Axesor Rating affirms the credit rating of the Autonomous Community of Madrid at A- with stable outlook

The unsolicited credit rating reflects the solid economic growth, above the national average; the high level of income per capita and the recovery of the labour market, together with challenges such as the ageing population and the situation of public finances, with a high volume of debt over current revenues and adjusted liquidity levels.

Unsolicited Credit Rating of the Autonomous Community of Madrid

The unsolicited credit rating of A- with stable outlook of the Autonomous Community of Madrid reflects the positive evolution of the economy, with growth rates that exceed the national average. The high level of income per inhabitant and the continuous recovery of the labour market are also noteworthy. However, it is constrained by the challenge of an ageing population, high seasonality in the labour market and high youth unemployment, as well as a high level of debt over current revenues.

Madrid, January 17th, 2020

Axesor Rating reports that it has reviewed the unsolicited credit rating of the Autonomous Community of Madrid and maintains it at A- with a stable outlook.

The rating is based on the solid economic growth of the regional economy over the last year, above the national average and leading the regional ranking. We expect this situation should maintain in coming years. In line with the slowdown of the Spanish economy, our forecast for 2019 contemplates a deceleration up to 2.8% due to the progressive exhaustion of domestic demand. For 2020 the situation will be similar, with a foreseeable growth of 2.2%, although still exceeding our expectations for the Spanish economy of 2% for 2019 and 1.6% for 2020. We also highlight the rebound in the industrial and tourism sectors, as well as the dynamism of domestic demand thanks to the recovery of private consumption and investment.

The rating highlights the improvements in the labour market, with an unemployment rate that is reaching its lowest level since 2008 (10.26% as of September 2019). Axesor Rating expects it to fall below 10% in 2020. However, the rating remains constrained by the high seasonality and its incidence on the youngest workforce.

We expect the deficit and debt targets to be met in 2019 and 2020, although debt and liquidity levels remain tight. Among its main weaknesses, we highlight the minority situation of the government in the regional parliament as it could make it difficult to approve the budget for 2020.

The challenges of an ageing population are also a factor constraining the rating. A dependency rate of nearly 40% of the population is a challenge to growth potential considering its impact on household consumption and public spending.