

Spain

Quantitative Factors (Relative Weights in any New Rating, or change to Existing Rating or Outlook)

19-Jan-18 **Date of This Review**

21-Jul-17 **Date of Last Review**

Weight	Factor	2015		2016		2017		2018		2019	
		A	A	A	A	F	F	F	F	F	F
Low	GDP per capita (USD, mkt exchange rates)	25,684	25,788	26,536	26,635	26,915	27,710	27,932	29,943	29,006	31,072
Medium	Real GDP Growth (%)	3.2	3.4	3.2	3.3	3.1	3.1	2.5	2.5	2.2	2.2
Low	Consumer prices (annual average % change)	-0.6	-0.6	-0.3	-0.3	1.9	2.0	1.6	1.4	1.7	1.6
Medium	General government balance (% of GDP)	-5.1	-5.3	-4.5	-4.5	-3.2	-3.1	-2.5	-2.4	-2.0	-2.0
Medium	General government debt (% of GDP)	99.8	99.4	99.4	99.0	98.8	98.2	97.9	97.0	96.7	95.6
Medium	Current account balance plus net FDI (% of GDP)	-1.4	-1.5	0.1	0.4	0.4	0.9	0.4	0.8	0.5	0.6
Medium	Net external debt (% of GDP)	92.0	91.9	84.6	84.4	83.6	85.8	79.6	77.9	75.8	73.6

Colour key

n/a	IMF Development Classification	DM	Improvement relative to previous review
n/a	CDS Market Implied Rating	n/a	Deterioration relative to previous review

Qualitative Factors (Relative Weights in any New Rating, or change to Existing Rating or Outlook)

Weight	Factor	Change since last review
Low	Fiscal Financing Flexibility	Stable
Medium	Public Debt Sustainability	Positive
Medium	External Vulnerability	Positive
Low	Banking System Strength	Stable
Low	Political Risk/Uncertainty	Stable
Low	Macro-economic Outlook, Policy Coherence and Credibility	Stable
Low	Business Environment and Competitiveness	Stable
Low	Other Factors	Stable

Summary: Strength and Weaknesses

Factor	Status	Trend
Macroeconomic	Neutral	Stable
Public Finances	Weakness	Stable
External Finances	Neutral	Stable
Structural Issues	Strength	Stable

Footnotes

- 1 The risks, limitations and uncertainties associated with the ratings are detailed in the Rating Action Commentary.
- 2 Weights - 'High'/'Medium'/'Low' - reflect the relative importance of each Quantitative and Qualitative Factor in the context of a change in the rating or Outlook.
- 3 not referenced in the Fitch Sovereign Rating Criteria.
- 4 All other relevant rating factors are referenced in the Rating Action Commentary



Discussion Note

Issuer: Spain

Date of Rating Committee: 16-January-2018

Rating Committee Chair confirms that the Rating Action Report (RAR) is complete and correct, including:

- Indicator of default is disclosed, where available (CDS Implied Rating) (n/a)
- Indicator for economic development is disclosed (EM/DM indicator) (Y)
- Weightings of quantitative and qualitative factors are disclosed for changes in existing ratings or Outlooks and for newly assigned ratings (Y)

SRM Output: AA- (SRM output was A+ but committee decided to adopt AA- as migration was deemed temporary)

QO Adjustment: -3 notches (-1 for Public Finances, -1 for External Finances, -1 for Structural Features)

Final Rating: A-

Summary of Discussion

The rating committee discussed the following key issues:

- Developments in Catalonia: potential scenarios after the Catalan regional elections, relations with the Central Government, prospects of an agreement between Catalonia and the Central government, risks to the Spanish sovereign.
- Impact of Catalan events on macro and fiscal outturns at both regional (Catalan) and national level.
- Political trends at central government level: discussion on stability of the Rajoy government, risks to the approval of the 2018 budget, risks of early elections in the event 2018 budget is not approved, the position of the opposition, prospects for reforms.
- Public finances: budget execution, revenue and expenditure performance and projections, implementation risks, social security position, compliance with EU targets.
- Public debt sustainability: level, trajectory and drivers of general government gross debt in the short and medium term; stock-flow adjustments; potential shocks to the public debt path.
- Macroeconomic performance: 2018 forecast and upside/downside risks to GDP projections; recent trends in economic activity for domestic-oriented and export-oriented sectors.
- Medium-term GDP growth potential and structural components including labour dynamics; impact of labour market reforms on estimates of growth potential; uncertainty around the natural rate of unemployment estimates.
- Banking sector developments: profitability trends and outlook; asset quality trend; recent trends in consumer and mortgage debt; banks' exposure to residential and commercial real estate markets; the resolution of Banco Popular.
- Recent developments for the real estate sector and outlook.
- Spain's external position: current account dynamics, net external debt, trends in exports.
- Credit strengths and weaknesses, and rating peer comparisons.
- Potential rating actions, drivers, sensitivities and assumptions.

The main opinions and conclusions of the committee are recorded in the RAC.



Definitions

Per capita income: GDP per capita (USD, mkt exchange rates)

Gross domestic product at current market prices in the local currency and converted into US dollars at annual *average* market exchange rates. GDP is the sum of consumption (private and government) *plus* gross fixed capital formation *plus* the change in inventories *plus* exports of goods and services *minus* imports of goods and services. Source: National authorities, international institutions.

GDP growth: Real GDP growth (%)

Annual percentage change (calendar year on calendar year) of a country's GDP in constant prices (ie, volume terms). Source: National authorities, international institutions, Datastream.

Inflation: Consumer prices (annual average % change)

Annual percentage change in the national consumer price index (CPI). Note: these are period averages, *not* year-end to year-end. Source: National authorities, international institutions, mainly IMF IFS.

Fiscal Balance: General government balance (% of GDP)

Consolidated balance of central government, provincial, regional and local governments, social security funds and other extra-budgetary funds; data may be presented on a cash or, more generally and preferably, on an accruals basis. Net lending is treated as an expenditure item and is *included* in the general government balance. Privatisation receipts are treated as a financing item and are *excluded* from the general government balance.

Note: in some countries data are available only for a fiscal year not coinciding with the calendar year. Where this is so, fiscal data are allocated to that calendar year in which the larger part of the fiscal year falls. For fiscal years running July-June, fiscal data are allocated to the year ending 30 June (ie, 1990/91 = 1991). Also note that for euro area countries, the figures may differ from those produced by Eurostat due to Fitch's treatment of UMTS receipts. Source: National authorities, international institutions.

Fiscal Debt: General government debt (% of GDP)

Year-end debt stock of the general government (as defined above); data comprise domestic and externally contracted debt regardless of maturity, and include monetary authorities' debt issued on behalf of the government. Contingent liabilities such as guaranteed debt are excluded, except where these are specified as a line item in the budget. Source: National authorities, international institutions.

External Balance: Current account balance plus net FDI (% of GDP)

Current account balance plus the net annual flow of foreign direct investment (US dollar value of FDI in the economy less resident FDI abroad), expressed as a percentage of GDP. Source: Fitch estimates based on national authorities and IMF.

External Debt: Net external debt (% of GDP)

Calculated by deducting certain classes of gross external assets from a country's gross external debt (GXD). All figures are converted into US dollars at year-end exchange rates and are expressed as a percentage of GDP. A minus sign indicates that the country is a net external creditor (ie, contractual external claims exceed liabilities). For all countries, the definition of gross external assets mirrors the definition of GXD, ie, exclusion of equity FDI and portfolio equity investment.

Fitch has therefore modified the definition of gross external assets for emerging countries, as it previously used "narrow" gross external asset definition, which excluded non-bank private-sector external assets for these countries. Therefore, the claims of the non-bank private sector would be included, on the grounds that these are the product of rational portfolio management and generate an identifiable income stream for the country of origin. Note that for those emerging markets that have entered into Brady debt deals collateralised by US zero-coupon bonds, the US dollar value to date of that collateral is included in official assets. Source: IMF IFS, national authorities, international institutions.

Economic Development: IMF Development Classification

Countries classified as Advanced Economies in the latest IMF World Economic Outlook are reported as Developed Markets (DM). Emerging Market and Developing Economies are reported as Emerging Markets (EM). Source: IMF World Economic Outlook, Fitch classifications for sovereigns not referenced in the IMF World Economic Outlook.

Indicator of Default : CDS Market Implied Rating

Derived from the Fitch CDS Implied Ratings (CDS-IR) model, which processes the collective marketplace view of issuers' credit condition based on its current CDS pricing and region. It then calculates and converts these into implied ratings. Source: Fitch Solutions.



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