

RatingsDirect®

Pays de la Loire (Region of)

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Pays de la Loire (Region of)

This report does not constitute a rating action.

Key Rating Factors

Credit context and assumptions

Robust economic fundamentals and a supportive institutional framework will help the region of Pays de la Loire recover from the effects of the COVID-19 pandemic.

- The regional economy is relatively diversified, which should support its recovery.
- A very strong track record of financial management practices and the supportive institutional framework for French regions have helped Pays de la Loire weather the pandemic.
- We anticipate continued support from central government will foster an improving budgetary performance in 2021 and 2022.

Issuer Credit Rating

AA/Stable/A-1+

Base-case expectations

The pandemic is weakening the region's operating revenue and creating additional spending needs in 2020, hitting the operating balance. However, we expect this shock will be temporary and the region's budgetary performance will gradually strengthen through 2022.

- The fiscal reform introduced by the central government's 2021 finance bill should support the region's budgetary performance.
- We expect the region will implement sizable recovery packages, which will boost capital expenditure (capex).
- Higher capex will contribute to rising debt, but this will be mitigated by additional capital grants from the central government.

Outlook

The stable outlook reflects our expectation that Pays de la Loire will contain its debt burden over 2020-2022, while keeping a very favourable liquidity position despite the pandemic.

Downside scenario

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

Upside scenario

We might consider an upgrade if we took a similar action on France, and if the region posted stronger budgetary surpluses, leading to a materially lower debt burden.

Rationale

The pandemic had a negative impact on Pays de la Loire's budgetary performance in 2020, since it caused both a drop in operating revenue and additional spending needs. We anticipate a robust recovery in 2021, thanks to a diversified and dynamic regional economy, as well as support from the central government. We also view positively the region's strengthening tax base and track record of expenditure control, leading to our forecast of widening operating surpluses over our forecast period to year-end 2022. We expect these surpluses will help fund higher capex and mitigate borrowing needs, while maintaining liquidity at its current strong level.

Strong financial management, a dynamic economy, and the supportive institutional framework for French regions will foster a strong recovery

In recent years, the region's population has been increasing at a faster pace than the national average, fueling economic growth and strengthening tax bases. The regional GDP per capita of €32,269 is relatively high by international standards, and only slightly below the French average. We expect that the region will experience a dip in economic performance in 2020 in line with national trends, due to the lockdown measures. However, Pays de la Loire's economy is relatively diversified and the region is host to a number of strong sectors, including agro-industry, aeronautics, and tourism. In our view, this will help the region's economy recover when pandemic-related lockdown measures end. On balance, we view Pays de la Loire's socioeconomic and demographic profiles as comparable with those of France as a whole.

Moreover, Pays de la Loire benefits from the institutional framework for French regions, which we consider to be very predictable and well-balanced. Successive reforms have incrementally strengthened the role of regions, but additional tasks have been accompanied by proportionate funding, ensuring a good adequacy of revenue to cover expenditure needs. We expect regional governments will play a key role in the aftermath of the pandemic, as they will help define and implement the priorities of the national recovery plan. In line with the "framework agreement" signed with the central government in July 2020, regions will receive extra support to fulfil this role. This support will notably include €600 million of additional capital grants for the entire regional tier, which we expect will be disbursed in 2021. At the same time, the fiscal measures announced as part of the central government's finance bill for 2021 will aid regions' financial recovery by avoiding a drop in operating income next year, while preserving their tax revenue growth potential.

In our view, the region's effective financial governance will also support its recovery from the economic shock created by the pandemic. Since 2017, the regional government has built a strong track record of fiscal discipline, including a range of financial targets to enable tight control. These targets include maintaining annual core operating expenditure growth below 1%, while keeping the operating balance above €250 million, and the debt-to-operating surplus ratio below 7x. While these targets will be temporarily breached, we understand that the region will work to comply with them as early as possible. The region also exhibits sound debt and liquidity management practices. Moreover, Pays de

la Loire is the only French region to have enlisted the help of an external auditor to certify its accounts, which supports our assessment of the region's financial management as very strong.

The region's operating surpluses will recover gradually after the 2020 shock, which will help fund higher capex while preserving liquidity

The recession induced by the pandemic has considerably dampened consumer sentiment in 2020, leading to a decline in regional tax revenue, which depends to a large extent on household spending. The region's share of the national VAT, the vehicle registration levy ("cartes grises"), and the consumption tax on energy products will drop by over €32 million (or 2.2% of operating revenue) in 2020 compared with 2019. Meanwhile, the pandemic has created spending needs in transportation and education, leading to €15 million of additional operating expenditure compared with the initial 2020 budget. These impacts will be only partially offset by the 2.9% year-on-year growth in corporate value added tax (CVAE) receipts, which are based on corporate profits made in 2018 and 2019. The pandemic will therefore translate into a substantial drop in the operating surplus in 2020.

We anticipate the region's budgetary performance will gradually improve over the rating horizon as the economy recovers, with operating surpluses averaging 18.3% over 2021-2022. The suppression of the regional share of CVAE and its replacement with another share of national VAT--as per the central government's 2021 finance bill--will neutralize the impact of lower corporate profits on regional revenue, while preserving Pays de la Loire's tax potential (see "France's Corporate Tax Reform Could Help Contain Regions' Tax Revenue Volatility," published Oct. 7, 2020, on RatingsDirect). We expect operating revenue will outgrow operating expenditure through 2022, owing to stronger economic growth and tight cost control.

While the implementation of the capital plan for 2020 will be delayed, the inclusion of two sizable economic stimulus packages in the investment section will boost capex in 2021 and 2022. Pays de la Loire in 2020 contributed €25.3 million toward the national "solidarity fund" grants for small and midsize enterprises, on top of a €18 million disbursement under the regional "resilience fund," a repayable advances scheme aimed at micro-enterprises and independent workers. We expect a second €14 million tranche to follow in 2021 under the resilience fund scheme--which is co-funded by the region and other local governments located in Pays de la Loire. As a result, the deficit after capital accounts will balloon to 7.3% of total revenue in 2020. We expect capex will average about €512 million per year in 2021-2022 (versus €470 million in 2018-2019), since the region will keep addressing large investment needs in high schools and regional transport networks, as well as implementing projects under the national and European recovery plans. An additional capital grant from the central government will be forthcoming in 2021, limiting overall deficits to an average 4.6% of total revenue in 2021-2022. We forecast that shortfalls after investments will remain below 5% of total revenue and continue to shrink beyond 2022, thanks to increasing operating surpluses.

Pays de Loire's tax-supported debt burden will increase moderately through our forecast horizon, reaching €1,989 million or 141.8% of consolidated operating revenue in 2022 compared with 113.3% in 2019. The progression of this ratio is due to both additional borrowing and the loss of apprenticeship-related revenue in 2020. We anticipate that the debt burden will start to decline in 2022. Interest charges should expand moderately, to about 2.5% of operating revenue in 2022, versus 1.9% in 2019. This evolution, driven by the anticipated growth in the debt stock, will be mitigated by the decline in the average cost of debt through 2022. The region will seek to increase the maturity of new bond issuances, to lock in low interest rates.

Thanks to its proactive liquidity management, Pays de la Loire's debt service coverage will remain high. The region currently has liquidity lines and revolving loans totaling €230 million. We believe the total available facilities, in addition to our estimate of the region's average cash, will cover more than 120% of its debt service over the next 12 months. We also view the region's access to external liquidity as strong. This reflects large and regularly renewed contracted liquidity facilities from a diversified pool of domestic banks as well as Pays de la Loire's access to the financial markets through its Euro Medium Term Note (EMTN) and Negotiable European Commercial Paper (NEU CP) programs.

Key Statistics

Table 1

Pays de la Loire (Region of) Selected Indicators						
	--Year ended Dec. 31--					
Mil. €	2017	2018	2019	2020bc	2021bc	2022bc
Operating revenues	1,348	1,356	1,471	1,296	1,356	1,402
Operating expenditures	1,067	1,076	1,127	1,081	1,112	1,141
Operating balance	281	281	345	215	244	261
Operating balance (% of operating revenues)	20.8	20.7	23.4	16.6	18.0	18.6
Capital revenues	139	138	137	153	198	177
Capital expenditures	459	467	479	473	525	500
Balance after capital accounts	(39)	(48)	2	(106)	(83)	(62)
Balance after capital accounts (% of total revenues)	(2.6)	(3.2)	0.1	(7.3)	(5.3)	(3.9)
Debt repaid	103	140	127	106	115	126
Gross borrowings	150	172	125	283	198	188
Balance after borrowings	6	(11)	0	71	0	(0)
Direct debt (outstanding at year-end)	1,648	1,669	1,667	1,844	1,927	1,989
Direct debt (% of operating revenues)	122.3	123.1	113.3	142.3	142.1	141.8
Tax-supported debt (outstanding at year-end)	1,648	1,669	1,667	1,844	1,927	1,989
Tax-supported debt (% of consolidated operating revenues)	122.3	123.1	113.3	142.3	142.1	141.8
Interest (% of operating revenues)	2.2	2.2	1.9	2.4	2.2	2.4
Local GDP per capita (€)	30,824	31,459	32,269	29,716	32,195	33,536
National GDP per capita (€)	34,405	35,303	36,216	33,345	36,121	37,599

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. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Table 2

Pays de la Loire (Region of) Ratings Score Snapshot	
Key rating factors	Scores
Institutional framework	2

Table 2

Pays de la Loire (Region of) Ratings Score Snapshot (cont.)	
Key rating factors	Scores
Economy	2
Financial management	1
Budgetary performance	2
Liquidity	1
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

- Sovereign Risk Indicators, Oct. 17, 2020. An interactive version is available at <http://www.spratings.com/sri>

Related Criteria

- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011.

Related Research

- Institutional Framework Assessments For International Local And Regional Governments, Nov. 5, 2020
- France's Corporate Tax Reform Could Help Contain Regions' Tax Revenue Volatility, Oct. 7, 2020
- Public Finance System Overview: French Regions, Aug. 4, 2020
- Local Government Debt 2020: French LRGs' New Borrowings Will Remain Moderate Despite A Peak In Capital Expenditure, March 2, 2020

Ratings Detail (As Of December 14, 2020)***Pays de la Loire (Region of)**

Issuer Credit Rating	AA/Stable/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Senior Unsecured	AA

Issuer Credit Ratings History

15-Jun-2018	AA/Stable/A-1+
16-Jun-2017	AA-/Positive/A-1+
17-Jun-2016	AA-/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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