3. SUBNATIONAL FINANCE AND INVESTMENT FOR REGIONAL DEVELOPMENT

Subnational public debt

The financial and economic crisis led to a strong deterioration in both general government deficits and debt in most OECD countries. Falling revenues (due to the decline in economic activity and tax reductions designed to stimulate the economy) coincided with sharp increases in government spending (social transfers, stimulus measures or support for financial institutions).

At end of 2012, the general government gross debt in the OECD area (30 countries) represented 113% of GDP, and more than 140% of GDP in Japan, Greece and Italy (Figure 3.7).

On average in the OECD area, subnational government (SNG) debt accounted for 22% of GDP. SNG debt is unevenly distributed among OECD countries. At the state level (in federal or quasi-federal countries) debt varies from 6% of GDP in Austria to 21% in Spain, 27% in Germany and 52% in Canada. At the local level, it ranges from less than 2% in Greece to 38% in Japan (Figure 3.7).

The relatively small share of local government debt is driven by legal restrictions to local borrowing. In a majority of countries, local governments can borrow only for the long term to finance investment (“golden rule”). Moreover, local borrowing is generally governed by strict prudential rules defined by central or state governments.

Large differences among local governments are observed. For example, 4 out of the 17 autonomous communities in Spain and 2 out of the 10 provinces in Canada hold around three-quarters of the State’s debt. Similarly, 3 out of the 16 Länder in Germany accounted for almost half of regional government debt in 2012.

SNG debt per capita varies greatly, ranging from 340 USD in Korea to 18 250 USD in the Canadian provinces (Figure 3.8).

SNG fiscal balance reached -3.5% of SNG revenues in 2012 in the OECD area. SNG debt, defined here as “Maastricht debt” (i.e. resulting mainly from borrowing), represented 107% of SNG revenues. In Germany, Spain (autonomous communities), Canada (provinces) and the United States, SNG deficits exceed 5% of revenues while debt is above 100% of revenues (Figure 3.9).

Source
OECD National Accounts Statistics (database),

Reference years and territorial level
2012; National Economic Accounts: levels of government.
2010 Switzerland; 2011 Canada, Iceland, Israel and Japan.
No data for Chile, New Zealand, Mexico and Turkey.
Data are consolidated except for Japan, Korea and the United States.

Figure notes
3.7-3.9: Data in federal countries are split between states (S) and local (L) levels (except for the United States and Australia).
OECD figures: both weighted (OECD average) and unweighted (OECD country) averages are shown.
3.9: Debt is defined according to the Maastricht protocol.
Information on data for Israel:
http://dx.doi.org/10.1787/888932315602.
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3.7. General government gross debt (as a % of GDP) and breakdown by levels of government, 2012


3.9. Subnational gross debt and fiscal balance as % of subnational revenue, 2012

Maastricht debt definition