Ajuntament de Barcelona

» **Press release**
26 july 2012

Standard & Poor's affirms Barcelona on Sound Financial Performance with its Indicative Credit Level at 'aa' and view its economy and finance management team as professional and sophisticated

- **Barcelona's Indicative Credit Level (ICL) reflects the agency's high opinion of the City Council's good economy and finance management team and its commitment to budget stability, a healthy economy and a very positive liquidity position.**
- **Deputy Mayor, Sònia Recasens expressed her satisfaction with the report, saying it "shows the city has consolidated its solvency and credibility, which favors economic and business activity despite the difficult context it is immersed in"**

Standard & Poor's annual review of Barcelona's financial rating, on 26 July 2013, affirms Barcelona on Sound Financial Performance. It praises Barcelona City Council's good budgetary and financial management of the city, which maintains its intrinsic 'aa' ICL / Indicative Credit Level.

Barcelona has a BBB-/negative/A-3 rating, due to Spain's rating cap for Barcelona. Nevertheless, the report maintains according the ICL an intrinsic creditworthiness for Barcelona at 'aa', despite the general economic situation. The intrinsic value or Indicative Credit Level (ICL) is not a rating although it is the specific level the agency would give Barcelona were it not constrained by the sovereign. The ICL is the result of combining the individual credit profile assessment of Barcelona City Council and the institutional framework in which it operates.

Barcelona's individual credit profile assessment takes into account very positive rating factors such as the financial management and liquidity of the Council, highlighting its good financial performance. The credit rating agency describes the city management team as sophisticated and professional, and points out that its internal finance policies and targets result in a consistently strong budgetary performance.

It also highlights the municipal government's commitment to maintaining gross savings above 15% of current income and the total debt below 60% of consolidated current income, as well as its budgetary discipline and stable budgets. The agency points out that in 2012 Barcelona City Council presented gross savings above 20% of current income and a surplus after capital expenses of 4.7% in relation to total income.

S&P continue their analysis by pointing out that they expect Barcelona to keep its debt stable. What stands out is their view that the city has a wealthy and diversified economy, benefiting from its position as one of Europe's leading tourism destinations. However, the agency point out their assessment is constrained by the limited growth prospects of Spain.

Their report outlines various factors that pose a risk of a fall in Barcelona's ICL, including the presentation of significant deviations from the financial plan, the existence of considerable deficits that could be described as structural, and an increase in total indebtedness above 60% of consolidated operating revenues. On the other hand, an increase in the ICL to ‘aa+’ could come about if, as a result of a clear economic recovery, the city's managers maintained a conservative stance on expenditures, leading to sizable surpluses after investments and a sustained debt reduction.

The Deputy Mayor for Economy, Enterprise and Employment, Sònia Recasens, was very satisfied with the report, as it “**shows the city has consolidated its solvency and credibility, which favors economic and business activity despite the difficult context it is immersed in**”.

Moreover, she believes the intrinsic ‘aa’ rating “reinforces the strength of Barcelona's economic situation, in addition to other facts that demonstrate its good financial health” - a reference to the 2012 balance sheet and the General Account, and paying suppliers and subcontracted companies in 30 days, among other related Barcelona's City Council measures that foster's economy confidence for growth.

STANDARD & POOR'S
RATINGS SERVICES

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Research Update:

DRAFT: Spanish City of Barcelona 'BBB-' Rating Affirmed On Sound Financial Performance; Outlook Negative

Primary Credit Analyst:
Alejandro Rodriguez Anglada, Madrid (34) 91-788-7233;
alejandro.rodriguez.anglada@standardandpoors.com

Secondary Contact:
Lorenzo Pareja, Madrid (34) 91-389-6962; lorenzo.pareja@standardandpoors.com

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Research Update:

DRAFT: Spanish City of Barcelona 'BBB-' Rating Affirmed On Sound Financial Performance; Outlook Negative

S&P Affirms Barcelona 'BBB-' Rating, Outlook Negative

Overview

- We are affirming our 'BBB-' long-term rating on the City of Barcelona.
- The negative outlook reflects that on Spain.

Rating Action

On July 26, 2013, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term issuer credit rating on the Spanish City of Barcelona (Barcelona). The outlook is negative.

Rationale

We cap the rating on Barcelona at the level of the long-term rating on its sovereign, the Kingdom of Spain (BBB-/Negative/A-3). This reflects our view that Barcelona does not meet the criteria under which we would rate a local or regional government (LRG) higher than its sovereign (see "Methodology: Rating A Regional
Or Local Government Higher Than Its Sovereign," published Sept. 9, 2009, on RatingsDirect).

We believe Barcelona lacks sufficient financial autonomy to effectively resist significant sovereign intervention, for example a downsizing or delayed central government transfers. A significant amount of Barcelona's revenues come from the central government. Like all Spanish cities, Barcelona lacks any substantial legislative power over its financial framework.

Barcelona's indicative credit level (ICL) is 'aa'. The ICL is not a credit rating but a means we use under our criteria to assess the intrinsic creditworthiness of an LRG under the assumption that its rating is not constrained by the sovereign. The ICL results from the combination of our assessment of an LRG's individual credit profile and the institutional framework where it operates.

We view the institutional framework in which Barcelona operates as "evolving but sound," as our criteria define this term.

Our assessment of Barcelona's individual credit profile takes into account the city's wealthy economy, although we view its growth prospects as limited, in line with Spain's. We view Barcelona's financial management as a positive rating factor. Specifically, internal financial policies and targets result in a consistently strong budgetary performance, and what we view as above-average budgetary flexibility. We view Barcelona's debt burden as moderate and stable, with no significant contingent liabilities.

The rating is further supported by Barcelona's ample cash reserves and unused credit lines, which lead us to view liquidity as a very positive factor.

We view Barcelona's management team as sophisticated and professional. Since the mid-1990s Barcelona has set clear internal financial targets. The city currently aims to maintain an operating balance above 15% of operating revenues, and tax-supported debt below 60% of consolidated operating revenues. The city consistently adheres to these goals.

Over 2008-2011, the city's operating performance remained strong, with an average operating balance of 24% and an average balance after capital expenditure of 1.5% of total revenues. After the 2011 local government elections, the new city officials remained committed to budgetary rigor, in our observations. The operating balance stayed above 20% in 2012, and the city posted a surplus after capital expenditures of 4.7% of total revenues.

Under our base-case scenario, we project that the city will maintain operating balances of about 19% on average between 2013 and 2015, and moderate surpluses after capital expenditures. We anticipate that the city will benefit from a gradual increase in operating revenues from taxes related to the city's real-estate stock, while moderating operating expenditure growth and stabilizing capital expenditures. If necessary, Barcelona could utilize its budgetary flexibility by raising tax rates. Barcelona could also request a new reappraisal of property values, which could increase revenues, but would take about two years to produce any effects.

We expect Barcelona's performance will lead to a fairly stable tax-supported debt burden, at about 50% of consolidated operating revenues. We believe Barcelona's public sector adds no significant contingent liabilities, as debt is centrally controlled.

We view Barcelona's economy as wealthy and diversified, benefiting from its position as one of Europe's leading tourism destinations. However, our assessment is constrained by what we view as limited growth prospects, in line with our expectations for Spain.

We might consider lowering the city's ICL to 'aa-' from 'aa' if Barcelona significantly deviated from its financial plan, ran sizable deficits that we deemed structural, and increased its tax-supported debt above 60% of consolidated operating revenues. On the other hand, we might consider raising the ICL to 'aa+' if, following clear economic recovery, the city's managers maintained a conservative stance on expenditures, leading to sizable surpluses after investments and a sustained debt reduction.

Liquidity

We assess Barcelona's liquidity position as "very positive," under our criteria. This reflects our view of the city's very positive debt service coverage ratio, and satisfactory access to external liquidity.

We estimate Barcelona's average cash over the next 12 months will cover about 160% of the city's debt service of about €211 million. We consider this to be a very positive debt service coverage ratio under our criteria. Barcelona also has access to €87 million in credit lines, which it keeps unused. When including the average unused credit lines, debt service coverage would increase to 200%.

We classify Barcelona's access to external liquidity as "satisfactory", since the city has access to a diverse pool of banks. In our view, the city also benefits from the "flight to quality" effect within the Spanish public debt markets, which sustains demand for its debt issues.

Outlook

The negative outlook on Barcelona reflects that on Spain. We would lower the long-term rating on Barcelona if we took a similar action on Spain.

We see no potential for an upgrade at this point, given that the ratings on Barcelona are subject to a sovereign cap.

Published Rating Factor Scores

Table 1

Barcelona (City of)--Summary Of Published Rating Factor Scores*

Rating factor	Score
Institutional framework	Evolving but sound
Financial management	Very Positive
Liquidity	Very Positive

*Standard & Poor's ratings on local and regional governments are based on, among other things, a scoring system that covers eight main rating factors, as further explained in our criteria (see below). We publish our scores for the three rating factors above.

Key Statistics

Table 2

Financial Statistics

(Mil. €)	2010	2011	2012	2013bc	2014bc	2015bc	2013dc	2014dc	2015dc
Operating revenues	2,387	2,373	2,379	2,401	2,434	2,462	2,324	2,321	2,337

Table 2

Financial Statistics (cont.)									
Operating expenditures	1,898	1,888	1,868	1,937	1,966	1,999	1,955	1,987	2,027
Operating Balance	489	485	511	464	468	463	369	334	311
Operating balance (% of operating revenues)	20.5	20.4	21.5	19.3	19.2	18.8	15.9	14.4	13.3
Capital revenues	222	178	49	43	43	44	32	33	34
Capital expenditures (capex)	797	608	445	461	468	476	439	466	482
Balance after capital accounts	(86)	54	115	46	43	31	(38)	(100)	(138)
Balance after capital accounts (% of total revenues)	(3.3)	2.1	4.7	1.9	1.8	1.2	(1.6)	(4.3)	(5.8)
Debt Repaid	102	112	91	104	130	156	104	130	156
Balance after debt repayment and onlending	(187)	(57)	23	(58)	(87)	(125)	(142)	(230)	(294)
Balance after debt repayment and onlending (% of total revenues)	(7.2)	(2.2)	1.0	(2.4)	(3.5)	(5.0)	(6.0)	(9.8)	(12.4)
Gross borrowings	552	2	167	104	130	156	142	230	294
Balance after borrowings	365	(55)	190	46	43	31	0	0	0
Modifiable revenues (% of operating revenues)	53.2	52.2	51.5	51.8	52.2	52.5	51.2	51.6	51.9
Capital expenditures (% of total expenditures)	29.6	24.4	19.2	19.2	19.2	19.2	18.3	19.0	19.2
Direct debt (outstanding at year-end)	1,200	1,090	1,165	1,165	1,165	1,165	1,203	1,303	1,440
Direct debt (% of operating revenues)	50.3	45.9	49.0	48.5	47.9	47.3	51.8	56.1	61.6
Tax-supported debt (% of consolidated operating revenues)	54.4	51.2	53.1	52.3	51.0	49.8	55.3	58.5	62.7
Interest (% of operating revenues)	0.9	1.5	1.4	1.8	1.9	1.9	1.9	2.2	2.5
Debt service (% of operating revenues)	5.2	6.2	5.2	6.1	7.2	8.2	6.4	7.8	9.1

Source: 2010-2012 regional accounts, Spanish Ministry of Finance, and Standard & Poor's. bc--Base case reflects Standard & Poor's expectations of the most likely scenario. dc--Downside case represents some but not all aspects of Standard & Poor's scenarios that could be consistent with a lowering of the ICL.

Table 3

City of Barcelona--Economic Statistics	**2012**	**2011**	**2010**	**2009**	**2008**
Population	1,620,943	1,615,448	1,619,337	1,621,537	1,615,908
Population growth (%)	0.3	(0.2)	(0.1)	0.3	N.M.
GDP per capita (€)*	27,280	27,268	26,635	26,587	27,642

Sources: INE (Spanish National Institute of Statistics). *Standard & Poor's estimates at the provincial level, based on INE data.

Key Sovereign Statistics

For sovereign statistics, please see "Sovereign Risk Indicators," published July 1, 2013.

Related Criteria And Research

- Ratings On Spain Affirmed At 'BBB-/A-3'; Outlook Negative, June 14, 2013
- International Local And Regional Governments Default And Transition Study: 2012 Saw Defaults Spike, March 28, 2013
- Institutional Framework Assessments For International Local And Regional Governments, Jan. 14, 2013
- Spanish Cities of Barcelona And Madrid Downgraded To 'BBB-' On Spain Downgrade; Outlook Negative, Oct. 17, 2012
- Spain's City of Madrid 'BBB+/A-2' Ratings Affirmed On Commitment To Budgetary Discipline; Outlook Negative, May 31, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign, Sept. 9, 2009

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 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.

Ratings List

Additional Contact:
International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.