

Autonomous Community of the Basque Country

Key Rating Drivers

Rating Derivation Summary: The Autonomous Community of the Basque Country's (Basque Country) Standalone Credit Profile (SCP) is assessed at 'a+', reflecting a combination of a 'High-Midrange' risk profile and debt metrics assessed in the upper-end of the 'a' category. The SCP is two notches above Spain (A-/Stable), which, under Fitch Ratings' criteria, results in Basque Country's Issuer Default Ratings (IDR) being constrained at the maximum one notch above the Sovereign's IDRs. Fitch has not applied any asymmetric risk to the ratings.

Risk Profile - 'High-Midrange': Basque Country's 'High Midrange' risk profile reflects a combination of two 'Strong' and four 'Midrange' attributes on six key risk factors. This assessment reflects Fitch's view of a low risk, relative to international peers, that the region's ability to cover debt service with its operating balance will weaken unexpectedly over the forecast horizon, either because of lower-than-expected revenue or higher-than-expected expenditure, or because of an unanticipated rise in liabilities or debt-service requirements.

Debt Sustainability - 'a' Category: The assessment reflects a lower economic liability burden (primary metric) below 87% in 2027 (2022: 88.6%). We forecast secondary metrics - the payback ratio (net adjusted debt/operating balance) and synthetic debt service coverage (operating balance/mortgage-style debt annuity) - will remain between 7x to 8x and around 1.6x, respectively, in the last four years of the rating case. These metrics, combined with the primary metric, result in debt sustainability in the upper end of the 'a' category.

Above the Sovereign Rating: The Basque Country is eligible to be rated above the sovereign on the assumption that its special institutional framework protects its resources generation from any intervention of the central government. This protection is reflected and backed by constitutional rank. As such, the Basque Country is rated one notch above the sovereign as per its strong SCP at 'a+'.

ESG Considerations: ESG issues have a minimal impact on the Basque Country's ratings, as reflected in a score of '3'.

Rating Sensitivities

Improved Debt Metrics: Basque Country's IDRs could be upgraded following a sustained improvement of the payback ratio to below five years under Fitch's rating case.

Sovereign Rating or Higher Payback: The Basque Country's IDRs could be downgraded following a downgrade of the Spanish sovereign ratings. A downgrade would also be triggered by lowering the SCP by two notches due to deterioration of payback beyond 13 years.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Local Currency

Long-Term IDR	A
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Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Debt Ratings

Senior Unsecured Debt - Long-Term Rating	A
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Issuer Profile Summary

With a population of 2.2 million people, the Basque Country has an above-national average economic profile, with GDP per capita 29% higher than national average in 2021. It has a strong industrial sector, which comprises 23% of its GDP, and unemployment (8.3%) is lower than Spain's average (11.8%).

Financial Data Summary

Autonomous Community of the Basque Country		
(EURm)	FY22	FY27rc
Economic liability burden (%)	88.6	86.3
Payback ratio (x)	7.4	7.3
Synthetic coverage (x)	1.9	1.6
Actual coverage (x)	1.3	1.3
Fiscal debt burden (%)	70.1	68.1
Net adjusted debt	8,606	10,191
Operating balance	1,159	1,390
Operating revenue	12,271	14,961
Debt service	888	1,094

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, Autonomous Community of the Basque Country

Applicable Criteria

[International Local and Regional Governments Rating Criteria \(September 2021\)](#)

Related Research

[Spanish Autonomous Communities Under Common Regime - Peer Review 2022 \(October 2022\)](#)

Analysts

Julia Carner

Appendix A: Financial Data

Autonomous Community of the Basque Country	2018	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
(EURm)										
Fiscal Performance										
Taxes	4	4	2	3	4	4	4	4	5	5
Transfers received	10,100	10,499	9,943	12,045	12,034	12,579	13,208	13,723	14,231	14,672
Fees, fines and other operating revenues	170	180	139	169	234	244	256	266	276	285
Operating revenue	10,274	10,683	10,084	12,216	12,271	12,827	13,468	13,994	14,511	14,961
Operating expenditure	-8,952	-9,350	-9,886	-10,764	-11,112	-11,602	-12,217	-12,681	-13,138	-13,571
Operating balance	1,322	1,333	198	1,452	1,159	1,225	1,252	1,313	1,374	1,390
Interest revenue	2	3	27	2	0	43	60	0	0	0
Interest expenditure	-180	-179	-146	-148	-142	-212	-276	-325	-360	-391
Current balance	1,143	1,158	79	1,306	1,018	1,056	1,036	988	1,014	999
Capital revenue	142	77	119	418	637	334	573	426	300	200
Capital expenditure	-971	-1,151	-1,061	-1,138	-1,722	-1,884	-2,025	-1,800	-1,500	-1,300
Capital balance	-829	-1,074	-942	-720	-1,085	-1,550	-1,452	-1,374	-1,200	-1,100
Total revenue	10,417	10,764	10,230	12,636	12,908	13,204	14,101	14,420	14,811	15,161
Total expenditure	-10,103	-10,679	-11,093	-12,050	-12,976	-13,698	-14,518	-14,806	-14,997	-15,263
Surplus (deficit) before net financing	315	85	-864	586	-67	-494	-417	-386	-186	-101
New direct debt borrowing	1,274	871	2,093	1,165	497	1,272	1,048	1,221	1,065	804
Direct debt repayment	-1,215	-1,360	-687	-668	-746	-778	-631	-835	-879	-703
Net direct debt movement	59	-489	1,406	497	-250	494	417	386	186	101
Overall results	374	-405	542	1,083	-317	0	0	0	0	0
Debt and Liquidity										
Short-term debt	0	0	0	0	0	0	0	0	0	0
Long-term debt	9,134	8,645	10,062	10,594	10,349	10,843	11,259	11,645	11,831	11,932
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	9,134	8,645	10,062	10,594	10,349	10,843	11,259	11,645	11,831	11,932
Other fitch-classified debt	0	0	0	0	0	0	0	0	0	0
Adjusted debt	9,134	8,645	10,062	10,594	10,349	10,843	11,259	11,645	11,831	11,932
Guarantees issued (excluding adjusted debt portion)	371	338	326	305	288	288	288	288	288	288
Majority-owned GRE debt and other contingent liabilities	992	820	762	612	482	482	482	482	482	482
Overall adjusted debt	10,498	9,803	11,150	11,512	11,118	11,613	12,029	12,415	12,601	12,702
Total cash, liquid deposits, and sinking funds	1,526	1,656	2,423	4,587	4,466	4,466	4,466	4,467	4,467	4,467
Restricted cash	428	960	1,328	2,460	2,724	2,724	2,724	2,724	2,724	2,725
Unrestricted cash	1,098	696	1,095	2,127	1,742	1,742	1,742	1,742	1,743	1,742
Net adjusted debt	8,036	7,949	8,967	8,467	8,606	9,100	9,517	9,903	10,088	10,191
Net overall debt	9,400	9,107	10,055	9,385	9,376	9,870	10,287	10,673	10,858	10,961
Enhanced net adjusted debt	8,036	7,949	8,967	8,467	8,606	9,100	9,517	9,903	10,088	10,191
Enhanced net overall debt	9,400	9,107	10,055	9,385	9,376	9,870	10,287	10,673	10,858	10,961

Memo:

Debt in foreign currency / Direct debt (%)	0	0	0	0	0	-	-	-	-	-
Issued debt / Direct debt (%)	44	47	57	62	67	-	-	-	-	-
Floating interest rate debt / Direct debt (%)	25	26	25	22	18	-	-	-	-	-

rc - rating case

Source: Fitch Ratings, Autonomous Community of the Basque Country

Appendix B: Financial Ratios

Autonomous Community of the Basque Country	2018	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal Performance Ratios										
Operating balance/operating revenue (%)	12.9	12.5	2.0	11.9	9.4	9.6	9.3	9.4	9.5	9.3
Current balance/current revenue (%)	11.1	10.8	0.8	10.7	8.3	8.2	7.7	7.1	7.0	6.7
Operating revenue annual growth (%)	1.5	4.0	-5.6	21.2	0.5	4.5	5.0	3.9	3.7	3.1
Operating expenditure annual growth (%)	-0.3	4.4	5.7	8.9	3.2	4.4	5.3	3.8	3.6	3.3
Surplus (deficit) before net financing/total revenue (%)	3.0	0.8	-8.4	4.6	-0.5	-3.7	-3.0	-2.7	-1.3	-0.7
Surplus (deficit) before net financing/GDP (%)	0.4	0.1	-1.3	0.8	-0.1	-0.6	-0.5	-0.4	-0.2	-0.1
Total revenue annual growth (%)	1.2	3.3	-5.0	23.5	2.2	2.3	6.8	2.3	2.7	2.4
Total expenditure annual growth (%)	-0.7	5.7	3.9	8.6	7.7	5.6	6.0	2.0	1.3	1.8
Debt Ratios										
Primary Metrics										
Economic liability burden (%)	72.2	73.1	94.4	92.7	88.6	87.1	86.7	86.2	86.0	86.3
Enhanced economic liability burden (%)	72.2	73.1	94.4	92.7	88.6	87.1	86.7	86.2	86.0	86.3
Payback ratio (x) (Net adjusted debt to operating balance)	6.1	6.0	45.4	5.8	7.4	7.4	7.6	7.5	7.3	7.3
Secondary Metrics										
Fiscal debt burden (%) (Net debt-to-operating revenue)	78.2	74.4	88.9	69.3	70.1	71.0	70.7	70.8	69.5	68.1
Synthetic debt service coverage ratio (x)	2.1	2.1	0.3	2.3	1.9	1.7	1.6	1.6	1.6	1.6
Actual debt service coverage ratio (x)	0.9	0.9	0.2	1.8	1.3	1.2	1.4	1.1	1.1	1.3
Other Debt Ratios										
Liquidity coverage ratio (x)	1.5	1.6	1.1	3.1	3.7	3.0	3.3	2.6	2.5	2.9
Direct debt maturing in one year/total direct debt (%)	9.1	7.9	7.6	7.0	7.5	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	0.6	-5.4	16.4	5.3	-2.3	4.8	3.8	3.4	1.6	0.9
Apparent cost of direct debt (interest paid/direct debt) (%)	2.0	2.0	1.6	1.4	1.4	2.0	2.5	2.8	3.1	3.3
Revenue Ratios										
Tax revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers received/total revenue (%)	97.0	97.5	97.2	95.3	93.2	95.3	93.7	95.2	96.1	96.8
Interest revenue/total revenue (%)	0.0	0.0	0.3	0.0	0.0	0.3	0.4	0.0	0.0	0.0
Capital revenue/total revenue (%)	1.4	0.7	1.2	3.3	4.9	2.5	4.1	3.0	2.0	1.3
Expenditure Ratios										
Staff expenditure/total expenditure (%)	20.2	20.2	20.2	19.6	19.3	0.0	0.0	0.0	0.0	0.0
Current transfers made/total expenditure (%)	33.5	32.7	33.2	34.7	32.7	0.0	0.0	0.0	0.0	0.0
Interest expenditure/total expenditure (%)	1.8	1.7	1.3	1.2	1.1	1.6	1.9	2.2	2.4	2.6
Capital expenditure/total expenditure (%)	9.6	10.8	9.6	9.4	13.3	13.8	14.0	12.2	10.0	8.5

rc - rating case

Source: Fitch Ratings, Autonomous Community of the Basque Country

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

The region's unrestricted cash was EUR1.7 billion at end-2022. Fitch considers EUR2.7 billion was restricted cash, which correspond to the gap between receivables (net of provisions difficult-to-collect revenue) and payables.

Specific Adjustments

The region's unrestricted cash was EUR1.7 billion at end-2022. Fitch considers EUR2.7 billion was restricted cash, which correspond to the gap between receivables (net of provisions difficult-to-collect revenue) and payables.

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