

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 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 (revenue robustness and liabilities and liquidity flexibility) are assessed as 'Midrange'. The 'High Midrange' risk profile reflects Barcelona's low risk of an operating balance shrinking below EUR250 million or debt servicing requirement overshooting the EUR69 million as projected in Fitch's rating case scenario in 2024.

Rating Case 2020-2024: We expect average annual operating revenue growth of 1.9%, under conservative assumptions to test the resiliency of Barcelona's ratios to an economic downturn, with real GDP falling by 9.6% in 2020 and growing by 2.9% in 2021-2024. This is against a backdrop of average operating spending growth of 2.4% in 2020-2024, which would shrink the operating balance to about EUR318 million (EUR424 million in 2019).

Debt Sustainability - 'aaa' Category: This assessment reflects a payback ratio (net adjusted debt/operating balance) that Fitch expects to be below five years in the medium term in our rating case scenario, an actual coverage ratio (operating balance/debt service, including short-term maturities in the current year) expected to be about 5.8 years in 2024 and a fiscal debt burden (net adjusted debt-to-operating revenue) expected to be close to 40% in 2024.

Fitch's rating case scenario is based on prudent assumptions, especially on revenue items (of a lower 300bp yoy growth) that are linked to the economic cycle and financial risk stresses.

Coronavirus Implications: Fitch expects an operating balance contraction as a result of the coronavirus-related deterioration in economic activity. We expect Barcelona's operating balance to contract to about EUR276 million in 2020 and EUR257 million in 2021 (from EUR446 million on average in 2015-2019). This is due to expected lower revenue and already increased budgeted expenditure and additional pandemic-related costs.

Neutral Additional Rating Factors: Barcelona's Long-Term IDR is capped by the sovereign. In addition, no additional risk 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.

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.

Public Finance

Local and Regional Governments

Spain

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 urbanism, social, wellness, security, culture, 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)	2019	2024rc
Payback (x)	1.4	2.8
Synthetic coverage (x) ^a	8.9	4.5
Actual coverage (x)	5.6	5.8
Fiscal debt burden (%)	22.8	38.5
Net adjusted debt	602.2	1,111.4
Operating balance	424.2	397.6
Operating revenue	2,639.9	2,887.2
Debt service	75.3	68.8
Mortgage-style debt annuity ^a	48	87

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 - Outside the United States \(September 2019\)](#)

Related Research

[Fitch Affirms City of Barcelona at 'A-'; Outlook Stable \(February 2020\)](#)

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

[Institutional Framework for Spanish Subnational \(January 2012\)](#)

Analysts

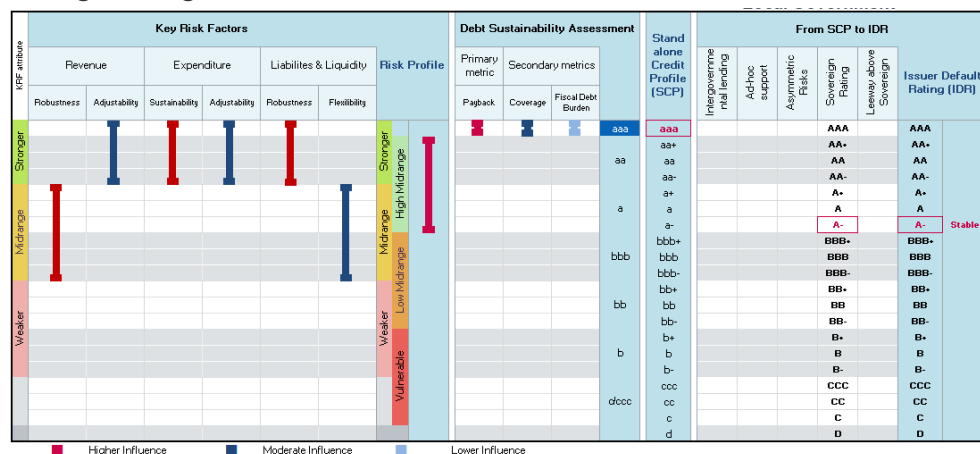
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Rating Synopsis

Barcelona's SCP is assessed at 'aaa', reflecting a combination of a 'High Midrange' risk profile and debt sustainability assessed in the 'aaa' category under Fitch's rating case scenario. Barcelona's IDRs are capped by the sovereign's (A-/Stable), and are therefore below the city's SCP. Fitch does not apply any asymmetric risk.

Rating Building Blocks Overview



Issuer Profile

Institutional Framework

Barcelona is considered as a 'Type B' 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 municipalities' funding is described in its latest modification (Royal Decree 2/2004); the initial law regulating local funding was approved in December 1988. This amendment simplified the funding system, dividing revenue into taxes, fees, public prices and special contributions, and current transfers. Most of Barcelona's current transfers come from the central government through participation in nationally collected taxes.

The city's responsibilities are set out in the national law governing cities of more than 50,000 inhabitants. These responsibilities include: street lighting, cemeteries, waste collection and treatment, street cleaning, water supply and treatment, sewage, traffic control, street paving, libraries, parks and gardens, markets, civil protection, social services, fire prevention and fire brigades, sports centres, and urban planning and urban transport.

Socio-Economic Profile

The city is the capital of the region of Catalonia (BB/Stable) and belongs to the provincial territory of Barcelona. Its registered population is 21.3% of the region's population and 28.8% of that of the province. In January 2019, the city had a registered population of 1,636,762 inhabitants, which has gradually increased since 1996, mainly due to the large rise in immigrants. Barcelona is the second-largest and one of the most densely populated cities in Spain at 15,992.2 inhabitants per square kilometre.

Barcelona's socio-economic profile is strong, as it has a diversified and wealthy economy. The city also benefits from its important tourism position in Europe, with a high and growing number of airline passengers (52.7 million in 2019) and growing overnight stays (21.3 million in 2019). The city hosts a port with high cruise passenger's traffic in the Mediterranean and important shipping traffic. The city is the administrative, political and economic centre of Catalonia. The significant role of services in the city is underlined by the number of SMEs, although it is also home to many multinationals. The provincial and regional economies are stronger than the national economy, shown by a GDP per capita 17.7% above the national average in 2019 and lower unemployment and poverty rates.

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 2019	1.6	47.0
2000-2019 population growth (%)	9.4	16.1
GDP per capita, 2019 (EUR) ^a	31,110	26,438
Unemployment rate, 2Q2020 ^a	12.8	15.3
Poverty rate, 2019 (%) ^b	13.9	20.7

^a Regional level
^b Poverty rate of the regional level
Source: Fitch Ratings, National Statistics Institute

The economic recession triggered by the coronavirus pandemic will hit Barcelona hard, like other Spanish municipalities. This will lead to a sharp decline in tax and transfer revenue and an increase in social spending, which we factor in our rating case scenario.

Risk Profile: High Midrange

Barcelona's risk profile is assessed at 'High Midrange', reflecting Barcelona's low risk of an operating balance shrinking below EUR250 million or debt servicing requirement overshooting the EUR69 million as projected in Fitch's rating case scenario in 2024. This reflects a 'Stronger' assessment on four of the six key risk factors: revenue adjustability, expenditure sustainability and adjustability, liabilities and liquidity robustness. Revenue robustness and liabilities and liquidity flexibility are assessed as 'Midrange'.

City of Barcelona – Risk Profile Assessment

Risk profile	Revenue robustness	Revenue adjustability	Expenditure sustainability	Expenditure adjustability	Liabilities & liquidity robustness	Liabilities & liquidity flexibility
High Midrange	Midrange	Stronger	Stronger	Stronger	Stronger	Midrange

Source: Fitch Ratings

Revenue Robustness: 'Midrange'

Revenue Volatility

Fitch views Barcelona's potential revenue volatility as moderate. Barcelona's revenue robustness is underpinned by a regional GDP per capita that is 1% higher than the EU average in 2018, and an unemployment rate of 51%, higher than the national level (47%) in 2Q20.

Barcelona's operating revenues are stable, evidenced by a CAGR in 2008-2018 of 1.2% despite a lower national GDP's 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 increases in land values, of which are subject to a levy on assets based on the number of assets, their fiscal values and the tax rates instead of GDP growth. However, we expect other local taxes and fees and fines to be hit by the coronavirus pandemic in 2020, which we factor into our rating case scenario.

The dependence on an '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 (41.3% of operating revenue in 2019) through participation in some nationally collected taxes and the Complementary Fund for local entities.

Revenue Growth Prospects

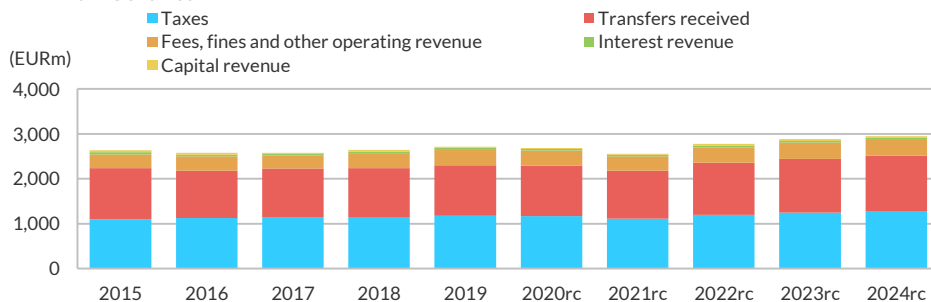
Transfers are correlated to economic cycles, but a decline of national GDP would affect revenue with a two-year lag, due to the funding system. As a result, we expect them to be hit by the economic recession triggered by the pandemic in 2021-2022. Fitch expects operating revenue to grow in its base case scenario on average by 2.2% over the next five years, above the 1.3% expected average nominal GDP growth, due to the resiliency of the property tax to revenue falls, as it is a counter-cyclical tax.

Revenue Breakdown, 2019

	Operating revenue (%)	Total revenue (%)
Property tax	24.9	24.2
Tax on economic activity	3.5	3.4
Tax on motor vehicles	2.2	2.1
Tax on construction activities	1.8	1.8
Tax on increases in land values	7.5	7.3
Other taxes	4.5	4.3
Current transfers	42.8	41.6
Fees and fines	12.8	12.5
Operating revenue	100	97.3
Financial revenue	-	1.8
Capital revenue	-	0.9

Source: Fitch Ratings, City of Barcelona

Revenue Structure



rc:Fitch's Rating case scenario
Source: Fitch Ratings, City of Barcelona

Revenue Adjustability: 'Stronger'

Fiscal Flexibility

We assess Barcelona's ability to generate additional revenue in response to possible economic downturns as strong. Barcelona has discretionary tax leeway to increase revenue by EUR1.2 billion covering more than 200% of the maximum revenue decline from peak-to-trough in the past 10 years. The maximum revenue decline of EUR90 million (or 4%) was observed in 2010 versus 2009. The expected decline in 2020 and in 2021 of 0.4% and 4.5% as a result of the pandemic is slightly above this, but Fitch considers this as an exceptional situation.

Barcelona has legal control on the property tax, economic activity tax, motor vehicles tax, construction activities tax and increases in land value tax, which represent 39.9% of operating revenue in 2019, like other Spanish municipalities under a common regime. However, the Spanish law provides a ceiling on rates for these local taxes. An increase of the property tax rate to its legal maximum (at 1.3% from the current municipal tax rate of 1.66%) would have increased operating revenue by EUR1.2 billion, or 46% in 2020. The taxes on construction and on increases in land value rates are currently at their maximum legal levels of 4% and 30%, respectively.

Affordability

Barcelona benefits from the strong affordability of additional taxation, evidenced by the better local and regional socio-economic indicators compared with the national average, in relation to GDP per capita, employment and poverty rates.

Expenditure Sustainability: 'Stronger'

Ability to Control

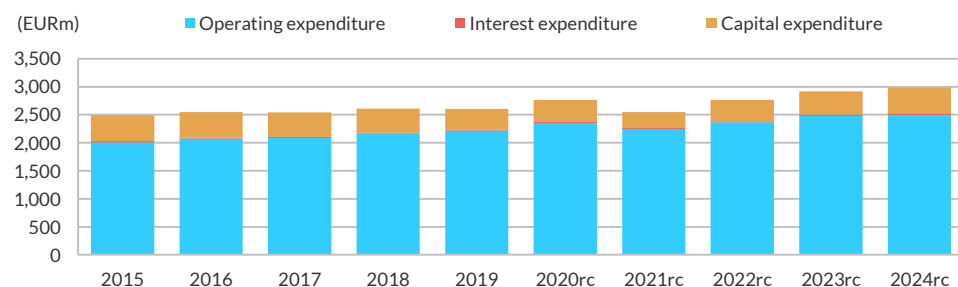
Barcelona exercises a good degree of control over expenditure, given that in 2014-2019 the expenditure's CAGR growth was 0.1% on average, below the revenue's growth (0.4%). Staff costs (20.7%) and current transfers (27.2%) were the main drivers of operating expenditure (opex) growth, especially transfers to municipal entities among others. However, goods services increased by a lower accumulative 4.7% in this period.

Fitch's rating case scenario envisages nominal opex growth at an average of 2.4% in 2020-2024, taking into consideration an already increased budgeted expenditure in 2020 (in environmental, social services, housing and education) and additional pandemic-related costs, especially in 2020.

Non-Cyclical Spending

Barcelona's responsibilities are mainly non-cyclical in nature (87.9% of total spending, see table *Expenditure Breakdown, 2019*). Social spending is just 11.4% of total spending and is a counter-cyclical item that tends to grow when unemployment rises; we expect it to increase in 2020-2021 due to the economic recession triggered by the pandemic.

Expenditure Structure



rc:Fitch's Rating case scenario
Source: Fitch Ratings, City of Barcelona

Expenditure Adjustability: 'Stronger'

Effective Budget Balance Rules

Fitch assesses Barcelona's ability to reduce spending in response to shrinking revenue as 'Stronger', underpinned by the Budgetary Stability Law with balanced budgets over the past 10 years.

This enables the central government to monitor the local administration's spending, which has been strengthened in recent years. Prudential rules set by the central government help maintain the fiscal balance and have resulted in meeting constantly with stability targets until 2019. The municipality aims to comply with the prudential rules for 2021-2024 of a non-deficit, current balance to current revenue of 15% and a debt to current revenue of 60%.

Cost Flexibility

The assessment also reflects a low proportion of mandatory and inflexible items, essentially coming from social spending (11.4% of total spending in the 2020 budget, see *Expenditure Breakdown, 2019*) and staff costs, as most of the municipality's employees have the status of civil servants (15.6% of total spending in 2019).

Fitch considers flexibility on Barcelona's capital expenditure (capex; 13.9% of total spending in 2019, see *Expenditure Breakdown, 2019* and 13.5% in the rating case scenario in 2020-2024) to be significantly higher than on opex as a significant share of capital spending could be postponed or scaled down in case of need. The delayed execution of the increased level of budgeted capex at EUR563 million for 2020 (rising by a significant 52% from end-2019) is an evidence of this.

We consider the municipality to have a high level of service and investments and that its ability to reduce it is stronger compared with national peers.

Expenditure Breakdown, 2019

	Opex (%)	Total expenditure (%)
Urbanism ^a	23.0	18.0
Social ^a	14.5	11.4
Wellness ^a	14.6	11.4
Security ^a	13.6	10.6
Transport ^a	7.8	6.1
Education and culture ^a	12.0	9.4
Other	14.5	33.2
Staff costs	18.7	15.6
Goods and services	25.8	21.5
Current transfers	55.4	46.2
Operating expenditure	100.0	83.3
Financial charges	0.8	0.7
Capital expenditure	16.7	13.9

^a 2020 budget
Source: Fitch Ratings, City of Barcelona

Debt Analysis

	End-2019
Fixed rate (% of direct debt)	54.7
Short term debt (% of direct debt)	0.0
Apparent cost of debt (%)	1.5
Average maturity (year)	5.8
Debt service (2019, EURm)	75.3
Operating balance (2019, EURm)	424.2

Source: Fitch Ratings, City of Barcelona

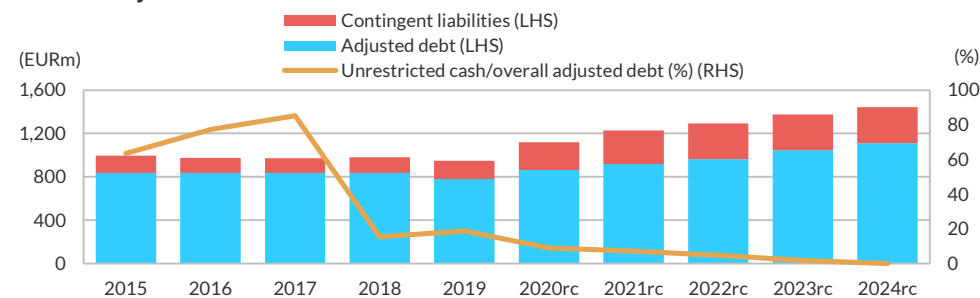
Liquidity

(EURm)	End-2019
Available cash	581.3
Unrestricted cash ^a	178.0
Undrawn committed credit lines	0.0

^a Fitch's calculation (see Appendix C)
Source: Fitch Ratings, City of Barcelona

Liabilities & Liquidity Robustness: 'Stronger'

Overall Adjusted Debt Structure



rc: Fitch's Rating case scenario
Source: Fitch Ratings, Issuer

Debt Framework

This assessment is underpinned by national prudential borrowing limits. The city can only contract new debt in the financial markets if the cost does not exceed 75bp the national government bonds, has a limit (30% of current revenue) on grantable guarantees and must seek explicit debt authorisation from the central government in certain cases of non-compliance.

Barcelona's debt carries little risk; it has exposure to floating interest rates (the share of unhedged floating rate debt by 45.3% in 2019), which is mitigated by a low fiscal debt burden of 22.8% in 2019. The city's debt is characterised by a good weighted average life of debt of six years, low average cost of debt of 1.5% and non-reliance on short-term debt.

The city's annual debt maturities are below the expected current balances, with an annual average capital repayment of EUR55.7 million until 2033. It has bullet repayments in 2020, 2021, 2022, 2026, 2027 and 2029 from four loans, one sustainable bond and an issued private placement. However, the bullet repayments' risk is mitigated, in Fitch's view, by the modest amount of these maturities in absolute terms and as a proportion of Barcelona's cash flow.

Contingent Liabilities

Barcelona's majority-owned government-related entities' debt mainly comprises the municipal housing institute's financial debt. In July 2017, the entity formalised a loan of EUR125 million with the European Investment Bank and EUR59 million with the European Development Bank, to construct 2,303 social housings for rent. Therefore, the debt of this entity is expected to grow until 2022 to EUR330.2 million from EUR166.9 million at end-2019. The construction's funding is as follows: 50% from the European Investment Bank, 31% from Barcelona and 19% with from European Development Bank.

Fitch believes there is a low risk that off-balance-sheet liabilities may suddenly emerge and jeopardise levels of anticipated interest and principal repayment pressurising repayment capabilities.

Liabilities & Liquidity Flexibility: 'Midrange'

Internal Liquidity

Barcelona's unrestricted available liquidity is strong, covering more than 1x the short- and long-term debt maturing in 2020 and between 0.4x and 0.7x over the medium term. At end-2019, the municipality had EUR581.3 million available cash, including EUR178 million considered as unrestricted and available for debt service by Fitch (see Appendix C). Barcelona also has a stable and predictable cash flow, given the monthly stable revenue allocations received from the central government under the funding system.

Market Liquidity

The city does not have committed liquidity lines, a factor which contributes to the 'Midrange' assessment of Barcelona's liability and liquidity flexibility.

Debt Sustainability of 'aaa'

Debt Sustainability Assessment- City of Barcelona

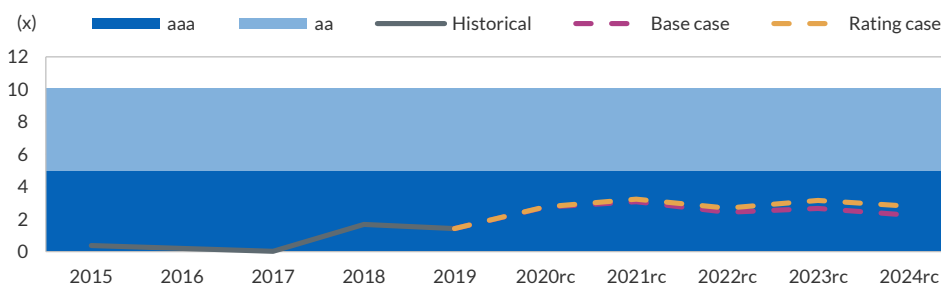
	Primary metric	Secondary metrics	
	Payback (x)	Coverage (x)	Fiscal debt burden (%)
aaa	$X \leq 5$	$X \geq 4$	$X \leq 50$
aa	$5 < X \leq 9$	$2 \leq X < 4$	$50 < X \leq 100$
a	$9 < X \leq 13$	$1.5 \leq X < 2$	$100 < X \leq 150$
bbb	$13 < X \leq 18$	$1.2 \leq X < 1.5$	$150 < X \leq 200$
bb	$18 < X \leq 25$	$1 \leq X < 1.2$	$200 < X \leq 250$
b	$X > 25$	$X < 1$	$X > 250$

Source: Fitch Ratings

In our rating case scenario, we expect Barcelona's payback ratio to be below five years in the medium term, or in the 'aaa' category (2019: 1.4x), and an actual debt service coverage ratio expected to be about 5.8 years in 2024 in this scenario, or in the 'aaa' category. The fiscal debt burden would remain low, at about 38.5%, or compatible with an 'aaa' category, but has a lower weight in our final assessment. Overall, the combination of debt metrics leads us to an 'aaa' debt sustainability assessment.

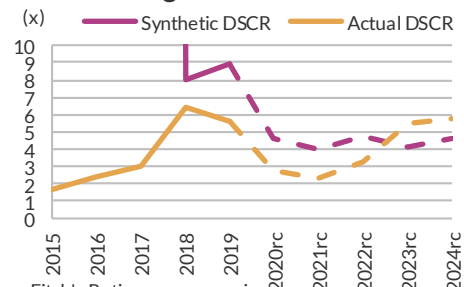
Barcelona's debt service is also well covered by the operating balance (2019: 1.4 years) and the city has limited off-balance-sheet risks (21% of direct debt in 2019).

Payback Ratio - Fitch's Base and Rating Case Scenarios



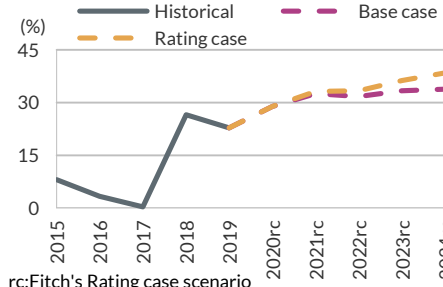
rc:Fitch's Rating case scenario
Source: Fitch Ratings, City of Barcelona

Synthetic and Actual Coverage Ratios - Fitch's Rating Case Scenario



rc:Fitch's Rating case scenario
Source: Fitch Ratings, City of Barcelona

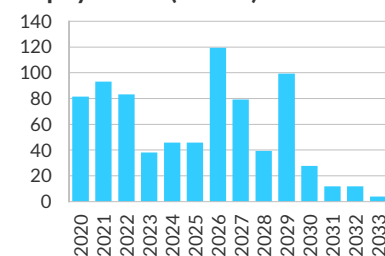
Fiscal Debt Burden - Fitch's Base and Rating Case Scenarios



rc:Fitch's Rating case scenario
Source: Fitch Ratings, City of Barcelona

Fitch's rating case scenario ends in 2024 and is based on the assumptions below. Fitch does not differentiate currently between a base case scenario and a rating case scenario with additional stress factors due to the exceptional circumstance linked to the pandemic.

Debt Amortisation Schedule as of 31 December 2019 - Capital Repayments (EURm)



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 (%)

Debt Sustainability Ratios - Fitch's Rating Case Scenario

	2019	2024rc
Payback (x)	1.4	2.8
Actual coverage (x)	5.6	5.8
Synthetic coverage (x)	8.9	4.5
Fiscal debt burden (%)	22.8	38.5

rc: Fitch's rating case
Source: Fitch Ratings, City of Barcelona

Fitch's Rating Cases Main Assumptions

	2015-2019 CAGR	2020-2024 CAGR Rating Case
National nominal GDP growth (Fitch's assumptions) ^a	3.8	0.7
Operating revenue growth (%)	0.8	1.8
Tax revenue growth (%)	1.3	1.8
Central Government Primary Balance / GDP (%) ^a	-1.4	-
Transfers received growth (%)	-0.2	2.1
GDP Deflator ^a	0.9	1.4
Operating expenditure growth (%)	2.0	2.4
Net capital expenditure (average per year; EURm)	-401	-358
Spain 10-Year Government Bond Yield (End-January 2020) ^a	0.262	-
Apparent cost of debt (%), 2019	2.2	2.0

^a Sovereign assumptions come from Fitch's *Global Economic Outlook* (published on 29 June 2020) for 2020-2022.
Source : Fitch Ratings

We have revised our rating case scenario to take into account the impact of the expected economic recession triggered by the coronavirus pandemic. In the case of Barcelona, the main expected effects are a sharp drop of EUR43.5 million and of EUR200 million in state's transfers in 2020 and in 2021, a drop in tax proceeds in 2020-2022 and an increase in social spending by close to 1.9% between 2020 and 2021.

Sound Operating Performance and Debt Ratios

Barcelona's fiscal performance is strong, with an operating balance structurally above EUR400 million since 2010, representing close to 16.1% of operating revenue in 2019. Barcelona's operating revenue's CAGR was moderate at 0.8% in 2015-2019, driven by a tax increase, while the current transfers declined in the same period by 0.2%, principally from local entities.

In general, the property tax trend has been positive since 2015. The government initiated a full cadastral revaluation of real-estate stock with effects from 2018 with a global increase of cadastral values of 19% in 10 years. However, the property tax collected declined by EUR17 million in 2018, given the immediate application of new cadastral values for real-estate stock whose values were reduced. Otherwise, for real-estate stock whose values were increased, their cadastral values will gradually go up by 10% each year. The increases in land value tax also declined in 2018, as the number of transaction of higher volumes declined from 2017. Moreover, the construction tax grew in 2015-2019, due to the urban sector's positive trend.

Barcelona is also characterised by a low level of debt, with a fiscal debt burden of 22.8% in 2019. This also translates in a strong payback ratio (1.4 years in 2019) and actual debt service coverage ratio (5.6 years in 2019).

The operating revenue's evolution will mainly depend on that of the property tax (24.9% of operating revenue in 2019) being linked to the number of assets, their fiscal values and tax rates. Other local taxes, principally the tax on construction activities and tax on increases in land values, account for 9.3% of operating revenue in 2019, and the state's transfers (41.3% operating revenue in 2019) are linked to the economic cycle.

In our rating case scenario, the operating balance would vary between EUR257 million and EUR397 million a year in 2020-2024, a result of our assumptions of a drop in tax items, transfers and increase in social spending. We assume a 0.4% drop of operating revenue as of 2020, based on a reduction of funds from the central government (by EUR43.5 million) and from taxes. In 2021, the operating revenue is expected to significantly decline by 4.9%, basically based due to the state's funds reduction (by EUR200 million yoy). The 2022 operating revenue will be affected by an estimated negative revenue settlement from 2020 of EUR400 million that the city will need to return in 20 years.

However, the payback ratio would remain sound, structurally below 4x until 2024 in our scenario. Much will depend on the evolution of the real-estate market after the pandemic and

on the magnitude of the national economic rebound, which will drive the state transfer's proceeds as of 2021.

Capex Program

Barcelona's capex is moderate, at close to EUR401 million a year on average in 2015-2019, or 13.9% of total expenditure in 2019. The city's self-financing capacity (current balance + capital revenue / capex) was above 100% on average over this period, which led to a reduction of direct debt to EUR780.2 million at end-2019, from EUR835.7 million at end-2015.

In our rating case scenario, we assume capex to be close to EUR400 million a year on average, equivalent to 14% of total expenditure, and the capital balance to be close to EUR358 million a year. Accordingly, in our scenario, we expect the municipality's net adjusted debt to grow to about EUR1.1 billion at end-2024 from EUR602 million at end-2019, as the city would increase its capex and opex in a context of lower revenue received. Much will depend on the evolution of operating revenue, and the municipality's decision relative to investments and opex.

Sovereign Cap and Other Rating Factors

Barcelona's final rating is capped by the sovereign rating. This reflects the high influence the state has on the LRG's funding, responsibilities and borrowing rules. The other rating factors are neutral to Barcelona's ratings.

From SCP to IDR: Factors Beyond the SCP

SCP	Sovereign Rating	Support				Asymmetric Risks	Cap	Notches above the Sovereign	IDR
		Intergovern. Financing	Ad-hoc Support	Floor					
aaa	A-	-	-	-	-	A-	-	A-	

Source: Fitch Ratings

Short-Term Rating Derivation

Barcelona's Short-Term IDR is 'F1', resulting from a strong liquidity coverage ratio (LCR) estimated at 4.6 years in 2020 and an assessment of 'Stronger' for liabilities and liquidity robustness and 'Midrange' for liabilities and liquidity flexibility.

Peer Analysis

Peer Table

Spanish Peers	Risk profile	Primary metric (x)rc	SCP	IDR	Outlook
City of Barcelona	High Midrange	2.8	aaa	A-	Stable
City of Pamplona	High Midrange	0.2	aaa	A-	Stable
International Peers					
City of Porto	Midrange	2.9	aa	BBB	Stable
City of Milan	Midrange	8.4	a-	BBB-	Stable
City of Strasbourg	High Midrange	6.7	aa	AA	Negative

rc: Fitch's rating case scenario

Source: Fitch Ratings

The City of Barcelona compares well with French municipalities in terms of risk profiles. This reflects similarities in terms of scope of responsibilities, revenue-mix and debt and liquidity characteristics. However, it has a better risk profile than Portuguese and Italian municipalities, mainly reflecting higher taxes and spending flexibility.

Barcelona's SCP (aaa) is similar to that of the City of Pamplona and is above to that of the Cities of Strasbourg (aa) and Milan (a-).

The differences in the final ratings also reflect the differences in sovereign ratings and institutional frameworks. In Italy, France and Portugal the municipalities' ratings are also capped by those of the sovereign, reflecting a higher degree of interdependence between national and subnational finances.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – 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.

For more information on our ESG Relevance Scores, visit <https://www.fitchratings.com/site/esg>.

Appendix A: Financial Data

City of Barcelona

(EURm)	31 Dec 16 Original	31 Dec 17 Original	31 Dec 18 Original	31 Dec 19 Preliminary	31 Dec 2020 Rating case	31 Dec 24 Rating case
Appendix A - financial data						
Fiscal performance						
Taxes	1,128	1,147	1,131	1,172	1,168	1,282
Transfers received	1,051	1,082	1,105	1,129	1,124	1,234
Fees, fines and other operating revenues	319	294	337	339	338	371
Operating revenue	2,498	2,523	2,572	2,640	2,629	2,887
Operating expenditure	-2,075	-2,085	-2,165	-2,216	-2,353	-2,490
Operating balance	423	438	407	424	276	397
Interest revenue	40	42	34	48	37	33
Interest expenditure	-19	-18	-12	-18	-17	-23
Current balance	444	463	430	454	296	407
Capital revenue	41	13	36	25	19	30
Capital expenditure	-452	-442	-435	-370	-393	-472
Capital balance	-411	-429	-399	-346	-374	-442
Total revenue	2,579	2,578	2,642	2,713	2,685	2,950
Total expenditure	-2,545	-2,545	-2,612	-2,604	-2,763	-2,985
Surplus (deficit) before net financing	33	34	31	109	-78	-35
New direct debt borrowing	161	130	54	1	164	111
Direct debt repayment	-157	-128	-52	-57	-81	-46
Net direct debt movement	3	2	3	-57	83	65
Overall results	37	36	33	52	5	30
Debt and liquidity						
Short-term debt	0	0	0	0	0	0
Long-term debt	836	836	836	780	863	1,111
Intergovernmental debt	0	0	0	0	0	0
Direct debt	836	836	836	780	863	1,111
Other Fitch-classified debt	0	0	0	0	0	0
Adjusted debt	836	836	836	780	863	1,111
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	139	137	145	167	255	330
Overall adjusted debt	975	973	981	947	1,118	1,441
Total cash, liquid deposits, and sinking funds	754	828	758	581	586	782
Restricted cash	0	0	605	403	484	782
Unrestricted cash	754	828	153	178	102	0
Net adjusted debt	82	8	683	602	761	1,111
Net overall debt	221	145	828	769	1,016	1,441
Enhanced net adjusted debt	82	8	683	602	761	1,111
Enhanced net overall debt	221	145	828	769	1,016	1,441
Memo						
Debt in foreign currency/direct debt (%)	0.0	0.0	0.0	0.0	0.0	0.0
Issued debt/direct debt (%)	7.2	11.4	11.4	12.2	9.1	8.5
Floating interest rate debt/direct debt (%)	33.0	48.1	49.0	45.3	54.7	54.7

rc: Fitch's rating case, based on conservative assumptions (see Debt Sustainability assessed at 'aaa'). 2024 is the last year of the rating case scenario.
Source: Fitch Ratings, City of Barcelona

Appendix B: Financial Ratios

City of Barcelona

	31 Dec 16	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 24
	Original	Original	Original	Preliminary	Rating case	Rating case
Appendix B - financial ratios						
Fiscal performance ratios						
Operating balance/operating revenue (%)	16.9	17.4	15.8	16.1	10.5	13.8
Current balance/current revenue (%)	17.5	18.0	16.5	16.9	11.1	13.9
Operating revenue growth (annual % change)	-1.7	1.0	1.9	2.6	-0.4	2.9
Operating expenditure growth (annual % change)	3.5	0.5	3.8	2.4	6.2	0.3
Surplus (Deficit) before net financing/total revenue (%)	1.3	1.3	1.2	4.0	-2.9	-1.2
Surplus (Deficit) Before Net Financing/GDP (%)	0.1	0.1	0.1	0.2	-0.2	-0.1
Total revenue growth (annual % change)	-2.1	0.0	2.5	2.7	-1.0	2.4
Total expenditure growth (annual % change)	2.1	0.0	2.6	-0.3	6.1	2.3
Debt ratios - Type B						
Primary metrics						
Payback ratio (x)	0.2	0.0	1.7	1.4	2.8	2.8
Enhanced payback ratio (x)	0.2	0.0	1.7	1.4	2.8	2.8
Overall payback ratio (x)	0.5	0.3	2.0	1.8	3.7	3.6
Enhanced overall payback ratio (x)	0.5	0.3	2.0	1.8	3.7	3.6
Secondary metrics						
Fiscal debt burden (%)	3.3	0.3	26.6	22.8	29.0	38.5
Synthetic debt service coverage ratio (x)	65.3	744.8	8.0	8.9	4.6	4.5
Actual debt service coverage ratio (x)	2.4	3.0	6.4	5.6	2.8	5.8
Other debt ratios						
Liquidity coverage ratio (x)	6.0	8.2	19.5	7.7	4.6	6.1
Direct debt maturing in one year/total direct debt (%)	15.1	5.9	6.7	10.4	10.8	4.1
Direct debt (annual % change)	0.0	0.0	0.1	-6.7	10.6	6.2
Apparent cost of direct debt (interest paid / direct debt) (%)	2.2	2.1	1.4	2.2	2.1	2.1
Revenue ratios						
Tax revenue/total revenue (%)	43.7	44.5	42.8	43.2	43.5	43.5
Current transfers received/total revenue (%)	40.8	42.0	41.8	41.6	41.9	41.8
Interest revenue/total revenue (%)	1.6	1.6	1.3	1.8	1.4	1.1
Capital revenue/total revenue (%)	1.6	0.5	1.4	0.9	0.7	1.0
Expenditure ratios						
Staff expenditure/total expenditure (%)	15.7	14.7	15.2	16.0	15.7	15.4
Current transfers made/total expenditure (%)	43.4	43.3	45.7	47.2	46.5	45.5
Interest expenditure/total expenditure (%)	0.7	0.7	0.5	0.7	0.6	0.8
Capital expenditure/total expenditure (%)	17.8	17.4	16.7	14.2	14.2	15.8

rc: Fitch's rating case, based on conservative assumptions (see Debt Sustainability assessed at 'aaa'). 2024 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 (EUR780.2 million at end-2019), as well as the public housing entity's net debt (EUR166.9 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 (EUR178 million at end-2019).

The city's available cash was EUR581.3 million at end-2019. Fitch considers that EUR403 million was restricted, 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.

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