

RATING ACTION COMMENTARY

Fitch Affirms City of Barcelona at 'A-'; Outlook Stable

Fri 05 Jul, 2024 - 5:01 PM ET

Fitch Ratings - Barcelona - 05 Jul 2024: Fitch Ratings has affirmed the City of Barcelona's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlooks. A full list of rating actions is below.

The affirmation reflects Fitch's unchanged assessment of Barcelona's Standalone Credit Profile (SCP) at 'aaa', reflecting the combination of a 'High-Midrange' risk profile and 'aaa' debt sustainability assessment. Fitch does not apply any asymmetric risk. Barcelona's IDRs are capped by the sovereign IDR (A-/Stable), and are therefore below the city's SCP.

KEY RATING DRIVERS

Risk Profile: 'High Midrange'

Fitch assesses Barcelona's risk profile at 'High-Midrange', reflecting a combination of 'Midrange' and 'Stronger' attributes on six key risk factors. The assessment reflects Fitch's view of a low risk relative to international peers that Barcelona's ability to cover debt service with the operating balance may weaken unexpectedly over the forecast horizon (2024-2028) due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt or debt-service requirements.

Revenue Robustness: 'Midrange'

Barcelona's revenue robustness is underpinned by regional GDP per capita that was 15% higher than the national level in 2022, and a 28.8% lower level of unemployment rate. Barcelona's operating revenue is stable, evidenced by a CAGR in 2013-2023 of 3.3%, compared with CAGR of national GDP of 0.2%. Growth is driven by a large 35% of operating revenue being based on property tax and the tax on land value increase, the latter of which is subject to a levy on assets based on a fiscal valuation instead of regional GDP growth.

Revenue Adjustability: 'Stronger'

We assess Barcelona's ability to generate additional revenue in response to possible economic downturns as strong. It has discretionary tax leeway to increase revenue by almost EUR800 million, which would cover more than 200% of a reasonably expected decline of operating revenue of EUR90 million, or 4%, as was observed in 2010 versus 2009.

Expenditure Sustainability: 'Stronger'

Barcelona's control of expenditure is reflected by 1.9% CAGR growth in 2018-2023, below revenue growth (4.8%). Control is underpinned by a large share of responsibilities with municipal discretion. The national law establishes the responsibilities of municipalities under the common regime according to their size. This factor also reflects the nature of local expenditure, which is mostly non-countercyclical, apart from social spending, which represented just 12% of total spending in 2023 and tends to grow when unemployment rises. The law also does not set the level of quality of services to be provided, reducing the risk of an uncontrolled rise in expenditure during an economic downturn.

Expenditure Adjustability: 'Stronger'

Barcelona's ability to reduce spending in response to shrinking revenue is underpinned by the Budgetary Stability Law. This allows the central government to oversee local administration spending. Prudential rules, especially adherence to deficit, debt, and spending targets, help maintain fiscal balance and have led to meeting stability goals over the past decade (2013-2023). These rules were suspended from 2020 to 2023 due to the pandemic. The assessment also reflects a low proportion of inflexible items, largely coming from social spending (11.9% of total spending) and staff costs, as most of the municipality's employees have the status of civil servants (15.5% of total spending in 2023).

Liabilities & Liquidity Robustness: 'Stronger'

Barcelona is exposed to floating interest rates (the share of unhedged floating-rate debt was 53.6% in 2023). However, Fitch believes that it could access financial products to cover the risk of rising interest rates or renegotiate this debt with fixed rates. The city's debt was characterised in 2023 by a good weighted average life of debt of 6.4 years and low average cost of debt of 2.3%. It has strong financial market access and no reliance on short-term debt. Debt service is also well covered by the operating balance (2023: 6.7x)

and the city has limited off-balance sheet risks (31% of direct debt or 0.8x of operating balance in 2023).

Liabilities & Liquidity Flexibility: 'Midrange'

Barcelona's unrestricted liquidity available is strong, covering more than 5x the short- and long-term debt that matured in 2023. At end-2023, the municipality had EUR847 million available cash, including EUR253 million considered as unrestricted and available for debt service by Fitch. The city does not have committed liquidity lines, but would be exposed to counterparty risk at between 'BBB-' and 'A+' in case of need for liquidity support.

Debt Sustainability: 'aaa category'

Barcelona is considered a type B local and regional government in Fitch's criteria as it is required to cover debt service from the operating balance and is subject to requirements imposed and enforced by the central government.

Fitch has revised up its main rating case for 2024-2028 following better than expected 2023 results. This reflects a better debt payback ratio (net direct risk-to-operating balance; the primary metric of debt sustainability assessment) of under 5x in 2028 ('aaa' category). Together with a forecast synthetic debt service coverage ratio (operating balance/mortgage-style debt annuity) of 8x in 2028 ('aaa' category), this justifies the assessment of Barcelona's debt sustainability at 'aaa'.

Barcelona's direct debt increased to EUR1013 million in 2023 from EUR847 million in 2022, driven by a significant increase in opex. Our rating case expects the municipality's net adjusted debt to grow to about EUR830 million at end-2028 from EUR760 million at end-2023, driven by a deterioration of the capital balance in the rating case scenario

DERIVATION SUMMARY

Barcelona's 'aaa' SCP reflects a combination of a 'High-Midrange' risk profile and a 'aaa' debt sustainability assessment. Fitch does not apply any asymmetric risk. Barcelona's IDRs are capped by the sovereign's and are therefore below the city's SCP.

Short-Term Ratings

Barcelona's Short-Term IDR is 'F1', resulting from a strong liquidity coverage ratio estimated at 7x in 2023 and 'Stronger' debt structure robustness and 'Midrange' debt flexibility.

Debt Ratings

The senior unsecured 'A-' rating is at the same level as Barcelona's Long-Term IDR.

KEY ASSUMPTIONS

Qualitative assumptions:

Risk Profile: 'High Midrange'

Revenue Robustness: 'Midrange'

Revenue Adjustability: 'Stronger'

Expenditure Sustainability: 'Stronger'

Expenditure Adjustability: 'Stronger'

Liabilities and Liquidity Robustness: 'Stronger'

Liabilities and Liquidity Flexibility: 'Midrange'

Debt sustainability: 'aaa'

Support (Budget Loans): 'N/A'

Support (Ad Hoc): 'N/A'

Asymmetric Risk: 'N/A'

Rating Cap (LT IDR): 'A-'

Rating Cap (LT LC IDR) 'A-'

Rating Floor: 'N/A'

Quantitative assumptions - Issuer Specific

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2018-2023 figures and 2024-2028 projected ratios. The key assumptions for the scenario include:

-Nominal growth of operating revenue at 2.0% (vs 4.1% in last year's base case) in the next five years

-Nominal growth of operating expenditure at 1.3% (vs 4.3% in last year's base case)

-Net capital balance of negative EUR597 million in the next five years

-2.5% cost of debt in the next five years (vs 1.7% in last year's base case)

Issuer Profile

Barcelona is the capital of the region of Catalonia. Its registered population is 21% of the region's population. The city is the administrative, political and economic centre of Catalonia and benefits from its important tourism position in Europe.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Barcelona's IDRs are constrained by the sovereign IDRs and are sensitive to changes in the sovereign ratings. Barcelona's IDRs would also be downgraded if there was a sustained increase in leverage, particularly if the debt payback ratio worsened beyond 13 years, which Fitch views as unlikely.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Barcelona's IDRs would be upgraded if the sovereign ratings were upgraded.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

DISCUSSION NOTE

Committee date: 3 July 2024

There was an appropriate quorum at the committee and the members confirmed that they were free from recusal. It was agreed that the data was sufficiently robust relative to its materiality. During the committee no material issues were raised that were not in the original committee package, the main rating factors under the relevant criteria were

discussed by the committee members. The rating decision as discussed in this rating action commentary reflects the committee discussion.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Barcelona's ratings are capped by Spain's ratings.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Barcelona, City of	LT IDR A- Rating Outlook Stable Affirmed	A- Rating Outlook Stable
	ST IDR F1 Affirmed	F1
	LC LT IDR A- Rating Outlook Stable Affirmed	A- Rating Outlook Stable
senior unsecured	LT A- Affirmed	A-

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Carlos Lopez Ramos

Senior Analyst

Primary Rating Analyst

+34 93 522 9700

carlos.lopezramos@fitchratings.com

Fitch Ratings Ireland Spanish Branch, Sucursal en España

Av. Diagonal 601 Planta 4 Barcelona 08028

Ines Callahan

Director

Secondary Rating Analyst

+34 93 467 8745

ines.callahan@fitchratings.com

Douglas Offerman

Senior Director

Committee Chairperson

+1 212 908 0889

douglas.offerman@fitchratings.com

MEDIA CONTACTS

Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[International Local and Regional Governments Rating Criteria \(pub. 03 Sep 2021\)](#)
(including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Barcelona, City of

EU Issued, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch

and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch

receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.