



Subnational Debt 2024: France

Adaptability will remain key amid sluggish growth

S&P Global
Ratings

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This report does not constitute a rating action

Key Takeaways

- French local and regional governments (LRGs) will continue deleveraging, with debt-to-operating revenue declining to a forecast 72% in 2025, from 77% in 2022. This trend started in 2017 and, despite sizable investment programs, was only temporarily interrupted by the pandemic.
- During 2024-2025, S&P Global Ratings expects French LRGs to limit capex growth as they navigate a weak economic environment and still high, albeit decelerating, inflation.
- LRGs generally favorable debt profile (long average maturity and high share of fixed-rate debt) will mitigate the impact of higher interest rates on interest expenses, which will remain largely below 5% of operating revenues.
- Robust tax revenue growth will continue to support French LRGs' strong budgetary performance, not least due to the large share of value-added tax (VAT) and tax receipts on properties in French LRGs' revenue composition (both slightly above 20% of 2023 expected operating revenues).
- Departments remain the most vulnerable layer of French LRGs due to their exposure to property transfer fees and their high share of social spending as a share of total spending (estimated at above 50%).

Operating Budgets Will Remain Resilient Despite Slow Economic Growth

- Big operating surpluses will allow French LRGs to finance their investment projects while limiting additional borrowing.
- Gradual consumption recovery should support growth in VAT proceeds for French LRGs.

French LRGs' main operating revenue items and economic indicators

| | 2021 | 2022 | 2023e | 2024f | 2025f |
|--|-------|-------|-------|-------|-------|
| Operating revenue (bil. €) | 233.9 | 244.2 | 249.6 | 256.4 | 263.6 |
| Corporate VAT* (CVAE) and VAT | 47.1 | 50.1 | 51.9 | 54.5 | 57.0 |
| Property transfer fees | 19.4 | 20.0 | 15.0 | 14.6 | 16.0 |
| Operating expenditure (bil. €) | 192.6 | 200.7 | 209.7 | 214.7 | 219.4 |
| Operating balance as % of operating revenue | 17.7 | 17.8 | 16.2 | 16.3 | 16.8 |
| Real GDP growth (%) | 6.4 | 2.5 | 0.9 | 0.9 | 1.5 |
| CPI (%) | 2.1 | 5.9 | 5.6 | 2.7 | 1.9 |
| Policy rate (%) | 0.0 | 0.9 | 4.1 | 4.1 | 2.8 |

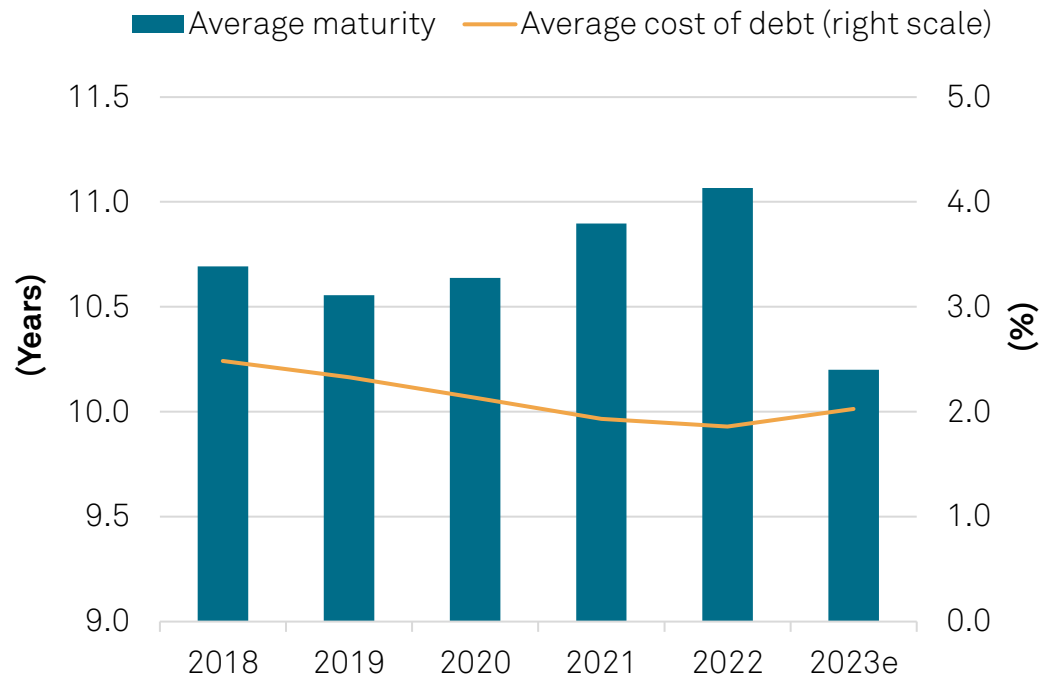
- French LRGs will benefit from strong fiscal dynamism through increased VAT proceeds and tax receipts on properties.
- Decelerating inflation will ease pressure on operating expenditure, notably personnel and energy bills.
- Still-high mortgage rates will continue to weigh on real estate market and property transfer fees, leaving departments more vulnerable to potential budgetary slippages.
- A weak macroeconomic environment, especially in the first half of 2024, will increase social spending, with a particularly negative impact on departments.

*Corporate VAT was replaced with a share of national VAT after tax reforms. e--Estimate. f--Forecast. CPI--Consumer price index. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025.

Financing Costs Will Remain Modest

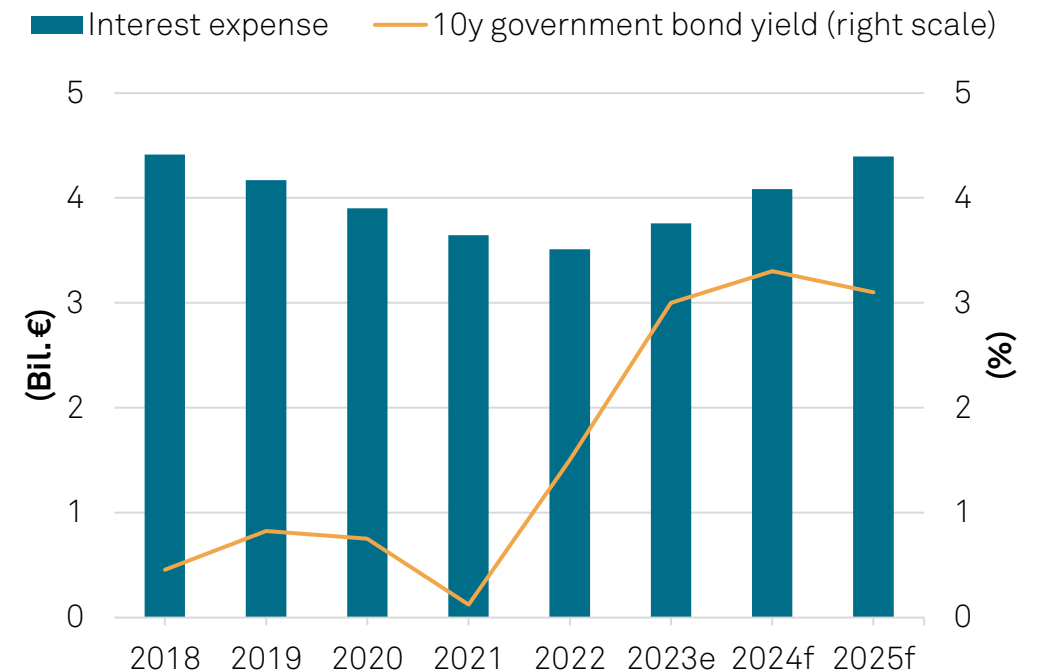
- French LRGs' debt profiles are favorable, with an average maturity above 10 years.
- Around 75% of debt has a fixed interest rate, which moderates the impact of rising interest rates.

French LRGs' debt profile--selected indicators



e--Estimate. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025; Bloomberg

Interest expense and French government bond yield (10 year)

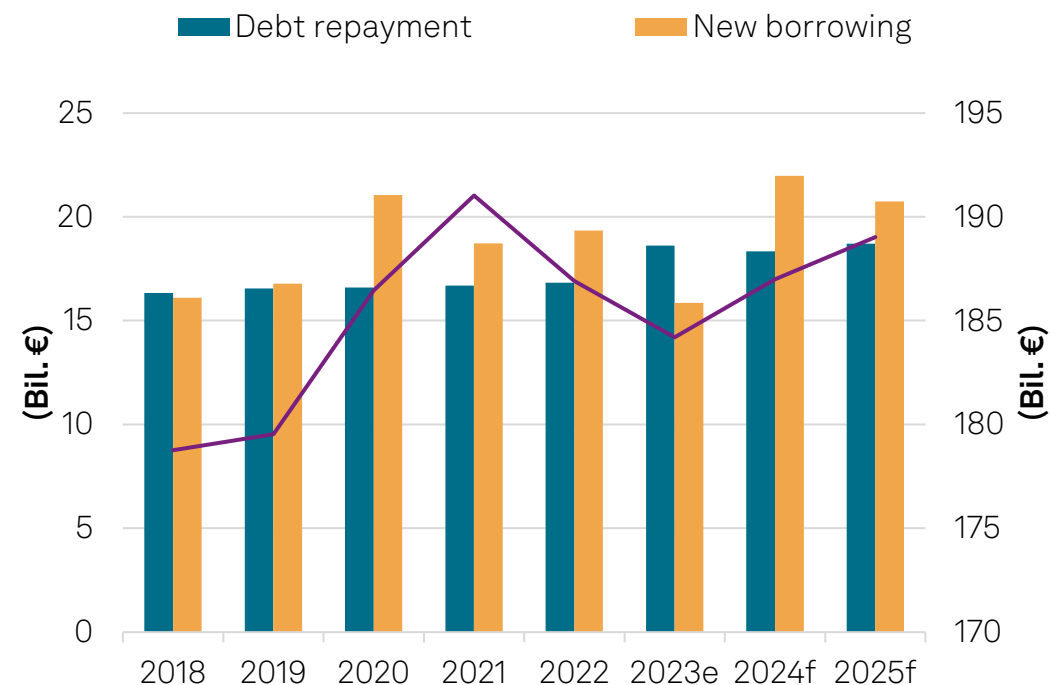


e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025; Bloomberg.

Deleveraging Will Continue Over 2024-2025

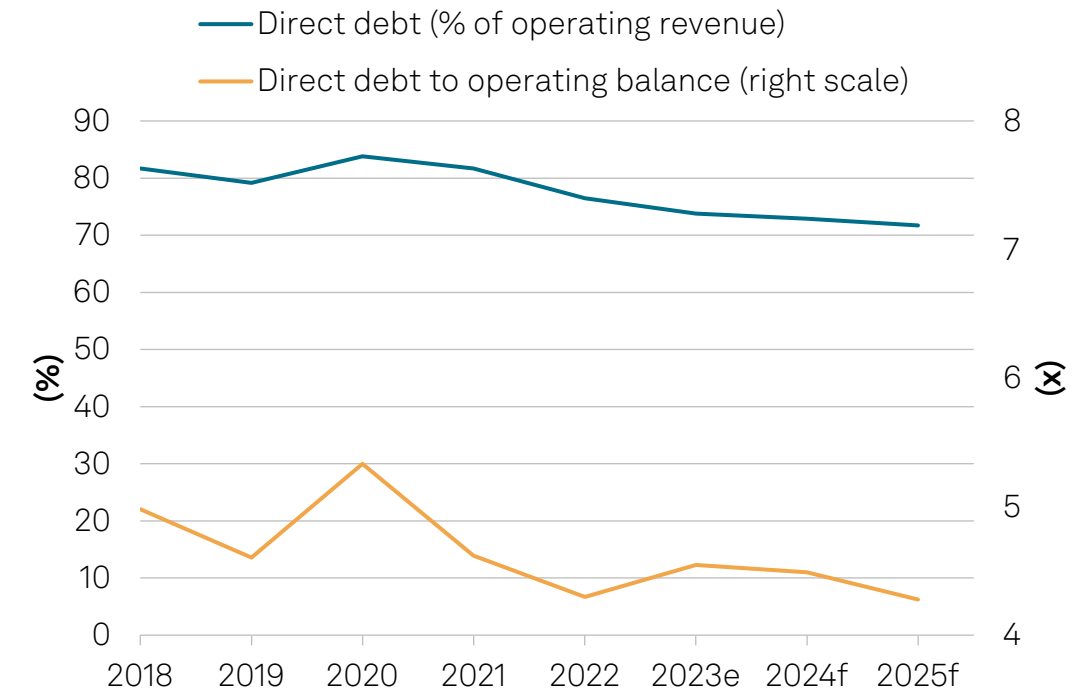
- French LRGs will continue their deleveraging trend as their operating revenue is expected to grow faster than borrowing.
- Direct debt as a percentage of operating revenue should reach its lowest level in 10 years.

French LRGs' debt--selected indicators



e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025; Bloomberg

Direct debt--selected indicators

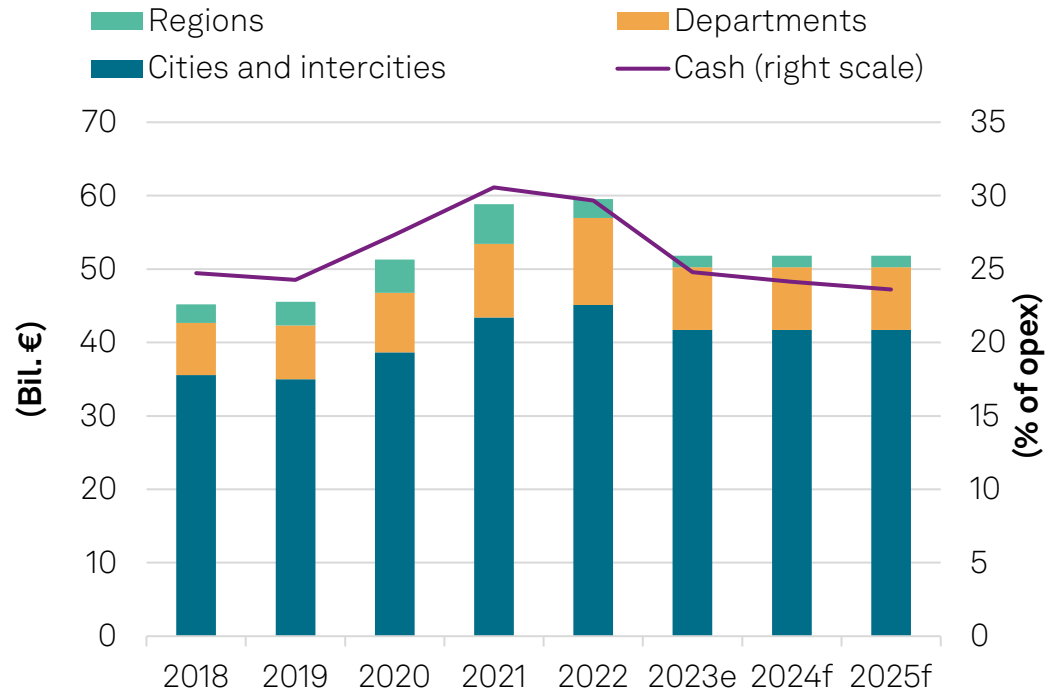


op--Operating. e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025.

French LRGs' Cash Levels Will Remain Ample And Stable

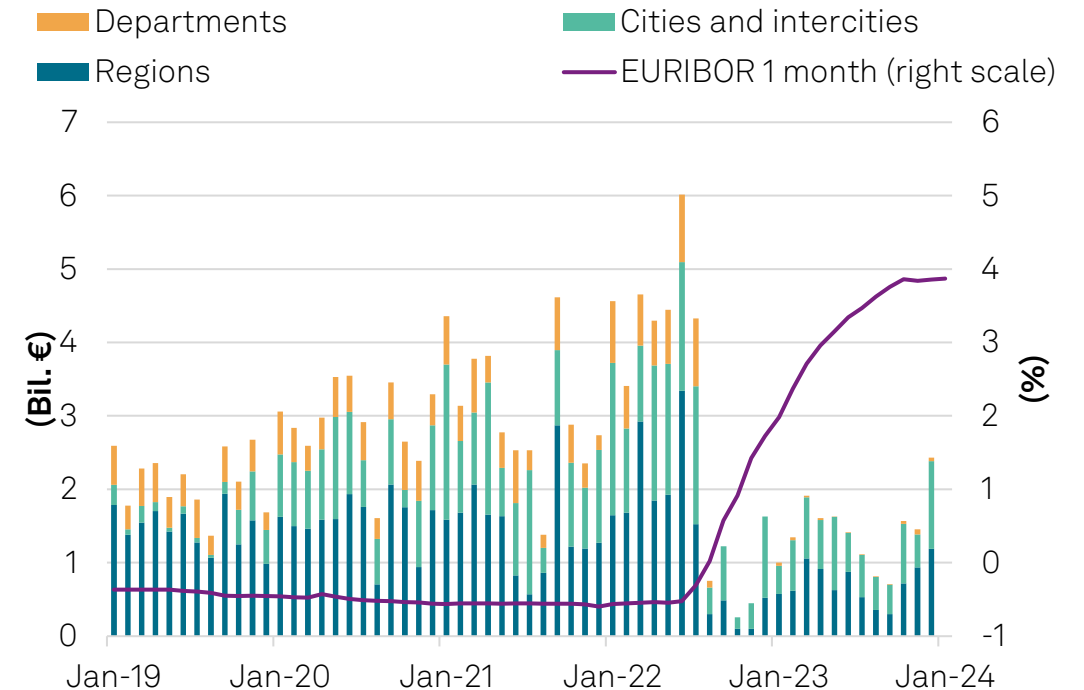
- Most cash is with cities and intercities, but comfortable cash cushions across the sector have helped French LRGs cover their financing needs while limiting additional borrowing.
- We expect French LRGs will gradually return to the commercial paper (CP) market as it becomes more financially attractive than liquidity lines.

French LRGs' deposits at the French State Treasury



e--Estimate. f--Forecast. Opex--Operating expenditure Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025; DGFIP; Central Bank of France.

French LRGs' NEU CP issuances and Euribor Rate (1 month)



NEU CP--Negotiable European commercial paper. EURIBOR--Euro Interbank Offered Rate. Sources: S&P Global Ratings; Central Bank of France.

2024 | French LRGs Key Risks

| Risk factor | Descriptor |
|---------------------------------|---|
| Real estate market trends | Property transfer fees from real estate transactions represent around 6% of 2023 LRGs' operating revenues, compared to 8% in 2022. |
| Economic and social environment | Increasing spending pressures related to potential civil servant wage increase and social transfers. |
| Green transition | Operational and capex risks remains high because investment in public buildings renovation and transportation infrastructure will likely require central government financial support. |
| Financing conditions | Higher refinancing costs are unlikely to trigger any rating actions as interest expense remain largely below 5% of operating revenue. |
| Cyber risk | Corporates are the main target of cyber attacks, but we have observed a material increase in the number of ransomware attacks against LRGs, more specifically departments due to their social competencies. |
| Legal and regulatory framework | Unexpected government reforms could reduce French LRGs' budgetary flexibility and increase uncertainty in the medium term. Additional competencies in the context of decentralization could weigh on LRGs if not fully compensated by central government transfers. |

Appendix

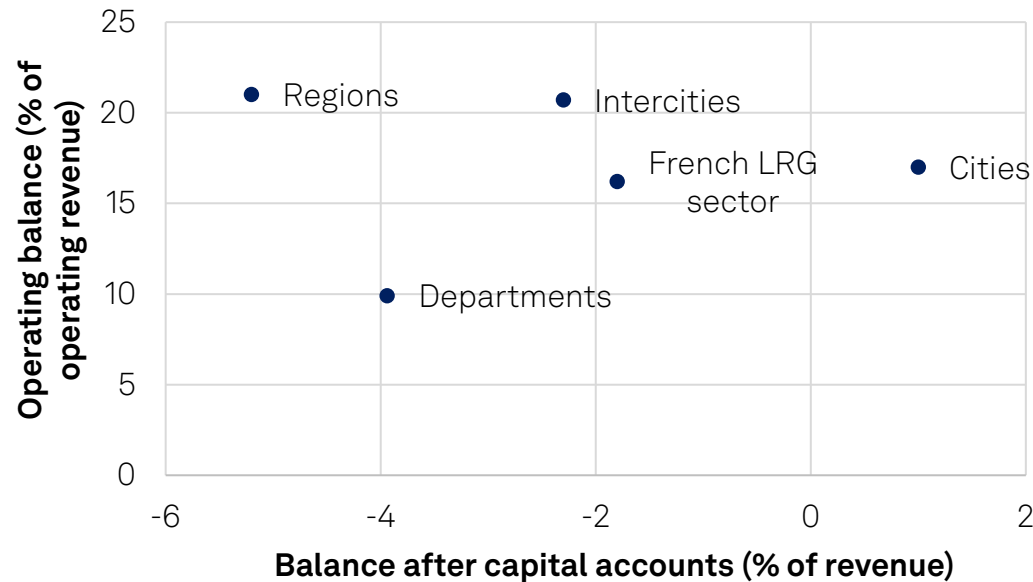
In A Nutshell | French LRGs

Budgetary performance

- Robust tax revenue growth will continue to support French LRG's strong budgetary performance.
- Departments remain the most vulnerable layer of French LRGs given their exposure to property transfer fees and rigid social expense.

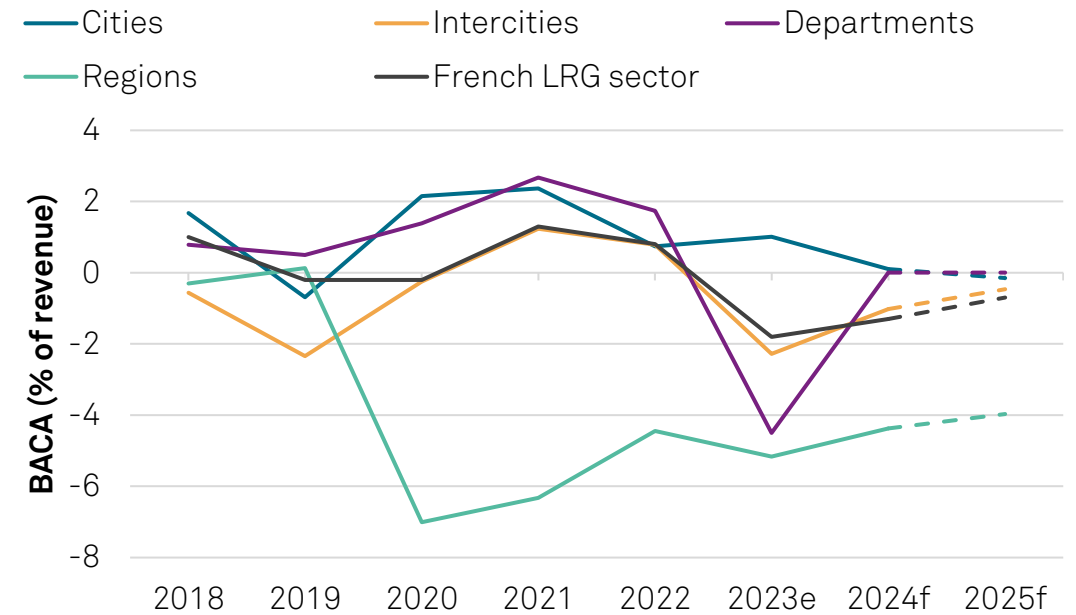
Departments generally have worse budgetary performance

Selected indicators--2023



Sources: French Observatory on Local Public Finances; S&P Global Ratings.

Department's performance has deteriorated recently



Note: rhs--Right-hand scale. e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025

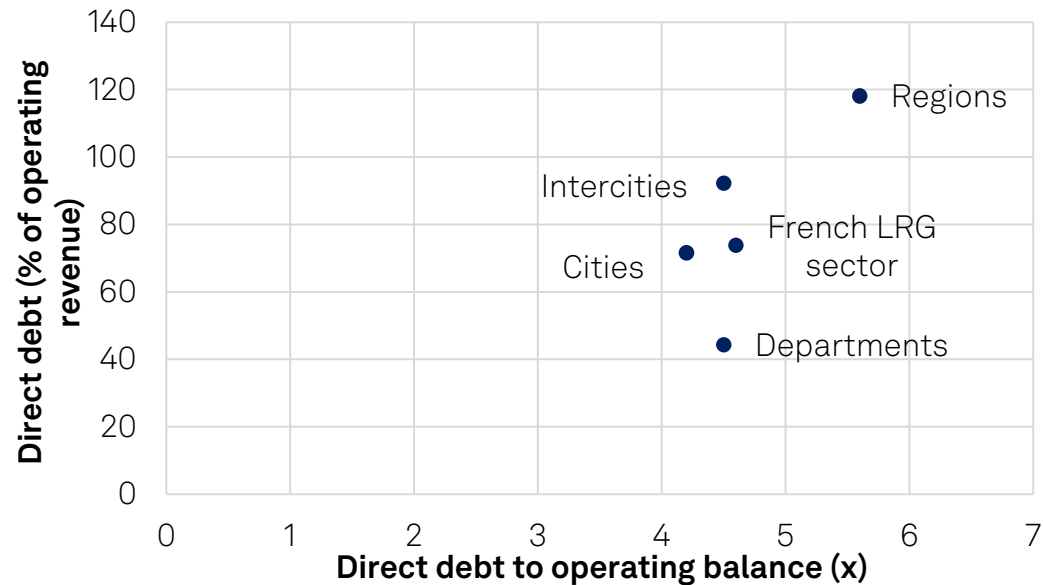
In a Nutshell | French LRGs

Debt burden

- French LRGs will continue their modest deleveraging trend as their operating revenue are expected to grow faster than borrowing.
- Direct debt, as a percentage of operating revenue, should reach its lowest level in 10 years.

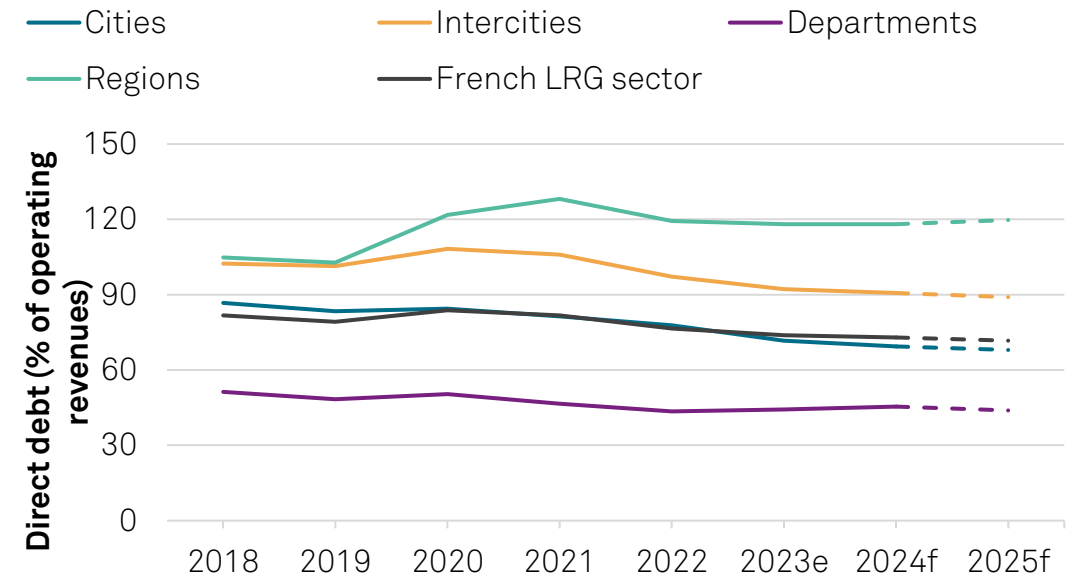
Regions are generally more indebted than rest of French LRGs

Selected indicators--2023



Sources: French Observatory on Local Public Finances; S&P Global Ratings.

Debt burdens vary among French LRGs

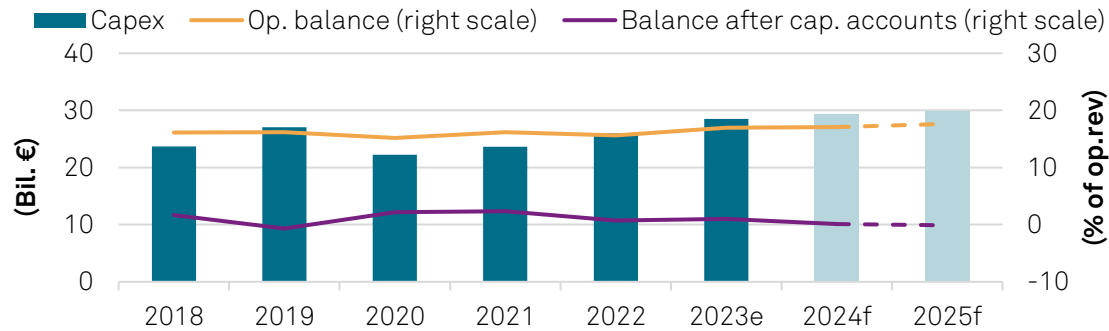


Note: rhs--Right-hand scale. e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025.

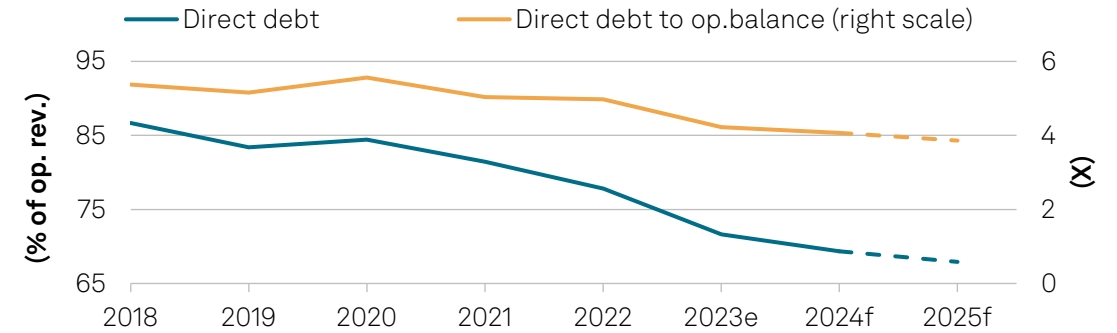
Overview | French Cities

French cities will maintain solid operating budgetary surpluses despite the currently weak economic environment

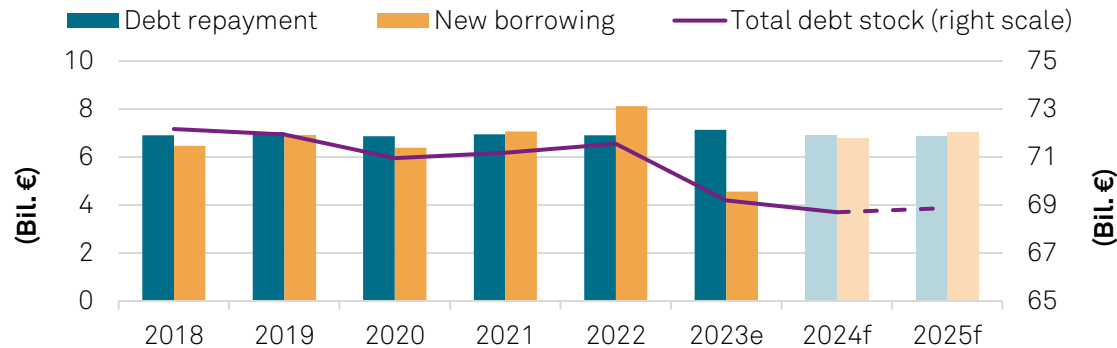
Budgetary performance--selected indicators



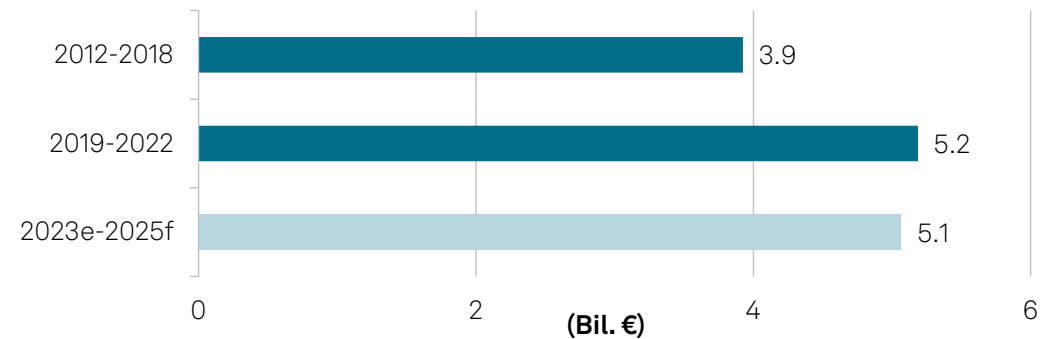
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing

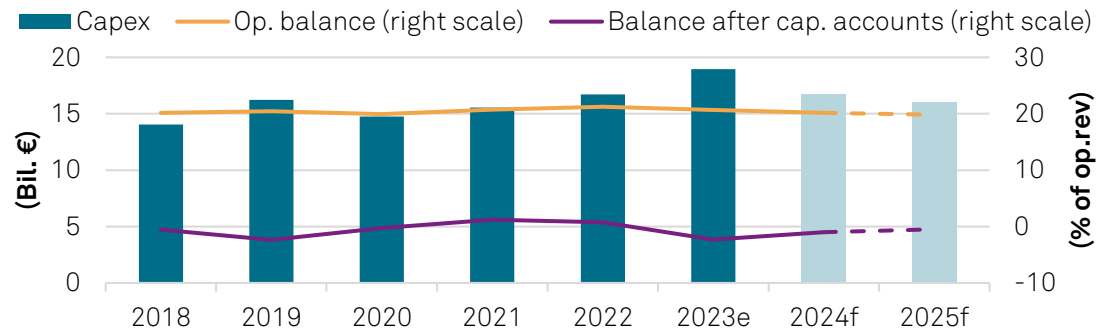


Note: rhs--Right-hand scale. e--Estimate. f--Forecast. Op. rev--Operating revenue. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025.

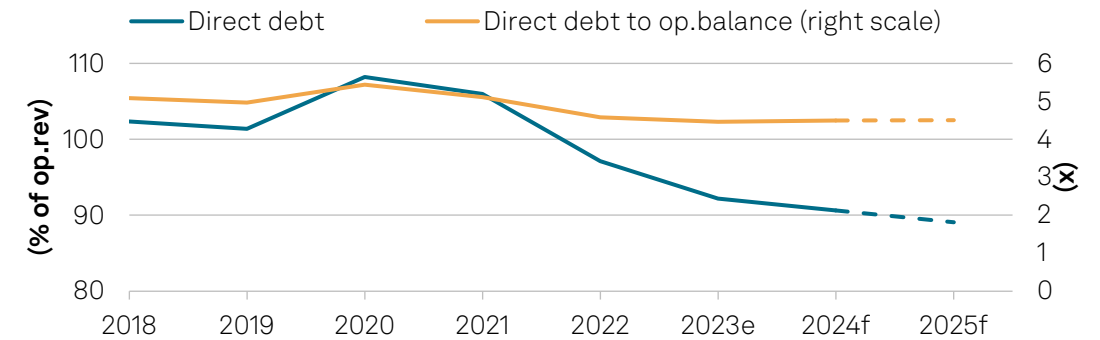
Overview | French Intercities

French intercities' tax revenues will be supported by revaluation of property bases and solid VAT receipts growth

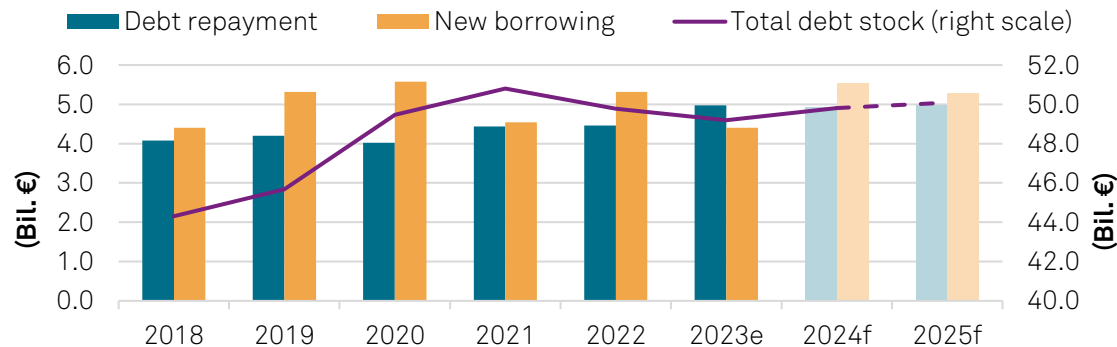
Budgetary performance--selected indicators



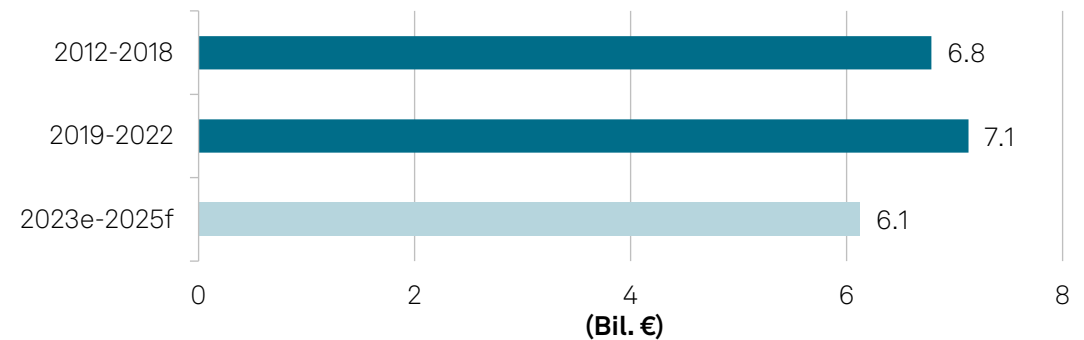
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing

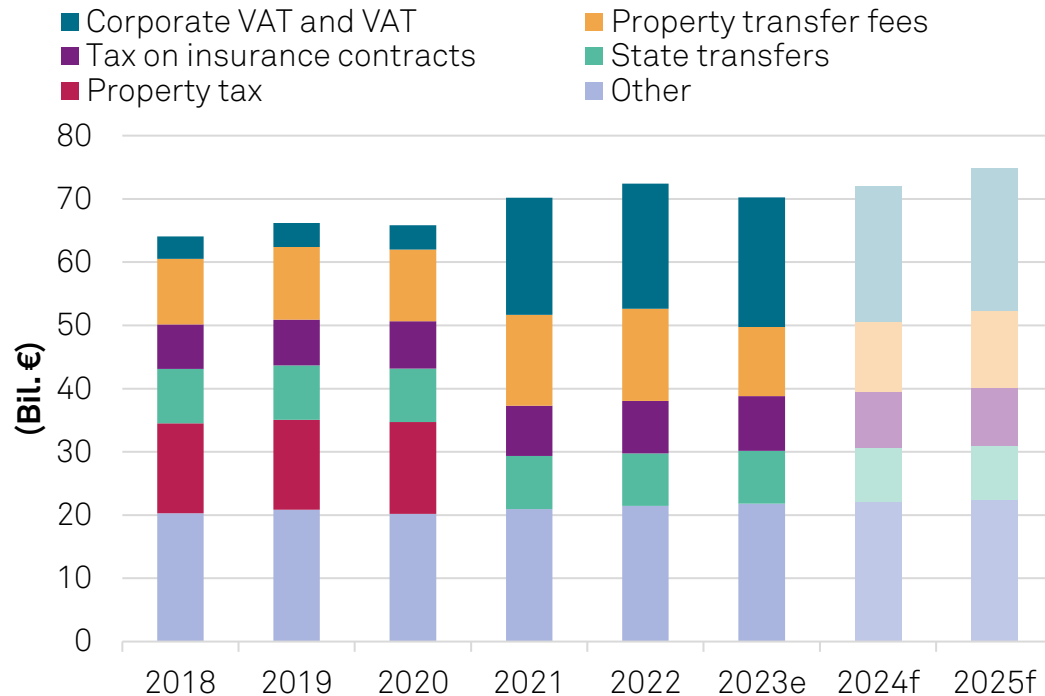


Note: rhs--Right-hand scale. e--Estimate. f--Forecast. Op. rev--Operating revenue. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025.

Overview | French Departments (1/2)

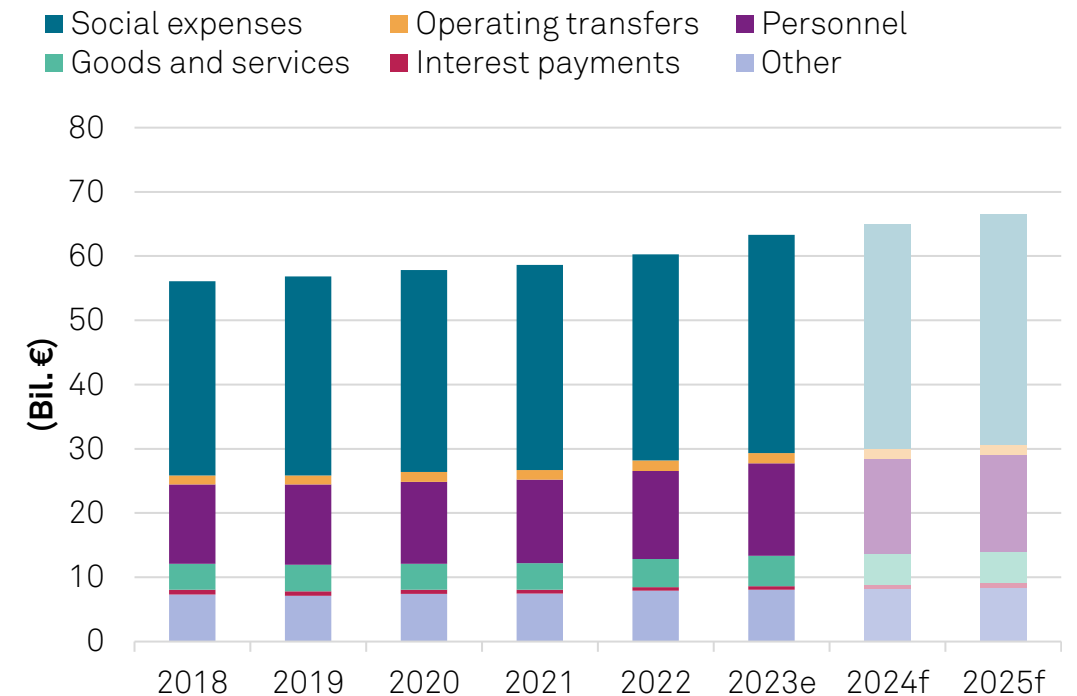
French departments' budgetary performance will reflect sensitivity to the real estate market and the high share of social spending as a share of total spending (estimated at above 50%)

French departments' operating revenues, 2018-2025



f—Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings.

French departments' operating expenses, 2018-2025

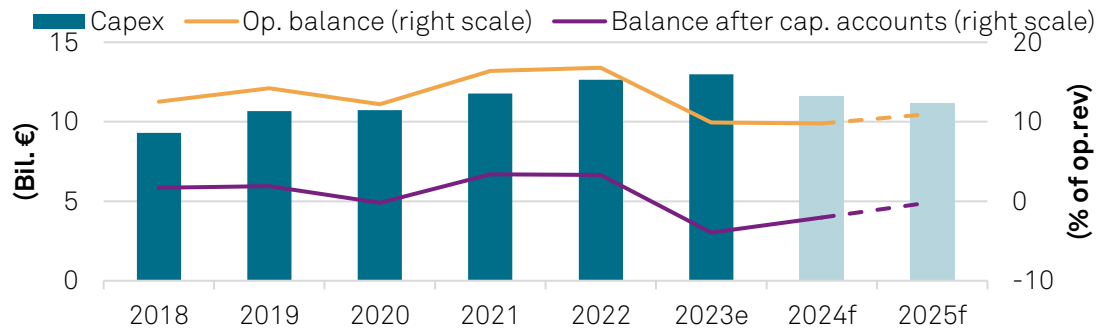


f—Forecast. Sources: French Observatory on Local Public Finances; S&P Global Ratings.

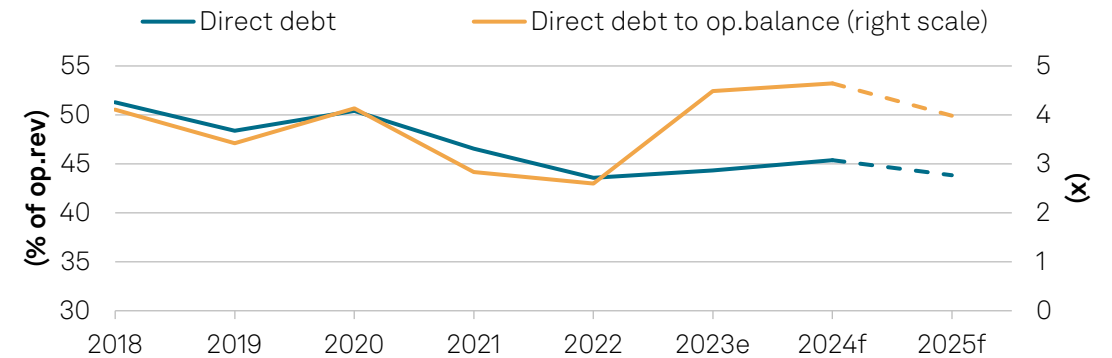
Overview | French Departments (2/2)

Pressure on operating balances will force departments to run deficits, mostly due to lower property transfer fees and increased social transfers

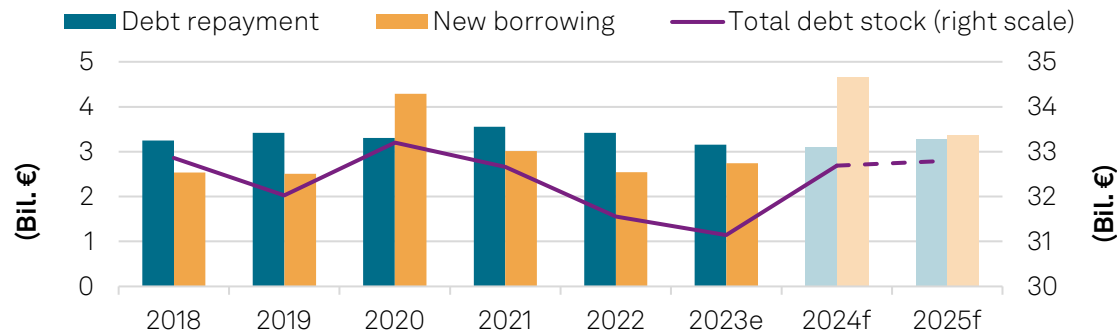
Budgetary performance --selected indicators



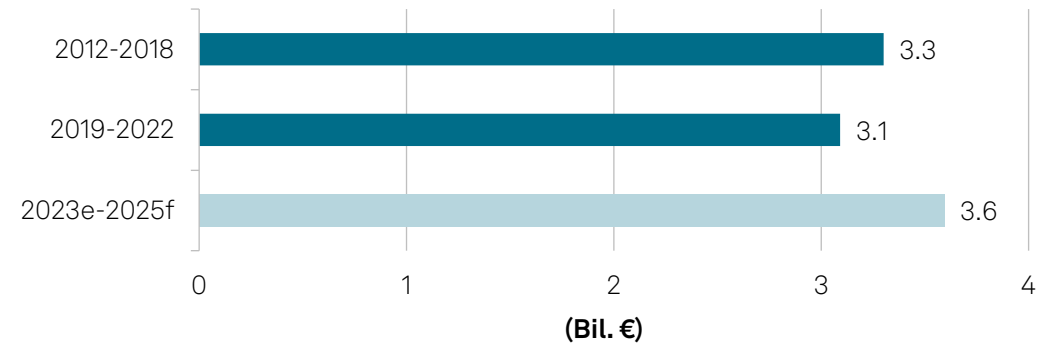
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing

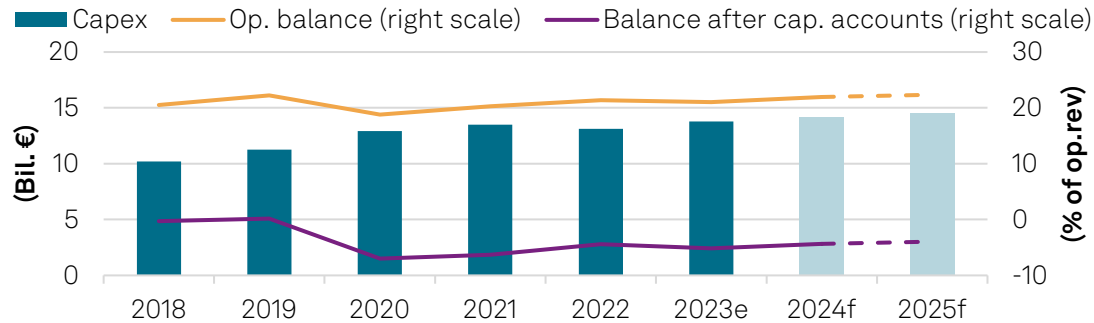


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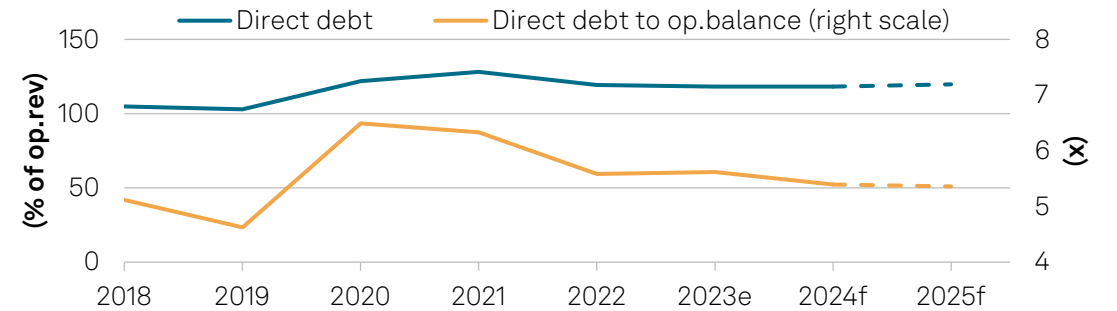
Overview | French Regions

Borrowing will likely peak during 2024-2025 as French regions continue to execute their investment projects, especially on railway infrastructure and other infrastructure renovation

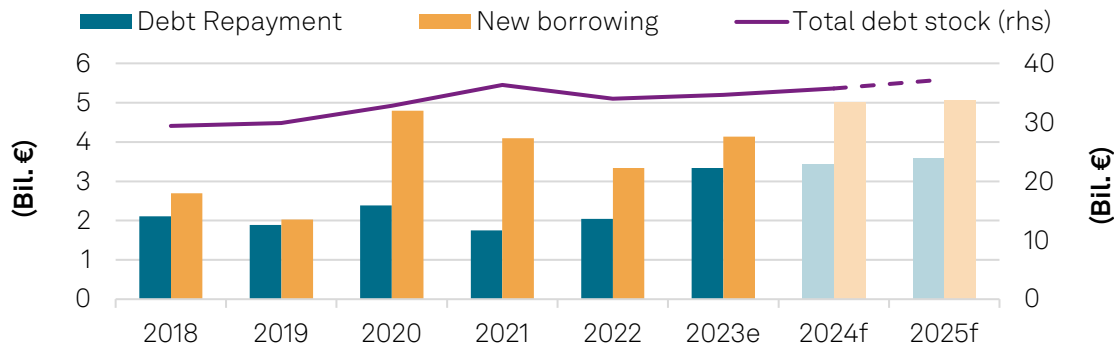
Budgetary performance--selected indicators



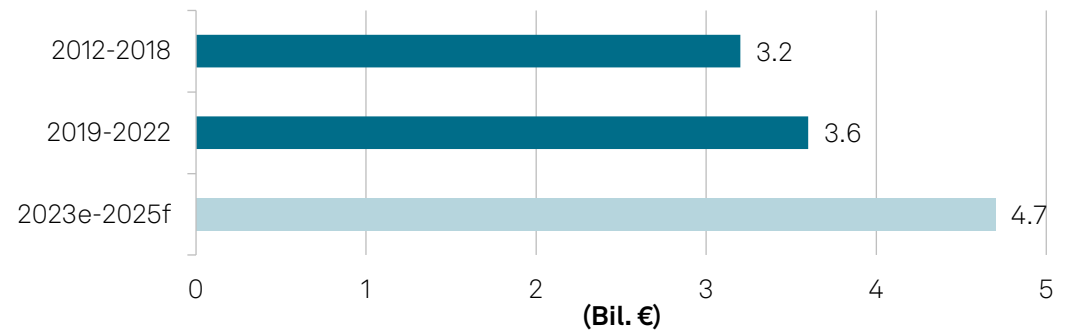
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing



Note: rhs--Right-hand scale. e--Estimate. f--Forecast. Op. rev--Operating revenue. Sources: French Observatory on Local Public Finances; S&P Global Ratings' estimates for 2023 and forecasts for 2024 and 2025.

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- [Subnational Debt 2024: France, Adaptability Will Remain Key Amid Sluggish Growth](#), March 4, 2024
- [Subnational Debt 2024: Spain \(Debt Absorption Scenarios\): All could benefit, with some more than others](#), March 4, 2024
- [Subnational Debt 2024: Australian States' Debt Rift Deepens](#), Feb. 29, 2024
- [Subnational Debt 2024: Canadian Local And Regional Governments Are Running Fast To Stay In Place](#), Feb. 29, 2024
- [Subnational Debt 2024: Chinese Governments Reach Their Limits; Other Emerging Markets Taper Borrowing](#), Feb. 29, 2024
- [Subnational Debt 2024: Focus on debt sustainability](#), Feb. 29, 2024
- [Subnational Debt 2024: Germany, Subdued Fiscal Performance Suggests Borrowing Will Rebound](#), Feb. 29, 2024
- [Subnational Debt 2024: Global LRGs Can Handle Rising Interest Expenses](#), Feb. 29, 2024
- [Subnational Debt 2024: Infrastructure Spending Succumbs To Economic Slowdown](#), Feb. 29, 2024
- [Subnational Debt 2024: Spain: Lower borrowings, but bond issuances recover](#), Feb. 29, 2024
- [Subnational Debt 2024: Switzerland, Resilient Budget Surpluses Should Enable Further Deleveraging](#), Feb. 29, 2024
- [China City Governments Risk Falling Into A Debt Trap](#), Feb. 20, 2024

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