

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

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Fitch Ratings-Barcelona-06 September 2019:

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

Barcelona is a Spanish municipality that is required to cover debt service from cash flow 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 21.3% of the region's population in 2018. The city has a diversified and wealthy economy and benefits from strong tourist activity.

### Key Rating Drivers

#### Revenue Robustness Assessed as 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 54.3%, higher than the national level (49.7%). Barcelona's operating revenue is stable, driven by 32.4% of operating revenue being based on property and the tax on land value increase, which depends on a levy on assets based on fiscal valuation instead of regional GDP growth.

The dependence on a 'A-' rated counterparty for a material proportion of the local's revenue drives the Midrange assessment of the robustness of Barcelona's revenue framework. Operating revenue is mostly composed of transfers from the central government (44% of operating revenue in 2018) through participation in some nationally collected taxes and the Complementary Fund for local entities.

#### Revenue Adjustability Assessed as Stronger

We assess Barcelona's ability to generate additional revenue in response to possible economic downturns as strong, as using its discretionary tax leeway would increase revenue, covering 200% of a reasonably expected decline in operating revenue.

Barcelona has legal control of self-collected taxes (representing 52.6% of operating revenue in 2018), i.e. property tax, the major tax contributor (25.1% of operating revenue in 2018), with a

maximum established by the state. We estimate that increasing tax rates would increase operating revenue by between 16% and 17%.

There is strong affordability of additional taxation as it would represent 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 Assessed as Stronger

Barcelona's control of expenditure is underpinned by the low proportion of inflexible expenses, and the nature of local expenditure, which is mostly non-countercyclical. Social spending, which is counter-cyclical, represents just 14.5%.

Fitch expects continuity of spending management following the local elections in May 2019, in which Barcelona en Comu and the Partit dels Socialistes de Catalunya (PSC) signed an agreement (with 18 seats of a total 41).

#### Expenditure Adjustability Assessed as Stronger

Fitch assesses the municipality's ability to reduce spending in response to shrinking revenue as Stronger, underpinned by the Budgetary Stability Law (BSL). This enables the central government to control the local administration's spending and 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 Assessed as Stronger

This assessment is underpinned by a solid national framework for debt and liquidity management. Barcelona is exposed to floating interest rates (the share of floating unhedged rates was 49% in 2018), which is mitigated by a low fiscal debt burden (net adjusted debt to operating revenue) of 26.6% in 2018 and favourable debt structure. The city's debt is characterised by a good weighted average life of debt of 6.3 years in 2018, low average cost of debt of 1.5% in 2018, and low reliance on short-term debt.

Debt service is also well covered by the operating balance (2018: 6.4x) and the city has a low level of off-balance sheet risks (representing 17.2% to direct risk in 2018).

#### Liability and Liquidity Flexibility Assessed as Midrange

Barcelona's unrestricted liquidity available is strong, covering the short- and long-term debt servicing maturing in 2019 by more than two times.

The city does not have committed liquidity lines, but has strong access to financial markets in case of need. However, the city is exposed to the national environment with counterparty risk between 'BBB-' and 'A+', which 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 stay strong below four years, in 2023, according to the rating case scenario.

The secondary metrics, the actual debt service coverage ratio (operating balance/debt service, including short-term debt maturities) and fiscal debt burden will remain close to 4.6x and 24%-27%, respectively, in 2023. All these metrics justify the local debt sustainability 'aaa' assessment.

#### Derivation Summary

The affirmation is based on a High-Midrange assessment of the risk profile and a strong 'aaa' debt sustainability assessment. This leads to Barcelona's standalone credit profile (SCP) being assessed at the 'aaa'. Fitch does not apply any asymmetric risk. Barcelona's IDRs are capped by the sovereign IDR (A-/Stable), and so are below its SCP.

Barcelona's Short-Term IDR is 'F1', resulting from a strong liquidity coverage ratio estimated at 8.8x in 2018 and debt structure robustness and flexibility assessed at Stronger and Midrange.

#### Key Assumptions

Fitch's key assumptions within our rating case for the issuer include:

- Nominal growth of operating revenue at 1.2% in the next five years
- Nominal growth of operating expenditure at 2.2% in the next five years
- Proportion of capex to remain around 13% of the local government's total expenditure 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 be downgraded following a continuous increase in leverage, particularly a deterioration of the payback ratio beyond 13 years.

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

Vladimir Redkin,

Senior Director

+7 495 956 2405

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 \(pub. 09 Apr 2019\)](#)

[Short-Term Ratings Criteria \(pub. 02 May 2019\)](#)

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