

Rating Action: Moody's takes action on European sub-sovereigns following action on sovereign ratings

Global Credit Research - 15 Feb 2012

London, 15 February 2012 -- Moody's Investors Service has today taken action on 83 European sub-sovereigns, comprising regional and local governments (RLGs) and government-related issuers (GRIs).

Today's actions on European sub-sovereigns were triggered by (i) Moody's recent actions on the respective European sovereign ratings; and (ii) the strong correlation between sub-sovereign and sovereign credit risk, reflected in macroeconomic and fiscal linkages, institutional factors and financial market conditions.

Please click on this http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_139806 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

For full detail of analytical considerations leading to this action, please refer to our dedicated Special Comment 'Key Drivers of Moody's Rating Actions on European Sub-sovereign Ratings' http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_139829.

For full details on sovereign actions, please refer to the webpage containing all of Moody's related announcements <http://www.moodys.com/EUSovereign>.

RATINGS RATIONALE

The rating actions on sub-sovereigns vary by country and range from the assignment of negative outlooks, to downgrades of up to two notches. Moody's has primarily assigned negative outlooks to sub-sovereign credits in the UK, France and Austria, while downgrades have primarily been implemented in Spain, Italy, Portugal and Slovakia.

The magnitude of Moody's actions on European sub-sovereign ratings broadly reflects the scale of the sovereign actions and the relative position of the credits on the rating scale. In some countries, the lowest ratings remain unaffected, as they display greater tolerance within their rating categories.

The strong correlation between sub-sovereign and sovereign credit risk is based on the following factors:

- 1.) Macroeconomic and fiscal linkages: A bleak economic outlook in Europe negatively affects sovereign fiscal positions, which in turn influences -- to varying degrees -- RLG and GRI budgets through slower revenue growth and/or cuts in transfers driven by national austerity measures.
- 2.) Institutional factors: European national governments retain a high degree of control over the sub-sovereign sector via legislation. In most countries, sub-sovereigns are required to contribute to national fiscal consolidation efforts by implementing their own austerity measures.
- 3.) Financial market conditions: Sub-sovereigns are not insulated from market conditions that affect a sovereign's access to debt capital markets, nor from subsequent negative developments in the relevant banking systems.

Taken together, these factors reinforce linkages between sovereigns and their respective sub-sovereigns.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's believes that upward ratings pressure on the European sub-sovereigns affected by today's action is unlikely to develop in view of the challenging operating environment and weakened sovereign credit conditions.

Downward ratings pressure on the affected European sub-sovereigns would be prompted by further deterioration of the respective sovereigns' creditworthiness. Additionally, any sector or issuer-specific risks emerging in this context would exacerbate downward ratings pressures.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_139806 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:

- * Rationale for review
- * Methodologies
- * Unsolicited ratings
- * EU Participation in unsolicited ratings
- * National Scale Ratings

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Some ratings were initiated by Moody's and were not requested by the rated entities.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_139806 for the List of Affected Credit Ratings for the specific designation of unsolicited ratings.

Some rated entities or their agents participated in the rating process. The rated entities or their agents provided Moody's access to the books, records and other relevant internal documents of these rated entities. Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_139806 for the List of Affected Credit Ratings for the specific designation of participating issuers in unsolicited ratings.

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