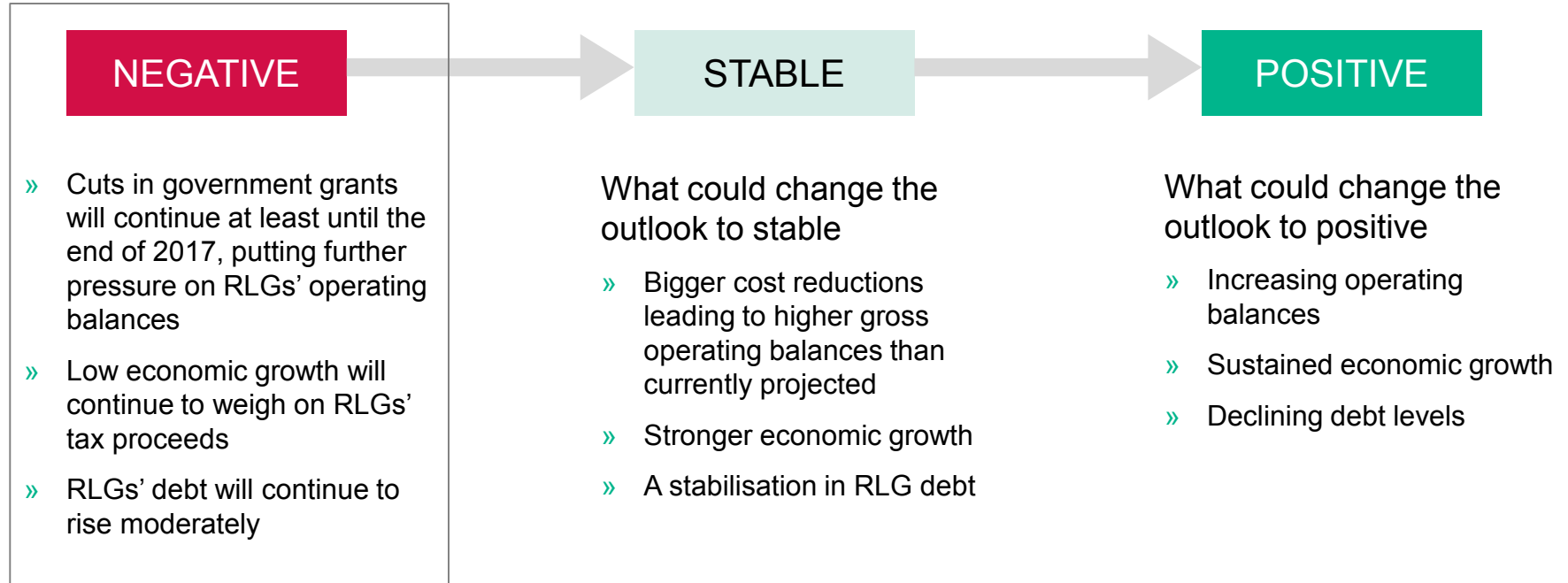


Regional and Local Governments - France

2016 Outlook - Reduced Central Government Grants, Low Growth Drive Our Negative Outlook

Nicolas Fintzel
Analyst - Sub-Sovereign Group
+ 44.20.7772.1720
nicolas.fintzel@moodys.com

2016 French Regional and Local Government (RLG) Outlook - Negative



2016 French RLG Outlook - Negative

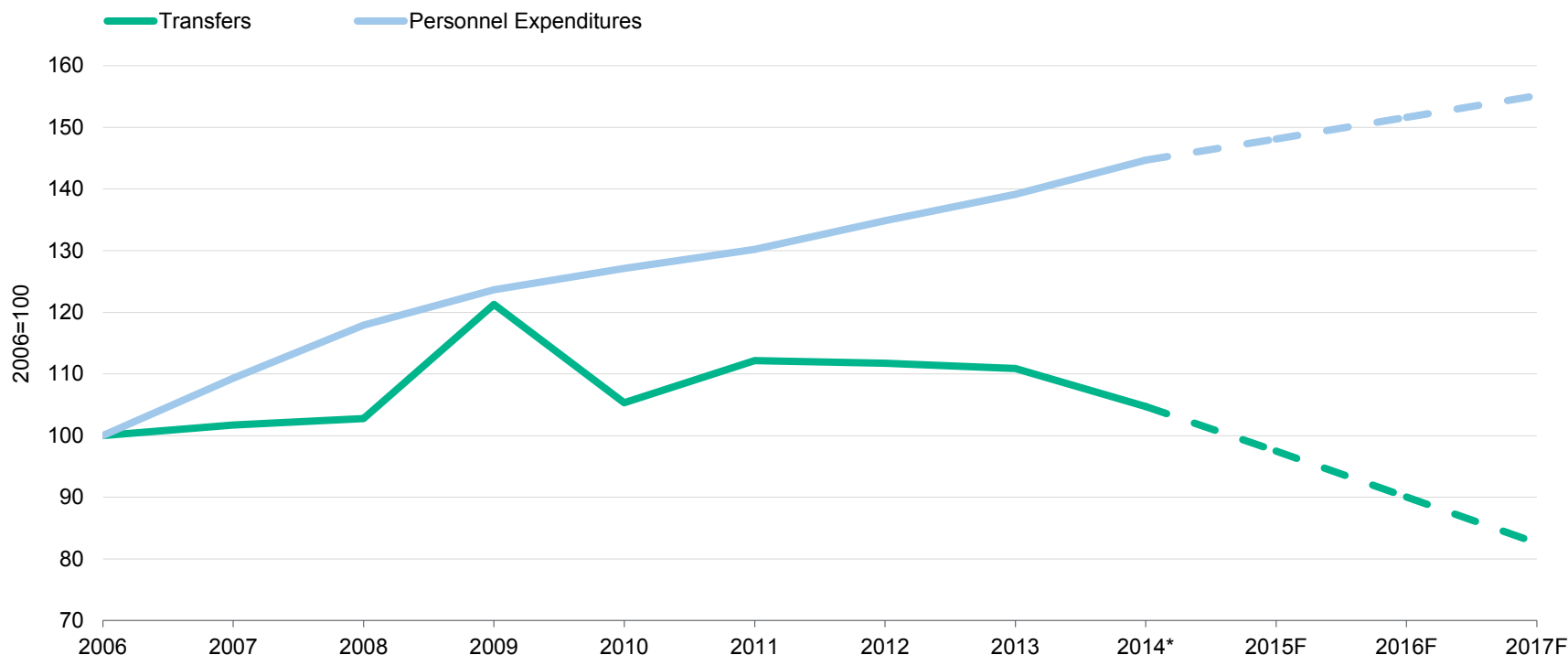
Key credit themes:

- » Cuts in government grants will pressure RLG balances until end-2017
- » Weak economic growth will weigh on RLG tax proceeds
- » Operating margins will continue to narrow
- » RLG debt will continue to rise moderately
- » Regions to drive RLG sector debt increase
- » RLG funding availability remains extensive
- » Low interest rates to support debt issuance
- » RLG capital market issuance to increase moderately

Cuts in government grants will pressure RLG balances until end-2017

» RLGs' gross operating balance will fall to 12% of operating revenues in 2016 from 19% in 2006, due to a combination of transfer cuts and rising personnel costs (35% of total expenses)

RLGs' operating results squeezed by rising personnel costs, falling transfers

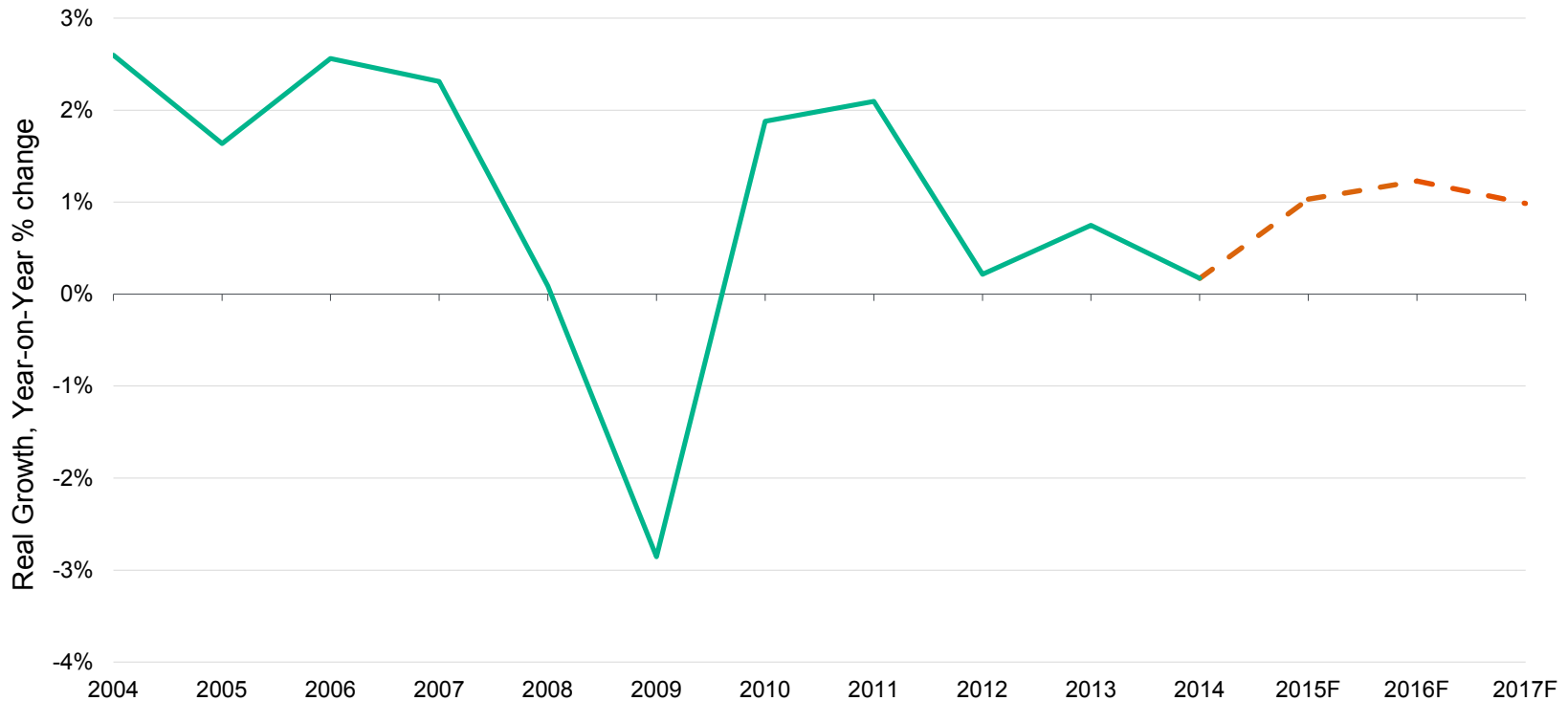


Sources: Direction Générale des Finances Publiques, Moody's forecasts for 2015F onward

Weak economic growth will weigh on RLG tax proceeds

- » We expect France's economic growth to remain sluggish over the next two years
- » As a result, we expect limited growth in RLGs' tax revenues (in particular business tax and property transfer taxes)

Weak GDP growth

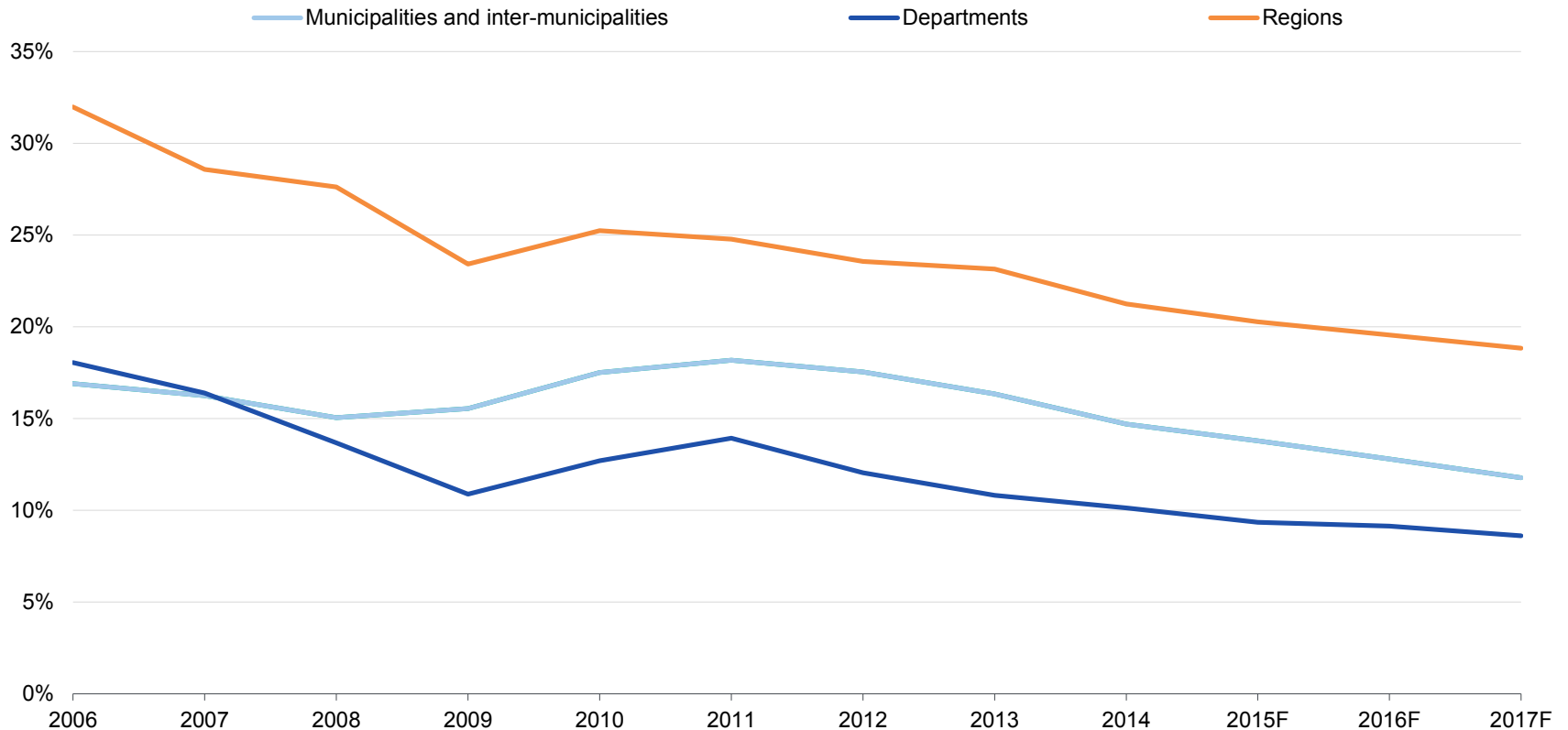


Sources: Moody's Global Forecast, France

Operating margins will continue to narrow

» We expect operating margins for all tiers of French government to fall substantially over the next 2 years, reflecting lower central government transfers and rising operating costs

Operating balances trending lower (% of operating revenues)

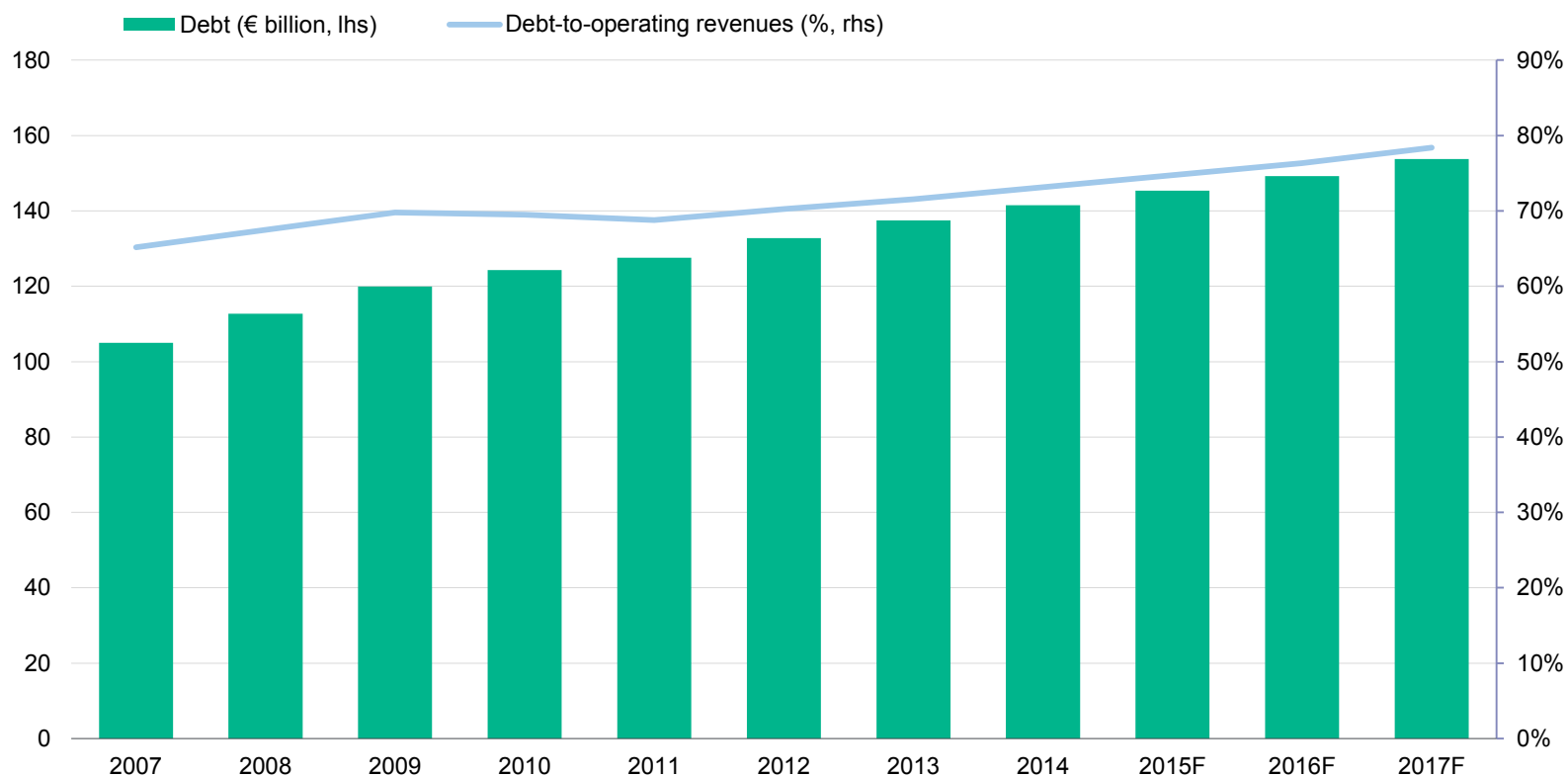


Sources: Direction Générale des Finances Publiques, Moody's forecasts for 2015F onward

RLG debt will continue to rise moderately

- » Debt will rise as capital expenditure cuts fail to compensate fully for transfer reductions and subdued economic growth

Moderate increase in the RLG debt

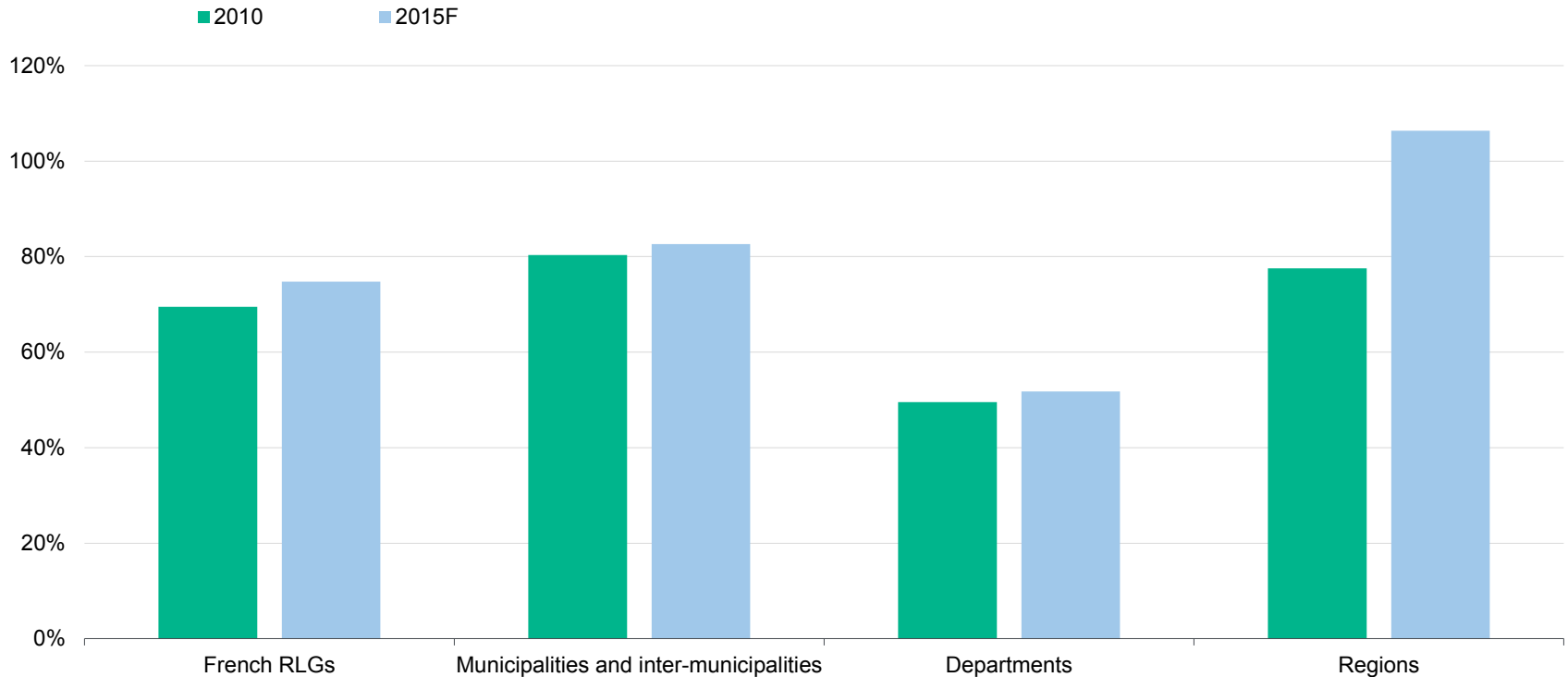


Sources: Direction Générale des Finances Publiques, Moody's forecasts for 2015F onward

Regions to drive RLG sector debt increase

- » Regions will continue to drive RLG sector debt growth, reflecting their limited operating flexibility and lower willingness to scale back capital expenditure.
- » Debt increases for municipalities and departments will be marginal.

Regions' debt to grow more rapidly

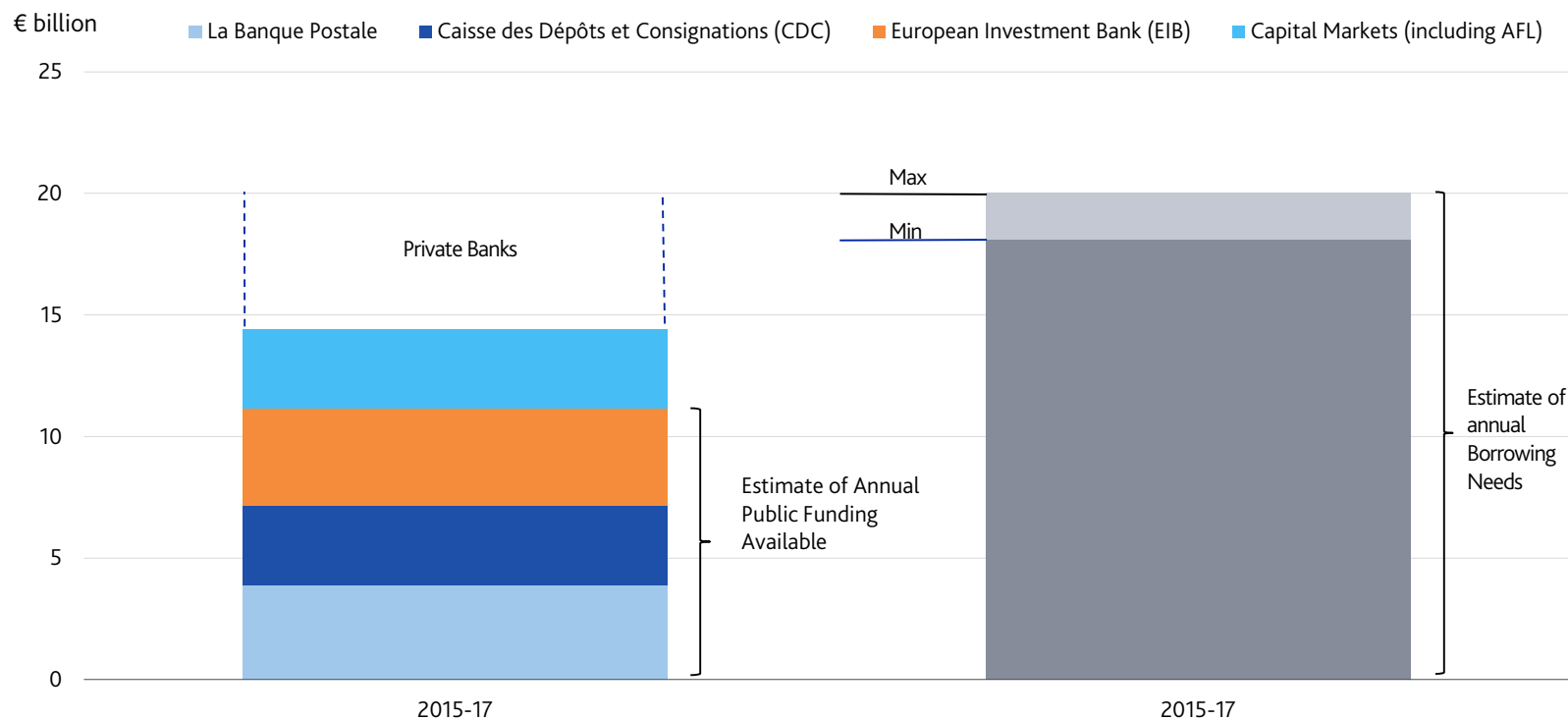


Sources: Direction Générale des Finances Publiques, Moody's forecasts for 2015F

RLG funding availability remains extensive

- » French RLGs will have ample access to funding as they seek to cover their estimated annual financing requirement of €18-20 billion.
- » Funding sources include public sector lenders, commercial banks, and capital markets.

Annual borrowing requirement in 2015-17 and funding facilities (in € billion)

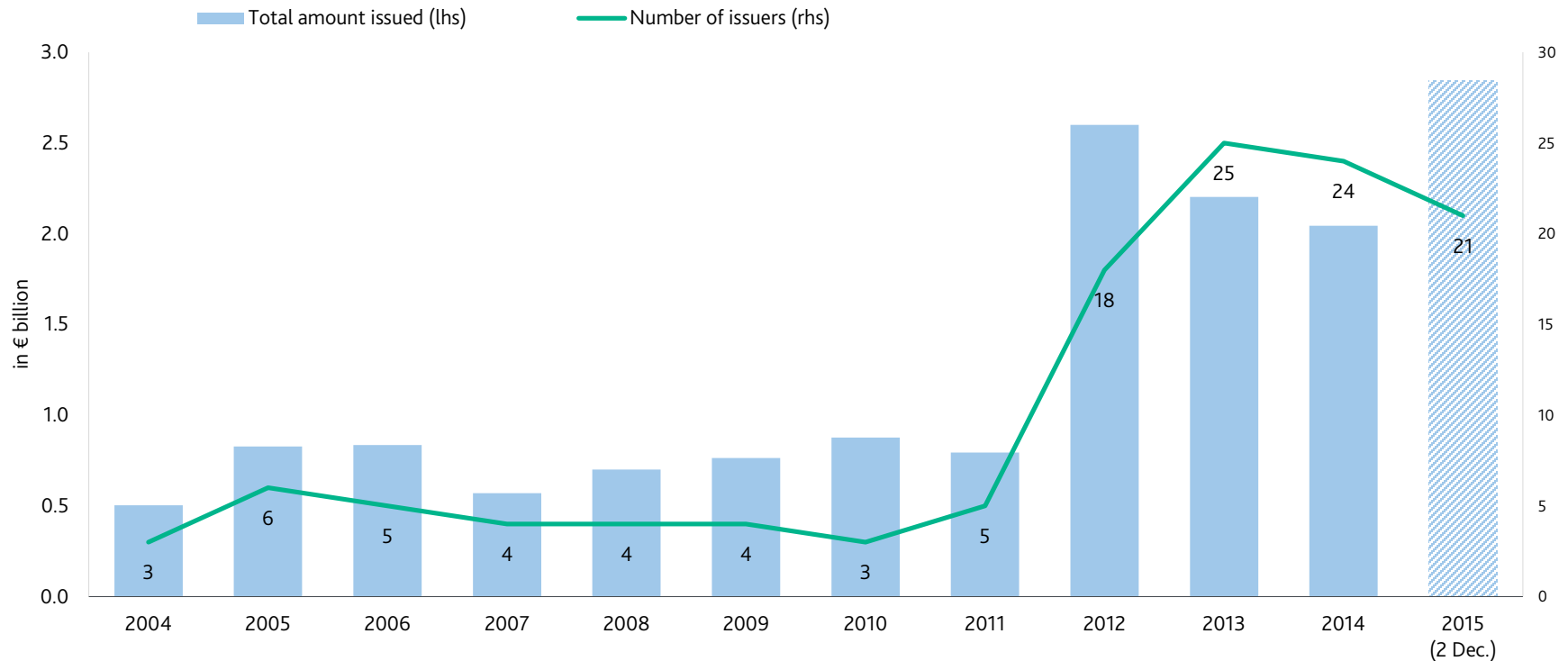


Source: Moody's estimates

Low interest rates to support debt issuance

» Low financing costs and RLG funding diversification will increasingly support debt issuance.

Number of RLGs issuing debt and total volume of bond issuances



Source: Bloomberg, Moody's Public Sector Europe

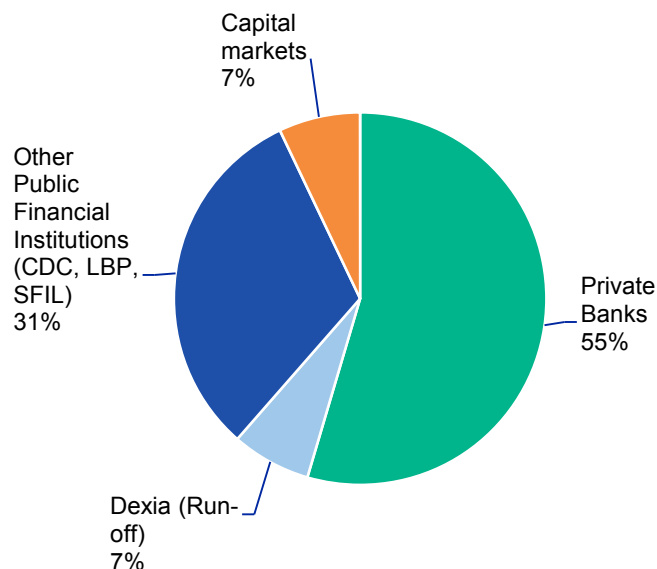
Reading Note: RLG joint issuances in 2004, 2005, 2006, 2007, 2008 and 2012 as well as debt issuance through AFL in 2015 are included in the graph and count as one issuer each

RLG capital market issuance to increase moderately

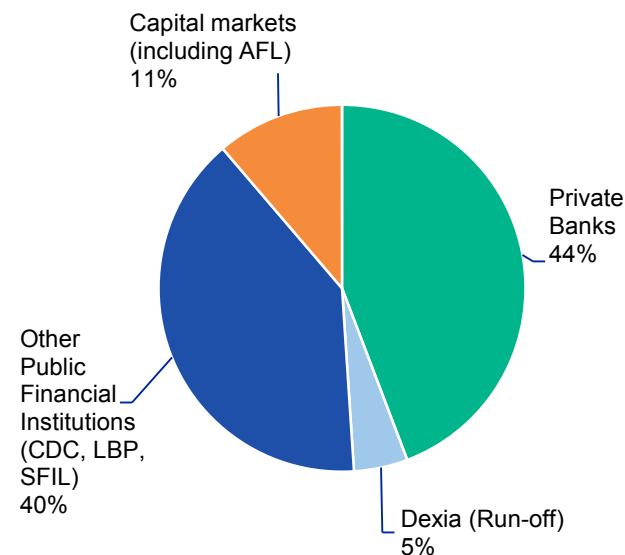
- » We expect French RLGs' reliance on capital market debt to increase in the medium term, supported by improved market access for smaller issuers and the steady expansion of newly-created lender Agence France Locale.

Breakdown of RLGs' debt stock

Year-end 2014



Year-end 2017



Source: Moody's estimates

Agence France Locale (AFL: Aa3) is a recently-launched bank owned by and dedicated to the financing of French local authorities.



Global Credit Conditions Hold a Steady Course Through Increasing Headwinds

The outlook for global credit conditions in 2016 remains stable overall as economic growth continues and defaults are unlikely to veer sharply upwards. However, credit risks are greater than a year ago, including persistent uncertainty about future US interest rates, even lower oil and commodity prices for a longer period, a sharper slowdown in China than we currently expect and lagging growth in Europe and parts of Latin America. Other risks are emerging or intensifying, notably those arising from geopolitical crises, regulatory developments, environmental issues and asset deterioration.

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PUBLIC SECTOR EUROPE

David Rubinoff

Managing Director
Sub-Sovereign Group
+44.20.7772.1398

david.rubinoff@moodys.com

Nicolas Fintzel

Analyst
Sub-Sovereign Group
+ 44.20.7772.1720

nicolas.fintzel@moodys.com

Sebastien Hay

Vice President – Senior Credit Officer
Sub-Sovereign Group
+34.91.768.8222

sebastien.hay@moodys.com

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