

Spain

Quantitative Factors (Relative Weights in any New Rating, or Change to Existing Rating or Outlook)

8 Nov 2024 Date of this review

17 May 2024 Date of previous review

Weight	Factor	2022		2023		2024		2025		2026	
		A	A	F	A	F	F	F	F	n/a	F
Low	GDP per-capita (USD, market exchange rates)	29,634	30,132	32,696	33,393	34,268	35,350	35,408	37,094	n/a	38,268
High	Real GDP growth (%)	5.8	6.2	2.5	2.7	2.1	2.9	2.0	2.3	n/a	2.0
Low	Consumer prices (annual average % change)	8.3	8.3	3.4	3.4	3.0	2.8	2.4	2.0	n/a	2.0
Low	General government balance (% of GDP)	-4.7	-4.6	-3.6	-3.5	-3.0	-3.0	-2.9	-2.7	n/a	-2.9
High	General government debt (% of GDP)	111.6	109.5	107.7	105.1	105.5	102.7	104.8	101.9	n/a	101.9
High	Current account balance plus net FDI (% of GDP)	0.6	0.0	2.9	2.9	3.1	3.2	2.8	2.9	n/a	2.7
High	Net external debt (% of GDP)	61.5	60.3	53.2	52.0	50.6	50.4	48.7	47.0	n/a	45.2

Colour key

n/a	IMF development classification	DM	Improvement relative to previous review
n/a	CDS Market Implied Rating as at 25 Oct 2024:	A	Deterioration relative to previous review

Qualitative Factors (Relative Weights in any New Rating, or change to Existing Rating or Outlook)

Weight	Factor	Change since last review
Low	Fiscal financing flexibility	Stable
Low	Public debt sustainability	Stable
High	External vulnerability	Positive
Low	Banking system strength	Stable
Low	Political risk/uncertainty	Stable
High	Macroeconomic outlook, policy coherence and credibility	Positive
High	Business environment and competitiveness	Positive
n/a	Other factors	n/a

Footnotes

- The risks, limitations and uncertainties associated with the ratings are detailed in the Rating Action Commentary.
- Weights - 'High'/'Medium'/'Low' - reflect the relative importance of each Quantitative and Qualitative Factor in the context of a change in the rating or Outlook/Rating Watch.
- Weights for Economic Development (IMF development classification) and Indicator of Default (CDS Market Implied Rating) will always be n/a because these indicators are not referenced in the Fitch Sovereign Rating Criteria.
- Analyst contacts and all other relevant rating factors are referenced in the Rating Action Commentary.

Fitch Revises Spain's Outlook to Positive; Affirms IDR at 'A-'

Discussion Note

Issuer: Spain

Date of Rating Committee: 05/11/2024

Rating Committee Chair confirms that the Rating Action Report (RAR) is complete and correct, including:

1. Indicator of default is disclosed, where available (CDS Implied Rating) (Y)
2. Indicator for economic development is disclosed (EM/DM indicator) (Y)
3. Weightings of quantitative and qualitative factors are disclosed only for changes in existing ratings or Outlooks and for newly assigned ratings (**for EU/UK Regulated Issuers Only**) (Y)

SRM Output: A

QO Adjustment: -1 notch Public Finances

Final Rating: A-

Summary of Discussion

The rating committee discussed the following key issues:

- Recent growth performance, including role of NGEU funds, public investment and consumption, impact of economic reforms, discussion around cyclical and structural drivers of growth, potential growth and output gap.

- Labour market dynamics, trends in unemployment, role of immigration and integration, productivity challenges, impact of recent reforms.
- Developments in the banking sector, discussion around private deleveraging.
- External developments, trends around competitiveness, resilience of Spain’s economy, current account outturns and outlook, risks around tariffs.
- Fiscal outturns, fiscal programme including 2025 budget and medium-term fiscal programme, credibility around fiscal objectives, political commitment to consolidation including prospects of expenditure restraint.
- Public debt trends, upside and downside risks around the baseline.
- Discussion around political dynamics, prospects of early elections, coalition dynamics, risks around regional developments and potential policy and fiscal impact.
- Credit strengths and weaknesses, and rating peer comparisons.
- Potential rating actions, drivers, sensitivities and assumptions.

The main opinions and conclusions of the committee are recorded in the RAC.

Definitions

Per-capita Income: GDP per capita (USD, market exchange rates)

Gross domestic product at current market prices in the local currency and converted into US dollars at annual average market exchange rates. GDP is the sum of consumption (private and government) plus gross fixed capital formation plus the change in inventories plus exports of goods and services minus imports of goods and services. Source: National authorities, international institutions.

GDP Growth: Real GDP growth (%)

Annual percentage change (calendar year on calendar year) of a country's GDP in constant prices (i.e., volume terms). Source: National authorities, international institutions, Haver Analytics.

Inflation: Consumer prices (annual average % change)

Annual percentage change in the national consumer price index (CPI). Note: these are period averages, not year-end to year-end. Source: National authorities, international institutions, mainly IMF IFS.

Fiscal Balance: General government balance (% of GDP)

Consolidated balance of central government, provincial, regional and local governments, social security funds and other extra-budgetary funds; data may be presented on a cash or, more generally and preferably, on an accruals basis. Net lending is treated as an expenditure item and is included in the general government balance. Privatisation receipts are treated as a financing item and are excluded from the general government balance.

Note: in some countries data are available only for a fiscal year not coinciding with the calendar year. Where this is so, fiscal data are allocated to that calendar year in which the larger part of the fiscal year falls. For fiscal years running July-June, fiscal data are allocated to the year ending 30 June (i.e., 1990-1991 = 1991). Also note that for euro area countries, the figures may differ from those produced by Eurostat due to Fitch's treatment of UMTS receipts. Source: National authorities, international institutions.

Fiscal Debt: General government debt (% of GDP)

Year-end debt stock of the general government (as defined above); data comprise domestic and externally contracted debt regardless of maturity, and include monetary authorities' debt issued on behalf of the government. Contingent liabilities, such as guaranteed debt, are excluded, except where these are specified as a line item in the budget. Source: National authorities, international institutions.

External Balance: Current account balance plus net FDI (% of GDP)

Current account balance plus the net annual flow of FDI (US dollar value of FDI in the economy less resident FDI abroad), expressed as a percentage of GDP. Source: Fitch estimates based on national authorities and IMF.

External Debt: Net external debt (% of GDP)

Calculated by deducting certain classes of gross external assets from a country's gross external debt (GXD). All figures are converted into US dollars at year-end exchange rates and are expressed as a percentage of GDP. A minus sign indicates that the country is a net external creditor (ie, contractual external claims exceed liabilities). For all countries, the definition of gross external assets mirrors the definition of GXD, i.e., exclusion of equity FDI and portfolio equity investment.

Fitch has therefore modified the definition of gross external assets for emerging countries, as it previously used "narrow" gross external asset definition, which excluded non-bank private-sector external assets for these countries. Therefore, the claims of the non-bank private sector would be included, on the grounds that these are the product of rational portfolio management and generate an identifiable income stream for the country of origin. Note that for those emerging markets that have entered into Brady debt deals collateralised by US zero-coupon bonds, the US dollar value to date of that collateral is included in official assets. Source: IMF IFS, national authorities, international institutions.

Economic Development: IMF development classification

Countries classified as Advanced Economies in the latest IMF World Economic Outlook are reported as Developed Markets (DM). Emerging Market and Developing Economies are reported as Emerging Markets (EM). Source: IMF World Economic Outlook, Fitch classifications for sovereigns not referenced in the IMF World Economic Outlook.

Indicator of Default: CDS Market Implied Rating

Derived from the Fitch CDS Implied Ratings (CDS-IR) model, which processes the collective marketplace view of issuers' credit condition based on its CDS pricing. Source: CDS-IR Fitch Solutions, CDS IHS Markit.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.