Subnational Government Outlook 2025: Spain

Debt Ratios Are Reducing As Revenue Rises

Alejandro Rodriguez Anglada

Manuel Becerra

Jan. 16, 2025

S&P Global Ratings

This report does not constitute a rating action

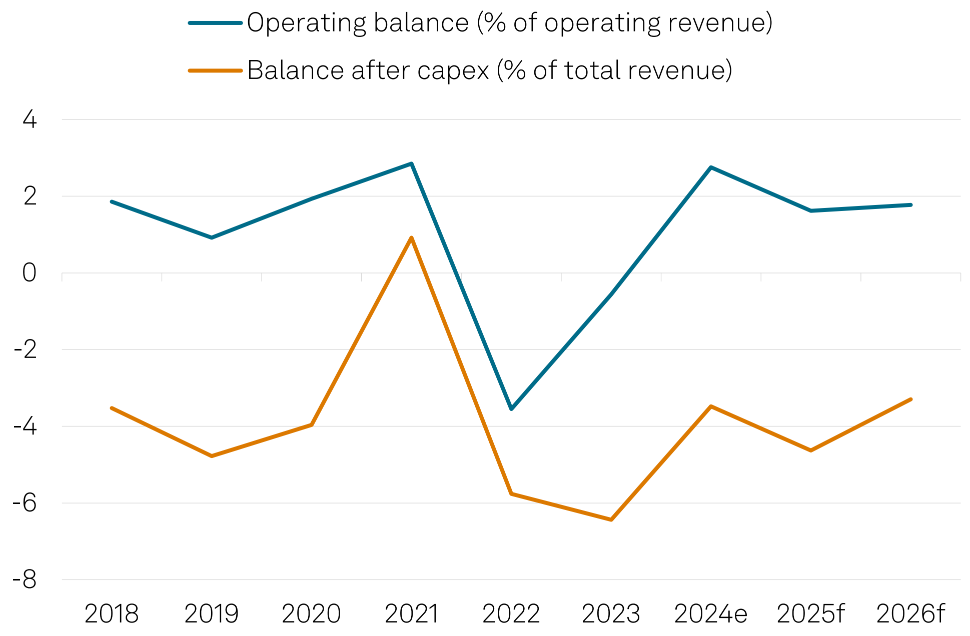
Key Takeaways

- Despite rapidly rising revenue, we don’t expect meaningful improvements in Spanish regions' budgetary performance, with nominal debt set to continue increasing, although debt ratios should improve.
- Although the central government's absorption of regions' debt would improve ratios, this is unlikely to address the structural divergences arising from different levels of funding from the regional financing system.
- Regions' gross financing needs are set to decline due to lower debt repayments and the longer average tenor of debt.
- The central government will remain the regions' main funding source, while bond issuance will stabilize as a proportion of overall funding, with no meaningful changes in issuers.
- Furthermore, interest expenditure is unlikely to strain the regions' budgets, due to a high amount of debt at fixed rates and the gradual decrease in interest rates.
- The reintroduction of fiscal rules will drive local governments' strong performance and continued debt reduction, and they will continue to accumulate cash, in what is already a strong net creditor position.

Regions Will Continue To Show Deficits

Operating revenue has increased on the back of economic growth, but expenses are rising, limiting improvements in performance

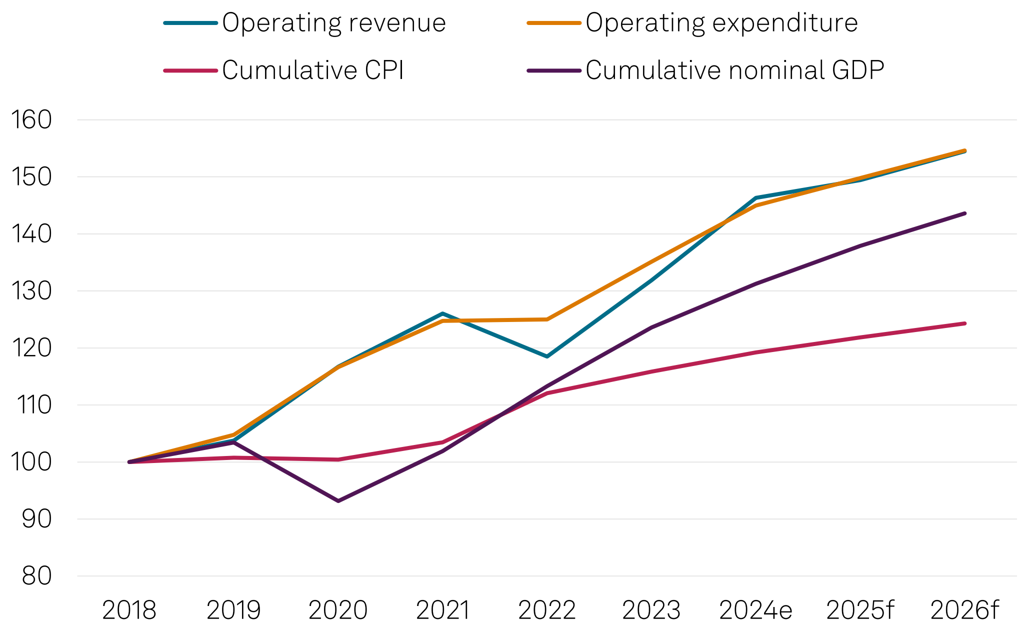
Deficits are narrowing only gradually



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

Operating expenditure has increased steadily

2018=100

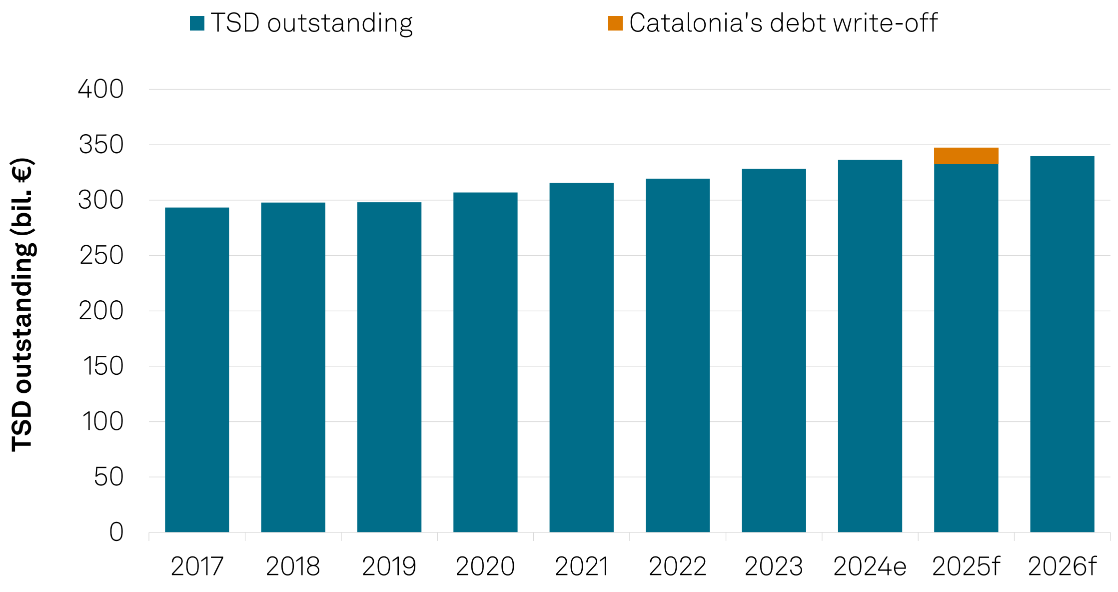


e--Estimate. f--Forecast. Source: S&P Global Ratings estimates.

Nominal Debt Is Rising But Debt Ratios Should Decline Across The Board

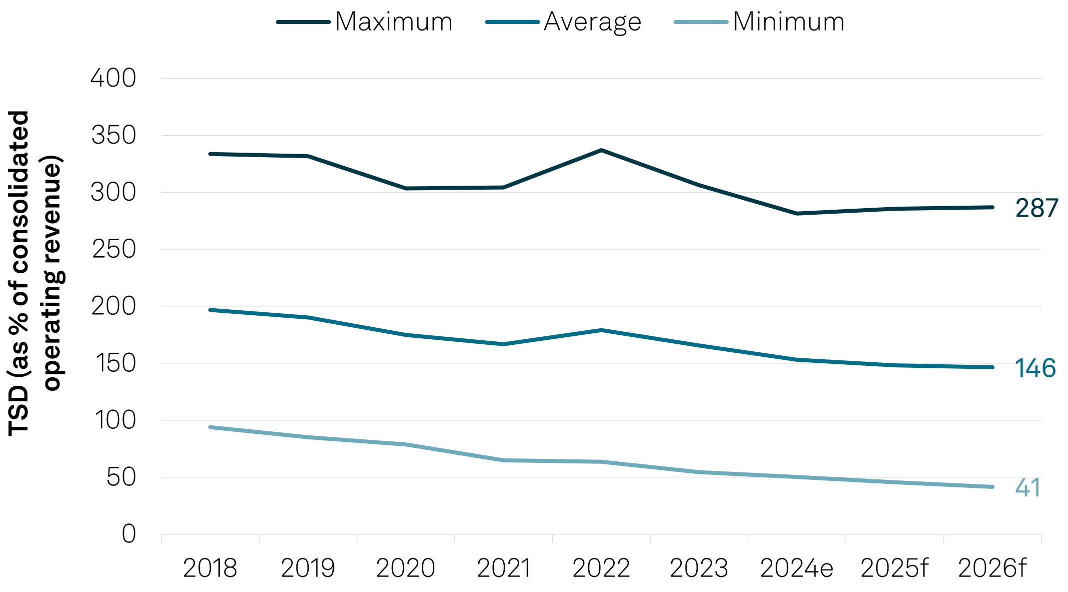
This is thanks to growth of operating revenue, but some regions ratios could increase. Debt write-offs don't address the root causes of regional disparities, linked to the financing system.

Nominal debt continues to rise – pending possible write-offs



e--Estimate. f--Forecast. TSD--Tax-supported debt refers to the direct debt of LRGs; debt of non-self-supporting financial government-related entities; guaranteed debt; and similar obligations. Sources: Bank of Spain, S&P Global Ratings estimates.

Debt ratios are coming down, but differences remain



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

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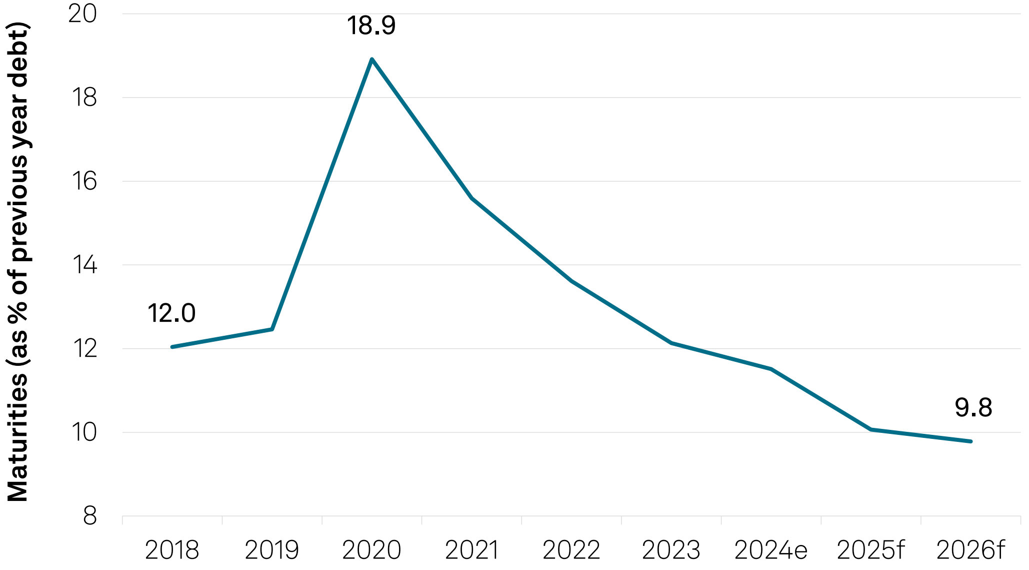
Gross Regional Borrowings Should Go Down Alongside Debt Maturities

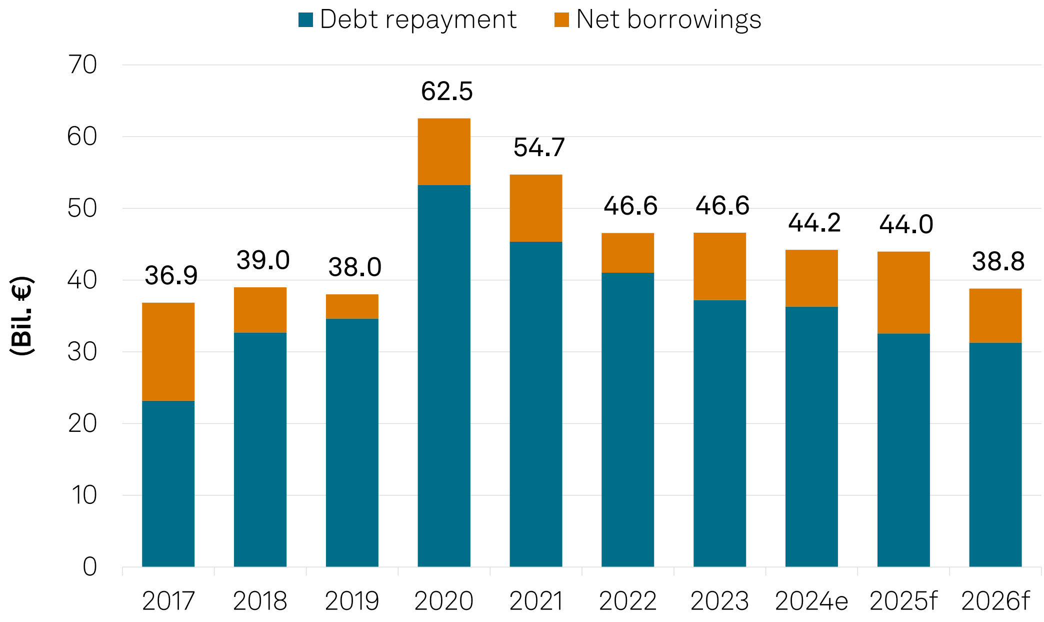
Regions have managed to extend the average debt tenor; and funding through the government has longer interest-only periods.

The regional refinancing rate is steadily declining



e--Estimate. f--Forecast. Sources: Ministry of Finance and S&P Global Ratings estimates. Note: Peak in debt repayment in 2020 and 2021 is due to refinancing of central government loans at more favorable market conditions.

Decreasing maturities limits gross borrowing needs



e--Estimate. f--Forecast. Source: S&P Global Ratings estimates. Note: Peak in debt repayment in 2020 and 2021 is due to refinancing of central government loans at more favorable market conditions.

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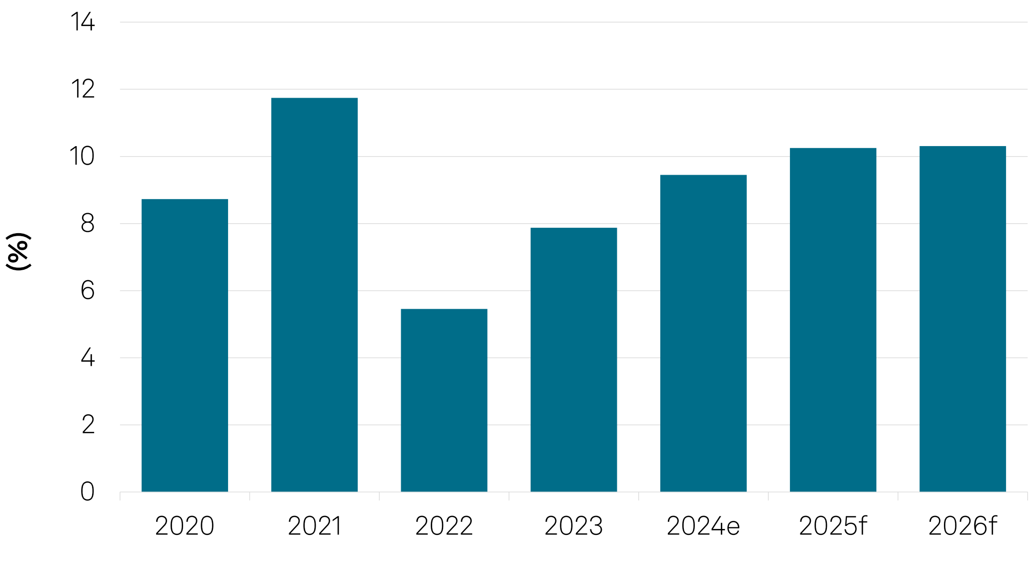
Funding Via Bonds Will Become More Prevalent – With Regional Differences

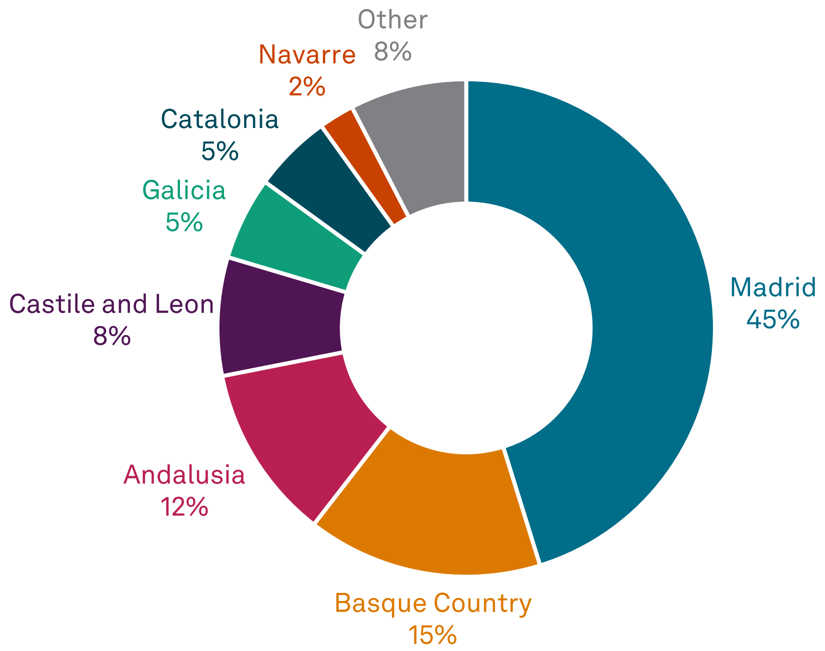
The market's appetite for bonds remains strong, with increased access to investors in sustainable and green debt. Regions that issue bonds regularly value their financial autonomy and ability to manage their maturity profiles.

Spanish regions' bond issuance (% of gross borrowings)



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

Regions' share of total bonds outstanding (2023)

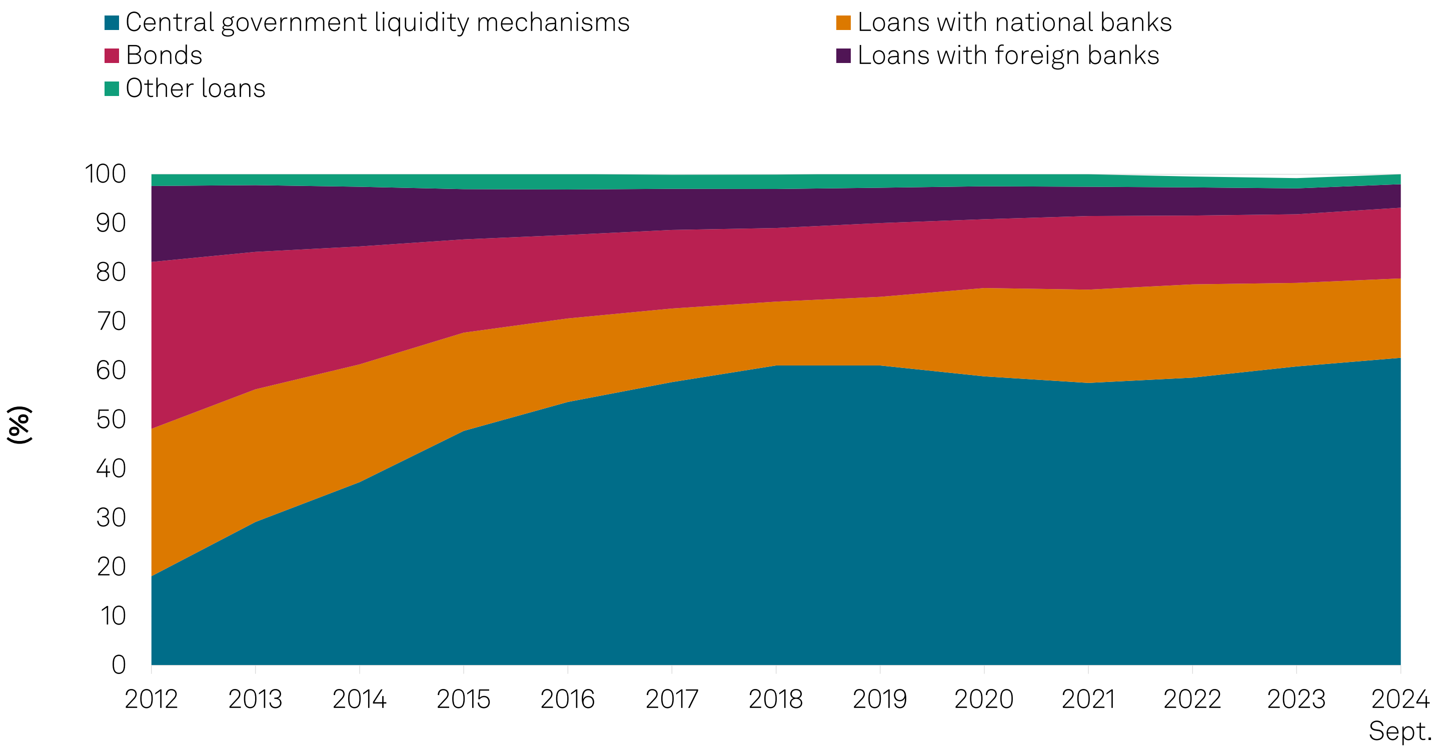


Source: S&P Global Ratings.

Government Liquidity Is Still The Key Funding Source For Spanish Regions

- Regions took advantage of favorable market conditions in 2020-2022 to refinance old loans from the central government, achieving interest savings.
- This window could open once again, exclusively for central government loans taken in 2023 when interest rates were temporarily high.
- We still see a dual nature of regional funding, with some regions (like Madrid, the Basque Country, Andalusia, and Galicia) issuing regularly, while others continue to rely on government funding.
- In our view, only structural changes to the regional financing system, coupled with action on debt, could fundamentally change this dynamic.

Regional debt by funding source

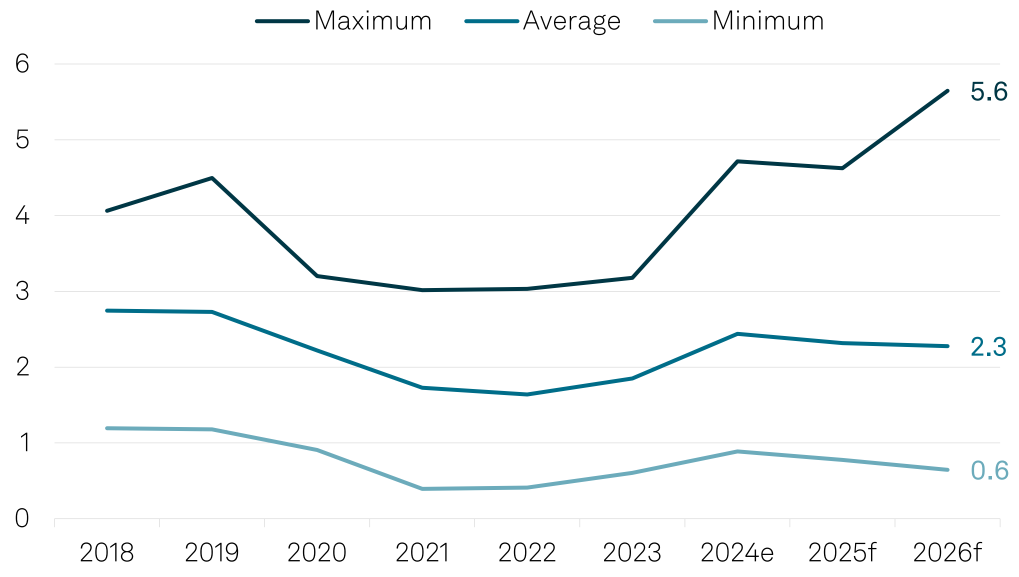


Source: Bank of Spain, S&P Global Ratings.

Interest Expenditure Still Represents A Moderate Burden For Regions

Only the most indebted regions and those with long-dated debt will see somewhat higher pressure, but more than 85% of the LRGs' debt is at fixed rates, so interest burdens remain moderate.

Regional governments' interest payments (% of operating revenue)



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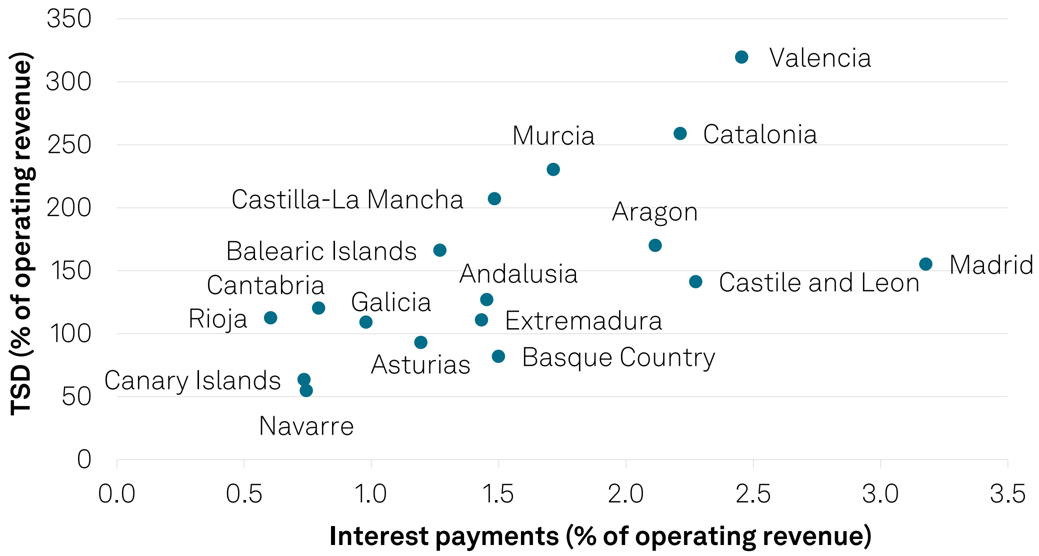
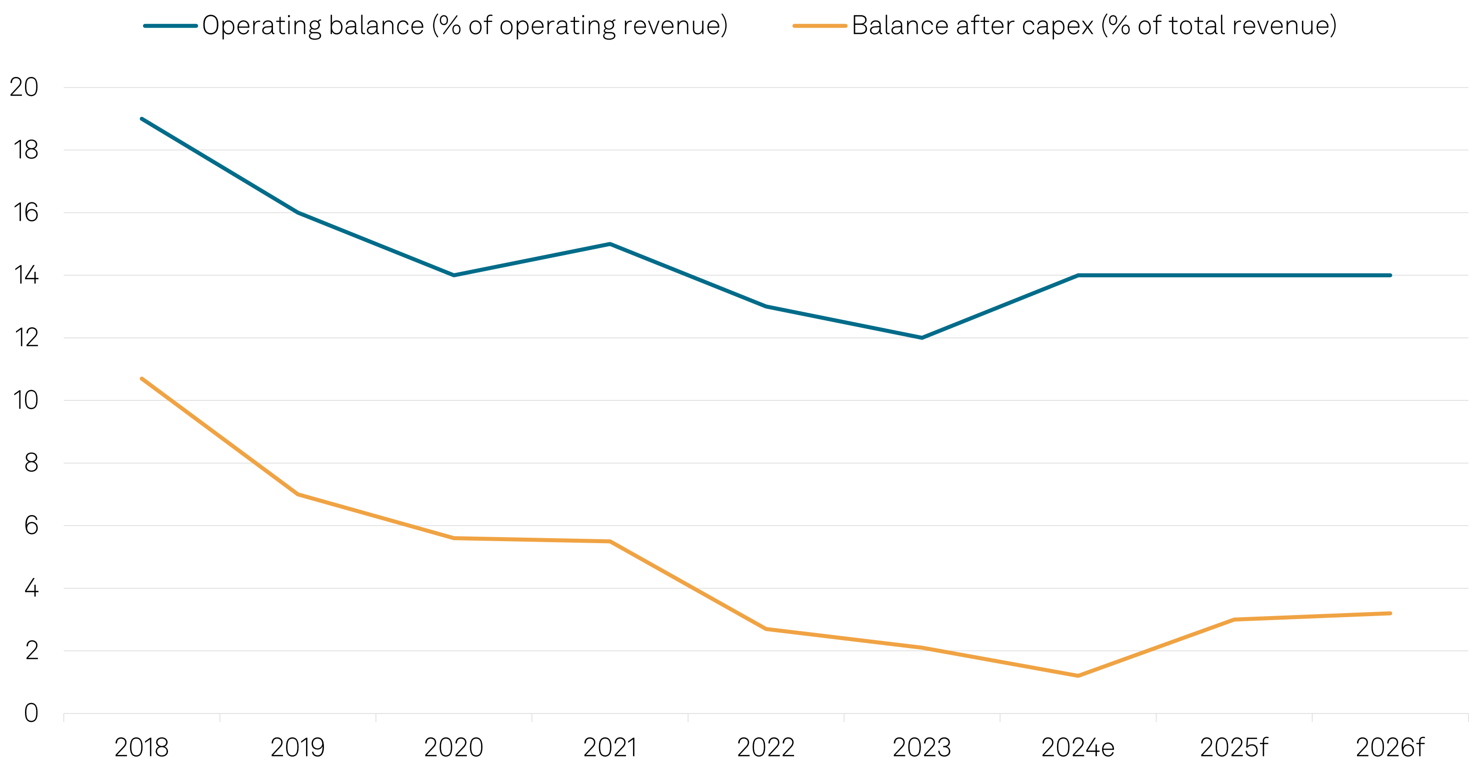
Interest payments versus tax-supported debt (2023)



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

Local Governments' Performance Should Stabilize In The Coming Years

Local governments' budgetary performance metrics



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

- Spanish local governments took advantage in 2020-2023 of the suspension of fiscal rules to spend past surpluses and accumulated cash, leading to a temporary deterioration of performance.
- Nevertheless, sector-wide operating balances remained strong, and budgets balanced.
- With fiscal rules once again in effect, local governments are required to post zero deficits, so we expect their performance to stabilize, enabling further debt reduction.

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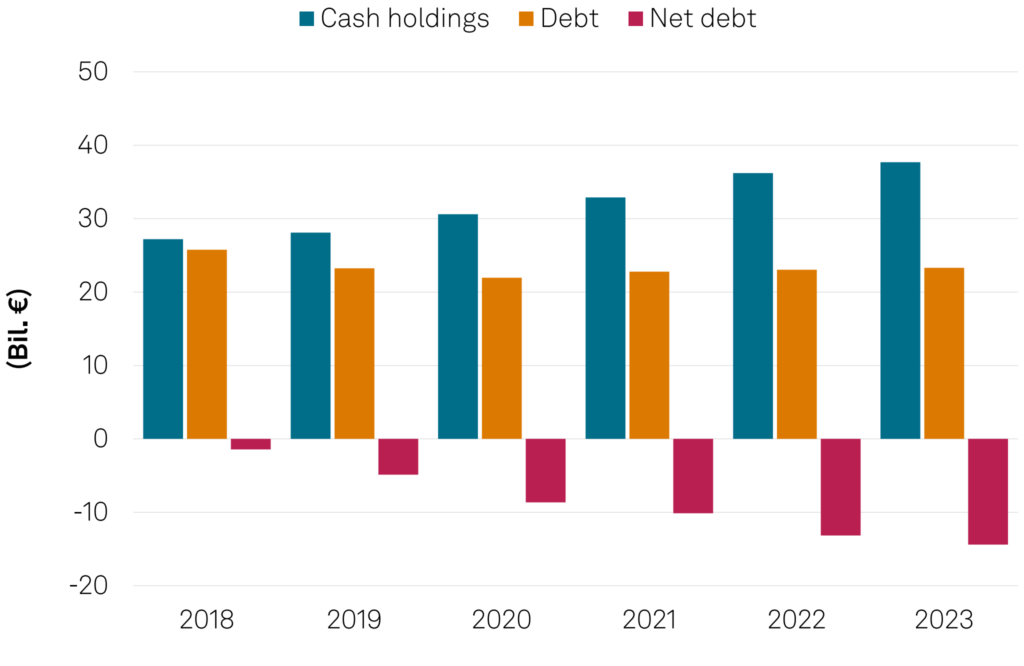
Local Governments' Debt Metrics Are Getting Stronger

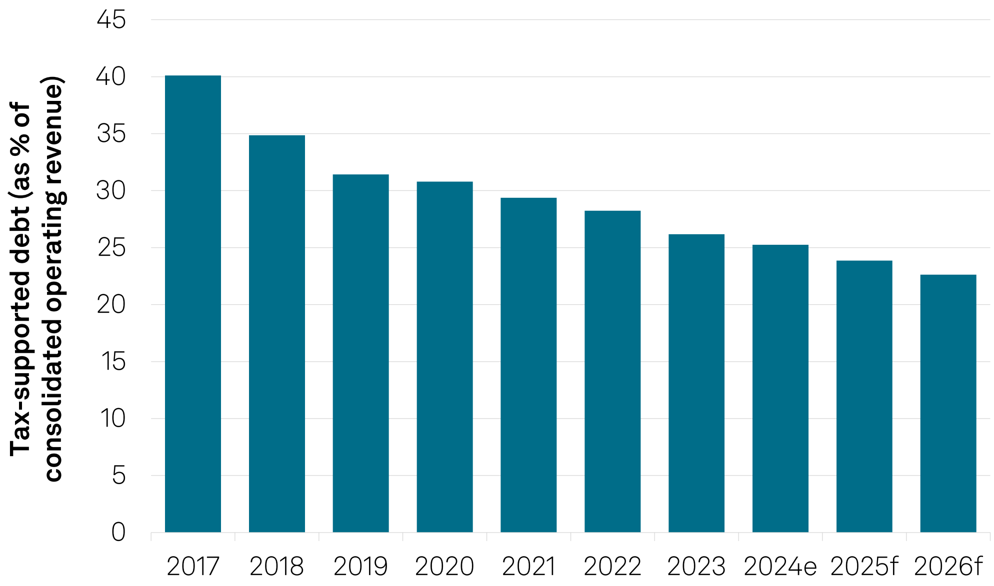
Despite higher spending during the suspension of fiscal rules, cash accumulation and rising revenue lead to an improving debt position

Local governments are in a net creditor position



Source: Bank of Spain.

We expect a continued improvement of debt metrics

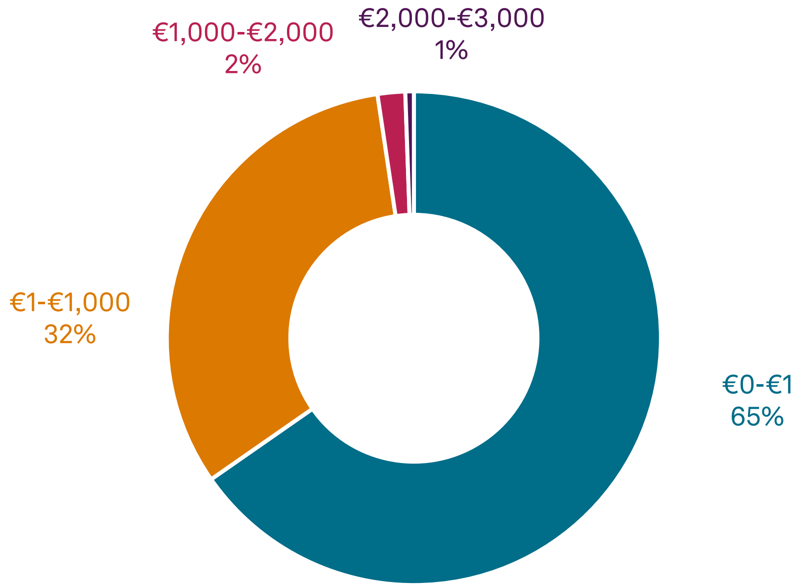


e--Estimate. f--Forecast. Source: S&P Global Ratings estimates.

Most Spanish Municipalities Have No Debt At All

Continued surpluses and a strong fiscal rule have led to debt reduction, with the largest cities showing modest debt and only a few midsize cities high debt.

For 97% of LRGs, debt totals less than €1,000 per capita



Per capita debt (€), 2023. Sources: Spanish Ministry of Finance, S&P Global Ratings.

Very few large municipalities have high debt

Most indebted cities (>100k inhabitants)	**Debt (mil. €), 2023**	**Inhabitants (000)**	**Debt per capita (€)**
Jaén	547	112	4,892
Jerez de la Frontera	968	213	4,539
Parla	507	133	3,815
Largest cities (>500k inhabitants)	**Debt (mil. €), 2023**	**Inhabitants (000)**	**Debt per capita (€)**
Madrid	1,960	3,332	588
Barcelona	1,333	1,660	803
València	186	808	230
Sevilla	239	684	349
Zaragoza	603	683	883
Málaga	228	586	389

Source: S&P Global Ratings.

Related Research

- Institutional Framework Assessment for Spanish Normal Status Regions: Strong Government Support, Weakening Predictability, Aug. 1, 2024
- Spanish Regions: Emerging Challenges Cloud Short-Term Stability, July 3, 2024
- Institutional Framework Assessment: Spanish Special Status Regions, July 26, 2024
- Your Three Minutes In Spanish Regional Finance: Higher Expenditure May Limit Deleveraging, April 24, 2024
- Subnational Debt 2024: Spain (Debt Absorption Scenarios): All Could Benefit, With Some More Than Others, April 3, 2024
- Subnational Debt 2024: Spain: Lower Borrowings, But Bond Issuances Recover, Feb. 29, 2024

Analytical Contacts

Alejandro Rodríguez Anglada

Director, Lead Analyst

alejandro.rodriguez.anglada@spglobal.com

Manuel Becerra

Rating Analyst

manuel.becerra@spglobal.com

spglobal.com/ratings

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