

Autonomous Province of Bolzano

Key Rating Drivers

Ratings Affirmed: Fitch Ratings has affirmed the Autonomous Province of Bolzano's (PAB) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB+' with Stable Outlooks and Short-Term Foreign-Currency IDR at 'F1'. The affirmation is based on the expectation that the payback ratio will remain below two years in a rating case scenario of a contracting economy after the pandemic.

Rating Derivation: Fitch assesses PAB's Standalone Credit Profile (SCP) at 'aaa', reflecting the combination of 'High Midrange' risk profile and 'aaa' debt sustainability under Fitch's rating case. PAB is eligible to be rated above the sovereign thanks to its institutional strength and high degree of financial autonomy. Its IDRs are constrained at two notches above the sovereign's rating, reflecting risks of national government interference in PAB's finances in case of distress.

'High-Midrange' Risk Profile: PAB's risk profile derives from a combination of four 'Stronger' key risk factors and two 'Midrange'. It reflects low risk that the operating balance shrinks in the medium term and debt servicing rises above Fitch's rating case forecasts.

Resilient Revenue, High Flexibility: PAB's special autonomous status entitles it to receive shares of national taxes underpinning the region's tax revenue resilience and limiting dependence on state transfers (10% of PAB's revenue). PAB's fiscal flexibility is as high as 10% of its tax revenue, thanks to its wealthy socio-economic indicators. However, it is unlikely PAB will raise taxes in the aftermath of the pandemic to avoid adverse effects on economic recovery.

Flexible Expenditure: PAB's diversified set of responsibilities, with healthcare representing only 25% of total spending, will help absorb spending peaks resulting from the pandemic through savings in its manoeuvrable EUR900 million contributions to local households and firms. PAB has the flexibility to postpone part of its capex, but Fitch does not expect a significant downward revision in the near term, as PAB could reallocate part of its capital expenditure to sustain the local economy.

Low Debt, High Liquidity: PAB follows a prudent debt policy, as shown by its moderate Fitch-adjusted debt of around 10% of revenue in 2019, including EUR330 million of debt of local cities served by PAB. Its direct debt carries little risk thanks to the amortising structure of loans and low debt service at only 1% of the operating revenue. PAB's off-balance-sheet exposure is modest, while the sound liquidity position of EUR1.6 billion at end-2019, of which EUR471 million was free cash reserves, can help tackle unexpected refinancing risk.

Debt Sustainability - 'aaa' Category: PAB's payback ratio will be below 1.5x in 2024 and its debt stock will rise above 15% of operating revenue in Fitch's rating case, remaining highly sustainable. Other PAB metrics will remain strong, despite negative trends due to the economic consequences of the pandemic.

ESG Considerations: ESG issues have a minimal impact on PAB's ratings, as reflected in a score of '3'.

Rating Sensitivities

Weaker Payback, Fiscal Debt Burden, Sovereign Rating: Debt payback above nine years and fiscal debt burden above 100% in Fitch's rating case could lead to an upgrade. As PAB's IDRs are constrained by the Italian sovereign ratings, changes to Italy's IDRs would be mirrored on PAB's ratings.

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F1

Local Currency

Long-Term IDR	BBB+
---------------	------

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Issuer Profile

PAB has nearly 500,000 residents, about 0.9% of the Italian population, and wealthy socio-economic indicators compared with national and international peers. The local economy is diversified with a prevalence of services (e.g. tourism, finance, real estate).

Financial Data

Autonomous Province of Bolzano		
(EURm)	2019	2014rc
Payback (x)	0.0	1.4
Actual coverage (x)	69.1	12.9
Fiscal debt burden (%)	0.8	16.7
Net adjusted debt	44	843
Operating balance	1,065	612
Operating revenue	5,483	4,996
Debt service		

rc: Fitch's Rating-case scenario
Source: Fitch Ratings, PAB

Applicable Criteria

[International Local and Regional Governments Rating Criteria \(October 2020\)](#)

Related Research

[Italian Subnationals - Portfolio Review 2020 \(November 2020\)](#)

[Fitch Affirms Italian Autonomous Province of Bolzano at 'BBB+'; Outlook Stable \(November 2020\)](#)

[Fitch Affirms Italy at 'BBB-'; Outlook Stable \(July 2020\)](#)

Analysts

Sara Signorini
+39 02 879087 293
sara.signorini@fitchratings.com

Giulia Gasparini
+39 02 879087 261
giulia.gasparini@fitchratings.com

Appendix A: Financial Data

Autonomous Province of Bolzano

(EURm)	2016	2017	2018	2019	2020rc	2024rc
Taxes	4,581	4,741	4,650	4,725	4,347	4,342
Transfers received	357	438	472	522	574	412
Fees, fines and other operating revenues	211	238	250	236	236	243
Operating revenue	5,149	5,416	5,372	5,483	5,157	4,996
Operating expenditure	-3,800	-4,231	-4,355	-4,418	-4,153	-4,384
Operating balance	1,349	1,185	1,017	1,065	1,004	612
Interest revenue	0	0	0	0	0	0
Interest expenditure	-1	-2	-1	-1	-4	-13
Current balance	1,348	1,183	1,016	1,064	1,001	600
Capital revenue	446	413	485	404	300	300
Capital expenditure	-1,146	-1,579	-1,195	-1,582	-1,200	-1,000
Capital balance	-700	-1,166	-709	-1,178	-900	-700
Total revenue	5,595	5,828	5,858	5,887	5,457	5,296
Total expenditure	-4,947	-5,811	-5,551	-6,001	-5,356	-5,397
Surplus (deficit) before net financing	648	18	307	-114	101	-100
Overall results	695	0	340	-71	84	-35
Debt						
Short-term debt	7	8	14	17	0	0
Long-term debt	46	41	34	23	71	590
Intergovernmental debt	0	170	104	144	95	78
Direct debt	53	219	152	184	167	668
Other Fitch-classified debt	526	352	342	332	322	282
Adjusted debt	579	571	494	516	489	950
Guarantees issued (excl adjusted debt portion)	272	203	192	180	221	221
Majority-owned GRE debt and other contingent liabilities	294	388	388	397	388	388
Overall adjusted debt	1,145	1,161	1,074	1,092	1,098	1,559
Total cash, liquid deposits, and sinking funds	913	1,370	1,401	1,637	1,720	1,617
Restricted cash	0	1,074	921	1,165	1,500	1,500
Unrestricted cash	913	296	480	471	220	117
Net adjusted debt	-334	275	13	44	268	834
Net overall debt	232	865	594	621	811	1,443

Source: Fitch Ratings

Rating History

Date	Action	Long-Term Foreign-Currency IDR
08 May 20	Downgrade	BBB+
04 May 17	Downgrade	A-
13 Mar 13	Downgrade	A
08 Feb 12	Downgrade	AA-
10 Oct 11	Downgrade	AA+
26 Feb 07	Upgrade	AAA
06 Oct 03	New rating	AA+

Downgrades followed sovereign's downgrade
Source: Fitch Ratings

Autonomous Province of Bolzano



Source: Fitch Ratings

Socioeconomic Indicators

	Autonomous Province of Bolzano	Italy
Population 2019 (m)	0.532	60,244
(2015 - 2020) average annual population growth (%)	+0.5	-0.2
GDP per capita (2018) (EUR)	46,900	29,000
Unemployment rate, (2019) (%)	2.9	10.0
Regional Competitiveness Index (RCI)	47	42

Source: Fitch Ratings, National Statistical Office (Istat)

Appendix B: Financial Ratios

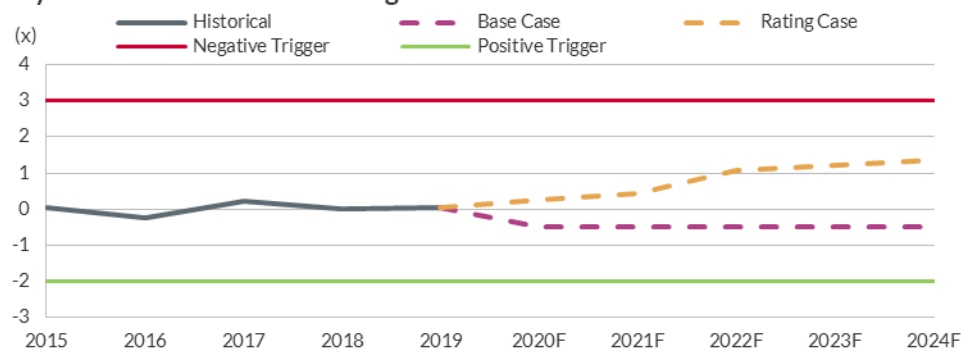
Autonomous Province of Bolzano

	2016	2017	2018	2019	2020rc	2024rc
Fiscal performance ratios						
Operating balance/operating revenue (%)	26.2	21.9	18.9	19.4	19.5	12.3
Current balance/current revenue (%)	26.2	21.9	18.9	19.4	19.4	12.0
Operating revenue growth (annual % change)	1.8	5.2	-0.8	2.1	-5.9	0.6
Operating expenditure growth (annual % change)	10.5	11.3	2.9	1.4	-6.0	0.5
Surplus (deficit) before net financing/total revenue (%)	11.6	0.3	5.2	-1.9	1.8	-1.9
Surplus (deficit) before net financing/GDP (%)	2.9	0.1	1.3	-0.5	0.4	-0.4
Total revenue growth (annual % change)	6.0	4.2	0.5	0.5	-7.3	0.5
Total expenditure growth (annual % change)	-5.6	17.5	-4.5	8.1	-10.7	0.4
Debt ratios - type B						
Primary metrics						
Payback ratio (x)	-0.2	0.2	0.0	0.0	0.3	1.4
Enhanced payback ratio (x)	-0.2	0.1	-0.1	-0.1	0.2	1.2
Overall payback ratio (x)	0.2	0.7	0.6	0.6	0.9	2.4
Enhanced overall payback ratio (x)	0.2	0.6	0.5	0.4	0.8	2.2
Secondary metrics						
Fiscal debt burden (%)	-6.5	5.1	0.3	0.8	5.2	16.7
Synthetic debt service coverage ratio (x)	-45.0	59.0	1,069.2	341.6	48.1	9.4
Actual debt service coverage ratio (x)	170.8	26.0	67.4	69.1	49.0	12.9
Other debt ratios						
Liquidity coverage ratio (x)	239.8	46.0	87.0	100.3	72.0	16.1
Direct debt maturing in one year/total direct debt (%)	13.1	7.3	9.1	9.3	0.0	0.0
Direct debt (annual % change)	661.4	309.9	-30.6	21.0	-9.3	10.8
Apparent cost of direct debt (interest paid/direct debt) (%)	4.0	1.2	0.7	0.7	2.0	2.0
Revenue ratios						
Tax revenue/total revenue (%)	81.9	81.3	79.4	80.3	79.7	82.0
Current transfers received/total revenue (%)	6.4	7.5	8.1	8.9	10.5	7.8
Interest revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue/total revenue (%)	8.0	7.1	8.3	6.9	5.5	5.7
Expenditure ratios						
Staff expenditure/total expenditure (%)	19.6	24.4	22.9	23.8	-	-
Current transfers made/total expenditure (%)	52.7	66.0	67.0	66.8	-	-
Interest expenditure/total expenditure (%)	0.0	0.0	0.0	0.0	0.1	0.2
Capital expenditure/total expenditure (%)	23.2	27.2	21.5	26.4	22.4	18.5

Source: Fitch Ratings

Appendix C: Rating sensitivities and Peer Comparison

Payback - Fitch's Base and Rating Case Scenario



Source: Fitch Ratings, Issuer

Peer Comparison

National peers	Risk profile	Payback (x), 2024rc	SCP	IDR	Outlook
Autonomous Province of Trento	High Midrange	1.6	aaa	BBB+	Stable
Autonomous Region of Valle d'Aosta	Midrange	2.8	aa	BBB+	Stable
Autonomous Region of Friuli Venezia Giulia	Midrange	2.8	aa	BBB+	Stable

International peers	Risk profile	Payback (x), 2024rc	SCP	IDR	Outlook
Historical Territory of Alava	High Midrange	3.6	aaa	AA-	Stable
Historical Territory of Bizaia	High Midrange	4.7	aaa	AA-	Stable
Historical Territory of Gipuzkoa	High Midrange	3.0	aaa	AA -	Stable

Source: Fitch Ratings

The ratings above were unsolicited and have been provided by Fitch as a service to investors.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.