

Rating Action: Moody's downgrades Finland's Municipal Guarantee Board to Aa1; stable after similar Sovereign action

Global Credit Research - 08 Jun 2016

London, 08 June 2016 -- Moody's Public Sector Europe ("MPSE") has today downgraded the long-term issuer rating on Municipal Guarantee Board ("MGB") to Aa1 from Aaa. The outlook has been changed to stable from negative.

Today's rating action was prompted by the weakening of the Finnish government's credit profile as captured by Moody's downgrade of Finland's government bond rating to Aa1 from Aaa, with a stable outlook. For more details, please refer to Moody's Sovereign press release http://www.moody.com/viewresearchdoc.aspx?docid=PR_349940.

RATINGS RATIONALE

MGB remains highly dependent on the creditworthiness of the Finnish Regional and Local Government (RLG) sector, which in turn is related to the sovereign rating. Despite the joint and several guarantee involving the member RLG sector, the inter linkages, controls and importance of services provided by the sector would indicate that the absolute end supporter in the unlikely event of an acute liquidity stress would be the central government. Moody's consequently views that MGB and its member municipalities cannot have a stronger creditworthiness than the government of Finland. The significance of MGB's public mandate leads to an expectation of near certain extraordinary support in the unlikely event of a default.

The Aa1, stable rating is underpinned by the strong creditworthiness of the RLG Sector, the joint and several guarantee, an extremely low likelihood that the beneficiary will exercise this guarantee and the linkage and oversight of the RLG sector by the central government. The rating also considers MGB's weak standalone liquidity in relation to the total guarantee stock together with uncertainty around how the guarantee framework would work in practise as it has never been tested.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook on MGB reflects the stable outlook on the sovereign rating.

WHAT COULD CHANGE THE RATING --- UP / DOWN

Negative pressure on the rating could result from one or a combination of the following: (1) a downgrade in Finland's sovereign rating, (2) a weakening of the ties between the local government sector and the sovereign and (3) a weakening of the MGB Act or the joint and several guarantee and thus reduced powers of MGB.

As per the application of Moody's GRI methodology for government-related issuers with a very high level of support, the final Aa1, stable rating reflects the support provided by the sovereign due to linkages between the central government and the regional and local government sector (MGBs owners). Moody's assigns a near certain likelihood of support from the central government (Aa1, stable) to provide liquidity in the unlikely event that the RLGs would require this support.

The principal methodology used in this rating was Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

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