



GOBIERNO
DE ESPAÑA

STABILITY PROGRAMME 2014-2017

COUNCIL OF MINISTERS

APRIL 30 2014

Stability Programme 2014-2017

- ❑ The Council of Ministers has approved today the referral to Brussels of:
 - The **Stability Programme 2014-2017**, in line with the principles **specified in the Stability and Growth Pact and the code of conduct**
 - And the **National Reform Programme 2014**, which is framed within the obligations of the European Semester

- ❑ Both documents explain the **Government's Economic Policy Strategy** for the upcoming years

- ❑ This strategy is based on:
 - The diagnosis of the situation of the Spanish economy
 - Measures of economic policy:
 - **Fiscal Strategy 2014-2017: Stability Programme**
 - The macroeconomic prospects are based on cautious and conservative growth assumptions that reinforce the credibility of the budgetary forecasts.
 - **Structural Reforms: National Reform Programme**

Macroeconomic scenario (I)

□ Basic assumptions of the Macroeconomic Forecast

- International context: stronger growth in advanced economies and moderation of growth in the emerging economies throughout 2014 and 2015
- Exchange rate conservative scenario : euro rates will keep current levels
- Moderate reduction of oil prices in 2014-15
- Slight increase in short term interest rates, and to a smaller extent, of long term interest rates, in line with the euro area economic recovery, the reduction in the risk premium and the growing confidence in the economic situation.

	2013	2014	2015	2016	2017
3-month Euribor (%)	0.2	0.4	0.6	0.8	0.9
Long term interest rates (10 year Spanish bonds) (%)	4.6	3.7	3.8	3.9	4.0
Exchange rate dollar/euro	1.33	1.37	1.37	1.37	1.37
World GDP growth excluding the EU (percentage change)	2.9	3.6	3.9	4.1	4.3
GDP growth in the EU (percentage change)	-0.4	1.2	1.8	2.0	2.2
Oil price (Brent. USD/barrel)	108.7	107.3	103.7	103.5	103.5

Macroeconomic scenario (II)

(percentage change. unless otherwise stated)	2013	2014	2015	2016	2017
Real GDP	-1.2	1.2	1.8	2.3	3.0
Private Consumption	-2.1	1.4	1.8	2.3	2.8
General Govt. Consumption	-2.3	-1.3	-1.9	-1.8	-1.5
Gross fixed capital formation	-5.1	0.5	3.0	4.6	6.7
Capital goods and other goods	1.7	5.5	4.5	6.2	7.3
Construction	-9.6	-3.3	1.8	3.1	6.1
Final Domestic Demand (contribution to GDP growth)	-2.7	0.7	1.2	1.9	2.6
Exports of goods and services	4.9	5.0	6.1	6.3	6.5
Imports of goods and services	0.4	3.6	5.0	5.8	6.3
External Balance (contribution to GDP growth)	1.5	0.6	0.5	0.4	0.3
Net lending(+)/borrowing (-) vs. rest of the World (% GDP)	1.5	2.0	2.4	2.5	2.5
Employment (National Accounts)	-3.4	0.6	1.2	1.5	2.3
Unemployment rate	26.1	24.9	23.3	21.7	19.8
GDP deflator	0.6	0.5	0.8	1.2	1.5
Private consumption deflator	1.3	0.3	0.9	1.3	1.6

Macroeconomic scenario (III)

- **A sustainable economic growth path is achieved**, which steadily gains momentum.
- **In 2014, and for the first time since 1997, both internal and external demand contribute positively to growth.** This pattern is maintained during the forecast period.
 - It implies a more balanced growth model, sounder and sustainable in time.
- **Internal Demand → +0.7 p.p. in 2014 and +1.2 p.p. in 2015**
- For the first time in 6 years, **Internal Demand** contributes positively to growth:
 - **Private Consumption growth** for the first time in 3 years → **1.4% in 2014 and 1.8% in 2015.**
 - **Gross Capital Formation growth** for the first time in 6 years → **0.5% in 2014 and 3% in 2015.**
 - ✓ Strong increase in investment in capital goods → 5.5% in 2014 and 4.5% in 2015.
 - ✓ Construction investment increases in 2015 (1.8%) for the first time in 7 years.

Contribution of net exports to growth → +0.6 p.p. in 2014, +0.5 p.p. in 2015

- The external balance continues to contribute positively to growth, even with **increasing imports** in **2014** and **2015** (**3.6%** and **5%**) on account of the **recovery** of **domestic demand**.
- **Export dynamism maintained** → **+5% in 2014** and **+6.1% in 2015**.
 - Explained by the increased competitiveness of domestic production, efficiency gains and a context of moderation in prices and costs.
- This allows to **increase Spain's position** as a **net lender** to the rest of the world → **2% of GDP in 2014** and **2.4% of GDP in 2015**.
 - ... and **decreases external debt** in 2014-2015 by **€ 47 bn**.

Macroeconomic scenario (V)

Employment

- **Employment grows in annual terms for the first time since the onset of the crisis:** it will register in **2014** and **2015** positive rates under all definitions, including **National Accounts** → **0.6%** and **1.2%**.
 - In **Labour Force Survey terms**, **employment increases** by around a cumulative **600.000** from **Q4 2013** to **Q4 2015**.
- **Unemployment**, in Labour Force Survey terms, **decreases** by around **800.000** from **Q4 2013** to **Q4 2015**.
 - The **unemployment rate** forecast for **2014** and **2015** lies at **24.9%** and **23.3%**, and further improves to **19.8%** in **2017**, in average annual rate.
 - The **average annual rate of unemployment falls**, for the **first time during the crisis** in **2014**, to 24.9% (vs 26.1% in 2013).
 - **Clear improvement in the employment elasticity to growth: growth threshold for employment creation** significantly lowered.
- **Unemployment during the Government's term in office (Q4 2011 – Q4 2015):**
 - The number of **unemployed workers** will be **lower** by more than 100.000 people
 - The **unemployment rate** will also be slightly lower.

Macroeconomic scenario (VI)

The Treasury's Funding:

- **Total net issuance will be decreased to € 59 bn in 2014** (from the originally estimated € 65 bn).
- **A clear decreasing trend in net issuance levels:**
 - **€ 97 bn in 2012** (including ESM loan).
 - **€ 72 bn in 2013** (including ESM loan).
- **Decreasing trend in the average cost of debt:**
 - **Average cost of outstanding debt** at around **3.7%** (march 2014) → 3.9% average for 2012.
 - **Average cost at issuance at all-time lows** at around **2%** (march 2014) → around 3% in 2012.
- **Average life of debt portfolio** at around **6.3 years**.
 - As a signal of the **increased market perception and confidence** on the **Spanish economy**, the **average life of long term debt** issued is consistently **increasing**:
 - From **5.1 years** in **2012** to **7.6 years** in **2013**.
 - Close to **8 years** so far in **2014**.

Conclusions of macroeconomic scenario (I)

- The **conservative nature** of the growth forecasts increases the credibility of the budgetary policy.
 - It is the **third upward revision** of the **forecasts** for **2014** and **2015**, in line with **market consensus**.
- Growth stems from a simultaneous and **positive contribution of both internal and external demand**.
 - **Internal demand** → recovery of:
 - **Private consumption**, due to the improvement of employment and consumer confidence.
 - **Gross Fixed Capital Formation**, with a strong increase in investment in capital goods and with a recovery in construction investment in 2015.
 - **External demand** → positive contribution based on **lasting competitiveness gains** due to improved **productivity, efficiency** and the **moderation** of **prices** and **costs**.
 - Results in a **growing position** of Spain's economy as a **net lender** to the rest of the world.

Conclusions of macroeconomic scenario (II)

- The **Spanish economy** has considerably **cleared its accumulated imbalances** and is currently **less vulnerable**, with a **more sustainable growth pattern** and with an **improved potential** to generate **employment**.
- **2014** → **turnaround** in the recovery path
 - It is the **first year** with **output and employment growth**.
 - **Job creation** takes place with a **lower growth threshold**, unlike past years.
 - The **growth and job creation path** will **gain traction** and become sustainable over time **from 2015 onwards**.
- **By year-end 2015**, the **number of unemployed workers** will be **lower** than year-end **2011** by 100,000 people. The **unemployment rate** will also be **slightly lower**.

Budgetary stability targets 2014-2017

(% GDP)	2013*	2014	2015	2016	2017
Central Government	-4.3	-3.5	-2.9	-2.2	-1.1
Social Security	-1.2	-1.0	-0.6	-0.3	0.0
Regional Governments	-1.5	-1.0	-0.7	-0.3	0.0
Local Entities	+0.4	0.0	0.0	0.0	0.0
General Government	-6.6	-5.5	-4.2	-2.8	-1.1

(% GDP)	2013	2014	2015	2016	2017
Gen. Gov. expenditure	44.4	44.0	43.0	41.7	40.1
Gen. Gov. revenue	37.8	38.5	38.8	38.9	39.0

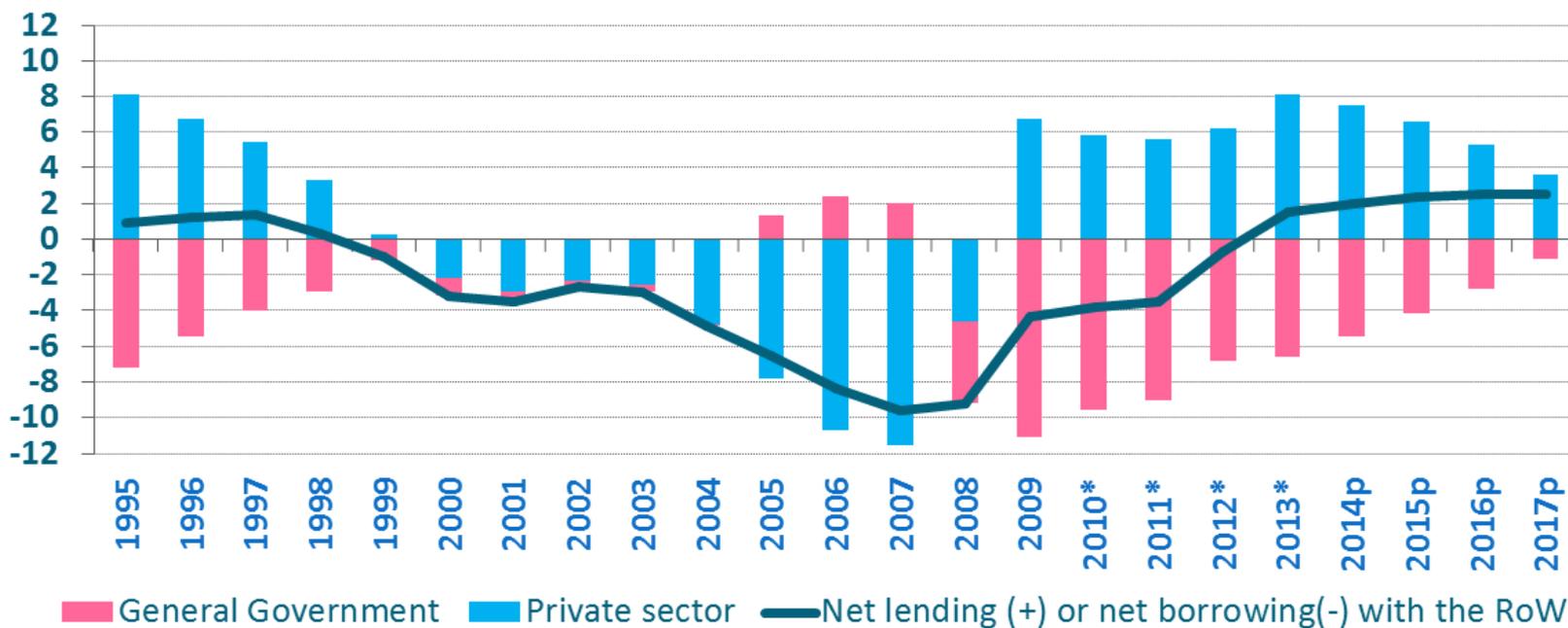
* Net of one-offs to the financial sector. One-offs: 0.47pp in 2013, General gov. deficit at -7.09% and Central Government deficit at -4.8%



Public debt evolution 2014-2017

(% GDP)	2013	2014	2015	2016	2017
General Government	93.9	99.5	101.7	101.5	98.5

Net lending (+) /net borrowing (-) by institutional sector (% GDP)



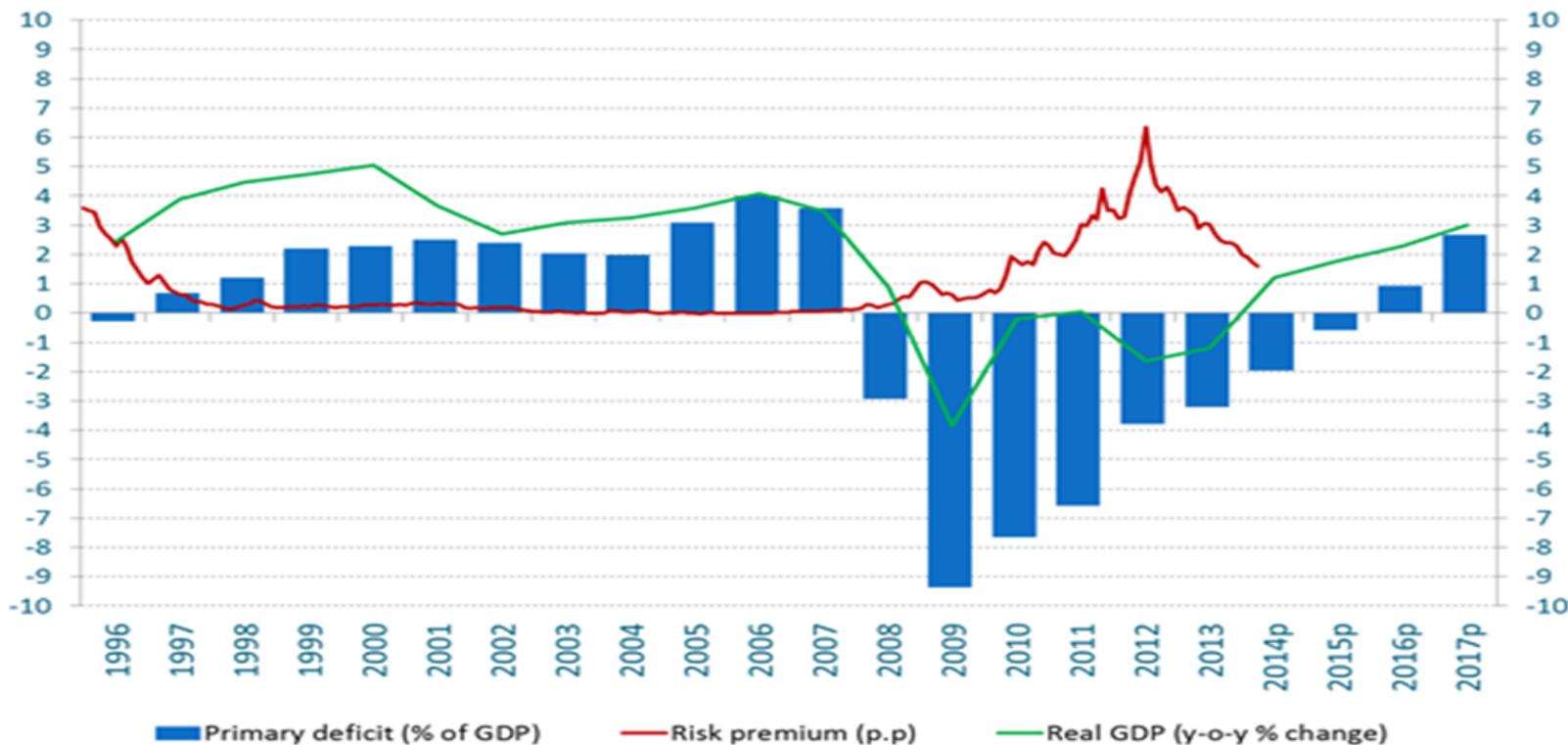
*2010, 2011, 2012 y 2013 Net of financial assistance "one-off".

Source: INE; Ministerio de Hacienda y AAPP

Quarterly data (% Q GDP)										
	2012 average	2013 average	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013
Net lending (+) vis-á-vis RoW	-0.6	1.5	-5.2	-1.0	1.1	2.5	-1.2	2.0	2.3	3.0

Positive effects of fiscal consolidation

Primary deficit * (%GDP), risk premium and GDP



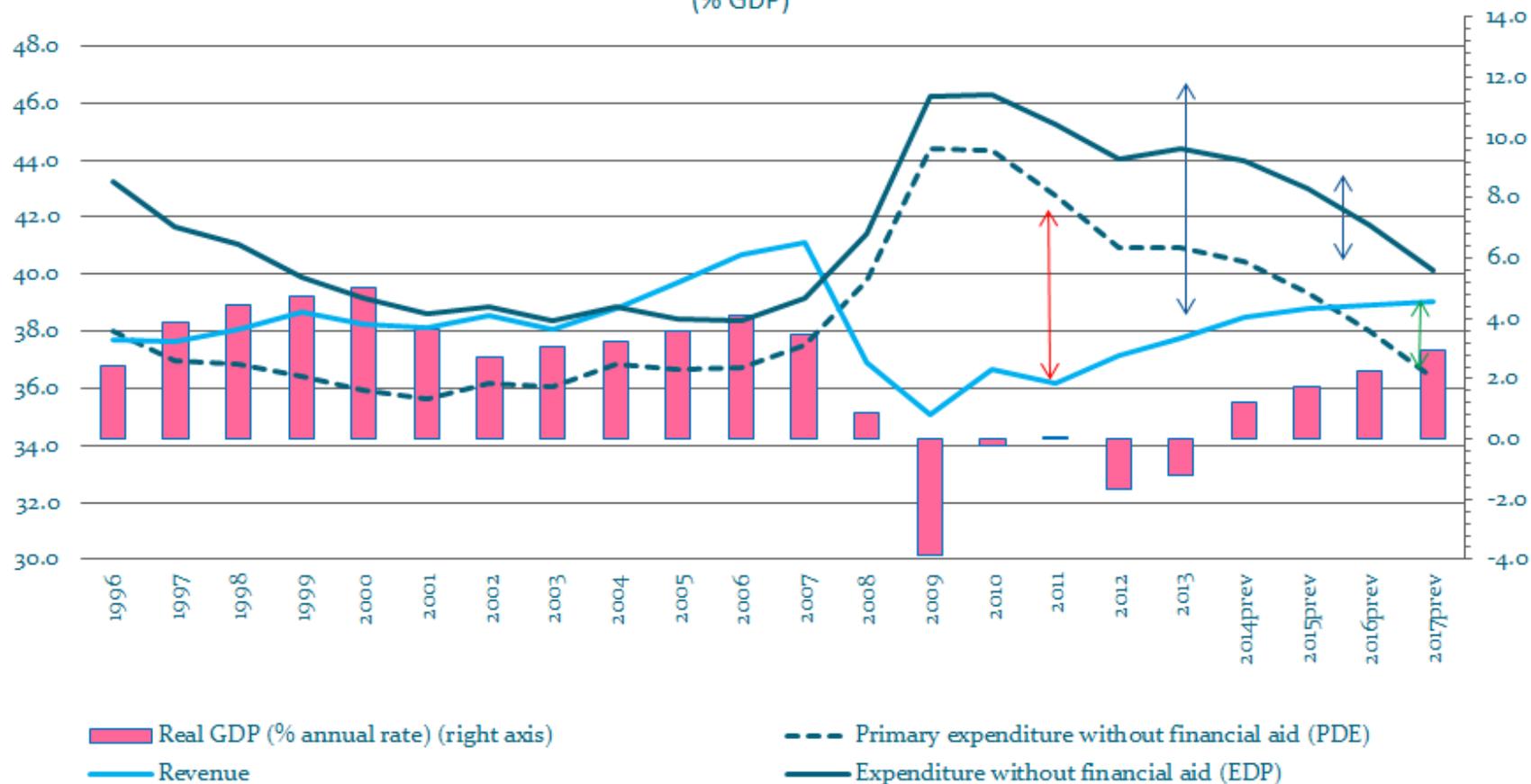
• Net of financial assistance one-off
Source: IGAE.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Structural primary balance	-6.6	-4.9	-3.4	-0.6	1.4	2.2	2.6	3.2	3.8



Fiscal consolidation: revenue and expenditure

Primary public expenditure, public revenue
(% GDP)



Source: IGAE, Ministerio de Hacienda y AAPP.

Tax revenue evolution 2013-2014

Total tax revenues in homogeneous terms (Million € and year- on -year % change)

	January - March			
	2013	2014	% change 14-13	% 14/13
PERSONAL INCOME TAX	19,182	20,216	1,034	5.4%
VAT	16,122	16,754	632	3.9%
EXCISE DUTIES	4,421	4,914	493	11.1%
TOTAL TAX REVENUES (IN HOMOGENEOUS TERMS)	42,037	44,017	1,980	4.7%

Tax revenues SMEs and self - employed (Year on year % change)

Quarterly	13.I	13.II	13.III	13.IV	14.I
Withholding Tax	-3.9	-2.1	-1.7	-1.5	4.6
Gross VAT	-4.6	-0.2	4.4	0.1	6.1
Installment payments					
Personal income tax	-11.8	-10.9	-7.7	-3.6	6.3
Corporate income tax		-11.0		-17.5	
Total	-11.8	-11.0	-7.7	-13.5	6.3

Impact of tax reform

Impact of policy changes (differential impact over the previous year)				
% GDP				
	2013	2014	2015	2016
Taxes	1.27	0.40	-0.19	-0.30
<i>Personal Income Tax and Non-resident income tax</i>	0.22	0.02	-0.23	-0.21
<i>Corporate Income Tax</i>	-0.04	0.21	-0.06	-0.18
<i>Environmental taxes. excise duties and other indirect taxes & FTT</i>	1.10	0.07	0.10	0.09
<i>Combating fraud</i>		0.10		
GDP Million €	1,022,988	1,040,609	1,067,535	1,104,120

Impact of policy changes (differential impact over the previous year)				
Million €				
	2013	2014	2015	2016
Taxes	13,066	4,156	-2,016	-3,291
<i>Personal Income Tax and Non-resident income tax</i>	2,209	223	-2,485	-2,291
<i>Corporate Income Tax</i>	-434	2,169	-607	-2,000
<i>Environmental taxes, excise duties and other indirect taxes & FTT</i>	11,291	764	1,076	1,000
<i>Combating fraud</i>		1,000		