

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's affirms the ratings of 7 Spanish sub-sovereigns with stable outlooks

10 Sep 2021

Madrid, September 10, 2021 -- Moody's Public Sector Europe (Moody's) has today affirmed the long-term issuer ratings of the Basque Country, the Diputacion Foral de Bizkaia, the City of Barcelona, the Comunidad Autonoma de Galicia, the Comunidad Autonoma de Madrid, the Junta de Andalucia and the Junta de Extremadura. All rating outlooks remain stable.

The affirmation of the seven Spanish sub-sovereign ratings reflects Moody's expectation that the strong economic recovery in the country and significant EU and government transfers will largely mitigate the fiscal impact of the pandemic on the regions' finances, leading to gradually improving operating performances. Although Moody's expects a gradual decline in their debt burdens in the next two to three years, most regions will continue to exhibit very high debt-to-revenue ratios, thus limiting the fiscal space to absorb any future budget pressure.

A full list of affected ratings is provided towards the end of this press release.

#### RATINGS RATIONALE

##### RATIONALE FOR THE AFFIRMATIONS OF THE BASQUE COUNTRY'S RATINGS AND THE DIPUTACION FORAL DE BIZKAIA'S RATING

Moody's decision to affirm the long-term issuer ratings of the Basque Country and that of the province of Bizkaia of A3 reflects these entities' unique and constitutionally protected tax regime, which enables them to retain sufficient credit strength to maintain their ratings one notch above that of the Government of Spain (Baa1 stable). These entities have a significantly higher fiscal flexibility than their national peers under the common regime. Also, these entities benefit from comfortable liquidity positions, which limits refinancing risks.

While the effects of the pandemic have been more acute for the Basque entities, which did not benefit from the safety net mechanism put in place by the national government to protect revenue for regions under the common regime, Moody's expects the Basque entities to restore their financial performance in the coming years, reflecting the rapid GDP growth expected in the region. Moody's forecasts that the Basque country's gross operating balance will represent around 8% of operating revenue in 2022 against 0.5% in 2020.

The A3 ratings of the two Basque entities combine Baseline Credit Assessments (BCA) of a3 with a high support assumption from the Government of Spain.

##### RATIONALE FOR THE AFFIRMATION OF CITY OF BARCELONA'S RATING

Moody's affirmation of Barcelona's Baa1 long-term issuer rating reflects its prudent budgetary management, high gross operating balance, low debt burden and strong liquidity. While Moody's expects a limited deterioration in the city's fiscal performance in 2021 due to COVID-related social expenses, the city should be able to rapidly restore its fiscal performance, in our view.

The city's Baa1 rating reflects the combination of the city's standalone credit profile, as reflected in its BCA of baa1, and Moody's assumption of a strong likelihood of extraordinary support from the Government of Spain.

##### RATIONALE FOR THE AFFIRMATIONS OF THE COMUNIDAD AUTONOMA DE GALICIA'S RATING AND THE COMUNIDAD AUTONOMA DE MADRID'S RATING

Moody's decision to affirm the Baa1 long-term issuer ratings for Galicia and Madrid, on par with the sovereign rating, reflects their resilience to the effect of the pandemic as evidenced by their strong fiscal and financial performance. Their deficits are well-controlled and their debt levels, although increasing, are expected to remain manageable and consistent with their current rating levels. While Madrid's debt-to-operating revenue ratio is expected to be higher than Galicia's, its economy is larger and highly diversified with higher shock absorption capacity (as evidenced by Madrid's debt-to-GDP ratio at around 16% in 2021, against 28% for the

regional sector). Both regions benefit from significant market access and limited interest payments (representing 3.5% of operating revenue for Madrid in 2021 and 1% for Galicia the same year).

The Baa1 ratings of these two regions reflect the combination of their standalone credit profiles of baa3, and Moody's assumption of a high likelihood of extraordinary support from the Government of Spain.

#### RATIONALE FOR THE AFFIRMATIONS OF THE JUNTA DE ANDALUCIA'S RATING AND EXTREMADURA'S RATING

The affirmations of the Baa2 long-term issuer ratings for Andalucia and Extremadura reflect the improvement in their fiscal positions over the last few years, which should continue in the following two to three years. With well controlled debt levels, expected at around 116% and 107% of operating revenue in 2021 for Andalucia and Extremadura, respectively, their debt burden will be significantly lower than the regional average at 180% expected for 2021.

The Baa2 rating for the Junta de Extremadura reflects the combination of the region's standalone credit profile, as reflected in its BCA of ba2, and Moody's assumption of a high likelihood of extraordinary support from the Government of Spain.

Andalucía's Baa2 ratings is the combination of its ba1 BCA and Moody's assumption of a high likelihood of extraordinary support from the Government of Spain. Moody's has upgraded the BCA of Andalucia to ba1 from ba2, which reflects the improvement in the region's fiscal position in recent years -- which we expect it will continue -- with a consistent positive GOB, low financing deficits and a declining debt burden. Its GOB should represent approximately 5% of operating revenue on average over the next two years, while its net direct and indirect debt would represent approximately 113% of its revenue by 2023. Andalucia's liquidity profile has been improving, and the region now benefits from well-diversified funding sources.

#### RATIONALE FOR THE STABLE OUTLOOKS

The stable outlooks reflect the following balance of upside and downside risks: while tax revenues will be boosted by the significant economic recovery expected in the country, there are significant risks of healthcare and social care expenditures adding to budget pressures in the coming years. While additional EU and government grants should mitigate these budget pressures, some regions might still face a significant net cost, and limited room for maneuver given their generally high debt levels.

The specific economic indicators, as required by EU regulation, are not available for these entities. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Spain, Government of

GDP per capita (PPP basis, US\$): 38,392 (2020 Actual) (also known as Per Capita Income)

Real GDP growth (% change): -10.8% (2020 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): -0.6% (2020 Actual)

Gen. Gov. Financial Balance/GDP: -11% (2020 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 0.7% (2020 Actual) (also known as External Balance)

External debt/GDP: [not available]

Economic resiliency: a2

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 07 September 2021, a rating committee was called to discuss the rating of the Andalucia, Junta de; Barcelona, City of; Basque Country (The); Bizkaia, Diputacion Foral de; Extremadura, Junta de; Galicia, Comunidad Autonoma de; Madrid, Comunidad Autonoma de. The main points raised during the discussion were: The issuers' economic fundamentals, including its economic strength, have materially increased. The issuers' institutions and governance strength, have not materially changed. The issuers' governance and/or management, have not materially changed. The issuers' fiscal or financial strength, including its debt profile, has not materially changed. The systemic risk in which the issuers operate has not materially changed.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The strengthening of Spain's credit profile, as reflected by an upgrade of the sovereign rating, would result in upward pressure on Spanish sub-sovereign ratings in general, and particularly on those ratings currently on par or above that of the sovereign. In addition, upward pressure would develop on sub-sovereigns currently rated below the sovereign, if their fiscal and financial performance were to improve, reflected in positive and growing gross operating balances, financing surpluses and a significant reduction in their debt burdens sustained over time.

A downgrade of Spain's sovereign rating leading to indications of weakening government support for the Spanish sub-sovereigns, or a deterioration in their fiscal performance, would likely lead to a downgrade of these seven entities' ratings.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

ESG considerations for these 7 Spanish sub-sovereigns are summarized as follows:

Environmental risks are material for the Junta de Andalucia and Extremadura. Andalucia's primary sector activity is exposed to droughts with a negative impact in water management. Extremadura's main environmental risk exposures relate to physical climate due to heatwaves affecting its agricultural sector. Other environmental aspects include floods, however, it is predominantly managed by national authorities in case of an emergency.

Social risks are material for all of these sub-sovereigns with the exception of the city of Barcelona, as we consider the coronavirus a social risk and Spanish regions are responsible for healthcare and social care -- social care is an important responsibility for the Diputacion Foral de Bizkaia. Moreover, Moody's considers that ageing population is a social risk for all Spanish sub-sovereigns.

In terms of Governance, these sub-sovereigns have demonstrated strong budget managements by implementing budgetary control plans. All these sub-sovereigns also provide transparent and timely financial reports.

## LIST OF AFFECTED RATINGS

Issuer: Andalucia, Junta de

..Affirmations:

....Long-term Issuer Rating, affirmed Baa2

....Senior Unsecured Medium-Term Note Program, affirmed (P)Baa2

....Senior Unsecured Regular Bond/Debenture, affirmed Baa2

..Outlook Action:

....Outlook remains Stable

Issuer: Barcelona, City of

..Affirmations:

....Long-term Issuer Ratings, affirmed Baa1

..Outlook Action:

....Outlook remains Stable

Issuer: Basque Country (The)

..Affirmations:

....Long-term Issuer Ratings, affirmed A3

....Senior Unsecured Regular Bond/Debenture, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Bizkaia, Diputacion Foral de

..Affirmation:

....Long-term Issuer Rating, affirmed A3

..Outlook Action:

....Outlook remains Stable

Issuer: Extremadura, Junta de

..Affirmation:

....Long-term Issuer Rating, affirmed Baa2

..Outlook Action:

....Outlook remains Stable

Issuer: Galicia, Comunidad Autonoma de

..Affirmation:

....Long-term Issuer Rating, affirmed Baa1

..Outlook Action:

....Outlook remains Stable

Issuer: Madrid, Comunidad Autonoma de

..Affirmation:

....Long-term Issuer Rating, affirmed Baa1

..Outlook Action:

....Outlook remains Stable

The principal methodology used in these ratings was Regional and Local Governments published in January 2018 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1091595](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1091595) . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1288435](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435).

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Marisol Blazquez  
Asst Vice President - Analyst  
Sub-Sovereign Group  
Moody's Investors Service Espana, S.A.  
Calle Principe de Vergara, 131, 6 Planta  
Madrid 28002  
Spain  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Marie Diron  
MD - Sovereign Risk  
Sub-Sovereign Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Espana, S.A.  
Calle Principe de Vergara, 131, 6 Planta  
Madrid 28002  
Spain  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

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