

Kingdom of Spain

Rating Review Annex



A-

STABLE
OUTLOOK

Credit strengths

- Large, diversified economy
- Favourable debt profile
- Euro area membership

Credit challenges

- High debt
- Budgetary pressures resulting from aging
- Elevated structural unemployment

Rating rationale:

Large and diversified economy: Spain's economy is characterized by its significant size and diversified structure, which is driven by high-value activities. Thanks to its considerable renewable energy production capacity and substantial regasification infrastructure, Spain has been able to weather the energy and inflation crisis, highlighting its comparative advantages.

Favourable debt profile: Public debt is characterised by its long average life, low share of short-term debt, and a stable investor base, with the average cost of debt set to remain moderate compared to historical standards even amid monetary tightening.

Core euro area member: Spain's membership in the euro area confers significant benefits, which contribute to the country's enhanced resilience in the face of global shocks.

Rating challenges include: i) a high level of public debt; ii) elevated structural unemployment and iii) long-term budgetary pressures resulting from unfavorable demographic trends, particularly the increasing expenditure on healthcare and pensions.

Spain's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aa-	EUR [+1]	0	A-	
Public Finance Risk	20%	bb+		0		
External Economic Risk	10%	b+		0		
Financial Stability Risk	10%	aa+		0		
ESG Risk	Environmental Factors	5%		bb-		0
	Social Factors	7.5%		b+		-1/3
	Governance Factors	12.5%		a-		0
Indicative outcome	a-			0		
Additional considerations				0		

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

Positive rating-change drivers

- Growth prospects improve, supported by, for example, reform progress
- Improvement in public finances, putting public debt on a firm downward trajectory

Negative rating-change drivers

- Low economic growth or protracted fiscal deterioration weakens debt sustainability
- Reforms are delayed, adversely impacting economic and fiscal outlooks

Ratings and Outlook

Foreign currency

Long-term issuer rating	A-/Stable
Senior unsecured debt	A-/Stable
Short-term issuer rating	S-1/Stable

Local currency

Long-term issuer rating	A-/Stable
Senior unsecured debt	A-/Stable
Short-term issuer rating	S-1/Stable

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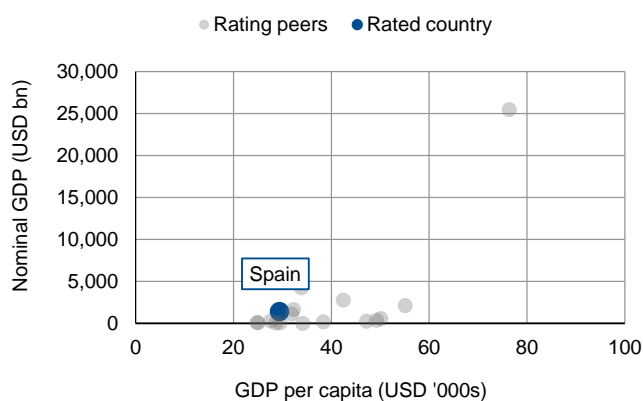
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Spain's *Domestic Economic Risk*

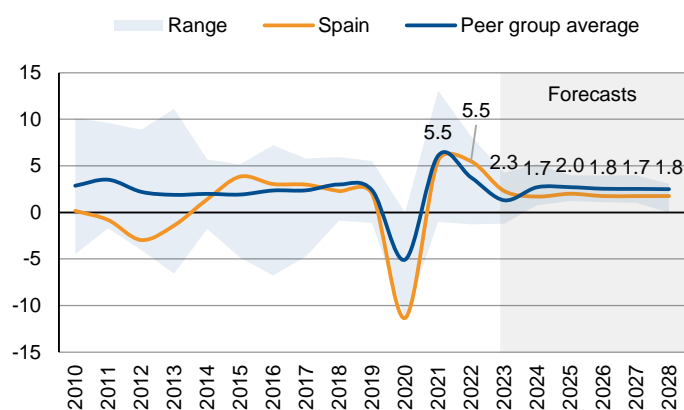
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Growth potential of the economy	Neutral	0	Moderate growth potential, but medium-term improvements likely due to recovery plan
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macro-economic stability and sustainability	Neutral	0	Large and diversified economy

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



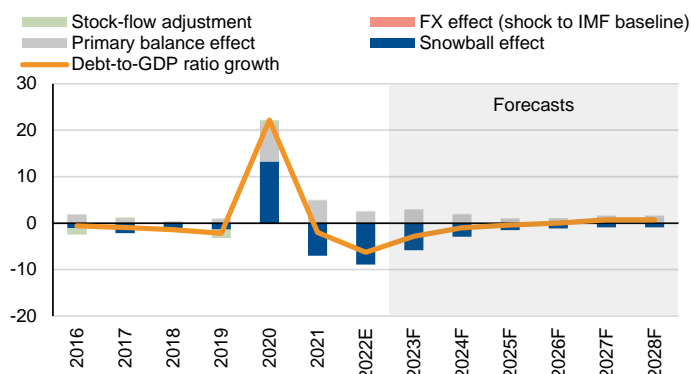
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Spain's *Public Finance Risk*

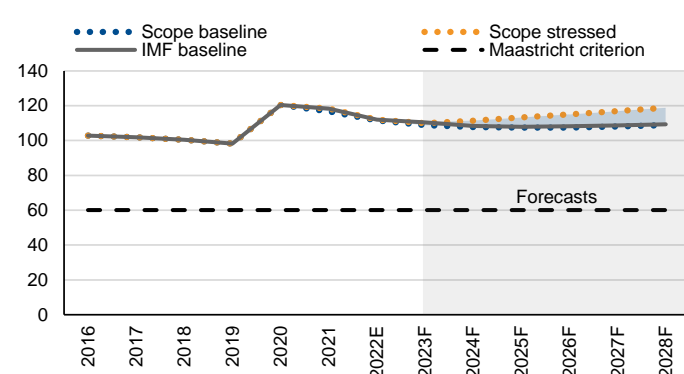
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Fiscal policy framework	Neutral	0	Solid revenue growth; long-term budgetary pressures resulting from population ageing
	Debt sustainability	Neutral	0	Debt to remain elevated over medium term; moderate but gradually increasing interest burden
	Debt profile and market access	Neutral	0	Strong market access and solid investor base; safe debt composition with large central bank holdings

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



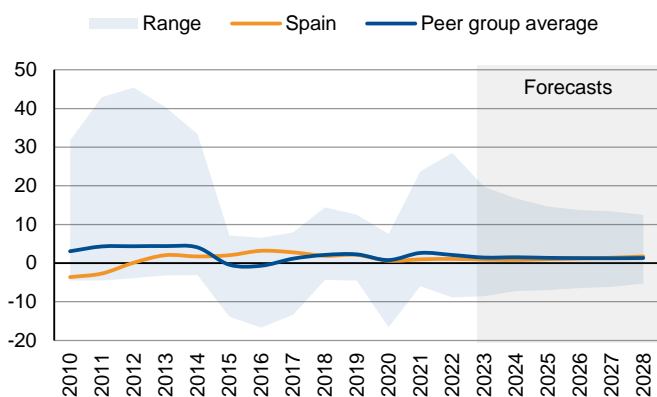
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Spain's *External Economic Risk*

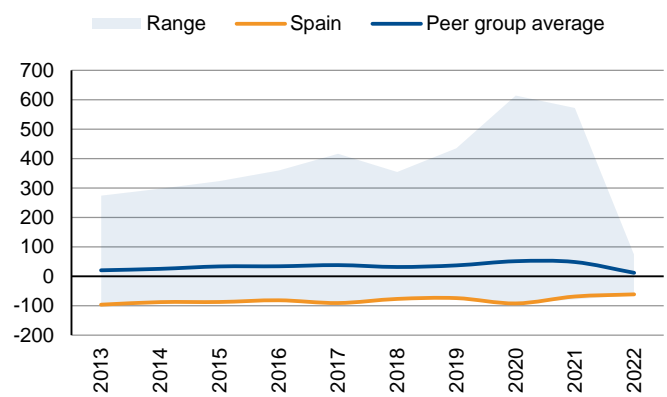
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Current account resilience	Neutral	0	Strong recovery in tourism exports; resilience in non-tourism and non-energy trade surplus
	External debt structure	Neutral	0	Elevated debt stock, with meaningful shares by the government and central bank
	Resilience to short-term external shocks	Neutral	0	Euro area membership shields against short-term external shocks

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



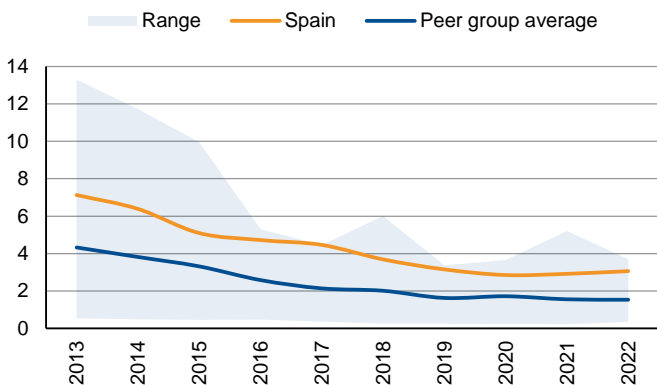
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Spain's *Financial Stability Risk*

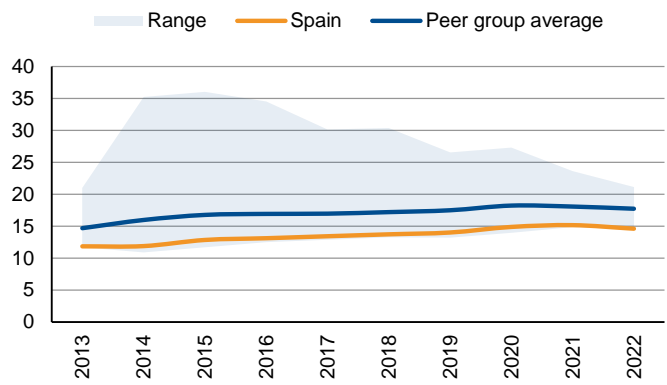
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Banking sector performance	Neutral	0	Banking-system capitalisation remains sound, improvements in profitability
	Banking sector oversight	Neutral	0	Effective oversight under European Banking Union authorities and the Bank of Spain
	Financial imbalances	Neutral	0	Private sector deleveraging process

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



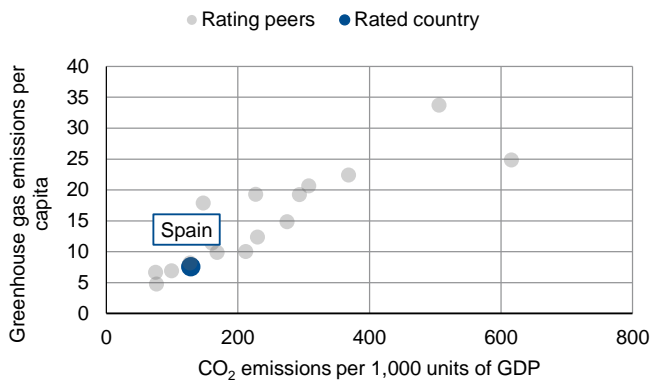
Source: IMF, Scope Ratings

ESG Risk

Overview of Scope's qualitative assessments for Spain's ESG Risk

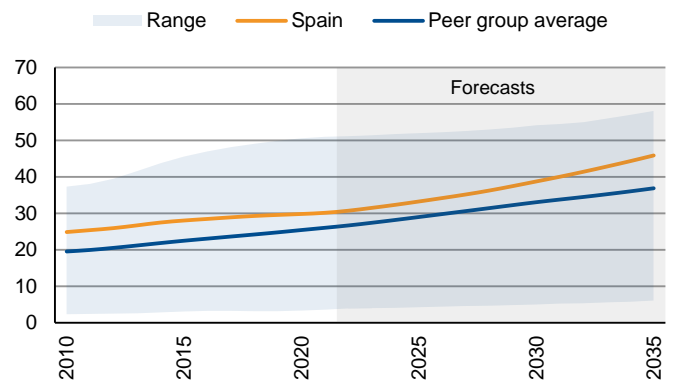
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Environmental factors	Neutral	0	Exposure to natural disasters; ambitious commitment to achieve carbon neutrality by 2050
	Social factors	Weak	-1/3	Adverse demographic trends; significant structural unemployment
	Governance factors	Neutral	0	Improvements in the labour market thanks to reforms

CO₂ emissions per GDP, mtCO₂e



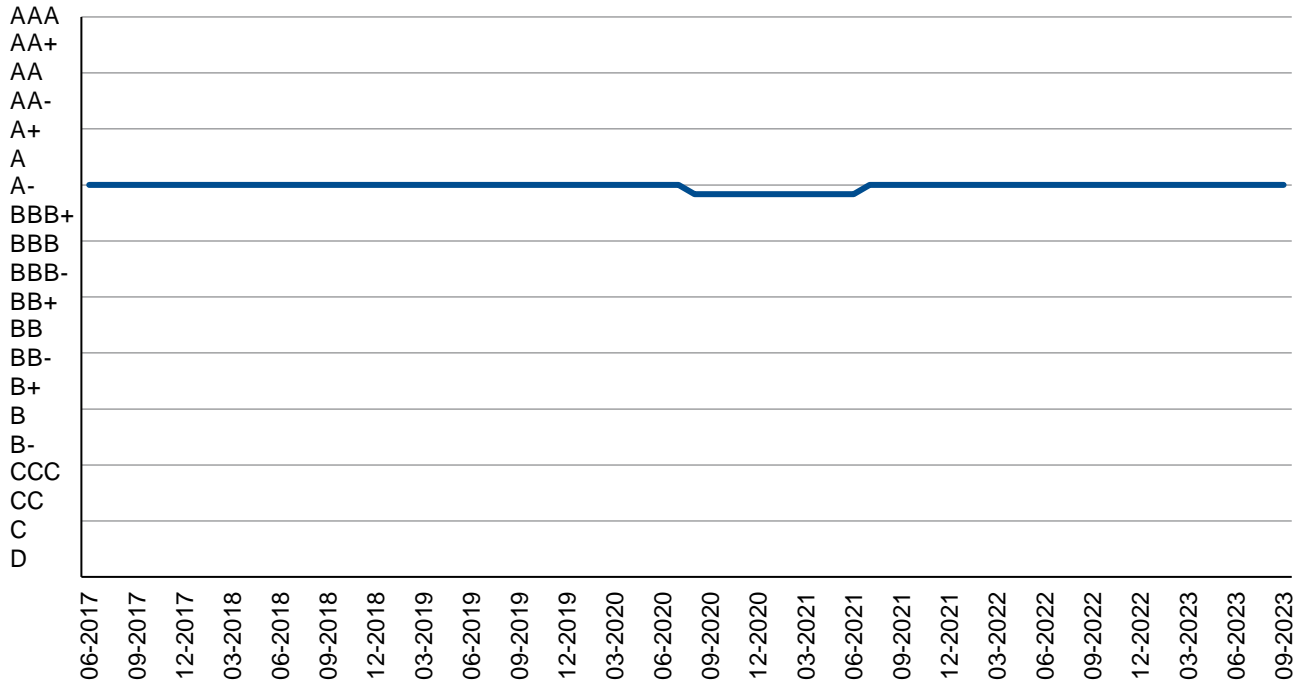
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, with Scope's core variable scorecard embedding a methodological reserve-currency adjustment.

Peer group*
Belgium
Czech Republic
Estonia
France
Japan
Lithuania
Malta
Slovenia
United States

Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	30.4	29.6	26.9	30.1	29.4
	Nominal GDP, USD bn	IMF	1,422.3	1,394.5	1,275.9	1,428.3	1,400.5
	Real growth, %	IMF	2.3	2.0	-11.3	5.5	5.5
	CPI inflation, %	IMF	1.7	0.8	-0.3	3.0	8.3
	Unemployment rate, %	WB	15.3	14.1	15.5	14.8	13.0
Public Finance	Public debt, % of GDP	IMF	100.4	98.2	120.4	118.4	112.0
	Net interest payment, % of revenue	IMF	5.6	5.2	4.9	4.5	4.6
	Primary balance, % of GDP	IMF	-0.4	-1.0	-8.1	-4.9	-2.5
External Economic	Current-account balance, % of GDP	IMF	1.9	2.1	0.6	1.0	1.1
	Total reserves, months of imports	WB	1.6	1.7	2.3	2.1	1.8
	NIIP, % of GDP	IMF	-76.7	-74.0	-92.1	-68.4	-61.1
Financial Stability	NPL ratio, % of total loans	IMF	3.7	3.2	2.9	2.9	3.1
	Tier 1 ratio, % of risk-weighted assets	IMF	13.5	13.7	13.7	14.8	14.9
	Credit to the private sector, % of GDP	WB	99.5	94.6	108.9	-	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	145.6	133.5	123.9	128.6	-
	Income share of bottom 50%, %	WID	21.1	21.0	21.1	21.1	-
	Labour-force participation rate, %	WB	74.1	74.2	72.3	73.8	-
	Old-age dependency ratio, %	UN	29.3	29.6	29.8	30.2	30.7
	Composite governance indicators*	WB	0.8	0.9	0.8	0.8	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 5 October 2023

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