

## CREDIT OPINION

4 April 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.

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## City of Barcelona (Spain)

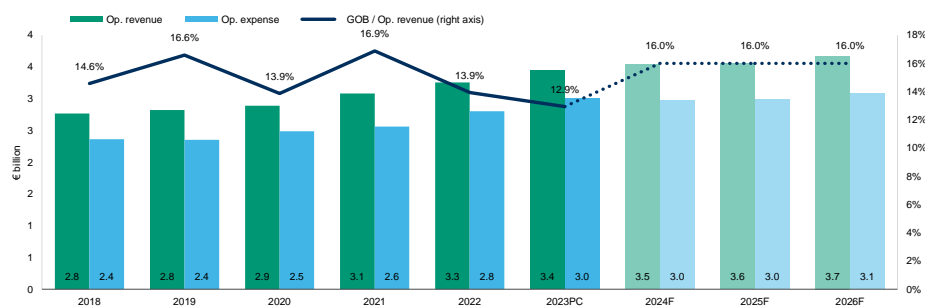
Update following rating affirmation; outlook changed to positive

### 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 good operating performance will continue for the next three years



PC = Pre-Closing; F = Forecast based on Moody's Ratings estimations.  
Sources: 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 GOBs, 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

	2018	2019	2020	2021	2022	2023PC	2024F	2025F	2026F
Gross Operating Balance as a % of Operating Revenue	14.6	16.6	13.9	16.9	13.9	12.9	16.0	16.0	16.0
Capital Expenses as a % of Total Expenses	16.1	16.0	12.1	17.4	18.1	18.4	23.4	–	–
Self Financing Ratio	1.1	1.2	1.3	1.1	0.9	1.0	0.7	–	–
Financing Surplus(Deficit) as % of Total Revenue	1.5	3.2	3.6	1.2	-1.4	-0.7	0.0	0.0	0.0
Interest Expenses as a % of Operating Revenue	0.5	0.7	0.5	0.4	0.5	0.8	1.3	1.2	1.2
Gross Borrowing Need as a % of Total Revenue	0.3	0.0	0.0	1.8	4.5	2.3	10.2	–	–
Net Direct and Indirect debt as a % of Operating Revenue	30.3	27.7	27.8	26.6	34.3	38.6	42.2	41.2	40.0

PC = Pre-Closing; F = Forecast based on Moody's Ratings estimations.  
Sources: 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.

On 21 March 2024, we changed the outlook on Barcelona's rating to positive from stable and affirmed the rating at Baa1. The revision of the outlook to positive followed the change in the outlook on the Government of Spain's rating to positive from stable and affirmation of its rating at Baa1 on 15 March 2024. Should the country's medium-term economic growth prospects be higher and less volatile than what we currently assume — reflecting the opportunity underpinning the change in Spain's outlook from stable to positive — the increase in tax revenue could be more significant. This could, in turn, lead to an increase in state transfers to the city of Barcelona beyond our baseline forecast.

## 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

**Strong operating performance, which will continue**

The City of Barcelona's financial performance has always been strong. According to 2023 preliminary results (on a consolidated basis), the city's gross operating balance (GOB) was €446 million, equivalent to 13% of its operating revenue, similar to the €454 million, or 14% of operating revenue, registered in 2022. This result mainly reflects a 7% increase in operating expenditure, while operating revenue increased by 6%. The rise in revenue was driven by a 5% 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 13.6% increase in transfers to the city's public sector, together with a 7.6% year-on-year increase in personnel and wages costs. Expenditure on goods and services also increased by around 2%, 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 GOB, together with its capital revenue, was insufficient to compensate for the capital spending of €676 million, resulting in a financing deficit of €26 million, which was equivalent to -0.7% of its operating revenue (deficit of €47 million, or -1.4% of operating revenue 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 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 (19.3 days on average in 2023).

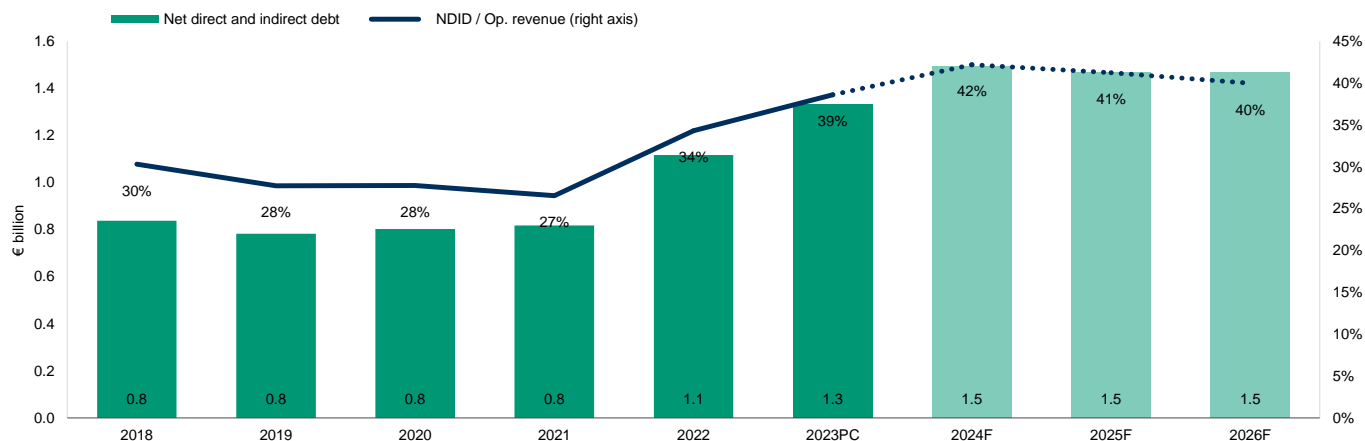
**Low debt and a very good liquidity profile**

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; 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 2024, 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%.

Exhibit 3

**Barcelona's debt burden will remain low in the next two to three years**

PC = Pre-Closing; F = Forecast based on Moody's Ratings estimations.

Sources: Issuer and Moody's Ratings

Despite tight market conditions, the city's limited debt repayments have helped maintain its debt service/operating revenue very low, at around 2.5% 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 24% 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.

**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 2022 (latest official data). It also concentrates a high portion of foreign population, with 22% 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 6.6% in 2022 (5.5% for 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 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 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 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 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.

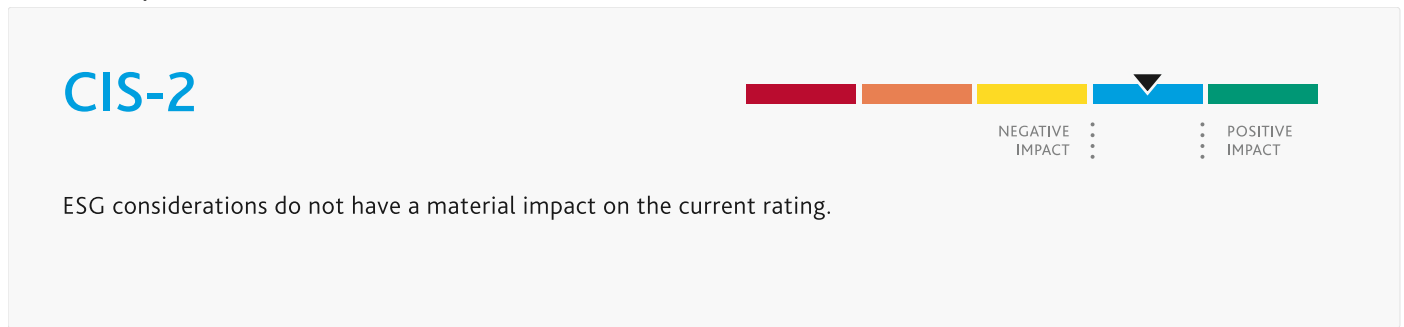
**Extraordinary support considerations**

Barcelona has a strong likelihood of receiving extraordinary support from the central government, reflecting our assessment of 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**

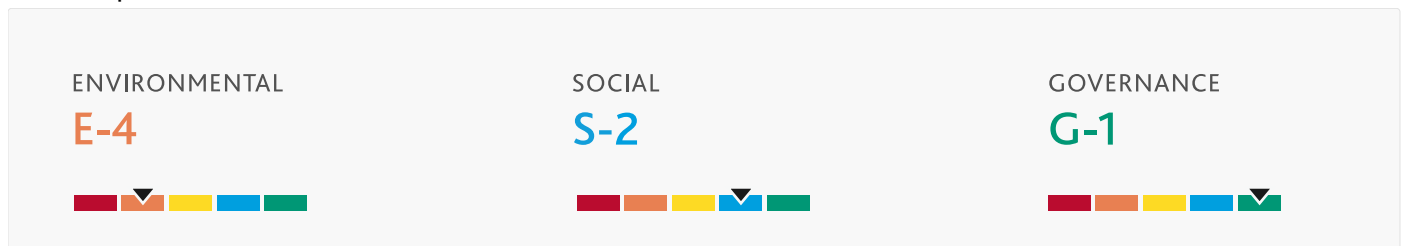
Exhibit 4  
ESG credit impact score



Source: Moody's Ratings

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

Exhibit 5  
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 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 positive sovereign bond rating.

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

Exhibit 6

### Barcelona, City of Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Factor 1: Economic Fundamentals</b>				<b>1</b>	<b>20%</b>	<b>0.20</b>
Economic Strength [1]	1	179%	70%			
Economic Volatility	1		30%			
<b>Factor 2: Institutional Framework</b>				<b>3</b>	<b>20%</b>	<b>0.60</b>
Legislative Background	1		50%			
Financial Flexibility	5		50%			
<b>Factor 3: Financial Position</b>				<b>1.50</b>	<b>30%</b>	<b>0.45</b>
Operating Margin [2]	1	13.79%	12.5%			
Interest Burden [3]	1	0.65%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	3	38.61%	25%			
Debt Structure [5]	1	5.70%	25%			
<b>Factor 4: Governance and Management</b>				<b>1</b>	<b>30%</b>	<b>0.30</b>
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						<b>1.55 (2)</b>
<b>Systemic Risk Assessment</b>						<b>Baa1</b>
<b>Suggested BCA Score</b>						<b>baa2</b>
<b>Assigned BCA</b>						<b>baa1</b>

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

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

Source: Moody's Ratings; Fiscal 2023.

## Ratings

Exhibit 7

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

Source: Moody's Ratings

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