László Vértesy Dr. habil. PhD
associate professor
Budapest University of Technology and Economics; Faculty of Economic and Social Sciences
Department of Finance

The Role of Specialised Financial Institutions in Local Government Debt Financing

Abstract

Within the financial sector, specialised financial institutions bear a unique role in financing. The purpose of their creation is that the founders and the State highlight a specific clientele, risk group. In order to achieve their goal, a unique or exclusive status is granted to them. For additional resources for municipalities, state or local government-owned specialised financial institutions (SFI) were established in some countries. These institutions are proven to be useful for local government financing. Some have a longer historical past back to the 19th century or at the beginning of the 20th century. The Scandinavian countries began the foundation earlier, while the Mediterranean states introduced them after 2010. The specialised financial institutions can grant external funds for investments and development projects or take an essential role in local debt management. The local government debt and its management are still quotidian topics. According to Eurostat, the sum is 860 billion euro, which is continually increasing comparing to recent years. The growth from 2017 is more than 100 billion euro, which means 10.7 %. The main issue is the characteristics of these SFIs and their impact on municipal debt, furthermore to find some correlation between their activities and local debt management.

The research employs several methodologies. The analysis of relevant texts and legislation is required to determine whether an SFI is located in the given country. Furthermore, the content analysis of the foundation documents (memorandum of association, articles of association) is necessary. Later statistical data and simplified cluster analysis are applied to classify the debt ratios to the general government debt or the GDP and for the countries and specialised financial institutions. The Eurostat database and the OECD country profiles are the most useful sources: regional facts and figures, especially the subnational government reports. Other data collections focus on describing and presenting the relevant information about these topics and elements.

Specialised financial institutions bear a unique characteristic in clients, in the provided services or the relevant sector. Usually, they are established by the government or other members of the public sector. They, therefore, operate following the relevant provisions of specific separate legislation with a kind of monopolistic situation. Their character can be seen in the fact that their scope of activities is limited compared to banks. Those institutions belonging to this group are only entitled to perform a certain range of financial services or ancillary financial services activities according to separate legal regulations. Even though they cannot provide the full spectrum of the financial activities, but can take higher risks in harmony with their specialisation (e.g. an eximbank for foreign trade or a start-up financing institution in the R+D sector).

Among the EU 27, only eight member states: four Mediterranean (France, Italy, Spain, Portugal), three Scandinavian (Denmark, Finland, Sweden) countries, the Netherlands established end employ specialised financial institutions in local government financing. In addition, Norway and the United Kingdom are worth to be mentioned.