CENTRE FOR PUBLIC ADMINISTRATION RESEARCH
KDZ

European Local Government Report 2025

Structures, Finances and Functions of Local Governments in the European Union

01 March 2026

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Acknowledgement

This report benefited from valuable comments and suggestions from Elton Stafa (NALAS), Emanuele Padovani (University Bologna) and Christian Raffer (DIFU).

Imprint

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1 Local Government Structures, Finances and Functions in the EU 2024

Local governments are central actors in the provision of public services such as education, healthcare, social protection and infrastructure. How these services are organised and financed varies widely across the EU, reflecting degrees of fiscal autonomy, different territorial structures and multi-level governance arrangements.

This report therefore combines a structural and a financial perspective on local government in the European Union. It first presents basic structural data on municipalities

- the number of municipalities,
- the average number of inhabitants per municipality, and
- the multi-level structure of sub-national government.

These because these "starting conditions" are essential for interpreting cross-country differences in expenditure and revenue indicators.

Building on this context, the report analyses the fiscal role of local governments using the most recent data from Eurostat's Annual Government Finance Statistics database 2024 (except COFOG data from 2023). It covers

- local government expenditure per capita,
- local government expenditure as a share of GDP,
- changes in local government expenditure as a share of GDP over 2015–2024,
- the share of local government expenditure in total general government expenditure,
- the share of local government revenue in total general government revenue,
- the share of tax receipts in total local government revenues,
- local government debts,
- local government investments, and
- the local government expenditure by function (COFOG).

The overall aim is to provide a comparative overview of local governments' fiscal weight and functional role within national economies, while emphasising that differences in expenditure and revenue levels partly reflect different structural models of local government and the distribution of tasks across municipal, intermediate and regional/state levels.

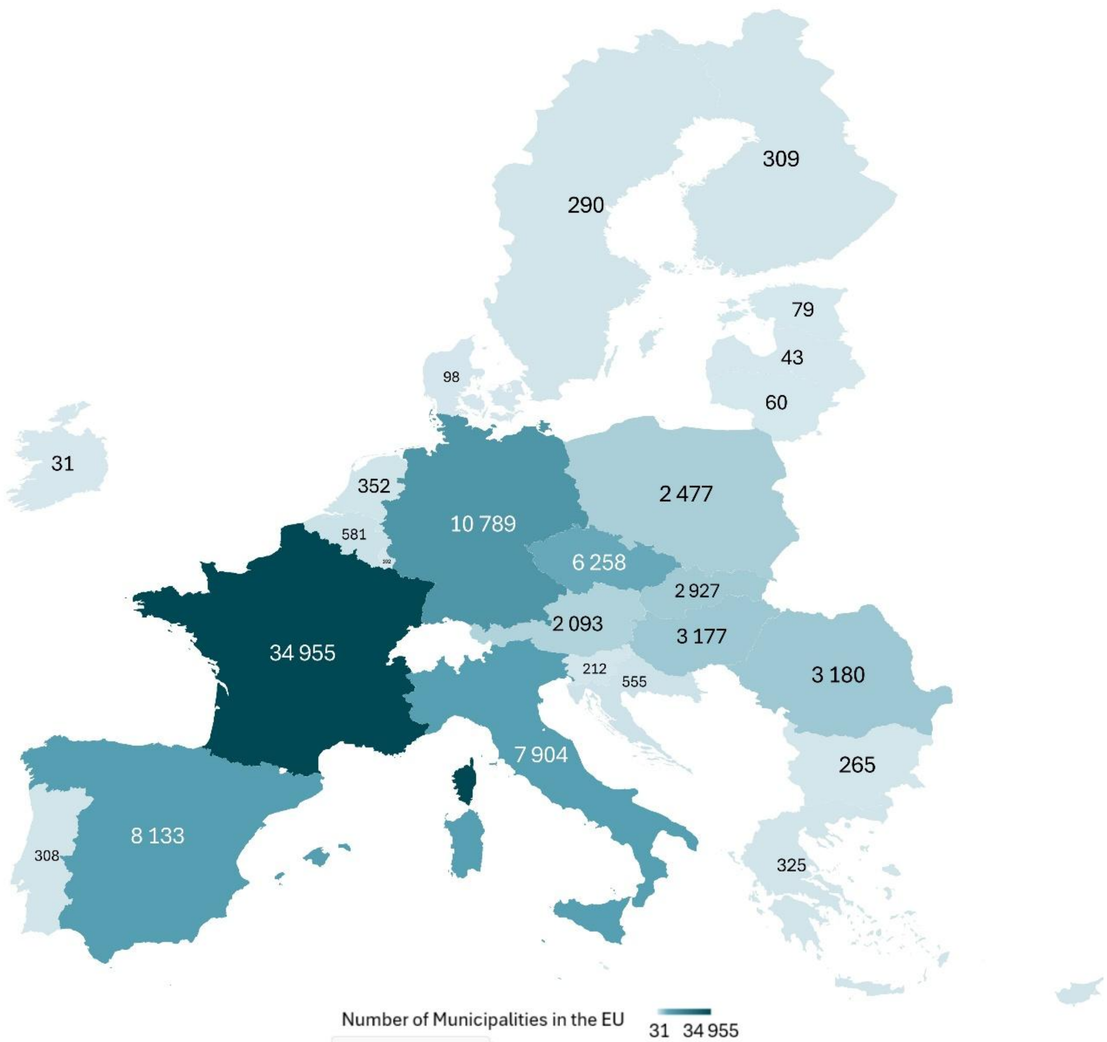
2 Basic Structural Data of Local Governments in the EU

Before turning to expenditure and revenue indicators, it is useful to briefly describe the structural "starting conditions" of local government systems. The number of municipalities and their average population size shape administrative capacity, economies of scale, and the way public responsibilities can realistically be organised at local level. Highly fragmented systems with many small municipalities often require stronger inter-municipal cooperation or an intermediate tier to deliver complex services, while countries with fewer and larger municipalities may achieve greater administrative capacity within each local unit, but potentially face challenges in proximity and local representation.

2.1 Number of municipalities in the European Union

With 85,951 municipalities across the EU, the figure highlights how strongly the European municipal landscape is shaped by a few highly fragmented Member States: France (34,955) dominates the distribution, while Germany, Spain, Italy, Czechia, Romania and Poland also account for large municipal counts. By contrast, countries such as Ireland, Latvia and Estonia operate with very small numbers of municipalities, reflecting far-reaching territorial reforms or historically more consolidated local structures. Across the EU Member States the median is 352 municipalities (Netherlands).

Figure 1: Number of Municipalities in the EU member states

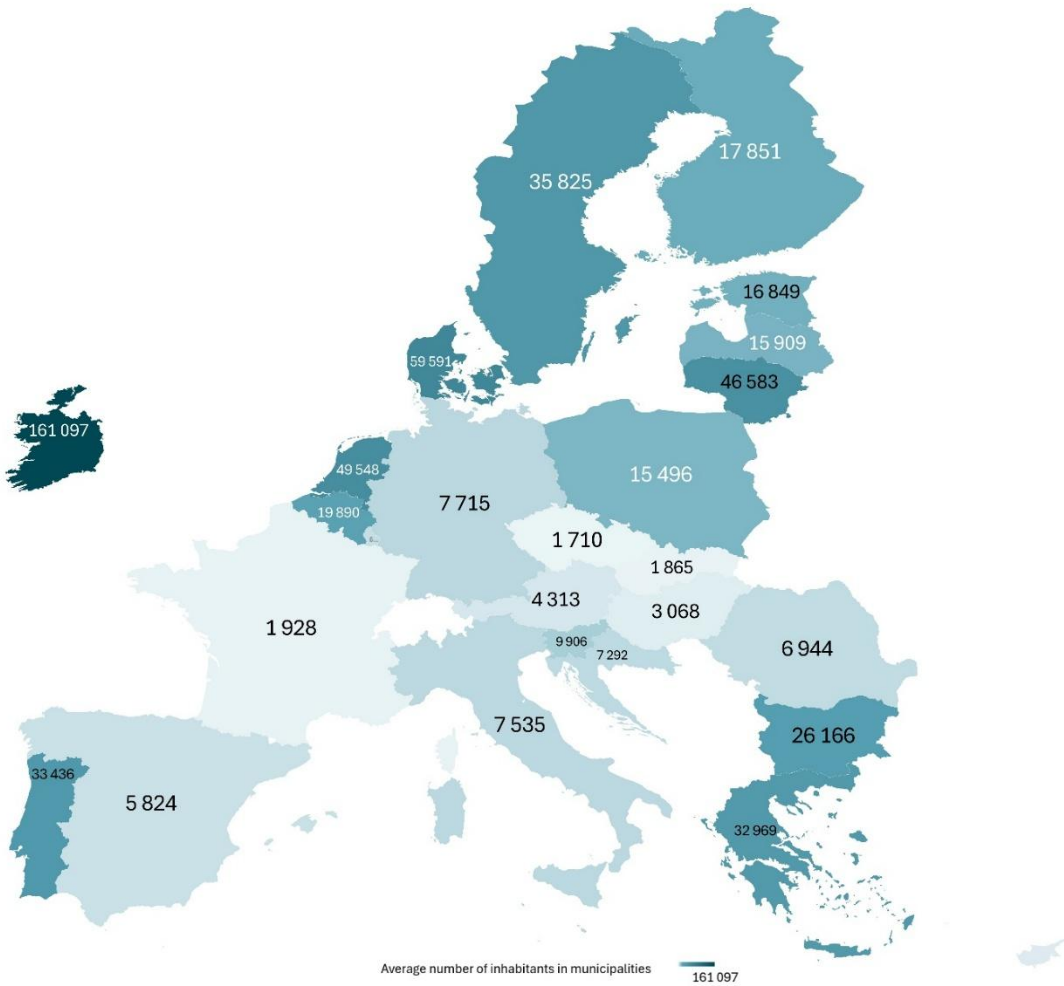


Source: OECD/UCLG (2022) 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment.

2.2 Size of municipalities – number of inhabitants

The average number of inhabitants per municipality provides a simple indicator of the territorial scale at which local services are organised. Figure 2 highlights the strong heterogeneity of municipal size in the EU, with an EU average of 22,455 inhabitants per municipality. A clear divide emerges between highly fragmented systems and consolidated local structures: on the fragmented side, Czechia (1,710 inhabitants on average), France (1,928) and Slovakia (1,865) stand out. While this structure supports proximity and local representation, it can limit economies of scale and administrative capacity, which is particularly challenging for specialised services and investment-intensive tasks that often require inter-municipal cooperation.

Figure 2: Average number of inhabitants in the municipalities of the EU-member countries



Source: OECD/UCLG (2022) 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment, Own Calculation

On the consolidated side, a “large-municipality” model is visible in Denmark (59,591 inhabitants per municipality on average), alongside the Netherlands (49,548), Lithuania (46,583) and Sweden (35,825), pointing to systems built around bigger territorial units that typically support stronger organisational capacity for delivering a broad service portfolio; Ireland is an exception, with an exceptionally high average (161,097) driven by its very small number of municipalities.

2.3 Multi-level structure of sub-national government

Sections 2.1 and 2.2 show that EU local government structures differ widely. Building on this, Table 1 maps the intermediate and regional/state tiers alongside municipalities, clarifying whether coordination and service delivery rely mainly on the municipal level or are organised above it. This is particularly relevant for fragmented systems with many small municipalities, where complex tasks often require stronger cooperation or additional tiers of government.

Table 1: Subnational Governments in the European Union

Country	Number of Municipalities	Average inhabitants	Inter-mediate Level	State/Regional Level	Total number of Sub-National Governments (2021)
Austria	2 093	4 313		9	2 102
Belgium	581	19 890	10	6	597
Bulgaria	265	26 166			265
Croatia	555	7 292		21	576
Cyprus	380	3 178			380
Czechia	6 258	1 710		14	6 272
Denmark	98	59 591		5	103
Estonia	79	16 849			79
Finland	309	17 851		21	330
France	34 955	1 928	101	18	35 074
Germany	10 789	7 715	400	16	11 205
Greece	325	32 969		13	338
Hungary	3 177	3 068	20		3 197
Ireland	31	161 097			31
Italy	7 904	7 535		20	7 924
Latvia	43	15 909			43
Lithuania	60	46 583			60
Luxembourg	102	6 199			102
Malta	68	7 590		6	74
Netherlands	352	49 548		12	364
Poland	2 477	15 496	380	16	2 873
Portugal	308	33 436		2	310
Romania	3 180	6 944		42	3 222
Sweden	290	35 825		20	310
Slovak Republic	2 927	1 865		8	2 935
Slovenia	212	9 906			212
Spain	8 133	5 824	50	17	8 200
in Total	**85 951**	**22 455**	**961**	**266**	**87 178**

Source: OECD/UCLG (2022) 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment.

There is often a link between municipal fragmentation and the presence of additional sub-national tiers, but Table 1 also shows that countries combine these elements in several distinct ways.

Fragmentation with layered coordination

Several countries combine high municipal fragmentation with additional sub-national tiers that provide coordination and scale for service delivery above thousands of small municipalities. This includes Czechia (6,258 municipalities; 1,710 inhabitants on average; 14 regional units) and Slovakia (2,927; 1,865; 8 regional units), as well as Hungary (3,177 municipalities; 3,087 inhabitants on average; 20 intermediate units). Austria also fits this layered pattern through its federal state structure, combining 2,093 municipalities (4,313 inhabitants on average) with a state level of 9 units.

Strong intermediate tiers enabling coordination at scale

Some countries build coordination and service delivery around a robust intermediate layer, enabling tasks to be organised at scale even when municipalities are not very small. Germany (federal) combines 10,789 municipalities (average 7,715 inhabitants) with an exceptionally strong intermediate level (400 units) and 16 state units. Poland follows a similar logic with 2,477 municipalities (average 15,496), 380 intermediate units and 16 regional units, showing how the intermediate tier can be a core backbone rather than only a “compensation” for small municipalities. Spain (federal) combines 8,133 municipalities (average 5,824) with 50 intermediate units and 17 state units, reflecting shared coordination between a substantial intermediate tier and a strong state level.

Big-municipality systems with a smart regional layer

Even highly consolidated municipal systems often keep a regional tier for specialised functions. Denmark pairs 98 municipalities (average 59,591) with 5 regions; the Netherlands combines 352 municipalities (average 49,548) with 12 regional units and Sweden links 290 municipalities (average 35,825) with 20 regional units.

3 Local Government Expenditures

This section examines local government expenditure as a key indicator of the fiscal role of municipalities in Europe. Spending levels reflect the scale of local responsibilities and the extent to which public services and infrastructure are delivered locally, providing a solid basis for comparing national decentralisation models.

3.1 Local government expenditures – Overview

In 2024, total EU-27 local government expenditure reaches €2,028,443.8 million, almost doubling since 2004 (index 201.1, 2004 = 100). Over the same period, EU-27 GDP rose to 195.9, meaning local expenditure growth outpaced GDP growth at aggregate level. Read alongside the revenue trends (see chapter 4), the picture is even clearer. In many Member States revenues increased more slowly than expenditures, so spending not only grew faster than GDP but also outstripped revenue growth, widening the structural revenue gap for local governments over time.

A key pattern in the country results is that most Member States record a stronger increase in local government expenditure than in GDP when comparing the 2004–2024 indices. Germany illustrates this clearly: local government expenditure reaches an index of 242.6 while GDP reaches 188.8. Austria shows the same direction, with local government expenditure at 232.8 compared with GDP at 205.4.

Table 2: Local government expenditure 2004 – 2024 versus GDP[1]

Mio Euro/ Index	Local Government Expenditure in Mio Euro			Development of Local Government Expenditure Index		Development of GDP Index	
Country	**2004**	**2014**	**2024**	**2004-2014**	**2004-2024**	**2004-2014**	**2004-2024**
European Union - 27	1 008 677	1 332 802	2 028 444	132,1	201,1	129,1	195,9
Belgium	20 226	29 274	44 397	144,7	219,5	136,4	209,0
Bulgaria	1 339	3 831	8 592	286,1	641,6	204,0	496,7
Czechia	12 197	17 955	38 778	147,2	317,9	164,2	331,3
Denmark	67 152	94 051	122 265	140,1	182,1	130,9	193,4
Germany	168 852	233 471	409 580	138,3	242,6	130,2	188,8
Estonia	931	1 853	4 159	198,9	446,6	208,2	407,5
Ireland	20 862	4 891	13 299	23,4	63,7	128,4	360,2
Greece	6 226	5 942	9 495	95,4	152,5	93,2	125,3
Spain	49 284	62 869	97 105	127,6	197,0	120,8	185,4
France	178 002	249 868	329 747	140,4	185,2	127,0	172,2
Croatia	4 191	5 561	10 146	132,7	242,1	131,0	254,1
Italy	220 195	240 045	314 275	109,0	142,7	112,2	150,9
Cyprus	309	369	608	119,4	196,7	125,4	249,5
Latvia	1 183	2 546	4 549	215,2	384,6	202,9	359,4
Lithuania	1 611	2 901	7 833	180,1	486,1	198,8	431,4
Luxembourg	1 495	2 343	4 718	156,7	315,5	183,7	305,7
Hungary	10 510	8 274	12 059	78,7	114,7	126,9	245,9
Malta	31	51	95	162,8	304,2	182,0	470,4
Netherlands	78 598	90 654	147 682	115,3	187,9	127,7	211,2
Austria	20 076	28 654	46 734	142,7	232,8	137,2	205,4
Poland	26 124	55 484	123 808	212,4	473,9	197,4	409,8
Portugal	9 802	10 399	19 142	106,1	195,3	113,8	190,1
Romania	4 283	13 893	33 480	324,4	781,8	249,2	585,5
Slovenia	2 351	3 689	5 909	156,9	251,3	135,6	245,3
Slovakia	2 161	5 084	10 442	235,2	483,1	221,1	376,1
Finland	29 813	48 039	65 311	161,1	219,1	129,7	173,9
Sweden	70 873	110 813	144 237	156,4	203,5	140,7	180,4

Source: Eurostat database, Annual Government Finance Statistics , KDZ own calculation

[1] Indices show nominal growth with 2004 = 100. For each country, the Local Government Expenditure index is calculated as (expenditure year t / expenditure 2004) × 100 for 2004–2014 and 2004–2024; the GDP index is calculated analogously (GDP year t / GDP 2004) × 100. Values in "Mio Euro" are in current prices (not inflation-adjusted).

The spread across countries is wide. For local government expenditure, the 2004–2024 index ranges from a low of 63.7 in Ireland to a high of 781.8 in Romania. GDP growth indices also vary substantially, from 125.3 in Greece up to 585.5 in Romania.

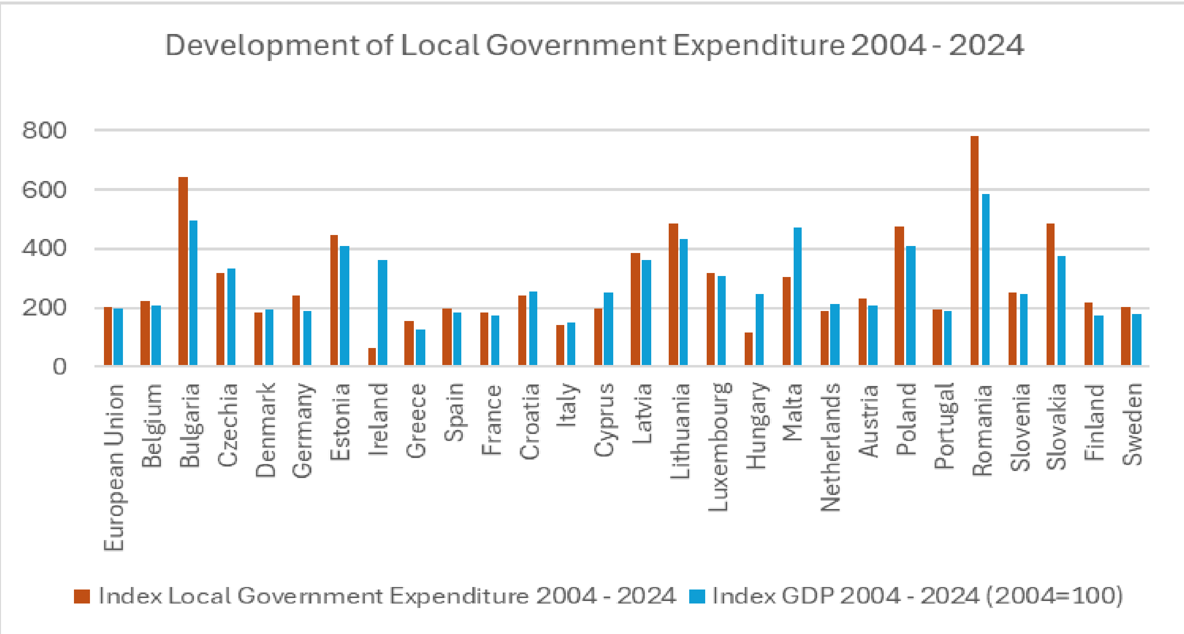
One similarity that stands out is the concentration of very high growth rates in Central and Eastern European countries, which joined the EU during the period. Here GDP and local government expenditure expanded strongly from comparatively lower starting levels in 2004 (e.g. Romania and Bulgaria). Poland, Lithuania and Slovakia also combine strong GDP growth with even stronger local expenditure growth, for example Poland at 473.9 versus 409.8 and Slovakia at 483.1 versus 376.1. Estonia follows the same broad pattern. Taken together, these cases suggest a recurring "catch-up" profile in which fast-growing economies also show a pronounced scaling-up of local public spending.

At the same time, the table shows countries where GDP and local government expenditure move in a more parallel way, meaning the gap between the two indices is relatively small. Czechia is close to this "similar growth" profile, with 317.9 for local expenditure and 331.3 for GDP. Croatia also shows broadly aligned growth.

The pattern is also clearly not universal: Denmark is an example where GDP growth is higher than local government expenditure growth, with GDP at 193.4 and local expenditure at 182.1.

Ireland, Malta and Hungary form a cluster where GDP growth outpaces local government expenditure growth: Ireland shows a local expenditure index of 63.7 versus GDP at 360.2, Malta 304.2 versus 470.4, and Hungary 114.7 versus 245.9. These cases underline the importance of the national context and on how local responsibilities, funding models and economic structures evolved over time.

Figure 3: Development of local government expenditure and GDP 2004 - 2024



Source: Eurostat database, Annual Government Finance Statistics , KDZ own calculation

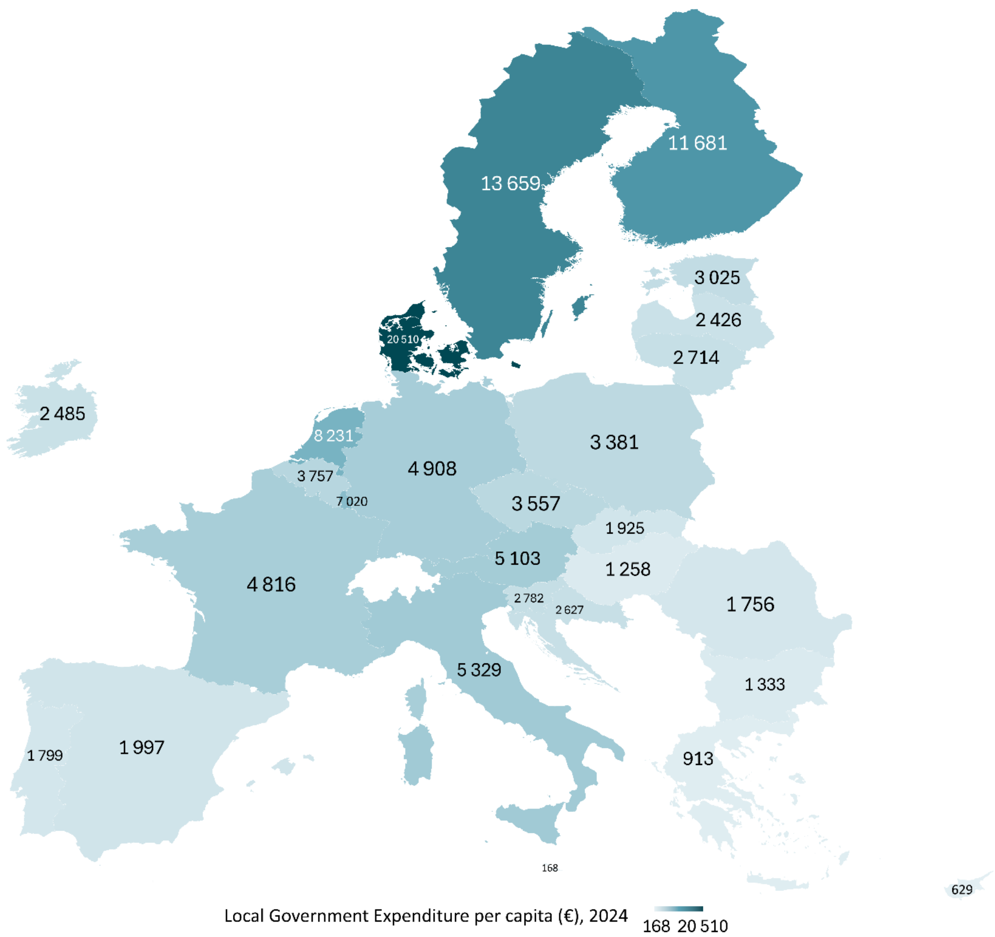
Overall, the similarities across the dataset point to two broad clusters: a group of predominantly Central and Eastern European countries where both GDP and local expenditure grew rapidly and local expenditure often grew even faster, and a group of mostly other Member States where growth is more moderate and the relative position of local expenditure vis-à-vis GDP varies, with many still showing local expenditure ahead.

3.2 Local government budgets in the European Union

In 2024, local governments across the EU spent an average of € 4,437 per resident. The Nordic countries stand out clearly, recording by far the highest levels of local government expenditure per capita, with Denmark leading with € 20,510, followed by Sweden (€ 13,659), and Finland (€ 11,681). These figures mirror the extensive responsibilities assigned to municipalities, especially in welfare and social services. At the other end of the spectrum, Southern and Eastern European countries spend far less per resident than the EU average. Malta recorded a local government expenditure of € 168 per person, followed by Cyprus at € 629, and Greece at € 913, indicating a more limited role and financial capacity of local governments in these contexts.

Figure 3 shows the average amount spent by local governments per resident in EU countries in 2024.

Figure 4: Local Government Expenditure per capita in 2024 in Europe (EU27)



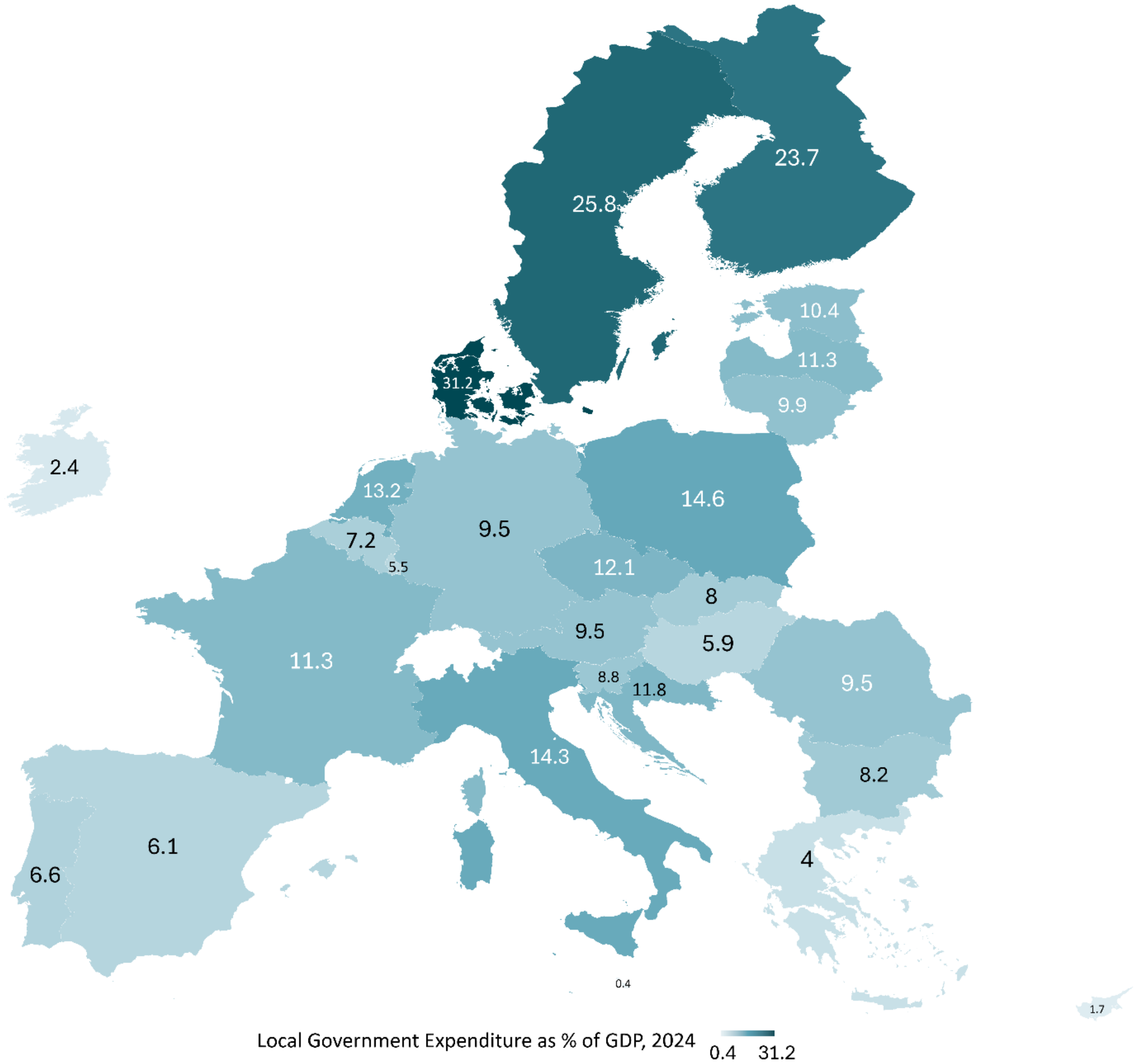
Source: Eurostat database, Annual Government Finance Statistics , KDZ own calculation

3.3 Local government expenditures as share of GDP

Local government expenditure as a share of GDP (Gross Domestic Product) indicates how much of a country's overall economic output is channeled through the local tier. In line with the per capita results, the 2024 data show a clear North-South and West-East divide. Denmark records the highest local expenditure at 31.2 % of GDP, followed by Sweden (25.8 %), and Finland (23.7 %), ranking well above the European average of 10.5%. These levels suggest extensive municipal responsibilities in key policy fields such as education, healthcare, social services, and infrastructure.

At the other end of the spectrum, Southern and Eastern European countries show markedly lower local expenditure relative to GDP. Malta (0.4 %), Cyprus (1.7 %), and Greece (4 %) illustrate systems in which local governments command a comparatively small share of national economic resources. This suggests that many public functions remain concentrated at central or regional levels.

Figure 5: Local government expenditure as % of GDP in 2024 in Europe (EU27)



Source: Eurostat database, Annual Government Finance Statistics

3.4 Local government expenditure over time, 2015–2024

The time-series data indicate that 17 out of 27 countries recorded an increase in local government expenditure as a share of GDP between 2015 and 2024, while 10 countries experienced a decline. This points to a broadly stable or light expansionary development of the local government expenditures in Europe.

Table 3: Local government expenditure as % of GDP over time: 2015 – 2024

Country	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Difference in percentage points (2015 - 2024)
Belgium	7	7	7	7.2	7	7.3	7	6.9	7	7.2	0.2
Bulgaria	10.3	6.3	7	7.3	7.4	7.1	8.1	7.3	7.8	8.2	-2.1
Czechia	11.1	10	10.4	11.4	11.3	12.4	12.1	11.9	12.2	12.1	1.0
Denmark	34.9	34.3	33.6	33.3	33.1	34.5	33.2	30.1	31.5	31.2	-3.7
Germany	7.9	8.1	8	8.2	8.3	8.9	8.7	8.7	9	9.5	1.6
Estonia	9.2	9	9.4	9.4	10	10.4	10.2	9.7	10.5	10.4	1.2
Ireland	2	2.1	2	2.2	2.3	2.4	2.1	2	2.3	2.4	0.4
Greece	3.5	3.5	3.5	3.7	3.3	3.9	3.9	3.9	4.2	4	0.5
Spain	6	5.8	5.8	5.8	6	6.4	6.4	6.6	6.4	6.1	0.1
France	11.2	11	10.9	10.9	11	11.5	11.1	11.1	11.2	11.3	0.1
Croatia	11.9	11.4	11.4	12.2	12.7	14.2	13.1	11.9	12.7	11.8	-0.1
Italy	14.6	14.2	13.8	13.8	13.8	15.4	14.7	14	13.9	14.3	-0.3
Cyprus	2	1.8	1.7	1.7	1.8	1.9	1.9	1.6	1.8	1.7	-0.3
Latvia	10.4	10.5	11.4	11.8	11.2	11.5	11.3	10.9	10.8	11.3	0.9
Lithuania	7.9	7.8	7.7	8	8.4	9.6	9	8.9	9.2	9.9	2.0
Luxembourg	4.3	4.6	4.6	4.8	4.9	4.9	4.7	5.1	5.5	5.5	1.2
Hungary	7.8	5.9	6.2	6.4	6.7	6.4	6	5.9	6.1	5.9	-1.9
Malta	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5	0.4	-0.1
Netherlands	13.8	13.4	13	12.8	12.7	13.7	13	12.5	13.1	13.2	-0.6
Austria	8.7	8.5	8.5	8.4	8.5	9	9	8.9	9.2	9.5	0.8
Poland	12.9	12.9	13.3	14.1	14.2	14.7	14	13.6	13.8	14.6	1.7
Portugal	5.9	5.7	5.9	5.8	5.8	6.7	6.9	6.4	6.5	6.6	0.7
Romania	9.9	9.2	8.9	8	8.5	9.5	9	8.7	9.3	9.5	-0.4
Slovenia	9	8.3	8.3	8.5	8.4	8.9	9	9	8.9	8.8	-0.2
Slovakia	7.3	6.6	6.9	7.1	7.4	7.6	7.5	8	8.5	8	0.7
Finland	22	21.5	20.7	20.8	21.1	22.1	22	21.4	23.3	23.7	1.7
Sweden	25	25.6	25.7	26	25.6	26.3	25.2	24.4	25.5	25.8	0.8

Source: Eurostat database, Annual Government Finance Statistics, own calculations

Among the countries with an overall increase in local government expenditure as a share of GDP, a small group stands out with comparatively strong gains over the period 2015–2024. Lithuania (+2.0 percentage points), Poland (+1.7 pp), Finland (+1.7 pp), Germany (+1.6 pp), Estonia (+1.2 pp) and Luxembourg (+1.2 pp) show the largest positive changes. In these cases, the local tier now commands a visibly higher share of national economic output than it did nine years ago. Looking more closely at the trajectories over time, two types of "increase patterns" can be distinguished.

First, progressive and relatively stable increases without major interruptions or reversals are visible in Germany, Estonia, Greece, Poland, Lithuania, and Luxembourg. This suggests that local governments have been gaining fiscal weight step by step, mostly because they have taken on additional responsibilities (for example in social services, education or infrastructure).

Second, there are countries where local government expenditure also increased, but in a less linear and more fluctuating way. Czechia, Latvia, Portugal, Finland and Sweden fall into this category. In several of these countries, noticeable peaks occur around 2020–2021, followed by slight reductions. It is plausible that these fluctuations are linked to the COVID-19 pandemic, when central governments mobilised large support packages and local authorities had to finance additional health, social and economic measures.

On the other side of the spectrum, ten countries recorded a decline in local government expenditure as a share of GDP. Denmark (-3.7 pp), Bulgaria (-2.1 pp) and Hungary (-1.9 pp) show the most pronounced reductions. These declines need to be interpreted with care: Denmark, for instance, still remains one of the most decentralised systems in Europe in fiscal terms, with local expenditure amounting to 31.2% of GDP in 2024.

Taken together, the data show that while around two-thirds of the countries experienced some increase in local government expenditure as a percentage of GDP, only a subset follows a clear, steady upward path. The rest display shorter-term fluctuations around a broadly stable level. A similar differentiation is visible among the countries with decreasing shares: some exhibit a continuous downward trend, others only marginal or temporary reductions.

3.5 Local governments' share in public expenditure

The share of local government expenditure within total general government[2] spending helps to assess the relative weight of municipalities within the overall system of public finances. The EU-27 average amounts to around 22% of total general government spending.

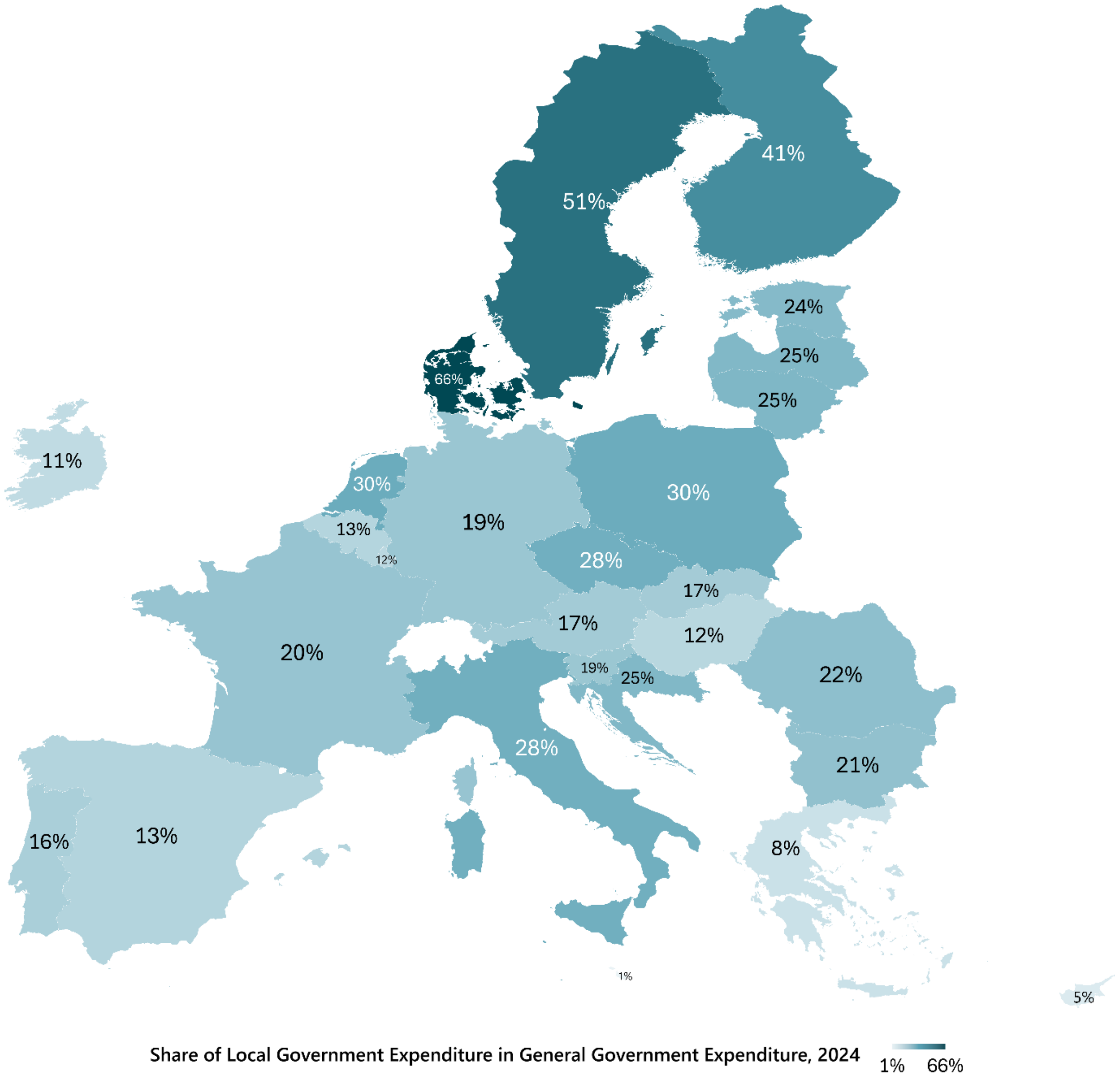
Despite a gradual decline in recent years, Denmark still exhibits the highest degree of fiscal decentralisation: local governments are responsible for around 66% of total general government expenditure. Sweden (51%), and Finland (41%) also allocate a substantial share of public spending to the local tier, reflecting extensive municipal responsibilities, particularly in welfare, education, care and local infrastructure. In much of the rest of Europe, local governments manage a more limited, though still significant, proportion of public budgets.

In Czechia, local spending represents 28% of total public expenditure, while in France (20%), Germany (19%) and Austria (17%) the local tier plays an important, but not dominant, fiscal role alongside strong central or regional levels.

At the lower end of the spectrum, Southern European countries such as Malta (1%), Cyprus (5%) and Greece (8%) record the smallest local shares, indicating systems in which most public resources are controlled by central government and where municipalities exercise relatively narrow spending and policy responsibilities.

[2] General government in this context includes all levels of the public sector: central (or federal) government, state or regional governments where they exist, local governments (municipalities and similar entities), and social security funds.

Figure 6: Share of local government expenditure in general government expenditure in Europe (EU27), 2024



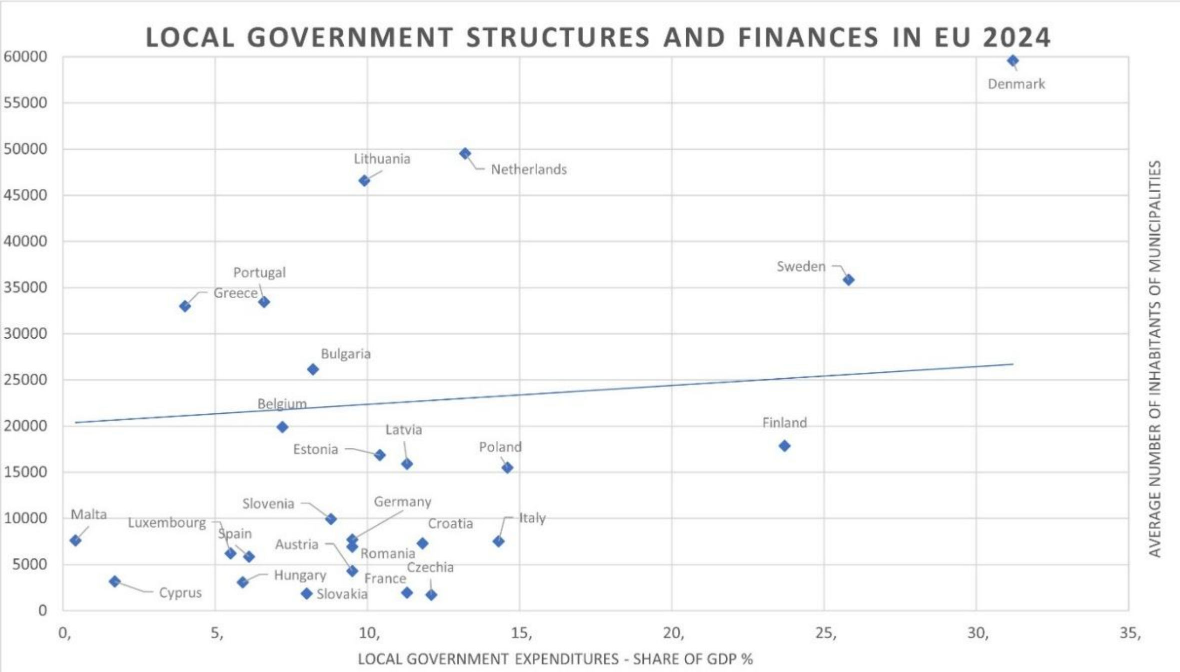
Source: Eurostat database, Annual Government Finance Statistics

3.6 Municipal size and local finances

The following figure puts local government expenditure (as a share of GDP) into a structural context by relating it to the average size of municipalities. Most Member States concentrate in a broad "middle zone", where local expenditure is typically in the mid-range (around 8–15% of GDP) while average municipal size is often medium (roughly in the range of several thousand to around 15,000 inhabitants)[3].

[3] When interpreting these patterns, it is important to recognise a comparability issue in Eurostat's general government accounts: Eurostat reports expenditures by government subsectors (central, state/regional, local, social security funds), but in countries where a separate "state/regional" tier is not reported, expenditures of intermediate/provincial or regional entities may be recorded under either central or local government. A distinct state subsector just occurs in the federal countries countries (Austria, Germany, Spain and Belgium).

Figure 7: Municipal size and local government expenditure share of GDP



Source: Eurostat, Main national accounts tax aggregates, Annual Government Finance Statistics 2024, OECD/UCLG 2022 Country Profiles of the World Observatory on Subnational Government Finance and Investment. KDZ own calculation

The Nordic cases clearly separate from the rest with exceptionally high local expenditure shares alongside relatively large municipalities, indicating a structurally different model in which the local tier carries a very large service portfolio.

The figure confirms no correlation between size and spending. This implies that spending levels are driven more by task allocation within multi-level governance than by municipal size alone. Nevertheless, an average “middle zone” is visible with local expenditure around 8–15% of GDP and a medium municipal size from several thousand to around 15,000 inhabitants).

4 Local Government Revenues

The previous chapters assessed local government expenditures from different angles and showed what local governments do and how much fiscal weight they carry in delivering public services. The following chapter focus on “how local governments finance these responsibilities”.

4.1 Local government revenues - overview

At the EU-27 aggregate level, local government revenues reach €1,985,211.5 million in 2024, up from €981,571.9 million in 2004. This corresponds to an index of 202.2 (2004=100), while the EU-27 GDP index increases to 195.9. Therefore revenues at EU level roughly doubled over the period and, in index terms, increased slightly faster than GDP.

Across the EU, revenue trends broadly follow the same country groupings as described in the section “Local government expenditures – overview”: A clear “catch-up” cluster emerges in

Central and Eastern Europe and the Baltics, where revenues expand very strongly alongside rapid GDP growth, notably in Romania, Bulgaria, Poland, Slovakia, Lithuania, Latvia and Estonia.

Table 4: Local government revenues 2004 – 2024 versus GDP

Mio Euro/ Index	Local Government Revenues in Mio Euro			Development of Local Government Revenues Index		Development of GDP	
Country	2004	2014	2024	2004-2014	2004-2024	2004-2014	2004-2024
European Union - 27	981 572	1 331 387	1 985 212	135,6	202,2	129,1	195,9
Belgium	20 383	28 798	43 299	141,3	212,4	136,4	209,0
Bulgaria	1 403	3 814	8 158	271,9	581,5	204,0	496,7
Czechia	12 163	18 233	41 146	149,9	338,3	164,2	331,3
Denmark	67 398	94 518	123 297	140,2	182,9	130,9	193,4
Germany	161 374	233 017	388 624	144,4	240,8	130,2	188,8
Estonia	869	1 829	3 998	210,5	460,0	208,2	407,5
Ireland	20 979	5 149	11 104	24,5	52,9	128,4	360,2
Greece	5 966	6 473	9 526	108,5	159,7	93,2	125,3
Spain	49 396	68 321	104 180	138,3	210,9	120,8	185,4
France	175 032	244 186	313 022	139,5	178,8	127,0	172,2
Croatia	4 103	5 614	10 400	136,8	253,5	131,0	254,1
Italy	206 973	242 889	316 068	117,4	152,7	112,2	150,9
Cyprus	308	375	599	121,9	194,4	125,4	249,5
Latvia	1 139	2 467	4 615	216,7	405,3	202,9	359,4
Lithuania	1 638	2 946	7 817	179,8	477,2	198,8	431,4
Luxembourg	1 467	2 486	4 781	169,5	326,0	183,7	305,7
Hungary	10 275	9 705	10 913	94,5	106,2	126,9	245,9
Malta	32	53	91	167,5	288,3	182,0	470,4
Netherlands	76 829	89 095	143 968	116,0	187,4	127,7	211,2
Austria	19 860	28 495	43 733	143,5	220,2	137,2	205,4
Poland	26 441	54 281	127 084	205,3	480,6	197,4	409,8
Portugal	9 277	11 053	19 401	119,1	209,1	113,8	190,1
Romania	4 163	14 664	31 593	352,2	758,9	249,2	585,5
Slovenia	2 327	3 639	5 670	156,4	243,7	135,6	245,3
Slovakia	2 328	5 028	10 340	216,0	444,1	221,1	376,1
Finland	28 582	46 542	62 665	162,8	219,2	129,7	173,9
Sweden	70 869	107 716	139 123	152,0	196,3	140,7	180,4

Source: Eurostat database, Annual Government Finance Statistics , KDZ own calculation

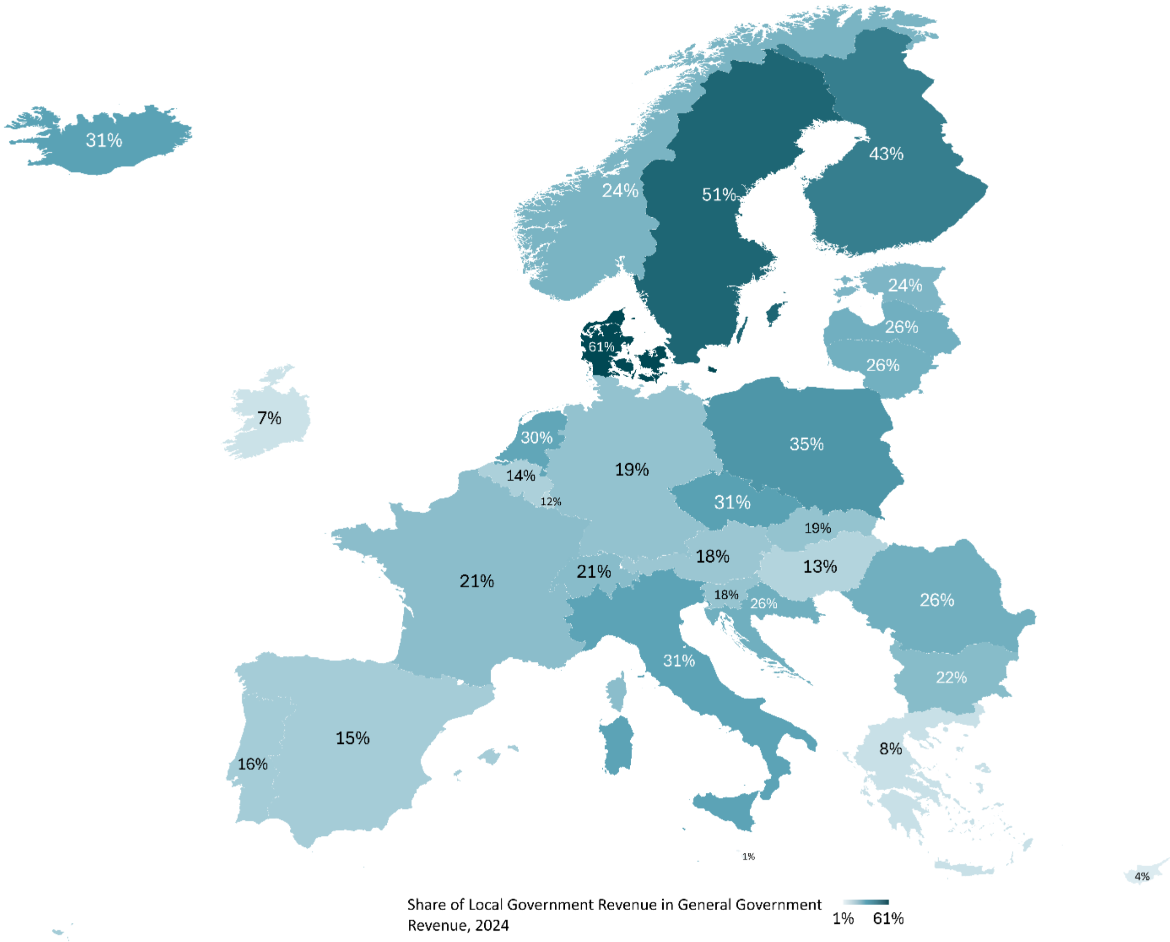
In contrast, a small group stands out where GDP growth clearly outpaces local revenue growth: Ireland, Malta and Hungary showing that strong macroeconomic expansion does not necessarily translate into a comparable scaling-up of local fiscal capacity.

Finally, several countries display more “near-parallel” development where revenue growth broadly tracks GDP over time, such as Denmark, Germany, the Netherlands, Belgium, France, Italy and Spain.

4.2 Local governments revenues share in public revenues

Revenue shares provide a proxy for fiscal autonomy and accountability. Where local revenues represent a large proportion of public revenues, municipalities typically have more discretion and stronger incentives to link local priorities to local financing. Where the share is low, local policy space is often constrained by dependence on national decisions and grant systems.

Figure 8: Share of Local Government Revenue in General Government Revenue 2024, EU



Source: Eurostat database, Annual Government Finance Statistics , KDZ own calculation

The figure shows that Europe does not follow a single model of local finance. Some countries allocate a substantial part of public revenues to the local tier, while others keep most revenue capacity at central (or regional) level.

The Nordic countries stand out. Denmark, where local governments account for 61% of general government revenue, being well above the European average (23%). Sweden (51%) and Finland (43%) follow the same pattern. This reflects a long-established system in which municipalities are trusted with major responsibilities and have real revenue-raising power. Local government in these countries is not just about implementation, they represent a core level of the state.

At the other end of the scale, local government plays a much more limited fiscal role. Greece (8%), Ireland (7%), Malta (1%), Cyprus (4%), and Portugal (15%) show low shares. This suggests a highly centralised approach to public finance, where key revenue streams remain firmly under national control. In practice, this often means that local authorities depend heavily on transfers and have little room to adapt spending to local needs, even when they are responsible for delivering services.

Between these two poles, most European countries fall into a broad middle range: France (21%) and Germany (19%) both have relatively modest local revenue shares. In Germany, Belgium, Spain and Austria´s the strong roles of the federal states are reflected rather than weak decentralisation overall. Italy (31%) and Poland (35%) show more substantial local revenue shares, indicating a greater, though still limited, degree of fiscal autonomy at municipal level.

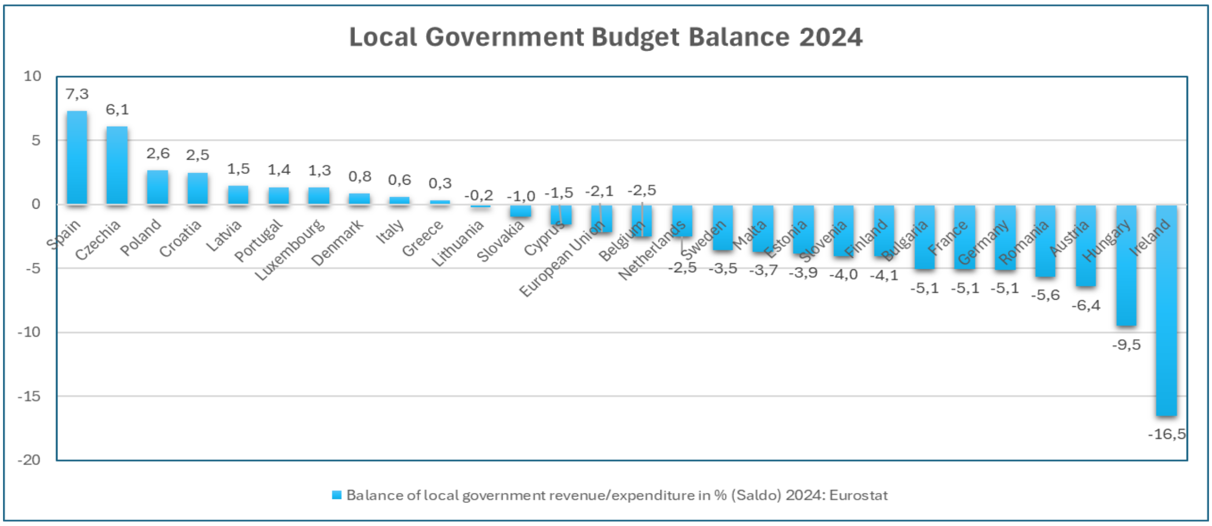
In Central and Eastern Europe, the picture is mixed. Some countries have moved towards stronger local financing, while others remain cautious. Values around 13 - 18% in countries such as Hungary, Slovakia, and Czechia suggest that decentralisation has progressed, but within tight fiscal limits.

From a governance perspective, the figure raise an important question. In countries where local governments control only a small share of public revenue, how much room do they really have to respond to local challenges, invest strategically, or innovate? This imbalance between responsibilities and resources remains one of the main structural issues in multi-level governance across Europe.

4.3 The gap between revenues and expenditures

In 2024, local governments in the EU-27 recorded an overall negative balance of −2.1%, meaning that expenditures exceeded revenues. Several countries show marked negative balances, most notably Ireland (−16.5%), Hungary (−9.5%), Austria (−6.4%), as well as Germany and France (each −5.1%). The overall picture is highly mixed. Alongside these negative balances, a number of countries report positive balances, for example Spain (+7.3%) and Czechia (+6.1%).

Figure 9: Local government budget balance 2024[4]



Source: Eurostat database, Annual Government Finance Statistics , KDZ own calculation

[4] The table expresses the revenue–expenditure balance for 2024, calculated as (LG Revenues 2024 − LG Expenditure 2024) / LG Expenditure 2024 × 100. Positive values indicate that revenues exceeded expenditures; negative values indicate that expenditures exceeded revenues.

The following table adds the indicator "Different development (Revenue/Expenditure)" between 2004 – 2024. Positive values indicate that revenues increased faster than expenditures over the period, while negative values indicate the opposite. At EU-27 level, both aggregates roughly doubled between 2004 and 2024 and remained largely in line. The revenue index reached 202.2 and the expenditure index 201.1, resulting in a slightly positive difference of +1.1.

Table 5: Development of local government revenues and expenditures 2004 - 2014[5]

	Local Government Revenues Mio Euro		Local Government Expendit. Mio Euro		Saldo LG Reven./ Expend.	Revenue Index	Expendit. Index	GDP Index	Different Develop-ment
Country	**2004 (Mio €)**	**2024 (Mio €)**	**2004 (Mio €)**	**2024 (Mio €)**	**2024 in %**	**2004 - 2024**	**2004 - 2024**	**2004 - 2024**	**Revenue/ Expendit.**
European Union - 27	981 572	1 985 212	1 008 677	2 028 444	-2,1	202,2	201,1	195,9	1,1
Belgium	20 383	43 299	20 226	44 397	-2,5	212,4	219,5	209,0	-7,1
Bulgaria	1 403	8 158	1 339	8 592	-5,1	581,5	641,6	496,7	-60,1
Czechia	12 163	41 146	12 197	38 778	6,1	338,3	317,9	331,3	20,3
Denmark	67 398	123 297	67 152	122 265	0,8	182,9	182,1	193,4	0,9
Germany	161 374	388 624	168 852	409 580	-5,1	240,8	242,6	188,8	-1,7
Estonia	869	3 998	931	4 159	-3,9	460,0	446,6	407,5	13,4
Ireland	20 979	11 104	20 862	13 299	-16,5	52,9	63,7	360,2	-10,8
Greece	5 966	9 526	6 226	9 495	0,3	159,7	152,5	125,3	7,2
Spain	49 396	104 180	49 284	97 105	7,3	210,9	197,0	185,4	13,9
France	175 032	313 022	178 002	329 747	-5,1	178,8	185,2	172,2	-6,4
Croatia	4 103	10 400	4 191	10 146	2,5	253,5	242,1	254,1	11,4
Italy	206 973	316 068	220 195	314 275	0,6	152,7	142,7	150,9	10,0
Cyprus	308	599	309	608	-1,5	194,4	196,7	249,5	-2,3
Latvia	1 139	4 615	1 183	4 549	1,5	405,3	384,6	359,4	20,7
Lithuania	1 638	7 817	1 611	7 833	-0,2	477,2	486,1	431,4	-8,9
Luxembourg	1 467	4 781	1 495	4 718	1,3	326,0	315,5	305,7	10,5
Hungary	10 275	10 913	10 510	12 059	-9,5	106,2	114,7	245,9	-8,5
Malta	32	91	31	95	-3,7	288,3	304,2	470,4	-15,8
Netherlands	76 829	143 968	78 598	147 682	-2,5	187,4	187,9	211,2	-0,5
Austria	19 860	43 733	20 076	46 734	-6,4	220,2	232,8	205,4	-12,6
Poland	26 441	127 084	26 124	123 808	2,6	480,6	473,9	409,8	6,7
Portugal	9 277	19 401	9 802	19 142	1,4	209,1	195,3	190,1	13,8
Romania	4 163	31 593	4 283	33 480	-5,6	758,9	781,8	585,5	-22,9
Slovenia	2 327	5 670	2 351	5 909	-4,0	243,7	251,3	245,3	-7,6
Slovakia	2 328	10 340	2 161	10 442	-1,0	444,1	483,1	376,1	-38,9
Finland	28 582	62 665	29 813	65 311	-4,1	219,2	219,1	173,9	0,2
Sweden	70 869	139 123	70 873	144 237	-3,5	196,3	203,5	180,4	-7,2

Source: Eurostat database, Annual Government Finance Statistics, own calculations

[5] The indices use 2004 = 100. "Different development (Revenue/Expenditure)" is computed as Revenue Index (2004–2024) − Expenditure Index (2004–2024). The revenue and expenditure indices themselves are calculated as (value in year t / value in 2004) × 100.

A first cluster consists of countries with negative values in "Different development (Revenue/Expenditure)", revealing a situation where expenditure pressures and/or responsibilities at local level expanded faster than the revenue base. The largest negative gap is observed in Bulgaria (-60.1), followed by Slovakia (-38.9) and Romania (-22.9), indicating particularly strong expenditure dynamics relative to revenue growth in these systems. A broader subgroup with clearly negative gaps (roughly ≤ -6) includes Malta (-15.8), Austria (-12.6), Ireland (-10.8), Lithuania (-8.9), Hungary (-8.5), Slovenia (-7.6), Sweden (-7.2), Belgium (-7.1) and France (-6.4). In these countries, the indicator

By contrast, positive values indicate that revenues grew faster than expenditures over 2004–2024. This group includes Czechia (20.3), Latvia (20.7), Estonia (13.4), Spain (13.9), Portugal (13.8), Croatia (11.4), Italy (10.0), Luxembourg (10.5), Greece (7.2), and Poland (6.7), while the EU-27 aggregate is marginally positive at +1.1. Several Central/Eastern and Baltic countries belong to this positive group.

The table also helps to identify cases where macroeconomic expansion is not matched by a comparable scaling-up of local budgets. In those countries GDP growth is higher than both the local revenue and the local expenditure index. This is particularly pronounced in Ireland (GDP 360.2 versus revenue 52.9 and expenditure 63.7), and also visible in Malta (GDP 470.4 versus revenue 288.3 and expenditure 304.2) and Hungary (GDP 245.9 versus revenue 106.2 and expenditure 114.7).

More moderately, Denmark and the Netherlands also show GDP slightly ahead of both local aggregates (Denmark: GDP 193.4 versus revenue 182.9 and expenditure 182.1; Netherlands: GDP 211.2 versus revenue 187.4 and expenditure 187.9).

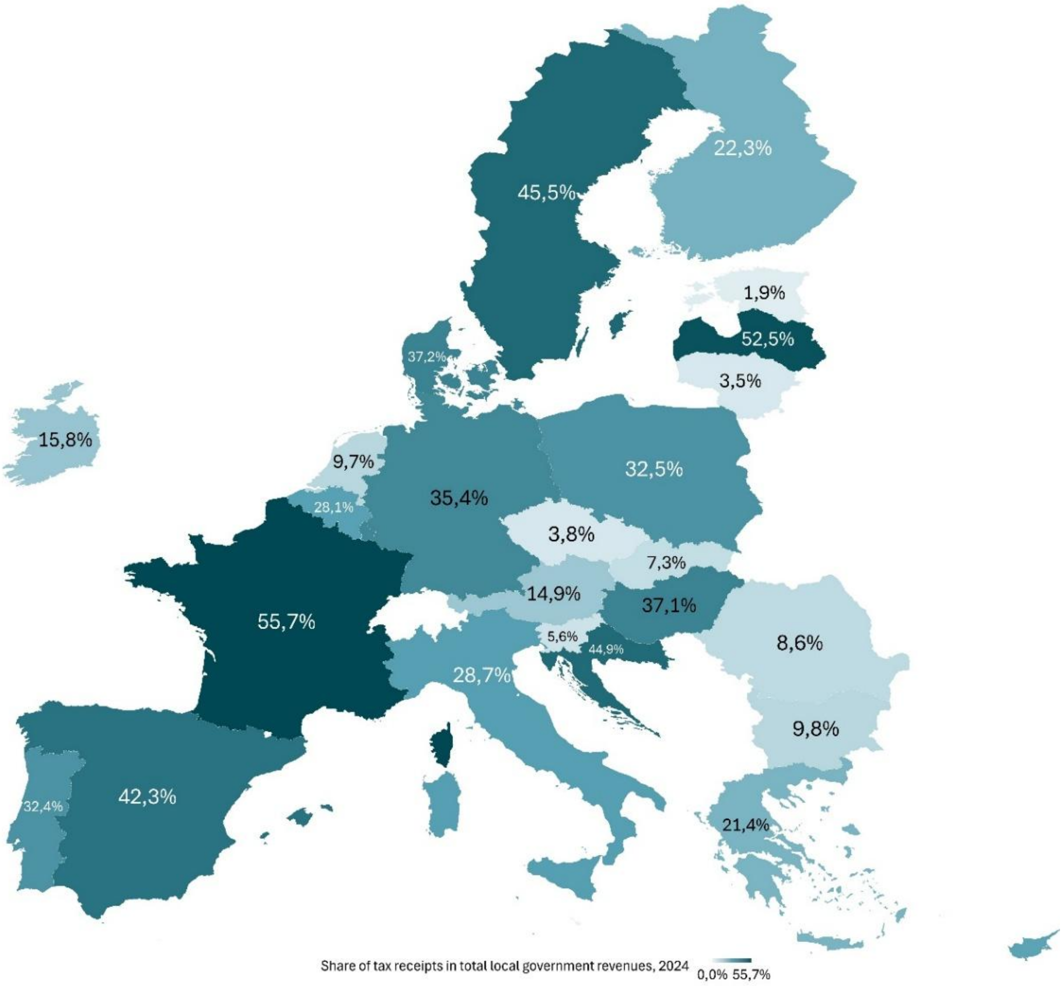
5 Local Government Taxes

This chapter examines the share of tax revenues in local government income, which shows how far local budgets are financed by taxes rather than grants, shared revenues, fees, or other sources. A higher tax share is a useful proxy for fiscal autonomy and accountability, reflecting a stronger own-source base and a clearer link between local policy choices and financing. A lower tax share signals greater dependence on transfers and shared resources, typically reducing room for manoeuvre and increasing sensitivity to national rules and allocation decisions.

The figure shows the share of tax receipts in total local government revenues (2024). Eurostat total tax receipts typically comprise the own source revenues of taxes excluding shared taxes. The wide range goes from below 5% in some countries to more than 50% in others, while the calculated EU-average is 25 percent. This confirms that local taxation plays very different roles across Europe.

A first group stands out with very high reliance on local taxes. France (55.7%) records the highest share, followed by Latvia (52.5%). Several other countries also show tax shares above 40%, including Sweden (45.5%), Croatia (44.9%), and Spain (42.3%).

Figure 10: Share of tax receipts in total local government revenues in EU, 2024



Source: Eurostat database, Main national accounts tax aggregates, gov_10a_taxag, Total tax receipt, KDZ own calculation, 2024

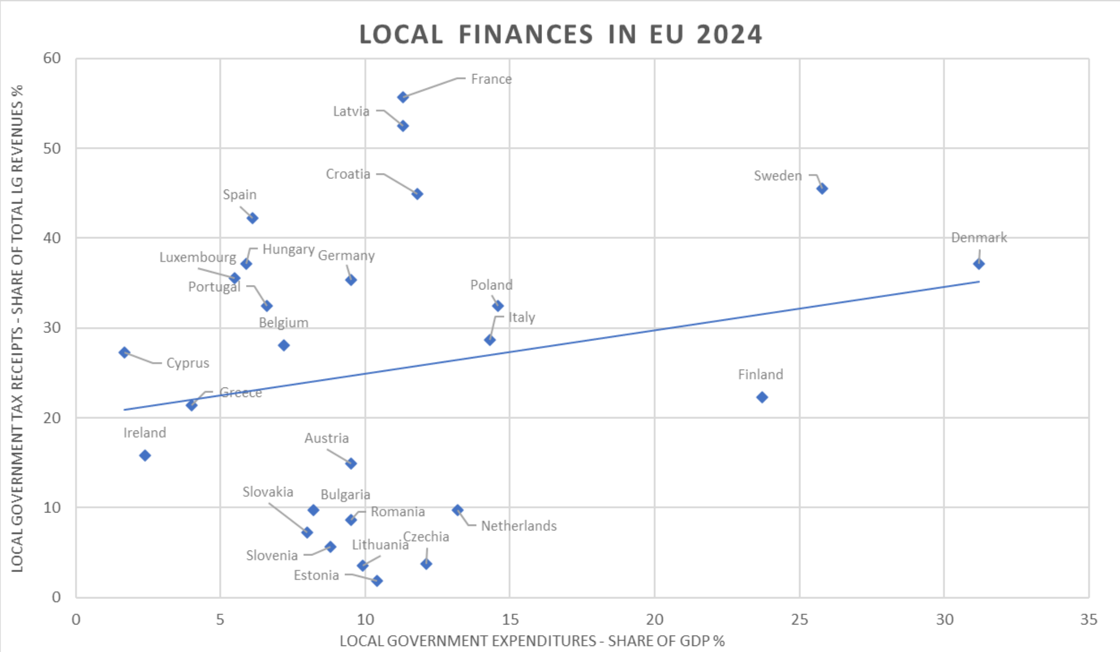
A broad upper-middle cluster combines substantial tax funding with other revenue sources. This includes Hungary (37.1%) and Denmark (37.2%), as well as Germany (35.4%), Poland (32.5%), and Portugal (32.4%). These countries rely on taxes to a significant extent, but local budgets still appear to be shaped by a mixed revenue model.

In a more moderate range, taxes finance around a quarter to a fifth of local revenues. For example Italy (28.7%), Belgium (28.1%), Finland (22.3%), and Greece (21.4%). Here, taxes are clearly relevant, but they are not the dominant revenue source.

At the lower end, local taxation plays a limited role. Ireland (15.8%) and Austria (14.9%) sit just below the mid-range, while Bulgaria (9.8%) and the Netherlands (9.7%) show single-digit shares. The lowest values are found in Romania (8.6%), Slovakia (7.3%), Slovenia (5.6%), Czechia (3.8%), Lithuania (3.5%), and Estonia (1.9%), pointing to systems where local revenues are primarily funded through transfers, shared revenues, or other non-tax sources.

5.1 Local expenditure and tax financing in 2024

Figure 11: Local tax receipts and local expenditures in EU, 2024



Source: Eurostat, Main national accounts tax aggregates, Annual Government Finance Statistics KDZ own calculation, 2024

The figure relates local government expenditure (as % of GDP) to the share of tax receipts in total local government revenues in 2024. It shows a general upward pattern: countries where local governments spend more tend to finance a larger share of their budgets through taxes. At the same time, dispersion is wide, indicating very different financing models. A notable feature is a cluster of Eastern European countries with relatively weak local fiscal autonomy, combining low local tax shares (around 3–15%) with local expenditure levels of roughly 8–12% of GDP (Estonia, Lithuania, Czechia, Slovenia, Slovakia, Bulgaria, Romania and Austria).

The Nordic countries illustrate a strong local model, with high expenditure shares and high tax reliance (notably Sweden and Denmark). France and Latvia stand out for very high tax shares despite only moderate expenditure levels, while the Netherlands is a clear outlier with relatively high local spending but very low tax financing, pointing to stronger dependence on transfers or shared revenues.

6 Local Government Debts

In 2024, total local government debt in the EU-27 amounts to €930,640.1 million. In nominal terms, this is higher than in 2021, when local government debt totalled €855,862.3 million. Despite this nominal increase, the debt-to-GDP ratio declined over the same period, indicating that GDP grew faster than local government debt and that local government indebtedness has therefore decreased in relative terms. With local government debt accounting for only 6.4% of total public debt, its share remains modest across the EU ranging from 0% in Malta to 42% in Sweden[6].

Across Member States, the 2024 debt-to-GDP ratio ranges from 0.0% in Malta to 14.3% in Sweden. The upper end is led by the Nordic countries, with Sweden and Finland (13.8%) clearly at the top, and Denmark (10.0%) still in a high range compared with most other countries. Among large Western European systems, France also stands out with 9.1% in 2024, the Netherlands and Austria both stand at 4.8% of GDP.

The Nordic profile combines high debt ratios with diverging trends: Sweden increases 2021-2024 by +1.2 pp and Finland by +0.7 pp, while Denmark declines by −1.1 pp.

For Central and Eastern European EU countries, the debt ratios in 2024 are generally much lower than in the Nordics. Within this group, the range runs from around 0.5% (Hungary) up to about 5.7% (Latvia), with countries like Bulgaria and Lithuania at 0.8%, Croatia at 1.3%, Poland at 3.4%, and Estonia at 3.9%.

Table 6: Local Government Debt 2021 - 2024

Mio Euro	Local Gov. Debt	General Gov. Debt	% Debt of Local/General Gov.	% of GDP	% of GDP	%-points change GDP
Country	**2024**	**2024**	**2024**	**2021**	**2024**	**2021-2024**
European Union - 27	930 640	14 546 564	6,4	5,8	5,2	-0,6
Belgium	26 936	644 398	4,2	4,7	4,3	-0,4
Bulgaria	887	24 977	3,6	1,0	0,8	-0,2
Czechia	3 296	138 514	2,4	1,4	1,0	-0,4
Denmark	39 408	119 871	32,9	11,1	10,0	-1,1
Germany	196 494	2 693 780	7,3	4,5	4,5	0,0
Estonia	1 563	9 353	16,7	3,5	3,9	0,4
Ireland	11 935	215 380	5,5	1,7	2,1	0,4
Greece	1 106	364 965	0,3	0,6	0,5	-0,1
Spain	22 855	1 620 573	1,4	1,8	1,4	-0,4
France	264 464	3 305 262	8,0	9,8	9,1	-0,7
Croatia	1 145	49 284	2,3	2,6	1,3	-1,3
Italy	109 391	2 966 915	3,7	6,5	5,0	-1,5
Cyprus	529	21 823	2,4	2,5	1,5	-1,0
Latvia	2 293	18 802	12,2	7,0	5,7	-1,3
Lithuania	662	29 992	2,2	1,0	0,8	-0,2
Luxembourg	1 541	22 649	6,8	1,3	1,8	0,5

[6] Table 6 "Local Government Debt 2021–2024" provides the underlying detail by reporting local government debt levels in million euro and placing them in context through debt-to-GDP ratios for both 2024 and 2021, together with the resulting percentage-point change over the period. The "%-points change GDP 2021–2024" column shows that negative values indicate a decrease in the local government debt ratio between 2021 and 2024, while positive values indicate an increase, in each case measured in percentage points of GDP. The table also provides the figures for the general government debt and the share of local debt on general government debt.

Hungary	1 048	145 567	0,7	0,7	0,5	-0,2
Malta	2	10 647	0,0	0,0	0,0	0,0
Netherlands	53 895	491 055	11,0	6,4	4,8	-1,6
Austria	23 830	394 792	6,0	4,8	4,8	0,0
Poland	29 038	470 793	6,2	3,8	3,4	-0,4
Portugal	11 412	270 881	4,2	5,0	3,9	-1,1
Romania	5 404	193 959	2,8	1,6	1,5	-0,1
Slovenia	1 156	44 905	2,6	1,8	1,7	-0,1
Slovakia	2 636	77 735	3,4	2,2	2,0	-0,2
Finland	38 130	227 547	16,8	13,1	13,8	0,7
Sweden	79 587	189 536	42,0	13,1	14,3	1,2

Source: Eurostat database, Main national accounts tax aggregates, KDZ own calculation, 2024

In terms of changes from 2021 to 2024, the pattern is mixed but mostly downward: Latvia and Croatia fall by −1.3 pp, while Estonia is one of the few that rises (+0.4 pp).

In many countries reductions in debt-to-GDP ratios below −0.7 percentage points are observed in a broader set of Member States. The steepest declines are recorded in the Netherlands (−1.6 percentage points) and Italy (−1.5 percentage points), followed by Croatia (−1.3 percentage points) and Latvia (−1.3 percentage points). Further substantial decreases beyond the −0.7 threshold include Denmark (−1.1 percentage points), Portugal (−1.1 percentage points) and Cyprus (−1.0 percentage points).

7 Local Government Investments

For government, gross fixed capital formation (GFCF)[7] is a solid proxy for public investment, capturing the acquisition and major upgrading of long-lived assets that support service delivery (from transport and schools to utilities and digital infrastructure). Its distribution across government levels matters because it shows where investment responsibilities, project pipelines, procurement capacity, and implementation risks sit.

In the EU-27, general government investment amounts to €658.8 billion, while local government investment totals €281.9 billion. Local government accounts for 42.8% of general government investment in the EU, meaning that around two-fifths of public investment is implemented at local level.

Cross-country variation in the role of local government as public investor

The table shows a very wide dispersion across countries. The share of local government investment in total general government investment ranges from 2.5% in Malta to 56.9% in Finland, which is a spread of 54.4 percentage points. At the low end, Malta's 2.5% indicates an overwhelmingly centralised investment profile, while Cyprus (15.9%) and Hungary (18.4%) also display comparatively limited local investment roles.

[7] Gross fixed capital formation (GFCF) is the national-accounts concept used to measure investment in produced fixed assets that are used for more than one year, such as infrastructure, buildings, machinery and equipment.

At the opposite end of the distribution, several countries show local government as the primary public investor, with local shares at or above roughly one half of total public investment. Finland records the highest local share at 56.9%. Italy (54.3%) and France (53.5%) also belong to this group, alongside the Netherlands (51.5%), Romania (50.9%) and Sweden (50.5%).

In these cases, local government is not merely a co-investor but effectively the main locus of public capital formation, implying that national goals for the green and digital transitions, social infrastructure and place-based development depend heavily on local fiscal space, co-financing conditions and administrative capacity.

Table 7: Gross fixed capital formation of Local Governments in the EU

Gross fixed capital formation (Investment)	General Government Mio Euro	Local Government Mio Euro	% of Local Government in General Gov.	Share of LG Investment of GDP (%)	Share of LG Investment of GDP (%)	Development of LG Investment (%-points)
Country	2024	2024	2024	2014	2024	2014 - 2014
European Union - 27	658 795	281 948	42,8	1,4	1,6	0,2
Belgium	19 266	5 154	26,8	0,7	0,8	0,1
Bulgaria	3 311	1 490	45,0	3,1	1,4	-1,7
Czechia	14 990	6 583	43,9	2,2	2,1	-0,1
Denmark	12 467	5 638	45,2	1,7	1,4	-0,3
Germany	132 292	45 906	34,7	0,8	1,1	0,3
Estonia	2 478	576	23,3	1,3	1,4	0,1
Ireland	14 613	4 561	31,2	0,4	0,8	0,4
Greece	8 612	3 349	38,9	0,7	1,4	0,7
Spain	43 485	10 801	24,8	0,5	0,7	0,2
France	126 997	67 944	53,5	2,1	2,3	0,2
Croatia	4 494	1 545	34,4	1,4	1,8	0,4
Italy	78 345	42 559	54,3	1,4	1,9	0,5
Cyprus	965	154	15,9	0,6	0,4	-0,2
Latvia	2 561	617	24,1	2,3	1,5	-0,8
Lithuania	3 327	982	29,5	1,2	1,2	0,0
Luxembourg	4 002	1 478	36,9	1,3	1,7	0,4
Hungary	8 763	1 615	18,4	1,9	0,8	-1,1
Malta	740	19	2,5	0,1	0,1	0,0
Netherlands	36 895	18 983	51,5	1,9	1,7	-0,2
Austria	19 420	5 575	28,7	0,9	1,1	0,2
Poland	40 952	17 515	42,8	2,5	2,1	-0,4
Portugal	7 874	3 196	40,6	0,9	1,1	0,2
Romania	20 744	10 550	50,9	2,3	3,0	0,7
Slovenia	3 462	1 267	36,6	2,7	1,9	-0,8
Slovakia	4 625	1 345	29,1	0,9	1,0	0,1
Finland	12 246	6 967	56,9	2,3	2,5	0,2
Sweden	30 871	15 583	50,5	2,4	2,8	0,4

Source: Eurostat database, Government revenue, expenditure and main aggregates, KDZ own calculation, 2024

The median local share is 36.6% in Slovenia, indicating that in the middle of the distribution local governments deliver around one third of public investment. Countries close to this midpoint include Luxembourg (36.9%), Germany (34.7%) and Croatia (34.4%), reflecting more balanced investment roles between levels of government.

In the lower-middle segment of the distribution from 20% up to the median the local level still plays a substantial investment role, but it is typically not the dominant public investor. This group includes countries such as Estonia (23.3%), Spain (24.8%), Latvia (24.1%), Belgium (26.8%) and Austria (28.7%), where local government contributes about a quarter of total public investment, as well as Lithuania (29.5%), Slovakia (29.1%) and Ireland (31.2%), which are closer to one third.

Local governments are increasingly driving public investment across Europe

At EU level, the average local government investments increases from 1.4% of GDP in 2014 to 1.6% in 2024, corresponding to a rise of 0.2 percentage points. This points to a modest strengthening of local investment effort relative to economic output, while at the same time masking substantial national variation.

In 2024, the dispersion across countries is very wide. Local government investment ranges from extremely low levels (0.1% of GDP in Malta and 0.4% in Cyprus) to high levels such as 3.0% in Romania and 2.8% in Sweden. Finland (2.5%) and France (2.3%) also stand out among the countries with high local investment intensity. The median value is 1.4% of GDP in 2024, with several countries clustering around this level.

Several countries record strong increases over the decade 2014-2024, including Greece and Romania (+0.7 percentage points) and Italy (+0.5), indicating a clear intensification of local investment relative to GDP. A second group shows moderate strengthening, such as Ireland, Croatia, Luxembourg and Sweden (each +0.4) as well as Germany (+0.3).

A smaller group shows marked declines, especially Bulgaria with 1.7 percentage points and Hungary with 1.1, followed by Latvia and Slovenia with 0.8 each. This may signal weaker local capital spending, GDP growth outpacing investment, a shift of responsibilities to higher levels, or more centrally managed programmes. By contrast, sustained increases point to a growing local role in capital intensive infrastructure and services, enabled by better funding access, co financing, or modernisation driven investment waves.

8 Local Government Functions

This chapter adds a qualitative perspective by examining what local governments spend on. For this purpose, it uses the COFOG (Classification of the Functions of Government), an international standard for classifying public expenditure. COFOG groups spending into comparable functional categories such as education, social protection, health, economic affairs, housing and community amenities, environmental protection, and other core policy areas. This functional breakdown helps to compare not only spending levels, but also the policy responsibilities assigned to local governments within different European governance models.

Table 8: Local government expenditure by function (COFOG) in the EU 2023

Country/ % of GDP	Total	General public services	De-fence	Public order and safety	Eco-nomic affairs	Environ-mental pro-tection	Housing and commu-nity amenities	Health	Recre-ation, culture and religion	Edu-cation	Social pro-tection
Belgium	7,1	1,4	0,0	0,8	0,7	0,4	0,2	0,0	0,7	1,4	1,5
Bulgaria	7,9	0,7	0,1	0,0	0,6	0,6	0,9	0,7	0,4	2,8	1,0
Czechia	12,2	1,2	0,0	0,2	2,1	0,7	0,7	1,8	0,8	3,6	1,0
Denmark	31,5	1,8	0,0	0,1	1,1	0,2	0,1	8,1	0,7	2,6	16,8
Germany	9,0	1,5	0,0	0,3	1,5	0,3	0,3	0,2	0,4	1,5	2,8
Estonia	10,5	0,6	0,0	0,0	1,5	0,4	0,4	1,6	0,9	4,1	0,9
Ireland	2,4	0,2	0,0	0,1	0,6	0,0	0,3	0,0	0,2	0,0	1,0
Greece	4,1	0,8	0,0	0,0	1,3	0,8	0,3	0,0	0,6	0,2	0,1
Spain	6,4	2,1	0,0	0,4	1,2	0,7	0,3	0,1	0,8	0,2	0,6
France	11,2	2,1	0,0	0,3	2,1	0,9	1,0	0,1	1,0	1,6	2,0
Croatia	12,7	1,1	0,0	0,2	2,0	0,3	0,8	2,9	0,9	3,8	0,7
Italy	13,7	2,2	0,0	0,2	1,7	0,8	0,4	6,4	0,3	1,0	0,7
Cyprus	1,7	0,4	0,0	0,0	0,0	0,5	0,7	0,0	0,1	0,0	0,0
Latvia	10,8	0,7	0,0	0,2	1,8	0,1	0,9	1,2	0,7	4,0	1,2
Lithuania	9,2	0,6	0,0	0,1	0,9	0,3	0,5	1,5	0,6	3,4	1,3
Luxembourg	5,4	1,2	0,0	0,1	0,8	0,6	0,3	0,0	0,8	0,7	0,8
Hungary	6,1	1,5	0,0	0,0	1,1	0,2	0,9	0,3	0,6	0,8	0,7
Malta	0,5	0,3	0,0	0,0	0,0	0,1	0,0	0,0	0,0	0,0	0,0
Netherlands	12,7	0,6	0,0	0,3	1,5	1,3	0,5	0,3	0,8	3,9	3,4
Austria	9,1	1,5	0,0	0,2	1,1	0,2	0,2	2,0	0,5	1,6	2,0
Poland	13,9	1,4	0,0	0,3	2,5	0,4	0,6	2,6	1,0	3,6	1,5
Portugal	6,5	1,8	:	0,1	1,0	0,4	0,5	0,4	0,5	0,9	0,7
Romania	9,3	1,2	0,0	0,1	2,2	0,5	1,0	1,7	0,7	0,7	1,2
Slovenia	8,9	0,8	0,0	0,1	1,1	0,3	0,4	1,2	0,8	3,1	1,0
Slovakia	8,6	1,3	0,0	0,1	1,4	0,4	0,5	0,3	0,5	3,3	0,8
Finland	23,3	2,2	0,0	0,2	1,8	0,1	0,2	6,3	1,2	4,4	6,8
Sweden	25,6	1,1	0,0	0,2	2,2	0,4	0,6	7,2	1,0	5,9	6,9
EU Average	**11,0**	**1,6**	**0,0**	**0,3**	**1,6**	**0,6**	**0,5**	**1,7**	**0,6**	**1,8**	**2,3**
EU Median	**9,1**	**1,2**	**0,**	**0,1**	**1,3**	**0,4**	**0,5**	**0,7**	**0,7**	**1,6**	**1,**
Highest Average+-20%	**Source:** Eurostat database, Annual Government Finance Statistics, own calculations										

The table shows that local government spending is concentrated primarily in social protection, education, and health, but the balance between these functions differs markedly across countries. The Nordic countries illustrate this diversity clearly. While Denmark combines very high local spending with a strong emphasis on social protection and health, Sweden displays a similarly strong local role spread across health, education, and social protection.

Education emerges as a central local responsibility in many countries, particularly in parts of Central and Eastern Europe, where it represents one of the largest components of municipal budgets. In comparison, health spending at local level is highly uneven across Europe. It is substantial in a small number of systems, mainly in Denmark, Sweden, Finland, and also Italy. In several other countries it remains marginal or close to zero, suggesting that health responsibilities are often organised at regional or central level rather than within municipalities.

Economic affairs also appears as a consistently relevant area of local spending, reflecting the role of local governments in infrastructure, transport, and local development.. Housing and community amenities as well as environmental protection are present in most countries, but they typically remain secondary compared to the major welfare-state functions.

8.1 The European mainstream model

Based on the patterns in Figure 7 (Municipal size and local government expenditure), countries can be grouped into a small set of typical configurations that link local government expenditure (% of GDP) with the average municipal size. The analysis distinguishes:

- (1) a European mainstream model (Medium-sized municipalities with mid-range expenditure),
- (2) a low-local-expenditure model (limited local role in GDP terms),
- (3) fragmented municipalities with medium expenditure,
- (4) consolidated municipalities with medium expenditure and
- (5) a high-local-expenditure model (Nordic-style cases),

The following table assigns local government functions to these clusters.

Table 9: Local government function (COFOG) by size and expenditure - Cluster

Country/ % of GDP	Total	General public services	De-fence	Public order and safety	Eco-nomic affairs	Environ-mental pro-tection	Housing and commu-nity amenities	Health	Recre-ation, culture and religion	Edu-cation	Social pro-tection
Cluster 1: European Mainstream Model (Medium-sized municipalities - mid-range local expenditure)											
Bulgaria	7,9	0,7	0,1	0,0	0,6	0,6	0,9	0,7	0,4	2,8	1,0
Croatia	12,7	1,1	0,0	0,2	2,0	0,3	0,8	2,9	0,9	3,8	0,7
Estonia	10,5	0,6	0,0	0,0	1,5	0,4	0,4	1,6	0,9	4,1	0,9
Germany	9,0	1,5	0,0	0,3	1,5	0,3	0,3	0,2	0,4	1,5	2,8
Italy	13,7	2,2	0,0	0,2	1,7	0,8	0,4	6,4	0,3	1,0	0,7
Latvia	10,8	0,7	0,0	0,2	1,8	0,1	0,9	1,2	0,7	4,0	1,2
Poland	13,9	1,4	0,0	0,3	2,5	0,4	0,6	2,6	1,0	3,6	1,5
Romania	9,3	1,2	0,0	0,1	2,2	0,5	1,0	1,7	0,7	0,7	1,2
Slovenia	8,9	0,8	0,0	0,1	1,1	0,3	0,4	1,2	0,8	3,1	1,0
Cluster 2: Low-local-expenditure model (limited local role) (Medium to large municipalities - low local expenditure shares -)											
Belgium	7,1	1,4	0,0	0,8	0,7	0,4	0,2	0,0	0,7	1,4	1,5
Cyprus	1,7	0,4	0,0	0,0	0,0	0,5	0,7	0,0	0,1	0,0	0,0
Greece	4,1	0,8	0,0	0,0	1,3	0,8	0,3	0,0	0,6	0,2	0,1
Hungary	6,1	1,5	0,0	0,0	1,1	0,2	0,9	0,3	0,6	0,8	0,7
Ireland	2,4	0,2	0,0	0,1	0,6	0,0	0,3	0,0	0,2	0,0	1,0
Luxembourg	5,4	1,2	0,0	0,1	0,8	0,6	0,3	0,0	0,8	0,7	0,8

Malta	0,5	0,3	0,0	0,0	0,0	0,1	0,0	0,0	0,0	0,0	0,0
Portugal	6,5	1,8	:	0,1	1,0	0,4	0,5	0,4	0,5	0,9	0,7
Spain	6,4	2,1	0,0	0,4	1,2	0,7	0,3	0,1	0,8	0,2	0,6
Cluster 3: Fragmented municipalities with medium expenditure											
Austria	9,1	1,5	0,0	0,2	1,1	0,2	0,2	2,0	0,5	1,6	2,0
Czechia	12,2	1,2	0,0	0,2	2,1	0,7	0,7	1,8	0,8	3,6	1,0
France	11,2	2,1	0,0	0,3	2,1	0,9	1,0	0,1	1,0	1,6	2,0
Slovakia	8,6	1,3	0,0	0,1	1,4	0,4	0,5	0,3	0,5	3,3	0,8
Cluster 4: Consolidated municipalities with medium expenditure											
Lithuania	9,2	0,6	0,0	0,1	0,9	0,3	0,5	1,5	0,6	3,4	1,3
Netherlands	12,7	0,6	0,0	0,3	1,5	1,3	0,5	0,3	0,8	3,9	3,4
Cluster 5: High-local-expenditure model (Nordic-style outliers) **(relatively large municipalities - high local expenditure)**											
Denmark	31,5	1,8	0,0	0,1	1,1	0,2	0,1	8,1	0,7	2,6	16,8
Finland	23,3	2,2	0,0	0,2	1,8	0,1	0,2	6,3	1,2	4,4	6,8
Sweden	25,6	1,1	0,0	0,2	2,2	0,4	0,6	7,2	1,0	5,9	6,9
Highest Average+-20%	**Source:** Eurostat database, Annual Government Finance Statistics, own calculations										

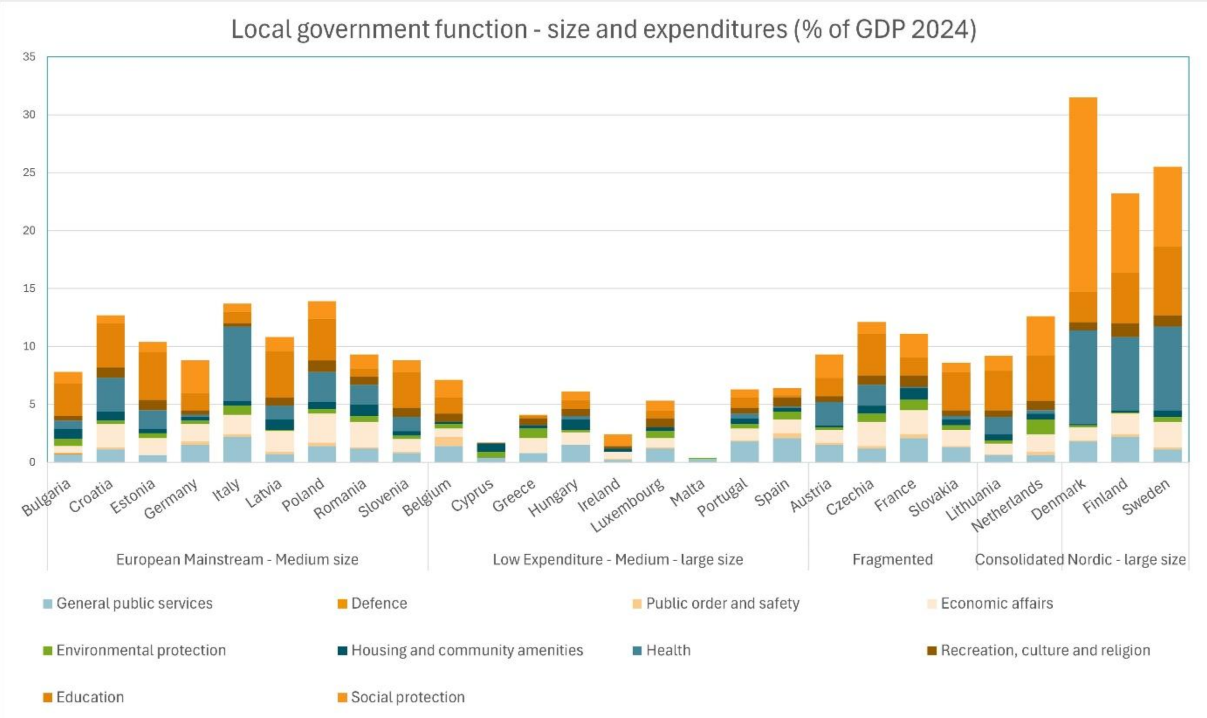
A limitation of this clustering is how Eurostat allocates expenditure across government subsectors. The state sector is only separately identified in the federal countries Austria, Germany, Spain and Belgium. In countries without this distinct tier, expenditures of intermediate or regional bodies may be recorded under either central or local government. This allocation issue could affect the interpretation of the clustering in the table: Cluster (1) “European mainstream” (medium-sized municipalities with mid-range expenditure) and Cluster (2) “low-local-expenditure” may be more closely related than they appear, if in some cases mainstream, locally relevant spending is located at the regional tier but shows up in Eurostat as local expenditure (or vice versa). This issue calls for future research and improved harmonisation in Eurostat reporting.

Cluster 1 - The “European mainstream” model

Most Member States concentrate around mid-range local expenditure shares (about 8–15% of GDP) combined with medium-sized municipalities (often roughly 7,000–16,000 inhabitants, though with a few larger cases). This group includes Germany (9.5%; 7,715), Romania (9.5%; 6,944), Slovenia (8.8%; 9,906), Estonia (10.4%; 16,849), Bulgaria (8.2%; 26,166), Poland (14.6%; 15,496), Croatia (11.8%; 7,292), Italy (14.3%; 7,535) — and Latvia (11.3%; 15,909).

Across this large group, education is the most consistently strong local function, often representing one of the biggest components of local spending. A second recurring feature is a clear “local development/service” profile, with economic affairs and housing/community amenities appearing in most cases as meaningful spending areas (e.g., economic affairs reaching 2.5 in Poland and 2.2 in Romania; housing/community amenities often around 0.4–1.0). By contrast, health is not a systematically local responsibility in this mainstream profile.

Figure 12: Local government functions



Source: Eurostat database, Annual Government Finance Statistics, own calculations

Cluster 2 - Low-local-expenditure model (limited local role)

At the lower end, some countries show low local expenditure shares even with medium to large municipalities, implying that key public functions and budgets sit mainly at central and/or regional/state levels. This includes the very low cases Malta (0.4%; 7,590), Cyprus (1.7%; 3,178), Ireland (2.4%; 161,097) and Greece (4.0%; 32,969), and at the lower-to-lower-middle range Luxembourg (5.5%; 6,199), Hungary (5.9%; 3,068), Spain (6.1%; 5,824), Portugal (6.6%; 33,436) and Belgium (7.2%; 19,890).

Here, local budgets concentrate more on general public services (administration) and on selected "place-based" functions such as economic affairs, housing/community amenities and environmental protection, while health and social protection are generally small or near-zero. Education is also comparatively limited in several cases (often below 1), reinforcing that major welfare functions and funding streams sit primarily above the local tier in these systems.

Cluster 3 - Fragmented municipalities with medium local expenditure

Czechia, Slovakia, France and also Austria form a coherent group characterised by comparatively small municipalities alongside a meaningful local spending role in the economy. Czechia (1,710 inhabitants on average) and France (1,928) combine very small municipal size with local expenditure levels of 12.1% and 11.3% of GDP respectively, while Slovakia (1,865) reaches 8.0%. Austria fits this pattern from a structural perspective as well: despite an average municipal size of only 4,313 inhabitants, local expenditure still accounts for 9.5% of GDP.

Despite looking "mainstream" in total local expenditure, these countries share a functional mix that often combines education and economic affairs as strong pillars (e.g., Czechia: education 3.6 and economic affairs 2.1). In addition, social protection is present but uneven (notably higher in Austria and France), and health is inconsistent across the group (higher in Austria and Czechia, very low in France).

Taken together, these countries may look "mainstream" in fiscal terms because their local expenditure shares (as % of GDP) fall largely within the common mid-range. Structurally, however, they clearly deviate from the European mainstream: very small average municipality size and strong fragmentation suggest limited economies of scale and often weaker administrative capacity at municipal level.

Cluster 4 - Consolidated municipalities with medium local expenditure

The Netherlands and Lithuania illustrate a different model in which very large municipalities coincide with medium local expenditure shares. Both countries have average municipal sizes close to 50,000 inhabitants (Netherlands 49,548; Lithuania 46,583) and record local expenditure levels of 13.2% and 9.9% of GDP respectively. Lithuania and the Netherlands share a profile where education is strong in both (Lithuania 3.4; Netherlands 3.9), while health remains comparatively limited. A second shared feature is that local spending combines "service" and "support" roles: economic affairs and housing/community amenities are visible, and social protection is more pronounced in the Netherlands (3.4) than in Lithuania (1.3).

Cluster 5 - High-local-expenditure model (Nordic-style outliers)

A distinct group combines high local expenditure shares with relatively large municipalities, indicating that local governments deliver an unusually broad service portfolio. The clearest cases are Denmark (31.2%; 59,591), Sweden (25.8%; 35,825) and Finland (23.7%; 17,851).

The functional pattern is a welfare-state local government. In all three countries, local spending is dominated by social protection and health, complemented by a strong education component (e.g., Denmark: health 8.1 and social protection 16.8; Sweden: health 7.2 and social protection 6.9; Finland: health 6.3 and social protection 6.8). This is a structurally different functional profile from most other Member States, because core welfare services are systematically embedded at municipal level, not only "added on" through specific programmes.

9 Summary and Conclusions

In 2024, total local government expenditure reaches €2,028.4 billion, against €1,985.2 billion in revenues. This is pointing to a structural pressure where revenues tend to lag behind expenditure growth over time. On average, local spending corresponds to 10.5% of GDP (about €4,437 per resident), with very large differences across Member States. Local debt totals €930.6 billion in 2024 (EU-27 5.8% of GDP) , while local governments also remain a key investment level: €281.9 billion in local investment, equal to 42.8% of total general government investment and 1.6% of GDP.

Across Member States, the dispersion is substantial. Local government expenditure ranges from 0.4% of GDP (Malta) to 31.2% (Denmark) with a median of 9.5%. Local government debt ranges from 0.0% of GDP (Malta) to 14.3% (Sweden) with a median of 2.1%. Local government investment intensity ranges from 0.1% of GDP (Malta) to 3.0% (Romania), with a median of 1.4%.

Expenditure: strong long-term growth, often outpacing GDP

Between 2004 and 2024, EU-27 local government expenditure almost doubled to €2,028.4bn in 2024, corresponding to an index of 201.1 (2004=100). Over the same period, the EU-27 GDP index is 195.9, meaning local expenditure grew slightly faster than GDP at aggregate level.

This "local expenditure outpaces GDP" pattern is widespread across Member States, though not universal. Germany (expenditure 242.6 vs GDP 188.8) and Austria (232.8 vs 205.4) illustrate the typical direction, while Denmark is a clear counterexample (GDP 193.4 vs expenditure 182.1).

A clear "high-local" model exists in the Nordics: Denmark (Local expenditure 31.2% of GDP), Sweden (25.8%), Finland (23.7%). They are all far above the EU average (10.5%), reflecting extensive municipal welfare responsibilities. At the low end, Malta (0.4% of GDP), Cyprus (1.7%), Greece (4%) show systems where most fiscal capacity and functions remain centralised or located at other tiers.

Over 2015–2024, local government expenditure as a share of GDP increased in 17 EU Member States, while 10 recorded a decline, pointing to an overall broadly stable but heterogeneous trajectory across Europe.

Revenues: the long-run "gap" is the core warning signal

In 2024, local governments in the EU-27 recorded an overall negative balance of −2.1%, meaning that expenditures exceeded revenues. In many Member States, local expenditure has grown faster than local revenues in the long run (2004 - 2024), creating structural fiscal pressure. At EU 27 level the balance is close to neutral, but a clear "pressure cluster" stands out where the gap is strongly negative, including Bulgaria (60.1), Slovakia (38.9), Romania (22.9), Austria (12.6), Ireland (10.8), Sweden (7.2), Belgium (7.1) and France (6.4). This is an early warning that financing models and expenditure dynamics are drifting out of alignment.

By contrast, several countries show the opposite pattern, with revenues increasing faster than expenditures, for example Czechia, Latvia, Estonia, Spain, Portugal, Italy, Poland.

Taxes: "spend more" often correlates with "tax more"

Local taxes underpin local autonomy by financing decisions with own-source revenue and strengthening accountability. In 2024 higher local expenditure tends to coincide with a higher share of local taxes in revenue but with wide dispersion. High local tax reliance is concentrated in a small set (e.g., France 55.7%, Latvia 52.5; also Sweden 45.5[8]).

Very low local tax shares (e.g., Netherlands 9.7% and several CEE countries even lower) signal heavy reliance on transfers and shared revenues, which typically reduces local fiscal flexibility. The Netherlands is explicitly described as an outlier: comparatively high local spending but very low tax financing.

Debt: nominally up since 2021, but debt-to-GDP mostly down

EU-27 local government debt increased in nominal terms to €930.6 billion in 2024, yet the debt ratio fell to 5.8% of GDP as GDP grew faster. Across Member States, debt levels remain highly

[8] Reading: In France 55.7% of local revenue comes from local taxes.

uneven, ranging from 0.0% of GDP (Malta) to 14.3% (Sweden), with the Nordics at the top and France also high (9.1%). The recent changes (2021- 2024) are asymmetric and showing only a few sizeable increases, notably Sweden (+1.2 percentage points) and Finland (+0.7), while more countries recorded marked declines, for example Netherlands (-1.6) and Italy (-1.5).

Investment: local government is the main public investor in many countries and rising

In the EU-27, local governments invested €281.9 billion in 2024, equal to 1.6% of GDP, and they implement 42.8% of total general government investment, making them a decisive delivery level for infrastructure and transition policies. The local share of public investment ranges from 2.5% (Malta) to 56.9% (Finland), with several countries above 50% (Finland, Italy, France, Netherlands, Romania, Sweden). Over the past decade, investment intensity increased at EU level about 0.2 percentage points from 1.4% of GDP (2014) to 1.6% (2024).

European mainstream model: a clear middle-zone configuration

Local government finances in the EU remain highly diverse in size, funding structure, and fiscal space. This diversity is driven primarily by task allocation within multi-level governance rather than by municipal size alone. Cross-country comparisons should be treated with some caution, as “local government” expenditure can in some countries include regional-level or supra-municipal entities.

At the same time, the structural analysis supports identifying a European mainstream model: most Member States cluster in a middle zone of local expenditure (roughly 8–15% of GDP), typically paired with medium-sized municipal structures. This “mainstream” reflects a broadly shared European configuration in which local governments are significant service providers and key investors, but not the primary welfare state tier.

Regional differences: Nordics as “high-local” outliers, Eastern Europe closer to the mainstream

The Nordic countries represent a distinct high-local model in which municipalities carry extensive welfare responsibilities and therefore account for very high shares of public expenditure (notably Denmark, Sweden, and Finland). This places them clearly above the European mainstream in the scale and breadth of local government functions.

By contrast, many Eastern European systems sit closer to the European mainstream or in the lower range. Local governments tend to rely more on transfers and shared revenues, with generally narrower fiscal discretion and less room to steer spending and investment through own-source resources.

Size matters, but reforms must target tasks and funding first

Municipal size matters for reform capacity and efficiency, but the findings show it is not a standalone route to fiscal sustainability. Larger municipalities can strengthen administrative professionalism, economies of scale, and service delivery capacity. However, the limited link between size and spending weight indicates that financial outcomes depend more on how tasks and funding are organised in the multi-level system. Reform debates therefore avoid one-size-fits-all territorial restructuring and link any size-related measures (mergers, inter-municipal cooperation, shared services) to clear service and capacity gaps, while safeguarding proximity and accountability where it adds value.

Future reform agendas concentrate on three steps implied by the patterns in the data.

- First, functional assignment across tiers becomes clearer and more stable, limiting overlaps and unfunded mandates and matching responsibilities to the real service footprint.
- Second, mandates and revenues realign where expenditure growth outpaces revenue growth, supported by transfer systems that are predictable, fair, and more counter-cyclical, and by adjustment mechanisms when tasks expand.
- Third, local fiscal flexibility strengthens via own-source revenues (taxes, fees, greater rate/base discretion), enabling shock absorption, investment co-financing, and smoother investment cycles with less reliance on ad-hoc grants or debt.

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