FitchRatings

Autonomous Community of the Basque Country

Key Rating Drivers

Rating Derivation Summary: Fitch Ratings assesses the Autonomous Community of the Basque Country's Standalone Credit Profile (SCP) at 'a-', reflecting a combination of a 'High Midrange' risk profile and debt sustainability metrics in the lower band of the 'a' category under our rating-case scenario. No other factor affects the rating.

Risk Profile - 'High Midrange': We assess the Basque Country's key risk factors (KRFs) either as 'Stronger' (revenue robustness and liabilities and liquidity robustness) or 'Midrange' (revenue adjustability, expenditure sustainability, expenditure adjustability and liabilities and liquidity flexibility). The 'High Midrange' risk profile reflects a limited risk that the region's cash flow available for debt service will contract beyond reasonable downturn economic expectations.

Debt Sustainability - 'a' Category: In Fitch's rating-case scenario, the Basque Country's economic liability burden will be 97%-98% in 2024 on a sustained basis and the debt payback ratio, a secondary metric, will remain between 15 and 20 years in 2024. The synthetic debt service coverage (operating balance/debt servicing) will remain weak, well below one year in 2024.

The expected deterioration in debt ratios in the coming years is due to the economic consequences of the coronavirus pandemic, which will affect the region's tax revenue, operating expenditure (opex), capital expenditure (capex) programme and debt.

Ratings not Capped by Sovereign: The Basque Country's rating is not capped by the Spanish sovereign rating (A-/Stable), but instead is driven by the SCP.

ESG Considerations: ESG issues have a minimal impact on the Basque Country's ratings, as reflected in a score of '3'.

Rating Sensitivities

Sovereign Rating: The Basque Country's Issuer Default Rating (IDR) could be downgraded following a downgrade of the sovereign IDR.

Economic Liability Burden; Payback Ratio: A deterioration of the economic liability burden to above 100% or a weakening of the payback ratio towards 25 years on a sustained basis in Fitch's rating case would trigger a downgrade. The Basque Country's IDR could be upgraded following an improvement of the economic liability burden towards 80% accompanied by a payback improvement below 13 years under the rating case.

Covid-19 Impact: A prolonged Covid-19 impact and much slower economic recovery lasting until 2025 would pressure tax receipts. If the Basque Country was unable to proactively reduce expenditure or supplement weaker receipts from increased central government transfers, this could lead to a downward revision of its SCP, which would result in a downgrade of its IDR.

Public Finance
Local and Regional Governments
The Basque Country

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1

Local Currency

Long-Term IDR	A-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile

The Basque Country, with a population of 2.2 million people, has an above-national-average economic profile with GDP per capita of 29.6% in 2019. The industrial sector is strong in the region comprising 22% of its GDP, and unemployment (10%) is lower than Spain's national average (16%).

Financial Data

Autonomous Community of the Basque Country

(EURm)	2019	2024rc
Economic liability burden (%)	**71**	**98**
Payback (x)	6.0	15.0
Synthetic coverage (x)[a]	2.2	0.8
Actual coverage (x)	0.9	0.6
Fiscal debt burden (%)	74.4	108.5
Net adjusted debt	7,949	12,254
Operating balance	1,333	820
Operating revenue	10,683	11,295
Debt service	1,539	1,332
Mortgage-style debt annuity[a]	619	969

rc: Fitch's rating-case scenario
[a] Fitch's calculation (see *Appendix C*)
Source: Fitch Ratings, The Basque Country

Applicable Criteria

International Local and Regional Governments Rating Criteria (October 2020)

Related Research

Fitch Affirms Autonomous Community of Basque Country to 'A-'; Stable Outlook (July 2020)

Coronavirus Puts Pressure on Spanish LRGs (April 2020)

Fitch Rates Autonomous Community of Basque Country's Sustainable Bond 'A-' (November 2020)

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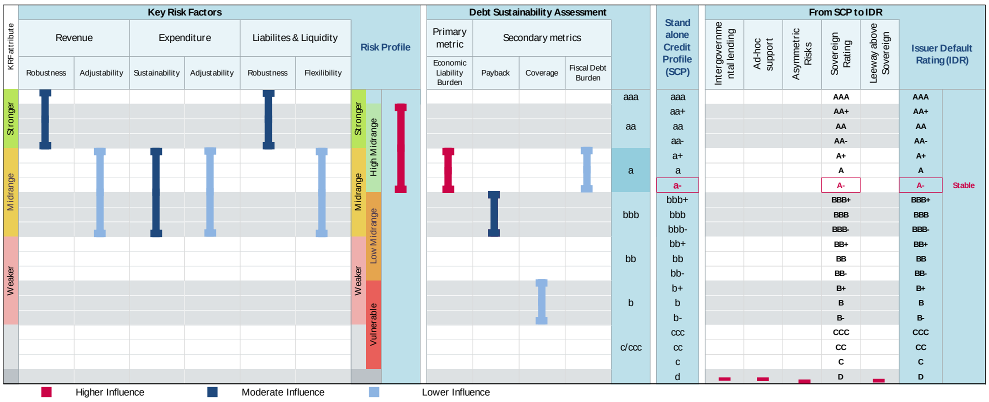
Rating Synopsis

The Basque Country's Long-Term IDR of 'A-' is driven by the region's SCP of 'a-'. This reflects a combination of a 'High Midrange' risk profile and debt sustainability metrics that Fitch assesses in the 'a' category under its rating-case scenario. The Basque Country's IDR is not capped by the sovereign, and no other factors affect the final ratings.

Rating Building Blocks Overview



Issuer Profile

The Basque Country is a region in the north of Spain, considered as an Autonomous Community with a special status under the Spanish Constitution in recognition of historical rights, which grant wide fiscal powers to the region.

Fitch classifies Spanish autonomous communities as 'Type A' local and regional governments (LRGs), given that their main spending responsibilities cover health, education and social spending, with a material share of general government expenditure and debt and fiscal imbalances.

The Basque Country is a wealthy region by national and international standards, with GDP per capita estimated at 29.2% in 2019 – above Spain's average. The industrial sector represents 22% of GDP with a focus on high-value-added manufacturing and technological sectors.

Unemployment is 10%, lower than national average (16%), and the region's population is growing at a moderate pace with 2.2 million inhabitants (0.58% annual growth in 2020).

Institutional Framework

The Basque Country's institutional framework differs from the rest of the country, in recognition of the region's historical rights that give it much greater autonomy than common regions in Spain.

Article 41.1 of the Statute of Autonomy of the Basque Country of 1979 (Organic Law 3/1979 of December 18) states: "The tax relations between the State and the Basque Country will be regulated by the traditional foral system of the Economic Agreement or Contracts". Article 41.2 establishes its content, with the definition of the quota as the most important aspect: "d) The Basque Country's transfer to the State will consist of an overall quota, made up of the individual quotas of each of its Territories, as a contribution to all State costs that are not assumed by the Autonomous Community".

The central government grants the Basque Country, through its Historical Territories or provinces, the rights to collect and administer all taxes generated within the Basque territory, which pays for those responsibilities that are not transferred to the Basque region due to their national importance such as justice, defending, foreign and institutional relations and national administration.

The Basque Country is primarily responsible for health and education, as well as matters related to inter-regional projects or developments affecting more than one of its Historical Territories (Gipuzkoa, Bizkaia and Alava).

The Basque Country keeps all of its locally generated tax revenue, instead of transferring part to the central government in return for transfers from the national funding system. The Basque Country is one of Spain's Autonomous Communities, while its Historical Territories are

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
06 Nov 20	A-	A-
19 Jul 19[a]	A-	A-
01 Sep 17	BBB+	BBB+
12 Sep 14[a]	BBB+	BBB+
08 Jun 12	A	A

[a] The Outlook was revised to Positive from Stable.
Source: Fitch Ratings

Autonomous Community of Basque Country

Source: Fitch Ratings

Socioeconomic Indicators

	The Basque Country	Spain
Population (m)	2.2	47.5
(Year 2001 – Year 2020) average annual population growth (%)	0.28	0.8
GDP (2019) (m EUR)	74,496	1,244,772
GDP per capita, (2019) (EUR)	34,142	26,426
Unemployment rate, 4Q20 (%)	10.0	16.1

Source: Fitch Ratings, National Statistics Institute government by local regulation. The Basque Country, by law, is solely responsible for the financial results of the region, whether good or bad, and for keeping the region financially healthy.

An agreement between the Basque Country and the central government establishes the method to calculate the yearly payments to the central government for the functions developed by it, which are based on the expenses incurred despite the tax revenues collected within the Basque Country.

Historical Territories collect all taxes. The object and nature of the taxes must be coherent with the national government's but the tax rate and the base are decided by the Historical Territories. The taxes to be determined by the Historical Territories are personal income tax (PIT), corporate income tax, gift & inheritance tax, wealth and wealth transfer and legal documents. On the other hand, VAT and special taxes are set by the central government to avoid creating regional disparities.

Each Historical Territory is able to regulate all transferred taxes. However, to avoid disparities between the three territories, the Basque Country created a body (Joint Committee on the Economic Agreement) for the harmonisation, coordination and fiscal collaboration between the provinces and the region consisting of three representatives from the Autonomous Community and one representant for each Historical Territory, which are in charge of agreement on:

- Modifications to the Economic Agreement (between the Basque Country and the national government)
- Coordination and cooperation commitments over budgetary stability
- Methodology used to set the five-year quota
- Appointment and governance of members of the Arbitration Board (in charge of managing relations with national government)
- Agreements on tax and finance deemed necessary at any given time for the correct application and implementation of the provisions contained in the Economic Agreement

Once the Historical Territories have collected their respective taxes, they transfer a proportion to the Basque Country and its municipalities. The share for the Basque government is determined for a five-year period. The taxes and revenue not transferred from the Historical Territories' budgets.

Risk Profile: 'High Midrange'

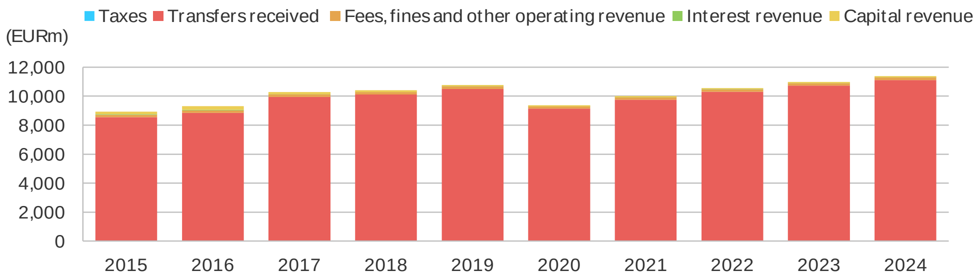
We assess the Basque Country's risk profile as 'High Midrange'. This reflects an assessment of 'Stronger' for KRFs revenue robustness and liabilities and liquidity robustness, and 'Midrange' for KRFs revenue adjustability, expenditure sustainability, expenditure adjustability and liabilities and liquidity flexibility. The 'High Midrange' risk profile reflects a limited risk that the region's cash flow available for debt service will contract beyond reasonable downturn economic expectations.

High Midrange – Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
High Midrange	Stronger	Midrange	Midrange	Midrange	Stronger	Midrange

Source: Fitch Ratings

Revenue Structure



Source: Fitch Ratings, Autonomous Community of the Basque Country

Revenue Robustness: 'Stronger'

Revenue Volatility

Fitch views the Basque Country's potential revenue volatility as moderate; its operating revenue volatility hovered at about 11.6% for the past 10 years. However, this volatility is affected by a full economic cycle, including the downturn and upturn economic changes that were highly influenced by the 2009 crisis, which was especially strong in Spain (National GDP volatility was 6.7% over the same period).

Almost all revenue is from transfers from the Historical Territories, which collect taxes such as PIT and VAT; the latter has led to moderate revenue volatility due to the particularities and time lag in its treatment of exports. Corporate income tax (CIT) partly counteracts the economic cycle as it is collected a year and half after it is generated, smoothing steep production changes.

The region's dependence on Historical Territories (all rated 'AA-') for a material proportion of revenue (98% of operating revenue in 2019) drives the 'Strong' assessment of the robustness of the Basque Country's revenue framework.

Revenue Sources and Growth Prospects

The Basque Country's revenue is derived from transfers that are indirectly made up of a diversified basket of taxes, which includes both direct and indirect taxes collected by the provinces, such as PIT, VAT, CIT, gift & inheritance tax, wealth tax and/or special taxes (gas, electricity, gambling, tobacco, alcohol, etc). Almost all of these taxes (99%) are linked to GDP. Revenue growth has exceeded GDP growth over the past 10 years and the region's socio-economic profile is also above the national average.

In Fitch's view, the economic downturn, triggered by the coronavirus pandemic, will hit the revenue in 2020 with a smooth recovery afterwards. The economic downturn is factored into our debt sustainability assessment through our rating-case scenario, but will not affect the revenue robustness assessment.

Revenue Adjustability: 'Midrange'

Fiscal Flexibility

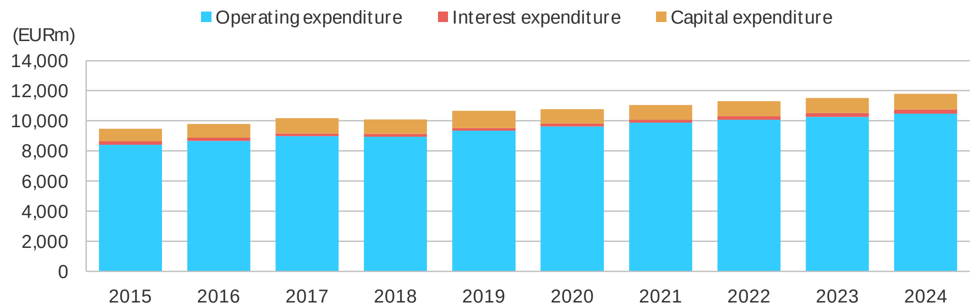
We assess the Basque Country's ability to generate additional revenue in response to possible economic downturns as 'Midrange'. The Basque Country's revenue is indirectly related to taxes subject to changes by the provinces, thus, Fitch factors in its assessment the provinces' ability to increase or decrease those taxes.

The Basque Country created a body to harmonise fiscal collaboration with its provinces, which enables it to negotiate over taxes and revenue to an extent.

Affordability

Fitch considers the affordability of additional taxation as 'Strong', as the additional tax bill will represent a marginal proportion of the inhabitants' average income.

Expenditure Structure



Source: Fitch Ratings, Autonomous Community of the Basque Country

Revenue Breakdown, 2019

	Operating revenue (%)	Total revenue (%)
Other indirect taxes	0.0	
Transfers	98.3	-
Fees & fines	1.7	-
Operating revenue		**99.3**
Financial revenue	-	**0.2**
Capital revenue	-	**0.5**

Source: Fitch Ratings, The Basque Country

Expenditure Sustainability: 'Midrange'

Moderate Ability to Control Expenditure

The Basque Country has a moderate control over expenditure growth, which has generally been lower than revenue growth (following some ups and downs prior to 2012 mainly due to changes in institutional transfers and a deep economic crisis). Opex growth has been lower than operating revenue growth over 2009-2019 (CAGR expenses: 0.8% vs revenue: 3.8%) as well as 2014-2019 (CAGR expenses: 2.2% vs revenue: 4.5%).

Opex growth was higher than revenue until 2010, mainly because the region increased expenditure to promote economic activity following the 2008-2009 financial crisis.

Moderately Cyclical and Non-Cyclical Spending

The Basque Country's responsibilities are moderately correlated to the economic cycle. They are non-cyclical in nature (91% of total expenditure (totex), excluding debt repayment in 2018), and essentially constitute education and health (65% of totex; excluding debt repayment in 2018).

Cyclical spending, which is mainly related to social spending and jobs, is just 9% of totex. This spending could increase under an economic downturn that negatively affects the labour market. Therefore, we expect cyclical spending to increase in 2020-2021 due to the economic recession triggered by the pandemic.

Expenditure Adjustability: 'Midrange'

Budget Balance Rules in Place

The Basque Country is subject to three fiscal targets (deficit, debt and spending-to-GDP) imposed by the central government on all Spanish autonomous communities. If it fails to adhere to these targets, the region could be subject to sanctions.

The region's spending should grow below nominal GDP with growth not exceeding the spending limit as per the Budgetary Stability Law.

Since the law was introduced in 2012, the region has recorded narrow deficits, though without fully complying with the budgetary rules.

Cost Flexibility

The Basque Country has some inflexible costs such as personnel (20% of totex, excluding debt repayment) as the autonomous communities cannot reduce the number of civil servants, and the central government sets the base salary and legal headcount replacement. Also, the region's personnel expenses are less than other autonomous communities' because health services are provided by an autonomous body (covering about 50% of personnel expenses), thus some of this expenditure is included in current transfers.

Mandatory expenditure forms 86% of totex, excluding capex. It includes responsibilities related to agriculture, social spending, culture promotion, tax inspection and collection-related duties as well as transportation, public administration, employment and equality and infrastructure and economic development within respective Historical Territories.

However, there is room for reducing mandatory expenditure as the level and quality of services provided in the region can vary in such a way that some spending can be cut without compromising the provision of the service itself. This is evidenced by the reduction of expenditure after the 2009 financial crisis where expenditure was adjusted to the decline in revenue.

Liabilities & Liquidity Robustness: 'Stronger'

Debt Framework

The Basque Country is subject to a solid national framework for debt and liquidity management with prudential borrowing limits, set out in the Budgetary Stability Law. The region's compliance with these targets is ensured through agreements between the region and its Historical Territories. Hence, the Historical Territories are indirectly subject to the same requirements as the Autonomous Community, which are:

Expenditure Breakdown, 2019

	Opex (%)	Totex, excluding debt repayment (%)
Health[a]		37.7
Education[a]		27.1
Social[a]		5.9
Infraestructure[a]		3.9
Employee[a]		3.5
Agriculture[a]		0.8
Other[a]		21.1
Staff costs	23.1	-
Goods and services	39.6	-
Current transfers	37.3	
Opex	**100**	**87.6**
Financial charges	**-**	**1.7**
Capex	**-**	**10.8**

[a] Ministry of Finance (2018 data)
Source: Fitch Ratings, The Basque Country

Debt Analysis

	End-2019
Fixed rate (% of direct debt)	74
Short term debt (% of direct debt)	0
Apparent cost of debt (%)	2.0
Average maturity (year)	5.6
Debt service (2020e, EURm)	870
Operating balance (2020e, EURm)	-336

Source: Fitch Ratings, The Basque Country

Liquidity

(EURm)	End-2019
Available cash	1,656
Unrestricted cash[a]	696
Undrawn committed credit lines	800

[a] Fitch's calculation (see *Appendix C*)
Source: Fitch Ratings, The Basque Country

- State authorisation is required for any issuance/hiring of debt in foreign currency. This authorisation is extended to any short- or long-term debt operation, in case the region is not complying with any of the Budget Stability Law objectives
- Compliance with the targets set for the next three years regarding non-financial spending, maximum deficit and debt-to-current revenue. There is also a limit on the average payment period for suppliers
- Limiting off-debt guarantees to 30% of current revenue
- Certain financial products are prohibited under the Financial Prudential Law

The central government checks compliance by reviewing debt information on a monthly basis.

The Basque Country's liabilities are low risk given that it has a conservative debt structure, no short-term debt and all its debt is denominated in euros with 74% at fixed interest rates, low maturity concentration and an average life of 5.6 years. The average cost of debt was 1.7% in 2019, and debt service is usually fully covered by operating balance, except for our assumption in 2020 due to revenue decline.

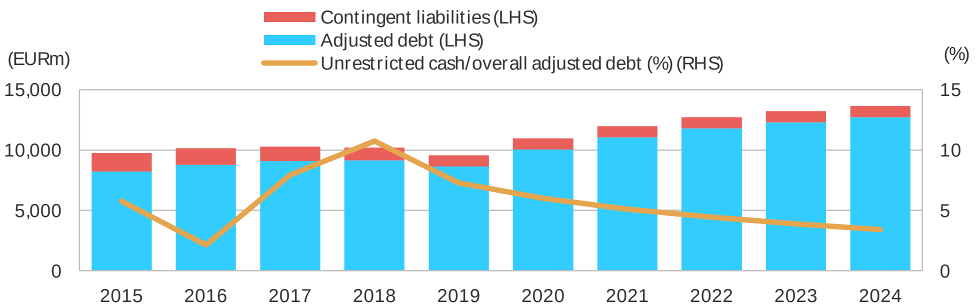
The Basque Country's share of floating interest rates is characteristically higher than other autonomous communities' as a result of not resorting to the state's financing mechanisms . However, Fitch does not see this feature as high risk, given the Basque Country's debt trend. The new debt hired is increasing the share of fixed interest rates and the average life of debt is rising. The Basque Country has a good reputation among the banking sector; therefore, Fitch thinks that it could access financial products to cover this risk under a rising interest-rate-reference scenario.

Contingent Liabilities

The Basque Country's indirect debt is compounded by public companies mainly dedicated to social housing and social promotion, a gas company and the Public Finance Institute.

Contingent debt decreased to EUR590 million in 2019 from EUR901 million in 2015 and is not a big part of overall indebtedness. Guarantees reduced as well to EUR338 million from EUR627 million.

Overall Adjusted Debt Structure



Source: Fitch Ratings, Autonomous Community of the Basque Country

Liabilities & Liquidity Flexibility: 'Midrange'

Internal Liquidity

Available cash is EUR1,656 million, of which Fitch offsets EUR960 million to neutralise payables in excess of receivables registered at end-2019. Hence, unrestricted cash is EUR696 million, the credit lines are adequate and the share of market debt (47% of the region's direct debt) shows that the region has access to markets or other financial products, if needed.

Cash flow is stable and predictable with four payments to be received from Historical Territories, which collect taxes on a monthly basis.

Market Liquidity

The region has at its disposal credit lines of EUR800 million held in Spanish banks rated between 'BBB-' and 'A-', which corresponds to a 'Midrange' assessment of market liquidity.

Debt Sustainability: 'a'

Autonomous Community of the Basque Country - Debt Sustainability Assessment

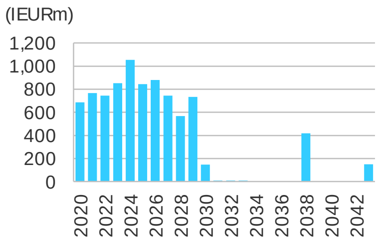
	Primary metric	Secondary metrics		
	Economic liability burden (%)	Payback (x)	Coverage (x)	Fiscal debt burden (%)
aaa	X ≤ 40	X ≤ 5	X >= 4	X ≤ 50
aa	40 < X ≤ 70	5 < X ≤ 9	2 ≤ X < 4	50 < X ≤ 100
a	70 < X ≤ 100	9 < X ≤ 13	1.5 ≤ X < 2	100 < X ≤ 150
bbb	100 < X ≤ 140	13 < X ≤ 18	1.2 ≤ X < 1.5	150 < X ≤ 200
bb	140 < X ≤ 180	18 < X ≤ 25	1 ≤ X < 1.2	200 < X ≤ 250
b	X >180	X > 25	X < 1	X > 250

Source: Fitch Ratings

We assess the Basque Country's debt sustainability in the 'a' category. In our rating-case scenario, we expect the economic liability burden to be 96%-98% in the medium term, the payback ratio (net adjusted debt/operating balance) to be 20x-15x, the coverage ratio (operating balance/debt service; Fitch's synthetic calculation) to be below 1x and the fiscal debt burden (net adjusted debt/operating revenue) to be close to 108%.

We use the synthetic calculation as the Basque Country's since the availability of long-term financing is feasible. Fitch expects the region to be able to contract debt instruments at very large maturities; the last issuance was agreed in 2020 at a maturity of more than 10 years (for more details, please see *Fitch Rates Autonomous Community of Basque Country's Sustainable Bond 'A-'*).

Debt Amortisation Schedule 2019

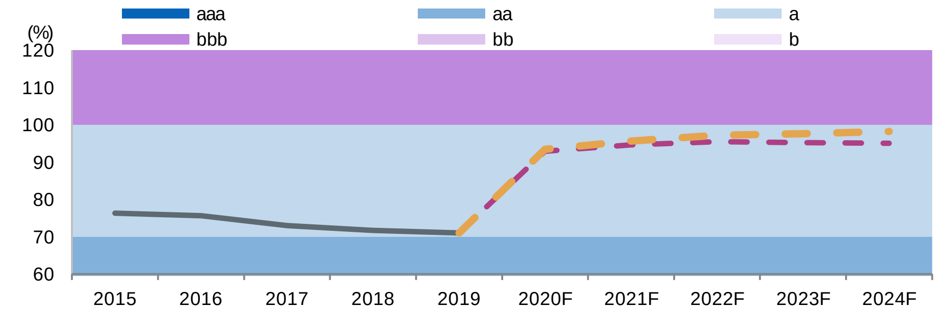


Source: Fitch Ratings, Autonomous Community of the Basque Country

Debt Sustainability Ratios:

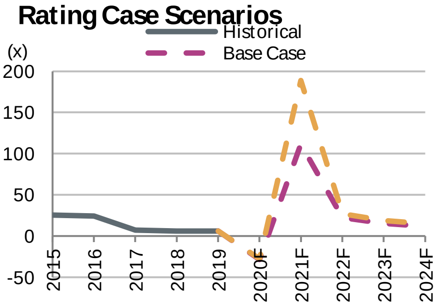
- **Payback:** Net adjusted debt/Operating balance (x)
- **Fiscal debt burden:** Net adjusted debt/operating revenue (%)
- **Synthetic DSCR:** Operating balance/mortgage style debt annuity; Fitch's synthetic calculation (x; see *Appendix C*)

Economic Liability Burden - Fitch's Base and Rating Case Scenarios



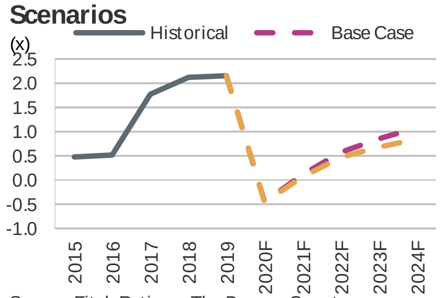
Source: Fitch Ratings, Autonomous Community of the Basque Country

Payback Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, The Basque Country

Synthetic Debt Service Coverage Ratio - Fitch's Base and Rating Case Scenarios



Source: Fitch Ratings, The Basque Country

Fitch's rating-case scenario ends in 2024 and is based on conservative assumptions as reflected in *Fitch's Base and Rating Cases Main Assumptions* table.

We have revised our rating-case scenario to take into account the coronavirus-driven economic recession. For the Basque Country, the main expected effects are: a sharp drop of 1300pb in operating revenue in 2020 with a recovery of 680bp in 2021.

Operating Performance and Debt Ratios

The Basque Country has posted operating balances averaging EUR892 million for the past five years (9% operating margin), mainly explained by operating revenue growth and the change of institutional transfers in 2017. The operating balance averaged EUR1,267 million over the past three years.

The Basque Country's operating revenue CAGR was high at 4.5% in 2015-2019, driven by a tax increase boosted by GDP growth and labour market improvements.

The operating revenue's evolution will mainly depend on transfers received from the Historical Territories (98.3% of operating revenue in 2019) and fees and fines (1.7% in 2019) linked to the economic cycle. The amount of funds to be received as transfers has been stable in recent years and is calculated by a percentage of distribution reducing the risk of halving the resources for regional use.

The Basque Country's economic liability burden was low at 71%, while the payback ratio was very satisfactory at 6.0x in 2019. It has a strong synthetic debt service coverage ratio (2.2x in 2019) and a low fiscal debt burden (74% in 2019).

The region's expected operating revenue growth is 0.2% above Spain's expected nominal GDP growth for 2020-2024. It incorporates a particular negative assumption regarding tax collection by the Historical Territories due to the economic downturn in 2020.

In our rating-case scenario, the operating balance would sharply deteriorate in 2020 at negative EUR336 million, as a result of our assumption of a drop in transfers. However, it will recover to EUR819 million in 2024.

Debt Sustainability Ratios – Fitch's Rating-Case Scenario

	2019	2024rc
Economic liability burden (%)	71.0	98.2
Payback (x)	6.0	15.0
Synthetic coverage (x)	2.2	0.8
Fiscal debt burden (%)	74.4	108.5

rc: Fitch's rating case
Source: Fitch Ratings, The Basque Country

Fitch's Rating-Case Scenario:

The rating case is a through-the-cycle scenario that incorporates a combination of revenue, cost or financial risk stresses.

We assume a 13% drop in operating revenue in 2020, based on a reduction of funds from taxes as a consequence of higher unemployment and reduction of profit generated. In 2021, we expect operating revenue to recover by 6.8% with the progressive reduction of unemployment. However, much will depend on the national economic rebound and the recovery of international commerce, which will drive tax proceeds as of 2021.

Capex Program

The Basque Country's capex is moderate at EUR974 million a year on average in 2015-2019 (11% of totex in 2019).

In our rating-case scenario, we assume capex to keep increasing to EUR992 million on average (8% of totex), and the capital balance to be close to negative EUR900 million a year. Accordingly, we expect the region's net adjusted debt to grow to about EUR12,250 million at end-2024 from EUR7,949 million at end-2019, as the Basque Country will increase its capex due to lower revenue. Much will depend on operating revenue growth, the province's ability to recover pre-pandemic tax levels and its decision on investments and opex.

Fitch's Base and Rating Cases Main Assumptions

	2015 - 2019 CAGR	2020-2024 CAGR	
		Base case	Rating case
National nominal GDP growth (Fitch's assumptions)[a]	*3.8*	*1.5*	-
Operating revenue growth (%)	4.5	1.3	1.1
Tax revenue growth (%)	1.0	1.3	1.1
Central government primary balance/GDP (%)[a]			-
Transfers received growth (%)	4.2	1.3	1.1
GDP deflator[a]	*1.0*	1.5	-
Operating expenditure growth (%)	2.1	2.1	2.3
Net capital expenditure (average per year; EURm)	-814	-909	-909
Sovereign benchmark (date)[a]			-
Apparent cost of debt (%), 2024	2.0	1.9	2.1

[a] Macro assumptions reflect Fitch's *Global Economic Outlook* (published on 7 September 2020) for 2020-2022.
Source: Fitch Ratings, The Basque Country

Other Rating Factors

The Basque Country's final rating is not capped by the sovereign rating, but is driven by the region's SCP. The Basque Country benefits from a special tax arrangement under the Spanish Constitution, whereby it has wide fiscal powers, is entitled to levy and collect taxes in the province and has the authority to set rates on a number of taxes, primarily PIT.

This gives the region strong fiscal flexibility and is a positive rating factor, which enhances the ability of the region to be rated above the sovereign. However, to be rated above the sovereign, the SCP must be at least two notches above the sovereign's IDR.

From SCP to IDR: Factors Beyond the SCP

		Support						
SCP	Sovereign rating	Intergovern. financing	Ad-hoc support	Floor	Asymmetric risks	Cap	Notches above the sovereign	IDR
a-	A-	-	-	-	-	A-	-	A-

Source: Fitch Ratings

Peer Analysis

The Basque Country compares well with national peers the Autonomous Communities of Madrid and the Canary Islands, but it has a higher risk profile, which enables the region to have a higher SCP. The Basque Country's economic liability burden is similar to that of Madrid, which is also at the lower end of the rating category. This is the same for international peers who are also at the lower end of their rating category, excluding the Canadian provinces that have a stronger risk profile.

The Canary Islands' economic liability burden is in a lower category, but Fitch applies a criteria variation in view of a structurally stronger payback ratio.

Peer Table

Spanish Peers	Risk Profile	Primary Metric (x)	SCP	IDR	Outlook
Autonomous Community of Madrid	Midrange	96	bbb-	BBB-	Stable
Autonomous Community of the Canary Islands	Midrange	110	bbb-	BBB-	Stable
Autonomous Community of the Basque Country	High Midrange	98	a-	A-	Stable
International Peers					
Province of Quebec	Stronger	98	aa-	AA-	Stable
Province of Ontario	Stronger	97	aa-	AA-	Stable
State of Queensland	High Midrange	49	aa	AA	Stable

Source: Fitch Ratings

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit https://www.fitchratings.com/site/esg.

Appendix A: Financial Data

Autonomous Community of the Basque Country

(EURm)	31 Dec 16 Original	31 Dec 17 Original	31 Dec 18 Original	31 Dec 19 Original	31 Dec 20 Rating case	31 Dec 24 Rating case
Appendix A - Financial Data						
Fiscal performance						
Taxes	4	4	4	4	4	4
Transfers received	8,838	9,944	10,100	10,499	9,134	11,100
Fees, fines and other operating revenues	182	178	170	180	156	191
Operating revenue	9,023	10,126	10,274	10,683	9,294	11,295
Operating expenditure	-8,669	-8,980	-8,952	-9,350	-9,630	-10,475
Operating balance	354	1,147	1,322	1,333	-336	820
Interest revenue	36	2	2	3	3	3
Interest expenditure	-202	-185	-180	-179	-184	-277
Current balance	189	963	1,143	1,158	-517	546
Capital revenue	241	161	142	77	79	87
Capital expenditure	-922	-1,005	-971	-1,151	-951	-1,051
Capital balance	-681	-844	-829	-1,074	-872	-964
Total revenue	9,300	10,290	10,417	10,764	9,376	11,385
Total expenditure	-9,792	-10,170	-10,103	-10,679	-10,765	-11,803
Surplus (deficit) before net financing	-492	120	315	85	-1,389	-418
New direct debt borrowing	1,106	975	1,274	871	2,075	1,464
Direct debt repayment	-572	-654	-1,215	-1,360	-686	-1,055
Net direct debt movement	534	321	59	-489	1,389	409
Overall results	42	441	374	-405	0	-9
Debt and liquidity						
Short-term debt	0	0	0	0	0	0
Long-term debt	8,765	9,082	9,134	8,645	10,034	12,721
Intergovernmental debt	0	0	0	0	0	0
Direct debt	8,765	9,082	9,134	8,645	10,034	12,721
Other Fitch-classified debt	0	0	0	0	0	0
Adjusted debt	8,765	9,082	9,134	8,645	10,034	12,721
Guarantees issued (excluding adjusted debt portion)	538	466	345	338	338	338
Majority-owned GRE debt and other contingent liabilities	855	740	740	590	590	590
Overall adjusted debt	10,158	10,288	10,219	9,573	10,962	13,649
Total cash, liquid deposits, and sinking funds	616	912	1,526	1,656	1,657	1,617
Restricted cash	399	96	428	960	998	1,150
Unrestricted cash	217	817	1,098	696	659	467
Net adjusted debt	8,548	8,265	8,036	7,949	9,375	12,254

Autonomous Community of the Basque Country

(EURm)	31 Dec 16 Original	31 Dec 17 Original	31 Dec 18 Original	31 Dec 19 Original	31 Dec 20 Rating case	31 Dec 24 Rating case
Net overall debt	9,941	9,471	9,121	8,877	10,303	13,182
Enhanced net adjusted debt	8,548	8,265	8,036	7,949	9,375	12,254
Enhanced net overall debt	9,941	9,471	9,121	8,877	10,303	13,182
Memo						
Debt in foreign currency/ direct debt (%)	0.0	0.0	0.0	0.0	-	-
Issued debt/direct debt (%)	45.0	44.3	44.0	47.1	-	-
Floating interest rate debt/direct debt (%)	31.4	31.4	25.3	25.7	-	-

Source: Fitch Ratings, The Basque Country

Appendix B: Financial Ratios

Autonomous Community of the Basque Country

	31 Dec 16 Original	31 Dec 17 Original	31 Dec 18 Original	31 Dec 19 Original	31 Dec 20 Rating case	31 Dec 24 Rating case
Appendix B - Financial Ratios						
Fiscal performance ratios						
Operating balance/operating revenue (%)	3.9	11.3	12.9	12.5	-3.6	7.3
Current balance/current revenue (%)	2.1	9.5	11.1	10.8	-5.6	4.8
Operating revenue growth (annual % change)	3.4	12.2	1.5	4.0	-13.0	3.6
Operating expenditure growth (annual % change)	2.9	3.6	-0.3	4.4	3.0	2.0
Surplus (deficit) before net financing/total revenue (%)	-5.3	1.2	3.0	0.8	-14.8	-3.7
Surplus (deficit) before net financing/GDP (%)	-0.7	0.2	0.4	0.1	-2.2	-0.5
Total revenue growth (annual % change)	4.0	10.6	1.2	3.3	-12.9	3.6
Total expenditure growth (annual % change)	3.3	3.9	-0.7	5.7	0.8	2.4
Debt ratios - type A						
Primary metrics						
Economic liability burden (%)	75.6	72.9	71.7	71.0	93.4	98.2
Enhanced economic liability burden (%)	75.6	72.9	71.7	71.0	93.4	98.2
Secondary metrics						
Payback ratio (x)	24.1	7.2	6.1	6.0	-27.9	14.9
Overall payback ratio (x)	28.0	8.3	6.9	6.7	-30.7	16.1
Fiscal debt burden (%)	94.7	81.6	78.2	74.4	100.9	108.5
Synthetic debt service coverage ratio (x)	0.5	1.8	2.1	2.2	-0.5	0.8
Actual debt service coverage ratio (x)	0.5	1.4	0.9	0.9	-0.4	0.6
Other debt ratios						
Liquidity coverage ratio (x)	1.2	1.6	1.5	1.6	0.4	-
Direct debt maturing in one year/total direct debt (%)	0.0	10.4	9.1	7.9	-	-

Autonomous Community of the Basque Country

	31 Dec 16 Original	31 Dec 17 Original	31 Dec 18 Original	31 Dec 19 Original	31 Dec 20 Rating case	31 Dec 24 Rating case
Direct debt (annual % change)	6.5	3.6	0.6	-5.4	16.1	3.3
Apparent cost of direct debt (interest paid/direct debt) (%)	2.4	2.1	2.0	2.0	2.0	2.2
Revenue ratios						
Tax revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers received/total revenue (%)	95.0	96.6	97.0	97.5	97.4	97.5
Interest revenue/total revenue (%)	0.4	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue (%)	2.6	1.6	1.4	0.7	0.8	0.8
Expenditure ratios						
Staff expenditure/total expenditure (%)	20.1	19.9	20.2	20.2	-	-
Current transfers made/total expenditure (%)	33.8	34.5	33.5	32.6	-	-
Interest expenditure/total expenditure (%)	2.1	1.8	1.8	1.7	1.7	2.3
Capital expenditure/total expenditure (%)	9.4	9.9	9.6	10.8	8.8	8.9

Source: Fitch Ratings, The Basque Country

Appendix C: Data Adjustments

Net Adjusted Debt Calculation

- Fitch's net adjusted debt is the Basque Country's general administration financial debt including debt stock of the autonomous bodies and fully owned public companies (EUR8,645 million at end-2019) less unrestricted cash.
- The region's unrestricted cash was EUR696 million at end-2019. Fitch considers EUR960 million were restricted cash, which correspond to the gap between receivables (net of provisions difficult-to-collect revenue) and payables.

Synthetic Coverage Calculation

Fitch's synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity's net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess the Basque Country's debt sustainability.

Mortgage-Style Debt Annuity Calculation

	2019	2024rc
Net adjusted debt (EURm)	7,949	12,254
Apparent cost of debt (%)	2.0%	2.2%
Amortisation period (years)	15	15
Mortgage-style debt annuity (EURm)	**619**	**969**

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Autonomous Community of the Basque Country

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