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## Fitch Affirms City of Barcelona at 'A-'; Outlook Stable

Fitch Ratings-Barcelona/London-09 March 2018: Fitch Ratings has affirmed the City of Barcelona's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook. Fitch has also affirmed the Short-Term Foreign-Currency IDR at 'F1'. Barcelona's bond issues/senior unsecured ratings have been affirmed at 'A-'.

The affirmation reflects Barcelona's strong operating performance and liquidity in 2017 and moderate direct debt. The affirmation also reflects the city's strong economy. The Stable Outlook reflects that on the Spanish sovereign (A-).

### KEY RATING DRIVERS

#### Strong Economy

Barcelona is the administrative, political and economic centre of the Autonomous Community of Catalonia, hosting 21.4% of the region's population in 2017 (1,620,809 inhabitants). The city has a diversified and wealthy economy and benefits from strong tourist activity, with as many as 79,288 hotel rooms available in December 2017, a 15% increase since December 2012. Barcelona's seaport is a leader in Europe with the highest cruise passenger traffic in the Mediterranean (with 2.7 million in 2017) and significant and growing container traffic.

Barcelona's economy is strong, as demonstrated by a regional GDP per capita 19.7% above the Spanish average in 2016 and a higher-than-average employment rate of 53.9% (49.1% in Spain) in 4Q17. Job creation in the city increased 10% between 4Q11 and 4Q17, after significant job losses of 10% over the past five years. In 3Q17, local housing prices were 60% above those in Catalonia, having grown 21% since 3Q13.

#### Strong Operating Performance

Barcelona's strong operating performance is driven by large transfers from the central government from the funding system (44% of operating revenue in 2017) and high property tax collection.

The city's 2018 draft budget was automatically approved in March 2018, following a vote of confidence by the mayor. Fitch expects Barcelona's operating margin will remain stable in 2018 at 15%-16% (17.4% in 2017), corresponding to the city's 15% target of current balance-to-current revenue. Fitch expects operating revenue will grow 1%-2% in 2018, based on higher tax collection from the tax on increase in land values and tax on construction activities and larger current transfers from the funding system.

For 2018, the government will continue to take advantage of its financial leeway to increase operating expenditure by 2.5%-3.0%, mainly on social spending and transport.

In 2017, operating revenue grew by 1% yoy due to larger resources within the funding system from the central government of EUR45 million and larger collected land value tax. Operating expenditure grew by a moderate 0.5% yoy, due to the one-off payment in 2016 of EUR38 million forced by a court judgement on staff costs.

#### Moderate Direct Debt; Strong Liquidity

Direct debt remained moderate at EUR835.5 million or 32.6% of current revenue in 2017 (EUR835.5 million or 32.9% in 2016). For 2018, Fitch expects direct debt will remain moderate at close to 31%-32% of expected current revenue, well below the 60% debt target set by the central government.

Debt service is soundly covered by the operating balance, as it accounted for only 33% of the latter at end-2017. Although 22% of outstanding direct debt at end-2017 will mature over the next three years, refinancing risk facing is mitigated by the city's strong access to capital market and bank loans and a cash position of EUR828 million at end-2017, which indicates a low 5.6% net overall risk relative to current revenue. Its strong cash position also means that no renewal of short-term credit lines was necessary in 2017, and we expect it to remain so in 2018.

#### Continuing Strong Management

In November 2017, the agreement signed between Barcelona en Comu and socialist party (PSC) was broken as a consequence of the socialist regional party decision to support the central government in suspending Catalonia's self-government. The local assembly lost representation in the city's council political composition, resulting in a more fragmented composition. However, the government continues to have a strong commitment to complying with the non- budget deficit, debt target and maintaining a current margin of 15%.

### RATING SENSITIVITIES

Barcelona's IDRs are constrained by the sovereign IDRs and are sensitive to changes in the sovereign ratings.

Catalonia's IDRs are on Rating Watch Negative. Fitch will monitor developments in Catalonia on its IDRs as well as any possible impact on Barcelona's IDRs.

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[International Local and Regional Governments Rating Criteria - Outside the United States \(pub. 18 Apr 2016\)](#)

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