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Fitch Affirms Italian Autonomous Province of Trento at 'AAA'; Outlook Stable [Ratings](#)

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Fitch Ratings-Milan/London-15 July 2009: Fitch Ratings has today affirmed the Italian Autonomous Province of Trento's Long-term foreign and local currency ratings at 'AAA' and the Short-term foreign currency rating at 'F1+'. The Long-term rating Outlooks are Stable.

The ratings reflects Trento's long track record of solid financial performance and flexibility derived from its special statute of autonomy, its proactive budgetary approach as well as increasing debt at its main public sector companies.

Downward rating pressure may stem from unexpected steep growth of financial - direct and indirect - debt or unanticipated significant adverse effects arising from the roll-out of the funding system reform for ordinary status regions. In addition, given that the province's 'AAA' rating is three notches above the sovereign rating ('AA-/Stable) - the maximum level allowed under Fitch criteria - any negative rating action on Italy would automatically also affect the province's rating.

The Autonomous Province of Trento's special prerogatives of autonomy entitle it to retain about 90% of all direct and indirect national taxes generated in its territory. This allows Trento to benefit directly from its wealthy and dynamic economy. The funding system reform for Italian ordinary status regions passed with Law 42/2009 is not expected to significantly affect Trento's finances, as eventual provincial contributions to the national tax equalization system required under the reform cannot be unilaterally decided by the national government, but need to be negotiated according to the procedures set out in the provincial statute.

Using sophisticated economic forecast tools, Trento has been able to respond swiftly to the economic downturn with counter-cyclical measures by partially diverting investments to projects that can be easily implemented such as social housing, transport and hospitals. In Fitch's view, high per capita public investments - which are three times the national average - and the diversified economy could help limit GDP contraction to about 2% in 2009, compared to the forecasted above 5% decline at national level. This in turn should help mitigate the recessionary impact on provincial taxes in 2009-2010.

Trento's operating margin could shrink to 30% in 2009-2011 from an average of 34% over 2004-2008, after the province undertook measures to support employment and low-income families. The expected 3% yearly increase in operating spending over the medium term and investments of about EUR1.5bn per year in 2009-2011 should help the local economy to rebound in 2011 with a 1% growth. Capital expenditure is expected to be largely funded by the current balance, with any shortfall to be covered by a EUR600m unreserved fund balance. Should the recession be more protracted than expected, Trento has the flexibility to defer part of its capital expenditure, rather than having to resort to financial debt.

Fitch expects Trento to actively tap the financial markets in 2009-2011 through its financial arm, Cassa del Trentino (CDT; 'AAA'/Stable Outlook). CDT's outstanding debt stood at EUR620m at end-2008. Trento services EUR100m worth of bonds issued by various provincial entities and has issued EUR240m guarantees. While Trento's off-balance sheet financial liabilities are expected to grow further during 2009-2011, Fitch expects them to remain below EUR2bn, or about 50% of current revenue and two years of the current balance - levels that compare well with its 'AAA'-rated peers.

Trento is located in the wealthy north-east of Italy and has a population of about 520,000. Its per capita GDP is 25% above the EU27 average and unemployment is low at 3.3%. Services account for about 71% of local GDP, absorbing the bulk of the province's workforce (69%).

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