

CREDIT OPINION

24 November 2023

Update



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RATINGS

Ile-de-France, Region

Domicile	France
Long Term Rating	Aa2
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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Region Ile-de-France

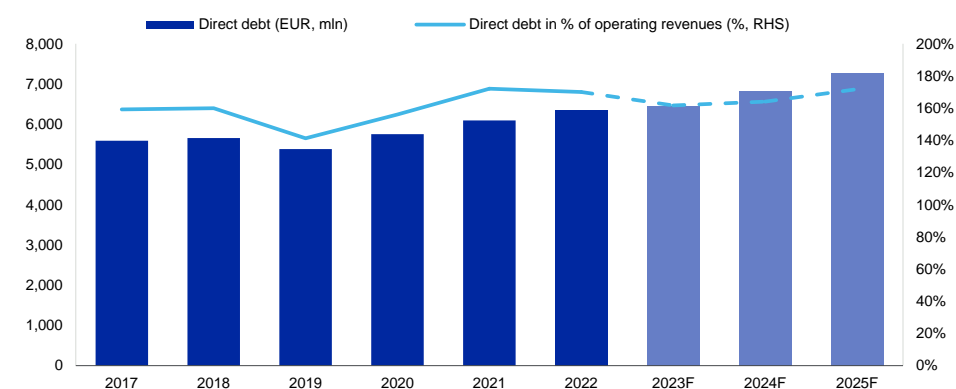
Update to credit analysis

Summary

The credit profile of [Region Ile-de-France](#) (Aa2 stable) reflects its strong financial performance, with its gross operating balance (GOB) averaging 28.0% of operating revenue over 2023-25, which will strengthen the region's investment capacity. The creditworthiness of Region Ile-de-France is also supported by its strong governance and sophisticated debt management, its undisputed access to financial markets and its status as the wealthiest region in France. Our assessment also captures its high but stable debt levels because of high and rising capital spending, and its limited revenue flexibility, as is the case for all French regions.

Exhibit 1

The debt will remain stable at a high level



F - Forecast.

Sources: Région Ile-de-France and Moody's Investors Service

Credit strengths

- » Strong operating performance, with GOB to stay above 25% of revenue over the next three years
- » Status as the wealthiest region in France
- » Sound governance practices, which underpin unquestioned market access

Credit challenges

- » High but affordable debt
- » Limited revenue flexibility, similar to that of all French regions

Rating outlook

The stable outlook reflects our expectation that the region's operating performance will remain very strong over the next two to three years and its debt burden will remain manageable. It also reflects our view that Region Ile-de-France's very strong governance and its unquestioned market access will help it navigate the current uncertain and challenging economic and financial environment.

Factors that could lead to an upgrade

Because Région Ile-de-France's rating is on par with the [Government of France's](#) (Aa2 stable), an upgrade would require an upgrade of the sovereign rating. However, this is unlikely because the outlook on the sovereign rating is stable.

Factors that could lead to a downgrade

One or a combination of the following could lead to a downgrade: a depressed GOB ratio for a prolonged period compared with what we expect, a materially and permanently higher NDID ratio compared with our forecasts and a significant weakening in liquidity position or market access. A downgrade of the sovereign bond rating would most likely have negative implications for the rating.

Key indicators

Exhibit 2

	2017	2018	2019	2020	2021	2022	2023F	2024F	2025F
Gross operating balance / operating revenue (%)	24.9%	27.9%	33.3%	31.8%	27.7%	26.2%	26.9%	29.0%	28.3%
Capital spending / total expenditure (%) [1]	38.2%	38.3%	40.9%	45.6%	45.6%	42.6%	41.9%	43.2%	43.7%
Self-financing ratio ((GOB+capital revenue) / capex)	0.9	1.1	1.1	0.9	0.8	0.8	0.9	0.9	0.8
Financing surplus (requirement) / total revenue (%)	-2.0%	4.1%	5.4%	-3.4%	-7.9%	-8.0%	-5.7%	-6.6%	-8.1%
Interest expenses / operating revenue (%)	3.6%	3.4%	3.3%	2.7%	2.6%	2.3%	2.4%	2.7%	3.0%
Net direct and indirect debt / operating revenue (%)	159.3%	160.0%	141.3%	156.1%	172.2%	170.1%	161.7%	164.1%	171.8%

(1) Before debt repayment; F - Forecast.

Sources: Region Ile-de-France and Moody's Investors Service

Detailed credit considerations

The credit profile of Région Ile-de-France, as expressed in a Aa2 stable rating, combines its Baseline Credit Assessment (BCA) of aa2 and a high likelihood of extraordinary support from the French government in the event that the region faces acute liquidity stress.

Baseline Credit Assessment

Very strong operating performance, which provides shock-absorption capacity

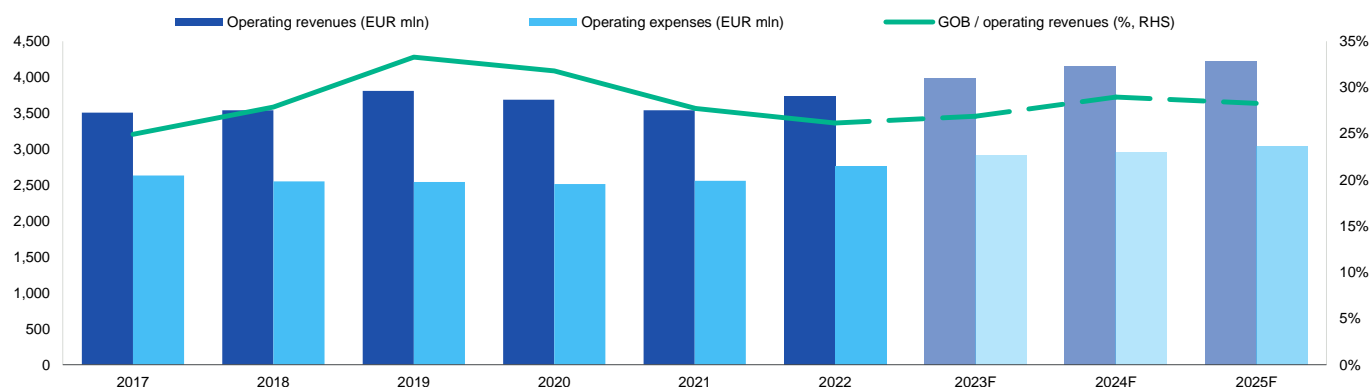
Over the coming two years, we expect Region Ile-de-France to continue to post strong operating surpluses. In 2022, GOB was €980 million, or 26.2% of its operating revenue. We expect the ratio to trend upward at an average of 28.0% in 2023-25 (see Exhibit 3) and to exceed €1,000 million.

Since 2021, the region receives, similar to other French regions, an additional share of value-added tax (VAT) proceeds, in replacement to the local business tax (CVAE). VAT receipts, which now account for close to half of operating income and move in line with nominal gross domestic product (GDP), will continue to support revenue growth. In addition, the region has removed the exemption on stamp duties levied on car registration for clean vehicles in 2023, and plans an increase in the tax rate in 2024 from €46.15 to €54.95. After declining in recent years because of the exemptions on clean cars, the yield on this tax will pick up again in 2024 and 2025.

Meanwhile, we expect the region to continue its efforts to restrain operating expenditure. The region targets operating expenditure growth consistently below inflation. Excluding interest payments, operating expenditure will be broadly flat in 2024 compared with 2023 initial estimates, and will increase by less than 1.5% in 2025. Combined with revenue-raising measures, this will offset the impact of inflation on the region's financial performance, and will allow it to maintain strong self-financing capacity.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Exhibit 3

GOB-to-operating revenue ratio to remain above 25% in 2023-25

F - Forecast.

Sources: Région Ile-de-France and Moody's Investors Service

Status as the wealthiest region in France

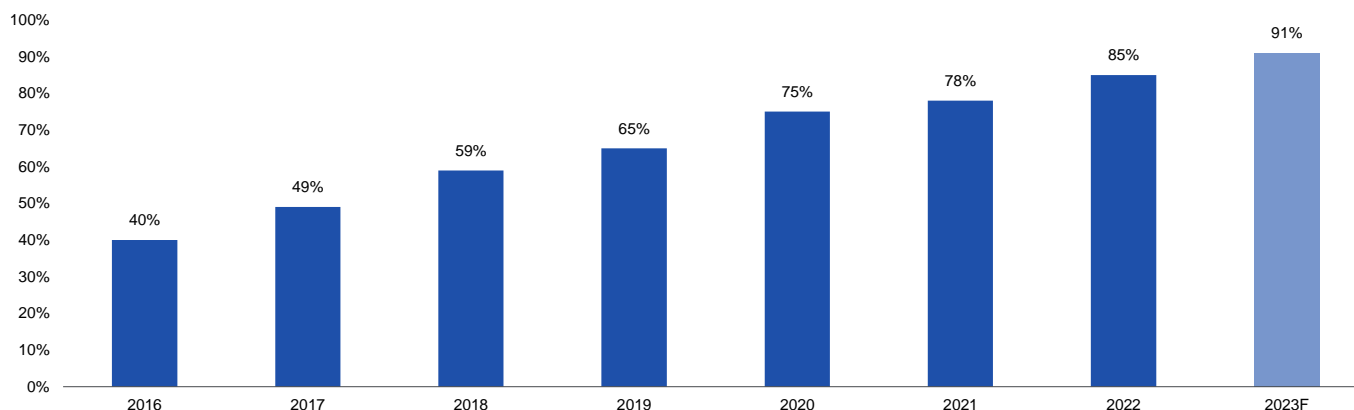
Home to France's capital city Paris, Région Ile-de-France draws its strength from a combination of political and economic powers. The French financial industry and the country's major transportation hubs are concentrated in Région Ile-de-France. With 12.4 million inhabitants, the region is home to 18% of France's metropolitan population, and the average age of its residents is lower than the national average. It is the wealthiest region in the country, accounting for 31% of national wealth, or 5% of the European Union's GDP, larger than that of Greater London in the United Kingdom or [Lombardy](#) (Baa2 stable) in Italy. The region's 2021 GDP per capita was 1.7x the national GDP per capita.

Sound governance and sophisticated financial management underpin unquestioned market access

The regional administration follows a prudent budgetary approach, presenting credible long-term budget targets. The quality of governance and management is high, with a clear focus on preserving the region's financial health. Région Ile-de-France has undertaken continued efforts to rationalise its operating expenditure, as illustrated by the efforts to rationalise its office use in its regional headquarters. Targets — such as having less than €9 billion of debt and debt-to-GOB ratio equal to or below 7x in 2028 — are clear and achievable.

Région Ile-de-France also undertakes sophisticated financial management. In 2012, it was one of the first regional and local governments in the world to issue labelled bonds. As of year-end 2022, the region had €5.4 billion outstanding green and sustainability debt, equal to 85% of its €6.3 billion total debt (see Exhibit 4). In January 2023, Region Ile-de-France issued €600 million under its €9 billion EMTN programme.

Exhibit 4

Green and sustainable debt amounts to 85% of Région Ile-de-France's outstanding debt

F - Forecast.

Sources: Région Ile-de-France and Moody's Investors Service

Région Ile-de-France has a €1 billion Negotiable European Commercial Paper (NEU-CP) programme. While the region does not plan to issue new short-term debt using this vehicle and has reduced the size of the programme from €1.5 billion to €1 billion in 2023, its unquestioned debt market access remains a key credit strength. The region also has access to a €100 million revolving credit facility to meet its liquidity needs, accessible with a 24-hour notice. Given the support of predictable and regular cash flow, in particular central government transfers and tax revenue, we expect Région Ile-de-France's liquidity to remain sound and secure. The region also benefits from funding from the [European Investment Bank](#) (EIB, Aaa stable). We expect the region to maintain close ties with the EIB and to continue to benefit from its secure and highly competitive funding as most of the region's capital expenses (including high schools and public transportation) are eligible for loans from the EIB.

High but affordable debt

Région Ile-de-France's stock of direct debt will remain high in the coming years. We expect the region's direct debt to increase to €7.3 billion in 2025, up from 6.4 billion in 2022, although it will remain broadly stable relative to operating revenue, at 172% in 2025. Région Ile-de-France's capital investment reached €2.0 billion in 2022, including supporting measures for small and medium-sized enterprises (SMEs) and targeted spending in other key areas such as professional training, transportation and economic development. The region will maintain high capital investment in the next three years, averaging 43% of total expenditure over 2023-25.

At the same time, debt will remain affordable. We expect interest payments — which represented 2.3% of operating revenue in 2022 — to average 2.7% of operating revenue over 2023-25. The region will retain flexibility in its investment plan.

Limited revenue flexibility, like all French regions

Région Ile-de-France has to contend with limited revenue flexibility and increasing exposure to the national economy. The only fiscal leeway regions have in terms of modulating tax rates is through the tax on vehicles, as demonstrated by the decision to increase the tax rate from 2024 and the termination of the exemption on clean cars since summer 2023. For Région Ile-de-France, proceeds from this tax represented 7.0% of operating revenue in 2022. The region is exposed to the national economy with 47% of its revenue derived from national VAT in 2022. This share is increasing with the decision of the central government to suppress the local business tax CVAE and replace it with an additional share of VAT.

On the spending side, French regions have high flexibility because of the high proportion of capital spending as a share of their total expenses. If needed, Région Ile-de-France could adjust or postpone its commitments in terms of capital spending projects.

Extraordinary support considerations

We assign a high level of extraordinary support from the Government of France. This support mainly reflects the strategic role of Région Ile-de-France because of its economic importance, large population, the capital city status of Paris and the region's international reputation. It is also the result of Région Ile-de-France's status as a high-profile and important issuer of bonds in international capital markets.

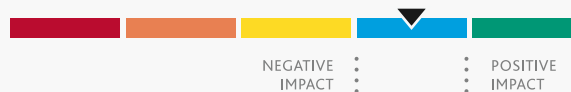
ESG considerations

Region Ile-de-France's ESG credit impact score is CIS-2

Exhibit 5

ESG credit impact score

CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

Region Ile-de-France's ESG Credit Impact Score of **CIS-2** reflects low exposure to environmental and social risks and very strong governance, as well as strong resilience to shocks thanks to its intrinsic fiscal strength, unquestioned access to external funding and external support (including central government support in case of major natural disaster).

Exhibit 6

ESG issuer profile scores

ENVIRONMENTAL

E-2



SOCIAL

S-2



GOVERNANCE

G-1



Source: Moody's Investors Service

Environmental

Region Ile-de-France's **E-2** environmental issuer profile score (IPS) reflects low risks across all categories.

Social

Region Ile-de-France's **S-2** social IPS reflects very high-quality education, good housing availability, high quality of health & safety and very high-quality access to basic services. As for France, population ageing is a longer-term challenge, balanced at the regional level by the attractiveness and wealth of the territory.

Governance

Region Ile-de-France's **G-1** governance IPS is underpinned by its prudent budgetary practices and planification, its budgetary flexibility and its financial management, including sophisticated debt management.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa2 is close to the scorecard-indicated BCA of aa3. The matrix-generated BCA of Région Ile-de-France reflects an Idiosyncratic Risk score of 2 on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Aa2, as reflected in France's Aa2 sovereign bond rating

Exhibit 7

Ile-de-France, Region

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	167.98%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				3	20%	0.60
Legislative Background	1		50%			
Financial Flexibility	5		50%			
Factor 3: Financial Position				2.75	30%	0.83
Operating Margin [2]	1	27.41%	12.5%			
Interest Burden [3]	3	2.44%	12.5%			
Liquidity	1		25%			
Debt Burden [4]	7	170.13%	25%			
Debt Structure [5]	1	6.87%	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						1.93 (2)
Systemic Risk Assessment						Aa2
Suggested BCA						aa3
Assigned BCA						aa2

[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 2022.

Ratings

Exhibit 8

Category	Moody's Rating
ILE-DE-FRANCE, REGION	
Outlook	Stable
Baseline Credit Assessment	aa2
Issuer Rating	Aa2
Senior Unsecured	Aa2
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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