Rating Report
Autonomous Community of Madrid

Morningstar DBRS
13 December 2024

Credit Rating Considerations
Strengths
1 Large and very diversified economy
2 Strong fiscal position
3 Sound debt structure and continued access to financial markets
4 Favorable liquidity profile

Challenges
1 Higher although decreasing interest rates
2 Still high debt-to-operating revenues ratio

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Credit Ratings

Issuer	Debt Rated	Credit Rating	Trend
Autonomous Community of Madrid	Long-Term Issuer Rating	A (high)	Stable
Autonomous Community of Madrid	Short-Term Issuer Rating	R-1 (low)	Stable

Summary Credit Rating Rationale

On 13 December 2024, DBRS Ratings GmbH (Morningstar DBRS) upgraded the Autonomous Community of Madrid's (Madrid) Long-Term Issuer Rating to A (high) from “A” and changed the trend to Stable from Positive. At the same time, Morningstar DBRS confirmed Madrid's Short-Term Issuer Rating at R-1 (low) and maintained the trend Stable.

The upgrade reflects the upgrade of Kingdom of Spain's Long-Term Foreign and Local Currency - Issuer Ratings to A (high) from "A" on 29 November 2024, in addition to Madrid's favorable fiscal outlook and continued improvement in debt affordability. Madrid's strong financial management combined with the return of fiscal rules should allow the region to continue making progress with its declining debt trajectory.

Madrid's credit ratings remain underpinned by (1) the region's large and diversified economy; (2) its strong fiscal results since 2018, which Morningstar DBRS expects to continue; (3) its sound debt structure and consistent access to financial markets; and (4) its strengthened liquidity profile. Despite lower economic growth prospects for 2025, Morningstar DBRS anticipates that the region's strong management will be able to control growth in expenditures and limit debt accumulation.

Summary Statistics

	2019	2020	2021	2022	2023
GDP (EUR millions)[1]	242,093	219,031	237,540	261,713	284,167
Real GDP growth (%)[1]	3.1	-10.4	6.0	7.2	3.0
Unemployment rate (%)	10.6	12.5	11.6	11.2	10.0
Adjusted debt-to-GDP (%)[2]	14.6	16.5	15.2	14.1	13.6
Adjusted debt-to-operating revenue (%)[2]	186.2	160.5	156.4	175.6	169.4
Financing surplus/(deficit)-to-GDP (%)	-0.26	-0.02	0.27	-0.77	-0.75

1. 2023 GDP figures are estimations.
2. Figures have been adjusted by Morningstar DBRS. For more information, please see the Rating European Sub-Sovereign Governments methodology.
Sources: Madrid, Instituto Nacional de Estadística, Ministerio de Hacienda y Función Pública, Morningstar DBRS.

Credit Rating Drivers

The credit ratings could be upgraded if the region maintains strong financial fundamentals and the Kingdom of Spain's credit ratings are upgraded. Madrid does not have the constitutional protection to be rated above the sovereign credit rating and its credit ratings are therefore capped by the Kingdom of Spain’s credit ratings.

The credit ratings could be downgraded if any or a combination of the following occur: (1) there is a structural reversal in the region’s fiscal consolidation, leading operating deficits to widen over time; (2) there is a marked and lasting deterioration in Madrid’s debt metrics, including larger and costlier annual maturities and higher leverage; or (3) the Kingdom of Spain's credit ratings are downgraded.

Summary Credit Rating Rationale (Continued)

Madrid's operating performance already improved in 2023 and is expected to strongly improve in 2024. After a stabilization of the financing deficit around 0.7% of GDP in 2023, the region expects to improve its fiscal performance in 2024 towards a deficit of 0.1% of GDP in 2024. The operating surplus is expected to reach around EUR 500 million or 2.0% of operating revenues from EUR 236 million in 2023 or 1.0% of operating revenues, thanks to higher tax revenues and the positive settlement from the regional financing system.

Morningstar DBRS view positively the improvement in financial performance and considers that Madrid has some budgetary flexibility that could be used against potential fiscal headwinds. This is also the case with the revenues recovered from wealth tax in 2024, this was a tax benefit in previous years, and there are more taxes where the region could activate in case of financing need. Moreover, the Independent Authority for Fiscal Responsibility (AIREF) expects a slight deterioration of the financial performance in 2025 to a financing deficit of 0.3% of GDP but in its medium-term projections foresees the region reaching a balanced budget by 2029.

The region's plan to continue its capital investment effort will reinforce the importance of expenditure control in the near term. Most of the EU funds and extraordinary funds from the recovery and resilience fund have already been wound down and will represent a very low percentage of the 2025 budget. Tighter expenditure control will remain a key credit consideration given the lower economic growth context. A weakening of Madrid's financial results, reflecting a decrease in revenues that would not be mitigated by a reduction in or strong control over operating expenditures, therefore prompting a structural deterioration in the region's public finances, would negatively affect Madrid's credit profile.

Madrid increased its debt stock in 2023, due to its own deficit but also due to the increase in the indebtedness of its government-related entities, mainly the public transport entity Metro de Madrid which financed rolling stock. During 2024 the debt stock of the autonomous community continue to grow but the debt of its government-related entities slightly decreased. At end of October 2024, Morningstar DBRS' adjusted debt stock increased to EUR 40.7 billion from EUR 39.7 billion at the end of 2023. However, Madrid's debt ratios improved, with adjusted debt-to-operating revenues expected to decrease to around 150% at year-end 2024 from 169% at the end of 2023. If we exclude the debt metrics seen in 2020 and 2021, which strongly improved thanks to extraordinary revenues from state support, the expected 2024 ratio will be the lowest value over the last ten years.

AIREF expects the debt ratio to decrease to 12.0% of GDP in 2024 and expects this ratio to keep declining over the medium term towards 10% of GDP in 2029. Moreover, Madrid's debt could potentially decrease further in the medium term if the national government keeps its commitment to provide debt relief to the regions.

Madrid's debt is very diversified and the region benefits from consistent access to financial markets. The regional debt structure is very prudent with a large share of debt stock at long-term fixed rates that enhance the average life of debt and smooth the debt repayment calendar, reducing refinancing risk. At the end of October 2024, Madrid’s bond issuances represented 56% of its debt stock, or EUR 21.1 billion, and 43% of the total bonds outstanding for all Spanish regions.

Regarding liquidity, Madrid has historically recorded a relatively low cash position, as its liquidity needs are predictable and mainly depend on the calendar of settlements from the regional financing system. Nevertheless, Morningstar DBRS takes the view that Madrid's setup and successful launch of a pagarés (commercial paper) programme in 2020 and the extension of the credit lines available to the region to EUR 1.8 billion, bringing the region's liquidity toolkit to EUR 2.8 billion, have overall strengthened its liquidity profile. Going forward, Morningstar DBRS will continue to monitor the use of those liquidity instruments to assess their impact, if any, on the region's liquidity profile.

Madrid's real GDP grew by 7.2% in 2022, better than Spain's growth rate of 5.8%, and AIREF expects Madrid's real GDP to have grown by 3.0% in 2023 and to grow by 3.1% in 2024. At the end of 2023, the services sector was driving growth with contributions from hospitality, transportation, and tourism. Morningstar DBRS expects the regional economy growth to be supported by the region's high employment level and strong tourism performance. The financial resources expected from NGEU, including the RRF and REACT-EU funds, should continue to support reforms and investments. Additionally, Madrid is the largest recipient of foreign investment funds in Spain, with almost 50% of the national total, which should positively influence the regional economy's prospects.

Tourist arrivals at hotels (domestic and foreign) grew by approximately 9% year over year as of October 2024, and cumulative arrivals in 2023 were already 0.2% above 2019 levels. The post-pandemic recovery in tourism has been stronger nationally than in Madrid, but high value-added sectors such as information, technology and the financial sector supported growth. Indeed, by the end of Q3-2024, Madrid recorded an all-time employment level record with around 3.8 million workers, with a vast majority of them working in the service sector showing an increase of 11% in September 2024 in comparison to the start of 2021, after strong annual employment growth of 3.6%. The level of employment has remained elevated during the last two years and could partially explain why the region benefits from the highest GDP per capita in the country, estimated at EUR 42,383 in 2023, or 39% above national average.

Institutional Framework

Morningstar DBRS takes the view that the budgetary principles and procedures applicable to Spanish sub-sovereign governments contribute to their financial sustainability. The budgetary framework is defined by the 2012 Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera (Budget Stability Law) that sets targets in terms of fiscal performance, debt, and expenditure levels for all government tiers. The autonomous communities (ACs) are obligated to supply budget execution information monthly so that the central government can monitor and ensure compliance with the aforementioned targets. The central government unilaterally set the fiscal targets through the Budget Stability Law, but to align these targets with the regions, it created the Fiscal and Financial Policy Council composed of representatives of the central government (Ministry of Finance) and regional governments that meet, at minimum, twice a year.

According to the Spanish constitution under its article 148, the ACs share regulatory powers with the central government on education and healthcare, which are the main responsibilities and represent around two-thirds of total spending excluding debt repayments. In addition, the ACs exclusively control responsibilities related to housing, territorial and urban planning, railways and regional roads, ports and airports, agriculture and livestock, mountain and forest uses, environment, construction and exploitation of hydraulic uses, fishing, hunting, fairs, regional economic promotion, monument heritage, culture and research, social assistance, and tourism.

The transfers received from the central government to fund all these responsibilities rely on the regional funding system. The system has a vertical tax-sharing system with the government by which the ACs should fund their expenditure from 50% of value-added tax (VAT) and personal income tax (PIT) and 58% of special taxes, fees, and fines, coupled with central government transfers for capital investments and coming from equalisation funds. However, all the tax revenues and equalisation funds are collected by the central government and then transferred to the ACs. Given the lag between recognition, collection, and distribution of these funds, the central government has established a funding system based on expectations of tax collection. The central government estimates the tax collection and communicates the level of operational transfers it will transfer to the ACs in advance. Two years later and based on the actual tax collection, the central government pays or receives the difference from the estimation, which usually results in further funds for the regions provided the estimation was applied prudently.

The Spanish government has shown a firm commitment to supporting the financial viability of all the ACs when unexpected economic events have materially affected their tax revenue. The main element of this support is exemplified by the importance of the state funding mechanisms available at the request of ACs. (See *Spanish Autonomous Communities' Access to State Funding Mechanisms Reduces Interest and Refinancing Risks*.) Additionally, the central government has a good track record of providing additional support to regions in periods of financial distress, such as the 15-year financing of the negative tax settlement resulting from the 2008 financial crisis. Moreover, the negative tax settlement for 2020 was also offset by the Spanish government, and throughout the coronavirus pandemic, the national government granted significant additional transfers to regional governments to support their financial position.

Governance and Fiscal Management

In terms of overall governance, Morningstar DBRS views positively the region's strong transparency and high level of overall financial disclosure as well as the budgetary monitoring it has implemented. Morningstar DBRS takes the view that the re-election of President Isabel Diaz Ayuso in May 2023 should support policy continuity, including fiscal strategy (please see *Madrid: Local and Regional Elections Point to Policy Continuity Re-Election of Madrid's Regional President and City Mayor*).. Despite some tax cuts implemented by the regional government, Morningstar DBRS expects that Madrid's government will remain committed to the fiscal consolidation path it has recorded in recent years.

The region’s budgetary process and forecasting ability is affected by the current regional financing system, given that positive or negative settlements only occur after a two-year lag. This can challenge the region's ability to build budgets with limited knowledge of resources available in a budgeted year if the central government takes time to communicate the upfront transfers, or if it revises them after the region has already approved its budget. However, Madrid keeps working on improving its forecasting ability and control. Madrid has started building a projection of expenditure volume until 2029, which is intended to control the operating expenditure in the medium term and identify capital investment needs in the same period. This medium-term budgeting exercise is combined with a series of specific objectives and metrics that allows Madrid to follow up on the different sectorial strategy programs applied in the region's departments. This medium-term planning is compatible with the administration's existing monthly standard monitoring procedure, which includes both budget execution monitoring and annual result expectations. If a material deviation is identified, a specific department in the administration that specialises in these situations takes over management of the specific project causing the deviation.

Financial Performance

Madrid's operating performance already improved in 2023 and is expected to strongly improve in 2024. After a stabilization of the financing deficit around 0.7% of GDP in 2023, the region expects to improve its fiscal performance in 2024 towards a deficit of 0.1% of GDP in 2024 (Exhibit 1). The operating surplus is expected to reach around EUR 500 million or 2.0% of operating revenues from EUR 236 million in 2023 or 1.0% of operating revenues (Exhibit 2), thanks to higher tax revenues and the positive settlement from the regional financing system.

Up to October 2024, Madrid's operating revenues grew by around 15% over the same period in 2023 with strong growth of direct and indirect taxes that can be explained also partly by the very large settlement received this year from the regional financing system and also due to the recovery of the wealth tax that was entirely considered a tax benefit in 2023 and amount to around EUR 560 million. Moreover, capital revenues have jumped by more than 100% compared with the same period in 2023 due to the increase of REACT-EU funds stemming from the investment efforts of the region. At the same time, expenditure grew by around 10% so the budget execution of the region has continued its fiscal improvement, and AIREF expects the region post a financing deficit of 0.2% of GDP for 2024 which is much stronger than the 0.7% of GDP in 2023.

Morningstar DBRS view positively the improvement in financial performance and considers that Madrid has some budgetary flexibility that could be used against potential fiscal headwinds. This is also the case with the revenues recovered from wealth tax in 2024, this was a tax benefit in previous years, and there are more taxes where the region could activate in case of financing need. Moreover, AIREF expects a slight deterioration of the financial performance in 2025 to a financing deficit of 0.3% of GDP but in its medium-term projections, foresees the region reaching a balanced budget by 2029.

Exhibit 1 Madrid Transfers and Deficit Reduction[1]

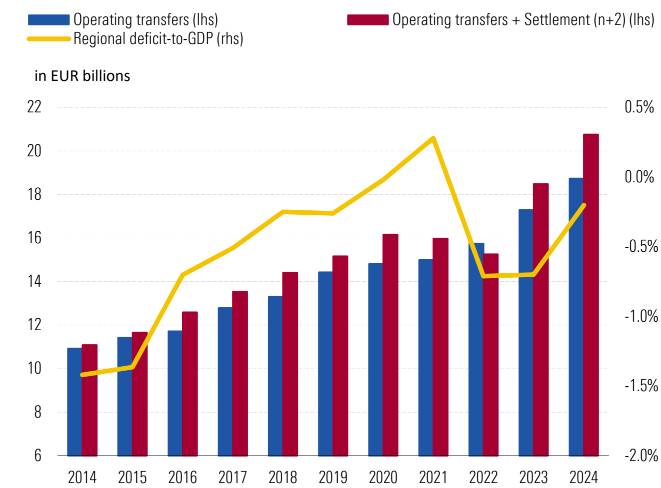
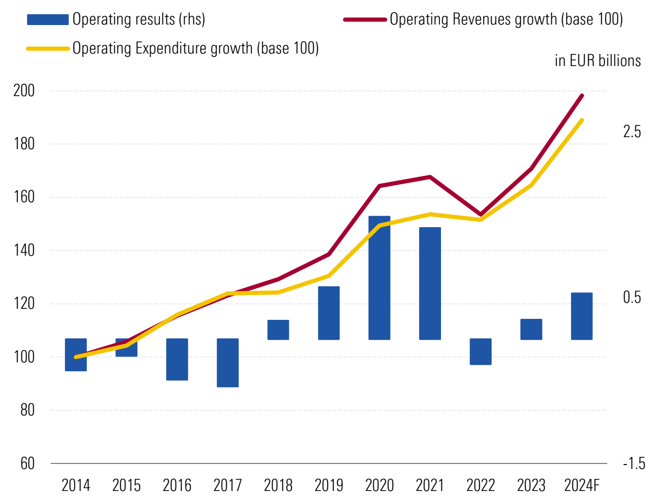


Exhibit 2 Madrid's Operating Results



Sources: Madrid, Ministerio de Hacienda y Función Pública, Morningstar DBRS.
1. Operating transfers include “entregas a cuenta” for year N, and operating transfers + settlement (n+2) also include the positive or negative settlement of the financing system for the year N-2.

The region's commitment to complying with the fiscal rules has been strong over the past years, and Madrid approved its 2025 budget based on compliance with these targets. The revenues are not expected to grow much given that the settlement from the regional financing will be lower than in 2024. Additionally, while the region has continued its policy of reducing own taxes, the changes will just impact the revenues in the coming years given the protection of the regional financing system. Despite the lower growth of revenues, total expenditure is expected to grow by 4% in 2024 with mainly due to higher social expenditure and investments on the extension of Metro lines 5 and 11 and the development of a new judicial center.

The region's plan to continue its capital investment effort will reinforce the importance of expenditure control in the near term. Most of the EU funds and extraordinary funds from the recovery and resilience fund have already been wound down and will represent a very low percentage of the 2025 budget. Tighter expenditure control will remain a key credit consideration given the lower economic growth context. A weakening of Madrid's financial results, reflecting a decrease in revenues that would not be mitigated by a reduction in or strong control over operating expenditures, therefore prompting a structural deterioration in the region's public finances, would negatively affect Madrid's credit profile.

Debt and Liquidity

Madrid increased its debt stock in 2023, due to its own deficit but also due to the increase in the indebtedness of its government-related entities, mainly the public transportation entity Metro de Madrid which financed its rolling stock. During 2024 the debt stock of the autonomous community continue to grow but the debt of its government-related entities slightly decreased. At end of October 2024, Morningstar DBRS' adjusted debt stock increased to EUR 40.7 billion from EUR 39.7 billion at the end of 2023. However, Madrid's debt ratios improved, with adjusted debt-to-operating revenue expected to decrease to around 150% at year-end 2024 from 169% at the end of 2023. If we exclude the debt metrics seen in 2020 and 2021, which strongly improved thanks to received extraordinary revenues from state support, this is the lowest value over the last ten years.

Additionally, the debt-to-GDP ratio has been falling for the last seven years, with a peak in 2017 at 14.7% of GDP to 12.8% of GDP at 2Q of 2024, with the exception of 2020 and 2021 due to the pandemic-related temporary GDP drop. With a debt ratio of 13.0% of regional GDP at the end of 2023, the region's debt remains substantially below the average for Spanish regions of 22.4%. AIREF expects the debt ratio to decrease to 12.0%[1] of GDP in 2024 in its report of budget fundamental lines for 2025 (November 2024) and expects this ratio to keep declining over the medium term towards 10% of GDP in 2029. Moreover, Madrid's debt could potentially decrease further in the medium term if the national government keeps its commitment to provide debt relief to the regions.

Unlike most other regions in Spain, the region has historically had very limited recourse to the financing facilities provided by the central government. Madrid fully repaid its stock of national government-funded debt in 2020. Alternatively, Madrid has maintained consistent access to the financial markets since the financial crisis. As a result, at the end of October 2024, Madrid's bond issuances represented 56% of its debt stock, or EUR 21.1 billion (Bank of Spain data), and 43% of the total bonds outstanding for all Spanish regions.

Additionally, the region is very committed to maintaining part of its funding needs via sustainable and green bond schemes, with the latest green bond issuance in July 2024 for EUR 600 million. The sustainable bond schemes are issued to fund a combination of projects related to social development or environmental benefits, while the green bonds specifically follow the green bond principles. The use of this funding enhances diversification and secures Madrid's ability to tap the markets; this likely contributes to the region benefitting from a large average life of debt at 8.1 years as of October 2024 which is much higher than the average for Spanish ACs and an average cost of debt at 2.29% as of same date. The regional debt structure is sound with limited short-term debt, representing less than 1% of its debt stock, and about 93% of its direct and indirect debt at fixed rates (Exhibits 3 and 4). All of Madrid's debt stock is denominated in euros. Contingent liabilities have also decreased since 2012, with public and private partnerships now factored into the regional government's debt.

For 2024, almost all of Madrid's funding needs were financed in the first half of the year, meaning EUR 3.1 billion was financed through a mix of bond issuances, private placements, and bank loans. This strategy helps Madrid maintain debt repayment not surpassing EUR 3 billion per year through long debt maturities between three and 25 years, a feature that could become an asset if the liquidity markets tighten further. The remaining funding needs would temporarily be covered through the liquidity toolkit that the region has available. Indeed, Madrid also has access to preapproved long-term loans for specific investments available from multilateral institutions, such as a loan of EUR 372 million from the European Investment Bank for the extension of the first section of line 11 of Madrid's metro.

1 Please note that AIReF uses the debt ratio from the Bank of Spain that consolidates fewer debt elements and hence is lower than Morningstar DBRS' adjusted debt-to-GDP.

Exhibit 3 Madrid's Debt Structure[1]

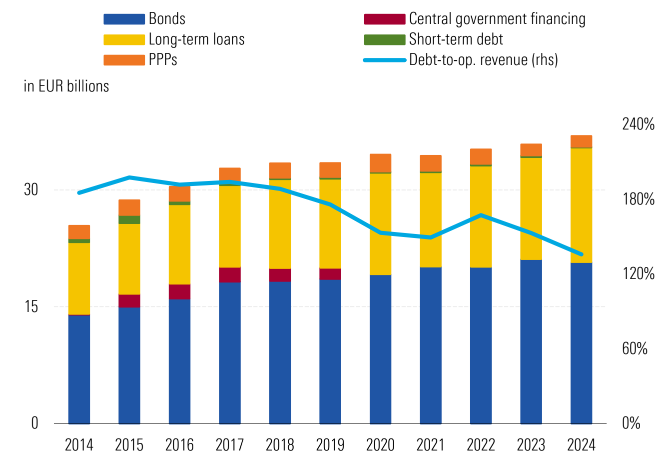
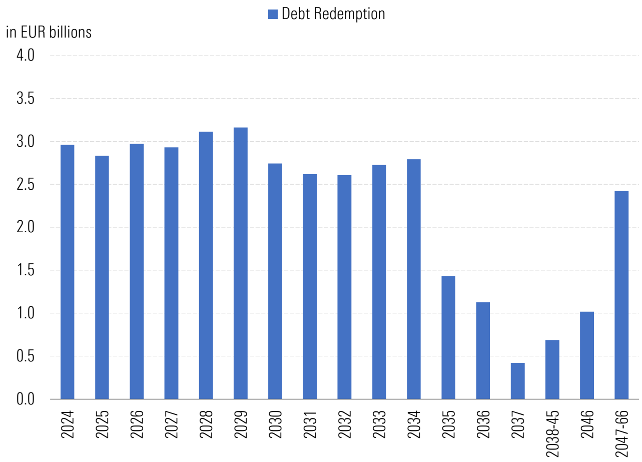


Exhibit 4 Direct Debt Amortisation Schedule as of end-October 2024[2]



Sources: Ministerio de Hacienda y Función Pública, Madrid, Bank of Spain, Morningstar DBRS.
1. Debt refers to direct and indirect debt (data from Bank of Spain). Data of 2024 refers to data as of end of October 2024.
2. 2024 Debt redemption corresponds to the full year debt redemption payments and most of the 2024 debt redemption payments have already been made.

Madrid has historically recorded a relatively low cash position, as its liquidity needs are predictable and mainly depend on the calendar settlements from the regional financing system. This also reflects structural features of the Spanish regional system, with a clear national government payment calendar based on disbursement of monthly payments planned throughout the year depending on needs, and the Spanish regions need approvals to issue debt and contract loans. Nevertheless, Morningstar DBRS takes the view that Madrid's setup and successful launch of a pagarés (commercial paper) programme in 2020 and the 2022 extension of the credit lines available to the region to EUR 1.8 billion, bringing the region's liquidity toolkit to EUR 2.8 billion, have overall strengthened its liquidity profile. Going forward, Morningstar DBRS will continue to monitor the use of those liquidity instruments to assess their impact, if any, on the region's liquidity profile.

Economic Structure

Madrid had a population of approximately 6.9 million and a GDP estimated at around EUR 291 billion at the end of 2023, which is the largest regional economy in Spain, representing close to 20% of Spain’s GDP. Madrid's economy is affected by the national economic context. In 2022, Madrid's real GDP grew by 7.2%, better than Spain's growth rate of 5.8% (Exhibit 5), and AIREF expects Madrid's real GDP to have grown by 3.0% in 2023 and to grow by 3.1% in 2024.

Morningstar DBRS expects the regional economy growth to be supported by the region's high employment level and strong tourism performance. The financial resources expected from NGEU, including the RRF and REACT-EU funds, should continue to support reforms and investments. Additionally, Madrid is the largest recipient of foreign investment funds in Spain, with almost 50% of the national total, which should positively influence the regional economy's prospects.

Exhibit 5 Real GDP Growth and Unemployment[1]

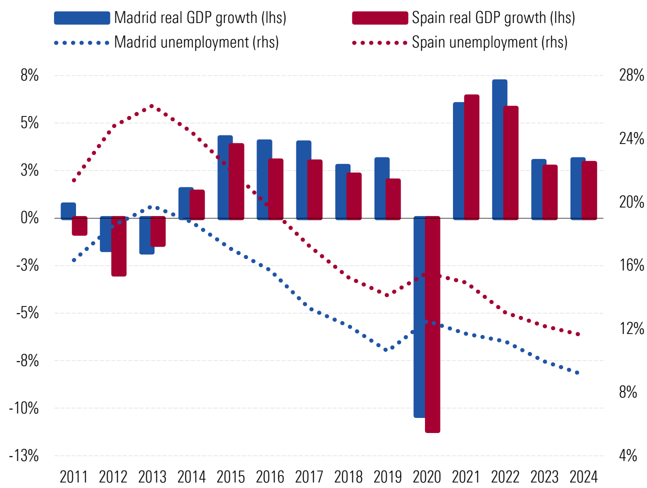
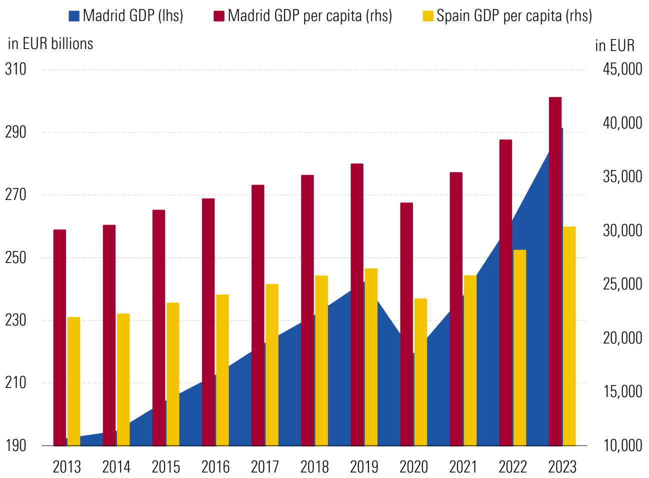


Exhibit 6 GDP and GDP per Capita[1]



Sources: Madrid, General State Comptroller, INE, AIREF, Morningstar DBRS.
1. 2023 and 2024 GDP data for Madrid and real GDP growth are estimates from AIREF.

In the region's housing market, the house price index (based on 2015 prices) from the Instituto Nacional de Estadística (INE) rose to 174 at Q2-2024 from 156 at Q2-2022, although its growth was disrupted in Q4 2022 for the first time since 2020. At the same time, the number of transactions decreased by around 1% in 2023 over 2022, but once the interest rates started to decrease these have returned to grow with a 12% increase of transactions at the end of Q2-2024 year on year.

Tourism activity progressively recovered in Madrid during 2021 and 2022 and yet has fully recover in Madrid. Tourist arrivals at hotels (domestic and foreign) grew by approximately 9% year over year as of October 2024, and cumulative arrivals in 2023 were already 0.2% above 2019 levels. The post-pandemic recovery in tourism has been stronger nationally than in Madrid (the country's 2023 tourism levels were already higher than those in 2019, and full recovery in overnight stays did not occur until the first quarter of 2024), but high value-added sectors such as the information, technology and the financial sector supported the growth.

Indeed, by the end of Q3-2024, Madrid recorded an all-time employment level record with around 3.8 million workers, with a vast majority of them working in the service sector showing an increase of 11% in September 2024 in comparison to the start of 2021, after strong annual employment growth of 3.6%. The level of employment has remained elevated during the last two years and could partially explain why the region benefits from the highest GDP per capita in the country, estimated at EUR 42,383 in 2023, or 39% above national average (Exhibit 6). At the same time, unemployment rate stood at 9.7% at Q3 2024, down from 10.2% at Q3 2023.

Madrid

	2018	2019	2020	2021	2022	2023
Economic Indicators						
Population[1]	6,578,079	6,663,394	6,779,888	6,751,251	6,743,254	6,871,903
GDP (EUR millions)[2]	231,423	242,093	219,031	237,540	261,713	291,249
Real GDP growth (%)[2]	2.7	3.1	-10.4	6.0	7.2	3.0
Unemployment rate (annual) (%)	12.2	10.6	12.5	11.7	11.2	9.96
Debt Section (EUR millions)						
Direct and indirect debt stock	33,448	33,469	34,601	34,409	34,821	35,875
Debt from the central government	1,671	1,429	0	0	0	0
Direct and indirect debt-to-operating revenues (%)	188.4	175.9	153.4	149.5	165.0	152.8
Direct and indirect debt-to-GDP (%)	14.5	13.8	15.8	14.5	13.3	12.3
Short-term debt[3]	2,804	3,116	2,768	3,094	2,842	3,121
Short-term debt-to-operating revenues (%)[3]	15.8	16.4	12.3	13.4	13.5	13.3
Adjusted debt stock[4]	35,228	35,431	36,190	35,995	37,003	39,704
Adjusted debt-to-operating revenues (%)[4]	198.5	186.2	160.5	156.4	175.6	169.4
Adjusted debt-to-GDP (%)[4]	15.2	14.6	16.5	15.2	14.1	13.6
Fiscal Performance (EUR millions)						
Operating revenues	17,749	19,028	22,550	23,013	21,071	23,442
Operating expenditure	17,523	18,399	21,068	21,669	21,374	23,206
of which interest costs	736	717	735	661	613	722
Interest costs-to-operating revenues (%)	4.1	3.8	3.3	2.9	2.9	3.1
Operating surplus/(deficit)	226	629	1,482	1,345	-303	236
Operating surplus/(deficit)-to-operating revenues (%)	1.3	3.3	6.6	5.8	-1.44	1.01
Capital revenues	91	79	137	793	870	561
Capital expenditure	1,012	1,027	1,424	1,305	1,279	2,036
Financing surplus/(deficit)	-695	-319	196	832	-712	-1,239
Financing surplus/(deficit)-to-operating revenues (%)	-3.9	-1.7	0.9	3.6	-3.4	-5.3
Financing surplus/(deficit)-to-GDP (%)[5]	-0.24	-0.26	-0.02	0.27	-0.77	-0.75

Sources: Madrid, General State Comptroller (IGAE), Ministerio de Hacienda y Función Pública, INE, Bank of Spain, Morningstar DBRS.
1 Population at the beginning of the year.
2 2023 data for GDP are provisional from the IGAE.
3 Short-term debt includes short-term debt as well as long-term debt falling due within the next 12 months.
4 Figures have been adjusted by Morningstar DBRS. For more information, please see the Rating European Sub-Sovereign Governments methodology.
5 Financing deficit-to-GDP using national accounting standards.
Budgetary figures are presented using public accounting standards (General Administration, not consolidated) unless otherwise specified.

European Sub-Sovereign Government Scorecard

Madrid	Value
Institutional Framework	
Sovereign Rating	A (high)
Institutional Framework Weight	Moderate
Intrinsic Assessment	
Economic Structure	
Economic Structure Grid	Lower risk
Fiscal Management	
Fiscal Management Grid	Moderate risk
Debt and Liquidity	
Debt and Liquidity Grid	Moderate risk
Financial Metrics	Moderate risk

Note: A moderate weight for the Institutional Framework ranges from 30% to 55%. The scorecard risk assessment is split as follows: Lower risk: 1.00<=score<2.25; Moderate risk: 2.25<=score<3.5; Higher risk: 3.5<=score<5.00.
Sources: Morningstar DBRS' methodologies Rating European Sub-Sovereign Governments (August 2024) and Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (August 2024).

Madrid, Autonomous Community of

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	N	N
	Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N
	Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N
		Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
		Carbon and GHG Costs	N	N
	Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N
		Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
		Resource and Energy Management	N	N
	Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N
	Climate and Weather Risks	Under key IPCC climate scenarios up to a 2°C rise in temperature by 2050, will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		Overall:	Y	R
	Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible, and productive?	N	N
		Are labour or social conflicts a key source of economic volatility?	N	N
		Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
		Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
		Human Capital and Human Rights	N	N
	Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	Y	R
Governance		Overall:	N	N
	Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N
	Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N
		Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
		Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
		Institutional Strength, Governance, and Transparency	N	N
	Peace and Security	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
		Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
		Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
		Peace and Security	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
		Consolidated ESG Criteria Output:	Y	R

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

ESG Considerations

Environmental

There were no Environmental factors that had a significant or relevant effect on the credit analysis. Madrid has reinforced its environmental policies in recent years, supported by the launch of sustainable and green bond issuances under the region's sustainable finance framework. Nevertheless, the 2020 European Social Progress Index places Madrid at the bottom of Spanish regions in terms of environment quality. This reflects the focus of this indicator on air quality, which is likely to be adversely affected by Madrid's high population density as well as its role as Spain's capital and economic hub. Further progress towards enhanced environmental policies is expected in coming years, possibly through the implementation of Madrid's Strategy for Adaptation and Mitigation of Climate Change 2021–2030, which is expected to be supported by European Union funds.

Social

There were no Social factors that had a significant effect on the credit analysis.
The following Social factor had a relevant effect on the credit analysis: Passed-through Social considerations. The Passed-through Social credit considerations had a relevant effect on the credit ratings, as the social factors affecting the Kingdom of Spain's credit ratings are passed through to Madrid. Human capital, as measured by GDP per capita, is factored into the Kingdom of Spain's credit ratings, which have been used as an input for Madrid's credit ratings. Madrid's GDP per capita is above the national level, estimated at EUR 42,383 or approximately 139% of the national average in 2022. Respect for human rights is high, and there is widespread access to quality healthcare and other basic services within the region. Madrid ranks nineth among the 17 regions under the 2024 European Regional Social Progress Index.

Governance

There were no Governance factors that had a significant or relevant effect on the credit analysis. Madrid's governance and transparency is strong. The region, in line with national peers, has strengthened its financial reporting over the last decade. As with other regional governments in Spain, Madrid publishes information on monthly budgetary execution, monthly commercial debt position, as well as information regarding delays in paying suppliers. Greater transparency may indicate good governance, a positive credit feature. While Madrid benefits from some autonomy, it needs to abide by the 2/2012 Organic Law or Budget Stability Law that sets targets in terms of fiscal performance, debt, and expenditure levels for all government tiers in Spain.

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