



Fitch Maintains Lisbon on Rating Watch Negative

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Fitch Ratings-Barcelona/London-02 June 2011: Fitch Ratings has maintained the City of Lisbon's 'BBB-' Long-term foreign and local currency ratings and 'F3' Short-term foreign currency on Rating Watch Negative (RWN).

Lisbon, the capital of Portugal, has a stronger tax base than the national average and a moderate debt level and comfortable debt repayment schedule. However, its ratings are constrained by those of the Republic of Portugal ('BBB-'/F3/RWN), due to the fact that the central government collects local taxes and transfers them to the cities. In common with most subnationals, Lisbon is not eligible to have a rating higher than the sovereign (see "Rating Subnationals above the Sovereign in the Euro Area" dated 25 June 2009 at www.fitchratings.com). The RWN thus reflects that on Portugal's ratings (see 'Fitch Downgrades Portugal to 'BBB-', on RWN' dated 1 April 2011 on www.fitchratings.com).

The city's current balance improved in 2010 from an already comfortable position in 2009, and the current margin is expected to remain above 20% in the medium term. The city is now considering restructuring its provision of services in order to further reduce costs. The city's organisation might also be simplified, implying a staff reduction. In 2008, the city adopted a financial plan that contained measures to improve revenue collection and to streamline operating costs.

Debt with financial institutions therefore decreased in 2010 to the same level as in 2008. Debt is expected to increase slightly until 2012, and then to gradually but continuously decline. The debt to current balance ratio was comfortable in 2010 at 3.2 years, while debt servicing absorbed 71% of the operating balance generated in 2009. Interest costs were EUR12.7m in 2010 or 2.6% of the debt outstanding at end-2009. The city's debt portfolio remained conservative, with a long-term repayment profile and no bullet payments. 63% of the debt will be repaid after 10 years.

With about 500,000 inhabitants in 2007, Lisbon is the largest city in Portugal. It functions not only as the administrative and economic national centre but, above all, as the political capital of Portugal.

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Additional information is available at www.fitchratings.com.

Applicable criteria, "Tax-Supported Rating Criteria", dated 21 December 2009, "International Local and Regional Governments Rating Criteria outside United States", dated 17 March 2010, and "Rating Subnationals above the Sovereign in the Euro Area" dated 25 June 2009 are available on www.fitchratings.com.

Applicable Criteria and Related Research:

[Tax-Supported Rating Criteria](#)

[International Local and Regional Governments Rating Criteria - Outside the United States](#)

[Rating Subnationals above the Sovereign in the Euro Area](#)

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