

CREDIT OPINION

22 December 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.

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Region Ile-de-France (France)

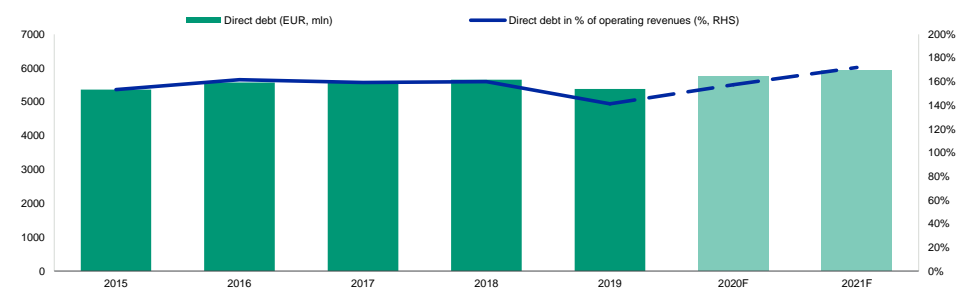
Update to credit analysis

Summary

The credit profile of [Region Ile-de-France](#) (Aa2 stable) reflects its strong financial performance and undisputable market access, which provide shock-absorption capacity against the coronavirus recession. The creditworthiness of Region Ile-de-France is also supported by its strong governance and sophisticated debt management, and its status as the wealthiest region in France. Our assessment also takes into account its high debt levels because of high capital spending, as well as its limited revenue flexibility, as is the case for all French regions.

Exhibit 1

Debt will increase on the back of the coronavirus shock, keeping the debt burden elevated



F - Forecast.

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

Credit strengths

- » Very strong operating performance, which provides shock-absorption capacity
- » Status as the wealthiest region in France
- » Sound governance and sophisticated financial management, which underpin its unquestioned market access

Credit challenges

- » A high debt-to-operating revenue ratio, while debt will remain affordable
- » Limited revenue flexibility, like that of all French regions

Rating outlook

The stable outlook reflects our expectation that the region's financial position will remain strong despite the pandemic-induced recession and its market access, unquestioned.

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) rating, 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

- » Lower gross operating balance (GOB) levels, combined with higher debt ratios than our forecast, would most likely strain the rating.
- » A weakening of its market access or liquidity, or both, would also be credit negative.
- » A downgrade of France's sovereign rating would strain Région Ile-de-France's rating.

Key indicators

Exhibit 2

Region Ile-de-France

	2014	2015	2016	2017	2018	2019	2020F	2021F
Gross operating balance / operating revenue (%)	21.0	20.5	22.4	24.9	27.9	33.3	27.0	22.8
Capital spending / total expenditure (%) [1]	38.1	37.9	37.6	38.2	38.3	40.8	41.9	48.4
Self-financing ratio ((GOB+capital revenue) / capex)	0.8	0.8	1.0	0.9	1.1	1.1	0.8	0.8
Financing surplus (requirement) / total revenue	-9.1	-6.35	-1.82	-2.00	4.05	5.57	-7.2	-9.3
Interest expenses / operating revenue (%)	3.9	3.8	3.7	3.6	3.4	3.3	3.2	3.1
Intergovernmental revenue / operating revenue (%)	21.1	18.7	16.6	13.9	2.6	3.9	1.1	2.2
Net direct and indirect debt / operating revenue (%)	148.8	153.4	161.7	159.3	160.0	141.3	157.4	172.0

(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

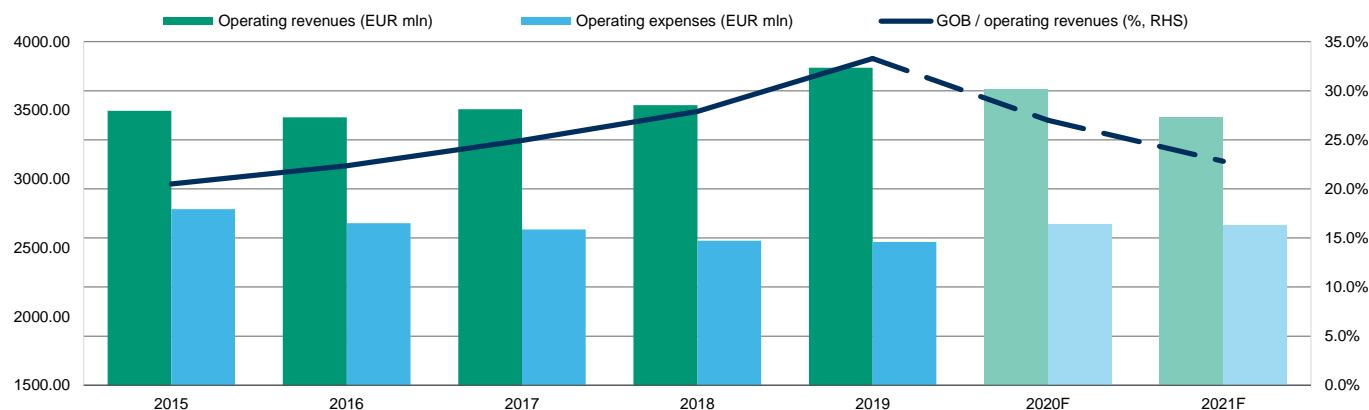
Over the coming two years, we expect Region Ile-de-France to continue to post strong operating surpluses. In 2019, GOB represented 33.3% of operating revenue, and we expect the ratio to remain on average at 25% in 2020-21. While the pandemic-induced economic recession will hurt France's economic growth — negative 10.2% in 2020 according to our forecast, followed by a 5.3% rebound in 2021 — the strain on the region's operating performance will be limited. In 2020, the increase in operating expenditures because of the pandemic will be very limited and operating revenues — excluding previous year's results carried forward — will decrease by only 4.1% thanks to various guarantee mechanisms on tax revenue, including guaranteed proceeds on domestic consumption tax on petroleum products (TICPE) and value-added tax (VAT), which will together amount to €1,48 billion, or 40% of operating revenues. Moreover, the sale of the region's historic headquarters yielded an exceptional revenue of €176 million, further mitigating the impact on its GOB. In 2021, French regions will benefit from an additional support measure, with the central government deciding to offset the delayed impact of the recession on local business tax (CVAE) proceeds, which are received by regions with a one-to-two-year lag¹, by replacing

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them with additional VAT proceeds from 2021 onwards. In 2021, Region Ile-de-France is therefore guaranteed to receive €3,172 million in additional VAT proceeds. Afterwards, while the total VAT proceeds to regions will benefit from France's renewed economic growth, the benefit remains uncertain for Region Ile-de-France and will depend on the effective equalisation transfers to be implemented among regions.

Exhibit 3

GOB-to-operating revenue ratio to remain strong at levels above 20% in 2021



F - Forecast.

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

Status as the wealthiest region in France

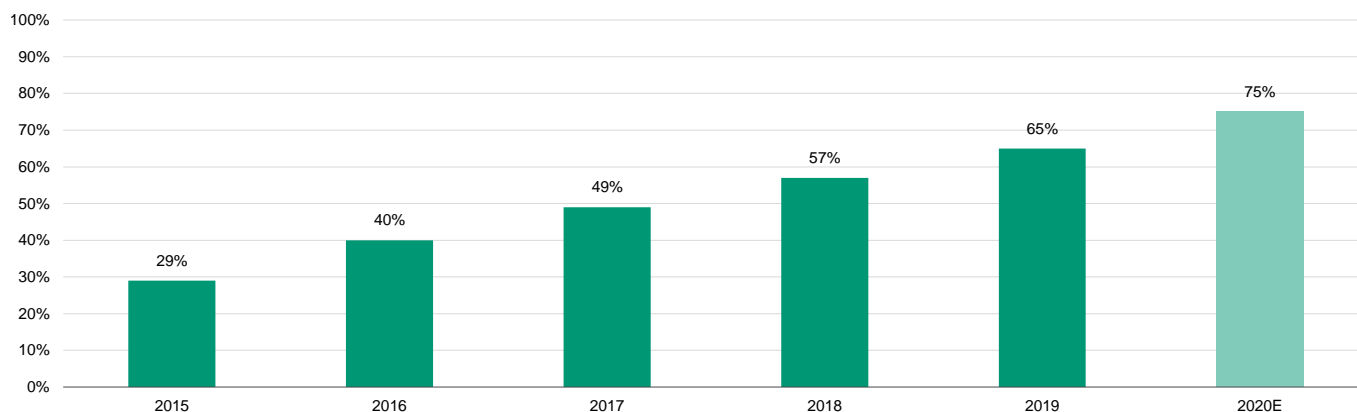
Région Ile-de-France's economy was constrained by the coronavirus pandemic, particularly through its tourism and events sector. However, its unique economic strength and diversification support its strong potential growth.

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. The French financial industry and the country's major transport hub are concentrated in Paris. 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 2018 GDP per capita was 1.7x the national GDP per capita. Other socioeconomic indicators are also record better levels than the national averages: for example, the unemployment rate in the region was 6.3% compared with 7.0% for France in the second quarter of 2020.

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 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 2020, the region will have €4.3 billion outstanding green and sustainability debt out of its €5.8 billion total debt, which amounts to 75% of total debt. Its June €800 million green and sustainable bond issuance, issued under its €7.0 billion Euro Medium Term Note (EMTN) programme, was massively oversubscribed (over 280% of the issued amount with a strong geographical diversification), which shows that Région Ile-de-France is a highly regarded issuer.

Exhibit 4

Green and sustainable debt will amount to 75% of Région Ile-de-France's outstanding debt

E - Estimate.

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

The region also has a €1.0 billion Negotiable European Commercial Paper (NEU-CP) programme and has been issuing negative-rate commercial papers. Therefore, Région Ile-de-France's unquestioned debt market access is a key credit strength and we expect it to remain unchanged. In 2020, the region also has access to €587.0 million of revolving credit facilities 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. In 2019, the region drew on the remaining €200 million of committed loans from the [European Investment Bank](#) (EIB, Aaa stable), at a 0% interest rate. 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.

A high debt-to-operating revenue ratio, while debt will remain affordable

Région Ile-de-France's stock of direct debt amounted to €5.4 billion, or 141% of operating revenue, in 2019 and will remain high in the coming years. We expect the region's direct debt to increase to €5.8 billion, or 157.4% of operating revenue, in 2020 on the back of increased capital expenses in response to the coronavirus pandemic. We expect Région Ile-de-France to disburse €1.9 billion in fixed capital investments in 2020, a 10.5% increase compared with 2019, including supporting measures for small and medium-sized enterprises (SMEs) and targeted spending in other key areas such as professional training, transport and economic development. In 2021, the region's draft budget plans €1.9 billion in capital expenses, entailing a new borrowing of a maximum of €578 million. However, under the framework of the agreement with the central government of jointly supporting the French economy in the aftermath of the coronavirus pandemic, capital expenses could increase by a greater amount. While a further increase in capital spending compared to the 2021 draft budget could lead to greater borrowing needs, we expect the region to optimize all funding sources so as to be able to keep debt under control. In this respect, we expect the region to benefit from additional capital revenues from the European Union's and the central government's economic recovery plans, of amounts over €100 million each.

At the same time, debt will remain affordable, as we expect interest payments — which represented 3.3% of operating revenue in 2019 — to decrease to 3.2% and 3.1% of operating revenue in 2020 and 2021, respectively.

Limited revenue flexibility, like that of 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 through amending the tax on vehicles. For Région Ile-de-France, the proceeds from this tax represented only 9.5% of operating revenue in 2019.

On the spending side, French regions have greater flexibility, mainly because of the high proportion of capital spending as a share of their total expenses. If needed, Région Ile-de-France can adjust or postpone its commitments in terms of capital spending projects, which accounted for 41% of total expenses as of year-end 2019.

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

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

We take into account the impact of environmental, social and governance (ESG) 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 exposure relates to flooding risk. The territory has experienced major floods in the past (the latest of which was in 2016), but those have had little impact on the region's finances as this responsibility is held at the level of cities and intermunicipalities, with the central government stepping in only in case of a natural disaster.

Social risks are material to Région Ile-de-France's credit profile. First, population dynamics, including a strongly positive natural balance, and secondary school-age population growth, largely explain the funding needs for transport and high schools, which are the two main sources of the region's capital expenses. Second, we regard the pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. For Région Ile-de-France, the implications are mainly through lower tax revenue and increase in operating expenses.

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 its 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 cross-sector methodology [General Principles for Assessing ESG Risks](#).

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 stable sovereign bond rating.

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

Exhibit 5

Region Ile-de-France 2019 scorecard

Rating Factors						
Ile-de-France, Region						
Baseline Credit Assessment	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Scorecard						
Factor 1: Economic Fundamentals						
Economic strength	1	169.97	70%	1	20%	0.20
Economic volatility	1		30%			
Factor 2: Institutional Framework						
Legislative background	1		50%	3	20%	0.60
Financial flexibility	5		50%			
Factor 3: Financial Performance and Debt						
Gross operating balance / operating revenues	1	30.55	12.5%	3	30%	0.90
Interest payments / operating revenues (%)	5	3.38	12.5%			
Liquidity	1		25%			
Net direct and indirect debt / operating revenues (%)	7	141.30	25%			
Short-term direct debt / total direct debt (%)	1	8.85	25%			
Factor 4: Governance and Management - MAX						
Risk controls and financial management	1			1	30%	0.30
Investment and debt management	1					
Transparency and disclosure	1					
Idiosyncratic Risk Assessment						2(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

Endnotes

- 1 CVAE proceeds depend on macroeconomic conditions, and because of the way they are paid by businesses, regions receive the proceeds with a one-to-two-year lag. Consequently, the macroeconomic contraction resulting from the pandemic would have severely reduced the CVAE proceeds that regions would have received in 2021 and, to a lesser extent, 2022.

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