Rating Report
Autonomous Community of Madrid

Morningstar DBRS
14 June 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 Strengthened liquidity profile

Challenges
1 High although decreasing interest rates and fiscal impacts
2 Still high debt-to-operating revenue ratio

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Credit Ratings

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

Summary Credit Rating Rationale
On 14 June 2024, DBRS Ratings GmbH (Morningstar DBRS) confirmed the Autonomous Community of Madrid's (Madrid) Long-Term Issuer Rating at “A” and Short-Term Issuer Rating at R-1 (low). At the same time, Morningstar DBRS changed the trend on Madrid's Long-Term Issuer Rating to Positive from Stable. The trend on Madrid's Short-Term Issuer Rating is Stable.

The Positive trend is underpinned by Morningstar DBRS' trend change on the Kingdom of Spain's Long-Term Foreign and Local Currency - Issuer Rating (rated "A" by Morningstar DBRS) to Positive from Stable on 31 May 2024, and also reflects Morningstar DBRS' view of Madrid's favorable fiscal outlook and expected improvement in debt affordability. Madrid's strong financial management combined with the return of fiscal rules t should allow the region to continue making progress with its declining debt trajectory.

Madrid's credit ratings are 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 the pressures related to high interest rates, Morningstar DBRS anticipates that the region's strong management will be able to control the 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	16.6	15.3	14.1	14.1
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	0.28	-0.71	-0.74

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 trend on Madrid's long-term issuer rating could return to Stable if the positive trend on the Kingdom of Spain reverts to Stable. **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 improved in 2023. Nevertheless, higher investment level translated into a stabilization of the financing deficit at 0.7% of GDP under national accounting standards. The operating surplus reached EUR 236 million or 1.0% of operating revenues from an operating deficit of EUR 303 million or 1.4% of operating revenues in 2022 thanks to higher tax revenues and the positive settlement from the regional financing system. However, capital expenditure net of capital revenue increased to EUR 1.5 billion from EUR 0.4 billion in 2022, weighing on the financing result and leading to a deficit of EUR 1.2 billion or 5.3% of operating revenues at the end of 2023 versus EUR 0.7 billion or 3.4% of operating revenues in 2022.

Despite a stable financing deficit in 2023, Morningstar DBRS views positively the improvement in operating performance and the recovery in revenues and expects the region to improve its financing result in 2024. This would be driven by the continuation of tax revenue growth, boosted by the sound labour market, and higher capital revenues in combination with the return of the budget stability law, which would likely increase the grip on expenditures. Moreover, Morningstar DBRS considers that Madrid has some budgetary flexibility that could be used against potential fiscal headwinds, since the region has created some fiscal headroom after a long period of taxes cutting. The Independent Authority for Fiscal Responsibility (AIREF) expects Madrid's financing result to improve to a deficit of 0.1% of GDP in 2024, which is less favourable than previously expected due to the weaker financing result in 2023 but a substantial improvement in comparison with the last two years. Moreover, AIREF, in their medium-term projections foresees the region reaching a balanced budget and even a financing surplus from 2026 onward.

Madrid increased its debt stock in 2023, mainly due to its own deficit but also due to the increase of the debt of its government-related entities, mainly Metro de Madrid which financed rolling stock. At the end of 2023, Morningstar DBRS' adjusted debt stock increased to EUR 39.7 billion from EUR 37.0 billion at the end of 2022. However, Madrid's debt sustainability position improved, with adjusted debt-to-operating revenues decreasing to 169% at the end of 2023, down from 176% in 2022. With a debt ratio of 14.0% of regional GDP at the end of 2023, the region's debt remains substantially below the average for Spanish regions of 22.9%. AIREF expects the debt ratio to decrease to 12.3%[1] in 2024 in its report on the initial budget for 2024 (April 2024), and it also expects this ratio to keep declining over the medium term.

Moreover, Madrid's debt could potentially decrease further in the medium term due expected debt relief following the political agreement between the Partido Socialista Obrero Español and the Catalan party Esquerra Republicana de Catalunya that should be extended to all the autonomous communities (except for the Basque Country and Navarre). At this stage, few details on the form, date, and magnitude of this debt relief are available.

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. For 2024, almost all of Madrid's funding needs were financed in the first half of the year through a mix of bond issuances, private placements, and bank loans.

Regarding liquidity, Madrid has historically recorded a relatively low cash position at the end of the year as well as during the year, 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 2.1% in 2024. At the end of 2023, the services sector was driving growth with contributions from hospitality, transportation, and tourism. Meanwhile, industrial-related turnover grew by 3.5%, but the industrial production index had its first negative result after 27 months of positive values with a strong influence from the energy sector. 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 NextGenerationEU (NGEU), including the Recovery and Resilience Facility (RRF) and REACT-EU funds, should continue to support reforms and investments.

In April 2024, Madrid recorded an all-time employment level record with around 3.7 million workers, with 87% working in the services sector, 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 38,435 in 2022, or 36% above the 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

1 Please note that AIReF uses the debt ratio from the Bank of Spain that consolidates fewer debt elements and hence is lower than adjusted debt-to-GDP. At the end of 2023, the Bank of Spain published a debt ratio for Madrid of 13.3%.

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 in order 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*). Although Morningstar DBRS is confident Madrid will meet its financing requirements at affordable costs given its strong track record and ultimately the backstop financing support available from the national government, it will continue to monitor the region’s liquidity profile to assess any credit implications. 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 stressed finances takes over management of the specific project causing the deviation.

Financial Performance

Madrid's operating performance improved in 2023. Nevertheless, higher investment level translated into stabilization of the financing deficit at 0.7% of GDP under national accounting standards (exhibit 2). The operating surplus reached EUR 236 million or 1.0% of operating revenues from an operating deficit of EUR 303 million or 1.4% of operating revenues in 2022 (Exhibit 1), thanks to higher tax revenues and the positive settlement from the regional financing system. However, the capital expenditure net of capital revenue increased to EUR 1.5 billion from EUR 0.4 billion in 2022, weighing on the financing result and leading to a deficit of EUR 1.2 billion or 5.3% of operating revenues at the end of 2023 versus EUR 0.7 billion or 3.4% of operating revenues in 2022.

Operating revenues grew by 11% in 2023, mainly thanks to tax revenues that grew by 16%, but their overall effect was reduced as a consequence of lower transfers received due to the winding down of national support measures. The large tax revenue growth was mainly produced in the PIT as a consequence of the high employment level and salary increases, as well as in taxes over consumption that benefitted from inflation, though the house transfer tax decreased as a collateral effect of the tightening in credit conditions for the real estate market.

Exhibit 1 Madrid's Operating Results

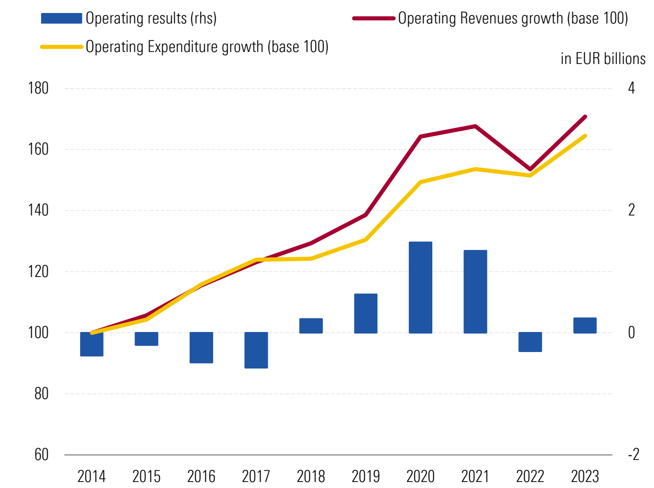
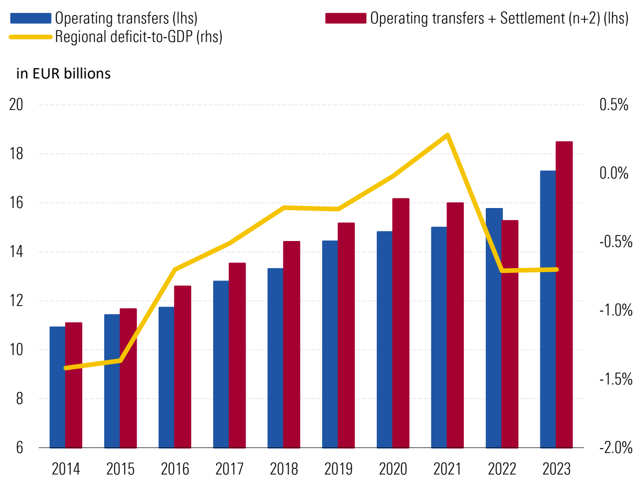


Exhibit 2 Madrid Transfers and Deficit Reduction[1]



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.

At the same time, the operating expenditure rose by 9%, driven by inflation and salary increases. Both staff costs and transfers made to government bodies have grown, partly driven by salary increases and a 1.5% increase in public servants (by head count) during the year. The cost of goods that the region needs to provide its services has also grown. Additionally, interest costs increased substantially by 18% due to the rapid growth of interest rate references during 2023. Madrid notably increased its investment level with capital expenditure net of capital revenues at EUR 1.5 billion, up from EUR 0.4 billion in 2022. The increased investments relate to accelerated implementation of the RRF investments and lower capital revenues stemming from the lack of a 2023 budget.

Despite a stable financing deficit in 2023, Morningstar DBRS view positively the improvement in operating performance and the recovery in revenue and expects the region to improve its financing result in 2024. This would be driven by the continuation of tax revenue growth, boosted by the sound labour market, and higher capital revenues in combination with the return of the budget stability law, which would likely increase the grip on expenditure. Moreover, Morningstar DBRS considers that Madrid has some budgetary flexibility that could be used against potential fiscal headwinds, since the region has created some fiscal headroom after a long period of cutting taxes. AIREF expects Madrid's financing result to improve to a deficit of 0.1% of GDP in 2024, which is less favourable than previously expected due to the weaker financing result in 2023 but a substantial improvement in comparison with the last two years. Moreover, AIREF in their medium-term projections, foresees the region reaching a balanced budget and even a financing surplus from 2026 onward.

The region's commitment to complying with the fiscal rules has been strong over the past years, and Madrid approved its 2024 budget on the basis of a balanced budget result. Within the 2024 budget, aside from the necessary adjustments to compensate for inflation after a full year without an approved 2023 budget, the expenditure priorities are focused on transport and infrastructure, as well as fostering employment and environmental policies while the administration continues to decrease the tax pressure. Most of this expenditure growth is related to Mecanismo de Recuperación y Resiliencia investments, specifically EUR 396 million for housing, EUR 58 million for digitalisation, and EUR 100 million for social causes. The control of the expenditure 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, mainly due to its own deficit but also due to the increase in the indebtedness of the debt of its government-related entities, mainly Metro de Madrid which financed its rolling stock. At the end of 2023, Morningstar DBRS' adjusted debt stock increased to EUR 39.7 billion from EUR 37.0 billion at the end of 2022. However, Madrid's debt sustainability position improved, with adjusted debt-to-operating revenue decreasing to 169% at the end of 2023, down from 176% in 2022. If we isolate the debt metrics during 2020 and 2021, years when the region received extraordinary revenues from state support, this is the lowest value over the last 10 years.

The region's debt stock increased very rapidly following the global financial crisis, reaching EUR 35.8 billion in 2023 compared with EUR 11.4 billion in 2008. Despite this very significant increase, the region's debt sustainability position remains strong, as does its strong access to diversified financing sources. Moreover, there was a period of higher debt growth until 2015 as a consequence of the strong fiscal adjustment and the regularisation of accumulated high commercial supplier debts. However, debt growth has moderated since then, increasing by EUR 7 billion over the past eight years. Additionally, the debt-to-GDP ratio has been falling since 2015, from 15.6% of GDP to 14% of GDP at the end of 2023, with the exception of 2020 and 2021 due to the pandemic-related temporary GDP drop. With a debt ratio of 14.0% of regional GDP at the end of 2023, the region's debt remains substantially below the average for Spanish regions of 22.9%. AIREF expects the debt ratio to decrease to 12.3%[2] in 2024 in its report on the initial budget for 2024 (April 2024), and it also expects this ratio to keep declining over the medium term.

Moreover, Madrid's debt could potentially decrease further in the medium term due to the expected debt relief political agreement between the centre-left Partido Socialista Obrero Español and the Catalan party Esquerra Republicana de Catalunya that should be extended to all the ACs (except for the Basque Country and Navarre). At this stage, few details on the form, date, and magnitude of this debt relief are available.

Unlike most other regions in Spain, Madrid has maintained consistent access to the financial markets since the financial crisis. As a result, at the end of 2023, Madrid's bond issuances represented 59% of its debt stock, or EUR 21.1 billion (Bank of Spain data), and 45% 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 May 2023 for EUR 600 million. The sustainable bond schemes are issued to fund a

2 Please note that AIReF uses the debt ratio from the Bank of Spain that consolidates fewer debt elements and hence is lower than adjusted debt-to-GDP. At the end of 2023, the Bank of Spain published a debt ratio for Madrid of 13.3%.

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 7.5 years as of March 2024 and an average cost of debt at 2.36% 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 94% of its direct and indirect debt at fixed rates (Exhibits 3 and 4). All of Madrid's debt stock is denominated in euros.

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 each year through long debt maturities between three and 22 years, a feature that could become an asset if the liquidity markets tighten further. The remaining funding needs are a consequence of the larger-than-expected financing deficit and have almost been fully financed, except for a tranche of EUR 300 million that the region will fund in the second half of the year.

Contingent liabilities have also decreased since 2012, with public and private partnerships now factored into the regional government’s debt. Unlike most of its Spanish peers, 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, underpinning its diversified financing sources. 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.

Exhibit 3 Madrid's Debt Structure[1]

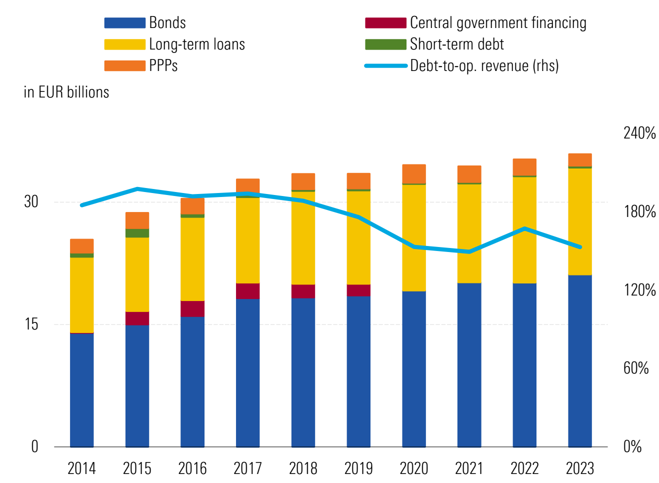
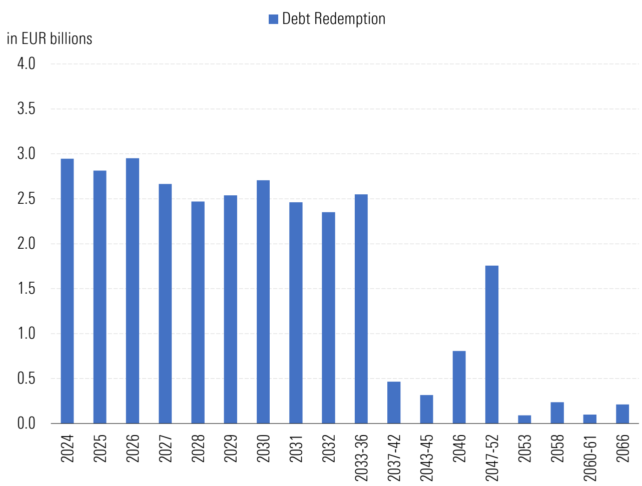


Exhibit 4 Direct Debt Amortisation Schedule at End-2022



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).

Madrid has historically recorded a relatively low cash position at the end of the year, as well as during the year, 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 284 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 2.1% in 2024. At the end of 2023, the services sector was driving growth with contributions from hospitality, transportation, and tourism. Meanwhile industrial-related turnover grew by 3.5%, but the industrial production index had its first negative result after 27 months of positive values with a strong influence from the energy sector. 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]

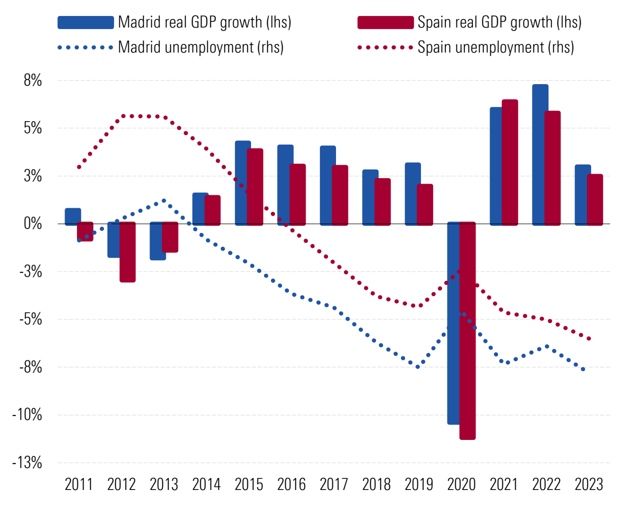
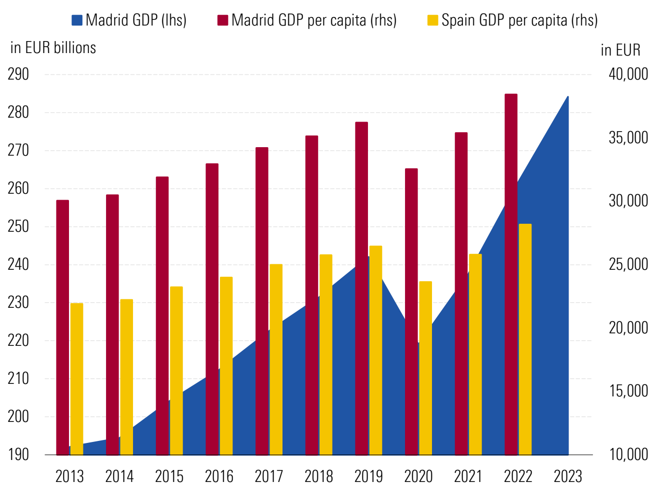


Exhibit 6 GDP and GDP per Capita[1]



Sources: Madrid, General State Comptroller, INE, AIREF, Morningstar DBRS.
1. 2023 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 164 at end-2023 from 158 at end-2022, although its growth was disrupted in Q4 2022 for the first time since 2020. At the same time, and also likely because of higher interest rates, the number of transactions decreased by around 16% in 2023 over 2022, but the decrease was less meaningful for the first quarter of 2024 at 2% year over 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 5% year over year as of March 2024, and cumulative arrivals during 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 the recovery of the region's tourism activity is undoubtedly positive for Madrid's economy. Indeed, in April 2024, Madrid recorded an all-time employment level record with around 3.7 million workers, with 87% working in the services sector, 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 38,435 in 2022, or 36% above the national average (Exhibit 6). At the same time, unemployment stood at 9.2% at Q1 2024, down from 10.8% at Q1 2023.

Madrid

	2018	2019	2020	2021	2022	2023
Economic Indicators						
Population[1]	6,578,079	6,663,394	6,779,888	6,751,251	6,769,113	6,857,400
GDP (EUR millions)[2]	231,423	242,093	219,031	237,540	261,713	261,768
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	11.6	11.2	10.0
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	14.7	13.3	12.6
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	14.0
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]	-0.25	-0.26	-0.02	0.28	-0.71	-0.74

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
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 (April 2024) and Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 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

This factor does not affect the credit ratings assigned to Madrid. 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

This factor does not affect the credit ratings. However, the passed-through social credit consideration is relevant to the credit ratings, as the social factors affecting the Kingdom of Spain's credit ratings are partially 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 38,435 or approximately 136% 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 tops Spain's regional ranking for health and wellness under the 2020 European Social Progress Index.

Governance

This factor does not affect the credit ratings. 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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