

CREDIT OPINION

5 September 2024

Update



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RATINGS

Belgrade, City of

Domicile	Serbia
Long Term Rating	Ba2
Type	LT Issuer Rating - Fgn Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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City of Belgrade (Serbia)

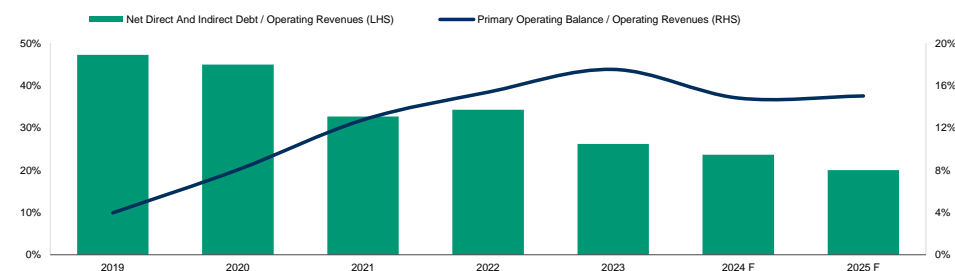
Update following outlook change to positive

Summary

The credit profile of [City of Belgrade](#) (Ba2 positive) reflects its robust fiscal management, demonstrated by its strong financial results and a strong likelihood that the [Government of Serbia](#) (Ba2 positive) would provide support in case the city were to face acute liquidity stress. The rating is also underpinned by a track record of low debt levels with limited borrowing needs, as well as comfortable liquidity position. The credit profile is further supported by Belgrade's position as the nation's capital and the largest economic center, contributing to around 40% of Serbia's GDP. However, the rating takes into account the city's substantial investment requirements and the pressure stemming from the transportation company.

Exhibit 1

Continuation of strong operating performance and declining debt trends



F = Forecast.

Source: City of Belgrade, Moody's Ratings

Credit strengths

- » Strong operating performance fueled by robust rise in tax revenue and prudent budgetary management
- » Overall positive financial results, notwithstanding investment needs
- » Low and declining debt burden as well as sound liquidity position
- » Belgrade's wealthy economy and important role as national economic hub

Credit challenges

- » Indirect debt exposure related to the city-owned public transportation company
- » Limited revenue and expenditure flexibility

Rating outlook

The positive rating outlook mirrors the positive outlook on the sovereign rating. It also reflects the city's capacity to preserve its overall sound and stable financial performance, prudent budgetary management as reflected in consistently strong operating margins, and low debt levels.

Factors that could lead to an upgrade

An upgrade of Belgrade's rating will require a similar change of the sovereign rating, provided its operating and financial performance were to remain consistently good over time.

Factors that could lead to a downgrade

Although unlikely, given the positive outlook, a deterioration of the sovereign credit strength will apply downward pressure on the city's rating given the close financial, institutional and operational linkages between the two tiers of governments. Furthermore, a significant deterioration of the financial performance of the city driven by reduced operating margins, an unexpected sharp increase in debt levels as well as the emergence of liquidity risks, would also exert downward pressure on the rating.

Key indicators

Exhibit 2

City of Belgrade							
	2019	2020	2021	2022	2023	2024F	2025F
Net direct and indirect debt as a % of operating revenues	47.2	44.9	32.7	34.3	26.0	23.7	20.0
Accrual financing surplus (deficit) as % of total revenues	-3.3	7.5	2.4	5.1	8.3	4.2	2.9
Primary operating balance as % of operating revenues	4.0	8.0	12.7	15.4	17.5	14.8	15.0
Debt Service % of total revenues	4.7	4.1	3.8	3.6	3.9	3.1	3.0
Capital spending as a % of total expenditures	19.1	14.5	19.0	18.6	17.6	16.7	16.6
Interest payments as a % of operating revenues	1.2	1.0	0.7	0.7	0.9	0.8	0.8

F = Forecast.

Source: City of Belgrade, Moody's Ratings

Detailed credit considerations

On 3 September 2024, Moody's affirmed the City of Belgrade's Ba2 rating and changed the outlook to positive from stable, following the change of the outlook to positive from stable on the Government of Serbia's sovereign rating on 30 August 2024. This reflects the strong correlation between the credit profile of Serbia and the City of Belgrade, stemming from their strong institutional, operational and financial linkages.

The credit profile of Belgrade, as expressed in its Ba2 positive rating, combines a baseline credit assessment (BCA) of ba2, and a strong likelihood of extraordinary support coming from the Serbian government in the event that the city faces acute liquidity stress.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Baseline credit assessment

Strong operating performance fueled by a robust rise in tax revenue and prudent budgetary management

The City of Belgrade has exhibited an improvement in its operating performance, with the primary operating balance (POB) increasing to strong 17.5% of operating revenue in 2023 from 15.4% in 2022 (Exhibit 1). This notable advancement is largely attributable to the robust growth of income tax revenue and prudent budgetary management.

The key driver behind this strong performance was a surge in tax revenue growth, which was underpinned by a Serbia's real gross domestic product (GDP) growth of 2.5% in 2023, along with inflation of 12.4% (annual average) recorded over the same period. These contributed to a higher tax revenue base, which in turn bolstered Belgrade's operating performance. Income tax and other shared tax revenues form more than a half of Belgrade's operating income.

Furthermore, the city's prudent budgetary management has played a crucial role in the improved operating performance. The city's administration has shown a strong commitment to maintaining fiscal discipline, which is reflected in the effective management of expenditures, prioritization of investments, and efficient allocation of resources. The city has been able to balance its budget and even generate a surplus, contributing to the increased operating margin.

Moody's project the real GDP growth of Serbia to accelerate to 3.8% in 2024 and 4.2% in 2025, from 2.5% in 2023, driven by stronger domestic demand, supported by lower inflation and favorable labour market dynamics. This will translate into growing proceeds from tax revenues, in particular income tax, maintaining the Belgrade's financial health with POB at around 15% of projected operating revenue over the same period.

Own source revenue represents a minor proportion of the city's revenue and it accounts for around 20% of operating revenue, incorporating property tax, local utility fees, and administrative fees. The high fiscal dependence on state decisions exposes city's finances to the performance of the general government budget and evolving intergovernmental relations.

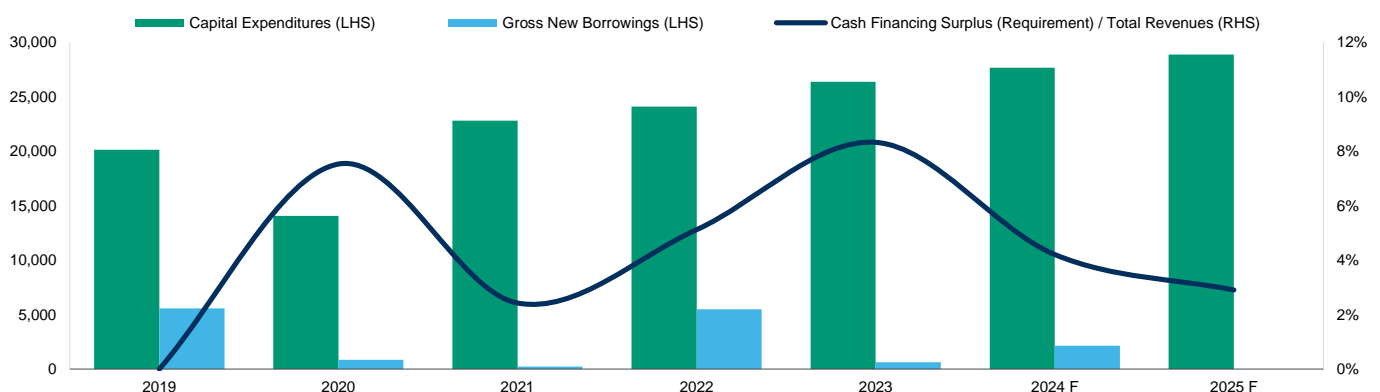
Overall positive financial results, notwithstanding investment needs

In 2023, the City of Belgrade demonstrated considerable financial stability, posting a financing surplus of 8.3% of total revenue, an increase from a surplus of 5% reported in the prior year.

Looking ahead, we expect the city's capital spending to remain at around 17% of total expenditures over 2024-2025, a level that can put some pressure on city's finances, given that greater part of capital expenditures are funded from own source revenues rather than debt financing.

Exhibit 3

Growing spending pressure to address investment needs



F = Forecast.

Source: City of Belgrade, Moody's Ratings

The city's capital spending program is primarily directed towards infrastructure development, including transportation-related projects such as a new metro line, as well as the reconstruction of the water supply system and enhancements to the sewage system. Other

planned infrastructure projects encompass street renovation, the rehabilitation of public building facades, and the construction and renovation of bridges.

Belgrade's investment strategy also extends to projects within the areas of education, culture, and social services. This multifaceted approach reflects the city's commitment to comprehensive development and progress.

The refurbishment and expansion of the Vinča landfill, along with the disposal and processing of solid waste, are crucial undertakings for the city. These initiatives have been realized through Serbia's inaugural public-private partnership (PPP) in the waste management area. Alongside the completion of the landfill's sanitation and the establishment of a facility for treating construction waste, additional activities such as waste incineration and the functioning of a waste-to-energy plant were launched in 2023.

This project represents a significant development for the city of Belgrade, both in terms of environmental sustainability and financial implications. The center's operation helps the city manage waste more effectively, reducing environmental impact and potentially saving costs in the long run through reduced landfill usage and decreased expenses related to pollution control. Moreover, by converting waste into valuable resources, such as energy or recyclable materials, the center could potentially generate additional income for the city of Belgrade.

The total investment for this project, forecasted to be around EUR 300 million, is financed by the private partner. Apart from the essential costs for the site's infrastructure arrangements, no additional impact on the city's budget is anticipated. The project-related obligations are deemed to be self-sustaining, and are excluded from indirect debt calculations.

The city has set aside approximately RSD1 billion in the budget for guaranteed payments pertaining to waste management obligations. This represented less than 1% of the city's total expenditures in 2023.

Low and declining debt burden and sound liquidity position

The city has kept its direct debt burden low at RSD29.3 billion by the end of 2023, compared to RSD32.8 billion in 2022. This indicates a manageable 18% of operating revenue, which is a reduction from 24% recorded in 2022. This downward trajectory is projected to continue into 2024, with the city's borrowing tendencies remaining restrained. We estimate that the direct debt will amount RSD28.9 billion, which would constitute a mere 16.7% of the forecasted operating revenue in 2024.

When taking into account the debt of the city-owned transportation company, GSP, which is considered as a non-self supporting company according to our methodology, we estimate that the city's net direct and indirect debt (NDID) was 26% of operating revenue at year-end 2023 down from 34.3% in 2022.

At year-end 2023, Belgrade's direct debt consisted of bank loans: (1) RSD15.9 billion loans with [European Investment Bank \(EIB, Aaa stable\)](#), (2) RSD5.4 billion loans with [European Bank for Reconstruction and Development \(EBRD, Aaa stable\)](#), and (3) RSD8 billion loan with Banca Intesa.

The city's debt structure reveals a favorable maturity profile, with 70% of the total debt scheduled to mature between 6 and 20 years. Belgrade's debt service costs remain low at 3.9% of total revenue in 2023 and will decline to around 3% in 2024-2025.

Lengthy maturity and amortizing nature of Belgrade's debt partially mitigate the pressures associated with the foreign-currency risk as the entire debt of Belgrade is denominated in euro, making the city debt somewhat vulnerable to exchange-rate fluctuations.

The city's month-end cash reserves throughout 2023 averaged RSD15.7 billion representing 12.7% of operating expenditures compared with 9.5% at year-end 2022. The city follows a prudent cash management strategy, which, together with regular distributions of shared taxes, ensures smooth cash flow.

The liquidity coverage ratio, a key indicator of Belgrade's ability to cover short-term liabilities with its short-term assets, was 2.83x in 2023, and is projected to rise to 3.87x in 2024 from 2.46x in 2022. This forecasted improvement indicates an expected strengthening in the city's liquidity position over the next couple of years.

Belgrade does not maintain emergency lines of credit from banks in addition to those that have been signed and committed for project financing.

Belgrade's wealthy economy and important role as national economic hub

The City of Belgrade plays an important role in the national economy as Serbia's capital and largest city with 1.7 million inhabitants within its administrative territory, as of 2021. The city is expected to grow towards nearly 2 million inhabitants by 2041. Belgrade's economy is diversified, limiting its exposure to economic cycles. Belgrade contributes significantly to the country's economy, accounting for about 40% of the national GDP. The city's unemployment rate remained moderate at 7.8% in 2022 (latest available data), compared to 8.8% in 2021. This compares favourably with national unemployment statistics.

The city's relative wealth is evident in its GDP per capita, which is around 163% of the national average. Belgrade economically outperforms domestic peers and is also well positioned relative to other South-Eastern European cities. Belgrade is a seat of the central government and hosts the country's main universities and the headquarters of the largest companies.

Indirect debt exposure related to the city-owned public transportation company

The city of Belgrade, through its more than 30 majority-owned companies, is striving to balance its infrastructure needs with its financial constraints. This strategy was crucial in the face of inflation and high energy costs, as evidenced over the past two years, which were exerting pressure on Belgrade owned companies' operational performances.

The city-owned transportation company, GSP continues to pose a significant burden on the city's budget. This is largely due to ongoing investments, notably the modernization of its bus fleet, which has necessitated the company to incur additional debt on top of the funding supplied by the city. Nevertheless, the city government has initiated a series of measures including a new ticketing system aimed at enhancing the operational and financial efficiency of GSP. Once these measures take effect, they are likely to alleviate some of the financial strain on the city's budget. All of the company's debt of RSD9.5 billion in 2022 is included in Belgrade's indirect debt exposure.

In addition, the city has increased operational subsidies from its budget to ensure the continuity of public transport services, which amounted RSD2.3 billion in 2023. The city also provided a capital injection of RSD930 million and regular payments are made on the basis of the contract between the city and GSP, which allows a full compensation for public transportation service obligations as well as a fair level of profit (including depreciation).

Limited revenue and expenditure flexibility

About half of the city's operating revenues in 2023 came from shared taxes, including personal income tax, which the city does not have the power to change. This suggests a significant reliance on the central government for tax revenues. However, the city's institutional framework does provide some counterbalance to this lack of control over tax revenue. Unlike other local governments in Serbia, Belgrade has a larger capacity to increase revenue through local taxes and fees, which made up over 20% of operating revenues.

Belgrade's spending flexibility is somewhat constrained due to a substantial portion of legally mandated costs, including employee wages and social contributions. These, combined with other fixed expenses like interest payments, subsidies, and transfers to other government levels and city-owned entities, make up around 60-70% of the city's operational expenditures. The city's primary area of financial maneuverability lies in capital expenditures, though this is also limited by the extensive infrastructure requirements that are typical for all local governments in Serbia.

Extraordinary support considerations

We consider Belgrade to have a strong likelihood of extraordinary support from the central government, reflecting our assessment of the city's strategic importance to the national economy. The assessment also indicates a moderate system of oversight by the central government that requires regular monitoring of cities' indebtedness.

ESG considerations

Belgrade, City of's ESG credit impact score is CIS-3

Exhibit 4

ESG credit impact score

CIS-3



ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Ratings

Belgrade's **CIS-3** reflects the city's material exposure to a number of environmental risks, which are mitigated to some extent by reasonably good financial performance, prudent debt management and the ability to adapt to shocks.

Exhibit 5

ESG issuer profile scores

ENVIRONMENTAL

E-3



SOCIAL

S-3



GOVERNANCE

G-2



Source: Moody's Ratings

Environmental

The **(E-3)** score assigned to City of Belgrade reflects its moderate exposure to environmental risk mainly related to physical climate risk due to its exposure to flood risk. Other environmental risk exposure is related to weather-related events including heatwaves as well as air pollution. However, we consider that Belgrade has managed its exposure in recent years through adaptation measures and strategies and it does not result in significant pressure on the city's credit profile. In case of an emergency the measures are predominantly managed by national authorities.

Social

The **(S-3)** score assigned to City of Belgrade reflects its moderate exposure to social risks, including net immigration flows, which poses budgetary pressure to secure provision of public services. In addition, population growth is putting some strain to the city's budget to meet the infrastructure and housing needs. This issuer profile score reflects good housing availability and good access to basic services.

Governance

The **(G-2)** score assigned to City of Belgrade reflects institutions and governance strength that is not material in differentiating credit quality. In recent years, the city's implementation of budgetary control plans is indicative of positive management actions and there is a proven track record of the city frequently meeting or exceeding its fiscal targets. The city has moderate fiscal flexibility and follows prudent budgetary management practices, which allows for multiyear forecasting of key trends, providing the city with the ability to identify potential pressures and allowing for sufficient time to adjust plans to mitigate any credit implications.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of ba2 is in line with the BCA scorecard-indicated outcome.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), published on 28 May 2024.

Exhibit 6

Belgrade, City of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	1.24
Regional Income [1]	5.28	44625.83	15%	0.79		
Economic Growth	6.00	a	5%	0.30		
Economic Diversification	3.00	aa	5%	0.15		
Factor 2: Institutional Framework and Governance					30%	2.70
Institutional Framework	12.00	ba	15%	1.80		
Governance	6.00	a	15%	0.90		
Factor 3: Financial Performance					20%	1.58
Operating Margin [2]	4.68	17.52%	10%	0.47		
Liquidity Ratio [3]	13.14	5.60%	5%	0.66		
Ease of Access to Funding	9.00	baa	5%	0.45		
Factor 4: Leverage					25%	0.52
Debt Burden [4]	1.96	26.17%	15%	0.29		
Interest Burden [5]	2.27	0.88%	10%	0.23		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(6.04) a2
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(6.04) a2
Sovereign Rating Threshold						Ba2
Operating Environment Notching						0.0
BCA Scorecard-Indicated Outcome						(12.00) ba2
Assigned BCA						ba2

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2023.

Ratings

Exhibit 7

Category	Moody's Rating
BELGRADE, CITY OF	
Outlook	Positive
Baseline Credit Assessment	ba2
Issuer Rating	Ba2

Source: Moody's Ratings

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