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Economic and financial crisis  
The impact on local  
and regional authorities

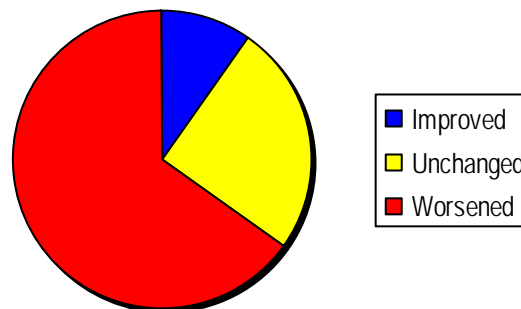
Provisional findings - Madrid 1-2 Oct. 2009

# Impact of the Economic and Financial Crisis on Europe's Local and Regional authorities

Provisional findings – Madrid, 1-2 Oct. 2009

## 1. General outlook and expectations

According to Europe's local and regional authorities, the financial and economic situation has generally worsened over the last 6 months. That is what 13 out of 20 responding associations members of CEMR (65.0 %) think whereas 25% think the situation has not changed significantly and only 10% perceive a slight improvement (Sweden and Portugal).



The forecasts for 2010 are not much more optimistic either. The crisis will continue to influence local and regional governments, say 11 associations (61.1 %); only Portugal, Norway and Sweden (16.7 %) think that the worst of the crisis is behind us and that 2010 will see the first shoots of recovery.

## 2. Credit / financial crisis

With regard to the financial crisis, the main concern for local and regional authorities has been the difficulties to access investment resources from loans. Indeed one of the main requests from the sub-national to their national governments has been to assist them with borrowing guarantees or with a relaxation of strict legislation for public borrowing. There is no clear trend in access to borrowing for investment, though broadly, it has worsened or not really improved in comparison to early 2009 in the Baltic states (Estonia, Latvia) and in the South-East Europe (Bulgaria, Croatia, Macedonia).

## 3. Economic crisis – budgetary aspects

In addition to the difficult access to the financial market, local and regional governments particularly suffer from a sustained budget squeeze between decreasing budget income and increased demand for expenditure. The actual impact varies by country, depending on the particular "mix" of income sources upon which the authorities depend. In most countries (65.0 %) own-source tax revenues have significantly decreased and so have government transfers and grants (55.0 %). Other types of sources affected include local fees and charges (40.0 %) and shared tax (35.0 %).

On the expense side of the balance sheet, expenditures by local and regional governments have significantly increased in one third of the responding countries (33.3 %), mostly in Western Europe and Scandinavia. However, the majority of CEMR's associations report no change in current expenditure, particularly in Eastern, Southern and South-Eastern Europe. Only two associations (Sweden and Spain) report a significant decrease in current expenditure.

One can speculate that unlike the rest of European countries, sub-national authorities in Western Europe have surplus financial reserves which they mobilise in the current situation to cover for increased demand for expenditure.



Capital expenditure has not been significantly affected in many of the responding countries (42.1 %) or has actually increased (36.8 %); this trend is especially notable in the Baltic states (Estonia, Latvia) and South-East Europe (Bulgaria, Croatia). In those countries, this might be an effect of anti-crisis measures and programmes targeted for anti-cyclic and pro-employment infrastructure investments.

In the light of these ongoing developments, local and regional authorities in many countries (47.8 %) plan reduced 2010 budgets; The Baltic countries and South-East Europe are particularly pessimistic. The expectations in other parts of Europe are more in favour of zero growth (21.7 %) or conservative growth (17.4 %). Positive development is only expected in Norway, Greece and Portugal.

#### **4. Economic crisis – impact on public services**

It was expected in the first part of 2009 that the demand for specific services, especially in the social sphere, would increase with the growing economic unease. Indeed, 50 % of the countries have reported a significant increase in demand for these services and none indicate a decrease. Several associations (22.2 %) also indicate changes in the demand structure, confirming the expected increased demand for social services and decreased demand for such services as construction permits.

Municipalities responded to the change in demand in various ways. In 45% of the countries, with the exception of Scandinavian countries, they increased the volume or range of services provided. However, in some countries, particularly in Iceland and Sweden, municipalities reduced the volume or range of services. Some of the countries also responded with attempts to improve cost efficiency in service provision (25.0 %) or increased the consumer prices for citizen (20.0 %).

#### **5. Support programmes and actions**

Only two associations (Finland and Latvia) confirmed that their national government introduced targeted economic stimulus programmes in partnership with local or regional governments. It seems to appear that in other countries such measures were general anti-cyclic stimulus programmes without direct targeting for sub-national governments.

A majority of the associations (64.29 %) indicate that they were able to establish fair or good partnership with their national government in this process, only a lesser part (35.71 %) indicates that such partnership was difficult or non-existent. The latter was especially the case in Estonia, Austria and Luxembourg.

#### **6. Your national association**

National associations of local and regional authorities took their role in helping their members very seriously and undertook various specific actions to help local and regional governments absorb the impact of the crisis. An impressive 85% of them initiated negotiations with the government, many also conducted surveys and research on the situation (55.0 %), provided advice and consultancy (45.0 %) and published articles and reports (40.0 %). Scandinavian (Finland, Iceland, Norway) and South European associations (Spain, Greece) also provided specialised training sessions for their members.

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