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CREDIT OPINION
24 November 2021

Update

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RATINGS

Valle d'Aosta, Autonomous Region of

Domicile	Italy
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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.

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Autonomous Region of Valle d'Aosta (Italy)

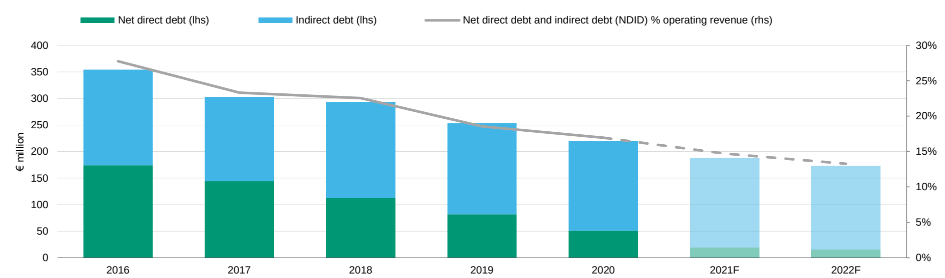
Update following outlook change to positive from stable

Summary

The credit profile of the Autonomous Region of Valle d'Aosta (Valle d'Aosta, Baa2 positive) is underpinned by its long-established autonomous status that provides a high degree of financial autonomy and budgetary flexibility. Its solid gross operating margin and strong regional economy were moderately impacted by the Covid-19 pandemic in FY2020-21. Valle d'Aosta's credit profile is one notch above that of the Government of Italy (Baa3 stable) because of strong idiosyncratic features. Valle d'Aosta's debt is modest and is likely to further decline, while capital spending will surge from its low starting point on the back of enhanced cash flow predictability and important liquidity.

Exhibit 1

Valle d'Aosta's indirect debt is likely to stabilise over the next two years while direct debt will decline



*Direct debt net of sinking fund. Indirect debt includes Finaosta S.p.A. and Casino' de la Vallee S.p.A.'s financial debt. F = Forecast
Sources: Issuer and Moody's Public Sector Europe

Credit strengths

» Long-established autonomous status providing fiscal autonomy

» Strong budgetary performance resilient to Covid-19 shock

» Marked decline in direct and indirect debt

Credit challenges

» Modest capital spending to surge in the next few years

» Budgetary sensitivity to economic cycles, mitigated by Valle d'Aosta's rich economic base

Rating outlook

The positive rating outlook reflects the strengthening of Valle d'Aosta's credit profile, as highlighted by improving financial metrics, notably strong gross operating balances and very low direct debt, which provide a high degree of shock-absorption capacity, pointing to positive pressure on the ratings. These outcomes reflect Valle d'Aosta's strong governance and greater visibility on future resources thanks to renewed agreements the central government.

Factors that could lead to an upgrade

We would consider upgrading the ratings in case of a continued strengthening of Valle d'Aosta's financial credit profile, confirming stronger financial metrics. An upgrade of Italy's sovereign rating would also exert upward pressure on its ratings.

Factors that could lead to a downgrade

Underperformance against expected strong results as well as any alteration of the region's unique status would strain Valle d'Aosta's ratings. A downgrade of Italy's sovereign rating could also lead to a downgrade of Valle d'Aosta's ratings.

Key indicators

Autonomous Region of Valle d'Aosta
Year ending December 31

	2018	2019	2020	2021F	2022F
Net direct and indirect debt as % of operating revenue	22.6	18.6	17.0	14.7	13.3
Cash financing surplus (requirement) as % of total revenue	0.3	12.4	11.9	-	-
Gross operating balance as % of operating revenue	15.1	24.0	17.4	14.6	14.7
Interest payments as % of operating revenue	1.4	1.3	1.4	1.4	0.1
Intergovernmental transfers as a % of operating revenue	1.9	2.8	3.5	6.3	2.9
Capital spending as a % of total expenditure	10.0	13.4	16.1	14.9	15.2
GDP per capita as a % of national average	131.0	130.7	130.7		

F = Forecast
Sources: Issuer and Moody's Investors Service

Detailed credit considerations

On 19 November 2021, we affirmed Valle d'Aosta's Baa2 long-term issuer rating and Prime-2 short-term rating, and changed the outlook to positive from stable. The key drivers of the rating action were the strengthening of Valle d'Aosta's financial metrics and bilateral agreements with the central government, in a context of sustained improvements in the institutional framework of Italian regional and local governments. This is reflected in increased transparency, tighter reporting requirements and strengthened controlling procedures, for Italian regional and local governments.

The credit profile of the Autonomous Region of Valle d'Aosta, as expressed in a Baa2 positive rating combines (1) a Baseline Credit Assessment (BCA) of baa2, and (2) a moderate likelihood of extraordinary support from the central government in the event that the region faces acute liquidity stress.

Baseline Credit Assessment

Long-established autonomous status providing fiscal autonomy

The region's autonomous status allows it to retain all fiscal revenue generated and collected in its territory. Valle d'Aosta has the scope to modify, as well as increase personal income surtax, corporate surtax and hydroelectricity licence revenue. In addition, Valle d'Aosta has some room to manoeuvre on the spending side, if necessary, as it demonstrated with recent measures to support the local economy, because of its wider scope of operations comparing to ordinary status regions. The healthcare sector, a key regional responsibility, accounts for 23% of Valle d'Aosta's total expenditure, lower than that for regions with ordinary status (around 80%).

Valle d'Aosta's annual contribution to the national budgetary consolidation has decreased and stabilized comparing to the past. This provides greater budgeting stability to the autonomous region and reflects more favorable agreements with the central government. In accordance with the current agreement for national fiscal consolidation, Valle d'Aosta's annual contribution was set at €102 million in 2020 (then reduced due to the pandemic, cf. paragraph "*Strong budgetary performance resilient to Covid-19 shock*"), down from €112 million paid in 2019 and €194 million paid in 2018. Moreover, the region has recently set with the central government a 20% reduction of its annual contribution payment from 2022 to 2026: the new amount will be €82 million.

Despite recent relative local political uncertainty with four regional president changes between 2017 and 2018, the region successfully achieved higher transparency and coordination with the central government, reflecting the good level of resiliency demonstrated by Valle d'Aosta's administration. In 2015, the region also finalised the settlement of the repartition of beer and energy taxes, which resulted in €520 million of additional receivables from the central government over the past and next few years. Valle d'Aosta receives regular transfers (the central government will pay €65.8 million each year until 2023 and €45 million thereafter until redemption of the €520 million original debt), reducing its stock of receivables while improving its liquidity. Because of the *Decreto Sblocca-Cantieri*, which is a 2019 decree focused on unlocking construction tenders, and the higher level of stability of its link with the central government, Valle d'Aosta's capital spending planning has improved materially.

Strong budgetary performance resilient to Covid-19 shock

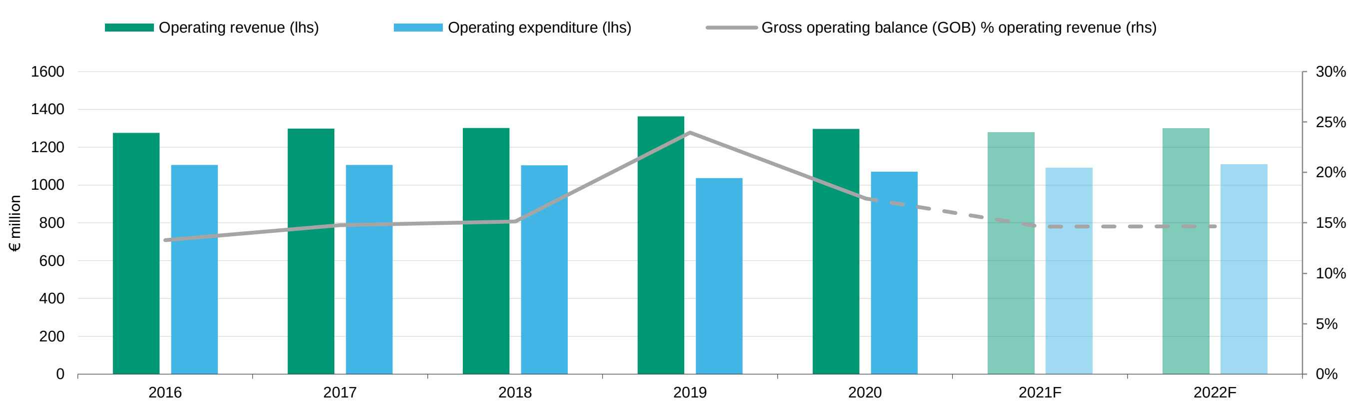
Valle d'Aosta entered the pandemics on a relatively strong fiscal footing, providing the region's budget resilience to Covid-induced fiscal pressures.

The pandemic advent impacted the regional budget in 2020 through a 28% decrease in corporate income tax (from €67 million in 2019 to €48 million in 2020) and a 12% decrease in personal income tax (from €435 million in 2019 to €382 million in 2020). To cope with Covid-19 overspent and income losses, Valle d'Aosta benefitted in 2020 of a €84 million reduction in its contribution to the national budgetary consolidation (down from €102 million cf. previous paragraph "Long-established autonomous status providing fiscal autonomy"; the reduction amounts to €11 million in 2021), along other support measures from the central government. The region also received €10 million as a compensation of the regional losses in corporate income tax (IRAP) and dedicated funds to cover healthcare costs triggered by the pandemic.

The region expects a greater negative impact during FY2021 stemming from the VAT and fuel tax decline, given the one-year lag of the fiscal income on the budget. To these ends, Valle d'Aosta shifted to 2021 around €72 million of the €84 million freed by the central government's exemption in 2020. Since we forecasts a substantial containment in operating expenditures and a normalization of central government transfers coupled with the recovery of tax revenues (in line with our estimation of future regional growth), we expect GOB at 14.6% of operating revenue in 2021 and at 14.7% in 2022, down from 17.4% in 2020. The healthcare sector's budget was balanced in 2019 and 2020 and is expected to reach the same result at YE2021.

Exhibit 3

GOB normalization in 2020-22 after 2019 peak



F = Forecast

Sources: Issuer and Moody's Public Sector Europe

Marked decline in direct and indirect debt

Valle d'Aosta's net direct and indirect debt was moderate at 23% of operating revenue on average between 2016 and 2019. In 2020, the ratio decreased at 17% of operating revenue, led by the marked decrease in direct debt (at €50 million in 2020 compared with €274 million in 2013). In 2020, direct debt consisted of a €543 million bullet bond (matured in 2021), €516 million of which covered by a sinking fund in 2020, and an amortising bond (maturing in 2026) for a total of €23 million. Valle d'Aosta's debt is manageable, with interest payments amounting to 1.4% of operating revenue in 2020. We do not expect the region to take on additional debt, because it has ample liquidity and self-financing capacity to support its future capital spending. As the aforementioned bullet bond reached maturity, VdA's direct debt structure will simplify substantially, with direct debt expected at €19 million in 2021 and €15 million in 2022 (100% fixed rate).

Since 2013, Valle d'Aosta's new debt has been managed by Finaosta S.p.A., 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'Aosta's indirect debt is largely driven by increased borrowings by Finaosta S.p.A., entirely guaranteed by the region. The guaranteed amounts reached a peak of €164 million in 2018-19 and decreased to €153 million in 2021. This brought the level of indirect debt, which also takes into consideration Casino' de la Vallee S.p.A.'s financial debt, at around €168 million in 2020. In 2020 indirect debt was 77% of the regional NDID while it is expected to reach 91% in 2022 on the back of the consistent decrease in direct debt.

Modest capital spending to surge in the next few years

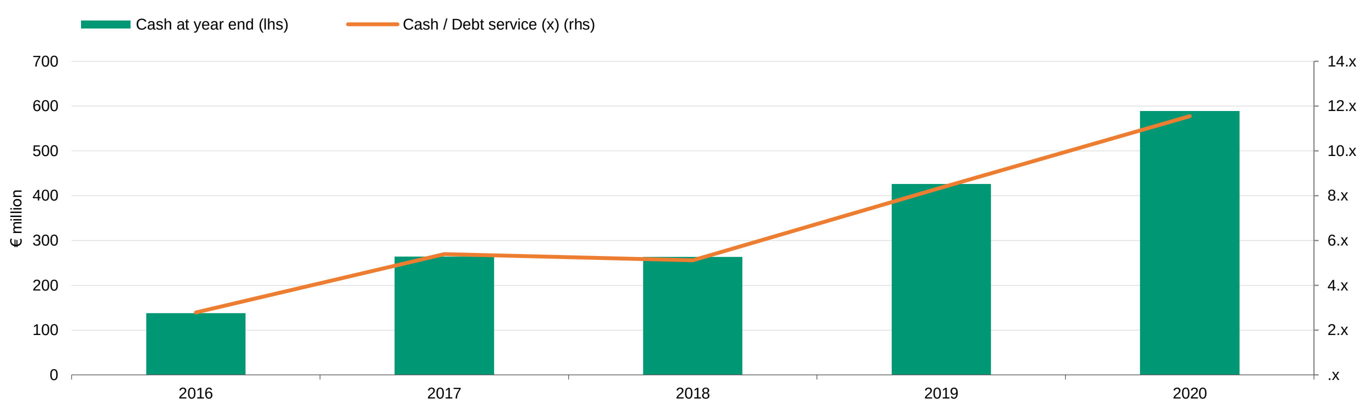
Valle d'Aosta's fiscal consolidation efforts, coupled with a significant decrease in revenue sources from the central government, reduced the region's capital spending by 45% during 2014-18. The improved transparency and programming capacity stemming from the relationship with the central government is likely to revert the trend in capital spending. In 2019, capital spending increased at 13.4% of total expenditure, up from 10% in 2018 and is expected at 15% in 2021-22.

As part of the agreement with the central government, which improves the regional programming capacity through greater cash-flow predictability, Valle d'Aosta will also receive a total of €120 million for regional capital spending spread over around 10 years from 2019. We expect this additional source to be earmarked for the building of a new hospital, a long-term project of around €100 million that will be completed in the next 10 years. In addition, the region will benefit from a 18% raise in 2021-27 EU funds with respect to the 2014-20 budget and from the NextGenEU funds.

Increased capital spending is also supported by an important liquidity buffer, driven by sound cash management and recent agreements with the central government. As of year-end 2020, cash reached €589 million, up from €426 million in 2019, and it covers 11.5 times the regional debt service.

Exhibit 4

Liquidity profile has ameliorated over time



Sources: Issuer and Moody's Public Sector Europe

Budgetary sensitivity to economic cycles, mitigated by Valle d'Aosta's rich economic base

Valle d'Aosta is a small region in northwestern Italy with a GDP per capita equivalent to 131% of the national average, the fourth-highest of any Italian region. In 2020, the region's GDP amounted to about €4.9 billion, most of it generated by the service sector. The unemployment rate of the region is lower than the national average (5.8% in Valle d'Aosta in 2020 compared with 9.2% in Italy over the same period).

Due to its autonomous status, Valle d'Aosta relies more on fiscal revenues generated and collected in its territory than ordinary status regions, thus creating a strong correlation with the local economy.

The regional economy suffered the impact of the pandemic in terms of employment (-2% in 2020 with respect to 2017-19 average) and the temporary shut down of enterprises producing 36% of the regional value added and tourism, an important sector for the region. Although the tourism activity rebounded during Q3 2020, the second wave of lock-downs measures impacted significantly the regional economy during the winter season. Nonetheless, the region promptly supported its economic actors providing *ad hoc* measures for €201 million, funded by previous years cumulated surpluses.

Extraordinary support considerations

Valle d'Aosta has a moderate likelihood of receiving extraordinary support from the central government, reflecting the region's long-established special autonomous status.

ESG considerations

We take into account the impact of environmental, social and governance factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Valle d'Aosta, the materiality of environmental, social and governance factors to the credit profile is as follows:

Environmental considerations are not material to Valle d'Aosta's credit profile. Its main environmental risk exposures relate to its susceptibility to avalanche and landslide risks. Both are predominantly managed by national authorities, especially in case of emergency (*stato di emergenza*). In addition, Valle d'Aosta's capital spending plan aims to prevent and reduce the impact of such events, which enhances its resiliency to those risks.

Exposure to social risks associated with demographic, labour income, access to basic services and education is material, because the region is responsible for healthcare and social care services, while education is an important cultural topic (bilingualism). However, those risks are well managed with the regional healthcare sector being structurally balanced and social pressures being fairly limited. We view the coronavirus pandemic as a social risk under our framework, given the substantial implications for public health and safety. In addition, Valle d'Aosta displays an unemployment rate below the national average.

Governance considerations are material to Valle d'Aosta's credit profile. Valle d'Aosta displays high standards of governance and management. Its policies are credible and effective, with a solid track record of sound financial results associated with high data transparency.

Further details are provided in the “Detailed credit considerations” section above. Our approach to environmental, social and governance considerations is explained in our cross-sector methodology General Principles for Assessing Environmental, Social and Governance Risks.

Rating methodology and scorecard factors

The assigned BCA of baa2 is the same as the scorecard-indicated BCA. 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 Baa1.

For details about our rating approach, please refer to Regional and Local Governments methodology, published on 16 January 2018.

Exhibit 5

Valle d'Aosta, Autonomous Region of

Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				**1**	**20%**	**0.20**
Economic Strength [1]	1	130.74%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				**1**	**20%**	**0.20**
Legislative Background	1		50%			
Financial Flexibility	1		50%			
Factor 3: Financial Position				**3.25**	**30%**	**0.98**
Operating Margin [2]	1	18.96%	12.5%			
Interest Burden [3]	3	1.37%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	1	16.96%	25%			
Debt Structure [5]	9	65.20%	25%			
Factor 4: Governance and Management				**1**	**30%**	**0.30**
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						**1.68 (2)**
Systemic Risk Assessment						**Baa1**
Suggested BCA						**baa2**

[1] Local GDP per capita as % of national GDP per capita
[2] Gross operating balance/operating revenues
[3] Interest payments/operating revenues
[4] Net direct and indirect debt/operating revenues
[5] Short-term direct debt/total direct debt
Source: Moody's Investors Service; Fiscal 2020.

Ratings

Exhibit 6

Category	Moody's Rating
VALLE D'AOSTA, AUTONOMOUS REGION OF	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2
ST Issuer Rating	P-2

Source: Moody's Investors Service

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