

FUNDING STRATEGY

2024

 Tesoro Público



EXECUTIVE SUMMARY

Spain's economy has shown extraordinary resilience, acting as one of the main drivers of growth in the Euro Area, despite an uncertain international context, with different crises which have threatened to reverse the economic recovery initiated after the pandemic. The estimated growth of 2.4% for 2023 is the highest among the major advanced economies and more than three times the average projected for the Eurozone. This strong growth contrasts with the complex scenario at the start of 2023, marked by the slowdown in global growth, central banks' reaction to the rise in inflation, topped by a new geopolitical conflict in the Middle East and the episodes of financial instability in the banking sector in March.

The strength of the labor market and the robustness of the external sector are the pillars of this growth differential and demonstrate the structural change taking place in the Spanish economy. Employment will surpass 21 million workers for the first time in History. The quality of new employment has also improved, with an increase in branches of activity with higher added value and technological content, while the temporary employment rate has continued to fall, converging with the European average. The unemployment rate has also declined to 11.8% in the third trimester of 2023, the lowest level since 2008. The other major driver of economic growth in 2023 has been the strength of the foreign sector. There has

been an export boom in a context of cooling global demand, as well as an increase in Spanish companies' market share, supported by moderate inflation. As a result, the Spanish economy has managed to consolidate its external financing capacity, which is now of a structural nature after eleven consecutive years of current account surplus.

The competitiveness of the Spanish productive fabric has also been favored by the investment drive and the reforms undertaken as part of the Recovery Plan. In 2023, Spain received the third disbursement of Next Generation EU funds for an amount of 6 billion euros, bringing the total transfers received to date to 37 billion euros, and the fourth payment amounting to 10 billion euros has already been requested. The European Commission has also approved the Addendum to the Recovery Plan, which will enable the mobilization of 10.3 billion euros in additional transfers and up to 83 billion in the form of loans, which will provide a safety net to complete the projects underway in the 2023-2026 period and continue promoting the green and the digital transformations. In this way, public investment is being preserved and promoted, preparing the country to face the challenges of the future in a context of fiscal consolidation.

The solid economic growth of recent years coupled with the gradual consolidation of public accounts is enabling the public debt ratio as a percentage of GDP to be reduced



at a record pace. In 2022, the debt ratio recorded the largest drop in recent history, falling by more than 5 percentage points to 111.6% of GDP. By 2023, debt is projected to fall to 108.1% of GDP, a reduction of more than 17 percentage points in less than three years. In parallel, public deficit will fall to 3.9% of GDP in 2023 and 3.0% in 2024, again demonstrating the Government's strong commitment to fiscal responsibility.

Regarding the financial sector, the Treasury has maintained a solid position in the market throughout the year, with strong demand for all its issues and high investor confidence, successfully executing its financing program. Among the variety of factors that have affected financial markets, we can highlight two in the past year. On the one hand, the rapid increase in interest rates carried out by the European Central Bank to reduce inflation, leading to their increase by 450 basis points in just a year and a half, which has brought the interest rate on the euro zone's deposit facility to 4.0%. On the other hand, the ECB has implemented a policy of quantitative tightening since July, whereby it has ceased reinvesting all the debt maturities of the Asset Purchase Programme (APP).

The Treasury's prudent borrowing policy in recent years has helped limit the impact of monetary normalization. The average maturity of debt was lengthened to 8 years, anchoring the low interest rates of the last decade and reducing the portfolio's annual refinancing risk. All this

has allowed the adjustment to the new financing conditions to be gradual. As a result, despite the European Central Bank's official rate hike of 450 basis points, the increase in the average cost of the debt portfolio over the same period has been ten times lower, just 45 basis points from the lows reached in 2021.

On the other hand, the Treasury has redoubled its efforts to diversify its investor base in a context of a shrinking European Central Bank balance sheet. In this regard, we can highlight the issuance of a new 15-year European inflation-linked benchmark in October, as well as the re-openings of the Treasury's green bond, which provide access to investment accounts other than those of conventional transactions. The syndications of two new 10-year benchmarks in January and June were also noteworthy, receiving the second and third highest demand in the Treasury's history. The strong appetite for Spanish debt reflects investors' confidence in the country's economy, which has also helped maintain the risk premium against Germany at stable and contained levels, around 100 basis points, with a narrowing in the latter part of the year. Domestic investors also showed a strong interest, among which the historic increase in retail purchases deserves a special mention. This retail bid was focused on Letras del Tesoro, which provided Spanish households with a liquid, safe and profitable asset.

In 2023 the Treasury reduced its initial net issuance target by 5 billion euros, thanks to

the dynamism of the Spanish economy, the good performance of public revenues and the usual prudence in its estimates. Thus, total net issuance in 2023 was 65 billion euros, below the 70 billion euros initially planned, continuing along the downward path initiated after the pandemic.

For 2024, the Treasury will reduce net issuance by 10 billion euros compared to year-end 2023, down to 55 billion euros, maintaining the downward trend, thanks to solid economic growth and the consolidation of public accounts. Gross issuance will increase slightly due to higher redemptions and the majority of this gross issuance will be done with medium and long-term debt instruments, with a view to maintain the average maturity of the debt portfolio. As usual, this is a prudent issuance target in light of the uncertainty surrounding the global economy, allowing the Treasury to maintain the capacity to deal with possible scenarios that may arise. The

Treasury is also committed to maintaining the predictability and transparency characteristic of recent years with regard to the issuance strategy, while preserving a certain margin of flexibility.

The Treasury will carry on promoting the diversification of its investor base through an active dialogue with investors, as well as the issuance of green bonds and inflation-linked bonds. In 2024, the green bond issued in 2021 will continue to be tapped, with the aim of reaching a volume similar to that of the other benchmarks on the Treasury curve. This will attract investors with sustainable mandates, promote the sustainable finance market in our country and finance public projects that boost the ecological transition. Likewise, the issuance of inflation-indexed bonds will continue, which provides important advantages for government financing in terms of the diversification of risks and the investor base.

TREASURY FUNDING IN 2023

The Treasury has successfully completed its 2023 financing program, with continued solid market access, demonstrating the resilience of the Spanish public debt market, in an international context marked by macroeconomic uncertainty and the emergence of numerous challenges, among which we can highlight the tightening of monetary policy globally, turbulence in the banking sector, the

continuation of the war in Ukraine and the outbreak of a new war in the Middle East.

The strength of investor demand is of great relevance, especially in the new monetary policy context. The European Central Bank, in line with other central banks, has carried out the largest monetary policy tightening in its history, with an increase in official interest rates of 450 basis points in little

more than a year, which has had a direct impact on Eurozone sovereign yields. In parallel, it has begun a gradual reduction of its asset portfolio since July, which is giving a greater role to private agents in the European sovereign debt markets. In the Spanish case, thanks to the good performance of the economy and the Treasury's efforts to diversify the investor base, foreign investors' holdings have remained stable in recent years.

Two particular features stand out for the Treasury's investor base in 2023. On the one hand, a strong interest in medium and long-term debt from foreign institutional investors, revealing the confidence of international markets in our economy. On the other hand, the historic increase in retail purchases of Letras del Tesoro Público, with which the Treasury has made available to Spanish households a liquid and safe asset, with an attractive yield.

The Treasury began 2023 by presenting a financing program that envisaged 70 billion euros of net issuance for that year. This estimate was made with the usual prudence, given the existence of multiple international risks. The good performance of the Spanish economy made it possible to extend the measures put in place to mitigate the effects of inflation and the war, while reducing net issuance to 65.126 billion euros at the end of the year. This corresponds to gross issuance during the year of 251.995 billion euros, an increase of 19.425 billion euros compared to 2022, due to the higher volume of redemptions in 2023.

Also, 2023 saw the second principal maturity of the European Stability Mechanism (ESM) loan

agreed in 2012 for the recapitalization of the financial system, the total amount of which amounted to 41.333 billion euros. Spain has repaid 25.829 billion euros, which leaves 15.503 billion pending, that will be repaid in yearly disbursements until 2027.

The final net issuance of 65.126 billion euros represents a reduction of around 7% compared to the initially announced target, continuing for another year the downward path initiated after the pandemic. This issuance was entirely covered by medium and long-term instruments, with net issuance of 69.997 billion euros, offsetting a negative net issuance of Letras del Tesoro of 4.871 billion euros. Gross issuance amounted to 251.995 billion euros, of which 167.518 billion euros were covered through medium- and long-term instruments and 84.477 billion euros through the issuance of Letras del Tesoro.

With regard to the method of issuance, 87% of the gross financing for 2023 (218.032 billion euros) was obtained through ordinary auctions carried out by the Treasury during the year. For its part, the bank syndication procedure covered 13% of the financing program (33.963 billion euros), a figure in line with that of 2022.

Specifically, 46 auctions were held, 22 of Bonos and Obligaciones del Estado and 24 of Letras del Tesoro. The Treasury has maintained good access to the market at all times. This is reflected, among other variables, in the coverage ratio, which measures the ratio between the volume demanded in Treasury issues in the primary market and the volume allotted, which amounted to 2.47 in 2023.

Graph 1: Funding Programs since 2012
(in EUR billion)

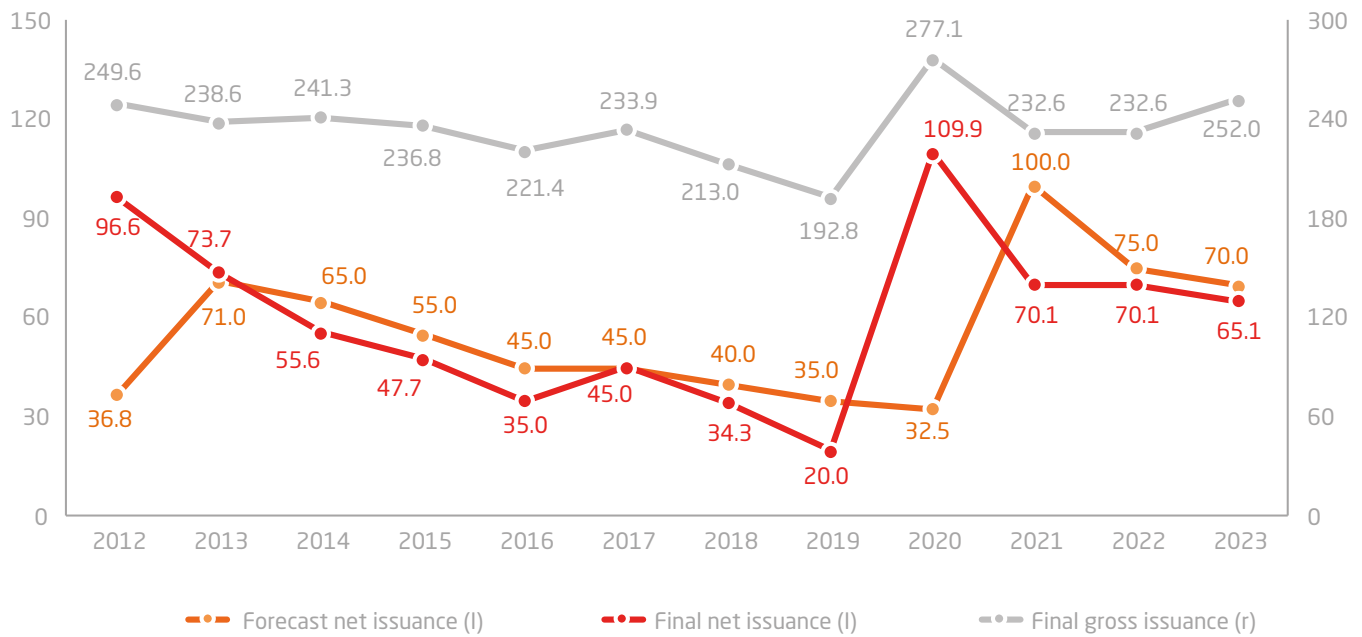


Table 1: The Spanish Treasury’s funding in 2023
(effective terms, EUR billion)

	End 2022	Forecast Strategy 2023	End 2023
Total Net Issuance	70,063	70,000	65,126
Total Gross Issuance	232,570	256,846	251,995
Medium and Long-term¹			
Gross Issuance	143,235	172,521	167,518
Redemptions	68,088	97,521	97,521
Net Issuance	75,147	75,000	69,997
Letras del Tesoro			
Gross Issuance	89,335	84,325	84,477
Redemptions	94,419	89,325	89,348
Net Issuance	-5,084	-5,000	-4,871

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

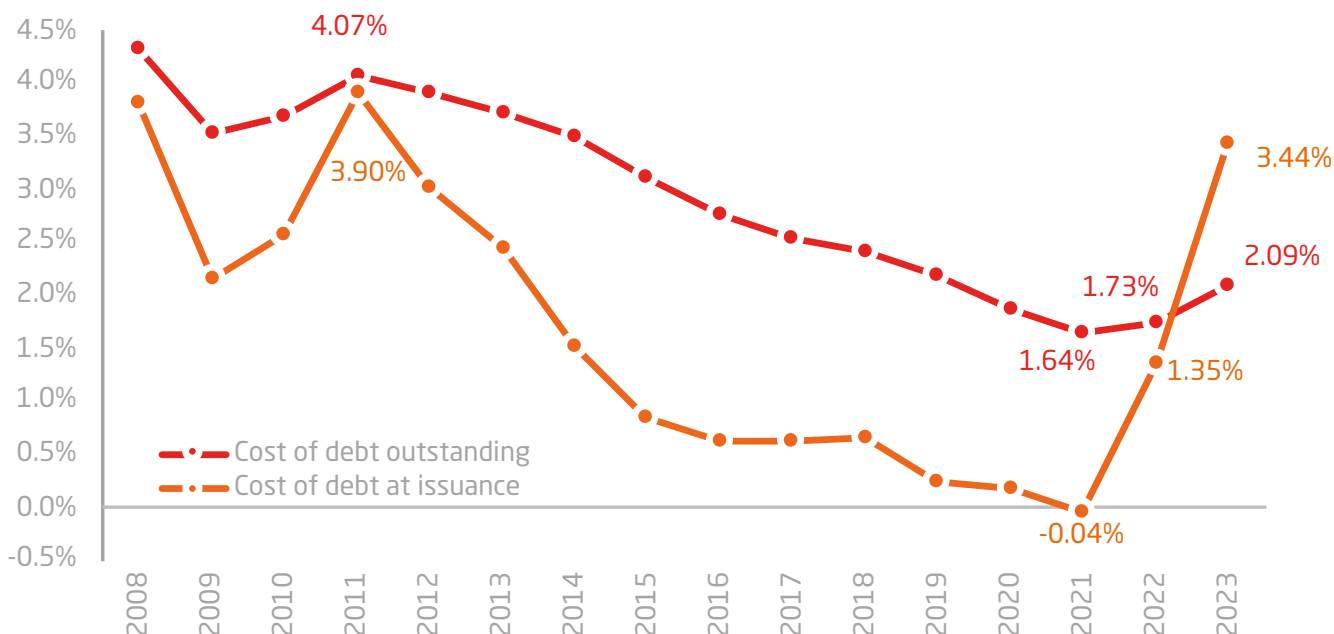


With regard to syndicated issues, in 2023 the Treasury issued four new Obligaciones del Estado through this issuance technique: two 10-year Obligaciones del Estado, one 15-year Obligación del Estado and one 15-year inflation-linked Obligación del Estado. These transactions attracted very strong demand, amounting on average to almost seven times the issue, eliminating the uncertainty surrounding the start of the reduction of the European Central Bank’s balance sheet. In particular, the two 10-year bond syndications drew record demand, the second and third largest in the Treasury’s history. In addition, the transactions attracted strong interest from foreign investors, with 87% of the volume allotted on average, thus helping to further diversify

the investor base. Also noteworthy was the issuance of the new 15-year inflation-linked Obligación del Estado, which recorded the highest demand in history for an inflation-linked issue in the Eurozone.

An analysis of the results of the issuance program shows the cumulative effect that the tightening of monetary policy has had on the Treasury’s debt metrics, as 2023 was the first full year of issuance under the new interest rate environment. In the case of Spain, the average cost of Treasury issuance rose from its historical low of -0.04% in 2021 to 1.35% in 2022, to finally close 2023 at 3.44%, in line with the European Central Bank’s rate hike. However, thanks to the Treasury’s prudent borrowing policy in recent years, the impact on the

Graph 2: Average Cost of Debt
(in percentages)





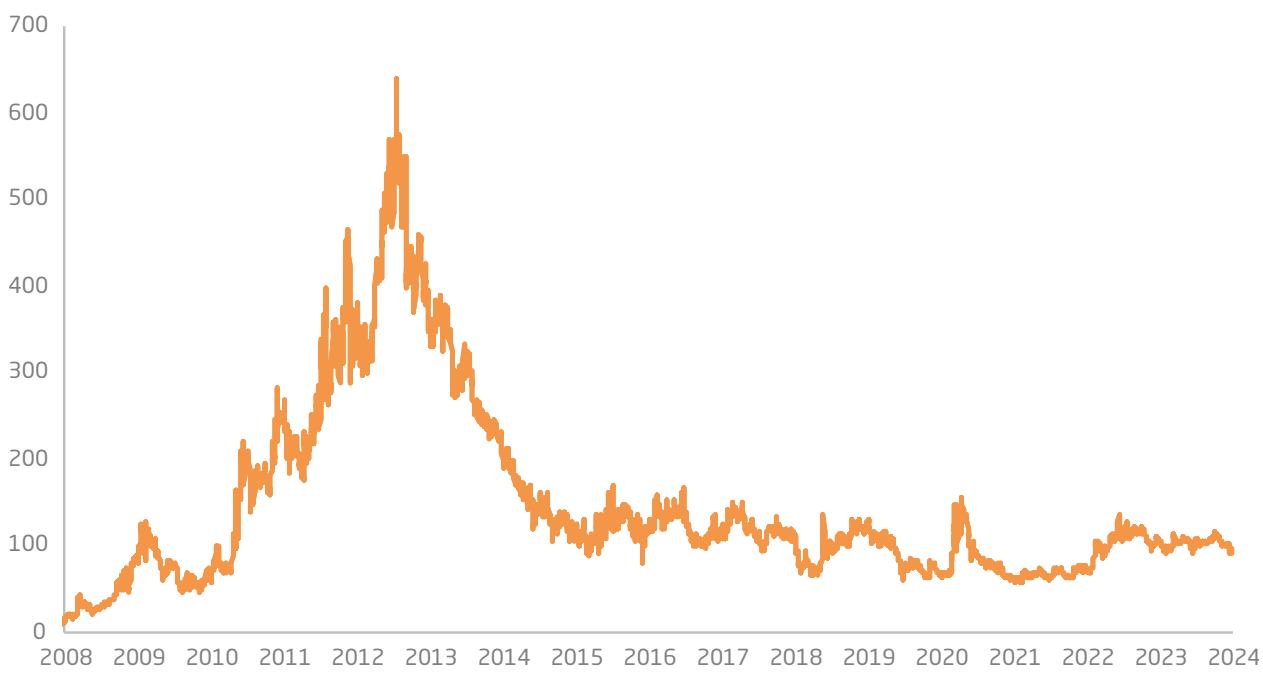
total portfolio has been greatly mitigated, reflecting only a tenth of the rise made by the European Central Bank. Thus, the average cost of outstanding government debt has increased by only 45 basis points from the 2021 low of 1.64%, closing 2023 at 2.09%. This is 10 times less than the increase in the European Central Bank's official rates over the same period.

The favorable evolution of the risk premium has also contributed to mitigating the impact of the rise in interest rates. Thus, the spread between Spanish and German 10-year yields has remained at around 100 basis points, showing little volatility despite the episodes experienced in financial

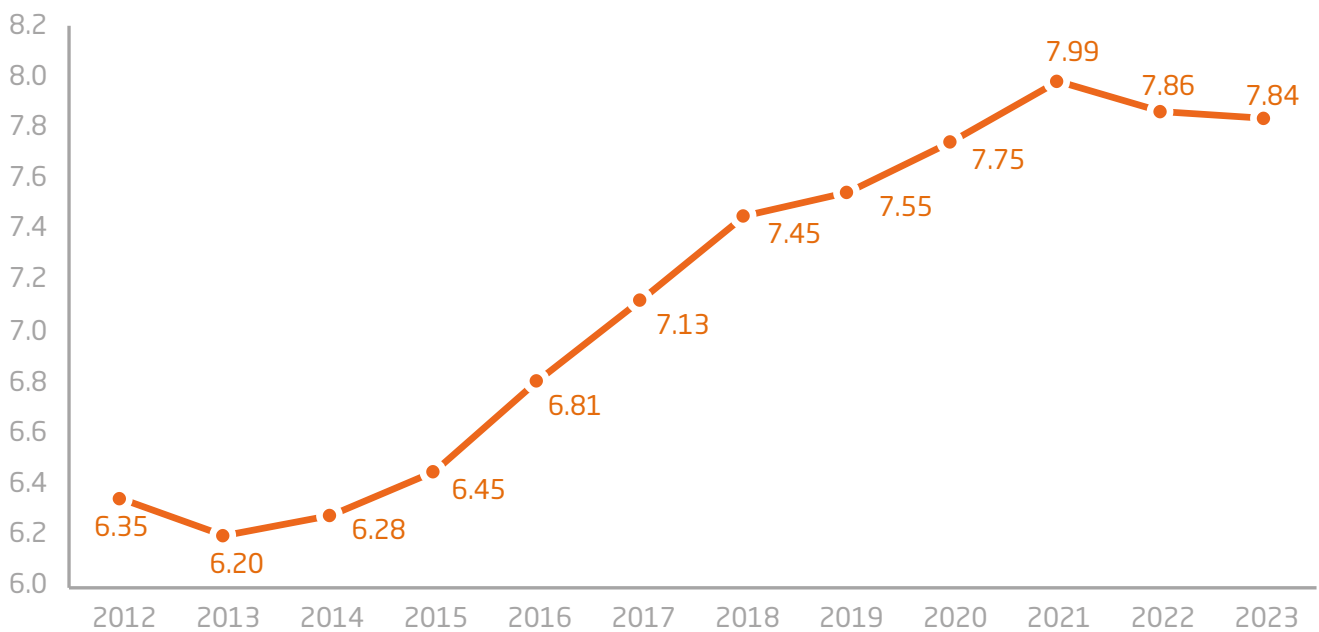
markets throughout 2023, and narrowing in the final part of the year to around 90 basis points. This market confidence in Spanish public debt is also reflected in the valuations of the main rating agencies, which maintained Spain's credit rating for the third consecutive year.

The Treasury has prioritized issues in long maturities, which has allowed it to maintain the average maturity of the portfolio close to the historical high of 8 years reached in 2021. The high average maturity helps to contain refinancing risk and portfolio sustainability, as currently only one eighth of the government debt portfolio is refinanced each year. This effect will continue in the coming years,

Graph 3: Risk Premium
(in basis points)



Graph 4: Average Life of Outstanding Debt
(in years)



creating a benign inertia that means that the new financial conditions are very gradually passed on to the Treasury portfolio, bringing stability to our market.

This gradual adjustment of portfolio costs has contributed to mitigating the impact of rising interest rates on the interest burden, reinforcing the sustainability of Spanish debt. Likewise, the strong economic growth in 2023 has contributed to the fact that the interest burden of government debt as a percentage of GDP remains at historically low levels.

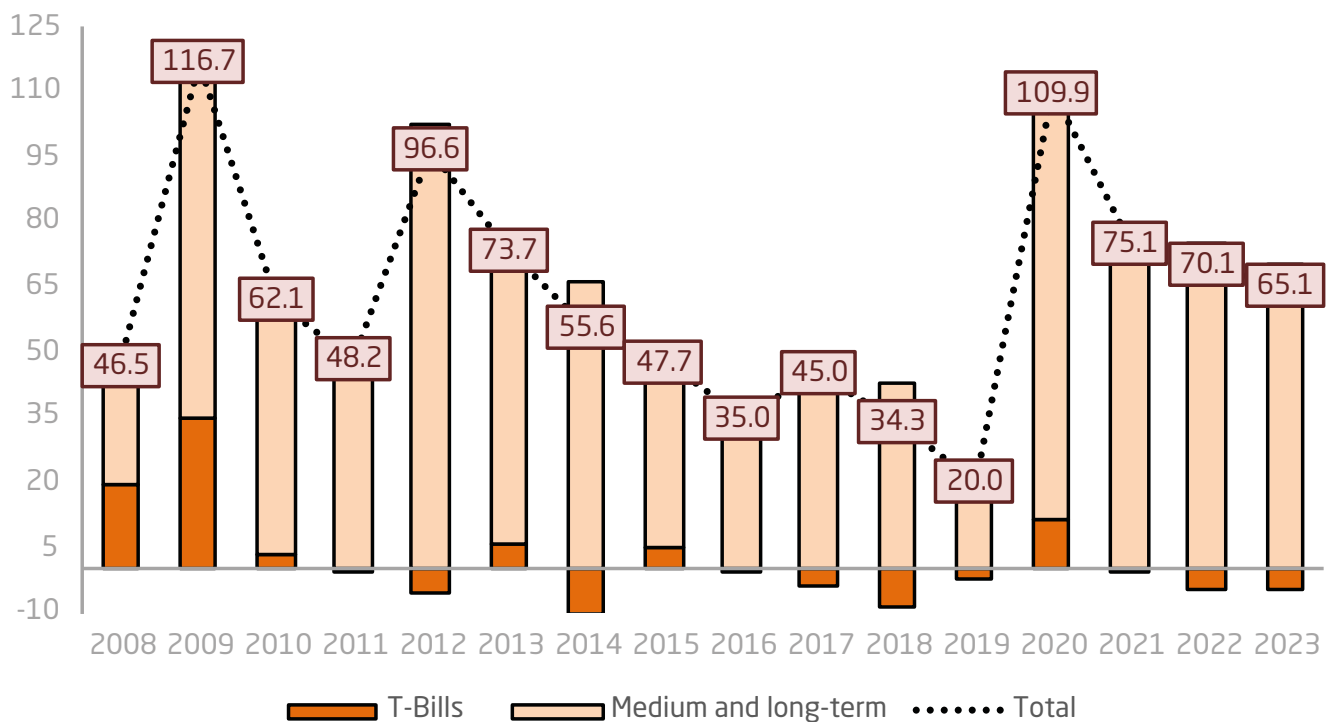
The net issuance of Letras has once again been negative for the seventh consecutive year (with the exception of the pandemic), helping to maintain the average maturity of the portfolio. The outstanding

volume of Letras stands at 71.599 billion euros, a level that allows the Treasury to continue to provide liquidity for these benchmarks, which represents a small proportion of the debt portfolio, slightly more than 5%.

Within the trends observed in the Treasury investor base during 2023, the orderly reduction in the Bank of Spain's debt holdings, in line with the European Central Bank's quantitative tightening announcements, is noteworthy. The gradual reduction of the European Central Bank's balance sheet has been well absorbed by the market, supported by to strong investor appetite. Foreign investors have increased their holdings of Government Debt



Graph 5: Breakdown of the Spanish Treasury's Net Issuance
(in EUR billion)



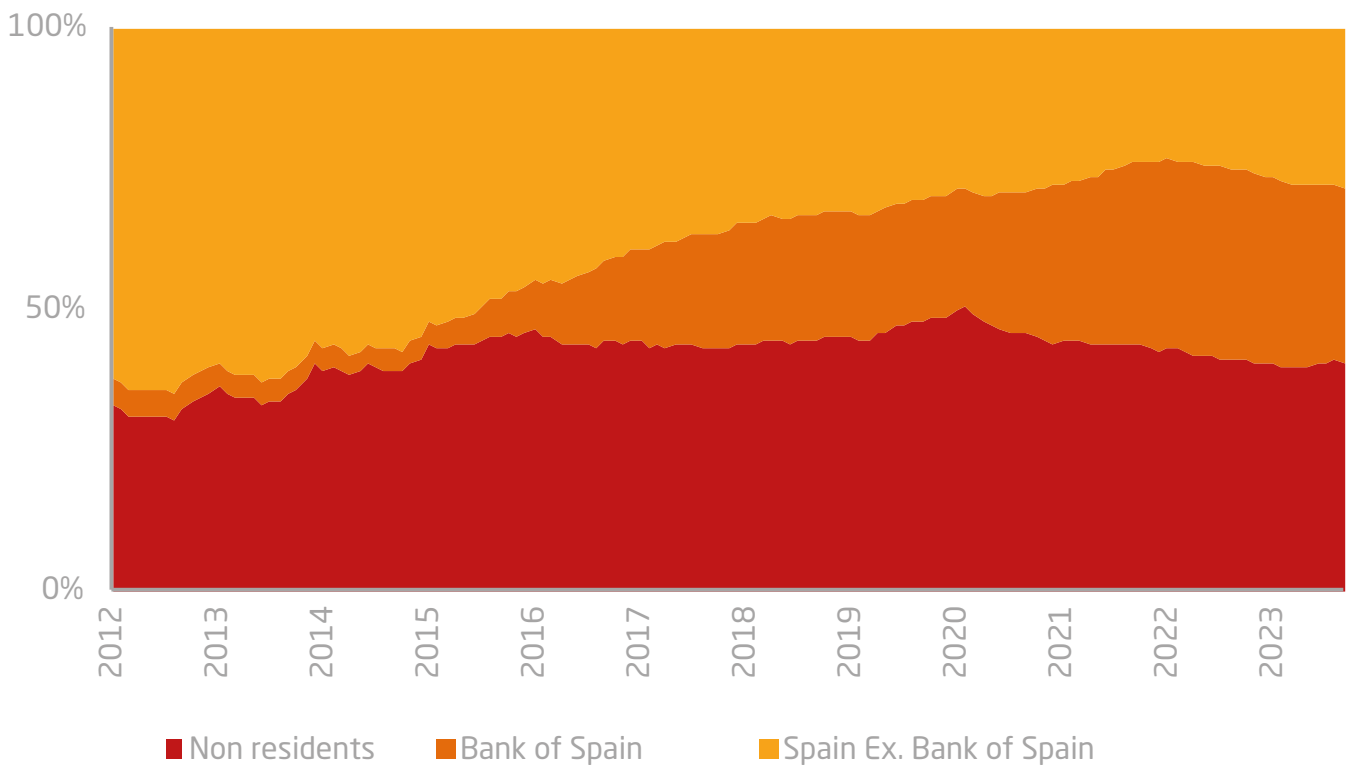
throughout 2023, remaining above 40% of our total debt. This increase has been concentrated in Bonos and Obligaciones, with a reduction of their Letras holdings in favor of domestic investors. Retail investors have led domestic interest in Letras, becoming their main holder, with a historic increase of 21 billion euros up to October 2023 (latest available data as of the date of this document).

As part of the aforementioned efforts to diversify the investor base, the Kingdom of Spain's green bond program has played an important role since its inception in 2021. The green bond

program is a structural part of the Treasury's funding strategy, contributing to the financing of green public projects and the promotion of the sustainable finance market in Spain. In addition, this program also diversifies the investor base by accessing investors with sustainability commitments. Within the framework of this program, the green bond that was launched in 2021 with a coupon of 1% and a maturity in July 2042, was tapped twice during 2023, for a combined value of 3.365 billion euros. This was in line with the 2022 issuance, bringing the total volume in



Graph 6: Holdings of Letras and Bonos & Obligaciones del Estado
 (in percentages)



circulation of this green bond to 11.572 billion euros. Similarly, the European inflation-linked Bonos and Obligaciones program also contributes to the diversification of the investor base. In 2023, the Treasury reaffirmed its long-term commitment to this program with a syndicated issuance of a new 15-year Eurozone inflation-linked bond. This syndication, together with the taps

of other benchmarks via auction, brings total inflation-linked issuance in 2023 to 9.262 billion euros in nominal terms, offsetting the maturity of a November 2023 benchmark worth 5.456 billion euros. Thus, the amount of outstanding debt corresponding to these instruments stands at 85.254 billion euros, which represents 6.2% of total outstanding government debt.



THE TREASURY'S FUNDING IN 2024

For 2024, the Treasury's proposes a reduction in net issuance of 10 billion euros compared to year-end 2023, to 55 billion euros, thanks to solid economic growth and the gradual consolidation of public accounts. This strategy will be developed in an international economic context that continues to be complex, which calls for flexibility and prudence of the funding program.

Regarding the composition of the 2024 issuance, for the fourth consecutive year all net funding will be obtained through the issuance of medium- and long-term instruments, contributing to the objective of maintaining the average life of the portfolio.

Medium- and long-term maturities are expected to increase to 118.118 billion euros, so that in gross terms the issuance of medium- and long-term instruments will foreseeably amount to 173.118 billion euros. In addition, 4.575 billion euros of the ESM loan agreed in 2012 for the recapitalization of the financial system is scheduled to be repaid, which will also contribute to gross issuance in 2024. There will be no net issuance of Letras del Tesoro in 2024, so gross issuance will be very similar to that of 2023, with 84.454 billion expected. In aggregate terms, expected gross issuance is 257.572 billion euros, some 2% higher than in 2023.

Table 2: The Spanish Treasury funding in 2024
(effective terms, EUR billion)

	End 2023	Forecast Strategy 2024
Total Net Issuance	65,126	55,000
Total Gross Issuance	251,995	257,572
Medium- and Long-term¹		
Gross Issuance	167,518	173,118
Redemptions	97,521	118,118
Net Issuance	69,997	55,000
Letras del Tesoro²		
Gross Issuance	84,477	84,454
Redemptions	89,348	84,454
Net Issuance	-4,871	0

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

2. Redemptions of Letras, and therefore also gross issuance, will depend on the effective issuance of Letras throughout 2024.



Lastly, Spain will continue receiving resources from the Next Generation EU, which will make it possible to continue promoting investment and reforms under the Recovery Plan. The Addendum, which has recently been approved, will articulate a safety net that will allow the completion and undertaking of new projects in the 2023-2026 period, supporting the twin green and digital transitions. In 2024, in addition to the fourth disbursement which has already been requested, there will be new transfers and loans that will be received according to the schedule of the Recovery Plan and its Addendum, including the pre-financing of the REPowerEU program.

Regular issuance by the Treasury

In 2024, the securities issuance pattern will be maintained, so that the Treasury will obtain the bulk of its financing through regular auctions of Letras del Tesoro and Bonos y Obligaciones del Estado. A total of 48 regular auctions of Letras del Tesoro and Bonos and Obligaciones del Estado are scheduled to be held, the dates of which are shown in the annex to this document.

There will be two monthly auctions for Letras: the 6 and 12-month Letras will be issued in the first auction of each month, while the 3 and 9-month Letras will be issued in the second auction. The 3, 6 and 9-month Letras are reopenings of 12-month Letras issued previously, hence in order to guarantee a sufficient degree of liquidity at launch, larger volumes will be issued in the first openings (12 and 9-month tranches).

As for the ordinary auctions of nominal Bonos and Obligaciones del Estado, they will generally be held on the first and third Thursday of each month. As has been the case in recent years, the first monthly auction of Bonos and Obligaciones may include a reference indexed to European inflation. In these cases, two distinct size ranges will be announced, one for nominal Bonos and Obligaciones and the other for inflation-linked Bonos and Obligaciones.

On the Friday prior to each Bonos and Obligaciones auction, the references to be auctioned will be announced, and on the Monday of the week in which the auction takes place, the target issuance range for the auction will be announced, as a guideline. The amount finally allotted will depend on the structure of the bids, the demand situation, the outstanding balance of each instrument and the evolution of the Treasury's financing needs, without it being necessary to reach the maximum announced.

The Treasury will continue issuing green bonds as a structural element of the financing program. Thus, it plans to continue tapping the green bond issued in 2021 in the coming years until it reaches a volume similar to that of the other benchmarks of the Treasury curve, in order to provide liquidity to this instrument. The issuance volume in 2024 will depend on the eligible expenditure for the year determined by the Working Group for the Structuring of Sovereign Green Bond Issues of the Kingdom of Spain and the Promotion of Sustainable Finance. Green issuance by the Treasury will continue to



contribute to the diversification of the investor base, the promotion of sustainable finance in our country and the financing of public investments aimed at the ecological transition.

Non-regular issuance of Treasury securities

Apart from regular auctions, in 2024 the Treasury will continue to use the bank syndication process as a method of issuing the first tranches of Obligaciones del Estado generally with a maturity of 10 years or above. This issuance method is particularly interesting for the issuance of new benchmarks, allowing for larger issuance volumes than in a regular auction, contributing to the liquidity of the

new benchmarks. In addition, it allows the selection of a diversified investor base, which contributes to improve the performance of the new benchmark in the secondary market after its launch.

Finally, the Treasury may issue government debt through private placements, in which a security is issued directly to an investor. Private placements are carried out at the proposal of investors, who must channel them through the Bonos y Obligaciones del Estado Market Makers, and will be executed on an exceptional basis to the extent that they contribute to the diversification of the Treasury's investor base, allow reducing the interest burden of the State's public debt and fit in with the strategic lines established by the Treasury.

SPECIAL THANKS TO THE PRIMARY DEALERS

The Spanish Treasury acknowledges and appreciates the important work carried out by Market Makers in the provision of liquidity and in the circulation and marketing of government debt.

The most active Market Makers in Bonos and Obligaciones del Estado in 2023 were: JP Morgan, A.G., Banco Santander, S.A., Deutsche Bank, A.G., Banco Bilbao Vizcaya Argentaria, S.A. and Barclays Bank Ireland P.L.C.

The most active Market Makers in Treasury Bills in 2023 were: Banco Santander, S.A., Crédit Agricole CIB, Banco Bilbao Vizcaya Argentaria, S.A., HSBC Continental Europe and JP Morgan, A.G.

Auction Calendar

January 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
1	1	2	3	4*	5	6	7
2	8	9	10	11	12	13	14
3	15	16	17	18	19	20	21
4	22	23	24	25	26	27	28
5	29	30	31				

February 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
5				1*	2	3	4
6	5	6	7	8	9	10	11
7	12	13	14	15	16	17	18
8	19	20	21	22	23	24	25
9	26	27	28	29			

March 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
9					1	2	3
10	4	5	6	7*	8	9	10
11	11	12	13	14	15	16	17
12	18	19	20	21	22	23	24
13	25	26	27	28	29	30	31

April 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
14	1	2	3	4*	5	6	7
15	8	9	10	11	12	13	14
16	15	16	17	18	19	20	21
17	22	23	24	25	26	27	28
18	29	30					

May 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
18			1	2	3	4	5
19	6	7	8	9*	10	11	12
20	13	14	15	16	17	18	19
21	20	21	22	23	24	25	26
22	27	28	29	30	31		

June 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
22						1	2
23	3	4	5	6*	7	8	9
24	10	11	12	13	14	15	16
25	17	18	19	20	21	22	23
26	24	25	26	27	28	29	30

July 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
27	1	2	3	4*	5	6	7
28	8	9	10	11	12	13	14
29	15	16	17	18	19	20	21
30	22	23	24	25	26	27	28
31	29	30	31				

August 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
31				1*	2	3	4
32	5	6	7	8	9	10	11
33	12	13	14	15	16	17	18
34	19	20	21	22	23	24	25
35	26	27	28	29	30	31	

September 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
35							1
36	2	3	4	5*	6	7	8
37	9	10	11	12	13	14	15
38	16	17	18	19	20	21	22
39	23	24	25	26	27	28	29
40	30						

October 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
40		1	2	3*	4	5	6
41	7	8	9	10	11	12	13
42	14	15	16	17	18	19	20
43	21	22	23	24	25	26	27
44	28	29	30	31			

November 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
44					1	2	3
45	4	5	6	7*	8	9	10
46	11	12	13	14	15	16	17
47	18	19	20	21	22	23	24
48	25	26	27	28	29	30	

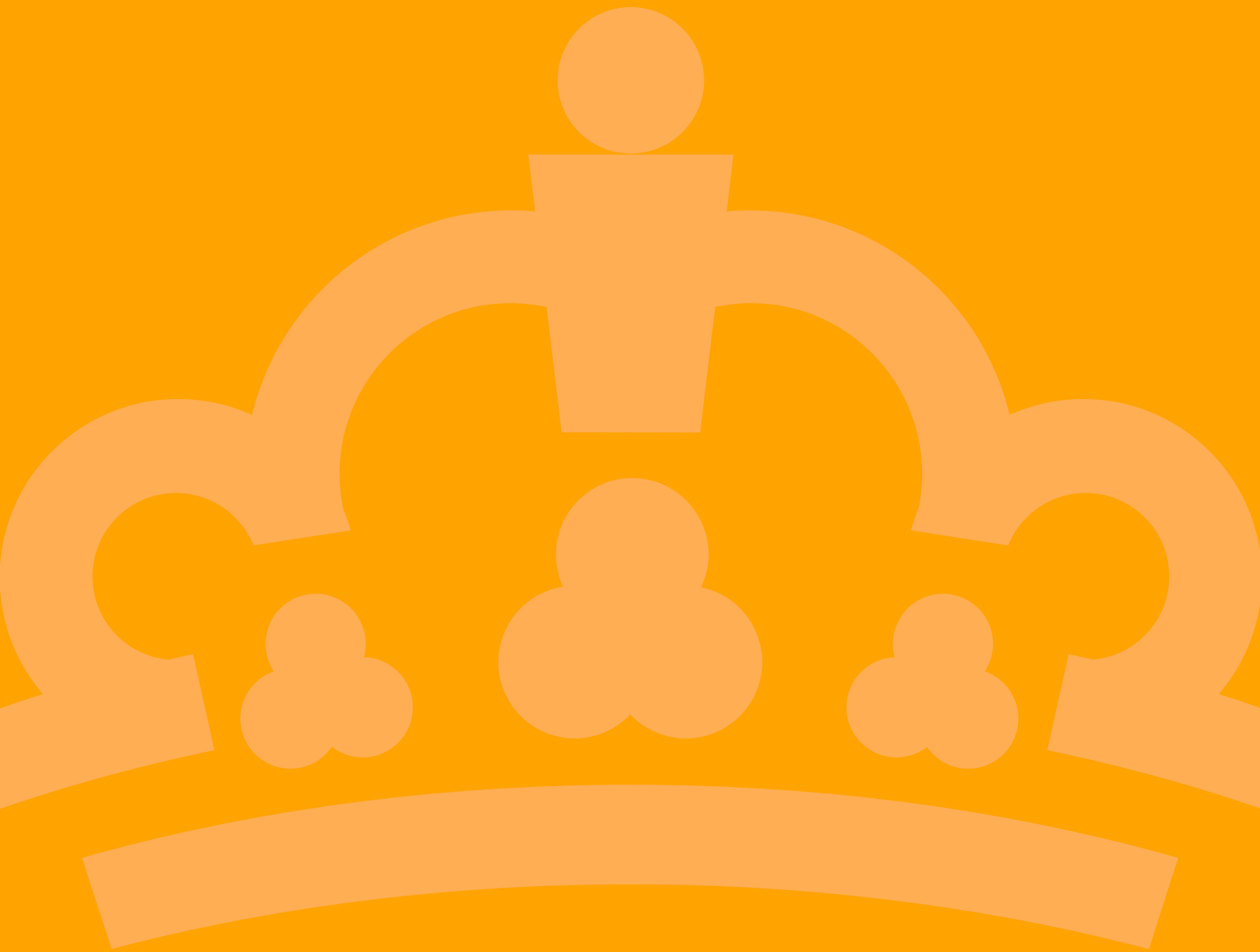
December 2024

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
48							1
49	2	3	4	5*	6	7	8
50	9	10	11	12	13	14	15
51	16	17	18	19	20	21	22
52	23	24	25	26	27	28	29
1	30	31					

January 2025

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
1			1	2	3	4	5
2	6	7	8	9*	10	11	12
3	13	14	15	16	17	18	19
4	20	21	22	23	24	25	26
5	27	28	29	30	31		

- 11 Auction of Letras del Tesoro
- 20 Auction of Bonos and Obligaciones del Estado
- *May include Bonos and Obligaciones linked to European inflation*
- 1 Target holiday



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