

Barcelona (City of)

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This report does not constitute a rating action.

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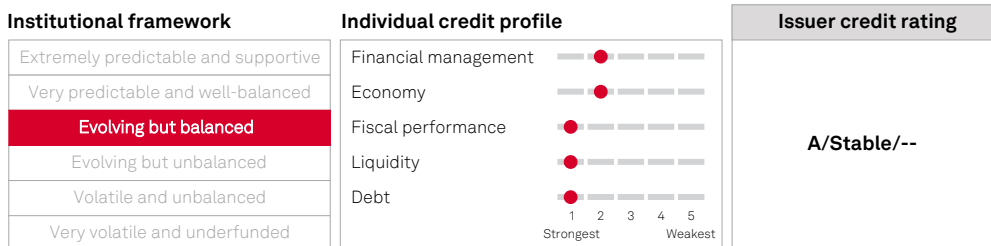
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Ratings Score Snapshot



Credit Highlights

Overview

Credit context and assumptions

The City of Barcelona has a new minority government following the May 2023 elections with a fragmented local assembly, creating challenges to approve budgets.

Rising revenue and a strong commitment with cost control should enable the city to maintain sound budgetary performance, complying with once-again binding fiscal rules.

Base-case expectations

Barcelona is likely to post large operating balances and balance its budgets over our forecast horizon to 2026.

We expect debt ratios to remain very low both in a national and international comparison.

Overview

Credit context and assumptions

Investments should gradually moderate as EU fund inflow decreases and housing development projects are completed.

Base-case expectations

Barcelona should maintain a sound liquidity position and very strong debt service coverage ratios.

Barcelona's creditworthiness is characterized by a supportive institutional framework that has historically enabled Spanish local governments to post balanced accounts. S&P Global Ratings also sees the city's strong financial management as a rating strength. Barcelona's recent performance has been underpinned by management's self-imposed financial targets (on operating balance and debt, for example) that are more stringent than any legal requirements. Despite the suspension of fiscal rules during the pandemic, the city had only limited deficits and its debt ratios have remained stable. Furthermore, Barcelona maintains liquidity that amply covers its debt-service requirements.

We assess the city's stand-alone credit profile (SACP) at 'aa-'. Supporting the SACP are what we regard as prudent budgetary management, large liquidity reserves, and very low debt, both in an international and in a Spanish context and particularly considering Barcelona's structural ability to generate structurally large operating balances. The SACP is a way to assess the intrinsic creditworthiness of a local or regional government under the assumption that the rating on the sovereign is not a constraint.

We cap our long-term rating on Barcelona at the level of the long-term rating on Spain (unsolicited; A/Stable/A-1). The city does not meet the criteria for us to rate it higher than the related sovereign. We think Barcelona lacks sufficient financial autonomy to effectively resist significant sovereign intervention, such as reductions or delays in central government transfers. We assume the city's credit quality would not withstand the stress of a sovereign default, given its reliance on central government transfers and tax transfers (for about 40% of operating revenue). Like all Spanish cities, Barcelona has no substantial legislative power over its budgetary and financial framework.

Outlook

The rating on Barcelona is capped by the ratings on Spain. Therefore, the stable outlook on Barcelona reflects that on Spain.

Downside scenario

If we were to downgrade Spain, we would downgrade Barcelona.

Upside scenario

We would raise the rating on Barcelona if we upgraded Spain and the city continued to perform in line with our base-case expectations.

Rationale

Revenue stability and prudent financial management should keep budgetary performance steady

Recent shocks such as the pandemic and the war in Ukraine have not had a meaningful impact on Barcelona's revenue, in our view, thanks to the relative stability and predictability of most of its revenue sources. We think this is a structural feature of local governments in Spain. After the pandemic, the city's economy bounced back quickly, with tourism once again thriving. The Spanish economy continues to outperform that of other European countries, with low dependence on Russian energy and a strong and diversified services sector. We see this as boosting Barcelona's economic outlook, although uncertainty remains.

We anticipate the city will post only a small deficit in 2023, based on preliminary 2023 budgetary execution data. Fiscal rules, which require local governments to post balanced budgets, had been suspended since the pandemic, leading Spanish local governments to reduce their indebtedness and accumulate cash. Fiscal rules will once again become binding in 2024. In our view, it is likely that the city might bring forward some investments or expenditure to take advantage of this remaining flexibility.

The current city government, led by Jaume Collboni, only has 10 seats out of a 41-seat city council, and therefore needs to rely on support from other parties to govern. This is not an extraordinary situation: The previous administration also was based on a minority government, with a very fragmented city council. However, this situation has so far prevented Mr. Collboni's government from getting its 2024 draft budget approved. The 2023 budget has therefore been automatically extended.

We understand the city's government might continue to negotiate with political groups possible changes in the draft budget to get it approved. If this does not happen, a budgetary extension in 2024 would tend to boost budgetary performance. Revenue will increase, mainly due to larger transfers from the central government and a higher collection of taxes on tourism stays. However, the city government has strong restrictions on adding expenditure, other than mandatory ones such as centrally determined salary increases for public workers. We therefore do not see the budgetary extension as a meaningful risk to the city's finances.

We have observed an asymmetric treatment of the city's transfer settlements from the state, which in our view is evidence of the central government's supportive stance towards local entities in Spain. Excess central government transfers in 2020 generated a negative settlement for Barcelona of about €190 million. The city had to refund the amount in principle in three annual installments from 2022-2024, the bulk in 2023. The central government had already forgiven the 2022 and 2023 installments, and recently confirmed it would do the same for the 2024 balance, amounting to about €50 million. On the other hand, the city will benefit from a large positive settlement of over €200 million for 2024 (because of lower transfers received in 2022 than Barcelona was entitled to). The city will receive the amount in full, and in one year, without having to compensate for previous negative settlements.

Advance transfers from the central government for 2024 are set to grow by 5.1%, above Barcelona's previous expectations. This will shore up the city's revenue for 2024. However, we view this increase as potentially temporary. In our view, management is aware that this could be the case, and is likely to avoid committing these additional resources to structural operating expenditure, which would limit their flexibility to adjust spending later if needed.

Barcelona's main tax figure, the property tax (the IBI), is following a structural upward trend as the impact of real estate value revisions that took effect in 2018 continues to gradually increase tax bases. In addition, the city has started collecting new taxes and fees on tourism stays and garbage collection, which should boost revenue. We therefore think operating revenue should improve.

We view Barcelona's financial management as prudent, and expect the city will moderate expenditure growth. Barcelona has long adhered to its own internal targets (operating balances above 15%, and (with only the few recent exceptions) balanced budgets or surpluses). The new

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administration has publicly renewed this commitment. In particular, the city's headcount has risen strongly in the past four years as the previous government sought to reinforce public services and internalize some services that had been previously contracted to external firms. We expect headcount will now stabilize near current levels, removing one of the key factors of recent expenditure growth. We therefore believe the city will be able to balance its budget in 2024, and even post a surplus.

We expect Barcelona's capital accounts to benefit from an inflow of EU funds in the context of the Recovery and Resilience Facility. In the case of municipalities, we understand the city will receive these funds by participating in national tenders set up by the central government, having to submit its projects for consideration. The central government will then evaluate whether the projects comply with the EU's goals (alignment with goals on energy transition and digitalization, for example), then award the funds. We expect the funds to gradually decline as the period to execute them comes to a close (in 2026). However, we think Barcelona will gradually scale back investments over the period. In any case, we believe these funds will not generate any meaningful strain on the budget or the city's liquidity. In fact, there is an opportunity to boost its competitiveness.

Low debt metrics should remain stable through 2026

In 2023, Barcelona issued €210 million, with a net debt increase of about €166 million. We believe this is ahead of some expected deficits but also to maintain high levels of liquidity. In 2024 and beyond, we think the city could issue debt below its annual maturities as it is forced to use surpluses to reduce debt.

Barcelona remains committed to its planned investment in housing units through its municipal housing company. Its housing operator--Institut Municipal de l'Habitatge i Rehabilitacio de Barcelona--continues to advance its major project that entails the construction of about 180,000 square meters of housing units, mostly for social rentals. The plan is estimated to cost up to €397 million. However, we understand the associated debt will likely peak in 2024 then start declining. We therefore think expanding revenue (due to inflation and economic growth) should allow the city to maintain broadly stable tax-supported debt ratios, slightly above 30% of consolidated operating revenue, which we view as low in an international context, and very low in the Spanish context. This is particularly the case when factoring Barcelona's ability to generate recurring operating balances.

We expect liquidity will remain very strong in 2024 and beyond. Our debt service coverage ratio, which compares available liquidity sources with debt service, is set to stay well above 100% through our forecast period, and we don't foresee the city needing to resort to short-term credit lines or similar instruments. We think Barcelona's management seeks to maintain sufficient liquidity buffers. The city defines its treasury plans based on very cautious assumptions, which often translate into lower borrowing than initially planned in the budget. It actively manages its liquidity and maintains the period of payment to suppliers constantly below 30 days.

City of Barcelona Selected Indicators

Mil. EUR	2021	2022	2023e	2024bc	2025bc	2026bc
Operating revenue	3,113	3,330	3,570	3,801	3,939	4,097
Operating expenditure	2,560	2,803	3,057	3,221	3,341	3,459
Operating balance	552	527	513	580	598	638
Operating balance (% of operating revenue)	17.8	15.8	14.4	15.3	15.2	15.6
Capital revenue	27	236	255	177	72	62

City of Barcelona Selected Indicators

Capital expenditure	541	810	830	710	625	655
Balance after capital accounts	38	(47)	(62)	47	45	45
Balance after capital accounts (% of total revenue)	1.2	(1.3)	(1.6)	1.2	1.1	1.1
Debt repaid	94	83	45	52	56	139
Gross borrowings	111	114	210	25	25	110
Balance after borrowings	54	(16)	103	19	14	16
Direct debt (outstanding at year- end)	817	847	1,013	986	955	926
Direct debt (% of operating revenue)	26.2	25.5	28.4	25.9	24.2	22.6
Tax-supported debt (outstanding at year-end)	1,058	1,135	1,333	1,375	1,326	1,282
Tax-supported debt (% of consolidated operating revenue)	33.5	33.8	37.0	36.2	33.7	31.3
Interest (% of operating revenue)	0.4	0.5	0.6	0.7	0.6	0.5
Local GDP per capita (\$)	36,049.9	34,892.2	--	--	--	--
National GDP per capita (\$)	30,113.3	29,461.5	32,220.1	33,985.7	36,978.6	39,297.1

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. EUR--euro. \$--U.S. dollar.

City of Barcelona Rating Component Scores

Key rating factors	Scores
Institutional framework	3
Economy	2
Financial management	2
Budgetary performance	1
Liquidity	1
Debt burden	1
Stand-alone credit profile	aa-
Issuer credit rating	A

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

Barcelona (City of)

- Sovereign Risk Indicators, Dec. 11, 2023. An interactive version is available at www.spratings.com/sri.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Institutional Framework Assessments For Local And Regional Governments Outside Of The U.S., Dec. 15, 2023
- Spain 'A/A-1' Ratings Affirmed; Outlook Stable, Sept. 15, 2023
- Spain, March 20, 2023
- Barcelona (City of), Jan. 30, 2023

Ratings Detail (as of January 25, 2024)*

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Issuer Credit Rating A/Stable/--

Issuer Credit Ratings History

25-Mar-2022 A/Stable/--

22-Sep-2020 A/Negative/--

24-Sep-2019 A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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