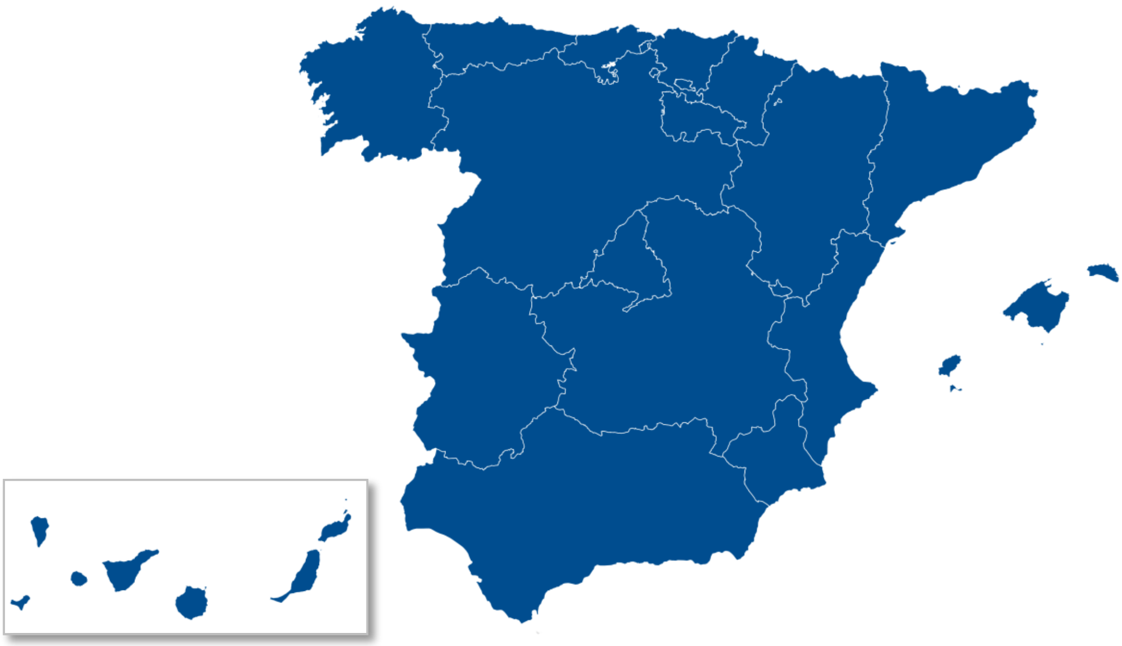
Sub-Sovereigns Sector Outlooks
Spanish Autonomous Communities

Sovereign and Public Sector: Sub-sovereigns, Scope Ratings GmbH, 14 February 2023



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Executive summary

In this first edition of Scope's Sub-Sovereign Sector Outlook for the Spanish regions ('autonomous communities'), we cover our views on the main credit developments and key themes for the sector in 2023.

Over the past five years we have increased our coverage of the asset class and we currently rate sub-sovereign issuers across five European countries, including Spain. Apart from publicly available ratings on our website, most sub-sovereign ratings are available on subscription on our platform ScopeOne. We also produce a steady research pipeline on the sub-sovereign asset class, which is often publicly available, including the recently published Sub-sovereign Outlook for 2023.

Following a brief introduction to the sector of the Spanish regions and the framework under which they operate, we assess three main sections: i) budgetary performance; ii) debt burden and affordability; and iii) market watch. We capture sector wide developments and provide peer benchmarking of related financial metrics. We conclude the report with information on our methodology and rating and research coverage on the sector.

Our main views on the Spanish regions sector for the coming years are:

- **Budget outlook.** After some headwinds in budgetary results in 2022, performance will improve over 2023 and 2024, supported by a strong revenue dynamic in 2023-24, underpinned by large revenue allocations under the regional financing system. Spending pressures will be significant tough, driven by inflation-related cost pressures and as a large share of Covid-19 related spending has likely become structural. Large allocations of EU funds will sustain elevated investment and reduce recourse to debt financing.
- **Debt outlook.** With interest rates rising, a continued decline in the debt-to-operating revenue ratio will be crucial to preserve strong debt affordability, especially for regions that have limited funding flexibility; in this context, debt trajectories should benefit from strong revenue and a balanced budgetary performance. Challenges to debt affordability will be more emphasised for regions that have limited budgetary buffers to cover rising interest payments, though debt service is safeguarded by access to central government liquidity.
- **Market watch.** The increase in interest rates has slowed down but not halted regions' bond issuance in 2022. A rather compressed spread to the sovereign signals investors' confidence in the framework under which regions operate with close ties to the central government. Most of the active issuers are making use of opportunities in the ESG market, which brings advantages such as access to a diversified investor base. Uncertainties over economic conditions will likely delay issuances to the second half of this year.

Figure 1: Our views on the Spanish regions for the coming year

	In one word	Key trends
Institutional framework	*Stable*	x Regional budgets are strongly protected against economic shocks x Fiscal rules, access to on-lending safeguard debt repayments x Reform progress slowed by political fragmentation and upcoming elections
Budget outlook	*Improving*	x Strong revenue in 2023-24, driven by large allocations in the financing system x Spending pressures from inflation, structural costs from Covid-19 x EU funds support elevated investment, reduce recourse to debt
Debt outlook	*Stable*	x Debt trajectory supported by strong revenue, balanced budgets x Debt affordability challenges for regions with low interest burden coverage x Debt service safeguarded by access to central government liquidity facilities
Market watch	*Selective*	x Interest rates normalisation to slow issuance activity x ESG bonds as key instrument to enhance regions' funding autonomy x Autonomous access to capital market only selective for stronger regions

This research study does not constitute a credit rating action

Resumen ejecutivo

En esta primera edición de las 'Perspectivas de las Comunidades Autónomas españolas' exponemos nuestras opiniones sobre las principales evoluciones del crédito y los temas clave para el sector en 2023.

En los últimos cinco años hemos ampliado nuestra cobertura de esta clase de activos y actualmente calificamos emisores sub-soberanos de cinco países europeos, entre ellos España. La mayoría de las calificaciones sub-soberanas están disponibles mediante suscripción en nuestra plataforma ScopeOne. También realizamos un estudio constante sobre la clase de activos subsoberanos, que a menudo se pone a disposición del público, incluido el recientemente publicado Sub-sovereign Outlook for 2023.

Tras una breve introducción al sector de las regiones españolas y al marco en el que operan, evaluamos tres secciones principales: i) resultados presupuestarios; ii) carga de la deuda y asequibilidad; y iii) factores de mercado. Concluimos el informe con información sobre nuestra metodología y cobertura de calificación e investigación sobre el sector. Nuestras principales opiniones sobre las regiones españolas son:

- **Perspectivas presupuestarias.** Tras algunos contratiempos en los resultados presupuestarios de 2022, el rendimiento mejorará en 2023 y 2024, apoyado por una fuerte dinámica de ingresos en 2023-24 y respaldada por grandes asignaciones de ingresos en el marco del sistema de financiación regional. Las presiones sobre el gasto serán duras y significativas, impulsadas por las presiones sobre los costes relacionado con la inflación y el hecho que una gran parte del gasto relacionado con Covid-19 se ha convertido en un coste estructural. Las grandes asignaciones de fondos de la UE mantendrán una inversión elevada y reducirán el recurso a la financiación mediante deuda.
- **Perspectivas de la deuda.** Con la subida de los tipos de interés, será crucial que siga disminuyendo el coeficiente deuda/ingresos de explotación para preservar una fuerte asequibilidad de la deuda, especialmente para las regiones que tienen una flexibilidad de financiación limitada. En este contexto, las trayectorias de la deuda deberían beneficiarse de unos ingresos fuertes y de un comportamiento presupuestario equilibrado. Los retos para la asequibilidad de la deuda serán más acentuados para las regiones que tienen reservas presupuestarias limitadas para cubrir los crecientes pagos de intereses, aunque el servicio de la deuda está salvaguardado por el acceso a la liquidez del Gobierno central.
- **Factores de mercado.** La subida de los tipos de interés ha frenado, pero no detenido, la emisión de obligaciones de las regiones en 2022. Un diferencial bastante comprimido con respecto al soberano indica la confianza de los inversores en el marco en el que operan las regiones, estrechamente vinculadas al Gobierno central. La mayoría de los emisores activos están aprovechando las oportunidades que ofrece el mercado de ESG, que aporta ventajas como el acceso a una base de inversores diversificada. La incertidumbre sobre las condiciones económicas retrasará probablemente las emisiones al segundo semestre de este año.

Gráfico 1 - Nuestras opiniones sobre las regiones españolas para los próximos años

	Opinión	Tendencias clave
Marco institucional	*Estable*	x Los presupuestos regionales están protegidos contra las perturbaciones económicas x Las normas fiscales y el acceso a los préstamos garantizan el pago de la deuda x Estancamiento de las reformas debido a fragmentación política y elecciones
Perspectivas presupuestarias	*Mejorando*	x Ingresos en 2023-24 apoyado por las asignaciones en el sistema de financiación x Presiones sobre el gasto derivadas de la inflación, costes estructurales de Covid-19 x Los fondos de la UE apoyan una inversión elevada, reducen el recurso a la deuda
Perspectivas de la deuda	*Estable*	x Trayectoria de la deuda respaldada por ingresos sólidos y presupuestos equilibrados x Retos de asequibilidad para las regiones con baja cobertura de la carga de intereses x Servicio de la deuda salvaguardados por el acceso a las facilidades del gobierno central
Factores del mercado	*Selectiva*	x La normalización monetaria ralentizará las emisiones x Los bonos ESG son claves para mejorar la autonomía de financiación de las regiones x El acceso autónomo al mercado de capitales sólo para las regiones más fuertes

El presente informe no constituye una acción de calificación crediticia

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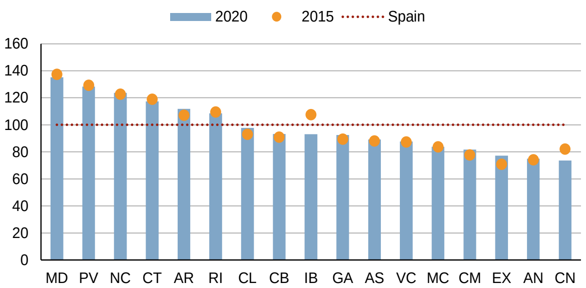
Institutional framework: what it means for budget structure, debt repayments

Spain is a highly decentralised country with a significant share of spending (about 35%) devolved to its 17 regions. Spanish regions are mainly responsible for healthcare (more than 30% of their total expenditure), education (20%), social protection, infrastructure and transport.

In terms of financing, the regions are divided into those operating under the 'ordinary regime', and Navarra and the Basque Country, which operate under the 'foral regime'. Regions under the ordinary regime share the income and value added taxes with the central government 50-50. They retain 58% of special taxes (alcohol, tobacco and gasoline) and the full amount of the electricity, inheritance and gambling taxes, and stamp duty. They do not have control over value added and special taxes (about 50% of their total tax revenue), but they do have some leeway on other taxes, including income tax (40%). Ordinary regions have limited benefits from tax adjustments, however, as 75% of their fiscal capacities serve to finance the main equalisation fund. The autonomous communities under the foral regime retain full responsibility for tax revenues, excluding custom tariffs, under the condition that the overall effective tax burden does not fall below that of the rest of Spain. These regions do not receive transfers from the central government and are required to transfer a portion of their revenues to finance general expenses incurred by the central government.

The regional financing system (for regions under the 'ordinary regime') includes significant fiscal equalisation and aims to ensure regions have sufficient funding for providing vital public services. On top of the redistribution of 75% of regions' fiscal capacities, the system also includes vertical transfers from the central government. The substantial degree of equalisation among the regions weakens the link between their budgetary performance and the wealth of their local economies. Indeed, the wide economic divergences across regions (**Figure 2**) are not always reflected in their budgetary performance, as we will see in the next chapter.

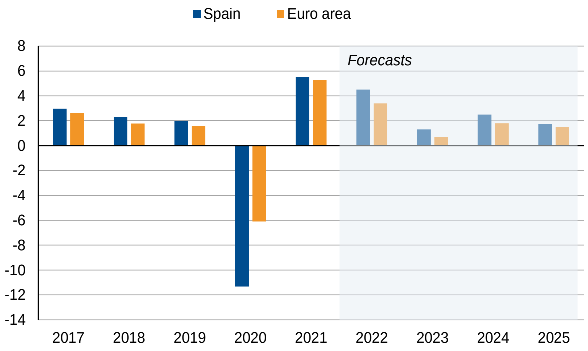
Figure 2: GDP per capita
% national average



See regions' two letter codes in Annex I
Source: Ministerio de Hacienda, Scope Ratings

The system also smooths the effects of economic shocks, given regions receive revenue on account based on estimates as per the annual State budget, which are regularly settled with two years of delay. Negative settlements for the regions arising from major economic shocks, such as Covid-19, were compensated by the central government or spread over time in the past, providing further protection for regional finances. The economic performance of Spain was severely hit during Covid-19, but budgetary performance in the sector improved. We expect relative resilience against the current cost-of-living shock in 2023 (**Figure 3**).

Figure 3: Real GDP growth
%



Source: AMECO, Scope Ratings

Concerns about equity and transparency of the criteria for resources redistribution remain. These arise from an imperfect consideration of demographic and geographical characteristics and due to a high weight of historical parameters. The system was supposed to be reformed in 2014, but negotiations are complex as some regions point to structural underfunding while others aim to preserve the status quo, and enter in the fragmented politics in Spain. Initial work on the reform has started but structural changes will not be put forward ahead of the regional elections in May and national elections at the end of this year.

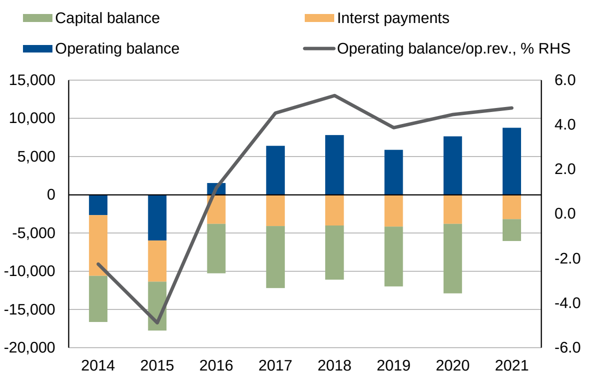
Despite some political frictions, we assess the institutional and financial ties between the Spanish regions and central government as strong. Fiscal rules were strengthened with a major reform in 2012 limiting the regions' borrowing capacity, with the national government centralising funding via the provision of conditional liquidity at favourable terms. Sovereign on-lending has become a permanent safety net for the sector, though in recent years stronger regions are gradually returning to autonomous funding. In response to Covid-19, the central government has stepped up financial support, covering the regions' additional expenditure and restoring revenue losses, fully centralising the effects of the shock on their budgets.

We thus expect main changes to the regions' creditworthiness to happen via the sovereign rating, though differences between regions' individual credit fundamentals are sometimes marked, as we will explore in the next chapters.

Budgetary performance

The regions' budget performance has improved substantially over recent years, from very weak outcomes during the sovereign debt crisis. This improvement was supported by a solid economic recovery and improvement in the fiscal framework resulting in higher operating margins, together with a declining interest burden. Central government support has played a crucial role for regions to weather the Covid-19 pandemic ramifications, resulting in untouched solid operating margins in 2020-21 for the sector aggregate, despite the significant economic contraction and cost shock from the crisis (**Figure 4**).

Figure 4: Budget performance, sector aggregate
EUR m (lhs), % (rhs)



Source: Ministerio de Hacienda, Scope Ratings

Budgetary performances across regions vary, in large part driven by the criteria to distribute resources under regional financing system that accounts for about 75% of regions' operating revenue. Several regions view themselves structurally underfunded, most notably Valencia, Murcia and Catalonia, which are the regions displaying the weakest performance, with negative operating margins and large deficits after capital accounts (**Figure 5**).

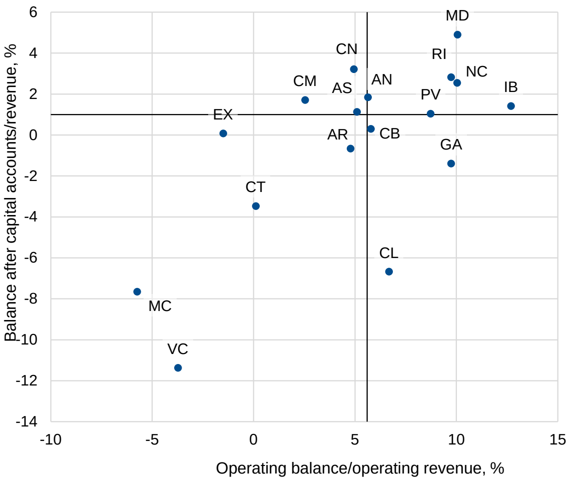
On the other hand, regions such as Galicia and, over the last years, Madrid, display strong budgetary performances, with operating margins averaging above 10% of operating revenue, well above their interest burden, which can thus support the self-financing of investments. The foral regions, Basque and Navarra, also display very strong budgetary performance, though are less protected by systemic or individual shocks, given the direct link of their budgetary performance with their local economy, as they are not part of equalisation.

We expect some headwinds in the regions' 2022 budgetary results, as revenue allocated under the financing system and via extraordinary pandemic-related transfers have significantly declined vis-à-vis 2021, by over 8%, despite expected revenue increases from other taxes and fees supported by a solid economic rebound, and lower pandemic-related costs.

Allocations under the financing system are, however, set to rise substantially this year, by 24% for the sector, reflecting high revenue expected for this year but also better-than budgeted revenue growth in 2021 (which the system settles with a two-year lag). The same is likely to happen in 2024, given strong revenue growth in 2022. Key factors supporting the regions' robust revenue dynamic is their income structure, comprising sources favourably affected by high inflation such as VAT, as well as the relatively resilient economic performance of Spain after the pandemic shock. This dynamic gives comfort on the resilience of the regions' revenue base and a continuation of solid budgetary results over the coming years, despite the withdrawal of pandemic-related extraordinary transfers.

The return of fiscal rules in 2024 should support a controlled dynamic of operating spending, though challenges remain. The regions' elevated expenditure rigidity owing to a large share of rigid components in their total spending, in the context of elevated cost pressures from inflation and rising interest payments will erode the regions' budgetary room for manoeuvre. This, especially after the pandemic, as we expect a large part of the increase in spending associated with Covid-19 to be structural.

Figure 5: Budget performance, by region
%, weighted average over 2019-2021



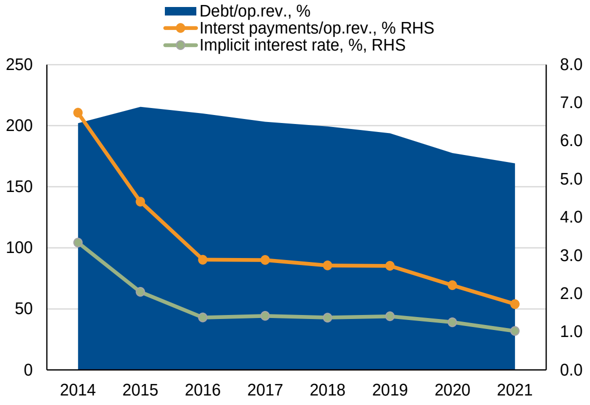
Source: Ministerio de Hacienda, Scope Ratings

Budgetary performance over the next few years will also include significant investment spending, backed by high EU funding including EUR 69.5bn under the recovery plan and EUR 14.5bn under React-EU allocated to Spain, whereby a substantial share is to be implemented by the regions. This will allow for elevated investment spending also at the regional level compared to historical levels, while supporting broadly balanced fiscal positions, thus limiting recourse to debt financing.

Debt burden and affordability

The Spanish regions' total debt is elevated at the aggregate sector level, accounting for about 170% of operating revenue. This corresponds to 26% of GDP, or twice a target limit of 13% provided by the framework. Debt has however become more affordable over the past years, reflecting the lower interest rate environment and the favorable financing conditions channelled via the central government liquidity facilities. This resulted in the aggregate interest burden dropping to just 1.7% of operating revenue by end-2021, down from almost 7% in 2014 (**Figure 6**).

Figure 6: Debt and interest burden – sector aggregate, %



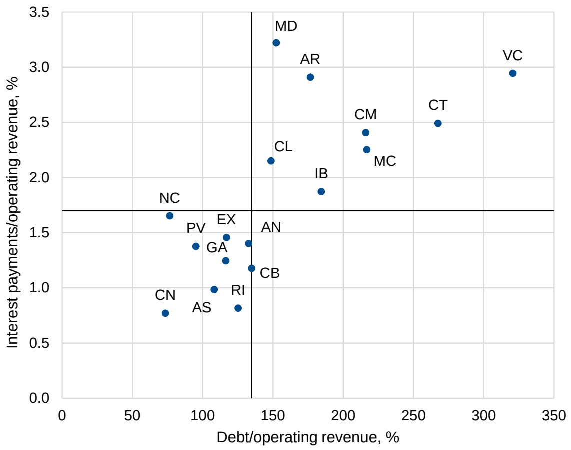
Source: Bank of Spain, Ministerio de Hacienda, Scope Ratings

Central government on-lending is still the largest funding source for regions, accounting for about 60% of the total sector's debt. Only regions fulfilling their budgetary targets can obtain the authorisation to issue debt in the capital markets. A gradual trend towards enhanced financial autonomy and return to market funding has emerged recently for some regions with strong credit fundamentals, supported by still favourable market conditions and funding opportunities in the growing market of ESG bonds.

Debt levels vary largely across regions, ranging from 65% of operating revenue in 2019-21 in the case of the Canary Island to almost 315% for Valencia. Still, despite its high indebtedness, the interest burden in Valencia is rather moderate, at 2.3% of operating revenue in 2021, and below significantly less indebted peers such as Madrid (**Figure 7**). This results from the higher financial autonomy of Madrid, which, together the foral communities, is the only Spanish region not to obtain any funding from the central government liquidity facilities. This at the price of higher, but still favourable, funding costs, vis-à-vis regions more dependent on central government debt funding, such as Catalonia and Valencia, for which this accounts for more than 80% of total debt.

Figure 7: Debt and interest burden by region

%, weighted average over 2019-21



Source: Bank of Spain, Ministerio de Hacienda, Scope Ratings

As the interest rate environment is normalising, the regions' interest burden will start to increase over the coming years after years of decline. We expect such development to affect to a similar extent regions that are mostly funding themselves via the government financing facilities and those with larger autonomous funding, given still very compressed spread levels with the central government. Also, regions reliant on government funding have in general a shorter average maturity of debt, thus being affected earlier from rising rates, as annual roll over of debt is larger.

The increase in the interest burden will erode budgetary margins going forward, though gradually, as overall financing costs are still moderate by an historical perspective. Challenges to debt affordability will be more emphasised for regions that have already limited budgetary buffers to cover their interest payments, though debt service is safeguarded by access to the central government liquidity facilities.

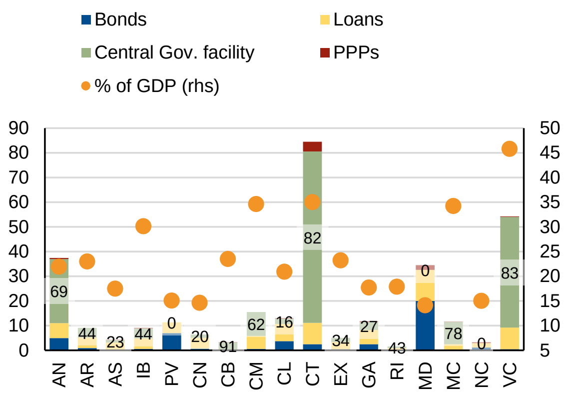
In the context of rising interest rates, a continued decline in the debt-to-operating revenue ratio is crucial to preserve strong debt affordability, especially for regions that can count on limited funding flexibility. In this context, the regions' debt trajectories should benefit from a strong revenue dynamic over the coming years and from the availability of sizeable EU funds for investments, reducing recourse to debt financing.

Market watch

Only few regions are regular issuers in capital markets. These are: the two foral communities Navarre and Basque Country, Andalusia, Asturias, the Balearic Islands, the Canary Islands, Castille y Leon, Galicia and Madrid. The foral communities have always remained out of central government liquidity facilities and Madrid has completely substituted central government with autonomous funding since 2020, while the other regions are gradually gaining financial autonomy but still retain a large share of funding with the on-lending facilities (**Figure 8**).

Figure 8: Debt composition by region

2022 H1, EUR bn (lhs), % (rhs)



NB: Displayed data labels refer to % of total

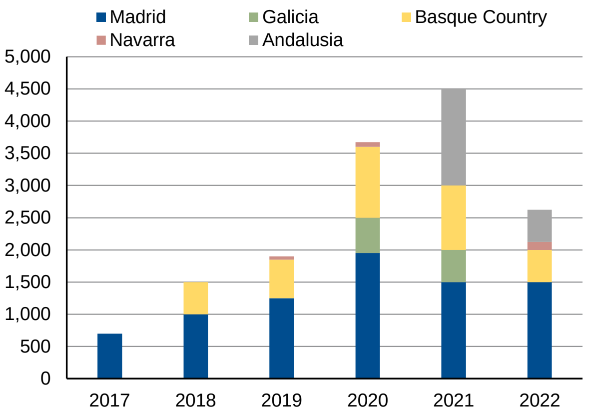
Source: Bank of Spain, Scope Ratings

Most of the active issuers are increasingly making use of opportunities in the ESG market (**Figure 9**). Green and especially sustainability bonds have already become the preferred bond type for these issuers, substituting in large part traditional bonds, underpinning their role of pioneers in the domestic market. This kind of instruments provide several advantages including access to a wider and long-term oriented investor base and, in general, favourable funding conditions. The usual long-term investment horizon of the related projects also supports the extension of average debt maturity, thus allowing to reduce annual funding needs. The use of green and sustainability bonds also incentivises long-term budgeting and investment planning addressing structural challenges such as the green transition.

The widespread use of these bonds seems to confirm that such advantages more than offset additional costs related to reporting on the use of proceeds and investment progress to investors. All the regions have issued green or sustainability financing frameworks to regulate these aspects, which are aligned to the main market standards encompassed by the ICMA Sustainability and Green Bond Principles.

Figure 9: ESG bonds in public markets

EUR m



Source: Bolsa y mercados espanoles, Finsight, Scope Ratings

The significant increase in interest rates following the rapid normalisation of monetary policy has slowed but not halted regions' bond issuance in 2022, which continue to benefit from relatively favourable financing conditions. The spread to central government yields remains compressed: it was below 25bps for Madrid in its latest green bond issuance at the end of October last year, though yields have markedly increased from 2021. However, the recent volatility in capital markets will likely further delay regions plans to issue debt in 2023 to the second half of the year.

We expect funding volumes in capital markets to remain contained over the coming years, given that authorisation to regional debt issuance requires balanced accounts and while the allocation of proceeds is exclusively foreseen to investment spending. This means that regions' autonomous issuance would mostly replace existing debt. In terms of other regions going back to capital markets, we see this as a gradual process, given many regions are still constrained by weak individual credit fundamentals, and likely to be further slowed down until either major reforms of the framework under which Spanish regions operate would occur, with materially positive credit impact on their individual fundamentals.

Annex I: Regions' two letter codes

Autonomous community of:	Code
Andalusia	AN
Aragon	AR
Asturias	AS
Balearic	IB
Basque	PV
Canary	CN
Cantabria	CB
Castile La Mancha	CM
Castile y Leon	CL
Catalonia	CT
Extremadura	EX
Galicia	GA
La Rioja	RI
Madrid	MD
Murcia	MC
Navarre	NC
Valencia	VC

Annex II a: Peer benchmarking on budgetary metrics

We benchmark **budgetary performance** via two ratios (**Fig. 10a** & **b**): i) the operating margin as a share of operating revenue, which shows the balance between a region's core resources and spending responsibilities and its budgetary room to cover interest payments and support investment; ii) the balance before debt movement as a share of total revenue, which shows a region's need for debt financing. Budgetary performance widely differs among regions: some have large operating surpluses and even surpluses after capital accounts underpinning fiscal sustainability, while a group of weaker regions struggle to balance the operating budget hindering the prospects of debt reductions.

We benchmark **budget flexibility** via two ratios (**Fig. 10c** & **d**): i) transfers as a share of operating revenue, as proxy for revenue flexibility; ii) capital expenditure as a share of total expenditure, as proxy for expenditure flexibility, as investment spending can generally more easily be cut in case of financial stress. The metrics reflect that also budgetary flexibility widely differ among regions. Sometimes regions perform on opposite sides regarding revenue and expenditure flexibility, given that economically weaker regions tend to rely more on transfers rather than their own revenue base, but can however take advantage of larger funding to sustain elevated spending levels.

Figure 10a: Operating margin/operating revenue, %

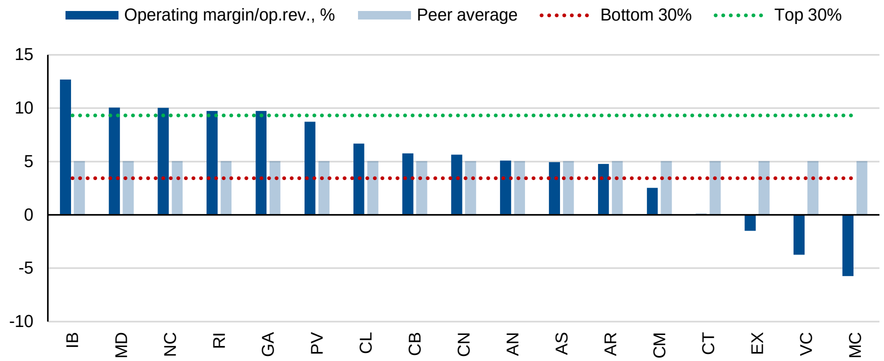


Figure 10b: Balance before debt movement/total revenue, %

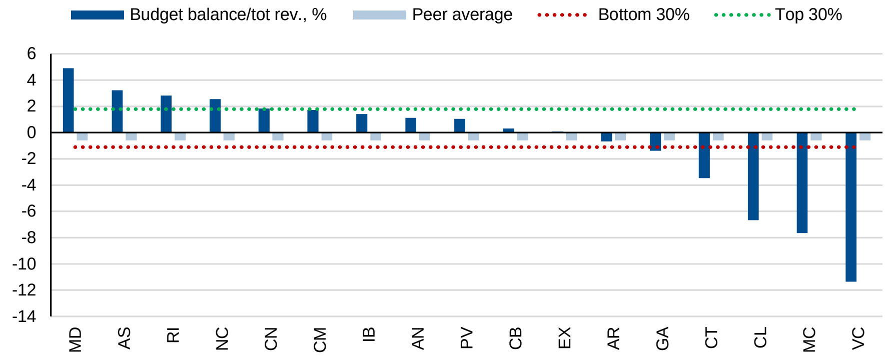


Figure 10c: Transfers/operating revenue, %

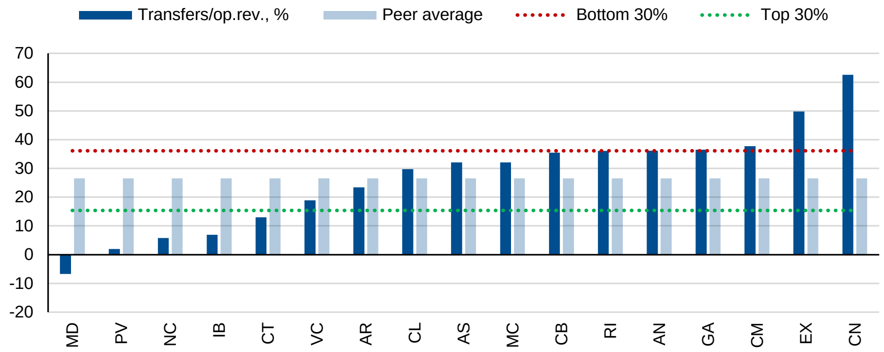
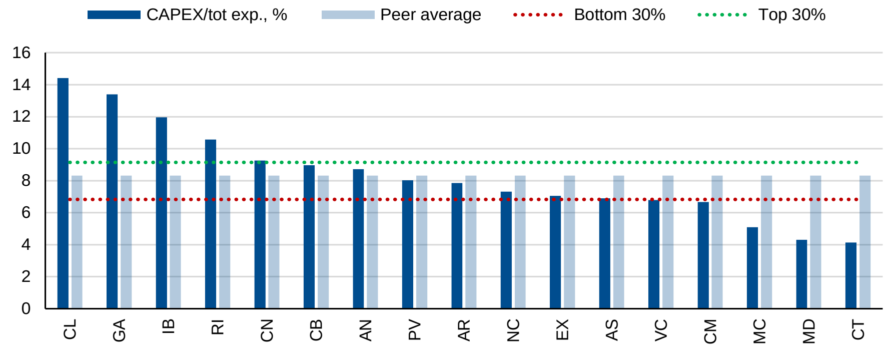


Figure 10d: Capex/Total expenditure, %



NB: Weighted averages over 2019-21

Source: Ministry of Finance, Scope Ratings

Annex II b: Peer benchmarking on debt metrics

We benchmark the **debt burden** via two ratios (**Fig. 11a** & **b**): i) debt as a share of operating revenue, which scales a region's debt in relation to its available resources, complemented by ii) debt as a share of the operating margin, o payback ratio, which accounts for the fact that a large share of rigid expenditure can hinder the availability of operating revenue to repay debt. The debt burden is in general elevated for all Spanish regions, though there are important differences, with Catalonia and especially Valencia standing out as negative outliers, while the Canary Island and Navarre benefit from rather low debt levels.

We benchmark **debt affordability** via two ratios (**Fig. 11c** & **d**): i) interest payments as a share of operating revenue and ii) funding needs as a share of operating revenue, to scales debt service components in relation to regions' available resources. The relative performance of regions tends to be different if we consider the burden of interest payments only of the full funding needs: regions that mostly rely on central government funding tend to be favoured in terms of their interest burden; however, they tend to have shorter average debt maturities and more rigid refinancing schedules that increase annual refinancing vis-à-vis regions able to autonomous funding themselves on capital markets.

Figure 11a: Debt/operating revenue, %

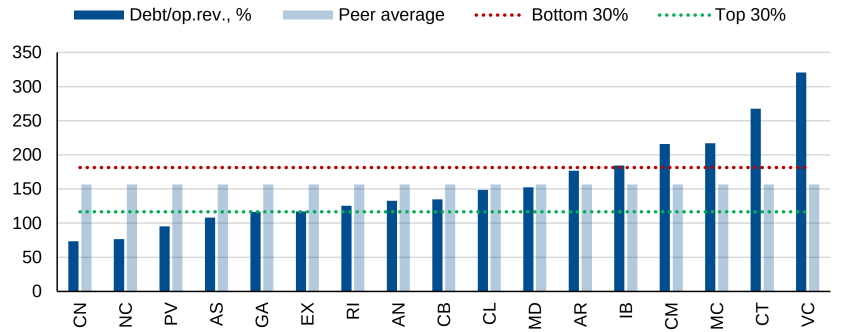
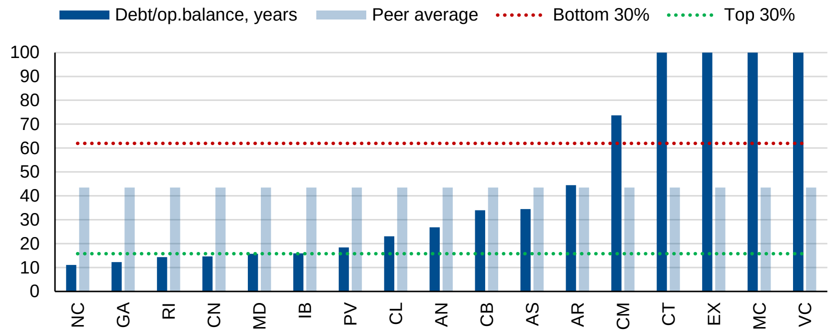
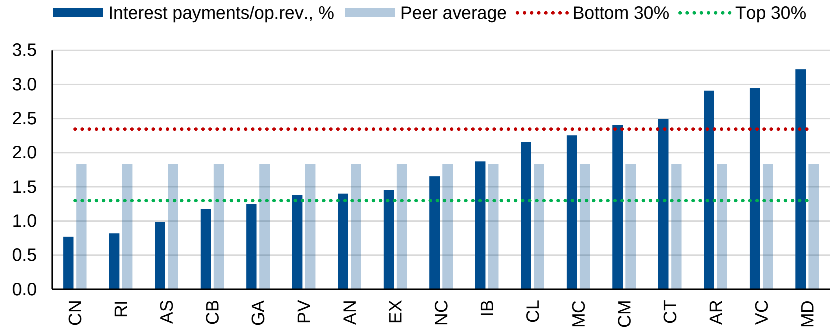


Figure 11b: Payback ratio, years*



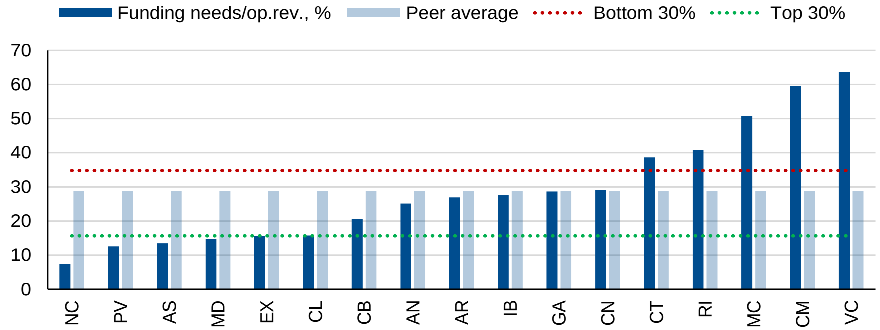
Payback ratio: debt/operating balance; NB: Capped at 100 years

Figure 11c: Interest payments/operating revenue, %



NB: Weighted averages over 2019-21

Figure 11d: Funding needs, operating revenue, %



Source: Bank of Spain, Ministry of Finance, Scope Ratings

Annex III: How we rate sub-sovereigns – in brief

Our approach comprises two main analytical pillars (illustrated by a hypothetical example):

(1) Institutional framework

We assess the institutional and fiscal integration between the sub-sovereigns part of a government layer and their respective sovereign.

We determine an ***indicative rating range***, downward from the sovereign rating, within which the sub-sovereign ratings can be positioned, based on their individual credit fundamentals.

We believe that a 'framework-driven approach' is best suited for sub-sovereign ratings, reflecting the importance of the varying relationships between sub-sovereign and sovereign entities as well as the resulting country-specific budget structure and debt management practices.

Analytical components	Full integration (100)	Strong integration (75)	Medium integration (50)	Some integration (25)	Low integration (0)
Extraordinary support and bailout practices	◉	○	○	○	○
Ordinary budgetary support and fiscal equalisation	○	◉	○	○	○
Funding practices	○	◉	○	○	○
Fiscal rules and oversight	○	◉	○	○	○
Revenue and spending powers	○	◉	○	○	○
Political coherence and multi-level governance	○	○	◉	○	○

Integration score	*75*
Downward rating range	***0-3***

(2) Individual credit profile

We asses a sub-sovereign's individual credit fundamentals with respect to: i) debt & liquidity; ii) budget; iii) economy; and iv) governance. We complement these pillars with the integration of environmental and social factors. The assessments are summarised via our scorecard in an ***individual credit profile score*****.**

Our assessments for the individual credit profile are underpinned by quantitative benchmarking across national peers of core financial ratios; these preliminary quantitatively driven assessments are complemented by qualitative aspects and forward-looking views.

By comparing issuers with national peers, we account for the fact that budget and debt metrics need to be viewed in the context of the respective framework, as responsibilities, fiscal rules and accounting standards vary across countries.

Risk pillar		Analytical components	Stronger (100)	Mid-range (50)	Weaker (0)
Debt and liquidity	40%	Debt burden & trajectory	◉	○	○
		Debt profile & affordability	○	◉	○
		Contingent liabilities	◉	○	○
		Liquidity position & funding flexibility	○	◉	○
Budget	30%	Budgetary performance & outlook	○	◉	○
		Revenue flexibility	○	◉	○
		Expenditure flexibility	○	◉	○
Economy	20%	Wealth levels & economic resilience	○	○	◉
		Economic sustainability	○	○	◉
Governance	10%	Governance & financial management quality	○	◉	○

Additional environmental and social factors	Positive impact (+5)	No impact (0)	Negative impact (-5)
Environmental factors and resilience	○	◉	○
Social factors and resilience	○	◉	○

ICP score	*50*
Indicative notching	***-1***

We map the institutional framework assessment and the individual credit profile to derive an **(3) indicative rating**.

Rating anchor	Institutional framework assessment		Individual credit profile score							
"Sovereign ABC"	Score	Downward rating range	100 > x ≥ 80	80 > x ≥ 70	70 > x ≥ 60	**60 > x ≥ 50**	50 > x ≥ 40	40 > x ≥ 30	30 > x ≥ 20	20 > x ≥ 0
A-/Stable	100 > x ≥ 90	0-1	A-	A-	A-	A-	A-	A-	BBB+	BBB+
	90 > x ≥ 80	0-2	A-	A-	BBB+	BBB+	BBB+	BBB+	BBB	BBB
	80 > x ≥ 70	**0-3**	A-	BBB+	BBB+	**BBB+**	BBB	BBB	BBB-	BBB-
	70 > x ≥ 60	0-4	A-	BBB+	BBB+	BBB	BBB	BBB-	BBB-	BB+
	60 > x ≥ 50	0-5	A-	BBB+	BBB+	BBB	BBB	BBB-	BB+	BB
	50 > x ≥ 40	0-6	A-	BBB+	BBB+/ BBB	BBB/ BBB-	BBB/ BBB-	BBB-/ BB+	BB+/ BB	BB-
	40 > x ≥ 30	0-7	A-	BBB+/ BBB	BBB+/ BBB	BBB/ BBB-	BBB-/ BB+	BB+/ BB	BB/ BB-	B+
	30 > x ≥ 20	0-8	A-	BBB+/ BBB	BBB/ BBB-	BBB-/ BB+	BB+/ BB	BB/ BB-	BB-/ B+	B
	20 > x ≥ 10	0-9	A-	BBB+/ BBB	BBB/ BBB-	BBB-/ BB+	BB+/ BB	BB/ BB-	B+/ B	B-
	10 > x ≥ 0	0-10	A-	BBB+/ BBB	BBB/ BBB-	BBB-/ BB+	BB/ BB-	B+/ B	B-/ CCC	CCC

After reviewing if any **(4) additional considerations**, such as exceptional circumstances, could alter the indicative rating, we derive the final rating. Find out more in our sub-sovereign rating methodology.

Cómo calificamos a los Sub-soberanos - en resumen

(1) Marco institucional (Institutional framework)

Evaluamos la integración institucional y fiscal entre los sub soberanos que forman parte de un estrato gubernamental y su respectivo soberano. Determinamos un rango de calificación indicativo, descendente con respecto a la calificación soberana, dentro del cual pueden situarse las calificaciones sub-soberanas, basándonos en sus fundamentos crediticios individuales. Creemos que un "enfoque basado en el marco" es el más adecuado para las calificaciones sub-soberanas, ya que refleja la importancia de las distintas relaciones entre las entidades sub-soberanas y soberanas, así como la estructura presupuestaria y las prácticas de gestión de la deuda específicas de cada país.

(2) Perfil de crédito individual (Individual credit profile)

Evaluamos los fundamentos crediticios individuales de un sub-soberano con respecto a: i) deuda y liquidez; ii) presupuesto; iii) economía; y iv) gobernanza. Complementamos estos pilares con la integración de factores medioambientales y sociales. Las evaluaciones se resumen a través de nuestro cuadro de mando en una puntuación del perfil crediticio individual. Nuestras evaluaciones del perfil crediticio individual se basan en una evaluación comparativa cuantitativa de los principales coeficientes financieros de los homólogos nacionales. Estas evaluaciones preliminares de carácter cuantitativo se complementan con aspectos cualitativos y opiniones prospectivas. Al comparar a los emisores con sus homólogos nacionales, tenemos en cuenta el hecho de que los parámetros presupuestarios y de deuda deben considerarse en el contexto del marco respectivo, ya que las responsabilidades, las normas fiscales y las normas contables varían de un país a otro.

(3) Calificación indicativa (Indicative rating)

Relacionamos la evaluación del marco institucional y el perfil crediticio individual para obtener una calificación indicativa.

(4) Circunstancias excepcionales (Additional considerations)

Tras revisar si alguna consideración adicional, como circunstancias excepcionales, podría alterar la calificación indicativa, obtenemos la calificación final.

Obtenga más información en nuestra metodología de calificación sub-soberana.

Annex IV: Rated portfolio and research

Ratings
Autonomous Community of Andalusia – on subscription
Autonomous Community of Catalonia – on subscription
Autonomous Community of Galicia – on subscription
Autonomous Community of Madrid – on subscription
Autonomous Community of Valencia – on subscription
Research
Sub-Sovereign Outlook 2023: structural budgetary pressures mount, central government support diminishes – 30 Jan 2023
Sub-Sovereign Outlook 2022: regional, local governments face challenge of post-crisis adjustment – 25 Jan 2022
ESG financing: Spanish regions' shift to ESG-linked bonds supports financial autonomy, debt profiles – 8 Sep 2021
Scope's institutional framework studies on Italian and Spanish regions available on subscription – 15 Apr 2021
Spain's evolving fiscal framework: implications for the sovereign and its regions – 17 Jan 2018

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