MORNINGSTAR | DBRS

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Morningstar DBRS Confirms City of Madrid at A (high) With a Stable Trend

SUPRANATIONALS, SUB-SOVEREIGNS, AND AGENCIES

DBRS Ratings GmbH (Morningstar DBRS) confirmed the City of Madrid's (Madrid or the City) Long-Term Issuer Rating at A (high) and the City's Short-Term Issuer Rating at R-1 (low). All trends are Stable.

KEY CREDIT RATING CONSIDERATIONS

Madrid's credit ratings are underpinned by (1) its large and diversified economy as the capital city of the Kingdom of Spain (Spain; rated A (high), Stable), (2) its strong financial performance over the past decade and sound medium-term fiscal outlook, and (3) its low debt burden and prudent debt management. The credit ratings also benefit from Morningstar DBRS' assessment of a high likelihood of support from Spain. Madrid's credit ratings are capped by Spain's credit ratings. Morningstar DBRS observes that, despite Madrid's intrinsic strengths, it does not qualify to be rated higher than the sovereign because its current revenue framework is not constitutionally protected.

The Stable trends reflect Morningstar DBRS' view that risks to the credit ratings are currently balanced. Despite the lower economic growth expected over the medium term and temporary noncompliance with certain fiscal targets, Madrid has a sustainable debt position. The City's financial performance is unlikely to deteriorate because of it strong budget management, which is underpinned by strong fiscal discipline and a very favourable fiscal track record.

CREDIT RATING DRIVERS

Morningstar DBRS could upgrade the credit ratings if Spain's credit ratings are upgraded.

Morningstar DBRS could downgrade the credit ratings if (1) Spain's credit ratings are downgraded or (2) the City's fiscal performance weakens structurally, leading to a sustained and material rise in public-sector debt.

CREDIT RATING RATIONALE

Madrid Further Strengthens Debt Sustainability Through Early Debt Redemptions

The City of Madrid allocated EUR 483 million to early debt redemption in 2025, supported by strong budgetary and financial performance in recent years. As a result, the City's debt stock declined to EUR 1.6 billion at YE2025, down from EUR 2.0 billion in 2024. This repayment was funded by accumulated cash surpluses, as the City already had sufficient resources to finance its planned investments. The City expects its debt stock to remain broadly stable at year-end, although moderate fluctuations in public-private partnership liabilities and higher commercial debt may occur. Including this, Morningstar DBRS-adjusted debt was EUR 1.9 billion at YE2025, compared with EUR 2.1 billion in 2024. The adjusted debt-to-operating revenues fell to 30%

of operating revenues in 2025, from 36% in 2024, supported by both declining debt and rising operating revenues. Morningstar DBRS views the continued decline in the debt ratio as credit positive and expects Madrid to maintain debt well below the 75% limit established under national regulation.

The early debt redemption improved the City's debt profile. The operation reduced the average cost of debt to 3.9% in 2025 (from 4.4% in 2024) and extended the average maturity to 7.1 years (from 6.0 years). The City's debt sustainability has improved significantly in recent years, driven by a declining debt burden, an expanding economy and tax base, and strong access to diverse funding sources. Madrid manages its debt stock volume to plan redemptions and maintain diversified funding sources that provide a high level of financial flexibility. The City issued a EUR 90 million bond in 2026 with a 15-year duration, which has contributed to maintaining its relatively long average maturity. Morningstar DBRS is of the view that the City has a broad set of alternatives to cover its funding needs over the medium term, and Madrid's liquidity position is very strong.

Solid Financial Performance Benefits From New Revenue Sources and Planned Investments Seem Affordable

Madrid recorded a favourable budget outcome in 2025, posting a financing surplus of 4.9% of operating revenues, although this was lower than the 6.3% achieved in 2024. Except for 2022, when an exceptional court ruling required the refund of certain tax revenues, the City has consistently generated financing surpluses over the past decade. These financing surpluses have supported debt reduction and strengthened resilience to moderate fiscal deterioration. Financial performance remains solid, underpinned by strong growth in housing- and economy-related taxes. Regarding fiscal targets, Madrid complied with both the balanced budget benchmark (0.0% of GDP) and the debt limit; however, the City slightly exceeded the expenditure benchmark because of some increased but nonrecurring costs. The City has already put in place an economic and financial adjustment plan to return to compliance in 2026, which will be reviewed by the Spanish Independent Authority for Fiscal Responsibility (AIReF) that recently revised upward its forecasts for Madrid to a financing surplus of 3.2% of operating revenues (0.1% higher than at the beginning of the year).

The 2026 budget reflects a continued commitment to fiscal discipline, and the City expects to continue posting a sound budgetary performance and maintain the financing surplus-to-operating revenues ratio between 4% and 6%. Revenue is expected to continue increasing, supported by the growth in economic activity and the underlying tax base (property prices), despite revenue losses of EUR 31 million from a reduction in property tax rates. Additionally, the City has amended the regulatory framework governing the new waste management fee that should contribute to reducing disputes. At the same time, Madrid has issued its capital expenditure plan within the budget for the period 2026-29 with investments amounting to EUR 3.2 billion, including investments through municipal companies and other public-sector entities. These investments are incorporated into the City's medium-term financial plan and are expected to be financed without additional borrowing. This reduces funding pressure ahead of the next municipal election in May 2027. Despite this ambitious investment programme, Morningstar DBRS expects Madrid to maintain a strong fiscal performance over the medium term, supported by stable and diversified revenue streams. Recent improvements in Madrid's financial performance are partly structural, reflecting durable revenue enhancements, including new revenue sources. The City also retains significant fiscal flexibility, with the potential to raise revenues acting as a buffer against potential fiscal pressure.

High Employment and Wealth Supports Economic Resilience Against External Risks and Housing Constraints

Madrid is the capital of Spain and is the most populated city in the country, with a population of 3.5 million,

more than double the second-most populous city in Spain. Madrid's GDP was around EUR 211 billion at YE2025. The City accounts for roughly half of the Autonomous Community of Madrid's (the Region) population; the Region is in turn the largest regional economy in Spain, representing close to 21% of Spain's GDP. Morningstar DBRS expects the municipal economy to continue growing broadly in line with the regional economy. The Region's economy continued to outperform the national average, with real GDP growth of 2.7% in 2025 compared with 2.6% for Spain, after a regional growth rate of 4.3% in 2024 versus the national growth rate of 3.7%. Economic growth is expected to decelerate over the coming quarters in both Spain and for the Region, reflecting heightened geopolitical risks, particularly the prolonged Middle East conflict. Elevated geopolitical uncertainty could weigh on external demand and contribute to higher energy prices and general inflation. Despite these headwinds, Madrid's economy should remain resilient, supported by strong employment, robust domestic demand, and investment activity.

Morningstar DBRS expects the financial resources from NextGenerationEU, including funds from the Recovery and Resilience Facility and REACT-EU funds, to continue to support reforms and investments in the City. The City estimates that total revenues from these EU funds will amount to around EUR 523 million, and, as of YE2025, a total of EUR 444 million had been granted since 2020. While these programmes have already supported budgetary performance in recent years, Morningstar DBRS expects their broader economic benefits to continue supporting activity over the medium term. Additionally, the Region benefits from the highest GDP per capita in the country, estimated at EUR 47,220 in 2025, or 38% above the national average. Employment continued to grow, with the employment rate reaching 63%, compared with the national level of 59%. The unemployment rate stood at 7.6% at Q2 2026, down from 8.0% at Q2 2025, and was lower than the overall unemployment rate in Spain (9.9% at Q2 2026).

Housing market pressures pose an increasing affordability challenge but remain relevant to the City's credit profile, given the high share of its revenues from property taxes and municipal capital gains tax (unrealised until the sale of the property) that together total around 29% of municipal operating revenues in 2025. Instituto Nacional de Estadística's (INE) house price index for the Region increased sharply by 14.2% in 2025, following a 10.3% rise in 2024, driven by limited construction and constrained housing supply. The index grew by 46% in Madrid from 2021 to 2025, higher than 38% for Spain. At the same time, property transactions grew by 5.8% in 2025.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
ESG Considerations had a relevant effect on the credit analysis.

Social (S) Factors
The following Social factor had a relevant effect on the credit analysis: Passed-through Social credit considerations. The passed-through Social credit considerations had a relevant effect on the credit analysis, as the Social factors affecting the Kingdom of Spain's credit ratings are passed through to the City of Madrid.

There were no Environmental or Governance factors that had a significant or relevant effect on the credit analysis.

Credit rating actions on Kingdom of Spain are likely to have an impact on this credit rating. ESG factors that have a significant or relevant effect on the credit analysis of Kingdom of Spain are discussed separately at https://dbrs.morningstar.com/issuers/15664.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical

framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (20 July 2026) at https://dbrs.morningstar.com/research/485522.

RATING COMMITTEE SUMMARY
Morningstar DBRS' Canadian and European Sub-Sovereign Scorecard generates a result in the AAA to AA range. The main points discussed during the Rating Committee included the City's fiscal and debt evolution in 2025 and 2026, the 2026 budget, the economic situation in the city and its outlook, and its financial forecasts.

For more information on the Key Indicators used for the Kingdom of Spain, please see the Sovereign Scorecard Indicators and Building Block Assessments: https://dbrs.morningstar.com/research/492419.

The national scorecard indicators were used for the sovereign credit rating. The Kingdom of Spain's credit rating was an input to the credit analysis of the City of Madrid.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Rating Canadian and European Sub-Sovereign Governments (6 March 2026) https://dbrs.morningstar.com/research/475833. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (20 July 2026) https://dbrs.morningstar.com/research/485522 in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The sources of information used for these credit ratings include City of Madrid's financial position for the 2015-25 period (annual accounts for the 2015-25 period), monthly budgetary execution documents for 2026, 2026, Madrid's economic structure for 2025, and debt structure documentation for the 2016-25 period, in addition to debt stock from 2015 to 2025 from the Bank of Spain for (i.e., debt according to the excessive deficit procedure documents), AIReF's Supplementary Report on the Individual Assessment of the 2026 Budget execution, public debt and expenditure benchmark of Local Entities (July 2026) and Observatory of Economic and Financial Information of the Autonomous Communities, INE, and the Ministry of Finance. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://dbrs.morningstar.com/research/492964.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.
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For more information on this credit or on this industry, visit https://dbrs.morningstar.com.

Ratings

Madrid, City of

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-Nov-26	Long-Term Issuer Rating	Confirmed	A (high)	Stb	EU U
06-Nov-26	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U

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