

City of Barcelona

Key Rating Drivers

Rating Derivation Summary: Fitch Ratings assesses the City of Barcelona's Standalone Credit Profile (SCP) at 'aaa', reflecting a combination of a 'High Midrange' risk profile and debt sustainability metrics assessed in the 'aaa' category under Fitch's rating case scenario. Barcelona's Issuer Default Rating (IDR) is capped by Spain's rating (A-/Stable), and is, therefore, below its SCP.

Risk Profile - 'High Midrange': Four of Barcelona's six key risk factors are assessed as 'Stronger' (revenue adjustability, expenditure sustainability and adjustability, liabilities and liquidity robustness) while the remaining two are assessed as 'Midrange' (revenue robustness and liabilities and liquidity flexibility). The 'High Midrange' risk profile reflects Barcelona's low risk of an operating balance shrinking below EUR371 million or debt servicing requirement overshooting the EUR75 million as projected in Fitch's rating case scenario in 2025.

Rating Case 2021-2025: We expect average annual operating revenue growth of 1.7%, under conservative assumptions, to test the resilience of Barcelona's ratios to an economic downturn, with real GDP growing by 4.0% in 2021-2025 after falling by 11.7% in 2020. This is against a backdrop of average operating spending growth of 2.3% in 2021-2025, which would shrink the operating balance to about EUR342 million on average in the same period (EUR418 million in 2020).

Debt Sustainability - 'aaa' Category: This assessment reflects a debt payback ratio (net direct risk/operating balance) - the primary metric of debt sustainability assessment - of under five years in 2025 ('aaa' category). This, together with forecast actual debt service coverage ratio (operating balance/debt service, including short-term debt maturities in the current year) of 4.9 years in 2025 ('aaa' category), justifies the assessment of Barcelona's debt sustainability at 'aaa'.

Spending increase: Fitch expects a deficit before net financing as a result of increasing capital and operating expenditures following the suspension of fiscal targets in 2021 by the Spanish state as part of its Covid-19 measures. We expect Barcelona's deficit to be about EUR175 million in 2021 and EUR65 million in 2022 (from a surplus of EUR109 million in 2020).

Neutral Additional Rating Factors: Barcelona's Long-Term IDR is capped by the sovereign. No additional rating factors have been identified.

ESG Considerations: ESG issues have a minimal impact on Barcelona's ratings, as reflected in a score of '3'.

Rating Sensitivities

Action on Sovereign: A negative rating action on Spain would be reflected in Barcelona's Long-Term IDRs as the latter are capped by the sovereign rating, while a positive rating action on Spain would positively affect Barcelona's IDRs.

Weaker Payback: A deterioration of the payback ratio to 13 years on a sustained basis in our rating case scenario could lead to a downgrade.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1
Long-Term senior unsecured	A-

Local Currency

Long-Term IDR	A-
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Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile

Fitch classifies the City of Barcelona as a 'Type B' local and regional government (LRG), as it covers debt service from cash flow on an annual basis. Barcelona is a Spanish municipality under a common regime, with responsibilities such as urbanisation, social welfare, security, culture and transport, among others. Its main resources come from local taxes and current transfers from the central government through shares in nationally collected taxes.

Financial Data

City of Barcelona		
(EURm)	2020p	2025rc
Payback (x)	1.3	3.6
Synthetic coverage (x) ^a	10	3.6
Actual coverage (x)	4.3	5
Fiscal debt burden (%)	20	45
Net adjusted debt	549	1,332
Operating balance	418	370
Operating revenue	2,736	2,973
Debt service	97	75
Mortgage-style debt annuity ^a	42	102

p: preliminary result

rc: Fitch's rating-case scenario

^a Fitch's calculation (see Appendix C)

Source: Fitch Ratings, City of Barcelona

Applicable Criteria

[International Local and Regional Governments Ratings Criteria \(October 2020\)](#)

Related Research

[Fitch Affirms City of Barcelona at 'A-'; Outlook Stable \(February 2021\)](#)

[Fitch Ratings: Coronavirus Puts Pressure on Spanish LRGs \(April 2020\)](#)

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Appendix A: Financial Data

City of Barcelona

(EURm)	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 25
Fiscal performance						
Taxes	1,147	1,131	1,172	1,198	1,218	1,302
Transfers received	1,082	1,105	1,129	1,191	1,211	1,294
Fees, fines and other Operating revenues	294	337	339	347	353	377
Operating revenue	2,523	2,572	2,640	2,736	2,782	2,973
Operating expenditure	-2,085	-2,165	-2,216	-2,318	-2,422	-2,603
Operating balance	438	407	424	418	360	370
Interest revenue	42	34	48	22	24	24
Interest expenditure	-18	-12	-18	-14	-16	-23
Current balance	463	430	454	426	368	371
Capital revenue	13	36	25	18	176	35
Capital expenditure	-442	-435	-370	-336	-719	-505
Capital balance	-429	-399	-346	-317	-543	-470
Total revenue	2,578	2,642	2,713	2,777	2,982	3,032
Total expenditure	-2,545	-2,612	-2,604	-2,668	-3,157	-3,131
Surplus (deficit) before net financing	34	31	109	109	-175	-99
New direct debt borrowing	130	54	1	102	269	151
Direct debt repayment	-128	-52	-57	-83	-93	-52
Net direct debt movement	2	3	-57	19	176	99
Overall results	36	33	52	128	1	0
Debt and liquidity						
Short-term debt	0	0	0	0	0	0
Long-term debt	836	836	780	800	976	1,332
Intergovernmental debt	0	0	0	0	0	0
Direct debt	836	836	780	800	976	1,332
Other Fitch-classified debt	0	0	0	0	0	0
Adjusted debt	836	836	780	800	976	1,332
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	137	145	167	169	267	392
Overall adjusted debt	973	981	947	969	1,243	1,724
Total cash, liquid deposits, and sinking funds	828	758	581	661	661	663
Restricted cash	0	605	403	410	588	663
Unrestricted cash	828	153	178	251	73	0
Net adjusted debt	8	683	602	549	903	1,332
Net overall debt	145	828	769	718	1,170	1,724
Enhanced net adjusted debt	8	683	602	549	903	1,332
Enhanced net overall debt	145	828	769	718	1,170	1,724
Memo						
Debt in foreign currency/direct debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Issued debt/direct debt (%)	11.4	11.4	12.2	11.9	9.7	7.1
Floating interest rate debt/direct debt (%)	48.1	49.0	45.3	36.1	36.1	36.1

rc: Fitch's rating case, based on conservative assumptions (see *Debt Sustainability - 'aaa' Category*). 2025 is the last year of the rating case scenario. Source: Fitch Ratings, City of Barcelona

Rating History

Date	Long-Term Foreign-Currency IDR	Long-Term Local-Currency IDR
25 Jan 18	A-	A-
2 May 14	BBB+	BBB+
8 Jun 12	BBB	BBB
2 Feb 12	A	A
10 Oct 11	AA-	AA-
1 Feb 06	AA+	AA+
21 Nov 01	AA	AA
18 Dec 97	AA-	AA-

Source: Fitch Ratings

City of Barcelona



Source: Fitch Ratings

Socioeconomic Indicators

	Barcelona	Spain
Population (m), 1 January 2020	1.6	47.0
2001-2020 population growth (%)	9.4	16.1
GDP per capita, 2019 (EUR) ^a	31,119	26,426
Unemployment rate, 2020 ^a	12.6	15.5
Poverty rate, 2019 (%) ^a	13.9	20.7

^aAt the regional level.
Source: Fitch Ratings, National Statistics Institute

Appendix B: Financial Ratios

City of Barcelona

	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 25
Fiscal performance ratios						
Operating balance/operating revenue (%)	17.4	15.8	16.1	15.3	12.9	12.4
Current balance/current revenue (%)	18.0	16.5	16.9	15.4	13.1	12.4
Operating revenue growth (annual % change)	1.0	1.9	2.6	3.6	1.7	2.9
Operating expenditure growth (annual % change)	0.5	3.8	2.4	4.6	4.5	3.2
Surplus (deficit) before net financing/total revenue (%)	1.3	1.2	4.0	3.9	-5.9	-3.3
Surplus (deficit) before net financing/GDP (%)	0.1	0.1	0.2	0.2	-0.3	-0.2
Total revenue growth (annual % change)	0.0	2.5	2.7	2.3	7.4	2.8
Total expenditure growth (annual % change)	0.0	2.6	-0.3	2.4	18.3	2.4
Debt ratios - type B						
Primary metrics						
Payback ratio (x)	0.0	1.7	1.4	1.3	2.5	3.6
Enhanced payback ratio (x)	0.0	1.7	1.4	1.3	2.5	3.6
Overall payback ratio (x)	0.3	2.0	1.8	1.7	3.3	4.7
Enhanced overall payback ratio (x)	0.3	2.0	1.8	1.7	3.3	4.7
Secondary metrics						
Fiscal debt burden (%)	0.3	26.6	22.8	20.1	32.5	44.8
Synthetic debt service coverage ratio (x)	744.8	8.0	8.9	9.9	5.2	3.6
Actual debt service coverage ratio (x)	3.0	6.4	5.6	4.3	3.3	4.9
Other debt ratios						
Liquidity coverage ratio (x)	8.2	19.5	7.7	6.1	5.6	-
Direct debt maturing in one year/total direct debt (%)	5.9	6.7	10.4	11.7	8.5	9.4
Direct debt (annual % change)	0.0	0.1	-6.7	2.5	22.0	8.0
Apparent cost of direct debt (interest paid/direct debt) (%)	2.1	1.4	2.2	1.8	1.8	1.8
Revenue ratios						
Tax revenue/total revenue (%)	44.5	42.8	43.2	43.1	40.8	42.9
Current transfers received/total revenue (%)	42.0	41.8	41.6	42.9	40.6	42.7
Interest revenue/total revenue (%)	1.6	1.3	1.8	0.8	0.8	0.8
Capital revenue/total revenue (%)	0.5	1.4	0.9	0.7	5.9	1.2
Expenditure ratios						
Staff expenditure/total expenditure (%)	14.7	15.2	16.0	15.9	13.7	15.0
Current transfers made/total expenditure (%)	43.3	45.7	47.2	49.1	42.1	46.2
Interest expenditure/total expenditure (%)	0.7	0.5	0.7	0.5	0.5	0.7
Capital expenditure/total expenditure (%)	17.4	16.7	14.2	12.6	22.8	16.1

rc: Fitch's rating case, based on conservative assumptions (see *Debt Sustainability - 'aaa' Category*). 2025 is the last year of the rating case scenario.
Source: Fitch Ratings, City of Barcelona

Appendix C: Data Adjustments

Scope of Analysis

The analysis is based on Barcelona’s general administration operating revenue and expenditure.

Net Adjusted Debt Calculation

Fitch’s overall adjusted debt includes Barcelona’s financial debt (EUR799.7 million at end-2020), as well as the public housing entity’s net debt (EUR169 million), included in the majority-owned GRE debt and other contingent liabilities. Net adjusted debt corresponds to the difference between overall adjusted debt and the year-end available cash viewed as “unrestricted” by Fitch (EUR250.5 million at end-2020).

The city’s available cash was EUR660.7 million at end-2020. Fitch considers that EUR410.2 million were restricted cash, which corresponds to the gap between receivables (net of provisions for difficult-to-collect revenue) and payables.

Synthetic Coverage Calculation

Fitch’s synthetic coverage calculation assumes a mortgage-style amortisation over 15 years of the entity’s net adjusted debt, using its average cost of debt. This synthetic calculation is used to assess ‘Type B’ LRGs’ debt sustainability.

Mortgage-Style Debt Annuity Calculation

	2020	2025rc
Net adjusted debt	549	1,332
Apparent cost of debt (%)	1.8	1.8
Amortisation period	15	15
Mortgage-style debt annuity	42	102

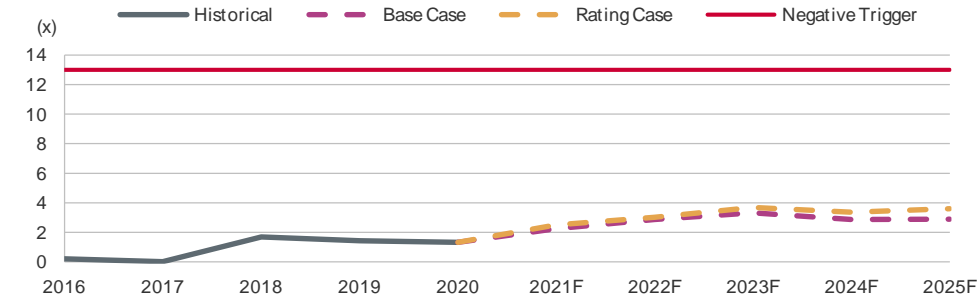
rc: Fitch’s rating-case scenario
Source: Fitch Ratings, City of Barcelona

Debt Sustainability Ratios:

- **Payback:** net adjusted debt/operating balance (x)
- **Actual DSCR:** operating balance/debt service, including short-term maturities in the current year (x)
- **Synthetic DSCR:** operating balance/mortgage style debt annuity; Fitch’s synthetic calculation (x; see *Appendix C*)
- **Fiscal debt burden:** net adjusted debt/operating revenue (%)

Appendix D: Rating Cases Comparison and Rating Sensitivities

Payback (x) - Fitch's Base and Rating Case Scenario



Source: Fitch Ratings, City of Barcelona

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