FITCH AFFIRMS METROPOLITAN CITY OF ROME AT 'BBB+'; STABLE OUTLOOK

Fitch Ratings-Milan/London-27 November 2015: Fitch Ratings has affirmed the Metropolitan City of Rome's Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'BBB+' and Short-term foreign currency IDR at 'F2'. The Outlooks are Stable. Fitch has also affirmed Rome's original EUR300m bonds' Long-term foreign currency rating at BBB+.

The affirmation and Stable Outlooks reflects our expectation that Rome's operating performance will stabilise in the medium term, due to continued spending control partially offsetting budgetary pressure stemming from national fiscal adjustment amid a declining, although still notable, level of debt. The ratings are capped by Italy's sovereign ratings (BBB+/Stable).

KEY RATING DRIVERS
Rome's ratings take into account a relatively high level of debt, which is mitigated by the solid reserves and sound fiscal performance, as well as the metropolitan city's still wealthy economy and solid reserves, which can cover debt service requirements if necessary.

Finance
Fitch expects Rome to maintain its operating margin in the medium term at the satisfactory 8% posted in 2014 (or about EUR40m), after a forecast decline in 2015 to 5.5% due to a mismatch between revenue and expenditure cuts. This mismatch will be covered by the free fund balance of EUR75m as of 2014, which we expect to be narrow from 2016. Despite the adoption of metropolitan city status, Rome has kept about two-thirds of its revenue structure focused on the auto sector (about EUR350m in 2014), which leads to limited fiscal leeway as rates are already close to maximum ceiling allowed. Nevertheless, with a rebounding car sale sector, Fitch believes that Rome's taxes will grow towards EUR550m over the medium term from EUR480m in 2014.

Debt and Liquidity
In its central scenario, Fitch forecasts EUR50m total new borrowing in the medium term. However, debt is expected to continue declining to EUR620m by 2017, or approximately 110% of the budget (from almost EUR900m in 2010), while maintaining about 90% exposure to fixed interest rates and sound debt sustainability, as debt service requirements absorb only 10%-12% of revenue. In addition, Rome may temporarily benefit from a debt repayment suspension in 2015 as allowed by the law for renegotiation purposes, although entailing a reversal effect in 2016.

Therefore, despite being downsized to a yearly EUR60m (half of the 2012-2014 average), investments will likely continue to be largely self-funded and related to non-deferrable extraordinary maintenance on schools and roads.

Due to its still satisfactory tax compliance, Rome's liquidity position remained strong at EUR100m as 10M15 in line with 2014 (or 1.5x the annual debt service requirement). Fitch expect liquidity to decline in the medium term despite efforts made by management to recover at least part (25%) of the receivables (about EUR450m in mid-2015) towards the region of Lazio (BBB/Stable).

Institutional Framework
Following the adoption of metropolitan city status in early 2015, Rome has experienced only a marginal change in its mix of revenue and spending responsibilities so far. By year end, the region of Lazio is expected to have ruled over the transition of one-third of Rome's personnel and related

functions to the region, which should provide some relief to Rome's operating performance, along with the forthcoming 200 retirements and expected reduction of transfer curtailments.

The political turmoil affecting the municipal administration deprived the unelected bodies of the metropolitan city of its most important representatives. This will limit the management of the metropolitan city to ordinary administration at least until mid-2016, when the next elections at city level take place and political bodies will be normally reconstituted.

Economy
The large public sector has sustained the employment rate (61% in 2014; Italy: 55.6%) supporting Rome's tax revenue and maintaining unemployment at 11.5%, below the national average of 12.5%. Considering the expected limited recovery, we believe that economy will maintain its wealthy indicators (GDP per capita about 30% above the EU28 average), along with growing tourism and services, as well as rising exports in sectors such as chemical and mechanical.

RATING SENSITIVITIES
An upgrade of the IDR would be contingent on a similar action on Italy's ratings, and provided that the metropolitan city continues to perform in line with Fitch's expectations in terms of operating margin and debt metrics.

Conversely, a sovereign downgrade or failure to control spending amid depletion of reserves in a context of debt service coverage ratio persistently below 1x, may result in a downgrade or in the Outlook being revised to Negative.

Contact:
Primary Analyst
Sergio Ciaramella
Director
+39 02 87 90 87 216
Fitch Italia S.p.A.
Via Morigi 6 - Ingresso Via Privata Maria Teresa, 8
20123 Milan

Secondary Analyst
Gian Luca Poggi
Director
+39 02 87 90 87 293

Committee Chairperson
Guilhem Costes
Senior Director
+34 93 323 8410

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015