CareEdge Global assigns 'Stable' outlook to the rating of the Kingdom of Spain

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge A' (Unsolicited)

Issuer rating	CareEdge A/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Kingdom of Spain (Spain) while reaffirming the Long-Term Foreign Currency rating of 'CareEdge A' (Unsolicited).

Spain's credit profile is underpinned by the relatively large size of its economy, high-income status, comfortable external position, and a strong institutional framework. The country's economic position has benefited from high growth performance, outperforming EU regional peers, and improvements in labor market conditions, though adverse demographic trends present structural challenges to long-term economic growth. A sustained current account surplus, driven by thriving service exports, supports its external position, and helps balance its net negative international investment position.

Spain's fiscal vulnerabilities persist, with elevated general government debt weighing on its credit profile. Nonetheless, the government remains committed to fiscal consolidation roadmap under the Medium-Term Fiscal and Structural Plan (MTFP 2025-2028), aiming to reduce debt below 100% of GDP by 2027 and keep borrowings within the Excessive Deficit Procedure (EDP) target of 3%.

Going forward, Spain's fiscal trajectory remains a key credit monitorable, particularly amid evolving geopolitical risks. The presence of a minority government limits space for fiscal and policy maneuverability, as the FY 2025 budget remains an impasse.

Outlook: Stable

The stable outlook reflects our expectation that Spain should stay on the path of fiscal consolidation by maintaining its debt reduction trajectory (approximately less than 100% in the next five years). Further, its better growth prospects compared to the EU region could help it mitigate the external sector vulnerabilities including reciprocal tariffs announced by the United States.

Upside Scenario

Spain's commitment to reduce debt levels at higher-than-expected pace, supported by sustained economic momentum and structural reforms can be credit positives.

Downside Scenario

Any significant fiscal slippage, driven by higher-than-expected expenditure commitments, could derail compliance with EDP fiscal consolidation targets, and further constrain fiscal flexibility. A prolonged budget impasse arising from a minority government could heighten policy uncertainty. Moreover, Spain's external sector remains exposed to trade tensions, with potential disruptions to the trade balance on account of reciprocal tariffs, posing additional credit risks.

Key Rating Drivers

Economic Structure & Resilience

Spain's strong profile reflects its status as one of the fastest-growing economies in the EU and its significant economic scale (with a nominal GDP of USD 1.6 trillion in 2023). As the fourth-largest economy in the EU, Spain benefits from resilient domestic demand, stable government spending, and a diversified trade base. Its service-oriented economy, supported by a strong tourism sector contributing ~10% of GDP, remains a key pillar of growth.

Spain is expected to sustain an average annual growth rate of 2.1% from 2024 to 2028, despite broader economic challenges within the EU region. This is supported by labor market strength, relatively lower cost of living compared to EU peers, and sustained private consumption. However, while GDP per capita stands at a high USD 47,671 in 2023, it remains 12% below the EU average. Spain has been able to reduce the unemployment rate from a high of 26.1% in 2013 to 11.3% in 2024, driven by structural labor market reforms and a steady influx of migrants, supporting the working age population.

Downside risks stem from weak private investment and subdued labor productivity that constrains Spain's long-term growth potential and fiscal flexibility. These structural challenges weigh on the country's economic competitiveness over the medium term.

Fiscal Strength

Spain's challenging fiscal profile reflects its high debt levels, which averaged 109.3% of GDP over the past five years (2019–2023), significantly above the EU average of 84.5%. Additionally, Spain's high social spending commitments pose a significant fiscal burden, with subsidies and social transfers accounting for approximately 80% of total expenditure, one of the highest among European Union countries.

Despite its elevated debt levels, the government remains committed to deleveraging, with debt estimated to be 102.3% of GDP in 2024 and expected to be below 100% by 2027, according to the Medium-Term Fiscal and Structural Plan (MTFP 2025–2028). Furthermore, the country benefits from better debt affordability, reflected by low borrowing costs and interest payments to revenue ratio of 5.7% in 2023, lower than 9.2% in 2013. However, elevated interest rates in the prevailing monetary scenario pose a downside risk to future debt sustainability.

Spain has made steady progress in reducing its fiscal deficit, with the gap expected to narrow to 3% of the GDP in 2024 and further to 2.5% in 2025. Additionally, the improving macroeconomic backdrop, Additionally, the increasing macroeconomic backdrop, characterized by high growth and stable inflation, has contributed to revenue generation, while expenditure is gradually declining through the phasing out of tax deductions and energy subsidies.

Spain's fiscal profile is also being supported by the EU's decision to extend its fiscal adjustment period for reducing the deficit below 3% of GDP from four years to seven years. This extension reflects the EU's assurance of the country's commitment to structural reforms and investment initiatives aimed at ensuring long-term fiscal sustainability.

Going forward, the fiscal consolidation path requires close monitoring, especially given the rising geopolitical uncertainties. Spain's political fragmentation also poses a policy risk due to the government's inability to pass the 2025 budget, which has a potential to undermine fiscal consolidation efforts.

External Position & Linkages

Spain's external profile is anchored by a sustained current account surplus, which has improved incrementally to 3% of GDP in 2024, driven by robust service-led exports and a strong recovery in tourism. Additionally, moderating energy prices have enabled the energy trade balance, further enhancing external stability. However, global trade uncertainties are expected to impact certain export-driven sectors, though the overall implications for the credit profile are expected to be contained.

Spain's Net International Investment Position (NIIP), however, remains negative, standing at approximately -52.8 % of GDP in2023. This reflects a high liability position, largely weighted by strong inflows of direct and portfolio investments. An improvement in NIIP is expected, supported by capital transfers under the NRRP and sustained trade momentum.

Further, external debt remains high, at 167.1% of GDP in 2023, although a significant portion of this debt is long-term, which mitigates immediate repayment risks.

Monetary & Financial Stability

Spain is a member of the European Economic and Monetary Union, and it uses the Euro as its official currency. It follows a free-floating exchange rate regime. Inflation, as measured by the Harmonized Index of Consumer Prices, moderated to 2.8% in 2024 against the backdrop of easing energy prices and lower core inflation. Going ahead, inflation is expected to moderate further to ease below the Central Bank's 2% target in the medium term.

The Spanish banking system has remained resilient in the face of tightening monetary and financial conditions without the emergence of significant systemic risks. Furthermore, the asset quality remains comfortable, with the ratio of non-performing loans to total loans seen at 3% as of March 2024.

Institutions & Quality of Governance

Spain's strong rankings in terms of voice and accountability, regulatory quality, rule of law and control of corruption in the Worldwide Governance Index have supported the assessment of this parameter.

Following the 2023 general elections, Pedro Sánchez of the Spanish Socialist Workers' Party (PSOE) won another term as President. However, the present government represents a fragile coalition formed with support from regional parties. Particularly, the presence of two Catalan pro-independence parties in the coalition poses a risk for the tensions surrounding Catalonia. The minority position of the government is expected to have implications for government effectiveness, as reflected by fragmented parliament and prolonged delay in passing budget for FY 2025.

Spain – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	1432	1404	1289	1462	1448	1621	1731	1828
GDP Per Capita (Constant-PPP)	USD	46182	46711	41381	44170	46621	47671	48479	48971
Real GDP Growth	%	2.4	2.0	-10.9	6.7	6.2	2.7	3.2	2.3
GFCF/GDP	%	19.7	20.3	20.6	20.2	20.4	19.7	-	-
Gross Domestic Savings/GDP	%	23.4	23.9	22.1	22.9	23.5	24.9	-	-
Exports (G&S)/GDP	%	34.9	34.7	30.5	33.8	39.8	38.1	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.8	65.9	65.9	66	65.9	65.8	65.6	65.4
Old-Age (65+) Population (% Share in Total)	%	19.3	19.5	19.7	19.9	20.3	20.7	21.2	21.8
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.6	-3.0	-10.0	-6.7	-4.6	-3.5	-3.0	-2.8
Revenue/GDP	%	38.9	39.0	41.4	42.8	41.8	41.8	41.9	41.9
Expenditure/GDP	%	41.5	42.0	51.4	49.5	46.4	45.3	44.8	44.7
GG Gross Debt/GDP	%	99.7	97.6	119.2	115.6	109.4	105.0	102.3	100.7
GG External Debt (by Creditor)/GG Gross Debt	%	45.9	50.2	47.3	44.8	36.8	38.3	-	-
Interest/Revenue	%	6.2	5.8	5.4	4.9	5.5	5.7	-	-
External Indicators									
Current Account Balance/GDP	%	1.9	2.1	0.8	0.8	0.4	2.7	3.4	3.2
FDI, Net Inflows/GDP	%	4.5	2.2	2.9	4.4	4.5	2.7	-	-
Outstanding FII Liabilities/GDP	%	86.3	97.3	113.6	96.0	80.5	84.3	-	-
NIIP/GDP	%	-75.6	-72.2	-90.0	-66.4	-58.4	-52.8	-	-
Foreign Exchange Reserves	USD Billions	70.6	74.7	81.3	92.2	93.0	103.1	107.8	-
Import Cover	Months	1.8	2.0	2.6	2.3	2.0	2.2	-	-
External Debt/GDP	%	161.7	169.1	213.9	182.6	173.5	167.1	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.7	0.8	-0.3	3.0	8.3	3.4	2.8	1.9
Exchange Rate (Average)	LC per USD	0.87	0.89	0.81	0.88	0.94	0.90	0.96	-
Non-Performing Loans/Total Gross Loans	%	3.7	3.2	2.9	2.9	3.1	-	-	-
Private debt, loans and debt securities/GDP	%	154.0	150.0	170.4	162.9	146.2	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A/Stable	April 03, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A	October 03, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

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