



THE SPANISH TREASURY'S
Issuance Strategy for

2011



The Spanish Treasury's Issuance Strategy for 2011

Introduction

According to official forecasts, in the year 2011 the process of economic recovery that began in 2010 will gather momentum. In the case of Spain, the profound structural reforms that have been implemented in different areas will result in a more dynamic economy and in a deeper correction of the current economic imbalances. As regards the fiscal situation, the year that has just begun is characterised by the continuation of the adjustment of the Government deficit. The firm commitment to reach a deficit of 3% of GDP by 2013 will materialise in 2011 as a significant effort in fiscal consolidation that will substantially reduce the net increase in debt.

	2009	2010	2011	2012	2013
Real GDP (% change)	-3.7	-0.3	1.3	2.5	2.7
General Government Budget Balance objective (% GDP)	-11.1	-9.3	-6.0	-4.4	-3.0

Source: Ministerio de Economía y Hacienda.

The Central Government Budget for 2011 forecasts a funding requirement of 43.626 billion Euros. This number is the sum of the Central Government's forecast cash deficit (44.036bn Euros) and the net change in financial assets (- 410 million Euros). To these budgetary needs one should add 3.588 billion Euros, which is the payment associated with the likely disposition in 2011 of the loan to Greece. In total, the final funding requirement is 47.214 billion Euros, 24% less than the funding carried out in 2010 (62.1 billion Euros). This number could be affected by the application of the revenues stemming from the privatisation of public entities (Loterías y Apuestas del Estado, and AENA), approved in December 2010.

In this context, the general guidelines for Tesoro Público's funding in 2011 will adapt the time-tested principles that the Treasury has been applying to the current volatile environment.

With the final objective of maintaining the trust of investors in Central Government debt, the Treasury will maintain its traditional commitment to transparency, to liquidity and to the diversification of the investor base. From a strategic point of view, the Treasury will maintain its traditional commitment to lengthen the average life of the Central Government debt portfolio. The details of this strategy will adapt to market conditions. From a more technical standpoint, without compromising the transparency and predictability that have always characterised Tesoro Público, the funding programme will be executed under a new framework with more flexible announcements, in accordance both with market volatility and with common practice among other sovereign issuers.

This document summarises, in its first section, Tesoro Público's funding in the year 2010 and, in a second section, the guidelines for the strategy that will be followed in the present year.

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Results of Tesoro Público's funding in 2010

The past year has been marked by the difficulties faced by some Eurozone member states in obtaining capital market funding, causing serious disturbances in the European sovereign debt market. Spain has not been unaffected by the debt crisis: its funding costs have increased, mainly in relative terms, and it has seen its sovereign credit rating downgraded. Nevertheless, despite this the Spanish Treasury has managed to complete its funding programme while maintaining its commitment to the market and retaining its investors' confidence.

Unlike in the previous year, Tesoro Público's funding needs have been lower than the forecasts at the start of the year. In 2009 the Treasury's net funding overshot the initial forecast by around 30 billion euros, mostly due to the fall in public revenues and the succession of fiscal stimulus programmes. By contrast, in 2010 a combination of fiscal austerity and the recovery in tax revenues have helped reduce Central Government effective funding needs by around 14.7 billion euros with respect to the Kingdom of Spain's Funding Strategy published in January 2010.

(in billion euros and in effective terms)

Tesoro Público funding in 2010	Pro Memoria 2009		2010	
	Forecast Jan '09	End '09	Forecast Jan '10	End 2010
Funding Requirement (= Net issuance)	86.5	116.7	76.8	62.1
Gross issuance of bonds and long-term loans*	87.0	115.1	97.0	94.5
Redemptions of bonds and long-term loans*	-32.8	-32.8	-35.4	-35.8
Net issuance of bonds and long-term loans*	54.2	82.3	61.6	58.7
Increase in outstanding balance of Letras del Tesoro	32.4	34.4	15.2	3.4
Assumption of RTVE (state-owned television) debt	1.5	1.5	1.5	1.5
Net change in outstanding Central Government debt**	88.0	117.0	78.3	65.4
Balance of Central Government debt at end of year**	447.0	475.4	553.5	540.8

*Includes debt in foreign currency, bonds and assumed debt

** in nominal terms.

The fall in net funding has mostly affected Letras del Tesoro (issuing around 11.8 billion euros less than originally projected) rather than bonds and medium-term loans (issuing around 2.9 billion euros less). In this way, the Treasury has acted in accordance with its stated objective of lengthening average.

As a result, Central Government debt outstanding finished the year at 540.8 billion euros, around 12.7 billion euros less than the estimate published at the beginning of 2010.

Despite deteriorating liquidity in the European market, the Treasury has issued regularly in the main tenors of its fixed-interest rate Euro curve. As it did in 2009, it launched six new benchmarks.

As regards Bonos del Estado, the Treasury auctioned a new 3-year benchmark (coupon 2.50% maturing in October 2013) and two new 5-year benchmarks (coupon 3% maturing in April 2015, and another with coupon 3.25% maturing in April 2016) in March and November, respectively.



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As usual the Treasury has issued the first tranches of its Obligaciones del Estado by resorting to the method of syndication. This year it launched in this way two new 10-year Obligaciones del Estado in January and July. Both of these syndications, especially the one that took place in July, were well received and helped open up the market for other issuers. In February the Treasury syndicated the new 15-year benchmark Obligación, once again very successfully despite the difficulty which that tenor usually entails.

In 2010 the Spanish Treasury has regularly auctioned Letras del Tesoro in the 3-, 6-, 12- month tenors and (for the first time since 2007) the 18-month tenor. There are currently fifteen outstanding Letras del Tesoro with an average volume of around 6 billion euros.

Issuance in 2010 focused mainly on the fixed-rate euro market since, unlike in previous years, conditions in the foreign exchange market have not been optimal. The Treasury has issued a floating-rate Bono del Estado for a volume of 1.5 billion euros. Moreover, it has complemented its public issuance programme, following the usual market practice, with small private placements of medium term notes, and with loans contracted under German law.

Tesoro Público's funding in 2011

In 2011 the fiscal consolidation process that began the year before will intensify. The Treasury's effective funding needs, amounting to 47.214 billion euros, will be 24% lower than in 2010. Gross issuance needs will be 7% lower than in 2010.

The first redemption of Bonos and Obligaciones in 2011 will not occur until the month of April, coinciding with substantial tax receipts. The remaining redemptions will take place in July and October.

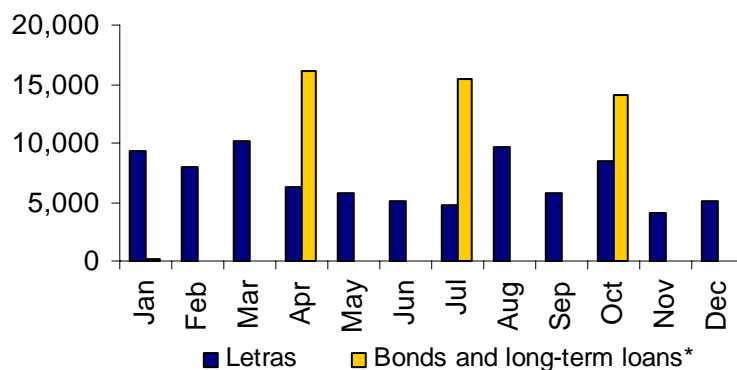
In this respect it is worth bearing in mind that, as part of its liquidity management policy, the Treasury matches the redemptions of Bonos and Obligaciones del Estado with those months in which the largest tax receipts take place: January, April, July and October.

Tesoro Público funding in 2011	Forecast January '11
Funding Requirement (= Net issuance)	47.2
Gross issuance of bonds and long-term loans*	93.8
Redemptions of bonds and long-term loans*	-46.6
Net issuance of bonds and long-term loans*	47.2
Increase in outstanding balance of Letras del Tesoro	0.0
Net change in outstanding Central Government debt	47.2
Balance of Central Government debt at end 2011	588.0

*Includes debt in foreign currency, bonds and assumed debt.
Effective amounts in billion euros.

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Redemptions of Letras, bonds and long-term loans*
*(in billion Euros as from December 31st 2010**, in nominal terms)*



* Includes debt in foreign currency, Bonos and Obligaciones and assumed debt
 ** Excluding, therefore, Letras issued and redeemed throughout the year

1. Issuance of Bonos and Obligaciones

Issuance of Bonos and Obligaciones will continue to provide the lion's share of funding. Indeed, if one includes foreign currency and other medium and long-term issues, net issuance will come entirely from this type of instrument, thus fulfilling the objective of lengthening average life.

A) New issues

In the first part of the year the Treasury will renew two of its long-term lines, the 10- and 15-year benchmark Obligaciones, which towards the end of 2010 have approached their target volumes.

The Kingdom of Spain usually issues the first tranches of Obligaciones del Estado through the method of syndication, auctioning subsequent tranches until a target volume of 16.5 billion is reached.

In the shorter part of the curve, the Treasury is likely to issue a new 3-year Bono del Estado in the first months of the year, given that the current benchmark has reached a volume greater than 13 billion euros, which is very close to the 15 billion target set for these tenors.

B) Auctions and announcements

Auctions will continue to be the main issuance method for Bonos and Obligaciones del Estado. Syndications, for their part, will continue to be reserved for long-term issuance (10-, 15- and 30-year), especially in the first tranches. The Bonos and Obligaciones auction calendar will not change: Bonos will be auctioned on the first



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Thursday of every month, and Obligaciones will be auctioned on the third Thursday of every month.

The main novelty for 2011 is that the announcements of the bonds to be auctioned will be monthly instead of quarterly, and they will take place after market closes on the first Thursday of every month, the day of the Bonos auctions. This measure will provide the Treasury with greater flexibility when it comes to adapting its issuance to market preferences in a very volatile environment. The announcement of issuance targets will, as usual, take place on the Monday before every auction.

Finally, and further to the objective of providing the Treasury with greater flexibility, there is the possibility of increasing the number of references to be auctioned on every occasion. Currently Tesoro Público auctions a maximum of two bonds on any particular day; in 2011 this number could increase to allow for taps of benchmark and off-the-run bonds, which can be reopened to provide more liquidity to the Central Government debt curve, approaching its target volume.



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Auction calendar for Bonos and Obligaciones in 2011 and January 2012

Month	Date	Types of Debt
JANUARY	13.01.2011	Bonos del Estado and monthly announcement
	20.01.2011	Obligaciones del Estado
FEBRUARY	03.02.2011	Bonos del Estado and monthly announcement
	17.02.2011	Obligaciones del Estado
MARCH	03.03.2011	Bonos del Estado and monthly announcement
	17.03.2011	Obligaciones del Estado
APRIL	07.04.2011	Bonos del Estado and monthly announcement
	20.04.2011	Obligaciones del Estado
MAY	05.05.2011	Bonos del Estado and monthly announcement
	19.05.2011	Obligaciones del Estado
JUNE	02.06.2011	Bonos del Estado and monthly announcement
	16.06.2011	Obligaciones del Estado
JULY	07.07.2011	Bonos del Estado and monthly announcement
	21.07.2011	Obligaciones del Estado
AUGUST	04.08.2011	Bonos del Estado and monthly announcement
	18.08.2011	Obligaciones del Estado
SEPTEMBER	01.09.2011	Bonos del Estado and monthly announcement
	15.09.2011	Obligaciones del Estado
OCTOBER	06.10.2011	Bonos del Estado and monthly announcement
	20.10.2011	Obligaciones del Estado
NOVEMBER	03.11.2011	Bonos del Estado and monthly announcement
	17.11.2011	Obligaciones del Estado
DECEMBER	01.12.2011	Bonos del Estado and monthly announcement
	15.12.2011	Obligaciones del Estado
JANUARY 2012	12.01.2012	Bonos del Estado and monthly announcement
	19.01.2012	Obligaciones del Estado

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2. Issuance of Letras del Tesoro

In 2011 the weight of Letras del Tesoro in the outstanding Central Government debt portfolio will continue its downward path. Having turned a positive net funding figure of 3.4 billion euros in 2010, the Treasury expects no net funding to come from Letras del Tesoro in 2011.

Issuance of 3-, 6-, 12- and 18-month Letras will continue. 3- and 6-month Letras will reduce their volume outstanding, adjusting their issuance profile to the Treasury's cash imbalances. The brunt of Letras gross issuance will be borne by the 12-month tenor, even though the total outstanding volume will also fall in comparison to the previous year. Only 18-month Letras will provide net funding at the end of 2011, since these were brought back in February 2010 and the first redemption will take place in August 2011. Until then, all net issuance provided by these instruments will be positive.

The 2011 Letras auction calendar will not be changed with respect to 2010: 12- and 18-month Letras will be auctioned on the third Tuesday of every month, and 3- and 6-month Letras will be auctioned on the fourth Tuesday of every month.

Issuance calendar for Letras del Tesoro in 2011 and January 2012

Auction date		18.01.2011	25.01.2011	15.02.2011	22.02.2011	15.03.2011	22.03.2011	18.04.2011	26.04.2011	17.05.2011	24.05.2011	14.06.2011	21.06.2011	19.07.2011	26.07.2011	16.08.2011	23.08.2011	20.09.2011	27.09.2011	18.10.2011	25.10.2011	15.11.2011	22.11.2011	13.12.2011	20.12.2011	17.01.2012	24.01.2012	
3m		X	X	X	X	X	X	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	X	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	X	X	X	X	X	X	X	X	X	X	X	X	X	X
18m		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

3. New and complementary funding instruments

Tesoro Público will continue to use and widen the range of complementary funding instruments at its disposal. Generally, these instruments are used less regularly than the usual ones (Letras, Bonos and Obligaciones) and their objective is to take advantage of cost-saving opportunities, or to deepen and diversify the investor base.

As regards currencies other than the euro, the dollar market will continue to be the priority, although the Treasury will continue to study opportunities that may arise in other markets. The final issuance volume will depend on the existence of potential demand in these markets and of the opportunities to reduce the Kingdom of Spain's funding costs.



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For the last few years the Kingdom of Spain has been studying the merits of including debt linked to European inflation among its usual euro-denominated funding instruments. If it were to take place, this type of issuance would fall within a regular programme with the objective of diversifying both inflation risk and the investor base. As it has done in 2010, the Treasury will continue to follow Euro sovereign inflation-linked markets, and it will evaluate potential demand as well as the merits of their adoption.

Lastly, private placements will continue to be a funding option, preferably in the medium and long term, whenever their cost, volume and possibilities of investor diversification make such operations worthwhile to the Treasury. As usual, these placements will be instrumented through the Kingdom of Spain's Euro Medium Term Notes Programme or through loans.

As part of its cash management policy, the Treasury has contracted since 1999 a series of credit lines to ensure that it can face liquidity mismatches, or to cover possible operational risks. In 2010 Tesoro Público has renewed one of the two lines at its disposal, and in 2011 it intends to renew the line collateralised by issuance of Letras del Tesoro.

Tesoro Público would like to express its thanks to the Bank of Spain and to the Primary Dealers for Government Debt, whose cooperation has been irreplaceable in every Central Government debt operation. It is particularly relevant to state that the most active Primary Dealers in Bonos and Obligaciones have been (in alphabetical order) Banco Bilbao Vizcaya Argentaria, Banco Santander, Barclays Capital, Citigroup and Société Générale CIB. In the Letras segment, the most active Primary Dealers have been Banco Bilbao Vizcaya Argentaria, Banco Santander, Credit Agricole CIB and Société Générale CIB.


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