

CREDIT OPINION

20 December 2024

Update



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RATINGS

Ile-de-France, Region

Domicile	France
Long Term Rating	Aa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

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)

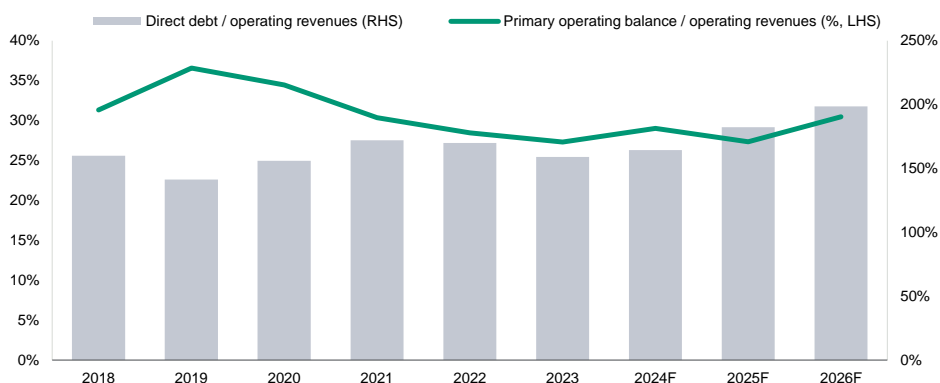
Update following downgrade to Aa3, outlook remains negative

Summary

The credit profile of [Region Ile-de-France](#) (Aa3 negative) reflects its strong financial performance, with its primary operating balance (POB) expected to average 27.6% of operating revenue over 2024-26, which will support 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 debt levels because of high and rising capital spending, and its limited revenue flexibility, as is the case for all French regions.

Exhibit 1

High POB ratios, enabling the region to sustain high debt levels



F - Forecast.

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

Credit strengths

- » Strong operating performance, with POB to stay above 27% of operating revenue over the next three years
- » Status as the wealthiest region in France
- » Sound governance practices, which underpin unquestioned market access

Credit challenges

- » High debt levels, which will likely increase in the coming years
- » Limited revenue flexibility, similar to that of all French regions

Rating outlook

The negative outlook stems from policy uncertainty at the sovereign level. Policy uncertainty could weigh on the operating environment of the region, and hinder its capacity to plan effectively. Although the Region Ile-de-France does not face the same obstacles hindering fiscal consolidation that the sovereign faces, we believe that the central government's constrained fiscal flexibility could result in detrimental measures, including material cuts in revenues. Detrimental measures targeting regions beyond what was initially presented in the draft financing law for 2025 could materially impact Region Ile-de-France's operating results, at a time when it has a sizeable capital spending program. Negative pressures on France's borrowing costs, because of policy uncertainty, could also negatively impact funding conditions.

Factors that could lead to an upgrade

Given the negative outlook, a rating upgrade is unlikely. We would likely change the outlook to stable if we were to conclude that Region Ile-de-France is able to navigate the current challenging environment, continuing to post very high operating margins over the coming years, and maintain its capacity to sustain high debt levels.

Factors that could lead to a downgrade

Challenges in navigating the current uncertain environment, leading to permanently weakened financial positions, including a combination of weaker operating results and higher leverage, could exert downward pressures on the ratings. Although the region demonstrated its capacity to absorb a potential decline in revenue, a financing law for 2025 that would be detrimental to the regions could weigh on the ratings. Finally, a larger-than-expected increase in debt levels and interest expenses would also weigh on the ratings.

Key indicators

Exhibit 2

	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F
Primary Operating Balance / Operating Revenue (%)	31.3	36.6	34.5	30.4	28.5	27.3	30.0	28.5	27.3
Capital Expenditure / Total Expenditure (%)	38.3	40.9	45.6	45.6	42.6	41.1	42.5	41.3	41.4
Self-financing ratio	1.1	1.1	0.9	0.8	0.8	0.8	0.8	0.8	0.7
Direct Debt / Operating Revenue (%)	160.0	141.3	156.1	172.1	170.0	159.0	164.4	182.2	198.6
Net Direct and Indirect Debt (NDID) / Operating revenue	160.0	141.3	156.1	172.2	170.1	159.1	164.5	182.3	198.7
Interest Expenses / Operating Revenue (%)	3.4	3.3	2.7	2.6	2.3	2.7	2.9	4.2	5.3
Debt Repayment / Operating Revenue (%)	14.9	12.5	25.3	5.4	11.7	11.7	12.8	19.4	17.9

F - Forecast ; E - Estimate.

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

Detailed credit considerations

On 18 December 2024, we downgraded Region Ile-de-France's to Aa3 and its BCA to aa3, and we maintained the negative outlook. The rating downgrade followed the rating downgrade to Aa3 of the [Government of France](#) on 14 December 2024, while the outlook was changed to stable.

The credit profile of Région Ile-de-France, as expressed in a Aa3 rating with a negative outlook, combines its assigned Baseline Credit Assessment (BCA) of aa3 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 years, we expect Region Ile-de-France to continue to post strong operating surpluses. In 2023, POB was €1,112 million, or 27.3% of its operating revenue. We expect the ratio to stabilise around these levels in 2024-26 (see Exhibit 1) and to remain around €1,100 million.

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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). 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. In its 2025 budget voted on 19 December 2024, the region decided to maintain conservative revenue assumptions given the uncertainty surrounding the revenue cuts included in the abandoned financing law¹.

Meanwhile, we expect the region to intensify its efforts to restrain operating expenditure. The 2025 budget for the region voted on 19 December 2024 intensifies the region's effort to contain total expenditure, with a €240 million reduction in expenditure planned for 2025 (around 4% of 2024 total expenditure). This planned reduction in expenditure more than offsets the decline in revenue planned in the abandoned draft financing law.

Despite the conservative revenue assumptions, the nominal decrease in operating expenditures compared to the 2024 budget (excluding interest charges) should allow the region to maintain a primary operating balance above 25% of operating revenues, according to our central scenario.

Over the coming months, we will monitor if additional detrimental measures are imposed on regions, and their impact on Region Ile-de-France's financial performance.

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 9x 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 debt levels, which will likely increase in the coming years

Région Ile-de-France's stock of net direct and indirect debt will remain high, and will increase in the coming years. We expect the region's direct debt to exceed €8 billion in 2026, up from 6.4 billion in 2023. Région Ile-de-France's capital investment reached €2.1 billion in 2023, 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 around 42 % of total expenditure over 2024-26.

The pace of investment is however slightly lower than previously anticipated, given the region's decision as part of the 2025 budget to reduce commitment appropriations (capital and operating) significantly by close to €800 million. In particular, a 20% decline in capital commitment appropriations should trigger a slowdown in investment and borrowing needs over the medium term compared to previous expectations.

At the same time, debt will remain affordable despite a gradual increase in interest payments amid an increase in debt and higher interest rates. We expect interest payments — which represented 2.7% of operating revenue in 2023 — to average 5.2% of operating revenue over 2024-26. 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 2023. The region is exposed to the national economy with 45% of its revenue derived from national VAT in 2023. 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

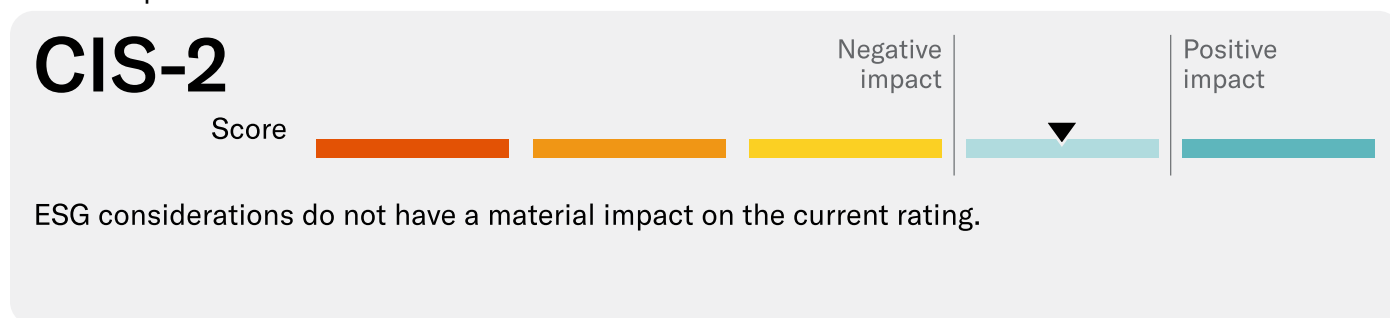
We assign a high level of extraordinary support from the Government of France. This support mainly reflects the strategic role of Région Ile-de-France because of its economic importance, large population, the capital city status of Paris and the region's international reputation. It is also the result 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 aa3 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	104366.44	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%	0.64
Operating Margin [2]	1.04	27.31%	10%	0.10		
Liquidity Ratio [3]	9.76	11.24%	5%	0.49		
Ease of Access to Funding	1.00	aaa	5%	0.05		
Factor 4: Leverage					25%	2.18
Debt Burden [4]	9.95	159.09%	15%	1.49		
Interest Burden [5]	6.85	2.68%	10%	0.69		
Preliminary BCA Scorecard-Indicated Outcome (SIO)						(4.30) aa3
Idiosyncratic Notching						0.0
Preliminary BCA SIO After Idiosyncratic Notching						(4.30) aa3
Sovereign Rating Threshold						Aa3
Operating Environment Notching						1.0
BCA Scorecard-Indicated Outcome						(4.00) aa3
Assigned BCA						aa3

[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 2023.

Ratings

Exhibit 6

Category	Moody's Rating
ILE-DE-FRANCE, REGION	
Outlook	Negative
Baseline Credit Assessment	aa3
Issuer Rating	Aa3
Senior Unsecured	Aa3
Commercial Paper -Dom Curr	P-1

Source: Moody's Ratings

Endnotes

1 See [Regional and Local Governments – France: Central government measures will lower RLG revenue €6.5 billion in 2025](#), 11 October 2024

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