

CREDIT OPINION

31 January 2023



RATINGS

Region Bourgogne-Franche-Comte

Domicile	France
Long Term Rating	Aa3
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

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 Bourgogne-Franche-Comte (France)

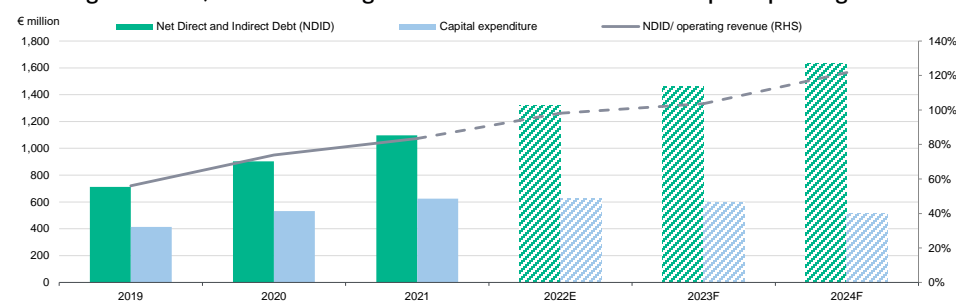
Update to credit analysis

Summary

The credit profile of [Region Bourgogne-Franche-Comte](#) (Aa3 stable/P-1) reflects a strong operating performance – with a gross operating balance (GOB)-to-operating revenues ratio to average 16% over 2022-24. The ratings are also supported by a manageable and affordable debt, while increasing because the region will continue to fund consistent capital spending, as well as good governance and management. Our assessment of the region's creditworthiness also accounts for a low potential economic growth and limited revenue flexibility as is the case for all French regions.

Exhibit 1

A manageable debt, while increasing to continue to fund consistent capital spending



E = Estimate, F = Forecast

Source: *Region Bourgogne-Franche-Comte, Moody's Investors Service*

Credit strengths

- » A strong operating performance, providing shock absorption capacity
- » A manageable and affordable debt, while increasing to fund consistent capital spending
- » Good governance and management focused on debt sustainability

Credit challenges

- » Low potential growth but a diversified economy
- » Limited revenue flexibility, like all French regions

Rating outlook

The stable outlook reflects our expectation that Region Bourgogne-Franche-Comte's operating performance will remain strong and debt manageable.

Factors that could lead to an upgrade

- » A reversal in the debt trend, potentially from better-than-expected operating results, would most likely exert upward pressure on the rating.
- » Additionally, any upgrade of France's rating would have positive implications for Region Bourgogne-Franche-Comte's rating. However, this is unlikely given the Government of France's current Aa2 rating with stable outlook.

Factors that could lead to a downgrade

- » The rating would come under pressure if the region posted higher-than-expected debt ratios and/or a lower-than-expected gross operating balance.
- » A downgrade of the sovereign rating would also most likely have negative implications for Region Bourgogne-Franche-Comte's rating.

Key indicators

Exhibit 2

Region Bourgogne-Franche-Comte

	2019	2020	2021	2022E	2023F	2024F
Gross operating balance / operating revenue (%)	18%	16%	20%	19%	15%	15%
Capital spending / total expenditure (%)	28%	34%	37%	36%	33%	31%
Self-financing ratio	0.8	0.7	0.7	0.6	0.8	0.7
Financing surplus (requirement) / total revenues (%)	-5%	-13%	-14%	-15%	-6%	-8%
Interest expenses / operating revenues (%)	1%	1%	1%	1%	3%	3%
Direct debt / operating revenues (%)	56%	74%	83%	98%	104%	122%
Net Direct and Indirect debt / operating revenues (%)	56%	74%	83%	98%	104%	122%

E = Estimate, F = Forecast

Sources: Region Bourgogne-Franche-Comte, Moody's Investors Service

Detailed credit considerations

The credit profile of Region Bourgogne-Franche-Comte, as expressed in an Aa3 rating and a stable outlook combines (1) a Baseline Credit Assessment (BCA) of aa3, and (2) a moderate likelihood of extraordinary support from the Government of France if the region were to face acute liquidity stress.

Baseline credit assessment

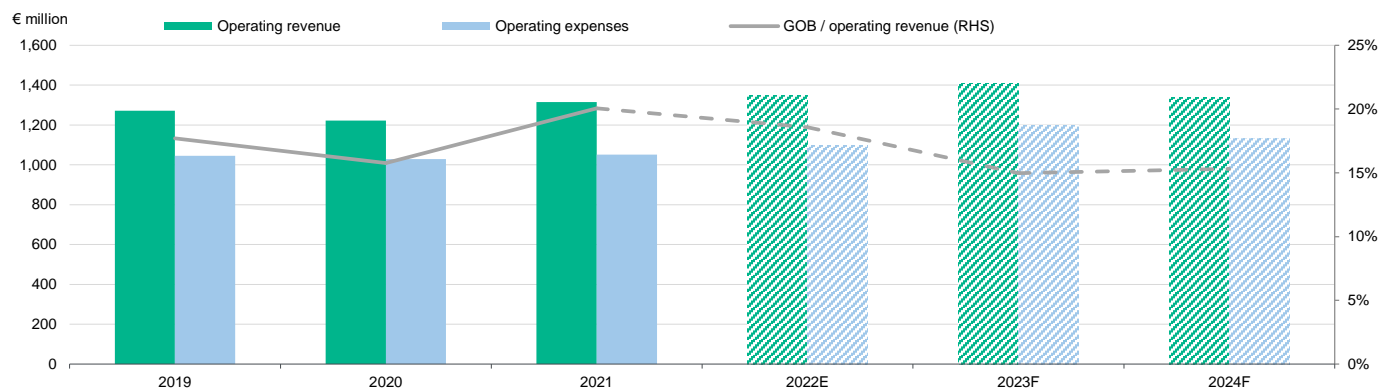
A strong operating performance, providing shock absorption capacity

Over 2022-24, we expect Region Bourgogne-Franche-Comte to continue to post strong operating surpluses, with a GOB ratio averaging 16% of operating revenues. Recurring operating revenues will grow by 1.8% in 2023 and 1.6% in 2024 while total operating revenues will increase by 4.7% in 2023 and decrease by 5% in 2024; the gap is mainly explained by central government grants for a regional multi-year plan targeting unemployed people (Pacte regional d'investissement dans les competences, PRIC) which are not timed with the expenses they fund. The growth in recurring operating revenue is mainly driven by value added tax (VAT) proceeds (around half of the region's operating income) that move in line with nominal gross domestic product (GDP), providing a natural hedge

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against price inflation. On the other hand, stamp duties levied on car registration are on a downward trend as a result of the exemption of hybrid and electric vehicles and other tax revenues will be stable over 2023-2024.

Exhibit 3

GOB-to-operating revenue to average 16% over 2022-24

E = Estimate, F = Forecast

Sources: Region Bourgogne-Franche-Comte, Moody's Investors Service

In our baseline scenario, price inflation will remain elevated in 2023 before normalising from 2024 onward. As a result, recurring operating expenses (excluding PRIC expenses as per operating revenues) will rise by 10.2% in 2023 (while total operating expenses will rise by 9.3%), primarily caused by an estimated energy-driven €60 million increase in the financing of regional trains services (€46 million for 2023 and €14 million for 2022). In addition, high-school heating and school transportation, which account for the remainder of inflation-sensitive expenses, are expected to increase by a combined €24 million in 2023. A rise in the salary of civil servants, decided in July 2022 by the Central Government, will also lead to a €6 million increase operating expenditure. Finally, interest expenses will represent 2.7 times their 2022 level. In 2024, we expect operating expenditures growth to normalize and move more in line with past trends, with near flat recurring expenditure (and a -5.3% contraction of total expenditure).

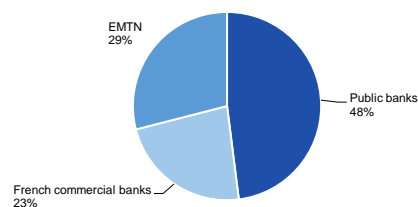
A manageable and affordable debt, while increasing to fund consistent capital spending

At the end of 2022, Bourgogne-Franche-Comte's net direct and indirect debt (NDID) amounted to €1,3 billion, an 85% increase from 2019 fueled by the region's multi-year investment plan which is focused primarily on economic development, transport/mobility (such as the purchase of new railway equipment) and high schools. After investing €610 million in 2022, representing around 1.5 times capital expense (CAPEX) for 2019, the region will invest €597 million in 2023 and €516 million in 2024. To fund CAPEX, the region benefitted from €134 million of capital grants in 2022, that will peak at €246 million in 2023 due to an end-of-period liquidation of drawing rights on European Union (EU) funds, before returning to €143 million in 2024. We consequently expect new borrowings to slow down at €216 million in 2023 from €276 million in 2022, and to be around €250 million in 2024. The interest burden borne by the region was still at a low 1% of operating revenue in 2022, while increasing from 0.7% in 2020-21. As a result of a further increase in the European Central Bank's (ECB's) policy rate through 2023, as per our baseline scenario, we expect the interest burden to rise to 2.7% in 2023 and 3.3% of operating revenue in 2024. Nevertheless, Region Bourgogne-Franche-Comte's wide and diversified lender base will continue to support its debt affordability.

Good governance and management focused on debt sustainability

Around half of the region's outstanding debt comes from public banks, including the [European Investment Bank](#) (Aaa stable), [Caisse des Depots et Consignations](#) (Aa2 stable), [SFIL](#) (Aa3 stable) and La Banque Postale as well as [Agence France Locale](#) (AFL, Aa3 stable). French and German commercial banks account for a quarter of outstanding debt, also attesting a very good access to bank funding. The region's Euro Medium Term Notes (EMTN) program accounts for the remaining quarter of outstanding debt. The region increased its ceiling in 2022 from €350 million to €550 million and issued €127 million, on top of the €150 million issued in 2021 and the €95 million raised in its inaugural issuance in 2020.

Exhibit 4

Public banks account for around half of the region's debt

Sources: *Region Bourgogne-Franche-Comte, Moody's Investors Service, as of year-end 2022*

The region also demonstrates a strong access to external short-term funding, as demonstrated by its regularly used €150 million Negotiable European Commercial Paper (NEU CP) programme. As of December 2022, the programme is covered by €120 million of committed short-term facilities. The region's liquidity profile finally benefits from predictable and regular cash flows particularly from monthly tax revenue, as per the other French regional and local governments (RLGs).

As exemplified by the region's funding strategy, Bourgogne-Franche-Comte's executive remains strongly committed to preserving the region's financial health, with a focus on debt sustainability. The region has a shared and well-defined financial strategy (including a floor for the GOB-to-operating revenue ratio and a reasonable 7.5-year limit for the debt-to-GOB ratio at the end of the current 2021-26 mandate), a prudent budgetary approach exemplified by realistic long-term targets, and conservative financial planning. We also note that, with its 2023 budget, the region is experiencing green and social budgeting.

Low potential growth but a diversified economy

Born after France's territorial reform in 2016, which reduced the number of metropolitan regions to 13 from 22, Bourgogne-Franche-Comte's economy is fragile with unfavorable fundamentals. Gross domestic product (GDP) per capita represents 79% of the national one, the region's population is declining, and regional potential growth is therefore low. However, disposable income per capita is high relative to international standards, with Bourgogne-Franche-Comte in the top 30% of OECD regions.

In addition, while shares of industry and agriculture are above the national averages, the industry is diversified and evolving, with 6.9% of high and medium-high technology manufacturing jobs and activities, compared with 4.2% at the national level. The region is capitalizing on its industrial fabric to foster the development of high-tech sectors by supporting competitiveness clusters which promote synergies between industry and research. We also note that a clear goal of the region's recovery plan is to transition towards a more sustainable industry, including by supporting the development of a hydrogen sector. Furthermore, agriculture is focused on high demand products, such as high-end Burgundy wine.

Limited revenue flexibility, like all French regions

Like all French regions, Region Bourgogne-Franche-Comte has to contend with limited revenue flexibility. The only tax rate regions can modulate is the tax on vehicle registrations, representing 7% of operating revenues in 2022 for Region Bourgogne-Franche-Comte. On the spending side, French regions have a greater flexibility, mainly because of the high proportion of subsidies as a share of total spending. For Region Bourgogne-Franche-Comte, operating and capital subsidies amounted to around €400 million in 2022, representing 20-25% of total spending year after year.

Extraordinary support considerations

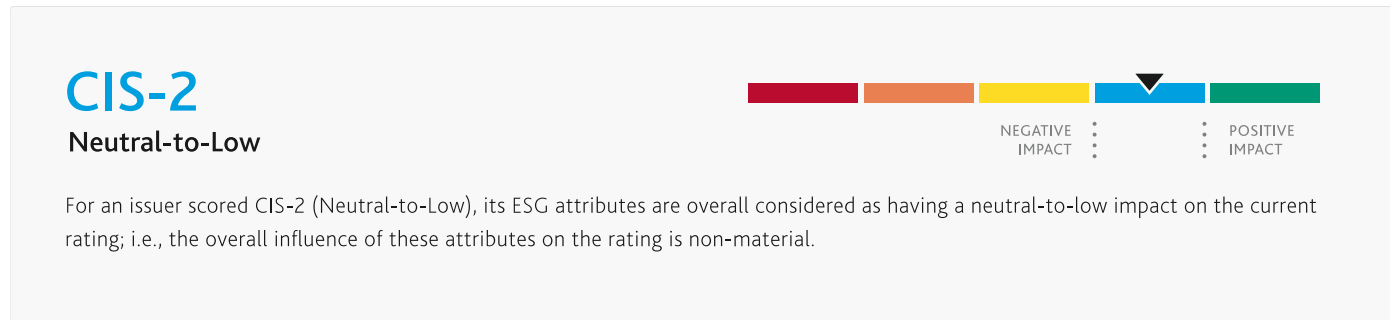
The moderate level of extraordinary support from the French government factored into the rating reflects the various mechanisms put in place by the central government during the global financial crisis to support RLGs as well as the coronavirus supportive measures.

ESG considerations

Region Bourgogne-Franche-Comte's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 5

ESG Credit Impact Score



Source: Moody's Investors Service

Region Bourgogne-Franche-Comte's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting low exposure to environmental risks, moderate social risks and very strong governance, as well as strong resilience to shocks thanks to its intrinsic fiscal strength and external support (incl. central government support in case of major natural disaster).

Exhibit 6

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Region Bourgogne-Franche-Comte's exposure to environmental risks is neutral to low across most categories. The one exception which we consider to be moderately negative relates to the territory's exposure to drought and flooding given its geography. Its overall E issuer profile score is neutral to low (**E-2**).

Social

Region Bourgogne-Franche-Comte's exposure to social risks is moderately negative (**S-3**), reflecting the population dynamics, including the long-term challenge of ageing population. At the same time, the region benefits from high-quality education, good housing availability, high quality of health & safety and very high-quality access to basic services.

Governance

Region Bourgogne-Franche-Comte's very strong governance profile supports its rating, as exemplified by its budgetary practices and planning, its budgetary flexibility and its financial management. This is captured by a positive G issuer profile score (**G-1**).

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 close to the scorecard-indicated BCA. The matrix-generated BCA of Region Bourgogne-Franche-Comt reflects an Idiosyncratic Risk score of 3 (presented below) on a scale of 1 to 9, where 1 represents the strongest relative credit quality and 9 the weakest; and a Systemic Risk score of Aa2, as reflected in France's Aa2 stable sovereign bond rating.

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

Exhibit 7

Region Bourgogne-Franche-Comte Regional & Local Governments

Baseline Credit Assessment – Scorecard	Score	Value	Sub-factor Weighting	Sub-factor Total	Factor Weighting	Total
Factor 1: Economic Fundamentals				6.60	20%	1.32
Economic Strength [1]	9	79.06%	70%			
Economic Volatility	1		30%			
Factor 2: Institutional Framework				3	20%	0.60
Legislative Background	1		50%			
Financial Flexibility	5		50%			
Factor 3: Financial Position				3	30%	0.90
Operating Margin [2]	1	18.50%	12.5%			
Interest Burden [3]	1	0.69%	12.5%			
Liquidity	5		25%			
Debt Burden [4]	5	83.47%	25%			
Debt Structure [5]	1	5.33%	25%			
Factor 4: Governance and Management				1	30%	0.30
Risk Controls and Financial Management	1					
Investment and Debt Management	1					
Transparency and Disclosure	1					
Idiosyncratic Risk Assessment						3.12 (3)
Systemic Risk Assessment						Aa2
Scorecard-Indicated BCA Outcome						a1
Assigned BCA						aa3

[1] Local GDP per capita as % of national GDP per capita

[2] Gross operating balance/operating revenues

[3] Interest payments/operating revenues

[4] Net direct and indirect debt/operating revenues

[5] Short-term direct debt/total direct debt

Source: Moody's Investors Service; Fiscal 2021.

Ratings

Exhibit 8

Category	Moody's Rating
REGION BOURGOGNE-FRANCHE-COMTE	
Outlook	Stable
Issuer Rating -Dom Curr	Aa3
Senior Unsecured MTN -Dom Curr	(P)Aa3
Commercial Paper -Dom Curr	P-1

Source: Moody's Investors Service

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