

## Impact of the crisis on subnational investment and debt

In a great number of countries, subnational government (SNG) direct investment was particularly robust in the early years of the global financial crisis due to the involvement of SNG in stimulus plans and strong support from national governments. However, the deepening of the social and economic crisis as well as the adoption from 2010 onwards of national and local budget consolidation measures in response to the public finance crisis put severe strain on subnational governments' finance. It ultimately led to a strong decline in investments across OECD countries. Between 2007 and 2012, SNG direct investment per capita contracted sharply in the OECD area (-7% in real terms between 2007-2012 and -15% in the three most recent years), in particular in Ireland, Iceland, Spain, Italy and Portugal (Figure 3.10).

In a majority of countries, public investment was cut back in order to reduce SNG budget deficits and preserve current expenditure on welfare, health or education (in other words, it was used as a budgetary adjustment variable). If this drop in investment were to continue, it could have negative long-term consequences for national economic growth and societal well-being. It could also threaten SNG assets, whose values could be eroded by a long-term disinvestment.

#### Definition

Public investment is here defined as the sum of:

- direct investment = gross capital formation and acquisitions, less disposals of non-financial non-produced assets during a given period; and
- indirect investment = capital transfers; i.e. investment grants and subsidies in cash or in kind made by subnational governments to other institutional units.

The general government gross debt definition here used is based on the System of National Accounts (SNA). It includes the sum of the following liabilities: currency and deposits (AF.2); securities other than shares (AF.33); loans (AF.4); insurance technical reserves (AF.6); and other accounts payable (AF.7). Some liabilities such as shares, equity and financial derivatives are not included in this definition. According to the SNA, most debt instruments are valued at market prices.

These data are not always comparable across countries due to different definitions or treatment of debt components (e.g. pensions) or valuation (market vs. nominal prices).

However, not all OECD countries followed this trend. In the past five years, SNG investment increased in several countries, in particular in Canada, Sweden Denmark and Finland (Figure 3.10).

During the same period 2007-2012, subnational gross debt per capita in the OECD area grew by 14%, corresponding to an increase of around 1 000 USD per capita (Figure 3.11). The gross debt increased to 3 500 USD per capita in the Spanish Autonomous Communities (the state level of government), a value twice as high as five years before. Subnational governments in Australia, Belgium (S), Austria (S), Poland, Portugal, Korea and Slovenia increased their debt by 70% relative to 2007 levels. Only in Switzerland, the United States and Israel, did subnational government debt decrease on average during the period 2007-2012 (Figure 3.11).

#### Source

OECD National Accounts Statistics (database), <http://dx.doi.org/10.1787/na-data-en>.

OECD (2013), OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>.

See Annex B for data sources and country related metadata.

#### Reference years and territorial level

2007-12; National economic accounts: levels of government

For public investment, latest year: 2010 Canada and New Zealand; 2011 Australia, Japan, Korea, Israel, Mexico, Switzerland, Turkey and the United States; No data for Chile.

For gross debt, latest year: 2011 Israel, Canada, Japan and Iceland; 2010 Switzerland.

No data for Chile, New Zealand, Mexico and Turkey.

Data are consolidated except for Japan, Korea and the United States.

#### Further information

OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, <http://dx.doi.org/10.1787/9789264197022-en>.

#### Figure notes

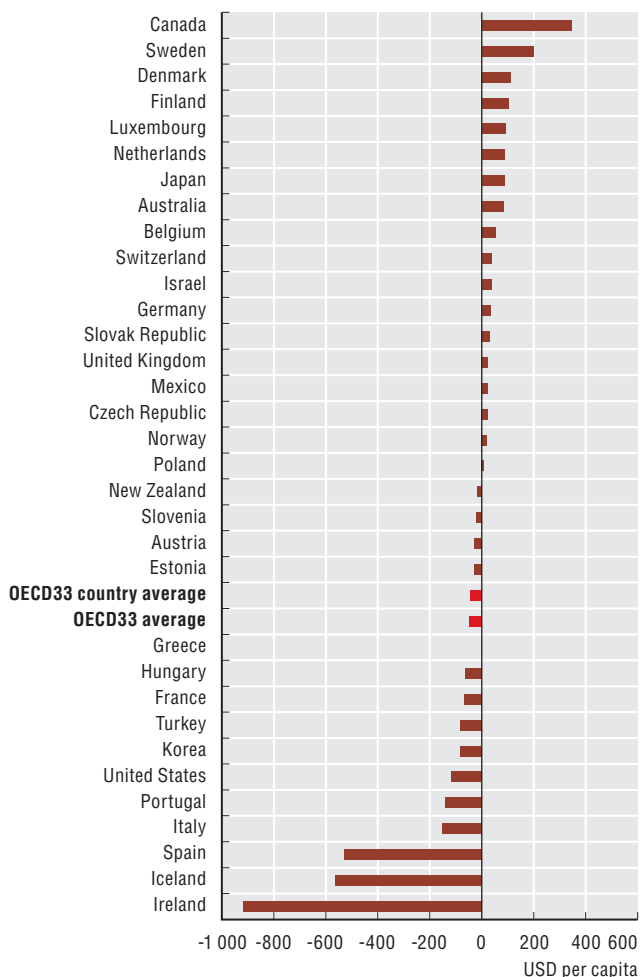
3.11: Data in federal countries are split between States (S) and Local (L) levels (except for Australia and the United States).

OECD figures: both weighted (OECD average) and unweighted (OECD country) averages are shown.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

### 3.10. Difference in subnational direct investment between 2012 and 2007

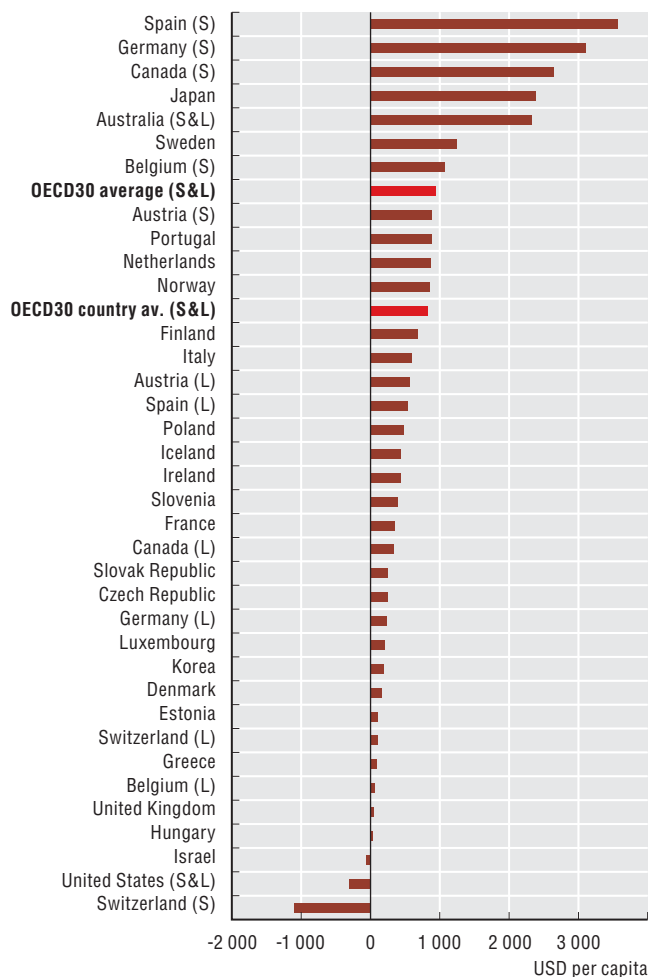
USD 2005 per capita



StatLink <http://dx.doi.org/10.1787/888932914140>

### 3.11. Difference in subnational government gross debt, between 2012 and 2007

USD 2005 per capita



StatLink <http://dx.doi.org/10.1787/888932914159>



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