

CREDIT OPINION

1 August 2024

Update

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RATINGS

Barcelona, City of

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

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.

Contacts

Marisol Blazquez +34.91.768.8213
AVP-Analyst
marisol.blazquez@moodys.com

Federico Impaglione +34.91.768.8234
Ratings Associate
federico.impaglione@moodys.com

Sebastien Hay +34.91.768.8222
Associate Managing Director
sebastien.hay@moodys.com

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Americas	1-212-553-1653
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City of Barcelona (Spain)

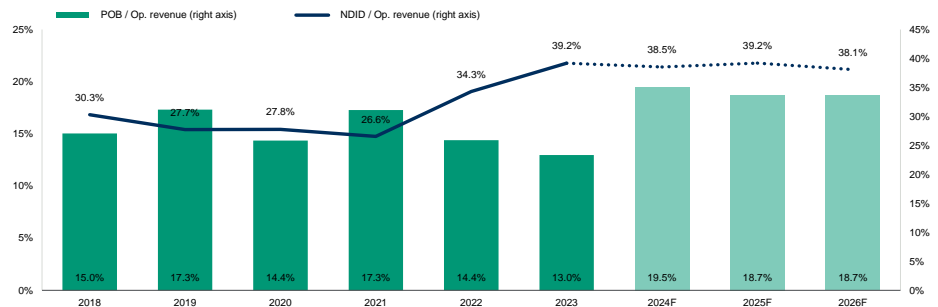
Update following methodology update

Summary

The credit quality of the [City of Barcelona](#) (Baa1 positive) reflects the city's robust budgetary management and solid financial fundamentals in recent years, which have ensured 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 less than 60% of operating revenue (around 39% as of year-end 2023).

Exhibit 1

Barcelona's low debt burden and good operating performance will continue for the next three years



Note: Primary Operating Balance (POB) is total operating revenue minus total operating expenditure (excluding interest payments).

F = Forecast based on Moody's Ratings estimations.

Source: Issuer and Moody's Ratings

Credit strengths

- » Robust governance and financial management
- » Strong operating performance, which will continue
- » Low debt and a very good liquidity profile
- » Large and diversified economy

Credit challenges

- » Limited fiscal flexibility

Rating outlook

The rating outlook is positive, reflecting Spain's more balanced economic growth prospects. This could result in higher tax revenue and increased transfers from the central government than initially expected. This would aid the city's financial stability, allowing it to maintain sound financials in the coming years, characterized by strong POBs, financial surpluses, and low debt levels.

Factors that could lead to an upgrade

The strengthening of Spain's credit profile, as reflected by an upgrade of the sovereign rating, could have positive credit implications for the Spanish sub-sovereigns in general in the form of further reductions in systemic risk. Because Barcelona's rating is at par with that of Spain, 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, reflected in financing deficits and rising debt, could also strain the city's rating.

Key indicators

Exhibit 2

City of Barcelona

F = Forecast based on Moody's Ratings estimations.

Source: Issuer and Moody's Ratings

Detailed credit considerations

The credit profile of the City of Barcelona, as expressed in its Baa1 rating with a positive outlook, 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. The quality of the city's internal controls and financial planning is 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.

Strong operating performance, which will continue

The City of Barcelona's financial performance has always been strong. According to 2023 results (on a consolidated basis), the city's primary operating balance (POB) was €440 million, equivalent to 13% of its operating revenue, slightly below to the €469 million, or 14.4% of operating revenue, registered in 2022. This result mainly reflects a 6% increase in operating expenditure (excluding interest payments), while operating revenue increased by 4%. The rise in revenue was driven by a 4% increase in transfers received from the central government, and by an increase of around 6% in tax revenue.

On the other hand, the increase in operating expenditure in 2023 was mainly because of a 6.6% increase in transfers to the city's public sector, together with a 7.7% year-on-year increase in personnel and wages costs. Expenditure on goods and services also increased by around 4.5%, as the value of the renewed contracts with concessionaires to provide public services increased with rise in inflation and energy costs.

The city's positive operating balance, together with its capital revenue, was insufficient to compensate for the capital spending of €689 million, resulting in a financing deficit of €20 million, which was equivalent to -0.6% of its operating revenue (a deficit of €47 million, or -1.4% of operating revenue was recorded in 2022). We expect the city's financing results to improve in the next two to three years.

To ease the strain on the regional and local economies, the Spanish government suspended fiscal rules for the whole of the public sector for 2020-23. However, Barcelona continues to follow its "Plan de Actuación Municipal". The plan aims to generate operating

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surpluses of more than 15% of operating revenue, limit debt to less than 60% of operating revenue and ensure payments to suppliers within 30 days (21.7 days on average in 2023).

Low debt and a very good liquidity profile

Barcelona has low debt, compared with that of its European peers. In 2023, the city's direct debt increased by around 20% to €1,013 million from €847 million in 2022, with net direct and indirect debt/operating revenue also increasing to around 39% as of year-end 2023 from 34% as of year-end 2022. However, the city's debt burden remains well below its self-imposed limit of 60%.

The city's indirect debt is low, compared with that of other Spanish municipalities, at around 10% of operating revenue in 2023. Indirect debt in 2023 comprised €335 million of debt incurred by public companies (€287 million in 2022) with no guaranteed debt. This indirect debt mainly comprised debt of €318 million from the Instituto Municipal de la Vivienda y Rehabilitación de Barcelona (IMHAB) as of year-end 2023 (around €390 million expected at year-end 2024); the IMHAB is 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 2025, of which around 2,000 will be for social renting. Since 2022, the IMHAB has been reclassified by the IGAE, the state's audit agency, as a non-self-supporting company, which increased the city's ratio of net direct and indirect debt on that same year.

We expect further tax revenue collection for the next two to three years, which will help keep Barcelona's debt burden stable at around 40% until 2026, although it will still be lower than its self-imposed limit of 60%.

Despite tight market conditions, the city's limited debt repayments have helped maintain its debt service/operating revenue very low, at around 2.6% in 2023 (3.7% in 2022).

The city's liquidity is very good, with abundant cash on hand of €838 million as of year-end 2023, equivalent to around 25% of its operating revenue, compared with €714 million a year earlier (22% of operating revenue). This cash on hand will be more than sufficient to cover debt repayments of around €65 million due in 2024. Furthermore, the city's high level of cash will be sufficient to cover around 83% of Barcelona's outstanding direct debt and is a strong mitigating factor for any unexpected treasury need, which is credit positive. We expect liquidity to remain at a similar level as of year-end 2024.

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 around 3.5% of the national population and nearly 21% of the Catalan population in 2023 (latest official data). It also concentrates a high portion of foreign population, with 23.6% people living in the city are foreigners.

Barcelona's economy is mainly concentrated in the services sector, primarily focused on business, healthcare, education, commerce, the hotel industry and tourism, with the tourism sector 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, at close to 50 million in 2023, only 5% below the level recorded just before the pandemic in 2019.

The city's GDP growth was 2.8% in 2023 (2.5% for Spain), mainly concentrated in the commercial, communications and cultural sectors. According to the city's forecast, its GDP growth will be around 2.2% in 2024. With the economic recovery, the city's unemployment rate decreased to 8.7% in 2023 from 10.2% in 2022 (12.6% at the peak of the pandemic in 2020). At the same time, labour market activity in the city — mainly in the tourism and technology sectors — recovered to 79.3%, higher than the 75.6% for Spain and 78.7% for the region of Catalunya in Q1 2024.

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 would be able to collect additional revenue of close to €1.5 billion if it were to use the maximum rate for the property tax, which is the main tax for Spanish municipalities, representing around 22% of Barcelona's operating revenue and around

60% of the city's tax revenue. In addition, the city's tax collection will increase by around €93 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.

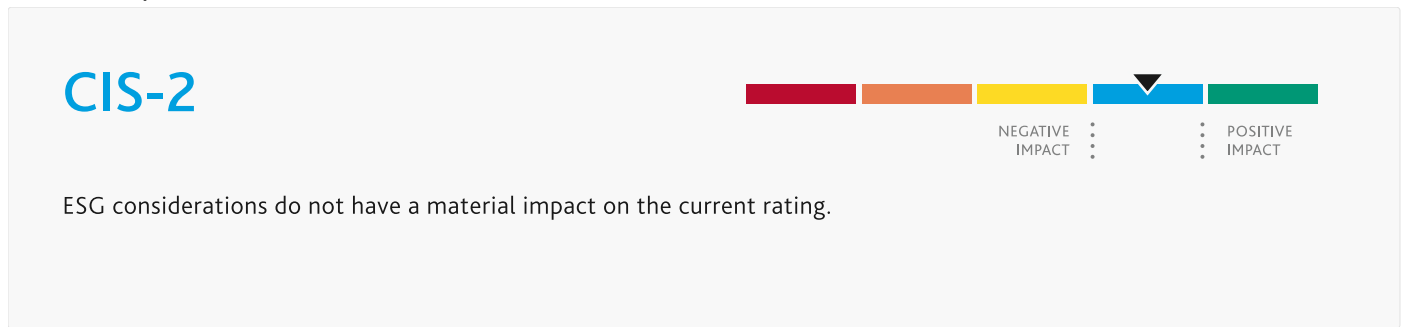
Extraordinary support considerations

Barcelona has a strong likelihood of receiving extraordinary support from the central government, reflecting our assessment of risk to the government's reputation if the city defaults. The central government promotes 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

Barcelona, City of's ESG credit impact score is CIS-2

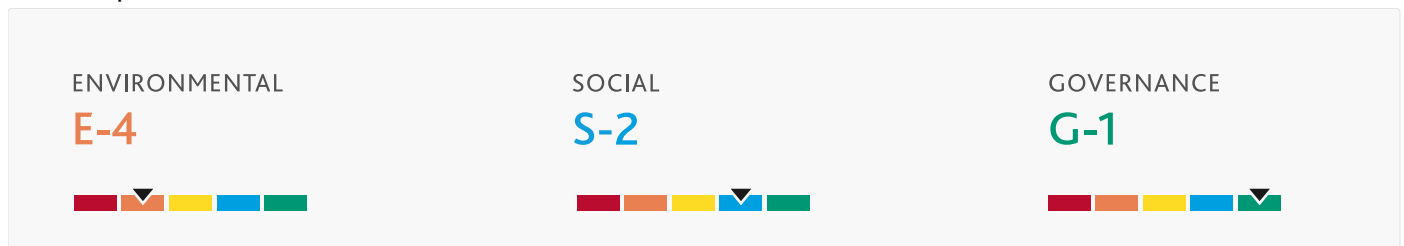
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Barcelona's ESG considerations do not have a material impact on the current rating (**CIS-2**).

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Barcelona is highly exposed to environmental risks (**E-4**), mainly concentrated on heat stress, water stress, sea level rise and droughts. While there are some mitigants related to E risks they have limited effect on these risks. As a mitigating factor, the EU Next Generation funds will provide a significant portion of the city's resources for climate change reforms, including investments. Furthermore, the city's environmental responsibilities are limited, as the region of the Generalitat de Catalunya and the Government of Spain manage environmental policies within its territory.

Social

Barcelona's exposure to social issues are not material in differentiating credit quality (**S-2**), reflecting high quality health & safety standards and access to basic services. The only category that entails moderate exposure 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 in line with suggested BCA scorecard-indicated outcome of baa1.

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

Exhibit 5

Barcelona, City of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	0.70
Regional Income [1]	0.64	86572.10	15%	0.10		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					30%	1.80
Institutional Framework	9.00	baa	15%	1.35		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	1.02
Operating Margin [2]	6.39	12.96%	10%	0.64		
Liquidity Ratio [3]	1.70	24.67%	5%	0.08		
Ease of Access to Funding	6.00	a	5%	0.30		
Factor 4: Leverage					25%	0.66
Debt Burden [4]	2.94	39.19%	15%	0.44		
Interest Burden [5]	2.22	0.86%	10%	0.22		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(4.18) aa3
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(4.18) aa3
Sovereign Rating Threshold						Baa1
Operating Environment Notching						0.0
BCA Scorecard-Indicated Outcome						(8.00) baa1
Assigned BCA						baa1

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2023.

Ratings

Exhibit 6

Category	Moody's Rating
BARCELONA, CITY OF	
Outlook	Positive
Baseline Credit Assessment	baa1
Issuer Rating	Baa1

Source: Moody's Ratings

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