

Recent Developments in the Spanish Economy, Policy & Funding

February 2021

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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. The smooth implementation of recovery plans will be key in 2021 and onwards.
- ▶ Commitment to resume the downward trend in the fiscal deficit and debt-to-GDP ratio as soon as output gap closes.
- ▶ Net government funding is expected to be around €100bn in 2021, below the €110bn that were executed in 2020. Funding costs are at historic lows: average cost of debt outstanding at 1.85% and cost at issuance at 0.02%.
- ▶ Political consensus to take advantage of historic opportunity to enhance potential growth.

Macroeconomic scenario 2020-2021

Macroeconomic scenario (YoY growth rates in percent)													
	2014	2015	2016	2017	2018	2019	2020					2021	
								Q1	Q2	Q3	Q4	Inertial	Plan
Private consumption expenditure	1.7	2.9	2.7	3.0	1.8	0.9	-12.4	-6.0	-24.9	-10.4	-8.3	8.3	10.7
General Government consumption expenditure	-0.7	2.0	1.0	1.0	2.6	2.3	4.5	3.8	3.2	3.8	7.0	0.5	2.6
Gross Fixed Capital Formation	4.1	4.9	2.4	6.8	6.1	2.7	-12.4	-5.2	-24.5	-9.1	-11.0	7.2	15.0
National Demand (Contribution to GDP Growth)	1.9	3.9	2.0	3.1	3.0	1.4	-9.0	-3.9	-18.7	-7.2	-6.3	6.1	9.3
Exports of goods and services	4.5	4.3	5.4	5.5	2.3	2.3	-20.9	-5.6	-37.8	-19.3	-20.6	11.7	18.0
Imports of goods and services	6.8	5.1	2.6	6.8	4.2	0.7	-16.8	-5.3	-32.5	-15.4	-14.1	8.6	17.1
External demand (Contribution to GDP Growth)	-0.5	-0.1	1.0	-0.2	-0.5	0.6	-1.9	-0.2	-2.9	-1.8	-2.7	1.1	0.5
Gross Domestic Product	1.4	3.8	3.0	3.0	2.4	2.0	-11.0	-4.2	-21.6	-9.0	-9.1	7.2	9.8

Other variables													
	2014	2015	2016	2017	2018	2019	2020					2021	
								Q1	Q2	Q3	Q4	Inertial	Plan
Unemployment rate (in % of Active Population)	24.4	22.1	19.6	17.2	15.3	14.1	15.5	14.4	15.3	16.3	16.1	16.9	16.3
Full-time Equiv. Employment (YoY Growth)	1.0	3.2	2.8	2.9	2.6	2.3	-7.5	-0.5	-18.4	-5.5	-5.4	5.6	7.2
Net lending(+)/borrowing(-) with RoW (% of GDP)	2.1	2.7	3.4	3.0	2.4	2.5	1.4	2.5	1.8	1.3	--	1.4	1.1
Private Consumption deflator (YoY Growth)	0.1	-0.1	0.2	1.5	1.5	1.0	0.2	1.0	0.2	0.0	-0.4	0.9	0.9
Headline Balance General Gov't (in % of GDP)*	-5.9	-5.2	-4.3	-3.0	-2.5	-2.9	-11.3	-3.4	-6.9	-8.1	--	-7.7	-7.7
USD/€ exchange rate	1.3	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2
Euro Area GDP growth (YoY growth)	1.4	2.0	1.8	2.8	1.9	1.3	-6.8	-3.2	-14.7	-4.4	-5.1	5.0	5.0
Oil prices (Brent, USD/barrel)	99.4	52.2	43.3	54.3	70.9	64.8	41.5	51.0	27.8	43.3	44.0	46.6	46.6

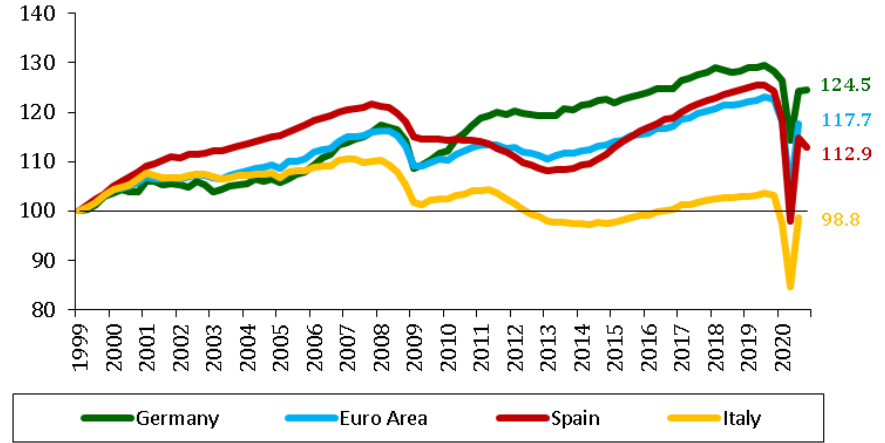
* Including Financial Sector One-Offs

Sources: Ministerio de Asuntos Económicos y Transformación Digital and Ministerio de Hacienda.
 Shaded areas are realisations. In white, forecasts contained in the Macroeconomic Scenario Update - Oct 2020.

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

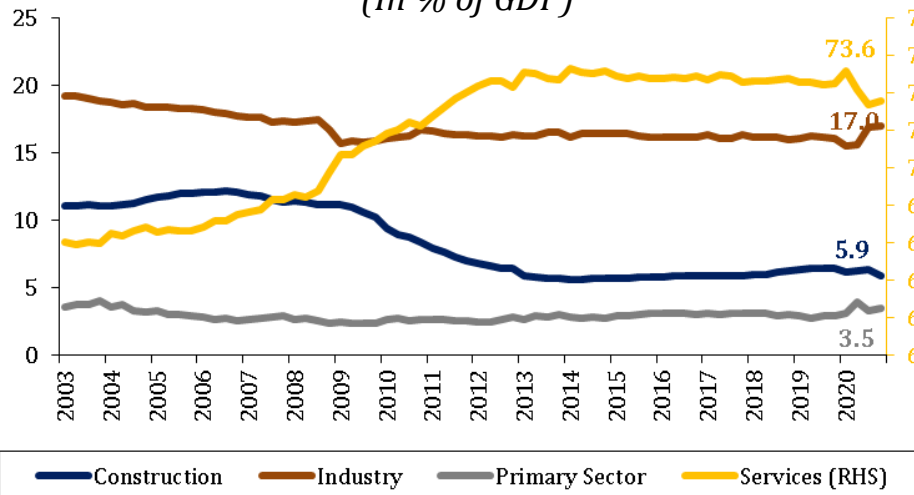
- ▶ Strong growth, above euro area average. More balanced sectoral composition of GDP and growth pattern.
- ▶ Very dynamic job creation, significant competitiveness gains and persistent current account surpluses.
- ▶ Strong impact of Covid-19 (tourism-related activities, average firm size, openness,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

Real per capita GDP volume
(Index 1999=100)



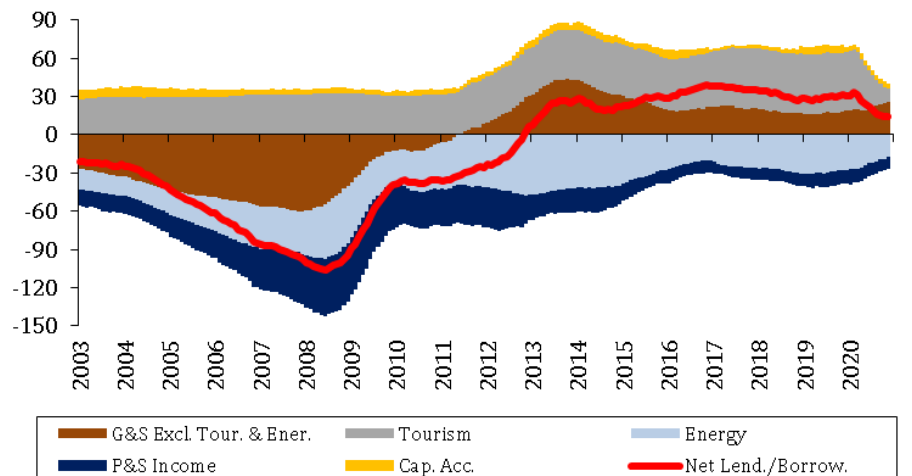
Source: EUROSTAT.

Gross value added
(In % of GDP)



Source: Instituto Nacional de Estadística.

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

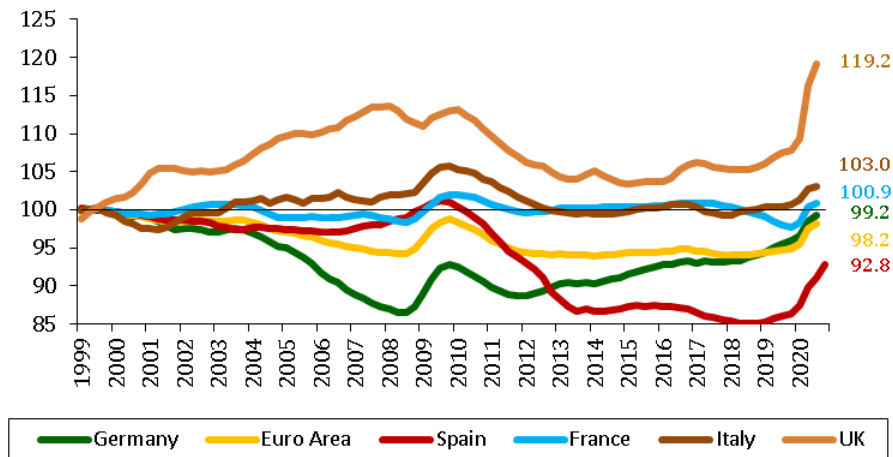


Source: Instituto Nacional de Estadística and Bank of Spain.

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

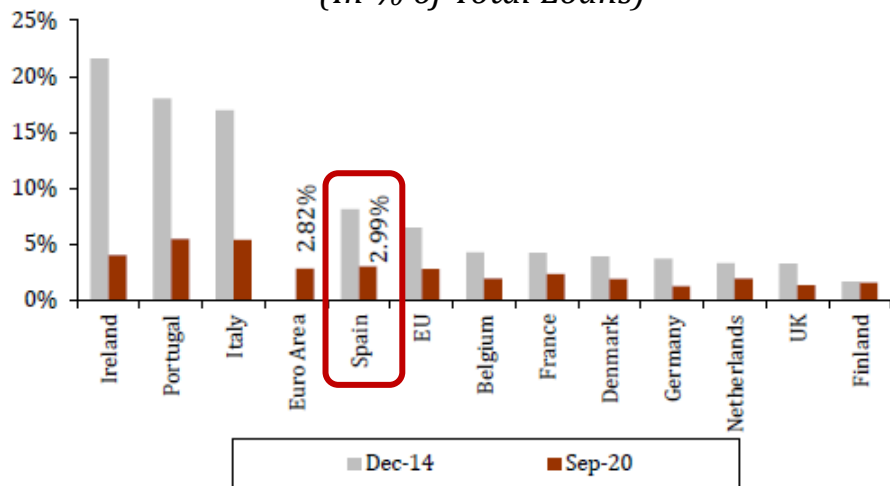
- ▶ A sizeable de-risking in the financial sector, notably by banks.
- ▶ A remarkable deleveraging of both the private and public sector.
- ▶ Shows our capacity and willingness to overcome severe economic challenges.
- ▶ We are also much better equipped to withstand the current Covid-19 shock.

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



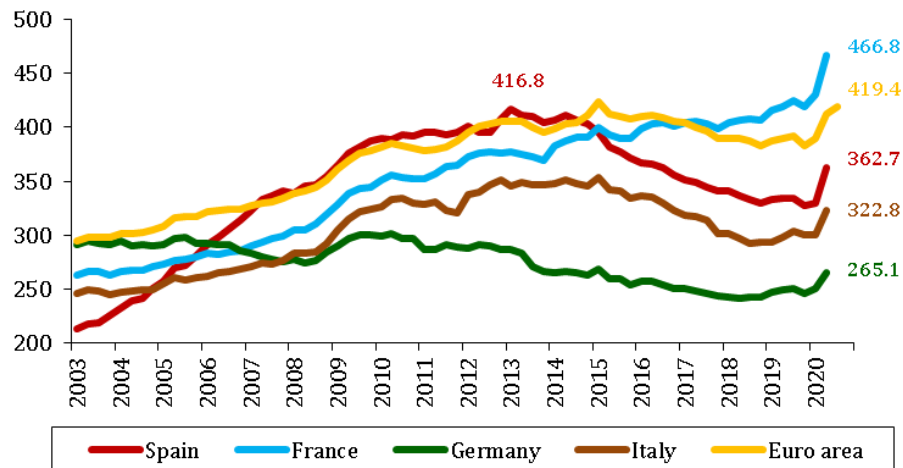
Source: EUROSTAT.

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.

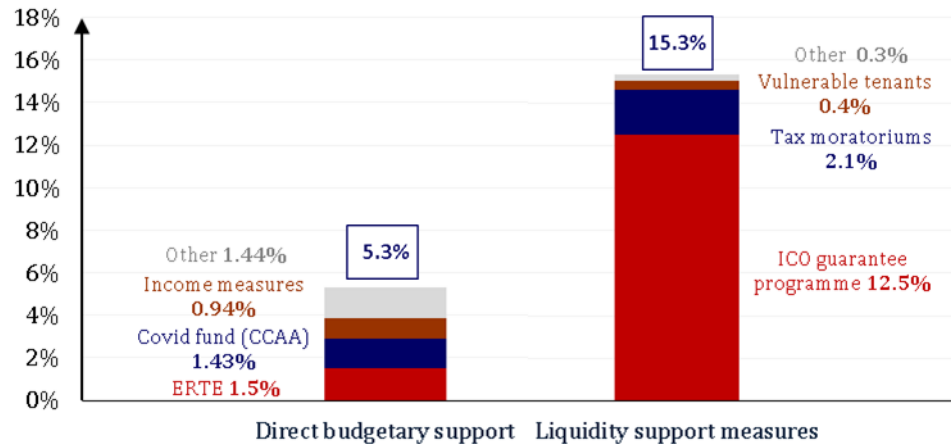
Protect the most vulnerable:

- €25mn euros in meal grants for the regions.
- **Mortgage loan, rent payments and other personal loan deferral for vulnerable collectives, prorrogued in line with EBA guidelines.**
- €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

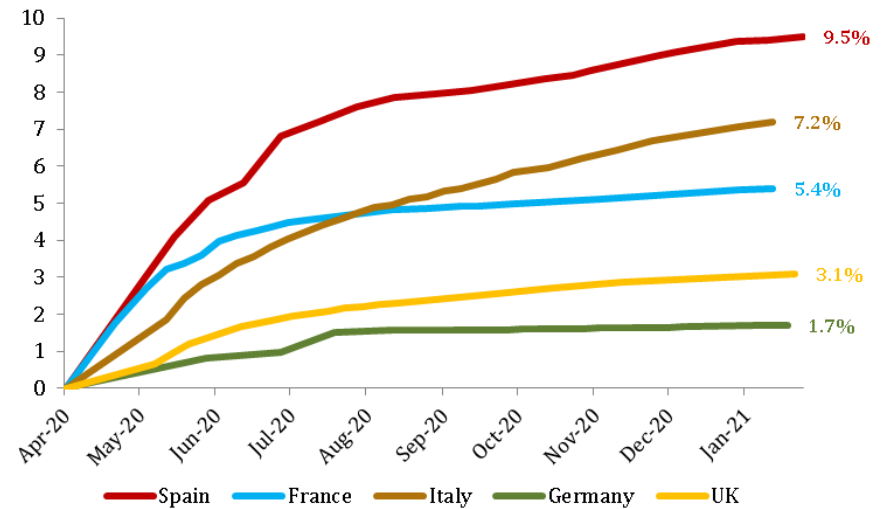
Policy approach in line with peers

- ▶ 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 and liquidity support measures
(in percent of GDP)



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



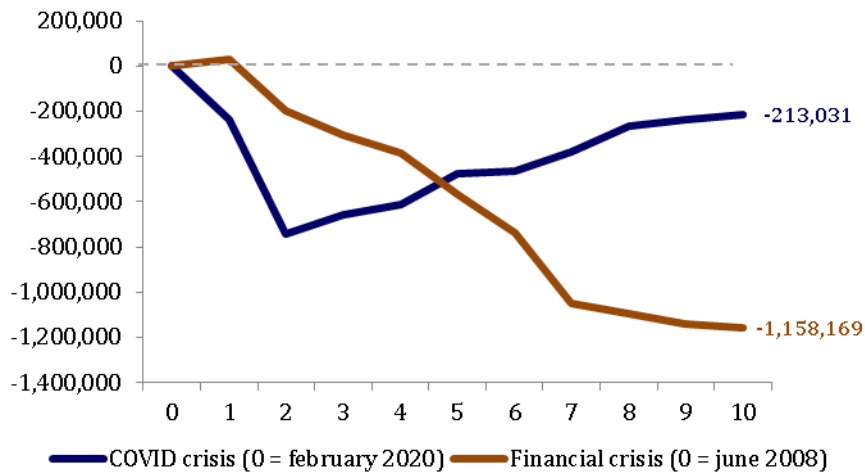
Source: Ministerio de Asuntos Económicos y Transformación Digital.

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

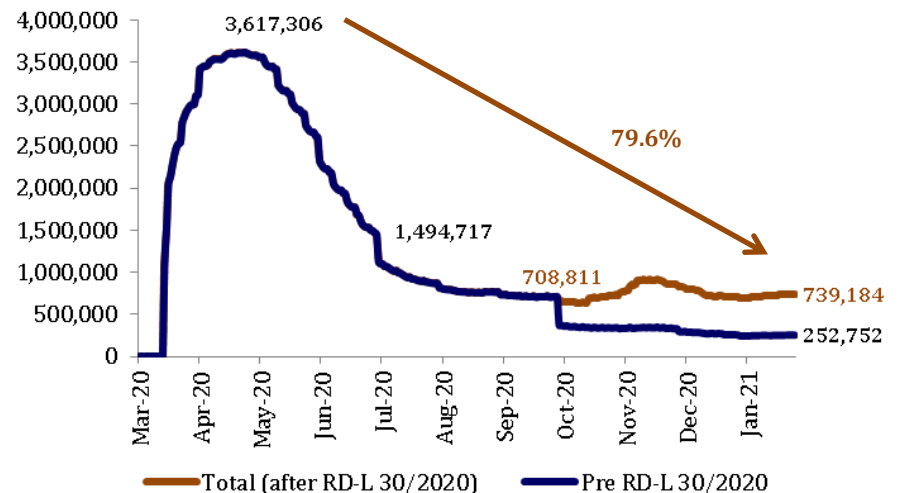
Temporary furlough scheme (ERTEs)

- ▶ 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 €11.3bn in 2021) 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 May 2021.
- ▶ **Social Security affiliations** show a significantly different behaviour than in the previous crisis, allowing an adjustment in hours and minimizing the impact on unemployment.

Changes in social security affiliations by months since the beginning of the crisis



Number of workers on furlough scheme



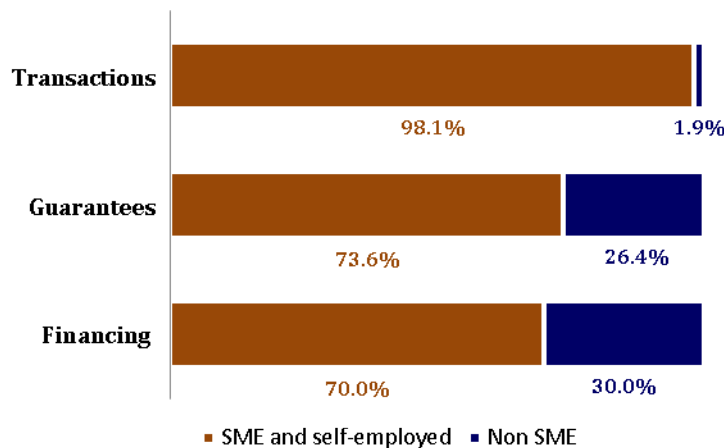
Source: Tesorería General de la Seguridad Social (Régimen General).

Source: Ministerio de Inclusión, Seguridad Social y Migraciones.

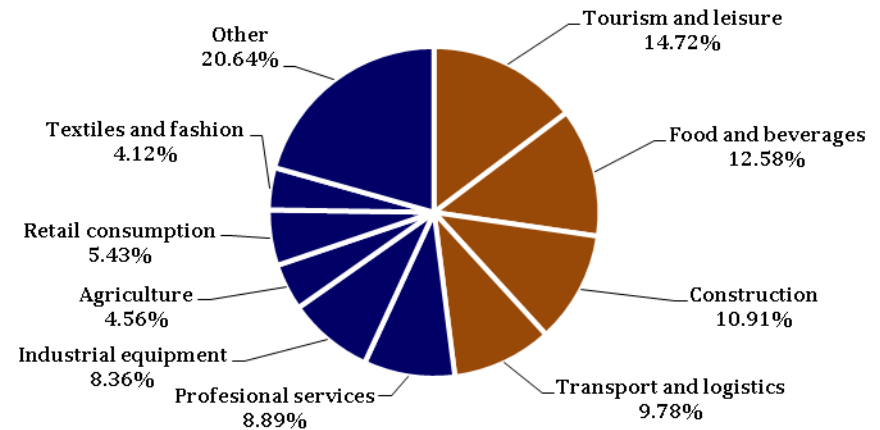
Government Public Guarantees

- ▶ Programme of **100bn€ of public guarantees** (through ICO) to loans granted by financial institutions to firms and the self-employed. More than **944,588 financing operations guaranteed**, corresponding to 591,500 enterprises.
- ▶ The scheme has provided more than **€87bn in guarantees**, allowing to mobilize more than **€114bn in financing** to secure the private sector's liquidity needs. Up to 74% of the transactions with micro-SMEs (less than 10 workers) 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)

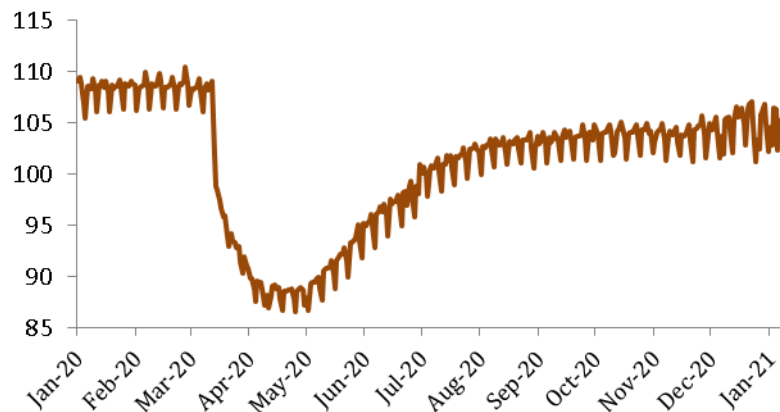


Source: Instituto de Crédito Oficial.

Indicators show a recovery in activity

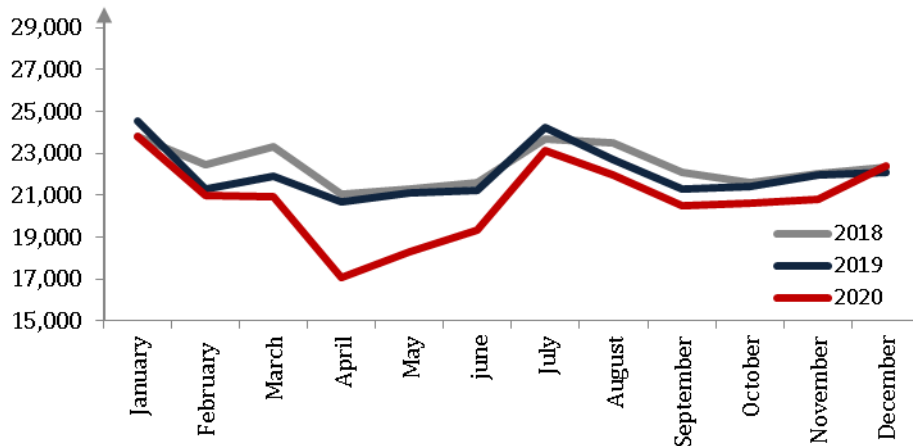
- ▶ After severe contraction in Q2, the ongoing recovery is taking hold following an **asymmetric-V-shaped trajectory**.
- ▶ A 16.4% q-o-q GDP growth in Q3. Policy measures have proven to be effective.
- ▶ Significantly lower impact of the 2nd wave of the pandemic, exceeding expectations with a 0.4% q-o-q GDP growth in Q4.

Daily activity indicator
(Index scaled to match 2020 Q1 GDP)



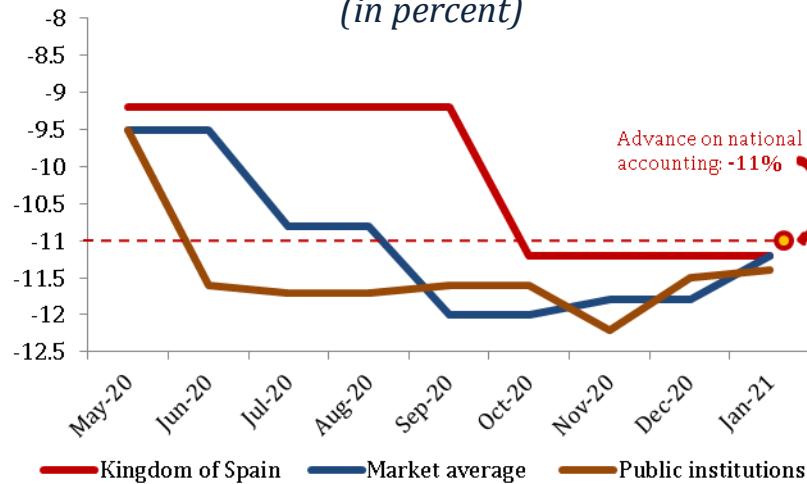
Source: Ministerio de Asuntos Económicos y Transformación Digital

Monthly electricity consumption
(Gwh)



Source: Red Eléctrica de España.

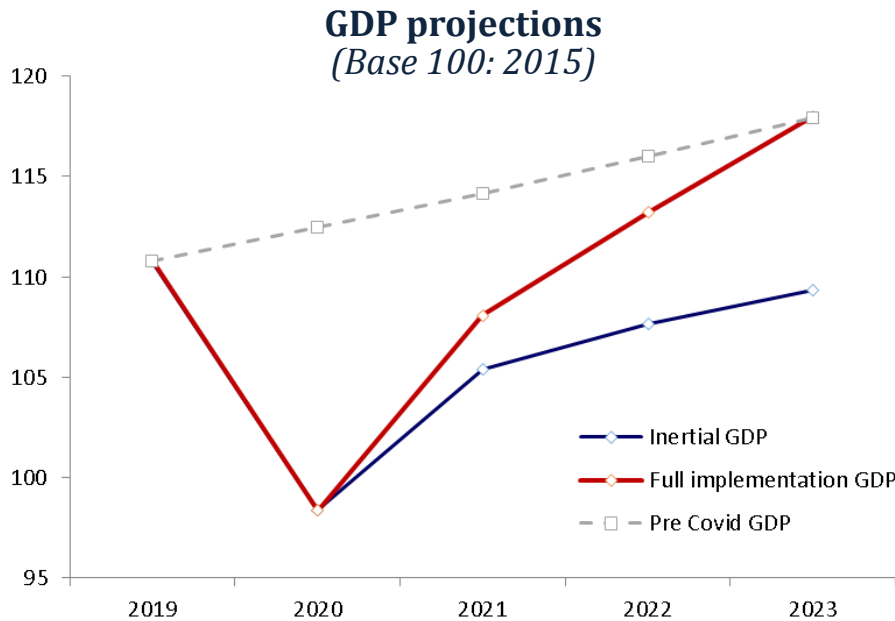
GDP growth projections for 2020
(in percent)



Source: Ministerio de Asuntos Económicos, Instituto Nacional de Estadística, OCDE, Bank of Spain, Airef, European Commission, Funcas.

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.

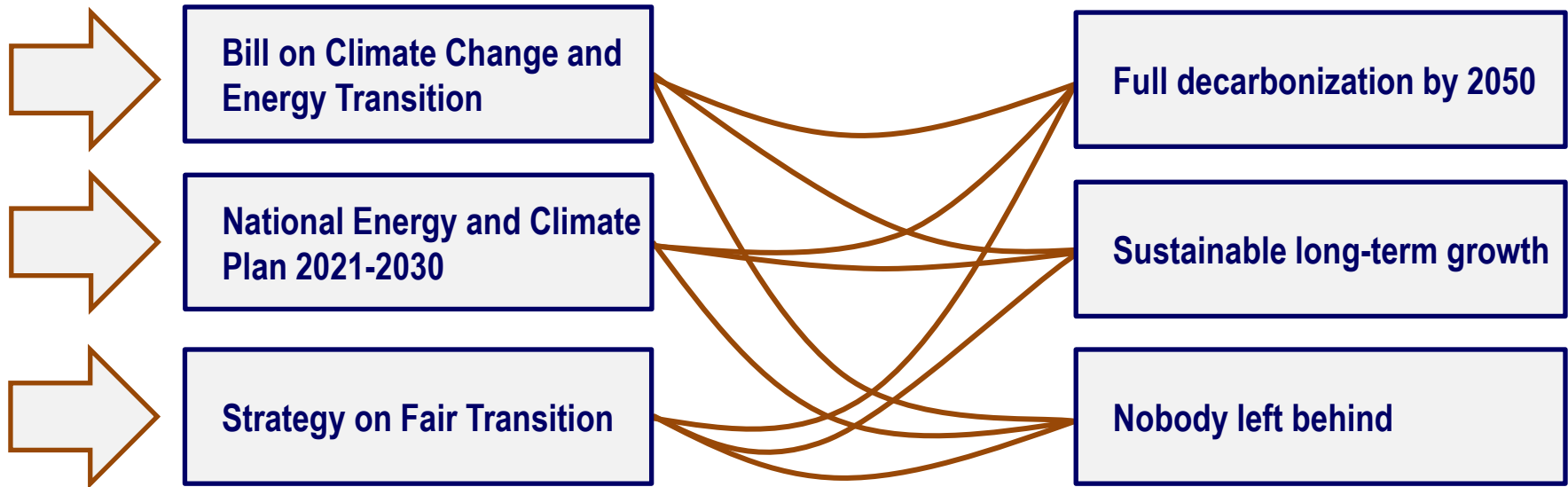


Source: Ministerio de Asuntos Económicos y Transformación Digital

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”

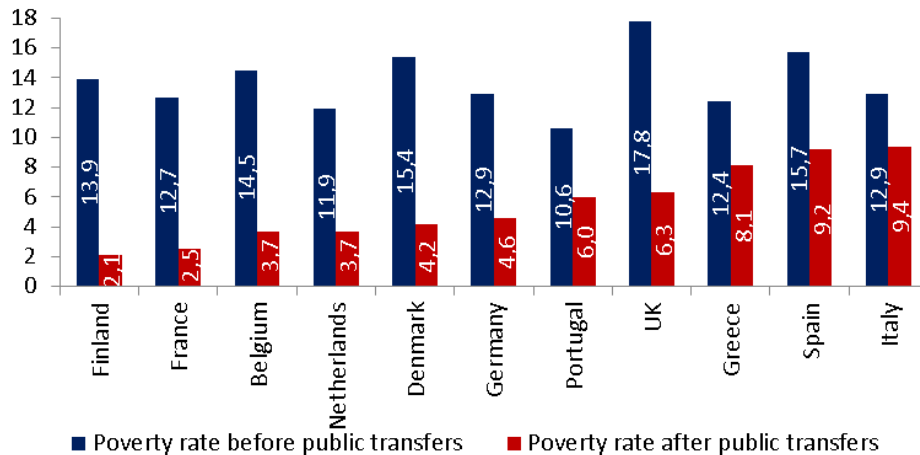
► Structural reforms aiming to the **digitalization of the economy** and the **deployment of public and private investments**, aligned with a more inclusive and sustainable growth.

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

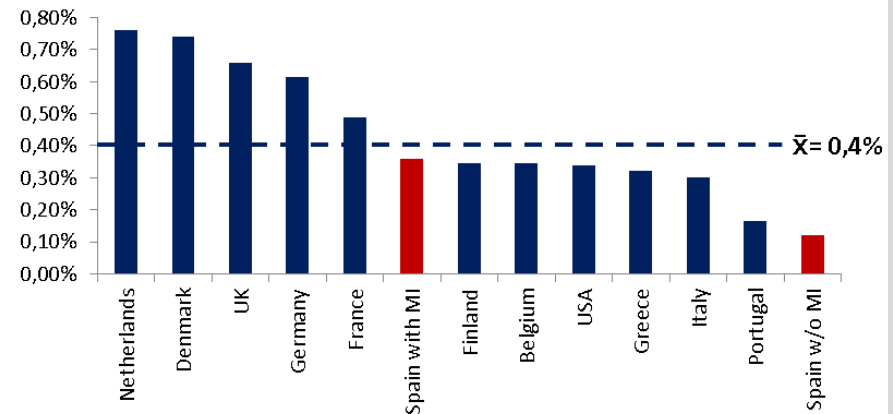
- ▶ **Social Justice.** Spain’s transfer system is less redistributive than peers. The plan will benefit 850k households and 2.3m people, lift 1.6 million people out of extreme and very-high poverty.
- ▶ **Rationalisation** of existing regional minimum income schemes.
- ▶ **Productivity.** Promotes social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

Key drivers for action in 2021

► There are some **priorities to address in order to ensure a strong recovery in 2021.**

EVOLUTION OF THE PANDEMIC

- ❖ Control the virus and accelerate the vaccination process.

GEOPOLITICAL AND FINANCIAL STABILITY

- ❖ Ensure stability in sovereign debt markets.

- ❖ Support the multilateral system to avoid conflicts on trade.

STRUCTURAL IMPACTS

- ❖ Avoid a drop in investment.

- ❖ Prevent liquidity issues to turn into solvency problems.

- ❖ Provide targeted support to businesses and workers.

- ❖ Ensure the existence of swift restructuring mechanisms.

IMPLEMENTATION OF THE PLAN

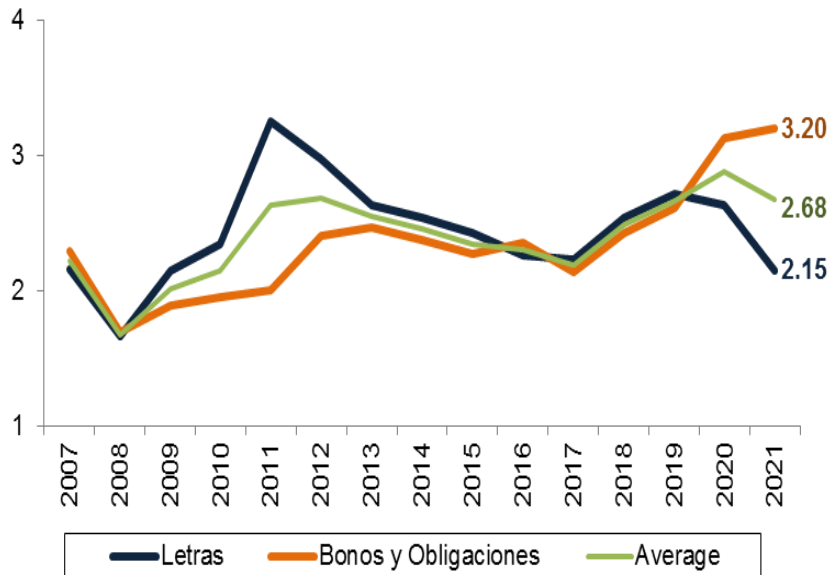
- ❖ Ensure a smooth implementation of the recovery plans.

- ❖ Reforms and investments towards a stronger, more sustainable and inclusive growth.

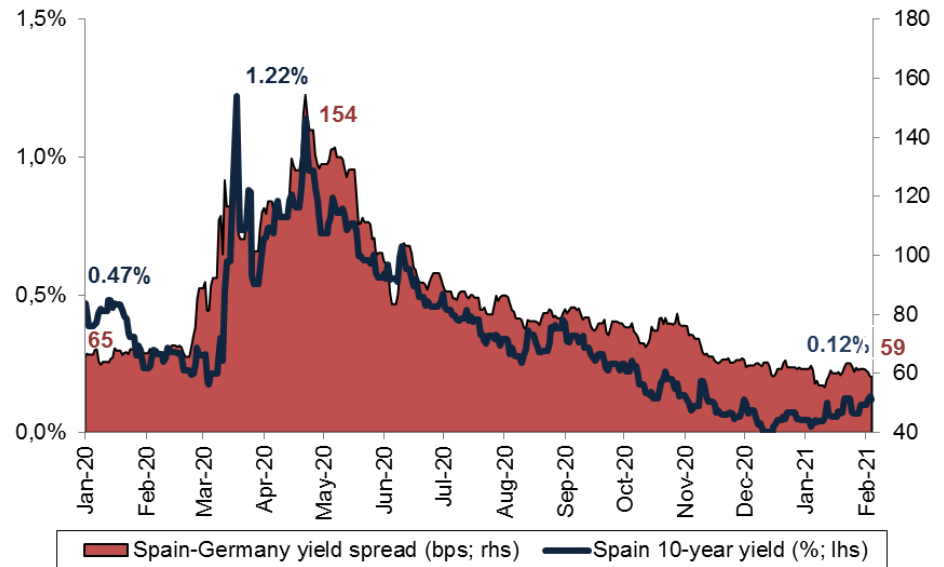
Treasury's market access

- ▶ 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 has fallen below 2019 levels. The risk premium has followed a similar trend.

Bid-to-cover ratio



Spain 10-year yield and spread vs Bund

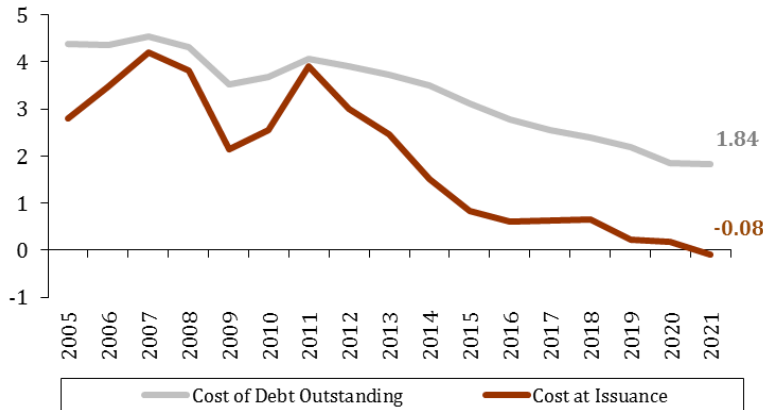


Source: Secretaría General del Tesoro y Financiación Internacional.

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)



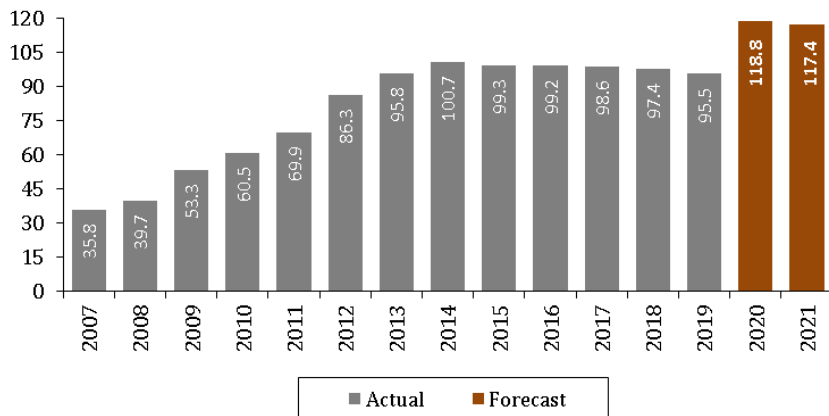
Source: Secretaría General del Tesoro y Financiación Internacional.

Average Life of Debt Outstanding
(In years)



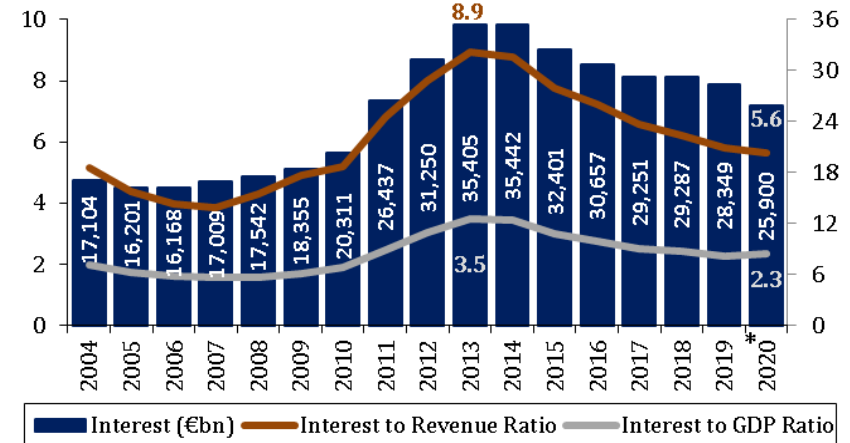
Source: Secretaría General del Tesoro y Financiación Internacional.

General Government Debt. EDP
(% of GDP)



Source: Bank of Spain and Ministerio de Asuntos Económicos.

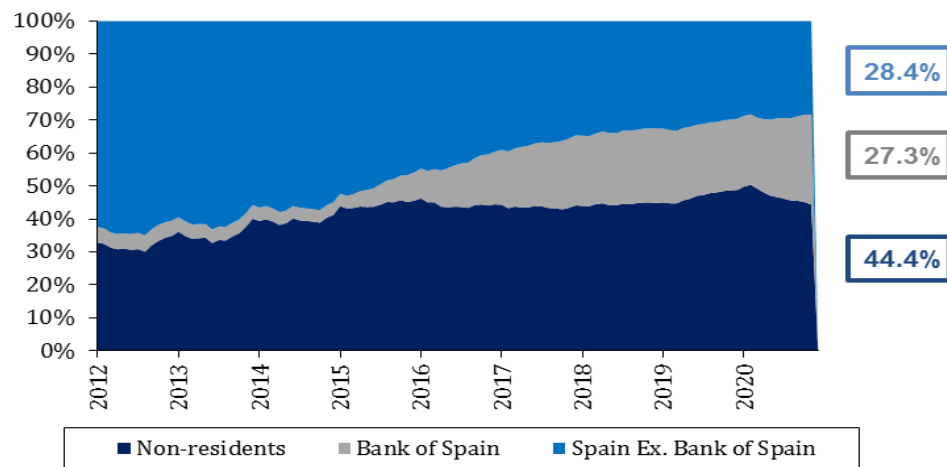
Interest burden over GDP and public expenses
(In percent)



Source: INE and IGAE.; Data 2020: Spain's DBP

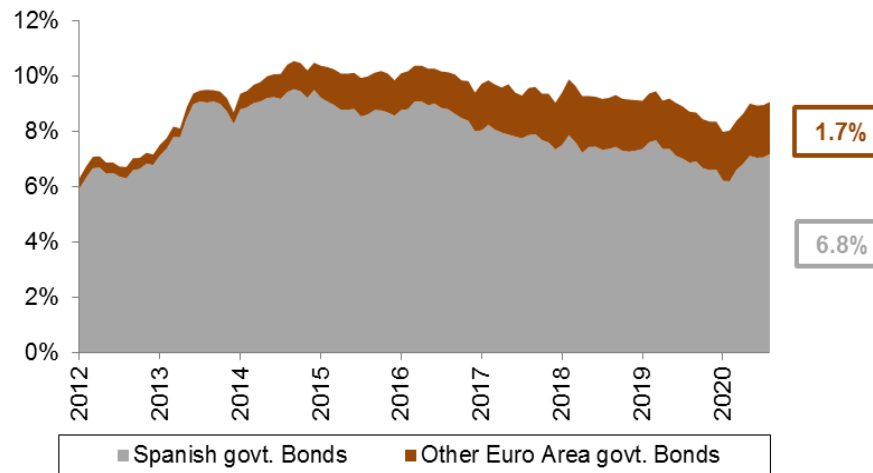
Spanish investors' holdings of public debt at historic lows

Holdings of Letras & Bonos and Obligaciones del Estado



Source: Bank of Spain.

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



Source: ECB.

2021 Funding Programme: diversified funding sources

- ▶ For 2021, financing needs in net terms add to €100bn. 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>	End 2020	Forecast 2021
Total Net Issuance	109.922	100.000
Total Gross Issuance	277.059	289.138
<i>Medium- and Long-term</i>		
<i>Gross Issuance</i> ¹	183.468	184.380
<i>Of which SURE</i>	9.979	11.325
<i>Amortisation</i> ¹	84.969	94.380
<i>Net Issuance</i> ¹	98.500	90.000
<i>Of which SURE</i>	9.979	11.325
<i>Letras del Tesoro</i>		
<i>Gross Issuance</i>	93.591	104.758
<i>Amortisation</i>	82.168	94.758
<i>Net Issuance</i>	11.423	10.000

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

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.

Spanish Green Bond

▶ Spain is fully committed to the environmental and sustainability Agenda. The Government supports:

- The United Nations 2015 Paris Agreement and Sustainable Development Goals
- The EU 2030 climate and energy framework

▶ At a national level, the Spanish government presented an ambitious package of measures:

- Spain's National Energy and Climate Plan (NECPs) 2021-2030
- The Bill on Climate Change and energy transition
- Strategy on Fair Transition



Objective:
Decarbonization of
the Spanish
economy in 2050

▶ Estimated economic impact: It is estimated to generate over 240 billion euros of investments over the following decade, 50 of which would come from the Public Sector (State, regions, EU) and part of it will be financed through Green Bonds.

Main features of the Spanish Green Bond

When	2021	How	Liquid benchmark embedded in the curve
Maturity	Possibly 20 years → Long term commitment	Format	Best international standards

Thank you for your attention

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