Figure IV – 1
The Trend of Outstanding Debt of the Central and Local Governments of France and the Debt/GDP Ratio

Source: DGCL, “Les Collectivités locales en chiffres”
Figure IV – 2
Trend of Net Borrowing and Outstanding Debt of Subnational Entities

Note: Figures for 2003 is outlook
Source: DGCL, "Les Collectivités locales en chiffres"
Figure IV – 3
The Structure of Revenue of Subnational Entities

Figure IV – 4
The Structure of Expenditure of Subnational Entities

Figure IV – 5
The Relationship between Public Bond Expenses and Accounting Sectors in France
Figure IV – 6
An Image of the Relationship between Actors in the Local Bond System

- Monitoring Agencies
  - Ministry of the Interior (DGCL=General Directorate of Local Authorities)
  - Ministry of Finance

- Debtors
  - Local Authorities (commune, departement, region)
  - Urban communities
  - Affiliated firms

- Creditors
  - Dexia Credit Local
  - Cess d' Epargne
  - Credit Agricol
  - etc

Monitoring (Mainly ex post facto regulation)
Rating
Loans

- Credit Rating Agencies
  - Standard & Poor's
  - Moody's
  - etc
Figure IV – 7
Debt Status of the City of Paris

Source: City of Paris (2003) "Rapport financier"
Figure IV – 8
Transformation of Financial Institutions for Subnational Entities
(CDC and CLF)

CDC Group

CDC (Deposits and Consignment Bank)
Founded in 1816

CAECL (Local Development Bank of France)
Founded in 1966

CLF (Crédit Local)
Founded in 1984
Privatized in 1987

CCB (Local Bank of Belgium)

Tie-up in 1997
Establishment of holding companies

Dexia

CLF-Dexia (Holding Co.)

CCB-Dexia (Holding Co.)

Integrated in 1999

Dexia Group

Dexia (Holding Co.)

DCL

CCB

Acquired in 2000

Financial Security Assurance
Figure VI – 1
The Changes in Local Bond Management of Industrialized Countries

<table>
<thead>
<tr>
<th>Japan</th>
<th>1970s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evolution of administrative control approach</td>
<td>• Administrative controls through Local Bond Plan, Local Bond Permit System, etc</td>
<td>2006: from Permit System to System of Consultation moves towards easing of administrative controls</td>
</tr>
<tr>
<td>Partial easing of controls</td>
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<tr>
<td>Local bond issues were strictly controlled by the central government through the Local Bond Permit System and the Local Bond Plan. Since the 1960s, outstanding local debt continues at a scale of over 200 trillion yens. From FY2006, from the perspective of decentralization, the Local Bond Permit System will be shifted to a System of Consultation, in a move to partially ease controls.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>US</th>
<th>1920s</th>
<th>1970s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evolution of the market discipline approach</td>
<td>1920s: Ratings on municipalities begins</td>
<td>1930s: Debt adjustment for municipalities is provided in the Federal Bankruptcy Code</td>
<td>Expansion of publicly-offered bonds (Growth of investor class)</td>
</tr>
<tr>
<td>Provision of rules to complement market discipline</td>
<td></td>
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<tr>
<td>Rating of municipalities already existed in the 1920s: rules and institutions for municipal bankruptcy in the 1930s. Upon entering the 1970s, public offerings expanded, and rules to complement market mechanisms were established one after another by organizations such as MSRB and GFOA.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>France</th>
<th>1920s</th>
<th>1980s</th>
<th>late 1990s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>From administrative controls to liberalization of local borrowings</td>
<td>• Strict administrative controls</td>
<td>• Complete liberalization of the local borrowings</td>
<td>Balanced budget rule</td>
<td>Monitoring of the central government</td>
</tr>
<tr>
<td>Fiscal rules</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthening of rules to complement market discipline</td>
<td></td>
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<tr>
<td>Local bond issues placed under strict central government controls in the past were completely liberalized with the decentralization of 1983. Triggered by the default of Angouleme City, which is imposed the balanced-budget rule, among others, further arrangements such as the establishment of the Regional Audit Chamber and a monitoring system by the central government were developed. French local debt has generally evolved at a small scale.</td>
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</table>

<table>
<thead>
<tr>
<th>Sweden</th>
<th>1970s</th>
<th>2000</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralization and powers to borrow freely</td>
<td>• Fiscal autonomy of local governments and powers to borrow freely</td>
<td>• Strict screening for loans by banks and spread of ratings</td>
<td>Mild fiscal rules</td>
</tr>
<tr>
<td>Mild fiscal rules</td>
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<tr>
<td>Strengthening of rules to complement market discipline</td>
<td>Mild fiscal rules (bond issues are limited to investment purposes, but there are no penalties)</td>
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<tr>
<td>Sweden has been decentralized since the past and local governments have obtained borrowings freely. Although mild rules exist, for example limiting the bond issues to investment purposes, there are no penalties. Although the balanced-budget rule was stipulated in the Local Autonomy Law in 2000, it is mildly operated and the idea of market monitoring is mainstream.</td>
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</table>

<table>
<thead>
<tr>
<th>Canada</th>
<th>1970s</th>
<th>mid 1990s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralization and powers to borrow freely</td>
<td>Fiscal autonomy of provincial governments and powers to borrow freely</td>
<td>Reliance on market mechanisms</td>
<td>Growing number of provinces that set self-imposed fiscal balance rules</td>
</tr>
<tr>
<td>Self-imposed fiscal rules</td>
<td></td>
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</tr>
<tr>
<td>Canada: provinces have been borrowing freely since before. Fiscal discipline is left to market mechanisms and so there are few provinces that provided laws for local borrowings. However, over the 1990s, debt increased and in mid-1990s each province stipulated self-imposed fiscal balance rules. Today, local government balance has been stabilized and debt is on a decreasing tendency.</td>
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