

**Summary:**

## Pays de la Loire (Region of)

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## Summary:

# Pays de la Loire (Region of)

**Issuer Credit Rating**

AA/Stable/A-1+

## Key Rating Factors

Credit context and assumptions	Base-case expectations
<p>Sound economic fundamentals, very strong management, and operates within a predictable framework.</p> <ul style="list-style-type: none"><li>• Pays de la Loire benefits from its very strong financial management and the very predictable framework for French regions.</li><li>• The region will implement a €300 million vocational training contract with the central government over 2019-2022, which we expect will not affect its budgetary performance, as it will be state-funded.</li><li>• We conservatively factor into our assessment that the apprenticeship reform, however, might incur a modest net loss for Pays de la Loire from 2020.</li></ul>	<p>Sustained strong budgetary performance and limited debt accumulation over 2019-2021.</p> <ul style="list-style-type: none"><li>• We believe that the region's tight control over operating expenditures will limit deficits to below 5% and curb debt accumulation.</li><li>• Tax-supported debt will remain high but contained, in line with the region's targets, with a debt-to-operating balance structurally below 7x by 2021.</li><li>• We expect liquidity to remain strong and we view very limited risks from contingent liabilities.</li></ul>

## Outlook

The stable outlook reflects S&P Global Ratings' expectation that the region will limit its recourse to debt over 2019-2021 while keeping a favorable liquidity position.

### Downside Scenario

If we lowered our ratings on France (unsolicited, AA/Stable/A-1+) or revised the outlook to negative, we would take a similar action on Pays de la Loire. Moreover, we might also consider a negative rating action if Pays de la Loire's liquidity position sharply deteriorated, or if the region loosened its financial management, causing a strong deterioration in budgetary performance.

### Upside Scenario

We might consider an upgrade if we took a similar action on France and if the region was able to reduce its debt stock and structurally posted tax-supported debt well below 120% of consolidated operating revenues or a ratio of direct debt to operating surplus structurally below 3x.

## Rationale

We expect Pays de la Loire will maintain its deficits after capital accounts below 5% of total revenues, thanks to its tight grip on expenditures. As a result, tax-supported debt will remain high but contained. Pays de la Loire benefits from a strong economy that bolsters revenues as well as the predictable and stable institutional framework for French regions.

### **The region continues to benefit from very strong financial management and a supportive economic and institutional context**

We view Pays de la Loire's financial governance as very effective. The region displays rigorous budget control and has clear budgetary targets for 2021 (the end of the current term), including an operating surplus above €250 million (or 19% of operating revenues), direct debt to operating surplus below 7x, and a 1% annual operating expenditures growth. It also exhibits sound debt management and proactive, sophisticated liquidity management. Pays de la Loire is the sole French region to enlist an external audit of its financial accounts, sustaining our view of its very strong financial management.

With about 3.8 million residents, the region's socioeconomic indicators are solid by national and international standards, with GDP per capita of €31,657 in 2018 (S&P Global Ratings estimates). The strength of the regional economy has a positive impact on the growth of regional revenue, including the corporate value added tax (CVAE), with a pronounced increase observed in 2018-2019.

We consider that French regions' institutional framework enables a good revenue and expenditure balance overall. Since 2018, they have received a share of the national value-added tax (VAT; amounting to €4.2 billion in 2018, or 15% of regions' operating revenue) instead of the main central government grant ("Dotation globale de fonctionnement" [DGF]). VAT proceeds have been quite dynamic over the recent past, and we expect they will increase by more than 2% per year over the coming two years.

In addition, the central government targets savings of €13 billion by 2022 for French local and regional governments (LRGs). This will be achieved by limiting LRGs' operating expenditure increases--contrary to the current trend--at an annual ceiling of 1.2% in 2018-2020. These changes could further improve regions' operating balances. We believe Pays de la Loire, which demonstrated a negative operating expenditure growth (at constant perimeter) in 2018, will maintain tight budget controls, complying with the target and its own objectives in the coming years.

The central government has decided on a large vocational training plan that it has contracted with most regions, including Pays de la Loire, over 2019-2022. The program implies additional spending of €300 million on vocational training in Pays de la Loire during this period. This should not affect Pays de la Loire's budgetary performance, since the program will be entirely funded by the central government, with state revenue matching the region's expenses. The apprenticeship reform, however, might cause a net revenue loss for some regions. Regions will no longer be responsible for apprenticeship schemes from 2020, except for some residual expenses, and will thus lose the related dedicated revenue. In the case of Pays de la Loire and given uncertainties around the outcome of the reform, we choose to include a slight net loss in our updated base case. However, the final budgetary impact could be either neutral or positive for the region, depending on the regions' ability to retain a share of a former state transfer that used

to fund vocational training in addition to apprenticeship (€19.4 million for Pays de la Loire).

**Pays de la Loire will keep moderate deficits thanks to a firm hand on operating expenditure, while maintaining strong liquidity**

In 2018, Pays de la Loire outperformed our previous base-case scenario, posting an operating surplus of 20.7% of operating revenues (versus 19.1% in our last base case) and a deficit after capital accounts of 2.5% of total revenues (versus 5.5% previously) thanks to its strong grip on expenditures. We expect the region to keep this strong budget control in the coming years and to maintain a high operating balance, at above 20% of operating revenue over 2019-2021, while posting only moderate deficits after capital accounts on a five-year average, at 2.2% of total revenue during 2017-2021 (versus 4.9% in our base case for 2016-2020).

In our view, the region's management would use its leeway on expenditure if necessary to avoid any large increase of its deficits. Capital expenditure will account for a high 31% of total expenditure during 2019-2021 and are, in our view, its main source of flexibility. On the revenue side, flexibility looks subdued, as modifiable revenues are limited to the tax on car registrations, which will account for 10% of operating revenue during 2019-2021, and in light with the region's decision of a tax freeze.

Thanks to these moderate deficits, the region's tax-supported debt growth will be contained at a still-high 134% of operating revenue in 2021 (up from 126% at year-end 2018). We expect interest charges will remain moderate, at less than 2.5% of operating revenue. In addition, we think the region will post a favorable direct debt-to-operating surplus ratio, below its 7x target.

We view the region's contingent liabilities as very low, given the small financial size of its related entities, and its negligible debt guarantees and litigation risks. Nevertheless, we will monitor the recent rising trend of debt guarantees, including growing guarantees provided to French public-sector funding agency Agence France Locale (AA-/Stable/A-1+) since 2015.

We expect debt service coverage to remain strong, thanks to a structurally sound liquidity position on the back of proactive liquidity management. The region currently has liquidity lines and revolving loans totaling €233 million. We believe the average availabilities on these liquidity sources, alongside our estimate of the region's average cash, will cover more than 120% of its debt service over the next 12 months. Furthermore, we consider the region has satisfactory access to external liquidity, as shown by regularly contracted liquidity facilities with a diversified pool of domestic banks. French regions enjoy predictable and regular cash flows, especially in the form of central government transfers and tax proceeds.

**Key Statistics**

**Table 1**

Region of Pays de la Loire Selected Indicators					
	--Fiscal year ends Dec. 31--				
(Mil. €)	2017	2018	2019bc	2020bc	2021bc
Operating revenues	1,348	1,356	1,409	1,321	1,355
Operating expenditures	1,067	1,076	1,117	1,032	1,057

**Table 1**

<b>Region of Pays de la Loire Selected Indicators (cont.)</b>					
<b>--Fiscal year ends Dec. 31--</b>					
<b>(Mil. €)</b>	<b>2017</b>	<b>2018</b>	<b>2019bc</b>	<b>2020bc</b>	<b>2021bc</b>
Operating balance	281	281	293	289	297
Operating balance (% of operating revenues)	20.8	20.7	20.8	21.9	22.0
Capital revenues	139	144	147	178	139
Capital expenditures	459	462	467	477	487
Balance after capital accounts	(39)	(37)	(27)	(10)	(51)
Balance after capital accounts (% of total revenues)	(2.6)	(2.5)	(1.7)	(0.7)	(3.4)
Debt repaid	103	132	127	106	114
Gross borrowings	150	164	154	116	165
Balance after borrowings	6	(11)	0	0	(0)
Modifiable revenues (% of operating revenues)	10.1	10.1	9.6	10.2	10.0
Capital expenditures (% of total expenditures)	30.1	30.0	29.5	31.6	31.5
Direct debt (outstanding at year-end)	1,648	1,669	1,706	1,716	1,767
Direct debt (% of operating revenues)	122.3	123.1	121.1	129.9	130.4
Tax-supported debt (outstanding at year-end)	1,677	1,716	1,753	1,763	1,814
Tax-supported debt (% of consolidated operating revenues)	124.4	126.5	124.4	133.4	133.9
Interest (% of operating revenues)	2.2	2.2	1.9	2.1	2.0
Local GDP per capita (single units)	30,917	31,657	32,510	33,363	34,300
National GDP per capita (single units)	34,327	35,132	36,051	36,993	38,035

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.

## Ratings Score Snapshot

**Table 2**

### Region of Pays de la Loire Ratings Score Snapshot\*

#### Key rating factors

Institutional framework	Very predictable and well-balanced
Economy	Strong
Financial management	Very strong
Budgetary flexibility	Average
Budgetary performance	Strong
Liquidity	Strong
Debt burden	High
Contingent liabilities	Very low

\*S&P Global Ratings' credit ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments" summarizes how the eight factors are combined to derive the rating.

## Key Sovereign Statistics

Sovereign Risk Indicators, April 11, 2019. An interactive version is available at <http://www.spratings.com/sri/>.

## Related Criteria

- 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
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Summary: France, April 5, 2019
- Local Government Debt 2019: French LRG Borrowings Will Stay Low Despite Higher Investments, Feb. 25, 2019
- Institutional Framework Assessments For International Local And Regional Governments, Nov. 6, 2018
- France's Local Tax Reform: The Final Blow For Departments?, Oct. 3, 2018
- Default, Transition, and Recovery: 2017 Annual International Public Finance Default Study And Rating Transitions, June 11, 2018
- Public Finance System Overview: French Departments and Departmental Syndicates, July 30, 2018
- Banking Industry Country Risk Assessment: France, July 11, 2018
- French Region of Pays de la Loire Upgraded To 'AA' On Improved Performance; Outlook Stable, June 15, 2018

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