



## RATING ACTION COMMENTARY

# Fitch Affirms Ile-de-France at 'AA'; Outlook

Fri 10 Apr, 2020 - 4:03 PM ET

Fitch Ratings - Paris - 10 Apr 2020: Fitch Ratings has affirmed the Region of Ile-de-France's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) at 'AA' with Stable Outlooks. Fitch has also affirmed the region's Short-Term Foreign-Currency IDR at 'F1+'. A full list of rating actions is below.

The Stable Outlook reflects Fitch's expectation that Ile-de-France will be able to maintain debt metrics compatible with its ratings, despite the expected economic downturn triggered by the coronavirus pandemic.

## KEY RATING DRIVERS

### High Midrange Risk Profile

Fitch assesses Ile-de-France's risk profile at 'High Midrange', reflecting a favourable mix of Stronger and Midrange Attributes on the six key risk factors. The 'High Midrange' risk profile reflects a limited risk that the region's cash flow available for debt service will contract below Fitch's expectations.

Revenue Robustness: Stronger

Ile-de-France's operating revenue is mostly made up of predictable and growing tax items. The levy on corporate-value added tax (CVAE; 24% of operating revenue in 2019) and VAT (13%) are linked to GDP growth, while the fuel tax (28%) is mostly shielded from the economic cycle as proceeds are mostly guaranteed by the French state (AA/Stable). Vehicle registration fees (9%) are a less robust revenue source as they are linked to a specific market (vehicle purchases).

In Fitch's view, the economic downturn, triggered by the coronavirus pandemic, will hit about half of Ile-de-France's operating revenue. VAT, vehicle registration rate proceeds and the share of fuel tax that is not guaranteed by the French state will decline in 2020. The decline in VAT proceeds may not exceed 6.6% as French regions benefit from a floor of proceeds from the French state. By contrast, CVAE net proceeds will increase by 6.2% in 2020 as the tax is paid on results two years earlier. However, we expect them to decline in 2021, and even more significantly in 2022. The economic downturn is factored into our debt sustainability assessment through our rating case scenario, but will not impact the revenue robustness assessment.

#### Revenue Flexibility: Midrange

Ile-de-France's fiscal flexibility is moderate as it is limited to vehicle registration fees. However, an increase of the tax rate to EUR60 (Fitch's assumed maximum rate for French region), up from EUR46.15, would have increased operating revenue by 3% in 2019, which in Fitch's view would cover more than 100% a reasonably expected revenue decline. Fitch considers the affordability of additional taxation as strong as the additional tax bill would represent a marginal proportion of the region inhabitant's average income.

#### Expenditure Sustainability: Stronger

Ile-de-France shows tight control of expenditure, as reflected by the continuous decline in operating expenditure in the last four years. Operating spending decreased by -2.3% a year on average in 2015-2019, while operating revenue growth was 2.6% a year on average on this period.

The region's expenditure is mainly non-cyclical and unlikely to grow significantly in an economic downturn. During the coronavirus pandemic, Ile-de-France will participate in national measures to support businesses, in light with its responsibility in economic development. However, we expect it will mainly reallocate some budget items. Containment measures will mechanically lead to postpone some spending

needs, which should also help the region keep spending under control in 2020. In our rating case scenario, we expect Ile-de-France's operating spending to grow 1% a year on average in 2020-2024 as it will likely keep a tight control over operating spending to cope with a decline in tax revenue.

#### Expenditure Flexibility: Midrange

Ile-de-France's operating expenditure is mainly made of mandatory transfers, relative to transportation (32% of estimated operating spending in 2018), vocational training (28%), or secondary education (11%). Staff costs (17%) are also rigid spending items as most of the region's employees have the status of civil servants. However, the region has a large capex programme (41% of estimated total expenditure in 2019, Fitch-adjusted), which could be postponed or scaled down in case of need, although this flexibility is partially offset by the high capex needs the region has, especially in terms of transportation and high-school infrastructures. We estimate the share of inflexible expenditure to be between 70% and 90%.

#### Liabilities and Liquidity Robustness: Stronger

Ile-de-France operates under a robust national and individual debt management framework. Its liabilities carry little risk. At end-2019, debt was 95% fixed rate and 100% was considered risk free by the national framework.

Off-balance sheet liabilities are mostly made of Ile-de-France Mobilites, a public-sector entity in charge of public transportation on the region's territory. The region has 51% of the seats on the board of directors. Ile-de-France Mobilites' debt has increased sharply in recent years due to significant capital expenditure needs (end-2018: EUR1.9 billion) and we expect this rising trend to continue in the coming years. However, Fitch assesses Ile-de-France Mobilites' risk profile as sound. It is largely funded by the tax levy on transport and its mandates are not subject to competition.

Fitch will also monitor the impact of the containment measures on Ile-de-France Mobilite's financial position and debt metrics. It will mechanically reduce revenue from fares this year.

#### Liabilities and Liquidity Flexibility: Stronger

The region has strong access to liquidity under various forms. It has access to institutional lenders such as Caisse des Depots et Consignations (AA/Stable) like all French LRGs, and also used credit lines from the European Bank of Investment (AAA/Stable) in 2019. It benefits also from a EUR587 million revolving line with a bank rated A+, which is mainly used as back-up line for the commercial paper programme.

#### Debt Sustainability: 'aa' category

This assessment reflects a net payback ratio expected to be close to 6.0x-6.5x in the medium term in our rating case scenario (2019: 3.8x estimated), in the middle of the 'aa' category, and a synthetic coverage ratio expected to be close to 2x. We have revised our rating case scenario assumptions to factor in the expected impact of the economic recession triggered by the coronavirus pandemic. This explains why our projected ratios are now slightly weaker than at our October 2019 review (payback ratio below 6x and coverage above 2x expected).

Ile-de-France's operating balance increased sharply to an estimated EUR1.380 billion in 2019, up from EUR773 million in 2015 and EUR1.087 billion in 2018. This is the result of growing tax revenue and a decline in operating spending. As a result of the economic downturn that will impact Ile-de-France's economy and tax revenue, we expect operating balance to decline to around EUR1 billion in the medium term.

Fitch expects Ile-de-France's net adjusted debt to remain fairly stable in 2020, at EUR5.2 billion, as it will benefit from exceptional sales of assets revenue. In our rating case scenario, we expect it to be around EUR6 billion at end-2024 as the region aims to implement a large capex programme (above EUR1.8 billion a year expected in the coming years).

The region's net adjusted debt declined to EUR5.186 billion at end-2019, from EUR5.577 billion at end-2018, and compared to EUR5.410 billion at end-2015. The region was able to self-finance its large capex in 2019 (EUR1.758 billion in 2019, compared to EUR16.30 billion a year on average in 2015-2018), thanks to the sharp increase in operating balance.

While French LRG most recently available issuer data may not have indicated performance impairment, material changes in revenue and cost profiles are occurring across the sector and likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or broadened.

Fitch's ratings are forward-looking in nature, and we will monitor developments in the sector for their severity and duration, and incorporate revised base-and rating-case qualitative and quantitative inputs based on performance expectations and assessment of key risks.

Ile-de-France is France's main political and economic centre and one of the EU's wealthiest regions. It has a population of 12.1 million, representing 18% of the national population. In 2017, GDP per capita was EUR58,300, or 194% of the EU average. Unemployment is below the French average (7.5% vs. 8.3% in 3Q19), but the poverty rate is higher (15.7% in 2016 vs. 14.7% in metropolitan France).

## **DERIVATION SUMMARY**

Based on the risk profile assessment and reassessment of debt sustainability metrics, Fitch has lowered Ile-de-France's SCP to 'aa' from 'aa+', without any negative impact on the region's rating. The rating is not capped by the sovereign rating (AA/Stable) and there is no other rating factor affecting the rating.

## **KEY ASSUMPTIONS**

Qualitative Assumptions and Assessments:

Risk Profile: High Midrange

Revenue Robustness: Stronger

Revenue Adjustability: Midrange

Expenditure Sustainability: Stronger

Expenditure Adjustability: Midrange

Liabilities and Liquidity Robustness: Stronger

Liabilities and Liquidity Flexibility: Stronger

Debt sustainability: 'aa' category

Support: N/A

Asymmetric Risk: N/A

Sovereign Cap or Floor: N/A

Quantitative assumptions - issuer specific

Fitch revised its rating case scenario's assumptions to reflect the negative economic impact of the coronavirus and of containment measures on Ile-de-France's debt sustainability metrics. Fitch's rating case scenario is a "through-the-cycle" scenario, which is based on the 2015-2019 figures and 2020-2024 projected ratios. It incorporates a combination of revenue, cost and financial risk stresses in case of economic slowdown. It also takes into account the recent lockdown of French economy, and Ile-de-France's large investment programme.

The revised key assumptions for the scenario include a decline in VAT and vehicle registration fees proceeds in 2020, as well as the share of the fuel tax proceeds which is not guaranteed by the French state. It also includes a drop in CVAE proceeds in 2022.

## **RATING SENSITIVITIES**

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

Positive rating action could result from an upgrade of the sovereign, provided that the net payback ratio remains below 6x on a sustained basis in our rating case scenario. We view this scenario as unlikely.

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

Ile-de-France's long-term ratings could be downgraded if the region's net payback ratio exceeds 7.5x on a sustained basis in our rating case scenario. This could notably happen if the drop in tax revenue resulting from the pandemic is larger than currently expected and not matched by a decreased in expenditure. A downgrade of the sovereign would also be reflected in the ratings.

## **BEST/WORST CASE RATING SCENARIO**

Ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings

<https://www.fitchratings.com/site/re/10111579>.

## **SUMMARY OF FINANCIAL ADJUSTMENTS**

Fitch considers the transfers by the region to offset the amount of CVAE proceeds it received as lower revenue rather than additional expenditure. These transfers include a transfer made to the state (FNGIR; EUR674.8 million in 2019), the equalisation funds (EUR110 million), and the transfer to the Ile-de-France department to compensate for the doubling of CVAE proceeds as of 2017 (EUR1,372 million).

Fitch believes these restatements allow a meaningful comparison with other LRGs. They are neutral on Ile-de-France's operating balance, thus on the payback and coverage assessment. However, they reduce the level of operating revenue and are negative on the fiscal debt burden assessment (net adjusted debt/operating revenue).

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING		
Ile-de-France, Region of	LT IDR	AA	Affirmed
●	ST IDR	F1+	Affirmed
●	LC LT IDR	AA	Affirmed
● senior unsecured	LT	AA	Affirmed
● senior unsecured	ST	F1+	Affirmed

### [VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

### APPLICABLE CRITERIA

[Rating Criteria for International Local and Regional Governments \(pub. 13 Sep 2019\) \(including rating assumption sensitivity\)](#)

### ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

### ENDORSEMENT STATUS

Ile-de-France, Region of

EU Issued

**DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING

<https://www.fitchratings.com/site/dam/jcr:6b03c4cd-611d-47>

[READ MORE](#)**COPYRIGHT**

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (in

[READ MORE](#)**SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

**ENDORSEMENT POLICY**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

International Public Finance    Supranationals, Subnationals, and Agencies    Europe

France

---

