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Financing in Crisis

Like their European neighbours, French public hospitals are major economic players. The principal employers of their country, principal buyers, they are also investors whose dynamism has increased in the past decade, through the movement for modernisation of buildings and hospital infrastructure (plans Hôpital 2007 and Hôpital 2012). Confronted with the need for significant liquid assets to successfully complete these projects, French hospitals did not escape the financial crisis that struck in 2008, even if their healthy financial situation prevented any long-term effects.

The start of the decade marked an easy access to credit for hospitals. The banks, wishing to support hospitals with their financial needs, facilitated hospitals falling into more and more debt in proposing structured loans in the form of SWAP contracts, allowing for an active management of the debt and a lessening of its cost in a favourable financial context.

When the Bubble Burst

The bursting of the financial bubble and the profound financial crisis that ensued was a real worry for hospitals. Firstly, credit became harder to come by, the banks wanted to decrease the volume of loans to improve their balance sheets and protect themselves from risks. Consequently, many hospitals were refused credit in 2008. Then margins exploded as well as inter-bank rates, which resulted in a rise in the cost of borrowing, complicating the financing of investments and lowering the duration of loans. Finally, for loans already contracted the financial crisis had the consequences of highly volatile rates and a non-neutral impact on financial costs, in particular for structured products.

Despite this rarefaction of sources of funding, French hospitals were able to overcome this crisis without major difficulties and were able to manage their financial needs thanks to their sound financial structure and low exposure to risks. Since 2009 and the end of the acute crisis, French hospitals have made stabilising their financial balances and securing their outstanding debt a priority, the majority opted for loans at a fixed rate and consolidated loans already agreed in the past.
Since 2009, hospitals have easier access to credit. Even if the banks are more strict in terms of the guarantees they demand from healthcare establishments, banking margins are still elevated, a phenomenon at the same time compensated for by the historically low guiding rates. The analysis of hospital debt illustrates an interesting evolution with, on the one hand, the pursuit of the decline of structured loans (see figure 1), and on the other hand, the decline of traditional lenders and a significant progression of alternative means of financing like the direct financing on the markets.

Hospitals and Banks: A New Relationship

One major effect of the financial crisis on French hospitals is a certain moralisation of practices and relations between health establishments and banks. This can be seen with the signing of the GISSLER chart, which aims to formulate a code of good practice for financial relations between banks and public institutions. The agreement signifies:

- Commitment from the banks to no longer propose high risk products;
- Commitment from the banks to clearly explain the products proposed;
- Commitment from hospitals to be transparent in their management of debt and borrowing.

To conclude, the crisis revealed the solidity of French hospitals and more importantly, provoked the realisation of the necessity for prudent management of debt to protect hospitals from the volatility of the markets. Like all crises, it will be, we hope, the start of the stabilisation of practices, which will guarantee the development of hospitals and their modernisation.

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