



Subnational Government Outlook 2025

France's Local And Regional Government Debt Is On The Rise

S&P Global
Ratings

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This report does not constitute a rating action

Key Takeaways

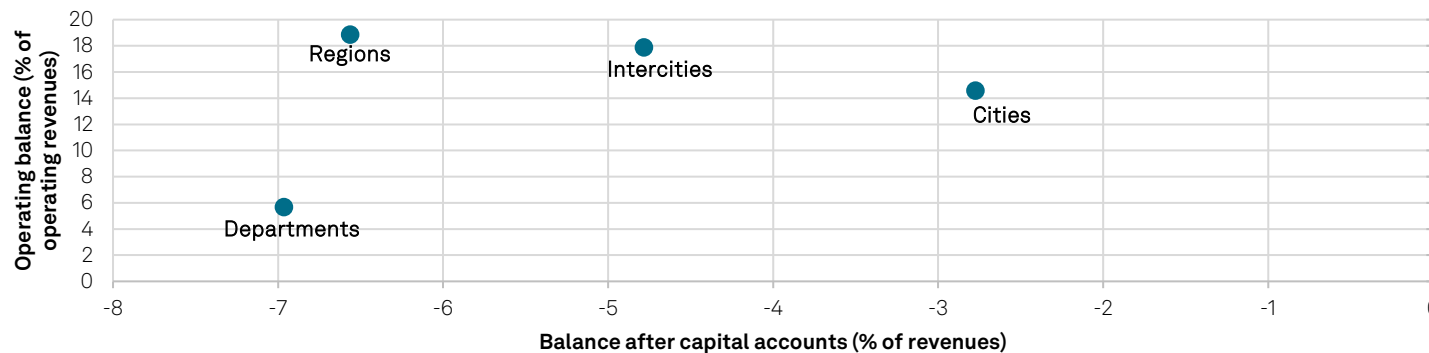
- We forecast the debt burden of French local and regional governments (LRGs) will increase, primarily due to an increase in borrowing by departments and regions.
- French LRGs' contribution to the central government's consolidation effort will constrain their financial performance in 2025. The central government freezes value-added tax (VAT) transfers and reduces grants allocated to LRGs' budgets, although lower inflation will moderate operational expenditure growth.
- We forecast that French LRGs will adopt a more cautious approach to managing their finances and that they will gradually reduce their deficits. We expect French LRGs will maintain a strong liquidity position, even though they have drawn on their cash reserves to avoid additional borrowing in 2024.
- Departments are more vulnerable than other LRGs due to their exposure to property transfer fees and social spending, while cities and intercities demonstrate resilience. We expect regions will continue to post solid operating surpluses, but borrowing will increase as they continue to execute their investment projects.

Consolidation Efforts And Tepid Growth Will Constrain Budgets

Operating performance--selected indicators

	2022	2023	2024e	2025f	2026f
Operating revenues (bil. €)	244.2	254.0	259.7	261.9	270.1
VAT	50.1	51.0	51.4	51.4	52.8
Property transfer fees	19.9	15.8	13.8	15.1	16.6
Operating expenditure (bil. €)	200.7	214.1	225.0	228.2	232.7
Operating balance as % of operating revenues	17.8	15.7	13.4	12.9	13.9

Departments' performance remained subdued in 2024



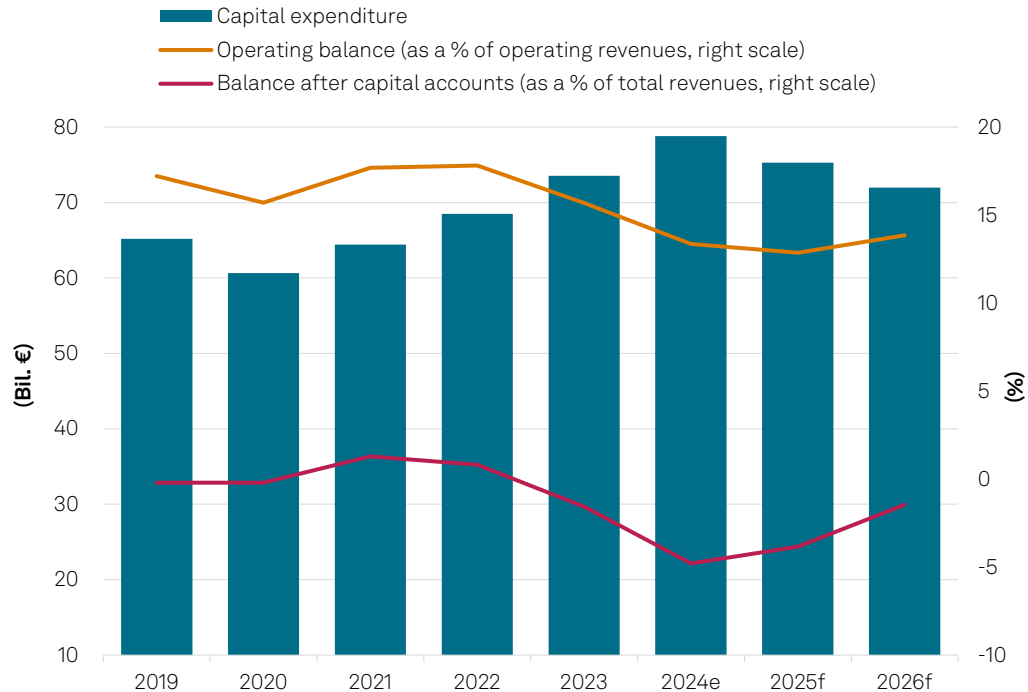
e--Estimate. f--Forecast. VAT--Value-added tax. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

- We expect French LRGs will manage the VAT freeze and the creation of a new reserve fund that the 2025 budget requires through expenditure control and investment plan adjustments.
- Pressures on margins and investment needs will increase deficits and accelerate debt intake.
- We project that lower inflation and effective cost-containment measures will stabilize operational expenditure growth and ease budgetary pressures from 2026.

Budgetary Performance Should Recover Over The Next Years

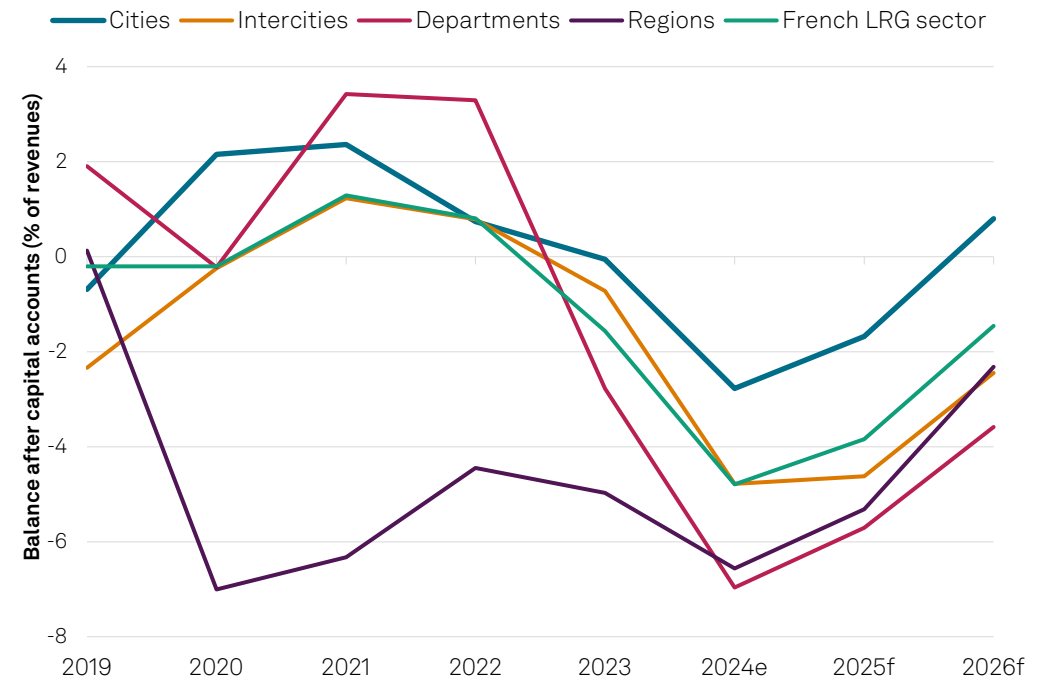
- Pressures on margins and investment needs resulted in higher deficits and accelerated debt intake in 2024.
- We expect deficits will narrow as French LRGs moderate their investment programs.

Capital expenditure peaked in 2024



e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

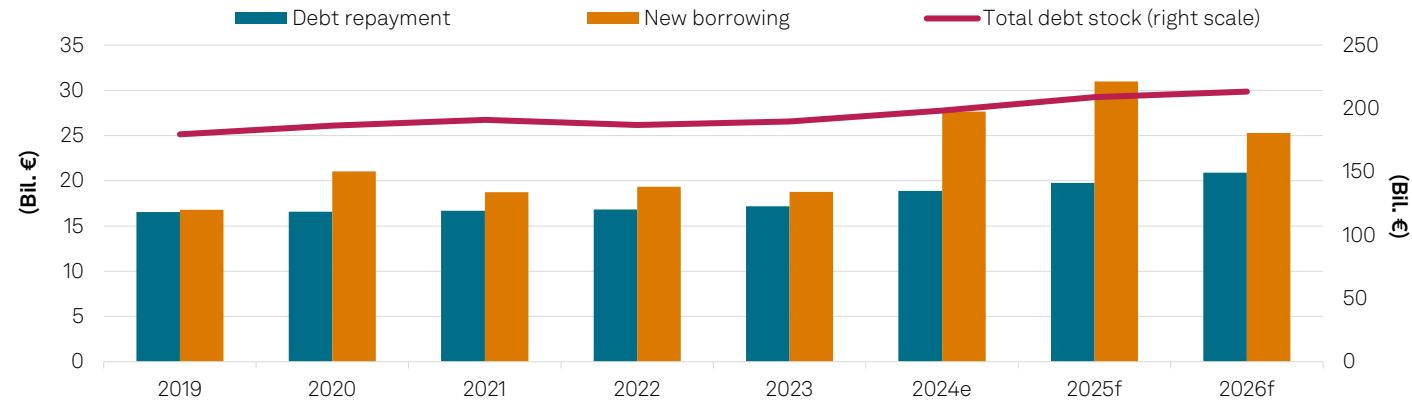
System-wide performance should recover after 2025



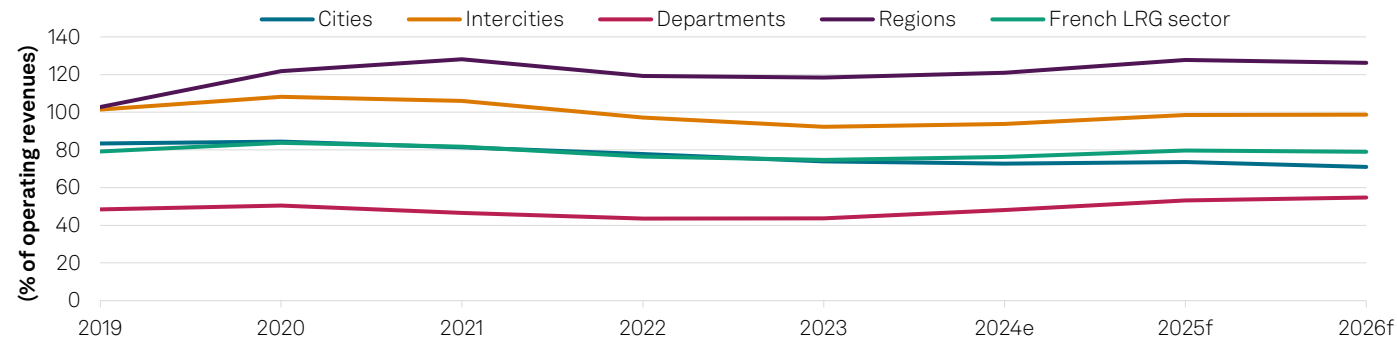
e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

French LRGs' Debt Is Rising

Debt indicators



Direct debt



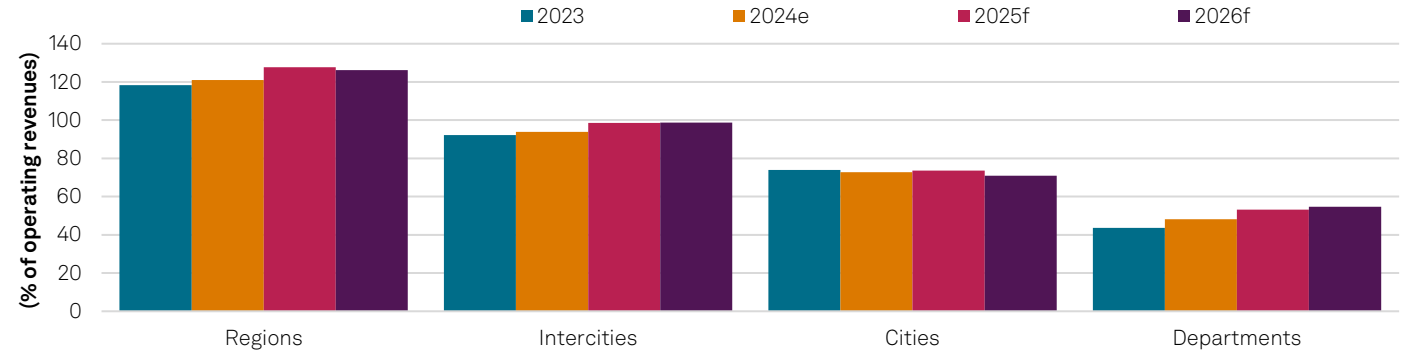
e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

- New borrowing significantly outpaces debt repayment due to increased investments and budgetary pressures.
- After drawing on their ample cash reserves in 2024, French LRGs now rely on new borrowing to meet their financing needs.
- We forecast French LRGs' total debt stock will exceed €210 billion by 2026, compared with less than €190 billion in 2023.
- Even though debt trajectories increase across all government levels, French LRGs will likely avoid major debt slippages as operating margins will recover gradually over the coming years.

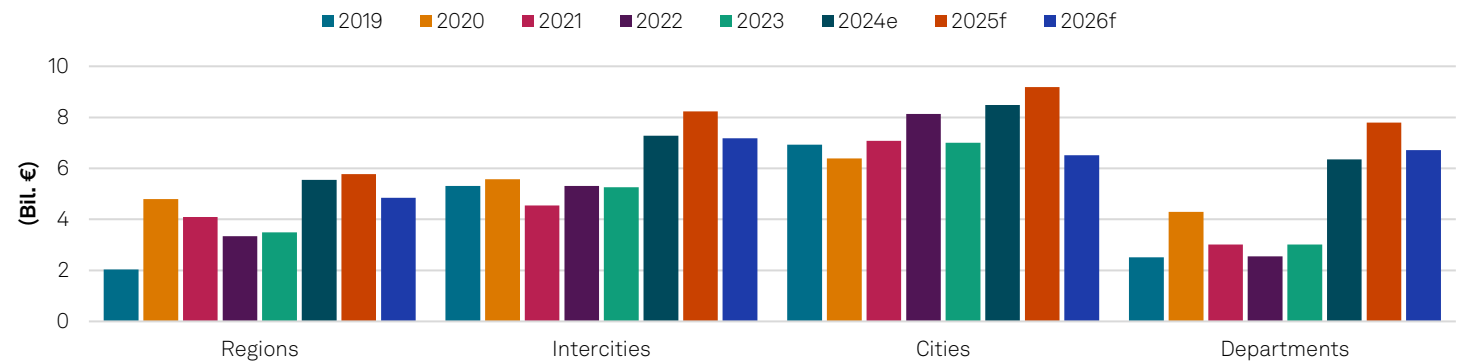
Debt Growth Is Uneven Across Government Levels

- We believe departments will run deficits due to continued budgetary pressures. We forecast their debt will increase by 11 percentage points over 2023-2026, although it will remain significantly below that of other government levels.
- Regions' direct debt will increase in 2025 due to heightened infrastructure investments. We expect a significant rise in off-balance sheet debt exposures through 2026 because regions will purchase new rolling stock to open railway services to competition.
- We expect cities will accelerate their investment programs in 2025. However, their debt burden will likely decrease slightly in 2026 because the municipal mandate concluded and because cities continue to benefit from their fiscal leeway.
- We forecast intercities will contain expenditure to limit deficits or to use their fiscal leeway to decelerate debt build-up.

Direct debt



Gross borrowing

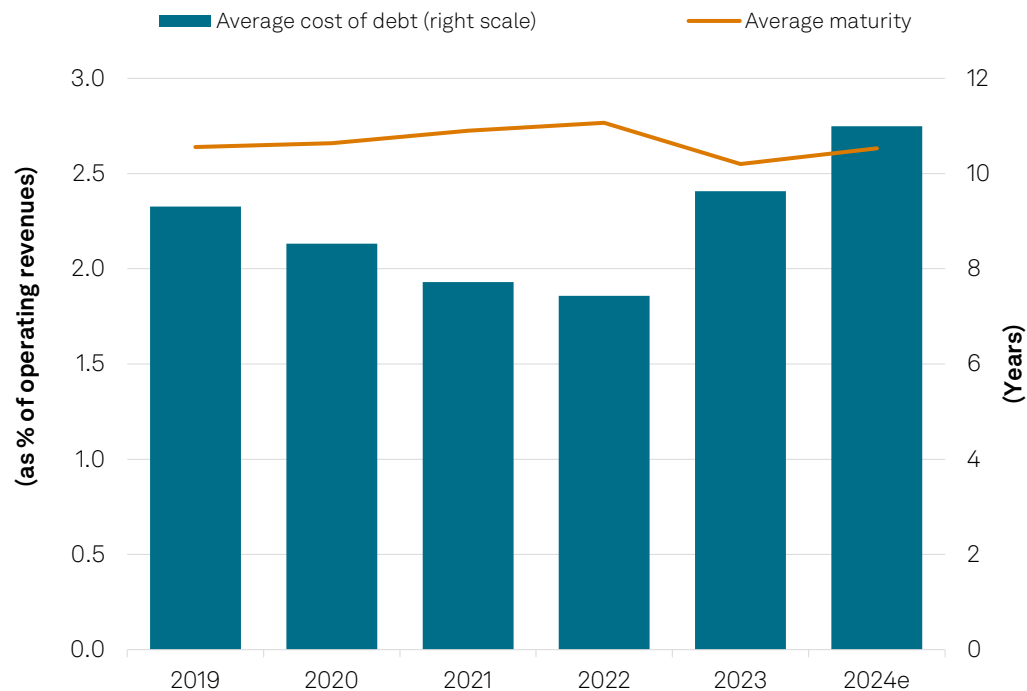


e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

Financing Costs Should Remain Contained

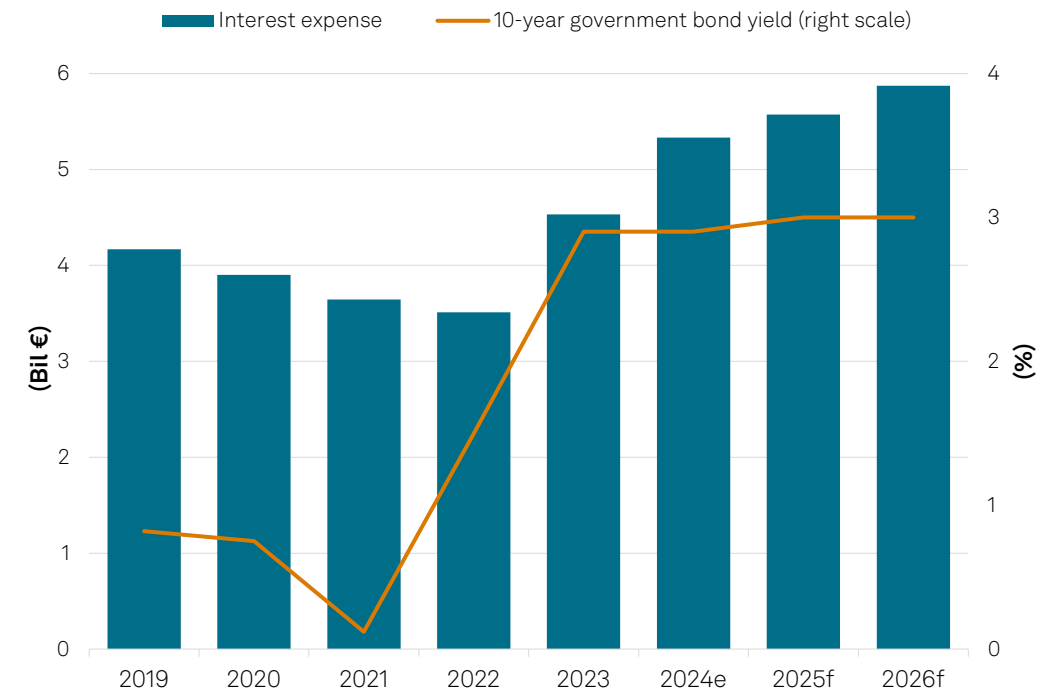
French LRGs maintain favorable debt profiles, with average maturities above 10 years and 75% at fixed rates

Cost of debt--selected indicators



e--Estimate. Sources: French Observatory on Local Public Finances, S&P Global Ratings, Bloomberg.

Interest payments and French 10-year government bond yields

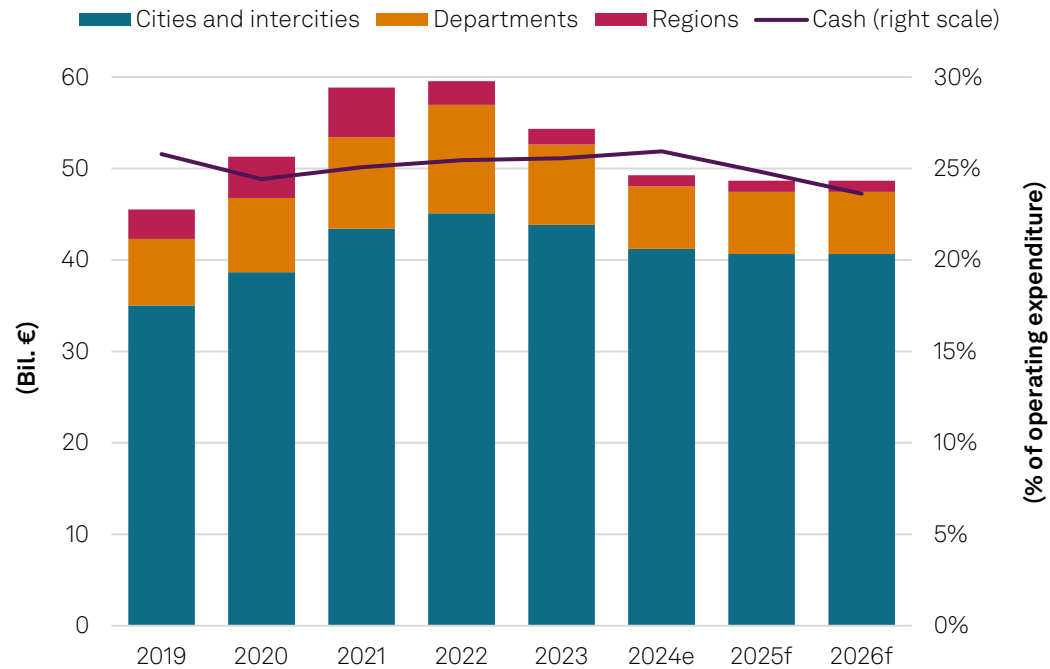


e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings, Bloomberg.

Cash Buffers Will Remain Ample

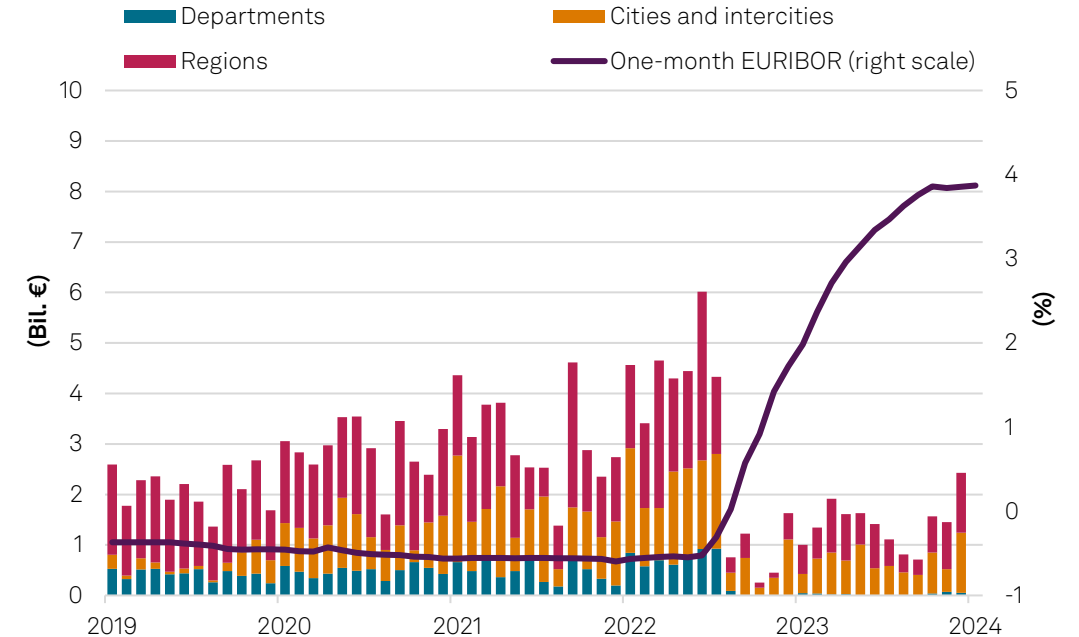
French LRGs' sufficient cash buffers helped them cover their financing needs, while limiting additional borrowing over 2023-2024

French LRGs' deposits at the French treasury



e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings, DGFIP, Central Bank of France.

French LRGs will gradually return to the commercial paper market as rates ease



EURIBOR--Euro Interbank Offered Rate. Sources: S&P Global Ratings, Central Bank of France.

French LRGs | Key Risks

	Sector strengths	Sector risks	Systemwide risks
Regions	<ul style="list-style-type: none"> Strategic planning and EU funds coordination Leading role in coordinating transportation infrastructure and climate action plans 	<ul style="list-style-type: none"> Strong reliance of operating revenues on central government transfers High capital expenditure (capex) needs on the back of sizable infrastructure investments in high schools and public transportation 	<ul style="list-style-type: none"> Economic and social environment: A weakening macroeconomic outlook may compel LRGs to increase their operating expenditures beyond our expectations, while further hindering tax revenue growth. Legal and regulatory framework: Unexpected government reforms of financial framework could diminish French LRGs' budgetary flexibility and introduce uncertainty. Green transition: Operational and capital expenditure risks remain high as investments in the renovation of public buildings and transportation infrastructure are likely to require financial support from the central government. Contingent liabilities exposure: We believe LRGs' balance sheets are exposed to contingent liabilities through various government-related entities and guarantees.
Departments	<ul style="list-style-type: none"> Long-standing experience in welfare policies and social services Well-established administrative level since 1789 	<ul style="list-style-type: none"> High sensitivity to macroeconomic developments, VAT transfers, and property transfer fees High share of rigid expenditures, such as social spending 	
Cities and intercities	<ul style="list-style-type: none"> Significant fiscal leeway, for example thanks to property taxes Strong liquidity since cities and intercities hold the highest cash amounts across all government levels 	<ul style="list-style-type: none"> Territorial fragmentation and disparities Growing investment needs for aging public assets and the energy transition 	

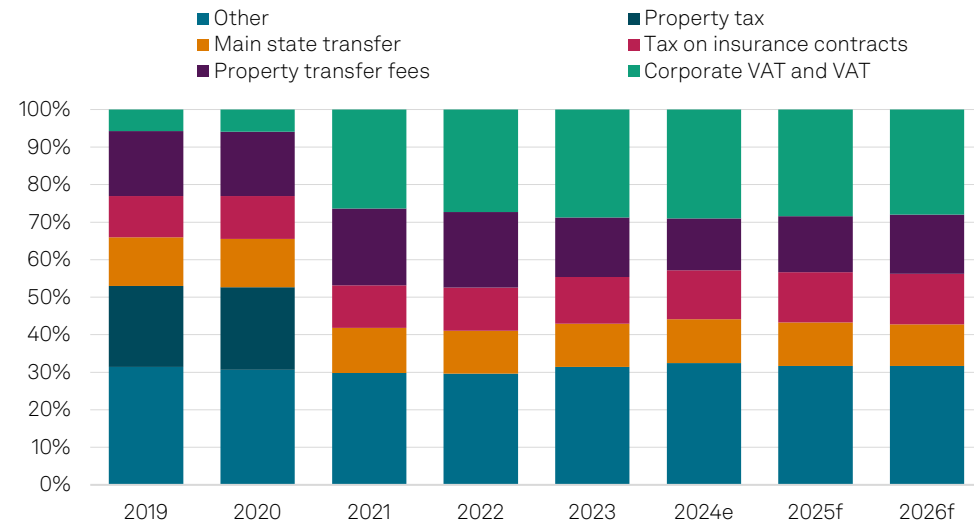
Source: S&P Global Ratings

Appendix

Overview | French Departments (1/2)

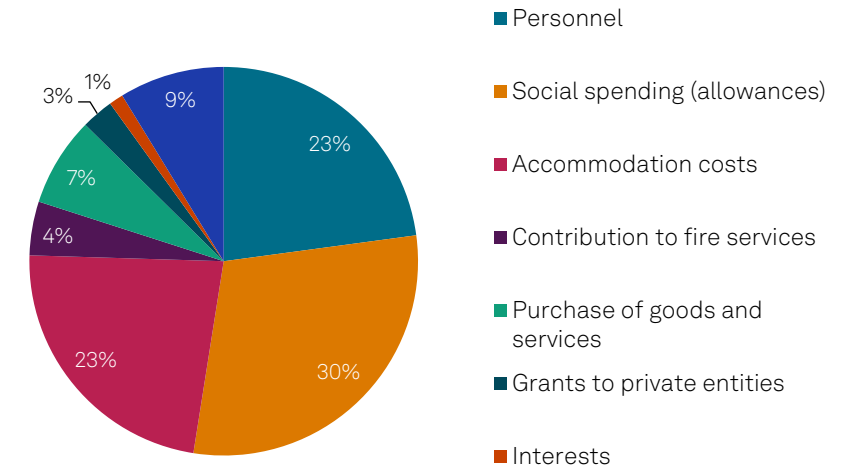
- Successive tax reforms increased the sensitivity of French departments' revenues to economic cycles. This is because departments' revenues are highly reliant on VAT and property transfer fees.
- Social spending accounts for more than 50% of departments' operating budgets, which limits their leeway in a pronounced economic downturn.

French departments' operating revenues over 2019-2026



e--Estimate. f--Forecast. VAT--Value-added tax. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

French departments' operating expenses are mainly rigid

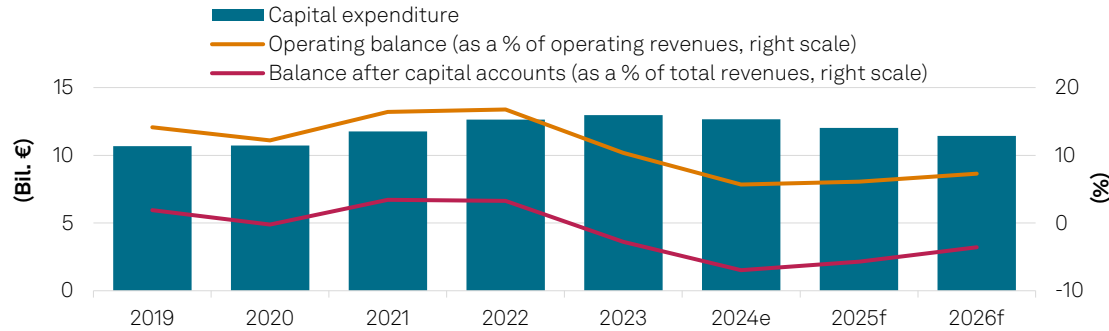


Data for 2023. Source: French Observatory on Local Public Finances.

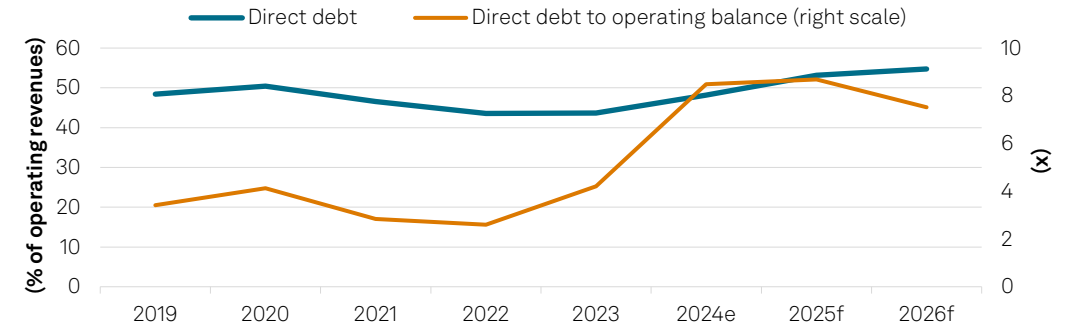
Overview | French Departments (2/2)

- We expect French Departments will improve their budgetary performance in 2025, thanks to the anticipated recovery of the real estate market.
- As a result, debt should stabilize over 2025-2026, even though it will exceed historical levels.

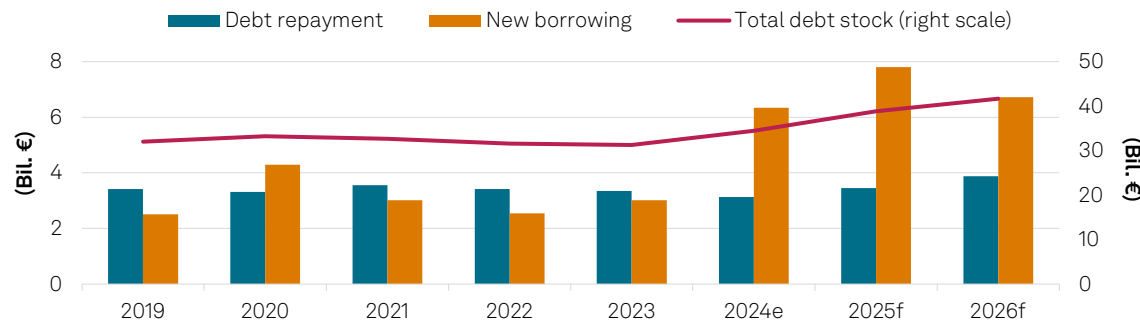
Budgetary performance--selected indicators



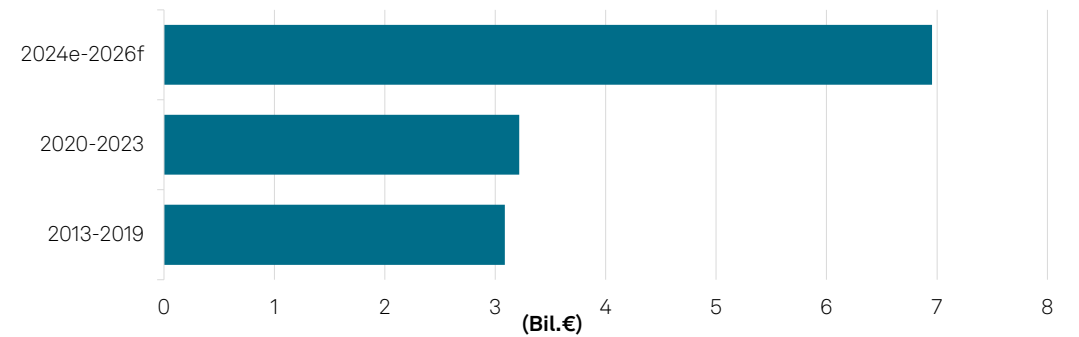
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing

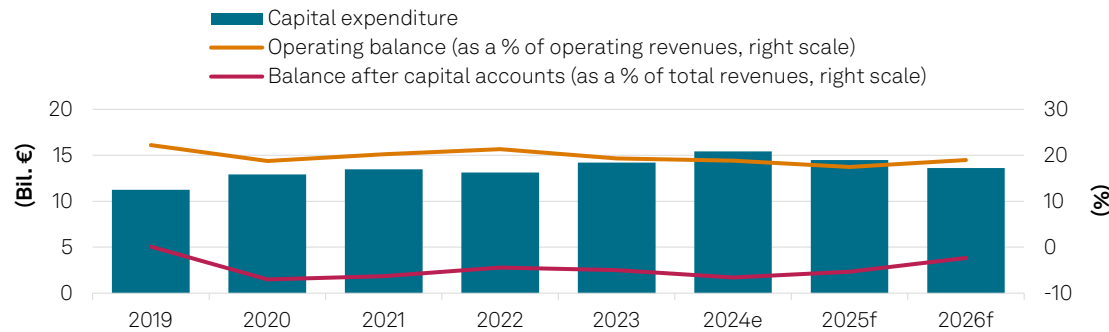


e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

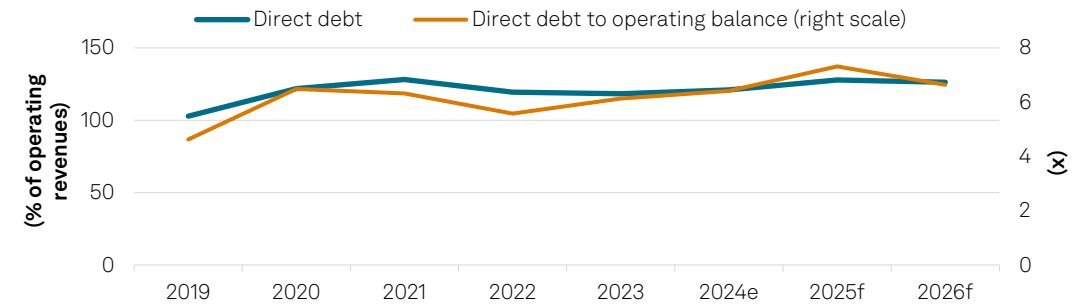
Overview | French Regions

- French Regions will maintain sound operating margins.
- Financing needs will remain high due to important investments in high schools and regional train lines that are gradually opening to competition.

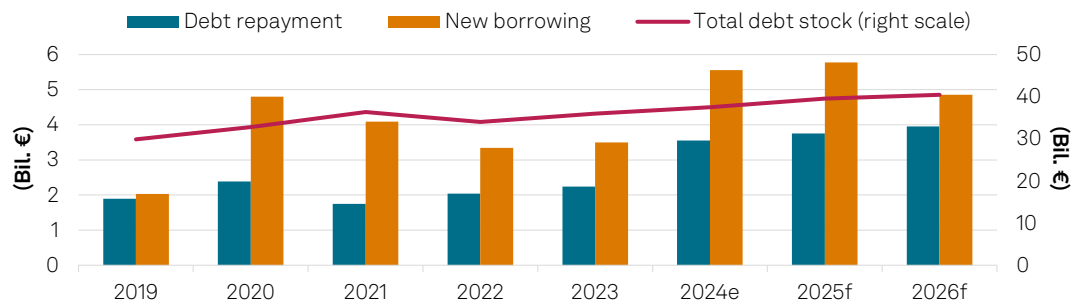
Budgetary performance--selected indicators



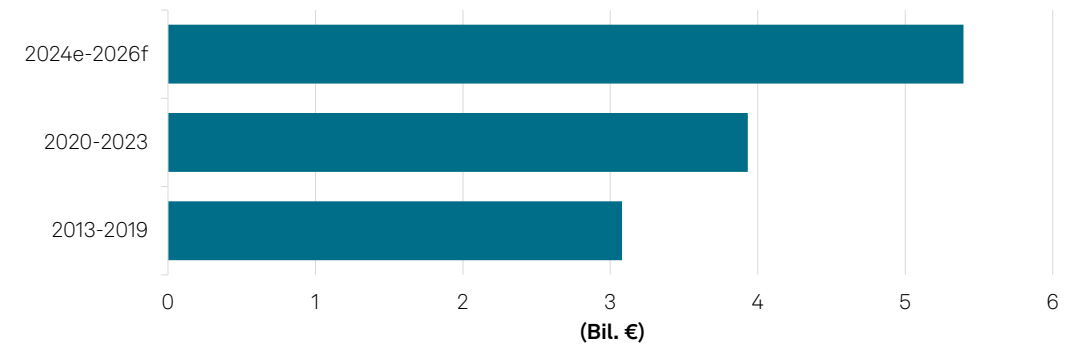
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing

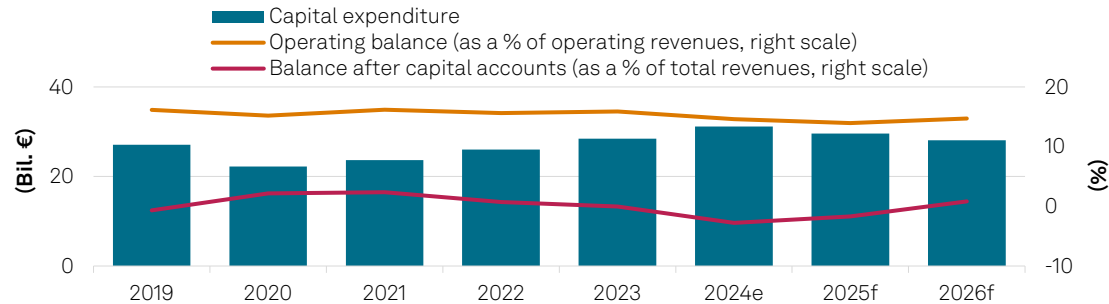


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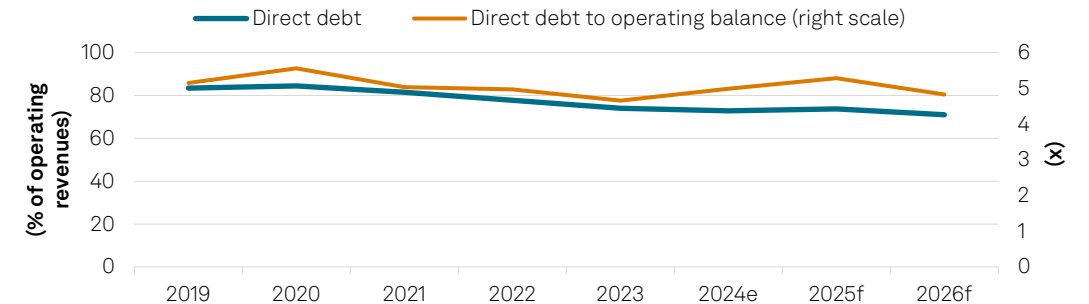
Overview | French Cities

French cities will maintain solid operating budgetary surpluses, particularly due to their fiscal leeway on property tax, which accounts for approximately 40% of their operating revenues

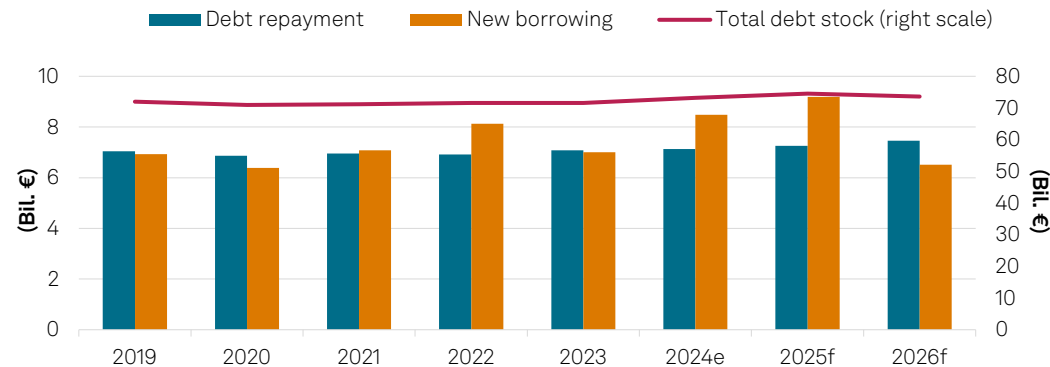
Budgetary performance--selected indicators



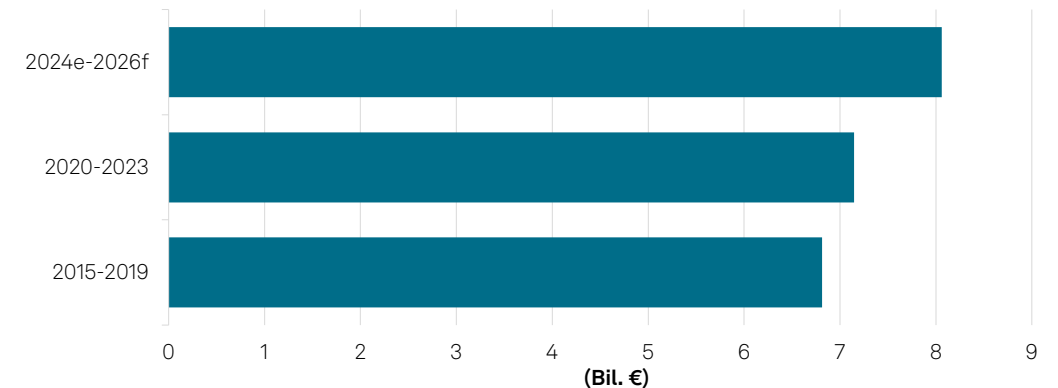
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing

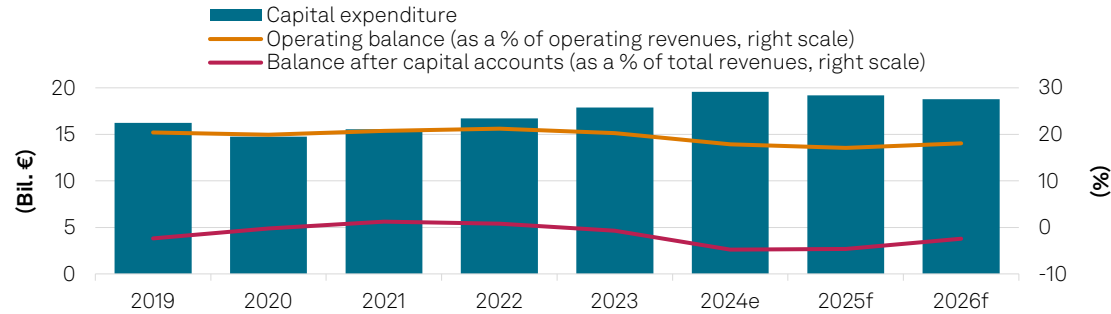


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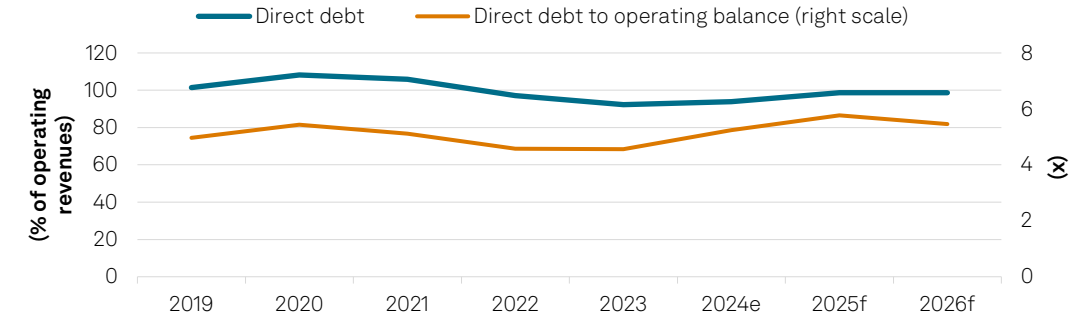
Overview | French Intercities

French intercities' tax revenues will benefit from a revaluation of property bases, despite a lower-than-expected increase in VAT receipts

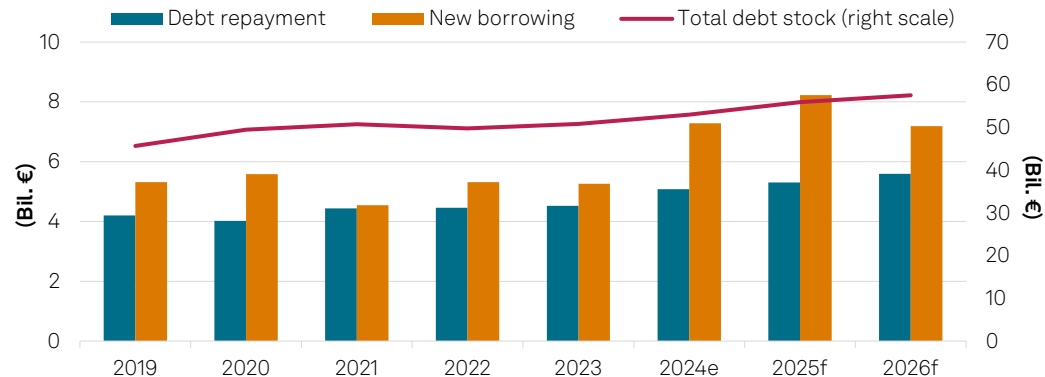
Budgetary performance--selected indicators



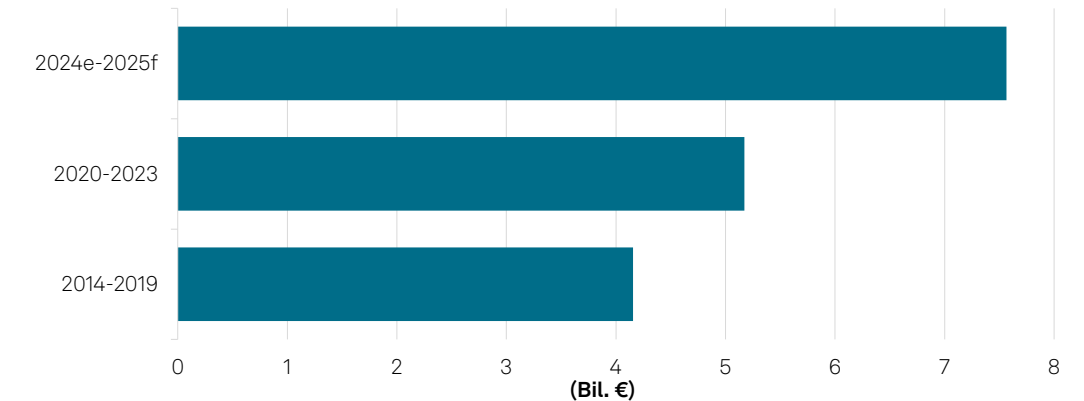
Direct debt--selected indicators



Debt position--selected indicators



Average new borrowing



e--Estimate. f--Forecast. Sources: French Observatory on Local Public Finances, S&P Global Ratings.

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- [China's Upper-Tier Local Governments Are Not Immune From Debt Buildup At Lower-Tiers](#), Jan. 15, 2025
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