Spanish Treasury’s Macro, Policy and Funding Update

Kingdom of Spain

10 February 2022
1. Macroeconomic outlook
2. Economic policy response
3. Fiscal Outlook
4. Funding strategy
The successful vaccination process is fueling the economic recovery while the omicron wave seems to have peaked.

Vaccination in the 50 most populous countries. % of population

Daily activity indicator. Index in 20Q1 = 20Q1 GDP

Source: Our World in Data (last access: 31 January)

Source: Ministry of Economic Affairs and Digital Transformation (DG Macroeconomic Analysis)
Growth is driven by a vigorous recovery in the labour market.

Employment adjustment in terms of affiliation. 
Accumulated variation since February 2020

Social Security affiliation. Millions of workers

Source: Ministry of Inclusion, Social Security and Migrations
A stronger labour market performance in this crisis reduces the risk of hysteresis.

Recovery of hours worked after the 2008 financial crisis and the COVID-19 crisis. *Base 100 = quarter prior to the beginning of the crisis*

**Unemployment rate. % of labour force**

Source: INE
The improved economic outlook is visible across a wide range of indicators.

Last available data of other short-term economic indicators. % interbiennial variation

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Feb</td>
<td>Mar</td>
</tr>
<tr>
<td>Residential mortgages</td>
<td>16</td>
<td>-4</td>
</tr>
<tr>
<td>Purchase of homes</td>
<td>9</td>
<td>-10</td>
</tr>
<tr>
<td>Newly registered companies</td>
<td>5</td>
<td>-10</td>
</tr>
<tr>
<td>Exports of goods</td>
<td>29</td>
<td>3</td>
</tr>
<tr>
<td>Imports of goods</td>
<td>6</td>
<td>-15</td>
</tr>
<tr>
<td>Public revenue from income taxes (ac.)</td>
<td>3</td>
<td>-16</td>
</tr>
<tr>
<td>Cement consumption</td>
<td>-2</td>
<td>27</td>
</tr>
<tr>
<td>Total public revenue (ac)</td>
<td>7</td>
<td>-17</td>
</tr>
<tr>
<td>Industry turnover</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Overnight stays by residents</td>
<td>3</td>
<td>-10</td>
</tr>
<tr>
<td>Social Security affiliation</td>
<td>5</td>
<td>-3</td>
</tr>
<tr>
<td>Social Security affiliation net of ERTE</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Electricity consumption</td>
<td>5</td>
<td>-5</td>
</tr>
<tr>
<td>Market services turnover</td>
<td>-2</td>
<td>-17</td>
</tr>
<tr>
<td>Industrial production</td>
<td>0</td>
<td>-15</td>
</tr>
<tr>
<td>Public revenue from VTA-like taxes (ac.)</td>
<td>-7</td>
<td>-10</td>
</tr>
<tr>
<td>Retail trade</td>
<td>4</td>
<td>-13</td>
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<tr>
<td>Sales by large companies</td>
<td>12</td>
<td>-56</td>
</tr>
</tbody>
</table>

(values > 50 imply increases)

Source: Ministry of Economic Affairs and Digital Transformation (DG Macroeconomic Analysis)
The political response to the pandemic has allowed for a strong rebound and the Recovery Plan will promote potential growth.

**Quarterly Gross Domestic Product. Interannual variation**

**Real GDP trend and estimates. 2015 as baseline=100**

*Source: INE, Ministry of Economic Affairs and Digital Transformation (DG Macroeconomic Analysis)*
Outline

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Key drivers for action in 2022

- **Evolution of the pandemic**
  - Complete the vaccination process (globally)

- **Energy prices, global value chains and inflation**
  - Close monitoring of the evolution of energy prices and CPI
  - Particular attention to potential supply disruptions

- **Structural impact of economic policy measures**
  - Keep support to the recovery, particularly targeting measures for the most affected sectors
  - Minimize hysteresis and short-term liquidity problems leading to solvency problems

- **Recovery, Transformation and Resilience Plan**
  - Ensure a smooth implementation of our National Plan
  - Leverage available funds to seek long-term, inclusive and sustainable growth through reforms and investments
Base effects and energy costs explain the bulk of the increase in headline inflation.
Markets, official forecasts and expert surveys agree on inflation stabilizing at 2% in the medium-term.

**HICP evolution and future expectations.**

% y-o-y change, p.p.

**Implied interests on ILS forwards with different maturities.**

% y-o-y change, p.p.

Source: Reuters, ECB, European Commission

Source: Reuters
Both the amount of the approved COVID measures and their effective use have been higher in Spain than in the EU average.

Comparison of the total volume announced for different types of COVID measures (bar height) and executed (filled bar) between Spain and the EU. March 2021, % of 2019 GDP

<table>
<thead>
<tr>
<th></th>
<th>Spain</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Announced volume</td>
<td>22,4%</td>
<td>21,4%</td>
</tr>
<tr>
<td>Uptake volume</td>
<td>15,8%</td>
<td>9,3%</td>
</tr>
</tbody>
</table>

Note: Data include loan moratoria. 
Source: own elaboration based on ESRB data
Furlough schemes were a key mechanism in the worst moments of the pandemic and their use has declined dramatically as recovery has taken hold.

Total furlough schemes (“ERTEs”). Number of workers

Source: Ministry of Inclusion, Social Security and Migrations
Public-guaranteed loans granted through ICO and direct public aid to firms have contributed to supporting the liquidity of companies.

Estimate of the percentage of companies with severe liquidity deficit. Viable companies **not benefiting** from RDL 5/2021. %

![Graph showing the percentage of companies with severe liquidity deficit](image1)

Estimate of the percentage of companies with severe liquidity deficit. Viable companies **benefiting** from RDL 5/2021. %

![Graph showing the percentage of companies with severe liquidity deficit](image2)

**Sources:** Bank of Spain’s Central Balance Sheet Data Office and Ministry of Economic Affairs and Digital Transformation
A Plan to foster green, digital and inclusive growth in the long term

4 PILLARS

I. Urban and rural agenda, territorial cohesion and modernisation of agriculture 14,407 M€
II. Resilient infrastructures and ecosystems 10,400 M€
III. A fair and inclusive energy transition 6,385 M€
IV. An Administration for the 21st century 4,315 M€
V. Modernisation and digitalisation of industry and SMEs, entrepreneurship and business environment, recovery and transformation of tourism and other strategic sectors 16,075 M€

VI. Promotion of science and innovation and strengthening of the capabilities of the National Health System 4,949 M€
VII. Education and knowledge, lifelong learning and capacity building 7,317 M€
VIII. The new care economy and employment policies 4,855 M€
IX. Promotion of the culture and sports industry 825 M€
X. Modernisation of the tax system for inclusive and sustainable growth

Total 69,528 M€

Green 40.29%
Digital 29.58%
Reforms are key to ensure long-term sustained growth

| 1. Climate change and energy transition Law |
| 2. Development of a robust and flexible energy system, renewable deployment and integration |
| 3. Roadmap for renewable hydrogen |
| 4. Ecosystems resilience and adaptation & development and connectivity of green infrastructures |
| 5. Water management Law and Plan for water purification, sanitation, efficiency, saving and reuse |
| 6. Modernisation of the agricultural and fisheries policies – soil protection and efficient use of water |
| 7. Policy on waste management and circular economy |
| 8. Modernisation of the national science system and support to innovation |
| 9. Strategy for sustainable, safe and connected mobility |
| 10. New housing policy |
| 11. Modernization of the justice system |
| 12. Modernisation and digitalisation of public Administration |
| 14. Modernisation and strengthening of the National Health System |
| 15. Modernization and strengthening of education, vocational training and university |
| 16. New public policies for the labour market |
| 17. New care economy |
| 18. Reform of social and inclusion policies |
| 19. Modernisation and progressivity of the tax system |
| 20. Strengthening of the pension system |
Spain will take advantage of a historically large amount of European transfers

Transfers made and planned from the EEC/EU, including structural funds. Million euros

Recovery and Resilience Facility Disbursement Schedule. Million euros

Source: Ministry of Economic Affairs and Digital Transformation

Note: Disbursements received in 2021-2S from the RRF includes two different items: pre-financing payment and first disbursement.
The recovery plan will make it possible to push public investment while reducing the debt-to-GDP ratio.

General government debt and public gross investment. % of GDP

Progression of gross fixed capital formation. Base 100 = start of the crisis

Source: Ministry of Economic Affairs and Digital Transformation (DG Macroeconomic Analysis)
The Plan includes strategic projects (PERTEs) which will drive growth and employment, based on public-private collaboration.

- **APPROVED**
  - PERTE: Electric and Connected Vehicle
    - 24,009 M€
    - Public sector: 4,295 M€
  - PERTE: State-of-the-Art Health
    - 1,469 M€
    - Public sector: 982 M€
  - PERTE: Renewable Energies, Renewable Hydrogen and Storage
    - 16,370 M€
    - Public sector: 6,920 M€
  - PERTE: Agri-Food Value Chain
    - 3,000 M€
    - Public sector: 1,000 M€

- **IN PROGRESS**
  - PERTE: In Spanish New Language Economy
  - PERTE: Aerospace
  - PERTE: New Care Economy

- **19.249 M€**
  - Public sector: 4,295 M€
  - 1.469 M€
  - Public sector: 982 M€
  - 16.370 M€
  - Public sector: 6.920 M€
  - 3.000 M€
  - Public sector: 1.000 M€
Companies and SMEs are a central element of the Plan and their active participation is sought throughout the process.

- 534 tenders launched to date
- 176 open
- 44 announced
- 314 closed
- 27 calls for interest launched

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Rapid recovery in government revenues will help correct general government deficit.

Recovery of public revenues after the 2008 financial crisis and the COVID-19 pandemic. Base 100 in the quarter prior to the start of the crisis.

Projections of general government balance in 2022. % of GDP.

- Consensus Funcas (Jan-22): 5.4%
- Central Government: 5.0%
- Independent Fiscal Institution (AIReF): 4.8%
- Bank of Spain: 4.8%

Source: DG Macroeconomic Analysis

Source: Funcas
The 2022 budget foresees a substantial reduction in the public deficit comparable to that of other EU countries.

Evolution of the public deficit in several EU countries. % of GDP

Source: European Commission (Draft Budgetary Plans)
The debt-to-GDP ratio has already declined in 2021

Evolution of the public debt-to-GDP ratio and forecasts. %

Source: European Commission
1. Macroeconomic outlook
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Funding programmes for 2020 & 2021 buttressed pandemic support measures to households and firms, and automatic stabilisers

Yearly Funding Programmes since 2012. Billions of euros

Source: Spanish Treasury
Net issuance fell by 35 billion euros in 2021 and was covered fully by medium- and long-term instruments.

Funding Programmes for 2020 and 2021. Billions of euros

<table>
<thead>
<tr>
<th>Funding programmes</th>
<th>2020</th>
<th>2021</th>
<th>Comparative</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Billions of euros</td>
<td></td>
<td>Billions</td>
<td>%</td>
<td></td>
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<tr>
<td><strong>GROSS ISSUANCE</strong></td>
<td>277.059</td>
<td>264.312</td>
<td>-12.747</td>
<td>-5%</td>
<td></td>
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<tr>
<td>Letras</td>
<td>93.591</td>
<td>94.426</td>
<td>835</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium &amp; long term</td>
<td>183.468</td>
<td>169.886</td>
<td>-13.582</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>REDEMPTIONS</strong></td>
<td>167.137</td>
<td>189.174</td>
<td>22.037</td>
<td>13%</td>
<td></td>
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<tr>
<td>Letras</td>
<td>82.168</td>
<td>94.775</td>
<td>12.607</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium &amp; long term</td>
<td>84.969</td>
<td>94.399</td>
<td>9.430</td>
<td></td>
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<tr>
<td><strong>NET ISSUANCE</strong></td>
<td>109.922</td>
<td>75.138</td>
<td>-34.784</td>
<td>-32%</td>
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<tr>
<td>Letras</td>
<td>11.423</td>
<td>-349</td>
<td>-11.772</td>
<td></td>
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<tr>
<td>Medium &amp; long term</td>
<td>98.500</td>
<td>75.487</td>
<td>-23.013</td>
<td></td>
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</tr>
</tbody>
</table>

*Source: Spanish Treasury*
Decisive ECB action and investor confidence in Spain led to favourable market access and stable non-resident debt holdings.

Spain 10-year yield and spread vs Bund. % and basis points

Holdings of Letras and Bonos y Obligaciones del Estado. %

Source: Bloomberg

Source: Bank of Spain
For the first time ever, the average cost of the year’s Treasury issuance was negative. In fact, more than 60% of issuance was at negative rates.

**Average Cost of Debt. %**

- **Cost of debt outstanding**
  - 4.07% in 2008
  - 3.90% in 2009
  - 1.86% in 2012
  - 1.65% in 2014
  - 0.18% in 2020
  - -0.04% in 2021

- **Cost of debt at issuance**

**Funding at negative rates. % over total volume issued**

- 48.7% in 2015
- 45.3% in 2016
- 45.4% in 2017
- 55.4% in 2018
- 51.3% in 2019
- 60.8% in 2020

**Source:** Spanish Treasury
The debt burden has continued to decrease despite higher issuance and higher average portfolio duration.

Evolution of interest expense and debt burden ratios. Millions of euros, % of GDP and % of total revenue

Source: INE, IGAE y Spanish Draft Budgetary Plan
For the first time ever, the average life of debt outstanding topped 8 years.

**Average Life of Debt Outstanding. Years**

Source: Spanish Treasury
Two main factors contributed to this trend: issuance in longer tenors, and smaller relative issuance of short-term Letras.

**Breakdown of the Spanish Treasury’s net issuance. Billions of euros**

**Average Life of Outstanding Bonos and Obligaciones del Estado at issuance. Years**

*Source: Spanish Treasury*
Successful launch of inaugural Green Bond

**Tesoro Publico’s first green bond issuance:**

- **Green Bond Framework** received the highest possible rating
- Nominal value of 5 billion euros, with a **60 billion euro demand (x12)**
- “**Greenium**” → 2 basis points saved versus an equivalent conventional issuance
- **20 year maturity** → increasing average life
- **Diversifying investor base**: 92% non-residents and 2/3 sustainable investors
Same net issuance in 2022, but gross issuance falls by 10% given smaller redemptions

<table>
<thead>
<tr>
<th>Funding programme projections</th>
<th>2021</th>
<th>2022</th>
<th>Comparative</th>
<th>Billion</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROSS ISSUANCE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Letras</td>
<td>94.426</td>
<td>89.410</td>
<td>-5.016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium &amp; long term</td>
<td>169.886</td>
<td>148.088</td>
<td>-21.798</td>
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<td></td>
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<tr>
<td><strong>REDEMPTIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Letras</td>
<td>94.775</td>
<td>94.410</td>
<td>-365</td>
<td></td>
<td></td>
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<tr>
<td>Medium &amp; long term</td>
<td>94.399</td>
<td>68.088</td>
<td>-26.311</td>
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<tr>
<td><strong>NET ISSUANCE</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Letras</td>
<td>-349</td>
<td>-5.000</td>
<td>-4.651</td>
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<tr>
<td>Medium &amp; long term</td>
<td>75.487</td>
<td>80.000</td>
<td>4.513</td>
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</tbody>
</table>

*Source: Spanish Treasury*
The Funding Programme for 2022 is based on a **prudent scenario**.

The **execution** of Recovery, Resiliency and Transformation plan, and receipt of Next Generation EU funds will reach **cruise speed**.

The execution of the funding programme will need to be **flexible** to adapt to developing needs in the current context of heightened uncertainty.

The Treasury will maintain high levels of **transparency** to balance this needed flexibility.

In 2022, **bank syndicates** will once again be used for the issuance of certain Obligaciones del Estado.

**The green bond that was issued in 2021 will be reopened.** The aim over the coming years will be to achieve a volume similar to that of other references across our curve, and to continue contributing to financing projects for the ecological transition.
Thanks to the most active Primary Dealers in 2021

<table>
<thead>
<tr>
<th>Bonos &amp; Obligaciones del Estado</th>
<th>Letras del Tesoro</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Deutsche Bank</td>
<td>1. BBVA</td>
</tr>
<tr>
<td>2. Santander</td>
<td>2. J.P. Morgan</td>
</tr>
<tr>
<td>3. J.P. Morgan</td>
<td>3. Santander</td>
</tr>
<tr>
<td>4. BBVA</td>
<td>4. CRÉDIT AGRICOLE</td>
</tr>
<tr>
<td>5. NOMURA</td>
<td>5. SOCIETE GENERALE</td>
</tr>
</tbody>
</table>
For more information, please contact:
Phone: +34 91 209 95 29/30/31/32
Fax: +34 91 209 97 10
Reuters: TESORO
Bloomberg: TESO
www.tesoro.es

For more information on the Recovery, Transformation and Resilience Plan, please visit:
www.planderecuperacion.gob.es

Dedicated web at the Ministry of Economic Affairs and Digital Transformation