

CREDIT OPINION

28 November 2023

Update



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RATINGS

Valle d'Aosta, Autonomous Region of

Domicile	Italy
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Autonomous Region of Valle d'Aosta (Italy)

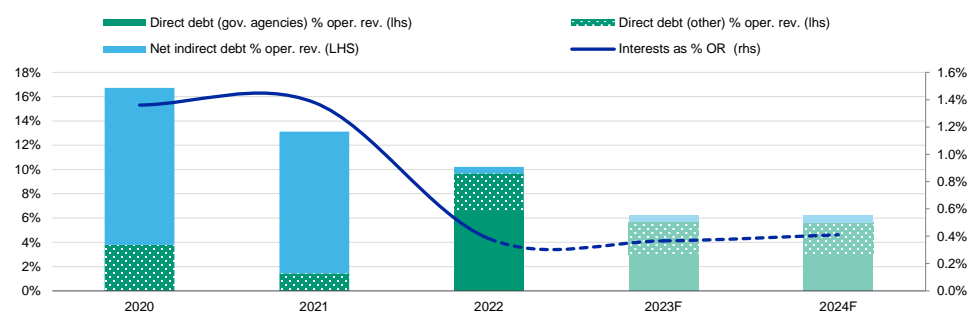
Update following outlook change to stable from negative

Summary

The credit profile of the [Autonomous Region of Valle d'Aosta](#) (Valle d'Aosta, Baa2 stable) which exceeds the [Italian sovereign rating](#) (Baa3 stable) by one notch is underpinned by its long-established autonomous status that provides a high degree of financial autonomy and budgetary flexibility. Its solid gross operating margin and strong regional economy proved the resiliency of the region's financial performance to external shocks. Valle d'Aosta's debt is modest and declining, while capital spending will increase from its low starting point on the back of enhanced cash flow predictability and important liquidity.

Exhibit 1

Valle d'Aosta's indirect debt is stabilizing while direct debt and interest expenses will continue to decline



The forecasts (F) are our opinion and do not represent the views of the issuer.

Footnote: As of 2022, Finaosta S.p.A.' debt with Cassa Depositi e Prestiti (CDP) is included in the issuer's direct debt stock. Indirect debt includes Casino' de la Vallee S.p.A.'s financial debt and other guarantees.

Source: Issuer and Moody's Investors Service

Credit strengths

- » Long-established autonomous status providing fiscal autonomy
- » Strong budgetary performance
- » Direct and indirect debt continue to decline

Credit challenges

- » Modest capital spending capped by structural limitations
- » Budgetary sensitivity to economic cycles, mitigated by Valle d'Aosta's rich economic base

Rating outlook

The stable outlook reflects the Autonomous Region of Valle d'Aosta's capacity to post a strong operating performance, preserve its ample liquidity reserves while maintaining low debt levels. Its enhanced legislative and financial autonomy compared to ordinary status regions and very strong governance will continue to support these results.

Factors that could lead to an upgrade

The strengthening of Italy's credit profile, as reflected by an upgrade of the sovereign rating, would exert upward pressure on Valle d'Aosta's ratings, provided that the region preserves a strong financial performance.

Factors that could lead to a downgrade

Any change, although unlikely, of the issuer's autonomous status reducing its financial autonomy and flexibility, or a material and sustained reduction in cash reserves combined with a marked increase in debt levels could lead to negative credit pressure. In addition, any weakening of the Italian government rating would also exert downward pressure on the rating.

Key indicators

Exhibit 2

Autonomous Region of Valle d'Aosta Year ending December 31

	2020	2021	2022	2023F	2024F
Net direct and indirect debt as a % of operating revenue	16.7	13.1	10.2	6.2	6.2
Cash financing surplus (requirement) as % of total revenue	11.9	28.4	4.2	-	-
Gross operating balance as a % of operating revenue	17.8	9.7	23.9	21.5	13.2
Interest payments as a % of operating revenue	1.4	1.4	0.4	0.4	0.4
Intergovernmental revenue as a % of operating revenue	3.9	6.5	5.4	5.6	3.5
Capital expenses as a % of total Expenses	16.1	13.5	16.0	23.2	16.5
GDP per capita as a % of national average	127.8	127.3	127.3	-	-

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Sources: Issuer and Moody's Investors Service

Detailed credit considerations

On 22 November 2023, Moody's affirmed Valle d'Aosta's ratings at Baa2 and changed the outlook to stable from negative, following the change of the outlook to stable from negative on the Government of Italy's sovereign rating on November 17 2023. This reflects close institutional, operational and financial links between Italian RLGs and the central government.

The credit profile of the Autonomous Region of Valle d'Aosta, as expressed in a Baa2 rating combines (1) a Baseline Credit Assessment (BCA) of baa2, and (2) a moderate likelihood of extraordinary support from the central government in the event that the region faces acute liquidity stress.

Baseline Credit Assessment

Long-established autonomous status providing fiscal autonomy

The region's autonomous status allows it to retain all fiscal revenue generated and collected in its territory. Valle d'Aosta has the scope to modify, as well as increase personal income surtax, corporate surtax and hydroelectricity licence revenue. In addition, Valle d'Aosta has some room to manoeuvre on the spending side, if necessary, as it demonstrated with recent measures to support the local economy, because of its wider scope of operations comparing to ordinary status regions. The healthcare sector, a key regional responsibility, accounts for 23% of Valle d'Aosta's total expenditure, lower than that for regions with ordinary status (around 80%).

Valle d'Aosta's annual contribution to the national budgetary consolidation has decreased and stabilized comparing to the past. This provides greater budgetary stability to the autonomous region and reflects more favorable agreements with the central government. Due to the continuation of the Covid-19 pandemic in 2021, the region's annual contribution was set at €82 million in 2021 (reduced

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due to the pandemic, cf. paragraph "*Strong budgetary performance*"), down from €112 million in 2019. Valle d'Aosta reached an agreement with the central government to maintain the annual contribution at this level until 2026.

The region's fiscal autonomy stemming from its special status is also enhanced by Valle d'Aosta's very strong governance profile. The governance issuer profile score G-1 reflects the region's very strong management and governance practices. Recently, the region successfully achieved higher transparency and coordination with the central government, reflecting the good level of resiliency demonstrated by Valle d'Aosta's administration. Valle d'Aosta receives regular additional transfers (the central government pays €65.8 million each year until 2023 and €45 million thereafter until redemption of the €520 million original debt¹), reducing its stock of receivables while improving its liquidity. Because of the *Decreto Sblocca-Cantieri*, which is a 2019 decree focused on unlocking construction tenders, and the higher level of stability of its link with the central government, Valle d'Aosta's capital spending planning has improved materially.

Strong budgetary performance

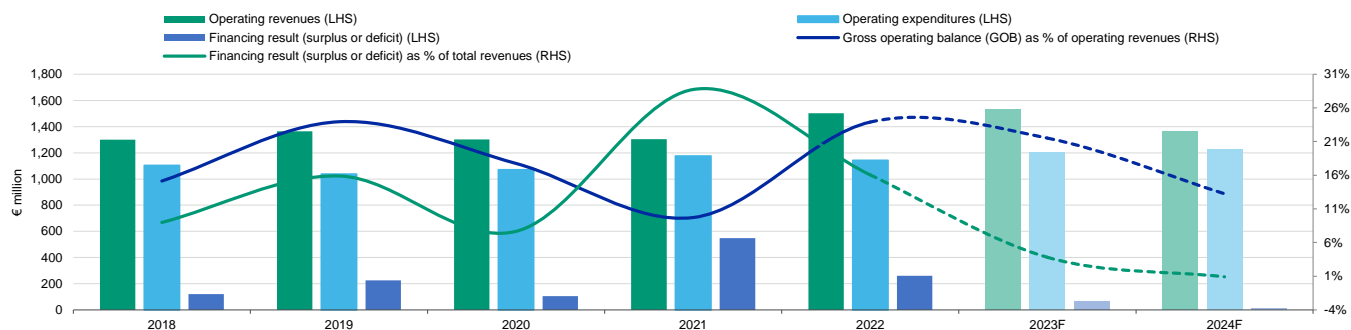
We expect tax revenues to revamp in 2023, partially due to the high though decreasing inflation. VAT revenues are expected to increase with respect to 2022. While impact of inflation on operating expenditure remains negative (increasing expenses), the region has headroom to move unutilized resources on some expenditure items to those that are increasing due to higher prices. Valle d'Aosta also benefits from a one-time tax fee on electricity producing companies, which was imposed by the central government (€25 million used in 2022). A limited negative impact on taxation will arise in 2023, following the reduction in the fuel tax decided by the central government and enacted in 2022. We forecast a normalization of central government transfers in 2023 and 2024.

Valle d'Aosta financial performance in 2022 was strong, with operating revenues at €1,502 million (+15% compared to 2021) on good recovery of the economic performance of the region. Operating expenses decreased marginally on good cost control, enhanced by above all on personnel expenses which remained flat.

The healthcare sector's budget was balanced in 2019-2022. We expect increased healthcare expenditure stemming from high inflation to materialize in 2023 and 2024, though balanced overall. However, this will have a relatively limited impact as the healthcare sector accounts for less than a quarter of its total expenditure.

Exhibit 3

Operating performance to remain strong in 2023 and 2024



The forecasts (F) are our opinion and do not represent the views of the issuer.

Source: Issuer and Moody's Investors Service

Direct and indirect debt continue to decline

For 2023 and 2024 we expect direct debt to decline further, and strong cash position - covering about 4x direct debt - to increase, thanks to the region's financial surplus. We expect interest expenses to decrease further hence.

Valle d'Aosta's net direct and indirect debt decreased to a very low 6.2% of operating revenue in 2023. Due to low and decreasing debt levels, interest payments amounted to a very low 0.4% of operating revenue in 2022.

Since 2013, Valle d'Aosta's new debt has been managed by Finaosta S.p.A., an arms-length financial institution fully owned by the region, which operates as a holding company for the region's subsidiaries and is responsible for developing the local economy. Through Finaosta S.p.A., the region has indirect ownership of [Compagnia Valdostana delle Acque S.p.A.](#) (CVA, Baa2 negative), which is the

fourth-largest hydropower generating company in Italy. Over the period 2018-2022, the changes in Valle d'Aosta's indirect debt were largely driven by changes in debt of Finaosta S.p.A., wholly owned by the region. In 2022, indirect debt decreased from €152 million to €8 million following the repayment of some debt positions by Finaosta as well as the inclusion of part of its financial debt into the issuer's direct debt. Indirect debt is composed solely of Casino' de la Vallee S.p.A.'s financial debt and other minor guarantees.

Modest capital spending capped by structural limitations

We expect capital spending to increase in 2023 and 2024, compared to 2022. Valle d'Aosta's fiscal consolidation efforts, coupled with a significant decrease in revenue sources from the central government, reduced the region's capital spending by 45% during 2014-18. Though improved transparency and programming capacity stemming from the relationship with the central government resulted in increased spending since 2019. In 2022, capital spending stood at 16.0% of total expenditure, up from 13.5% in 2021.

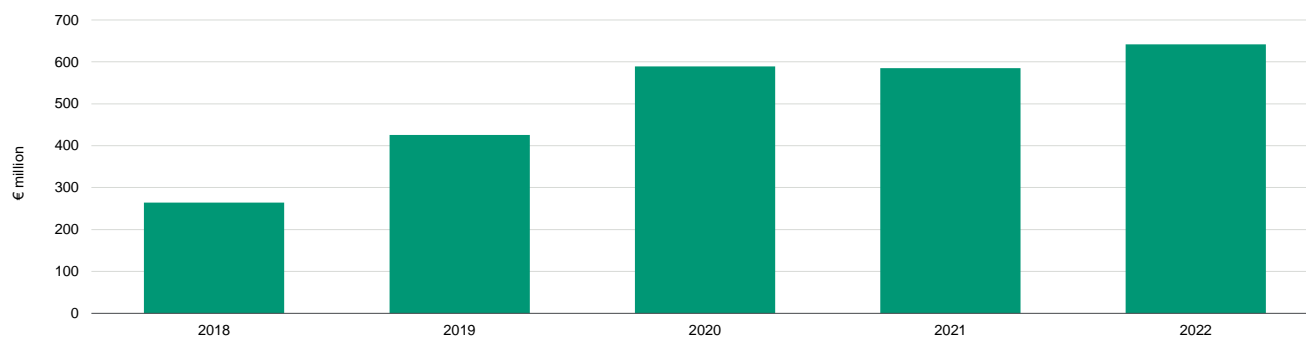
As part of the agreement with the central government, which improves the regional programming capacity through greater cash-flow predictability, Valle d'Aosta will also receive a total of €120 million for regional capital spending spread over around 10 years from 2019. We expect this additional source to be earmarked for the building of a new hospital, a long-term project of around €100 million that will be completed in the next 10 years. In addition, the region will benefit from a 18% raise in 2021-27 EU funds with respect to the 2014-20 budget and from the NextGenEU funds. However, similarly to other regions, the ample funding coming from the NextGenEU will pose significant pressures on the regional structure, limiting its capital spending capacity. The challenge arises primarily from a low number of specialized personnel. The region per se cannot increase its personnel due to hiring limits. However, the program 'Task force 1000 esperti', funded directly by the central government in the context of the NextGenEU, aims to address this issue with new hirings, and ensure the meeting of the deadlines of the NextGenEU, which, if missed, would require the region to return the funding - an unprecedented event for Valle d'Aosta.

Increased capital spending is also supported by an important liquidity buffer, driven by sound cash management and recent agreements with the central government. As of year-end 2022, cash reached €642 million, up from €585 million in 2021.

Exhibit 4

Liquidity improved over time, covering 4x direct debt

Cash, € mn



Source: Issuer and Moody's Investors Service

Budgetary sensitivity to economic cycles, mitigated by Valle d'Aosta's rich economic base

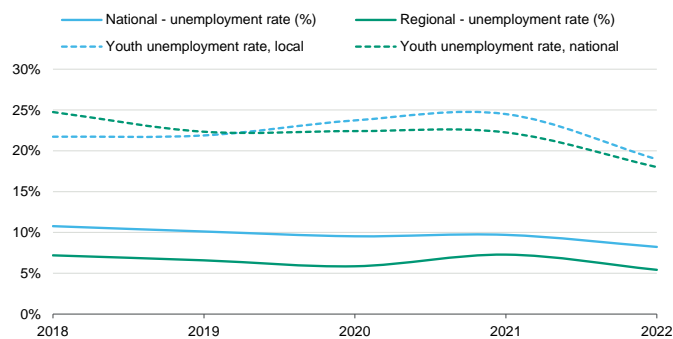
Valle d'Aosta is a small region in northwestern Italy with a GDP per capita equivalent to 127% of the national average, the fourth-highest of any Italian region. In 2022, the region's GDP is estimated at around €5 billion, most of it generated by the service sector. The unemployment rate of the region is lower than the national average (5.4% in Valle d'Aosta in 2022 compared with 8.2% in Italy over the same period).

Due to its autonomous status, Valle d'Aosta relies more on fiscal revenues generated and collected in its territory than ordinary status regions, thus creating a strong correlation between the entity's financial performance and the local economy.

The regional economy suffered the impact of the pandemic in terms of employment (-2% in 2021 with respect to 2017-19 average) and the temporary shut down of enterprises producing 36% of the regional value added and tourism, an important sector for the region. Tourism started to revamp in 2022, and it is expected to return roughly to pre-pandemic levels in 2023. We consider that Valle

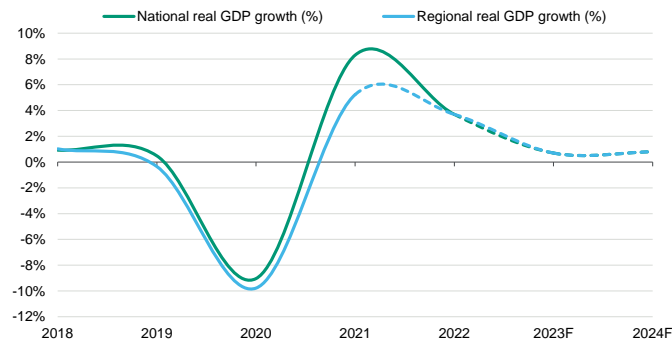
d'Aosta's important efforts in preserving its natural capital is positive for region's credit profile, resulting in sustained tourism flows. We caution over environmental risks, like flodig etc. - which the cost needs to be covered by the region. The region also promptly supported its economic actors, as well as families, providing ad hoc measures to face higher energy costs, which are funded by previous years cumulated surpluses, on top of those funds already provided by the central government.

Exhibit 5
Unemployment rates expected to remain better than the Italian average in 2023 and 2024



Source: Italian National Institute of Statistics and Moody's Investors Service

Exhibit 6
GDP strength expected to remain above the Italian average in 2023 and 2024



Source: Italian National Institute of Statistics and Moody's Investors Service

Extraordinary support considerations

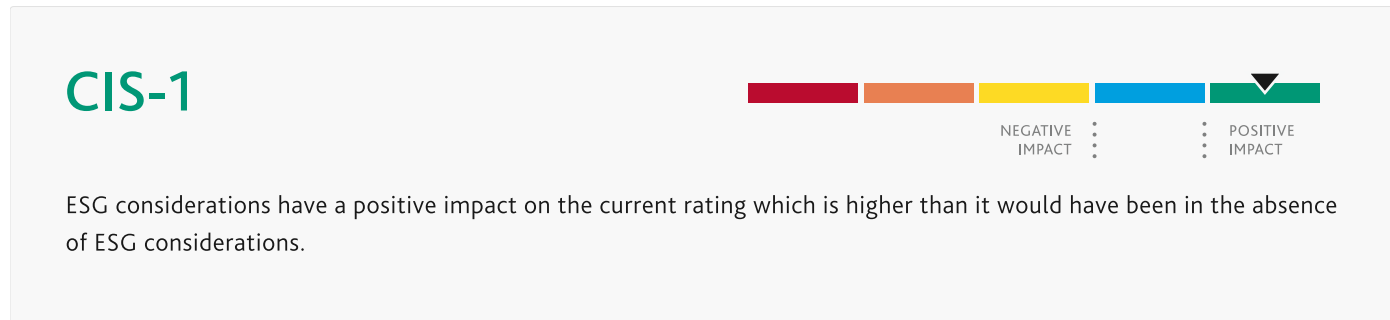
Valle d'Aosta has a moderate likelihood of receiving extraordinary support from the central government, reflecting the region's long-established special autonomous status.

ESG considerations

Autonomous Region of Valle d'Aosta's ESG credit impact score is CIS-1

Exhibit 7

ESG credit impact score



Source: Moody's Investors Service

Valle d'Aosta's ESG Credit Impact Score is **CIS-1**, reflecting a very strong governance profile and neutral-to-low exposure to environmental and social risks.

Exhibit 8

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

We assess Valle d'Aosta's environmental issuer profile score **E-2** due to the region's exposure to environmental risks is low across all categories, except for natural capital which is credit positive. The region places significant emphasis on preserving its natural landscape and addressing climate-related risks, by pursuing environmental protection policies as well as green initiatives. This strategy enhances the attractiveness of the territory.

Social

Our overall assessment of Valle d'Aosta's social issuer profile is **S-2** reflecting health & safety measures as well as access to basic services and housing are good. The region has a relatively high GDP per capita and low unemployment rate, resulting in a neutral-to-low exposure to income & labor factors. Exposure to demographic pressures is moderately negative, due to population ageing, which is likely to weigh on demand for services and healthcare spending.

Governance

Highly transparent and very strong management and governance practices are reflected in Valle d'Aosta's governance issuer profile score **G-1**. Valle d'Aosta's policies are credible and effective, with a solid track record of sound financial results associated with high data transparency. Strong oversight from the central government and adherence to fiscal policy goals will perdure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of baa2 is the same as the scorecard-indicated BCA. The matrix-generated BCA of baa2 reflects (1) an Idiosyncratic Risk score of 2 (presented below) on a 1 to 9 scale, where 1 is the strongest relative credit quality and 9 the weakest; and (2) a Systemic Risk score of Baa1.

For details about our rating approach, please refer to [Regional and Local Governments](#) methodology, published on 16 January 2018.

Exhibit 9

Autonomous Region of Valle d'Aosta Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				1	20%	0.20
Economic Strength [1]	1	127.36%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				1	20%	0.20
Legislative Background	1		50%			
Financial Flexibility	1		50%			
Factor 3: Financial Position				3	30%	0.90
Operating Margin [2]	1	18.97%	12.5%			
Interest Burden [3]	1	0.81%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	1	10.22%	25%			
Debt Structure [5]	9	40.56%	25%			
Factor 4: Governance and Management				1	30%	0.30
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						1.60 (2)
Systemic Risk Assessment						Baa1
Suggested BCA						baa2
Assigned BCA						baa2

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

[5] Short-term direct debt/total direct debt

Source: Moody's Investors Service; Fiscal 2022.

Ratings

Exhibit 10

Category	Moody's Rating
VALLE D'AOSTA, AUTONOMOUS REGION OF	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2
ST Issuer Rating	P-2

Source: Moody's Investors Service

Endnotes

1 In 2015, the region finalised the settlement of the repartition of beer and energy taxes, which resulted in €520 million of additional receivables from the central government.

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