



Subnational Debt 2024

Focus on debt sustainability

S&P Global
Ratings

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Noa Fux

Feb. 29, 2024

This report does not constitute a rating action

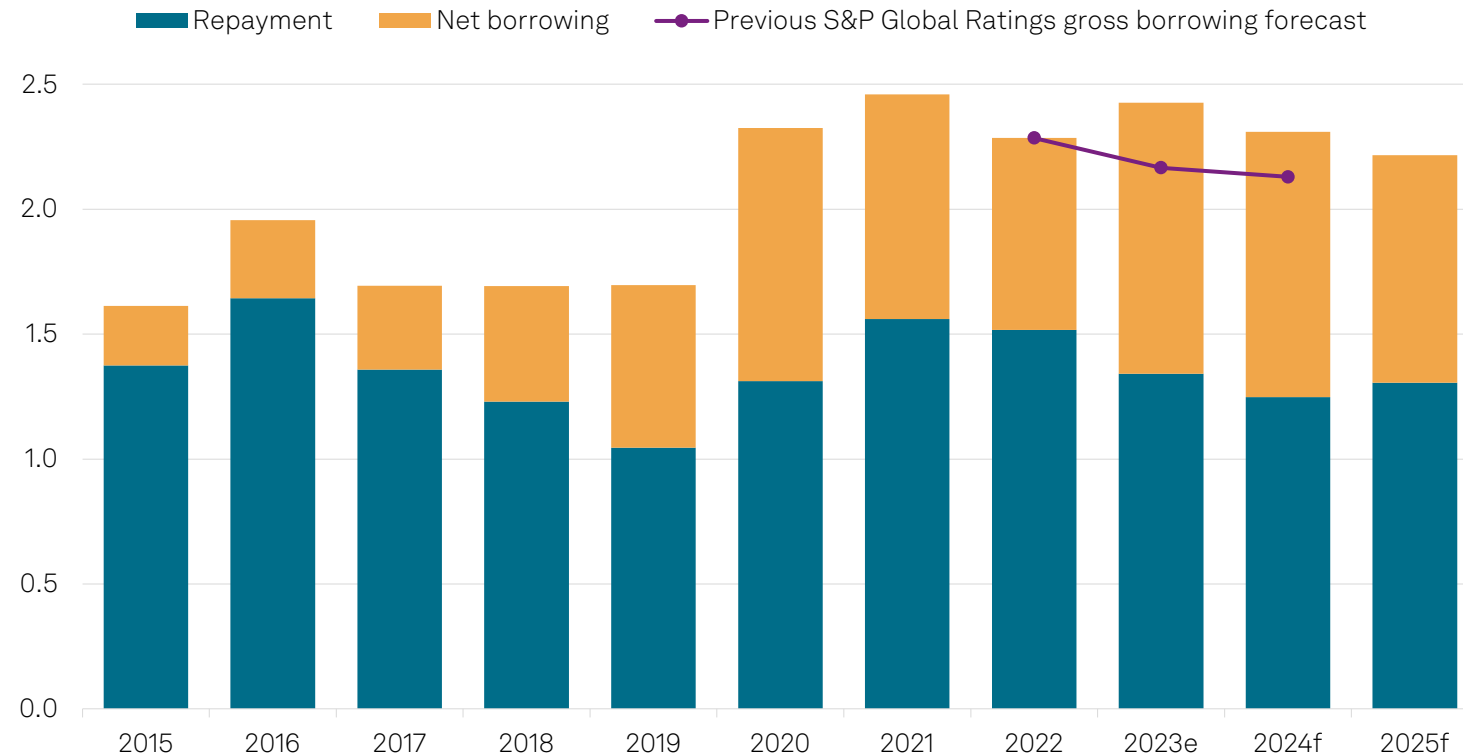
Key Takeaways

- We project local and regional governments' (LRGs) gross borrowing will stay elevated, globally, but decrease over the coming two years, reflecting narrowing funding needs.
- Outside of China, we expect net borrowings will remain flat, reflecting debt growth in India, offset by deleveraging in Japan and Switzerland.
- Net borrowings in China are set to reduce following the projected completion of swap transactions between LRGs and their financing vehicles, and as LRGs' focus progressively shifts to limiting debt build-up. Most European countries will be 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 that contribute to economic growth.
- Borrowings could trend higher due to rising demographic and geopolitical risks, as well as debt reprofiling should interest rates fall faster than currently expected. Due to these pressures, we are already observing relaxations of fiscal policy rules in Europe, allowing for wider deficits at the municipal level.

LRGs' Gross Borrowings Will Stay Elevated, Albeit Below Record Levels

LRGs gross annual borrowings to remain about \$2.3 trillion in the coming two years

Gross borrowings breakdown (tril. \$)



- We expect annual gross borrowings to remain above pre-pandemic levels even in real terms.
- Overall, LRGs will account for about 17% of global general government gross borrowings in 2024.
- Our current forecast for gross borrowings is higher than our previous one because Chinese LRGs are taking on a portion of debt issued on their behalf by local government financing vehicles (LGFV), in 2023 and 2024.
- We project gradually decreasing gross borrowing as debt swaps in China end, and fiscal deficits globally remain stable.

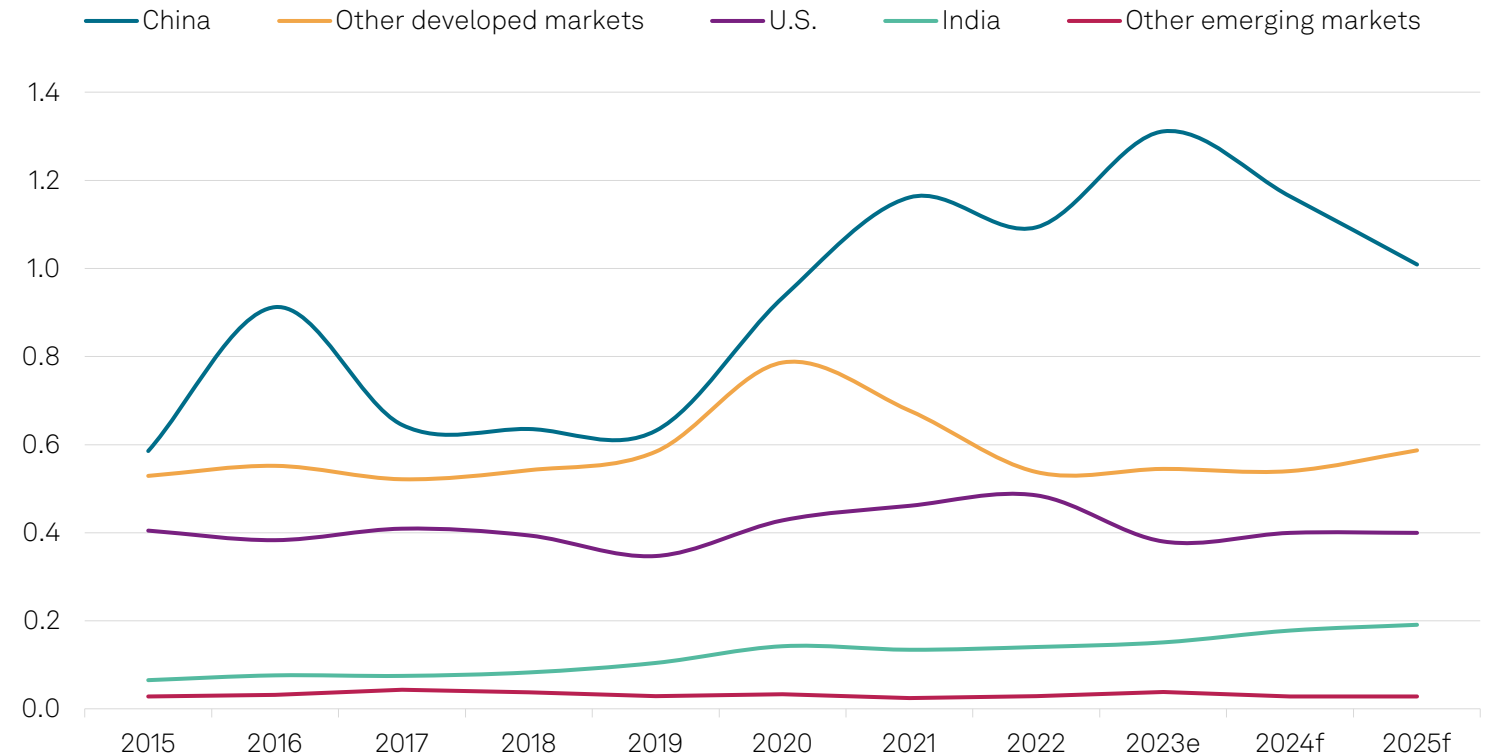
e--Estimate. f--Forecast. Source: S&P Global Ratings.

China Continues To Drive Gross Global LRG Borrowings

China, the U.S., and India make up close to 75% of LRG borrowings

- Chinese LRGs' sizeable borrowings reflect their role in delivering fiscally-led investment strategies to counter macroeconomic pressures. Nonetheless, the elevated and uneven indebtedness in the sector means that the central government is customizing borrowing quotas, especially for highly indebted provinces.
- Steadily increasing gross borrowings in India reflect rapidly growing investments in infrastructure and operating-cost pressures. This results in India being one of the only countries globally where LRGs' net borrowings are expected to increase through 2025.

Countries by LRGs' gross borrowings (tril. \$)

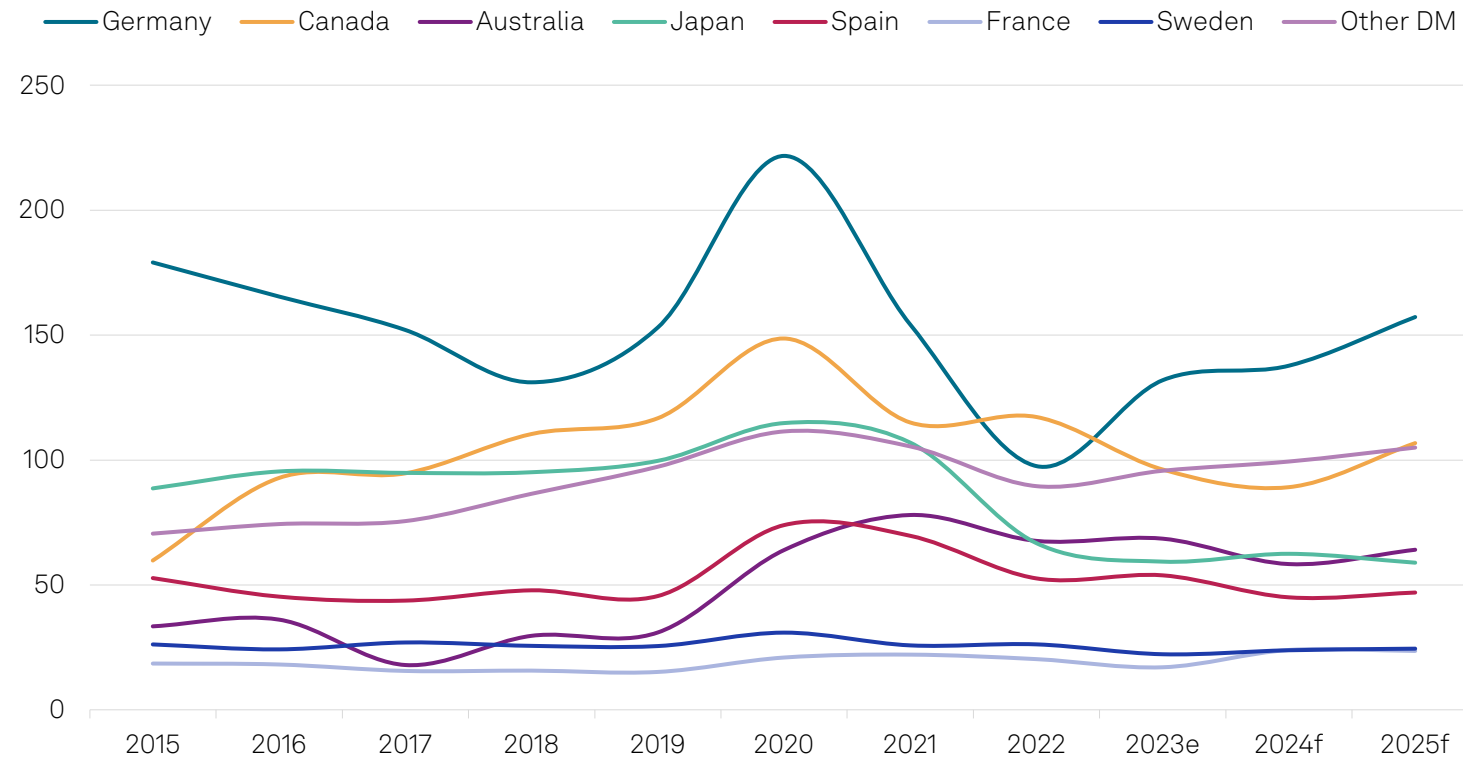


e--Estimate. f--Forecast. Source: S&P Global Ratings.

Gross Borrowings Will Pick Up In Germany

...while gross borrowings in other developed market (DM) countries outside the U.S. will largely stabilize

Gross borrowings in main countries in DM (bil. \$)

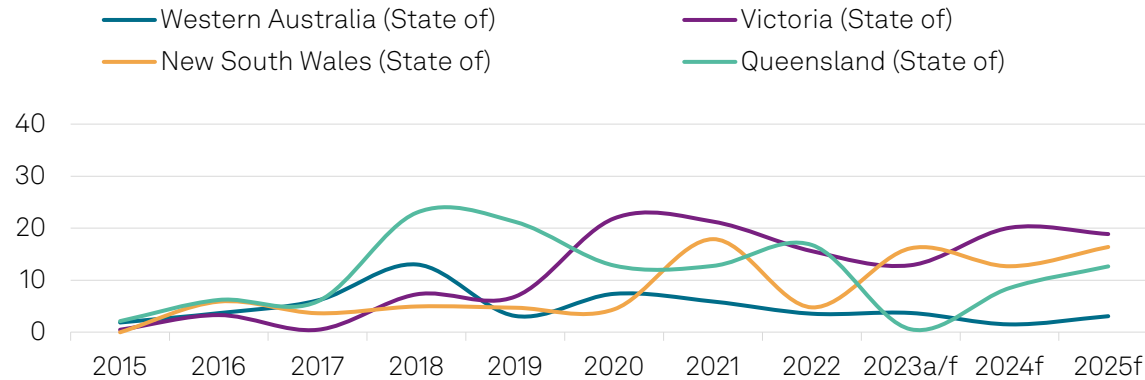


DM--Developed markets. e--Estimate. f--Forecast. Source: S&P Global Ratings.

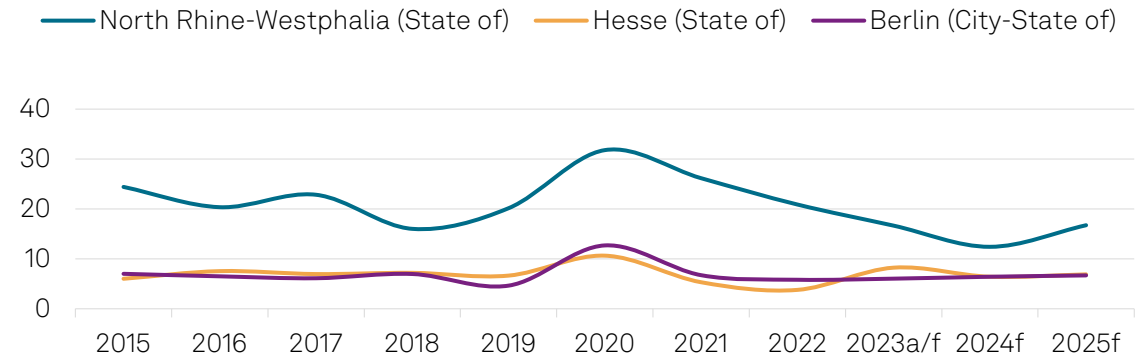
- Australian states and Canadian provinces' deficits will keep their gross borrowings sizeable. Fiscal rules in both countries are looser than in Europe and self-imposed policies are often vaguely defined.
- In contrast, German states' increasing gross borrowings mainly reflect higher refinancing needs, while the balance-budget requirement, after applicable exemptions, should keep deficits modest.
- We expect Japanese LRGs to continue deleveraging. This trend started in 2015 in response to the sector's high indebtedness and was interrupted during the pandemic.

Individual Fiscal Policies Result In Varying Borrowing Trends Within Countries

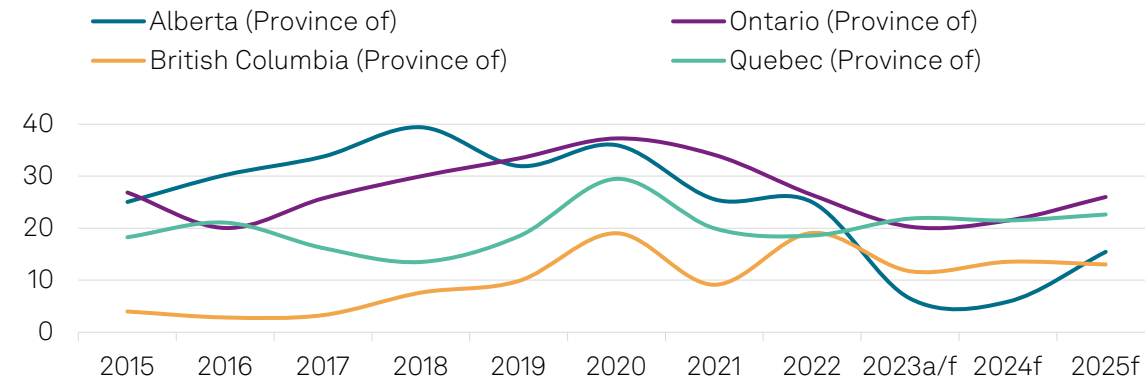
Gross borrowings in selected Australian states (bil. \$)



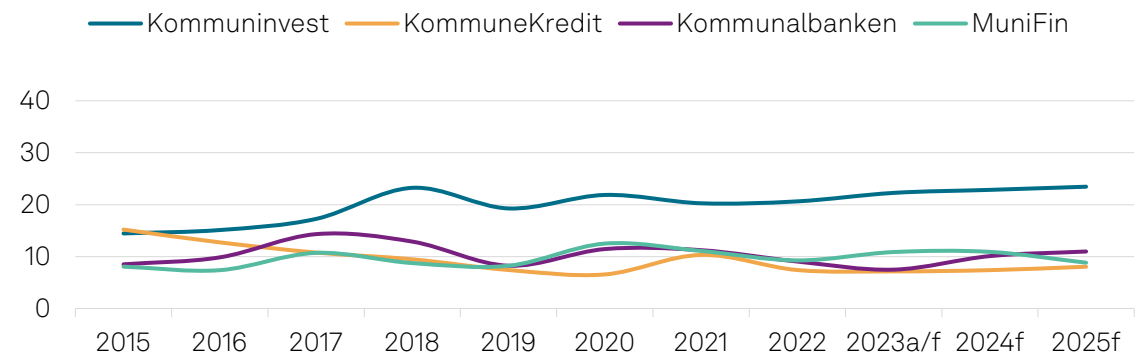
Gross borrowings in selected German states (bil. \$)



Gross borrowings in selected Canadian provinces (bil. \$)



Gross borrowings in selected bond aggregators (bil. \$)



The fiscal year ends March 31 in Canada, June 30 in Australia, and Dec. 31 in Europe. a--Actual. f--Forecast. Source: S&P Global Ratings calculations and expectations based on individual rating reports or publicly available information.

Noticeable Difference In Gross Borrowing Trends Of Large Issuers In DM

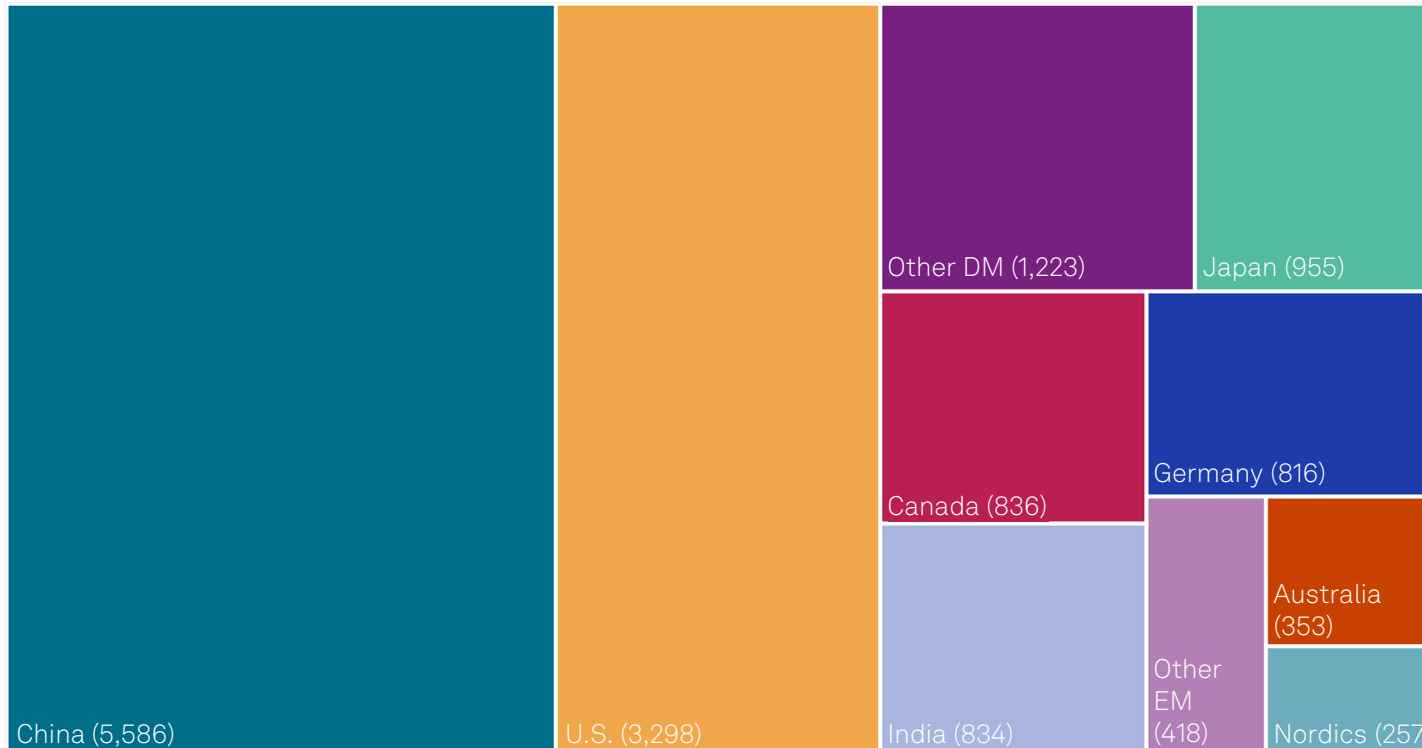
Fiscal flexibility adds to gross borrowing volatility and divergence between Canadian and Australian regions

- In Australia, infrastructure-driven borrowings will be seen across the sector. The states of Victoria and New South Wales are expected to borrow materially higher amounts compared with minerals-rich Western Australia, which also benefits from changes to goods and services tax grant distributions.
- The Provinces of Ontario and Quebec will remain the largest issuers in the world, with \$22 billion in annual issuance each in the coming two years, accounting for about 45% of Canadian subnational gross borrowing. Oil-rich Alberta adds volatility to the Canadian gross borrowing trend, because its funding needs follow developments in the global oil market.
- Borrowing trends of German LRGs are generally more homogenous due to the balanced-budget requirement and their reliance on a very similar pool of shared taxes.
- Borrowing needs of Nordic countries (Denmark, Finland, Norway, and Sweden) PSFAs are gradually increasing in line with expectations in their respective countries, reflecting rising demand and large refinancing needs due to short maturity profiles--the latter particularly in Sweden.
- Japan's prefectures remain large borrowers, but their funding needs are decreasing due to consistent budget surpluses.

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

...while LRGs in the top six countries comprise 85%

Global LRG debt stock by location, 2023 (estimate) (bil. \$)



- Total subnational debt is expected to reach \$17 trillion in 2025, up 23% from 2022.
- We expect that in 2025 India will surpass Japan and Canada to become the third-largest country by subnational debt.
- LRGs in emerging markets (EMs) are typically subjected to strict fiscal rules and challenging external conditions, constraining their debt build-up. Therefore, the 27 EM countries outside of China and India together make up just 3% of global debt stock.
- Most LRGs issue debt in local currency, with only Argentine provinces and several entities in Central and Eastern Europe (CEE) having a track record of issuing bonds in foreign or domestic currency, available for global investors.

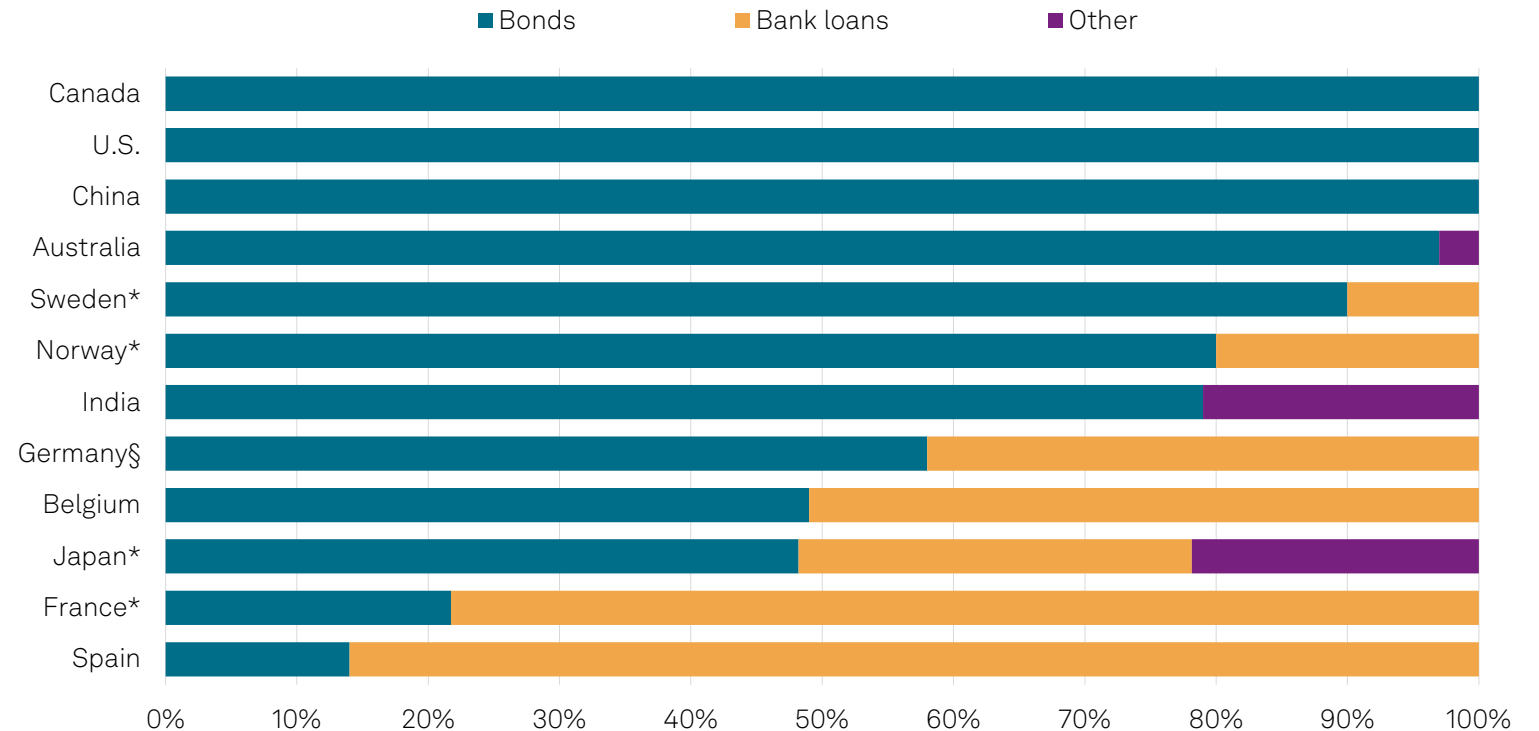
DM--Developed markets. EM--Emerging markets. Source: S&P Global Ratings.

Bonds Remain The Dominant Funding Source For LRGs

We expect close to \$2 trillion in bond issuance in the coming two years, covering over 85% of LRG borrowings

- The U.K., Austria, Italy, and Spain have a small presence in the debt capital market because they borrow from the central government or its agencies. However, we expect the Spanish regions to gradually return to the markets.
- LRGs in the rest of Europe and Japan mostly use traditional bank loans.
- LRGs in EM rarely tap the international debt capital markets. Moreover, multilaterals actively approach LRGs in EM, especially Latin America and CEE.
- Chinese and Indian LRGs issue bonds primarily for domestic investors. Chinese provinces have also issued a few offshore bonds and can borrow via key SOEs). Indian states issue bonds, which are essentially served by the Reserve Bank of India.

Debt stock breakdown (2024 forecast)

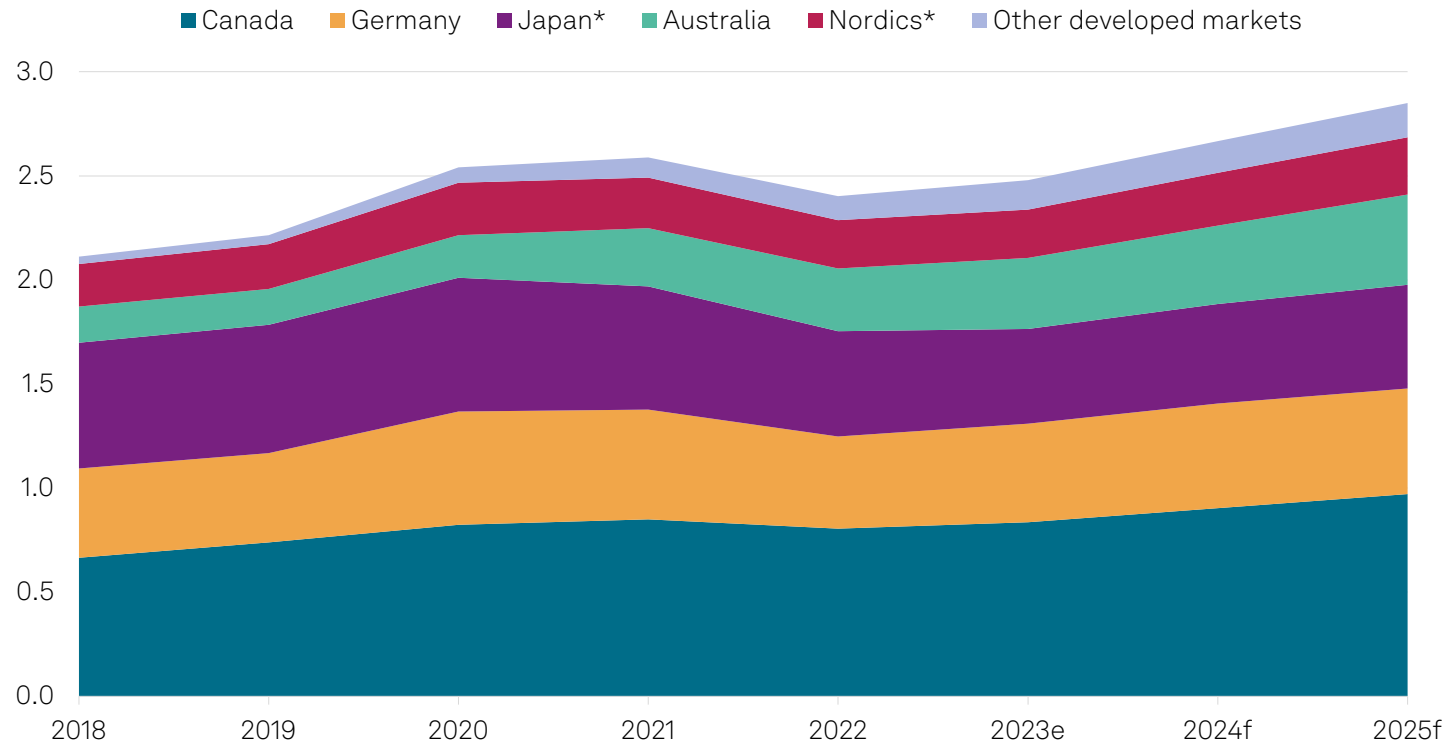


*Loans from Public Sector Funding Agencies (PSFAs) are viewed as bonds. §Schuldschein promissory notes are viewed as bank loans. Source: S&P Global Ratings.

Canadian Provinces Remain The Largest Issuers Of LRG Bonds

We estimate German LRGs' stock of bonds surpassed Japan's in 2023

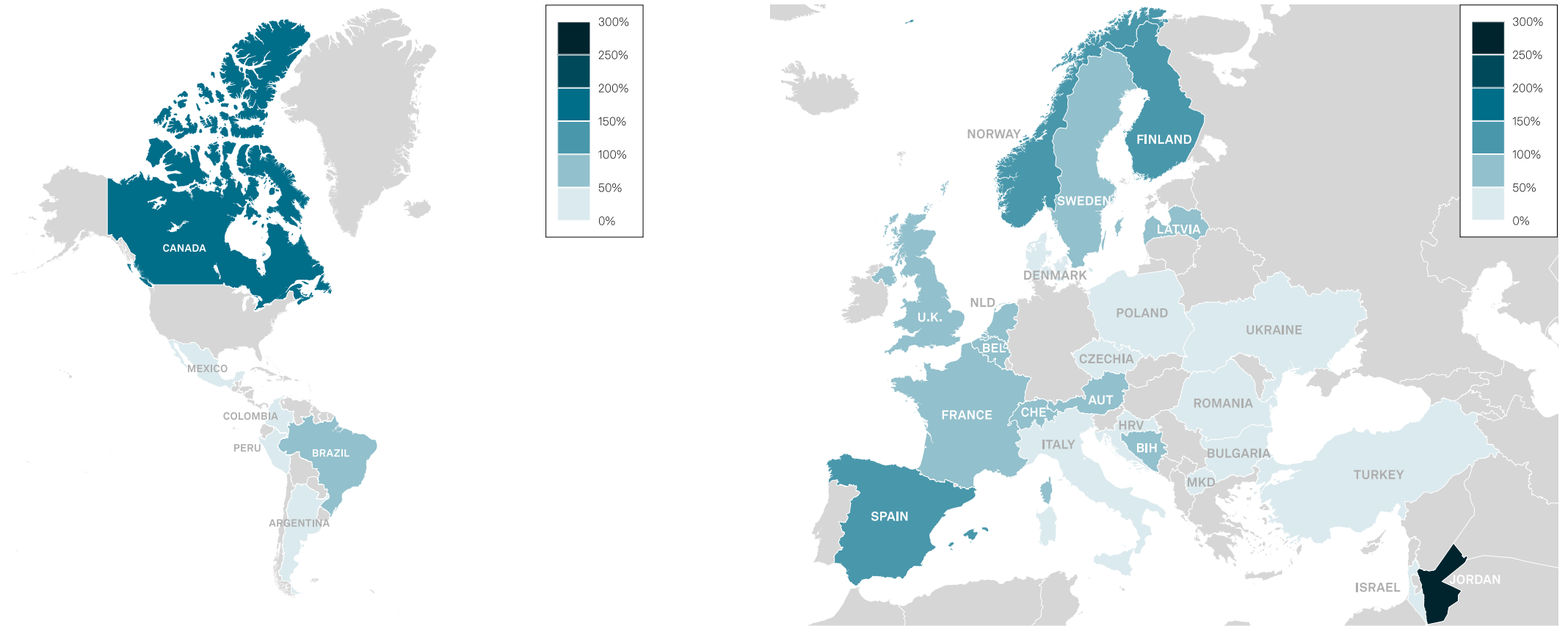
Stock of bonds in selected countries (tril. \$)



- While most DM LRGs issue bonds directly, issuers in the Nordics, France, and Japan, also use PSFAs to access debt capital markets. We treat PSFA bonds as LRG issuances.
- In other DMs, we project growing issuances by the New Zealand Local Government Funding Agency, to cover the wide fiscal deficits of the country's local governments, and in Belgium, where 50% of the sector's debt is in the form of bonds.

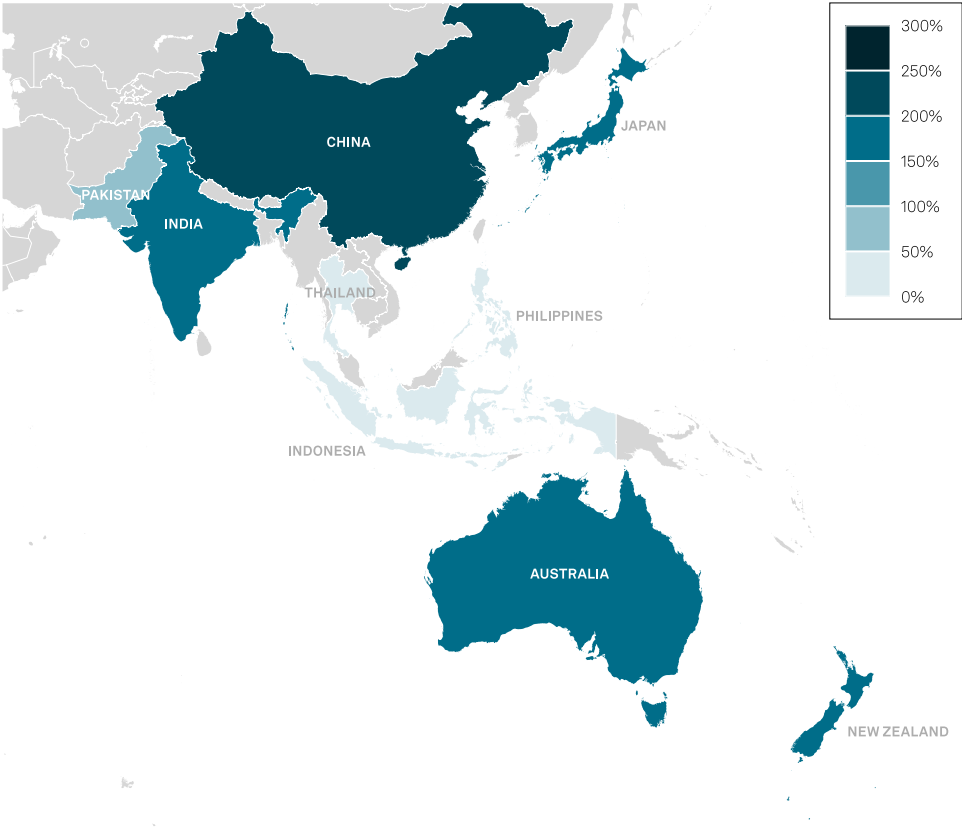
*Loans from PSFAs are viewed as bonds. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Global LRG Debt To Reach 100% Of Operating Revenue



BEL--Belgium. BIH--Bosnia and Herzegovina. CHE--Switzerland. HRV--Croatia. MKD--North Macedonia. NLD--Netherlands. Regions not to scale.

Global LRG Debt To Reach 100% Of Operating Revenue

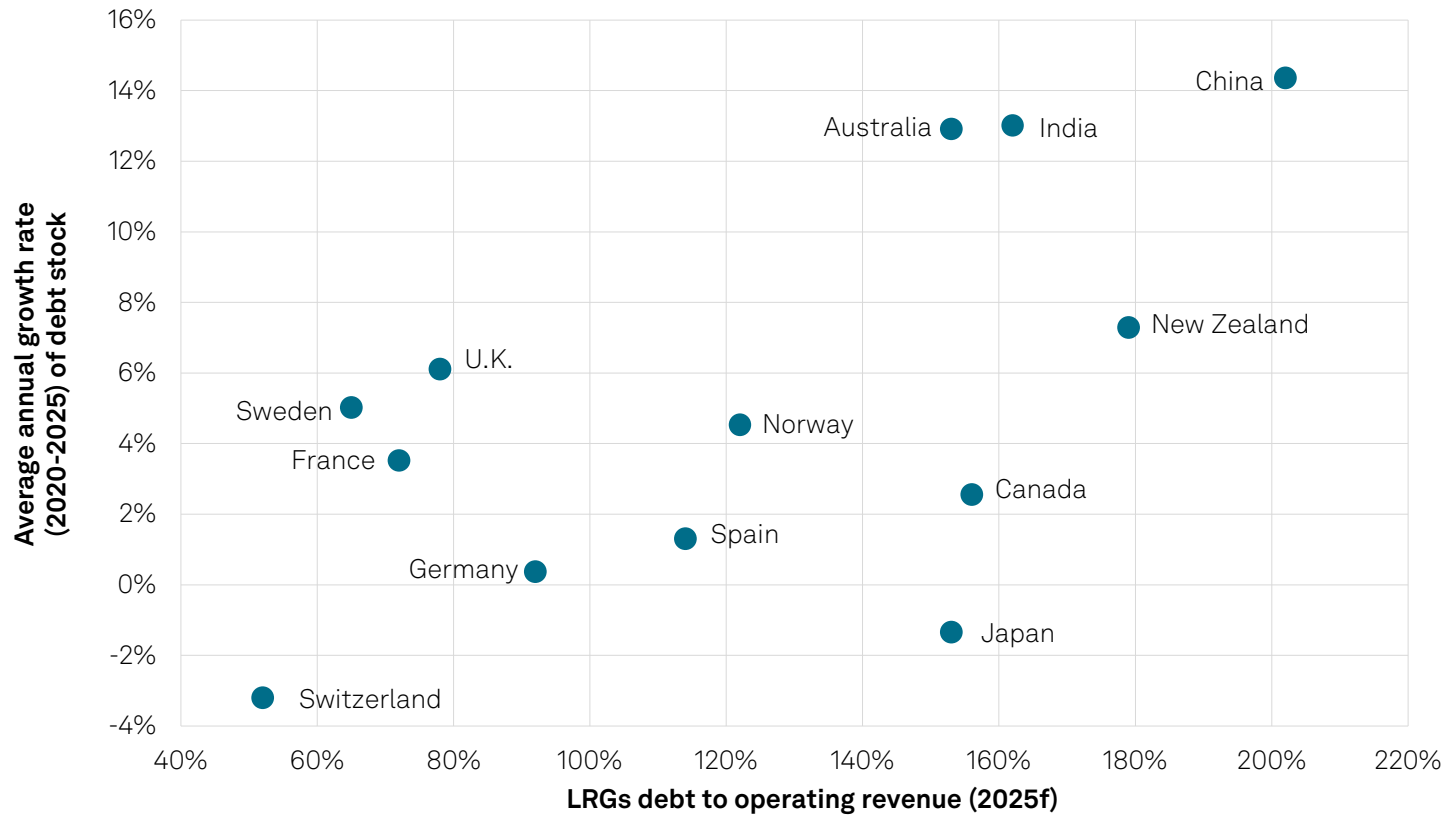


Regions not to scale.

Asia-Pacific LRGs' Debt Will Grow The Fastest

...while LRGs in Japan and Switzerland are on a deleveraging trend, but from different starting positions

Indebtedness trends of LRGs in selected countries



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

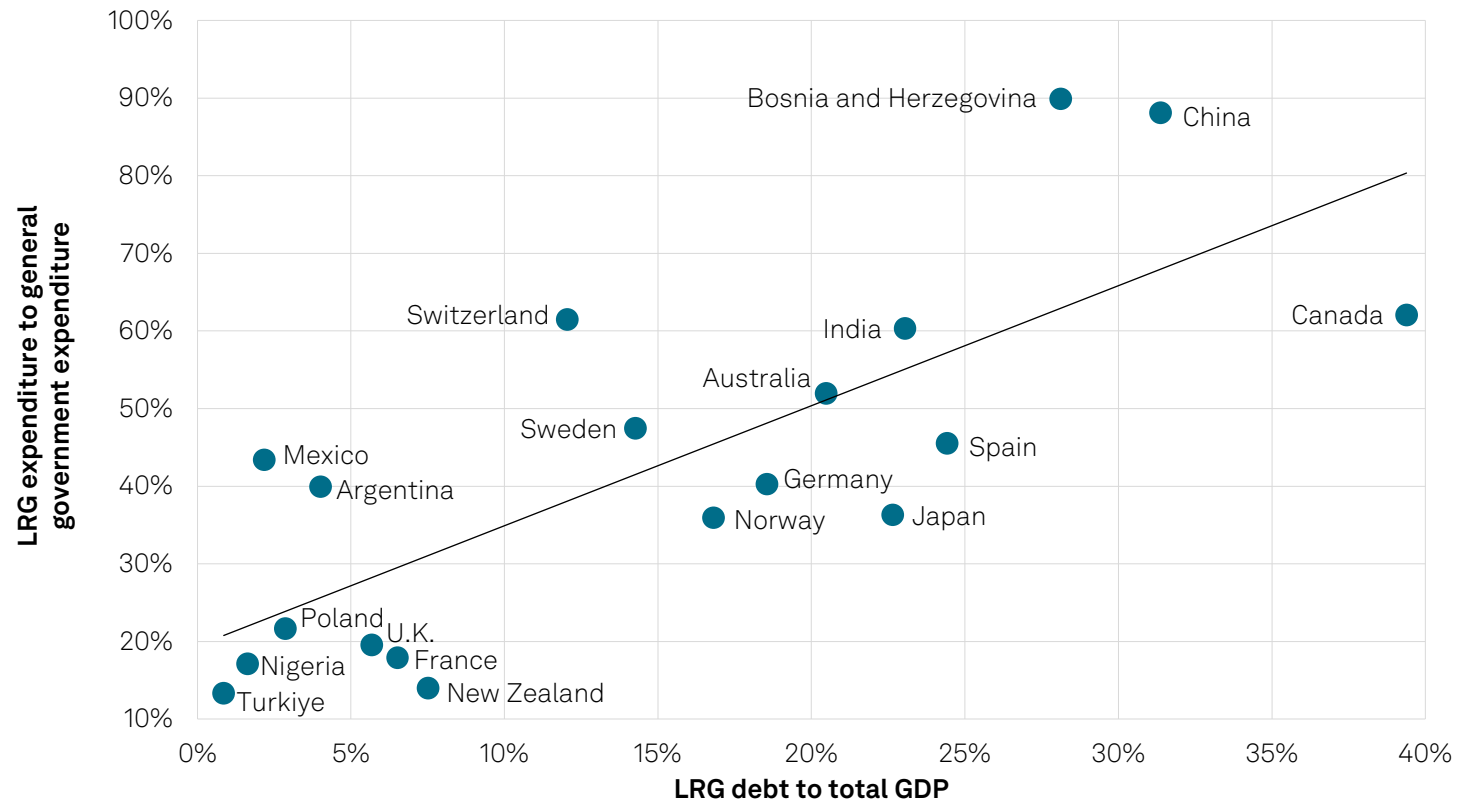
- Our expectations for large deficits in New Zealand will drive fast growth in its LRGs' debt. We expect this will see them become the second-most-indebted LRG sector globally.
- With debt intake by Chinese provinces, they are now the most indebted sector. If we included the debt of key state-owned enterprises with a high dependence on LRGs, Chinese LRGs' debt would be a bit higher, around 220% of operating revenue in 2025.
- Borrowings by LRGs in Spain and Sweden will return to pre-pandemic levels. This reflects the reprofiling of capex and strict fiscal policies in Sweden, and a combination of nationally set fiscal targets and availability of EU funds in Spain.

Borrowing Capacity Will Largely Remain Unutilized

LRG sectors in many countries could borrow more without affecting their creditworthiness

- We believe LRGs in many countries have extensive capacity to borrow more without affecting their credit rating. We project, however, that this capacity will not be exercised.
- For EM LRGs, 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 will focus on fiscal policies and maintaining a varying definition of a balanced-budget requirement. This will limit their investment and funding needs, but also their financial flexibility.

Centralization of budget spending constraints borrowing needs (2023e data)



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

Top Issuers—Non-U.S. Developed Markets

2023 rank (2022)	Issuer	Country	S&P Global Ratings rating and outlook*	Bonds outstanding year-end 2023 (mil. \$)
1 (1)	Province of Ontario	Canada	A+/Positive	311,014
2 (2)	Province of Quebec	Canada	AA-/Stable	194,226
3 (3)	State of North Rhine-Westphalia	Germany	AA/Stable	141,004
4 (4)	State of New South Wales	Australia	AA+/Stable	108,349
5 (7)	State of Victoria	Australia	AA/Stable	97,907
6 (5)	State of Queensland	Australia	AA+/Stable	89,919
7 (8)	Province of British Columbia	Canada	AA/Negative	76,840
8 (6)	Province of Alberta	Canada	AA-/Stable	68,500
9 (9)	State of Lower Saxony	Germany	NR	50,759
10 (10)	Kommuninvest I Sverige AB	Sweden	AAA/Stable	50,586

2023 rank (2022)	Issuer	Country	S&P Global Ratings rating and outlook*	Bonds outstanding year-end 2023 (mil. \$)
11 (11)	City-State of Berlin	Germany	NR	48,747
12 (12)	Province of Manitoba	Canada	A+/Stable	44,139
13 (13)	Tokyo Metropolitan Government	Japan	A+/Stable	39,540
14 (17)	State of Hesse	Germany	AA+/Stable	36,706
15 (14)	Kommunalbanken AS	Norway	AAA/Stable	35,760
16 (18)	Kommunekredit	Denmark	AAA/Stable	34,906
17 (16)	State of Western Australia	Australia	AAA/Stable	33,580
18 (15)	Osaka Prefecture	Japan	NR	33,081
19 (19)	Municipality Finance PLC	Finland	AA+/Stable	31,003
20 (20)	Aichi Prefecture	Japan	A+/Stable	26,746

*As of Feb. 17, 2024. NR--Not rated.

Top Issuers--Emerging Markets

2023 rank (2022)	Issuer	Country	S&P Global Ratings rating and outlook*	Bonds outstanding year-end 2023 (mil. \$)
1 (1)	Province of Guangdong	China	NR	340,949
2 (3)	Province of Shandong	China	NR	304,549
3 (2)	Province of Jiangsu	China	NR	300,025
4 (6)	Province of Hebei	China	NR	263,766
5 (5)	Province of Zhejiang	China	NR	259,637
6 (4)	Province of Sichuan	China	NR	255,705
7 (8)	Province of Henan	China	NR	223,828
8 (7)	Province of Hunan	China	NR	223,532
9 (10)	Province of Anhui	China	NR	211,695
10 (9)	Province of Hubei	China	NR	211,455

2023 rank (2022)	Issuer	Country	S&P Global Ratings rating and outlook*	Bonds outstanding year-end 2023 (mil. \$)
11 (14)	Municipality of Beijing	China	NR	205,240
12 (11)	Province of Guizhou	China	NR	182,439
13 (12)	Province of Yunnan	China	NR	173,504
14 (13)	Province of Jiangxi	China	NR	167,896
15 (15)	Province of Fujian	China	NR	164,147
16 (19)	Autonomous Region of Inner Mongolia	China	NR	160,582
17 (16)	Municipality of Chongqing	China	NR	158,200
18 (22)	Province of Liaoning	China	NR	153,352
19 (18)	Autonomous Region of Guangxi	China	NR	148,096
20 (21)	Municipality of Tianjin	China	NR	146,222

*As of Feb. 17, 2024. NR--Not rated.

Countries Covered In This Report

- Our survey on global LRG borrowing encompasses 47 countries: Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, China, Colombia, 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, Peru, 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 Debt 2024: Fiscal Policy Differences Influence Borrowing In Developed Markets](#), March 4, 2024
- [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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