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

FitchRatings

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

Fitch Ratings-Milan/London-23 June 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 Stable Outlook 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 the continuing high financial autonomy of VdA due to its special status. This underpins the region's sound budgetary performance, including a balanced health care sector, despite transitory pressures from revised revenue attribution as defined by the national government. The affirmation also reflects VdA's robust debt ratios, solid liquidity, prudent management and wealthy but small economy. The Stable Outlook factors in our expectation that VdA will maintain unchanged special status of autonomy and solid budgetary performance over the medium term.

KEY RATING DRIVERS
Autonomy Underpins Ratings: VdA is eligible to be rated above the sovereign (BBB/Stable) 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 changed tax attributions leading to a nearly EUR140 million annual reduction in 2015-2017 compared with 2014 levels and contributions to national budget consolidation averaging EUR200 million annually until 2017. The latter will be reduced by 70% from 2018 onwards, more than offsetting declining revenue.

Fitch believes that the two-notch buffer above the 'BBB' sovereign rating (three notches are the maximum allowed by Fitch criteria) captures potential intervention by the state and the subsequent risk of weakening predictability of inter-governmental relations.

Robust Operating Performance: Fitch expects VdA will maintain healthy financial flexibility through economic cycles via expenditure control and resilient revenue, benefitting from an additional 5% fiscal leeway. Last year results showed a 14% operating margin (12% in 2015), still down from 18% in 2013-2014, due to the contribution to national budget consolidation, revised 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, which will provide the region with resources to self-fund part of its capex.

The healthcare sector, absorbing less than 25% of operating revenue, is expected to remain balanced over the medium term with high quality standards, due to increasing regional transfers and structure rationalisation.

Sustainable Risk: The region successfully reduced its debt stock to EUR175 million at end-2016 from EUR342 million in 2011, when net of the sinking fund for bullet bonds (accounting for EUR443 million) and EUR3.8 million debt serviced by the state.

Despite the decision to self-fund its investment plan through current surpluses, reserves and through its development company Finaosta, Fitch's central scenario assumes VdA's direct debt to remain at around EUR200 million, or less than 20% of the budget, over the medium term, with new debt offsetting principal repayment.

Even including Finaosta's full financial debt of EUR370 million (EUR175 million drawn at end-2016), in Fitch's view, VdA's overall risk at below 50% of operating revenue does not significantly affect the region's creditworthiness. Its robust cash-generating capacity, supported by excellent tax collection should allow liquidity to remain sound in 2017-2019. This is broadly in line with the region's average cash balance of EUR127 million in 2014-2016, covering debt servicing by more than 2x.

Prudent Management: VdA maintains a stable and prudent budgetary policy aimed at reducing financial debt and maintaining a tight grip on costs. Fitch expects VdA to increase investment spending to EUR450 million in 2017-2019 from about EUR300 million in 2014-2016 to stimulate the regional economy while maintaining a balanced budget. Investment will focus on transportation, schools, buildings, agriculture, and tourism activities.

VdA's EUR120 million fund balance deficit (EUR200 million fund balance surplus in 2015) posted in 2016 was driven by an extraordinary 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 budgetary performance.

Wealthy but Small Economy: Located in the north-west of Italy, VdA is among the smaller regions, with 127,000 inhabitants and a GDP of about EUR4 billion. However, VdA's GDP per capita, at nearly 30% above the EU average, makes the region one of the wealthiest in Italy and Europe. The economy is driven by tourism and industry, while exports of metals, machinery and beverage, after having declined in 2016, are recovering. Stable employment, at around 66% and above the national average (57%), contributes to the economy's resilience and supports the regional tax base.

RATING SENSITIVITIES

Rating actions on Italy will be mirrored in VdA's ratings. This is because VdA's IDRs move in tandem with those of Italy due to the compression from the sovereign ratings on the region's standalone profile.

A downgrade could be triggered by unfavourable changes in the region's statute of autonomy. A prolonged economic downturn leading to a sharp deterioration of the operating margin on a sustained basis could also result in a downgrade of VdA's ratings.

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Additional information is available on www.fitchratings.com

Applicable Criteria

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

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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

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
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

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