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Spain's Basque Country Affirmed At 'AAA' And Off CreditWatch On Unique Fiscal Autonomy/Robust Finances; Outlook Stable

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MADRID (Standard & Poor's) Jan. 30, 2009--Standard & Poor's Ratings Services said today that it has affirmed its 'AAA' long-term issuer credit rating on the Spanish Autonomous Community of the Basque Country. At the same time, the rating was removed from CreditWatch, where it had been placed with negative implications on Jan. 12, 2009, as a result of a similar action on the Kingdom of Spain (AA+/Stable/A-1+). The outlook is stable.

"The affirmation reflects the Basque Country's special fiscal status, which allows the region to levy and collect taxes locally," said Standard & Poor's credit analyst Myriam Fernández de Heredia. "This fiscal autonomy and power--which is shared only by the Autonomous Community of Navarre--is unique among European regional and local governments."

The affirmation also reflects the strength of the Basque Country's economy, which is structurally different from Spain's, and the region's robust budgetary performance and low debt burden.

"Despite the Basque Country's strong fiscal status and different economic structure, its economy is still correlated with that of Spain," said Ms. Fernández de Heredia. "We therefore believe that there are still close links between the ratings on the two governments."

The rating on the Basque Country continues to reflect the region's very strong economic and financial fundamentals, with net financial liabilities

representing just 11% of total revenues at year-end 2008.

"According to our 2009-2011 base line scenario, which stresses revenues and expenditures to reflect the economic downturn, the Basque Country's indicators are still likely to be comfortably in line with the 'AAA' medians at the end of the forecast period," said Ms. Fernández de Heredia.

We believe the Basque Country will be able to stabilize its operating surpluses in 2009 and 2010 at about 6%-8% of operating revenues. We also believe the region will incur manageable overall deficits (up to 6%-7% of total revenues), entailing a controlled increase in the ratio of net financial liabilities to total revenues to a still very low 15%-20% of 2010 expected total revenues (according to our estimates)--still below the 'AAA' median.

The rating could come under pressure if the region is unable to structurally stabilize its operating performance and/or materially expands its current capital program, as this would involve a weakening of the main debt indicators well beyond our current expectations. We consider this scenario unlikely in the next two years.

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