Spanish Corporate Outlook: credit fundamentals strengthen

Improved balance sheets, low sovereign risk, favourable lending contrast with shallow local capital markets

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Table of content

Spain's (A/Stable) macroeconomic backdrop is increasingly supportive of corporate financing, particularly for large, capital-intensive issuers that are less reliant on shallow domestic bond markets. The 10-year risk premium on Spanish government bonds is running at its lowest level for a decade at around 60bp – below France, Italy, and the UK – ensuring relatively favourable local financing conditions. In addition, the important role of services in Spain's economy helps buffer domestic growth against global trade shocks.

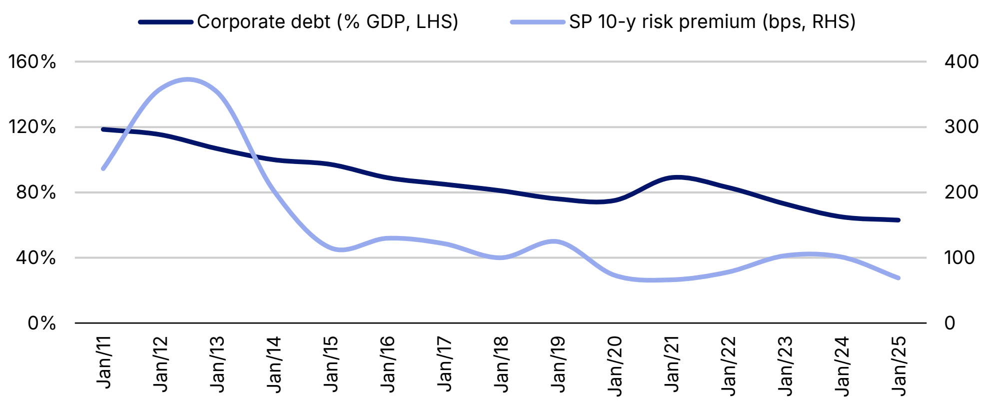
In this context, credit fundamentals for Spanish corporates are strengthening. Debt on the books of the non-financial corporate segment has fallen sharply, down by half to 60% of GDP in 2024 from 120% in 2010, with improved debt-to-net assets ratios reflecting more stable capital structures. This sustained deleveraging shows robust financial discipline despite recurrent recent shocks.

The combination of easier financing conditions since mid-2024, after the tightening brought about by the 2022 inflationary shock, and stronger corporate balance sheets have ensured that Spanish firms, particularly larger corporates, have healthier risk profiles and are well positioned for growth.

The challenge, however, is that Spain's capital markets remain shallow – notably for small and medium-sized enterprises (SMEs) – limiting broader access to bond financing and reinforcing reliance on bank lending. This structural weakness continues to constrain the development and diversification of Spanish corporate's funding sources.

Looking ahead, current favourable macro and financing conditions could support modest re-leveraging, especially in capital-intensive sectors such as utilities, infrastructure, data centres, and real estate. However, maintaining financial discipline will be key for corporates to avoid undermining their credit quality amid geopolitical turbulence, uncertainty in international trade and sluggish growth among many of Spain's trading partners in Europe.

Figure 1: Stronger Spanish balance sheets, easier financing support corporate credit quality
Spanish non-financial corporate debt compared with 10-year risk premium



Source: Bank of Spain, Bloomberg

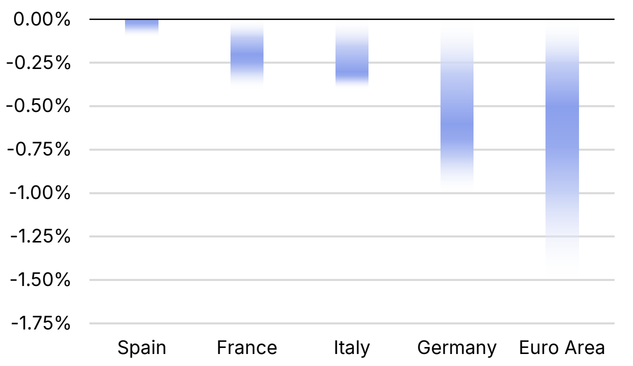
1. Favourable macro conditions to reduce cost of corporate financing

The narrowing Spanish sovereign risk premium supports lower corporate funding costs, with capital-intensive sectors benefiting the most: utilities, infrastructure, energy, real estate and telecoms, where access to low-cost long-term financing plays a crucial role.

Capital-intensive sectors benefit from low funding costs

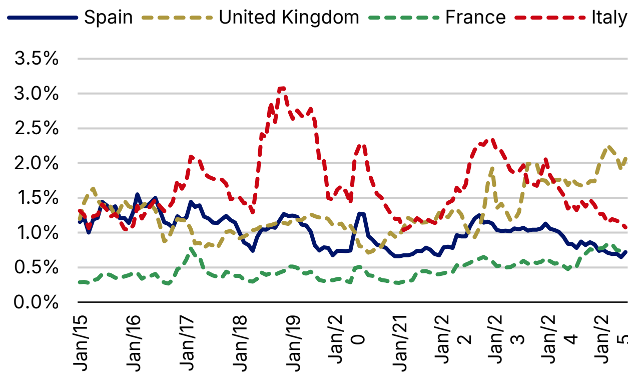
Spain's reliance on tourism and services over manufacturing and exports makes its growth model rather less exposed to trade-related risks, including rising tariffs and supply-chain disruptions. This structural orientation may help insulate the economy from some of the unfavourable spillovers associated with more fractious US-China-Europe trade relations since Donald Trump's return to the White House.

Figure 2: Spain looks relatively resistant to trade-war shock
Estimated GDP impact of 10% US tariff on exports



Source: Bank of Spain, Natixis, Goldman Sachs, Bundesbank, AMRO

Figure 3: Spain's risk premium falls below France, Italy, UK
10-year government bond yield spread vs Germany



Source: Bloomberg

2. Stronger balance sheets improve corporate sector's shock resistance

Over the past 10–15 years, Spanish non-financial corporate segment has demonstrated financial discipline, even in the face of major geopolitical and economic disruptions such as the Covid-19 pandemic and Russia's escalation of the war in Ukraine.

Non-financial corporate sector has significantly deleveraged

The segment has undergone substantial deleveraging. Not only has corporate debt as a percentage of GDP halved to about 60% in 2024 from ~120% in 2010, but the debt-to-net-assets ratio has declined to 42% in 2024 from 47% in 2010.

This conservative financial management has created greater headroom for investment, enabling corporates to take advantage of improving credit conditions and targeted public support, including EU funding, without materially compromising credit quality.

Figure 4: Spanish corporates dramatically pay down debt.
Consolidated debt of non-financial corporates (% of GDP)

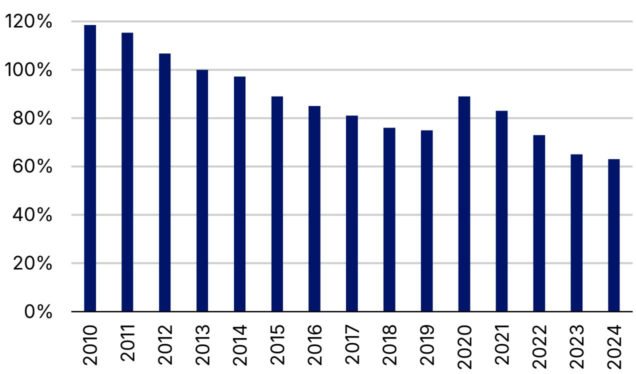
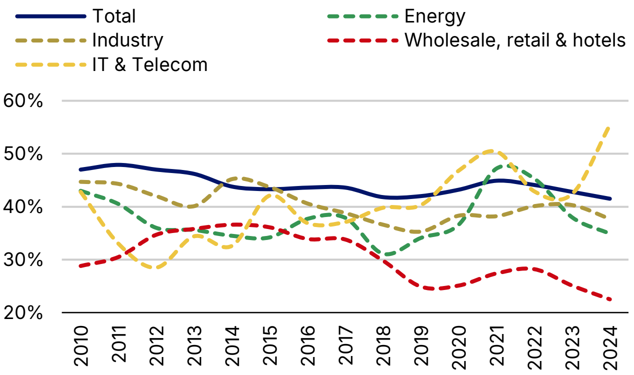


Figure 5: Corporates deleverage despite economic shocks
Consolidated debt to net assets (%) of non-fin. corporates



Source: Bank of Spain

Source: Bank of Spain

Spanish banks loosen credit terms

Lending conditions temporarily tightened after the 2022–2023 inflationary shock, though recent ECB surveys show that corporate lending has improved since mid-2024.

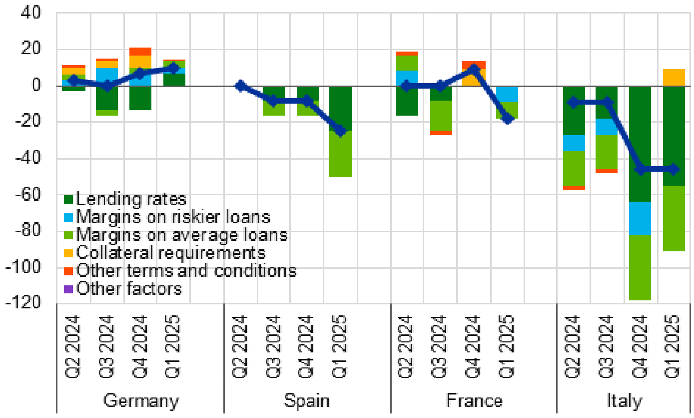
Over the past few quarters, some Spanish banks have eased loan interest rates and margins for corporate lending, with other factors unchanged.

Banking lending conditions tighter in France, Germany

In contrast, German banks have tightened lending conditions for companies. The situation is more mixed for French banks.

This relative easing in Spain reflects the more favourable assessment of corporate risk by the banking sector, tied to stronger financial position of Spanish corporates, which could give borrowers a competitive advantage in tapping new sources of credit, especially for companies in capital-intensive sectors.

Figure 6: Bank lending terms ease in Spain, Italy, mixed or tighter in France, Germany
Terms, conditions for loans, credit lines to enterprises: negative = easier, positive = tighter



Source: ECB. Note: net percentages of banks reporting a tightening of terms and conditions.

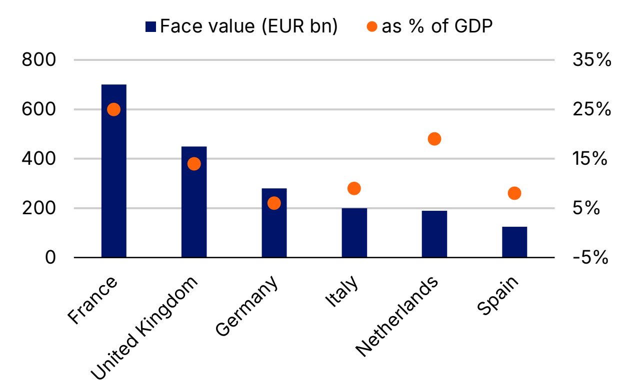
3. Capital market depth remains a structural constraint

Spain's domestic capital markets remain relatively shallow, particularly for SMEs. This limits the amount of debt Spain's corporates can issue, thereby making bank financing and external markets essential to funding growth.

Little to show for efforts to grow domestic debt capital market

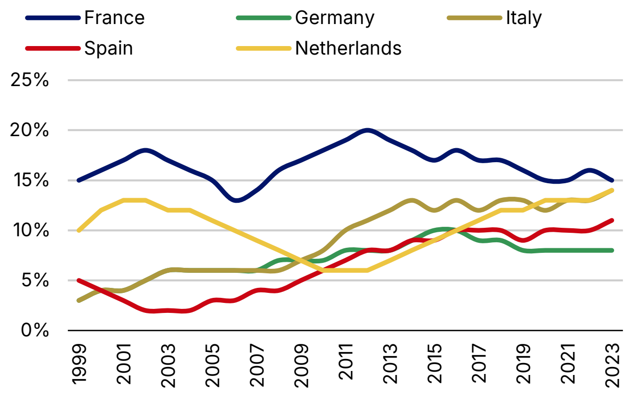
Efforts to develop alternative financing channels have delivered only limited results, with corporate bond issuance in Spain low by EU standards. (Figure 7, Figure 8). Among the measures are EU-backed initiatives such as the capital markets union (CMU), which aims to expand non-bank financing across the EU, as well as support from Spain's national development bank Instituto de Credito Oficial (ICO), rated A/Stable by Scope. ICO promotes SME securitisation, backs venture capital funds, and co-finances private investment projects to enhance access to long-term funding. The lack of market depth and diversification remain key structural challenges if Spain is to enhance financial resilience and scale up investment by local companies in the domestic economy.

Figure 7: Limited reliance on bond issuance relative to EU
Outstanding debt securities, non-financial corporates, Q2 24



Source: ECB, BIS, Deutsche Bank

Figure 8: Share of bonds in funding mix is stagnant since '15
Debt securities/total credit to non-financial corporates (%)



Source: Eurostat, Deutsche Bank

Spain's bond market remains small by EU standards

Spain's non-financial corporates had one of the lowest levels of bond market use among major EU economies last year, with outstanding debt securities at EUR 125bn (8% of GDP). This is well below France (25%), Netherlands (19%), and UK (14%).

Spain's persistently limited bond share (Figure 8) underscores the structural dominance of bank lending and the slow uptake of market-based funding channels. Despite broader capital market development in Europe, Spain's reliance on bond financing has remained largely flat since 2015, with the share of debt securities in total corporate credit hovering around 9–11%. This contrasts with a steady upward trend in Italy (up to 14%).

Several structural and behavioural factors explain this persistent constraint:

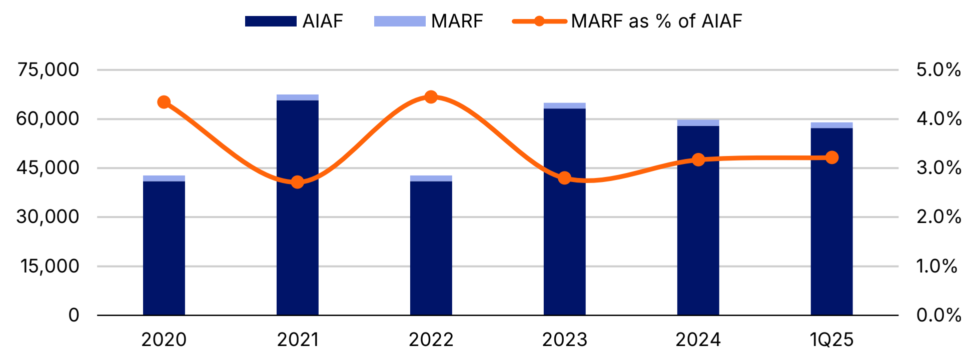
- **Bank dominance:** Spanish firms have a long-standing reliance on bank loans, with bond issuance concentrated among large, capital-intensive sectors like utilities and telecoms. SMEs have limited access to public debt markets.
- **Shallow investor base:** Compared with Germany or France, Spain's institutional investor base is smaller and less active, limiting demand for corporate bonds, especially in lower-rated segments.
- **High fragmentation of Spain's SME sector:** Dominance of small firms lacking the scale for capital market access, coupled with limited investor appetite for illiquid or small-scale corporate debt.
- **Legal friction:** Spain's insolvency and restructuring regime has historically been complex, elevating risk premia and dampening investor confidence — particularly for non-investment-grade credit – problems which recent reforms have only partly addressed.
- **Lack of transparency:** Many SMEs issuers often opt for private placements or bilateral loans due to limited post-issuance disclosure standards and low secondary-market activity, which further restricts market visibility and development.

Growth in MARF segment runs out of steam

Spain's alternative fixed-income market, known as the MARF, has played a valuable role in expanding financing options for SMEs, but the recent stagnation signals the need for renewed efforts by the authorities to stimulate the segment. Outstanding bonds on MARF have hovered around EUR 1.8bn since 2020 (Figure 9), while the much larger AIAF market (for large corporates) has fluctuated more significantly. MARF's share of AIAF remains low—just 3.2% in Q1 25, little changed from 2020 and below the 2020 peak of 4.4%. This suggests that new SME issuance has lost momentum, and the market remains small relative to large-cap peers.

Simplifying issuance processes to help broaden and deepen the market is crucial to restore momentum and broadening the market's appeal. Without such reforms, MARF risks remaining a niche platform, rather than evolving into a more robust pillar of corporate finance in Spain.

Figure 9: Losing steam: new bond issuance on alternative market for SMEs
Outstanding corporate bonds on Spain's AIAF (large-cap) and MARF (SMEs) markets (**EUR** m)



Source: BME

Structural challenges continue to weigh on the MARF's development as a fully functioning alternative debt market.

One important constraint is the limited secondary market activity. MARF instruments often lack post-issuance trading, which discourages investor participation due to reduced liquidity.

In addition, the market remains concentrated in a few sectors – primarily real estate and infrastructure – which restricts diversification and narrows its appeal to a broader investor base.

Lack of DCM options for Spanish SMEs

Access for SMEs also remains difficult, as the process of issuing debt, even on an alternative platform like MARF, is often seen as too complex and costly compared with traditional bank financing. These structural frictions continue to limit the platform's wider adoption and growth.

As a result, Spain has yet to fully translate macroeconomic stability into capital market depth. Broader participation will depend on regulatory progress, improvements in market transparency, and efforts to expand the domestic institutional investor base. Structural challenges—such as limited investor appetite, low secondary market liquidity, and post-issuance transparency gaps—continue to constrain growth and prevent MARF from scaling up as a meaningful funding channel for Spain's medium-sized corporates.

4. Capital-intensive sectors to benefit most from easier financing

Power grids, data centres likely to attract new investment

Capital-intensive sectors such as utilities, infrastructure, telecom, and real estate could stand to benefit from improved funding conditions, although the extent of this will depend on execution, regulatory clarity, and investor appetite. Scope highlights several domestic and international growth opportunities in areas including decarbonisation, grid upgrades, data centres, tourism, and public infrastructure. Unlocking these will require continued policy support, effective use of EU funds, and stable macro-financial conditions to sustain investor confidence and long-term capital.

4.1 Decarbonisation and grid resilience

The transition to renewable energy and the need to reinforce power grids offer continued investment opportunities for Spanish utilities, both domestically and abroad. However, the recent WACC proposal for electricity networks by regulator CNMC (6.5%) fell short of industry expectations (7.5%). That said, a public consultation is underway, the outcome of which could lead to some adjustment.

Larger utilities have diversified their asset base and growth strategies, enabling them to pursue international opportunities where conditions may be more favourable. Smaller players could also benefit from continued policy support for decarbonisation, particularly through vertical integration (e.g., renewable generation, PPAs). Lower energy price volatility may help level the playing field for smaller suppliers, who struggled during the energy crisis while incumbents gained market share and expanded margins.

Looking ahead, stable regulatory signals and consistent climate policy will be essential to unlocking long-term capital for network upgrades and renewable deployment. In this context, Spain's status as a major beneficiary of EU recovery and resilience funds—much of which is earmarked for green and digital transitions—should act as a key enabler for accelerating investment across the energy sector.

4.2 Data Centres

Segment attracts property, infrastructure, telecoms companies

Spain is emerging as a potential hub for data centres, driven by competitive land and energy costs, infrastructure availability, and geographic positioning. Real estate firms such as Merlin Properties SOCIMI SA and Immobiliaria Colonial are developing data centres, alongside infrastructure players like ACS SA, Sacyr SA, Acciona SA, and Ferrovial SA. Utilities and renewables companies) are involved in grid connections and energy supply.

In the telecom sector, Telefónica SA is active in enterprise-grade data centres, while Cellnex SA is developing edge computing infrastructure for low-latency applications, complementing larger-scale hubs. However, long-term competitiveness will depend on continued investment, permitting efficiency, and power availability.

With rising demand for cloud services, AI, and high-performance computing, Spain's ability to scale data infrastructure while ensuring energy sustainability could position it as a key southern European digital gateway.

Figure 10: Fibre access, available land, affordable energy lure data centres to Spain
Suitability for data-centre development: Spain vs European peers

	RES 24x7	Available land (inhabitants/km2)	International fibre connectivity	Grid availability and complexity	Cost competitiveness(**)
Spain	🟢	🟢	🟢	🟢	🟢
Continental Europe (i.e. Germany)	🟡	🟡	🔴	🔴	🟡
Nordics (avg. Sweden, Norway / Denmark)	🟢	🟢	🔴	🟢	🔴
UK*	🟢/🟡	🔴	🟢	🟢/🟡	🟡

* UK has more submarine interconnections however Spain has wider range of countries and a more sophisticated FTTH network
** Civil works, operational costs, transportation costs, human capital
Colour code: green – suitable; yellow – partly suitable; red – unsuitable.
Source: Iberdrola

4.3 Tourism and urban population growth

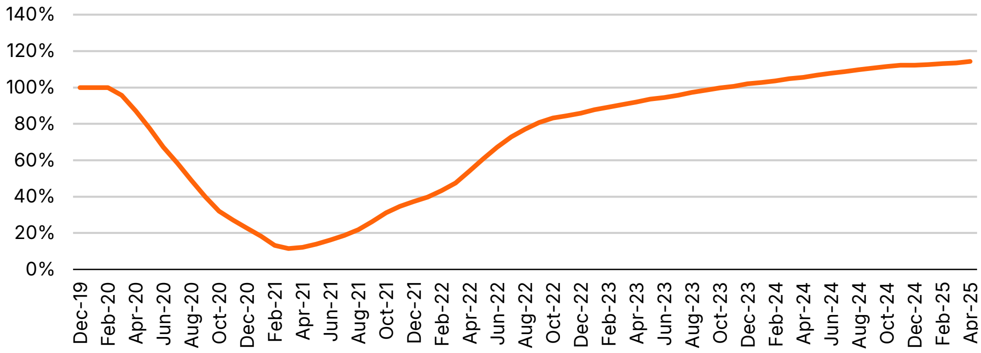
Visitors to Spain overtake pre-Covid levels

Tourism continues to exceed pre-pandemic levels, with growth in high spending visitors and longer stays.

Infrastructure firms like airport operator Aena SA benefit from increased international arrivals and domestic travel.

Real estate developers are identifying growth opportunities in urban and coastal areas tied to rising property values, rental yields, and tourism-driven demand. With sustained momentum and continued investment in transport and hospitality infrastructure, the sector is likely to remain a key engine of economic growth and private capital flows.

Figure 11: Tourist arrivals surpass pre-pandemic levels
International tourist arrivals in Spain (100% = 2019)



Source: Spanish National Statistics Institute, Scope

4.4 Large-scale infrastructure projects worldwide

Spain's infrastructure firms have strong global position

The domestic pipeline for large-scale infrastructure remains modest. However, Spanish infrastructure companies such as Ferrovial, Acciona, and Actividades de Construcción y Servicios SA (ACS) have built strong positions abroad, capitalising on secular demand drivers like urbanisation and population growth. With a healthy international pipeline ahead, continued success in this area will depend on them maintaining bidding discipline and managing project execution risks.

Looking ahead, access to stable financing and strong ESG credentials will also be critical in securing contracts in increasingly competitive and sustainability-driven global markets. Many international tenders—especially those backed by multilateral institutions or public authorities — increasingly factor in environmental impact, social contribution, and governance practices as key selection criteria.

Figure 12: National infrastructure plans offer worldwide growth for Spanish firms

Country/Region	Plan/Program Name	Amount
US	Infrastructure Investment and Jobs Act	$1.2tn
	IRA ($370bn for energy security)	$370bn
	AI Infrastructure	$500bn
Canada	Investing in Canada Plan	$180bn
	Clean Technology Investment Tax Credit	$20bn
Brazil	National Logistics Plan	$52bn
	National Infra. Plan	$30bn
Chile	National Infra Development Plan	$34bn
Spain	Railways Corridors	€27bn
EU	Green Deal	€1.1tn
	REPowerEU	€300bn
	Clean Industrial Deal	€100bn
Italy	Industrial Plan of the National Railway	€190bn
Qatar	National Vision 2030	$160bn
Saudi Arabia	Vision 2030	$1.1tn
Philippines	Build Better More	$142bn
Australia	Infra. Investment Program	$71bn
	Capacity Investment Scheme	$67bn
India	National Infra. Plan	$120bn

Source: Acciona Note: approximate value of national infrastructure investment plans as of 2024, excluding changes this year.

4.4.1 Spanish water network investments

Water sector offers potentially rich growth opportunities

Spain's water infrastructure presents both a challenge and a potential opportunity. Only about 29% of projects worth EUR 21bn in investment planned between 2015 and 2021 have been completed. Current investment remains among the lowest in the EU, with just 0.1% of GDP dedicated to water infrastructure, well below the EU average of 0.4%, according to PwC.

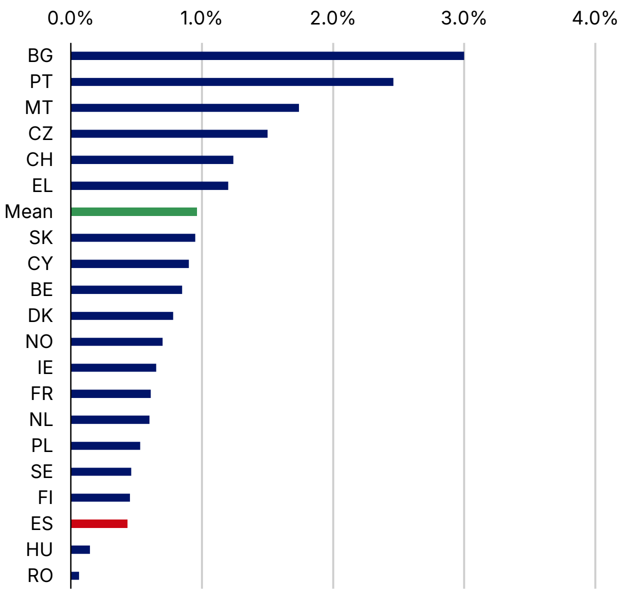
Studies by water associations AEAS and AGA indicate that much of Spain's network is ageing: 39% of supply infrastructure is over 30 years old, while renewal rates have dropped sharply since 2008. The situation is even more acute in sewerage, where over half of the system is similarly outdated and renewal is occurring at only 0.3% annually.

The current investment plan envisioned by the Spanish government for 2021–2027 earmarks EUR 38bn for water infrastructure, but progress has been slow due to funding constraints and administrative bottlenecks. Accelerating execution may require greater use of EU recovery funds and public-private partnerships. Companies such as the GS Inima Environment SA (rated BBB-/Stable by Scope), Acciona, Aqualia (a unit of FCC SA), and Valoriza Agua (Sacyr) are well placed to participate, assuming regulatory and financial hurdles are addressed.

Regulatory, tariff stability key for water sector development

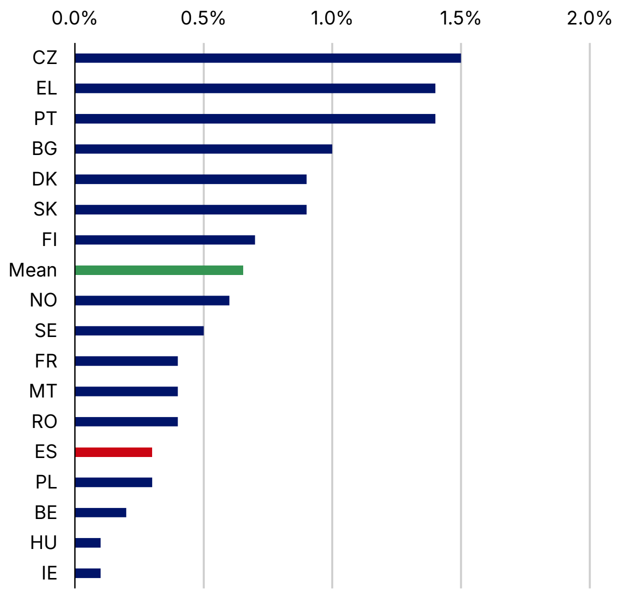
The pace and effectiveness of project delivery will remain a key variable in addressing infrastructure gaps. While the funding envelope is sizeable, making it sure fulfils its potential will depend on improving project execution and clarifying long-term regulatory and tariff frameworks.

Figure 13: Spain falls behind in drinking-water investment
Drinking water asset renewal Rate (%/year, 2017-2019)



Source: EurEau

Figure 14: Spain spends relatively little on water treatment
Waste water asset renewal rate (%/year, 2017-2019)



Source: EurEau

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