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

SUB-SOVEREIGN GOVERNMENTS

DBRS Ratings GmbH (Morningstar DBRS) confirmed the Long-Term Issuer Rating of the City of Madrid (Madrid or the City) at A (high) and its Short-Term Issuer Rating at R-1 (low). The trends on all credit ratings remain Stable.

KEY CREDIT RATING CONSIDERATIONS
Madrid's credit ratings are underpinned by (1) its large and diversified economy as Spain's capital city; (2) its strong financial performance over the past decade and sound medium-term fiscal outlook; and (3) its debt metrics, which are at relatively low levels, and effective public-sector debt management. Madrid's credit ratings also benefit from our assessment of a high likelihood of support from the Kingdom of Spain (rated A (high), Stable). Madrid's credit ratings are capped by the Kingdom of Spain's credit ratings. We take the view 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 our view that risks to the credit ratings are currently balanced. Despite the lower economic growth expected in the medium term, the financial performance of Madrid is not expected to deteriorate because of the strong budget management of the City, which is underpinned by a strong fiscal discipline and very favourable fiscal track record.

CREDIT RATING DRIVERS
The credit ratings could be upgraded if the Kingdom of Spain's credit ratings were upgraded.

The credit ratings could be downgraded if any or a combination of the following occur: (1) the Kingdom of Spain's credit ratings were downgraded; and (2) although currently unlikely given its intrinsic strengths, if there were a structural weakening in the City's fiscal performance, leading fiscal deficits to widen over time and to a sustained and material rise in public-sector debt.

CREDIT RATING RATIONALE

City of Madrid Has Consolidated the Strong Financial Performance and Its Sound Outlook is Supported by the New Fee on Waste Generation

Madrid's 2024 budget result continued to be very favourable for the second year in a row with a financing surplus accounting for 6.3% of operating revenues, similar to the 6.1% of operating revenues in 2023. The City is achieving financing surpluses that help to decrease its debt and increase the tolerance for a moderate deterioration of its public finances. Financial performance benefitted from a strong increase of operating revenues, growing by 7% over 2023 revenues. This growth was particularly boosted by the strong increase of current transfers received from the central government.

Regarding the fiscal targets, though they were not binding in 2024, Madrid complied with the surplus reference of 0.2% of GDP and with the debt limit, which is substantially below the threshold set by the government (75% of operating revenue). Madrid's budgetary performance is expected to continue posting operating and financial surpluses in 2025 and 2026. The Independent Authority for

Fiscal Responsibility's (AIREF) report on the 2025 initial budget (April 2025) continues to expect the City to post a surplus of 2.8% of non-financial revenues.

Moreover, our expectation is that the City will keep achieving these positive results in the coming years because of new revenue streams arising in 2025 onward, namely the municipal waste generation fee. In 2025, Spanish municipalities will be required to implement this fee that should consider each municipality's achievement in recycling. The fee should provide EUR 296 million in new gross revenues for Madrid while the current fee was just paid by companies with excessive waste generation (to be cancelled), and amounted to EUR 41 million. Based on this fact, in combination with the fiscal headroom and flexibility that the City has built, we view Madrid's fiscal outlook as sound for 2025 and 2026, but we expect the City to continue its fiscal policy of progressively reducing the rates of its own taxes.

Debt Set to Decline While Plentiful Liquidity and Bond Issuance Provide Financial Flexibility to the City

As of YE2024, the City's debt stock remained below EUR 2.0 billion for the fifth consecutive year and is expected to start decreasing in the coming years,. In 2024, the City's debt slightly decreased to EUR 1.9 billion from EUR 2.0 billion at YE2023. The City plans to progressively reduce its debt to EUR 1.7 billion in 2027 and for the debt ratio to remain far below the 75% limit set in the national regulation; surpassing this limit would prompt a need for pre-approval from the Ministry of Finance for any debt operation. Additionally, because of a substantial increase in operating revenues, the debt ratio decreased to 36% of operating revenues from 40% in 2023. At the same time, AIREF's report estimates that the debt ratio will stabilize towards 35% in 2025.

Madrid will take full ownership of the principal highway (M30) in 2025. Currently, the City holds 80% of the shares of the highway, the remaining 20% are held by a private company that is acting as the operator, and the operation contract is due in 2025. The City does not expect additional funding needs stemming from this operation for 2025. The funding needs for 2025, will be likely covered through a new bond issuance by Madrid. The City aims to tap the market again in order to hedge against interest rate volatility by increasing its exposure to fixed interest rate debt in its portfolio and at the same time helping to extend the average life of its debt. We view positively the diversification of the City's financing tools at a moderate average cost of debt, which currently stands at an annual rate of 4.4%.

Madrid's liquidity position is very strong. Cash amounted to EUR 1,188 million at YE2024, with debt repayments for the next six years fully covered and access to credit line facilities available for EUR 450 million. Regarding liquidity management, the City holds its excess liquidity in interest-bearing bank accounts with immediate availability in order to address any liquidity shortfalls, mainly caused by the concentration of revenue to be collected in September from housing taxes (representing 26% of operating revenues).

Tourism Drove Strong Economic Recovery and High Wealth Supports Economic Stability and Fiscal Potential

Madrid is the capital of and the most populated city in Spain, with a population of approximately 3.5 million and a GDP estimated at around EUR 193 billion at YE2024. The City is located in the Autonomous Community of Madrid, which benefits from the largest regional economy in Spain, representing close to 20% of Spain's GDP. Despite some economic differences between the City and the Autonomous Community of Madrid, the region's economic developments affect Madrid as well. We expect the municipal economy to continue growing broadly in line with the regional economy. For 2023, Madrid's real GDP grew by 2.5%, slightly lower than Spain's growth rate of 2.7%, but AIREF expects Madrid's real GDP to have grown by 3.2% in 2024, in line with the national growth rate.

We expect the regional economy to continue growing at or above the national average, thanks to its high employment level, resilient internal demand, and investment that is benefitting somewhat from a slight pick-up in the construction sector, positively influenced by the co-financing power of the European funds. The financial resources expected from Next Generation EU (NGEU), including the Recovery and Resilience Facility (RRF) and Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) funds, should continue to support reforms and investments. The City estimates that total revenues to be received from these EU funds will amount to around EUR 501 million, and, as of September 2024, EUR 402 million had been spent since 2020.

In 2024, the regional employment level continued to grow, with some fluctuations, to around 3.7 million workers, with 88% working in the services sector, after strong annual growth of 3.9% in 2024. The employment level has remained elevated during the last three years and can explain why the region benefits from the highest GDP per capita in the country, estimated at EUR 42,200 in 2023, or 36% above the national average (Exhibit 6). At the same time, the unemployment rate stood at 9.1% at Q1 2025, down from 9.2% at Q1 2024, and is lower than the overall unemployment rate in Spain (11.4% at Q1 2024).

In the region's housing market, the house price index (based on 2015 prices) from the Instituto Nacional de Estadística (INE) rose to 182 at Q4 2024 from 158 at YE2022, and the index increase seems to have accelerated during the last year, probably as a consequence of a low rate of construction that is exacerbating the very low market supply. This evolution is important for the City's fiscal performance, given its high share of revenues from house tax and municipal capital gains tax (which is unrealised until the sale of the property) that together total around 30% of 2024 municipal operating revenues.

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 considerations.

The Passed-through Social credit considerations have a relevant effect on the credit ratings, as the social factors affecting the Kingdom of Spain's credit ratings are passed-through to 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 City of Madrid 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 (16 May 2025) https://dbrs.morningstar.com/research/454196.

RATING COMMITTEE SUMMARY
Morningstar DBRS' European Sub-Sovereign Scorecard generates a result in the AAA - "AA" range. The main points discussed during the Rating Committee included the fiscal and debt evolution in 2024, 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/455417.

The national scorecard indicators were used for the sovereign rating. The Kingdom of Spain 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 European Sub-Sovereign Governments (09 August 2024) https://dbrs.morningstar.com/research/437618. In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings https://dbrs.morningstar.com/research/454196 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 for financial position for the 2015-24 period (annual accounts for the 2015-23 period), monthly budgetary execution documents for 2025, economic structure for 2024, and debt structure documentation for the 2016-24 period, Bank of Spain for the debt stock during the period between 2015 and 2024 (Debt according to the excessive deficit procedure documents), Independent Authority for Fiscal Responsibility (AIREF) for its Report on Initial Budget (April 2025), for its Complementary Individual Valuation of Local Entities 2025 (November 2024) and for its economic and financial information observatory of Autonomous Communities, Instituto Nacional de Estadística (INE), Ministry of Finance, national statistical agency, central bank, Ministry of Finance, IMF, World Bank. 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/455832.

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 dbrs.morningstar.com.

Ratings

Madrid, City of

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-Jun-25	Long-Term Issuer Rating	Confirmed	A (high)	Stb	EU U
06-Jun-25	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U

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