FITCH AFFIRMS ITALIAN AUTONOMOUS PROVINCE OF TRENTO AT 'A'; OUTLOOK NEGATIVE

Fitch Ratings-Milan/London-24 July 2013: Fitch Ratings has affirmed the Italian Autonomous Province of Trento's (PAT) Long-term foreign and local currency ratings at 'A' and Short-term foreign currency rating at 'F1'. The Outlook is Negative.

KEY RATING DRIVERS

The Autonomous Province of Trento's (PAT) ratings reflect Fitch's view that its high budgetary flexibility gives it room to cope with external shocks like its probable contribution to national budgetary consolidation. The protection granted by its special autonomous status shields PAT from the risk of unilateral interference by the state, including annual budgetary appropriations.

PAT is negotiating its contribution to national fiscal adjustment with the state. It is available to finance all state functions in the provincial area but in exchange requires a clearer definition of stability pact rules and the assignment of 90% of recently passed tax hikes currently reserved for the state. Although the outcome of negotiations is still unclear, Fitch assumes, in its baseline scenario, that the net costs of new functions will push the operating margin down to 22% by 2014, from the 30% averaged in 2010-2012.

Provincial management has a focused and a forward-looking approach to the potential forthcoming budgetary pressure. A broad overhaul of provincial back-office functions is ongoing with expected yearly savings of EUR200m over the medium term, or 5% of the budget size, while additional rationalisation measures in healthcare - which accounts for around one-third of spending - should allow the sector's accounts to remain balanced. Fitch expects overall operating spending - net of new functions - to remain stable at 2010-2012 levels (EUR2.8bn) over 2013-2015 periods.

PAT has significant budgetary flexibility, resulting from its high discretionary capex (only EUR400m are recurring) and tax-raising potential of EUR225m. Capital spending is likely to stabilize at about EUR1bn per year over the 2013-2015 period and be largely driven by current balances. Even in a stressed case in which the operating margin falls to around 15%, due to stagnant revenues and/or a higher-than-expected contribution to the reduction of the national deficit, Fitch sees PAT's overall budget remaining balanced, as its infrastructure would allow a further reduction in capex, if needed.

The province plans to offset lower public investments by promoting private capex. To this end it passed tax-relief and business-friendly measures to promote GDP growth should mitigate the expected 0.8% GDP contraction in 2013 and sustain its rebound of 1% in 2014. Exports (+3% in 2012) and tourist inflows should be a source of expansion given subdued internal consumption. The province enjoys a strong socio-economic profile with a GDP per capita 20% above the EU average and an unemployment rate of 6% (Italy; 12%).

Although PAT is debt free, its financial-arm, Cassa del Trentino, had EUR1,167m debt at end-2012 which should rise to EUR1.5bn by 2015 as it continues to finance municipalities and other provincial public-sector entities. Additional indirect liabilities relate to EUR223m of guarantees, EUR54m in provincial entity bonds directly serviced by PAT, and EUR293m debt of core subsidiaries. Fitch expects overall liabilities to remain below 3x the current balance in 2012-2014, a level stronger than its 'A' peers.

RATING SENSITIVITES

Despite the resilience of PAT's budget, Fitch downgraded its rating following Italy's downgrades. As the sovereign rating falls towards sub-investment grade, Fitch narrowed the notching difference between the sovereign and the province to two from three, to reflect the risk of intensification of macroeconomic stress, which may weaken the predictability of intergovernmental relations. A negative rating action on Italy's rating could affect PAT's rating. A stabilization of macroeconomic conditions may lead to a revision of PAT's Outlooks to Stable.

Located in the north-east of Italy, close to the Austrian border, Trento has about 530,000 inhabitants, and GDP per capita 20% above the EU27 average.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Tax-Supported Rating Criteria', dated August 2012, 'International Local and Regional Government Rating Criteria', dated April 2013, and 'Rating Subnationals Above the Sovereign - Outside US' dated 2 May 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
International Local and Regional Governments Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=704438
Rating Subnationals Above the Sovereign – Outside US
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