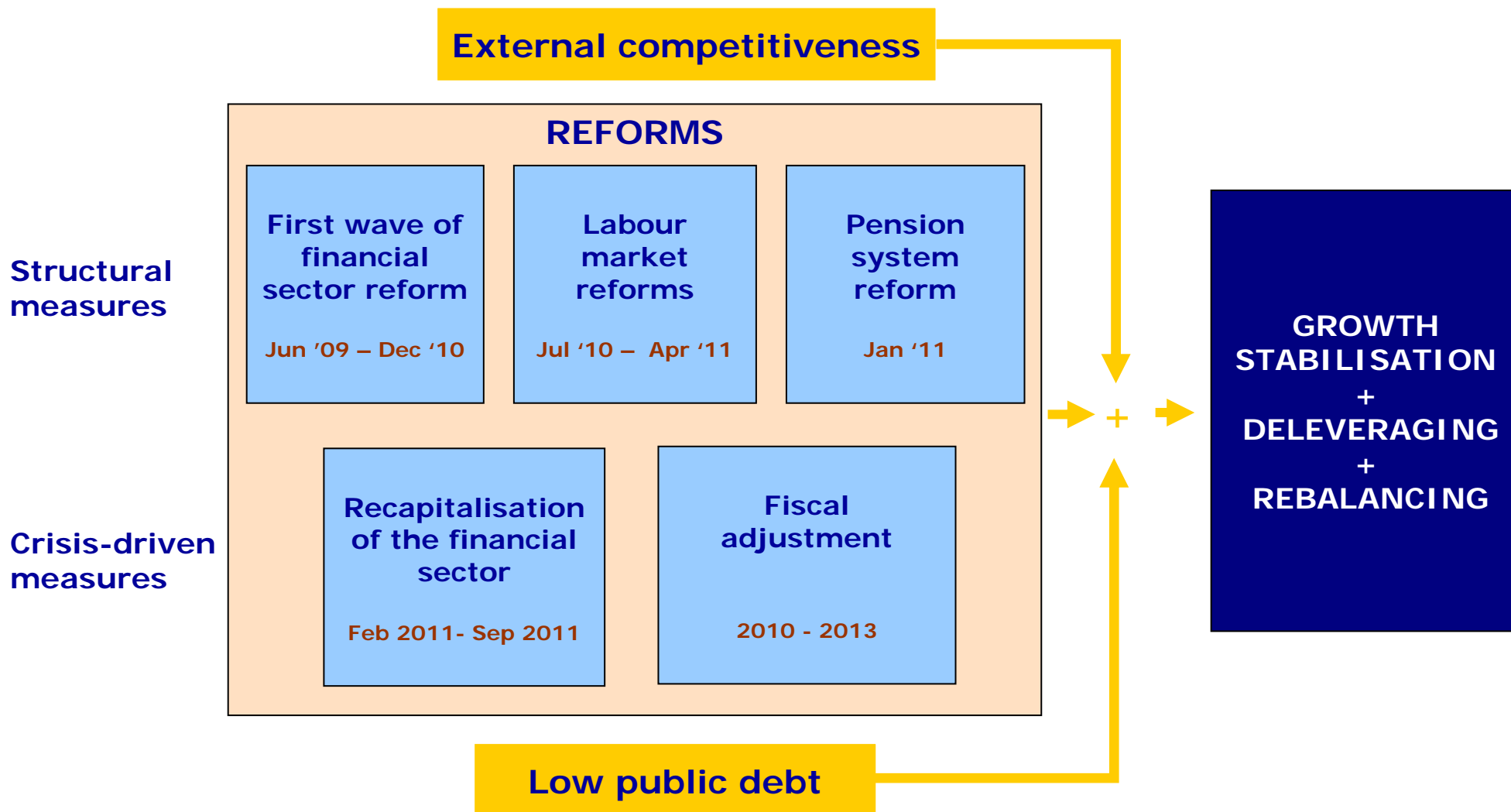




*Spain: Policy measures towards a
sustained and balanced growth path*

March, 16th 2011

Strengths and reforms are paying off



Highlights

The reforms and macroeconomic developments in 2010 and 2011 are laying the foundations of a sound and rebalanced growth for the Spanish economy

Two main questions:

- Are reforms tackling the underlying problems? Existing evidence on financial system reform, labour market reform, business environment & fiscal consolidation says so
- Can Spain grow? Spanish firms are competitive and have the potential to absorb resources and to enhance growth in the future

- **Reforms are working**
- **Fiscal consolidation**
- **Future balanced growth path**
- **Funding and Debt Management**

Banking system restructuring

- Creation of FROB to liquidate non-viable entities and to support restructuring process of viable ones (up to 36 billion with possibility of increasing up to 99 billion if needed). Conditional on cost cutting measures: 25% of branch closure and 15 to 18% of employment reduction on average
- Regulatory reform of saving banks
- Stress tests & transparency: additional coverage and severity on European Stress Tests (July 2010) coupled with enhanced transparency on asset exposure (January 2011)
- Saving banks restructuring process finalised: saving banks have decreased in number from 45 to 17 in a 6-month process
- Law to Strengthen Capital Base and Confidence

Cajas decreased in number from 45 to 17 in 6 months

Restructuring process of Cajas. Data as of September 2010

Financial institution	Total assets (€ bn)	% of Financial sector RWA	% of Savings Banks' assets	Financial support (€ mn)	Supporting Fund	Institutional setting
Banco Financiero y de Ahorros	345	11.1%	26.4%	4 465	FROB	IPS
La Caixa-Girona	271	8.1%	20.3%	0	Not requiring	Merger
Banco Base	126	4.3%	9.6%	1 493	FROB	IPS
Catalunya Caixa	77	2.6%	5.9%	1 250	FROB	Merger
NovacaixaGalicia	76	2.9%	6.0%	1 162	FROB	Merger
Banca Cívica	73	2.5%	5.5%	977	FROB	IPS
Mare Nostrum	71	2.3%	5.4%	915	FROB	IPS
Caja España-Caja Duero	46	1.4%	3.5%	525	FROB	Merger
Unicaja-Jaen	35	1.1%	2.7%	0	Not requiring	Merger
Unnim	29	1.0%	2.2%	380	FROB	Merger
Caja 3	20	0.7%	1.5%	0	Not requiring	IPS
Cajasur-BBK	45	1.6%	3.5%	392	FROB	Business transfer
TOTAL	1 214	39.6%	92.5%	11 559		

Source: Bank of Spain and FROB.

* Additional €3,775 mn from DGS.

Recent market doubts require additional measures

- Additional transparency requirements by the Bank of Spain: Financial institutions must offer to the market specific information on land, construction and residential mortgage portfolios, in particular those related to the guarantees supporting loan-to-value and on the coverage to meet possible impairments
- Published on an individual basis by each financial institution and accessible at the CNMV's web-site

	Credit risk	Total under surveillance, doubtful or foreclosed	Standard under surveillance		Foreclosed real estate		
			Doubtful	Completed housing	Houses under construction and other	Land	
Total credit risk	117	100	28	28	18	3	23
Completed development	50		7	9			
Development in progress	26		4	5			
Urban and developable land	22		10	7			
Other	19		7	7			
Total exposure	217						
Total provisions		38					

Source: Bank of Spain.

Law to Strengthen Financial Sector (I)

- The reform aims to restore the credibility of the Spanish financial system and to eliminate any doubts about its solvency cast by the prolonged effects of the crisis and the deterioration of real estate assets.
- Main elements:
 - Increased capital requirements
 - Reform of the FROB
- A few points need to be emphasised
 - The Government's confidence in the solvency of Spanish financial sector is strong; this plan intends to eliminate any doubts that may linger in the market
 - The Government's preference is for recapitalisation to take place in the market; FROB is ready to intervene but it is a last resort
 - The legal status of Cajas de Ahorro remains as per the previous framework (alternative institutional setups, social programmes). Minimum capital requirements depend on each institution's liability structure
 - Fiscal changes introduced to ensure neutrality throughout these changes

Law to Strengthen Financial Sector (II)

New Capital Requirements

- Increased Capital Requirements
 - General minimum: 8% of RWA
 - An increased minimum of 10% for those that:
 - Depend on wholesale funding (> 20%); and
 - Have not sold enough equity to third parties (< 20%)
 - Possibility to increase this minimum further if additional needs arise as a result of the new stress tests
- Definition of Capital in line with Basle III (2013)
 - Capital, reserves, issuance premia, minority stakes
 - Instruments underwritten by FROB; temporarily, instruments convertible into common equity before December 31st 2014
 - Reductions due to losses, positive/negative adjustments based on different valuations, as well as intangible assets

Law to Strengthen Financial Sector (III)

Implementation calendar of new capital requirements:

- Capital requirements (since March 10th) to reach new standards amount to €15,152 million, involving 12 financial institutions (2 Spanish banks, 2 subsidiaries of non-resident banks and 8 Cajas de Ahorro)
- 11 Credit institutions have to reach or maintain a 10% of core capital
- There is a transition phase granted to financial institutions that do not reach the capital requirements:
 - *March*: 15 working days to present strategy and implementation calendar. If strategy includes FROB support, recapitalisation plan in 30 days
 - *June-July*: Publication of stress test results
 - *September 30th*: deadline for implementation
 - If delays are foreseen, these must be communicated 20 days in advance
 - Bank of Spain may authorise, and must explain, a 3-month extension
 - Exceptionally, stock market flotation can be delayed until 2012-Q1

Capital needs in order to meet new capital requirements												
	Banks				Cajas de Ahorro							
	Bankinter	Barclays Bank, S.A.	Deutsche Bank, S.A.E.	Bankpyme	Bankia	Base	Banca Cívica	Mare Nostrum	Catalunya-caixa	Novacaixa-galicia	Caja España de Inversiones	Unimm
Core capital	2,144	1,005	729	24	14,125	6,582	3,687	3,343	3,148	2,851	2,062	1,150
Core capital ratio required	8%	8%	8%	8%	10%	10%	10%	10%	10%	10%	10%	10%
Core capital ratio	6.9%	5.2%	6.4%	6.0%	7.1%	8.2%	8.1%	8.4%	6.5%	5.2%	8.2%	6.7%
Capital needs (€ mn)	333	552	182	8	5,775	1,447	847	637	1,718	2,622	463	568

Law to Strengthen Financial Sector (IV)

FROB Reform

- Objective: to facilitate institutions' capitalisation through FROB as a last resort, when a market recapitalisation is not possible
- FROB financial support (compatible with EU norms):
 - Purchase of ordinary bank shares at market value; beneficiary Cajas must transfer financial activities to a bank in a period of 3 months
 - Disinvestment in 5 years at the latest; 1 year as a general case, 2 years exceptionally
 - Recapitalisation plan to include commitment to reduce structural costs, improvement in corporate governance, with a view to facilitate the flow of credit
- Change in the composition of FROB's Governing Committee: 9 members
 - 2 from Ministry of Economy and Finance
 - 4 from Bank of Spain
 - 3 from Deposit Guarantee Funds

Labour market reform

Objectives:

Approved on July 2010

- Fostering permanent and training contracts
- Clarifying grounds for objective dismissals
- Internal flexibility at firm level: firms can opt out from conditions imposed by sector-specific collective bargaining agreements

Labour market developments since Labour market reform. Hiring and dismissals (Year-on-year growth rates)		Pre-reform period			Post-reform period					2011
		May	June	July	Aug	Sep	Oct	Nov	Dec	Jan
Hiring by type of contract	Permanent	-0.8	-8.3	-13.8	-2.7	-4.9	-6.3	0.8	8.6	8.6
	<i>Fomento</i>	-5.4	-18	-17.3	41.5	35.1	56.1	80.5	136.5	92.8
	Temporary	7.3	2.7	0.7	7.7	3.4	-0.3	4.9	4.3	6.0
	<i>Training</i>	3.7	-7.4	-10.5	-2.7	14.5	20.6	46.0	-5.1	4.9
Dismissals	Objective reasons	-18.9	-12.3	6.4	18.8	18.0	11.6	23.7	37.2	
	Disciplinary reasons	-27.3	-26.3	-20.5	-12.8	-13.3	-26.8	-19.7	-17.0	
Wage developments		2009	2010-Q1	2010-Q2	2010-Q3	2010-Q4				
	Collective agreements*	2.7	1.5	1.3	1.3	1.3				
	Real wage	3.5	0.9	0.2	-1.8	-2.5				
	Real labour cost	3.8	0.0	-0.4	-2.2	-2.8				

Source: Ministerio de Trabajo e Inmigración.

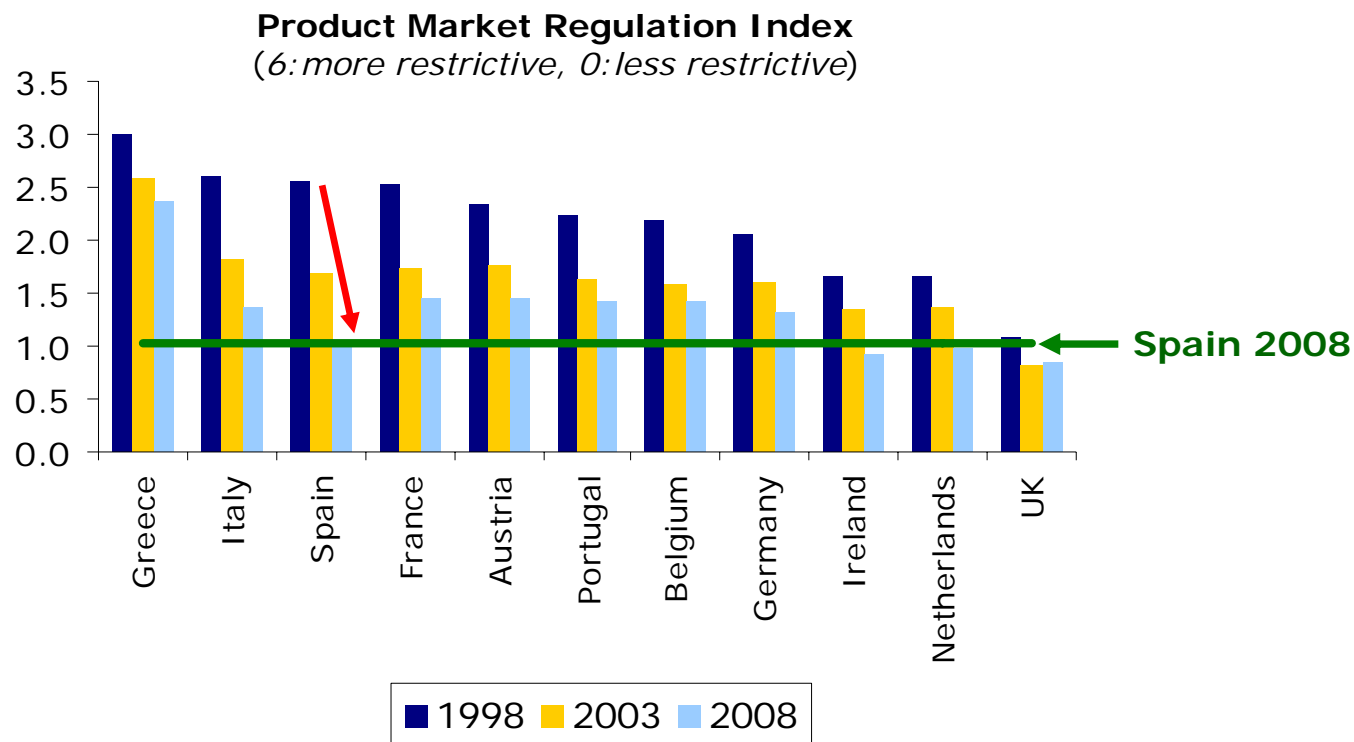
*Agreed wage increase, cumulative over the year.

Additional reforms

- Unemployment rate is still very high (20.3% in 2010-Q4). Lowering it must be the focus of the Government's efforts
- Additional measures already implemented:
 - Private placement offices: effective interaction between private and public employment agencies
 - Active Labour Market Policies: activation strategies, fostering individual career development plans and training
- On February 3rd, the Government together with key trade unions' and firms' representatives have reached a broad agreement on aspects such as:
 - Pension system reform
 - Active Labour Market Policies
 - Collective bargaining
 - Industrial Policy
 - Energy Policy
 - R&D+Innovation Policy

Product market reforms

- According to the OECD, Spain has pursued a substantial reduction of product market regulation and bureaucracy in the last decade
- Spain is currently well placed against other OECD countries



Additional Product market reforms

- Some elements of market rigidities still remain in the economy

Most analysts point to...	... which the Government is already tackling
Business creation	Period shortened to between 1 to 5 days (for most Ltd companies) from an average of 33. (approved)
Permits and licenses	Far-reaching transposition of Service Directive and removal of local licenses (approved)
Red tape	Reduction programme: target reduction 30% by 2012 and 50% by 2020
Professional services	Liberalising access, fostering competition and mobility (Professional Services Draft Law, Spring 2011)

- **Reforms are working**
- **Fiscal consolidation**
- **Future balanced growth path**
- **Funding and Debt Management**

Our commitment: achieving a fiscal deficit of 3% in 2013

- More than 60% of total fiscal adjustment delivered in first 2 years
- Deficit targets robust to:
 - Implementation risks, via stronger control mechanisms on all levels of Government
 - Ex-post control: regions require authorisation of debt issuance depending on the compliance of the previous year's target
 - Ex-ante control: three-stage authorisation
 - Negative growth surprises, as targets are not conditional on macroeconomic performance

General Government commitments by unit (% of GDP)						
	2009	2010		2011	2012	2013
		Commitment	Execution			
General Government Budget Balance	-11.1	-9.3	-9.2	-6.0	-4.4	-3.0
- Central Government	-9.3	-5.9 (-6.7)	-5.0 (-5.7)	-2.3 (-4.8)	-3.2	-2.1
- Autonomous Communities	-2.0	-3.1 (-2.4)	-3.4 (-2.8)	-3.3 (-1.3)	-1.3	-1.1
- Local Governments	-0.6	-0.6 (-0.4)	-0.6 (-0.5)	-0.8 (-0.3)	-0.3	-0.2
- Social Security	0.8	0.2	-0.2	0.4	0.4	0.4

Source: National Accounts and Ministerio de Economía y Hacienda.
In brackets: net of internal transfers among Public Administration units.

In 2010 General Government has delivered

- Overall all governmental units have achieved a 9.2% deficit, 0.1% below the commitment
 - The budget deficit in 2010 for the Central Government was 5.0%. This implies a 0.9% of GDP less than projected
 - Social Security Administrations have posted a deficit, as opposed to the 0.2% projection:
 - Budget execution of the Social Security ended with a 0.2% surplus
 - The Public Employment Office (SPEE) showed a 0.3% deficit
 - Eight regional governments have delivered according to plan. Other regions will need to adopt strict measures and adopt rebalancing plans in order to get authorisation for new issuance
 - Local administrations have deviated by 0.04% of GDP from their initial forecast

Monitoring Autonomous Communities (I)

- All regions require authorisation of debt issuance depending on the compliance of the previous year's target and the presentation of a rebalancing plan (See table below)
- For the first time, in 2010, the authorisation for new issuance was extended in three stages. In 2011 the authorisation procedure has been agreed upon in the Council for Fiscal and Financial Policy: an initial authorisation of up to 0.65% of regional GDP, followed by an additional 0.40% for regions compliant budgetary execution in the first semester and a final 0.25%, after compliance in the second semester

Requirement of authorisation

Objective of budgetary stability	Euro denominated and foreign currency bond issuance	Long-term operations (>1 year)	Short-term operations (<1 year)
Compliance <i>(Madrid)</i>	Yes	No	No
Non-compliance with rebalancing plan <i>(Rest)</i>	Yes	Yes	No
Non-compliance without rebalancing plan	Yes	Yes	Yes

Monitoring Autonomous Communities (II)

Preliminary budgetary execution of Autonomous Regions for 2010

Autonomous region	% of regional GDP
Madrid	-0.69
Extremadura	-2.23
País Vasco	-2.24
Canarias	-2.31
Galicia	-2.43
Castilla y León	-2.56
Cantabria	-2.59
Asturias	-2.61
Andalucía	-2.99
Aragón	-3.07
La Rioja	-3.26
Comunitat Valenciana	-3.47
Comunidad Foral de Navarra	-3.50
Cataluña	-3.86
Illes Balears	-4.16
Región de Murcia	-4.95
Castilla-La Mancha	-6.47
TOTAL	-2.83

Source: Ministerio de Economía y Hacienda.

Fiscal consolidation in 2011 is guaranteed by the budget

- **Central Government Budget for 2011:**
 - Non-financial expenditure diminishes by 7.9%
 - Spending by ministerial departments is 15.6% lower than in 2010
 - Personal Income Tax: increases in marginal tax rate
 - SME taxation modified to help small enterprises grow
- **Autonomous Communities' Budgets for 2011:**
 - Budgets for most communities approved (except Cataluña and Baleares).
 - On average non-financial expenditure budget diminishes by 6.4%
 - Compensation of public employees budget reduced by 5.1%

Breakdown of fiscal consolidation in 2011 (I)

- The consolidation process relies both on revenue increases and expenditure reductions
- Overall, in the two years, around 57% of the effort is made through lower expenditure

Breakdown of deficit reduction measures				
	2010		2011	
	(% GDP)	(% in total)	(% GDP)	(% in total)
Revenue increase	1.2	66.7%	1.0	30.3%
Expenditure reduction	0.6	33.3%	2.3	69.7%
Total	1.8		3.3	

Source: Ministerio de Economía y Hacienda.

Data corresponds to estimations of the effects.

Breakdown of fiscal consolidation in 2011 (II)

- Around 50% of the increase in revenues in 2010 is the consequence of higher taxes
- Indirect taxes represents more than 50% of the tax increases

Breakdown of the increase in revenues of General Government (% of GDP)		
	2010	2011
Permanent measures adopted in 2010 Budget	0.6	0.4
<i>Increase in VAT rates</i>	<i>0.2</i>	<i>0.3</i>
<i>Increase in excise duties</i>	<i>0.1</i>	<i>0.0</i>
<i>Elimination of 400€ income tax deduction</i>	<i>0.3</i>	<i>0.1</i>
Permanent measures adopted in 2011 Budget	0.0	0.1
<i>Excise duties increase</i>	<i>0.0</i>	<i>0.1</i>
<i>Social contributions and other</i>	<i>0.0</i>	<i>0.0</i>
Cyclical component and other	0.6	0.5
Total revenue increase	1.2	1.0

Source: Ministerio de Economía y Hacienda.

Data corresponds to estimations of the effects.

Breakdown fiscal consolidation in 2011 (III)

- The bulk of the adjustment stems from the measures adopted in May 2010 and from the reversal of transitory measures
- Very few items increase in these years, in particular interest payments and pension expenditure

Breakdown of the expenditure reduction of general government (% of GDP)		
	2010	2011
Reversal of temporary measures adopted in 2009 and 2010	0.2	0.5
Measures adopted in 2010 and 2011 budgets	0.8	0.8
<i>Central Government Budget Bill</i>	<i>0.4</i>	<i>0.2</i>
<i>Autonomous communities's Budget Bills</i>	<i>0.4</i>	<i>0.6</i>
Extraordinary measures adopted in 2010	1.0	1.0
<i>Inmediate Action Plan (January 2010)</i>	<i>0.5</i>	<i>0.0</i>
<i>May extraordinary Measures</i>	<i>0.5</i>	<i>1.0</i>
Cyclical component and other	-1.4	0.0
Total expenditure reduction	0.6	2.3

Source: Ministerio de Economía y Hacienda.

Data corresponds to estimations of the effects.

Consolidation path for the future

- The cyclical component in 2011 adds 1.5% to the deficit
- Taking into account interest payments, the cyclical component and transitory measures, the forecasted structural primary balance for 2011 is -1.8%

Breakdown of General Government balance (% of GDP)			
	2009	2010	2011
Net effective borrowing need	-11.1	-9.3	-6.0
Interest Payments	1.8	2.2	2.7
Primary Balance	-9.4	-7.1	-3.4
<i>Cyclical component</i>	-1.4	-1.7	-1.5
<i>Structural Primary Balance</i>	-8.0	-5.4	-1.9
<i>Transitory measures</i>	-2.0	-0.7	-0.1
<i>Structural Primary Balance excluding Transitory Measures</i>	-5.9	-4.7	-1.8

Source: Ministerio de Economía y Hacienda.

Pension reform to warranty fiscal sustainability

Main guidelines of the Pension System reform:

- Gradual increase in the statutory retirement age from 65 to 67 (retirement with 65 years is only allowed for long-contributing careers)
- Additional restrictions to early retirement
- Reinforcing the relationship between contributions and benefits:
 - The pension is computed as a function of the last 25 years of career (increased from 15 years)
 - Increase in the number of years worked (at least 37 years) for full pension entitlement
- Sustainability factor: adjustment of the relevant parameters of the current system to the changes in life expectancy every 5 years from 2027 onwards

Impact of the reform of the Social Security system (% GDP)						
	Higher potential GDP	Increase in statutory retirement age	Increase in years for calculating pension	Increase in years needed for full pension	Sustainability factor	TOTAL IMPACT
2030	0.1	0.8	0.4	0.1	0.0	1.4
2040	0.2	1.0	0.8	0.3	0.5	2.8
2050	0.2	1.0	1.0	0.3	1.0	3.5

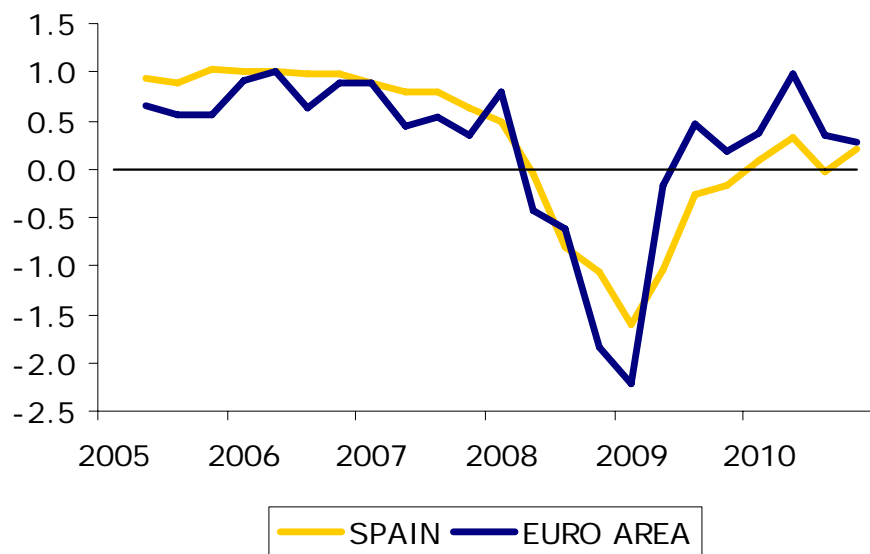
Source: Ministerio de Economía y Hacienda.

- **Reforms are working**
- **Fiscal consolidation**
- **Future balanced growth path**
- **Funding and Debt Management**

Weak growth for 2010 and 2011

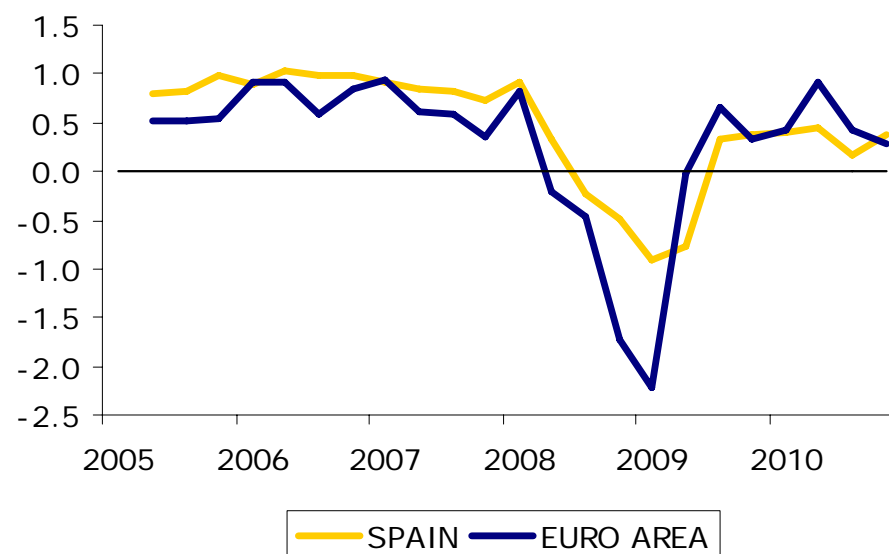
- The recovery of the economic activity in Spain was delayed and less intense than in the Euro Area
- This is largely related to the abrupt adjustment of the housing sector

**GDP volume measures.
Quarter-on-quarter growth rates**



Source: Eurostat.

**GDP volume measures excluding construction.
Quarter-on-quarter growth rates**

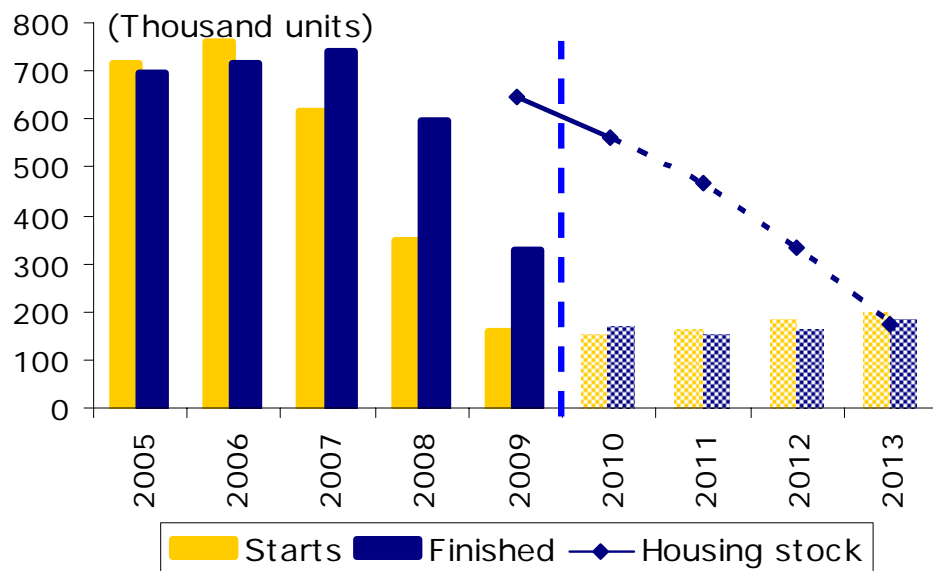


Source: Eurostat.

Construction adjustment

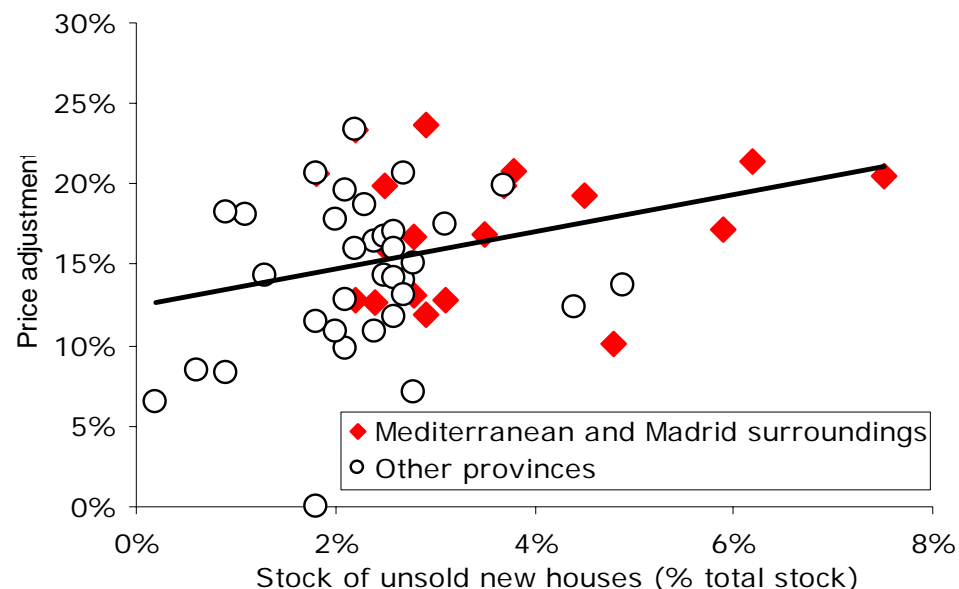
- Residential investment accounted for 4.4% of GDP in 1995 and it increased to 9.3% by 2006. In 2010-Q4 this ratio reached the 1995 level of 4.4%
- Adjustment is not over: y-o-y growth of residential investment in 2010 (-16.8%) and 2011 (-5.0%), taking 1.0 and 0.2 p.p. off GDP growth, respectively
- But stock of unsold houses has started shrinking and prices are adjusting

Housing: units started and finished



Source: Ministerio de Economía y Hacienda.

Real Price adjustment by unsold houses (per province)



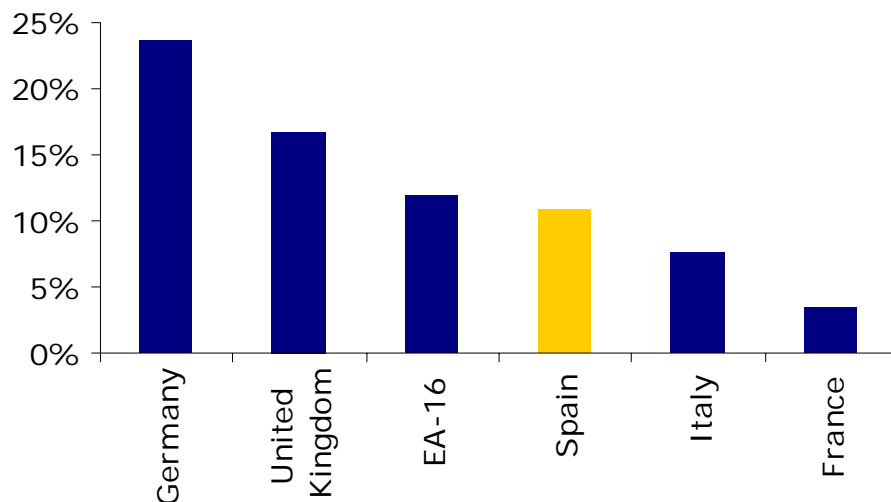
Source: Ministerio de Fomento.

Adjustment in Real Estate reduces aggregate leverage

- Household leverage is related to high rate of home ownership. Once rents are considered households' costs related to housing are not high in European perspective
- Corporate leverage: Firms in real estate were highly leveraged. Other sectors are comparable to Euro Area

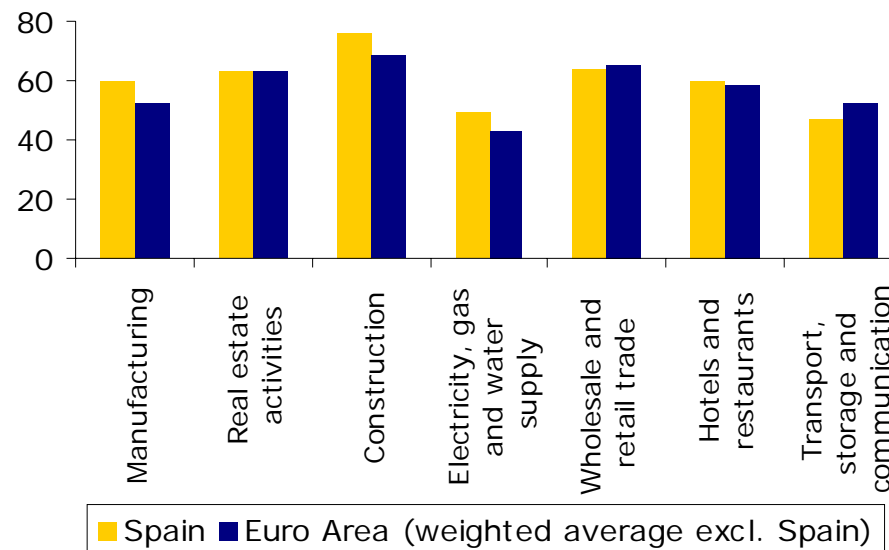
Housing cost overburden, 2009.

(% of households with housing costs >40% of disposable income)



Source: Ministerio de Economía y Hacienda.

Debt to total assets, 2007.



Source: Eurostat.

Other components of national demand are recovering

- Private consumption grew in 2010 at an average of 1.2% (from -4.3% in 2009) and investment in equipment is grew on average 1.8% (from -24.8% in 2009)
- The question is whether or not the economy is in the position to absorb the adjustment in the construction sector

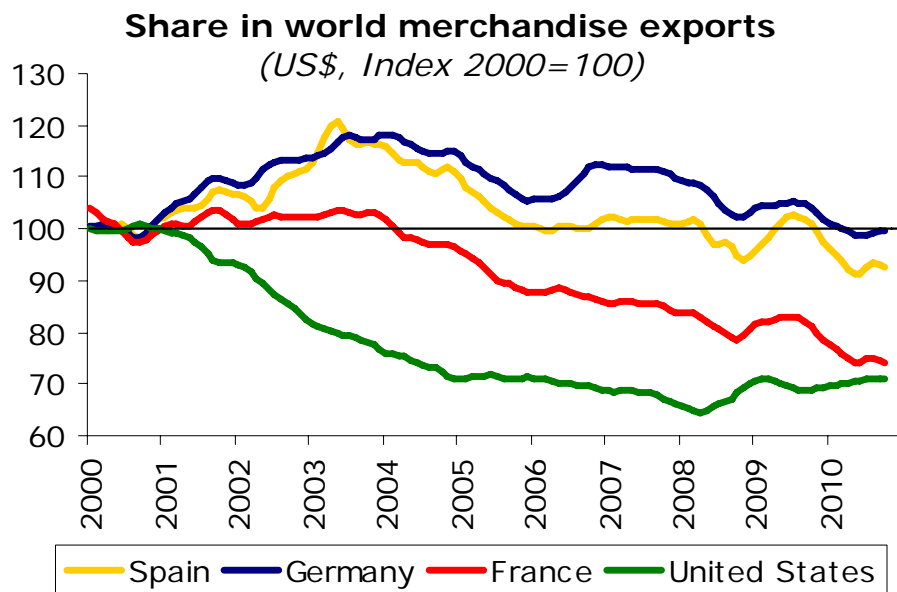
Macroeconomic evolution (year-on-year growth rates, volume measures)	Forecast Ministerio de Economía y Hacienda							
	2008	2009	2010	2010				2011
				Q1	Q2	Q3	Q4	
Final Consumption Expenditure	0.9	-2.3	0.7	-0.5	1.5	0.9	0.9	0.9
- Private consumption	-0.6	-4.3	1.2	-0.3	2.1	1.5	1.6	1.8
- Public Consumption	5.8	3.2	-0.7	-1.1	-0.1	-0.7	-0.9	-1.6
Gross Fixed Capital Formation	-4.8	-16.0	-7.6	-10.5	-6.7	-6.7	-6.1	-1.5
- Equipment	-2.5	-24.8	1.8	-4.6	8.7	2.4	1.2	4.2
- Construction	-5.9	-11.9	-11.1	-11.3	-11.3	-11.2	-10.6	-0.4
- Other products	-4.1	-16.2	-8.2	-15.8	-11.0	-3.0	-1.5	-4.5
National demand*	-0.6	-6.4	-1.2	-3.0	-0.3	-0.7	-0.6	0.4
Exports of goods and services	-1.1	-11.6	10.3	9.4	11.9	9.4	10.5	6.4
Imports of goods and services	-5.3	-17.8	5.4	2.0	9.6	5.0	5.3	2.9
External demand*	1.5	2.7	1.1	1.6	0.3	0.9	1.2	0.9
GDP	0.9	-3.7	-0.1	-1.4	0.0	0.2	0.6	1.3

Source: National Statistics Institute and Ministerio de Economía y Hacienda.

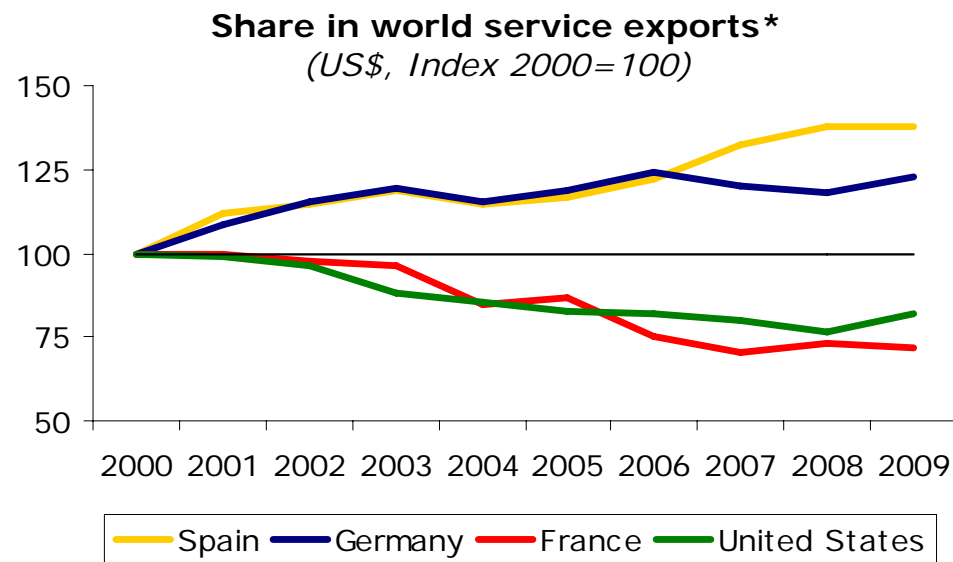
* Contributions to GDP growth.

Spanish firms are competitive

- Remarkable resilience of market share in world merchandise and of service exports
- Most developed economies' market share has decreased over the recent years



Source: International Monetary Fund.



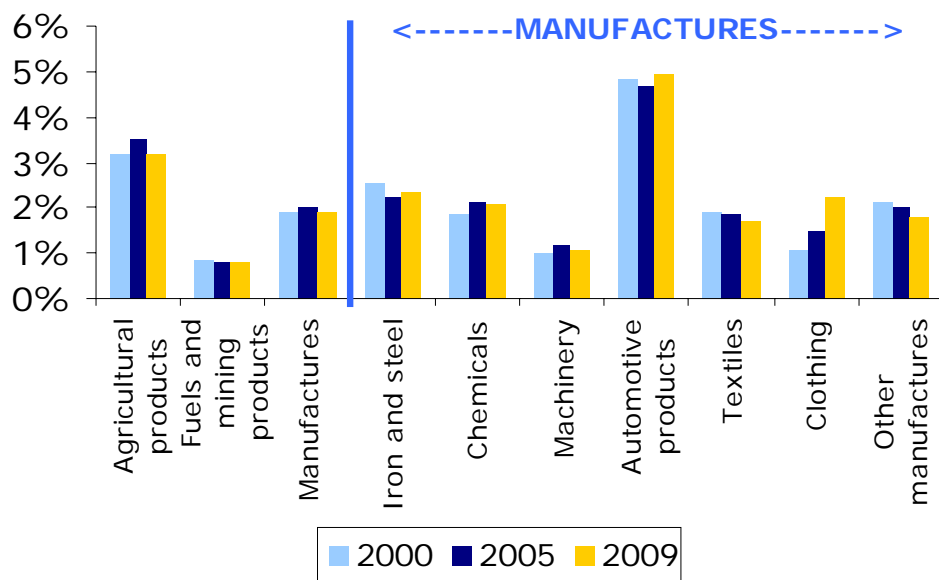
Source: World Trade Organisation.

* Other than transportation and travel.

General competitiveness and internationalisation

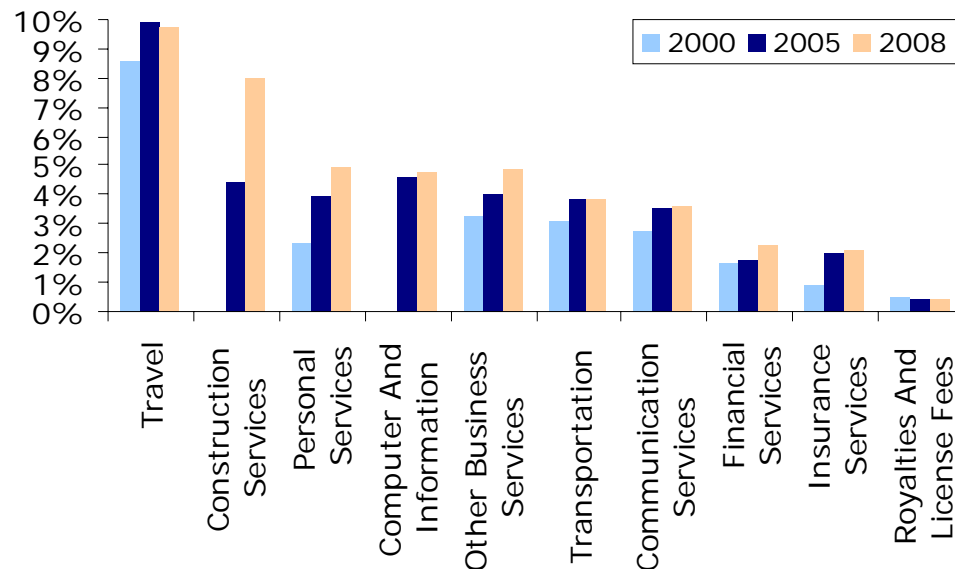
- Export performance: is widespread and not attributable only to a handful of sectors
- Spanish exports are entering in new emerging markets: in 2009 (1999) 78.8% (82.5%) went to OECD and 56.7% (60.2%) to the Euro Area
- Large increase in Spanish investment abroad (FDI). In 2009 weighted 44.2% of Spanish GDP (20% in 90's)

Share in world merchandise exports by product



Source: World Trade Organisation.

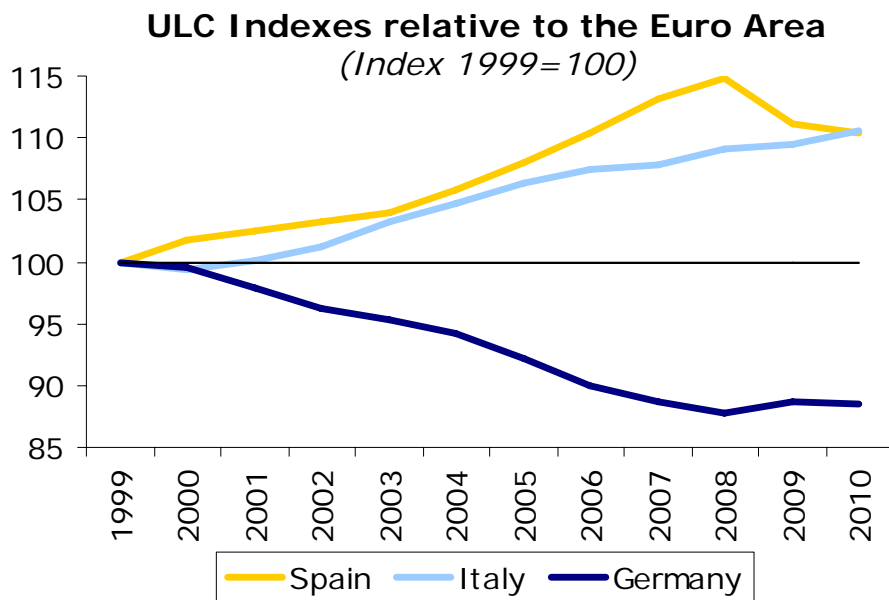
Share in world exports of services in the OECD



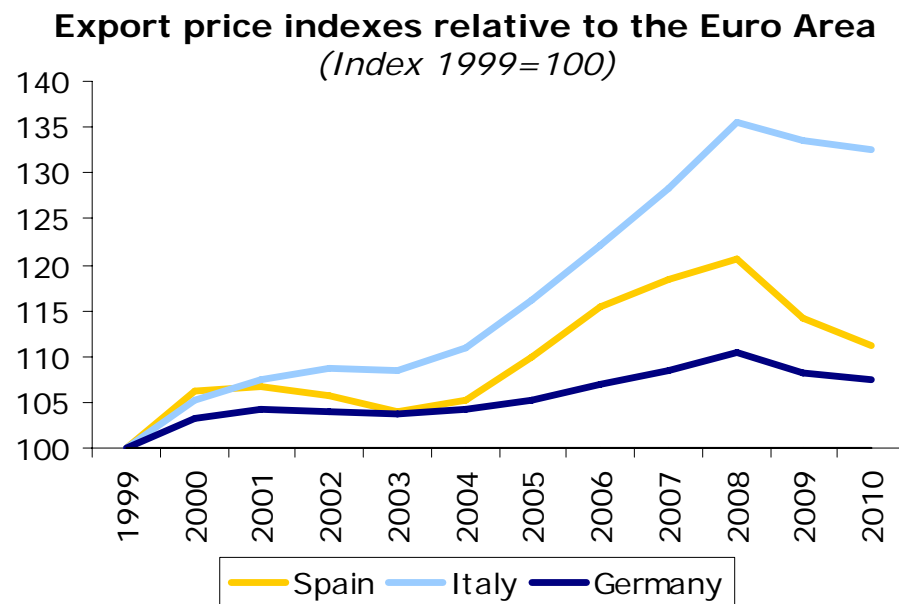
Source: OECD.

In a particular period of increasing labour costs

- Between 2000 and 2008, Spain faced an increase in labour costs relative to its European peers
- Price competitiveness has been improving due to the rebalancing and structural adjustment of the Spanish economy



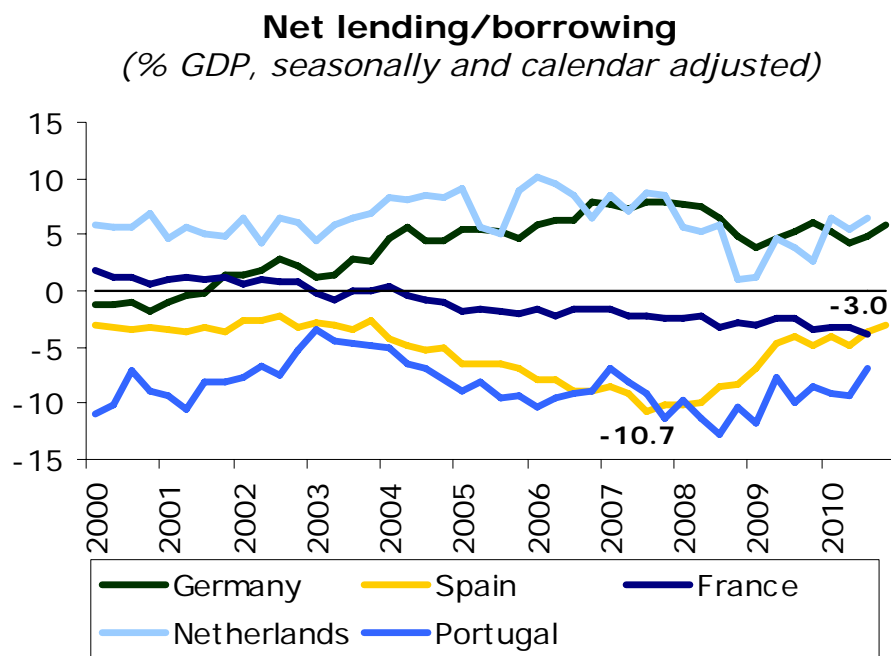
Source: Ministerio de Economía y Hacienda.



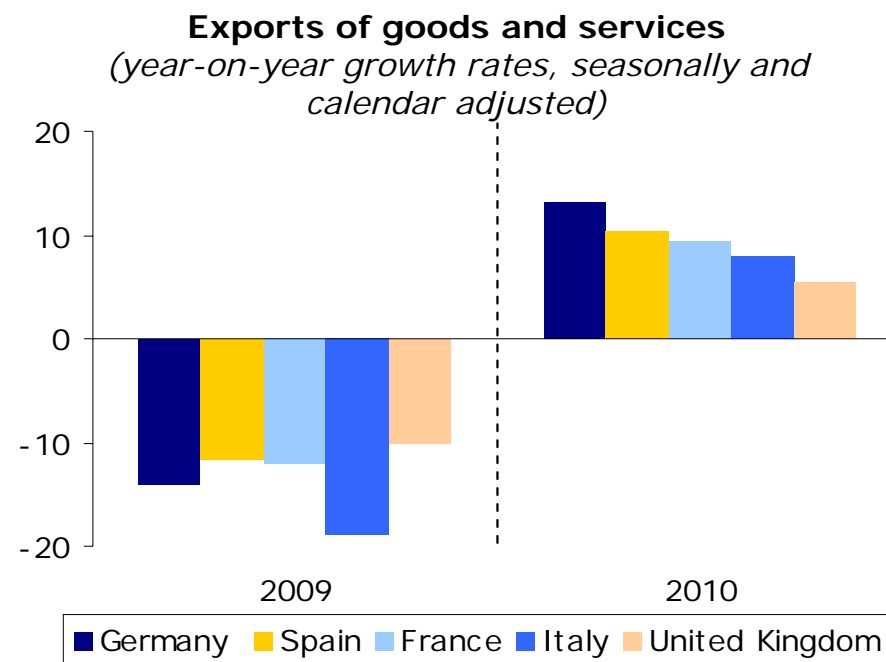
Source: Banco de España.

The recent improvement in cost-competitiveness has fostered exports further

- The net borrowing of 11.4% of GDP in 2008-Q1 has shrunk to 2.5% in 2010-Q4, partly attributed to the adjustment in the residential real estate sector
- The current account deficit is adjusting due to the strong behaviour of exports. Exports are reacting to the downward pressure on domestic prices and labour cost moderation



Source: Eurostat.



Source: Eurostat.

A sustained growth path for the future

- The combination of structural reforms, the correction of macroeconomic imbalances and the existence of a competitive body of firms will sustain a growth path in the future
- Despite lower growth for 2011, projections for Spain in the medium-run are in line or above those for the Euro Area

Comparison of growth forecasts							
	Spain				Euro Area		
	MEH	IMF	OECD	EC	IMF	OECD	EC
2011	1.3	0.6	0.9	0.8	1.5	1.7	1.6
2012	2.5	1.5	1.8	1.7	1.7	2.0	1.8
2013	2.7	2.1			1.8		
2014		2.1			1.8		
2016-2025*			2.3			1.7	

Sources: Ministerio de Economía y Hacienda, IMF, OECD, European Commission.

* Potential output.

- **Reforms are working**
- **Fiscal consolidation**
- **Future balanced growth path**
- **Funding and Debt Management**

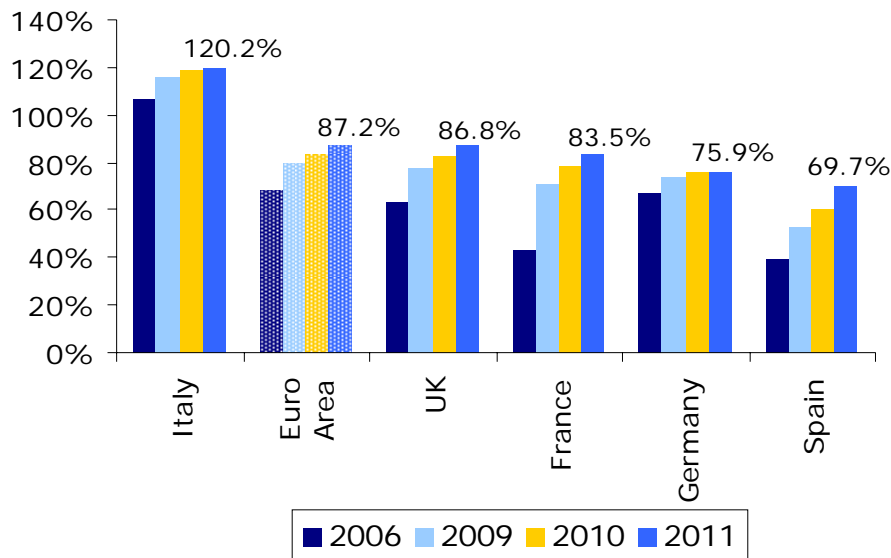
Highlights of debt management

- Substantial reduction of net issuance
- Lengthening of average life of debt outstanding
- A solid and diversified investor base, instrumental in difficult times
- Transparency and predictability highly valued by investors

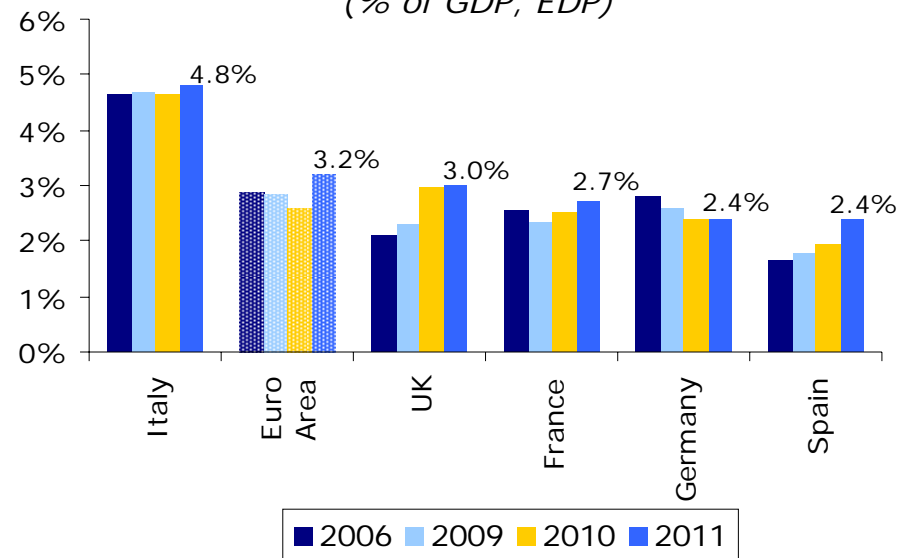
Debt to GDP well below EU average

- 60% at end 2010, Spain's debt to GDP ratio is 20% lower than the Euro Area average
- A lower debt burden provides resiliency in terms of interest payments and refinancing needs (<2.2% of GDP in 2010)

Debt to GDP ratios



Interest Expenditures
(% of GDP, EDP)



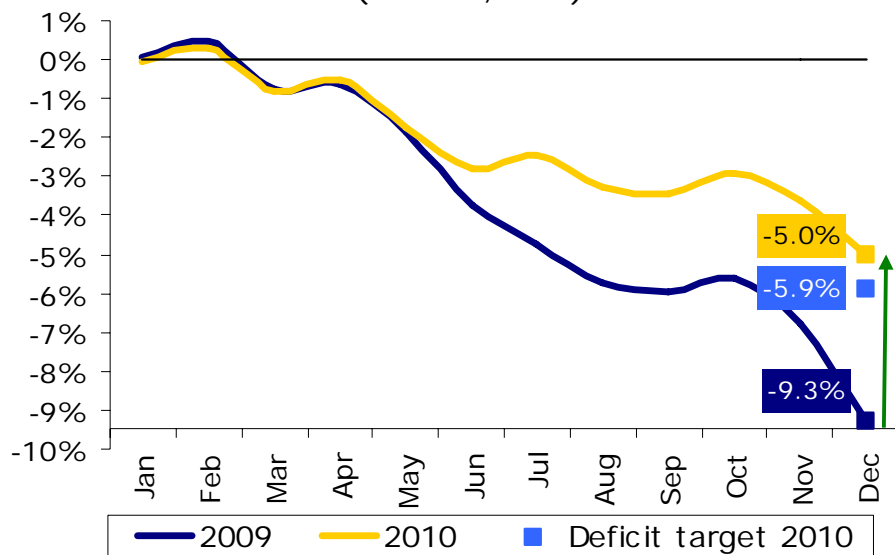
Sources: IGAE and Excessive Deficit Notification Tables.
2011: European Commission Autumn 2010 Forecasts.

Sources: IGAE and Excessive Deficit Notification Tables.
2011: European Commission Autumn 2010 Forecasts.

Funding programme in perspective: 2010 vs 2009

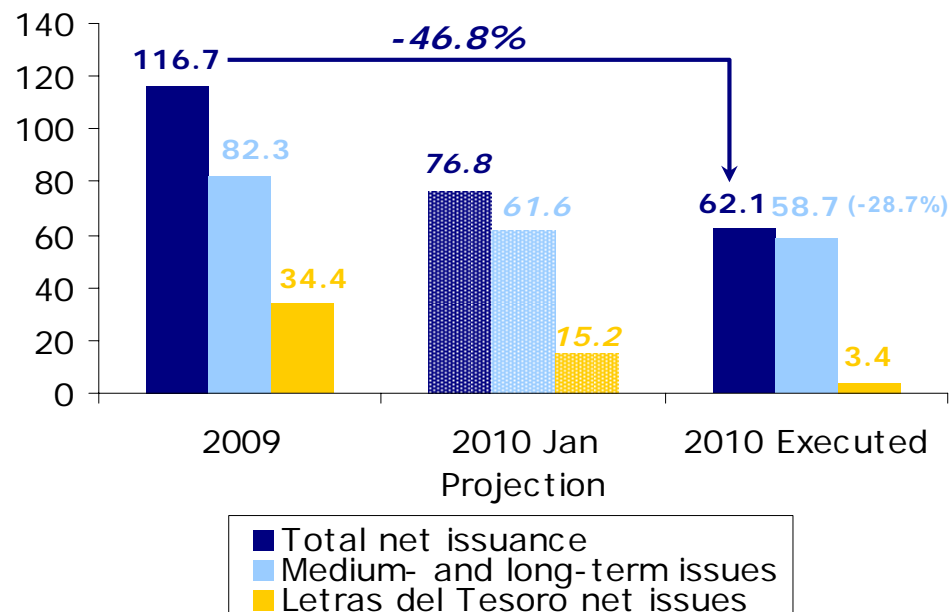
- Substantial reduction in net issuance: austerity measures and a better-than-expected performance of tax revenues have reduced the Central Government's borrowing needs
- Net issuance in 2010 (€62.1 bn) 27% lower than initially projected (€76.8 bn)

Effective Net Borrowing(-)/Lending(+)
of Central Government 2009-2010
(% GDP, EDP)



Source: Ministerio de Economía y Hacienda. Provisional data.

Funding Programme. 2009-2010
(Net issuance in billion Euro)



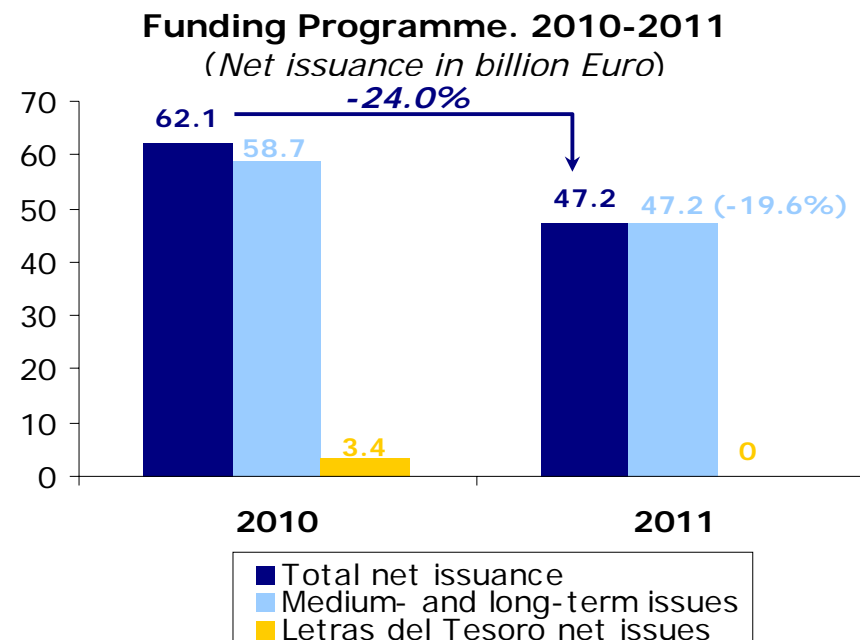
Source: Dirección General del Tesoro y Política Financiera.

The funding programme in 2011

- Funding requirement down by 24% in accordance with frontloading of fiscal restraint measures
- Funding programme does not factor in any potential proceeds from privatisation processes

Tesoro funding in 2011 (Billion Euro)	
1: Funding requirement (=Net Issuance)	47.2
2: Redemptions of medium- and long-term bonds	-46.6
3: Net issuance medium- and long-term bonds	47.2
4 = 2 + 3: Gross issuance of medium and long-term bonds	93.8
5: Net increase in T-Bills	0.0
6 = 5 + 3: Net change in outstanding debt	47.2
7: Forecast Outstanding Central Government Debt at end 2011	588.0

Source: General State Budgets Bill 2011.



Source: General State Budgets Bill 2011.

Outlines of the 2011 funding programme

Medium and long term:

- Increased flexibility in auction procedures: Monthly announcements + potential off-the-run lines announced Friday prior to the auction
- Limit size per line: 16.5 bn € for lines of 10-years and above

Short term:

- 3- and 6-month Letras auction 4th Tuesday of every month
- 18-month and 12- month T-bills auction 3rd Tuesday of every month

Other funding sources:

- Tesoro Público is open to additional foreign currency issuance
- Floating rate notes have provided in 2009 and 2010 an additional funding source
- Private placements
- Schuldschein loans

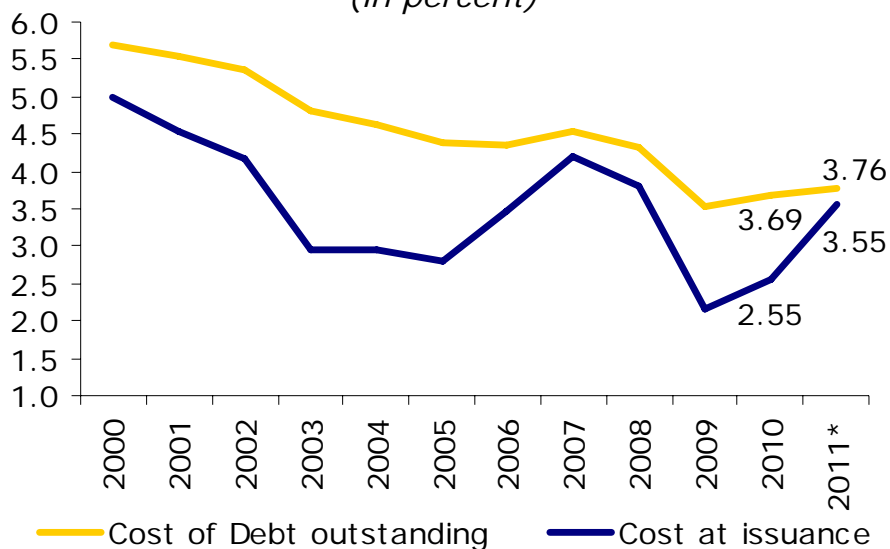
Projects:

- European inflation-linked issues (HICP-ex tobacco)

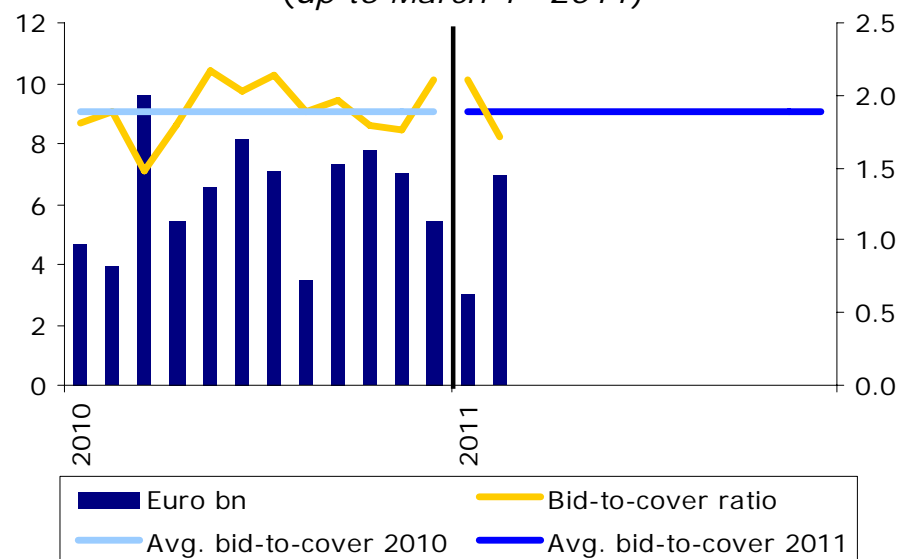
Positive funding execution snapshots

- Support the normalisation of market functioning through transparency and predictability via auctions
- On-going engagement with our investor base to update on the implementation of policy strategy and economic and budgetary developments

Cost of debt outstanding and cost at issuance
(in percent)



Auctions of Bonos and Obligaciones
(up to March 1st 2011)



Source: Dirección General del Tesoro y Política Financiera.

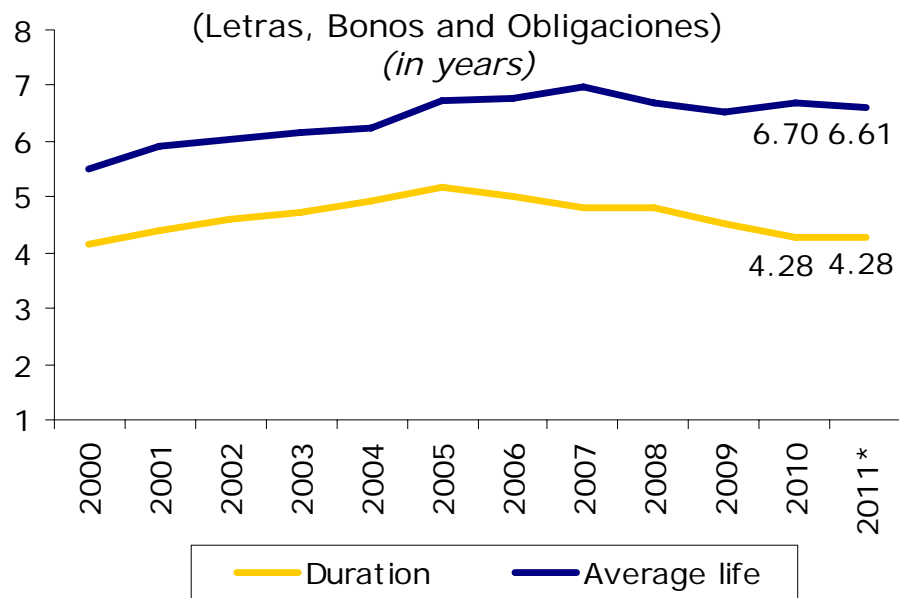
* As of February 28th 2011.

Source: Dirección General del Tesoro y Política Financiera.

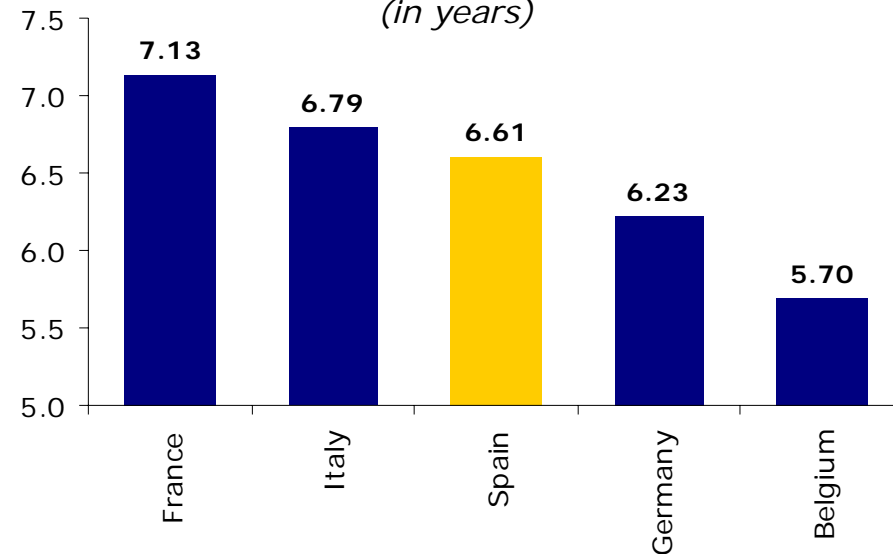
Lengthening of average life has enabled a prudent debt management

- Average life has increased thanks to a reduced issuance of T-Bills and focus on medium- and long-term supply
- Effort to achieve additional lengthening of average life has enabled a prudent debt management

Duration & Average Life to Maturity of the Portfolio.
As of March 1st 2011



Average life to Maturity. As of March 1st 2011.
(T-Bills and medium and long-term euro-denominated debt)
(in years)



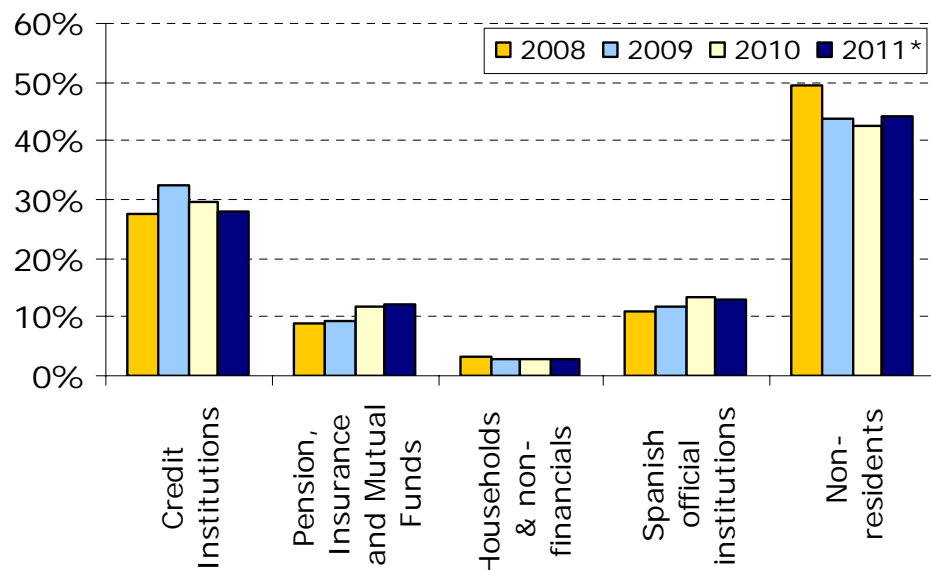
Sources: Dirección General del Tesoro y Política Financiera and Bloomberg.

* March 1st, 2011

A stable investor base

- Non-resident investors have been of instrumental importance throughout various periods of uncertainty in 2010
- The geographical distribution of holdings of government bonds has remained relatively stable during the last two years

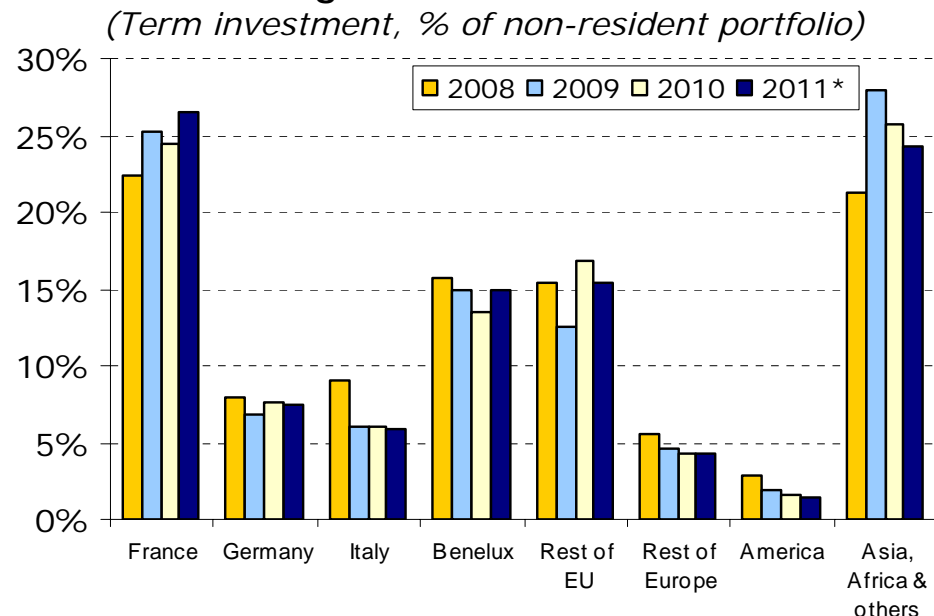
Government Bonds by Holder
(Term investment, % of total portfolio)



Source: Dirección General del Tesoro y Política Financiera.

* As of January 31st 2011.

Geographical distribution of non-resident holders of government bonds



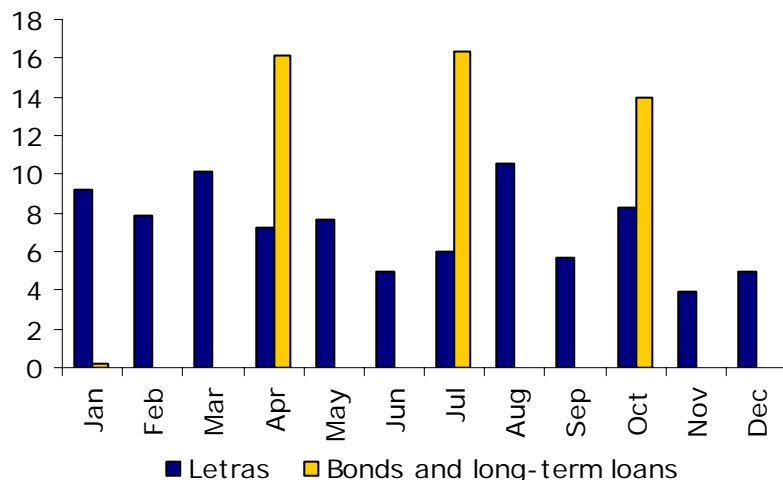
Source: Dirección General del Tesoro y Política Financiera.

* As of January 31st 2011.

Robust Treasury Management System

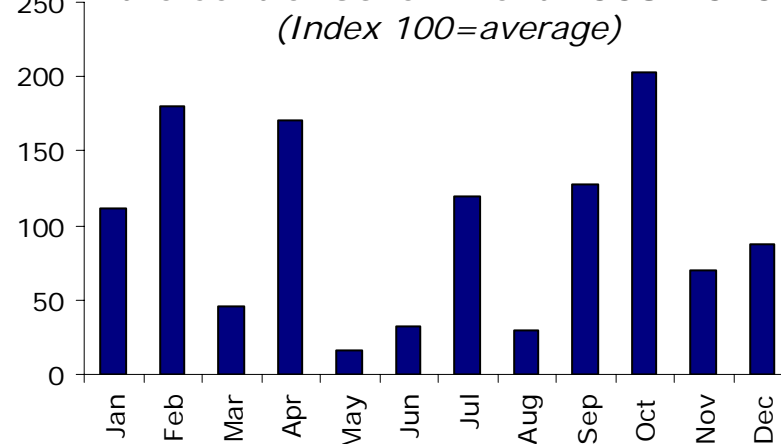
- Redemption dates of medium- and long-term bonds (principal and coupons) are set to coincide with biggest inflows of tax revenues
- Liquidity lines with banks
- Transparency: regular and publicly available information about budgetary execution, change in cash balances, non resident holdings,...
- Issuance schedule based on very conservative assumptions about budget execution
- Excess liquidity is lent in the money market each day through a monthly auction since 2001

Monthly maturity structure as of March 1st 2011



Source: Dirección General del Tesoro y Política Financiera.

Average seasonal index of tax revenues of the Central Government 2008-2010

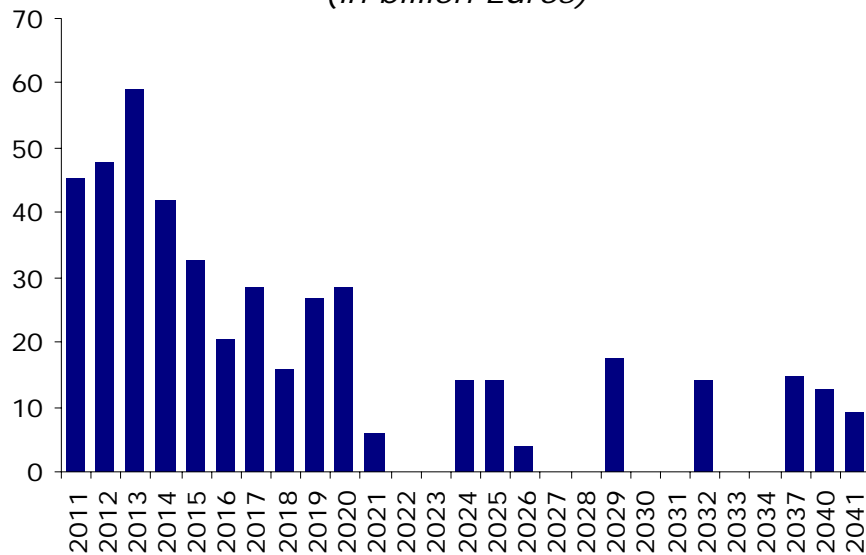


Source: Dirección General del Tesoro y Política Financiera.

Risk and refinancing measures

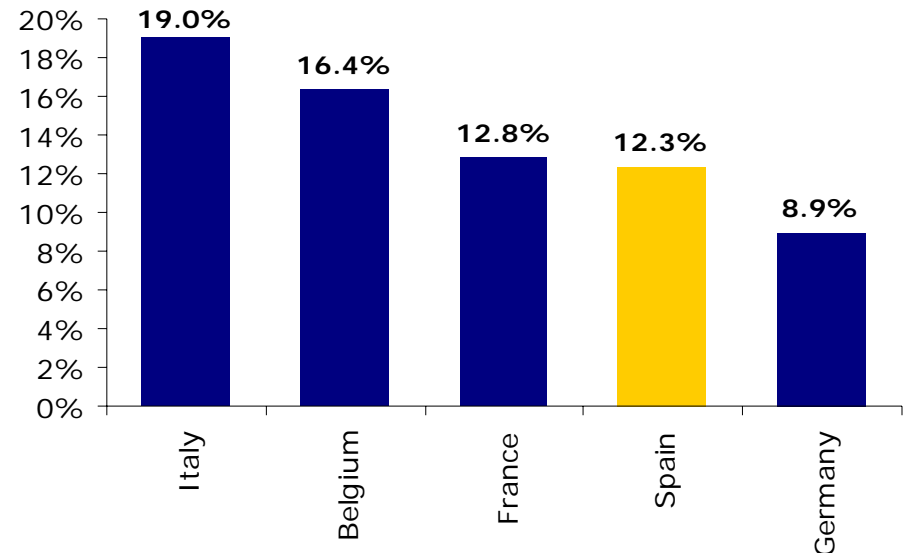
- Refinancing risk remains subdued due to lengthening of average life
- Redemptions of Euro-denominated debt remain well in line with those of peers

Maturity structure of medium- and long-term bonds.
(in billion Euros)



Source: Dirección General del Tesoro y Política Financiera.

Redemptions March 2011 to February 2012.
(in % of 2010 GDP, Euro-denominated bonds and T-Bills)



Source: Dirección General del Tesoro y Política Financiera for Spain and Bloomberg for other countries.

More and updated info on the Spanish economy

<http://www.thespanisheconomy.com>



Thank you for your attention

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