Subnational Debt 2024: Spain

Lower borrowings, but bond issuances recover

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S&P Global Ratings

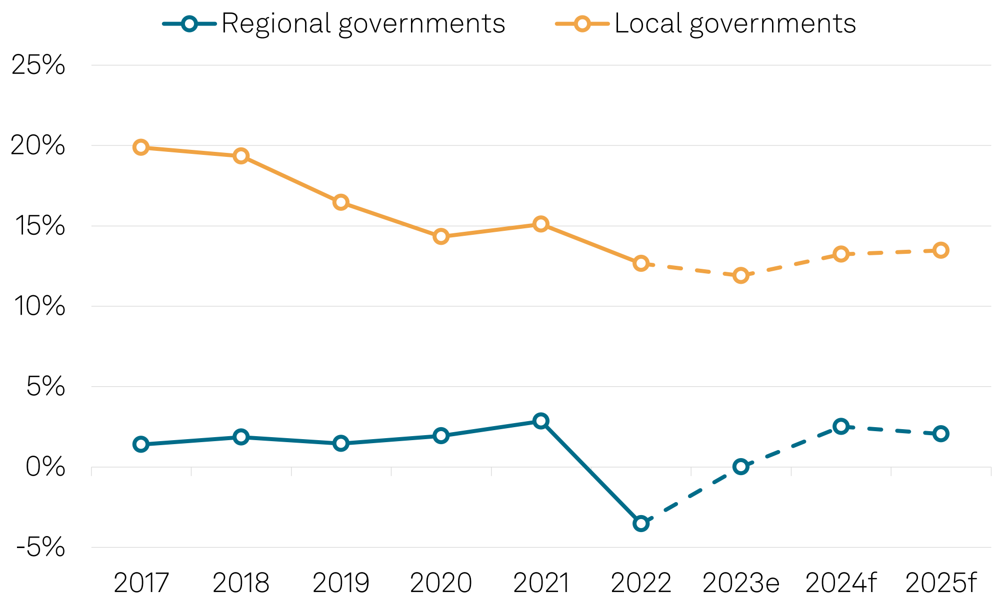
Overview

- We forecast Spanish local and regional governments (LRGs) will have **lower financing needs over the next two years**, supported by **improved budgetary performance** metrics and a smoother debt repayment calendar.
- Spanish LRGs' **debt burden remains very high** in an international context, especially at the regional level. Nevertheless, we expect debt ratios to decline thanks to higher operating revenue.
- We expect **bond issuance to pick up slightly over 2024-2025** as monetary policy eases from mid-2024 onward. Bond issuance will be mainly in Madrid, the Basque Country, and Andalusia.
- The **central government will remain a key source of funding** for Spanish LRGs.
- While we expect an **increase in effective interest rates**, and therefore **interest payments**, this will be **gradual and will remain manageable**, in our view.

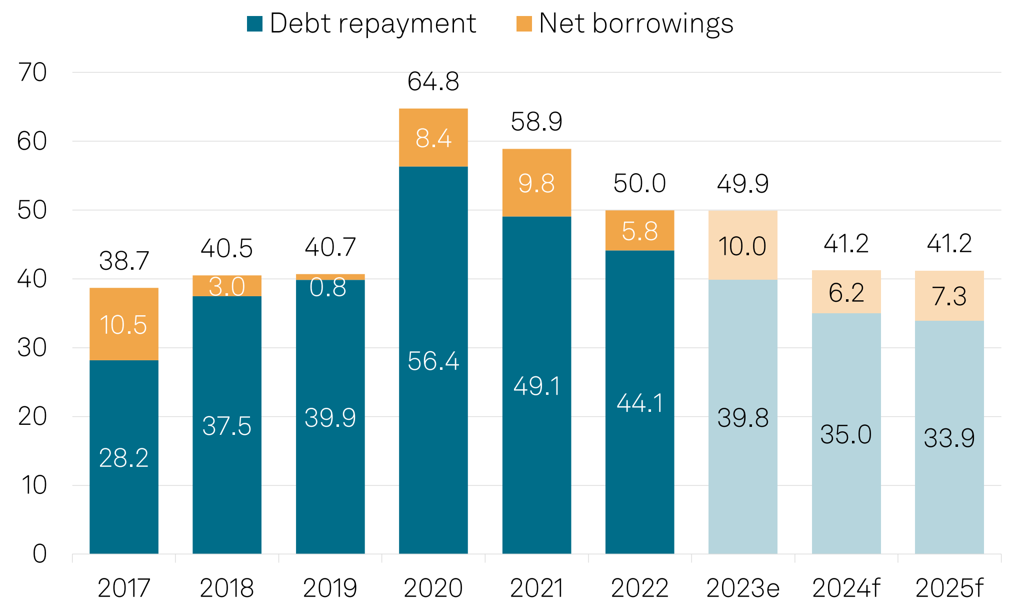
A stronger budgetary performance and lower debt repayments will bring Spanish LRGs' gross borrowing down

- Operating revenue will rise 8% in 2024, supported by high funding from the regional financing system.
- The return of fiscal rules should allow Spanish LRGs to rein in expenditure growth.
- Debt repayments will decline by 12% in 2024, 62% lower than their peak in 2020.

Operating balance (% of operating revenue)



LRGs' gross borrowings (bil. €)

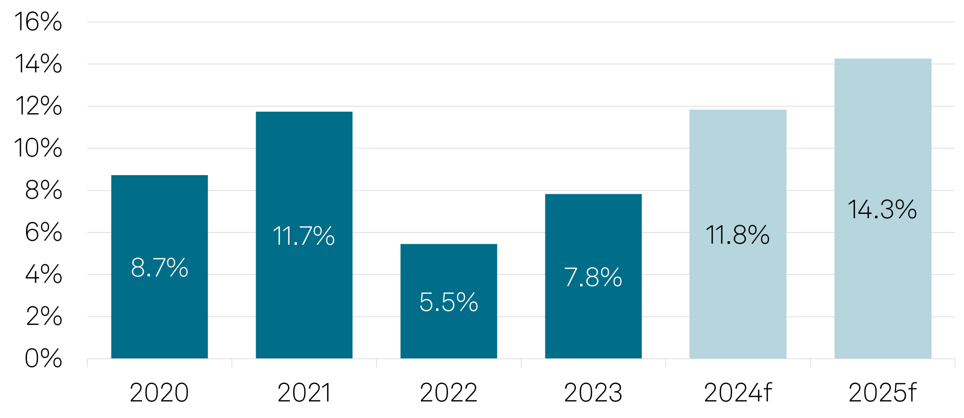


e--Estimate. f--Forecast. Sources: Ministry of Finance and S&P Global Ratings estimates.

We think Spanish regions might increase bond issuances in 2024 and 2025

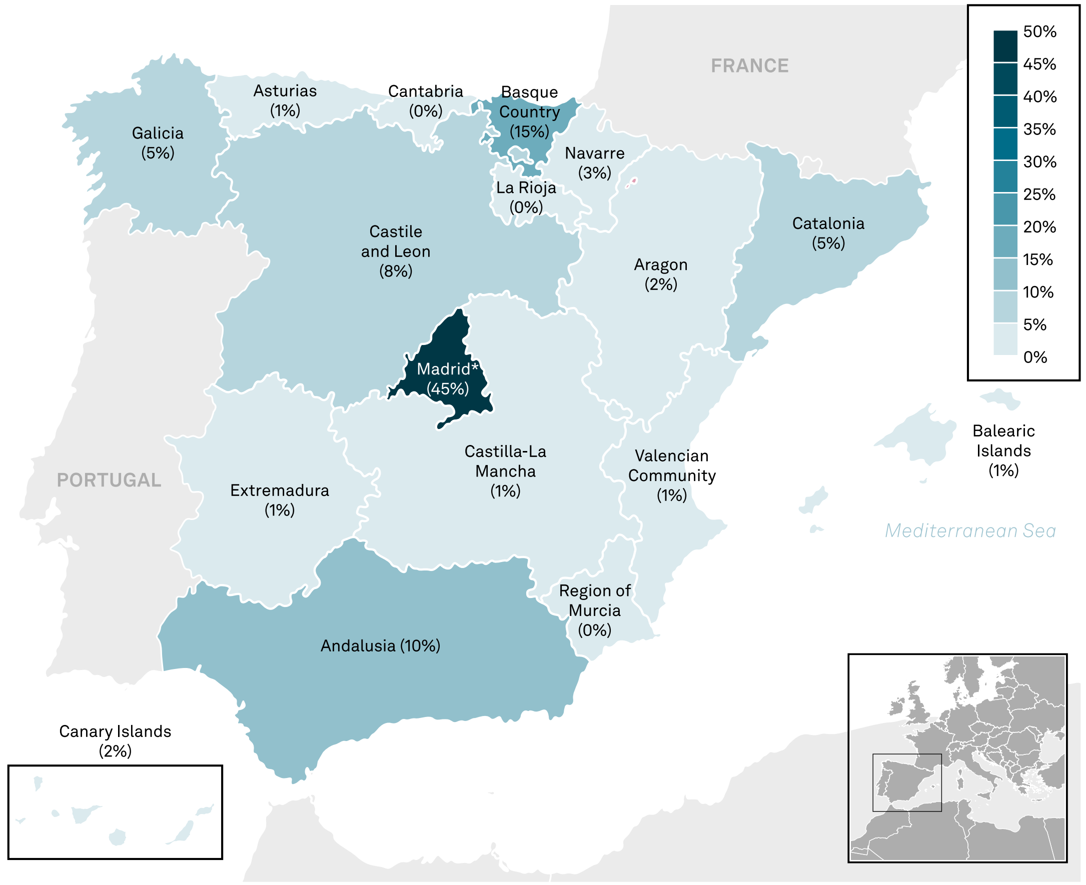
- More favorable market conditions should support bond issuance as monetary policies ease from mid-2024.
- Stronger budgetary performance and regional management's willingness to become more self-determinant in funding their needs will also support bond issuances in the next couple of years.
- In our view, bond issuance will remain concentrated in the largest recent issuers, with Madrid, The Basque Country, Andalusia, Galicia, and Castilla y Leon likely to lead.

Spanish regions' bond issuance (% of gross borrowings)



f--Forecast. Sources: Bank of Spain and S&P Global Ratings.

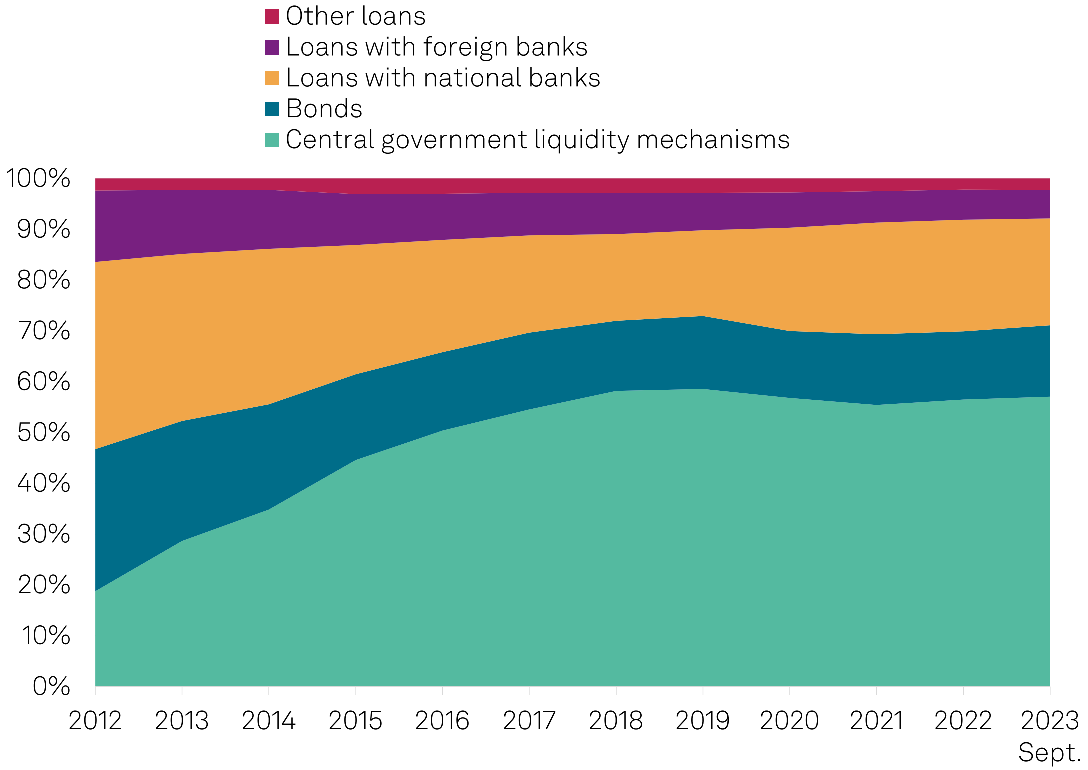
Regional share of total bonds outstanding (2022)



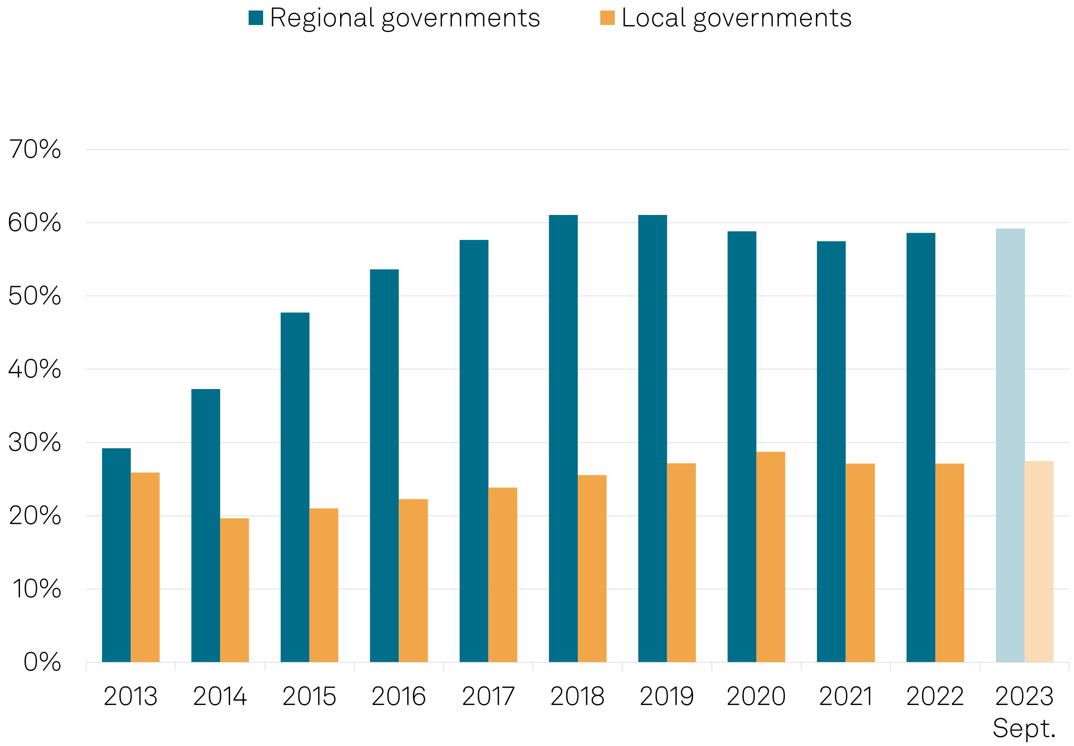
*Community of Madrid. Source: S&P Global Ratings.

Central government liquidity facilities will remain a key funding source of Spanish LRGs

LRG debt breakdown



Central government holdings of LRGs debt (% of total debt)



Sources: Bank of Spain and S&P Global Ratings.

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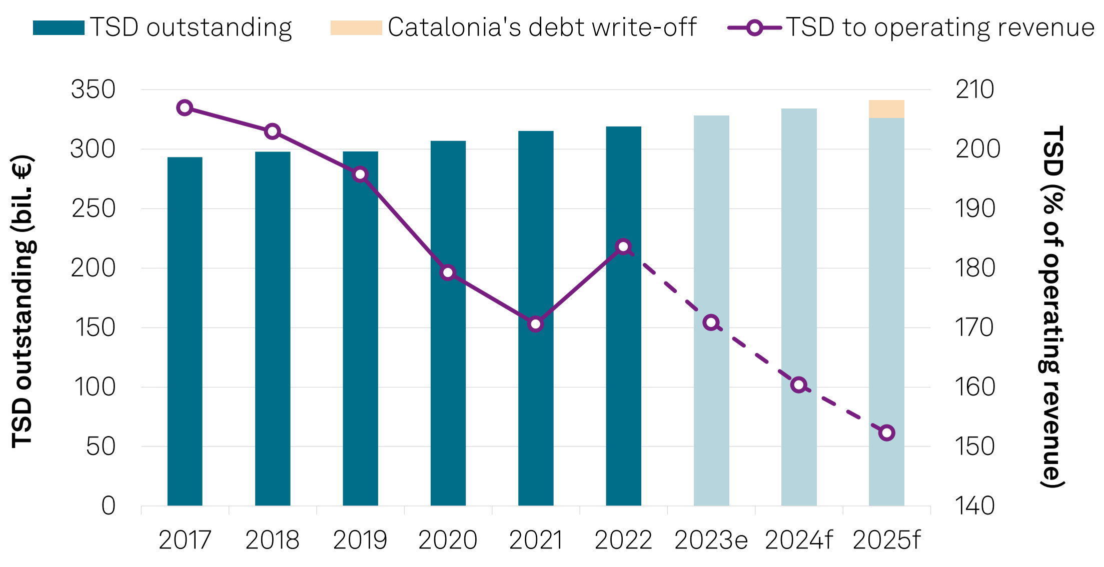
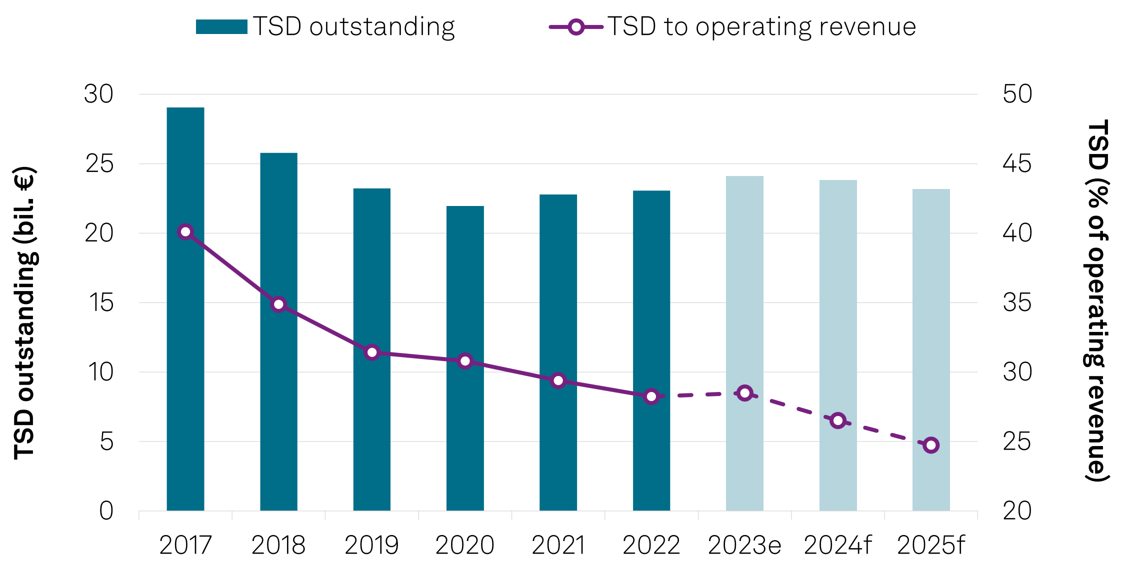
Spanish LRGs debt ratios will continue to decline thanks to a growing revenue base

- Contrary to Spanish regional debt, local government debt burden is very low, owing to recurrent large surpluses used to repay debt.
- However, if a debt write-off to all normal Spanish regions materializes over 2024-2025, regional tax-supported debt ratios could decline beyond our base-case scenario. We have incorporated a debt write-off for Catalonia (€15 billion), the only one confirmed.

Regional governments' tax-supported debt



Local governments' tax-supported debt

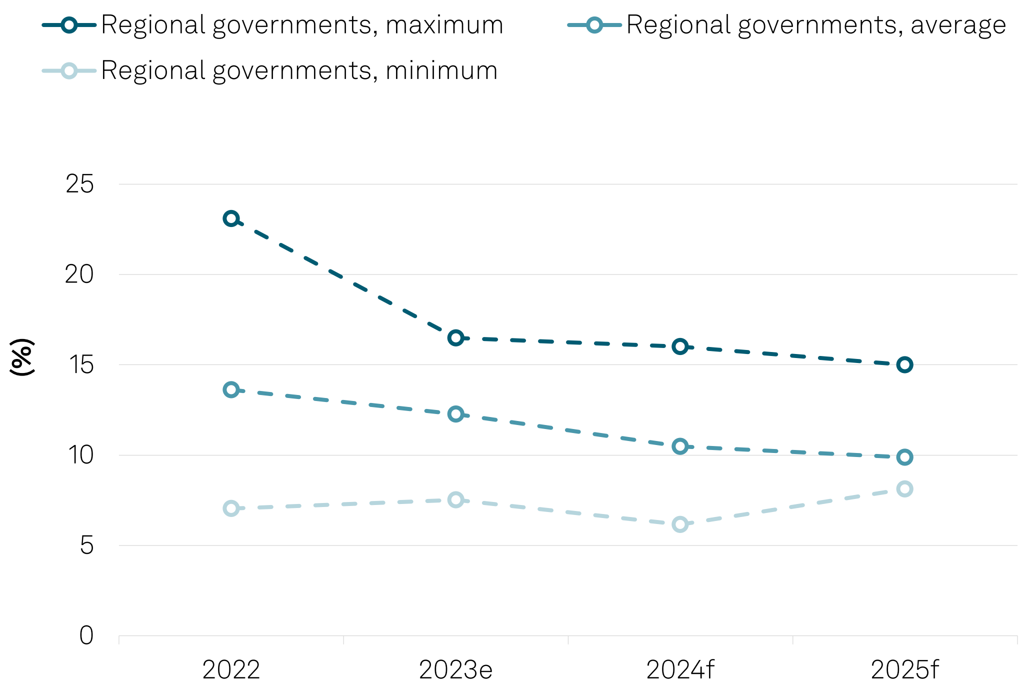


e--Estimate. f--Forecast. TSD--Tax-supported debt (direct debt of the LRG; debt of nonself-supporting financial government-related entities; guaranteed debt; and similar obligations). Sources: Bank of Spain and S&P Global Ratings estimates.

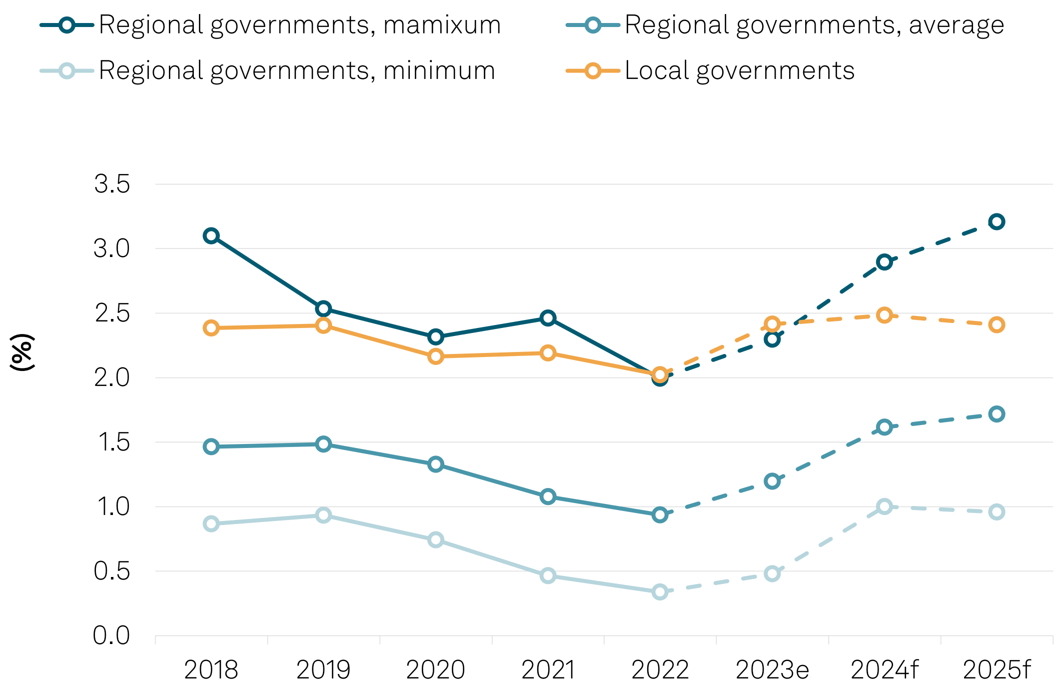
Long-dated and fixed-rate debt shields regions' finances

- Debt repricing is slow and interest rate increases are manageable.
- Moreover, on average, about 90% of regional debt is fixed-rate.

Refinancing rate (maturities as % of previous year’s debt)



Effective interest rate (average)



e--Estimate. f--Forecast. Source: S&P Global Ratings estimates.

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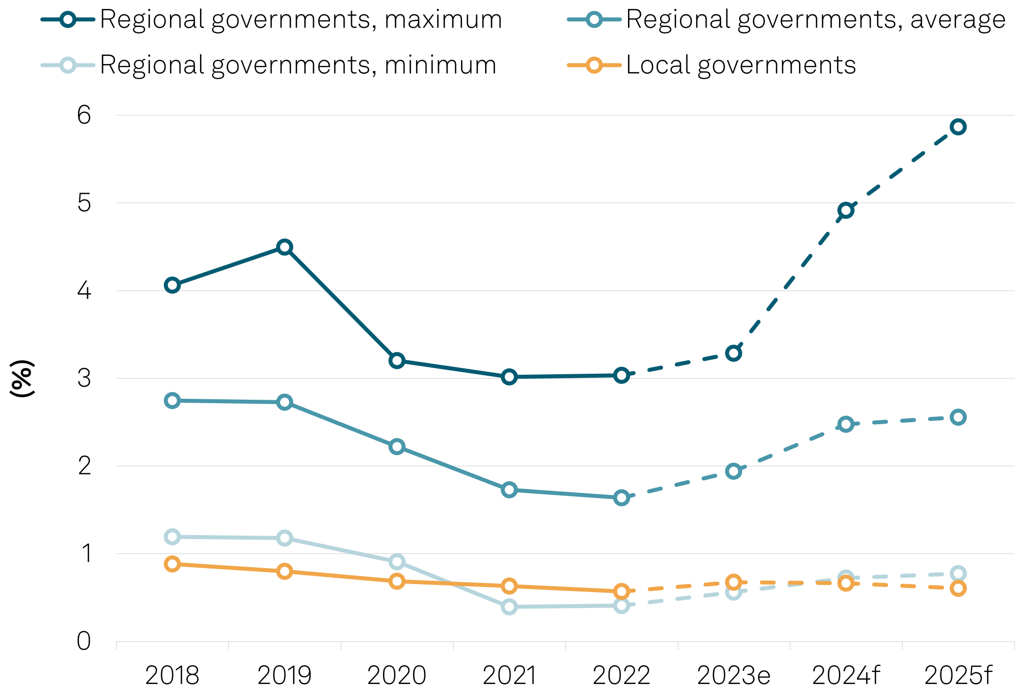
Regions can handle the budgetary impact of higher interest rates

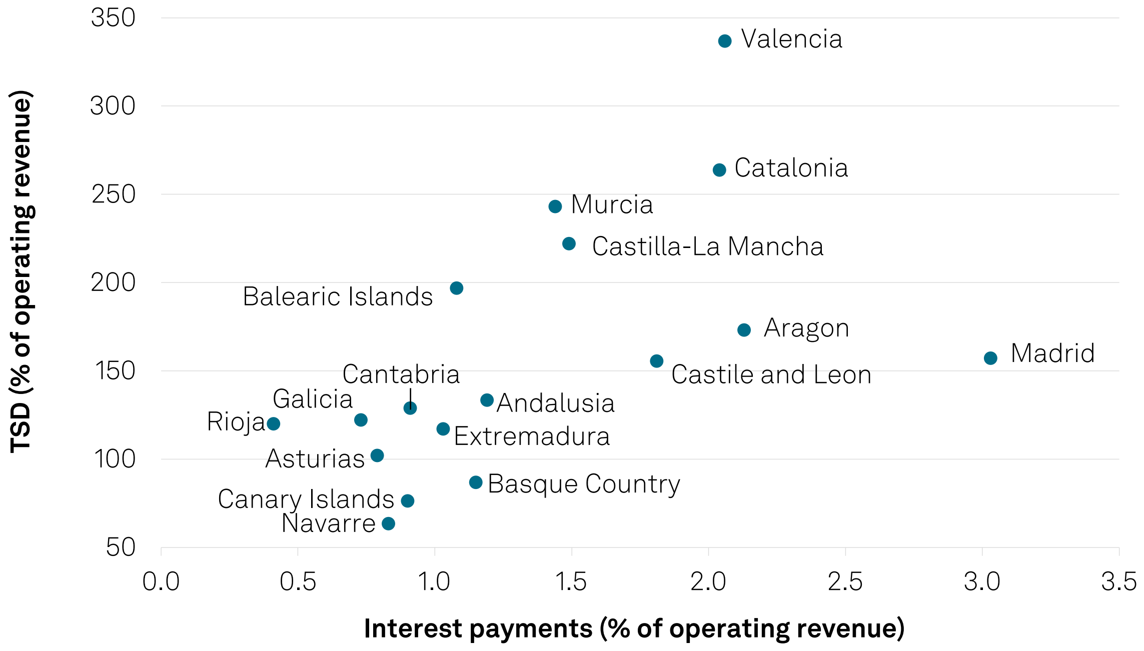
Pressure will be greater for the most indebted entities or those with a high weight of market-based funding

Interest payments (% of operating revenue)



Source: S&P Global Ratings estimates.

Interest payments versus tax-supported debt (2022)



TSD--Tax-supported debt. Source: S&P Global Ratings estimates.

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