LGO'S FIGHTING POLYCRISIS – WHAT DETERMINES THE LOCAL FINANCIAL RESILIENCE?

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Abstract

Ensuring the sustainability of public financial systems is an intense and current challenge for public decision makers and policies, the main challenges faced being linked to the effects of the manifestation of the so-called polycrisis phenomenon. Combined with the increasing intensity and broader coverage of crises, their more frequent recurrence makes the negative effects of a crisis to be in some cases even deeper, being potentiated by the effects/context generated by governments through measures aimed at counteracting past crises, and thereby ultimately exposing the public sector to even greater risks. For example, staff cut measures operated within the austerity programs in the context of the financial crisis in 2008/2009 also included in some countries reduction of jobs in the healthcare system, thereby reducing public spending on the mentioned one, but weakening it in the face of the pandemic crisis that followed a few years after. In relation to local public authorities, the situation is all the more sensitive as many of the anti-crisis measures are imposed on them following the centralization principle (even in the case of legal recognition of local autonomy). In this approach, many local reaction alternatives are legally limited in various respects (debt capacity, sizing budget transfers, redefinition of tax bases or rates, decisions on the amount of expenditure financed from own budgets etc.). Consequently, the shaping and maintenance of healthy local financial systems, synthetically expressed through adequate financial positions and the lack of budget deficits, becomes a pre-condition for ensuring the robustness of local communities, in which context local strategies for economic and financial resilience are playing a vital role.

Following this assumptions, our research proposes an analysis of the impact of recent crises (2008-2024) on the financial resilience of LGO's in Romania (at county level) in terms of resistance and recoverability, using data regarding their financial situation (incomes, expenditures, deficit and debt), in order to identify and explain on the determinants of local financial resilience, as a basis for synthesizing and empirically arguing the essential elements of functional strategies for local development that could strengthen the financial positions of local governments in the future.

The methodology of the study is based on a combination of econometric models (fixed or random effects and difference in difference, respectively), using datasets provided by the National Institute of Statistics of Romania and the Ministry of Finance for the period 2000-2024. The results suggest that factors of influence on local financial resilience are related to entrepreneurship, the size of the local productive sector, human capital and higher education, suggesting, accordingly, the integration of these issues as strategic priority directions in public policies, in order to strengthen the robustness of local financial systems, both on medium and long term.

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