S&P Global Ratings

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Research Update:

Autonomous Community Of Navarre Upgraded To 'AA' from 'AA-' Following A Similar Action On Spain; Outlook Stable

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Overview

- On Sept. 12, 2025, S&P Global Ratings raised its unsolicited sovereign credit ratings on Spain to 'A+/A-1' from 'A/A-1'. The outlook is stable.
- Navarre will post surpluses throughout our forecast period and continue its deleveraging path while maintaining a strong liquidity position.
- In our view, Navarre's high fiscal autonomy and independent liquidity management make it more resilient than Spain in a stress scenario, and therefore we rate Navarre two notches higher.
- We therefore raised our long-term rating on Navarre to 'AA' from 'AA-'. The outlook is stable.

Rating Action

On Sept. 19, 2025, S&P Global Ratings raised its long-term issuer credit rating on Spain's Autonomous Community of Navarre to 'AA' from 'AA-'. The outlook is stable.

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 downgraded Spain, or if we no longer considered the region to meet our conditions for a rating 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 failure to maintain strong budgetary outcomes that results in deteriorated liquidity.

Upside scenario

We could upgrade Navarre if we upgrade Spain, provided Navarre continues to meet our conditions for a rating above the sovereign and outperforms our current expectations of balanced budgets and a gradual reduction in debt.

Rationale

The rating action follows a similar action on Spain (see "Spain Upgraded To 'A+' On Strengthening External Financial Position; Outlook Stable," Sept. 12, 2025, on RatingsDirect).

Our rating on Navarre can be above that on Spain because we estimate the region's credit characteristics would make it more resilient than the sovereign in a stress scenario. However, in our view, Navarre is not immune to Spain's country risk; therefore, we rate it only up to a maximum of two notches above the sovereign. The 'AA' long-term issuer credit rating on Navarre now aligns with our 'aa' stand-alone credit profile on the Spanish autonomous community.

Navarre benefits from high fiscal autonomy, but this increases its exposure to the economic cycle compared to normal-status regions.

Navarre, along with the Basque Country and its three special-status provinces, enjoys a unique fiscal framework within Spain, marked by its own tax administration and legislative authority over key taxes, including personal income and corporate taxes. This arrangement, which distinguishes these regions from Spain's normal-status regions, allows them to collect the majority of taxes generated within their territories. In return, they transfer a negotiated contribution to the central government to cover the cost of state services provided in each territory. As a result, these regions do not participate in the general regional financing system. While this special fiscal autonomy grants Navarre the flexibility to benefit from its relatively strong economic base, it also exposes the region more directly to economic fluctuations. In response, successive Navarre governments--regardless of political affiliation--have pursued countercyclical fiscal policies, such as reducing debt during periods of growth and increasing it during downturns to sustain public services.

Navarre's special status implies a bilateral relationship with Spain's central government, granting it different treatment compared with normal-status regions. This relationship is governed through the Convenio Economico, a financial agreement usually updated every five years that defines transfers between Navarre and the state, the region's fiscal responsibilities, and the formula for sharing existing and new tax revenues.

In July 2025, the Spanish Parliament approved an update to the Convenio Economico, which expands Navarre's tax powers by incorporating new levies on large corporate groups and financial entities, raising the turnover threshold for determining tax jurisdiction, and refining its role in VAT and nonresident income tax. In our view, this deepens Navarre's fiscal autonomy.

Navarre's economy outperforms Spain in terms of wealth and competitiveness, and it is more export oriented. The region's industrial sector remains strong, exceeding the national average. Navarre's economy strength is also visible in its labor market, which exhibits a lower unemployment than Spain's. In our view, Navarre export-driven and industrially diversified economy--which relies less on tourism--helps the region protect its fiscal base through its distinctive fiscal autonomy.

Navarre sets its budget deficit targets through direct negotiations with the central government. Under the latest multi-year framework for 2025-2027, the region may run deficits of up to 0.3% of

GDP--though this allowance was sought primarily as a precaution rather than an intention to fully utilize it. We expect Navarre to continue outperforming this target and maintain budget surpluses throughout the forecast period. In our view, the region's financial management team is highly experienced and demonstrates a strong understanding of key external risks, particularly those linked to its fiscal relationship with the central government, as reflected in the successful outcomes of its negotiations.

Navarre will maintain balanced budgets, supporting the region's ongoing deleveraging path through 2027

Navarre's budgetary performance in 2024 was stronger than we anticipated, with an operating surplus of 11.7% of operating revenues and a balance after capital accounts of 5.4% of total revenue. These results were driven by higher-than-expected revenues, while expenditure growth was moderate.

We expect Navarre to maintain strong operating performance, with operating balances consistently above 10% of operating revenues. In 2025, we expect the region's operating revenue growth to slow down due to a one-time event. Spain's Supreme Court recognized that retirees who contributed to “mutualidades” (mutual societies) are entitled to reduce their personal income tax payments for these contributions. This ruling applies nationwide, not just to Navarre. The region will refund approximately €150 million in 2025, covering three years of eligible deductions. In subsequent years, the impact will be much smaller and will gradually diminish as the number of individuals eligible for refunds declines.

Navarre's capital accounts are largely driven by EU Recovery and Resilience Facility (RRF) grants. Since 2021, the central government has allocated almost €610 million to the region, of which about 58% had been spent as of May 2025. European RRF grants were recorded and cashed in advance and are being gradually spent. This can create accounting distortions, resulting in initially favorable budgetary outcomes that will later be offset as spending increases. Nevertheless, we note these funds are neutral for performance over the life of the program and adjusted accordingly in official surplus or deficit figures. Most funds were received by December 2023, and investment is set to accelerate in 2025, supported by a €125 million plan to spend past surpluses over 2025-2027, with more than half (€67 million) executed in 2025. This plan, agreed bilaterally with the central government, is exempt from debt reduction and growth rules. As a result, Navarre's balance after capital accounts will likely narrow temporarily in 2025, while sustained investment from 2026-2027 will help smooth the transition from NextGenerationEU-related projects.

Navarre's debt is low compared with its Spanish peers and is on a declining trend. We expect the region's tax-supported debt ratio to fall to 38% of consolidated operating revenue by 2027, reflecting limited new borrowing and a continued reduction in direct debt. Despite rising interest rates, the impact on interest expenditures is very limited and gradual, thanks to overall low and declining levels of debt, and the fact that roughly 95% of the region's debt is fixed rate. Interest payments accounted for about 0.8% of operating revenue in 2024 and we project them to decline further to about 0.6% by 2027.

We estimate Navarre will borrow about €200 million in 2025, and that annual borrowing will decline to about €50 million thereafter. We believe the region will continue reducing debt while maintaining access to capital markets and preserving its strong liquidity position. Navarre's liquidity is further supported by €150 million in contracted credit lines, which provide an additional liquidity buffer if needed.

Autonomous Community of Navarre--Selected indicators

Mil. EUR	2022	2023	2024	2025bc	2026bc	2027bc
Operating revenue	5,288	5,657	5,840	5,948	6,094	6,242
Operating expenditure	4,779	5,016	5,155	5,280	5,427	5,583
Operating balance	509	641	685	667	668	659
Operating balance (% of operating revenue)	9.6	11.3	11.7	11.2	11.0	10.6
Capital revenue	214	213	193	162	148	143
Capital expenditure	440	542	551	719	532	502
Balance after capital accounts	283	312	327	110	283	300
Balance after capital accounts (% of total revenue)	5.2	5.3	5.4	1.8	4.5	4.7
Debt repaid	381	224	235	261	214	232
Gross borrowings	406	50	50	200	50	50
Balance after borrowings	308	138	142	49	119	117
Direct debt (outstanding at year-end)	2,836	2,664	2,480	2,419	2,255	2,072
Direct debt (% of operating revenue)	53.6	47.1	42.5	40.7	37.0	33.2
Tax-supported debt (outstanding at year-end)	3,394	3,102	2,921	2,792	2,599	2,386
Tax-supported debt (% of consolidated operating revenue)	63.6	54.4	49.6	46.5	42.3	37.9
Interest (% of operating revenue)	0.8	0.7	0.8	0.8	0.7	0.6
Local GDP per capita ($)	36,590.7	40,103.3	--	--	--	--
National GDP per capita ($)	30,459.6	33,693.0	35,433.7	37,305.8	39,033.6	41,403.0

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
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

- Spain Upgraded To 'A+' On Strengthening External Financial Position; Outlook Stable, Sept. 12, 2025

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

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see "Related Criteria"). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Rating Component Scores above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see "Related Criteria").

Ratings List

Ratings List		
Upgraded		
	To	**From**
Navarre (Autonomous Community of)		
Issuer Credit Rating	AA/Stable/--	AA-/Stable/--
Senior Unsecured	AA	AA-