Press release

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# Further decline in European subnational investments in 2011

The report entitled **"Subnational public finance in the European Union",** published by Dexia Crédit Local and the Council of European Municipalities and Regions (CEMR), analyses the state of subnational finances[1] in the European Union. It notably reveals that subnational investments further declined in 2011.

The study shows that the economic and social situation has relatively improved during the first half of 2011. This recovery combined with efforts made by local public authorities to boost revenue and rein in spending, made it possible to **consolidate the main budget balances in the public subnational sector** in the EU. Considered individually, however, the situation in certain countries - or for certain authorities - has become strained.

**The subnational public sector deficit has been reduced, falling from 0.8% of GDP in 2010 to 0.7% in 2011. Higher subnational tax revenue**, which increased by 5.5% after having drastically decreased with the crisis, was the main reason why the funding needs of local authorities were lower. Improved tax revenue coupled with asset income and tariff revenue helped **offset the 4.9% drop in transfers** to local authorities, which was the result of cost-saving measures taken by central governments under national plans to shore-up budgets. In total, subnational revenue was stable in 2011 (+0.2%).

**Subnational expenditure**, which had already slowed in 2010, **continued to fall slightly in 2011** (-0.2%), reaching €2,109 billion, i.e. 16.7% of GDP and 34% of public expenditure. For the first time in eleven years, personnel-related expenditure and the purchase of goods and services were down. Growth in social services, which had been very strong since the outset of the crisis due to automatic stabilising mechanisms and discretionary measures to foster cohesion, has started to weaken due to lower unemployment rates in several European countries.

The drop in expenditure was also a result of a **sharp decline in direct investments at the subnational level** (-6.6% in 2011), following an already weak year in 2010, which saw a nearly 14% drop over a two-year period, i.e. on par with 2006 levels. At €204 billion, direct investments in 2011 continued to account for two-thirds of European public investment.

[1] For the 27 member states of the European Union, the “subnational” level includes two sub-sectors, the “local public sector” (local and regional authorities and related public bodies) and the “federated public sector” (federated entities in Germany, Belgium, Austria and quasi-federated entities in Spain as well as related public bodies).

**Total subnational debt increased at a slower rate** (+3.1%) and stood at €1,563bn in 2011, i.e. 12.4% of GDP and 15.0% of public debt. For the local level alone (i.e. excluding federated or quasi-federated entities), these figures fall to €743 billion, or 5.9% of GDP and 7.1% of public debt. Local debt is almost exclusively allocated to investments, in accordance with the Golden Rule, which has been a real "dogma" for governing local finance for many decades in a number of European countries.

**Local investments could once again come under pressure in 2012** as the economic and social crisis deepens. Moreover, there is a degree of uncertainty caused by institutional and territorial reforms, while austerity measures are stiffening and access to external sources of funding is becoming more difficult.

Moreover, this year the study discusses **many highly topical issues** such as territorial and institutional reorganisation in Europe, the transfer of competencies, recent and planned reforms affecting local finances and equalisation schemes, the use of European funds in 2011, fiscal discipline and public finance governance at the national and subnational level, strengthening of internal stability pacts and finally, the growing issue of external, banking and bond funding for local investments.

*This analysis was mainly drawn-up using statistical data from 2000 to 2011 taken from Eurostat in May 2012 and restated by Dexia Crédit Local's Research Department. The data for 2011 are provisional. The study is also based on the results of a survey conducted in June 2012 by the Council of European Municipalities and Regions among its members, i.e. the national associations of local and regional authorities in Europe.*

*For the first time, Dexia Crédit Local is publishing this paper in partnership with CEMR, although the two organisations have worked together on studies concerning local authorities in Europe for a number of years. In fact, they have published a document entitled **"EU Subnational Governments - Key Figures"** for the past six years, which provides organisational and financial data on local and regional authorities in the 27 member states of the European Union.*

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*The present document will be presented and widely distributed in French and English during the **General Assembly of the CEMR**, which will be held in **Cadix**, Spain, from **26 to 28 September 2012** (www.cemr2012.eu). It is also available on the websites of the two partners. Hard copies can be sent upon request (see contacts below).*

## 2011 Key Figures

- **90,380 local and regional governments in the EU**, including 89,149 municipalities, 981 intermediary entities (departments, provinces, etc.) and 250 regions (including the federated and quasi-federated entities).
- **Subnational revenue (excluding borrowing):**
  - €2,016bn, 16.0% of GDP, 35.8% of public revenue, stable in 2011 (+0.2% in volume terms);
  - Grants and subsidies down 4.9% in volume in 2011;
  - Tax revenue up 5.5% in volume en 2011.
- **Subnational expenditure (excluding redemption of the debt in capital):**
  - €2,109bn, 16.7% of GDP, 34.0% of public expenditure, down very slightly in 2011 (- 0.2% in volume);
  - Main spending areas: education (21% of expenditure) and social services (19%).
- **Subnational investment:**
  - €204bn in direct investment, 66.5% of public investment, down 6.6% in volume in 2011, following a 7% drop in 2010. In 2011, direct investments returned to their 2006 level.
  - Financing of direct and indirect local investment (excluding federated and quasi-federated entities): 86% using own-source revenues (49% from self-financing and 37% from investment revenue). Use of debt (change in indebtedness) covered the remaining 14% in 2011.
- **Subnational public sector budget balance and debt:**
  - Subnational deficit of €93bn: 0.7% of GDP and 16.5% of the public deficit;
  - Subnational debt outstandings: €1,563bn, 12.4% of GDP, 15.0% of the public debt, up 3.1% in volume in 2011;
  - In the local public sector level alone (excluding federated and quasi-federated entities), which is subject to the "golden rule" in most countries, debt stands at €743bn, 5.9% of GDP, 7.1% of the public debt, up 2.6% in volume en 2011;
  - Bond debt outstandings: 31% of all outstandings for subnational debt but only 7% for the local level alone.

*The Council of European Municipalities and Regions (CEMR) is the largest organisation of local and regional governments in Europe. Its members include over 50 national associations of towns, municipalities and regions from 40 European countries. Together, these associations represent nearly 100,000 local and regional authorities.*

*The CEMR has a twofold purpose: to influence European legislation on behalf of local and regional authorities and to provide a platform for dialogue between its member associations and their elected representatives and experts. In addition, the CEMR is the European section of United Cities and Local Governments (UCLG), the worldwide organisation of local and regional authorities.*

## *Contacts:*


***Dexia Crédit Local***
*Christine Lair*
*Press services*
*Paris: +33 1 58 58 86 44*
*Email: pressdexia@dexia.com*

*Dexia Crédit Local Research Department:*
*Etudes-Research@dexia.com*
*www.dexia-credit-local.fr*

***Council of European Municipalities and Regions***
*Emilie Melvin*
*Press attaché*
*Square de Meeûs 1*
*B-1000 Brussels*
*Tel.: + 32 2 500 05 34*
*Email: emilie.melvin@ccre-cemr.org*
*www.ccre.org*