

CREDIT OPINION

18 April 2018

Update

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RATINGS

Barcelona, City of

Domicile	Spain
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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 Barcelona (Spain)

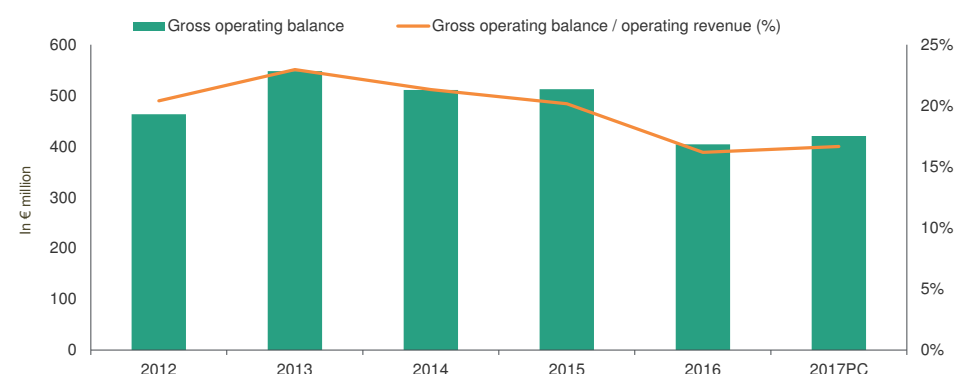
Update following upgrade to Baa1 stable

Summary

The credit profile of the [City of Barcelona \(Baa1 stable\)](#) reflects the city's robust budgetary management and solid financial fundamentals in recent years, which have ensured a high self-financing capacity and a low need for debt financing. Because of its self-imposed financial rules, Barcelona has generated operating surpluses of more than 15% of operating revenue since the onset of the economic crisis in 2008 (21% on average between 2008 and 2017) and limited its debt to below 60% of operating revenue (43% on average for 2008-17). In 2017, Barcelona's gross operating balance and debt stock were equivalent to 17% and 33% of operating revenue respectively.

Exhibit 1

Barcelona has maintained a good operating performance



PC: Pre-closing

Sources: Issuer, Moody's Investors Service

Credit strengths

- » Robust governance and financial management
- » Very strong financial performance
- » Low indebtedness and very good liquidity profile
- » Large diversified economy, with a strong tourism sector

Credit challenges

- » Limited fiscal flexibility

Rating outlook

The rating outlook is stable, reflecting our view that Barcelona will maintain its sound fiscal position in the coming years, and mirrors the outlook for the [Government of Spain \(Baa1 stable\)](#).

Factors that could lead to an upgrade

As Barcelona's rating is on a par with the sovereign, an upgrade of its rating would require an upgrade of Spain's sovereign rating.

Factors that could lead to a downgrade

Any downgrade of Spain's rating would be likely to have implications for Barcelona's rating. A substantial deterioration in Barcelona's budgetary ratios, together with growing financing deficits and rising debt, could also put downward pressure on the city's rating.

Key indicators

Exhibit 2

City of Barcelona

	2011	2012	2013	2014	2015	2016	2017PC	2018B
Gross Operating Balance as a % of Operating Revenue	19.0	20.4	23.0	21.3	20.2	16.2	16.7	13.4
Capital Expenses as a % of Total Expenses	23.6	19.5	15.7	25.1	18.7	17.7	17.4	19.2
Self Financing Ratio	1.1	1.2	1.8	1.2	1.3	1.1	1.1	0.8
Financing Surplus(Deficit) as % of Total Revenues	2.0	4.6	11.3	5.4	5.4	1.3	1.3	-3.3
Interest Expenses as a % of Operating Revenue	1.5	1.4	1.4	1.2	0.9	0.7	0.7	0.7
Gross Borrowing Need as a % of Total Revenues	2.7	0.0	0.0	0.0	5.9	4.8	3.6	5.4
Net Direct and Indirect debt as a % of Operating Revenue	52.4	53.6	48.3	40.9	33.0	33.6	33.3	33.5

PC= Pre-Closing

B= Budget

Source: Moody's Investors Service

Detailed credit considerations

On 17 April 2018, Moody's upgraded the city of Barcelona's rating by one notch to Baa1 stable from Baa2 stable. The upgrade followed Moody's upgrade of the Government of Spain's rating to Baa1 stable from Baa2 stable on 13 April 2018. Barcelona is rated on par with the Spanish government bond rating.

The credit profile of the City of Barcelona, as expressed in a Baa1 stable rating, combines: 1) a Baseline Credit Assessment (BCA) of baa1; and 2) a strong likelihood of extraordinary support from the central government if it faced acute liquidity stress.

Baseline Credit Assessment

Robust governance and financial management

Barcelona's strong governance and management are reflected in prudent budgetary practices, such as over-budgeting for current expenditure and under-budgeting for current revenue, thereby generating large operating balances. We regard the quality of Barcelona's internal controls and financial planning as very high. Barcelona also takes a conservative approach to debt and investment management, limiting its exposure to market risk. Comprehensive financial reporting supports fiscal and debt management.

Very strong financial performance

Barcelona achieved average annual gross operating surpluses of 20% between 2012 and 2017. According to preliminary results for 2017, the city's gross operating balance (GOB) was €421 million, equivalent to 16.7% of operating revenue, compared with €404 million, or 16.2% of operating revenue, in 2016. The improvement mainly reflected a 1% increase in revenue while operating expenditure was maintained at a similar level to 2016. The rise in revenue was driven by a 1.7% increase in tax revenue, primarily tax ceded by the central government and real estate taxes, thanks to the recovery in Spain's economy. High gross operating savings, together with a 2% year-on-year reduction in capital spending, resulted in a financing surplus of €34 million, or 1.3% of operating revenue (2016: €33 million).

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

We expect Barcelona to maintain its good financial performance in 2018, with a GOB at similar level to 2017 (13%-16% of operating revenue).

Barcelona continues to follow its "Plan de Actuación Municipal". The plan aims to generate operating surpluses of more than 15% of operating revenue, limit debt to below 60% of operating revenue and ensure payments to suppliers within 30 days (25 days on average in 2017).

Low indebtedness and very good liquidity

Barcelona has a low level of debt relative to European peers. The city has maintained direct debt at €836 million over the past three years, giving a net direct and indirect debt to operating revenue ratio of around 33% as of the end of 2017 (2016: 34%), well below its self-imposed limit of 60%.

Indirect debt is falling, according to the most recent available data, and is low compared with other Spanish municipalities, standing at around 5% of operating revenue in 2017. Indirect debt in 2017 comprised €137 million of debt incurred by public companies (€141 million in 2016) and just €2 million of debt guarantees to other related entities or companies.

To diversify its investor base, Barcelona issued its first public sustainable bond of €35 million in December 2017. Bonds accounted for 11% of its total debt in 2017.

The city's liquidity position is very good, with cash on hand at the end of 2017 of €828 million, equivalent to around 33% of operating revenue, compared with €754 million a year earlier. This will be more than sufficient to cover debt repayments of €49.5 million set out in the city's initial 2018 projected budget. The high level of cash will be sufficient to cancel 99% of Barcelona's outstanding direct debt. We expect cash on hand to be maintained at a similar level at around €750 million forecast for year-end 2018.

Large diversified economy with a strong tourism sector

Barcelona is the capital of the north-eastern Spanish region of Catalunya and one of Spain's most developed and wealthy cities, acting as a decentralising counterweight to the capital Madrid. For the past few years, its population has grown largely because of migration inflows; its 1.6 million inhabitants accounted for 3.5% of the national population and 21.5% of the Catalan population in 2017.

Barcelona's economy is concentrated in the services sector, which provided employment for more than 90% of the total active population as of year-end 2017, well ahead of the industry (7.4%) and construction (2.7%) sectors. The services sector mainly focuses on business, healthcare, education, commerce, the hotel industry and tourism. Tourism remains strong, as demonstrated by the stable number of visitors to and overnight stays in the city in 2017 (19.7 million and 7.7 million respectively). Unemployment fell to 10% in 2017 from 11.6% in 2016, below the national average of 16.6%.

While Barcelona's economy was strong at year-end 2017, we will continue to monitor the impact on the city's economy of political tensions between the central government and the Generalitat de Catalunya over the latter's independence aspirations.

Exhibit 3

Tourist demand remains strong

Yearly number of visitors and overnight stays



Source: City of Barcelona Department of Statistics

Limited fiscal flexibility

The City of Barcelona largely depends on transfers from the central government for its revenue. It is responsible for raising a variety of taxes, but has limited flexibility in setting their rates, as the central government imposes maximum and minimum ranges. In respect of spending, Barcelona faces significant payroll costs, in common with other Spanish local governments. Although Spanish local governments control staff numbers, pay-rise packages largely reflect decisions taken at the central government level, leaving municipalities with limited flexibility.

Extraordinary support considerations

We view Barcelona as having a strong likelihood of extraordinary support from the central government, reflecting our assessment of the risk to the government's reputation if the city defaulted. While recognising the government's promotion of greater accountability for Spanish municipalities, we also believe that Barcelona's strategic role in Spain provides it with an incentive to support the city in the event of need.

Rating methodology and scorecard factors

The assigned Baseline Credit Assessment (BCA) of baa1 is close to the scorecard-indicated BCA of baa2. The matrix-generated BCA of baa2 reflects: 1) an idiosyncratic risk score of 2 (presented below) on a 1 to 9 scale, where 1 represents the strongest relative credit quality and 9 the weakest; and 2) a systemic risk score of Baa1, as reflected in Spain's Baa1 stable sovereign bond rating.

For details of our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#).

Exhibit 4

Barcelona, City of
[Regional and Local Governments](#)

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	1	162.74	70%	1	20%	0.20
Economic volatility	1		30%			
Factor 2: Institutional Framework						
Legislative background	1		50%	3	20%	0.60
Financial flexibility	5		50%			
Factor 3: Financial Performance and Debt Profile						
Gross operating balance / operating revenues (%)	1	17.04	12.5%	1.5	30%	0.45
Interest payments / operating revenues (%)	1	0.74	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	33.26	25%			
Short-term direct debt / total direct debt (%)	3	15.28	25%			
Factor 4: Governance and Management - MAX						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						1.55(2)
Systemic Risk Assessment						Baa1
Suggested BCA						baa2

The above scorecard includes 2017 pre-closing figures

Source: Moody's calculations

Ratings

Exhibit 5

Category	Moody's Rating
BARCELONA, CITY OF	
Outlook	Stable
Issuer Rating	Baa1

Source: Moody's Investors Service

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