



Subnational Government Outlook 2025

Borrowings Are Still On The Rise

S&P Global
Ratings

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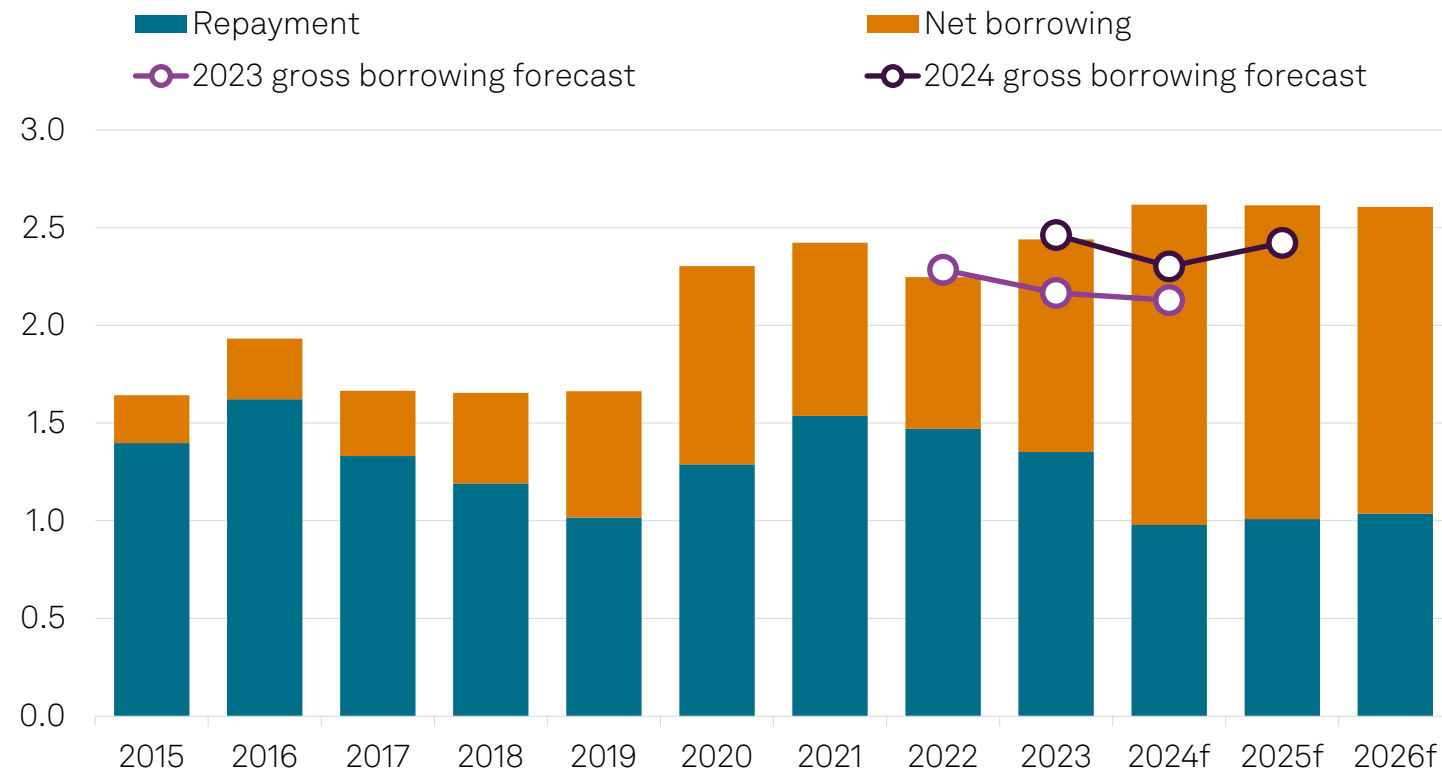
This report does not constitute a rating action

Key Takeaways

- We project local and regional governments' (LRGs) global gross borrowing will continue growing to new peaks.
- This mainly reflects debt-swap transactions in China, between LRGs and their financing vehicles, and to a lesser extent, funding needs in the U.S.
- On a net basis, outside China and the U.S., borrowing will grow fast in India, while Japan will steadily deleverage.
- European countries' total net borrowings will increase but will remain constrained by balanced-budget requirements amid slow economic growth.
- Net borrowings will largely stabilize in Australian states and Canadian provinces, albeit higher than pre-pandemic levels, as they focus on investments in infrastructure to address demand associated with fast-growing populations.
- Borrowings could trend higher due to elevated demographic and geopolitical risks, and national elections taking place in Germany, Canada, and Australia. Due to these stresses, we are already observing a trickling down of financial pressures, for example, relaxation of fiscal policy rules in Europe, allowing for wider deficits at the municipal level.
- We expect gradually reducing interest rates will drive issuers to debt capital markets, with close to \$2.3 trillion of bond issuance, covering close to 90% of subnational borrowings in 2025.

LRG Gross Borrowings Will Remain Elevated

Global LRG gross borrowings breakdown (tril. \$)



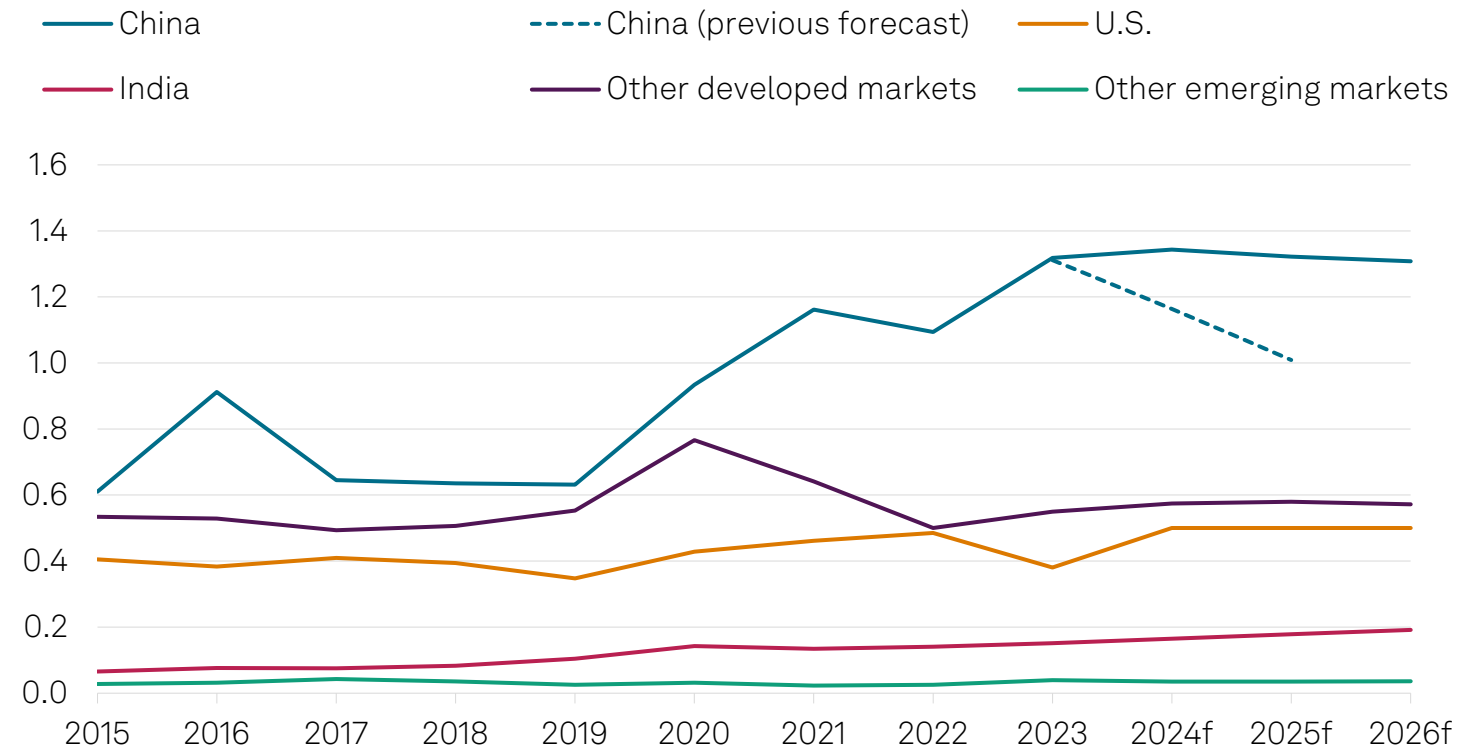
f--Forecast. Source: S&P Global Ratings.

- LRG gross annual borrowings will stabilize at about \$2.6 trillion in the coming two years. This is above pre-pandemic levels even in real terms.
- Our current forecast for gross borrowings is higher than our previous one, mainly reflecting Chinese LRGs taking on a portion of debt issued on their behalf by local government financing vehicles through 2028.

China Continues To Drive Gross Global LRG Borrowings

- China, the U.S., and India make up more than 75% of LRG borrowings.
- Chinese LRGs' sizable borrowings have historically reflected their role in delivering fiscally-led investment strategies. From 2023, the sector will gradually takeover another wave of off-budget borrowings issued via local government financing vehicles in swap transactions. With already elevated and uneven indebtedness in the sector, risks may arise from debt redistribution between LRG tiers, or larger public investment programs than we expect.
- Steadily increasing gross borrowings in India reflect rapidly growing investments in infrastructure and operating-cost pressures.

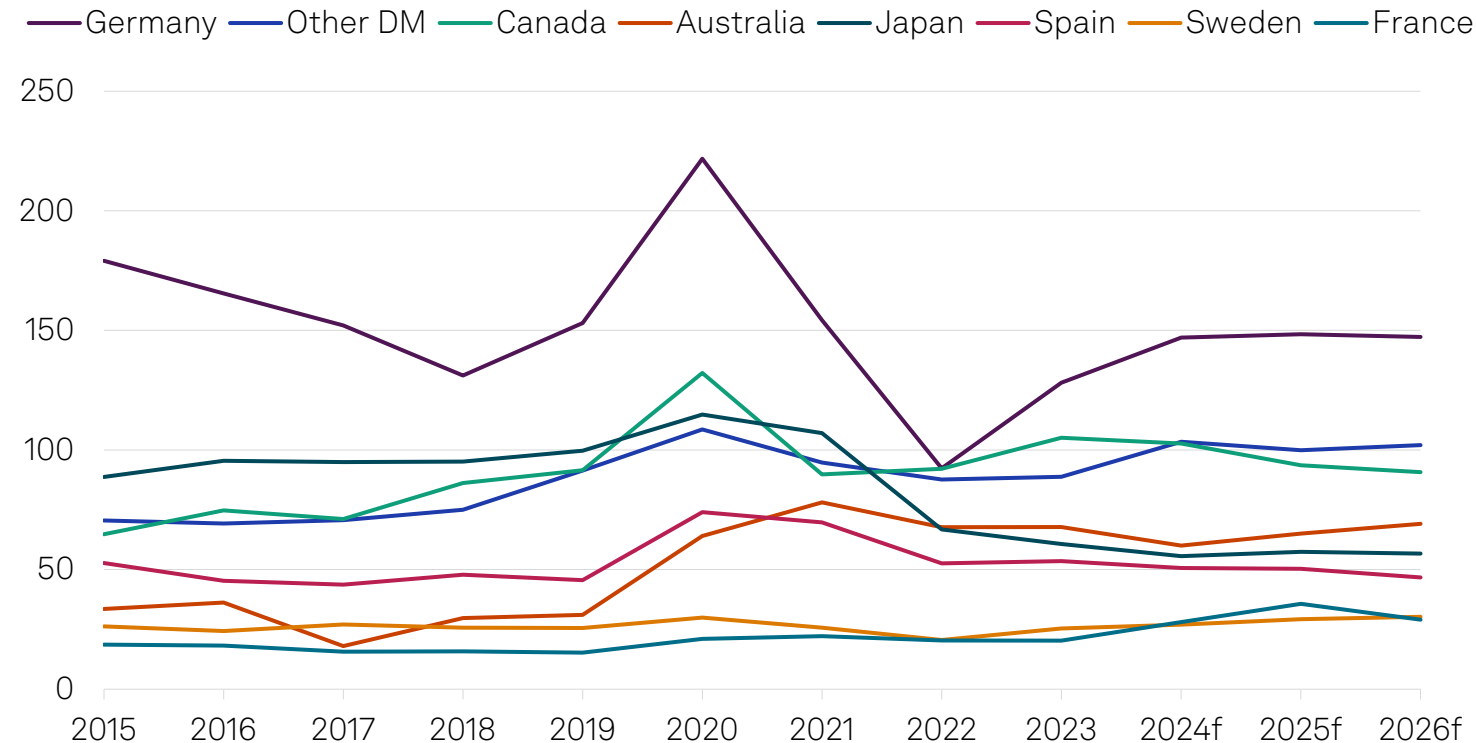
Countries by LRG gross borrowings (tril. \$)



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

Gross Borrowings Will Pick Up In Germany, Canada, And Australia, But Will Stabilize In Other DMs Outside The U.S.

Gross borrowings of LRGs in DMs (bil. \$)

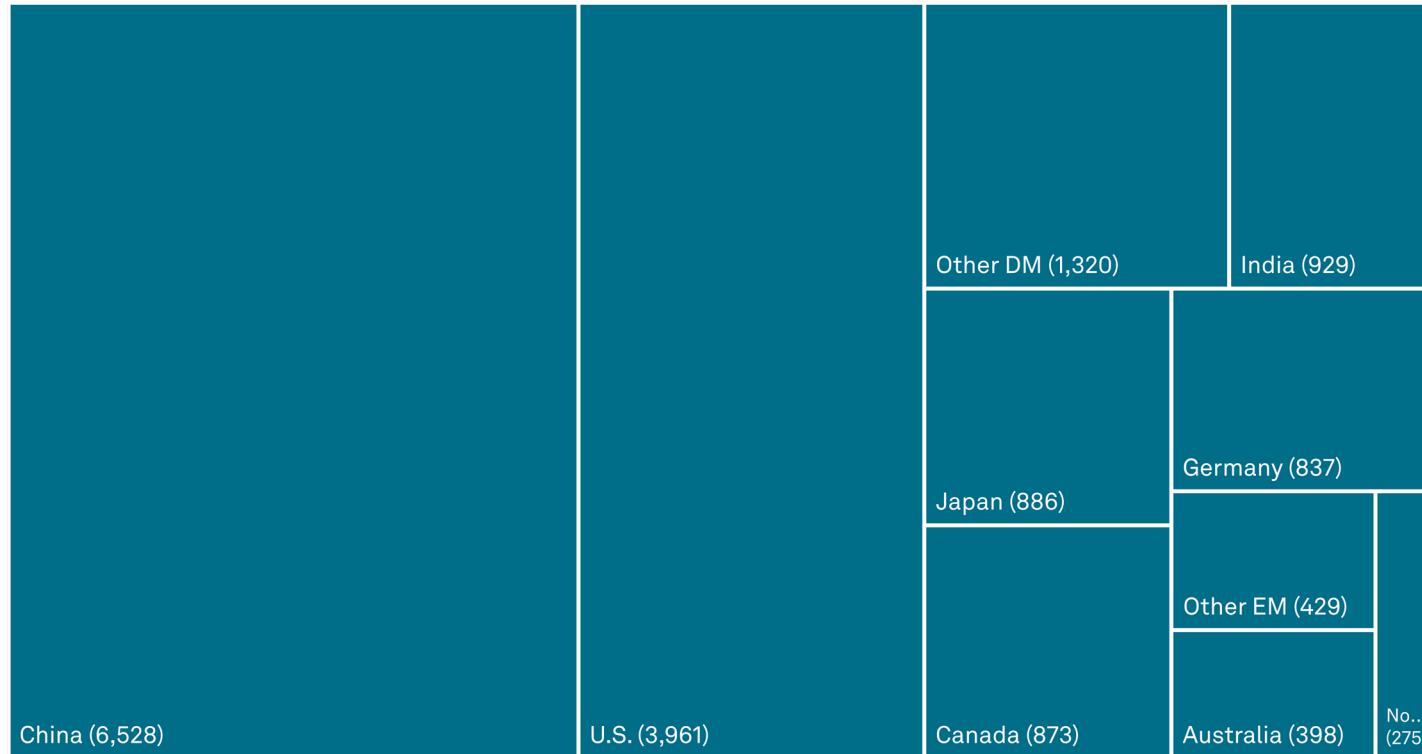


DM--Developed markets. f--Forecast. Source: S&P Global Ratings.

- Australian states' and Canadian provinces' deficits will keep their gross borrowings sizable. Fiscal rules in both countries are looser than in Europe and self-imposed policies are often vaguely defined.
- German LRGs' gross borrowings will remain broadly flat, reflecting refinancing needs, while the balanced-budget requirement, with exemptions, will keep states' deficits modest.
- We expect Japanese LRGs to continue deleveraging, limiting their gross borrowing needs. This trend started in 2015 in response to the sector's high indebtedness and was interrupted during the pandemic.

China And The U.S. Account For Just Over 60% Of Global LRG Debt

Countries by LRG debt stock, 2024 (bil. \$)

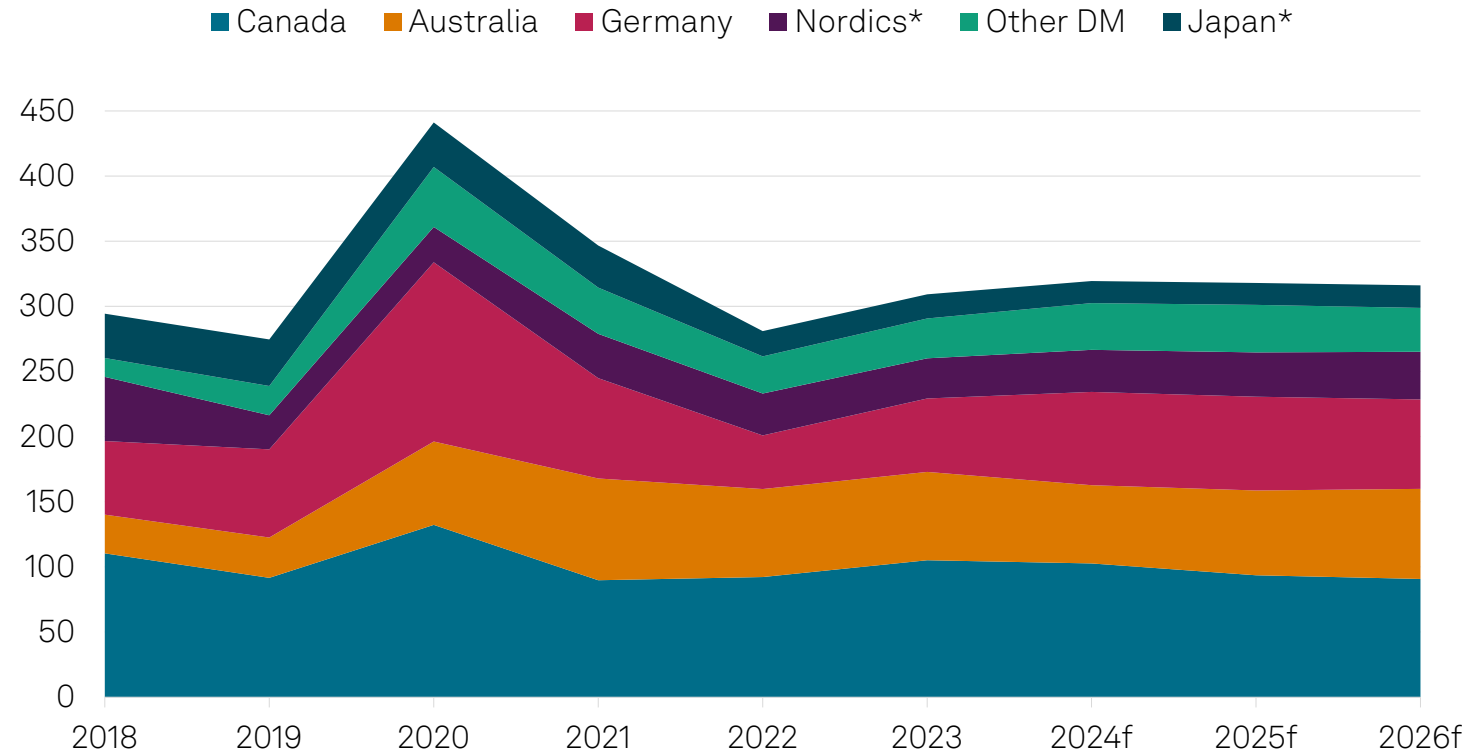


DM--Developed markets. EM--Emerging markets. Source: S&P Global Ratings.

- Total subnational debt is to reach just under \$20 trillion in 2026, a 70% rise from 2019.
- The top six countries comprise about 85% of global LRG debt.
- India will become the third-largest country by subnational debt in 2025, surpassing Japan, after taking over Canada in 2024.
- LRGs in emerging markets (EMs) tend to be subject to strict fiscal rules and challenging external conditions, constraining their debt buildup. Therefore, the 25 EM countries outside China and India together make up less than 3% of the global LRG debt stock.
- Most EM LRGs issue debt in local currency. Only Argentine provinces and some entities in Central and Eastern Europe have a track record of issuing bonds in foreign currency, available for global investors.

Canadian Provinces Remain The Largest Issuers Of LRG Bonds In DMs

LRG bond issuance by country (outside the U.S.) (bil. \$)



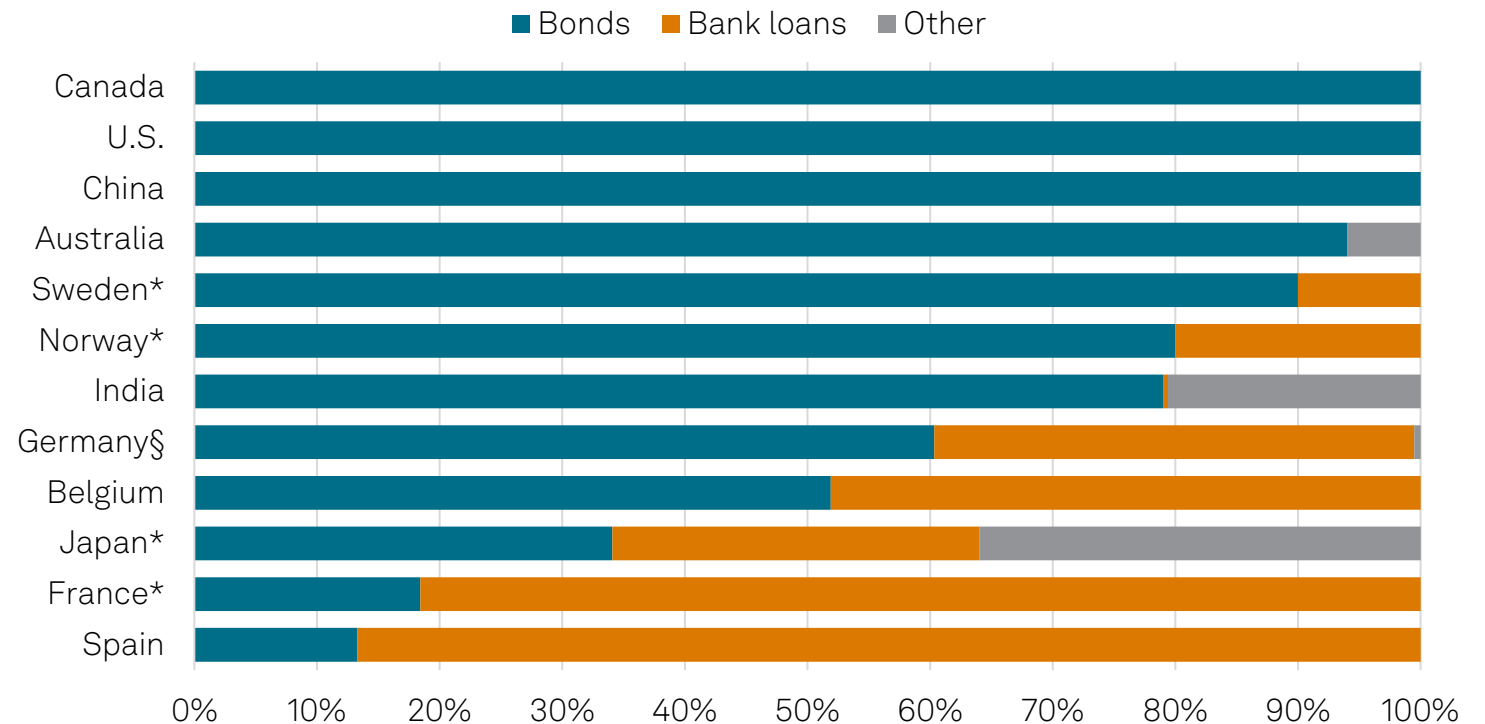
*Excluding bonds issued via Public Sector Funding Agencies (PSFAs). DM--Developed markets. f--Forecast. Source: S&P Global Ratings.

- We expect the lower-interest-rate environment will drive large issuers to fulfil their funding needs via the debt capital markets.
- While most DM LRGs issue bonds directly, issuers in the Nordics, France, and Japan also use public sector funding agencies (PSFAs) to access debt capital markets.
- Included in "Other DMs" is our projection for growing issuance by New Zealand's Local Government Funding Agency, to cover the wide fiscal deficits of the country's local governments, and by Belgium, where 50% of the sector's debt is in the form of bonds.

LRGs In Some Countries Are Still Staying Away From Debt Capital Markets

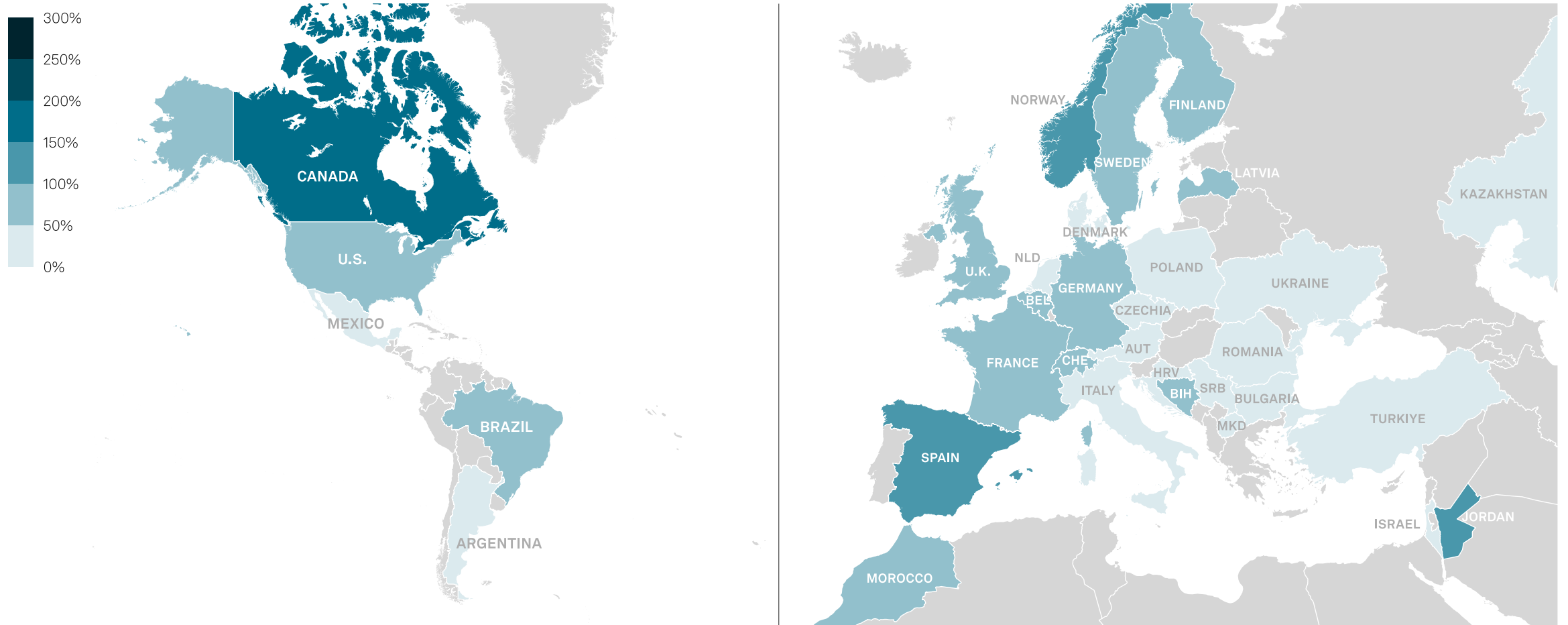
- LRGs in EM rarely tap the international debt capital markets. Moreover, multilaterals are more active in EM than DM.
- Chinese and Indian LRGs issue bonds primarily for domestic investors; Chinese provinces have also issued a few offshore bonds in renminbi. Indian states issue bonds that are indirectly guaranteed by the Reserve Bank of India.
- LRGs in the U.K., Austria, Italy, and Spain predominantly borrow from their respective central governments or agencies. We expect Spanish regions to gradually return to the markets.
- LRGs in the rest of Europe and Japan also use traditional bank loans.

Debt stock breakdown (2024 forecast)



*Loans from Public Sector Funding Agencies (PSFAs) are viewed as bonds. §Schuldschein promissory notes are classified as bank loans in the chart. Source: S&P Global Ratings.

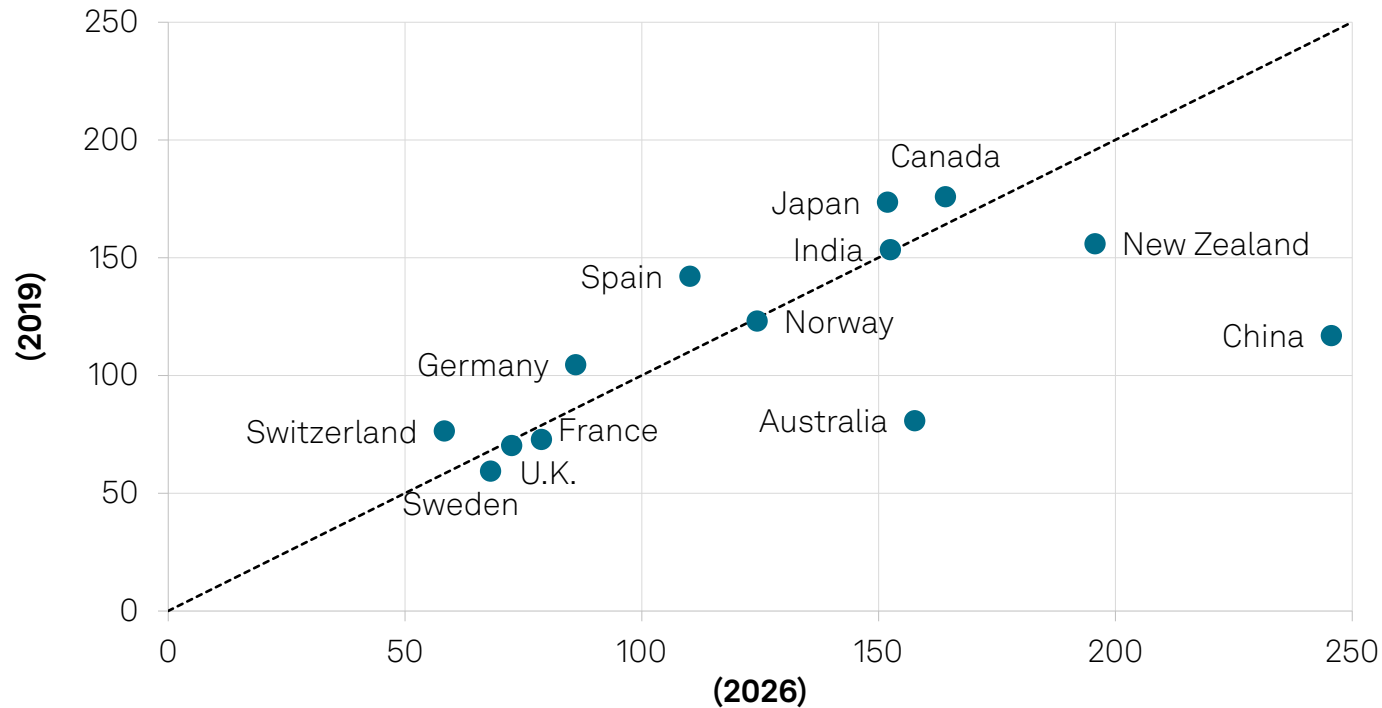
Global LRG Debt To Reach 140% Of Operating Revenue By 2026



Regions not to scale. BEL--Belgium. BIH--Bosnia and Herzegovina. CHE--Switzerland. HRV--Croatia. MKD--North Macedonia. NLD--Netherlands. SRB--Serbia. Source: S&P Global Ratings.

Asia-Pacific LRGs Show The Largest Increase In Debt Burden

LRGs debt to adjusted operating revenues in selected countries (%)



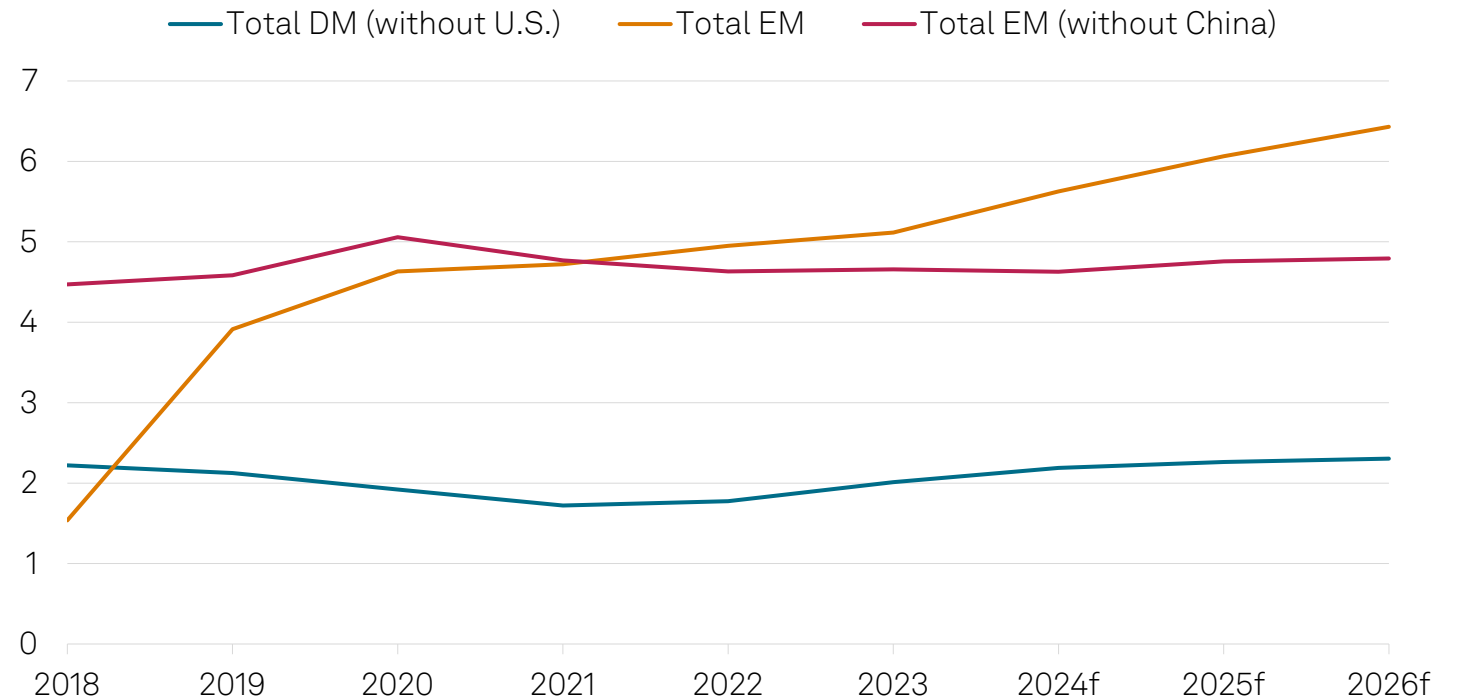
f--Forecast. Source: S&P Global Ratings.

- With off-balance-sheet debt taken over by provinces, China will become the country with the highest LRG debt burden.
- We project revenue growth will support stabilizing debt burden for New Zealand LRGs, albeit at a very high level.
- Elevated Norwegian LRG indebtedness reflects modest support from the central government to address infrastructure needs.
- The modest debt burden of LRGs in Sweden and the U.K. reflects national fiscal policies constraining budget deficits.
- LRGs in Japan will continue the deleveraging trend, but from a relatively high level.

Despite Debt Growth, The Global Interest Burden Remains Modest

- The interest burden is heavier for EMs, but this is mostly concentrated in China and India while debt burden outside of these countries is small.
- Chinese LRGs' debt growth will lead to steadily rising interest burdens. However, this will be mitigated by tightening interest rates and their interest burden will remain below Indian LRGs'.
- DMs will see some increase in interest pressure on their budgets, after historic lows in 2022 and 2023, but the burden remains low.

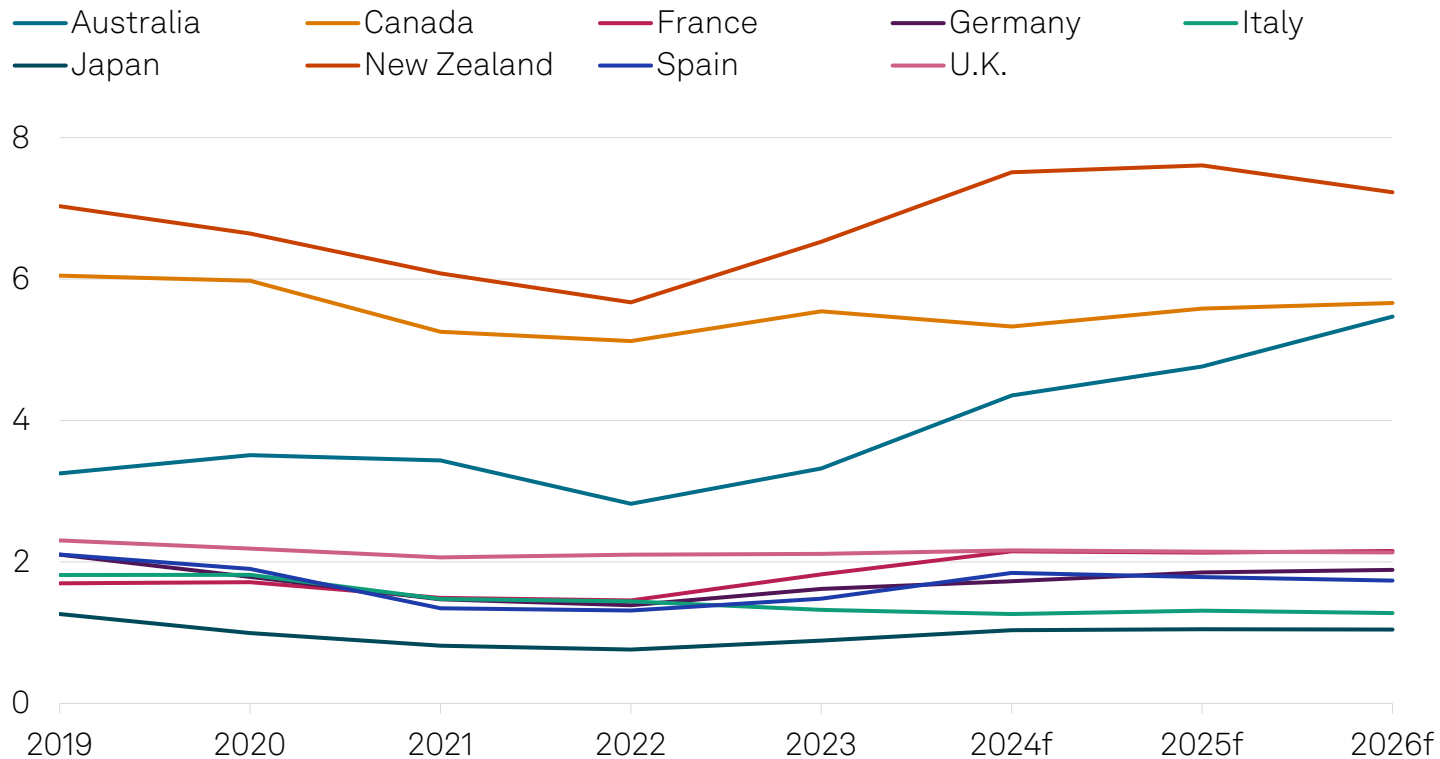
Interest burden for LRGs outside the U.S. (% of adjusted operating revenues)



Using actuals whenever available. The data set covers consolidated LRG sector of countries included in the report. Please note that data might differ compared to previously published reports, due to constant data analysis and change of countries included. DM--Developed markets. EM--Emerging markets. f--Forecast. Source: S&P Global Ratings.

The Interest Burden In Australia Is Set To Moderately Worsen

Interest expenditures in developed markets (% of adjusted operating revenue)



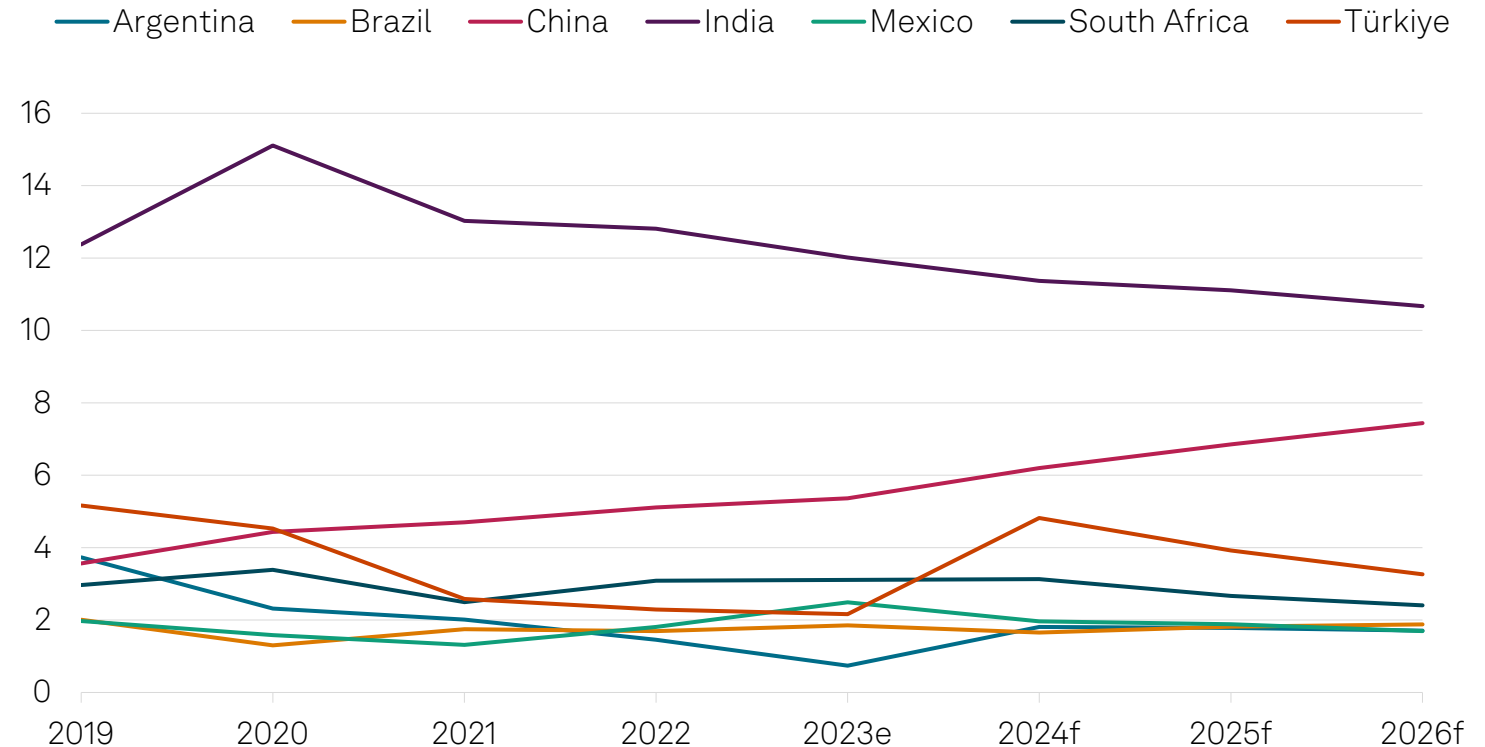
Using actuals whenever available. The data set covers consolidated LRG sector of countries included in the report. Please note that data might differ compared to previously published reports, due to constant data analysis and change of countries included. f--Forecast. Source: S&P Global Ratings.

- Our expectations for rate cuts in New Zealand and higher property taxes will prevent further increase in LRGs' interest burden. Interest costs are rising due to rapid debt accumulation arising from implementation of large projects, including water infrastructure.
- Similarly, Australian LRGs' large investments will drive a rapid expansion of interest burden as a share of budgets.
- We expect that low funding costs in Europe and Japan, along with more stable debt burdens, will offset pressures from interest rates that are higher than pre-pandemic.
- Interest costs for Canadian provinces will remain relatively stable due to the high average tenor of their debt stock.

China And India Face Highest Interest Burdens--With Opposing Trajectories

- Indian LRGs are heavily indebted, and their interest burden is an outlier, but economic growth is allowing a gradual improvement.
- In contrast, weaker economic growth and rising debt burdens is leading to ever-increasing interest pressure on Chinese LRGs.
- Other emerging markets see largely stable interest burdens, including South Africa, despite very high funding costs.

Interest expenditures in emerging markets (% of adjusted operating revenue)

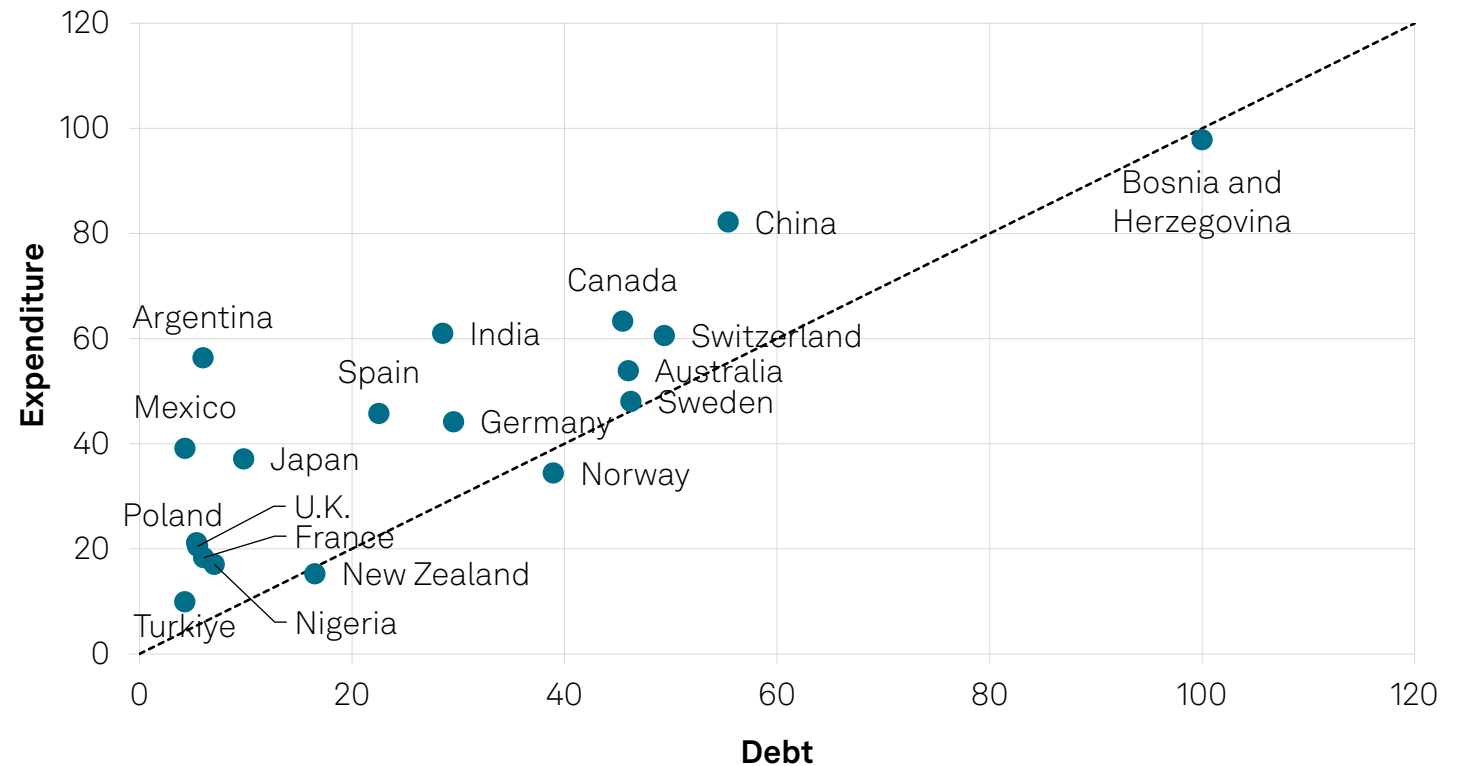


Using actuals whenever available. The data set covers consolidated LRG sector of countries included in the report. Please note that data might differ compared to previously published reports, due to constant data analysis and change of countries included. f--Forecast. Source: S&P Global Ratings.

Borrowing Capacity Will Remain Strong Predominantly In EMs

- We believe EM LRGs outside China and India have extensive capacity to borrow more without affecting their credit quality. We don't expect this will be exercised though.
- This is because they are typically constrained by weak financial management practices, shallow capital markets, tight restrictions, and low predictability and transparency.
- We think that DM LRGs' focus on fiscal policies and maintaining some form of a balanced-budget requirement will limit their investments and related funding needs, but also their financial flexibility. Furthermore, debt burden in many DM LRGs is already high.
- The U.K., France, and New Zealand are well below DM peers, with general government debt and expenditure below 20%.

LRG expenditure and debt as share of general government indicators, 2024 (%)

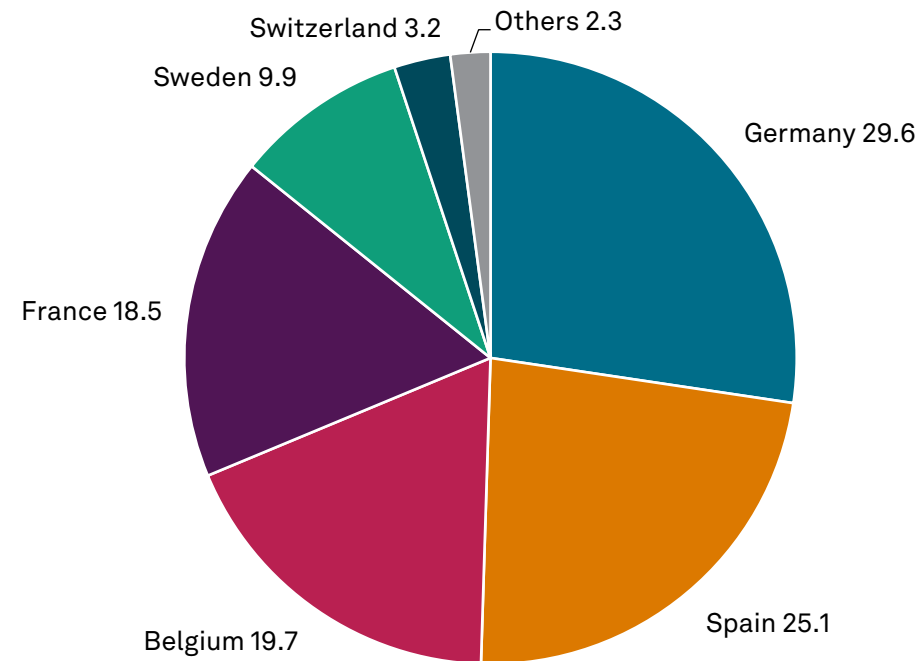


Source: S&P Global Ratings.

Innovative Funding Instruments Have Gained Traction With LRGs

- The total outstanding volume of European green, social, and sustainable bonds at year-end 2024 stood at roughly \$110 billion, about 10% of the total bond stock.
- Issuance is geographically diverse, with the highest amount of outstanding bonds issued by LRGs in Germany, Spain, and Belgium.
- We view LRGs as natural issuers of these instruments, as a large share of their activities should qualify for inclusion in the underlying reference portfolios.
- Digital bonds have no material relevance for LRGs yet, with only seven outstanding transactions totaling less than \$0.8 billion. Most of these have been issued under central bank-sponsored trial schemes.

Geographic split of outstanding green, social, and sustainable bonds issued by EMEA LRGs*

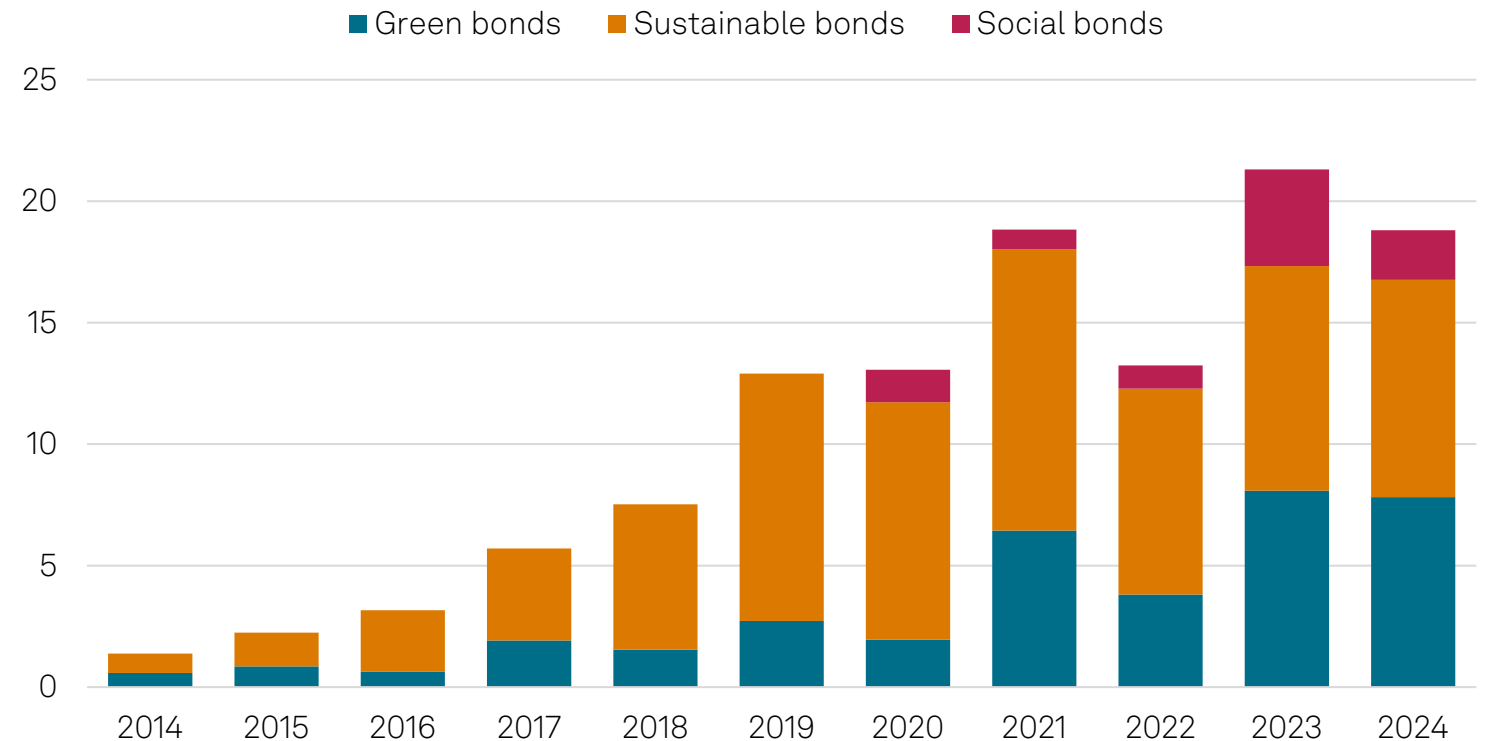


*Source: Bloomberg, categorization reflects self-reporting.

Green, Social, And Sustainable Bonds Represent A Modest Share Of LRG Issuances

- Sustainable bonds represent the highest volume, but green bonds are catching up.
- New green, social, and sustainable bonds issuance as a share of total European bonds issued dropped in 2024, to around 14%, from close to 19% the year before.
- For some of our rated issuers, the share of green, social, and sustainable bonds is material. This includes Autonomous Community of Madrid (A/Stable/A-1), Autonomous Community of the Basque Country (AA-/Stable/--), and Autonomous Community of Andalusia (A-/Stable/--), all having more than half of their bond stock as sustainable, green, or social.

Annual issuance volume of green, social, and sustainable bonds by EMEA LRGs (bil. \$)



Categorization reflects self-reporting. Source: Bloomberg.

But Digitalization Efforts Are Only Slowly Showing In LRG Debt Issuance

At year-end 2024, issuance is still confined to a small number of pilots in selected locations, mainly Switzerland

Traceable digital bond issues from LRG issuers

Issuer	Issuer credit rating	Notional (mil.)	Coupon (%)	Issue date	Maturity date
City of Lugano	Not rated	CHF 100	1.625	Feb. 1, 2023	Feb. 1, 2029
Canton of Basel-City	AAA/Stable/A-1+	CHF 105	1.300	Dec. 1, 2023	Dec. 1, 2027
Canton of Zurich	AAA/Stable/A-1+	CHF 100	1.450	Dec. 1, 2023	Dec. 1, 2034
City of Lugano	Not rated	CHF 100	1.415	March 7, 2024	March 7, 2034
City of St. Gallen	Not rated	CHF 100	1.250	March 8, 2024	March 8, 2027
City of Quincy (MA, USA)	AA/Stable	US\$ 10	5.000	April 25, 2024	Multiple (2025-2031)
State of Saxony-Anhalt	Not rated	EUR 50	0.000	Sept. 11, 2024	Nov. 11, 2024
City of Lugano	Not rated	CHF 120	1.000	Nov. 25, 2024	Nov. 25, 2033

Source: S&P Global Ratings, ICMA, and Ledger Insights.

Top Issuers—Non-U.S. Developed Markets

Current rank (prior)	Issuer	Country	S&P Global Ratings rating and outlook*	Bonds outstanding year-end 2024 (mil. \$)	Borrowings 2025 (mil.\$)
1 (1)	Province of Ontario	Canada	AA-/Stable	326,160	24,823
2 (2)	Province of Quebec	Canada	AA-/Stable	211,491	24,078
3 (3)	State of North Rhine-Westphalia	Germany	AA/Negative	142,901	17,870
4 (4)	State of New South Wales	Australia	AA+/Negative	118,119	14,049
5 (5)	State of Victoria	Australia	AA/Stable	115,050	21,570
6 (6)	State of Queensland	Australia	AA+/Stable	87,950	14,390
7 (7)	Province of British Columbia	Canada	AA-/Negative	85,519	19,474
8 (8)	Province of Alberta	Canada	AA-/Stable	68,110	2,602
9 (9)	Kommuninvest I Sverige AB	Sweden	AAA/Stable	61,610	2,270
10 (11)	City-State of Berlin	Germany	NR	52,954	--
11 (10)	State of Lower Saxony	Germany	NR	48,341	--
12 (12)	Province of Manitoba	Canada	A+/Stable	46,612	3,335
13 (13)	Municipality Finance PLC	Finland	AA+/Stable	42,582	9,590
14 (15)	State of Hesse	Germany	AA+/Stable	41,946	6,837
15 (16)	Kommunekredit	Denmark	AAA/Stable	35,858	1,174
16 (17)	Kommunalbanken AS	Norway	AAA/Stable	35,722	1,107
17 (14)	Tokyo Metropolitan Government	Japan	A+/Stable	34,786	2,409
18 (18)	State of Western Australia	Australia	AAA/Stable	33,167	2,187
19 (19)	Osaka Prefecture	Japan	NR	28,998	--
20 (22)	Community of Flanders	Belgium	NR	28,543	--

*As of Jan.15, 2025. NR--Not rated. Source: S&P Global Ratings,

U.S. Top 10 Issuers

Current rank (prior)	Issuer	S&P Global Ratings GO rating and outlook*	Bonds outstanding year-end 2024 (mil. \$)
1 (1)	New York City	AA/Stable	112,966
2 (2)	State of California	AA-/Stable	80,943
3 (3)	New York State	AA+/Stable	62,000
4 (4)	New York Metropolitan Transportation Authority	A-/Positive	48,735
5 (5)	State of Massachusetts	AA+/Stable	41,000
6 (9)	Port Authority of New York and New Jersey	AA-/Stable	36,978
7 (6)	City of Los Angeles	AA/Stable	35,000
8 (7)	State of Illinois	A-/Stable	32,900
9 (8)	State of New Jersey	A/Stable	29,858
10 (11)	City of Chicago	BBB/Stable	27,000

*As of Jan. 15, 2025. GO--General obligation. Source: S&P Global Ratings,

Top Issuers--Emerging Markets

Current rank (prior)	Issuer	Country	S&P Global Ratings rating and outlook*	Bonds outstanding year-end 2024 (mil. \$)
1 (1)	Province of Guangdong	China	NR	459,232
2 (2)	Province of Shandong	China	NR	393,086
3 (3)	Province of Jiangsu	China	NR	373,426
4 (4)	Province of Sichuan	China	NR	332,460
5 (5)	Province of Zhejiang	China	NR	320,772
6 (9)	Province of Anhui	China	NR	297,521
7 (8)	Province of Henan	China	NR	289,214
8 (6)	Province of Hebei	China	NR	285,751
9 (7)	Province of Hunan	China	NR	253,444
10 (18)	Municipality of Tianjin	China	NR	249,186
11 (13)	Province of Jiangxi	China	NR	234,537
12 (10)	Province of Hubei	China	NR	223,336
13 (14)	Municipality of Chongqing	China	NR	209,758
14 (17)	Municipality of Beijing	China	NR	195,792
15 (15)	Province of Fujian	China	NR	190,185
16 (11)	Province of Guizhou	China	NR	184,122
17 (21)	Autonomous Region of Xinjiang Uygur	China	NR	180,841
18 (12)	Province of Yunnan	China	NR	180,667
19 (20)	Province of Shaanxi	China	NR	174,304
20 (16)	Autonomous Region of Guangxi	China	NR	173,018

*NR--Not rated.

Countries Covered In This Report

- Our report on global LRG borrowing encompasses 45 countries: Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Croatia, Czech Republic, Denmark, Finland, France, Germany, India, Indonesia, Israel, Italy, Japan, Jordan, Kazakhstan, Latvia, Mexico, Morocco, the Netherlands, New Zealand, Nigeria, North Macedonia, Norway, Pakistan, Philippines, Poland, Romania, Serbia, South Africa, Spain, Sweden, Switzerland, Thailand, Türkiye, Ukraine, the U.K., the U.S., and Vietnam. 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.

Related Research

- [Subnational Government Outlook 2025: Anticipating A Year Of Change](#), Jan. 16, 2025
- [Subnational Government Outlook 2025: Capital Expenditure Shows Signs Of Slowing](#), 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 Debt Outlook 2025: Canadian LRG Revenues Will Play Catchup To Meet Higher Operating Costs And Stabilize Debt Growth](#), Jan. 16, 2025
- [China's Upper-Tier Local Governments Are Not Immune From Debt Buildup At Lower-Tiers](#), Jan. 15, 2025
- [China's Local Governments: Downside Risk Is Rising For Fiscal Consolidation](#), Dec. 16, 2024

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