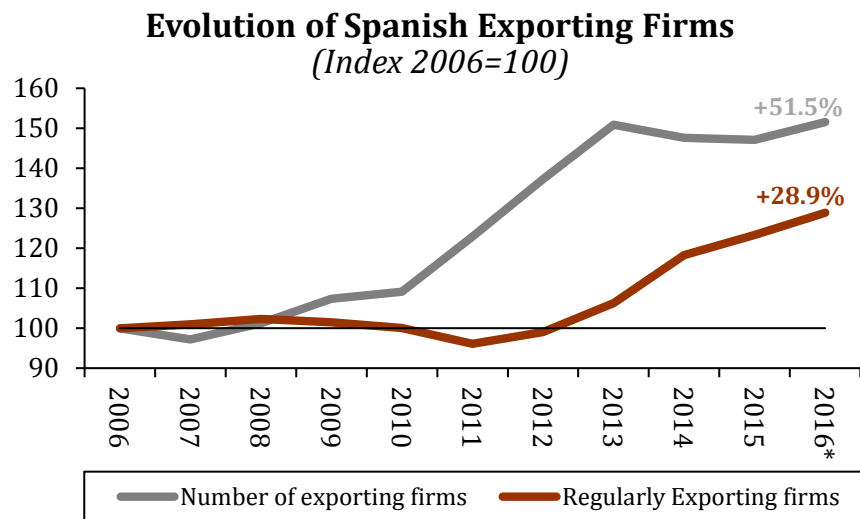
Source: National Statistics Institute.

[Link to Data](#)

Positive price developments in the construction sector

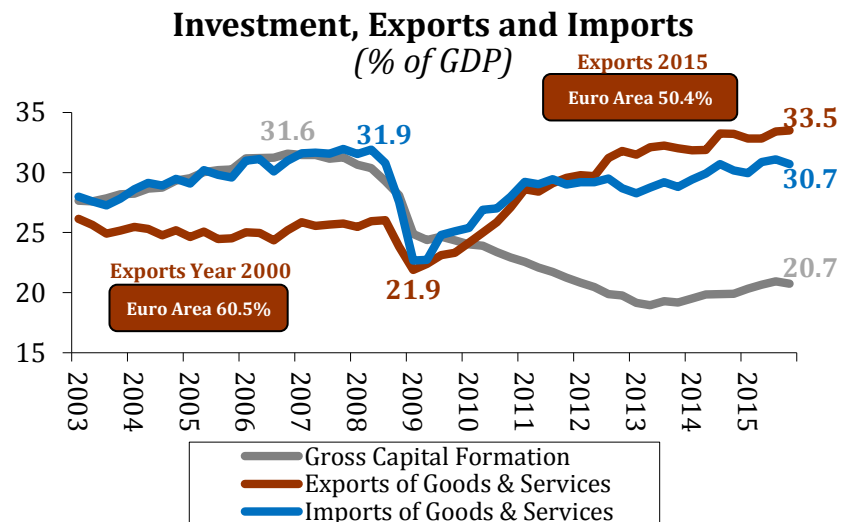
External sector: from net borrower to net lender

- ▶ 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
- ▶ Fourth consecutive yearly Current + Capital Account Surplus (1.8% of GDP in 2015), supported by falling oil prices



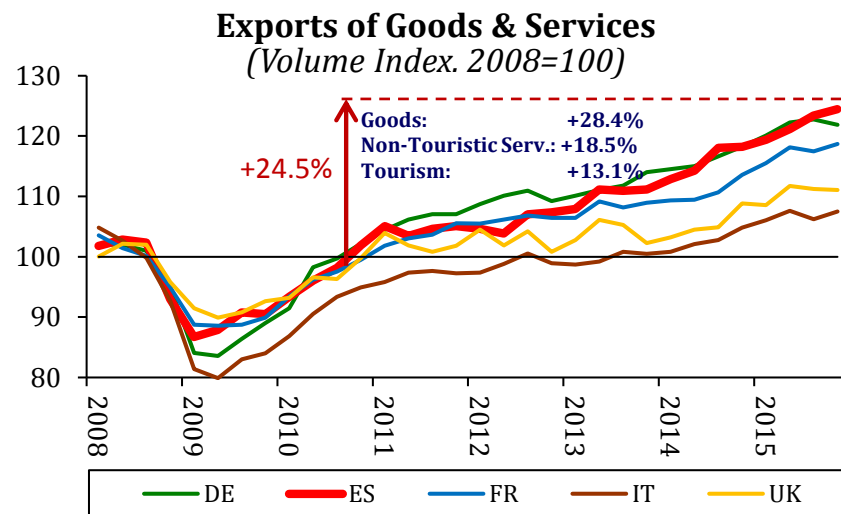
Source: ICEX.

[Link to Data](#)



Source: National Statistics Institute.

[Link to Data](#)

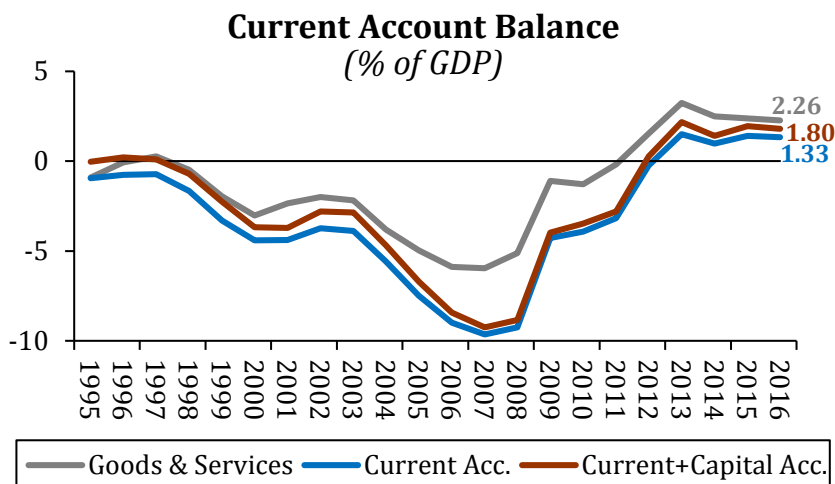
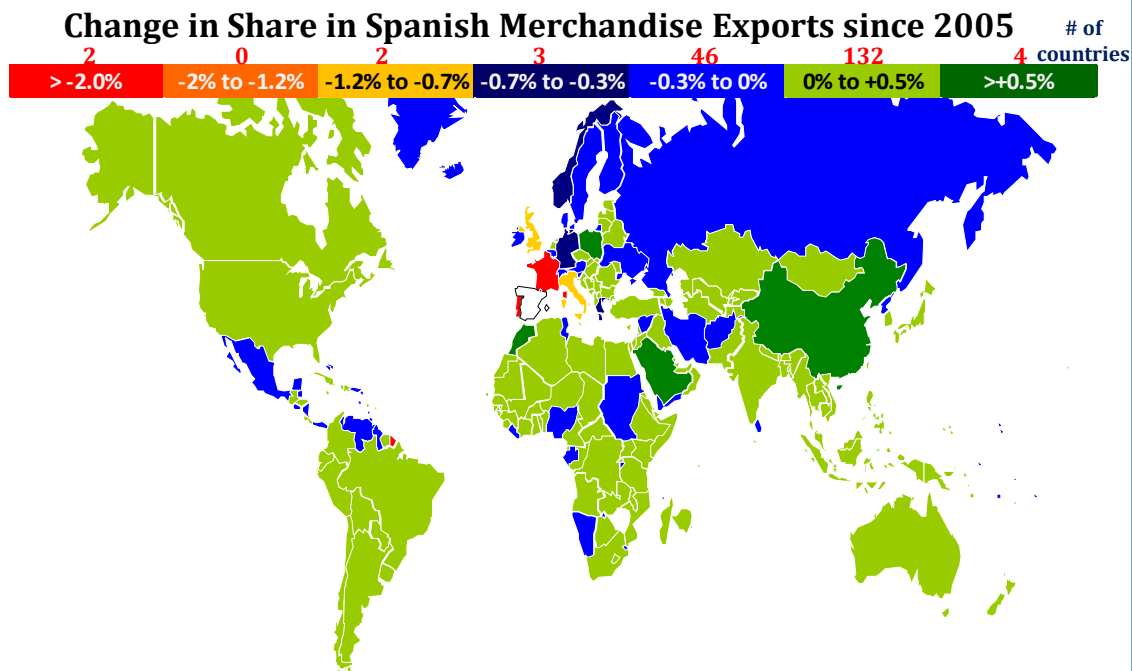


Source: Eurostat and National Statistics Institute.

[Link to Data](#)

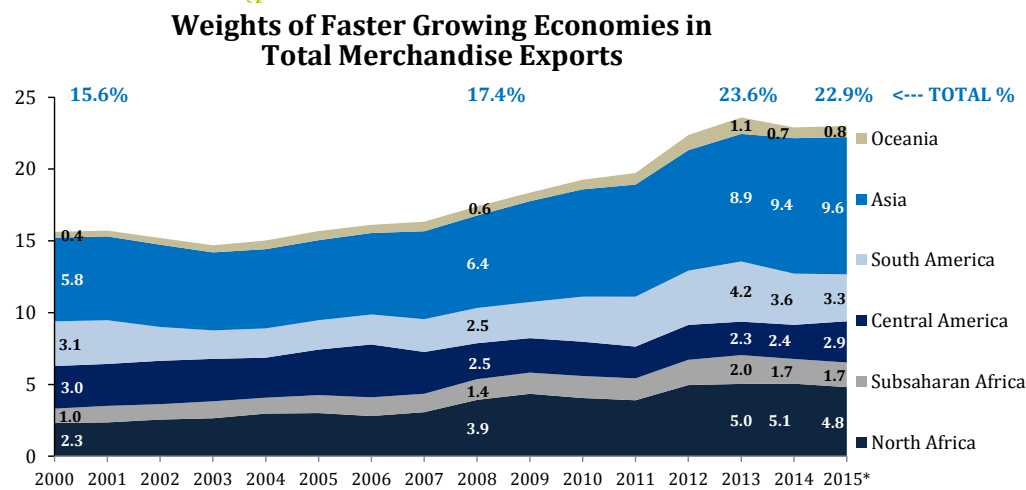
Exports are more widely diversified

- ▶ 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



Source: Bank of Spain.

[Link to Data](#)



Source: Datacomex.

[Link to Data](#)

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

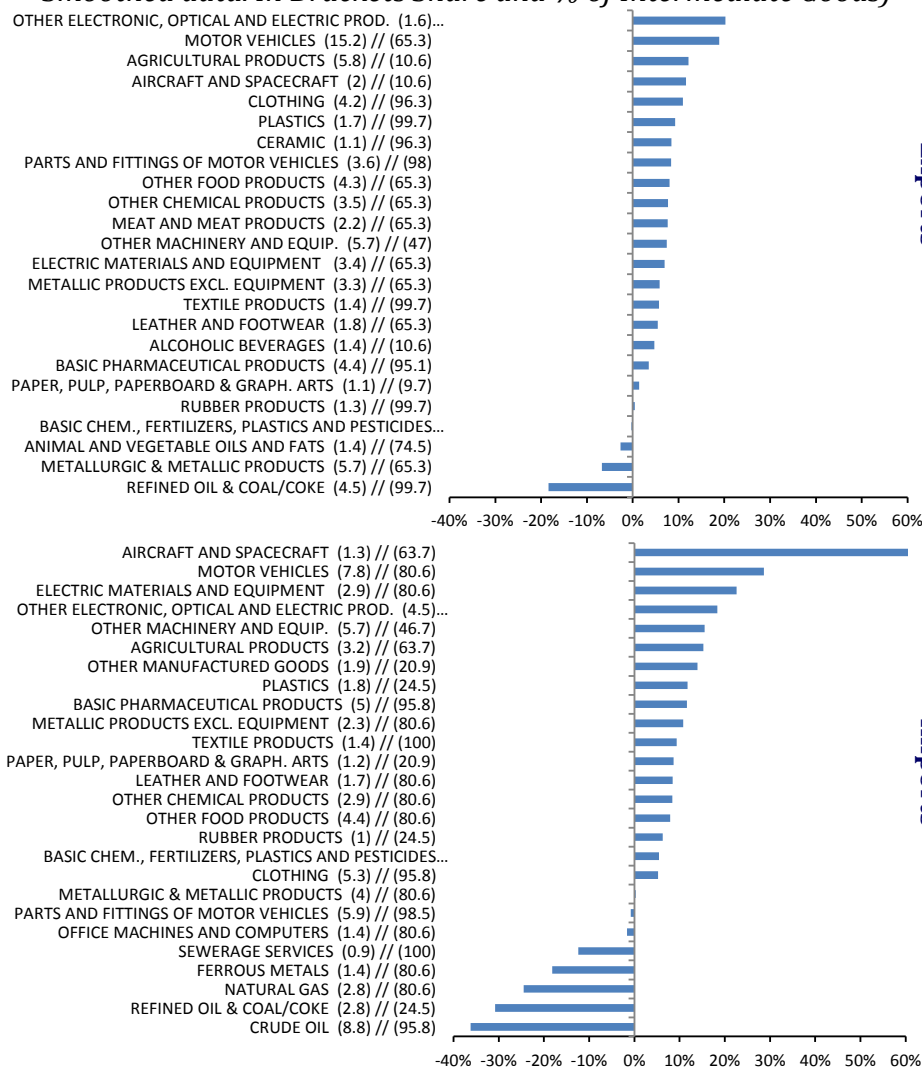
► Exports of consumption goods are expanding in line with demand from Europe and north America. Exports of capital goods are recovering their previous growth trend

► 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. In Brackets Share and % of Intermediate Goods)

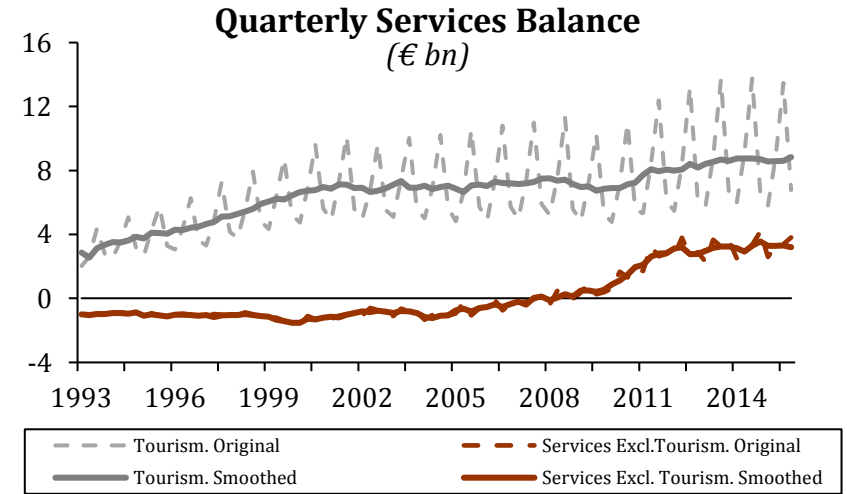


Source: Ministerio de Economía y Competitividad.

[Link to Data](#)

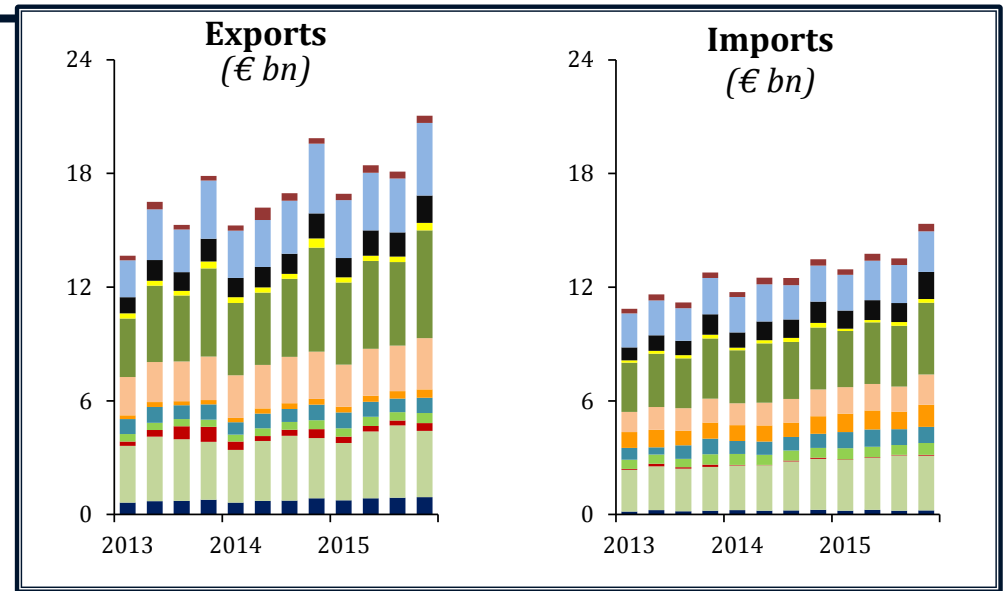
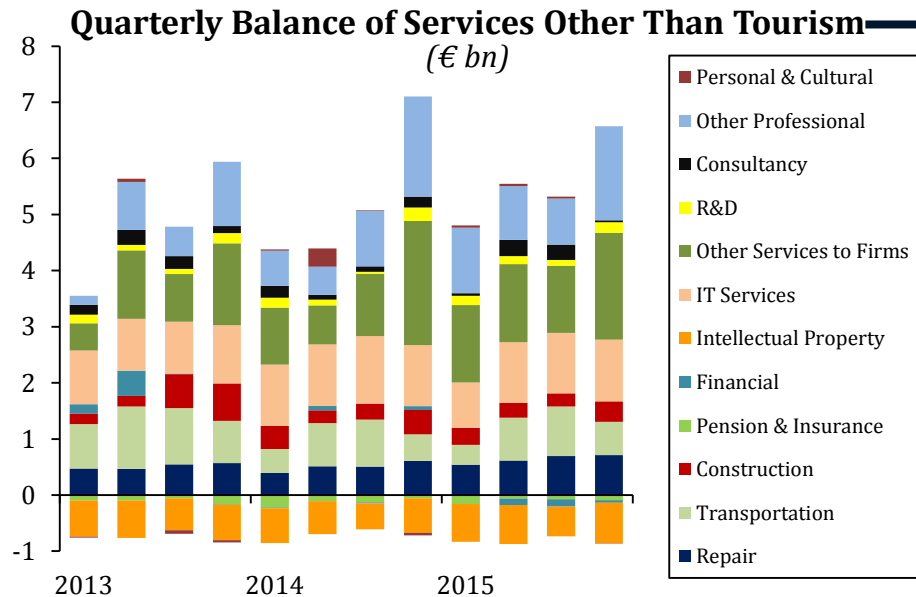
Services exports expand the CA surplus

- ▶ 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



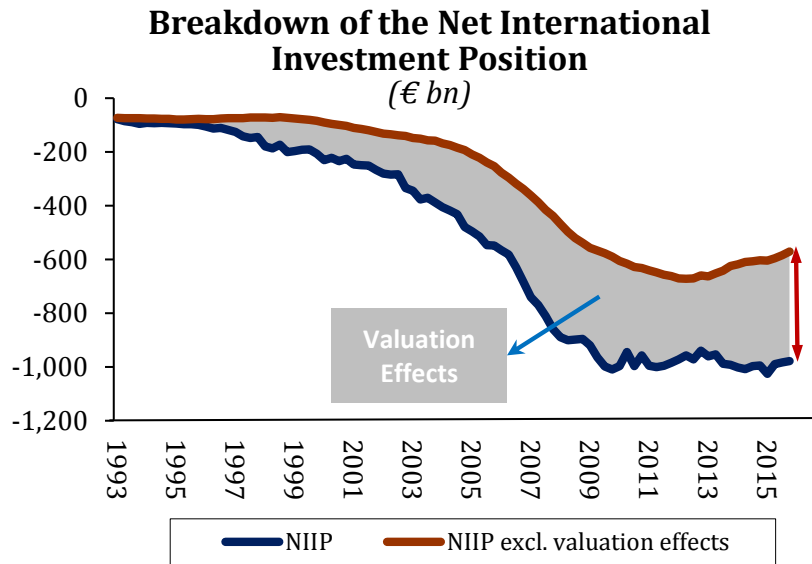
Source: Ministerio de Economía y Competitividad.

[Link to Data](#)



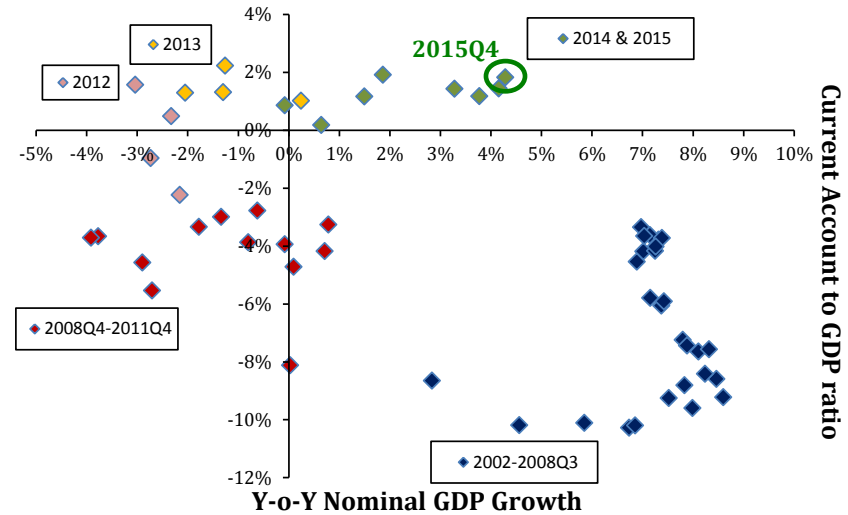
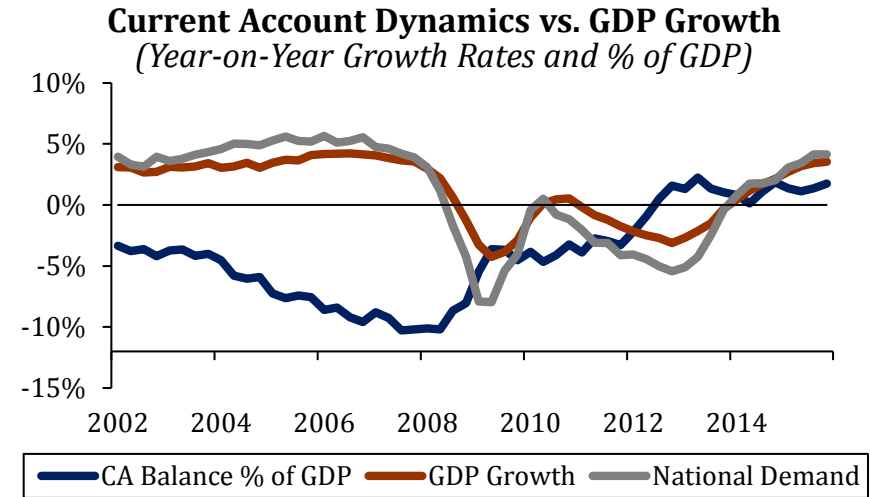
Net International Investment Position in the context of growth & CA surplus

- ▶ GDP growth is not linked to current account deficits as in previous growth cycles
- ▶ According to the European Commission, assuming nominal GDP growth and current account balance at current levels the NIIP would fall to -50% of GDP by 2024



Source: Bank of Spain.

[Link to Data](#)



Sources: National Statistics Institute & Bank of Spain.

[Link to Data](#)

From net borrower to net lender

1. The Funding Programme in 2015 & 2016 forecast

2. Transformation of Spain's growth model

3. Spanish Economic Policy & Reforms

2.1 Deficit reduction 2011-2015

Page 34

2.3 Debt to GDP dynamics

Page 35

2.4 Reform Policies 2012-2015

Page 36-44

Deficit reduction 2012-2015

- ▶ 2015 deficit outcome of -5.08% of GDP vs. an objective of -4.2%. Excluding the impact of financial sector (-0.08% of GDP) and other one-offs (the deficit stood at -4.8% of GDP)
- ▶ The slippage concentrated in regional finances. Measures adopted:
 - ❑ Coercive measures: non-availability of budgetary credit for non-compliant regions
 - ❑ Corrective and preventive measures: publicised adjustment plans and cash projections to be surveyed by the Independent Fiscal Authority and the Finance Ministry. Compliance with the expenditure rule and with average payment period to suppliers
 - ❑ Enhanced conditionality to be applied to regions seeking the assistance of existing liquidity funds

Net Lending(+)/Borrowing. (% of GDP. Excl. Financial Sector One-Offs)										
	2011		2012		2013		2014		2015	
	Objective	Outcome	Objective	Outcome	Objective	Outcome	Objective	Outcome	Objective	Outcome
Central Government		-5.43		-4.25		-4.48		-3.57	-2.9	-2.53
Autonomous Regions		-3.35		-1.86		-1.57		-1.75	-0.7	-1.66
Local Governments	-4.8	-0.40	-6.3	0.32	-6.5	0.55	-5.8	0.57	0.0	0.44
Social Security Administrations		-0.10		-0.98		-1.12		-1.04	-0.6	-1.26
General Government		-9.29		-6.78		-6.61		-5.78	-4.2	-5.00
Financial Sector Impact		-0.33		-3.67		-0.29		-0.10		-0.08

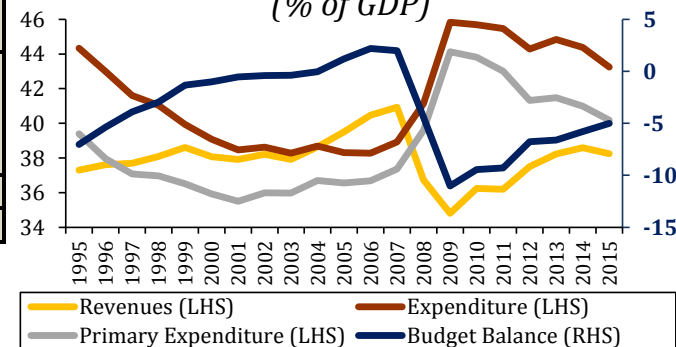
Source: Ministerio de Hacienda y Administraciones Públicas.

2011 Net of the effects of the Regional Financing System

For further information refer to <http://www.minhap.gob.es/es-ES/Prensa/Paginas/EstrategiaPoliticaFiscal.aspx>

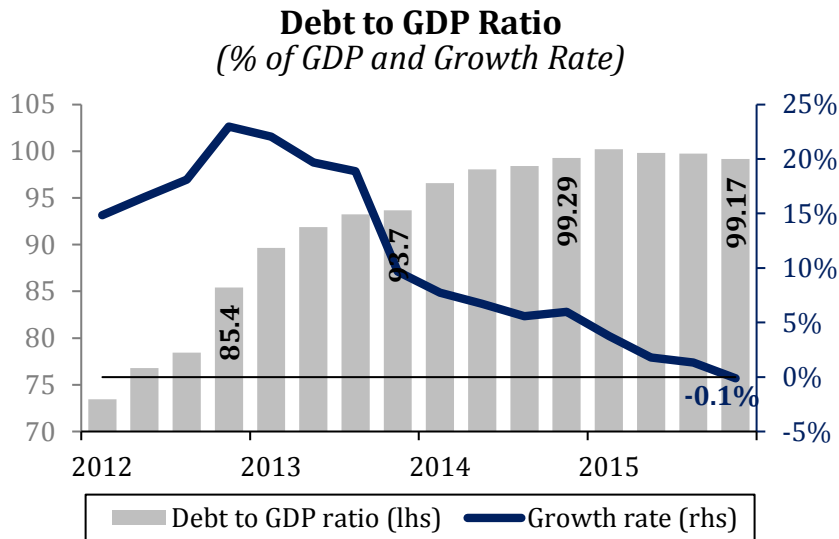
[Link to data](#)

Budget Balance and its Determinants (% of GDP)

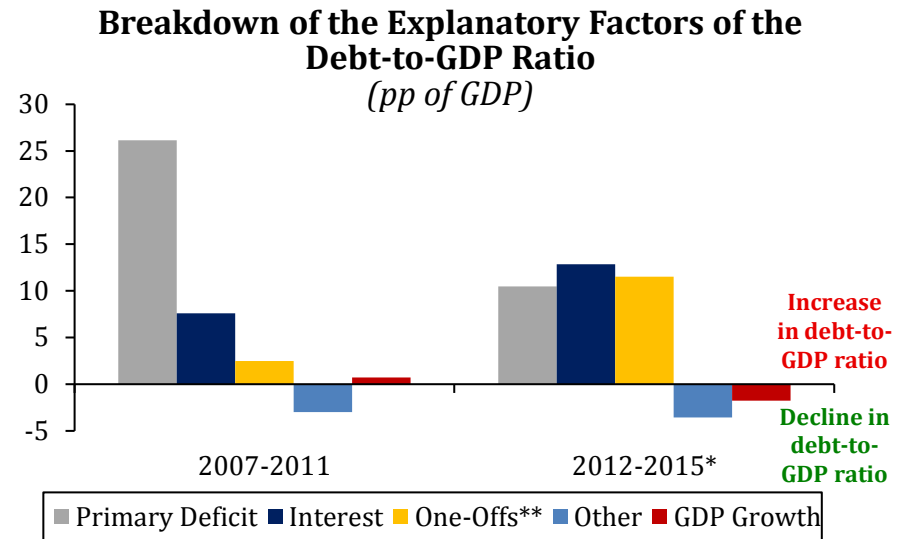


Debt to GDP fell in 2015

► In 2015 the Debt to GDP ratio declined to 99.17% vs. 99.29% in 2014. This is the first year-on-year reduction in the ratio since 2007



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



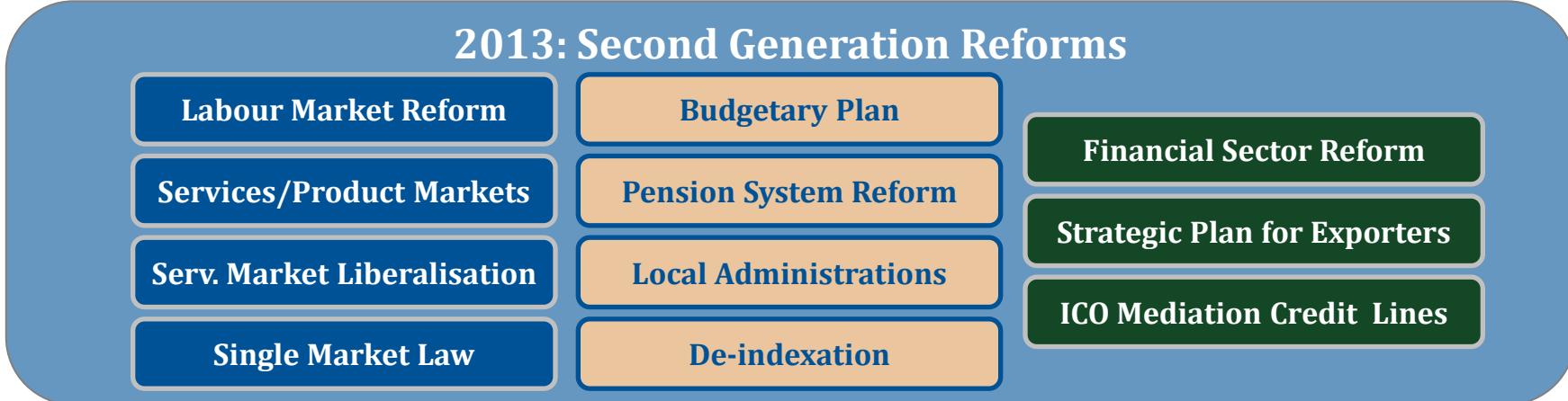
Source: Ministerio de Economía y Competitividad.
 * Provisional estimates
 ** One-Off factors include: impact of financial sector recapitalisation, Loans to Portugal, Ireland and Greece (EFSF), Fund for the Payments to Suppliers (FFPP), Electric Tariff Deficit (FADE)

Four years of structural reforms

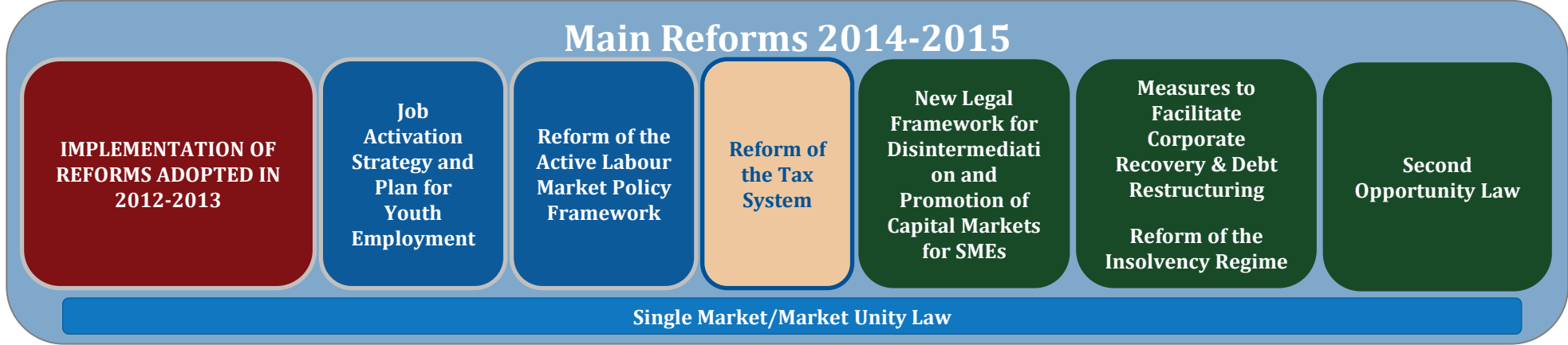
2012: First Generation Reforms



2013: Second Generation Reforms



Main Reforms 2014-2015

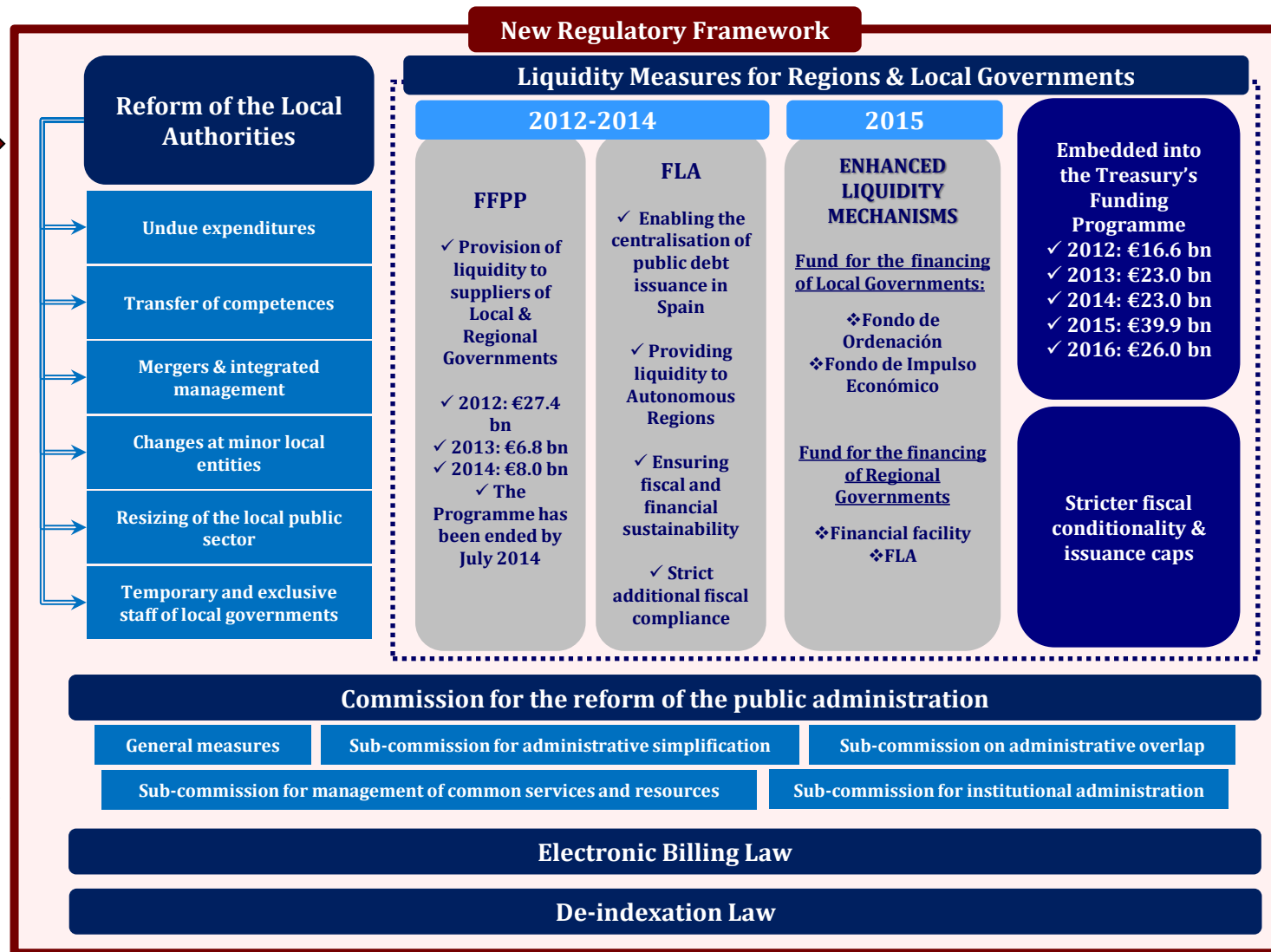


- Economic Structural Reforms
- Public Sector Reforms
- Financial Sector Reforms

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")		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 from 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 <ul style="list-style-type: none"> ● Deductions eliminated: <ul style="list-style-type: none"> - Environmental investments - Expenses for vocational training - Reinvestment of extraordinary benefits <ul style="list-style-type: none"> ● New deductions (favouring the deleveraging process): - Capitalisation reserves. 10% of corporate income deductible if incorporated into reserves. - Equalisation reserve for SMEs <ul style="list-style-type: none"> ● 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)				▶ Limit for deductible contributions linked to pension plans lowered to €8,000/year	
▶ Lower tax withholding for professional and self-employed workers with incomes below €15,000	▶ 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	▶ Better precision in the indirect assessment regime	▶ Interruption of the limitation period of related tax obligations	▶ Incentives for cultural activities
▶ Limits to simplified method ('Modulos') to certain professional activities					

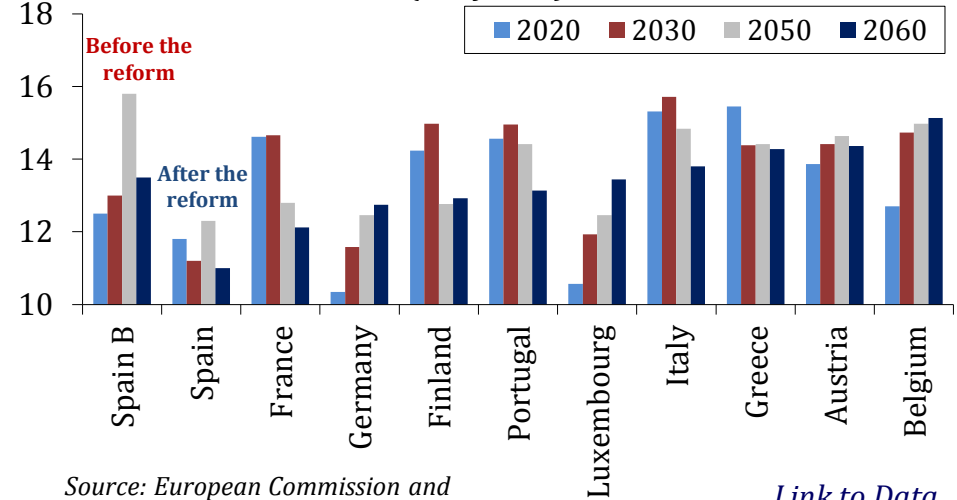
The Pension System reform reduces the impact of population ageing

► 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

Gross Expenditure in Public Pensions (% of GDP)



Source: European Commission and Ministerio de Economía y Competitividad

[Link to Data](#)

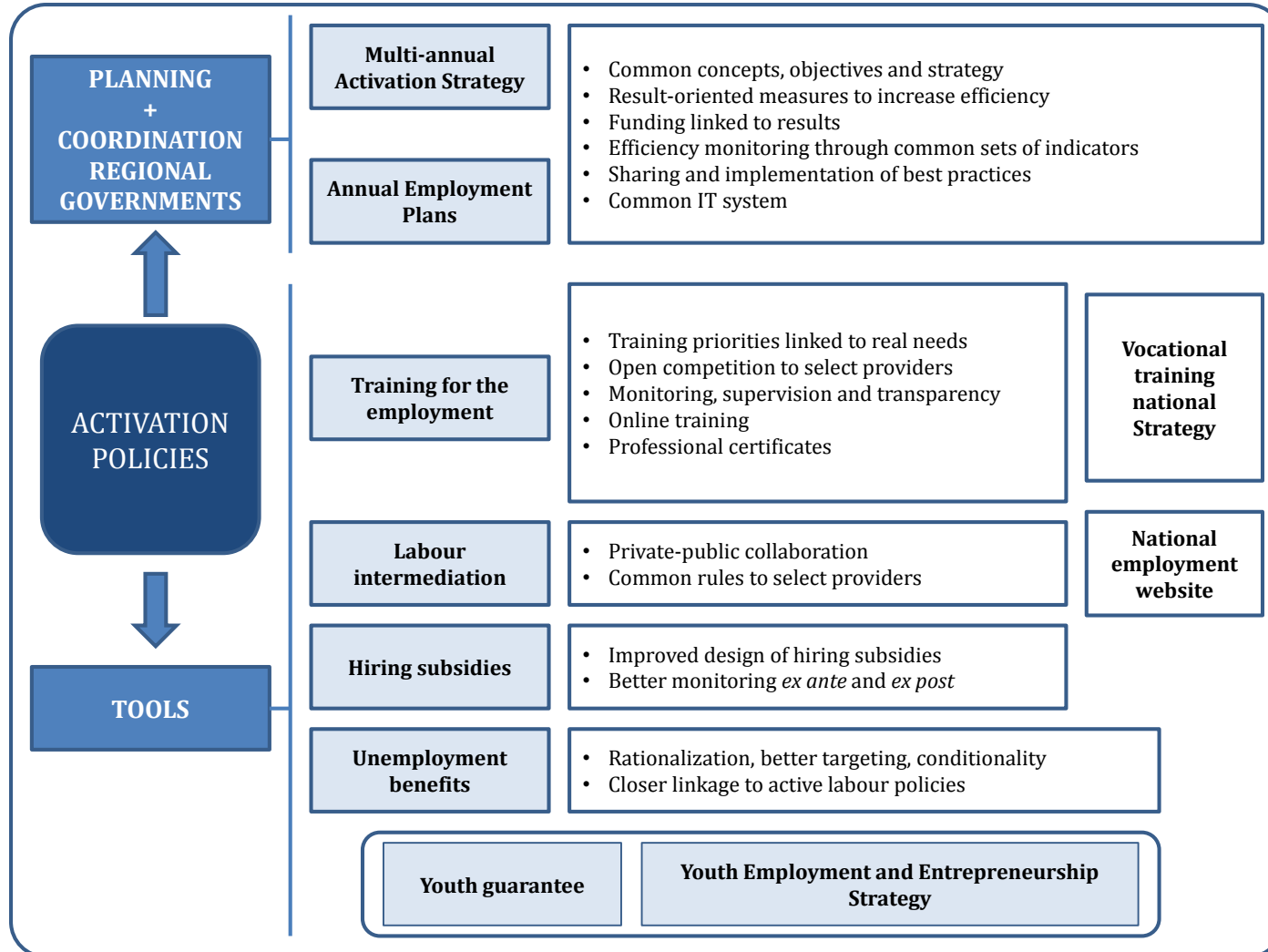
The labour market reform addresses Spain's most important imbalance

► 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 	<ul style="list-style-type: none"> → Avoiding lay-offs: rigidity fostered job cuts as a means of adjusting to economic changes 	<ul style="list-style-type: none"> → Reduction of severance pay for unfair dismissals 	
<ul style="list-style-type: none"> → Move beyond the model of indexing salaries and wages 	<ul style="list-style-type: none"> → Lack of flexibility avoided innovation and gains in competitiveness 	<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 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) 	<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 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

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>	

More and updated information on the Spanish economy



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Thank you for your attention

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