MOODY'S RATINGS

Rating Action: Moody's Ratings has upgraded the ratings of 14 Spanish Regional and Local Governments (RLGs) and changed their outlooks to stable

30 Sep 2025

Madrid, September 30, 2025 -- Moody's Ratings (Moody's) has today upgraded the ratings of 14 Spanish RLGs and changed their outlooks to stable from positive. The short-term issuer ratings for the Ayuntamiento de Madrid (City of Madrid) have been affirmed at P-2.

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Additionally, Baseline Credit Assessments (BCAs) for these 14 RLGs have also been upgraded.

This rating action follows our decision to upgrade the Government of Spain's rating to A3 from Baa1 and change its outlook to stable from positive on 26 September 2025. For additional information, please refer to the sovereign press release: https://ratings.moodys.com/ratings-news/451408.

The upgrade of ratings for 14 Spanish RLGs is attributed to the correlation between these entities' credit profiles and that of the Government of Spain. The enhancement of the sovereign rating has reduced systemic risk for RLGs. Additionally, the upgrades reflect fiscal improvements achieved in recent years and anticipate that such progress will be sustained over the next two to three years.

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Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL513255 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

RATIONALE FOR THE RATINGS UPGRADE

The improved sovereign credit conditions, reflected in the upgrade of Spain's rating to A3 from Baa1, are largely based on better economic conditions for the country as a whole, which translate into higher tax revenues and state transfers, supporting expectations of stronger financial fundamentals for Spanish RLGs in the future.

We forecast that Spain's RLGs will improve their fiscal positions over the next two to three years. We expect operating balances and financing results to strengthen, alongside a decrease in debt burdens and improved access to funding. We also note that Next Generation EU funds are likely to positively impact local economies, with effects projected to appear from 2026.

There is a strong correlation between the sovereign's macroeconomic performance and the sub-sovereigns' tax bases as around 60% of regional operating revenue derives from taxes which are very sensitive to macroeconomic trends, such as Personal Income Tax (PIT), Value Added Tax (VAT), and Special taxes. Moreover, transfers from the central government constitute a significant portion of RLGs' operating revenues, accounting for approximately 30% for regions and around 45% for municipalities.

ENTITIES RATED AT THE SOVEREIGN LEVEL

-- CITY OF MADRID

We have upgraded the rating of the city of Madrid to A3 from Baa1. The Ayuntamiento de Madrid's short-term rating of P-2 has been affirmed. The upgrade reflects its prudent budgetary management, high operating balances, financing surpluses, low debt burdens, and strong liquidity. We project this city financials to remain strong over the next two to three years.

The A3 ratings for the city reflect the combination of standalone credit profile, as indicated by BCAs of a3, and our assumption of a strong likelihood of extraordinary support from the Government of Spain.

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RATIONALE FOR THE OUTLOOKS CHANGE

The stable outlook to all Spanish sub-sovereigns reflects their capacity to continue strengthening their fiscal positions, posting stronger primary operating balances, better financial results, and lower debt burdens. The outlook also considers their operational, economic, and financial linkages to the central government.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

The overall impact of ESG risks on the ratings of rated Spanish RLGs varies. For the majority, ESG considerations do not materially impact their current ratings (CIS-2). However, there are some regions where the impact on their current ratings is limited, but with potential for a greater negative impact over time (CIS-3). This reflects a high credit exposure to environmental risks, and an average social and governance risk profile. Balancing these risk exposures, the overall resilience is moderate, due to our assessment of high support from the central government in case of need.

The majority of Spanish RLGs are highly exposed to environmental risks, primarily heat stress, water stress, floods, and drought scenarios (E-4). Physical climate risks and difficulties in water management present significant challenges for many regions, particularly those located in the south and east of the country. These challenges negatively impact their Environmental (E) issuer profile scores. Nonetheless, the costs of the RLGs' investments in infrastructure to bolster resilience against these risks are expected to be partially offset by funding from the central government and EU funds.

For the majority of Spanish RLGs, exposure to social risks does not materially differentiate credit quality (S-2). However, some regions have high credit exposure to social risks (S-4), primarily due to a significant portion of the ageing population. This demographic factor increases social and healthcare expenditures that these regions are responsible for. On the other hand, positive social aspects in these areas include good housing availability, high-quality health and safety standards, and access to basic services.

For the majority of rated Spanish RLGs, the governance profile is not material in differentiating credit quality, as they are predominantly rated G-2. These RLGs typically exhibit robust budget management strategies, often implementing stringent budgetary control plans. Additionally, they are known for their transparency and promptness in providing financial reports. However, there are exceptions, such as the region of Valencia, which has a higher credit exposure to governance risks (G-3). This is reflected on its weak budget management practices, as demonstrated by its elevated levels of financing deficits and debt burdens.

The sovereign action required the publication of this credit rating action on a date that deviates from the previously scheduled release date in the sovereign release calendar, published on https://ratings.moodys.com.

Sovereign Issuer: Spain, Government of

GDP per capita (PPP basis, US$): 54,451 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 3.2% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2.8% (2024)

Gen. Gov. Financial Balance/GDP: -3.2% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: 3.1% (2024) (also known as External Balance)

External debt/GDP: 155.8% (2024)

Economic resiliency: a1

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 25 September 2025, a rating committee was called to discuss the rating of the Madrid, Ayuntamiento de. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially increased. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The systemic risk in which the issuer operates has materially decreased.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

For those RLGs that are rated at or above the sovereign's rating, an upgrade would require a similar improvement in the Government of Spain's rating. Additionally, upward pressure could develop on ratings below the sovereign bond rating if their fiscal and financial performance improves, as reflected in positive and growing primary operating balances, financing surpluses, increased liquidity positions, and a significant reduction in their debt burdens.

Similarly, a deterioration in sovereign credit strength would place downward pressure on the ratings of Spanish sub-sovereigns. Factors such as fiscal slippage, rapidly rising debt levels, or the emergence of significant liquidity risks would also put downward pressure on the ratings of Spanish sub-sovereigns.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Regional and Local Governments published in May 2024 and available at https://ratings.moodys.com/rmc-documents/421891. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

For Ayuntamiento de Madrid, the net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL513255 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• EU Endorsement Status

• UK Endorsement Status

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

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