

CREDIT OPINION

3 May 2024

Update

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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)

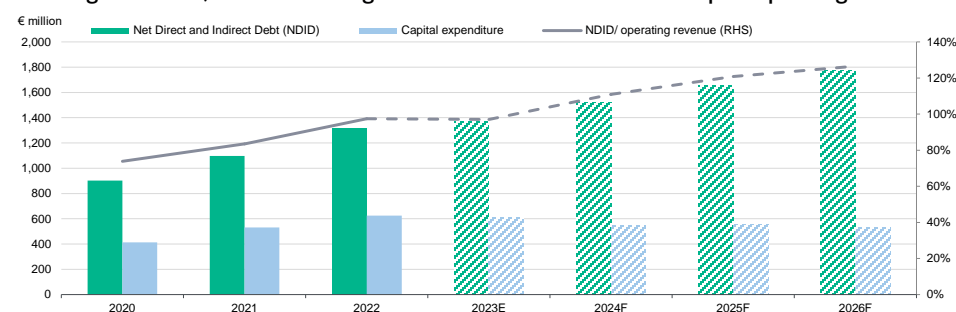
Update to credit analysis

Summary

The credit profile of [Region Bourgogne-Franche-Comte](#) (Aa3 stable/P-1) reflects a very strong operating performance expected to continue over the following 2 years. The ratings are also supported by a manageable debt, while increasing because the region will continue to fund consistent capital spending, as well as very strong governance and financial 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 Ratings*

Credit strengths

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

Credit challenges

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

Rating outlook

Region Bourgogne-Franche-Comte's stable outlook reflects our expectations that its operating performance will remain very strong over the next two to three years and its debt burden moderately high; it also reflects our view that Region Bourgogne-Franche-Comte's very strong governance will help it to navigate an uncertain and challenging economic and financial environment.

Factors that could lead to an upgrade

- » One or a combination of the following could lead to an upgrade: (1) higher than currently expected operating performance, (2) lower than currently expected debt burden and (3) better than currently expected liquidity position.
- » An upgrade of the sovereign bond rating ([France](#), Aa2 stable) would most likely have positive implications for the ratings.

Factors that could lead to a downgrade

- » One or a combination of the following could lead to a downgrade: (1) a prolonged period of depressed operating performance compared to what we currently expect, (2) materially and permanently higher debt burden compared to what we currently expect and (3) a material weakening in liquidity position.
- » A downgrade of the sovereign bond rating would most likely have negative implications for the ratings.

Key indicators

Region Bourgogne-Franche-Comte

	2020	2021	2022	2023E	2024F	2025F	2026F
Gross operating balance / operating revenue (%)	16%	20%	19%	20%	17%	18%	17%
Capital spending / total expenditure (%)	34%	37%	36%	33%	34%	33%	31%
Self-financing ratio	0.7	0.7	0.6	1.0	0.8	0.8	0.9
Financing surplus (requirement) / total revenues (%)	-13%	-14%	-15%	-1%	-6%	-6%	-4%
Interest expenses / operating revenues (%)	0.7%	0.7%	1.0%	2.6%	3.3%	3.2%	3.5%
Direct debt / operating revenues (%)	74%	83%	97%	97%	111%	121%	126%
Net Direct and Indirect debt / operating revenues (%)	74%	83%	97%	97%	111%	121%	126%

E = Estimate, F = Forecast

Source: Region Bourgogne-Franche-Comte, Moody's Ratings

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

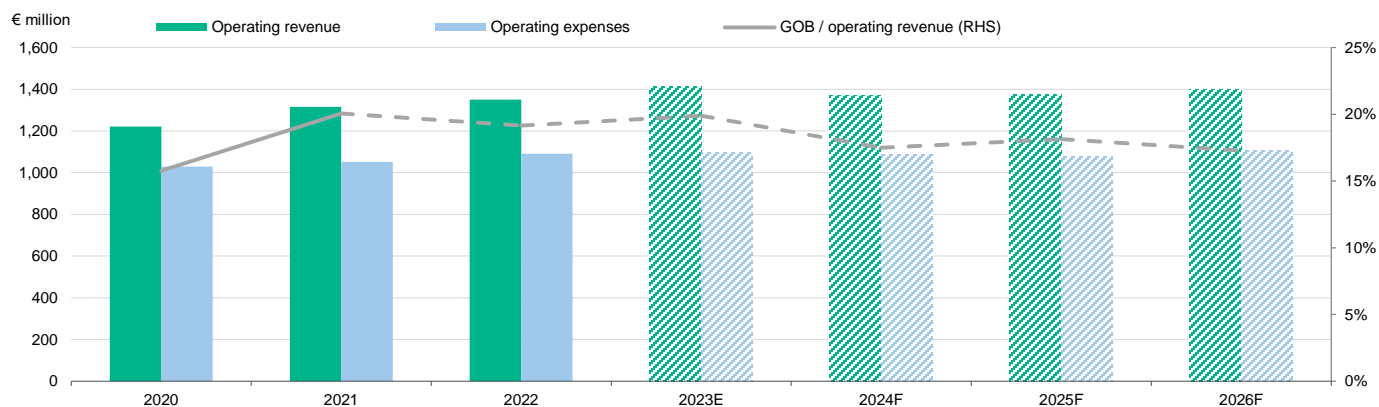
A very strong operating performance, providing shock absorption capacity

Over 2024-26, we expect Region Bourgogne-Franche-Comte to continue to post strong operating surpluses, with a GOB ratio averaging 18% of operating revenues. Recurring operating revenues will grow by a yearly 1.1% average over 2024-26 while total operating revenues will decrease by a 0.2% on average; the gap is mainly explained by the timing mismatch between the central government grants for a regional multi-year plan targeting unemployed people (Pacte regional d'investissement dans les competences, PRIC) and the expenses to 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 against price inflation. The decline in stamp duties associated with car registration, observed since 2021, was halted and essentially stabilized due to a rise in the number of registered vehicles and the rate increase starting 2024. This stabilization was also influenced by the

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region's decision in 2023 to revoke the stamp duty exemption previously granted to hybrid. Other tax revenues will be stable over 2024-2026.

Exhibit 3

GOB-to-operating revenue to average 18% over 2024-26

E = Estimate, F = Forecast

Source: Region Bourgogne-Franche-Comte, Moody's Ratings

The region's operating expenses growth is mainly impacted by two factors - the price inflation which we expect to normalise starting 2024 and the new multi-year agreement TER (Transport Express Régional) signed in 2023 for a 10 years period.

Despite the impact of inflation, which results in significant increases in several public policies such as high schools operations, school transportation, the increase in personnel expenses (index point, review of the indemnity scheme) and the significant rise in interest rates, the renegotiation of the TER convention allows for significant savings starting from 2023, as it provided for a tariff rebasing.

As a result, recurring operating expenses (excluding PRIC expenses as per operating revenues and excluding interest paid) will remain controlled, registering on average a modest 1% annual increase on average over the 2024-26 period. Interest expenses will continue increasing, representing 3.3% of operating revenue on average.

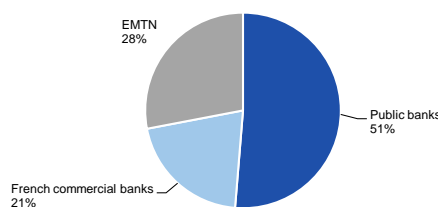
A manageable debt, while increasing to fund consistent capital spending

At the end of 2026, Region Bourgogne-Franche-Comte's net direct and indirect debt (NDID) will remain moderately high at 126 % of operating revenues, while increasing from 97% in 2023. NDID will thus reach €1.77 billion in 2026 from €1.37 billion in 2023, 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 €548 million in 2023, representing around 1.3 times capital expense (CAPEX) for 2019, the region will invest €560 million in 2024 and around €515 million on average in 2025-26. To fund CAPEX, the region benefitted from €210 million of capital grants in 2023, due to an end-of-period liquidation of drawing rights on European Union (EU) funds, before returning to around €150 million in 2024-26. Consequently new borrowings slowed down at €137 million in 2023 from €276 million in 2022, and we expect the region to borrow around €230 million each year until 2026. The interest burden borne by the region increased significantly to 2.6% of operating revenue in 2023 up from 1% in 2022. As per our baseline scenario for the European Central Bank's (ECB's) policy rate, we expect the interest burden to rise to 3.3% of operating revenue over 2024-26 period, a level which remains moderate. Nevertheless, Region Bourgogne-Franche-Comte's wide and diversified lender base will continue to support its debt affordability.

A very strong governance and financial 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). Commercial banks account for a fifth 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 part of outstanding debt. The region increased its ceiling in 2022 from €350 million to €550 million and issued €382 million as of YE2023. The region has an additional degree of flexibility in 2024, with a total of €151 million in long-term debt envelopes at its disposal.

Exhibit 4

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

Sources: *Region Bourgogne-Franche-Comte, Moody's Ratings, as of year-end 2023*

The region also demonstrates a strong access to external short-term funding, as demonstrated by its €150 million Negotiable European Commercial Paper (NEU CP) programme and its €110 million credit lines facilities. Considering the rise in interest rates, the region leans towards employing the latter in the near-term. 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 8 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 since 2023 the region is experiencing green budgeting.

Low growth potential 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 around 7% of high and medium-high technology manufacturing jobs and activities, compared with 4% 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, in line with 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 8% of operating revenues in 2023 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 represent around 20-25% of total spending every year.

Extraordinary support considerations

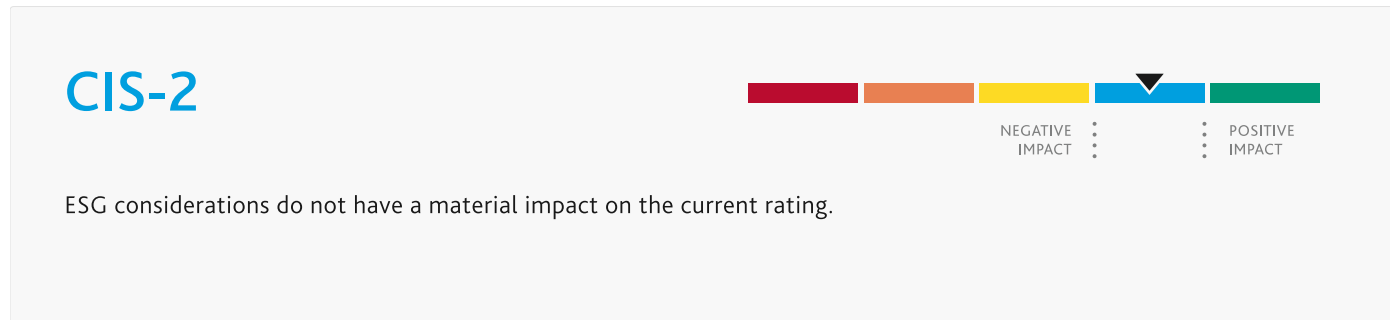
The moderate level of extraordinary support from the French government accounted for in the rating reflects the various mechanisms put in place by the central government during the global financial crisis to support regional and local governments, as well as the supportive measures implemented in response to the coronavirus pandemic. It also reflects a handful of defaults on municipal bank loans in the 1990s.

ESG considerations

Region Bourgogne-Franche-Comte's ESG credit impact score is CIS-2

Exhibit 5

ESG credit impact score



Source: Moody's Ratings

Region Bourgogne-Franche-Comte's ESG Credit Impact Score (**CIS-2**) reflects 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 Ratings

Environmental

Region Bourgogne-Franche-Comte's E issuer profile score (**E-2**) reflects neutral to low exposure to environmental risks 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.

Social

Region Bourgogne-Franche-Comte's S issuer profile score (**S-3**) reflects 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 **G-1** issuer profile score.

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-Comte 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's.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	79.40%	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	18.93%	12.5%			
Interest Burden [3]	1	0.88%	12.5%			
Liquidity	5		25%			
Debt Burden [4]	5	96.86%	25%			
Debt Structure [5]	1	5%	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
Suggested BCA						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 Ratings; Fiscal 2022.

Ratings

Exhibit 8

Category	Moody's Rating
REGION BOURGOGNE-FRANCHE-COMTE	
Outlook	Stable
Baseline Credit Assessment	aa3
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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