

Research Update:

# City of Barcelona Outlook Revised To Negative After Similar Action On Spain; 'A' Rating Affirmed

September 22, 2020

## Overview

- On Sept. 18, 2020, we revised the outlook on Spain to negative from stable and affirmed the unsolicited ratings on the sovereign at 'A/A-1'.
- Like for all normal-status Spanish local and regional governments (LRGs), we cap our long-term rating on Barcelona at the level of the long-term rating on Spain.
- Consequently, we are revising the outlook on Barcelona to negative from stable to reflect that on the sovereign, and affirming our rating on the city at 'A'.

## Rating Action

On Sept. 22, 2020, S&P Global Ratings revised the outlook to negative from stable on the Spanish city of Barcelona, and affirmed the 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 2020 EMEA Sovereign, Regional, And Local Government Rating Publication Dates: Midyear Update," published July 2, 2020, 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 Sept. 18, 2020.

## Outlook

The rating on Barcelona is capped by the ratings on [Spain](#). Therefore, the negative outlook on Barcelona reflects that on Spain.

## Downside scenario

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If we were to downgrade Spain in the next 24 months, we would downgrade Barcelona.

## Upside scenario

We would revise the outlook to stable over the next 24 months, all else being equal, if we revised our outlook on Spain to stable.

## Rationale

The outlook revision on Barcelona mirrors that on the sovereign.

While we assess Barcelona's stand-alone credit profile at 'aa-', the issuer credit rating is capped by the 'A' long-term rating on Spain. We generally cap the long-term rating on an LRG at the same level of its respective sovereign. We do not believe the institutional and financial framework of Spanish cities and normal-status regions allows them to be rated above the sovereign. They operate in an institutional environment that is mostly designed at the central-government level, and that defines both the scope of their responsibilities and the rules governing their budgetary framework.

Therefore, Barcelona's creditworthiness is primarily driven by that on the sovereign. Barcelona's stand-alone creditworthiness is supported by strong financial management that has prompted the city's sound performance in recent years and that is guiding Barcelona through the COVID-19 outbreak with only slight deficits and moderately increasing debt levels. The city's creditworthiness also reflects ample cash reserves that will be partially used to fund the city's 2020 deficit.

## Environmental, social, and governance (ESG) credit factors for this credit rating change:

- Health and safety
- Strategy, execution, and monitoring

## Key Statistics

Table 1

### City of Barcelona Selected Indicators

	Fiscal year ending Dec. 31					
	2017	2018	2019	2020bc	2021bc	2022bc
Operating revenues	2,751	2,806	2,864	2,800	2,856	2,929
Operating expenditures	2,264	2,363	2,354	2,505	2,586	2,616
Operating balance	486	443	510	295	270	313
Operating balance (% of operating revenues)	17.7	15.8	17.8	10.5	9.5	10.7
Capital revenues	16	52	29	20	28	42
Capital expenditures	438	452	447	417	332	385
Balance after capital accounts	64	43	92	(102)	(34)	(30)

Table 1

**City of Barcelona Selected Indicators (cont.)**

	Fiscal year ending Dec. 31					
	2017	2018	2019	2020bc	2021bc	2022bc
Balance after capital accounts (% of total revenues)	2.3	1.5	3.2	(3.6)	(1.2)	(1.0)
Debt repaid	126	49	56	81	93	83
Gross borrowings	126	49	0	165	127	112
Balance after borrowings	64	43	36	(19)	0	0
Direct debt (outstanding at year-end)	836	836	780	863	897	926
Direct debt (% of operating revenues)	30.4	29.8	27.2	30.8	31.4	31.6
Tax-supported debt (outstanding at year-end)	976	982	949	1,119	1,206	1,257
Tax-supported debt (% of consolidated operating revenues)	32.9	32.2	30.6	36.8	38.9	39.7
Interest (% of operating revenues)	0.7	0.5	0.4	0.5	0.5	0.5
National GDP per capita (single units, \$000s)	24,972	25,766	26,532	23,591	25,919	27,473

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

**Ratings Score Snapshot**

Table 2

**City of Barcelona Ratings Score Snapshot**

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

- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020

## Related Criteria

- 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

- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- Spanish City of Barcelona 'A' Rating Affirmed; Outlook Stable, Sept. 11, 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

**Outlook Action; Rating Affirmed**

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

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](http://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](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](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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