

France Credit Update

Region of Picardy

Ratings

Foreign Currency	
Long-Term Rating	AA
Short-Term Rating	F1+

Local Currency	
Long-Term Rating	AA

Outlooks

Foreign-Currency Long-Term Rating	Stable
Local-Currency Long-Term Rating	Stable

Financial Data

Region of Picardy		
	31 Dec 08	31 Dec 07
Operating revenue (EURm)	705.8	657.6
Debt (EURm)	332.6	229.4
Operating balance/	14.6	18.9
Debt service/current revenue (%)	4.0	2.9
Debt/current balance (yrs)	3.6	1.9
Operating balance/	8.8	20.7
Capital expenditure/	32.2	33.6
Surplus (deficit) before debt variation/total revenue (excluding new debt; %)	-15.4	-12.1
Current balance/	30.8	42.6

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Related Research

Applicable Criteria

- *International Rating Methodology for Local and Regional Governments (July 2008)*
- *Tax-Supported Rating Criteria (December 2009)*

Other Research

- *Institutional Framework for French Subnationals (February 2008)*

Rating Rationale

- The ratings are based on the Region of Picardy's sustained sound budgetary performance, adequate self-financing capacity (SFC; current balance plus current revenue), and moderate debt, representing 3.6 years of the current balance in 2008. The Stable Outlook reflects Fitch Ratings' expectation that Picardy's budgetary performance and debt payback ratio will remain moderate in the medium term. However, the ongoing business tax (BT) reform will reduce tax leeway. Consequently, Fitch will implement a comprehensive review of the ratings once the replacing revenue basket has been determined.
- Picardy's budgetary performance deteriorated slightly in 2008, with the operating balance decreasing to 14.6% of operating revenue, compared with 18.9% in 2007. Therefore, and combined with increasing capital-intensive responsibilities, Picardy's SFC dropped to 59.4% of capital expenditure in 2008 from 68% in 2007. In 2009, the slowdown in capital expenditure helped limit the decrease of SFC to an estimated low 50%. The region has hitherto had some tax autonomy, as about 55% of its total 2008 tax revenue consisted of direct taxes. However, Fitch will pay particular attention to the financial measures taken by the region in the medium term to maintain a high SFC in the context of the abolition of BT from 2010.
- Picardy's debt is moderate, representing 3.6 years of the current balance in 2008. Debt coverage ratios are high, with debt service representing only 4% of current revenue. Direct debt is expected to increase to fund significant capex on railway rolling stock, high schools and, in the longer term, the construction of the Seine-Nord inter-regional canal. Debt is expected to reach EUR450m in 2010, or five years of the current balance. Picardy does not hold any risky derivative products and its liquidity is sufficiently covered by bank facilities.
- The regional population's wealth and workforce qualifications still lag behind the national average, which is a challenge for the region due to its professional training responsibilities. Although Picardy has implemented broad employment support initiatives, its unemployment rate (10.8%) was above the national average (9.1%) at end-Q209.

Key Rating Drivers

- A positive rating action – unlikely in present economic conditions – could be considered if capital expenditure and borrowing are lower than projected, combined with a structural consolidation of operating performance.
- A downgrade could result from a greater-than-expected deterioration in the region's debt payback ratio due to a sharp decline in budgetary performance, capital spending exceeding projections and if the institutional and fiscal framework reforms have a significantly negative impact on current revenue. Fitch will focus on the capital programme after the 2010 regional elections.

Profile

Picardy is located north of Paris. It has 1.9 million residents (3% of the national population) and is fourteenth among French regions by contribution to national GDP. The region's main responsibilities are high schools, vocational training, transport and economic development.

Appendix A

Region of Picardy

	Actual				
	2004	2005	2006	2007	2008
Taxes	161.8	222.1	246.7	301.2	348.7
Transfers received	303.1	332.5	333.0	353.4	351.3
Fees, fines and other operating revenues	3.4	13.0	3.7	3.0	5.8
Operating revenue	468.2	567.6	583.4	657.6	705.8
Operating expenditure	-323.7	-389.7	-441.0	-533.3	-602.6
Operating balance	144.6	177.9	142.5	124.3	103.2
Financial revenues	0.4	0.4	0.4	0.4	1.1
Interest paid	-4.9	-4.7	-4.8	-6.0	-11.8
Current balance	140.1	173.6	138.0	118.8	92.5
Capital revenue	46.1	58.0	74.6	71.8	85.9
Capital expenditure	-193.5	-196.6	-233.7	-278.8	-300.2
Capital balance	-147.3	-138.6	-159.1	-207.1	-214.3
Surplus (deficit) before debt variation	-7.2	35.0	-21.1	-88.3	-121.8
Debt repayment	-11.4	-16.4	-12.6	-23.3	-16.8
Of which prepayment	0.0	-3.9	0.0	-10.6	0.0
New borrowing	22.2	15.0	0.0	125.1	120.4
Net debt movement	10.8	-1.4	-12.6	101.8	103.6
Overall results	3.6	33.6	-33.7	13.5	-18.2
Debt					
Short-term	0.0	0.0	0.0	0.0	0.0
Long-term	141.6	140.2	127.7	229.4	332.6
Direct debt	141.6	140.2	127.7	229.4	332.6
+ Other Fitch classified debt	0.0	0.0	0.0	0.0	1.0
Direct risk	141.6	140.2	127.7	229.4	333.6
- Cash, liquid deposits, sinking fund or pre-financing	11.3	66.8	50.4	60.1	-3.0
Net direct risk	130.2	73.4	77.2	169.3	336.6
Guarantees and other contingent liabilities	3.1	2.0	2.0	1.5	1.2
Net indirect debt (public sector entities exc. gteed amount) ^a	0.0	0.0	0.0	0.0	1.0
Net overall risk	133.3	75.4	79.2	170.8	337.8
Memo for direct debt (%)					
Debt in foreign currency	0.0	0.0	0.0	0.0	0.0
Issued debt	0.0	0.0	0.0	0.0	0.0
Fixed interest rate debt	43.7	63.7	63.7	58.2	58.7

Source: Fitch, Region Picardy

Appendix B

Region of Picardy

	Actual				
	2004	2005	2006	2007	2008
Fiscal performance ratios (%)					
Operating balance/operating revenue	30.9	31.3	24.4	18.9	14.6
Current balance/operating revenue	29.9	30.6	23.7	18.1	13.1
Surplus (deficit) before debt variation/total revenue ^a	-1.4	5.6	-3.2	-12.1	-15.4
Overall results/total revenue ^a	0.7	5.4	-5.1	1.8	-2.3
Operating revenue growth (annual change)	12.6	21.2	2.8	12.7	7.3
Operating expenditure growth (annual change)	12.5	20.4	13.2	20.9	13.0
Current balance growth (annual change)	13.5	23.9	-20.5	-13.9	-22.1
Debt ratios					
Direct debt growth (annual % change)	8.3	-1.0	-8.9	79.7	45.0
Interest paid/operating revenue (%)	1.0	0.8	0.8	0.9	1.7
Operating balance/interest paid (x)	29.5	38.2	29.5	20.7	8.8
Direct debt servicing/current revenue (%)	3.5	3.0	3.0	2.9	4.0
Direct debt servicing/operating balance (%)	11.3	9.6	12.2	15.1	27.7
Direct debt/current revenue (%)	30.2	24.7	21.9	34.9	47.1
Direct risk/current revenue (%)	30.2	24.7	21.9	34.9	47.2
Net overall risk/current revenue (%)	28.5	13.3	13.6	26.0	47.8
Direct debt/current balance (yrs)	1.0	0.8	0.9	1.9	3.6
Direct risk/current balance (yrs)	1.0	0.8	0.9	1.9	3.6
Direct debt/regional GDP (%)	0.4	0.3	0.3	0.5	n.a.
Direct debt per capita (local currency)	76	75	69	123	176
Revenue ratios					
Tax revenue/operating revenue (%)	34.5	39.1	42.3	45.8	49.4
Modifiale tax revenue/total tax revenue	n.a.	n.a.	n.a.	50.0	n.a.
Current transfers received/operating revenue (%)	64.7	58.6	57.1	53.7	49.8
Operating revenue/total revenue ^a (%)	91.0	90.7	88.6	90.1	89.0
Total revenue ^a per capita (local currency)	277	337	354	387	427
Expenditure ratios					
Staff expenditure/operating expenditure (%)	6.3	5.4	6.2	9.4	13.8
Current transfer made/operating expenditure (%)	80.3	81.8	77.2	77.7	77.6
Capital expenditure/total expenditure (%)	36.3	32.6	33.8	33.6	32.2
Total expenditure per capita (local currency)	287	325	373	447	492
Capital expenditure financing (%)					
Current balance/capital expenditure	72.4	88.3	59.0	42.6	30.8
Capital revenue/capital expenditure	23.8	29.5	31.9	25.7	28.6
Net debt movement/capital expenditure	5.6	-0.7	-5.4	36.5	34.5

^a Includes financial revenues

^b Excluding new borrowing

n.a. not available

Source: Fitch, Region Picardy