CEMR, April 2015

Information note on the Greek financial situation at subnational level

Introduction

At the end of April 2015, the **Greek central government issued a decree that compels local governments to transfer their excess cash reserve to the central bank**. The Council of European Municipalities and Regions (CEMR), which constitutes the main organisation representing European local and regional governments, strongly condemns the threat to local autonomy that potentially results from the provisions adopted by the Greek government concerning the seizure of the cash reserves of Greek local authorities.

CEMR is particularly concerned by the situation that such a decision, if upheld, would create for Greek local authorities. This is one of the reasons why CEMR and its member association, the Central Union of Municipalities of Greece (KEDE, Κεντρική Ένωση Δήμων Ελλάδας), have decided to elaborate a study to show the **economic and financial situation in Greece at the subnational level.**

This document aims to present and analyse data on the economic and financial situation in Greece at the local and regional level (based on data and statistics from 2011 and 2012), comparing the Greek situation with the general situation across the EU. A number of conclusions will then be made and specific recommendations put forward.

Since 2008, Greece has suffered from an unprecedented economic and financial crisis, the effects of which continue to impact on citizens' daily lives and which has also had a heavy impact on local and regional authorities. In 2011, the ***Kallikratis programme*** introduced a **territorial reorganisation that gave new competences** to the municipalities and boosted their powers by conferring new functions to the local level such as the environment and the quality of life, health, education, culture and sport, rural development, forestry, livestock and fisheries[1]. 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[2]. The exhaustive review of the country's territorial organisation led to a drop in the number of

[1] Leotsakos, A. and others, 2014. Social policy implementation of "Kallikratis" programme: Review and critique. Lesvos Conference; 4-7 July, 2014

[2] CEMR, 2013. Decentralisation at a crossroads. Territorial reforms in Europe in times of crisis

municipalities from 1034 to 325 and the elimination of 54 prefectures, which were replaced by 13 regions[3].

However, **budget cutting measures** taken by central government as a result of the public finance crisis have reduced financial transfers from the central government to the subnational sector making it difficult for municipalities to perform their new functions efficiently and has an impact on local authorities' capacity of investment.

The following section provides some basic data in order to gain a better understanding of the Greek financial situation at subnational level:

- ✓ **National and subnational revenues.** Although national public sector revenues in Greece (42% of the GDP) are similar to the EU average (45% of the GDP), Greece has by far, the **lowest subnational revenue level** (3% of the GDP and 8% of the national public sector revenue) in the EU27 after Malta and Cyprus (the average level in the EU27 is 16% of the GDP and 36% of the national public sector revenue)[4]

- ✓ **National and subnational expenditure.** Although the percentage of GDP spent by the national public sector in Greece (52% of the GDP) is almost similar to the EU27 average (49% of the GDP), the **subnational public sector expenditure in Greece** (3% of the GDP and 6% of the national public expenditure) **appears to be much lower than** the EU average (17% of the GDP and 34% of the national public expenditure)[5]

- ✓ **Public sector direct investment**. In the GDP, public sector direct investment is slightly lower in Greece (1,9% of the GDP) than in the EU27 (2,3% of the GDP). And compared to national public expenditure, central government direct investment is also lower than in the EU27 (3% and 5% of the total public expenditure respectively). As for the **subnational government, direct investment is lower in Greece** (0,6% of the GDP) than in the EU27 (1,5% of the GDP)[6]

- ✓ **Public sector debt.** Although the national **public sector debt** level in Greece (171% of the GDP) is much higher than the EU27 debt average (83% of the GDP), the Greek **subnational public sector debt is much lower** (0,9% of the GDP and 0,5% of the public debt) **than the EU27** average (12% of the GDP and 15% of the public debt)[7]

- ⇨ In comparison with the national level and the EU average, revenues and debt at subnational level in Greece are very low, which hamper local authorities to realise expenditure to invest in their territory and in particular to provide and deliver the necessary services to its citizens. It is a serious issue, in a context of increasing competences introduced by the 2011 Kallikratis programme.

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[3] 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.
[4] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
[5] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.
[6] OECD, 2013. Subnational governments in OECD countries. Key data
[7] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe.

Conclusions and recommendations

In Greece, the *Kallikratis programme* that entered into force in 2011, has veered towards decentralisation on a major scale. Local authorities have been allocated new decentralised competences and as a result are faced with rising levels of sub national expenditure. However, as a result of the austerity measures, **Greek municipalities lack the corresponding financial resources** to guarantee adequate basic services.

Resources of Greek local and regional authorities are by far, one of the weakest in Europe and they contribute to less than 6% of public expenditure (against an average of 17% at EU level). **Low resources, combined with the new competences and functions** granted to local authorities, are putting a **difficult challenge to Greek municipalities** to efficiently perform their functions and to fully maximise their competences.

We are concerned that these provisions will lead to reduced expenditure investment at the local and regional level causing a **negative impact on the economy and employment levels in the short and long term**. The economic crisis[8] has resulted in a reduction of more than **10% in local and regional investment levels in Greece. Furthermore subnational government's direct investment** is almost 3 times lower in Greece by comparison with the EU average. These are matters give rise to serious concern, particularly since there is a major need to improve local and regional infrastructure, as this contributes to subnational competitiveness and the quality of life in regions, cities and municipalities.

Greek local authorities, since the beginning of the financial crisis, have been the last bastions in the fight against social disintegration that threatens the country. They can act as a catalyst for economic recovery of the country, but it is urgent and crucial to **strengthen their level of economic development and their fiscal autonomy.**

Therefore, CEMR, representative of European local and regional governments all over Europe, and KEDE, representing Greek municipalities, request the Greek political representatives:

- ✓ To **consider an economic recovery plan that would be based on the capacity of subnational governments** to efficiently and correctly perform their competences;

- ✓ **To co-operate with local and regional government**s to anticipate the consequences of new regulations, and to look for sustainable, long-term solutions **involving them from the beginning in the negotiations with EU institutions and when developing or assessing new initiatives;**

- ✓ To **launch a debate on decentralisation**, in partnership with the Central Union of Municipalities of Greece (KEDE, Κεντρική Ένωση Δήμων Ελλάδας).

[8] Dexia- CEMR, 2012

Annex 1: Short over view to the data presented above… [9]

	GREECE	EU (TOTAL EU27)
Public sector revenue		
- National public sector revenue	7.811 €/ capita 42,3% of the GDP	11.241€ / capita 44,7% of the GDP
- Subnational Public sector revenue	3,3% of the GDP 7,8% of the national public sector revenue	16% of the GDP 35,7% of the national public sector revenue
Public sector expenditure		
- National public sector expenditure	9.565 €/ capita 51,8% of the GDP	12.356€ / capita 49,1% of the GDP
- Subnational Public sector expenditure	3,1% of the GDP 5,9% of the national public expenditure	16,7% of the GDP 34% of the national public expenditure
Public sector direct investment		
- National direct investment	1,9% of the GDP than in the EU 3,4% investment of the national public expenditure	2,3% of the GDP 4,6% investment of the national public expenditure
- Subnational direct investment	0,6% of the GDP	1,5% of the GDP
Public sector debt		
- National debt	170,6% of the GDP	82,5% of the GDP
- Subnational debt	0,9% of the GDP 0,5% of the public debt	12,4% of the GDP 15,1% of the public debt

Annex 2: Glossary

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

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).

Public sector direct investment: gross capital formation and acquisitions less disposals of non-financial non-produced assets.

[9] CCRE-CEMR, 2013. Factsheets. A figure-based portrait of local and regional Europe. & OECD, 2013. Subnational governments in OECD countries. Key data

Public sector 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.

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".

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".