



**Credit Opinion: Trento, Province of**

**Trento, Province of**

*Italy*

**Ratings**

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Aa1
Medium-Term Notes -Dom Curr	Aa1

**Contacts**

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**Key Indicators**

**Trento, Province of**

	2000	2001	2002	2003	2004B
Financing deficit/surplus as % of total revenues (%)	0.2	-6.6	-2.4	-7.6	-10.4
Interest expenses/total revenues (%)	0.0	0.1	0.0	0.0	0.0
Debt/total revenues (%)	0.0	0.0	0.0	0.0	0.0
Capital expenses /total expenses (%) [1]	38.9	41.5	41.4	41.8	41.0
Primary operating balance /operating revenues (%)	35.8	32.7	35.0	33.0	31.3
Net operating balance /operating revenues (%) [2]	35.8	32.7	35.0	32.9	31.3
Net operating balance/capital expenses (%)	87.3	68.3	76.3	68.3	65.5

[1] Excludes debt repayments. [2] Net operating balance = Gross operating balance after debt repayment.

**Opinion**

**Credit Strengths**

Credit strengths of the Autonomous Province of Trento are:

Special status ensures greater legislative and financial autonomy than normal-status provinces and regions

Greater political stability leads to policy continuity

Highly sophisticated budgetary management

Wealthy and diversified economic base - a relatively rich province by Italian and EU standards

Strong budgetary performance

Self financing regime in the area of healthcare expenses with no past healthcare deficit

Debt-free entity

Sound liquidity position and management

### **Credit Challenges**

Credit challenges of the Autonomous Province of Trento are:

Relatively limited revenue flexibility

Plans to issue debt to finance the acquisition of electric power stations

### **Rating Rationale**

Autonomous Province of Trento's Aa1 issuer rating is based on the province's long-established special legal status, which affords it greater legislative and financial autonomy than normal-status provinces and regions. The rating is also supported by the province's wealthy economy and its sound financial fundamentals, which are also reflected in a consistently strong and stable budgetary performance and a sound liquidity position. It also takes into account of Trento's debt-free profile and its plans to issue debt to finance the acquisition of electricity power stations. The rating additionally reflects Trento's relatively limited revenue flexibility.

Trento's wealthy economy ranks 11th out of Italy's 103 provinces with a per capita added value representing 122% of the national average. It's economic structure is relatively diversified, largely focused on the service sector, and includes a significant presence of small- and medium-sized companies. The sound state of the provincial economy is also reflected in a low unemployment rate - 3.4% in 2002 compared to the national average of 9.5%.

Trento's constitutionally recognised special status enables the province to benefit from a more diversified revenue structure, retaining nearly all tax revenues generated and collected on the provincial territory. However, Trento is constrained by a lack of revenue flexibility, as rates on these taxes can only be adjusted by the central government, which also collects the taxes. This constraint is mitigated by the province's ability to levy new taxes. Moreover, the province is characterised by a well diversified expenditure profile with limited exposure to the healthcare sector. As a result of Trento's special status, the central government cannot impose changes in the province's budgetary position without the province's agreement.

The Province of Trento has recorded consistently strong budgetary performance thanks to steady growth in operating revenues supported by the wealthy local economy. The province's overall budgetary flexibility and the good level of predictability of its revenue streams should ensure that budgetary performance remains sound in the medium term. In addition, the province's financial management is highly sophisticated and is focused on improving the transparency and efficiency of the budgetary machinery.

Trento's consistent track record of self-financing and conservative financial management is reflected in a lack of indebtedness, which is almost unique by national and international standards. However, Trento is expected to issue debt to finance the purchase of several hydroelectric power stations owned by Enel S.p.A, the national electricity utility. However, the acquisition of the power stations is likely to generate steady profits with the returns being used to repay debt with minimal impact on the province's budget. Investment in a few strategic infrastructure projects may also require debt issuance in the medium term.

### **Rating Outlook**

Trento's stable rating outlook reflects its high degree of financial autonomy, strong financial position and good liquidity.

### **What Could Change the Rating - UP**

The Autonomous Province of Trento remains exposed to central government tax decisions and local economic cycles. Any devolution of true tax autonomy powers from the central government to the province, together with a consolidation of the province's good financial track record, could have additional positive credit implications.

### **What Could Change the Rating - DOWN**

Trento's special status is a key factor supporting its Moody's rating. Although highly unlikely given the support of the constitutional framework, any alterations in the fundamental structure of the province's special status could imply a negative rating change.

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