

CREDIT OPINION

21 February 2017

Update

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RATINGS

Barcelona, City of

Domicile	Spain
Long Term Rating	Baa2
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.

Contacts

Marisol Blazquez 34-91-768-8213
Analyst
marisol.blazquez@moodys.com

Sebastien Hay 34-91-768-8222
VP-Sr Credit Officer
sebastien.hay@moodys.com

David Rubinoff 44-20-7772-1398
MD-Sub Sovereigns
david.rubinoff@moodys.com

Barcelona, City of

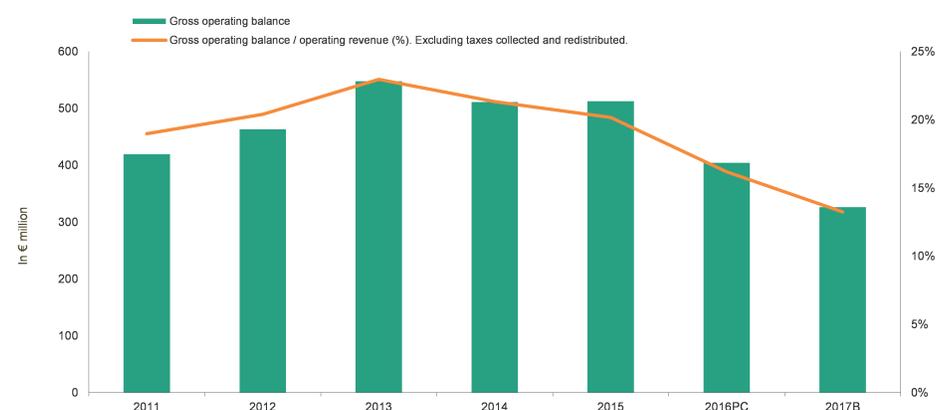
Annual update

Summary Rating Rationale

The Baa2 rating assigned to the City of Barcelona reflects the municipality's robust budgetary management and its solid financial fundamentals in recent years, which have ensured a high self-financing capacity and a low need for debt financing.

Exhibit 1

Barcelona's good operating performance



B= Budget. PC: Pre-closing.
Source: Issuer. Moody's Investors Service.

Credit Strengths

- » Robust governance and financial management.
- » Very strong financial performance.
- » Low indebtedness and good liquidity profile.
- » Large diversified economy.

Credit Challenges

- » Limited fiscal flexibility.

Rating Outlook

The rating outlook is stable, reflecting the stable outlook on the Spanish government's rating.

Factors that Could Lead to an Upgrade

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

Factors that Could Lead to a Downgrade

Any downgrade of Spain's rating would likely have rating implications for Barcelona. A substantial deterioration in Barcelona's budgetary ratios, together with growing financing deficits and an increasing debt burden, could also exert downward pressure on its rating.

Key Indicators

Exhibit 2

Barcelona, City of

	2010	2011	2012	2013	2014	2015	2016PC	2017B
Gross Operating Balance as a % of Operating Revenue	18.8	19.0	20.4	23.0	21.3	20.2	16.2	13.2
Capital Expenses as a % of Total Expenses	29.5	23.6	19.5	15.7	25.1	18.7	17.7	18.0
Self Financing Ratio	0.9	1.1	1.2	1.8	1.2	1.3	1.1	0.8
Financing Surplus(Deficit) as % of Total Revenues	-3.8	2.0	4.6	11.3	5.4	5.4	1.5	-3.1
Interest Expenses as a % of Operating Revenue	1.0	1.5	1.4	1.4	1.2	0.9	0.7	0.9
Gross Borrowing Need as a % of Total Revenues	8.0	2.7	0.0	0.0	0.0	5.9	4.6	8.1
Net Direct and Indirect debt as a % of Operating Revenue *	59.5	52.4	53.6	48.3	40.9	33.0	33.5	34.0

B= Budget

PC= Pre-closing

Source: Moody's Investors Service.

Detailed Rating Considerations

The rating assigned to Barcelona combines (1) a baseline credit assessment (BCA) for the city of baa2; and (2) a strong likelihood of extraordinary support from the national government in the event that the city 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 of current expenditure and under-budgeting of current revenue, thus 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, thus limiting exposure to market risk. Fiscal and debt management are supported by comprehensive financial reporting.

VERY STRONG FINANCIAL PERFORMANCE

Barcelona achieved average annual gross operating surpluses of 21% in 2011-2015. The city's gross operating balance (GOB) was EUR512 million in 2015, equivalent to 20% of operating revenue, similar to EUR511 million, or 21% of operating revenue, in 2014. The city's operating expenditure increased by 7.6% while operating revenue increased by 6% in 2015. The increase in expenditure was driven by higher transfers to Barcelona's public companies and increased spending on goods and services. Barcelona's high gross operating savings, together with a year-on-year reduction of 26% in capital expenditure, maintained the city's financing surplus at EUR142 million, or 5.6% of operating revenue, in 2015, compared with a financing surplus of EUR143 million, or 6% of operating revenue, in 2014. The reduction in capital expenditure in 2015 was mainly the effect of a one-off expenditure of EUR174 million from the sale of the municipal parking concession in 2014.

We expect Barcelona's good financial performance to be maintained in 2016, with GOB anticipated at similar levels to 2015 (around 16% of operating revenue). The city forecasts a financing surplus of around EUR38 million, or 2% of operating revenue in 2016.

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While the city forecasts a financing deficit of EUR78 million in its 2017 project budget, reflecting a new social housing plan to be implemented this year, its debt-to-revenue ratio should remain stable, at around 34%.

Under its "Plan de Actuación Municipal - PAM", Barcelona aims to generate operating surpluses in excess of 15% of operating revenue, to limit debt to below 60% of operating revenue, and ensure payment to suppliers within 30 days.

LOW INDEBTEDNESS AND GOOD LIQUIDITY PROFILE

Barcelona's debt is low relative to European peers. The city's direct debt was maintained at EUR836 million during the last two years, giving it a net direct and indirect debt-to-operating revenue ratio of around 34% at YE2016 (33% in 2015), well below the self-imposed limit of 60%.

According to the most recently available data, Barcelona's indirect debt is decreasing, and is low compared with other Spanish municipalities at approximately 6% of operating revenue in 2016. In 2016, the city's indirect debt comprised EUR141 million of debt incurred by public companies (EUR159 million in 2015) and EUR2 million of debt guarantees to other related entities/companies.

Barcelona has a very good liquidity position, with cash on hand at YE2016 of EUR754 million, around 30% of operating revenue, and above EUR631 million a year earlier. This will be more than sufficient to cover the EUR128 million of debt repayments set out in the city's initial 2017 budget. The city forecasts a level of cash on hand of around EUR744 million at YE2017.

LARGE DIVERSIFIED ECONOMY

Barcelona is the capital of the north-eastern Spanish region of Catalunya, and is one of Spain's most developed and wealthy cities, acting as a decentralizing counterweight to the capital city Madrid. For the past few years, Barcelona's population has grown largely due to migration inflows; its 1.6 million inhabitants accounted for 3.5% of the national population, and 21.4% of the Catalan population in 2016.

Barcelona's economy is concentrated in the service sector, which provided employment for over 73.9% of the total active population at YE2015, well ahead of the industry (14.9%) and construction (11.2%) sectors. The service sector is mainly focused 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 (17.6 million and 8.3 million, respectively, in 2015). The city's unemployment rate decreased to 13.3% in 2015, from 18.9% in 2014, below the national average of 20.9%.

LIMITED FISCAL FLEXIBILITY

The City of Barcelona largely depends on transfers from the national government for its revenues. 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. On the spending side, Barcelona faces significant payroll costs, in common with other Spanish local governments. Although Spanish local governments have control over staff numbers, pay-rise packages are largely the result of decisions taken at central government level, leaving municipalities with limited flexibility.

Extraordinary Support Considerations

We believe there is a strong likelihood of Barcelona receiving extraordinary support from the national government, reflecting our assessment of the risk to the government's reputation if the city were to default. While recognising the central government's promotion of greater accountability for the Spanish municipalities, we also believe that Barcelona's strategic role in the country provides an incentive for the central government to consider supporting the city in the event of need.

Output of the Baseline Credit Assessment Scorecard

In the case of the City of Barcelona, the BCA matrix generates an estimated BCA of baa3, close to the BCA of baa2 assigned by the rating committee.

The matrix-generated BCA of baa3 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 Baa2, as reflected in the sovereign bond rating (Baa2, stable).

The idiosyncratic risk scorecard and BCA matrix, which generate estimated BCAs from a set of qualitative and quantitative credit metrics, are tools used by the rating committee to assess regional and local government credit quality. The credit metrics captured by these tools provide a good statistical gauge of standalone credit strength, and, in general, higher ratings can be expected among issuers with the highest scorecard-estimated BCAs. Nevertheless, the scorecard-estimated BCAs do not substitute for rating committee judgments regarding individual baseline credit assessments, and the scorecard is not a matrix for automatically assigning or changing these assessments. Scorecard results have limitations in that they are backward-looking, using historical data, while the assessments are forward-looking opinions of credit strength. Furthermore, the limited number of variables included in the scorecard and BCA matrix cannot fully capture the depth of our credit analysis.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors

Barcelona, City of

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	1	163.97	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	20.90	12.5%	2.75	30%	0.83
Interest payments / operating revenues (%)	3	1.08	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	33.00	25%			
Short-term direct debt / total direct debt (%)	7	35.53	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						1.93(2)
Systemic Risk Assessment						Baa2
Suggested BCA						baa3

Source: Moody's calculations.

Ratings

Exhibit 4

Category	Moody's Rating
BARCELONA, CITY OF	
Outlook	Stable
Issuer Rating	Baa2

Source: Moody's Investors Service

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