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Research Update:

City of Barcelona Upgraded To 'A-' After Similar Action On Spain; Outlook Remains Positive

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Table Of Contents

Overview

Rating Action

Outlook

Rationale

Key Statistics

Ratings Score Snapshot

Key Sovereign Statistics

Related Criteria And Research

Ratings List

Research Update:

City of Barcelona Upgraded To 'A-' After Similar Action On Spain; Outlook Remains Positive

Overview

- On March 23, 2018, we raised our unsolicited long-term issuer credit ratings on Spain to 'A-' from 'BBB+' and assigned a positive outlook.
- We cap our long-term rating on Barcelona at the long-term rating on Spain, as we do our ratings on other normal-status Spanish local and regional governments.
- Consequently, we are raising our rating on Barcelona to 'A-' from 'BBB+'.
- The positive outlook indicates that if we raise our ratings on Spain, this would trigger a similar action on Barcelona, provided the city's intrinsic credit standing does not deteriorate.

Rating Action

On March 27, 2018, S&P Global Ratings raised its long-term issuer credit rating on the Spanish City of Barcelona to 'A-' from 'BBB+'. The outlook is positive.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on the City of Barcelona are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar Of 2018 EMEA Sovereign, Regional, And Local Government Rating Publication Dates," published Dec. 15, 2017, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is the upgrade of Spain. The next scheduled rating publication on the City of Barcelona will be on Sept. 14, 2018.

Outlook

The rating on Barcelona is capped by the ratings on Spain (unsolicited A-/Positive/A-2); therefore, the positive outlook on Barcelona reflects our current outlook on Spain.

Downside Scenario

We would revise the outlook on Barcelona to stable if we revised the outlook on Spain to stable in the next 24 months.

Upside Scenario

We would raise our rating on Barcelona if, over the next 24 months, we upgraded Spain to 'A' or higher, all other factors remaining unchanged.

Rationale

Our upgrade of Barcelona follows our similar action on Spain on March 23, 2018 (see "Spain Long-Term Ratings Raised To 'A-' On Economic Growth And Budgetary Consolidation; Outlook Positive," published on RatingsDirect).

Although we assess Barcelona's stand-alone credit profile (SACP) at 'aa', the issuer credit rating on Barcelona is capped by the 'A-' rating on Spain. We generally cap the long-term rating on a local or regional government (LRG) at the same level as its respective sovereign. We do not believe the institutional and financial framework allows Spanish cities and normal-status regions to be rated above the sovereign. In particular, we view Spanish LRGs' financial autonomy as limited by their revenues' dependence on transfers from and shared taxes with the sovereign. Furthermore, the LRGs operate in an institutional environment that is mostly designed at the central government level and defines both the scope of their responsibilities and the rules governing their budgetary framework. As a result, we consider that the long-term rating on Barcelona cannot be higher than that on the sovereign.

The positive outlook on Spain therefore extends to our rating on Barcelona. An improvement in the ratings on Spain would relax the cap on our rating on Barcelona, allowing it to move closer to our assessment of the city's SACP.

Key Statistics

See "City of Barcelona Affirmed At 'BBB+'; Outlook Remains Positive," published March 16, 2018.

Ratings Score Snapshot

City of Barcelona Ratings Score Snapshot

Key rating factors

Institutional framework	Evolving but balanced
Economy	Strong
Financial management	Very strong
Budgetary flexibility	Strong
Budgetary performance	Very strong
Liquidity	Exceptional
Debt burden	Very low
Contingent liabilities	Low

*S&P Global Ratings bases its ratings on local and regional governments on the eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive our foreign currency rating on the government.

Key Sovereign Statistics

Spain Long-Term Ratings Raised To 'A-' On Economic Growth And Budgetary Consolidation; Outlook Positive, March 23, 2018

Related Criteria And Research

Related Criteria

- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments - June 30,2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19,2013
- Criteria - Governments - International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign - December 15,2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs - October 15,2009
- General Criteria: Use Of CreditWatch And Outlooks - September 14,2009

Related Research

- Spain Long-Term Ratings Raised To 'A-' On Economic Growth And Budgetary Consolidation; Outlook Positive, March 23, 2018
- City of Barcelona Affirmed at 'BBB'; Outlook Remains Positive - March 16, 2018
- Sovereign Risk Indicators - December 14, 2017. An interactive version is also available at <http://www.spratings.com/sri>.
- Institutional Framework Assessments For Non-U.S. Local And Regional Governments - September 21, 2017
- 2016 Annual Non-U.S. Local And Regional Government Default Study And Rating Transitions - May 8, 2017

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all

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rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

Ratings List

	Rating	
	To	From
Barcelona (City of)		
Issuer Credit Rating		
Foreign and Local Currency	A-/Positive/--	BBB+/Positive/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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