Local Finances

Financial situation at subnational level in Greece

CEMR study

April 2015

Council of European Municipalities and Regions
Registered in the Register of Interest Representatives
Registration number: 81142561702-61

FINANCIAL SITUATION AT SUBNATIONAL LEVEL IN GREECE

INTRODUCTION

This document highlights certain data on the **economic and financial situation in Greece**, analysing the levels of national and subnational public sector revenue and expenditure. The data also looks at the national and subnational government direct investment and the national and subnational public sector debt levels. Comparisons will be made between the situation in Greece and the general situation across the European Union.

The **national public sector** (classified S.13 under ESA95) comprises four subsectors: (i) central administrations (S.1311); (ii) federated states (Germany, Austria and Belgium) and related public entities (S.1312); (iii) local authorities and related local public entities (S.1313) and (iv) social security funds (S.1314). The national public sector could be also be termed in some studies as "general government".

The term '**subnational public sector'** applies to two of these subsectors: (i) the federal States (Germany, Austria and Belgium) and related public entities (S.1312) and (ii) the local authorities and related local public entities (S.1313). Local public sector (S.1313) comprises local authorities with general competences (local and regional governments) and bodies with more specialised competences (responsibilities may vary from one country to the next). The subnational public sector could be also termed in some studies as "subnational government".

The following study is mostly based on data and statistics from 2011 and 2012. Sources used were the Factsheets published by CEMR on local and regional data in 2013, the OECD's study on key data of subnational governments in OECD countries (2013) and the study carried out by CEMR and Dexia on Subnational public finance in the European Union (2012).

The aim of this study is not to analyse the economics of local governments, but rather to examine the data in light of a new territorial organisation that promotes a new development for Greece where a greater reliance is placed on local governments.

DATA PRESENTATION

1. General figures of Greece

Greece is a Member State of the European Union with a surface area of 131.957 Km^2 and 11.120.415 million inhabitants (EUROSTAT, 2015).

In 2012, the **GDP[1] per capita** in Greece (18.469€ /capita) was lower than the EU27 GDP per capita average (25.168€ /capita) (CCRE-CEMR, 2013. Factsheets). The GDP growth rate in 2011-2012 in Greece was -6,4%, the lowest growth rate in Europe and much lower than the GDP growth average in the EU27 (-0,4%).

Regarding the **unemployment level**, in February 2015, the rate in Greece reached 26% while in EU28 it was 9,8% (EUROSTAT, 2015). In December 2014 the rate of youth unemployment (those less than 25 years old) in Greece was 51,2% compared to the EU28 where it was 21,2% (EUROSTAT, 2015).

In 2012, **people at risk of poverty or social exclusion** in the EU28 was 24,8% while in Greece this figure was 34,6%, one of the highest rates recorded in the EU28 (EUROSTAT, 2015).

As regards its **organisation at the territorial level**, Greece is **one of Europe's most centralised** countries, where local authorities have limited competences, due to the existence of a traditionally powerful central government (Dexia- CEMR, 2012).

During the last reforms which introduced **territorial reorganisation,** Greece reformed its municipalities at the time of the ***Kallikratis* programme** (N. Blanas and others, 2014 and Dexia-CEMR, 2012). The Greek territorial reform known as *Kallikratis* entered into force on 1 January 2011 in order to step up decentralisation and to streamline local and regional public administrations. This new law had been in preparation for several years, but was hastily enacted due to the need for economic rationalisation and to decrease the number of civil servants, as a result of austerity measures (CEMR, 2013. Decentralization at a crossroads. Territorial reforms in Europe in times of crisis). The exhaustive review of the country's territorial organisation led to a drop in the number of municipalities from 1034 to 325 and the elimination of 54 prefectures, which were replaced by 13 regions (N. Blanas and others, 2014). The *Kallikratis* programme modified the vertical division of competences in favour of municipalities, as well as boosting their powers by conferring new functions to local level authorities and extending mandates for locally elected representatives from four to five years (CEMR, 2013. Decentralization at a crossroads. Territorial reforms in Europe in times of crisis). With the "Kallikratis" programme, a range of powers were attributed to the new municipalities such as the environment and the quality of life, health, education, culture and sport, rural development, forestry, livestock and fisheries (Leotsakos, A. and others, 2014).

2. National and subnational public sector revenue

The percentage of **total national public sector revenue[2]** of GDP is **similar in the EU27** (42,3% of the GDP) **and in Greece** (54,7% of the GDP) but the **total public sector revenue per capita is lower in Greece** (7.811 €/ capita) than in the EU27 (11.241€/ capita). This is explained by the GDP per capita which is lower in Greece than in the EU27 (CCRE-CEMR, 2013. Factsheets)

Subnational revenues were affected by successive rounds of crisis: an economic and social crisis which lingered into 2010 in several countries showing depressed tax revenue; a public finance crisis resulted, which led several central governments to freeze or reduce their transfers to local authorities as part of budget savings (Dexia- CEMR, 2012).

[1] **Gross domestic product** (**GDP**) is defined by the Organisation for Economic Co-operation and Development (OECD) as "an aggregate measure of production equal to the sum of the gross values added of all resident, institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs)

[2] **Total public revenue:** comprises tax revenue, transfers (current and capital grants and subsides); tariffs and fees; property income and social contributions.

In the specific case of Greece, we observe that the **subnational public sector revenue** (3,3% of the GDP and the 7,8% of the total public sector revenue) **is lower than the average level in the EU27** (16% of the GDP and 35,7% of the public sector revenue). The budget cutting measures taken by central governments in 2010, prompted by the public finance crisis, led many of them to **reduce or to freeze their transfers and subsidies to the subnational sector**.

Figure 1 presents the subnational revenue by country in 2010 in the EU27. We can highlight that in 2010, Greece had by far the lowest subnational revenue levels in the EU27.

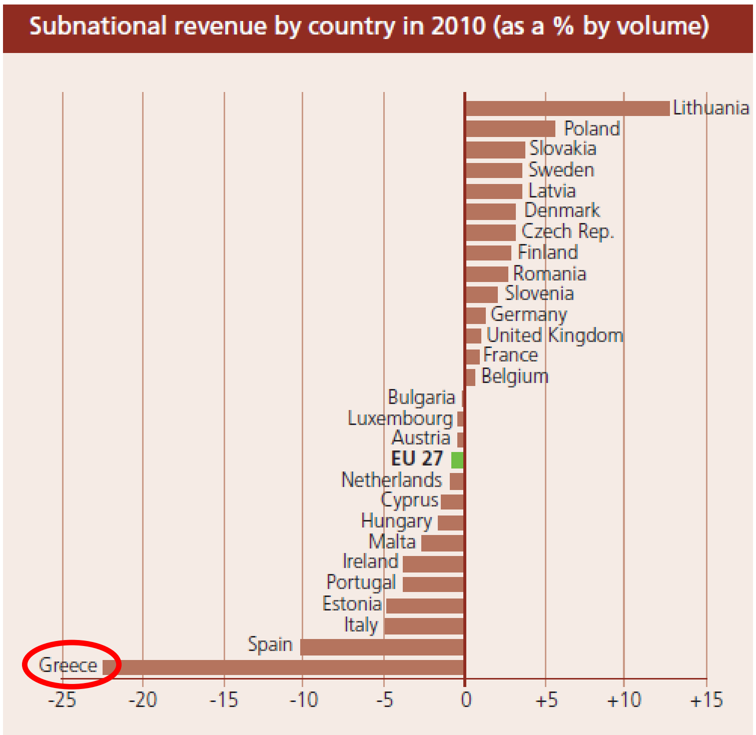

Figure 1. *Subnational revenue by country in 2010 (Elaborated by Dexia- CEMR, 2012).*

3. National and subnational public sector expenditure

The percentage of **national public sector expenditure**[3] is **similar in Greece** (51,8% of the GDP) and **in the EU27** (49,1% of the GDP), but the national public sector expenditure per capita is lower in Greece (9.565€ / capita) than in the EU27 (12.356€ / capita) (CCRE-CEMR, 2013. Factsheets). This is also due to the fact that the GDP per capita is lower in Greece than in the EU27.

The share of subnational expenditure as a proportion of total general government spending has increased in most EU countries over the past few decades, as the role of regional and local authorities in delivering public policies has increased. Nevertheless, the share varies considerably between countries, largely reflecting differences in the institutional setting and the degree of decentralisation. Regions and local authorities are responsible for around 66% of total public expenditure in Denmark and for almost 50% in Sweden and in Spain. In Greece, Cyprus and Malta, they are responsible for less than 6% (Figure 2) (European Commission, 2014).

[3] **Total public expenditure**: current expenditure (intermediate consumption, personnel, social spending, subsidies and other current transfers, interest charges, taxes) and capital expenditure (direct capital expenditure and capital transfers, excluding capital payments on borrowings) (Dexia- CEMR, 2012).

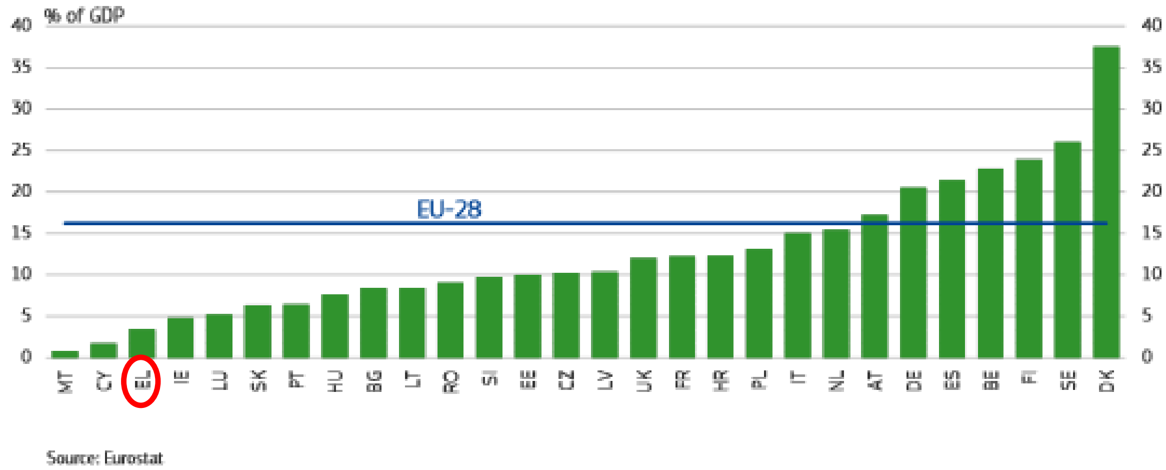

Figure 2. *Subnational expenditure by country in 2010 (% in volume) (elaborated by European Commission, 2014. Source: Eurostat)*

The **subnational public sector expenditure is much lower in Greece** (3,1% of the GDP and 5,9% of the national public expenditure) **than the average subnational public sector expenditure in the EU** (16,7% of the GDP and 34% of the national public expenditure) (CCRE-CEMR, 2013. Factsheets).

Despite average European spending growth remaining at around zero, spending actually dropped in volume in more than half of the countries of the EU. For some countries, this drop was very marked, notably in Greece, Portugal, Ireland, Italy and Spain (Dexia- CEMR, 2012).

The low level of subnational public expenditure in Greece demonstrates that although the percentage of GDP spent by the national public sector is similar in Greece in comparison to the EU27, the **resources allocated to Greece subnational authorities appear to be much lower than in other EU states**.

4. Public sector and subnational sector direct investment

Public sector direct investment[4] is higher in the EU 27 (762 USD per capita and 2,3% of the GDP) **than in Greece** (475 USD per capita and 1,9% of the GDP). Taking into account the **national public expenditure**, **central government direct investment** in Greece (3,4% of public expenditure) is lower than in the EU27 (4,6% public expenditure).

The **subnational government direct investment** is significantly lower in Greece (146 USD per capita and 0,6% of the GDP) than the EU27 (502 USD per capita and 1,5% of the GDP) (OECD, 2013).

Over the decade 2000-2010, subnational direct investment increased in the EU sharply due to decentralisation and the transfer of competences, the needs in terms of the renovation and construction of public facilities and infrastructure (transports, water, waste, etc.) and bringing them in line with European standards. Strong growth was also the result of the loosening of the access to credit and the injection of European funds and the corresponding local co-financing (Dexia- CEMR, 2012).

However, during last years marked by the economic crisis, subnational direct investment has decreased at the European level. In 2010, in more than two-thirds of the EU Member States, direct

[4] **Direct investment:** gross capital formation and acquisitions less disposals of non-financial non-produced assets.

investment dropped in volume. In eight countries including Greece, Portugal, Spain, Italy and Ireland it dropped by more than 10% (Dexia- CEMR, 2012).

5. National and subnational public sector debt

The national **public sector debt[5] in Greece** is 170,6% of the GDP, significantly larger **than in the EU27**, where the debt level is 82,5% of the GDP (CCRE-CEMR, 2013. Factsheets)

The public debt, “the most lasting heritage of the crisis” according to the European Commission, continued to climb significantly. According to the study on subnational public finances in the European Union elaborated by Dexia and the CEMR in 2012, the “Debt-to-GDP ratio increase, and for some, such as Portugal, the United Kingdom, Greece and Ireland, the increase was marked 10%. Fourteen countries had a debt-to-GDP ratio above the Maastricht limit (60% of GDP) while two countries (Italy and **Greece) surpassed the 100% bar**”.

However, although the national public sector debt level in Greece is higher than the EU27 average, we can see that the **subnational public sector debt in Greece** (0,9% of the GDP and 0,5% of the public debt) is much **lower than the EU27** (12,4% of the GDP and 15,1% of the public debt).

The figure 3 shows the share of subnational and central government gross debt (European Commission, 2014). In Greece, the low subnational public debt is a consequence of the low subnational public sector expenditure (as it has been presented above, 5,9% of the national public expenditure in Greece and 34% of the national public expenditure in the EU27). With this data we can affirm that the high national public sector debt in Greece is not held by subnational authorities.

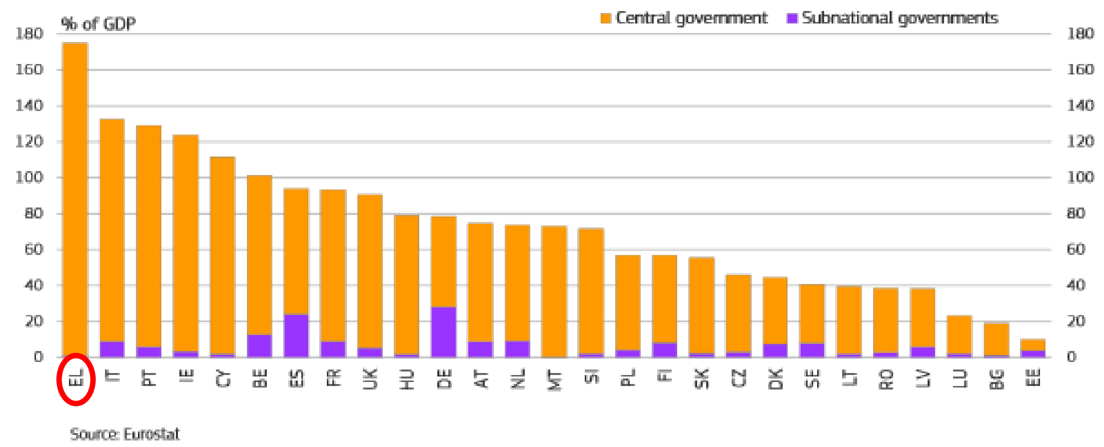

Figure 3. *Consolidated General Government gross debt (elaborated by European Commission, 2014. Source: Eurostat)*

[5] **Public debt:** gross debt as defined in the Protocol to the Maastricht Treaty (i.e. the financial assets of the public deducted). The definition does not include all financial liabilities: derivative financial products, accrued interest as well as other payable accounts are excluded. It is consolidated in nominal value at the end of the year.

CONCLUSIONS

Greece is one of the Member States of the European Union most impacted by the economic and financial crisis and as a consequence, local and regional authorities are also being hit hard by the crisis.

While the *Kallikratis reform* in 2011 gave new competences to the municipalities and boosted their powers by conferring new functions to local level, the budget cutting measures taken by central government as a result of the public finance crisis has reduced financial transfers from the central government to the subnational sector.

As the reforms have veered towards decentralisation, local authorities find themselves with more competences, but without the corresponding financial means to guarantee adequate services. This is the case of Greece, which has faced rising expenditure as a result of local authorities' being allocated new decentralised competences. At the same time Greek municipalities face austerity measures and lower levels of subnational public sector revenue and expenditure. These are major challenges for Greek municipalities given their efforts to efficiently perform their functions and to fully maximise their competences.

BIBLIOGRAPHY

- EUROSTAT, 2015. Statistics explained. http://ec.europa.eu/eurostat/statistics-explained/index.php/Main_Page
- N. Blanas and others, 2014. Development and Utilization of Human Resource in the Municipalities of Greece: The Case of Trikala Municipality. Mediterranean Journal of Social Sciences, Vol 5 No 27.
- Leotsakos, A. and others, 2014. Social policy implementation of “Kallikratis” programme: Review and critique. Lesvos Conference; 4-7 July, 2014,
- European Commission, 2014. Investment for jobs and growth. Promoting development and good governance in EU regions and cities. Sixth Report on economic, social and territorial cohesion (http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion6/6cr_en.pdf)
- CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
- OECD, 2013. Subnational governments in OECD countries: key data.
- CEMR, 2013. Decentralization at a crossroads. Territorial reforms in Europe in times of crisis.
- Dexia- CEMR, 2012. Subnational public finance in the European Union.

ANNEX

	GREECE	EUROPE (Total EU 27)
1. GDP[6]	18.469 € / capita	25.168€ / capita
2. People on risk of poverty[7]	34,6%	24,8%
3. Unemployment[8]	Unemployment 27,3% Youth unemployment 58,3%	Unemployment 10,8% Youth unemployment 23,4%
4. Public sector expenditure[9]		
4.1. National public sector expenditure (total expenditure)	- 108 € billion - 9.565 €/ capita - 51,8% of the GDP	- 6211 € million - 12.356€ / capita - 49,1% of the GDP
4.2. Subnational public sector expenditure	- 6,4 € billons - 3,1% of the GDP - 5,9% of the public expenditure	- 2109,8 € billons - 16,7% of the GDP - 34,0% of the public expenditure
5. Public sector revenue[10]		
5.1. National public sector revenue (total revenue)	- 88,2 € billion - 7.811 €/ capita - 42,3% of the GDP	- 5.650,6 € billion - 11.241€ / capita - 44,7% of the GDP
5.2. Subnational public sector revenue	- 6,9 € billion - 612€ / capita - 3,3% of the GDP - 7,8% of public sector revenue	- 2019,7 € billion - 4018€/capita - 16% of the GDP - 35,7% of public sector revenue
6. Public sector debt[11]		
6.1. National public sector debt	- 355,7 € billion - 170,6% of GDP	- 10.433,9 € billion - 82,5% of GDP
6.2. Subnational public sector debt	- 1,9 € billion - 0,9% of GDP - 0,5% of public debt	- 1.571,5 € billion - 12,4% of GDP - 15,1 % of public debt
7. Direct investment.[12]		
7.1. Public sector direct investment	- 5,4 USD billions - 475 USD per capita - 1,9% GDP - 3,4% public expenditure	- 384,3 USD billions - 762 USD per capita - 2,3% GDP - 4,6% public expenditure
7.2. Subnational public sector direct investment	- 1,7 USD billions - 146 USD per capita - 0,6% of GDP - 30,7% of public direct investment	- 252,9 USD billions - 502 USD per capita - 1,5% of GDP - 65,8% of public direct investment

[6] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
[7] EUROSTAT, 2013.
[8] EUROSTAT, 2013.
[9] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
[10] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
[11] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
[12] OECD, 2013. Subnational governments in OECD countries. Key data

Contact

Núria Moré Ollé
Interim Officer- Research and studies
Tel. + 32 2 500 05 35
nuria.moreolle@ccre-cemr.org

About CEMR

The Council of European Municipalities and Regions (CEMR) is the broadest organisation of local and regional authorities in Europe. Its members are over 50 national associations of municipalities and regions from 41 European countries. Together these associations represent some 150 000 local and regional authorities.

CEMR's objectives are twofold: to influence European legislation on behalf of local and regional authorities and to provide a platform for exchange between its member associations and their elected officials and experts.

Moreover, CEMR is the European section of United Cities and Local Governments (UCLG), the worldwide organisation of local government.

www.ccre.org