MOODY'S
PUBLIC SECTOR EUROPE

Rating Action: Moody's upgrades ratings of 15 Spanish sub-sovereigns; outlooks unchanged

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London, 17 April 2018 -- Moody's Public Sector Europe (Moody's or MPSE) has today upgraded by one notch the ratings of 15 Spanish sub-sovereigns. The outlooks of all the sub-sovereigns remain stable. At the same time, Moody's affirmed Catalunya's rating at Ba3/Not Prime, with the outlook remaining negative.

Today's rating actions on the Spanish sub-sovereigns were triggered by: (1) the strengthening of Spain's sovereign credit profile as captured by the upgrade of Spain's ratings to Baa1 from Baa2 on 13 April 2018; and (2) the strong correlation between sub-sovereign and sovereign credit risks.

For full details, please refer to the sovereign press release: https://www.moodys.com/research/--PR_381868

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

RATIONALE FOR THE RATINGS UPGRADES

Moody's believes that the improvement of the sovereign's creditworthiness -- captured by the one notch upgrade on Spain's rating to Baa1 from Baa2-- is reflected at the regional and local level given; 1) the strong correlation between sub-sovereign and sovereign credit risks, reflected in macroeconomic linkages, institutional factors and financial market conditions; and 2) the high extraordinary support from the central government to the regions through liquidity support that will be maintained in the coming years.

Moody's also notes a significant improvement in the regions' fiscal consolidation in 2017, as the regional aggregated deficit for the year declined to -0.32% of gross domestic product (GDP) in ESA terms (vs. target of 0.6%) from -0.84% in 2016. This is credit positive for the sector as it is the first time since the start of the financial crisis in 2008 that the Spanish regions have collectively met the deficit limit target imposed by the central government. Despite regional elections in 2019, Moody's believes that the regional deficit is likely to continue to decline in 2018 as strong GDP growth bolsters regional tax revenue. This will help regions to fiscally consolidate, increasing gross operating performances and reducing deficit levels.

In addition, although regional debt levels should continue to increase through 2020, the ratio of net direct and indirect debt to operating revenue is decreasing. Aggregated regional debt to operating revenue ratio decreased to 204% in 2017 from 211% in 2016. As Spain's economy continues to improve, Moody's believes that the net direct and indirect debt-to-operating revenue ratio for the regions is likely to continue to decrease in 2018.

Moody's notes the regions' strong reliance on the Spanish government, given their extensive use of the central government's liquidity mechanisms. These include: the Fondo de Liquidez Autonomico (FLA), established in 2012 for regions that breach deficit targets set by the central government; and the Fondo de Facilidad Financiera (FFF), established in 2015 for regions that comply with deficit targets, providing regions with liquidity to fund their yearly financing needs (including deficit levels and debt redemptions). Since these liquidity mechanisms were created, 15 out of 17 Spanish regions (i.e. all regions with the exception of the Basque Country and Navarra) utilised these liquidity mechanisms; as of year-end 2017 these accounted for approximately 58% of the regional aggregated debt.

ENTITIES RATED ABOVE THE SOVEREIGN LEVEL

-- THE BASQUE COUNTRY AND THE PROVINCE OF BIZKAIA

Moody's decision to upgrade the ratings of the Basque Country and the province of Bizkaia to A3 from Baa1 reflects these entities' unique and constitutionally protected tax regimes, which currently enable them to retain sufficient credit strength to maintain their ratings one notch above that of the sovereign. In addition, the Basque Country and the province of Bizkaia have comfortable liquidity positions, which limit their refinancing risk. Both

Bizkaia and the Basque Country recorded positive operating balances and financing surpluses in 2017, expected to continue in 2018.

ENTITIES RATED AT THE SOVEREIGN LEVEL

--CITY OF BARCELONA

Moody's upgrade of the city of Barcelona's rating to Baa1 from Baa2 reflects the city's good budgetary management and solid financial fundamentals in recent years, as evidenced by the city's limited debt burden (33% of revenue in 2017) and high gross operating balance (20% of operating revenue on average for 2012-17). The rating also reflects Barcelona's strong liquidity position. Moody's expects this sound financial performance will continue in coming year.

While Moody's acknowledges Barcelona's robust financials, the city does not have sufficient financial flexibility to justify a rating above that of the sovereign. The central government retains control of Spanish municipalities via legislation, the level of transfers, and the management of pay-raise packages for civil servants.

-- REGIONS OF CASTILLA Y LEON, GALICIA AND MADRID

Moody's decision to upgrade the ratings of these regions to Baa1 from Baa2, on par with the sovereign's rating reflects the rating agency's view that these three regions have reported stronger financial performances than other Moody's-rated Spanish regions throughout the financial crisis; these regions' deficits are controlled and their debt levels, although increasing, are manageable and consistent with this rating level. Moody's expects that the financial performance of these three regions will continue to improve in the next two years.

In addition, Castilla y Leon and Madrid access financial markets, with a high portion of their financing needs being covered by bond issuances in 2017. Madrid was the first Spanish region to arrange sustainable financing in Spain in 2017 and will continue with this approach this year.

ENTITIES RATED BELOW THE SOVEREIGN LEVEL

--REGIONS OF ANDALUCIA, CASTILLA- LA MANCHA, EXTREMADURA, MURCIA AND VALENCIA

Moody's one-notch rating upgrade of the regions of Andalucia and Extremadura (to Baa2 from Baa3), primarily reflects that the fiscal position of these two regions is stronger than the other regions rated below the sovereign level. Their fiscal performance has significantly improved in the last two years, reducing deficit levels, and Moody's expects that these improvements will continue in 2018. At the same time, the debt levels of Andalucia and Extremadura are low compared with national peers at around 130% and 105% of operating revenue, respectively (compared with 204% for the rated regions on average).

Castilla-La Mancha, Murcia and Valencia's ratings were upgraded by one-notch to Ba1 from Ba2. These three regions have relatively weaker fiscal positions, and Moody's believes that they will remain fragile over the next few years. However, Castilla-La Mancha's financing deficit is lower than the other two regions (-3% of operating revenue in 2017 vs. around -10% for Murcia and -14% for Valencia). While Moody's believes debt levels for these three regions will continue to increase in 2018, net direct and indirect debt to operating revenue ratios will decrease in 2018, as they have done in 2017.

Moody's notes that these five regions will continue to receive liquidity support from the central government through the FLA or the FFF in 2018, reducing the short-term risk of a region's liquidity-driven default and covering their financial obligations.

RATIONALE FOR RATING AFFIRMATION

-- REGION OF CATALUNYA

The Generalitat de Catalunya's long-term issuer and debt ratings have been affirmed at Ba3/Not Prime, with the outlook remaining negative.

The rationale to affirm the region's rating at Ba3 is mainly based on the region's weak fiscal position, reflected in the presence of very high debt levels and Moody's view that persistent political tensions between the region and the central government over independence is affecting the regional economy, particularly foreign direct investment. The affirmation of the region's rating is also based on the high extraordinary support received from the central government via the FLA and Moody's expectations that support would continue to be forthcoming.

The rationale to maintain its negative outlook mainly reflects the continued political tension between the region and the central government. Moody's expects that political instability, unresolved following the regional elections of 21 December 2017, will continue to negatively affect the region's business environment, adding pressure to the region's already weak finances.

RATIONALE FOR STABLE OUTLOOK

Moody's decision to maintain a stable outlook on all Spanish sub-sovereigns ratings (with the exception of Catalunya) reflects the rating agency's view that Spanish regional and local governments will continue to improve their fiscal positions in the next two to three years, as well as Moody's expectation that regional debt-to-revenue ratio will continue to decrease. At the same time, the stable outlook mirrors the outlook for the government of Spain (Baa1 stable).

WHAT COULD CHANGE THE RATINGS UP/DOWN

The strengthening of Spain's credit profile, as reflected by an upgrade of the sovereign rating, would result in upward pressure on Spanish sub-sovereign ratings in general, and particularly on those ratings currently on par or above that of the sovereign. In addition, upward pressure would develop on sub-sovereigns currently rated below the sovereign, if their fiscal and financial performance were to improve.

A downgrade of Spain's sovereign rating leading to indications of weakening government support for the regions, or a deterioration in their fiscal performance, would likely lead to a downgrade of sub-sovereign entities.

Given the negative outlook on Catalunya's rating, an upgrade is unlikely over the next 12 to 18 months. Downward pressure on the rating could occur if Catalunya's new government reverses the region's fiscal consolidation. In addition, a downgrade of the sovereign rating, or any indication of weakening government support, would likely lead to a downgrade in Catalunya's rating.

LIST OF AFFECTED RATINGS

Upgrades:

..Issuer: Andalucia, Junta de

....LT Issuer Rating, Upgraded to Baa2 from Baa3

....Senior Unsecured MTN Program, Upgraded to (P)Baa2 from (P)Baa3

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa2 from Baa3

..Issuer: Extremadura, Junta de

....LT Issuer Rating, Upgraded to Baa2 from Baa3

..Issuer: Galicia, Comunidad Autonoma de

....LT Issuer Rating, Upgraded to Baa1 from Baa2

..Issuer: Madrid, Comunidad Autonoma de

....LT Issuer Rating, Upgraded to Baa1 from Baa2

..Issuer: Barcelona, City of

....LT Issuer Rating, Upgraded to Baa1 from Baa2

..Issuer: Basque Country (The)

....LT Issuer Rating, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

..Issuer: Bizkaia, Diputacion Foral de

....LT Issuer Rating, Upgraded to A3 from Baa1

..Issuer: CACSA

. Underlying Senior Secured, upgraded to Ba1 from Ba2

.Backed Senior Secured upgraded to Ba1 from Ba2

..Issuer: Castilla y Leon, Junta de

....LT Issuer Rating, Upgraded to Baa1 from Baa2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa1 from Baa2

..Issuer: Castilla-La Mancha, Junta de Comunidades de

....LT Issuer Rating, Upgraded to Ba1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2

..Issuer: FERIA VALENCIA

.Underlying Senior Secured upgraded to Ba1 from Ba2

..Issuer: Instituto Valenciano de Finanzas

....Backed Senior Unsecured Bank Credit Facility, Upgraded to Ba1 from Ba2

..Issuer: Murcia, Comunidad Autonoma de

....LT Issuer Rating, Upgraded to Ba1 from Ba2

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2

..Issuer: Universities of Valencia

.Underlying Senior Secured, Upgraded to Ba1 from Ba2

....Backed Senior Secured Bond/Debenture, Upgraded to Ba1 from Ba2

..Issuer: Valencia, Generalitat de

....Senior Unsecured Regular Bond/Debenture, Upgraded to Ba1 from Ba2

Affirmations:

..Issuer: Catalunya, Generalitat de

....LT Issuer Rating, Affirmed Ba3

....Senior Unsecured Regular Bond/Debenture, Affirmed Ba3

....Senior Unsecured MTN Program, Affirmed (P)Ba3

....Other Short Term, Affirmed (P)NP

.... Commercial Paper, Affirmed NP

..Issuer: FERIA VALENCIA

..Backed Senior Secured, Affirmed at A2, in line with Assured Guaranty (Europe) Ltd.'s rating.(A and B Certificates)

..Issuer: Valencia, Generalitat de

.... Commercial Paper, Affirmed NP

Outlook Actions:

..Issuer: Andalucia, Junta de

....Outlook, Remains Stable

..Issuer: Extremadura, Junta de

....Outlook, Remains Stable

..Issuer: Galicia, Comunidad Autonoma de

....Outlook, Remains Stable

..Issuer: Madrid, Comunidad Autonoma de

....Outlook, Remains Stable

..Issuer: Barcelona, City of

....Outlook, Remains Stable

..Issuer: Basque Country (The)

....Outlook, Remains Stable

..Issuer: Bizkaia, Diputacion Foral de

....Outlook, Remains Stable

..Issuer: CACSA

....Outlook, Remains Stable

..Issuer: Castilla y Leon, Junta de

....Outlook, Remains Stable

..Issuer: Castilla-La Mancha, Junta de Comunidades de

....Outlook, Remains Stable

..Issuer: Catalunya, Generalitat de

....Outlook, Remains Negative

..Issuer: FERIA VALENCIA

....Outlook, Remains Stable

..Issuer: Instituto Valenciano de Finanzas

....Outlook, Remains Stable

..Issuer: Murcia, Comunidad Autonoma de

....Outlook, Remains Stable

..Issuer: Universities of Valencia

....Outlook, Remains Stable

..Issuer: Valencia, Generalitat de

....Outlook, Remains Stable

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.moodys.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: Spain, Government of

GDP per capita (PPP basis, US$): 36,347 (2016 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 3.3% (2016 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.6% (2016 Actual)

Gen. Gov. Financial Balance/GDP: -4.5% (2016 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 1.9% (2016 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.

On 12 April 2018, a rating committee was called to discuss the rating of the Andalucia, Junta de; Barcelona, City of; Basque Country (The); Bizkaia, Diputacion Foral de; CACSA; Castilla y Leon, Junta de; Castilla-La Mancha, Junta de Comunidades de; Catalunya, Generalitat de; Extremadura, Junta de; FERIA VALENCIA; Galicia, Comunidad Autonoma de; Instituto Valenciano de Finanzas; Madrid, Comunidad Autonoma de; Murcia, Comunidad Autonoma de; Universities of Valencia; Valencia, Generalitat de. The main points raised during the discussion were: The systemic risk in which the issuer operates has materially decreased.

The principal methodology used in rating of Junta de Andalucia, City of Barcelona, Basque Country, Diputacion Foral de Bizkaia, Junta de Castilla y Leon, Junta de Comunidades de Castilla-La Mancha, Generalitat de Catalunya, Junta de Extremadura, Comunidad Autonoma de Galicia, Comunidad Autonoma de Madrid, Comunidad Autonoma de Murcia, Generalitat de Valencia was Regional and Local Governments published in January 2018.

The principal methodology used for CACSA, FERIA VALENCIA, Instituto Valenciano de Finanzas and Universities of Valencia's ratings was Rating Transactions Based on the Credit Substitution Approach: Letter of Credit-backed, Insured and Guaranteed Debts published in May 2017. Please see the Rating Methodologies page on www.moodys.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.

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