

## **FITCH AFFIRMS ITALIAN AUTONOMOUS PROVINCE OF TRENTO AT 'AAA'; OUTLOOK STABLE**

Fitch Ratings-London/Milan-01 July 2008: Fitch Ratings has today affirmed the Italian Autonomous Province of Trento's (Trento) Long-term foreign and local currency ratings at 'AAA' and Short-term foreign currency rating at 'F1+'. The Outlooks for the Long-term ratings are Stable.

The ratings reflect Trento's long track record of solid financial performance and flexibility, special prerogatives of autonomy, efficient management and a wealthy and dynamic economy. The ratings also take into account the increasing level of financial commitments - directly and/or indirectly linked to the province - and the exposure to state decisions pertaining to the tax base and tax rates, which could potentially reduce the province's revenue. However, Fitch deems the latter risk low and believes the province's finances are resilient enough to offset potential negative effects of the central government's financial decisions.

The province's Long-term ratings are three notches above Italy's Long-term Issuer Default rating ('AA-' (AA minus)/Stable Outlook), the maximum level allowed under Fitch criteria ("Rating Subnationals above the Sovereign in the Euro Area - A Fine-Tuning", 3 May 2006). Therefore, any negative rating action on Italy will automatically affect the province's ratings. In addition, a negative rating action could be prompted by an unexpected acceleration of the financial - direct and indirect - debt, with a substantial reduction of the operating performance.

The province's high degree of legislative, administrative and financial autonomy, which confers powers and functions similar to that of a special statute region to the province, is protected not only by the Italian constitution, but also by an international agreement that shields the province against unilateral changes from the state. In addition, Fitch does not expect the eventual reform of the funding system for Italian ordinary status regions to significantly impinge on the province's prerogatives of autonomy.

Trento's financial situation has been excellent and resilient, and is expected to remain so for the medium-term, with ample current balances on average at 34% of current revenue over the past five years and completely self-financed direct investments. Unlike ordinary status regions, the province has a diversified expenditure structure, with healthcare accounting for a modest 35% of current spending. Furthermore, the wealthy and dynamic local economy underpins Trento's robust financial position as the revenue is mainly made up of taxes generated and collected in its territory.

The province enjoys significant budgetary flexibility resulting from the high level of annual investments at 40% of total spending, particularly as its infrastructure is well equipped, and from its valuable real estate and financial assets that could provide significant proceeds in case of disposal. In addition, efficient management, including daily monitoring of the province's financial and cash position, and prudent but proactive budgetary approach contribute to operational accuracy, mitigating mismatches between revenue and expenditure.

The province does not have any directly issued/contracted financial debt, but shows growing financial commitments pursuant to the fully subsidised and/or directly paid, by the province, debt of provincial entities. Fitch expects these liabilities to stay below EUR1.5bn by 2010, accounting for about 50% of current revenue and 1.5 years of current balance, a level that still compares well with 'AAA'-rated peers. In addition, the fiscal return for the province, deriving from these liabilities, mitigates the financial exposure.

Located in the wealthy north-east of Italy, Trento is a small province with a population of about 513,000 inhabitants. Its GDP per capita is 23% higher than the EU27 average and unemployment is low at 2.9% in 2007.

A credit analysis on the Autonomous Province of Trento will soon be available on the agency's

subscriber website, [www.fitchresearch.com](http://www.fitchresearch.com).

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