

ISSUER RATING
LongTerm

OUTLOOK
Stable

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Contacts

Lead analyst

Antonio Madera Del Pozo
antonio.madera@ethifinance.com

Committee chair

Brianda Torres
brianda.torres@ethifinance.com

Rating Action and Rationale

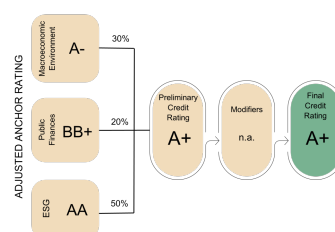
EthiFinance Ratings upgrades the Kingdom of Spain's long-term rating to A+ from A, maintaining a Stable Outlook.

The upgrade primarily reflects Spain's strengthened macroeconomic performance, underpinned by real GDP growth rates consistently above the euro area average, a sustained moderation of inflation, and continued improvement in labour market conditions. The latter is evidenced by the gradual decline in the unemployment rate, albeit still remaining above that of most rating peers. In addition, the persistence of current account surpluses and the ongoing improvement in the net international investment position reinforce the external profile and mitigate vulnerabilities related to external financing needs.

From a fiscal perspective, the rating incorporates a gradual consolidation path that is driven largely by favourable nominal GDP growth rather than by a decisive correction of underlying fiscal imbalances. Although public debt and deficit levels remain elevated in comparative terms, their downward trend, together with a favourable debt maturity profile and contained refinancing risks, supports an improved assessment of public finance sustainability relative to previous reviews. The increase in the interest burden stemming from a higher interest rate environment is considered manageable over the next twelve months.

The ESG profile continues to act as a relevant supportive factor for the rating. Social indicators and human capital metrics remain strong and broadly consistent with those of high-income economies, contributing positively to Spain's economic and social stability. On the environmental front, Spain has made gradual progress in the energy transition, reflected in a higher share of renewable energy and a moderation in emissions, although structural challenges linked to physical and transition climate risks persist. In terms of governance, Spain continues to exhibit solid institutional standards by international comparison; however, increased pressures in certain dimensions warrant a prudent analytical stance.

Figure 1: Deriving the credit rating

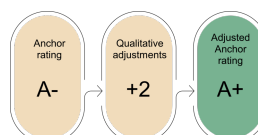


The Stable Outlook reflects our expectation that Spain will maintain, over the next twelve months, a balanced combination of economic growth, macro-financial stability and a gradual fiscal consolidation process, with no material deviations anticipated that would significantly alter its credit profile.

The macro-fiscal and ESG double-entry table does not constrain the rating, nor have any final modifiers been applied.

Macroeconomic Environment Pillar

The Macroeconomic Environment pillar is assessed at A+, reflecting a macroeconomic backdrop characterised by comparatively robust growth and an external position that has strengthened in recent years.



Spain's economy continues to exhibit a cyclical performance superior to that of most of its main euro area peers. According to our projections, real GDP growth is expected to reach **3.0% in 2025**, before moderating to **2.3% in 2026** and **2.0% in 2027**. This deceleration starts from elevated levels and reflects a normalisation of the economic cycle following several years of strong expansion. By comparison, growth prospects for **Germany, France and Italy** remain significantly more subdued, at around **1.0%, 0.9% and 0.7% in 2026**, respectively.

Labour market conditions continue to evolve favourably, supporting domestic demand and overall macroeconomic stability. EthiFinance Ratings expects the unemployment rate to decline to **10.4% by end-2025**, still markedly above peer levels, with a further reduction to **10.0% in 2026**. While unemployment remains high in comparative terms vis-à-vis Germany or France, its decline is not solely the result of a cyclical rebound. It is instead underpinned by a significant expansion of the labour force, which has reached historical highs. This increase is largely driven by immigration flows, which have expanded labour supply in a context of ageing domestic demographics. Unlike previous

episodes, the additional labour supply has been broadly absorbed by the market, helping to fill vacancies in labour-intensive sectors without triggering a parallel increase in unemployment.

Despite these quantitative improvements, Spain's labour market continues to display material structural imbalances. The most notable weakness is the disconnect between employment growth and productivity, with an extensive growth pattern not matched by efficiency gains. As a result, unit labour costs tend to rise, eroding competitiveness and exerting pressure on corporate margins. In addition, the widespread use of *permanent-discontinuous* contracts, while contributing to a lower headline unemployment rate, does not address underlying seasonality issues and may further strain the long-term sustainability of the social protection system. Finally, the high unemployment that affects to the younger labour force is a challenge for the potential growth of the Spanish economy,

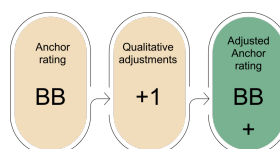
On the price front, inflation has converged towards levels consistent with macroeconomic stability following the recent inflationary episode. EthiFinance Ratings expects average inflation of **2.5% in 2025** and **2.1% in 2026**, pointing to easing cost pressures and a more predictable nominal environment. This evolution supports household purchasing power and reduces the risk of disorderly macroeconomic adjustments. However, we do not anticipate further interest rate cuts by the European Central Bank over the near term.

The external profile remains one of the most supportive elements of Spain's macroeconomic environment. Spain continues to post current account surpluses, which we estimate at **2.9% of GDP in 2025** and **2.2% in 2026**, contrasting with the worst figures forecasted for France and Italy. This sustained performance has enabled a steady improvement in the net international investment position, which stood at **-44.2% of GDP** according to **Eurostat data for Q2 2025**. While still negative, the cumulative adjustment has been substantial, placing Spain in a more favourable position than Italy and broadly in line with other euro area peripheral sovereigns.

Finally, the favourable macroeconomic backdrop has contributed to stable financial conditions and a banking system that, in aggregate terms, shows adequate levels of solvency and asset quality. The gradual decline in non-performing loans in recent years—down to **2.84% as of October**—together with capital ratios comfortably above European regulatory requirements (**CET1 ratio of 13.47% as of December 2024**), underpins the sector's resilience. At the same time, the higher interest rate environment has supported profitability, although a gradual normalisation of margins is expected over the medium term.

Public Finance Pillar

The Public Finances pillar is assessed at BB+, reflecting a gradual yet still incomplete improvement in the fiscal profile. Progress in reducing both the fiscal deficit and public debt has been evident, although this is partly offset by an still elevated debt burden and a higher interest burden in a more restrictive interest rate environment in comparison with few years ago.



The fiscal consolidation path over the coming years remains moderate and is largely dependent on nominal GDP growth rather than on a deep structural adjustment. In this context, EthiFinance Ratings expects the general government deficit to reach **2.9% of GDP in 2025 (3.2% as of June 2025)** and **2.7% in 2026**. While these levels represent a clear improvement compared with the post-pandemic peaks, they remain relatively high for a sovereign with a public debt ratio above **95% of GDP**. In comparison with **Germany**, which continues to post more contained deficits, and **Portugal**, which has progressed more rapidly towards budgetary balance, Spain's fiscal headroom remains limited.

Public debt follows a downward trajectory, supported by solid economic growth and a favourable differential between nominal growth and the average cost of debt. We expect the debt ratio to decline to around **100.0% of GDP in 2025 (103.2% at the end of Q3 2025)** and to **98.2% in 2026**, from levels above **110%** in previous years. Despite this improvement, the debt stock remains clearly above that is expected for sovereigns rated **A or higher**, and continues to represent one of the main sources of vulnerability in Spain's credit profile.

A key element of the fiscal assessment is the evolution of the interest burden. The tightening of financial conditions since 2022 has gradually fed through to the average cost of debt, increasing the share of interest payments in public revenues. Although this increase is gradual and manageable in the short term, it constrains budgetary flexibility and reduces the fiscal space available to absorb adverse shocks or to finance additional spending measures.

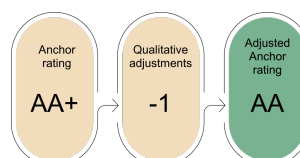
These risks are partly mitigated by a favourable debt maturity profile, characterised by a long average maturity (**7.93 years as of November 2025**) and a low share of short-term debt (**5.1%**), which limits refinancing risks and cushions the immediate impact of market volatility.

In addition to these fiscal weaknesses, the current institutional and political context constitutes a clearly adverse

factor. As of **December 2025**, the outlook for the approval of the **2026 General Budget** remains highly uncertain. Spain faces the possibility of a **third consecutive budget rollover**, following the failure to approve new budgets for both 2024 and 2025—an unprecedented situation in recent democratic history. The budgetary process for 2026 has stalled at a preliminary stage after the parliamentary rejection, in **November 2025**, of the fiscal stability path and the expenditure ceiling, highlighting the fragility of the Government.

Environmental, Social and Governance Pillar

The anchor rating of AA is supported by Spain's strong ESG profile, characterised by solid governance and social inclusion, as well as a mature environmental strategy aligned with the European Union's energy transition objectives.



Spain's environmental performance remains below the assigned rating, despite the continued increase in the share of renewable energy, which reached **25.42% in 2024**. **Per capita CO₂ emissions have declined steadily**, to around **4.5 tonnes per capita**, although energy intensity levels and exposure to both physical and transition climate risks continue to justify a still moderate environmental assessment.

Spain maintains **advanced social indicators**, with a **Human Development Index (HDI) of 0.918 in 2023**. The healthcare system provides broad coverage, supported by **rising per capita health expenditure (above EUR 3,200)**. Income inequality has eased, with the **Gini coefficient declining to 31.2 at end-2024**. Employment quality has improved in recent years; nevertheless, **structural unemployment and a relatively high share of vulnerable employment** remain material challenges.

Institutional governance indicators show a **mixed trend**. On the one hand, Spain retains a functional institutional framework, with a **rule of law that supports economic activity** and a **high administrative capacity** to design and implement public policies. On the other hand, the political environment at the beginning of **2026** continues to be characterised by **parliamentary fragmentation**—a dynamic that could intensify in light of developments observed in the **Extremadura regional elections held on 21 December 2025**. The governing coalition remains dependent on the support of multiple regional parties to secure legislative stability, constraining governance effectiveness and limiting the scope for structural reforms.

In addition, the emergence of **corruption-related scandals** has weighed on public trust in institutions, situation that could affect investments and, at the end, the potential growth of the Spanish Economy.

Modifiers

For this credit analysis, we have not applied any modifiers as no extraordinary situations with immediate impact on the sovereign credit situation have been identified.

Main Figures

	2021	2022	2023	2024	2025E	2026E
Real GDP (% change)	6.4%	6.2%	2.7%	3.5%	3.0%	2.3%
GDP per capita (current, €)	30,799	30,270	33,509	35,297	34,000	35,100
CPI (annual change, %)	3.1%	8.4%	3.4%	2.9%	2.5%	2.1%
Unemployment rate (% labor force)	14.9%	13.0%	12.2%	11.4%	10.4%	10.0%
Dependenc e ratio (<19 and >65 y/20-64 y)	51.6%	51.6%	50.9%	50.7%	-	-
NPLs	4.2%	3.5%	3.6%	3.5%	3.49%	-
ROA (financial sector)	0.9%	0.9%	1.0%	0.9%	0,9%	-
Current Account Balance (% GDP)	0.8%	0.6%	2.6%	2.9%	2.9%	2.2%
NIIP (% GDP)	-69.4%	-57.7%	-51.3%	-44.0%	-44.2%	-
Fiscal Balance (% GDP)	-6.9%	-4.5%	-3.6%	-3.1%	-2.9%	-2.7%
Public Debt (% GDP)	118.3%	113.2%	107.7%	101.8%	100.0%	98.2%
CO2 emissions per capita	5.3	5.5	4.5	-	-	-
Consumption of Renewable Energy	20.7%	22.1%	24.9%	25.4%	-	-
Human Development Index	0.9	0.9	0.9	-	-	-
Gini Index	33.0	32.0	31.5	31.2	-	-
World Governance Indicators *	74.4	73.2	74.0	69.2	-	-

Fundamentals

Strenghts

- Spain's economy continues to post real growth rates consistently above those of its main euro area peers, strengthening its shock-absorption capacity and supporting the stability of public revenue generation.
- The external profile is solid, underpinned by recurrent current account surpluses and a sustained improvement in the net international investment position, which reduces reliance on external financing.
- The ESG profile remains a supportive factor for the rating, backed by strong social indicators and an institutional framework broadly in line with those of advanced economies.
- Public debt management benefits from a favourable maturity profile, with a longer average maturity that mitigates refinancing risks.

Weaknesses

- Public debt remains high in comparative terms, constraining fiscal headroom and increasing the sovereign's

exposure to adverse growth or interest rate shocks.

- The interest burden is on an upward trend, progressively eroding available budgetary space and reducing fiscal flexibility.
- Elevated budgetary uncertainty and persistent delays in the approval of the General Budget weaken medium-term fiscal predictability and governance.
- The labour market continues to exhibit persistent structural imbalances, notably the disconnect between employment growth and productivity, which weighs on competitiveness and long-term growth potential.

Outlook

Our Stable Outlook is based on the expectation that the key rating fundamentals will remain broadly unchanged over the next 12 months. Several areas display positive trends, particularly macroeconomic indicators. Nevertheless, global geopolitical risks could re-emerge, potentially exerting renewed upward pressure on inflation and weighing on public revenue performance.

Sensitivity Analysis

The following factors, individually or collectively, could affect Spain's credit rating:

Positive factors (↑).

An upgrade could materialise in the event of significant progress in fiscal consolidation, notably through a sustained reduction in the fiscal deficit and a marked decline in public debt to levels below 90% of GDP. In addition, meaningful structural improvements in the labour market, leading to a reduction of structural unemployment to below 9%, would also constitute a positive rating driver.

Negative factors (↓).

Conversely, downward pressure on the rating could arise from a reversal of fiscal consolidation, a sustained resurgence of inflation, or a deterioration in the external balance that undermines macroeconomic sustainability. In addition, economic growth falling materially below current expectations could also exert negative pressure on the rating..

Rating Committee

The rating committee has agreed to upgrade the unsolicited rating of Spain to A+. The main topics discussed in the committee have been the macroeconomic performance and our expectations for 2026, mainly GDP and Inflation, in addition to fiscal position in absence of a new budget for 2026.

Sources of information

The credit rating issued in this report is unsolicited. The main sources of information used are the following:

1. Public information from public access sources, mainly official statistics institutes, central banks, and other government sources, in addition to the OECD, Eurostat, World Bank, European Central Bank and International Monetary Fund, among others.
2. Own information of EthiFinance Ratings.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
 - Sovereign Rating Methodology : https://files.qivalio.net/documents/methodologies/CRA_157_V2_Sovereign-Rating-Methodology.pdf
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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