

Rating Action: Moody's assigns Aa3/Prime-1 issuer ratings to Région Bourgogne-Franche-Comté; positive outlook

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Paris, December 18, 2019 -- Moody's Public Sector Europe ("Moody's") has today assigned an Aa3 long-term issuer rating and a Prime-1 short-term issuer rating to Région Bourgogne-Franche-Comté. The rating outlook is positive. Moody's also assigned a Prime-1 rating to the €100 million NEU CP (Negotiable European Commercial Paper) programme of the region.

"Région Bourgogne-Franche-Comté's Aa3/ Prime-1 issuer ratings reflect a good operating performance, debt that is low and non-risky but rising, as well as good governance and financial management," says Matthieu Collette, Vice President Senior Analyst in Moody's Sub-Sovereign Group and lead analyst for the region. "The ratings also account for a slow-growing economy and limited revenue flexibility as for all French regions."

RATINGS RATIONALE

Today's rating action reflects Région Bourgogne-Franche-Comté's good operating performance, which Moody's expects to remain overall stable over the next few years given tax revenue growth and operating expense controls. The region will benefit from France's solid economic growth -- 1.4% in real terms both in 2020 and 2021 according to Moody's forecast -- and the resulting increase in value added tax (VAT) proceeds that amounted to €233 million in 2018, or 19% of operating revenues. Other operating revenues, including business taxes moving with regional economic growth, would grow at a slower pace. Moody's expects the effective efforts to control operating costs to continue and the region to comply, as in 2018, with the 1.2% limit set by the central government (France, Aa2 positive) on operating expenditures growth.

The regional administration has been demonstrating a strong commitment to preserving the region's financial health, focused on debt sustainability to be able to invest in fixed capital. Région Bourgogne-Franche-Comté has a shared and well-defined financial strategy, a prudent budgetary approach exemplified by realistic long-term targets, and conservative financial planning.

At the end of 2018, the net direct and indirect debt (NDID) amounted to €654 million -- 52.4% of operating revenues or 2.9 years of GOB -- representing a low debt burden, when benchmarking with French regions. Debt is planned to increase to fund a new fixed capital investment cycle, focused mainly on high schools and mobility, with capital expenditures nearly doubling between 2016 and the end of 2021, peaking at €528 million according to Moody's. Nevertheless, Moody's expects debt to remain manageable with NDID reaching 90.2% of operating revenues by 2022. Furthermore, Région Bourgogne-Franche-Comté's debt management is sound and secure and its debt is non-risky. The interest burden will remain at a low level of around 1% of operating revenues over the next two to three years.

While acknowledging that Région Bourgogne-Franche-Comté has limited revenue flexibility, like all French regions, Moody's notes that it is mitigated by some leeway on expenses, mainly on the multi-year fixed capital investment plan.

The Prime-1 short-term issuer rating reflects a sound and secure liquidity profile, supported by predictable and regular cash flows in line with other French regional and local governments. The region also benefits from good access to external funding, with committed short-term facilities amounting to €121 million as of November 2019.

Bourgogne-Franche-Comté's economy is slow-growing, with unfavorable fundamentals. Gross domestic product (GDP) per capita represents 75% of the national figure and the region's population is declining. However, disposable income per capita is high in international comparison and while shares of industry and agriculture are above the national averages, the industry is diversified and evolving, and agriculture is focused on high demand products, supporting the credit profile of the region.

Région Bourgogne-Franche-Comté's Aa3 rating incorporates a baseline credit assessment (BCA) of aa3 and Moody's assessment of a moderate likelihood of extraordinary support from the central government.

RATIONALE FOR THE POSITIVE OUTLOOK

The rating outlook is positive, reflecting Moody's view that Région Bourgogne-Franche-Comté would benefit from the strengthening of France's economic growth and fiscal performance as captured by the positive outlook on the sovereign rating (France, Aa2 positive), including the strengthening of fiscal revenues, in particular VAT proceeds.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

In Moody's assessment, environmental considerations are not material to Région Bourgogne-Franche-Comté's credit profile. Social considerations are material as population dynamics affect some key expenses of the region, including transportation and high schools. Governance considerations are material to the region's credit profile. Standards of governance are high as exemplified by prudent budgetary practices, conservative planning and sound liquidity and debt management.

WHAT COULD CHANGE THE RATING UP/DOWN

Strong regional economic growth, coupled with better-than-expected operating results and stabilizing debt ratios, would most likely exert upward pressure on the rating. Additionally, any upgrade of France's rating would have positive implications for Région Bourgogne-Franche-Comté's rating.

The rating would come under pressure if the region posted a combination of higher debt levels than Moody's forecast and a lower-than-expected GOB. A downgrade of the sovereign rating would also most likely have negative implications for Région Bourgogne-Franche-Comté's rating.

The specific economic indicators, as required by EU regulation, are not available for this entity. The following national economic indicators are relevant to the sovereign rating, which was used as an input to this credit rating action.

Sovereign Issuer: France, Government of

GDP per capita (PPP basis, US\$): 45,893 (2018 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.7% (2018 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 1.9% (2018 Actual)

Gen. Gov. Financial Balance/GDP: -2.5% (2018 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -0.6% (2018 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Very High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

SUMMARY OF MINUTES FROM RATING COMMITTEE

On 05 December 2019, a rating committee was called to discuss the rating of the Region Bourgogne-Franche-Comte. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, the issuer's governance and/or management, the issuer's fiscal or financial strength, including its debt profile, and the systemic risk in which the issuer operates.

The principal methodology used in these ratings was Regional and Local Governments published in January 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

This rating action concerns a new rating for an issuer not previously publicly rated by us at the time that the sovereign release calendar was published, and is therefore being released on a date not listed in that publication.

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