

Rating Action: Moody's Public Sector Europe changes outlook on 21 Italian sub-sovereigns to negative; downgrades city of Venice

Global Credit Research - 13 Dec 2016

London, 13 December 2016 -- Moody's Public Sector Europe (MPSE) has today taken rating actions on 22 Italian sub-sovereigns.

MPSE has changed the outlooks to negative from stable on 21 rated Italian sub-sovereigns. MPSE also changed its extraordinary support assumptions for Italian regions to strong from moderate, on the basis of an increased degree of interventions in regional matters.

At the same time, MPSE has downgraded the issuer and debt ratings of the city of Venice to Baa3 from Baa2 and changed the outlook to negative from stable.

Today's rating action follows the outlook change to negative from stable on the Italian government's Baa2 debt rating. For further information on the sovereign rating action, please refer to Moody's press release dated 7th December 2016 (http://www.moodys.com/viewresearchdoc.aspx?docid=PR_358690)

Please click on this link for the List of Affected Credit Ratings: http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_193622. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

RATIONALE FOR THE NEGATIVE OUTLOOKS ON THE RLGs

The change of outlooks to negative from stable in the regional and local governments (RLGs) is based on the operational, financial and institutional linkages between the sovereign and sub-sovereign sectors.

Operational and Financial Linkages

Regions and cities are largely dependent on sovereign transfers and are exposed to sovereign decisions. The central government provides certain levels of funding through a mix of transfers and retained fiscal revenues, which approximately correspond to 75% of regions' total revenues. Every year, the government defines the level of resources of the National Healthcare Fund and the National Transportation Fund. The central government is the main RLGs' creditor. The Italian Ministry of Finance and the state-backed bank Cassa Depositi e Prestiti S.p.A. (Baa2, Negative) hold about 81% of RLGs debt, a share that we expect to increase.

Strong Institutional Linkages

The central government exerts strong influence on regional and local financial policies. Starting from 2007, Italian regions and cities have been significantly involved by the central government in the public finance consolidation process. Particularly, the central government has focused on consolidating RLGs' budgets, reducing their debt levels and improving their accounting policies via numerous legislations.

RATIONALE FOR THE NEGATIVE OUTLOOKS ASSIGNED TO GOVERNMENT-RELATED ISSUERS

The negative outlooks on the ratings of Cassa del Trentino S.p.A. (A3, Negative) and MM S.p.A. (Baa2, Negative) reflect the corresponding outlook changes of their respective support providers, the Autonomous Province of Trento (A3, Negative) and the City of Milan (Baa2, Negative). The ratings of both government-related issuers are at the same level as their respective support providers under the credit substitution approach given their strong operational, financial and statutory linkages.

RATIONALE FOR THE DOWNGRADE OF THE CITY OF VENICE

The downgrade to Baa3 from Baa2 reflects Venice's:

(i) Progressive liquidity depletion occurred in the recent past, mainly driven by structural payment delays from municipal affiliates.

(ii) Limited residual revenue raising flexibility. Venice used most of its revenue flexibility by increasing a mix of taxes in the last few years to balance the budget.

(iii) Pressures coming from the management of municipal companies.

The Baa3 rating takes into consideration the strong GOB as a percentage of operating revenue (7.2% average 2011-15), although somehow volatile and the high debt burden at 123% of operating revenues in 2016, which we expect to continue declining going forward.

WHAT COULD CHANGE THE RATING UP/DOWN

Regional and Local Governments, given the negative outlook, an upward rating change is unlikely. The outlook may revert to stable for all affected RLGs if the outlook on the sovereign's rating were to hypothetically change back to stable, provided that there is not any deterioration in RLGs' key financial or debt metrics. Conversely, the ratings for all affected regional and local governments would face downward pressure if, hypothetically, the sovereign rating were to be downgraded. Furthermore, any deterioration in financial or debt metrics may lead to downward rating pressures.

In the case of Venice, the negative outlook also reflects idiosyncratic pressures. Structural improvements in the liquidity position and a continuous decline in debt levels could also exert upward pressure.

Conversely, Venice's rating could also be downgraded in case of further deterioration in liquidity.

Government Related Issuers, for MM S.p.A and Cassa del Trentino S.p.A., the outlooks could only revert to stable if the outlooks would stabilise on the city of Milan and the autonomous province of Trento, respectively. Conversely, the ratings could face downward rating pressure upon the hypothetical rating downgrades of their respective support providers.

The sovereign action required the publication of these credit rating actions on a date that deviates from the previously scheduled release date in the sovereign release calendar, published on www.moodys.com.

The specific economic indicators, as required by EU regulation, are not available for these entities. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: Italy, Government of

GDP per capita (PPP basis, US\$): 35,781 (2015 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 0.7% (2015 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0.1% (2015 Actual)

Gen. Gov. Financial Balance/GDP: -2.6% (2015 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 1.6% (2015 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 09 December 2016, a rating committee was called to discuss the rating of the Abruzzo, Region of; Basilicata, Region of; Campania, Region of; Cassa del Trentino S.p.A.; Liguria, Region of; Lombardy, Region of; MM S.p.A.; Molise, Region of; Naples, City of; Piedmont, Region of; Puglia, Region of; Sardinia, Autonomous Region of; Trento, Autonomous Province of; Umbria, Region of; Valle d'Aosta, Autonomous Region of; Veneto, Region of; Civitavecchia, City of; Lazio, Region of; Milan, City of; Sicily, Autonomous Region of; Venice, City of; Bolzano, Autonomous Province of. The main points raised during the discussion were: The systemic risk in which the issuers operate have materially increased. The extraordinary support from the central government has materially increased for regions. The City of Venice's fiscal or financial strength,

including its debt profile, has materially decreased.

The principal methodologies used in rating Region of Abruzzo, Region of Basilicata, Autonomous Province of Bolzano, Region of Campania, City of Civitavecchia, Region of Lazio, Region of Liguria, Region of Lombardy, City of Milan, Region of Molise, City of Naples, Region of Piedmont, Region of Puglia, Autonomous Region of Sardinia, Autonomous Region of Sicily, Autonomous Province of Trento, Region of Umbria, Autonomous Region of Valle d'Aosta, Region of Veneto, City of Venice was Regional and Local Governments published in January 2013.

The principal methodologies used in rating Cassa del Trentino S.p.A. and MM S.p.A. was Government-Related Issuers published in October 2014.

Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_193622 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Methodologies
- Person Approving the Credit Rating
- Lead Analyst

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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The person who approved Autonomous Province of Bolzano, City of Milan, Cassa del Trentino S.p.A., MM S.p.A. credit ratings is David Rubinoff, MD-Sub-Sovereigns, Sub-Sovereign Group, 44 20 7772 5456, 44 20 7772 5454.

The person who approved Region of Abruzzo, Region of Basilicata, Region of Campania, City of Civitavecchia, Region of Lazio, Region of Liguria, Region of Lombardy, Region of Molise, City of Naples, Region of Piedmont, Region of Puglia, Autonomous Region of Sardinia, Autonomous Region of Sicily, Autonomous Province of Trento, Region of Umbria, Autonomous Region of Valle d'Aosta, Region of Veneto, City of Venice credit ratings is Mauro Crisafulli, Associate Managing Director, Sub-Sovereign Group, +39-02-9148-1100.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List

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