

Kingdom of Spain

Rating report

Rating rationale

The revision of the Outlook on Spain's A- sovereign credit ratings to Positive from Stable reflects the following rating drivers:

Enhanced economic resilience: Spain's large and diversified economy has been able to weather the energy and inflation crisis, highlighting its comparative advantages and demonstrating a strong recent performance and positive labour market dynamics, supported by past labour market and pension reforms. The execution of Next Generation EU funds and increased investment contribute to robust GDP growth prospects. Material progress in strengthening Spain's competitiveness is driven by fundamental enhancements in its external position. An improving net international investment position, sustained private sector deleveraging, and status as a core euro area member, are supporting macroeconomic stability.

Strengthening fiscal fundamentals: The reinforcement of fiscal fundamentals is underscored by sustained revenue growth through expansion of affiliate enterprises and a restraint in spending growth. The projected enhancements in the primary balance are offsetting additional interest expenses. Public debt is characterised by a favourable profile, with the average cost of debt set to remain moderate compared to historical standards.

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

Figure 1: Spain's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	aa	EUR	Spain	0	A-
Public finance risk		20%	bb+			-1/3	
External economic risk		10%	b			0	
Financial stability risk		10%	aa			0	
ESG risk	Environmental factors	5%	bbb+	[+1]	[-0]	0	
	Social factors	7.5%	b-			- 1/3	
	Governance factors	12.5%	aa			0	
Sovereign Quantitative Model		a				-1	
Additional considerations						0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.
 **The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.
 ***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

A-/Positive

Senior unsecured debt

A-/Positive

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A-/Positive

Senior unsecured debt

A-/Positive

Short-term issuer rating/Outlook

S-1/ Stable

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Credit strengths and challenges

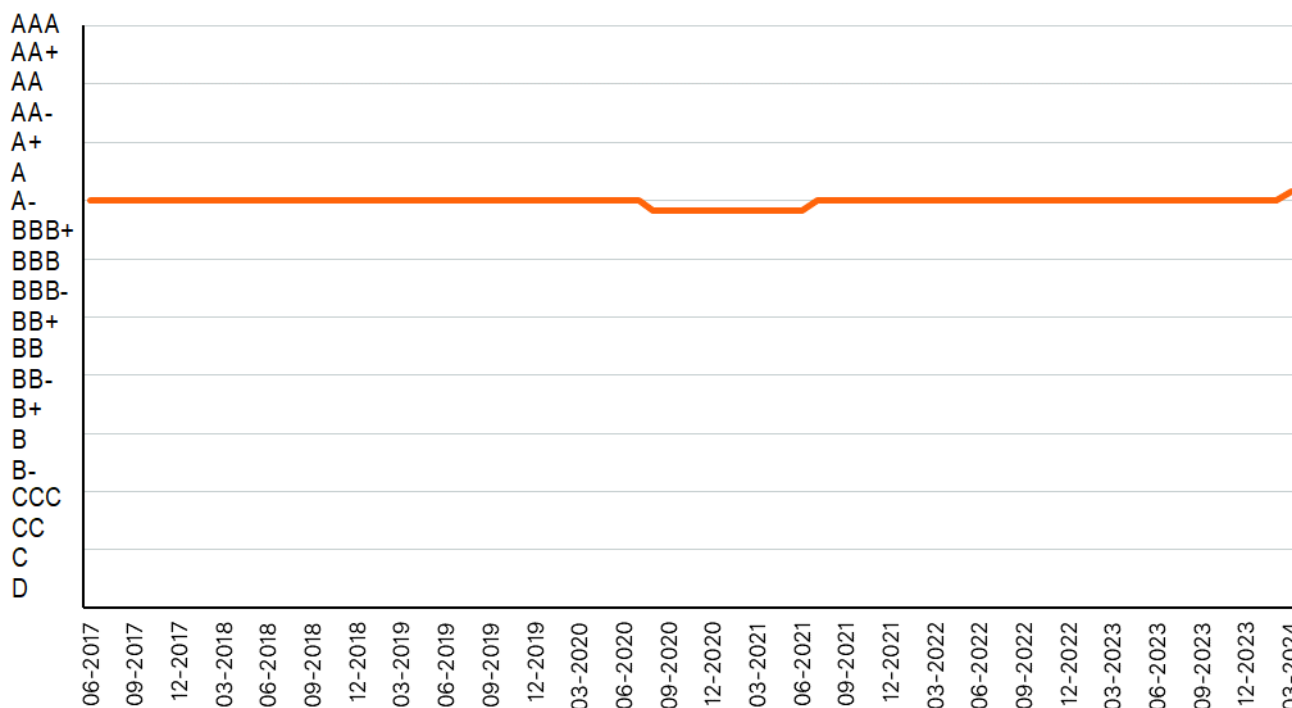
Credit strengths	Credit challenges
<ul style="list-style-type: none"> • Large, diversified economy • Favourable debt profile • Euro area membership 	<ul style="list-style-type: none"> • High public debt • Budgetary pressures resulting from ageing • Elevated structural unemployment

Outlook and rating triggers

The Positive Outlook reflects Scope's view that risks to the ratings are tilted to the upside over the next 12 to 18 months.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> • Growth prospects improve, surpassing our baseline projections, indicating, for example, increased potential growth • Improvement in public finances, putting public debt on a firm downward trajectory 	<ul style="list-style-type: none"> • Low economic growth or protracted fiscal deterioration reverse the trend of declining debt-to-GDP trajectory • An increase in domestic political risk materially deteriorates Spain's economic conditions and government finances

Figure 2: Rating history¹



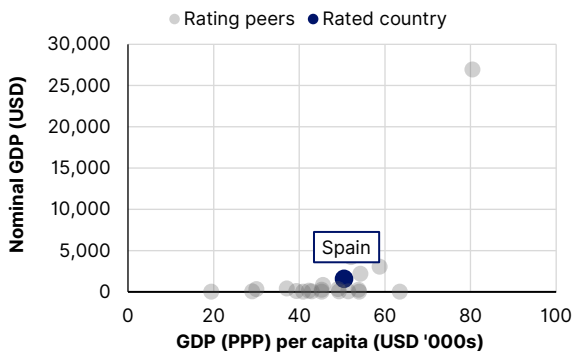
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Spain's Domestic Economic Risk

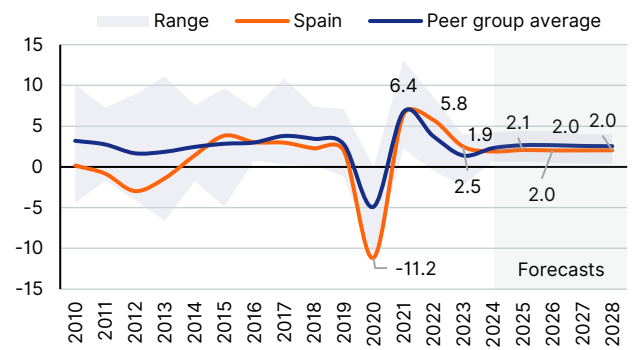
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Growth potential and outlook	Neutral	0	Moderate growth potential in line with peers
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank
	Macroeconomic stability and sustainability	Neutral	0	Large and diversified economy but still elevated unemployment

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



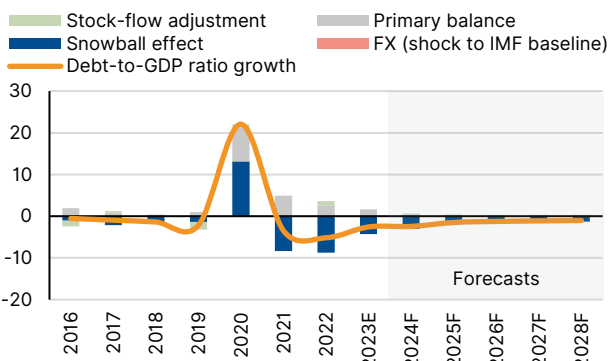
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Spain's Public Finance Risk

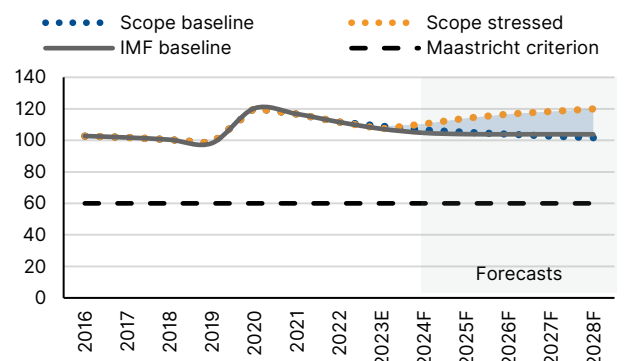
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Fiscal policy framework	Weak	-1/3	Long-term budgetary pressures resulting from population ageing; uncertainties regarding fiscal dynamics between the central government and regional administrations
	Long-term debt trajectory	Neutral	0	High public debt to decline slowly over medium term
	Debt profile and market access	Neutral	0	Strong market access and solid investor base; safe debt composition with large central bank holdings

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

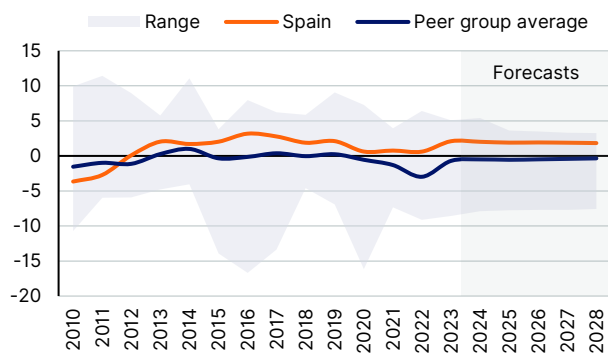
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Spain's External Economic Risk

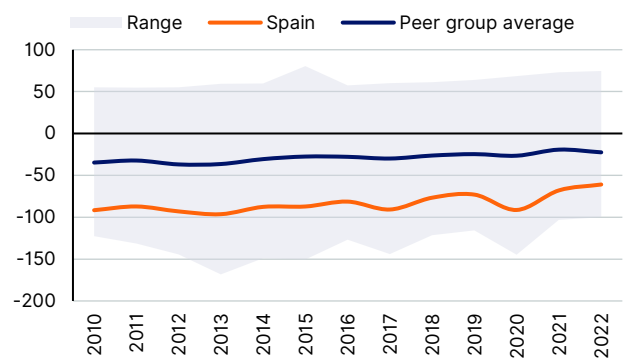
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Current account resilience	Neutral	0	Strong tourism exports; improving trade balance reflects enhancements in competitiveness
	External debt structure	Neutral	0	Ongoing external rebalancing; meaningful shares by the government and central bank
	Resilience to short-term external shocks	Neutral	0	Euro area membership shields against short-term external shocks

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



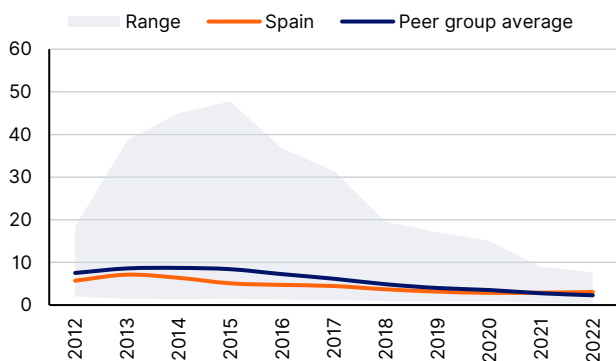
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Spain's Financial Stability Risk

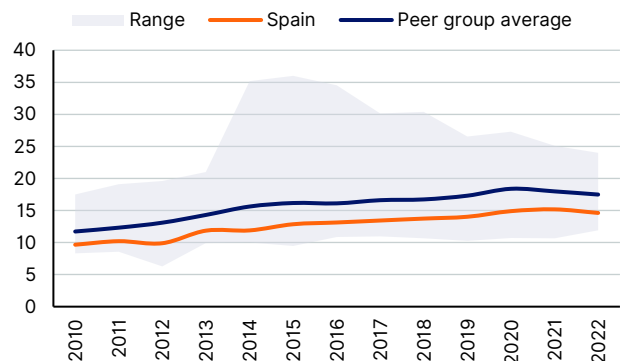
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Banking sector performance	Neutral	0	Banking-system capitalisation remains sound, improvements in profitability
	Financial sector oversight and governance	Neutral	0	Effective oversight under European Banking Union authorities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

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



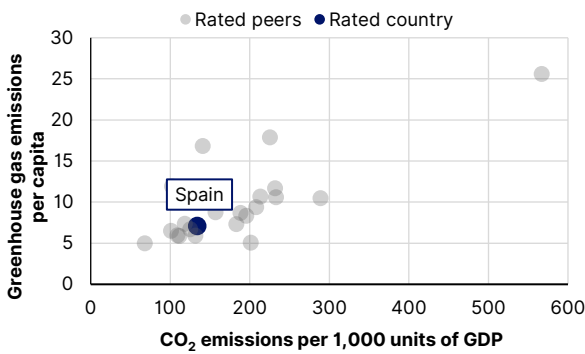
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

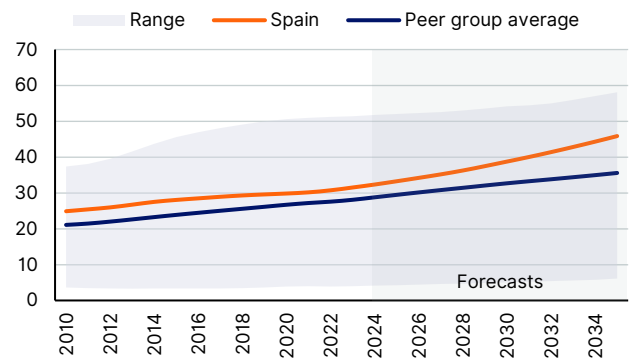
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Environmental factors	Neutral	0	Exposure to natural disasters; ambitious commitment to achieve carbon neutrality by 2050
	Social factors	Weak	-1/3	Adverse demographic trends; significant structural unemployment and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

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

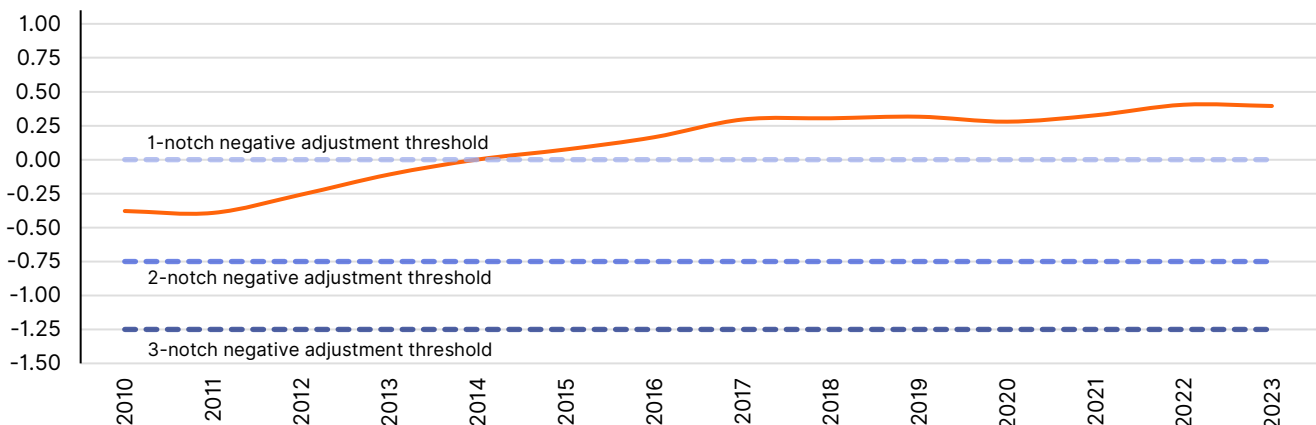
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Spain, 3-year moving average



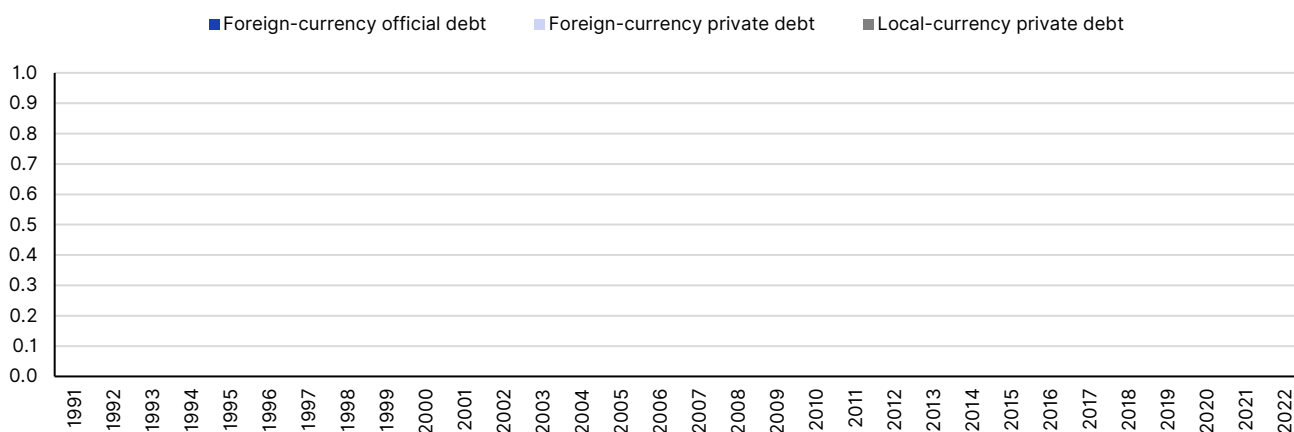
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada–Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
France
Italy
Portugal

* Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 19 March 2024	37

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	41.4	42.6	38.1	42.4	47.7	50.5
	Nominal GDP, USD bn	IMF	1,422	1,394	1,277	1,447	1,419	1,582
	Real growth, %	IMF	2.3	2.0	-11.2	6.4	5.8	2.5
	CPI inflation, %	IMF	1.7	0.8	-0.3	3.0	8.3	3.5
	Unemployment rate, %	WB	15.3	14.1	15.5	14.8	13.0	-
Public Finance	Public debt, % of GDP	IMF	100.4	98.2	120.3	116.8	111.6	107.3
	Net interest payment, % of government revenue	IMF	5.6	5.2	4.9	4.5	5.0	4.8
	Primary balance, % of GDP	IMF	-0.4	-1.0	-8.1	-4.8	-2.6	-1.8
External Economic	Current-account balance, % of GDP	IMF	1.9	2.1	0.6	0.8	0.6	2.1
	Total reserves, months of imports	WB	1.6	1.7	2.3	2.0	1.8	-
	NIIP, % of GDP	IMF	-76.7	-73.0	-91.3	-67.9	-60.9	-
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	14.8
	Credit to the private sector, % of GDP	WB	99.5	95.0	108.6	99.5	90.0	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	145.6	133.8	127.3	128.7	134.1	-
	Income share of bottom 50%, %	WID	20.7	20.5	21.4	19.3	19.3	-
	Labour-force participation rate, %	WB	73.7	73.8	72.3	73.8	-	-
	Old-age dependency ratio, %	UN	29.3	29.6	29.8	30.2	30.7	31.5
	Composite governance indicators*	WB	0.9	0.9	0.8	0.9	0.8	-
	Political stability, index	WB	0.3	0.3	0.4	0.5	0.3	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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