

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

COVID-19 AND INTER- GOVERNMENTAL FISCAL RELATIONS

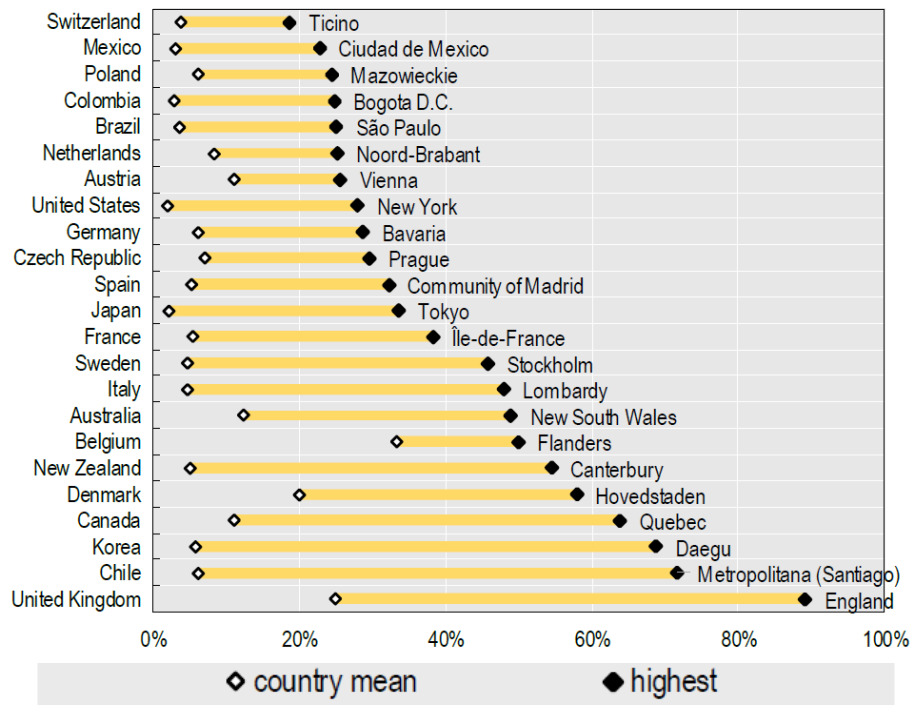
Inter-governmental fiscal policy responses and
cooperation during the pandemic

12th Meeting of the CDDG
Promoting democratic governance through shared experience
Friday 27 November 2020

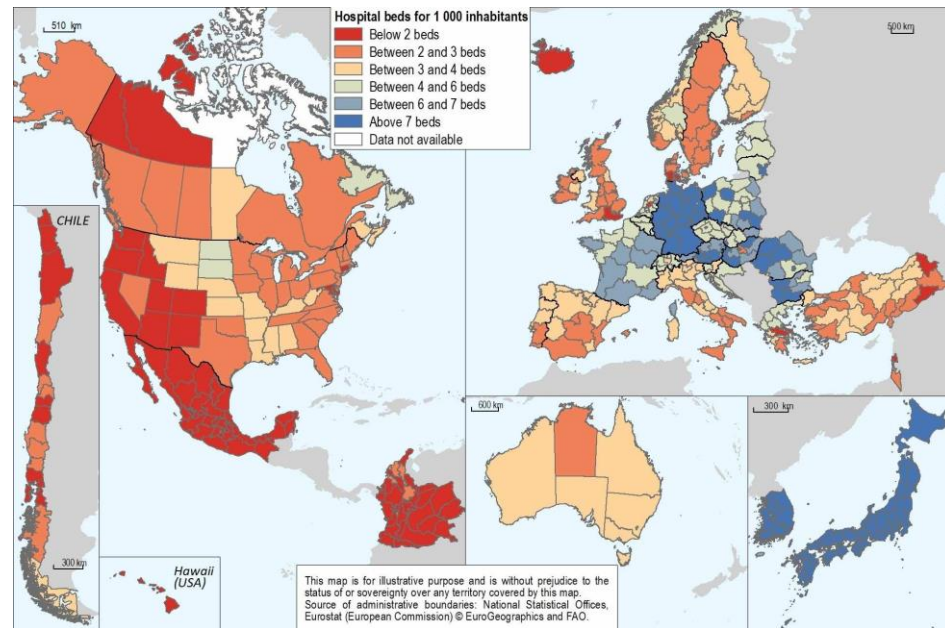
Sean Dougherty, Head of Secretariat, OECD Network on Fiscal Relations

The impact of the COVID-19 outbreak and the access to health services are asymmetrical within countries

Share of national COVID-19 fatalities, NUTS-2 (TL2) regions



Regional disparities in access to health services
Number of hospital beds per 1 000 inhabitants (2018)

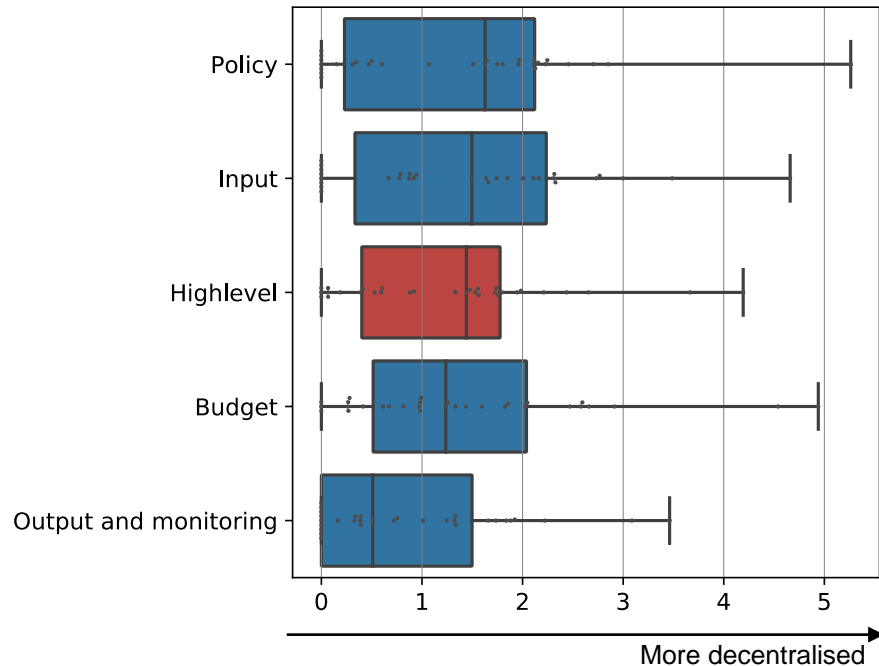


OECD Regional database (<http://oe.cd/covidblog>)

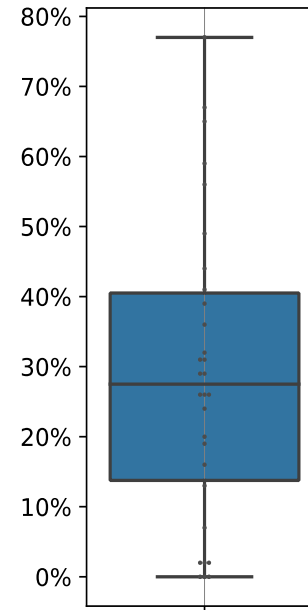
OECD (2020b), "The Territorial Impact of COVID-19: Managing the Crisis across Levels of Government", Tackling Coronavirus (COVID-19), www.oecd.org/coronavirus/.

Health responsibility is decentralised across levels of government and there are overlapping activities

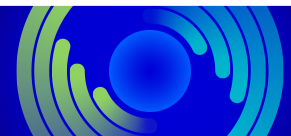
SNG spending power by indicator



Overlapping of responsibilities across levels of government

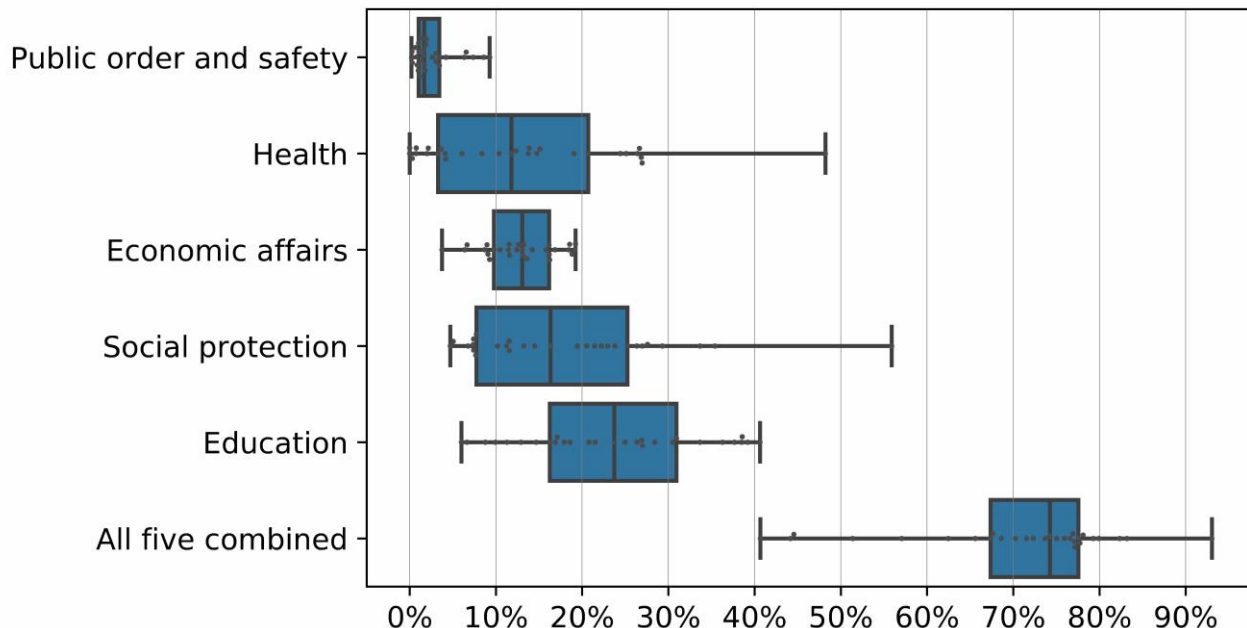


Source: *OECD Fiscal Federalism 2021 (forthcoming)*

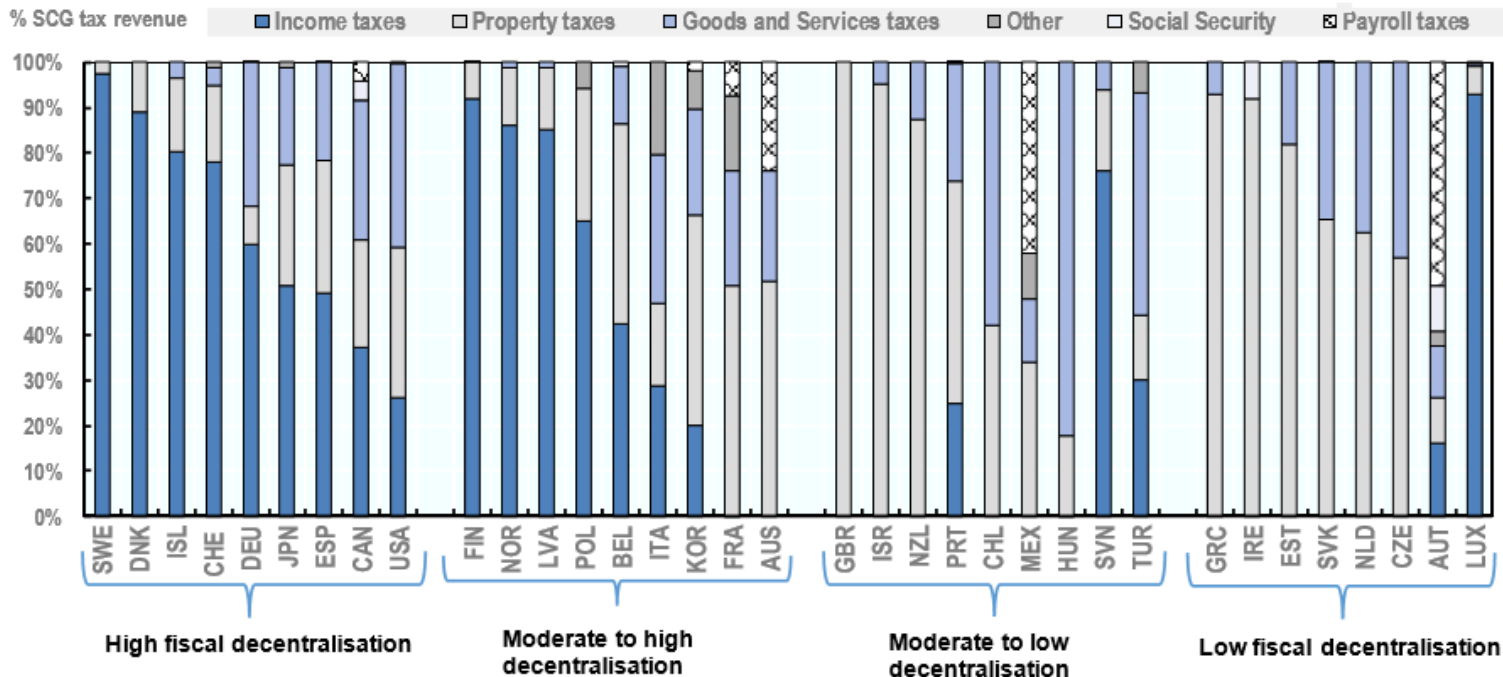


All that responsibility puts particularly intense pressure on sub-national spending

Share of SNG expenditure in key areas affected by the crisis



And their revenues are being affected by the reduction in economic activity



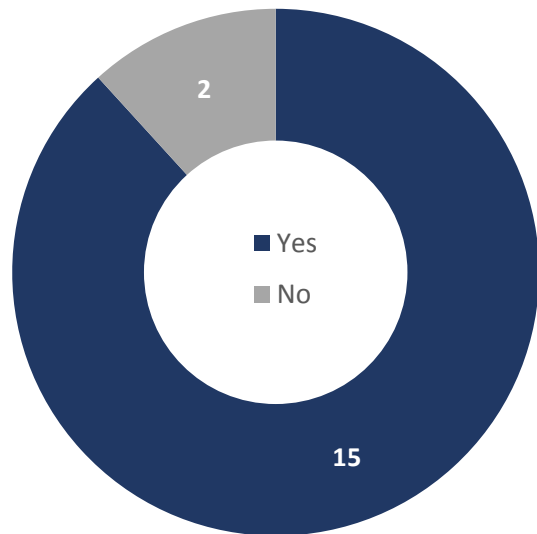
Countries where SNGs account for the **largest share of GG revenues** are also those that **rely the most on income taxes**, which are normally more buoyant than property and consumption taxes

Note: Countries are grouped into quartiles by SNG share of total government revenue, decreasing left to right. Within each quartile, countries are sorted by income tax % SNG revenue for the top two quartiles and property tax % SNG tax revenue for the bottom two quartiles. Where data for 2018 was not available, the most recent available data was used.

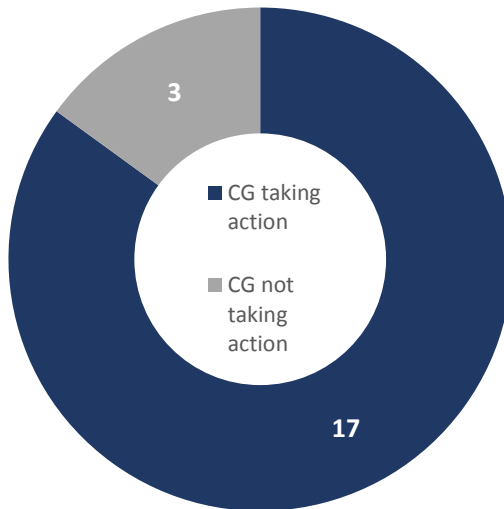
Source: COVID-19 and Fiscal Relations across Levels of Government (OECD, 2020a)

Most central governments are expecting sub-nationals' fiscal situation to deteriorate and are taking action

Number of countries that are expecting an increase in sub-national deficit and debt due to the COVID-19 crisis



Number of countries in which the central government is taking action to support SNG liquidity (through grants, loans, guarantees or fiscal rules relaxation)



Notable exceptions

Spain reported that SNGs have sufficient reserves to avoid a short-term liquidity problems, but still the CG is providing extraordinary grants to ensure it



Switzerland is the only country that reported that SNGs should respond to the crisis themselves, even potentially through insolvency

Source: Based on the Fiscal Network's COVID-19 survey held in June of 2020.

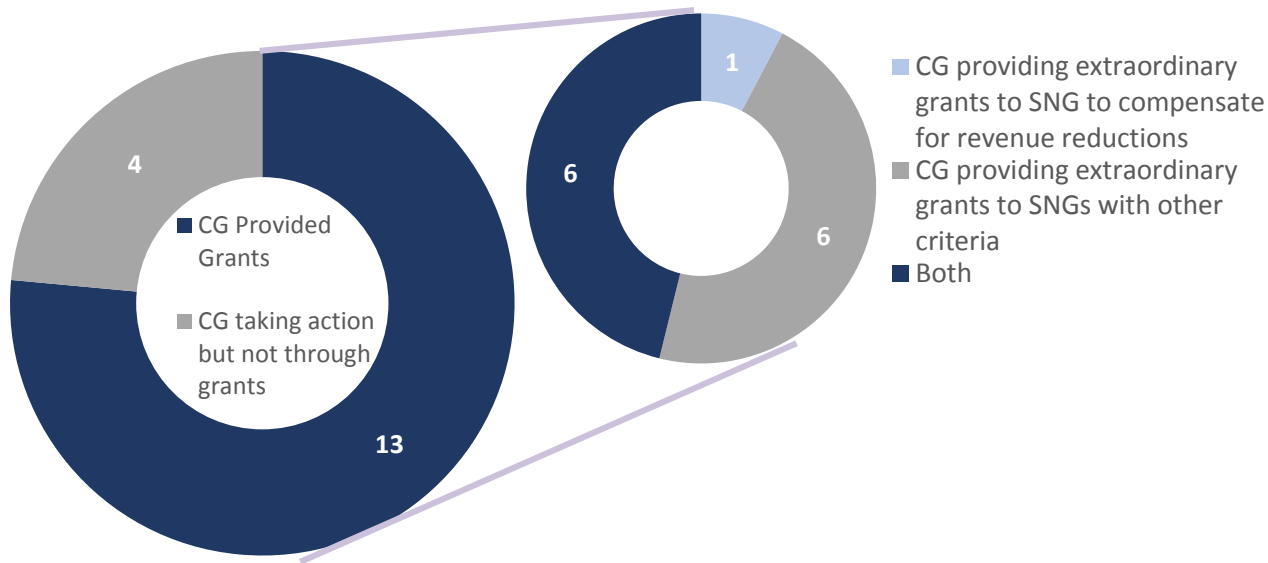
Exception: Belgium mentioned the CG support as a comment but did not ticked any box related to CG support checkbox

Countries covered: Austria, Belgium, Brazil, Colombia, Estonia, Finland, Iceland, Italy, Japan, Luxembourg, Mexico, Norway, Poland, Slovakia, Slovenia, Switzerland, South Africa, South Korea, Spain and USA



Extraordinary inter-governmental grants has been the most common measure employed by central governments

Number of countries in which CGs are providing extra grants to SNGs and the criteria used for their provision



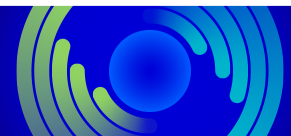
Interesting case



Italy is exempting CIT for small companies and property tax for the tourism sector. To compensate three measures are being taken:

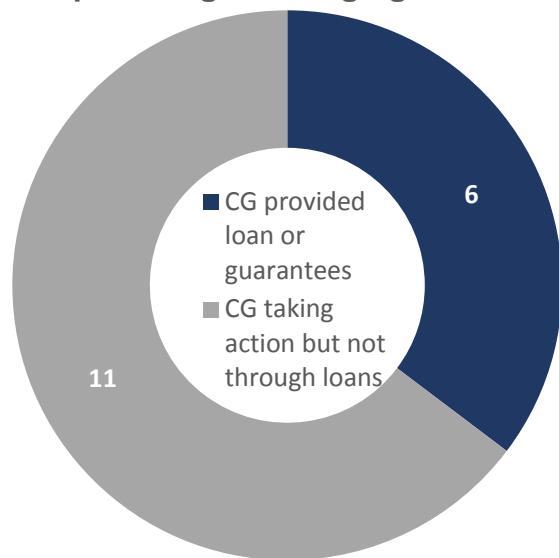
- 1) Reimbursement of revenue reduction due to these tax measures
- 2) Granting to local authorities for the payment of debts to businesses
- 3) Extra funds to provide to SNG the necessary resources to carry out the fundamental functions

Source: Based on the Fiscal Network's COVID-19 survey held in June 2020



Extraordinary loans and sovereign guarantees are also being provided by the CG in a number of countries, mostly “NSA”

Number of countries in which CGs are either providing direct loans to SNGs or are providing sovereign guarantees



Loans from CG



Guarantees from CG



CG made a Capital injection in a state-owned company that provides debt financing to LG



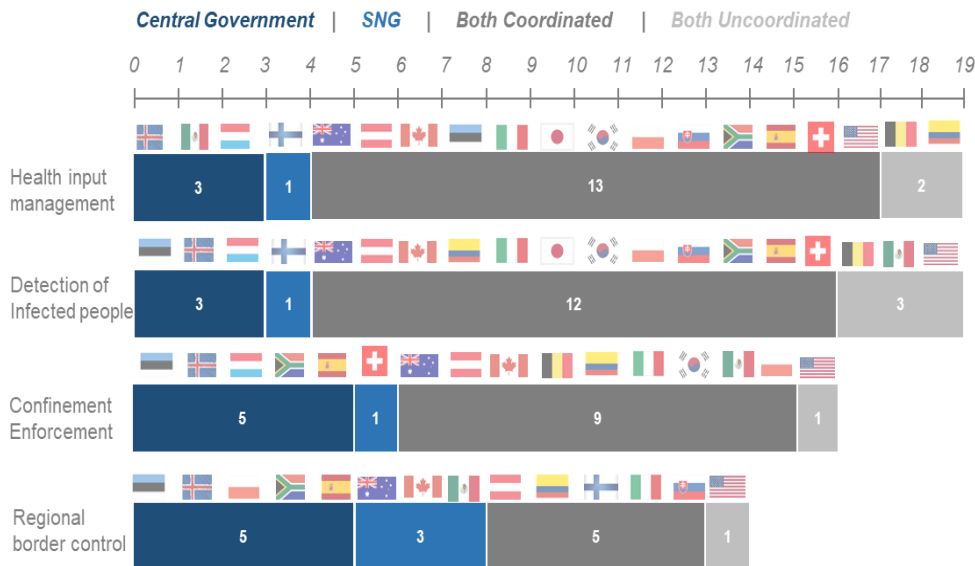
The Federal Reserve is lending and providing liquidity to SNGs and the Treasury is serving as a backstop on these loans against losses

Exception: Norway and the USA did not tick the loan/guarantees checkboxes but are implementing measures with similar purpose and, thus, were counted as providing loans

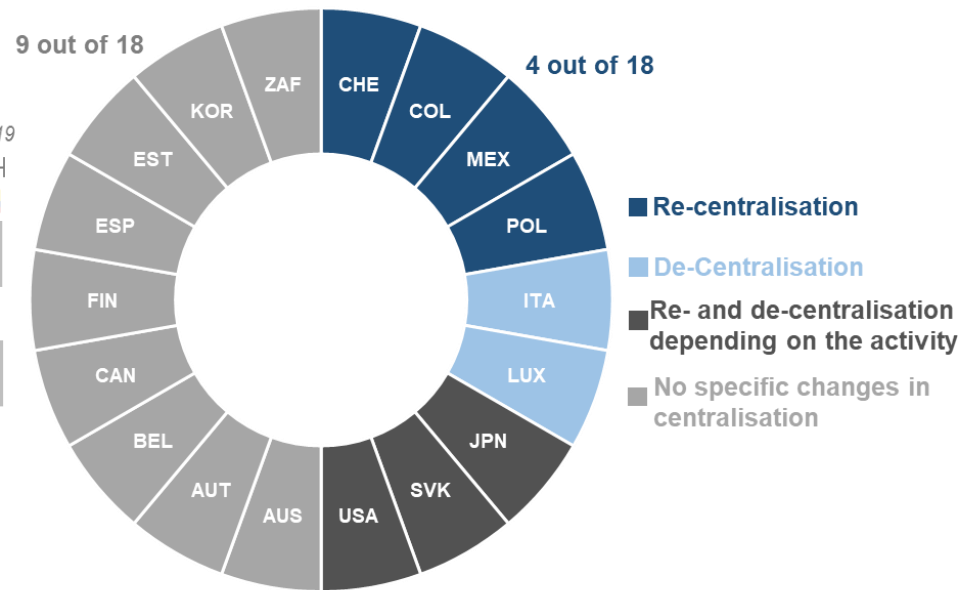
Source: Based on the Fiscal Network's COVID-19 survey in June 2020

Preliminary evidence: in most cases extraordinary measures are taken by the CG alone or by the CG and SNGs in a coordinated manner

Extraordinary measures taken and levels of government responsible for them



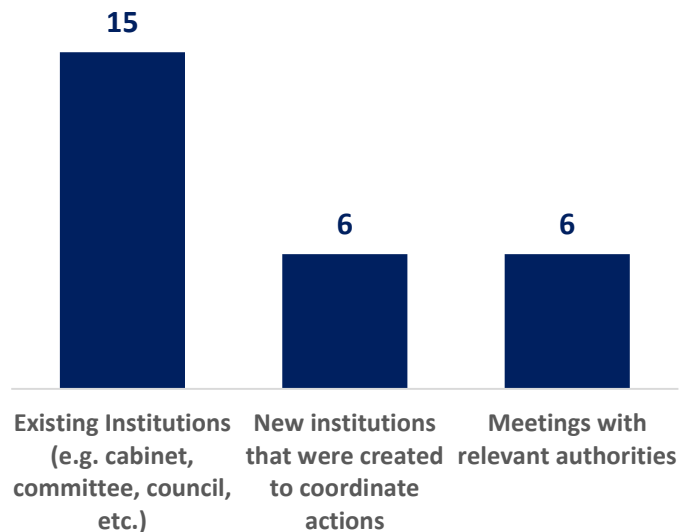
Changes in the healthcare responsibilities across levels of government



Source: Fiscal Network Survey on COVID-19 measures

In order to coordinate action across levels of government, countries are relying on both existing & new institutions

Coordination mechanism employed (out of 15 countries)



Example of new institutions



New advisory bodies: Risk Management Group, Risk Assessment Group and Group of Experts in charge of the Exit Strategy (BEL)



Created a new emergency management office (COL)



New institution focuses on data sharing, aiming to form together "a situation picture" and keeping it updated (FIN)



A scientific-technical committee was set up, made of experts and representatives of local authorities and state administrations (ITA)



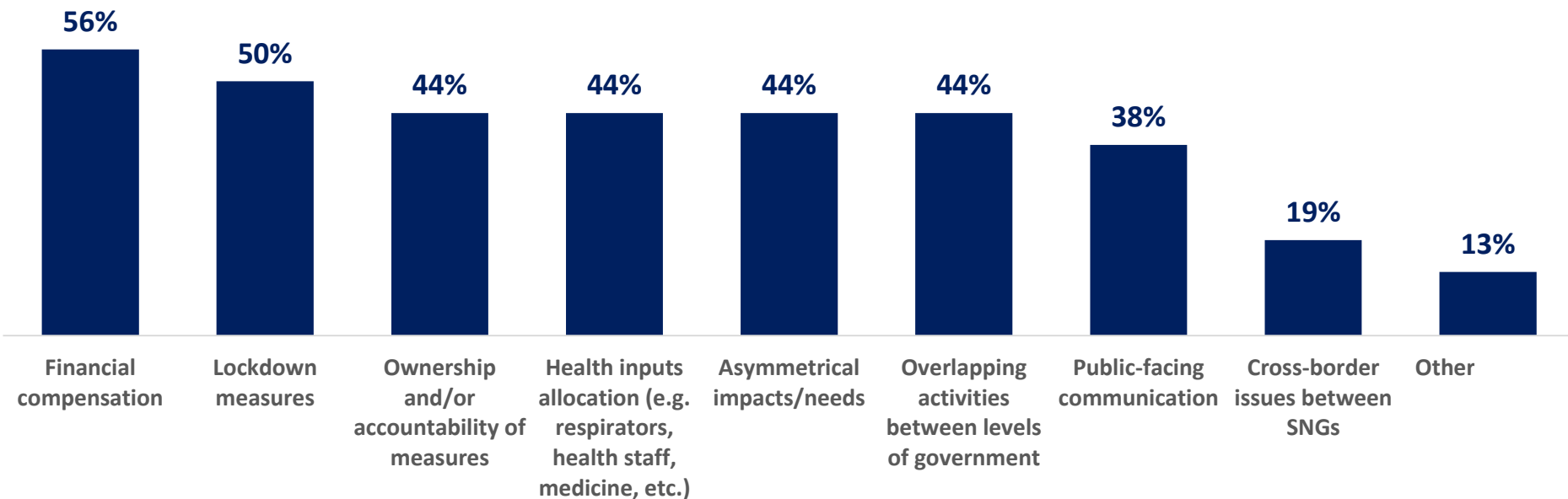
The COVID-19 Counteraction Fund was created mainly to provide funding but also facilitates coordination across levels of government (POL)

Source: Based on the Fiscal Network's COVID-19 survey in June 2020



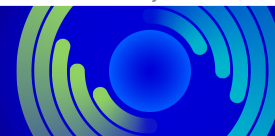
Nevertheless, despite these efforts, coordination still a challenge in many activities

Percentage of countries that reported that the activity represents a vertical coordination challenge



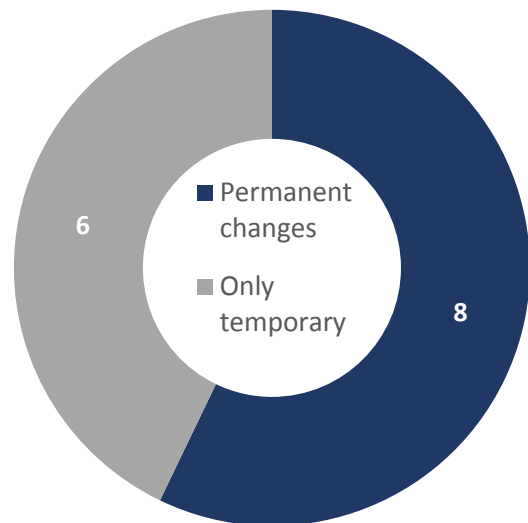
Note: Percentage considered only countries that answered this specific question

Source: Based on the Fiscal Network's COVID-19 survey in June 2020



Many lessons learnt, with innovative features that are being implemented to last beyond the crisis

Number of countries that expect to maintain an innovative feature after the crisis



Broader use of video-conferencing; development of specific apps for tracking/tracing



Communication mechanisms and digitalisation



Communication mechanisms, digitalisation of activities, more updated databases and new instruments to cope with financial risks



Extra information exchange between central government and cities



The Central Disease Control Headquarters will become a separate and independent government agency with a stronger power



Digitalisation of procedures



Frequent electronic meetings



Communication mechanisms, interchange of information and technology tools such as apps

Source: Based on the Fiscal Network's COVID-19 survey in June 2020



Good practices

Fiscal capacity measures (Type I)

- Don't hold back: SNGs may not have the necessary liquidity to cope with the crisis and it is critical to support them in fulfilling their mandates during the pandemic.
- Fiscal support has been provided in the form of inter-governmental grants, lifting of fiscal rules, guarantees or loans from CGs, or facilitated access to external financing.
- Fiscal equalisation funds are expected to fall or remain constant in the context of increasing asymmetries from the COVID-19 outbreak – additional support to the more severely affected regions might be necessary to fill the gap.
- Additional transparency requirement may facilitate tracking how the funds are being spent and monitoring SNGs situation, which can help provide support to regions according to their needs.
- Keep lessons of the past in mind: The 2008-09 financial crisis provides a point of reference when analysing the extent and impact of policy responses to the pandemic.



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Thank you

For more information:

 www.oecd.org/coronavirus

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 <https://oe.cd/fiscalnetwork>

