

Research Update:

Spanish City of Barcelona Outlook Revised To Stable From Negative After Same Action On Spain; 'A' Rating Affirmed

March 25, 2022

Overview

- On March 18, 2022, we revised our outlook on Spain to stable from negative and affirmed our unsolicited ratings on the sovereign at 'A/A-1'
- We cap our long-term rating on Barcelona at the level of the long-term rating on Spain, as we do for other normal-status Spanish local and regional governments.
- Consequently, we revised our outlook on Barcelona to stable from negative and affirmed our 'A' long-term issuer credit rating on the city.

Rating Action

On March 25, 2022, S&P Global Ratings revised its outlook on the Spanish City of Barcelona to stable from negative. We affirmed the long-term issuer credit rating at 'A'.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on the City of Barcelona are subject to certain publication restrictions set out in Art. 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Calendar of 2022 EMEA Sovereign, Regional, And Local Government Rating Publication Dates," published Dec. 16, 2021, on RatingsDirect). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the reason for the deviation is the outlook revision on Spain on March 18, 2022. The next scheduled review date for Barcelona is July 22, 2022.

Outlook

The rating on Barcelona is capped by the ratings on Spain (unsolicited A/Stable/A-1). Therefore, the stable outlook on Barcelona reflects that on Spain.

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Downside scenario

If we were to downgrade Spain, we would downgrade Barcelona.

Upside scenario

We would raise the rating on Barcelona if we upgraded Spain, and if Barcelona continued to perform in line with our base-case expectations.

Rationale

The outlook revision and the rating on Barcelona mirror those on the sovereign. Barcelona, like other Spanish cities, cannot be rated above the sovereign because of the budgetary links between the city and the sovereign.

Barcelona's creditworthiness is characterized by a fairly supportive institutional framework that has prompted Spanish local governments to post balanced accounts in recent years. Barcelona's strong financial management also supports the rating, as reflected in prudent budgeting practices and sound budgetary outcomes. Despite the impact of the pandemic, Barcelona has maintained a very low debt burden, and a comfortable liquidity position that amply covers its debt service requirements.

We assess Barcelona's stand-alone credit profile (SACP) at 'aa-'. The SACP is a way to assess the intrinsic creditworthiness of a local or regional government under the assumption that the rating on the sovereign is not a constraint.

We cap our long-term rating on Barcelona at the level of the long-term rating on Spain. In our view, the city does not meet the criteria under which we would rate it higher than the related sovereign. We believe it lacks sufficient financial autonomy to effectively resist significant sovereign intervention, such as reductions or delays in central government transfers. We do not believe that Barcelona's credit quality could withstand the stress of a sovereign default, given its reliance on central government transfers and tax transfers.

Ratings Score Snapshot

Barcelona (City of) -- Ratings Score Snapshot

Key rating factors	Scores
Institutional framework	3
Economy	2
Financial management	2
Budgetary performance	1
Liquidity	1
Debt burden	1
Stand-alone credit profile	aa-

Barcelona (City of) -- Ratings Score Snapshot (cont.)

Key rating factors	Scores
Issuer credit rating	A

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

- Research Update: Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed, March 18, 2022

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed, March 18, 2022
- Institutional Framework Assessments For International Local And Regional Governments, March 7, 2022
- Local And Regional Governments Outlook 2022: Long-Term Challenges Resurface As The Pandemic Eases, Feb. 3, 2022
- Sovereign Risk Indicators, Dec. 13, 2021; a free interactive version is available at <http://www.spratings.com/sri>
- Research Update: Spanish City of Barcelona 'A' Rating Affirmed; Outlook Still Negative, July 23, 2021
- Public Finance System Overview: Spanish Normal Status Regions, July 16, 2020

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the

appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Barcelona (City of)		
Issuer Credit Rating	A/Stable/--	A/Negative/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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