

Kingdom of Spain

Rating report

Rating rationale

Robust economic resilience: Spain's economic resilience is evidenced by a robust GDP growth, driven by increased economic diversification and positive labour market trends, bolstered by immigration and successful past reforms. Additionally, Spain's effective use of substantial Next Generation EU funds has enhanced its economic sustainability, positioning the country favourably against its peers and contributing to solid long-term growth prospects.

Sustained fiscal consolidation: Spain's budget deficit reduction is underscored by sustained revenue growth and a restraint in spending growth. These factors support steady improvements in the primary balance, offsetting moderate interest expense increases. The central government's strategy allows regional governments to maintain their fiscal positions without further tightening, supporting overall fiscal stability and policy implementation. The recent shift in Catalonia's government towards a closer alignment with national policies is likely to reduce fiscal uncertainties.

Still, the 2025 budget remains unapproved due to ongoing parliamentary frictions, with the government potentially being forced to extend again the 2023 budget, curbing the government's room for policy manoeuvre.

Rating challenges: i) still high public debt levels; ii) budgetary pressures stemming from long-term spending trends, notably from ageing dynamics; and iii) elevated unemployment

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 [+1] | Spain [-0] | 0 | A | |
| Public finance risk | 20% | bbb | | | - 1/3 | | |
| External economic risk | 10% | bb- | | | 0 | | |
| Financial stability risk | 10% | aa+ | | | 0 | | |
| ESG risk | Environmental factors | 5% | | | a | | 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/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

Local currency

Long-term issuer rating/Outlook

A/Stable

Senior unsecured debt

A/Stable

Short-term issuer rating/Outlook

S-1/Stable

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Credit strengths and challenges

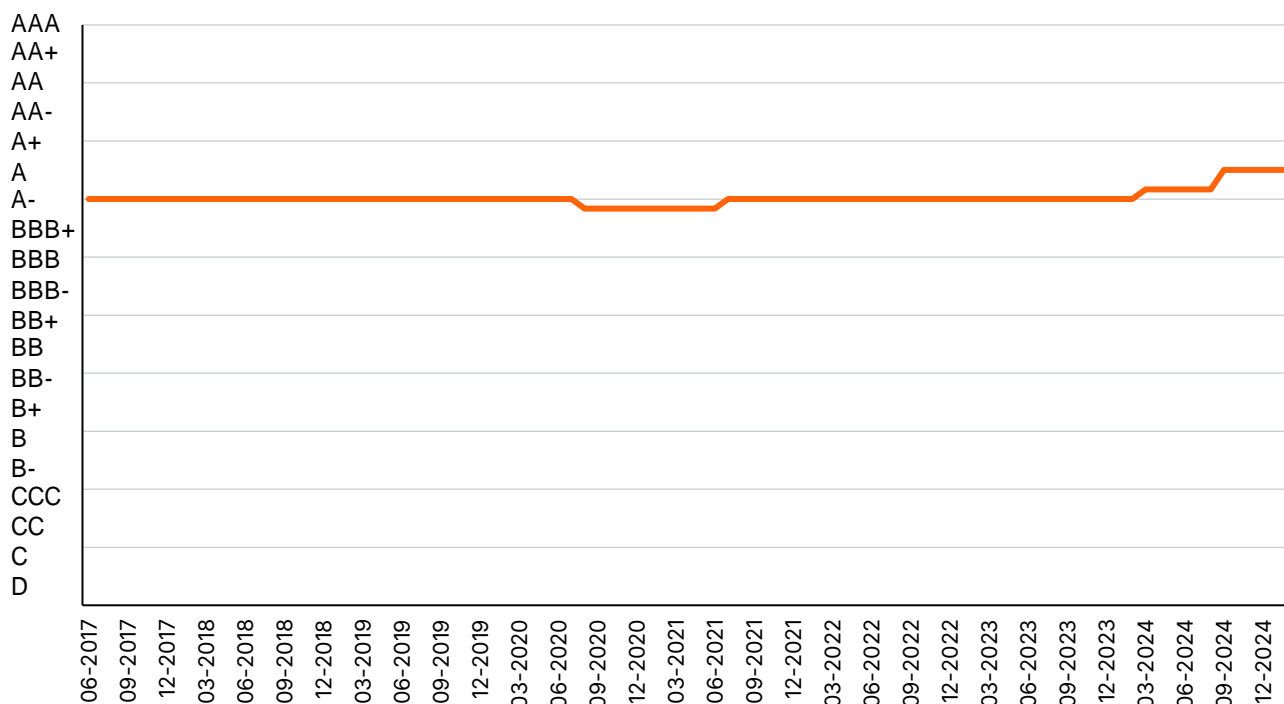
| Credit strengths | Credit challenges |
|---|---|
| <ul style="list-style-type: none"> Large, diversified economy Favourable debt profile Euro area membership | <ul style="list-style-type: none"> Still high public debt levels Budgetary pressures stemming from long-term spending trends, notably from ageing dynamics Elevated unemployment |

Outlook and rating triggers

The Stable Outlook represents our view that risks for the ratings are balanced.

| Positive rating-change drivers | Negative rating-change drivers |
|---|---|
| <ul style="list-style-type: none"> Marked improvement in external competitiveness resulting in a stronger external position Firm downward trajectory of government debt to GDP Sustained economic growth, for instance driven by improved labour markets and diversification into emerging sectors | <ul style="list-style-type: none"> Weaker economic growth or public finances, reversing the declining debt-to-GDP trajectory Higher domestic political risk, materially deteriorating Spain's economic conditions and public finances |

Figure 2: Rating history



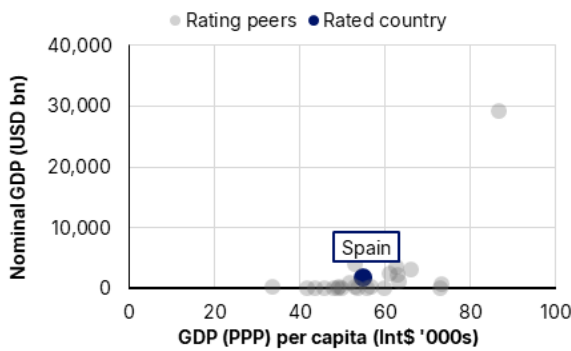
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

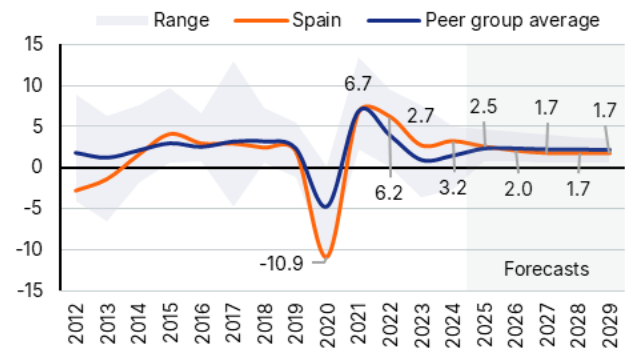
| SQM* indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|------------------------|--|------------|------------------|---|
| aa+ | Growth potential and outlook | Neutral | 0 | Moderate growth potential in line with peers |
| | Monetary policy framework | Neutral | 0 | ECB is a highly credible and effective central bank |
| | Macroeconomic stability and sustainability | Neutral | 0 | Large and diversified economy but still elevated unemployment; improvements in the labour market driven by recent reforms |

Figure 3: Nominal GDP and GDP per capita (2024E)



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

Figure 4: Real GDP growth, %



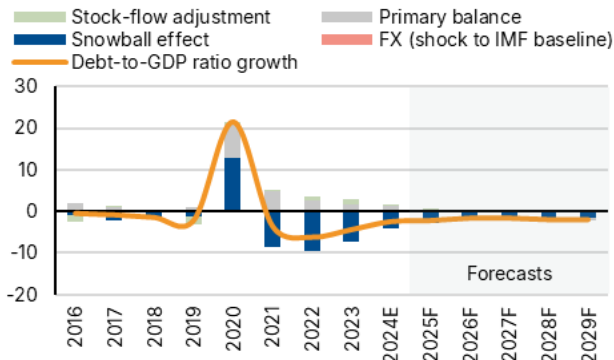
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

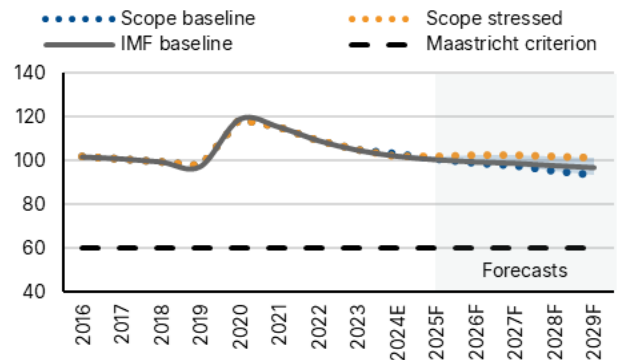
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--------------------------------|------------|------------------|---|
| bbb | Fiscal policy framework | Weak | -1/3 | Long-term budgetary pressures from pension costs; lingering uncertainties from fiscal dynamics between central government and regional administrations; no budget approved since 2023 |
| | Long-term debt trajectory | Neutral | 0 | High public debt to decline gradually 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

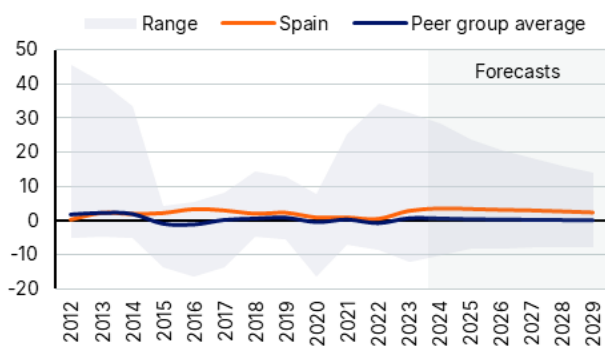
¹ Sovereign Quantitative Model

External economic risk

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

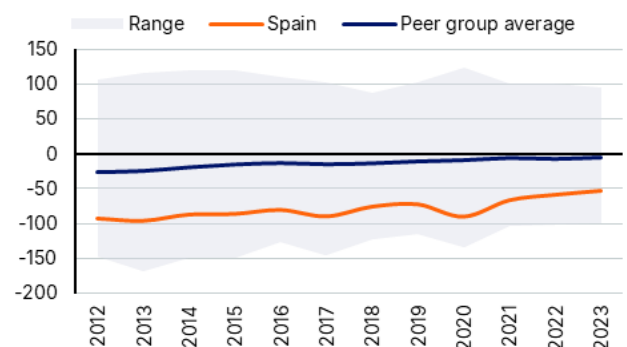
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--|------------|------------------|---|
| bb- | Current account resilience | Neutral | 0 | Improving trade balance and increased non-tourism exports reflect enhancements in competitiveness |
| | 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



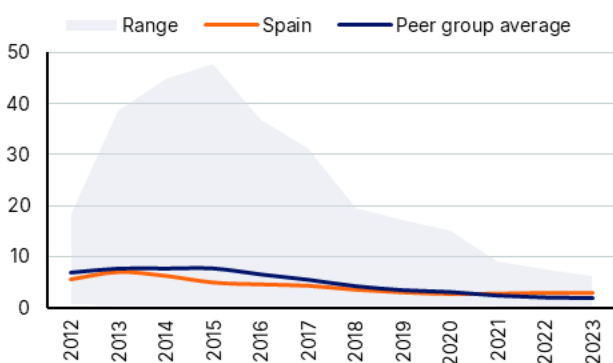
Source: IMF, Scope Ratings

Financial stability risk

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

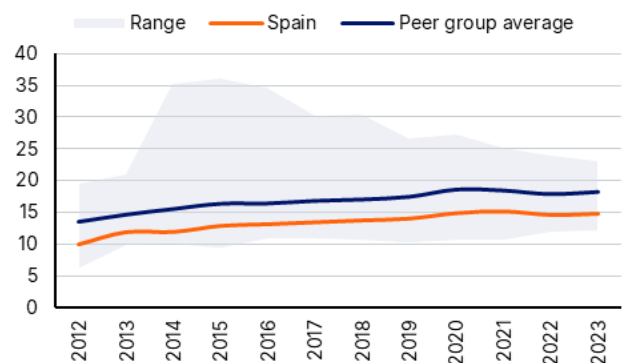
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|---|------------|------------------|--|
| aa+ | Banking sector performance | Neutral | 0 | Banking-system capitalisation remains sound, improvements in profitability |
| | Financial sector 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 ongoing, in line with euro area peers |

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

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



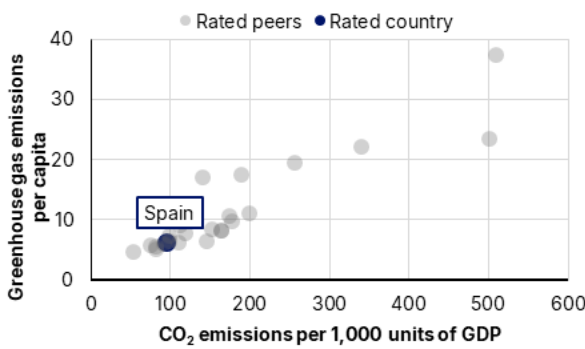
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

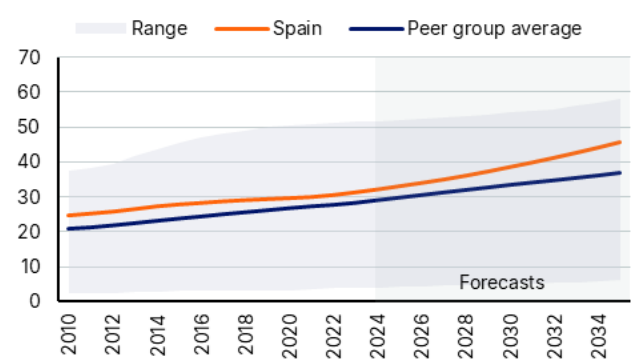
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|-----------------------|------------|------------------|--|
| bbb+ | Environmental factors | Neutral | 0 | Exposure to natural disasters; ambitious commitment to achieve carbon neutrality by 2050 |
| | Social factors | Weak | -1/3 | Significant structural unemployment and regional disparities, and low wages compared to rating peers |
| | Governance factors | Neutral | 0 | Minority government; improved relations with regions, including Catalonia; recent reform momentum |

Figure 11: CO₂ emissions per GDP, mtCO₂e (2023)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

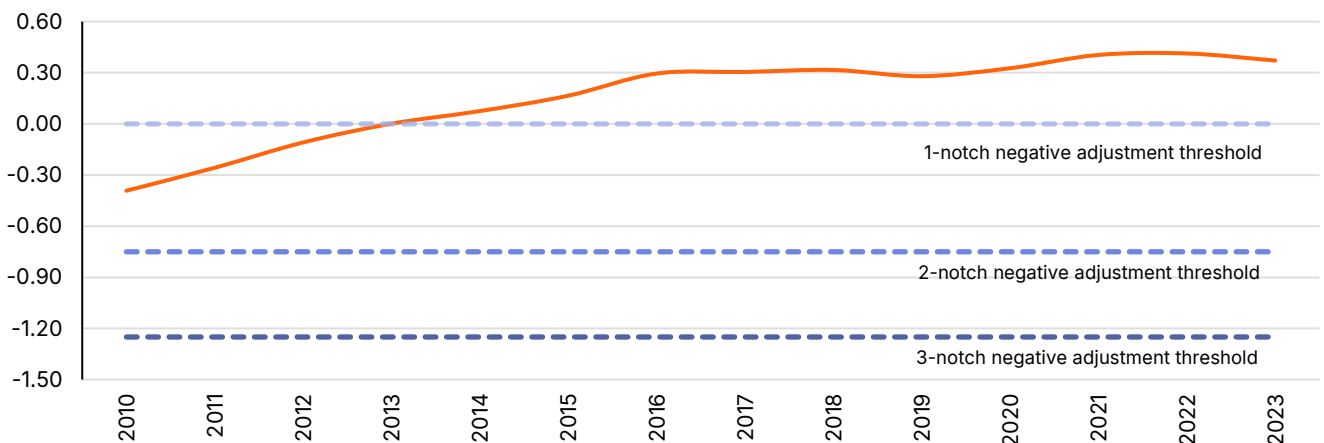
IMF SDR basket and Scope reserve-currency adjustment

| 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 13: WB Political Stability & Absence of Violence/Terrorism index, Spain, three-year moving average



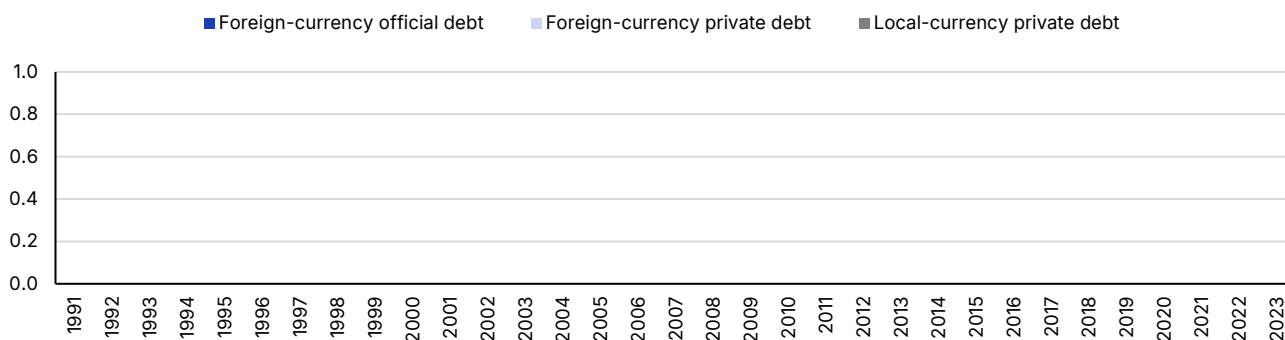
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the credit rating from additional considerations.

Appendix 1. Sovereign default history

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 2. 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* |
|-------------|
| Belgium |
| France |
| Italy |
| Poland |
| Portugal |
| Slovakia |
| Slovenia |

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

Appendix 3. Economic development and default indicators

| | |
|---|------------------|
| IMF Development Classification | Advanced economy |
| 5y USD CDS spread (bps) as of 10 January 2025 | 102 |

Appendix 4. 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 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E |
|---------------------|---|--------|-------|-------|-------|-------|-------|-------|
| Domestic Economic | GDP per capita (PPP), Int\$ '000s | IMF | 44.1 | 39.3 | 44.2 | 49.9 | 52.9 | 55.1 |
| | Nominal GDP, USD bn | IMF | 1,404 | 1,289 | 1,462 | 1,448 | 1,621 | 1,731 |
| | Real growth, % | IMF | 2.0 | -10.9 | 6.7 | 6.2 | 2.7 | 2.9 |
| | CPI inflation, % | IMF | 0.8 | -0.3 | 3.0 | 8.3 | 3.4 | 2.8 |
| | Unemployment rate, % | WB | 14.1 | 15.5 | 14.8 | 12.9 | 12.1 | - |
| Public Finance | Public debt, % of GDP | IMF | 97.6 | 119.2 | 115.6 | 109.4 | 105.0 | 102.3 |
| | Net interest payments, % of government revenue | IMF | 5.2 | 4.9 | 4.5 | 5.0 | 4.4 | 5.6 |
| | Primary balance, % of GDP | IMF | -1.0 | -8.0 | -4.7 | -2.5 | -1.7 | -0.6 |
| External Economic | Current-account balance, % of GDP | IMF | 2.1 | 0.8 | 0.8 | 0.4 | 2.7 | 3.4 |
| | Total reserves, months of imports | WB | 1.7 | 2.3 | 2.0 | 1.8 | 1.9 | - |
| | NIIP, % of GDP | IMF | -72.2 | -90.0 | -66.4 | -58.4 | - | - |
| Financial Stability | NPL ratio, % of total loans | IMF | 3.2 | 2.9 | 2.9 | 3.1 | 3.1 | - |
| | Tier 1 ratio, % of risk-weighted assets | IMF | 13.7 | 13.7 | 14.8 | 14.9 | 14.8 | 14.7 |
| | Credit to the private sector, % of GDP | WB | 95.0 | 108.6 | 99.5 | 90.0 | 80.3 | - |
| ESG | CO ₂ per EUR 1,000 of GDP, mtCO ₂ e | EC | 117.8 | 112.5 | 114.9 | 107.6 | 96.9 | - |
| | Income share of bottom 50%, % | WID | 21.3 | 22.2 | 20.1 | 20.1 | - | - |
| | Labour-force participation rate, % | WB | 73.8 | 72.3 | 73.8 | 74.1 | - | - |
| | Old-age dependency ratio, % | UN | 29.6 | 29.8 | 30.2 | 30.7 | 31.5 | 32.3 |
| | Composite governance indicators* | WB | 0.9 | 0.8 | 0.9 | 0.8 | 0.8 | - |
| | Political stability, index | WB | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 |

*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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Applied methodologies

[Sovereign Rating Methodology, January 2025](#)

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