

## CREDIT OPINION

7 December 2018

Update

✓ Rate this Research

### 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 to credit analysis

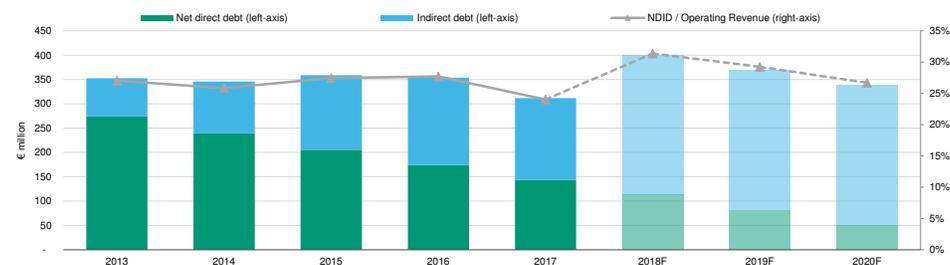
### Summary

The credit profile of the [Autonomous Region of Valle d'Aosta \(Baa2 stable\)](#) (Valle d'Aosta) 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 a strong regional economy. Valle d'Aosta's credit profile is one notch above that of the [Government of Italy \(Baa3 stable\)](#) because of strong idiosyncratic features. At the same time, the region faces challenges such as falling capital spending, potentially limiting future economic growth and indirect debt increase over the next two years.

#### Exhibit 1

#### Indirect debt of Valle d'Aosta is likely to increase

#### Net direct and indirect debt as a percentage of operating revenue



\*Direct debt net of sinking fund; indirect debt includes Finaosta S.p.A. and Casino' de la Vallee S.p.A. financial debt, F = Forecast.  
 Sources: Issuer, Moody's Investors Service

### Credit strengths

- » Long-established autonomous status
- » Solid gross operating margin, supporting a healthy budgetary surplus
- » A strong local economy, despite modest size and little diversification

### Credit challenges

- » Slightly rising debt in the recent years, driven by its indirect debt increase
- » Falling capital spending, which constrains economic growth prospects

## Rating outlook

The stable rating outlook reflects close institutional, economic and financial links between Italian regional and local governments and the central government, combined with steady strong financial performance, supported by sound governance and its unique status.

## Factors that could lead to an upgrade

- » Structural improvement in operating margin towards 30% of operating revenue
- » Declining debt levels
- » An upgrade of Italy's sovereign rating

## Factors that could lead to a downgrade

- » Any alteration of the region's unique status
- » Higher-than-expected debt levels
- » Deteriorating financial performance
- » A downgrade of Italy's sovereign rating

## Key indicators

Exhibit 2

### Autonomous Region of Valle d'Aosta Year ending December 31

	2015	2016	2017	2018F	2019F	2020F
Net direct and indirect debt as % of operating revenues [1]	27.5	27.7	24.0	31.4	29.3	26.7
Cash financing surplus (requirement) as % of total revenue	2.9	3.7	9.5	-	-	-
Gross operating balance as % of operating revenue	10.7	13.3	14.8	8.2	10.5	16.1
Interest payments as % of operating revenue	1.4	1.4	1.4	1.4	1.4	1.4
Intergovernmental transfers as a % of operating revenues	25.0	21.8	23.3	22.8	24.4	24.1
Capital spending as a % of total expenditures	8.5	6.0	10.4	10.8	11.1	18.0
GDP per capita as a % of national average	126.1	125.8	125.8	-	-	-

[1] Finaosta S.p.A. and Casinò de la Vallee S.p.A. included in financial metrics, F = Forecast.

Sources: Issuer, Moody's Investors Service

## Detailed credit considerations

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

### Baseline credit assessment

#### Long-established autonomous status

The region's autonomous status allows it to retain all fiscal revenue 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 with ordinary status. This additional flexibility is, however, 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 through spending cut and annual contributions. The region's accumulated spending reductions amounted to €137 million (or 11% of its total expenditure)

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between 2013 and 2017. As a part of the agreement for national fiscal consolidation between central government and the autonomous region, Valle d'Aosta will contribute annually to national government €123 million in 2019 and €103 million going forward, down from €240 million annual contribution paid between 2014 and 2018.

Valle d'Aosta's governance and management have displayed a good level of resiliency despite recent local political uncertainty, and the region successfully implemented new accounting rules and the restatement of accounts. The autonomous region has historically showed a good level of coordination with municipalities and the central government. In case of natural calamities, the municipalities can access regional available resources (Regional Law 5/2001), which is credit positive because it mitigates the risk of default of local municipalities in case of natural disasters in a region exposed to landslide risks.

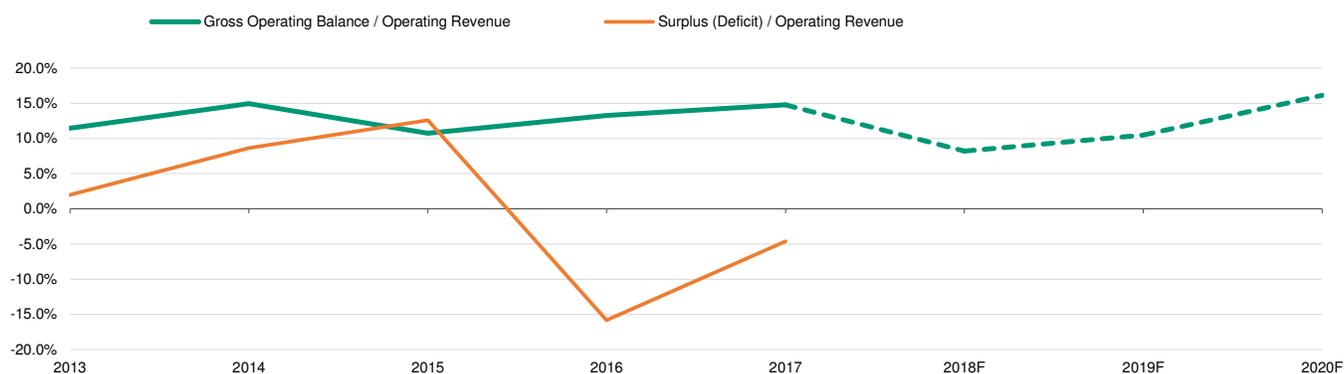
#### Solid gross operating margin, supporting a healthy budgetary surplus

In 2013-17, Valle d'Aosta achieved an average gross operating balance of 13% of operating revenue, and we expect it to increase from 2019, because of the lower contribution to national fiscal consolidation (€123 million in 2019 or roughly 9% of operating revenue). Valle d'Aosta has maintained a higher gross operating balance than all Italian regions with ordinary status, despite reduction in excise duties on beer and energy. The solid operating margin and the one-off collection of excises from the central government, which were previously impaired for €540 million, will allow the region to absorb entirely the extraordinary deficit coming from the restatement of accounts in 2019. We expect the region to start structurally displaying surpluses from 2019.

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 revenue. The region also has some room for manoeuvre on the spending side, if necessary.

Exhibit 3

#### Valle d'Aosta is likely to display a solid gross operating balance



\* 2016 deficit driven by one-off restatement of accounts payable and receivable

Sources: Issuer, Moody's Investors Service

The healthcare sector, a key regional responsibility, accounts for 20% of Valle d'Aosta's total expenditure, lower than ordinary regions. The healthcare sector's budget is balanced because of the substantial level of resources provided by the region. We expect the region to maintain its traditionally high standard of public services.

#### Strong local economy, despite modest size and little diversification

Valle d'Aosta is a small region in northwestern Italy with GDP per capita equivalent to 126% of the national average, the second-highest of any Italian region. Valle d'Aosta's GDP contracted by 2.5% in 2007-15 as a result of the financial crisis, well below the 9% decline in national GDP over the same period. In 2017, the local GDP increased by 0.8% compared with 2016, which is a modest growth in line with the national government. The region's GDP amounted to about €4.8 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 8% of the region's operating revenue in the form of beer excise duty and corporate taxes. In 2018-19, we expect a slight rebound to continue in regional economic indicators, mirroring the national average.

**Slightly rising debt in the recent years, driven by its indirect debt increase**

Valle d'Aosta's net direct and indirect debt was moderate at 26% of operating revenue on average between 2015 and 2017. In 2018, we expect the region's ratio of direct debt to operating revenue to be 9% and continue to decline over the next three years. Debt in 2017 consisted of an EMTN bullet bond, net of the related sinking fund of €433 million in 2017 and an amortising bond for a total of €144 million. Since 2013, Valle d'Aosta's 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 because of increased borrowing by Finaosta S.p.A. In 2017, the company accounted for almost all of the region's indirect debt of €112 million. We expect Finaosta S.p.A.'s debt to increase in 2019-20 by a maximum of €240 million. Although the region's indirect debt will increase, its total debt is still very manageable, with interest payments amounting to just 1.4% of operating revenue.

**Falling capital spending constrains economic growth prospects**

Valle d'Aosta's fiscal consolidation efforts, coupled with an important decrease in revenue sources from the central government, reduced the region's capital spending by 56% during 2013-17, weighing on the local economy. 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 even if we recognised that a significant amount of capital spending is not accounted in regional balances as it is performed by Finaosta S.p.A.. Capital spending accounted for 10.4% of total expenditure in 2017, up from 6% in 2016, but we expect it to increase between 10% and 15% of total expenditure in 2018-19. As part of the agreement with the central government, Valle d'Aosta is likely to receive a total of €120 million for regional capital spending spread over around 10 years from 2019. This will be reflected in an annual capital spending increase of 8%-10%. 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.

**Extraordinary support considerations**

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

**Output of the Baseline Credit Assessment Scorecard**

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 Baa2. In the case of Valle d'Aosta, the Systemic Risk of Baa2 exceeds the sovereign bond rating by one notch, which reflects its limited borrowing requirements, its constitutional protection and its outstanding financial flexibility, which could offset the impact of a sovereign decision detrimental to its financials.

For details about our rating approach, please refer to [Rating Methodology: Regional and Local Governments](#), 16 January 2018.

## Rating methodology and scorecard factors

Exhibit 4

### Autonomous Region of Valle d' Aosta

#### Regional and Local Governments

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
<b>Scorecard</b>						
<b>Factor 1: Economic Fundamentals</b>				2.20	20%	0.44
Economic strength	1	125.83	70%			
Economic volatility	5		30%			
<b>Factor 2: Institutional Framework</b>				3.00	20%	0.60
Legislative background	5		50%			
Financial flexibility	1		50%			
<b>Factor 3: Financial Performance and Debt Profile</b>				2.25	30%	0.68
Gross operating balance / operating revenues (%)	1	13.77	12.5%			
Interest payments / operating revenues (%)	3	1.39	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	1	24.03	25%			
Short-term direct debt / total direct debt (%)	5	21.71	25%			
<b>Factor 4: Governance and Management - MAX</b>				1.00	30%	0.30
Risk controls and financial management	1					
Investment and debt management	1					
Transparency and disclosure	1					
<b>Idiosyncratic Risk Assessment</b>						2.02 (2)
<b>Systemic Risk Assessment</b>						Baa1
<b>Suggested BCA</b>						baa2

Sources: Issuer, Moody's Investors Service

## Ratings

Exhibit 5

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

Source: Moody's Investors Service

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