

CREDIT OPINION

13 September 2024

Update

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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

Raphael Auberty +33.1.5330.3414
Analyst
raphaiele.auberty@moodys.com

Juan Arias +33.1.5330.3420
Ratings Associate
juan.arias@moodys.com

Sebastien Hay +34.91.768.8222
Associate Managing Director
sebastien.hay@moodys.com

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Region Ile-de-France (France)

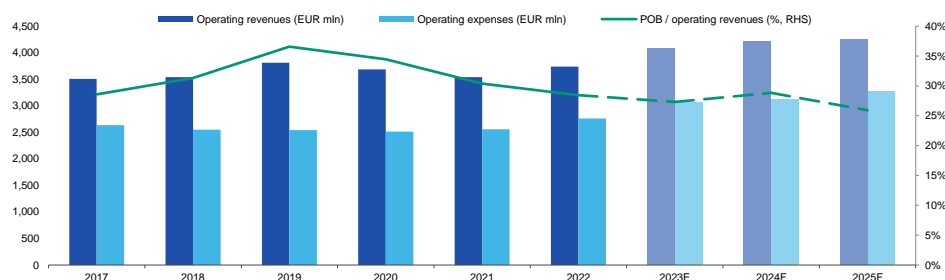
Update following methodology update

Summary

The credit profile of [Region Ile-de-France](#) (Aa2 stable) reflects its strong financial performance, with its primary operating balance (POB) averaging 27.4% of operating revenue over 2023-25, which will strengthen the region's investment capacity. The creditworthiness of Region Ile-de-France is also supported by its strong governance and sophisticated debt management, its undisputed access to financial markets and its status as the wealthiest region in France. Our assessment also captures its high but stable debt levels because of high and rising capital spending, and its limited revenue flexibility, as is the case for all French regions.

Exhibit 1

POB-to-operating revenue ratio to remain above 25% in 2023-25



F - Forecast ; E - Expected.

Sources: Région Ile-de-France and Moody's Ratings

Credit strengths

- » Strong operating performance, with POB to stay above 25% of revenue over the next three years
- » Status as the wealthiest region in France
- » Sound governance practices, which underpin unquestioned market access

Credit challenges

- » High but affordable debt
- » Limited revenue flexibility, similar to that of all French regions

Rating outlook

The stable outlook reflects the region's capacity to maintain a very strong operating performance over the next two to three years and a manageable debt burden. It also reflects our view that Region Ile-de-France's very strong governance and its unquestioned market access will help it navigate the current uncertain and challenging economic and financial environment.

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), 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

One or a combination of the following could lead to a downgrade: a depressed POB ratio for a prolonged period compared with what we expect, a materially and permanently higher NDID ratio compared with our forecasts and a significant weakening in liquidity position or market access. A downgrade of the sovereign bond rating would most likely have negative implications for the rating.

Key indicators

Exhibit 2

	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Primary Operating Balance / Operating Revenue (%)	28.6	31.3	36.6	34.5	30.4	28.4	27.3	28.8	25.9
Capital Expenditure / Total Expenditure (%)	38.2	38.3	40.9	45.6	45.6	42.6	40.9	42.9	43.8
Self-financing ratio	0.9	1.1	1.1	0.9	0.8	0.8	0.8	0.8	0.7
Direct Debt / Operating Revenue (%)	159.3	160.0	141.3	156.1	172.1	170.0	158.3	163.4	183.6
Net Direct and Indirect Debt (NDID) / Operating revenue	159.3	160.0	141.3	156.1	172.2	170.1	158.4	163.5	183.7
Interest Expenses / Operating Revenue (%)	3.6	3.4	3.3	2.7	2.6	2.3	2.7	2.6	3.0
Debt Repayment / Operating Revenue (%)	14.8	14.9	12.5	25.3	5.4	11.7	12.1	12.9	18.7

F - Forecast ; E - Estimate.

Sources: Region Ile-de-France and Moody's Ratings

Detailed credit considerations

The credit profile of Région Ile-de-France, as expressed in a Aa2 stable rating, combines its assigned 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 2022, POB was €1,060 million, or 28.4% of its operating revenue. We expect the ratio to stabilise around these levels in 2023-25 (see Exhibit 1) and to exceed €1,000 million.

Since 2021, the region receives, similar to other French regions, an additional share of value-added tax (VAT) proceeds, in replacement to the local business tax (CVAE). VAT receipts, which now account for close to half of operating income and move in line with nominal gross domestic product (GDP), will continue to support revenue growth. In addition, the region has removed the exemption on stamp duties levied on car registration for clean vehicles in 2023, and increased the tax rate as of 1 January 2024 from €46.15 to €54.95. After declining in recent years because of the exemptions on clean cars, the yield on this tax will pick up again in 2024 and 2025.

Meanwhile, we expect the region to continue its efforts to restrain operating expenditure. The region targets operating expenditure growth consistently below inflation. Excluding interest payments, operating expenditure will be broadly flat in 2024 compared with 2023 initial estimates, and will increase by less than 1.5% in 2025. Combined with revenue-raising measures, this will offset the impact of inflation on the region's financial performance, and will allow it to maintain strong self-financing capacity.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Status as the wealthiest region in France

Home to France's capital city Paris, Région Ile-de-France draws its strength from a combination of political and economic powers. The French financial industry and the country's major transportation hubs are concentrated in Région Ile-de-France. With 12.4 million inhabitants, the region is home to 18% of France's metropolitan population, and the average age of its residents is lower than the national average. It is the wealthiest region in the country, accounting for 31% of national wealth, or 5% of the European Union's GDP, larger than that of Greater London in the United Kingdom or [Lombardy](#) (Baa2 stable) in Italy. The region's 2021 GDP per capita was 1.7x the national GDP per capita.

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 has undertaken continued efforts to rationalise its operating expenditure, as illustrated by the efforts to rationalise its office use in its regional headquarters. Targets — such as having less than €9 billion of debt by the end of the current mandate and debt-to-GOB ratio equal to or below 7x in 2028 — are clear and achievable.

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 2023, 91% of the region's outstanding debt (€6.4 billion) was green and sustainable. In January 2024, Region Ile-de-France issued €800 million under its €9 billion EMTN programme.

Région Ile-de-France has a €1 billion Negotiable European Commercial Paper (NEU-CP) programme. While the region does not plan to issue new short-term debt using this vehicle and has reduced the size of the programme from €1.5 billion to €1 billion in 2023, its unquestioned debt market access remains a key credit strength. The region also has access to a €100 million revolving credit facility 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. The region also benefits from funding from the [European Investment Bank](#) (EIB, Aaa stable). 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.

High but affordable debt

Région Ile-de-France's stock of net direct and indirect debt will remain high in the coming years. We expect the region's direct debt to increase to €7.8 billion in 2025, up from 6.3 billion in 2022. Région Ile-de-France's capital investment reached €2.0 billion in 2022, including supporting measures for small and medium-sized enterprises (SMEs) and targeted spending in other key areas such as professional training, transportation and economic development. The region will maintain high capital investment in the next three years, averaging 43% of total expenditure over 2023-25.

At the same time, debt will remain affordable. We expect interest payments — which represented 2.3% of operating revenue in 2022 — to average 2.8% of operating revenue over 2023-25. The region will retain flexibility in its investment plan.

Limited revenue flexibility, like all French regions

Région Ile-de-France has to contend with limited revenue flexibility and increasing exposure to the national economy. The only fiscal leeway regions have in terms of modulating tax rates is through the tax on vehicles, as demonstrated by the decision to increase the tax rate from 2024 and the termination of the exemption on clean cars since summer 2023. For Région Ile-de-France, proceeds from this tax represented 7.0% of operating revenue in 2022 and 2023. The region is exposed to the national economy with 47% of its revenue derived from national VAT in 2022. This share is increasing with the decision of the central government to suppress the local business tax CVAE and replace it with an additional share of VAT.

On the spending side, French regions have high flexibility because of the high proportion of capital spending as a share of their total expenses. If needed, Région Ile-de-France could adjust or postpone its commitments in terms of capital spending projects.

Extraordinary support considerations

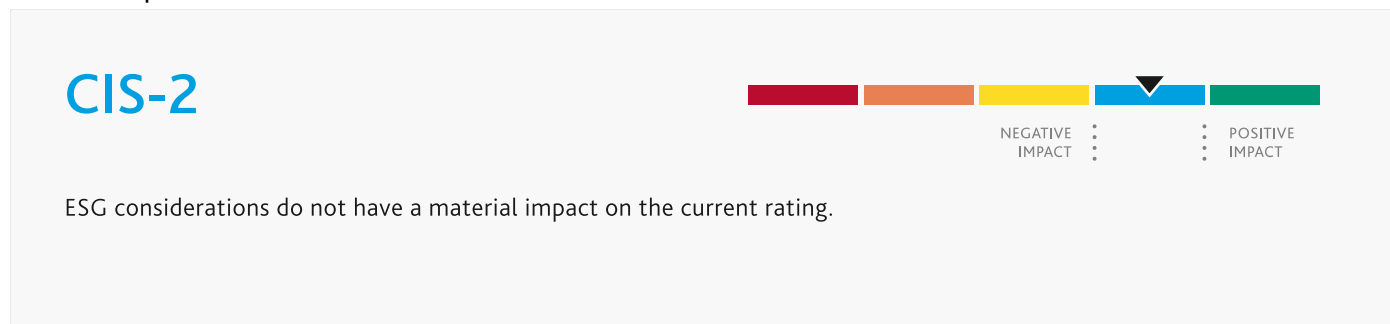
We assign a high level of extraordinary support from the Government of France. This support mainly reflects the strategic role of Région Ile-de-France because of its economic importance, large population, the capital city status of Paris and the region's international

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

Ile-de-France, Region's ESG credit impact score is CIS-2

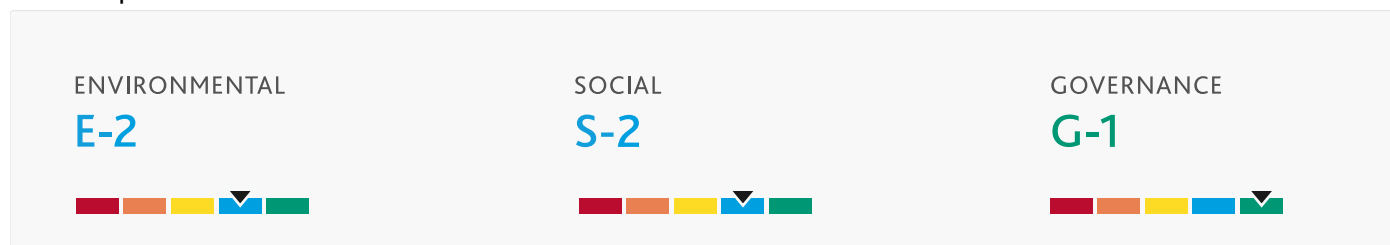
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Region Ile-de-France's ESG Credit Impact Score of **CIS-2** reflects low exposure to environmental and social risks and very strong governance, as well as strong resilience to shocks thanks to its intrinsic fiscal strength, unquestioned access to external funding and external support (including central government support in case of major natural disaster).

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Region Ile-de-France's **E-2** environmental issuer profile score (IPS) reflects low risks across all categories.

Social

Region Ile-de-France's **S-2** social IPS reflects very high-quality education, good housing availability, high quality of health & safety and very high-quality access to basic services. As for France, population ageing is a longer-term challenge, balanced at the regional level by the attractiveness and wealth of the territory.

Governance

Region Ile-de-France's **G-1** governance IPS is underpinned by its prudent budgetary practices and planification, its budgetary flexibility and its financial management, including sophisticated debt management.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned BCA of aa2 is in line with the BCA scorecard-indicated outcome.

For details about our rating approach, please refer to our [Regional and Local Governments rating methodology](#), published on 28 May 2024.

Exhibit 5

Ile-de-France, Region Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Score	Factor Weighting	Total
Factor 1: Economy					25%	0.58
Regional Income [1]	0.50	91907.73	15%	0.08		
Economic Growth	9.00	baa	5%	0.45		
Economic Diversification	1.00	aaa	5%	0.05		
Factor 2: Institutional Framework and Governance					30%	0.90
Institutional Framework	3.00	aa	15%	0.45		
Governance	3.00	aa	15%	0.45		
Factor 3: Financial Performance					20%	0.36
Operating Margin [2]	0.81	28.45%	10%	0.08		
Liquidity Ratio [3]	4.58	19.86%	5%	0.23		
Ease of Access to Funding	1.00	aaa	5%	0.05		
Factor 4: Leverage					25%	2.19
Debt Burden [4]	10.51	170.13%	15%	1.58		
Interest Burden [5]	6.09	2.30%	10%	0.61		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(4.02) aa3
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(4.02) aa3
Sovereign Rating Threshold						Aa2
Operating Environment Notching						1.0
BCA Scorecard-Indicated Outcome						(3.02) aa2
Assigned BCA						aa2

[1] Regional GDP per capita in terms of purchasing power parity (PPP) terms, in international dollars

[2] Primary Operating Balance / Operating Revenue

[3] Cash and Cash Equivalents / Operating Revenue

[4] Net Direct and Indirect Debt / Operating Revenue

[5] Interest Payments / Operating Revenue

Source: Moody's Ratings; Fiscal 2022.

Ratings

Exhibit 6

Category	Moody's Rating
ILE-DE-FRANCE, REGION	
Outlook	Stable
Baseline Credit Assessment	aa2
Issuer Rating	Aa2
Senior Unsecured	Aa2
Commercial Paper –Dom Curr	P-1

Source: Moody's Ratings

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