MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa1 issuer and debt ratings to the Ayuntamiento de Madrid (Spain); outlook stable

27 Apr 2022

Madrid, April 27, 2022 -- Moody's Investors Service (Moody's) has today assigned Baa1 long-term issuer and senior unsecured debt ratings to the Ayuntamiento de Madrid ("Madrid" or "City of Madrid"). Concurrently, Moody's has assigned a short-term issuer rating of Prime-2, a baa1 Baseline Credit Assessment (BCA) and a stable outlook.

RATINGS RATIONALE

The Baa1 assigned to the Ayuntamiento de Madrid reflects the city's wealthy and dynamic local economy, strong financing results, low debt and solid liquidity profile. Also factored in are good governance and management practices as evidenced by the city's prudent debt management and budget planning. Meanwhile, the City of Madrid is constrained by a moderate budgetary flexibility.

With more than three million inhabitants, the City of Madrid is Spain's most populous city and one of the wealthiest. It has a strong and diversified economic base, dominated by the service sector, and it is an important pole of attraction for foreign investment. Altogether translated into a larger tax base than other Spanish municipalities.

While the coronavirus pandemic had a negative impact on the city's finances by lowering tax revenue and increasing social spending, the city maintained its strong gross operating balance (GOB) in 2021 (19% of operating revenue, against 17% in 2020). Similarly Madrid was able to preserve a sound financing surplus at 4.7% of operating revenue in 2021, in line with the previous year. In addition, Moody's notes that the city has low investment needs, some of which will be funded with Next Generation EU funds.

While the military conflict between Russia and Ukraine will weigh on Spain's economic prospects in the near term, reducing revenue growth and increasing operating expenditure due to higher inflation, Moody's expects the city of Madrid to continue to record strong GOBs and financing surpluses over the next few years, consistent with the city's strong governance helping it to manage stress situations.

The city of Madrid displays a low and declining debt burden, a trend expected to continue in the medium term. With a net direct and indirect debt to operating revenue ratio of close to 39% in 2021, down from 42% in 2020 and close to 100% in 2015, the city's debt burden is low by national and international standards. Moody's expects the city's debt-to-operating revenue ratio to continue decreasing in the next few years, reflecting a sound self-financing capacity underpinned by robust revenue growth and ample liquidity. The city's debt structure is simple and well managed with a smooth amortization profile and no foreign currency exposure. The debt service to operating revenue is low, at 7.6% in 2021, and Moody's expects it to halve to around 3.5% by 2024.

Although Moody's considers Madrid's credit profile to be very strong, given that the city's revenue largely depends on transfers from the national government, Madrid is unlikely to have enough financial flexibility to grant it a credit quality stronger than that of Spain (Baa1 stable) itself. Indeed, the central government retains control of Spanish municipalities via legislation, limiting their fiscal flexibility on tax revenues, operating transfers, and the wage bill.

The Prime-2 short- term issuer rating reflects Madrid's good liquidity position and well-managed treasury, resulting in abundant cash on hand equivalent to around 18% of its operating revenue in 2021. Overall contained spending pressure, the reduction of debt service obligations and limited investment needs will likely lead to a further strengthening of the liquidity profile in 2022.

RATIONALE FOR THE STABLE OUTLOOK

The city of Madrid's stable outlook reflects Moody's expectations that the city's financials will remain sound in the coming years, with a strong GOB, financial surpluses and low debt levels.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

The city of Madrid'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.

Madrid's exposure to environmental risks is neutral-to-low (E-2), with some episodes of heat stress during the summer season with records of very high temperatures. While it is currently not considered an environmental issue impacting the city's credit profile, since 2018, the city has started a campaign — Madrid 360° — to tackle air pollution. Among others, this campaign has banned polluting vehicles in the city center, facilitated tracks for bicycles and walkways, moved to environmentally friendly buses, and aims to decrease greenhouse gases by 65% by 2030, outperforming by ten points the target level established by the European Union for all its members.

Madrid's credit profile has a neutral-to-low exposure to social risks (S-2), scoring positively in the health & safety factor and moderately negative on housing affordability. Madrid has overall strong levels of public healthcare with the main hospitals of reference in Spain. Moody's observes as a challenge the city's housing affordability given the elevated housing prices across the territory.

The Ayuntamiento de Madrid's governance profile results in a positive G issuer profile score (G-1), which is reflected by prudent budgeting principles and careful budget execution. Furthermore, the management adheres to conservative debt and investment policies, thus limiting the city's exposure to market-related risks. Fiscal and debt management measures are also supported by comprehensive financial reporting and high quality transparency standards.

The specific economic indicators, as required by EU regulation, are not available for this entity. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Spain, Government of

GDP per capita (PPP basis, US$): 38,443 (2020 Actual) (also known as Per Capita Income)

Real GDP growth (% change): -10.8% (2020 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): -0.6% (2020 Actual)

Gen. Gov. Financial Balance/GDP: -11% (2020 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 0.8% (2020 Actual) (also known as External Balance)

External debt/GDP: [not available]

Economic resiliency: a2

Default history: No default events (on bonds or loans) have been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 24 March 2022, a rating committee was called to discuss the rating of the Madrid, Ayuntamiento de. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength; the issuer's institutions and governance strength; the issuer's governance and/or management; the issuer's fiscal or financial strength, including its debt profile; the systemic risk in which the issuer operates and the assessment of extraordinary support.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Any upgrade of the sovereign rating would likely result in upward pressure for the City of Madrid's ratings, provided that the city continues to display strong financial metrics.

A downgrade of Spain´s sovereign rating, or a deterioration of the city's fiscal performance, resulting in structural operating and financing deficits and an increasing debt burden, would likely lead to a downgrade of the city of Madrid´s ratings.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1091595 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

This rating action concerns a new rating for an issuer not previously publicly rated by us at the time that the EU sovereign release calendar was published, and is therefore being released on a date not listed in that publication.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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