Beyond Bundeslaender – Greater Paris

NORD/LB Floor Research

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Beyond Bundeslaender:
Greater Paris (IDF/VDP)

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Beyond Bundeslaender: Greater Paris (IDF/VDP)

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Introduction and structure of France

In 2025, we shall once again be taking a look at Greater Paris in France, which comprises the Île-de-France (IDF) region and local authority Ville de Paris (VDP). Both IDF and VDP represent interesting investment alternatives, especially for ESG (environmental, social, governance) investors. But first, let’s start with some basics: in administrative terms, the French Republic, as a decentralised unitary state, is divided into 18 regions (régions; including overseas territories), 101 departments (départements), 333 arrondissements, 2,293 cantons and 37,545 municipalities (communes) (data as at August 2025 in each case). However, the local authority we are focusing on this publication, VDP, which was created in 2019 from a merger of the municipality of Paris and the Paris department, does not fit into any of these above-mentioned categories. As a unified authority, its special status allows VDP to exercise the powers of the city administration and the department. The regions are the most recent structure of a French local government, having been introduced following the decentralisation law of 1982. Various reforms have subsequently served to strengthen the role of the regions. Nevertheless, France is regarded as a unitary state, as, unlike German Laender or US states, the regions do not have the character of a state. Each region elects regional councils (conseils régionaux) for a term of six years, which appoint the president of the regional council. The regional councils primarily control economic aspects. For example, the regional council determines the budget, the staff and various political decisions. Its responsibilities include regional planning, economic development, vocational training and rail passenger transport. The French department, which was first created during the revolution of 1789, is the equivalent of a German regional authority. The last territorial reform took place in 2016, following which the previous number of 22 French regions located in mainland Europe was condensed to just 13. A prefect (préfet), which is appointed by the French president at the suggestion of the prime minister, manages the department. There is also the departmental council (conseil départemental), whose powers were strengthened by the last decentralisation law. Its tasks consist of administering the budget and managing staff. The departmental council is elected for six years by the cantons, which, as subdivisions of the departments, form the constituencies for elections. The departments are also divided into arrondissements, which in turn are made up of the municipalities.

Political system

Overall, the system of government in France is characterised by the principle of free administration by elected councils and the limitation of the regional authorities’ powers to their respectively defined territory. In addition, the responsibilities and resources must comply with the legal requirements. The state plays a key role in this, particularly in terms of organising the sectors and determining resources. At national level, France has a semi-presidential system of government. The executive is composed of the president, who performs the central role in French politics, and the government, which is headed by a prime minister appointed by the president. The legislature is characterised by a bicameral system, consisting of a directly elected National Assembly and a Senate elected by representatives of the regions, departments and municipalities.

Political instability hampering France's capacity to act

Since taking office as the president of France on 14 May 2017, Emmanuel Macron has stood for liberal, progressive politics and has been committed to deeper European integration. In the presidential election of April 2022, Macron's party claimed a share of just 27.9% in the first round of voting. In the run-off, however, Macron prevailed with 58.6% of the vote against Marine Le Pen of the right-wing nationalist party, Rassemblement National (RN). Nevertheless, in the legislative election held two months later in June 2022, Macron became the first French president in 30 years to fail to gain an absolute majority in the National Assembly. Macron had placed pension reform at the top of his political agenda during his first term in office, although his ambitions in this area had to be put on the backburner for various reasons. However, after being re-elected as president, Macron, together with the government headed up by Prime Minister Élisabeth Borne, resolved in March 2023 to make use of a special provision in the French constitution (Art. 49.3) to push through his reform agenda following weeks of protests, which occasionally turned violent. Art. 49.3 allows the government to pass laws without a parliamentary vote in the National Assembly, unless a no-confidence motion passed with an absolute majority within one day. Since the submitted motions of no confidence were not passed with the required majority, Macron's reforms were promulgated, albeit at the expense of entrenching political divisions. The law raised the statutory retirement age from 62 to 64 and led to widespread discontent among the population. Added to the mix were the ongoing impacts of the COVID-19 pandemic, which provided political dynamite that opposition figures such as Marine Le Pen sought to opportunistically exploit for their own ends. In the European elections in June 2024, the RN led by Le Pen gained 31.4% of the votes. In contrast, Macron's party languished with a vote share of just 14.6%. In response, Macron announced the immediate dissolution of parliament and new elections in a move that he described as an "act of trust". The results saw the National Assembly divided into three camps, all of which are irreconcilably opposed to one another with none in a position to form a majority on their own. After two months of political wrangling, a conservative prime minister was appointed in the form of Michel Barnier, much to the chagrin of the "Nouveau Front Populaire" (NFP), who believed that the election results justified the nomination of a candidate from their ranks. However, just three months later this government also collapsed: after the minority government comprising representatives of Macron's "Renaissance" party and Barnier's centrist-conservative party "Les Républicains" (LR) used Art. 49.3 to force through an austerity budget for 2025, it was overthrown by a joint vote of no confidence by the NFP and RN in December 2024. Barnier was eventually replaced by François Bayrou, who upon taking office spoke of a "Himalaya" of challenges facing his government. First and foremost was the budget for 2025, which after a protracted period of back and forth was eventually pushed through in February under the renewed application of Art. 49.3. In contrast to his predecessor, Bayrou survived the subsequent motion of no confidence. For 2026, his government envisaged savings of EUR 44bn to reduce the government deficit to below 4.6% of GDP and, in the hope of securing support for the austerity measures, on 08 September Bayrou (once again) called a confidence vote. However, the vote was lost as expected, after opposition parties had announced beforehand their intention to withdraw confidence. This marked the end of the government. A day later, Sébastien Lecornu was appointed Prime Minister, who now faces the challenge of uniting the opposing views of the various parties and forging a consensus. Moreover, political instability and the strained budget situation are driving noticeably higher refinancing costs: In July 2025, the yields on 5y French government bonds exceeded those of Italian bonds for the first time in 20 years. Meanwhile, the yield on 10y OATs has also surpassed that of their Italian counterparts.

Key figures 2024

Nominal GDP (2023)
EUR 2,920bn (EUR 2,827bn)

Real GDP growth (2023)
+1.2% Y/Y (+1.4% Y/Y)

Unemployment (2023)
7.4% (7.3%)

Budget balance (2023)
EUR -170.0bn (EUR -151.7bn)

Budget balance / GDP (2023)
-5.8% (-5.5%)

Debt / GDP (2023)
113.0% (110.6%)

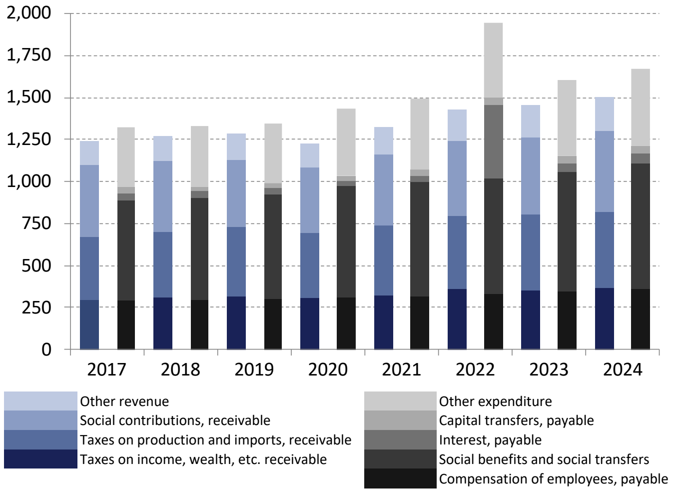
The quite solid performance of the French economy in a European comparison...

As early as 2021, France began making strides in mitigating the adverse economic impacts of the COVID-19 pandemic, in the subsequent years, economic growth has been on a solid upward trajectory (2022: +2.7% Y/Y; 2023: +1.4% Y/Y). In 2024, real GDP growth in France amounted to +1.2% Y/Y. This was again above the average growth rate in the Eurozone (2023: +0.5% Y/Y; 2024: +1.0% Y/Y). This positive trend is largely reflected in the labour market. Despite the fact that after declining in 2022, seasonally adjusted unemployment stagnated at 7.3% in 2023 and even rose slightly to 7.4% in 2024, a particularly low level by historical standards of 7.0% was recorded in June 2025. Nevertheless, unemployment does still remain above the EU average of 5.9% as of June 2025.

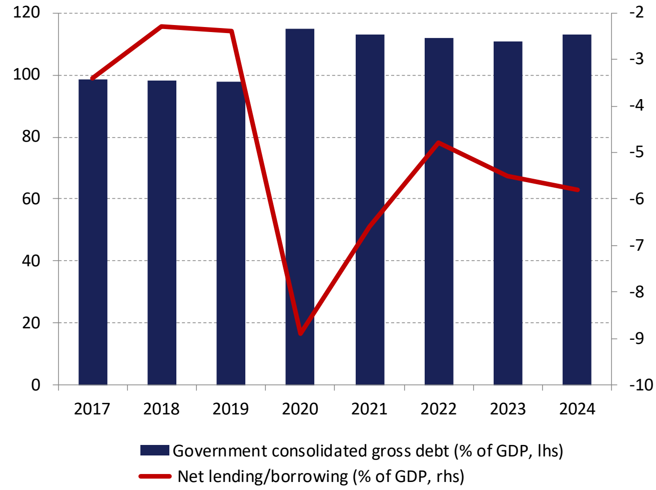
...has not led to a sustained improvement in the budgetary situation

Following the COVID-19 pandemic, French public debt increased to 115% of nominal GDP in 2020. Up to 2023, this initially declined steadily to 110.6%, before a significant increase of +2.4 percentage points in the following year. With a debt level of approx. 113% as at year-end 2024, France is among the top three most heavily indebted EU Member States after Greece and Italy. Its public debt ratio is therefore nearly twice as high as the 60% ceiling set by the EU convergence criteria. As a result, France has been subject to more stringent supervision by the EU Commission since June 2024, after EU debt rules were applied again for the first time since the pandemic. In fact, you have to go back as far as 1974 to find the last time that France posted a balanced public budget. In order to contain the effects of the COVID-19 pandemic and inflation in France, the government acted flexibly in line with a motto of “whatever the cost” in order to get the French economy firing again. However, economic growth could not fully offset the ensuing additional spending, with the result that since the COVID-19 crisis, a budget deficit of more than -5% of nominal GDP has been recorded in every year except 2022 (2023: -5.5%; 2024: -5.8%). As such, the annual budget deficit is significantly in excess of the EU target under the Stability and Growth Pact, which allows for new borrowing of a maximum of 3% of GDP. The European Commission forecasts also suggest that this trend is likely to be sustained. Here, a deficit of -5.6% in 2025 and of -5.7% in 2026 are projected, with the result that the already high debt level will rise further and come in at around 118.4% of nominal GDP in 2026. The reasons cited for this above all include high primary deficits and rising interest expenses.

Total revenue vs. total expenditure (EURbn)



Government debt vs. budget balance (%)

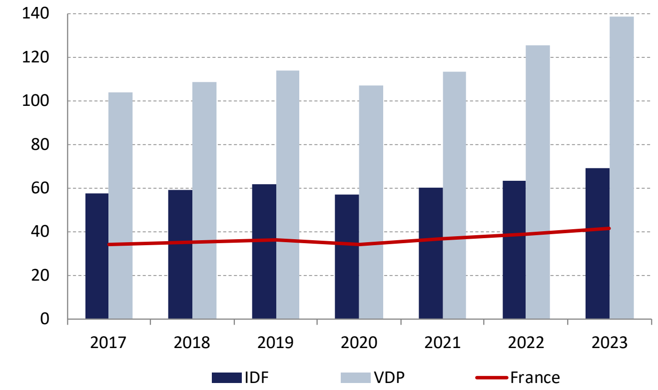


Source: Eurostat, IMF, Insee, NORD/LB Floor Research

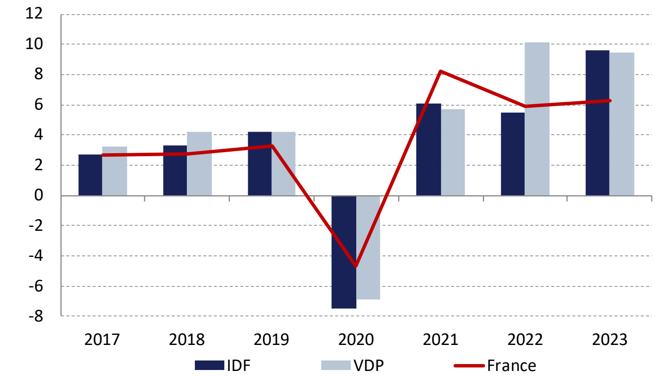
Île-de-France (IDF) and Ville de Paris (VDP) – the conurbation around the capital

Ville de Paris, which forms the heart of the Île-de-France region, is one of the major cities in Europe, with a population of around 2m people. The Île-de-France region comprises the conurbation surrounding the capital city of Paris. Accounting for only 2% of the total area of France, IDF is the second smallest region in terms of area, but with roughly 18% of the total population it is by far the most populous region of France. The 12.5m inhabitants are split between eight departments. Thanks to a multitude of sightseeing attractions, a rich cultural history and two large nature reserves, both Paris itself and the wider Île-de-France region can be regarded as magnets for tourism. Last year, there was an upswing in tourist numbers thanks to the Paris 2024 Olympic Games: in total, 48.7m travellers visited the region around Paris, of which 7.1m descended on the French capital during the Olympics. This corresponds to growth of +11% Y/Y. According to *Euromonitor International*, this makes Paris the most popular city destination for tourists in the world for the fourth consecutive year.

GDP in comparison (TEUR per capita)



Nominal economic growth in comparison (in %)

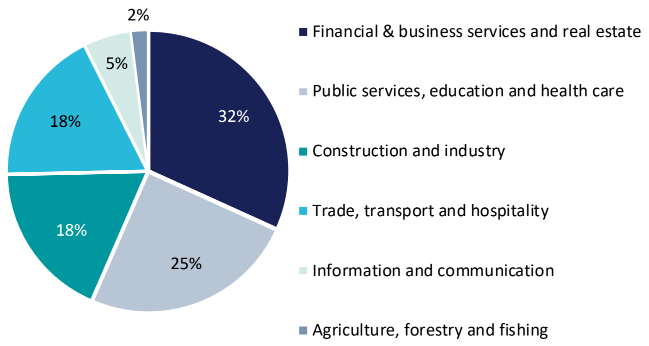


Source: Eurostat, NORD/LB Floor Research

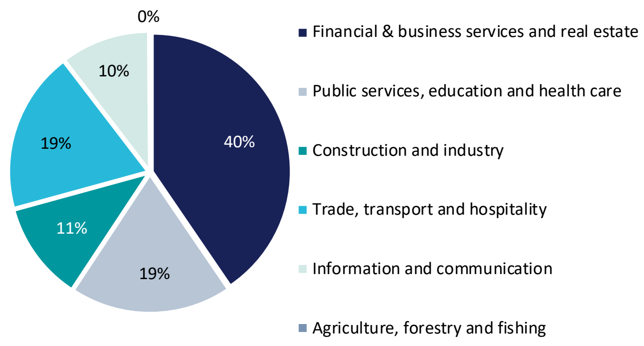
Economic situation in the Paris region

In addition to its cultural and political importance, Île-de-France also forms the economic heart of France. In 2023, the nominal GDP of IDF amounted to EUR 860bn (2022: EUR 784bn), which accounted for approx. 30% of the total economic output of France. As such, the GDP of IDF was higher than that, for example, of Austria and equated to 4.9% of total GDP at EU level. With GDP per capita of EUR 69,288, IDF comes in comfortably above the national average of EUR 41,317 and is also the most prosperous region in France. Economic dynamics are particularly evident in the growth recorded following the COVID-19 pandemic: although IDF and VDP were hit particularly hard by the consequences of the pandemic, with GDP declining significantly more sharply in 2020 (-6.9% Y/Y and -7.5% Y/Y respectively) than was the case in France, the economy in the Greater Paris area recovered considerably faster once protective measures were revoked. While the GDP of VDP grew by +9.4% Y/Y and that of IDF was up by +8.8% Y/Y against 2022, national GDP in France "only" increased by +6.3% across the same period. Finance and insurance constitutes the most important economic sector in the Greater Paris area, accounting for around 40% of regional value added. Trade, transport and hospitality are ranked in second place (19%), while this sector accounts for 18% on a national level, making it the third-largest economic sector overall. The above-average growth recorded by IDF and VDP in 2023 can largely be attributed to this sector, which benefited from catch-up effects in tourism compared with 2020. In this context, growth rates of +40% and +75% were respectively recorded (France: +30% vs. 2020).

GDP by economic sector in 2022 (France)



GDP by economic sector in 2022 (IDF)



Source: Eurostat, NORD/LB Floor Research

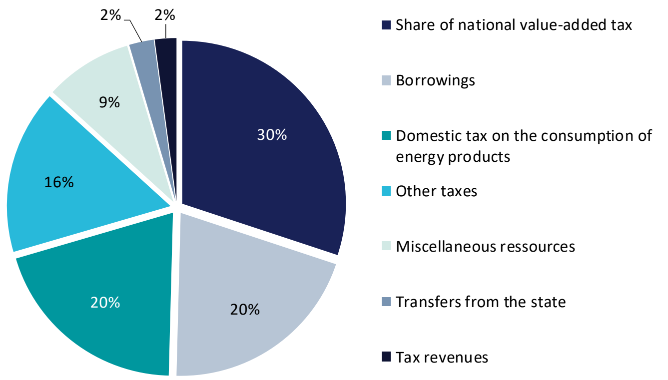
Gaining impetus: Paris – where innovative power meets investment opportunities

With around 1.2m companies having opted to establish a presence in Île-de-France, the region is extremely attractive to both national and international companies. Moreover, at around 55.5m m², the region is also home to the largest collection of commercial space in Europe. The Greater Paris area also boasts the highest concentration of companies listed on the Fortune Global 500 (2024: ten companies) within the EU, making the region one of the largest economic clusters in Europe as a result. Île-de-France's economy is highly diversified: among others, key sectors include banking and insurance (e.g. BPCE, AXA), the automotive industry (Renault, Groupe PSA), the energy sector (EDF) and the production of luxury goods (LVMH, Kering). With around 9,300 start-ups and investments totalling EUR 11.1bn in the years 2023/24 (67% of all investments in France in 2024), Paris is a stronghold in Europe for young companies. The Greater Paris region therefore ranks among the four most attractive locations for international investments around the world and leads the way within the EU in this regard. With investment in excess of EUR 60bn, the "Grand Paris" project – the largest infrastructure project in Europe – is currently being realised in the French capital. The centrepiece of the "Grand Paris" project is the "Grand Paris Express" initiative, which the state-owned infrastructure financier Société des Grands Projets (Ticker: SOGRPR) is responsible for implementing in each case. This operated under the name "Société du Grand Paris" until mid-2023. In addition to the Ministry of Economy and Finance, this organisation reports to two other ministries as well as the authority responsible for public transport in the region, Île-de-France Mobilités (IdFM; ticker: IDFMOB), which until 2017 was still operating as the Syndicat des Transports d'Île-de-France (STIF). The project, which is scheduled for completion in 2030, involves the extension and modernisation of the Paris metro network, which is used by 4.3m passengers each day, making it the second busiest metro system in the world after Tokyo. Regional companies active in the construction industry and the railway equipment sector are primarily involved in the expansion of the metro network. Of the 4,524 companies involved in the project, more than half (2,408) are based in the Île-de-France region. The "Grand Paris" project aims to improve the connections between the various parts of the Greater Paris area, in addition to increasing the economic potential of Greater Paris over the long term, further enhancing the region's competitive standing at international level and, at the same time, promoting the benefits of sustainable mobility, particularly through socially acceptable and environmentally friendly transport solutions.

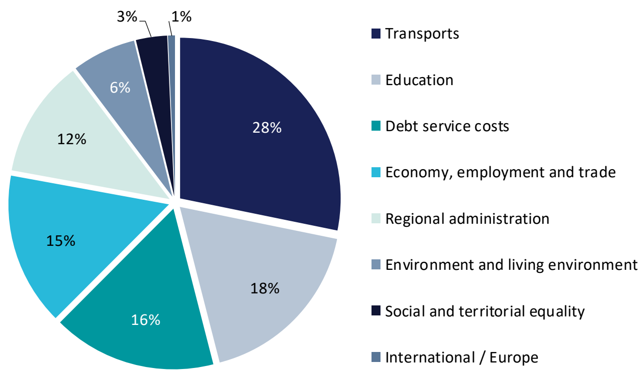
IDF: 2025 budget plan targets record investments despite cost-cutting measures

Since 2016, Île-de-France has sought to cut administrative costs and invest a larger portion of the budget. In 2025, the investments made by the region are expected to reach a(nother) record level of EUR 2.9bn (+1.8% Y/Y). In comparison with the previous year, operating expenses are set to fall by -2.9% Y/Y to EUR 3.0bn. The primary objectives of the 2025 budget plan are to support the economy and sustainable transformation of the region, in addition to further reductions in operating expenses. In 2025, the budget of the IDF region amounts to around EUR 5.9bn, with the largest items relating to the areas of transport (EUR 1.7bn), secondary schools (EUR 1.0bn) as well as business and labour market promotion (EUR 0.9bn). The budget plan also makes it clear that IDF will seek to build on its plans from the previous year and sees investments in young people and students as a major driving force for the future success of the region. Sustainability also plays a key part in the regional budget. In January 2025, IDF issued its largest sustainability bond to date of EUR 1.0bn under its Green, Social and Sustainable Framework. More than 90% of the issuance proceeds are to be invested in green projects, with a particular emphasis in this regard on expanding sustainable public transport and renewable energies. Less than 10% of the proceeds are earmarked for social projects, with a focus on creating affordable housing and promoting employment. Between 2020 and 2024, a sum of EUR 10.0bn was set aside for environmentally friendly projects. In addition, there is a focus on accelerating the region's adaptation to climate change. Sectors such as research and innovation, culture, sport, tourism, and public safety also stand to benefit from the 2025 budget. At around EUR 5.9bn, the projected income streams are expected to be made up of tax revenues (69%), borrowing (20%), other income (9%) and government grants (2%). The tax revenues primarily consist of the domestic consumption tax on energy products (TICPE, Taxe Intérieure de Consommation sur les Produits Energétiques). Capital market funding is chiefly sourced through bond issues (89.3%). In addition, fresh capital is to be raised through private placements and Schuldscheindarlehen (SSD) deals. There is also a long-term partnership with the European Investment Bank (EIB) to finance sustainable investment projects.

IDF: Budgeted revenues (2025)



IDF: Budgeted expenditure (2025)

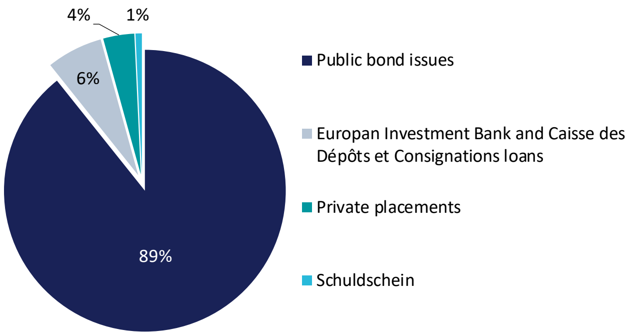


Source: Île-de-France, NORD/LB Floor Research

Île-de-France – funding

Île-de-France is regularly active on the capital market. The issuance of public bonds constitutes by far the most important funding method, followed by private placements. The region is also open to SSD deals. Overall, by the end of 2024 the proportion of ESG bonds in the regional debt level had grown to 96% (EUR 6.6bn). The region's total debt level amounted to EUR 6.9bn as at year-end 2024, by which point the regular funding mix consisted of bonds (92.8%) and loans (7.2%). After a decision was reached in June 2024 that risk positions versus French sub-sovereigns would be subject to identical regulatory treatment as exposure to the central state, IDF bonds benefit from a 0% risk weight and classification as Level 1 assets under the LCR. IDF also plans to issue additional benchmarks in ESG format in the coming years, with deals of this kind set to account for 100% of the total debt level by 2028. Alongside IDF, VDP has also sought to ramp up sustainability-related refinancing activities. For example, the funding mix has been selectively supplemented by way of ESG bonds since as early as 2015.

Île-de-France: refinancing mix (2024)



Source: Île-de-France, NORD/LB Floor Research

Sustainability as a fundamental principle

IDF is an active advocate of sustainable development. As such, ESG bonds have been the main component of the region's funding strategy for quite some time. Since 2012, Île-de-France has issued a total of 14 green and sustainable bonds with a total value of EUR 6.6bn on the market. The sustainability rating by Vigeo Eiris (which has been part of Moody's Investor Services since 2019) ranks Île-de-France as the third most sustainable region in its sector (as at December 2021). The framework for ESG bonds that guides IDF's activities in this area includes aspects such as sustainable mobility and renewable energies, among others, in addition to a new category aimed at improving medical infrastructure since the most recent update in March 2021.

Rating

After Fitch downgraded the rating of the "Grande Nation" from AA- to A+ (outlook: stable) on 12. September, the (expected) alignment of the ratings and outlooks of numerous regional and local authorities (RGLA) – including IDF – followed a week later. IDF and VDP already met a similar fate again in January 2025, after Moody's downgraded France's sovereign rating – and subsequently that of numerous sub-sovereign issuers – from Aa2 to Aa3, initially with a negative outlook, which was revised to stable in April. VDP is also rated by S&P (March 2025: AA- [negative]), while the risk experts withdrew their rating for IDF back in 2012. Fitch, in turn, has chosen to withdraw VDP's ratings in December 2024 and will no longer provide ratings of the city.

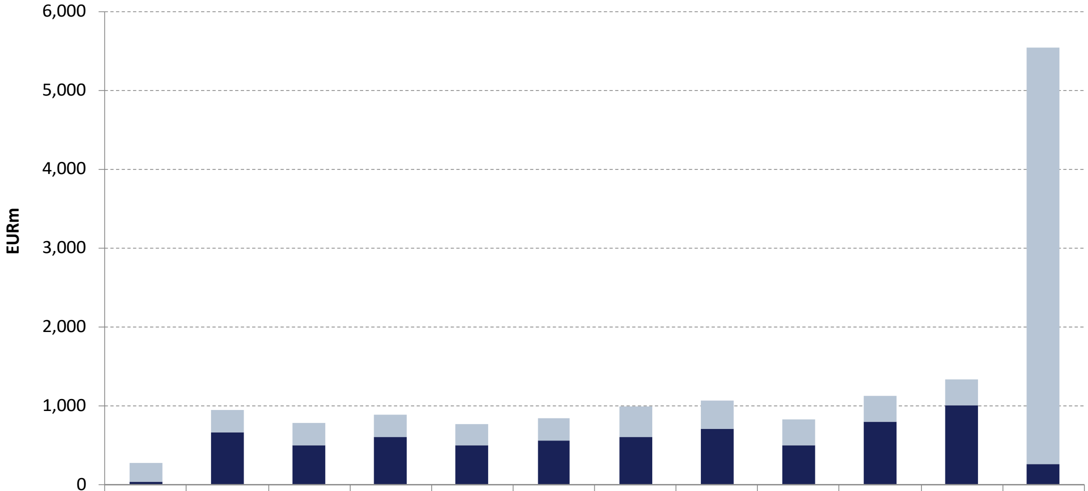
General information: IDF

Outstanding bond volume
EUR 6.7bn
Of which EUR bonds
EUR 6.7bn
Bloomberg ticker
IDF

General information: VDP

Outstanding bond volume
EUR 8.7bn
Of which EUR bonds
EUR 8.7bn
Bloomberg ticker
VDP

Outstanding bonds by issuer



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	>2035
VDP	240	286	275	290	266	290	395	365	320	320	330	5,299
IDF	35	660	500	599	500	550	600	700	500	800	1,000	250

NB: Foreign currencies are converted into EUR at rates as at 23 September 2025.
Source: Bloomberg, NORD/LB Floor Research

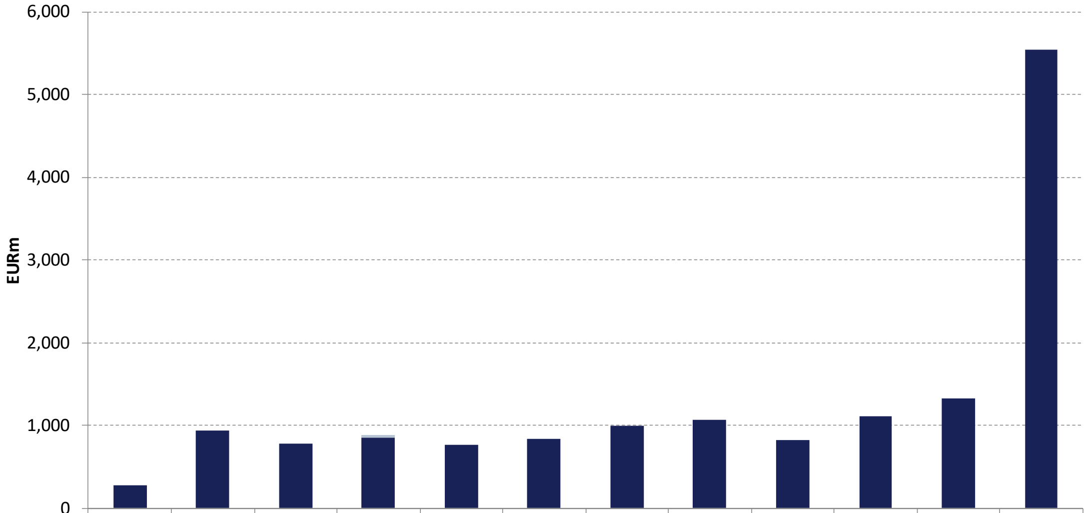
Outstanding volume

Of course, the two tickers that form the focus of our attention here – IDF and VDP – do not represent the entirety of the French regions. In fact, various other RGLA and regional vehicles/agencies are also active on the capital market, including Auvergne-Rhône-Alpes (REGRHO), Occitania (OCCTNE), Pays de la Loire (PDLL), MARSE (City of Marseille) and CUDM (Communauté Urbaine Marseille Provence Métropole). Nevertheless, based on our narrowly defined universe for this publication, there are 86 bonds outstanding that are of relevance here. This already indicates a certain granularity when it comes to regional bonds from Greater Paris: in total, the outstanding volume comes to EUR 15.4bn. In terms of foreign currency deals, we have identified just a single transaction (IDF) denominated in JPY. The FX segment accordingly accounts for barely a fraction of the breakdown of liabilities. At the end of 2020, IDF still had other FX bonds outstanding (denominated in AUD). As a result, practically all of the outstanding volume is diversified across maturities rather than currencies. Around EUR 5.5bn is not set to fall due until 2035, which suggests that very long-term refinancing is the preference, although the majority of this is attributable to VDP. There is also another twist: all ten benchmark bonds pertain to the IDF ticker, meaning that EUR 6.3bn of the overall outstanding volume of EUR 6.7bn can be described as large-volume and liquid. For its part, VDP has an outstanding volume of EUR 8.7bn spread across 71 separate ISINs.

Fixed coupons dominate

Fixed coupons account for the dominant share of bonds from both issuers. In total, 81 of the 85 outstanding and EUR-denominated bonds feature a fixed coupon. This equates to a share of around 95%. Just four bonds (5%) come with variable interest rate. The last remaining FX bond (JPY) also has a fixed coupon. Overall, the two issuers are quite open to niche products in terms of their refinancing profiles (sub-benchmarks in addition to private placements and SSD deals). In this way, the share of fixed coupons, as measured against German Laender, for example, is on the high side, although the refinancing strategies of both issuers are still sufficiently varied.

Outstanding bonds by currency



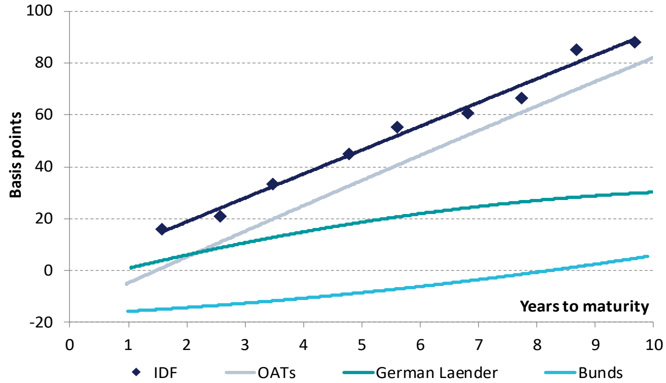
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	>2035
JPY	0	0	0	29	0	0	0	0	0	0	0	0
EUR	275	946	775	860	766	840	995	1,065	820	1,120	1,330	5,549

Source: Bloomberg, NORD/LB Floor Research

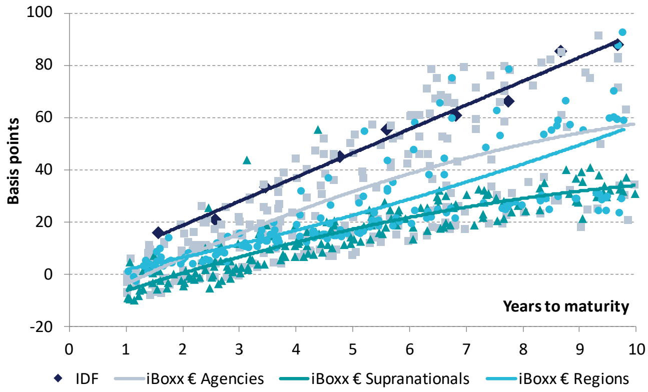
IDF vs. iBoxx € Regions and German Laender

As explained in the previous section, only IDF has outstanding EUR benchmark bonds that are of relevance in terms of a spread analysis. Compared with the iBoxx € Regions and the iBoxx € Agencies, IDF bonds trade with premiums across the entire maturity spectrum. At the long end (term to maturity: ten years), the risk premium over the agency curve is around +30bp, while the pick-up versus regional peers stands at approx. +33bp. In the medium maturity segment of around five years, the spread is slightly lower in comparison with the two aforementioned indices. The differences versus supranationals are far more pronounced. Given that the bonds placed by these regular issuers tend to be rated even higher on average and generally offer far higher liquidity, this hardly comes as a surprise. The same also applies to both German and French sovereign bonds, as well as in relation to the German Laender. Overall, as the sole benchmark issuer, IDF features the widest spreads versus its peers and could therefore – with limited liquidity – generate a pick-up for investors. In addition, both issuers (IDF and VDP) may well be open to private placements and therefore to meeting certain yield expectations on the part of institutional investors as well.

Generic ASW spreads – a comparison



ASW spreads IDF vs. iBoxx € Indices



Source: Bloomberg, NORD/LB Floor Research; data as at 23 September 2025

Regulatory overview for RGLA* / ** (examples)

Issuer	Risk weight	LCR classification	NSFR classification	Solvency II classification
Belgian regions	0%	Level 1	0%	preferred (0%)
German Laender	0%	Level 1	0%	preferred (0%)
Italian regions	20%	Level 2A	15%	non-preferred (individual review)
Austrian Bundeslaender	0%	Level 1	0%	preferred (0%)
Spanish regions	0%	Level 1	0%	preferred (0%)
French regions	***0%***	***Level 1***	***0%***	***preferred (0%)***

* Regional governments and local authorities
** NB: in the absence of an explicit guarantee from the respective nation state, the current LCR level is dependent on the relevant rating (see CQS classification and LCR classification of assets).
Source: NORD/LB Floor Research

Exceptions to scope of application of the Leverage Ratio (CRD IV Art. 2 Para. 5) (examples)

EU	Central banks of Member States
Germany	Kreditanstalt für Wiederaufbau (KfW), undertakings which are recognised under the "Wohnungsgemeinnützigkeitsgesetz" as bodies of state housing policy and are not mainly engaged in banking transactions, and undertakings recognised under that law as non-profit housing undertakings (e.g. Rentenbank, L-Bank, IFBHH, IBSH etc.).
Italy	Cassa Depositi e Prestiti (CDP)
Spain	Instituto de Crédito Oficial (ICO)
Portugal	Caixas Económicas existing on 1 January 1986, with the exception of those incorporated as limited companies and Caixa Económica Montepio Geral
France	***Caisse des Dépôts et Consignations (CDC)***

Source: CRD IV, NORD/LB Floor Research

Regional governments and local authorities (solvency stress factor allocation of 0% possible; examples)

Country	Regional and local governments
Belgium	Communities (communautés/gemeenschappen), regions (régions/gewesten), municipalities (communes, gemeenten) & provinces (provinces, provincies)
Germany	Laender, municipalities & municipal associations
Portugal	Autonomous regions the Azores and Madeira
Spain	Autonomous regions (comunidades autónomas) and local government (corporación local)
France	***Regions (régions), municipalities (communes), departments (départements)***

Source: (EU) 2015/2011, NORD/LB Floor Research

Summary of French regions

Risk weight	0%
LCR classification	Level 1
NSFR classification	0%
Solvency II classification	Preferred (0%)

Issuer (Ticker)	Inhabitants (2024)	Unemployment (2024)	Nom. GDP per capita (2023)	Outstanding volume	No. of bonds	Rating
IDF	12.5m	7.0%	EUR 69,300	EUR 6.7bn	15	A+ / Aa3 / -
VDP	2.0m	5.7%	EUR 138,600	EUR 8.7bn	71	- / Aa3 / AA-
France	68.6m	7.3%	EUR 41,300	EUR 2,570bn	75	A+ / Aa3 / AA-

Source: Bloomberg, European Commission, Eurostat, NORD/LB Floor Research (Ratings: Fitch / Moody's / S&P)

Liability mechanism

While there is no explicit guarantee on the part of the French state for the regions or RGLA, a system of financial equalisation, introduced in connection with decentralisation efforts in France and comprising both horizontal and vertical equalisation payments has been in place since 2003 (regulated by Art. 72-2 of the Constitution of France). Moreover, under the current legal framework, it is not possible for the regions to become insolvent. In this respect, the French regions enjoy good credit ratings despite the rating changes and revised outlooks described in a previous paragraph.

French regions benefit from changes to the regulatory environment

In mid-June 2024, the Autorité de Contrôle Prudentiel et de Résolution (ACPR), the French financial market supervisory authority which in terms of its operations is directly subordinate to Banque de France, the French central bank, decided that risk positions to French sub-sovereigns would in future be treated in the same way as exposure to the French central government. According to the standard approach under the CRR, this now results in a risk weight of 0% for municipalities, public bodies for inter-municipal cooperation with their own taxation, departments and regions in France, whereas previously these had been subject to a risk weight of 20%. For bonds issued by French sub-sovereigns, this continues to result in Level 1 classification under the LCR and a corresponding NSFR classification of 0%. In this respect, equal regulatory treatment with bonds issued by the German Laender and Spanish regions (Autonomous Communities), is therefore guaranteed. Previously, these issuers had benefited from preferential treatment in comparison with issuers active in the French sub-sovereign segment. In contrast, preferred classification within the framework of Solvency II was already in place for the French sub-sovereigns beforehand.

Conclusion

IDF has become increasingly well-established on the capital market in recent years. As a result of its activities in the ESG segment along with outstanding green and sustainability bonds, it offers an interesting investment option for ESG investors specifically. In addition, IDF boasts strong economic framework conditions and qualifies for ratings of Aa3 and A+ from Moody’s and Fitch respectively. VDP, in contrast, holds a credit rating from S&P (AA-) in addition to its Moody’s rating (Aa3). As RGLA, the ratings and outlooks for both IDF and VDP are intrinsically linked with the French state. According to the European Commission, inflation in France is set to fall to an average of 0.9% Y/Y in 2025. This will reportedly help to support economic growth, which is forecast to reach +0.6% Y/Y in 2025. In our view, the downgrade to France’s rating do make sense given the elevated budget deficits and projections of further increasing debt levels. Added to this is the continued sense of political instability, which makes forward-looking decisions and reforms seem practically impossible. Despite the most recent negative headlines at national level, we evaluate the changes to the regulatory environment in the context of the ACPR decision as altogether positive. In our view, a risk weight of 0% coupled with Level 1 classification within the framework of the LCR and an existing “preferred” status in the context of Solvency II enhances the appeal of French regional bonds.

Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2024

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG Q2/2025 (quarterly update)

Transparency requirements §28 PfandBG Q2/2025 Sparkassen (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2025

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – Down Under 2024

Issuer Guide – European Supranationals 2024

Issuer Guide – Non-European Supranationals (MDBs) 2025

Issuer Guide – German Agencies 2025

Issuer Guide – French Agencies 2024

Issuer Guide – Nordic Agencies 2025

Issuer Guide – Dutch Agencies 2025

Issuer Guide – Austrian Agencies 2025

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Autonomous Portuguese regions

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2025

ECB: Anchor of stability on rough seas

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Floor Research	Covered Bond Research	SSA/Public Issuers Research	SSA Specials: DS NDB <GO>

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