

Annual Report 2021

FIXED INCOME MARKET

BME Renta Fija



ABSTRACT



Recovery and strong economic growth were noted worldwide, in Europe and in Spain. Monetary and fiscal policies were expansionary. Inflation closed the year at its highest level in decades.



Interest rates and maturities remained very favourable for Public and Corporate Debt with increased issuance volumes. The rebound in yields at some points during the year was very moderate.



266 billion euro in Public Debt and 113 billion in Corporate Debt were admitted in BME regulated markets.



The MARF (Alternative Fixed-Income Market) reached 117 issuers with 9.6 billion of outstanding balance (+82%).



ESG issues grew by 90% in Spain. BME Fixed-Income markets closed with 31 issues admitted. The Treasury launched its first green bond.



The year 2022 began with uncertainty and more volatility in the debt markets, mainly as a result of the Russian military intervention in Ukraine.

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1

ECONOMIC, MONETARY AND DEBT MARKET SCENARIO

World Economy, Eurozone and Spain

In areas of health, economics and finance, 2021 was a year of recovery after the shock suffered by humanity in 2020 as a result of the global pandemic caused by Covid-19.

Both economic and financial activity rebounded substantially in 2021, mainly owing to massive vaccination campaigns carried out by a vast majority of the world's countries, but also because of **enormous monetary and fiscal stimulus packages** implemented by central banks and governments and the recovery of confidence among households and companies.

Based on the IMF's estimation (WEO Jan, 22), **the global economy grew by 5.9%** in 2021 following a 3.1% decline

in the previous year. **The recovery was particularly intensive in developed economies, with the United States and Europe leading the way**, although it has been overshadowed in the last few months by the emergence of the Covid-19 Omicron variant, inflation surge and supply disruptions.

The Eurozone recovery was impressive (+5.2%) as vaccination rates in the big countries started to notably exceed 50% of the population, which led to eased restrictions and greater business and consumer confidence. **At over 80%, Spain has one of the highest vaccination rates in the world, and it is one of the region's top countries in terms of recovery, with a growth of 5%.**

Monetary Policy

The central banks of major countries and economic regions kept their **strongly expansionary policies** virtually intact until the final weeks of the year.

Both the **Fed** and the **ECB** kept their interest rates at **respective levels of 0% – 0.25% and 0%**.

In terms of unconventional measures, the Fed continued its monthly asset purchases in the amount of 120 billion US dollars, which it started to gradually reduce in November, while the ECB maintained a pace of purchases of around 100 billion euro per month.

In November, Fed started to gradually taper its asset purchases at a pace of 15 billion per month and the **ECB slightly slowed its programme of asset purchases**.

Debt Market

Spain's Public and Corporate Debt markets returned to playing an important role in 2021, and maintained their **capacity to finance both the public administrations and companies with very large volumes of funds and under highly favourable conditions in terms of interest rates and maturities**, while still having the support of the expansionary monetary policies of the European Central Bank.

Both the Spanish market and the world's main Public and Corporate Debt markets reflected the impact that these opposing factors had over the course of the fiscal year, which resulted in significantly lower volatility levels compared to previous fiscal years. On the one hand,

central banks maintained asset acquisition measures for most of the year; on the other, there was the reactivation of the economy and the fears stemming from high inflation rates of an unknown duration.

In Europe, Germany's 10-year Bond continued to retain its status as a safe haven asset during the year, with negative rates throughout the year. The risk premium of Spanish 10-year bond remained within a range of 55–75 basis points.

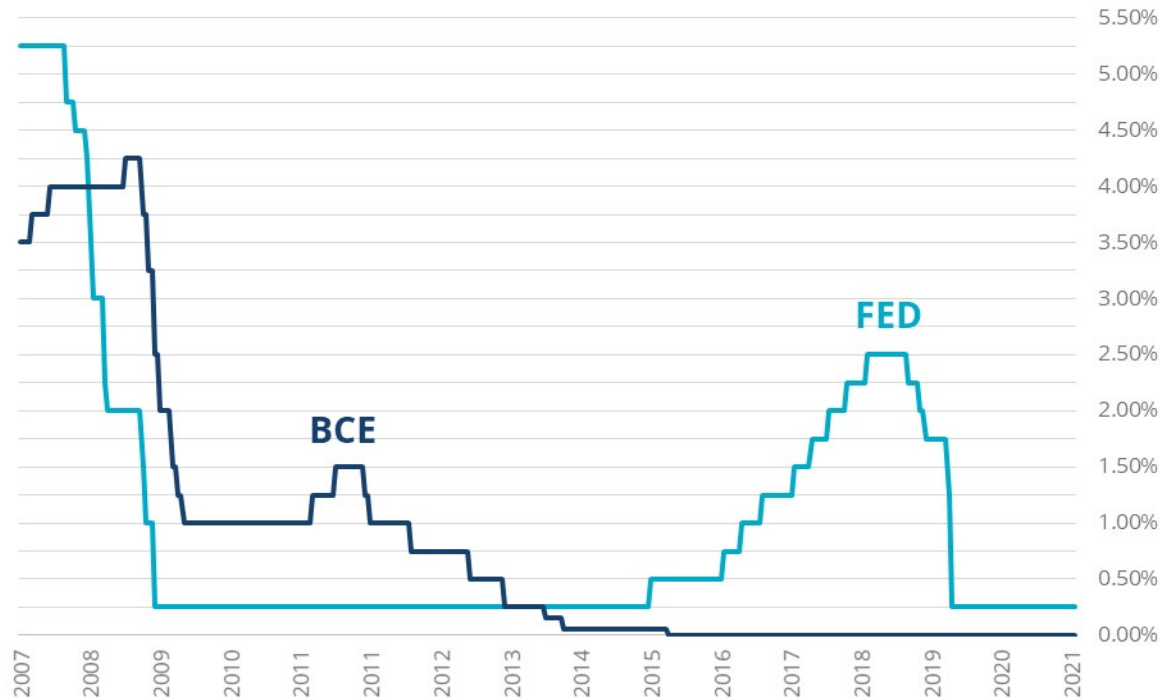
Corporate Debt experienced a year characterised by low yields and less volatility.

2

ECONOMIC ENVIRONMENT INDICATORS

Benchmark Rates for ECB and the Fed

(From the financial crisis to COVID-19 (2007 – 2021) Source: central banks)

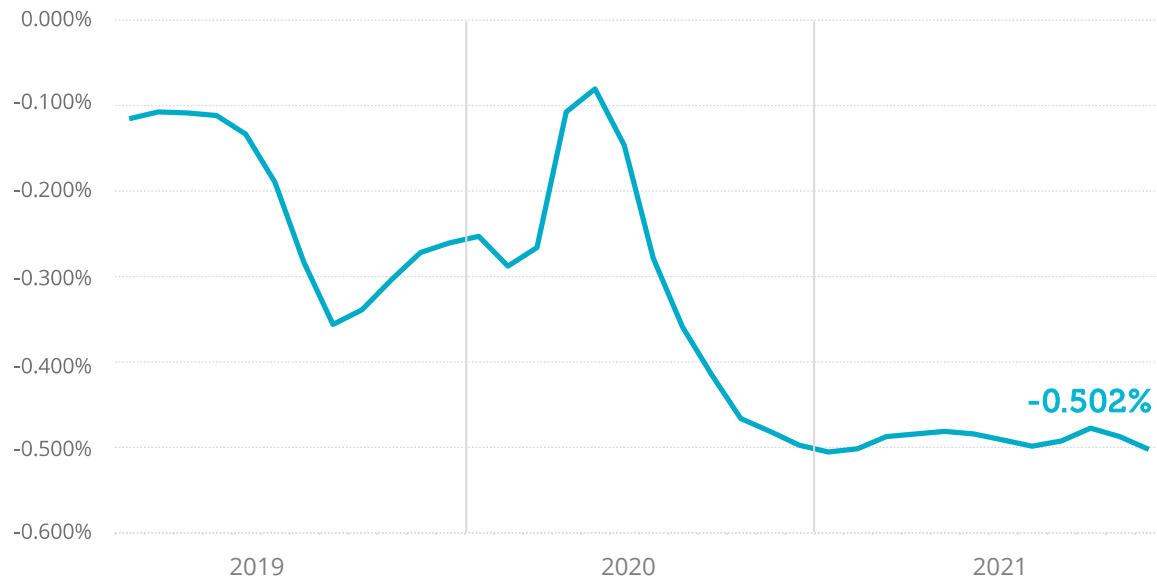


The North American Federal Reserve (Fed) kept an expansionary policy in 2021 with benchmark rates at 0 – 0.25%. Likewise, the European Central Bank (ECB) kept intervention interest rates unchanged at 0%.

Euribor

Euribor at the end of each month (2019 – 2021)

Monthly averages of 1-year daily data. Source: Bank of Spain

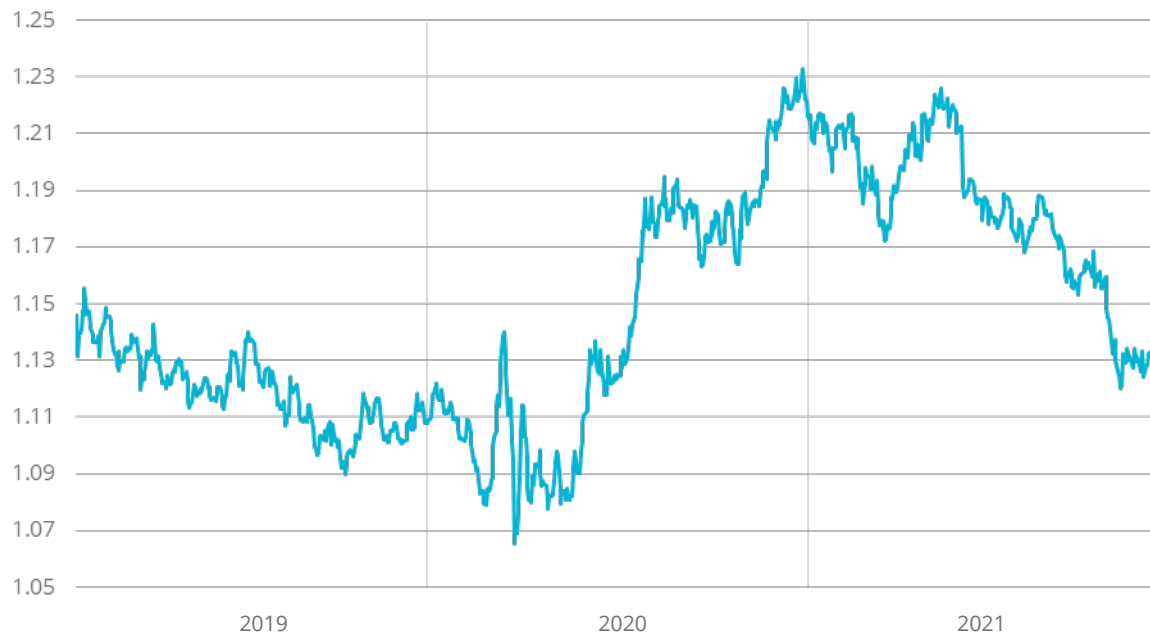


Euribor remained stable at a minimum throughout 2021 as a consequence of continued extraordinary liquidity conditions provided to the banking sector by the ECB.

Exchange Rate

EUR vs. USD in (2018 – 2021)

USD/EUR Daily data. Source: Factset

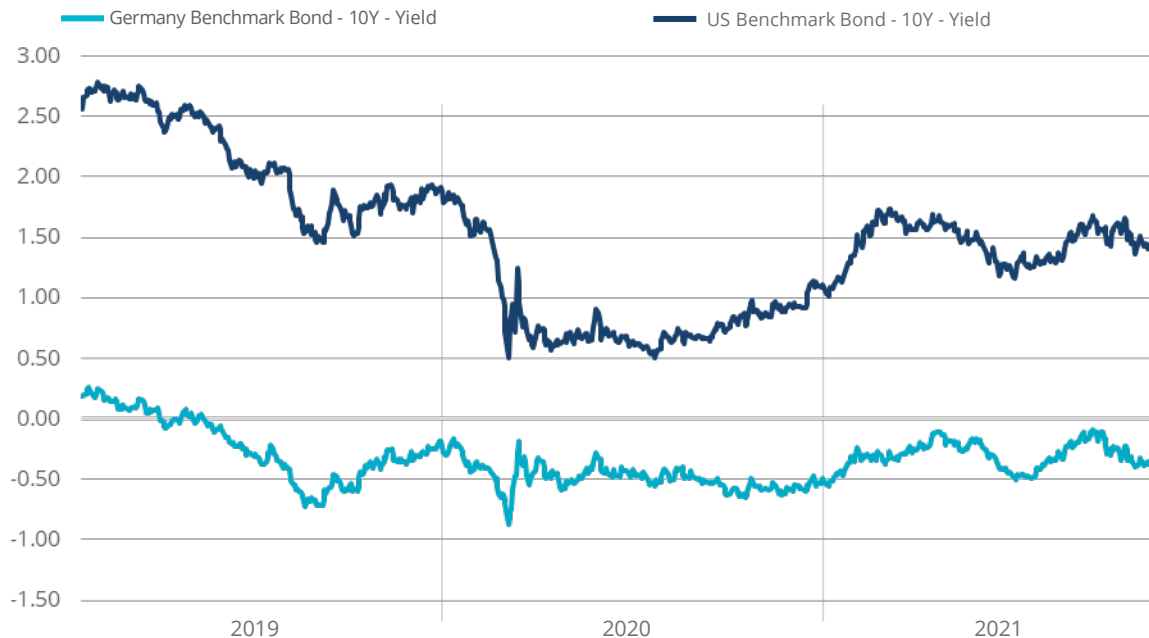


In 2021, the Eurozone currency weakened against the dollar in the expectation of a more aggressive change of the monetary policy of the Federal Reserve pressured by a strong growth of the North American economy and elevated inflation.

Government Debt in the US and Germany

Interest rate (%) for the US and German 10Y Debt (2019 – 2021)

Daily data. Source: Infobolsa and Factset



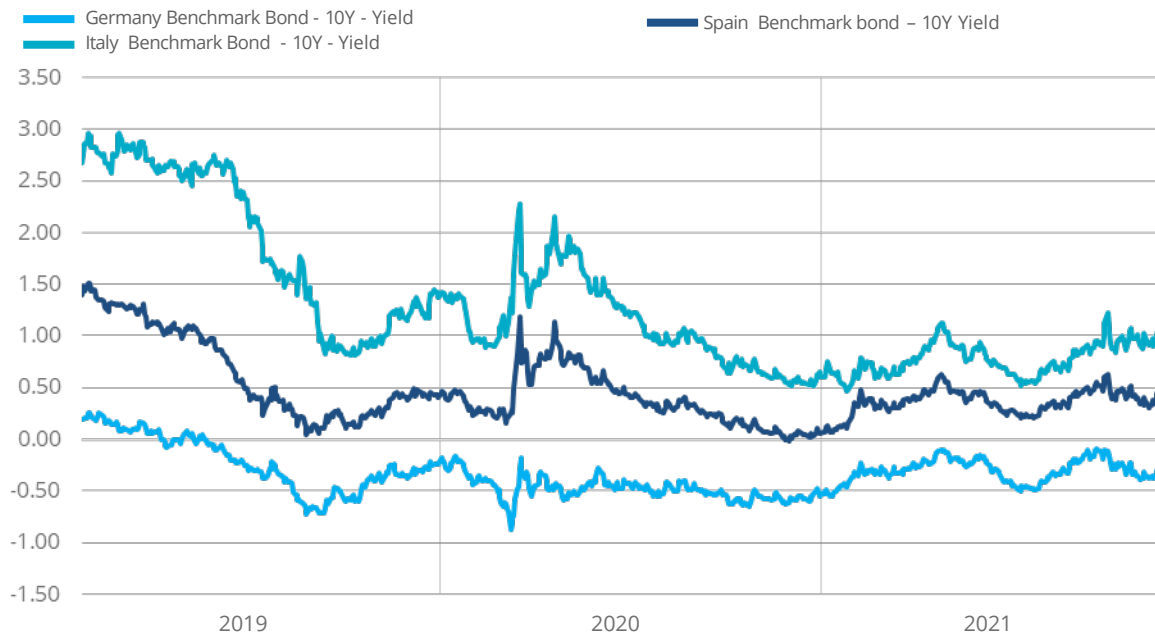
The 10-year North American Bond started the fiscal year 2021 at 0.91%, the minimum of the year, and accelerated the increase of the returns to an annual maximum of 1.74% at the end of March, empowered by the strong recovery of the North American economy. The slight slowdown in economic dynamism and the virulence of the new wave of Covid-19 curbed the trend to close the year approaching a 1.50% yield, despite the elevated inflation.

In Europe, the 10-year German Bond (Bund) maintained its status of a safe haven asset throughout the year, with negative yields throughout the year. It started the year with negative yields at -0.60%, also the minimum of the year, to rebound until May and approach the minimum again in August. Since then, it took an upward trend, reaching -0.11% in October, getting closer to positive ground for the first time in more than two years, only to correct again to -0.35% at the beginning of December. In the last days of the fiscal year, it experienced a strong correction of the yields of up to -0.18%.

Government Debt. Eurozone

Interest rates (%) for German, Italy and Spain 10Y Debt (2019 – 2021)

Daily data. Source: Factset



The 10-year Spanish Bond started the year 2021 at 0.02%, reaching a maximum of 0.62% on 17 May, during the fifth Covid-19 wave, and then corrected to start a gradual and moderate upward path to reach above 0.50% in October. In November and December, the sixth Covid-19 wave brought it again to 0.31%. Then, it rapidly corrected and closed the year at 0.56%.

Furthermore, the 10-year Italian Bond maintained yields between 0.50% and 1% for most of the year owing to the ECB measures, although in the last week of the year it rebounded in line with the rest of the Eurozone bonds to 1.17% at fiscal year end.

Spanish Risk Premium

10Y Spanish Bond compared to the German one in 2021. Spread

Data in basis points (bp). Daily data. Source: Factset



The Spanish Bond risk premium, which in the worst moments of the health and economic crisis exceeded 150 basis points (1.5%), was once again consistently positioned in a narrow range between 75 and 55 basis points (0.75% and 0.55%), closing the year 2021 at the upper part of the range.

Equities. Global Stock Exchanges

MSCI World Index.

Daily data. Source: Factset



After the decline and a swift recovery experienced in 2020 in the wake of the Covid-19 pandemic, the Global stock exchanges maintained an upward trend in 2021, driven by a strongly expansionary monetary policy of central banks, the fiscal support measures put in place by governments, and the recovery of the activity and confidence coming from consumers and companies.

The **MSCI World Index** is one of the main global indicators of stock exchange evolution which includes the main companies listed on global stock exchanges

Oil

Oil prices 2019 – 2021 (Brent rate in USD/barrel)

Daily data. Source: Factset



The generalized improvement in economic activity around the world, driven by vaccines and improved confidence, brought as a result a strong increase in the demand for fuel without an increase in production on behalf of the countries that produce crude oil. **Barrel prices have increased by more than 50%**, exceeding 2019 levels.

Gold

USD per ounce (2019 – 2021)

Gold London AM Fixing. Daily data. Source: Factset



The generalized improvement of the world economies maintained the price of gold within a narrow range of fluctuations with losses close to 4% during the year.

3

ACTIVITY AND EVOLUTION OF THE FIXED-INCOME MARKETS MANAGED BY BME

Spanish Government Debt and Deficit

Basic Data for 2021

Government deficit for all public administrations in 2021 stood at 4.8%, affected again by the expenditures associated with the COVID-19 pandemic, but substantially lower than 11.3% of GDP in the year 2020.

Government Debt stood at 1.43 trillion euro at the end of 2020. This represents 119% of the GDP, a level similar to the previous year.

The estimated gross issuance of Spanish Treasury Debt for 2021 stood at 265 billion euro, compared to 277 billion euro in 2020. The net issuance stood at 75 billion euro, after successive cuts of up to 25 billion over

the initial estimations for the year, getting further from the net 110 billion from 2020, as a consequence of the pandemic.

The average cost of the new issues in the year decreased to -0.04%, below the +0.18% from the previous year and **with a 60% of volume issued with negative yields**. Moreover, the average cost of all the Government Debt fell to 1.65%, below the 1.88% from the previous year-end. **The average maturity of all Spanish Government Debt increased to 8 years.**

Primary Government Debt Market Admissions

The volume of Spanish Government Debt issued and admitted to trading on the regulated Fixed-Income Market of BME in 2021 reached 266.252 billion euro, 3% less than in the previous year. The high increase of issuance in the public sector slowed down during the year 2020 (+36%) in order to tackle the effects of Covid-19.

During the year 2021, **the emergency programmes for asset acquisition put in place by the European Central Bank**, which helped with the issuance and placement of Government Debt and maintained the interest rates at historically low levels, remained in force.

The volume of issuances and admissions was maintained in the case of the Treasury Bills (+0.9%), whereas medium and long-term debt was reduced (-8.5%), with a volume of almost 160 billion euro for the whole year. The biggest increase occurred in the **debt issued by Autonomous Communities (+62%), which in some cases returned to the markets after years of absence.**

Primary Government Debt Market

Issuing Activity of the Treasury

Source: Spanish Treasury

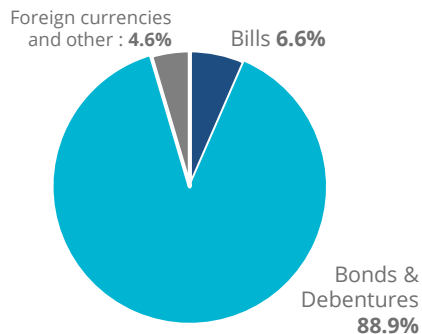
Spanish Government Debt ratings (2021)

Fitch: A- / stable

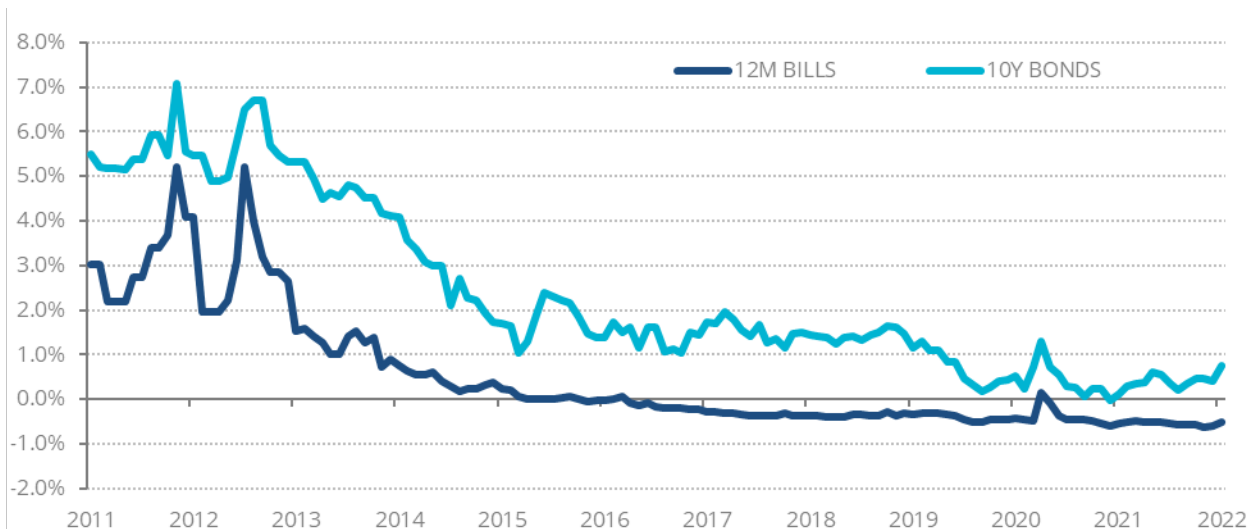
Moody's: Baa1 / stable

S&P: A / negative

Debt breakdown (2021)



Types of Spanish Debt issuance (2011-2021)



Primary Government Debt Market

Issuing Activity of the Treasury

Government Debt issuances in 2021

Figures in millions of euro.
Source: Spanish Treasury

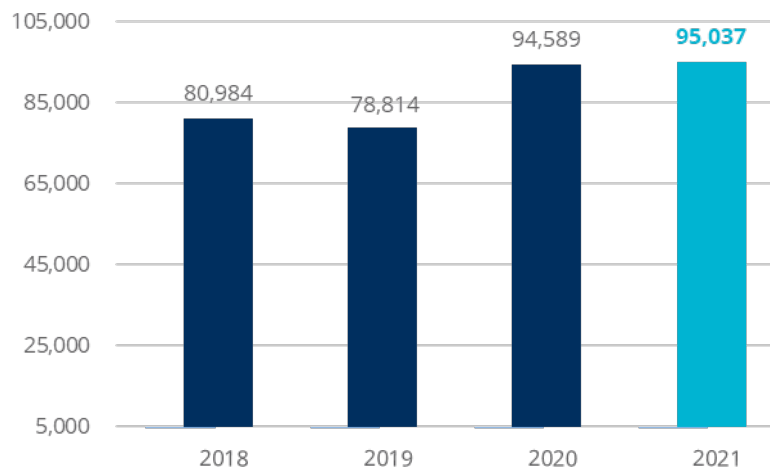
	MATURITIES	AUCTIONS	NET FINANCING
January	28,027	31,138	3,111
February	7,961	26,831	18,870
March	7,374	29,124	21,750
April	33,570	26,122	-7,448
May	11,450	23,423	11,972
June	8,946	28,010	19,064
July	30,681	19,726	-10,954
August	8,060	12,594	4,534
September	7,300	22,463	15,163
October	27,228	17,366	-9,862
November	12,037	18,156	6,119
December	6,540	9,359	2,819
TOTAL	189,174	264,312	75,138

Spanish Government Debt Primary Market

AIAF Market. Admission to trading

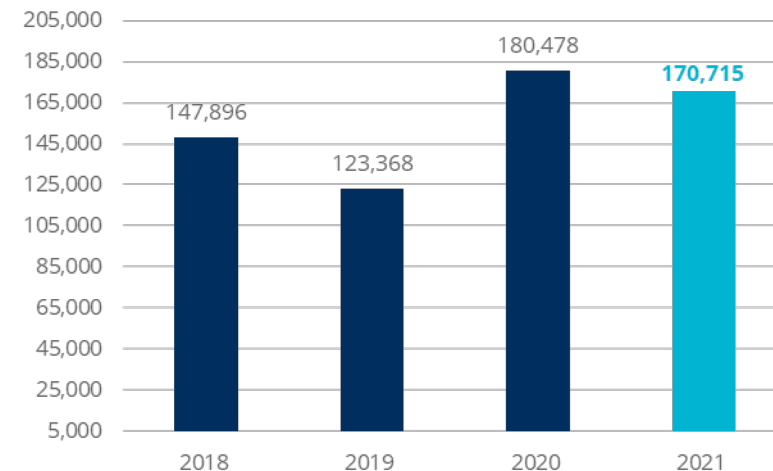
Short-term Government Debt

Figures in millions of euro. Source: BME



Medium and long-term Government Debt

Figures in millions of euro. Source: BME



Spanish Private Debt Primary Market

Basic Data 2021

Interest rates on Private Fixed Income in Spain stood generally low and stable, with changes depending on Spain's credit rating and outlook.

The maintenance of the ECB Corporate Debt acquisition programmes launched in March of the previous year to combat the effects of the pandemic over the liquidity of the financial systems **continued to be a supporting factor for companies issuance**.

The volume of Spanish Private Debt issued and admitted to trading on the regulated market between January and December of 2020 **reached 113.12 billion**

euro, with a decline of 5.2% compared to the previous year.

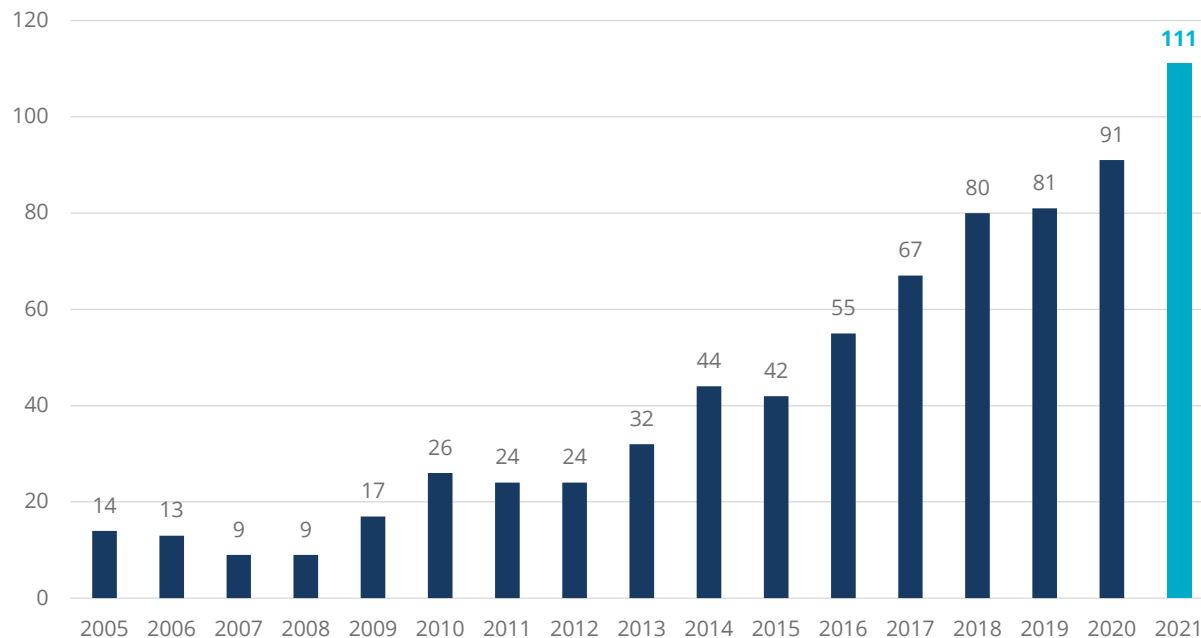
In contrast to the previous year, in which the issuance of commercial paper almost doubled, during the fiscal year 2021 **the companies took advantage of the favourable conditions of the market to perform long-term issues**. The growth of the medium and long-term debt issuance stood out, with an increase of by 84.7% up

Spanish Private Debt Primary Market Issuers

Number of Spanish non-financial companies issuing Fixed Income

Includes both long and short-term issuance.

Source: Bank of Spain

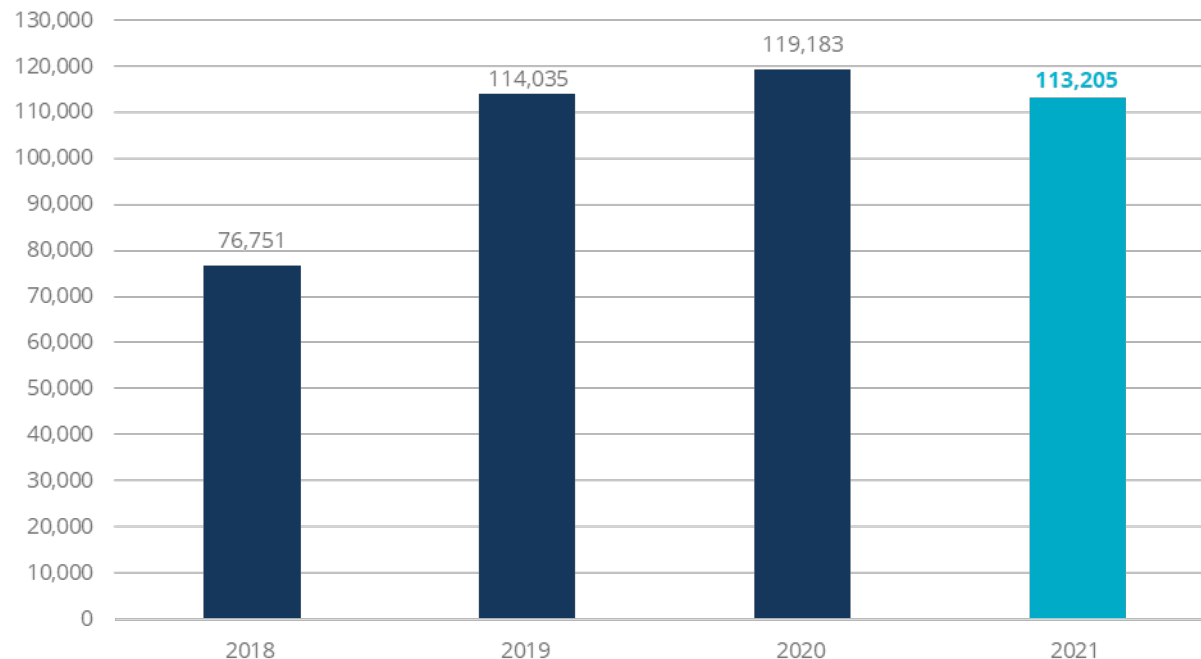


Spanish Private Debt Primary Market

AIAF Market. Admissions (2018-2021)

Volume of admissions to trading

Figures in millions of euro.
Source: BME

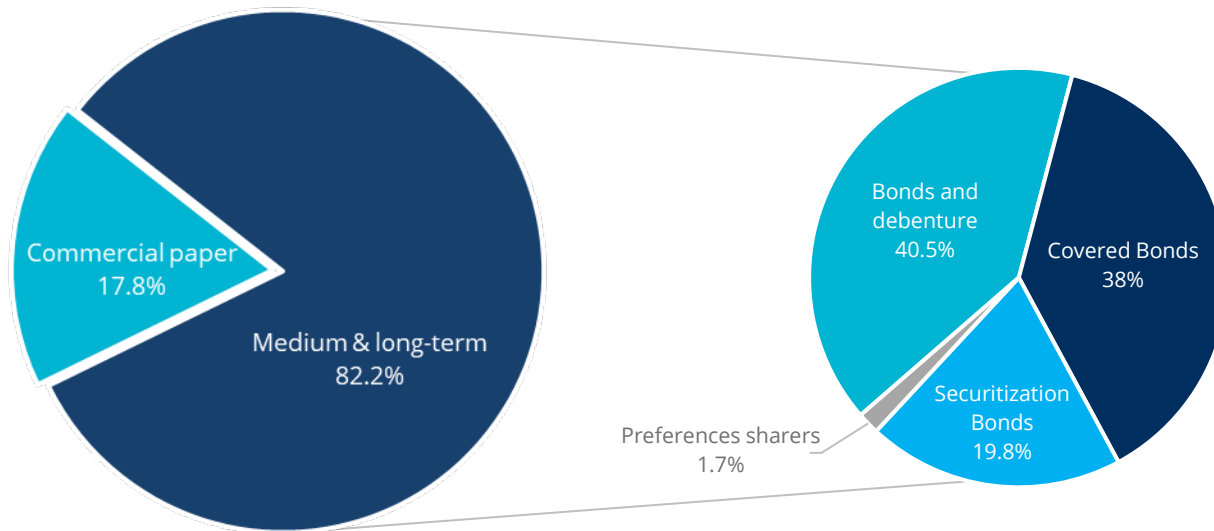


Spanish Private Debt Primary Market

AIAF Market. Types of admissions

Admissions to trading by maturity and type in 2021

Source: BME



In contrast to the previous year, in which short-term issuance aimed at ensuring liquidity stood out, during the year 2021 **companies took advantage of the favourable conditions of the market to perform long-term issues**.

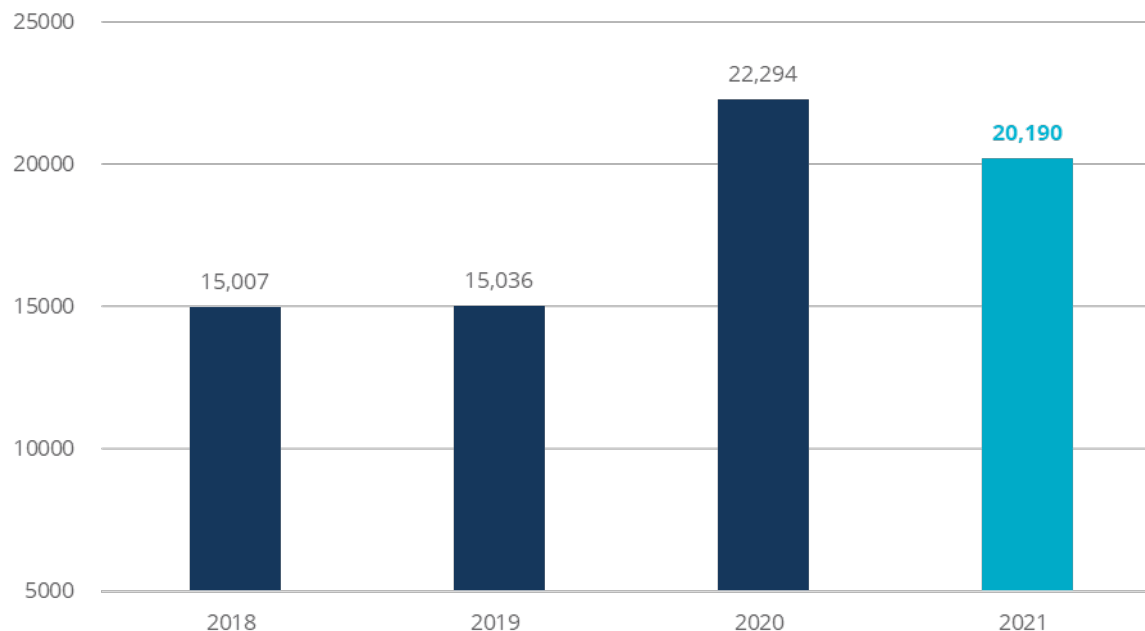
The maintenance of the ECB Corporate Debt acquisition programmes to combat the effects of the pandemic continued to be a supporting factor for companies issuance.

Spanish Private Debt Primary Market

AIAF Market. Commercial Paper

Volume of Commercial Paper admissions (2018-2021)

Figures in millions of euro.
Source: BME



AIAF Markets

Total Outstanding Balances

The total outstanding balance of Spanish Government Debt in the Fixed-Income regulated market stood at 1,24 trillion euro at the end of 2021, a 6% increase compared to the previous year.

The greatest proportion corresponds to the Government Debt with 1,07 trillion euro (+6.7%), followed by Treasury bills with 79.41 billion (-0.4%). The debt of the Autonomous Communities stood at 35.76 billion euro (+10.4%).

The outstanding balance of foreign Government Debt closed the year 2021 at 4.59 trillion euro, a decrease of

2.1%. Issuance from the treasuries of Germany, France, the Netherlands, Belgium, Italy, Austria, Portugal, Ireland, Greece and the ESM has been incorporated since 2017.

At the end of December, **the total outstanding balance** of Spanish Private Fixed Income registered in the regulated market stood practically at the levels of the previous year, with **456.74 billion euro.**

AIAF Market. Secondary Market

Outstanding Balances of Government Debt and Private Debt

Figures in millions of euro at year end 2021. Source: BME

Outstanding balance

	Short-term	Medium and long-term
Private Fixed Income	5,747	450,996
Public Fixed Income	79,779	1,163,768
Foreign Public Fixed Income	--	4,592,787
TOTAL	85,526	6,207,551

Number of issues outstanding

	Medium and long-term
Private Fixed Income	1,642
Spanish Public Fixed Income	432
Foreign Public Fixed Income	543
TOTAL	2,617

AIAF Market

Secondary Market

The application of the MiFID II regulation to Fixed Income for a fourth consecutive year brings more rigorous market and transparency rules, similar to those governing equity markets. The **global and European trend of increasing Fixed-Income trading through electronic platforms continues to intensify**.

Financial entities that have acquired the status of Member of the Fixed-Income Market are also turning to the Electronic Markets and Fixed-Income Trading Systems managed by BME to meet their transparency, information sharing and *reporting* obligations deriving from the application of the new regulation.

As an answer to the member entities demand, **issuances from the treasuries of Germany, France, the Netherlands, Belgium, Italy, Austria, Portugal, Ireland, Greece and the European Stability Mechanism (ESM) have been admitted to the platform since 2017**.

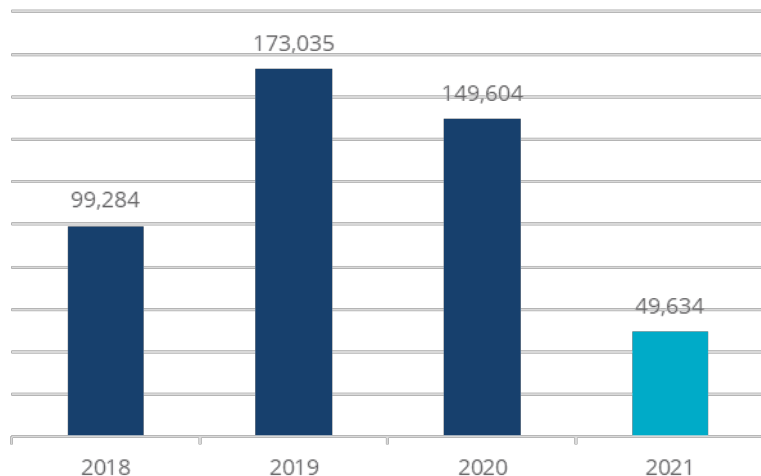
During the **year 2021, accumulated trading in Government Debt and Private Debt on the BME platforms reached 239.02 billion euro**, 16% below the previous year's volume. Public debt trading on the SENAF Platform, reserved for financial entities, grew by 42%.

AIAF Market

SEND Platform Government Debt Volume Traded on the Secondary Market

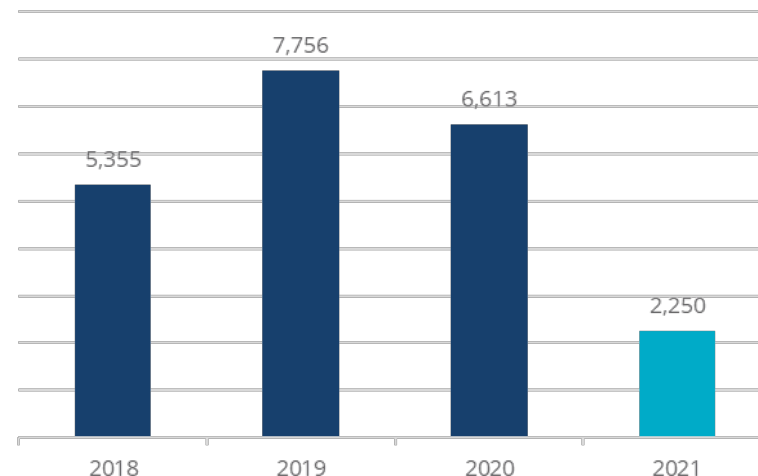
Government Debt trading

Figures in millions of euro. Source: BME



Government Debt trades

Number of trades. Source: BME



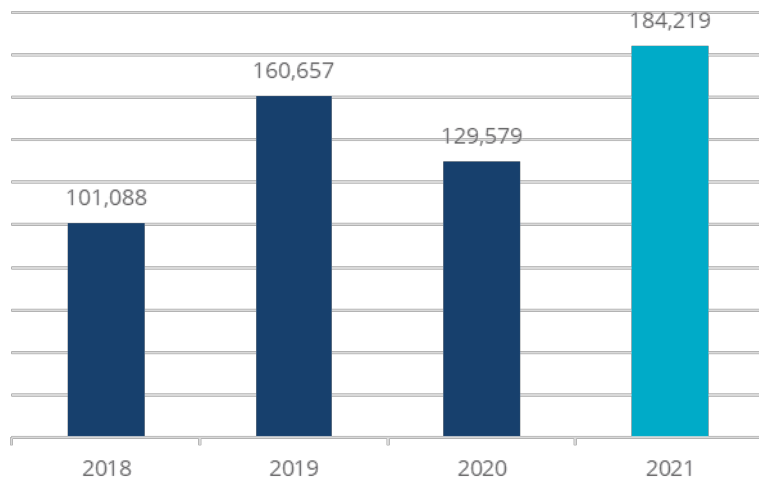
SEND is BME's "all to all" electronic trading system for Fixed-Income securities listed in its markets.

SENAF Platform

Volume and Operations

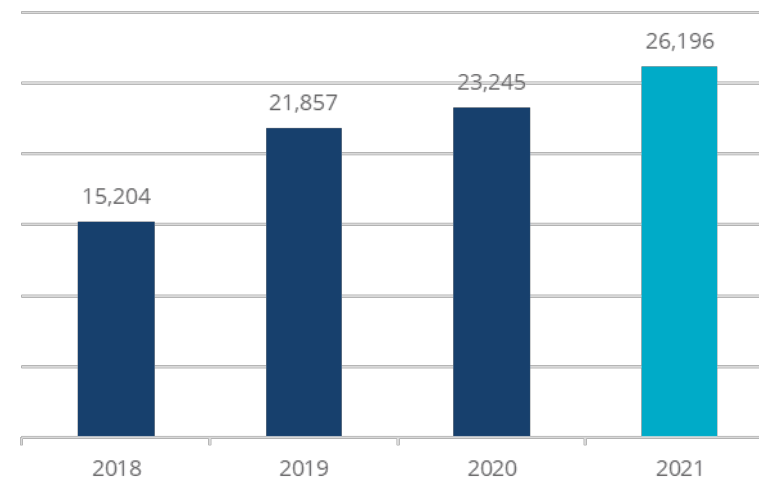
Trading volume Public Debt

Figures in millions of euro. Source: BME



Number of trades Public Debt

Source: BME



SENAF is BME's electronic trading system for the Spanish Treasury's primary dealers.

MARF

BME's Alternative Fixed-Income Market (MARF) was designed in the wake of the financial crisis and the European sovereign debt crisis. It was launched at the end of 2013 as a multilateral trading system to facilitate the issuance of Fixed Income by companies of different sizes, many of which had no presence on the capital markets before issuing in MARF.

In 2021, the MARF closed an extraordinary fiscal year in which it not only surpassed by far the 100 companies that have used this market for funding since its creation, but it also regained its strong growth after the previous year, which was marked by the pandemic.

The ECB approved the inclusion of the MARF as an eligible multilateral trading system for monetary policy.

Spanish public bank, ICO has also launched programmes for the direct subscription of Commercial Paper issued in the MARF to support the liquidity of companies during the pandemic. It also serves to implement a public guarantees programme for Commercial Paper issues carried out in the MARF for a value of up to 4 billion euro.

MARF

Main figures

Since its launch up to the end of 2021, already **117 companies have used this market for funding**. Six of them are Portuguese, one is Dutch, one British, the list also includes a German financial institution and a Canadian company.

The volume of issuances and admissions to the MARF in 2021 reached 13.85 billion euro, a number that represents an **increase of 44%** compared to the previous year.

At the end of 2021, **the MARF's outstanding balance of issues was 9.64 billion euro, which is by 82% more** than in the previous year, with balanced outstanding bond issues in a value of 5.642 billion euro distributed among 61 issuances and 4.002 billion euro in 386

tranches issued within the Commercial Paper programmes in place.

Throughout the year, **22 companies joined the MARF**. Diversity is a characteristic of this group, which includes the following: Ultracongelados Virto, Nueva Pescanova y La Sirena); industrials (GAM y Cunext); energy (García Munté, Biodiésel de Aragón and Canadian Solar); tecnológicas (Avatel e Izertis); financial (EBN Banco and Inverready); and other such as OK Mobility, Making Science, La Finca.

MARF

#100issuersMARF

In April 2021, the MARF surpassed the milestone of 100 issuers since its creation in late 2013. A paper published by Professor María José Palacín and Professor Carmen Pérez at the University of Seville titled “the MARF and its Contribution to Business Growth” provides a deep analysis and the assessment of the first years of the MARF and these 100 first issuers.

The 100 first issuers of the MARF reach a total turnover of 78 billion euro with harmonised figures of 2019, **provide 380,000 jobs** and generate **21 billion euro in profits**.

In terms of the issuers in the MARF, 65% are unlisted companies, 4% are listed in BME Growth and the remaining 31% are listed in the main market of the Spanish stock exchange.

Moreover, 24% of the issuers represent the basic materials, industry and construction sector, 22% belong to the consumer products and services sector and 16% to the energy sector. There is also participation from the financial services, real state, technology and telecommunications.

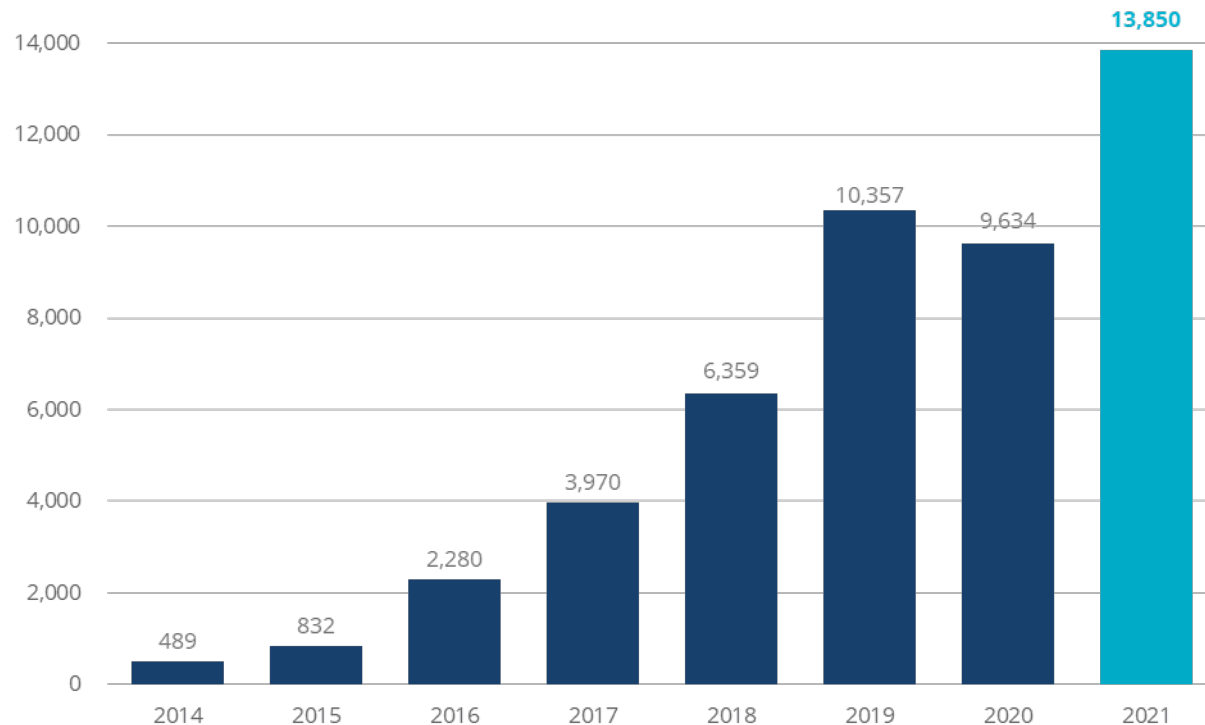
Of all companies, 50% are more than 20 years old, a third is between 10 and 20 years old and the remaining 20% are less than 10 years old.

Within these first 100 companies in the market, there are companies from 13 Autonomous Communities, as well as Portugal, the Netherlands and the United Kingdom are represented.

MARF

Volume issued
and listed by year

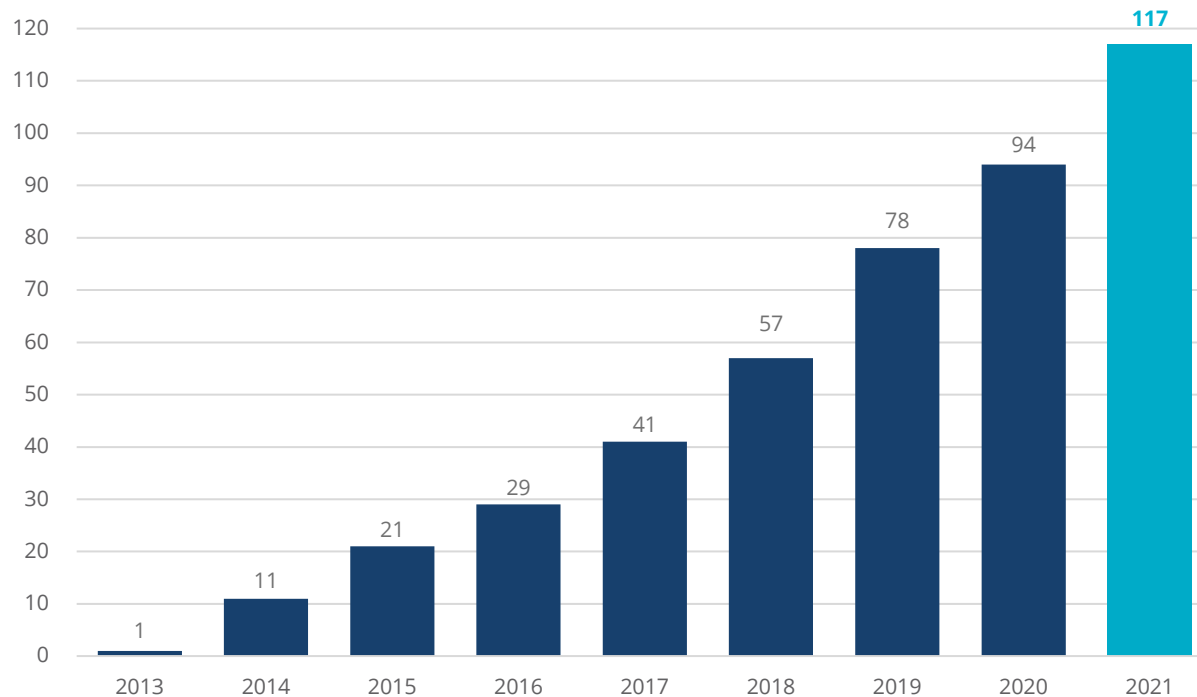
Bonds and Commercial Paper
Figures in million euro
Source: BME



MARF

Companies financed since launch

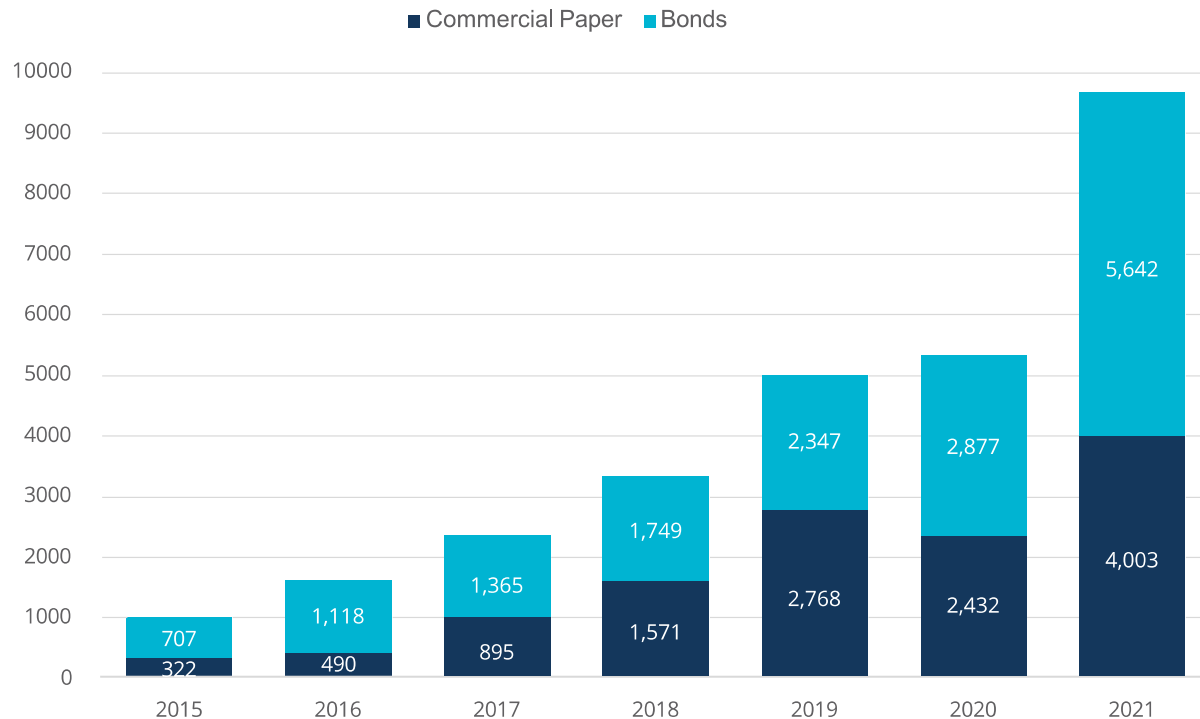
Cumulative figures from 2013 to each year-end.
Source: BME



MARF

Outstanding balance

Cumulative figures from 2015 to each year-end
 Figures in million euro
 Source: BME



AIAF 2000 Indices in 2021

Source: BME

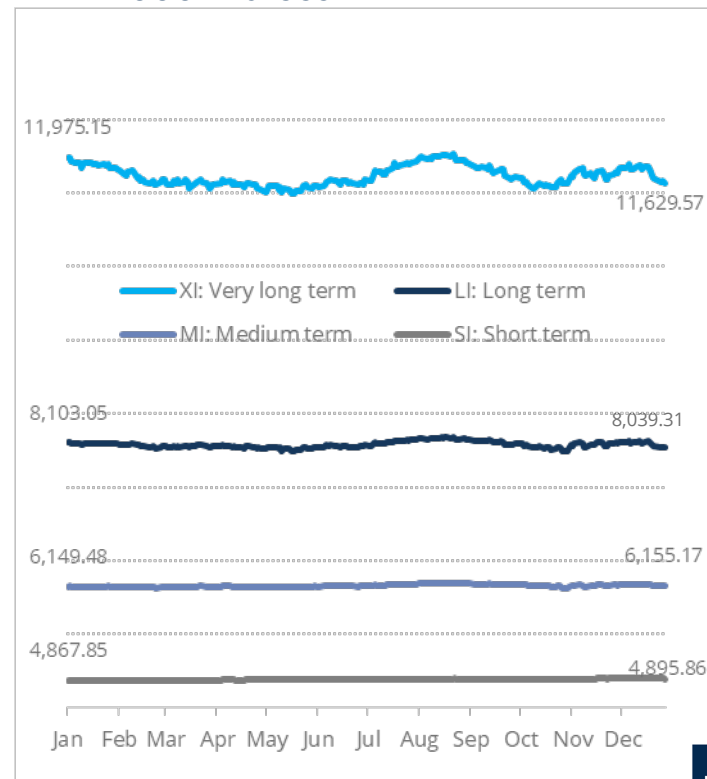
Performance of AIAF 2000 indices

CONTENTS				Duration				
		MAXIMUM	MINIMUM	LAST	MODERATE	HIGH	LOW	LAST
GI	General	6,566.41	6,474.84	6,501.04	4.54	4.65	4.07	4.45
SI	Short	4,901.26	4,867.57	4,895.86	1.78	1.89	1.67	1.86
MI	Medium	6,194.16	6,128.76	6,155.17	3.67	3.90	3.35	3.35
LI	Long	8,179.59	7,992.96	8,039.31	6.05	6.47	5.31	5.97
XI	Very long	12,023.19	11,485.60	11,629.57	11.87	12.50	10.80	11.80

AIAF 2000 General Index



AIAF 2000 Indices



Government Debt Yield Indices (RODE)

Daily RODE index on the Spanish Government Debt between 6 and 12 months

Daily data. Source: BME



Since May 2021, the Fixed-Income market has featured an innovative family of Government Debt Yield (RODE) indices designed to reflect the evolution of the Spanish Government Debt market at different maturities.

This series of indices consists of nine daily indicators and nine monthly indicators that reflect the internal rate of return in the government debt market at different maturities, ranging from six months to over 20 years, grouping interests rates and transactions monthly and quarterly.

The daily RODE indices are designed to represent average rates and prices weighted by the nominal volume of the transactions carried out.

Government Debt Yield Indices (RODE)

Daily RODE index on the Spanish Government Debt between 8 and 12 years

Daily data. Source: BME



The daily RODE indices are designed to represent a nominal volume-weighted average of rates and prices by trades executed.

Global Sustainable Financing

Sustainable **financing experienced a major boom around the globe in 2021**, particularly in terms of the issuance of green bonds, social bonds, sustainable bonds and sustainability-linked bonds, with initiatives of all kinds, which notably include the legislative measures enacted by the European Union, the IMF's announced prioritisation of stopping climate change, the first climate stress test by the European Central Bank and the COP26 climate summit organised by the United Nations in Glasgow.

For the first time, total Fixed-Income issues could have reached a global volume of 1 trillion US dollars (865 billion euro) in 2021, according to estimates by Moody's and Bank of America, which would nearly

double the previous year's 550 billion US dollars. Fixed Income has become the key financial instrument for the funding of the transition into a more sustainable world.

On the investor side, interest in assets meeting ESG criteria continued to rise. According to data from the Association for Financial Markets in Europe (AFME), total assets of global ESG funds amounted to 3.74 trillion euro at the close of Q1 2021, which was more than double that of 2018.

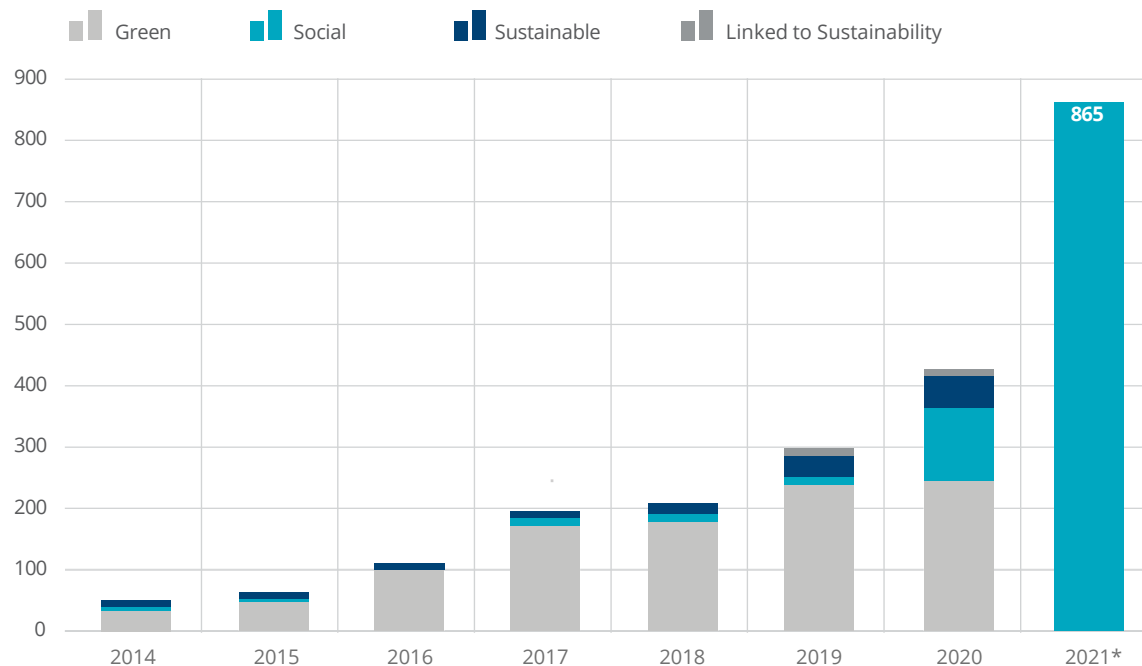
One noteworthy milestone of the year is the higher volume of 15-year green bonds issued to date by the European Union as part of the Recovery and Resilience Facility in the amount of 15 billion euro.

Global Sustainable Financing

Global performance by category Bonds

Data by type of issue in billions of euro.

Source: OFISO until 2020 and
*Total estimate without breakdown for 2021 from Moody's and Bank of America



Sustainable Financing in Spain

Spain maintains its position as one of the benchmark markets at a global level in green bonds, social bonds, sustainable bonds and sustainability-linked bonds issued by national entities. Between 2018 and 2020, it remained among the top 10 countries by volume issued, and became number eight in 2020 according to the data from the Climate Bonds Initiative.

The issuance of green, social and sustainable bonds in Spain in 2021 exceeded 28.5 billion euro with a 90% growth compared to the previous year, according to the data of Spanish Observatory of Sustainable Financing (OFISO). Green bonds cover the 64% of debt issues, while social bonds decreased due to the improvement of the health situation caused by the pandemic.

The successful debut of the Spanish Treasury in 2021 in the field of green issues and the ICO's social and green bond issues have contributed very significantly to this volume growth.

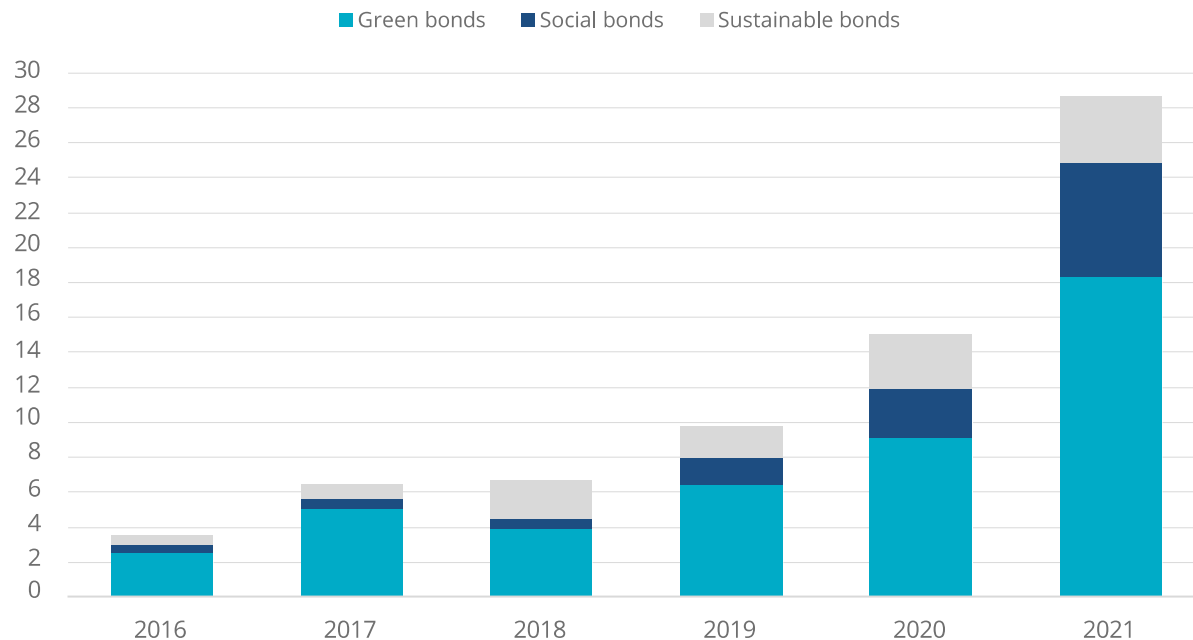
There are also significant assets in national investment funds that are sustainable according to their prospectus: a total of 45.719 billion euro in the first half of the year, or 14.4% of total assets in investment funds according to the data from VDOS.

According to S&P data, among global companies that had undergone the ESG assessment by this rating agency, Spanish companies were the most numerous to publish its results.

Sustainable Financing in Spain

Performance by bond category

Data by type of issue in billions of euro.
Source: OFISO



Sustainable Issuances in BME markets

In the Fixed-Income markets and platforms managed by BME, 31 green, social and sustainable fixed-income issuances were admitted to trading for a total amount of 12.79 billion euro. As of the end of December, there were 63 outstanding issuances in BME, which notably included those placed by banks like Kutxabank and Abanca that issued in 2021, as well as the Autonomous Communities of Madrid, Andalusia, Galicia, Navarre, the Basque Country and the City Council of Barcelona.

The most notable operation of the year occurred in September: the first green **sovereign bond by the Kingdom of Spain** was placed and admitted to the market, with a volume of 5 billion euro, a 20-year maturity, and an initial interest rate of approximately 1%, for which demand prior to definitive placement was 61 billion euro, or 12 times that.

The ICO also admitted its eighth social bond for 500 million euros to trading on the AIAF market.

In the MARF, adapted to the needs of medium-sized enterprises, social and sustainable green bonds also gained momentum after the first green bonds were issued by Grenergy in 2019. **In December 2021, the market had 11 outstanding issuances** after the admission of energy companies like Greenalia, Valfortec, Audax Renovables and Biodiesel de Aragón as well as industrial companies like Pikolin and Elecnor.

BME actively participates in the United Nations' Sustainable Stock Exchanges initiative, promoting sustainable financing in its markets and transparency through the development of sustainability indices or metrics (such as the FTSE4Good Ibex® index), financial education and the promotion of events related to sustainability.

4

ECONOMIC AND MARKET OUTLOOK

Economy: uncertain scenario due to the impact of the Ukrainian war

At the beginning of the year, analysts and international organisations expected 2022 to be a year of consolidation of the economic recovery. Initial estimates by the IMF (WEO Jan. 2022) suggested a moderation in global GDP growth, but that it would remain solid in 2022 (+4.4%) and 2023 (+3.8%), after the record reached in 2021 (+5.9%).

For the EU economy, the IMF forecast growth of 4% in 2022 and 2.8% in 2023, following the brilliant record achieved in 2021 (5.2%), and that Spain and the UK, the countries most affected by the pandemic, would lead the recovery on the continent.

The start of the Russian invasion and the war in Ukraine has put all forecasts on hold. The war, the humanitarian crisis, the sanctions imposed on Russia and the worsening of inflation as a result of the rise in fuel prices have led to a **sharp increase in uncertainty**

about the performance of world economies in the coming months and years.

The European Central Bank (March 2022) has revised down its growth forecast for the euro area to 3.7% in 2022 and 2.8% in 2023 in a central scenario but warned that in an adverse scenario it could fall to 2.5% in 2022 and 2.7% in 2023.

Inflation in advanced economies is at multi-decade highs driven by energy prices, supply disruptions and war and geopolitical tensions. Uncertainty about its duration remains, in addition to potential second-round effects stemming, among others, from rising wage.

Fiscal and Monetary Policy. Interest rates

While the Russian invasion and the war in Ukraine are a new factor with a still uncertain impact in the medium and long term, **a new monetary policy cycle is taking hold in the main economies and economic areas in response to high inflation.**

The Fed confirms the end of its asset purchase programmes in March 2022, raises interest rates by 0.25 p.p. for the first time in that month, plans six more hikes this year and announces that it will decide at upcoming meetings to begin reducing its balance sheet.

The ECB also announces important changes in its monetary policy in the face of inflation risks. The asset purchases of the Pandemic Emergency Purchase Programme (PEPP) will end in March and those of the Asset Purchase Programme (APP) will be reduced monthly in stages from 50 billion euros in March to 20

billion from July onwards. The APP may end in Q3 if inflation expectations are not reduced.

At the expense of developments in the Ukraine war, analysts' forecasts do not rule out rate hikes as early as the second half of 2022.

European Fixed-Income markets and BME

The Russian invasion and the war in Ukraine had a strong impact on global Fixed Income markets in the form of high price volatility and greater uncertainty among issuers.

The year began with an increase in yields on benchmark government bonds, slowed with the war in Ukraine as they once again became safe-haven assets, and then recovered in the face of the tightening of monetary policy by the main central banks.

The number of Spanish non-financial companies financing themselves through fixed-income instruments in the markets will continue to grow, owing to financing conditions that will remain attractive, although to a lesser extent than in recent years, and to platforms such as the MARF that adapt to the needs of companies of all sizes.

The Spanish Treasury foresees a net issuance of Public Debt in 2022 of 75 billion euro, the same as the one performed in 2021. Total gross issuance will reach 237 billion euro, a reduction by 10%.

The European Union becomes one of the world's largest issuers of bonds to finance the €750 billion Next Generation EU Recovery Plan. Between €150 billion and €200 billion per year will be issued until 2026.

Bond issuance meeting sustainability criteria (ESG) continues to increase worldwide. Green bond issues will predominate again in 2022. The Spanish Treasury has announced new issues during the year.

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