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Italy's infrastructure under pressure

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At a time when Italy is in urgent need of investment in infrastructure, a number of projects are suffering delays due to indebted construction companies and political pressures. A dispute between the national government and the EU is creating economic uncertainty, and the recent Morandi bridge disaster is casting a dark shadow over all private sector-led projects in the country.

The tragic collapse on 14 August (2018) of Genoa's Morandi bridge killed 43 people and injured nine others. Resulting investigations were launched into the disaster by the public prosecutor, the Ministry of Transport, road authority ANAS and sponsor Autostrade. The government has threatened to take the unprecedented step of revoking all of Autostrade's motorway concessions in the country.

The bridge and surrounding damaged infrastructure need to be rebuilt, while the government has promised to implement a major infrastructure investment plan to upgrade motorways, bridges, viaducts, schools and structures in areas often impacted by geological instability and extreme weather.

However, multiple existing projects are already struggling to reach the finish line as arguments rage about who should pay for the work, and it is unclear how Italy will progress with its much needed infrastructure work.

Budget standoff

The populist Five-Star-League coalition said this week (26 November 2018) that Italy will not back down to pressure from the EU to revise its big-spending, tax-cutting budget, which is expected to push the heavily indebted country's budget deficit to 2.4% of GDP.

Now the European Commission has threatened Italy with fines unless it changes its plans, and is attempting to open a case under the Eurozone's excessive deficit procedure.

According to Eurozone rules, budget deficits should be below 3% of GDP – and Italy's planned deficit for 2019 and the next two years will be – but national debt must also be under 60% of GDP. Italy's debt stood at 131.8% of GDP or €2.3 trillion ($2.6 trillion) in 2017, putting it (within the Eurozone) second only to Greece's 178.6%.

The proposed budget announced in September (2018) includes the creation of a monthly income of about €780 for low-income families, while scrapping extensions to the age of retirement.

And despite the threat of EU fines, the government – which resulted from two anti-establishment outsider parties sweeping to power in May on the back of anger at cronyism and corruption in Italian politics, in addition to weariness at the country's sluggish economy and mass immigration – is displaying limited will to compromise on its spending plans.

If it does back down to the EU's demands there is likely to be less government funds available for planned projects, while the economic uncertainty the dispute is creating will make it more difficult for sponsors to raise private capital.

Developers and cash flow issues

Meanwhile, developers in the country are struggling. Astaldi filed for bankruptcy protection amid liquidity problems after instability in Turkey and the falling value of the Turkish Lira made it harder to progress with the planned sale of its 33.33% interest in the concession company for Istanbul's Third Bosphorus Bridge.

The company had been attempting to raise equity, but its planned rights issue was dependent on the bridge sale. Meanwhile, the liquidity problems also mean that Astaldi has delayed its new and ongoing projects.

The company's debt was €1.26 billion at the end of 2017.

This month (November 2018), rival Italian builder Salini Impregilo made a non-binding preliminary demonstration of interest in Astaldi concerning "assessing the potential of an industrial integration".

Meanwhile, Italy's third-largest builder Condotte filed for extraordinary administration this year (2018) after also facing cash flow problems. The company is unable to continue works at a number of projects, including a station for high-speed trains in Florence. And this month a group of banks led by UniCredit refused to provide a bridge loan that could have helped works to resume.

At the same time, another Italian construction company, CMC Ravenna defaulted this month on its bond coupon payments due to cash flow problems caused by the late payment of two road projects in Sicily, for water works in Kenya and another similar project in Nepal.

Projects

All these problems mean it is even harder for Italy to proceed with infrastructure projects that have stalled because of disagreements over who will pay for them.

One of these is the Pedemontana-Lombarda roads project, a 157km network located in the Lombardy region of northern Italy, which was one of the League's original strongholds.

The project is incomplete and has suffered cost overruns, with insolvency proceedings starting last year (2017). However, the scheme's lenders came to the rescue in late 2017, turning a €250 million bridge loan into a term loan maturing 2034.

The League has always pushed for this project to be completed, while the Five-Star Movement has been against it.

The remaining sections of the project reportedly require €7.4 billion to reach completion. However, disputes are ongoing between the central government and the region of Lombardy over who should pay. And a preliminary market consultation was opened in October (2018), which aims to establish whether there are companies interested in participating in the remaining parts of the work.

Attilio Fontana, president of Lombardy, has vowed to support the scheme and says he has spoken to funds who may be interested. His statement was a response to Infrastructure and Transport Minister Danilo Toninelli's recent assertion that there was no provision for additional public financing for parts of the road network that are still to be built.

The network comprises:

- 67km motorway axis from Cassano Magnago to Osio Sotto
- ring roads for Como and Varese
- 20km of connecting roads
- 70km of local roads

The first section (A) is a 15km stretch of road between the A8 Milan-Varese and the A9 Milan-Como, while B1 extends from the interconnection with the A9 Milan-Como to Lomazzo up to the interconnection interchange with the section B2.

Section A entered service in January 2015, and the orbitals (Como and Varese) are also complete. Meanwhile B1 is still under construction.

Construction is pending for:

- 5km section B2 – Seveso-Cesano Maderno
- 5km section C – Cesano Maderno-Tangenziale Est/A51

The final phase is the 18.5km phase D from Tangenziale Est/A51 to the A4 ring road, although this may yet be cancelled.

Lenders are:

- Banca IMI
- Banca Popolare di Milano
- Intesa Sanpaolo
- MPS Capital Services
- UBI Banca
- UniCredit

The road's shareholders are:

- 78.97% – Milano Serravalle, Milano Tangenziale (MSMT)
- 13.36% – Oldequiter
- 4.01% – Intesa San Paolo
- 3.34% – UBI Banca
- 0.32% – Par Cop Son Cons

The majority shareholder of MSMT is the Region of Lombardy.

Strada dei Parchi

Meanwhile, negotiations are ongoing between the Ministry of Transport and Toto Costruzioni Generali, concessionaire of the Strada dei Parchi toll road, over funds needed to upgrade this motorway.

The 285km A24/A25 Strada dei Parchi motorway links Rome to l'Aquila and Pescara, connecting the capital to the Adriatic coast. As a result, the road is important for rescue operations when earthquakes occur in central Italy. However, parts of the road are thought to be in very bad condition, and may have been worsened by the August 2016 earthquake, which is particularly worrying considering the collapse this summer of the Morandi bridge.

Upgrades planned for the Strada dei Parchi include building an additional lane to be used for rescue operations, as well as new tunnels and bridges. Of the €240 million needed for urgent work to improve safety on the road, €50 million has been provided, with the rest still outstanding. Toto is entitled to a €192 million payment for seismic safety works from the Ministry of Transport. However, for now this has not been paid.

Meanwhile, another €3 billion is also needed for less urgent works on the motorway.

The initial financing of the road's PPP upgrade programme reached financial close in 2008. The motorway has been operational for over 30 years and was tendered to the Strada dei Parchi project company in 2002.

A refinancing and expansion was completed in 2011, and around that time Atlantia, through its wholly owned subsidiary Autostrade per l'Italia, sold its 60% stake in the project company to Toto Costruzioni Generali.

Refinancings

The standoff between the government and the EU regarding the budget is also making it harder to refinance Italian infrastructure.

A refinancing of Italy's Brebemi toll road connecting Brescia, Bergamo and Milan was expected to be completed with a bond issuance, with JP Morgan and Banca IMI mandated to put this in place. However, last month's downgrade of the country's sovereign debt rating by Moody's to one notch above junk, the spike in the country's bond yields and continued uncertainty around the budget mean bonds may struggle to get a good rating.

As a result, it now looks more likely that there will be a smaller-than-previously-expected bond issue, with the remainder of the new debt provided by banks, said a source close to the deal.

Around €1.5 billion is expected to be refinanced for the road, when the deal comes through. This compares to €1.8 billion debt undertaken when the project reached financial close in 2013.

The project – which is now complete – comprised the construction of a 62km linking Brescia, Bergamo and Milan in Northern Italy under a 20-year concession.

Autostrade Lombarde – which is 42% owned by BIIS (Intesa Sanpaolo) – owns 87% of the Brebemi SPV.

And the difficulty with bond refinancings may also affect other projects – including the Milan Metro Line 4 PPP scheme, for which a group of Italian and international banks lent a total of €516 million in debt in January 2015 for a project where – unusually – the Municipality of Milan is both majority shareholder in the project company and the contracting authority.

Most of this project is now complete. So – even though the section that will connect to Milan Linate Airport is not yet finished (and won't be until at least 2021) – a refinancing is thought to be on the cards for the scheme to take advantage of reduced construction risk. However, one source said the new debt is more likely to comprise bank lending than bonds.

It is not hard to see why.

