



Consejo Empresarial
para la
Competitividad

ECONOMIC RECOVERY IN SPAIN TO GAIN MOMENTUM IN 2015-2016

DOMESTIC DEMAND AT THE FOREFRONT

FEB 2015

The members of CEC are the CEOs of Acciona, ACS, BBVA, Santander Bank, Ferrovial, El Corte Inglés, Iberdrola, Inditex, Caixabank, Planeta, Mango, MAPFRE, Mercadona, Repsol, Telefónica and Instituto de la Empresa Familiar.

Economic recovery is gaining momentum and will create jobs: positive growth surprise in 2014, with GDP to increase ~3% in 2015 and 2016

External structural adjustment will allow financing capacity, making Spain more attractive as a recipient country for productive investment

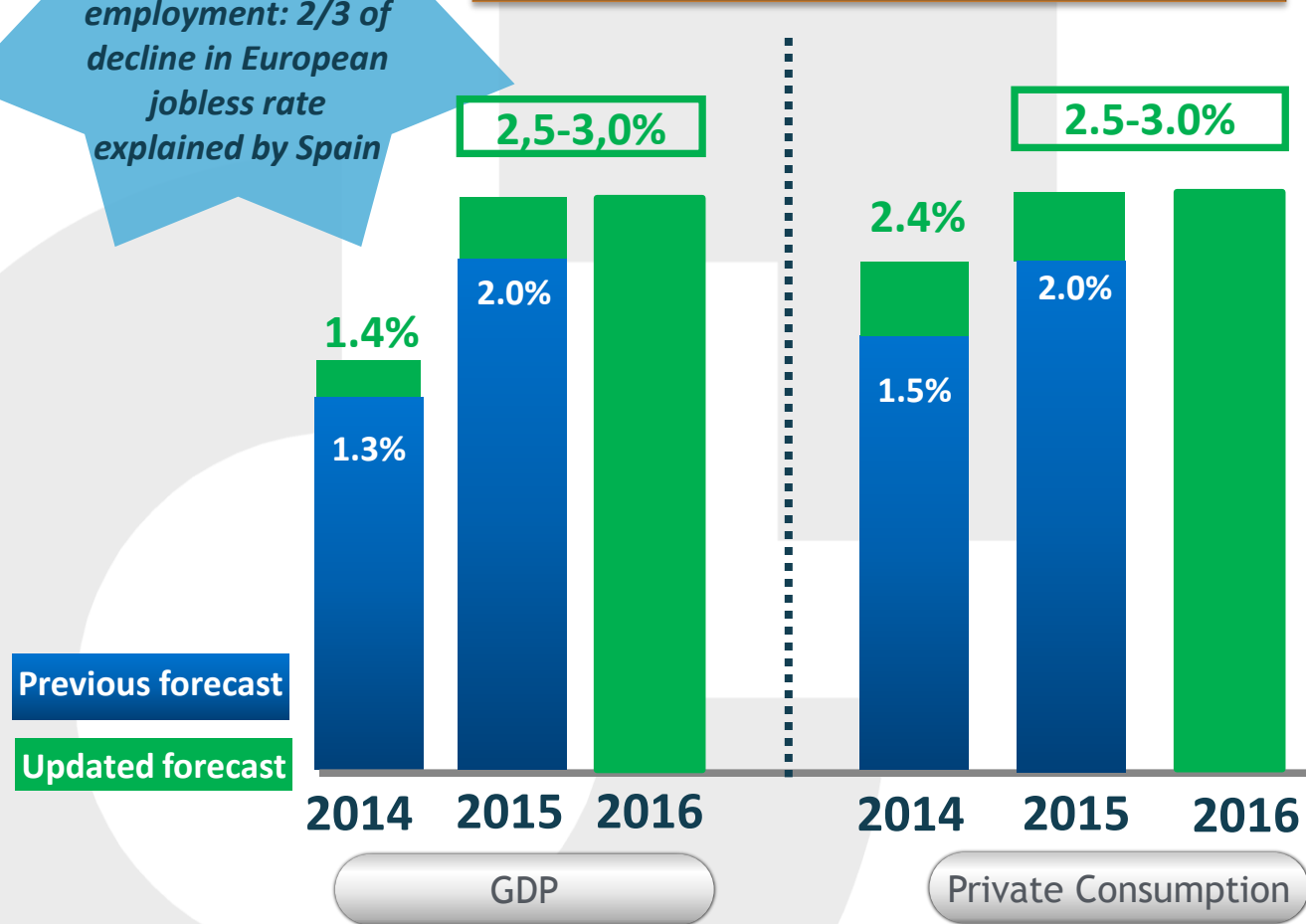
Past imbalances continue to adjust and are at an advanced stage, allowing a positive contribution of domestic demand in 2015 (+3%) for the first time in 6 years

There is a need to continue with economic transformation, to successfully conclude the reforms that are underway and go even further with those that favour an economy based on knowledge and re-industrialisation

Both internal and external factors will accelerate growth rate in 2015-16 to pre-crisis rates

Positive surprise in 2014 due to employment: 2/3 of decline in European jobless rate explained by Spain

GDP and Private Consumption forecasts 2014-16



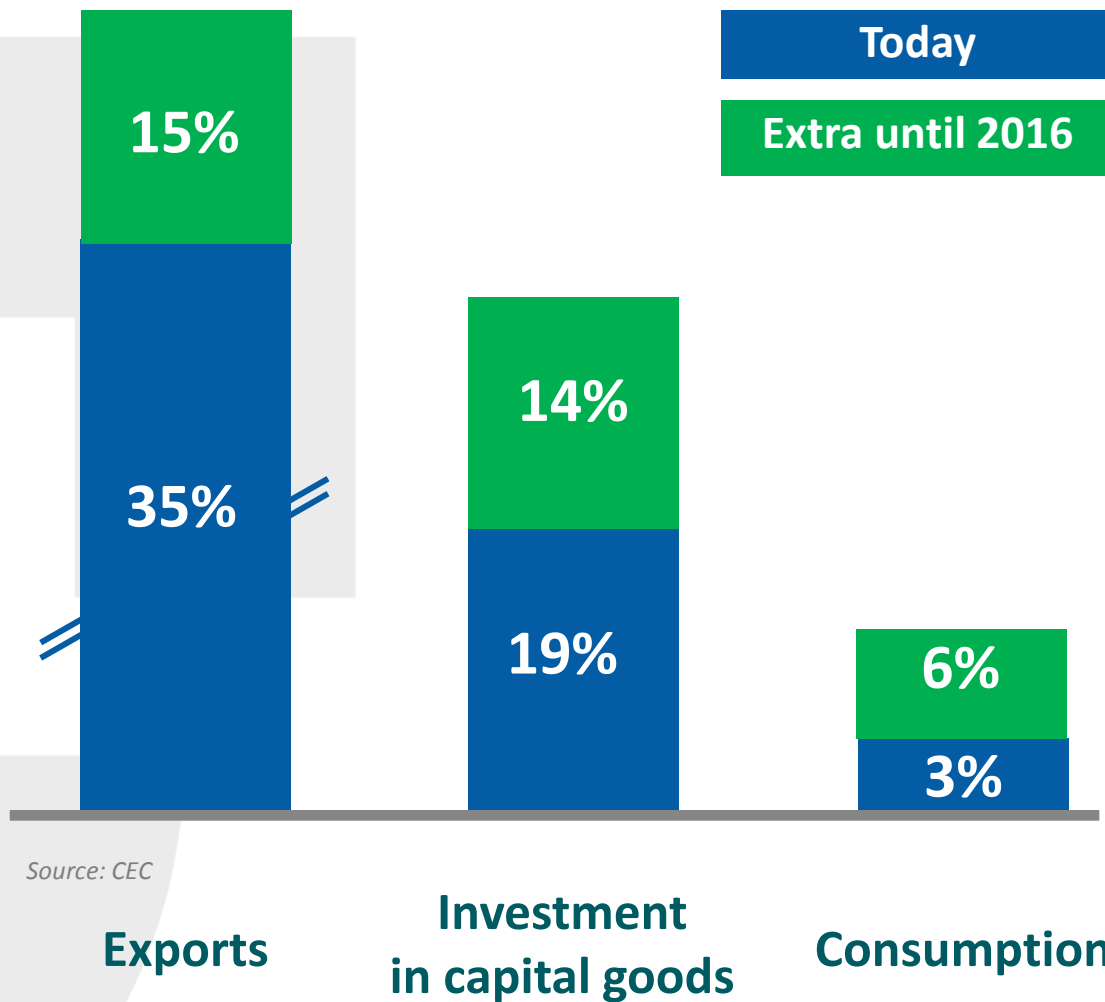
Positive shocks in 2015 vs. 2014:

- Decrease of oil price
- Lower risk premium / ECB financing policy
- Exchange rate depreciation
- Fiscal Reform
- Positive labour expectations on consumer confidence

Recovery continues in line with the historical pattern

After exports and investment, now consumption and jobs

Accumulated growth from its bottom (%)

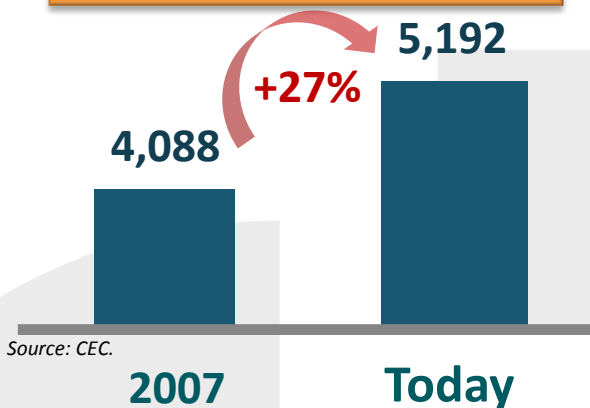


Exports continue to show a remarkable improvement

Adjustment not only in quantities but also in quality

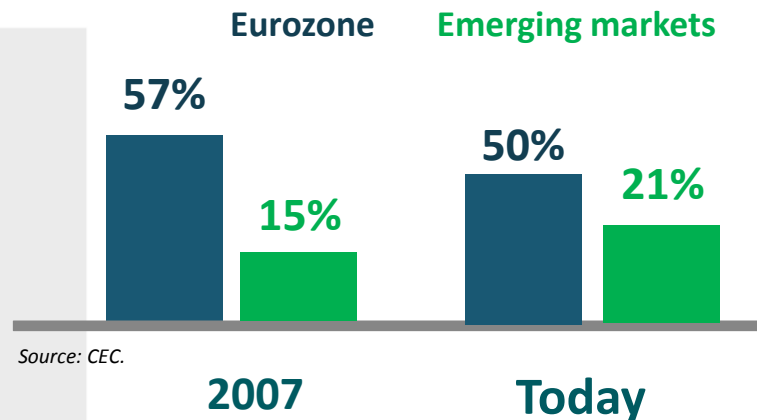
Exports per capita

(Euros)



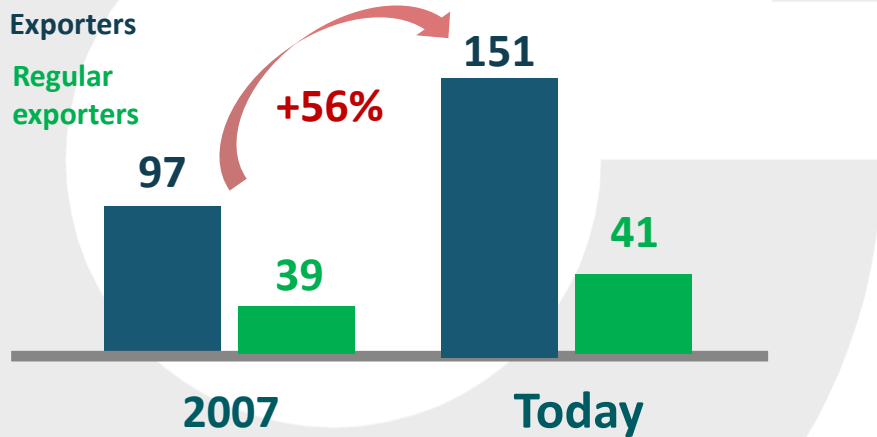
Exports: diversification by destination

(% total)



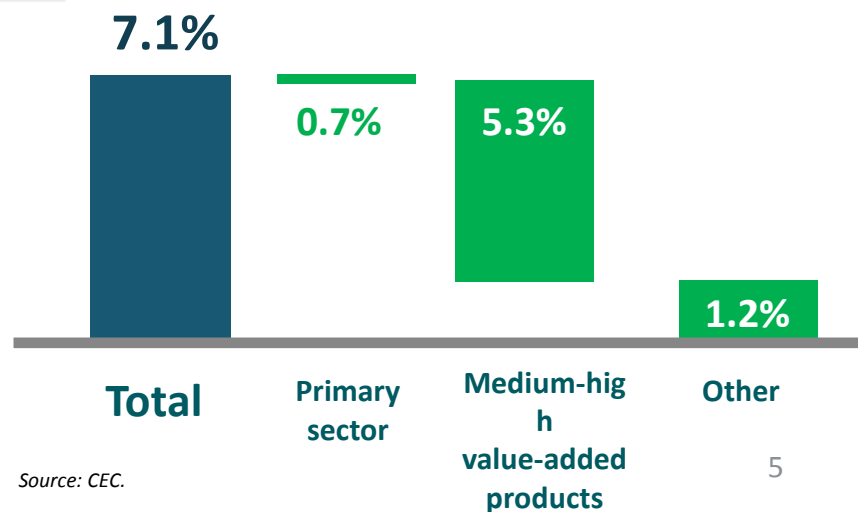
Number of exporters

(thousands)



Trade balance improvement (2007-14) by type of good

(% GDP)



Spanish businesses should target more internationalisation & size

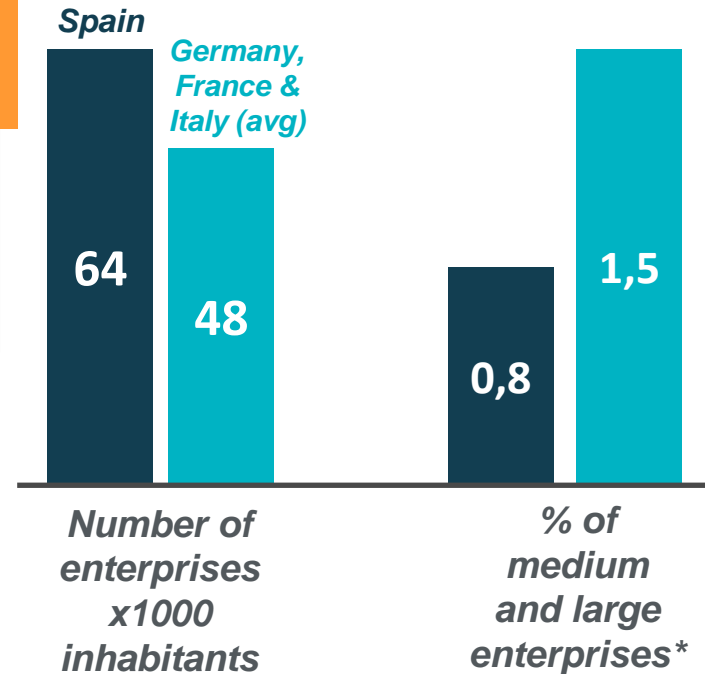
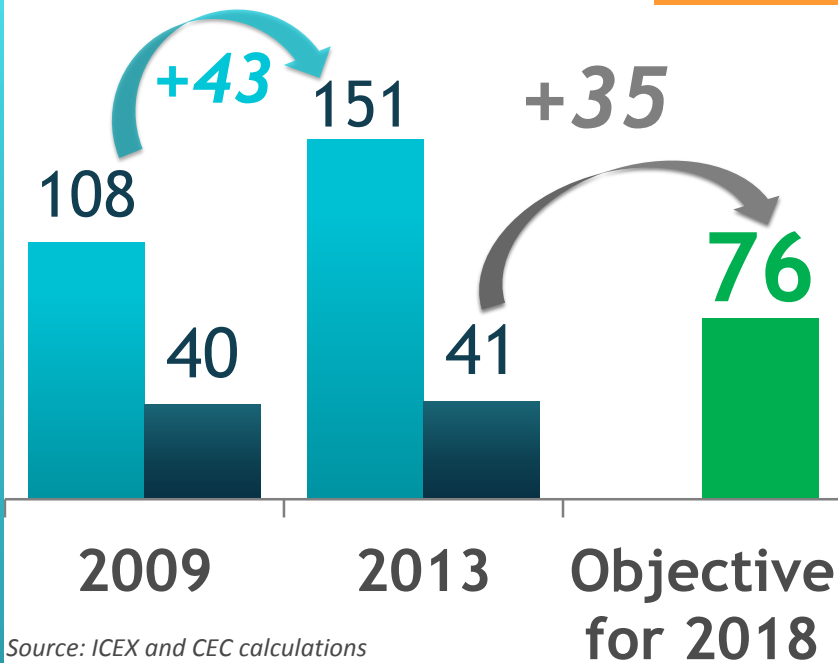
TARGET: turning new exporting companies into regular exporters (80% of conversion)

Not a matter of having more companies, but of increasing its size:

- + employment: +400k
- + productivity: +15%
- + innovation
- + export propensity

- Regular exporting companies (thousand)
- Total exporting companies (thousand)

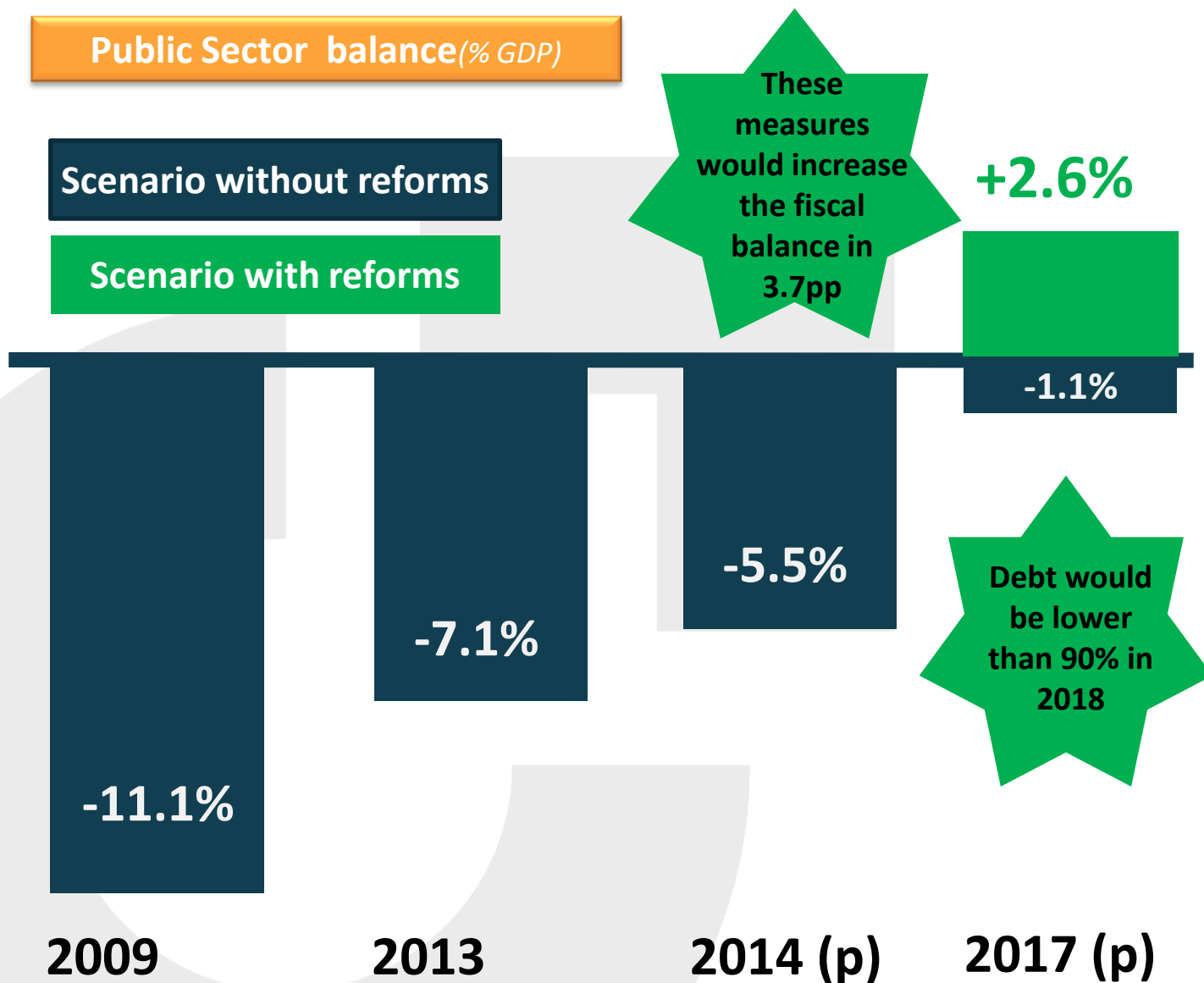
Great potential of Spanish exports due to its high degree of complexity and connectivity



* over 50 employees. Source: Eurostat

Ensuring public debt sustainability

Ambitious fiscal adjustment needed, but should not penalize growth

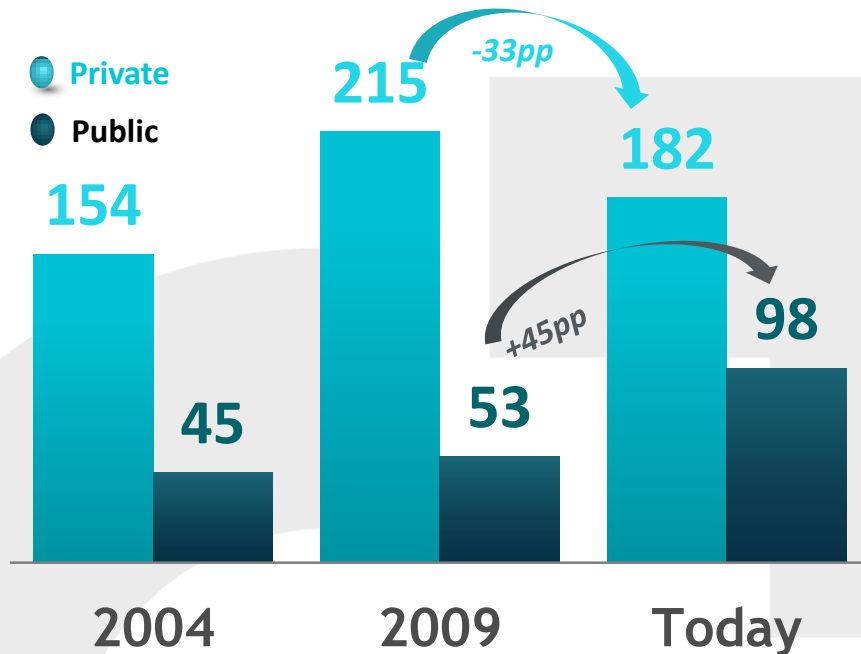


Measures for:

- Reducing debt:
 - Active management of public assets
- Reducing the deficit:
 - Fighting tax fraud
 - Rationalisation and efficiency
 - Externalisation and subcontracting
 - Implementing with no delay the Pension System reform

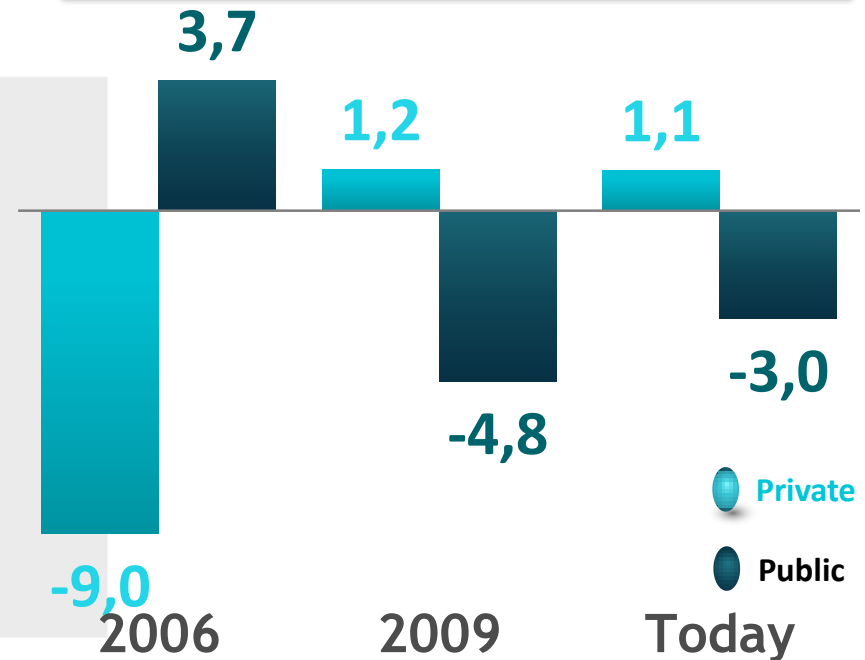
Need to maintain savings levels to guarantee both private and public deleveraging

Evolution of Public and Private Debt
(% GDP)



Source: European Commission and Bank of Spain

Financial needs differential:
Spain - Eurozone (% GDP)



Source: European Commission

- Private debt has gone down 33 pp GDP since the beginning of the crisis vs. 45 pp of increase of public debt
- Savings levels in the private sector are aligned with those in Europe, while the gap for the public sector deteriorates further

Banking sector strengthened after restructuring

Credit already flowing into profitable sectors

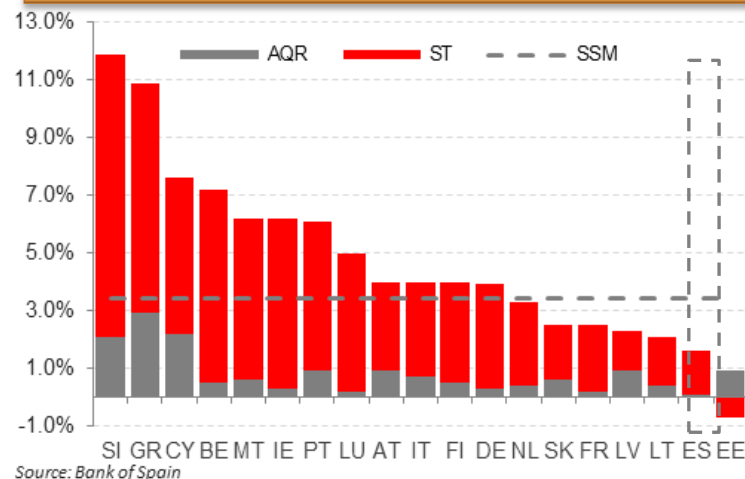
Banking sector has proved to be very resilient...

- Second banking sector with lower impact in the Comprehensive Assessment
- Restructuring process almost finished:
 - From a system with 50% of granted by savings banks to a system leaded by commercial banks
 - CET1 phase-in: 11,6% in june 2014
 - 30% less branches than in 2008

... and is focused again in its core business

- New loans have increased 12% in retail business during 2014.
- Loans to corporates also improving in the 4Q14.
- Spreads narrowing: 1.7pp for NFCs in the last 20 months

Net impact of adverse scenario in Common Equity Tier 1 (pp)





New business on loans to retail segments (% yoy, 3m Moving Average)



Decreasing unemployment is Spain's main goal. Spain must advance reforms underway

According to OECD, Spain is one of the reforming leaders

More adjustments in key legislation

-  Simplify contracts, taxation and effective employment policies
-  Doing business
-  Intangibles & Energy
-  Fighting Fraud

Policies oriented to promote economic transformation

-  Gaining international competitiveness with job creation
-  Better education
-  Efficient Corporates-University-Research collaboration
-  Promote policies that increase the average size of companies

Reform and modernization of public sector administration, seeking efficiency in processes and prioritization of productive public investment



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