Local and regional finances and investment after COVID-19: Evidence and outlook

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European Committee of the Regions
7th Mandate – ECON commission
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The OECD work on the territorial impact of the COVID-19 crisis and the recovery

1. The territorial impact of the COVID-19 crisis
2. Managing the crisis and recovery across levels of government
3. Looking ahead: Coordination, clarity and assignment of responsibilities and multi-level governance success factors
OECD Regional Recovery Platform: supporting place-based and evidence-based policymaking

**Impact and recovery indicators**
Indicators to measure the impact of the crisis and the progress of the recovery in regions over the short and medium term.

**Resilience indicators**
Indicators to help understand the resilience of regions and policy priorities that can help build resilience during the recovery.

**Policy database**
A database of policies implemented by national and subnational governments to help manage the regional impacts of the crisis.

**Forward-looking scenarios**
Scenarios that highlight how remote working could change development patterns in cities and regions.
Subnational governments have key responsibilities to manage the crisis.

Share of public expenditure at the subnational level per functional categories (2020)

<table>
<thead>
<tr>
<th>Function</th>
<th>Share</th>
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<tbody>
<tr>
<td>Logement et équipements collectifs</td>
<td>76%</td>
</tr>
<tr>
<td>Environnement</td>
<td>64%</td>
</tr>
<tr>
<td>Loisirs, culture et culte</td>
<td>59%</td>
</tr>
<tr>
<td>Education</td>
<td>48%</td>
</tr>
<tr>
<td>Affaires économiques</td>
<td>34%</td>
</tr>
<tr>
<td>Santé</td>
<td>25%</td>
</tr>
<tr>
<td>Ordre et sécurité publics</td>
<td>24%</td>
</tr>
<tr>
<td>Services généraux</td>
<td>21%</td>
</tr>
<tr>
<td>Protection sociale</td>
<td>14%</td>
</tr>
<tr>
<td>Défense</td>
<td>1%</td>
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</tbody>
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Source: OCDE (2020), Subnational governments in the OECD: Key Data
The fiscal impacts of Covid-19 on subnational governments are differentiated.

Differentiated impacts:
- across countries
- across regions
- across categories of subnational governments (e.g. regional vs municipal)
- across individual subnational governments depending on geographic location, size, socio-economic profile and fiscal characteristics.
Subnational public expenditure increased in most countries

Change in subnational government expenditure, in percentage points (2019-2020)

Average change (unweighted): +2.5%

Source: OECD (2021), Regional Recovery Platform
Note: data range from 2019 to 2020
**Subnational public investment decreased in about half of countries**

<table>
<thead>
<tr>
<th>Change in subnational government investment, in percentage points (2019-2020)</th>
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<tr>
<td>Percentage year on year change in subnational government investment in real terms, between 2019 and 2020</td>
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- **Average change (unweighted):** -0.6%

Source: OECD (2021), Regional Recovery Platform
Note: data range from 2019 to 2020
Subnational government revenues increased in 15 out of 24 OECD countries

Average change (unweighted): +1.9%

Source: OECD (2021), Regional Recovery Platform
Note: data range from 2019 to 2020
Subnational revenue was resilient due to higher grants and subsidies.

Change in subnational government revenue by transaction type, in percentage points (2019-2020)

Source: OECD (2021), Regional Recovery Platform
Note: data range from 2019 to 2020
Subnational budget balance change between 2019 and 2020 (EU countries)

Local budget balance (% of GDP, 2019 and 2020)

State government budget balance (% of GDP, 2019 and 2020)
Subnational debt change between 2019 and 2020 (EU countries)
Expected trends in 2021

• Improvement in **fiscal performance** due to economic recovery in 2021
  o Increase of tax revenue to compensate for lower central government support e.g. grants and liquidity support mechanisms.
  o But increasing pressure on current expenditure due to higher inflation and social needs
  o Increase in in public investment for the recovery, supported by recovery funds.
• **Higher levels of subnational debt** to finance **postponed investments**
• **Uncertainty on economic recovery** for end-2021 and 2022 due to the increased rate of covid-19 infection
Uncertainty factors in 2022

• The evolution of the sanitary crisis
• The delayed effects if the economic crisis on subnational public finances
• The extent and scope of support measures from higher levels of governments in 2022
• The degree of involvements from subnational governments in the recovery plans
• The level of subnational governments’ indebtedness

More generally, subnational public finances will depend on the economic recovery path in each country, which will affect their tax revenue and social spending.
To conclude: some short and longer-term challenges

- Continue to support sub-national finance to support recovery while evaluating its effectiveness
- Undertake a thorough review of how subnational governments are financed
- Take better account of the asymmetric impacts of the crisis and better target support to the most affected subnational governments
- Review and strengthen existing equalisation mechanisms
- Take a longer-term perspective and better anticipate future shocks
- Invest in financial management (e)tools and human resources
- Encourage dialogue and fiscal coordination between levels of government based on shared diagnosis and data, in a forward-looking approach.
Thank you

- OECD Website on Multilevel Governance and Subnational Finance: https://www.oecd.org/regional/multi-level-governance/

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