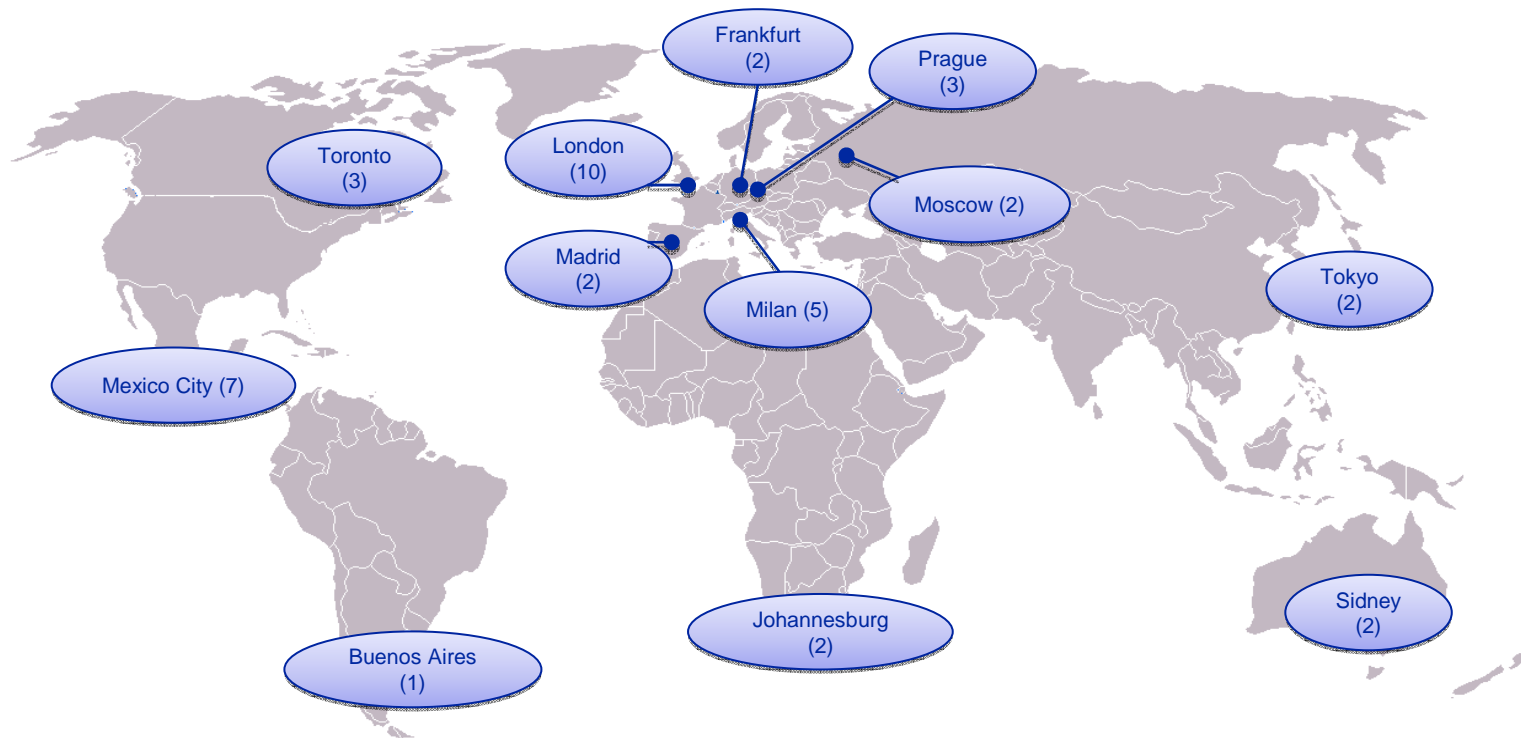




**Eastern European countries:
Sub-Sovereign Outlook 2011/2**

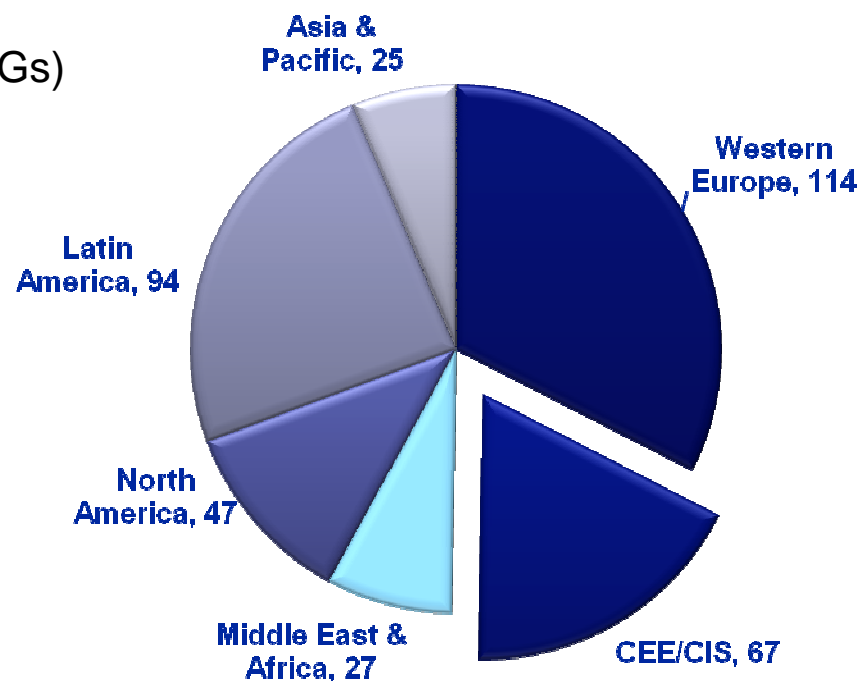
Moody's Global Presence

- » 41 analysts/associates located in 13 offices world-wide
- » 3 hubs: London (WE), Milan (Southern Europe, CEE&CIS, Middle East&Africa), Mexico City (Latin America)
- » 14 different nationalities, 15+ languages



Sub-Sovereign Portfolio: Big Picture

- » 290 regional and local governments (RLGs)
- » 84 government-related issuers (GRIs)
- » CEE represents 20% of our universe

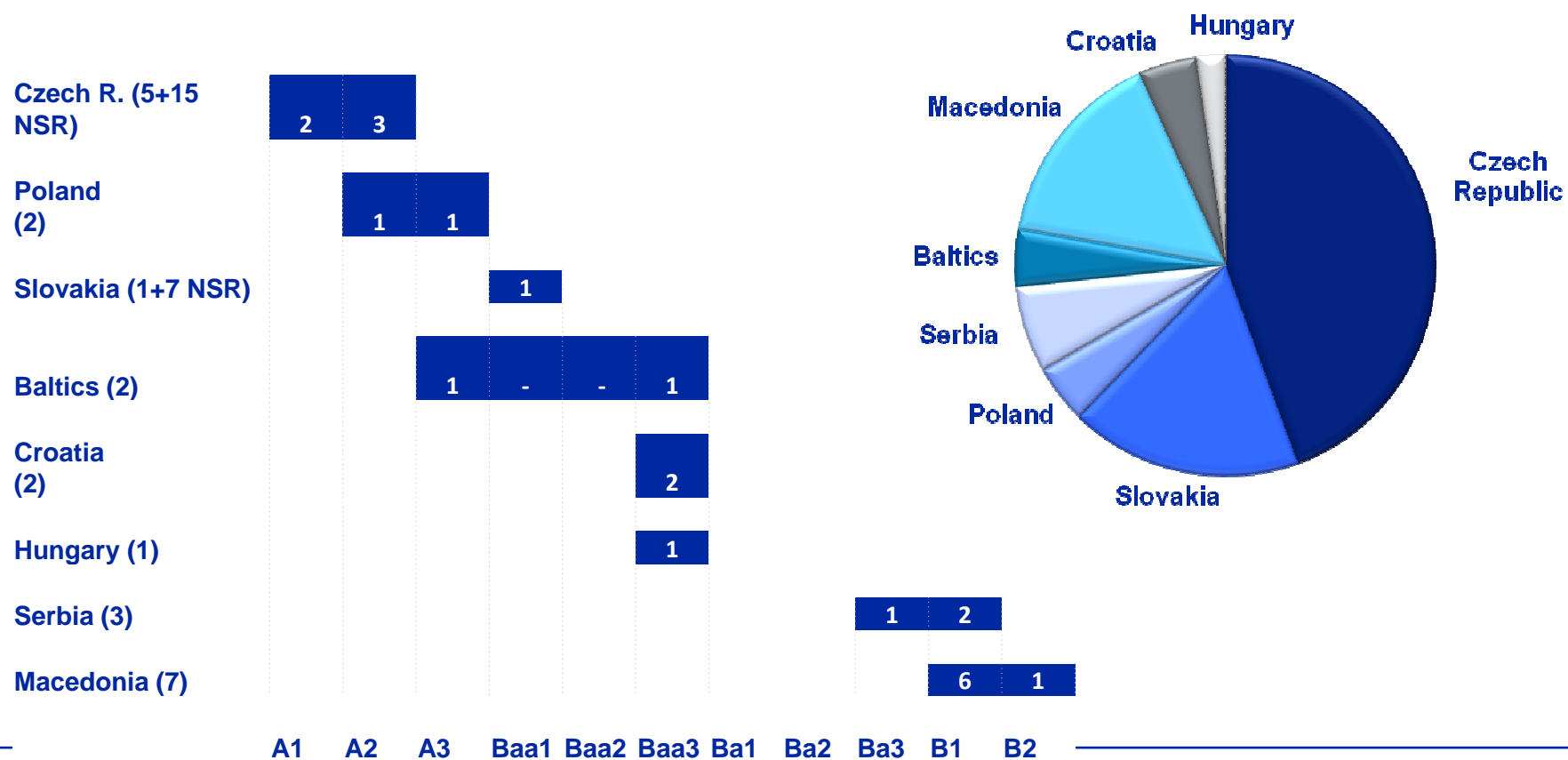


In addition:

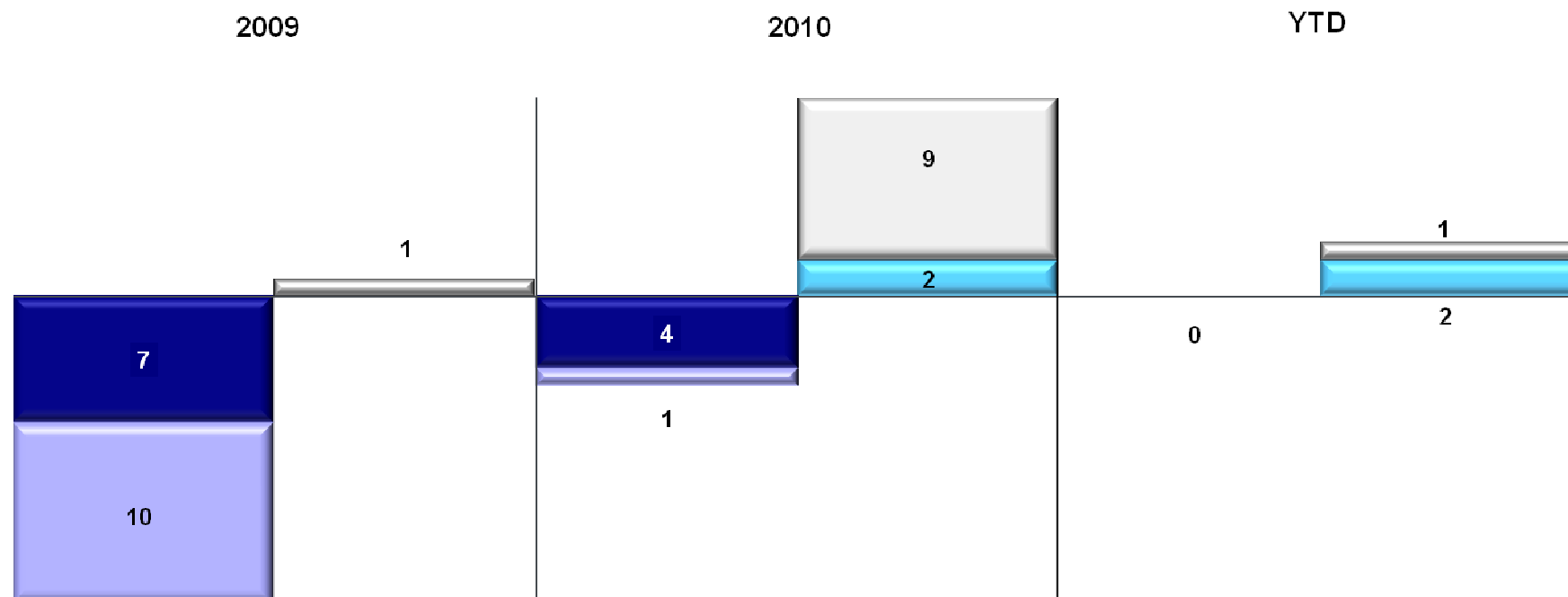
- » 200 credit estimates
- » 70,000 Q-scores (mainly for covered bonds) in 13 European countries: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Norway, Poland, Portugal, Spain, Switzerland and the UK

Rating Distribution: CEE

- » Wide rating distribution across the scale: A, Baa, Ba, B; very different systemic and sub-sovereign credit risks
- » National scale ratings widely used in Czech Republic (Aaa.cz-Aa2.cz) & Slovakia (Aa1.sk-Aa3.sk)

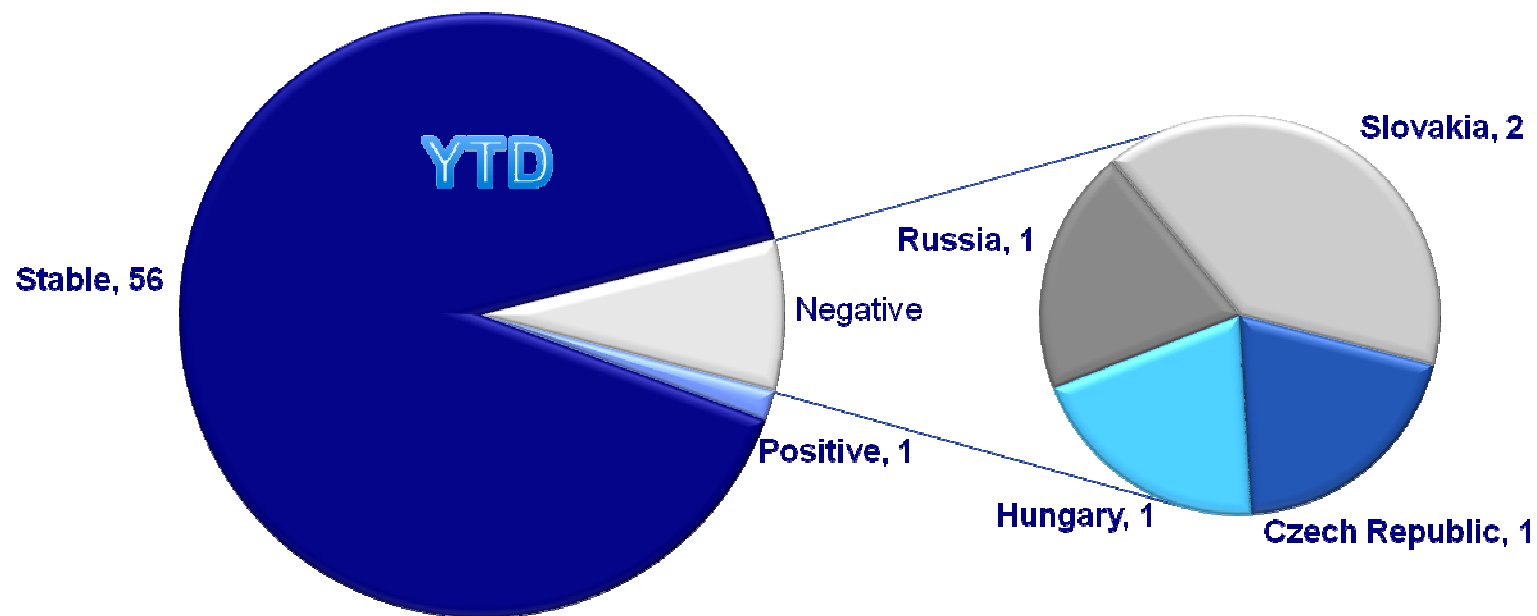


Rating actions in CEE: recent trends



- Upgrade
- Positive outlook change (to stable from negative, positive)
- Downgrade
- Negative outlook change (to stable from positive, negative, review for downgrade)

2011 and 2012: Rating pressure to continue in selected countries



- » 5 out of 62 RLGs rated in CEE/CIS have assigned a negative outlook
- » 2 entities with negative outlook are from Slovakia

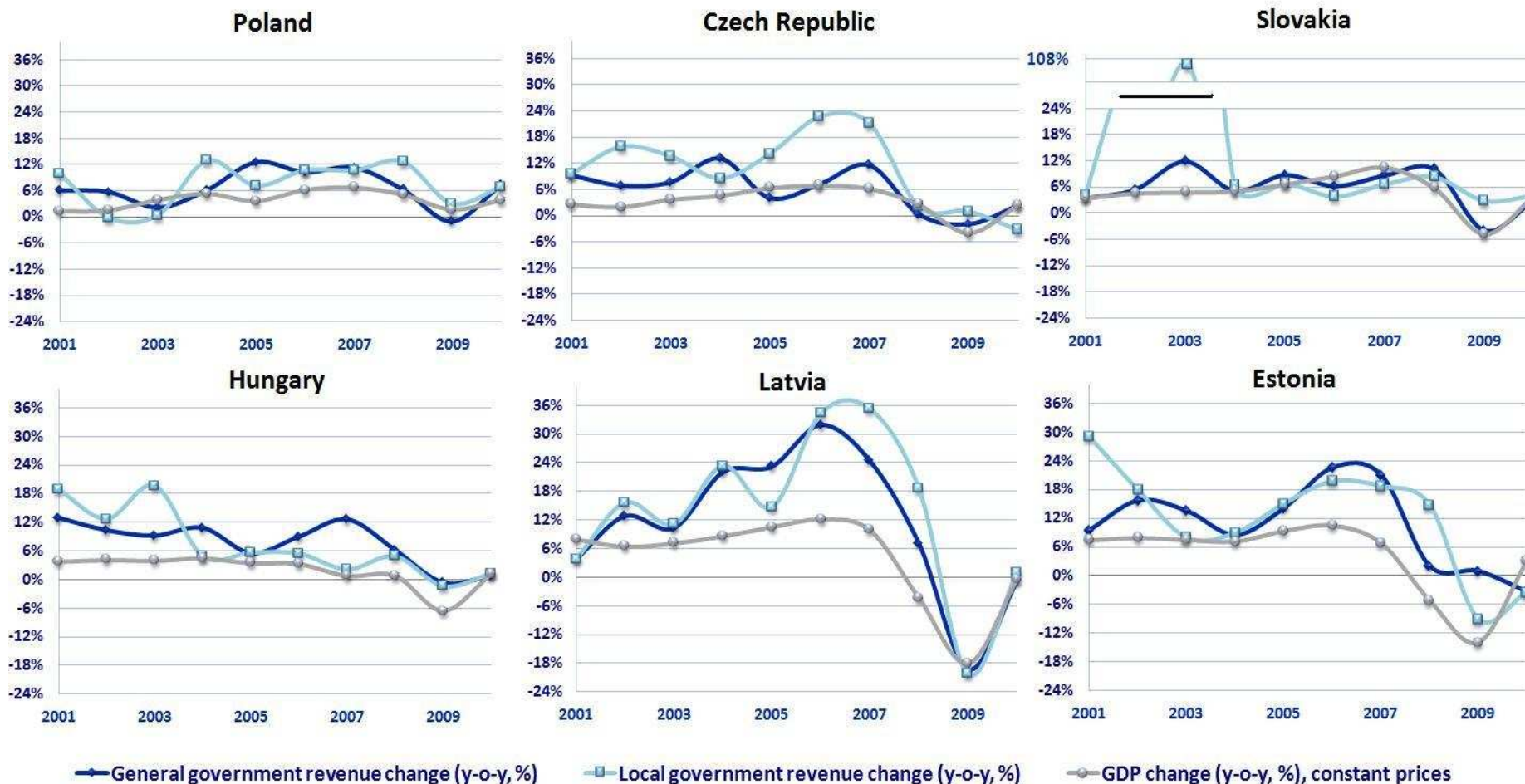


Facts and Effects – Outlook 2011/2

Impact of the crisis: sovereigns vs. sub-sovereigns in CEE

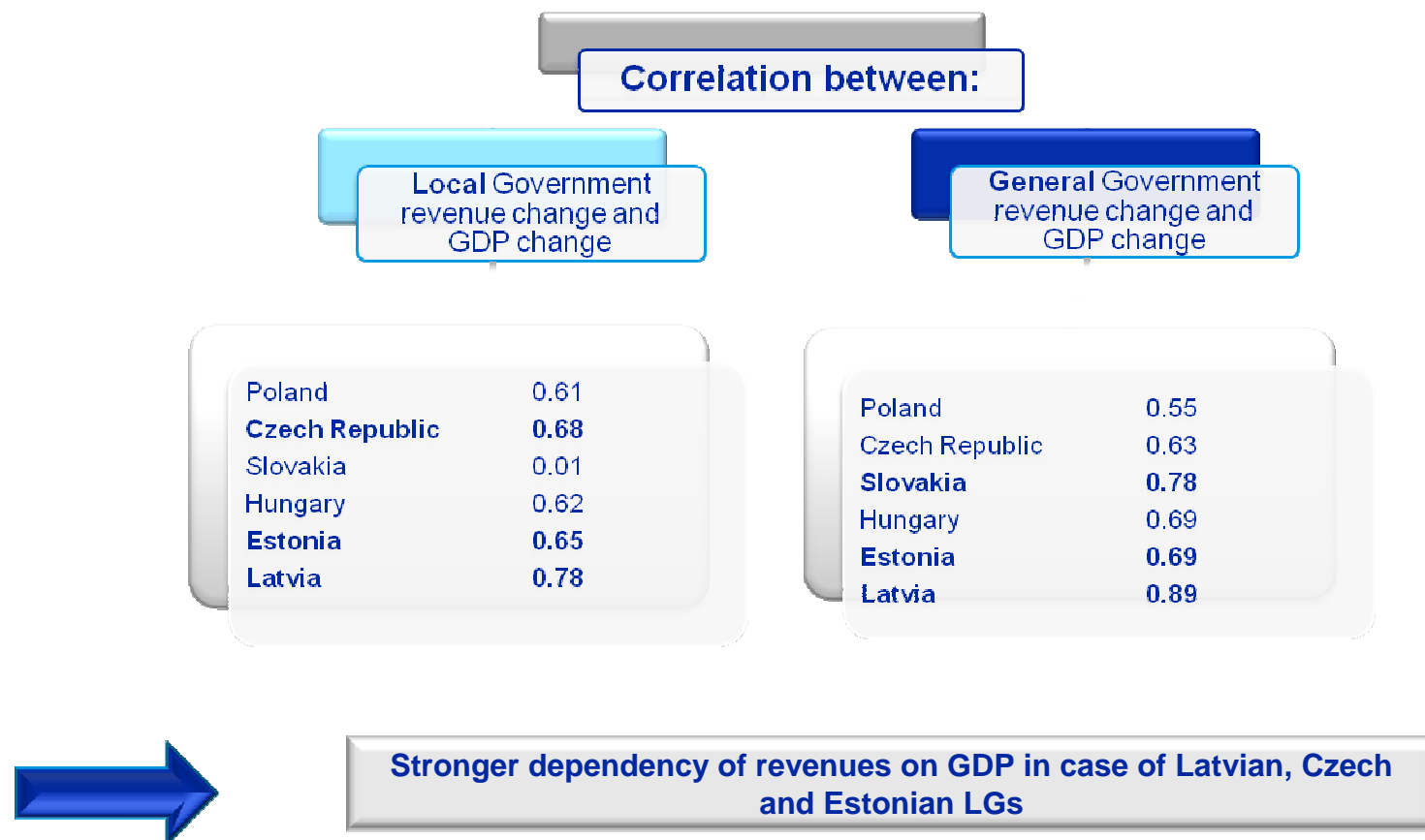
	Sovereigns	Sub-sovereigns
Economy	High budget sensitivity	Moderate-to-high budget sensitivity
Private sector damages	Strong support, bail-outs provided	Isolated cases of support
Policy response	Fiscal consolidation, Some deficit spending policies	Imposed Fiscal Consolidation
Shock-absorption capacity	High, but eroded	Limited overall; few powers and less flexibility
Debt	Fast debt growth	Moderate-to-slow debt growth

Revenue sensitivity to GDP: Local and General Governments in CEE/CIS

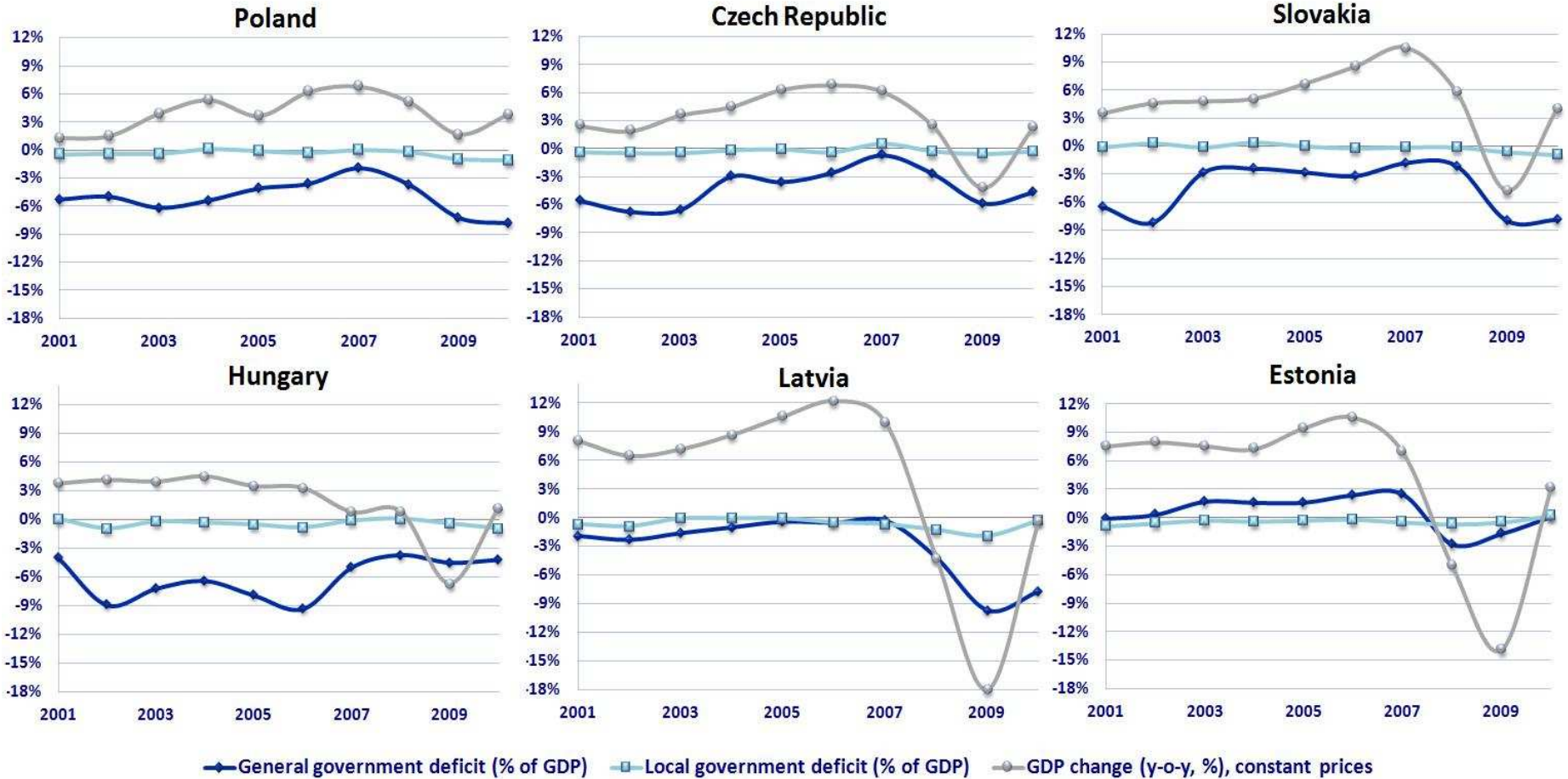


Source: EUROSTAT. Government finance statistics. 2001-2010 Figures. Countries with RLGs rated by Moody's.

Revenue sensitivity to GDP: Local and General Governments in CEE/CIS (cont'd)

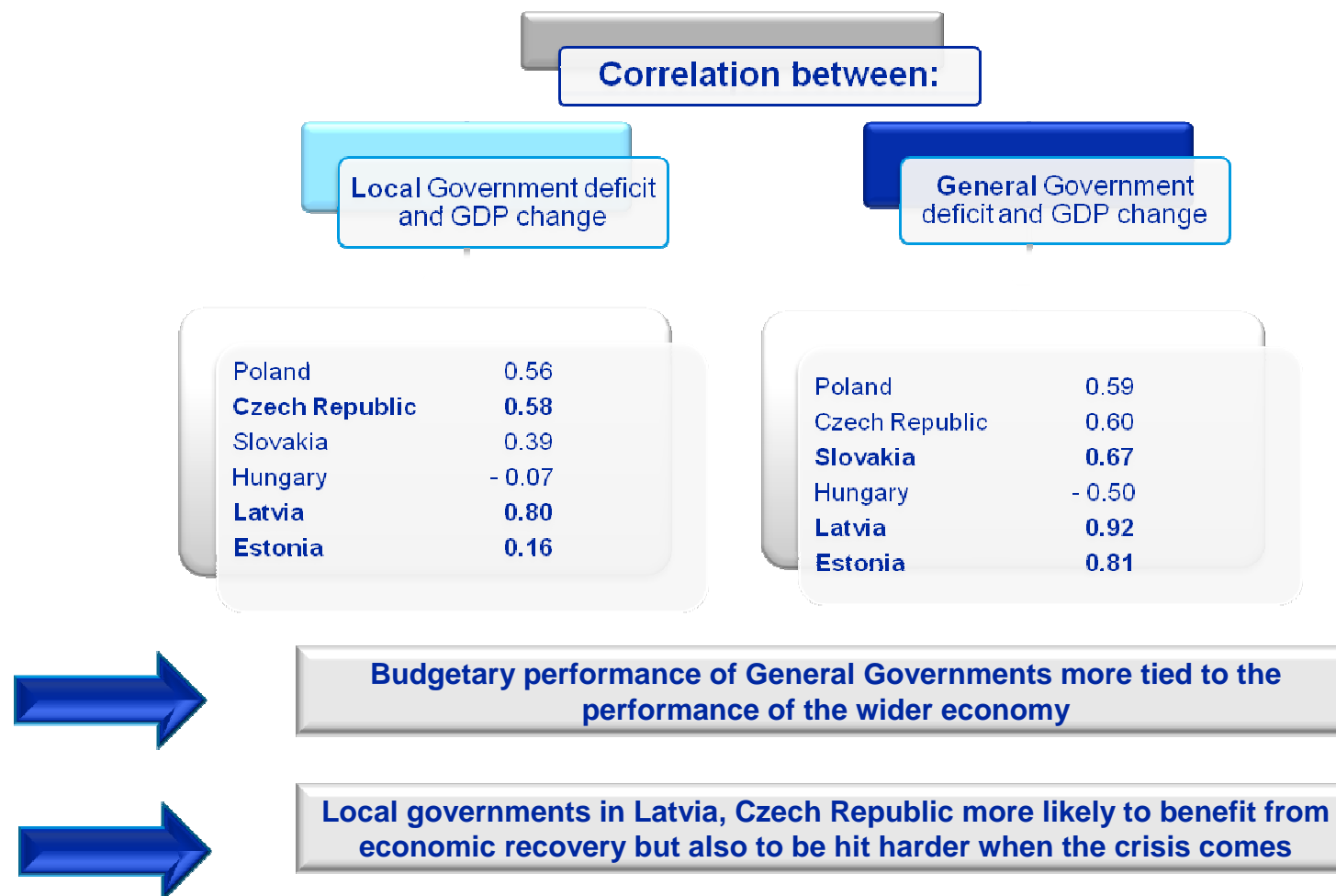


Financing deficit sensitivity to GDP: Local and General Governments in CEE/CIS

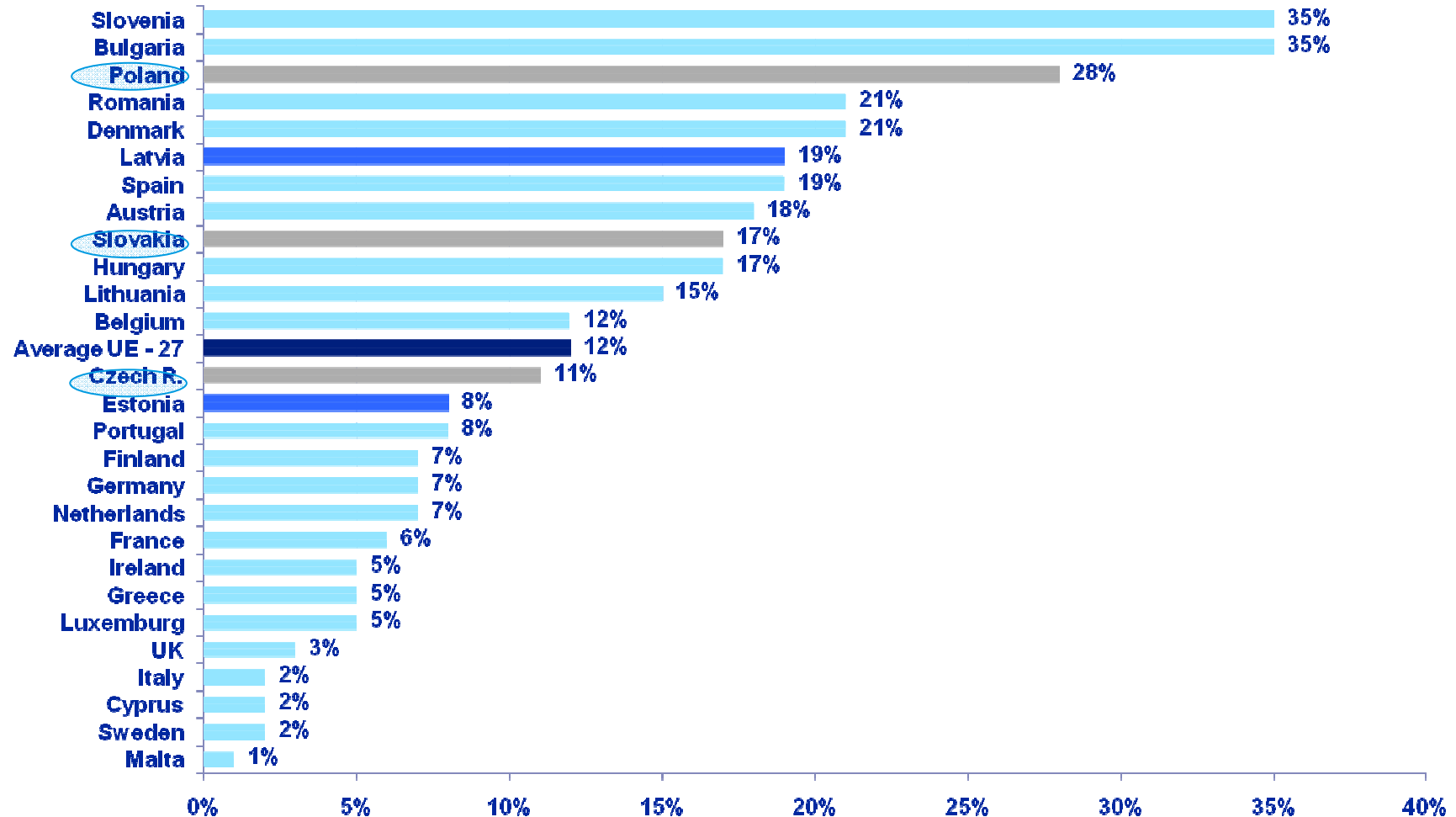


Source: EUROSTAT. Government finance statistics. 2001-2010 Figures. Countries with RLGs rated by Moody's.

Financing deficits sensitivity to GDP: Local and General Governments in CEE/CIS (cont'd)



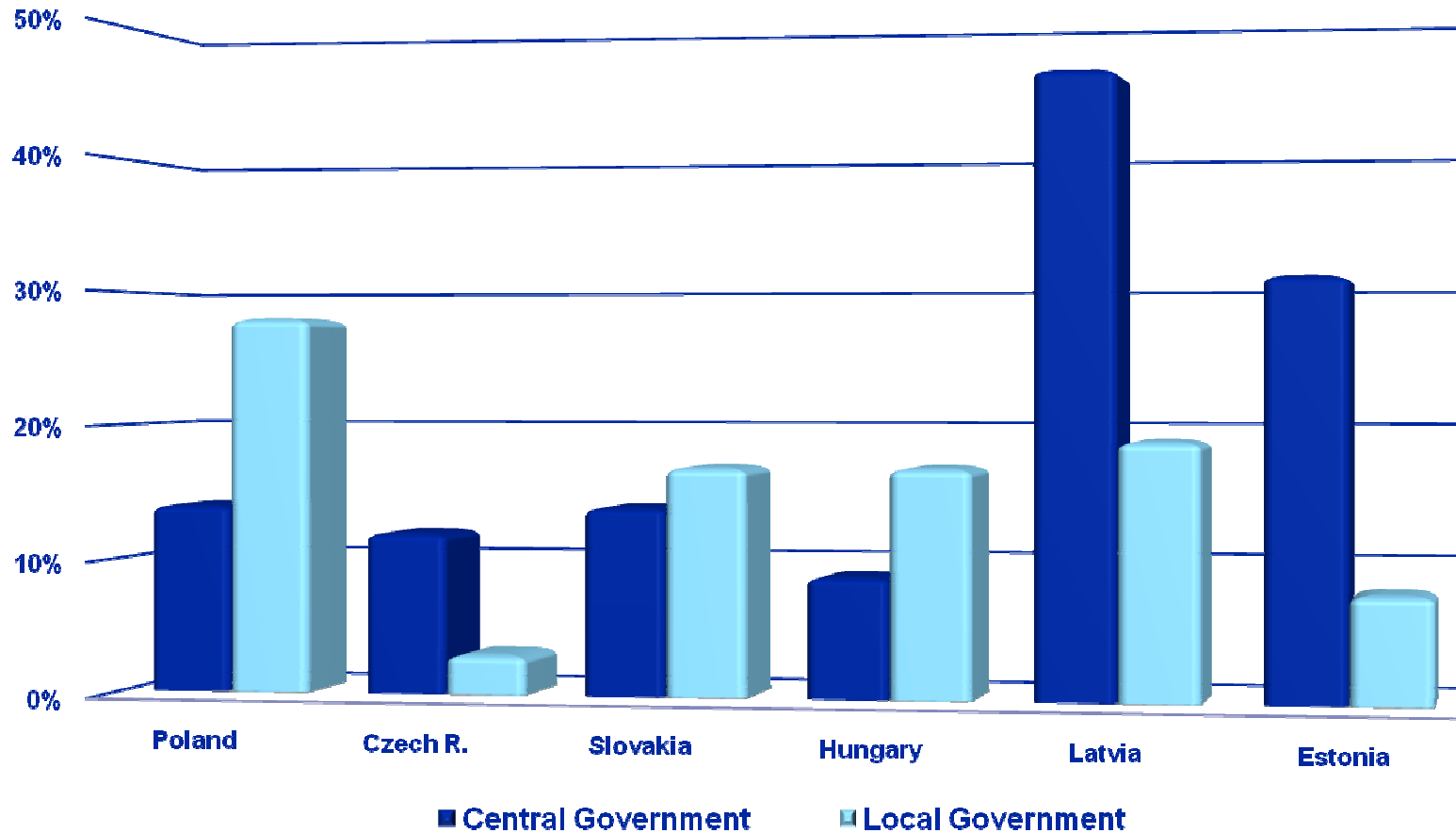
RLG debt growth during the crisis: EU 27



Source: EUROSTAT. Regional and Local debt (unconsolidated). Compound Annual Growth Rate: 2010/2007.

Debt growth in selected CEE countries: Central vs. Local Governments

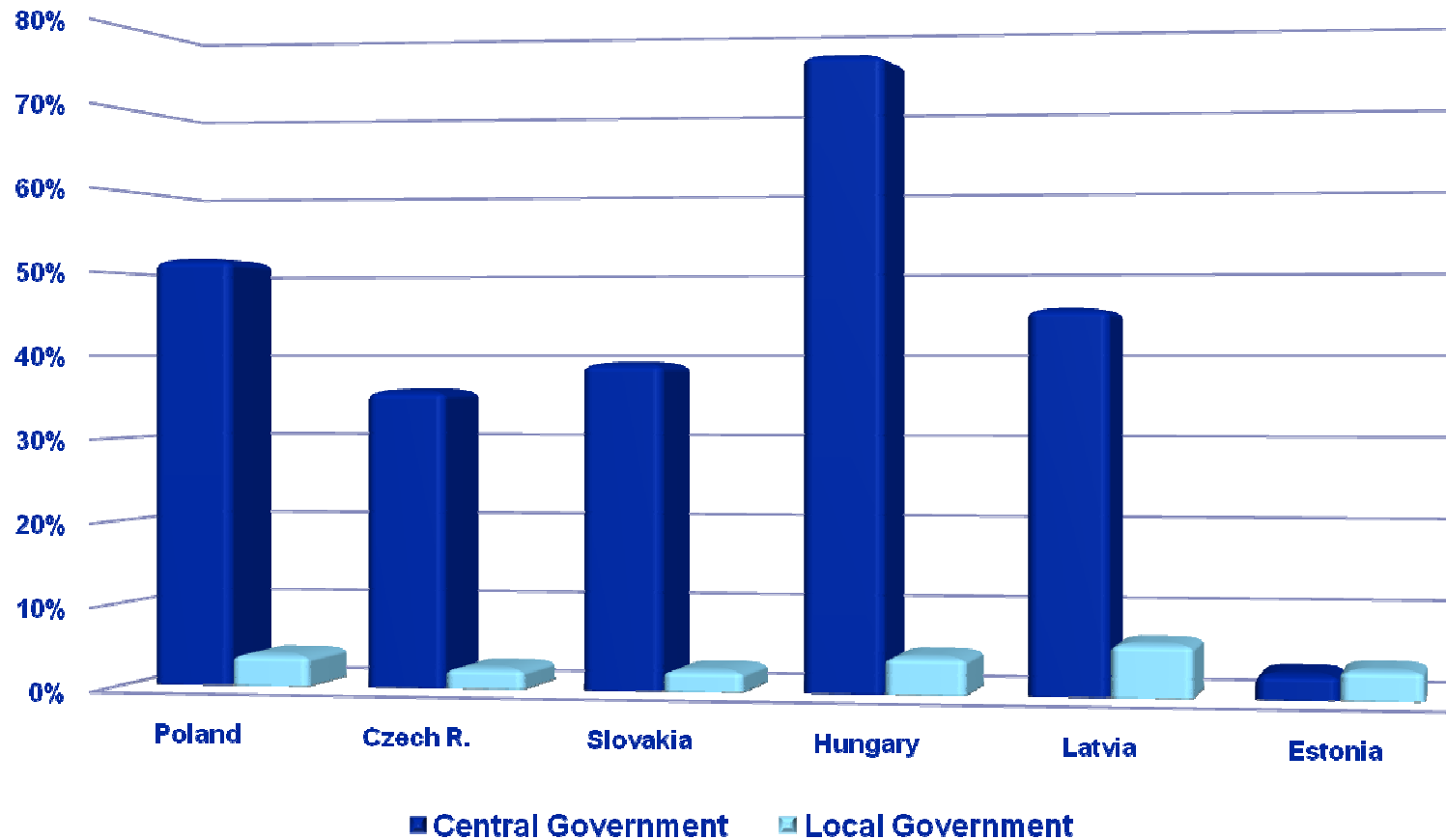
Stock of debt CAGR
2010/07 (%)



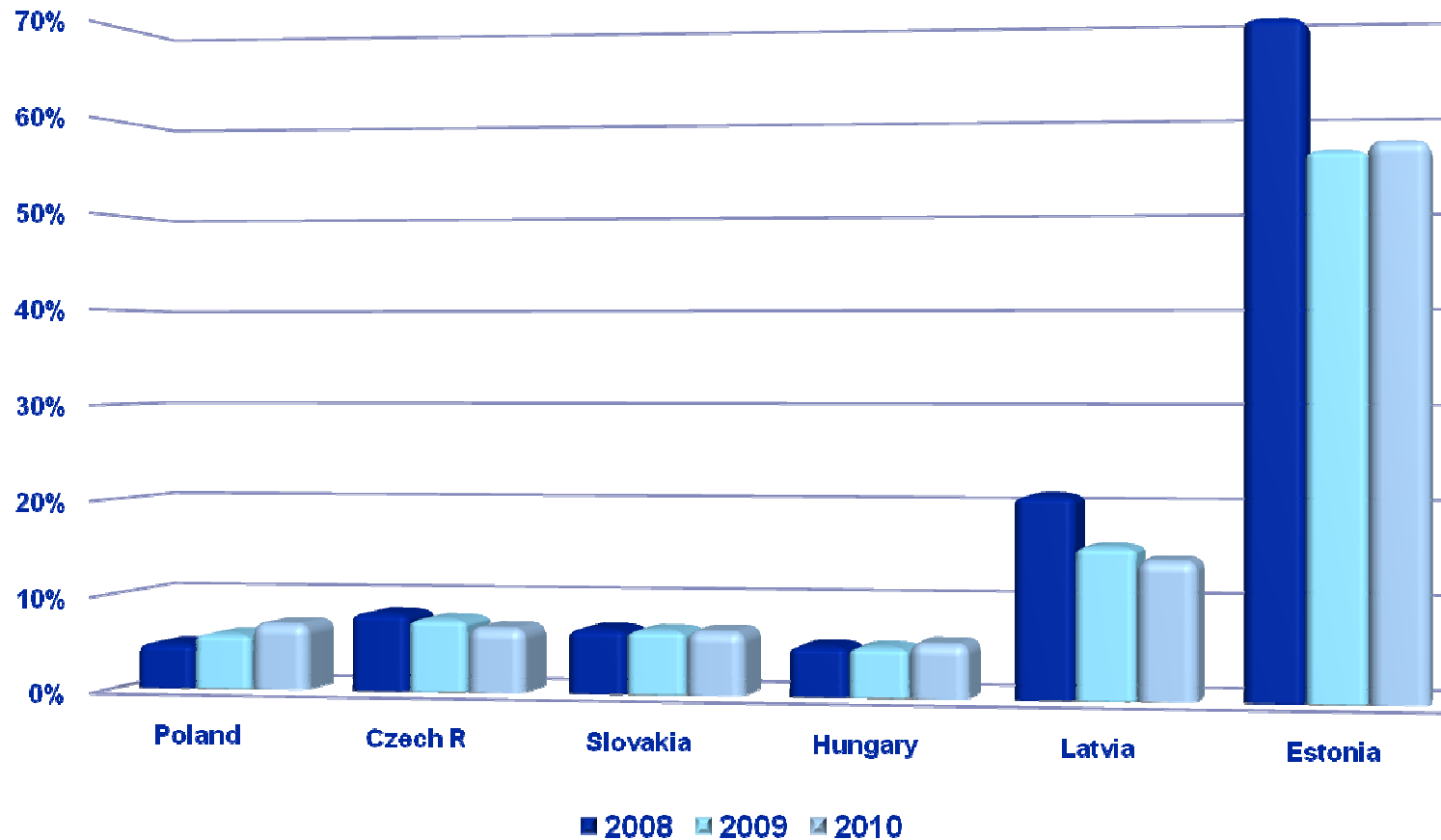
Source: EUROSTAT. Countries with RLGs rated by Moody's. Central and Local debt (unconsolidated).

Stock of debt in 2010 in selected CEE countries: Central vs. Local Governments

Stock of debt (% of GDP)



Local Government debt as a percentage of General Government debt: CEE/CIS



Source: EUROSTAT. 2008-2009-2010 Figures. Countries with RLGs rated by Moody's. Local debt (unconsolidated).

Focus on Poland: Key issues

Ratios	2009	2010	2011f	2012f
Real GDP growth (%)	1.6	3.8	3.8	3.0
Debt / GDP (%)	51	55	56	56
Unemployment rate (%)	8.2	9.6	9.4	9.2

Source: IMF

- » Proximity to Germany and steady household demand should help Poland maintain a sustained rebound
- » Economic growth will be beneficial to alleviate budgetary pressures
- » Fiscal consolidation policies needed at local level to curb down the recent growth in outlays and debt
- » Abide by new Public finance Law (2010) may require time

Focus on Poland: Stable sector outlook for 2011/2

Strengths

- » Strong and stable economic growth
- » Still acceptable, albeit diminishing operating margins for RLGs
- » Overall adequate cash position / no significant refinancing needs

Challenges

- » Frequent transfers of functions resulted in under-funding issues
- » High infrastructure and funding needs
- » Increasing debt and off balance sheet exposures to circumvent new debt limits

Focus on Czech Republic: Stable sector outlook for 2011/2

Strengths

- » Overall low debt levels / favourable debt structure
- » Solid budgetary performances
- » Ample cash reserves accumulated in the past, but gradually depleting
- » Stable and predictable institutional framework

Challenges

- » Cautious fiscal policies still needed to cope with slowing recovery in revenues
- » Rigid budgetary structures
- » Still high non-deferrable investment needs (EU co-funded)
- » Adjustments in shared-tax revenue-distribution mechanics

Focus on Slovakia: Negative sector outlook for 2011/2

Strengths

- » Favourable debt structure with no refinancing needs
- » Relatively good access to external funding
- » Stable institutional framework

Challenges

- » Elevated debt levels with high growth dynamics over the past few years
- » Modest operating performance and liquidity position
- » Rigid budgetary structures
- » Still high non-deferrable investment needs (EU co-funded)
- » High reliance on one lender

Key credit considerations for sub-sovereigns

Economy

- » Fragile recovery with increased downside risks
- » Revenue pressure should ease in 2011 – > 2012 more challenging

Sovereigns Exit Strategy

- » 2011 very challenging as sovereigns accelerate fiscal consolidation efforts
- » Already involving cuts in transfers to sub-sovereigns

Market Access

- » Not a major concern for most countries: improving, but not yet normalised market conditions
- » Relevant FX exposures in some cases

Sub-Sovereign Team in CEE

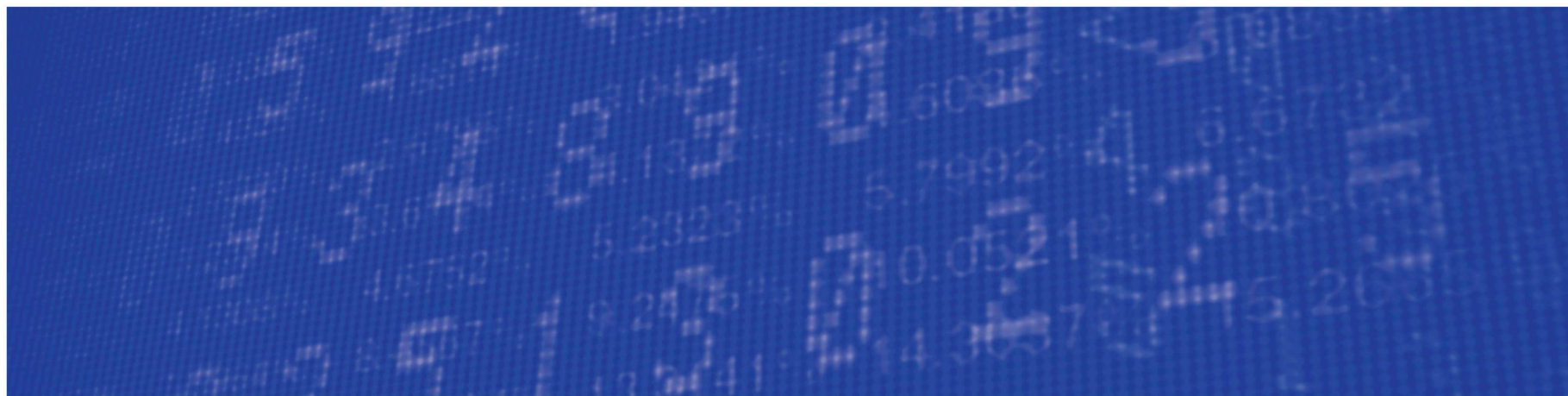
DAVID RUBINOFF
Team Managing Director (London)
Tel. + 44.207.772.5454
David.Rubinoff@moodys.com

KATERINA HANZLOVA
Analyst (Prague)
Tel. +42.02.21.666.326
Katerina.Hanzlova@moodys.com

STANISLAV BENISEK
Associate Analyst (Prague)
Tel. +42.02.21.666.326
Stanislav.Benisek@moodys.com

MASSIMO VISCONTI
VP / Team Leader CIS – CEE (Milan)
Tel. +39.02.9148.1124
Massimo.Visconti@moodys.com

IVAN KUVIK
Associate Analyst (Prague)
Tel. +42.02.21.666.321
Ivan.Kuvik@moodys.com



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