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on the 8th Cohesion Report: Cohesion in Europe towards 2050

{COM(2022) 34 final}

8.1 Sub-national public finance and decentralisation

8.1.1 Sub-national governments implement a large share of public expenditure, but with marked differences across the EU

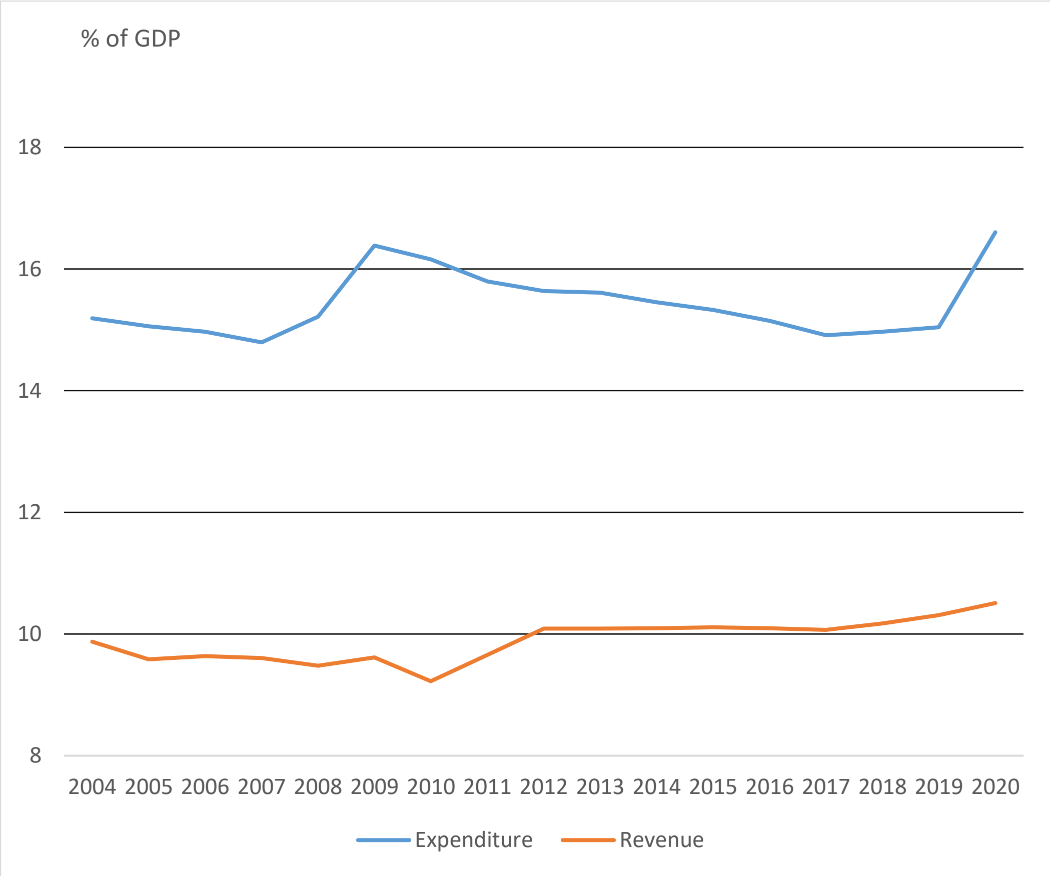
This section focuses on government expenditure and revenue at the sub-national level – i.e. by regional and local authorities, and state governments in federal Member States – and the changes that have occurred in recent years, including in relation to the COVID-19 pandemic.

When considering sub-national finances, it is important to note that the figures for public investment or other expenditure carried out by sub-national governments and the revenue they collect include the amounts channelled through them by other general government sub-sectors, namely the central government. The authorities concerned may be responsible for managing spending or collecting revenue but may have limited autonomy over the underlying policy, investment or taxation decisions. A separate section below assesses the extent of autonomy which regional and local authorities have.

Similarly to the trends observed for government finances as a whole, the expenditure executed by or channelled through sub-national authorities in the EU behaves in a counter-cyclical way relative to GDP and tends to increase as the latter falls. Apart from the recession years, sub-national public spending appears to have been relatively stable over the period 2004-2019 at 15-16% of GDP (Figure 8.11). It increased sharply, however, in 2020, jumping by 1.6 pp relative to GDP as an immediate consequence of the pandemic. All Member States, except Hungary, experienced a rise, and it was particularly pronounced in Spain (over 3 pp relative to GDP), Germany and Belgium (over 2 pp) between 2019 and 2020.

Sub-national revenue was equally stable over the period 2009-2019 at around 9-10% of GDP, a much lower level than expenditure, a difference that is reduced at least partially by transfers from the central government. The overall revenue trend shows a slight increase since the years immediately preceding the Great Recession. This may reflect a small increase in the decentralisation of revenue-collection, a possible increase in fiscal autonomy of sub-national authorities, or an increase in the tasks delegated to them.

Figure 8.11 Sub-national expenditure and revenue, EU-27, 2004-2020



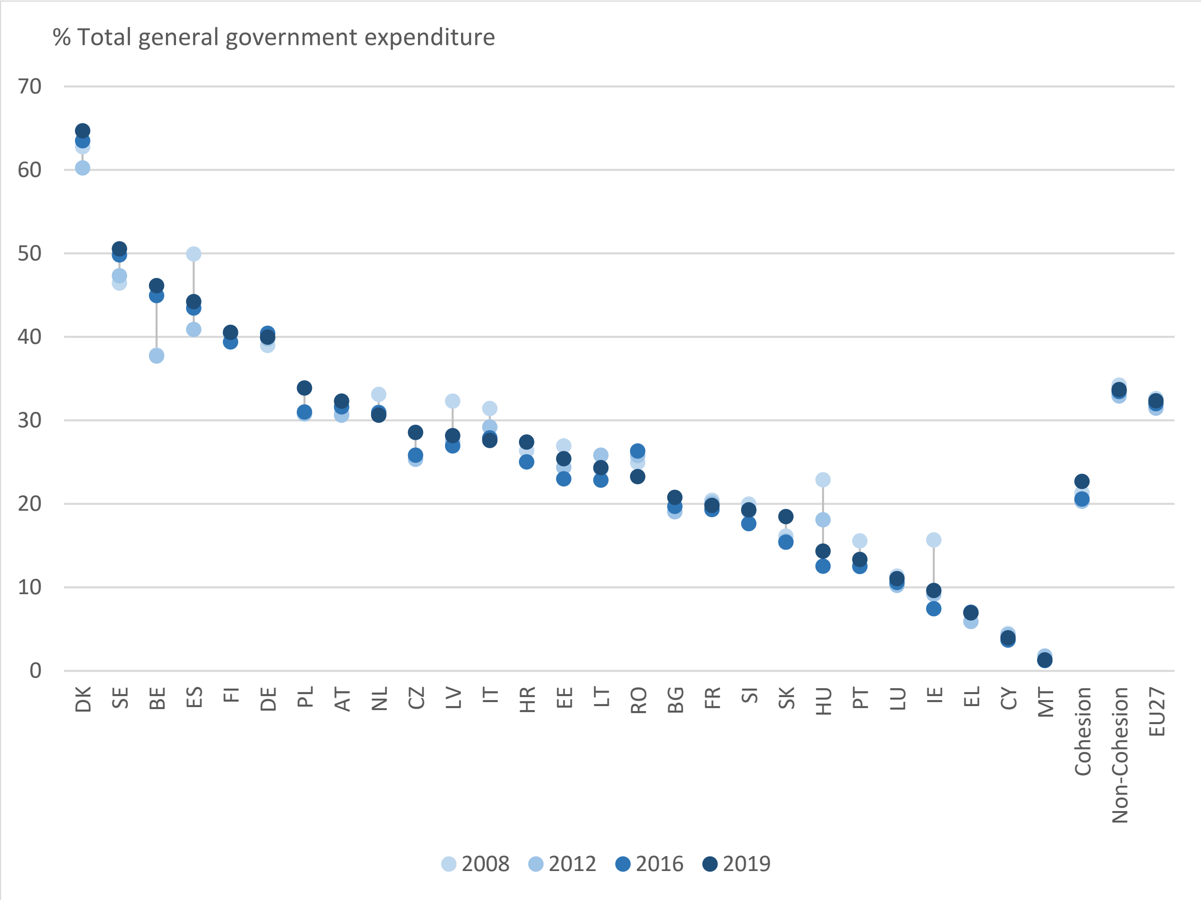
Source: Eurostat gov_10a_main

A significant proportion of public expenditure is executed by sub-national authorities across the EU (Figure 8.12). In the EU-27, in 2019, it was around one third (32%) and it was broadly unchanged over the preceding 11 years.

There are, however, considerable variations between Member States, reflecting differences in the institutional setting. The proportion of expenditure executed by sub-national authorities is largest in federal countries (Austria, Belgium and Germany) and in countries where government is highly decentralised (Spain, Denmark, Finland, and Sweden). In Denmark, 65% of expenditure was executed by sub-national authorities in 2019, while it was over 50% in Sweden, and over 40% in Spain, Belgium, Finland and Germany. By contrast, in Cyprus and Malta, sub-national authorities executed less than 5% of expenditure and in Greece, Ireland and Luxembourg, only about 10% or less.

Although the proportion of expenditure executed by sub-national authorities has been relatively stable over time in most countries, there are some exceptions. Between 2008 and 2019, the proportion increased by more than 8 pp in Belgium, more than 4 pp in Sweden, more than 3 pp in Poland, while it fell by more than 2 pp in 7 Member States of which by more than 8 pp in Hungary and 6 pp in Ireland. More recently, between 2016 and 2019, it increased by around 3 pp in Poland, Czechia and Slovakia, and it fell by over 3 pp in Romania, the only country where it declined significantly over this period.

Figure 8.12 Sub-national government expenditure, 2008, 2012, 2016, 2019



Source: Eurostat gov_10a_main

Overall, there tends to be markedly less decentralisation of expenditure in Cohesion countries than Non-Cohesion ones (the share of sub-national expenditure being 23% in the former in 2019 as against 34% in the latter). However, there are signs of a possible increase in decentralisation, with the proportion of sub-national expenditure in Cohesion countries rising by 2.1 pp in the three years up to 2019 (as against a rise of just 0.2 pp in Non-Cohesion ones).

The expenditure of sub-national authorities is concentrated in particular policy areas. In the EU as a whole, in 2019, almost 50% went to education, health, environmental protection and economic affairs (predominantly transport) compared with 36% in the case of total government expenditure.[1] There are again significant variations between Member States. In Estonia, Lithuania, Croatia, Czechia, Slovenia and Italy, over 65% of sub-national expenditure went to the areas listed above, while relatively little did so in Malta and Cyprus.

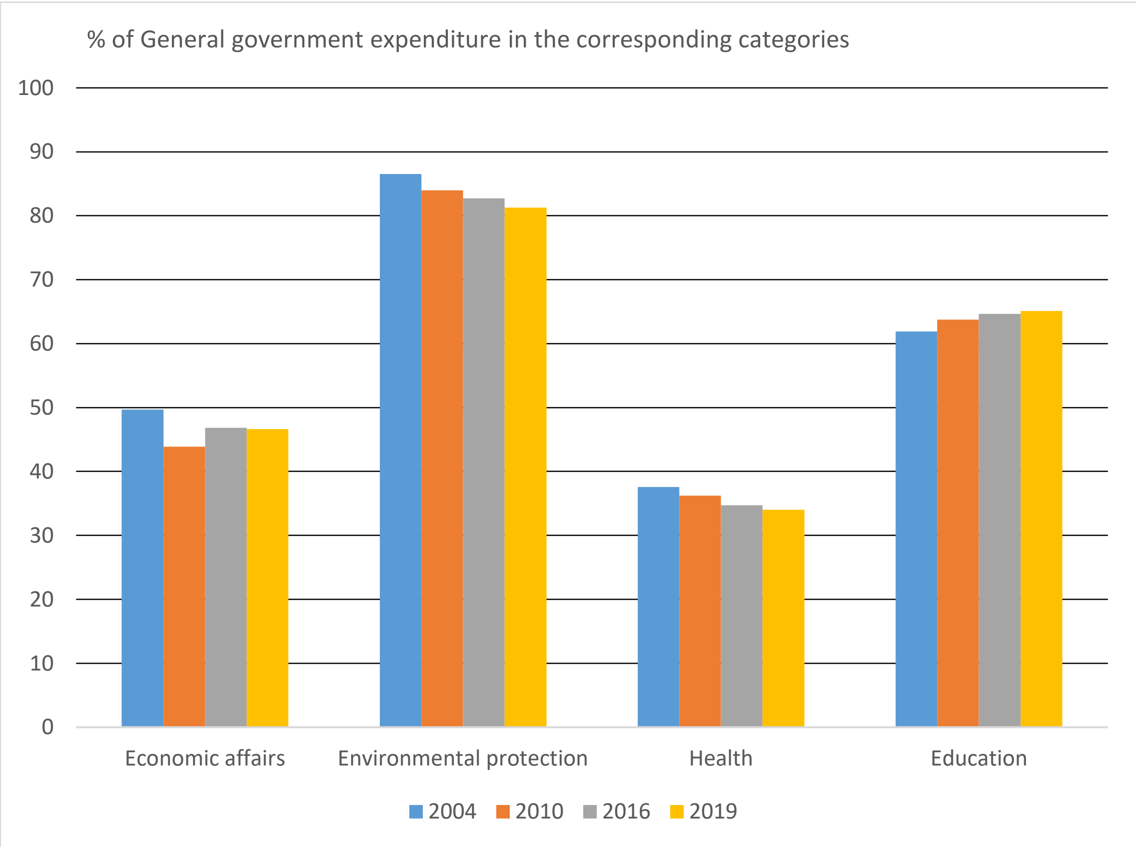
[1] Note that, in the COFOG classification used in the analysis, transfers of a general nature between government sub-sectors are included within division 01 'General public services' included under the category Others.

In 2019, sub-national authorities executed over 80% of public spending on environmental protection, and over 65% of education expenditure, as well as 47% of spending on economic affairs, and over a third of expenditure on healthcare (Figure 8.13).

In some Member States, public expenditure in these areas is almost entirely executed by sub-national authorities. In particular, over 90% of expenditure on environmental protection occurred at the sub-national level in 2019 in Italy, the Netherlands, Spain and Lithuania, over 90% of spending on healthcare in Italy, Denmark, Sweden and Spain, and over 90% of education expenditure in Belgium, Germany and Spain.

Between 2004 and 2019, sub-national expenditure on environmental protection and healthcare declined as a share of total public spending in these areas, though the total increased as a share of GDP, indicating more expenditure being carried out by the central government. At the same time, however, the sub-national share of expenditure on education increased by over 3 pp.

Figure 8.13 Sub-national government expenditure in selected policy areas, EU-27, 2004, 2010, 2016, 2019



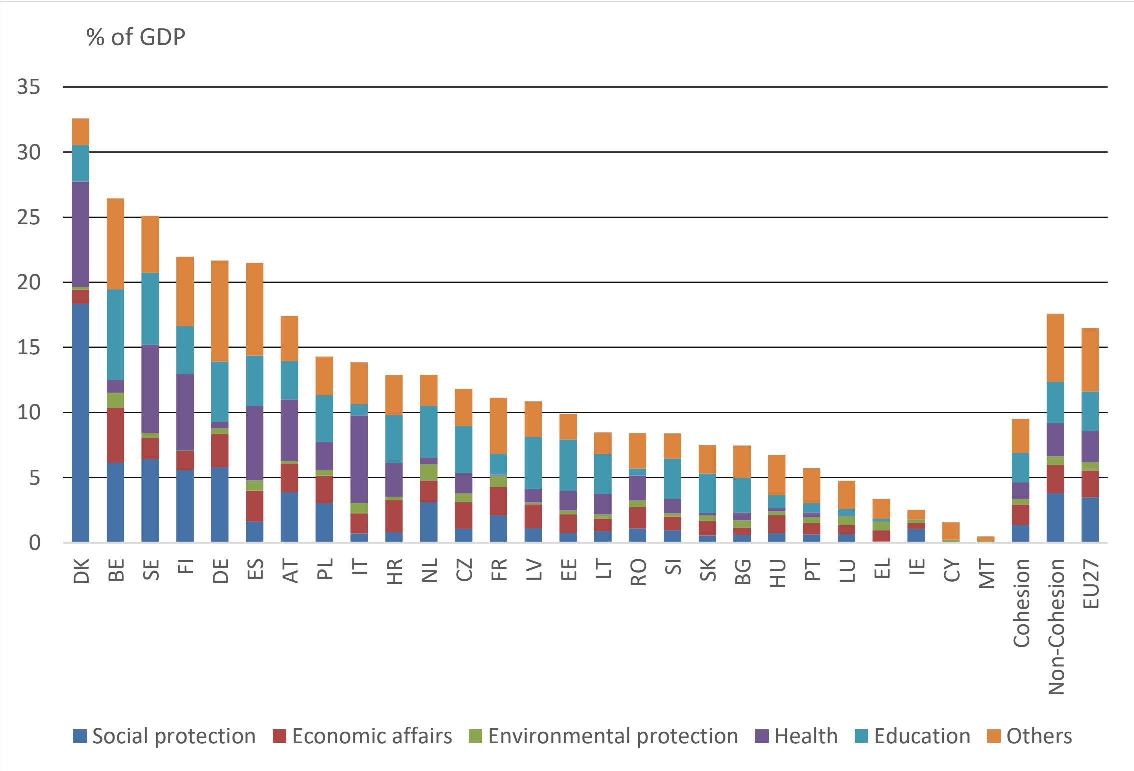
Source: Eurostat gov_10a_exp

As at the overall level, social protection was the largest area of expenditure executed by or channelled through sub-national authorities in the EU-27 in 2019, at 3.5% of GDP, followed by education, 3%, healthcare and economic affairs, each just over 2%. Expenditure on environmental protection amounted to just 0.6% of GDP (Figure 8.14).

There is again considerable variation between Member States. Overall, the expenditure executed by sub-national authorities was over 8 pp lower relative to GDP in Cohesion countries (9.5%) than in Non-Cohesion ones (17.6%). Spending in all areas was lower in the former, especially on social protection (2.4 pp lower), healthcare (1.3 pp lower), and education (0.9 pp lower).

In individual countries, sub-national expenditure on social protection ranged from over 18% of GDP in Denmark, close to 6% in Sweden, Belgium, Finland, and Germany to only around 1% or below in 16 Member States and zero in Malta and Cyprus. Education expenditure by sub-national authorities was close to 7% of GDP in Belgium, and 4% or above in Sweden, Germany, Latvia, the Netherlands, Estonia and Spain, but well below 1% in Hungary, Italy, Portugal, Luxembourg, Romania, Greece and Ireland, and again zero in Cyprus and Malta. Healthcare expenditure was around 6% of GDP in Denmark, Sweden, Italy, Finland, and Spain, but well below 1% in Bulgaria, Germany, the Netherlands, Portugal, Hungary and Slovakia, France and Luxembourg and zero in Ireland, Greece, Cyprus, and Malta. These variations reflect both the differing responsibilities of sub-national authorities for spending in different areas and differing structures of governance.

Figure 8.14 Sub-national government expenditure in selected policy areas, 2019



Source: Eurostat gov_10a_exp

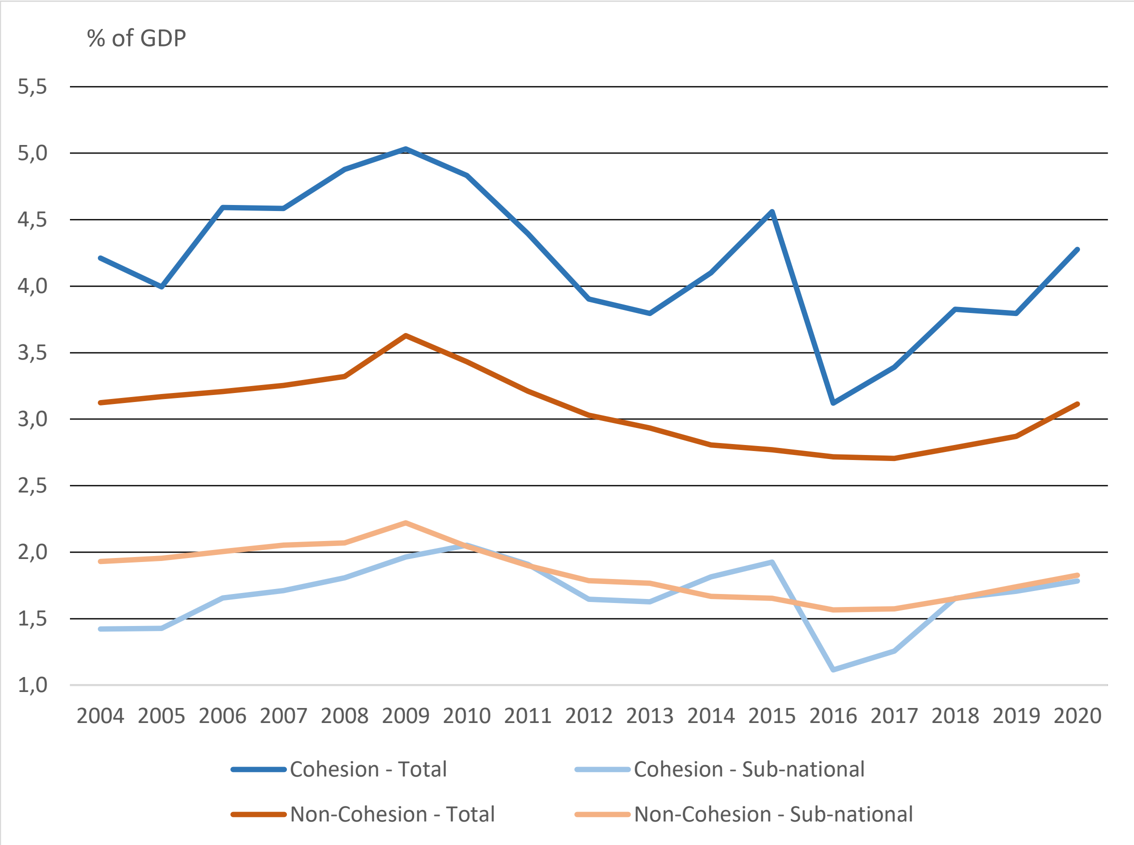
8.1.2 Sub-national governments undertake the majority of public investment

Sub-national authorities have a major role in carrying out public investment. In 2019, their spending on investment (gross fixed capital formation) was 1.7% of GDP in the EU-27, or 58% of total public investment (Figure 8.15).

While their spending on investment has generally varied pro-cyclically in relation to GDP, declining during economic downturns as in the case of overall government investment, the variation has been more pronounced in Cohesion countries than in Non-Cohesion ones.

Sub-national expenditure on investment was approximately the same relative to GDP in both Cohesion and Non-Cohesion countries in the three years 2018-2020, increasing in the former back to the same level as in 2004 and in the latter remaining slightly below the level. At the same time, the sub-national share of public investment is much smaller in Cohesion countries, though the difference progressively narrowed by almost a half between 2004 and 2020.

Figure 8.15 Sub-national and total public investment, 2004-2020



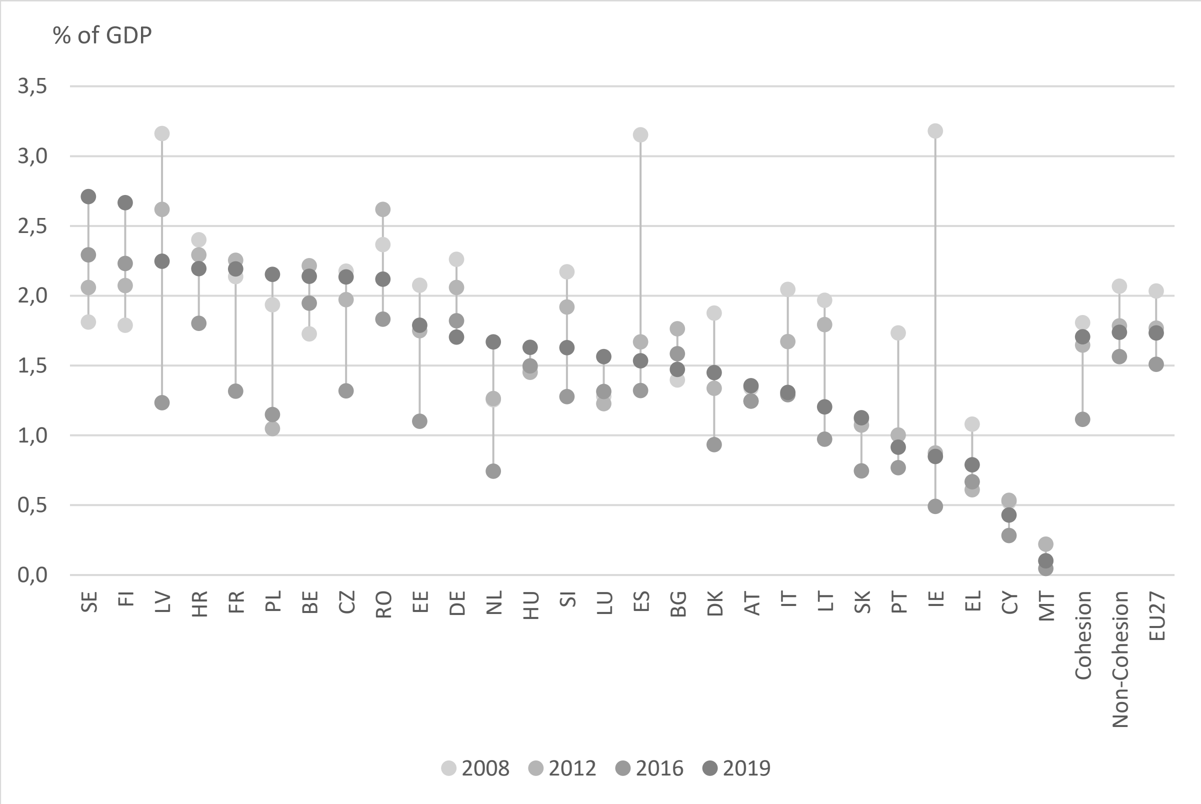
Source: Eurostat gov_10a_main

In 2019, public investment carried out by sub-national authorities was particularly high relative to GDP in Sweden and Finland (just under 3% in both); over 2% in 7 other Member States (Latvia, Croatia, France, Poland, Belgium, Czechia and Romania), but below 1% in Portugal, Ireland, Greece, Cyprus and Malta. In general, countries with relatively low sub-national investment levels also have low total expenditure at the sub-national level (Figure 8.16).

In 16 Member States, sub-national public investment was lower relative to GDP in 2019 than in 2008; most notably in Ireland (2.3 pp lower) and Spain (1.6 pp lower) and to only a slightly lesser extent in Latvia, Portugal and Lithuania. It was higher in 2019 in 11 Member States, especially in

Sweden and Finland. Box 8.4 reports the results of a pilot project on regional (NUTS2) public investment.

Figure 8.16 Sub-national government public investment, 2008, 2012, 2016, 2019



Source: Eurostat gov_10a_main

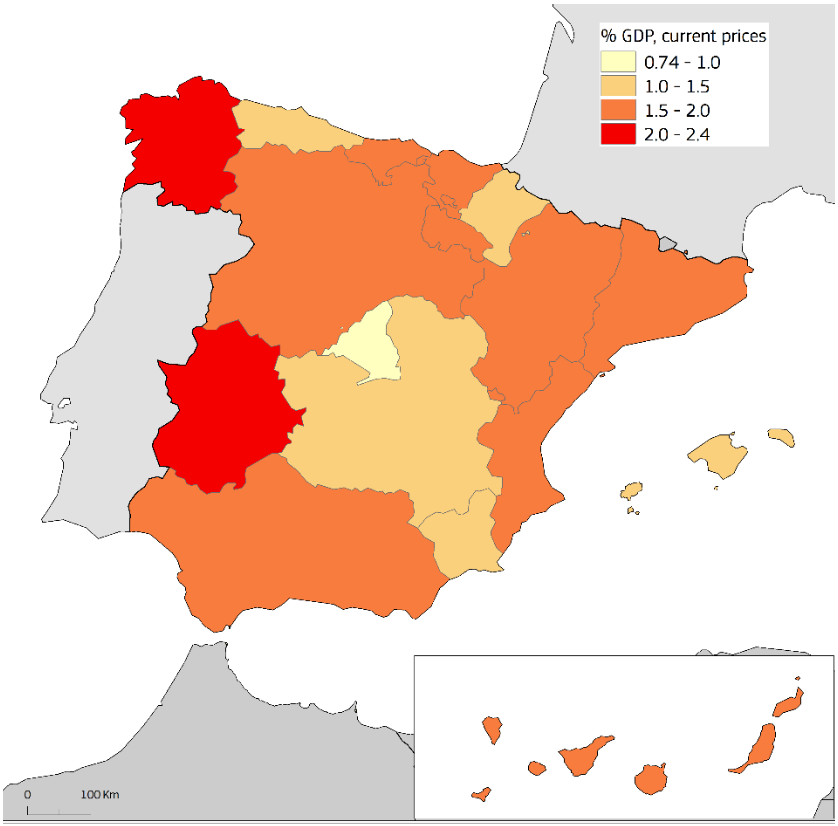
Box 8.4 Measuring regional public investment: a pilot project

Public investment plays a key role in reducing regional disparities. It is essential to the smooth functioning of modern economies by providing essential public infrastructure and public services. These will not be supplied by the private sector and they are key factors of long-term growth. Transport infrastructure, for example, is almost entirely financed through public investments. Public investment includes support to R&D and innovation which are important engines of growth. Public investment is also needed to address challenges linked to climate change, demographic change, urbanisation and digitalisation. Overall, public investment shapes people's choices about where to live and work, influences the nature and location of private investment, and affects quality of life.

Public investment can help less developed regions catch up. These regions typically lag behind in terms of basic infrastructure, R&D and innovation performance, capacity to mitigate the impact of climate change, and capacity to attract private investment. As a result, measuring regional public investment is crucial to support territorial development policies, such as cohesion policy. That is why a Eurostat pilot project was launched in 2020 to test the feasibility of collecting those data. The overall aim is to agree on a harmonised methodology and produce annual data on public investment per NUTS2 region.

As part of this project, a regional breakdown of public investment (gross fixed capital formation) by regional and local governments, but not central government, was collected for Spain (Map 8.1). These figures show that public investment by these two levels of government varies widely from one region to another. It is the lowest at 0.7% of GDP in the capital region of Madrid and the highest in the less-developed region of Extremadura at 2.4%. The transition regions in north-eastern Spain tend to have relatively high investment levels, while some of the less developed regions in the centre and south of the country exhibit below average values.

Map 8.1 Gross fixed capital formation by state and local governments in Spain, average 2014-2017



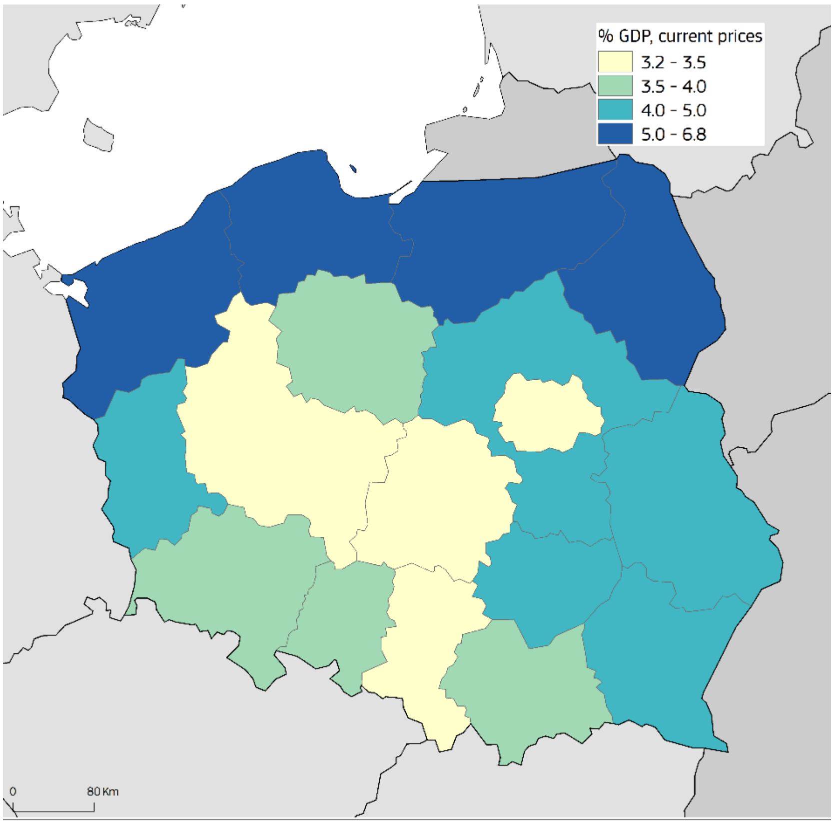
Gross fixed capital formation by state and local governments in Spain, average 2014-2017

Source: Eurostat pilot project on regional public investments and Eurostat data (nama_10r_2gdp)

REGIOgis

For Poland (Map 8.2), a regional breakdown of the public investment by all levels of government is available. Public investment varies between 6.8% of GDP in the north-east region of Warmińsko-Mazurskie and 3.2% in the Warsaw capital region. In general, public investment as a share of GDP is markedly higher in less developed regions than in more developed ones, but with some nuances; for instance, less developed regions in the south-east of the country have less public investment than comparatively more advanced regions in the north-west.

Map 8.2 General government gross fixed capital formation in Poland, average 2016-2018



General government gross fixed capital formation in Poland, average 2016-2018

Source: Eurostat pilot project on regional public investments and Eurostat data (nama_10r_2gdp)

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8.1.3 Regional and local autonomy

As emphasised above, the amount of expenditure undertaken by sub-national authorities and the amount of revenue collected is not necessarily a reflection of their autonomy in policy-making. Regional and local autonomy is an important factor in promoting place-based policies.

Two indicators, derived from the Regional Authority Index (RAI) and the Local Autonomy Index (LAI), provide a better gauge of this by measuring the extent of regional and local "self-rule".[2] The indicators, one for regional authorities and one for local, cover five dimensions: institutional autonomy; policy autonomy; fiscal autonomy; borrowing autonomy; representation or organisational autonomy.[3] A specific indicator for metropolitan regions is calculated separately (see Box 8.5).

[2] The RAI measures the extent of self-rule and shared rule exercised by regional governments in their countries (Hooghe, L., G. Marks, A. H. Schakel, S. Niedzwiecki, S. Chapman Osterkatz and S. Shair-Rosenfield (2016) (eds.), *Measuring Regional Authority. A Postfunctionalist Theory of Governance, Volume I*, Oxford: Oxford University Press); the LAI measures the extent of self-rule and interactive rule exercised by local authorities (Ladner, A., N. Keuffer H. and Baldersheim (2015), *Local Autonomy Index for European countries (1990-2014). Release 1.0*, Brussels: European Commission). Both indexes are based on expert judgement. The indicators used in this section reflect only the self-rule components of RAI and LAI.

[3] Institutional autonomy is the extent to which a regional or local government is formally autonomous with respect to higher levels of government; policy autonomy relates to the range of policies (or functions) for which a regional (local) authority is responsible; fiscal autonomy is the extent to which a regional or local government can independently levy

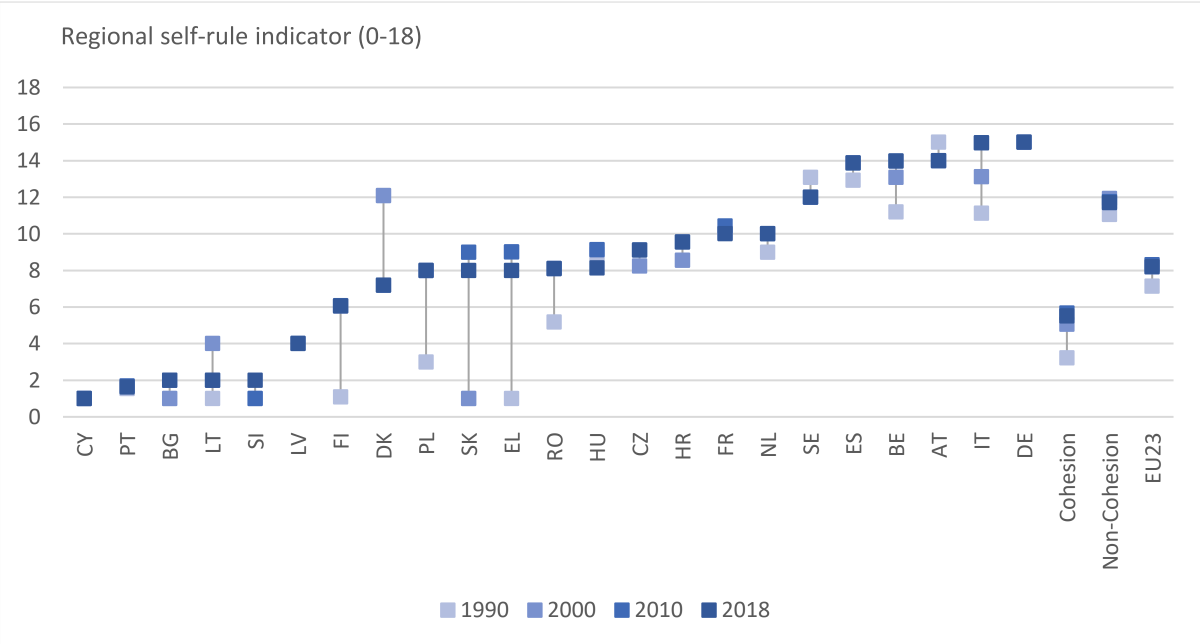
In the 23 EU Member States with regions as defined in the regional self-rule indicator (see note to Figure 8.17), the level of regional autonomy has increased on average over the past three decades, with most of the increase occurring between 1990 and 2000.

Between 1990 and 2018, the indicator increased in 14 Member States, with Lithuania, Slovakia and Greece showing some reduction over the past decade after increasing earlier. The indicator remained broadly unchanged in 5 Member States (Cyprus, Portugal and Latvia at relatively low levels, and France and Germany at high levels), and declined in the remaining four, with small reductions in Sweden, Austria and Hungary between 2000 and 2010 and a more marked decline in Denmark.

The Member States with most regional autonomy are the federal countries (Austria, Belgium and Germany), together with the highly devolved states of Spain and Italy (all of which score 14 or 15 out of 18 on the indicator). At the other end of the scale are the unitary states of Cyprus, Portugal, Bulgaria, Lithuania and Slovenia (with a score of just 1 or 2 out of 18), with Latvia having a slightly higher level of regional autonomy (with a score of 4).

Decentralisation helps to support integrated place-based policies, which are particularly important in large countries with significant internal disparities. Cohesion countries, to some extent reflecting their generally smaller size, have, on average, a much lower level of regional autonomy than Non-Cohesion ones (their average score is 6 out of 18 in 2018, as against 11.5 for the latter). The difference narrowed between 1990 and 2010, but then widened slightly from then until 2018.

Figure 8.17 Regional self-rule indicator, 1990, 2000, 2010, 2018



taxes; borrowing autonomy is the extent to which a regional or local government can borrow; representation relates to the extent to which a region has an independent legislature and executive, and organisational autonomy, in the case of local authorities, is the extent to which they are free to decide about their own organisation and electoral system. Each indicator assumes values ranging from 0 to 18.

Source: DG REGIO calculations based on RAI v.3.1 scores for the highest regional authority tier in a country (https://garymarks.web.unc.edu/data/regional-authority-2/)
Note: MT, IE, LU and EE have no regions as defined by the RAI; the first year is 1991 for BG and RO, 1993 for HR, 1995 for LT and 1996 for SK.

Box 8.5 Self-rule authority in metropolitan regions

The regional self-rule indicator, which measures the authority exercised by a regional government over those who live there, is calculated separately for metropolitan regions in the EU. This throws further light on the multi-level government architecture of EU Member States, in addition to the conventional categories of regional and local authorities already described in this section.

For purposes of calculating the self-rule indicator, a metropolitan region is defined as a contiguous, general-purpose jurisdiction that combines one, two, or more cities and their surrounding municipalities to deal with issues stemming from 'conurbanisation' (i.e. the fact that several towns tend to merge with the suburbs of a central city forming an extended urban area). A region is coded as metropolitan if it meets the following criteria: (i) it exists between the local level of government and the national level; (ii) it has a population of at least 150 000; and (iii) the jurisdiction is codified in law.[1] Note that this definition differs from the one used by Eurostat for metro-regions.

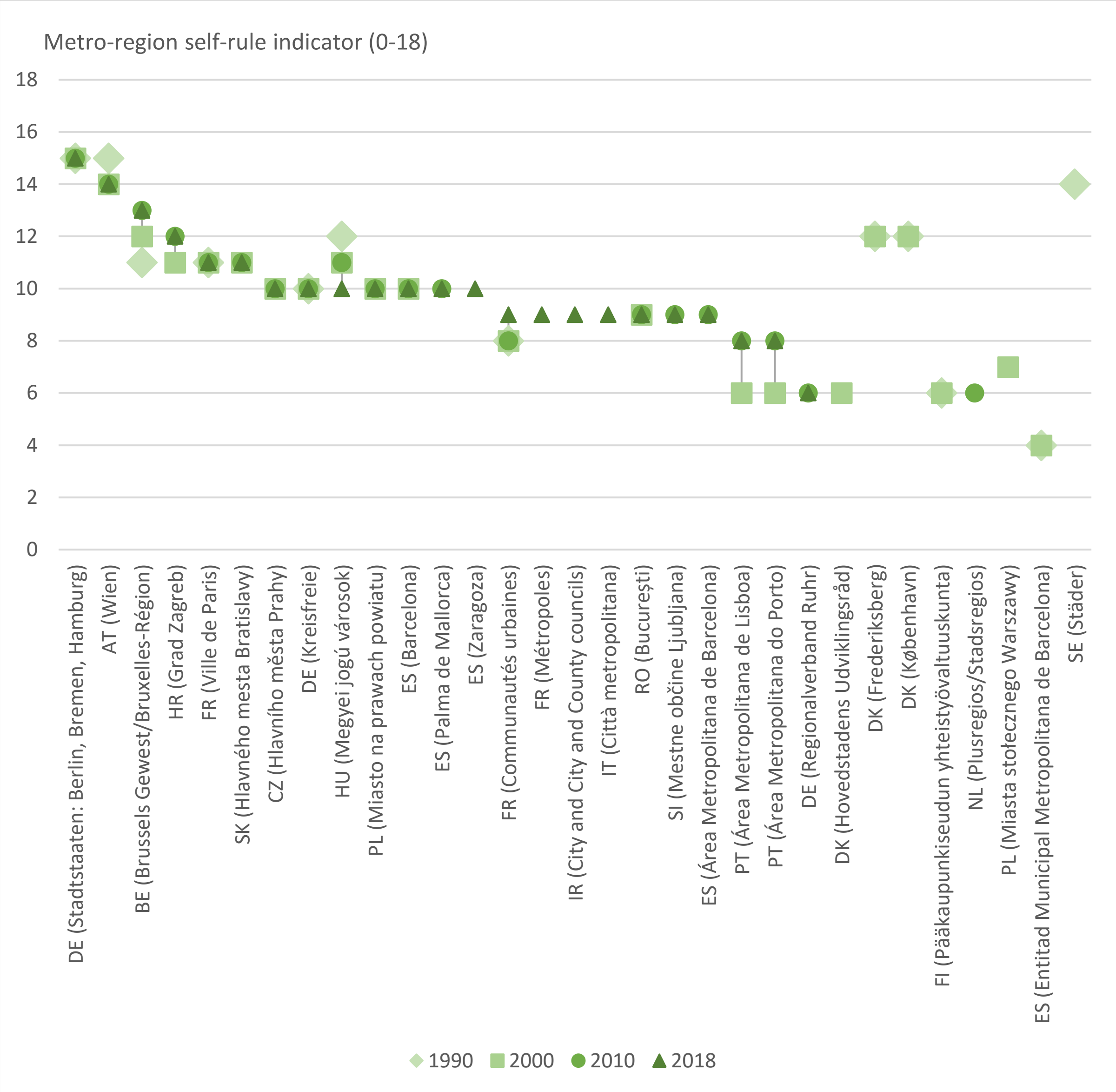
The indicator presented in Figure 8.18 is an aggregate measure of the scores obtained by the metropolitan region authorities for the following aspects: institutional depth, policy scope, fiscal autonomy, borrowing autonomy, and representation.

The number of individual metropolitan regions (e.g. the capital city of Wien in Austria) and metropolitan regional categories (e.g. 'Stadtstaaten' in Germany, comprising the cities of Berlin, Bremen, and Hamburg) has increased over time. In 1990, there were only 12 such administrative entities in only five countries (in Austria, Belgium, Germany, France and Hungary), whereas in 2018, the latest year for which data are available, there were 23 in 15 countries, comprising (i) capital city regions in Austria, Belgium, Germany, Croatia, Czechia, France, Portugal, Romania, Slovakia and Slovenia, (ii) large metropolitan areas in Germany, Spain, Italy and Portugal, and (iii) regional categories each with several individual cities in Germany, France, Hungary, Ireland and Poland. Most of the increase in number occurred between 1990 and 2000, when metropolitan regions were introduced in a number of eastern and southern Member States.

Alongside longstanding examples of metropolitan regions established in Austria, Belgium, France and Germany, there are some relatively short-lived ones. For instance, the Greater Copenhagen Authority ('*Hovedstadens Udviklingsråd*') in Denmark (2000-2006), the '*plusregio's*' in the Netherlands (2006-2015), and the union of 11 municipalities that formed the capital city of Warsaw ('*miasta stołecznego Warszawy*') in Poland (1994-2002) were all discontinued, though in some cases (e.g. in Warsaw) the municipalities concerned were merged afterwards. This illustrates the differing strengths of political commitment to this type of entity and how this may change over time. While a number of metropolitan regions have been abolished altogether, in some cases they have been replaced by different entities and forms of cooperation between local authorities, as in the case of the metropolitan area of Barcelona ('*Área Metropolitana de Barcelona*') which replaced the former '*Entitad Municipal Metropolitana de Barcelona*' with increased autonomy.

The metropolitan regions established most recently are '*Zaragoza*' in Spain, in 2018, the metropolitan city ('*città metropolitana*') category in Italy in 2015, the 'city' and 'city and county councils' categories in Ireland in 2014, and the '*métropole*' category in France (2010).

Figure 8.18 Metropolitan regions' self-rule indicator, 1990, 2000, 2010, 2018



Source: DG REGIO calculations based on RAI v.3.1 scores for metropolitan regions (https://garymarks.web.unc.edu/data/regional-authority-2/)

In terms of the degree of administrative autonomy, as measured by the self-rule indicator, there is generally not much variation over time for individual entities once they have been established. However, some increase in autonomy seems to have occurred for the Brussels-Capital Region in Belgium, the two Portuguese metropolitan areas, the French '*Communautés urbaines*', and the '*Grad Zagreb*' region in Croatia. The only case of an appreciable decline in autonomy occurring is the urban counties ('*Megyei jogú városok*') in Hungary.

In 2018, the self-rule indicator showed the highest scores in metropolitan regions located in the federal states of Germany (with the city-states of Berlin, Bremen, and Hamburg scoring 15 out of 18, in line with the score for conventional regions), Austria (with Vienna scoring 14, again as for conventional regions), and Belgium (with Brussels scoring 13, slightly lower than the average for conventional regions). The next highest scores were for capital city regions in Croatia, France and Slovakia (all more than for conventional regions in the respective countries). By contrast, the association of cities and districts in the Ruhr region in Germany scored only 6 out of 18 in terms of autonomy and the two Portuguese metropolitan areas of Lisbon and Porto, only slightly more (8 out of 18), with most other metropolitan regions having scores of 9 or 10.

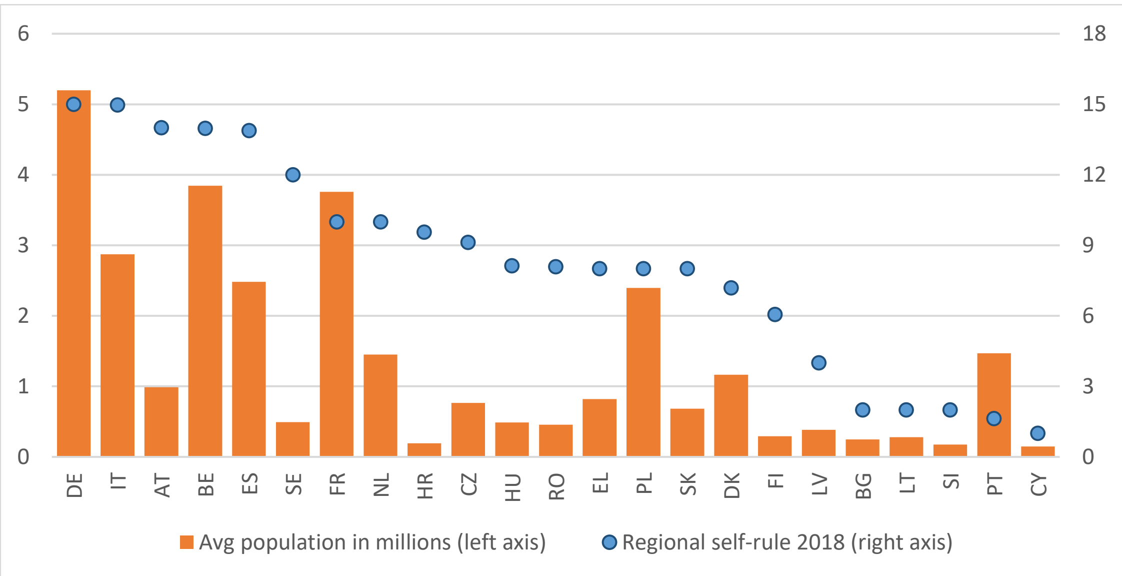
The level of autonomy of metropolitan regions as compared with conventional ones is especially high in Slovenia and Portugal, where they have scores of almost 7 points more than the latter, which have relatively low scores. In some cases, however, metropolitan regions have a lower level of autonomy than conventional ones, as in Italy and Spain, and partly in Germany.

[1] Hooghe, L., G. Marks, A. H. Schakel, S. Niedzwiecki, S. Chapman Osterkatz and S. Shair-Rosenfield (2016) (eds.), *Measuring Regional Authority. A Postfunctionalist Theory of Governance, Volume I*, Oxford: Oxford University Press.

Relating the regional self-rule scores to population size shows that the Member States with larger regions on average tend to have a higher level of regional autonomy (Figure 8.19). Seven of the 8 Member States with a regional self-rule score of more than 10 have regions with average populations of over one million. In contrast, 6 of the 7 Member States with the lowest regional self-rule scores (lower than 6) have regions with an average population of less than 400 000.

North-western and southern Member States tend to have large regions (2.1 million inhabitants on average in the former; 1.6 million in the latter) with a relatively high level of administrative autonomy (with an average score of 11 in the former and 8 in the latter). By contrast, eastern Member States tend to have smaller regions (0.6 million on average) with moderate or low administrative autonomy (with an average score of 6 and all countries with a score below 10).

Figure 8.19 Population size of regional authorities and regional self-rule, 2018-2019

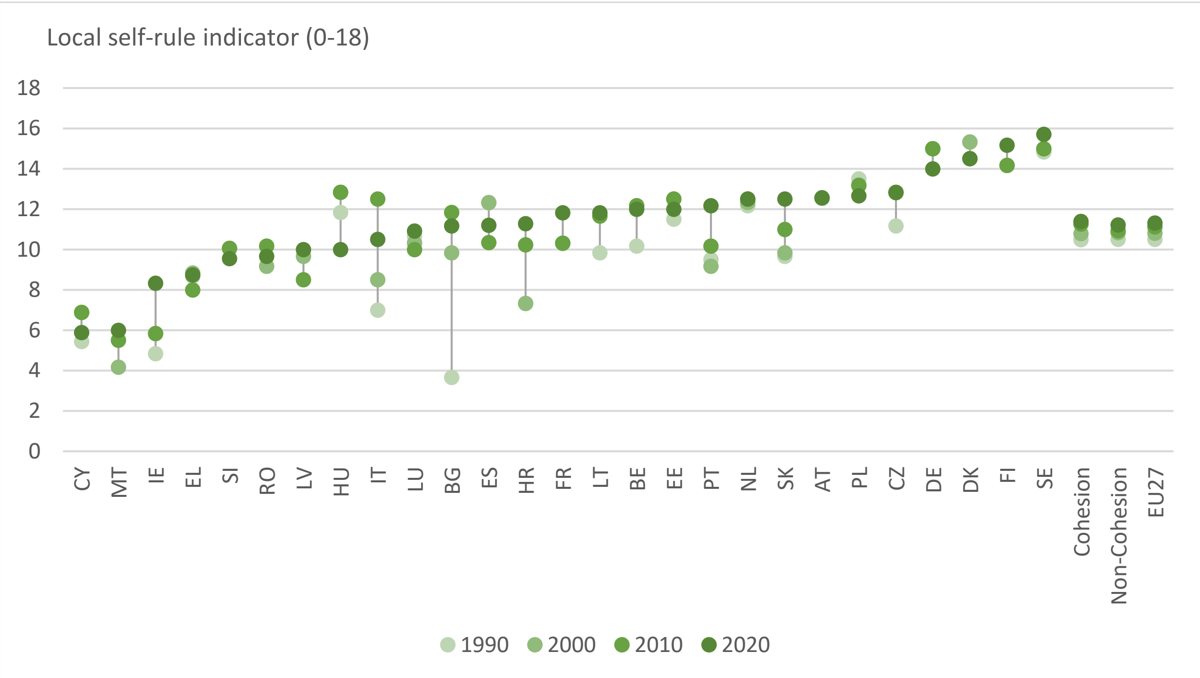


Source: DG REGIO calculations based on RAI v.3.1 scores for the most authoritative regional tier in a country (https://garymarks.web.unc.edu/data/regional-authority-2/)

As regards local self-rule, the indicator shows that the degree of autonomy in the EU at this level on average increased steadily, if moderately, between 1990 and 2020 (Figure 8.20). An increase occurred in the majority of Member States (16 of the 27). It remained broadly unchanged in Cyprus, Greece, Luxembourg, Austria and the Netherlands, while it declined slightly in Denmark, Poland and Slovenia, and more markedly in Hungary, Spain and Germany. In 5 of the 16 countries in which it increased over the period, however, it fell over the last 10 years (2010 to 2020), most especially in Italy, Bulgaria, Romania, Estonia and Belgium.

The Nordic countries are ranked as having the highest level of local autonomy, Sweden, Finland and Denmark having a score higher than 14 out of 18 in 2020, followed by Germany (with 14). At the opposite end of the scale, Cyprus, Malta, Ireland and Greece, all have scores below 9, with Slovenia and Romania having scores only slightly above this. Contrary to the case of regional autonomy, Cohesion countries are assessed as having a marginally higher level of local autonomy than Non-Cohesion ones (with an average score of 11.4 as against 11.2), a difference which has existed since 2000.

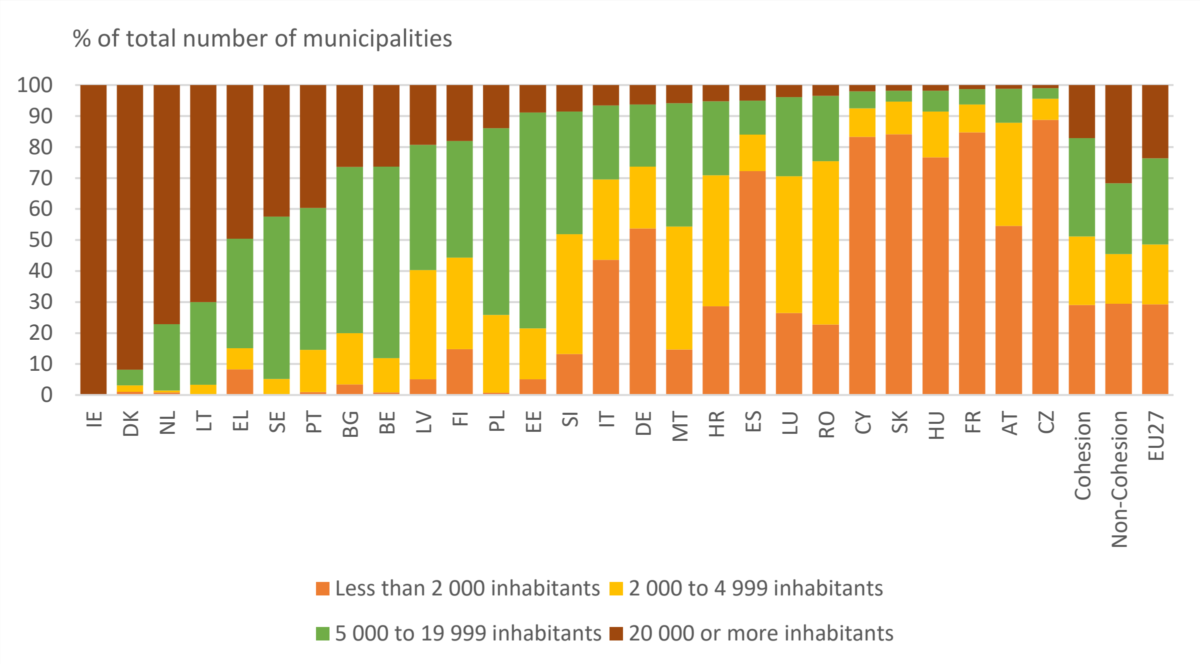
Figure 8.20 Local self-rule indicator, 1990, 2000, 2010, and 2020



Source: DG REGIO calculations based on LAI 2.0

The degree of local autonomy does not seem to be related to the size of a country, being relatively high in both large and small Member States. The same is true with respect to the size of local authorities within countries (Figure 8.21). For example, all authorities in Ireland are in the largest size class, but they have, on average, much less autonomy than Danish ones, which are almost equally as large on average. In general, smaller local authorities tend to have fewer resources than larger ones and less staff, which may mean that the investments the carry out require cooperation with neighbouring authorities and/or more support for capacity building.

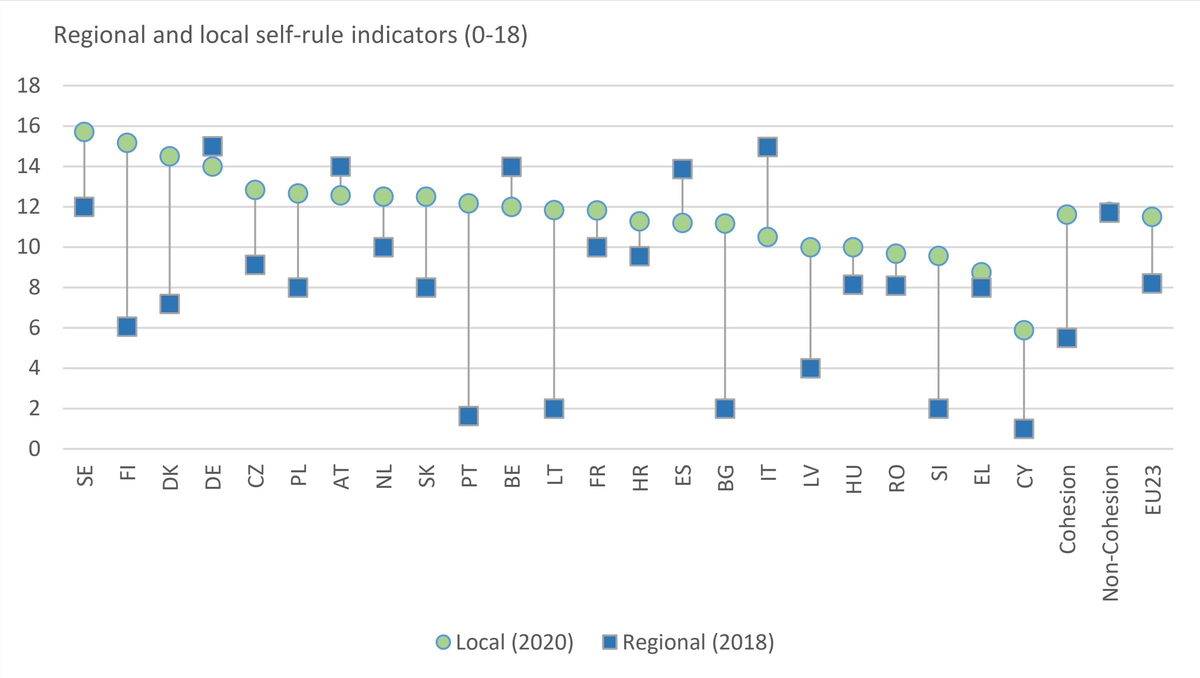
Figure 8.21 Municipalities by population size class, 2018



Note: Data may relate to earlier years for some countries (based on last available census); aggregates are unweighted averages of the country values
Source: OECD (2018), *Key data on Local and Regional Governments in the European Union* (brochure), OECD, Paris; available at: www.oecd.org/regional/regional-policy.

On average, local autonomy tends to be higher than regional autonomy (Figure 8.22). This is the true for both Cohesion and Non-Cohesion countries. Regional autonomy, however, is much lower than at the local level in Cohesion countries, reflecting the relatively weak nature of regional authorities. Local autonomy is assessed as being higher than at regional level in 18 Member States, particularly in Portugal, Bulgaria, Lithuania and Finland, and only slightly less so in Slovenia and Denmark. The 5 countries where regional autonomy is higher than local have either a federal system of government (Germany, Austria and Belgium) or are highly devolved (Spain and Italy).

Figure 8.22 Comparison between regional and local self-rule indicators for latest year



Source: own elaborations based on RAI v.3.1 and LAI 2.0
Note: MT, IE, LU and EE have no regions as defined by the RAI.

8.2 Conclusions

When compared to government capital investment, the importance of cohesion policy for the Member States, especially the less developed ones, has increased markedly during the last programming period. Although not all cohesion policy funding goes to public capital investment, the evidence suggests that in the past decade, cohesion policy has effectively contributed to recovering and sustaining public investment levels in the EU after the reduction occurred in the aftermath of the Great Recession of 2008-2009 and the sovereign debt crisis of 2011.

Case study evidence shows that EU Member States have several nationally-mandated and exclusively nationally-financed policies addressing regional disparities. Nevertheless, cohesion policy is by far the main source of financing for regional development policies. Although territorial in scope, most national policy measures tend to be designed and implemented by central governments, with limited involvement of regional authorities, while cohesion policy requires a partnership with regional and local governments.

Public funding for investment, whether from the EU or national sources, is important for shaping regional development especially when it triggers private investment. Policies to improve productivity and to shift economic activity away from low-value-added sectors, such as investment in human capital, transport infrastructure, and improved governance, appear to be effective in reducing regional disparities.

Public finances in EU Member States improved steadily from the aftermath of the Great Recession in 2008-2009 up until 2019, but the onset of the COVID-19 pandemic and the economic downturn it induced required extraordinary policy measures, increasing the budget deficit in 2020 in all countries.

At the onset of the COVID-19 crisis, public investment in the EU was still lower than before the financial crisis of 2008-2009, particularly in many Cohesion countries, raising concerns about the consequences of the depressed levels of investment on economic convergence and longer-term development.

Sub-national authorities execute almost a third of the total expenditure of the general government in the EU, with large differences between Member States. This difference, however, has been slowly narrowing over time, suggesting increasing decentralisation of responsibilities, at least for carrying out expenditure.

Sub-national authorities undertake a significant amount of public investment in the EU, around 58% of total public investment in 2019, again with large differences between Member States. Sub-national authorities in Cohesion and Non-Cohesion countries executed similar levels of public investment relative to GDP in the period preceding the COVID-19 crisis, though there are marked differences between Member States, reflecting differences in institutional settings.

Indicators of regional and local autonomy over spending and investment decisions show that this is significantly lower in Cohesion countries than Non-Cohesion ones. Although the difference narrowed between 1990 and 2010, it has tended to widen again over the past decade.