Creditreform Sovereign Rating

Creditreform Rating

Rating Object	Rating Information	
KINGDOM OF SPAIN	Assigned Ratings/Outlook: **A /stable**	Type: Monitoring, Unsolicited with participation
Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Initial Rating Publication Date: Rating Renewal: Rating Methodologies:	30-09-2016 14-06-2024 "Sovereign Ratings" "Rating Criteria and Definitions"

Contents

Rating Action

Neuss, 14 June 2024

Creditreform Rating has raised its unsolicited long-term sovereign rating on the Kingdom of Spain to "A" from "A-". Creditreform Rating has also raised Spain's unsolicited ratings for foreign and local currency senior unsecured long-term debt to "A" from "A-". The outlook is stable.

The rating upgrade on the Kingdom of Spain reflects

(i) its robust growth trajectory after the pandemic recovery, as well as continued outperformance of euro area growth lately, partly boosted by tourism and other service exports; we expect Spanish GDP growth to continue to exceed the economic expansion rate in the euro area this year and next;

(ii) ongoing tangible improvements in the labor market, and strengthening economic resilience on the back of recent and ongoing initiatives related to the Recovery, Transformation and Resilience Plan (RTRP), as well as on the back of receding external vulnerabilities, buttressing a positive medium-term growth outlook; and

(iii) growing confidence based on the above as regards a strengthening government revenue base and an ongoing favorable debt trend after the recent stronger-than-expected decrease in the public debt ratio - notwithstanding weakening debt affordability

Key Rating Drivers

1. Large and wealthy economy featuring a high level of competitiveness; alongside government measures to limit adverse effects from higher energy prices on the private sector, booming tourism and structural improvements of the labor market have contributed to robust growth rates following the setback from the pandemic; headwinds from tight financing conditions should abate in light of expected further monetary policy easing
2. We expect solid GDP growth this year and next, with a mild moderation next year as tourism could level off; progressing RTRP implementation should remain supportive to medium-term growth, with the pace of execution to be monitored; the challenging external environment regarding the various geopolitical crises continues to pose downside risks to economic growth
3. Strong institutional framework including the benefits linked to the integration into EU/EMU structures; the fragmented political landscape, and a minority government dependent on

support of a number of smaller parties with heterogeneous interests, hints at potential challenges to reaching majorities on political decisions

4. Whilst remaining on an elevated level, debt-to-GDP has markedly decreased since its pandemic high; we expect a further - albeit more gradual - decline this year and next, with the deficit assumed to see further reduction, although the current political fragmentation entails some uncertainty over this; repeated strong revenue growth is additionally driven by temporary factors
5. Vulnerabilities related to Spain's position as net international debtor persist, but have receded somewhat, with the negative NIIP continuing to improve over recent years, partly supported by recurrent current account surpluses, which we expect to continue

Reasons for the Rating Decision and Latest Developments[1]

Macroeconomic Performance

With regard to its macroeconomic profile, the large size of Spain's economy and its high wealth level remain key pillars for Spain's creditworthiness, and are added to by its competitiveness. Recent GDP growth outperformance as compared to that of the euro area was additionally driven by robust service exports, in particular vivid tourism-related exports. Strong employment dynamics have flanked this, and whilst some challenges remain, structural improvements on the labor market on the back of reforms initiated several years ago continue and are, e.g., reflected in a rising participation rate. Spain remains among the frontrunners in terms of the take-up of EU funds via the Recovery and Resilience Facility (RRF), and the envisaged reinforcement of investment via RRF funding in a broad range of fields supports, in our view, positive prospects with a view to medium-term economic development. We continue to see downside risks to growth from the unpredictable developments around the wars in Ukraine and the Middle East, which also includes risks for renewed bouts of commodity price spikes.

While moderating after the post-pandemic rebound, Spain's real GDP growth continued to surpass the total economic expansion of the euro area (EA) in 2023, coming in at 2.5% against 0.4% in the euro area, with increasingly dynamic quarter-on-quarter rates over the course of 2023. That said, compared to the respective pre-pandemic levels (2019), Spain's real GDP in 2023 was slightly below that of the euro area (2.5% vs. EA 3.3%). Moreover, whilst estimated to have risen by 5.8% y-o-y in 2023, and by 18.7% when set against 2019, Spain's GDP per capita stood at 89% of the EU level in 2023, compared to 91% in 2019 (PPP terms, IMF data).

Last year's GDP growth was broad-based, with private consumption delivering the largest growth contribution, backed by vivid employment growth and increasing wages. Export growth was supported by both by tourism and non-tourism-related exports. In the year 2023, the number of tourists increased by 18.9% y-o-y to roughly 85.1mn. With this, the respective number of the pre-pandemic year 2019 was exceeded by 2.0% (INE). Notwithstanding adverse effects from tight financing conditions, construction investment - including residential construction - continued to increase last year, whereas investment in machinery and equipment declined, leading to an overall weaker increase in gross fixed capital formation than in 2022.

[1] This rating update takes into account information available until 07 June 2024.

Positive developments continued in the current year's first quarter, with real GDP expanding by 0.7% q-o-q for a second consecutive period. Highlighting Spain's ongoing attraction as a holiday destination, the number of incoming tourists climbed by 14.5% y-o-y in the first four months of 2024. We expect private consumption to further expand this year, backed by sound labor market developments and moderating inflation rates, even though the latter have been higher than in the overall euro area level lately (Apr-24: 3.4% vs. EA 2.4%), having been well below the euro area average HICP inflation rate in 2023 (3.4% vs. EA: 5.4%).

Spain's relative cyclical strength is also reflected on the labor market, with the unemployment rate continuing its downward trend, temporarily interrupted by the corona crisis. Despite having declined to an average of 12.2% in 2023, the rate remains the highest in the EU. In monthly terms, overall unemployment decreased to 11.7% more recently (Mar-24, LFS-adj.). Meanwhile, employment growth accelerated last year, to 3.2% y-o-y, compared to 1.4% in the euro area (Eurostat, domestic concept), partly driven by migration flows from Latin America, and with markedly stronger dynamics in the second half of 2023 than reported for the euro area as a whole.

Apart from cyclical effects, we see evidence of progressive structural improvements on Spain's labor market, likely as a result of recent reforms. While still below the euro area level, labor participation has increased to 74.5% in 2023 (EA: 75.0%), reaching its highest level on current Eurostat records (2009). Notably, the share of temporary employment decreased significantly in 2023, moving considerably closer to the euro area level (2023: ES 14.6% vs. 12.5% in the EA). The rate of young people neither in employment nor in education has likewise continued to decline, as has the share of long-term unemployed, with both metrics still comparing as relatively high against EA members, but with the gap narrowing nevertheless.

With the Spanish authorities remaining committed to continuing to make use of both the grants and the loans channels of the RRF, investment should remain well-supported. In terms of disbursements of grants via the Recovery and Resilience Facility (RRF), Spain remains among the EU frontrunners, having received approximately EUR 37.04bn via three disbursements as of the end of 2023. The request for a fourth disbursement, associated with EUR 10.02bn in grants, was submitted in Dec-23.

We understand that there are plans to request a fifth and sixth tranche in 2024, although we see some downside risks related to the speed of policy implementation due to the fragmented political landscape. Having been modified, Spain's RTRP, including the REPowerEU chapter, now comprises a total of EUR 79.8bn in grants and EUR 83.2bn in loans. As of the end of Mar-24, roughly EUR 35.2bn of EUR 62.4bn in NGEU-funded calls had been resolved, according to the Ministry of Economy, Commerce and Business.

Adding to a constructive outlook for investment, negative effects via tight financing conditions look set to abate somewhat next year in light of expected further policy rate cuts. Against this backdrop, foreign demand could also accelerate somewhat, although the boom in tourism may begin to weaken at some point. At this stage, we expect Spain's real GDP to expand by 2.2% this year, and to decelerate somewhat to 1.8% in 2025, which should continue to represent an outperformance of euro area GDP growth.

Medium-term growth prospects remain, in our view, backed by the ongoing execution of the RTRP, notwithstanding the abovementioned risks of some slowdown. Potential growth was estimated to be at 1.7% last year, and could increase to 1.8% in 2024 and further to 2.0% in 2025

(AMECO data), comparing favorably with its long-term average (2004-2023: 1.3% p.a.) and with estimates for the euro area as a whole (2024e: 1.5%, 2025e: 1.4%). In addition, we think that private debt ratios, at their current levels, would offer some risk-absorbing capacity, following longer phases of deleveraging.

As mentioned above, labor market reforms over recent years, including the Employment Law (Law 3/2023 of February 28, 2023), which among other purposes aims to strengthen labor market activation policies and narrow structural gender gaps, partly address remaining challenges. Alongside continued advancements of the measures to drive the green and digital transformation, these should also be conducive to improving productivity growth. While Spain still trails the EU average both in terms of (nominal) productivity per hour worked (2023: 95.4%) and per person (2023: 97.0%), it has narrowed the gap over the last few years.

The European Commission's 2023 Digital Decade report points to significant progress made across all four dimensions considered (skills, infrastructure, digitalization of businesses and public services), highlighting e.g. that Spain is at the forefront of e-government and digital public services in the EU and one of the best performers when it comes to digital infrastructure. On the other hand, despite ongoing improvements, there remains marked scope to catch up when it comes to business investment in R&D compared with the euro area overall (2022: ES: 0.81% of GDP vs. EA: 1.50% of GDP).

Apart from that, the insolvency framework introduced in 2022 to facilitate restructuring of non-financial corporation debt may serve as a recent example of efforts to ultimately strengthen the business environment. Steps are also undertaken to address and better coordinate complex regulation hampering the business environment. Looking at indicators capturing broader non-cost competitiveness and innovation capabilities, Spain continues to occupy middle-range ranks among the EU members regarding the IMD global competitiveness index (2023: rank 36 out of an overall 64 economies) and the UN's Global Innovation Index (2023: rank 29 out of an overall 132 economies).

Illustrating Spain's increasing competitiveness in terms of service exports, the respective share in the global export market has increased to 2.60% in 2023, the highest since 2017. The overall share in global good and services exports rose to 2.00% last year. A modest development of real unit labor costs (2023 vs. 2022) adds to the favorable assessment, although the respective evolution over a five-year period (2023 vs. 2018) appears slightly less supportive.

Institutional Structure

Spain's credit rating remains buttressed by its high-quality institutional framework, which includes substantial benefits linked to its EU/EMU membership. The most recent vintage of the World Bank's Worldwide Governance Indicators (WGIs) largely confirms its institutional strength, with the outcome regarding the pillars we deem particularly relevant largely on par with the respective values of our 'A'-rated sovereigns. The political landscape remains fragmented, as also illustrated by the developments following the Jul-23 snap election. While coherent policymaking may prove challenging for the left-leaning minority government, and slower progress on rolling out the RTRP may not be ruled out, we think that commitment to follow through on further measures under the RTRP remains high.

Government formation following the Jul-23 snap election proved somewhat challenging given the fragmented political landscape. Despite a somewhat fragile basis of the ultimately emerging left-leaning minority government under prime minister Sanchez (PSOE), which has to rely on agreements with a number of regional parties, we expect ongoing commitment to follow through on further measures under the RTRP, although slower progress may not be ruled out in the current constellation. In light of some political concessions towards proponents of Catalan secessionist movements, including the recent controversial amnesty law approved by the parliament on 30 May-24, and against the backdrop that the May-24 snap election in Catalonia overall yielded weakened support for secessionist parties, dynamics around this issue will have to be monitored, but may have slowed down somewhat.

Adding to our favorable assessment of Spain's institutional quality, as also reflected by global comparisons of the four WGIs related to 'rule of law', 'control of corruption', 'government effectiveness' and 'voice and accountability', we note that recent reforms included in the Spanish Royal Decree-Law 6/2023, approved by the Congress in Jan-24, seem set to enhance the digital efficiency of Spain's judicial proceedings. The measures include the use of online platforms to conduct judicial procedures.

At the same time, tying in with challenges associated with the fragmented political landscape, we recall that the renewal of the General Council for the Judiciary, the body of judicial self-governance, drags on due to political deadlock, as also highlighted in the most recent EC rule of law report (Jul-23). The report also underscores possible adverse consequences on the work of the Supreme Court from prolonged inaction in this regard. Apart from that, desirable progress is also mentioned as regards strengthening the statute of the Prosecutor General, whereas steps towards legislation on lobbying have been undertaken.

Flanking important structural reforms undertaken in association with the RTRP, there are ongoing efforts to adapt to new technologies and address related risks, as illustrated by the recent government approval of the Artificial Intelligence Strategy 2024 (May-24) and entry into force of the Cybersecurity.

Spain's advancements regarding the green transition are partly visible in a rising share of energy from renewable sources, which in 2022 climbed to 22.1%, remaining somewhat below the EU average (EU: 23.0%, Eurostat). Half of the energy sources in gross electricity consumption (50.9%) were attributable to renewable sources in that year, comparing favorably with the EU (EU: 41.2%). Similarly, Spain emitted fewer greenhouse gases per head than the EU on average in 2022 (ES: 6.5 tons, EU: 7.8 tons), continuing a constant decrease over recent years.

Objectives pertaining to the green transformation for the year 2024 include the investment of more than EUR 1.6bn in short-distance railway lines (Draft Budgetary Plan 2024, DBP24). Generally, the strategic projects for economic recovery and transformation (PERTE) are reinforced with funds from the modified RTRP, among other things the PERTE for renewable energies, renewable hydrogen and energy storage (ERHA), as well as the PERTE for electric and connected vehicles (VEC).

Fiscal Sustainability

Spain's elevated debt-to-GDP ratio has resumed its downward movement following the temporary reversal prompted by the pandemic, continuing to decrease markedly in 2023 against the backdrop of pronounced nominal GDP growth and a lower deficit. We regard risks pertaining to fiscal sustainability as a credit weakness of the sovereign, currently additionally accentuated by uncertainty over fiscal consolidation due to a government constellation that appears fragile. While revenue is set to continue to receive an additional boost from temporary factors in the short term, we think that the *ongoing structural improvements on the labor market and envisaged improvements to the business environment should contribute to strengthening the revenue base in the medium-to-longer term. Revenue-to-GDP has recently moved closer to levels displayed by the other large euro area members. Defense and age-related spending look set to weigh on the expenditure side. Contingent liability risks associated with the banking sector continue to appear contained. Sound debt management, as well as the resulting favorable debt profile, remain mitigating factors as regards fiscal risks.*

Spain's fiscal deficit decreased to 3.6% of GDP in 2023 (2022: -4.7% of GDP), on the back of another strong increase in general government revenue (9.0% y-o-y), which exceeded the increase in government spending (6.3% y-o-y). Total revenue was spurred by tax intake and social security contributions, partly reflecting strong employment dynamics, higher social security contributions, as well as temporary measures such as a levy for financial corporations and energy utilities, currently under discussion to be made permanent.

On the expenditure side, public wages continued to post marked increases, while subsidies declined against 2022 due to lower costs of crisis support measures. Interest payments rose again considerably (+13.1% y-o-y), lifting the interest-to-revenue ratio to 5.7% (2.5% in terms of GDP). At this level, the interest-to-revenue ratio counts among the higher ones in the EU. The average cost of debt is set to continue to rise in the near term, further weakening debt affordability.

With an expected solid economic expansion this year and phasing out of energy support measures, as well as another boost from the levies on the banking sector and parts of the energy sector, and higher social security contributions in the wake of changes to the pension system, the general government deficit should come in lower than in 2023. Drawing on budget execution data from the finance ministry (cash terms), total tax revenue over the period Jan-Apr-24 was 7.3% above the respective period in 2023. At this stage, we expect the deficit to narrow to 3.0% of GDP in 2024 and slightly further to 2.7% in 2025.

We acknowledge pronounced uncertainty around any forecasts, in particular with a view to the volatile international context, somewhat added to by the challenging domestic political circumstances, which could influence policy implementation and the pace of envisaged consolidation. It has to be stressed that the government had extended the 2023 state budget to 2024 due to the political developments at home. Pension indexation and higher public wages thus look set to weigh on the fiscal outturn on the general government level. Apart from that, we would reiterate that revenue boosts seem to have partly occurred on the basis of special/temporary tax measures, and that structural spending pressure looks set to remain high, bearing in mind defense spending commitments and population ageing. A new multi-year consolidation path is to be presented this autumn under the new EU fiscal framework.

Notwithstanding the marked decline from the recent peak at 120.3% of GDP in the pandemic year 2020, chiefly on the back of strong nominal growth since then, Spain's public debt ratio remains high by European comparison, amounting to 107.7% of GDP in 2023 (EA: 88.6% of GDP). We forecast a more moderate decrease over 2024 and 2025, with debt-to-GDP reaching 105.2% of GDP and 104.5% next year, thus remaining above its pre-pandemic level of 98.2% of GDP.

Fiscal risks associated with contingent liabilities seem manageable at the current stage. The total stock of public guarantees stood at about EUR 27.4bn (DBP24), or about 1.9% of 2023 GDP. The banking sector continues to give a relatively sound impression, having dealt well with developments linked to recent monetary policy tightening, and maintains a comfortable liquidity position. Rising net interest income (2023: 22.4%, Banco de Espana) amid the pass-through of policy rates has been bolstering profitability. At the same time, the NPL ratio as an indicator capturing asset quality was stable at 2.8% as of Q4-23, representing a low level historically, whilst ranging among the higher ones in the EU (Q4-23: 1.9%, EBA data).

Outstanding credit volumes to the private sector have further declined, as tighter financing conditions have slowed loan demand, with the latter underscored for Spanish banks in Q1-24 by the latest ECB Bank Lending Survey (Apr-24). Loan volumes to NFCs decreased by 3.7% y-o-y as of Mar-24 (Mar-23: -0.7% y-o-y), while loans for house purchases posted a decline by 2.5% as of Mar-24 (Mar-23: -1.7% y-o-y). The share of stage 2 loans has edged up over 2023, but remained below the EU level as of Q4-23 (ES: 7.2% vs. EU: 9.6%, EBA data).

Developments on the housing market, meanwhile, point to an only limited slowing of the house price increases, which still stood at 4.3% y-o-y in Q4-23 (Q4-22: 5.5%), despite tighter financing conditions. Fundamental supply and demand factors continue to play a part in this. In this context, effects on housing supply from the caps on rents in tensioned residential areas, coming with the Housing Act 2023 in force since May-23, may have to be monitored.

Even though the most recent bank stress test suggested high loss-absorbing capacities of the banking sector, the ongoing uncertain international economic environment seems to caution for shoring up risk buffers, as the Banco de Espana (BdE) notes (May-24). In this context, we observe that the CET1 ratio of Spain's banking sector was the lowest among the EU members lately (ES Q4-23: 12.7%, EU: 16.0%, EBA data). According to BdE data for Q4-23, the CET1 ratio was at 13.2%. In the absence of a build-up of systemic vulnerabilities in the banking sector, BdE maintained the countercyclical buffer rate constant at 0% for Q2-24 (Mar-24). More generally, crypto assets could increasingly become a source for emerging risks to overall financial stability.

The yield on 10-year Spanish government bonds markedly declined from a peak in Oct-23 to the end of last year, against the backdrop of emerging rate cut speculations on financial markets amid a progressing deflationary process. More recently, as there is higher uncertainty over the pace of a monetary easing cycle amid slowing momentum of the disinflationary process, the yield on 10-year government bonds has slightly trended upward, standing at 3.39% as of 7 Jun-24 (weekly data). Following the ECB's first rate cut by 25bp this June, we expect two more cuts by 25bp each to follow by the end of 2024, also bearing in mind that the difference between the main refinancing rate and the deposit rate is to be lowered to 15bp from Sep-24.

In terms of fiscal risks related to population ageing, net effects of pension reform measures over the last few years, including the Mar-23 measures to reinforce the financial and social sustainability of the Spanish pension system, will have to be monitored alongside possible positive implications from higher labor participation of the elderly age cohorts. We note that the 2024 EU Ageing Report points to age-related spending pressure in the medium-to-longer term. Other than that, we reiterate our view that sound debt management and a relatively long average maturity of debt, standing at 7.92y as of 30 Apr-24 (Tesoro), remain mitigating factors with regard to fiscal risks.

Foreign Exposure

External vulnerabilities persist, but have been receding over recent years, as also reflected by continued improvements of Spain's negative net international investment position. Recurrent current ac-

count surpluses have contributed to that, but also significant deleveraging of the private sector. Downside risks in connection with the geopolitical situation and possible adverse developments of commodity prices remain in place.

While the recent succession of crises on the international level took its toll on the Spanish current account balance, the balance remained positive and recovered to 2.6% of GDP in 2023, mainly as energy prices were retreating. From its temporarily larger size, the goods deficit shrank back to -2.2% of GDP last year. At the same time, partly emphasizing the competitiveness of the service sector, in particular booming tourism, Spain's service surplus marked a new high at 6.4% of GDP.

Looking ahead, we expect the current account surplus in terms of GDP to remain of a similar magnitude as in 2023, assisted by impulses from tourism and more lively foreign demand in 2025. Repeated surplus positions should on trend continue to foster further improvement of Spain's NIIP, which last year came to -52.8% of GDP. This compares with a net position of -92.8% of GDP in 2013. Moreover, risks are partly mitigated by the composition of Spain's gross external debt, almost half of which (2023: 48.4%, BdE data) consists of general government debt and BdE liabilities. In addition, excluding non-defaultable instruments (NENDI), Spain's net external creditor position improved to -23.9% of GDP.

Rating Outlook and Sensitivity

Our rating outlook on the Kingdom of Spain's long-term credit ratings is stable. The outlook balances favorable medium-term growth prospects, backed by the implementation of RTRP measures, and Spain's institutional strengths, with fiscal and external vulnerabilities, with the latter having somewhat receded lately.

A positive rating action could be prompted by continued positive surprises regarding the growth performance, as well as by a firm downward trajectory of the public debt ratio. Unabated execution of the RTRP would seem conducive as well. A convincing fiscal consolidation strategy spurring expectations for sustainably improving public finances could be an additional trigger, possibly flanked by further receding external risks.

By contrast, we could consider a negative rating action, if medium-term prospects deteriorate materially, with adverse implications for the public debt ratio. Further escalation of the war in Ukraine and/or a widening of the military conflict in the Middle East, possibly including renewed shocks to commodity prices, might be part of such a scenario. A significant slowdown in the implementation of the RTRP and a respective delay of disbursements could add to downward pressure on the rating or the outlook as well.

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Ratings*

Long-term sovereign rating	A / stable
Foreign currency senior unsecured long-term debt	A / stable
Local currency senior unsecured long-term debt	A / stable

*) Unsolicited

ESG Factors

Creditreform Rating has signed the ESG in credit risk and ratings statement formulated within the framework of the UN Principles for Responsible Investment (UN PRI). The rating agency is thus committed to taking environmental and social factors as well as aspects of corporate governance into account in a targeted manner when assessing creditworthiness.

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In the following, we explain how and to what degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor, and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down key principles of the impact of ESG factors on credit ratings.

ESG Factor Box

Environ-mental Quality	Ecological Risks	Ressource Management	Education	Health	Demo-graphics
Labor	Equality	Technology & Infrastructure	Safety & Security	**Judicial system**	**Quality of Public Services**
Integrity of Public Officials	Quality and Efficacy of Regulations	**Civil Liber-ties/ Political Participation**	Market Access	Business Environment	Data Transparency

Environment	**Social**	**Governance**	**Highly significant**	**Significant**	**Less significant**	**Hardly significant**

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof.

While Covid-19 may exert adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing on public finances. To be sure, we will follow ESG dynamics closely in this regard.

Economic Data

[in %, otherwise noted]	2018	2019	2020	2021	2022	2023e	2024e
Macroeconomic Performance							
Real GDP growth	2.3	2.0	-11.2	6.4	5.8	2.5	2.2
GDP per capita (PPP, USD)	41,308	42,492	38,044	42,357	47,670	50,436	52,012
Credit to the private sector/GDP	111.2	105.6	111.7	97.6	88.6	85.6	n/a
Unemployment rate	15.3	14.1	15.5	14.9	13.0	12.2	n/a
Real unit labor costs (index 2015=100)	98.2	100.5	108.5	106.1	102.9	103.1	103.8
World Competitiveness Ranking (rank)	36	36	36	39	36	36	n/a
Life expectancy at birth (years)	83.5	84.0	82.4	83.3	83.2	84.0	n/a
Institutional Structure							
WGI Rule of Law (score)	1.0	1.0	0.9	0.8	0.8	n/a	n/a
WGI Control of Corruption (score)	0.6	0.7	0.7	0.7	0.7	n/a	n/a
WGI Voice and Accountability (score)	1.0	1.0	1.0	1.0	1.0	n/a	n/a
WGI Government Effectiveness (score)	1.0	1.0	0.9	0.9	0.9	n/a	n/a
HICP inflation rate, y-o-y change	1.7	0.8	-0.3	3.0	8.3	3.4	3.1
GHG emissions (tons of CO2 equivalent p.c.)	7.4	7.0	5.8	6.3	6.4	n/a	n/a
Default history (years since default)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal Sustainability							
Fiscal balance/GDP	-2.6	-3.1	-10.1	-6.7	-4.7	-3.6	-3.0
General government gross debt/GDP	100.4	98.2	120.3	116.8	111.6	107.7	105.2
Interest/revenue	6.2	5.8	5.4	4.9	5.5	5.7	n/a
Debt/revenue	256.0	250.4	287.8	269.9	261.8	251.5	n/a
Total residual maturity of debt securities (years)	7.4	7.6	7.8	7.8	7.7	7.7	n/a
Foreign exposure							
Current account balance/GDP	1.9	2.1	0.6	0.8	0.6	2.6	n/a
International reserves/imports	18.1	20.1	24.9	22.0	18.8	22.0	n/a
NIIP/GDP	-79.1	-72.8	-84.9	-71.0	-60.0	-52.8	n/a
External debt/GDP	168.1	169.7	200.0	191.1	172.8	165.5	n/a

Sources: IMF, World Bank, Eurostat, AMECO, ECB, IMD Business School, INE, own estimates

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	30.09.2016	BBB+ /stable
Monitoring	01.09.2017	BBB+ /positive
Monitoring	27.07.2018	A- /stable
Monitoring	26.07.2019	A- /stable
Monitoring	24.07.2020	A- /negative
Monitoring	22.01.2021	A- /negative
Monitoring	16.07.2021	A- /negative
Monitoring	15.07.2022	A- /stable
Monitoring	16.06.2023	A- /stable
Monitoring	14.06.2024	A /stable

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the

CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. The Spanish Treasury participated in the credit rating process as it provided additional data and information and commented on a draft version of the report. Thus, this report represents an updated version, which was augmented in response to the factual remarks of the Treasury during their review. However, the rating outcome as well as the related outlook remained unchanged.

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	YES
With Access to Internal Documents	NO
With Access to Management	NO

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models, and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG has used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, World Intellectual Property Organization (WIPO), IMD Business School, Tesoro Publico de Espana, Banco de Espana, Instituto Nacional de Estadistica (INE), Autoridad Independiente de Responsabilidad Fiscal española (AIReF), Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB), Ministerio de Inclusion, Seguridad Social y Migraciones, Ministerio de Economia, Comercio y Empresa.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision."

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website.

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as "initial rating"; other updates are indicated as an "update", "upgrade or downgrade", "not rated", "affirmed", "selective default" or "default".

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