

### Research Update:

# Ratings On 35 Eurozone Public Finance Entities On CreditWatch With Negative Implications Following Sovereign Actions

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## Overview

- Under our methodology applicable to local and regional governments (LRGs) and their related sovereigns, we generally cap the ratings on LRGs based on the long-term rating on the related sovereign.
- Consequently, following the placement of our ratings on eurozone sovereigns on CreditWatch with negative implications, we are also placing our ratings on 30 eurozone LRGs on CreditWatch with negative implications.
- We also are placing three Spanish LRGs with special "Foral" status, and Municipality Finance PLC and Municipal Guarantee Board on CreditWatch with negative implications.
- We expect to resolve the CreditWatch status on the LRGs, as well as Municipality Finance PLC and Municipal Guarantee Board, once the CreditWatch status on their related sovereign has been resolved. In those cases, the resolution may result in downgrades by up to two notches depending on the resolution for the related sovereigns.
- We expect to resolve the CreditWatch status of the three Spanish Foral LRGs once we assess the impact of the rising systemic issues in the eurozone on their credit standing.

## Rating Action

On Dec. 7, 2011, Standard & Poor's Ratings Services placed a number of local and regional governments and public finance entities on CreditWatch with negative implications in the following countries.

### Austria:

State of Tyrol

State of Upper Austria

City of Vienna (unsolicited)

Ratings on Austrian LRGs may be downgraded by one notch, if at all, in line with the rating on the sovereign.

### Belgium:

Region of Brussels-capital

Community of Flanders

Ratings on Belgium LRGs may be downgraded by one notch, if at all, in line with the rating on the sovereign.

### Finland:

Municipality Finance PLC

Municipal Guarantee Board

Ratings on Finnish public finance entities may be downgraded by one notch, if at all, in line with the rating on the sovereign.

France:

City of Paris

Region Ile de France

Ratings on French LRGs may be downgraded by up to two notches, if at all, in line with the rating on the sovereign.

Germany:

State of Saxony

State of Bavaria

Ratings on German LRGs may be downgraded by one notch, if at all, in line with the rating on the sovereign.

Italy:

City of Bologna

Region of Marches

Province of Rome

City of Rome

Region of Sicily

Region of Emilia-Romagna

Autonomous Region of Friuli-Venezia Giulia

Region of Liguria

City of Milan

City of Genoa

City of Turin

City of Florence

Region of Umbria

Region of Campania

Ratings on Italian public finance entities may be downgraded by up to two notches, if at all, in line with the rating on the sovereign.

Spain (normal status regions):

Autonomous community of Aragon

Autonomous community of Galicia

Autonomous community of Canary Islands

Autonomous community of Madrid

Autonomous community of Andalusia

City of Barcelona

Province of Barcelona

Ratings on Spanish LRGs entities may be downgraded by up to two notches, if at all, in line with the rating on the sovereign.

Spain (special Foral status entities):

Although they are not capped by the sovereign rating, we are also placing on CreditWatch with negative implications the following entities:

Autonomous community of Basque Country

Autonomous community of Navarre

Historical territory of Bizkaia

Ratings on special Foral status entities may be lowered as a result of rising systemic issues in the eurozone, which may prompt us to individually reassess their overall links with Spain, in the context of a potential weakening of the sovereign credit profile.

## Rationale

In accordance with our methodology applicable to LRGs and their related sovereigns, we capped the ratings on LRGs at the same level as their respective sovereigns (see "Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign," published Sept. 9, 2009).

Under our criteria, an LRG can be rated higher than its sovereign only if we expect it to exhibit characteristics including:

- The ability to maintain stronger credit characteristics than the sovereign in a stress scenario. This includes, among other factors, lack of dependence on the sovereign for any appreciable share of its revenues, and a more diverse and wealthy economy than the national economy;
- An institutional framework that limits the risk of negative sovereign intervention; and
- The ability to mitigate negative sovereign intervention through high financial flexibility and independent treasury management. (see "Methodology: Rating A Regional Or Local Government Higher Than Its Sovereign").

At this stage, we do not believe that the 30 LRGs currently placed on CreditWatch meet these criteria, and hence they cannot be rated above the sovereign.

In contrast with the other 30 LRGs, we believe that the three Spanish Foral entities display the above characteristics, which allows them to be rated above the sovereign. However, we are placing the ratings on Foral entities on CreditWatch due to our view that rising systemic stress in the eurozone might weaken their credit standing. More specifically, systemic stress may prompt a reassessment of their overall institutional and economic links with Spain, in light of a potential weakening of the sovereign's credit profile.

Our actions on Municipality Finance PLC and Municipal Guarantee Board reflect our view that these two entities are highly dependent on the creditworthiness of the Finnish LRG sector, which in turn is interrelated with the sovereign's credit standing. Ratings on Municipality Finance PLC and Municipal Guarantee Board hinge on the joint support of the Finnish local government sector. This support is formalized in the joint pro-rata municipal guarantee provided to Municipal Guarantee Board, which in turns extends it exclusively to Municipality Finance. In addition, we do not consider that the Finnish LRG sector meets our criteria for ratings higher than those of the sovereign, as described above.

## CreditWatch

The placement of the ratings on LRGS, as well as Municipality Finance PLC, and Municipal Guarantee Board, on CreditWatch with negative implications mirror the similar actions on their related sovereigns. The CreditWatch status reflects our view that we could lower the respective ratings, all other things being equal, should we lower our ratings on their related sovereigns.

We expect to resolve the CreditWatch status of the ratings on these entities following the resolution of the CreditWatch status of their related sovereigns. The resolution may result in an affirmation, or a downgrade by one or two notches, depending on final action on the related sovereign (see "Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications," Dec 5, 2011).

We expect to resolve the CreditWatch status of the ratings on the three Foral Spanish entities that are not capped at the sovereign level once we assess the impact of the rising systemic stress in the eurozone on their credit standing. We may reassess the overall links of these Foral entities and Spain, in the context of a possible weakening of the sovereign's credit profile.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- 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
- Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications,, Dec 5, 2011

## Ratings List

Ratings Affirmed; CreditWatch Action

The ratings listed below are issuer credit ratings.

	To	From
State of Tyrol		
Long-Term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
State of Upper Austria		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+

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City of Vienna (unsolicited)		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
Region of Brussels-Capital		
	AA/Watch Neg/--	AA/Negative/--
Community of Flanders		
Long-term Issuer Credit Rating	AA/Watch Neg	AA/Negative
Short-term Issuer Credit Rating	A-1+	A-1+
Municipality Finance PLC		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
Municipal Guarantee Board		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
City of Paris		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
Region of Ile-de-France		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Negative
Short-term Issuer Credit Rating	A-1+	A-1+
State of Saxony		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
State of Bavaria		
Long-term Issuer Credit Rating	AAA/Watch Neg	AAA/Stable
Short-term Issuer Credit Rating	A-1+	A-1+
City of Bologna		
	A/Watch Neg/--	A/Negative/--
Region of Marches		
	A/Watch Neg/--	A/Negative/--
Province of Rome		
	A/Watch Neg/--	A/Negative/--
City of Rome		
	A/Watch Neg/--	A/Negative/--
Region of Sicily		
	A/Watch Neg/--	A/Negative/--
Region of Emilia-Romagna		
	A/Watch Neg/--	A/Negative/--
Autonomous Region of Friuli-Venezia Giulia		
	A/Watch Neg/--	A/Negative/--
Region of Liguria		
	A/Watch Neg/--	A/Negative/--

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City of Milan	A/Watch Neg/--	A/Negative/--
City of Genoa	A/Watch Neg/--	A/Negative/--
City of Turin	A/Watch Neg/--	A/Negative/--
City of Florence	A-/Watch Neg/--	A-/Stable/--
Region of Umbria	A/Watch Neg/--	A/Negative/--
Region of Campania	A-/Watch Neg/--	A-/Negative/--
Autonomous Community of Aragon	AA-/Watch Neg/--	AA-/Negative/--
Autonomous Community of Galicia	AA-/Watch Neg/A-1+	AA-/Negative/A-1+
Autonomous Community of Canary Islands	AA-/Watch Neg/--	AA-/Negative/--
Autonomous Community of Madrid	AA-/Watch Neg/A-1+	AA-/Negative/A-1+
Autonomous Community of Andalusia	A+/Watch Neg/--	A+/Negative/--
City of Barcelona	AA-/Watch Neg/--	AA-/Negative/--
Province of Barcelona	AA-/Watch Neg/--	AA-/Negative/--
Spain (special Foral status entities):		
Autonomous Community of the Basque Country	AA+/Watch Neg/--	AA+/Negative/--
Autonomous Community of Navarre	AA+/Watch Neg/--	AA+/Negative/--
Historical territory of Bizkaia	AA/Watch Neg/A-1+	AA/Stable/A-1+

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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