

Rating Action: Moody's assigns Aa3/Prime-1 issuer ratings to the Département de L'Eure; stable outlook

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London, 07 April 2016 -- Moody's Public Sector Europe (MPSE) has today assigned a Aa3 long-term issuer rating and a Prime-1 short-term issuer rating to the French Département de L'Eure (DDE). The rating outlook is stable.

"The French Département de L'Eure's Aa3/Prime-1 issuer ratings reflect the strong operating performances it has achieved in the last few years, its prudent financial governance and management, as well as its moderate debt and secure liquidity position," says Sébastien Hay, a Senior Credit Officer in Moody's Sub-Sovereign Group and the lead analyst for DDE.

RATINGS RATIONALE

Today's rating action reflects DDE's strong, albeit deteriorating, budget performance in 2011-15. The département recorded operating surpluses averaging 13% of its operating revenue and a stable debt-to-operating revenue ratio of 51% in 2015.

Central government transfer cuts, coupled with the steady increase in social welfare benefits, which represent more than half of DDE's operating expenses, resulted in a deterioration of the département's operating performance. In this context, DDE's operating results have weakened, with its gross operating balance to operating revenues ratio representing 10% in 2015 (versus 17% in 2011), which is slightly above that of its French peers.

MPSE considers that DDE's prudent financial governance and sound control of operating expenditure, evidenced by the implementation of cost-cutting measures, will allow the département to control expenditure growth going forward.

Furthermore, MPSE expects that the recentralisation of some social welfare benefits (Revenu de Solidarité Active, RSA) at the central government level, and the transfer of school transportation services to the Normandy region from 2017, will help DDE to stabilise its operating results by 2018. In this context, MPSE expects the département to maintain a debt-to-gross operating balance ratio comprised between 7 and 9 years by 2018 (depending on how expenditure and revenue transfers are estimated for RSA and school transportation). MPSE considers this level to be commensurate with an Aa3 long-term issuer ratings.

The Prime-1 short-term issuer rating reflects DDE's sound and secure liquidity profile. MPSE highlights that the département benefits from credit line facilities amounting to EUR71 million as of March 2016, which are adequate to cover the outstanding amounts under its Billets de Trésorerie programme.

WHAT COULD MOVE THE RATING UP/DOWN

Any change in the sovereign rating would most likely have implications on the ratings of the Département de L'Eure. However, this is unlikely given the current stable outlook assigned to the Government of France's Aa2 rating. Furthermore, any change to the institutional framework that increases DDE's tax powers would have positive rating implications.

However, should DDE's results differ negatively from current forecasts, this would put downward pressure on the rating. In particular, a debt-to-gross operating balance ratio exceeding 10 years would put pressure on the rating.

Sovereign Issuer: France, Government of

GDP per capita (PPP basis, US\$): 40,538 (2014 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 1.1% (2015 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0.1% (2015 Actual)

Gen. Gov. Financial Balance/GDP: -3.7% (2015 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: 0% (2015 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Very High level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 05 April 2016, a rating committee was called to discuss the rating of the Departement de L'Eure. The main points raised during the discussion were: the issuer's economic fundamentals, including its economic strength; the issuer's institutional strength/ framework; the issuer's governance and/or management; the issuer's fiscal or financial strength, including its debt profile; and the assessment of extraordinary support.

DDE is a French departement of about 600,000 inhabitants and is situated in Normandy region of France.

The principal methodology used in these ratings was Regional and Local Governments published in January 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

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