Assistance Publique - Hopitaux de Paris

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This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
Critical role for the French government as the largest health provider in France (and Europe) and a leading university medical center.	Constrained financial performance due to labor shortages and constrained capacity leading to large deficits.
Direct and indirect state control and supervision over the group's activities.	Elevated inflation and a higher wage bill will keep the pressure on AP-HP's spending.
Strong direct central government support over 2023-2027 for AP-HP's large investment program.	Debt will continue to rise over 2024-2027 because of operational deficits and investment projects.

We anticipate an almost certain likelihood that the French government would provide timely and sufficient extraordinary support to Assistance Publique - Hôpitaux de Paris (AP-HP) in the event of financial distress. As such, we equalize our ratings on AP-HP with the ratings on France (unsolicited AA-/Stable/A-1+). We consider AP-HP a government-related entity (GRE), and we base our rating approach on our view of AP-HP's:

- **Critical role for the French government, given that AP-HP accounts for about 10% of health care services provided in France and 30% in the Ile-de-France region (including Paris).** The group includes France's flagship center for medical research, training, and publications. It is also the region's largest public employer after the state, with about 100,000 employees. A situation of financial distress of a large hospital group like AP-HP would be very damaging reputationally and could seriously hinder the overall sector's capacity to invest. We think that the French government would take all necessary measures to prevent such an event.
- **Integral link with the government since AP-HP is subject to close direct and indirect state supervision and controls that are significantly more extensive than for other French public hospitals.** Along with other hospitals, AP-HP operates under the control of the state-controlled Ile-de-France Regional Health Agency (Agence Régionale de Santé; ARS). In addition to ARS supervision, AP-HP is under the control of the central government. Its budget, investment plan, and multiyear financial plan are approved by the French Ministry of Health as well as by the Ministry of Finance. This gives the state veto powers over AP-HP's key financial decisions and provides for an early indication of a potential financial distress. While the state does not explicitly guarantee AP-HP's debt and AP-HP's creditors have no

direct recourse to the French government, we view the French government as ultimately responsible for the organization's obligations, including financial debt, given AP-HP's legal status. AP-HP is one of France's 32 regional public hospitals (Centres Hospitaliers Régionaux; CHR), which, as state public agencies, can be created or dissolved only by state decree. By law, the state is ultimately responsible for meeting the obligations of a CHR because it would have to take over (directly or through another public state agency) all the CHR's assets and liabilities if it were dissolved.

Outlook

The outlook on AP-HP is stable, mirroring that on France. We expect AP-HP will retain a critical role for, and integral link with, the French government. As such, we expect our ratings on AP-HP to move in line with those on the sovereign.

Downside scenario

We could lower our ratings on AP-HP if we took a similar action on France.

Although unlikely at this stage, we would also consider a negative rating action if we saw any indication that AP-HP's role for or link with the French government was weakening, leading to a lower likelihood of the company receiving extraordinary government support.

Upside scenario

We could raise the ratings if we took a similar action on France and the likelihood of support for AP-HP remained almost certain.

Rationale

We view the French government's support of AP-HP's plans to reach financial balance by 2028 as positive. The objectives agreed upon with the ARS through a multiannual global financing plan (PGFP) for 2023-2027 are to improve the financial position of AP-HP while limiting debt build-up. Under this plan, the French government has committed to providing exceptional and declining-in-time transfers amounting in total to € 750 million over the five years of PGFP. This commitment was fully met in 2023, with the payment of a €250 million tranche, partly mitigating losses related to constrained economic activity. The transfers in the amount of €200 million planned for 2024 were confirmed in the letter signed by the ARS in June, following the approval by the Ministers of Public Accounts and Health. These grants are conditional upon AP-HP's efforts to improve its underlying operational performance and we understand the central government will closely monitor financial developments through regular reporting and quarterly meetings.

The effectiveness of AP-HP's new strategic plan hinges on reducing the labor shortage gap to enhance AP-HP's activity and revenues. A severe labor shortage for the past few years has squeezed AP-HP's operating capacities. Over 2020-2022, AP-HP lost about 12% of its nursing workforce and closed about 2,000 of its 12,000 beds. Since then, AP-HP and the government have implemented measures to address the operating shortcomings of AP-HP, including a set of 30 measures presented in December 2022. This plan includes a list of concrete measures such as recruiting 2,700 employees in both 2023 and 2024 while retaining the existing staff, and the provision of 1,200 affordable housing units to staff between 2023 and 2027. We understand that the efforts have been producing positive results as medical staff departures have significantly declined in 2023 and 2024 and AP-HP expects that 2024 will see a net increase in the number of medical staff for the first time in over a decade. As of end 2023, job departures were down 18% from 2022 and recruitments were up by 15%. As a result, AP-HP managed to reopen 363 beds in 2023. Revenue from patients' stays also rose by 2.5%, mainly driven by the implementation of the necessary medico-economic measures of the performance plan: Refining coding practices, improving the billing and collection chain, streamlining care path, implementing precise prescribing techniques, and enhancing energy efficiency. Finally, AP-HP is also focusing on modernizing and digitizing its operations to facilitate day-to-day operations.

Low activity, inflation, and the wage bill will keep pressure on the group's financial performance. In 2023, AP-HP posted a deficit of €398 million, against €303 million in 2022, but in line with the initial forecast of the PGFP to reach budget balance by 2028. Despite maintaining a constant level of activity, AP-HP's performance suffered from increased energy and supplies' costs. Meanwhile, a 1.5% salary increase for civil servants in July 2023, on top of previously agreed salary increases, accounted for €66 million in AP-HP's deficit in 2023. Finally, AP-HP has maintained a very high investment level, close to €503 million in 2023, and we expect AP-HP will carry on with its investment program amounting to €3.6 billion over 2023-2027. This includes the €1.3 billion new Grand Paris Nord hospital flagship project.

In 2024, AP-HP expects activity to pick-up because of the measures it has taken. Nurse employment is forecast to increase, with a projected net positive balance of 310 by the end of 2024. This should allow the reopening of an additional 300 beds, in line with 2023. As a result, we expect AP-HP's financial performance to improve in 2024, amid increasing activity and easing inflation, resulting in a forecast deficit of below €300 million against €398 million in 2023.

We think AP-HP's debt level will remain manageable. In line with its commitment to reach a balanced budget within a five-year horizon, AP-HP aims to maintain debt below 45% of its operating revenue. We regard this target as feasible. The ambitious investment plan resulted in new borrowing in 2023 in the amount of €564 million, the highest level since AP-HP introduced its debt-reducing policy in 2014. As a result, in 2023 total debt (including short-term debt and liabilities emanating from two public-private partnerships) reached €3.8 billion, or 40.4% of operating revenues, up from 37.9% in 2022. Despite its elevated borrowing needs, AP-HP benefits from a favorable debt profile. Given that about 90% of its debt is at fixed rate, it's sensitivity to the high interest rate environment remains limited. We think that AP-HP will benefit from favorable funding conditions, with an average interest rate for this year estimated at 2.4% at the of May 2024. We project that government transfers and the pick-up of AP-HP's activity will help keep the group's debt and interest payments at manageable levels.

We consider that AP-HP would almost certainly receive prompt extraordinary state funding if needed. This would be either in the form of cash advances from social security institutions (at the request of the state), prepayments of state subsidies, state advances, or through the government's fund Caisse de la Dette Publique buying its debt issuances.

We view most of AP-HP's cash inflows and outflows as predictable and it enjoys excellent access to capital markets, shoring up its liquidity. AP-HP benefits from a strong liquidity position with a treasury surplus of €451 million as of mid-June 2024. The entity has a sound record of issuing bonds, even during adverse financial market conditions. To fund its debt, AP-HP has access to domestic and international markets, as do other large French government-related entities. AP-HP renews its negotiable European commercial paper (NEU CP) program each year to cover intramonth liquidity needs. We expect that, at any time, the amount available under AP-HP's committed bank lines and cash reserves will cover 100% of commercial paper outstanding under the €450 million NEU CP program. Also, AP-HP has several committed bank liquidity lines, as well as two committed revolving credit lines, all with domestic banks. Given the positive cash balance throughout 2023, no NEU CP has been issued and no liquidity facility has been drawn down, and AP-HP expects to follow the same strategy in 2024.

Environmental, Social, And Governance Factors

Social factors are mainly reflected in our analysis of AP-HP's critical importance to the government as the largest hospital group in France (and Europe), with more than 1.5 million individuals admitted to emergency departments annually, and over 8 million patients per year. Since 2021, AP-HP has funded some of its new projects through the issuance of social bonds. Governance and environment factors are generally neutral to our assessment.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- France Long-Term Rating Lowered To 'AA-' From 'AA' On Deterioration Of Budgetary Position; Outlook Stable, May 31, 2024
- Sovereign Risk Indicators, July 8, 2024

Ratings Detail (as of September 05, 2024)*

Assistance Publique - Hopitaux de Paris	
Issuer Credit Rating	AA-/Stable/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA-
Issuer Credit Ratings History	
04-Jun-2024	AA-/Stable/A-1+
06-Dec-2022	AA/Negative/A-1+
25-Oct-2016	AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.