

CREDIT OPINION

28 February 2020

✓ Rate this Research

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.

Contacts

Matthieu Collette +33.1.5330.1040
VP-Senior Analyst
matthieu.collette@moodys.com

Sebastien Hay +34.91.768.8222
Senior Vice President/Manager
sebastien.hay@moodys.com

Khalil Etienne Janbek
Associate Analyst
khalil-etienne.janbek@moodys.com

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Asia Pacific 852-3551-3077
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Region Ile-de-France (France)

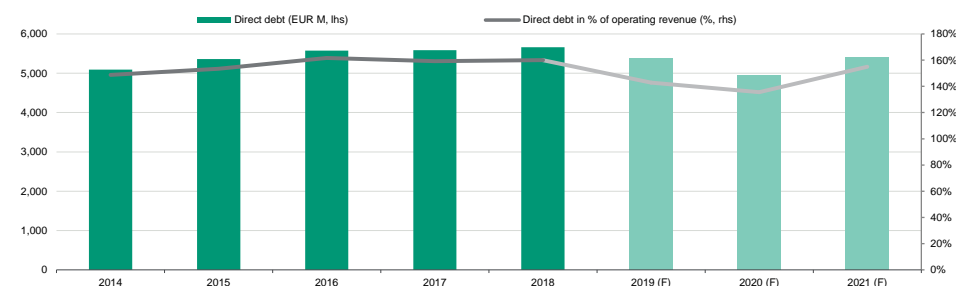
Update following outlook change to stable

Summary

The credit profile of [Région Ile-de-France](#) (Aa2 stable) reflects its good operating performance, with a gross operating balance (GOB) to operating revenue averaging 23.3% over the past five years, strong governance and sophisticated debt management, as well as its indisputable market access. Région Ile-de-France is also the wealthiest region in France. Additionally, our assessment of the region's creditworthiness takes into account its high debt levels, because of high capital spending, as well as its limited revenue flexibility, as it is the case for all French regions.

Exhibit 1

High debt, although set to decrease



F - Forecast.

Source: *Région Ile-de-France, Moody's Investors Service*

Credit strengths

- » Strong operating performance with GOB-to-operating revenue ratio to stay above 20%
- » Wealthiest region in France
- » Sound governance and sophisticated financial management underpin unquestioned market access

Credit challenges

- » High debt, although set to decrease
- » Limited revenue flexibility, like all French regions

Rating outlook

The stable outlook reflects our expectation that the region's financial position will remain stable and its market access, unquestioned.

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

- » Lower GOB levels combined with higher debt ratios than our forecasts would most likely exert downward pressure on the ratings.
- » A weakening in market access and/or in the liquidity position would also be credit negative.
- » Additionally, a downgrade of the French sovereign rating would exert downward pressure on the RLGs ratings.

Key indicators

Région Ile-de-France

	2014	2015	2016	2017	2018	F2019	F2020	F2021
Gross operating balance / operating revenue (%)	21.0	20.5	22.4	24.9	27.9	31.9	27.2	22.7
Capital spending / total expenditure (%) [1]	38.1	37.9	37.6	38.2	38.3	38.2	37.6	37.3
Self-financing ratio ((GOB+capital revenue) / capex)	0.8	0.8	1.0	0.9	1.1	1.2	1.1	0.9
Financing surplus (requirement) / total revenue	- 9.1	- 6.3	- 1.8	- 2.0	4.1	7.1	1.9	3.3
Interest expenses / operating revenue (%)	3.9	3.8	3.7	3.6	3.4	3.6	3.1	3.5
Intergovernmental revenue / operating revenue (%)	21.1	18.7	16.6	13.9	2.6	1.1	4.5	4.2
Direct debt / operating revenue (%)	148.8	153.4	161.7	159.3	160.0	142.9	135.6	155.0
Net direct and indirect debt / operating revenue (%)	148.8	153.4	161.7	159.3	160.0	142.9	135.6	155.0

[1] - before debt repayment. F - Forecast.

Source: Région Ile-de-France, Moody's Investors Service

Detailed credit considerations

On 25 February 2020, [Moody's changed Ile-de-France's outlook to stable from positive](#). The change in outlook followed [Moody's change in the Government of France's outlook to stable from positive, Aa2 rating affirmed](#), on 21 February 2020. This reflects the impacts of the sovereign's credit profile at the regional and local level, given RLGs' operating environment, the significant macroeconomic and financial linkages within France and consequently the strong correlation between RLGs and sovereign risks.

The credit profile of Région Ile-de-France, as expressed in an Aa2 stable rating, combines (1) a Baseline Credit Assessment (BCA) of aa2, and (2) a high likelihood of extraordinary support from the French government in the event that the region faced acute liquidity stress.

Baseline credit assessment

Strong operating performance with GOB-to-operating revenue ratio to stay above 20%

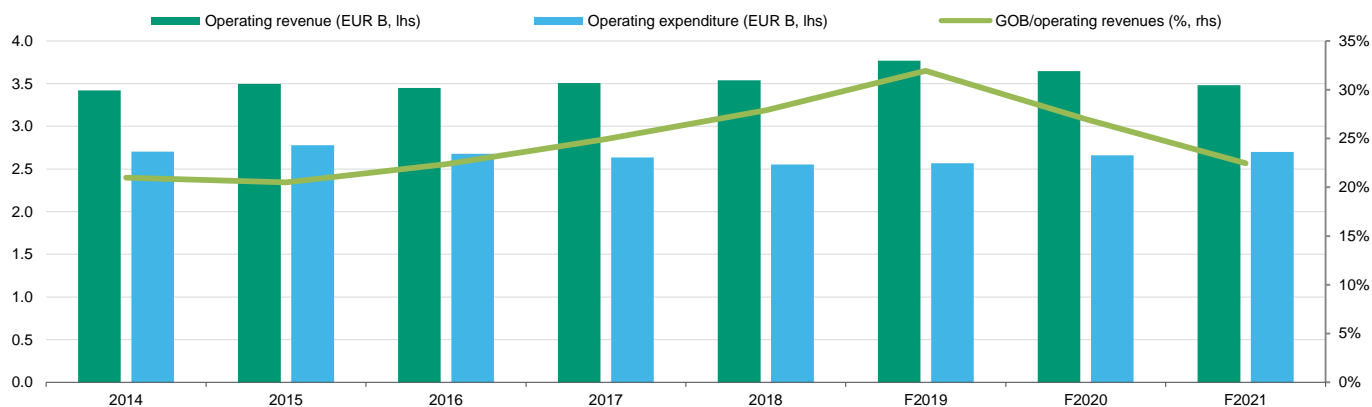
In 2018, Région Ile-de-France's GOB represented 27.9% of its operating revenue. Over the past five years, the region's GOB-to-operating revenue averaged 23.3%. We expect the ratio to stay above this level in the next two to three years thanks to continued efforts to control operating expenses and a good dynamism on revenues, mostly linked to economic activity. In 2018, operating expenditure decreased by 3.1%, thanks to cost-cutting measures, including the relocation in 2018 of the region's headquarters to the suburbs of Paris, with cheaper rents. Moreover, financial contributions to [Ile-de-France Mobilités](#) (Aa2 stable), the local authority that organizes public transportation and mobility in the region, stabilised at around one-quarter of the total operating expenditure since 2017. Additionally, the region has decided to lessen operating grants and reduce current spending. Finally, in 2019, the Région Ile-de-

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France will proceed to an early debt repayment of €100 million and thus reduce its interest expenses. These cost reductions are set to continue until the end of the political mandate in 2021 and will allow the region to comply with the 1.14% annual increase limit on operating expenses despite not having signed any agreement with the Central Government.

Exhibit 3

GOB-to-operating revenue ratio to stay comfortably above 20% until 2021



F - Forecast.

Source: Région Ile-de-France, Moody's Investors Service

On the revenue side, Région Ile-de-France, like all French regions, now benefit from a share of value added tax (VAT) proceeds. Along with France's territorial reform in 2016, which reduced the number of metropolitan regions to 13 from 22, the regions assumed additional responsibilities for transportation, territorial planning and economic development. As more responsibilities have shifted to the regions, the central government decided to replace its grants (dotation globale de fonctionnement) with a share of the national proceeds from VAT, as a broad-based consumption tax, growing with economic activity. Région Ile-de-France's share, €497.9 million in 2018, should reach €523 million in 2021 as we estimate, or 15% of operating revenue. In the coming three years, we therefore expect Région Ile-de-France to benefit from the strengthening French economy, with France's GDP growth at 1.4% per year on average in 2019 and 2020.

In 2020, French regions will lose their responsibilities on apprenticeship as well as the associated revenues. For Région Ile-de-France, this revenue is estimated at €314.4 million in 2019 (or 8.3% of operating revenues). In 2020, it will be partially compensated by asset sales, of approximately €175 million, but will negatively impact 2021 operating revenue. We note that (1) despite the loss of this revenue, the region still expects to maintain a very high GOB of 22.5% of operating revenues, confirming their financial robustness. Besides, (2) the region prudently did not forecast any compensation although the 2020 budget law announced in October 2019 includes a €218 million compensation to regions (with €180 million for capital expenditure (CAPEX) and €138 million for operating expenses).

Wealthiest region in France

As home to France's capital city, Paris, Région Ile-de-France has historically drawn its strength from a combination of political and economic powers. Paris concentrates the French financial industry as well as France's major transport hub. With 12.2 million inhabitants, Région Ile-de-France is home to 18% of France's metropolitan population, and the average age of its residents is less than the national average. It is the wealthiest region in the country, accounting for 31% of national wealth, or 4% of the European Union's GDP, larger than that of Greater London in the United Kingdom and Lombardy in Italy. The region's 2017 GDP per capita was 1.7x the national GDP per capita. Other socioeconomic indicators, such as the unemployment rate, also record better levels than national aggregates : 7.4% versus 8.5% for France for the second quarter of 2019. Région Ile-de-France therefore benefits from a strong and diversified economy.

Hosting the 2024 Summer Olympics will further support the attractiveness of the area and the local economic activity. In the face of Brexit, banks including [Société Générale](#) (A1 stable), [HSBC](#) (Aa3 negative) and [Bank of America Corporation](#) (A2 stable) have

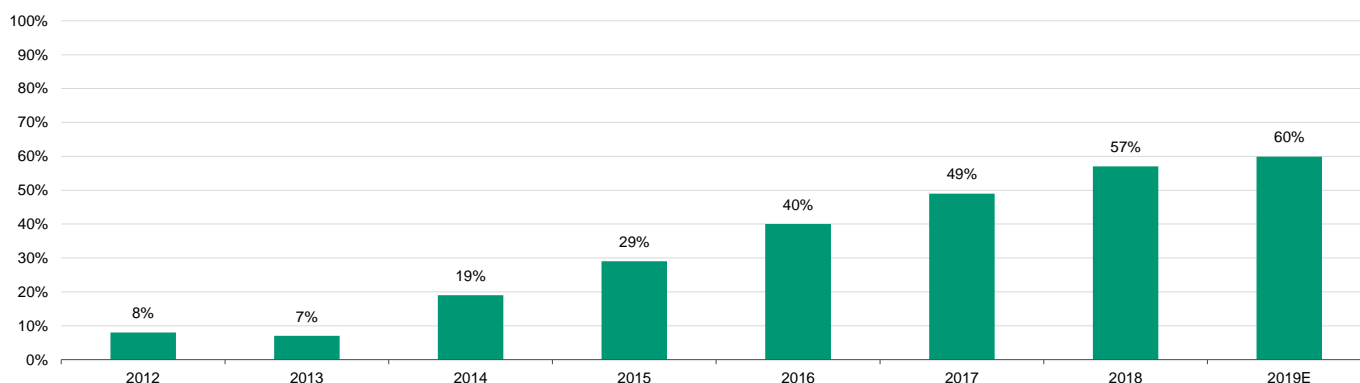
already decided to relocate about 1,700 jobs to Paris from London. Beyond the impact on VAT proceeds, such moves will contribute to increased revenue from taxes, like the tax on business premises transfers, which raised €63.7 million in 2018.

Sound governance and sophisticated debt management underpin unquestioned market access

The regional executive 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 Région Ile-de-France's financial health. 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. In 2019, the region has a €3.2 billion outstanding amount of green and sustainability bonds, issued under its €7.0 billion euro medium-term note (EMTN) programme.

Exhibit 4

Share of green and sustainable bonds in the Région Ile-de-France's outstanding debt



E - Estimate

Source: Région Ile-de-France, Moody's Investors Service

The region has a €1.0 billion commercial paper programme (or Negotiable European Commercial Paper programme) and has been issuing negative-rate commercial paper. We therefore consider Région Ile-de-France's debt market access to be unquestionable and expect this to remain unchanged. In 2019, the region also has access to €587.0 million of revolving facilities to meet its liquidity needs. Supported by predictable and regular cash flows, in particular central government transfers and tax revenue, we expect Région Ile-de-France's liquidity to remain sound and secure. The region used to sit on a €800.0 million liquidity commitment from the [European Investment Bank](#) (Aaa stable) that ended in December 2019, but we expect this commitment to be renewed in 2020. The region also benefits from other commitments from the French public bank, [Caisse des Dépôts et Consignations](#) (Aa2 stable).

High debt, although set to decrease

In 2018, Région Ile-de-France's stock of direct debt amounted to €5.7 billion or 160% of its operating revenue (and 5.7 years of GOB), a relatively high ratio compared with French peers. Interest payments represented 3.4% of operating revenue in 2018. Following an early debt repayment in 2019, we expect the region's debt to further decrease thanks to its consolidated surpluses in the next three years. By 2021, Moody's expect the regions' debt to decrease to €5.4 billion or 155% of operating revenue, a lesser amount compared with the previous projections. While still high, we consider debt is and will remain manageable for the region.

The regional executive, in power since December 2015, is committed to boosting capital spending. In 2018, the region spent €510.4 million on transport, an amount we expect to rise before 2020 because of the high committed volumes. 2018 capital spending on high schools reached €463.4 million, which should increase in 2019 due to unplanned digitalization expenses (€180 million) and an additional €40 million to modernise high schools' lavatories. In 2020 and 2021, capital spending is likely to reach €1.9 billion, 17% higher than 2018 actuals and 2019 forecast (€1.6 billion for both years), key areas of focus remain transport and high schools.

Limited revenue flexibility, like all French regions

Région Ile-de-France has to contend with limited revenue flexibility. The only fiscal leeway regions have in terms of modulating tax rates is amending the tax on vehicles. For Région Ile-de-France, the proceeds from this tax represented only 11% of operating revenue in 2018.

On the spending side, French regions have a greater flexibility, mainly because of the high proportion of capital spending as a share of their total expenditure. If needed, Région Ile-de-France can adjust or postpone its commitments in terms of capital spending projects, which accounted for 38.3% of total expenditure as of year-end 2018.

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 consequence of Région Ile-de-France's status as a high-profile and important issuer of bonds on international capital markets.

ESG Considerations

How environmental, social and governance risks inform our credit analysis of Région Ile-de-France

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Région Ile-de-France, the materiality of ESG to its credit profile is as follows:

Environmental risks are not material to Région Ile-de-France's credit profile. Its main environmental risk exposures relate to flooding risk. The territory experienced major floods (latest in 2016) that had little impact on the region's finances as this responsibility is held at cities and intermunicipalities level in France, with the central government to step in case of natural disaster.

Social risks are material to Région Ile-de-France's credit profile. Population dynamics, including a strongly positive natural balance and secondary schools' population growth, largely explain the funding needs for transport and high schools, which are the two main sources of the region's CAPEX.

Governance considerations are material to Région Ile-de-France's credit profile. We assess Région Ile-de-France's governance as sound (score of 1 for the factor 4 : governance and management) as illustrated by prudent budgetary practices and sophisticated debt management.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report on [how ESG risks influence sovereign credit profiles](#) and our cross-sector methodology [General Principles for Assessing ESG Risks](#).

Rating methodology and scorecard factors

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

The principal methodology used in these ratings was our Regional and Local Governments published in January 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Région Ile-de-France 2018 scorecard

Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals				1	20%	0.2
Economic strength	1	169.4	70%			
Economic volatility	1		30%			
Factor 2: Institutional Framework				3	20%	0.6
Legislative background	1		50%			
Financial flexibility	5		50%			
Factor 3: Financial Performance and Debt Profile				3	30%	0.9
Gross operating balance / operating revenues (%)	1	26.3	12.50%			
Interest payments / operating revenues (%)	5	3.5	12.50%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	7	160.0	25%			
Short-term direct debt / total direct debt (%)	1	8.4	25%			
Factor 4: Governance and Management - MAX				1	30%	0.3
Risk controls and financial management	1					
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						2.0 (2)
Systemic Risk Assessment						Aa2
Suggested BCA						aa3

Source: Moody's Investors Service

Ratings

Exhibit 6

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

Source: Moody's Investors Service

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