

Research Update:

Spain's Balearic Islands Upgraded To 'A' On Continuous Deleveraging; Outlook stable

May 8, 2026

Overview

- Despite moderating economic growth over the medium term, we think the Balearic Islands (Balears) revenue will keep increasing, primarily supported by continued robust revenue transfers from the central government and EU funds.
- We expect Balears' government to contain growth of operating spending and that investments will, essentially, be funded by the EU and central government funds in the coming years.
- Therefore, we anticipate Balears' budgetary performance will remain sound and debt will continue to decrease.
- As a result, we raised our long-term foreign and local currency ratings on the Balears to 'A' from 'A-' and assigned a stable outlook to the rating.

Rating Action

On May 8, 2026, S&P Global Ratings raised its long-term ratings on Spain's Autonomous Community of the Balearic Islands (Balears) to 'A' from 'A-'. The outlook is stable.

Outlook

The stable outlook reflects our expectation that Balears will report modest deficits over the next three years and continue to reduce debt. We also anticipate that the region will partly finance these deficits using available cash resources.

Downside scenario

We could lower the ratings if Balears' performance deteriorated, with deficits being much higher than anticipated. This, in turn, could deplete the region's liquidity or lead to increasing debt, in contrast to the deleveraging observed since 2021.

Upside scenario

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Spain's Balearic Islands Upgraded To 'A' On Continuous Deleveraging; Outlook stable

We could raise the ratings if Baleares' budgetary metrics outperformed our expectations, and the region generated surpluses. This could, among other things, help the region reduce debt faster than expected, while maintaining a stable liquidity position.

Rationale

The upgrade reflects Baleares' stronger-than-expected budgetary metrics in 2025 and continued deleveraging. Moreover, we anticipate continued solid results in the future with only minor deficits and gradual debt reduction, alongside a stable liquidity position. Despite an anticipated moderation in GDP growth for Spain and Baleares, we believe that the region's revenue will continue to increase. Expenditure is also expected to rise, driven by inflation and a growing population, among other elements. However, given Baleares' commitment to maintaining balanced accounts in national accounting terms, we expect its financial performance to remain sound over the next few years.

Although Baleares' debt remains high by international standards, it decreased by nearly €800 million between 2021 and 2025, representing approximately 14% of the region's 2025 operating revenue. This reduction was achieved primarily through robust revenue growth, supported by the region's strong economy. The downward trend in debt was reinforced by the availability of funds from the EU's Recovery and Resilience Facility (RRF) and targeted central government transfers, reflecting the region's status as one of only two autonomous communities that are also islands.

Our rating on Baleares is supported by an institutional framework that we see as balanced but evolving, a financial team that is committed to budgetary balance, and a sound economic environment with a strong focus on tourism.

Baleares' economy will remain solid, and we think the region's government will preserve sound financials

In our view, Baleares' economy will continue to expand in line with our forecasts for Spain, bolstered by the region's tourism sector. Increasing demand for hospitality has supported and helped develop Baleares' economy, which is concentrated on the tourism sector. In 2025, the number of tourists in the region was up 1.7% to more than 19 million visitors. That year, Baleares was the region where international tourists spent the third highest amount, a total of €21.1 billion or about half of the region's GDP. Although we anticipate that the tourism sector will continue to perform well, the Middle East conflict generates uncertainties. We expect a gradual deceleration of economic growth for Spain as a whole in 2026 and 2027, while growth remains well above that of the eurozone.

We consider that Baleares has a prudent and experienced management team. Nevertheless, its operating expenditure has risen sharply in recent years, outpacing revenue growth in 2025 and likely to do so again in 2026. This increase is in part linked to population growth, but also incorporates one-off costs linked to court judgements, including personnel-related costs. We anticipate more moderate expenditure growth from 2027 onward, mirroring future revenue trends.

The region has benefitted from large transfers related to the EU's RRF over 2020-2026, but the program will cease in 2026. However, Baleares will continue to benefit from the special fiscal regime that has supported certain of its investments since 2023. In 2022, the central government agreed to provide a direct transfer ("Factor de Insularidad") to compensate for the structural costs of Baleares' isolation as an island community, especially in public investment, transport,

Spain's Balearic Islands Upgraded To 'A' On Continuous Deleveraging; Outlook stable

and infrastructure projects. The regime also includes benefits affecting the corporate tax on foreign direct investments and deductions to personal income tax for nonresidents.

Spanish normal-status regions, including Baleares, benefit from a supportive institutional framework, although the predictability of revenue has weakened due to political complexity and fragmentation. The absence of approved central government budgets since 2023 has led to delays in updates to regional financing advances, creating temporary liquidity tensions for some regions. The central government has proposed significant fiscal reforms: a debt-absorption program (€83.2 billion) and a revision of the regional financing system (potentially adding €21 billion of operating revenue to the sector). Although passing these reforms is subject to political considerations, their enactment would represent a positive credit development. For Baleares, this could mean an additional €412 million of revenue, or about 6%-7% of current operating revenue, and a debt reduction of €1.7 billion (about 20% of the region's tax supported debt). However, we do not include these elements in our forecasts, due to their uncertain nature.

We anticipate minor deficits in 2026-2028, partly funded with available cash, thereby limiting debt accumulation

We expect Baleares to maintain sound operating margins, primarily by keeping operating expenditure growth in check. Specifically, we anticipate that operating margins will remain higher than 5% of operating revenue over 2026-2028, slightly below previous levels. We forecast that revenue from the financing system--which accounted for approximately 75% of operating revenue in 2025--will increase by 4% per year on average from 2026 to 2028, slightly outpacing national GDP growth, following a modest increase of just 0.2% in 2025. Last year, revenue from the financing system declined due to a peculiarity of the equalization component. As a net contributor, Baleares transfers a portion of its revenue to less affluent regions, with a three-year lag. Therefore, despite stronger economic growth in 2025, Baleares received less revenue but will recoup these sums in subsequent years.

Baleares' government has enacted several tax-reduction measures, including cuts to personal income, real estate transaction, and inheritance taxes. That said, such reductions were outweighed by an increase in the real estate tax in 2025. In fact, regional taxes, excluding revenue linked to the financing system, increased by 3% in 2025 versus 2024. We anticipate that regional taxes will continue to increase moderately through 2028. In addition, from 2026, the tax on banks' interest margins and commissions--previously collected entirely by the central government--becomes part of the autonomous communities' financing system. For Baleares, the tax is represents €55 million, approximately 1% of its total operating revenue. The tax originates from the temporary bank levy of 2023-2024. The levy was introduced to capture extraordinary profits during a period of high inflation and rising interest rates and was later converted into a permanent state tax under Law 7/2024 to provide greater legal certainty and stability.

We expect Baleares to roughly align the growth of operating expenditure with revenue growth in 2027 and 2028. However, the region will continue to face pressure from outstanding payables related to health care, ongoing litigation, and delays in salary payments--which are currently being addressed--as well as from increases in public employee wages mandated by the central government. In addition, like all other Spanish regions with normal status, Baleares must contend with inflexible expenditure items such as health care and education, which together account for approximately 60% of operating expenditure. These areas are subject to further pressure from a growing and aging population, as well as the introduction of innovative drugs. Inflation will also continue to push up expenditure, and its trajectory will largely depend on developments in the Middle East conflict. We forecast Baleares will post deficits below 1% of total revenue between

Spain's Balearic Islands Upgraded To 'A' On Continuous Deleveraging; Outlook stable

2026 and 2028. Balears will execute its remaining investments supported by the EU's RRF, mainly in 2026. We anticipate capital expenditure to decrease in 2026 from highs of €885 million on average in 2024 and 2025. Most of the RRF of about €1.1 billion were accrued and collected in 2020-2025. Nevertheless, we expect capital investments to remain relatively high, supported by EU cohesion funds (2021-2027).

Although debt ratios remain high compared with those of international peers, we expect they will continue to decrease. Available cash--primarily the RRF funds previously collected by the region--will likely be used to cover the modest deficits we've forecast. We anticipate that interest costs will increase because of the impacts the Middle East war could have on inflation and consequently on the cost of funding. However, the region's predominantly fixed-rate debt will limit its exposure to potentially rising interest rates.

We expect Balears' liquidity position to remain sound even when RRF-related funds are used. As expenses related to RRF-supported projects are met, we expect the region's cash to diminish. However, we expect the region's cash balances, together with €685 million of largely unused credit lines, will cover at least 80% of its annual debt-service requirements. Besides internal sources, we believe Balears' access to external liquidity is strong. The region continues to benefit from access to central-government-sponsored credit liquidity facilities to cover its funding needs. But in the first four months of 2026, it tapped the banking market--at very favorable rates--for approximately 60% of its expected funding needs for the year. We understand Balears plans to gradually transition toward market-based funding and reduce its reliance on central government liquidity facilities. This is consistent with the central government's plan to maintain the availability of central government liquidity facilities only for exceptional circumstances, such as difficult market access.

Autonomous Community of the Balearic Islands Selected Indicators

| Mil. EUR | 2023 | 2024 | 2025 | 2026bc | 2027bc | 2028bc |
|----------------------------------------------------------|----------|----------|----------|----------|----------|----------|
| Operating revenue | 5,268 | 5,883 | 5,869 | 6,176 | 6,392 | 6,600 |
| Operating expenditure | 4,828 | 5,323 | 5,479 | 5,817 | 6,039 | 6,230 |
| Operating balance | 440 | 560 | 390 | 359 | 353 | 371 |
| Operating balance (% of operating revenue) | 8.4 | 9.5 | 6.6 | 5.8 | 5.5 | 5.6 |
| Capital revenue | 433 | 351 | 380 | 333 | 314 | 353 |
| Capital expenditure | 831 | 890 | 882 | 723 | 732 | 743 |
| Balance after capital accounts | 43 | 21 | (112) | (31) | (65) | (20) |
| Balance after capital accounts (% of total revenue) | 0.8 | 0.3 | (1.8) | (0.5) | (1.0) | (0.3) |
| Debt repaid | 1,153 | 923 | 869 | 835 | 845 | 1,182 |
| Gross borrowings | 920 | 838 | 843 | 807 | 805 | 1,142 |
| Balance after borrowings | (190) | (64) | (138) | (59) | (105) | (60) |
| Direct debt (outstanding at year-end) | 8,405 | 8,295 | 8,287 | 8,260 | 8,220 | 8,180 |
| Direct debt (% of operating revenue) | 159.5 | 141.0 | 141.2 | 133.7 | 128.6 | 123.9 |
| Tax-supported debt (outstanding at year-end) | 8,755 | 8,581 | 8,501 | 8,440 | 8,372 | 8,305 |
| Tax-supported debt (% of consolidated operating revenue) | 163.7 | 143.8 | 142.7 | 134.7 | 129.1 | 124.1 |
| Interest (% of operating revenue) | 1.3 | 2.5 | 2.1 | 2.1 | 2.3 | 2.5 |
| Local GDP per capita (\$) | 36,679.9 | 38,978.3 | -- | -- | -- | -- |
| National GDP per capita (\$) | 33,680.3 | 35,493.9 | 38,774.7 | 40,548.8 | 43,049.2 | 44,747.3 |

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Autonomous Community of the Balearic Islands Selected Indicators

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 the Balearic Islands Rating Component Scores

| Key rating factors | Scores |
|----------------------------|--------|
| Institutional framework | 3 |
| Economy | 2 |
| Financial management | 3 |
| Budgetary performance | 2 |
| Liquidity | 2 |
| Debt burden | 4 |
| Stand-alone credit profile | a |
| Issuer credit rating | A |

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](#), March 16, 2026

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
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [S&P Global Ratings Raises WTI And Brent Price Assumptions Due To Ongoing Effective Closure Of The Strait Of Hormuz](#), April 29, 2026
- [Spending Pressures Could Weigh On Spanish Regions' Finances](#), April 21, 2026
- [Normal Status Spanish Regions: Political Deadlock Delays Financing Transfers Update, Raising Liquidity Pressure](#), March 31, 2026
- [Economic Outlook Europe Q2 2026: Global Shock Leaves Recovery Uncertain](#), March 25, 2026
- [Spain's Regional Financing Proposal Could Boost Regional Metrics--If It Passes](#), Jan. 13, 2026

Spain's Balearic Islands Upgraded To 'A' On Continuous Deleveraging; Outlook stable

- [Spanish State Lays Out Proposal for Regional Debt Absorption](#), Feb. 26, 2025
- [Spanish State Lays Out Proposal For Regional Debt Absorption](#), Feb. 26, 2025

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; Outlook Action

| | To | From |
|---------------------------------------------------------|-------------|----------------|
| Balearic Islands (Autonomous Community of) (The) | | |
| Issuer Credit Rating | A/Stable/-- | A-/Positive/-- |

Upgraded

| | To | From |
|---------------------------------------------------------|----|------|
| Balearic Islands (Autonomous Community of) (The) | | |
| Senior Unsecured | A | A- |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Spain's Balearic Islands Upgraded To 'A' On Continuous Deleveraging; Outlook stable

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