RESTORING PUBLIC FINANCES

SPAIN: FISCAL CONSOLIDATION PLAN

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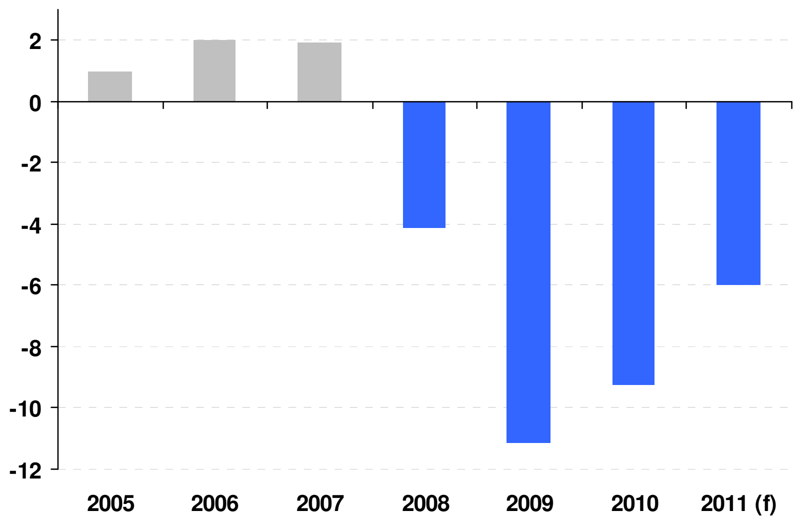
A considerable deterioration of the fiscal position

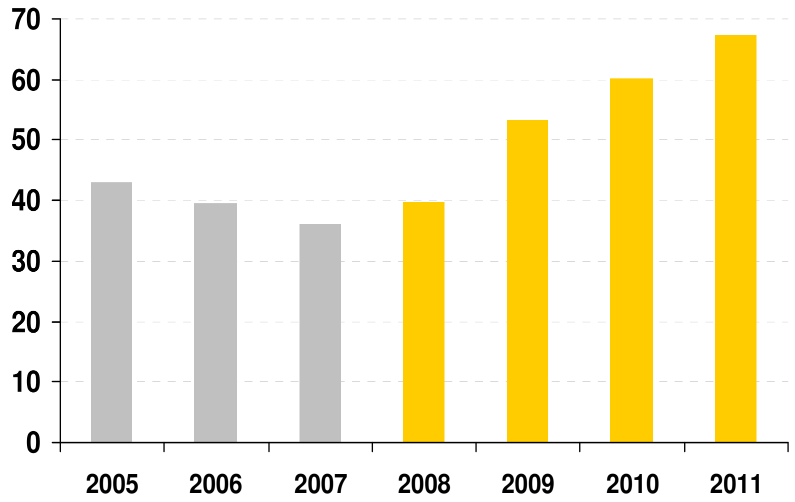
Net lending (+) Borrowing (-)

% of GDP



General government consolidated gross debt

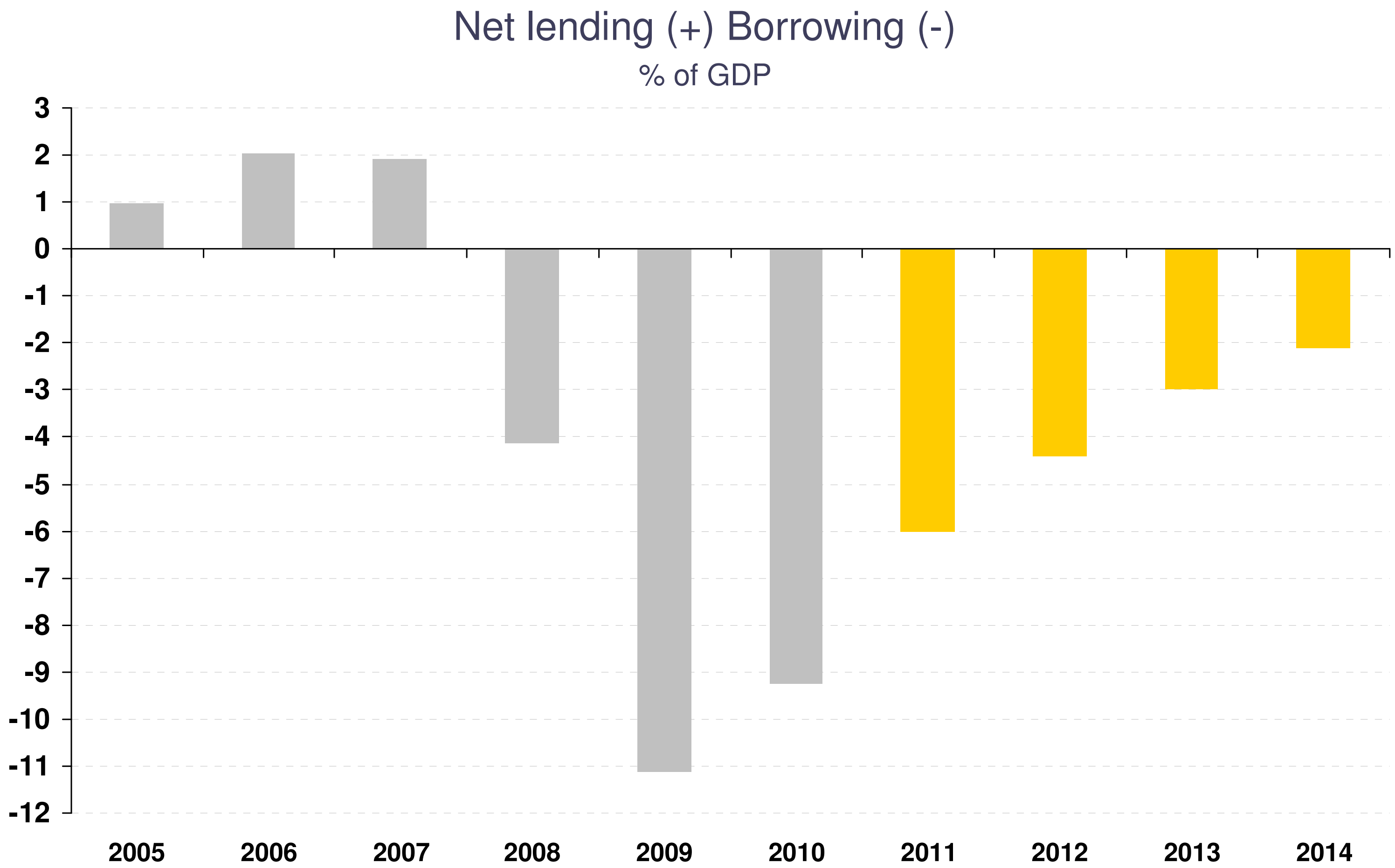
% of GDP



Source: Ministry of Economy and Finance of Spain

Fiscal consolidation path

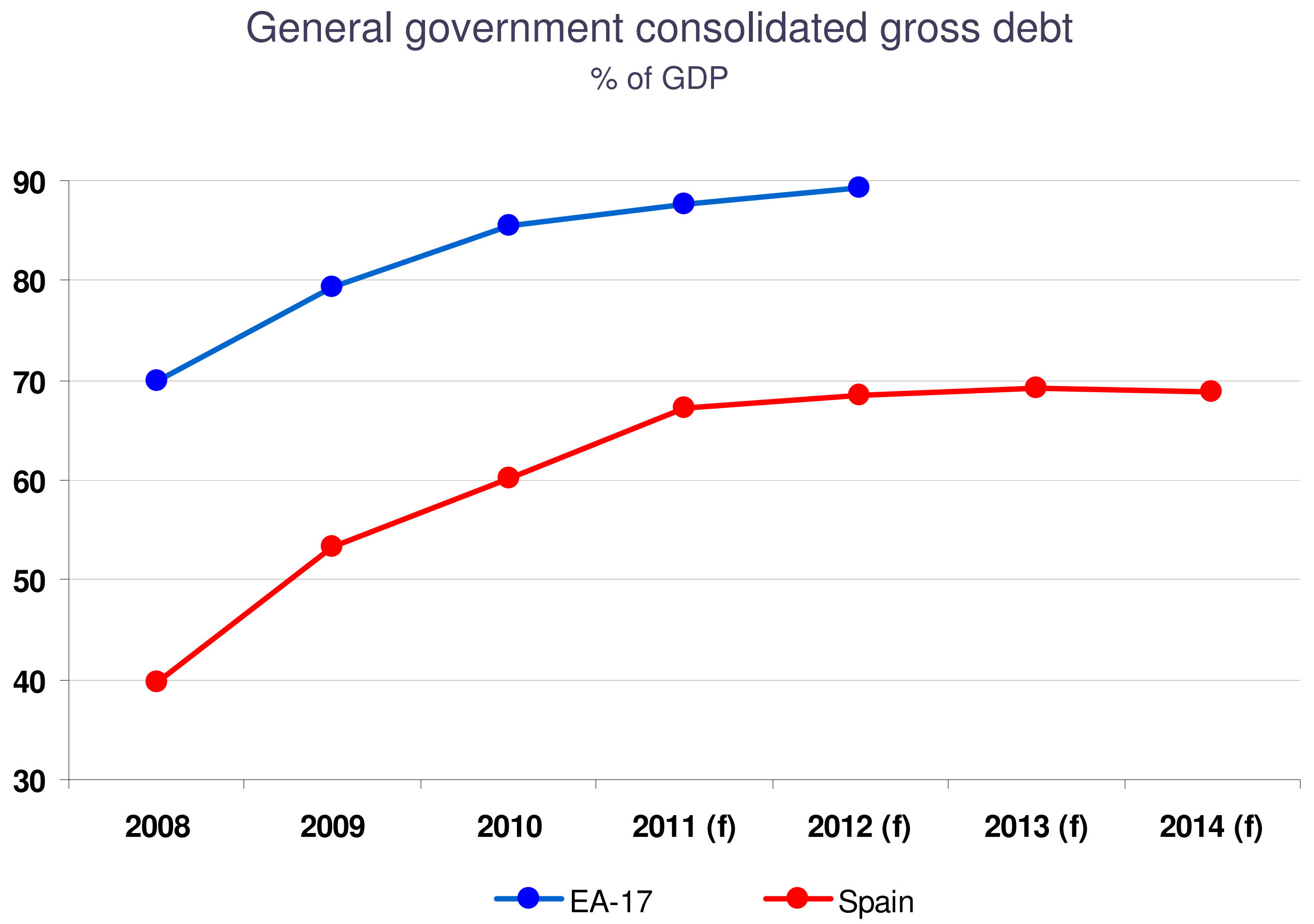
The target is to achieve a deficit of 3% of GDP in 2013



The MTO is the cyclically adjusted balanced budget

Source: Spanish Stability Programme 2011-2014

The public debt ratio will begin to decrease in 2014



The public debt ratio will mantain 20 p.p. below EA-17 average

Source: Spanish Stability Programme 2011-2014, European Commision

2009-2013 fiscal adjustment

	% GDP
2009 DEFICIT	**-11,1**
Interest payments	**-0,9**
Effects of economic recovery	**0,5**
Withdrawal of transitory measures	**2,0**
Discretionary measures (fiscal adjustment)	**6,5**
Revenues	1,3
Expenditures	5,2
2013 DEFICIT	**-3,0**

Source: Spanish Stability Programme 2011-2014

Fiscal consolidation strategy

1. Expenditure adjustment in 2010
2. Expenditure Review Plan for 2011-2013
3. Revenue enhancement measures
4. Framework Agreements with Territorial Administrations

Major consolidation measures

Revenues

- Personal Income tax
  - increase in the top-tax rate *(1 percentage point for taxpayers earning above €120,000 and 2 percentage points for those earning above €175,000)*
  - elimination of the €400 tax rebate except for low-income households
  - elimination of the €2,500 birth benefit
  - elimination of the tax credits for new housing purchase except for low-income households
- Value Added Tax
  - the standard rate was increased from 16% to 18% and the reduced rate from 7% to 8%
- Increases in the excise duties on tobacco and hydrocarbons

Major consolidation measures
Expenditures

- Public sector wages
  - 5% cut in 2010
  - freezing in 2011
- Public sector staffing
  - 10% replacement rate in 2011-2013
- Public investment
  - public investment for infrastructure by the Central government will have been cut by 0.6% of GDP in 2010-2011
  - Local Investment Fund will disappear (0.6% of GDP)
  - The remaining investments by the Central government will be reduced by 25% in the period 2011-2013
- Pension payments have been frozen in 2011
- Foreign development aid has been cut in 2010-2010
- Healthcare
  - cost-saving measures such as generic prescriptions, single doses, etc.

Breakdown of the 2009-2013 expenditure reduction

	2009	2013	2013-2009
Compensation of employees	11,9	10,2	-1,7
Intermediate consumption	5,8	4,7	-1,1
Social transfers	17,5	17,3	-0,2
Interest payments	1,8	2,7	0,9
Gross fixed capital formation	4,4	2,6	-1,8
Other expenditures (subsidies, other than social current transfers, etc.)	4,5	3,0	-1,5
TOTAL EXPENDITURE	**45,8**	**40,5**	**-5,3**
PRIMARY EXPENDITURE	**44,0**	**37,8**	**-6,2**

Source: Spanish Stability Programme 2011-2014

A strong commitment with the fiscal path 2011-2013

- Any new spending action is made conditional upon the fulfillment of the deficit target
- Additional revenues that exceed those foreseen in the consolidation path will be entirely devoted to public deficit reduction
- The Government will take additional measures, if needed, to achieve expenditure and deficit reduction targets

THANK YOU VERY MUCH!