

Research Update:

# City of Barcelona Upgraded To 'A' After Similar Action On Spain; Outlook Stable

September 24, 2019

## Overview

- We raised our unsolicited long-term issuer credit ratings on Spain to 'A' from 'A-' on Sept. 20, 2019, and assigned a stable outlook.
- 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 are raising our rating on Barcelona to 'A' from 'A-'.
- The stable outlook on Barcelona reflects that on Spain.

## Rating Action

On Sept. 24, 2019, S&P Global Ratings raised its long-term issuer credit rating on the Spanish City of Barcelona to 'A' from 'A-'. The outlook is stable.

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 2019 EMEA Sovereign, Regional, And Local Government Rating Publication Dates: Midyear Update," published July 2, 2019, 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 upgrade of Spain on Sept. 20, 2019.

## Outlook

The rating on Barcelona is capped by the ratings on Spain (unsolicited; A/Stable/A-1); therefore the stable outlook is a reflection of our current outlook on Spain.

### PRIMARY CREDIT ANALYST

**Mariamena Ruggiero**

Milan

(39) 02-72111-262

mariamena.ruggiero

@spglobal.com

### SECONDARY CONTACT

**Alejandro Rodriguez Anglada**

Madrid

(34) 91-788-7233

alejandro.rodriguez.anglada

@spglobal.com

### ADDITIONAL CONTACTS

**Alessandro Crocco**

Milan

+ 00390272111290

alessandro.crocco

@spglobal.com

### EMEA Sovereign and IPF

SovereignIPF

@spglobal.com

## Downside scenario

If we were to downgrade Spain, we would downgrade Barcelona as well. Apart from a potential sovereign downgrade, we would lower the rating on Barcelona if we revised our assessment of its stand-alone credit profile (SACP; our assessment of an issuer's intrinsic credit characteristics), to 'a-' or lower. The SACP for Barcelona currently stands at 'aa'. Such a mult notch deterioration appears highly unlikely, however.

## Upside scenario

We would raise our ratings on Barcelona over the next 24 months or so if we upgraded Spain to 'A+' or higher, all other factors remaining unchanged.

## Rationale

Our upgrade of Barcelona follows our similar action on Spain on Sept. 20, 2019 (see "Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable").

While we assess Barcelona's SACP at 'aa', the issuer credit rating is capped by the 'A' rating on Spain. We generally cap the long-term rating on a local or regional government (LRG) at the same level as its respective sovereign. We do not believe that the institutional and financial framework of Spanish cities and normal-status regions allows them to be rated above the sovereign. In particular, we view Spanish LRGs' financial autonomy as limited by their revenue dependence on transfers from and shared taxes with the sovereign. Furthermore, they operate in an institutional environment that is mostly designed at the central government level and defines both the scope of their responsibilities and the rules governing their budgetary framework. As a result, we consider that the long-term rating on Barcelona cannot be higher than that on the sovereign.

## Key Statistics

- Spanish City of Barcelona 'A-' Rating Affirmed; Outlook Remains Positive, Sept. 13, 2019.

## Ratings Score Snapshot

Table 1

### 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

Table 1

## 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

- Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable, Sept. 20, 2019

## 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. 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Spanish City of Barcelona 'A-' Rating Affirmed; Outlook Remains Positive, Sept. 13, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019
- Spanish Municipalities' And Regions' Credit Story Since The Crisis: What You Need To Know, Feb. 11, 2019
- Public Finance System Overview: Spanish Normal Status Regions, Aug. 2, 2018

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

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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

### Upgraded

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

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. 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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