

BASQUE GOVERNMENT Sustainable Bond 2020

Presentation for investors

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Y ECONOMÍA

MINISTRY OF FINANCE AND ECONOMY

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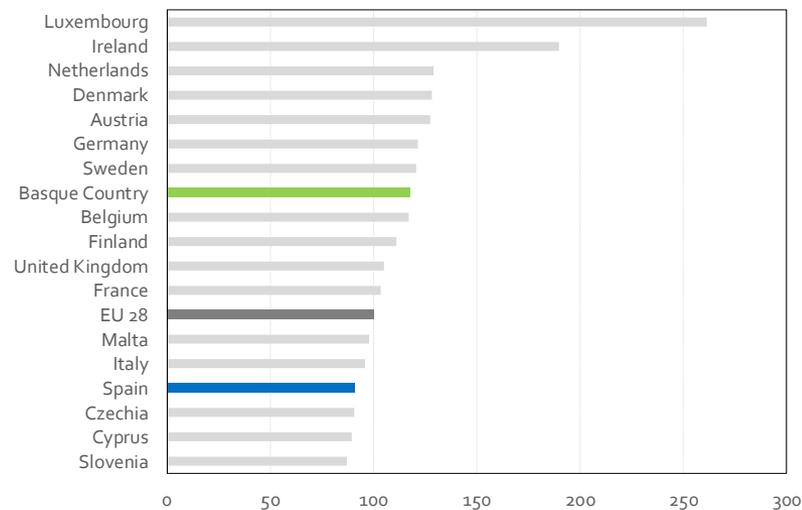
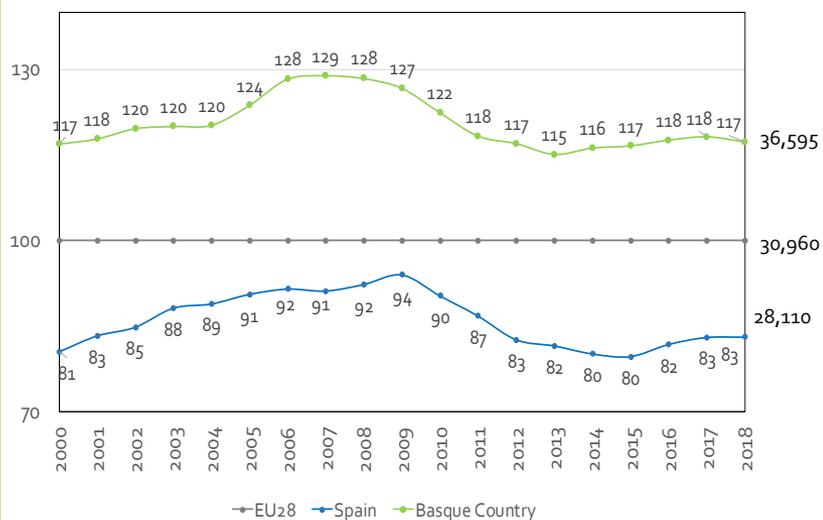
1. Features of the Basque economy
2. Current situation of the economy and forecasts
3. Sustainability mandate
4. Financing system, budget, deficit and debt



A dynamic economy that stands out in Europe.

- In general, the Basque GDP per inhabitant, measured in PPP, is 20% higher than that of the European average and 30 points higher than the Spanish average.
- The Basque Country is ranked among the most advanced OECD economies.

GDP per capita in PPP in 2018 (EU28=100)

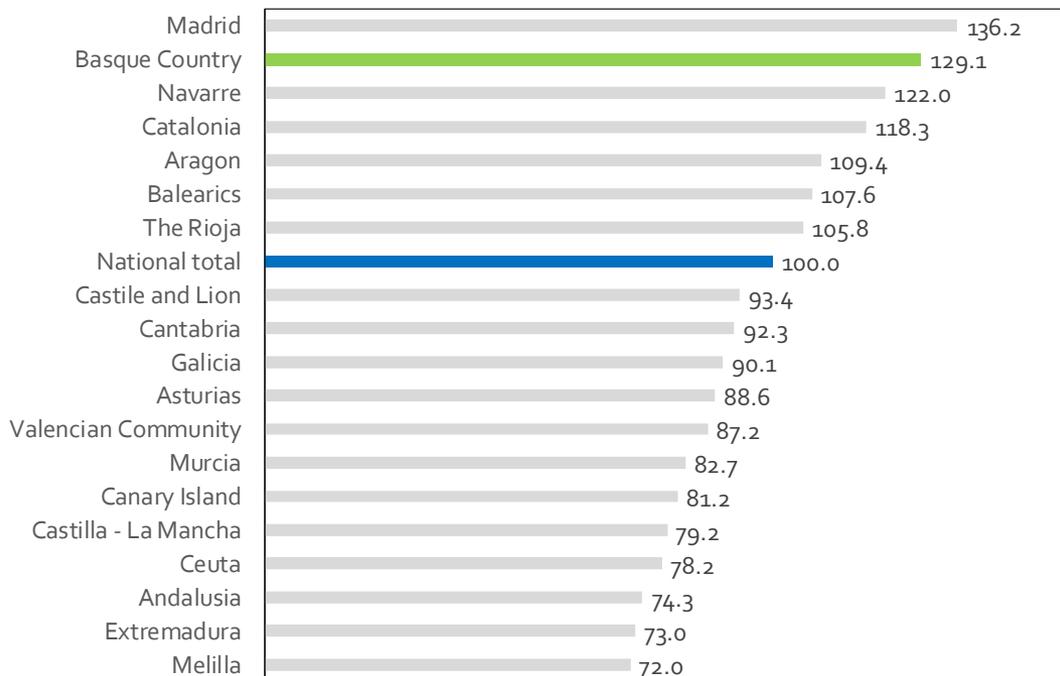


Source: Own preparation with Eurostat data.

The Basque Country is the second most advanced autonomous community

- The data for 2018, the latest published by the INE, clearly shows that we stand in the second position as far as GDP per capita is concerned, behind Madrid.
- European state capitals usually have a number of advantages over the rest.

GDP per capita in 2018



Source: INE. Regional Accounting December 2019.

High productivity beyond industry

- Greater productivity is not exclusive to industry but can also be appreciated in other sectors: construction, the primary sector, financial activities, real estate activities, etc.
- By contrast, Basque productivity is poorer in information and communications, professional activities and artistic activities.

Productivity per hour worked

	Euros			PPP		
	2000	2008	2017	2000	2008	2017
Total	95.5	107.2	102.7	113.1	116.7	113.1
Primary	203.1	179.5	189.4	240.6	195.4	208.5
Industry	96.6	117.1	112.4	114.5	127.5	123.8
Manufacturing	98.1	119.9	111.8	116.1	130.6	123.1
Construction	123.5	152.7	154.8	146.3	166.2	170.5
Commerce and hotel and catering	96.3	106.4	104.0	114.0	115.9	114.5
Information and communications	96.3	94.9	84.4	114.1	103.4	92.9
Financial activities	119.4	151.8	126.5	141.4	165.3	139.3
Real Estate activities	66.8	118.7	174.4	79.1	129.2	192.1
Professional activities	72.0	76.7	80.9	85.2	83.5	89.0
Public Administration	113.6	112.4	101.5	134.5	122.4	111.7
Artistic activities	75.5	85.4	78.4	89.5	93.0	86.4

Source: Prepared by the Office of Economy and Planning with Eurostat data.



Beyond the GDP: Human Development Index 2018

- Given the criticism received by the GDP per capita for being a flawed measure of welfare, other indicators are being compiled. One of these is the United Nations Human Development Index.
- Said Index also takes into account the GDP, life expectancy, years of schooling and literacy rate.
- The indicator ranks the Basque Country among the top 15 countries in the world.

Very high human development index

Position		%	Position		%
1	Norway	0.954	11	Denmark	0.930
2	Switzerland	0.946	12	Basque Country	0.926
3	Ireland	0.942	13	Finland	0.925
4	Germany	0.939	14	Canada	0.922
5	Hong Kong, China (RAE)	0.939	15	New Zealand	0.921
6	Australia	0.938	16	United Kingdom	0.920
7	Iceland	0.938	17	U.S	0.920
8	Sweden	0.937	18	Belgium	0.919
9	Singapore	0.935	19	Liechtenstein	0.917
10	Netherlands	0.933	20	Japan	0.915

Source: Eustat Social indicators HDI, with data from the 2019 Human Development Report published by the United Nations Development Programme (UNDP). The data for Basque Country is provisional.



Beyond the GDP: Regional Social Progress Index

- This indicator was established in 2016 by the European Commission for the 272 European regions. The Basque Institute for Competitiveness participated in its compilation.
- It includes 50 variables grouped into twelve fields.
- The Basque Country holds a leading position in Spain and lags somewhat behind with respect to the European countries.

EU-SPI Regional Social Progress Index

Position	Countries	%	Position	Autonomous Community	%
1	Denmark	79.53	1	Madrid	70.17
2	Finland	79.18	2	Basque Country	69.95
3	Sweden	78.14	3	Navarre	67.91
4	Holland	77.91	4	Cantabria	67.34
5	Luxemburg	71.45	5	Castile and Leon	66.92
6	Austria	71.15	6	Asturias	66.35
7	Ireland	71.09	7	Aragon	66.29
8	United Kingdom	70.82	8	The Rioja	66.15
9	Germany	70.65	9	Valencian Community	64.74
10	Basque Country	69.65	10	Galicia	64.44
11	Belgium	67.80	11	Murcia	63.78
12	France	67.33	12	Catalonia	63.67
13	Slovenia	66.03	13	Canary Islands	63.61
14	Spain	65.14	14	Extremadura	63.11
15	Estonia	62.98	15	Castilla la Mancha	62.68

Source: European Commission. Report February 2016.



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International Environment: Growth of the GDP

- For the world economy, 2018 was a year somewhat worse than 2017.
- Both developed and emerging economies saw their growth moderated by two or three tenths. The Basque Country improved by two tenths
- The quarterly evolution offers a relatively stable profile in Europe, similar to that of the Basque economy.

Gross Domestic Product. Evolution

	Interannual variation rate									
	2018	2019	2018				2019			
			I	II	III	IV	I	II	III	IV
Developed Economies	2.2	1.7	2.8	2.7	2.2	1.6	1.7	1.6	1.7	1.6
European Union	2,0	1.4	2.5	2.2	1.8	1.5	1.7	1.4	1.4	1.1
Basque Country	3,0	2.2	3.2	3.2	3,0	2.6	2.2	2.2	2.1	2.2
Spain	2.4	2,0	2.8	2.3	2.2	2.1	2.2	2,0	1.9	1.8
Germany	1.5	0.6	2.3	2.1	1.1	0.6	1,0	0.3	0.6	0.5
France	1.7	1.2	2.4	1.9	1.5	1.2	1.3	1.5	1.4	0.8
Italy	0.8	0.2	1.4	0.9	0.4	-0.1	0.1	0.2	0.5	0,0
United Kingdom	1.3	1.4	1.1	1.3	1.6	1.4	2,0	1.3	1.2	1.1
United States	2.9	2.3	2.9	3.2	3.1	2.5	2.7	2.3	2.1	2.3
Japan	0.8	0.8	0.9	1,0	-0.4	-0.3	0.8	0.8	1.8	-0.4
China	6.6	6.1	6.9	6.9	6.7	6.5	6.4	6.2	6,0	6,0
India	7.3	---	7.8	7.9	7.2	6.5	5.8	5,0	4.7	---
Russia	2.2	---	2,0	2,0	1.9	2.7	0.8	0.9	1.6	---
Brazil	1.1	---	1.4	1,0	1.5	1.3	0.6	1.1	1.2	---

Source: Eurostat, OCDE and Eustat.

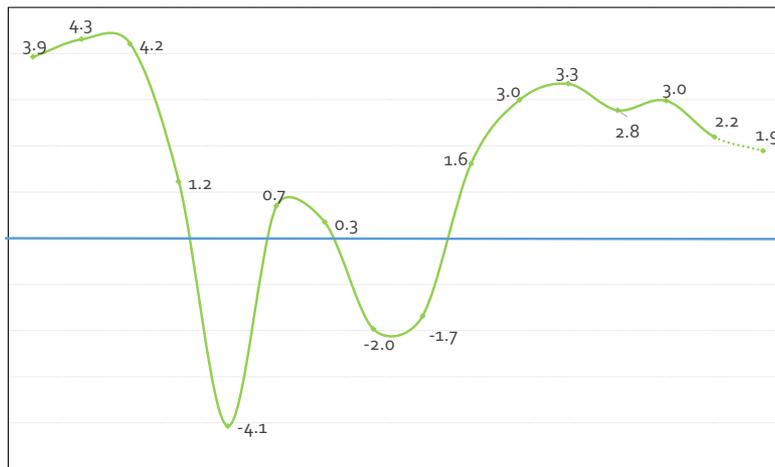


Very slight slowdown of the economy

- Basque Country has completed six years of recovery and its GDP far exceeds what was achieved before the crisis. Specifically, that of 2019 was 9.3% above that of 2008.
- Although the pace of 2019 (2.2%) is the lowest in the last five years, it is still above potential growth (close to 1.8%).

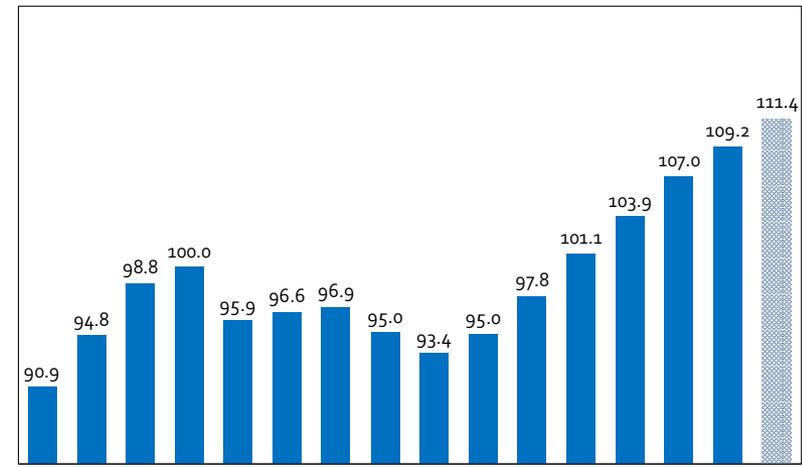
Evolution of the Gross Domestic Product

Year-on-year variation rates



2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

GDP 2008 = 100



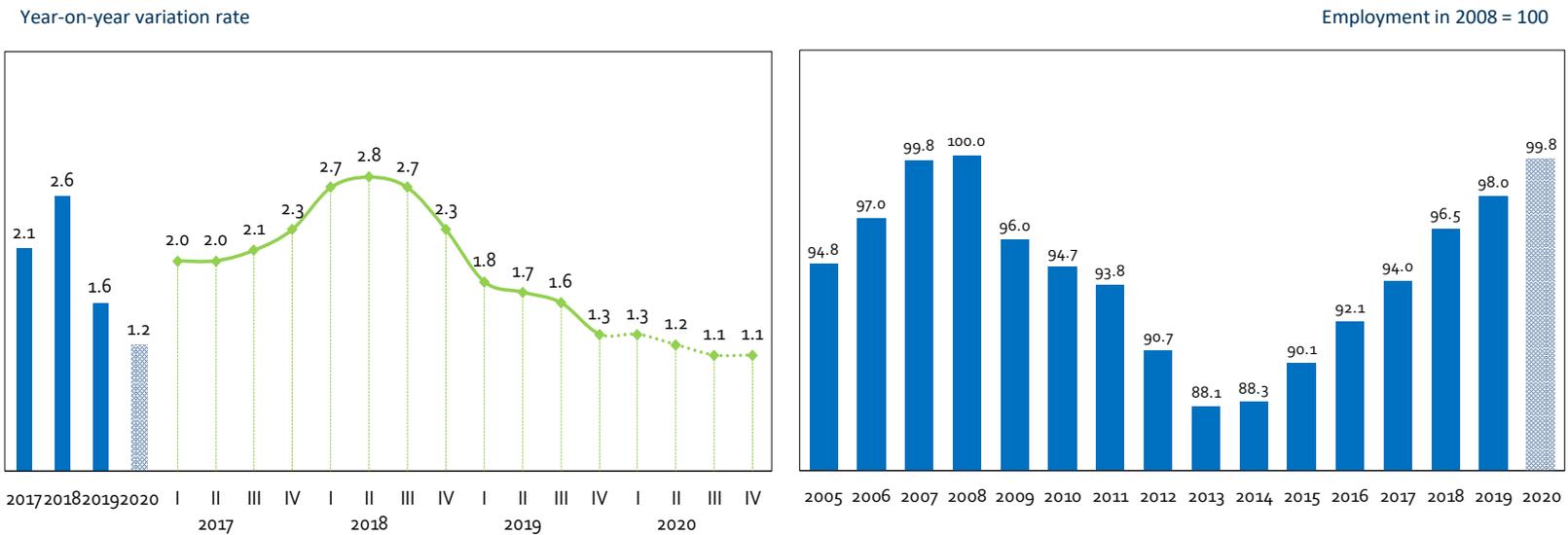
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

The 2019 data is advance and the 2020 data are forecasts.
Source: Prepared by the Economy and Planning Department with data from Eustat.

Employment generation at a slower but significant rate

- The slowdown in job creation began in mid-2018 and has lasted throughout 2019. On an annual average, employment increased by 1.6% and about 15,400 net jobs were created.
- There is still 2% of the employment that existed in 2008 to be recovered. That is, about 20,000 full-time equivalent jobs.

Evolution of Jobs



The 2019 data is advance and the 2020 data are forecasts.
Source: Prepared by the Economy and Planning Department with data from Eustat.

Construction gains in strength while industry slows

- Much of the slowdown compared to 2018 is due to the lower dynamism of the industry, related to uncertainty, the brake on world trade and the difficulties of European automotive.
- Fortunately, the services have kept the tone for almost the entire year. Construction, meanwhile, was losing strength throughout the year.

Evolution of the GDP on the supply side

	Variation rates									
	2018	2019	2018				2019			
			I	II	III	IV	I	II	III	IV
GDP (p.m.)	3.0	2.2	3.2	3.2	3.0	2.6	2.2	2.2	2.1	2.2
Primary Sector	7.9	0.6	3.0	8.1	4.8	15.9	1.7	-0.1	0.2	0.4
Industry and Energy	2.5	1.1	3.5	3.5	2.5	0.3	0.4	1.0	0.8	2.3
Construction	4.1	3.1	1.2	3.7	5.4	6.2	4.6	3.2	2.9	1.9
Services	2.7	2.5	3.0	2.6	2.5	2.7	2.6	2.5	2.5	2.2
Commerce, Hospitality and Transp.	4.0	2.4	4.2	4.1	3.9	3.6	2.9	2.5	2.3	2.1
AA. PP., Education and Health	2.1	2.2	2.2	1.9	2.0	2.1	2.3	2.3	2.4	1.9
Rest of Services	2.2	2.6	2.5	2.0	2.0	2.4	2.7	2.6	2.7	2.4
Gross Value Added	2.8	2.2	3.0	3.0	2.7	2.4	2.2	2.2	2.1	2.2
Net Product Taxes	4.9	2.1	5.0	5.8	5.1	3.8	2.2	2.1	1.8	2.3

Source: Eustat. Series adjusted for seasonal variation.

Basque Government Forecasts: Supply Perspective

- Construction and services point towards a weak slowdown.
- Industry will recover throughout 2020.

Evolution of the GDP with respect to Supply

Annual variation rates

	2020	2020			
		I	II	III	IV
GDP (p.m.)	1.9	2.0	1.9	1.8	1.8
Primary sector	-3.6	-2.0	-4.2	-3.4	-4.7
Industry	1.1	0.7	0.9	1.3	1.5
Construction	2.5	2.8	2.6	2.4	2.4
Services	2.3	2.5	2.3	2.1	2.1
Gross Value Added	1.9	2.1	1.9	1.8	1.9
Net taxes on products	1.7	1.7	1.8	1.7	1.7

Source: Office of Economy and Planning (December 2019).



Basque Government Forecasts: Job Market

- Employment will reduce its high growth rate in recent years, but will stay above 1%, allowing for a significant increase in productivity.
- Unemployment rate forecasts should be revised downwards given that they were already exceeded in the last quarter of 2019.

Evolution of employment and the unemployment rate

		Annual variation rates			
	2020	2020			
		I	II	III	IV
Employment	1.2	1.3	1.2	1.1	1.1
Unemployment rate	9.6	9.7	9.7	9.5	9.5

Source: Office of Economy and Planning (December 2019).

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The Basque Government Sustainability mandate (1)

- The Agenda Euskadi Basque Country 2030, drawn up by the Basque Government, reflects the degree of alignment and contribution of the Government Programme to the 17 Sustainable Development Goals and 100 targets of the UN 2030 Agenda for Sustainable Development (Agenda 2030).
- We see Agenda 2030 as an opportunity for the Basque Country because it is fully in step with our priorities: human development guaranteeing essential services for all, and sustainable growth generating job opportunities with higher levels of quality. This is the Basque model of growth and social welfare, now strengthened by presentation of the Agenda Euskadi Basque Country 2030.
- This Agenda Euskadi Basque Country 2030 represents a decisive step in the determination of the Basque Executive to focus its public policies on the challenges identified in the UN Agenda 2030. It is the First Agenda Euskadi Basque Country 2030 for the period 2016-2020.
- The Agenda includes 93 of the 175 commitments acquired by the Basque Government in its Government Programme, 80 Planning Instruments, 19 Legislative Initiatives and 50 Indicators. An effort that will make it possible to effectively align public policies in Euskadi with this universal 2030 Agenda, lending visibility to the contribution of the Basque Country to implementation of the 2030 Agenda and to achieving the Sustainable Development Goals.

Sustainability mandate of the Basque Government (2)

UNITED NATIONS AGENDA 2030		PROGRAMA 2017-2020 GOBIERNO VASCO						
OBJETIVOS DESARROLLO SOSTENIBLE (ODS)	SPHERES OF IMPORTANCE	COUNTRY OBJECTIVES	COMMITMENTS	INITIATIVES	INDICATORS	STRATEGIC PLANS	SECTORAL PLANS	LAWS
17	5	15	175	650	100	15	54	28
1. No poverty 2. Zero hunger 3. Good health and well-being 4. Quality education 5. Gender equality	 PEOPLE	20% reduction in poverty Increased life expectancy Higher birth rate School dropout rate <8%. 75% of the population <25 years Basque-speaking Among the top 4 countries in terms of gender equality	65	225	33	Social Services Strategic Plan Health Plan 5th Professional Training Plan 4th University Plan 7th Equality Plan Strategic Agenda for the Basque language	18	10
6. Clean water and sanitation 7. Affordable and clean energy 8. Decent work and economic growth 9. Industry, innovation and infrastructure 10. Reduced inequalities	 PLANET	20% reduction in CO2 emissions	10	35	11	4th Environmental Framework Programme	11	3
11. Sustainable cities and communities 12. Responsible consumption and production 13. Climate action 14. Life below water 15. Life on land	 PROSPERITY	Unemployment < 10% 20,000 young people with job experience 125% of the EU's GDP 25% industrial GDP 100 strategic innovation projects Leader in terms of transparency indexes	64	278	51	Strategic Employment Plan Basque Industry 4.0 Industrialisation Plan Basque Science and Technology Plan 2017-2020 Tourism, Trade and Consumption Plan Governance and Public Innovation Plan	16	13
16. Peace, justice and strong institutions	 PEACE	Disarming and dissolving ETA	24	80	3	Co-habitation and Human Rights Plan Public Security Plan	6	2
17. Partnerships for the goals	 PARTNERSHIP	New political status	12	32	2	"Euskadi - Basque Country" Internationalisation Strategy	3	

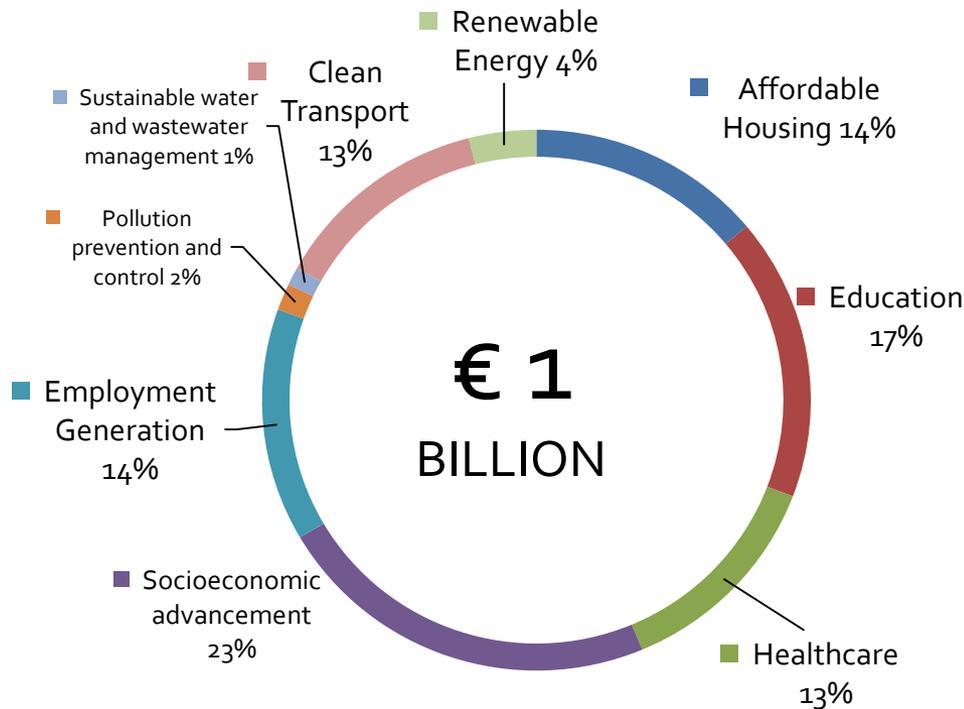


Sustainability bond framework at a glance

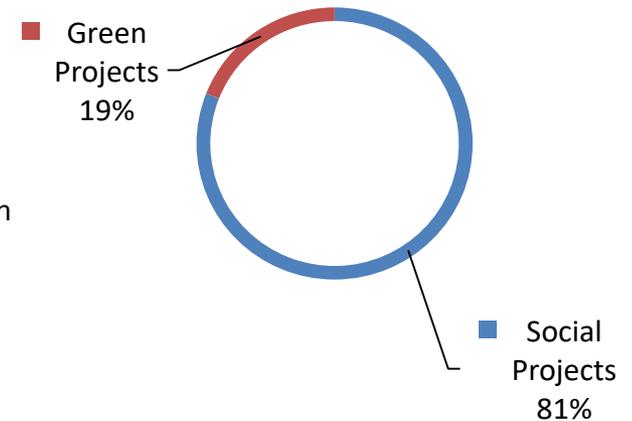
- This Sustainability Bond Framework is aligned with the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines 2017. Bonds issued under this framework will promote the Sustainable Development Goals as set out in the UN 2030 Agenda.
- The net use of proceeds will be used to finance and/or refinance eligible categories and projects included in the Basque Government's General Budget and corresponding budgetary programmes and will always belong to the current budget of the fiscal year coinciding with the issuance date of each Sustainability bond.
- Eligible categories are: Affordable Housing, Access to essential services: Education and Healthcare, Socioeconomic advancement , Employment generation , Renewable Energy, Clean Transportation, Pollution prevention and control, Sustainable water and wastewater management, Terrestrial and aquatic biodiversity conservation, Energy Efficiency and Climate Change Adaptation
- A robust project evaluation and selection process will be undertaken by the Basque Government when reviewing the allocation process: the Basque Government Sustainability Bond Committee will compare their compliance with the defined relevant eligibility criteria.
- The Basque Government will report on the impact of each Sustainability Bond issued within 12 months of the settlement date.
- Supported by an external review: Sustainalytics provides a Second Party Opinion which will be available on the issuer's website as well as in the Sustainability Bond Framework.

Selected Eeligible Assets for 2020 Sustainability Bond

By Project



By Project Category



Eligible Assets 2020: Social Projects

Affordable housing	143,500,000	Socio-economic advancement	225,000,000
Financing of supplementary housing benefit (PCV) and housing benefit (PEV)	68,000,000	Financing of social emergency assistance programs	27,500,000
Financing of Bizigune program	30,000,000	Financing of family support benefits	40,000,000
Building of homes to rent	12,000,000	Financing of income security allowance	157,500,000
Aid to refurbish and/or renovate homes and buildings	22,500,000		
Gaztelagun program	7,500,000		
Education	169,500,000	Job creation	139,000,000
Building and equipping nurseries and primary schools	31,000,000	Local employment support and development projects – county employment plans	37,500,000
Building and equipping secondary and vocational training schools	41,000,000	Financing of labour market integration – career guidance for disadvantaged collectives, qualified young people	8,000,000
Financing of contract-program and investment University of the Basque Country	14,000,000	Financing of Lehen aukera program	3,000,000
Non-university scholarships	57,000,000	Financing of programs to promote employment – jobs supporting people with disabilities, recruitment of over-35s, special job centres	55,000,000
University scholarships	26,500,000	Financing of training programs – sandwich courses for young people, training for unemployed people	35,500,000
Health	130,000,000		
Financing hospital and non-hospital pharmacy expenses	75,000,000		
Healthcare investments – expansion of existing hospitals, health centres, equipment	55,000,000		
		TOTAL €	807,000,000

Eligible Assets 2020: Green Projects

Clean transport	127,000,000	
Supply of new trams	7,000,000	
Construction of new infrastructure – doubling tracks, new trams in Vitoria-Gasteiz, Donostia-San Sebastian train line [popularly known as “Topo”]	70,000,000	Financing investment in ETS [Basque train network]
Financing railway operators	50,000,000	Financing 30 m of running costs in ETS and 20 in contributions to the CTB [Biscay transport consortium]
Pollution control and prevention		
Sustainable management of water and waste water		
Conservation of terrestrial and aquatic biodiversity		Financed by the 4421, 5121 and 7311 programmes, for a total of 42 m
Energy efficiency		
Climate change adaptation		
Renewable energy		

	<i>Budget programmes</i>	Total	Elegible
4421	Environmental protection	24,493,894	18,000,000
5121	Hydraulic administration and planning	17,040,748	13,000,000
5131	Rail transport management and infrastructure	182,066,829	127,000,000
7311	Energy (EVE group without SHESA)	57,619,000	35,000,000
		281,220,471	193,000,000



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Financing System

- **The Basque Country's financing system is different** to the other autonomous communities in Spain, and it has its own tax system.
- Full authority to **manage, levy and collect practically all taxes.**
- Relations between the Basque Country and the Spanish State are governed by the **Economic Agreement.**
- **The Basque Country collects and contributes** with the relevant quota to the services that the Spanish State continues to provide in this area.



Collection 2019 and forecast 2020

	Million euros	
	2019	2020 Forecast
DIRECT TAXES	7,407.1	7,608.4
Personal income tax	5,713.7	5,905.7
Corporation tax	1,303.8	1,306.7
Wealth tax	167.6	168.7
Inheritance and gift tax	122.3	118.8
Other direct taxes	99.7	108.5
INDIRECT TAXES	7,952.8	8,040.8
Value Added Tax	6,028.6	6,055.8
Excise duties	1,600.4	1,644.6
Hydrocarbons	--	1,081.4
Manufactured tobacco products	--	399.5
Alcohol, fermented beverages and intermediate	--	75.5
Beer	--	19.8
Electricity	--	68.4
Property conveyance tax	162.8	171.1
Document duty	47.5	50.3
Other indirect taxes	113.5	119.0
FEES AND OTHER REVENUE	109.7	118.3
TOTAL AGREED TAXES	15,469.6	15,767.5

Source: Office of Economy and Planning.

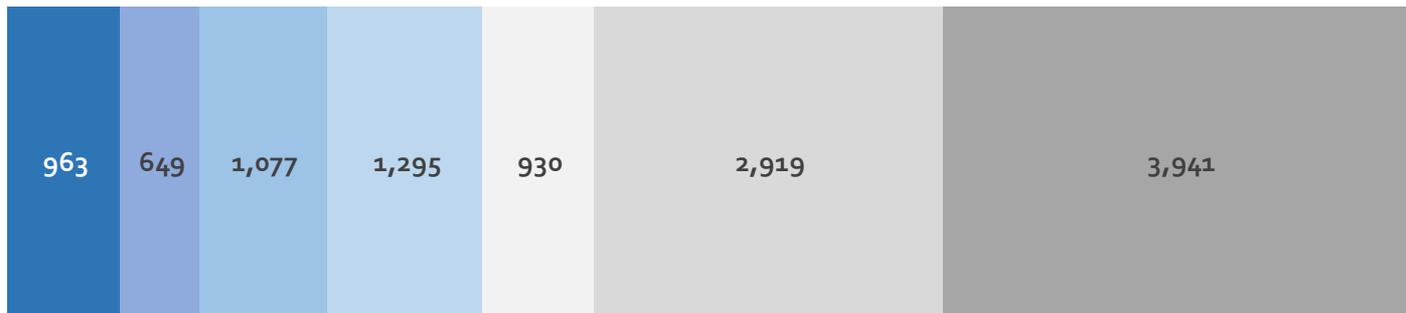
Basque Government 2020 Budget

Revenue (Mill. €) 11,774



■ Other ■ Debt ■ Own taxes and participation in other taxes

Expenditure (Mill. €) 11,774



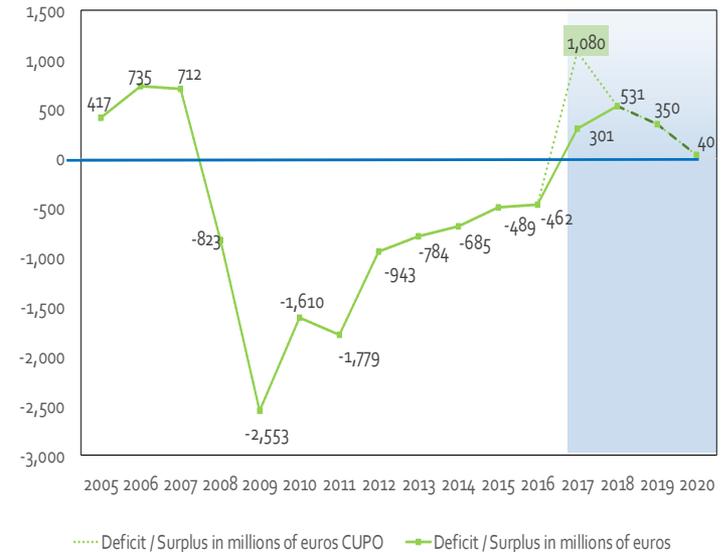
■ Economic development and infrastructure ■ Civil Protection and Citizen Security
 ■ Social Protection and Promotion ■ Other
 ■ Public Debt ■ Education
 ■ Health

Source: Basque Government.

From Deficit to surplus since 2017

- The Basque Country has shown strict fiscal discipline, meeting all the set deficit objectives.
- From 2017 onwards it has registered a surplus.

% of GDP and Million €

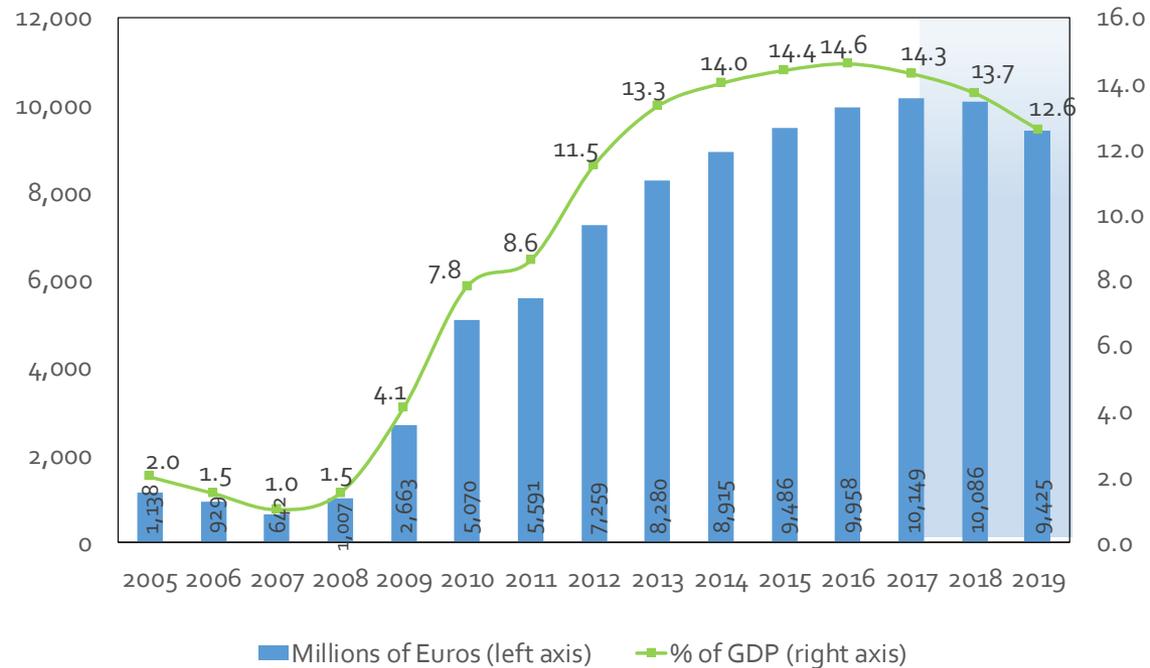


Source: IGAE SEC 2010. Base 2010. National accounting. Non-financial operations of the Regional Administration subsector (S.1312) and detail by community. Data accumulated at the end of the period.
 Note: The INE has not published the regional distribution of the new national GDP series presented on September 16, 2019. The regional distribution has been carried out by the IGAE, applying to the new GDPs the annual percentage structure of each region in the GDP from the previous series.
 (***) Forecast 2019 and 2020.

Debt: evolution 2005-2019

- The debt that was almost testimonial before the crisis reached a maximum in 2016 but always at a contained level.
- Since then, a firm reduction process has been registered and is already below the limits of the stability legislation.

SEC debt



Source: Bank of Spain and Ministry of Treasury and Economy.

Government debt

- The strict government debt (without SEC entities) is distributed in a balanced fashion between loans and bonds.
- In the current year, the financing needs are limited to less than € 700M

Debt as of 31/12/2019
(Thousand €)

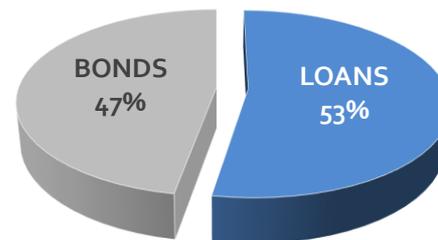
LOANS	4,571,930
BONDS	4,072,886
Government debt	8,644,816

Financing needs 2020
(Millions €)

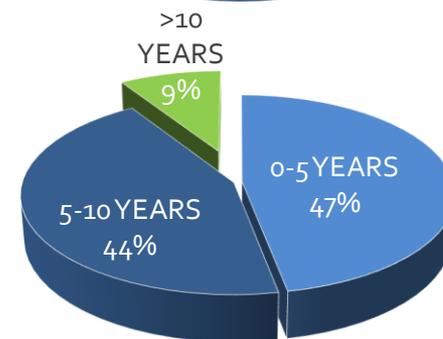
Gross issues	686
Net issues	-

AVERAGE COST (%)	AVERAGE LIFE (years)
1.72%	5.60

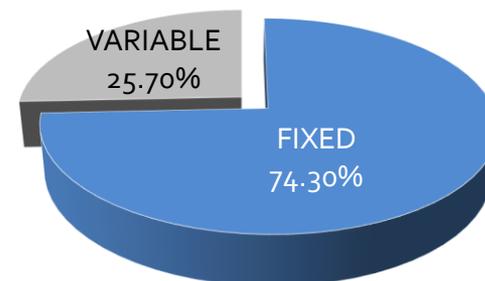
Type of debt



Type according to payment terms



Cost of financing



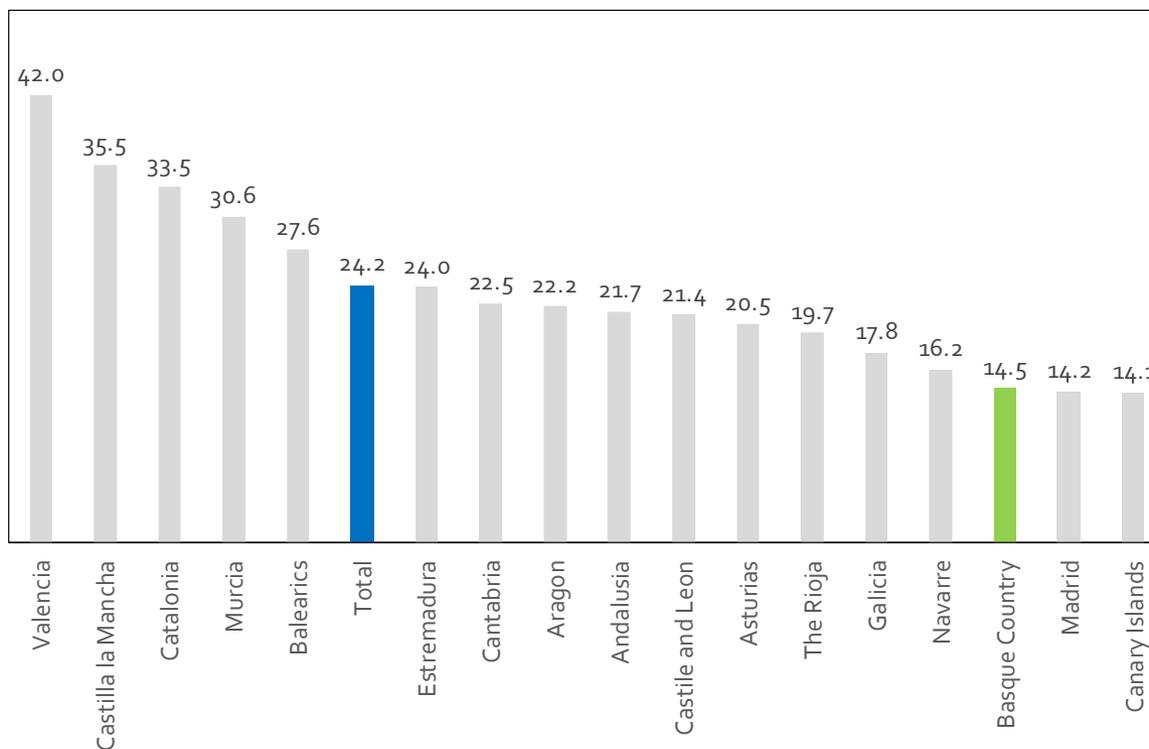
Source: Basque Government.



Debt in percentage of GDP according to excessive deficit protocol

- The debt, according to the excessive deficit protocol, was equivalent to 14.5% of the Basque GDP. This figure is the third lowest among the autonomous communities and is almost 10 points below the average.

Debt in % of GDP. Accumulated as of September 2019



Source: Bank of Spain.



Rating: Above the Sovereign rating by S&P and Moody's

- The rating agencies place a very positive value on their government management policies and fiscal autonomy, as well as on their diversified economic base and long-standing industrial cultures.

Current rating

Agency	Basque Country	Spain
Moody's	A3 (stable outlook)	Baa 1 (stable outlook)
S&P	AA- (positive outlook)	A- (positive outlook)
Fitch	A- (stable outlook)	A- (stable outlook)

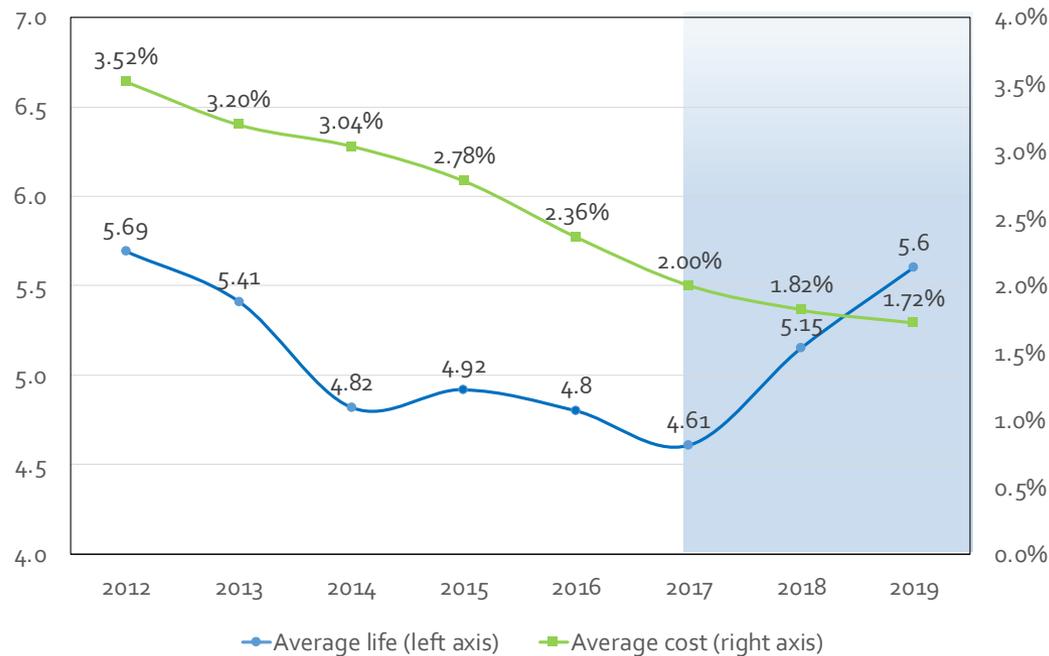
Source: S&P, Moody's and Fitch.



Average life and Average cost

- The forecast for 2019 shows a lower average cost amounting to 1.72%, while the average life will be 6.18 years.

Average life and Average cost



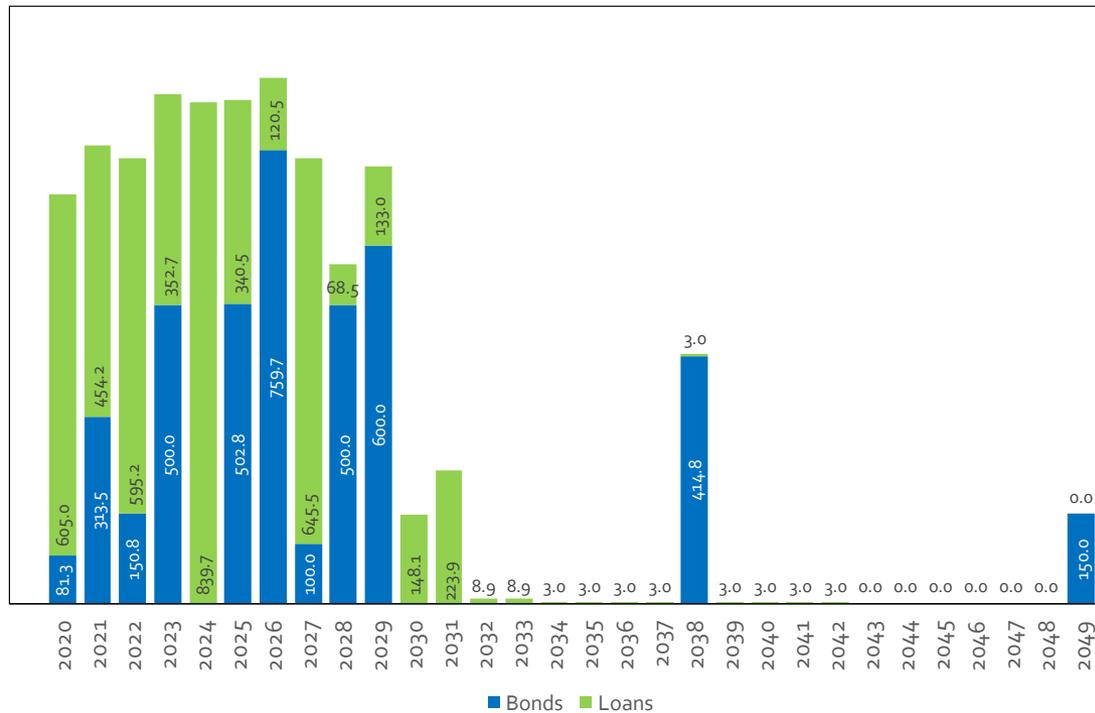
Source: Ministry of Treasury and Economy.



Maturity profile as of 31/01/2020

- Debt amortization shows a growing profile for the next five years.

Deficit / Surplus Million €



Source: Ministry of Treasury and Economy.

Public Debt in the Basque Country

- Issues in circulation on 31/12/2019

Issue data					
ISIN code	Date Issue	Issue volume	Coupon (%)	Maturity	Issue rate
ES0000106528	03/26/2013	81,330,000	4.9	03/26/2020	Fixed
ES0000106510	04/20/2011	313,500,000	6.375	04/20/2021	Fixed
ES0000106593	04/18/2017	150,763,000	0.6	04/30/2022	Fixed
ES0000106544	04/13/2015	500,000,000	1.25	04/13/2023	Fixed
ES0000106445	01/07/2010	502,800,000	4.6	01/07/2025	Fixed
ES0000106551	03/16/2016	569,726,000	1.75	03/16/2026	Fixed
ES0000106577	12/30/2016	190,000,000	1.466	12/30/2026	Fixed
ES0000106585	03/16/2017	100,000,000	1.703	04/30/2027	Fixed
ES0000106619	06/15/2018	500,000,000	1.45	04/30/2028	Fixed
ES0000106635	04/25/2019	600,000,000	1.125	04/30/2029	Fixed
ES0000106601	02/28/2018	414,767,000	2.5	02/28/2038	Fixed
ES0000106627	04/11/2019	150,000,000	2.4	04/11/2049	Fixed

Source: Ministry of Treasury and Economy.



The debt of the Basque Country is subject to the same regulation as the State debt

Article 135 of the Constitution states ... " Loans to meet payment on the interest and capital of the State's Public Debt shall always be deemed to be included in budget expenditure and may not be subject to amendment or modification as long as they conform to the terms of issue."

In terms of Organic Law Article 14.5 of the Law on Financing of the Autonomous Communities states: "The public debt of the autonomous communities and the securities of an equivalent nature issued by them shall be subject, to the same rules and shall enjoy the same benefits and conditions as the Public Debt of the State".

Article 14 of the Organic Law 2/2012 of 27 April on Budgetary Stability and Financial Sustainability provides: "The payment of interest and principal on the debt of public administrations shall have absolute priority over any other expenses".

Contents



The Basque Government

Mr Pedro María Azpiazu, Minister of Finance and Economy

Mr Alberto Alberdi, Deputy Minister of Economy, Finance and Budget

Mr Francisco Javier Arnaez, Director of Financial Policy

Mr Jordi Campás, Director of Economy and Planning

Mr Hernando Lacalle, Director of Budget Management

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Thank you for your attention

EUSKO JAURLARITZA



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