



Subnational Government Outlook 2025

# Capital Expenditure Shows Signs Of Slowing

---

**S&P Global**  
Ratings

Manuel Becerra

Noa Fux

Felix Ejgel

Lisa Schineller

Jan. 16, 2025

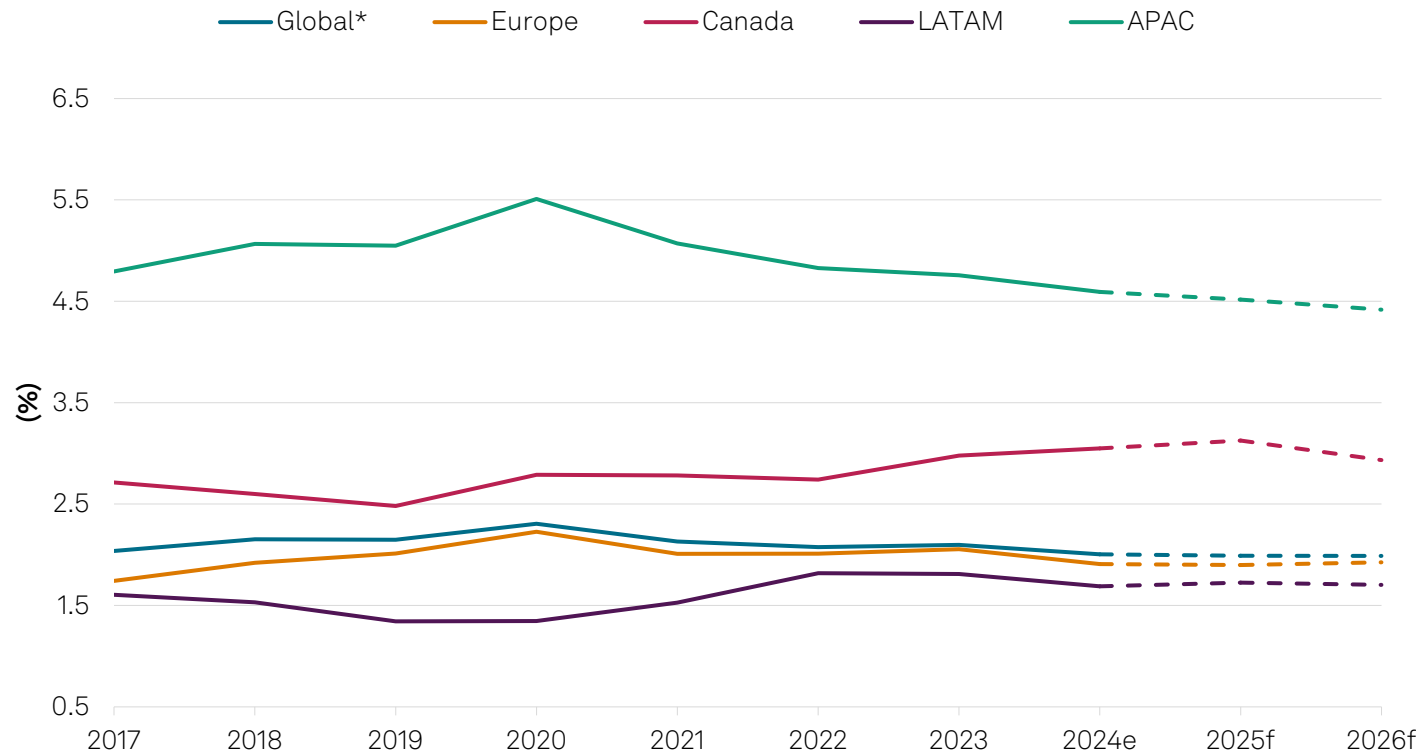
*This report does not constitute a rating action*

# Key Takeaways

- We expect capital expenditure (capex) by local and regional governments (LRGs) across the globe will moderate over 2025-2026, despite modest economic growth and persistent spending pressure.
- Investments across Asia-Pacific will remain elevated compared with those in other regions, mainly because LRGs have large infrastructure spending responsibilities and aren't constrained by strict national limits on deficits and debt ratios.
- As a percentage of GDP, LRGs' capex in Latin America and Europe will remain fairly small on average. European and Latin American LRGs will keep financing most of their investments through budgetary resources, while LRGs in Asia-Pacific and Canada will likely rely more on borrowings.

# We Expect LRGs' Capital Expenditure To Decline Globally

Capital expenditure as a percentage of GDP

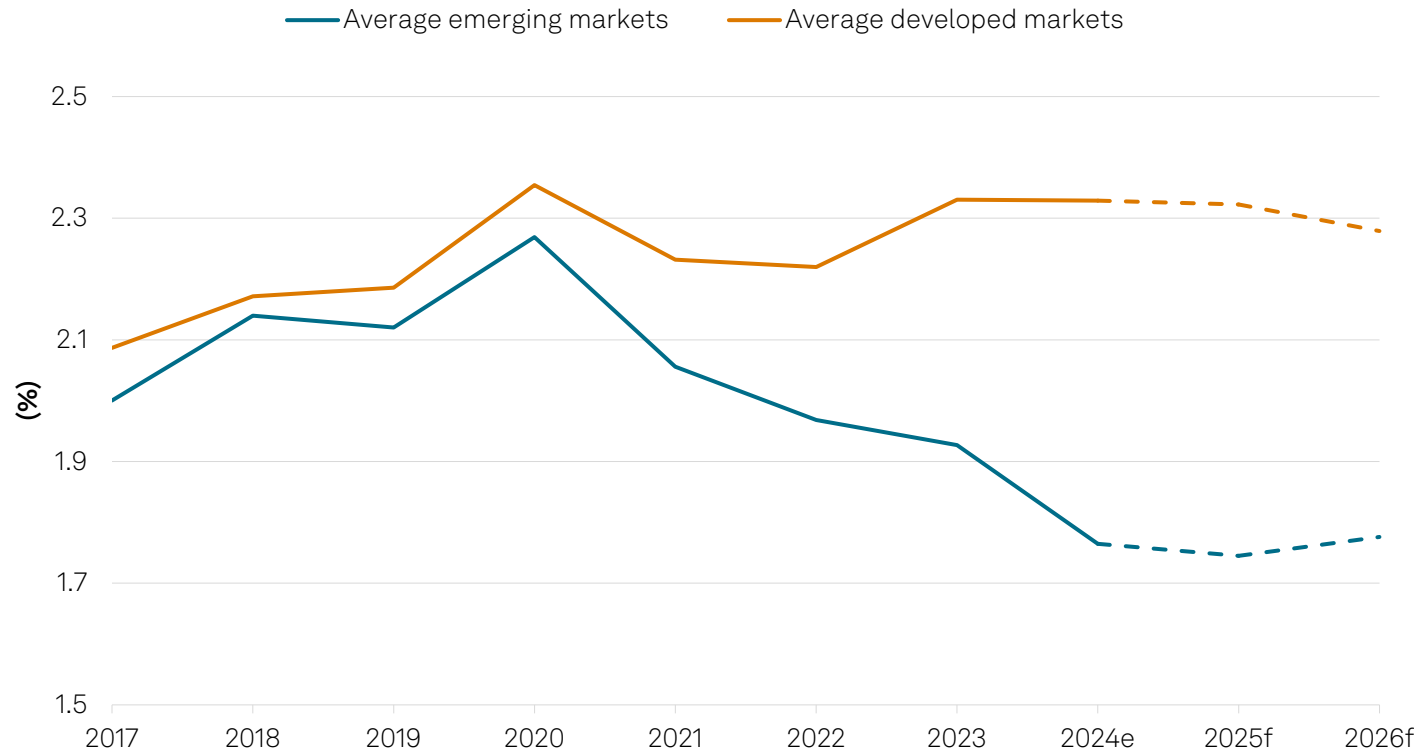


\*Global average includes all countries covered in this report. e--Estimate. f--Forecast. Source: S&P Global Ratings.

- The capex of LRGs outside the U.S. will remain at about 2% of GDP over 2025-2026.
- European LRGs face tighter fiscal flexibility and the gradual phase out of EU funds.
- We expect LRGs in Latin America to cope with lower government transfers and delayed public investments due to limited budgetary capacity.
- In Asia-Pacific capex will remain high, although reducing, as Chinese LRGs cope with revenue challenges.
- Canadian LRGs will record large public investments in health care and transport projects.

# The Gap Between Emerging And Developed Economies Remains Wide

Capital expenditure as a percentage of GDP



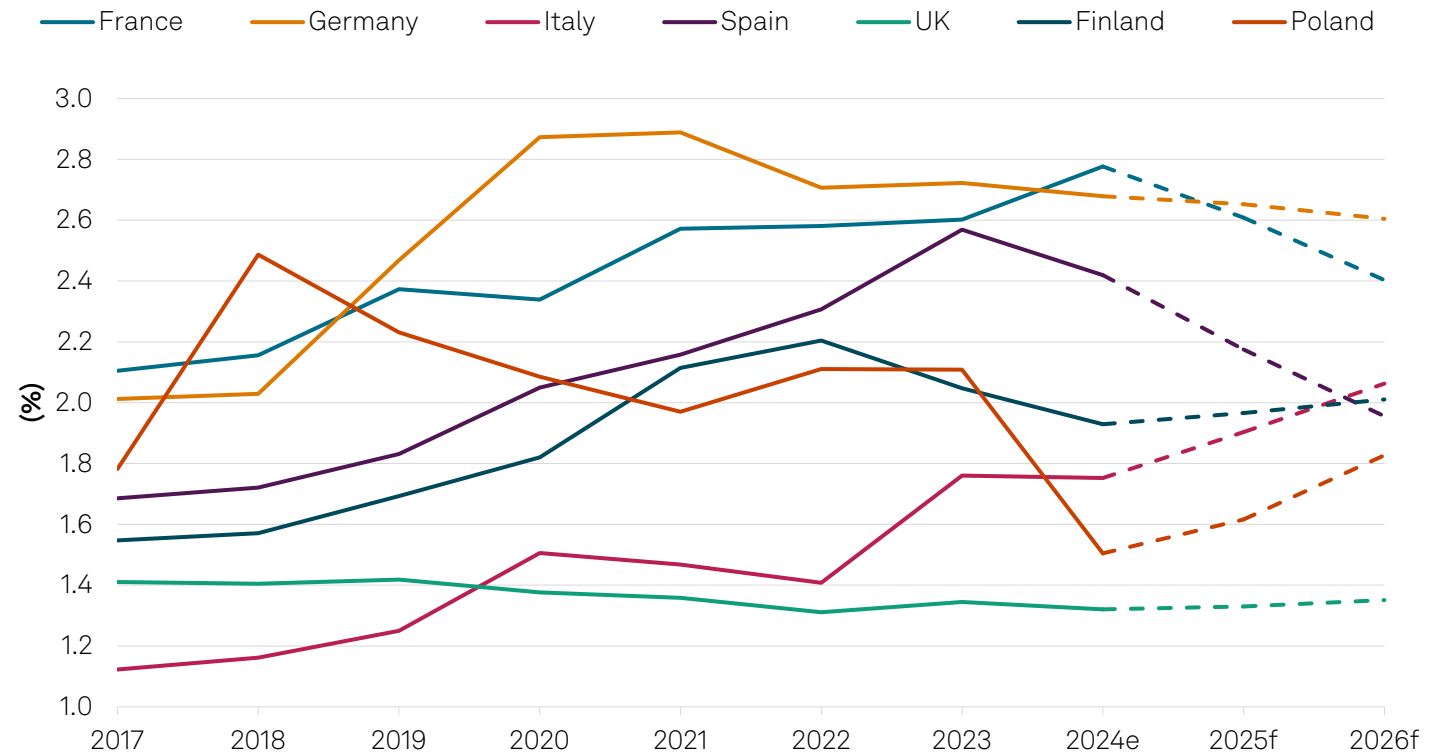
e--Estimate, f--Forecast. Source: S&P Global Ratings.

- We expect the capex of LRGs in emerging economies will lag that of peers in developed economies, a trend that started in 2021, when governments in China began to contain budgetary spending.
- For LRGs in developed economies, we foresee a modest decline, albeit from relatively high levels, owing to the focus on balanced budget requirements in Europe.
- The widening gap between LRG investments in emerging and developed economies may delay the convergence of quality in infrastructure and public services and constrain LRGs' growth potential.

# LRGs In Large European Countries Cut Capex, Except For EU Projects

- We expect European LRGs' capex to reduce as a share of GDP, since weak economic growth, the return of EU fiscal rules, and pressure on operating budgets will limit capacity to address public investments.
- We expect LRGs, especially in southern and central Europe, will benefit from the availability of EU funds to implement infrastructure investments and address demographic challenges.

European LRGs' capital expenditure (percentage of GDP)

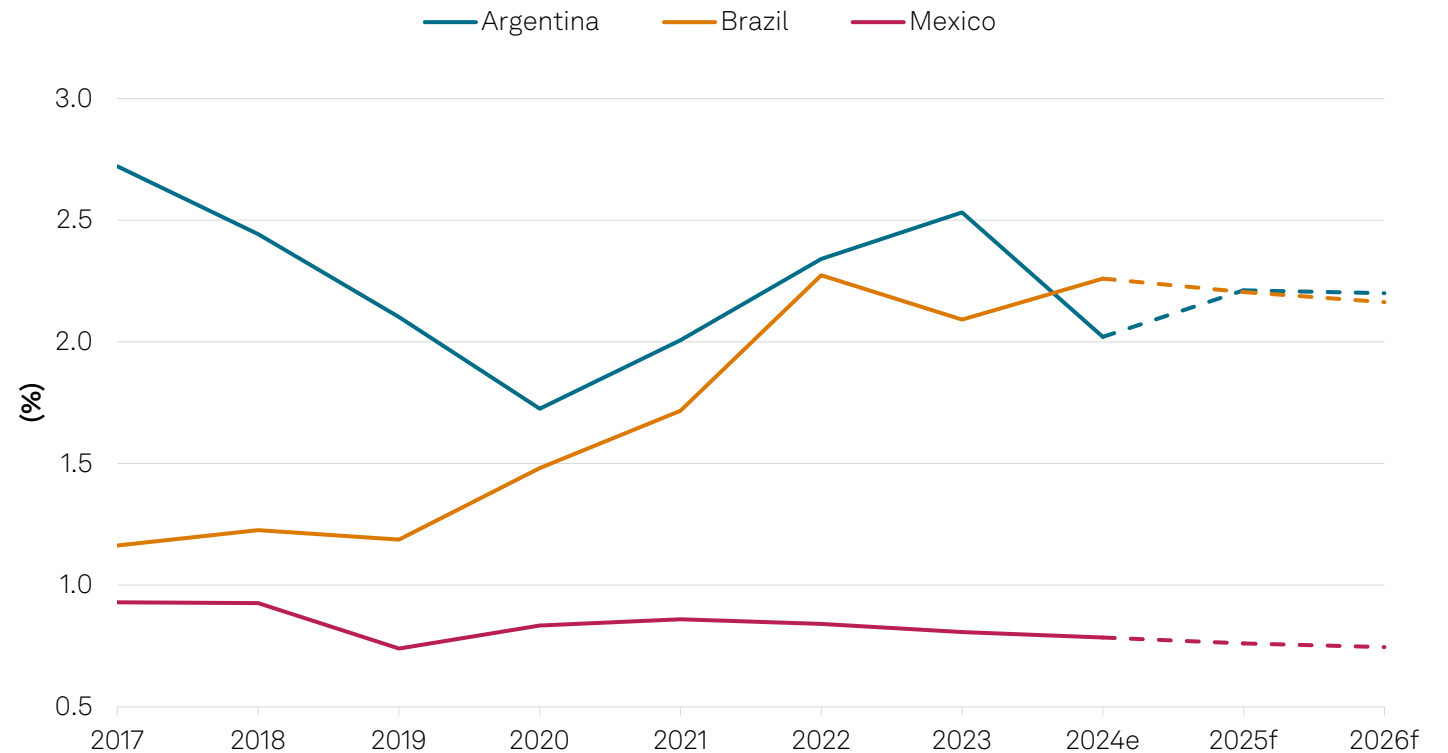


e--Estimate. f--Forecast. Source: S&P Global Ratings.

# Infrastructure Gaps Remain In Latin America

- We project LRGs' capex in Latin America to remain below a modest 2% of GDP over 2025-2026, lagging global peers due to weaker institutional settings, lower quality of financial management, and limited access to external funding.
- We think Argentinian LRGs will also have constrained flexibility to undertake investments in the medium term due to the volatile economy.
- Brazilian LRGs' capex as a share of GDP will likely stabilize amid the post-pandemic economic recovery, due to lower federal grants, rising inflation, and budgetary pressures.
- Mexican LRGs' investments will remain very modest, because of their limited flexibility and tight balanced budget requirement.

Latin American LRGs' capital expenditure (percentage of GDP)

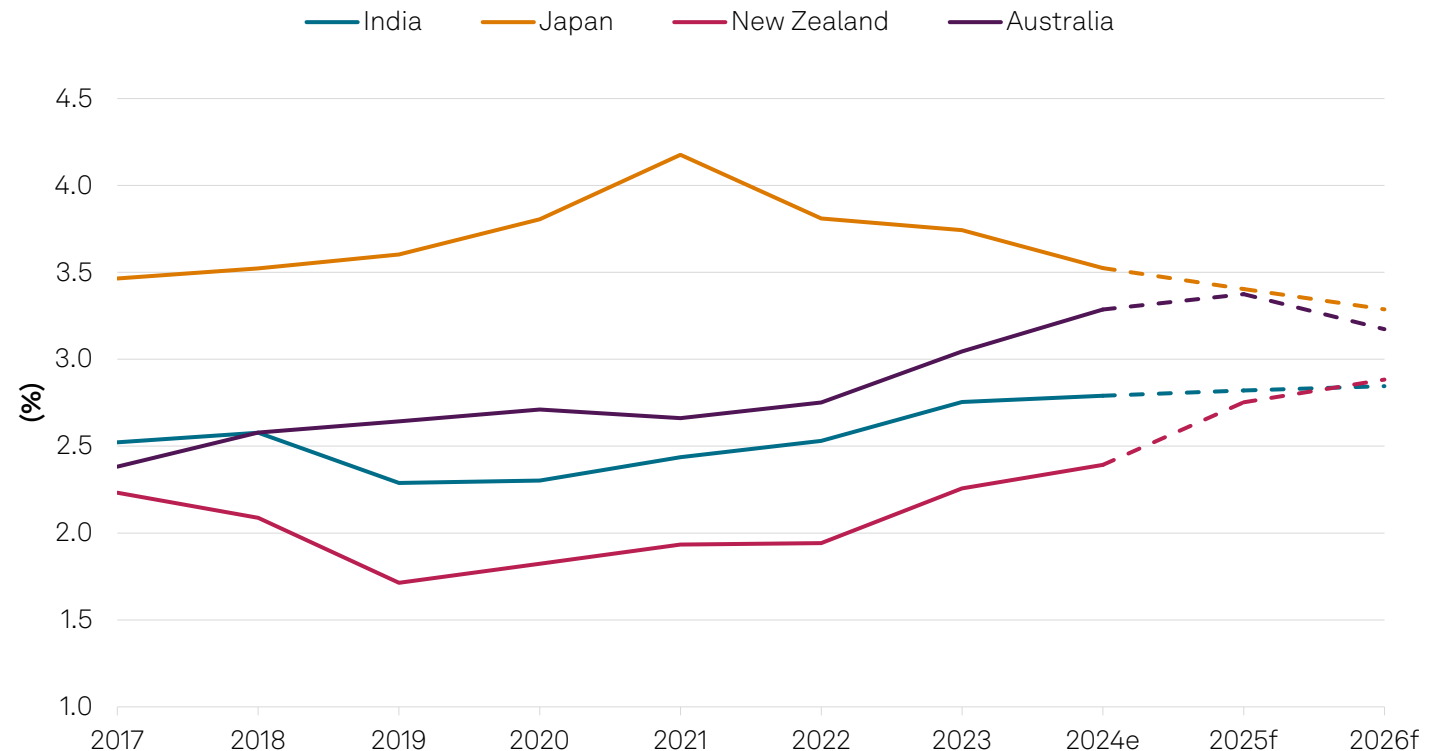


e--Estimate. f--Forecast. Source: S&P Global Ratings.

# Public Investments In Asia-Pacific Are Converging

- Excluding China, Asia-Pacific LRGs' capex will remain at about 3% of GDP over 2025-2026.
- In Australia and New Zealand, progress is being made on ambitious investment plans related to transport and water infrastructure projects.
- Indian LRGs will continue to increase capex to address the country's infrastructure gaps, thanks to the National Infrastructure Pipeline.
- Japan's LRGs' high investments in previous years will allow them to decrease capex, supporting deleveraging efforts in the medium term.

Asia-Pacific LRGs capital expenditure (percentage of GDP)

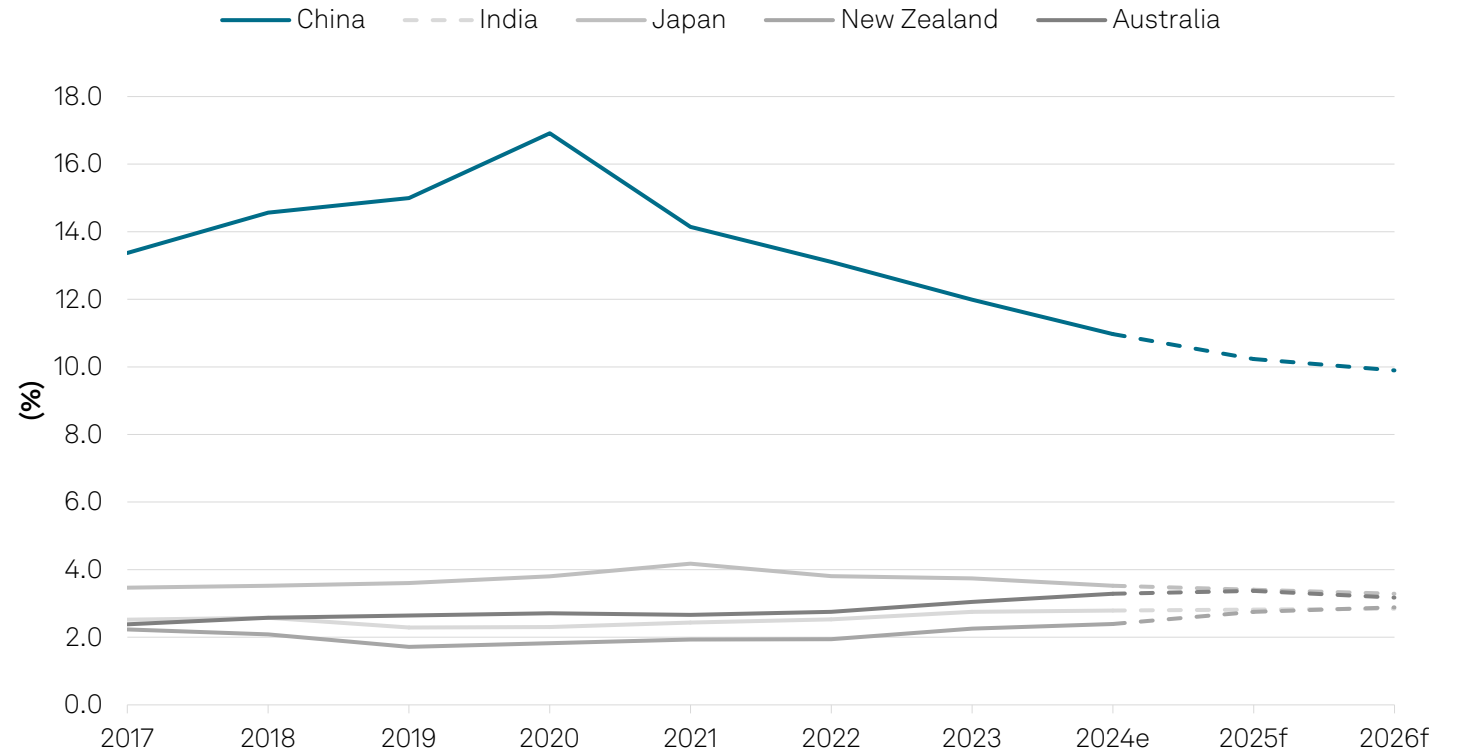


e--Estimate, f--Forecast. Source: S&P Global Ratings.

# Despite A Decline, Chinese LRGs' Capex Remains The Highest Globally

- We expect Chinese LRGs' capex to decrease to 10% of GDP in 2025, from 15% in 2019.
- We therefore expect a reduction of capex in real terms, due to declining proceeds from land sales and tighter fiscal discipline.

Chinese LRGs' capital expenditure (percentage of GDP)



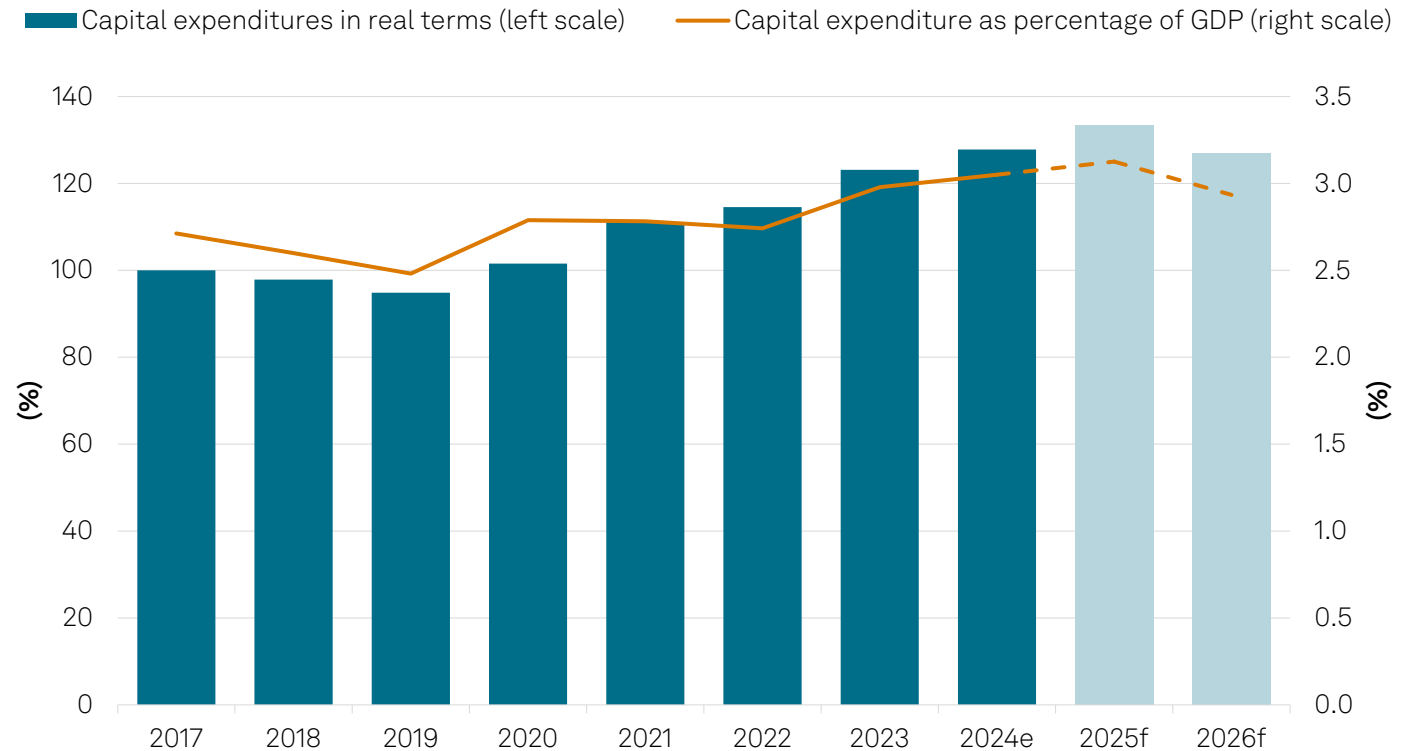
e--Estimate. f--Forecast. Source: S&P Global Ratings.



# Canadian LRGs Will Maintain Large Investments

- We expect capex to peak at about 3.1% of GDP in 2025 after 2.5% of GDP in 2019.
- The bulk of expenditure is at the provincial level, with projects mainly related to health care and transportation.
- On a comparative basis, municipal spending on capital will increase at a more moderate pace and focus on servicing land for new housing development and transit.

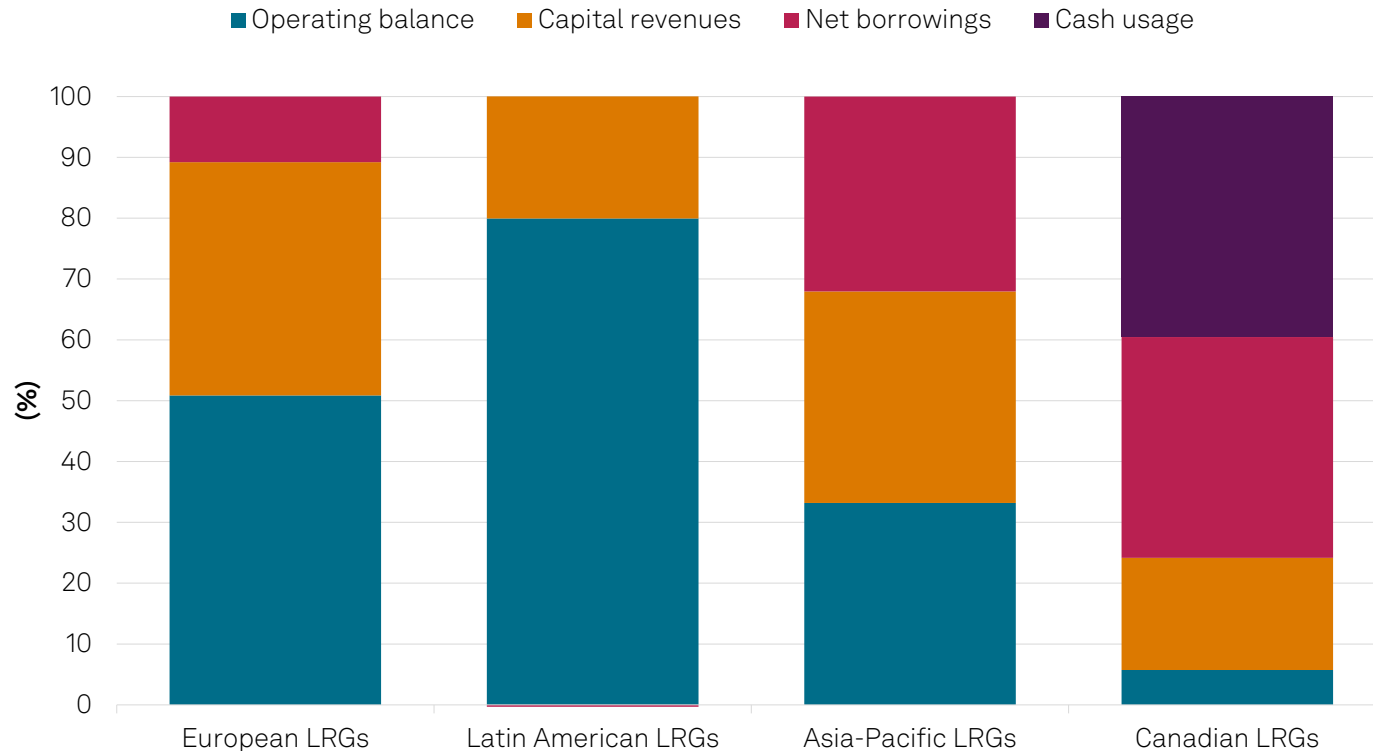
Canadian LRGs' capex growth (percentage of GDP; Real terms, 2017 = 100)



e--Estimate. f--Forecast. Source: S&P Global Ratings.

# Across The Globe, LRGs' Capex Funding Models Differ Greatly

## Local and regional governments' funding mix (2025)

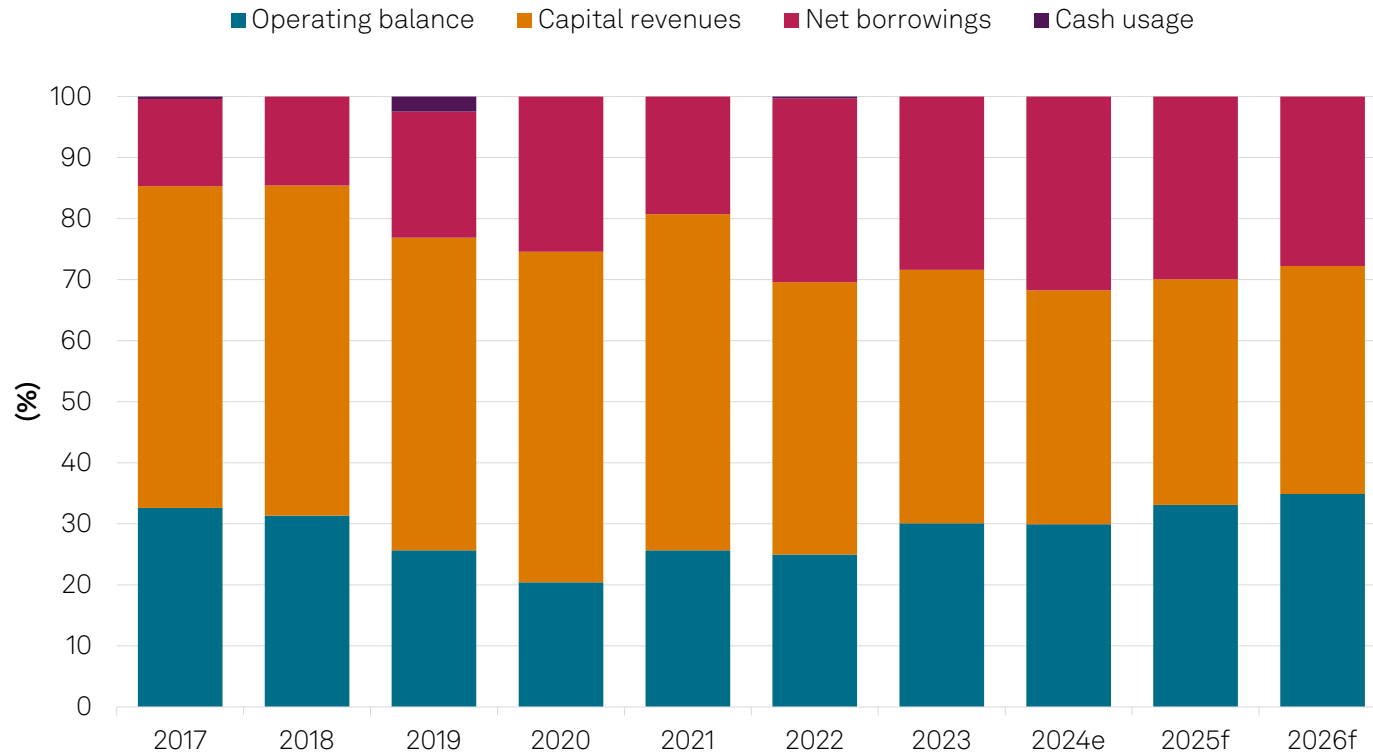


Source: S&P Global Ratings.

- European LRGs have healthy operating surpluses and capital grants, but fiscal and debt limitations constrain their capacity to finance investments through borrowings.
- Latin American LRGs have limited access to external funding, local capital markets lack depth, and in some cases national rules limit access to international markets.
- LRGs in Asia-Pacific have increased their exposure to borrowings, since those in China finance more investments through debt.
- Canadian LRGs mainly finance investments through borrowings, thanks to access to market funding and no binding fiscal and debt targets. We consider 2025 to be an anomaly and cash usage typically accounts for 15%-20% of total funding.

# Chinese LRGs Will Likely Increase Borrowings To Fund Investments

## Chinese local and regional governments' funding mix



e--Estimate. f--Forecast. Source: S&P Global Ratings.

- Chinese LRGs have reduced their capital investments as a percentage of GDP, in response to declining proceeds from land sales and closer scrutiny over investment efficiency.
- Therefore, their reliance on operating surpluses and borrowings to finance infrastructure projects is increasing.

# Countries Covered In This Report

- Our report on global LRGs' capital expenditure encompasses 38 countries: Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Czech Republic, Denmark, Finland, France, Germany, India, Indonesia, Israel, Italy, Japan, Jordan, Kazakhstan, Latvia, Mexico, Morocco, New Zealand, Nigeria, North Macedonia, Norway, Philippines, Poland, Romania, Serbia, South Africa, Spain, Sweden, Switzerland, Thailand, Türkiye, Ukraine, and the U.K. We consider this sample representative of global LRG debt. We have also published separate and more detailed analyses of projected borrowings in the LRG sectors of various regions (see Related Research).
- We base our survey on data collected from statistical offices as well as on our assessment of the sector's borrowing requirements and outstanding debt, which includes bonds and bank loans. The reported figures are our estimates and do not necessarily reflect the LRGs' own projections. For comparison, we present our aggregate data in U.S. dollars, unless stated otherwise.
- We acknowledge that LRGs' capex depends on a number of variables, which reduce direct comparability of LRGs across countries and even within in the same country. These variables include a country's degree of government centralization, LRGs' ability to generate budgetary surpluses, access to external funding to finance investments, investment needs, and the initial capital stock.

## Related Research

- [Subnational Government Outlook 2025: Borrowings Are Still On The Rise](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Anticipating A Year Of Change](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Developed Markets' Regional Differences Intensify](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Emerging Markets' Borrowing Will Rise On Funding Needs And Capex](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Nordics' Infrastructure Needs Will Keep Investments High](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Spain's Debt Ratios Are Reducing As Revenue Rises](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Swiss Cantons Are Navigating Budgetary Pressures And Shifting Debt Dynamics](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Germany's Weak Growth Will Maintain Budgetary Pressure, Require New Borrowing](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Canadian LRG Revenues Will Play Catchup To Meet Higher Operating Costs And Stabilize Debt Growth](#), Jan. 16, 2025
- [China's Local Governments: Downside Risk Is Rising For Fiscal Consolidation](#), Dec. 16, 2024

# Primary Credit Analysts

Felix Ejgel

London

+44-20-7176-6780

[felix.ejgel@spglobal.com](mailto:felix.ejgel@spglobal.com)

Noa Fux

London

+44-20-7176-0730

[noa.fux@spglobal.com](mailto:noa.fux@spglobal.com)

Manuel Becerra

Madrid

+34-914-233-220

[manuel.becerra@spglobal.com](mailto:manuel.becerra@spglobal.com)

Lisa Schineller

New York

+1-212-438-7352

[lisa.schineller@spglobal.com](mailto:lisa.schineller@spglobal.com)

# Secondary Contacts

## Anthony Walker

Melbourne

+61-3-9631-2019

[anthony.walker@spglobal.com](mailto:anthony.walker@spglobal.com)

## Martin J Foo

Melbourne

+61-3-9631-2016

[martin.foo@spglobal.com](mailto:martin.foo@spglobal.com)

## Christopher Yip

Hong Kong

+852-2533-3593

[christopher.yip@spglobal.com](mailto:christopher.yip@spglobal.com)

## Kensuke Sugihara

Tokyo

+81-3-4550-8475

[kensuke.sugihara@spglobal.com](mailto:kensuke.sugihara@spglobal.com)

## Michael Stroschein

Frankfurt

+49-693-399-9251

[michael.stroschein@spglobal.com](mailto:michael.stroschein@spglobal.com)

## Dina Shillis

Toronto

+1-416-507-3214

[dina.shillis@spglobal.com](mailto:dina.shillis@spglobal.com)

## Bhavini Patel

Toronto

+1-416-507-2558

[bhavini.patel@spglobal.com](mailto:bhavini.patel@spglobal.com)

## Wenyin Huang

Singapore

+65-6216-1052

[wenyin.huang@spglobal.com](mailto:wenyin.huang@spglobal.com)

## Constanza Perez Aquino

Buenos Aires

+54-11-4891-2167

[constanza.perez.aquino@spglobal.com](mailto:constanza.perez.aquino@spglobal.com)

# Secondary Contacts

Remy Carasse

Paris

+33-14-420-6741

[remy.carasse@spglobal.com](mailto:remy.carasse@spglobal.com)

Didre Schneider

Frankfurt

+49-693-399-9244

[didre.schneider@spglobal.com](mailto:didre.schneider@spglobal.com)

YeeFarn Phua

Singapore

+65-6239-6341

[yeefern.phua@spglobal.com](mailto:yeefern.phua@spglobal.com)

Carl Nynerod

Stockholm

+46-84-40-5919

[carl.nynerod@spglobal.com](mailto:carl.nynerod@spglobal.com)

Manuel Orozco

Sao Paulo

+55-11-3039-4819

[manuel.orozco@spglobal.com](mailto:manuel.orozco@spglobal.com)

Alejandro Rodriguez Anglada

Madrid

+34-91-788-7233

[alejandro.rodriguez.anglada@spglobal.com](mailto:alejandro.rodriguez.anglada@spglobal.com)

Maxim Rybnikov

London

+44-7824-478-225

[maxim.rybnikov@spglobal.com](mailto:maxim.rybnikov@spglobal.com)

Omar A De la Torre Ponce De Leon

Mexico City

+52-55-5081-2870

[omar.delatoree@spglobal.com](mailto:omar.delatoree@spglobal.com)

Karen Vartapetov

Frankfurt

+49-693-399-9225

[karen.vartapetov@spglobal.com](mailto:karen.vartapetov@spglobal.com)



# Secondary Contacts

Jane H Ridley

Englewood

+ 1 (303) 721 4487

[jane.ridley@spglobal.com](mailto:jane.ridley@spglobal.com)

Alina Czerniawski

Buenos Aires

+ 54 1148912194

[alina.czerniawski@spglobal.com](mailto:alina.czerniawski@spglobal.com)

Linus Bladlund

Stockholm

+46-8-440-5356

[linus.bladlund@spglobal.com](mailto:linus.bladlund@spglobal.com)

Christian Esters

Frankfurt

+ 49 693 399 9262

[christian.esters@spglobal.com](mailto:christian.esters@spglobal.com)

Louise Morteveille

Paris

+33-626-050-419

[louise.morteveille@spglobal.com](mailto:louise.morteveille@spglobal.com)

Copyright © 2025 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge) and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/ratings/usratingsfees](http://www.spglobal.com/ratings/usratingsfees).

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

## **spglobal.com/ratings**

**S&P Global**  
Ratings