

RATING ACTION COMMENTARY

Fitch Revises Outlooks on 8 Spanish LRGs to Positive; Affirms IDRs

Fri 15 Nov, 2024 - 5:03 PM ET

Fitch Ratings - Barcelona - 15 Nov 2024: Fitch Ratings has revised the Outlooks on the Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) of eight Spanish local and regional governments (LRGs) to Positive from Stable and affirmed their IDRs. A full list of rating actions is below.

Under applicable credit rating agency (CRA) regulations, the publication of local and regional governments reviews is subject to restrictions and must take place according to a published schedule, except where it is necessary for CRAs to deviate from this schedule in order to comply with the CRAs' obligation to issue credit ratings based on all available and relevant information and disclose credit ratings in a timely manner. Fitch interprets these provisions as allowing us to publish a rating review in situations where there is a material change in the creditworthiness of the issuer that we believe makes it inappropriate for us to wait until the next scheduled review date to update the rating or Outlook/Watch status.

The next scheduled review date for the ratings are listed below, but Fitch believes that the recent revision of Spain's Outlook warrants such a deviation from the calendar and our rationale for this is set out in the first part (High weight factors) of the Key Rating Drivers section below.

Autonomous Community of Basque Country: 22 November 2024

City of Barcelona: 20 December 2024

City of Pamplona: 20 December 2024

The next review dates for Autonomous Community of Cantabria, Autonomous Community of Catalonia, Autonomous Community of Castile-La Mancha, Autonomous Community of Madrid and Autonomous Community of Murcia will be in 2025.

KEY RATING DRIVERS

HIGH

The revision of the Outlooks reflects the recent revision of the Outlook on Spain's sovereign rating on 8 November 2024 ("Fitch Revises Spain's Outlook to Positive; Affirms IDR at 'A-' " on [fitchratings.com](https://www.fitchratings.com)).

The City of Barcelona's Standalone Credit Profile (SCP) is 'aaa' and its ratings are currently capped by the sovereign rating. This reflects the high influence the central government has on its finances and responsibilities. If the sovereign rating was upgraded to 'A', it would lead to an upgrade of Barcelona's ratings.

The ratings of Spanish Autonomous Communities under the common regime factor in a very high likelihood of support from the Spanish central government. Their IDRs result from a combination of their SCP, which measures individual credit strength, the sovereign's rating as a measure of the central government's ability and capacity to support the LRG, and Fitch's view of the likelihood of ad hoc support from the central government in case of need, through liquidity mechanisms to refinance debt.

According to our rating support approach, a one-notch upgrade of Spain would lead to a one-notch upgrade of the Autonomous Communities of Cantabria, Catalonia, Castile-La-Mancha and Murcia, all other things unchanged. As a result, their Outlooks now mirror that on Spain.

For the Autonomous Community of Madrid, a one-notch upgrade of Spain would lead to an upgrade of its ratings if we revise its SCP upward, which we view as likely. Stronger revenue growth prospects could lead us to reassess its Risk Profile to 'High Midrange' from 'Midrange', allowing for an SCP in the 'a' category. As a result, its Outlooks are also Positive.

Basque Country benefits from special legal status and is currently rated above the sovereign rating. Basque Country's SCP is currently 'a+', two notches above Spain, and its rating is constrained at one notch above Spain, according to our LRG criteria. If Spain was upgraded by one notch, the region could still be rated one notch above Spain, at the same level as its SCP. This is why its Outlook is now Positive and reflects that on Spain.

The city of Pamplona's SCP is 'aaa' and its ratings are capped by Fitch's credit view on Navarra (unrated), as it is not dependent on central government transfers, but on transfers from Navarra. The Positive Outlook now reflects that of our credit view on Navarra.

LOW

The LRGs' other key rating drivers, namely risk profiles, financial profile and consequently SCPs, are unchanged.

For other key rating drivers see the latest published rating action commentary for each entity.

DERIVATION SUMMARY

The SCPs of Spanish Autonomous Communities under the common regime reflect the combination of 'Midrange' risk profiles and 'a' financial profile for Madrid, 'bbb' for Cantabria, Catalonia and 'bb' for Castile-La Mancha and Murcia.

The Autonomous Communities' IDRs incorporate an uplift from their respective SCP driven by expectation of ad hoc support from the state, which could reach a maximum six-notch uplift for Autonomous Communities with an SCP of 'b-' or 'b', which are therefore rated 'BBB-'. The uplift for the remaining entities varies from one to five notches, which leads to ratings between 'BBB' and 'A-'.

Barcelona's 'aaa' SCP reflects the combination of a 'High-Midrange' risk profile and a 'aaa' financial profile. The IDRs are capped by the sovereign's and are therefore below the city's SCP.

Basque Country's SCP is 'a+', reflecting a 'High Midrange' risk profile and a financial profile in the 'a' category. The SCP is two notches above the sovereign IDR. Under Fitch's criteria, this results in the Basque Country's IDRs being one notch higher than those of the sovereign because of the LRG's financial and fiscal autonomy under the Spanish constitution.

Pamplona's 'aaa' SCP reflects a 'High Midrange' risk profile and a 'aaa' financial profile. As a result of its special status in Spain, Pamplona can be rated above the sovereign and its IDRs are capped by Fitch's credit view of Navarra.

All Short-Term Foreign-Currency IDRs have been affirmed. The ratings of all short- and long-term senior debt instruments have been affirmed as they are aligned with the Short- and Long-Term IDRs.

No other rating factors affects the ratings.

KEY ASSUMPTIONS

Qualitative Assumptions and Assessments and weight in the rating decision:

- Risk Profile: Midrange (Cantabria, Castile-La Mancha, Catalonia, Madrid and Murcia), High-Midrange (Barcelona, Basque Country and Pamplona), unchanged with low weight
- Revenue Robustness: Midrange (Barcelona, Cantabria, Castile-La Mancha, Catalonia, Madrid, Murcia and Pamplona), Stronger (Basque Country), unchanged with low weight
- Revenue Adjustability: Midrange (Basque Country, Cantabria, Castile-La Mancha, Murcia and Pamplona), Stronger (Barcelona, Catalonia and Madrid), unchanged with low weight
- Expenditure Sustainability: Midrange (Basque Country, Cantabria, Castile-La Mancha, Catalonia, Madrid and Murcia), Stronger (Barcelona and Pamplona), unchanged with low weight
- Expenditure Adjustability: Midrange (Basque Country, Cantabria, Castile-La Mancha, Catalonia, Madrid, Murcia and Pamplona), Stronger (Barcelona), unchanged with low weight
- Liabilities and Liquidity Robustness: Midrange (Cantabria, Castile-La Mancha, Catalonia and Murcia), Stronger (Barcelona, Basque Country, Madrid and Pamplona), unchanged with low weight
- Liabilities and Liquidity Flexibility: Midrange, unchanged with low weight
- Financial Profile: 'aaa' (Barcelona and Pamplona), 'a' (Basque Country, Madrid), 'bbb' (Cantabria and Catalonia), 'bb' (Castile-La Mancha and Murcia), unchanged with low weight
- Budget Loans (Notches): N/A, unchanged with low weight
- Ad-Hoc Support (Notches): 'N/A' (Barcelona, Basque Country and Pamplona), unchanged with low weight/ +1 (Madrid), +3 (Cantabria), +4 (Catalonia), +5 (Castile-La Mancha and Murcia), improved with high weight
- Asymmetric Risks (Notches): N/A, unchanged with low weight
- Floor: N/A, lowered with high weight

-Sovereign Cap: N/A (Cantabria, Castile-La Mancha, Catalonia, Madrid and Murcia), unchanged with low weight / A- (Barcelona) and A (Basque Country and Pamplona), improved with high weight

-Sovereign Cap (Local Currency): N/A (Cantabria, Castile-La Mancha, Catalonia, Madrid and Murcia), unchanged with low weight / A- (Barcelona) and A (Basque Country and Pamplona), improved with high weight

Quantitative assumptions - issuer-specific

For quantitative assumptions (issuer-specific) see the latest published rating action commentary for each entity. There were no changes since last review and all have low weights in the rating action.

Quantitative assumptions - Sovereign Related

Figures as per Fitch's sovereign actual for 2023 and forecast for 2026, respectively (no weights and changes since the last review are included as none of these assumptions was material to the rating action).

-GDP per capita (US dollar, market exchange rate): 33,393; 38,268

-Real GDP growth (%): 2.7; 2.0

-Consumer prices (annual average % change): 3.4; 2.0

-General government balance (% of GDP): -3.5; -2.9

-General government debt (% of GDP): 105.1; 101.9

-Current account balance plus net FDI (% of GDP): 2.9; 2.7

-Net external debt (% of GDP): 52.0; 45.2

-IMF Development Classification: Developed Markets

-CDS Market Implied Rating: A

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating

Action/Downgrade

-The Outlooks on the LRGs would be revised back to Stable if the Outlook on the sovereign was revised to Stable, all other factors being equal.

-The Outlook on the Autonomous Community of Madrid would be revised to Stable if an upward revision of its SCP became unlikely.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of the Autonomous Community of Madrid would be triggered by both an upgrade of the sovereign rating and upward revision of its SCP to the 'a' category triggered by either an improvement in its Risk Profile or an economic liability burden below 70%.

-For all other entities, an upgrade of the sovereign would be reflected in their ratings, all other factors being equal.

For entity-specific rating sensitivities, see the individual rating action commentaries at www.fitchratings.com

Sources of Information

Committee date: 14 November 2024

There was an appropriate quorum at the committee and the members confirmed that they were free from recusal. It was agreed that the data was sufficiently robust relative to its materiality. During the committee no material issues were raised that were not in the original committee package. The main rating factors under the relevant criteria were discussed by the committee members. The rating decision as discussed in this rating action commentary reflects the committee discussion.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The City of Pamplona's ratings are linked to our credit view on the Autonomous Community of Navarra.

The ratings of the other seven entities are linked to those of Spain.

ESG CONSIDERATIONS

Catalonia has an ESG Relevance Score of '4' for Political Stability and Rights, which reflects higher political risk than other autonomous communities due to tensions with the central government. It is likely to remain a key factor for Catalonia's credit quality, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			PRIOR ⇅
Madrid, Autonomous Community of	LT IDR	A- Rating Outlook Positive		A- Rating Outlook Stable
	Affirmed			
	ST IDR	F1	Affirmed	F1
senior unsecured	LC LT IDR	A- Rating Outlook Positive		A- Rating Outlook Stable
	Affirmed			
senior unsecured	LT	A-	Affirmed	A-

Castile-La Mancha, Autonomous Community of	LT IDR	BBB- Rating Outlook Positive		BBB- Rating Outlook Stable
	Affirmed			
	ST IDR	F3	Affirmed	F3
	LC LT IDR	BBB- Rating Outlook Positive		BBB- Rating Outlook Stable
	Affirmed			
senior unsecured	LT	BBB-	Affirmed	BBB-
Catalonia, Autonomous Community of	LT IDR	BBB Rating Outlook Positive		BBB Rating Outlook Stable
	Affirmed			
	ST IDR	F2	Affirmed	F2

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[International Local and Regional Governments Rating Criteria \(pub. 17 Aug 2024\)](#)
(including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

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Barcelona, City of

EU Issued, UK Endorsed

Pamplona, City of

EU Issued, UK Endorsed

Basque Country, Autonomous Community of

EU Issued, UK Endorsed

Cantabria, Autonomous Community of

EU Issued, UK Endorsed

Madrid, Autonomous Community of	EU Issued, UK Endorsed
Murcia, Autonomous Community of	EU Issued, UK Endorsed
Catalonia, Autonomous Community of	EU Issued, UK Endorsed
Castile-La Mancha, Autonomous Community of	EU Issued, UK Endorsed

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