



## RATING ACTION COMMENTARY

# Fitch Revises Ile-de-France's Outlook to Negative; Affirms at 'AA'

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### Related Fitch Ratings Content:

[Region of Ile-de-France - Rating Action Report](#)

Fitch Ratings - Paris - 26 May 2020: Fitch Ratings has revised the Outlook on the Region of Ile-de-France Long-Term Foreign-and Local-Currency Issuer Default Ratings (IDRs) to Negative from Stable and affirmed the IDRs at 'AA'. A full list of rating actions is below.

Under EU credit rating agency (CRA) regulation, the publication of local and regional governments' reviews is subject to restrictions and must take place according to a published schedule, except where it is necessary for CRAs to deviate from this in order to comply with their legal obligations. Fitch interprets this provision as allowing us to publish a rating review in situations where there is a material change in the creditworthiness of the issuer that we believe makes it inappropriate for us to wait until the next scheduled review date to update the rating or Outlook/Watch status. The next scheduled review date for Fitch's rating on Ile-de-France is 9

October 2020, but Fitch believes that developments in the country warrant such a deviation from the calendar and our rationale for this is laid out below.

## KEY RATING DRIVERS

The rating action reflects the following key rating drivers and their relative weights:

### HIGH WEIGHT

#### Sovereign Cap

The revision of the Outlook on Ile-de-France reflects a recent similar rating action on the French State on 15 May 2020. (see "Fitch Revises France's Outlook to Negative; Affirms at 'AA'" on [www.fitchratings.com](http://www.fitchratings.com))

French local and regional governments (LRGs) may not be rated above the French state. This reflects the high influence the French State has on the French LRGs' responsibilities and finances. As a result, a downgrade of the sovereign would result in a downgrade of Ile-de-France.

### LOW WEIGHT

#### Risk Profile: 'High Midrange'

Ile-de-France 'High Midrange' risk profile reflects a 'Stronger' assessment on revenue robustness, expenditure sustainability, and liabilities and liquidity and a 'Midrange' assessment on revenue and expenditure adjustability.

#### Debt Sustainability: 'aa' category

This assessment reflects an expected debt payback ratio (net adjusted debt / operating balance) at close to 6.0x-6.5x in the medium-term in our rating case (2019: estimated 3.8x), and an expected debt coverage ratio (Fitch's synthetic calculation of operating balance/debt service) of close to 2x.

## DERIVATION SUMMARY

Ile-de-France's Standalone Credit Profile (SCP) is assessed at 'aa', reflecting a combination of a 'High Midrange' risk profile and debt sustainability metrics assessed in the middle of the 'aa' category under Fitch's rating case. The rating is not capped by the sovereign rating as the SCP is at the same level as the sovereign IDRs. However, the Outlook was revised to Negative to mirror that of the sovereign as a downgrade of the latter would then constrain Ile-de-France's IDRs. No other rating factors affect the IDRs.

## KEY ASSUMPTIONS

Qualitative assumptions and assessments and their respective change since the last review on 10 April 2020 and weight in the rating decision:

Risk Profile: High Midrange, unchanged with low weight

Revenue Robustness: Stronger, unchanged with low weight

Revenue Adjustability: Midrange, unchanged with low weight

Expenditure Sustainability: Stronger, unchanged with low weight

Expenditure Adjustability: Midrange, unchanged with low weight

Liabilities and Liquidity Robustness: Stronger, unchanged with low weight

Liabilities and Liquidity Flexibility: Stronger, unchanged with low weight

Debt sustainability: 'aa' category, unchanged with low weight

Support: n/a

Asymmetric Risk: n/a

Sovereign Cap: Yes, lowered with high weight

Quantitative assumptions - issuer-specific

Fitch's rating case is a "through-the-cycle" scenario, which is based on 2015-2019 figures and 2020-2024 projected ratios. It incorporates a combination of revenue, cost and financial risk stresses in case of economic slowdown. Fitch has revised its rating-case assumptions to reflect the economic consequences of coronavirus on French municipalities' debt sustainability metrics.

#### Quantitative assumptions - sovereign-related

Figures as per Fitch's sovereign actual for 2018 and forecast for 2021, respectively:

GDP per capita (US dollar, market exchange rate): 42,764; 40,632; low weight

Real GDP growth (%): 1.7; 4.1; high weight

Consumer prices (annual average % change): 2.1; 0.7; low weight

General government balance (% of GDP): -2.3; -6.8; high weight

General government debt (% of GDP): 98.3; 115.5; high weight

Current account balance plus net FDI (% of GDP): -3.1; -3.9; low weight

Net external debt (% of GDP): 36.3; 48.4; low weight

IMF Development Classification: EM

CDS Market Implied Rating: AA-

Material changes in revenue and cost profiles are occurring across the French LRGs and likely to worsen in the coming weeks and months as economic activity suffers and some forms of government restrictions are maintained. Fitch's ratings are forward-looking in nature, and we will monitor developments in the sector for their severity and duration, and incorporate revised rating-case qualitative and quantitative assumptions based on performance expectations and assessment of key risks.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The Outlook would be revised back to Stable if the Outlook on the sovereign is revised to Stable, all other factors being equal.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Deterioration of the debt payback ratio to 7.5x on a sustained basis in our rating case could lead to a downgrade. This could happen if the drop in tax revenue resulting from the pandemic is larger-than- currently expected and not matched by a lower amount of expenditure.

-A downgrade of the sovereign would also be reflected in the region's ratings.

- Prolonged COVID-19 impact and much slower economic recovery lasting until 2025 would put pressure on net revenues. Should the region be unable to proactively reduce expenditure or supplement weaker receipts from increased central governments transfers, this may lead to a downgrade.

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

International scale credit 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, visit <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 pass-through revenue. 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).

## **SOURCES OF INFORMATION**

Committee date: 25 May 2020

There was an appropriate quorum at the committee and the members confirmed that they were free from recusal. It was agreed that the data was sufficiently robust relative to its materiality. During the committee no material issues were raised that were not in the original committee package. The main rating factors under the relevant criteria were discussed by the committee members. The rating decision as discussed in this rating action commentary reflects the committee discussion.

## **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**

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to 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**

<b>ENTITY/DEBT</b>	<b>RATING</b>		
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](#)

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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

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