

Fitch Affirms City of Madrid at 'AA-'; Outlook Stable

Fitch Ratings-London/Barcelona-22 December 2009: Fitch Ratings has today affirmed the City of Madrid's Long-term foreign and local currency ratings at 'AA-', respectively, with Stable Outlooks and affirmed the city's Short-term rating at 'F1+'.

The rating affirmation reflects Madrid's solid economy, supported by capital city status, and growing tax base. Nevertheless, the ratings also take into account some volatility in the operating performance and the significant level of debt that the city has accumulated since 2001, including the debt of Madrid Calle 30, a 80% city-owned company. The debt increase is also a result of the significant investment efforts undertaken by the city administration during the 2004-2007.

Despite the sharp deterioration of the operating performance in 2008 stemming from the decision of the city's government to concentrate a much larger amount of operating expenditure, Fitch considers Madrid's underlying credit fundamentals to still be strong which is why the agency maintained the Stable Outlook. In 2009, the central government approved measures to authorise exceptional borrowing for the sole purpose of paying down commercial liabilities as long as municipalities present and approve a recovery plan. In the case of Madrid, such a plan was approved by the municipal assembly in May 2009, and the financial projections (up to 2015) indicate an improvement of the current margin and a progressive reduction of debt to EUR3.3 bn in 2015 from EUR4.4 bn in 2009.

In the last five years, the direct debt of the city rose at a fast pace to reach EUR4.3bn at end-2008 from EUR2.1bn in 2004. Debt as a percentage of current revenue jumped to 106% in 2008 from 81% in 2004. Nevertheless, the debt profile is conservative, given the city's objective to maintain a long average repayment life (2008: 8.3 years).

Investment related to the Madrid Calle 30 ring road was completed in 2007, and its debt outstanding fell to EUR2.39bn at end-2008 from EUR2.5bn in 2007. Its financial debt will be redeemed in the 2007-2035 period and in its analysis, Fitch has factored this indirect risk into the city's ratings, as funding for Madrid Calle 30 will come from the city administration.

The City of Madrid's economy is largely services-orientated, with services accounting for around 81% of its gross value added in 2008. With about 3.2 million inhabitants, the city's growing population illustrates its attractiveness to job-seekers. Madrid is not only the political capital of Spain, but also its main financial hub, where the majority of the country's large national and international companies are headquartered, providing strong support for real estate and corporate services. The city is a strategic business centre in the Iberian Peninsula.

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