

Fiscal adjustment in Spain and the EU fiscal framework



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SPAIN: FROM RECOVERY TO RESILIENCE - Joint Conference Banco de España and IMF

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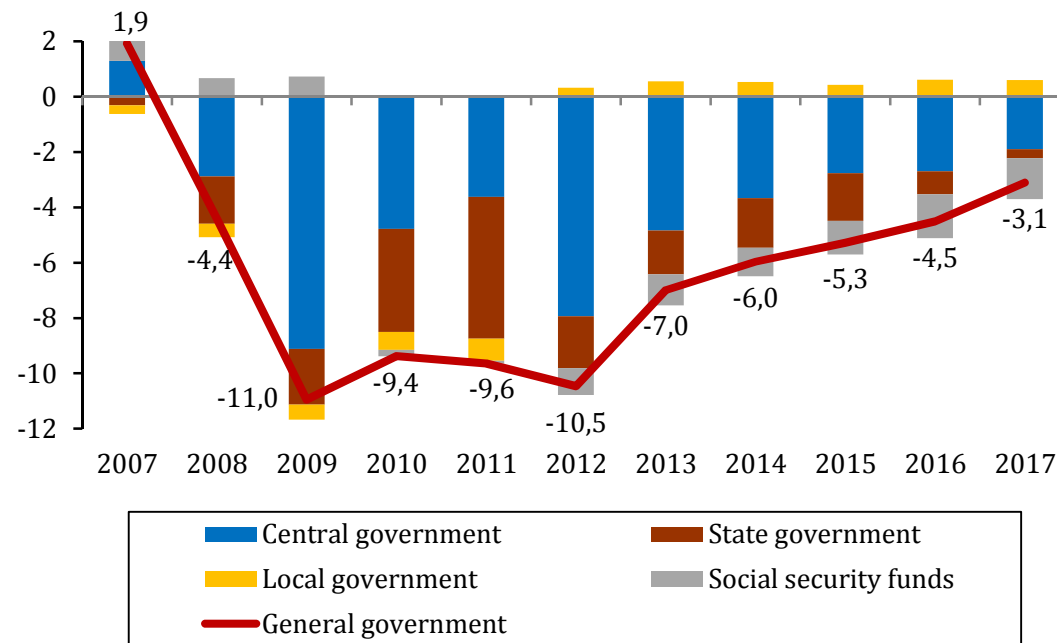
Lowering fiscal vulnerabilities

- 1 Fiscal adjustment in Spain
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1. Fiscal adjustment in Spain

Important efforts to comply with EU targets

Spain has achieved a significant correction of its excessive deficit against a background of financial and economic distress



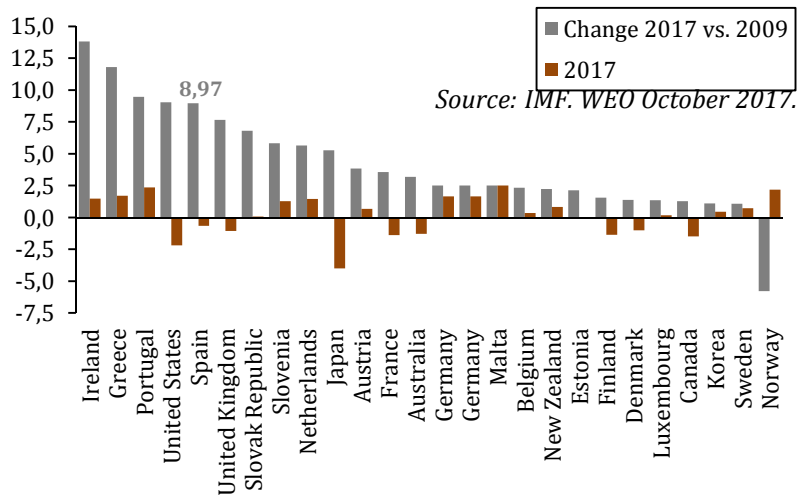
Source: IGAE

1. Fiscal adjustment in Spain

Ongoing progress in the correction of the primary balance

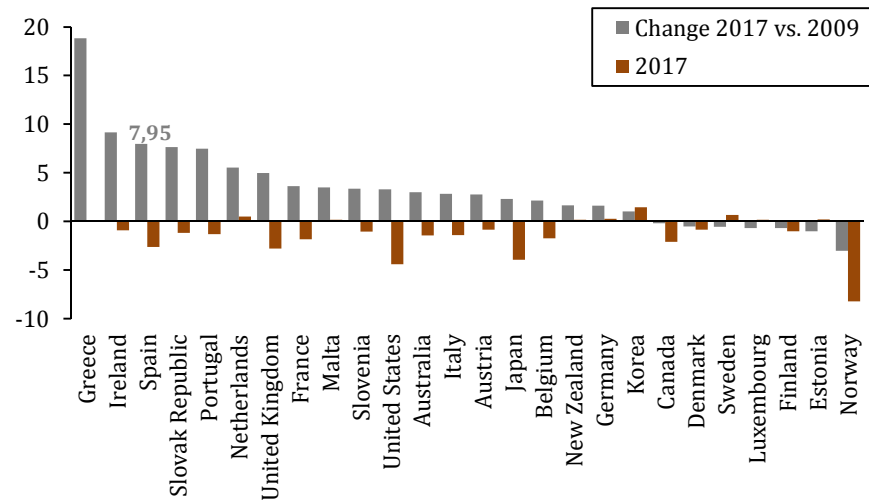
Spain's adjustment effort has been very ambitious both in nominal and in structural terms

Primary Balance. 2017 vs. 2009.
(pp of GDP)



Source: IMF. WEO October 2017.

Structural Balance. 2017 vs. 2009.
(pp of GDP)

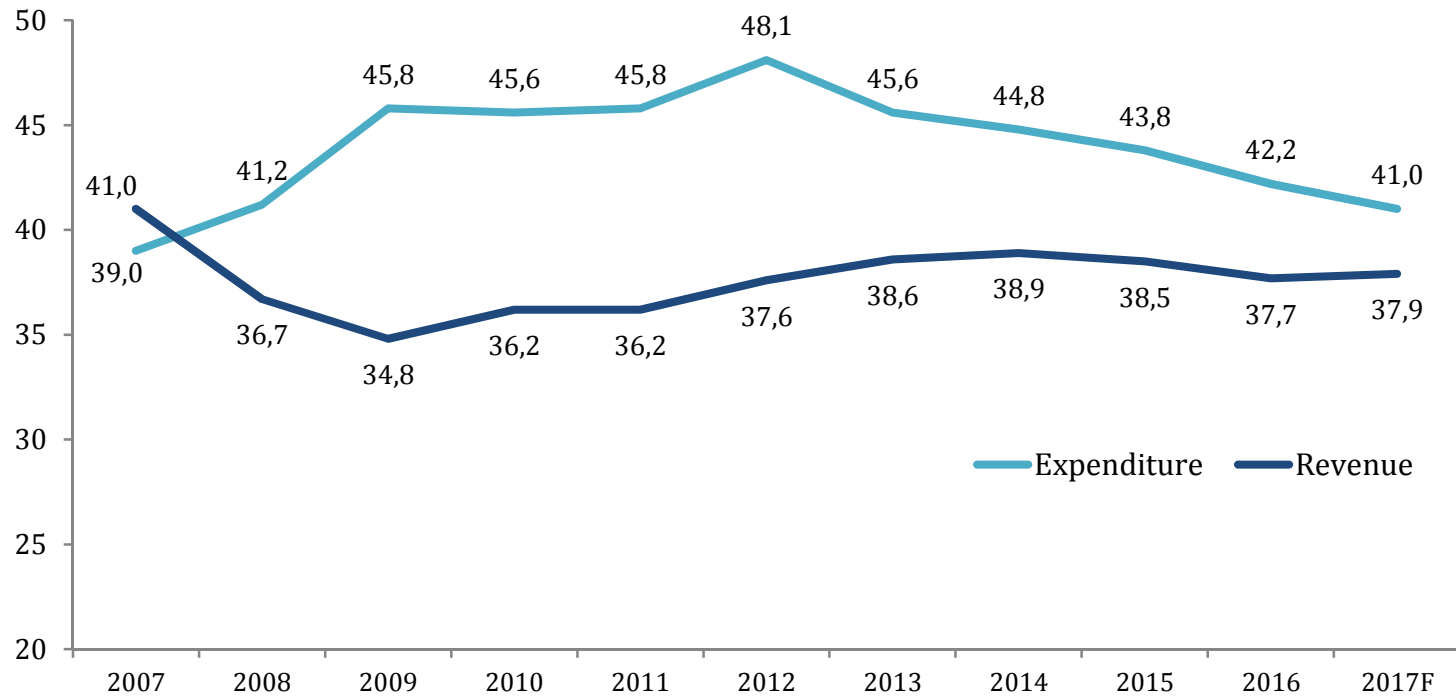


Source: IMF. WEO October 2017.

1. Fiscal adjustment in Spain

On both expenditure and revenue side

General government expenditure and revenue (% of GDP)

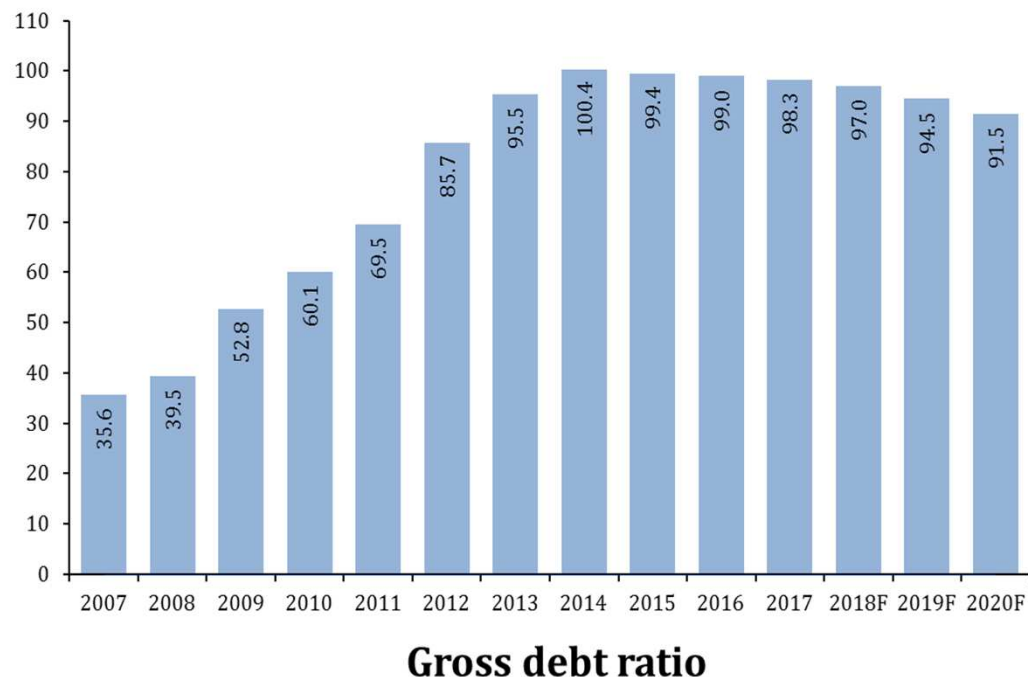


Source: Eurostat, AEAT

1. Fiscal adjustment in Spain

Public debt remains a challenge

Debt peaked in 2014. Nominal GDP growth has since helped reduce the ratio.



Factors of debt growth

(% of GDP)

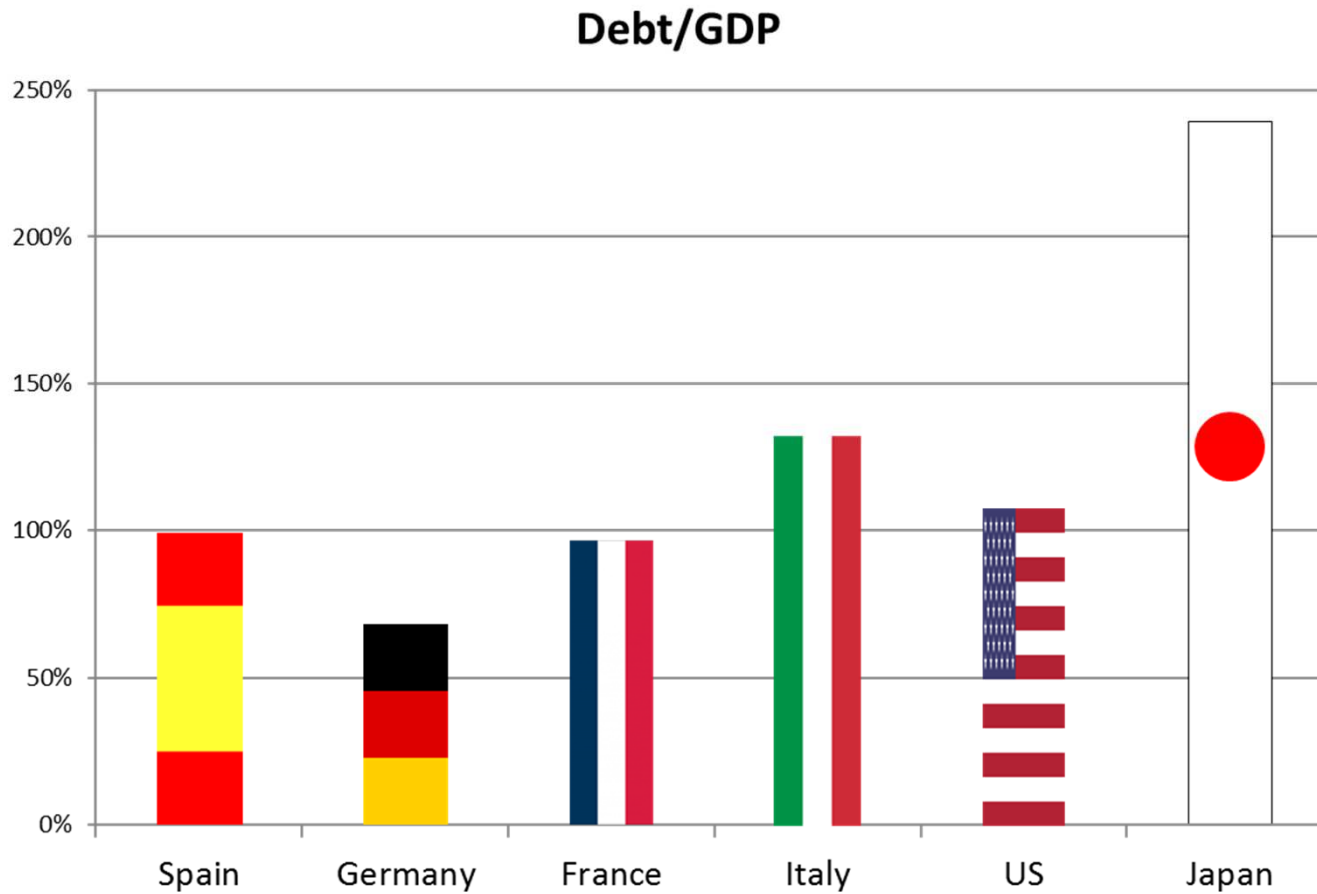
	2009-2013	2014-2018
Change in gross debt ratio	56.0	1.6
Nominal growth effect	5.1	-16.3
Interest expenditure	12.5	14.3
Primary balance	30.7	6.3
Financial sector recapitalisation	3.7	0.8
EFSF (lending to Greece, Ireland, Portugal)	2.2	0.0
Others	1.7	-3.6

Source: Banco de España, 2018 Budget and Draft Budgetary Plan 2018

1. Fiscal adjustment in Spain

A shared challenge worldwide

Spain's debt to GDP ratio is however similar to that of other large advanced economies

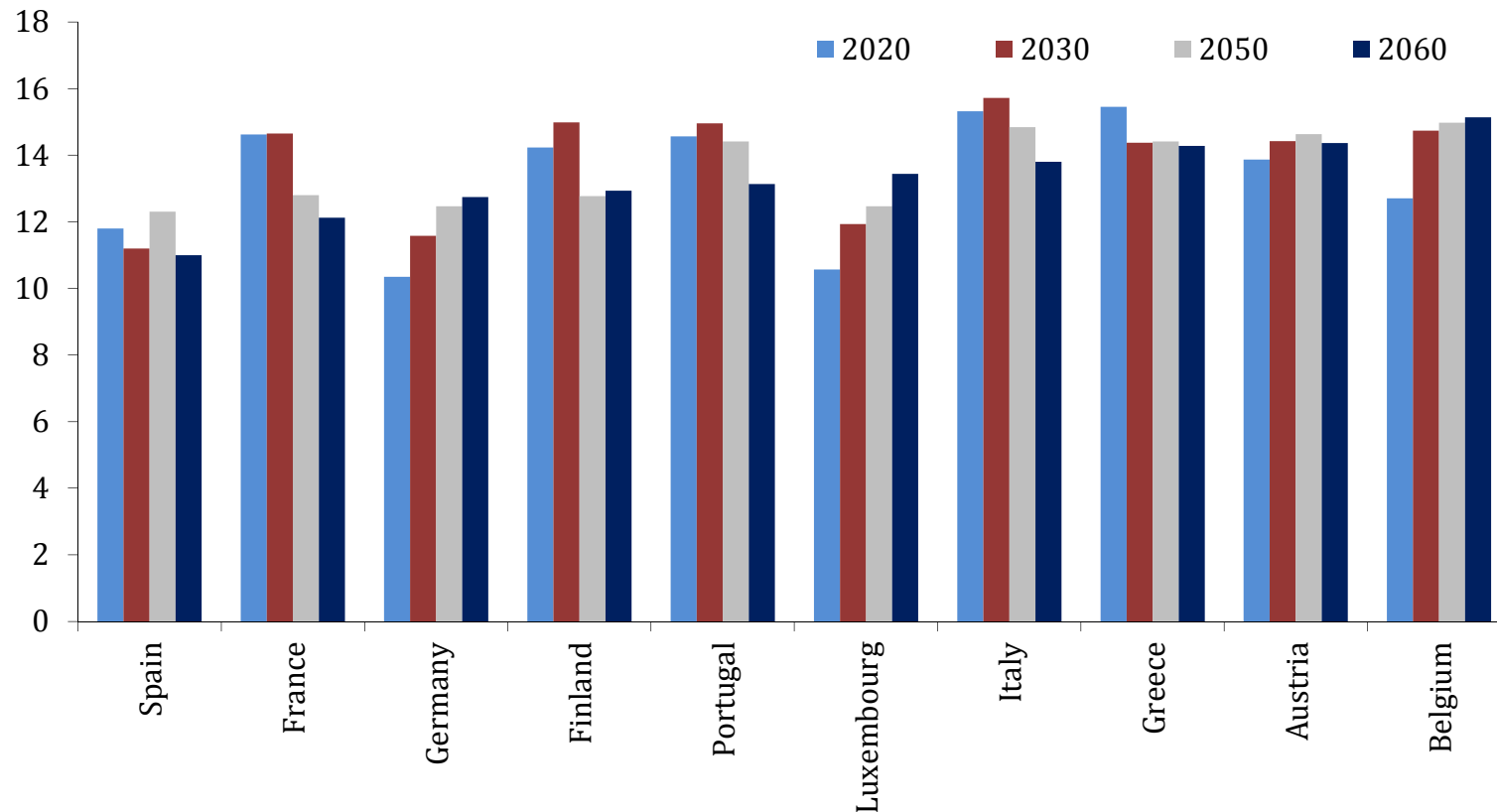


Source: Eurostat, IMF, 2016

1. Fiscal adjustment in Spain

Ensuring the financial sustainability of the pension system is also a shared challenge

Gross Expenditure in Public Pensions
(% of GDP)



Source: European Commission, MINEICO

2. A growth-friendly adjustment

Ensuring a healthy and balanced growth through structural reforms

- The strategy has to be credible. Frontloaded adjustment helped regain market confidence.
- Primary balance adjustment is essential, but needs to be coupled with nominal GDP growth.
- Growth is now balanced and the economy much more resilient → Spain is in a better position to face any future shocks.

2. A growth-friendly adjustment

Fiscal adjustment must be credible.

Risk premium is now close to its lowest

Spain-Germany 10y Government Bond Spread



Source: Bloomberg

2. A growth-friendly adjustment

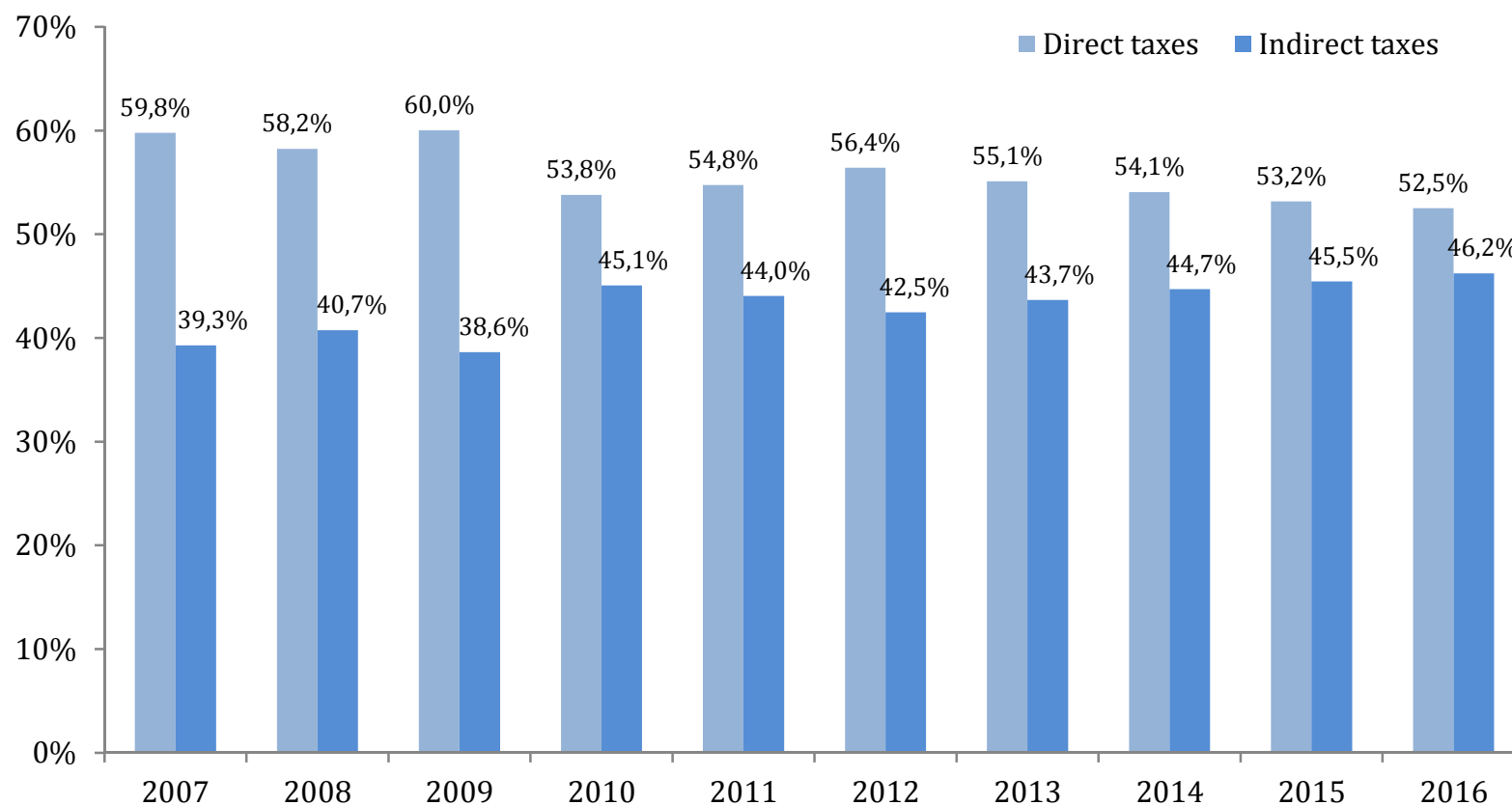
Measures

- Reform of public administration (CORA initiative)
- Ongoing public expenditure review by Airef
- Protection of public investment
- Shift in tax revenue composition

2. A growth-friendly adjustment

Shift in tax revenue composition

Direct and indirect taxes
(% of total tax revenue)



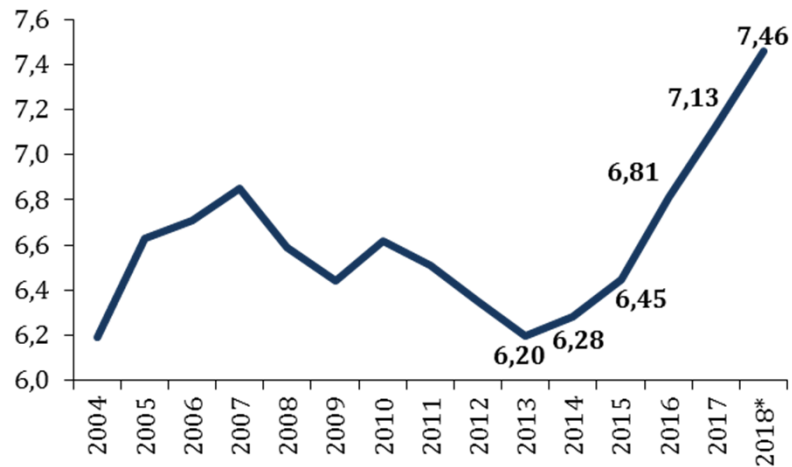
Source: AEAT

2. A growth-friendly adjustment

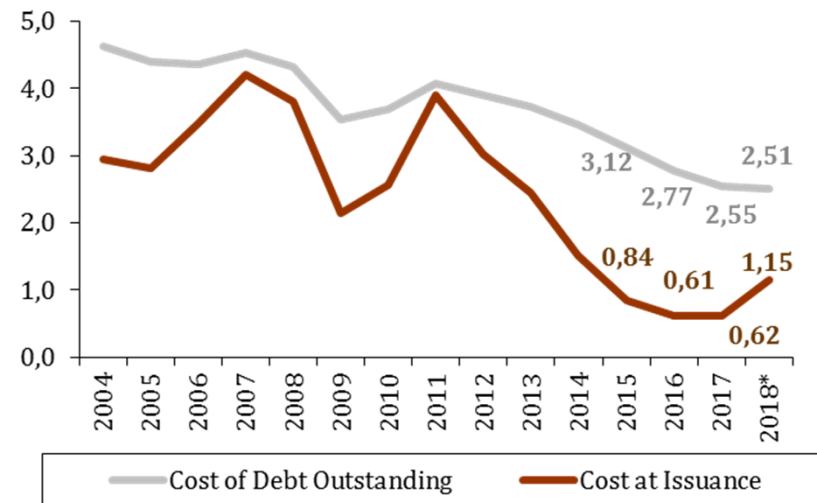
Longer tenors at historically low rates

The Spanish Treasury is ready to deal with the potential impact on rates from the expected monetary policy normalization

Average Life of Debt Outstanding
(in years)



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

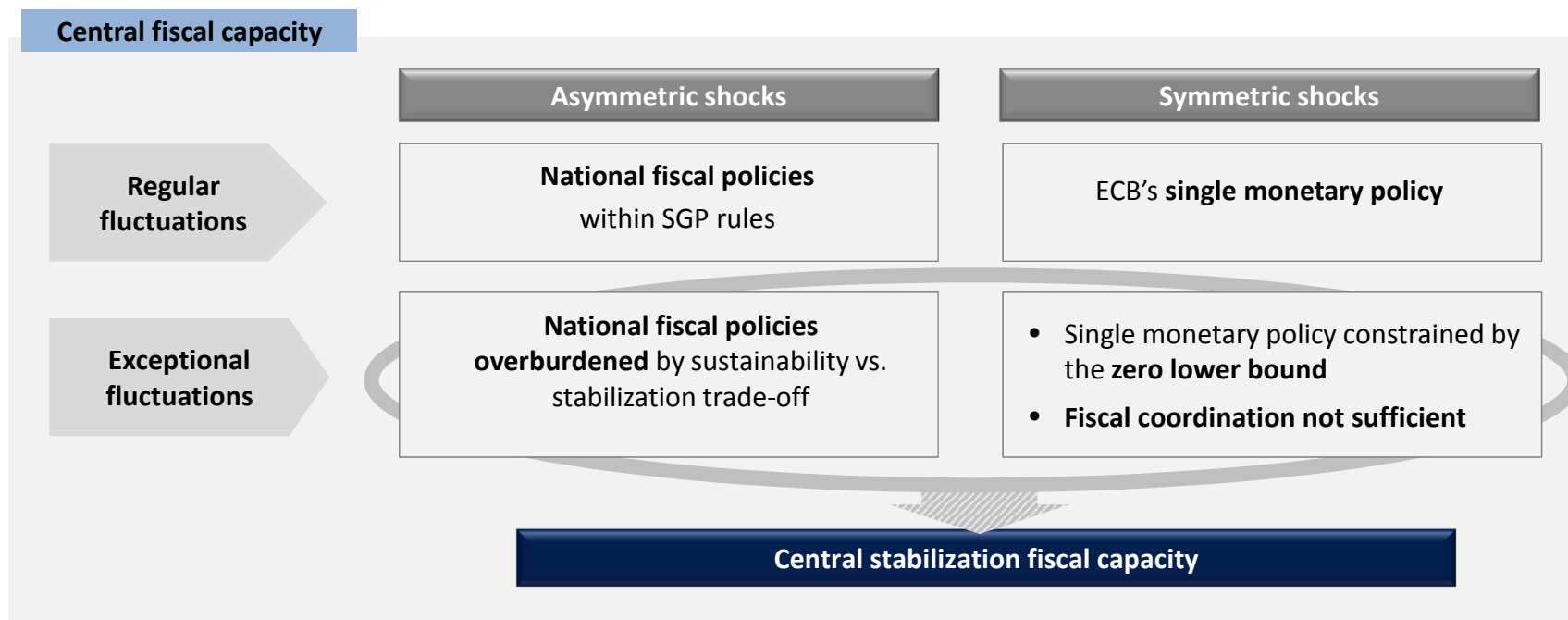


Source: Spanish Treasury

3. Fiscal reforms at the EU and EMU level

Central fiscal capacity and reform of fiscal rules

In a deep downturn a stabilization capacity would top up national fiscal stabilisers guaranteed by sound fiscal policies



Reform of fiscal rules

- **Simple, transparent and easy to communicate fiscal rules**, which strike an appropriate balance between stabilization and sustainability needs

Thank you for your attention

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Secretary General of the Treasury and Financial Policy

