Scope Ratings

Credit Rating Announcement

28 November 2025

Scope affirms Madrid's credit ratings at A and revises the Outlook to Positive

The revision of the Outlook to Positive on Spain's sovereign rating drives the Outlook change for the region.

Rating action

Scope Ratings GmbH (Scope) has today affirmed the Autonomous Community of Madrid's (Madrid) long-term issuer and senior unsecured debt ratings at A, in both local and foreign currency, and revised the Outlooks to Positive, from Stable. Scope has also affirmed Madrid's short-term issuer ratings at S-1, in both local and foreign currency, and revised the Outlooks to Positive, from Stable.

For the updated rating report, please click here.

Key rating drivers

The revision of the Outlook reflects the recent revision of the Kingdom of Spain's A rating Outlook from Stable to Positive[1], which strengthens the credit anchor for all autonomous communities given their close institutional, financial and fiscal linkages with the sovereign. Improvements in Spain's macro-fiscal outlook and debt trajectory are directly transmitted to regional credit profiles under the existing intergovernmental system.

Furthermore, Madrid's A ratings reflect the region's strong individual credit profile, underpinned by robust budgetary performance, full capital market access, a well-diversified, high-income economic base with a sound medium-term outlook, a solid liquidity position and a favourable debt structure. The region's still-elevated debt stock, albeit on a gradual downward trajectory, and structurally limited expenditure flexibility remain credit constraints.

Going forward, Scope will monitor the implementation of planned regional debt-relief measures, central–regional coordination in delivering NGEU investments, developments in the regional financing framework, and Madrid's budgetary and debt performance to assess whether its credit fundamentals continue to evolve in line with broader improvements at the sovereign level.

Strengthening credit anchor for all autonomous communities given their close institutional, financial and fiscal linkages with the sovereign. Madrid, like all Autonomous Communities under Spain's common regional financing system (régimen común), benefits from a mature and supportive institutional framework characterised by strong fiscal integration, close central government oversight and access to system-wide liquidity support mechanisms, although regions such as Madrid, which is fully market funded, retain greater fiscal autonomy. This framework underpins Scope's indicative rating range of A to BBB for regions within the common financing regime, reflecting their close intergovernmental linkage with Spain's government (A/Positive).

The central government's record-high financing flows continue to bolster regional liquidity, including EUR 157.7bn in advance payments planned for 2026, around 7% more than in 2025 and the highest annual transfer under Spain's regional financing system. These advance payments provide predictable monthly cash flows ahead of the final tax settlements made two years later, reflecting both strong national tax performance and the government's commitment to maintaining adequate liquidity for regional public services and investment.

These predictable transfers support the continuity of multi-year investment programmes funded through national resources and more than EUR 29bn in NGEU allocations managed by the regions. Coordination between the central government and the autonomous communities has improved project execution and ensured alignment between regional priorities and national reform commitments.

Central oversight of regional budgets, through mandatory medium-term plans submitted to the CPFF (Consejo de Política Fiscal y Financiera), quarterly reporting and compliance reviews under the expenditure rule, continues to reinforce fiscal discipline. Ongoing reforms to the regional financing system aim to enhance transparency, predictability and long-term sustainability of intergovernmental fiscal relations.

Sovereign support measures, including liquidity backstops and the planned assumption of regional debt, further strengthen regional credit profiles. As of the second quarter of 2025, around 61% of regional debt was held through FLA and FF loans, highlighting broad reliance of most regions on state financing. The government's proposal for partial regional debt relief will require amendments to the regional financing framework and parliamentary approval, creating timing uncertainties; for Madrid, whose debt stock is entirely market-based, the method for delivering the proposed EUR 8.6bn in relief remains unclear, with options under discussion, including additional revenue transfers aligned with the region's debt maturity profile. Owing to Madrid's full market access, strong liquidity position, and longstanding independence from State liquidity mechanisms, Scope expects the region to retain substantial financing autonomy regardless of the final design of the central government's debt-relief and regional financing framework package.

Madrid's strong individual credit profile. Madrid benefits from a wealthy and diversified economy, relatively solid budgetary performance, and full market-based financing with ample liquidity, positioning it structurally above most peers.

High-income economic base and favourable medium-term outlook. Madrid maintains a strong and resilient economic profile, and a key contributor to Spain's economic performance, representing 21.1% of national GDP and 14.5% of the population. Moreover, Madrid benefits from one of the highest income levels in the country, with GDP per capita at around 137% of the national average in 2024, supporting a broad and resilient tax base. Madrid's economic performance continues to outpace the national average, with GDP growth at 3.5% in 2023 and 3.6% in 2024, following a substantial upward revision of 2023 figures from 2.5% to 3.5%. In Q3 2025, Madrid's GDP rose by 2.9% year on year, broadly matching national trends. Despite a mild deceleration since late 2024, output remains well above pre-pandemic levels, standing 11.2% above Q4 2019.

Strong demographic trends support both the region's growth potential and revenue base. Population dynamics remain favourable, with average annual growth of 1.0% projected for 2014–2025, double the national rate (0.5%). Further, the labour market continues to improve: the unemployment rate reached 7.7% in Q2 2025, below the national figure of 10.3%. Social Security registrations in the region continue to hit record highs, reaching 3.83m in October 2025, up 2.7% on year, with new peaks across genders and both the general and self-employed regimes.

Madrid maintains a highly service-oriented economy (84.3% of GVA in Q2 2024 vs. 75.6% nationally), which contributed to a sharper downturn during the pandemic but also underpinned a stronger rebound. The region continues to attract substantial investment: in the first half of 2025, Madrid absorbed EUR 4.5bn of foreign direct investment, accounting for more than half of the national total (53.2%). The region has also implemented targeted tax measures in 2024 to support investment and ease housing pressures. These include deductions for rental and mortgage expenses and tax relief to encourage home purchases in depopulating areas. While external risks and housing pressures persist, Madrid's diversified economy and demographic dynamism underpin a solid medium-term economic outlook.

Deep market access, strong liquidity and sound debt structure. Madrid's full reliance on market funding, with no use of FLA/FF mechanisms, underscores its strong financial autonomy and disciplined debt management. The debt portfolio is well structured, with 94% at fixed rates, entirely euro-denominated and diversified across bonds and loans. Moreover, the region maintains active access to capital markets, with a continued focus on medium- and long-term benchmarks to smooth its maturity profile. Debt costs, with an average rate of 2.27% in 2024 and an average life of around 7.7 years in 2025, remain broadly stable and in line with those of the sovereign. These characteristics support Madrid's strong financing flexibility and reinforce its favourable market standing relative to its peers.

Solid budgetary performance. In terms of regional GDP, Madrid is projected to end 2025 with a moderate financing need of 0.14%. Overall, Scope expects the region to remain close to compliance with national fiscal-stability requirements. Madrid's budget execution until October 2025 remains broadly stable, with non-financial expenditure executed in line with prior years. Financial costs are almost fully executed, reflecting the region's fully market-based debt structure. This consistent execution pattern limits the risk of year-end deviations. Supported by manageable investment execution and access to EU-funded projects, the fiscal outlook remains more favourable than the regional average.

Madrid's budget outlook is supported by solid revenue growth, moderate expenditure increases and rising investment needs linked to population growth. Scope expects the operating balance to gradually improve from 4.6% of operating revenue in 2024 to around 6.0% by 2028, while the balance after capital accounts is projected to edge down from –0.3% to –0.5% due to higher investment spending.

However, Madrid's expenditure growth remains structurally elevated, with pharmaceutical and operational spending pressures, reflecting high demand for essential services and upward cost pressures. Personnel spending is projected to grow moderately, consistent with national wage-setting and service expansion, while investment will increase due to the Ciudad de la Justicia programme. Madrid has introduced a set of expenditure-containment measures for 2025–2026, focused on healthcare procurement and investment prioritisation. Key actions include efficiency gains in pharmaceutical and medical-product spending, the creation of a centralised health-procurement agency, expected to generate substantial recurring savings, and tighter control of leasing costs.

Rating challenges: still-elevated debt stock and structurally limited expenditure flexibility. Madrid's debt burden continues to improve, with the debt-to-operating-revenue ratio declining to 135.7% in 2024 from 149.7% in 2023, remaining close to the sector average of 133.5%. Measured against GDP, the region remains one of the least-indebted Autonomous Communities, with debt at 12.3% of regional GDP in Q2 2025, compared with the national average of 21.0%, and projected to fall toward 11% in 2026, on the back of strong nominal growth. Madrid's fully market-based debt structure provides significant funding flexibility and supports its liquidity profile.

Despite Madrid's comparatively strong revenue base and economic performance, the rigidity of core spending lines continues to constrain fiscal room to cushion potential shocks. Madrid's fiscal flexibility remains constrained by structural spending commitments, particularly to healthcare, education and social services, which together account for most of the operating expenditure. As in other regional administrations, these areas are largely non-discretionary, limiting the scope for meaningful adjustment. Rising personnel costs and demographic pressures further reduce flexibility, leaving Madrid with limited capacity to counteract shocks. In addition, interest costs have increased to 3.4% of operating revenue, the highest since 2018 and above the sector average of 2.2%, reflecting the impact of higher rates on a still-sizeable debt stock.

Rating-change drivers

The **Positive Outlook** reflects Scope's view that risks to the ratings are tilted to the upside over the coming 12 to 18 months.

Upside scenarios for the ratings are if (individually or collectively):

1. The Kingdom of Spain's ratings were upgraded; and/or
2. Reforms to the institutional framework resulted in significantly higher budgetary autonomy and flexibility.

Downside scenarios for the rating and Outlooks are (individually or collectively):

1. The Kingdom of Spain's ratings/Outlooks were downgraded; and/or
2. Reforms to the institutional framework materially weakened regions' integration in institutional arrangements; and/or
3. Madrid's individual credit profile weakened significantly and structurally.

Qualitative Scorecards (QS1, QS2)

Scope's institutional framework assessment determines the intergovernmental integration between sub-sovereigns and their rating anchor, which is the sovereign or a higher-tier government. To perform this assessment, Scope applies the Institutional Framework scorecard (QS1), centred on six analytical components: i) exceptional support and bailout practices; ii) systemic budgetary support and fiscal equalisation; iii) funding practices; iv) fiscal rules and oversight; v) revenue and spending powers; and vi) political coherence and multilevel governance.

Scope considers the institutional framework under which the Spanish Autonomous Communities (under the common regional financing system) operate to display 'full' integration for exceptional support and bailout practices; 'strong' integration for systemic budgetary support and fiscal equalisation, fiscal rules and oversight, revenue and spending powers and funding practices. The institutional framework displays 'medium' integration for political coherence and multilevel governance. Consequently, Scope's assessment of the institutional framework establishes an indicative minimum rating of 'bbb' for Spanish Autonomous Communities operating under the 'ordinary financing regime'.

Furthermore, Scope assesses the individual credit profile based on quantitative and qualitative analysis of four risk categories: i) debt and liquidity; ii) budget; iii) economy; and iv) ESG.

The outcome of these assessments, as reflected in the application of the Individual Credit Profile scorecard

(QS2), is an individual credit profile score for Madrid of 84 out of 100.

The mapping of this score to the range defined by the Institutional Framework assessment results in an indicative rating of ‘a’ for Madrid.

The review of potential exceptional circumstances that cannot be captured by the Institutional Framework and Individual Credit Profile scorecards did not lead to further adjustments to Madrid’s ‘a’ indicative rating.

As such, the final rating corresponds to the indicative rating of A.

Environment, social and governance (ESG) factors

Governance factors are assessed as ‘Stronger’ for Madrid. The region benefits from solid administrative capacity, a stable institutional framework, and a long track record of prudent financial and debt management, supported by full reliance on market financing. Madrid consistently delivers effective budget execution, transparent reporting and proactive, diversified funding operations, demonstrating a high degree of fiscal and funding autonomy. Strong cooperation with the central government, including in NGEU implementation, and a predictable political environment further reduce execution risk. Overall, Madrid’s governance quality remains a key strength underpinning its credit profile.

Social factors are assessed as ’Stronger’. The region benefits from one of the most dynamic demographic and labour-market profiles in Spain, supported by sustained population growth, high net migration inflows and strong employment creation in a diversified, high-value service economy. Public services remain broadly accessible and are underpinned by Madrid’s strong revenue base and administrative capacity. At the same time, structural challenges persist, including pronounced housing-affordability pressures in metropolitan areas, above-average income dispersion and rising medium-term demands on healthcare and long-term care, due to demographic ageing. Even so, Madrid’s high employment absorption capacity, strong social cohesion and continued demographic momentum support a social-factor assessment that is stronger than the regional peer group.

Environmental factors are assessed as ’Mid-range’. The region faces moderate physical-climate risks, primarily heatwaves, drought episodes and air-quality pressures linked to its dense urban environment. Madrid has adopted climate-transition and adaptation strategies aligned with national and EU objectives, including measures to reduce emissions, expand sustainable transport and improve water-management resilience. These initiatives are supported by access to national programmes and EU co-financing, which help limit the direct fiscal impact of climate-related investment needs. Overall, while environmental risks are present, they are broadly in line with those of comparable regions and adequately mitigated through established policy frameworks, supporting a neutral environmental assessment.

Rating Committee

The main points discussed by the rating committee were: i) institutional framework for Spanish regions, ii) individual credit profile including debt, budget, economy, ESG components; and iii) peers comparison.

Rating driver references

1. Scope affirms Spain’s credit ratings at A and revises the Outlook to Positive

Methodology

The methodology used for these Credit Ratings and Outlooks, (Sub-Sovereign Rating Methodology, 12 September 2025), is available on scoperatings.com/governance-and-policies/rating-governance/methodologies.
Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in ‘Rating Definitions – Credit Ratings, Ancillary and Other Services’, published on scoperatings.com/governance-and-

policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): registers.esma.europa.eu/cerep-publication. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on scoperatings.com/governance-and-policies/rating-governance/methodologies.
The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.
The following substantially material sources of information were used to prepare the Credit Ratings: public domain and the Rated Entity.
Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.
Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.
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The Credit Ratings/Outlooks were first released by Scope on 21 September 2018. The Credit Ratings/Outlooks were last updated on 1 August 2025.

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With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment

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