

The Treasury’s strategy following the ECB's retreat

With the general government deficit expected to stabilise at around 4.0% of GDP in 2023, the Treasury’s funding needs will remain high. The market will also have to absorb all of the debt held by the ECB that will not be reinvested by the central bank, after it announced a shift in its strategy in December. In this context, it is useful to put into perspective the volume of debt that the market will have to absorb during 2023.

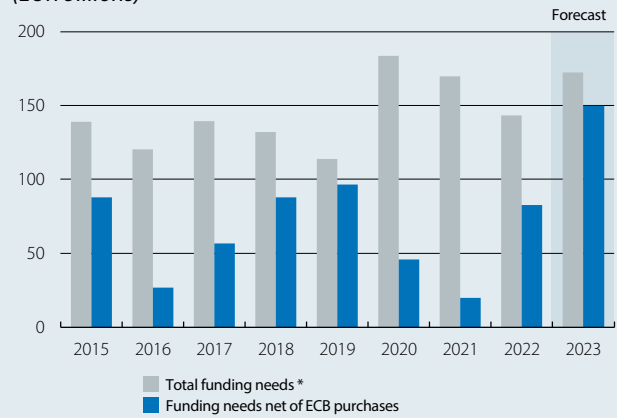
The Treasury’s strategy: major changes after the end of net purchases by the ECB

The Treasury’s strategy for 2023, published in mid-January, states that the forecast for net issues this year is 70 billion euros and that this will be covered in full by medium and long-term instruments. This is a similar amount to the figure for 2022. On the other hand, gross issues of medium and long-term debt, which incorporates the expected maturities, will rise to 172.5 billion euros (20.4% more than in 2022).

This significant change in the outlook is a result of the ECB announcing a shift in its strategy. In 2022, it carried out net purchases of Spanish sovereign debt worth 30 billion euros and reinvested maturities worth 31 billion. In 2023, not only will the ECB no longer carry out net purchases, but of all its maturities (which we estimate at around 33.5 billion) it will only reinvest medium and long-term debt worth around 22.5 billion euros.¹ The market will therefore have to absorb a further 11 billion

Spain: funding needs

(EUR billions)



Note: * The figures for maturities do not include Treasury bills. For example, Treasury bills amounting to 94,419 million euros matured in 2022 and the Treasury Strategy anticipates that 89,325 million will mature in 2023.

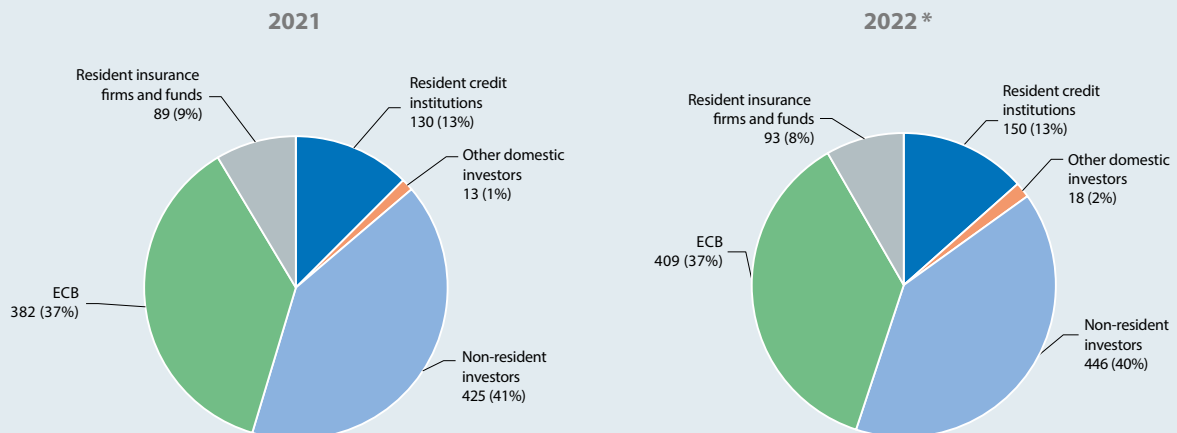
Source: CaixaBank Research, based on data from the General Treasury Secretariat.

euros in addition to the 70 billion in net issues. The total sum of 81 billion represents approximately 5.8% of the GDP forecast for 2023.

Despite the ECB’s reduced role, the context of higher interest rates should make it easier for other agents, whether domestic or non-resident, to absorb Spain’s funding needs. In this regard, it is worth noting that the investment base of holdings of Spanish debt is well diversified (see second chart). In 2022 (data up to October), foreign investors showed their confidence

Spain: holdings of government debt (bonds and debentures)

EUR billions and structure (%)



Note: * Data for October 2022.

Source: CaixaBank Research, based on data from the General Treasury Secretariat.

1. The figures for maturities and reinvestments in 2023 are our own estimates. Following last December’s announcement of the plans to reduce the APP portfolio beginning in March, we estimate that in 2023 the ECB will allow some 11 billion euros of Spanish debt to mature in its portfolio without reinvesting it (i.e. 0.8% of GDP).

by increasing their holdings of Spanish debt (excluding Treasury bills) by 21 billion euros compared to the end of 2021. In this way, their relative weight in the total holdings of our debt has remained at around 40% and they have had an especially high level of participation in the syndicated issues of 2022. On the other hand, domestic investors, who account for 23% of all the debt, could also increase their holdings, encouraged by the higher remuneration on offer, especially in securities with short-term maturities (Treasury bills).

Looking at the total stock, we estimate that the public debt held by the ECB will represent 38% of GDP in 2023, leaving the remaining 73% of GDP in the hands of other investors. Between 2012 and 2015, the volume of debt as a percentage of GDP held by non-central bank investors far exceeded this figure (peaking at 98% in 2014).

Other support factors

There are other key factors beyond the greater role of private investors which we must consider in order to better understand the conditions in which the Treasury will have to meet these funding needs in 2023, such as the favourable financing costs despite the recent process of monetary tightening and a long average term of the debt.

Specifically, in 2022 the average cost of financing for new issues (including Treasury bills) rose to 1.35%, after lying in negative territory (-0.04%) in 2021. Despite this shift, the average cost of the stock of debt as a whole has rebounded only very slightly, going from 1.64% in 2021 to 1.73% in 2022. This is because, in order to fix financing costs at the low rates of recent years, the Treasury chose to issue debt in the longest sections of the maturity curve. This has led to an increase in the average term of Spanish debt, which stands at 7.9 years (7.8 years in 2020 and 6.5 years in 2009-2010), and it is expected to stabilise at around 8 years in the coming years.²

In 2023, the average cost of the stock of debt as a whole is expected to increase only very slightly, due to the maturity of debt which was issued years ago at higher rates than the current ones and because of the low risk of refinancing the portfolio.³ In this regard, the average cost of government debt (excluding Treasury bills) could be 2.1% in 2023, well above what we were expecting a year ago but much lower than a decade ago – in 2011, for instance, the average cost of government debt stood at 4.3%.

2. For 2023 and the following years, the average term of the portfolio is expected to stabilise at 8 years. See the yellow book of the 2023 General Government Budget.

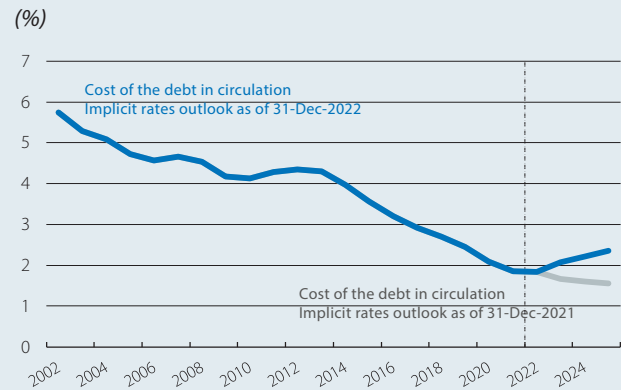
3. Only a small percentage of the debt must be refinanced (12% of the total debt including Treasury bills) in the year and this is the proportion that is exposed to higher interest rates.

Spain: public debt
(% of GDP)



Source: CaixaBank Research, based on data from the Bank of Spain and the ECB.

Spain: cost of government debt
(bonds and debentures)



Notes: Cost of the debt excluding Treasury bills. As the average maturity is eight years, the prediction is made based on the implicit eight-year market rate.
Source: CaixaBank Research, based on data from CaixaBank.

Looking at the medium term, in 2025 the average cost of the total general government debt as a whole could be around 2.5%, which would entail an interest bill of some 41 billion euros, compared to the 29 billion of 2022 and the 34 billion we anticipate for 2023. Thus, the process of monetary tightening will lead to a gradual increase in the cost of debt. In view of this, and given the high level of public debt, it will be key to design a fiscal consolidation strategy which is gradual but sustained over time and which is also credible from the point of view of international investors.

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