

As per the OECD's projections, Spain's GDP growth is expected to decelerate to 2.1% in 2023 and further to 1.9% in 2024. This slowdown comes after experiencing robust post-COVID growth of 5.5% over the past two years. Despite the moderation in economic expansion, certain factors will lend support to the economy. Lower inflation rates and a resilient labor market are likely to bolster household consumption, while stronger external demand will contribute to export growth. Private business investment is also expected to improve, despite facing higher financing costs.

To address high debt levels, Spain's fiscal stance is expected to tighten. As inflation recedes, the government plans to phase out fiscal support measures aimed at mitigating the impact of high energy prices. The implementation of the Recovery Plan, largely funded by Next Generation EU funds, is set to drive significant public investments, thereby enhancing growth potential. The debt ratios have declined, leading to positive implications for the country's long-term debt sustainability. Affirming.

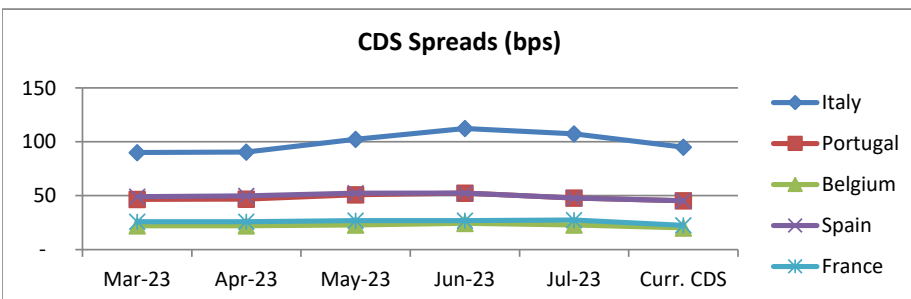
Annual Ratios (source for past results: IMF)

<b>CREDIT POSITION</b>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>P2023</u>	<u>P2024</u>	<u>P2025</u>
Debt/ GDP (%)	148.1	142.7	117.7	109.5	99.8	88.8
Govt. Sur/Def to GDP (%)	-10.0	-6.6	-4.2	-2.0	0.3	2.5
Adjusted Debt/GDP (%)	148.1	142.7	117.7	109.5	99.8	88.8
Interest Expense/ Taxes (%)	9.8	8.8	9.6	8.8	8.0	7.4
GDP Growth (%)	-10.2	7.9	10.0	2.5	3.6	3.6
Foreign Reserves/Debt (%)	2.9	2.8	3.4	3.6	3.8	4.2
Implied Sen. Rating	BB+	BBB	BBB+	A-	A	A

**INDICATIVE CREDIT RATIOS**

	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

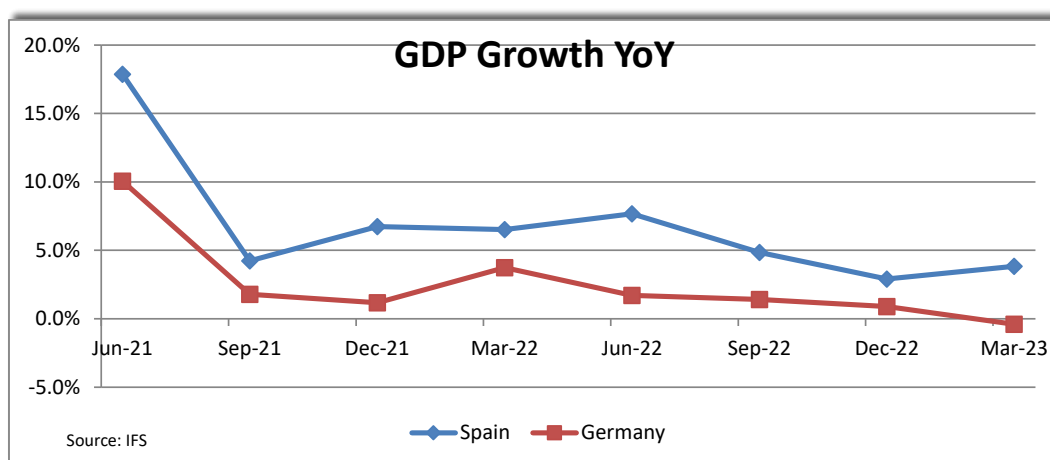
<b>PEER RATIOS</b>	<u>Other NRSRO Sen.</u>	<u>Debt as a % of GDP</u>	<u>Govt. Surp. Def to GDP (%)</u>	<u>Adjusted Debt/ GDP</u>	<u>Interest Expense/ Taxes %</u>	<u>GDP Growth (%)</u>	<u>Ratio- Implied Rating*</u>
Federal Republic Of Germany	AAA	65.3	-2.6	65.3	2.7	7.4	AA
French Republic	AA	117.1	-4.2	117.1	6.1	5.5	A-
Kingdom Of Belgium	AA	103.8	-3.4	103.8	5.1	9.3	BBB
Republic Of Italy	BBB-	151.3	-7.8	151.3	14.6	6.8	BB+
Portugal Republic	BB+	116.6	-0.7	116.6	7.6	11.4	BBB-



<u>Country</u>	<u>EJR Rtg.</u>	<u>CDS</u>
Italy	BBB-	95
Portugal	BBB-	45
Belgium	BBB	20
Spain	BBB+	45
France	A+	23

**Economic Growth**

Despite the challenging environment posed by Russia's war of aggression against Ukraine, the Spanish economy has displayed remarkable resilience. In Q1'23, GDP grew by 0.5% compared to the previous quarter, showing a substantial increase of 3.8% year-on-year. Notably, both business and consumer confidence have shown signs of improvement since the autumn, although consumer confidence remains relatively low. The labor market in Spain has demonstrated dynamism, experiencing employment growth of 1.3% during Q1'23. Additionally, the unemployment rate declined slightly from 13.0% in December 2022 to 12.7% in April 2023. Inflation trends have seen changes as well, with headline inflation (harmonized index) dropping to 2.9% in May, primarily driven by lower energy prices. However, core inflation remained at 4.1%, and food inflation persisted at a high 12.4% in April 2023.



**Fiscal Policy**

In 2021, Spain achieved a significant reduction in its primary deficit, which declined to 4.6% of GDP from the previous year's 7.8%. This outcome far exceeded expectations, including the government's projection in late October, which anticipated a deficit of 6.2% of GDP. Remarkably, this budgetary outperformance occurred despite disappointing economic growth in 2021, as Spain lagged behind other Eurozone countries with a modest 5.0% year-on-year GDP growth rate. The surprising budgetary improvement mainly resulted from much stronger tax revenues than anticipated.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Spain	-4.24	117.70	45.32
Germany	-2.62	65.28	15.01
France	-4.25	117.11	22.50
Belgium	-3.36	103.79	20.17
Italy	-7.83	151.26	95.04
Portugal	-0.66	116.63	45.31

Sources: Thomson Reuters and IFS

**Unemployment**

In Spain, negotiations regarding contractual wages are closely tied to headline inflation, with their adjustments being positively influenced by headline inflation with a lag of 3-4 quarters and negatively affected by indicators of labor market slack. Notably, pay growth is not significantly driven by changes in productivity growth or minimum wage

adjustments.

	Unemployment (%)	
	2021	2022
Spain	14.79	0.00
Germany	3.58	3.07
France	7.88	7.32
Belgium	6.28	5.58
Italy	9.56	8.08
Portugal	6.59	6.04

Source: Intl. Finance Statistics

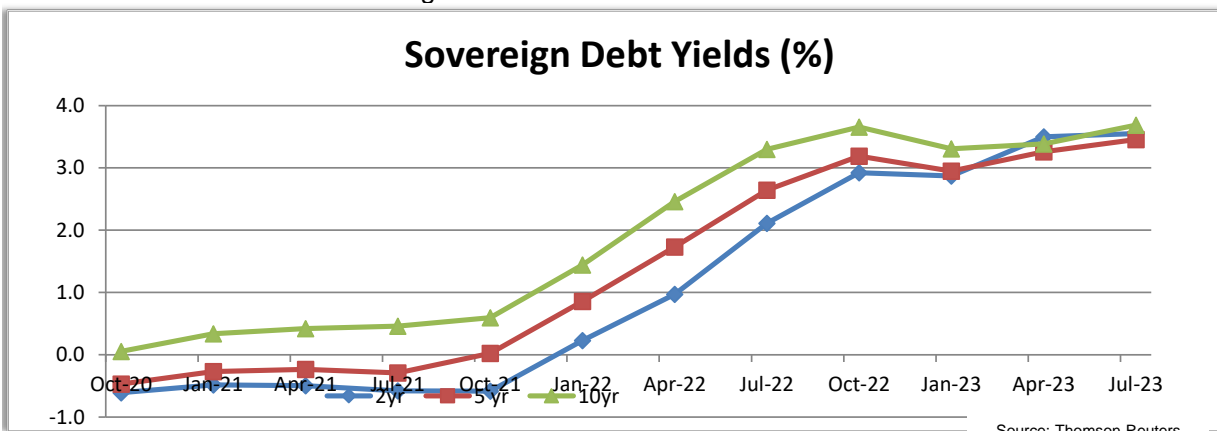
**Banking Sector**

In 2022, Spanish banks experienced an increase in profitability, excluding extraordinary items recorded in 2021, surpassing their cost of equity. Notably, the credit quality of their balance sheets showed significant improvement, with notable declines in both non-performing and Stage 2 loans compared to previous years. The banking sector's Return on Equity, rose by 140bps, reaching an impressive level of 10.2%, well above the average cost of equity for the year, which was 7.5%.

<b>Bank Assets (billions of local currency)</b>		
	Assets	Mkt Cap/ Assets %
BANCO SANTANDER	1,734.7	3.06
BBVA	712.1	5.77
CaixaBank	598.9	4.62
Bankia	209.8	2.58
Banko de Sabadell	<u>251.38</u>	<u>2.44</u>
Total	3,506.8	
EJR's est. of cap shortfall at 10% of assets less market cap		217.3
Spain's GDP		1,327.1

**Funding Costs**

Over the years, the average Interest Rate in Spain has been 1.73% from 1998 until 2023. It reached an all-time high of 4.75% in October 2000 and a record low of 0.00% in March 2016. According to Trading Economics' global macro model, the Interest Rate in Spain is expected to reach 2.50% by the end of this quarter. Looking ahead, the Spain Interest Rate is projected to trend around 3.50% in 2023 and 2.75% in 2024 in the long term.



**Ease of Doing Business**

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 30 (1 is best, 189 worst) is strong.

<b>The World Bank's Doing Business Survey*</b>			
	2021	2020	Change in
	Rank	Rank	Rank
<b>Overall Country Rank:</b>	<b>30</b>	<b>30</b>	<b>0</b>
<b>Scores:</b>			
Starting a Business	97	97	0
Construction Permits	79	79	0
Getting Electricity	55	55	0
Registering Property	59	59	0
Getting Credit	80	80	0
Protecting Investors	28	28	0
Paying Taxes	35	35	0
Trading Across Borders	1	1	0
Enforcing Contracts	26	26	0
Resolving Insolvency	18	18	0

\* Based on a scale of 1 to 189 with 1 being the highest ranking.

**Economic Freedom**

As can be seen below, Spain is above average in its overall rank of 65.0 for Economic Freedom with 100 being best.

<b>Heritage Foundation 2023 Index of Economic Freedom</b>				
<b>World Rank 65.0*</b>				
	<b>2023</b>	<b>2022</b>	<b>Change in</b>	<b>World</b>
	<b>Rank**</b>	<b>Rank</b>	<b>Rank</b>	<b>Avg.</b>
<b>Property Rights</b>	<b>87.2</b>	<b>87.7</b>	<b>-0.5</b>	<b>53.3</b>
<b>Government Integrity</b>	<b>66.9</b>	<b>67.2</b>	<b>-0.3</b>	<b>44.4</b>
<b>Judicial Effectiveness</b>	<b>73.1</b>	<b>74.3</b>	<b>-1.2</b>	<b>48.3</b>
<b>Tax Burden</b>	<b>58.2</b>	<b>59.7</b>	<b>-1.5</b>	<b>78.1</b>
<b>Gov't Spending</b>	<b>30.2</b>	<b>38.3</b>	<b>-8.1</b>	<b>64.3</b>
<b>Fiscal Health</b>	<b>7.4</b>	<b>29.7</b>	<b>-22.3</b>	<b>54.5</b>
<b>Business Freedom</b>	<b>75.2</b>	<b>75.2</b>	<b>0.0</b>	<b>59.8</b>
<b>Labor Freedom</b>	<b>62.1</b>	<b>61.8</b>	<b>0.3</b>	<b>55.5</b>
<b>Monetary Freedom</b>	<b>80.6</b>	<b>85.4</b>	<b>-4.8</b>	<b>72.1</b>
<b>Trade Freedom</b>	<b>83.6</b>	<b>84.2</b>	<b>-0.6</b>	<b>69.6</b>

\*Based on a scale of 1-100 with 100 being the highest ranking.  
 \*\*The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).  
 Source: The Heritage Foundation

**Credit Quality Driver: Taxes Growth:**

KINGDOM OF SPAIN has grown its taxes of 11.4% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 11.4% per annum over the next couple of years and 10.3% per annum for the next couple of years thereafter.

**Credit Quality Driver: Total Revenue Growth:**

KINGDOM OF SPAIN's total revenue growth has been more than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	7.9	11.4	11.4	10.3
Social Contributions Growth %	6.2	4.8	5.0	5.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	NMF		
Other Operating Income Growth%	0.0	0.7	0.7	0.7
Total Revenue Growth%	7.9	8.1	8.1	7.3
Compensation of Employees Growth%	4.3	4.2	4.2	4.2
Use of Goods & Services Growth%	6.4	9.7	9.7	9.7
Social Benefits Growth%	3.5	1.3	1.3	1.3
Subsidies Growth%	(6.3)	45.5		
Other Expenses Growth%	0.0			
Interest Expense	1.8	2.0	2.0	
Currency and Deposits (asset) Growth%	(11.4)	0.0		
Securities other than Shares LT (asset) Growth%	(4.6)	0.0		
Loans (asset) Growth%	5.4	20.3	11.4	11.4
Shares and Other Equity (asset) Growth%	57.9	(69.5)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	14.6	11.4	11.4
Other Accounts Receivable LT Growth%	4.2	3.3	3.3	3.3
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	6.8	11.6	5.0	5.0
Currency & Deposits (liability) Growth%	(2.6)	3.4	3.4	3.4
Securities Other than Shares (liability) Growth%	(15.1)	(11.9)	(8.3)	(8.3)
Loans (liability) Growth%	2.6	(2.9)	0.5	0.5
Insurance Technical Reserves (liability) Growth%	2.8	1.3	1.3	1.3
Financial Derivatives (liability) Growth%	(60.0)	(84.1)	(10.0)	(10.0)
Additional ST debt (1st year)(millions EUR)	0.0	0.0		

**ANNUAL INCOME STATEMENTS**

Below are KINGDOM OF SPAIN's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS EUR)					
	2019	2020	2021	2022	P2023	P2024
Taxes	277,651	256,714	296,269	330,153	367,790	409,719
Social Contributions	160,656	162,191	171,661	179,971	188,970	198,418
Grant Revenue						
Other Revenue						
Other Operating Income	50,229	48,667	59,988	60,397	60,397	60,397
Total Revenue	488,536	467,572	527,918	570,521	617,157	668,534
Compensation of Employees	134,769	140,609	147,560	153,824	160,354	167,161
Use of Goods & Services	64,525	66,403	71,199	78,092	85,652	93,945
Social Benefits	229,615	262,211	263,564	266,865	270,207	273,592
Subsidies	12,435	21,418	18,397	26,770	26,773	26,775
Other Expenses				38,742	38,742	38,742
Grant Expense						
Depreciation	29,590	29,845	30,359	30,858	30,858	30,858
Total Expenses excluding interest	500,157	554,309	580,976	595,151	612,586	631,073
Operating Surplus/Shortfall	-11,621	-86,737	-53,058	-24,630	4,571	37,461
Interest Expense	<u>28,361</u>	<u>25,120</u>	<u>26,045</u>	<u>31,595</u>	<u>32,234</u>	<u>32,886</u>
Net Operating Balance	-39,982	-111,857	-79,103	-56,225	-27,663	4,575

**ANNUAL BALANCE SHEETS**

Below are KINGDOM OF SPAIN's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS					
	(MILLIONS EUR)					
ASSETS	2019	2020	2021	2022	P2023	P2024
Currency and Deposits (asset)	100,618	115,126	147,748	162,970	162,970	162,970
Securities other than Shares LT (asset)	9,292	10,039	10,606	10,204	10,204	10,204
Loans (asset)	-5,168	-2,951	-3,188	-3,834	-4,271	-4,758
Shares and Other Equity (asset)	-512	133	-784	-239	-244	-249
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	164	170	302	346	385	429
Other Accounts Receivable LT	77,709	77,074	83,707	86,498	89,382	92,362
Monetary Gold and SDR's						
Other Assets					266,693	266,693
Additional Assets	<u>261,304</u>	<u>257,010</u>	<u>264,938</u>	<u>266,693</u>		
Total Financial Assets	443,407	456,601	503,329	522,638	525,120	527,652
LIABILITIES						
Other Accounts Payable	80,917	83,844	115,239	128,573	135,002	141,752
Currency & Deposits (liability)	4,876	4,959	4,983	5,151	5,151	5,151
Securities Other than Shares (liability)	1,260,100	1,392,450	1,408,510	1,240,620	1,137,105	1,042,228
Loans (liability)	152,977	173,751	187,684	182,325	209,988	205,413
Insurance Technical Reserves (liability)	1,227	902	5,280	5,351	5,423	5,496
Financial Derivatives (liability)	1,470	1,036	491	78	70	63
Other Liabilities			-1			
Liabilities	1,501,567	1,656,942	1,722,186	1,562,098	1,592,243	1,590,200
Net Financial Worth	<u>-1,058,160</u>	<u>-1,200,341</u>	<u>-1,218,857</u>	<u>-1,039,460</u>	<u>-1,067,123</u>	<u>-1,062,548</u>
Total Liabilities & Equity	443,407	456,601	503,329	522,638	525,120	527,652

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#### **Comments on the Difference between the Model and Assigned Rating**

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BBB+" whereas the ratio-implied rating for the most recent period is "A-"; the median rating for the peers is significantly higher than the issuer's rating.

#### **Changes in Indicative Ratios**

We have not made any adjustment in the indicative ratios at this time.



**SEC Rule 17g-7(a) Disclosure**

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

**1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:**

For the issuer KINGDOM OF SPAIN with the ticker of 1841z SM we have assigned the senior unsecured rating of BBB. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

**2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:**

We are using the methodology version #16 available via [egan-jones.com](http://egan-jones.com) under the tab at the bottom of the page "Methodologies".

**3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:**

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

**4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:**

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

**5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:**

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

**6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:**

EJR does not utilize third-party due diligence services.

**7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:**

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

**8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:**

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

**9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.****10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

**11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:**

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

**12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:**

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

**13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:**

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	11.4	15.4	7.4	A	A	A-
Social Contributions Growth %	5.0	8.0	2.0	A	A	A-
Other Revenue Growth %		3.0	(3.0)	A	A	A
Total Revenue Growth%	8.1	10.1	6.1	A	A	A
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	A	A	A

**14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:**

This credit rating is not assigned to an asset-backed security.

**ATTESTATION FORM**

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

**Analyst Signature:**

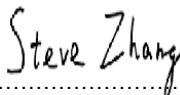
**Today's Date**

.....  
 Subramanian NG  
 Senior Rating Analyst

August 18, 2023  
 .....

**Reviewer Signature:**

**Today's Date**

.....  
  
 Steve Zhang  
 Senior Rating Analyst

August 18, 2023  
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## Sovereign Rating Methodology (Non-NRSRO)

**Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.**

**Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:**

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

*For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.*