



Tagging Info

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

Ratings Endorsement Policy
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Fitch Ratings-Milan/London-28 September 2012: Fitch Ratings has affirmed the Italian Autonomous Province of Trento's (PAT) Long-term foreign and local currency ratings at 'AA-' and Short-term foreign currency rating at 'F1+'. The Outlook is Negative, mirroring the Outlook on Italy ('A-/Negative').

The ratings reflect Fitch expectations that PAT's budgetary flexibility and proactive management approach would allow it to maintain a robust, albeit declining, operating surplus even when the likely contribution to the consolidation of national deficit - currently under negotiation - is taken into account.

PAT's ratings are constrained by those of Italy, the downgrades of which in October 2011 and January 2012 led to a downgrade of PAT's ratings to 'AA-' from 'AAA' as, under Fitch's criteria, a subnational can be rated a maximum of three notches above the sovereign. The Outlooks may therefore be revised to Stable if the easing of macroeconomic conditions leads to a revision of Italy's Outlook to Stable. Conversely, any negative rating action on Italy's sovereign rating would automatically affect the province's rating. A fall of the operating margins towards 10%- due to a fall of revenue and/or a looser grip on spending - and a steeper-than-anticipated growth of indirect debt liabilities could also be negative for the rating.

Fitch expects PAT's operating margin to eventually decline to EUR1bn, or 20%-25% of revenues, from the 2010-2011 average of 30%, as the province is likely to take over the cost of state functions in provincial area. Tight control spending will limit cost growth significantly below the expected inflation of 2.5%. The large overhaul of back-office functions should generate EUR120m yearly savings while planned rationalisation measures in healthcare - accounting for around one-third of current spending - should allow sector accounts to remain balanced.

Even in a stressed scenario where the operating margin fell below 20% due to stagnant revenues and/or higher-than-expected contribution to the reduction of national deficit, Fitch believes PAT's overall budget would remain balanced as its high standard of infrastructure would allow a reduction of capex if needed. Tax-raising potential of EUR225m offers additional options in this respect. However, in Fitch's baseline scenario, PAT's 2012-2014 budget should be able to self-fund yearly capital spending of EUR1.1bn (EUR1.6bn in 2007-11) with free reserves continuing to hover around EUR300-400m.

Fitch expects lower public investments to be partly offset by increasing private sector investments. The recently-passed business-friendly measures to promote new activities should mitigate the expected 1% GDP contraction in 2012 and sustain its rebound of 1% in 2013-2014. Exports (+11% in 2011) and tourists inflows should be a primary source of expansion given subdued internal consumption. The province enjoys a strong socio-economic profile with a GDP per capita 25% above EU average and unemployment rate of 6% (Italy: 10%).

Although PAT is debt free, its financial arm, Cassa del Trentino, had EUR860m debt at end-2011 which should only moderately increase to EUR1bn by 2014 due to the planned spin-off of its municipal financing activity to a cities' controlled company. Additional indirect liabilities relates to EUR225m of guarantees, EUR68m of provincial entities bonds directly serviced by PAT and EUR250m debt of core subsidiaries. Fitch expects overall liabilities to remain below 2.5x of the current balance in 2012-2014, a level stronger than its 'AA' peers.

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

A credit analysis on Autonomous Province of Trento will shortly be available at www.fitchratings.com.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Tax-Supported Rating Criteria', dated August 2012, 'International Local and Regional Government Rating Criteria', dated August 2012, 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
International Local and Regional Governments Rating Criteria - Outside the United States
Rating Subnationals Above the Sovereign – Outside US

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