

Local and Regional Debt – European Regulations and Practice

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Main theoretical arguments

- Golden rule of a balanced budget
 - No debt for current needs – short-term as maximum
 - Allowed and sometimes recommended debt for investment purposes
- Separation of current budget and investment budget
- Arguments for external control of indebtedness
 - Ineffective market regulations of debt

European regulations

- Lack of EU legal regulations on debt of local self-governments
- Political recommendations stemming from the Maastricht Treaty: limiting the level of public debt
- Article 9 of the European Charter of Local Self-Government requires access to debt for investment purposes

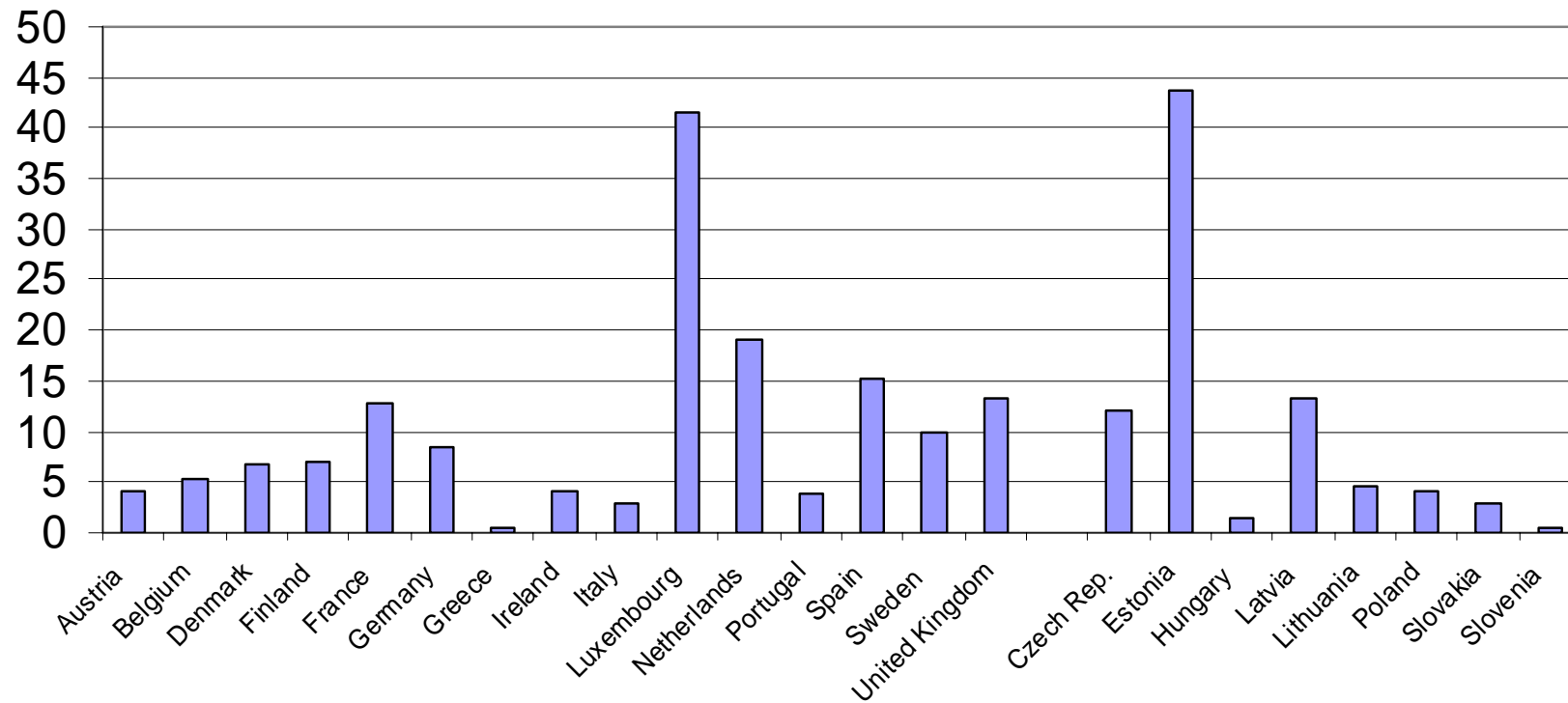
European practice

- Frequent limiting of the right to debt for investment purposes (but not everywhere)
- Frequent separation of current and investment debt
- Two regulation models:
 - Debt control ex ante
 - Debt level control ex post
- Usually limits at debt servicing level

European practice – trends of recent years

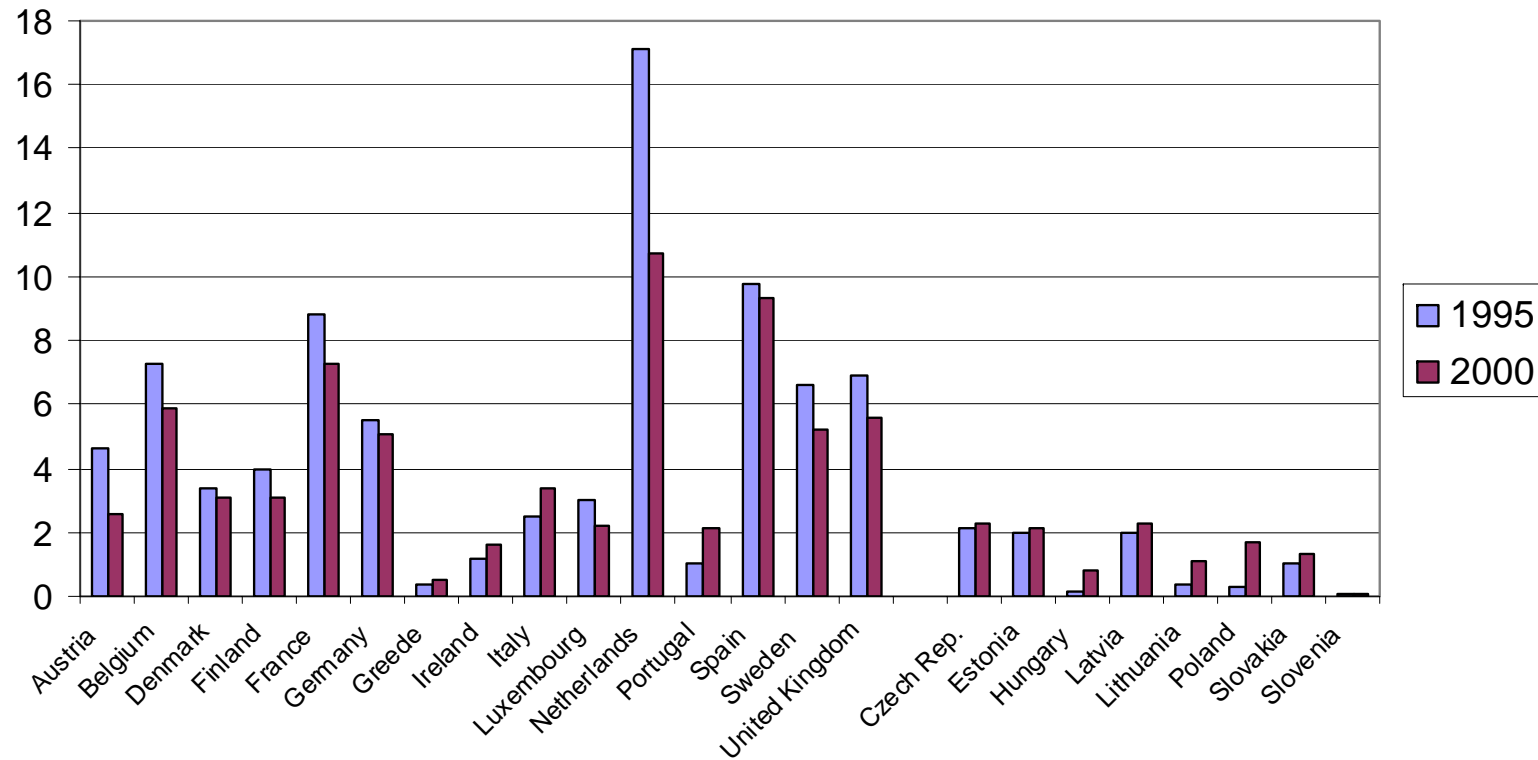
- Main debt source consists of bank credits but the role of bonds is increasing
- Moving away from special credit lines towards debt on commercial conditions
- Local debt is usually a small part of public debt
- Decreasing debt of local self-governments in Western Europe and increasing in Central-Eastern Europe (but a different starting point)

Local self-government debt as % of public debt (2000, 2001)



Source: Dexia publications

Local self-government debt as % of GDP



Source: Dexia publications

Note: for CEE countries data for 1997 and 2001