

28 Feb 2020 | Affirmation

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

---

Fitch Ratings-Barcelona-28 February 2020:

Fitch Ratings has affirmed the City of Barcelona's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlook.

### 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 'High-Midrange' risk profile reflects a low risk of operating balance shrinking below EUR475 million or debt servicing requirement overshooting the EUR111million as projected in Fitch's rating case scenario.

#### Revenue Robustness: 'Midrange'

Barcelona's revenue robustness is underpinned by regional GDP per capita that is 10% higher than the EU average in 2017, and an employment rate of 54.7%, higher than the national level (50.4%).

Barcelona's operating revenues are stable, evidenced by a CAGR in 2008-2018 of 1.2% despite lower national GDP CAGR in the same period of 0.8%. This is driven by a large 32.4% 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 fiscal valuation instead of regional GDP growth.

Fitch expects operating revenue to grow in its base case scenario on average 3.1% over the next five years, while in rating case for it to slow to 2.8%, based on lower GDP growth.

The dependence on a 'A-' rated counterparty for a material proportion of local revenue drives the 'Midrange' assessment of the robustness of Barcelona's revenue framework. Operating revenue is mostly composed of transfers from the central government (42% of operating revenue in 2019) through participation in some nationally collected taxes and the Complementary Fund for local entities.

#### 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 that would cover more than 200% of a reasonably expected decline of operating revenue of EUR90 million.

Barcelona has legal control of self-collected taxes (representing 52.7% of operating revenue in 2019), i.e. property tax, the major tax contributor (24.9% of operating revenue in 2019), with a rate ceiling set by the state. We estimate that increasing tax rates would increase operating revenue by about 46%.

Barcelona benefits from strong affordability of additional taxation, which would represent only a modest proportion of median saving per capita. Moreover, GDP per capita and the average provincial salary are above the national average. Regional GDP per capita is also above international standards (EU average).

Expenditure Sustainability: 'Stronger'

Barcelona's control of expenditure is underpinned by a low proportion of inflexible expenses, and the nature of local expenditure, which is mostly non-cyclical, apart from social spending, which represents just 12.1%.

Expenditure Adjustability: 'Stronger'

Barcelona's ability to reduce spending in response to shrinking revenue is underpinned by the Budgetary Stability Law (BSL). This enables the central government to control the local administration's spending and which has been strengthened in recent years. Prudential rules, particularly the compliance with deficit, debt and spending targets, help maintain the fiscal balance and have resulted in meeting stability targets.

Liability and Liquidity Robustness: 'Stronger'

This assessment is underpinned by a solid national framework for debt and liquidity management, with strict prudential borrowing limits. The city can only contract new debt in the financial markets up to 75bp above national government bonds, has a debt guarantee limit (authorised guarantees cannot exceed 30% of current revenue), a limit on debt-to-GDP (2% in 2020 ) and must seek explicit debt authorisation from the central government in certain cases of non-compliance.

Barcelona is exposed to floating interest rates (the share of unhedged floating-rate debt was 45.3% in 2019), which is mitigated by a low fiscal debt burden (net adjusted debt-to-operating revenue) of 23.1% in 2019 and a favourable debt structure. The city's debt is characterised by a good weighted average life of debt of 5.8 years in 2019, low average cost of debt of 1.5% in 2019, and non-reliance on short-term debt. Debt service is also well covered by the operating balance (2019: 1.4x) and the

city has limited off-balance sheet risks (21% of direct debt in 2019).

#### Liability and Liquidity Flexibility: 'Midrange'

Barcelona's unrestricted liquidity available is strong, covering more than 2x the short- and long-term debt that matured in 2019. 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 such liquidity support. This drives the 'Midrange' assessment of Barcelona's liability and liquidity flexibility.

#### Debt Sustainability Assessment: 'aaa'

Fitch expects the net payback ratio - the primary metric of debt sustainability assessment - to remain strong at below four years in 2024, according to our rating case scenario.

The secondary metrics - the actual debt service coverage ratio (operating balance/ debt service, including short-term debt maturities in the current year) and fiscal debt burden - should remain close to 7x and 22%-23%, respectively, in 2024. All these metrics under our 'aaa' debt sustainability assessment.

Barcelona's direct debt remained moderate between 2015 and 2018 at EUR836 million. In 2019, direct debt declined to EUR780.2 million, and in our rating case scenario, is expected to increase to around EUR836 million in 2020, driven by higher expected capital spending. We expect direct debt to stabilise in the following years, instead of falling, despite anticipated budgetary surpluses.

Barcelona is considered a type B local and regional government (LRG) in Fitch's criteria as it is required to cover debt service from operating balance and is subject to requirements imposed and enforced by the central government. The city is the administrative, political and economic centre of the Autonomous Community of Catalonia (BB/Stable), hosting 21.4 % of the region's population in 2019. The city has a diversified and wealthy economy and benefits from strong tourist activity.

#### Derivation Summary

Barcelona's standalone credit profile (SCP) is assessed at 'aaa', reflecting 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 (A-/Stable), and are therefore below the city's SCP.

Barcelona's Short-Term IDR is 'F1', resulting from a strong liquidity coverage ratio estimated at 6.6x in 2020 and 'Stronger' debt structure robustness and 'Midrange' debt flexibility.

## Key Assumptions

### KEY ASSUMPTIONS

Qualitative assumptions and Assessments:

Risk Profile: High Midrange

Revenue Robustness: Moderate

Revenue Adjustability: Stronger

Expenditure Sustainability: Stronger

Expenditure Adjustability: Stronger

Liabilities and Liquidity Robustness: Stronger

Liabilities and Liquidity Flexibility: Midrange

Debt sustainability: 'aaa' category

Support: none

Asymmetric Risk: none

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 2015-2019 figures and 2020-2024 projected ratios. The key assumptions for the scenario include:

- Nominal growth of operating revenue at 2.8% p.a. in the next five years
- Nominal growth of operating expenditure at 2.9% p.a. in the next five years
- Net capital balance of a negative EUR489 million in the next five years
- 2.3% cost of debt in the next five years

### RATING SENSITIVITIES

Barcelona's IDRs are constrained by the sovereign IDRs and are sensitive to changes in the sovereign ratings. Barcelona's IDR would also be downgraded on a sustained increase in leverage, particularly if the debt payback ratio worsens beyond 13 years.

#### Sources of Information

#### ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the ESG credit relevance is a score of 3. This means ESG issues are credit-neutral. Given the missions of the issuer and the institutional framework, these issues are minimally relevant to the rating.

Barcelona, City of; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta  
----; Short Term Issuer Default Rating; Affirmed; F1  
----; Local Currency Long Term Issuer Default Rating; Affirmed; A-; RO:Sta  
----senior unsecured; Long Term Rating; Affirmed; A-

#### Contacts:

Primary Rating Analyst

Julia Carner,

Senior Analyst

+34 93 323 8401

Fitch Ratings Espana. S.A.U.

Av. Diagonal 601

Barcelona 08028

Secondary Rating Analyst

Guilhem Costes,

Senior Director

+34 91 076 1986

Committee Chairperson

Raffaele Carnevale,

Senior Director

+39 02 879087 203

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email:  
athos.larkou@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### **Applicable Criteria**

[Rating Criteria for International Local and Regional Governments \(pub. 13 Sep 2019\)](#)

### **Additional Disclosures**

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

[Solicitation Status](#)

[Endorsement Policy](#)

ALL 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](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING <https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47ec-b8f1-183c01b51b08/Rating%20Definitions%20-%203%20May%202019%20v3%206-11-19.pdf> DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. 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](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. 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.

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.

---

**ENDORSEMENT POLICY** - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.