

Scope affirms Madrid's A rating with a Stable Outlook

Solid budgetary metrics, deep capital market access, ample liquidity and a resilient, high-income economic base support the rating. Elevated but declining debt levels and structurally rigid spending remain constraints.

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Rating action

Scope Ratings GmbH (Scope) has affirmed the long-term issuer and senior unsecured debt ratings of the Autonomous Community of Madrid (Madrid) in both local and foreign currencies at A, with Stable Outlooks. Scope has also affirmed the short-term issuer rating of S-1 in both local and foreign currency, with Stable Outlooks.

The affirmation of Madrid's A rating reflects:

- **A highly integrated institutional framework**, which provides Spanish Autonomous Communities under the common regional financing system (régimen común) with close central government oversight of regional finances, and an optional system-wide liquidity support mechanism made available by the central government. Our evaluation of this framework results in an indicative rating range of A to BBB for the Autonomous Communities under the common regional financing system.
- **A comparatively strong individual credit profile**, underpinned by robust budgetary performance, full capital market access, and a well-diversified, high-income economic base with a favourable medium-term outlook. Madrid benefits from a solid liquidity position and a favourable debt structure, with low refinancing risk and stable interest costs. The region has demonstrated prudent fiscal management, maintaining moderate deficits and a positive operating balance in recent years. Its still-elevated debt stock, albeit on a gradual downward path, and structurally limited expenditure flexibility remain credit constraints.

Key rating drivers

Strong intergovernmental integration with the Spanish State. Madrid, like all Autonomous Communities under Spain's common regional financing system (régimen común), benefits from a mature and supportive institutional framework, characterised by robust fiscal integration, close central government oversight of regional finances, and an optional system-wide liquidity support mechanism made available by the central government. In February 2025, the national government proposed a EUR 83bn debt relief (25% of total regional debt) to ease financial burdens. While parliamentary approval of the plan remains pending, this proposal further underscores the sovereign's proactive support for regions. Scope's evaluation of the

institutional framework of Autonomous Communities operating under the common regional financing system places the regions within an indicative rating range spanning from A to BBB. This assessment reflects their strong intergovernmental integration with the Spanish sovereign (A/Stable).

The central government plays a significant role in regional finances through funding mechanisms, fiscal oversight, and crisis support, notably via the FLA (Fondo de Liquidez Autonómico) and FF (Fondo de Facilidad Financiera), which have dominated regional debt composition since 2012. As of Q1 2025, 62% of total regional debt in Spain is held via FLA/FF loans, underscoring broad dependence on central government funding though regions like Madrid, which rely solely on market financing, maintain greater fiscal autonomy. The proposed partial debt relief would require amendments to the financing system and parliamentary approval, introducing legal and timing uncertainties. For Madrid, which has no FLA/FF debt, it remains unclear how its proposed EUR 8.6bn debt relief will be implemented. Discussions include the option of the central government providing additional revenue transfers linked to Madrid's debt maturities.

Madrid's strong individual credit profile relative to peers. The Community of Madrid's credit profile is supported by a robust budgetary performance, excellent capital market access, ample liquidity, and a wealthy, diversified economy, though elevated debt and limited expenditure flexibility remain constraints.

High-income economic base and a favourable medium-term outlook. Madrid's economy continues to outperform national trends, consolidating its role as Spain's primary institutional and economic centre. In 2024, the region recorded real GDP growth of 3.3%, above the national average of 3.2%, supported by strong momentum in services, such as financial, professional, and tourism-related sectors. The region attracted over two-thirds of Spain's foreign direct investment, reinforcing its status as the country's leading business hub.

Scope expects Madrid's economy to remain resilient, with GDP growth easing to 2.7% in 2025, slightly above the national average, as post-pandemic and reconstruction effects gradually fade. Inflation is expected to remain contained and on a slightly downward path, in line with national disinflation trends and improving supply conditions. The regional labour market continues to strengthen, with total employment rising steadily from 2.79m in 2024 to 2.98m by 2026, underscoring the region's economic resilience.

The unemployment rate is set to decline progressively, from 9.0% in 2024 to 8.1% in 2026, highlighting structural improvements in the labour market despite the expected economic deceleration. This trend, along with strong population growth and rising productivity, has strengthened the region's consumption base and investment attractiveness. While external demand uncertainty and housing market pressures pose risks, Madrid's diversified economy, stable institutional environment, and demographic dynamism continue to support its favourable medium-term outlook.

Deep capital market access, ample liquidity, and a favourable debt profile. Madrid remains one of the few Spanish regions with no reliance on FLA or FF loans, underscoring its solid market access and strong financial autonomy. Madrid's 2025 debt strategy outlines initial funding needs of around EUR 2.9bn, including plans to access markets primarily through EUR benchmark transactions, with a clear preference for medium- and long-term maturities.

Liquidity is considered strong due to the substantial volume of committed credit facilities and lines totalling EUR 1.82bn. Madrid has a well-established track record of renewing these instruments annually, and management has confirmed the intention to renew them again in 2026. This stable and predictable access to short-term funding, combined with diversified sources of liquidity, ensures robust financial flexibility and a solid buffer against potential cash flow pressures.

Madrid further benefits from a favourable debt structure, with 58.1% of its debt in bonds and 41.9% in loans,

ensuring good market access and diversification. All debt is denominated in euros and 94.36% is at fixed interest rates, which provides significant protection against interest rate volatility. A key pillar of the 2025 strategy is the promotion of sustainable finance, with the region maintaining the capacity to issue both bonds and loans in public and private markets.

Solid budgetary metrics. Madrid's budgetary performance remains strong, supported by robust revenue growth, disciplined expenditure management, and prudent fiscal oversight. Based on harmonised data, The region's operating margin improved to 4.6% of operating revenue in 2024, up from 2.6% in 2023 and -2.4% in 2022. This reflects a solid recovery in operating performance following a temporary deterioration during the pandemic and early post-crisis period. Madrid's 2024 margin exceeds the national average of around 3.3%, supported by sustained tax revenue growth and moderate spending discipline, confirming Madrid's fiscal outperformance.

The balance before debt movement (i.e., post-capex balance) returned to a modest surplus of 0.3% of total revenue in 2024, from a deficit of -4.9% in 2023. However, the recovery partly reflects a reduction in capital spending, which, as a percentage of expenditure, fell to a level slightly above the national average, potentially limiting flexibility for future infrastructure investment.

Scope expects Madrid's operating balance to gradually improve to 6.0% by 2028, though higher investment spending may put pressure on the balance after capital accounts. While Madrid maintains greater revenue flexibility than most Autonomous Communities, supported by its diversified tax base and independence from FLA/FF funding, its ability to unilaterally increase revenue remains constrained by Spain's tax-sharing framework.

Despite these strengths, Madrid faces two key challenges:

A still elevated debt burden, despite recent improvements in indebtedness metrics. Madrid's debt-to-operating revenue ratio declined from 149.7% in 2023 to 135.7% in 2024, below the national Autonomous Communities' average of around 154%. The region's sustained revenue growth and operating surpluses support this improving trajectory. Nonetheless, interest payments rose to EUR 922m, increasing the interest-to-revenue ratio to 3.4%, the highest since 2018. The implicit interest rate rose to 2.5%, indicating some cost pressure despite strong market access. The region's funding needs increased slightly in 2024 (EUR 4.39bn), but the return to a marginal surplus in the current balance suggests greater self-financing capacity.

Limited expenditure flexibility. Madrid's expenditure flexibility is structurally constrained, as core services such as healthcare and education account for more than 60% of total expenditure. Healthcare alone exceeds 35% of the budget, reflecting an aging population, rising medical costs, and sustained demand for hospital and primary care services. Education absorbs roughly 25%, covering staff costs, school operations, and ongoing infrastructure expansion to accommodate population growth. In addition, multi-year investments in transport and public services limit room for discretionary adjustments in the short term. While capital expenditure has remained relatively stable, upward pressure from demographic expansion and infrastructure needs may further reduce fiscal flexibility over time.

Outlook and rating sensitivities

The **Stable Outlook** reflects Scope's view that risks to the ratings are balanced over the coming 12 to 18 months.

Upside scenarios for the ratings and Outlooks are (individually or collectively:

1. The Kingdom of Spain's ratings/Outlooks were upgraded;
2. Reforms to the institutional framework resulted in significantly higher budgetary autonomy and flexibility.

Downside scenarios for the rating and Outlooks are (individually or collectively):

1. The Kingdom of Spain's ratings/Outlooks were downgraded.
2. Reforms to the institutional framework materially weakened regions' integration in institutional arrangements.
3. Madrid's individual credit profile weakened significantly.

Qualitative Scorecards (QS1, QS2)

Scope's institutional framework assessment determines the intergovernmental integration between sub-sovereigns and their rating anchor, which is the sovereign or a higher-tier government. To perform this assessment, Scope applies the Institutional Framework scorecard (QS1), centred on six analytical components: i) extraordinary support and bailout practices; ii) ordinary budgetary support and fiscal equalisation; iii) funding practices; iv) fiscal rules and oversight; v) revenue and spending powers; and vi) political coherence and multilevel governance.

Scope considers the institutional framework under which the Spanish Autonomous Communities (under the common regional financing system) operate to display 'full' integration for extraordinary support and bailout practices; 'strong' integration for ordinary budgetary support and fiscal equalisation, fiscal rules and oversight, revenue and spending powers and funding practices. The institutional framework displays 'medium' integration for political coherence and multilevel governance. Consequently, Scope's assessment of the institutional framework establishes an indicative minimum rating of 'bbb' for Spanish Autonomous Communities operating under the 'ordinary financing regime'.

Furthermore, Scope assesses the individual credit profile based on quantitative and qualitative analysis of four risk categories: i) debt and liquidity; ii) budget; iii) economy; and iv) governance. These are further complemented by additional adjustments for environmental and social factors & resilience.

The outcome of these assessments, as reflected in the application of the Individual Credit Profile scorecard (QS2), is an individual credit profile score for Madrid of 85 out of 100.

The mapping of this score to the range defined by the Institutional Framework assessment results in an indicative rating of 'a' for Madrid.

The review of potential exceptional circumstances that cannot be captured by the Institutional Framework and Individual Credit Profile scorecards did not lead to further adjustments to Madrid's indicative rating.

As such, the final rating corresponds to the indicative rating of A.

Environment, social and governance (ESG) factors

ESG factors material to Madrid's credit quality are captured by Scope's rating approach through several analytical areas.

Governance factors are key to Madrid's credit profile, reflected in both the institutional framework and individual credit assessments. The institutional framework rates governance as 'strong integration', highlighting a robust fiscal framework with deficit and expenditure limits and central government oversight, including fiscal targets and debt approvals. Political coherence is assessed as 'medium integration', acknowledging regional influence in national policymaking and ongoing tensions with the central government. Madrid's individual credit profile rates governance as 'stronger', reflecting transparent policymaking, fiscal discipline, and effective financial management. It has a strong budget execution record, aligning financial planning with fiscal goals. Independent market access and prudent debt management highlight its financial autonomy, while robust oversight and regulatory compliance reinforce institutional resilience.

Social factors are captured under Scope's assessment of Madrid's 'economic sustainability' and 'Social factors and resilience'. Madrid's benefits from a dynamic labour market, robust population growth, and high-quality public services, such as in healthcare and education. The region continues to attract domestic and international talent, supporting employment and internal demand. However, persistent income inequality and rising housing costs, such as in urban areas, are increasing pressure on low-income and younger residents. These affordability issues risk deepening social divides if not addressed through targeted policy interventions. In parallel, demographic ageing is expected to place growing strain on healthcare and long-term care services, adding to fiscal pressure over time. Despite these challenges, Madrid benefits from stable security indicators, broad welfare coverage, and an institutional capacity that has so far sustained its strong social resilience.

Environmental factors are captured under Scope's assessment of Madrid's 'environmental factors and resilience'. Madrid demonstrates moderate environmental resilience, supported by clear decarbonisation targets and ongoing investment in climate adaptation. The region aims to reduce emissions by 65% by 2030. However, persistent challenges remain in the transport and residential sectors, which continue to drive emissions. Madrid is increasingly exposed to climate risks such as prolonged heatwaves and alternating drought and flood events. In response, the region has expanded urban greening initiatives, developed a reclaimed water network, and introduced resilience assessments to identify vulnerable areas.

Rating committee

The main points discussed by the rating committee were: i) institutional framework for Spanish regions, ii) individual credit profile including debt, budget, economy, ESG components; iii) peers comparison; iv) ongoing methodological review process and potential impacts on Spanish regions.

Methodology

The methodology used for these Credit Ratings and/or Outlooks, (Sub-sovereigns Rating Methodology, 11 October 2024), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process

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