Creditreform Rating

Rating Update:

Creditreform Rating affirms the Kingdom of Spain's credit ratings at "A-", outlook "negative"

Rating Action

Neuss, 22 January 2021

Creditreform Rating has affirmed the unsolicited long-term sovereign rating of "A-" for the Kingdom of Spain. Creditreform Rating has also affirmed Spain's unsolicited ratings for foreign and local currency senior unsecured long-term debt of "A-". The outlook is negative.

Reasons for the Rating Decision and Latest Developments

Macroeconomic Performance

Our assessment of Spain's macroeconomic performance continues to be underpinned by its very large and prosperous economy, which should be able to resume its trend of strong economic growth above the euro area average from 2021 onwards. We believe that determined and swift policy action has shielded the Spanish economy from deeper scarring, while adverse repercussions from Covid-19 on underlying growth should be felt through rising insolvencies and higher corporate debt levels as well as profound effects on labor supply, the latter coming on top of still prevalent structural labor market weaknesses. If properly implemented, we see Next Generation EU (NGEU) as a unique opportunity for lifting the economy's potential growth, not least via increasing its diversification away from the still pivotal tourism industry, which is likely to weigh on the economy until vaccination is widely deployed and confidence in herd immunity grows.

Spain is among the European economies hit hardest by the pandemic, with real GDP still standing 9.4% below the pre-pandemic level of Q4-19 in the third quarter of 2020 (euro area: -4.4%). Following the outbreak of Covid-19, total output fell dramatically during the first half of 2020, plummeting by 5.3% and 17.9% in Q1 and Q2 respectively. Led by domestic demand and household spending in particular (+20.3% q-o-q), real GDP bounced back strongly in Q3 (+16.4%). Following a gradual wind-down of containment measures, restrictions had to be reintroduced relatively early on, reflecting a rapidly increasing number of Covid-19 infections in the fall. In October 2020 a national curfew and state of emergency were enacted, to last at least until 9 May 2021.

As new measures restricting economic activity - largely consumer-facing services - as well as movement and travel have been put in place, economic prospects have deteriorated, with real GDP likely contracting in Q4 and a gloomy outlook for the first quarter of 2021. Having said this, we expect the impact to be less severe than in last spring, mainly due to the more targeted confinement measures and a less adverse impact on manufacturing and construction, as mirrored by PMI and ESI data, and as Spaniards have adjusted to confinement measures and adapted their behavior.

For 2020, we now project a real GDP contraction of 11.3%, followed by a significant rebound of 6.0% this year. Uncertainty surrounding an effective vaccine for Covid-19 has diminished more recently, as we have seen major advances on that front. A first wave of vaccinations has thus begun across Europe, although the distribution and vaccination process does not appear to be without challenges. Downside risks would relate to delays in rolling out the vaccines or to a limited effectiveness thereof, also in view of new virus mutations. However, vaccination seems to have progressed reasonably well in Spain, with the number of vaccination doses administered having climbed to 2.07 per 100 people in the total population as of 19 January, as compared to 1.46 in Germany (18 Jan) and 0.74 in France (18 Jan). Hence, there is considerable uncertainty as to when vaccines will be deployed on a broad scale.

Until then, our base case foresees the possibility of periodic surges in Covid-19 cases which will be answered by tightening national or regional containment measures. Pent-up demand should unwind relatively quickly if sectoral restrictions are eased, leading to a robust increase in private consumption this year. Yet, we expect the saving rate (Q2-20: 22.54%) to decline only gradually going forward, and that weakening labor market metrics should drag on household income.

The immediate crisis response to minimize the short-term labor market impact of the pandemic prevented the worst, with the temporary furlough scheme (ERTEs) and the extraordinary benefits for self-employed being instrumental in this regard. The furlough program is in force until 31 January, and will reportedly be extended until May; however, the schemes will be phased out at some point. After years of improving labor market conditions, the still high jobless rate will thus surge in the wake of the corona crisis and recede only slowly over the medium term. Monthly LFS-adjusted unemployment posted at 16.4% in November, up from 13.8% a year before. This adds to still pervasive labor market challenges in Spain, namely comparatively high youth and long-term unemployment, as well as a high share of temporary contracts in total employment.

Spain's export growth should recover in tandem with main trading partners' economic activity, and we project net external trade to contribute positively to real GDP in 2021. Two downside risks to external demand for Spanish goods and services have subsided as the international trade environment is likely to improve due to the US election outcome and the UK-EU post-Brexit trade deal clinched at the end of last year. By contrast, the recovery of the pivotal tourism industry is likely to take longer, ultimately depending on international progress in widely deploying vaccines, and as consumer confidence in herd immunity should build only gradually. November saw a drop in tourist arrivals by 90.2% y-o-y; in the first eleven months of 2020 arrivals stood 75.4% below the previous year's level (INE data).

Thanks to favorable financing conditions and broad-based public liquidity support, we expect private investment to recover as well. Nevertheless, the return of private investment to pre-pandemic levels should be somewhat sluggish, curbed by elevated uncertainty concerning the pandemic dynamics in the near term, and further out due to inevitably rising insolvencies. Investment activity is also set to be hampered by rising deleveraging needs going forward. NFC balance sheets have deteriorated to some degree, largely driven by a massive increase in NFC lending which posted 7.8% above the previous year's level in Oct-20 after having contracted for over a decade. That being said, we still view NFC debt as manageable for now, despite the sharp increase from 72.8% of GDP in Q4-19 to 82.4% of GDP in Q3-20.

A significant boost to Spanish real GDP growth should come on the back of NGEU. Since our last review, we have gained more visibility on the potential impact of NGEU funding, meaning that Spain shall receive financing of up to EUR 140bn. Crucially, approx. EUR 72bn or 5.8% of 2019 GDP will come as transfers. The bulk of the NGEU transfers will be allocated via the Recovery and Resilience Facility (RRF) and REACT-EU, which will provide access to roughly EUR 59bn and EUR 12bn respectively. According to the Spanish Recovery, Transformation and Resilience (RTR) Plan published in October, the funds are envisaged to be deployed along four overarching principles, namely ecological transition, digital transformation, gender equality, and cohesion and inclusiveness, translating into ten structural reform levers.

We gather that the government intends to deploy EUR 26.63bn in NGEU spending in 2021, an amount which we deem as ambitious. As a point of reference, Spanish overall public investment averaged EUR 24.9bn in 2015-19. The capacity of the government and the private sector to implement this substantial amount over such a short time thus adds a considerable element of uncertainty to our baseline scenario. Judging by EU cohesion data, Spain has only decided on approx. 80% and spent a mere 35% of the ESIF 2014-20 funding (EU average 93% and 47%), pointing to some risks pertaining to the absorption of EU funding going forward.

With that being said, we believe that NGEU and the RTR Plan should come as a boon for Spain's potential growth, which the European Commission estimates at only 0.6% and 1.0% in 2021/22. If the RTR Plan is effectively and reasonably implemented, we expect underlying medium-term growth to rise markedly, as critical investment gaps in human capital and infrastructure could be closed, while fostering aggregate demand and productivity. More generally, the Plan could lend viable support to the technological and digital transformation of the Spanish economy, address the socio-economic challenges entailed by the crisis, and pave the way for a green transition. Spanish authorities reckon that the economy's potential growth will be increased by more than 2% over the medium term.

Institutional Structure

The sovereign's credit ratings remain supported by strong institutional conditions and substantial benefits stemming from its membership in the EU and EMU. While we have observed less headway in terms of substantive reforms over recent years, also under the impression of the political impasse which ended as late as November 2019, NGEU is set to restore the structural reform momentum. Swift policy action during the corona crisis and the adoption of the 2021 budget raise hopes for waning difficulties in passing legislation going forward.

The latest vintage of the World Bank's Worldwide Governance Indicators (WGI) underscores our view of a strong institutional set-up, remaining broadly unchanged as compared to the previous year. The sovereign thus remains on par with the respective 'A' median values and is well-positioned in a European comparison, although its institutional framework displays some gaps towards the respective euro area averages. Looking at the quality of policy formulation and implementation, Spain ranks at 43 out of 209 economies, slightly below the euro area median (rank 35). The same applies to the WGIs voice and accountability as well as rule of law, where Spain comes in at rank 36/209 and 42/209 respectively, vs. rank 26 and 33 in the euro area, while being broadly comparable with the EU-27 median. Room to improve appears to be somewhat larger with regard to the perception of to what extent public power is utilized for private gain. On the bright side, Spain has improved noticeably over recent years, having climbed from relative rank 67/209 in 2016 to rank 56/209 in 2019 (EA median: rank 42) as regards the WGI control of corruption.

The latter observation ties in with the sovereign's efforts to strengthen its legal framework to combat corruption, as attested by the European Commission's Rule of Law Report. In this vein, two key reforms amending the Criminal Code have been enacted over the last years. Furthermore, authorities have begun to address the issue of missing legislation on whistle-blower protection and lobbying regulation. On the other hand, the efficiency of its justice system seems to have weakened somewhat, as illustrated by the 2020 EU Justice Scoreboard. To be sure, the government is aware of this, having started work on legislation geared towards accelerating proceedings.

We believe that cohesive policy-making will continue to be obstructed by diverging views in a highly fragmented parliament, although our perception is that there is political consensus on priorities in the face of the Covid-19 pandemic as well as on the need to step up reform momentum. NGEU and the related RTR Plan could act as an important catalyst for structural reforms, providing a unique window of opportunity to overcome the challenges that come with the complex political situation. The current very difficult context requires timely and decisive policy decisions, and may facilitate meaningful reform.

The approval of the budget 2021 in December to our mind constitutes a vital stepping stone in this regard, as PM Sanchez eventually managed to secure a majority with the help of smaller national parties such as the Catalonian Esquerra Republicana (ERC) – the last budget had been adopted by the previous conservative government in 2018. Hence, the devastating social and economic impact of the pandemic to some degree seems to have a helped to overcome certain differences among the leftist minority government, consisting of PSOE and UP. With new additional partners, the government might hope to move forward with legislation, but we expect tedious negotiations lying ahead. Also, political uncertainty associated with Catalonia remains in place, and we will closely monitor the outcome of the upcoming regional election. The Catalonian government intended to postpone elections from February to May 2021, but this was recently suspended by the Superior Court of Justice of Catalonia.

Fiscal Sustainability

While indispensable, the Covid-19 aid and health measures will have the headline deficit balloon to levels last seen during the global financial crisis, and its debt-to-GDP ratio surge to record highs, thus deepening the sovereign's fiscal vulnerabilities, its main credit weakness. Our concerns are mitigated to some extent by an increasingly benign debt profile and historically low refinancing costs. Further supportive factors in this respect are the ECB's pivotal monetary policy measures, and NGEU funding which was already incorporated in the recently approved budget for 2021. While we have some confidence that the sovereign will remain committed to sound fiscal policies, a return to a downward path may face several crosscurrents, in particular risks related to insolvencies leading to materializing contingent liabilities, to renewed banking instability, and increasing pension expenditure.

We note that the pace of fiscal consolidation had eased prior to the outbreak of Covid-19, with the headline deficit widening from 2.5% to 2.9% of GDP in 2018-19, and the social security system accounting for a deficit of 1.3% of GDP thereof. The devastating economic and social consequences of the pandemic require an unprecedented government response that will result in a substantial deterioration of Spain's public finances. According to our current baseline forecast, we expect last year's deficit to have soared to 11.9% of our estimated 2020 GDP. While the massive deterioration is largely driven by automatic stabilizers, this also includes discretionary measures associated with the government's crisis response in the amount of approx. EUR 60bn or 5.4% of GDP. In this regard, key items are the short-term work scheme ERTEs (1.7% of GDP), the benefit scheme for the self-employed (0.5% of GDP), social security suspensions for businesses retaining staff under ERTEs (0.6% of GDP), and direct transfers to the regions (Covid-19 fund, 1.4% of GDP).

Looking forward, the headline deficit should narrow to approx. 8.4% of GDP in 2021. We expect that economic activity will bounce back and large parts of the aid measures will be wound down. An exception would relate to ERTEs which will be extended until May. At the end of last year, roughly 756,000 people were protected under the scheme, a 79% decline as compared to the height of the crisis in April.

The minority government managed to pass its budget law 2021 through the lower house and senate last December, which is to be regarded positively as it reduces political uncertainty on fiscal prospects. Nevertheless, we have to emphasize that uncertainty around our estimate remains unusually high. Besides uncertainty pertaining to pandemic dynamics and the economic recovery, the use of NGEU funding and the impact of ERTEs entail additional uncertainty. While we have to reiterate our reservations whether the NGEU package can be fully implemented in 2021 (see above), our forecast is based on the assumption that large parts of it will be financed by deploying NGEU funds, thus having a neutral effect on the budget. The budget includes the use of roughly EUR 26.63bn of RRF and REACT funds (2.4% of our estimated 2020 GDP).

Deficit-reducing measures included in the budget are mainly related to the revenue-side, as the government has introduced a raft of new tax measures by which it aims to leverage about EUR 5.5bn or 0.5% of GDP. The package includes, inter alia, rising tax rates for high-income earners, VAT increases for beverages, amendments to the participation exemption regime for dividends and capital gains, green taxes for single-use waste and plastic, and a wealth tax. Additionally, authorities envisaged to implement taxes on financial transactions and digital services. We note that Spain indeed has some headroom as regards higher taxation, with its tax-to GDP ratio totaling 35.2% (2019, total receipts incl. social contributions), rather low from a European perspective (EA-19: 41.4%).

We expect that the sovereign’s public debt ratio will have leapt to new record highs, having risen from 95.5% of GDP in 2019 to 118.9% of GDP in 2020, before presumably stabilizing at roughly 120% of GDP this year and receding only slowly over the medium term. Fiscal downside risks are sizable, possibly deterring Spain’s public debt ratio from returning to the assumed gradual downward path, in particular if additional health and aid measures are necessary in case of a more protracted health crisis, also in view of new virus mutations. Risks related to higher medium- to long-term pension costs have increased in light of the greenlighted Toledo Pact, which foresees a permanent indexation of pensions to consumer price inflation from 1 January 2021.

In addition, we have to highlight the risk of materializing private contingent liabilities resulting from the substantial public guarantee programs. Insolvency proceedings have been exempted until March, but risks in connection with rising insolvencies should increase at some point in time. Authorities have set up a EUR 100bn guarantee program, under which more than EUR 84bn in guarantees have so far been provided. Other adopted measures are the guarantees to boost investment (EUR 40bn), as well as the support programs for the tourism and car industry (EUR 4.2bn and 3.75bn).

Rising insolvencies would also imply negative ramifications for banking stability, further raising contingent liability risks. Drawing on latest available EBA data, the banking sector may be deemed as stable for now. Asset quality of Spanish banks has not deteriorated so far, with the

NPL ratio decreasing from 3.4% to 3.0% in the four quarters up to Q3-20. We remain somewhat more concerned regarding capital buffers and stretched profitability, as the CET 1 ratio posts at only 12.5%, the lowest reading in the EU, and the average ROA has dropped to -0.2%. Meanwhile, we take note of increasing consolidation dynamics in Spain, as Bankia and Caixabank agreed to merge last September, forming one of the largest banks in Spain by total assets, whilst an agreement between BBVA and Sabadell was not reached.

Over the medium term, we view fiscal risks as largely contained, as sound debt management has resulted in an increasingly benign debt profile and historically low refinancing costs. While the sovereign was able to lengthen the average weighted maturity of outstanding debt from 7.55yrs in 2019 to 7.75yrs in 2020 (Tesoro data), IMF data on sovereign debt holdings shows that the share of general government debt held by Banco de Espana (BdE) and the foreign official sector was broadly stable at 29% in Q2-20 (Q2-19: 30%). The interest-to-revenue ratio lies at a relatively high 5.6% in Q2-20 (moving 4-quarter-sum), but can be expected to fall further (Q2-19: 6.1%) – in particular in view of the very favorable refinancing conditions. The cost of debt at the time of issuance dwindled to 0.18% in 2020, and the government expects it to fall to almost zero (0.02%) in 2021.

We expect financial market conditions to remain benign; 10yr government bonds yields stood at a mere 0.06% as of 15 January (weekly quote), and should remain at record-low levels – not least because of the ECB's exceptionally accommodative monetary policy. Throughout 2020, the ECB recorded a net purchase of Spanish government bonds of EUR 33.9bn under PSPP; by December 2020, cumulative net purchases had increased by 13% y-o-y. Meanwhile, the PEPP envelope was increased by EUR 500bn to a total of EUR 1,850bn, while the horizon for net purchases under PEPP was extended to at least the end of March 2022, along with extended and enhanced refinancing operations (TLTRO, PELTRO).

Foreign Exposure

Risks stemming from Spain's vulnerable external position have increased, in particular due to the Covid-19 impact on international trade and tourism. Despite sizable deleveraging, its net international investment position (NIIP) remains very large and negative, but respective risks are cushioned by the composition of sectoral external debt holdings, and a sustained, though declining current account surplus.

Despite still exhibiting one of the most negative readings in Europe, Spain's NIIP had displayed a multi-year improvement prior to the outbreak of the corona crisis, having fallen to as low as -71.1% of GDP in the first quarter of 2020, the lowest reading since 2006, and 27.7 p.p. above its trough from Q2-14. This favorable development has been halted, at least temporarily, as collapsing economic activity translated into a renewed deterioration in its NIIP (Q3-20: -79.0% of GDP), while even improving in absolute terms.

In our view, external risks are somewhat tempered by the changing composition of external debt holdings. While the public administration's share in gross external debt amounts to almost a third (Q3-20: 59.9% of GDP), it is essentially BdE which stands for an increasing share in external debt. Within the last four quarters alone, its share has increased by roughly 3 p.p. to about 25% (Q3-20: 48.5% of GDP). Moreover, we assume the Spanish current account will remain in positive territory, posting a modest surplus. Its current account surplus dropped sharply from 2.2% of GDP in the first quarter of 2020 to 1.0% of GDP in Q3 (moving 4-quarter-sum), with the services balance declining by 2.1 p.p. to 3.0% of GDP, heavily influenced by the pandemic's devastating impact on tourism receipts.

Rating Outlook and Sensitivity

Our rating outlook on the Kingdom of Spain's long-term sovereign ratings is negative, as we view downside risks stemming from the fiscal outlook in view of extremely high macroeconomic uncertainty, and uncertainty as to the government's ability to fully implement the ambitious investment plans as outweighing otherwise prevalent macroeconomic and institutional strengths at the current juncture. We have to reiterate that the assessment of economic developments in the near future is considerably more challenging than under normal circumstances, as is the case for other indicators, e.g. from the fiscal realm.

We could contemplate downgrading Spain's credit ratings if real GDP fails to recover, resulting in lower-than-expected medium-term growth. Downside risks include a more protracted health crisis with persistent effects on underlying growth, more persistent Covid-19 effects on corporate health which lead to higher insolvency numbers, and the absence of a recovery in tourism. In addition, authorities could fail to bring structural reforms underway, and NGEU funding absorption could fall significantly short of envisaged plans. As illustrated by BdE calculations, the historical average of the implemented ESIF projects amounts to only 30% of the available funds in the first two years. A negative rating action could also be triggered by further deteriorating fiscal metrics or, more importantly, if authorities do not formulate a credible medium-term strategy for fiscal adjustment.

By contrast, a positive rating action could be prompted if we observe a credible fiscal consolidation policy buttressing confidence in medium-term fiscal sustainability, or more generally if there are indications that Spain's public debt ratio is on a sustainable downward trend. We could also revise the outlook if we see a robust and sustained recovery in economic growth, also driven by a revitalized tourism industry; if the RTR Plan is successfully implemented, translating into markedly higher potential growth; or if external deleveraging resumes its favorable trend.

Analysts

Primary Analyst
Fabienne Riefer
Sovereign Credit Analyst
f.riefer@creditreform-rating.de
+49 2131 109 1462

Chairperson
Dr Benjamin Mohr
Head of Sovereign Ratings
b.mohr@creditreform-rating.de
+49 2131 109 5172

Ratings*

Long-term sovereign rating	A- /negative
Foreign currency senior unsecured long-term debt	A- /negative
Local currency senior unsecured long-term debt	A- /negative

*) Unsolicited

Economic Data

[in %, otherwise noted]	2015	2016	2017	2018	2019	2020e	2021e
Real GDP growth	3.8	3.0	3.0	2.4	2.0	-11.3	6.0
GDP per capita (PPP, USD)	34,939	37,351	39,734	41,608	43,154	38,143	41,736
HICP inflation rate, y-o-y change	-0.6	-0.3	2.0	1.7	0.8	-0.3	0.5
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	83.0	83.5	83.4	83.5	n.a.	n.a.	n.a.
Fiscal balance/GDP	-5.2	-4.3	-3.0	-2.5	-2.9	-11.9	-8.4
Current account balance/GDP	2.0	3.2	2.8	1.9	2.1	n.a.	n.a.
External debt/GDP	168.9	168.7	167.9	167.7	169.6	n.a.	n.a.

Source: International Monetary Fund, Eurostat, own estimates

ESG Factors

While there is no universal and commonly agreed typology or definition of environment, social, and governance (ESG) criteria, Creditreform Rating views ESG factors as an essential yardstick for assessing the sustainability of a state. Creditreform Rating thus takes account of ESG factors in its decision-making process before arriving at a sovereign credit rating. In what follows, we explain how and to which degree any of the key drivers behind the credit rating or the related outlook is associated with what we understand to be an ESG factor and outline why these ESG factors were material to the credit rating or rating outlook.

For further information on the conceptual approach pertaining to ESG factors in public finance and the relevance of ESG factors to sovereign credit ratings and to Creditreform Rating credit ratings more generally, we refer to the basic documentation, which lays down [key principles of the impact of ESG factors on credit ratings.]

The governance dimension plays a pivotal role in forming our opinion on the creditworthiness of the sovereign. As the World Bank's Worldwide Governance Indicators Rule of Law, Government Effectiveness, Voice and Accountability, and Control of corruption have a material impact on Creditreform Rating's assessment of the sovereign's institutional set-up, which we regard as a key rating driver, we consider the ESG factors 'Judicial System and Property Rights', 'Quality of Public Services and Policies', 'Civil Liberties and Political Participation', and 'Integrity of Public Officials' as highly significant to the credit rating.

The social dimension plays an important role in forming our opinion on the creditworthiness of the sovereign. Labor market metrics constitute crucial goalposts in Creditreform Rating's considerations on macroeconomic performance of the sovereign, and we regard the ESG factor 'Labor' as significant to the credit rating or adjustments thereof.

While Covid-19 may have significant adverse effects on several components in our ESG factor framework in the medium to long term, it has not been visible in the relevant metrics we consider in the context of ESG factors – though it has a significant bearing concerning economic prospects and public finances. To be sure, we will follow ESG dynamics closely in this regard.

ESG Factor Box

Environmental Quality	Ecological Risks	Ressource Management	Education	Health	Demographics
Labor	Equality	Technology & Infrastructure	Safety & Security	Judicial system	Quality of Public Services
Integrity of Public Officials	Quality and Efficacy of Regulations	Civil Liberties/ Political Participation	Market Access	Business Environment	Data Transparency

Environment	Social	Governance	Highly significant	Significant	Less significant	Hardly significant

Appendix

Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	30.09.2016	BBB+ /stable
Monitoring	01.09.2017	BBB+ /positive
Monitoring	27.07.2018	A- /stable
Monitoring	26.07.2019	A- /stable
Monitoring	24.07.2020	A- /negative
Monitoring	22.01.2021	A- /negative

Regulatory Requirements

In 2011 Creditreform Rating AG (CRAG) was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

This sovereign rating is an unsolicited credit rating. Neither the rated sovereign nor a related third party participated in the credit rating process. Creditreform Rating AG had no access to the accounts, representatives or other relevant internal documents for the rated entity or a related third party. Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology (v1.2, July 2016) in conjunction with its basic document "Rating Criteria and Definitions" (v1.3, January 2018). CRAG ensures that methodologies, models and key rating assumptions for determining sovereign credit ratings are properly maintained, up-to-date, and subject to a comprehensive review on a periodic basis. A complete description of CRAG´s rating methodologies and basic document "Rating Criteria and Definitions" is published on our website.

To prepare this credit rating, CRAG used the following substantially material sources: International Monetary Fund, World Bank, Organization for Economic Co-operation and Development, Eurostat, European Commission, European Banking Authority, European Central Bank, World Economic Forum, European Centre for Disease Prevention and Control, Blavatnik School of Government, Tesoro Publico de Espana, Banco de Espana, Instituto Nacional de Estadistica, Autoridad Independiente de Responsabilidad Fiscal española (AIReF), Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB), Ministerio de Inclusion, Seguridad Social y Migraciones, Ministerio de Asuntos Económicos.

A Rating Committee was called consisting of highly qualified analysts of CRAG. The quality and extent of information available on the rated entity was considered satisfactory. The analysts and committee members declared that the rules of the Code of Conduct were complied with. No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. The analysts presented the results of the quantitative and qualitative analyses and provided the Committee with a recommendation for the rating decision. After the discussion of the relevant quantitative and qualitative risk factors, the Rating Committee arrived at a unanimous rating decision. The weighting of all risk factors is described in CRAG´s "Sovereign Ratings" methodology. The main arguments that were raised in the discussion are summarized in the "Reasons for the Rating Decision".

As regards the rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the credit rating report. There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRAG website. In case of providing ancillary services to the rated entity, CRAG will disclose all ancillary services in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report; the first release is indicated as “initial rating”; other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “affirmed”, “selective default” or “default”.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available on the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of each rating category and the definition of default are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating issued by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the entity or the issue under review.

When assessing the creditworthiness of sovereign issuers, Creditreform Rating AG relies on publicly available data and information from international data sources, governments and national statistics. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. Hence, this rating is no statement of fact but an opinion. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at investment decisions. Ratings are not meant to be used as substitutes for one’s own research, inquiries and assessments. Thus, no express or implied warranty as to the accuracy, timeliness or completeness for any purpose of any such rating, opinion or information is given by Creditreform Rating AG in any form or manner whatsoever. Furthermore, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings.

Creditreform Rating AG

Creditreform Rating AG
Europadamm 2-6
D - 41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627
E-Mail info@creditreform-rating.de
Internet www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Dr. Hartmut Bechtold
HRB 10522, Amtsgericht Neuss