

Comunidad Autonoma de Madrid

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	Issuer Rating	Outlook
Moody's	Baa1	Stable
S&P	A-	Stable
Fitch	BBB	Stable

Source: Moody's, S&P and Fitch

Overview

Comunidad Autonoma de Madrid or Autonomous Community of Madrid (ACM) is one of Spain's 17 autonomous regions, providing regional governmental services. It was formally created in 1983, based on the limits of the province of Madrid, which was until then conventionally included in the historical region of New Castile. ACM only covers an area of approximately 1.6% of Spain's territory but is the third most populous region in the country (~14% of total population), concentrated around the metropolitan area of Madrid. The 6.7 million inhabitants generate the highest GDP per capita among all autonomous regions (2019 GDP: EUR240bn), contributing more than 19% towards Spain's total GDP, closely followed by the region of Catalonia.

Given the importance of the region to the overall Spanish economy, we consider the likelihood of extraordinary government support to be very high as this would enable the region to continue providing crucial services to the public. The central government has set the precedent for such extraordinary support when it launched the Fondo de Liquidez Autonómico in 2012 in the wake of the financial crisis, the Facilidat Financiera fund in 2015 and the Fondo Covid-19 in 2020. These liquidity and funding support mechanisms allow ACM to access cheap funding in order to help cover budget deficits and finance debt redemptions, if needed. However, since 2013 ACM has not requested any support from the central government and looked towards wholesale funding instead.

Financial Indicators

ACM's budget is primarily comprised of state and locally managed taxes that rose 18.4% yoy in 2020 due to fiscal growth. 86% of raised tax revenues came from the federal state and transferred to the region, 8% was raised directly by the regional government, and the remainder was comprised of non-financial income. The industrial base of the Autonomous Community of Madrid is heavily weighted towards the service sector, which comprises 85% of the total regional economy. Wholesale & retail commerce (incl. hospitality & transportation) account for 24% of the economic base, followed by technical & scientific activities (15%) and public administration (15%).

The latest official data available for the region's GDP stems from 2019, showing that the ACM generated a GDP per capita of EUR35.9k against a national average of EUR26.4k. It is one of the wealthiest and most developed regions of the country, reflected in the lower than average unemployment rate of 12.2% as at 1Q21 (16% Spanish average). Foreign direct investment into the region rose 24% in 2020 to EUR18.3bn and together with the region of Catalonia they account for 88% of the total foreign investment received in Spain.

Comunidad Autonoma de Madrid – Key Data			
EUR	2018	2019	2020
Total debt (bn)	33.4	33.4	34.6
GDP (bn)	230.6	240.7	216.2
Population (m)	6.58	6.64	6.74
GDP per capita (k)	35.2	35.9	35.0
Budget (bn)	n.a.	19.6	23.2
%	2018	2019	2020
Debt to GDP (%)	14.5	13.9	16.0
Unemployment (%)	11.5	10.0	13.5
Public deficit (%)	-0.25	-0.24	-0.05
Self-financing ratio (%)	43.4	71.4	138.3
Gross borrowing need/ Total revenue (%)	16.0	15.5	14.9
Total expenditure/ GDP (%)	8.2	8.4	9.5
Avg. cost of funding (%)	2.16	2.19	1.91
Avg. debt maturity (yrs)	7.4	7.7	8.3

Source: Investor Reports, Moody's

Madrid's budget deficit is well controlled at just EUR117m in 2020 (-0.05% of regional GDP) with the direct debt stock rising 2.6% in 2020 (+0.5% in 2019). At 1Q21, total debt volumes stood at EUR35.3bn, resulting in a manageable Debt/GDP ratio of 16.5%, well below the national average of 27.7%. ACM has benefitted from benign funding conditions in recent years with average funding costs halving to 1.83% at 1H21 over the last decade, close to that of the Spanish Treasury (1.66%).

Covid-related rises in healthcare costs, social support programs and lower tax revenue have strained ACM's financial position, however, this was offset by EUR3.3bn in funds from the central government, granted through the EUR16bn Covid-19 fund. For 2021, the central government committed a further EUR13.5bn to the regions while also allowing Madrid's deficit to increase to 1.1% in 2021 from 0.2% in 2020. Additionally, the Spanish government is expected to receive some EUR69.5bn in grants by 2026 from the European Union's Recovery and Resilience Facility (RRF) as part of the recently approved Next Generation EU fund (NGEU). 40% of these grants will secure Spain's green transition, while 28% will support the drive for greater digitalisation. Additionally, Spain will receive EUR10.9bn in funds from the REACT-EU recovery fund, part of which will support the ACM.

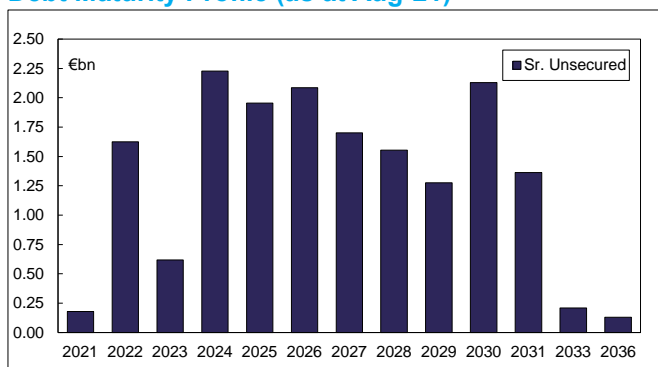
Gross financing needs for 2021 amount to EUR3.09bn (2020: EUR4.9bn), of which 83% are long-term debt redemptions, 14% long-term loans, and 3% others. The preference is for medium to long-term maturities to smoothen the maturity profile towards longer term financing while promoting sustainable finance. Over the past decade, the average debt maturity has gradually increased to 8.03 years from 5.5 back in 2010. The most recent ESG issuance was a EUR1bn sustainable bond that came to market in March 2021, following ACM's inaugural EUR700m green bond launched in May 2020. The region has been issuing ESG themed debt since 2017 across five transactions with outstanding volumes of EUR5.8bn, making it Spain's largest public sector ESG issuer.

Rating agencies' views

Moody's – ACM's ratings, unchanged since April 2018, reflect the region's good fiscal performance. Madrid continues to benefit from a strong economic base, with the highest GDP per capita among Spanish regions. The region's deficit is well controlled and its debt/operating revenue is manageable and consistent with its rating level. Although the coronavirus pandemic has led to increased healthcare costs and lower tax revenue, additional government grants offset the negative impact of the pandemic on the region's finances in 2020. While Madrid's debt/operating revenue has been declining since 2016, Moody's expects an increase in the region's debt burden in 2021 and 2022; however, it will remain manageable for the region. The credit profile is supported by a high likelihood of extraordinary support from the Government of Spain (Baa1; Stable).

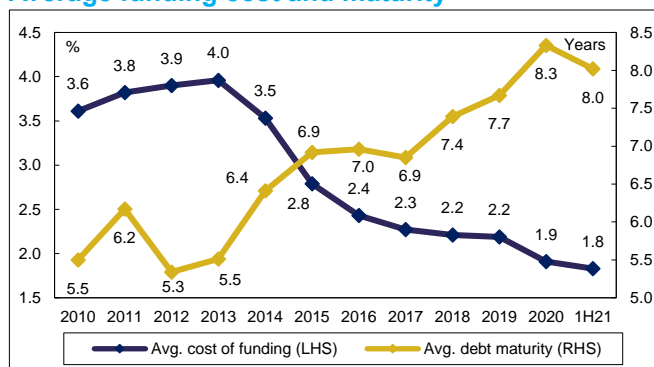
Fitch – In May, Fitch upgraded the long-term issuer profile of ACM from 'BBB-' to 'BBB' with a stable outlook. The upgrade is based on the revision of the region's liability and liquidity robustness to 'Stronger' from 'Midrange' leading to a better-than-average 'Midrange' risk profile. This is combined with Fitch's expectation of a moderate economic liability burden - net adjusted debt (+a pro-rata share of central government debt/regional GDP) at 97% in 2023-2025 and an improving debt payback (net direct risk to operating balance) at 16 years in 2023-2025. The Stable Outlook reflects Fitch's expectation that Madrid's debt metrics will remain in line with the revised rating case.

Debt Maturity Profile (as at Aug-21)



Source: Bloomberg

Average funding cost and maturity



Source: Issuer reports

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Currency	Size (m)	Type	Coupon	Yield	Final Spread (bps)
16/03/2021	Sr. Unsecured (Sustainable)	10Y	EUR	1,000	Fixed	0.42%	0.42%	SPGB + 12

Source: BondRadar

This is an issuer profile and contains factual statements only. All statements are sourced from Comunidad de Madrid's financial reports, which can be found at <https://www.comunidad.madrid/en/inversion/relacion-inversores/presentacion-inversores>

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