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Research Update:

Finnish Municipal Guarantee Board Outlook Revised To Stable After Sovereign Rating Action; 'AA+/A-1+' Ratings Affirmed

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Overview

- We revised our outlook on Finland to stable from negative on Sept. 16, 2016.
- The ratings on Finnish Municipal Guarantee Board (MGB) are underpinned by the high creditworthiness of the Finnish local government sector, which also provides a joint and pro rata guarantee to Municipality Finance through MGB.
- We are therefore revising our outlook on MGB to stable from negative, reflecting the recent action on the sovereign, and affirming the 'AA+/A-1+' ratings on MGB.
- The stable outlook partly reflects that on the sovereign. If we were to lower our ratings on Finland, we would also lower our ratings on MGB. If we were to raise our ratings on Finland, a possible upgrade of MGB would hinge on our view of MGB's and Municipality Finance's joint creditworthiness.

Rating Action

On Sept. 30, 2016, S&P Global Ratings revised its outlook on Finnish public-policy agency Municipal Guarantee Board (MGB) to stable from negative. At the same time, we affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on MGB.

Rationale

The outlook revision follows our similar action on Finland on Sept. 16, 2016 (see "Research Update: Finland Outlook Revised To Stable On Gradual Economic Recovery; Ratings Affirmed At 'AA+/A-1+'").

We view MGB as closely linked to the local government sector in Finland, as one of the main pillars of the municipal funding system. The ratings on MGB reflect our view of the robust creditworthiness of the sector, supported by strong systemic support features and the institutionalized and unlimited ability of municipalities to increase local income tax rates.

The ratings on MGB reflect the joint support of Finland's local government sector through a guarantee extended by MGB's member municipalities, which represent all of mainland Finland's population (not including the autonomous Åland Islands). In addition, the ratings also reflect MGB's focus on providing guarantees only for the financial obligations of Municipality Finance, which, under the current set-up is the primary credit institution for both Finnish local governments and the central government subsidized housing sector. The ratings are further supported by MGB's special public-policy role and status--as described in specific legislation--within the joint funding system for Finnish local and regional governments.

Outlook

The stable outlook partly reflects that on the sovereign. If we were to lower our ratings on Finland, we would also lower our ratings on MGB. However, if we were to raise our ratings on Finland, a possible upgrade of MGB would hinge on our view of MGB's and Municipality Finance's joint creditworthiness.

Our ratings on MGB continue to reflect our two-year expectation that the structure of Finland's joint municipal funding system will remain in its current form, and that Municipality Finance will remain the sole recipient of MGB's guarantees. In addition, we anticipate that the creditworthiness of the Finnish municipal sector will remain stable and the current legislative structure--including the MGB Act and MGB's status as a special public-policy agency--will remain unchanged.

Independently from any rating action on the sovereign, we could lower the ratings on MGB if its legal status or institutional set-up were to change or if Municipality Finance's credit quality were to significantly deteriorate. Similarly, the ratings could come under pressure if other credit institutions were allowed to benefit from the MGB guarantee. We could also downgrade MGB if we thought the credit quality of the Finnish local government sector was declining.

Related Criteria And Research

Related Criteria

- Criteria - Governments - International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign - December 15, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Research Update: Finland Outlook Revised To Stable On Gradual Economic Recovery; Ratings Affirmed At 'AA+/A-1+' - September 16, 2016

Ratings List

	Rating	
	To	From
Municipal Guarantee Board		
Issuer Credit Rating		
Foreign and Local Currency	AA+/Stable/A-1+	AA+/Negative/A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our

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