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CREDIT OPINION
14 December 2016

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RATINGS

Valle d'Aosta, Autonomous Region of	
Domicile	Italy
Long Term Rating	Baa1
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

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.

Contacts

Francesco Zambon 44-20-7772-1196
Analyst
francesco.zambon@moodys.com

Gianluca Beltracchi 44-20-7772-1054
Associate Analyst
gianluca.beltracchi@moodys.com

Massimo Visconti 39-02-9148-1124
VP-Sr Credit Officer
massimo.visconti@moodys.com

Valle d'Aosta, Autonomous Region of

Italy

Summary Rating Rationale

The autonomous region of Valle d'Aosta's (RAVA) Baa1 issuer and debt ratings are underpinned by (1) its long-established autonomous status that provides a high degree of financial autonomy and budgetary flexibility; (2) its solid gross operating margins; (3) a strong regional economy. At the same time, the region faces the following credit negative factors: (1) rising indirect debt, although total debt levels remain moderate; (2) falling capital expenditure (capex), potentially limiting future economic growth.

National Peer Comparison

Valle d'Aosta is rated one notch above the Italian Government (Baa2, negative). RAVA's position relative to its national peers reflects its greater legislative and financial autonomy, and its consistently robust budgetary performance.

Credit Strengths

» Long-established autonomous status

» Solid gross operating margins supporting a healthy budgetary surplus

» A strong local economy, despite modest size and diversification

Credit Challenges

» Slightly rising indirect debt, although total debt is still moderate

» Falling capex constrains economic growth

Rating Outlook

The rating outlook is negative.

Factors that Could Lead to an Upgrade

A strengthening of Italy's sovereign credit profile would likely lead to an upgrade of Valle d'Aosta's rating. Structural improvement of operating margins toward 30% of operating revenues, combined with falling debt levels would be credit positive.

Factors that Could Lead to a Downgrade

A downgrade of Italy's sovereign rating would lead to a downgrade of Valle d'Aosta's rating. Although highly unlikely given the constitutional framework, any alteration of the region's autonomous status could also prompt a negative rating change.

Key Indicators

Exhibit 1
Valle d`Aosta, Autonomous Region of

	2011	2012	2013	2014	2015
Net direct and indirect debt as % of operating revenues	26.52	24.37	27.01	25.85	28.01
Accrual financing surplus (requirement) as % of total revenue	-11.99	0.74	-0.29	7.50	5.14
Gross operating balance as % of operating revenue	17.04	17.47	11.47	14.97	10.73
Interest payments as % of operating revenue	1.51	1.42	1.43	1.37	1.38
Intergovernmental transfers as a % of operating revenues	0.36	0.24	0.64	0.44	6.88
Capital spending as a % of total expenditures	28.33	19.43	15.89	11.66	8.72
GDP per capita as a % of national average	139.42	138.25	141.08	144.42	-

Source: Issuer, Moody`s

Detailed Rating Considerations

Valle d'Aosta`s Baa1 rating combines (1) a baseline credit assessment (BCA) for the region of baa1, and (2) a moderate likelihood of extraordinary support from the national government in the event that the region faced acute liquidity stress.

Recent Developments

On 7th December 2016 a negative outlook was placed on the Italy's Baa2 sovereign rating, reflecting the majority vote to reject the reform Renzi-Boschi in a national referendum held on 4th December 2016. We expect a higher level of political uncertainty, which will manifest in slower reforms implementation and economic growth. On 13th December 2016, the outlook on Valle d`Aosta, Autonomous Region of rating was changed to negative from stable and the Baa1 rating affirmed, reflecting the impact of the growing systemic risk on regional and local governments (RLGs) following the outlook change on the sovereign rating to negative from stable. This largely reflects the close institutional, operational and financial linkages between the central government and RLGs.

Baseline Credit Assessment

LONG-ESTABLISHED AUTONOMOUS STATUS

The region's autonomous status allows it to retain all fiscal revenues generated and collected in its territory. Although this creates a strong correlation with the local economy, it also gives the region much greater budgetary flexibility than other Italian regions. This additional flexibility is partly offset by annual spending limits agreed by Valle d'Aosta and the Ministry of Finance as part of Italy's national budgetary consolidation efforts.

Valle d'Aosta has been affected by the central government's national budgetary consolidation programme. The region's accumulated spending reductions rose to EUR235 million in 2015 from EUR86 million in 2012. The Internal Stability Pact of 2016 has imposed additional spending cuts of EUR69 million in 2016 and EUR16 million in 2017.Valle d'Aosta's fiscal consolidation efforts sharply reduced the region's capex during 2011-15. From 2016-17, Valle d'Aosta will aim to break even, but will not be subject to further annual expenditure limits. Moody's regards the region's budgetary consolidation programme as manageable. We expect it to preserve sound finances and its traditionally high standards of public services.

SOLID GROSS OPERATING MARGINS SUPPORTING A HEALTHY BUDGETARY SURPLUS

In 2011-15 Valle d'Aosta achieved an average operating margin of 14.3% of operating revenues, and we expect no significant volatility for the next two years. RAVA has maintained a higher gross operating balance than its peers, despite the national abolition of import duty and a reduction of excise duties on beer and energy. Revenues from excise duty on beer and energy decreased to EUR123 million in 2015 from EUR188 million in 2014, and are expected to fall again to EUR70 million in 2016. As part of a spending review in 2015, Valle d'Aosta matched expenses to available revenues without affecting its fiscal flexibility.

Valle d'Aosta has greater financial flexibility than its national peers as it has scope to increase personal income tax, corporate tax, and hydroelectricity license revenues. The region also has some room for maneuver on the spending side if necessary.

The healthcare sector, a key regional responsibility, accounts for 20% of VA's total expenditure. Healthcare spending was reduced to EUR250 million in 2015 from EUR278 million in 2013 and we expect another reduction to EUR233 million in 2016. The healthcare sector's budget is balanced thanks to the substantial level of resources provided by the region. Going forward we expect the region to maintain its traditionally high standard of public services.

STRONG LOCAL ECONOMY, DESPITE MODEST SIZE AND DIVERSIFICATION

Valle d'Aosta is a small region in northwestern Italy with GDP per capita equivalent to 144% of the national average, the second-highest of any Italian region. Valle d'Aosta's GDP contracted by 2.5% in 2007-14 as a result of the financial crisis, well below the 9% decline in national GDP over the same period. In 2015, the region's GDP amounted to about EUR4.8 billion, most of it generated by the service sector. Tourism, a major revenue source for the region, has been hit by a decline in the number of international visitors, partly offset by an increase in domestic tourism. Since Valle d'Aosta is a small region, its GDP is materially affected by the financial results of its major companies. The beverage sector generates about the 8% of the region's operating revenues in the form of beer excise duty and corporate taxes. For 2016 we expect a slight rebound in regional economic indicators, mirroring the national average.

SLIGHTLY RISING INDIRECT DEBT, TOTAL DEBT LEVEL STILL MODERATE

Valle d'Aosta's net direct and indirect debt is moderate compared to peers at 26.4% of operating revenues on average between 2011-15. At YE2015, the region's direct debt was equivalent to 15.7% of operating revenues and consisted of an EMTN bullet bond of EUR165 million, net of the related sinking fund, and an amortizing bond of EUR41 million. Since 2013, Valle d'Aosta's debts have been managed by Finaosta S.p.A. (not rated), 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. The increase in Valle d'Aosa's indirect debt is largely due to increased borrowing by Finaosta S.p.A . In 2015, the company accounted for almost all of the region's indirect debt of EUR125 million. We expect Finaosta S.p.A.'s debt to increase in 2016 by a maximum of EUR40 million, taking the total to EUR160 million. This would moderately increase Valle d'Aosta's net direct and indirect debt to 28.4% of latest reported operating revenues. We expect NDID to fall subsequently, based on regional forecasts. Although the region's indirect debt has increased, its total debt is still very manageable, with interest payments amounting to just 1.4% of operating revenues.

FALLING CAPEX CONSTRAINS ECONOMIC GROWTH

Valle d'Aosta's fiscal consolidation efforts, coupled with a decrease in important revenue sources, reduced the region's capex by 74% during 2011-15, weighing on the local economy. Capex accounted for 9% of total expenditure in 2015, down from 28% in 2011, and we expect it to fall again in 2016-17 to just 6% of total expenditure. The economy of Valle d'Aosta is mainly service-based, and we consider current low investment levels as a challenge to GDP growth in the long-term.

Extraordinary Support Considerations

Moody's assigns a moderate probability of extraordinary support from the central government, reflecting the region's long-established special autonomous status.

Output of the Baseline Credit Assessment Scorecard

In the case of Valle d'Aosta, the BCA matrix generates an estimated BCA of baa2, 1 notch lower compared to the BCA assigned by the rating committee.

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 Baa2, as reflected in the sovereign bond rating (Baa2, negative).

The idiosyncratic risk scorecard and BCA matrix, which generate estimated baseline credit assessments from a set of qualitative and quantitative credit metrics, are tools used by the rating committee in assessing regional and local government credit quality. The credit metrics captured by these tools provide a good statistical gauge of stand-alone credit strength and, in general, higher ratings can be expected among issuers with the highest scorecard-estimated BCAs. Nevertheless, the scorecard-estimated BCAs do not substitute for rating committee judgments regarding individual baseline credit assessments, nor is the scorecard a matrix for automatically assigning or changing these assessments. Scorecard results have limitations in that they are backward-looking, using historical data, while the assessments are forward-looking opinions of credit strength. Concomitantly, the limited number of variables included in these tools cannot fully capture the breadth and depth of our credit analysis.

Rating Methodology and Scorecard Factors

Exhibit 2

Valle d`Aosta, Autonomous Region of

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub- factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	1	143.93	70%	2.2	20%	0.44
Economic volatility	5		30%			
Factor 2: Institutional Framework						
Legislative background	5		50%	3	20%	0.60
Financial flexibility	1		50%			
Factor 3: Financial Performance and Debt Profile						
Gross operating balance / operating revenues (%)	1	12.05	12.5%	1.25	30%	0.38
Interest payments / operating revenues (%)	3	1.38	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	28.00	25%			
Short-term direct debt / total direct debt (%)	1	0.00	25%			
Factor 4: Governance and Management - MAX						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						1.72(2)
Systemic Risk Assessment						Baa2
Suggested BCA						baa3

Source: Issuer, Moody`s

Ratings

Exhibit 3

Category	Moody's Rating
VALLE D'AOSTA, AUTONOMOUS REGION OF	
Outlook	Negative
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
ST Issuer Rating	P-2

Source: Moody's Investors Service

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Contacts

Francesco Zambon 44-20-7772-1196
Analyst
francesco.zambon@moodys.com

Massimo Visconti 39-02-9148-1124
VP-Sr Credit Officer
massimo.visconti@moodys.com

Gianluca Beltracchi 44-20-7772-1054
Associate Analyst
gianluca.beltracchi@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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