

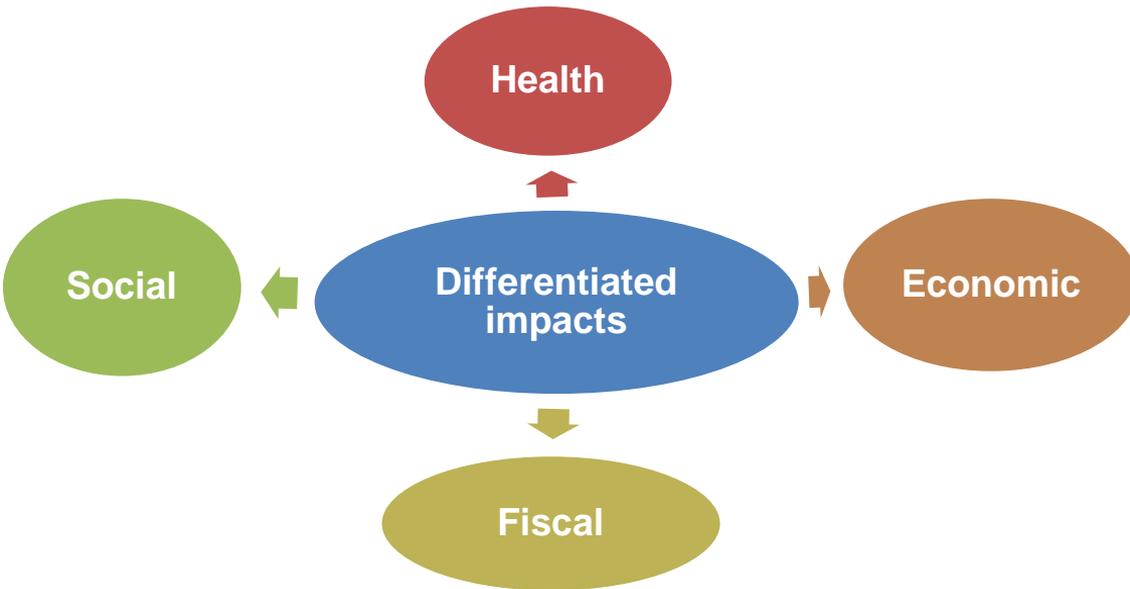
TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

TERRITORIAL IMPACT OF COVID-19 CRISIS ON SUBNATIONAL FINANCE IN OECD COUNTRIES

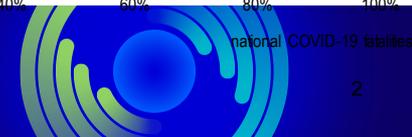
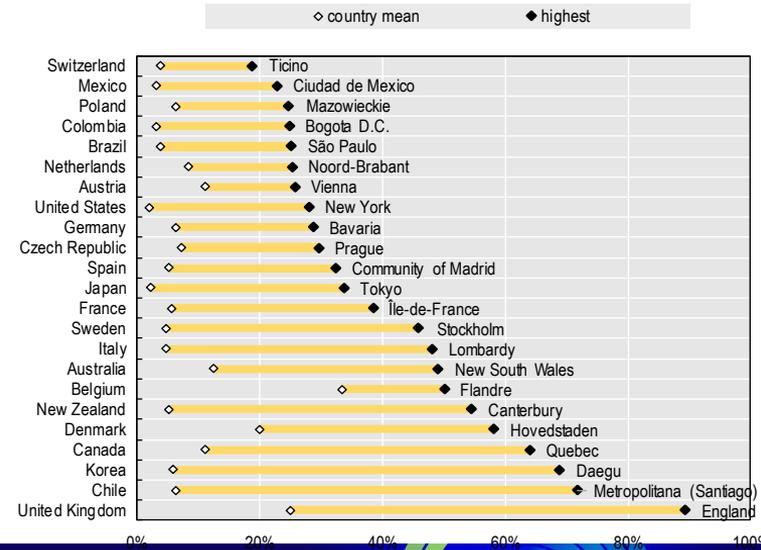
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Differentiated territorial impact of COVID-19 crisis

- Municipalities and regions are at the frontline of managing the crisis
- The impact is asymmetric within countries, between regions and local areas – in the health, economic and fiscal impacts of the crisis. The maps of the various impacts do not coincide

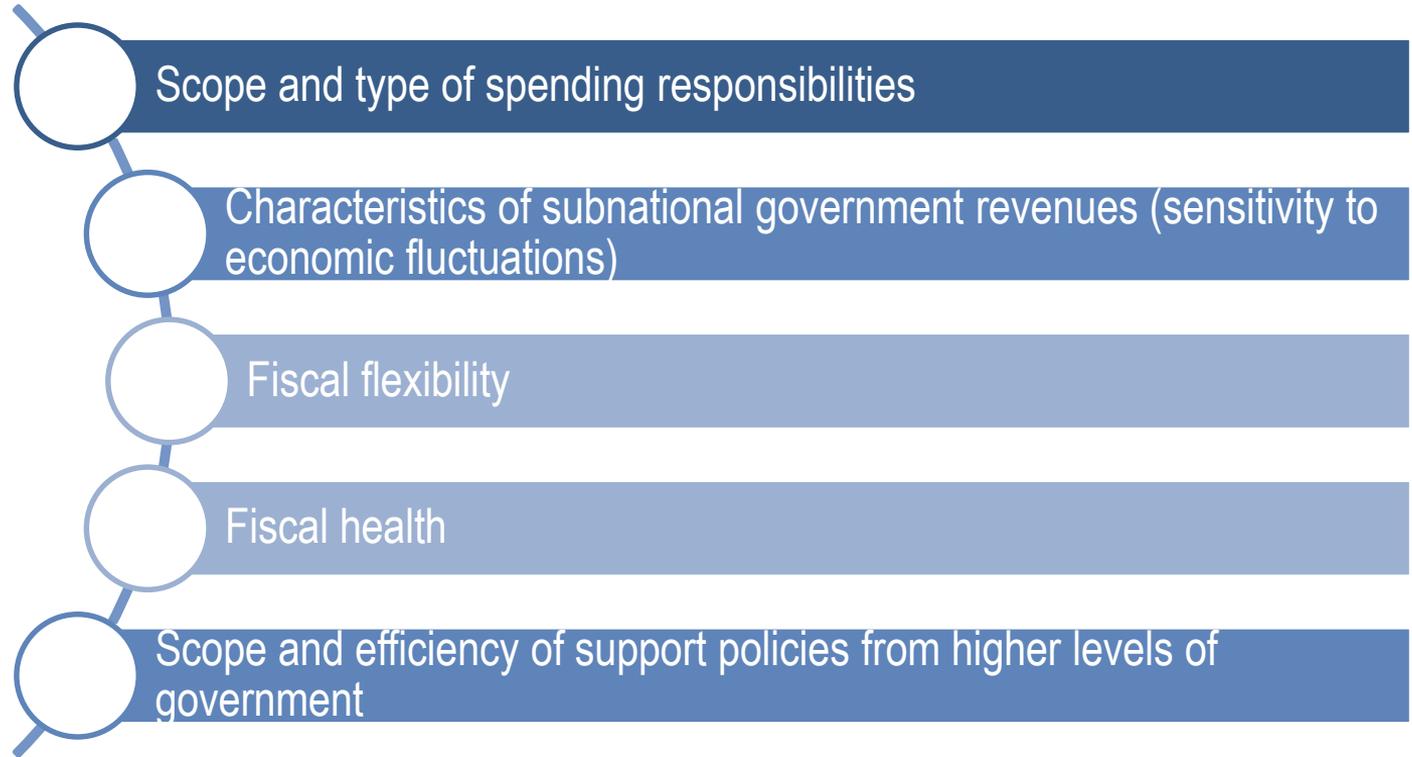


Regional share of fatalities linked to COVID-19 within countries



Fiscal impact of covid-19 on subnational governments

**Differentiated
impact on
subnational
government
finance:
5 main factors**

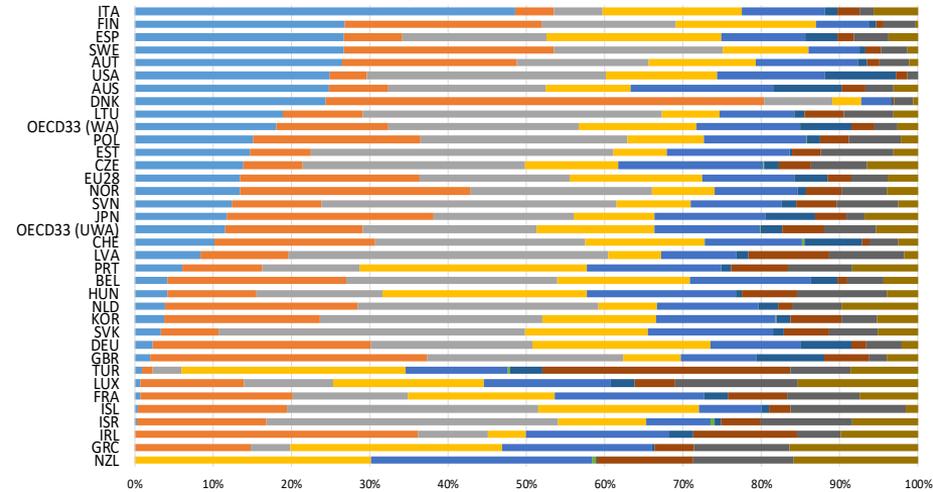


Spending and revenues strongly affected

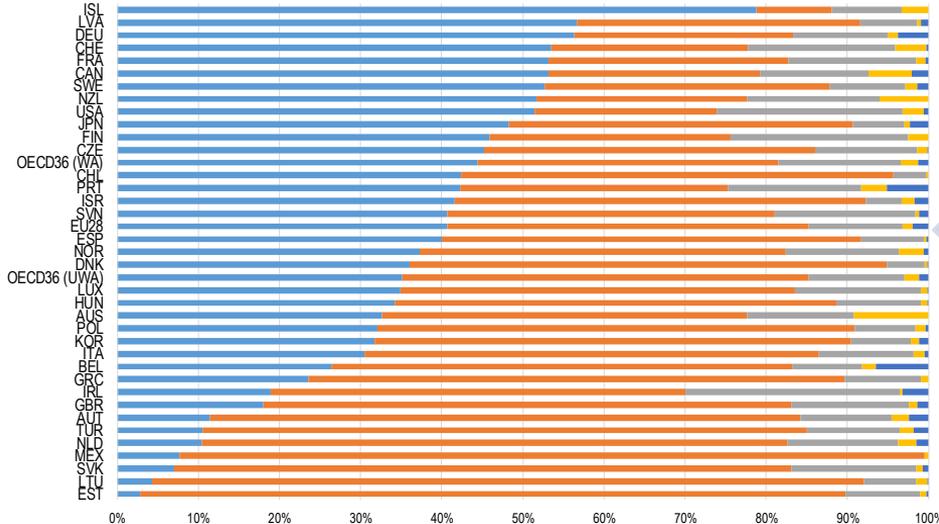
SPENDING

- Increase spending (particularly health, social protection, local economic development)
- Impact varies a lot depending on spending responsibilities

- Health
- General Services
- Public Order
- Social Protection
- Economic Affairs
- Housing and Community
- Education
- Defence
- Recreation, Culture and Religion



- Taxes
- Grants & subsidies
- Tariffs and fees
- Property income
- Social contributions



- Large drop in revenues
- Shock more significant than for expenditure
- Impact varies a lot depending on the structure of revenues
- Tax revenues and user charges may be strongly impacted
- Tax revenues: impact in 2021 and 22

REVENUE

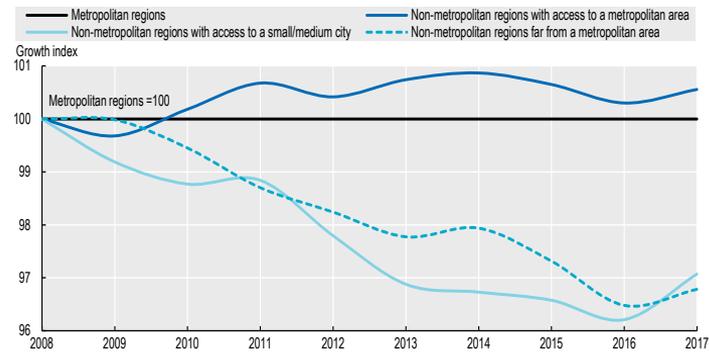
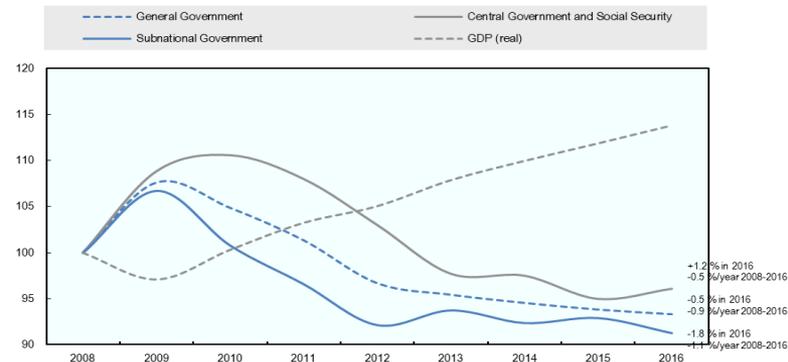
Main risks

Subnational finance

- ✓ Scissor effect >> Increased deficits and short and long-term debts
- ✓ Fiscal consolidation plans in the medium term, leading to:
 - ✓ cuts in public investment, which could undermine the recovery
 - ✓ cuts in social expenditure, which could affect even more vulnerable populations

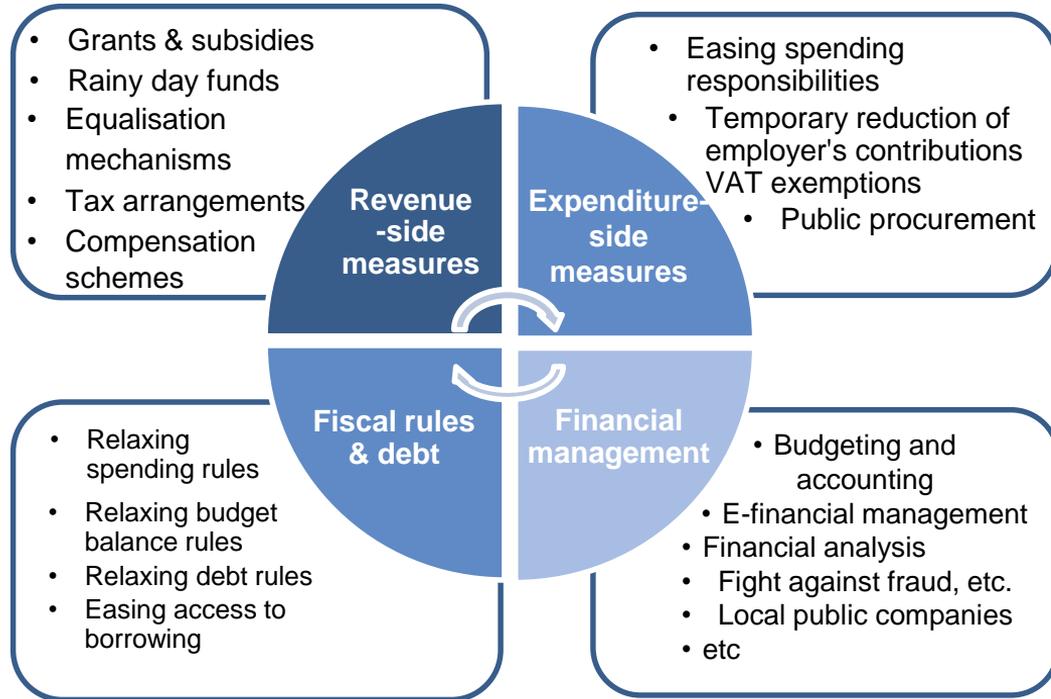
Regional economies

- ✓ Difficulty for subnational governments to participate in recovery plans, support local economies and SMEs
- ✓ Focus on short term priorities and not on resilience
- ✓ Amplification of pre-existing trends, increase of regional disparities



Supporting SNG finance

More than two third of OECD countries have adopted measures to support SNG finance



○ **Intergovernmental fiscal dialogue**



○ **Shared and agreed data**



○ **Assess and adjust**





Take aways (1): For national governments

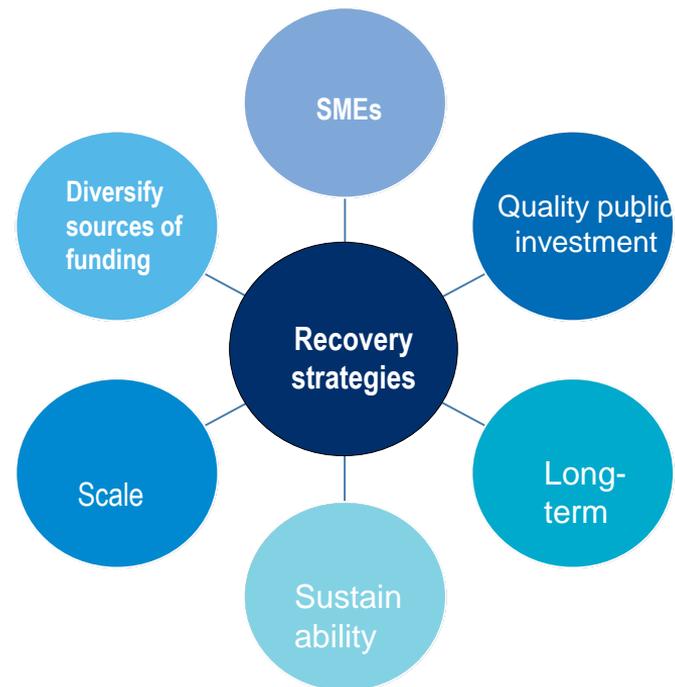
- Continue supporting subnational finance and facilitate SNGs' involvement in the recovery
- Avoid mistakes from the past: subnational public investment should not be the adjustment variable
- Stronger fiscal coordination across levels of government is necessary
- Provide some room for manoeuvre in certain countries *e.g.* soften strict fiscal and debt rules and facilitate access to borrowing
- National recovery strategies need to have (i) a territorial dimension (ii) integrate structural priorities like climate in today' strategies (iii) be sustainable





Take aways (2): For regions and municipalities

- SNGs need to contribute to economic recovery strategies (SMEs and public investment as key priorities)
- Regional governments and large cities are particularly well placed to support the economic recovery due to their scale and areas of responsibilities
- Regions and municipalities need to diversify sources of funding
- SNGs need to mutualise risks and expertise, notably for borrowing and procurement
- Quality public investment needed: avoid fragmentation, target a few strategic priorities
- Balance infrastructure investment with public investment in skills development, innovation, R&D, etc., as part of public investment strategies.



Take aways (3) Building resilient regions

- COVID-19 is challenging all types of government – national, regional and local– to be better prepared for future shocks, regardless of their nature
- Long term priorities need to be considered today, and integrated in the responses to the crisis (climate, digital infrastructure, more balanced regional development)
- **This calls for rethinking governance and fiscal systems for greater regional resilience**

Rethinking regional development policy/fiscal tools (better address inequalities)

Rethinking multi-level governance systems and sources of financing

Strengthening strategic, institutional and financial capacities of regions

Clarifying the assignment of responsibilities, asymmetric approaches

Capitalising on the role of SNGs to build trust with citizens

Strengthening institutional and fiscal coordination – vertical & horizontal



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Thank you

For more information

 www.oecd.org/coronavirus

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Link to the paper: oe.cd/il/2X6

