FitchRatings

Fitch Affirms Italian Region of Valle d'Aosta at 'A'; Outlook Stable

Fitch Ratings-Milan/London-19 February 2016: Fitch Ratings has affirmed the Region of Valle d'Aosta's (VdA) Long-term foreign and local currency Issuer Default Ratings (IDRs) at 'A' with Stable Outlooks and Short-term foreign currency IDR at 'F1'. The Long-term ratings on the region's senior unsecured bonds have also been affirmed.

The affirmation reflects Fitch's expectation that the region's operating performance will remain strong in the medium term, offsetting pressures from appropriations by central government. The ratings also take into account the region's prudent management and robust economy. The Stable Outlooks underpin the expectation that the region's direct debt will continue decreasing and that liquidity will remain sound in the medium term.

KEY RATING DRIVERS

Rating Above the Sovereign

VdA's ratings are above Italy's sovereign ratings (BBB+/Stable), 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 until 2017 (the region expects this to reduce by 75% from then onwards). The 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.

Robust Operating Performance

After dropping slightly below Fitch's expected EUR200m in 2015 (or 14% operating margin) mainly for the participation to consolidate to the national budget, Fitch believes that the region's operating balance will rise to EUR220m by 2017 (or 15%) largely driven by a rebounding economy pushing tax generation capacity, covering almost 4x the debt service requirements (about EUR55m in the same period). Increasing operating revenue will offset the contribution to national budget consolidation, which is expected to continue in the medium term. The residual budgetary flexibility and the robust balance sheet will also help maintain the region's healthy budget.

Decreasing Debt, Solid Reserves

Following the region's zero-borrowing policy, debt (net of an approximately EUR380m sinking fund for the bullet bonds and of the debt at charge of the state) will decline towards EUR160m by end-2016, or 12% of current revenue. As capital spending will consequently be lower than the historical level of EUR200m, regional companies (Finaosta) may step in and complement the regional investment plan. In Fitch's base case scenario, which assumes EU100m new borrowing in the next couple of years, debt will stabilise at EUR200m, down from EUR380m in 2010.

Sound Liquidity

Due to robust tax compliance supporting collection rates, Fitch expects liquidity to hover at a healthy EUR150m over the medium term, matching the region's outstanding net direct debt and covering more than 3x annual debt service requirements. The free fund balance surplus (about EUR200m at end-2015) offers additional protection in case of unexpected liquidity pressure.

Healthy Economy

Thanks to the positive trends in the tertiary sector (representing 75% of the local economy) registered in 2015, VdA's GDP grew by over 1% and Fitch expects this trend to continue in 2016 driven mainly by tourism and exports, mitigating the region's small size and tax-base concentration. GDP per capita is about 30% above the EU29 average and the widely spread wealth should continue supporting tax generation capacity. Fitch expects these effects to result in an unemployment rate that is lower than the national average (8.5% vs. 13%), albeit accompanied by the employment rate modestly decreasing to 66%, due to the size of the labour force increasing more quickly than the number of new jobs.

RATING SENSITIVITIES
An upgrade of Italy would be reflected by 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 operating margin below 10% could result in a downgrade of VdA's ratings.

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Applicable Criteria
International Local and Regional Governments Rating Criteria (pub. 18 May 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865254&cft=0)
Tax-Supported Rating Criteria (pub. 14 Aug 2012) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015&cft=0)

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