

Subnational government debt

In 2018, SNG debt remains moderate. However, in the context of the COVID-19 crisis, a significant debt increase is expected in some countries where SNGs will likely apply a countercyclical fiscal policy and support public investment.

Following the 2008 financial and economic crisis, SNG budget balance has been deteriorating in most OECD countries and debt has been increasing. However, the situation has improved over the last years in many OECD countries.

The subnational deficit reached -0.6% of GDP on average in OECD countries in 2018. Overall, subnational government debt corresponded to 28.5% of GDP and amounted to 23.2% of total public debt in 2018. SNG outstanding debt is very unevenly distributed among OECD countries. Overall, SNG debt corresponds to around 38% of GDP and amounts to 31% of public debt on average in federal countries, compared to 14.2% of GDP and around 11% of public debt in unitary countries, where local governments are subject to stricter fiscal and borrowing rules (Figure 5.9).

Canada stands out for its high level of subnational debt, which accounts for around 60% of total public debt, corresponding to 35% of national GDP. It is followed by the United States, where the debt of the states and local governments was equivalent to 41% of GDP and 30% of total public debt in 2018. On the other hand, Austria has a low level of SNG debt compared to other federal countries, corresponding to 12.8% of GDP and 12.6% of public debt.

On the opposite end, SNG debt is particularly low in unitary countries such as Greece, Hungary, Ireland, Israel, the Slovak Republic, Slovenia and Turkey, both in terms of GDP and weight in total public debt. Subnational debt relative to GDP was lowest in Greece, Hungary, Ireland and Israel. Japan stands out as a unitary country with a high level of SNG debt as a percentage of GDP (34%).

In federal countries, the share of state government debt tends to be significantly higher than that of local governments (Figure 5.10), as these countries are not subject to the “golden rule”. Such a rule reserves the right to borrow for the long-term only to finance investment in infrastructures and large facilities. In addition, local government borrowing is generally constrained by strict prudential rules on debt stock and service defined by central or state governments. This limits the level of local government indebtedness in most OECD countries, with some exceptions such as Iceland, Japan, Norway or Sweden.

The level of subnational debt is expected to increase further in 2020, as the COVID-19 crisis is putting pressure on subnational government finances through higher expenditure and reduced revenues. While the COVID-19 crisis has already put short-term pressure on health and social expenditures and SNG revenues (tax revenues, tariffs and fees), strongest impacts are expected in the medium term.

Definition

General government includes four sub-sectors: central/federal government and related public entities; state governments (e.g. states in the United States, *länder* in Germany, *cantons* in Switzerland, etc.) and related public entities; local government, i.e. regional and local governments and related public entities; and social security funds. Data are consolidated within the four sub-sectors. Subnational government is defined as the sum of state governments and local/regional governments.

Fiscal balance is the difference between government revenues and expenditure. Gross debt includes the sum of the following liabilities: currency and deposits + debt securities + loans + insurance pension and standardised guarantees + other accounts payable. The SNA definition of gross debt differs from the one applied under the Maastricht Protocol (see Annex B for a detailed definition).

Sources

OECD (2020a), *National Accounts Statistics (database)*, OECD, Paris, <http://dx.doi.org/10.1787/na-data-en>.

OECD (2020b), “Subnational government finance”, *OECD Regional Statistics (database)*, OECD, Paris <http://dx.doi.org/10.1787/region-data-en>.

Estimates from IMF Government Statistics for Australia and Chile.

See Annex B for data sources and country-related metadata.

Reference years and territorial level

2018: National accounts; Levels of government; 2017: ISR, JPN, KOR.

Further information

OECD (2020), *Subnational Governments in OECD Countries: Key Data (brochure)*, OECD, Paris.

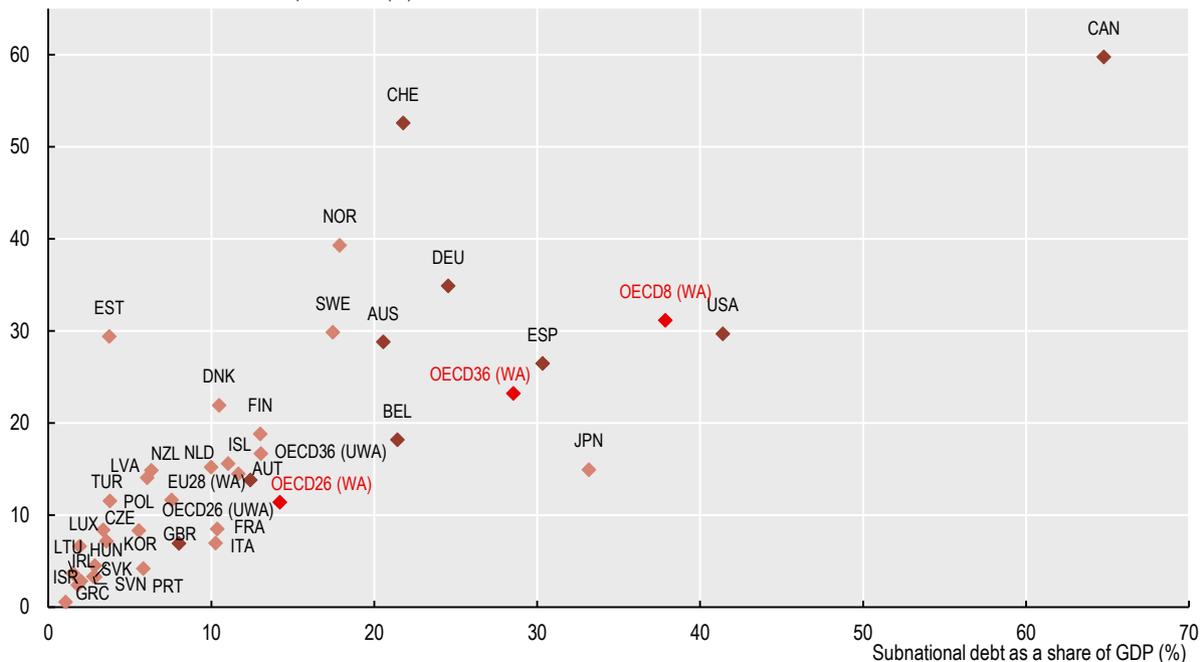
Figure notes

Figure 5.9 and Figure 5.10: OECD averages are presented as weighted (WA) and unweighted (UWA) average of OECD countries. No data for Chile and Mexico.

Figure 5.9: OECD8 and OECD26 refer respectively to the averages for OECD federal countries and OECD unitary countries. Federal countries: dark brown markers; Unitary countries: light brown markers.

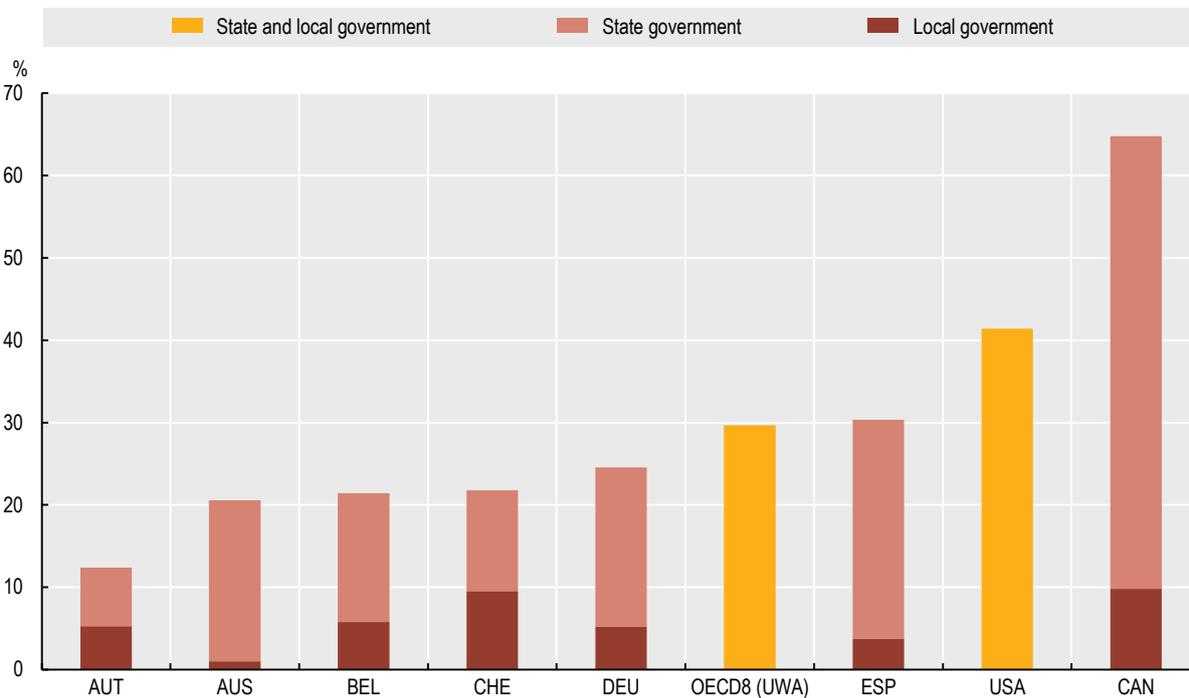
5.9. Subnational government debt as a percentage of GDP and total public expenditure, 2018

Subnational debt as a share of total public debt (%)

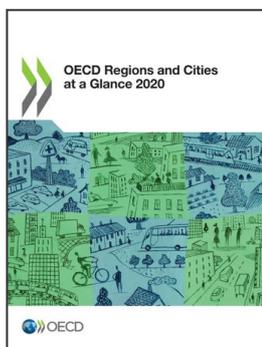


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5.10. Local and state government debt in federal countries, percentage of GDP, 2018



StatLink <https://doi.org/10.1787/888934191084>



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