

# **European sub-national finance in crisis, 2009-2011**

**Sorin Ioniță/Paul Bernd Spahn**

**Kyiv, December 2011**

# Results in mid-2011

- Survey on 35 European countries done for Council of Europe / LGI-OSI (coordinator: Ken Davey)
- Data: (i) national observers; (ii) Eurostat
- Sub-national = all tiers of elected gov combined (local, provincial, regional, etc)
- Cover multiple stages of the crisis: fall (private sector) – rebound – new crisis (public sector)

# Results in mid-2011

Complex landscape due to very different circumstances

- Timing of the crisis different: Ire, Baltics / Greece / Tk (no crisis)
- Administrative capacity, fiscal space for response very different across states
- Functions and size of LGs very different: Scandinavia (50-60% public spending) / Gr, Tk, Cy, Pt around 10% or less

# Trends in local / central revenues



# Subnational debt, % revenues

	2008	2009	2010	
SP	169.7	182.5		↑
GER	153.0	171.7	187.4	↑
TK	120.8	126.0	127.0	↑
IRE	100.0	114.0		↑
SWE	46.3	50.5	45.8	↔
EST	37.7	45.9	44.8	↑
HU	32.2	36.6	43.3	↑↑
SK	26.7	31.8	38.4	↑↑
CZ	24.5	26.2	24.7	↑
FIN	22.4	23.8	23.2	↔
RO	21.8	26.0	27.1	↑↑
POL	20.3	26.0	33.8	↑↑
RUS	6.1	7.6	8.0	↑
BG	2.7	6.2	6.5	↑

# Conclusions

- General contraction 2008-2011 at all subnational levels, due to fall in revenues from own + shared taxes
- Some central governments (CG) were able to cushion the LGs in stage 1 of crisis (Ger, Pol, Scandinav)
- Others were not and used LG budgets as buffers for the deficit reduction in stage 1 (Ire, most NMS)
- In stage 2 the transfer cuts have spread (Sp, It, Port, Gr, Pol)

# Conclusions

- Taxes on property = most stable, as in most of Europe they are not set at market value
- Taxes on labor (shared) held steady in stage 1 but fell subsequently (delayed response)
- Taxes tied to the business cycle = most unstable (on businesses; property transactions, etc), collapsed in stage 1
- Increased heterogeneity at the Europe's scale: diverging trends in revenue trends and policy responses

# Conclusions

- Most radical change was in LG decision-makers' assumptions: optimism, indefinite growth → recession, spending cuts

*“Yesterday, all our troubles seemed so far away...”*

- Even so, the swing of the pendulum was wilder at Europe's fringes: NMS, Greece, Western Balkans, Russia, Ukraine
- Erosion of local budgetary autonomy, contrary to the Charter, due to: (i) micro-management by central level; (ii) losses compensated with earmarked transfers



**Thank you for your  
attention**

---