SECTOR COMMENT
30 July 2026

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Regional and Local Governments – Spain and France

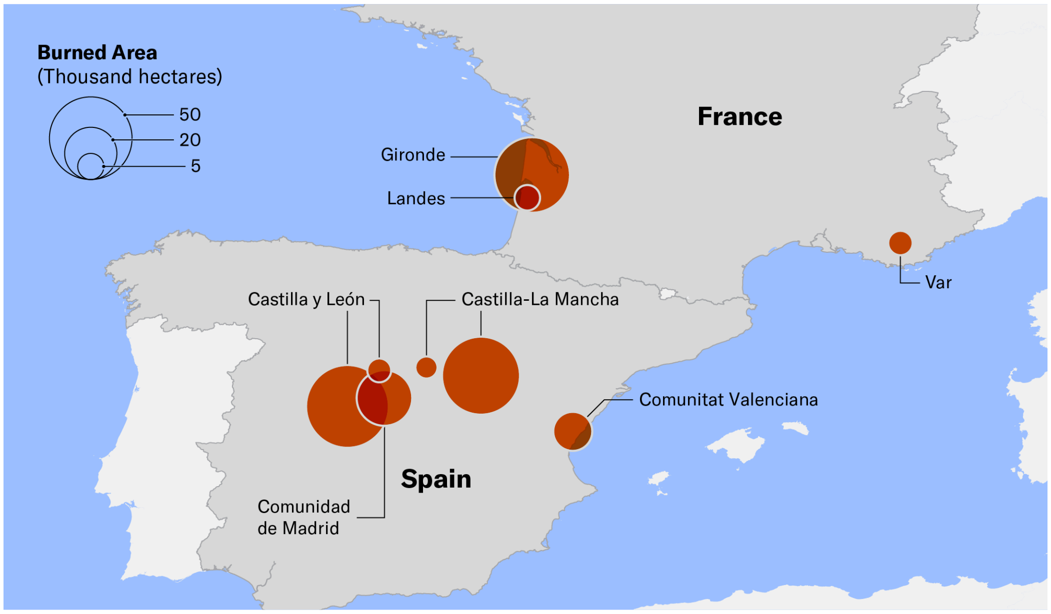
Heatwave-fuelled wildfires increase spending pressures

As of 29 July, Spain (A3 stable) and France (Aa3 negative) were experiencing some of their worst wildfires in recent history, with more than 175,000 hectares of land burned in the preceding week.[1] The area burned in just seven days equalled 40% of the land burned by wildfires in the two countries during the whole of 2025. The wildfires, fuelled by intense heatwaves and prolonged drought, are credit negative for affected regional and local governments (RLGs) because they raise expenditure needs while disrupting local economic activity and revenue generation.

Although the scale of the damage remains uncertain, support from national governments, the European Union (Aaa stable) Civil Protection Mechanism and insurance coverage will mitigate the immediate financial impact and aid post-disaster recovery. The growing frequency and severity of such events will increase adaptation and prevention costs and weigh on economic activity and revenue growth, creating a persistent source of fiscal pressure for exposed RLGs.

In Spain, the fires are concentrated in Castilla y Leon (A3 stable), Castilla-La Mancha (Baa3 stable), Madrid (A3 stable) and Valencia (Baa3 stable) (see exhibit). Around 128,000 hectares of land has been affected and more than 115,000 people have been evacuated or ordered to remain indoors. In France, the largest fires have been in the Nouvelle-Aquitaine and Provence-Alpes-Côte d'Azur regions, with other parts of the country also affected. The largest ongoing blaze is in Gironde, Nouvelle-Aquitaine, close to Bordeaux Metropole (Aa3 negative). It has burned around 40,000 hectares of land and prompted the evacuation of more than 200,000 residents, making it one of France's largest wildfires in decades.

Wildfires are putting greatest pressure on inland Spain and southwestern France



Note: The exhibit highlights the main wildfire-affected areas in Spain and France since 20 July and does not show all wildfire incidents across the countries.
Source: European Forest Fire Information System

Affected RLGs are also moderately or highly exposed to other physical climate risks, including heat stress, drought and water-management pressures, particularly Spanish regions such as Castilla-La Mancha and Valencia.

Spanish regions oversee climate adaptation and wildfire prevention efforts, including healthcare protection and emergency coordination. In France, the central government, through the civil protection system (Sécurité civile), leads and coordinates emergency response efforts, while fire and rescue services (SDIS), which constitute the main local operational arm of the civil protection system, are financed jointly by départements, the main contributors, and municipalities and intermunicipalities. Local governments also bear part of the prevention, emergency response and recovery costs, whereas the central government funds and operates strategic national civil protection assets.[2] Regions in both countries are mainly exposed through economic activity and resilience-investment needs.

Apart from higher public spending, wildfires mainly affect credit quality by disrupting economic activity, particularly through damage to tourism, forestry and agriculture, which results in lower revenue. The expenditure impact is likely to be more significant than the effect on revenue in both countries.

Nevertheless, we do not expect the wildfires to have a significant credit effect on affected Spanish and French RLGs. Although local governments bear part of the prevention, emergency response and recovery costs, support from the Spanish and French central governments, the EU Civil Protection Mechanism and private insurance will help absorb immediate costs and facilitate post-disaster recovery. We expect central governments to bear a significant share of the overall burden through the funding of civil security, military and firefighting operations, recovery assistance and, where appropriate, exceptional support for affected RLGs, limiting the direct fiscal impact on them.

The Madrid regional government announced a €30 million aid package to support housing and recovery for residents affected by the wildfires. The package equates to only 0.1% of its budget and we do not expect it to have credit implications for the region. Bordeaux Métropole has not been reported as suffering significant fire damage so far, but has been affected by precautionary evacuations, smoke-related disruption and emergency support measures. Its exposure is unlikely to be material for its credit profile at this stage.

Beyond the fiscal effect, the wildfires will also result in higher claims for French insurers. The losses will likely be borne primarily by insurers and their private reinsurance programmes rather than the state-backed Cat Nat regime administered by CCR (Caisse Centrale de Réassurance), because forest fires are generally excluded from Cat Nat coverage. We expect the costs to be manageable for most French insurers, with limited effect on earnings and capital given existing reinsurance cover.

More broadly, the fires highlight the growing exposure of the insurance sector to climate-related risks as wildfire risk expands beyond traditionally affected regions. Insurers may also face operational, reputational and political pressures as authorities seek rapid support for affected communities through accelerated claims handling and exceptional customer-assistance measures.

The increasing frequency and severity of wildfires, heatwaves and droughts will require greater spending on prevention, emergency preparedness, land management and climate adaptation. Our credit analysis of the affected RLGs incorporates the exposure to physical climate risks from heat stress, water stress and wildfires.

In Spain, regions with weaker fiscal positions and higher debt have less capacity to absorb climate-related costs. Valencia is particularly exposed, because it had the highest debt-to-operating revenue ratio among the Spanish regions we rate, at 290% at year-end 2025 compared with an average of 148% for rated regions.

In France, local governments already carry a large share of climate-related investment responsibilities, and central government support is diminishing. This increases the risk that RLGs will delay adaptation investments, scale down projects or rely more heavily on debt at a time when investment budgets are already stretched.

The recent wildfires call attention to the growing economic significance of physical climate risks. Territories exposed to heat stress, drought and recurrent wildfires may face mounting pressures on their economic resilience, especially where activity depends on climate-sensitive sectors. For example, in Castilla La Mancha, agriculture accounts for 7.6% of regional GDP compared with 2.8% for Spain as a whole, making it more vulnerable to adverse climatic conditions. In France, similar challenges are evident in areas such as Nouvelle-Aquitaine and parts of the south, where tourism, forestry, agriculture and natural assets are important economic drivers.

Endnotes

1 Source: European Forest Fire Information System.

2 Including Canadair firefighting aircraft, helicopters and specialized emergency response units.

REPORT NUMBER 1492035

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