

Rating Object	Rating Information	
<b>KINGDOM OF SPAIN</b>  Long-term sovereign rating Foreign currency senior unsecured long-term debt Local currency senior unsecured long-term debt	Assigned Ratings/Outlook: <b>A- /stable</b>	Type: Follow-up Rating, unsolicited
	Initial Rating Publication Date: Rating Renewal:	30-09-2016 27-07-2018
	Rating Methodologies:	"Sovereign Ratings"

## Rating Action

Neuss, 27 July 2018

Creditreform Rating has raised its unsolicited long-term sovereign rating for the Kingdom of Spain to "A-" from "BBB+". Creditreform Rating has also raised Spain's unsolicited ratings for foreign and local currency senior unsecured long-term debt to "A-" from "BBB+". The outlook is revised to "stable".

## Key Rating Drivers

- Continued solid and balanced growth, based on domestic demand and net external trade; we expect the Spanish economy to remain resilient and expand at a faster pace than the euro area over the medium term, underpinned by a further recovering labor market
- Generally strong institutional conditions; reform momentum has slowed down and we assume policy reform to advance only at a modest pace in view of the fragmented parliament and Sanchez' minority government; still, policy continuity should be ensured
- Driven by favorable cyclical conditions and declining interest outlays, headline deficit should continue to narrow, exiting the EDP procedure going forward; despite a more expansionary fiscal stance, very high government debt is set to decrease gradually, while banking sector risks appear contained
- Significantly improved cost competitiveness and sustained current account surpluses somewhat mitigate vulnerabilities stemming from the external side, mirrored in the still very large and negative net international investment position

## Reasons for the Rating Decision

Creditreform Rating has raised its ratings for the Kingdom of Spain to "A-" from "BBB+". The upgrade is underpinned by (i) strong and broad-based economic growth, which should remain robust in the medium term; (ii) the further improving labor market situation and the resilient banking sector; and (iii) progress in reducing the headline balance and our expectation of gradually declining general government debt.

The Kingdom of Spain's high level of creditworthiness mainly reflects its favorable macro-economic performance and generally high institutional quality, which have to be set

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against rather weak fiscal metrics and risks stemming from the external sector, as well as crisis legacy issues pertaining to the labor market and the banking sector in particular. With regard to its macroeconomic performance, Spain's credit profile remains supported by its very large, wealthy and diversified economy which, in our view, continue to enhance its economic resilience against external shocks. As of 2017, Spain is the 14<sup>th</sup> largest economy in the world and the fifth largest in Europe, with a nominal gross domestic product of USD 1.31tr (IMF data). The Spanish economy is thus significantly larger than other A-rated economies. By the same token, Spain compares favorably to our A-rated universe when it comes to its relatively high per capita income, although somewhat lagging peer economies such as Germany (USD 50,245) or France (USD 43,761). In 2017, Spain's GDP per capita was estimated to stand at USD 38,286 (PPP terms), well above the median of A-rated peers and making up for lost ground in the aftermath of the Great Recession and the Euro debt crisis. After Spain's per capita income level had sunk to 89.5% of the EU-28 total in 2013, it now posts at 93.0% – the highest level since 2011.

Going into the fifth year of its economic recovery in 2018, Spain continued to show strong growth last year. Although somewhat below the 3.4 and 3.3% reached in 2015 and 2016 respectively, total output rose by a high 3.1%, not only outstripping the other major European economies for the third consecutive year but also growing at a significantly higher pace than the euro area as a whole (2.4%). Growth was less balanced than in 2016, as net external trade contributed positively to real GDP growth (+0.3 p.p.), but less so than a year before (+0.7 p.p.). While exports grew robustly by 5.0%, aided by competitiveness gains and the benign external environment, import growth increased from 2.7 to 4.7% in 2016-17, denting net exports' growth contribution. Import growth was underpinned by brisk domestic demand, with private consumption remaining the main driver of output expansion, increasing by a still solid 2.4% (2016: 3.0%) on the back of strong employment growth. Meanwhile, investment growth accelerated notably from 3.3% in 2016 to 5.0% last year, thereby contributing 1.1 p.p. to growth and benefiting from favorable financing conditions and progress in corporate deleveraging. Investment activity was buttressed by strong growth in machinery and equipment (+6.2%) and, in particular, residential investment. The housing market, which was hit heavily during the crises, is recovering slowly, with gross fixed capital formation in dwellings expanding almost twice as fast as in 2016 (4.4%), coming in at 8.3%. That being said, residential investment stands 44% below its 2007 level (in real terms). House prices mirror the gradual recovery, growing by 5.7% y-o-y in Q4-17 (Q4-16: +3.5%, OECD data), thus climbing slightly above their historical average (1995-2017), but still well below their (unsustainable) pre-crisis heights.

Looking forward, we assume that economic growth will prove resilient, putting the Spanish economy among the strongest in the euro area. Notwithstanding, we expect real GDP growth to decelerate gradually, amounting to 2.8% this year before softening to 2.4% in 2019, partly due to the slowly subsiding impact of supportive external factors, namely the ECB's very accommodative monetary policy, a relatively weak euro, and low energy prices. In our view, economic expansion should be underpinned by solid private household spending, largely driven by vivid job creation, affordable funding, headway in reducing household debt, favorable consumer sentiment, minimum wage increases (H1-16 to H1-

18: +12.3%) and the recently adopted budgetary measures which should provide some relief (see below). At the same time, the pace of consumption growth is likely to ease as employment growth slows down to some degree, which should only partially be compensated by moderately rising real wages. Furthermore, apart from ongoing efforts to deleverage, the private household sector's leeway to draw down its saving rate appears limited. According to INE national accounts data, gross savings dwindled to their lowest level since Q3-07. Due to the improved outlook for investment in dwellings and favorable - but gradually tightening - financing conditions, investment activity should hold up well, though somewhat losing steam going forward. Sentiment data in the industrial sector on new orders and export expectations, as well as high and rising capacity utilization also bode well for robust investment activity. Capacity utilization has been trending upward over the recent quarters and amounted to 80.3% in Q2-18, up from 78.1% in Q2-17 and well above the long-term average of 77.2% (2000-17). What is more, the healing of non-financial corporations' (NFC) balance sheets and rising profitability, as mirrored by e.g. higher gross returns on capital employed, should support investment. We expect a modest growth contribution of net external demand. While solid domestic demand will boost imports, we believe that exports will continue to grow solidly, benefiting from improved and sustained cost competitiveness. Exports, however, should expand at a slightly slower pace, mainly due to the softer patch in euro area growth. Additionally, risks related to intensifying protectionist measures are mounting and exports of touristic services should soften somewhat, already having come off their stratospheric growth levels shown over the past two years, displaying (still high) yearly growth rates of 4.2 and 5.2% in Q4-17 and Q1-18 respectively.

Quarterly data lends support to our view of resilient and robust growth in 2018. In contrast to the euro area as a whole and the other major economies, real GDP growth did not slow down and came in at 0.7% in Q1-18 (yearly rate: 3.0%), the same rate as in Q3 and Q4 in 2017. Growth was exclusively driven by domestic demand, with robust private consumption and investment, rising by 0.7 and 0.8% q-o-q, and export growth expanding at the same rate as imports (1.3%). Available data suggests stable growth in Q2.

Beyond 2019, economic growth is likely to level off further, gradually converging towards potential growth. We note that Spain's potential growth rate has picked up in the last few years, being estimated at a modest 1.0% in 2017 (2016: 0.6%, AMECO data). Accordingly, its potential growth posts well below the euro area average of 1.5% or other major economies such as Germany (2.0%) or France (1.2%), but is projected to rise to 1.4% by 2019. Spain's resuming growth potential was driven by the recovery of investment and TFP growth, while remaining constrained by labor input. Spanish TFP growth averaged at 0.9% in 2015-17, closely aligned with the euro area average (1.0%), and investment increased from 18.8% of GDP in 2013 to 20.6% in 2017, having caught up with euro area investment totaling 20.5% of GDP 2017.

In this regard, private sector deleveraging and new lending backed by favorable financing conditions appear to be conducive. Thus, the corporate sector has continued to reduce its debt, gradually rebuilding its risk-bearing capacities and paving the way for productive investment. By the end of the fourth quarter of 2017, NFC debt dropped to 132.2% of

GDP, down from 138.5% in Q4-16 and 166.6% in Q4-12 (Eurostat non-consolidated financial sector accounts), now standing roughly 4 p.p. below the euro area average. In the same vein, private household debt has fallen from 69.3 to 66.6% of GDP over the last four quarters, moving closer to the euro area average of 64.1% in Q4-17. This development has gone hand in hand with rising volumes of new loans. Although the outstanding credit volume has continued to contract over recent months (May 2018: -7.6% y-o-y), new NFC lending has expanded, in particular in the segment of new loans over EUR 1m, where the moving 3-month average has shown vivid yearly growth (May-18: 16.0%, Mar-18: 8.2%, Dec-17: 3.9%). According to Banco de Espana calculations, credit appears to be increasingly allocated to firms that tend to be more productive and are in a healthier financial position (forthcoming Economic Bulletin). Growth of outstanding household credit left negative territory in May for the first time since Jan-11.

Arguably even more importantly, the Spanish economy has greatly benefited from significant improvements in external competitiveness, as well as a substantial increase in exporting firms, bolstering export growth and resulting in regained export market shares. At the latest count, Spain's exports of goods and services ticked up to 2.00% of the world total, up from 1.97% and the highest share since 2009 (2.17%). As illustrated by ICEX data, the number of regularly exporting firms leapt by 31.8% in 2012-17 and rose by 0.6% y-o-y to approx. 50,900 merchandise exporters over the last twelve months (Apr-18). Enhanced cost competitiveness is mirrored by real unit labor costs which edged down further, falling by 1.0% in 2016-17 (-5.4% since 2010), comparing well to key trading partners France and Germany (15.0 and 11.3% in merchandise exports) as well as the euro area as a whole. Real ULC were helped by wage containment, as real compensation per employee fell by 0.4% over the last three years as compared to +0.8% in the EA-19 or +2.6 and +1.5% in Germany and France respectively.

Wage restraint has translated into strong employment growth, as total employment climbed by 2.6% in 2017 after 2.9 and 2.6% in 2015 and 2016, corresponding to one of the strongest cumulative increases in Europe since 2015 (+8.4%, EU-28 avg. 4.0%). Unemployment continued to decline rapidly, with the quarterly average of the unemployment rate being down to 16.2% of the total active population in Q1-18 (Q1-17: 18.2%). However, we view very high unemployment and low labor productivity as a drag on Spain's underlying productive capacity. Spain's unemployment rate is still the second highest in the EU-28 (third-highest Italy 11.0%). The same applies to youth unemployment (<25y), which amounted to 35.5% in this year's first quarter (Q1-17: 40.9%), as well as long-term and very long-term unemployment (20-64y, Q4-17: 7.1 and 4.8%). In addition, employment growth is largely driven by an increasing prevalence of temporary contracts, accounting for 22.5% of total employment - the highest reading in the EU-28 (Q4-17) - which carry a comparatively low probability of being changed into permanent contracts (2017: 7%, fourth lowest estimated probability, Eurostat data). The Spanish economy continues to be plagued by sub-par labor productivity. As of 2017, nominal labor productivity per hour worked equaled 98.3% of the EU-28 total, well below the readings of EA-19 (111.4%) or peers such as Germany (127.2%) or France (123.6%).

Authorities have endorsed some reform measures, mainly targeted towards boosting productivity and addressing labor market weaknesses. The government adopted the Law 6/2017 on Self-Employment, intended to facilitate self-employment by introducing an exemption to social security contributions for self-employed on maternity leave or taking care of minors or dependents, and for the indefinite contracting of family members, as well as an extension of the collection period of the monthly flat rate contribution or an 80% reduction period from six to twelve months. Furthermore, policy-makers have enacted the Employment Activation Strategy 2017-20 (Royal Decree 1032/2017, 15-Dec-17) which builds on the 2014-16 strategy and is geared towards promoting the activation and improvement of the employability of vulnerable groups and enhancing the performance of employment services by modernizing the instruments of the National Employment System.

Policy action aimed at removing the heavy regulatory burden and improving the business environment has been scarce more recently. To be sure, Spain was up a few places in the 2018 edition of the Doing Business report compiled by the World Bank (rank 28). However, the country fares worse than European major economies such as UK (7) and Germany (20), or A-peers Latvia (19), Lithuania (16) and Ireland (17). In January this year, the State Scientific and Technical Policy and Innovation Plan 2017-20 was approved and is intended to strengthen national research and development. As illustrated by the declining R&D expenditure across all sectors, amounting to 1.19% of GDP (2016, EU-28: 2.03%), Spain has ample room to improve in this regard. The Public Sector Contract Law, which came into force in March, is mainly intended to enhance government efficiency and ensure proper application of regulation, but also to incentivize a higher SME participation in public tenders. Implementation of the Market Unity Law continues to be a lengthy process and may be hampered going forward, with last year's Constitutional Court rulings declaring some articles to be invalid.

In contrast to 2012-15, reform momentum has slowed down significantly and we assume that policy reform will advance only at a modest pace going forward. After former PM Rajoy (PP) was re-elected in October 2016, his term turned out to be relatively short-lived as he was replaced by Socialist Sanchez in June 2018, following a no-confidence vote in congress (180 to 169 votes, 1 abstention). We expect broad policy continuity to be ensured and that structural reform progress will be preserved. On the one hand, PM Sanchez has already promised continuity. Moreover, Sanchez' Socialists hold only 84 of 350 seats, making it hard to find a majority in the highly fragmented parliament, and we do not view the successful no-confidence motion as a pro-Socialist vote. At the same time, we do not believe that the current constellation will result in substantial reform progress in the remainder of the legislative term for the same reasons. In fact, we attach a relatively high probability to early elections next year which may, according to current polls, also lead to unstable political conditions.

The political situation in Catalonia escalated in October 2017 as the Catalan regional government declared independence. Following the application of article 155 of the Spanish Constitution, i.e. a removal of the members of the regional government behind the independence referendum, regional elections were held on 21-Dec-17, resulting in a nar-

row majority of the two independence parties (Cs and JunctxsCat: 70 of 135 seats, 2015: 87). We note that the impact on economic activity was very limited. Though remaining elevated, political risks have subsided somewhat, as the first meeting between Sanchez and Catalan leader Torra was constructive, with both parties apparently trying to avoid a continuation of the stalemate. On a positive side note, Sanchez sent positive signals to Catalonia, appointing two Catalans as ministers for foreign affairs and public administration respectively. Our baseline scenario foresees a continuation of the struggle between the Catalan government and Madrid for more autonomy, with Catalonia remaining part of the Kingdom of Spain.

Notwithstanding recent political events, our sovereign assessment continues to be supported by the generally high quality of Spain's institutional framework. According to the World Bank's Worldwide Governance Indicators (WGIs), we assess the sovereign's quality of policy formulation and implementation to be on par with the euro area median and broadly in line with A-rated peers, as Spain was ranked at 36 out of 209 economies (EA-19: 35). This also applies to the WGIs voice and accountability and rule of law, with regard to which the country is ranked at 39/209 and 41/209 respectively, albeit exhibiting a considerable gap towards the euro area average of rank 29 and 32. Still, Spain is among the worst performers in the euro area when it comes to the perception of the extent to which public power is exercised for private gain, with only four sovereigns receiving lower scores in the euro area than Spain. Against this backdrop, it has to be highlighted that the relative performance in terms of control of corruption has deteriorated, with Spain plummeting to rank 66, down from rank 36 five years ago. In general, we believe that the Kingdom of Spain benefits from euro area membership, which entails broader and deeper capital markets as well as advantages associated with the euro as a reserve currency.

By contrast, vulnerabilities arising from public finances remain high, with weak fiscal metrics continuing to represent the sovereign's key weakness, although having displayed improvements over the recent past. Mainly due to sustained strong economic activity and receding interest expenses, fiscal consolidation made further headway and the sovereign met its deficit target of 3.1% of GDP in 2017. The deficit thus posted significantly lower than the 4.5% of GDP seen in 2016, as strong growth bolstered Spain's tax outturn, with taxes on income and wealth increasing by 7.3% or 0.3% of GDP and a VAT revenue which stood 5.0% above the previous year's level (+0.1% of GDP). More importantly, general government expenditure grew less vividly than nominal GDP and came down from 42.2 to 41.0% of GDP in 2016-17. Interest outlays dropped by 5.0% on the year and detracted 0.2% of GDP from total expenditure. The public wage bill rose by 1.2% in nominal terms, but came down to 10.6% of GDP (-0.2 p.p. of GDP), reaching the lowest level since 2008.

Accordingly, general government gross debt continued to moderate, edging down by 0.7 p.p. to 93.3% of GDP in 2016-17, after having peaked at 100.4% of GDP in 2014. While the headline deficit added 3.1 p.p. GDP, this was more than outweighed by the positive contribution of nominal GDP (-3.8 p.p.). Hence, the sovereign's debt-to-GDP ratio is only on a very modest downward trajectory with gross debt rising in nominal terms (2017: EUR 1.14tr, 2016: EUR 1.11tr). Also, the sovereign remains among the most indebted in Eu-

rope, with gross debt well above the euro area average of 86.7% of GDP and significantly higher than in the other A-rated economies.

Fiscal risks are somewhat tempered as debt has become more affordable. Interest expenditure as a share of general government revenue fell further after having peaked at 9.0% in 2013, amounting to 6.8% in 2017, down from 7.4% a year before. However, interest expenses are still among the highest in Europe as measured by revenue. Concurrently, Spanish authorities continue to display prudent debt management, taking advantage of the current interest rate environment. Yields of 10y government bonds remain historically low, standing at 1.46% (01-Jun-18), below the level observed a year before (1.57%), with the Bund spread hovering around 100bp over the last twelve months. In addition, the sovereign exhibits a diversified investor base and a maturity distribution which is tilted towards the longer tenures, as 92.2% of general government debt consisted of long-term instruments (2017). As of 04-Jul-18, maturity extension progressed, with the average weighted life of outstanding debt climbing to 7.45 years, after having increased from 6.20 to 7.13 years in 2013-17. The cost at issuance ticked up to 0.75% (2016: 0.61%), but stands well below the cost of debt outstanding which dropped to a historically low 2.5%.

Looking forward, we expect general government debt to continue on its gradual downward trajectory, buttressed by robust economic growth and improvements in the primary balance. We project the headline deficit to fall below the Maastricht-threshold to 2.7% of GDP, exiting the EDP in 2018, before narrowing further to 2.1% of GDP in 2019. Job-rich economic growth should provide for higher tax intakes and social security contributions, as well as help to keep expenditure in check, while interest expenses will presumably continue to decrease. We assess that the government envisaged expansionary fiscal measures which should prevent the deficit from decreasing to lower levels, involving increases in pensions, higher public wages, and PIT law changes. A union agreement was signed on 22-Mar-18 which sets new replacement rates in the public sector, prospectively fostering public employment growth, and implying fixed wage increases of 1.5 and 2.25% in 2018 and 2019 respectively, as well as a variable component linked to economic growth (0.25 and 0.25-0.5%). Moreover, pension spending can be expected to rise against the backdrop of the agreed extension of pensions by 1.6 and 1.5% in 2018 and 2019 respectively, increases of 3% for minimum pensions and increases in the regulatory base for widows' pensions from to 56 and 60% in 2018/19. Another expansionary measure concerns the stipulated PIT reductions by means of raising tax allowances for low-income earners and introducing tax credits for childcare and large families. It also has to be mentioned that the government will cover the liabilities of the nine insolvent toll motorway companies and scale up public investment into the Spanish road infrastructure in 2018, with the costs now estimated at EUR 1.8bn (0.15% of 2017 GDP). To be sure, authorities reckon with potential revenues amounting to approx. EUR 1bn (0.09% of 2017 GDP) resulting from the sale of these motorways in 2019.

In our view, achievement of the fiscal targets remains subject to uncertainty. While the new PM Sanchez signaled his intention to hold on to the fiscal path sketched out by the former government, fragmentation of the political landscape has increased and the minor-

ity government is in need of substantial support to adopt reform proposals warranting fiscal sustainability. Uncertainty is underscored by the government's recent downward revision of the SP18 targets in July. Prior to that, the Spanish Fiscal Council AIReF had considered compliance with the deficit path proposed in the SP18 as unlikely, mainly on the grounds that the expenditure rule would have to be over-complied with. AIReF also highlighted that the application of the sustainability factor, which was introduced in the 2013 pension reform, will be deferred from 2019 to 2023.

We assess budgetary pressure from age-related spending to be contained. According to the EU Ageing report 2018, age-related costs are projected to remain virtually unchanged at 24.4% of GDP in 2030 (2016: 24.0%) and decrease by 0.2 p.p. GDP up to 2070. While pension and health care expenditure are forecast to increase moderately, education and unemployment outlays should decrease. The same holds for contingent liability risks. Public guarantees edged down from a low 7.7% of GDP in 2016 to 6.7% last year. Callable capital committed to the ESM accounts for another 5.3% of 2017 GDP. In terms of crisis legacies, we further assess that the outstanding amount of ESM loans was reduced from EUR 41.3bn to 26.7bn between Jul-14 and Jul-18, after Spain made another two voluntary repayments in 2018 (one scheduled and eight voluntary repayments since the start). Despite the fact that the asset management company SAREB has recorded operative losses since its inception in 2013, it has reduced its portfolio by 26.7% to EUR 37.2bn and its debt by 25.4% to EUR 37.9bn (as of Mar-18).

Fiscal risks stemming from the banking sector appear limited at this stage. As measured by EBA data, the CET 1 ratio remained broadly unchanged, coming in at 12.4% (Q4-17, Q4-16: 12.6%), but below the EU average of 14.8%. The Spanish banks' return on assets rose slightly from 0.4 to 0.5%, in line with the EU-28 average of 0.4%, and asset quality improved, with NPLs declining by 1.2 p.p. to 4.5% of total loans. Banco de Espana data reveals, however, that there still remain pockets of vulnerability. While the share of doubtful loans in the total economy had dropped to 6.8% by the end of Q1-18, doubtful loans in the construction and real estate sector accounted for 18.9 and 12.5% of total loans respectively, albeit having substantially declined from 27.8% and 24.2% in the previous year's first quarter.

As regards the external sector, sustained current account surpluses alleviate the vulnerabilities stemming from the external side. Spain's current account remained unchanged at 1.9% of GDP, thus recording its fifth consecutive surplus (average 2013-17: 1.5% of GDP), after persistently running deficits in the years before 2013. The surplus has been aided by euro depreciation and falling oil prices, but is increasingly reflecting structural factors such as the above-mentioned competitiveness gains. The Spanish trade in services surplus remained high at 4.8% of GDP (2016: 4.6%), while its trade in goods deficit was below 2% of GDP (2007-16 average: -3.9% of GDP) and posted a balanced primary income account – having averaged at -1.2% of GDP over the last ten years. Nevertheless, substantial external vulnerabilities are mirrored in the still very large and negative net international investment position (NIIP), which increased from -83.4 to -80.8% of GDP in 2016-17, corresponding to one of the most negative NIIPs worldwide. It has to be highlighted that external weaknesses appear to be somewhat mitigated by changes in the



structure of external liabilities over the recent years. The share of equity instruments (direct and portfolio investment) in total external liabilities increased from 21.9% in Q4-12 to 28.0% in Q1-18 (Banco de Espana data). Furthermore, the amount of external liabilities held by less risk-prone sectors such as public administration and Banco de Espana rose by 16.5 and 5.1 p.p. to 48.5% and 38.2% of GDP (Q4-17) over the last five years, while the MFI sector accounted for 37.2% of GDP, down from 47.6% in Q4-12. Going forward, we expect the current account to remain in surplus in 2018-21, as exports should continue to grow, though at a slower pace than in 2017, increasingly buttressed by structural factors and less by slowly subsiding tailwinds.

## Rating Outlook and Sensitivity

Our Rating outlook on the long-term sovereign rating is stable, as we assume that the risk situation underlying the key factors affecting sovereign credit risk – including macroeconomic performance, institutional structure, fiscal sustainability, and foreign exposure – is likely to remain fundamentally unchanged in the next 12 months.

We could lower Spain's ratings if fiscal consolidation came to a halt over an extended period of time or in case of renewed fiscal slippages resulting in a reversal of the government debt trend. Fiscal consolidation may also be seriously hampered by the materialization of contingent liabilities. Downward pressure could also arise if the current account shifted into a deficit again, worsening Spain's external balance sheet, or if medium-term growth turns out to be lower than projected, with negative knock-on effects on fiscal sustainability. At the current juncture, the Spanish economy appears to be rather resilient, although there are signs that the increasingly hostile environment for trade may dampen growth in trade and global economic activity. Spain may suffer from first and second-round effects entailed by a disorderly Brexit, which is not our baseline scenario. What is more, resurgent tensions with Catalonia may lead to a renewed increase in uncertainty and have the potential to dampen domestic demand and fiscal metrics.

We could raise Spain's credit ratings if the authorities further commit to a credible fiscal path in the medium term, with narrowing headline deficits resulting in a sustainable decline of general government debt. Upward pressure could arise from a significant improvement in Spain's NIIP, or a higher-than-expected medium-term growth trajectory which could be the result of a reinvigorated structural reform momentum, fostering Spanish potential growth.

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## Ratings\*

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

\*) Unsolicited

## Economic Data

	2012	2013	2014	2015	2016	2017	2018e
Real GDP growth	-2.9	-1.7	1.4	3.4	3.3	3.1	2.8
GDP per capita (PPP, USD)	32,077	32,158	33,286	34,835	36,444	38,286	40,290
HICP inflation rate, y-o-y change	2.4	1.5	-0.2	-0.6	-0.3	2.0	1.9
Default history (years since default)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Life expectancy at birth (years)	82.5	83.2	83.3	83.0	83.5	n.a.	n.a.
Fiscal balance/GDP	-10.5	-7.0	-6.0	-5.3	-4.5	-3.1	-2.7
Current account balance/GDP	-0.2	1.5	1.1	1.1	1.9	1.9	n.a.
External debt/GDP	n.a.	160,2	168,0	168,6	166,7	164,9	n.a.

Source: International Monetary Fund, Eurostat, own estimates

## Appendix

### Rating History

Event	Publication Date	Rating /Outlook
Initial Rating	30.09.2016	BBB+ /stable
Follow-up Rating	01.09.2017	BBB+ /positive
Follow-up Rating	27.07.2018	A- /stable

### 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.

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.

The rating was conducted on the basis of CRAG's "Sovereign Ratings" methodology in conjunction with its basic document "Rating Criteria and Definitions". 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 the following internet page: [www.creditreform-rating.de/en/regulatory-requirements/](http://www.creditreform-rating.de/en/regulatory-requirements/).

To prepare this credit rating, CRAG has used 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, European Stability Mechanism (ESM), 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), Spanish Reform Monitor (IESE, funcas), España Exportación e Inversiones (ICEX).

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".

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