Valle d'Aosta,Autonomous Region of (/gws/en/esp/issr/88380856)

FitchRatings

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

Fitch Ratings-Milan/Paris/London-27 January 2017: 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 Negative Outlooks and Short-Term Foreign Currency IDR at 'F1'. The long-term ratings on the region's senior unsecured bonds have also been affirmed at 'A'.

The affirmation reflects our expectation that VdA's special status will remain unchanged and that the region's strong budgetary performance will be maintained in the medium term, despite transitory pressures due to revised revenue attribution as defined by the national government. The affirmation is also supported by our expectation that VdA will continue its trend of moderate direct debt, wealthy although small economy and prudent management. The Negative Outlook reflects that of Italy.

KEY RATING DRIVERS
Autonomy Underpins Rating
VdA is eligible to be rated above the sovereign (BBB+/Negative) by virtue of its institutional strength and high financial autonomy. VdA's constitutionally granted special status entitles the region to receive 100% of major national taxes (PIT, CIT and VAT).

The special status underpins the region's tax revenue resilience and limits dependence on state transfers, allowing the region to maintain solid budgetary performance while coping with the pressures stemming from Italy's public finances consolidation. The latter includes changes tax attributions leading to nearly annual EUR140m reduction in 2015-2017 compared with 2014 and contributions to national budget consolidation of about EUR200m annually until 2017. The latter will be reduced by 70% from 2018 onwards, more than offsetting a decline in revenue.

Fitch believes that leeway of two notches above the 'BBB+' sovereign rating captures possible interferences by the state and the subsequent risk of weakening predictability of inter-governmental relations.

Robust Operating Performance
Fitch expects 2016-2017 operating margin to remain in line with 2015 levels, at about 12% of revenue, down from 18% in 2013-2014, due to the contribution to national budget consolidation, a different attribution of excise duties on beer and energy and import duties, and decreasing transfers that are only partially compensated by a tight grip on operating costs.

From 2018, due to a bilateral agreement on lower contributions to the national government, we expect operating margin to return to 2014 levels, while a rebounding economy will raise the region's tax-generation capacity.

The healthcare sector, absorbing less than 30% of operating revenue, is expected to remain balanced with high quality standards, due to increasing regional transfers and structure rationalisation.

VdA's residual budgetary flexibility (about 5% of operating revenue) should maintain an adequate buffer against potential pressure, maintaining the region's healthy budget and covering almost 4x debt service requirement of about annual EUR50m with the operating balance.

Sustainable Risk
Despite the region's decision to self-support its investment plan, mainly through its development company Finaosta, in addition to regional current surpluses, Fitch expects in its central scenario VdA's direct debt to remain at around EUR200m, or less than 20% of the budget, over the medium term, when net of the sinking fund for bullet bonds (accounting for EUR443m at end-2016).

Even including Finaosta's full financial debt of EUR370m (only partially drawn down for EUR175m in 2016), in Fitch's view, VdA's overall risk at around 50% of operating revenue does not significantly affect the region's creditworthiness.

Prudent Management
VdA maintains a stable and prudent budgetary policy aimed at reducing financial debt and maintaining a tight grip on costs. Preliminary data for 2016b showed a EUR280m fund balance deficit (EUR200m fund balance surplus in 2015) due to new accounting rules that have led to a revision and reallocation of payables and receivables. Fitch expects VdA to reverse the deficit well ahead of the 30-year deadline allowed by the national government, due to its solid budget. VdA continues to have a robust cash-generating capacity, supported by high tax collection.

Solid but Small Economy
VdA's GDP per capita, at nearly 30% above the EU average, makes it one of the wealthiest regions in Italy and Europe,

despite its small size territory. Fitch expects VdA's economy to have grown below 1% in 2016, driven mainly by tourism and, to a smaller extent, by industry, but offset by declining exports (16.5% in 2H16) of metals, machinery and beverage. Fitch expects the unemployment rate to remain at around 8% over the medium term (8.9% at end-2015 and 7.6% in 3Q16), below the national level (10.9% in 3Q16). This, together with a resilient regional economy, should support tax revenue.

RATING SENSITIVITIES
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. A downgrade could also be triggered by unfavourable changes in the region's statute of autonomy.

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Applicable Criteria
International Local and Regional Governments Rating Criteria - Outside the United States (pub. 18 Apr 2016) (https://www.fitchratings.com/site/re/878660)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1018247&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiMkxaOE5RWk5YTUlSSzNPTkRCSURSUURBQlILRlpDVFQ1UlVGWEZRUSIsImV4cCI6MTQ4NjM3MzI0MSwidXNlckIkIjoyMzg1MTI4fQ.hSrYoKVbiyqbNQsKhMWxvi9Jf7N_-odL2NXCUgholnQ)
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Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Valle d'Aosta,Autonomous Region of	-	Long Term Issuer Default Rating	Unsolicited
Valle d'Aosta,Autonomous Region of	-	Short Term Issuer Default Rating	Unsolicited
Valle d'Aosta,Autonomous Region of	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Valle d'Aosta,Autonomous Region of EUR 543 mln Floating Rate Notes 28 May 2021	XS0129991864	Long Term Rating	Unsolicited
Valle d'Aosta,Autonomous Region of EUR 74 mln 4.197% Notes 31 Dec 2026	IE00B1LD3052	Long Term Rating	Unsolicited