Autonomous Community of Navarre

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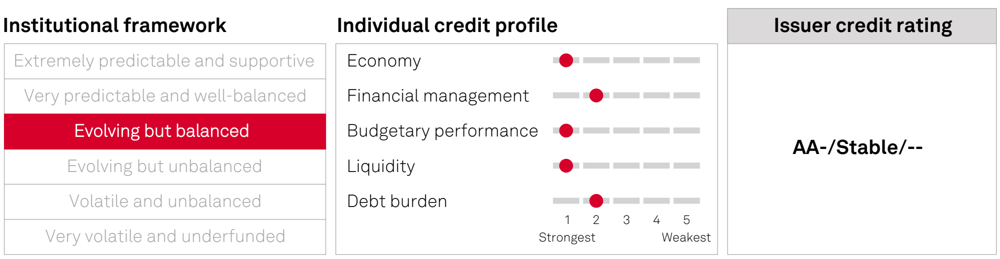
Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions	Base-case expectations
The Autonomous Community of Navarre's special status makes the region more exposed to the economic cycle because it has its own tax collection power.	We forecast Navarre will maintain sound operating performance throughout 2024-2027, in line with Spain's economic growth forecasts and lower inflationary pressure.
The region operates under a predictable institutional framework, under which every five years the region and the central government renegotiate the agreement that governs the budgetary flows between Navarre and the central government.	We expect the region will maintain high levels of investments, despite the exhaustion of EU Recovery and Resilience Facility (RRF) funds, given its plans to spend previous years' surpluses on capital expenditure (capex).
The region's financial management team is strongly committed to fiscal discipline and undertakes prudent choices in terms of debt and liquidity management.	Nevertheless, we think Navarre will continue to post budget surpluses and to reduce its indebtedness, which is among the lowest of all Spanish regions.

S&P Global Ratings expects Navarre's operating balance to remain robust, above 10% of operating revenues during our forecast period to 2027, despite a gradual moderation in economic growth. The region's operating revenue maintained positive momentum in 2024. We expect some deceleration in revenue growth due to a moderation in the economic growth, although Spain and Navarre continue to grow much faster than other large European peers. Nevertheless, we expect Navarre's management to moderate operating expenditure growth, allowing a maintenance of sound operating balances.

We forecast that Navarre will continue to deleverage, while maintaining a sound liquidity position. The region used accumulated surpluses to reduce its debt burden by about €182 million in 2024. We expect the region to continue deleveraging over the forecast period, supported by our expectation of consecutive budget surpluses.

Our ratings on Navarre can be above those on Spain because, in our view, its credit characteristics would make it more resilient than the sovereign in a stress scenario. However, while the region's stand-alone credit profile (SACP) is 'aa', we think Navarre is highly sensitive to Spain's country risk, so we can rate it no more than two notches above the sovereign. The SACP is not a rating, but a measure of the intrinsic creditworthiness of a local or regional government before accounting for any constraint from the sovereign rating.

Outlook

The stable outlook mirrors that on Spain (unsolicited; A/Stable/A-1). It also reflects our expectation that Navarre will continue to post balanced budgets and gradually reduce its debt burden.

Downside scenario

We would downgrade Navarre if we downgrade Spain, or if we no longer consider that the region meets our conditions to be rated above the sovereign. We could also downgrade Navarre if its financial performance materially deviates from our base-case scenario, including structural deficits. This could be because of a weaker economy or lack of commitment to maintaining strong budgetary outcomes, and could result in deteriorated liquidity.

Upside scenario

We could upgrade Navarre if we upgrade Spain and the region continues to perform in line with our expectations, which point to balanced budgets and a gradual reduction of debt.

Rationale

Navarre benefits from high fiscal autonomy but is more exposed to the economic cycle than normal-status regions

Navarre, the Basque Country, and other special status provinces have their own tax administration that collects the bulk of taxes in their territories. Therefore, these special status regions do not participate in the regional financing system, which is based on advances from taxes collected and allows the central government to soften the effect of economic cycles on regional revenue. The framework under which Navarre operates makes it more vulnerable to economic downturns, but also allows for a faster recovery. Aware of this high degree of exposure to the cycle, Navarre's government (regardless of political color) tends to follow a clearly countercyclical policy, reducing debt in periods of strong economic growth, and expanding debt if needed to soften the effect of weaker economic conditions, ensuring the continuity of public services.

Navarre's special status implies a bilateral relationship with Spain's central government, and the region enjoys a different treatment compared with normal status regions. The special agreement between Navarre and the central government, "Convenio Economico," is usually updated every five years. This agreement determines the transfers between Navarre and the central government, as well as the responsibilities Navarre has within the region. In late 2022, Navarre renegotiated its financial agreement for 2020-2024, which came out favorable for its revenue position. The agreement included an updated formula to determine the region's share of existing taxes and new sources of tax revenue. Given the technical and political complexity of these negotiations, it is typical for them to conclude with a delay. Nevertheless, if there is a delay due to unforeseen circumstances, as with the pandemic, or if there is a scenario under which Navarre thinks the outcome could be unfavorable, the region could oppose it; if the two parties cannot reach a new agreement, the previous one would prevail. We expect Navarre and the state will shortly negotiate for the 2025-2029 agreement. The negotiation is made more complex by the lack of an approved state budget for 2025, which is needed to establish the base year for the new period. However, we do not expect the renegotiation will imply any major changes for Navarre.

On Feb. 26, 2025, the Spanish government approved a proposal to absorb part of the debt of normal status regions. Reflecting their special status and singularity, both the Basque Country and Navarre were excluded from this measure. In our view, this highlights their lack of reliance on government support, which underpins our decision to rate them above the sovereign.

Navarre's economy is wealthier, more competitive, and more export-oriented than Spain's. The region's GDP per capita was about 120% of the national average year-end 2023. Manufacturing represents about 29.9% of its total gross value added, compared with Spain's 16.1% as of year-end 2023, featuring high value-added, export-oriented companies, making the economy more resilient to external shocks, in our view. Despite some declines in exports, mainly linked to the automobile sector, which typically represents about 50% of total exports, other sectors like construction or services are performing well in Navarre. Employment in the region is favorable, with an unemployment rate consistently below the national average, (6.6% of active population in Navarre at year-end 2024, compared with 10.6% nationwide).

As part of Navarre's special status regime, the region negotiates its budget deficit targets with the central government. Navarre, like other European local and regional governments (LRGs), benefited from the suspension of fiscal rules in Europe for 2020-2023, which granted the region greater budgetary flexibility. Nevertheless, thanks to Navarre's prudent management practices, the region has continued to post budget surpluses. Navarre has agreed with the central government a multi-year framework that would allow a maximum deficit of 0.3% of GDP during 2025-2027. We understand Navarre has asked for this margin of maneuver, without necessarily planning to exhaust it. We anticipate that the region will outperform this target and post surpluses during our forecast period. Navarre's financial management is very prudent and conservative when it comes to estimating operating revenue and expenditure. Also, the management has a strong track record of sound budgetary performance and has used surpluses to reduce its debt burden.

Navarre will post sound budgetary performance, allowing the region to continue its deleveraging path through 2027

Navarre once again outperformed our expectations in 2024 and posted an estimated budget surplus of 5.1% of total revenues, broadly in line with the 5.3% posted in 2023. Higher-than-expected tax revenues and expenditures moderating support this outcome. We expect Navarre to continue to post strong budgetary outcomes over our forecast period 2025-2027, despite economic growth moderating somewhat.

In 2024, Navarre's operating revenue growth slowed down compared to 2023, but was still substantially above the budget. This was thanks to stronger-than-expected economic dynamism in Navarre (and Spain) and despite the continuation of some tax reduction measures decided by the central government (such as taxes on electricity), which affect Navarre and were not included in initial budgetary projections. Tax revenue increased despite Navarre's decision to update tax brackets for inflation (in contrast with the decision taken by the central government). Despite the slower revenue growth, Navarre's strong cost containment allowed the region to slightly improve its operating balance, reaching close to 11.5% of operating revenues.

We expect Navarre to maintain solid operating performance throughout the forecast, with an operating balance consistently above 10% of operating revenue. We think that Navarre's operating revenue growth will slow down markedly in 2025 due to a one-off effect. Spain's Supreme court recognized the right of retired people who contributed to "mutualidades" (mutual societies) to reduce their personal income tax payments for their contributions. This court ruling affects administrations across the country, not specifically Navarre. We understand that Navarre will refund the affected individuals for about €150 million in total in 2025 (corresponding to three years of applicable deductions). In future years, there will be a much smaller ongoing effect, which will tend to gradually decline as those entitled to a refund pass away.

Navarre's capital accounts are largely driven by trends in EU grants from the RRF. Since 2021, the central government has allocated €620 million in grants to the region. We estimate that the region spent about 52% of these funds by December 2024. The allocation of grants and actual spending do not follow the same calendar, which creates some mismatches up to 2026, the deadline by which the region must spent all the funds. As such, Navarre's capital accounts have benefited from large inflows of capital revenue in 2021-2023, while execution is taking time. We think the region had received most of its allocated funds before December 2023, so we expect investments to accelerate, and consequently Navarre's balance after capital accounts will decline, particularly in 2025. Nevertheless, this effect will be temporary and only to be seen in budgetary terms. In national accounting terms, the official accounting system by the Ministry of Finance, the central government adjusts these mismatches when calculating the region's official surplus or deficit for the year.

We expect capex will peak in 2025, because Navarre has adopted a plan to spend past surpluses over the 2025-2027 period. This plan is worth about €125 million, of which more than half (€67 million) will be executed in 2025. Navarre has negotiated bilaterally with the central government that such spending should be exempt from the rule that would (in principle) force Navarre to reduce debt and will also not count toward spending growth rules. We expect this extra spending will lead to a narrowing of Navarre's surplus in 2025 but will contribute to sustain high levels of investment in 2026 and 2027, softening the exit from the NextGen-EU-related investments.

Navarre's debt is low, particularly when compared with that of its Spanish peers, and is declining. We expect the region's tax-supported debt ratio to reach 37% of consolidated operating revenue by 2027, supported by our expectation that Navarre will limit its debt intake and reduce its direct debt over the forecast period. Despite increasing interest rates, the region's interest bill was not affected as the region reduced its debt exposure and currently about 95% of its debt is fixed rate. We estimate interest payments were only about 0.8% of Navarre's operating revenue in 2024, and will further decline to about 0.6% by 2027, driven by lower debt levels.

We anticipate that the region may borrow about €145 million in 2025. We expect borrowing to come down to about 50 million per year. We think that Navarre intends to advance on the path of debt reduction, while maintaining its presence in lending markets, and safeguarding its liquidity levels, which remain exceptional. The €150 million of contracted credit lines, which add an additional cash buffer for Navarre if needed, support the region's liquidity.

Autonomous Community of Navarre Selected Indicators

Mil. EUR	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	5,288	5,657	5,824	5,913	6,111	6,312
Operating expenditure	4,779	5,016	5,155	5,225	5,432	5,637
Operating balance	509	641	669	689	679	675
Operating balance (% of operating revenue)	9.6	11.3	11.5	11.6	11.1	10.7
Capital revenue	214	213	193	163	147	143
Capital expenditure	440	542	551	716	531	501
Balance after capital accounts	283	312	311	136	295	317
Balance after capital accounts (% of total revenue)	5.2	5.3	5.2	2.2	4.7	4.9
Debt repaid	381	224	234	261	214	232
Gross borrowings	406	50	50	145	50	50
Balance after borrowings	308	138	126	19	131	135
Direct debt (outstanding at year-end)	2,836	2,664	2,480	2,364	2,200	2,017
Direct debt (% of operating revenue)	53.6	47.1	42.6	40.0	36.0	32.0
Tax-supported debt (outstanding at year-end)	3,394	3,102	2,921	2,767	2,573	2,361
Tax-supported debt (% of consolidated operating revenue)	63.6	54.4	49.8	46.4	41.8	37.1
Interest (% of operating revenue)	0.8	0.7	0.8	0.6	0.6	0.6
Local GDP per capita ($)	36,590.7	40,103.3	--	--	--	--
National GDP per capita ($)	30,459.6	33,693.0	35,467.3	37,148.1	39,357.0	40,921.9

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. EUR--euro. $--U.S. dollar.

Autonomous Community of Navarre Rating component scores

Key rating factors	Scores
Institutional framework	3
Economy	1
Financial management	2
Budgetary performance	1
Liquidity	1
Debt burden	2
Stand-alone credit profile	aa

Autonomous Community of Navarre Rating component scores

Key rating factors	Scores
Issuer credit rating	AA-

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Research Update: Spain 'A/A-1' Ratings Affirmed; Outlook Stable, March 14, 2024

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Subnational Debt 2024: Spain: Lower borrowings, but bond issuances recover, Feb. 29, 2024
- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Feb. 24, 2025
- Sovereign Risk Indicators, Dec. 9, 2024
- Institutional Framework Assessment: Spanish Special Status Entities, July 21, 2022

Ratings Detail (as of March 18, 2025)*	
Navarre (Autonomous Community of)	
Issuer Credit Rating	AA-/Stable/--
Senior Unsecured	AA-
Issuer Credit Ratings History	
25-Mar-2022	AA-/Stable/--
25-Sep-2020	AA-/Negative/--

Ratings Detail (as of March 18, 2025)*	
27-Sep-2019	AA-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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