



Beyond Bundeslaender: Spanish regions

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Beyond Bundeslaender:

Spanish regions

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Beyond Bundesländer: Spanish regions

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Introduction and structure of Spain

As has been the case at regular intervals in the past few years, we shall again take a look at the Spanish regions relevant for the capital market as part of this publication series. Spain is divided into 17 regions, which are referred to as “autonomous communities”. Following the end of the Franco dictatorship, the autonomous communities were formed between 1979 and 1983 with the adoption of the Statutes of Autonomy. In addition, in 1995, Ceuta and Melilla, two Spanish exclaves located on the north African coast, were designated as autonomous cities. The autonomous communities are split into a total of 50 provinces, which are mostly named after the respective provincial capital. In turn, these are split into a total of 8,112 municipalities. Seven of the autonomous communities only consist of one province. In addition, in many places, there are various levels between provinces and municipalities which differ from one another from region to region. Moreover, the Balearic Islands and Canary Islands, which are made up of four and seven islands respectively, are self-governing. Although the autonomous communities of Spain do not have state character, the scope of their competencies is comparable with the German Länder. For example, in the main, their legislative competencies are very similar. However, one major difference is that, in Spain, there is no provision for the autonomous communities to cooperate on the federal government legislative process, as is the case in Germany through the Bundesrat. In addition, the competencies of the individual autonomous communities within Spain differ significantly for historical reasons. For example, the Basque Country and Navarre enjoy far greater financial autonomy than the other communities. The inhabitants of many autonomous communities often have a much greater sense of national pride in their respective home region. This is especially true of Catalonia and the Basque Country, where separatist movements are demanding greater autonomy or even independence from Spain and wish to be recognised as a separate state. Independence movements also exist in parts of Andalusia and Galicia.

Political system

Spain is a parliamentary monarchy. Following the end of the Franco dictatorship in the mid-1970s, Spain became a democratic constitutional state anchored in the constitution which came into force in 1978. Spain has been a member of the European Union since 1986. The King (currently Philip VI) is the official head of state and commander in chief of the armed forces, although, like the President of Germany, he only has a representative function. The Prime Minister (currently the social democrat Pedro Sánchez) holds the most important executive role with policy-making powers for the central government. The Prime Minister is elected by the Congress of Deputies and appointed by the King. Spain has a bicameral parliament comprising the Congress of Deputies and the Senate. The former is directly elected by the people, whereas the Senate is elected partly by the electorate and partly by the autonomous communities. Each of the autonomous communities has its own legislative assembly and a government headed up by a regional president.

Current political situation

There has been a major shift in the political landscape in Spain over the past few years, with many new parties becoming established both to the left of the social democratic Spanish Socialist Workers' Party (PSOE; Partido Socialista Obrero Español) and right of the conservative People's party (PP; Partido Popular). At the last general election in 2019, neither of the two main parties managed to achieve a vote share in excess of 50%. Pedro Sánchez, social democrat and Secretary-General of the PSOE, has been the incumbent prime minister since 2018. After Prime Minister Sánchez lost his government majority in the wake of unrest surrounding the drive for Catalan independence, there has been a coalition with the Socialists' Party of Catalonia (Partit dels Socialistes de Catalunya, PSC), the left-wing populist Podemos party and the communist party Izquierda Unida (IU) since January 2020. In October 2020, the right-wing populist Vox party called for a vote of no-confidence in the Sánchez administration, although this was only supported by Vox deputies and was therefore roundly rejected overall. The local elections in 12 of Spain's 17 regions on May 28, 2023, were considered indicative of the upcoming parliamentary elections in December – which are now even being brought forward to July 23. The electoral trend in recent months confirmed the tense situation for Sánchez's coalition. In many places, the conservatives and the right-wing populists – unexpectedly to this extent – won a majority. Spain will hold the EU Council presidency from July 1. However, it is highly unlikely that any party will win an absolute majority in the upcoming parliamentary elections. Regional parties play an important role in the autonomous communities. Efforts by separatists to break away are part of the regular political discourse, especially in Catalonia. The 2017 Catalonia crisis was triggered after the Constitutional Court of Spain declared that the independence referendum held in Catalonia was illegal. Over 90% of the votes cast were in favour of Catalan independence (turnout: 42.5%). In response to the Parliament of Catalonia, which is based in Barcelona, approving the independence referendum, the central government in Madrid dismissed the Government of Catalonia and finally dissolved the regional parliament. In the subsequent new elections, the separatists in Catalonia won a slender parliamentary majority. However, the newly formed coalition broke down again in October 2022 following a dispute over the path towards independence. The President of Catalonia then announced his intention to form a minority government and is seeking to bring forward the regional elections in 2025, meaning the political situation in the region remains tense.

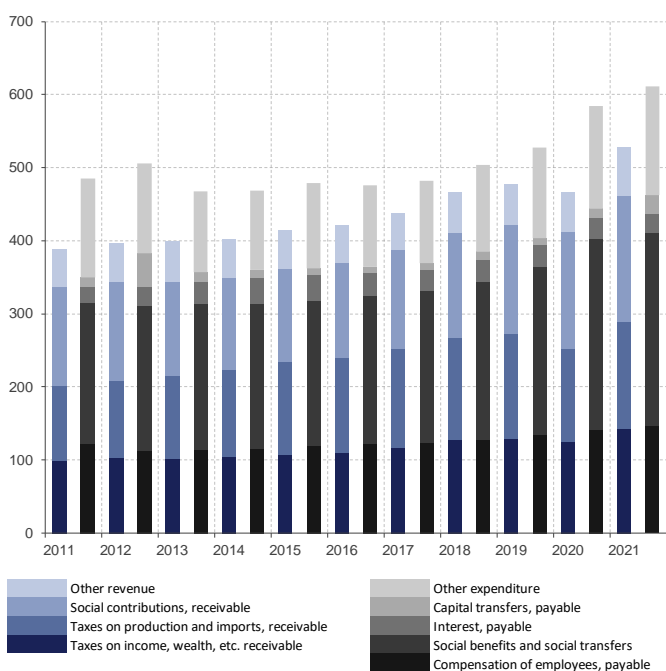
The impacts of COVID-19 and the energy crisis in Spain

At the beginning of the pandemic, Spain was one of the hardest-hit countries in Europe and addressed the corresponding consequences by implementing strict containment measures. However, these were largely eased at the start of June 2021. At present, the only measure that remains in place is that face masks must be worn in public healthcare settings. Energy prices that have risen in the wake of the Russian invasion of Ukraine have also left their mark on Spain, albeit to a relatively lesser extent than in other EU countries. The key factor in this context is that Spain boasts Europe's largest LNG capacity (seven terminals in total), which is considered a key factor for storage capacity in the EU. The comparatively mild weather over the most recent winter also had a positive effect on storage levels. In this context, it is considered unlikely that Spain will face any problems with energy supply in the foreseeable future. The Spanish government is attempting to shield its citizens from rising energy prices with the implementation of various measures including a cap on gas prices, fuel discounts and energy tax cuts. For example, a relief programme to the tune of EUR 10bn has been approved for 2023.

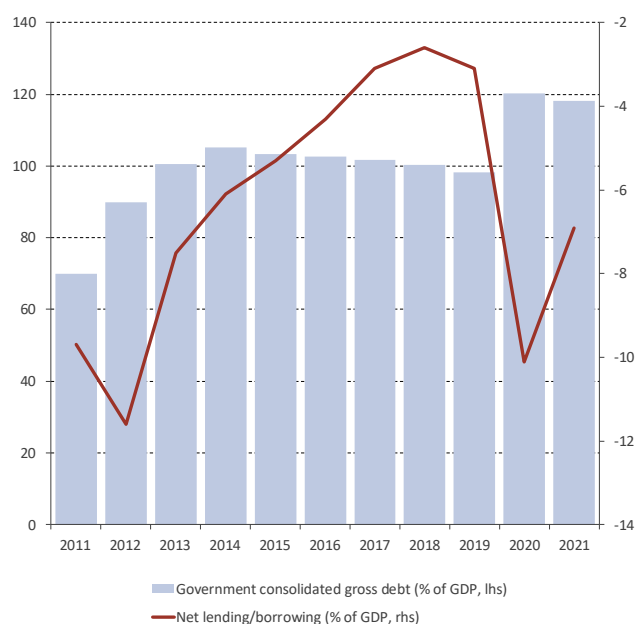
The Spanish economy

With the real estate bubble bursting at the beginning of the global financial crisis from 2007 onwards, Spain’s long period of economic upswing was brought to an end. Spanish banks were the hardest hit by the global crisis, bringing large parts to the brink of collapse in the process. As a result of the crisis, sovereign debt sky-rocketed to 105.1% of GDP by 2014, having only stood at 35.8% of GDP in 2007. In 2013, unemployment reached a peak of 26.1% in 2013 (with youth unemployment standing at 55.5%). The European Financial Stability Facility (EFSF) signed off on a rescue package worth up to EUR 100.0bn in 2012, of which approximately EUR 41.3bn had been drawn down by 2014. Following an extended period of economic downturn and stagnation lasting several years, the Spanish economy began to grow again from 2014 onwards. This upturn lasted until the onset of the pandemic. The impacts of COVID-19 hit Spain, which had already suffered from the global financial crisis and the situation in connection with Catalan independence, harder than practically any other country in Europe. According to Eurostat, the per capita GDP of Spain fell by -10.7% to EUR 23,600. However, in 2021 the Spanish economy had already recovered in large part. Measures such as the vaccination drive, which was highly successful in comparison with other EU member states, and state aid packages for businesses and private households contributed to GDP growth +8.0% in 2021. Current economic estimates from the INE actually put GDP growth as high as +8.2% for the past year, which would mean that economic output in Spain has exceeded the pre-crisis level from 2019. Growth of +10.2% (Y/Y) is expected by the end of Q1 2023. This rapid economic recovery is also reflected in the labour market: after reaching a peak value of 16.3% in Q3 2020 after the onset of the pandemic, unemployment gradually fell to 13.3% by the end of 2021. At the beginning of 2022, unemployment rose slightly to 13.7%, although 12 months later the value had declined again to 13.3%. Government debt in 2020 and 2021 was impacted by the state aid programmes. In this context, the debt ratio in 2021 amounted to 118.3% of GDP (2020: 120.4%), well in excess of the pre-crisis level of 98.2% in 2019.

State revenues vs. government spending (EURbn)



Sovereign debt vs. budget balance (%)



Source: Eurostat, NORD/LB Markets Strategy & Floor Research

Autonomous communities: capital market activities

At present, with the exception of Cantabria, all of Spain's autonomous communities have bonds outstanding. We will be taking a more detailed look at nine of the 17 issuers (shown in **bold** below) in this publication. Sorted by their Bloomberg tickers, these are as follows:

- **ANDAL (Andalusia)**
- **ARAGON (Aragon)**
- BALEAR (Balearic Islands)
- **BASQUE (Basque Country)**
- CANARY (Canary Islands)
- **CASTIL (Castile and León)**
- CCANTA (Cantabria)
- **GENCAT (Catalonia)**
- **JUNGAL (Galicia)**
- JUNTEX (Extremadura)
- LRIOJA (La Rioja)
- **MADRID (Madrid)**
- MANCHA (Castile La Mancha)
- MURCIA (Murcia)
- **NAVARR (Navarre)**
- **PRIAST (Asturias)**
- VALMUN (Valencian Community)

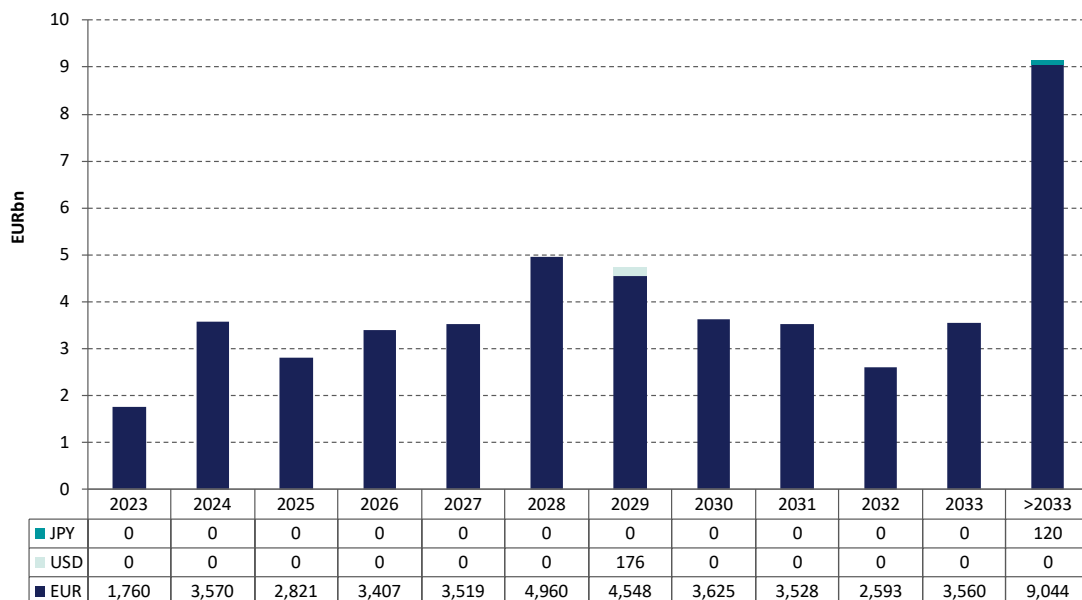
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Financial ties between state and autonomous communities

The Spanish regions, i.e. the autonomous communities, benefit from a strong institutional framework and an explicit guarantee from the Spanish state. The financial relationship between the autonomous communities and the state is divided into two models: the general system, in which the state is mostly in charge of tax legislation and collection, applies to 15 out of the 17 regions. Under the general system, the autonomous communities receive a share of the respective taxes collected in their territory – for example 50% of VAT and income tax revenues along with 100% of revenues from inheritance tax. However, a mechanism known as the “foral system” applies to both the Basque Country and Navarre, allowing these regions much broader autonomy in terms of financial policy, insofar as tax legislation and collection is primarily conducted by the regions themselves. The standardised financial system in the autonomous communities (with the exception of the Basque Country and Navarre) envisages an explicit equalisation mechanism (horizontal), which primarily redistributes tax revenues. In addition, these regions receive direct transfer payments from the Spanish state (vertical equalisation). As such, the Spanish financial equalisation system consists of three funds:

- The Guarantee Fund for Fundamental Public Services Transfer is the largest fund and aims to ensure that fundamental state services are provided equally in the regions.
- The Global Sufficiency Fund includes additional transfer payments from the state which are tied to the revenues of the respective region.
- The Convergence Funds include a Competitiveness Fund for the support of regions with below-average financing and a Cooperation Fund for regions with below-average per capita GDP.

Outstanding bonds of all Spanish regions

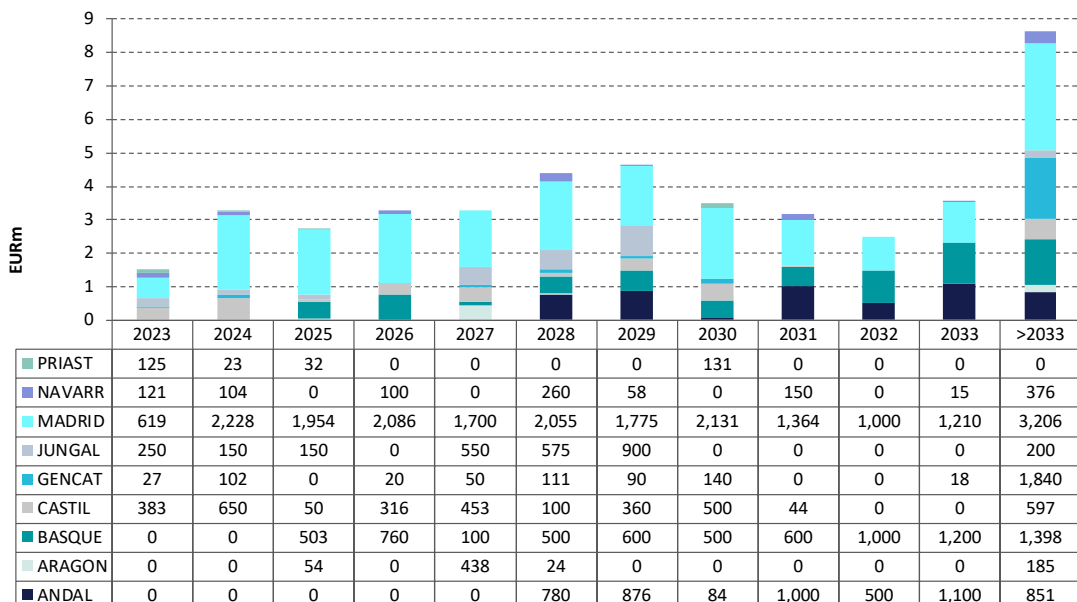


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Volume of the Spanish regions sub-segment

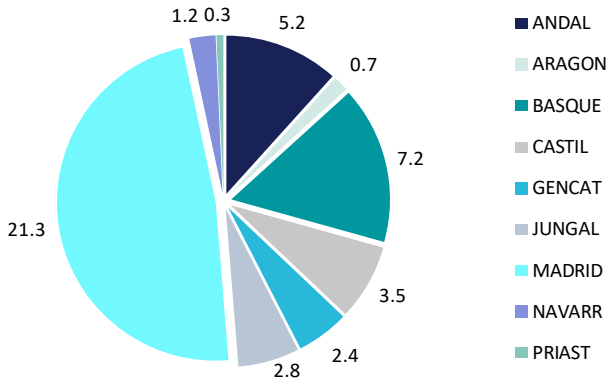
The total market of Spanish regions comprises EUR 47.2bn (EUR equivalent) spread across 189 bonds. Of this figure, 187 bonds (EUR 46.9bn) are denominated in EUR, with one bond each denominated in USD and JPY respectively. With an outstanding volume of EUR 21.3bn, MADRID dominates the market, followed by BASQUE (EUR 7.2bn), ANDAL (EUR 5.2bn) and CASTIL (EUR 3.5bn). In total, 40 of the 189 bonds have been issued in benchmark format (volume equal to or greater than EUR 500m). MADRID has issued two bonds of just under EUR 2bn, while the smallest bond in the universe of Spanish regions is amounting to just EUR 5m (JUNTEX).

Outstanding bonds of selected Spanish regions

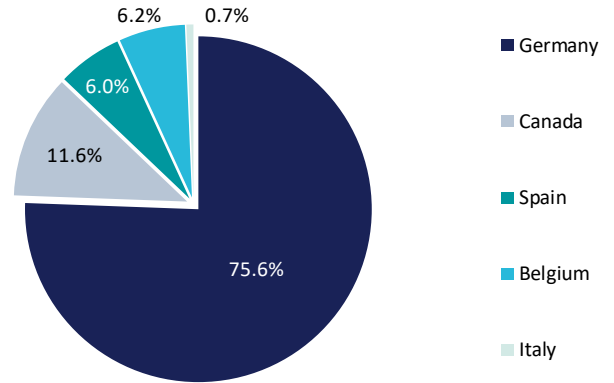


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Breakdown of the regions included (EURbn)



Country weighting within the iBoxx EUR Regions

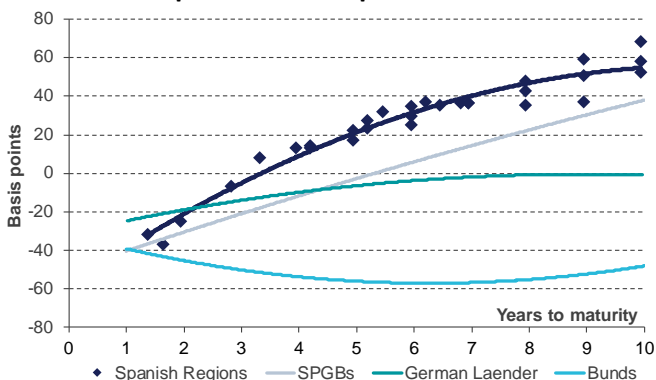


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

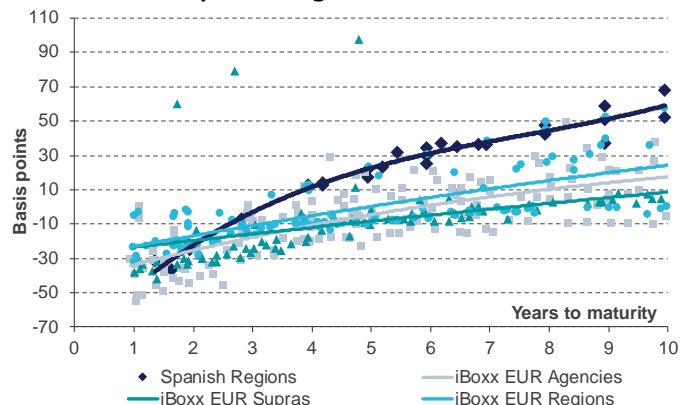
Spanish regions in the iBoxx EUR Regions and review of spreads

As shown above, the entire Spanish market for regional bonds amounts to EUR 47.2bn, of which EUR 21.3bn is attributable to the MADRID ticker. In global terms, the indisputable leading issuer group remains the German Laender, which make up 75.6% of the composition of the iBoxx EUR Regions. After Canada (11.6%), Spanish regions are ranked in third place at 6.0%, followed by Belgium and Italy in fourth and fifth place respectively. Apart from the volumes, the spread levels are of course also suitable: compared with the iBoxx EUR Regions, the Spanish regions trade at premiums from maturities of two years onwards. At the long end (up to 10 years), the spread difference can occasionally reach 30bp. The differences compared with agencies and supras are more marked. Compared with the supras that are even better rated on average and the fact that the bonds placed by these regular issuers are usually far more liquid, this hardly comes as a surprise. Overall, in a peer comparison, Spanish regions feature the widest spreads and could therefore – at restricted liquidity levels – generate pick-ups for investors. Moreover, all investors are likely to be open to private placements with certain expectations regarding yields on the part of institutional investors. Our “Beyond Bundeslaender” online event in March 2021, during which various regions were presented as investment alternatives, also provided an informative overview of this.

Generic ASW spreads – a comparison



ASW curves of Spanish regions vs. iBoxx



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data as at 23 May 2023 eod



Andalusia (ANDAL)

Andalusia is the southernmost autonomous community on the Spanish mainland, accounting for around one sixth of the territory of Spain. It is bounded by the Mediterranean, Gibraltar and the Atlantic to the south, and by Portugal to the west. With around 8.5 million inhabitants, Andalusia is Spain's most populous autonomous community and one of the largest regions in Europe. In 2021, nominal GDP came to EUR 160.8bn (provisional value) and therefore ranked third among the Spanish regions presented in this publication. However, when measured by per capita GDP, Andalusia is one of the weakest economic regions of Spain. In 2020, economic output slumped by EUR -16.1bn (-9.8% Y/Y) in the wake of the COVID-19 pandemic, with per capita GDP falling by around EUR -1,980 (-10.1%) to EUR 17,545. The following year, GDP recovered to EUR 18,906 per capita (+7.8%). The impacts of the pandemic continue to be reflected in the situation on the labour market: unemployment rose from 21.2% in 2019 to 22.3% in 2020. In both of the following two years, the unemployment rate declined, falling to 19.0% as at year-end 2022 (2021: 21.7%) and therefore dropping back below the pre-crisis level. Nevertheless, at a current level of 18.3%, unemployment is still far higher than the figures at national level (Q1 2023: 13.3%). With a debt ratio of 21.4% of GDP as at the end of 2022, public sector indebtedness has already fallen slightly below the level recorded in the last full pre-crisis year (2019: 21.5%). The economy of Andalusia has traditionally been based on agriculture to a significant extent. Andalusia attracts many tourists all year round from both home and abroad through its varied landscape and cultural offerings, with both the regional capital of Seville and the coastal regions being popular holiday destinations. While Andalusia still attracted over 12 million international tourists in 2019, the pandemic caused a huge slump of almost 80% to just 2.7 million tourists in 2020. As was the case for large parts of the regional economy, the tourism sector also recovered to a significant extent in 2021, when 4.2 million tourists flocked to the region (2022: 9.9 million). In addition to agriculture and tourism, renewable energies are also an increasingly relevant sector of the economy. Andalusia boasts Europe's largest solar power plant, the Plataforma Solar de Almeria on the edge of the Tabernas Desert. Andalusia is rated at A- (stable outlook) by S&P, with the rating agency most recently upgrading the credit rating from BBB+ (positive outlook) in April 2023.

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Number of inhabitants (2021)

8,472,407

Capital city

Seville

GDP (2021)*

EUR 160.75bn

GDP per capita (2021)*

EUR 18,906

Unemployment (Q1 2023)

18.3%

Debt (as a % of GDP, Q4 2022)*

21.4%

Bloomberg ticker

ANDAL

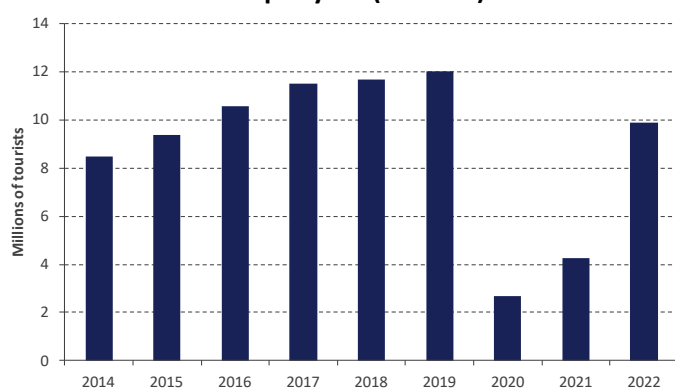
Outstanding volume

EUR 5.2bn

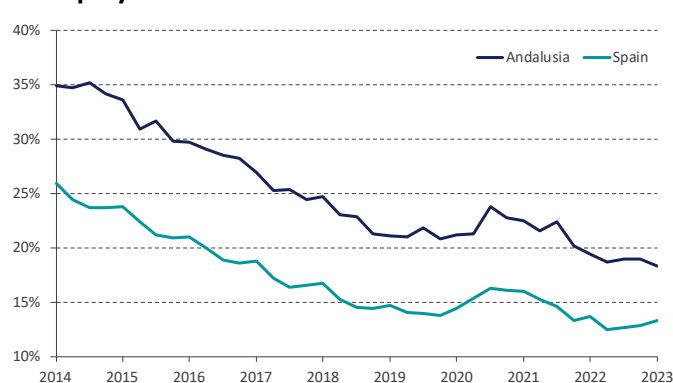
Ratings	Long-term	Outlook
Fitch	BBB-	stab
Moody's	Baa2	stab
S&P	A-	stab

* Provisional values

International tourists per year (millions)



Unemployment rate over time



Source: Issuer, INE, NORD/LB Markets Strategy & Floor Research



Aragon (ARAGON)

Aragon is situated in the north-east of the Iberian Peninsula, bordering France to the north, Catalonia to the east, Valencia to the south-east and Castile-La Mancha, Castile and León, La Rioja and Navarre to the west. With a population of around 1.3 million inhabitants, Aragon ranks eleventh among the Spanish autonomous communities. The population density of Aragon is very low, with only around 3.0% of the Spanish population living in a region that accounts for just under 10% of the total area of Spain. Slightly more than half of the population of Aragon (around 685,000) live in the capital Zaragoza – Spain’s fifth largest city. Aside from Zaragoza, the region is rather rural in nature. For example, the second largest city, Huesca, only has a population of around 53,400 people. With GDP per capita of EUR 28,912 (2021), the economic output of Aragon is above-average in a national comparison (EUR 25,498), ranking fifth among the autonomous communities in the process. Unemployment in Q1 2023 was relatively low at 8.9%. This is below the national average (13.3%) and had been consistently reduced in the years prior to the COVID-19 pandemic. Major industries in the region include the automotive industry, food production, IT and logistics. The biggest companies are to be found in and around Zaragoza, although the economy is nevertheless dominated by SMEs. In 2021, just 146 companies in the region employed more than 200 people. Of these, 125 are based in the capital Zaragoza alone. One of the largest is the Opel factory with more than 5,600 employees and a production capacity of around half a million vehicles per year. The logistics sector benefits from extensive infrastructure and Zaragoza's advantageous geographical location as the connecting point for the five cities of Bilbao, Madrid, Valencia and Barcelona, as well as Toulouse in France. In this context, Inditex/Zara, Decathlon and DHL all have large logistic centres in the region. Amazon Web Services (AWS) is also investing a total of EUR 2.5bn in three data centres in Aragon, which are expected to create 1,300 new jobs. Exports totalling EUR 16.3bn were offset by imports in the amount of EUR 15.0bn as at year-end 2022. The sectors with the highest export ratios are the automotive and food industries. The EU accounted for the majority of these exports (primarily France and Germany), with most imports coming from China. As part of the United Nations Agenda 2030, Aragon has committed to anchoring the UN Sustainable Development Goals (SDGs) in regional policy. In this way, Aragon is focusing on the areas of the green transformation and social change.

General information

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Number of inhabitants (2021)

1,326,261

Capital city

Zaragoza

GDP (2021)*

EUR 35.96bn

GDP per capita (2021)*

EUR 28,912

Unemployment (Q1 2023)

8.9%

Debt (as a % of GDP, Q4 2022)*

21.5%

Bloomberg ticker

ARAGON

Outstanding volume

EUR 0.7bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	BBB+	stab

Fitch

-

-

Moody's

-

-

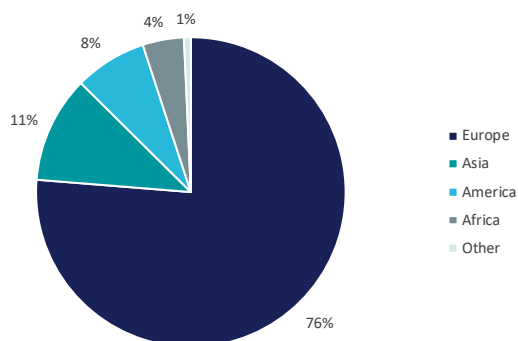
S&P

BBB+

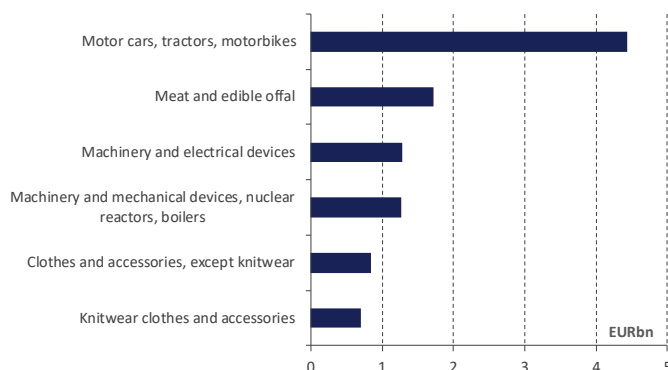
stab

* Provisional values

Export destinations 2022



Most important export sectors 2022 (EURbn)





Basque Country (BASQUE)

The Basque Country is a region on the Atlantic coast on the border between France and Spain. It is important to distinguish between the autonomous community and the Basque Country in the cultural sense, which also includes the French Basque Country and northern parts of the autonomous community of Navarre. As one of the smallest autonomous communities in Spain, its population of around 2.2 million people makes the Basque Country densely populated. Around 27% of the inhabitants speak the Basque language, Euskara, which is still designated as the official language to this day. Politics within the region is marked by conflicts with central government, with many Basques continuing to demand independence from Spain as part of a unified Basque state to this day. Up until just a few years ago, ETA, the far-left Basque nationalist terrorist organisation, was still carrying out repeated attacks aimed at achieving the formation of an independent Basque state. The regional capital is Vitoria-Gasteiz, which is the second largest city in the Basque Country after Bilbao. With GDP per capita of EUR 32,925 (2021), the Basque Country boasts one of the strongest economies in Spain, contributing around 6% to the national GDP. At 8.4% in Q1 2023, unemployment remained low in a national comparison (13.3%). In 2020 and 2021, years that were particularly overshadowed by the COVID-19 crisis, unemployment peaked at a comparatively moderate level of 11.0% (Q1 2021). Public debt also came to a relatively modest 13.7% of GDP as at Q4 2022, with the pandemic-related peak reaching 16.8% (Q2 2021). The Basque Country has a diversified industrial profile, with the automotive, energy, rail transport and aeronautics sectors all at the forefront of this. Moreover, it is important to draw attention to the region’s research strength that it owes to numerous universities and innovative companies operating in the field of Industry 4.0. As mentioned before, the Basque autonomous community has its own financing system in which the region enjoys almost full autonomy in raising taxes. Taxes are collected by the provinces which transfer an equalisation portion to the state. The region has adjusted its financing strategy for the next few years in the wake of the pandemic in order to broaden its investor basis, boost the liquidity of its bonds and spread the impact of the crisis fairly across the generations. In this regard, sustainable bonds (with terms of 10-12 years) will account for a significant proportion of the financing volume in future, with sustainability-focused private placements (terms of 30 years and above) and bilateral financing (terms of less than ten years) also mentioned here. In addition to longer maturities, the issuer will also aim for a 25% share of floaters.

General information

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Number of inhabitants (2021)

2,213,993

Capital city

Vitoria-Gasteiz

GDP (2021)*

EUR 71.71bn

GDP per capita (2021)*

EUR 32,925

Unemployment (Q1 2023)

8.4%

Debt (as a % of GDP, Q4 2022)*

13.7%

Bloomberg ticker

BASQUE

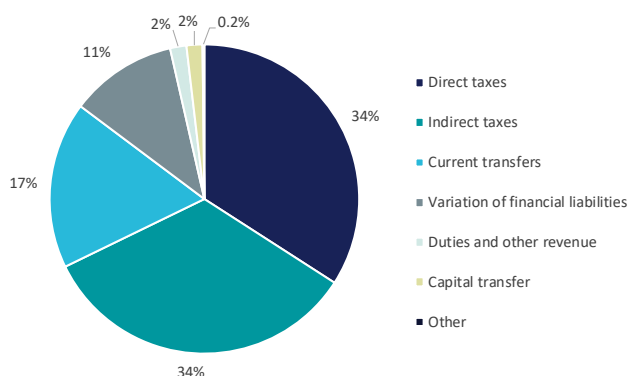
Outstanding volume

EUR 7.2bn

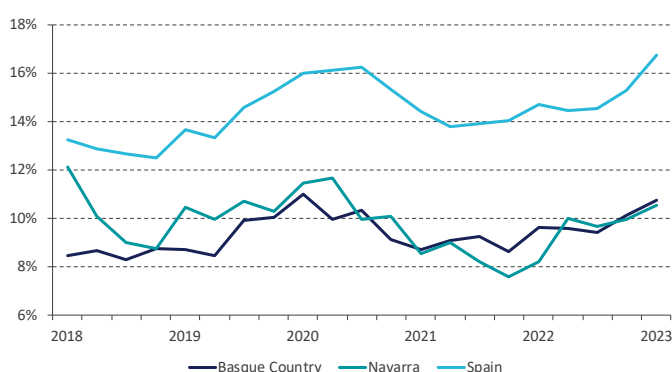
Ratings	Long-term	Outlook
Fitch	A	stab
Moody's	A3	stab
S&P	AA-	stab

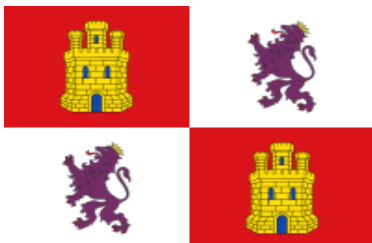
* Provisional values

Breakdown of revenue sources (Q3 2022)



Unemployment rate over time





Castile and León (CASTIL)

With a surface area of around 94,000 km², Castile and León is the largest autonomous community in Spain. It therefore accounts for almost one fifth of the total territory of Spain. The region is even slightly larger than Portugal, with which it shares a border to the west. With just under 2.4 million inhabitants and a population density of 25.3 inhabitants per square kilometer, however, Castile and León is very sparsely populated, being home to only 5.1% of the Spanish population. The autonomous community has no named official capital, although Valladolid is regarded as the de facto capital since it is home to the parliament and the seat of government. Moreover, Valladolid is the biggest city in the region with a population of approximately 296,000 people. At EUR 24,428 as at year-end 2021, GDP per capita was slightly below the Spanish average (EUR 25,498), putting Castile and León in mid-table in a comparison with the other regions of Spain. The autonomous community does, however, fare better in terms of employment. At 10.3% for Q1 2023, the unemployment rate is below the national average (13.3%) and represents the seventh-lowest value out of the 19 regions. The service sector plays a particularly prominent role in the regional economy, accounting for just under 67% of gross value added in 2021 (latest data set), followed by industry (22%), the primary sector (6%) and construction (5%). The most important sub-sectors within the regional industry are the food (31%) and automotive (21%) sectors, in addition to raw materials, energy, water and waste (12%). In Addition, there has been renewed, substantial growth in foreign direct investment in the region over the past two years. Castile and León is the largest energy producer among the autonomous communities and has assumed the mantle of a pioneer in the field of renewable energies in particular. Electricity generation from sustainable energy sources corresponds to around 135% of the regional electricity consumption. The highest regional budget planned to date is for 2023. At approximately EUR 13.8bn, it is more than 12% higher than the budget from two years ago. The budget plan is mainly focused on economic transformation, stabilising the labour market and mitigating crisis effects for private households and businesses. Furthermore, Castile and León has signed up to Agenda 2030. In this context, integrating the UN Sustainable Development Goals (SDGs) in regional policy will be a priority.

General information

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Number of inhabitants (2021)

2,383,139

Capital city

Undefined

Seat of government: Valladolid

GDP (2021)*

EUR 58.12bn

GDP per capita (2021)*

EUR 24,428

Unemployment (Q1 2023)

10.3%

Debt (as a % of GDP, Q4 2022)*

20.8%

Bloomberg ticker

CASTIL

Outstanding volume

EUR 3.5bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody's	Baa1	stab
S&P	-	-

Fitch

-

-

Moody's

Baa1

stab

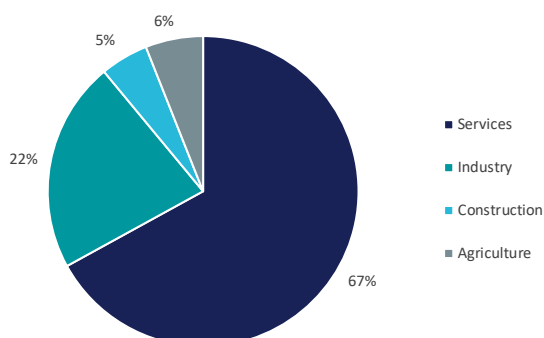
S&P

-

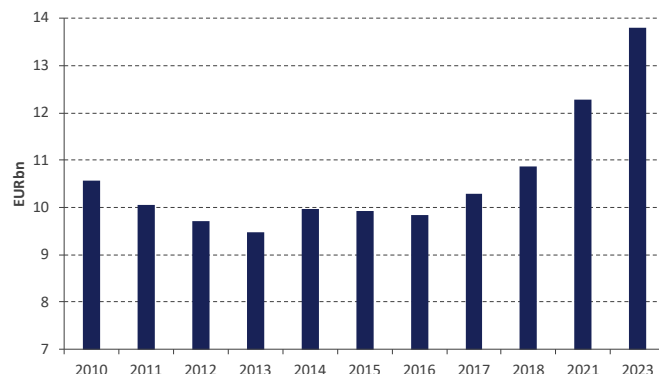
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* Provisional values

Economic output by sector (2021)



Budget development over time (EURbn)





Catalonia (GENCAT)

Situated along the Mediterranean coast in north-eastern Spain, Catalonia constitutes an important economic location. The region’s population of approximately 7.7 million inhabitants generates GDP of EUR 229.4bn (2021), which accounts for around 19% of economic output at national level. Annual growth of nominal GDP in Catalonia came to around 8%, which corresponds with the national average. The prosperity and autonomy of Catalonia has given rise to separatist movements for many years, which in 2017 culminated in an independence referendum that sparked a constitutional crisis in Spain (often referred to as the Catalonia crisis). However, the Spanish government ultimately declared the referendum and its result null and void. Barcelona’s strategic location on the Mediterranean Sea as a global hotspot has helped to foster close economic ties with mainland Europe and Asia. The service sector is a particularly key pillar within the Catalan economy (2022: 75%), with retail, vehicle repairs, transport and storage as well as the hotel industry (combined share: 34%) representing some of the most important sub-sectors here. Public administration, education and health and social affairs follow in second place (16% combined). Agriculture and fisheries account for a very minor share of gross value added (1%), while around 20% is attributable to the industrial sector and 5% to the construction industry. The tourism industry, including the capital Barcelona, represents a major source of income for Catalonia, although sharp declines were recorded during the pandemic: for example, hotel overnight stays fell by 45% in 2020. Nevertheless, a recovery was observed as early as 2021, when growth of 64% was recorded, meaning that the tourism industry had almost returned to its pre-crisis level. Within the framework of NextGenerationEU, a European economic stimulus programme in response to the impacts of the COVID-19 crisis, Catalonia is able to access an estimated EUR 2.7bn to drive the ecological and digital transformation of the region beyond its economic recovery. The revenue side of the region is based in particular on revenues obtained from income tax and VAT. In 2021 (most recent dataset), these two items combined represented around 72% of total tax revenues (EUR 25.8bn; +2.0% Y/Y). Total revenues in 2021 came to approximately EUR 47.9bn (+14% Y/Y). In addition, the Catalan government has legislative powers allowing it levy taxes and change existing tax law of its own accord. Examples of this are the income tax rates (recently increased low-income allowances) and a gambling tax.

General information

[Homepage](#)

Number of inhabitants (2021)

7,763,362

Capital city

Barcelona

GDP (2021)*

EUR 229.42bn

GDP per capita (2021)*

EUR 29,942

Unemployment (Q1 2023)

10.4%

Debt (as a % of GDP, Q4 2022)*

33.4%

Bloomberg ticker

GENCAT

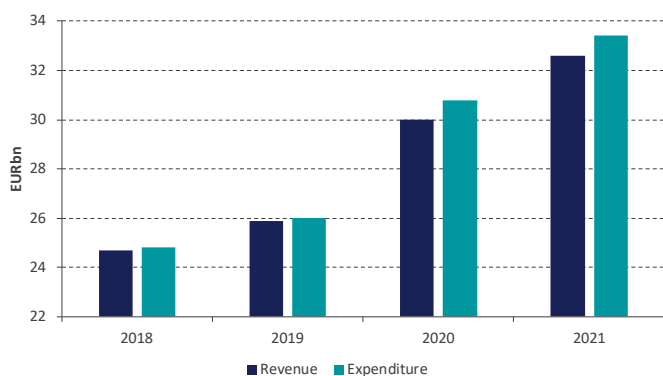
Outstanding volume

EUR 2.4bn

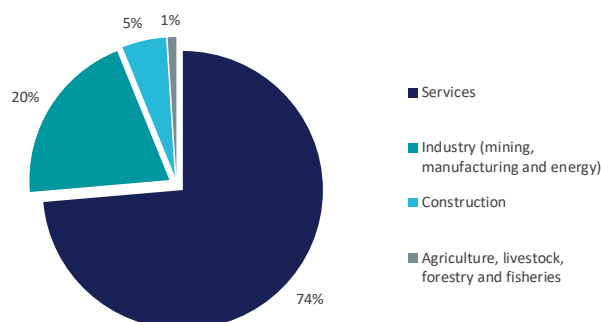
Ratings	Long-term	Outlook
Fitch	BBB-	stable
Moody's	Ba1	stab
S&P	-	-

* Provisional values

Public revenues vs. expenditures (EURbn)



Gross value added by sector (2021)





Galicia (JUNGAL)

Situated on Spain's Atlantic north-west coast, Galicia is home to around 2.7 million people, or 5.7% of the Spanish population, making it one of the five largest autonomous regions of Spain. In addition to bordering Castile and León as well as Asturias to the east, Galicia borders Portugal to the south. Compared with the rest of Spain, it has a particularly high proportion of more elderly inhabitants. This demographic trend is exacerbated by migration from Galicia to other regions of Spain and abroad. The majority of the population is based in the provinces of A Coruña and Pontevedra on the west coast of Galicia. As at year-end 2021, the nominal GDP of Galicia amounted to EUR 63.2bn or EUR 23,499 on a per capita basis. With nominal GDP growth of +7.8% (Y/Y) in 2021, the Galician economy has already shown signs of a recovery from the two crisis-dominated years. This can also be seen in the development of the labour market, with an unemployment rate of 10.9% recorded in the first quarter of 2023 (Q1 2022: 11.4%; Q1 2021: 13.0%). Industry, which has grown on the back of foreign direct investment, is particularly important to the economy of Galicia. For example, the automotive sector contributes 12% to regional GDP, with the IT sector accounting for a share of 5%. Roughly 19,700 people are employed in the automotive sector, corresponding to 10% of all industrial jobs in the region. Moreover, this sector accounts for 32% of regional exports and produces 17% of all vehicles from Spain as a whole. The IT sector has recorded rapid growth of +45% in the past five years. The regional timber industry, which is in fact the largest in Spain, is also noteworthy. In recent years, the tourism sector has recorded dramatic growth, primarily due to the increasing popularity of the "Camino de Santiago" – the Way of St. James pilgrimage. With around 8.7 million tourists as at year-end 2022, the region already exceeded the number of visitors from the two previous years, making it one of the six most-visited regions in Spain. The budgetary policy pursued by the autonomous community allowed it to maintain a stable debt ratio at around 18% of GDP for few years after 2014, before this increased again to 19.7% in 2020 in the wake of the COVID-19 crisis. After peaking at 20.2% for Q1 2021 (national average at this time: 27.8%), public debt was cut to 17.2% of GDP as early as the fourth quarter of 2022.

General information

[Homepage](#)

Number of inhabitants (2022)

2,695,645

Capital city

Santiago de Compostela

GDP (2021)*

EUR 63.23bn

GDP per capita (2021)*

EUR 23,499

Unemployment (Q1 2023)

10.9%

Debt (as a % of GDP, Q4 2022)*

17.2%

Bloomberg ticker

JUNGAL

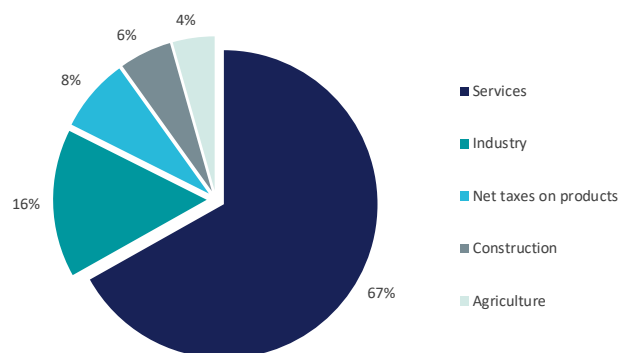
Outstanding volume

EUR 2.8bn

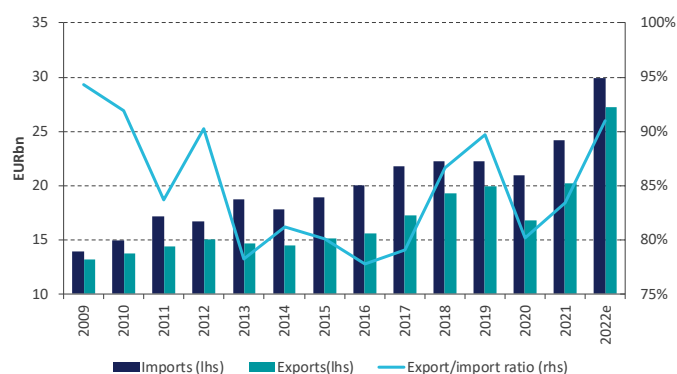
Ratings	Long-term	Outlook
Fitch	-	-
Moody's	Baa1	stab
S&P	A	stab

* Provisional values

GDP breakdown (Q4 2022)



Export/import ratio



Source: Issuer, Galician Statistical Institute, INE, NORD/LB Markets Strategy & Floor Research



Madrid (MADRID)

The Spanish capital, which is also the most significant autonomous region in economic terms, is located in the geographical heart of the country on the Meseta Central plateau. As one of Europe’s largest cities and the third-largest Spanish region, Madrid is home to around 6.7 million inhabitants (2021), representing approximately 14% of the Spanish population. At EUR 34,821 (2021), Madrid generates the highest per capita GDP among the autonomous regions. This is approximately 36% above the national average and even 7% above the European average. After unemployment in the Madrid region rose to 13.5% (Q4 2020) in the wake of the COVID-19 crisis, this gradually stabilised over the following two years, dropping to 11.5% by Q4 2022. A further decline to 11.0% was recorded in the first quarter of 2023. The region’s international focus means that it is home to a diverse range of companies, with the tertiary sector dominating the business landscape. Accordingly, the service sector generates 85% of regional GDP, which is mainly based on the financial sector, retail, gastronomy and other services. The tourism sector is also economically important for the region around the Spanish capital. Following a slump in visitor numbers in 2020 due to the pandemic, tourists started to flock back to Madrid the following year, when growth of 37% was recorded. The first three quarters of 2022 alone exceeded these figures again: up to and including September, a total of 25.3 million people (+41% Y/Y) visited the Spanish capital – by the end of the year, this figure had risen to 31.5 million. In terms of the general regional economy as well, a broadly based recovery from the pandemic-related downturn was recorded in 2021, when the Madrid economy recorded growth of +7.4%. A return to the pre-crisis level was expected by the end of 2022, after GDP growth in excess of 5% (Y/Y) was estimated. Madrid also benefits from its buoyant start-up scene: in aggregated terms up to March 2023, with 2,389 start-ups, 23.5% of all newly incorporated businesses in Spain are based in Madrid. As such, Madrid enjoys a leading position at national level in this regard. In terms of its refinancing activities, there is a focus on sustainability. Madrid consolidated its reputation as the largest Spanish issuer of ESG bonds by placing two sustainability-related benchmark bonds last year: a green bond in the amount of EUR 500m in addition to a sustainable bond worth EUR 1.0bn. Among other aspects, the gross proceeds were invested in environmentally friendly infrastructure projects and affordable housing.

General information

[Homepage](#)

Number of inhabitants (2021)

6,751,251

Capital city

Madrid

GDP (2021)*

EUR 234.64bn

GDP per capita (2021)*

EUR 34,821

Unemployment (Q1 2023)

11.0%

Debt (as a % of GDP, Q4 2022)*

13.5%

Bloomberg ticker

MADRID

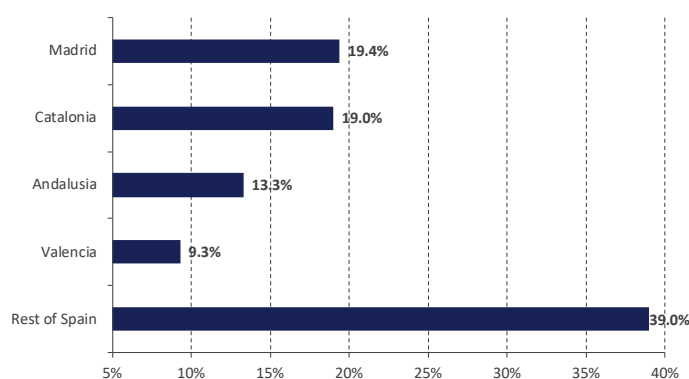
Outstanding volume

EUR 21.3bn

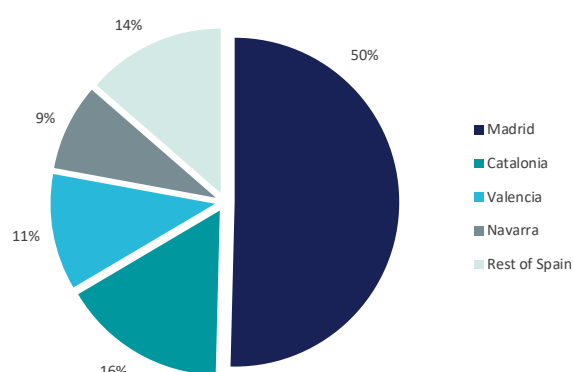
Ratings	Long-term	Outlook
Fitch	BBB+	stab
Moody's	Baa1	stab
S&P	A	stab

* Provisional values

Spanish regions – contributions to national GDP (2021)



Distribution of foreign direct investments (2022)



Source: Issuer, Madrid Institute of Statistics, INE, NORD/LB Markets Strategy & Floor Research



Navarre (NAVARR)

Navarre is located in northern Spain and, with around 661,500 inhabitants, is one of the most sparsely populated of Spain’s autonomous communities. The region borders the Basque Country to the west, Aragon in the east and La Rioja in the south. In the north, the Pyrenees form the border with France. Pamplona is the capital and largest city in Navarre, with a population of around 204,000 people. Moreover, Pamplona is the only large city in Navarre, which is otherwise largely rural in character. In cultural terms, the northern part of Navarre historically forms part of the Basque Country. As such, the Basque language “Euskara” is still widely spoken and actually remains the official language in some municipalities. Navarra performs relatively strongly in a comparison of GDP per capita and, at EUR 31,024 (2021), it ranks in second place behind Madrid (EUR 34,821). In contrast, however, when measured in terms of nominal GDP, Navarra has to contend with a place in the bottom third of the league table of autonomous regions with a value of EUR 20.38bn (2021). In the first quarter of 2023, unemployment in Navarre was also comparatively low, at 12.1% (national value: 13.3%). The service sector plays a particularly key role in the regional economy: in fact, the majority (57%) of all active companies in Navarre operate within in this sector, with an additional 22% of businesses designated to the retail segment. With a combined 21% (industrial and construction sectors), a comparatively small proportion of companies from the region operate in the secondary sector. In total, 3,164 new companies were incorporated in the autonomous community in 2022, reflecting growth of +9.0% year on year and outstripping the last pre-crisis year of 2019 in the process. Volkswagen is one of the region’s most important employers. The Volkswagen factory in Pamplona produces three models offered by the German carmaker and employs around 4,600 employees. In 2021 alone, more than 220,000 vehicles rolled off the factory’s production line. As mentioned previously, Navarre also benefits from the foral system combined with almost total autonomy in matters of taxation. In March 2022, the rating agency S&P revised its rating outlook for the region from negative to stable. In this context, S&P highlighted in particular the economic recovery seen in 2021 following the pandemic. In the area of sustainability, Navarra has been active on the capital market since April 2019, placing an inaugural deal here in the form of a sustainable bond (EUR 50m) based on the Sustainable Finance Framework launched in the same year. Two further sustainability-related deals subsequently followed in 2020 (EUR 75m) and 2022 (EUR 125m).

General information

[Homepage](#)

Number of inhabitants (2021)

661,537

Capital city

Pamplona

GDP (2021)*

EUR 20.38bn

GDP per capita (2021)*

EUR 31,024

Unemployment (Q1 2023)

12.1%

Debt (as a % of GDP, Q4 2022)*

14.1%

Bloomberg ticker

NAVARR

Outstanding volume

EUR 1.2bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	AA-	stab

Fitch

-

-

Moody's

-

-

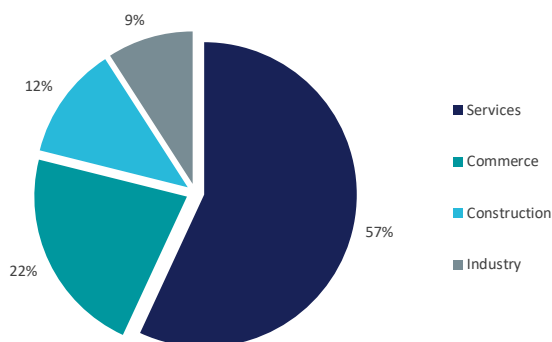
S&P

AA-

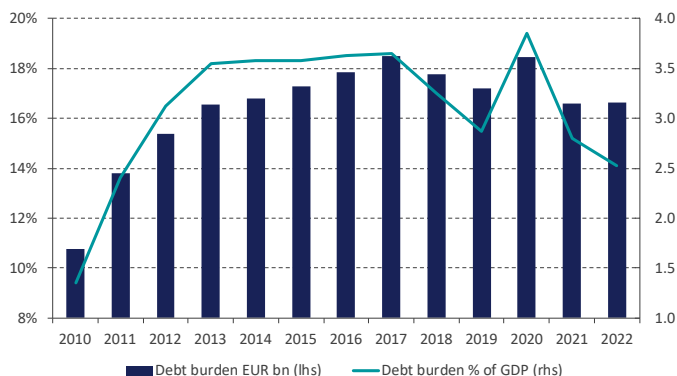
stab

* Provisional values

Breakdown of regional companies by sector (2022)



Public debt trend over time





Asturias (PRIAST)

Asturias is located in north-western Spain and borders Galicia to the west, Castile and León to the south and Cantabria to the east. Covering an area of roughly 10,600 km² and with just over one million inhabitants, Asturias ranks as one of the smallest regions in Spain. Population density is moderate, with the population mainly concentrated in the centrally located cities of Gijón and the regional capital Oviedo. The geography of the region produces an oceanic climate, with the Costa Verde owing its name to the lush green landscape of Asturias. With a share of 1.9% (EUR 23.4bn), Asturias is responsible for just a fraction of Spain's total GDP. At around EUR 23,235, per capita GDP comes in slightly below the national average. Despite recently recording a marginal increase in unemployment for Q1 2023, at 13.1% this metric remains slightly below the Spanish average (13.3%). However, at 26.6% (Q1 2023), the unemployment rate among the under 25s is noteworthy. The debt level in Asturias stood at 16.4% as at Q4 2022 and is therefore at a moderate level compared with the other regions. At 63.6%, the budget for 2023 primarily provides for expenditure in the area of personnel, while current transfers to other government levels in the region form the second largest item of expenditure (18.3%). As is the case with its population, geographically speaking, the Asturian economy is predominantly concentrated on the central part of the region. Industry accounts for a share of 18.8% in the gross value added of Asturias. The leading companies in the region's largest industrial sub-sector (process engineering) are active in the production of steel, zinc, glass, cement and pulp. Moreover, the tourism sector is of key economic significance to the coastal region. For example, Asturias welcomed back 3.6 million tourists to the region in 2022, after visitor numbers dwindled to just 2.2 million in 2020 following the outbreak of COVID-19. In 2022, a positive trend was also observed in the average length of trips as well as tourist spending (around EUR 1.1bn), reflecting a sharp rise in comparison with the previous year (+33.3% as per Q4 2022). Not least on account of the region's extensive conservations areas, sustainability is an important topic for Asturias. In comparison with other autonomous communities, spending in the areas of healthcare, social initiatives and environmental protection in Asturias is among the highest in Spain. The digital transformation represents another strategic focus in the context of regional policy.

General information

[Homepage](#)

Number of inhabitants (2021)

1,011,792

Capital city

Oviedo

GDP (2021)*

EUR 23.44bn

GDP per capita (2021)*

EUR 23,235

Unemployment (Q1 2023)

13.1%

Debt (as a % of GDP, Q4 2022)*

16.4%

Bloomberg ticker

PRIAST

Outstanding volume

EUR 0.3bn

Ratings	Long-term	Outlook
Fitch	-	-
Moody's	Baa1	stab
S&P	-	-

Fitch

-

-

Moody's

Baa1

stab

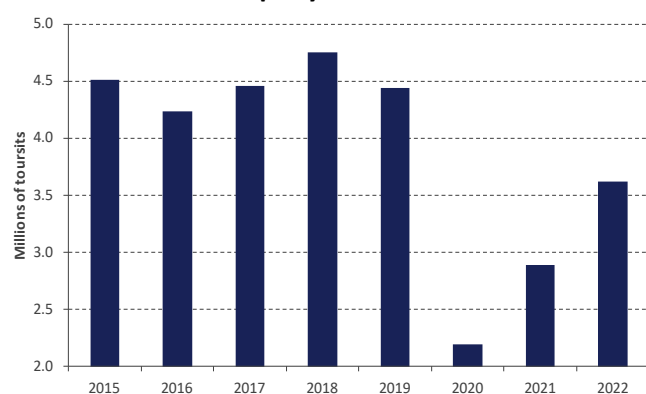
S&P

-

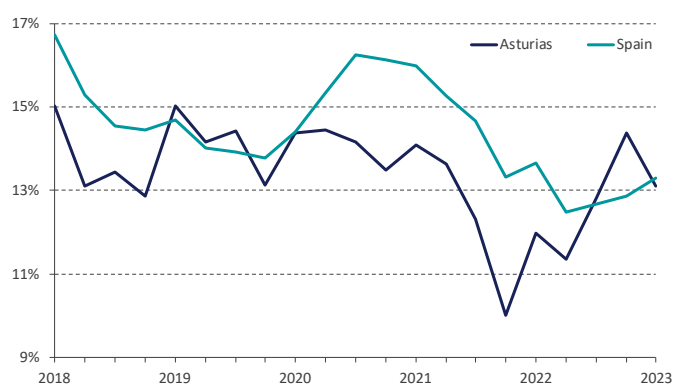
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* Provisional values

International tourists per year



Unemployment rate over time



Source: Issuer, Asturias Institute of Statistics, INE, NORD/LB Markets Strategy & Floor Research

Regulatory overview for RGLAs* / ** (Examples)

Issuer	Risk weight	LCR classification	NSFR classification	Solvency II classification
Belgian regions	0%	Level 1	0%	preferred (0%)
German Laender	0%	Level 1	0%	preferred (0%)
French regions	20%	Level 2A	15%	preferred (0%)
Italian regions	20%	Level 2A	15%	non-preferred (individual review)
Spanish regions	0%	Level 1	0%	preferred (0%)

* Regional governments and local authorities

** NB: in the absence of an explicit guarantee from the respective nation state, the current LCR level is dependent on the relevant rating (see CQS classification and LCR classification of assets).

Source: NORD/LB Markets Strategy & Floor Research

Exceptions to scope of application of the Leverage Ratio (CRD IV Art. 2 no. 5) (examples)

EU	Central banks of member states
Belgium	Former exceptions prior to the amended law of 29 Dec. 2020: Institut de Réécompte et de Garantie/- Herdisconteringen Waarborginstituut
Germany	Kreditanstalt für Wiederaufbau (KfW), Rentenbank, regional promotional banks explicitly listed under No. 5, undertakings which are recognised under the "Wohnungsgemeinnützigkeitsgesetz" as bodies of state housing policy and are not mainly engaged in banking transactions, and undertakings recognised under this same law as non-profit housing undertakings
France	Caisse des Dépôts et Consignations (CDC)
Italy	Cassa Depositi e Prestiti (CDP)
Spain	Instituto de Crédito Oficial (ICO)

Source: CRD IV, NORD/LB Markets Strategy & Floor Research

Regional governments and local authorities (solvency stress factor allocation of 0% possible; examples)

Country	Regional and local governments
Belgium	Communities (Communautés/Gemeenschappen), regions (Régions/Gewesten), municipalities (Communes, Gemeenten) & provinces (Provinces, Provincies)
Germany	Bundeslaender, municipalities & municipal associations
France	Regions (régions), municipalities (communes), "Départements"
Spain	Autonomous regions (comunidades autónomas) and local government (corporación local)

Source: (EU) 2015/2011, NORD/LB Markets Strategy & Floor Research

Summary of Spanish regions

Risk weighting	0%
LCR classification	Level 1
NSFR classification	0%
Solvency II classification	Preferred (0%)

Source: NORD/LB Markets Strategy & Floor Research

Liability mechanism

The Kingdom of Spain provides an explicit guarantee for the autonomous communities – this is something that not even the German Laender can offer (principle of Bundestreue [federal loyalty] is implicit in nature). The mechanism of vertical and horizontal financial equalisation on the basis of the three elements described above ensures financial stability. As economically strong autonomous communities, the Basque country and Navarre also benefit from the foral system, likewise outlined previously, that affords both regions far-reaching autonomy in setting financial policy.

Issuer (Ticker)	Number of inhabitants (2021)	Unemployment (Q1 2023)	GDP per capita (2021)*	Outstanding Volume	No. of bonds	ESG	Rating
ANDAL	8,472,407	18.3%	18,906	EUR 5.2bn	19	4	(BBB- / Baa2 / A-)
ARAGON	1,326,261	8.9%	28,912	EUR 0.7bn	7	-	(- / - / BBB+)
BALEAR	1,173,008	18.1%	24,866	EUR 0.6bn	3	-	(- / - / BBB+)
BASQUE	2,213,993	8.4%	32,925	EUR 7.2bn	18	7	(A / A3 / AA-)
CANARY	2,172,944	17.2%	18,990	EUR 0.7bn	6	-	(- / - / A)
CASTIL	2,383,139	10.3%	24,428	EUR 3.5bn	18	-	(- / Baa1 / -)
CCANTA	584,507	9.3%	23,730	-	-	-	(BBB- / - / -)
GENCAT	7,763,362	10.4%	29,942	EUR 2.4bn	18	-	(BBB- / Baa1 / -)
JUNGAL	2,695,645	10.9%	23,499	EUR 2.8bn	9	3	(- / Baa1 / A)
JUNTEX	1,059,501	19.5%	19,072	EUR 0.5bn	9	-	(- / Baa2 / BBB)
LRIOJA	319,796	10.1%	27,279	EUR 0.03bn	1	-	(BBB- / - / -)
MADRID	6,751,251	11.0%	34,821	EUR 21.3bn	51	14	(BBB+ / Baa1 / A)
MANCHA	2,049,562	15.0%	20,655	EUR 0.5bn	5	-	(BBB- / Baa1 / -)
MURCIA	1,518,486	13.5%	21,236	EUR 0.1bn	3	-	(BBB- / Baa1 / -)
NAVARR	661,537	12.1%	31,024	EUR 1.2bn	14	3	(- / - / AA-)
PRIAST	1,011,792	13.1%	23,235	EUR 0.3bn	4	-	(- / Baa1 / -)
VALMUN	5,058,138	13.8%	22,289	EUR 0.4bn	4	-	(BBB- / Baa1 / BB)
Spain	47,385,107	13.3%	25,498	EUR 1,137bn	56	1	(Baa1 / A / A-)

*Provisional values

Source: Bloomberg, INE, European Commission, NORD/LB Markets Strategy & Floor Research (Rating: Fitch / Moody's / S&P)

ECB purchase programme

It is worth looking at the purchasing activities of the Eurosystem. To date, it has purchased securities issued by eight of the nine issuers examined in greater detail as part of this publication, namely ANDAL, ARAGON, BASQUE, JUNGAL, CASTIL, GENCAT, NAVARR and MADRID. Added to this are the issuers BALEAR and CANARY, meaning that overall, 10 of the 16 Spanish autonomous regions represented on the capital market have been purchased under the APP or PEPP. It was striking that, until recently, there were no CANARY bonds to be found in the Eurosystem's portfolio. For its part, Catalonia did not meet the Eurosystem purchasing conditions for the PSPP until mid-May 2021 on account of its rating, although bonds from this issuer have since been acquired following a rating upgrade. In terms of the number of ISINs purchased, the Spanish autonomous communities are the most frequently purchased sub-sovereign issuers after the German Laender. By way of comparison, a total of 575 different ISINs of German Laender have been purchased, as against 58 ISINs of Spanish autonomous communities and 55 from the Belgian regions.

Madrid following global trend by issuing sustainable bonds

With Madrid's strategic focus on sustainable bonds in terms of its refinancing activities, the region is following a growing trend on the primary market and assuming a pioneering role at a national level in the process. Last year, the cumulative volume of new issues in the most important sustainable bond categories (green, social, sustainable and sustainability-linked bonds) again reached a historically high value, although did just fall short of the record volume from the prior year. Our [NORD/LB – ESG update 2023](#) identifies green bonds as the fastest-growing sub-segment, although social bonds have been playing an increasingly prominent role since the onset of the COVID-19 crisis at the latest. This comes as a result of the special economic stimulus programmes, including the SURE (Support to mitigate Unemployment Risks in an Emergency) platform operated by the EU with a total volume of EUR 98.4bn. As far back as 2016, Madrid sought to position itself on the capital market as Spain's first active issuer in the area of social bonds. The Madrid portfolio now includes a mix of social, sustainable and green bonds across various maturity segments and features some considerable volumes.

Conclusion

Against the backdrop of highly dynamic developments in the interest rate environment across both 2022 and 2023, interesting investment opportunities are repeatedly cropping up in certain niches. Our other studies covering [Amsterdam](#), [Belgium](#) and [Paris](#) (VDP and IDF) must also be interpreted in this light. They supplement the traditional SSA portfolio in terms of maturity and/or yield, but in any case, also contribute to diversification. The increasing interest in Spanish regions is evidence that opportunities can be found here on a consistent basis. Despite its growth in recent years, at EUR 47.2bn, the Spanish market for regional bonds – i.e., excluding sovereign bonds – must still be classified as something of a niche market. Unsurprisingly, deals placed by the Madrid region account for the largest volume. One interesting aspect is that there is scarcely any currency diversification (out of a total of 189 bonds, just one deal each denominated in USD and JPY respectively). Not least because the Eurosystem has already acquired substantial amounts of Spanish bonds under the PSPP and PEPP, second and third tier issuers often tend to be the focus of rarer investment alternatives. These securities are of interest from a yield perspective and for regulatory reasons, while the issuers are also accessible for private placements. It remains to be seen how successfully Spain can navigate the multitude of impacts from the Russian war of aggression against Ukraine, continued dynamic inflation and sharp rises in interest rates. From our point of view, one point of criticism is the quality of investor relations services offered by many of the autonomous communities. There is considerable room for improvement in the internet presence of various issuers, while investor presentations – if even available – are often outdated and/or unclear. We would like to see far more information made available to analysts and investors in future in order to adequately address the sheer diversity of the various issuers.

Appendix

Publication overview

Covered Bonds:

[Issuer Guide Covered Bonds 2022](#)

[Covered Bond Directive: Impact on risk weights and LCR levels](#)

[Risk weights and LCR levels of covered bonds](#) (updated semi-annually)

[Transparency requirements §28 PfandBG Q1/2023](#) (quarterly update)

[Covered bonds as eligible collateral for central banks](#)

SSA/Public Issuers:

[Issuer Guide – German Laender 2022](#)

[Issuer Guide – German Agencies 2022](#)

[Issuer Guide – Dutch Agencies 2022](#)

[Issuer Guide – European Supranationals 2023](#)

[Issuer Guide – French Agencies 2023](#)

[Beyond Bundeslaender: Belgium](#)

[Beyond Bundeslaender: Greater Paris \(IDF/VDP\)](#)

Fixed Income Specials:

[ESG-Update 2023](#)

[ECB interest rate decision: All new in May... Or: The force of past rate hikes!](#)

[ECB interest rate decision: Backbone in times of turmoil?!](#)

[ECB interest rate decision: Roadmap to QT](#)

Appendix

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Origination Corporates	+49 511 361-2911

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Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

Trading

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Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9550
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