



Beyond Bundeslaender: Spain

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Spotlight on Spanish Regions

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Spain: Introduction and classification

In the last few months, we have already looked at the [Belgian regions](#), [Greater Paris](#) and the [autonomous regions of Portugal](#); in this edition of our weekly publication, we will now turn the spotlight for the first time on the Spanish regions of relevance for the capital market. Spain is divided into 17 regions, referred to as autonomous communities. These were formed after the end of the Franco dictatorship which lasted from 1936 to 1975. In addition, there are the two autonomous cities of Ceuta and Melilla on the north African coast. The autonomous communities in turn are split into a total of 50 provinces, which are mostly named after the respective provincial capital. These in turn are split into 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. Although – unlike the German Laender – the autonomous communities do not have state character, their competency scope is similar. Above all, their legislative competence is very similar. 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. The Basque Country and Navarre have a much stronger financial autonomy than the other communities. The inhabitants of many autonomous communities often have a much greater sense of national pride in relation to their respective region. This is especially true of Catalonia and the Basque Country where separatist movements are promoting greater autonomy or even complete independence from Spain and wish to be recognised as a separate state. There are even autonomous movements in parts of Andalusia and Galicia.

Political system

Spain is a hereditary parliamentary monarchy. After 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 is the official head of state and commander in chief of the armed forces (currently Philip VI), although, similarly to the German President, 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's parliament has two chambers: the Congress of Deputies and the Senate. The former is directly elected by the voters, whereas the Senate is chosen partly by the voters and partly by the autonomous communities. Each of the autonomous communities has its own parliament and government, and its own first minister.

Current political situation

For a long time after the end of the dictatorship in 1975, politics in Spain were dominated by the two main parties, the Partido Socialista Obrero Español (PSOE) and Partido Popular (PP), which could get over 80% of the votes in some elections. In the last few years, however, there has been a marked change in the political landscape with many new parties becoming established, both left of the social democratic PSOE and right of the conservative PP. In the last election which took place in 2019, the two main parties attracted less than 50% of the votes. Pedro Sánchez, social democrat and leader of the PSOE, has been the acting prime minister since 2018. He took over from the conservative head of government Mariano Rajoy (PP), who stepped down after losing a vote of no-confidence. At the time, the vote was called by the PSOE against the Rajoy government after it emerged that high-ranking members of the PP were implicated in a corruption scandal. Since January 2020, 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 Izquierda Unida (IU), after Prime Minister Sánchez lost his government majority in the wake of unrest surrounding Catalonia's drive for independence. In October 2020, the right-wing populist Vox party called for a vote of no-confidence against the Sánchez government, which however was only supported by Vox deputies and therefore soundly rejected overall. Sánchez recently carried out the third, and hitherto most extensive, cabinet reshuffle of his time in office, replacing seven out of a total of 17 ministerial posts in July 2021. 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 crisis in Catalonia, which has been rumbling on since 2017, was triggered after Spain's constitutional court declared Catalonia's independence referendum illegal. Over 90% of the voters voted in favour of independence for the region (turnout: 42.5%). However, observers reported many irregularities in the election. At the same time, Spain's central government tried to prevent the referendum going ahead through a series of police measures. In response to the parliament in Barcelona approving the independence referendum, the central government in Madrid finally dismissed the Catalonia government. In the subsequent new elections, the separatists in Catalonia won the majority in parliament by a tight margin. Even after more than four years, the political situation remains tense, especially in Catalonia.

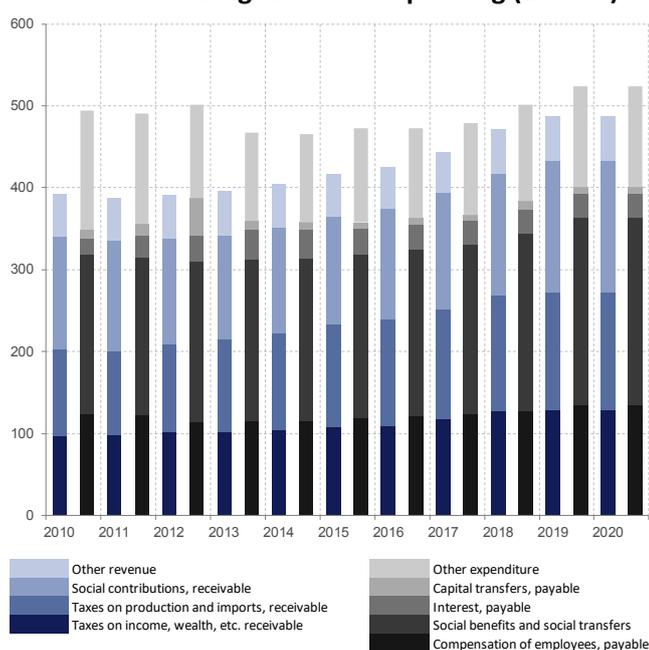
COVID-19 in Spain

During the first wave of the pandemic, Spain was the hardest hit country in Europe with almost 10,000 new infections per day between March and April 2020, leading the government to implement strict containment measures. After low case numbers and a relaxation of measures in the summer of 2020, new infections began to pick up again at a very rapid pace in August. Up to 20,000 new cases per day were reported in October, which once again led the Spanish government to impose strict restrictions on daily life. After a sharp fall in cases by mid-December, the third wave of the pandemic gathered momentum around the turn of the year, leading to over 30,000 new cases every day by mid-January. The national health emergency and draconian measures put in place to bring the pandemic under control lasted until May 2021. These were largely relaxed at the beginning of June and limited to basic hygiene mitigations. At over 1,840 deaths per million inhabitants overall, Spain is still one of the hardest hit countries in Europe. The ratio of fully vaccinated adults though is above the EU average at [79.83%](#) against [75.0%](#) (as at 02 November).

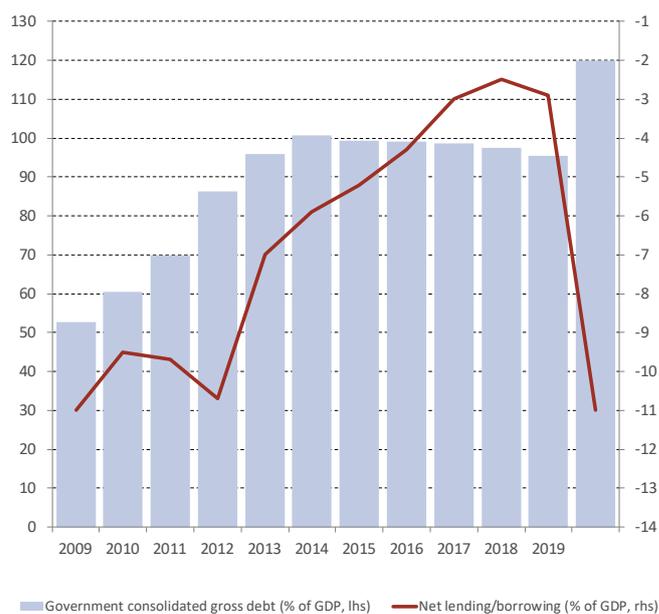
The Spanish economy

A long period of economic upturn in Spain was brought to an end with the bursting of the property bubble and the beginning of the global financial crisis from 2007 onwards. Spanish banks were the hardest hit by the global crisis which brought them to the brink of collapse. As a result of the impact of the crisis, sovereign debt which was still only 35.8% of GDP in 2007 had shot up to 100.7% by 2014. Unemployment reached a high of 26% in 2013 (including 56% youth unemployment). Spain agreed a rescue package worth up to EUR 100bn through the European Financial Stability Facility (EFSF) in 2012, of which approximately EUR 41.5bn had been drawn down by 2014. After years of economic downturn and stagnation, Spain's economy began to grow again from 2014 onwards. The upturn with average GDP growth of 2.6% per annum went on until the beginning of the coronavirus pandemic. The consequences of COVID-19 have hit the country, which had already been impacted by the financial crisis and the situation in Catalonia, like virtually no other in Europe. According to Eurostat, Spain's GDP experienced by far the sharpest fall in Europe in each of Q2, Q3 and Q4 2020. The slump in 2020 was therefore much greater than in other European countries: per capita GDP fell by around 10.6% to EUR 23,640. First and foremost, the economy was hit by the absence of tourists. This key sector for the country's economy which still contributed around 12% to GDP in 2019, collapsed by around 70% in 2020. In October, the IMF revised its growth forecast for real GDP in 2021: The figure has now been set at +5.7%, i.e. 0.5 percentage points lower than it was in April. At the same time, the forecast for 2022 was revised upwards to +6.4% from the previous figure of +4.7%. In addition, the pandemic has led to a surge in Spain's sovereign debt. Whereas it had been reduced from around 101% of GDP to 95% in the last five years, the IMF is forecasting a jump to around [120% of GDP](#) for 2021. Spain already had the fourth highest level of sovereign debt in the EU in 2020 ([average](#): 100.5%).

State revenues vs. government spending (EUR bn)



Sovereign debt vs. budget balance (in %)



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 looking in more detail at nine of the 17 issuers (**shown in bold**). The issuers listed under their Bloomberg ticker 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 mainly 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. The so-called foral system applies in the Basque Country and Navarre, allowing these regions much broader autonomy in terms of financial policy in so far 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). 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.



Andalusia (ANDAL)

Andalusia is the southern-most autonomous community on the mainland, accounting for around one sixth of the Spanish territory. It is bounded by the Mediterranean, Gibraltar and the Atlantic to the South, and by Portugal to the West. Andalusia is Spain's most populous autonomous community with around 8.5 million inhabitants, and one of the largest regions in Europe. GDP in 2019 stood at around EUR 165bn and therefore ranked third among the Spanish regions. However, per capita GDP of EUR 19,633 (2019) makes Andalusia one of the weakest economic regions of Spain – ahead of only its neighbouring community to the north, Extremadura, and the North African exclave of Melilla. In 2020, real GDP slumped by around 10% on account of the pandemic. Unemployment in Andalusia in Q2 2021 was low by comparison with the rest of Spain at 21.6%, but very high by European comparison (7.7%). As a result of the financial crisis in 2008/09, unemployment in Andalusia reached a peak of 36.8% in 2013, but has since been reduced to around 20% over the past few years. Andalusia's economy has traditionally been based on agriculture to a significant extent. At 7.7%, the primary sector accounts for a relatively high share of GDP for a developed country, while the secondary sector is less extensive at just 18.3%. The most important industries are aerospace, food, chemicals and metallurgy. Andalusia attracts many tourists all year round from both home and abroad through its varied landscape and culture. The Costa del Sol on the Mediterranean is one of the favourite destinations for beach holidays, while the Costa de la Luz on the Atlantic attracts water sports fans and the Sierra Nevada caters for winter sports. Apart from the capital Seville, Málaga, Córdoba and Granada are also popular destinations for visitors. The tourism sector is therefore a major earner for the region: whereas Andalusia still attracted over 12 million international tourists in 2019, the COVID-19 pandemic caused a huge slump of almost 80% to just 2.7 million international visitors in 2020. This has caused significant economic damage to the sector and the region. Andalusia's public-sector debt of 24.1% of GDP in Q2 2021 is relatively low compared with that of other autonomous communities. Fitch affirmed its BBB- rating for Andalusia in September 2021.

General information

Number of inhabitants (2020)

8,501,450

Capital city

Seville

GDP (2019)

EUR 165.26bn

GDP per capita (2019)

EUR 19,633

Unemployment (Q2 2021)

21.6%

Debt (as a % of GDP, 2020)

24.1%

Bloomberg ticker

ANDAL

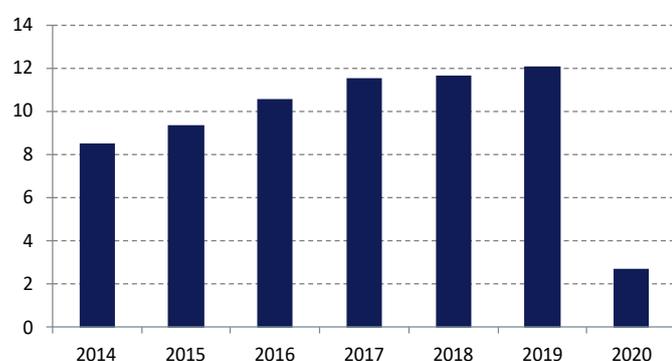
Outstanding volume

EUR 4.2bn

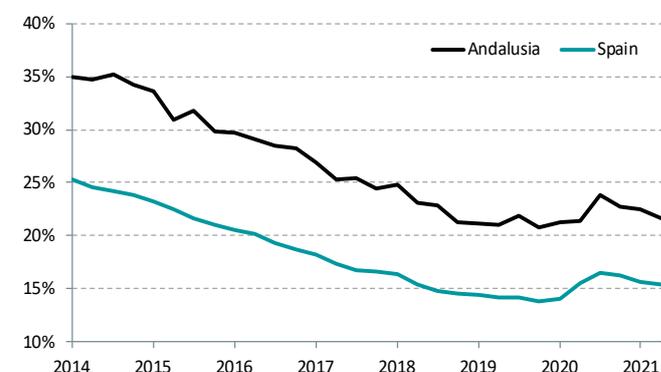
Ratings

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

International tourists per year (millions)



Unemployment rate over time



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



Aragon (ARAGON)

Aragon is situated in the northeast of the Iberian Peninsula, bordering on 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 south west. As regards population, Aragon ranks eleventh among the Spanish autonomous communities with around 1.3 million inhabitants. Population density is very low: Only 2.9% of the Spanish people live in Aragon which accounts for just under 10% of Spain's total surface. Slightly more than half the inhabitants (around 680,000) live in the capital Zaragoza – Spain's fifth largest city. Apart from Zaragoza, the region is rather rural. The second largest city, Huesca, has a population of only around 53,000. Although Spanish is the official language, Aragonese and Catalan are also spoken in the region. The former is widespread in the valleys of the Pyrenees and the latter along the border with Catalonia. Aragon's economic output is above the national average with per capita GDP of EUR 28,727 (2019). In the three months from April to June 2021, GDP grew by 19.9% in relation to the period from January to March, on the basis of which Aragon is likely to remain above the national average for the rest of the year. Unemployment in Q2 2021 was relatively low at 10.7% and had continued to come down in the years prior to the pandemic. Major industries in the region are the auto industry, food production, IT and logistics. The biggest companies are to be found in and around Zaragoza. However, the economy is nevertheless dominated by SMEs. Only 17 companies employ more than 1,000 people. The biggest company in Aragon is Spain's Opel factory which has a workforce of over 5,000 staff. The plant has produced a total of over 10 million vehicles since 1982. The logistics sector benefits from extensive infrastructure and Zaragoza's advantageous geographical position as the connecting point for the five cities of Toulouse, Bilbao, Madrid, Valencia and Barcelona. Zara, Decathlon and DHL, among others, all have large logistic centres in the region. Another positive sign, in our view, is that Amazon Web Services (AWS) is planning to invest EUR 2.5bn in three data centres in Aragon, which are likely to go into service in 2022, bringing 1,000 new jobs. Tourism only plays a secondary role in Aragon's economy, but does benefit from the many visitors drawn to the Pyrenees for winter sports.

General information

Number of inhabitants (2020)

1,320,586

Capital city

Zaragoza

GDP (2019)

EUR 38.04bn

GDP per capita (2019)

EUR 28,727

Unemployment (Q2 2021)

10.7%

Debt (as a % of GDP, 2020)

25.5%

Bloomberg ticker

ARAGON

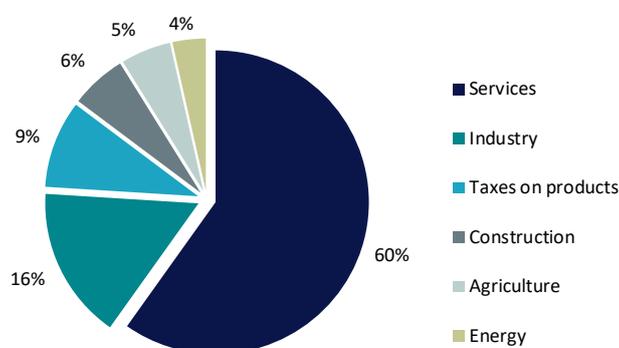
Outstanding volume

EUR 0.9bn

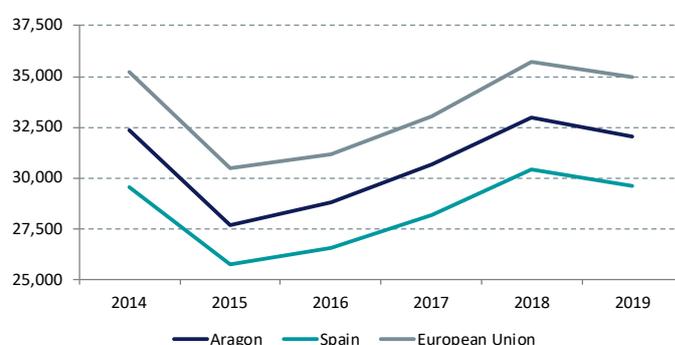
Ratings

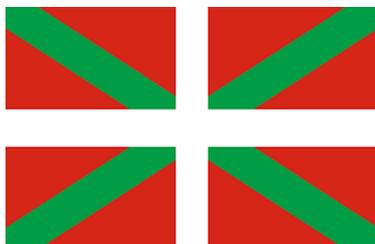
	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	BBB+	stab

GDP by sector contribution



Annual GDP per capita over time (USD)





Basque Country (BASQUE)

The Basque Country is a region on the Atlantic on the Franco-Spanish boarder. 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 the north of the autonomous community of Navarre. As one of the smallest autonomous communities in Spain, the Basque Country is densely populated with around 2.2 million inhabitants. Around 27% of the inhabitants speak the Basque language, Euskara, which is still recognised today as the official language. Politics within the region are marked by conflicts with central government: Many Basques still want independence from the Spanish state and for the Basque Country to be a separate entity. Up until just a few years ago, the left-wing terrorist organisation ETA was still carrying out repeated attacks aimed at achieving the formation of an independent Basque state. The community's capital is Vitoria-Gasteiz, which is the second largest city in the Basque Country after Bilbao. The region has one of the strongest economies in Spain with per capita GDP of EUR 34,142; it contributes around 6% to the national GDP. At 10%, unemployment remained low in Q2 2021 compared with the national average. The Basque Statistics Office currently projects a slump in GDP of 10.1% (preliminary) in 2020, which means that the region's economy has suffered less from the pandemic than the rest of Spain. Public-sector debt was moderate in 2020 at 16.1% of GDP, and it should remain at a comparable level even after the crisis. The Basque Country has a diversified industry with steel, machinery, energy, automotive and aeronautics. Moreover, it is important to draw attention to the R&D strength of the region through a large number of universities and innovative companies 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 collecting 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 boost liquidity and spread the impact of the crisis fairly across the generations. In future, 50% of the financing volume will be issued as sustainable bonds (maturity of 10-12 years), 30% as private placements with a maturity of 30 years and 20% will be raised in the form of bilateral credits with terms of less than ten years. In addition to longer maturities, the issuer will aim for a 25% share of floaters.

General information

Number of inhabitants (2020)

2,185,605

Capital city

Vitoria-Gasteiz

GDP (2019)

EUR 74.49bn

GDP per capita (2019)

EUR 34,142

Unemployment (Q2 2021)

10.0%

Debt (as a % of GDP, 2020)

16.1%

Bloomberg ticker

BASQUE

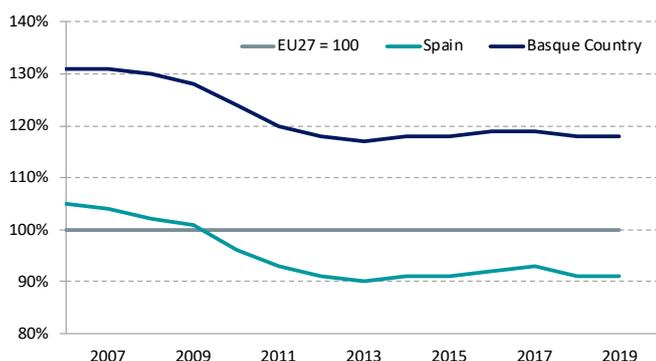
Outstanding volume

EUR 6.6bn

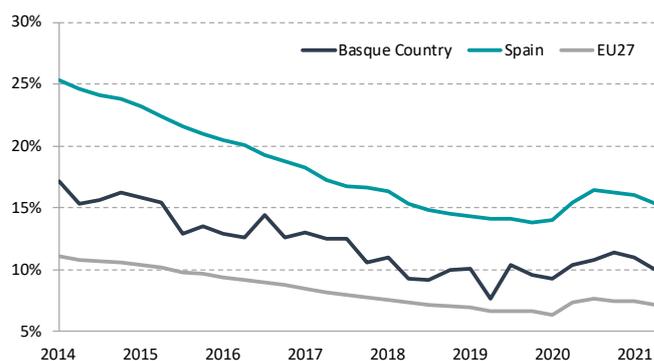
Ratings

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

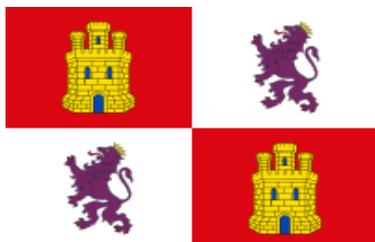
GDP per capita in comparison with Spain and the EU



Unemployment rate over time



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



Castile and León (CASTIL)

Castile and León is the largest autonomous community in Spain with a surface area of around 94,000 km². It therefore accounts for almost one fifth of the Spanish territory. 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 25.5 inhabitants per square kilometre, however, Castile and León is very sparsely populated, being home to only 5.1% of the Spanish population. Castile and León has no named official capital; De facto, though, Valladolid is regarded as the capital since it is home to the parliament and the seat of government. Valladolid is moreover the biggest city in the region with some 300,000 inhabitants. Economic output is slightly below the Spanish average with a per capita GDP of EUR 24,886 in Q2 2021. The local statistics office calculates a pandemic-led slump in GDP of 7.9% (preliminary) for the forthcoming publication of 2020 GDP. Unemployment is much lower than the national average with a figure of 12.6% in Q2 2021. One of the most important sectors in Castile and León is the automotive industry which contributes approximately 20% of GDP and accounts for over 60% of the region's exports. Renault and Fiat-Iveco, among other companies, operate plants in the province of Valladolid, while Nissan has a factory in the province of Ávila. Another important sector is the food industry which represents around 30% of the regional industrial production. It is also worth mentioning that Castile and León produces around 12% of Spain's total energy output and that it is therefore regarded as the biggest energy producer among the autonomous communities. The autonomous community is playing a pioneering role, especially in the field of renewable energies. Around 135% of the region's electricity consumption is from renewable energies. Moody's last affirmed its Baa1 rating with stable outlook in November 2020. The autonomous community therefore has the same rating as the Spanish state. Moody's justifies its rating, among other aspects, based on strong capital market access and a relatively low debt. On the other hand, Castile and León faces demographic challenges in view of an ageing population. According to the Spanish Statistics Office, INE, the percentage of people over the age of 65 in the region already stood at 25% in 2018 and this is set to rise to over 30% by the year 2028. In light of this, the rating agency expects the budget to be impaired by higher healthcare costs in the next few years.

General information

Number of inhabitants (2020)

2,381,281

Capital city

Undefined

Seat of government: Valladolid

GDP (2019)

EUR 59.79bn

GDP per capita (2019)

EUR 24,886

Unemployment (Q2 2021)

12.6%

Debt (as a % of GDP, 2020)

24.0%

Bloomberg ticker

CASTIL

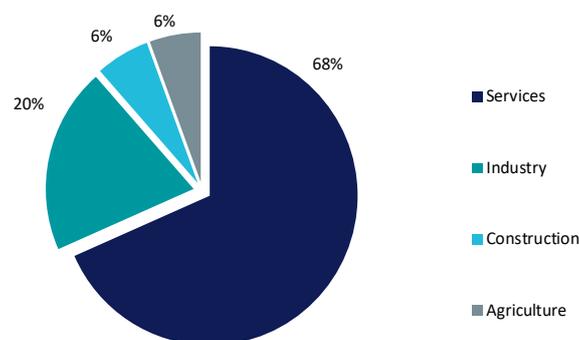
Outstanding volume

EUR 3.9bn

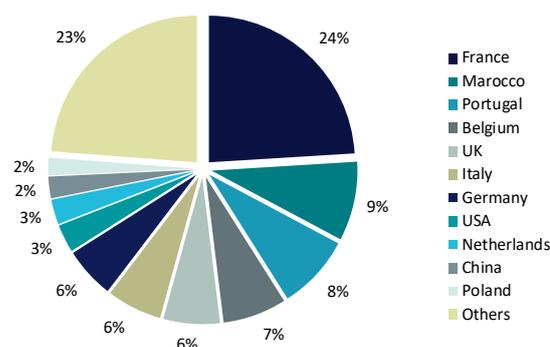
Ratings

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

Economic output by sector



Distribution of exports by destination



Source: Castile and León Institute of Statistics, INE, Moody's, NORD/LB Markets Strategy & Floor Research



Catalonia (GENCAT)

Situated on the Mediterranean in north-eastern Spain, Catalonia constitutes an important economic location in conjunction with its capital Barcelona. At EUR 224.13bn (2020), approximately 20% of national economic output is attributable to some 7.7 million inhabitants (16.1% of the Spanish population). The region's prosperity and autonomy has given rise to separatist movements for many years, which most recently led to a vote for independence in 2017, which was, however, annulled by the Spanish government. Barcelona's strategic location on the Mediterranean Sea not only encourages close economic relations with mainland Europe and Asia but also attracts an international workforce. These factors primarily benefit Catalonia's diversified secondary sector (including food, chemicals, pharmaceuticals, electricity) and contribute 19.8% (2020) to regional gross value added. The vital tertiary sector, which had grown by a steady 3% per annum. In the five years preceding the pandemic, contributes the majority of economic output, accounting for a share of 73.9% (2020). The most important sub-sectors within this sector are the public sector (2020 contribution: 20.9%), followed by vehicle trade and maintenance (18.4%). The international focus of the Catalonian economy is clearly reflected in its external trade balance. Although the volume of Catalonian exports shrank by 22.6% in 2020 due to the repercussions of the pandemic, a foreign trade surplus of 12.3% of GDP was still achieved. Catalonia therefore ranks third in the EU rankings behind Luxembourg (39%) and Ireland (30%). Of all Catalonia's exports, 39.3% (2020) remained within Spain. Despite the tensions in global trade in recent years, including the trade war between the USA and China, Brexit and currently the COVID-19 situation, foreign trade has remained largely stable. Over five years, foreign direct investment has averaged EUR 4.6bn (2020), having grown steadily since 1995. The COVID-19 crisis led to a historic slump in GDP of -21.7% (Q/Q) in the second quarter of 2020, followed by an upturn of 16.9% in the third quarter. Growth in GDP of 4.5% to 7.7% is expected for 2021. In the second quarter of 2021, unemployment stood at 12.3%, with 16-24-year-olds being most affected (38.4%). Following a record year in 2019 in which revenues from tourism reached EUR 21.3bn and visitor numbers reached 19.4 million, Barcelona suffered a decline of 59% in 2020. Current global infection rates are likely to continue complicating the situation.

General information

Number of inhabitants (2020)

7,716,760

Capital city

Barcelona

GDP (2020)

EUR 224.13bn

GDP per capita (2020)

EUR 29,034

Unemployment (Q2 2021)

12.3%

Debt (as a % of GDP, 2020)

37.2%

Bloomberg ticker

GENCAT

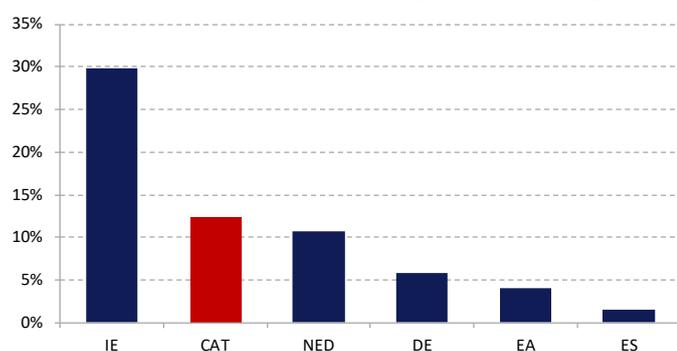
Outstanding volume

EUR 2.5bn

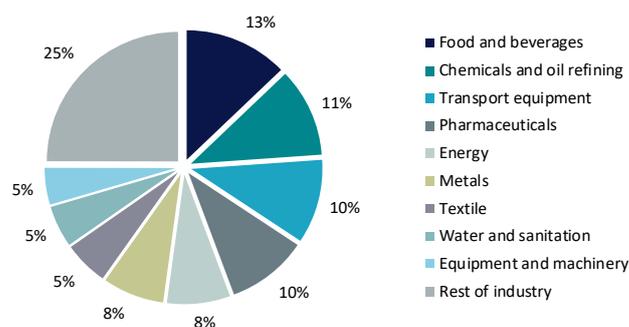
Ratings

	Long-term	Outlook
Fitch	-	-
Moody's	Ba2	stab
S&P	-	-

Net exports in an EU comparison (as a % of GDP)



Gross value added by industrial sector



Source: Statistical Institute of Catalonia, INE, Bloomberg, NORD/LB Markets Strategy & Floor Research



Galicia (JUNGAL)

Situated on Spain’s Atlantic north-west coast, Galicia is home to around 2.7 million inhabitants, or 5.5% of the Spanish population, making it the fifth largest autonomous region. In the south and east, it borders both Portugal and the region of Castile and León. Compared with the rest of Spain, it has a particularly high proportion of more elderly inhabitants. This trend is exacerbated by migration from Galicia to other regions of Spain and abroad. Consequently, the burdens on the health system and the financial budget have increased in recent years. The youngest members of the region’s population are concentrated in the densely inhabited western coast. The centre of industry and trade is located here in the provinces A Coruña and Pontevedra. The corporate landscape is dominated by SMEs, which are largely engaged in the tertiary sector. In 2019, GDP amounted to EUR 64.4bn or EUR 23,873 per capita. In terms of their contribution to GDP, the most important industries are the textiles industry (37%), the automotive sector (14%), the food and beverages industry (10%) as well as ship construction (5%). The maritime economy benefits, in particular, from its key position on the Atlantic in conjunction with a sophisticated infrastructure. With more than 120 harbours, Galicia has long been an important trading platform in southern Europe. For international merchant shipping, Galicia is also a connection point with the central axis of the European Atlantic corridor. 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. Galicia’s significance for the national textiles industry must also be highlighted. Research and development are being driven forward in the information and biotechnology sectors as well as renewable energies. Self-sufficiency in electricity and heat already stood at 52% in 2015, of which wind power accounted for 29%. Thanks to a stringent budgetary policy, Galicia has largely complied with the budget targets set by central government since 2012. At the end of 2020, Galicia reported an un-substantial budget deficit of 0.08% of regional GDP. The rating agency Moody’s expects a temporary deterioration in the budget for 2021, which will, however, be absorbed by the national liquidity mechanism. Unemployment in the region stood at 12.4% in Q2 2021.

General information

Number of inhabitants (2020)

2,701,819

Capital city

Santiago de Compostela

GDP (2019)

EUR 64.43bn

GDP per capita (2019)

EUR 23,873

Unemployment (Q2 2021)

12.4%

Debt (as a % of GDP, 2020)

19.9%

Bloomberg ticker

JUNGAL

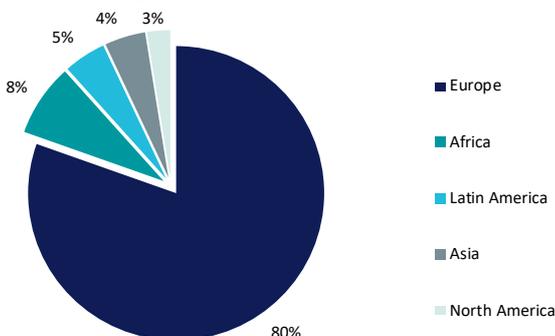
Outstanding volume

EUR 2.0bn

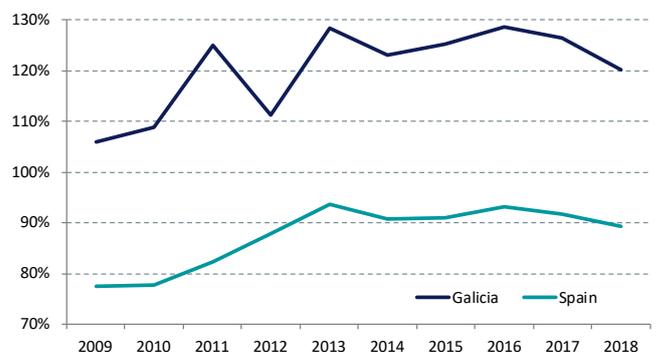
Ratings

	Long-term	Outlook
Fitch	-	-
Moody’s	Baa1	stab
S&P	A	neg

Exports by region



Export/Import ratio: Galicia vs. Spain



Source: Galician Statistical Institute (IGE), INE, Moody’s, Bloomberg, 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 centre of the country on the historical Castilian plateau. As the fourth largest city in Europe and the third largest Spanish region, it is home to around 6.8 million inhabitants (2020), approximately 14% of the Spanish population. At EUR 35,913 (2019), Madrid achieves the highest GDP per capita among the autonomous regions and is therefore approximately 36% above the national average and even 16% or so above the European average. The trend in the unemployment rate has been positive for many years and, at 12.1%, was again below the national average in the second quarter of 2021. The region's international focus means that it is home to a diverse range of companies, with the tertiary sector dominating. Accordingly, 85% of GDP is attributable to the service sector, while 15% of economic output is generated in the secondary sector. The leading sub-segments within the secondary sector, which contribute 24% to sector output, are the wholesale and retail trades as well as the automotive, warehousing and transport sectors. International investors' interest in Madrid is reflected in a share of around 80% of foreign direct investment in Spain. Madrid's flexible tax system, which provides for reliefs in large areas of property tax and trade tax, also helps. The buoyant start-up scene also benefits from this: in 2020, 23% of national start-ups or 21,791 new companies were formed in Madrid. Compared with the rest of Spain, the economy recovered from the slump in Q2 2020 triggered by the COVID-19 pandemic more rapidly than most. A fall in the services sector of -26% year on year was followed by a figure of only -8.2% in Q3. Even in the heavily affected hotel and restaurant industry, the COVID-19 crisis translated into a fall in sector output of up to -55% in Q3 and -18.2% in the third quarter respectively. For 2021, the Madrid Institute of Statistics expects positive growth in GDP of around 7% Y/Y. With its funding via the capital market, the Madrid region focuses on sustainability and therefore plays a pioneering role in Spain. As the largest Spanish issuer of sustainable bonds, Madrid last placed e.g. a benchmark issue worth EUR 1.0bn in March 2021. By ensuring sustainability is part of all public sector activities, it aims to improve the socio-economic situation in the longer term.

General information

Number of inhabitants (2020)

6,752,763

Capital city

Madrid

GDP (2019)

EUR 240.13bn

GDP per capita (2019)

EUR 35,913

Unemployment (Q2 2021)

12.1%

Debt (as a % of GDP, 2020)

16.0%

Bloomberg ticker

MADRID

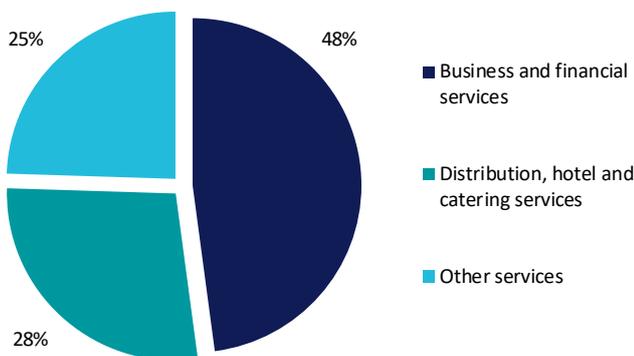
Outstanding volume

EUR 20.0bn

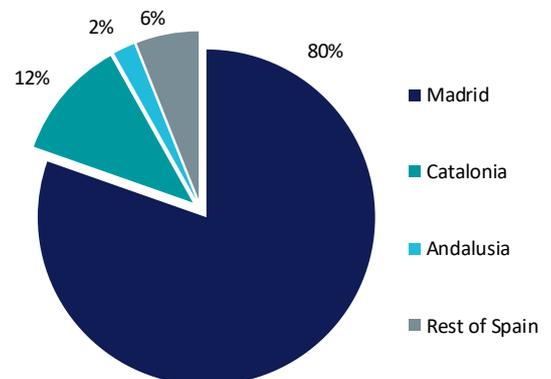
Ratings

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

Services by sub-sector



FDI in Spanish regions (cumulative up to Q3 2020)





Navarre (NAVARR)

Navarre is located in northern Spain and, with around 661,000 inhabitants, is one of the most sparsely populated of Spain’s autonomous communities. The region borders the Basque country in 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 by far the largest city in Navarre, with around 204,000 inhabitants. Pamplona is also the only large city in the region, which is otherwise largely rural in character. Tudela, which has only just over 37,000 inhabitants, is the second largest city. In cultural terms, the northern part of Navarre was historically part of the Basque country. The Basque language “Euskara” is still widely spoken and is even still the official language in some municipalities. Roughly 12% of Navarre’s inhabitants speak Euskara and 64 of the 272 municipalities are regarded as mainly Basque-speaking zones. Compared with the rest of Spain, the regional economy is very strong and, with GDP per capita of EUR 32,141, Navarre reported the fourth highest figure among Spain’s 17 autonomous communities in 2019. In the second quarter of 2021, it reported a very low unemployment rate (10.3%) compared with the rest of Spain. Having been primarily dominated by agriculture for many years, the primary sector no longer plays such a significant role in the region as is still the case in some southern Spanish regions, for example. The overwhelming majority of the workforce is employed in the services sector (62.8%), followed by industry (33.0%) and the primary sector (4.2%). The Volkswagen plant in Pamplona is one of the region’s most important employers: in 2018 alone, over 270,000 vehicles rolled off the conveyor belt of which the vast majority were small cars. The economy also benefits from a dense network of various local automotive suppliers. Among other sectors, further key industries include food production, health care and renewable energies. As mentioned previously, Navarre also benefits, in addition to the Basque country, from the foral system combined with almost complete tax autonomy. Accordingly, Navarre can have a significant impact on the region’s corporate taxation and, by doing so, create a supportive environment for companies. Despite the coronavirus crisis, Navarre generated a foreign trade surplus of EUR 3.28bn. However, the rating agency S&P revised the outlook from stable to negative in September 2020. The rating of AA- was confirmed again, given the highly diversified economy and the advantageous tax system.

General information

Number of inhabitants (2020)

661,197

Capital city

Pamplona

GDP (2019)

EUR 20.89bn

GDP per capita (2019)

EUR 32,141

Unemployment (Q2 2021)

10.3%

Debt (as a % of GDP, 2020)

19.1%

Bloomberg ticker

NAVARR

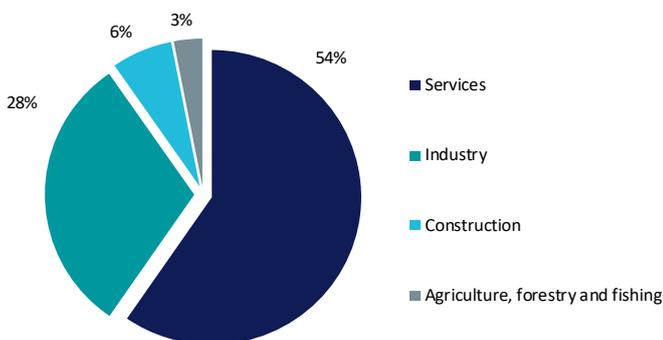
Outstanding volume

EUR 1.4bn

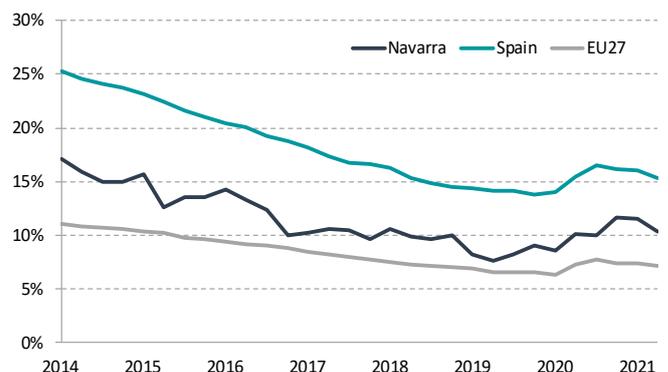
Ratings

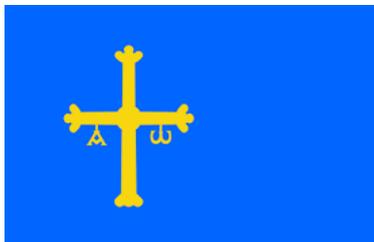
	Long-term	Outlook
Fitch	-	-
Moody's	-	-
S&P	AA-	neg

Economic output by sector



Unemployment rate 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. With an area of around 10,600 km² and just over one million inhabitants, Asturias ranks as one of Spain's smallest regions. It is moderately densely populated with inhabitants being mainly concentrated in the central cities of Gijón and the capital Oviedo. The region's geography leads to an oceanic climate, which differs significantly from the generally dry, hot climate prevailing in the rest of the country. The Costa Verde owes its name to the green landscape. With a share of 2.1% (EUR 23.8bn, 2019), Asturias only contributes a fraction to Spanish gross domestic product. Compared with the rest of Spain, the figure for GDP per capita is average at around EUR 23,300. In terms of its unemployment rate, which has been trending virtually sideways for a few years and stood at 13.6% in the second quarter of 2021, Asturias comes in somewhat below the national average (15.3%). However, at almost 40%, unemployment is particularly high among those aged 25 and below. Since the financial crisis in 2008, the debt of the Autonomous Community of Asturias has risen from around 3% of GDP to 20% of GDP (EUR 5.1bn) in 2020 and is therefore still moderate compared with the rest of the country. According to Eurostat, the majority of gross value added pre-coronavirus, at 71.7%, was accounted for by the tertiary sector, followed by the secondary sector (including construction) at 26.9% and the primary sector with the remaining 1.4%. The most significant contributions to GDP are made by tourism, followed by industry and the public sector as well as construction and the real estate sector. Before the pandemic, Asturias was distinguished by increasing levels of entrepreneurship, which has been expanding continuously since 2016 to over 68,000 start-ups in 2020. This is making an ever more important contribution to the growth of the region. The majority of these companies are engaged in the tertiary sector and employ fewer than ten employees. The restructuring of the mining industry, which severely hampered economic growth in the last 30 years, is still a major influence on the Asturias region. However, the restructuring measures are expected to be largely completed over the course of 2021. The long-term strategic refocusing of the Asturian energy sector envisages a transition from previously exporting energy to largely importing it in future.

General information

Number of inhabitants (2020)

1,022,205

Capital city

Oviedo

GDP (2019)

EUR 23.77bn

GDP per capita (2019)

EUR 23,299

Unemployment (Q2 2021)

13.6%

Debt (as a % of GDP, 2020)

20.8%

Bloomberg ticker

PRIAST

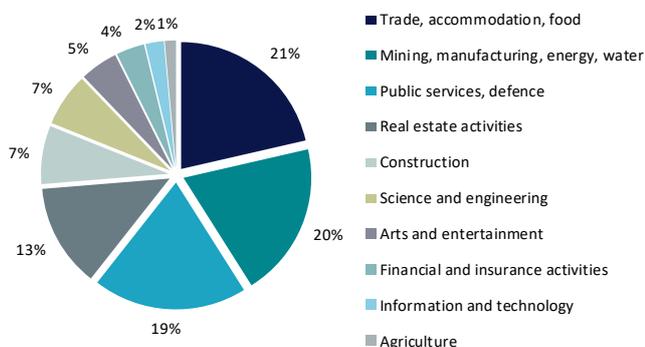
Outstanding volume

EUR 0.6bn

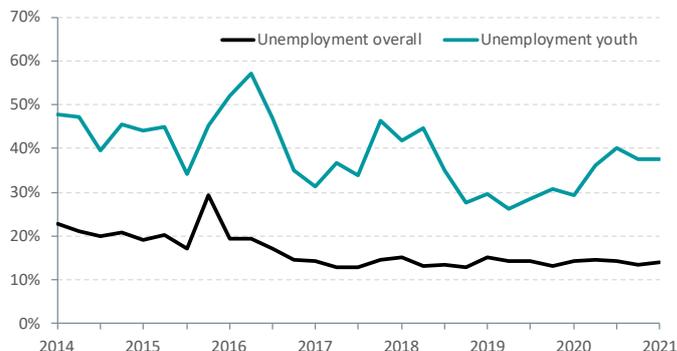
Ratings

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

GDP by sector contribution



Unemployment rate over time



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

Outstanding bonds of all Spanish regions

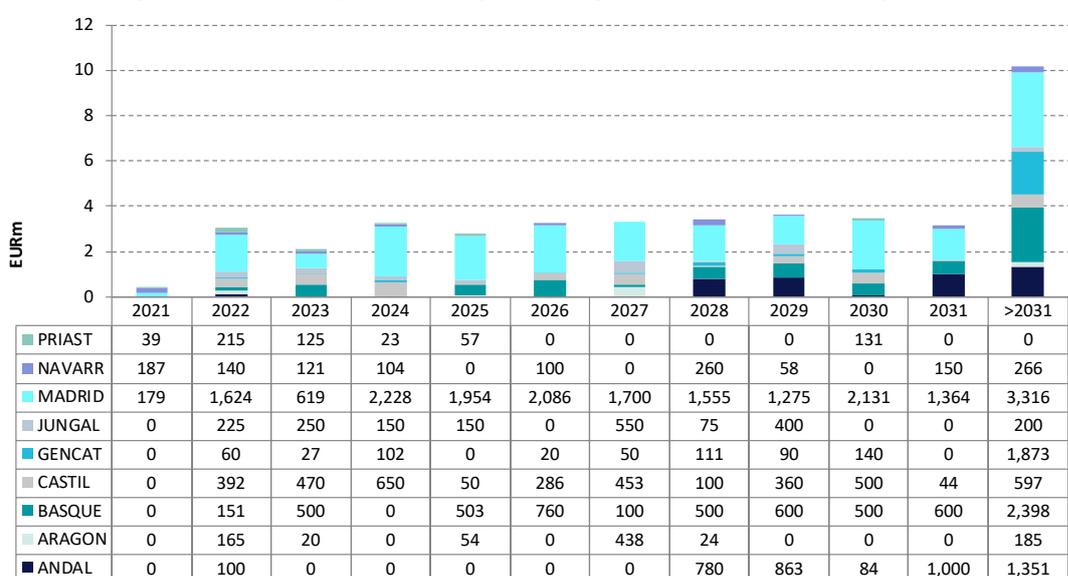


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Volume of the Spanish regions sub-segment

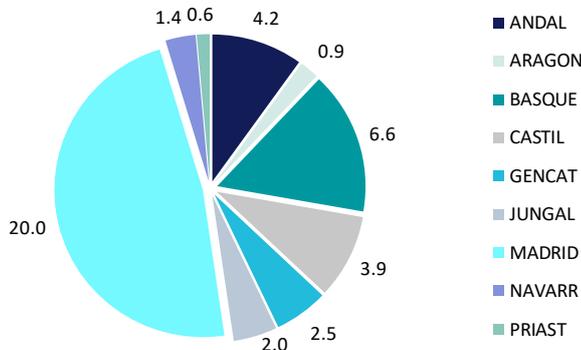
The total market of Spanish regions comprises EUR 44.4bn (EUR equivalent) spread across 198 bonds. Of this figure, 196 bonds (EUR 44.1bn) are denominated in EUR, with one bond each denominated in USD and JPY respectively. MADRID dominates market activity, at EUR 20.0bn, followed by BASQUE (EUR 6.6bn), ANDAL (EUR 4.2bn) and CASTIL (EUR 3.9bn). In total, 33 of the 198 bonds are in benchmark format, meaning that they are worth EUR 500m or more. MADRID has issued two bonds of just under EUR 2bn, while the smallest bond in the universe of Spanish regions is worth just EUR 5m.

Outstanding bonds issued by selected Spanish regions included in this report

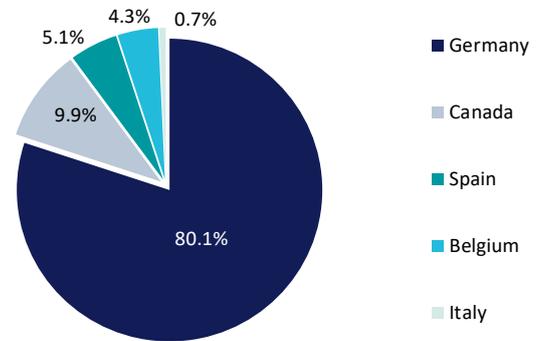


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Breakdown of the regions included in EUR bn



Country weighting within the iBoxx € Regions

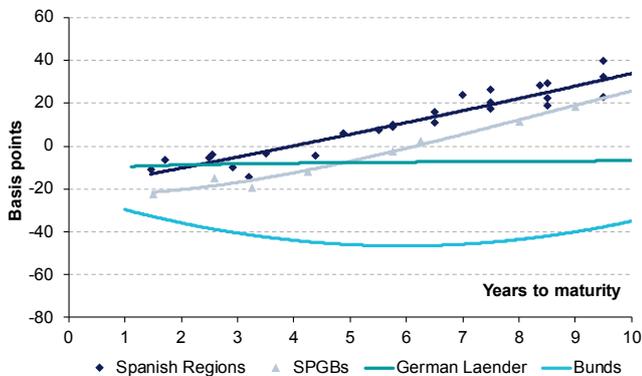


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

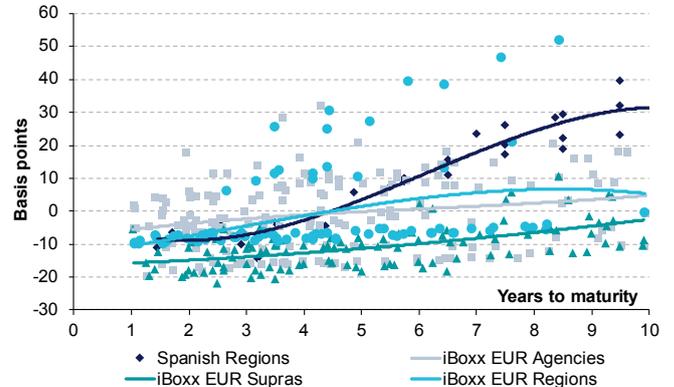
Spanish regions in the iBoxx EUR Regions and review of spreads

As shown above, the entire Spanish market for regional bonds amounts to EUR 44.4bn, of which EUR 20.0bn is attributable to the MADRID ticker. Globally, the ultimate issuer group is still the German Laender, which make up 80.1% of the composition of the iBoxx EUR Regions. After Canada (9.1%), Spanish regions are ranked third on 5.1%, followed by Belgium and Italy in the rankings. Apart from the amounts, the spread levels are also suitable: compared with the iBoxx EUR Regions, the Spanish regions trade at premiums from maturities of five years. At the long end, the spread difference amounts to almost +30bp. The differences compared with agencies and supras are more marked. Compared with the supras that are better rated on average and the fact that the bonds issued by these regular issuers are usually far more liquid, this is not surprising. Overall, Spanish regions feature the widest spreads compared with their peers and could therefore – with restricted liquidity – generate pickups for investors. All investors are also probably open for private placements and certain expectations concerning yields among institutional investors. Our “Beyond Bundeslaender” online event in March 2021, during which various regions introduced themselves as investment alternatives, also provided a good overview.

Generic ASW spreads – a comparison



ASW curves of Spanish regions vs. iBoxx



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data as at 28 Oct. 2021 eob

Regulatory overview for RGLAs* / ** (Examples)

Issuer	Risk weighting	LCR classification	NSFR classification	Solvency II classification
Belgian regions	0%	Level 1	0%	preferred (0%)
German Bundeslaender	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 Art. 2 no. 5) (examples)

EU	Central banks of member states
Belgium	Institut de Réescompte et de Garantie/- Herdiscontering- en Waarborginstituut
Germany	Kreditanstalt für Wiederaufbau (KfW), 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 that law as non-profit housing undertakings (e.g. Rentenbank, L-Bank, IFBHH, IBSH etc.).
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	Municipalities (Communauté/Gemeenschappen), regions (Régions/Gewesten), towns (Communes, Gemeenten) & provinces (Provinces, Provincies)
Germany	Bundeslaender, municipalities & municipal associations
France	Regions (région), municipalities (commune), "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 – which is something that not even German Laender can offer (principle of Bundestreue (federal loyalty) is implicit). The vertical and horizontal financial equalisation mechanism through the three elements described above ensures financial stability. As economically strong autonomous communities, the Basque country and Navarre also benefit from the foral system, which is also described above and gives both regions far-reaching autonomy in deciding financial policy.

Issuer (Ticker)	Number of inhabitants (2020)	Unemployment (Q2 2021)	GDP per capita (2019)*	Outstanding volume	No. of bonds	Ratings
ANDAL	8,501,450	21.58%	19,633	EUR 4.2bn	18	(BBB- / Baa2 / BBB+)
ARAGON	1,320,586	10.73%	28,727	EUR 0.9bn	10	(- / - / BBB+)
BALEAR	1,219,423	15.17%	23,299	EUR 0.6bn	3	(- / - / BBB+)
BASQUE	2,185,605	10.02%	34,142	EUR 6.6bn	18	(A- / A3 / AA-)
CANARY	2,244,423	24.71%	21,244	EUR 0.4bn	5	(BBB- / - / A)
CASTIL	2,381,281	12.59%	24,886	EUR 3.9bn	22	(- / Baa1 / -)
CCANTA	581,078	11.79%	24,383	-	-	(BBB- / - / -)
GENCAT	7,716,760	12.28%	34,645	EUR 2.5bn	19	(- / Baa2 / -)
JUNGAL	2,701,819	12.40%	23,873	EUR 2.0bn	8	(- / Baa1 / A)
JUNTEX	1,057,999	19.15%	19,454	EUR 0.5bn	9	(- / Baa2 / BBB)
LRIOJA	316,197	11.52%	28,200	EUR 0.03bn	1	(BBB- / - / -)
MADRID	6,752,763	12.09%	35,913	EUR 20.0bn	50	(BBB / Baa1 / A-)
MANCHA	2,049,455	16.58%	21,004	EUR 0.6bn	6	(BBB- / Ba1 / -)
MURCIA	1,513,161	13.15%	21,642	EUR 0.1bn	3	(BBB- / Ba1 / -)
NAVARR	661,197	10.30%	32,141	EUR 1.4bn	15	(- / - / AA-)
PRIAST	1,022,205	13.64%	23,299	EUR 0.6bn	8	(- / Baa1 / -)
VALMUN	5,045,885	16.37%	23,206	EUR 0.1bn	3	(BBB- / Ba1 / BB)
Spain	47,394,223	15.26%	26,426	EUR 1,021bn	53	(A- / Baa1 / A)

*Data for 2020 not yet available for all autonomous communities of Spain. Spain (2020): EUR 23,640

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 more detail in this article, namely ANDAL, ARAGON, BASQUE, JUNGAL, CASTIL, NAVARR and MADRID and latterly also GENCAT. There is also the issuer BALEAR, meaning that in total nine 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 GENCAT bonds to be found in the Eurosystem's portfolio. Their rating meant that the Catalonian bonds did not meet the Eurosystem's purchase conditions for the PSPP (see Covered Bond & SSA View 07/2021), which was also the case for Greece. However, non-investment grade bonds are also purchased under the PEPP. In terms of the number of ISINs purchased, the Spanish autonomous communities are the most frequently purchased sub-sovereign issuers after the German Laender. For comparative purposes: in total, 514 different ISINs of German Bundeslaender have been purchased, 49 ISINs of Spanish autonomous communities and 41 from Belgian regions.

Madrid is following a global trend with sustainable bonds

With Madrid's strategic focus on sustainable bonds for its funding, the region is following a growing trend on the primary market, but it is playing a pioneering role at a national level. The cumulative volume of new issues in ESG bond classes (green, social and sustainable bonds) grew significantly last year as well. Accordingly, in 2020, the issue of bonds in the ESG segment totalling EUR 425bn exceeded the figure for the previous year by 60%. The NORD/LB ESG Update (Feb. 2021) identifies social bonds as the fastest growing sub-segment with an increase in the amount of new issues from EUR 16bn in 2019 to EUR 138bn at the end of December 2020, a development driven by the pandemic. Since 2016, Madrid has sought to position itself on the capital market as the leading issuer in Spain in the segment of ESG bonds. Madrid's securities portfolio already includes social, sustainable and green bonds across various maturity segments and features some hefty volumes.

Conclusion

Against the backdrop of a further intensification in the low interest environment in 2020, which has only recovered slightly in 2021, attractive opportunities for investment emerge repeatedly in certain niches – in some cases amplified by the still rapidly evolving infection rates in the coronavirus pandemic. Our reports on the Canadian provinces and Down Under (Australian states and territories plus Auckland Council) must also be interpreted in this light. They supplement the traditional SSA portfolio in terms of maturity and/or yield but contribute to diversification in any case. Increasing interest in Spanish and Portuguese regions is evidence that opportunities can be found here on a consistent basis. Although the Spanish market for regional bonds – i.e. not including sovereign bonds – must still be classified as a niche market at EUR 44.4bn, despite its growth in recent years. Bonds issued by the Madrid region account for the largest volume, which should hardly come as a surprise. The fact that there is scarcely any currency diversification (two of 198 bonds in USD and JPY respectively) is of interest. Not least because the Eurosystem has already acquired substantial amounts of Spanish bonds under the PSPP and PEPP, second or third tier issuers are at the forefront of unusual investment alternatives every now and again. These securities are of interest from a yield perspective and for regulatory reasons and the issuers are accessible for private placements. It remains to be seen how successfully Spain can continue to cope with the occurrence of infection in the coronavirus pandemic. Some autonomous communities, in particular the regions with strong economies, have recovered far more rapidly from the historic collapse in economic output during 2020 than expected. A point of criticism for our part is the quality of many autonomous communities' investor relations. The internet presence of various issuers requires significant development and presentations to investors – if even available – are often outdated and/or unclear. We would like to see far more information made accessible to analysts and investors in future to be able to tackle the diversity of the various issuers adequately.

Appendix

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Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

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Additional information

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None

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Breakdown of recommendations (12 months)

Positive: 37%

Neutral: 55%

Negative: 8%

Recommendation record (12 months)

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Issuer / security	Date	Recommendation	Bond type	Cause
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