



1 THE TREASURY'S FUNDING IN 2009

In the last few years until 2008, Spanish Government Debt has seen significant falls in relative, and even in absolute, terms. The Debt-to-GDP ratio fell to 36.2% in 2007, and the volume of outstanding debt fell to around 307 billion euros. As shown in the second part of this document, 2008 has seen a reversal of this trend, with a significant increase in the balance of State Debt outstanding. This increase may be even greater in 2009, insofar as the Government, taking advantage of its initially low level of debt, will undertake fiscal stimulus measures, in accordance with of the European Union's fiscal impulse plan agreed on in December 2008.

The updated Stability Program for 2008-2011, published on January 16th, forecasts that by end-2009 the General Government Debt-to-DGP ratio will reach 47.3%, assuming real GDP growth of -1.6% and a budget deficit of 5.8% in ESA-95 terms.

Updated Stability Program, January 2009					
	2007	2008	2009	2010	2011
Real GDP (% change)	3.7	1.2	-1.6	1.1	2.6
General Government budget balance (%GDP)	2.2	-3.4	-5.6	-5.1	-4.3
Central Government budget balance (% GDP)	1.3	-2.7	-4.6	-4.2	-3.8
General Government gross debt (% GDP)	36.2	39.5	47.0	51.7	54.3

Source: Ministry of Economy and Finance

The increase in Tesoro Público's funding requirement can be explained by, among other things, the Government's implementation of several instruments designed to alleviate the effects of economic stagnation: the Financial Asset Acquisition Fund (FAAF), an increase in the capital base of the Instituto de Crédito Oficial (ICO), a special loan to ICO for the funding of SMEs, and several fiscal stimulus measures. Some of these instruments are not directly reflected in the 2009 Budget, but they will nevertheless require funding from the Treasury.

The net funding requirement for the Treasury in 2009 is estimated to be around 86.5 billion euros. Tesoro Público expects to raise this sum through the instruments and channels at its disposal, as shown in the table below.



Tesoro funding in 2009	
Funding requirement (=Net issuance)	86.5
Gross issuance of bonds and long-term loans*	87.0
Redemptions of bonds and long-term loans*	-32.8
Net issuance of bonds and long-term loans*	54.2
Increase in outstanding balance of <i>Letras del Tesoro</i>	32.4
Assumption of RTVE (Public Television Company) Debt	1.5
Net change in outstanding debt	88.0
Balance of State Debt at end 2009	447.0

**Includes foreign exchange issuance, bonds and assumed debt.*

In billion euros and in effective terms, except for outstanding debt balance (nominal)

The net change in outstanding debt will be greater than what was registered in 2008, which was 51.3 million euros, therefore requiring Tesoro Público to have a more active presence in financial markets than in previous years. However, the greatest challenges will stem from large supply in sovereign debt markets, given the financial requirements of other EMU countries, which must obtain larger amounts than Spain, both in absolute terms and in relation to their GDP.

The Treasury's forecast includes, on the one hand, 87 billion euros of gross issuance of Bonos, Obligaciones and other long-term instruments (including foreign exchange issuance) and, on the other hand, an increase in outstanding Letras del Tesoro of 32.4 billion euros.

Bonos del Estado will continue to be issued mainly through auctions of its 3- and 5-year benchmarks. On January 8th Tesoro Público launched a new 3-year Bono (2.75%, maturing April 30th 2012), which will be auctioned regularly along with the 5-year reference (4.25%, maturing January 31st 2014). The Treasury will also hold auctions for off-the-run bonds in order to satisfy the demand for maturities between these benchmarks.

In the longer part of the curve, Tesoro Público will issue 10-, 15- and 30-year *Obligaciones del Estado*, and will also reopen intermediate tenors. A new 10-year benchmark maturing in 2019 will be launched, and it will be issued regularly along with the 4.80% January 2024 and the 4.90% July 2040.

The Treasury's larger funding needs will allow it to increase the average size of its outstanding new and off-the-run *Bonos* and *Obligaciones* up to around 15 billion euros, which will increase their liquidity.

Tesoro Público will stick to its usual policy on auction dates: *Bonos del Estado* will be auctioned on the first Thursday of every month, and *Obligaciones* will be issued on the third Thursday. As usual, Tesoro Público will announce its auctions on a quarterly basis. As a novelty this year, the Treasury may add other references to each pre-announced auction in order to satisfy investor demand. A calendar showing auction dates is included at the end of this document.



Finally, the volume of foreign exchange issuance may be greater than in previous years, although this channel will continue to be of a second-order nature within the Treasury's general funding strategy.

There will be a strong increase in issuance of *Letras del Tesoro* to match the market's demand for short-term government paper. The Treasury will thus hold monthly auctions for 3-, 6- and 12-month Letras in order to adapt to different investors' preferences. As a major change this year, the dates of *Letras* auctions will be brought forward from Wednesdays to Tuesdays: 3- and 6-month bills will be sold on the second Tuesday of every month, while 12-month bills will be auctioned on the third Tuesday.

Letras del Tesoro issuance calendar for 2009

Date of the auction		14.01.2009	21.01.2009	10.02.2009	17.02.2009	10.03.2009	17.03.2009	07.04.2009	14.04.2009	12.05.2009	19.05.2009	09.06.2009	16.06.2009	07.07.2009	14.07.2009	11.08.2009	18.08.2009	08.09.2009	15.09.2009	13.10.2009	20.10.2009	10.11.2009	17.11.2009	15.12.2009	22.12.2009	12.01.2010	19.01.2010
3m		X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			X	X		
6m		X		X		X		X		X		X		X		X		X		X		X		X		X	
12m			X		X		X		X		X		X		X		X		X		X		X		X		X

Generally speaking, most short-term funding will be absorbed by 12-month *Letras*; the volume of 3- and 6-month *Letras*, though smaller in absolute terms, will vary more widely as a response to very short-term cash requirements. Issuance of 3- and 6-month bills are expected to be greater during the second half of 2009. The auctions of 12-month bills will be larger – around 5 billion euros per auction – and more regular, so as to ensure the liquidity of the new references.

In 2009 auctions the Treasury will raise the limit on the size of non-competitive bids reserved for certain institutional investors, like Guarantee Funds or the Social Security Reserve Fund, from 100 million to 300 million euros per auction.



2 RESULTS OF THE TREASURY'S FUNDING IN 2008

The Treasury's funding has seen a turning point in 2008: unlike in previous years, it issued more than its stated forecast at the beginning of the year. Indeed, while it expected outstanding debt to remain at around 307 billion euros, it finally rose to 358.4 billion.

This divergence has occurred mainly in the last few months, as Tesoro Público has undertaken the funding of the measures with which the Spanish Government is facing the effects of the international financial crisis. In any case, the first half of 2008 brought the first signs of a slowdown in tax receipts. This forced the Treasury gradually to step up its issuance and to resort to less usual cost-saving foreign exchange issues which, while nonexistent in 2006 and 2007, reached 2.6 billion euros in 2008. This sum was raised through two syndications of 3- and 5-year Eurobonds (2 billion dollars each), which were excellently received by investors, and which allowed for a significant cost saving with respect to euro issuance.

However, the bulk of Tesoro's funding has concentrated on the gross issuance of *Bonos* and *Obligaciones*, which has surpassed the target set at the beginning of the year from 28.8 billion to 62.1 billion euros. The most noteworthy issues were the two new *Obligaciones*, which were launched by syndication. On the one hand, the *Obligación* 4.10% maturing on July 2018 was launched in February with an initial volume of 5 billion euros, and was subsequently reopened throughout the year up to its current volume of 15 billion. On the other hand, the *Obligación* 4.80% maturing on January 2024 was also issued through syndication in September. This last issue was of particular importance, in that it marked the return of Tesoro's issuance in the 15-year tenor. In addition to these new references, the Treasury has auctioned several off-the-run *Obligaciones* in intermediate points of the yield curve.

Tesoro funding in 2008

	Initial forecast	End-2008
Gross issuance of bonds	28.8	62.1
- 3- and 5-year <i>Bonos del Estado</i>	11.1	34.6
- <i>Obligaciones del Estado</i>	16.7	24.9
- Other issues	1.0	2.6
Bond redemptions	29.3	29.2
Bond net funding	-0.5	32.9
<i>Letras</i> net funding	1.3	19.3
Net change in balance of other debts	-1.6	-2.0
Net change in balance of outstanding debt	-0.8	51.3
Total outstanding debt as of December 31st	307.0	358.4

In billion euros and in effective terms, except for outstanding debt balance (nominal)

The growth in *Bonos* issuance (i.e. 2- to 5-year instruments) has been particularly intense: as seen on the previous table, gross issuance has been three times larger than expected at the



beginning of the year. This can be explained by pointing to the strength of investor demand for these maturities, and to the favourable market interest rates in this segment of the yield curve. In January the Treasury issued a new 3-year *Bono* (4.10% April 2011), which has been reopened several times and has now surpassed the 15 billion euro mark. In October it auctioned a new 5-year bond (4.25% January 2014), and November and December saw the reopening of 7- and 2-year bonds, the remaining points of the curve.

Similar factors explain the strong increase in the outstanding balance of *Letras del Tesoro*, which has seen an increase of 19.3 billion euros, far above the expected 1.3 billion. In 2008 there have been auctions for 12-, 6- and 3-month *Letras* (in 2007 issuance of 18-month *Letras* was interrupted). The initial plan was to issue only 3- and 12-month bills, but the greater funding requirements have made it necessary to auction 6-month bills in the latter part of the year.

As usual, Tesoro Público would like to thank the Bank of Spain and its Primary Dealer Group, whose cooperation has been key in every operation involving Government Debt. The Treasury would like to single out the most active Primary Dealers for *Bonos* and *Obligaciones* in 2008, which were (in alphabetical order): Banco Santander, Barclays Capital, BBVA, Société Générale CIB and Calyon. In the market for *Letras del Tesoro*, the most active dealers were Banco Santander, BBVA and Société Générale CIB.



Issuance calendar for Bonos & Obligaciones for 2009

Month	Date	Type of debt auctioned
JANUARY	08.01.2009	Bonos del Estado: 2.75% Apr-12 & 4.25% Jan-14
	15.01.2009	Obligaciones del Estado: 4.80% Jan-24 & 4.90% Jul-40
FEBRUARY	05.02.2009	Bonos del Estado: 5.40% Jul-11 & 4.25% Jan-14
	19.02.2009	Obligaciones del Estado: 3.15% Jan-16 & 6% Jan-29
MARCH	05.03.2009	Bonos del Estado: 2.75% Apr-12
	18.03.2009	Obligaciones del Estado (10 years) & 2nd quarter announcement
APRIL	02.04.2009	Bonos del Estado
	16.04.2009	Obligaciones del Estado
MAY	07.05.2009	Bonos del Estado
	21.05.2009	Obligaciones del Estado
JUNE	04.06.2009	Bonos del Estado
	18.06.2009	Obligaciones del Estado & 3rd quarter announcement
JULY	02.07.2009	Bonos del Estado
	16.07.2009	Obligaciones del Estado
AUGUST	06.08.2009	Bonos del Estado
	20.08.2009	Obligaciones del Estado
SEPTEMBER	03.09.2009	Bonos del Estado
	17.09.2009	Obligaciones del Estado & 4th quarter announcement
OCTOBER	01.10.2009	Bonos del Estado
	15.10.2009	Obligaciones del Estado
NOVEMBER	05.11.2009	Bonos del Estado
	19.11.2009	Obligaciones del Estado
DECEMBER	03.12.2009	Bonos del Estado
	10.12.2009	Obligaciones del Estado
	28.12.2009	1st quarter 2010 announcement