

## **Rating Action: Moody's Public Sector Europe downgrades 20 Italian sub-sovereigns and changes the outlook to stable**

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23 Oct 2018

London, 23 October 2018 -- Moody's Public Sector Europe (MPSE) has today downgraded the long term ratings of 18 Italian regional and local governments (RLGs) and two Government Related Issuers (GRIs) and changed the outlooks to stable. At the same time, Moody's has confirmed the Ba1 rating of the Autonomous Region of Sicily and changed the outlook to stable and has affirmed the Ba2 ratings with a stable outlook of the Region of Lazio. Moody's also confirmed the Prime-2 short term issuer rating of the Autonomous Region of Valle d'Aosta.

The rating actions conclude the review for downgrade that commenced on 29 May 2018.

The rating actions were prompted by the rating agency's downgrade of Italy's government bond rating from Baa2/RUR down to Baa3 with a stable outlook. For further information on the sovereign rating action, please refer to Moody's press release dated 19 October 2018 ([https://www.moodys.com/research/Moodys-downgrades-Italys-ratings-to-Baa3-stable-outlook--PR\\_390302](https://www.moodys.com/research/Moodys-downgrades-Italys-ratings-to-Baa3-stable-outlook--PR_390302)).

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_201338](http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_201338) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

### RATINGS RATIONALE

#### RATIONALE FOR DOWNGRADING 18 REGIONAL AND LOCAL GOVERNMENTS' LONG TERM RATINGS AND CHANGING TO STABLE OUTLOOKS

##### Rationale for downgrading the long term ratings

The decision to downgrade by one notch the long term ratings of 18 regional and local governments (RLGs) reflects their close operational and financial linkages with the central government. The negative implications for medium-term growth of the stalling of plans for structural economic and fiscal reforms pose risks for RLGs and outweigh recent successful budgetary consolidation efforts.

Italian RLGs are enduringly linked with the central government via close institutional, economic and financial links. These links have strengthened in the course of the last few years due to several changes in the institutional framework, leading to higher supervision and greater control mechanisms exerted by the central government.

Moody's notes that regions strongly rely on the Italian sovereign for the funding of the healthcare sector, their main responsibility which absorbs in most cases around 80% of their budgets. The dependence of Italian RLGs on sovereign transfers has been reinforced by stricter limits on their financial autonomy. As a result, a weakening in Italy's fiscal strength may lead to fiscal pressure for RLGs over the medium term.

Furthermore all RLGs are largely dependent on the sovereign for their borrowing needs for capital expenditures. As such their cost of funding is largely reliant on sovereign credit conditions. The Italian government is the sector's main creditor accounting for around 83% of regional and local governments' existing debt.

##### Rationale for changing to stable outlooks

The stable outlook on the Italian regional and local governments is based on recent consolidation efforts undertaken by Italian RLGs and Moody's expectation that they will continue going forward. The healthcare sector has improved in all Italian regions, and the healthcare budgets are all either at or close to equilibrium, giving the Italian regions some limited budgetary flexibility.

##### Rationale for confirming the Prime-2 short-term issuer rating of Valle d'Aosta

Moody's confirmed the Prime-2 short-term issuer rating of Valle d'Aosta reflecting the steady and high level of liquidity at 8.5x debt repayments and low net direct and indirect debt (NDID) at nearly 35% of operating revenues at YE2017.

#### RATIONALE FOR DOWNGRADING TWO GOVERNMENT RELATED ISSUERS AND CHANGING TO STABLE OUTLOOKS

The decision to downgrade MM S.p.A.'s ratings to Baa3 with a stable outlook from Baa2, RUR- and Cassa del Trentino S.p.A.'s ratings to Baa1 with a stable outlook from A3, RUR - mirrors the corresponding rating actions on their respective owners - City of Milan now at Baa3/Stable and Autonomous Province of Trento now at Baa1/Stable. From a credit-risk perspective, there is no meaningful distinction between these two entities and their respective owners because of the intrinsic operational ties between them.

#### RATIONALE FOR CONFIRMING THE RATING OF THE REGION OF SICILY WITH STABLE OUTLOOK

Moody's confirmed the Region of Sicily's rating at Ba1 with a stable outlook. The region's liquidity position significantly improved over the last three years while deleveraging continues with a moderate NDID ratio of 49% at YE2017. The confirmation reflects the on-going budgetary consolidation efforts, which may accommodate potential pressure driven by the deterioration of the sovereign's credit quality.

#### RATIONALE FOR AFFIRMING THE RATING OF THE REGION OF LAZIO WITH STABLE OUTLOOK

Moody's affirmed the Ba2 ratings with stable outlook of the Region of Lazio reflecting the region's significant progress towards budgetary consolidation, its enhanced liquidity position, healthcare sector equilibrium and slow debt decline. The affirmation in the context of weaker sovereign credit conditions reflects Moody's expectations that the region will continue to post positive gross operating balances and further improve its budgetary results despite a still high debt level.

#### WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the ratings of RLGs and GRIs could result from the strengthening of the sovereign credit profile. For issuers rated below the sovereign bond rating, evidence of a given entity's ability to display comparatively stronger credit fundamentals and an ability to withstand a challenging operating environment could also exert upward rating pressure.

A further weakening of the Italian sovereign credit profile could lead to downward adjustments in ratings of some RLGs and GRIs. Additionally, financial difficulties resulting in cash-flow pressures and consistently high or excessively growing debt levels could lead to downward rating actions independent of sovereign rating movements.

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.moody.com](http://www.moody.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\$): 38,233 (2017 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.6% (2017 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0.9% (2017 Actual)

Gen. Gov. Financial Balance/GDP: -2.4% (2017 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 2.8% (2017 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 18 October 2018, a rating committee was called to discuss the rating of the Abruzzo, Region of; Basilicata, Region of; Bolzano, Autonomous Province of; Campania, Region of; Lazio, Region of; Milan, City of; Piedmont, Region of; Roma Capitale, Metropolitan city of; Valle d'Aosta, Autonomous Region of; Civitavecchia, City of; Liguria, Region of; Lombardy, Region of; Molise, Region of; Puglia, Region of; Sardinia, Autonomous Region of; Sicily, Autonomous Region of; Trento, Autonomous Province of; Umbria, Region of; Veneto, Region of; Venice, City of. The main point raised during the discussion was: the systemic risk in which the issuers operate has materially increased.

The principal methodology used in rating Abruzzo, Region of, Basilicata, Region of, Bolzano, Autonomous Province of, Campania, Region of, Civitavecchia, City of, Lazio, Region of, Liguria, Region of, Lombardy, Region of, Milan, City of, Molise, Region of, Piedmont, Region of, Puglia, Region of, Roma Capitale, Metropolitan city of, Sardinia, Autonomous Region of, Sicily, Autonomous Region of, Trento, Autonomous Province of, Umbria, Region of, Valle d'Aosta, Autonomous Region of, Veneto, Region of, and Venice, City of was Regional and Local Governments published in January 2018. The principal methodology used in rating Cassa del Trentino S.p.A., and MM S.p.A. was Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.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.moody.com/viewresearchdoc.aspx?docid=PBC\\_201338](http://www.moody.com/viewresearchdoc.aspx?docid=PBC_201338) 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:

- Releasing Office

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The person who approved Cassa del Trentino S.p.A., and MM S.p.A. credit ratings is David Rubinoff, MD - Sub Sovereigns, Sub-Sovereign Group, Journalists Tel: 44 20 7772 5456, Client Service Tel: 44 20 7772 5454. The person who approved Abruzzo, Region of, Basilicata, Region of, Bolzano, Autonomous Province of, Campania, Region of, Civitavecchia, City of, Lazio, Region of, Liguria, Region of, Lombardy, Region of, Milan, City of, Molise, Region of, Piedmont, Region of, Puglia, Region of, Roma Capitale, Metropolitan city of, Sardinia, Autonomous Region of, Sicily, Autonomous Region of, Trento, Autonomous Province of, Umbria, Region of, Valle d'Aosta, Autonomous Region of, Veneto, Region of, and Venice, City of credit ratings is Mauro Crisafulli, Associate, Managing Director, Sub-Sovereign Group, Journalists Tel: 44 20 7772 5456, Client

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Please see [www.moodys.com](http://www.moodys.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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