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## Research Update:

# Spanish Cities of Barcelona And Madrid Downgraded To 'BBB-' On Spain Downgrade; Outlook Negative

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Spanish Cities of Barcelona And Madrid Downgraded To 'BBB-' On Spain Downgrade; Outlook Negative

## Overview

- We lowered our sovereign ratings on Spain to 'BBB-/A-3' from 'BBB+/A-2' and assigned a negative outlook to the long-term rating on Oct. 10, 2012.
- We cap the ratings on the Spanish cities of Barcelona and Madrid at the level of the long-term sovereign rating because, under our criteria, these two local and regional governments (LRGs) do not meet the conditions to be rated higher than the sovereign.
- Consequently, we are lowering our long-term ratings on these two LRGs to 'BBB-' from 'BBB+' and lowering our short-term rating on Madrid to 'A-3' from 'A-2'.
- The negative outlooks on the two LRGs reflect the negative outlook on Spain.

## Rating Action

On Oct. 17, 2012, Standard & Poor's Ratings Services lowered its long-term issuer credit ratings on the Spanish City of Barcelona (Barcelona) and City of Madrid (Madrid) to 'BBB-' from 'BBB+'. We have also lowered our short-term issuer credit rating on Madrid to 'A-3' from 'A-2'. The outlooks on the long-term ratings on the two local and regional governments (LRGs) are negative.

## Rationale

The downgrades reflect a similar action on Spain on Oct. 10, 2012 (see "Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative," published on RatingsDirect on the Global Credit Portal).

We cap our ratings on the cities of Madrid and Barcelona at the level of the long-term rating on Spain. This reflects our view that the cities do not meet the criteria under which we would rate a LRG higher than its sovereign (see "Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign," published Sept. 9, 2009).

Under these criteria, an LRG can be rated higher than its sovereign only if it can maintain credit characteristics that are more resilient than the sovereign's in a stress scenario, has a predictable institutional framework that limits central government's interference, and displays high financial

flexibility. At this stage, we believe that neither Madrid nor Barcelona display these characteristics.

We will review the indicative credit level (ICL) of Barcelona and Madrid as soon as we have new relevant information to assess their individual credit profiles, in accordance with our criteria for rating LRGs. The ICL is not a rating but a means we use to assess the intrinsic creditworthiness of an LRG under the assumption that there is no sovereign rating cap. The ICL results from the combination of our assessment of an LRG's individual credit profile and the institutional framework where it operates.

## Outlook

The negative outlooks on the long-term ratings on the cities of Barcelona and Madrid reflect that on Spain, since we do not rate Spain's local governments above the sovereign, according to our criteria.

## Related Criteria And Research

- Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative, Oct. 10, 2012
- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign, Sept. 9, 2009

## Ratings List

Downgraded

	To	From
Madrid (City of)		
Issuer Credit Rating	BBB-/Negative/A-3	BBB+/Negative/A-2
Senior Unsecured	BBB-	BBB+

Barcelona (City of)		
Issuer Credit Rating	BBB-/Negative/--	BBB+/Negative/--

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