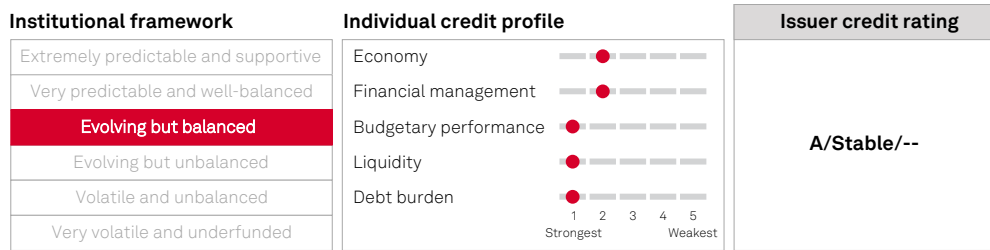


Barcelona (City of)

July 29, 2024

This report does not constitute a rating action.

Ratings Score Snapshot



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Credit Highlights

Overview

Credit context and assumptions

The Barcelona City Council remains politically fragmented, leading to some difficulties passing budgets in a timely fashion.

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.

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

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.

Barcelona should maintain a sound liquidity position and very strong debt service coverage ratios over the coming two years.

According to S&P Global Ratings, Barcelona's creditworthiness is characterized by a supportive institutional framework that has historically enabled Spanish local governments to post balanced accounts. We also see 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

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in an international and in a Spanish context. We consider, in particular, Barcelona's 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. This is thanks to the relative stability and predictability of most of the city's revenue sources, and we think this is a structural feature of local governments in Spain. After the pandemic, the city's economy bounced back quickly, with tourism thriving once again. 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.

The city posted only a small deficit in 2023. 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 are once again binding in 2024. We think that the city anticipated this last year by bringing forward some expenditure and investments, thereby taking advantage of the remaining flexibility. This explains the slightly weaker performance for the year.

The current city government, led by Mr. Jaume Collboni, only has 10 seats out of a 41-seat city council, and therefore governs in minority. This is not unique, as the previous administration was also based on a minority government with a very fragmented city council. This political

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fragmentation prevented the city from passing the 2024 budget on time, instead resorting to an extension. Ultimately, however, the city passed the budget through a no-confidence vote and became effective on May 2, 2024. Spanish law governing municipalities gives mayors the possibility of submitting to a confidence vote. Even if they lose the vote, a 30-day period starts in which the opposition may present an alternative candidate. If no alternative mayor has gathered the confidence of the city council in that period, the budget is automatically passed. This alternative budget approval procedure has been used repeatedly by mayors of different political backgrounds in Barcelona in recent years, as political fragmentation has become a defining feature of the city council. However, this approach can only be used twice in a mandate.

The passing of the budget will allow the city government to spend the extraordinary funds the city is set to receive in 2024, with a sizable settlement of over €200 million for 2024. This is because the city received lower transfers than Barcelona was entitled to, as tax collection clearly outperformed estimates. Advance transfers from the central government for 2024 are set to grow by 5.1%, coming in above Barcelona's previous expectations. This will shore up the city's revenue for 2024. We view this increase as temporary, however. We think management is aware of this possibility and that it intends to avoid committing these additional resources to structural operating expenditure, which would limit their flexibility to adjust spending later if needed. This is in line with recommendations issued by Spain's independent fiscal responsibility authority, AIReF (Autoridad Independiente de Responsabilidad Fiscal).

Barcelona's main tax figure, the property tax ("IBI"), is structurally trending up. This stems from the gradual increase in tax bases due to the impact of real estate value revisions that took effect in 2018. In addition, the city has started collecting new taxes and fees on tourism stays and garbage collection, which should boost revenue in 2024.

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 achieved surpluses). The current administration has publicly renewed this commitment. Nevertheless, the city's headcount rose strongly during the past administration, as the previous government sought to reinforce public services and internalize some services that had been previously contracted to external firms. The current administration has also hired extra personnel, mainly to reinforce the local police, since improving security is a key priority of the mandate. We expect the headcount will now stabilize near current levels, mitigating one of the key factors of recent expenditure growth. We therefore assume the city will 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 think 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 think this is ahead of some expected deficits but also to maintain ample liquidity. In 2024, we understand the city may once again issue above its debt maturities. We interpret this as a measure destined to shore up liquidity ahead of any potential disruption of the budget approval process in 2025, and to finance potential investments that, while ultimately financed by EU transfers, may need to be prefinanced by the city. In the outer forecast years, we expect Barcelona will not fully refinance its maturities, given high cash levels and an expected strong budgetary performance. This should yield a reduction in the city's direct debt.

Barcelona remains committed to its planned investment in housing units through its municipal housing company, Institut Municipal de l'Habitatge i Rehabilitació de Barcelona. The housing operator 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 do not 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	2023	2024bc	2025bc	2026bc
Operating revenue	3,113	3,330	3,477	3,844	3,875	4,027
Operating expenditure	2,560	2,803	2,984	3,186	3,285	3,398
Operating balance	552	527	493	658	590	629
Operating balance (% of operating revenue)	17.8	15.8	14.2	17.1	15.2	15.6
Capital revenue	27	236	176	121	72	62
Capital expenditure	541	810	689	748	625	655
Balance after capital accounts	38	(47)	(20)	31	37	36
Balance after capital accounts (% of total revenue)	1.2	(1.3)	(0.6)	0.8	0.9	0.9
Debt repaid	94	83	45	52	56	139
Gross borrowings	111	114	210	140	26	91
Balance after borrowings	54	(16)	145	119	7	(12)
Direct debt (outstanding at year-end)	817	847	1,013	1,101	1,071	1,023

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City of Barcelona Selected Indicators

Direct debt (% of operating revenue)	26.2	25.5	29.1	28.6	27.6	25.4
Tax-supported debt (outstanding at year-end)	1,058	1,135	1,348	1,490	1,442	1,379
Tax-supported debt (% of consolidated operating revenue)	33.5	33.8	38.4	38.8	37.2	34.2
Interest (% of operating revenue)	0.4	0.5	0.8	0.7	0.7	0.6
Local GDP per capita (\$)	36,049.9	34,892.2	--	--	--	--
National GDP per capita (\$)	30,498.8	29,889.3	32,873.6	34,408.8	36,355.2	40,038.8

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. 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

- 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

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- 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 July 24, 2024)*

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Issuer Credit Rating	A/Stable/--
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Issuer Credit Ratings History

25-Mar-2022	A/Stable/--
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22-Sep-2020	A/Negative/--
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24-Sep-2019	A/Stable/--
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*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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