

Research Update:

Region of Pays de la Loire Long-Term Ratings Lowered To 'AA-' From 'AA' After Similar Action On France; Outlook Stable

June 7, 2024

Overview

- On May 31, 2024, S&P Global Ratings lowered its unsolicited long-term sovereign credit ratings on France to 'AA-' from 'AA' and assigned a stable outlook, and affirmed the 'A-1+' short-term sovereign ratings.
- Given the tight links between the central government and French local and regional governments (LRGs), we continue to cap the ratings on the Region of Pays de la Loire at the level of our sovereign credit ratings on France.
- We therefore lowered our long-term issuer credit ratings on Pays de la Loire to 'AA-' from 'AA', mirroring the action on France, and affirmed our short-term ratings at 'A-1+'.
- The outlook on the long-term ratings is stable and mirrors that on France.

Rating Action

On June 7, 2024, S&P Global Ratings lowered its long-term local and foreign currency issuer credit ratings on the Region of Pays de la Loire to 'AA-' from 'AA' and affirmed the short-term issuer credit ratings at 'A-1+'. The outlook is stable.

At the same time, we lowered to 'AA-' from 'AA' our long-term issue rating on Pays de la Loire's €2.0 billion euro medium-term note program and affirmed our 'A-1+' short-term issue rating on the region's €200 million French commercial paper program.

Outlook

The stable outlook on the long-term ratings on Pays de la Loire reflects that on France (unsolicited; AA-/Stable/A-1+).

PRIMARY CREDIT ANALYST

Salvador Rodriguez mencia
Paris
+33 144206679
salvador.rodriguez
@spglobal.com

SECONDARY CONTACT

Etienne Polle
Paris
(+33) 01 40 75 25 11
etienne.polle
@spglobal.com

ADDITIONAL CONTACT

Sovereign and IPF EMEA
SOVIPF
@spglobal.com

Downside scenario

We would lower the ratings on Pays de la Loire if we took a similar action on France.

Upside scenario

We would raise the ratings on Pays de la Loire if we took a similar action on France, and if the region continues to perform in line with our expectations.

Rationale

The rating action follows our similar action on France (see "France Long-Term Rating Lowered To 'AA-' From 'AA' On Deterioration Of Budgetary Position; Outlook Stable," published on May 31, 2024).

In accordance with our criteria for rating non-U.S. LRGs and their related sovereigns, we cap the long-term ratings on Pays de la Loire at the level of the long-term ratings on France, as the region does not meet the criteria under which we would rate an LRG higher than its sovereign.

We assess the region's stand-alone credit profile at 'aa'. However, we consider that the credit ratings on Pays de la Loire cannot be higher than those on the sovereign. We believe French LRGs cannot maintain stronger credit characteristics than their sovereign in a stress scenario. This is because we view their autonomy as limited by their revenue dependence on transfers or shared taxes from the sovereign, and above all, by their incapacity to collect their main tax proceeds, which is the sovereign's prerogative. French LRGs also do not control their cash surplus, which they must deposit in a non-interest-bearing account at the French treasury.

Prudent financial management and a resilient national economy remain the region's key credit strengths

We think that the diversity of Pays de la Loire's industries will help keep the region's real GDP in positive territory in 2024-2026. The region has about 3.9 million inhabitants located in northwestern France. The regional economy is diversified and supports a very strong labor market. The unemployment rate in Pays de la Loire averaged 5.9% in the fourth quarter of 2023, the lowest among France's 13 mainland regions and 1.6 percentage points below the national mean. Services form the backbone of Pays de la Loire's economy, but the region also hosts robust manufacturing industries, which represent about one fifth of its GDP. The agrifood, metallurgy, transport equipment, and naval shipyard sectors all significantly contribute to the region's value added. This diversity should help Pays de la Loire exhibit general resilience against the current slowdown in a national economic context. The region remains wealthy by international standards, with a GDP per capita estimate at \$39,000 in 2023, 11% below France as a whole, but above the average excluding the Ile-de-France region surrounding Paris.

We view Pays de la Loire's financial management as very strong. This assessment is underpinned by the region's prudent and detailed long-term planning, with multiyear financial targets guiding annual budgetary decisions. The region is notably committed to keeping its debt-to-operating surplus ratio between 7x and 8x, which effectively constrains both operating expenditure growth and net borrowing. We also view as credit supportive that the region monitors its relatively small government-related entity sector very tightly, helping minimize contingent liability risks.

Pays de la Loire, like other French regions, benefits from a very predictable and well-balanced institutional framework. Previous institutional overhauls have usually strengthened the responsibilities of the regional councils, while also transferring them proportionate financial resources. Regions tend to post operating surpluses representing about 20% of their operating revenue, which is above the average for French departments and municipalities. Nevertheless, high margins are necessary to cover elevated capital spending responsibilities for transportation (regional trains), education (high schools), and economic subsidies.

Budgetary performance will be supported by dynamic value-added tax (VAT) receipts and a prudent budgetary stance

We anticipate that the region's operating surpluses will remain strong over 2024-2026, averaging 19.8% of operating revenues. We forecast that VAT outturns, which represent over 55% of 2024 operating revenue, will remain dynamic, increasing by 4.0% per year on average during that same period. This should more than outweigh the decline that we anticipate in car registration fees, as exonerated electric vehicles should gradually gain market share. The last two rounds of government-mandated salary hikes, introduced in July 2022 and July 2023, added approximately €6.3 million (below 0.5% of operating revenues) to the region's payroll. At the same time, elevated energy prices have hit the operating costs of high schools and regional transport systems. However, we believe efficiency measures, easing inflation, and the region's strong control over budget execution should curtail operating expenditure growth in the next two years. In addition, the opening up of regional railway services to competition should help to gradually reduce the cost per train, but the benefits of this are likely to fully materialize beyond our current forecast horizon.

We continue to expect that Pays de la Loire's core capital expenditure (capex) will remain sizable for the coming years, averaging about €500 million annually in 2024-2026. This will result in the region posting moderate deficits on the capital account, averaging about 3.3% of total revenues over 2022-2026, down from 4.8% over 2021-2025, which includes the tail-end of the COVID-19-related fallout. The region's efforts to build new high schools and bring existing ones up to energy standards should represent about one-third of the investment plan. Acquisitions and renovations of railway vehicles, as well as the construction of a new train maintenance workshop, will likely represent another third of capex. Most of the rest of the capital program will largely be devoted to industrial policy and subsidies to a municipal investment plan within Pays de la Loire. We anticipate that these investments will be partly funded through capital grants and subsidies from the central government. We note that French regions manage investment projects funded by European structural funds, mainly the European Regional Development Fund. This will add considerable amounts to the core capex listed above, although these expenditures will be fully covered by transfers from the EU, with only small mismatches.

The debt burden ratio should remain relatively stable at just under 150% during our forecast horizon. Pays de la Loire's mainly fixed-rate debt structure, and the long tenors, should largely shield it from the elevated--although decelerating--interest rates. This should allow the region's interest payments to remain well below 5% of operating revenue in the next two years.

Pays de la Loire's liquidity position will remain adequate, as its available cash covers more than 80% of debt service over the next 12 months, and the region benefits from strong access to external liquidity. The region has regular access to liquidity facilities and a diversified pool of investors, which includes institutional lenders and domestic commercial banks.

Key Statistics

Table 1

Pays de la Loire (Region of)--Selected Indicators

Mil. €	--Fiscal year ended Dec. 31--				
	2022	2023	2024bc	2025bc	2026bc
Operating revenues	1,409.2	1,450.5	1,455.6	1,503.7	1,534.1
Operating expenditures	1,129.9	1,162.8	1,188.9	1,199.8	1,214.4
Operating balance	279.3	287.7	266.7	303.9	319.7
Operating balance (% of operating revenues)	19.8	19.8	18.3	20.2	20.8
Capital revenues	195.8	203.1	255.4	238.3	187.8
Capital expenditures	527.2	492.1	603.3	616.9	578.1
Balance after capital accounts	(52.1)	(1.3)	(81.2)	(74.7)	(70.6)
Balance after capital accounts (% of total revenues)	(3.2)	(0.1)	(4.7)	(4.3)	(4.1)
Debt repaid	143.4	118.0	120.9	120.2	116.4
Gross borrowings	235.0	110.0	202.1	194.9	187.0
Balance after borrowings	45.9	(9.3)	0.0	0.0	0.0
Direct debt (outstanding at year-end)	2,081.0	2,073.0	2,155.6	2,221.4	2,298.4
Direct debt (% of operating revenues)	147.7	142.9	148.1	147.7	149.8
Tax-supported debt (outstanding at year-end)	2,081.0	2,073.0	2,155.6	2,221.4	2,298.4
Tax-supported debt (% of consolidated operating revenues)	147.7	142.9	148.1	147.7	149.8
Interest (% of operating revenues)	2.0	2.5	2.8	3.0	3.1
Local GDP per capita (single units)	32,864.9	35,184.9	N/A	N/A	N/A
National GDP per capita (single units)	38,871.6	41,167.5	42,532.2	43,859.3	45,227.9

Note: The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Pays de la Loire (Region of)--Ratings score snapshot

Key rating factors	Scores
Institutional framework	2
Economy	1
Financial management	1

Table 2

Pays de la Loire (Region of)--Ratings score snapshot (cont.)

Key rating factors	Scores
Budgetary performance	2
Liquidity	2
Debt burden	4
Stand-alone credit profile	aa
Issuer credit rating	AA-

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

France Long-Term Rating Lowered To 'AA-' From 'AA' On Deterioration Of Budgetary Position; Outlook Stable, May 31, 2024

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Governments | International Public Finance: Methodology: Rating Non-U.S. Local And Regional Governments Higher Than The Sovereign, Dec. 15, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment On France Unchanged Despite Sovereign Downgrade, June 3, 2024
- France Long-Term Rating Lowered To 'AA-' From 'AA' On Deterioration Of Budgetary Position; Outlook Stable, May 31, 2024
- Sovereign Risk Indicators, April 8, 2024; a free interactive version is available at <http://www.spratratings.com/sri>
- Economic Outlook Eurozone Q2 2024: Labor Costs Hinder Disinflation As Rate Cuts Loom, March 26, 2024
- Subnational Debt 2024: France, Adaptability Will Remain Key Amid Sluggish Growth, March 4, 2024

- Subnational Debt 2024: Fiscal Policy Differences Influence Borrowing In Developed Markets, March 4, 2024
- Subnational Debt 2024: Fiscal Policy Differences Influence Borrowing In Developed Markets, March 4, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Downgraded

	To	From
Pays de la Loire (Region of)		
Issuer Credit Rating	AA-/Stable/A-1+	AA/Negative/A-1+

Ratings Affirmed

Pays de la Loire (Region of)		
Commercial Paper	A-1+	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourcelid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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