

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



Fitch Affirms City of Barcelona at 'BBB+'; Outlook Positive

Fitch Ratings-Barcelona/Paris/London-15 September 2017: Fitch Ratings has affirmed the City of Barcelona's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB+' with Positive Outlook. Fitch has also affirmed the Short-Term Foreign Currency IDR at 'F2'. Barcelona's bond issues/senior unsecured ratings have been also affirmed at 'BBB+'.

The affirmation reflects Barcelona's strong operating performance and liquidity in 2016 and moderate direct debt. The affirmation also reflects the city's strong economy. The Positive Outlook reflects that of the Spanish sovereign (BBB+).

KEY RATING DRIVERS

Institutional Framework

Barcelona's IDRs are not affected by the Negative Outlook on the Autonomous Community of Catalonia's 'BB' IDR. The city has a supportive relationship with the central government and endorsement of Barcelona's institutional framework, including financial and debt monitoring, is an exclusive responsibility of the central government. Moreover, Barcelona's funding is fully ring-fenced from the regional government scope, as with other municipal entities of common regime in Spain.

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 2016. The city has a diversified and wealthy economy and benefits from strong tourist activity, with as many as 76,930 hotel rooms available in July 2017, an 11% increase since December 2012.

Barcelona's seaport is a leader in Europe with the highest cruise passenger traffic in the Mediterranean and with significant and growing containers traffic. We do not expect the city's revenue will be impacted by the recent terrorism attack in Barcelona as most of the revenue comes from the central government and self-collected revenue, which is resilient to economic cycles.

Its strong economy is demonstrated by a regional GDP per capita that was 19.4% above the Spanish average in 2016 and a higher-than-average employment rate of 53.4% (48.7% in Spain) in 2Q17. Job creation in the city increased 9% between 4Q11 and 2Q17, after significant job losses of 10% over the past five years. In 1Q17, local housing prices were 60% above those in Catalonia, having grown 17% since 4Q13.

Strong Operating Performance

Barcelona's strong operating performance is driven by large transfers from the central government from the funding system and high property tax collection.

The city's 2017 draft budget was approved in January 2017, following a vote of confidence by the mayor. Fitch expects Barcelona's operating margin will remain stable in 2017 at 16%-17%, corresponding to the city's 15% target of current balance-to-current revenue. Fitch expects operating revenue will grow 2%-3% in 2017, based on greater resources from the funding system and higher tax collection. For 2017, the government will continue to take advantage of its financial leeway to increase operating expenditure by 2%-3%, mainly on social spending.

Moderate Direct Debt; Strong Liquidity

Direct debt remained moderate at EUR835.5 million or 32.9% of current revenue in 2016 (EUR835.7 million or 32.2% in 2015). For 2017, Fitch expects direct debt will remain moderate at close to 32%-33% of expected current revenue, well below the 60% debt target set by the government in coalition.

Pressure on debt servicing is moderate, with a total of EUR226.6 million debt maturing over the next three years, representing about 27% of outstanding direct debt at end-2016. Nevertheless, this is mitigated by the city's strong access to commercial loans and a cash position of EUR753.6 million at end-2016, which indicates a low 8.7% net overall risk relative to current revenue. Its strong cash position also means that no renewal of short-term credit lines was necessary in 2016, and we expect it to remain so in 2017.

RATING SENSITIVITIES

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

KEY ASSUMPTIONS

Fitch could place Barcelona's IDRs on Rating Watch Negative should Catalonia win recognition of its claim to independence.

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Additional information is available on www.fitchratings.com

Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016)
(<https://www.fitchratings.com/site/re/878660>)

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