

CREDIT OPINION

7 July 2022

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)

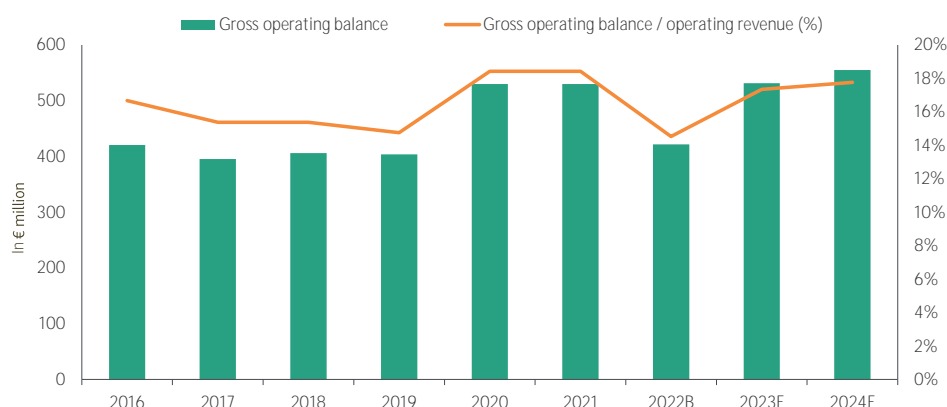
Update to credit analysis

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 decade (18% on average) and limited its debt to below 60% of operating revenue (around 29% as of year-end 2021). After one year of low tax revenue because of an economic slowdown in 2020, the rebound in the city's economy in 2021 improved Barcelona's gross operating balance (GOB) in the year. 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



B: Budget; F: Forecast. This represents Moody's forward view, not the view of the issuer.

Sources: Issuer and Moody's Investors Service

Credit strengths

- » Robust governance and financial management
- » Strong financial performance, which continued during the coronavirus pandemic
- » Low indebtedness and good liquidity
- » 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

	2016	2017	2018	2019	2020	2021	2022B	2023 F	2024F
Gross Operating Balance as a % of Operating Revenue	16.2	16.7	15.4	15.4	14.8	18.4	14.5	17.3	17.8
Capital Expenses as a % of Total Expenses	17.7	17.4	16.7	14.2	12.6	18.4	25.3	—	—
Self Financing Ratio	1.1	1.1	1.1	1.3	1.3	1.1	0.7	—	—
Financing Surplus(Deficit) as % of Total Revenue	1.3	1.3	1.2	4.0	3.9	1.8	-7.0	0.0	0.0
Interest Expenses as a % of Operating Revenue	0.7	0.7	0.5	0.7	0.5	0.4	0.5	0.5	0.5
Gross Borrowing Need as a % of Total Revenue	4.8	3.6	0.8	0.0	0.0	1.5	9.8	—	—
Net Direct and Indirect debt as a % of Operating Revenue	33.6	33.3	32.6	29.6	29.3	29.1	27.7	35.3	37.7

B: Budget; F: Forecast. This represents Moody's forward view, not the view of the issuer.

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, such as over-budgeting for current spending and under-budgeting for current revenue, thereby generating large operating balances. We consider the quality of Barcelona's internal controls and financial planning very high. Barcelona also follows a conservative 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 financial performance continued during the pandemic

Despite the disruption caused by the pandemic, Barcelona maintained a good budgetary performance in 2020 and 2021. According to 2021 results, the city's GOB was €530 million, equivalent to 18.4% of its operating revenue, above the €404 million, or 14.8% of operating revenue, in 2020. This improvement mainly reflects a 5% increase in operating revenue, while the operating expenditure remained stable. The rise in revenue was driven by a 3.5% increase in tax revenue and 4% increase in transfers received from the central government to compensate the impact of the pandemic on the city's economy and from the Generalitat de Catalunya for social expenditure agreed with the city. The city's positive GOB, together with its capital revenue, was sufficient to compensate a 58% increase in capital spending (€529 million versus €336 million in 2020), and resulted in a financing surplus of €52 million; however, it was much lower than the €109 million in 2020. The increase in capital spending was the result of a political decision to increase investments to tackle the social emergency that arose from the pandemic and drive the city's economic recovery.

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

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surpluses of more than 15% of operating revenue, limit debt to below 60% of operating revenue and ensure payments to suppliers within 30 days (20.6 days on average in 2021, 16.6 days of accumulated average in May 2022).

Following the city's response to the social emergency initiated one year ago, Barcelona budgeted a €290 million increase in investments for 2022, with an expected financing deficit of around €216 million (equivalent to 7.5% 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 lower deficit. We expect the city's fiscal deterioration to be temporary, which is already captured in its current rating of Baa1.

Low indebtedness and a good liquidity profile

Barcelona has low debt compared with its European peers. In 2021, the city's direct debt increased by just 2% to €817 million from €800 million in 2020, with net direct and indirect debt/operating revenue of 29.1% as of year-end 2021, similar to the 29.3% reported in 2020 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 8% of operating revenue in 2021. Indirect debt in 2021 comprised €241 million of debt incurred by public companies (€168 million in 2020) and just €383,000 of debt guarantees to other related entities or companies. This indirect debt mainly comprised debt from the Instituto Municipal de la Vivienda y Rehabilitación de Barcelona (IMHAB), 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.

Although the city plans to raise new debt of around €300 million because of the capital expenditure increase in 2022, we expect its net direct and indirect debt/operating revenue to be around 28% (35% in 2023). Despite the increase, this ratio will still be lower than its self-imposed limit of 60%. We consider Barcelona's debt will remain manageable even if it increases in the following two years. In addition, we expect Spain's gradual economic recovery to provide further support and limit debt accumulation.

The city's liquidity is very good, with cash on hand of €685 million as of year-end 2021, equivalent to around 24% of its operating revenue, compared with €661 million a year earlier. This cash on hand will be more than sufficient to cover debt repayments of just €87 million due in 2022. Furthermore, the high level of cash will be sufficient to cover 82% of Barcelona's outstanding direct debt. We expect the city to have cash on hand of around €689 million, per its forecast for year-end 2022.

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, acting as 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 21.3% of the Catalan population in 2021.

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, especially in terms of tourism, we observed a quick recovery in 2021 and in a more prominent way in the first half of 2022, 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 more than 3 millions in April 2022, similar to the level recorded just before the pandemic in February 2020 (accumulated 18.9 million of passengers were registered in 2021).

The city's GDP growth was 6.4% in Q4 2021 (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 3.6% in 2022.

In line with the economic recovery, the city's unemployment rate decreased to 7.5% in Q1 2022 from the 12.6% during the worst period of the pandemic in 2020. At the same time, the city's labour market activity rate recovered to 80.2%, above 75% for Spain and 77% for the region of Catalunya in Q1 2022.

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 revenue of more than €500 million if it were to use the maximum rate for the

property tax, which is the main tax for Spanish municipalities, representing around 25% of Barcelona's operating revenue and around 60% of the city's tax revenue.

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 3

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



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 4

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-1

Positive



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 and safety standards and access to basic services. The only category that entails moderately negative risk is 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 the 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 www.moody.com. 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-indicated 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 5

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	199.78%	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	16.94%	12.5%			
Interest Burden [3]	1	0.50%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	1	29.14%	25%			
Debt Structure [5]	3	11.56%	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
Scorecard-Indicated BCA Outcome						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 2021

Ratings

Exhibit 6

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

Source: Moody's Investors Service

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