

CareEdge Global assigns Long Term Foreign Currency Rating of A (Unsolicited) to the Kingdom of Spain

Credit Profile

Spain represents a large and high-income European economy. Its credit profile benefits from the Euro's reserve currency status as well as the country's strong institutions. These strengths are partly offset by high external and general government debt. Going ahead, Spain's ageing population poses a challenge to the economy's growth potential and government finances.

Spain continues to receive support from the EU in the form of the Recovery and Resilience Facility (RRF), introduced during the pandemic. Spain is entitled to receive EUR 163 billion (~13% of GDP) in grants and loans under the facility. The plan requires all milestones (qualitative achievements) and targets (quantitative achievements) to be completed by August 2026. Thus, Spain's progress in meeting the agreed milestones and targets remains a key monitorable going ahead.

Strengths

- Large and high-income economy
- Euro's status as a reserve currency
- Encouraging economic growth performance

Weaknesses

- High general government debt
- High external debt
- Negative net international investment position (NIIP)

Key Monitorables

- Ability to meet the requirements of National Recovery and Resilience Plan
- Impact of the rapidly ageing population on economic growth potential and government finances

Key Rating Drivers

Economic Structure & Resilience

Spain represents a large economy with a nominal GDP of USD 1.6 trillion, ranking fifteenth largest globally and fourth largest within the EU. It has relatively high-income levels with a GDP per capita of USD 41249 in constant purchasing power parity terms. Tourism plays a crucial role in the economy having consistently contributed to more than 10% of Spain's GDP. Though, this halved to 6% in 2020 following the pandemic, the sector rebounded with its share rising back to 11.6% of GDP in 2022.

The economy grew by an encouraging 2.5% in 2023, higher than the Euro area growth by 1.8 percentage points. Improvement in consumption and healthy performance in services exports have supported the

economic recovery. However, the private investment scenario continues to remain weak. Going forward, economic growth is projected to average at 1.9% over the next five years. However, the rapidly ageing population poses a headwind for Spain's future growth potential. The share of older population (65+) was at 20.7% of the total population in 2023. Moreover, the pace of increasing share of older population is projected to be the highest in Spain vis-à-vis other EU economies.

Fiscal Strength

Spain's fiscal assessment is characterized by high general government debt at 107.7% of GDP in 2023. Though this represents a moderation compared to the pandemic-peak of 120.3% (2020), it continues to remain elevated compared to the average debt of ~101% during 2015-19. Going ahead, debt is projected to moderate only gradually reaching 103.2% by 2029. The general government fiscal deficit moderated to 3.6% of GDP in 2023 from 4.7% in the previous year aided by healthy tax revenues. However, the deficit is projected to remain elevated around 3% of GDP over the next five years.

These challenges are partially offset by comfortable debt affordability with interest payments seen at 5.7% of revenue in 2023, which have reduced from 9.2% in 2013. However, elevated interest rates pose a risk for Spain's debt affordability. Moreover, Spain's committed expenditure is also high, with spending towards salaries, pensions, net social benefits, and subsidies seen at 42.2% of the total expenditure in 2022. Going ahead, rising age-related spending pressures remain a monitorable for Spain's finances.

External Position & Linkages

Spain's external position is characterized by high external debt at 169.1% of GDP and negative NIIP at -54% of GDP as of 2023. However, a surplus current account position, modest levels of FDI inflows, and the Euro's reserve currency status help to partly offset these challenges.

Spain's current account surplus improved to 2.6% of GDP in 2023 from 0.6% in 2022 aided by strong performance in services exports and moderation in energy prices. Going ahead, the current account surplus is projected to remain healthy at 2.6% in 2024 and gradually moderate thereafter reaching 1.8% by 2029 on account of normalizing tourism flows and rebound in non-energy imports.

Monetary & Financial Stability

Spain is a part of the European Economic and Monetary Union and has the Euro as its official currency. It follows a free-floating exchange rate regime. Euro's status as a global reserve currency also benefits Spain's monetary assessment.

Inflation measured by the Harmonized Index of Consumer Prices moderated to 3.4% in 2023 from 8.3% in 2022 aided by easing energy prices and contained wage growth. Going ahead, inflation is projected to moderate to 2.9% and 2.3% in 2024 and 2025, respectively. However, it is projected to ease below the Central Bank's 2% target only by 2026.

The Spanish banking system has remained resilient in the face of tightening monetary and financial conditions without the build-up of significant systemic risks. Furthermore, the asset quality remains sound with the ratio of non-performing loans to total loans seen at 3% as of Q1 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 general elections of 2023, Pedro Sanchez of the Socialist Workers' Party (PSOE) won another term as the President. However, the present government represents a fragile coalition formed with the support from regional parties. Particularly, the presence of two Catalan pro-independence parties in the coalition poses a risk for the tensions surrounding Catalonia.

Spain – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	1422.3	1394.5	1277.1	1446.6	1418.9	1581.2	1647.1	1715.6
GDP Per Capita (Constant-PPP)	USD	40382.9	40854.6	36101.4	38431.6	40407.3	41248.8	41536.1	41936.9
Real GDP Growth	%	2.3	2.0	-11.2	6.4	5.8	2.5	2.4	2.1
GFCF/GDP	%	19.4	20.0	20.4	20.1	20.1	19.3	-	-
Gross Domestic Savings/GDP	%	23.2	23.8	21.9	22.6	22.7	24.4	-	-
Exports (G&S)/GDP	%	35.1	34.9	30.8	34.2	40.9	39.0	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.8	65.9	65.9	66.0	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	-3.1	-10.1	-6.7	-4.7	-3.6	-3.0	-2.9
Revenue/GDP	%	39.2	39.2	41.8	43.3	42.6	42.8	42.9	42.9
Expenditure/GDP	%	41.8	42.3	51.9	50.0	47.4	46.4	45.9	45.7
GG Gross Debt/GDP	%	100.4	98.2	120.3	116.8	111.6	107.7	105.6	104.4
GG External Debt (by Creditor)/GG Gross Debt	%	45.9	50.1	47.3	44.2	36.2	37.6	-	-
Interest/Revenue	%	6.2	5.8	5.4	4.9	5.5	5.7	-	-
External Indicators									
Current Account Balance/GDP	%	1.9	2.1	0.6	0.8	0.6	2.6	2.6	2.3
FDI, Net Inflows/GDP	%	4.1	1.9	3.0	4.0	3.6	2.1	-	-
Outstanding FII Liabilities/GDP	%	86.8	97.8	114.2	96.6	81.4	85.4	-	-
NIIP/GDP	%	-76.7	-73.0	-91.3	-67.9	-60.9	-54.0	-	-
Foreign Exchange Reserves	USD Billion	70.7	74.7	81.3	92.2	93.0	103.1	-	-
Import Cover	Months	1.8	2.0	2.6	2.3	2.0	2.2	-	-
External Debt/GDP	%	162.9	170.3	215.0	183.0	174.9	169.1	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.7	0.8	-0.3	3.0	8.3	3.4	2.9	2.3
Exchange Rate (Average)	LC per USD	0.8	0.9	0.9	0.8	1.0	0.9	-	-
Non-Performing Loans/Total Gross Loans	%	3.7	3.2	2.9	2.9	3.1	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

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	A	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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CIN-U66190GJ2024PLC151103