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Tagging Info

Fitch Affirms Italian Autonomous Province of Trento at 'AAA'; Outlook Stable

Ratings
25 Jul 2011 5:33 AM (EDT)

Fitch Ratings-Milan/London-25 July 2011: Fitch Ratings has 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 on the Long-term ratings are Stable.

The affirmation reflects Trento's robust operating performance, sound budgetary flexibility and its special prerogatives of autonomy, which entitles it to retain 90% of the main national taxes generated in its wealthy territory, whose GDP per capita is 25% above the EU average. Trento's rating could be downgraded if there was a material weakening of budgetary performance, caused by a lack of spending restraints, or a steeper-than-anticipated growth of direct or indirect debt liabilities. The province's Long-term ratings are three notches above Italy's Long-term Issuer Default Rating ('AA-'/Stable), the maximum level allowed under Fitch's criteria. Any negative rating action on Italy's sovereign rating would therefore automatically affect the province's ratings.

Trento continues to deliver a sound budgetary performance. Despite EUR100m of new responsibilities, such as the funding of the university and job protection schemes negotiated with the state at the end of 2009, Trento's operating balance remained solid, at about EUR1.2bn, or 30% of revenues, when adjusted for the one-off peak in the state's refund of previous years' devolved taxes.

Fitch expects Trento's operating performances to remain robust in 2011-2013. The province aims to generate efficiencies by overhauling back-office functions, which account for about one-third of the EUR3bn operating spending. This should help limit cost growth below the 2% inflation rate over the medium term. Cost control and the positive impact on tax revenue from the expected GDP growth of about 1.5% per year in 2011-2013, should push Trento's operating balance to about EUR1.3bn over the medium term, a level in line with its 2005-2010 historical average.

Trento's economy benefited in 2009-10 from EUR1.2bn countercyclical measures that it put in place to speed up investments in real estate, both in private construction and social housing. GDP shrank by 3% in 2009 (Italy -5.3%) and rebounded in 2010 (+1.7%; Italy: +1.3%) with a minor impact on the labour market as employment rose by 5% over 2007-2010 and the unemployment rate remained around 4%. Tourism, which accounts for 30% of local consumption, research and the growing export of chemicals, wood and paper processing support the economy and the tax flow.

Trento has significant budgetary flexibility resulting primarily from its 35% capital-to-total spending ratio and EUR220m tax leeway. Capital spending is likely to stabilise at about EUR1.5bn over the medium term and is expected to be largely driven by current balances. Free reserves, currently at about EUR0.5bn, could absorb unexpected shortfalls in tax revenues. Cash-flow robustness was enhanced in 2011 as Trento receives its 90% share of the national taxes directly from tax collectors rather than through the central government.

While Trento is debt free, its financial arm, Cassa del Trentino, had debt of about EUR740m at end-2010, which could reach EUR1.2bn over the medium term. Additional indirect liabilities relate to EUR230m of guarantees, EUR75m of provincial entities bonds directly served by Trento, and EUR250m debt of controlled companies. Fitch expects overall debt liabilities to remain below two years of its current balance in 2011-2013, comparing well with its 'AAA' peers. Partly offsetting these liabilities is a balanced portfolio of shareholdings, which include an indirect 15% stake in Dolomiti Energia, a profitable energy group which is the main beneficiary of provincial guarantees but provided EUR200m of tax proceeds to the province in 2005-2010.

Located in the north-east of Italy, close to the Austrian border, Trento has about 530,000 inhabitants, and GDP per capita 25% above the EU27 average

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Additional information is available at www.fitchratings.com.

Applicable criteria and related research, 'Tax Supported Rating Criteria', dated 16 August 2010, 'International Local and Regional Governments Rating Criteria', dated 19 April 2011, and 'Rating Subnationals above the Sovereign in the Euro Area' dated 1 June 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
International Local and Regional Governments Rating Criteria - Outside the United States
Rating Subnationals Above the Sovereign in the Euro Area