Fitch Upgrades Spain To 'AAA' Ratings
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Fitch Ratings-London-10 December 2003: Fitch Ratings, the international rating agency, has today u
Long-term foreign and local currency ratings of the Kingdom of Spain to 'AAA' from 'AA+'. The Sh
currency rating is affirmed at 'F1+', while the Outlook on the Long-term ratings remains Stable.

Prudent fiscal policy is at the heart of the decision to upgrade Spain. Since 2001 the budget has been
or in slight surplus, and this has combined with respectable economic growth and low interest rates t
rapid and sustainable fall in general government debt to GDP. This performance contrasts with the re
of other 'AAA' rated countries, including France and Germany, which have seen rising debt to GDP.
expect any change from the existing tight fiscal policy following elections in March and expects any
to oversee further reductions in the debt burden, expected to fall near to 45% of GDP in 2005, broadl
median for 'AAA'-rated sovereigns. Fitch anticipates further general government debt reduction beyo
primary fiscal surpluses are sustained, and GDP growth remains buoyant. On the basis of current tren
estimates that debt to GDP will fall below 20% by 2015.

Prudent and competent debt management has extended the maturity structure of the government debt
reduced funding costs. At the same time, the stock of short term debt has fallen, and the redemption p
and long term debt has been smoothed. Consequently, liquidity and rollover risk has fallen sharply o
years, and short term residual debt is now in line with the average for the euro area. Liquidity risk is
through a combination of bank credit lines available to the Spanish Treasury, and a large stock of gov
held at the central bank. Together these items are equivalent to roughly 30% of the forecast debt serv
term rollover) for 2004.

The government has made important advances in structural reform, especially in product and labour m
much remains to be done, reflected in part by the continued inflation differential between Spain and t
average. Further changes to the wage-bargaining system are needed, while some barriers to competiti
level still exist, and productivity growth has disappointed. But in areas such as the financial sector th
performs commendably and has, for example, absorbed the Latin America crisis well. Pension reform
way to go, but Spain's demographics will deteriorate later than most European peers so it has more ti
the problem. The government has also created a pension reserve fund, and by engineering a rapid red
government debt, is preparing public finances for this future burden.

The upgrade to 'AAA' reflects Fitch's confidence that strong real convergence with core euro-area co
continue. GDP per capita is still below euro area averages, but has increased rapidly in recent years, t
gap, and income per head is now at a level where it is no longer a constraint on the sovereign rating.
Spain to continue to outperform some rating peers in terms of public finance management following
elections in March.

Fitch will issue separate press releases detailing what effect the upgrade in the sovereign has on any r
shortly.

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