S&P Global
Ratings

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Research Update:

Autonomous Community of Madrid Rating Raised To 'A+' On Gradual Deleveraging; Outlook Stable

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Overview

- We expect Spain's Autonomous Community of Madrid's operating performance to gradually improve on high revenue from the regional financing system and contained expenditure growth, despite pressure on salaries (especially in 2027).
- We project the region's tax-supported debt ratio to continue declining, thanks to strong revenue and gradual fiscal consolidation.
- The region continues to benefit from strong access to domestic capital and financial markets.
- We raised our long-term issuer credit rating on Madrid to 'A+' from 'A' and affirmed our 'A-1' short-term rating. The outlook is stable.

Rating Action

On July 24, 2026, S&P Global Ratings raised its long-term issuer credit rating on the Autonomous Community of Madrid to 'A+' from 'A', and affirmed its 'A-1' short-term issuer credit rating. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Madrid will control expenditure growth, allowing a steady improvement in performance and a continuation in its deleveraging path.

Downside scenario

We could downgrade Madrid if we expect the region to deviate from our expectation of gradually improving performance, posting larger deficits that necessitate more debt financing than we currently envisage, reversing the trend of debt burden reduction that we are expecting.

Upside scenario

An upgrade of Madrid would hinge on an improvement in our unsolicited rating on Spain, given that our assessment of Madrid's stand-alone credit profile (SACP) is currently at the same 'a+' level as the sovereign rating, and we do not believe Spanish normal status regions can be rated above the sovereign. If this condition was met, then we could upgrade Madrid if the region's budgetary performance surpassed our expectations, with management showing a strengthened commitment to budgetary consolidation and debt reduction, which would speed up deleveraging.

Rationale

The upgrade signals our expectation of continued improvement in the region's debt ratios, thanks to gradually improving budgetary performance and rising revenue, amid management's commitment to control expenditure growth. It also reflects our expectation that Madrid's liquidity may improve, thanks to the region's strong access to external funding from multiple sources, and a conservative management of backup facilities.

Sound economic performance mitigates weaker predictability on revenue from the regional financing system

Madrid is Spain's wealthiest region, with per capita GDP at 137% of the national average, according to the most recent public data available from the National Statistics Institute (2024). It also represents about 20% of Spain's total GDP. Moreover, unemployment is below the national average (at 7.9% versus 10.8% for Spain at the end of the first quarter of 2026). Given its wealthy economy, Madrid is also a net contributor to the Spanish regional equalization system, which prevents the regional government from fully benefiting from its own high wealth. We expect the regional economy to perform in line with Spain's over the forecast period and to continue expanding beyond the eurozone average, despite headwinds arising from the Middle East crisis.

We continue to view Spanish regions' institutional framework as supportive. However, political fragmentation has led to a lower degree of institutionalization of the relationship between government and regions, making them somewhat less predictable. Overall, in recent years, relations between the central government and normal status regions have shifted away from institutional, multilateral channels (such as the Fiscal and Financial Policy Council) toward bilateral negotiations with regions or political parties, as well as ad-hoc, temporary solutions to structural problems. This has been particularly visible in the process leading up to the proposal for a reform of the normal status regions' financing system, as well as the proposal to absorb part of the regional debt.

Despite weaker predictability, the central government remains committed to subnational fiscal stability, in our view. It continues to provide funding to Spanish regions through its liquidity facilities and demonstrated strong budgetary support to Spanish regions throughout the pandemic.

In 2024, 2025, and 2026 regions have received updated transfers from the regional financing system with a delay. This was due to the lack of an approved central government budget, and the absence of parliamentary support for legislative instruments that bundled the updated transfers with other measures. In all three years, the situation led to temporary liquidity pressures for the regions in the first half of the year, but was resolved in the same year. Spanish regions were able to manage the situation thanks to liquidity reserves, credit lines, and market access. We understand some of the regions with weaker financial positions had access to advances on their revenue from the central government itself, which wanted to prevent the legislative impasse from having more serious consequences. Nevertheless, we note that this is an entirely artificial problem that highlights a lack of fluency in intergovernmental fiscal relations.

In our view, Madrid's financial management adequately manages its budget, debt, and liquidity. The region continues to face pressure in its accounts arising from payables related to some public-private hospitals. We expect Madrid to pay these settlements to the hospitals every year as the auditing process comes due, and to allocate sufficient credit in the region's budgets to avoid further budgetary deviations from this source. However, health care expenditure control remains one of the most challenging areas for all Spanish regions, including Madrid, and is therefore a risk to our expected budgetary trajectory.

In our view, the region's management has a prudent liquidity and debt policy. The region has diversified funding sources and has proven its ability to access the markets even during periods of notable market stress. Madrid does not rely on central government liquidity facilities, allowing for additional autonomy in debt management. The region has used this autonomy over recent years to sign long-dated debt instruments, leading to a high average maturity of its debt portfolio. Madrid's management also manages actively its maturity schedule, to limit refinancing risk.

We expect revenue growth to continue, while cost moderation should allow the region to improve operating performance

We project the region's operating revenue will continue to grow markedly during our forecast period to 2028. Continued economic growth, above the eurozone average, as well as inflation, should boost tax bases. Revenue from the regional financing system (the largest funding source) rose by 8.5% for Madrid in 2026, and we understand there will be a material increase once again in 2027, based on preliminary estimates shared with the regions. We expect more moderate growth in 2028, but from record levels.

We expect other taxes to perform well, in line with nominal GDP growth, although we see a possibility of a slowdown in the growth of real estate transaction-related revenue, which has reached record levels thanks to a very dynamic real estate market. Housing affordability issues and tightening credit may make it more difficult for prospective buyers to access loans, while continued demand from foreign investors may prevent any sudden corrections in the market.

On the expenditure side, we see health care as the main risk factor for Madrid--and all other Spanish regions. The combined impact of population growth and aging, along with technological advances and new drugs, will put pressure on health care budgets. Madrid has in recent years faced this from settlements it had to pay to privately-operated hospitals. We expect the region will seek to contain those costs, but we continue to see health care expenditure as the key risk to our baseline expectation of the improvement in the region's budgetary trajectory. On the other hand, binding fiscal rules should incentivize the region to control costs. We think the management and political leadership would be keen to comply with these fiscal rules to fully preserve Madrid's financial autonomy. Despite pressure on operating expenditure in 2027, due to the 4.5% increase in public sector salaries mandated by the central government, we believe revenue increases from the regional financing system should be sufficient to absorb the additional expenses, even allowing for an improvement in operating balances, provided cost discipline continues.

Madrid will likely post a deficit after capital accounts in 2026 (in budgetary accounting terms), but it should be lower than in 2025. The region will see a clear decline in capital revenue, but capital expenditure linked to the EU's Recovery and Resilience Facility (RRF) should also wind down. Madrid is among the regions with the highest percentage of execution of EU funds to post deficits after capital accounts (albeit declining) as the region executes large capital spending projects related to RRF. As of July 26, we estimate Madrid has spent more than 90% of the RRF funds allocated to it, and is on track to fully spend the funds before the August 2026 deadline. While RRF funds are neutral for the budget over their lifespan, they generate variability in budgetary accounting outcomes depending on the timing of the recognition of revenue and expenditure.

Madrid's cash position has gradually declined due to the depletion of RRF-related cash reserves as the investment cycle picked up. Nevertheless, the region has contracted €1.8 billion in credit lines; a commercial paper program of €1 billion; and a high volume of signed, but not yet disbursed, loans with the European Investment Bank (EIB), which collectively shored up its liquidity. Moreover, we expect cash levels to recover by year-end 2026, as the region will borrow to finance 2025 deficits. More generally, the region is the most frequent and largest bond issuer in the Spanish regional market, and has access to a broad and diversified pool of investors, having proven its ability to raise funding even in periods of market stress. We estimate the region's borrowing needs for 2026 at about €4.4 billion, mostly covering debt maturities, unfinanced deficits from 2025, and the deficit target for 2026 (0.1% of regional GDP).

Madrid's tax-supported debt stood at 135% of operating revenue at end-2025, which we consider high in an international context. Still, we project debt will decline to 119% of operating revenue by 2028, thanks to increasing revenue. Similar to other normal status regions, Madrid could benefit from a debt write-off from the central government, which could imply faster deleveraging than what we project. The region has been assigned €8.6 billion, or about 21% of our estimate of tax-supported debt in 2025. However, we do not take this measure into account in our projections, given the high degree of uncertainty about its approval or timing. Moreover, the regional government has publicly expressed its opposition to the measure, which once passed would require an explicit request from any region that wanted it.

Madrid's tax-supported debt figures include the debt of its government-related entities, such as Metro de Madrid (which stood at €2.2 billion at year-end 2025), and public-private partnerships on hospitals and transportation entities (€1.4 billion at year-end 2025). About 56% of the region's debt is market issuance, while the rest is bank loans, including from multilateral institutions such as the EIB. The region's debt is fully denominated in euros and shielded from volatility in interest rates because about 92% of debt liabilities carry a fixed rate.

Autonomous Community of Madrid Selected Indicators

Mil. EUR	2023	2024	2025	2026bc	2027bc	2028bc
Operating revenue	23,964	27,454	28,468	29,900	31,735	33,162
Operating expenditure	24,744	27,827	27,890	29,490	30,643	31,747
Operating balance	(780)	(373)	578	410	1,092	1,415
Operating balance (% of operating revenue)	(3.3)	(1.4)	2.0	1.4	3.4	4.3
Capital revenue	703	1,319	510	525	535	546
Capital expenditure	1,827	1,660	1,994	1,712	1,628	1,549
Balance after capital accounts	(1,904)	(714)	(906)	(778)	(1)	413
Balance after capital accounts (% of total revenue)	(7.7)	(2.5)	(3.1)	(2.6)	0.0	1.2
Debt repaid	2,694	2,965	2,900	2,973	2,938	3,127
Gross borrowings	3,803	4,334	3,445	4,437	2,950	2,750
Balance after borrowings	(795)	656	(361)	686	11	36
Direct debt (outstanding at year-end)	34,345	35,775	36,389	37,853	37,865	37,488
Direct debt (% of operating revenue)	143.3	130.3	127.8	126.6	119.3	113.1

Autonomous Community of Madrid Selected Indicators

Tax-supported debt (outstanding at year-end)	37,201	39,387	40,016	41,514	41,424	40,947
Tax-supported debt (% of consolidated operating revenue)	148.7	137.3	135.1	133.6	125.8	119.1
Interest (% of operating revenue)	3.2	3.4	3.2	4.0	3.0	3.0
Local GDP per capita ($)	46,128.3	48,442.8	--	--	--	--
National GDP per capita ($)	33,680.3	35,493.9	38,806.2	41,616.4	43,546.1	45,860.8

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. EUR--euro. $--U.S. dollar.

Rating Component Scores

Key rating factors	Scores
Institutional framework	3
Economy	2
Financial management	3
Budgetary performance	3
Liquidity	2
Debt burden	3
Stand-alone credit profile	a+
Issuer credit rating	A+

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "**Methodology For Rating Local And Regional Governments Outside Of The U.S.**," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Sovereign Risk Indicators, July 14, 2026. An interactive version can be found at https://www.spglobal.com/ratings/sri/

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Spain, March 16, 2026

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see "Related Criteria"). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Rating Component Scores above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see "Related Criteria").

Ratings List

Ratings List		
Upgraded		
	To	**From**
Madrid (Autonomous Community of)		
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
Senior Unsecured	A+	A
Ratings Affirmed		
Madrid (Autonomous Community of)		
Commercial Paper	A-1	