FITCH AFFIRMS ITALIAN PROVINCE OF ROME AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-05 December 2014: Fitch Ratings has affirmed the Italian Province of Rome's (Rome) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB+' and Short-term foreign currency IDR at 'F2'. The Outlook is Stable. Fitch has also affirmed Rome's EUR300m bonds' Long-term foreign currency rating at BBB+.

The ratings reflect Rome's on-going declining debt as well as its wealthy economy and continued spending control, which partially offsets budgetary pressure stemming from national fiscal adjustment. The Stable Outlook reflects the declining, yet expected to be restored, operating performance, to be complemented by solid reserves to guarantee full debt service coverage.

KEY RATING DRIVERS

After a decline in 2014-2015, primarily due to contributions to the consolidation of the national budget, Fitch expects Rome to progressively restore its operating margin towards 10% by 2017 (EUR55m-EUR60m; 17% in 2013). New revenue streams, thanks to the revision of the funding structure which will follow the replacement of the Province of Rome with the Metropolitan city in January 2015 will raise tax revenues towards EUR0.5bn over the medium term. This will offset the contribution to reduce the national deficit which in 2014 will push up operating spending by EUR70m. Rome still has some budget flexibility on spending and revenue, with the latter still reliant on the auto sector.

Despite the transformation into metropolitan city from 2015, Fitch believes that investments will be still focused on schools and roads, albeit commensurate with available resources and therefore limited to non-deferrable extraordinary maintenance (EUR50m-EUR70m). Rome will use its free fund balance of about EUR120m as of 2013 to partly offset the expected fall in operating balances in both 2014 and 2015.

Although Fitch's scenario incorporates EUR70m new borrowing in 2014-2017, debt should steadily decline towards EUR620m in the medium term from about EUR890m in 2010, or 105%-110% the budget size. The overwhelming (almost 90%) exposure to fixed interest rates prevents an unexpected rise in the interest burden (EUR25m on average in 2014-2017). Notwithstanding the expected weakening of the operating margin in 2014/2015, debt sustainability should remain sound over the medium term, and compatible with the ratings, with the average life of debt below the 15 years of debt to current balance foreseen at 2017.

Rome's efforts against tax avoidance have supported tax proceeds hovering just above EUR400m in 2013-2015, contributing to a sound liquidity position. Cash totalled EUR120m in early November 2014, or 2x the debt service requirements. However, Fitch expects it to decline over the medium term as local governments gain more spending leeway amid reiterated delays in the provision of cash from the Region of Lazio (BBB/Negative). Rome's receivables towards Lazio rebounded to EUR450m in 2014 from EUR400m at 2012.

GDP per capita about 30% above the EU28 average underpins the wealthy local economy, which Fitch expects to return to modest growth in 2015, on growing tourism, services and, to a lesser extent, to rising exports in sectors including chemicals and mechanical. This is expected to sustain the employment rate (60% in 2013; Italy: 56%) and maintain unemployment in line with the national average of 12.5%. The signs of recovery in the auto-sector sustain the insurance-related taxes which at EUR250m, remain the main revenue source for the metropolitan city.

RATING SENSITIVITIES

An upgrade would be contingent on a similar action on the sovereign ratings (BBB+/Stable), and provided that the province/metropolitan city continues to perform in line with Fitch's expectations, in terms of operating margin and debt metrics. Conversely, failure to control spending leading to a debt service coverage ratio persistently below 1x (2013: 1.3x) may result in a downgrade or in the Outlook being revised to Negative. A sovereign downgrade would also prompt a rating downgrade as Rome lacks the substantive financial autonomy required for a rating above Sovereign.

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Applicable criteria, 'Tax-Supported Rating Criteria', dated 14 August 2012, and 'International Local and Regional Governments Rating Criteria', dated 23 April 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
International Local and Regional Governments Rating Criteria - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=719656