



Press release

A SOUND FINANCIAL SITUATION IN 2007 FOR EUROPEAN SUB-NATIONAL AUTHORITIES

*Continuation of the trends towards decentralisation and territorial reorganisation
A financial situation that should enable sub-national authorities to take an active part in
reflation plans based on investment*

Paris, February 5, 2009

According to Dexia's latest '**Economic Outlook**' on sub-national public finance in the European Union, the sub-national public sector¹ in the 27 countries of the European Union consolidated its sound financial base in 2007. Even if major disparities can be highlighted between the countries, this solidity will enable the sub-national authorities to face up to the economic crisis in a good position, or to take an active part in stimulating national economies through their investment policies.

Return to budgetary balance and debt reduction in volume

In an economic environment that was still favourable in 2007 (+2.9% growth in GDP), the sub-national public sector consolidated its good financial health, recording a **budget surplus** (amounting to EUR 5 billion or 0.04% of European GDP) for the first time since 2002. **Outstanding debt**, representing EUR 1,205 billion at sub-national level (i.e. 9.8% of GDP and 16.6% of the total public debt), was thus down 1.8% in volume in 2007, inverting the trend observed over the period 2002-2007 during which debt increased by an average of +2.2% in volume per year on average. Outstanding debt has also fallen in the local public sector alone² (down 1.4% in volume), amounting to EUR 691 billion in 2007, namely 5.1% of GDP and 9.5% of the total public debt.

Expenditure less dynamic than revenues

This development is the result of the good economic situation in recent years as well as the budget control efforts made by sub-national authorities, which are increasingly involved in the governance of public finances. Thus at European level, 2007 saw a slight drop in the rate of growth of **sub-national public spending** (+2.0% in volume compared to an average of +2.4% over the last few years), combined with a more pronounced increase in **revenues** (+3.8% compared with +3.2%). This expenditure reached EUR 1,912 billion, i.e. 15.5% of GDP and 33.9% of public spending, reflecting the macro-economic importance of the sub-national public sector.

¹ The sub-national public sector comprises local and regional authorities (municipalities, departments, provinces, regions, etc.), federated States (German and Austrian Länder, Belgian Communities and Regions) and the public bodies attached to them.

² The local public sector comprises only local and regional authorities and the public bodies attached to them.

Investment remains very buoyant

The slight drop in sub-national public spending did not affect **investment**, which again grew very steadily in 2007 (+4.5% in volume), in the same vein as 2006, particularly in the 12 new Member States (+11.0% in volume in 2007) where the European structural and cohesion funds continued to have a decisive leverage effect on local investments.

Sub-national authorities in the front line against the crisis

As economic agents, employers, investors, service providers and operators with a stake in national solidarity, the sub-national authorities will be affected in 2008 and 2009 by **the economic and financial crisis**. The crisis could affect them in several ways: sensitivity to changes in financing conditions, exposure of cash balances and assets, lower growth in tax revenues, and an increase in some categories of spending, particularly those relating to social matters which represent on average 19.6% of spending in the sub-national public sector.

As **leaders in public investment** (EUR 209 billion in 2007, i.e. 66.6% of public investments in the European Union), sub-national authorities will be **major players in many reflation plans** based on the strengthening of public infrastructures.

An ongoing adaptation of Europe's territorial organisation

In 2008 the European Union comprised almost 92,600 local, regional and federated authorities. Eight countries have just one level of local authorities, twelve have two, and the remaining seven have three.

Most European countries are in a continuous process of decentralisation and adaptation of their territorial organisation, rendered necessary by the increase and heightened complexity of the competencies held by local authorities.

This adaptation most often involves:

- An encouragement for municipalities to merge (Denmark, Latvia, Finland, etc.) or for inter-municipal cooperation (Austria, Poland, Hungary, France, etc.);
- A strengthening of existing regions (Germany, Spain, France, etc.) or the creation – or reorganisation – of a regional level (Czech Republic in 2000, Slovakia in 2002, Denmark in 2007). In many countries (Sweden, Finland, Slovenia, Latvia, Hungary, Romania, etc.), the subject of regionalisation is also on the political agenda.

All these modifications in territorial organisation in Europe attempt to reconcile improvement and efficiency of local public services with a willingness to maintain the proximity of the local players with the people and the population's attachment to cultural and historical divisions.

Key figures of the EU sub-national public sector in 2007

- **92,564 sub-national authorities:** 91,316 municipalities, 1,144 tier-2 authorities, 104 tier-3 authorities;
- **Expenditure:** EUR 1,912 billion, i.e. 15.5% of GDP and 33.9% of EU public expenditure;
- **Investment:** EUR 209 billion, i.e. 1.7 % of GDP, 66.6% of public investments and 8.0% of all public and private investments in the EU;
- **Financing capacity:** EUR 5 billion, i.e. 0.04% of GDP of the EU;
- **Outstanding debt:** EUR 1,205 billion, i.e. 9.8% of GDP and 16.6% of the EU's public debt (at local level: EUR 691 billion, i.e. 5.1% of GDP and 9.5% of the EU's public debt).

About the study

A study accompanied by a set of statistic cards and a previously never published work on sub-national authorities in the 27 Member States

These data, drawn up mainly from Eurostat data, were produced in the 'Economic Outlook' on sub-national public finance in the European Union, researched by Dexia. For eight years now this study has provided a view of the institutional and financial situation of the sub-national public sector in the Member States of the European Union. The 2008 edition covers the period 2002-2007 and presents some of the salient themes characterising 2008.

It is accompanied by *a set of 13 statistic cards* presenting the detailed data of the various indicators for each country (socio-economic data, territorial organisation, size of the municipalities, expenditure, investment, budget balance and debt, structural funds, twinning of towns, etc.). This set of cards was produced for the third year running in partnership with the Council of European Municipalities and Regions (CEMR). For each country the data presented show the essential role played by the local authorities in public administration.

“Sub-national governments in the European Union – organisation, responsibilities and finance”

Dexia has also just published a book entitled “Sub-national governments in the European Union – organisation, responsibilities and finance”. Never published before on such a scale, embracing the 27 Member States, this work aims to provide a clearer picture of the economic and social importance of the sub-national public sector, by means of 27 detailed country studies and a comparative analysis.

[Download document “Economic Outlook: sub-national public finance in the European union”](#)

[Download document “EU Sub-national governments: 2007 key figures”](#)

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