

Subnational government investment: Trends and challenges

Since 2011 subnational investment has decreased by 1.1% per year, with higher decreases (-3.7% per year) across the European Union.

In many countries, subnational government (SNG) investment was particularly robust in the early years of the global financial crisis due to the involvement of subnational governments in stimulus plans and strong support from national governments. However, the deepening of the social and economic crisis and the adoption from 2010 onwards of national and subnational budget consolidation measures put severe strain on subnational finances. Public investment was thus cut back in a majority of OECD countries (Figure 5.15), and the fall has not entirely recovered despite some improvements since 2013.

Public investment continues to be one of the key budgetary adjustment variables. Between 2008 and 2016, SNG investment decreased by -1.1% per year in real terms in the OECD, and even more in the European Union, where the drop was -3.1% on yearly average. It contracted sharply in Iceland, Greece, Portugal, Spain and Latvia and more particularly in Ireland (Figure 5.16). Nonetheless, not all OECD countries followed this trend as investment increased in 13 countries over the years 2008 to 2016, in particular in Sweden, Norway and Chile. With respect to 2015, subnational investment fell by 1.8% in 2016 in the OECD, and even by 8.7% in the European Union. In Slovenia, Poland, Czech Republic, Slovak Republic and Hungary, the drop in subnational investment exceeded 35% in between 2015 and 2016. Fiscal consolidation has certainly played a role, but it not the only factor, especially in countries benefiting from cohesion funds, which are heavily dependent on EU Structural and Investment Funds (ESIF). According to EIB 2017, ESIF accounted for around 40% of public investment, or nearly 2% of GDP, in recent years in

these countries. These later have thus suffered from a “cliff effect” suddenly turning negative after the 2015 deadline for payments under the last EU programming period (EIB 2017).

As a percentage of GDP, subnational investment also declined by 0.5 percentage points between 2008 and 2016 in the OECD on average (Figure 5.17 and Figure 5.18). A decline in subnational investment is observed in around two-thirds of OECD countries, with the highest decreases in Portugal, Poland, Iceland, Spain and Ireland (1.1 to 2.7 percentage points). By contrast, the contribution of subnational government investment to GDP significantly increased in Nordic countries, in particular Norway and Switzerland.

The proportion of subnational investment in total public investment also declined by 1.6 percentage points since 2008 (Figure 5.19). Such a trend was observed in two-thirds of the OECD countries. The decline was particularly strong in Poland, Iceland, Portugal, Hungary, Latvia and Ireland (between 10 percentage points to 39 points), resulting mainly from recentralisation processes especially in Ireland and Hungary, in addition to the effects of the crisis and consolidation policies.

Source

OECD (2018), *National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en>. Australia and Chile: estimates from IMF government statistics.

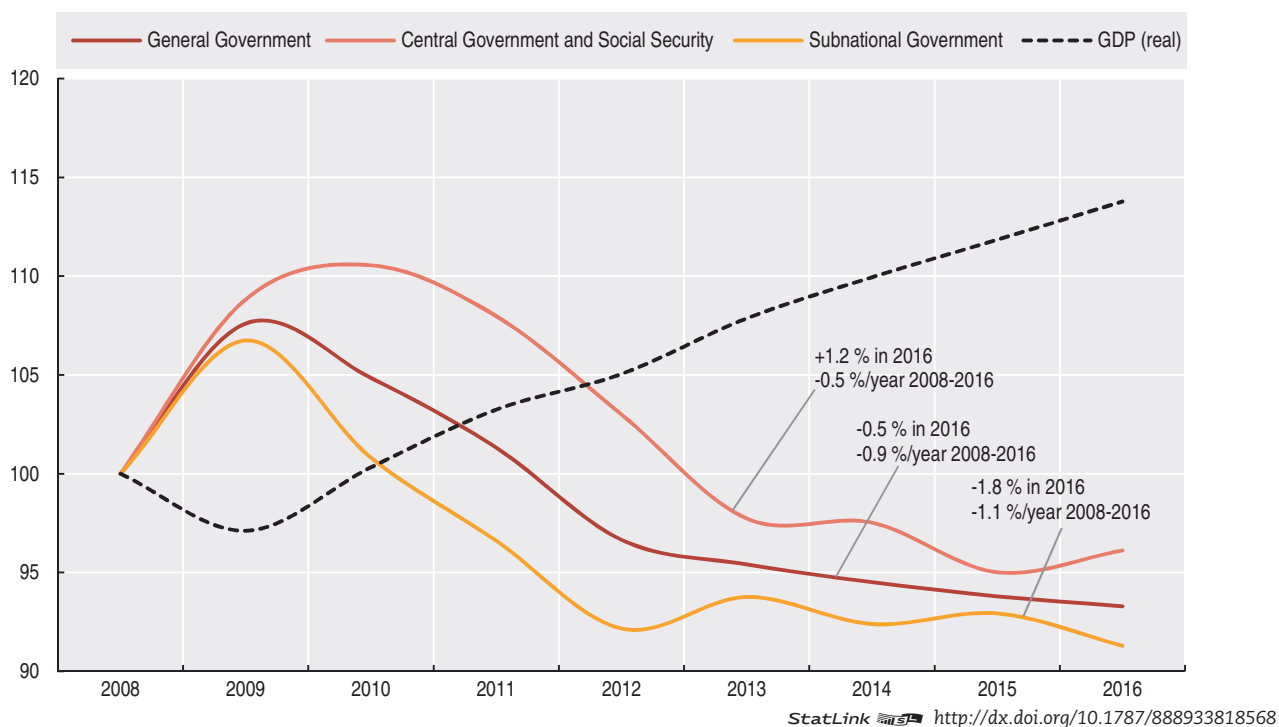
OECD (2018), “Subnational Government Finance”, *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>.

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

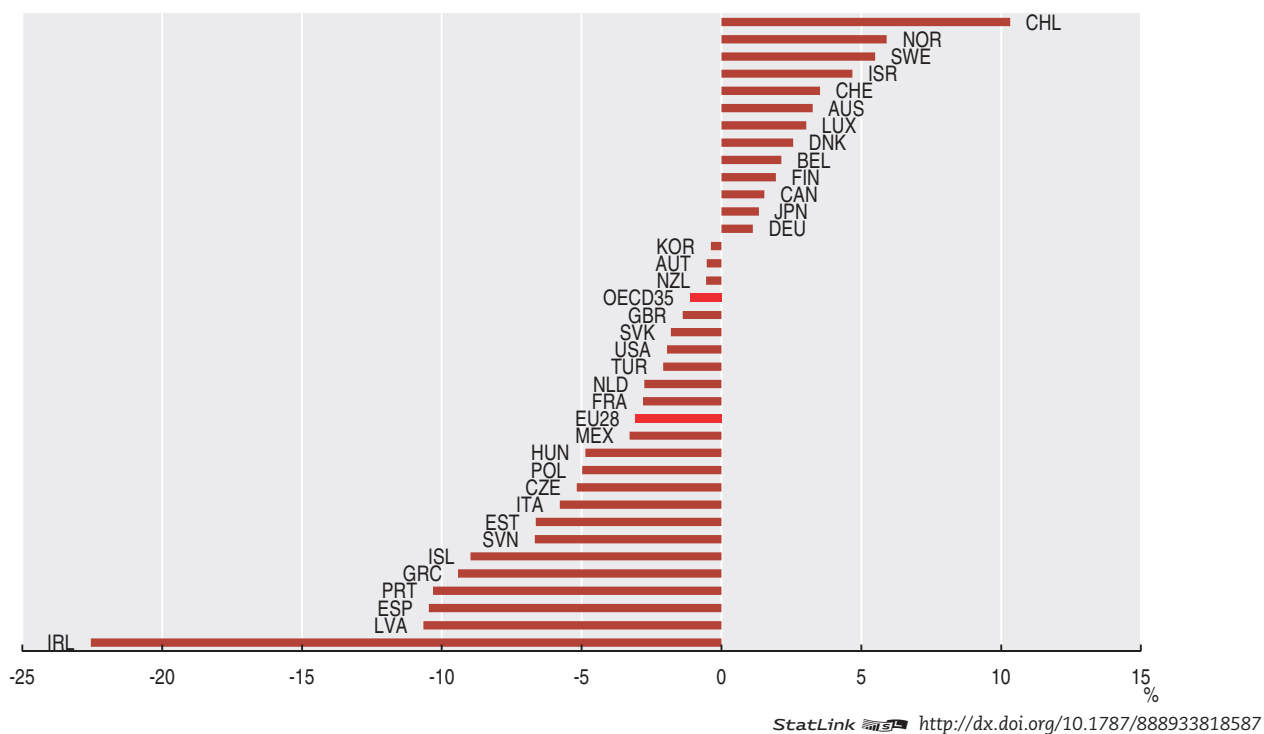
5. SUBNATIONAL GOVERNMENT FINANCE AND INVESTMENT

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5.15. Public investment from 2008 to 2016 by level of government



5.16. Annual average change in subnational government investment between 2008 and 2016



Definition

General government includes four sub-sectors: central/federal government and related public entities; federated government ("states") and related public entities; local government i.e. regional and local governments and related public entities; and social security funds. Data are consolidated within these four sub-sectors. Subnational government is defined as the sum of state governments and local/regional governments.

Capital expenditure is the sum of capital transfers and investment. Gross fixed capital formation is the main component of investment (see Annex D for a detailed definition).

The OECD averages are presented as the weighted average of the OECD countries for which data are available, unless otherwise specified (i.e. unweighted average, arithmetic mean, OECD UWA). Data in USD use Purchasing Power Parities.

Reference years and territorial level

2016: National Economic Accounts; levels of government.

2015: Mexico, Turkey.

Further information

OECD (2018), Subnational Governments in OECD Countries: Key data (brochure).

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

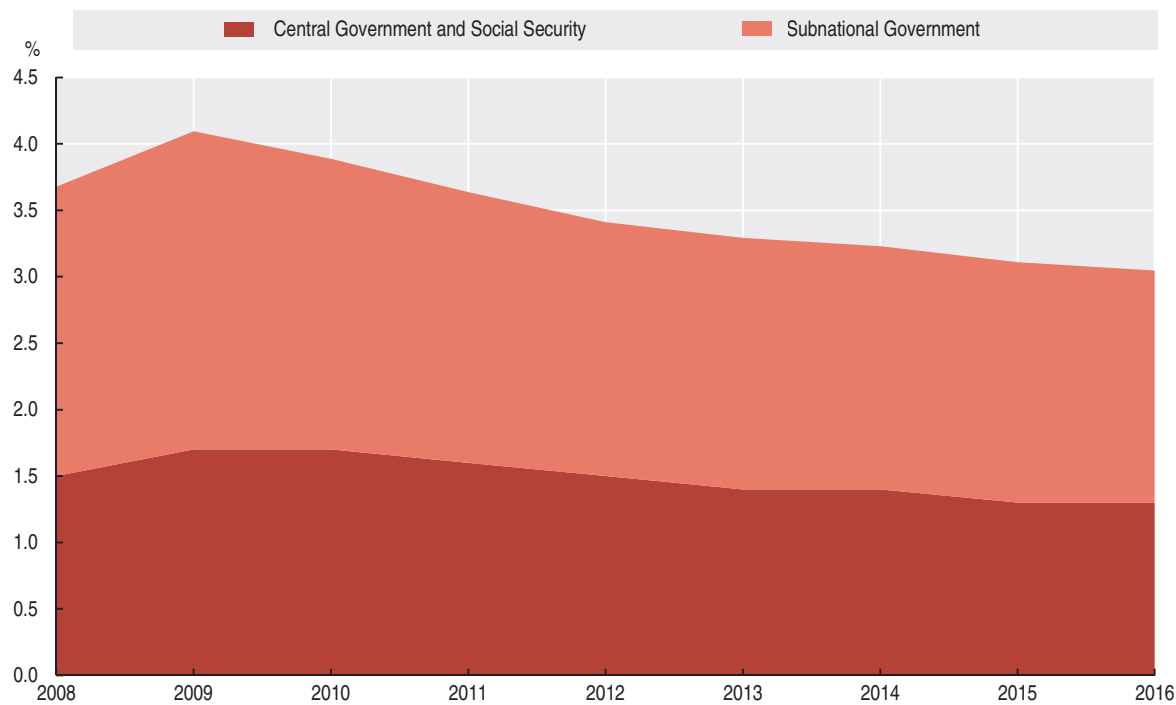
OECD (2014), Recommendation on Effective Public Investment Across Levels of Government – Implementation Toolkit, <http://www.oecd.org/effective-public-investment-toolkit/>.

European Investment Bank (2017) Investment and Investment Finance in Europe: Financing productivity growth – 2016.

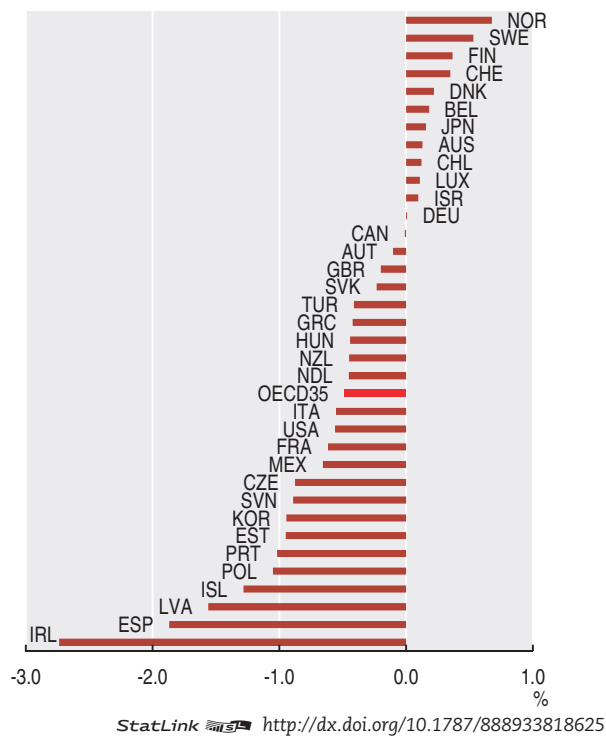
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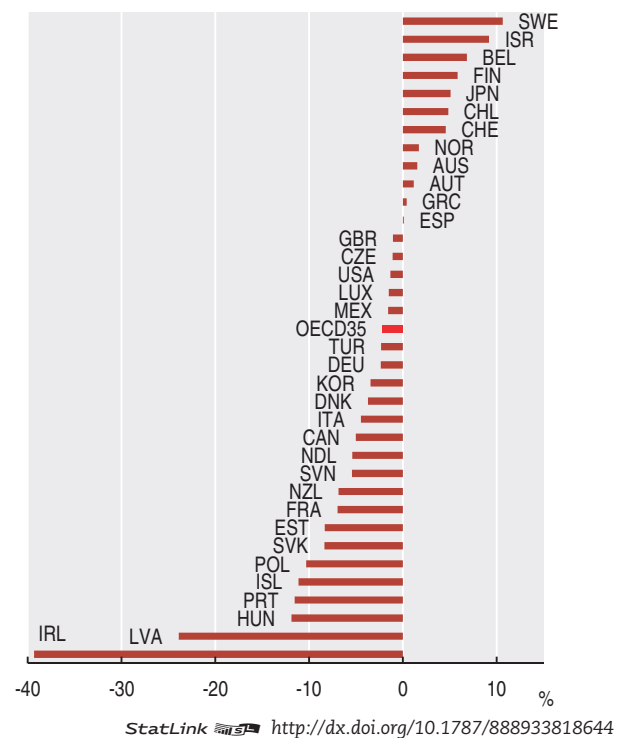
5.17. Change in subnational investment as a % of GDP in the OECD from 2008 to 2016

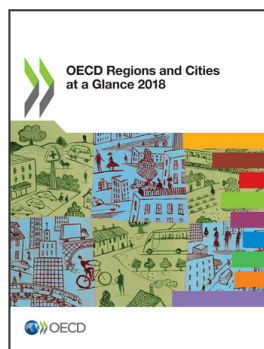


5.18. Change in subnational investment as a % of GDP between 2008 and 2016



5.19. Change in subnational investment as a % of public investment 2008 and 2016





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