

CREDIT OPINION

30 June 2023

Update



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RATINGS

Barcelona, City of

Domicile	Spain
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Barcelona (Spain)

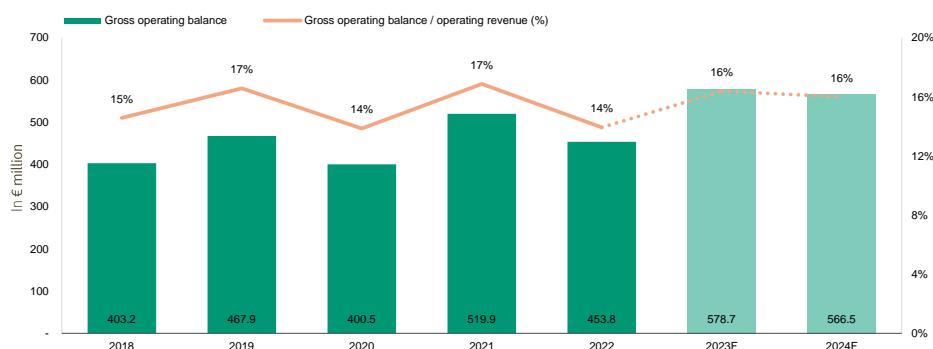
Update to credit analysis

Summary

The credit quality of the [City of Barcelona](#) (Baa1 stable) reflects the city's robust budgetary management and solid financial fundamentals in recent years, which have ensured a high self-financing capacity and low need for debt financing. Because of its self-imposed financial rules, Barcelona generated high levels of operating surpluses during the last five years (15% on average) and limited its debt to below 60% of operating revenue (around 35% as of year-end 2022). After low tax revenue in 2020 because of the coronavirus pandemic, the city's economy rebounded in 2021 and 2022, which improved its gross operating balance (GOB) to the pre-pandemic levels. We expect this recovery to continue in the following two years.

Exhibit 1

Barcelona's good operating performance will continue for the following two years



F: Forecast. This represents Barcelona's forward view.

Sources: Issuer and Moody's Investors Service

Credit strengths

- » Robust governance and financial management
- » Strong operating performances that will remain going forward
- » Low debt and a very good liquidity profile
- » Large and diversified economy

Credit challenges

- » Limited fiscal flexibility

Rating outlook

The rating outlook is stable, reflecting our view that Barcelona will maintain its sound fiscal position in the coming two years.

Factors that could lead to an upgrade

Because Barcelona's rating is at par with that of [Spain](#) (Baa1 stable), an upgrade of its rating would require an upgrade of the sovereign rating.

Factors that could lead to a downgrade

Any downgrade of Spain's rating would likely have similar implications for Barcelona's rating. A substantial deterioration in Barcelona's budgetary ratios, together with financing deficits and rising debt, could also strain the city's rating.

Key indicators

Exhibit 2

City of Barcelona

	2018	2019	2020	2021	2022	2023F	2024F
Gross Operating Balance as a % of Operating Revenue	14.6	16.6	13.9	16.9	13.9	16.4	16.0
Capital Expenses as a % of Total Expenses	16.1	16.0	12.1	17.4	16.9	24.8	–
Self Financing Ratio	1.1	1.2	1.3	1.1	0.9	0.7	–
Financing Surplus(Deficit) as % of Total Revenue	1.5	3.2	3.6	1.2	-1.5	0.1	0.0
Interest Expenses as a % of Operating Revenue	0.5	0.7	0.5	0.4	0.5	0.6	0.7
Gross Borrowing Need as a % of Total Revenue	0.3	0.0	0.0	1.8	4.6	–	–
Net Direct and Indirect debt as a % of Operating Revenue	30.3	27.7	27.8	27.2	34.9	39.5	42.0

F: Forecast. This represents Barcelona's forward view.

Sources: Issuer and Moody's Investors Service

Detailed credit considerations

The credit profile of the City of Barcelona, as expressed in its Baa1 stable rating, combines its Baseline Credit Assessment (BCA) of baa1 and a strong likelihood of extraordinary support from the central government if the city faces acute liquidity stress.

Baseline Credit Assessment

Robust governance and financial management

Barcelona's strong governance and management are reflected in its prudent budgetary practices. We consider the quality of Barcelona's internal controls and financial planning very high. Barcelona also follows a prudent approach to debt and investment management, which limits its exposure to market risk. Comprehensive financial reporting supports fiscal and debt management. All these elements justify a G-1 Governance score in its ESG credit impact score.

Strong operating performances that will remain going forward

The City of Barcelona has always displayed strong financial performance, even during the pandemic. According to 2022 results (on a consolidated basis), the city's GOB was €454 million, equivalent to 14% of its operating revenue compared with €520 million, or 17% of operating revenue, in 2021. This lower result mainly reflects a 9.5% increase in operating expenditure, while operating revenue increased by 5.7%. The rise in revenue was driven by a 17.6% increase in transfers received from the central government, while tax revenue decreased by 4.4% during the year, mainly because of direct taxes as a result of the application of the reform of the land value tax by the central government in November 2021, affecting revenue for all Spanish municipalities from 2022. As a result, Barcelona collected around €121 million of land value tax in 2022, down from €189 million in 2021. While we expect the collection of this tax to increase in 2023, we also expect at least a 27% revenue reduction in comparison with tax collected before the reform.

The increase in operating expenditure in 2022 was mainly because of a 6.2% increase in transfers to the city's public sector together with a 12.8% year-on-year increase in expenditure on goods and services, as the value of the renewed contracts with concessionaires

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to provide public services increased with rise in inflation and energy costs (€87 million more than the previous year). The value of the contract for the city's cleaning increased by €69 million in two years.

The city's positive GOB, together with its capital revenue, was insufficient to compensate for the €571 million of capital spending, resulting in a financing deficit of €47 million, which was equivalent to -1.5% of its operating revenue (a surplus of €38 million, or 1.2% of operating revenue, was recorded in 2021). We expect surpluses over the next two years.

To ease the strain on the regional and local economies, the Spanish government suspended fiscal rules for the whole of the public sector since 2020. However, Barcelona continues to follow its "Plan de Actuación Municipal". The plan aims to generate operating surpluses of more than 15% of operating revenue, limit debt to below 60% of operating revenue and ensure payments to suppliers within 30 days (20.3 days on average in 2022, 18.8 days of accumulated average in April 2023).

Following the city's response to the social emergency initiated in 2020, Barcelona has budgeted a €337 million increase in investments for 2023, with an expected financing deficit of around €296 million (equivalent to 8.8% of its operating revenue). However, we expect a lower investment execution and a higher revenue collection than that reflected in the initial budget, to likely result in a low financing surplus, according to the city's forecasts. We expect the city's fiscal deterioration to be temporary, which is already captured in its current rating of Baa1.

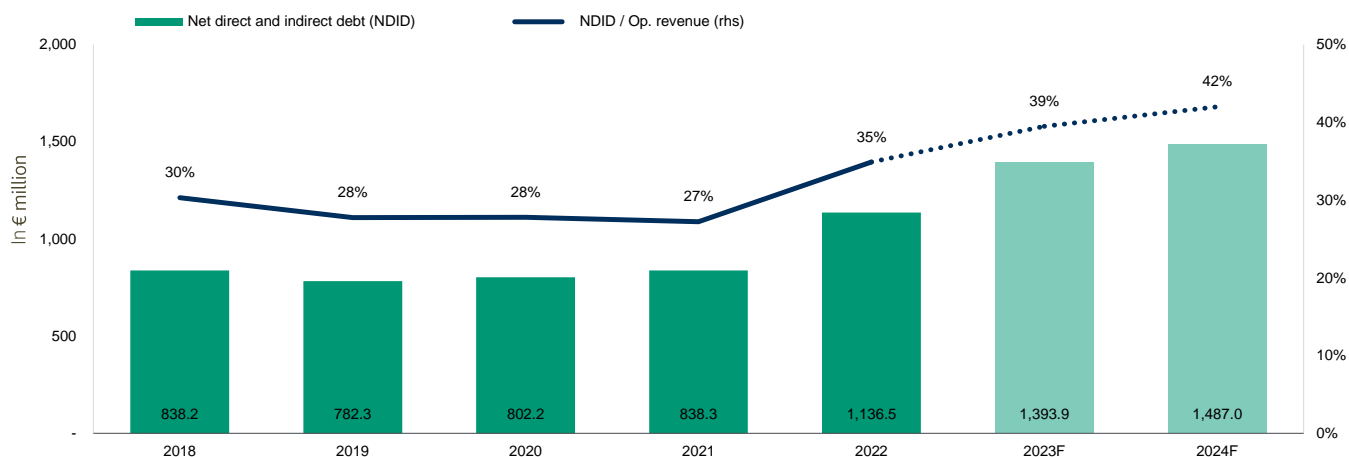
Low debt and a very good liquidity profile

Barcelona has low debt compared with that of its European peers. In 2022, the city's direct debt increased by 4% to €847 million from €817 million in 2021, with net direct and indirect debt/operating revenue also increasing to close 35% as of year-end 2022 from 27% in 2021 and well below its self-imposed limit of 60%.

The city's indirect debt is low, compared with that of other Spanish municipalities, at around 9% of operating revenue in 2022. Indirect debt in 2022 comprised €287 million of debt incurred by public companies (€241 million in 2021) with no guaranteed debt. This indirect debt mainly comprised debt from the Instituto Municipal de la Vivienda y Rehabilitación de Barcelona (IMHAB) with €268 million as of year-end 2022, the city's public company in charge of the construction of public housing in the city as part of a new housing plan to build around 2,500 houses by 2024, of which around 2,000 will be for social renting. The IMHAB is now considered a non-self-supporting company as it was reclassified by the IGAE, the state's audit agency, in 2022, increasing the city's ratio of net direct and indirect debt in 2022.

Although the city has included in its 2023 initial budget to raise new debt of around €345 million because of the increase in capital spending in 2023, the city plans just raise around €200 million of new debt, with net direct and indirect debt/operating revenue likely to increase to around 39% (42% in 2024). Despite the increase, this ratio will still be lower than its self-imposed limit of 60%. Barcelona's debt will remain manageable even if it increases in 2023. In addition, we expect Spain's positive economic prospects to provide further tax revenue collection and limit debt accumulation.

Exhibit 3

Barcelona's debt burden will remain low even if it increases in 2023

PC: Pre-closing; B: Budget; F: Forecast. This represents Barcelona's forward view.
Sources: Issuer and Moody's Investors Service

While interest cost will increase to around €21 million in 2023 from €15 million in 2022 because of tight market conditions, the city's limited debt repayments will help maintain its very low debt service/operating revenue at around 2% (3.7% in 2022).

The city's liquidity is very good, with cash on hand of €714 million as of year-end 2022, equivalent to around 22% of its operating revenue, compared with €685 million a year earlier. This cash on hand will be more than sufficient to cover debt repayments of just €48 million due in 2023. Furthermore, the city's high level of cash will be sufficient to cover 84% of Barcelona's outstanding direct debt. We expect the city to have cash on hand of around €658 million, per its forecast for year-end 2023. This very high level of cash on hand is a strong mitigating factor for any unexpected treasury need.

Large and diversified economy

Barcelona is the capital of the northeastern Spanish region of Catalunya and is one of the country's most developed and wealthiest cities; it is a decentralising counterweight to the capital city of Madrid. For the past few years, Barcelona's population has grown largely because of migration inflow; its 1.6 million inhabitants accounted for 3.5% of the national population and 21.2% of the Catalan population in 2022. It also concentrates a high portion of foreign population with 22% foreigners living in the city.

Barcelona's economy is mainly concentrated in the services sector, primarily focused on business, healthcare, education, commerce, the hotel industry and tourism, with the latest representing around 12% of the local GDP. While the city's economy was strongly affected by the pandemic in 2020 in terms of tourism, there has been a quick recovery since 2021 mainly because of the resumption of domestic and international travels. The number of passengers at Barcelona's airport is close to the pre-pandemic levels, with close to 10 million in Q1 2023, only 5% below the level recorded just before the pandemic in 2019.

The city's GDP growth was 6.6% in 2022 (5.5% in Spain), mainly concentrated in the commercial, hotel and construction sectors. According to the city's forecast, its GDP growth will be around 1.7% and 2.2% in 2023 and 2024, respectively.

With the economic recovery, the city's unemployment rate decreased to 8.2% in Q1 2023 from the 12.6% during the worst period of the pandemic in 2020. At the same time, the city's labour market activity — mainly in the tourism and the technology sectors — recovered to 81.7%, higher than the 75% for Spain and 78% for the region of Catalunya in Q1 2023.

Limited fiscal flexibility

The City of Barcelona mainly depends on transfers from the central government for its revenue. It has the authority to raise a variety of taxes, but has limited flexibility in setting their rates because the central government determines the maximum and minimum rates. However, the City of Barcelona would be able to collect additional revenue of close to €580 million if it were to use the maximum rate for the property tax, which is the main tax for Spanish municipalities, representing around 23% of Barcelona's operating revenue

and around 62% of the city's tax revenue in 2022. In addition, the city's tax collection will increase by around €104 million with the elimination of its current fiscal benefits/subsidies.

With respect to spending, Barcelona faces significant payroll costs, similar to other Spanish local governments. Although the Spanish local governments control staff numbers, pay increases largely reflect the decisions taken at the central government level, leaving municipalities with limited flexibility.

Extraordinary support considerations

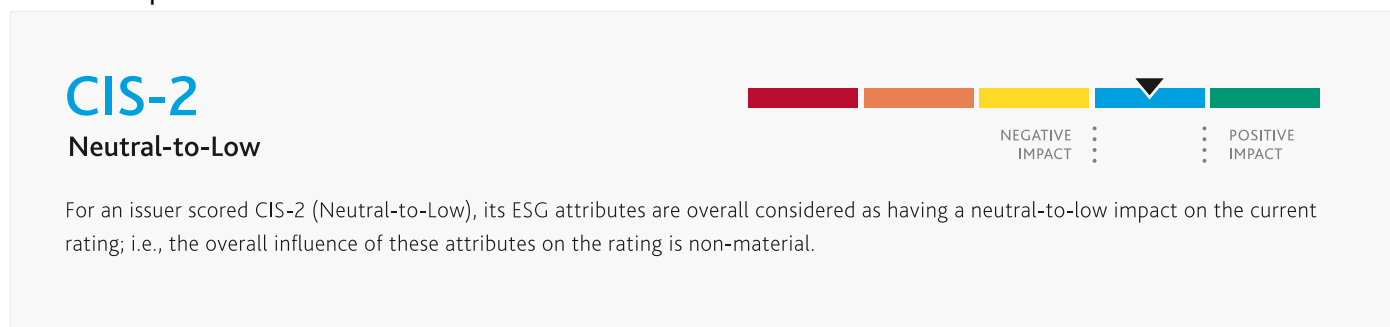
Barcelona has a strong likelihood of receiving extraordinary support from the central government, reflecting our assessment of the risk to the government's reputation if the city defaults. Despite the government's promotion of greater accountability for Spanish municipalities, Barcelona's strategic role in Spain provides the government with an incentive to support the city in the event of need.

ESG considerations

City of Barcelona's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

ESG Credit Impact Score



Source: Moody's Investors Service

Barcelona's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting low exposure to environmental risks, mostly low exposure to social risks and, very strong governance and in general strong capacity to respond to shocks.

Exhibit 5

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Barcelona's exposure to environmental risks is low across all categories. Its overall E issuer profile score is therefore neutral-to-low (**E-2**).

Social

We assess Barcelona's social issuer profile score as neutral to low (**S-2**) across most categories, reflecting high quality health & safety standards and access to basic services. The only category that entails moderately negative risk is the housing where the city of Barcelona faces issues mainly related to housing affordability.

Governance

Barcelona's governance profile is captured by a positive G issuer profile score (**G-1**). The city scores well on accountability, regulatory quality and government effectiveness. Barcelona has very robust governance and management, demonstrated by its self-imposed fiscal and financial rules, which are more restrictive than rules under current legislation for local governments in Spain. The city also provides transparent and timely financial reports.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of baa1 is close to the scorecard suggested BCA of baa2. The scorecard-generated BCA of baa2 reflects an Idiosyncratic Risk score of 2 (presented below) on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Baa1, as reflected in Spain's Baa1 stable sovereign bond rating.

For details on our rating approach, please refer to [Regional and Local Governments](#) rating methodology.

Exhibit 6

City of Barcelona

Regional and Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				1	20%	0.20
Economic Strength [1]	1	189.63%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				3	20%	0.60
Legislative Background	1		50%			
Financial Flexibility	5		50%			
Factor 3: Financial Position				1.50	30%	0.45
Operating Margin [2]	1	14.77%	12.5%			
Interest Burden [3]	1	0.45%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	1	34.90%	25%			
Debt Structure [5]	3	12.54%	25%			
Factor 4: Governance and Management				1	30%	0.30
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						1.55 (2)
Systemic Risk Assessment						Baa1
Suggested BCA score						baa2
Assigned BCA						baa1

[1] Local GDP per capita as a percentage of national GDP per capita.

[2] Gross operating balance/operating revenue.

[3] Interest payments/operating revenue.

[4] Net direct and indirect debt/operating revenue.

[5] Short-term direct debt/total direct debt.

Source: Moody's Investors Service; fiscal 2022

Ratings

Exhibit 7

Category	Moody's Rating
BARCELONA, CITY OF	
Outlook	Stable
Issuer Rating	Baa1

Source: Moody's Investors Service

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