

**Barcelona, City of (/gws/en/esp/issr/80442329)**



## Fitch: City of Barcelona's IDRs Not Affected by Catalonia's RWN

Fitch Ratings-Barcelona-11 October 2017: Fitch Ratings says the City of Barcelona's (Barcelona) Issuer Default Ratings (IDRs; BBB+/Positive/F2) are not affected in the short-term by the Rating Watch Negative (RWN) placed on 5 October on the Autonomous Community of Catalonia (Catalonia) (BB/RWN/B; for more details on the rating drivers, see 'Fitch Places Autonomous Community of Catalonia and Institut Catala de Finances on RWN' at [www.fitchratings.com](http://www.fitchratings.com)).

The president of Catalonia on 10 October called Catalonia's unilateral declaration of independence, but has suspended it in search of dialogue. The central government has required the president to confirm whether it has formally declared independence. This is in line with our rating case scenario, which incorporates an escalation of the existing tensions between the central and regional governments.

Our negative rating action on Catalonia will have no immediate rating impact on Barcelona given that the regional government has negligible influence on the city's revenue and expenditure. Only effective independence of Catalonia, which is not in our rating case, would fundamentally change Barcelona's public finance framework. This would likely drive a rating change for Barcelona. In the current rating case scenario, which remains one where political tensions are high but unity is maintained, the existing framework continues to operate.

We currently do not expect the political developments to challenge Barcelona's strong revenue, as operating revenue stemming from the Catalanian government only represent 3%-4% of the city's operating revenue, and are essentially from funding projects previously approved by the regional government. The two most important operating revenue sources for Barcelona are non-earmarked transfers from the central government (42% of operating revenue in 2016) and property tax collection (27% of operating revenue in 2016). The non-earmarked transfers from the central government are tied to a basket of taxes collected nationally by the central government, and are therefore not directly linked to the regional economy's performance. Property tax collection has proven to be resilient but would be negatively impacted by a sharp economic downturn; nevertheless, this is not our rating case scenario.

Barcelona's IDRs are constrained by the Spanish sovereign IDRs (BBB+/Positive/F2) and the city's Positive Outlook reflects that of the sovereign. The city's strong debt and fiscal metrics, and a solid economy, would place Barcelona's rating at a higher level, absent the sovereign cap.

In common with other municipalities of common regime in Spain, Barcelona benefits from a supportive and stable institutional relationship with the central government as its financials and debt monitoring are an exclusive responsibility of the central government. Also, the responsibilities for municipalities under common regime are defined by the central government under the State Law 7/1985, which has been subject to few amendments since its approval.

We expect that the recently announced changes of legal headquarters of many large companies to outside of Catalonia and growing tensions will result in negative effects -albeit limited- on the local economy. With a population of around 1.6 million, Barcelona accounts for 21% of the regional population. It is the political capital of Catalonia and hosts most of the administrative centres of the regional government, as well as being a location of regional hospitals and universities, which provide stability to its local economy. Barcelona also enjoys strong tourist activity, in particular from foreign visitors.

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