

## INTRODUCTION

Welcome to the first issue of the Spanish Treasury's Newsletter.

This newsletter intends to keep investors informed about the most recent developments in the Spanish Economy, focusing on specific aspects.

The Newsletter is designed as a regular complement to the Investor Presentation, which is published on a monthly basis.

The electronic version contains hyperlinks to sources and additional material.

Please do not hesitate to contact the Spanish Treasury Team if you wish to unsubscribe from this Newsletter's distribution list.

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## Related Documents

[Tesoro Público. Investors Presentation](#)

[Yellow Book. Draft Budget Law 2015](#)

[Spain: Draft Budgetary Plan](#)

[Presentation of the Budget](#)

[Reform of the Active Labour Market Policy Framework](#)

[Royal Decree-Law on measures on refinancing and restructuring of corporate debt](#)

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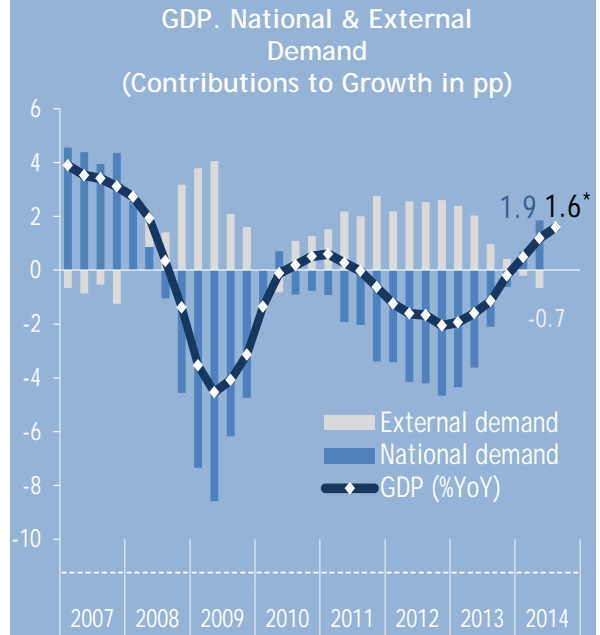
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For more information on recent developments:  
[www.thespanisheconomy.com](http://www.thespanisheconomy.com)

According to the flash GDP estimate issued by the Bank of Spain, GDP growth in 2014Q3 was 0.5% (q-o-q), five consecutive quarters of positive growth. In terms of the year-on-year growth rates, output is expected to have increased by 1.6%.

On the expenditure side, domestic demand is estimated to have increased at a rate of 0.6% quarter-on-quarter, while the contribution of net external demand is expected slightly negative. In the third quarter of 2014 employment continued to improve, albeit at a slightly slower pace than in Q2. It posted an estimated quarter-on-quarter rate of 0.4%, placing the year-on-year increase in full-time equivalent employment at 1.2%.

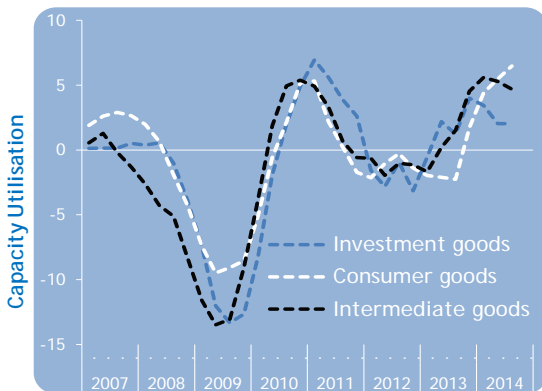
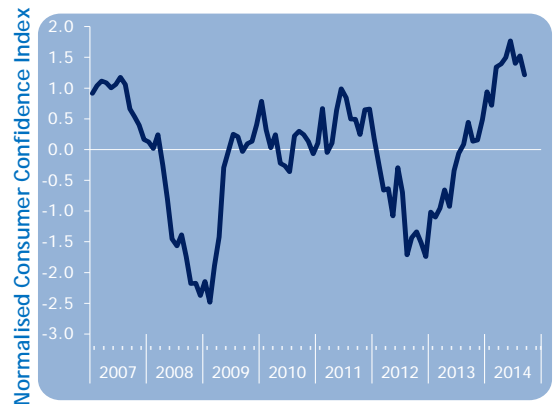
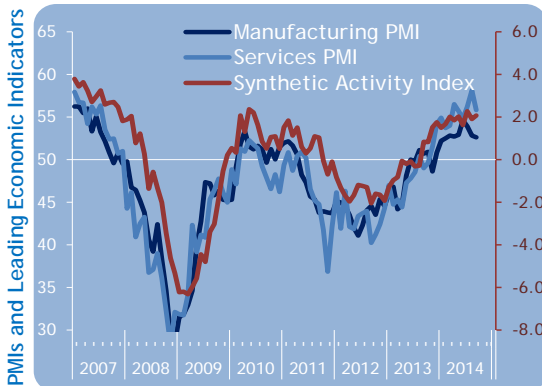
Higher economic growth rates; structural reforms, consolidation & reduction of external imbalances.



Source: [Bank of Spain](#).

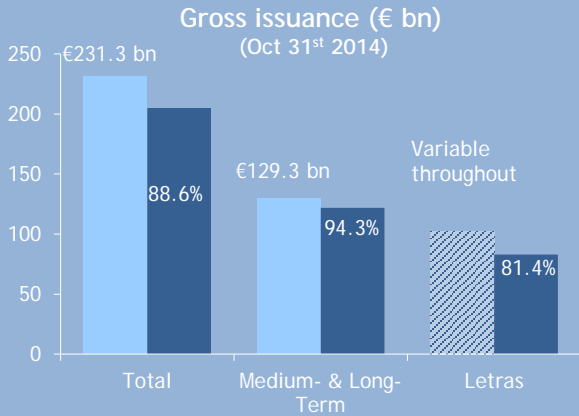
\* Flash estimate

RECENT INDICATORS



August 2014. Budgetary Execution.  
Excl. Local Government. % of GDP

| % of GDP              | 2013  | 2014  |
|-----------------------|-------|-------|
| Consolidated          | -4.90 | -4.26 |
| Central Government    | -3.95 | -3.14 |
| Regions               | -0.78 | -1.01 |
| Social Security Funds | -0.17 | -0.11 |



In line with the fiscal consolidation strategy for 2014, net issuance in the Treasury's Funding Programme for 2014 was revised downwards by €10 bn.

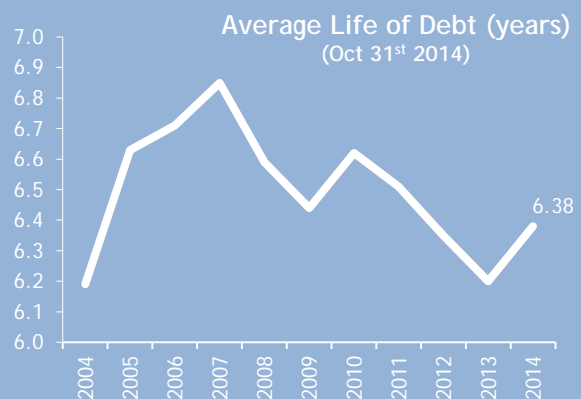
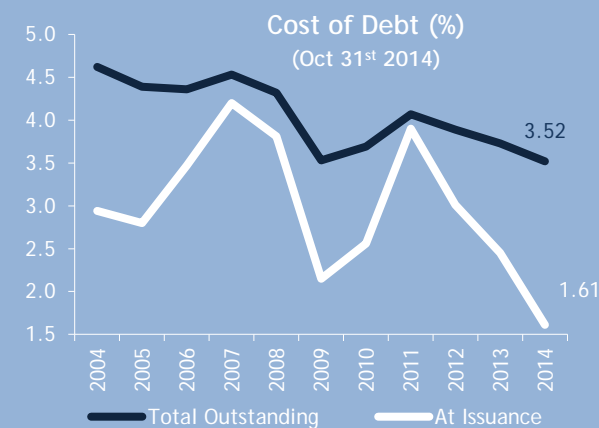
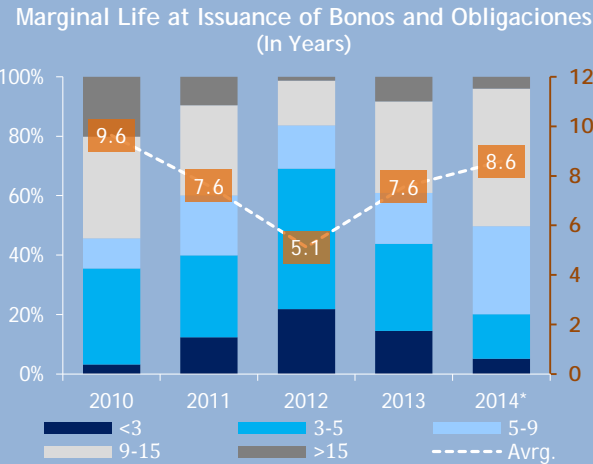
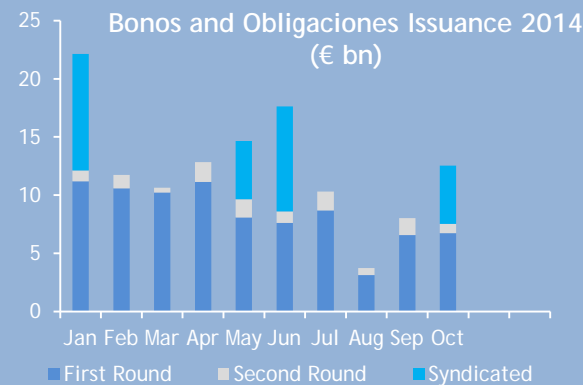
Up to October 31<sup>st</sup> the Spanish Treasury has funded €121.9 bn of the expected amount of the regular medium- and long-term gross issuance.

In 2014 the Spanish Treasury has launched its inflation linked programme, which accounts for €11 bn of its total medium- and long-term issuance so far.

Including Letras, the Spanish Treasury has issued €204.9 bn.

In 2014 the Spanish Treasury has reversed the downward trend in the average life of the total portfolio; more than 80% of the total Bonos and Obligaciones issuance has had an initial maturity above 5 years, leaving the average maturity of new Bonos & Obligaciones issues, up to October 31<sup>st</sup>, in 8.6 years.

This feature has been accompanied by a substantial reduction in the marginal cost at issuance, which is pushing the cost of the total portfolio towards historical lows (1.61% and 3.52%, respectively).

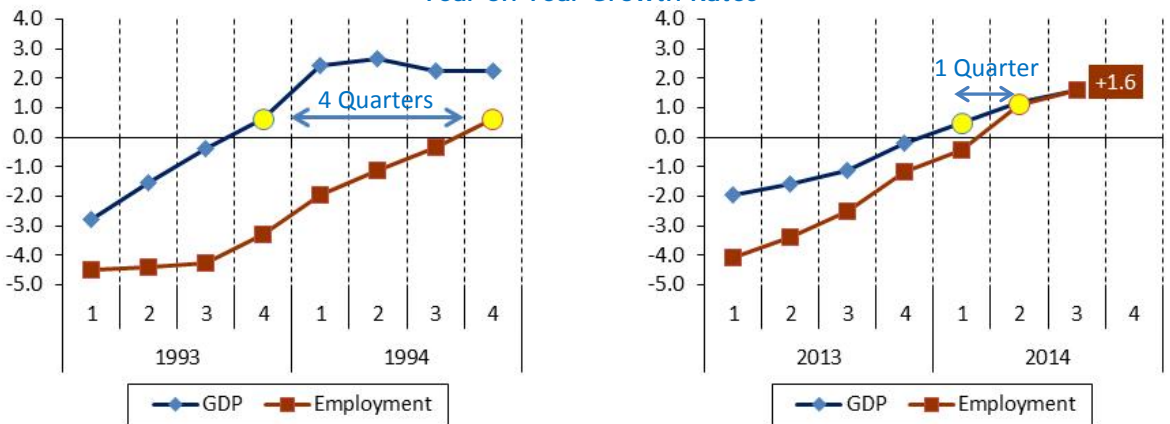


According to the Labour Force Survey for 2014Q3, employment recorded a year on year growth rate of 1.6%, in line with GDP growth: +192,400 persons in the last twelve months (+208,000 persons in the private sector vs. -15,600 in the public sector).

The total figure of unemployed persons decreased by 424,500 persons in one year. This is the greatest year on year reduction in registered in unemployment since 1999.

Labour market reform has increased employment's elasticity to GDP growth, without harming productivity growth. In the short-term the lag between employment growth and GDP growth has decreased to 1 quarter, whereas in the previous crisis this lag spanned 4 quarters.

Employment vs. GDP Growth  
Year on Year Growth Rates

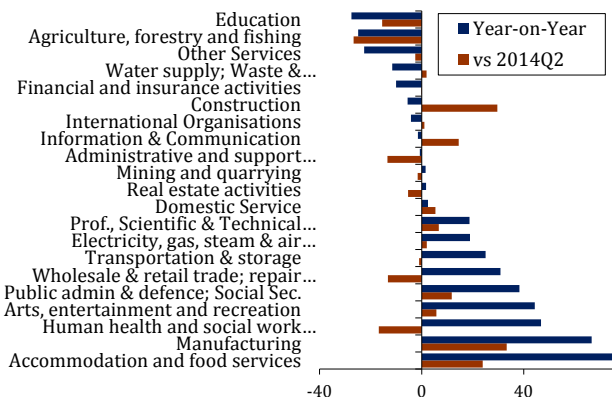


Source: [National Statistics Institute](#).

Increased employment and more broad-based: 59% of branches have experienced positive quarter-on-quarter growth rates.

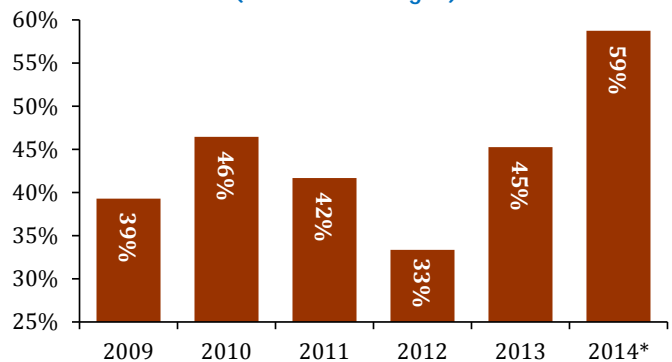
Apart from services branches, employment growth is especially picking up in the manufacturing sector and more recently in the construction sector.

Employment by Branch  
(1,000s of Persons. Seasonally Adjusted)



Source: [National Statistics Institute](#).

% of Sectors with Quarterly Employment Growth  
(Annual Averages)



The Comprehensive Assessment of the ECB has involved a full review of 130 banks from 18 euro area countries (plus Lithuania) → 81.6% of total risk-weighted assets. 15 Spanish banks have been scrutinised, accounting for 90% of the assets of total Spanish deposit-taking institutions.

The exercise consisted in a double analysis:

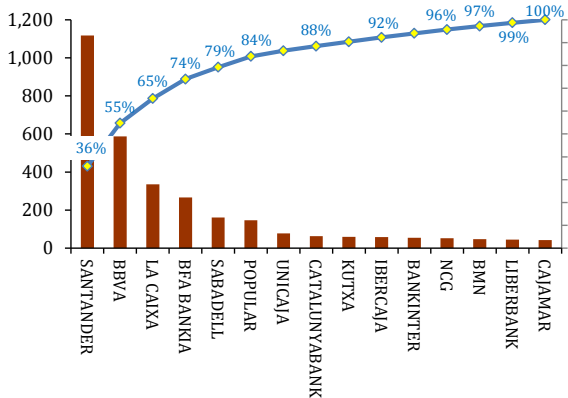
- **Asset Quality Review (AQR):** data quality review, asset valuation, classification of exposures & valuation of collateral and provisions.
- **Stress Test (ST):** forward looking analysis of the loss-absorption capacity under two scenarios.

**Main findings:**

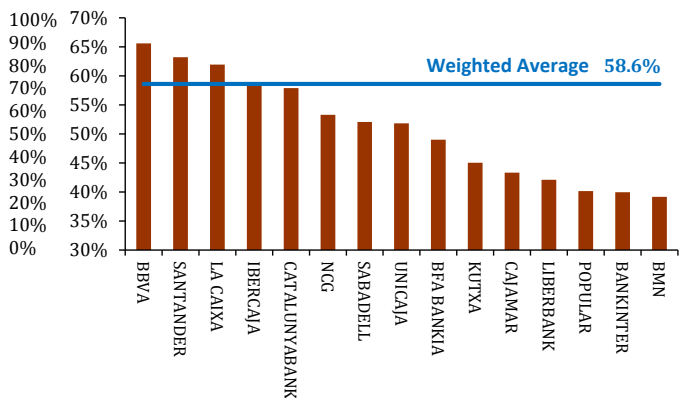
- Gross capital shortfall of €24.6 bn for 24 banks; €9.5 bn in net terms for 13 banks (after capital increases in 2014).
- Spain has only one bank with a gross capital shortfall of €32mn under the stressed scenario.

**INITIAL INFORMATION OF SPANISH BANKS INTO THE COMPREHENSIVE ASSESSMENT**

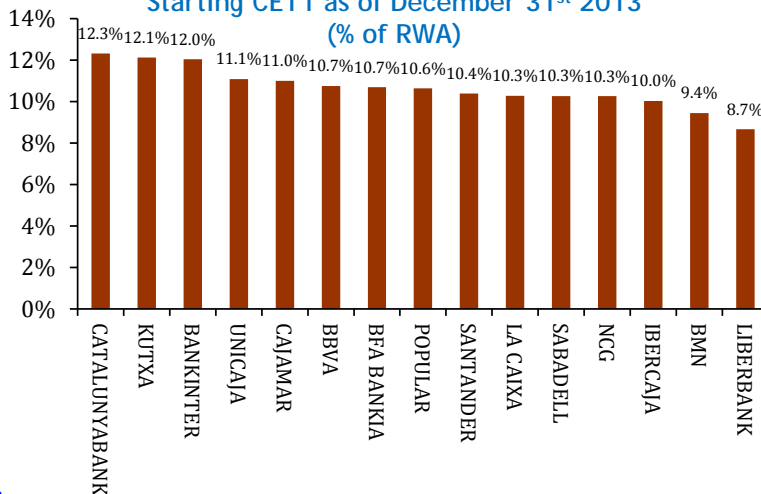
**Spanish Banks: Size in €bn (LHS) and Cumulative Percentage of Analysed Assets (RHS)**



**Coverage Ratio for Non-Performing Exposures (%)**



**Starting CET1 as of December 31<sup>st</sup> 2013 (% of RWA)**

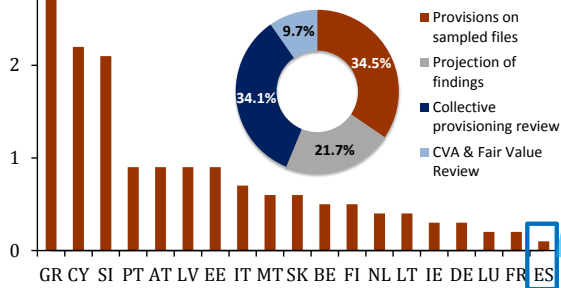


Source: [Bank of Spain](http://www.banquiasp.es).

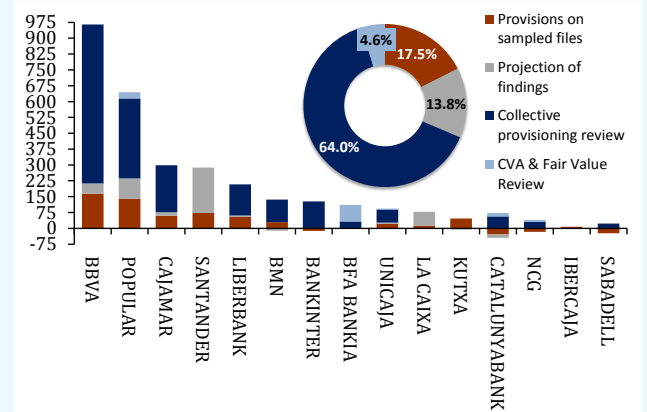
ASSET QUALITY REVIEW

The impact of the AQR on Spanish banks' RWA is 14bps, the lowest in the SSM, which reflects the appropriate classification, valuation and provisioning in the Spanish financial sector. Most of the gross adjustments due to the AQR (64%) were due to the collective provisioning review.

SSM: Gross Adjustments in the AQR (% of RWA and % of total)



Spain: Breakdown of Gross Adjustments in the AQR (€ mn and % of total)

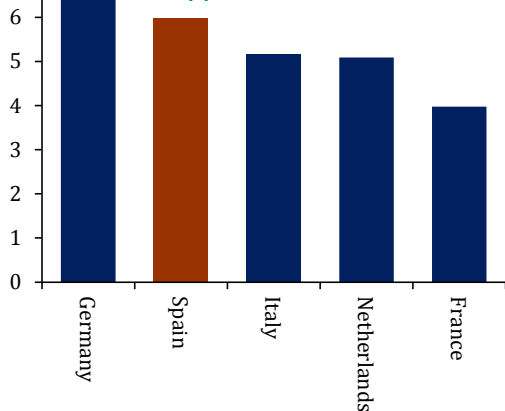


Source: Bank of Spain.

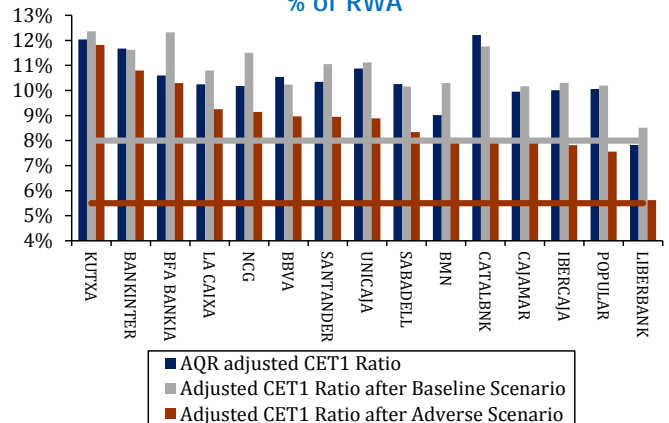
STRESS TESTS

The adverse scenario entails a substantial worsening of the Spanish economy, both in terms of growth and employment. The total net decline in capital arising from the stressed scenario amounts to 17.2 bn, i.e. 1.4pp of CET1 (vs. 3pp for the whole SSM). In Spain only one bank has evidenced an ex-ante capital shortfall (€32mn) which has been covered after corrective measures taken in 2014.

GDP: Deviation Between IMF (Oct 2014) Forecasts and Stressed Scenario In pp. 2014-2016



Evolution of CET1 in the Comprehensive Assessment % of RWA



Sources: EBA, Bank of Spain.

For more information



EBA

EUROPEAN BANKING AUTHORITY

BANCO DE ESPAÑA  
Eurosystem

Spanish National Accounts have started to publish its results in accordance with a new European System of National and Regional Accounts 2010 (ESA-2010) which entered into force on September 1<sup>st</sup> 2014.

This updating procedure is common for the national accounts of all European Union Member States and replicates the System of National Accounts 2008 (United Nations) at a European scale in order to enable comparability with other countries.

There exist two main differences vs. the previous System of Accounts (ESA-95):

- Those arising from the direct incorporation of the new ESA 2010 principles -methodological changes-;
- Those mainly arising from the incorporation of updated estimation procedures and from the incorporation of new statistical sources -statistical changes-.

### Methodological changes of ESA 2010

The most significant ones in terms of their incidence on Gross Domestic Product (GDP) level are:

- the expenditure on R&D is treated as an investment on fixed assets,
- the definition of fixed assets in the military scope is harmonised with their general definition for the rest of economic sectors (including weapons and support systems). In ESA 1995, there was only registration of the purchase of military structures and equipment that had an equivalent use for civil purposes.

Both changes have involved an increase of the GDP but there are also methodological changes whose importance is the incidence on the delimitation of sub-sectors of Public Administrations and Financial Institutions.

Some guidelines also affect the register of goods and services flow with the Rest of the World. In particular, those regarding transactions of triangular trade of goods and goods sent abroad to be processed without there being a change of property.

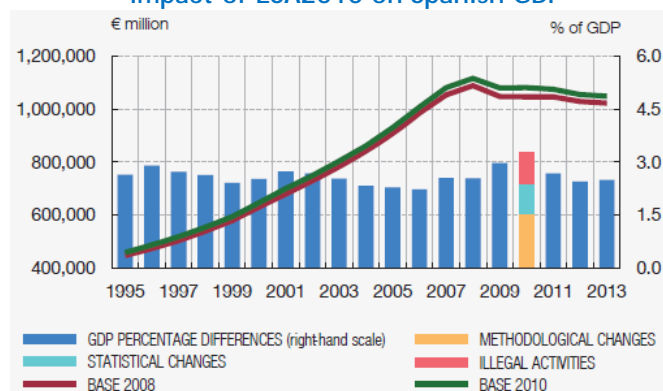
### Statistical changes and others changes

The incorporation of the information coming from the new Population and Housing Census 2011 (that affects multiple operations of the national accounts directly and indirectly ) and the changes derived from it in the household surveys as well as the revision of Balance of Payments statistics.

Additional modification: illegal activities will be added to the list of activities included in the national accounts of the European Union countries such as prostitution, drug production and trafficking or contraband.

For further information refer to: [http://www.ine.es/en/prensa/np846\\_en.pdf](http://www.ine.es/en/prensa/np846_en.pdf)

### Impact of ESA2010 on Spanish GDP



|                                                        | September                | October                       | November           | December             |
|--------------------------------------------------------|--------------------------|-------------------------------|--------------------|----------------------|
| <b>National Accounts</b>                               |                          |                               |                    |                      |
| <a href="#">ESA-2010</a>                               | 25/Sep<br>(1995-2013)    |                               |                    | Accounting<br>Tables |
| <a href="#">Quarterly National Accounts</a>            |                          |                               | 27/Nov<br>(Q3/14)  |                      |
| <a href="#">Quarterly National Accounts (Flash)</a>    |                          | 30/Oct<br>(Q3/14)             |                    |                      |
| <a href="#">Quarterly Non-Financial Accounts</a>       |                          | 16/Oct<br>(Q2/14)             |                    |                      |
| <a href="#">Quarterly Financial Accounts</a>           |                          | 15/Oct<br>(Q2/14)             |                    |                      |
| <b>Deficit and Debt</b>                                |                          |                               |                    |                      |
| <a href="#">Consolidated Deficit. Excl. Local Gov.</a> | 30/Sep<br>(Jun & Jul/14) | 28/Oct<br>(Aug/14)            | 28/Nov<br>(Sep/14) | 28/Dec<br>(Oct/14)   |
| <a href="#">Deficit of the Public Administrations</a>  | 30/Sep<br>(Q2/14)        |                               | 27/Nov<br>(Q3/14)  |                      |
| <a href="#">Tax Collection</a>                         | 30/Sep<br>(Aug/14)       | 28/Oct<br>(Sep/14)            | 25/Nov<br>(Oct/14) | 23/Dec<br>(Nov/14)   |
| <a href="#">EDP Debt</a>                               | 12/Sep<br>(Q2/14)        |                               |                    | 12/Dec<br>(Q3/14)    |
| <b>Labour Market</b>                                   |                          |                               |                    |                      |
| <a href="#">Labour Force Survey</a>                    |                          | 23/Oct<br>(Q3/14)             |                    |                      |
| <a href="#">Economically Active Population Flow</a>    |                          | 23/Oct<br>(Q3/14)             |                    |                      |
| <a href="#">Harmonised Labour Cost Index</a>           | 10/Sep<br>(Q2/14)        |                               |                    | 10/Dec<br>(Q3/14)    |
| <a href="#">Social Security Affiliation</a>            | 2/Sep<br>(Aug/14)        | 2/Oct<br>(Sept/14)            | 4/Nov<br>(Oct/14)  | 2/Dec<br>(Nov/14)    |
| <a href="#">Unemployment</a>                           | 2/Sep<br>(Aug/14)        | 2/Oct<br>(Sept/14)            | 4/Nov<br>(Oct/14)  | 2/Dec<br>(Nov/14)    |
| <b>Industry and Services</b>                           |                          |                               |                    |                      |
| <a href="#">Industrial production Index</a>            | 10/Sep<br>(Jul/14)       | 8/Oct<br>(Aug/14)             | 7/Nov<br>(Sep/14)  | 5/Dec<br>(Oct/14)    |
| <a href="#">Services Sector Activity Indicators</a>    | 18/Sep<br>(Jul/14)       | 17/Oct<br>(Aug/14)            | 14/Nov<br>(Sep/14) | 19/Dec<br>(Oct/14)   |
| <a href="#">Industrial New Orders</a>                  | 18/Sep<br>(Jul/14)       | 17/Oct<br>(Aug/14)            | 14/Nov<br>(Sep/14) | 19/Dec<br>(Oct/14)   |
| <a href="#">Industry Turnover Index</a>                | 18/Sep<br>(Jul/14)       | 17/Oct<br>(Aug/14)            | 14/Nov<br>(Sep/14) | 19/Dec<br>(Oct/14)   |
| <b>External Sector</b>                                 |                          |                               |                    |                      |
| <a href="#">Balance of Payments (Monthly)</a>          |                          | 15 & 31/Oct<br>(Jul & Aug/14) | 28/Nov<br>(Sep/14) | 30/Dec<br>(Oct/14)   |
| <a href="#">Balance of Payments (Quarterly)</a>        |                          | 15/Oct<br>(Q2/14)             |                    | 30/Dec<br>(Q3/14)    |
| <a href="#">International Investment Position</a>      |                          |                               | 27/Nov<br>(Q3/14)  |                      |
| <a href="#">Merchandise Exports</a>                    | 17/Sep<br>(Jul/14)       | 15/Oct<br>(Aug/14)            | 17/Nov<br>(Sep/14) | 17/Dec<br>(Oct/14)   |

Links to complete calendars:





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