

Recent Developments in the Spanish Economy, Policy & Funding

December 2020

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Highlights

- ▶ Spain grew well above its peers from 2014 to 2019 amid significant deleveraging.
- ▶ In 2020 the impact of Covid-19 has been very significant, limited by short-term mitigation measures. Bold and timely package of direct budgetary support (5.3% GDP) and liquidity measures (15.3% GDP).
- ▶ Going forward, the government's growth-enhancing agenda will continue to be pursued, focusing on digitalization, the greening of the economy, gender equality and inclusiveness, notably leveraging resources from Next Generation EU.
- ▶ Commitment to resume the downward trend in the fiscal deficit and debt-to-GDP ratio as soon as output gap closes.
- ▶ Net government funding has been revised to €110bn in 2020, with €10bn coming from SURE. Funding costs are at historic lows: average cost of debt outstanding at 1.86% and cost at issuance at 0.18%. The expected net government funding in 2021 is around €110bn.
- ▶ Political consensus to take advantage of historic opportunity to enhance potential growth.

Macroeconomic scenario 2020-2021

Macroeconomic scenario (YoY growth rates in percent)													
	2017	2018	2019	2020				2020	2021			2021	
				q1	q2	q3	q4		q1	q2	q3	Inertial	Plan
Private consumption expenditure	3.0	1.8	0.9	1.1	0.4	1.2	1.0	-12.6	-6.1	-24.7	-10.2	8.3	10.7
General Government consumption expenditure	1.0	2.6	2.3	2.2	2.4	2.2	2.6	6.3	3.7	3.1	3.7	0.5	2.6
Gross Fixed Capital Formation	6.8	6.1	2.7	5.7	1.3	2.8	0.9	-18.3	-5.1	-25.8	-11.9	7.2	15.0
National Demand (Contribution to GDP Growth)	3.1	3.0	1.4	2.1	0.9	1.5	1.0	-9.7	-3.9	-18.8	-7.8	6.1	9.3
Exports of goods and services	5.5	2.3	2.3	1.1	3.2	2.7	2.1	-22.7	-5.6	-38.1	-17.0	11.7	18.0
Imports of goods and services	6.8	4.2	0.7	0.8	-0.1	2.0	0.3	-20.0	-5.4	-33.5	-15.7	8.6	17.1
External demand (Contribution to GDP Growth)	-0.2	-0.5	0.6	0.1	1.2	0.3	0.7	-1.5	-0.2	-2.7	-0.9	1.1	0.5
Gross Domestic Product	3.0	2.4	2.0	2.2	2.1	1.8	1.7	-11.2	-4.2	-21.5	-8.7	7.2	9.8

Other variables													
	2017	2018	2019	2020				2020	2021			2021	
				q1	q2	q3	q4		q1	q2	q3	Inertial	Plan
Unemployment rate (in % of Active Population)	17.2	15.3	14.1	14.7	14.0	13.9	13.8	17.1	14.4	15.3	16.3	16.9	16.3
Full-time Equiv. Employment (YoY Growth)	2.9	2.6	2.3	2.8	2.5	1.8	2.1	-8.4	-0.5	-18.4	-5.5	5.6	7.2
Net lending (+)/borrowing (-) with RoW (% of GDP)	3.0	2.4	2.5	2.2	2.4	2.4	2.5	1.4	2.5	1.8	-	1.4	1.1
Private Consumption deflator (YoY Growth)	1.5	1.5	1.0	1.0	1.5	0.7	0.8	0.0	1.1	0.2	0.1	0.9	0.9
Headline Balance General Gov't (in % of GDP)*	-3.0	-2.5	-2.9	-2.5	-2.8	-2.7	-2.9	-11.3	-3.4	-6.9	-	-7.7	-7.7
USD /€ exchange rate	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Euro Area GDP growth (YoY growth)	2.7	1.9	1.3	1.5	1.3	1.4	1.0	-8.0	-3.3	-14.8	-4.3	5.0	5.0
Oil prices (Brent, USD /barrel)	54.3	70.9	64.8	63.1	69.7	62.2	64.4	42.6	51.0	27.8	43.3	46.6	46.6

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

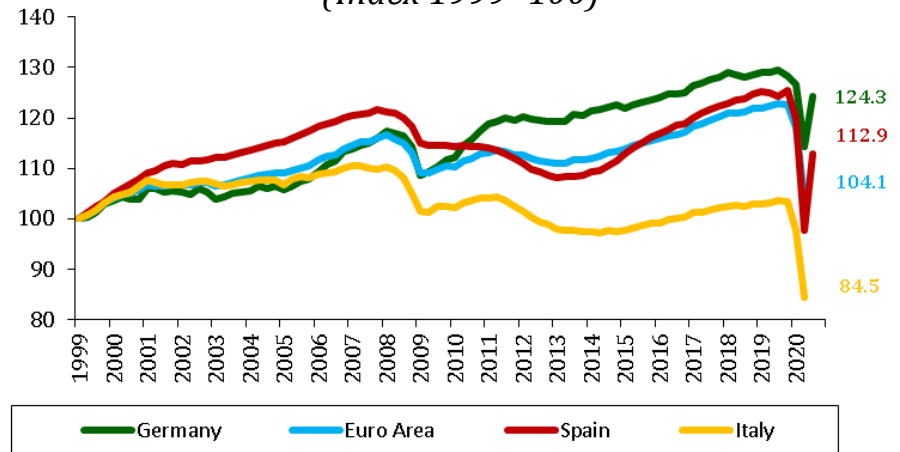
Shaded areas are realisations. In white, forecasts contained in the Macroeconomic Scenario Update - Oct 2020.

Spain has recorded six years of strong and sustainable growth...

- ▶ Strong growth, above euro area average. More balanced sectoral composition of GDP and growth pattern.
- ▶ Very dynamic job creation, significant competitiveness gains and persistent current account surpluses.
- ▶ Strong impact of Covid-19 (tourism-related activities, average firm size, openness, population density).

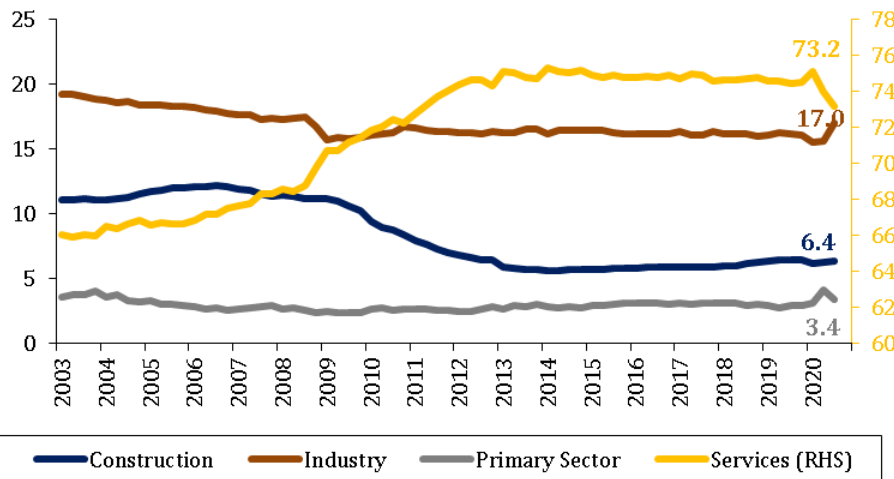
Growth pattern

Real per capita GDP volume
(Index 1999=100)



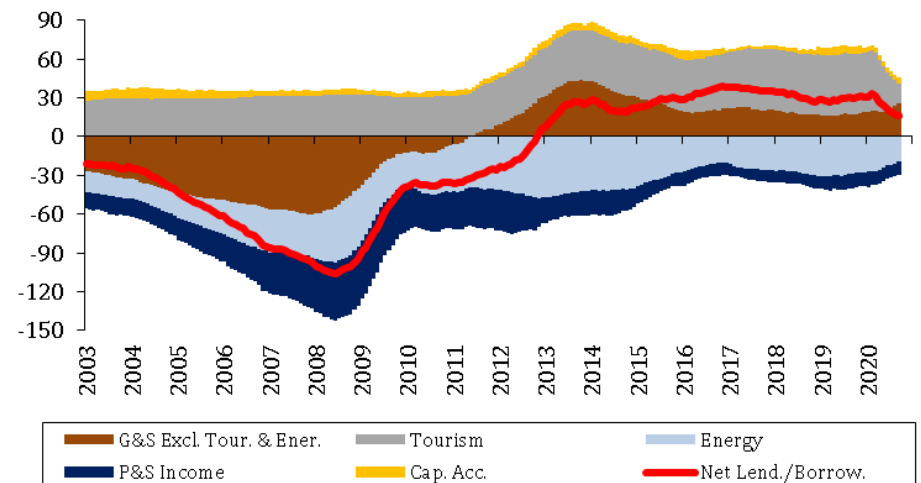
Source: EUROSTAT.

Gross value added
(In % of GDP)



Source: Instituto Nacional de Estadística.

Breakdown of the Current Account & Capital Account
(€ bn. 12-Month Rolling Sums)

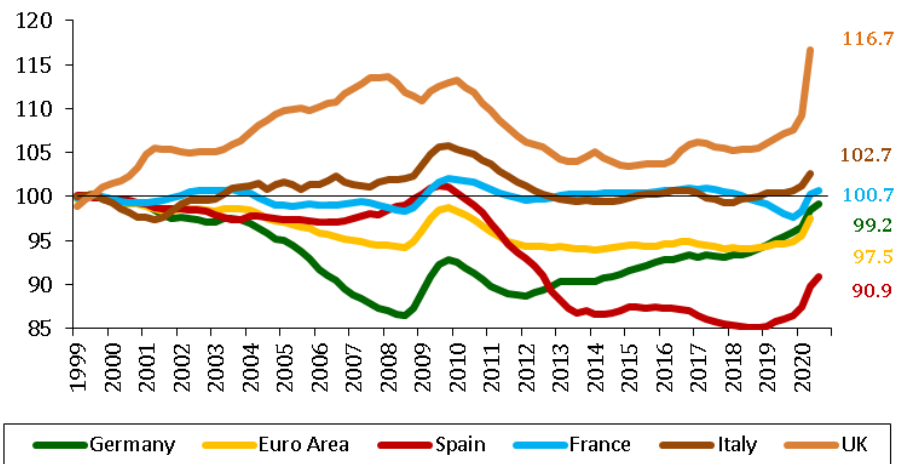


Source: Instituto Nacional de Estadística and Bank of Spain.

...following a structural transformation and correction of past imbalances

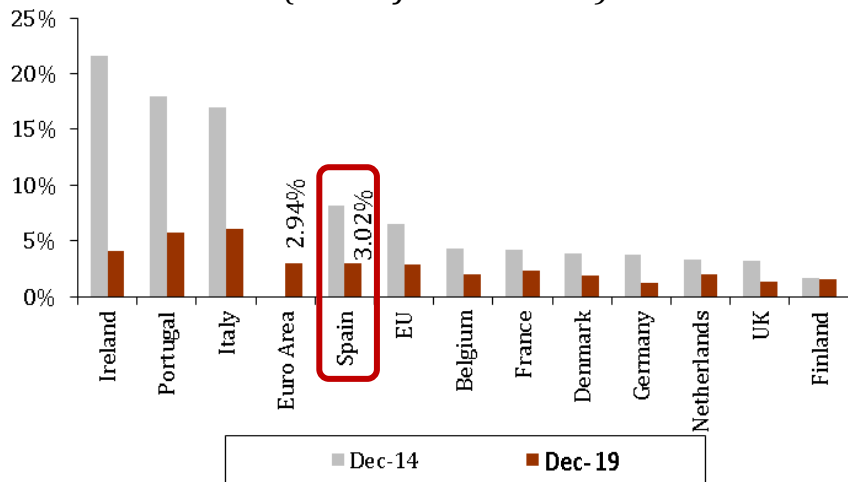
- ▶ A sizeable de-risking in the financial sector, notably by banks.
- ▶ A remarkable deleveraging of both the private and public sector.
- ▶ Shows our capacity and willingness to overcome severe economic challenges.
- ▶ We are also much better equipped to withstand the current Covid-19 shock.

Real Unit Labour Costs
(Index 1999=100, Smoothed)



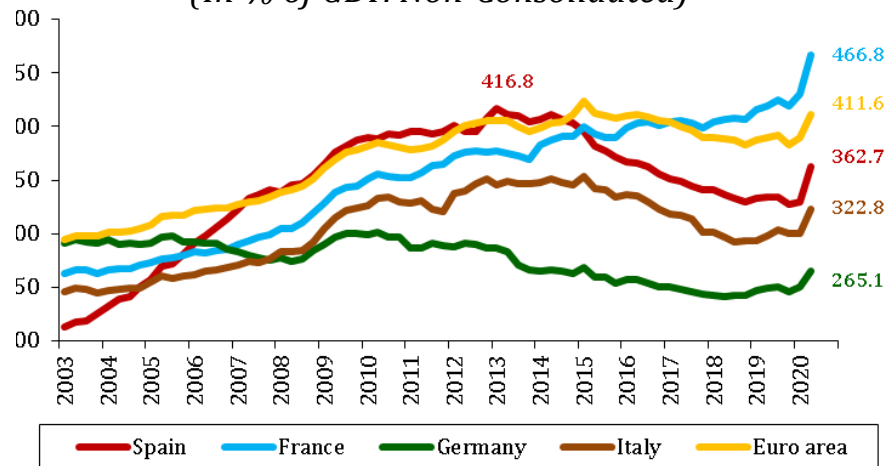
Source: EUROSTAT.

Harmonised NPL ratio
(In % of Total Loans)



Source: World Bank.

Total economy debt dynamics
(In % of GDP. Non-Consolidated)



Source: Instituto Nacional de Estadística and Bank of Spain.

Immediate response to the Covid-19 shock

- ▶ Timely, bold and targeted policy response, to cushion short-term impact of the crisis.

Ensure the continuity of productive activity:

- **€100bn in guarantees for corporates and self-employed with liquidity issues against all sort of financial debt.**
- €40 billion in guarantees to boost investment.
- €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.
- €10bn Solvency Support Fund for strategic companies.
- €4.2bn Support programme for the tourism sector.
- €3.75bn Support programme for the car industry.

Reinforce the fight against the disease:

- Centralized provision and price regulation of fundamental products.
- €1bn extra funding and €2.8bn cash advance to regions for healthcare expenditure.
- **€16bn in direct transfers to the regions (Covid Fund) that will finance healthcare and education expenses.**
- 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:

- **Significant use of furlough procedures (ERTE), which have been made more flexible**
- 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.

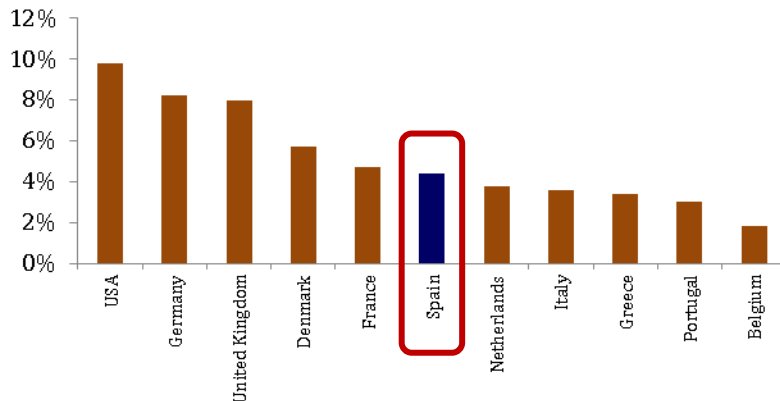
Protect the most vulnerable:

- €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.
- Protection against energy poverty for vulnerable citizens
- Guarantee of basic utilities (water, electricity, natural gas) for home consumption

Policy approach in line with peers

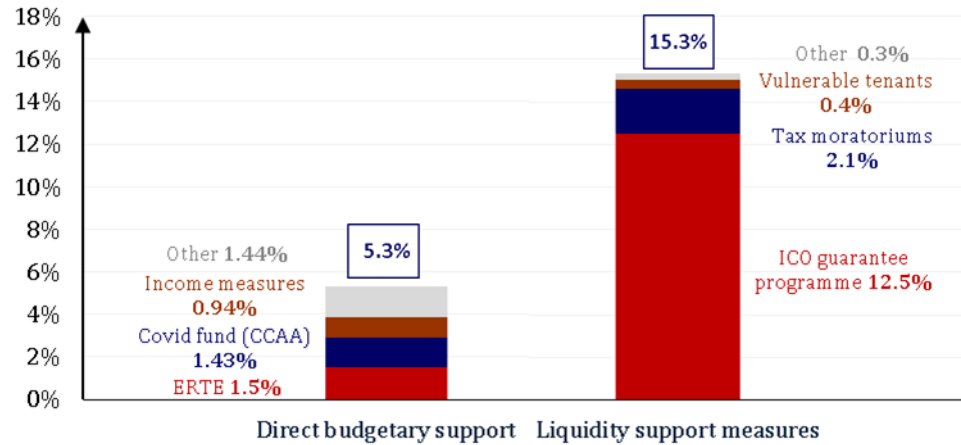
- ▶ Similar policy approach and degree of support accross EU countries.
- ▶ Spain's relatively stronger liquidity assistance, while also firmly supporting households and businesses through direct budgetary measures.
- ▶ Government Covid Fund (€16bn) has been crucial to support additional regional expenditure on healthcare.

Direct budgetary support
(in percent of GDP)



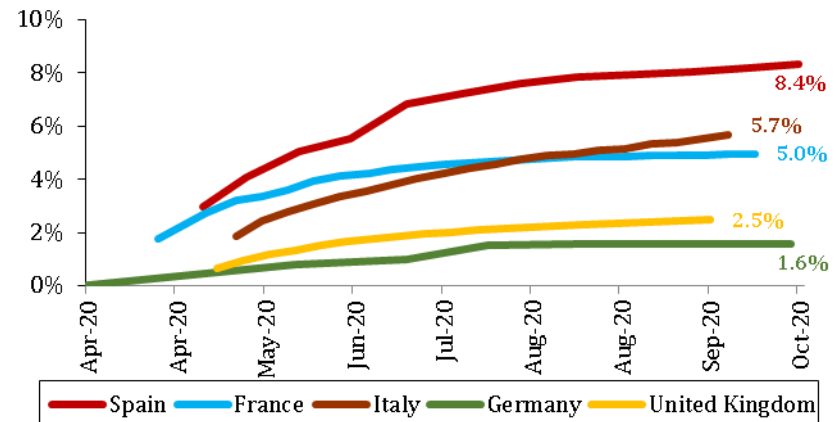
Source: Bruegel.

Direct budgetary and liquidity support measures
(in percent of GDP)



Source: Ministerio de Asuntos Económicos y Transformación Digital.

Financing mobilized by liquidity support measures
(in percent of GDP)

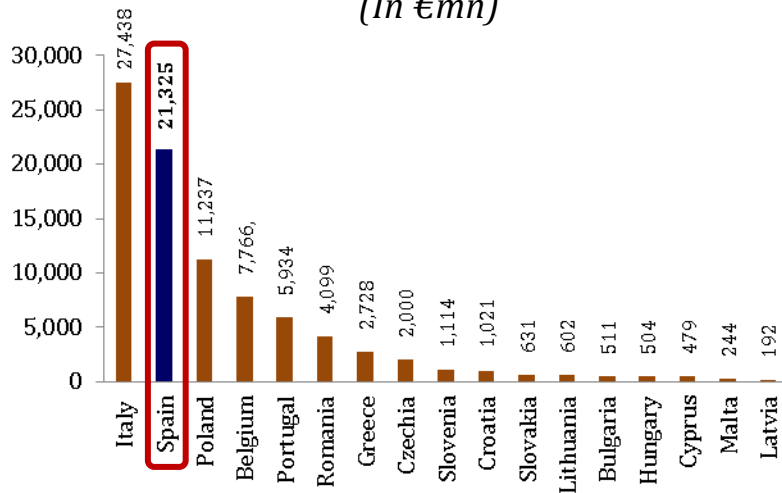


Source: : ICO, Banca d'Italia , Etalab.fr, KfW , UK Treasury.

Temporary furlough scheme (ERTEs)

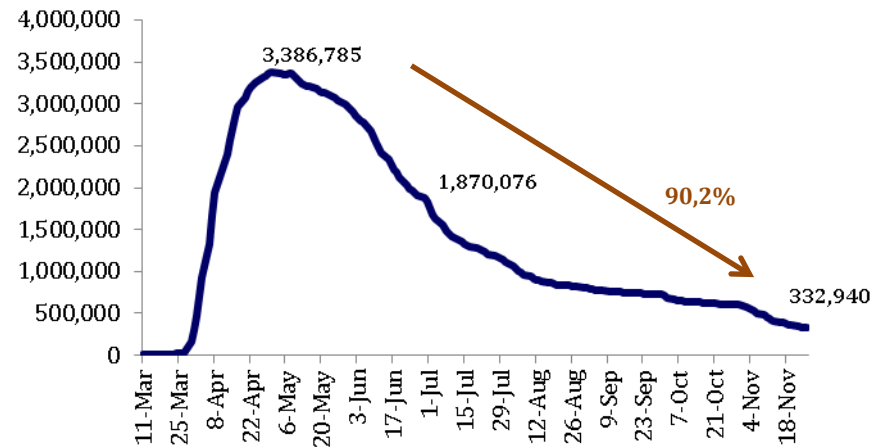
- ▶ With the objective of minimizing the social and economic impact of the pandemic, **Spain's ERTEs have allowed to protect millions of jobs.**
- ▶ More than **€21.3bn in EU funds from SURE** disbursed between 2020 and 2021 (around €10bn in 2020) will contribute to its financing.
- ▶ The **steady decrease of workers under ERTEs** shows the recovery underway and the **effectiveness of the measure.** ERTEs extended until January 2021.
- ▶ **Social Security affiliations** are improving, with the most important increase in the number of workers since 2006, surpassing once again **19 million workers.**

EU funds under SURE
(In €mn)



Source: European Commission.

Number of workers on furlough scheme

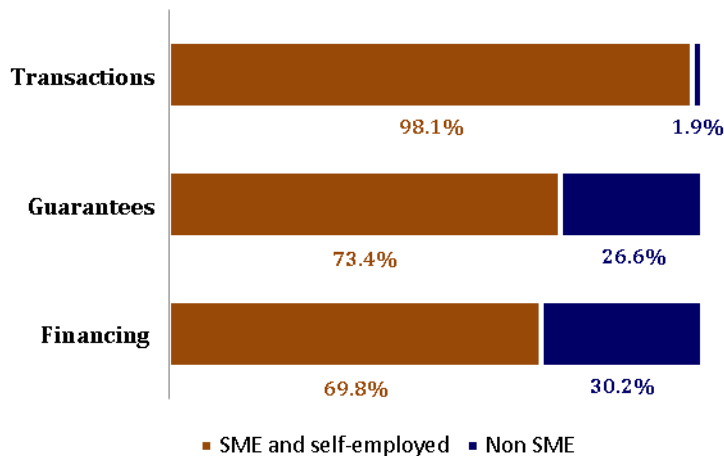


Source: Ministerio de Inclusión, Seguridad Social y Migraciones.

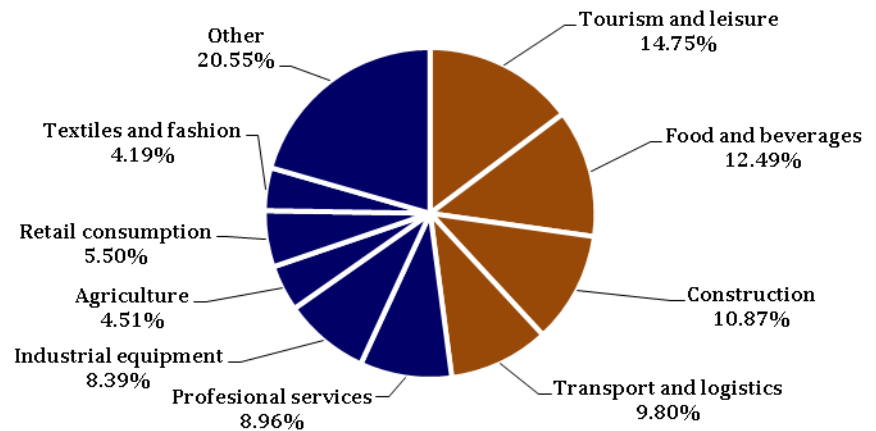
Government Public Guarantees

- ▶ Programme of **100bn€ of public guarantees** (through ICO) to loans granted by financial institutions to firms and the self-employed. More than **880,000 financing operations guaranteed**, corresponding to 567,000 enterprises.
- ▶ The scheme has provided more than **€82bn in guarantees**, allowing to mobilize more than **€108bn in financing** to secure the private sector's liquidity needs. Up to 74% of the transactions with micro-SMEs and the self-employed.
- ▶ In mid November, the Government decided to allow its beneficiaries to **extend maturities** and **deferral periods** to avoid that some liquidity issues might turn into solvency problems.

Distribution between SME and non SME



Distribution among sectors (in percent)

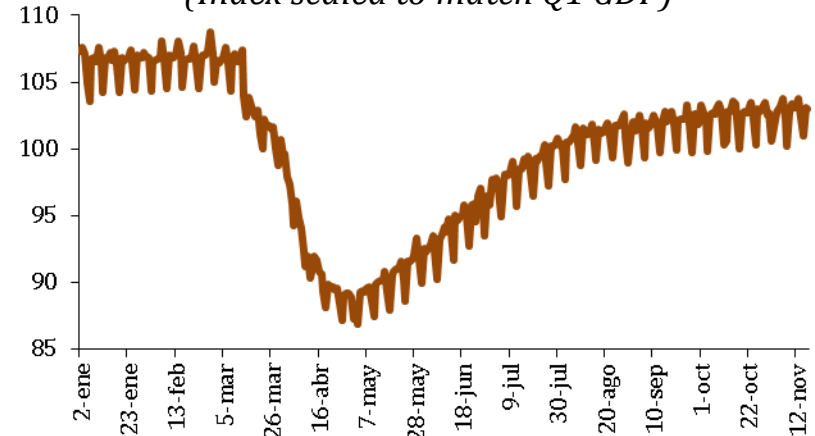


Source: Instituto de Crédito Oficial.

Indicators show a recovery in activity

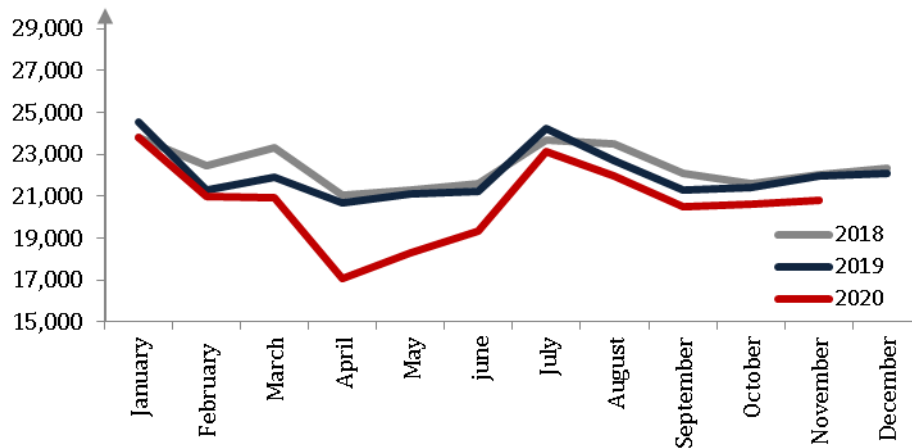
- ▶ After severe contraction in Q2, the ongoing recovery is taking hold following an **asymmetric-V-shaped trajectory**.
- ▶ A 16.7% q-o-q GDP growth in Q3. Policy measures have proven to be effective.
- ▶ Significantly lower impact of the second wave of the pandemic. Risk to be carefully managed.

Daily activity indicator
(Index scaled to match Q1 GDP)



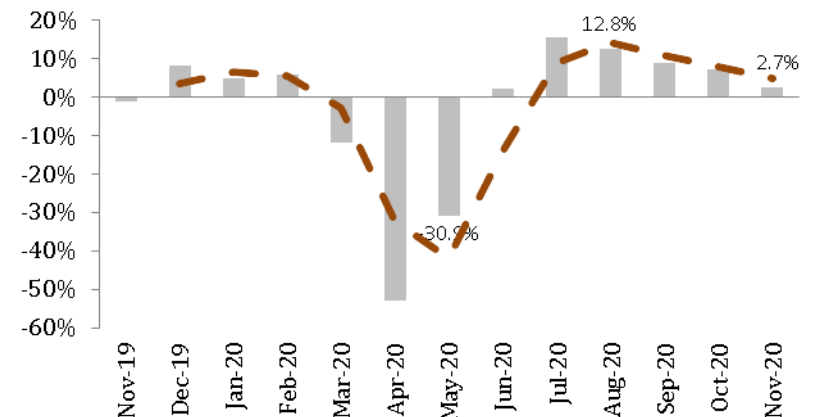
Source: Ministerio de Asuntos Económicos y Transformación Digital

Monthly electricity consumption
(Gwh)



Source: Red Eléctrica de España.

Industrial sector: 3 month production expectations
(monthly growth rate)



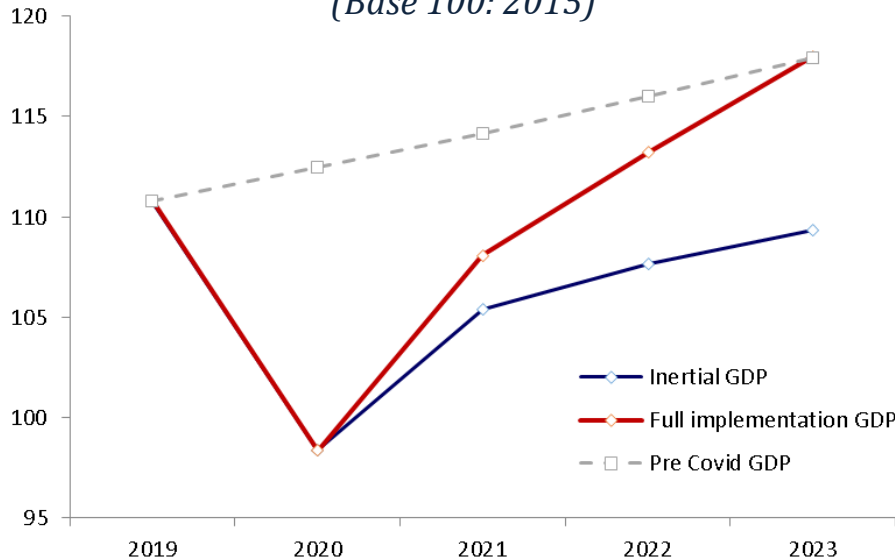
Source: Ministerio de Industria, Comercio y Turismo.

Spain's Recovery, Resilience and Transformation Plan

► Supported by **Next Generation EU**, the Spanish RRT Plan foresees to deploy €140bn in public investment and to mobilize up to **€500bn** in private investment. This is expected to lift Spain's growth potential above 2%. Four overarching objectives and ten policy areas.



GDP projections
(Base 100: 2015)

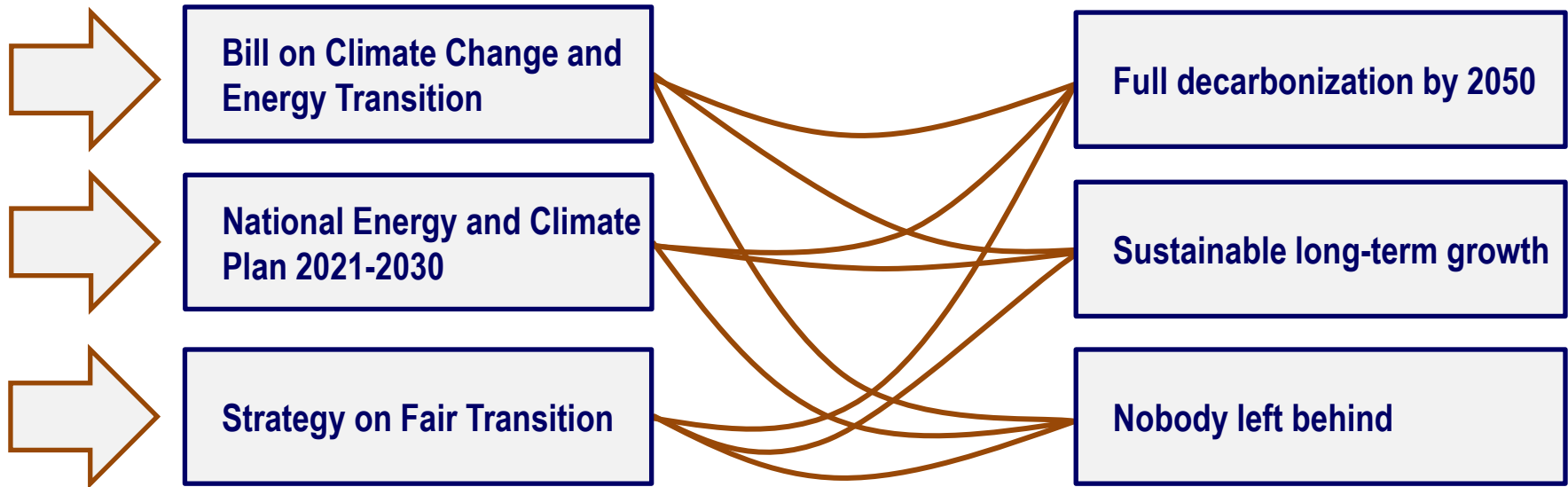


Source: Ministerio de Asuntos Económicos y Transformación Digital

1.	Urban and rural agenda	16.0%
2.	Ecosystems and infrastructures	12.2%
3.	Energy transition	8.9%
4.	21st century public administration	5.0%
5.	Modernization and digitalisation	17.1%
6.	Science and innovation	16.5%
7.	Education and knowledge	17.6%
8.	Employment and social care	5.7%
9.	Cultural industry	1.1%
10.	Retrofitting of the fiscal system	-

Climate and Energy Strategic Framework

- Spain is fully committed to the **sustainability agenda**. The government supports the UN's Paris Agreement and SDGs, as well as the EU Climate and Energy Framework.



- By 2030 this will allow us to achieve...

23% GHG emission reduction from 1990 levels

39.5% expected improve in energy efficiency

42% of renewables over final energy consumption

74% of electricity from renewable sources (100% in 2050)

A digital transformation for Spain: “España Digital 2025”

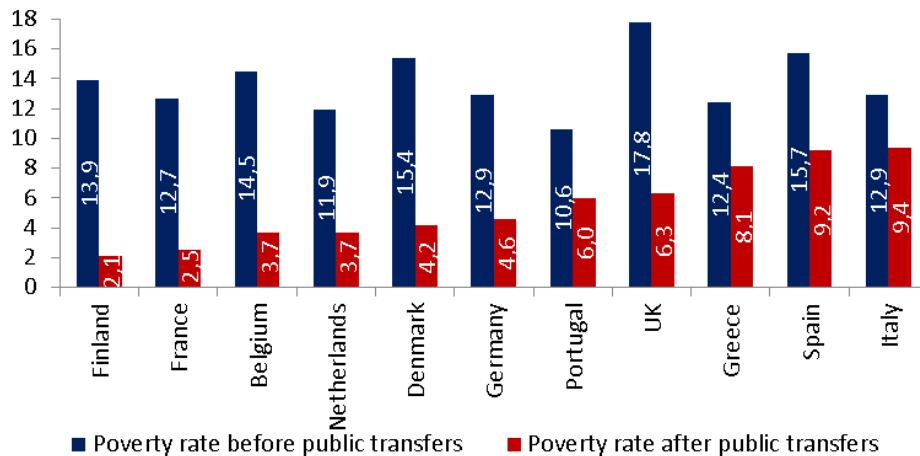
► Structural reforms aiming to the **digitalization of the economy** and the **deployment of public and private investments**, aligned with a more inclusive and sustainable growth.

1.	Digital connectivity	Coverage of 100 Mbps for all the population.
2.	5G deployment	100% of the radio spectrum prepared for 5G technology .
3.	Digital skills	Basic digital skills for 80% of the population (50% women).
4.	Cyber security	20,000 new cyber security experts .
5.	Digital administration	At least 50% of public services available in mobile apps .
6.	Digital SME and start-ups	25% of SME overall business volume in e-commerce .
7.	Structural swift projects	10% reduction in CO₂ emissions thanks to digitalization.
8.	Audiovisual industry	Increasing by 30% audiovisual production in Spain.
9.	Data based economy	25% of enterprises using AI and big data .
10.	Citizen's rights	Endorse a National Charter for Digital Rights .

National Minimum Income scheme as structural reform

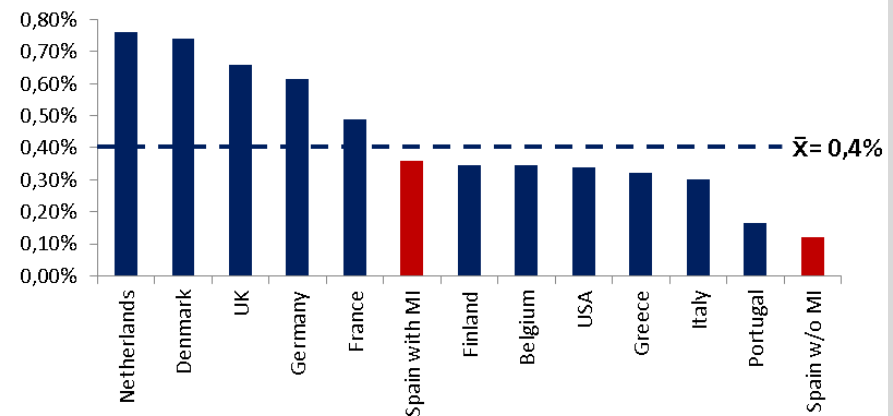
- ▶ **Social Justice.** Spain's transfer system is less redistributive than peers. The plan will benefit 850k households and 2.3m people, lift 1.6 million people out of extreme and very-high poverty.
- ▶ **Rationalisation** of existing regional minimum income schemes.
- ▶ **Productivity.** Promotes social 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
(In percent of population below 40% of median income)



Source: EUROSTAT.

Minimum income over GDP
(In percent)



Source: Ministerio de Inclusión, Migraciones y Seguridad Social.

Macroeconomic projections and RRT Plan full implementation impact

► The RRT Plan will allow to boost Spanish growth in 2021, notably leveraging the green and digital transitions.

	2020	2021		2021*
Nominal GDP	-11.2%	8.1%	→	10.8%
Real GDP	-11.2%	7.2%	→	9.8%
Private cons.	-12.6%	8.3%	→	10.7%
Public cons.	6.3%	0.5%	→	2.6%
Investment	-18.3%	7.2%	→	15.0%
Exports	-22.7%	11.7%	→	18.0%
Imports	-20.0%	8.6%	→	17.1%
Employment	-8.4%	5.6%	→	7.2%

Bounded uncertainty: what we don't know... and what we do.

- ▶ **COVID dynamics** remains key: tackling the outbreak would minimize the economic cost.

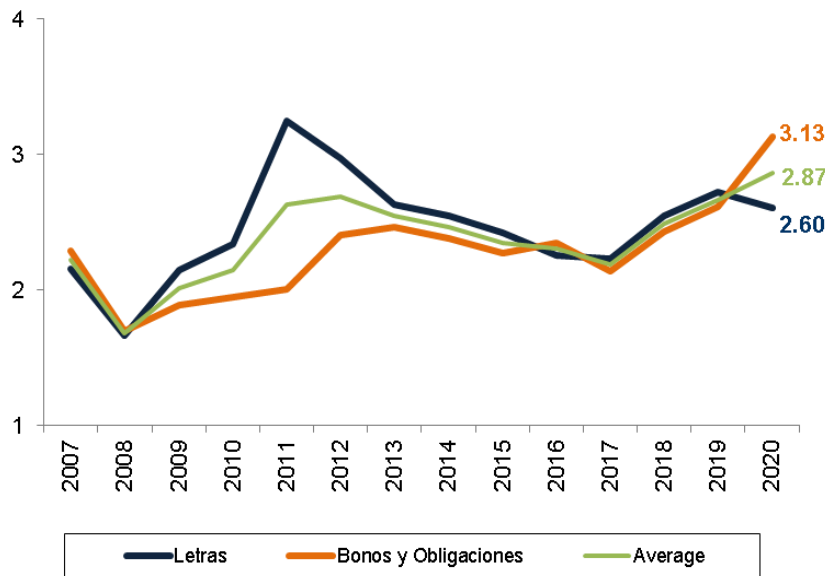
EVOLUTION OF THE PANDEMIC	HYSTERESIS	IMPLEMENTATION OF THE PLAN	BREXIT AND TRADE TENSIONS
<ul style="list-style-type: none"> ❖ If there are new confinement measures or a delay in vaccine distribution ❖ ...but Spain's incidence is falling without full confinement. 	<ul style="list-style-type: none"> ❖ If damage to production capacity is greater than currently expected, especially in vulnerable sectors ❖ ...but Social Security affiliation data are surprising on the upside. 	<ul style="list-style-type: none"> ❖ If the Plan is implemented partially in Spain or in other European economies ❖ ...but Spain is frontloading an ambitious reform and investment programme. 	<ul style="list-style-type: none"> ❖ If no deal affects trade, and therefore certain exposed sectors (including tourism) ❖ ...but encouraging geopolitical developments improve prospects for trade.

- ▶ Some positive news narrow the range of outcomes:
 - ❖ Spain Q3 q-o-q growth of 16.7% makes many pessimistic 2020 estimates less likely
 - ❖ Multiannual Financial Framework approval making progress in EU
 - ❖ Encouraging news in vaccine research

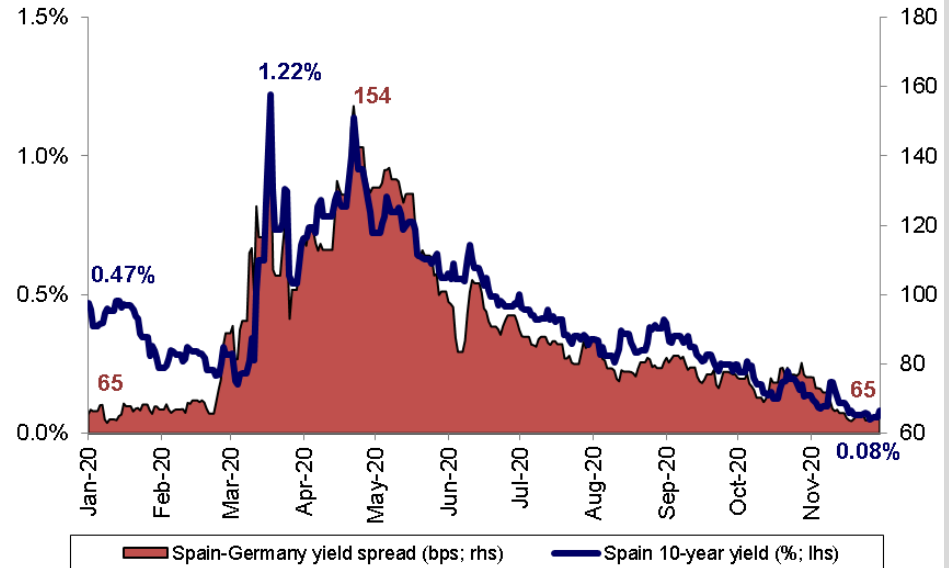
Treasury's funding programme and market access

- ▶ Funding programme for 2020 has been revised in November, due to the prudent estimates of tax and non-tax revenues in spring.
- ▶ Good market access. Despite higher issuance, demand for SPGBs has increased more than proportionally. The bid-to-cover ratio of medium & long-term instruments has surged.
- ▶ The yield of the 10 year Bono increased at the beginning of the pandemic, but then fell below January levels. The risk premium followed a similar trend.

Bid-to-cover ratio



Spain 10-year yield and spread vs Bund

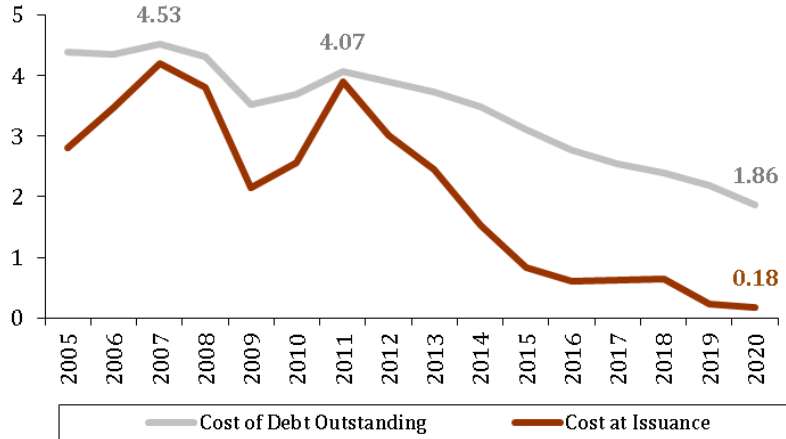


Source: Secretaría General del Tesoro y Financiación Internacional.

Source: Bloomberg

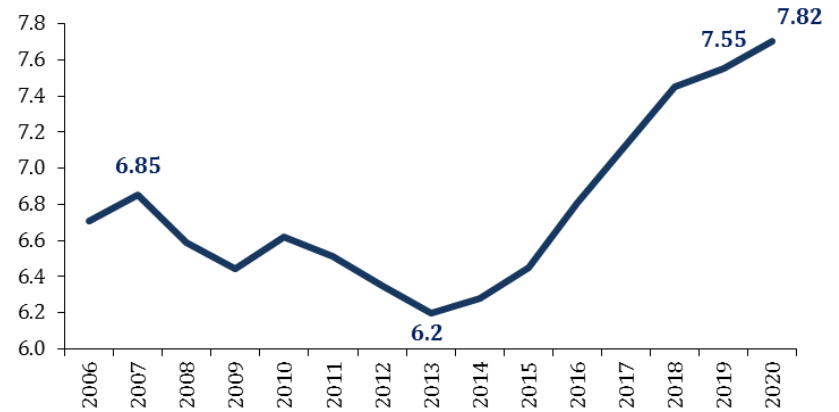
Cost and life of debt: a longer-dated portfolio at historically low rates

Cost of Debt Outstanding and Cost at Issuance
(In percent)



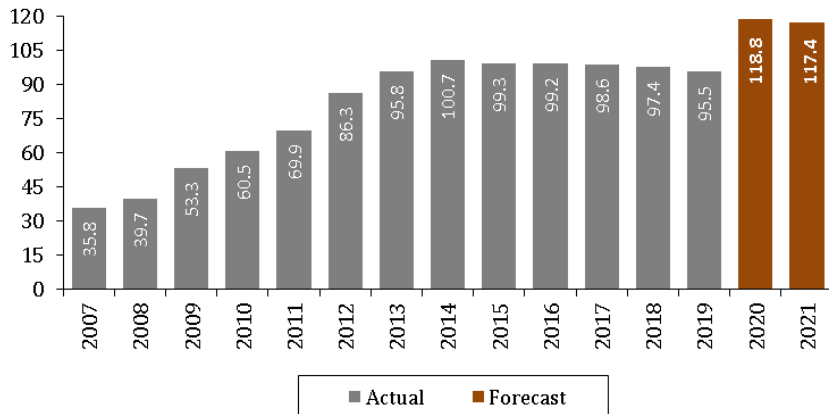
Source: Secretaría General del Tesoro y Financiación Internacional.

Average Life of Debt Outstanding
(In years)



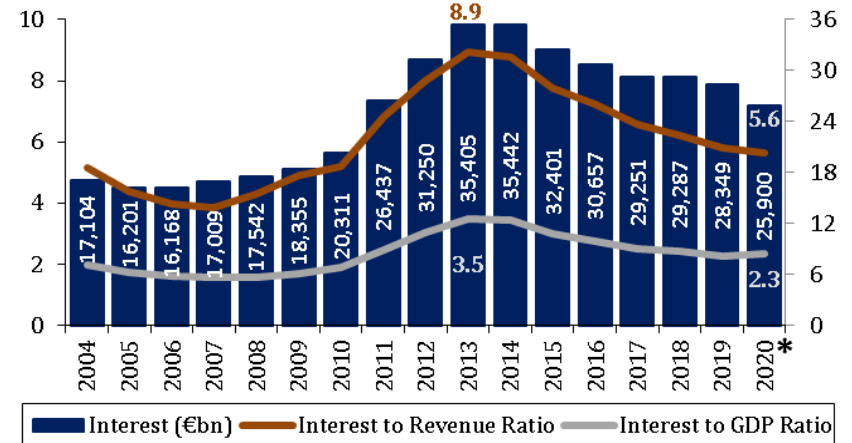
Source: Secretaría General del Tesoro y Financiación Internacional.

General Government Debt. EDP
(% of GDP)



Source: Bank of Spain and Ministerio de Asuntos Económicos.

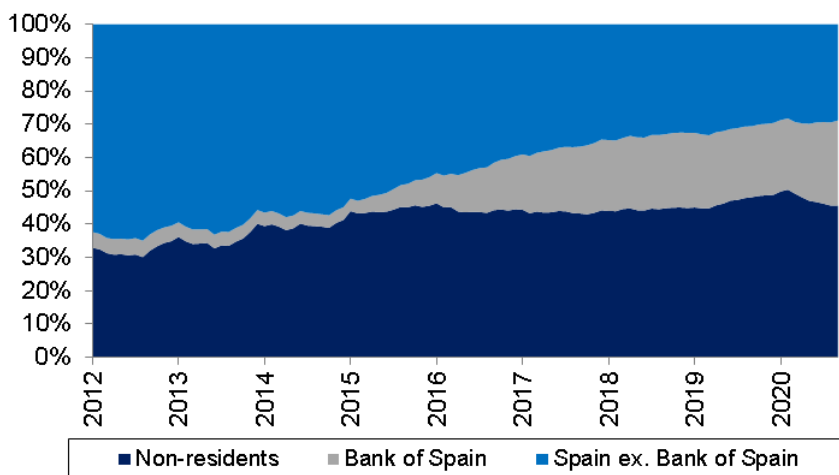
Interest burden over GDP and public expenses
(In percent)



Source: Secretaría General del Tesoro y Fin. Int.; Data 2020: Spain's DBP 17

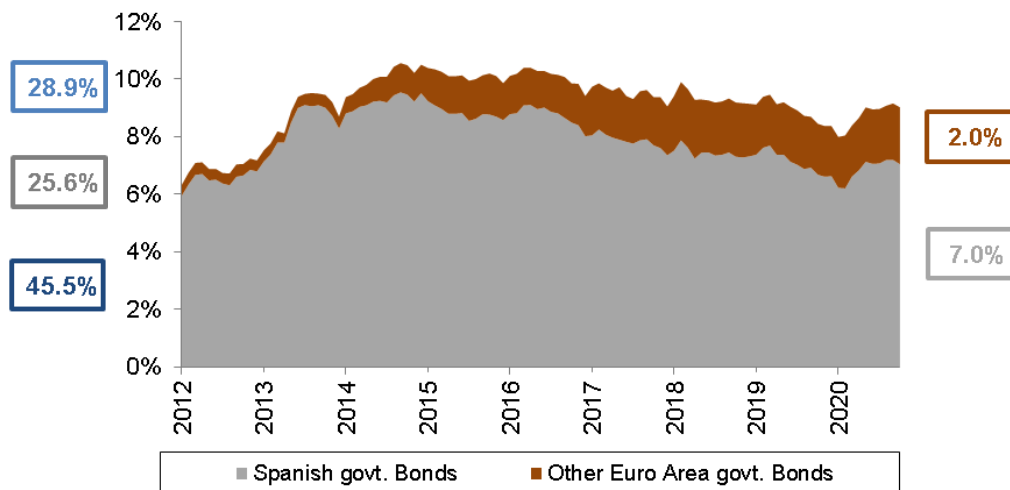
Spanish investors' holdings of public debt at historic lows

Holdings of Letras & Bonos and Obligaciones del Estado



Source: Bank of Spain.

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



Source: ECB.

€52bn have been issued through 5 syndications in 2020

	Reference	Date	Amount Bid (million Euro)	Allotted (million Euro)	% Non-residents	% IO + Pens/Insur.	% FM + Treasuries
0.50% Apr. 2030	10 years	14/01/2020	52,147	10,000	73.4%	27.7%	63.7%
1.00% Oct. 2050	30 years	25/02/2020	17,936	5,000	90.7%	59.7%	37.6%
0.80% Jul. 2027	7 years	24/03/2020	36,651	10,000	61.7%	23.2%	65.2%
1.25% Oct. 2030	10 years	22/04/2020	96,593	15,000	79.2%	19.1%	70.8%
1.20% Oct. 2040	20 years	09/06/2020	78,300	12,000	83.3%	20.5%	70.0%

2021 Funding Programme: diversified funding sources

- ▶ For 2021, financing needs in net terms add to €110bn. Most of it will be obtained through medium and long-term issues.
- ▶ New funding mix (SURE, RRF), which requires a higher degree of flexibility in the issuance front.

Funding Programme

<i>(In billion euros and in effective terms)</i>	Forecast 2020	Forecast 2021
Total Net Issuance	110.000	110.000
Total Gross Issuance	277.137	299.138
Medium- and Long-term		
<i>Gross Issuance¹</i>	183.469	194.380
<i>Of which SURE</i>	10.000	11.325
<i>Amortisation¹</i>	84.969	94.380
<i>Net Issuance¹</i>	98.500	100.000
<i>Of which SURE</i>	10.000	11.325
Letras del Tesoro		
<i>Gross Issuance</i>	93.668	104.758
<i>Amortisation</i>	82.168	94.758
<i>Net Issuance</i>	11.500	10.000

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

² Issuance revised following announcement on 24th November

Funding Sources

2020	2021
Capital Market Issuance	Capital Market Issuance
Revenues	Revenues
Regions Early Redemptions	Regions Early Redemptions
SURE	SURE
	RRF

Source: Ministerio de Asuntos Económicos y Transformación Digital.

Thank you for your attention

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