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

Investment, Exports and Imports (% of GDP)

Unemployment Rate (% of Active Population)

Private Sector Debt-to-GDP Ratio (% GDP)

Current Account (% of GDP)

Current Account Adjustment since 2007 (In pp of GDP)

Net International Investment Position (% of GDP)

Budget Balance by Administration (% of GDP)

Reduction in the Cyclically Adjusted Primary Deficit 2012-2014 (pp of GDP)

Debt-to-GDP of the General Government (% of GDP)

Introduction
1. The Funding Programme in 2015 & 2016 forecast

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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%)
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.
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)

- Bank of Spain
- Resident Credit Inst.
- Pens. & Ins., Mutual Funds
- Other Financial Inst.
- Households & Non-financials
- Public Administrations
- Non-Resident

2016: Year-on-year change. January 2015 to January 2016

Holdings of Unstripped Government Debt

- Orange: Registered Holdings
- Blue: Term Investment

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 2016 GDP, April 2016 to March 2017)

- Includes FFPP & Regional & Local Liquidity Mechanisms

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

Tax collection intensity

Administrative Distribution of Tax Collection

Sources: Secretaría General del Tesoro y Política Financiera, for Spain, 29th data for Italy (Mar16-Feb17), and Bloomberg for other countries.

Administrative Distribution of Tax Collection

Sources: Secretaría General del Tesoro y Política Financiera.
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)
Evolution of Ratings

Rating and Rating Actions vs. Spread to 10Y Bunds

Announced Rating dates

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Link to Data
1. The Funding Programme in 2015 & 2016 forecast

2. Transformation of Spain’s growth model

1.1 Recent macroeconomic trends
1.2 The structural transformation of the labour market
1.3 Consumer confidence back to 2007 levels
1.4 The adjustment of the financial sector
1.5 New credit flows consistent with deleveraging
1.6 Positive price developments in the construction sector
1.7 From net borrower to net lender

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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)

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<td>General Government consumption expenditure</td>
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<td>Gross Fixed Capital Formation</td>
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<td>Exports of goods and services</td>
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### Other macroeconomic variables

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Source: Ministerio de Economía y Competitividad.
* Contributions to GDP in p.p.
** Forecasts for 2016-2019 to be released on April 29th

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Gross Domestic Product (Year-on-Year Growth Rates)

Source: Eurostat.

[Link to Data]

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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 \rightarrow growth momentum maintained

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

Manufacturing PMI
(Index, >50 expansion)

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

Sources: Bloomberg & Eurostat.

Recent macroeconomic trends

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

World
Adv. Economies
USA
Euro Area
Germany
France
Italy
Spain
Japan
UK

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

Gross Value Added. 2014=100

Full-Time Equivalent Employment. 2014=100

Source: National Statistics Institute. Link to Data
Labour market reform: a change in labour dynamics

- GDP and employment growing at the same pace

GDP and Private Sector Employment
(Year-on-Year Growth Rates)

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

Real Productivity
(Index 1999=100, Seasonally and Calendar Adjusted)

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


Source: Eurostat.

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**

- Domestic Service
- Public admin & defence; Social Sec.
- Electricity, gas, steam & air conditioning
- International Organisations
- Arts, entertainment and recreation
- Financial and insurance activities
- Water supply; Waste & Remediation...
- Real estate activities
- Mining and quarrying
- Information & Communication
- Administrative and support service Prof., Scientific & Technical activities
- Construction
- Manufacturing
- Other Services
- Wholesale & retail trade; repair of motor...
- Agriculture, forestry and fishing
- Transportation & storage
- Human health and social work activities
- Education
- Accommodation and food services

**Share in Employment Creation in the Euro Area 2014Q1 to 2015Q4**

- (Percent and Thousands of Persons)

- Spain: 42.8% (+963,200)
- Other Euro Area: 31.6% (+710,800)
- Germany: 27.2% (+611,000)
- Italy: 13.6% (+305,400)
- Ireland: 3.2% (+72,200)


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

Transformation of Spain’s growth model

The structural transformation of the labour market

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

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

Link to Data

Source: National Statistics Institute and Eurostat.  
Link to Data

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

### Inflation Differential vs. EU (In %)

Source: Ministerio de Economía y Competitividad.

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

Source: Ministerio de Economía y Competitividad.

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

Source: Ministerio de Economía y Competitividad.

Consumer confidence and retail sales are showing signs of recovery, with consumer confidence reaching early 2007 levels and retail sales accelerating despite low inflation. Core inflation is starting to recover, and the favourable inflation differential against the European Union remains.

#### Consumer Confidence & Retail Sales

- **2007** to **2016**
- **Consumer Confidence (LHS)**
- **Retail Sales Index (RHS)**

#### Inflation Differential vs. EU

- **2002** to **2016**
- **In %**

#### Registered Unemployment & Social Security Affiliations

- **2007** to **2016**
- **Year-on-Year Growth Rates**

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**Link to Data**

**Source:** Ministerio de Economía y Competitividad.
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

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

Source: Bank of Spain.

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

Source: Bank of Spain.

Harmonised Non-Performing Exposures Ratios & Coverage Ratio

Sources: ECB.
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

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

NPL Ratio

NPLs, Unemployment & Bankruptcy Proceedings (YoY Growth Rates)

Sources: Bank of Spain and National Statistics Institute.

Source: Bank of Spain.

Decrease in Loans to ORS since peak (2008Q4): €551.4bn
Increase in NPL: €638.8bn

Increase in Doubtful loans (Numerator)
Decrease in Total Loans (Denominator)
Mixed Effects (Not Assignable to Numerator or Denominator)

Source: Bank of Spain.
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: Bank of Spain.

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**European Banking Authority. Transparency Exercise Sample**

- **CET1 Ratio**
  - EU: 12.4%, 11.6%
  - Spain: 12.2%, 12.8%

Source: European Banking Authority.

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**Leverage Ratios**

- EU: 4.7%, 4.9%
- Spain: 5.5%, 5.7%

Source: Bank of Spain.

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**Cost to Income Ratio**

- EU: 62.8%, 59.2%
- Spain: 48.0%, 47.3%

Source: European Banking Authority.

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**SSM: Gross Adjustments in the 2014 AQR by Country of Residence (% of RWA and % of total)**

- Provisions on sampled files: 34.5%
- Projection of findings: 21.7%
- Collective provisioning review: 9.7%
- CVA & Fair Value Review: 34.1%

Source: Bank of Spain.
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.

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

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.
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.
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.

**Mortgages and Housing Transactions (YoY Growth Rates)**


**Gross Value Added in Construction**

(YoY Growth Rates, LHS / Weight in Total GDP, RHS)

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
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)**

**Change in Share in Spanish Merchandise Exports since 2005**

- Goods & Services
- Current Account Balance
- Current+Capital Account

**Weights of Faster Growing Economies in Total Merchandise Exports**

- Oceania
- Asia
- South America
- Central America
- Subsaharan Africa
- North Africa

Source: Bank of Spain

Source: Datacomex
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.

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

Main Export and Import Products (YoY Growth)
(With Weight in Total 2013 Merchandise Exports >1%.
Smoothed data. In Brackets Share and % of Intermediate Goods)

Exports
- MOTOR VEHICLES (15.2) // (65.3)
- AGRICULTURAL PRODUCTS (5.8) // (10.6)
- AIRCRAFT AND SPACECRAFT (2) // (10.6)
- CLOTHING (4.2) // (96.3)
- PLASTICS (1.7) // (99.7)
- FERROUS METALS (1.4) // (96.3)
- PARTS AND FITTINGS OF MOTOR VEHICLES (3.6) // (98)
- OTHER FOOD PRODUCTS (4.3) // (65.3)
- OTHER CHEMICAL PRODUCTS (3.5) // (65.3)
- MEAT AND MEAT PRODUCTS (2.2) // (65.3)
- OTHER MACHINERY AND EQUIP. (5.7) // (47)
- ELECTRIC MATERIALS AND EQUIPMENT (3.4) // (65.3)
- METALLIC PRODUCTS EXCL. EQUIPMENT (3.3) // (65.3)
- TEXTILE PRODUCTS (1.4) // (99.7)
- LEATHER AND FOOTWEAR (1.3) // (65.3)
- ALCOHOLIC BEVERAGES (1.4) // (10.6)
- BASIC PHARMACEUTICAL PRODUCTS (4.4) // (95.1)
- PAPER, Pulp, Paperboard & Graph. Arts (1.3) // (99.7)
- RUBBER PRODUCTS (1.3) // (99.7)
- BASIC CHEM., FERTILIZERS, PLASTICS AND PESTICIDES...
- ANIMAL AND VEGETABLE OILS AND FATS (1.5) // (74.5)
- METALLURGIC & METALLIC PRODUCTS (5.7) // (65.3)
- Refined Oil & Coal/Coke (4.5) // (96.7)
- Other Electronic, Optical, and Electric Prod. (1.6...)
- Other Electronic, Optical and Electric Prod. (4.7...)
- Other Machinery and Equip. (5.7) // (47)
- ELECTRIC MATERIALS AND EQUIPMENT (3.4) // (65.3)
- METALLIC PRODUCTS EXCL. EQUIPMENT (3.3) // (65.3)
- TEXTILE PRODUCTS (1.4) // (99.7)
- LEATHER AND FOOTWEAR (1.3) // (65.3)
- ALCOHOLIC BEVERAGES (1.4) // (10.6)
- BASIC PHARMACEUTICAL PRODUCTS (4.4) // (95.1)
- PAPER, Pulp, Paperboard & Graph. Arts (1.3) // (99.7)
- RUBBER PRODUCTS (1.3) // (99.7)
- BASIC CHEM., FERTILIZERS, PLASTICS AND PESTICIDES...
- ANIMAL AND VEGETABLE OILS AND FATS (1.5) // (74.5)
- METALLURGIC & METALLIC PRODUCTS (5.7) // (65.3)
- Refined Oil & Coal/Coke (4.5) // (96.7)

Imports
- MOTOR VEHICLES (7.8) // (80.6)
- ELECTRIC MATERIALS AND EQUIPMENT (2.9) // (80.6)
- OTHER ELECTRONIC, OPTICAL AND ELECTRIC PROD. (4.6...)
- OTHER MACHINERY AND EQUIP. (5.7) // (46.7)
- AGRICULTURAL PRODUCTS (3.2) // (63.7)
- OTHER MANUFACTURED GOODS (1.9) // (20.9)
- PLASTICS (1.8) // (24.5)
- BASIC PHARMACEUTICAL PRODUCTS (4.4) // (95.8)
- METALLIC PRODUCTS EXCL. EQUIPMENT (2.3) // (80.6)
- TEXTILE PRODUCTS (1.4) // (100)
- PAPER, Pulp, Paperboard & Graph. Arts (1.2) // (20.9)
- LEATHER AND FOOTWEAR (1.7) // (80.6)
- OTHER CHEMICAL PRODUCTS (2.9) // (80.6)
- OTHER FOOD PRODUCTS (4.4) // (80.6)
- RUBBER PRODUCTS (1) // (24.5)
- BASIC CHEM., FERTILIZERS, PLASTICS AND PESTICIDES...
- CLOTHING (5.3) // (95.8)
- METALLURGIC & METALLIC PRODUCTS (4) // (80.6)
- PARTS AND FITTINGS OF MOTOR VEHICLES (5.9) // (98.5)
- OFFICE MACHINES AND COMPUTERS (1.4) // (80.6)
- SEWERAGE SERVICES (0.9) // (100)
- FERROUS METALS (1.4) // (80.6)
- NATURAL GAS (2.8) // (80.6)
- Refined Oil & Coal/Coke (2.8) // (24.5)
- CRUDE OIL (1.8) // (95.8)

Source: Ministerio de Economía y Competitividad.
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.

Quarterly Services Balance (€ bn)

Exports (€ bn)

Imports (€ bn)

Quarterly Balance of Services Other Than Tourism (€ bn)
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

Breakdown of the Net International Investment Position ($bn)

Source: Bank of Spain. Link to Data

Current Account Dynamics vs. GDP Growth
(Year-on-Year Growth Rates and % of GDP)

Sources: National Statistics Institute & 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 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 in regional finances. Measures adopted:
  - **Coerce 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)

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<td>Central Government</td>
<td>-5.43</td>
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<td>Autonomous Regions</td>
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<td>-6.5</td>
<td>-5.8</td>
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<td>-0.10</td>
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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](http://www.minhap.gob.es/es-ES/Prensa/Paginas/EstrategiaPoliticaFiscal.aspx)
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.

**Debt to GDP Ratio (% of GDP and Growth Rate)**

Source: Ministerio de Economía y Competitividad.

**Breakdown of the Explanatory Factors of the Debt-to-GDP Ratio (pp of GDP)**

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
- Labour Market
- Budgetary Framework
- Financial Sector

2013: Second Generation Reforms
- Labour Market Reform
- Budgetary Plan
- Financial Sector Reform
- Services/Product Markets
- Pension System Reform
- Strategic Plan for Exporters
- Serv. Market Liberalisation
- Local Administrations
- ICO Mediation Credit Lines
- Single Market Law
- De-indexation

Main Reforms 2014-2015
- IMPLEMENTATION OF REFORMS ADOPTED IN 2012-2013
- Job Activation Strategy and Plan for Youth Employment
- Reform of the Active Labour Market Policy Framework
- Reform of the Tax System
- New Legal Framework for Disintermediation and Promotion of Capital Markets for SMEs
- Measures to Facilitate Corporate Recovery & Debt Restructuring
- Reform of the Insolvency Regime
- Second Opportunity Law

Links to detailed presentations describing the Reform Agenda

Balances 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

**Budgetary Sustainability Law, Fiscal supervisory rules**
- Fiscal discipline at all levels of the Administration
- Early-warning system, enforcement and sanction procedures
- Transparency: monthly and quarterly execution
- Assurance of compliance: coercive measures and enforced compliance
- Law for Transparency in the Public
- Administrations: accountability & governance

**Reform of the Local Authorities**
- Undue expenditures
- Transfer of competences
- Mergers & integrated management
- Changes at minor local entities
- Resizing of the local public sector
- Temporary and exclusive staff of local governments

**New Regulatory Framework**

**Liquidity Measures for Regions & Local Governments**
- **2012-2014**
  - FFPP
  - Enabling the centralisation of public debt issuance in Spain
  - Providing liquidity to Autonomous Regions
  - Ensuring fiscal and financial sustainability
  - Strict additional fiscal compliance

- **2015**
  - ENHANCED LIQUIDITY MECHANISMS
  - Fund for the financing of Local Governments:
    - Fondo de Ordenación
    - Fondo de Impulso Económico
  - Fund for the financing of Regional Governments
  - Financial facility
  - FLA

- **Embedded into the Treasury’s Funding Programme**
  - 2012: €16.6 bn
  - 2013: €23.0 bn
  - 2014: €23.0 bn
  - 2015: €39.9 bn
  - 2016: €26.0 bn

**Commission for the reform of the public administration**
- General measures
- Sub-commission for administrative simplification
- Sub-commission on administrative overlap
- Sub-commission for management of common services and resources
- Sub-commission for institutional administration

**Electronic Billing Law**

**De-indexation Law**
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
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
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)](chart)

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
- Dynamic bargaining more responsive to the needs of businesses and workers
- Move beyond the model of indexing salaries and wages
- Balanced regulatory framework in line with economic circumstances

### Internal Flexibility of Firms
- Avoiding lay-offs: rigidity fostered job cuts as a means of adjusting to economic changes
- Lack of flexibility avoided innovation and gains in competitiveness

### External Flexibility of Firms
- Reduction of severance pay for unfair dismissals
- Clear and objective regulatory framework of fair dismissals

### Contracts
- Crisis contract: new contract for entrepreneurs aimed at small businesses. It has a one-year trial period. Tied to employment tax breaks and fiscal tax credit, specially for hiring young workers. Breaks and credits are designed to limit the dead-weight effect
- Training and skill building: deep regulatory modifications to provide a structural change and develop a dual training system that allows a balance of training and work
- Flexible regulation of telework
- Part-time contract: increased flexibility, allowing overtime

### Individual Policies
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
6. Severance pay for unfair dismissal down to 33days/Max 24months of salary vs. 45days/Max 42 months
7. Clarification of fair dismissal causes (20days/Max 12 Mo)
8. Removal of administrative authorisation for collective layoffs
9. Elimination of procedural salaries
10. Fair dismissals for economic causes of civil servants
11. Streamlining of dismissals based on absenteeism
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.

## Activation Policies

### PLANNING + COORDINATION

- **REGIONAL GOVERNMENTS**

### TOOLS

- **Multi-annual Activation Strategy**
  - Common concepts, objectives and strategy
  - Result-oriented measures to increase efficiency
  - Funding linked to results
  - Efficiency monitoring through common sets of indicators
  - Sharing and implementation of best practices
  - Common IT system

- **Annual Employment Plans**

- **Training for the employment**
  - Training priorities linked to real needs
  - Open competition to select providers
  - Monitoring, supervision and transparency
  - Online training
  - Professional certificates

- **Labour intermediation**
  - Private-public collaboration
  - Common rules to select providers

- **Hiring subsidies**
  - Improved design of hiring subsidies
  - Better monitoring *ex ante* and *ex post*

- **Unemployment benefits**
  - Rationalization, better targeting, conditionality
  - Closer linkage to active labour policies

- **Youth guarantee**

- **Youth Employment and Entrepreneurship Strategy**

### Vocational training national Strategy

### National employment website

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Spanish Economic Policy & Reforms 42

Reform Policies 2012-2015
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%
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**
- Second Opportunity/Fresh Start Mechanism for individuals and firms
- Promotion of refinancing agreements
- Simplification of Collective Refinancing Agreements

**Simplification of in-court insolvency procedures**
- Facilitating the split and sale of separated production units
- Adjustment of real-state guarantees
- Quorum requirement to pass the draft agreement depends now on the nature of the measures to be agreed
- 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

**Re-designing the judicial administration**
- Classification and register of insolvency administrators according to their past experience
- Designation of the insolvency administration rests on automatic process, instead of judicial appointment
- Creation of a list of functions that the judicial administrator is able to perform in order to provide more clarity and legal certainty
More and updated information on the Spanish economy

For spreadsheets click on ‘Data’

Click here to download all spreadsheets
Thank you for your attention

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