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Do Local Budgets Support Entrepreneurship? Evidence from Romanian Counties

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ABSTRACT

The role of sub-national authorities in fostering a supportive local business environment and advancing community development has gained increasing attention in recent years. Against this background, this paper seeks to investigate the impact of local government expenditure on entrepreneurial activity, measured by the number of new firm registrations. Using panel data for the 42 Romanian counties (NUTS 3 level) over the period 2008-2022, the analysis draws on data from Eurostat, the Romanian National Institute of Statistics, and the Ministry of Development, Public Works and Administration. A fixed effects panel model is employed to control for unobserved heterogeneity across counties. The results indicate that overall local government spending tends to have a negative effect on new firm creation, with the most significant adverse impact coming from personnel and social assistance expenditures. Surprisingly, interest payments show a positive influence, likely due to the conditionality associated with using borrowed funds, for investments or co-funding of projects supported by European Union programs and funding instruments. The findings suggest a need for more efficient public spending at the local level, with a particular focus on reducing the share of personnel costs and prioritizing expenditures that directly support entrepreneurship and local economic development.

KEYWORDS local governments; new firms; Romanian counties; public expenditure

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