

20 SEP 2024

Fitch Affirms the Region of Ile-de-France at 'AA-'; Outlook Stable

Fitch Ratings - Paris - 20 Sep 2024: Fitch Ratings has affirmed the Region of Ile-de-France's Long-Term Foreign-and-Local-Currency Issuer Default Ratings (IDRs) at 'AA-' with Stable Outlook. A full list of rating actions is below.

The affirmation reflects our expectation that Ile-de-France's financial profile will remain at the upper end of the 'aa' category with a payback ratio of 5x-6x under our rating case. The IDR is capped by that of France (AA-/Stable).

KEY RATING DRIVERS

Risk Profile: 'High Midrange'

The region's 'High Midrange' risk profile reflects a combination of 'Stronger' and 'Midrange' assessments. It also reflects Fitch's view of a low risk that the region's ability to cover debt service with its operating balance may weaken unexpectedly over 2024-2028, due to lower-than-expected revenue, higher-than-projected expenditure, or an unexpected rise in liabilities or debt or debt-service requirements.

Revenue Robustness: 'Stronger'

Ile-de-France benefits from stable revenues and their solid growth prospects. Operating revenue mostly comprises growing and predictable taxes, especially VAT (45% of operating revenue in 2023), which have historically been resilient. It also includes stable resources from the state with low counterparty risk, including transfers and fuel tax proceeds - totalling 38% of operating revenue in 2023. Vehicle registration fees (7%) are a less robust revenue source as they are linked to a specific market and also because the share of electric cars, which are exempt from vehicle registration fees, will increase in the long term at the expense of thermic vehicles.

Revenue Adjustability: 'Midrange'

Ile-de-France's rate-setting power is limited to vehicle-registration fees. The region raised the tax rate to EUR54.95 from EUR46.15 on 1 January 2024 and withdrew tax exemptions for hybrid vehicles on 1 August 2023 to compensate for fewer car purchases. Increasing the tax rate to the legal maximum for French regions of EUR60 would lift total revenue by close to 1% in 2024, which in our view, would cover more than 50% of a Fitch-estimated 1.5% revenue decline in an economic downturn.

Expenditure Sustainability: 'Stronger'

Ile-de-France's responsibilities mainly include non-cyclical expenditure that is unlikely to increase in an economic downturn (planned investments, transportation and secondary education). It has a strong record of operating expenditure (opex) restraint, which we expect to continue. In 2016-2021, opex fell on average 0.8% a year while operating revenue rose an average 0.5%. In 2022-2023, opex rose faster than revenue (8% vs. 6% and 11% vs. 9%, respectively), which we view as a one-off due to high inflation and energy costs. The region aims to contain opex growth by limiting non-mandatory expenses.

Expenditure Adjustability: 'Midrange'

Ile-de-France's opex is mainly made up of mandatory transfers related to transport (28%), vocational training and secondary education (54%). Staff costs (17%) are also a rigid cost as most of the region's employees are civil servants. The region can reduce its large capex - which constituted 41% of total spending in 2023 - mostly dedicated to transportation and high schools. However, flexibility is constrained by the region's high capex needs. Overall, we estimate the share of inflexible expenditure at 70%-90%.

Liabilities & Liquidity Robustness: 'Stronger'

Ile-de-France's liabilities carry little risk. At end-2023, 98% of its debt was fixed-rate and 100% was deemed risk-free under national regulation (Gissler Charter - 1A). Debt service is well-covered by the region's operating balance (2023: 1.6x). Short-term debt's share was a modest 3%. The region's debt amortisation schedule has some peaks in 2025 and 2027, but this is mitigated by the moderate amount of these maturities in absolute terms and as a proportion of the region's operating balance.

Off-balance-sheet liabilities mostly relate to Ile-de-France Mobilites (IDFM, A+/Positive), which is in charge of public transport in the region. IDFM is a public establishment (*établissement public*) created by the French state, which is responsible for IDFM's debt. The region has 51% of the seats on IDFM's board of directors and recently agreed to increase its transfers to IDFM.

Liabilities & Liquidity Flexibility: 'Stronger'

The framework for emergency liquidity support from the state is strong. This is evident in the cash pooling between local and regional governments (LRGs) and the state, with liquidity from LRGs deposited at the national Treasury. French LRGs may benefit from the transfer of tax proceeds in advance from the state, in case of a liquidity shortfall. Counterparty risk is low due to the sovereign's high rating.

Ile-de-France has strong access to liquidity in various forms, including via institutional lenders, such as Caisse des Depots et Consignations (AA-/Stable). As of end-2023, it also benefitted from a EUR100 million undrawn committed credit line with an 'A-' rated bank.

Financial Profile: 'aa category'

Our rating case expects the region's payback ratio (net adjusted debt/operating balance) to be close to 6x by 2027-2028 (2023: 5.9x), the coverage ratio (Fitch's synthetic calculation) to be 2x by 2028; and the fiscal debt burden at close to 190%.

Under our rating case, we expect the region's operating balance to be EUR1.3 billion-EUR1.35 billion in 2024-2028. It will mainly be supported by strong VAT growth over the medium term and by close to EUR130 million of additional vehicle registration fees in 2024 stemming from a tariff hike and the hybrid vehicle exemptions removal. The region's opex will be affected by inflation, rising personnel costs and an increase in transfers to IDFM.

In our rating case, the region's self-financing capacity (current balance + capital revenue/capex) will average 85% in 2024-2028. We therefore expect net adjusted debt to rise to close to EUR8.2 billion at end-2028 (end-2023: EUR6.6 billion) as the region continues to implement a large capex programme of more than EUR2 billion a year in 2024-2028.

Derivation Summary

Ile-de-France's Standalone Credit Profile (SCP) is 'aa+', and reflects the combination of a 'High Midrange' risk profile and a financial profile at the upper end of the 'aa' category. The IDRs are capped by those of France and no other factors affect the ratings.

Debt Ratings

Ile-de-France's senior unsecured debt ratings are in line with its IDRs.

Key Assumptions

Qualitative assumptions:

Risk Profile: 'High Midrange'

Revenue Robustness: 'Stronger'

Revenue Adjustability: 'Midrange'

Expenditure Sustainability: 'Stronger'

Expenditure Adjustability: 'Midrange'

Liabilities and Liquidity Robustness: 'Stronger'

Liabilities and Liquidity Flexibility: 'Stronger'

Financial Profile: 'aa'

Asymmetric Risk: 'N/A'

Support (Budget Loans): 'N/A'

Support (Ad Hoc): 'N/A'

Rating Cap (LT IDR): 'AA-'

Rating Cap (LT LC IDR) 'AA-'

Rating Floor: 'N/A'

Quantitative assumptions - Issuer Specific

Fitch's rating case is a "through-the-cycle" scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on published 2019-2023 figures and 2024-2028 projected ratios. The key assumptions for the projections include:

- On average 1.4% increase per year in operating revenue, as VAT proceeds growth offsets a gradual decline in transfers and vehicle registration fees
- On average 0.5% increase per year in opex as increases in personnel expenses, costs of goods and services and transfers to IDFM offset expected cost cuts
- Capital balance on average at close to a negative EUR1.5 billion per year, reflecting Ile-de-France's investment plan with a completion rate of 93%-95%
- Average cost of debt of 2.2%, including a high share of fixed-rate debt (98% at end-2023) and a 3.4% fixed rate on new borrowings from 2024

Summary of Financial Adjustments

Fitch considers the transfers from the region to offset the amount of VAT proceeds it receives as pass-through revenue (EUR1,398 million in 2023). In 2023, this included a transfer from the region to its departments to compensate for no longer receiving the corporate value-added tax proceeds as of 2017, as well an equalisation transfer (fonds de la solidarité régionale) and repayment to the state of the VAT surplus received in 2022.

Issuer Profile

Ile-de France is France's main political and economic centre and one of the wealthiest regions in the European Union (AAA/Stable). With a population of 12.3 million, it represents 18% of the national population and more than 30% of national GDP.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Deterioration of the payback to above 9x on a sustained basis in our rating case could lead to a downgrade. A downgrade of the sovereign would also be reflected in the region's ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of France would be reflected in the ratings, all else being equal.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

Discussion Note

Committee date: 17 September 2024

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.

Public Ratings with Credit Linkage to other ratings

The region's ratings are capped by those of France.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Ile-de-France, Region of	LT IDR	AA- 	Affirmed	AA- 
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA- 	Affirmed	AA- 
	LC ST IDR	F1+	Affirmed	F1+
• senior unsecured	LT	AA-	Affirmed	AA-
• senior unsecured	ST	F1+	Affirmed	F1+

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[International Local and Regional Governments Rating Criteria \(pub.16 Aug 2024\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

Solicitation Status

Endorsement Status

Ile-de-France, Region of EU Issued, UK Endorsed

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