



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

Fitch Ratings-Milan/London-10 June 2016: Fitch Ratings has affirmed the Italian Autonomous Province of Trento's (PAT) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'A' and Short-Term Foreign Currency IDR at 'F1'. The rating of the EUR500m EMTN programme is affirmed at 'A'. The Outlook is Stable.

Fitch has also affirmed the ratings of Patrimonio del Trentino's (PdT) EUR43m guaranteed floating-rate bullet notes due in 2017 (ISIN: IT0005005456) at long-term local currency 'A'. The credit-linked notes are rated at the same level as The Autonomous Province of Trento, reflecting the latter's unconditional, irrevocable and first demand guarantee on them.

The affirmation reflects PAT's unchanged special status and continuous strong budgetary performance, aided by the province's sophisticated management and wealthy economy.

### KEY RATING DRIVERS

The 'A' rating reflects the high financial autonomy of PAT due to the region's special status underpinning its sound budgetary performance, as well as its low debt and robust socio-economic indicators. The Stable Outlook reflects our expectations of no major changes in the foreseeable future.

**Autonomy Underpins Ratings:** PAT is eligible to be rated above the sovereign by virtue of its significant financial autonomy. PAT's constitutionally established special autonomous status entitles the province to receive fixed shares of major national taxes, ranging from 90% personal income tax (PIT) and corporate income tax (CIT) to 80% of VAT. This underpins the province's tax revenue resilience and limits dependence on state transfers. Contributions to national consolidation efforts are subject to bilateral agreements and from 2019 will account for about EUR400m, or 0.5% of Italy's interest burden.

The two-notch differential above the 'BBB+' sovereign rating captures possible interferences by the State in case of macroeconomic or financial stress of sovereign finances and subsequent risk of weakening predictability of inter-governmental relations.

**Solid Operating Performance:** According to 2015 preliminary data, PAT maintained a solid operating margin around 30%, or EUR1.3bn, sustained by a tight grip on operating costs. Fitch believes the operating margin will range between 25% and 30% over the medium term, financing provincial capital expenditure, which is expected to settle at around a cumulative EUR3.5bn in 2016-2018 and mainly focused on projects aimed at increasing public services quality and supporting the local economy (transportation, new hospital, roads, and broadband network).

The health care sector, absorbing around 30% of operating revenue, is expected to remain balanced due to continuous cost rationalisation and investment to increase operating efficiency.

**Sustainable Risk:** PAT remained free of direct debt in 2015; however; Fitch reclassifies EUR1.5bn debt issued by a regional public sector entity (PSE) Cassa del Trentino SpA (CdT, A/Stable) as direct risk, since it is backed by the province. Fitch expects direct risk to remain at around a moderate 35% of PAT's current revenues by 2017. Debt of other PSEs accounted for about EUR300m in 2015 (EUR0.7bn in 2014) after an early repayment with PAT's reserves. The province's strategy is to concentrate debt at CdT to drive down provincial PSEs' and municipalities' debt in the medium term, which accounted less than 8% of local GDP at end-2015. PAT continues to have a sound cash-

generating capacity, supported by high tax compliance.

**Prudent and Skilled Management:** PAT maintains a sophisticated and prudent budgetary policy with tight control of its municipalities' and companies' debt. The regional administration continues to increase tax relief in an effort to support the local economy. Budgetary flexibility (about 8% of tax revenue and around 50% of capital expenditure) provides adequate buffer against unexpected shocks.

**Solid Socio-Economic Profile:** PAT's GDP per capita, at nearly 25% above the EU average, makes the province one of the wealthiest in Italy and Europe. Fitch expects PAT's GDP to grow 1%-1.2% in 2016 (0.8% in 2015) and unemployment rate to remain stable in the medium term at around 7%, below the national level (11.9% in 2015). It will be underpinned by the agricultural sector (apple, wine), tourism and manufacturing, as well as by strong exports (up 4% in 2015).

#### RATING SENSITIVITIES

PAT's IDR moves in tandem with that of Italy due to the compression exerted by the sovereign ratings on PAT's standalone profile. A downgrade or upgrade of Italy would likely therefore translate into a similar rating action on PAT.

An upgrade to three notches above the sovereign (maximum level under Fitch criteria) from the current two could stem from evidence of sustained stability in the macroeconomic environment leading to more predictable inter-governmental relations. A downgrade could be triggered by unfavourable changes in PAT's statute of autonomy or a substantial weakening of the financial profile of the province.

Changes to PAT's ratings will be reflected in the ratings on the bonds.

#### Contact:

Primary Analyst  
Federica Bardelli  
Associate Director  
+39 02 87 90 87 261  
Fitch Italia S.p.A.  
Via Morigi 6 - Ingresso Via Privata Maria Teresa, 8  
20123 Milan

Secondary Analyst  
Sergio Ciaramella  
Director  
+39 02 879087 216

Committee Chairperson  
Vladimir Redkin  
Senior Director  
+7 495 956 9901

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: [peter.fitzpatrick@fitchratings.com](mailto:peter.fitzpatrick@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) ([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=878660&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOiJlE0NjU2MTA4NTMsInNlc3NpY25LZXXkiOiJQSEdQRVZBS0ZWSFpIQ0IBREk0OEtBVjhRWEZGS0FTUDdUQ0FBS1VNI0.ZDcX2JN NNcn73IVJYpzkKk36SEkMmmfahVU3InOqEXs](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878660&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOiJlE0NjU2MTA4NTMsInNlc3NpY25LZXXkiOiJQSEdQRVZBS0ZWSFpIQ0IBREk0OEtBVjhRWEZGS0FTUDdUQ0FBS1VNI0.ZDcX2JN NNcn73IVJYpzkKk36SEkMmmfahVU3InOqEXs))

**Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form

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