Rating Report
Autonomous Community of Madrid

DBRS Morningstar
9 September 2022

Rating Considerations
Strengths
1 Large and very diversified economy
2 Strong fiscal position, supported by national government transfers
3 Sound debt structure and continued strong access to financial markets

Challenges
1 Inflationary pressures and their economic and fiscal impacts
2 Still high debt-to-operating revenue ratio

Mehdi Fadli
Vice President - Global Sovereign Ratings
+34 637 095 159
mehdi.fadli@dbrsmorningstar.com

Javier Rouillet, CFA
Vice President – Global Sovereign Ratings
+34 91903 6503
javier.rouillet@dbrsmorningstar.com

Thomas R. Torgerson
Managing Director
Co-Head of Sovereign Ratings
+1 212 806 3218
thomas.torgerson@dbrsmorningstar.com

Ratings

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

Summary Rating Rationale

On 9 September 2022, DBRS Ratings GmbH (DBRS Morningstar) confirmed the Long-Term Issuer Rating of the Autonomous Community of Madrid (Madrid) at A (low) and maintained the Positive trend. At the same time, DBRS Morningstar confirmed Madrid's Short-Term Issuer Rating at R-1 (low) with a Stable trend.

The Positive trend on the Long-Term Rating continues to reflect DBRS Morningstar's view that (1) Madrid has delivered strong fiscal results in the last three years and is likely to continue doing so in the foreseeable future; (2) the region is strengthening its liquidity profile; and (3) downside risks related to the COVID-19 pandemic have receded. The economic outlook remains nevertheless clouded with uncertainties related to inflationary pressures and the complete resolution of the healthcare situation. So far, Madrid's finances have weathered well the shock of the COVID-19 pandemic, supported by the extraordinary financial transfers provided by the national government to all Spanish regions. Going forward, DBRS Morningstar's analysis will focus on the speed of the economic recovery as well as the region's effectiveness in controlling its expenditures as extraordinary national government support wanes.

Madrid´s ratings remain underpinned by (1) the region's large and diversified economy; (2) its track record of an improving fiscal performance; and (3) its sound debt management. DBRS Morningstar continues to view positively the financing backstop from the Kingdom of Spain (A, Stable), which could be made available to support the region, should financing conditions require it. Conversely, the region's high debt-to-operating revenue ratio still weighs on Madrid's ratings.

Summary Statistics

	2017	2018	2019	2020	2021
GDP (EUR millions)[1]	222,028	230,813	241,040	216,527	232,568
Real GDP growth[1]	4.0%	3.0%	2.6%	-11.0%	6.5%
Unemployment rate	13.3%	12.2%	10.6%	12.5%	11.6%
Adjusted debt-to-GDP[2]	15.7%	15.3%	14.7%	16.7%	15.5%
Adjusted debt-to-operating revenue[2]	206.4%	198.5%	186.2%	160.5%	156.4%
Financing surplus/(deficit)-to-GDP	-0.51%	-0.25%	-0.26%	0.02%	0.32%

[1] 2021 figures are provisional.
[2] Figures have been adjusted by DBRS Morningstar. For more information, please see the Rating European Sub-Sovereign Governments methodology.
Source: Autonomous Community of Madrid, Instituto Nacional de Estadística, Ministerio de Hacienda y Función Pública, DBRS Morningstar.

Rating Drivers

The ratings could be upgraded if any or a combination of the following occur: (1) Madrid delivers strong and recurring fiscal results; (2) the region places its debt on a medium-term downward trajectory and it continues to strengthen its liquidity profile; or (3) the Kingdom of Spain's ratings are upgraded.

The trend on the Long-Term Ratings could return to Stable if Madrid's fiscal performance deteriorates, leading to weaker fiscal and debt positions than currently expected. **The 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 fiscal deficits to widen over time; (2) there is a marked and lasting deterioration in Madrid's debt metrics; or (3) the Kingdom of Spain's ratings are downgraded.

Summary Rating Rationale (continued)

The COVID-19 outbreak significantly affected the Spanish and the regional economies in 2020. Madrid's gross domestic product (GDP) decreased by 11.0% in 2020, in line with Spain's 10.8% decline, largely reflecting the extent of the healthcare crisis, the stringency of the lockdown that followed, and the high concentration of economic activity in sectors severely affected such as tourism. In 2021, Madrid's GDP rebounded by 6.5%, according to the region's estimates, outperforming the 5.1% for Spain's output, driven by a strong rebound in the construction and services sectors. The regional economy is expected to continue recovering in coming years, broadly in line with the national average. DBRS Morningstar expects a strong tourism performance and solid job creation to support Spain's GDP but inflationary pressures, particularly higher energy prices, increasing funding costs, and a weaker external backdrop are likely to weigh on growth afterwards. Amid this background, the European Commission revised its forecast for Spanish growth to 4.0% in 2022 and 2.1% in 2023.

Despite the strength of the COVID-19 shock, the supportive measures taken by the national government during the pandemic as well as the financial resources expected from the Next Generation EU (NGEU, including the Recovery and Resilience Facility (RRF) and REACT-EU funds), should continue to alleviate the long-term impact of the pandemic and support the recovery. DBRS Morningstar therefore takes the view that long-term risks related to COVID-19 have receded, as exemplified by the strong performance of the labour market in recent months. As of Q2 2022, Madrid's unemployment rate had largely recovered its pre-pandemic level, standing at 10.2% compared with 10.0% at the end of 2019 and a peak of 13.5% in Q4 2020. Going forward, the impact of higher inflation on consumption and investment as well as the speed of absorption of EU funds will remain key areas of focus for DBRS Morningstar to assess the strength of the recovery within the region's territory.

On the fiscal front, Madrid's performance remained strong throughout 2021. The region is estimated to have delivered a small financial surplus of 0.32% of GDP, supported by the economic recovery and the extraordinary transfers from the national government. This corresponds to a marginal improvement from the slight surplus of 0.02% recorded in 2020 and the deficit of -0.26% of GDP in 2019. DBRS Morningstar views positively the fiscal improvement recorded by the region in the last three years, but continues to consider that maintaining this strong performance will remain challenging, as government extraordinary measures are wound down and inflationary pressures linger. DBRS Morningstar will monitor the potential pass through of inflation to structural regional expenditure, such as personnel and healthcare related costs, as this may negatively affect regional finances, particularly if coupled with an increase in financing costs and a slowdown in economic growth.

In 2022, the national government is maintaining a high level of transfers (entregas a cuenta) to its regions. These transfers within the regional financing system will also be complemented with extraordinary transfers of EUR 7.0 billion meant to compensate regions for a negative fiscal settlement related to 2020 and a VAT payment shortfall from 2017. While these additional funds will continue to support regional finances in 2022, they represent a substantial decrease compared to the extraordinary COVID-19-related transfers received in 2020 and 2021 of EUR 16.0 billion and EUR 13.5 billion, respectively. As a result, addressing the share of new expenditure incurred during the pandemic, particularly healthcare related, that is likely to remain structurally higher, will remain critical for regions to maintain a sound budgetary position over the medium-term. Latest forecasts from AIReF points to a deficit of 0.9% of GDP for the Spanish regional tier this year, versus a reference rate set at 0.6% for 2022, due to higher expenditure incurred and lower revenues related to European funds. Latest forecasts from the Independent Authority for Fiscal Responsibility (AIReF) estimate that Madrid's deficit in 2022 could reach 0.5% of GDP, close to the region's deficit estimate of 0.6% .

As a result, DBRS Morningstar's analysis of the region's fiscal and economic performance will continue to focus on (1) the level of national government's transfers to its regions; (2) the effectiveness of the regional government's control over structural expenditure; and (3) the speed of absorption of EU funds.

DBRS Morningstar continues to expect Madrid’s debt sustainability position to remain strong in coming years, given the region's wide economic base. At the end of Q1 2022, its debt-to-GDP ratio was 14.6%, among the lowest of Spanish regions. While Madrid's adjusted debt-to-operating revenues ratio is estimated to have decreased to 156% at the end of 2021 from 186% at the end of 2019, it continues to reflect in part the increase in revenues due to the substantial rise in transfers received from the national government last year. From a debt stock point of view, Madrid's debt has remained relatively stable over the last three years, only increasing very marginally. As a result, DBRS Morningstar takes the view that stabilising and possibly improving debt metrics further, will remain an important step for the region to strengthen its credit profile further. Madrid’s debt structure is sound, with a smooth amortisation profile, an average debt maturity of 8.06 years in June 2022, affordable interest costs at 1.92% of the debt stock, and continued access to financial markets. In DBRS Morningstar’s view, bank loans and bond financing, including sustainable and green bonds, underpin the region’s widely diversified financing sources.

On the liquidity side, DBRS Morningstar also views positively the strengthening of Madrid's liquidity profile in recent years, as shown by the widening of its liquidity toolkit, including the launch of a commercial paper (CP) programme in 2020 and the increase in 2021 in the region's credit line facilities. These provide the region with additional room to weather potential exogeneous shocks.

The CP program also allows it to minimize its interest cost, as the region was able to issue CPs at negative interest rates. Going forward, DBRS Morningstar will continue to monitor Madrid's liquidity position, including the use by the region of its CP programme and its existing credit lines. In addition, the central government's financing facilities, although not currently used by Madrid, continue to be viewed as a potential financing backstop for the region, reducing its overall refinancing risks.

Relationship with the Higher-Tier Government

The relationship between Madrid and the Spanish central government as well as the institutional framework in which the region operates, are key rating considerations for Madrid. In line with DBRS Morningstar's ratings methodology, the linkages between the two, drive the weight that is given to the national government's credit rating ("A", Stable) for Madrid's overall creditworthiness assessment. Key to this analysis is the Spanish regions' financial autonomy. This autonomy is assessed in the context of a supportive Spanish institutional framework. Indeed, despite their autonomy, Spanish regions are overseen by the central government and need to abide by the 2012 *Ley Orgánica de Estabilidad Presupuestaria y Sostenibilidad Financiera*; financial stability law that sets targets in terms of fiscal performance, debt and expenditure levels for all government tiers.

The stability and predictability of the regional financial framework is an important characteristic of Madrid's relationship with its national government. In that respect, the current regional financing system is somewhat protecting autonomous communities from a sudden economic downturn given the two-year lag for the full transmission of market signals --namely, tax revenue growth or decrease-- from the central government, which collects most of these taxes for the regions. Nevertheless, if this system positively supports regions' finances in the first year of a crisis (e.g., in 2020 during the COVID-19 pandemic), it also tends to postpone negative financial adjustments to subsequent years, thereby delaying any rebound in regions' financial performance. Throughout the COVID-19 pandemic, the national government has realised significant additional transfers to regional governments to support their financial position. Any change in the regional financing system is likely to prove very relevant for the overall predictability of the regions' institutional framework going forward. The regional financing system reform was initially scheduled for 2014, but it has been delayed given that finding an outcome that satisfies all participants has proven difficult, particularly now in the context of still high economic uncertainties. DBRS Morningstar views the degree of financial cooperation between Madrid and the national government as relatively strong, reflecting a rather effective approach in terms of deficit targets setting and financial outturns among regions of the common regime of the financial stability law.

Madrid's last regional elections held on 4 May 2021 resulted in a significant strengthening of the conservative *Partido Popular (PP)* in the regional Parliament with 65 seats out of 136. The PP is currently backed in Parliament by the 13 seats of far-right party *Vox*. Despite the implementation by the new regional government of a reduction in some regional taxes (including for instance personal income tax) DBRS Morningstar understands that it will remain committed to the fiscal consolidation path recorded by the region in recent years. Also, DBRS Morningstar expects this commitment to continue under the next administration to emerge after the next elections scheduled for May 2023.

The strong financing and liquidity support provided by the Spanish Treasury to Spanish regions is expected to remain over the medium-term. While Madrid is not currently using the financing facilities provided by the national government, they still represent, in DBRS Morningstar's view, backstop funding facilities for the region and therefore markedly reduce potential refinancing risks. Financing mechanisms for the Spanish regions also prompted a strengthening of all Spanish regions' reporting and overall transparency, a positive credit feature.

Fiscal Performance

In line with Spain's overall fiscal consolidation, the region's financial performance substantially strengthened from end 2011. The improvement primarily reflected consolidation measures implemented throughout the period at national and regional levels, as well as strong economic growth recorded between 2015 and 2019 (exhibits 1 and 2).

Exhibit 1 Madrid's Operating Results

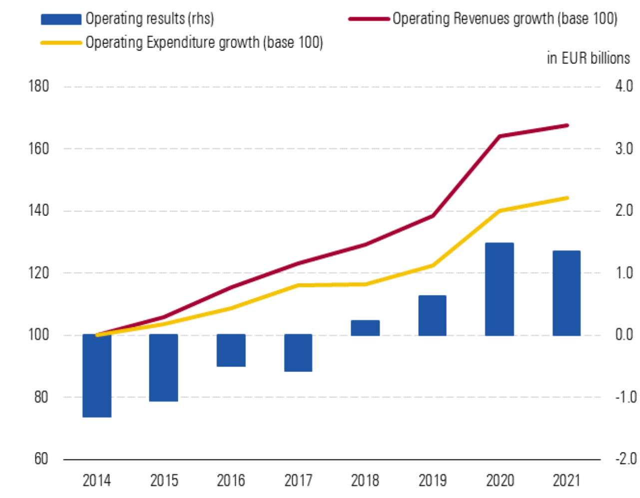
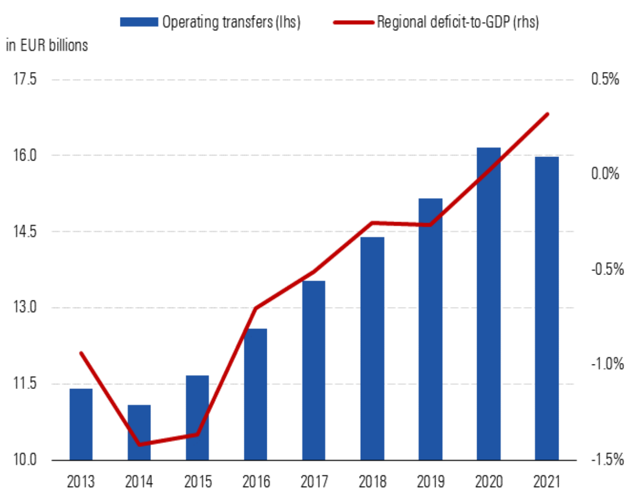


Exhibit 2 Madrid Transfers and Deficit Reduction



Note to Exhibit 2: Operating transfers include "entregas a cuenta" for year N and the positive or negative settlement of the financing system for the year N-2.
Source: Autonomous Community of Madrid, Ministerio de Hacienda y Función Pública, DBRS Morningstar.

In 2020 and 2021, thanks to strong financial support from the national government, the impact of the pandemic on regional finances has remained very well contained, and the financial performance of the region has further strengthened. After several years of deficits, the region's fiscal balance, including some European System of Accounts (ESA) accounting adjustments, turned to a slight surplus of 0.02% of GDP in 2020 and is estimated to have reached a small surplus of 0.32% of GDP in 2021. In 2022, in the context of lower extraordinary transfers from the national government and still some pressures on the expenditure front, the regional financial performance is expected to deteriorate. Current forecasts from AIReF suggest that Madrid would record a deficit of 0.5% of GDP this year, close to the region's deficit estimate of 0.6%. For 2023, the national government expects at this stage a deficit at -0.3% of GDP for the Spanish regional tier.

Going forward, maintaining a sound fiscal performance will remain challenging. While financial support from the national government should continue in the foreseeable future, it is likely to continue declining. As a result, containing structural expenditure growth in the context of higher inflation and heightened pressure related to healthcare costs and higher civil servants' wages will remain critical for the region to maintain strong financial results. A weakening of Madrid's financial results reflecting a decrease in revenues that would not be mitigated by a reduction or a strong control over operating expenditure, therefore prompting a structural deterioration in the region's public finances would negatively affect Madrid's credit profile.

Debt and Liquidity

The region's debt has increased very rapidly since the global financial crisis, with a threefold increase in the debt stock between 2008 and 2021, from EUR 11.4 billion to EUR 34.4 billion. Despite this very significant rise, the region's debt sustainability position remains strong, given its very wide economic and tax bases, as well as its strong access to diversified financing sources. With a debt ratio of 15.1% of regional GDP as of Q3 2021, the region's debt remains substantially below the average for Spanish regions of 26.6%.

DBRS Morningstar-adjusted debt, which includes direct, indirect and guaranteed debt of the region, but also commercial debt, which does not consolidate in ESA (European System of Accounts), reached an estimated 156% of the region's operating revenues in 2021. This ratio remains high, but it represented a marked decrease from the 220% recorded at the end of 2015. While this decline is positive, DBRS Morningstar points out that it accelerated in 2020 and 2021, reflecting the substantial extraordinary transfers received by Spanish regions from the national government. These extraordinary transfers will start decreasing in 2022, possibly leading to lower operating revenues and an increase in Madrid's fiscal deficit as well as in its debt stock and subsequently in its debt-to-operating revenues ratio. Nevertheless, the sharp increase of the 2023 amounts related to the regional financing system announced by the national government in July 2022 (+ 24% on a consolidated basis for autonomous communities) should partly compensate for the decrease of those extraordinary transfers.

Unlike most of its national peers, the region has maintained consistent access to the financial markets since the financial crisis. As a result, at the end of Q1 2022, Madrid's bond issuances represented 58% of its debt stock or EUR 20.2 billion (*Banco de España* data), and 44% of the total bonds outstanding for all Spanish regions.

The regional debt structure is sound, with limited short-term debt, representing less than 1% of its debt stock, and about 88% of its debt at fixed rate (exhibits 3 and 4). The region is also isolated from foreign exchange risk as all its debt stock is denominated in euros. Despite a substantial debt increase over the last decade, the region's cost of funding remains low. Overall, the weighted cost of debt for the region has constantly decreased in the last few years and stood at 1.86% in 2021compared with 3.96% in 2013. Lately, amid an environment of higher interest rates globally, Madrid's weighted cost of debt has slightly increased to 1.92% in June 2022.

Madrid has also substantially extended its average maturities through long-term issuances, bank loans and private placements since 2016 with maturities up to 50 years. In June 2022, the weighted average maturities of regional debt stood at 8.06 years, compared with 5.34 years recorded at the end of 2012. Contingent liabilities have also decreased since 2012, with Public and Private Partnerships now factored into the regional government's debt. Unlike most of its peers, the region has historically had very limited recourse to the financing facilities provided by the central government. Madrid's stock of national government funded debt was fully repaid in 2020 by the region, underpinning its diversified financing sources.

Exhibit 3 Madrid's Debt Structure

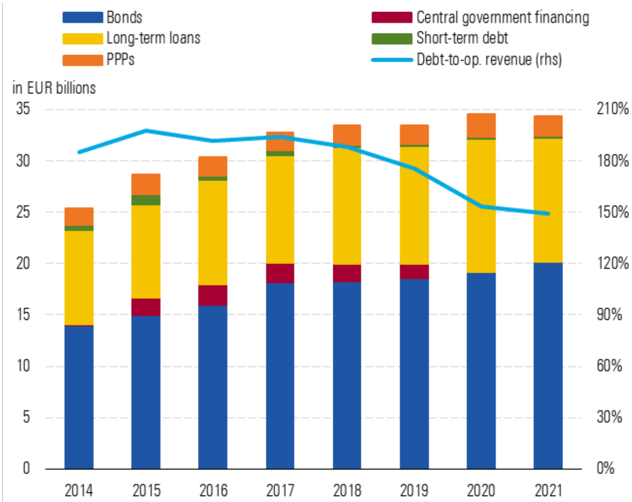
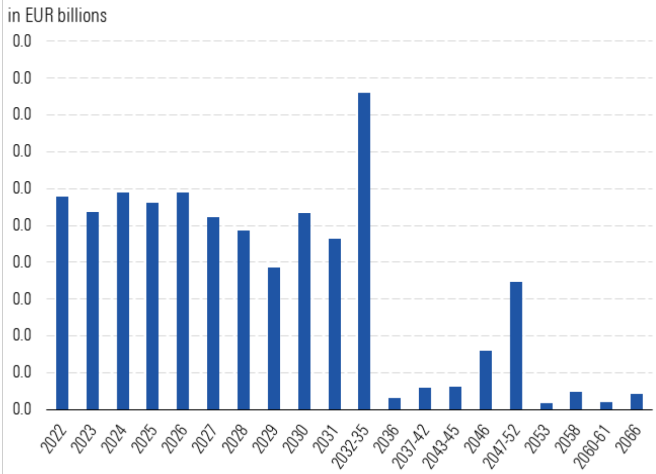


Exhibit 4 Debt Amortisation Schedule



Note to Exhibit 3 and 4: Debt refers to direct and indirect debt (data from Banco de España).
Source: Ministerio de Hacienda y Función Pública, Autonomous Community of Madrid, Banco de España, DBRS Morningstar.

Madrid has historically recorded a relatively low liquidity position, reflecting the region's view to maintain a cost-efficient liquidity profile. This also reflects structural features of the Spanish regional system with national government approvals needed for regions to issue debt and contract loans. Nevertheless, DBRS Morningstar takes the view that the set-up and successful launch of a *Pagarés* (commercial paper) programme in 2020 and the extension in 2021 of the size of the credit lines available to the region to EUR 1.8 billion from EUR 1.3 billion previously, have broadened the region's liquidity toolkit and overall strengthened its liquidity profile. The CP program also allows the region to minimize its interest cost, as it was able to issue CPs at negative interest rates in recent years. Going forward, DBRS Morningstar 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 has the largest regional economy in Spain with a GDP of around EUR 233 billion in 2021, or close to 20% of Spain's GDP. With a population of 6.8 million, Madrid is the third most populated region in Spain. The region benefits from the highest GDP per capita in the country, estimated at EUR 34,514 in 2021, or 36% above the national average (exhibit 6).

The region entered the crisis triggered by the pandemic with strong growth momentum. It recorded annual average real GDP growth of 3.5% between 2015 and 2019, above Spain's 2.8% (exhibit 5).

Growth had been mostly supported by the service sector, which represented 85% of the region's gross value added (GVA), and by the recovery in the construction sector at 5% of Madrid's GVA.

In 2020, given the COVID-19 pandemic, Madrid's GDP declined by a significant 11%, in line with Spain's GDP decline of 10.8%. In 2021, Madrid's GDP rebounded 6.5%, according to the region's estimates, outperforming the 5.1% for Spain's output. From a sectoral perspective, the recovery has been especially strong in the construction (+10.1%) and services (+6.9%) sectors, with the latter benefitting from a strong impulse from the commerce, hospitality and transport sectors, according to the region's statistics agency.

Exhibit 5 Real GDP Growth and Unemployment

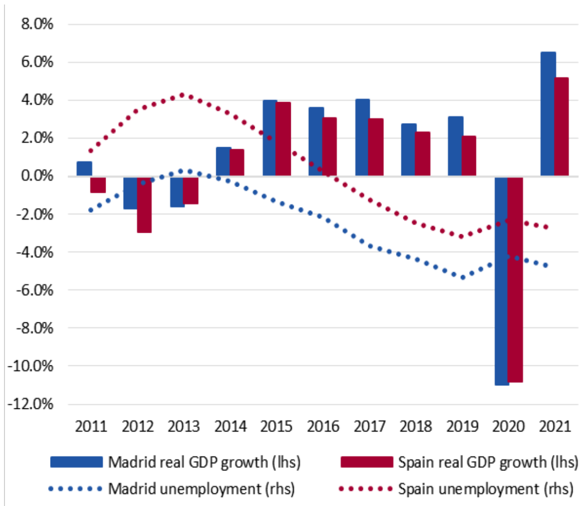
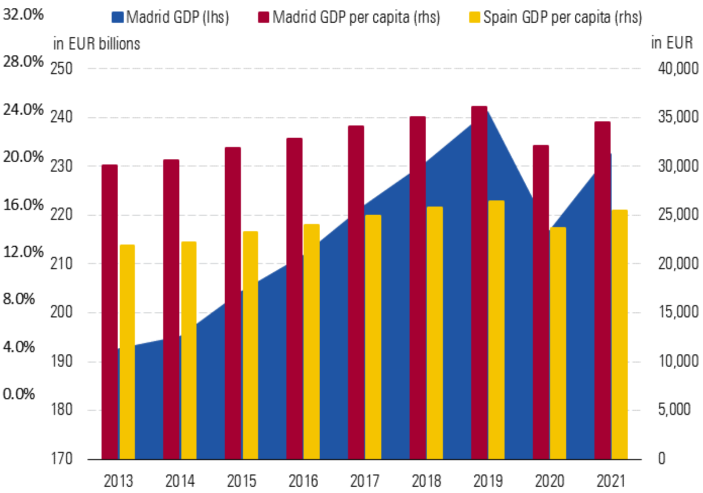


Exhibit 6 GDP and GDP per Capita



Note to Exhibit 5 and Exhibit 6: 2021 GDP data for the Community of Madrid are provisional.
Source: Autonomous Community of Madrid, Ministerio de Hacidenda, Instituto Nacional de Estadística (INE), DBRS Morningstar.

The regional economy is expected to continue recovering in coming years, broadly in line with the national average. DBRS Morningstar expects a strong tourism performance and solid job creation to support Spain's GDP but high energy prices, higher funding costs, and a weaker external backdrop will increasingly weigh on growth afterwards. Amid this background, the European Commission (EC) revised its growth projections for Spain downwards to 4.0% in 2022 and 2.1% in 2023 in its Summer 2022 projections compared with the 5.6% and 4.4% released in February 2022, respectively. These forecasts remain nevertheless clouded by inflation and the energy crisis in Europe, with a potential cut-off of Russian gas supply to Europe as a major risk to growth.

While the pandemic remains in the background, its economic impact has been receding. The tourism sector, one of the most affected sectors, appears to be recovering strongly thus far in 2022 after a partial rebound in 2021. Tourist arrival at hotels (domestic and foreign) during January-June 2022 reached 81% of the same period in 2019, compared to the 49% level reached in 2021 versus 2019. For the month of June 2022, tourist arrivals reached 87% of the same month in 2019. In terms of international tourism expenditure in Madrid, it reached 95% in June and 82% in January-June this year, compared to the respective levels in 2019.

Unemployment in Spain is very heterogeneous across regions with regional unemployment rates ranging from 8.2% to 18.7% as of Q2 2022. Madrid, at 10.2%, remained below the national rate of 12.5% (exhibit 5) and close to its pre-pandemic level of 10.0%. Since the pandemic started, the deterioration in the regional and country wide labour market has been offset by the national government's temporary unemployment benefit and guaranteed loans schemes to Spanish firms. On a positive note, as government support measures continue to completely wind down, the dynamism of the labour market has been strong and suggests the potential long-lasting impact of the pandemic on the regional economy remains limited .

Governance

In terms of overall governance, DBRS Morningstar views positively the region's strong transparency and high level of overall financial disclosure as well as the budgetary monitoring implemented by the region. The contingent liabilities of the region have also decreased over the last decade, a feature DBRS Morningstar sees positively.

DBRS Morningstar points out that the region’s budgetary process and forecasting ability is impacted by the current regional financing system, given that positive or negative settlements only occur after a two-year lag. In addition, the debt authorisation mechanisms, while positive from an oversight perspective, could potentially add some liquidity strains to the region. Madrid is also a net contributor to the current regional financing system and in the past, the region, together with other regions, advocated for a reform of the financing system. DBRS Morningstar currently expects discussions on the regional financing system reform to be delayed by the economic outlook uncertainties and the upcoming regional and national elections in 2023.

Although DBRS Morningstar is confident of Madrid meeting 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 for any credit implications. Madrid’s last regional elections in May 2021 prompted a government led by the conservative Popular Party (PP) and backed in Parliament by the far-right party *Vox*. Despite some tax cuts implemented by the new regional government, DBRS Morningstar understands that Madrid's government will remain committed to the fiscal consolidation path it has recorded in recent years. Also, DBRS Morningstar expects this commitment to continue under the next administration to emerge after the next elections scheduled for May 2023.

Autonomous Community of Madrid

	2016	2017	2018	2019	2020	2021
Economic Indicators						
Population[1]	6,466,996	6,507,184	6,578,079	6,663,394	6,779,888	6,751,251
GDP (EUR millions)[2]	211,673	222,028	230,813	240,040	216,527	232,568
Real GDP growth[2]	3.6%	4.0%	3.0%	2.6%	-11.0%	6.5%
Unemployment rate (annual)	15.7%	13.3%	12.2%	10.6%	12.5%	11.6%
Debt Section (EUR millions)						
Direct and Indirect Debt stock	30,417	32,783	33,448	33,469	34,601	34,409
Debt from the central government	1,924	1,913	1,671	1,429	0	0
Direct and Indirect Debt-to-operating revenues	191.8%	194.0%	188.4%	175.9%	153.4%	149.5%
Direct and Indirect Debt to GDP	14.4%	14.8%	14.5%	13.9%	16.0%	14.8%
Short-term debt[3]	2,260	2,616	2,804	3,116	2,768	3,094
Short-term debt-to-operating revenues[3]	14.3%	15.5%	15.8%	16.4%	12.3%	13.4%
Adjusted debt stock[4]	33,343	34,884	35,228	35,436	36,190	35,995
Adjusted debt-to-operating revenues[4]	210.3%	206.4%	198.5%	186.2%	160.5%	156.4%
Adjusted debt-to-GDP[4]	15.8%	15.7%	15.3%	14.7%	16.7%	15.5%
Fiscal Performance (EUR millions)						
Operating revenues	15,856	16,902	17,749	19,028	22,550	23,013
Operating expenditure	16,344	17,474	17,523	18,399	21,068	21,669
of which Interest costs	749	717	736	717	735	661
Interest costs-to-operating revenues	4.7%	4.2%	4.1%	3.8%	3.3%	2.9%
Operating surplus/(deficit)	-488	-571	226	629	1,482	1,345
Operating surplus/(deficit)-to-operating revenues	-3.1%	-3.4%	1.3%	3.3%	6.6%	5.8%
Capital revenues	81	-10	91	79	137	793
Capital expenditure	1,191	980	1,012	1,027	1,424	1,305
Financing surplus/(deficit)	-1,599	-1,561	-695	-319	196	832
Financing surplus/(deficit)-to-operating revenues	-10.1%	-9.2%	-3.9%	-1.7%	0.9%	3.6%
Financing surplus/(deficit)-to-GDP[5]	-0.70%	-0.51%	-0.25%	-0.26%	0.02%	0.32%

[1] Population at the beginning of the year.
[2] 2021 data for GDP are provisional.
[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 DBRS Morningstar. 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.
Source: Autonomous Community of Madrid , Ministerio de Hacienda y Función Pública, Instuto Nacional de Estadística (INE), Banco de España, DBRS Morningstar.

European Sub-Sovereign Government Scorecard

Autonomous Community of 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%-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
Source: DBRS Morningstar's Methodology: Rating European Sub-Sovereign Governments (August 2022) and Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (May 2022).

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	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.

Autonomous Community of Madrid: ESG Considerations

Environmental

This factor does not affect the 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, that is likely to be adversely affected by Madrid's high population density as well as its role as capital and economic hub in Spain. Further progress towards enhanced environmental policies are expected in coming years possibly through the implementation of its "Strategy for Adaptation and Mitigation of Climate Change 2021- 2030", expected to be supported by European Union funds.

Social

This factor does not affect the ratings, however, the Passed-through Social credit considerations is relevant to the ratings, as the social factors affecting the Kingdom of Spain's ratings are passed-through to Madrid. Human capital, as measured by GDP per capita, is factored in the Spanish rating, which has been used as an input for Madrid's credit ratings. Madrid's GDP per capita is above the national level, estimated at EUR 34,514 or approximately 136% of the national average in 2021. Respect for human rights is high, and there is widespread access to quality healthcare and other basic services within the regional territory. Madrid tops the Spanish regional ranking, for Health and Wellness under the 2020 European Social Progress Index.

Governance

This factor does not affect the 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 for other regional governments in Spain, Madrid publishes information on monthly budgetary execution, on the 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 2/2012 Organic Law on Budgetary Stability and Financial Sustainability that sets targets in terms of fiscal performance, debt and expenditure levels for all government tiers in Spain.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

DBRS Morningstar is empowering investor success as the go-to source for independent credit ratings. And we are bringing transparency, responsiveness, and leading-edge technology to the industry.

That's why DBRS Morningstar is the next generation of credit ratings.

Learn more at dbrsmorningstar.com.

MORNINGSTAR | DBRS

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: https://www.dbrsmorningstar.com/research/225752/highlights.pdf.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc.