

# Recent Developments in the Spanish Economy, Policy & Funding

June 2020

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## Highlights

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### **The structural turnaround of the Spanish economy in recent years leaves us in a good position to face the Covid-19 pandemic**

- ▶ Spain has been growing well above its peers since 2014 –this has been possible because of the complete transformation of Spain’s productive model.
- ▶ This change, together with improved competitiveness, results in two engines growth –internal and external demand–, which will be instrumental in the aftermath of the pandemic.
- ▶ Spain has earned leeway after years of deleveraging: non-consolidated non-financial private sector debt is now at 150% of GDP, 76pp of GDP below 2010 level, below the Euro area average of 166%.
- ▶ Short term impact mitigation measures implemented. Longer term structural plan for socially and environmentally sustainable growth: social inclusion, ecological transition, digitalization.
- ▶ Funding costs of the public sector are at historic lows: average cost of debt outstanding at 1.99% and cost at issuance at 0.31%.
- ▶ Spanish investors’ –most notably banks– holdings of public debt have decreased significantly after the widening of Spain’s investor base.

# Macroeconomic scenario 2020-2021

Macroeconomic scenario (YoY growth rates in percent)										
	2017	2018	2019	Q1	Q2	Q3	Q4	2020	Q1	2021
Private consumption expenditure	3.0	1.8	1.1	1.2	0.7	1.3	1.2	-8.8	-6.6	4.7
General Government consumption expenditure	1.0	1.9	2.3	2.3	2.3	2.2	2.4	2.5	3.6	1.8
Gross Fixed Capital Formation	5.9	5.3	1.8	4.8	0.5	1.4	0.6	-25.5	-6.7	16.7
<b>National Demand (Contribution to GDP Growth)</b>	<b>3.0</b>	<b>2.6</b>	<b>1.5</b>	<b>2.1</b>	<b>1.1</b>	<b>1.5</b>	<b>1.3</b>	<b>-9.7</b>	<b>-4.3</b>	<b>5.8</b>
Exports of goods and services	5.6	2.2	2.6	0.8	2.6	3.6	3.3	-27.1	-6.3	11.0
Imports of goods and services	6.6	3.3	1.2	0.4	-0.2	2.7	2.1	-31.0	-7.4	93.0
<b>External demand (Contribution to GDP Growth)</b>	<b>-0.1</b>	<b>-0.3</b>	<b>0.5</b>	<b>0.1</b>	<b>1.0</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>1.0</b>
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>2.4</b>	<b>2.0</b>	<b>2.2</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>	<b>-9.2</b>	<b>-4.1</b>	<b>6.8</b>

Other variables										
	2017	2018	2019	Q1	Q2	Q3	Q4	2020	Q1	2021
Unemployment rate (in % of Active Population)	17.2	15.3	14.1	14.7	14.0	13.9	13.8	19.0	14.4	17.2
Full-time Equiv. Employment (YoY Growth)	2.8	2.5	2.3	2.7	2.5	1.8	2.0	--	-0.6	--
Net lending(+)/borrowing(-) with RoW (% of GDP)	2.9	2.4	2.3	2.1	2.3	2.3	2.3	1.8	--	--
Private Consumption deflator (YoY Growth)	1.6	1.5	1.2	1.3	1.8	0.8	1.0	--	1.1	--
Headline Balance General Gov't (in % of GDP)*	-3.0	-2.5	-2.8	-2.5	-2.8	-2.7	-2.8	-10.3	--	--
USD/€ exchange rate	1.1	1.2	1.12	1.14	1.12	1.11	1.11	1.09	1.1	1.09
Euro Area GDP growth (YoY growth)	2.7	1.9	1.2	1.4	1.2	1.3	1.0	-7.5	-3.3	4.7
Oil prices (Brent, USD/barrel)	54.3	70.9	64.8	63.1	69.7	62.2	64.4	38.4	51.0	40.2

\* Including Financial Sector One-Offs

Sources: Ministerio de Asuntos Económicos y Transformación Digital and Ministerio de Hacienda.

Shaded areas are realisations. In white, forecasts contained in the Stability Programme Update released in May 2020.

## Short term mitigation measures

### ► Measures targeted towards four key objectives

#### Ensure the continuity of productive activity

- €100bn in guarantees for corporates and self-employed with liquidity issues against all sort of financial debt
- €10bn increase in ICO's indebtedness capacity to channel credit to corporates
- €2bn insurance policy for exporting Spanish SMEs
- 6-month deferral of tax collection
- Deferral and waivers of social security contributions

#### Reinforce the fight against the disease

- Lockdown already bearing fruits
- Centralized provision and price regulation of fundamental products
- €1bn extra funding and €2.8bn cash advance to regions for healthcare expenditure
- Streamlining of customs procedures to facilitate industrial imports
- Relaxation of budgetary procedures to facilitate re-allocation of resources
- Extraordinary credits for R&D related to the fight against the disease

#### Minimize the impact on employment

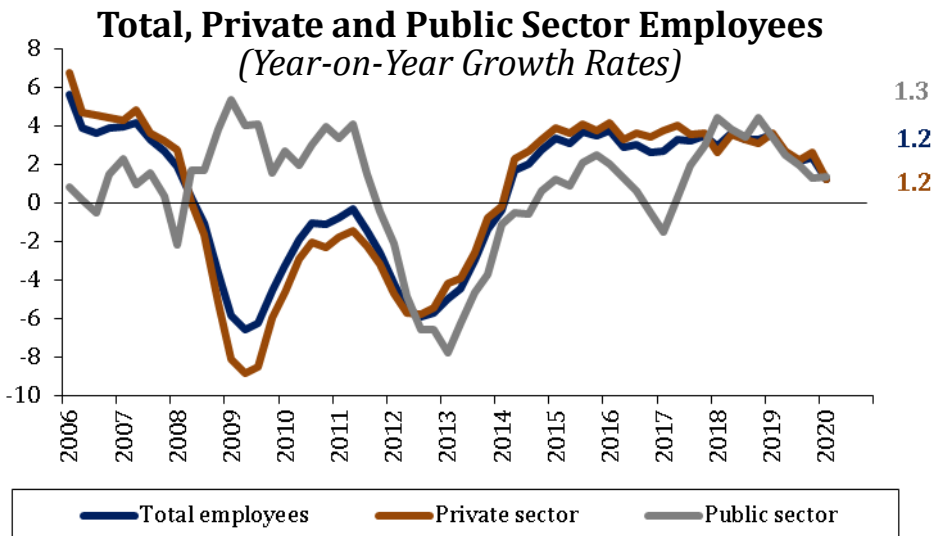
- Simplification of furlough procedures (ERTE)
- Access to full social benefits for all furloughed workers
- Public and private sector workers in quarantine can perceive benefits for temporary incapacity
- Extension of the Social Security allowance for permanent seasonal workers related to tourism
- €500mn credit line to R&D projects of SMEs
- €200mn program to support telework and digitalization of SMEs

#### Protect the most vulnerable

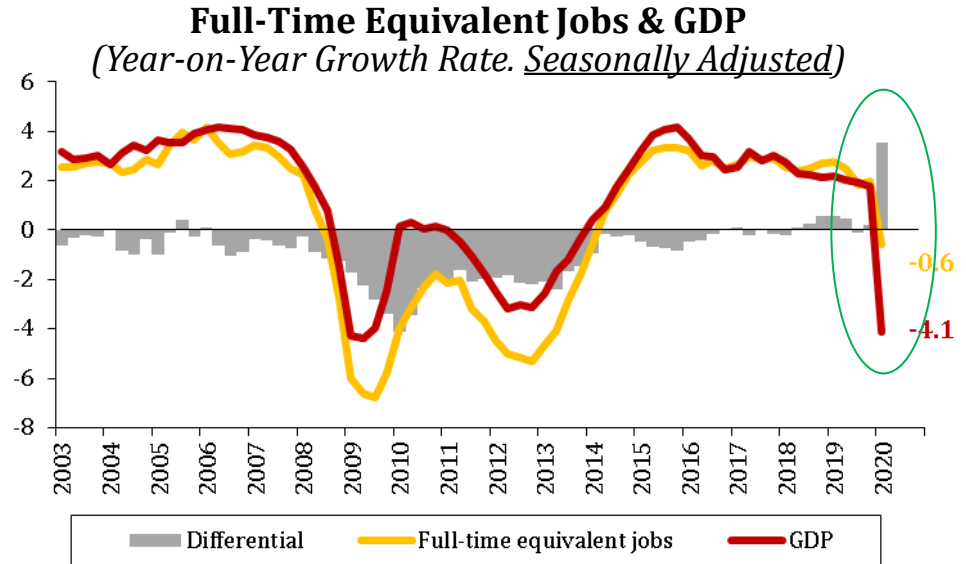
- €25mn euros in meal grants for the regions
- Mortgage loan, rent payments and other personal loan deferral for vulnerable collectives
- €300mn euros to guarantee home care for the dependent
- Authorization to city councils to use 2019 budget surplus for social services
- Electricity reduced price extended until 15 sept.
- Freezing of butane cylinder price

# Measures in place to mitigate job losses

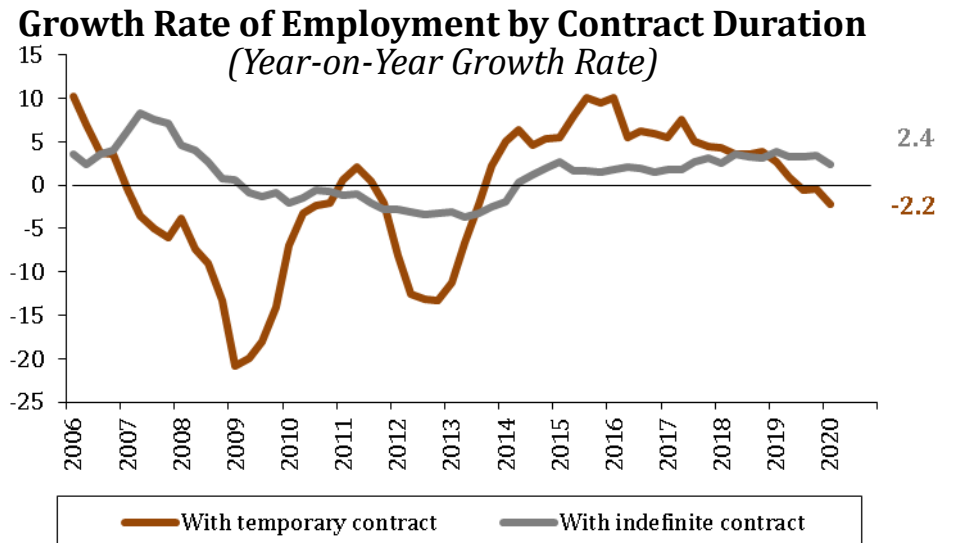
- ▶ Less growth needed to generate employment
- ▶ ERTE: temporary furlough of labor force has contained fall in employment
- ▶ Employment losses affecting temporary workers – risk of exclusion
- ▶ Public and private sector growing equally until pandemic



Source: Instituto Nacional de Estadística.



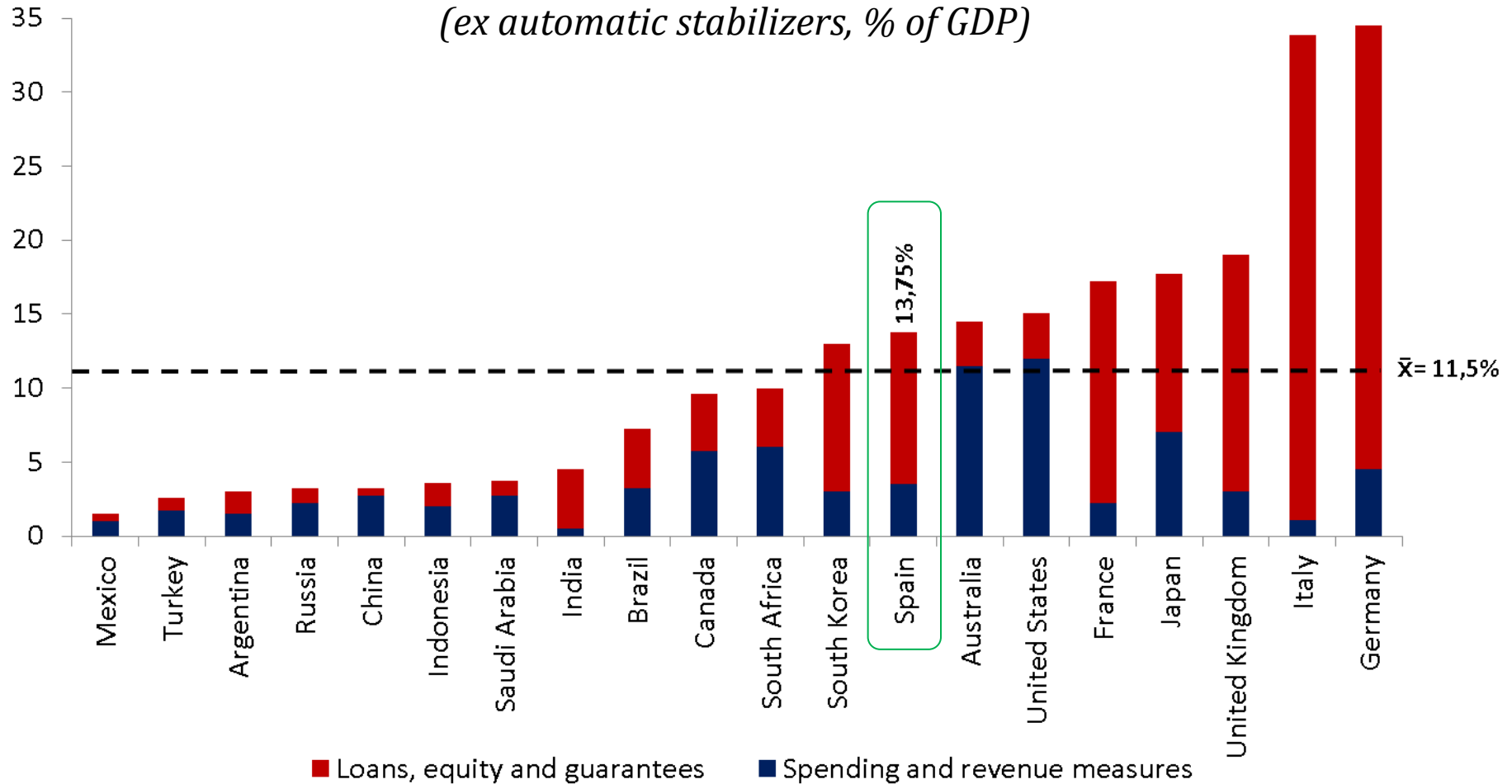
Source: Instituto Nacional de Estadística.



Source: Instituto Nacional de Estadística.

# ~14% of GDP fiscal package in place to minimize long-term impact of pandemic

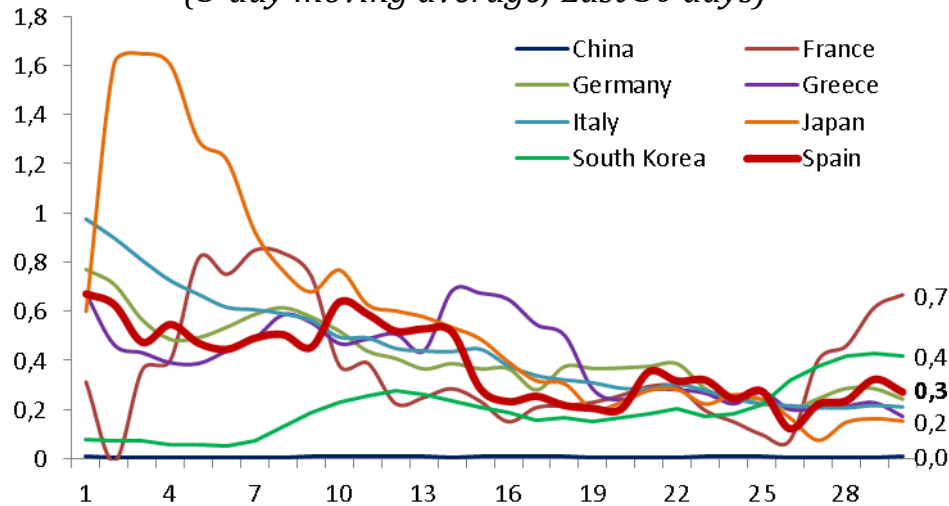
**Announced Fiscal Measures in G20 Economies**  
*(ex automatic stabilizers, % of GDP)*



Source: IMF based on National Authorities, as of May 13<sup>th</sup>.

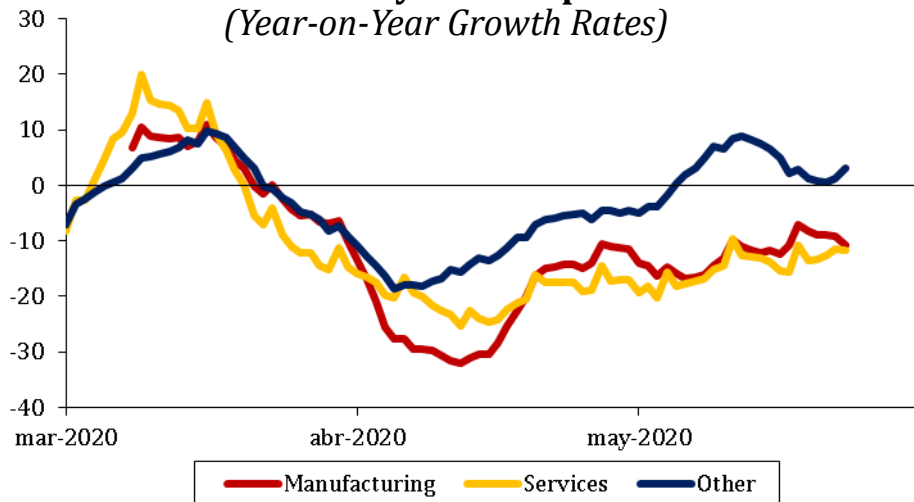
# Health crisis winding down, activity recovering

**Covid-19 confirmed cases daily variation rate (R)**  
(5-day moving average; Last 30 days)



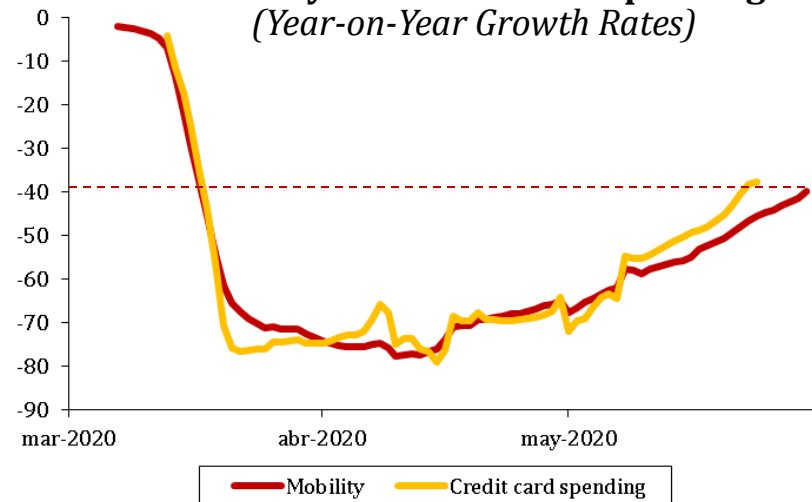
Source: Johns Hopkins Coronavirus Resource Center.

**Electricity Consumption**  
(Year-on-Year Growth Rates)



Source: Ministerio para la Transición Ecológica.

**Mobility and Credit card spending**  
(Year-on-Year Growth Rates)

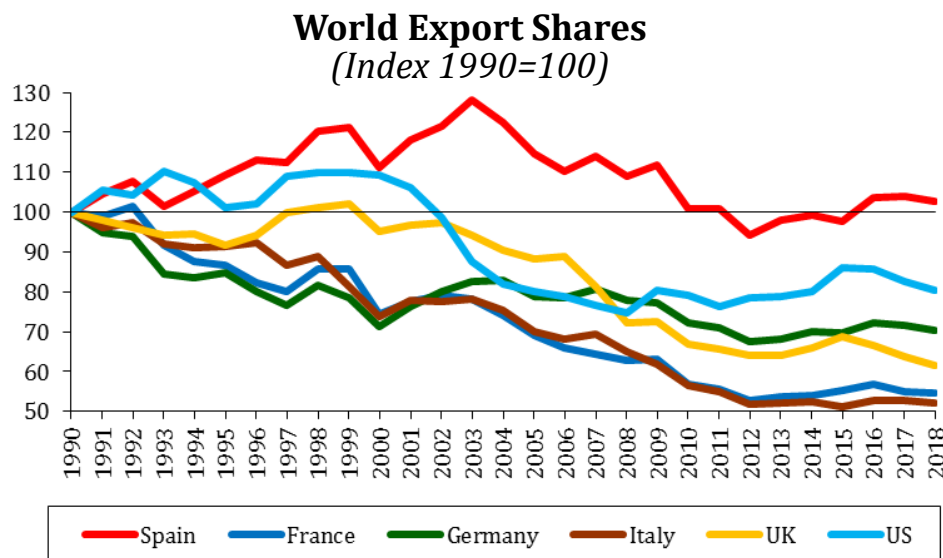


Source: Ministerio de Sanidad and BBVA.

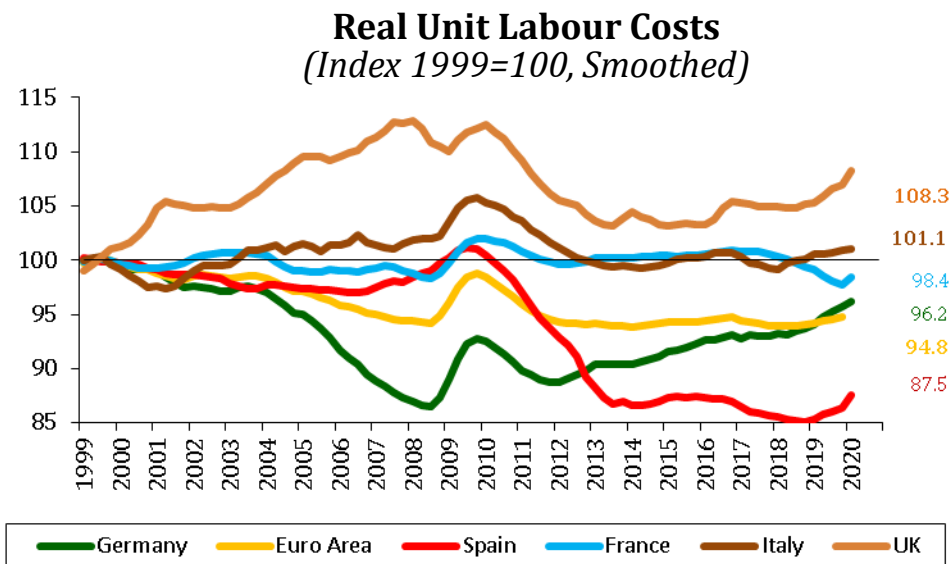


# Improved competitiveness relevant for an increasingly open economy

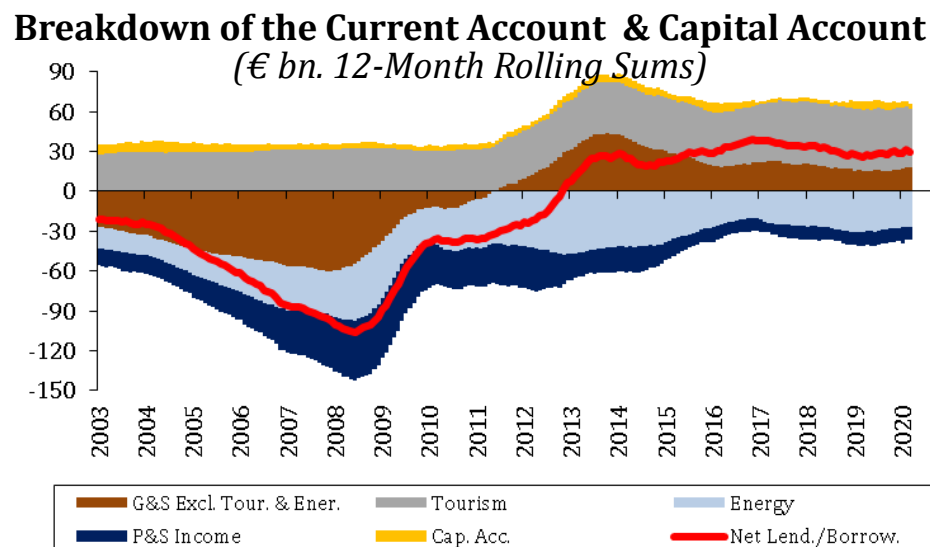
- ▶ Significant internal devaluation since 2010
- ▶ Spain's share of the world total exports has remained steady since 1990
- ▶ Spanish exports as a % of GDP have increased by +10pp since the crisis
- ▶ Balance of payments' goods & services balance in surplus since 2012



Source: World Bank.



Source: EUROSTAT.

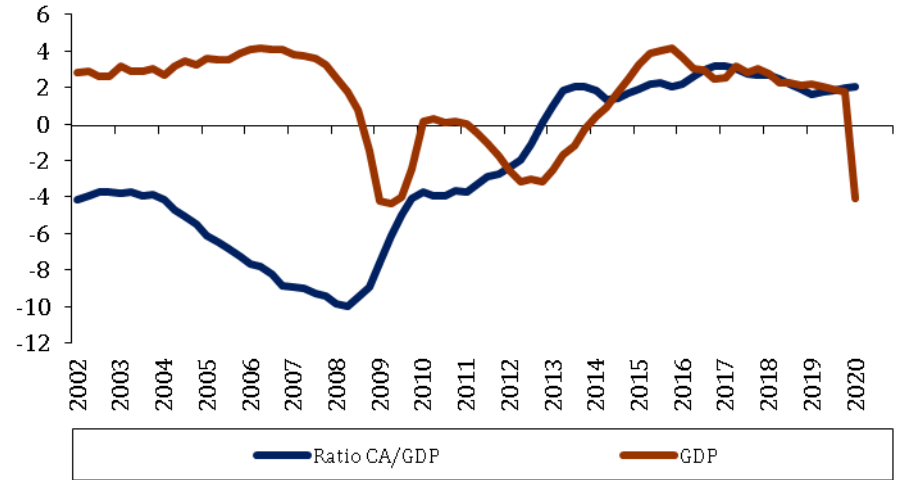


Source: Instituto Nacional de Estadística and Bank of Spain.

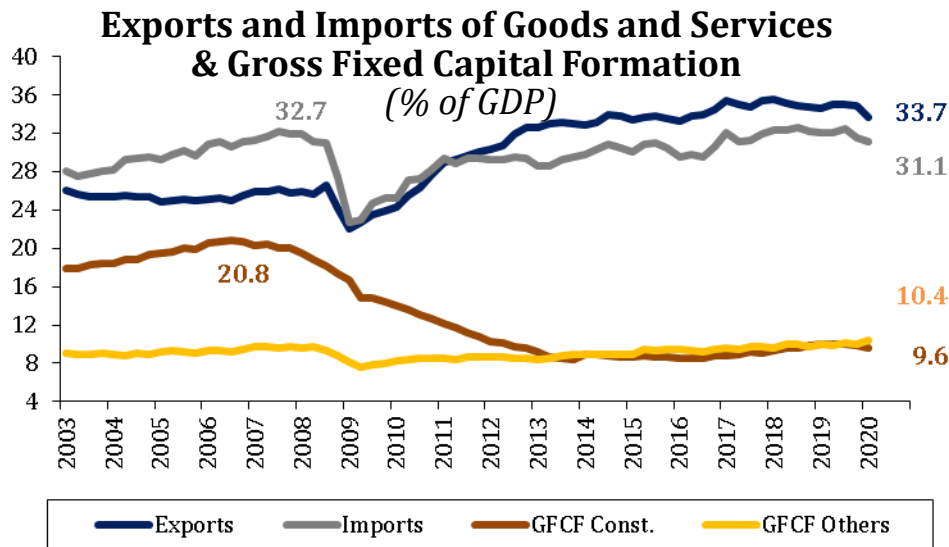
# More balanced growth pattern compatible with unwinding of imbalances

- ▶ Consistent growth compatible with current account surplus
- ▶ **Demand side:** drop in construction investment, compensated by rise in exports
- ▶ **Supply side:** drop in construction value added, compensated by services

**Current Account & GDP**  
(Ratio and Year-on-Year Growth Rate)

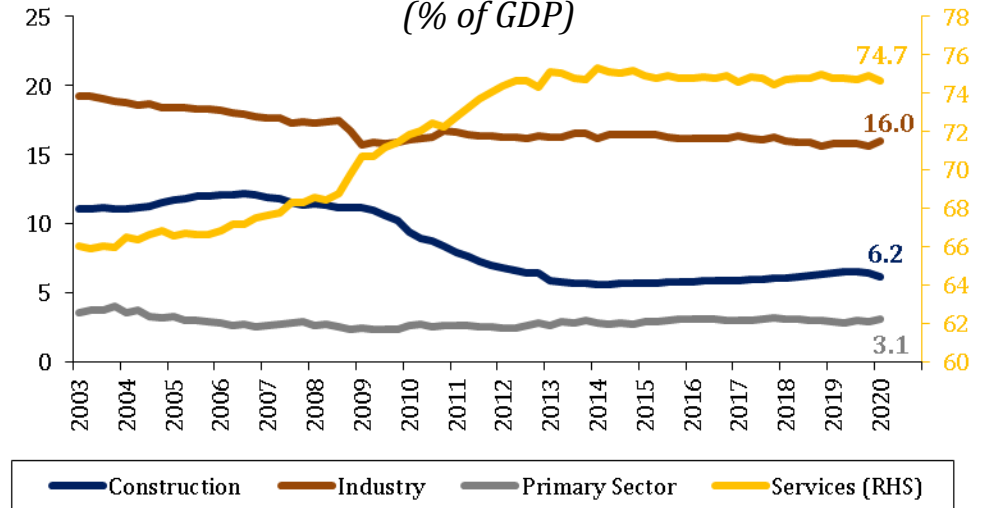


Source: Instituto Nacional de Estadística and Bank of Spain.



Source: Instituto Nacional de Estadística.

**Gross Value Added**  
(% of GDP)

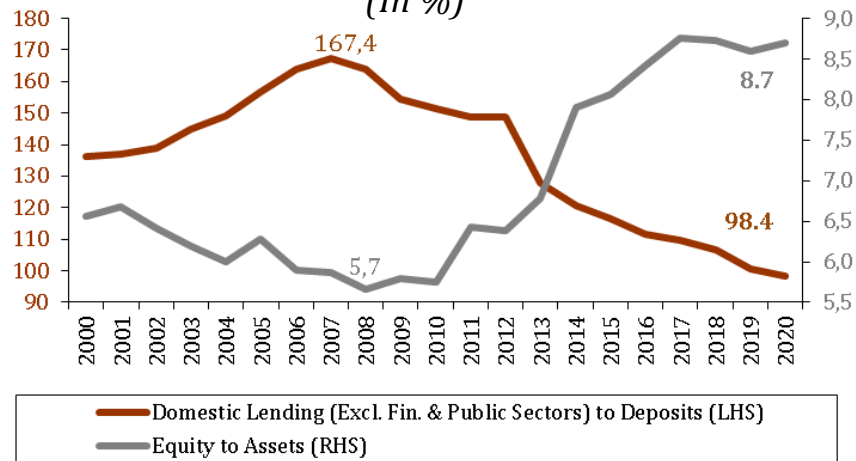


Source: Instituto Nacional de Estadística.

# Banking sector is more resilient after long adjustment

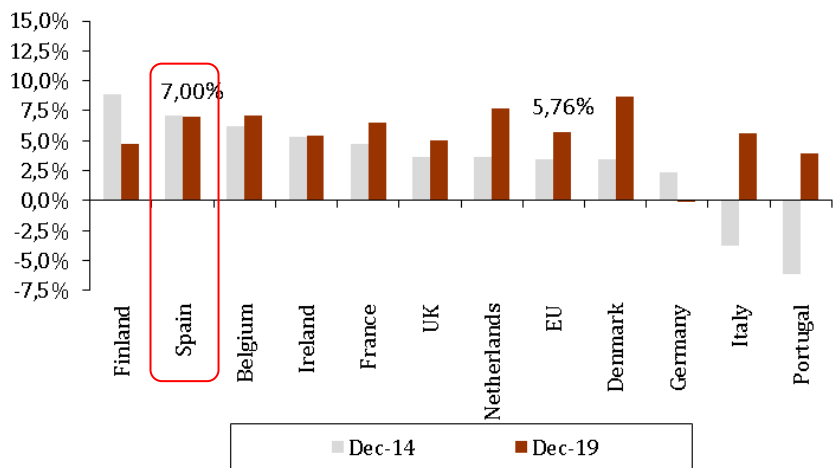
- ▶ Adjustment of the banking sector since GFC:
  - ☐ Downsizing & loss recognition
  - ☐ Enhanced capitalisation and profitability
- ▶ Strong improvement in NPLs: harmonised NPL ratio in line with Euro Area average
- ▶ EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish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

**Loan-to-Deposits & Equity to Assets**  
(In %)



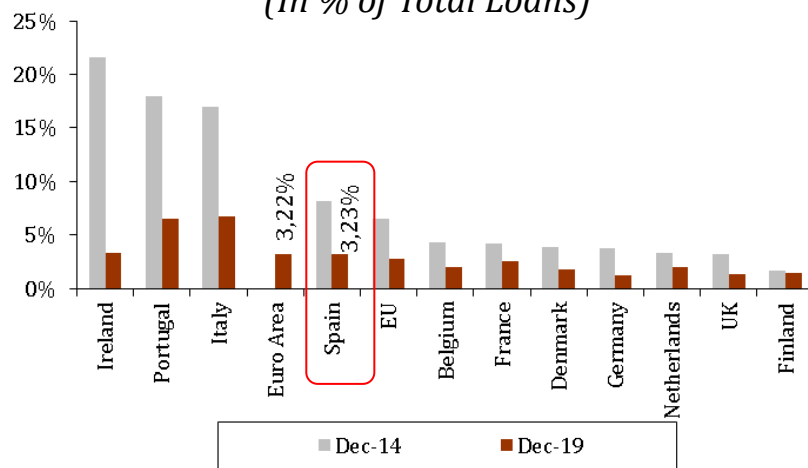
Source: Bank of Spain.

**Return on Equity**



Source: EBA. Risk Dashboard Interactive Tool.

**Harmonised NPL Ratio**  
(In % of Total Loans)



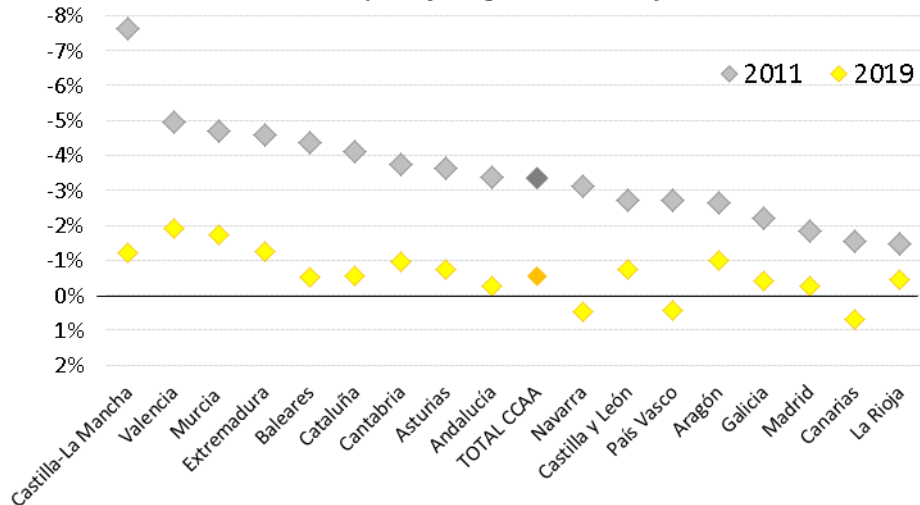
Source: EBA. Risk Dashboard Interactive Tool.

# Gradual correction of fiscal imbalances, especially at regional level

Net Lending(+)/Borrowing. (% of GDP)	2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020*											
	Central Government	-9,4	-4,9	-3,7	-8,1	-4,9	-3,6	-2,7	-2,5	-1,8	-1,3	-1,3
Autonomous Regions	-2,0	-3,8	-5,2	-2,0	-1,6	-1,8	-1,8	-0,9	-0,4	-0,3	-0,5	
Local Governments	-0,6	-0,7	-0,8	0,3	0,6	0,5	0,4	0,6	0,6	0,5	0,3	
Social Security	0,7	-0,2	-0,1	-1,0	-1,1	-1,0	-1,2	-1,6	-1,4	-1,4	-1,3	
Financial Sector One- Offs	0,1	0,1	-0,3	-3,7	-0,3	-0,1	-0,1	-0,2	0,0	0,0	0,0	
<b>General Government</b>	<b>-11,3</b>	<b>-9,5</b>	<b>-9,7</b>	<b>-10,7</b>	<b>-7,0</b>	<b>-5,9</b>	<b>-5,2</b>	<b>-4,3</b>	<b>-3,0</b>	<b>-2,5</b>	<b>-2,8</b>	<b>-10,3</b>
<b>General Government Ex Financial Sector One-Offs</b>	<b>-11,3</b>	<b>-9,6</b>	<b>-9,4</b>	<b>-7,0</b>	<b>-6,7</b>	<b>-5,8</b>	<b>-5,1</b>	<b>-4,1</b>	<b>-3,0</b>	<b>-2,5</b>	<b>-2,8</b>	

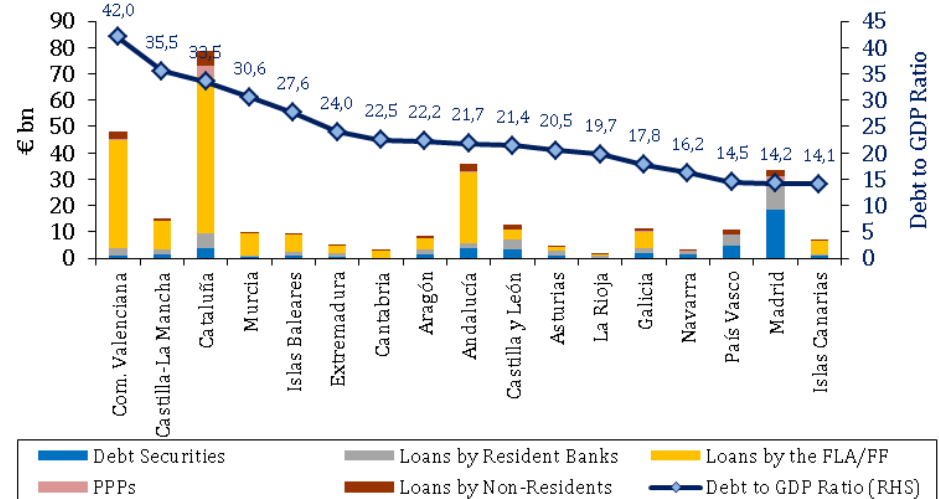
Source: Ministerio de Hacienda.

### Regional Government Net Lending (+)/ Borrowing (-) (% of regional GDP)



Source: Ministerio de Hacienda.

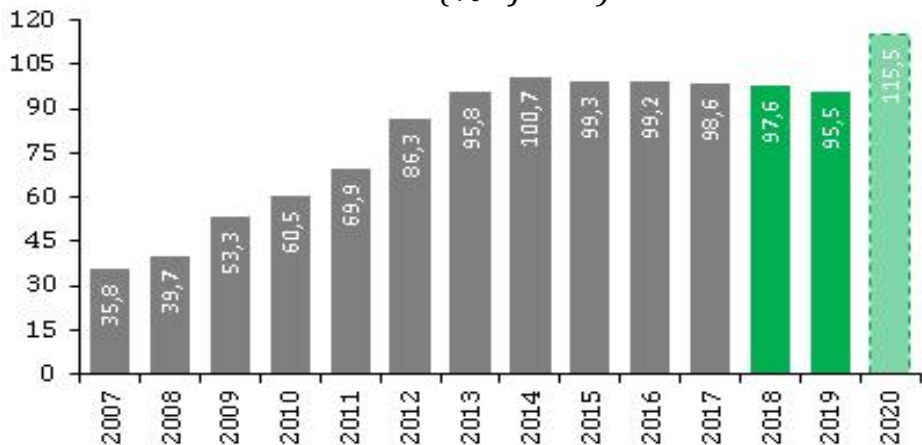
### Debt to GDP Ratios and Composition of Regional Debt (€ bn and % of GDP)



Source: Bank of Spain.

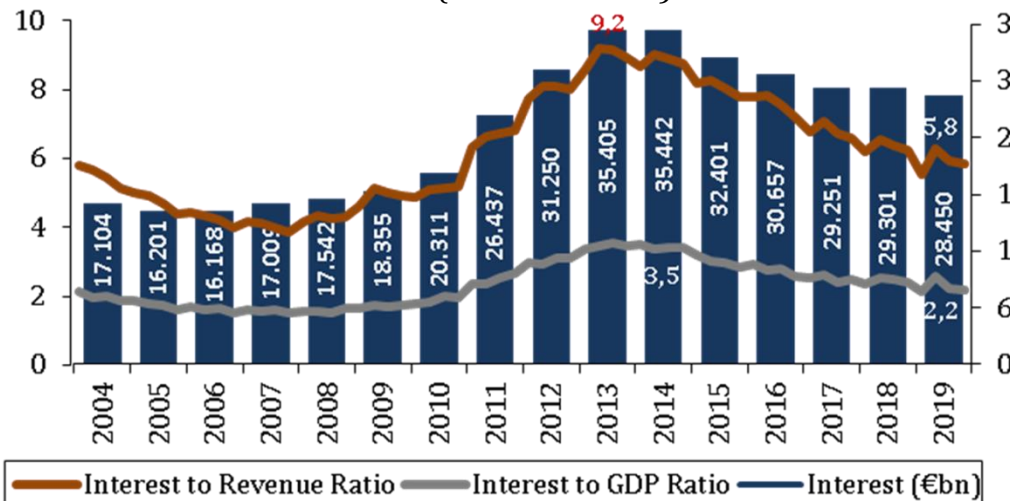
# Public & private debt sustainability

## General Government Debt. EDP (% of GDP)



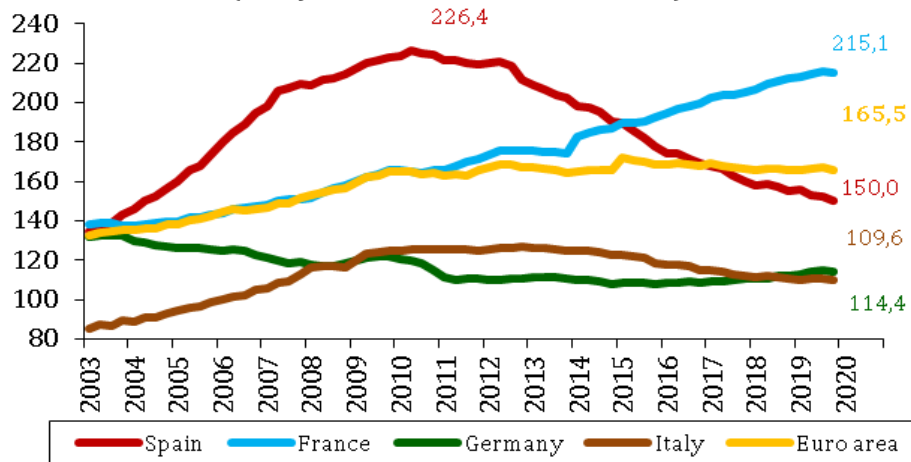
Source: Bank of Spain and Ministerio de Asuntos Económicos y Transf. Digital.

## General Government Interest Burden (In % and €bn)



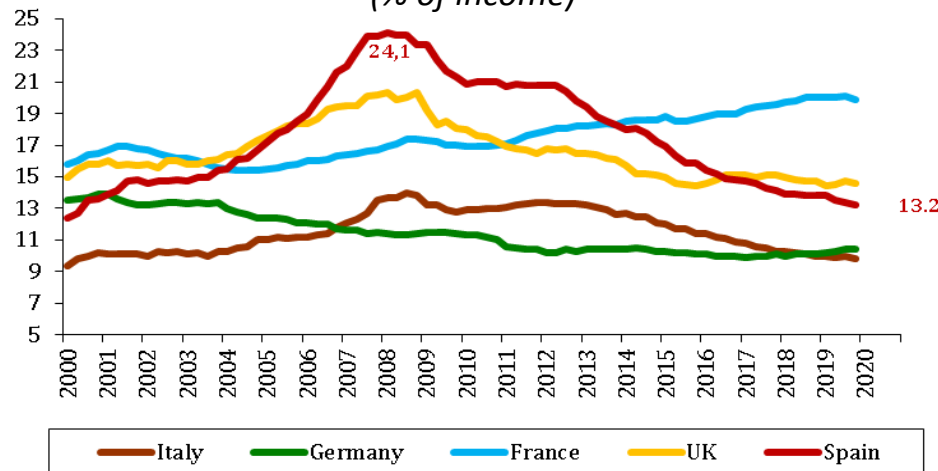
Source: Ministerio de Asuntos Económicos y Transformación Digital.

## Non-Financial Private Sector Debt Dynamics (% of GDP. Non-Consolidated)



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

## Non-Financial Private Sector Debt Service Ratio (% of income)

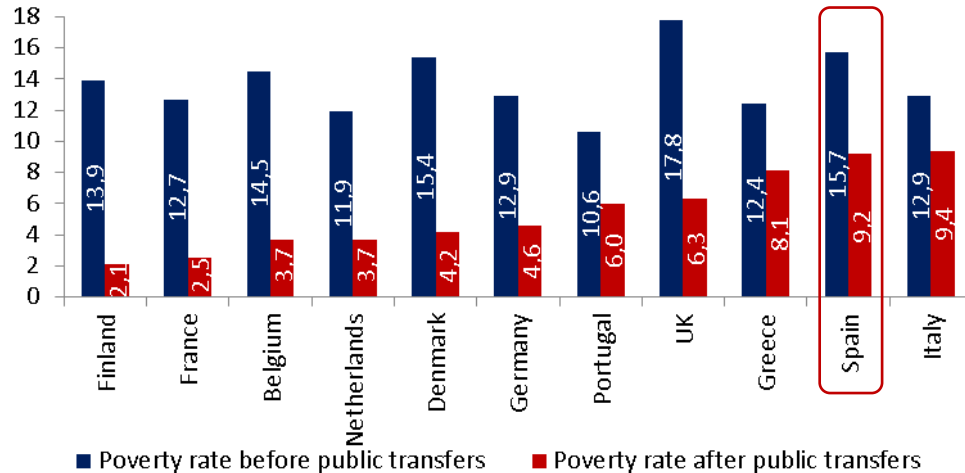


Source: BIS.

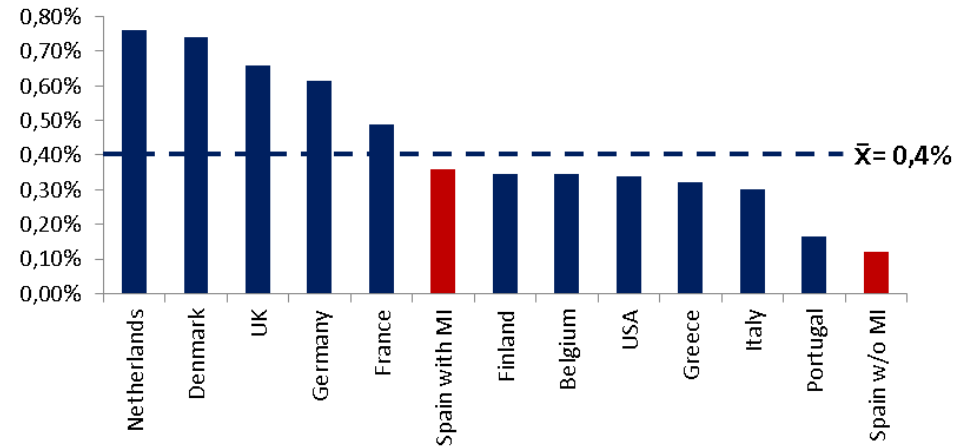
# National Minimum Income scheme as structural reform

- ▶ **Social Justice.** Spain's transfer system is less redistributive than peers'. The plan will benefit 850k households and 2.3m people, lift 1.6 million people out of extreme and very-high poverty.
- ▶ **Rationalisation** of existing regional minimum income schemes.
- ▶ **Productivity.** Promotes social inclusion, labour market participation ("make work pay" schemes), regional mobility, skills matching, training.
- ▶ **Transparency.** Recipients must report income. Ex post evaluation by permanent committee.
- ▶ **Economy.** It will place Spain in line with its peers in terms of spending as % GDP.

**Poverty Rate Before and After Public Transfers**  
(% of Population with Income below 40% of Median Income)



**Minimum Income Expenditure**  
(% of GDP)



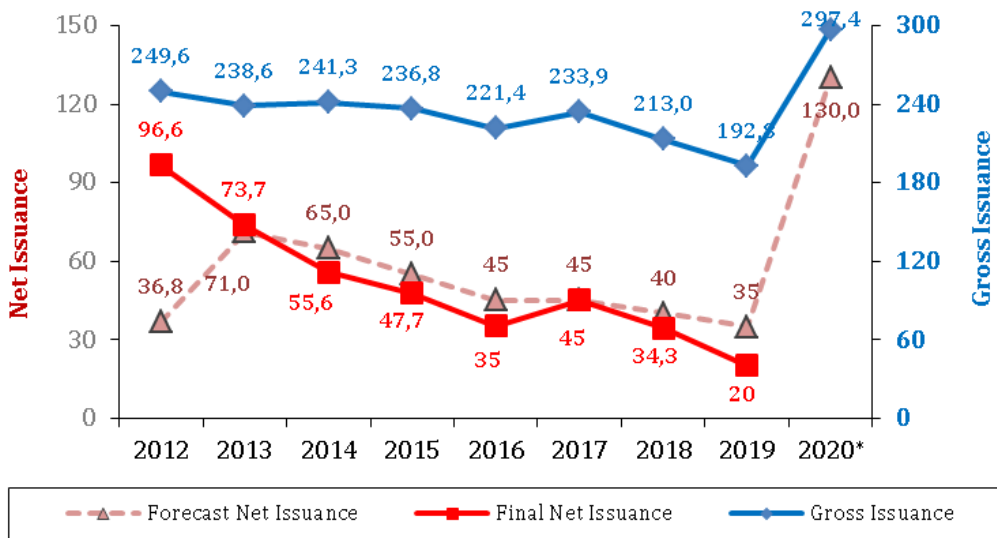
Source: EUROSTAT.

Source: Ministerio de Inclusión, Migraciones y Seguridad Social.

# The Treasury's funding programme in 2020

- ▶ Funding programme for 2020 revised in order to face the extra spending and the loss in revenue associated to the Covid-19 pandemic
- ▶ The revised funding programme is conservative given the various uncertainties (length of Covid-19 restrictions to economic activity, medium-term impact on productive structure)
- ▶ Significant frontloading of issuance already underway; in fact, YTD execution higher than 2019's

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



Source: Secretaría General del Tesoro y Financiación Internacional.

**Funding Programme in 2020**

(In billion euros and in effective terms)	Latest Forecast 2020	Variation	YTD execution %
<b>Total Net Issuance</b>	<b>130,000</b>	<b>97,500</b>	
<b>Total Gross Issuance</b>	<b>297,352</b>	<b>100,848</b>	<b>51,7%</b>
<i>Medium- and Long-term</i>			
Gross Issuance <sup>1</sup>	185,969	68,500	59,9%
Amortisation <sup>1</sup>	84,969	0	55,3%
Net Issuance <sup>1</sup>	101,000	68,500	
<i>Letras del Tesoro</i>			
Gross Issuance	111,383	32,348	37,9%
Amortisation	82,383	3,348	38,8%
Net Issuance	29,000	29,000	

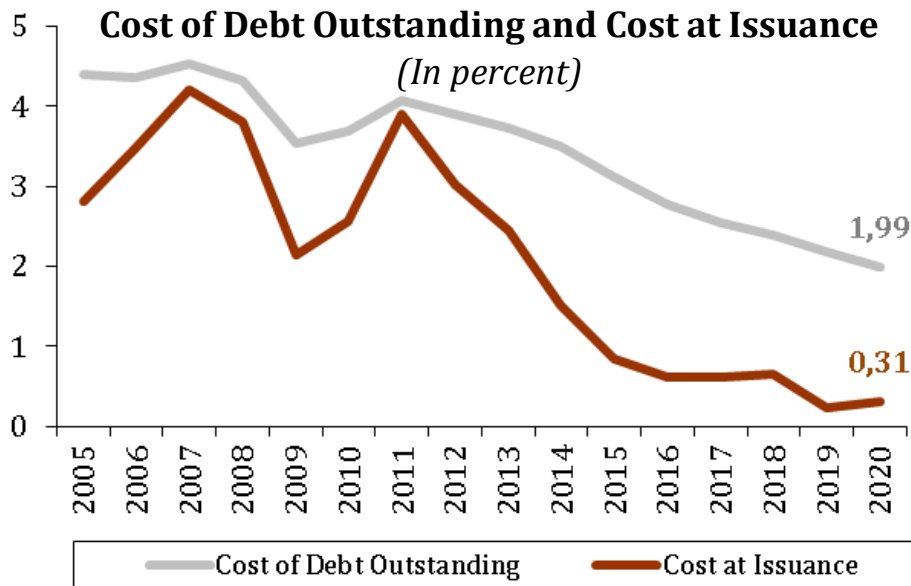
<sup>1</sup> Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

Source: Secretaría General del Tesoro y Financiación Internacional.



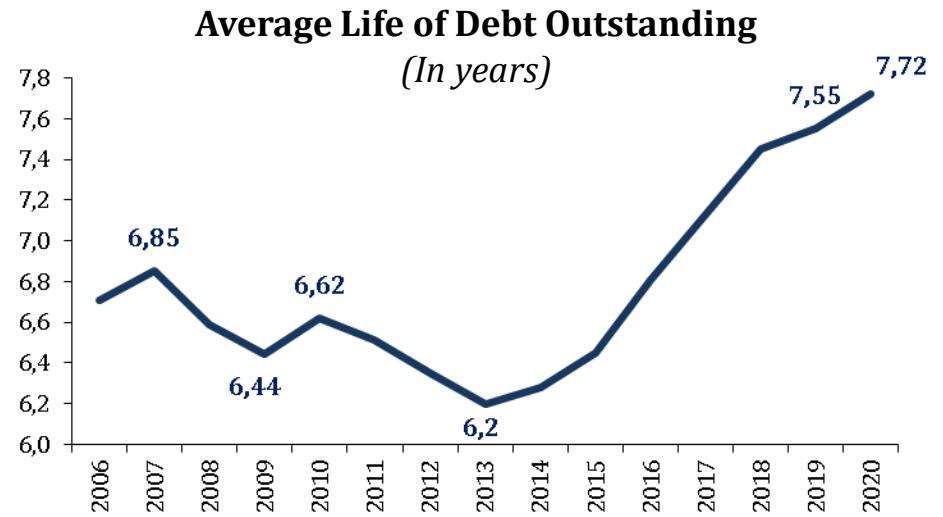
## Cost and life of debt: a longer portfolio at historically low rates

- ▶ Historic lows in average cost of debt outstanding (1.99%) and cost at issuance (0.31%)
- ▶ Since 2013 average life of debt outstanding has increased from 6.20 to 7.72 years



Source: Secretaría General del Tesoro y Financiación Internacional.

\*As of 08/06/2020

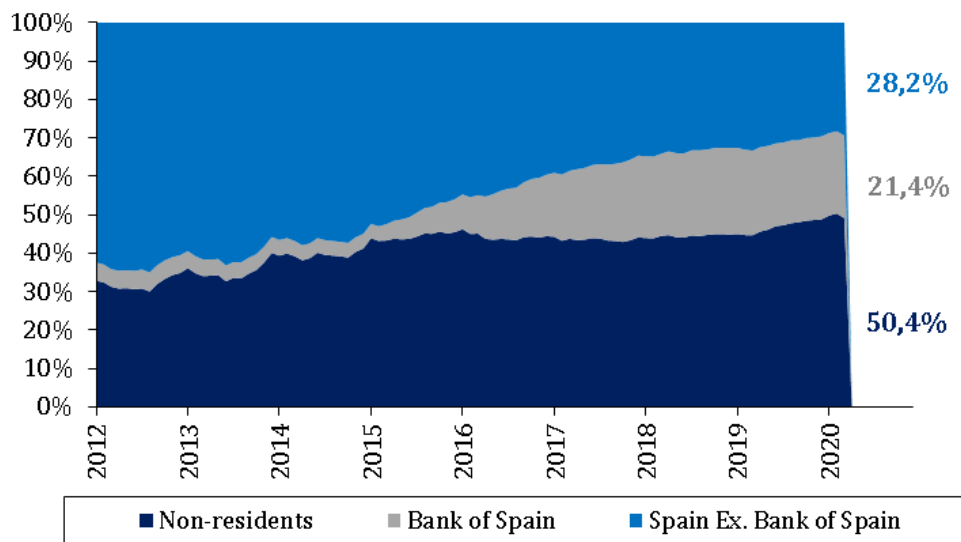


Source: Secretaría General del Tesoro y Financiación Internacional.



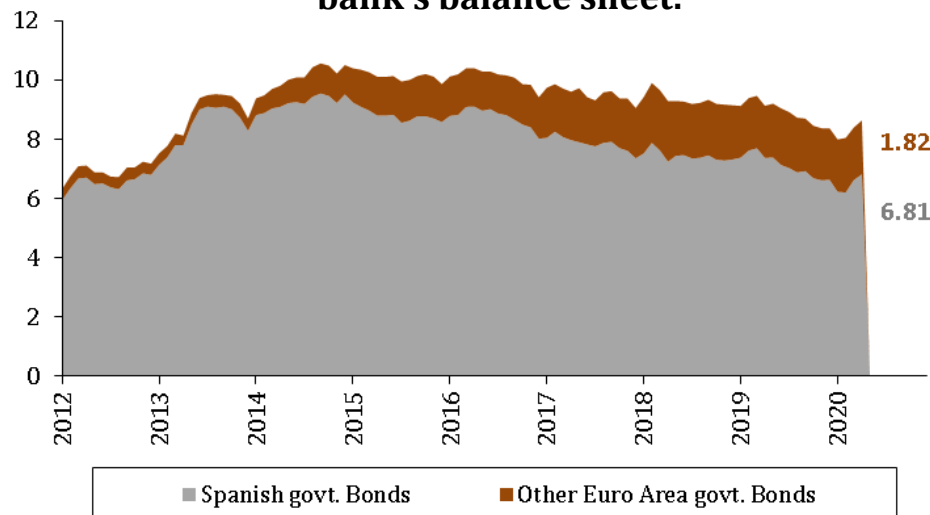
# Spanish investors' holdings of public debt at historic lows

### Holdings of Letras & Bonos and Obligaciones del Estado



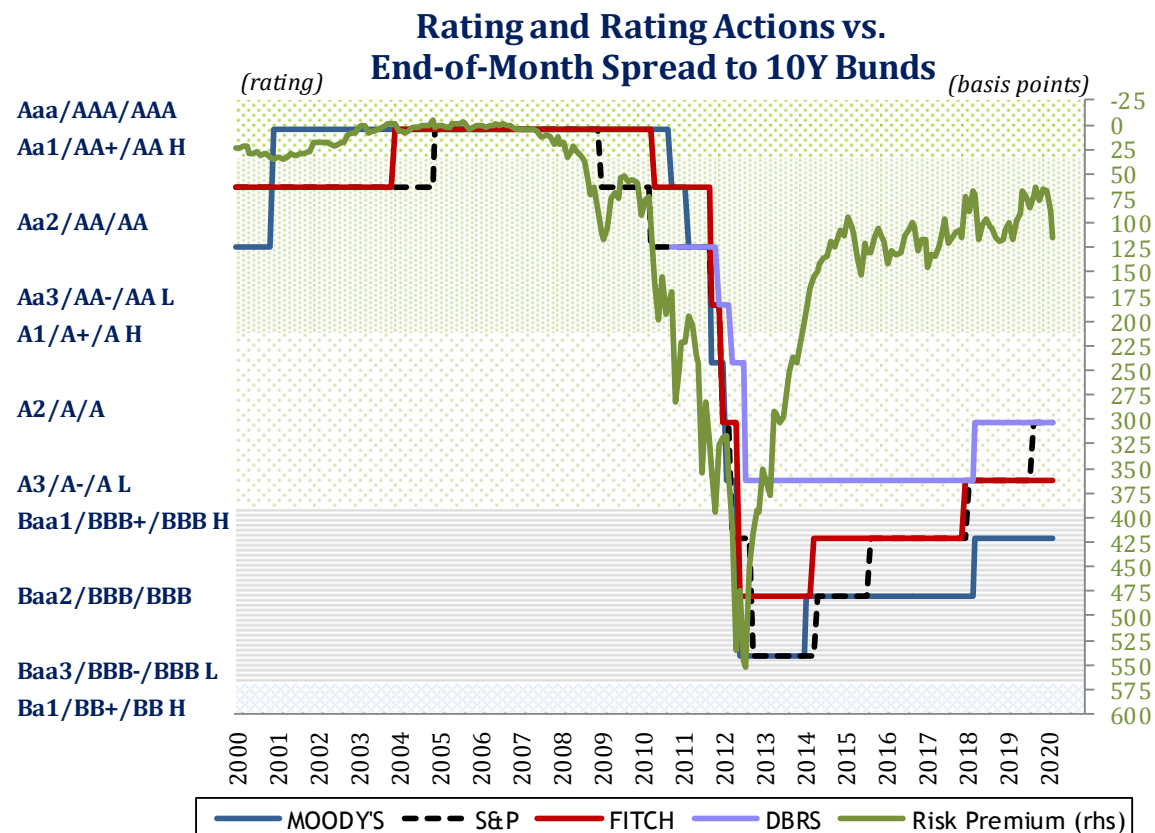
Source: Bank of Spain.  
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

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



Source: ECB.

# Ratings



Source: Ministerio de Asuntos Económicos y Transformación Digital.

### Announced Rating Dates in 2020

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

## Thank you for your attention

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