FitchRatings

Public Finance
Local and Regional Governments
Spain

Autonomous Community of 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.

Key Rating Drivers

Ratings Upgraded: The ratings upgrade reflects the Autonomous Community of the Basque Country's better-than-expected 2021 preliminary results. Its sound budgetary performance drove Fitch Ratings' upward revision of the region's Standalone Credit Profile (SCP) to 'a+' from 'a-'. Its debt payback ratio improved to between six and nine years in the medium term, from between 11 and 13 in our previous review, after it reported in 2021 its highest operating balance of the past 10 years.

The SCP, which is in line with international peers', reflects our 'High Midrange' assessment of risk profile and an 'a' debt-sustainability assessment. We do not apply any asymmetric risk. The SCP is two notches above the Spanish sovereign's 'A-' IDRs, which under our criteria, allows the Basque Country's Issuer Default Rating (IDR) to be one notch above the sovereign's. The Stable Outlook reflects our expectation that its operating performance and debt metrics will remain in line with the IDRs and 'A' rated peers in the medium term.

Risk Profile – 'High-Midrange': The Basque Country's risk profile reflects a combination of two 'Strong' and four 'Midrange' attributes on six key risk factors. This assessment reflects Fitch's view of a low risk, relative to international peers, that the region's ability to cover debt service with its operating balance will weaken unexpectedly over the forecast horizon, either because of lower-than-expected revenue or higher-than-expected expenditure, or because of an unanticipated rise in liabilities or debt-service requirements.

Debt Sustainability – 'a' Category: The assessment reflects a lower economic liability burden (primary metric) below 92% in 2026 (2020: 95%). We forecast secondary metrics – the payback ratio (net adjusted debt/operating balance) and synthetic debt service coverage (operating balance/mortgage-style debt annuity) – will improve consistently between 6x to 9x and around 1.8x, respectively, in the final years of the rating case. These improved metrics, combined with the primary metric, result in improved debt sustainability in the upper end of the 'a' category.

Above the Sovereign Rating: The Basque Country is eligible to be rated above the sovereign on the assumption that its special institutional framework protects its resources generation from any intervention of the central government. This protection is reflected and backed by constitutional rank. As such, the Basque Country is rated one notch above the sovereign as per its strong SCP at 'a+'.

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

Rating Sensitivities

Improved Debt Metrics: The Basque Country's IDRs could be upgraded following a sustained improvement of the payback ratio to below five years under Fitch's rating case.

Sovereign Rating or Higher Payback: The Basque Country's IDRs could be downgraded following a downgrade of the Spanish sovereign ratings. Deterioration of the payback ratio to above 11 years on a sustained basis in Fitch's rating case would also trigger a downgrade.

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
Debt Ratings	
Senior Unsecured Debt - Long-Term Rating	A

Issuer Profile Summary

With a population of 2.2 million people, the Basque Country has an above-national average economic profile, with GDP per capita 28% higher than national average in 2020. It has a strong industrial sector, which comprises 21% of its GDP, and unemployment (8.4%) is lower than Spain's average (13.3%).

Financial Data Summary

Autonomous Community of the Basque Country

(EURm)	FY21	FY26rc
Economic liability burden (%)	94.5	91.4
Payback ratio (x)	5.8	5.8
Synthetic coverage (x)	2.3	2.2
Fiscal debt burden (%)	68.8	66.1
Net adjusted debt	8,398	9,080
Operating balance	1,455	1,575
Operating revenue	12,215	13,743
Debt service	816	1,177

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

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Spanish Autonomous Communities Under Common Regime - Peer Review 2021 (October 2021)

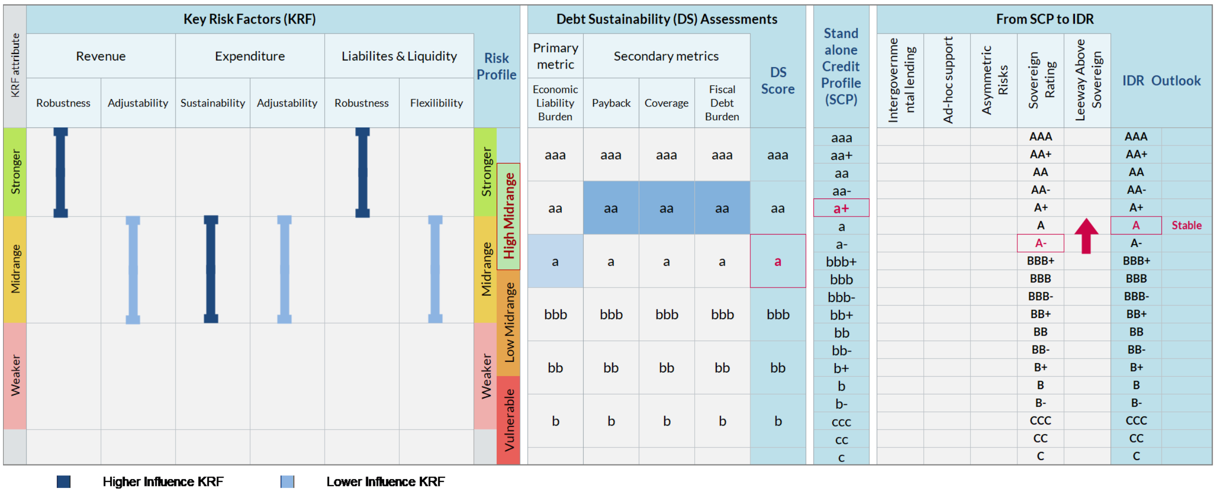
Analysts

Jorge Espinosa
+34 91 308 6811
jorge.espinosa@fitchratings.com

Charlelie Lecanu
+34 93 323 8407
charlelie.lecanu@fitchratings.com

Rating Synopsis

Autonomous Community of Basque Country Rating Derivation Summary



The six key risk factors, combined according to their relative importance, collectively represent the Risk Profile of the LRG. The Risk Profile and Debt Sustainability assessments, which measure the local and regional government's (LRG) debt burden and debt service requirements amid a reasonable economic or financial downturn over the rating horizon, are combined in an SCP. This, together with some additional factors not captured in the SCP, such as extraordinary support or rating cap, produces the IDR.

Issuer Profile

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. It is ruled by the Economic Agreement and it is protected by the Constitution.

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, defence, 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).

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. This determination, or other interactions between the regional government and the central government or Historical Territories, is made within the Joint Committee on the Economic Agreement (Comisión Mixta del Concierto Económico), which comprises representatives of the three levels of government (Basque Country, Historical Territories, national).

Socioeconomic Profile

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

The Basque Country, in the north of Spain, is a wealthy region by national and international standards, with GDP per capita estimated at EUR30,401 in 2020 – 28% above Spain's average.

The Basque Country has a developed economy: its tertiary sector is the largest (hospitality, real state, retail and public administration sectors are important economic drivers), representing 63% of its GDP. The industrial sector represents 21% of GDP with a focus on high-value-added manufacturing and technological sectors.

Unemployment is 8%, lower than the national average (13%), and the region's population (2.2 million inhabitants) is growing moderately (0.58% annual growth in 2020).

Socioeconomic Indicators

	Basque Country	Spain
Population, 2021 (m)	2.214	47.385
GDP per capita, 2020 (EUR)	30,401	23,693
GRP growth, 2020 (%)	-10.1	-9.8
Inflation, 2021 (%)	6.4	6.5
Unemployment rate, 4Q21 (%)	8.4	13.3

Source: Fitch Ratings, Autonomous Community of the Basque Country, national statistics office

Risk Profile Assessment: 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

The Basque Country's 'High Midrange' risk profile reflects a combination of two key risk factors assessed at 'Stronger and four at 'Midrange'. This assessment reflects Fitch's view of a low risk relative to international peers' that the region's ability to cover debt service with the operating balance will weaken unexpectedly over the forecast horizon, either because of lower-than-expected revenue or expenditure exceeding expectations, or because of an unanticipated rise in liabilities or debt-service requirements.

Revenue Robustness: Stronger

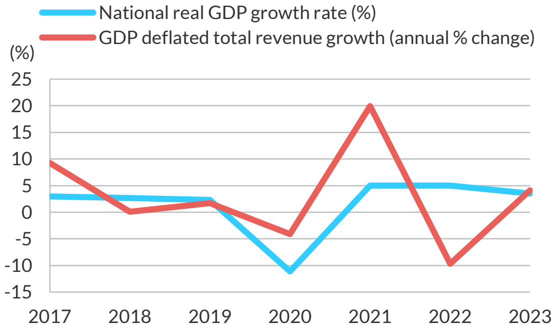
Almost all revenue is from transfers from the Historical Territories, which collect taxes, such as personal income tax (PIT) and VAT; the latter has led to moderate revenue volatility due to the particularities and time lag in its treatment of exports. Corporate income tax (CIT) partly counteracts the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

The region's dependence on the Historical Territories (all rated 'AA-') for a material proportion of revenue (99% of operating revenue in 2021) drives the 'Stronger' assessment of the robustness of the Basque Country's revenue framework. Despite that, in 2021, 88% of the transfers came from the Historical Territories, and 10% was from the central government due to allocations from the fund to alleviate the effects of the Covid-19 pandemic and from the national recovery and resilience plan. Fitch considers this was a one-off and expects that the transfers in coming years will be almost entirely received by the Historical Territories.

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 and 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 largely exceeded GDP growth in the past 10 years and the region's socioeconomic profile is also above the national average.

Fitch views the Basque Country's potential revenue volatility as moderate; its operating revenue volatility has hovered at about 13% for the past 10 years. However, this volatility is affected by two extraordinary events, including the renegotiation of the economic agreement that substantially increased the revenue of the Basque Country in 2017 and fluctuations caused by the pandemic in 2020-2021, including the exceptional funds received from the central government; both of which lead to revenue growth that contributes to higher volatility.

Real Total Revenue and GDP Growth



Source: Fitch Ratings, Autonomous Community of the Basque Country

Revenue Breakdown, 2021

	Operating revenue (%)	Total revenue (%)
Indirect taxes	0.0	0.0
Transfers	98.6	95.4
Charges and fees	1.4	1.3
Operating revenue	**100.0**	**96.7**
Interest revenue	-	0.0
Capital revenue	-	3.3
Total revenue	**-**	**100.0**

Source: Fitch Ratings, Autonomous Community of the Basque Country

Revenue Adjustability: Midrange

We assess the Basque Country's ability to generate additional revenue in response to possible economic downturns as 'Midrange'. The Basque Country's tax revenue is not capped by the central government but is indirectly related to taxes that are subject to changes by the provinces rather than the regional government; Fitch therefore factors in its assessment the provinces' ability to increase or decrease those taxes. The Basque Country must have consent from the Historical Territories for any changes to fiscal policies, including taxes. For this purpose, the Basque Country created a body to harmonise fiscal collaboration with its provinces, which enables it to negotiate to an extent over taxes and revenue.

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 Sustainability: Midrange

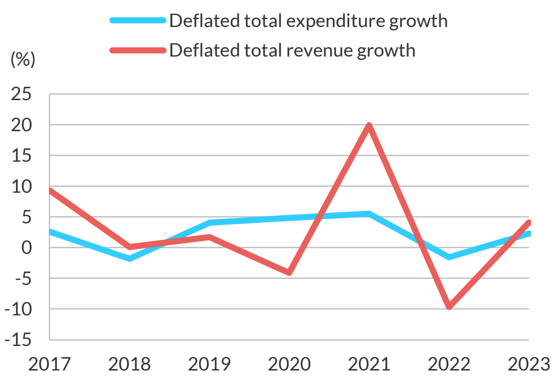
The Basque Country has moderate control over expenditure growth, which generally was lower than revenue growth (following some fluctuations prior to 2012 mainly due to changes in institutional transfers and a deep economic crisis). Opex growth was lower than operating revenue growth in 2011-2021 (CAGR expenses: 2.3% vs. revenue: 4.0%) and in 2016-2021 (CAGR expenses: 4.4% vs. revenue: 6.2%).

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

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 2019), and essentially constitute education and health (65% of totex; excluding debt repayment in 2019).

Cyclical spending, which is mainly related to social spending and jobs, is just 15% of totex. This spending could increase under an economic downturn that negatively affects the labour market.

Real Total Expenditure and Revenue Growth



Source: Fitch Ratings, Autonomous Community of the Basque Country

Expenditure Breakdown, 2021

	Operating expenditure (%)	Total expenditure (%)
Staff cost	21.9	19.6
Goods and services	39.2	35.0
Transfers to other budgets	38.8	34.7
Operating expenditure	**100.0**	**89.3**
Interest expenditure	-	1.2
Capital expenditure	-	9.5
Total expenditure	**-**	**100.0**

Source: Fitch Ratings, Autonomous Community of the Basque Country

Expenditure Adjustability: Midrange

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 has to 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.

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 headcount. 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 is moderately below 90% of totex, and includes responsibilities related to health, education, 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 the respective Historical Territories.

However, there is room to reduce 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, when expenditure was adjusted to the decline in revenue.

Liabilities and Liquidity Robustness: Stronger

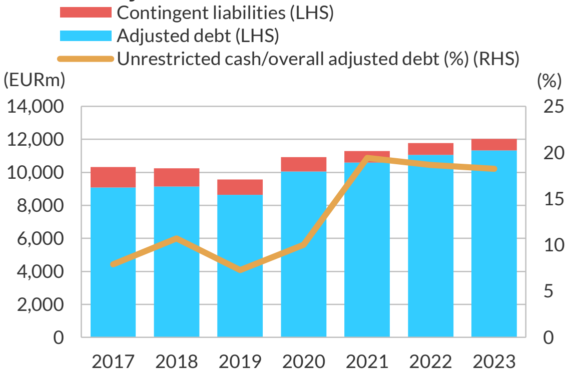
Autonomous communities have a solid national framework for debt and liquidity management. Our assessment also reflects the Basque Country's conservative debt structure, with no short-term debt, and some bullet debt related to bonds but which is generally covered by the region's operating balance.

The average cost of debt was low at 1.3% in 2021 and the region has extended the life of its debt to 8.5 years in 2021 from 5.4 years at end-2019. This improvement was attributed to refinancing of some debt maturities and early debt redemption financed with its 2019 budget surplus.

The share of floating-debt-rate is around 22% of total debt, above the average of the other autonomous communities, as it allows the region to prepay at a low cost compared with fixed-rate debt. Interest-rate exposure is mitigated by the region's access to financial products to cover risk under a rising interest-rate scenario. The Basque Country has no recourse to the state liquidity-support mechanism.

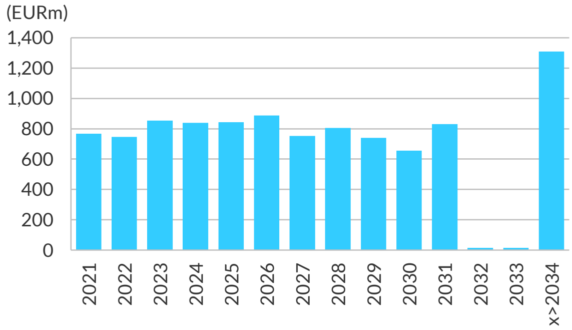
Off-balance-sheet liabilities are low in comparison with direct debt, representing around 7% of overall debt in 2021. They are mostly to public companies providing public transportation, exhibition spaces the finance institute of the region, gas and social housing.

Overall Adjusted Debt Structure



Source: Fitch Ratings, Autonomous Community of the Basque Country

Debt Amortisation Schedule – Capital Repayments



Source: Fitch Ratings, Autonomous Community of the Basque Country

Liabilities and Liquidity Flexibility: Midrange

Available cash is EUR4,173 million, of which Fitch offsets EUR1,980 million to neutralise payables in excess of receivables registered at end-2021. Hence, unrestricted cash is EUR2,196 million, the credit lines are adequate and the share of market debt (62% 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 the Historical Territories, which collect taxes monthly.

The region has credit lines of EUR1,200 million held in Spanish banks rated between 'BBB-' and 'A-', which corresponds to a 'Midrange' assessment of market liquidity

Debt Analysis

	2021
Fixed rate (% of direct debt)	78
Issued debt (% of direct debt)	62
Apparent cost of debt (%)	1
Weighted average life of debt (years)	8.5

Source: Fitch Ratings, Autonomous Community of the Basque Country

Liquidity

(EURm)	2021
Total cash, liquid deposits and sinking funds	4,176
Restricted cash	1,980
Cash available for debt service	2,196
Undrawn committed credit lines	1,200

Source: Fitch Ratings, Autonomous Community of the Basque Country

Debt Sustainability Assessment: 'a' Category

	Primary Metric	Secondary Metrics		
	Economic Liability Burden (%)	Payback Ratio (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 at the upper end of the 'a' category. This reflects a primary metric close to the middle of the 'a' category (economic liability burden close to 90% in our rating-case scenario), enhanced by strong secondary metrics assessed in the 'aa' category (payback close to 7x and coverage close to 2x in our rating-case scenario).

Operating Balance Recovers on Strong Tax Collection and Receipt of Exceptional Funds

The Basque Country's budget performance improved in 2021, recovering from a pandemic-related drop in 2020, boosted by central government funds for pandemic-related expenditure. The operating balance improved to around EUR1.5 billion from around EUR0.2 billion in 2020. In 2021, operating revenue increased by 21% partly due to an increase in transfers from the Historical Territories from strong tax collection, and partly by exceptional transfers. The latter consist of EUR0.4 billion from a dispute with the government on VAT proceeds and EUR0.6 billion from the central government's exceptional funds distributed in 2021 as state Covid-19 support. Opex increased by 8.8% in 2021. This was mostly due to additional pandemic-related health spending that was not fully covered by state aid, and to organic spending growth; however, this grew at a slower pace than inflation because salaries are not index-linked.

Fitch expects the operating balance to decrease slightly in 2022 (to nearly EUR0.7 billion) following an increase in expenditure and lower revenue. We expect revenue to decline because of end of the state's exceptional contributions, while some pandemic-related expenditure could crystallise on the spending structure, especially as there will be more resources available due to above-average revenue growth. We expect the Basque Country's operating balance to recover to 2018-2019 levels in 2025 with a surplus in that year, as unemployment falls and the economy recovers.

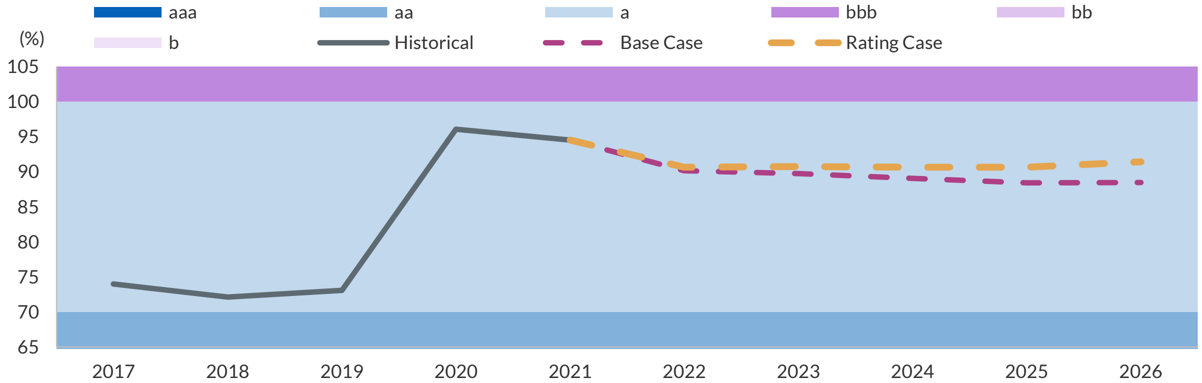
The Basque Country's operating revenue increased by 6.2% in 2017-2021, driven by the economic agreement negotiation in 2017 that led to a large increase in revenue in 2017 and robust tax collection by the Historical Territories, boosted by GDP growth and the strong labour market, and one-off funds from the central government in 2020 and 2021.

Increased Capex Programme and Higher Debt

In our rating case for 2022-2026, we assume capex to be close to EUR1.2 billion annually on average (ie about 10% of totex) and the capital balance deficit to be close to EUR1.1 billion a year, and to be funded mainly from cash flow and new debt. Accordingly, in our scenario, we expect the region's net adjusted debt to grow to about EUR9 billion at end-2026 from EUR8.4 billion at end-2021. Spain could receive up to EUR140 billion from the EU recovery plan, of which the autonomous communities could receive EUR70 billion in direct transfers, which, in turn, may reduce their need to incur new debt. These funds will not be counted in the deficit registered as part of compliance with the balanced-budget rule.

The Basque Country's overall debt was EUR11.3 billion at end-2021, dominated by direct debt of EUR10.6 billion.

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



Source: Fitch Ratings, Autonomous Community of the Basque Country

Fitch's base-case scenario considers the assumptions that are primarily derived from economic data, including Fitch's *Global Economic Outlook* and Spain's sovereign rating report as well as the issuer's forecasts. Fitch's assumptions for cash flow scenario for Year 2-Year 5 (ie 2023-2026) are primarily based on economic data, in particular national nominal GRP growth and inflation forecasts.

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2017-2021 figures and 2022-2026 projected ratios. Fitch's rating case ends in 2026 and relies on the following assumptions:

Scenario Analysis Summary

Assumptions	5-Year Historical Average	2022 - 2026 Average Base Case	2022 - 2026 Average Rating Case
Operating revenue growth (%)	6.2	2.6	2.4
Tax revenue growth (%)	-12.5	2.6	2.4
Current transfers received growth (%)	6.4	2.6	2.4
Operating expenditure growth (%)	4.4	2.3	2.5
Net capital expenditure (average per year; EURm)	-884	-1,104	-1,104
Apparent cost of debt (%)	1.8	1.6	1.7

Outcomes	2021	2026 Base Case	2026 Rating Case
Economic liability burden (%)	94.5	88.5	91.4
Payback ratio (x)	5.8	4.6	5.8
Synthetic coverage ratio (x)	2.3	2.8	2.2
Fiscal debt burden (%)	68.8	60.3	66.1

Source: Fitch Ratings, Autonomous Community of the Basque Country

Fitch-adjusted net debt at EUR8.4 billion reflects general administration financial debt, including the debt stock of the autonomous bodies (EUR10.6 billion at end-2021) less unrestricted cash. The region had unrestricted cash of EUR2.2 billion at end-2021.

The Basque Country's overall debt increased in 2020 and 2021 to EUR11.3 billion from EUR8.6 billion at end-2019 as a consequence of the pandemic.

Peer Analysis

SCP Positioning Table

Risk Profile	Debt Sustainability					
Stronger	aaa or aa	a	bbb	bb	b	
High Midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low Midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome (SCP)	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

The Basque Country compares well with national peers the Autonomous Community of Madrid, 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, but its payback ratio is much better than Madrid's, justifying the higher SCP positioning. This is the same for international peers that are also at the lower end of their rating category, excluding the Canadian province that has a stronger risk profile.

Aix-Marseille-Provence Metropolis and City of Czestochowa are type B issuers, whose primary debt sustainability metric is the payback ratio, which is comparable to the Basque Country's secondary metric. In the table below, the type B peers' payback ratio is weaker than that of the Basque Country at 6.8x, as for the Basque Country it is a secondary metric and needs to complement a moderate primary metric assessment.

Peer Comparison Type A

	Risk profile	Economic liability burden (%) rc	SCP	IDR	Outlook/ Watch
Autonomous Community of the Basque Country	High Midrange	91.4	a+	A	Stable
Autonomous Community of Madrid	Midrange	91.6	bbb	BBB	Stable
Autonomous Community of La Rioja	Midrange	102.3	bb+	BBB-	Stable
Province of Quebec	Stronger	104.5	a+	AA-	Stable

Source: Fitch Ratings

Peer Comparison Type B

	Risk profile	Payback ratio (x) rc	SCP	IDR	Outlook/ Watch
Autonomous Community of the Basque Country	High Midrange	5.8	a+	A	Stable
Aix-Marseille-Provence Metropolis	High Midrange	9.6	a+	A+	Stable
City of Czestochowa	Midrange	8.5	bbb+	BBB+	RW:Neg

Source: Fitch Ratings

Long Term Rating Derivation

From SCP to IDR: Factors Beyond the SCP

SCP	Sovereign Rating	Support: Intergovern. Financing	Support: Ad-hoc Support	Support: Floor	Asymmetric Risks	Cap	Notches above the Sovereign	IDR
a+	A-	--	--	--	-	-	2	A

Source: Fitch Ratings

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.

Short Term Rating Derivation

The Basque Country's Short-Term IDR is 'F1+' consistent with the region's Long-Term IDR, reflecting 'Stronger' debt robustness, 'Midrange' debt flexibility and a liquidity coverage ratio higher than 2.0x.

Transaction and Securities

The Basque Country's senior unsecured debt is upgraded to 'A' from 'A-', in line with the upgrade of the region's IDRs. Its bonds account for 62% of direct debt.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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 Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix A: Financial Data

Autonomous Community of the Basque Country

(EURm)	2018	2019	2020	2021	2022	2026
Fiscal performance						
Taxes	4	4	2	2	2	2
Transfers received	10,100	10,499	9,943	12,045	11,396	13,551
Fees, fines and other operating revenues	170	180	139	168	159	189
Operating revenue	10,274	10,683	10,084	12,215	11,557	13,742
Operating expenditure	-8,952	-9,350	-9,886	-10,760	-10,821	-12,167
Operating balance	1,322	1,333	198	1,455	736	1,575
Interest revenue	2	3	27	2	2	2
Interest expenditure	-180	-179	-146	-148	-155	-224
Current balance	1,143	1,158	79	1,309	583	1,353
Capital revenue	142	77	119	414	124	137
Capital expenditure	-971	-1,151	-1,061	-1,146	-1,175	-1,297
Capital balance	-829	-1,074	-942	-732	-1,051	-1,160
Total revenue	10,417	10,764	10,230	12,631	11,683	13,881
Total expenditure	-10,103	-10,679	-11,093	-12,054	-12,151	-13,688
Surplus (deficit) before net financing	315	85	-864	577	-468	193
New direct debt borrowing	1,274	871	2,093	1,165	0	0
Direct debt repayment	-1,215	-1,360	-687	-668	0	0
Net direct debt movement	59	-489	1,406	497	466	-194
Overall results	374	-405	542	1,074	-2	-1
Debt and liquidity						
Short-term debt	0	0	0	0	0	0
Long-term debt	9,134	8,645	10,062	10,594	11,061	11,275
Intergovernmental debt	0	0	0	0	0	0
Direct debt	9,134	8,645	10,062	10,594	11,061	11,275
Other Fitch-classified debt	0	0	0	0	0	0
Adjusted debt	9,134	8,645	10,062	10,594	11,061	11,275
Guarantees issued (excluding adjusted debt portion)	371	338	326	318	318	318
Majority-owned GRE debt and other contingent liabilities	742	590	531	389	389	389
Overall adjusted debt	10,247	9,573	10,919	11,301	11,768	11,982
Total cash, liquid deposits, and sinking funds	1,526	1,656	2,423	4,176	4,176	4,176
Restricted cash	428	960	1,328	1,980	1,980	1,980
Unrestricted cash	1,098	696	1,095	2,196	2,196	2,196
Net adjusted debt	8,036	7,949	8,967	8,398	8,865	9,079
Net overall debt	9,149	8,877	9,824	9,105	9,572	9,786
Enhanced net adjusted debt	8,036	7,949	8,967	8,398	8,865	9,079
Enhanced net overall debt	9,149	8,877	9,824	9,105	9,572	9,786

Source: Fitch Ratings, Fitch Solutions, Autonomous Community of the Basque Country

Appendix B: Financial Ratios

Autonomous Community of the Basque Country

	2018	2019	2020	2021	2022	2026
Fiscal performance ratios						
Operating balance/operating revenue (%)	12.9	12.5	2.0	11.9	6.4	11.5
Current balance/current revenue (%)	11.1	10.8	0.8	10.7	5.0	9.8
Operating revenue growth (annual % change)	1.5	4.0	-5.6	21.1	-5.4	4.4
Operating expenditure growth (annual % change)	-0.3	4.4	5.7	8.8	0.6	3.1
Surplus (deficit) before net financing/total revenue (%)	3.0	0.8	-8.4	4.6	-4.0	1.4
Surplus (deficit) before net financing/GDP (%)	0.4	0.1	-1.3	0.8	-0.6	0.2
Total revenue growth (annual % change)	1.2	3.3	-5.0	23.5	-7.5	4.4
Total expenditure growth (annual % change)	-0.7	5.7	3.9	8.7	0.8	3.0
Debt ratios						
Primary metrics						
Economic liability burden (%) - not relevant for type B LRGs	72.1	73.1	94.2	94.6	90.7	91.5
Enhanced economic liability burden (%)	72.1	73.1	94.2	94.6	90.7	91.5
Secondary metrics						
Payback ratio (x) (net adjusted debt/operating balance)	6.1	6.0	45.4	5.8	12.0	5.8
Overall payback ratio (x)	6.9	6.7	49.7	6.3	13.0	6.2
Fiscal debt burden (%) (net debt/operating revenue)	78.2	74.4	88.9	68.8	76.7	66.1
Synthetic debt service coverage ratio (x)	2.1	2.1	0.3	2.3	1.1	2.3
Actual debt service coverage ratio (x)	0.9	0.9	0.2	1.8	0.8	1.3
Other debt ratios						
Liquidity coverage ratio (x)	1.5	1.6	1.1	3.1	3.3	3.2
Direct debt maturing in one year/total direct debt (%)	9.1	7.9	7.6	7.0	0.0	-
Direct debt (annual % change)	0.6	-5.4	16.4	5.3	4.4	-1.7
Apparent cost of direct debt (interest paid/direct debt) (%)	2.0	2.0	1.6	1.4	1.4	2.0
Revenue ratios						
Tax revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0
Current transfers received/total revenue (%)	97.0	97.5	97.2	95.4	97.5	97.6
Interest revenue/total revenue (%)	0.0	0.0	0.3	0.0	0.0	0.0
Capital revenue/total revenue (%)	1.4	0.7	1.2	3.3	1.1	1.0
Expenditure ratios						
Staff expenditure/total expenditure (%)	20.2	20.2	20.2	19.6	-	-
Current transfers made/total expenditure (%)	33.5	32.7	33.2	34.7	-	-
Interest expenditure/total expenditure (%)	1.8	1.7	1.3	1.2	1.3	1.6
Capital expenditure/total expenditure (%)	9.6	10.8	9.6	9.5	9.7	9.5

Source: Fitch Ratings, Fitch Solutions, Autonomous Community of the Basque Country

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

The region's unrestricted cash was EUR2.2 billion at end-2020. Fitch considers EUR2 billion was restricted cash, which correspond to the gap between receivables (net of provisions difficult-to-collect revenue) and payables.

Specific Adjustments

Available cash is EUR4,176 million, of which Fitch offsets EUR1,980 million to neutralise payables in excess of receivables registered at end-2021. Hence, unrestricted cash is EUR2,196 million.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.