



RATING ACTION COMMENTARY

Fitch Downgrades 12 French LRGs to 'AA-' on Sovereign Rating Action, Outlooks Stable

Tue 09 May, 2023 - 17:04 ET

Fitch Ratings - Paris - 09 May 2023: Fitch Ratings has downgraded the Long-Term Foreign and Local-Currency Issuer Default Ratings (IDRs) of 12 French local and regional governments (LRGs) to 'AA-' from 'AA'. The Outlooks are Stable. A full list of rating actions is below.

The 12 LRGs are: the regions of Bretagne, Centre-Val-de-Loire, Ile-de-France and Occitanie, the departments of Val d'Oise, Haute-Savoie, Manche, Puy-de-Dôme and Savoie, the city of Paris and the metropolises of Lyon and Strasbourg.

The downgrades follow the downgrade of the French sovereign to 'AA-' on 28 April 2023 (see <https://www.fitchratings.com/research/sovereigns/fitch-downgrades-france-to-aa-outlook-stable-28-04-2023>).

Under applicable credit rating agency (CRA) regulations, 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 schedule in order to comply with the CRAs' obligation to issue credit ratings based on all available and relevant information and disclose credit ratings in a timely manner. Fitch interprets these provisions 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 are:

Region of Occitanie : 2 June 2023

Departements of Val d'Oise, Manche, Puy-de-Dôme and Savoie: 9 June 2023

Metropolises of Lyon and Strasbourg: 23 June 2023

City of Paris: 30 June 2023

Department of Haute-Savoie: 22 September 2023

Regions of Bretagne, Centre Val-de-Loire, Ile-de-France: 29 September 2023

Fitch believes that the recent downgrade of France's IDRs warrants such a deviation from the calendar and our rationale for this is set out in the first part (High weight factors) of the Key Rating Drivers section below.

KEY RATING DRIVERS

HIGH

The downgrades follow the downgrade of the French sovereign to 'AA-' on 28 April 2023.

French LRGs cannot be rated above the state. When we assess their Standalone Credit Profiles (SCP) above that of the state, their IDR is capped by the sovereign rating as they are subject to sovereign intervention that may lead to changes in funding responsibilities. The state can define LRGs' responsibilities and revenue sources by law and without needing to alter the constitution. The state also has a major influence over expenditure as it defines the core competencies of its LRGs. In addition, the constitution can be modified by the national government, without requiring consent from LRGs.

LOW

Other key rating drivers are unchanged, as are SCPs. For other key rating drivers see

the latest published rating action commentary for each entity.

DERIVATION SUMMARY

The IDRs of the 12 entities are capped by that of the sovereign (AA-/Stable) and no other rating factors affect the ratings. Their SCPs are unchanged since the last rating review.

The ratings of all long-term senior debt instruments have been downgraded as they are aligned with the Long-Term IDRs of the issuers.

KEY ASSUMPTIONS

Qualitative Assumptions and Assessments 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: Midrange (departements of Haute Savoie, Manche, Puy de Dome, Savoie, Val d'Oise and Lyon Metropolis) / Stronger (regions of Bretagne, Centre-Val-de Loire, Ile-de-France and Occitanie ; city of Paris; Strasbourg Eurometropole)), 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: 'aaa' (departments of Haute-Savoie and Savoie) / 'aa' (10 others LRGs) Unchanged with Low Weight
- Budget Loans (Notches): N/A, Unchanged with Low Weight
- Ad-Hoc Support (Notches): N/A, Unchanged with Low Weight
- Asymmetric Risks (Notches): N/A, Unchanged with Low Weight
- Floor: N/A, Unchanged with Low Weight

- Sovereign Cap: AA-, lowered with High Weight
- Sovereign Cap (Local Currency): AA-, lowered with High Weight

Quantitative assumptions - issuer-specific

For quantitative assumptions (issuer-specific) see the latest published rating action commentary for each entity. No weights and changes since the last review are included as none of these assumptions was material to the rating action.

Quantitative assumptions - Sovereign Related

Figures as per Fitch's sovereign actual for 2021 and forecast for 2024, respectively (no weights and changes since the last review are included as none of these assumptions was material to the rating action).

- GDP per capita (US dollar, market exchange rate): 45,225;45,796
- Real GDP growth (%): 6.8;1.3
- Consumer prices (annual average % change): 2.1;2.9
- General government balance (% of GDP): -6.5; -4.7
- General government debt (% of GDP): 112.9;111.8
- Current account balance plus net FDI (% of GDP): 0.7; -0.8
- Net external debt (% of GDP): 43.1;50.4
- IMF Development Classification: DM
- CDS Market Implied Rating: AA

RATING SENSITIVITIES

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

Positive rating action on France would be reflected in the ratings, all else being equal (in particular SCPs remaining unchanged with payback ratio below 7.5x on a sustained basis in our rating-case scenario).

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

Negative rating action on France would be reflected in the ratings.

A deterioration of the payback ratio to above 9x on a sustained basis in our rating-case scenario could lead to a downgrade.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure 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>.

Sources of Information

Committee date: 5 May 2023

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The IDRs of the 12 French LRGs are capped by those of the French state

ESG CONSIDERATIONS

ESG scores are unchanged since our last reviews and are available on www.fitchratings.com

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡				PRIOR ⚡
Val d'Oise, Department of	LT IDR	AA- Rating Outlook Stable			AA Rating Outlook Negative
	Downgrade				
	ST IDR	F1+	Affirmed		F1+
	LC LT IDR	AA- Rating Outlook Stable			AA Rating Outlook Negative
	Downgrade				
	LC ST IDR	F1+	Affirmed		F1+
senior unsecured	LT	AA-	Downgrade		AA
senior unsecured	ST	F1+	Affirmed		F1+
Haute-Savoie, Department of	LT IDR	AA- Rating Outlook Stable			AA Rating Outlook Negative
	Downgrade				
	ST IDR	F1+	Affirmed		F1+
	LC LT IDR	AA- Rating Outlook Stable			AA Rating Outlook Negative
	Downgrade				

LC ST IDR F1+ Affirmed F1+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[International Local and Regional Governments Rating Criteria \(pub. 03 Sep 2021\)](#)
(including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

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

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Val d'Oise, Department of	EU Issued, UK Endorsed
Strasbourg, Eurometropole	EU Issued, UK Endorsed
Savoie, Department of	EU Issued, UK Endorsed
Puy-de-Dome, Department of	EU Issued, UK Endorsed
Paris, City of	EU Issued, UK Endorsed
Occitanie, Region of	EU Issued, UK Endorsed
Lyon Metropolis	EU Issued, UK Endorsed
La Manche, Department of	EU Issued, UK Endorsed
Ile-de-France, Region of	EU Issued, UK Endorsed
Haute-Savoie, Department of	EU Issued, UK Endorsed
Centre-Val de Loire, Region of	EU Issued, UK Endorsed
Bretagne, Region of	EU Issued, UK Endorsed

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