FITCH AFFIRMS ITALIAN REGION OF VALLE D'AOSTA AT 'A'; OUTLOOK STABLE

Fitch Ratings-Milan/Paris/London-06 March 2015: Fitch Ratings has affirmed the Region of Valle d'Aosta's (VdA) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' and Short-term foreign currency IDR at 'F1'. The Outlooks on the Long-term IDRs are Stable.

The agency has simultaneously affirmed the Long-term ratings of the region's EUR74m and EUR543m (bullet) bonds, maturing in 2026 and 2021, respectively, at 'A'.

KEY RATING DRIVERS

The ratings reflect Fitch's expectation that the region, despite pressure from national budget consolidation, will be able to stabilise its operating margin at EUR200m in the medium term (or 15%, in line with 2014 preliminary adjusted figures), backed by still satisfactory budgetary flexibility and a robust balance sheet. As a result, the operating balance is estimated to be almost 4x debt service (EUR55m) for the same period.

In line with the region's commitment to avoid new borrowing, we expect net direct debt to continue declining towards EUR180m by end-2015 (net of EUR378m sinking fund for the bullet bonds and of the debt at charge of the state) and, in Fitch's central scenario, be around EUR160m in the medium term, down from EUR380m in 2010. Consequently, to maintain a balanced budget while financing investments with own resources, direct annual capex could halve to EUR150m-EUR200m over the medium term. Fitch believes that regional spending may be complemented by regional companies (such as Finaosta) to further sustain the local economy.

Due to robust tax compliance, Fitch expects liquidity to remain at a healthy EUR100-EUR150m over the medium term, almost matching the region's outstanding net direct debt and more than 2x annual debt service. The fund balance surplus (EUR130m at end-2014 according to preliminary figures) offers additional protection in case of unexpected liquidity pressure.

VdA's tax resilience and an expected mild GDP recovery (0.5%) in 2015 mitigate the region's small size and tax-base concentration. Its socio-economic profile is above the national average in terms of wealth indicators (GDP per capita about 30% above EU-29 average) and unemployment rate (8.5% in 2014, compared with 13% nationally). The latter is expected to remain low, supported by the tourism sector, which employs about 25% of the local workforce.

VdA's ratings are above Italy's sovereign ratings, as budgetary flexibility allows the region to maintain a healthy budget while coping with external pressures, including contributions to national budget consolidation of about EUR200m annually. Protection granted by its special autonomous status shields the region from the risk of unilateral interference from the state, including risks of annual budgetary appropriations.

RATING SENSITIVITIES

An upgrade of Italy would be reflected on VdA's ratings, provided that the region continues to perform in line with Fitch's expectations.

Conversely, a downgrade of Italy, a prolonged economic downturn that weakens tax generation, or a structural decline of the margin below 10% could result in a downgrade of VdA's ratings.

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Additional information is available on www.fitchratings.com

Applicable criteria 'Tax-Supported Rating Criteria' dated 14 August 2012, 'International Local and Regional Governments Rating Criteria' dated 23 April 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
International Local and Regional Governments Rating Criteria - Outside the United States
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=719656
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015