

City of Barcelona

Key Rating Drivers

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

Fitch assesses 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.

Risk Profile - 'High Midrange': Fitch assesses Barcelona's risk profile as 'High Midrange', reflecting a combination of two key rating factors (KRFs) as 'Midrange' (revenue robustness, liabilities and liquidity flexibility) and four KRFs as 'Stronger' (revenue adjustability, expenditure sustainability and adjustability, liabilities and liquidity robustness).

The assessment reflects Fitch's view of a moderately high risk relative to international peers that Barcelona's ability to cover debt service with the operating balance may weaken unexpectedly over the forecast horizon (2023-2027) due to lower revenue, higher expenditure, or an unexpected rise in liabilities or debt or debt-service requirement.

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 5x in 2027 ('aaa' category). This, together with a forecast synthetic debt service coverage (operating balance / mortgage-style debt annuity) of 6.2x in 2027 ('aaa' category), justifies the assessment of Barcelona's debt sustainability at 'aaa'.

Other Rating Factors: Barcelona's final IDR is capped by the sovereign rating. This reflects the high influence the state has on the local and regional government's (LRG) funding, responsibilities and borrowing rules. The other rating factors are neutral to Barcelona's ratings.

ESG Considerations: ESG factors have a very limited impact on Barcelona's rating, which is reflected in a score of '3'.

Rating Sensitivities

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

Sovereign Ratings; Increased Leverage: Barcelona's IDRs are constrained by the sovereign IDRs and are sensitive to a downgrade of 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 is unlikely.

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

Local Currency

Long-Term IDR	A-
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Outlooks

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

Debt Ratings

Senior Unsecured Debt - Long-Term Rating	A-
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Issuer Profile Summary

The City of 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. It is a major touristic destination in Europe.

Financial Data Summary

City of Barcelona (EURm)	FY22	FY27rc
Payback ratio (x)	1.4	2.0
Synthetic coverage (x)	9.4	6.2
Fiscal debt burden (%)	22.2	30.1
Net adjusted debt	675	1,024
Operating balance	472	522
Operating revenue	3,034	3,403
Debt service	95	120
Mortgage-style debt annuity	50	84

rc: Fitch's rating-case scenario
Source: Fitch Ratings, Fitch Solutions, Barcelona

Applicable Criteria

International Local and Regional Governments Rating Criteria (September 2021)

Related Research

Fitch Affirms City of Barcelona at 'A-'; Outlook Stable (July 2023)

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Appendix A: Financial Data

City of Barcelona

(EURm)	2018	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance										
Taxes	1,131	1,172	1,198	1,240	1,185	1,237	1,302	1,323	1,344	1,361
Transfers received	1,105	1,129	1,191	1,236	1,469	1,474	1,493	1,512	1,586	1,629
Fees, fines and other operating revenues	337	339	347	401	380	414	410	411	412	413
Operating revenue	2,572	2,640	2,736	2,877	3,034	3,124	3,205	3,247	3,342	3,403
Operating expenditure	-2,165	-2,216	-2,318	-2,334	-2,562	-2,670	-2,709	-2,718	-2,812	-2,881
Operating balance	407	424	418	543	472	454	496	528	530	522
Interest revenue	34	48	22	29	34	34	30	30	30	30
Interest expenditure	-12	-18	-14	-12	-12	-24	-27	-29	-30	-31
Current balance	430	454	426	559	494	464	499	529	530	521
Capital revenue	36	25	18	22	39	90	65	34	31	31
Capital expenditure	-435	-370	-336	-529	-526	-674	-628	-599	-613	-626
Capital balance	-399	-346	-317	-507	-487	-585	-564	-565	-583	-595
Total revenue	2,642	2,713	2,777	2,928	3,107	3,247	3,299	3,310	3,402	3,464
Total expenditure	-2,612	-2,604	-2,668	-2,876	-3,101	-3,368	-3,364	-3,346	-3,455	-3,538
Surplus (deficit) before net financing	31	109	109	52	6	-121	-65	-36	-53	-74
New direct debt borrowing	54	1	102	111	115	0	0	0	0	0
Direct debt repayment	-52	-57	-83	-94	-83	0	0	0	0	0
Net direct debt movement	3	-57	19	16	32	121	65	36	53	74
Overall results	33	52	128	68	38	0	0	0	0	0
Debt and liquidity										
Short-term debt	0	0	0	0	0	0	0	0	0	0
Long-term debt	836	780	800	817	847	968	1,033	1,069	1,122	1,196
Intergovernmental debt	0	0	0	0	0	0	0	0	0	0
Direct debt	836	780	800	817	847	968	1,033	1,069	1,122	1,196
Other fitch-classified debt	0	0	0	0	0	0	0	0	0	0
Adjusted debt	836	780	800	817	847	968	1,033	1,069	1,122	1,196
Guarantees issued (excluding adjusted debt portion)	0	0	0	0	0	0	0	0	0	0
Majority-owned GRE debt and other contingent liabilities	145	167	169	221	268	317	360	352	344	336
Overall adjusted debt	981	947	969	1,038	1,115	1,284	1,393	1,421	1,466	1,532
Total cash, liquid deposits, and sinking funds	758	581	661	685	684	684	684	684	684	684
Restricted cash	605	403	445	489	512	512	512	512	512	512
Unrestricted cash	153	178	216	196	172	172	172	172	172	172
Net adjusted debt	683	602	584	621	675	796	861	897	950	1,024
Net overall debt	828	769	753	842	943	1,112	1,221	1,249	1,294	1,360
Enhanced net adjusted debt	683	602	584	621	675	796	861	897	950	1,024
Enhanced net overall debt	828	769	753	842	943	1,112	1,221	1,249	1,294	1,360

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

Appendix B: Financial Ratios

City of Barcelona

	2018	2019	2020	2021	2022	2023rc	2024rc	2025rc	2026rc	2027rc
Fiscal performance ratios										
Operating balance/operating revenue (%)	15.8	16.1	15.3	18.9	15.6	14.5	15.5	16.3	15.9	15.4
Current balance/current revenue (%)	16.5	16.9	15.5	19.3	16.1	14.7	15.4	16.2	15.7	15.2
Operating revenue growth (annual % change)	1.9	2.6	3.6	5.2	5.5	3.0	2.6	1.3	2.9	1.8
Operating expenditure growth (annual % change)	3.8	2.4	4.6	0.7	9.8	4.2	1.4	0.4	3.5	2.5
Surplus (deficit) before net financing/total revenue (%)	1.2	4.0	3.9	1.8	0.2	-3.7	-2.0	-1.1	-1.6	-2.1
Surplus (deficit) before net financing/GDP (%)	0.1	0.2	0.2	0.1	0.0	-0.2	-0.1	-0.1	-0.1	-0.1
Total revenue growth (annual % change)	2.5	2.7	2.3	5.5	6.1	4.5	1.6	0.3	2.8	1.8
Total expenditure growth (annual % change)	2.6	-0.3	2.4	7.8	7.8	8.6	-0.1	-0.5	3.3	2.4
Debt ratios										
Primary metrics										
Payback ratio (x) (Net adjusted debt to operating balance)	1.7	1.4	1.4	1.1	1.4	1.8	1.7	1.7	1.8	2.0
Enhanced payback ratio (x)	1.7	1.4	1.4	1.1	1.4	1.8	1.7	1.7	1.8	2.0
Overall payback ratio (x)	2.0	1.8	1.8	1.6	2.0	2.5	2.5	2.4	2.4	2.6
Enhanced overall payback ratio (x)	2.0	1.8	1.8	1.6	2.0	2.5	2.5	2.4	2.4	2.6
Secondary metrics										
Fiscal debt burden (%) (Net Debt-to-operating revenue)	26.6	22.8	21.3	21.6	22.3	25.5	26.9	27.6	28.4	30.1
Synthetic debt service coverage ratio (x)	7.9	8.7	9.5	11.7	9.6	7.0	7.0	7.3	6.7	6.2
Actual debt service coverage ratio (x)	6.4	5.6	4.3	5.1	4.9	6.7	6.0	6.2	3.3	4.3
Other debt ratios										
Liquidity coverage ratio (x)	19.5	7.7	6.2	7.1	7.0	9.2	8.0	8.3	4.4	5.8
Direct debt maturing in one year/total direct debt (%)	6.7	10.4	11.7	10.2	5.3	0.0	0.0	0.0	0.0	0.0
Direct debt (annual % change)	0.1	-6.7	2.5	2.1	3.7	14.2	6.7	3.5	5.0	6.6
Apparent cost of direct debt (interest paid/direct debt) (%)	1.4	2.2	1.8	1.5	1.5	2.6	2.7	2.8	2.7	2.7
Revenue ratios										
Tax revenue/total revenue (%)	42.8	43.2	43.1	42.4	38.2	38.1	39.5	40.0	39.5	39.3
Current transfers received/total revenue (%)	41.8	41.6	42.9	42.2	47.3	45.4	45.3	45.7	46.6	47.0
Interest revenue/total revenue (%)	1.3	1.8	0.8	1.0	1.1	1.0	0.9	0.9	0.9	0.9
Capital revenue/total revenue (%)	1.4	0.9	0.7	0.8	1.3	2.8	2.0	1.0	0.9	0.9
Expenditure ratios										
Staff expenditure/total expenditure (%)	15.2	16.0	15.9	15.6	15.5	-	-	-	-	-
Current transfers made/total expenditure (%)	45.7	47.2	49.1	45.8	46.1	-	-	-	-	-
Interest expenditure/total expenditure (%)	0.5	0.7	0.5	0.4	0.4	0.7	0.8	0.9	0.9	0.9
Capital expenditure/total expenditure (%)	16.7	14.2	12.6	18.4	17.0	20.0	18.7	17.9	17.8	17.7

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

Appendix C: Data Adjustments

Net Adjusted Debt Calculations

Fitch's overall adjusted debt includes Barcelona's financial debt (EUR847 million at end-2022), as well as the public housing entity's net debt (EUR268 million), included in the majority-owned government-related entities' 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 (EUR172 million at end-2022).

The city's available cash was EUR684 million at end-2022. Fitch considers that EUR512 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.

Mortgage-Style Debt Annuity Calculation

(EURm)	2022	2027 ^{rc}
Net adjusted debt	675	1,024
Apparent cost of debt, %	1.5	2.7
Amortisation period, years	15	15
Mortgage-style debt annuity	50	84

rc: Fitch's rating-case scenario

Source: Fitch Ratings, Fitch Solutions, City of Barcelona

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