Recent Developments in the Spanish Economy, Policy & Funding

April 2021
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Spain grew well above its peers from 2014 to 2019 amid significant deleveraging.

In 2020 the impact of Covid-19 has been very significant, limited by short-term mitigation measures. Bold and timely package of direct budgetary support and liquidity measures that, to date, accounts for 20.5% of GDP.

Going forward, the government’s growth-enhancing agenda will continue to be pursued, focusing on digitalization, the greening of the economy, gender equality and inclusiveness, notably leveraging resources from Next Generation EU. The smooth implementation of recovery plans will be key in 2021 and onwards.

Commitment to resume the downward trend in the fiscal deficit and debt-to-GDP ratio as soon as output gap closes.

Net government funding is expected to be around €100bn in 2021, below the €110bn that were executed in 2020. Funding costs are at historic lows: average cost of debt outstanding at 1.79% and cost at issuance at -0.03%.

Political consensus to take advantage of historic opportunity to enhance potential growth.
# Macroeconomic scenario 2020-2022

## Macroeconomic scenario (YoY growth rates in percent)

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<tbody>
<tr>
<td>Private consumption expenditure</td>
<td>1.7</td>
<td>2.9</td>
<td>2.7</td>
<td>3.0</td>
<td>1.8</td>
<td>0.9</td>
<td>-12.1</td>
<td>-5.9</td>
<td>-243</td>
<td>-92</td>
<td>-92</td>
<td></td>
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<tr>
<td>General Government consumption expenditure</td>
<td>-0.7</td>
<td>2.0</td>
<td>1.0</td>
<td>1.0</td>
<td>2.6</td>
<td>2.3</td>
<td>3.8</td>
<td>3.5</td>
<td>33</td>
<td>4.0</td>
<td>4.5</td>
<td></td>
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<tr>
<td>Gross Fixed Capital Formation</td>
<td>4.1</td>
<td>4.9</td>
<td>2.4</td>
<td>6.8</td>
<td>6.1</td>
<td>2.7</td>
<td>-11.4</td>
<td>-5.1</td>
<td>-243</td>
<td>-90</td>
<td>-7.2</td>
<td></td>
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</tr>
<tr>
<td><strong>National Demand (Contribution to GDP Growth)</strong></td>
<td><strong>1.9</strong></td>
<td><strong>3.9</strong></td>
<td><strong>2.0</strong></td>
<td><strong>3.1</strong></td>
<td><strong>3.0</strong></td>
<td><strong>1.4</strong></td>
<td><strong>-8.8</strong></td>
<td><strong>-4.0</strong></td>
<td><strong>-184</strong></td>
<td><strong>-67</strong></td>
<td><strong>-62</strong></td>
<td></td>
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</tr>
<tr>
<td>Exports of goods and services</td>
<td>4.5</td>
<td>4.3</td>
<td>5.4</td>
<td>5.5</td>
<td>2.3</td>
<td>2.3</td>
<td>-20.2</td>
<td>-5.8</td>
<td>-387</td>
<td>-198</td>
<td>-163</td>
<td></td>
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<tr>
<td>Imports of goods and services</td>
<td>6.8</td>
<td>5.1</td>
<td>2.6</td>
<td>6.8</td>
<td>4.2</td>
<td>0.7</td>
<td>-15.8</td>
<td>-5.3</td>
<td>-326</td>
<td>-157</td>
<td>-94</td>
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<tr>
<td><strong>External demand (Contribution to GDP Growth)</strong></td>
<td><strong>-0.5</strong></td>
<td><strong>-0.1</strong></td>
<td><strong>1.0</strong></td>
<td><strong>-0.2</strong></td>
<td><strong>-0.5</strong></td>
<td><strong>0.6</strong></td>
<td><strong>-2.0</strong></td>
<td><strong>-0.3</strong></td>
<td><strong>-3.2</strong></td>
<td><strong>-1.9</strong></td>
<td><strong>-2.7</strong></td>
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<tr>
<td><strong>Gross Domestic Product</strong></td>
<td><strong>1.4</strong></td>
<td><strong>3.8</strong></td>
<td><strong>3.0</strong></td>
<td><strong>3.0</strong></td>
<td><strong>2.4</strong></td>
<td><strong>2.0</strong></td>
<td><strong>-10.8</strong></td>
<td><strong>-4.3</strong></td>
<td><strong>-216</strong></td>
<td><strong>-86</strong></td>
<td><strong>-89</strong></td>
<td><strong>6.5</strong></td>
<td><strong>7.0</strong></td>
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## Other variables

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<tbody>
<tr>
<td>Unemployment rate (in % of Active Population)</td>
<td>24.4</td>
<td>22.1</td>
<td>19.6</td>
<td>17.2</td>
<td>15.3</td>
<td>14.1</td>
<td>15.5</td>
<td>14.4</td>
<td>15.3</td>
<td>16.3</td>
<td>16.1</td>
<td>15.2</td>
<td>14.1</td>
</tr>
<tr>
<td>Full-time Equiv. Employment (YoY Growth)</td>
<td>1.0</td>
<td>3.2</td>
<td>2.8</td>
<td>2.9</td>
<td>2.6</td>
<td>2.3</td>
<td>-7.5</td>
<td>-0.6</td>
<td>-185</td>
<td>-56</td>
<td>-52</td>
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<td></td>
</tr>
<tr>
<td>Net lending(+)borrowing(-) with RoW (% of GDP)</td>
<td>21.0</td>
<td>27.0</td>
<td>34.0</td>
<td>30.0</td>
<td>24.0</td>
<td>25.0</td>
<td>1.1</td>
<td>2.6</td>
<td>1.9</td>
<td>1.4</td>
<td>1.1</td>
<td></td>
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</tr>
<tr>
<td>Private Consumption deflator (YoY Growth)</td>
<td>0.1</td>
<td>-0.1</td>
<td>0.2</td>
<td>1.5</td>
<td>1.5</td>
<td>1.0</td>
<td>0.2</td>
<td>1.0</td>
<td>0.1</td>
<td>0.1</td>
<td>-0.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD/€ exchange rate</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro Area GDP growth (YoY growth)</td>
<td>1.4</td>
<td>2.0</td>
<td>1.8</td>
<td>2.7</td>
<td>1.9</td>
<td>1.3</td>
<td>-6.8</td>
<td>-3.3</td>
<td>-146</td>
<td>-4.2</td>
<td>-4.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil prices (Brent, USD/barrel)</td>
<td>99.4</td>
<td>52.2</td>
<td>43.3</td>
<td>54.3</td>
<td>70.9</td>
<td>64.8</td>
<td>41.5</td>
<td>51.0</td>
<td>27.8</td>
<td>43.3</td>
<td>44.0</td>
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<td></td>
</tr>
</tbody>
</table>

*Including Financial Sector One-Offs

Sources: Ministerio de Asuntos Económicos y Transformación Digital and Ministerio de Hacienda.
Shaded areas are realisations. In white, forecasts announced by the Minister of Economy on April 9.
Spain has recorded six years of strong and sustainable growth…

- Strong growth, above euro area average. More balanced sectoral composition of GDP and growth pattern.
- Very dynamic job creation, significant competitiveness gains and persistent current account surpluses.
- Strong impact of Covid-19 (tourism-related activities, average firm size, openness, population density).

**Growth pattern**

- **Strong growth, above euro area average.**
- **More balanced sectoral composition of GDP and growth pattern.**
- **Very dynamic job creation, significant competitiveness gains and persistent current account surpluses.**
- **Strong impact of Covid-19 (tourism-related activities, average firm size, openness, population density).**

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**Real per capita GDP volume**

*Index 1999=100*

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**Gross value added**

*In % of GDP*

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**Breakdown of the Current Account & Capital Account**

*€ bn. 12-Month Rolling Sums*

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**Source:** EUROSTAT.

**Source:** Instituto Nacional de Estadística and Bank of Spain.
…following a structural transformation and correction of past imbalances

- A sizeable de-risking in the financial sector, notably by banks.
- A remarkable deleveraging of both the private and public sector.
- Shows our capacity and willingness to overcome severe economic challenges.
- We are also much better equipped to withstand the current Covid-19 shock.

Harmonised NPL ratio
(In % of Total Loans)

Source: EBA. Risk Dashboard Interactive Tool.

Total economy debt dynamics
(In % of GDP. Non-Consolidated)

Source: Instituto Nacional de Estadística and Bank of Spain.
Immediate response to the Covid-19 shock

Timely, bold and targeted policy response, to cushion short-term impact of the crisis.

### Ensure the continuity of productive activity:
- €100bn in guarantees for corporates and self-employed with liquidity issues against all sort of financial debt.
- €40 billion in guarantees to boost investment.
- €10bn increase in ICO’s indebtedness capacity to channel credit to corporates.
- €2bn insurance policy for exporting Spanish SMEs
- 6-month deferral of tax collection.
- Deferral and waivers of social security contributions.
- €10bn Solvency Support Fund for strategic companies.
- €4.2bn Support programme for the tourism sector.
- €3.75bn Support programme for the car industry.

### Reinforce the fight against the disease:
- Centralized provision and price regulation of fundamental products.
- €1bn extra funding and €2.8bn cash advance to regions for healthcare expenditure.
- €16bn in direct transfers to the regions (Covid Fund) that will finance healthcare and education expenses.
- Streamlining of customs procedures to facilitate industrial imports.
- Relaxation of budgetary procedures to facilitate re-allocation of resources.
- Extraordinary credits for R&D related to the fight against the disease.

### Minimize the impact on employment:
- **Significant use of furlough procedures (ERTE), which have been made more flexible**
- Access to full social benefits for all furloughed workers.
- Public and private sector workers in quarantine can perceive benefits for temporary incapacity.
- Extension of the Social Security allowance for permanent seasonal workers related to tourism.
- €500mn credit line to R&D projects of SMEs.
- €200mn program to support telework and digitalization of SMEs.

### Protect the most vulnerable:
- €25mn euros in meal grants for the regions.
- **Mortgage loan, rent payments and other personal loan deferral for vulnerable collectives, prorogued in line with EBA guidelines.**
- €300mn euros to guarantee home care for the dependent.
- Authorization to city councils to use 2019 budget surplus for social services.
- Protection against energy poverty for vulnerable citizens.
- Guarantee of basic utilities (water, electricity, natural gas) for home consumption.
### Policy approach in line with peers

#### Direct budgetary and liquidity support measures
(2020 and 2021 support in percent of 2020 GDP)

<table>
<thead>
<tr>
<th>Support Type</th>
<th>Support Amount (2020 &amp; 2021)</th>
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</thead>
<tbody>
<tr>
<td>Support to firms, workers and the self-employed</td>
<td>4.39%</td>
</tr>
<tr>
<td>Employment temporary schemes</td>
<td>2.39%</td>
</tr>
<tr>
<td>Support to the self-employed</td>
<td>0.69%</td>
</tr>
<tr>
<td>Solvency support fund</td>
<td>0.89%</td>
</tr>
<tr>
<td>Other measures</td>
<td>0.42%</td>
</tr>
<tr>
<td>Social and health support</td>
<td>2.14%</td>
</tr>
</tbody>
</table>

**Total direct budgetary support**: 6.54%

#### New solvency support fund
(RD-L 5/2021)

<table>
<thead>
<tr>
<th>Support Type</th>
<th>Support Amount (€)</th>
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</thead>
<tbody>
<tr>
<td>Facility for direct support to firms and the self-employed</td>
<td>7 billion</td>
</tr>
<tr>
<td>Facility for the restructuring of corporate financial debt</td>
<td>3 billion</td>
</tr>
<tr>
<td>Fund for the recapitalisation of firms affected by the pandemic</td>
<td>1 billion</td>
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</table>

**Total new solvency support fund**: 11 billion

#### Financing mobilized by liquidity support measures
(in percent of 2020 GDP)

<table>
<thead>
<tr>
<th>Support Type</th>
<th>Support Amount (2020 &amp; 2021)</th>
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</table>

**Total direct budgetary support**: 6.54%

#### Financial measures

<table>
<thead>
<tr>
<th>Support Type</th>
<th>Support Amount (%)</th>
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<tbody>
<tr>
<td>ICO liquidity and investment lines</td>
<td>12.48%</td>
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<tr>
<td>Other measures</td>
<td>1.07%</td>
</tr>
<tr>
<td>Solvency support fund</td>
<td>0.09%</td>
</tr>
<tr>
<td>Tax and Social Security measures</td>
<td>0.42%</td>
</tr>
</tbody>
</table>

**Total liquidity measures**: 13.98%

### Sources
- Ministerio de Asuntos Económicos y Transformación Digital.
- ICO, Banca d'Italia, Etalab.fr, KfW.
Temporary furlough scheme (ERTEs)

- With the objective of minimizing the social and economic impact of the pandemic, Spain’s ERTEs have allowed to protect millions of jobs.

- More than €21.3bn in EU funds from SURE disbursed between 2020 and 2021 (around €11.3bn in 2021) will contribute to its financing.

- The steady decrease of workers under ERTEs shows the recovery underway and the effectiveness of the measure. ERTEs extended until May 2021.

- Social Security affiliations show a significantly different behaviour than in the previous crisis, allowing an adjustment in hours and minimizing the impact on unemployment.

Changes in social security affiliations by months since the beginning of the crisis

Number of workers on furlough scheme

Source: Tesorería General de la Seguridad Social (Régimen General).

Source: Ministerio de Inclusión, Seguridad Social y Migraciones.
Government Public Guarantees

- Programme of **100bn€ of public guarantees** (through ICO) to loans granted by financial institutions to firms and the self-employed, with more than **988,000 financing operations guaranteed** that correspond to more than 608,000 enterprises.

- The scheme has provided more than **€90bn in guarantees**, allowing to mobilize more than **€118bn in financing** to secure the private sector’s liquidity needs. Up to 74% of the transactions with micro-SMEs (less than 10 workers) and the self-employed.

- In mid November, the Government decided to allow its beneficiaries to **extend maturities and deferral periods** to avoid that some liquidity issues might turn into solvency problems.

### Distribution between SME and non SME

- **Transactions**: 98.1% SME and self-employed, 1.9% Non SME
- **Guarantees**: 73.7% SME and self-employed, 26.3% Non SME
- **Financing**: 70.0% SME and self-employed, 30.0% Non SME

### Distribution among sectors (in percent)

- **Tourism and leisure**: 14.72%
- **Food and beverages**: 12.62%
- **Construction**: 10.86%
- **Transport and logistics**: 9.82%
- **Profesional services**: 8.87%
- **Industrial equipment**: 8.37%
- **Agriculture**: 4.63%
- **Retail consumption**: 5.41%
- **Textiles and fashion**: 4.09%
- **Other**: 20.61%

*Source: Instituto de Crédito Oficial.*
Indicators show a recovery in activity

- After severe contraction in Q2, the ongoing recovery is taking hold following an asymmetric-V-shaped trajectory.
- A 17.1% q-o-q GDP growth in Q3. Policy measures have proven to be effective.
- Significantly lower impact of the 2nd and 3rd waves of the pandemic, exceeding growth expectations for 2020.

**Daily activity indicator**
(Index scaled to match 2020 Q1 GDP)

**Monthly electricity consumption**
*(Gwh)*

**GDP growth projections for 2020**
*(in percent)*

Source: Ministerio de Asuntos Económicos y Transformación Digital

Source: Red Eléctrica de España.

Spain’s Recovery, Resilience and Transformation Plan

- Supported by **Next Generation EU**, the Spanish RRT Plan foresees to deploy €140bn in public investment and to mobilize up to €500bn in private investment. This is expected to lift Spain’s growth potential above 2%. Four overarching objectives and ten policy areas.

1. Urban and rural agenda 16.0%
2. Ecosystems and infrastructures 12.2%
3. Energy transition 8.9%
4. 21st century public administration 5.0%
5. Modernization and digitalisation 17.1%
6. Science and innovation 16.5%
7. Education and knowledge 17.6%
8. Employment and social care 5.7%
9. Cultural industry 1.1%
10. Retrofitting of the fiscal system -

**GDP projections (Base 100: 2015)**

Source: Ministerio de Asuntos Económicos y Transformación Digital
Spain is fully committed to the **sustainability agenda**. The government supports the UN’s Paris Agreement and SDGs, as well as the EU Climate and Energy Framework.

- **Bill on Climate Change and Energy Transition**
- **National Energy and Climate Plan 2021-2030**
- **Strategy on Fair Transition**
- **Full decarbonization by 2050**
- **Sustainable long-term growth**
- **Nobody left behind**

By 2030 this will allow us to achieve...

- **23%** GHG emission reduction from 1990 levels
- **39.5%** expected improve in energy efficiency
- **42%** of renewables over final energy consumption
- **74%** of electricity from renewable sources (100% in 2050)
A digital transformation for Spain: “España Digital 2025”

- Structural reforms aiming to the digitalization of the economy and the deployment of public and private investments, aligned with a more inclusive and sustainable growth.

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<tbody>
<tr>
<td>1.</td>
<td>Digital connectivity</td>
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<td>Coverage of 100 Mbps for all the population.</td>
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<tr>
<td>2.</td>
<td>5G deployment</td>
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<td>100% of the radio spectrum prepared for 5G tecnology.</td>
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<tr>
<td>3.</td>
<td>Digital skills</td>
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<td>Basic digital skills for 80% of the population (50% women).</td>
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<td>4.</td>
<td>Cyber security</td>
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<td>20,000 new cyber security experts.</td>
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<td>5.</td>
<td>Digital administration</td>
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<td>At least 50% of public services available in mobile apps.</td>
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<tr>
<td>6.</td>
<td>Digital SME and start-ups</td>
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<td>25% of SME overall business volume in e-commerce.</td>
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<td>7.</td>
<td>Structural swift projects</td>
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<td>10% reduction in CO₂ emissions thanks to digitalization.</td>
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<td>8.</td>
<td>Audiovisual industry</td>
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<td>Increasing by 30% audiovisual production in Spain.</td>
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<td>9.</td>
<td>Data based economy</td>
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<td>25% of enterprises using AI and big data.</td>
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<td>10.</td>
<td>Citizen's rights</td>
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<td>Endorse a National Charter for Digital Rights.</td>
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Social Justice. Spain’s transfer system is less redistributive than peers. The plan will benefit 850k households and 2.3m people, lift 1.6 million people out of extreme and very-high poverty.

Rationalisation of existing regional minimum income schemes.

Productivity. Promotes social inclusion, labour market participation (“make work pay” schemes), regional mobility, skills matching, training.


Economy. It will place Spain in line with its peers in terms of spending as % GDP.

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**Poverty Rate Before and After Public Transfers**

(In percent of population below 40% of median income)

- Finland: 13.0
- France: 12.7
- Belgium: 14.5
- Netherlands: 11.9
- Denmark: 15.4
- Germany: 12.9
- Portugal: 10.6
- UK: 6.0
- Greece: 8.1
- Spain: 9.2
- Italy: 9.4

Source: EUROSTAT.

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**Minimum income over GDP**

(In percent)

- Netherlands: 0.5%
- Denmark: 0.5%
- UK: 0.5%
- Germany: 0.5%
- France: 0.5%
- Spain: 0.5%
- Italy: 0.5%
- Portugal: 0.5%
- Sweden: 0.5%

Source: Ministerio de Inclusión, Migraciones y Seguridad Social.
Key drivers for action in 2021

There are some **priorities to address in order to ensure a strong recovery in 2021.**

**EVOLUTION OF THE PANDEMIC**
- Control the virus and accelerate the vaccination process.

**GEOPOLITICAL AND FINANCIAL STABILITY**
- Ensure stability in sovereign debt markets.
- Support the multilateral system to avoid conflicts on trade.
- Avoid a drop in investment.
- Prevent liquidity issues to turn into solvency problems.
- Provide targeted support to businesses and workers.
- Ensure the existence of swift restructuring mechanisms.

**STRUCTURAL IMPACTS**
- Ensure a smooth implementation of the recovery plans.
- Reforms and investments towards a stronger, more sustainable and inclusive growth.
Treasury’s market access

- Good market access. Despite higher issuance, demand for SPGBs has increased more than proportionally. The bid-to-cover ratio of medium & long-term instruments has surged.
- The yield of the 10 year Bono increased at the beginning of the pandemic, but then has fallen below 2019 levels. The risk premium has followed a similar trend.
Cost and life of debt: a longer-dated portfolio at historically low rates

Cost of Debt Outstanding and Cost at Issuance
(In percent)

Average Life of Debt Outstanding
(In years)

General Government Debt. EDP
(% of GDP)

Interest burden over GDP and public expenses
(In percent)

Source: Secretaría General del Tesoro y Financiación Internacional.

Source: Bank of Spain and Ministerio de Asuntos Económicos.
Spanish investors’ holdings of public debt at historic lows

Holdings of Letras & Bonos and Obligaciones del Estado

Government bond holdings as % of Spanish bank's balance sheet.

Source: Bank of Spain.

Source: ECB.
2021 Funding Programme: diversified funding sources

- For 2021, financing needs in net terms of €100bn. Most of it will be obtained through medium and long-term issuance.
- New funding mix (SURE, RRF), which requires a higher degree of flexibility on the issuance front.

### Funding Programme

<table>
<thead>
<tr>
<th>(In billion euros and in effective terms)</th>
<th>End 2020</th>
<th>Forecast 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Issuance</td>
<td>109.922</td>
<td>100.000</td>
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<tr>
<td>Total Gross Issuance</td>
<td>277.059</td>
<td>289.157</td>
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<tr>
<td><strong>Medium- and Long-term</strong></td>
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<tr>
<td>Gross Issuance</td>
<td>183.468</td>
<td>184.399</td>
</tr>
<tr>
<td>Of which SURE</td>
<td>9.979</td>
<td>11.325</td>
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<tr>
<td>Amortisation</td>
<td>84.969</td>
<td>94.399</td>
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<tr>
<td>Net Issuance</td>
<td>98.500</td>
<td>90.000</td>
</tr>
<tr>
<td>Of which SURE</td>
<td>9.979</td>
<td>11.325</td>
</tr>
<tr>
<td><strong>Letras del Tesoro</strong></td>
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<tr>
<td>Gross Issuance</td>
<td>93.591</td>
<td>104.758</td>
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<tr>
<td>Amortisation</td>
<td>82.168</td>
<td>94.758</td>
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<tr>
<td>Net Issuance</td>
<td>11.423</td>
<td>10.000</td>
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</table>

1 Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

### Funding Sources

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
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<tbody>
<tr>
<td><strong>Capital Market Issuance</strong></td>
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<td>Revenues</td>
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<tr>
<td>Regions Early Redemptions</td>
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<tr>
<td>SURE</td>
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<tr>
<td>RRF</td>
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</tbody>
</table>

Source: Ministerio de Asuntos Económicos y Transformación Digital.
Spanish Green Bond

- Spain is fully committed to the environmental and sustainability Agenda. The Government supports:
  - The United Nations 2015 Paris Agreement and Sustainable Development Goals
  - The EU 2030 climate and energy framework

- At a national level, the Spanish government presented an ambitious package of measures:
  - Spain’s National Energy and Climate Plan (NECPs) 2021-2030
  - The Bill on Climate Change and energy transition
  - Strategy on Fair Transition

- Estimated economic impact: It is estimated to generate over 240 billion euros of investments over the following decade, 50 of which would come from the Public Sector (State, regions, EU) and part of it will be financed through Green Bonds.

### Main features of the Spanish Green Bond

- **When**: Second half of 2021
- **Maturity**: Possibly 20 years → Long term commitment
- **How**: Liquid benchmark embedded in the curve
- **Format**: Best international standards

**Objective:** Decarbonization of the Spanish economy in 2050
Thank you for your attention

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