Subnational Debt 2024: Spain (Debt Absorption Scenarios)

All could benefit, with some more than others

Alejandro Rodriguez Anglada

Marta Saenz

Manuel Becerra

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S&P Global
Ratings

This report does not constitute a rating action

Spanish normal-status regions could benefit from the central government absorbing debt

- On Nov. 2, 2023, the Spanish Socialist Party (PSOE) reached an agreement with Esquerra Republicana de Catalunya, the current ruling party in the Autonomous Community of Catalonia, to absorb €15 billion in debt that the region owes to the central government as part of negotiations to form a new government.
- The agreement suggests this debt relief will extend to all other normal status regions.
- This debt absorption can include debt owed to the central government or market-based debt.
- The agreement does not clarify assumptions or formulas in calculating the support for each region.
- We understand the calculation will consider variables linked to the relative impact of the financial crisis (2008-2014) on each region.

This debt relief will be credit positive, but will not be enough to meaningfully improve finances over the next few years

- We have defined four debt write-off scenarios to analyze the measure's impact on each region's debt burden.
- We think a debt write-off for rated Spanish normal-status regions will either have a neutral or positive effect on our ratings depending on the magnitude of the debt absorption.
- For the most indebted regions, for which the change will be credit positive, the reduced tax-supported debt will not imply a structural change to debt burdens but will provide relief to regions interest burden.
- This measure only addresses previous budgetary imbalances--absent a structural reform of the regional financing system, the debt absorption might only temporarily improve regions' performance.
- It could also generate moral hazard by diminishing incentives for regions to control debt growth, in anticipation of potential further debt absorption.

We have assessed four scenarios of debt write-off for normal-status regions in Spain, using the Catalonia assumptions as the starting point

Scenario 1: Based on the accumulated debt from 2008-2014

- Each region's debt forgiveness represents the same share of accumulated debt in this period as Catalonia's (30% of debt accumulated between 2008-2014).

Scenario 2: Based on the same relative debt reduction

- All regions receive a debt reduction that is equally extensive as that of Catalonia.
- The ratio of Tax-supported debt to consolidated operating revenues reduces by 19% for all regions.

Scenario 3: Based on the accumulated loss of GDP from 2008-2014.

- We calculate the sum of lost GDP each year (2009-2014) compared with 2008 GDP.
- We calculate the proportion of this loss that the €15 billion represents for Catalonia.
- We apply the same proportion to each region's lost GDP and assume this debt will be forgiven.

Scenario 4: Based on the accumulated authorized deficit (as % of regional GDP)

- We combine the officially authorized deficits for each region from 2008-2014.
- We calculate the proportion that the €15 billion represents of Catalonia's authorized deficits.
- We apply the same proportion to all regions in calculating debt forgiveness amounts.

Results and comparison of the debt write-off scenarios (bil. €)

Most favorable scenario for each region

Spanish regions	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Catalonia	15.00	15.00	15.00	15.00
Madrid	5.52	7.19	6.23	14.08
Andalusia	6.45	7.50	12.20	10.74
Valencia	7.77	12.09	11.11	7.49
Galicia	1.87	2.39	3.75	4.03
Castilla-Leon	2.00	2.69	3.82	3.94
Canary Islands	1.32	1.28	2.85	2.91
Castilla-La Mancha	2.81	3.08	3.05	2.76
Aragon	1.33	1.87	2.68	2.43
Murcia	1.84	2.60	2.34	2.07
Balearic Islands	1.46	1.71	1.43	1.98
Asturias	0.83	0.75	2.47	1.58
Extremadura	0.67	1.05	0.90	1.25
Cantabria	0.59	0.60	1.02	0.90
La Rioja	0.27	0.33	0.56	0.56
Total debt absorption by the sovereign	**49.72**	**60.13**	**69.42**	**71.73**

Source: S&P Global Ratings.

In all scenarios, the impact will be positive for tax-supported debt ratios

Estimated 2025 TSD (% consolidated operating revenue)

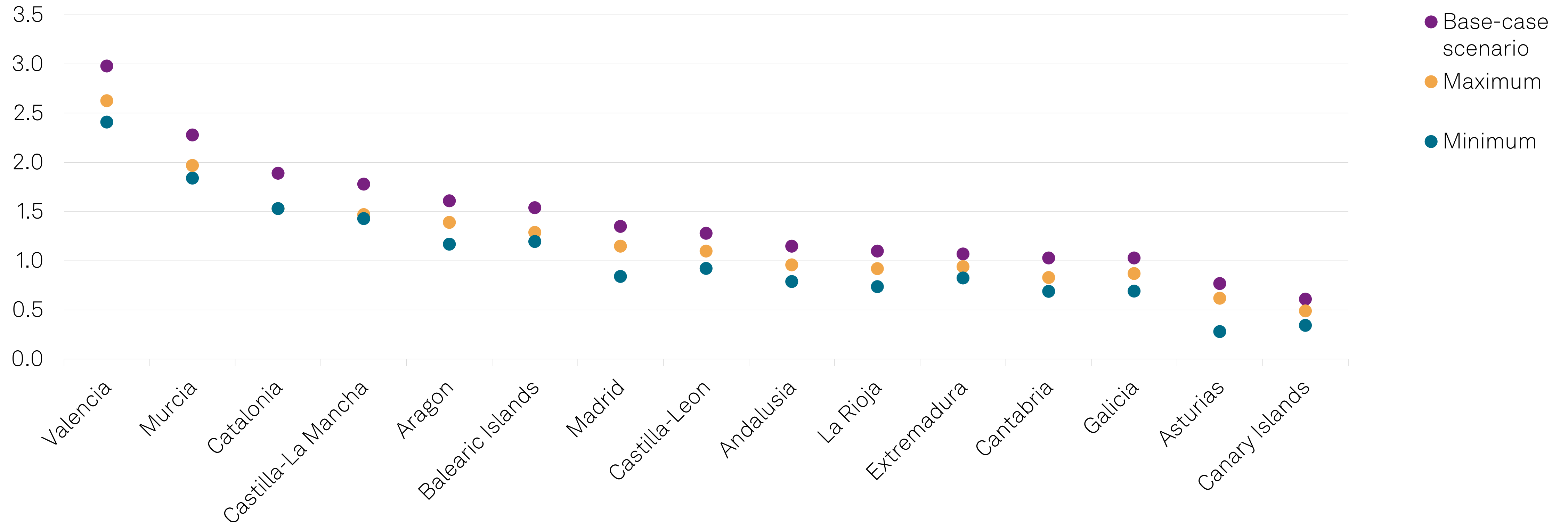
Most favorable scenario for each region

Spanish regions	Base case	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Valencia	298%	261%	241%	246%	263%
Murcia	228%	197%	184%	189%	193%
Catalonia	189%	153%	153%	153%	153%
Castilla-La Mancha	178%	146%	143%	144%	147%
Aragon	161%	139%	130%	117%	121%
Balearic Islands	154%	129%	124%	129%	120%
Madrid	135%	115%	109%	112%	84%
Castilla-Leon	128%	110%	104%	93%	92%
Andalusia	115%	96%	93%	79%	84%
La Rioja	110%	92%	89%	74%	74%
Extremadura	107%	94%	87%	89%	83%
Cantabria	103%	83%	83%	69%	73%
Galicia	103%	87%	83%	72%	69%
Asturias	77%	61%	62%	28%	46%
Canary Islands	61%	49%	49%	35%	34%

Note: Regions sorted by estimated debt burden in 2025. TSD--Tax-supported debt. Source: S&P Global Ratings.

While the most indebted regions would see no structural changes, the lowest could experience relatively stronger debt relief

Estimated 2025 TSD (% consolidated operating revenue)



TSD--Tax-supported debt (direct debt of the LRG; debt of nonself-supporting financial GREs; guaranteed debt; and similar obligations). Source: S&P Global Ratings estimated scenarios.

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Who would benefit the most?

Scenario 1: Based on the accumulated debt from 2008-2014

- This scenario disproportionately benefits Catalonia, which would receive about 30% of the amount for all regions.

Scenario 2: Based on the same relative debt reduction

- All regions receive a debt reduction that is equally strong.
- This is the most favorable scenario for regions with the weakest finances (Valencia, Murcia, and Castilla-La Mancha), because it accounts for their relative debt burdens to revenue.

Scenario 3: Based on the accumulated loss of GDP from 2008-2014

- Regions most affected by the crisis benefit the most, while the more economically resilient are penalized.
- The strength of the support would not be equal for all Spanish regions.
- This scenario is the least favorable for Madrid and the Balearic Islands.

Scenario 4: Based on the accumulated authorized deficit (as a share of regional GDP)

- This scenario would benefit regions that posted a lower deficit than the one authorized and enjoy from a higher regional GDP. This is because authorized deficits are defined as a share of GDP.
- This scenario is beneficial for the best-financed and more fiscally conservative regions (having posted lower deficits), and for Madrid (with a large GDP).

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Analytical Contacts

Alejandro Rodríguez Anglada

Director, Lead Analyst

alejandro.rodriguez.anglada@spglobal.com

Marta Sáenz

Associate Director

marta.saenz@spglobal.com

Manuel Becerra

Research Assistant

manuel.becerra@spglobal.com

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