FitchRatings

Fitch Affirms Italian Autonomous Province of Trento 'A-'; Outlook Negative

Fitch Ratings - Milan - 30 November 2018: Fitch Ratings has affirmed the Autonomous Province of Trento's (PAT) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'A-' with Negative Outlooks and Short-Term Foreign-Currency IDR at 'F1'.

The affirmation reflects our expectation that PAT's operating margin will hover around 25% of revenue, providing ample coverage for the servicing requirements of Cassa del Trentino (CdT), PAT's debt-funding agency, amid ongoing institutional strength provided by the constitutional recognised autonomy in a context of high socio-economic wealth indicators. The Negative Outlook mirrors that on Italy as PAT's standalone profile is partly constrained by the sovereign's 'BBB' rating.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Trento, Autonomous Province of	LT IDR A- Affirmed		A-
	ST IDR F1 Affirmed		F1
	LC LT IDR A- Affirmed		A-

KEY RATING DRIVERS

Fiscal Performance: Strength /Stable
PAT recorded an operating surplus of nearly EUR1,1 billion in 2017, or about 25% of operating revenue, in line with Fitch's expectations for 2017-2020. The decline from EUR1,4 billion in 2013-2016 is attributable to accounting changes and a natural increase in opex after it remained stable at EUR2.8 billion during 2010-2015, as well as slower revenue growth contained by tax breaks to sustain local consumption.

PAT's tax-rate raising potential accounts for nearly 10% of its budget, which Fitch considers to be relatively flexible. This is underpinned by the share of capex to total spending, which is set to hover around 30% over the medium term, as well as a diversified set of responsibilities. Healthcare accounts for a limited 30% of opex versus nearly 75% for Italian regions with ordinary statute, while the EU2,100 per capita expenditure remains 15% higher than the national average.

Debt & Liquidity: Strength/Stable
Fitch expects PAT's financial debt to remain stable at around EUR1.5 billion, or about one-third of revenue and about one year of the operating balance when considering PAT's direct risk, i.e. tax-supported debt of municipalities and companies net of liquidity.

PAT's liquidity remains strong at an average EUR1 billion. While the clean-up of spending commitments (about EUR1.7 billion) will gradually absorb the liquidity buffer over the medium term, Fitch expects PAT to maintain strong liquidity reserves on the back high tax compliance.

Management: Strength/Stable
PAT's traditionally conservative management has led to it outperform budgets, especially on the revenue side, and CdT's fixed rate borrowing matching PAT's annuities. Fitch expects the province to restate the fund balance by 2018, replenishing the EUR300 million deficit posted at end-2016 following a rescheduling of receivables towards municipalities and provincial companies amid new accounting rules.

Strict control of PAT's main government-related entities, including the real estate company Patrimonio Trentino (BBB+/Positive), the transport company Trentino Trasporti (A-/Negative) and the healthcare unit help the revenue/spending match.

Economy: Strength/Stable
PAT is a wealthy province by international standards, with GDP per capita of nearly EUR35,000, or about 25% above the EU average and an employment rate of 68%, matching the EU average. PAT's countercyclical economic policies have contributed to relatively steady 0.5% annual average growth of the employment base, which increased to 235,000 workers over 2008-2017.

The province's EUR19 billion GDP is set to grow by about 1.5% in 2018, driven by a network of about 40,000 predominantly SMEs. Tourism, trade and corporate and social services underpin future growth, which Fitch expects at about 1% per year in 2019-2020, helped by a declining level of non-performing loans to 15% in June 2018 from 19% a year earlier.

Institutional Framework: Neutral/Stable
Fitch assesses Italian inter-governmental relations as neutral for PAT. PAT is eligible to be rated above the sovereign by virtue of its institutional strength and high degree of financial autonomy. PAT's special autonomous status entitles it to receive shares of national taxes, ranging from 90% of personal income tax and corporate income tax to 80% of VAT. This underpins the region's tax revenue resilience and limits dependence on state transfers, which account for 1% of revenue.

PAT's diversified set of responsibilities supports budgetary flexibility and contributions to national consolidation efforts are subject to bilateral agreement. However, the maximum two-notch leeway 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 intergovernmental relations

RATING SENSITIVITIES

Any rating action on Italy will be mirrored on PAT's ratings in light of the rating constraint. A prolonged economic downturn leading to a sharp deterioration of the operating margin on a sustained basis could result in a multi-notch weakening of the region's standalone assessment and therefore a downgrade of the IDR.

Additional information is available on www.fitchratings.com

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