Subnational Government Outlook 2025

Capital Expenditure Shows Signs Of Slowing

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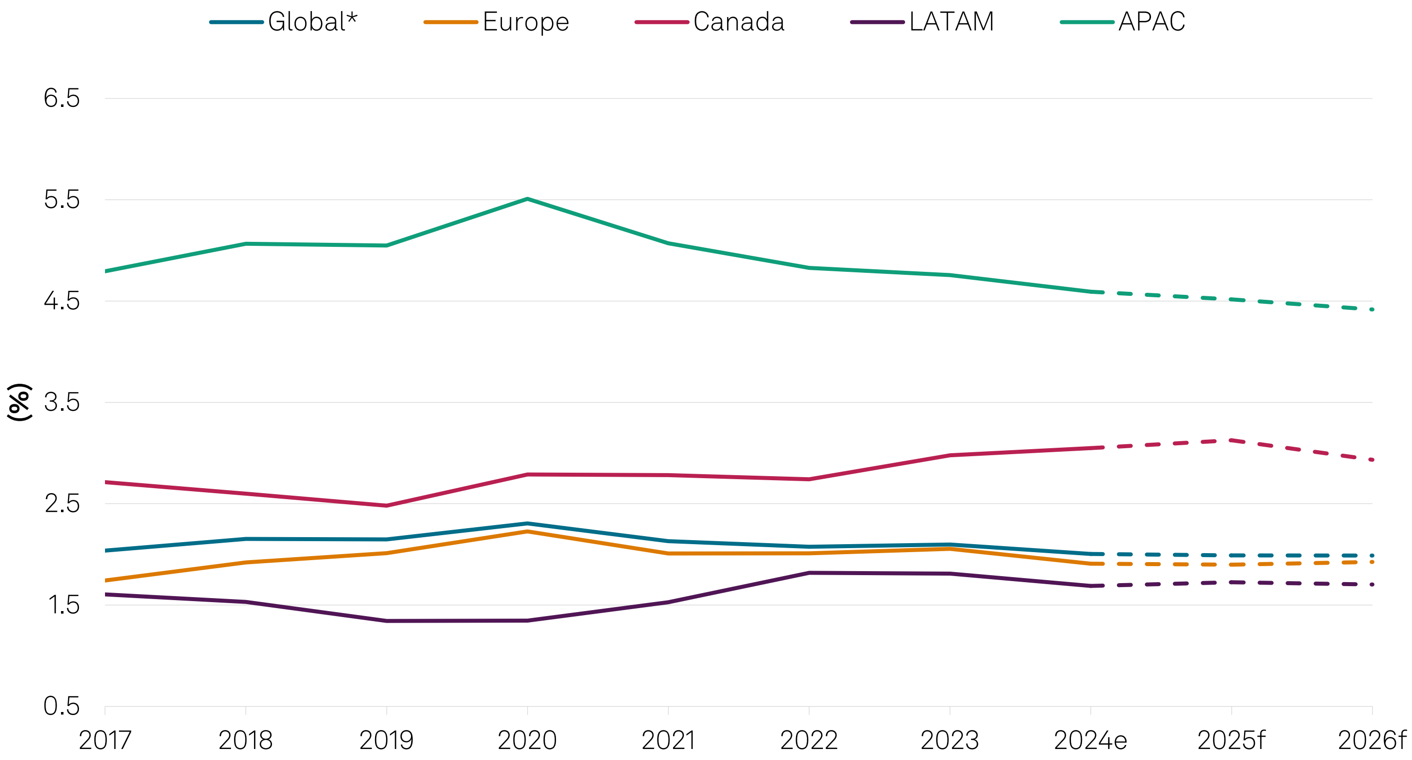
S&P Global Ratings

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

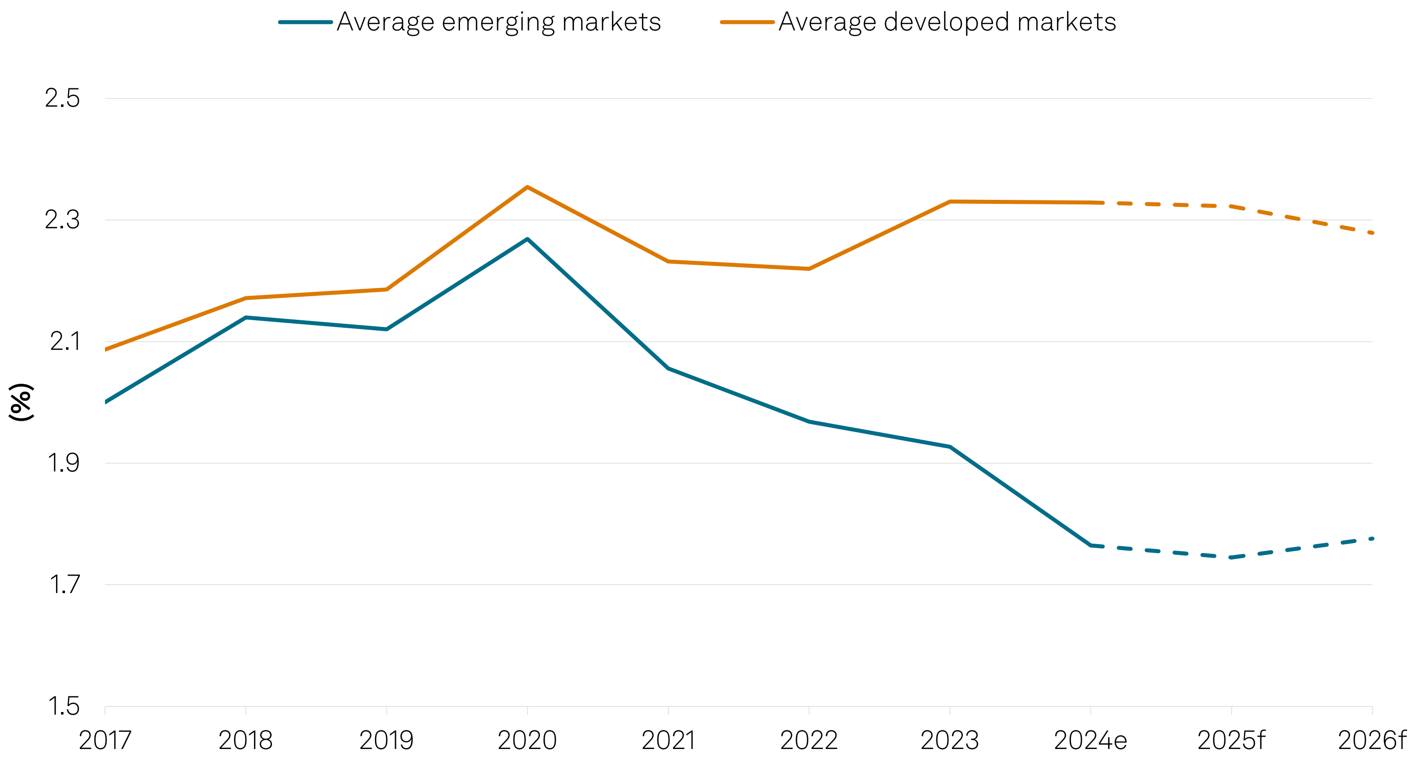


*Global average includes all countries covered in this report. e--Estimate. f--Forecast. Source: S&P Global Ratings.

- 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



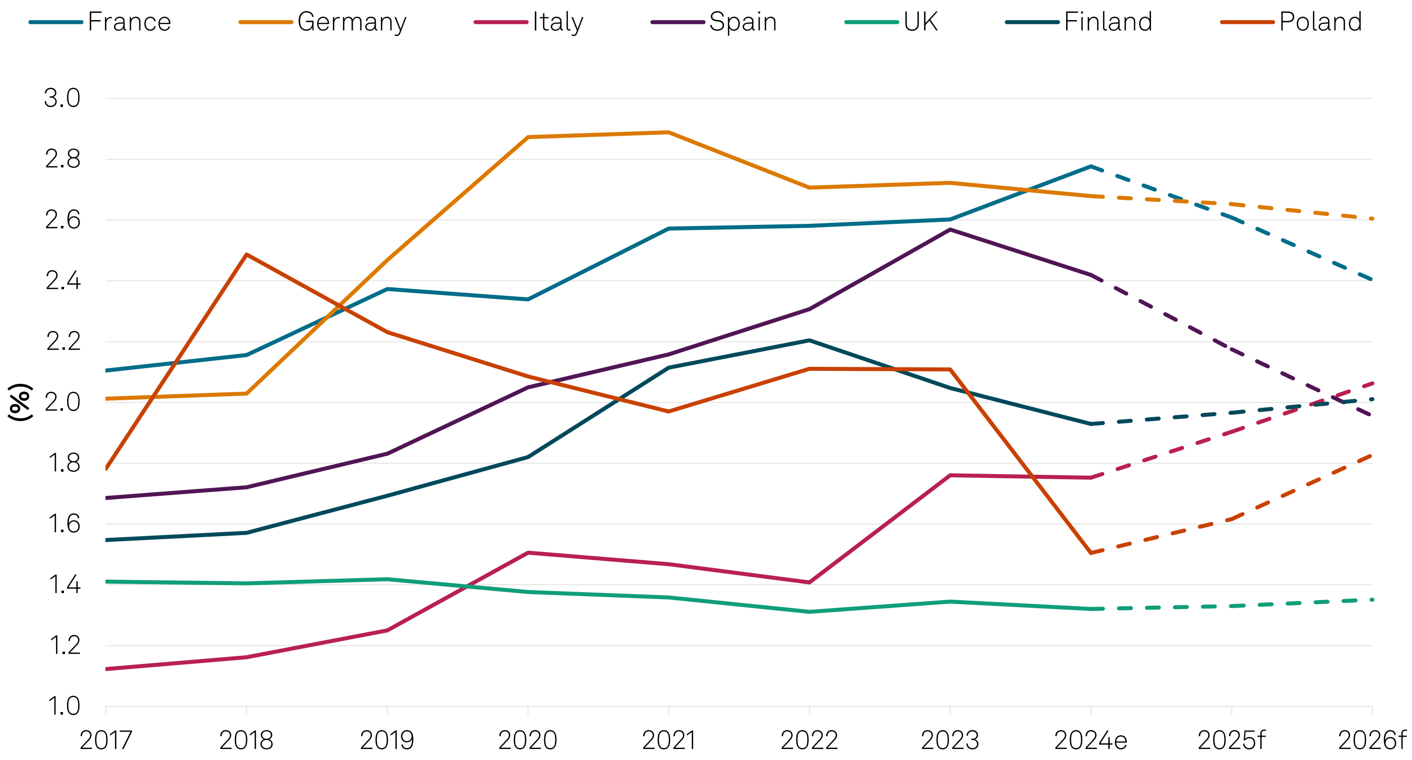
e--Estimate. f--Forecast. Source: S&P Global Ratings.

- 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)



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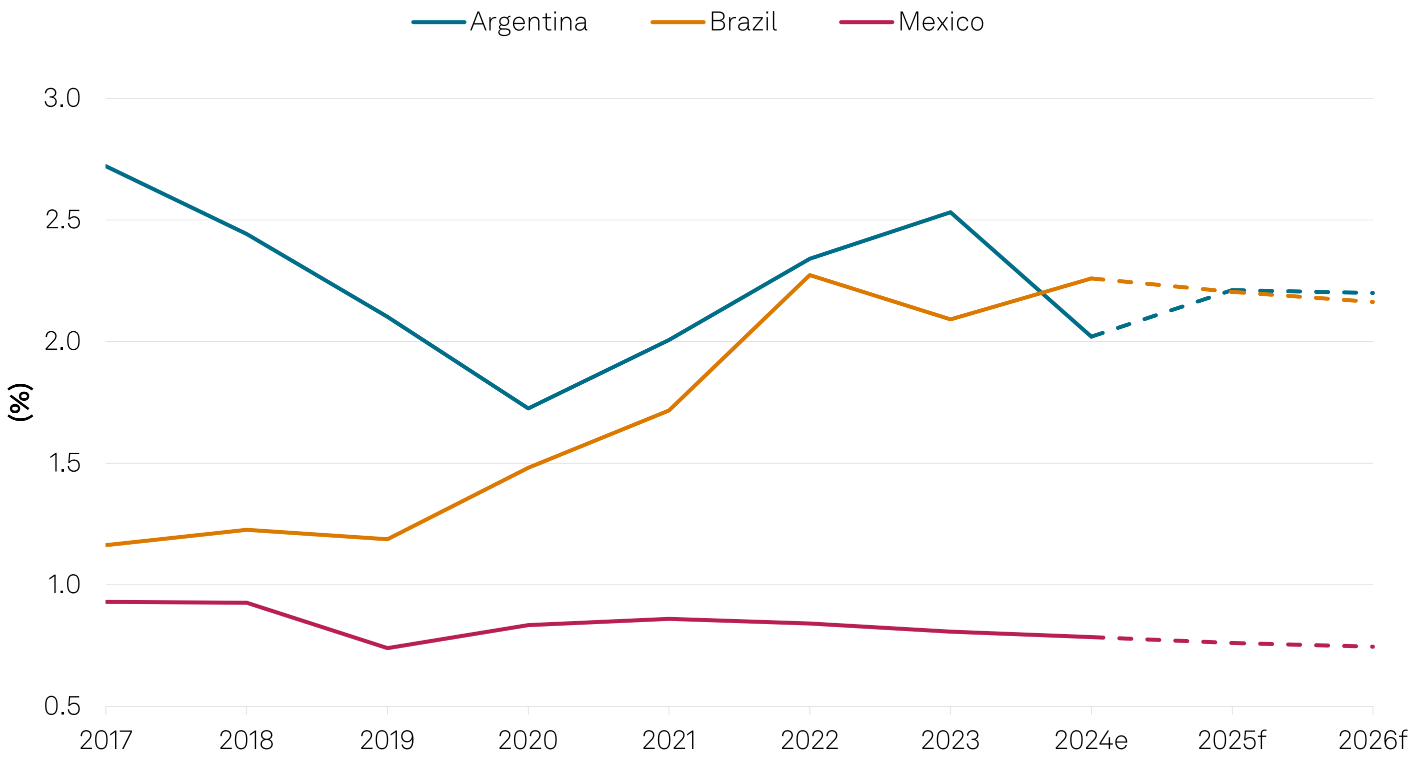
Infrastructure Gaps Remain In Latin America

- 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.

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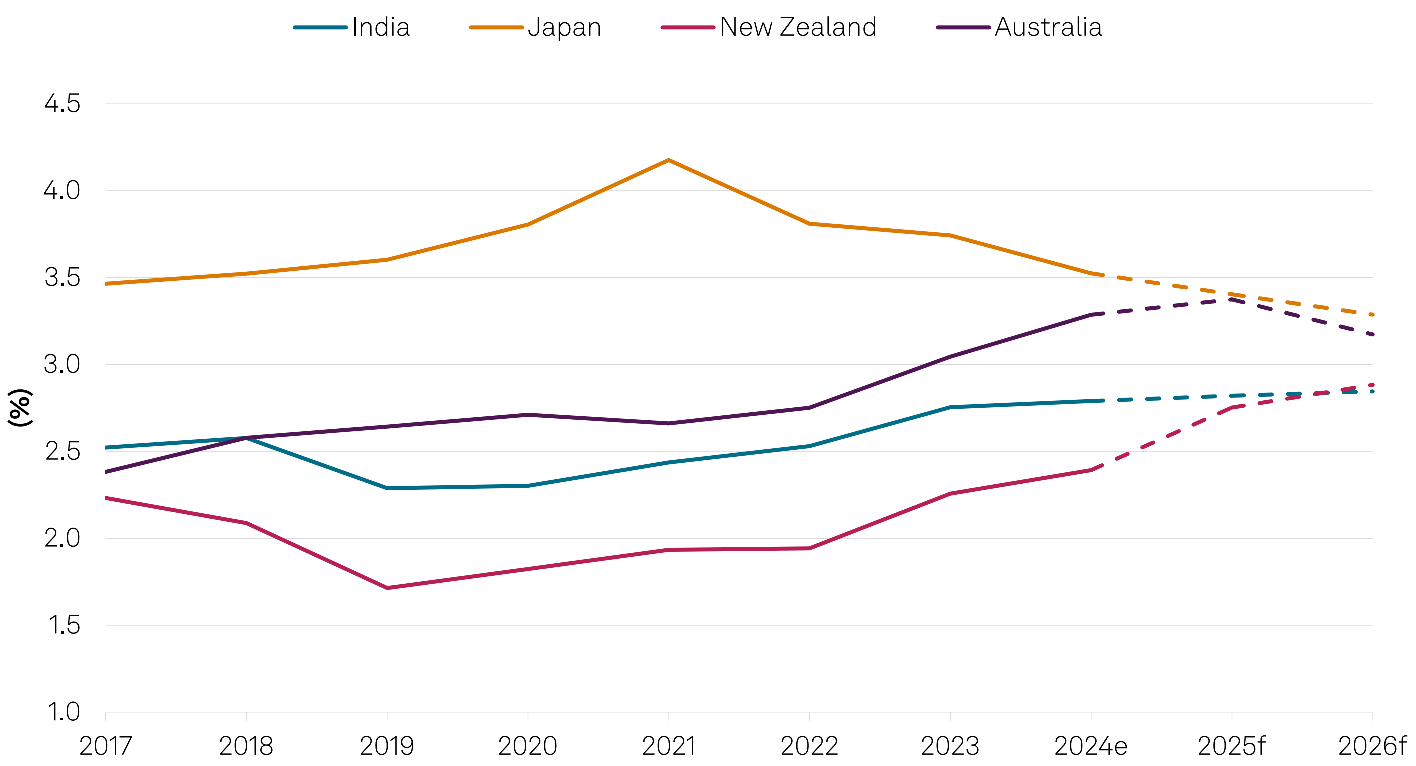
Public Investments In Asia-Pacific Are Converging

- 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)

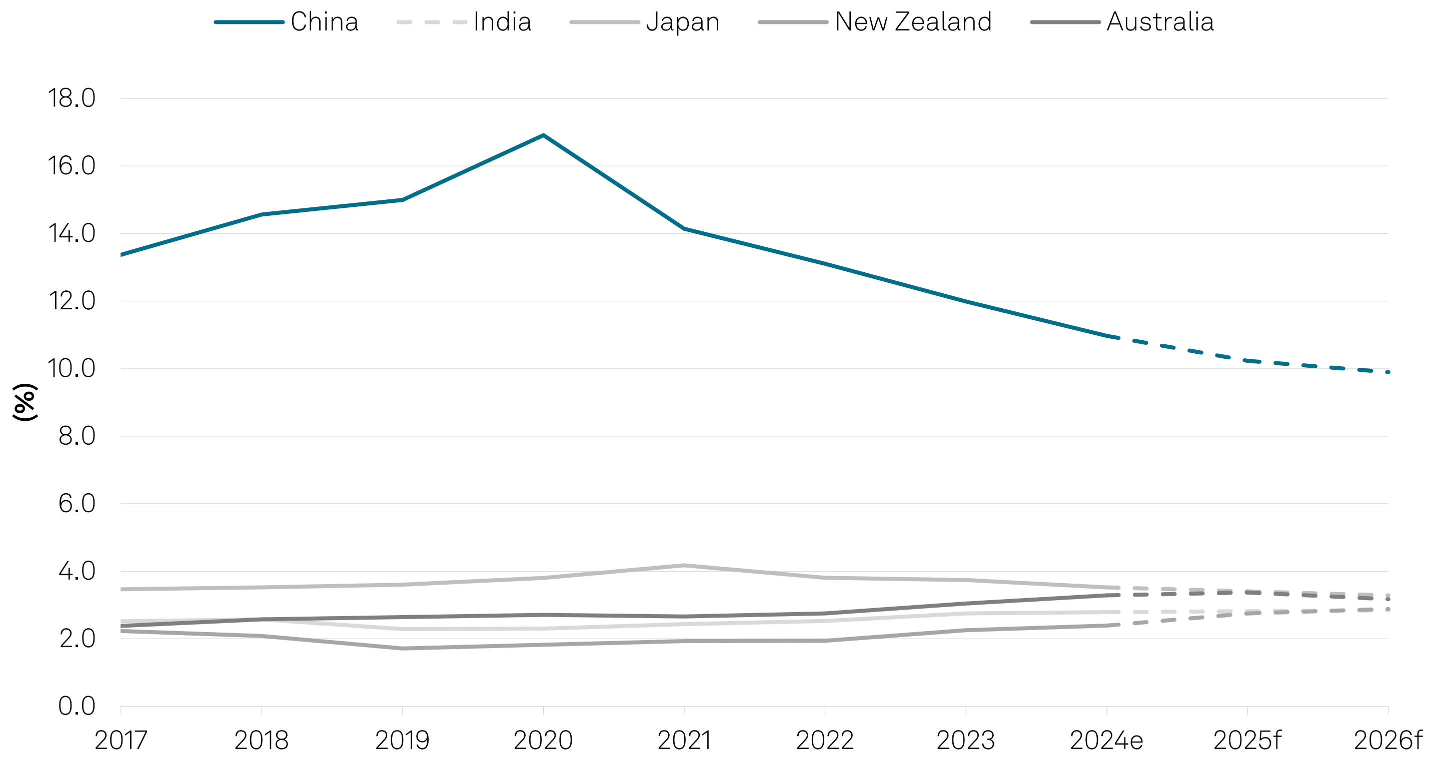


e--Estimate. f--Forecast. Source: S&P Global Ratings.

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)

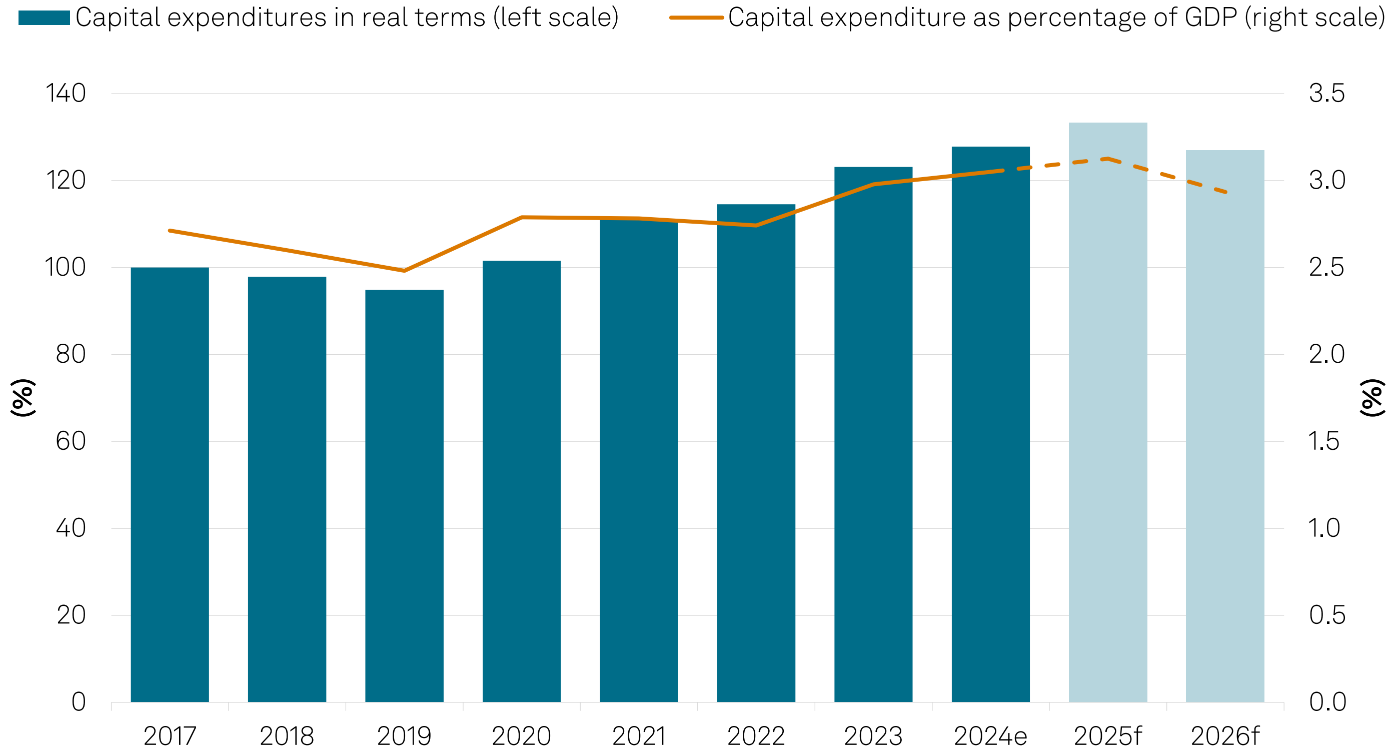


e--Estimate. f--Forecast. Source: S&P Global Ratings.

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

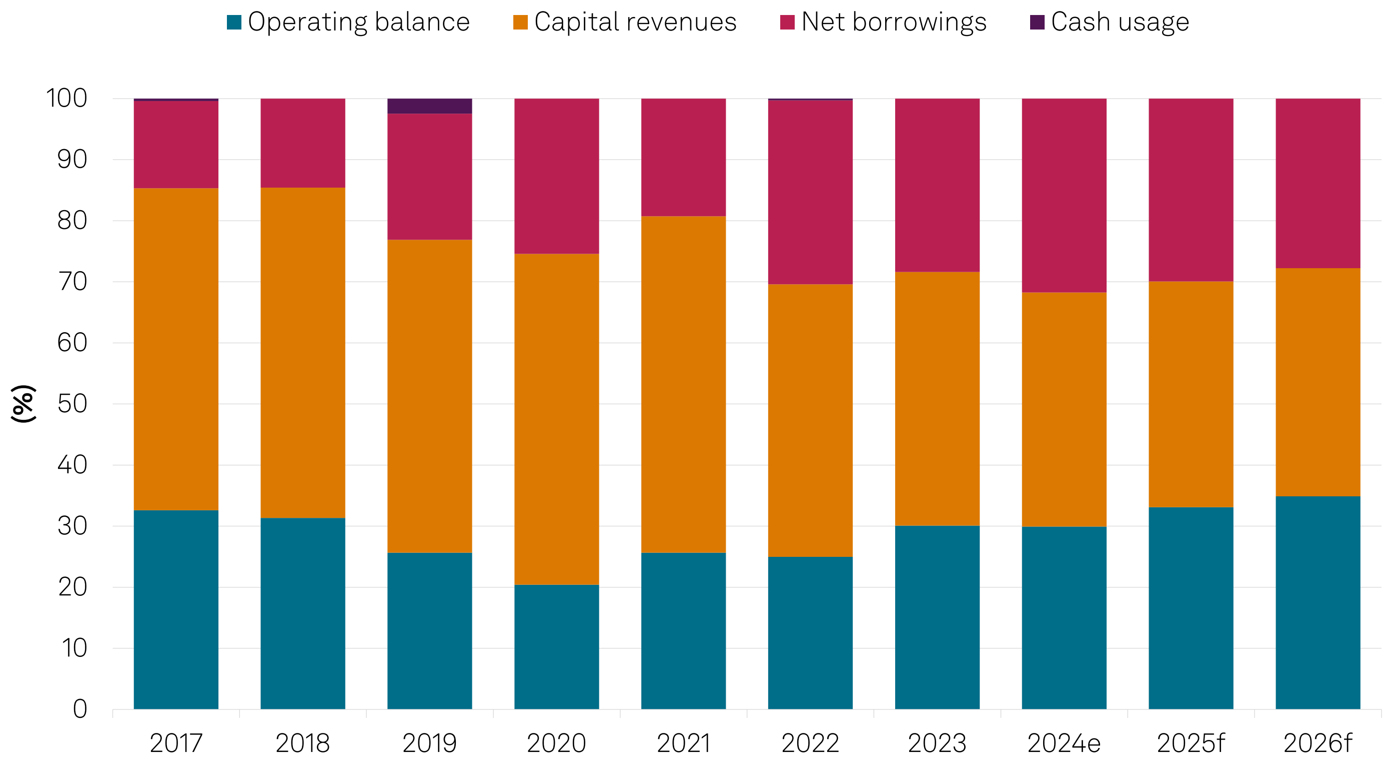
Local and regional governments' funding mix (2025)

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

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